

2012-14 Investment Office Roadmap Update

Joe Dear
Chief Investment Officer

December 10, 2012

Agenda

- Investment Office Strategic Priorities
- Roadmap Evolution
- INVO Roadmap Progress
 - Performance
 - Plumbing
 - People

CalPERS Investment Office Strategic Priorities

- ➔ Performance: Achieve our target rate of return without exposing the fund to the undue risk of major drawdown
- ➔ Plumbing: Develop and implement the systems, controls, and processes necessary to assure the integrity of operations
- ➔ People: Ensure that we have the right number of people with the right skills to enable investment performance improvement and control of operations

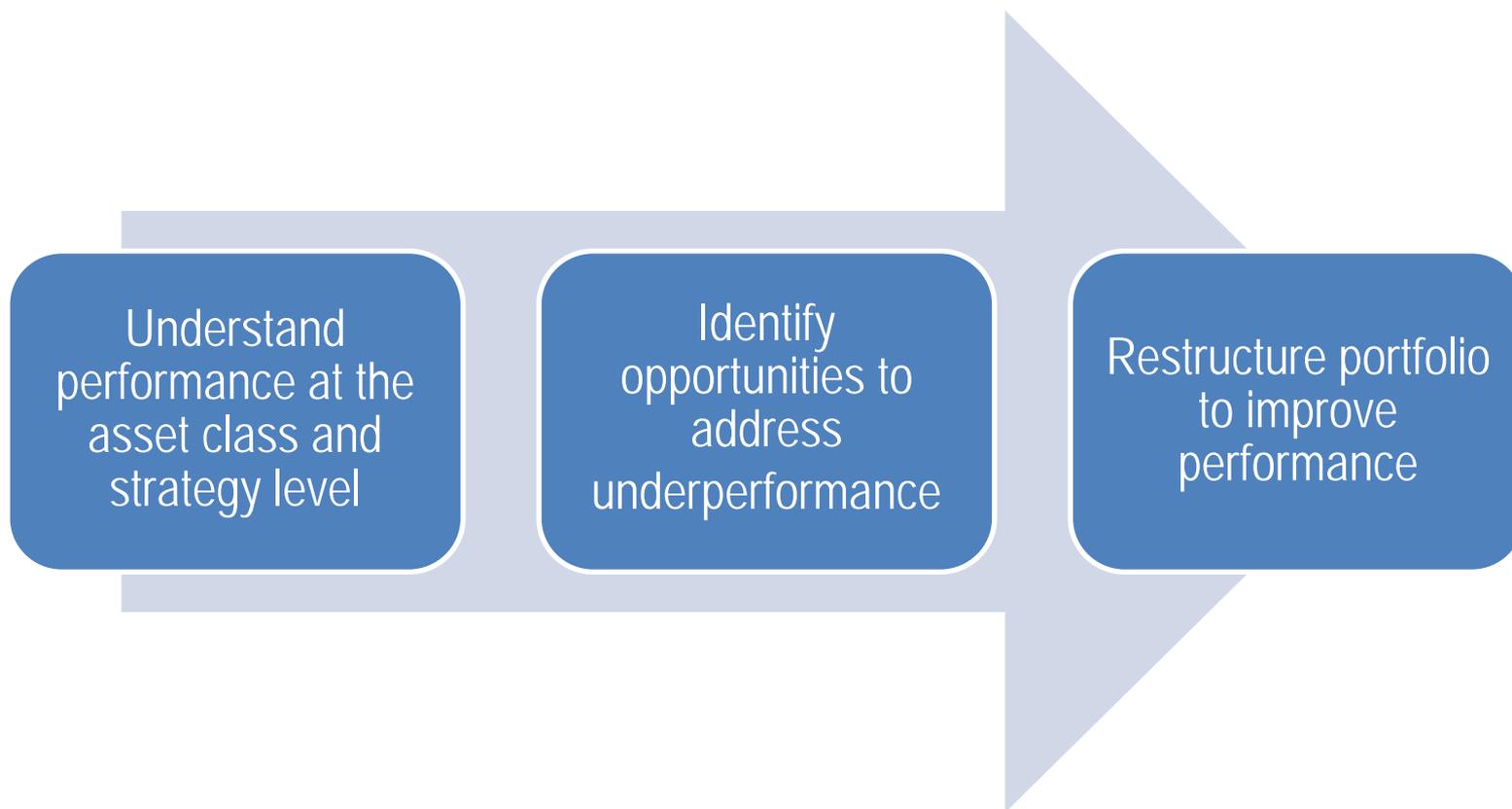
Our Strategic Priorities – Investment Office Roadmap



