

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

MONDAY, FEBRUARY 13, 2023
1:56 P.M.

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

APPEARANCES

COMMITTEE MEMBERS:

Lisa Middleton, Chairperson

David Miller, Vice Chairperson

Malia Cohen

Fiona Ma, represented by Frank Ruffino

Jose Luis Pacheco

Ramon Rubalcava

Mullissa Willette

BOARD MEMBERS:

Theresa Taylor, President

Eraina Ortega

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

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PROCEEDINGS

1
2 CHAIRPERSON MIDDLETON: Call to order the Risk
3 and Audit Committee. First order of business is to do
4 roll call.

5 BOARD CLERK TRAN: Lisa Middleton?

6 CHAIRPERSON MIDDLETON: Present.

7 BOARD CLERK TRAN: David Miller?

8 VICE CHAIRPERSON MILLER: Here.

9 BOARD CLERK TRAN: Controller Malia Cohen?

10 COMMITTEE MEMBER COHEN: Present.

11 BOARD CLERK TRAN: Frank Ruffino for Fiona Ma?

12 ACTING COMMITTEE MEMBER RUFFINO: Present.

13 BOARD CLERK TRAN: Jose Luis Pacheco?

14 COMMITTEE MEMBER PACHECO: Present.

15 BOARD CLERK TRAN: Ramon Rubalcava?

16 COMMITTEE MEMBER RUBALCAVA: Present.

17 BOARD CLERK TRAN: Mullissa Willette?

18 COMMITTEE MEMBER WILLETTE: Here.

19 CHAIRPERSON MIDDLETON: All right. We are all in
20 attendance.

21 Next order of business is the election of the
22 Risk and Audit Committee Chair and Vice Chair. And for
23 that, I will turn over the gavel ceremonially to Ms.
24 Willette.

25 COMMITTEE MEMBER WILLETTE: Okay. Thank you so

1 much. So I will now take nominations for the Chair of the
2 Risk and Audit Committee.

3 CHAIRPERSON MIDDLETON: I'd like to nominate
4 David Miller to be Chair.

5 COMMITTEE MEMBER WILLETTE: Thank you.

6 A nomination has been made for David Miller to
7 Chair the Risk and Audit Committee.

8 Are there any other nominations?

9 Are there any other nominations?

10 And finally, any other nominations?

11 Hearing none.

12 I have a motion to approve David Miller as Chair
13 of the Risk and Audit Committee. Please do a roll call
14 vote.

15 BOARD CLERK TRAN: David Miller?

16 VICE CHAIRPERSON MILLER: Aye.

17 BOARD CLERK TRAN: Controller Malia Cohen?

18 COMMITTEE MEMBER COHEN: Aye.

19 BOARD CLERK TRAN: Frank Ruffino for Fiona Ma?

20 ACTING COMMITTEE MEMBER RUFFINO: Aye.

21 BOARD CLERK TRAN: Jose Luis Pacheco?

22 COMMITTEE MEMBER PACHECO: Aye.

23 BOARD CLERK TRAN: Ramon Rubalcava?

24 COMMITTEE MEMBER RUBALCAVA: Aye.

25 BOARD CLERK TRAN: Mullissa Willette?

1 COMMITTEE MEMBER WILLETTE: Aye.

2 So the motion passes. Thank you very much.

3 Congratulations, Mr. Miller. I will now pass it over to
4 Chair Miller for the remainder of the meeting.

5 CHAIRPERSON MILLER: Thank you. Okay. I, with
6 the gavel --

7 (Laughter).

8 CHAIRPERSON MILLER: -- will now take nominations
9 for Vice Chair of the Risk and Audit Committee.

10 And I will make the nomination of Lisa Middleton
11 as Vice Chair of the Risk and Audit Committee. So that
12 nomination is made.

13 Are there any other nominations?

14 Any other nominations?

15 Finally, are there any other nominations?

16 So I have a motion to approve Lisa Middleton as
17 Vice Chair and I'll ask for the roll call.

18 BOARD CLERK TRAN: Lisa Middleton?

19 COMMITTEE MEMBER MIDDLETON: Aye.

20 BOARD CLERK TRAN: Controller Malia Cohen?

21 COMMITTEE MEMBER COHEN: Aye.

22 BOARD CLERK TRAN: Frank Ruffino for Fiona Ma?

23 ACTING COMMITTEE MEMBER RUFFINO: Aye.

24 BOARD CLERK TRAN: Jose Luis Pacheco?

25 COMMITTEE MEMBER PACHECO: Aye.

1 BOARD CLERK TRAN: Ramon Rubalcava?

2 COMMITTEE MEMBER RUBALCAVA: Aye.

3 BOARD CLERK TRAN: Mullissa Willette?

4 COMMITTEE MEMBER WILLETTE: Yes.

5 CHAIRPERSON MILLER: Okay. The motion passes.

6 It's unanimous and congratulations, Ms. Middleton.

7 So do we switch around or we can't just like lean
8 over and --

9 (Laughter).

