

Quarterly Status Report – CalPERS Compliance Activity

Second Quarter FY 2017-18

Presented to
Risk and Audit Committee
February 12, 2018

Purpose

Provide the Risk and Audit Committee with compliance monitoring and oversight analytics to aid in fulfilling their role in overseeing key compliance and ethics activities.

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Conflict of Interest Code: Board & Employee Statements

Form 700 Filing Report: Board & Employee Q2 FY 2017-18		
Statement Type	# Past Due	# Filed
Annual	-	-
Assuming Office	1	21
Leaving Office	1	21

Notes:

- *Assuming Office and Leaving Office statements are due within 30 days of assuming or leaving office. Statements are considered past due if they are not filed within this timeframe.*
- *“Past Due” is defined as a statement that has not been submitted as of its due date.*
- *Board Member Form 700s can be viewed at the following link: [CalPERS Transparency and Accountability](#).*

Conflict of Interest Code: Consultant Statements

Form 700 Filing Report: Consultants Q2 FY 2017-18		
Statement Type	# Past Due	# Filed
Annual	14	9
Assuming Office	11	17
Leaving Office	12	3

Notes:

- *Assuming Office and Leaving Office statements are due within 30 days of assuming or leaving office. Statements are considered past due if they are not filed within this timeframe.*
- *"Past Due" is defined as a statement that has not been submitted as of its due date.*

Mandated Training

Mandated Training – Due 12/31/2017		
Training Type	# Past Due	Completion Rate
Mandatory 2017-18 Workplace Violence Prevention	44	98.4%
Mandatory 2017-18 Harassment Prevention for Employees	34	98.5%
Mandatory 2017-18 Harassment Prevention for Supervisors	12	97.9%
Mandatory 2017-18 Harassment Prevention Policy Acknowledgement	3	99.5%
Mandatory State Officials – Ethics Training Course for Form 700 Filers	2	99.4%
Grand Total	95	98.6%

Observation:

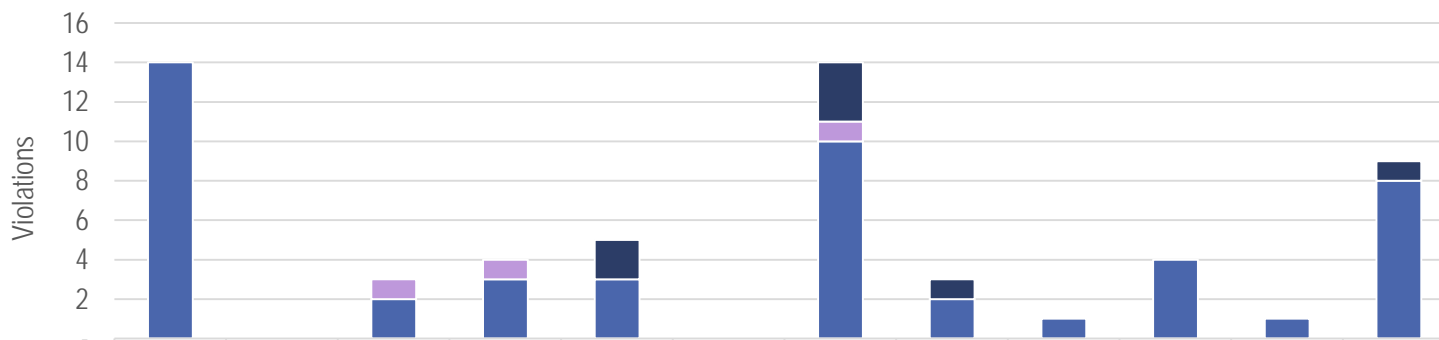
- Mandated training was completed timely by 98.6% of all team members enterprise-wide.

Notes:

- Completion rates are calculated based on all active team members required to take each mandated training. Team members on an official leave of absence and retired team members who have separated are not included in the calculation.

