

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	1 st Quarter Status
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	+20 bps {11.24 – 11.04}
50%	Subtotal	Investment Performance Measures		

Business Objectives Performance Measures

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

Weight	Factor	Business Objectives Performance Measure
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. 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.

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2nd Quarter Status

Investment Performance

- **Real Assets**
Selected Invesco as base multifamily partner for West coast mandate. Closed partnership with Canyon for Emerging Manager Program. Selected Bentall Kennedy as base industrial partner.
- **Global Fixed Income**
Increased the amount of fixed income assets by about \$459 MM within the Synthetic Enhanced Equity Portfolio of Global Equity.
- **Private Equity**
Developed and enhanced the quarterly portfolio monitoring report for the Private Equity portfolio.
- **Affiliate Investment Programs**
Completed review of the Supplemental Income Plans Investment fund line-up and manager performance.

Capital Allocation

- Completed the integrated asset liability management framework that incorporated the stochastic process with non-normally distributed investment returns and a user-friendly interface which was built for visualizing funding risks.
- Designed the structure and contents of the 2013 ALM workshops incorporating the new risk framework.

Investment Risk Management

- Utilized the new Barra One Risk Platform to enhance Real Estate analytical capability to provide top down portfolio and individual asset risk analysis.
- Started a Derivatives Committee with cross asset class membership and with a sub function of providing input to how counterparty risk is managed.
- Researched factor based methodologies for building risk awareness into the investment process.

Organization, System and Controls

- Conducted a Risk Assessment and developed a revised heat map, identifying the Investment office's top risks.
- Developed a detailed policy inventory sheet that incorporated a comprehensive review of all investment policies and the associated monitoring and manual controls that need to be put in place.
- Implemented performance attribution model for Global Equity.

Cost Effectiveness

- Produced first ever Monthly reports (FINO/INVO joint initiative) for the Investment Expense Budget beginning in July.
- Developed reporting methodology and operating budget for INVO at the asset class/program level.
- Implemented an interim trust investment cost allocation process.

Talent Management

- Completed CEM benchmark study of relevant peer group
Completed 2 formal job analyses (PM and IO series)
Developed a job family scheme based upon relevant industry knowledge, skills, abilities and experiences
Conducted informal compensation survey to better understand job families and align job family structure
Mapped existing positions into new job families
- Developed tools and resources for managers to use and discuss INVO Performance Expectations Guide with staff
Held meetings with PMs and above to discuss tools and implementation of Performance Expectations Guide
- Job Posting on diverse websites
- Promoted diverse recruitment panels

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Business Objectives Performance Measures (cont.)

Weight	Factor	Business Objectives Performance Measure
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>Investment Committee / Board: 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>CalPERS Enterprise: 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>Investment Office: 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>Financial and Pension Industry: 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>

2nd Quarter Status

Investment Committee/Board

- Investment Beliefs
 - Coordinated kick-off meeting with Working Group to determine scope / timeline.
 - Selected Towers Watson as the vendor.
 - Scheduled interviews with CalPERS stakeholders to gain understanding on Investment Beliefs.

CalPERS Enterprise

- Completed the integrated asset liability management framework that incorporated the stochastic process with non-normally distributed investment returns and a user-friendly interface which was built for visualizing funding risks.
- Designed the contents of the 2013 ALM workshops incorporating the new risk framework.
- Prepared "Asset Allocation Review" for January Board Offsite

Investment Office

- Worked with HRSD to conduct senior level succession planning discussions for CIO level and direct reports.
- Had calls with search firm regarding the recruitment of the SIO of Risk Management and Asset Allocation

Financial and Pension Industry

- On October 1 – 4 attended the University of Toronto/Rotman School of Management International Centre for Pension Management’s October 2012 Discussion Forum in London. Participated on the Pension Fund Leaders Panel at the New

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American Alliance, 12th Annual Wall Street Summit in New York. Actively had meetings with senior and executive staff regarding the CalPERS December 3 Emerging Manager Workshop. Participated on several SEC/IAC Subcommittee calls this quarter.

- INVO representative testified to Congress on importance of completing unfinished Dodd-Frank regulation and criteria for "smart regulations".
- Communicated CalPERS priority issues to SEC Commissioners in 2012: participated on several SEC Investor Advisory Committee calls.
- Agreed to Capital Market Stability priorities of shareowner rights, corporate reporting and regulatory effectiveness.