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CHIEF COMPLIANCE OFFICER LETTER

The Enterprise Compliance, Risk & Governance Office (ECRG) of the California Public Employees' Retirement System (CalPERS) plays a key role in coordinating, supporting, and advancing an effective compliance and risk program across the organization. As a leader in compliance and ethics, ECRG is dedicated to safeguarding the enterprise and its stakeholders by offering expert advice, guidance, and oversight, helping CalPERS stay committed to adhering to all laws, regulations, and policies that govern our operations.

The Annual Compliance Report highlights key achievements in compliance and risk activities for the fiscal year (FY) 2025-26. In alignment with CalPERS' values of integrity, openness, and accountability, ECRG recognizes its responsibility to model ethical behavior and practices. We actively collaborate with other program areas within the organization to enhance our effectiveness and maximize our impact. These partnerships are essential to our work, helping to inform and raise awareness about the critical importance of compliance and ethics. ECRG also acknowledges that successful compliance and risk programs develop organically, with every team member understanding their role in maintaining compliance and mitigating risks to CalPERS.

We trust this report reflects our ongoing dedication to compliance and highlights our efforts to safeguard the system, our members, and our employer partners.

Kevin L. Fein

Kevin L. Fein
Chief Compliance Officer

CULTURE OF COMPLIANCE

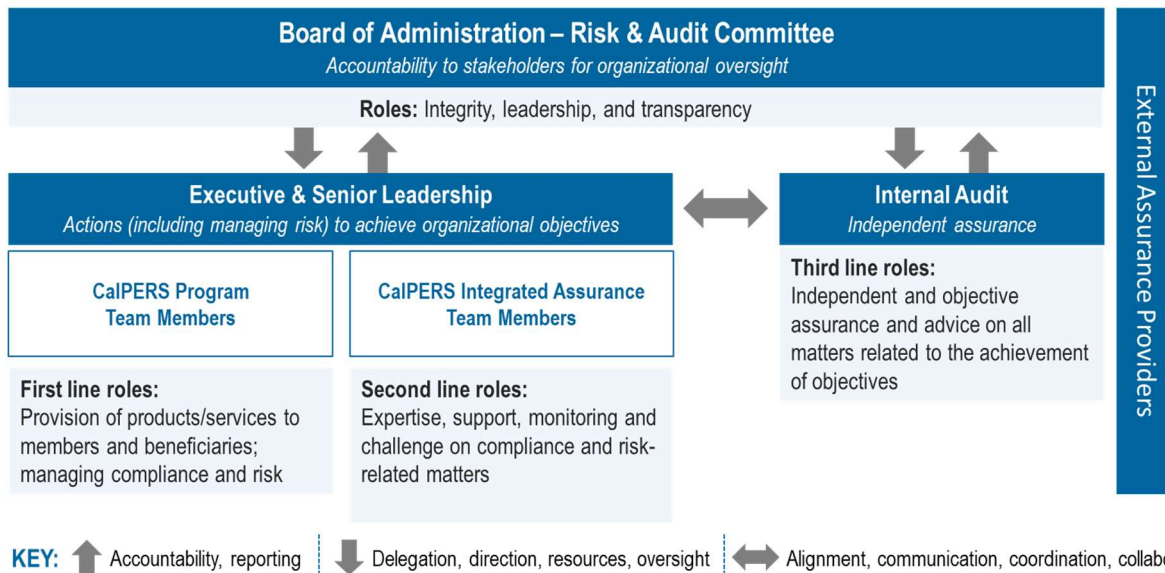
At CalPERS, we are committed to weaving compliance into the fabric of our culture, strategy, and everyday operations. Every initiative and achievement by ECRG is aligned with our organization’s strategic goals and core values.

During FY 2025–26, we advanced our strategic objective of organizational excellence by nurturing a culture rooted in ethical standards and building a risk-aware organization. The program is currently engaged in several multi-year projects designed to modernize our approach to compliance, risk management, and governance practices in the months and years ahead.

