

VIDEOCONFERENCE 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

WEDNESDAY, JUNE 17, 2020

8:05 A.M.

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

A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. David Miller, Chairperson

Ms. Lisa Middleton, Vice Chairperson

Ms. Margaret Brown

Ms. Fiona Ma, represented by Mr. Frank Ruffino

Mr. Jason Perez

Ms. Shawnda Westly

Ms. Betty Yee, represented by Ms. Lynn Paquin

BOARD MEMBERS:

Mr. Henry Jones, President

Mr. Rob Feckner

Ms. Stacie Olivares

Ms. Eraina Ortega, represented by Ms. Michelle Mitchell

Mr. Ramon Rubalcava

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Marlene Timberlake D'Adamo, Chief Compliance Officer

Ms. Beliz Chappuie, Chief Auditor

Ms. Pam Hopper, Committee Secretary

A P P E A R A N C E S C O N T I N U E D

ALSO PRESENT:

Mr. Jerry Fountain, California State Retirees

Mr. Steve Franklin, BDO

Mr. Billy Kim, BDO

Ms. Sylvia Mak, BDO

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P R O C E E D I N G S

CHAIRPERSON MILLER: I'll call the Risk and Audit Committee meeting open session to order. And first order of business is roll call.

COMMITTEE SECRETARY HOPPER: David Miller?

CHAIRPERSON MILLER: Present.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Good morning.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Good morning.

COMMITTEE SECRETARY HOPPER: Lisa Morning -- Lisa Middleton?

VICE CHAIRPERSON MIDDLETON: Good morning.

COMMITTEE SECRETARY HOPPER: Jason Perez?

COMMITTEE MEMBER PEREZ: Good morning. Here.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Present.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Present.

COMMITTEE SECRETARY HOPPER: Lynn Paquin for Betty Yee?

ACTING COMMITTEE MEMBER PAQUIN: Present.

COMMITTEE SECRETARY HOPPER: Good morning, all.

CHAIRPERSON MILLER: Okay. It looks like Item 2

1 is approval of the June 17th, 2020 Risk and Audit
2 Committee timed agenda.

3 COMMITTEE MEMBER BROWN: Move approval.

4 COMMITTEE MEMBER PEREZ: I'll second.

5 CHAIRPERSON MILLER: Moved by Ms. Brown, second
6 by Mr. Perez.

7 COMMITTEE SECRETARY HOPPER: Margaret Brown?

8 COMMITTEE MEMBER BROWN: Aye.

9 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
10 Fiona Ma?

11 ACTING COMMITTEE MEMBER RUFFINO: Aye.

12 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

13 VICE CHAIRPERSON MIDDLETON: Aye.

14 COMMITTEE SECRETARY HOPPER: Jason Perez?

15 COMMITTEE MEMBER PEREZ: Aye.

16 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

17 COMMITTEE MEMBER WESTLY: Aye.

18 COMMITTEE SECRETARY HOPPER: Lynn Paquin for
19 Betty Yee?

20 ACTING COMMITTEE MEMBER PAQUIN: Aye

21 COMMITTEE SECRETARY HOPPER: Thank you.

22 CHAIRPERSON MILLER: Okay. Next order of
23 business is the Executive Report. And for that, I'll call
24 on Marlene Timberlake D'Adamo.

25 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

1 Good morning. Can everyone hear me?

2 Great. Thank you. Good morning, Mr. Chair and
3 Vice Chair, Committee and Board members. Marlene
4 Timberlake D'Adamo, CalPERS team member.

5 First a bit of housekeeping. I would like to
6 point out that Attachment 3 for Agenda Item 7a has the
7 heading of 5e, but it actually should say 7a. Today, we
8 will present two audit plans, the 2021 Office of Audit
9 Services Plan and the independent auditor's plan. Both
10 are action items requiring the Committee's approval. The
11 audit plan covers CalPERS audits and activities to be
12 performed in fiscal year 20-21. The independent financial
13 statement auditor will present its annual audit plan,
14 providing information on its approach, scope, objectives
15 and deliverables. At the conclusion of the audit, the
16 independent auditor will report the results of the audit
17 and express opinions on the respective financial
18 statements of the fiduciary and proprietary activities at
19 the November 2020 Risk and Audit Committee meeting.

20 On information, we have two agenda items. First
21 would be the enterprise compliance status report. This
22 item is normally a consent item, but this month we wanted
23 to bring this to the Committee for a discussion of our
24 Personal Trading Program, which is Attachment 3. This
25 will include the status of compliance activity for the

1 period of April and May, and will provide the supplemental
2 information on Personal Trading Program.

3 Second, we have the annual compliance report.
4 This is annual information item, which highlights
5 compliance activities during fiscal year 2019-2020.

6 The next Risk and Audit Committee meeting is
7 scheduled for November 18th, 2020 and includes the
8 independent auditor's report for fiscal years 19-20, a
9 review of the independent auditor's management letter, the
10 independent financial statement auditor selection, and
11 third-party valuation -- I should say third-party
12 valuation and certification of the 2019 annual valuations
13 of the Judges' Retirement System, Judges' Retirement
14 System II, Legislators' Retirement System, and the 1959
15 Survivor Benefit Program, and the enterprise risk
16 management framework review.

17 Thank you, Mr. Chair. This concludes my report
18 and I would be happy to take any questions.

19 CHAIRPERSON MILLER: I'm not seeing any requests
20 or any questions on my screen here. So that brings us to
21 Item 4, action consent items, approval of the April 21st,
22 2020 Risk and Audit Committee meeting minutes. And --

23 COMMITTEE MEMBER BROWN: Move approval.

24 ACTING COMMITTEE MEMBER PAQUIN: Second.

25 CHAIRPERSON MILLER: Okay. Moved and seconded.

1 And I'm not hearing Pam.

2 COMMITTEE SECRETARY HOPPER: Oh, hold on.

3 Margaret Brown?

4 COMMITTEE MEMBER BROWN: Aye.

5 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
6 Fiona Ma?

7 ACTING COMMITTEE MEMBER RUFFINO: Aye.

8 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

9 VICE CHAIRPERSON MIDDLETON: Aye.

10 COMMITTEE SECRETARY HOPPER: Jason Perez?

11 COMMITTEE MEMBER PEREZ: Aye.

12 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

13 COMMITTEE MEMBER WESTLY: Aye. Lynn Paquin for
14 Betty Yee?

15 ACTING COMMITTEE MEMBER PAQUIN: Aye.

16 COMMITTEE SECRETARY HOPPER: All ayes, Mr. Chair.

17 CHAIRPERSON MILLER: Okay. Move on to Agenda 5,
18 information consent items. I don't see any requests to
19 pull anything here, so it looks like we will move on to
20 Action Agenda Items, starting with 6a, Office of Audit
21 Services plan. I'll call on Beliz Chappuie for that.

22 CONFERENCE MODERATOR: All right. Beliz, you
23 should be able to turn on your audio a video.

24 CHIEF AUDITOR CHAPPUIE: Okay. I thought I did.
25 Thank you. Good morning. Volume okay?

1 VICE CHAIRPERSON MIDDLETON: Good morning.

2 CHIEF AUDITOR CHAPPUIE: Good morning, Mr. Chair
3 and members of the Committee. Beliz Chappuie, Office of
4 Audit Services. Agenda Item 6a is an action item. Staff
5 is requesting the Risk and Audit Committee to approve the
6 Office of Audit Services proposed audit plan for the
7 fiscal year 2021. As required by the internal auditing
8 standards, the Office of Audit Services prepared the
9 risk-based audit plan to determine the priorities of the
10 internal audit activity for the fiscal -- for the next
11 fiscal year.

12 In conducting the risk assessment, the Office of
13 Audit Services, as the third line of defense, coordinated
14 its efforts with the second line of defense, Enterprise
15 Compliance Division, and Enterprise Risk Management
16 Division, we interviewed CalPERS executive and senior
17 management teams, and sought input from the Board members
18 through surveys.

19 Staff also incorporated information from prior
20 internal and external audits. The Office of Audit
21 Services has two audit programs, internal audits and
22 employer compliance reviews. In identifying internal
23 audit assignments and activities, staff evaluated multiple
24 risk factors, such as impact on the organization's
25 strategic goals, changes in the operations and

1 regulations, and internal controls.

2 The Office of Audit Services also allocated
3 resources to consultant engagements, special projects, and
4 activities related to contracted and external audits and
5 external reviews.

6 For the employer compliance reviews, the Office
7 of Audit Services will continue to perform cycle reviews
8 during the fiscal year 20-21, covering one compliance area
9 per cycle. This year will remain flexible to accommodate
10 the employer's availability to conduct our reviews due to
11 the COVID-19 pandemic. We're going to strive to complete
12 four re -- four review cycles, as we have done in the
13 previous years. However, our travel and on-site work may
14 be limited due to employer's availability, which may
15 impact our workload.

16 As required by the internal auditing standards,
17 we'll remain responsive to the changes in the
18 organization's operations and programs. And we will
19 remain -- review and update the audit plan for the fiscal
20 year 20-21, as necessary.

21 Any modification to the audit plan will be
22 communicated to the Committee through the quarterly status
23 reports. This concludes my presentation and I'm happy to
24 answer any questions.

25 CHAIRPERSON MILLER: Okay. I'm not seeing any

1 questions for you here, Beliz, but I do want to go back to
2 Margaret, who had a comment on a prior item. It looks
3 like Item 5c. Margaret.

4 COMMITTEE MEMBER BROWN: Thank you, Mr. Chair. I
5 just wanted to -- I forgot, I'm trying to get all my notes
6 together. 5c, which is the quarterly status report, I
7 really want to thank the staff for providing that little
8 table that shows audits outstanding -- or findings
9 outstanding that haven't been resolved for more than a
10 year. I think that's very helpful for me to see those and
11 I assume we'll get those quarterly until those are
12 resolved, is that correct?

