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**September 19, 2016****Item Name:** Risk Profile Review**Program:** Enterprise Risk Management**Item Type:** Information**Executive Summary**

To further enrich the integrated enterprise assessment and management of risk, committee executives are presenting the revised enterprise risk management framework and the enterprise risks delegated to the respective Board committees for feedback. The objectives of the presentations are to obtain the input and perspectives of the committees that oversee the first line of defense on those risks, and to use this information to finalize the risk profiles prior to their assessment and the presentation of the risk dashboard to the Risk and Audit Committee (RAC) in November 2016.

**Strategic Plan**

This agenda item supports CalPERS Strategic Plan, Goal B: Cultivate a high-performing, risk-intelligent and innovative organization. To achieve this goal, management across the enterprise continues to contribute to a robust risk management framework that includes consideration of risk in decision-making, planning, and prioritization of business activities to achieve strategic and operational objectives.

**Background**

Enterprise risk management is a vital function in facilitating risk identification and monitoring activities that inform and support decision-making and resource allocation priorities at both the strategic and operational levels and across the enterprise.

A cross-functional ad hoc working group was convened in Spring 2016 to examine enterprise risks and descriptions included in the Risk Management Dashboard (Dashboard) producing the following findings and recommendations:

- The prior Dashboard did not succinctly state the specific nature of the risks
- Replacing risk descriptions with risk statements will provide more clarity
- Focused risks and risk statements will lead to more concise and effective mitigation measures
- Consolidating risks with significant correlations provides the opportunity to implement mitigation strategies that are synergistic and produce an enterprise-wide impact
- Mitigation efforts should be aimed at drivers of the risk

In June 2016, Enterprise Risk Management Division (ERMD) presented a revised risk summary, identifying the proposed enterprise risks, their risk statements, the executive owner, and Board Committee oversight to the RAC (Attachment 1).

Incorporating feedback from the June RAC, staff met with process owners and the Integrated Assurance and Risk Council in the first quarter of 2016/17, to identify risk drivers and associated mitigations measures in place for each enterprise risk.

To ensure risk management is effective and delegated committees are receiving appropriate, useful information to carry out their delegated authority related to risk management, and to further enhance the assessment and management of enterprise risk, the respective Committees' risk profiles will be presented for discussion and input to the finalized Dashboard.

## **Analysis**

### Risk(s) Overseen by the Investment Committee

The Investment Committee's (Committee) responsibilities include the review and approval of portfolio performance, asset allocation, and the oversight of investment risks as captured under the Pension Funding risk. The Pension Funding risk is framed into two themes: Investment Performance and Asset Liability Management. The risk drivers associated with Investment Performance will be presented and discussed in the Committee and those drivers associated with Asset Liability Management will be discussed in the Finance and Administration Committee.

### Next Steps Will Include:

- Incorporate feedback from Committee into Risk Profile(s)
- Refine residual risk rating methodology
- Perform gap analysis in collaboration with the Integrated Assurance workgroup to assess the effectiveness of current mitigations.
- Conduct risk assessments for the enterprise risks with Executive team, senior leaders, and members of the Integrated Assurance workgroup.
- Present updated Framework and Dashboard to the RAC at the November 2016 meeting.

## **Attachments**

Attachment 1 - Enterprise Risk Summary

Attachment 2 - Enterprise Risk Management Profiles

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