INVO Roadmap Evolution – Where We Are Today

2008 – 2010 “Triage”	<ul style="list-style-type: none">• Manage impact of the financial crisis• Ensure liquidity and mitigate immediate risks• Manage placement agent, special review and FPPC investigation issues
2010 – 2012 “Establish Foundation”	<ul style="list-style-type: none">• Develop INVO Vision and Roadmap• Identify issues and develop strategic plans to remedy• Build leadership team and restructure organization• Develop new asset allocation framework• Achieve significant wins and improvements
2012 – 2014 * “Heavy Lifting”	<ul style="list-style-type: none">• Substantially implement Roadmap initiatives• Establish sustainable organization – build repeatable processes and develop a deep bench of people
2014 – 2016 “Continuous Improvement”	<ul style="list-style-type: none">• Continually innovate to adapt to changing market conditions• Enhance processes and systems on an ongoing basis• Manage ongoing people development process

Performance: Driving Performance Improvement



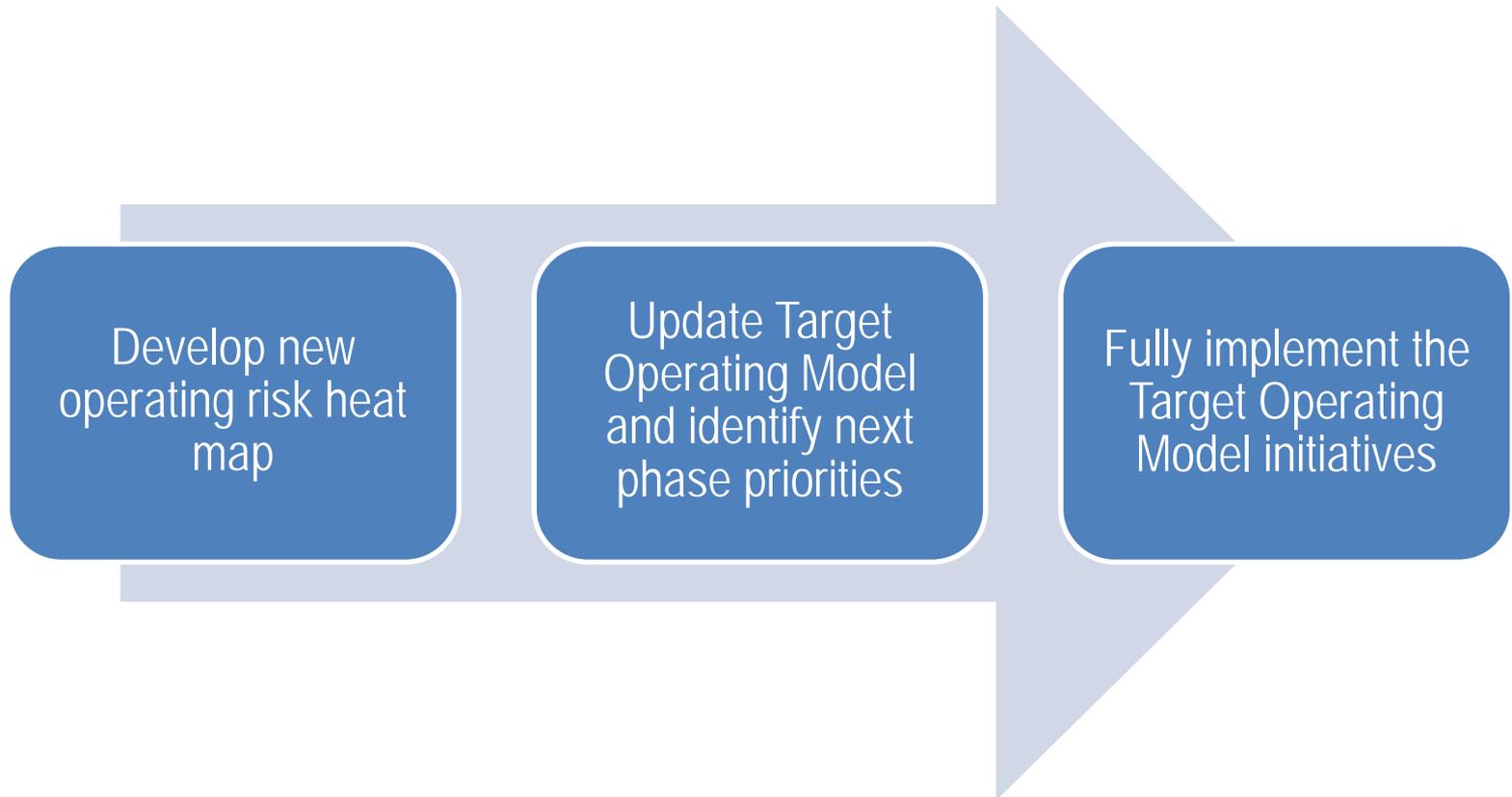
Performance: Driving Performance Improvement