13 CHIEF AUDITOR CHAPPUIE: Correct.

14 COMMITTEE MEMBER BROWN: Great.

15 CHIEF AUDITOR CHAPPUIE: Per your request, yes.

16 COMMITTEE MEMBER BROWN: Right. And then
17 anything that's on the internal audit, which are
18 confidential, we would see that status report in closed
19 session, is that correct, in the closed session materials,
20 right?

21 CHIEF AUDITOR CHAPPUIE: If there's anything over
22 a year old, correct, yes.

23 COMMITTEE MEMBER BROWN: Okay. Perfect. Well, I
24 want to thank you. I know I've been a little persistent
25 on this matter, but it's the only way we can see what's

1 going on. I did have a question. How do you choose which
2 local agencies or school districts will get the audit? Is
3 it randomized or is it based on maybe a number of errors
4 in the past?

5 CHIEF AUDITOR CHAPPUIE: Correct, risk based,
6 yes. So we --

7 COMMITTEE MEMBER BROWN: Risk based. Okay.
8 Good.

9 CHIEF AUDITOR CHAPPUIE: For every review cycle
10 that we define the objective and scope for, we requested
11 the data from IT folks and we analyzed the data. And we
12 also, like you said, incorporate the prior findings as
13 well into the selection of those agencies that we want to
14 review for the cycle.

15 COMMITTEE MEMBER BROWN: Is any -- are any of the
16 audits random -- completely random or no?

17 CHIEF AUDITOR CHAPPUIE: No.

18 COMMITTEE MEMBER BROWN: Okay. That way we're
19 not wasting your time. I appreciate that.

20 And then, Mr. Chair, I'll get in the queue for a
21 question on 6a.

22 CHAIRPERSON MILLER: Okay.

23 COMMITTEE MEMBER BROWN: Thank you.

24 CHAIRPERSON MILLER: I don't see anyone ahead of
25 you in the queue for 6a, so why don't you just ask your 6a

1 question and then I have Lynn Paquin next as well.

2 COMMITTEE MEMBER BROWN: Great. So my question
3 or my questions -- or hopefully comment about the audit
4 plan that we're going to review or approve today hopefully
5 is I just want to make sure that everybody understands
6 that all the CalPERS internal audits are kept secret.
7 They're in closed session, because they're attorney-client
8 work product or some other reason. And I've had a heck of
9 a time getting the Chair to discuss high-risk audits in
10 closed session. I've got -- I sent you an email and I
11 couldn't get the IT security one to be discussed in closed
12 session.

13 So I think maybe the simpler way would be to ask
14 the Committee to agree to amend this audit plan to include
15 that all audits are agendaized on the consent calendar of
16 closed session. So they're just there in closed session
17 on the consent, and then if a Committee member wants an
18 audit pulled to discuss, it's simple to do. And that
19 would be, I guess -- I don't know if that's an alternative
20 motion or how we would do that, maybe just by consent of
21 the Committee, but that way I don't have to, you know, try
22 and get everybody's attention to discuss something I
23 consider very, very concerning and high risk.

24 GENERAL COUNSEL JACOBS: This is Matt Jacobs. I
25 don't think that is properly agendaized for discussion. So

1 the question would be -- not be can we make that
2 determination or decision today, the question would be
3 whether the Committee wants to agendize that for a future
4 meeting.

5 COMMITTEE MEMBER BROWN: Can we not -- can we not
6 amend the audit plan to include that all internal audits
7 are placed on the closed session agenda? Why can't we
8 just include it in the audit plan?

9 GENERAL COUNSEL JACOBS: It's not been properly
10 agendized as a prospective amendment to the audit plan.
11 The audit plan is just presented as the plan. You can
12 comment about or decide that certain things ought not be
13 on the plan or that certain additional matters should be
14 audited, but this kind of thing is -- is kind of outside
15 the scope of what could be amended into the plan.

16 COMMITTEE MEMBER BROWN: Well, I would disagree
17 that the results --

18 GENERAL COUNSEL JACOBS: It's a -- it's a
19 procedural matter for the governance of either the Risk
20 and Audit Committee or the Governance -- Board Governance
21 Committee.

22 COMMITTEE MEMBER BROWN: Well, maybe the
23 Committee would like to take that up at another -- at
24 another time at the next meeting. But I'd like to see
25 these internal audits get put on the closed session

1 agenda, just on the consent, so we could talk about them.

2 Thank you.

3 CHAIRPERSON MILLER: Okay. I have Ms. Paquin
4 with a question on 6a.

5 ACTING COMMITTEE MEMBER PAQUIN: Thank you, Mr.
6 Chair. I had a question about the external vendor audit
7 of the private equity service provider. And I was just
8 hoping to get a little bit more information about that.
9 Is this the vendor that provides the breakdown of the
10 fees?

11 CHIEF AUDITOR CHAPPUIE: Let me open up the plan.
12 Hold on one second. It is on page -- could you help me
13 locate it. It's under investment -- hold on.

14 ACTING COMMITTEE MEMBER PAQUIN: I'm sorry. Let
15 me see if I can find that page. Chap

16 CHIEF AUDITOR CHAPPUIE: I assume it's under
17 Investment Office, correct?

18 ACTING COMMITTEE MEMBER PAQUIN: Yes. Yes, it
19 is.

20 CHIEF AUDITOR CHAPPUIE: Investment audits and --
21 what was the title again?

22 ACTING COMMITTEE MEMBER PAQUIN: It was external
23 vendor audit of the private equity service provider.

24 CHIEF AUDITOR CHAPPUIE: Internal vendor, private
25 equity. Evaluate the private equi -- is it evaluate the

1 private equity and the service provider's compliance with
2 specific provisions -- yes. So it's our vendor's
3 agreement with the -- compliance with its agreement.
4 That's what it's going to be.

5 ACTING COMMITTEE MEMBER PAQUIN: Just with the
6 compliance of the agreement, not how the methodology is
7 being used?

8 CHIEF AUDITOR CHAPPUIE: No, it's -- generally,
9 what we do is once there's an agreement in place, we just
10 go out audit the vendor to ensure that they're in
11 compliance with the contracts agreement.

12 ACTING COMMITTEE MEMBER PAQUIN: Okay. Great.
13 Thank you.

14 And I would also like to support Ms. Brown's
15 suggestion that we take this up for a discussion item at
16 least to see if we can agendize the internal audits on a
17 closed session. Hopefully, that we can have a discussion
18 about that going forward.

19 CHAIRPERSON MILLER: Okay. Thank you. It looks
20 like --

21 ACTING COMMITTEE MEMBER PAQUIN: Thank you.

22 CHAIRPERSON MILLER: -- I have a comment or
23 question from Ms. Middleton.

24 VICE CHAIRPERSON MIDDLETON: Yes. Excuse me. I
25 don't want to get into the specifics of it, but if we are

1 going to take Ms. Brown's proposal, I would want to have a
2 full understanding of the workload implications for staff
3 of that type of change.

4 CHAIRPERSON MILLER: Okay. I'm not seeing
5 anymore requests to speak. Let me just double check this
6 queue. Okay. So it looks like we'll move on to action
7 item 6b, Independent Auditor --

8 COMMITTEE SECRETARY HOPPER: Mr. Chair? This is
9 Pam.

10 CHAIRPERSON MILLER: Oh, yes, Pam.

11 COMMITTEE SECRETARY HOPPER: That is an action
12 item, so we will need to take a motion.

13 CHAIRPERSON MILLER: Oh, okay. We need to take a
14 vote. Okay. So we're taking a vote on the 2020 to 2021
15 Office of Audit Services plan. And so I'll have Ms.
16 Hopper call -- oh, do I need -- I need a motion and a
17 second --

18 VICE CHAIRPERSON MIDDLETON: So moved

19 CHAIRPERSON MILLER: -- to approve.

20 So moved by Ms. Middleton,

21 ACTING COMMITTEE MEMBER RUFFINO: Second by Mr.
22 Ruffino.

23 CHAIRPERSON MILLER: Second by Mr. Ruffino.

24 So I'll call for the question. Ms. Hopper.

25 COMMITTEE SECRETARY HOPPER: Margaret Brown?

1 COMMITTEE MEMBER BROWN: Aye.

2 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
3 Fiona Ma?

4 ACTING COMMITTEE MEMBER RUFFINO: Aye.

5 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

6 VICE CHAIRPERSON MIDDLETON: Aye.

7 COMMITTEE SECRETARY HOPPER: Jason Perez?

8 COMMITTEE MEMBER PEREZ: Aye.

9 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

10 COMMITTEE MEMBER WESTLY: Aye.

11 COMMITTEE SECRETARY HOPPER: Lynn Paquin for
12 Betty Yee?

13 ACTING COMMITTEE MEMBER PAQUIN: Aye.

14 COMMITTEE SECRETARY HOPPER: Mr. Chair, we have
15 seven ayes.

16 CHAIRPERSON MILLER: Thank you, Ms. Hopper.

17 So now we'll go on to 6a -- 6b, independent
18 auditor's annual plan. Again, I'll all on Ms. Chappuie.

19 CHIEF AUDITOR CHAPPUIE: Good morning, Mr. Chair,
20 members of the Committee. Beliz Chappuie, Office of Audit
21 Services. Agenda Item 6b is an action item. Staff is
22 requesting the Risk and Audit Committee to approve the
23 Board's independent auditor BDO's audit plan for the audit
24 of CalPERS's financial statements for the fiscal year
25 ending June 30, 2020.

1 The presentation is to provide the Risk and Audit
2 Committee the opportunity to hear from the independent
3 auditor regarding their approach, objectives, scope, and
4 deliverables for the financial statement audit and to
5 enable the Committee to ask questions.

6 BDO staff are present with me today and I'll turn
7 it over to them to submit their plan.

8 (Thereupon an overhead presentation was
9 presented as follows.)

10 CHAIRPERSON MILLER: Okay. Thank you, Ms.
11 Chappuie. Let's see, do we have the BDO folks queued up
12 here?

13 CHIEF AUDITOR CHAPPUIE: They probably need to be
14 unmuted. They said they're already -- they've joined the
15 meeting.

