

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

CALPERS AUDITORIUM  
LINCOLN PLAZA NORTH  
400 P STREET  
SACRAMENTO, CALIFORNIA

MONDAY, APRIL 18, 2022

1:10 P.M.

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

APPEARANCES

COMMITTEE MEMBERS:

Lisa Middleton, Chairperson

David Miller, Vice Chairperson

Fiona Ma, represented by Sertan Usanmaz

Jose Luis Pacheco

Ramon Rubalcava

Betty Yee, represented by Lynn Paquin

BOARD MEMBERS:

Rob Feckner, Vice President

Eraina Ortega

Theresa Taylor, President

STAFF:

Marcie Frost, Chief Executive Officer

Matt Jacobs, General Counsel

Kevin Fein, Chief Compliance Officer

Pam Hopper, Committee Secretary

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CHAIRPERSON MIDDLETON: All right. Call to order the April 18th Risk and Audit Committee meeting. Can we get roll call, please.

COMMITTEE MEMBER HOPPER: Lisa Middleton?

CHAIRPERSON MIDDLETON: Present.

COMMITTEE MEMBER HOPPER: Sertan Usanmaz for Fiona Ma?

ACTING COMMITTEE MEMBER USANMAZ: Present.

COMMITTEE MEMBER HOPPER: David Miller?

VICE CHAIRPERSON MILLER: Here.

COMMITTEE MEMBER HOPPER: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Present.

COMMITTEE MEMBER HOPPER: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Present.

COMMITTEE MEMBER HOPPER: Shawnda Westly?

Excused?

CHAIRPERSON MIDDLETON: Excused.

COMMITTEE MEMBER HOPPER: Lynn Paquin for Betty Yee?

ACTING COMMITTEE MEMBER PAQUIN: Here.

COMMITTEE MEMBER HOPPER: Madam Chair, all is in attendance with an excuse for Shawnda Westly.

CHAIRPERSON MIDDLETON: All right. Next item on the agenda is approval of the April 18, 2022 Risk and

1 Audit Committee timed agenda. Can I get a motion

2 VICE CHAIRPERSON MILLER: Motion.

3 CHAIRPERSON MIDDLETON: Mr. Miller.

4 Second?

5 COMMITTEE MEMBER PACHECO: (Hand raised).

6 CHAIRPERSON MIDDLETON: Second, Mr. Pacheco.

7 All those in favor say aye?

8 (Ayes.)

9 CHAIRPERSON MIDDLETON: Any opposed?

10 Any abstentions?

11 Third item on the Agenda is the Executive Report,  
12 Mr. Fein. And, Mr. Fein, welcome to our organization and  
13 to these chambers.

14 CHIEF COMPLIANCE OFFICER FEIN: Thank you very  
15 much, Madam Chair, Mr. Vice Chair, Committee members. I'm  
16 Kevin Fein, CalPERS team member and Chief Compliance  
17 Officer. We have a fairly light agenda today, but later  
18 on in the agenda, I will be sharing with the Committee  
19 some initial thoughts, plans developed after my two and a  
20 half months on Board.

21 CHAIRPERSON MIDDLETON: All right. Please  
22 proceed.

23 All right. Next is the approval of the February  
24 14 Risk and Audit Committee meeting minutes.

25 VICE CHAIRPERSON MILLER: So moved.

1 ACTING COMMITTEE MEMBER PAQUIN: Second.

2 CHAIRPERSON MIDDLETON: Moved by Mr. Miller,  
3 second by Lynn Paquin.

4 All in favor say aye?

5 (Ayes.)

6 CHAIRPERSON MIDDLETON: Any opposition?

7 COMMITTEE MEMBER RUBALCAVA: Abstain.

8 CHAIRPERSON MIDDLETON: And one abstention.

9 Thank you.

10 And we will now go on to information consent  
11 items. Mr. Fein, the annual calendar review.

12 CHIEF COMPLIANCE OFFICER FEIN: Yes. Under 5a,  
13 annual calendar review, you will note that the June  
14 meeting we will be bringing the annual plans as well as  
15 the annual compliance report for 21-22. We don't meet  
16 again until November after that.

17 CHAIRPERSON MIDDLETON: All right. And the draft  
18 agenda, the quarterly report -- status reports, those are  
19 all covered as consent items. Is there any items that any  
20 member of the Committee would like to pull from consent?