Personal Trade Monitoring: Violations

Personal Trade Monitoring: Violations by Type
01/01/2017- 12/31/2017



	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
■ Blackout Period	-	-	-	-	2	-	3	1	-	-	-	1
■ Restricted List	-	-	-	-	-	-	-	-	-	-	-	-
■ Holding Period	-	-	1	1	-	-	1	-	-	-	-	-
■ Missing Pre-Clearance	14	-	2	3	3	-	10	2	1	4	1	8

Observations:

- There were 14 violations committed during Q2 FY 2017-18.
- Historically, the majority of violations fall under the Missing Pre-Clearance violation type.

Notes:

- See Page 17 for violation type definitions.
- Multiple violations can be triggered by a single Covered Person at one time.

Personal Trade Monitoring: Personal Trading Regulation Affirmations

Personal Trading Affirmation / Attestation Filing Report Q2 FY 2017-18				
Statement Type	Total Due	Submitted Timely	Submitted Late	Outstanding
Initial Personal Trading Affirmation	22	22	-	-
Q1 FY 2017-18 Affirmation	42	41	1	-

Observations:

- There were a total of 22 Initial Personal Trading Affirmations due in Q2 FY 2017-18, and no affirmations were submitted late.
- There were a total of 42 Q1 FY 2017-18 Affirmations due November 1, 2017, and one affirmation was submitted late.

Investment Compliance Monitoring

Investment Office: Policy Exceptions Q2 FY 2017-18					
New Exceptions					
Program Area of Asset Class	Event Date	Resolution Date	Policy	Exception Description	Resolution (expected) or Next Steps
No Items to Report.	-	-	-	-	-
Existing Exceptions					
Private Equity	06/30/2014	Est. (11/13/17)	Statement of Investment Policy for Restricting Private Equity (PE) Investments in Public Sector Outsourcers (Policy)	Though PE Staff have reported annually to the Committee on waivers granted (no waivers requested), there has been a gap in required annual reporting on the results and effectiveness of the Policy, and the impact of the Policy on investment opportunities.	The PE Program's Board reporting documents have not addressed two of the three annual reporting requirements in the Outsourcers Policy Procedures Manual since 2013. PE Staff will provide this annual reporting to the Committee at the next PE annual review, which is expected to occur in November 2017. PE Staff have confirmed, that to date, there have been no adverse impacts on the PE Program's investment opportunities or compliance issues associated with implementation of the Policy.

Notes:

- This report was provided to the Investment Committee on December 18, 2017.
- Policy Exceptions for the month ended October 31, 2017.

Policy Exceptions – Investment Office

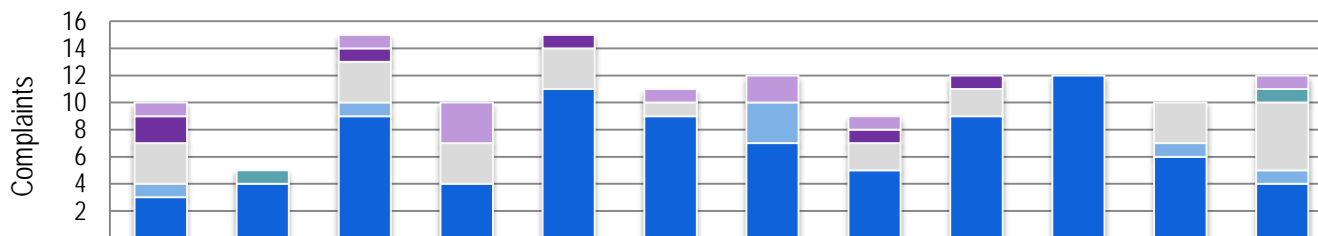
Investment Office: Policy Exceptions Q2 FY 2017-18					
Existing Exceptions					
Program Area of Asset Class	Event Date	Resolution Date	Policy	Exception Description	Resolution (expected) or Next Steps
Real Assets	01/01/2017	TBD	Investment Policy for Real Assets Program	For the beginning of the Q3'17 reporting period, the "Core" risk classification represented 44.9% of the Forestland portfolio, which is below the policy range of 75-100% for this risk classification of the Forestland portfolio.	Due to the illiquid nature of the Real Assets portfolio, staff anticipates a lag time to make the asset shifts required to bring the portfolio in line with new policy ranges. Therefore, timing of any resolution remains uncertain.
Real Assets	01/01/2017	TBD	Investment Policy for Real Assets Program	For the beginning of the Q3'17 reporting period, the "Value-Add" risk classification represented 38.8% of the Forestland portfolio, which is above the policy range of 0-25% for this risk classification within the Forestland portfolio.	Due to the illiquid nature of the Real Assets portfolio, staff anticipates a lag time to make the asset shifts required to bring the portfolio in line with new policy ranges. Therefore, timing of any resolution remains uncertain.
Real Assets	01/01/2017	TBD	Investment Policy for Real Assets Program	For the beginning of the Q3'17 reporting period, DSCR for the Forestland portfolio was 0.78, which is below the minimum DSCR of 1.25, as required by the new RA Policy.	Due to the illiquid nature of the Real Assets portfolio, staff anticipates a lag time to make the asset shifts required to bring the portfolio in line with new policy ranges. Therefore, timing of any resolution remains uncertain.

