MEMORANDUM

TO: JOINT GOVERNANCE COMMITTEE

FROM: TOM IANNUCCI, CORTEX APPLIED RESEARCH

SUBJECT: SUCCESSION PLANNING POLICY

DATE: FEBRUARY 25, 2021

CC: ROBERTO PENA

BACKGROUND

The Federated Board's recent self-evaluation identified the following finding:

> *"Several Board members also noted that the Board's role in succession planning is unclear. They suggested Board members may have different views on what constitutes succession planning, and that some forms of succession planning may not be feasible given the size of the staff and the constraints of the System. Accordingly, it was suggested greater clarity on this issue may be beneficial."*

In response to the above, the Federated Board directed its Governance Committee to develop a succession policy for the Board's consideration. Given that both boards have shared responsibility for the appointment of the CEO and CIO, staff and Cortex felt it would be appropriate to bring the issue of succession planning to the Joint Governance Committee (JGC) for discussion along with sample peer policies and a proposed succession planning policy for the JGC's review.

CURRENT POLICY

The Boards do not currently have a succession policy. The Charter of the Joint Personnel Committee (JPC) however contains the following provisions, which may represent elements of a succession policy:

> 9. *The JPC shall:*
>
> (a) *Periodically review and discuss succession planning and related risks with the CEO, and advise the Boards as appropriate;*
>
> (b) *Coordinate employment searches for the position of CEO, and recommend candidate finalist(s) for the*

Boards to interview;

(c) *Work with the CEO to coordinate searches for the position of CIO and make recommendations to the Boards.*

(d) *Appoint any consultants or advisors to be retained in connection with the recruitment or evaluation of the CEO and CIO, or with compensation or related matters;*

The purpose of this memorandum is to help the JGC develop a succession policy that builds on the above JPC Charter provisions. The memorandum presents peer practices and identifies various factors to consider when developing a succession policy. The Appendices contain a proposed Succession Policy along with sample peer policies for the JGC's consideration.

SAMPLE PEER PRACTICES

Cortex has reviewed four succession policies and two succession plans from public fund peers of various sizes including:

- CalPERS – Succession Plan 2018-22
- CalSTRS – Leadership Development and Succession Plan
- Colorado PERA (CoPERA)– Succession Planning Policy
- Kern County Employees' Retirement Association (KCERA) – Executive Director Succession Policy
- Mass PRIM (PRIM) – Executive Director Succession Policy
- Missouri PSRS (PSRS) -- Executive Director Sudden Vacancy Succession Policy
- Orange County Employees' Retirement System (OCERS) – Succession Policy

The above documents range from 1-2 pages in length in the case of policies and up to 24 pages in length in the case of succession plans (CalSTRS).

Scope of Succession Policies/Plans

The peer succession policies/plans differ in terms of the individuals that are covered by the succession planning efforts:

INDIVIDUALS COVERED BY SUCCESSION PLANNING	PEER FUNDS
Executive Director only	PSRS/PRIM
Executive Director & Other Personnel	KCERA/CalSTRS/CalPERS/OCERS
Executive Director, Other Personnel, Board Members	CoPERA

The peer policies/plans differ in terms of the types of succession planning efforts covered by the policy/plan:

ELEMENTS		PEERS					
	CALPERS	CALSTRS	COPERA	KCERA	OCERS	PRIM	PSRS
Identifies interim CEO	n/a	n/a	**Yes**	**Yes**	**No**	**No**	**Yes**
Sets out detailed process to hire new ED	n/a	n/a	**No**	**No**	**No**	**Partial**	**Yes**
Board/committee to meet to establish above process	n/a	n/a	**Yes**	**Yes**	**Yes**	**Yes**	**No**
Provisions to ensure smooth transition of new trustees	n/a	n/a	**Yes**	**No**	**No**	**No**	**No**
ED to verbally report annually to Board/ committee on staff succession	n/a	n/a	**Yes**	**No**	**No**	**No**	**No**
Leadership development strategies for staff (e.g. classroom training, mentoring, etc.)	**Yes**	**Yes**	n/a	n/a	Partial	n/a	n/a

Staff and Cortex would suggest that the ORS staff is too small to warrant a detailed leadership development strategy similar to those in place at CalPERS and CalSTRS. Accordingly, the JGC may wish to focus instead on a succession planning policy, which might include the following features:

- The policy should identify the individual(s) who would serve as Acting CEO and Acting CIO in the event either the CEO or CIO are unable to carry out their respective roles;
- The policy should set out a process to be followed in terms of identifying a permanent replacement in the event the CEO or CIO leave their positions;
- The policy should require the CEO and CIO to:
    a) Identify key staff positions within the organization and individuals who would be expected to fill those positions in the event the incumbent left the position for some reason, and
    b) Verbally report the above information, at a minimum, to the Chair and Vice Chair of the JPC;

Appendix A contains a proposed Succession Planning Policy for the JGC's consideration. **Appendix B** contains five sample peer succession polices.

