

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
RISK AND AUDIT COMMITTEE
OPEN SESSION

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FECKNER AUDITORIUM
LINCOLN PLAZA NORTH
400 P STREET
SACRAMENTO, CALIFORNIA

TUESDAY, FEBRUARY 20, 2024
8:47 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

APPEARANCES

COMMITTEE MEMBERS:

David Miller, Chairperson

Lisa Middleton, Vice Chairperson

Malia Cohen, represented by Deborah Gallegos

Fiona Ma, represented by Patrick Henning

Jose Luis Pacheco

Kevin Palkki

Mullissa Willette

BOARD MEMBERS:

Theresa Taylor, President

Eraina Ortega

Ramon Rubalcava

Yvonne Walker (Remote)

Gail Willis, PhD (Remote)

STAFF:

Marcie Frost, Chief Executive Officer

Matt Jacobs, General Counsel

Kevin Fein, Chief Compliance Officer

Fritzie Archuleta, Deputy Chief Actuary

ALSO PRESENT:

David Driscoll, Buck Global

INDEX

	<u>PAGE</u>
1. Call to Order and Roll Call	1
2. Election of the Risk and Audit Committee Chair and Vice Chair	2
3. Executive Report - Kevin L. Fein	5
4. Action Consent Items - Kevin L. Fein	6
a. Approval of the February 20, 2024, Risk and Audit Committee Timed Agenda	
b. Approval of the November 14, 2023, Risk and Audit Committee Meeting Minutes	
5. Information Consent Items - Kevin L. Fein	6
a. Annual Calendar Review	
b. Draft Agenda for the June 2024 Risk and Audit Committee Meeting	
c. Quarterly Status Report - Office of Audit Services	
d. Status Report - Enterprise Risk Management	
e. Status Report - Enterprise Compliance Activity	
6. Information Agenda Items	
a. 2023-24 Enterprise Compliance and Risk Management Mid-Year Plan Update - Kevin L. Fein	7
b. Third Party Valuation and Certification of the 2022 CalPERS Annual Valuations of the Judges, Judges II, Legislators, and 59 Survivor Pension Plans - Fritzie Archuleta and Buck Global, LLC	11
c. Summary of Committee Direction - Kevin L. Fein	14
d. Public Comment	14
Adjournment	15
Reporter's Certificate	16

PROCEEDINGS

1
2 CHAIRPERSON MILLER: Okay. I'd like to call to
3 order the Risk and Audit Committee meeting. And we'll
4 start off with a roll call.

5 BOARD CLERK ANDERSON: David Miller?

6 CHAIRPERSON MILLER: Here.

7 BOARD CLERK ANDERSON: Lisa Middleton?

8 VICE CHAIRPERSON MIDDLETON: Present.

9 BOARD CLERK ANDERSON: Deborah Gallegos?

10 ACTING COMMITTEE MEMBER GALLEGOS: Here.

11 BOARD CLERK ANDERSON: Patrick Henning?

12 ACTING COMMITTEE MEMBER HENNING: Here.

13 BOARD CLERK ANDERSON: Jose Luis Pacheco?

14 COMMITTEE MEMBER PACHECO: Present.

15 BOARD CLERK ANDERSON: Kevin Palkki?

16 COMMITTEE MEMBER PALKKI: Good morning.

17 BOARD CLERK ANDERSON: Mullissa Willette?

18 COMMITTEE MEMBER WILLETTE: Here.

19 CHAIRPERSON MILLER: Okay. Good morning, Board
20 members. Because we're not all present in the same room
21 and Board members are participating from remote locations
22 that are not accessible to public, Bagley-Keene requires
23 that remote Board members make certain disclosures about
24 any other persons present with them during open session.
25 Accordingly, the Board members participating remotely must

1 each attest either that, one, they are alone, or two, if
2 there are one or more persons present with them who are at
3 least 18 years old, the nature of the Board member's
4 relationship to each person. At this time, I'll ask each
5 remote Board member to verbally attest accordingly.
6 Please conduct a roll call attestation.

