

# CalPERS 2012-14 Business Plan

## Third Quarter Status Update

January 1, 2013 – March 31, 2013

### Summary Dashboard

#### Goal A | Improve long-term pension and health benefit sustainability

##### Objective 1 | Fund the System through an integrated view of pension assets and liabilities

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Actuarial Policies Update</i>	<i>April 2013</i>	<i>1.1</i>	●	Yes
<i>Funding Risk Appetite/Tolerances</i>	<i>April 2013</i>	<i>1.2</i>	●	Yes
<i>Enhanced Asset Liability Framework</i>	<i>August 2013</i>	<i>1.3</i>	●	Yes
<i>New Asset Allocation</i>	<i>June 2014</i>	<i>1.4</i>	●	Yes
<i>Pension Reform Implementation</i>	<i>January 2013</i>	<i>1.5</i>	★	No

##### Objective 2 | Deliver target risk-adjusted investment returns

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Investment Performance</i>	<i>June 2014</i>	<i>2.1</i>	●	Yes
<i>Capital Allocation</i>	<i>June 2014</i>	<i>2.2</i>	●	Yes
<i>Investment Risk Management</i>	<i>June 2014</i>	<i>2.3</i>	▲	Yes
<i>Cost Effectiveness</i>	<i>June 2014</i>	<i>2.4</i>	●	Yes
<i>Organization, Systems, and Controls</i>	<i>June 2014</i>	<i>2.5</i>	▲	Yes
<i>Emerging Investment Manager Strategy</i>	<i>June 2013</i>	<i>2.6</i>	●	Yes
<i>Environmental, Social, Governance (ESG) Investment Strategy</i>	<i>June 2014</i>	<i>2.7</i>	●	Yes

##### Objective 3 | Educate employers and other stakeholders to make informed decisions about retirement security and health care

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Governmental Accounting Standards Board (GASB) 67 &amp; 68</i>	<i>June 2014</i>	<i>3.1</i>	●	Yes
<i>Sensitivity Analysis and Termination Liabilities</i>	<i>November 2012</i>	<i>3.2</i>	★	No
<i>Health Care Customer Resources</i>	<i>June 2014</i>	<i>3.3</i>	●	Yes
<i>Long-Term Care (LTC) Strategy Development</i>	<i>June 2013</i>	<i>3.4</i>	★	No
<i>Long-Term Care (LTC) Strategy Implementation</i>	<i>June 2014</i>	<i>3.5</i>	●	Yes

**Status Key:** ● Green – On Track ▲ Yellow – At Risk ■ Red – Needs Management Attention ★ Blue – Completed

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### Summary Dashboard (Cont.)

#### Objective 4 | Ensure high-quality, accessible and affordable health benefits

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Health Benefits Purchasing Review and Procurement Strategies</i>	<i>June 2013</i>	4.1		No
<i>Health Benefit Purchasing Structure</i>	<i>June 2014</i>	4.2		Yes

#### Objective 5 | Create a lifestyle of wellness among members and employers

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Employer Wellness Partnerships</i>	<i>June 2013</i>	5.1		Yes
<i>Engaged Health &amp; Wellness Platform</i>	<i>June 2014</i>	5.2		Yes

### Goal B | Cultivate a high-performing, risk-intelligent, and innovative organization

#### Objective 6 | Use a focused approach to generate, test, refine, and implement new ideas

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Center for Innovation</i>	<i>June 2013</i>	6.1		No
<i>Enterprise Content Management</i>	<i>June 2014</i>	6.2		Yes
<i>Enterprise Internal Innovation</i>	<i>June 2013</i>	6.3		Yes

#### Objective 7 | Deliver superior end-to-end customer service that is adaptive to customer needs

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Member Self-Service</i>	<i>January 2013</i>	7.1		No
<i>Service Delivery Transformation</i>	<i>June 2014</i>	7.2		Yes
<i>my CalPERS Efficiencies</i>	<i>June 2014</i>	7.3		Yes
<i>my CalPERS Enhancements</i>	<i>June 2014</i>	7.4		Yes
<i>Backlog Reduction Strategies</i>	<i>June 2013</i>	7.5		No
<i>Business Intelligence (this initiative is identified in the 2013-15 plan as End-to-End BI)</i>	<i>June 2013</i>	7.6		Yes

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### Summary Dashboard (Cont.)

