

2012-13 3rd QUARTER STATUS REPORT – Chief Investment Officer (J. Dear)

All of the terms and provisions of the "CalPERS Compensation Policies and Procedures for Executive 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	3 rd 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	+ 43 bps {11.96 – 11.53}
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.

3rd Quarter Status

Investment Performance

- The total fund returned 11.9% for the FY to date, 136 bps above policy benchmark. For the 12 months ending 3/31/13, the total fund return is 36 bps above benchmark at 10.9%. For the past three years, the fund is 22 bps under benchmark at 9.1%. FY performance for ARS is strong, 172 bps over, a significant turnaround from past years. Real estate continues to lag, beating benchmark only for the 12 months ending 3/31/13.
- Closed 3 Real Estate partnerships (\$900 M in commitments). Infrastructure completed due diligence on \$1B in new transactions (*Real Assets*)
- Implemented collaborative outbound calling effort to source co-investments (*Private Equity*)

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- Global Fixed Income insourced the last remaining external currency overlay manager, SSgA. The amount of assets that was overlaid by SSgA will now be part of internal management's responsibility. As a result, it saved about \$1 million in management fees per year going forward (*Global Fixed Income*)
- Incorporated Alternative Investment Programs (AIP) within Global Equity (*Affiliate Investment Programs*)
- Achieved 22 bp excess return target as a result of new strategies and capital allocation decisions (*Global Equity*)
- Presentation and Approval from Investment Committee of ARS Strategic Plan and Revised Program Policy (*Absolute Return Strategies*)

Capital Allocation

- Presented Asset Allocation Review during Board Offsite on January 14, 2013
- Created flowchart of asset liability modeling (ALM) process in coordination with Actuarial Office and Chief Financial Officer
- Coordinated process to estimate capital market assumptions (CMA) with external consultants and asset classes

Investment Risk Management

- Combined the Risk Management and Asset Allocation functions; created the Deputy CIO position to manage Risk Management and Asset Allocation; included a Risk Management representative on Global Equity Capital Allocation Committee (GECAC)
- Continued to restructure derivatives agreements and processes with Qualified Independent Representative (QIR) and Global Fixed Income to assure appropriate policies and oversight

Organization, System and Controls

- Technology and Vendor Management - Completed the TOM Refresh project. Completed Operational Risk Assessment, incorporated into TOM Refresh and presented updated model, initiatives and priorities within INVO and to the Investment Committee
- Travel Policy and Administration Improvements: Streamlined the following processes: revised routing process to minimize processing time and align with new roles; delegated signature authority to lead analyst for specified expenses/requests; adjusted documentation requirements; implemented process to avoid collections notices for staff; developed and implemented budget allocations and expense reporting; developed proactive planning tool; drafting end-to-end user procedures; established enhanced and detailed roles – utilizing process flows and revised routing forms to indicate key roles; implemented consistent and role-specific education and training (*PBSD*)

Cost Effectiveness

- Delivered summary and detailed December expense management reports to asset classes generated from expenses captured in PeopleSoft, ending the need for one-off analyst preparation of cost analysis via spreadsheets
- Implemented Investment Expense Allocation Methodology to affiliate trusts
- Prepared FY 2013-14 Comprehensive INVO budget projections at the expense line item and program level and submitted to Fiscal Office for inclusion in initial board budget readings

Talent Management

- Initiated searches for DCIO and COIO
- INVO Resource Strategy - High level strategy developed; included in April Investment Committee presentation
- INVO Classification Study – Manager Level
 - Completed formal job analysis based upon an as-is and to-be-assessment
 - Completed staff mapping in new job families
 - Modified the existing classification specifications and created draft classification specs to map to the job family scheme based on knowledge, skills and compensation completed
 - Finalized Classification Study deliverables, including: INVO Hierarchical/ Classification Structure (internal guiding document for HRSD and INVO); Job Analysis Report; and, Compensation Recommendations, within current structure