16 CONFERENCE MODERATOR: Who am I promoting?

17 CHIEF AUDITOR CHAPPUIE: Billy Lee?

18 CONFERENCE MODERATOR: Billy Kim.

19 CHIEF AUDITOR CHAPPUIE: Billy Kim. Thank you.

20 CONFERENCE MODERATOR: Okay. Bill, you should be
21 able to turn on your audio and video.

22 MR. KIM: Hello. Good morning. Can we also
23 promote Sylvia Mak as well as Keith Hammond and Steve
24 Franklin.

25 CONFERENCE MODERATOR: All right. All -- all

1 those folks should be able to turn on their audio and
2 video.

3 MR. KIM: Okay. Thank you so much. Good
4 morning, Chairman, Vice Chair, members of the Committee.
5 My name is Billy Kim. I'm the overall BDO engagement
6 leader for the external audit at CalPERS. I'm joined with
7 my colleagues Steve Franklin, who is an asset management
8 partner that's responsible for assisting me in leading the
9 audit of the investments area. I am also joined by Keith
10 Hammond, who is also the partner. And his role is focused
11 on engagement quality and reviewing the work on top of my
12 review as well.

13 Last, but not least, we also have Sylvia Mak, who
14 is an assurance director on our team, and she assists me
15 in leading the overall engagement team on the ground
16 through the audit approach strategy and execution.

17 In terms of today, we wanted to go through our
18 presentation with you. And so we want to go through
19 certain pages and highlight specific items within our
20 presentation. If we can move to slide two of the
21 PowerPoint deck.

22 --o0o--

23 MR. KIM: So this is our -- the components of our
24 presentation. And we will highlight specific items that
25 touch upon each of these various different areas.

1 So first off, I want to talk about our client
2 service team. That's on slide four. Can we move to slide
3 four?

4 --o0o--

5 MR. KIM: Thank you.

6 This is an organizational chart of our team. All
7 the names shown on this slide represent key leaders, as
8 well as key specialists on the BDO audit team. All of
9 them are recurring from the prior year. This will assist
10 us to build off of our knowledge that we've gained from
11 the prior year's audit to continue to focus on improving
12 our focus and efficiency for this year's audit. I also
13 wanted to touch upon scope of services, responsibilities,
14 and independence.

15 Can we move to slide six?

16 --o0o--

17 MR. KIM: Okay. Thank you. The scope of our
18 services is consistent with the prior year and includes
19 performing the audit over the financial statements
20 included in the CAFR as of June 30th, 2020 for the 2020
21 year-end, and as well as performing the audits over the
22 GASB 68 and GASB 75 employer allocation schedules
23 schedule.

24 On page seven and eight of our presentation, if
25 we could move there --

1 --o0o--

2 MR. KIM: -- also lays out responsibilities
3 associated with the financial statements and the GASB 68
4 and 75 schedules. I will highlight a few of these items,
5 but not necessarily read off each of these items since I
6 would assume you have read this in advance.

7 But first off, management is responsible for the
8 preparation and the fair presentation of the financial
9 statements, and the schedules in accordance with generally
10 accepted accounting principles. While the responsibility
11 of BDO, as your auditors, is to express an opinion over
12 such financial statements and schedules in conformity with
13 generally accepted accounting principles.

14 Also, it's the responsibility of the Risk and
15 Audit Committee to oversee management in their
16 responsibilities as well.

17 Now, if we move on to page nine --

18 --o0o--

19 MR. KIM: -- is our slide on independence. And
20 this is where I want to reiterate to the Committee that
21 our auditors are independent, that we, as your auditors,
22 are independent of CalPERS, which is a requirement under
23 our professional standards to be so.

24 On page 11, is our --

25 --o0o--

1 MR. KIM: -- timeline for the audit. I want to
2 highlight, as you can see, that we are in touch with
3 management throughout the year. And this is important for
4 us to ensure we are identifying any changes or information
5 we need for the audit on a timely basis, and also for us
6 to provide real-time updates to management on our
7 progress.

8 We are currently in the stages of wrapping up our
9 interim testing this month. And management has so far
10 been very responsive to our requests. And so we have not
11 had any issues having access on man -- on obtaining access
12 of any information we have asked for thus far, and even
13 though that we are currently working remotely due to
14 COVID-19.

15 On top of that, as it relates to work being
16 performed so far, we have found no specific issues to
17 report to you as it relates to the work that has been
18 completed.

19 Now, I'll pass it off to Sylvia who will talk
20 about our audit strategy and risks.

21 MS. MAK: Thanks, Billy. And I'm going to -- if
22 we could turn to slide 14 --

23 --o0o--

24 MS. MAK: -- I'm going to start with describing
25 some of our audit strategy considerations. As part of

1 planning process, we have been working to identify areas
2 of focus and that includes areas of potential
3 misstatement, whether it be to error or fraud, as well as
4 other areas of concern. The way we identify those areas
5 is we consider the prior year results of the audit, as
6 well as performing preliminary analytical reviews. We
7 also consider any changes or developments within the
8 industry, as well as changes in the general economic
9 conditions.

10 We've also thought through areas of judgment and
11 estimates, and whether there's any areas there where
12 there's more risk than others. We've also considered the
13 entity's internal controls, so we have performed
14 walkthroughs to gain an understanding of the processes
15 and controls that are in place, and have identified if
16 there's any particular areas risk that would be of concern
17 to our audits that we'd want to focus our audit procedures
18 on.

19 Slide 15 --

20 --o0o--

21 MS. MAK: -- highlights that even though our
22 planning process was performed as a way to identify areas
23 of risk, this is a continual process. So as we go through
24 the audit, if we identify any other areas of concern, we
25 would focus on that and work to develop audit procedures

1 to address those areas.

2 We will communicate with the Risk and Audit
3 Committee if we see any changes to our planned audit
4 strategy, as we progress in our audit.

5 Turning to slide 17 --

6 --o0o--

7 MS. MAK: -- slide 17 summarizes some of our
8 areas of focus. Fraud risk is always one of the areas, as
9 well as the potential for management override. As part of
10 that, we have looked at the control procedures. We've
11 also inquired of various personnel within CalPERS, both
12 within the accounting department, as well as outside of
13 the accounting department. And then also we will plan to
14 test general entries and look for areas of management
15 override on that front.

16 As it relates to the long-term care liability, we
17 will review the actuarial valuation reports, as well as
18 any assumptions that go in those reports. And we'll test
19 the roll forward activity, and then also test a sample of
20 the underlying census data of information going into those
21 reports.

22 We'll also focus on the health care estimated
23 insurance claims. On that front, we will test the samples
24 of claims for accuracy. We'll also do a retrospective
25 review to think about whether the IBNR reserve, the

1 incurred but not reported reserves, are accurate and
2 reasonable. We'll also recalculate the amounts as well.
3 On the pension and other post-retirement benefit liability
4 side, we will test a sample of the census data. We'll
5 also use our actuarial specialist to evaluate the
6 reasonableness of the assumptions that are being used to
7 estimate that liability.

8 On the plan contribution side, which is another
9 area of our focus, we'll perform analytical procedures.
10 And for any anomalies identified, we'll focus on those to
11 perform audit procedures on. We'll also select a sample
12 of contributions and perform the calculations to ensure
13 consistence and accuracy.

14 Benefit payments is another areas of focus. In
15 terms of that, we'll also perform analytical procedures,
16 and we'll perform sample of testing on various benefit
17 payment transactions. And that will include all types of
18 benefit payments, whether it be those related to
19 retirement, death, disability.

20 We'll also look at premium revenues as an area of
21 focus. We'll -- for that, we'll look at the consistency,
22 completeness, and accuracy of those premium revenues and
23 we'll perform cutoff procedures as well.

24 And then just to highlight in terms of the
25 information systems, as part of our views and

1 understanding of the controls that are in place, we've
2 also looked at the controls in place over the IT systems
3 related to the accounting systems, particularly as it
4 relates to logical access and any change management
5 controls.

6 I'd now like to turn it over to Steve who will
7 focus on the investment.

8 --o0o--

9 MR. FRANKLIN: Thank you, Sylvia. Our investment
10 auditor approach we will be similar to last year. We will
11 perform a risk-based audit approach where we allocate
12 CalPERS portfolio investments to different buckets based
13 on the security's risk profile. We will then perform
14 relevant and appropriate audit procedures for each bucket

15 For example, the level one and level two
16 securities, which include public equities and debt
17 investments, these investments generate low risk and will
18 be placed in one bucket. Less liquid securities which are
19 not publicly traded and private, such as private equity
20 investments, real assets will be put in another bucket due
21 to their higher risk profile. As you may expect, we'll
22 plan to spend a bit more time with the less liquid higher
23 risk securities.

24 Our procedures will be primarily focused on the
25 existence and valuation assertion for all the investments.

1 For level one and level two securities, we will send
2 confirmations on a sample basis to custodians, such as
3 State Street, Morgan Stanley, Bank of New York to confirm
4 the existence of CalPERS shares. Additionally, we will
5 also validate the price or value of the securities using
6 independent third-party information.

7 For higher risk investments, such as the level
8 three ones that I mentioned earlier, we will also send a
9 sample of confirmations to investment managers to validate
10 the existence of CalPERS year-end balances for those
11 investments.

12 Also, we will use the confirmations to verify the
13 valuation used by management as of 6/30. In addition to
14 other valuation procedures that we will do to the
15 confirmations.

16 We plan to place added emphasis on the lag
17 analysis prepared by management this year, given the
18 current economic environment.

19 With that, I will hand it over to my colleague.

20 MR. KIM: Thank you, Steve and Sylvia. I want to
21 reiterate the risk assessment process is a fluid process,
22 and is ongoing. So even as we are in execution of our
23 work, you know, that is something that we're continuously
24 assessing whether there's any updates or changes we need
25 to be making as relates to the risks that we should be

1 focused on.

2 Therefore, if there's any additional risks
3 that -- that the Risk and Audit Committee also have in
4 mind, that is something we are very open to hearing from
5 you as well for our consideration.

6 Lastly, we do have a couple other slides -- some
7 slides on preparing and responding to COVID-19, which are
8 not specific to CalPERS but are just slides that we have
9 provided to all of our clients on general considerations
10 and recommendations in the back, as well as updates to
11 GASB pronouncement activity as well.