21 With that, could I get a motion to approve the  
22 consent calendar?

23 COMMITTEE MEMBER HOPPER: Madam Chair, you don't  
24 need a motion.

25 CHAIRPERSON MIDDLETON: Don't need to.

1 All right. Thank you.

2 We will move on to Item 6a, Chief Compliance  
3 Officer, Mr. Fein.

4 CHIEF COMPLIANCE OFFICER FEIN: Thank you very  
5 much, Madam Chair. I'm very pleased to be with the  
6 Committee today for my first official Risk and Audit  
7 Committee meeting of the Board.

8 As I said, I've been on board about two and a  
9 half months, just over. So I thought I would give the  
10 Committee an idea of what I've been doing over the last,  
11 you know, 10 weeks or so, as well as some preliminary  
12 thoughts and some plans that the team and I are working on  
13 right now.

14 I have been reviewing tremendous amounts of  
15 documentation, audit reports. I have read audit reports  
16 from across the enterprise going back a few years,  
17 probably somewhere north of 30 different audit reports.  
18 I've been reading the Enterprise Compliance and Enterprise  
19 Risk Management reports. Some of the material I've been  
20 reviewing goes back to 2015. I've been looking at Board  
21 reports, minutes, materials and I won't bore the Committee  
22 with the entire laundry list, but I'm reading everything I  
23 can get my hands on to try and fill in my education about  
24 CalPERS, where it's been, what its plans are, what its  
25 operations are.

1 I've had introductory sit down meetings with  
2 everyone of the executive team members, many of their key  
3 direct reports, as well as others, most SLC members. I  
4 have seen a number of the Managing Investment Directors  
5 and am continuing to schedule and attend those meetings.  
6 Basically, just doing everything I can to learn how  
7 CalPERS works, in particular, for me, coming from over 35  
8 years in the private sector, looking at the differences  
9 between how things are done in the private sector versus  
10 public.

11 I have had great success in the past at building  
12 high performing teams, best practice programs. And so  
13 part of this is learning how to take some of those skills  
14 and get them operationalized again in the public sector  
15 and with its differences to the private sector. One area  
16 in particular I've already been deeply involved in, I have  
17 been working with ICOR and the Legal Office, as well as  
18 others. We have been working very hard on expansion and  
19 clarification around our conflicts of interest program,  
20 particularly as it relates to private investments and  
21 private investment holdings of team members.

22 We believe that by expanding the record keeping,  
23 we've put into place a case-by-case review process, and  
24 moving the beginning of certain conflicts checked to much  
25 earlier in the life cycle of activities that we have done

1 a very good job to give us a very good chance to avoid  
2 problems in the future.

3 I have found the Enterprise Compliance and  
4 Enterprise Risk Management teams to be filled with a bunch  
5 of very good people, who are all very much engaged and  
6 committed to the mission here, appear to be very excited  
7 and anxious for the types of change we've been talking  
8 about. I am a believer in having the team have an active  
9 part in that and so have been engaging them and letting  
10 them help us drive some of the change that we've  
11 discussed.

12 So far, a couple of the things that we are  
13 working on -- pardon me -- as to our organization chart,  
14 we are finally combining ECOM and Enterprise Risk into one  
15 cohesive team. We are looking at an org that would be  
16 much flatter, much simpler, grouping people together in  
17 larger numbers. We've had a few meetings with HR and they  
18 are scheduling a workshop session for us where we can  
19 continue that and bring the final changes together, and  
20 push those through for approval.

21 We have allowed the team to engage to find a  
22 combined name for us, so we stop being ECOM and ERMD. And  
23 I'm pleased to say we have arrived at a new name.  
24 Enterprise Compliance, Risk and Governance, or ECRG.

25 We have looked across the enterprise to identify

1 opportunities to expand, launch, and mature programs that  
2 specifically identify, rate, and mitigate compliance and  
3 other risks. And my -- we have been working on a master  
4 plan, if you will, if that doesn't sound too draconian, to  
5 further launch a significant expansion to, in particular,  
6 the first and second lines of defense, and the  
7 quantification of our program. We've been working on that  
8 for a couple months already. We are hopeful that we will  
9 be delivering a proposal to the executive team within  
10 another two months for them to study and consider. It  
11 will be a fully costed plan showing what we believe we  
12 need in order to get the initiative underway. That would  
13 include if there are staffing requirements, in addition to  
14 our current complement, technological solutions from  
15 various technology vendors, and should we need outside  
16 support from a consulting firm of some kind.