7 BOARD CLERK ANDERSON: Dr. Gail Willis?

8 BOARD MEMBER WILLIS: Yes, I attest to it. Thank
9 you.

10 BOARD CLERK ANDERSON: And Yvonne Walker?

11 BOARD MEMBER WALKER: Yes, I attest.

12 BOARD CLERK ANDERSON: That's it.

13 CHAIRPERSON MILLER: Okay. The next order of
14 business is the election of the Chair and Vice Chair of
15 the Risk and Audit Committee. And for this, I will hand
16 the gavel over to Lisa Middleton.

17 VICE CHAIRPERSON MIDDLETON: All right. Good
18 morning everyone. I will now take nominations for Chair
19 of the Risk and Audit Committee.

20 THE COURT REPORTER: Microphone.

21 VICE CHAIRPERSON MIDDLETON: Mr. Pacheco.

22 COMMITTEE MEMBER PACHECO: I would like to
23 nominate -- sorry. I would like to nominate Mr. David
24 Miller.

25 VICE CHAIRPERSON MIDDLETON: Are there any other

1 nominations?

2 Are there any other nominations?

3 Are there any other nominations?

4 I have a motion to approve David Miller as Chair.

5 Roll call vote, please.

6 BOARD CLERK ANDERSON: Lisa Middleton?

7 VICE CHAIRPERSON MIDDLETON: Aye.

8 BOARD CLERK ANDERSON: Deborah Gallegos?

9 ACTING COMMITTEE MEMBER GALLEGOS: Aye.

10 BOARD CLERK ANDERSON: Patrick Henning?

11 ACTING COMMITTEE MEMBER HENNING: Aye.

12 BOARD CLERK ANDERSON: Jose Luis Pacheco?

13 COMMITTEE MEMBER PACHECO: Aye.

14 BOARD CLERK ANDERSON: Kevin Palkki?

15 COMMITTEE MEMBER PALKKI: Aye.

16 BOARD CLERK ANDERSON: Mullissa Willette?

17 COMMITTEE MEMBER WILLETTE: Aye.

18 VICE CHAIRPERSON MIDDLETON: The motion passes.

19 Congratulations. I will now pass the gavel back to Chair

20 Miller.

21 CHAIRPERSON MILLER: Well, thank you. I will now
22 take nominations for Vice Chair of the Risk and Audit
23 Committee.

24 (Zoom feedback).

25 CHAIRPERSON MILLER: Pardon?

1 Okay. Okay. So I will take nominations for the
2 Vice Chair of the Risk and Audit Committee. And I will
3 nominate Lisa Middleton.

4 Are there any other nominations?

5 Are there any other nominations?

6 And for a third time, are there any other
7 nominations?

8 Hearing none, I'll make a motion to approve Lisa
9 Middleton as the Vice Chair of the Risk and Audit
10 Committee.

11 Please call the roll.

12 BOARD CLERK ANDERSON: Lisa Middleton?

13 VICE CHAIRPERSON MIDDLETON: Aye.

14 BOARD CLERK ANDERSON: Deborah Gallegos?

15 ACTING COMMITTEE MEMBER GALLEGOS: Aye.

16 BOARD CLERK ANDERSON: Patrick Henning?

17 ACTING COMMITTEE MEMBER HENNING: Aye.

18 BOARD CLERK ANDERSON: Jose Luis Pacheco?

19 COMMITTEE MEMBER PACHECO: Aye.

20 BOARD CLERK ANDERSON: Kevin Palkki?

21 COMMITTEE MEMBER PALKKI: Aye.

22 BOARD CLERK ANDERSON: Mullissa Willette?

23 COMMITTEE MEMBER WILLETTE: Yes.

24 CHAIRPERSON MILLER: All right. The motion
25 passes. Congratulations, Director Middleton.

1 We'll move on. Next order of business is the
2 executive report. For that I'll All on Kevin Fein.

3 CHIEF COMPLIANCE OFFICER FEIN: Thank you. Good
4 morning, Mr. Chair and Madam Vice Chair, committee
5 members. My name is Kevin Fein, CalPERS team member and
6 Chief Compliance Officer. First, let me congratulate you
7 both, Mr. Miller and Ms. Middleton on your respective
8 re-elections to the Committee leadership and I look
9 forward to working with you again in this coming year.
10 I'd also like to welcome Mr. Palkki to the Risk and Audit
11 Committee.