#### Objective 8 | Recruit, retain, develop and empower a broad range of talents against organizational priorities

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Knowledge Transfer, Insourcing, and Consultant Reduction</i>	<i>June 2014</i>	<i>8.1</i>		Yes
<i>Workforce Strategic Plan</i>	<i>June 2014</i>	<i>8.2</i>		Yes
<i>Diversity &amp; Inclusion (Initiative included in Workforce Strategic Plan for the 2013-15 Plan)</i>	<i>December 2013</i>	<i>8.3</i>		Yes
<i>Chief Financial Officer (CFO) Classification and Structure</i>	<i>June 2013</i>	<i>8.4</i>		No

#### Objective 9 | Actively manage business risks with an enterprise-wide view

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Technology Security Improvements</i>	<i>June 2013</i>	<i>9.1</i>		Yes
<i>Personal Trading Platform</i>	<i>January 2013</i>	<i>9.2</i>		No
<i>Investigation Process &amp; Tools</i>	<i>June 2013</i>	<i>9.3</i>		No
<i>Policy Repository and Compliance</i>	<i>June 2013</i>	<i>9.4</i>		No
<i>Performance Management Dashboard and Metrics</i>	<i>March 2013</i>	<i>9.5</i>		Yes
<i>Financial Reports</i>	<i>June 2013</i>	<i>9.6</i>		No
<i>Cash Management</i>	<i>June 2013</i>	<i>9.7</i>		No
<i>Investment Expense Reporting</i>	<i>June 2014</i>	<i>9.8</i>		Yes
<i>Investment Reconciliation Process</i>	<i>June 2014</i>	<i>9.9</i>		Yes
<i>One Budget Model</i>	<i>June 2014</i>	<i>9.10</i>		Yes

### Goal C | Engage in State and national policy development to enhance the long-term sustainability and effectiveness of our programs

#### Objective 10 | Clarify and communicate CalPERS perspective on pension, health and financial markets

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Investment Beliefs</i>	<i>July 2013</i>	<i>10.1</i>		Yes
<i>Market Reform Priorities</i>	<i>February 2014</i>	<i>10.2</i>		Yes

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### Summary Dashboard (Cont.)

**Objective 11** | Provide education and engagement opportunities to shape policy agenda and expand impact

Initiative Title	Due Date	Initiative #	Status	Transitioned to 2013-15 Plan
<i>Strategic Partnerships</i>	<i>June 2013</i>	<i>11.1</i>		<i>Yes</i>
<i>Retirement Research &amp; Planning</i>	<i>June 2013</i>	<i>11.2</i>		<i>No</i>
<i>Demonstrate Industry Leadership</i>	<i>June 2014</i>	<i>11.3</i>		<i>Yes</i>
<i>Public Records Accessibility Policy</i>	<i>June 2014</i>	<i>11.4</i>		<i>No</i>
<i>Strategic Performance Measures (being combined with 2013-15 Strategic Measures)</i>	<i>September 2012</i>	<i>11.5</i>		<i>Yes</i>
<i>Strategic Plan</i>	<i>September 2012</i>	<i>11.6</i>		<i>No</i>
<i>Strategic Plan Business Plan Alignment</i>	<i>October 2012</i>	<i>11.7</i>		<i>No</i>

**Status Key:**  Green – On Track  Yellow – At Risk  Red – Needs Management Attention  Blue – Completed

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### Initiatives Completed, at Risk and/or Needing Management Attention

#### Goal A | Improve long-term pension and health benefit sustainability

##### Pension Reform Implementation (January 2013 – 1.5)

Status: 

###### Accomplishments:

- Implemented multiple, required changes in my|CalPERS.
- Presented a draft regulatory package to the Board in February 2013 and defined a timeline for additional required packages.
- Monitored urgency, clean up legislation (SB 13) for impacts to CalPERS and external stakeholders and provided input and analysis to legislative staff when requested.
- Conducted significant outreach with external stakeholders to educate on changes related to pension reform and to provide opportunities to discuss language related to the development of required regulations.
- Completed necessary changes to publications and provided FAQs on the website for impacted members and employers.