12 So with that, I wanted to just open up the floor
13 for any specific questions.

14 CHAIRPERSON MILLER: Okay. Thank you, Mr. Kim,
15 Ms. Mak, and Mr. Franklin. And I have a question from
16 Margaret Brown.

17 COMMITTEE MEMBER BROWN: Thank you, Mr. Kim, for
18 that presentation. I have a question on the audit -- the
19 audit area focus. And I'm looking at fraud risk or fraud
20 inquiries. And what I really want you to take a look at
21 is if the reporting is adequate, the reporting that comes
22 back to the Board is adequate, so that we can provide
23 oversight.

24 I really would like you to take a look at that.
25 My primary concern has always been that we get these

1 little -- these little bar graphs that basically just say
2 resolved within a year or unresolved over a year. And
3 it -- there is nothing specific in those -- in that
4 information. It's just a little -- just a little graph.
5 And so it's problematic for me as a Board member to
6 actually know what those either fraud inquiries or those
7 findings, are and that they're being resolved or at least
8 that they're being reported to the Board, other than a
9 little -- with a little bar graph, we can't actually tell
10 what the issues are.

11 And so I'd like you to take a look at that as part
12 of -- as part of your audit.

13 Thank you.

14 MR. KIM: Thank you. And that is definitely
15 something, as it relates to any findings that are
16 associated with our work over the audit of the financial
17 statements, that we will be inquiring and meeting with the
18 various different management across CalPERS. So that
19 includes the internal audit office as well with Beliz
20 Chappuie, and just getting an understanding of what the
21 status of relevant findings are associated with the
22 financial statements as well. And so that is something we
23 will take into consideration and incorporate as part of
24 our review.

25 COMMITTEE MEMBER BROWN: Yeah. Thank you. And

1 my concern is any report -- reports of fraud or any tip
2 line activity, I would just like to make sure that you're
3 following up with that and that the reporting back to the
4 Board appears to be adequate in your firm's estimation.

5 Thank you.

6 MR. KIM: Okay.

7 CHAIRPERSON MILLER: Okay. Thank you. I do not
8 see any other requests for questions or comments. And so
9 let me just double check the queue. No. So this is an
10 action agenda item to approve the independent auditor's
11 annual plan. What's the pleasure of the Committee?

12 COMMITTEE MEMBER PEREZ: I'll move.

13 COMMITTEE MEMBER BROWN: Second.

14 CHAIRPERSON MILLER: Okay. Moved by Mr. Perez,
15 seconded by, was that Ms. Brown?

16 COMMITTEE MEMBER BROWN: Yes, sir.

17 CHAIRPERSON MILLER: Okay. Ms. Hopper, would you
18 call the roll for the question?

19 COMMITTEE SECRETARY HOPPER: Margaret Brown?

20 COMMITTEE MEMBER BROWN: Aye.

21 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
22 Fiona Ma?

23 ACTING COMMITTEE MEMBER RUFFINO: Aye.

24 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

25 VICE CHAIRPERSON MIDDLETON: Aye.

1 COMMITTEE SECRETARY HOPPER: Jason Perez?

2 COMMITTEE MEMBER PEREZ: Aye.

3 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

4 COMMITTEE MEMBER WESTLY: Aye.

5 COMMITTEE SECRETARY HOPPER: Lynn Paquin for
6 Betty Yee?

7 ACTING COMMITTEE MEMBER PAQUIN: Aye.

8 COMMITTEE SECRETARY HOPPER: Mr. Chair, seven
9 ayes, Jason Perez made the motion, Margaret Brown seconded
10 it.

11 CHAIRPERSON MILLER: All right. Okay. Well, I
12 will thank Ms. Chappuie and the whole team, and Mr. Kim
13 and your team as well. That's a lot of work and a lot of
14 new challenges with the COVID adventure that we're all
15 embroiled in. So thanks very much for the presentation
16 and the fine work.

17 And we'll move on to Item 7, information agenda
18 items, starting with our status report on enterprise
19 compliance activity. And I'll call on Marlene Timberlake
20 D'adamo.

21 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

22 Good morning again. Can you hear me?

23 Yes. Okay.

24 Apologies. I had to move because my computer
25 went into battery saver mode, so if my -- if my background

1 looks different, that's why.

2 (Thereupon an overhead presentation was
3 presented as follows.)

4 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So
5 agenda Item 7a is an information item, which includes the
6 standing report for monthly compliance activities with a
7 discussion of the personal trading platform we use.
8 Attachments 1 or 2 are the April and May reports.
9 Attachment 3 is supplemental information we are providing
10 regarding the Personal Trading Program.

11 First, I want to note that beginning with this --
12 that beginning with this meeting, Compliance will provide
13 its enterprise compliance activity report monthly rather
14 than quarterly. Given the change in our meeting schedule
15 with meeting dates of February, April, June, and November,
16 we needed to adjust the reporting, because we meet every
17 other month for the first six months and then in November.

18 Our proposal is to shift from quarterly reporting
19 to monthly reporting. And what this means is that
20 reporting will be provided for the period ending roughly
21 30 to 45 days prior to the Committee meeting. The lag is
22 for us to be able to put the reports together and meet the
23 distribution deadlines.

24 For instance, at the next meeting, we will
25 provide monthly reporting for June, July, August, and

1 September as individual attachments. In order to provide
2 you with the information as timely as possible, we will be
3 delivering the completed monthly reports through the
4 Insight's Tool, so that you are receiving the monthly
5 reports roughly three to four weeks after the completion
6 of the month in question.

7 At this point, I would ask if anyone has any
8 questions on the April and May reports. The -- each
9 page -- each report is about 18 pages and I will open it
10 up for questions and then we could move to Attachment 3,
11 which is the discussion on the personal trading platform.

12 CHAIRPERSON MILLER: Okay. I believe Ms. Brown
13 is the first in the queue with a question.

14 COMMITTEE MEMBER BROWN: Thank you, Mr. Chair.

15 I don't always have to go first, so I'll type
16 slower.

17 So I'm on Attachment -- I want to make sure I'm
18 in the right place. Attachment 7a -- Item 7a, Attachment
19 1, is that what we're on?

20 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
21 Right.

22 COMMITTEE MEMBER BROWN: Page 3 of 18.

23 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
24 Okay.

25 COMMITTEE MEMBER BROWN: So I've circled Board

1 and employee form 700 filings, because although you gave
2 us a little table that says how many are outstanding, they
3 don't appear on the CalPERS transparency website. They
4 used to be on our website and they're not there. They're
5 from -- some are there from 2019, but there's none there
6 for 2020. So -- and we don't even have all of them from
7 2019. So I'm wondering how we can ensure that that gets
8 updated routinely those filings, at least of the Board
9 members and of the executives. I don't want all the
10 employees on there, but whatever ones we typically did, I
11 would like -- I'd like to see those updated and on there.

12 So --

13 COMMITTEE MEMBER BROWN: Is there a reason why
14 they're not or...

15 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

16 Well, I could go into a couple of -- sort of --
17 maybe get you up to speed on the reporting portion. So
18 page 4 of 18 is the Board and employee Form 700 filings.
19 And what this page represents is the filings that are due
20 in that particular month. Typically, these are filings
21 that are for new employees or like, in this instance,
22 where we had the assuming office. So for purposes of the
23 monthly reporting, we're actually reporting on the forms
24 or the filings that are due for that month.

25 In terms of the transparency page, we actually

1 have annual reporting up for calendar year 2019 for Board,
2 and Ms. Frost, and Mr. Ming -- Meng, for calendar year
3 '19. That just went up recently. Remember, Ms. Brown,
4 that the annual filings were actually pushed from an April
5 due date to a June 1st due date. So we've gotten those up
6 as soon as we could get them up.

7 For previous years, we have -- we don't have
8 filings up for some individuals to the fact that we have
9 accessibility issues and the form is not ours. So what
10 we've done is we've -- since the accessibility went into
11 effect, we've made the forms available for Board members,
12 Ms. Frost, and Ms. Meng -- and Mr. Meng. So for calendar
13 year '18, we're actually looking into, because you're
14 correct, there are forms that are up for some Board
15 members and not others. And so we're looking into how to
16 get the rest of that and make that complete. I hope that
17 answers your question.

18 COMMITTEE MEMBER BROWN: Right. So we -- can we
19 put them up, even though they're not completely
20 accessible, as opposed to putting nothing up at all?

21 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

22 Well, putting them up while they're not
23 completely accessible opens CalPERS up to some level of
24 risk. And perhaps Mr. Jacobs could opine. But the -- the
25 decision that was made regarding the accessibility is to

1 put up at least the Board and Ms. Frost and Mr. Meng. And
2 those --

3 COMMITTEE MEMBER BROWN: Okay. I would suggest
4 we try to get those up and accessible sooner rather than
5 later. That's my -- that's my comment on that.

6 And then are we going to go into personal trade
7 monitoring later or is this part of this section on page 6
8 of 18?

9 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So
10 we can go into six, right now for April, if you'd like.
11 We also have -- the Attachment 3 is dedicated to personal
12 trading platform, but if you have specific questions
13 around what happened in April, or May, or prior, then we
14 can discuss that.

15 COMMITTEE MEMBER BROWN: Yeah. Just even going
16 back, so let's take a look at page 6 of 18, if we could
17 put that up. And my concern is, you know, I think as a
18 Committee, or at least as me as one member, I kind of
19 didn't take enough care when I looked at these. You're
20 going back to May of 2019 there's five, and then in June
21 there's four, and in July there's six. And I think that's
22 way too many. I think one is way too many.

23 And I really have concerns that we have so many.
24 So I like September of '19. There's none. That's great.
25 You know, in October there's one. But I just really think

1 we need to focus on -- on this insider trading -- or
2 not -- I'm sorry, we don't call it insider trading,
3 personal trading violation, and really get focused on this
4 and get this down.

5 So I assume the rest of the board feels the same
6 way, but let me go on to my next question, which is on --
7 yeah, so I looked at -- and then I want to go on to page
8 eight.

