

## 2013-2014 – 2<sup>nd</sup> QUARTER STATUS REPORT – Chief Investment Officer (J. Dear)

### Investment Performance Measures

Weight	Factor	Investment Performance Measure	Incentive Schedule	2 <sup>nd</sup> 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	+54 bps {9.59 – 9.05}

### 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><b><u>Goal A: Improve long-term pension and health benefit sustainability:</u></b></p> <p>Fund the System through an integrated view of pension assets and liabilities:</p> <ul style="list-style-type: none"> <li>• Implement the objectives set forth for FY 2013-14 in the FY 2013-15 Investment Office Roadmap</li> <li>• 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</li> <li>• 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</li> <li>• Initiate the development of comprehensive portfolio risk management practices to measure, manage, and communicate investment risks</li> </ul> <p>Deliver target risk-adjusted investment returns by:</p> <ul style="list-style-type: none"> <li>• Restructure the portfolio to deliver consistent risk-adjusted investment returns</li> <li>• 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"> <li>○ Continue implementation and integration for internal portfolio management and Investment Book of Record solutions</li> </ul> </li> <li>• 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</li> <li>• Act as a liaison between the Investment Office and interested stakeholders including the elected officials, advocacy groups and labor organizations</li> <li>• Lead and support a culture that proactively identifies and acts to manage risk exposure</li> </ul> <p><b><u>Goal B: Cultivate a high performing, risk-intelligent and innovative organization</u></b></p> <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"> <li>• In collaboration with the Financial Office</li> </ul>

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		<ul style="list-style-type: none"> <li>○ Design and implement systems and tools for appropriate reconciliation and allocation of investment expenses</li> <li>○ Develop and implement improved Investment Reconciliation processes</li> <li>○ Develop and implement quarterly fund reports</li> </ul> <p><b><u>Goal C – Engage in State and national policy development to enhance the long-term sustainability and effectiveness of our programs</u></b></p> <p>Clarify and communicate CalPERS perspective on pension, health and financial markets:</p> <ul style="list-style-type: none"> <li>● Lead the Board adoption of investment beliefs and incorporate into investment policy and decision making</li> <li>● 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</li> </ul>
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### 2<sup>nd</sup> Quarter Status

#### Global Equity

- GE performance: positive excess return through Q2
- Infrastructure Development: internalization of Global Equity risk dashboard
- Completed Supplemental Income Plans and Health Care Fund transition

#### Private Equity

- Refined co-investment calling effort to include monthly calls with key partners
- Analyzed and explored secondary market conditions and reviewed several funds for potential sale
- Reviewed and participated in several auctions for potential purchases of funds
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- Reviewed and participated in several auctions for potential purchases of funds
- Revised monitor and shadow assignments to empower the Investment Officers with more direct responsibility for fund management
- Monitors and shadows participated in or attended at least five advisory board meetings
- Continued to maintain and refine, as appropriate, QMRs for all funds and co-investments
- Held over 80 workshops to document PEARS system requirements and “to be” processes with participation from all areas of Private Equity, ISD, and Fiscal
- Recruited seven additional investment and administrative staff and promoted two internal staff
- Developed syllabus topics and engaged consultant to assist in the PE Academy content development
- Held first Emerging Manager working group discussion with Investment Office Senior Staff and eight Emerging Manager industry experts
- Attended several Emerging Manager industry conferences
- Presented PE Program Annual Plan to Investment Committee which included an Emerging Manager update and California investment strategy

#### Global Fixed Income

- GFI has an excess return of 115 basis points from 6/30/13 – 12/31/13
- Completed hiring of two portfolio managers in Agency Mortgage-Backed Securities and Emerging Markets
- Risk management improvements: Initial draft of the report was completed

#### Real Assets

- Initiated Annual Investment Planning Process (AIP).
- Initiated annual allocation process
- Conducted the first all RAU quarterly monitoring presentation

#### Absolute Return Strategies

- Eliminated 2 additional Fund of Hedge Funds for an annual savings of \$3 million annually. Reduced Advisor fees by \$5 million annually

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- Hired a Portfolio Manager to focus on Operational Due Diligence for Hedge fund managers.
- Hired Investment Officer III positions to support Portfolio Managers in analyzing new investment opportunities, monitoring existing allocations and overall Risk Management of the aggregate portfolio and individual managers.
- ARS Program return of 9.2% for calendar year 2013 exceeded its benchmark by 3.0% with a volatility of 4% (target was 7%) and a rolling 24 month beta to global equity of .17 (target is .20). Fiscal YTD performance of 4.9% exceeded the benchmark by 1.2%.