We look forward to discussing the above at the upcoming Joint Governance Committee meeting.

Appendix A

San Jose Office of Retirement Services
Succession Planning Policy
Proposed Draft at February 26, 2021

Introduction

1) The Board has established this Succession Policy to provide guidance for management succession planning within the Office of Retirement Services (“ORS”).

Guidelines

2) In the event the Chief Executive Officer (“CEO”) is unable to carry out his/her duties (e.g. due to incapacity), and is unable to appoint an Acting CEO, the Deputy CEO shall assume the position of Acting CEO and all duties of the CEO until the CEO returns or the Board determines otherwise.

3) In the event the Chief Investment Officer (“CIO”) is unable to carry out his/her duties (e.g. due to incapacity), and is unable to appoint an Acting CEO, the Senior Investment Officer, Public Markets and the Senior Investment Officer, Private Markets shall jointly assume the position of Acting CIO and shall together assume the duties of the CIO until the CIO returns or the Board determines otherwise.

4) The CEO and CIO shall each develop an internal succession plan for key staff in non-investment and investment-related positions respectively, and shall review such plan with the Chair and Vice-Chair of the Joint Personnel Committee at least annually.

5) As a risk management precaution, when feasible, the CEO and Deputy CEO shall avoid travelling together for significant distances; and the CIO, Senior Investment Officer, Public Markets, and Senior Investment Officer, Private Markets shall do the same.

6) Individuals serving as Acting CEO or jointly as Acting CIO shall be entitled to any adjustment in compensation they may be entitled to under City personnel rules.

7) In the event of a vacancy in the position of CEO or CIO, or in the event the CEO or CIO give notice of their resignation or retirement, the JPC shall meet as soon as practical to determine if an employment search process should be

conducted and the details of such process, and shall provide its recommendations to the Boards.

8) If the Boards approve the need for a search, the JPC, consistent with the JPC Charter, shall:

   a) Coordinate any searches for the position of CEO, and recommend candidate finalist(s) for the Boards to interview;
   b) Work with the CEO to coordinate searches for the position of CIO and make recommendations to the Boards.
   c) Appoint any consultants or advisors to be retained in connection with the recruitment of the CEO and CIO, or with compensation or related matters.

9) Board members shall not be considered for employment as CEO or CIO unless they have been off the Board for at least one year.

10) Any Board member interested in applying for the position of CEO or CIO is strongly advised to consult Legal Counsel immediately, refrain from discussing the matter with any other Board member, and refrain from participating in Board or committee deliberations on any matter under the Board's jurisdiction. Failure to do so may give rise to a conflict of interest, disqualify the Board member from consideration, [and result in their removal from the Board.]

POLICY REVIEW & HISTORY

11) This policy shall be reviewed at least every five years.
12) This policy was adopted by the Board on [month, day, year].

Appendix B
Sample Peer Succession Policies

ATTACHMENT A -
COPERA SUCCESSION PLANNING POLICY

Succession Planning Policy

Background and Objectives

1) Turnover among Trustees and management can have a significant impact on the operations of PERA. While the Board recognizes that it may not be able to prevent such turnover, it can, through effective succession planning, mitigate the risks and impacts associated with the loss of Board and staff members. This *Succession Planning Policy* has been prepared to provide a framework for the Board's succession planning efforts.

Guidelines

Succession Planning for the Board

2) To help ensure a smooth and effective transition when new Trustees join the Board, the Board will undertake the following measures:

   a) A description of the expectations and duties of PERA Trustees will be made available to all candidates seeking to serve on the Board by the Executive Director.

   b) Trustees who have determined that they will not be seeking re-election to the Board are encouraged to inform the Board in a timely manner.

   c) Newly elected or appointed Trustees will be encouraged to attend, if time permits, at least one meeting of the Board or its committees as observers prior to officially taking office, in order to familiarize themselves with the workings of the Board.

   d) The Chair of the Board shall assign a Trustee as a mentor to each new Trustee.

   e) Newly elected or appointed Trustees will participate in Board orientation sessions, as prescribed in the *Board Education Policy.*

Succession Planning for Executive Management

3) At least annually, the Executive Committee will meet with the Executive Director to discuss management succession.