Notes:

- This report was provided to the Investment Committee on December 18, 2017.
- Policy Exceptions for the month ended October 31, 2017.

Ethics Helpline: Complaints Received

Ethics Related Complaints Received by Complaint Category



	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Other	1	—	1	3	—	1	2	1	—	—	—	1
Accounting, Auditing, and Financial Controls	—	1	—	—	—	—	—	—	—	—	—	1
Information Security and Records	2	—	1	—	1	—	—	1	1	—	—	—
HR, Diversity, and Workplace Respect	3	—	3	3	3	1	—	2	2	—	3	5
Business Integrity & Conflicts of Interest	1	—	1	—	—	—	3	—	—	—	1	1
Retirement Benefits Fraud or Abuse	3	4	9	4	11	9	7	5	9	12	6	4

Observation(s):

- During Q2 FY 2017-18, 34 ethics related complaints were received.
- Of the ethics related complaints received, 65% (22 of 34) fell under the Retirement Benefits Fraud or Abuse category.

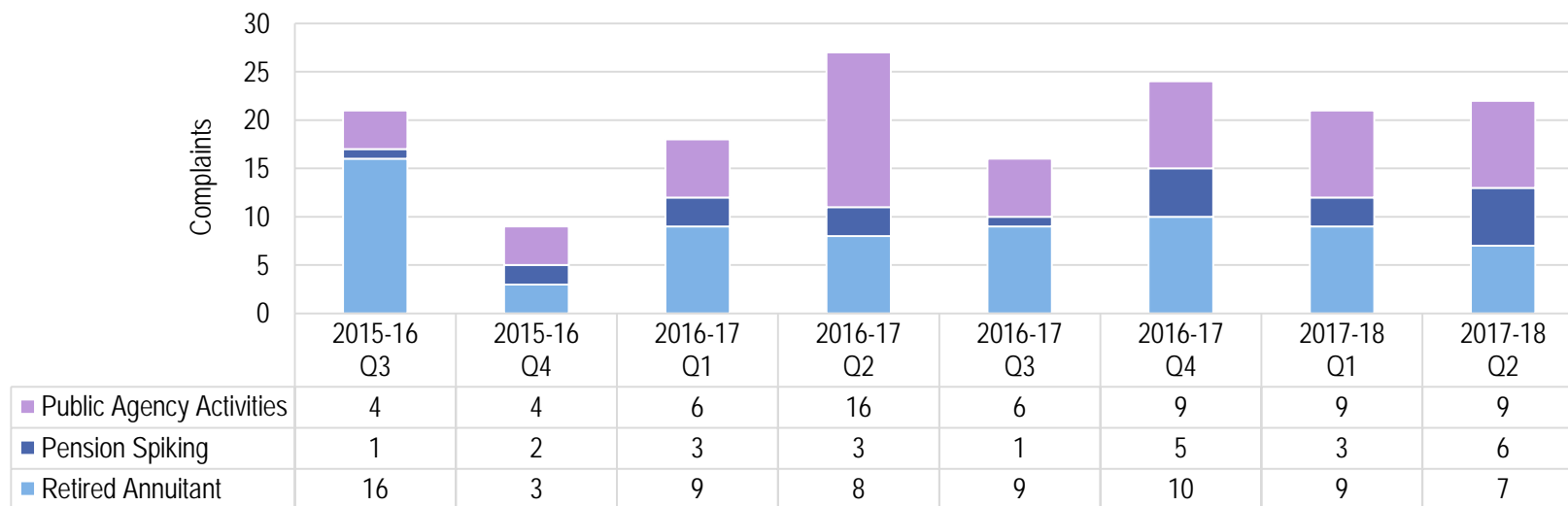
Notes:

