

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

ROBERT F. CARLSON AUDITORIUM
LINCOLN PLAZA NORTH
400 P STREET
SACRAMENTO, CALIFORNIA

MONDAY, FEBRUARY 12, 2018

5:14 P.M.

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

A P P E A R A N C E S

COMMITTEE MEMBERS:

Ms. Dana Hollinger, Chairperson

Mr. Bill Slaton, Vice Chairperson

Ms. Margaret Brown

Mr. John Chiang, represented by Matthew Saha

Mr. Richard Costigan

Ms. Priya Mathur

Ms. Betty Yee, represented by Mr. Alan Lofaso

BOARD MEMBERS:

Mr. David Miller

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Melissa Azevedo, Assistant Chief Risk Officer

Mr. Forrest Grimes, Chief Risk Officer

Ms. Carrie Lewis, Committee Secretary

Ms. Marlene Timberlake D'Adamo, Chief Compliance Officer

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P R O C E E D I N G S

1
2 CHAIRPERSON HOLLINGER: I'm going to call the
3 Risk and Audit Committee to order.

4 So the first call of order is the roll call.

5 COMMITTEE SECRETARY LEWIS: Dana Hollinger?

6 CHAIRPERSON HOLLINGER: Here.

7 COMMITTEE SECRETARY LEWIS: Margaret Brown?

8 COMMITTEE MEMBER BROWN: Here.

9 COMMITTEE SECRETARY LEWIS: Matthew Saha for John
10 Chiang

11 ACTING COMMITTEE MEMBER SAHA: Here.

12 COMMITTEE SECRETARY LEWIS: Richard Costigan?

13 COMMITTEE MEMBER COSTIGAN: Here.

14 COMMITTEE SECRETARY LEWIS: Priya Mathur?

15 COMMITTEE MEMBER MATHUR: Here.

16 COMMITTEE SECRETARY LEWIS: Bill Slaton?

17 COMMITTEE MEMBER SLATON: Here.

18 COMMITTEE SECRETARY LEWIS: Alan Lofaso for Betty
19 Yee?

20 ACTING COMMITTEE MEMBER LOFASO: Here.

21 CHAIRPERSON HOLLINGER: Okay. And now, I'm going
22 to turn the gavel over to Priya Mathur for the election.

23 COMMITTEE MEMBER MATHUR: Thank you.

24 I will now entertain nominations for the -- for
25 Chair of the Risk and Audit Committee.

1 Mr. Slaton. Sorry one minute. Gotcha.

2 COMMITTEE MEMBER SLATON: Thank you. I nominate
3 Dana Hollinger to be Chair of this Committee.

4 COMMITTEE MEMBER MATHUR: Terrific. A nomination
5 has been entered for Dana Hollinger.

6 Are there any other further nominations?

7 Any further nominations?

8 Any further nominations?

9 Hearing none.

10 I will entertain to motion to elect Dana
11 Hollinger as Chair by acclamation.

12 COMMITTEE MEMBER SLATON: Move by acclamation.

13 COMMITTEE MEMBER COSTIGAN: Second.

14 COMMITTEE MEMBER MATHUR: Moved by Mr. Slaton,
15 seconded by Mr. Costigan.

16 Any discussion?

17 Seeing none.

18 All those in favor say aye?

19 (Ayes.)

20 COMMITTEE MEMBER MATHUR: All opposed?

21 Motion passes.

22 Congratulations, Ms. Hollinger.

23 CHAIRPERSON HOLLINGER: Thank you. Thank you.
24 Thank you.

25 (Applause.)

1 CHAIRPERSON HOLLINGER: And now for elections of
2 the Vice Chair. I call on Richard Costigan.

3 COMMITTEE MEMBER COSTIGAN: Congratulations,
4 Madam Chair. At this time, I would like to nominate Bill
5 Slaton as the Vice Chair of the Risk and Audit Committee.

6 CHAIRPERSON HOLLINGER: Great.

7 Are there any other nominations for Vice Chair?

8 Any other nominations?

9 I move to --

10 COMMITTEE MEMBER MATHUR: I move that we elect
11 Bill Slaton by acclamation as Vice Chair of the Committee.

12 COMMITTEE MEMBER COSTIGAN: I'll second.

13 CHAIRPERSON HOLLINGER: All in favor?

14 (Ayes.)

15 CHAIRPERSON HOLLINGER: Congratulations. Bill
16 Slaton is now the Vice Chair.

17 (Applause.)

