

2013-2014 – 1st QUARTER STATUS REPORT – Chief Investment Officer (J. Dear)

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 – CPSTO2IC} *Cost-adjusted Benchmark	0 basis points = 0 +20 basis points = 1.0 +30 basis points = 1.5	+65 bps {8.36 – 7.71}
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
40%	Business Objective: Enterprise Business Plan	<p>By June 30, 2014, in support of the CalPERS 2013-14 Business Plan, improve CalPERS ability to achieve risk-adjusted investment returns</p> <p><u>Goal A: Improve long-term pension and health benefit sustainability:</u></p> <p>Fund the System through an integrated view of pension assets and liabilities:</p> <ul style="list-style-type: none"> • Implement the objectives set forth for FY 2013-14 in the FY 2013-15 Investment Office Roadmap • In collaboration with the Actuarial Office, implement an integrated asset liability management framework to guide investment strategy and actuarial policy in order to actively manage and assess funding risk • Enable the Investment committee to make strategic, informed decisions by conducting Board education sessions designed to improve understanding of funding risk appetite, tolerances, targets and limits • Initiate the development of comprehensive portfolio risk management practices to measure, manage, and communicate investment risks <p>Deliver target risk-adjusted investment returns by:</p> <ul style="list-style-type: none"> • Restructure the portfolio to deliver consistent risk-adjusted investment returns • Lead the development of programs and initiatives that increase the operational efficiencies and cost effectiveness of the investment program to increase net returns on assets <ul style="list-style-type: none"> ○ Continue implementation and integration for internal portfolio management and Investment Book of Record solutions • Establish a total fund strategic approach focused on appropriate risk-adjusted returns for investment programs and policies that are designed to have positive impacts such as identification of new investment manager talent, increased manager diversity, economic development and fair labor practices • Act as a liaison between the Investment Office and interested stakeholders including the elected officials, advocacy groups and labor organizations • Lead and support a culture that proactively identifies and acts to manage risk exposure <p><u>Goal B: Cultivate a high performing, risk-intelligent and innovative organization</u></p>

2013-2014 – 1st QUARTER STATUS REPORT – Chief Investment Officer (J. Dear)

		<p>Develop a robust risk-intelligent culture through enhanced governance, risk assessment and mitigation, and collaboration with stakeholders</p> <ul style="list-style-type: none"> • In collaboration with the Financial Office <ul style="list-style-type: none"> ○ Design and implement systems and tools for appropriate reconciliation and allocation of investment expenses ○ Develop and implement improved Investment Reconciliation processes ○ Develop and implement quarterly fund reports <p><u>Goal C – Engage in State and national policy development to enhance the long-term sustainability and effectiveness of our programs</u></p> <p>Clarify and communicate CalPERS perspective on pension, health and financial markets:</p> <ul style="list-style-type: none"> • Lead the Board adoption of investment beliefs and incorporate into investment policy and decision making • Ensure CalPERS acts as an effective and principles investor by advocating corporate governance and financial market reform, leading efforts to integrate environmental and social risks into investment decision making and effectively engaging with portfolio companies and stakeholders
--	--	---

1st Quarter Status

Global Equity

- GE Performance: positive excess return through Q1
- Strategy Rationalization: funded Emerging Market Small Cap Managers, released Global Equity alternative solicitation, liquidated Corporate Governance co-investments
- Hired Portfolio Manager for Affiliate Investment Programs

Private Equity

- Presented Crosswater Emerging Manager Study to the Investment Committee in August 2013, and commissioned an Emerging Manager workgroup to commence work during Q2.
- Executed 6 commitments for \$1.944,71B:
 - \$177.61M in three direct/co-investments
 - \$600.00M in one separate account
 - \$1,167.10M in two partnership investments
- Led cross-functional team efforts to complete IBOR data mapping of over 6K fields; received project management plans from vendors EFront and Capital Analytics.
- On-boarded one Portfolio Manager for the Investment Management Group and commenced recruitment for new FY 13-14 allocated positions.

Global Fixed Income

- Completed the hiring of the Agency Pass-Through Mortgages Portfolio Manager

Real Assets

- Successfully integrated the PMG and PARRO 3/31/13 quarterly report, the presentation was on August 13, 2013.
- FY 2013-14 Budget and Planning complete. Quarterly Budget vs. Actual monitoring tool on-going. IFG initiated work with consultant to evaluate implementation of a Quarterly Budget for Infrastructure and Forestland investments.
- IFG developed and implemented a tool for ESG Due diligence assessment.

Absolute Return Strategies

- Eliminated 2 additional Fund of Hedge Funds for an annual savings of \$3 million.
- As part of the restructuring of the Asia focused allocations, identified 5 Asia focused hedge fund managers to reallocate redeemed fund of funds allocations. Negotiated 3 pillar terms.
- Continued to establish internal Hedge Fund investment expertise by expanding the internal team.
 - Hired a Portfolio Manager to focus on Credit and Event Driven Hedge fund strategies
 - Hired a Portfolio Manager to focus on Risk Management for the aggregate portfolio and individual managers.

2013-2014 – 1st QUARTER STATUS REPORT – Chief Investment Officer (J. Dear)

- Structured and funded AQR in the MAC Partners program.