12 There are two information items today for
13 discussion. The first is the 2023-24 Annual Compliance
14 and Risk Management Plan mid-year update, the second is
15 the third-party valuation and certification of the 2022
16 CalPERS annual valuations of the Judges', Judges' II,
17 Legislators, and 59 Survivor pension plans. Third-party
18 actuarial firm Buck Global along with Fritzie Archuleta on
19 our team will be here to present the report summarizing
20 the findings and recommendations.

21 Looking forward to the June meeting of the Risk
22 and Audit Committee, we will be presenting the annual
23 compliance report at that time, final actuarial review of
24 CalPERS actuarial process, and then the annual plans for
25 Enterprise Compliance Risk Management, Office of Audit

1 Services, and the independent auditor's annual plan all at
2 the June meeting.

3 That concludes my report. I'm happy to take any
4 questions.

5 CHAIRPERSON MILLER: Okay. Thank you. I'm not
6 seeing any requests for questions, but then again I'm not
7 sure I've got this little screen working properly, so let
8 me just double check.

9 Yep. No, no questions.

10 So we'll move on to our action consent items.
11 What's the pleasure of the Committee?

12 COMMITTEE MEMBER PACHECO: I'll move.

13 CHAIRPERSON MILLER: Moved by Mr. Pacheco.

14 ACTING COMMITTEE MEMBER HENNING: Second.

15 CHAIRPERSON MILLER: Seconded by Patrick.

16 And I'll call for the question.

17 Okay. We can do a verbal. So all in favor?

18 (Ayes.)

19 CHAIRPERSON MILLER: Any abstentions?

20 Any nays?

21 Okay, the motion passes.

22 On to information consent items. Does anyone
23 have anything they want to pull?

24 Okay. Pleasure of the Committee?

25 Okay. We move on.

1 Information agenda items. Here we go. I guess
2 we'll start with our Enterprise Compliance and Risk
3 Management mid-year plan update.

4 CHIEF COMPLIANCE OFFICER FEIN: Okay.

5 (Thereupon a slide presentation).

6 CHIEF COMPLIANCE OFFICER FEIN: So in addition to
7 the text document that was provided, we are also providing
8 a deck. I wanted to walk through some high level overview
9 and highlights of where we are mid-year and what's coming
10 for the balance of the year, and then obviously getting
11 prepared for presenting our next annual plan at the June
12 meeting.

13 [SLIDE CHANGE]

14 CHIEF COMPLIANCE OFFICER FEIN: So we have
15 focused and we have talked about in this Committee for a
16 couple years now on three main parts of the process that
17 we are improving, building, maturing, people, process,
18 technology. We are making really great strides with
19 people. We've had some excellent high quality hires
20 recently and we're very encouraged. We're still out
21 actively recruiting.

22 Processes, we are building and launching and
23 enhancing processes that affect compliance and risk
24 management across the enterprise. We've done some
25 significant project work in the Investment Office. We've

1 done work in compliance and risk itself. We are working
2 with our partners now in ITSB and we'll continue to
3 enhance and build these programs across the enterprise in
4 the coming years.

5 And then technology. As you're well aware, we
6 moved to a new technology platform a little over a year
7 ago. We have now also launched the first new capability
8 from that with our gift reporting module. The final
9 branch is getting their training this month and will do
10 their first attestations next month. So we're really
11 pleased with the progress we've made.

12 [SLIDE CHANGE]

13 CHIEF COMPLIANCE OFFICER FEIN: Again, on the
14 next slide, this really just summarizes what we'll
15 continue to do in 2024 looking to upgrade and upskill our
16 talent. We're doing a lot of training, spending a lot of
17 time on education. As we are enhancing and building new
18 processes, this gives our team the opportunity to learn
19 those as well as we are teaching them to other parts of
20 the organization. We are aligning our focus so that we
21 are very much building out the incremental operational
22 risk processes, but also making sure that our advisory
23 services, conflict of interest oversight, and the rest of
24 it are being built at the same time.