10 CHAIRPERSON MILLER: Okay. We'll pause here for
11 a few moments while we reshuffle.

12 Okay. Let's keep it rolling.

13 We'll move on to Item 3, the Executive Report.
14 I'll call on Mr. Fein.

15 CHIEF COMPLIANCE OFFICER FEIN: Thank you, Mr.
16 Chair. Good afternoon, Mr. Chair, Ms. Vice Chair,
17 Committee members. Kevin Fein, CalPERS team member and
18 Chief Compliance Officer.

19 First, I'd like to congratulate Ms. Taylor on her
20 reelection as President and then congratulations to Mr.
21 Miller and Ms. Middleton for their elections to Chair and
22 Vice Chair of the RAC Committee. And again to all the new
23 members, congratulations on your elections and joining the
24 CalPERS Board. I look forward to working with all of you
25 in the coming year.

1 There are two information items today for
2 discussion. The first is the 2022-23 Enterprise
3 Compliance and Risk Management Mid-Year Plan Update. This
4 is also the second -- or, I'm sorry, the second item is
5 the third-party valuation certification of the 2021
6 CalPERS annual valuations of the State and school pension
7 plan. And Ms. Archuleta and Buck Global are here to speak
8 to that a little later on in the meeting.

9 The next Risk and Audit Committee meeting is June
10 20th of 2022 and will include our 2022-23 annual
11 compliance report, and the first reading of the Conflict
12 of Interest Code amendment we'll be bringing.

13 This concludes my report. Happy to take any
14 questions.

15 CHAIRPERSON MILLER: Thank you.

16 Any questions at this point?

17 Nope, seeing none. Thank you for your report and
18 we'll look forward to hearing those items a little later.

19 So that brings us to action consent items.

20 What's the pleasure of the Committee?

21 COMMITTEE MEMBER PACHECO: Move approval.

22 CHAIRPERSON MILLER: Approval moved by Mr.
23 Pacheco.

24 COMMITTEE MEMBER WILLETTE: Second.

25 CHAIRPERSON MILLER: Seconded buy Director

1 Willette.

2 So any discussion?

3 Okay. I'll call for the question.

4 All in favor?

5 (Ayes.)

6 CHAIRPERSON MILLER: Any opposed?

7 Hearing none. The motion passes.

8 So we move on to information consent items. I
9 have not received any requests to pull anything and I'm
10 not seeing any last minute requests to come in.

11 So that moves us to our information agenda items.
12 So back to you, Mr. Fein.

13 CHIEF COMPLIANCE OFFICER FEIN: Thank you, Mr.
14 Chair. If we could start with the mid-year update to the
15 2022-23 Enterprise Compliance and Risk Management Plan
16 (Thereupon a slide presentation).

17 CHIEF COMPLIANCE OFFICER FEIN: As you'll see on
18 your screens, this was the plan that was presented last
19 June. It was approved by this Committee and the full
20 Board.

21 If we could move on to the update, please.

22 --o0o--

23 CHIEF COMPLIANCE OFFICER FEIN: Thank you.

24 So if you recall from June of last year, the --
25 we have a three initiative plan for this fiscal year. And

1 the first two of those items, and I'll go into a little
2 detail here, but you may recall that those are multi-year
3 items that we're going to be doing a lot of across the
4 Board continued work on the maturity and efficacy of the
5 compliance and risk plans and programs here at CalPERS.

6 So with that in mind, I will say that if we look
7 at Initiative number 1, that shows 50 percent. We are
8 measuring based on the amount of work we expect to get
9 done in this fiscal year. And so you will see this item
10 again show up next year, in fact, the first two. And so
11 the way we measure rather than looking at the multi-year
12 project and only tracking it over that full time, we have
13 broken it down into buckets.

14 So we know how much work we need to get done this
15 year to be on track for the full multi-year plan. We are
16 indeed at -- as of 12-31, we are halfway through
17 documenting laws, rules, regulations, working to assess
18 our core processes, and identify gaps, and begin to work
19 to improve our strengthen programs.