- Major Efforts Include:
 - Review and restructure Private Equity Portfolio
 - Review and restructure Absolute Return Strategies Portfolio
 - Implement Real Estate and Infrastructure strategic plans
 - Implement Global Equity Capital Allocation approach
 - Develop enhanced performance analysis and attribution capabilities
 - Develop CalPERS Investment Beliefs
 - Complete 2013 ALM process and revise the strategic asset allocation as needed

Performance: Managing Cost

- Major Efforts Include:
 - Insource key functions
 - Evaluate and reduce use of fund-of-funds
 - Increase co-invest program in Private Equity
 - Continue to realize cost savings and selectively re-invest in internal capabilities (FY 2011-12 cost savings: \$33.7M)
 - Renegotiated partnership / external manager fees
 - Reduced consultant fees
 - In-sourced assets in the Short-Term Investment Fund and Currency Overlay portfolios

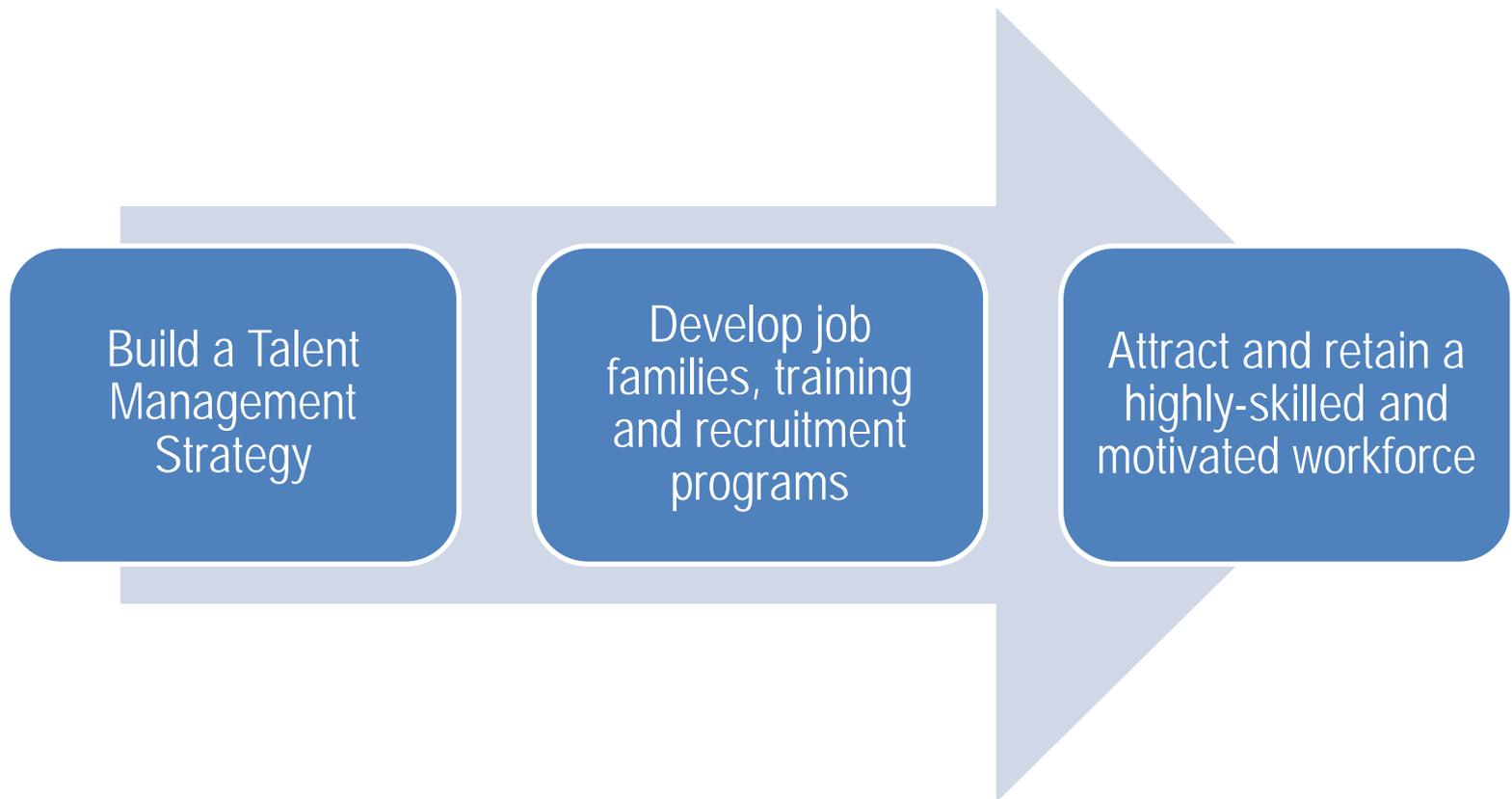
Plumbing: Building a Sustainable Foundation