- 13 non-ethics related complaints received during the reporting period are not represented in the above graph since they are not ethics related.
- See Page 18 for category descriptions.

Ethics Helpline Retirement Benefit Fraud or Abuse (RBFA) 2-Year Trend

The chart below displays the number of RBFA complaints received over the past two years by subtype.

RBFA Complaints Received by Quarter 01/01/2016 – 12/31/2017

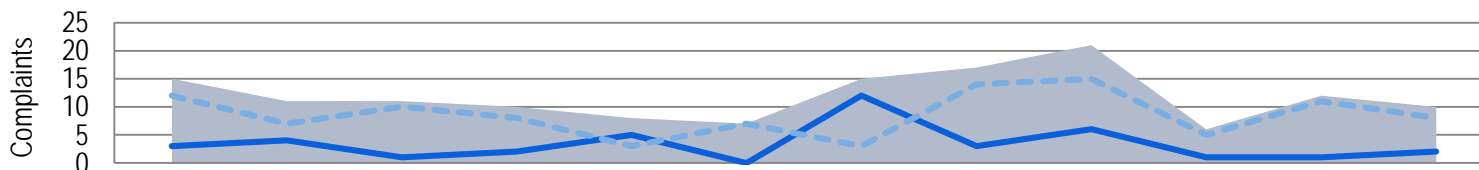


Observation:

- Over the past two years, the Ethics Helpline has received an average of 20 new RBFA complaints per quarter. The majority of RBFA complaints generally fall into the “Retired Annuitant” subtype and involve allegations regarding retirees and established Employment After Retirement restrictions.

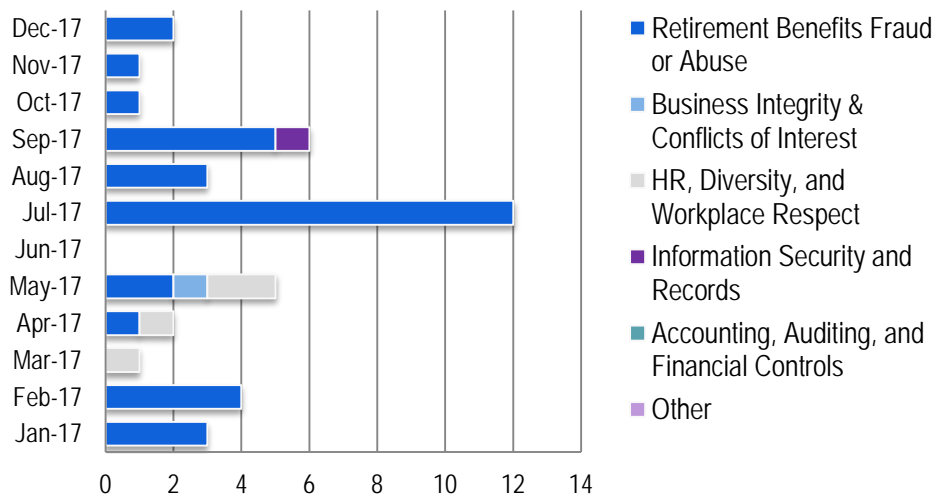
Ethics Helpline: Complaints Closed

Complaints Closed: Substantiated vs. Unsubstantiated



	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
■ Total	15	11	11	10	8	7	15	17	21	6	12	10
— Closed: Substantiated	3	4	1	2	5	—	12	3	6	1	1	2
- - - Closed: Unsubstantiated	12	7	10	8	3	7	3	14	15	5	11	8

