

2012-2013 PERFORMANCE PLAN – Chief Investment Officer (J. Dear)

All of the terms and provisions of the "CalPERS Compensation Policies and Procedures for Chief Executive Officer, Chief Actuary, General Counsel and Investment Management Positions" are incorporated in this Performance Plan by this reference as if set forth in full.

Investment Performance Measures

Weight	Factor	Investment Performance Measure	Incentive Schedule
50%	Investment Performance: Total Fund	Return deviation in basis points relative to: Total Fund performance versus Total Fund benchmark {SJ1CA1 – CPERSTO2IC} *Cost-adjusted Benchmark	0 basis points = 0 +20 basis points = 1.0 +30 basis points = 1.5
50%	Subtotal	Investment Performance Measures	

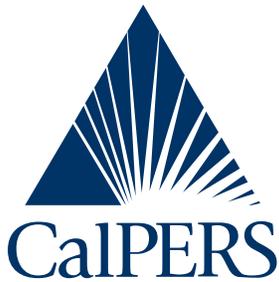
Business Objectives Performance Measures

Weight	Factor	Business Objectives Performance Measure	Incentive Schedule
30%	Business Objectives: INVO Roadmap	<p>By June 30, 2013, implement the objectives set forth for FY 2012-13 in the FY 2012-14 Investment Office Roadmap (Attachment A) to improve INVO's ability to achieve investment returns without exposing the Fund to undue risk.</p> <p>Achieve INVO's priorities in the areas of:</p> <p>Investment Performance</p> <ul style="list-style-type: none"> Improve ability to deliver consistent risk-adjusted investment returns by implementing Roadmap initiatives and Asset Class Strategic Plans. <p>Capital Allocation</p> <ul style="list-style-type: none"> Continue to evolve capital allocation framework from traditional asset based to risk factor based <p>Investment Risk Management</p> <ul style="list-style-type: none"> Establish a comprehensive risk management system and practices to measure, manage, and communicate investment risks to enhance risk adjusted returns of the Fund. <p>Organization, Systems and Controls</p> <ul style="list-style-type: none"> Design, develop and implement a robust target operating model that minimizes complexity, improves transparency, and strengthens processes, systems, governance & controls. <p>Cost Effectiveness</p> <ul style="list-style-type: none"> Enhance cost effectiveness of the investment program to improve net returns on assets. <p>Talent Management</p> <ul style="list-style-type: none"> Enhance our ability to recruit, develop and retain a highly skilled, diverse & motivated team to ensure the success of the Investment Office. 	<p>Significantly Exceeds Standards: 1.5</p> <p>Exceeds Standards: 1.25</p> <p>Meets Standards: 1.0</p> <p>Meets Some, Not All Standards: .5</p> <p>Does Not Meet Standards: 0</p>

2012-2013 PERFORMANCE PLAN – Chief Investment Officer (J. Dear)

Business Objectives Performance Measures (cont.)

Weight	Factor	Business Objectives Performance Measure	Incentive Schedule
20%	Leadership	<p>By June 30, 2013, demonstrate industry and enterprise leadership by directing and influencing action and thought in the following areas:</p> <p><u>Investment Committee/Board:</u> Enable the Investment Committee to make strategic, informed decisions regarding the CalPERS Investment program by:</p> <ul style="list-style-type: none"> Continuing to improve the quality of Board agenda items, including presentations of alternatives and analysis of pros and cons. Develop an ongoing Board education program. In coordination with Board and staff, lead the development of a comprehensive set of CalPERS Investment Beliefs. <p><u>CalPERS Enterprise:</u> Lead collaboration between INVO and CalPERS enterprise functions, including:</p> <ul style="list-style-type: none"> Collaboration with Actuarial Office to develop an integrated Asset Liability management framework. Participate in development of the Financial Office, including implementing joint projects such as Investment Expense reporting. Participate in development of CalPERS new 5-year Strategic Plan, including development of performance measures to measure implementation and progress. <p><u>Investment Office:</u> Continue development of a strong executive team for the Investment Office. Recruit for key positions, including SIO Risk/Asset Allocation, and SPM, Hedge Funds. Develop succession plans for key positions.</p> <p><u>Financial and Pension Industry:</u> Advocate for investor protections, financial market reform and competitive fee structures through leadership roles in industry bodies, such as the SEC's Investor Advisory Committee, and the Institutional Limited Partners Association (ILPA).</p>	<p>Significantly Exceeds Standards: 1.5</p> <p>Exceeds Standards: 1.25</p> <p>Meets Standards: 1.0</p> <p>Meets Some, Not All Standards: .5</p> <p>Does Not Meet Standards: 0</p>
50%	Subtotal	Business Objectives Measures	
100%	Total	Investment Performance and Business Objectives Measures	