9 CHIEF EXECUTIVE OFFICER FROST: And just one
10 moment, Ms. Brown. Chair Miller, Ms. Marlene -- Ms.
11 Marlene -- Ms. Timberlake D'Adamo does have a prepared
12 presentation that may address Ms. Brown's questions around
13 process, education, transparency, monitoring,
14 consequences. She may be able to get into some details
15 for the presentation that she has ready for the Committee.

16 COMMITTEE MEMBER BROWN: Right.

17 CHAIRPERSON MILLER: Yeah, that --

18 COMMITTEE MEMBER BROWN: Thank you. I appreciate
19 that -- that feedback. The -- you know, I just don't
20 think I looked that closely at those violations until they
21 had that huge balloon in March. And then, of course, it
22 draws your attention to it, and then now I'm focused on
23 it.

24 I want to move to page 8 of 18, which is ethics
25 helpline complaints received. And this is kind of my

1 comment to the BDO auditors, which is looking at these
2 ethics -- when looking at these ethics complaints, I
3 see -- we don't get a synopsis of these complaints, other
4 than their retirement benefit abuses. I'd like us to see
5 as a Committee, and if it needs to be in closed session,
6 I'm fine with that, but like the information security and
7 records, if those right -- those have complaints, I'd like
8 to get a synopsis of those, and then other.

9 And then you have at the bottom, there's notes,
10 Marlene, at the bottom that says, "Four non-ethics related
11 complaints were received during the reporting period that
12 are not represented in the above graph".

13 So can you -- you know, without specifying
14 exactly what those are, can you kind of tell me what those
15 are?

16 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

17 Sure. I can give you an -- well, examples.

18 COMMITTEE MEMBER BROWN: Okay.

19 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So
20 sometimes folks call in to the ethics helpline with
21 complaints that are not ethics related. It might be that,
22 sorry, Anthony, you took too long to answer a call on
23 the -- on the call center, or I was frustrated because
24 something didn't happen, or I've been trying to get
25 something done. So they're not ethics related, but they

1 come in through the ethics helpline.

2 So what we want to do is we want to make sure
3 that we acknowledge that we received them, and that's why
4 there's a footnote there, but then we refer them to the
5 proper individual that can help resolve that matter.

6 COMMITTEE MEMBER BROWN: Okay. So it's not
7 employees complaining about their parking space.

8 No. Okay.

9 (Laughter.)

10 COMMITTEE MEMBER BROWN: Not on the hotline.

11 (Laughter.)

12 COMMITTEE MEMBER BROWN: Okay. And then can we
13 go to page 10 of 18.

14 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

15 Yes.

16 COMMITTEE MEMBER BROWN: And so, of course, my
17 concerns -- let's see, what was my concerns. Let me check
18 -- are -- so there's no purple looking at this chart,
19 which is information security and records. But I just
20 want to find out what happens with sort of these -- or
21 business integrity and conflicts of interest, so there
22 looks like there's -- there was one in December of '19. I
23 just want to make sure I'm reading this chart correctly,
24 when I look at the green, sort of the teal colored bar. I
25 don't know what color it is on your computer, that green

1 colored bar.

2 Oh, that's accounting, auditing, and financial
3 controls. So -- but it doesn't actually tell me what the
4 complaint was or how it was resolved. And so I'm just
5 wondering if we could get a little synopsis of those or if
6 they're being investigated what's happening with those.

7 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So
8 let me -- let me sort of explain to you what pages eight
9 and ten do. Page eight is essentially an accounting of
10 the ethics helpline complaints that are received by
11 category. And so what that looks like is there's six
12 categories that we used, and each health -- ethics
13 helpline complaint that comes in is categorized into one
14 of those six areas, and then is essentially set out for
15 investigation, and then we report on the findings. That's
16 what ten -- slide ten does.

17 So slide ten talks about ethics complaints that
18 have been closed. And we break those out into either
19 substantiated complaints or unsubstantiated complaints.
20 And so what you're seeing in the bottom left-hand corner
21 where you refer to the teal bar would be substantiated
22 complaints and the teal would be an accounting auditor and
23 financial controls complaint that had been substantiated
24 in December of 2019.

25 COMMITTEE MEMBER BROWN: So I would like to know

1 what that complaint is. I don't need to know about the
2 unsubstantiated complaints. I'd like to know about the
3 substantiated complaints, not about retirement benefits
4 fraud, but more about business integrity and conflicts,
5 information security and records, and accounting,
6 auditing, and financial controls. I would like to know
7 what those substantiated complaints are without
8 necessarily naming the employee, because I know there are
9 HR issues, but I would like to know what those are. I
10 don't know if any other Board member wants to know. But I
11 think when complaints are substantiated -- because the
12 majority of these are unsubstantiated and closed. But the
13 ones that are substantiated, I'd like to know what those
14 are, as someone who's responsible for oversight.

15 Let me see if I have any other questions about --
16 and so I don't know how you would do that. I call it a
17 synopsis of the substantiated complaints. I don't know
18 what you want to call that. And I don't think it would be
19 a lot of work, because a lot of them aren't substantiated.
20 I mean, there's very few when you look at this chart. But
21 I think the Board would want to know what's going on with
22 these complaints.

23 Thank you.

24 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

25 Okay.

1 CHAIRPERSON MILLER: Okay. I have Mr. Ruffino
2 with a question.

3 ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr.
4 Chair.

5 I have a comment, but it may be addressed later
6 during your presentation. And if it is, I can wait. But
7 if you can pull the slide -- it's Item 5e Attachment 3,
8 page six of six. It's got a chart that shows the total
9 transaction versus transaction causing a violation.

10 My observation and the question is, is I see a
11 2015 and 2016 there seem to be 3.8 percent and 3.9
12 percent, and then -- are we getting the slide?

13 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
14 She's getting there.

15 ACTING COMMITTEE MEMBER RUFFINO: There you go.
16 Perfect. This might be easier to follow. So if you could
17 see 2015, 2016 and then 3.9 in 2016. Then it's going down
18 2017, 2018, and 2019 it decreases. And then in 2020, we
19 have a spike again to 2.9 percent. And my observation or
20 my question is do we know what cause? Is there a trend
21 there, that spike?

22 Thank you.

23 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So
24 thank you for the question. We do know what caused the
25 spike in 2020. This was during the time of the market

1 volatility that occurred in end of -- middle of February
2 through March of this year, where the market was extremely
3 volatile. And as a result of that, we had experienced a
4 significant amount of violations by our covered persons
5 than what we're normally used to, which is evidenced by
6 this chart.

7 In terms of the significance of this spike, we
8 did have a covered person who had more than a
9 proportionate amount of trades. And so I would say that a
10 lot of this is due to an individual and we are addressing
11 that as well, as with others in terms of the reporting.

12 And when I say that, what I say is when we report
13 it on this, we reported that there was approximately ten
14 individuals that had violations during that period, during
15 the quarter, one of which had a disproportionate amount of
16 the violations.

17 ACTING COMMITTEE MEMBER RUFFINO: Thank you for
18 that. Do you happen to know either those personal trading
19 violations types, was the majority like missing
20 pre-clearance, or restricted list? Do you know what the
21 majority were, what types?

22 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

23 Yes. So the way that -- and we're sort of
24 skipping around in my presentation, but the way that the
25 Personal Trading Program works is that a pre-clearance

1 basically forms the -- you know, the first level, if you
2 will, of a violation. And then what happens is we have
3 holding period, and we have blackout and restricted list
4 violations as well. So the most violations that are going
5 to occur, because of the way that I describe pre-clearance
6 being the first level, are going to be pre-clearance
7 violations.

8 And then what happens is if someone has held
9 something for less than 30 days, they might also -- they
10 would also get a holding period violation, or if they had
11 done their trade and hadn't pre-cleared it, during the
12 blackout period, which is noted as the day before, the day
13 of, and the day after we trade, then -- then they would
14 also get a blackout period violation.

15 So to answer your question, most of them are
16 pre-clearance, but I don't have the percentage.

17 CHAIRPERSON MILLER: Yeah, that seems --

18 ACTING COMMITTEE MEMBER RUFFINO: Thank you.

19 CHAIRPERSON MILLER: I've got Ms. Paquin in the
20 queue, but I would -- if the question is about your -- the
21 material that's going to be in your presentation, perhaps
22 we can hold them, and so -- until you've actually done the
23 presentation. So, Ms. Paquin.

24 ACTING COMMITTEE MEMBER PAQUIN: Yes, it is about
25 the presentation, so I'm happy to hold until the end.

1 Thank you.

2 CHAIRPERSON MILLER: Okay. Yeah. Let's go ahead
3 and continue the presentation, Ms. D'Adamo.

4 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

5 Okay. So we're going to skip then up to page
6 three of the presentation that you're currently on. So
7 this is a history of the Personal Trading Regulation. It
8 was enacted in 2012. And the regulations reinforce
9 various State and securities law. They protect covered
10 persons, the fund, and supports our fiduciary duty.

11 The regulations were amended in October of 2019
12 to better align with the U.S. Securities and Exchange
13 Commission's guidance as it -- as it pertains to personal
14 trading. The biggest impact from the 2000 -- from the
15 2019 revision of the regulations was to include exchange
16 traded fund as covered securities.

17 Next slide, please.

18 --o0o--

19 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

20 Okay. So what I want to do with this slide was
21 to -- sorry -- was to give you a feel for what we do with
22 respect to the management and the administration of the
23 Personal Trading Program.

24 What we have here is a slide that outlines the
25 communications, training, and education that we implement

1 when it comes to the administration of the program. We
2 start with onboarding. And in onboarding, when a new
3 covered person team member begins at CalPERS, they're
4 trained on the regulation and how to navigate the system
5 that we use for monitoring transactions.

6 This training can take the place of group
7 training or individual training. We also offer training
8 to spouses and domestic partners. This train -- and
9 really what we're doing is we're -- our regulation
10 actually requires that it's not only our covered person,
11 but their spouse particularly. That's also a covered
12 person.