18 CHAIRPERSON HOLLINGER: We're going to take five
19 minutes just to shift.

20 (Thereupon a pause in the proceedings.)

21 CHAIRPERSON HOLLINGER: Okay. Next item on the
22 agenda is the Item 3, the Executive Report. I call on
23 Marlene Timberlake-D'Adamo.

24 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

25 Thank you. Good evening, Madam Chair, Mr. Vice

1 Chair and Committee members. Marlene Timberlake-D'Adamo,
2 CalPERS team member. I'd like to say congratulations to
3 our Chair, Ms. Hollinger and our Vice Chair, Mr. Slaton.
4 I look forward to working with each of you during the
5 course of the year.

6 Today we will review the Risk and Audit Committee
7 delegation resolution and will present the mid-year plans
8 for Enterprise Compliance and Enterprise Risk Management.
9 Both mid-year plans will provide updates on activities
10 completed in the first half of fiscal years 2017-18. The
11 mid-year plan for Enterprise Risk Management will focus on
12 the continued facilitations of the asset liability
13 management cycle and other risk management efforts.

14 The enterprise compliance plan will provide
15 updates on ethics policy and delegation management, the
16 embedded Compliance Program, and communication and
17 education.

18 The next Risk and Audit Committee meeting is
19 Scheduled for June 19th, 2017 and includes the annual
20 plans for Enterprise Risk Management, Enterprise
21 Compliance, and the Office of Audit Services, the
22 independent auditor's annual plan, and the semi-annual
23 Enterprise Risk Management Framework Review.

24 Thank you, Madam Chair. This concludes my
25 report. I would be happy to take questions.

1 CHAIRPERSON HOLLINGER: Any questions?

2 Seeing none.

3 We're going move on to item 4. This is a consent
4 for the approval of the November 13th, 2017 Risk and Audit
5 Committee meeting minutes.

6 Do I have a motion?

7 COMMITTEE MEMBER COSTIGAN: I'll move the
8 minutes.

9 COMMITTEE MEMBER MATHUR: Second.

10 CHAIRPERSON HOLLINGER: Okay. So motion made by
11 Costigan, seconded by Mathur.

12 All in favor say aye?

13 (Ayes.)

14 CHAIRPERSON HOLLINGER: Motion approved.

15 Okay. Items 5a through f are consent items. Do
16 I have any questions?

17 Seeing no questions.

18 We're going to move on to Item 6. And Ms.
19 D'Adamo, it's review of the Risk and Audit Committee
20 Delegation.

21 Do we have any questions?

22 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So
23 just to -- for the purposes of the new members to the
24 Committee, this is an annual item that we do. And it
25 basically is an affirmation of the delegation to the

1 Committee. This is an annual process as I mentioned. And
2 it is pretty self-explanatory. We're not actually
3 recommending any changes this year, so the delegations
4 that's in your packets are clean delegations.

5 COMMITTEE MEMBER MATHUR: Move approval.

6 COMMITTEE MEMBER COSTIGAN: Second.

7 CHAIRPERSON HOLLINGER: Okay. So motion made by
8 Mathur, seconded by Costigan.

9 All in favor?

10 (Ayes.)

11 CHAIRPERSON HOLLINGER: Approved.

12 And Item 7 is an information items. Forrest
13 Grimes on the Enterprise Risk Management 2017-2018
14 mid-year plan update.

15 (Thereupon an overhead presentation was
16 presented as follows.)

17 CHIEF RISK OFFICER GRIMES: Good afternoon Madam
18 Chair and Committee members. Forest Grimes, CalPERS team.
19 I'm joined by Melissa Azevedo --

20 COMMITTEE MEMBER MATHUR: Pull your mic closer.

21 CHIEF RISK OFFICER GRIMES: Oh, sorry. I'm
22 joined by Melissa Azevedo, your Assistant Division Chief
23 of Enterprise Risk Management. She's been a primary
24 architect of the framework that you've been seeing. And I
25 thought that you would like to hear from her directly.

1 This is a mid-year update of progress to date on
2 our workplan that you approved in June 2017. The team
3 created a dashboard showing the status of each deliverable
4 that can be viewed on page 52 of your Board books.

5 With that, I will pause and encourage your
6 questions or comments on any of the specific projects we
7 are working on.

8 CHAIRPERSON HOLLINGER: Mr. Costigan.

9 COMMITTEE MEMBER COSTIGAN: No, I just wanted to
10 thank you. Just being new to the Committee, if I find
11 the -- getting caught up on the information, and I like
12 the dashboard. I'd actually like to see the dashboard all
13 green. But just to channel a former member, Mr. Jelincic,
14 what's on here that I should -- what's not on here that I
15 should know?