Investment Office FY 2012-14 Roadmap



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Investment Office 2012-14 Roadmap Review - Timeline

<i>Item Presented to the Board</i>	<i>Action Taken</i>	<i>Date</i>
Investment Office 2012-14 Roadmap	Presented to the Investment Committee	March 12, 2012

Evolution of the Investment Office Roadmap

During FY 2008-2010, the Investment Office (INVO) managed the impact of the financial crisis while also dealing with placement agent, special review and FPPC investigation issues. During these years, INVO was operating in triage mode. With many of these issues behind us, INVO is now able to plan for the long-term future. The initial stage of the long-term planning was to clarify INVO's purpose, or why we exist. INVO's purpose is to:

1. Enhance the financial security of all who participate in our system;
2. Generate superior-risk adjusted returns;
3. Develop innovative and sustainable investment strategies; and
4. Be a leader among institutional investors worldwide, and be known as an effective and principled investor.

In FY 2010-11, INVO developed its Vision and initial Roadmap. The Roadmap defined the priorities and initiatives for the Investment Office. These early initiatives included identifying key issues facing the organization, developing strategic plans to remedy risks, building a leadership team, developing a new asset allocation framework¹, and achieving significant wins and improvements. INVO started establishing the foundation for major progress.

The FY 2012-14 Roadmap will be the heavy lifting phase for the Investment Office. During these years INVO will substantially implement Roadmap initiatives that are pivotal for the future of our organization. INVO will establish a sustainable organization by building repeatable processes and developing a deep bench of people. The FY 2012-14 Roadmap includes six strategic objectives:

1. ***Investment Performance***
2. ***Capital Allocation***
3. ***Investment Risk Management***
4. ***Organization, Systems and Controls***
5. ***Cost Effectiveness***
6. ***Talent Management***

For each of these strategic objectives, INVO has identified specific, achievable initiatives for the next two fiscal years. The FY 2012-14 Roadmap also includes plans and initiatives for each Asset Class, along with objectives and initiatives for our Global Governance and Targeted Investment Programs.

If we successfully implement our FY 2012-14 initiatives, fiscal years 2014-16 will be where the Investment Office transitions into the continuous improvement phase. Once a solid foundation is established, INVO will be able to continually innovate to adapt to changing market conditions, enhance processes and systems on an ongoing basis, and manage an effective ongoing people development process.

¹ The risk-based asset allocation framework is attached as an appendix.

Investment Office Roadmap “From-To” Statement: What Are We Trying To Achieve?

From	To
Long-term, static asset allocation framework	More dynamic framework, responsive to market conditions
Risks not transparent and understood	Key risks understood and managed
Tactical, asset class-based approaches to building strengths and competencies	Clear sense of our strengths and competencies we want to develop
Bottom up approach to value creation	Integrated strategies for value creation that blend cross-asset class approaches
Lack of common systems, processes and analytics	Clear target operating model – strong operational data, governance, systems and controls
Inconsistent culture and employee experience	High performance culture and quality employee experience
Inadequate reporting systems and data for effective cost management	Automated expense tracking and reporting systems, and improved cost effectiveness



2012-14 Investment Office Roadmap

Investment Office Roadmap Strategic Objectives

Investment Performance	<ul style="list-style-type: none">• Deliver consistent risk-adjusted investment returns.
Capital Allocation	<ul style="list-style-type: none">• Continue to evolve capital allocation framework from traditional asset based to risk factor based.
Investment Risk Management	<ul style="list-style-type: none">• Establish a comprehensive risk management system and practices to measure, manage, and communicate investment risks to enhance risk-adjusted returns of the fund.
Organization, Systems and Controls	<ul style="list-style-type: none">• Design and implement a robust target operating model that minimizes complexity, improves transparency, and strengthens processes, systems, and controls.• Reduce operational risk by developing a risk aware culture with clear metrics and operational risk management processes/governance.
Cost Effectiveness	<ul style="list-style-type: none">• Improve cost effectiveness of the investment program to increase net returns on assets.
Talent Management	<ul style="list-style-type: none">• Enhance our ability to recruit, develop, and retain a highly-skilled, diverse and motivated team to ensure the success of the Investment Office.

