

2012-13 – 1st QUARTER STATUS REPORT – Chief Executive Officer (A. Stausboll)

Quantitative Performance Measures

Total Fund Performance

Weight	Performance Measure	Incentive Schedule	1 st Quarter Status
5%	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	+21 bps {11.23 -11.02}

Qualitative Performance Measures *(All performance measures utilize standard Qualitative incentive schedule unless otherwise noted)*

Business Plan / Enterprise Objectives

Weight	Performance Measure
55%	By June 30, 2013, implement the objectives set forth for 2012-13 in the Board approved 2012-14 Business Plan to achieve the enterprise priorities in the areas of: <ul style="list-style-type: none"> Leading in Retirement Security and Health Care Serving our Customers: Today and Tomorrow Building Internal Strength

1st Quarter Status:

(Note, this report follows the format in the original 2012-14 Business Plan. Now that the Business Plan has been realigned to the new five-year Strategic Plan, future reports will align to the Strategic Plan.)

Leading in Retirement Security and Health Care

Retirement Security

- Following the Legislative Conference Committee action on pension reform in late August 2012, staff issued a Preliminary Analysis of the pension reform proposal as well as a cost analysis. This followed months of technical assistance and support to the legislature, administration, and interested stakeholders. We prepared for and held a Special Board Meeting and issued a Statement on the proposed reform. Since enactment of the Public Employees Pension Reform Act (PEPRA), which is effective January 1, 2013, we have developed an implementation plan, addressed numerous questions of interpretation, and prepared extensive materials for stakeholders.
- During this quarter, municipal bankruptcy has become a visible and significant issue. We have engaged outside counsel and are vigorously representing the System in the pending proceedings. We have instituted regular Board briefings and issued a public statement at the September 2012 Board meeting. We scheduled briefings for stakeholders on issues related to potential bankruptcy and terminated agency pools.
- At the July Offsite, staff presented to the Board the proposed Asset Liability Management Framework. This presentation was the culmination of many months of collaboration between the Investment and Actuarial Offices. The Framework provides a mechanism for the Board to set risk thresholds for asset liability management, and a follow-up workshop will be presented at the January 2013 Offsite.

Health

- We developed the Requests for Proposal for PPO and HMO procurements, and these procurements are on schedule for release in the Fall of 2012.
- We successfully obtained passage of AB 2142 (Furutani) which allows the Board to risk adjust health premiums.
- We also made progress in stabilizing the Long Term Care (LTC) program. We completed a review of the LTC investment portfolio, and in September 2012, the Board approved a revised discount rate for the program, and the portfolio is being restructured accordingly. Staff also developed plans for stabilizing rates and reopening the program and these issues are scheduled for discussion and action at the Pension and Health Benefit Committee.

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Serving Our Customers

- Release 1 for my/CalPERS Member Self Service (MSS) was successfully launched on July 29, 2012. This release provides real time account detail, open enrollment health plan changes for retirees, secure messaging, and a new education resource area. Release 2 remains on schedule for release in October.
- Staff developed a comprehensive three-year roadmap for Customer Service Delivery Transformation, which is scheduled for presentation to the Pension and Health Benefits Committee in October 2012.
- We continued to address the backlogs and customer service issues generated by the initial launch of the my|CalPERS system. Average Call Wait times were reduced from 12 minutes at the end of the 2011-12 FY to 10 minutes in August 2012. As we entered the annual Open Enrollment period in September, we did see a temporary increase. In addition, during this quarter the death benefit backlog was eliminated.
- The Actuarial office developed components for the annual valuations on Sensitivity Analysis and Termination Liabilities. These components will be included in all valuations published this year and will provide a valuable risk management tool for our employers.

Building Internal Strength

Several steps were taken this quarter to cultivate a high performing, risk intelligent, and innovative organization. These include the following:

- A new five year Strategic Plan was finalized and approved by the Board in August 2012. (See more detail below.)
- The following key positions were filled: Deputy Executive Officer, Operations and Technology; Chief Compliance Officer; and Chief of Center of Innovation. We also filled the Chief Financial Officer Position and the individual will begin with CalPERS on November 15, 2012.
- The Personal Trading Regulations were approved by the Board and are on track for adoption prior to the end of the calendar year, to facilitate the planned January 1, 2013 implementation date.
- Several Diversity and Inclusion (D&I) projects were launched: we hosted a successful quarterly D&I brown bag event – with a focus on generational diversity; the first of four D&I Professional Development events was held; and the newly launched web-based D&I professional development resource and training is on line and being utilized.
- Two Human Resources projects were successfully developed and launched – the Human Capital Management PeopleSoft Upgrade, and an Automated On-Line Application tool. Both will facilitate enhanced recruitment and hiring processes.
- With the Chief for the new Center of Innovation in place, we have begun to operationalize the division.