16 CHIEF RISK OFFICER GRIMES: Well, I think Mr. --

17 COMMITTEE MEMBER COSTIGAN: And the answer can be
18 everything is on the form.

19 (Laughter.)

20 CHIEF RISK OFFICER GRIMES: Mr. Costigan,
21 everything -- truly, all of the deliverables --

22 COMMITTEE MEMBER MATHUR: You need to move it up
23 a little bit.

24 CHIEF RISK OFFICER GRIMES: Move it up. I'm
25 sorry.

1 All of the deliverables on the workplan that you
2 approved last June are truly on there. I think the --
3 probably the biggest challenge I will defer to Melissa
4 just to update you briefly. And I think it's really
5 development an alignment of key risk indicators. We're
6 calling those key risk measures. But that's the next
7 heavy lift. We're going to need your help. It's going to
8 have -- there's going to be some -- some Committee and
9 Board decision making associated with that, so that we can
10 make sure we're operating within risk appetite. But
11 that's the one I would point you to, Mr. Costigan.

12 COMMITTEE MEMBER COSTIGAN: So Mr. Grimes, just
13 very quickly on that one. In the comments, I see where it
14 says completed, completed. What are we looking as a
15 completion date?

16 CHIEF RISK OFFICER GRIMES: Fiscal year-end.

17 COMMITTEE MEMBER COSTIGAN: Okay. Thank you.
18 Thank you, Ms. Hollinger.

19 CHAIRPERSON HOLLINGER: You're welcome.

20 Ms. Mathur.

21 COMMITTEE MEMBER MATHUR: Yeah. Well, I think
22 it's pretty stunning how far we've come actually. I mean,
23 I'm thinking back to when we started talking materially
24 about risk management was like, you know, six or seven,
25 maybe eight, years ago. And the evolution of our risk

1 management approach as -- is -- and the maturation of it
2 is really stunning.

3 So I want to thank you and your team for sort of
4 elevating the way we approach risk management and being so
5 systematic about it, and just the fact that we -- there
6 are so many 100 percent completions on here is also really
7 an accomplishment. I agree with you about the key risk
8 indicators. That's going to be, as you say, a heavy lift.
9 And I'm certainly committed to helping work through that
10 with you, as I'm sure the entire Committee is and the
11 Board.

12 I have a -- do have one question. The
13 established baseline for the employee survey, you have
14 already established the baseline, and that was this year.
15 And then next year is when we'll start evaluating against
16 that or compare -- benchmarking to that?

17 CHIEF RISK OFFICER GRIMES: Yeah. Let me clarify
18 that for you, because the employee survey actually closes
19 tomorrow.

20 COMMITTEE MEMBER MATHUR: Okay.

21 CHIEF RISK OFFICER GRIMES: We're in the process
22 of it right now. I think what you're referring to is the
23 Stakeholder Survey, so we truly do have a baseline that
24 was established last year.

25 COMMITTEE MEMBER MATHUR: I see.

1 CHIEF RISK OFFICER GRIMES: And so we'll be
2 analyzing this year for the first time to see, you know,
3 how we've done.

4 COMMITTEE MEMBER MATHUR: Okay. So the 50
5 percent complete on the establish the baseline for
6 employee survey, it's 50 percent just because it hasn't
7 closed yet for --

8 CHIEF RISK OFFICER GRIMES: That's correct. It
9 closes tomorrow. Then we will have -- we'll truly have
10 the baseline, you know, that we can establish a benchmark
11 from.

12 COMMITTEE MEMBER MATHUR: Okay. So as of
13 tomorrow or as of the time that you've been able to review
14 the results, you'll be at 100 percent on that?

15 CHIEF RISK OFFICER GRIMES: Yes.

16 COMMITTEE MEMBER MATHUR: Okay. Terrific. Okay.
17 Well, thank you. That helps.

18 CHIEF RISK OFFICER GRIMES: Thank you, Madam
19 President.

20 CHAIRPERSON HOLLINGER: And thank you. And I
21 want to echo Ms. Mathur's sentiments regarding staff and
22 seeing all the 100 percent and the green light. So thank
23 you.