Strategic Objective 1 – Investment Performance

Deliver consistent risk-adjusted investment returns

Today (FROM)	(TO) Vision
<ul style="list-style-type: none"> • Asset Class performance focused • Unclear value creation 	<ul style="list-style-type: none"> • Integrated, total-fund, performance approach • Skill-based generation of alpha and beta, focused value creation
<ul style="list-style-type: none"> • Risks are not strategically planned; unintended bets; less intentionality 	<ul style="list-style-type: none"> • Robust risk budgeting for intentional alpha generation
<ul style="list-style-type: none"> • Weak performance attribution capabilities, compounded by poor data quality 	<ul style="list-style-type: none"> • Performance meets targets with drivers of performance and deviation well understood
<ul style="list-style-type: none"> • Less cost awareness and consciousness 	<ul style="list-style-type: none"> • Clear understanding of “end-to-end” cost of delivering an investment strategy. Cost-to-value actively incorporated into investment decision making.

Total Fund Initiatives²

- Standardize processes for external manager and investment partner selection, due diligence, contract negotiation and monitoring

Global Equity Initiatives

- Enhance capital allocation model by incorporating risk budget parameters
- Develop process for evaluating external manager skill and sourcing managers who are accretive to the portfolio on an ongoing basis
- Consolidate MDP, Emerging Manager and existing Fund-of-Fund programs into a more coherent and cost effective structure

Global Fixed Income Initiatives

- Initiate insourcing of international fixed income asset management
- Continue to work with industry on bondholder rights issues

² See the appendix for the “From-To” statements for the asset classes and programs.



2012-14 Investment Office Roadmap

Private Equity Initiatives

- Rebalance and restructure the portfolio using the secondary market to adjust vintage year, geographic and general partner concentration
- Evaluate general partners for long-term relationship potential
- Internalize certain investment management, capital call management, due diligence and underwriting functions
- Leverage CalPERS brand to develop co-investment program and managed accounts

Real Assets Initiatives

- Execute 1st phase of Real Estate Strategic Plan, committing capital to base, domestic tactical and international investments
- Finalize contracts with strategic partners and complete sector plans
- Continue to enhance portfolio analytics and manager monitoring process
- Execute 1st and 2nd year of infrastructure investment in accordance with the strategic plan

Affiliate Investment Programs Initiatives

- Transition certain affiliate assets to external management
- Implement new asset allocations for Long-Term Care Funds and Terminated Agency Pool
- Complete strategic review of Supplemental Income Plan design and investment offerings



2012-14 Investment Office Roadmap

Strategic Objective 2 – Capital Allocation

Continue to evolve capital allocation framework from traditional asset based to risk factor based

Today (FROM)	(TO) Vision
<ul style="list-style-type: none"> • Long-term, static allocation framework 	<ul style="list-style-type: none"> • More dynamic framework, responsive to market conditions
<ul style="list-style-type: none"> • Asset allocation-based framework 	<ul style="list-style-type: none"> • Risk-based asset allocation framework
<ul style="list-style-type: none"> • Capital allocated at asset class level 	<ul style="list-style-type: none"> • Total fund portfolio design to include asset classes, separate alpha strategies (RMARS, opportunistic) and hedges.
<ul style="list-style-type: none"> • Liquidity managed by asset class decisions 	<ul style="list-style-type: none"> • Capital allocation positions better planned & aligned with overall fund liquidity

Initiatives

- Partner with Actuarial Office to develop and implement an integrated asset liability management framework
- Implement multi-asset class strategic partnerships (MAC Partners)
- Establish rebalancing rules and a repeatable rebalancing process for the Total Fund
- Reevaluate currency hedging strategy and bring a recommendation to the Investment Committee
- Finalize the role of hedge funds and the source of capital and benchmark for the hedge fund program

Strategic Objective 3 – Investment Risk Management

Establish comprehensive risk management system and practices to measure, manage and communicate investment risks to enhance risk-adjusted returns of the fund

