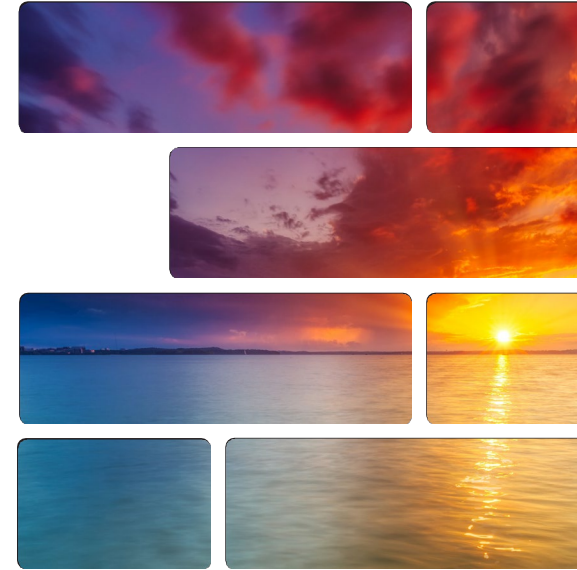


Public Pension Trustee: Governance and Role

Von Hughes, CEO of Calvert Research and Management
September 2024



Von Hughes

Von Hughes is currently the Chief Executive Officer of Calvert Research and Management, a \$40 billion investment management firm that specializes in sustainable investing across global capital markets. Calvert serves all types of investors through its family of mutual funds, ETFs, UCITS, and separate accounts. Von also serves as the President of Calvert's Mutual Fund Board. Calvert is a wholly-owned, indirect subsidiary of Morgan Stanley.

Mr. Hughes is the author of *U.S. Public Pension Handbook: A Comprehensive Guide for Trustees and Investment Staff* (McGraw-Hill 2019), which won a 2020 Axiom Business Book Medal and was a #1 new release on Amazon.com in four separate categories. He has also been an Adjunct Professor at Columbia Business School since 2021, teaching a course based on his book that he conceived and designed.

Mr. Hughes earned a BA graduating cum laude from Yale College. In addition, he earned a JD from Harvard Law School, where he was an editor on both the Harvard Law Review and the Civil Rights and Liberties Law Review, and an MPP from Harvard's Kennedy School of Government. Mr. Hughes is also a retired member of the New York State Bar.

"Quintessential bedside table reading for trustees and staff alike."
—HENRY JONES, Trustee and President of the Board of Administration,
California Public Employees' Retirement System

U . S . P U B L I C

PENSION

H A N D B O O K

A COMPREHENSIVE GUIDE
FOR TRUSTEES AND
INVESTMENT STAFF

VON M. HUGHES

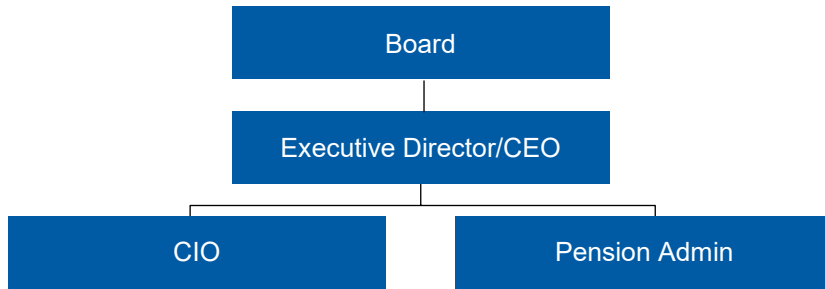
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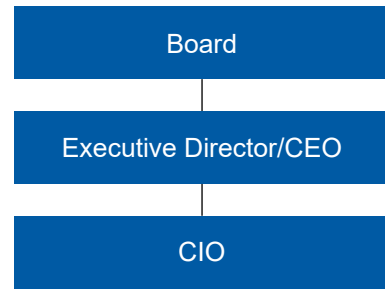
Authorization and Oversight

- Public pensions in the U.S. are created by legislative action
 - State Constitution
 - Other state or local law(s)
- Legislative Responsibilities Include:
 - Approve Pension Plan Funding
 - Approve Pension Plan Design
 - Set and Approve Contribution Policy
 - Establish Board Structure and Trustee Selection Method
- Legislative oversight of public pensions can take various forms:
 - Legislative Committee dedicated to pensions
 - Other Legislative Committee (usually Public Finance or Ways and Means)
 - Independent Pension Committee
 - Temporary Pension Committee
 - Legislative Auditing Authority

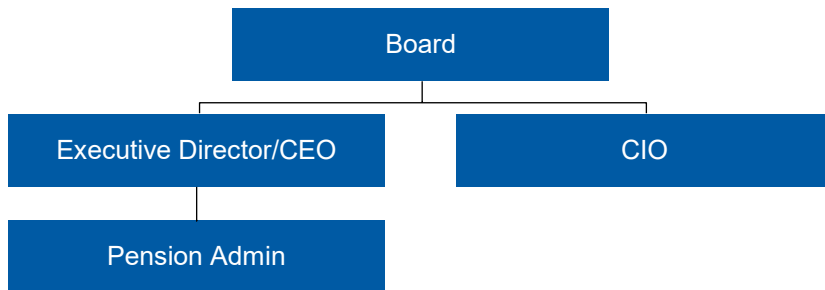
Governance Structures¹



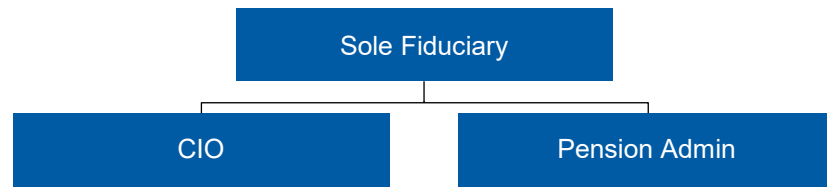
- Integrated fund management and pension administration under a single board of trustees
- Most common model (60%)