24 Moving on to Item 8.

25 CHIEF RISK OFFICER GRIMES: Well, Can I add

1 one --

2 CHAIRPERSON HOLLINGER: Oh, I'm sorry.

3 CHIEF RISK OFFICER GRIMES: -- one thing?

4 CHAIRPERSON HOLLINGER: Sure.

5 CHIEF RISK OFFICER GRIMES: I'm sorry. I was
6 hoping that if you turn to page 53, if I could get you to
7 look at that Board book page.

8 CHAIRPERSON HOLLINGER: Sure.

9 CHIEF RISK OFFICER GRIMES: I really wanted to
10 give Melissa a quick chance to just update you --

11 CHAIRPERSON HOLLINGER: Absolutely.

12 CHIEF RISK OFFICER GRIMES: -- on the next steps,
13 because I think it will be helpful to set some
14 expectations going into the end -- into now to the end of
15 the fiscal year. So, Melissa.

16 ASSISTANT CHIEF RISK OFFICER AZEVEDO: Thank you,
17 Forrest. I actually want to go into depth a little bit
18 about --

19 CHAIRPERSON HOLLINGER: Sure.

20 ASSISTANT CHIEF RISK OFFICER AZEVEDO: -- the
21 risk metrics.

22 So building on the risk appetite statements that
23 the Committee approved in June of last year, the team is
24 working collaboratively with the senior leaders in the
25 program areas to develop risk measures to present to you

1 in June of '18. The measures will be aligned to the
2 CalPERS strategy map, and the enterprise risks. And we
3 will title them, "Strategic Risk Measures", so that they
4 align to the strategic measures.

5 The team is currently partnering with the
6 Enterprise Strategy Management Team to evaluate the
7 current metrics and coordinate future reporting. In June,
8 we will present these recommended strategic risk measures
9 to you with suggested targets and thresholds using the
10 risk statements and a reporting structure and dashboards.
11 With that, I will pause to answer any questions.

12 CHAIRPERSON HOLLINGER: Any questions?

13 Seeing none.

14 CHIEF RISK OFFICER GRIMES: Thank you.

15 CHAIRPERSON HOLLINGER: Okay. Thank you.

16 Okay. Ms. D'Adamo, Item 8, Enterprise
17 Compliance, the 2017-2018 Mid-Year Plan Update.

18 (Thereupon an overhead presentation was
19 presented as follows.)

20 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

21 Okay. So this item is actually pages 54 through
22 70 in Diligent and we also have it up here.

23 So this item is an annual item we come to you
24 every year at this time to do a mid-year -- essentially a
25 status check for where we are with respect to our five

1 adjustments. What you see in the focused areas, the
2 middle column, and the second column is a list of the
3 items that we were looking to get through.

4 And then what we've done in the next subsequent
5 pages, eight or nine pages, is really did a review of sort
6 of each of the four areas, looking at the focus areas and
7 the items that we'd identified as focus areas. And then
8 the subsequent page after that talking about the program
9 highlights for that particular focus area.

10 --o0o--

11 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So
12 we did conflicts of interest. In terms of the ethics
13 program, it consisted of activities around conflicts of
14 interest, ethics laws and policies, and ethics helpline
15 management.

16 --o0o--

17 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: And
18 then next page would tell you for the status, from July
19 through December of '17, what were the specific activities
20 that we completed as it related to each of those
21 functional areas.

22 I just thought it might be helpful to just sort
23 of explain how to read it, because it is a lot of pages
24 and a lot of material.

25 --o0o--

1 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: And
2 then enterprise compliance plan for policies and for
3 delegations, we looked at delegation management, policy
4 management.

5 --o0o--

6 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: And
7 then highlights for that particular area.

8 --o0o--

9 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: I
10 think what I would do is highlight just here for page
11 12 --

12 --o0o--

13 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
14 -- is a new type of reporting. And this is in
15 addition to our reporting, which this is reporting that's
16 been provided to us by our embedded compliance liaison.
17 So this year, we've spent time really helping to work with
18 them and integrating their work into our work, so that
19 what you're seeing is sort of an elevated view of what's
20 being done.

21 And so on page 12, which is 67 of your Diligent,
22 is basically the information that they've essentially
23 brought up to us to be reported to you.

24 So this is an example of some of the focus area
25 work that we're doing around communication and reporting.

1 you will, or integrated into a lot of the work that we do,
2 because honestly the culture really underpins sort of what
3 we do and who we are. So it's a foundational item, and
4 it's something that appears in a lot of the work that we
5 do.