Today (FROM)	(TO) Vision
<ul style="list-style-type: none"> Dated risk system and tools for total fund 	<ul style="list-style-type: none"> State of the art RMS, with better tools & more functionality (private assets, scenario testing, what if's & risk attributions)
<ul style="list-style-type: none"> No consistent risk framework for investment decisions 	<ul style="list-style-type: none"> Use of robust investment processes to include risk considerations at asset class, portfolio & transaction levels
<ul style="list-style-type: none"> Investment policies and parameters defined by asset classes – no independent risk review 	<ul style="list-style-type: none"> Risk review by Asset Allocation/Risk Unit prior to policy approval (standard setting & risk ownership)
<ul style="list-style-type: none"> Less transparency with total fund and asset class risk 	<ul style="list-style-type: none"> More transparency (risk reporting & enhanced metrics to Investment Strategy Group & Board)
<ul style="list-style-type: none"> Risk Budgeting – Limited Risk Budgeting 	<ul style="list-style-type: none"> Enhance Total Fund Risk Budgeting and expand to Asset Classes

Initiatives

- Successfully recruit for a new Senior Investment Officer of Risk and Asset Allocation
- Develop more focused and timely investment performance reporting and analysis
- Improve the investment decision making process by providing risk management analytics to the Investment Strategy Group, Investment Committee, and investment teams
- Enhance counterparty risk measurement and monitoring

Strategic Objective 4 – Organization, Systems and Controls

Design, develop and implement a robust target operating model that minimizes complexity, improves transparency, and strengthens processes, systems, governance and controls

Today (FROM)	(TO) Vision
<ul style="list-style-type: none"> Unknown operating risk exposure due to inefficient legacy, asset-based approach geared toward specialized, siloed investment strategies 	<ul style="list-style-type: none"> Efficient, scalable, best-of-breed operating model with clear understanding of controls and risks
<ul style="list-style-type: none"> Fragmented & incomplete data and infrastructure; impossible to aggregate information for timely investment management and decision making 	<ul style="list-style-type: none"> Integrated data and systems for efficient, timely decision making driving superior investment performance
<ul style="list-style-type: none"> Unnecessary complexity for the value derived 	<ul style="list-style-type: none"> Appropriate blend of simplicity and complexity
<ul style="list-style-type: none"> Obscured accountability and unclear organizational structure and roles 	<ul style="list-style-type: none"> Transparent organization structure, roles & processes for clear accountability
<ul style="list-style-type: none"> No INVO wide governance structure and processes for managing operating risk 	<ul style="list-style-type: none"> Implement a governance structure, process & tools to better manage operating risk
<ul style="list-style-type: none"> No culture of continuous improvement to improve controls and reduce operating risk 	<ul style="list-style-type: none"> Strong, positive culture to identify and act upon operating risk with clear processes to address risks

Initiatives

- Implement PM² – Global Equity portfolio management system and investment book of record
- Define requirements and evaluate solutions for private equity accounting and data platform
- Implement clearing for OTC Derivatives transactions
- Implement investment policy compliance monitoring process
- Support personal trading compliance implementation
- Implement new Conflict of Interest policy and process
- Implement recommendations of the INVO Operational Delegation Rapid Results Project
- Restructure pool contracts and align contract terms and conditions with services



2012-14 Investment Office Roadmap

Strategic Objective 5 – Cost Effectiveness

Improve cost effectiveness of the investment program to increase net returns on assets

Today (FROM)	(TO) Vision
<ul style="list-style-type: none"> Limited cost awareness and governance at Asset Class level and organization level 	<ul style="list-style-type: none"> More sophisticated financial management and governance structure that incorporates pervasive cost awareness at asset class and organization level
<ul style="list-style-type: none"> Inadequate reporting systems and data for effective cost management 	<ul style="list-style-type: none"> Better tracking & reporting systems and improved data management
<ul style="list-style-type: none"> Difficult to compare cost performance against relevant peers 	<ul style="list-style-type: none"> Outperformance of relevant peers per unit of value
<ul style="list-style-type: none"> Lack of flexibility to drive best cost/ value proposition 	<ul style="list-style-type: none"> Greater flexibility to manage resources in the best interest of the fund and drive cost to value
<ul style="list-style-type: none"> Siloed budget structure; individual asset class allocation of resources 	<ul style="list-style-type: none"> Coordinated budget process and resource allocation across INVO, within the context of INVO's overall priorities

Initiatives

- Complete pilot of the INVO expense capture and reporting project
- Continue to focus on reducing external management fees, taking full advantage of CalPERS size and brand. Reduce use of fund-of-funds and other higher-cost commingled vehicles
- Improve financial systems to enable automated, periodic reporting of total cost to manage the portfolio