13 And so we provide training and we provide those
14 individuals an ability to come in and get firsthand
15 training from us on, you know, what our regulations
16 require, as well as how to navigate the system.

17 This training can also be an opportunity for the
18 covered person to go over their specific situation and get
19 information regarding how to stay within the requirements
20 of the regulation. And so what we've talked -- what I've
21 pointed out here on online personal trading and the
22 ongoing communication are the resources that we have
23 available to covered persons, if they have a question or
24 if they need some help in either executing a trade or
25 navigating the system.

1 Our regulation is actually available online and
2 it's also on -- available on the intranet. We have an FAQ
3 presentation that is also available online. And we have
4 contact information for live help. We have a team of
5 individuals that are available from 7:00 a.m. to 4:00 p.m.
6 Monday through Friday for live telephone help, as well as
7 email help.

8 We also have our personal trading deck overview,
9 which is also available to individuals. It's a detailed
10 29-page presentation that is intended to be a self-guided
11 document to cover all aspects of personal trading rules
12 and requirements and navigating the personal trading
13 platform.

14 Key topics are a purpose, the regulations,
15 pre-clearing, Navigating the Schwab CT system, and
16 attestations and affirmations. And then we also have a
17 quick reference guide, which is a short three-page, but
18 more detailed guide, on how to navigate the personal
19 trading platform.

20 In terms of ongoing communication and training,
21 we have a team of three individuals who are dedicated to
22 our investment compliance area. With respect to personal
23 trading, these individuals serve as the primary contact
24 with our covered persons. This is an area where I believe
25 we spend a lot of time, and for good reason. It's

1 important to make sure that we're following the
2 regulations, that people are being monitored who should be
3 monitored, and that personal trading violations are dealt
4 with.

5 At this point, I can take any questions if there
6 are or move to the next slide about the training.

7 CHAIRPERSON MILLER: Do I have questions on the
8 training. Okay. It's hard for me to tell whether the
9 questions I have in the queue are on that specific
10 portion.

11 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: I
12 can -- I mean, I can move to five and six and then take
13 questions --

14 CHAIRPERSON MILLER: Yeah, let's just --

15 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
16 -- if that's okay.

17 CHAIRPERSON MILLER: Yeah, let's take the
18 questions after we get through the presentation and then
19 it won't result in further confusion on my part.

20 Thank you.

21 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

22 Fine. Thank you. So actually in terms of --
23 there was a -- and can you go back to slide four, I'm
24 sorry. I just wanted to note -- I wanted to highlight
25 some of the trainings that were done as a result of the

1 Personal Trading Regulation, the change. We had -- we had
2 group onboarding training, which occurs monthly, which I
3 alluded to. We also do frequent email reminders to
4 covered persons regarding the rules and attestations. We
5 also did annual compliance training this past year in
6 November of 2019. And then we also did separate sessions
7 for covered persons for information regarding the changes
8 to the reg.

9 We did annual personal trading attestation and
10 this requirement is reported to the Committee. It'd due
11 April 1st. And it's an attestation provided by covered
12 persons that they understand the regs and that they have
13 disclosed their reportable accounts.

14 Trainings. We do trainings that are conducted in
15 coordination with the amendment. And we did trainings in
16 October -- or August, September, and October of 2019.

17 In that instance, we provided five trainings per
18 month. It says five trainings per month, and that we had
19 additional team meetings where our -- members of our
20 Compliance team went and spoke to team meetings to talk to
21 them about the changes that occurred in the regulation.

22 So that -- I just wanted to provide that
23 additional information on communications, training, and
24 education.

25 If we want, we can move to the next slide, which

1 would be the treatment of violations.

2 --o0o--

3 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: And
4 here, what I wanted to highlight is that Enterprise
5 Compliance conducts a review when a potential violation
6 occurs. We actually, on a daily basis, perform the review
7 of the alerts that we receive. And if a violation is
8 deemed to have occurred, a violation notice is issued to
9 the covered person. Violations are reported to
10 management.

11 In terms of the treatment of violations, it's --
12 there's several scenarios -- I'm on bullet 2, there's
13 several scenarios for the treatment of violations,
14 depending on the specific violation's circumstance. These
15 include follow-up training, management notification, and
16 discipline. And then the bullet indicates that Human
17 Resources is notified of violations. And we work very
18 closely with Human Resources and our Legal department when
19 addressing violations.

20 We have implemented an alignment with the
21 progressive discipline process as well, so we are tracking
22 violations that keep in accordance with the progressive
23 discipline.

24 The third bullet, transaction and violation
25 information is provided to senior leaders and it's

1 reported to this Committee in open session. Management
2 receives periodic updates on activities.

3 In terms of the discipline, I wanted to note that
4 we do exist within the civil service framework. And as
5 such, team members have rights through the progressive
6 discipline process, which I noticed -- which I noted just
7 a minute or so ago.

8 We follow and we believe in applying those
9 protections. I had noted in 2018, we worked with HR to
10 align our reporting with progressive discipline, and that
11 we do report violations to senior leaders, as well as this
12 Risk and Audit Committee.

13 At that point, I'll move to slide six --
14 --o0o--

15 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

16 -- where we started touching on a little bit.
17 And really, the point that I wanted to make in including
18 this slide was to show that over the years, particularly
19 in most recently the past three years, barring our
20 experience in 2020, we have been successful in making sure
21 that covered persons are having less violations. And when
22 I say we've been successful, I really believe that
23 preventing violations is super important. And we try to
24 do that in ways that are around education, training,
25 visibility, putting resources out there, really giving

1 covered persons every opportunity to ask a question,
2 connect with us, and find out if they're having an issue
3 with the system, or if there's something that they don't
4 understand, that they can get the answers to those
5 questions.

6 And so I look at our experiences in 2017, 2018,
7 and 2019 as really being indicative of the efforts that
8 we've been -- that we have -- that we've been putting
9 forth. 2020 is disappointing. It's disappointing to me
10 too. I don't think that we should have violations as
11 well. I understand that we're humans and with 473 covered
12 persons, from time to time, we might have someone make a
13 mistake.

14 The important thing for us is to make sure that
15 we're getting to those people, we're understanding what's
16 happening, and we're making sure that they're thoroughly
17 trained on the system, on the regulations, and that we can
18 help them not make mistakes in the future.

19 So that's the end of this presentation. I would
20 be happy to take any questions. I'm sure there will be
21 some.

22 CHAIRPERSON MILLER: Okay. I have several people
23 in the queue. And I just want to make a quick comment
24 before I get to them, that I think 2020, when I look at
25 data and when I -- you know, in my briefings, in my

1 discussions with Ms. D'Adamo and staff, it seems pretty
2 clear that 2020 was not a common cause kind of aberration
3 in the data. There were some special causes there. The
4 COVID thing was not your typical day-to-day working
5 environment, and I think that that's something to be
6 noted.

7 But our system of controls, and checks, and
8 trainings, and procedures, it really did exactly what it
9 was supposed to do. And that's why we have this
10 information, and the actions taken, and the lessons we're
11 learning from it in front of us. So I had Ms. Paquin next
12 and then followed by Ms. Middleton.

13 ACTING COMMITTEE MEMBER PAQUIN: Thank you, Mr.
14 Chair. And thank you, Ms. D'Adamo Timberlake for the
15 presentation. I think it was very interesting and
16 enlightening. And I had a question -- two questions for
17 you actually.

18 And the first is that when I look Attachment 2 --
19 on page six of Attachment 2, it lists out violations for
20 both April and May. And we have in each month another 12
21 violations listed there, which is quite a bit lower than
22 the 127 in April. And I guess my question is are these 12
23 individuals of these violations or is this a smaller
24 number of people committing multiple violations?

25 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

1 Yes, it's a smaller number of people that have
2 several violations. And remember -- I'm just trying to
3 remember, there's the whole -- there's the pre-clearance.
4 And I think we actually -- I'm just going to -- you said
5 April, right? I'm just going to --

6 ACTING COMMITTEE MEMBER PAQUIN: April and May.
7 So it's on Attachment 2, page six.

8 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

9 Right. Right. Okay. So for page six of
10 April -- oh, I -- okay. I'm sorry. I was just looking at
11 the categories, because in our reporting, we actually list
12 the categories of violations. And so for April and May,
13 it looks like they're all purple. So they were all
14 missing pre-clearances. And so these were -- these were
15 three individuals. And it says in the observations that
16 there were 12 violations committed by three covered
17 persons in May.

18 ACTING COMMITTEE MEMBER PAQUIN: Okay.

19 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: And
20 then in April, if we went to the April report, it would
21 say -- I believe there was also three covered persons in
22 April as well. So it is not -- it is not a -- it's not 12
23 people. It's three people that probably -- that traded
24 multiple securities. And so the way that the
25 pre-clearance works is that the violation occurs for each

1 security. So it's not just if you traded five securities
2 and you forgot to pre-clear them all, it would be -- it
3 would be five.

4 ACTING COMMITTEE MEMBER PAQUIN: Um-hmm. Okay.
5 And, you know, I do want to commend staff on the outreach
6 and the training, and as Board members or delegates for
7 Board members, we do receive your annual emails and your
8 regular email updates reminding us that this is required
9 and how to do it. We get emails when your system is going
10 to be down for the weekend for maintenance. So I feel
11 that, you know, staff is doing a good job of reaching out.

12 So the question I have is how do you think the
13 Board, this Committee can help impress upon staff that we
14 do take this seriously and this is important? Even when
15 the markets -- maybe especially when the markets are
16 volatile due to COVID, you can't circumvent the personal
17 trading requirements.

18 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

19 Well, I think you just have, but I -- we -- I
20 agree. We do this -- we impress upon folks the importance
21 of this. And one of the things that we do to really get
22 people's attention is that we report up these violations.
23 And we've been doing that for a while. And I believe that
24 that's part of the reason why we are seeing the reduction
25 in the number of violations, because we do take it

1 seriously and we want it addressed.