25 And then as I think most of you are aware by this

1 point, effective January 1st, we rebranded. Insteading --
2 instead of having two separate divisions, compliance and
3 risk, we are now a combined unit and we have rebranded as
4 Enterprise Compliance, Risk, and Governance Office. So we
5 are taking a unified approach to our partners across the
6 enterprise and approach in how we provide information to
7 the executive team and the Board and now have one name
8 that we could be recognized across the enterprise.

9 [SLIDE CHANGE]

10 CHIEF COMPLIANCE OFFICER FEIN: On the next
11 slide, again I won't go into a lot of detail, but this
12 gives you some of the flavor of a lot of the activity we
13 have had going on. We are making good progress. We're
14 getting traction in a lot of areas. We are seeing good
15 reaction in terms of -- we've talked at other Board
16 meetings about the awareness -- compliance and risk
17 awareness. Because a lot of these activities are taking
18 us into a lot of other parts of the organization, we're
19 seeing the awareness rise in really, really good ways
20 across the organization. We're very pleased to see it and
21 it's showing up in a lot of different results that we're
22 getting.

23 And then finally, where we go with the future.
24 As I said, the gift and entertainment module is almost
25 completed rolled out to loaders and managers. We'll be

1 working on inside information and other conflict of
2 interest related pieces of the technology. Again, we have
3 a lot of data. We need to have this in a system that
4 allows us to line that data up, scrub it, and look for
5 areas that could be potential conflicts of interest so we
6 can avoid those going forward in the future.

7 And with that, that concludes the mid-year
8 report. Happy to take any questions.

9 CHAIRPERSON MILLER: Okay. I'm not seeing any
10 quest -- oh, yes. Director Pacheco.

11 COMMITTEE MEMBER PACHECO: Yes. Thank you.
12 Thank you very much. Thank you for your presentation.
13 I'd like to just go back to the people part on the
14 component. Have -- do -- were you able to utilize the
15 rapid recruitment process of CalPERS and has it been --
16 how has it been going?

17 CHIEF COMPLIANCE OFFICER FEIN: We did and we
18 were successful. We got two new candidates through that
19 part of the process. We're continuing on with some other
20 more administrative level hires, as well as some more
21 specific investment classification hires, where we're
22 looking for folks with industry-specific background in
23 compliance and risk work, whether that's financial
24 services, health care industry. There's a lot of
25 industries where these kind of practices have been being

1 built and matured over the last, you know two, three
2 decades. So we want to bring in folks who can bring some
3 of that experience with it, help also upskill our existing
4 team. And so we're going to continue on in that fashion
5 with recruiting.

6 COMMITTEE MEMBER PACHECO: Excellent. Thank you
7 very much.

8 CHIEF COMPLIANCE OFFICER FEIN: Yep.

9 CHAIRPERSON MILLER: Okay. Thank you for the
10 report. I see no more questions, so I guess that brings
11 us to Information Item 6B, third-party valuation and
12 certification of the 2022 CalPERS annual valuations

13 DEPUTY CHIEF ACTUARY ARCHULETA: Good morning,
14 Mr. Chair, Madam Vice Chair. Congratulations on your
15 nomination and members of the Committee. My name is
16 Fritzie Archuleta Fritzie Archuleta from the Actuarial
17 Office.

18 Item 6b is a third-party certification of our
19 2022 annual valuations for the Judges', Judges' II,
20 Legislators', and the '59 Survivor Program. Today, here
21 via Zoom is Mr. David Driscoll from Buck Global.

22 MR. DRISCOLL: Thank you, Fritzie. Yes, as
23 Fritzie mentioned under contract 2021-996, this year -- or
24 early this year, it was our responsibility to conduct
25 parallel valuation and certification of the June 30, 2022

1 actuarial valuations prepared by the CalPERS Actuarial
2 Audit -- Office for the 1959 Survivor Benefit Program, the
3 Legislators' Retirement System, the Judges' Retirement
4 System, and the Judges' Retirement System II.

5 I'll summarize at a high level by saying we found
6 no significant problems in any of these valuations. The
7 work of the CalPERS actuarial audit appears to be
8 excellent and comply -- full compliant with actuarial
9 standards of practice.