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- INVO Succession Planning
 - Worked with HRSD to conduct succession planning discussion for CIO position
 - Initiated similar discussion for SIO and COIO
- Talent Development Strategy
 - Ensured all PMS and above participated in semi-annual performance discussion and received meaningful feedback and coaching from direct manager
- Financial Literacy Training
 - CalPERS Fundamentals sessions scheduled; external speakers selected and scheduled
 - Initiated the CalPERS Fundamentals module of INVO Smart, with Global Equity presentation
 - Offered Brown Bag sessions for INVO Smart Participants
 - Pension Fundamentals date (September 2013) and syllabus finalized.
 - Ongoing: INVO Smart and Private to Public Sector, both of which have been getting lots of positive feedback.
- Performance Calibration
 - Semi-annual calibration was conducted in February with refined process and tools
- Recruitment Process
 - Reduced vacancy rate from 21% to 19% at end of March
 - Placed larger emphasis on recruitment. Restructured PBSB and reprioritized vacancies toward Talent Management Unit in order to speed recruitments; Hired 1 SSML and 1 AGPA
 - Improved outreach materials and job announcements
 - Built recruitment plan
 - Invited HRSD Division Chief to CIO Huddle in effort to strengthen our joint focus on recruitment
- Onboarding Tools and Materials
 - Developed and successfully completed two offerings of INVO Onboarding: 2-day course with overview of program areas, Strategic Planning, Compliance Requirements, Travel Policy and Procedures, Private to Public Sector Service, and Senn Delaney
 - Developed New Employee Onboarding welcome materials/ schedule of events
 - Participated in INVO New Employee Meet and Greet coffee session
- Outreach and Marketing
 - Developed master list of external posting sites to be used during recruitment process.
 - Discussed recruitment diversity approach with Heidrick and Struggles
 - Identified new search firm with potential; Caldwell Partners.
 - Refreshing executive search pool with HRSD.
 - Improved outreach materials and job announcements
 - Staff attending Toigo Fellows Leadership Conference.
- Compensation Process Re-engineering
 - Participated as SME in incentive compensation process reengineering project
- Total Compensation Survey
 - McLagan selected as consultant
 - Compensation survey presented to PCTMC in April and May
- Compensation Plan Design and Administration
 - Began partnering with HRSD to develop better tools, procedures, guidelines and timeline to refine the Year End and New Plan Development Processes
 - Completed semi-annual review of plan structure and methodologies used for calculations

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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>

3rd Quarter Status

Investment Committee/Board

- Investment Beliefs
 - Assessed the prior Investment Beliefs project
 - Educated Staff & Board on intent of Investment Beliefs; Presented at January Board Offsite, as well as held a Stakeholder Engagement Panel at the March Board Meeting
 - Facilitating process with both Board & Staff to reach consensus on CalPERS Investment Beliefs; Discussion of Investment Beliefs Staff Workshop held in March 2013

Investment Office

- Classification Study - Completed Classification Study deliverables and presented to PCTMC; including job family and compensation structure (within existing compensation ranges).
- Training - Implemented INVO Smart program with 60 participants; including CFA’s Claritas (testing underway), CalPERS Fundamentals (GE presentation held in March) and curriculum developed for UC Davis Pension Fundamentals, also conducted INVO Onboarding for 45 participants.
- Recruitment - Placed emphasis on improving recruitment process; restructured unit and functions, developed tools and guidelines, and partnered with HR to enhance their abilities.
- Worked with HRSD and search firm to begin the recruitment for the DCIO and COIO.

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CalPERS Enterprise

- Asset Liability
 - Presented “Asset Allocation Review” at Board Offsite on January 14, 2013
 - Created flowchart and milestones of the 2013 ALM process
 - Created materials for May 2013 Investment Committee workshop on asset class roles and minimum volatility Global Equity index
- New Asset Allocation
 - Developed implementation plan for workshop to be held in Fall 2013

Financial and Pension Industry

- Participated on several SEC Investor Advisory Committee calls and attended the meeting in DC on January 17. On February 27 – March 1 attended the Pacific Pension Institute Winter Roundtable in Sausalito, California. On March 5 met with Assemblymen Fong and Mitchell. Met in Los Angeles with several Real Estate partners on March 8. Participated by video conference on the CIO panel for the European Venture Capital Association’s Annual Investor’s Forum in Geneva. On March 20, participated in the Wall Street Journal ECO:comics conference as a panelist. Actively held meetings with senior and executive staff regarding the Emerging Manager Program.
- Achieved agreement by Global Governance Working Group of capital market stability priorities.
- Staff met with senior Federal Congressional staff from each of the House and Senate committees responsible for financial market oversight, and the Chairmen of the Public Company Accounting Oversight Board (PCAOB) and Commodity Futures Trading Commission (CFTC) to discuss audit reform and financial benchmarks in the wake of the London Interbank Offered Rate (LIBOR) scandal.
- ESG Investment Strategy - Draft total fund index catalogue of staff participation in investor forums/networks has been completed encompassing networks in which each CalPERS network is linked.
- Targeted Investment Programs released the *Emerging & Diverse Manager Data Report* to the Investment Committee on March 18, 2013. Report includes diversity survey results as part of the report
- Continued outreach efforts to the stakeholder and emerging manager community to improve communication and respond to requests for information (*TIP*)