



Risk and Audit Committee

Agenda Item 5d

November 19, 2019

Item Name: Quarterly Status Report – Enterprise Risk Management

Program: Enterprise Risk Management

Item Type: Information Consent

Executive Summary

The purpose of this item is to provide the Risk and Audit Committee (Committee) with an update on the first quarter activities included in the 2019-20 Enterprise Risk Management Plan (Plan) and the monitoring reports for the Strategic Risk Measures (SRMs) for the period July 1, 2019, through September 30, 2019.

Strategic Plan

This agenda item supports the 2017-22 CalPERS Strategic Plan Goal - Risk Management: Cultivate a risk-intelligent organization. Enterprise Risk Management Division (ERMD) provides assurance to the Board's Risk & Audit Committee (Committee) through the implementation of an effective enterprise-wide risk management program and the continued cultivation of a risk-intelligent organization.

Background

ERMD supports the Committee's responsibility to effectively approve and oversee risk management activities at CalPERS by facilitating risk identification and monitoring activities that promote risk-informed decision-making at both the strategic and operational levels across the enterprise. ERMD developed the Plan to communicate priorities in support of CalPERS' Strategic and Business Plans, vision, and mission. In June 2019, ERMD received Committee approval for the Plan, which aligns program initiatives to the strategic goals of Fund Sustainability and Risk Management. Progress on Plan activities for the first quarter is reported on the Plan Dashboard (Attachment 1).

The monitoring and reporting of SRMs also play an essential role in providing the Committee with assurance that CalPERS enterprise risks are being adequately managed. SRMs help to bridge the relationship between risk and performance by providing the Committee and management team with advance warnings of events that may compromise the achievement of organizational goals.

The SRMs and tolerances provided were last reviewed by the Committee in June 2018 and are designed to provide the management team with direction on Committee risk appetite and tolerance (excluding investment risk). The status of the risk tolerances are categorized into three levels: managed appropriately (green), monitoring required (yellow), and attention required (red). Exception reports are provided to the Committee if any of the tolerances are in yellow or red status.

Analysis

Enterprise Risk Management Plan (Plan):

ERMD significant activities and accomplishments for the first quarter of the fiscal year 2019-20 include:

Fund Sustainability

ERMD continued to advance Asset Liability Management within the enterprise by:

- establishing the Asset Liability Management Advisory Committee's schedule to conduct a mid-cycle strategic asset allocation review and capital markets outlook in June 2020; the next major step in the four-year ALM Process
- advancing the review and roll out of the Pension Outlook tool used to project employer contribution requirements and funded status. Pension Outlook was demonstrated for numerous groups, including the Finance & Administration Committee.

Risk Management

ERMD continued to collaborate with the enterprise to advance the Enterprise Risk Management Framework by:

- advancing the 2019 Annual Enterprise Risk Assessment
- facilitating the initial phase of updating the risk profiles, dashboard, and heatmap by meeting with subject matter experts to review risk drivers and mitigations for the enterprise risks.

ERMD continued to collaborate with the enterprise on the cultivation of a risk-intelligent organization by:

- collaborating with human resources to design and deliver risk management training to all new employees.
- communicating the importance of the first line of defense with team members through internal communication channels.

ERMD continued to enhance Enterprise Internal Control Framework by:

- delivering internal control training to new team members at New Employee Orientation sessions.

ERMD continued to enhance compliance and risk functions throughout the enterprise by:

- advancing Business Plan initiatives to update/create policies, expand the CalPERS Data Glossary, and develop the Data Management Communication Plan to strengthen data-driven decisions making and governance.

Enterprise Risk Measures:

There are two SRM reports provided to the Committee in this agenda item. First, the SRM Dashboard summarizes the status of all the SRMs. Secondly, exception reports are attached that detail the risk performance, root cause analysis, and mitigations identified as next steps to reduce the risk for those SRMs that are performing outside of the board's risk tolerance (Attachment 2).

A review of data reported during the first quarter found one SRM under the goal of Fund Sustainably that has exceeded the risk tolerance set by the Committee and "Require Attention." An analysis and root cause of the risk can be found in the SRM Detail provided in (Attachment 2).

Fund Sustainability:

- The measures are updated annually in November, and reporting results will not change in subsequent quarters until the data is refreshed.
- Investment Return hit 6.7%, which is below the expected return rate of 7%.

Budget and Fiscal Impacts

Not Applicable

Attachments

Attachment 1 – 2019-20 Enterprise Risk Management Plan Dashboard

Attachment 2 – Enterprise Risk Measures Dashboard

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