10 With respect to some of these valuations, we had
11 a few suggestions. In particular, the 1959 Survivor
12 Benefit Program, while we matched all liabilities and
13 other significant actuarial results well within the five
14 percent tolerance that is prescribed under the contract,
15 we did have some suggestions for additional disclosures
16 with respect to actuarial assumptions, with respect to the
17 valuation model, with respect to an amortization of one
18 segment of the system's unfunded liability, and with
19 respect to disclosures required under standard of practice
20 number six, which is a standard of practice among
21 actuaries that applies to benefits or valuations of
22 benefits of the sort provided by the 1959 Survivor Benefit
23 Program.

24 With respect to the Legislators' Retirement
25 System, again, we were able to match all key actuarial

1 results within five percent. We have no suggestions for
2 refinement in language or in process and all required
3 disclosures under actuarial standards of practice appear
4 to be present.

5 Similarly, with the Judges' Retirement System, we
6 matched liabilities and contribution levels and costs
7 with -- well within the five percent prescribed range. We
8 believe all actuarial assumptions and methods used in the
9 this valuation are reasonable. We had no suggestions for
10 refinement with respect to valuation programming. We did
11 have one suggestion with respect to the language in the
12 report. In terms of describing the last time actuarial
13 assumptions were updated and in terms of the calculation
14 of a projected unfunded liability, this refinement we're
15 suggesting in that calculation would have a very minor
16 effect on its outcome. And I should note in this
17 connection that it is not a calculation that directly
18 affects the funding of the system.

19 With respect to Judges' Retirement System II,
20 again, we were able to match all liabilities and costs
21 well within the five percent prescribed threshold.
22 Assumptions and methods all appear to be quite reasonable
23 in our opinion. We did have some suggestions with respect
24 to refinement in the Cal -- the disclosures in the report
25 in particular. There was a discrepancy between some

1 retirement rates that were stated in the report and the
2 actual rates being used in the valuation. Those actually
3 being used in the valuation are the correct rates, so the
4 report will be changed to reflect what is actually
5 contained in the valuation programming.

6 But again, the overall quality of the reports is
7 very high. We certainly found no significant
8 computational errors or issues to raise with the Actuarial
9 Office. And we would be remiss if we did not tell the
10 Board of Administration that they are being well served in
11 the valuations of these systems.

12 And with that, I'm happy to take any questions.

13 CHAIRPERSON MILLER: Yeah. Well, thank you for
14 that. It's appreciated. And I don't see any requests
15 to -- from the Board.

16 Okay. I think that's does it. Thank you for the
17 report and the information.

18 And that brings us to Summary of Committee
19 Direction.

20 CHIEF COMPLIANCE OFFICER FEIN: Thank you, Mr.
21 Chair. I noted no direction.

22 CHAIRPERSON MILLER: Okay. I think that does it
23 for that. So do we have any public comment? This is an
24 opportunity for public comment. Do we have anyone on the
25 line or anyone present?

1 No, it looks like we have no public comment. So
2 with that, we will now recess into closed session for
3 items 1 to 3 from the closed session agenda. We'll
4 immediately reconvene in open session after the closed
5 session. Thank you.

6 (Off record: 9:04 a.m.)

7 (Thereupon the meeting recessed
8 into closed session.)

9 (Thereupon the meeting reconvened
10 open session.)

11 (On record: 9:55 a.m.)

12 CHAIRPERSON MILLER: Okay. We're back in open
13 session. And unless I hear any objection from anyone on
14 the Committee, we will adjourn this meeting of the Risk
15 and Audit Committee. So we are adjourned for Risk and
16 Audit. And I guess Performance, Compensation and Talent
17 Management Committee will be next. And we'll need -- in
18 five minutes. So 10 o'clock we'll start our next
19 Committee meeting. Great.

20 (Thereupon the California Public Employees'
21 Retirement System, Board of Administration,
22 Risk & Audit Committee open session
23 meeting adjourned at 9:55 a.m.)
24
25

CERTIFICATE OF REPORTER

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Risk & Audit Committee open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 22nd day of February, 2024.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063