###### Next Steps:

- Not applicable – initiative completed.

###### Risks / Issues:

- Not applicable – initiative completed.

##### Investment Risk Management (June 2014 – 2.3)

Status: 

###### Accomplishments:

- Combined the Risk Management and Asset Allocation functions; recruited for the Senior Investment Officer position to manage Risk Management and Asset Allocation, and included a Risk Management representative on Global Equity Capital Allocation Committee.
- Continued to restructure derivatives agreements and processes with Qualified Independent Representative and Global Fixed Income to assure appropriate policies and oversight.

###### Next Steps:

- Fill other vacant positions in Risk Management unit.
- Complete substantial changes needed to manage/govern derivatives and comply with market practices; continue to work with Global Fixed Income and the Qualified Independent Representative to refine processes.

###### Risks / Issues:

- Delays or inability to recruit qualified candidates to fill vacancies.
- Unanticipated changes required for derivatives arise from Futures Commission Merchants or regulators.

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### Organization, Systems, and Controls (June 2014 – 2.5)

Status: 

#### Accomplishments:

- Investment Office (INVO) Travel Policy and Administration Improvements – Streamlined the INVO travel policy and administration process to clarify roles, signature authority, budget and end-to-end user procedures; role-specific education and training.
- INVO Technology and Vendor Management – Completed the INVO Target Operating Model (TOM) Refresh project. Completed INVO Operational Risk Assessment, incorporated into INVO TOM Refresh and presented updated model, initiatives and priorities within INVO and to the Investment Committee.
  - Public Markets Portfolio Management – Implemented Investment Book of Record solution for Global Equity.
  - Private Equity Investment Book of Record and Accounting Book of Record – selected service providers, began contract negotiations and implementation planning.
- Investment Compliance and Operational Risk – Completed investment policy compliance testing framework and began testing.

#### Next Steps:

- Redesign INVO travel forms, and streamline process; Implement improved forms.
- Complete INVO Disaster Recovery / Business Continuity Plan testing of Charles River and Aladdin at the Emergency Operations Center.
- Partner with the Office of Enterprise Compliance to propose revisions to the Personal Trading Policy.

#### Risks / Issues:

- Delays could result from potentially challenging contract negotiations needed to integrate services delivered by service providers.

### LTC Strategy Development (June 2013 – 3.4)

Status: 

#### Accomplishments:

- Board approved new benefit design and pricing for LTC 4 (“pre-packaged” product offerings to simplify choice and ability for perspective applicant to customize plan).
- Board approved expansion of eligibility to adult children and other qualified persons by amending the Long-Term Care Act. Subject to Legislative process approval (AB 373) toward the end of 2013.

#### Next Steps:

- Not applicable – initiative completed.

#### Risks / Issues:

- Not applicable – initiative completed.

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### Goal B | Cultivate a high-performing, risk-intelligent, and innovative organization

#### Member Self-Service (January 2013 – 7.1)

Status: 

##### Accomplishments:

- Member Self-Service Release Three (3) was successfully deployed in January 2013. This release includes new Self-Service features including: apply for retirement on-line, change health dependents and maintain payment options.
- The project team identified key performance indicators and reports were created to better extract data associated with new functionality.
- This objective is complete, but the collection of data to measure Member Self-Service utilization and effectiveness will continue.

##### Next Steps:

- Not applicable – initiative completed.

##### Risks / Issues:

- Not applicable – initiative completed.