- Pension fund management reports to its own board
- Pension administration has separate organizational structure
- Second most common model (20%)



- Separate fund management and pension administration under a board of trustees
- Board delegates fund management to CIO and administration to CEO/Executive Director



- Sole fiduciary, elected or appointed, usually state treasurer or controller
- Fund management delegated to CIO (various degrees in practice)
- Pension administration has separate organizational structure

1. U.S. Public Pension Handbook: A Comprehensive Guide For Trustees and Investment Staff (McGraw-Hill 2019), p.256-260.

Role of Public Pension Board of Trustees

OPERATIONS OVERSIGHT & SYSTEM ADMINISTRATION

- Approve budget, asset allocation, investment policy, investment philosophy
- Approve actuarial assumptions and methods (state control/oversight in some cases)
- Appoint and oversee CEO and potentially other top executives
- Oversee investing pension fund assets (investment function typically delegated to staff)
- Appoint and approve board consultant(s)
- Approve process for procurement of professional services (i.e. legal, audit, etc...)
- Appoint plan staff and set compensation levels
- Oversee and approve the payment of benefits (governance structure dependent)

COMPLIANCE WITH STATUTORY & LEGAL RESPONSIBILITIES

- Fiduciary Duty
- Ethics Standards
- Conflict of Interest Laws
- Oversight and Reporting Requirements (*open records, open meetings, financial reporting...*)

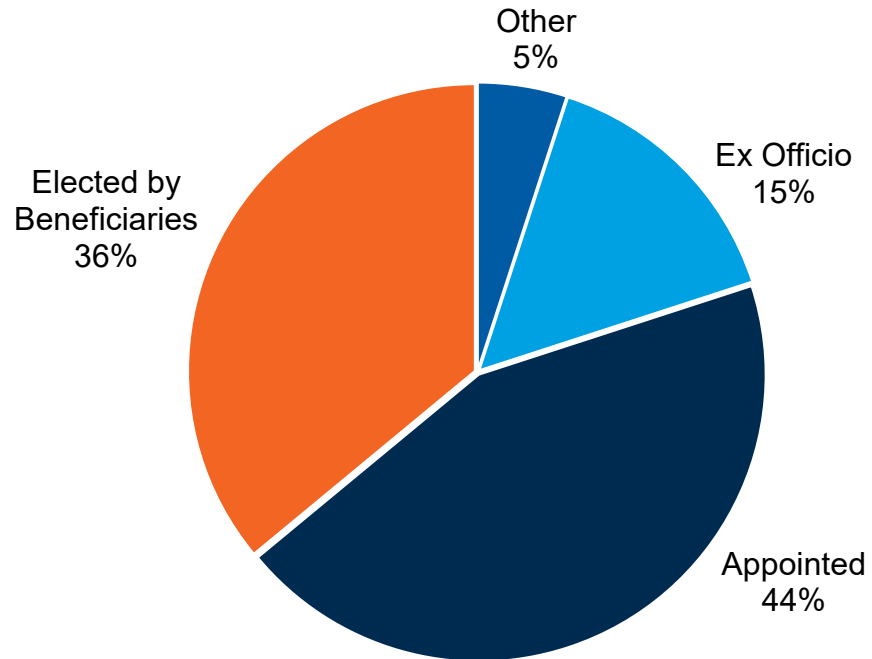
RESTRAINTS ON BOARD AUTHORITY

- No authority to determine or adjust benefit levels or funding
 - Final Legislative Budget Approval
- State Rules on ability to hire, fire, and compensate personnel
- State Restrictions on allocation to certain types of investments

Public Pension Board Composition

- Average size public pension board of trustees: 8.5, with range from 3 to 32 trustees
- State employees and teachers: 9.2 and 10, on average, respectively
- Public safety and general local: 7.5 and 7.6, on average, respectively

AVERAGE TRUSTEE SELECTION



Source: U.S. Public Pension Handbook: A Comprehensive Guide For Trustees and Investment Staff (McGraw-Hill 2019), p.264.

Research on Impact of Board Composition¹

IMPACT ON FUNDING

- Larger pension boards associated with lower plan funding levels (Harper (2008))
- Mere existence of an Investment Committee has positive impact on funding (Groves (2014))

IMPACT ON ASSET ALLOCATION

- Greater number of plan participant trustees and elected trustees both had a negative impact on the size of equity allocation (Useem and Hess (2001))
- Greater number of political appointees had negative impact on equity allocations (Harper (2008))
- Political appointees more willing to invest in higher returning strategies (Hess (2005))

IMPACT ON PERFORMANCE

- Greater number of elected members had negative impact on performance (Mitchell and Hsin (1994))
- Greater number of retiree representation had negative impact on performance (Mitchell and Hsin (1994); Yang and Mitchell (2004))
- Greater number of political appointees had positive impact on performance (Hess (2005))

1. Full discussion of these sources found in U.S. Public Pension Handbook: A Comprehensive Guide for Trustees and Investment Staff (McGraw-Hill 2019), Chapter 12, "Why Governance Matters," p.281-292.

Current & Future Challenges for Trustees

PLAN FUNDING



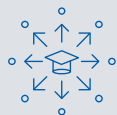
PORTFOLIO COMPLEXITY



PENSION DESIGN SHIFTS



TALENT



INFRASTRUCTURE



CLIMATE CHANGE



DEMOGRAPHICS



POLITICS



TIME ALLOCATION

