

SAN JOSE POLICE & FIRE DEPARTMENT RETIREMENT PLAN

2019 BOARD PERFORMANCE ASSESSMENT

REPORT OF FINDINGS

BACKGROUND

The Board Performance Assessment Policy requires the Board to assess its own performance every two years. This Report of Findings summarizes the results of the Board's 2019 assessment. Eight Board members completed an on-line survey and seven Board members participated in follow-up telephone interviews with Cortex to elaborate on their survey responses.¹

SUMMARY OF KEY FINDINGS

Similar to 2017, Board members provided a very positive assessment of the Board's performance. Several Board members specifically noted that the Board had improved over the past two years. On average, Board members rated the overall performance of the Board as a 9 out of 10 for 2019.

Areas of Strong Performance Identified in 2019

1. Professionalism and quality of deliberations were rated particularly high, as demonstrated by strong levels of agreements with the following statements in the survey (and reiterated in follow-up interviews):
 - a. The Board is able to effectively focus on its fiduciary duties.
 - b. The Board carefully deliberates before taking action.
 - c. The Board handles disagreements among Board members in a professional manner.
 - d. Board member attendance and punctuality is strong.
 - e. Board members demonstrate respect for other Board members' ideas and opinions.
 - f. Board accept the decisions of the Board even if they did not vote in favor of them.
 - g. The Board provides valuable alternative points of view to Management.
 - h. The Board has strong relationships and interaction with Management and advisors.
2. Board members indicated that the standing committee generally operate well and add value.
3. Significant achievements identified by Board members in 2019 include:
 - a. "Continuing the long-process of revamping how we set the discount rate."
 - b. "Agreeing on where we should be on the risk continuum."
 - c. "Revised asset allocation to reflect updated expected returns."
 - d. "Getting Prabhu to be the CIO."
 - e. "Improved investment processes and procedures and delegation of authority between Board, IC, and staff."
 - f. "Clear objectives."

¹ In 2017, all nine board members completed the on-line survey and participated in follow-up telephone calls.

Improvement Opportunities

As background, below are the improvement opportunities identified in the 2017 self-assessment, along with brief comments on the status or progress achieved on each:

1) Investment/governance Philosophy

The Board acted on this suggestion, struck an ad hoc committee to manage it, and completed a comprehensive review that resulted in: a) a revised investment approach to the Board's asset allocation process, b) increased delegation of investment authority to the CIO, and c) corresponding updates to the IPS and governance charters/policies.

This issue was not raised in the 2019 self-assessment, apart from Board members pointing out the success of the project.

2) Succession Planning

Since the last self-assessment, the Board successfully recruited and on-boarded a new CIO.

In 2019, the Board again identified a need for further succession planning efforts, both in the survey responses and in follow-up interviews:

- One Board member suggested the Board should confirm that a reasonably specific succession plan is in place for key positions within the organization; i.e. one that specifies who would step in on an interim basis if certain positions were to become unexpectedly vacant.
- One Board member suggested that while the CEO/CIO need to drive succession planning for their staff, the Board needs to drive succession planning for the positions of CEO/CIO.

3) Member/Stakeholder Satisfaction

The Board, through the JPC, has undertaken a project to develop more detailed performance metrics for the CEO and CIO, which will address, among other things, member service and stakeholder communications.

Member/stakeholder satisfaction was once again identified in the 2019 self-assessment, both in the survey responses and follow-up interviews. Board members noted however that the current project aimed at identifying performance metrics should help to address this issue.

4) Efficiency of Meetings

Since the last self-assessment, the Board has delegated greater authority to the CIO (as noted above) and, as a result, has reduced the frequency of Investment Committee meetings.

Far less concern was raised in the 2019 self-assessment in connection with meeting efficiency. See section, *New Improvement Opportunities*.

5) *Oversight and Direction to Management*

As part of the investment/governance project, the Board further clarified the respective roles of the CEO and CIO, and continues to clarify those roles in the development of performance metrics.

This issue was not raised in the 2019 self-assessment, apart from noting the progress that has been made and the fact that more progress is expected as a result of the performance metrics.

