

# 2014-15 PERFORMANCE PLAN – Chief Investment Officer (T. Eliopoulos)

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	Title	Performance Measure	Incentive Schedule
Interim CIO 7/1/14 - 9/16/14 40%	Investment Performance: Total Fund	Return deviation in basis points relative to: Total Fund performance versus Total Fund benchmark {SJ1CA1BO – CPSTO2IC} *Cost-adjusted Benchmark REPORTING PERIOD: 07/01/12 – 6/30/2015	0 basis points = 0 +20 basis points = 1.0 +30 basis points = 1.5
CIO 9/17/14 - 6/30/15 50%			
Interim CIO 7/1/14 - 9/16/14 10%	Total Real Assets Performance	Return deviation in basis points relative to: {SW3CA2 - CPERSRAB} REPORTING PERIOD: 7/1/12 – 9/30/2014	0 basis points = 0 +30 basis points = 1.0 +45 basis points = 1.5
CIO 9/17/14 - 6/30/15 0%			
50%	Subtotal	Investment Performance Measures	

## Business Objectives Performance Measures

Rating Scale for All Qualitative Performance Measures		
Consistently Exceeds High Expectations	Meets High Expectations	Does Not Meet High Expectations
1.5	1.0	0
<i>Intermediate points are interpolated</i>		

Weight	Factor	Business Objectives Performance Measure
40%	Enterprise Business Plan	<p>By June 30, 2015, in support of the CalPERS 2014-16 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> Fund the System through an integrated view of pension assets and liabilities:</p> <ul style="list-style-type: none"> <li>Enable the Investment committee to make strategic, informed decisions by conducting Board education sessions designed to improve understanding of benchmarks and the viability of implementing a risk-factor based allocation framework</li> <li>Support the Actuarial Office in exploring Asset Allocation Options for Employers by partnering as necessary on the development of a feasibility study for multiple asset allocation options to assist employers in taking a more active role in managing investment risk.</li> </ul> <p>Deliver target risk-adjusted investment returns:</p> <ul style="list-style-type: none"> <li>Implement the objectives set forth for FY 2014-15 in the FY 2014-16 Investment Office Roadmap (Attachment A to be finalized in November)</li> </ul> <p><b><u>Goal B: Cultivate a high performing, risk-intelligent and innovative organization</u></b> Recruit, retain, develop and empower a broad range of talents against organizational priorities:</p> <ul style="list-style-type: none"> <li>In collaboration with the Human Resources Division, participate in the comprehensive review of all compensation programs and policies and to ensure the Boards' policies, philosophy and rationale remain appropriate and relevant.</li> </ul>

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		<ul style="list-style-type: none"> <li>• Partner with identified business partners to help ensure success of the Business Plan initiatives, particularly:               <ul style="list-style-type: none"> <li>○ Workforce Strategic Plan implementation</li> <li>○ Treasury Management</li> <li>○ Strategic Risk Measures</li> </ul> </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>• Develop financial market reform principles to influence global legislative and regulatory engagement and policy development</li> <li>• Support communication and outreach strategies that foster a greater understanding of investment beliefs and promote policy leadership through communication of CalPERS perspective on financial markets</li> <li>• Partner with External Affairs Branch to foster the development of strategic partnerships</li> </ul>
10%	Leadership	<p>By June 30, 2015:</p> <ul style="list-style-type: none"> <li>• Provide oversight and direction to the Investment Office and enhanced communication with the Investment Committee Chair, Board President, CEO and Board Consultants</li> <li>• Lead collaboration between the Investment Office and CalPERS enterprise functions</li> <li>• Present to the Investment Committee a review of Investment Belief implementation activities to date, including the development of a standard reporting template for Asset Classes (by September 30, 2014);</li> <li>• Present to the Investment Committee an assessment of CalPERS' approach and a discussion of alternative approaches to evaluate Investment Belief integration into the organization and investment decision-making process (by June 30, 2015).</li> <li>• Meet the Leadership Expectations as set forth in the CalPERS Executive Leadership Competencies (Attachment B)</li> </ul>
50%	Subtotal	
100%	Total	



# Investment Office 2014-16 Roadmap



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## From the desk of CalPERS CIO Ted Eliopoulos

On behalf of the Investment Office (INVO) of the California Public Employees' Retirement System (CalPERS), I am pleased to present the Investment Office 2014-16 Roadmap (Roadmap).