#### Personal Trading Platform (January 2013 – 9.2)

Status: 

##### Accomplishments:

- By January 2013, CalPERS achieved 100 percent compliance on “Initial Personal Trading Affirmations” in compliance with the Regulation.
- Compliance 11 (software solution) is now tracking transaction activity on 647 brokerage accounts of Covered Persons.

##### Next Steps:

- Not applicable – initiative completed.

##### Risks / Issues:

- Not applicable – initiative completed.

#### Performance Management Dashboard and Metrics (March 2013 – 9.5)

Status: 

##### Accomplishments:

- Staff developed a draft executive level report template to display draft strategic measures being developed for the Strategic Measures initiative. This template may evolve into an Executive or Board level report. This report is envisioned to be part of the Strategic Measures deliverable for the 2013-15 Business Plan Initiative.

##### Next Steps:

- Develop a dashboard style report as part of the Strategic Measures Project in the 2013-15 Business Plan.

##### Risks / Issues:

- Initiative is being incorporated into the Strategic Measures Project as a deliverable. Further work and development is needed on the measures and tools before this initiative can be delivered.

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#### Investment Expense Reporting (June 2014 – 9.8)

Status: 

##### Accomplishments:

- Implemented cost tracking for public assets, hedge funds and administration costs.
- Investment Accounting staff are recording, reconciling and reporting on expenses monthly.
- Transferred knowledge to Investment Accounting staff on new procedure for processing investment expense invoices in PeopleSoft.

##### Next Steps:

- Continue to refine the monthly investment expense report incorporating proposed account mapping changes by INVO.
- Document processes for capturing expense information and reporting cost data.

##### Risks / Issues:

- Financial Office competing priorities (Quarterly Reporting, One Budget Initiative, Accrual process and Comprehensive Annual Financial Report Enhancements) and resource availability may leave us unable to meet our timeline for identifying all Investment and Fund Accounting Books of Record for the public market assets.
  - Unable to document roles, responsibilities and reconciliation process for public market asset classes until all Investment and Fund Accounting Books of Record are identified.
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#### Investment Reconciliation Process (June 2014 – 9.9)

Status: 

##### Accomplishments:

- Developed automated journal entries in Automated Real Estate Investment System for monthly and quarterly financial data.
- Provided descriptions for all CalPERS general ledger accounts.

##### Next Steps:

- Identify all Investment and Fund Accounting Books of Record for public market assets.
- Complete contract negotiations with the vendor awarded the Private Equity Accounting Book of Record Request for Proposal.
- Document roles, responsibilities and reconciliation process for public market asset classes.

##### Risks / Issues:

- Financial Office competing priorities (Quarterly Reporting, One Budget Initiative, Accrual process and Comprehensive Annual Financial Report Enhancements) and resource availability may leave us unable to meet our timeline for identifying all Investment and Fund Accounting Books of Record for the public market assets.
  - Unable to document roles, responsibilities and reconciliation process for public market asset classes until all Investment and Fund Accounting Books of Record are identified.
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**Goal C** | Engage in State and national policy development to enhance the long-term sustainability and effectiveness of our programs

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**Public Records Accessibility Policy (June 2014 – 11.4)**

Status: 

Accomplishments:

- The CalPERS Public Records Accessibility (PRA) policy is now available on CalPERS On-line along with a Web submission tool to assist the public in making PRA requests.

Next Steps:

- Not applicable – initiative completed.

Risks / Issues:

- Not applicable – initiative completed.
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### Key Accomplishments (by Strategic Objective)