Leadership

Weight	Performance Measure
30%	<p>By June 30, 2013</p> <ul style="list-style-type: none"> • Continue to develop and implement communication and advocacy programs, and increase the visibility of the Executive Team in the media and within the industry, to educate stakeholders and influence pension, health, and financial market policies. • Obtain approval of a new five-year Strategic Plan, develop performance metrics to measure implementation and progress, and develop and implement a communication plan to foster an understanding among stakeholders and staff of the Plan. • Continue to lead and develop internal cultural communication and initiatives, including administering an organizational health survey, that support core values and foster a diverse and inclusive workforce. • Continue to work with the Board President to enable the Board to make informed and strategic decisions by enhancing the Board and Committee agenda planning process and content, and ensuring the effective and efficient flow of pertinent information. • Meet the Leadership Expectations in the CalPERS Executive Leadership Expectations Guide.

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Strategic Plan

After a nine month planning process, in August 2012 the Board approved a new five-year Strategic Plan. This is an important milestone for CalPERS. The Plan includes new Vision and Mission Statements, which provide focus and clarity for the entire organization. In addition the Plan includes three overarching Strategic Goals that cross traditional business lines; this integrated approach sends an important message that by walking together we will build a stronger organization. Since adoption of the Plan, we have realigned the 2012-14 Business Plan with the Strategic Plan, and this work was presented to the Finance and Administration Committee in October 2012. We are now working on identifying target performance measures. This is a challenging task that will take several months and will be conducted in collaboration with the Board.

Stakeholder Relations. During this quarter, the Executive Staff and Division Chiefs presented at various pension policy forums, reaching hundreds of attendees. We continued outreach to the members of our Ambassador Program, which now exceeds 600, and we completed our annual retirement fairs. Our social media presence continues to grow, with 3894 Facebook Likes and 4876 Twitter followers. In this quarter, we had over 550 media mentions; 13 percent were positive, 63 percent were neutral, and 24 percent were negative. Extensive planning was conducted for the Annual Employer Conference scheduled for October, including adjustment to account for the new Pension Reform Legislation.

Internal Culture and Communication

In September we held a series of four All-Staff Forums. This event was designed to acknowledge staff for their accomplishments in 2011-12. All sessions were well attended; tabulation of survey results is not complete but the ad hoc feedback has been very positive. During this quarter we held two other all staff events – the annual Ice Cream Social in August, and a recognition event on the anniversary of the launch of my/CalPERS. I continue to speak regularly at staff training sessions and events, including New Employee Orientation and Leaders Training, as well as staff meetings and forums. Other communication vehicles include Keeping You in the Know, the CEO Mailbox, CalPERS in the News (which has been very favorably received by staff), and the Executive Is In Booth. We are currently developing an organizational health survey for release in early 2013.

Board Governance

The Board's self-assessment was conducted in connection with July Offsite and a full presentation was made at the Governance Committee in August 2012. As follow-up, Committee Chair training was scheduled for October 2012. Other follow-up activities are also underway. Fiduciary Training is scheduled for December 2012 and numerous other educational workshops (including, e.g. risk training modules, an actuarial workshop, contact center workshop, and investment workshops) have been scheduled.

Succession Planning

Weight	Performance Measure
5%	By June 30, 2013, in coordination with the Board, conduct ongoing succession planning for the Chief Executive Officer and Chief Investment Officer positions: <ul style="list-style-type: none"> • Identify leadership gaps and ensure existing development plans are adequate to meet the organization's future needs • Identify and conduct professional development opportunities for CalPERS Executive leadership team that foster accountability, creativity, and professional growth • Develop transition and recruitment plans as necessary

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I am working with the Human Resources Division Chief and the Board to develop a succession planning framework and process for the CEO and CIO positions. Initial materials for discussion were provided to the Board in October 2012. I intend to continue to engage the Board in November and December, and a full status report is scheduled for the January 2013 Offsite. Simultaneously, the Human Resources Division is developing a broader plan to address succession planning for the full Executive level. This will also be covered at the January 2013 Offsite.

Chief Financial Officer On-Boarding

Weight	Performance Measure
5%	By June 30, 2013, retain and on-board the Chief Financial Officer: <ul style="list-style-type: none"> • Ensure successful transition with Board, Executives, Staff and external stakeholders • Identify needs for additional infrastructure for the Financial Office (both Fiscal and Risk, Compliance & Ethics), develop roadmap for implementation, and begin implementation • Establish and implement CFO's role in Asset Liability Management • Develop enhanced reporting to Board on enterprise financial issues

1st Quarter Status:

Following a comprehensive recruitment, an offer has been extended and accepted, and our new Chief Financial Officer is scheduled to assume her post at CalPERS on November 15, 2012. Extensive onboarding materials have been prepared, and the Executive Team as well as the Fiscal Team look forward to the transition. Staff has worked hard to develop a foundation and preliminary infrastructure from which the new CFO can begin her work. During this quarter progress was made in developing the infrastructure for the new Financial Office; this included developing a proposed structure for a cash management group. Staff also developed preliminary proposed reports and systems for various functions including cash management, monthly internal financial reporting, and improved tracking of investment expenses.