20 If you look at Initiative 2, enhancing oversight
21 and monitoring capabilities, again, we are at the 50
22 percent mark for the work we set for ourselves for this
23 year in improving the processes, adding tools that make
24 our work more effective and efficient, and also with --
25 we've been spending a lot of time looking at education

1 processes, priorities, and the tools we use. And we are
2 looking at opportunities potentially to improve that,
3 better course work, more direct on point education and
4 training available. And also, we are going to be looking
5 at the responses we got to our just completed annual
6 enterprise compliance and risk awareness survey to point
7 out any other areas.

8 And then finally, our third initiative --

9 --o0o--

10 CHIEF COMPLIANCE OFFICER FEIN: -- is a standard
11 one that you've seen before. It is their annually for our
12 Enterprise Risk Management Program. And even though we
13 are making changes and combining risk and compliance
14 together, you will see they both will continue to have
15 unique programs to each side of the fence that will
16 continue to run.

17 This was a plan just for this year. This item,
18 as I said, is recurring. It will be on our plan each
19 year. You may recall that we went through some analysis
20 and changes to our annual enterprise risk management
21 survey and assessment process. We added some new items,
22 removed some others, refreshed the analysis. And if you
23 recall in November at the Risk and Audit Committee
24 meeting, we brought you the results of the fiscal year
25 22-23 annual enterprise compliance risk assessment.

1 There's some ancillary work that goes on after
2 that, so you will see these numbers are all close to a
3 hundred, with one of the items actually at a hundred
4 percent. And again, we see no impediment to reaching
5 completion by the end of this fiscal year on June 30. In
6 fact, with this issue, probably a bit ahead of schedule.

7 That's my report. I'm happy to answer any
8 questions.

9 CHAIRPERSON MILLER: Okay. Got a question. Push
10 the button and see if I can.

11 COMMITTEE MEMBER COHEN: Good morning. Quick
12 question.

13 CHAIRPERSON MILLER: Oh, there we go.

14 COMMITTEE MEMBER COHEN: Am I on?

15 CHAIRPERSON MILLER: I'm trying. It's just not
16 working.

17 There it is.

18 COMMITTEE MEMBER COHEN: Okay. It's working now.

19 Good morning, everyone. My name is Malia Cohen.

20 Mr. Fein, I have a question -- a couple questions you.

21 Through the review of 2021 Form 700 filings, did you
22 notice a pattern of common issues or situations?

23 CHIEF COMPLIANCE OFFICER FEIN: We did. I would
24 say the most common, and this is, as I've been told,
25 consistent with most years that we do these reviews, have

1 just been unintentional errors or omissions. I think when
2 we look at the broader set -- and we are still conducting
3 some of those final reviews, because we also had team
4 leaders engage to perform some reviews where they were
5 looking, so that at least they're aware of potential
6 conflict areas on a go-forward basis, as they assign any
7 of their folks.

8 I don't think we had -- we didn't have any
9 significant problematic areas where we uncovered things
10 that presented immediate conflict issues that needed to be
11 addressed. Most of it was clarifications. And I would
12 say there wasn't a single type of error made. They were
13 mostly unintentional. They were failures to understand
14 the requirements. And the process we followed is as we
15 did the review and identified those items, we -- we're
16 tracking those at what we called the gross level, meaning
17 that we haven't gone back and had those conversations with
18 the individual team member who filed that form. And as we
19 work through that -- and I apologize. I don't have the
20 statistics with me. I'd be happy to get back to you, but
21 somewhere along the order of 50 percent or more fall off
22 as not requiring any further action, not requiring any
23 amendment to be filed, or any other remediation efforts.

24 COMMITTEE MEMBER COHEN: Okay. And I was
25 wondering if you could provide an example of the type of

1 tools team leaders can use in their reviews?

2 CHIEF COMPLIANCE OFFICER FEIN: So we used a
3 system called VXF virtual folders, which I think a lot of
4 folks are familiar with as a mechanism simply to get the
5 form out to them in an electronic version, allow them to
6 look through it, and then some preset buttons. No, I
7 don't have any concerns or questions or, yes, I do, and
8 then a box to put those in.

9 That was a much more effective and efficient way
10 to go through it than some of the other ways that have
11 been explored, certainly as opposed to sending paper
12 copies out for review. So that was one of the things we
13 were able to do today. We are also looking at some new
14 technology we're bringing in on the compliance side.
15 You -- I believe most of the Committee will have heard me
16 talk about my Compliance Office, the MCO Platform. We are
17 already up and running on that for personal trading. And
18 we went live with that just on February 1st, so we are off
19 the Schwab CT system completely now, and we are looking at
20 other ways to use their system for forms filling out,
21 attestations. They have a lot of good capabilities, so
22 we're exploring some of that to see if we can make these
23 things even easier as we go forward.