INTEGRATED ASSURANCE MODEL: THREE LINES OF DEFENSE

CalPERS has adopted an Integrated Assurance Model to implement our compliance, risk, and governance practices and to promote a multi-faceted approach to compliance awareness and accountability. The model centers on a Three Lines of Defense framework (see Figure 1) emphasizing collaboration and an increased understanding of roles and responsibilities to detect, prevent, and correct instances of non-compliance.

Figure 1: Integrated Assurance Model



Source: Institute of Internal Auditors

First Line of Defense: The first level of the control environment consists of the program areas that perform day-to-day risk management activities. As part of performing daily operations, the program areas are responsible for the design and implementation of internal controls to enhance compliance and

mitigate risks. They are closest to the program operations and have the best insight into actual or perceived risks and have the opportunity to identify and prevent undesired outcomes.

Second Line of Defense: ECRG provides advice, guidance, and oversight of compliance risk management and governance activities. This structure provides increased capability to support the organization in mitigating strategic and operational risks while strengthening the organization's control environment and promoting strong ethical business practices and risk-informed decision-making.

Third Line of Defense: The CalPERS internal audit program provides independent assurance on the effectiveness of governance, risk management, and internal controls. The Office of Audit Services (OFAS) and ECRG participate in a joint, organization-wide risk discussion with leaders. This coordination helps CalPERS develop a shared view of risk across the organization.

The Integrated Assurance Model helps clarify roles and responsibilities and promotes ownership of compliance throughout the organization. Through the Three Lines of Defense, CalPERS encourages a do-the-right-thing culture. By fostering a work environment based on our six core values, CalPERS recognizes that compliance is every team member's responsibility.

FY 2025–26 COMPLIANCE AND RISK INITIATIVES AND HIGHLIGHTS

ECRG's efforts have long been shaped by a range of federal and state compliance standards and regulations. Working collaboratively with partners throughout CalPERS, the ECRG team has continually enhanced the sophistication, reach, and analytical strength of the Compliance and Risk Program. We have also made significant progress in designing and implementing an Enterprise Risk Management Framework that aligns to industry-leading practices within private sector organizations scaled to fit CalPERS' size and complexity.

Conflict of Interest Oversight

Conflict of interest oversight refers to the processes and systems established to identify, manage, and prevent situations where an individual's personal interests could improperly influence their professional decisions or actions. These measures help maintain integrity, transparency, and trust within the organization and externally with CalPERS members and stakeholders.

ECRG continued to lead organization-wide efforts to identify, manage, mitigate, and prevent conflicts of interest involving team members and external entities doing, or seeking to do, business with CalPERS. These oversight activities are carried out in accordance with CalPERS policies and applicable government regulations.

Through collaboration with ECRG, all branches verified that required team members, supervisors, and contractors completed their Statement of Economic Interests, also known as Form 700, helping to identify potential conflicts of interest based on individual disclosures and roles within CalPERS. Additionally, ECRG continued to standardize and refine the Outside Business Activity education and

review process, to ensure that CalPERS Team Members who hold outside business positions comply with conflict-of-interest rules regarding their outside employer.

ECRG matured the investment compliance advisory processes and resources to reinforce team members' understanding of their compliance obligations. Key initiatives included:

- Targeted pre-hire and post-hire onboarding communications for new team members, offering personalized guidance based on their financial interests and CalPERS role
- A concise, one-page resource outlining pre-clearance requirements and strategies to prevent violations, which team members are encouraged to share with their spouses or registered domestic partners
- Increased reporting to first-line leaders, ensuring greater visibility into personal trading activities within their teams

ECRG developed an enterprise-wide third-party decision monitoring program known as the Third-Party Agreement Conflict Check process. The team piloted monitoring certain contractual transactions throughout CalPERS, where ECRG reviewed team member financial interests that have been disclosed to CalPERS against transaction details to identify and prevent potential conflicts. The program involves establishing standardized and repeatable conflicts standards for all contractual decisions as part of CalPERS' enterprise-wide conflicts management effort. This proactive approach aims to identify and address potential conflicts before team members engage in solicitations, further supporting a culture of compliance and risk mitigation.