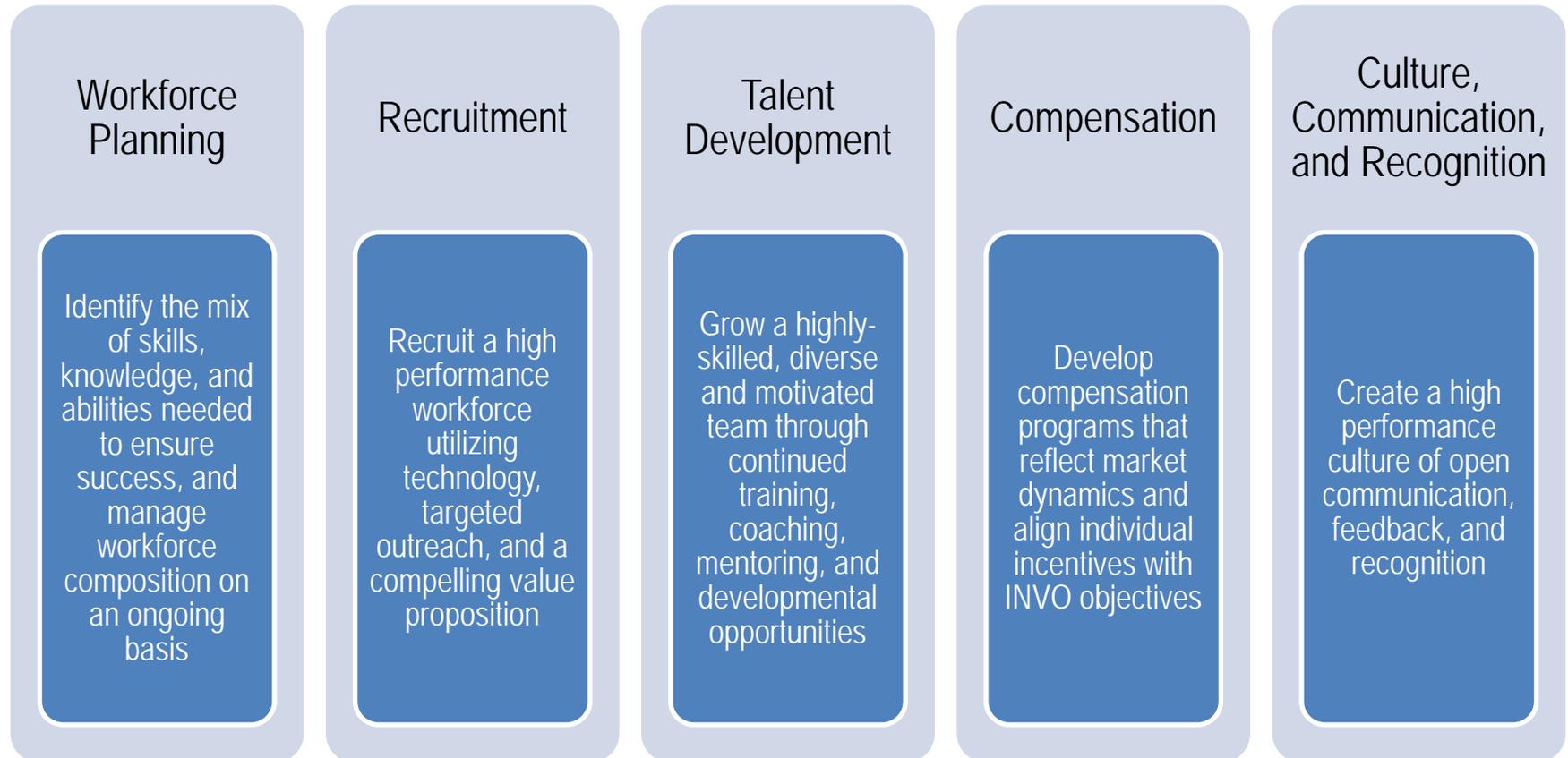
Plumbing: Implementing the Target Operating Model

- Major Efforts Include:
 - Refresh the INVO Risk Heat Map and Target Operating Model priorities
 - Fully implement PM² (Global Equity portfolio management and data platform)
 - Choose vendor (s) for Private Equity portfolio management system and accounting/data services
 - Implement derivatives clearing compliance and operational processes required by Dodd-Frank
 - Restructure spring-fed pools to improve vendor participation and administration
- Target Operating Model progress was reported in more detail at the November 2012 IC

People: The Right People in the Right Jobs



People: Developing INVO's Talent Management Strategy



People: INVO Talent Management

Major Efforts Include:

- Workforce Planning: Benchmark INVO size and staffing mix
- Recruitment: Complete Classification Redesign Project to establish appropriate job families
- Talent Development:
 - Fully implement new performance evaluation framework – INVO Performance Expectations Guide
 - Implement INVO SMART training program
- Compensation: Salary Survey planned for Spring 2013

INVO Roadmap Summary

- Confidence in the direction we are headed
- Significant progress and tangible accomplishments achieved to date
 - Portfolio restructuring across asset classes
 - Target Operating Model
 - Talent Management Strategy
- Heavy Lifting Ahead
 - 2013 ALM Study and Investment Beliefs to provide long-term foundation for investment program