Strategic Objective 6 – Talent Management

Enhance our ability to recruit, develop, and retain a highly-skilled, diverse and motivated team to ensure the success of the Investment Office

Today (FROM)	(TO) Vision
<ul style="list-style-type: none"> Perceived gap between INVO’s skill set versus the norms for an investment organization. 	<ul style="list-style-type: none"> Clear inventory of required skills and our required skill set, followed by active closing of key gaps and migrating to a more mature organization and culture
<ul style="list-style-type: none"> Performance management and compensation program motivate employees to focus on investment performance only – with limited reference to business objectives supportive core values 	<ul style="list-style-type: none"> Performance management and compensation program encourage staff to focus on investment results, business objectives AND core values supportive of INVO’s improvement initiatives
<ul style="list-style-type: none"> Lack of skill development and enhancement for staff; not enough focus on coaching, leadership and technical training, and mentorship opportunities 	<ul style="list-style-type: none"> Staff have viable, motivating career paths, with purposeful coaching and developmental opportunities
<ul style="list-style-type: none"> Fragmented recruiting process and competitive challenges impact our ability to hire the most qualified, talented candidates 	<ul style="list-style-type: none"> An effective outreach and recruitment effort that incorporates a clear, consistent articulation of our unique value proposition for why people should join and stay with the CalPERS Investment Office
<ul style="list-style-type: none"> Job families and incentive plan do not allow for appropriate alignment of skills/competencies with job requirements 	<ul style="list-style-type: none"> Job families and incentive plan properly align with required skills and support INVO’s strategic objectives

Initiatives

- Complete organization design and classification study; implement high priority recommendations
- Fully implement talent development framework
- Build training and financial literacy strategy for the Investment Office
- Develop and implement broad outreach and recruitment strategy

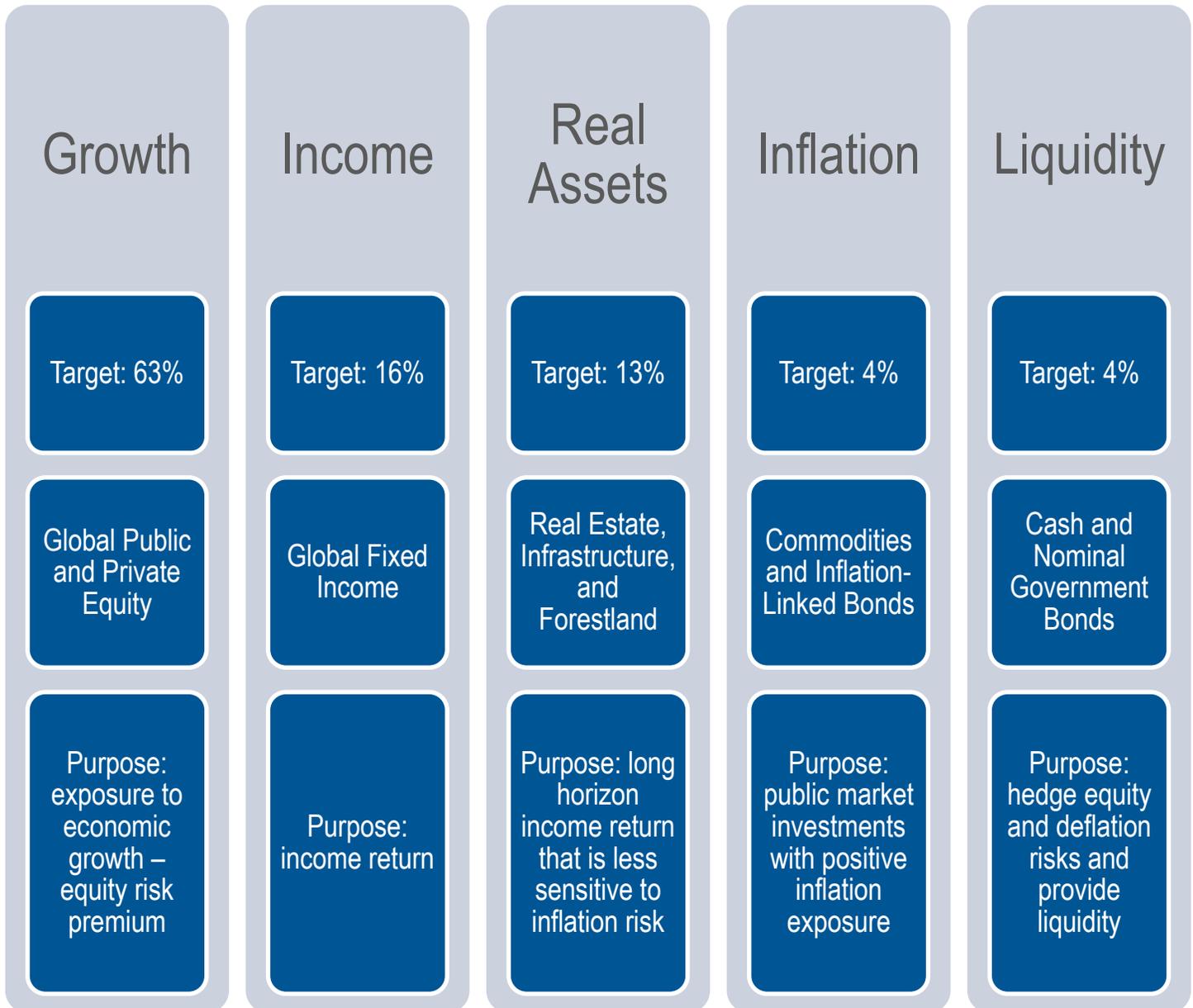
Global Governance and Targeted Investment Programs