6 COMMITTEE MEMBER MATHUR: And how would we assess
7 progress in terms of really establishing this culture of
8 compliance? I mean, I think CalPERS is generally, you
9 know, pretty good. People are trying to do the right
10 thing as a general rule. But how do -- but I think there
11 are certain like sort of key questions that people need to
12 be asking themselves in order to ensure that they're
13 really compliance minded.

14 The same thing with risk too actually to make
15 sure they're risk minded. How are you assessing progress
16 in that regard?

17 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So
18 one of the things that we do is we actually are very
19 visible. We actually have built relationships with a lot
20 of the divisions and particularly with the compliance
21 liaisons. We have helped them to build out what they want
22 to look at and how they want to interact as the folks that
23 are really on the ground level as it relates to our team
24 members.

25 And so for us, the culture looks like, you know,

1 it's something that is not built in one -- you know, one
2 year or even a six-month period. It is evidenced through
3 the interactions that you have with individuals. It's
4 evidenced in the relationships that you build with them.
5 It's evidenced in a lot of the way that you work with
6 folks, so that the culture for us is where we are the
7 first people, or the second people besides the program
8 compliance folks that get called when an issue comes up,
9 as opposed to having to -- you know, being the last
10 person.

11 So, for me, it's really about the visibility and
12 the relationship and being able to communicate very, you
13 know, effortlessly, which to me is a sign of a culture
14 that is developing and improving.

15 COMMITTEE MEMBER MATHUR: Terrific. Thank you.

16 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

17 Sure.

18 CHAIRPERSON HOLLINGER: I had a question just --

19 COMMITTEE MEMBER MATHUR: I think Kami wanted to
20 respond too.

21 CHAIRPERSON HOLLINGER: Oh, I'm sorry.

22 DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK: Can I
23 just add to that. Kami Niebank, CalPERS team member.

24 So in addition, we're also doing some metrics.
25 So we're partnering with the risk team, and we are

1 partnering on that same survey. So our survey results are
2 going to be in there. So that will give us a baseline of
3 where the organization is as far as maturity. And then
4 also as one of the key performance indicators, we have
5 done an outside assessment to assess our maturity of our
6 overall Compliance Program.

7 So more information on that will come through the
8 strategic planning team and efforts in future months, but
9 we're doing that to kind of assess where we are
10 internally, based on some of the things that we have been
11 doing, as well as where do we land against our peers out
12 there in the industry. And then we also have the
13 stakeholder assessment as well, which will kind of be able
14 to give us a baseline and make sure on how they see us in
15 our efforts in managing compliance for the organization.

16 COMMITTEE MEMBER MATHUR: Great. Thank you.

17 CHAIRPERSON HOLLINGER: My question actually had
18 to do -- I was curious if on -- in terms of the ethic
19 hotline, like if you ever see in particular like over time
20 like a decrease in issues or there are trends of certain
21 things coming up or --

22 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So
23 we -- we actually report on the Ethics Helpline every
24 quarter. We are tracking the types of calls that
25 categories of issues that are coming to us. We

1 typically -- I don't know. I would say maybe 30. I'm
2 just thinking about -- roughly about 30 is about what we
3 get per month and that's pretty typical. And then the
4 category is the retirement abuse and fraud one is the --
5 it's one that's -- it consistently makes up about 60 to 65
6 percent of the calls that we get.

7 CHAIRPERSON HOLLINGER: Okay. Seeing no other
8 questions. Are you finished?

9 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: I
10 am.

11 CHAIRPERSON HOLLINGER: You are. Okay. I just
12 want to make sure.

13 Okay. We're -- nine, summary of committee
14 direction.

15 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: I
16 took no correction.

17 CHAIRPERSON HOLLINGER: Yeah, I didn't take --
18 okay.

19 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: Is
20 that not right?

21 CHAIRPERSON HOLLINGER: Yeah. No. No.

22 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

23 There was no direction. I'm sorry. There was no
24 direction.

25 (Laughter.)

1 CHAIRPERSON HOLLINGER: No direction. Okay.

2 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

3 I'll take it, if you give it, but there was no
4 direction. How about that?

5 (Laughter.)

6 CHAIRPERSON HOLLINGER: Okay. And I don't have a
7 list of any public comments. So then would anyone like to
8 comment?

9 No. Okay. So public session is officially
10 closed -- I mean is -- yeah, adjourned and we're going to
11 move into closed session

12 (Thereupon the California Public Employees'
13 Retirement System, Board of Administration,
14 Risk & Audit Committee open session
15 meeting adjourned at 5:37 p.m.)

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C E R T I F I C A T E O F R E P O R T E R

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 18th day of February, 2018.

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