Monitoring and Assurance

Monitoring and Assurance activities are designed to identify and assess material risks across the organization. Monitoring focuses on utilizing key metric reports to detect patterns, trends, and outliers in critical processes that may signal potential breakdowns or errors, prompting further investigation. Assurance Reviews are targeted, focused evaluations of key controls related to high-risk requirements, ensuring that risks are effectively managed.

CalPERS achieved 99.84% compliance for the 2025 Annual Form 700 filing season and 99.44% compliance for the Annual Personal Trading Attestation period. ECRG also conducted a comprehensive review of all Form 700 submissions — including Assuming, Leaving, and Annual Statements — to ensure full adherence to FPPC regulations, requesting amendments when applicable. CalPERS also consistently achieved a 100% completion rate for Team Leaders who are required to complete a monthly gift disclosure and attestation. As part of this program ECRG provides CalPERS team members with gift and entertainment advice and guidance as well as monitor monthly attestations and disclosures for potential gift-related risks.

The Actuarial Office (ACTO) collaborated with program areas to identify and correct data discrepancies. As part of the annual valuation process, ACTO thoroughly reviewed data records and addressed any

errors, strengthening data integrity and supporting the organization's efforts to identify and assess material risks.

Advice and Education

Educate and cultivate ethical and risk-intelligent practices amongst CalPERS team members by providing advice and consultation on policy and regulatory requirements. Leverage training and educational programs to aid team members in understanding and complying with organization policies, standards, and regulatory requirements.

ECRG advances a risk-aware and ethical culture by delivering targeted risk management, Form 700, and compliance training to new leaders, conducting pre-hire onboarding sessions on compliance requirements, and continued advisory sessions with new hires to reinforce understanding of conflicts of interest rules and ethical standards.

ECRG developed additional educational resources and training to clarify Placement Agent Disclosure regulations for both internal staff and external parties, supporting accurate and effective rule application. Focused training modules on key compliance obligations — including the Incompatible Activities Statement and Code of Conduct — were also enhanced, with required acknowledgements to ensure accountability.

To further raise awareness, ECRG hosted an in-person Compliance and Risk Week, featuring live and recorded training, interactive activities, and direct engagement with staff. This event increased knowledge, visibility of resources, and reinforced ECRG's role as a trusted partner. Additionally, ECRG made it easier for team members to locate and access valuable compliance and risk resources on the CalPERS intranet site by creating the Compliance and Risk Resource Center, a centralized hub designed to provide a single starting point to access compliance and risk tools, policy directories, and timely updates through newsletters and bulletins.

The Human Resources Services Division (HRSD), in partnership with ECRG, implemented an automated integration between the Attorney General's ethics training system and the CalPERS Learning Management System (GoLearn). This automation streamlined compliance tracking, reduced manual effort, and ensured timely completion of mandatory Ethics training for all Form 700 filers. HRSD continued to advance enterprise risk education by managing training assignments, monitoring completion rates, and generating compliance reports in close collaboration with ECRG, thereby maintaining high standards of accountability and regulatory compliance.

Additionally, the CSS team introduced an improved employer education web page, simplifying access to onboarding classes and educational resources. Employer training in Retired Annuitant laws was also updated to help employers maintain compliance.

HPBB also conducted its annual training assessment to ensure all CalPERS users accessing MedInsight complied with information security and HIPAA requirements and facilitated ongoing education through monthly open office hours and annual MedInsight training conducted by Milliman.

Risk Assessment and Mitigation

Identify, assess, and manage risk within CalPERS to aid in ensuring compliance with regulatory requirements, CalPERS policies and standards, and industry best practices.