4) The Executive Committee will report to the Board on its discussions regarding succession planning as appropriate.

5) In the event of a vacancy in the Executive Director position:

   a) The Board Chair will appoint an Ad Hoc Vacancy Committee of the Board;

   b) The Ad Hoc Vacancy Committee will determine the process for filling the position of Executive Director, including minimum and desired skill sets and experience, evaluation criteria, time frames, whether an external search consultant will be used, and any other relevant factors, and will promptly report to the Board on the process; and

   c) The Board will be responsible for appointing the new Executive Director, as per the Board of Trustees Charter section 20.

6) The Executive Director will inform the Board in the event of a significant vacancy in management and will solicit Board input.

7) In the event a current Trustee applies for a position of employment at PERA, in order to be considered for the position, the Trustee shall be required to resign from the Board immediately after submitting his or her application.

Policy Review and History

8) The Board will review this policy at least once every five years.

9) The Board adopted this policy on November 16, 2001. The Board modified this policy on November 15, 2002, November 19, 2004, February 18, 2005, February 16, 2007, January 1, 2013, June 21, 2016, and on January 1, 2020.

ATTACHMENT B –
KCERA EXECUTIVE DIRECTOR SUCCESSION POLICY

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

EXECUTIVE DIRECTOR SUCCESSION POLICY

INTRODUCTION

1) While the Board has delegated to the Executive Director the authority to manage KCERA personnel on a day-to-day basis, the Board is nevertheless responsible for providing oversight of the human resources function. An important element of this responsibility involves succession planning.

2) The Board recognizes that, compared to larger or private sector organizations, succession planning within KCERA may be constrained due to limited resources and the statutory environment in which KCERA operates (e.g. the Brown Act). Despite such constraints, the Board has established this policy to provide general guidelines around succession planning at KCERA.

GUIDELINES

3) The Executive Director shall develop an internal Succession Plan for key staff positions, including provisions that would apply in the event of concurrent vacancies in the positions of Executive Director and Assistant Executive Director. The Executive Director shall periodically review this plan with the Chair of the Administrative Committee, in addition to providing an annual verbal report to the Administrative Committee on such matters.

4) In order to help ensure support to, and continuity in, the position of Executive Director, the Board has established the position of Assistant Executive Director. The Assistant Executive Director shall be familiar with all aspects of the administration of KCERA including investments, benefit administration, and stakeholder relations.

5) As a risk management precaution, the Executive Director and the Assistant Executive Director shall, where feasible, avoid travelling together for significant distances.

6) In the event the Executive Director is unable to carry out his/her duties (e.g. due to illness or incapacity), and is unable to appoint an Acting Executive Director, the Assistant Executive Director shall assume the position of Acting Executive Director and all the duties of the Executive Director until the Executive Director returns or the Board determines otherwise.

7) In the event of a vacancy in the position of Executive Director, the Assistant Executive Director shall serve as Acting Executive Director and assume the duties of the Executive Director until the Board selects a successor and that person assumes the duties of the position, or until the Board determines otherwise. When the Assistant Executive Director serves as the Acting Executive Director due to a vacancy in the Executive Director position, he/she shall receive salary and benefits consistent with the County of Kern's out-of-class pay provisions for a vacancy in a County Department Head position. Alternatively, the Board may appoint the Assistant Executive Director to the position of Interim Executive Director; in which case, the salary paid to the Interim Executive Director shall be set by the Board to fall within the salary range applicable to the position of Executive Director and the Assistant Executive Director position shall become vacant.

8) In the event of a vacancy in the position of Executive Director, or in the event the Executive Director provides notice of resignation or intent to retire, the Board shall meet as soon as practical to determine if a search process should be conducted and, if so, how.

9) Trustees cannot be considered for employment as the Executive Director at KCERA unless they have been off the Board for at least one year.

POLICY REVIEW AND HISTORY

10) This policy shall be reviewed at least every five years.

11) This policy was:

    a) Adopted by the Board on December 12, 2012.
    b) Amended April 13, 2016 and October 10, 2018.

ATTACHMENT C –
PRIM EXECUTIVE DIRECTOR SUCCESSION POLICY

EXECUTIVE DIRECTOR SUCCESSION POLICY

BACKGROUND

1) According to Massachusetts General Laws, Chapter 32, Section 21 (f), the Board shall select an executive director who shall serve at the pleasure of the Board.