Substantiated Complaints by Category



Observation:

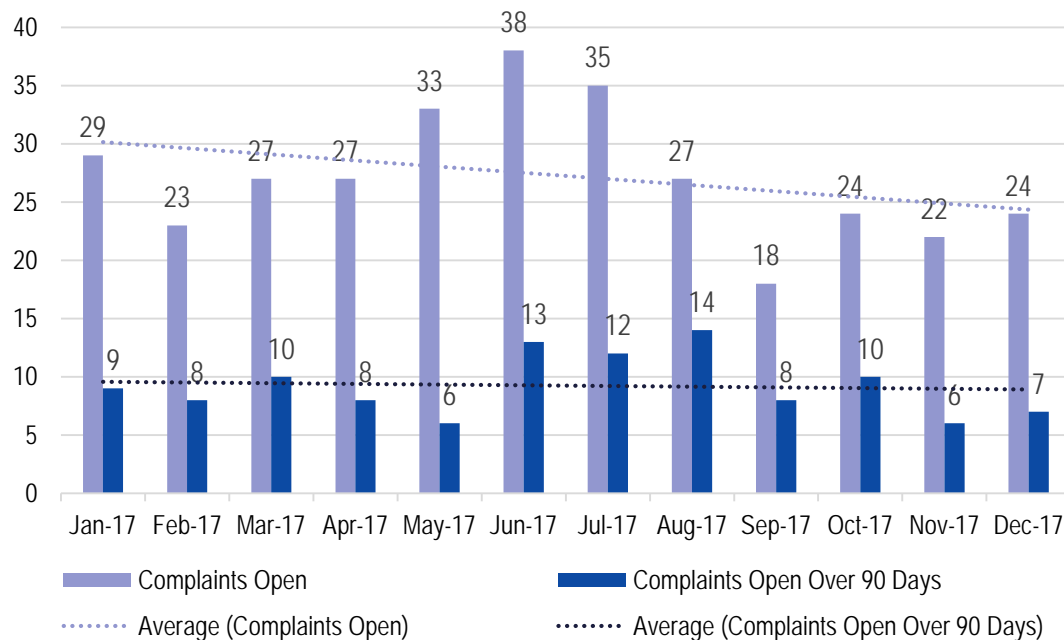
- During Q2 FY 2017-18, there were four total substantiated and 24 unsubstantiated complaints closed.

Note:

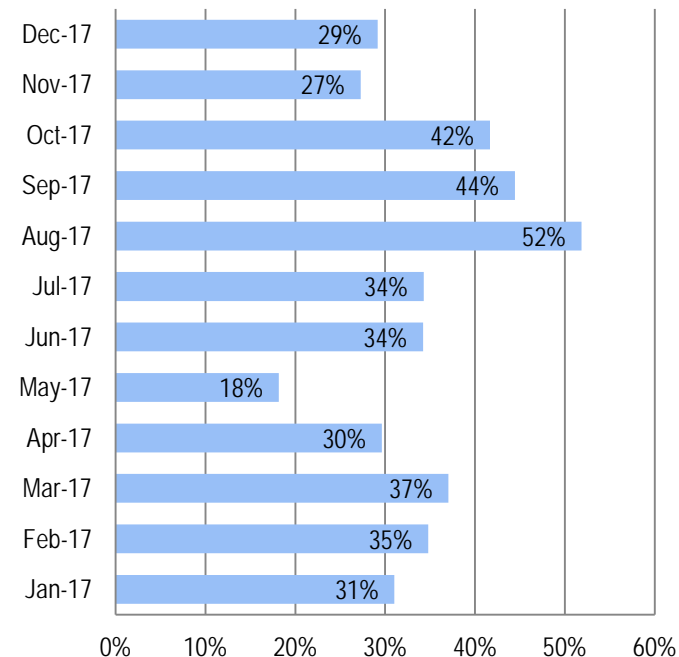
- See Pages 15 & 18 for related details.