#### Goal A | Improve long-term pension and health benefit sustainability

- Fund the System through an integrated view of pension assets and liabilities:** Significant progress was made on the Asset Liability Management (ALM) initiative. At the January 2013 Board Offsite, staff presented a workshop consisting of the updated ALM Framework and a stakeholder panel. In February, staff presented a workshop on the history of the actuarial smoothing and amortization policies, the current policies, risk exposure, and alternatives for policy revisions. At the February Pension and Health Benefits Committee meeting, staff presented a First Reading of proposed revisions to the smoothing and amortization policies. This work represents a significant milestone in improving the long-term sustainability of the fund. During this quarter staff also began preparation for the next phase of the ALM Initiative: analysis of the asset class roles, capital market assumptions, and risk factors. Staff also began research on the sensitivity of asset classes to inflation factors. Board workshops on these issues are scheduled over the next several months. Extensive stakeholder engagement on these issues is ongoing.
- Deliver target risk-adjusted investment returns:** In the Investment Performance area, the Real Assets class continues to implement the Real Estate Strategic Plan and Infrastructure Strategic Plan. Private Equity implemented a collaborative outbound effort to source co-investments. Global Fixed Income insourced the last remaining external currency overlay manager, State Street Global Advisors. As a result of this insourcing, management fees were saved going forward. Affiliate Investment Programs have been incorporated with Global Equity and a 22 basis point excess return target has been achieved as a result of new strategies and capital allocation decisions. The Absolute Return Strategies presented and received Investment Committee approval of the Absolute Return Strategies Strategic Plan and Revised Program Policy.
- Educate employers and other stakeholders to make informed decisions about retirement security and health care:** Staff developed a plan for the implementation of the new GASB rules, including a plan to provide employers (on a voluntary fee for service basis) the actuarial information needed for their accounting and financial reports as required under GASB 67.

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### Key Accomplishments (by Strategic Objective)

- **Ensure high-quality, accessible and affordable health benefits:** During this quarter extensive work was completed on the health care procurements. Staff completed the analysis of the PPO proposals and the Pension and Health Benefits Committee (PHBC) selected Anthem Blue Cross as the PPO plan. Staff also completed the HMO analysis and the proposals/analysis was presented to the PHBC in April 2013. This work represents a significant milestone in achieving more cost-effective, quality-focused health benefit programs. Progress was also made on the Health Benefit Purchasing Structure. The Board approved the risk adjustment concept for the 2014 rate negotiations. In the next quarter a third party actuarial review of the proposed risk adjustment methodology will be conducted and presented to the PHBC. In addition, we obtained Department of Finance approval on the Options for Medicare Supplements regulations.
- **Create a lifestyle of wellness among members and employers:** CalPERS partnered with the State Controller's Office and SEIU Local 1000 on the Worksite Wellness Pilot with the Department of Health Services and the California Department of Public Health. We continue to research and develop wellness initiatives.

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### Key Accomplishments (by Strategic Objective)

#### **Goal B** | Cultivate a high-performing, risk-intelligent, and innovative organization

- **Use a focused approach to generate, test, refine and implement new ideas:** Although we continue to face challenges in fully staffing this new office, the Center for Innovation (CFI) is partly staffed and is now functional. The current focus is on developing and refining a methodology to receive health care related innovative ideas, with the goal of developing innovative health care related research projects. The CFI has also undertaken a review of the potential for the Supplemental Income Program, especially in light of recent pension reform and the need for our members to accumulate additional savings.
- **Deliver superior end-to-end customer service that is adaptive to customer needs:**
  - In January, staff initiated a multi-phase operational efficiencies effort to ensure our resources, process, and technologies are aligned to produce optimum performance. The effort began with the Customer Contact Center. CalPERS engaged KPMG Consultant Services to assist with conducting an assessment to identify strengths and opportunities. A structured process identified gaps between current and desired states, established a new call wait time target, and generated an action plan. During this quarter a comprehensive assessment was performed. This effort is on schedule to develop an action plan, and begin implementation, by June 30, 2013.
  - Several of the initiatives in the Customer Service Delivery Transformation Roadmap have made significant progress this quarter. Most notable are Contact Center Technology Upgrade, Consolidated Marketing, Core Competency Training, Business Intelligence Analytics, and myCalPERS Member Self-Service. Each of these initiatives provides better access, quality, effectiveness or services for our customers.
  - We continued to reduce customer service backlogs. In February 2013, the Retiree Payroll Adjustment backlog was eliminated. In addition, the Service Credit Section eliminated the backlog that included service credit purchase inventory as of July 2012; a separate backlog plan was developed to return remaining Service Credit inventory to normal service levels by January 2014.