ECRG, in partnership with ITSB, completed the Risk and Controls Self-Assessment (RCSA) process for that branch, amounting to 32 RCSAs in total. Additionally, ECRG is piloting a maintenance process to strengthen first-line ownership and accountability for ongoing RCSA management.

ACTO partnered with the Retirement Benefit Services Division and Disability and Survivor Benefits Division to develop proactive data queries that help identify and prevent reporting issues, reducing rework and minimizing the risk of incorrect benefit payments.

The Information Security Office (ISOF), in collaboration with ITSB, established a Generative Artificial Intelligence (GenAI) risk assessment framework aligned with California Department of Technology standards, enabling CalPERS to proactively identify and mitigate risks associated with both the procurement of GenAI solutions and the development of internal GenAI capabilities. By systematically evaluating security, privacy, and ethical impacts, this framework supports responsible adoption of GenAI, empowers risk-informed decision-making, protects sensitive and confidential information and facilitates the secure, effective integration of GenAI technologies across CalPERS operations.

In response to a State Personnel Board (SPB) compliance review, the Human Resources Services Division (HRSD) implemented targeted corrective actions to address identified control gaps. Key improvements included enhancing documentation and filing practices for Official Personnel Files, strengthening validation processes for out-of-classification assignment pay differential calculations, and reinforcing approval and documentation requirements for Administrative Time Off (ATO). These actions have strengthened internal controls, ensured ongoing regulatory compliance, and reduced audit risk.

The Customer Services & Support (CSS) team implemented Computron, an AI-powered tool that enhances employer compliance reviews of Memoranda of Understanding (MOUs) and Labor Agreements.

CSS also advanced risk mitigation by enhancing Disability Retirement and Survivor Benefits processes. Key initiatives included developing requirements and plans for online employer registration of local safety disability determinations in myCalPERS, updating disability retirement pages to improve self-service for members and employers, and implementing workflow solutions to increase efficiency. These improvements strengthen internal controls, reduce processing risks, and support regulatory compliance.

HPBB, in collaboration with Milliman and ITSB, updated the IP whitelist for MedInsight access to strengthen system security. The team also completed quarterly and annual audits of users accessing Milliman services, including updated background screening and HIPAA attestations, along with quarterly HITRUST compliance checks, to ensure ongoing compliance and data protection.

OFAS conducted an annual enterprise-wide integrated risk assessment that supports the development of the annual audit plans.

Data Privacy and Protection

CalPERS' ability to manage member and team member data collected lawfully and responsibly and protects the collected data from access or use by unauthorized parties.

ISOF strengthened CalPERS' commitment to data privacy by updating the Privacy Policy, Member and Business Partner Conditions of Use, Privacy Notice, and HIPAA Notice of Privacy Practices. These updates provide clear guidance on the collection, use, and protection of personal information, ensuring compliance with legal requirements and industry standards. ISOF continues to implement proactive measures to prevent unauthorized access and misuse of sensitive data, reaffirming CalPERS' dedication to privacy and security for members, team members, and business partners.

The HRSD Workforce Data and Analytics (WDA) team implemented the HRSD Data Locker — a secure, time-bound platform for sharing confidential HR datasets with authorized CalPERS users. This solution minimizes the risk of unauthorized access, eliminates reliance on email-based file transfers, and strengthens data governance and compliance with information security standards.

Additionally, in partnership with ITSB, WDA is enhancing HR system access controls as part of the Oracle HCM Cloud Migration project. Transitioning to a role-based access model aligned with position numbers, the team is reducing the risk of inappropriate system access, improving alignment between organizational structure and permissions, and enhancing audit capabilities. Continuous monitoring and a comprehensive user access analysis are underway, with full implementation targeted for Summer 2026.

