



Risk and Audit Committee

Agenda Item 5d

April 19, 2021

Item Name: Status Report – Enterprise Risk Management

Program: Enterprise Risk Management

Item Type: Information Consent

Executive Summary

The purpose of this item is to provide the Risk and Audit Committee (Committee) with an update on the third quarter activities included in the 2020-21 Enterprise Risk Management Plan (Plan) and Strategic Risk Measures (SRMs) updates for the January 1, 2021 through March 31, 2021 period.

Strategic Plan

This agenda item supports the 2017-22 CalPERS Strategic Plan Goal - Risk Management: Cultivate a risk-intelligent organization. The Enterprise Risk Management Division (ERMD) provides assurance to the Board of Administration (Board) through the implementation of an effective enterprise-wide risk management program to promote the continued cultivation of a risk-intelligent organization.

Background

ERMD developed the 2020-21 Plan to communicate priorities in support of CalPERS' Strategic and Business Plans, vision, and mission. In April 2020, ERMD received Committee approval for the Plan, which aligns program initiatives to the strategic goals of Fund Sustainability and Risk Management. Progress on the Plan activities for the second quarter are reported on the Plan Dashboard (Attachment 1).

Analysis

ERMD significant activities and accomplishments for this period include:

Fund Sustainability Goal Activities:

ERMD continued to advance Asset Liability Management (ALM) within the enterprise by:

- continuing to coordinate Asset Liability Management Advisory Committee (ALMAC) meetings and planning sessions to prepare for the current ALM cycle.

- overseeing the four-year ALM cycle workflow that coordinates the Investment Office, Actuarial Office, and Financial Office activities with scheduled deliverables and board reporting.

Risk Management Goal Activities:

ERMD continued to collaborate with the enterprise to advance the Enterprise Risk Management Framework by:

- continuing to provide independent reassurance of current strategic performance measures
- reporting of quarterly updates to the Strategic Risk Measures dashboard.

ERMD continued to collaborate with the enterprise on the cultivation of a risk-intelligent organization by:

- collaborating with Enterprise Compliance to administer the fourth annual Compliance and Risk Employee Survey to help develop risk outreach, education, and communication plan.

ERMD continued to enhance the Enterprise Internal control Framework by:

- continuing to deliver risk management training to new team members at New Employee Orientation sessions and conducted a new Internal Controls webinar for team members.

ERMD continued to enhance risk and compliance functions throughout the enterprise by:

- communicating the importance of risk awareness with team members through bulletins, spotlight ads, team member memos, and Microsoft Teams channel posts.
- completed the prioritization process and designing the approval process for the enterprise data glossary
- completed gathering program area information to align with State retention requirements and began drafting the Information Assets Retention policy

Enterprise Risk Measures:

The Enterprise Risk Measures (ERM) Dashboard summarizes the status of all risk measures. Exception reports are attached detailing the risk performance, root cause analysis, and mitigations identified as next steps to reduce the risk for those SRMs that are performing outside of the board's risk tolerance (Attachment 2).

A review of the data reported for the third quarter of fiscal year 2020-21 found one SRM not meeting their respective risk tolerances as set by the Committee and "Require Attention" for the strategic goals of Fund Sustainability. An analysis and root cause of the risk can be found in the SRM detail provided in (Attachment 2).

Fund Sustainability – Investment Return:

- Investment return was 4.7%, which is below the expected return rate of 7% and tolerance due to severe market volatility related to COVID-19 impacts.
- While less than the target, the 4.7% return topped the fiscal year total fund benchmark of 4.33% and significantly outperformed peer group results.

Budget and Fiscal Impacts

Not Applicable

Attachments

Attachment 1 – ERMD 2020-21 Q3 Workplan Update

Attachment 2 – Enterprise Risk Measures Dashboard

Forrest Grimes
Chief Risk Officer

Marlene Timberlake D'Adamo
Chief Compliance Officer