

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 and 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 MILER: 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