### Asset Allocation and Risk Management

- Conducted Board ALM Workshop on November 12-13, 2013 and received Board guidance on the asset allocation and actuarial preferences.
- Integrated Actuarial Risk Considerations and facilitated participation from ACTO and FINO in the 2013 ALM Workshop.
- Adopted Investment Beliefs Policy at the October 2013 Board meeting.

### Global Governance

- Monetized the 2013 Focus List companies on October 31, 2013
- Developing a Statement of Investment Policy for the Focus List.
- Held the first meeting of the Cross-Asset Class team to launch Manager Expectations
- Investment Beliefs was selected for a Rapid Results project– team has been formed
- Co-sponsor of the Rapid Results project
- Asset Owner Disclosure Project Survey - CalPERS ranked third for sustainable investment among the world's 1000 largest asset owners. A 12 place improvement over the 2012 ranking.

### Targeted Investment Programs

- Established Private Equity Emerging Manager Program Review to identify lessons learned and adopt best practices for evaluating and committing capital to emerging managers
- Initiated INVO Improved Communications Initiative to expand and enhance communication with external managers including the successful launch of the Targeted Investment Programs (TIP) website.
- Finalized and implemented communication strategy for the Global Equity Restructure.

### Organization, Systems, and Controls

- Presented results of testing of significant controls related to investment controls and certified best practices
- Drafted INVO Records Retention Policy to be presented to Operating Committee in February 2014
- INVO Contracts SharePoint workflow tool rolled out Dec 2013 for the Real Assets group
- PEARS completed four major project activities: 1) validating business and technical requirements, 2) documenting changes between existing and future business processes, 3) defining the conceptual design for the solution, and 4) performing a data assessment and gap analysis. Over seven weeks, approximately 80 workshops were held to document related deliverables, while concurrently performing a detailed review of two years' of data to determine data conversion requirements and data gaps.
- Established the Pricing and Valuation Committee with representatives from across asset classes to assure ownership, governance and accuracy of all pricing and valuation processes and procedures.
- Completed request for bid process and selected consultant resource to work with staff to validate the continued use of unitized investment pools and help design optimized pool structure changes.
- All Program Areas have an active delegation in place for each program head (SIO, SPM, Chief)
- PBSB expanded the INVO Insider to include a revised Governance tab with more robust content housing both Investment and Business Management active delegations matrices, definitions, policies, procedures and uses.
- Developed Policy Guidelines document
- Re-evaluated glossary of terms and developed an approach for simplification

### Cost Effectiveness

- Delivered summary and detailed June (final FY 2012-13) & September expense management reports to asset classes generated from expenses captured in PeopleSoft.
- Submitted initial revision of FY 2014-15 comprehensive budget projection to Fiscal Office. In addition, prepared the detailed ZBB administrative budget template.
- Supported the Fiscal Office in the final delivery of the Comprehensive Annual Financial Report (CAFR.) INVO managed and compiled the majority of content for the Investment section and prepared the summary expense statement that reconciles CAFR investment expenses vs. comprehensive INVO portfolio expenses.

### Talent Management

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- Launched the INVO Smart 2014 Cohort of 65 participants, which included enterprise partners from ITSB, PAOF, FINO, and FCSD; and, successfully delivered the December session of the INVO Smart Program- Pension Fundamentals course
- Developed Semi-Annual Investment Professional session for lower level Investment Officer and analytical staff to discuss key topics, strategic initiatives, and accomplishments, while offering exposure to the senior leadership team
- Finalized the INVO workforce plan for Fiscal Year 2013-14 and Fiscal year 2014-15 to align with industry benchmarks and address significant gaps identified in the Target Operating Model

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"> <li>• Recruit for the Chief Operating Investment Officer position</li> <li>• Develop succession plans for direct reports, staff training and mentoring, and talent management strategies that support diversity and inclusion</li> <li>• Lead and support implementation of priorities as identified in the 2013 Organizational Health Index Survey</li> </ul>

**2<sup>nd</sup> Quarter Status**

Interviewed candidates for the COIO position.  
 Continue to mentor Senior Investment Officers and other INVO staff.  
 The following INVO events were held:

- INVO All Staff Forum – December 10, 2013
- ACE Award – December 19, 2013
- INVO Speaker Series
  - October 17, 2013
  - October 24, 2013
  - November 7, 2013
  - November 21, 2013