



Agenda Item 6

June 11, 2012

ITEM NAME: Summary of FY 2012-13 Performance Plans for Investment Management Positions

PROGRAM: Administration

ITEM TYPE: Information

EXECUTIVE SUMMARY

The Board's Performance and Compensation Committee approves performance goals and measures for the Chief Investment Officer. With the adoption of recent Board Governance changes adopted from the Board's Governance Study, the Chief Investment Officer will review and approve the goals and measures for performance plans for Investment management staff, other than the Chief Investment Officer.

This agenda item presents an overview of the FY 2012-13 Performance Plans for the Investment Management positions and outlines the changes that will be reflected for the coming fiscal year. These changes will be applied to the plans of the Chief Operating Investment Officer (COIO), Senior Investment Officer (SIO), Senior Portfolio Manager (SPM), and Portfolio Manager (PM) positions (collectively, "investment management staff").

BACKGROUND

In 2010, the Performance and Compensation Committee conducted a Performance Compensation Redesign project that assessed the structure and weightings of the performance plans for investment management staff and implemented plan design changes. The major changes were:

- Increased Total Fund quantitative measure for most positions;
- Migrated to a rolling three-year measurement period for the Quantitative performance measures;
- Provided the Board of Administration broader latitude to defer, reduce, or eliminate performance awards when conditions warrant;
- Provided the Board of Administration discretion to seek repayment of performance award, plus interest, if after investigation a determination that a policy violation has occurred;
- Granted additional Special Pay and Appointment Consideration authority, to include Retention Differential for Investment Management positions (Sunset date of June 30, 2012).

Performance plans for investment management staff have historically consisted of a mix of quantitative measures generally tied to portfolio benchmarks, and qualitative measures tied to key leadership activities and priorities for the fiscal year. The quantitative and qualitative measures include Total Fund, Asset Class and Individual Portfolio weightings as well as Organizational Leadership and Individual measures, and are modified to reflect the key priorities and expected outcomes for the fiscal year.

ANALYSIS

Over the past three years the Investment Office has developed and refined its Roadmap, which is a multi-year strategic plan to create an organization focused on improving investment performance while mitigating investment and operational risk. Since FY 2010-11, the Roadmap has been incorporated into the Investment Office's qualitative performance measures.

Historically, the Roadmap represented only a small portion of investment management staff's performance plans, because it was included in an Organizational Leadership measure which contained Enterprise-wide Leadership and Management drivers, Investment Office Leadership and Management drivers, and Team Participation-Cross Asset Class Collaboration drivers. In order to accurately reflect the significant amount of resources dedicating effort over and above core workload to Roadmap initiatives, the proportion of the performance plan allocated to the Roadmap will be significantly increased for FY 2012-13.

One of the Roadmap strategic objectives is Talent Management. As one of its Talent Management initiatives, the Investment Office developed a Performance Expectations Guide to more clearly and consistently communicate performance expectations to investment management staff. The INVO Performance Expectations Guide, as listed in Attachment 1, defines key competencies expected of investment management staff and establishes performance rating criteria for each competency. Competencies were identified for both results and behavior, including Problem Solving/Delivery, Job Knowledge, Quality, Communication/Collaboration, Adaptability, and the CalPERS Core Values. The INVO Performance Expectations Guide provides investment management staff with a better understanding of what is considered "meets" vs. "exceeds" vs. "outstanding" performance. It will enable more consistent evaluation of staff across INVO. It is also intended to drive cultural change within INVO, by clearly communicating to investment management staff that how results are achieved is just as important as what results are achieved. The INVO Performance Expectations Guide is applicable to investment management positions covered by the Executive Compensation Plan and not to Rank and File staff.

As a result of the Roadmap and Talent Management efforts, the Investment Office performance plans are being restructured to more closely align with the desired business results and cultural change. Specifically, the following are expected:

- **Investment Performance:** Deliver target investment performance;
- **Business Objectives:** Achieve business objectives as outlined in the INVO Roadmap and asset class/program plans;
- **Performance Expectations:** Demonstrate key competencies related to results and behavior, while accomplishing investment performance and business objectives.

Individual performance plans will be structured as relevant for each position. Depending on the position level, performance plans will have Total Fund, Asset Class, and Individual performance measures as outlined below. Attachment 2 provides more detail on the FY 2012-13 Performance Plan weights.

Investment Performance Measures

The Investment Performance measures will focus on investment returns and include the following measures for the noted investment staff:

- **Total Fund Investment Performance:** Applicable for all investment management positions in INVO
- **Asset Class Investment Performance:** Applicable for all investment management positions in a specific Asset Class
- **Individual Portfolio Performance:** Applicable for SPMs and PMs who directly manage a portfolio

Business Objective Measures

The Business Objective measures will focus on mitigating investment and operational risk through the implementation of the Investment Office Roadmap, and asset class/program plans, and consist of the following measures:

- **Total Fund (INVO Roadmap objectives):** Applicable to all investment management positions in INVO;
- **Asset Class/Program (specific asset class or program objectives):** Applicable to all investment management positions in the asset class/program;
- **Individual (specific objectives for each individual):** Applicable to each individual, reflecting what they are directly accountable for delivering.

The Business Objective measure will contain language related to the INVO Performance Expectations Guide, which will account for 50% of the Individual rating. For SIOs, their individual rating will also include the CalPERS Leadership Expectations established by the CEO and CalPERS Executive Team.

INVO Staff assessed all proposed changes against the CalPERS Global Principles of Accountable Corporate Governance in order to ensure the proposed compensation structure aligns with corporate governance best practices regarding linking compensation to business strategy, long-term performance and risk hurdles. The plan is substantially consistent with best practices; a table highlighting staff's findings is shown in Attachment 3.

Staff also reviewed the proposed changes with Wilshire Consulting, the Board's primary investment consultant. In accordance with the Compensation Policies and Procedures, their Opinion Letter is included as Attachment 4.

Attachments:

- 1 - INVO Performance Expectations Guide
- 2 - FY 2012-13 Performance Plan Weights
- 3 - CalPERS Compensation Plan vs. CalPERS Governance Principles
- 4 - Opinion Letter from Wilshire Consulting

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