In alignment with the five-year CalPERS Enterprise Plan and the CalPERS 2014-16 Business Plan, the Roadmap guides us in the achievement of our strategic priorities:

- Achieve our target rate of return without exposing the fund to undue risk of a major drawdown;
- Continue to improve the systems, controls, and processes necessary to assure the integrity of operations; and
- Ensure that we have the right number of people with the right skills to enable investment performance improvement and control of operations.



On the following pages, you will find information on the nine Roadmap strategic objectives and supporting initiatives that INVO will focus on for the coming year. These efforts build upon the firm foundation we established through hard work and “Heavy Lifting”. With the significant progress made, INVO has evolved from triage mode into the beginning of what we view as a “Continuous Improvement” phase.

This evolution, along with the recent transition in senior leadership, provides an exciting opportunity for us to assess our strategic priorities in an effort to drive the CalPERS mission most effectively. Over the next year, we will begin to develop Operational Health metrics for all investment functions and undergo a refresh of our Targeted Operating Model (TOM) and Risk Assessment. I am confident these will result in many exciting changes in the next iteration of the Roadmap, including a particular focus on return, risk and cost as key measures. I look forward to sharing those with you.

I truly appreciate your continued commitment, and I thank you for the important work that you have done, and will do, in support of INVO and the Roadmap.

Ted Eliopoulos  
Chief Investment Officer

## Evolution of the Investment Office Roadmap

The purpose of the Investment Office is to:

1. Enhance the financial security of all who participate in our system;
2. Generate superior risk-adjusted returns;
3. Develop innovative and sustainable investment strategies; and
4. Be a leader among institutional investors worldwide and be known as an effective and principled investor.

The following shows the evolution of the INVO Roadmap, from triage mode to establishing the foundation to heavy lifting and eventually on to continuous improvement.

### 2008 – 2010 “Triage”

- Managed impact of the financial crisis
- Ensured liquidity and mitigated immediate risks
- Managed placement agent, special review and FPPC investigation issues

### 2010 – 2012 “Establish Foundation”

- Developed INVO Vision, Roadmap, and Target Operating Model (TOM)
- Identified issues and developed strategic plans to remedy
- Built a core leadership team and restructured the organization
- Developed new asset allocation framework
- Achieved significant wins and improvements

### 2012– 2014 “Heavy Lifting”

- Substantially implement Roadmap initiatives
- Establish a sustainable organization – build repeatable processes and develop a deep bench of people
- Adopt and operationalize a set of Investment Beliefs

### 2014 – 2016 “Continuous Improvement”

- Refine our strategic priorities
- Continue to enhance processes, controls and systems
- Launch TOM Refresh and Risk Assessment

## Investment Office Roadmap Strategic Objectives

### PERFORMANCE

- **Investment Performance**
  - Restructure the portfolio to deliver consistent risk-adjusted investment returns.
- **Investment Risk Management**
  - Establish a comprehensive portfolio risk management system and practices to measure, manage, and communicate investment risks.
- **Asset Allocation**
  - Implement a risk-based, dynamic asset allocation approach.
- **Cost Effectiveness**
  - Enhance cost effectiveness of the investment program to improve net returns on assets.
- **Emerging Manager Programs**
  - Implement a 5-year plan to provide opportunities for participation of emerging investment managers across all asset classes.
- **ESG Investment Strategy**
  - Ensure CalPERS acts as a principled and effective investor by advocating corporate governance and financial market reform, overseeing the effective management of the three forms of capital: financial, physical and human; and effectively engaging with portfolio companies and policymakers.