2) This policy has been prepared to provide additional details to guide the Executive Director search process and to promote human resource best practices in the selection of senior staff.

GUIDELINES

3) When the Board becomes aware of the retirement or departure, or impending retirement or departure, of the Executive Director:

    a) The Chairman shall appoint an Ad Hoc Succession Committee and recommend the members of such Ad Hoc Succession Committee to the Board for approval.

    b) The Ad Hoc Succession Committee shall consist of not less than six members including:

        i) The Treasurer, or the Board member appointed by the Treasurer to the PRIM Board;

        ii) The Governor, his designee to the PRIM Board, or one of the two Board members appointed by the Governor to the PRIM Board;

        iii) A Board member who is a representative of the State Teachers' Retirement System;

        iv) A Board member who is a representative of the State Employees' Retirement System; and

        v) Up to three outside members of Board committees, though the Board may elect to have no outside committee members on the Ad Hoc Succession Committee.

    c) The Ad Hoc Succession Committee shall recommend to the Board a preliminary search plan for filling the position of Executive Director, and addressing such issues as minimum and desired skill sets and experience, evaluation criteria, interview process, time frames, whether an external search consultant shall be used, and any other relevant issues. The Ad Hoc Succession Committee need not recommend that a formal search be undertaken, but may instead recommend that the Board consider an internal candidate for the position.

    d) If an external search consultant is to be used in the search process, the Ad Hoc Succession Committee shall:

        i) Be responsible for reviewing proposals from candidate search consultants, and selecting and appointing the consultant to be used for the search.

        ii) Meet with the selected search consultant as soon as practical to review the preliminary search plan and modify it as necessary. The Ad Hoc Succession Committee shall report any material changes to the Board at the Board's next regularly scheduled meeting.

    e) No member of PRIM staff shall serve on the Ad Hoc Succession Committee, participate in deliberations of the Ad Hoc Succession Committee, or in interviews with candidates for the position of Executive Director, or otherwise be asked to provide input into the selection of the Executive Director. Notwithstanding the above, staff may provide administrative support or coordination services to the Ad Hoc Succession Committee.

f) The Ad Hoc Succession Committee may meet in closed session to the extent permitted by Law.

POLICY REVIEW

4) The Board shall review this policy at least once every three years.

POLICY HISTORY

5) Adopted by the Board on December 4, 2012.

ATTACHMENT D –
PSRS EXECUTIVE DIRECTOR SUDDEN VACANCY SUCCESSION POLICY

PUBLIC SCHOOL RETIREMENT SYSTEM OF MISSOURI AND
PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM OF MISSOURI
EXECUTIVE DIRECTOR SUDDEN VACANCY SUCCESSION POLICY

1. All actions by the Board of the Public School and Public Education Employee Retirement Systems of Missouri relating to the implementation of this policy shall be subject to the voting requirements set forth in Section 169.020.9, RSMo.
2. The Board is authorized to implement the terms of this policy in the event of the sudden vacancy of the position of Executive Director. In the event of such a vacancy, the Assistant Executive Director of Operations is to immediately inform the Board Chair of the vacancy and immediately begin serving as the Acting Executive Director. Should the Assistant Executive Director of Operations state in writing that he or she is unable or unwilling to serve, the Assistant Executive Director of Investments shall serve as Acting Executive Director.
3. The Acting Executive Director shall be responsible for carrying out the Executive Director's duties until such time as the Board selects a new Executive Director and that person assumes the position on a full time basis.
4. As soon as possible, PSRS/PEERS staff shall communicate to its membership that, due to a vacancy in the Executive Director position, the Assistant Executive Director of Operations, or the Assistant Executive Director of Investments, has assumed the role of Acting Executive Director until such time as the Board hires an Executive Director and that person assumes the position on a full time basis.
5. The Acting Executive Director shall perform such functions without additional compensation unless the Board votes to provide additional compensation to the Acting Executive Director while he or she holds that position.
6. As soon as possible, the Board shall vote to select a search firm to perform a nationally advertised search, using industry publications and other appropriate sources, for candidates to succeed the Executive Director. The Board may vote to direct staff to issue a Request for Proposals for the selection of a search firm.
7. The Board shall interview a minimum of three candidates recommended by the search firm as well as any other candidates the Board votes to consider. The Board may request multiple interviews of any or all of the candidates. All candidates considered by the Board shall meet the qualifications as described in the job description for the position of Executive Director on file with the Human Resources Director at PSRS/PEERS.