17 That concludes my remarks. I'd be happy to take  
18 any questions if there are any.

19 CHAIRPERSON MIDDLETON: Certainly. Thank you.  
20 Could you outline for us the reactions that you're  
21 receiving from executive, from your colleagues, and from  
22 your staff regarding the changes?

23 CHIEF COMPLIANCE OFFICER FEIN: Absolutely. I'll  
24 actually take it in reverse order.

25 CHAIRPERSON MIDDLETON: All right.

1 CHIEF COMPLIANCE OFFICER FEIN: The team is, as I  
2 said, extremely excited and engaged, very anxious for the  
3 change. They're very positive about the things we are  
4 talking about. I think many of them recognize that these  
5 are processes or changes that will allow us to be much  
6 more effective, hopefully also much more efficient, get  
7 away from so much qualitative, paper based, and as I said,  
8 move to a more metric-driven process.

9 My colleagues across the enterprise have been  
10 very encouraging, quite similar reaction to the team.  
11 They see the logic, and the benefit, and are quite excited  
12 by it, in particular because of what we believe we can do  
13 to help the first line of defense get better line of sight  
14 into where are there risks, how large are they, where are  
15 they well controlled or more particularly are there places  
16 where controls could be enhanced.

17 And the same from the executive team. I think  
18 it's been a very consistent message from the executive  
19 team, including going back to the interview process, that  
20 this was the type of change they wanted to bring to  
21 CalPERS. So I've been very pleased and very heartened by  
22 just how positive everybody is being about what we're  
23 proposing.

24 CHAIRPERSON MIDDLETON: All right. Thank you.  
25 Are there questions for Mr. Fein?

1           One of the things that I've heard from you is  
2 that you want to take the time to get this right. And so,  
3 as Chair, I want to encourage you to -- to continue to  
4 live by that mantra, that it is better to get it right  
5 than to get it fast.

6           CHIEF COMPLIANCE OFFICER FEIN: I couldn't agree  
7 more. Thank you very much.

8           CHAIRPERSON MIDDLETON: All right. Thank you.

9           CHIEF COMPLIANCE OFFICER FEIN: Measure --  
10 measure twice, cut once.

11          CHAIRPERSON MIDDLETON: Particularly when it  
12 comes to auditing.

13          (Laughter.)

14          CHAIRPERSON MIDDLETON: All right. If there are  
15 no other questions, can we get a summary of committee  
16 direction?

17          CHIEF COMPLIANCE OFFICER FEIN: Other than your  
18 advice, Madam Chair, I took no.

19          CHAIRPERSON MIDDLETON: I think that's correct.

20          Do we have any public comment?

21          I see none here in the audience.

22          Are there any on the phone?

23          STAKEHOLDER STRATEGY MANAGER TEYKAERTS: Madam  
24 Chair, we do not have any public comments on the phone.

25          CHAIRPERSON MIDDLETON: All right. Then we will

1 recess into closed session. We have three items to cover  
2 in closed session. I anticipate closed session will  
3 probably take us about 10 to 15 minutes, and we should be  
4 able, let's say at 1:45, to safely begin the Finance  
5 and -- our audit -- excuse me, the FAC committee.

6 (Off record: 1:22 p.m.)

7 (Thereupon the meeting recessed  
8 into closed session.)

9 (Thereupon the meeting reconvened  
10 open session.)

11 (On record: 1:36 p.m.)

12 CHAIRPERSON MIDDLETON: All right. Welcome back,  
13 everyone. We are back in open session for the Risk and  
14 Audit Committee meeting. This will adjourn this month's  
15 Risk and Audit Committee meeting. The next Risk and Audit  
16 Committee meeting will be held in June of this month[SIC].

17 We will take until 1:45 before beginning the  
18 Finance and Administration Committee to give everybody a  
19 chance to move our musical chairs around once more before  
20 we start the next meeting. So with that, we are adjourned  
21 from Risk and Audit.

22 (Thereupon the California Public Employees'  
23 Retirement System, Board of Administration,  
24 Risk & Audit Committee open session  
25 meeting adjourned at 1:36 p.m.)