24 COMMITTEE MEMBER COHEN: Thank you very much. I
25 have no further questions.

1 CHAIRPERSON MILLER: Okay. I'm not seeing any
2 other requests to speak, so we'll move on to Item 6b, the
3 third-party valuation and certification of the 2021 annual
4 valuations and of the State and schools pension plans.

5 DEPUTY CHIEF ACTUARY ARCHULETA: Okay. Good
6 afternoon, Mr. Chair, Madam Vice Chair and members of the
7 Committee Fritzie Archuleta, Actuarial, CalPERS team.

8 First, I'd like to congratulate Mr. Miller, Ms.
9 Middleton on your new appointments.

10 Okay. Now, on to Item 6b. In June of 2021,
11 CalPERS hired Buck Global to conduct certifications on our
12 annual actuarial valuations. For the year-end 2021, the
13 State and school valuations were reviewed. Here today is
14 Mr. David Driscoll to report on those findings.

15 CHAIRPERSON MILLER: One more time.

16 You got it.

17 MR. DRISCOLL: Okay. I generally take a red
18 light as meaning something is off.

19 (Laughter).

20 MR. DRISCOLL: Anyway, thank you, Fritzie. And I
21 echo her congratulations to the newly elected Chair and
22 Vice Chair of the Risk and Audit Committee. As mentioned
23 under our present engagement, contract 2021-996 Buck has
24 been contracted to perform parallel valuations and
25 certifications in connection with valuations of

1 constituent systems of CalPERS prepared by the CalPERS
2 Actuarial Office.

3 As Fritzie noted, this particular task, which was
4 completed at the end of 2022, involved an examination of
5 the 2021 actuarial valuation reports prepared for the
6 State and school systems. The specific systems covered
7 are listed in the report. There were four State systems
8 and the schools pool.

9 To give you an overall sense of what we found
10 before launching into a discussion of specifically what we
11 looked at and our findings and recommendations, we
12 continued to find that the work prepared by the CalPERS
13 Actuarial Audit -- Actuarial Office is of a very high
14 quality. The members of the Board of CalPERS can rest
15 assured that the reports that they are getting from the
16 CalPERS office, at least based on what we've seen in this
17 go-round and in early tasks, are accurate, and complete,
18 and fulfill professional guidelines as to the ways in
19 which valuations should be completed.

20 Now, when we do what we call a parallel valuation
21 certification, we look at a number of things. We look at
22 the assumptions and methods that were used in the
23 valuations. We review them for reasonableness based on
24 our understanding and our assessment as professional
25 actuaries of what would be reasonable, and acceptable.

1 And we also look at them in terms of their compliance with
2 actuarial standards of practice. Our review of the
3 assumptions and methods used in the valuations covered in
4 Task 2 resulted in the conclusion that they were all
5 acceptable add reasonable methods and assumptions.

6 We also attempt to replicate in detail the
7 results of each of the valuations. We get the data from
8 CalPERS. We run it independently to see if we come up
9 with figures that match those derived by the CalPERS
10 Actuarial Office. We are supposed to flag anything that
11 results in a difference in aggregate costs, present
12 values, or liabilities of more than five percent. In
13 fact, we were able to match most of the liabilities,
14 costs, and present values by considerably closer margins
15 than five percent.

16 Additionally, while it is not required under the
17 contract, we try to match liabilities up on a
18 participant-by-participant basis on each of -- in each of
19 the systems covered by a given audit, because we want to
20 be sure that there aren't offsetting differences, so that
21 we're off a lot in one direction on one type of
22 participant and off in the other direction on the others.
23 But that's camouflaged by matching in the aggregate. And
24 you can see in the back of our report that for the vast
25 majority of participants, our liabilities matched CalPERS'

1 liabilities by well within five percent. There were a few
2 outlier cases, which we think are explained by differences
3 in the valuation systems that we use. There are some
4 differences in the way that certain things are modeled
5 between the system that CalPERS uses and the systems that
6 we use.

7 Both approaches are reasonable, but for people
8 with certain characteristics, such as short service or at
9 certain pay levels, there will be a difference. But in
10 the aggregate, these differences are quite modest and do
11 not affect the reasonableness of the results presented in
12 any of the valuations reviewed.

13 We also look at the content of the valuation
14 reports for compliance with -- well, for accuracy, first
15 of all, and also for compliance with the communications
16 provisions of the actuarial standards of practice. We
17 found the reports again were generally a very high
18 quality. We had some suggestions as to ways in which
19 things might be more accurately or completely described.
20 We also noted that there were some differences between the
21 way certain things were presented between the schools
22 report and the State reports. And we suggested that what
23 we thought were the better of the two practices in each of
24 those cases be adopted for both schools and State reports.