8. As soon as possible, after the completion of interviews and any additional evaluation, the Board shall vote to hire one of the candidates or vote to reject all candidates. In the event of the latter, the Board shall direct the search firm to recommend additional candidates to the Board. If necessary, the Board may vote to select another search firm to assist the Board.
9. The Board shall vote to set the starting salary of the individual hired as Executive Director.

POLICY HISTORY

10. The Board adopted this policy on February 9, 2015. Amended on February 12, 2018.

ATTACHMENT E –
OCERS SUCCESSION POLICY

Succession Policy

Purpose and Background

1. The Orange County Employees Retirement System ("OCERS") established a succession policy to provide continuity in leadership and avoid extended and costly vacancies in key positions. This policy provides specific steps designed to identify candidates for the Chief Executive Officer ("CEO") position that may become vacant due to retirement, resignation, death or a new business opportunity. This policy ensures that there are qualified and motivated employees (or a means of recruiting them) who are able to take over when the CEO exits the agency. It also demonstrates to plan sponsors and members that OCERS is committed to and able to provide excellent service at all times, including during times of transition.

Policy Statement

2. As part of good governance, OCERS must plan for a change – either planned or unplanned – in Executive leadership which is inevitable for all organizations. The policy goal is to ensure the stability and accountability of the organization and sustain uninterrupted service levels to plan sponsors and members until a new permanent leader is identified. The Board of Retirement ("Board") shall be responsible for implementing this policy and its related procedures.

Scope and Coverage

3. This policy should be used in case of an Executive transition that involves the CEO. In such an instance, the Board may also consider temporarily subcontracting of the organizational functions to a trained consultant or other organization(s).

Policy Guidelines

Appointment of Interim CEO

4. In the event of a leave of absence (temporary or permanent) of the CEO, the Board will appoint an Interim CEO. The Interim CEO shall ensure that the organization continues to operate without disruption and that all OCERS' obligations and commitments as defined in the CEO's charter are addressed.
5. Within five (5) business days of a leave of absence the Board shall appoint an Interim CEO from the recommended list of incumbent positions below or such other candidates as the Board may choose:

   a. Assistant CEO of Finance and Internal Operations
   b. Assistant CEO of External Operations

c. Chief Investment Officer (CIO)

d. Chief Legal Officer

e. External consultant (with experience as a CEO)

Authority and Compensation of the Interim CEO

6. The person appointed as Interim CEO shall have the full authority for decision making and independent action as the CEO. The Board shall determine if the Interim CEO is to be given a temporary salary increase while performing the duties of the CEO position.

Board Oversight

7. The Board Chair is responsible for monitoring the work of the Interim CEO.

Communication Plan

8. Immediately upon transferring the responsibilities to the Interim CEO, the Board Chair will notify staff members of the delegation of authority. As soon as possible after the Interim CEO has assumed the role, Board members and the Interim CEO shall communicate the temporary leadership structure to key external stakeholders.

Leadership Transition

9. In the event that a permanent change in CEO leadership is required, the Board Chair shall appoint an Executive Transition committee within fifteen (15) business days of notification. The committee shall:

   a. Consider the need for consulting assistance (i.e., transition management or executive search consultant) based on the circumstances of the transition.

   b. Review OCERS' Business Plan and conduct a brief assessment of organizational strengths, weaknesses, opportunities, and threats to identify priority issues that may need to be addressed during the transition process and to identify attributes and characteristics that are important to consider in the selection of the next CEO.

   c. Establish a time frame and plan for the recruitment and selection process.

   d. Refer to the CEO's Charter for a sample job description and qualifications.

10. It is the policy of the Board to develop a diverse pool of candidates and consider at least three final candidates for its permanent CEO position. OCERS shall implement a recruitment and selection process to include all qualified candidates.

11. The Board Chair/Vice-Chair shall communicate with key stakeholders regarding the actions taken by the Board in naming an interim successor, the Board Chair's appointment of the Executive Transition Committee, and the committee's implementation of the Succession Policy provisions. OCERS shall maintain a current list of key stakeholders who must be contacted, such as plan sponsors and other entities or government agencies that should be made aware of the change in leadership.

Delegation of Authority – Other Executive Positions

12. The CEO may use this policy as guidance for the succession of other key Executives.
13. The CEO will annually present to the Board an executive staff development plan.

Policy Review

14. This policy shall be reviewed every three years by the Governance Committee and may be amended by the Board of Retirement at any time.

Policy History

15. The Retirement Board adopted this policy on January 19, 2016.

Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

1/19/16

Steve Delaney
Secretary of the Board

Date