6) *Board Education*

Board education was again identified as an improvement opportunity. Survey scores regarding board education were relatively low. Specific comments provided by Board members include:

- “It is important to always be educating new Board members on the history of the System and how we got here.”
- “New Board members need to meet with investment to fully understand the investment program.”
- “The Board needs to ensure strong education on actuarial matters, particularly for newer Board members.”
- “The Board must continually build its understanding of the liabilities (assumptions, levers, impact of changes in assumptions, etc.).”

New Improvement Opportunities

New improvement opportunities identified in the 2019 self-evaluation include:

Strategic Planning

- One Board member noted that the Board’s strategic planning off-sites have been very beneficial. The Board member also suggested, however, that the strategic planning process could be tightened somewhat by better designing the process to yield more concrete deliverables.

Understanding of Current Funding Position

- One Board member noted that the Board has been doing a very good job on the basic tasks of governance and now has the time and cohesiveness to begin addressing the core strategic question of why the Plan’s current funded status is where it is; i.e. to understand the major decisions that were made in the past and their impact on the funded status, and any historical biases that may have affected funding.²

² This suggestion could have been classified under the suggestion of enhancing board education, but we have noted it separately because it has a strong strategic/policy aspect to it.

Communication on Investment Matters

- One Board member suggested that he/she is very comfortable with the new CIO and therefore also comfortable with the reduced frequency of Investment Committee meetings. The Board member further suggested, however, that with the reduced frequency of IC meetings, it would be useful for the investment staff to ensure the IC is “kept in the loop” between meetings, even with a simple email. The Board member stressed that this is not currently a concern but simply a suggestion.

Board Meeting Effectiveness

- One Board member noted that Board members tend to repeatedly ask for more information before making a determination, thus delaying the decision-making process. While this has improved over the past several years, there continues to be room for improvement. The Board member suggested that trustees should be reminded to try to request information before the meeting so as not to delay decisions unnecessarily.
- Another Board member suggested that it would be helpful if committee recommendations to the Board (particularly by the Investment Committee) were accompanied by more background information when feasible (e.g. the options that were considered, the pros and cons of each, and the rationale supporting the committee’s recommendation).
- Another Board member suggested that the Board is sometimes overly focused on finishing meetings according to schedule. He/she suggested that, whenever possible, the Board should aim to allow meeting discussions to exhaust themselves naturally.

SUMMARY OF POTENTIAL ACTIONS

To assist the Governance Committee and the Board in determining which if any actions they should take to address the issues arising out of the 2019 self-evaluation, Cortex has prepared the following list of potential next steps:

1. Direct the JPC to work with the CEO/CIO to review current succession planning efforts with the goal of developing more detailed succession plans.
2. Review the Board education process, particularly with an eye to incorporating more education on actuarial/liability matters.
3. Direct the GC to review the Board's strategic planning process/strategy off-sites, with the goal of developing a clearer process that will yield more concrete actions/deliverables.
4. Direct the GC to consider whether and how the above strategic planning process/off-sites could be used to allow the Board to better understand how the plan's funding position has evolved. Alternatively, this could be accomplished through the Board's education program.
5. Continue current efforts by the Board and JPC to develop performance metrics for evaluating the CEO and CIO. Such metrics will likely help address the perceived need for the Board to devote more attention to the operations (e.g., member/stakeholder satisfaction).
6. Consider amending the Reporting & Monitoring Policy to include a short report to the IC/Board on investment matters between regularly scheduled IC meetings (i.e. every other month).
7. Consider the feasibility of allowing board meetings to be somewhat more flexible by allowing discussion of agenda items to exhaust themselves naturally rather than according to a pre-set schedule.
8. Remind Board members to try to foresee the information they will need to make a decision and to request such information ahead of the meeting so as not to delay the process unnecessarily.
9. Direct staff and committee chairs to try to ensure that committee recommendations to the Board are accompanied by greater background information, as described herein.

We trust the above report will be of assistance to the Governance Committee and we look forward to reviewing it with the Committee and answering any questions.