2 And so I think talking about it, like we are now,
3 is a way to make sure that people understand that this is
4 serious and that when violations occur, we -- we really
5 make sure that we understand why. We make sure that the
6 person is trained. And if there are other issues that are
7 around that violation, we address them as well working
8 with our HR and our legal partners.

9 ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank
10 you.

11 CHAIRPERSON MILLER: Okay. Ms. Middleton.

12 VICE CHAIRPERSON MIDDLETON: Okay. Thank you,
13 Mr. Chair. Before I get into my questions, is Ms. Westly
14 participating in this, and if she is, I want to ask Mr.
15 Jacobs a question regarding my ability to ask questions
16 that deal with the broad range of progressive discipline
17 practices and policies?

18 COMMITTEE MEMBER WESTLY: Is he here?

19 CHIEF EXECUTIVE OFFICER FROST: I'm not sure,
20 but --

21 CHAIRPERSON MILLER: It looks like he's muted.

22 COMMITTEE MEMBER WESTLY: As long as it doesn't
23 mention an actual employee or case, I think it's okay,
24 but --

25 CHIEF EXECUTIVE OFFICER FROST: Yes, that is a

1 correct statement. And we would not go into specific
2 cases in open session.

3 COMMITTEE MEMBER WESTLY: That same plot came
4 into my head, Lisa while I was listening.

5 VICE CHAIRPERSON MIDDLETON: I want to be careful
6 here.

7 COMMITTEE MEMBER WESTLY: Yeah, I appreciate -- I
8 so appreciate it.

9 VICE CHAIRPERSON MIDDLETON: So --

10 COMMITTEE MEMBER WESTLY: If it's -- if we want
11 to be cautious, I can log off.

12 VICE CHAIRPERSON MIDDLETON: I don't think you
13 need to knowing where I'm going with my questions, but I
14 will be very careful as I move forward.

15 Marlene, could you walk us through the steps that
16 you have taken from an audit standpoint to satisfy
17 yourself that you are catching anyone who would be making
18 a violation of our trading policies?

19 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

20 Okay. So we have -- when someone is on boarded,
21 we determine with their classification whether or not
22 they're a covered person. So at the first instance, the
23 decision is made whether or not the person is a covered
24 person. If the person is a covered person, then they are
25 required to disclose their reportable accounts, and where

1 we can and we do in most circumstances, we actually put
2 them on an electronic feed. So for the vast majority of
3 our covered persons, we are receiving a daily feed of the
4 trades that are occurring in their accounts.

5 And so when I alluded to earlier a few moments
6 ago about the review of the alerts that we do on a daily
7 basis, that is what we are doing. Our personal trading
8 staff come in, and they first order a business to review
9 the alerts. And then from the reviewing the alerts, they
10 determine whether or not a violation occurs. And
11 sometimes it requires some communication with the covered
12 person to see what the situation was or what was going on.

13 So the first thing we do is we require people to
14 disclose their accounts, and they actually attest that
15 they have disclosed all of their reportable accounts. And
16 we actually have them do that on a quarterly basis as
17 well. So folks every quarter are attesting that they
18 understand the regs and that they have -- that they have
19 disclosed all of their accounts.

20 And then there are folks that don't have
21 reportable -- or I should say don't have electronic
22 accounts. And so what they do is they actually have to
23 submit every quarter their statements. And then we review
24 those statements, and we review them for violations as
25 well.

1 So we -- so we are essentially having folks
2 disclose their reportable accounts, attest that they've
3 disclosed their reportable accounts, and we're reviewing
4 their reportable accounts either through the electronic
5 system or manually when they submit it to us every
6 quarter. And in fact, I report on that to this Committee
7 on a quarterly basis. Now, it will be monthly.

8 VICE CHAIRPERSON MIDDLETON: All right. What
9 concerns me now of individuals not disclosing to you an
10 account that they have opened.

11 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
12 What concerns do we have?

13 VICE CHAIRPERSON MIDDLETON: What processes do
14 you have to detect someone not -- a non-disclosure of an
15 account?

16 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So
17 right now, we are and have been relying on the
18 attestations of the individuals. I would say that failing
19 to do so or doing so incorrectly would be a violation of
20 our policies and would probably submit them to some level
21 of discipline.

22 We have a lot of mechanisms to handle that. But
23 at this level, it really is -- you know, everybody
24 understands that this is a requirement and they attest on
25 a regular basis that they've done so.

1 VICE CHAIRPERSON MIDDLETON: Okay. Then when
2 discipline -- progressive discipline is -- is necessary,
3 can you describe the broad process that you go through in
4 making a determination as to what level of discipline is
5 appropriate? And I believe it is your -- ultimately, your
6 authority to make that determination. So can you talk
7 about the authority that you have to impose discipline?

8 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So
9 as I mentioned, we work closely with our partners in terms
10 of, you know, documentation finalizing, decisioning, yes.
11 And so, for me, what I rely on is the severity of the
12 violation, the -- you know, the history of the covered
13 person. We track all of this information for covered
14 persons.

15 And so if we have a covered person whom, you
16 know, maybe has experienced more violations than I think
17 ought to, that comes into play in terms of figuring out
18 what the discipline is. At the end of the day, you know,
19 as we've said, we take this very seriously. And it is
20 incumbent upon individuals that are covered persons to be
21 within the regulations at all times.

22 And so a violation of our regulations is a
23 serious matter and it is one that requires the right
24 amount and the appropriate level of discipline.

25 VICE CHAIRPERSON MIDDLETON: Okay. And are you

1 satisfied that you have all the resources that you need to
2 address this area?

3 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

4 Yes, I would say that everyone is very strong on
5 this particular item. And there is -- I don't believe
6 that there's anything that if I asked for, that I wouldn't
7 be able to get, because everybody agrees that this is a
8 matter that needs to be -- that we need to be, you know,
9 as close to as perfect as we can.

10 VICE CHAIRPERSON MIDDLETON: Right. Thank you.

11 And I'll close with two comments, one to -- as
12 Ms. Paquin said, I want to compliment you and your team
13 for the process that you have put forward. I think this
14 is extremely serious and I'm very pleased by what I hear.

15 Beyond that, and this is much more a policy
16 question that I would like us perhaps -- either in this
17 Committee or in the Governance Committee to address at
18 some point in the future as to whether or not there should
19 be some restrictions on the ability of our employees who
20 were involved in investing on behalf of CalPERS to make
21 investments of their own.

22 And I'll leave that discussion for later. But
23 hopefully we can set it at some point in time in the
24 appropriate committee.

25 Thank you.

1 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

2 Thank you.

3 CHAIRPERSON MILLER: All right, thank you. I
4 have a question from Ms. Brown.

5 COMMITTEE MEMBER BROWN: Thank you, Mr. Chair.
6 Going back to 7a, Attachment 2, page six. Ms. D'Adamo,
7 when -- when you told us that the observations were each
8 covered person attempted to pre-clear their trans -- their
9 transactions, which is great, but made an error in the
10 process, which resulted in the violation. So let me ask a
11 question, because I don't trade. Do they not know there
12 was an error in the process? I mean -- and they shouldn't
13 have traded, or did they just trade anyways, or do we know
14 that?

15 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So
16 we know that -- I just have to find my notes. So, for
17 instance -- in one instance an individual pre-cleared
18 and -- I'm just going to try to get my notes.

19 COMMITTEE MEMBER BROWN: I want to -- I want to
20 make sure we're not being too specific. But normally, you
21 would know if your -- normally -- this is like
22 generically, you would know if your transaction that you
23 want to make pre-cleared, right? You would know if it
24 didn't go through, is that true?

25 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

1 Well, not necessarily.

2 COMMITTEE MEMBER BROWN: Okay.

3 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: And
4 I'll explain why. So for instance, an individual could
5 pre-clear the wrong security. They could put a wrong -- a
6 different ticker symbol in than what they actually clear.
7 It's a -- it's -- you know, it's -- it happens and it's
8 something that would -- would trigger a pre-clearance
9 violation. Now, we would be able to go in and see that an
10 individual actually pre-cleared something else at that
11 time. And that's where the conversation comes in with the
12 covered persons, once we get the alert. But they would
13 say, no, no, I pre-cleared -- I pre-cleared it. And then
14 we would go back and say, no, actually, you pre-cleared
15 this other thing. And since you didn't do the thing that
16 you actually traded, you are assessed a violation.

17 COMMITTEE MEMBER BROWN: Okay. And then the
18 other question I had, and I had asked this of the -- I
19 think of the Committee Chair in talking about the
20 restricted list. So it looks like we never have any
21 violations on the restricted list. And I had asked for
22 either a copy of the restricted list or how does -- how do
23 we know what the restricted list is or what's on the
24 restricted list?

25 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

1 When you say how do we know --

2 COMMITTEE MEMBER BROWN: How do you -- let's
3 say -- because, well, I asked for a copy of what's on the
4 restricted list or how does it get made and I got no
5 response.

6 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So
7 the restricted list is actually coded into our system, and
8 that's how we would be able to know, if someone were to
9 try to do a transaction, that it would come up as a
10 restricted list, and the pre-clearance would be denied.
11 And if they had done a transaction of a restricted list
12 security, they would be assessed a violation. And it
13 would be reported in the reporting that you see in front
14 of you.

15 COMMITTEE MEMBER BROWN: Okay. And then as a
16 last question, sort of humorous, but maybe not. Were any
17 of the violations in March, April, or May have to do with
18 spouses or significant others that you know of?

19 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

20 Yes. Yes.

21 COMMITTEE MEMBER BROWN: Okay.

22 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

23 Yes.

24 COMMITTEE MEMBER BROWN: Maybe counseling them
25 well offer as well. I don't know.

1 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: And
2 we do. We actually have counseled spouses. We've had
3 spouses come in for education and training. We've done it
4 over the phone. If we have a spouse that has a violation
5 and the covered person doesn't -- you know, the spouse
6 wants to -- maybe the spouse is the person that does the
7 trading in the family, we absolutely have that person come
8 in and provide them with the same level of training that
9 we would provide a covered person.

10 And I would -- for me it's not humorous, but --
11 because I take this really seriously too, but we do have
12 spouses that, you know, trigger violations as well, and we
13 do our very best to make sure they're trained.