Ethics Helpline: Complaints Open

Complaints Open



Percent Open Over 90 Days



Observations:

- Of the currently pending ethics related complaints, 29% (7 of 24) have been open for more than 90 days.
- The average number of open complaints has decreased since the beginning of Fiscal Year 2017-18.

Ethics Helpline Summary of Closed Substantiated Complaints

Closed Substantiated Complaints 10/01/2017 – 12/31/2017

Case Number	Issue Type	Allegation	Finding
2017-731	Retirement Benefits Fraud or Abuse	The reporting party alleges a CalPERS employer is engaging in pension spiking activities.	Closed: 10/27/2017 Substantiated
2017-739	Retirement Benefits Fraud or Abuse	The reporting party alleges a CalPERS employer is providing benefits to non- CalPERS employees.	Closed: 11/22/2017 Substantiated
2016-681	Retirement Benefits Fraud or Abuse	The reporting party alleges a CalPERS employer is laying off and rehiring employees in violation of retirement laws.	Closed: 12/29/2017 Substantiated
2017-717	Retirement Benefits Fraud or Abuse	The reporting party alleges a CalPERS retiree is working in violation of retirement laws.	Closed: 12/22/2017 Substantiated

Appendix - Additional Information

- Personal Trading Violation Type Definitions
- Ethics Helpline Complaint Category Definitions

Personal Trading Violation Type Definitions

Missing Pre-Clearance: Covered Persons are required to obtain pre-clearance approval before the purchase, sale or transfer of Covered Securities is executed in a Covered Account, unless the transaction is exempt from the requirement of pre-clearance.

Holding Period: The 30-calendar-day period between the acquisition and sale, and the 30-calendar-day period between sale and re-acquisition, of a Covered Security.

Restricted List: A Restricted List means the list of Covered Securities that identifies companies that CalPERS Employees and/or Board Members have information that may be material non-public.

Blackout Period: Covered Persons are prohibited from buying, selling or transferring Covered Securities during the Blackout Period, which is the three (3) day period of time that commences one market day before and ends one market day after a transaction in Covered Securities by CalPERS.

Note:

- See Page 7 for details.

Ethics Helpline Complaint Category Definitions

In September 2016, ECOM started implementing new, streamlined complaint categories. All Ethics Helpline complaints now fall under one of the following six issue types. These categories were developed with CalPERS’ priorities in mind and to bring our reporting processes in line with established industry standards.

Complaint Categories	Examples of Violations
Accounting, Auditing & Financial Controls	Accounting & Auditing Matters; Compliance with Laws & Regulations; Document Creation & Retention; Fraud (Non-retirement benefits related); Override of Internal Controls; Securities Valuation; Tax Issues
Business Integrity & Conflicts of Interest	Contract Compliance; Foreign Corrupt Practices Act & Improper Payments; Improper Giving & Receiving of Gifts; Insider Trading; Outside Employment & Compensation; Relationships with Clients, Suppliers & Vendors
Human Resources, Diversity & Workplace Respect	Discrimination or Harassment; EEOC or ADA Matters; Human Resources (HR); Retaliation; Safety, Health & Environment; Sexual Harassment; Workplace Violence
Information Security & Records	Badging & Access Control; Computer, Email & Internet Use; Data Privacy; Disclosure of Confidential Information; Health Insurance Portability & Accountability Act (HIPAA) Violations; Identity Theft
Retirement Benefits Fraud or Abuse	Pension Spiking; Public Agency Activities; Retired Annuitants
Other	Reporting parties can select this issue type if they feel the ethical violation they are reporting doesn't fall under one of the other five categories.

Note:

- See Pages 11 and 13 for details.