The Strategy, Projects & Data Analytics (SPDA) division ensured the accuracy and protection of Personally Identifiable Information (PII) by gathering and validating data for approximately 40 Public Records Act and external agency requests during the reporting period.

CSS successfully completed a pilot program for the AutoSummary tool, an AI-driven solution designed to enhance the efficiency and accuracy of member account notes while maintaining strict data privacy and protection standards. Following the pilot's success, the tool is being rolled out in phases, with all summaries reviewed and approved by agents to ensure quality and compliance. The process is specifically structured to exclude any PII or PHI, supporting secure handling of member information and reinforcing CalPERS' commitment to data privacy and protection.

HPBB implemented Secure Transfer File Protocol (SFTP) for transmitting monthly health premium deduction files, eliminating the need to transfer member PHI and PII via email. In addition, health plans now securely access monthly direct pay premium reports through myCalPERS, further safeguarding member data. HPBB also developed authorization forms and dashboard attestations for the Health Data Nexus to prevent unauthorized access to sensitive information.

Fraud Risk Management

Process of implementing measures, technologies, and strategies to prevent, detect, investigate, and mitigate fraudulent activities within the organization.

CalPERS continues to strengthen its fraud prevention capabilities through targeted enhancements to detection, response, and member protection. In partnership with the Enterprise Solutions Development Division (ESDD) and the Retirement Benefit Services Division (RBSD), ISOF has implemented an additional detection and prevention mechanism, equipping the Fraud Prevention team with expanded data streams and improved tools to proactively identify and mitigate external threats, thereby reducing risk and safeguarding member assets.

CalPERS has also expanded its fraud prevention strategy through increased education and outreach. ISOF partnered with the Identity Theft Resource Center (ITRC) to deliver presentations on identity protection. In addition, ISOF launched the “Preventing Identity Theft | CalPERS” webpage, which offers comprehensive guidance on securing personal data, recognizing scams, and protecting digital assets.

CSS advanced fraud prevention and risk mitigation by increasing member registrations for myCalPERS Member Self-Service accounts, thereby enhancing account security and safeguarding member information. A comprehensive baseline assessment identified unregistered members across all categories, and a dashboard was implemented to monitor registration trends and target outreach efforts. The team promoted the benefits and security features of myCalPERS through presentations at key events, including the School Employer Advisory Committee Education Day, multiple Employer Leadership Dialogues, and the CalPERS Educational Forum. These targeted efforts improved communication, reduced undeliverable mail, and strengthened fraud prevention, resulting in a measurable increase in registrations.

The CSS team strengthened overpayment prevention by administering annual Benefit Verification checks. Verification letters are now accessible to payees through their myCalPERS accounts, and processing queues have been established to improve operational efficiency and streamline team workflows.

HPBB, in collaboration with the Long-Term Care (LTC) Third-Party Administrator, continued to strengthen fraud risk management by utilizing a Fraud, Waste, and Abuse Detection Tool to analyze LTC claims data for potentially fraudulent activities. Suspected cases are referred to a Special Investigation Unit for further review and escalation to CalPERS as needed. Additionally, the application of an Electronic Visit Verification (EVV) tool enhances the verification of services rendered by LTC independent providers and improves the detection of potential fraud.

Policy, Governance, and Reporting

Establishing CalPERS Policies, conducting governance routines for oversight and awareness at all levels of the management team and Board of Directors, and developing and delivering management reports internal and external as required to support risk processes.

ECRG enhanced conflict of interest oversight and governance by developing a draft Conflict of Interest Management Policy, along with supporting procedures and templates. These resources will clarify CalPERS' expectations, educate team members on identifying and addressing potential conflicts, and outline obligations related to recusal. Additionally, ECRG collaborated with the Financial Office and other stakeholders to create a unified draft Travel Policy, ensuring team members understand their ethical and compliance responsibilities when conducting CalPERS business travel.