Objective: Ensure CalPERS acts as an effective and principled investor by advocating corporate governance and financial market reform, leading efforts to integrate environmental and social risks into investment decision making, and effectively engaging with portfolio companies and stakeholders

Initiatives

- Implement top priorities in Environmental, Social, and Governance (ESG) Integration Plan
 - Total Fund report on ESG
 - Portfolio wide statement of Principles on Sustainability
 - Rationalization of ESG initiatives
 - Expectations document on ESG for internal and external managers
 - Review of evidence on ESG impact on investment risk and returns
- Hold board workshop on ESG investment beliefs
- Draft a five year plan to provide opportunities for participation of emerging investment managers across all asset classes
- Improve reporting on the performance and cost of the investment emerging manager programs
- Implement Infrastructure outreach plan
 - Hold four roundtable discussions on opportunities and barriers to pension system investment in infrastructure projects
- Continue to engage with portfolio companies and regulators on governance and financial market reform

Appendix: Risk-Based Asset Allocation Framework



Appendix: Asset Class and Program “From-To” Statements

Global Equity	
Today (FROM)	(TO) Vision
<ul style="list-style-type: none"> • Asset class performance focused • Unclear value creation 	<ul style="list-style-type: none"> • Integrated, total-fund, performance approach • Skill-based generation of alpha and beta, focused value creation
<ul style="list-style-type: none"> • Risks are not strategically planned; unintended bets; less intentionality 	<ul style="list-style-type: none"> • Robust risk budgeting for intentional alpha generation
<ul style="list-style-type: none"> • Weak performance attribution capabilities, compounded by poor data quality 	<ul style="list-style-type: none"> • Performance meets targets with drivers of performance and deviation well understood
<ul style="list-style-type: none"> • Less cost awareness and consciousness 	<ul style="list-style-type: none"> • Clear understanding of “end-to-end” cost delivering an investment strategy. Cost-to-value actively incorporated into investment decision making

Global Fixed Income	
Today (FROM)	(TO) Vision

Private Equity	
Today (FROM)	(TO) Vision

2012-14 Investment Office Roadmap

Real Assets	
Today (FROM)	(TO) Vision
<ul style="list-style-type: none"> Portfolio underperformance 	<ul style="list-style-type: none"> Consistently meeting the benchmark over sustained rolling 3 year periods
<ul style="list-style-type: none"> Disconnected capital allocation 	<ul style="list-style-type: none"> Annual allocation process integrated with the Total Fund
<ul style="list-style-type: none"> Risks not transparent and understood 	<ul style="list-style-type: none"> Key risks understood and managed
<ul style="list-style-type: none"> Lack of common systems, process, and analytics 	<ul style="list-style-type: none"> Clear target operating model with strong data controls, governance and systems
<ul style="list-style-type: none"> Inadequate reporting system and data for effective cost management 	<ul style="list-style-type: none"> Understand costs of business model and outperform relative to peer group per unit of value
<ul style="list-style-type: none"> Inconsistent culture & employee experience 	<ul style="list-style-type: none"> Consistent delivery of unique value proposition to employees