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### Key Accomplishments (by Strategic Objective)

- **Recruit, retain, develop and empower a broad range of talents against organizational priorities:**
  - To facilitate our technology insourcing, on March 2, 2013, staff conducted an IT Career Fair attended by over 700 interested individuals. The California Technology Agency has indicated that it would like to replicate this event in the future.
  - The Succession Planning effort for the CEO and CIO positions was launched with the Board at the January 2013 Offsite. In the next quarter, a similar effort will be launched for all Executive positions.
  - We launched an informal mentoring program, conducted six kick-off sessions, and published Web resources to support the program. This program, titled "Informal Mentoring: Share What You Know," was developed in response to input from our employees and has been well-received.
  - Staff made significant progress on the Investment/Financial Classification Study, which is scheduled for presentation to the Board in the next quarter. Once approved, the new classifications will be submitted to the state control agencies (SPB and CalHR) for review and approval. In addition, staff has undertaken a salary survey for Investment Manager positions, also scheduled for Board presentation in the next quarter.
  - In the area of Diversity and Inclusion (D&I), Diversity staff were trained and certified as Diversity Practitioners. This will enable staff to take on more of a consultancy role within the organization, for example undertaking environmental scans, gap analysis and benchmarking based on surveys. This type of work has previously been outsourced. Staff also conducted brown bag sessions with guest speakers and staffed the Disability Advisory Council. Staff is now preparing for the First Annual All Staff D&I event scheduled for July 2013.
  
- **Actively manage business risks with an enterprise-wide view:**
  - We implemented an automated e-Discovery tool for managing and tracking the exchange of information for investigative purposes, and established a policy repository on the intranet to capture the existing inventory of policies and procedures and allow staff centralized access.
  - Staff continued to work on developing new more robust financial reporting tools. These include internal financial reports, cash management reports, and investment expense and reconciliation reporting. Staff is working collaboratively across the organization to continue to further refine the reports. The One Budget Model was presented to the Board in March 2013 and is on track for roll-out in the 2014-15 fiscal year.

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### Key Accomplishments (by Strategic Objective)

#### **Goal C** | Engage in State and national policy development to enhance the long-term sustainability and effectiveness of our programs

- **Clarify and communicate CalPERS perspective on pension, health and financial markets:**
  - The organization continued to make progress in developing a set of Investment Beliefs that will serve as an anchor for the investment portfolio and guide public policy engagement by the system. A workshop was presented at the January 2013 Board Offsite, and a Workshop including a stakeholder panel was conducted in March 2013. A session is planned for the July 2013 Board Offsite and this project is scheduled for completion in the first quarter of the 2013-14 fiscal year.
  - In connection with the Investment Beliefs work, there has been significant focus on the impact of sustainability factors on the portfolio. In partnership with UC, Davis, we have issued a call for academic papers on this issue; the results of this work will be published in June 2013.
  - In addition, the Corporate Governance Working Group has developed capital market stability priorities. Staff has met with pertinent Congressional staff to communicate these priorities. CalPERS has also been appointed to the Standards Council of a newly established non-profit organization - the Sustainability Accounting Standards Board (SASB) to engage in the development and dissemination of industry specific sustainability accounting standards.
  
- **Provide education and engagement opportunities to shape policy agenda and expand impact:**
  - During the quarter, staff conducted a Quarterly Employers Roundtable at CalPERS on February 5, 2013.
  - The Board Members and staff participated in numerous events – as speakers, panelists, and participants - on a broad range of topics including the implementation of pension reform, asset liability management, investments, emerging manager programs, health care, and risk management.
  - During this quarter, we assembled the Strategic Measures Project Team, identified subject matter experts, and developed a project plan with a phased in approach. Proposed measures will be presented to the Board for input at the July 2013 Board Offsite.