14 COMMITTEE MEMBER BROWN: Great. I was thinking
15 more marital counseling, but okay. Thank you.

16 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

17 Well. We don't do that.

18 COMMITTEE MEMBER BROWN: Probably outside our
19 scope. All right. Thank you.

20 (Laughter.)

21 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

22 Yeah, we don't do that.

23 I will note to your point about May, Ms. Brown,
24 that, you know, it is heartening, even though it's
25 disappointing that we did experience transactions in May,

1 that at least the individuals did attempt to pre-clear.
2 So we're -- you know, we're imparting upon people the
3 importance of pre-clearance and how pre-clearance protects
4 them and us. I will note that beginning next month, we
5 are stepping up our training for covered persons and we're
6 making sure that we're going out to folks to clear up any
7 misinterpretations or any miseducation that folks may have
8 in the personal trading process or the regulations.

9 COMMITTEE MEMBER BROWN: Oh, thank you. I do
10 like the idea that we use training first and then we use
11 HR, if we can't --

12 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

13 Um-hmm. Right.

14 COMMITTEE MEMBER BROWN: -- get them to
15 understand the importance of not --

16 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

17 Right.

18 COMMITTEE MEMBER BROWN: -- making trades that
19 aren't correct.

20 Yeah, I believe our goal is zero. Our goal is
21 January of 2020, right? I mean, that's our goal nothing
22 on this list, is that correct?

23 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: Our
24 goal is to have as few violations as possible. I would
25 love it to be zero. I would love every month to be zero.

1 As I said before, having 473 individuals and their spouses
2 as covered persons, we have to be realistic, but that's
3 where the training and the education comes in.

4 COMMITTEE MEMBER BROWN: All right. Thank you.

5 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: If
6 we can do a really good job there, we can hopefully get
7 that to zero.

8 COMMITTEE MEMBER BROWN: Thank you.

9 CHIEF EXECUTIVE OFFICER FROST: And, Marlene, our
10 goal is zero. I think did the only point --

11 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
12 Yes.

13 CHIEF EXECUTIVE OFFICER FROST: -- Marlene, you
14 could add is on these pre-clearance violations, I believe
15 a couple of these violations were related to the
16 expiration of the pre-clearance. So maybe you could talk
17 about that quickly.

18 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

19 Yes. So in one of these -- so as I had
20 indicated, in May, everyone had tried to pre-clear. In
21 one instance, an individual had done a pre-clearance, but
22 then the pre-clearance had occurred prior to the end of
23 the market session and the individual had traded after the
24 market had closed, which was still on the same day as when
25 they had pre-cleared, but it was essentially after the

1 session had finished. And so our regulation actually says
2 that when you do a trade or when you get a pre-clearance
3 before the market closes, but you don't trade until after,
4 you actually have to pre-clear again. And the reason for
5 that is that our system is coded for when the fund is
6 going to be making trades.

7 So it's important that to make sure that you
8 pre-clear on the day that the fund is actually making the
9 trade. And so that was some of those pre-clearance
10 violations that we saw in May.

11 CHAIRPERSON MILLER: Okay. I have a question
12 from Mr. Jones.

13 PRESIDENT JONES: Thank you, Mr. Chair. Yeah,
14 Marlene, I was just wondering if the profile of the
15 violators, does it represent normally newer employees or
16 it's just all over the map, newer and senior?

17 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: I
18 would say that the profile -- there really isn't, that I
19 can think of, a profile that says this is a typical
20 violator. Sometimes we have newer employees would have a
21 violation. Sometimes we have employees that have been
22 here for a (inaudible) but maybe aren't, you know, as
23 familiar with the trades. A lot of times, we have
24 employees that don't trade very often, and so that's where
25 the education and the visibility comes in, because you

1 have employees maybe that don't trade very often, that
2 somehow, you know, in the process, whether it's the
3 pre-clearance or interpreting the regulations, get it
4 wrong.

5 So I can't say that there's sort of, you know,
6 one profile of a violator. It really depends. You know,
7 we have it at different levels, but, you know, the
8 important thing to note is that we are making sure that --
9 we are impressing upon people the importance of
10 pre-clearance and pre-clearance solves a lot of problems
11 when pre-clearance occurs the right way. And so that's
12 what we're going to be educating folks on.

13 And I just wanted to go back a little bit. You
14 know, Ms. Frost is correct, our goal is zero. I want to
15 be strong about that. I don't want to sort of hedge,
16 understanding that we're going to do everything that we
17 can to try to get that number down to zero on a consistent
18 basis.

19 CHAIRPERSON MILLER: Okay. I'm not seeing
20 anymore questions. And, you know, I'm -- again, I find
21 this overall to be actually a quite encouraging story. It
22 really seems to me to demonstrate that our systems, our
23 controls, the fine work of our team are effective, and
24 we're catching these things. And while we want zero, even
25 these kind of human errors that can lead to violations,

1 that when I look at that blip when we are down -- when
2 we've trended down to such a low level of violations, even
3 the most -- even those that are just due to an error in
4 reporting or timing, and then we have that little surge
5 up, which was primarily attributable, the vast majority of
6 them to one individual. To me, it just demonstrates that
7 what we're doing and what the team is doing working.

8 And even in that highly volatile time when things
9 were going kind of haywire with the markets and people who
10 were trading were trading in that environment as well, it
11 seems like a good example of the hard work has paid off in
12 terms of our systems doing what they're supposed to and
13 working. And as a Committee we have this in front of us
14 to be able to see what's going on and know that we're
15 taking actions.

16 So I'll turn it back to you, Ms. D'Adamo for our
17 next item, if that's the end of that one.

18 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

19 Thank you, Mr. Miller. I appreciate that. And
20 as I've said a couple of times, you know, this is an area
21 that we take very seriously. And we will continuously
22 work with individuals and management to keep those numbers
23 down and to zero. And you'll have an opportunity every
24 time we meet to ask me questions about this. So I look
25 forward to those conversations.

1 So I'll move to item 7b, if that's okay. And
2 this item is the Annual Compliance Report.

3 (Thereupon an overhead presentation was
4 presented as follows.)

5 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

6 This items is something that we do every year.
7 The -- this report highlights activities and
8 accomplishments for the fiscal year-ending June 30 of
9 2020. It documents the Ethics and Compliance Program
10 initiative highlights. And the report features activities
11 that are -- have been completed and in support of CalPERS
12 five-year compliance plan.

13 The integrated assurance model incorporates
14 governance, risk compliance practices as a multifaceted
15 approach to promote compliance awareness and
16 accountability. The model centers on the Three Lines of
17 Defense framework, which promotes collaboration and
18 increased understanding of roles and responsibilities.

19 At this point, I'll ask if anyone has any
20 questions about this document.

21 CHAIRPERSON MILLER: I'm not seeing any here.

22 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

23 Okay. This is an information item, so this would
24 be the end of our info -- the end of our session in terms
25 of 7b.

1 CHAIRPERSON MILLER: Okay. And we go to summary
2 of committee direction. And then I believe I do have at
3 least one or more public comments after that.

4 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
5 Okay. I do have a question on the summary of
6 committee direction.

7 CHAIRPERSON MILLER: Um-hmm.

8 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: I
9 or did you want to discuss the request from Ms. Brown to
10 have additional information about substantiated
11 complaints?

12 CHAIRPERSON MILLER: Yeah, I would like us to
13 perhaps have some discussion about that and put that into
14 our next closed session for a discussion, if that suits --
15 would that work for the Committee, Ms. Brown?

16 COMMITTEE MEMBER BROWN: Yes. Is -- my mic is
17 on. Okay. I actually was going through, because I
18 thought I had seen these before. And so in November 14,
19 2017, they're there. So if you look at that report, the
20 quarterly status reports, they're in there. There's a
21 little chart, a little table. And I can -- you -- I'm
22 sure you can look this up Ms. D'Adamo, but it's in there.
23 The ethics helpline summary of closed substantiated
24 complaints. There actually is a table. We used to report
25 it that way. I don't know why we don't anymore. So I

1 hope that's helpful. And it's from November of 2017 was
2 when it went to the Risk and Audit Committee. So this is
3 before I was on the Board. But they were there before,
4 and maybe we could just put those in the table.

5 Thank you.

6 CHAIRPERSON MILLER: Thank you.

7 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

8 Other than that discussion, I didn't take any
9 other direction.

10 CHAIRPERSON MILLER: Okay. So we'll move on to
11 public comment. And, Mr. Fox, we have someone queued up
12 for a public comment on 7 -- Item 7d, public comment.

13 STAKEHOLDER RELATIONS CHIEF FOX: Yes, Mr. Chair.
14 We have one person for public comment. Mr. Jerry Fountain
15 from the California State Retirees.

16 MR. FOUNTAIN: Good morning. This is Jerry
17 Fountain speaking. I appreciate the opportunity to speak,
18 but at this point in time I have questions for the Board.

19 Thank you.

20 CHAIRPERSON MILLER: Thank you.

21 STAKEHOLDER RELATIONS CHIEF FOX: Mr. Chair, that
22 concludes public comment for this Committee.

23 CHAIRPERSON MILLER: Okay. We'll adjourn now
24 into closed session for items 1 to 3 from the closed
25 session agenda. And so at this time, the Board members

1 will exit this open session meeting and connect to the
2 closed session meeting.

3 To the members of the public watching on the
4 livestream, the next open session meeting will be the
5 Board Governance Committee. That meeting is scheduled to
6 convene at 9:00 a.m. Thank you to all the CalPERS team
7 members and fine work. Thanks Board members and we'll see
8 you in closed session in a few minutes -- let's see, 9:40.
9 Why don't we say -- yeah, let's just say 10:00 o'clock.
10 That will give us time to do a quick break and get all the
11 electronic stuff working again. So closed session at
12 10:00 a.m. Okay. We're adjourned.

13 (Thereupon the California Public Employees'
14 Retirement System, Board of Administration,
15 Risk & Audit Committee open session
16 meeting adjourned at 9:41 a.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 23rd day of June, 2020.



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