Asset Allocation

- Presented update on the Asset Liability Management (ALM) Workshop to CalPERS Board of Administration and Executives at July Offsite
- Analyzed and made a recommendation on CalPERS passive currency overlay program and presented findings to the Investment Committee
- Designed, constructed and prepared the structure and content for the 2013 ALM Workshop

Investment Risk Management

- Assumed responsibility for Counterparty Risk Monitoring from Global Fixed Income
- Completed draft Derivatives Policy
- Completed initial information gathering on peer pension funds for Board Risk Reporting Project

Global Governance

- Staff met with the Honorable Mary Jo White, newly appointed Chairman of the US Securities and Exchange Commission. Staff urged the Commission to continue its work and mission to improve accountability, transparency, and ethical responsibility in the capital marketplace. Staff advocated for the Commission to advance a number of priorities including universal proxy access, enhanced disclosure for board quality and diversity, completion of Dodd-Frank rulemaking tied to executive compensation provisions, climate risk disclosure, and disclosure of policies for corporate board decision making on charitable and political expenditures.
- CalPERS received a Commendation for the Best Responsible Investment Report by a Large Pension Fund from Responsible Investor for the System's recent publication, "Toward Sustainable Investment: Taking Responsibility." CalPERS is the only North American fund to be honored for an award in all pension categories.
- The Investment Office Global Governance Program launched an engagement of 19 energy sector portfolio companies to address the integration of sustainability performance (environmental, social, and governance) into corporate executive compensation packages and incentive plans.

Targeted Investment Programs

- Hosted the CalPERS Legislative Roundtable Workshop on August 8, 2013. The Roundtable provided an opportunity to educate key legislative staff on Investment Office Emerging and Diverse Manager initiatives.
- Published and presented the 2012 CalPERS for California Report to the Investment Committee.
- Developed and posted the Global Equity Internal Broker Diversity Survey on CalPERS website

Organization, Systems and Controls

- Reviewed 5 compliance questionnaires received from external managers and shared results with GE staff to establish baseline of incorporating compliance questionnaires into External Manager Selection and Monitoring (TOM Initiative 8)
- Initiated testing of medium rated policies and best practices (TOM Initiative 6)
- Identified high-risk functional processes and assigned associated residual risk scores (TOM Initiative 9)
- **PM2:** Completed configuration of State Street benchmark data delivery, Corporate Action Forecast and deployed the Charles River Cash Forecast Tools for Portfolio Construction.
- **Private Equity Portfolio Management, Accounting and Data Services:** Executed contracts with eFront and Capital Analytics. Initiated business requirements work sessions with asset class and solution providers.
- **Derivative Central Clearing and Processing:** Completed project work needed to support OTC trading as originally envisioned and assures that organizational capabilities are in place to effectively manage derivatives trading. Completed trades using the new middleware and central clearing process.
- Business Management Delegation of Authority Policy, Creation Procedure and Risk Category List were all completed and adopted for use during FY Q1
 - To date all program areas have active business delegations in place with one exception
 - Program areas are at various stages of initiating sub-delegations to staff
- Transitioned the Policy Advisor / Coordinator role from ICOR to PBSB – Investment Policy and Delegations – to ensure a seamless streamlined point of contact for all Investment Policy and Delegation needs.
- Established objectives and outcomes for review of Investment Policies including:
 - Align Powers Reserved, Delegations of Authority and Investment Policies
 - Simplify, consolidate and standardize Investment Policies

2013-2014 – 1st QUARTER STATUS REPORT – Chief Investment Officer (J. Dear)

<ul style="list-style-type: none"> ○ Establish guidelines for policy content development and staff procedures ● Researched and established definitions for Policy, Procedure, Process ● Developed a Policy Governance Structure – includes Powers Reserved for the Board, Powers Delegated to the IC, Delegations of Authority for Staff, Investment (IC approved) Policies / INVO Office Policies and Staff procedures. <p>Cost Effectiveness</p> <ul style="list-style-type: none"> ● Finalized the 2012 CEM Cost and Benchmarking Illiquid Asset Surveys. ● Delivered summary and detailed May/June (prelim) expense management reports to asset classes generated from expenses captured in PeopleSoft. Partnered with the investment accounting team to implement the new monthly AP invoice review and adjustment process. ● Prepared the third revision of FY 2013-14 budget projections and reviewed with each program at the monthly asset class/PBSD meeting. Developed plan of action with multiple self-funding alternatives to address the increased administrative budget line items (e.g. training and travel.) <p>Talent Management</p> <ul style="list-style-type: none"> ● Talent Development – Launched the second cohort of INVO Smart, finalized and completed the first offering of the Pension Fundamentals module. ● Talent Development – Selected Talent Development and Knowledge Sharing as key talent management initiatives for the 13/14 fiscal year, in support of INVO's OHI results. ● Culture & Communication – Held the semi-annual session to discuss key investment priorities with senior and emerging leaders and sought input to continue developing the Investment Office talent pipeline. <p>In September, attended as Chair of the SEC, IAC, various meetings on Capitol Hill.</p>
--

Weight	Factor	Business Objectives Performance Measure
10%	Business Objective: Leadership	<p>By June 30, 2014, demonstrate industry and enterprise leadership by directing and influencing action and leading collaboration between INVO and CalPERS enterprise functions to accomplish:</p> <ul style="list-style-type: none"> ● Recruit for the Chief Operating Investment Officer position ● Develop succession plans for direct reports, staff training and mentoring, and talent management strategies that support diversity and inclusion ● Lead and support implementation of priorities as identified in the 2013 Organizational Health Index Survey

1 st Quarter Status
<p>Ridgeway has been selected to continue the recruitment for the COIO position. Continue mentoring Senior Investment Officers and other INVO staff. The following INVO events were held:</p> <ul style="list-style-type: none"> ● Quarterly Roadmap Status Meeting – August 7, 2013 ● 1-Day Leadership Session (IO III's and above) – September 19, 2013 ● INVO All Staff Forum – July 11, 2013 ● ACE Award – August 13, 2013 ● INVO Annual Picnic – September 6, 2013 ● INOV Speaker Series – July 19, 2013 July 30, 2013 September 9, 2013