

CalSTRS Issues Board Composition Best Practices

July 23, 2015 | Client Update | 2-minute read

In two pages, CalSTRS sets forth their expectations on [board composition practices](#), an area of increasing attention by investors.

On board tenure, CalSTRS does not advocate for strict limits and instead proposes that a mix of short- and long-tenured directors provides both fresh perspectives and experience, continuity and stability on the board. Tenure and age limits may force turnover, but CalSTRS believes that regular evaluation of the needs of the company is more important to ensure board refreshment. They urge companies to disclose a board succession plan and the process used to evaluate board composition and director performance, including a periodic third-party evaluation.

CalSTRS wants boards to embrace diversity “in the broadest sense” and consider “gender, age, culture, sexual orientation and identification, and ethnicity, while also having a sufficient mix of relevant skills and industry experience.” There is less flexibility on questions of board leadership, as CalSTRS indicates that having an independent chair is the ideal structure and that any other composition does not provide appropriate balances of power.

Finally, as part of board accountability, CalSTRS wants CEOs to serve on only one other public board and other directors limited to four public company boards. Some other investors have also adopted a similar view that membership on more than four boards constitutes “overboarding” for nonexecutive directors, which is more restrictive than the policies of the proxy advisory firms.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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