HPBB met all timeliness compliance requirements for processing Health Benefit Compliance and Appeals cases in accordance with CCR 599.518 and each carrier's Evidence of Coverage and completed the development and implementation of a new Appeal and Grievance system from Archer to ServiceNow, which will further improve Health Benefit Compliance and Appeals reporting for the CalPERS health branch stakeholders. The new system was deployed in December 2025, 6 months ahead of the initial projected launch date.

INVO led efforts to materially restructure various CalPERS investment policies. These changes were required to implement the Investment Committee's approval of a reference portfolio and active risk limit in lieu of a strategic asset allocation for the Public Employees' Retirement Fund (PERF) and resulted in a clearer and more user-friendly presentation layout.

INVO also reviewed its existing internal governance structures and evolved it through mapping and reviewing the roles of team members. These efforts support the establishment of appropriate monitoring and reporting mechanisms

Compliance and Regulatory Change Management

Identify and implement changes to business processes and practices to maintain compliance with changes in policies or regulations.

The Policy Alignment and Strategic Support (PASS) team collaborated with federal health consultants to monitor and analyze federal legislation, regulations, and policies impacting the CalPERS health program, keeping senior leadership informed and submitting seven comment letters to federal agencies and Congress to advocate for CalPERS priorities. PASS also tracked and analyzed 104 health-related state bills during the 2025 State Legislative Cycle, with six prioritized as Master bills and included in monthly Board reports. The Board voted to support AB 280 and SB 351, with SB 351 successfully chaptered into law.

The conclusion of the 2025 State Legislative Cycle resulted in 38 health-related bills approved and chaptered into law. Six of the bills required implementation steps for the CalPERS health program. PASS collaborated with impacted program areas within the health branch and health plan partners to confirm compliance with the new bill requirements.

HRSD ensured timely compliance with Assembly Bill 692 (Kalra, Chapter 703, Statutes of 2025), which became effective January 1, 2026, and restricts certain "stay-or-pay" provisions in employment contracts and related agreements. Through collaboration with Legal and key stakeholders, HRSD

updated relevant policies and communicated changes across the organization, reinforcing its commitment to fair and legally compliant employment practices.

ACTO, with support from SPDA, proposed regulatory amendments to clarify CalPERS' operational procedures for maintaining risk pools and to refine criteria for rate plans to enter and cease participation in a risk pool, (OAL File Number 2026-0330-02), submitted to the Office of Administrative Law (OAL) in March 2026. The proposed regulatory amendments will enhance the fairness, stability, and sustainability of the risk pool, enabling CalPERS to manage the program more effectively in line with its intended objectives.

ACTO also made substantial progress towards ensuring that all reports meet accessibility requirements in alignment with updated legislation. To date, more than half of all reports have been converted into accessible formats, with the remaining reports scheduled for completion by August 2026.

Third-Party Risk Management

Third-party risk management involves identifying, assessing, and mitigating risks associated with external vendors, suppliers, or partners to prevent their actions from negatively impacting the organization.

HPBB completed a confidential solicitation for a third-party vendor to administer the annual CalPERS Health Plan Member Survey and implemented updated reporting requirements to ensure health plans meet contractual health equity obligations. The team also completed the review of the Measurement Year 2024 Quality Alignment Measure Set for HMO health plans and selected a vendor to conduct a comprehensive Health Program Evaluation.

Additionally, HPBB effectively managed the Milliman contract by completing annual performance evaluations and validating all required contract deliverables.

SUMMARY

CalPERS' Compliance and Risk program is continually advancing, achieving notable progress year after year. The commitment of our compliance and risk team, together with collaboration from internal partners, plays a crucial role in reinforcing CalPERS' dedication to ethical standards and robust internal controls. Managing compliance and risk is fundamental to each of CalPERS' six core values: quality, respect, accountability, integrity, openness, and balance. The ECRG team remains focused on offering guidance as CalPERS pursues a sustainable future rooted in ethics, compliance, and effective risk management.