25 But overall, we had, you know, a very good

1 impression of the work that was being conducted by the
2 Actuarial Office. The results again appear highly
3 accurate and are based on reasonable actuarial assumptions
4 and methods. And we believe that with the improvements
5 that we have suggested, the reports while already very --
6 while already very good will become even better.

7 And with that, I'm happy to entertain questions.

8 CHAIRPERSON MILLER: Okay. I'm not seeing any
9 requests to speak, so -- oh, nope, there I see one. It's
10 Director Pacheco.

11 Let's see if I can get this thing to work.

12 Third time is a charm.

13 COMMITTEE MEMBER PACHECO: There we are. Thank
14 you. Thank you very much for your report.

15 So on the recommendations on -- I think it's on
16 page 11 of 14, it said that you mentioned that the -- that
17 one of the recommendations is to improve the disclosure of
18 the mortality assumptions. Can you -- can you just
19 elaborate on how that would, you know, improve the
20 robustness of this report?

21 MR. DRISCOLL: I think your page numbering may be
22 different from mine, because your page 7 -- okay. Yeah,
23 it's page 7 under the original page numbering, okay.

24 COMMITTEE MEMBER PACHECO: Oh, I'm sorry.

25 MR. DRISCOLL: So -- and this is

1 recommendation -- yeah, the recommendation -- the first
2 recommendation here.

3 COMMITTEE MEMBER PACHECO: Right.

4 MR. DRISCOLL: Really, the idea here is that the
5 standards of practice in recent years have required
6 greater specificity in the description of actuarial
7 assumptions. And we thought that to more completely
8 fulfill the directive with respect to, in this case, it
9 would be actuarial standard of practice number 35, which
10 discusses the selection of demographic actuarial
11 assumptions, which a mortality assumption certainly is,
12 but also their description in a report that these
13 assumptions could be more clearly or accurately
14 identified.

15 Again, there's nothing -- there's absolutely
16 nothing wrong with the assumptions that are in place now.
17 But in order to more completely fulfill the directive or
18 the -- I would say the spirit of the actuarial standard of
19 practice, which is that another actuary should be able to
20 pick up a report and know precisely what assumptions are
21 being used, we thought that these enhancements would bring
22 the report into a fuller level of compliance with that.

23 COMMITTEE MEMBER PACHECO: I see then. Thank you
24 for that clarification.

25 MR. DRISCOLL: Um-hmm.

1 CHAIRPERSON MILLER: Okay. I'm seeing no further
2 questions, so I thank you very much for your report.

3 MR. DRISCOLL: Thank you.

4 CHAIRPERSON MILLER: And thank you as well.
5 And we will move on to summary of committee
6 direction.

7 CHIEF COMPLIANCE OFFICER FEIN: Thank you, Mr.
8 Chair. I noted no direction from the Committee.

9 CHAIRPERSON MILLER: Okay. I noted none either.
10 And I just thank you and I thank the team and everyone for
11 the fine work. It really shows and -- that we don't have
12 any particular issues or additional requests for you at
13 this time. So thank you.

14 I just want to check in if there's any public
15 comment? Anyone in the room or anyone on the phone, Mr.
16 Fox.

17 BOARD CLERK ANDERSON: (Shakes head).

18 CHAIRPERSON MILLER: Nobody phoning in for public
19 comment?

20 STAKEHOLDER RELATIONS ASSISTANT DIVISION CHIEF
21 TEYKAERTS: No public comments on the phone, Mr. Chair.

22 CHAIRPERSON MILLER: How surprising.

23 Okay.

24 (Laughter).

25 CHAIRPERSON MILLER: Thank you.

1 Okay. With that, we will recess into closed
2 session and for items 1 to 3 from the closed session
3 agenda. Then we'll immediately reconvene in open session
4 after the closed session.

5 Thank you. So those of you who do not belong
6 here for closed session are dismissed.

7 (Off record: 2:21 p.m.)

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

10 (Thereupon the meeting reconvened
11 open session.)

12 (On record: 2:58 p.m.)

13 CHAIRPERSON MILLER: Okay. We are reconvening in
14 open session. We're back in open session. I would move
15 to adjourn, hearing no objections.

16 Hear no objections, we are adjourned.

17 (Thereupon the California Public Employees'
18 Retirement System, Board of Administration,
19 Risk & Audit Committee open session
20 meeting adjourned at 2:58 p.m.)

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