Affiliate Investment Programs	
Today (FROM)	(TO) Vision
<ul style="list-style-type: none"> 	<ul style="list-style-type: none">
	<ul style="list-style-type: none">
	<ul style="list-style-type: none">
<ul style="list-style-type: none"> 	
<ul style="list-style-type: none"> 	<ul style="list-style-type: none">

Global Governance	
Today (FROM)	(TO) Vision
<ul style="list-style-type: none"> Inconsistent and partial reporting on CalPERS ESG initiatives 	<ul style="list-style-type: none"> Total Fund report, "Towards Sustainable Investment"
<ul style="list-style-type: none"> Multiple guidelines on ESG across asset classes and ESG initiatives/programs 	<ul style="list-style-type: none"> Total Fund Principles on Sustainability & agreed list of priority ESG initiatives
<ul style="list-style-type: none"> Varied internal and external manager expectations on ESG 	<ul style="list-style-type: none"> Total Fund ESG expectations document for internal and external managers
<ul style="list-style-type: none"> Lack of consensus on the evidence linking ESG factors to performance 	<ul style="list-style-type: none"> Definition and analysis of ESG and its impact on risk and return
<ul style="list-style-type: none"> Financial market reform priorities focused on U.S. capital markets 	<ul style="list-style-type: none"> Advancing reform priorities in global capital markets based on investment exposure
<ul style="list-style-type: none"> Unstructured process for managing CalPERS institutional relationships 	<ul style="list-style-type: none"> Prioritizing, monitoring, and advancing CalPERS leadership through relationships
<ul style="list-style-type: none"> Domestic Focus List program 	<ul style="list-style-type: none"> Monetized global Focus List program

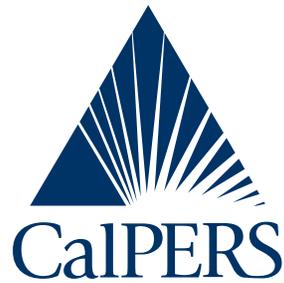


2012-14 Investment Office Roadmap

<i>Targeted Investment Programs</i>	
Today (FROM)	(TO) Vision
Asset class focused	Asset class focused
Unclear value creation	Unclear value creation
Unplanned and unintended strategies and outcomes	Unplanned and unintended strategies and outcomes
Poor performance data and attribution	Poor performance data and attribution
Low awareness of cost	Low awareness of cost



2012-14 Investment Office Roadmap



For more information about the INVO Roadmap, visit CalPERS On-Line at www.calpers.ca.gov or call INVO at (916) 795-3400.



Michael C. Schlachter, CFA
Managing Director & Principal

June 5, 2012

Mr. Dan Dunmoyer
Chair, Performance and Compensation Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: 2012-2013 Performance Plans for Chief Investment Officer

Mr. Dunmoyer,

You requested our comments regarding the proposed incentive compensation plan for the Chief Investment Officer for fiscal year 2013.

As we note in our letter concerning the overall changes proposed for the coming fiscal year contained in another agenda item, the proposed plan for the CIO reduces the weight for the Total Fund investment performance factor from 70% to 50%. Given the on-going impact of some legacy performance issues in the portfolio, this change can have a meaningful impact on the CIO's award in 2013.

The weighting for qualitative factors was increased by that 20% and, as discussed in our other letter, clearer criteria and standards have been set for these factors.

We have always believed that the CalPERS CIO position is as much (or more) an administrative / executive position as it is a day to day investment position. At its heart, the CalPERS CIO's job is to make sure that the Investment Office has the right people, resources, strategy, etc. to allow CalPERS to succeed over long periods of time.

As a result, by decreasing the performance factors and increasing the weight to more explicitly expressed qualitative factors, this performance plan better reflects Wilshire's perception of the true nature of the CIO's actual role within CalPERS than a plan which is heavily or exclusively based simply on investment performance.

We also note that many of the legacy performance issues which continue to impact the Total Fund performance factor for all employees were initiated prior to the current CIO joining CalPERS and that the CIO has been unduly penalized for their continued impact on the portfolio. The proposed change in weightings will still have a meaningful impact



from performance but will also allow the CIO to be better rewarded for improving the overall Investment Office.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink, appearing to read 'Michael A. ...'.