### PLUMBING

- **Organization, Systems and Controls**
  - Design, develop, and implement a robust operating model that minimizes complexity, improves transparency and strengthens processes, systems, governance and controls.
  - Reduce operational risk by developing a risk aware culture with clear metrics and operational risk management processes/governance.

### PEOPLE

- **Talent Management**
  - Enhance the ability of the Investment Office to recruit, develop, and retain a highly skilled, diverse and motivated team to ensure success.



## **CalPERS Investment Beliefs** **Adopted September 16, 2013**

In September 2013, the CalPERS Board of Administration adopted a set of ten Investment Beliefs intended to provide a basis for strategic management of the investment portfolio, inform organizational priorities, and ensure alignment between the Board and CalPERS staff.

The Investment Beliefs are not a checklist to be applied to every decision. They are a guide for making decisions that often require balancing multiple, inter-related decision factors. They provide context for CalPERS actions, reflect CalPERS values, and acknowledge CalPERS responsibility to sustain its ability to pay benefits for generations.

An Investment Beliefs Policy (Policy) was adopted in October 2013. The Policy requires that CalPERS develop and maintain a set of Investment Beliefs. In addition, the Policy provides context for how the Investment Beliefs should be used and makes clear that the Investment Beliefs are a framework for making judgmental decisions but are not a checklist to be applied to each decision. For more information on the Policy, visit:

<http://www.calpers.ca.gov/eip-docs/about/press/news/invest-corp/board-offsite.pdf>



## CalPERS Investment Beliefs

### Investment Belief 1

- Liabilities must influence the asset structure

### Investment Belief 2

- A long time investment horizon is a responsibility and an advantage

### Investment Belief 3

- CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries

### Investment Belief 4

- Long-term value creation requires effective management of three forms of capital: financial, physical and human

### Investment Belief 5

- CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution

### Investment Belief 6

- Strategic asset allocation is the dominant determinant of portfolio risk and return

### Investment Belief 7

- CalPERS will take risk only where we have a strong belief we will be rewarded for it

### Investment Belief 8

- Costs matter and need to be effectively managed

### Investment Belief 9

- Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error

### Investment Belief 10

- Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives


## Strategic Objective 1 – Investment Performance

**Restructure the portfolio to deliver consistent risk-adjusted investment returns.**

Today (FROM)	Vision (TO)
<ul style="list-style-type: none"> <li>Asset Class performance focused</li> </ul>	<ul style="list-style-type: none"> <li>Integrated, total-fund, performance approach</li> </ul>
<ul style="list-style-type: none"> <li>Unclear value creation</li> </ul>	<ul style="list-style-type: none"> <li>Skill-based generation of alpha and beta, focused value creation</li> </ul>
<ul style="list-style-type: none"> <li>Risks are not strategically planned; unintended bets; less intentionality</li> </ul>	<ul style="list-style-type: none"> <li>Robust risk budgeting for intentional alpha generation</li> </ul>
<ul style="list-style-type: none"> <li>Weak performance attribution capabilities, compounded by poor data quality</li> </ul>	<ul style="list-style-type: none"> <li>Performance meets targets with drivers of performance and deviation well understood</li> </ul>
<ul style="list-style-type: none"> <li>Less cost awareness and consciousness</li> </ul>	<ul style="list-style-type: none"> <li>Clear understanding of “end-to-end” cost of delivering an investment strategy. Cost-to-value actively incorporated into investment decision making</li> </ul>

### **Global Equity (GE) Initiatives**

- GE Excess Return: Attain the asset class 15 basis point annual excess return target consistent with current risk levels
- PM2: "Public Markets Portfolio Management" (TOM #1): Upgrade the technology and investment servicing capabilities used in Internal Equity Portfolio Construction to assure an accurate investment book of record is used when making investment decisions, replace existing portfolio management tools, improve controls and increase capacity to take on new investment strategies
- Capital Allocation Methodology Evolution: Evolve Global Equity capital allocation methodology to incorporate both return-based and holdings-based optimization, determine strategic and tactical desired exposures and implement levers for execution of desired exposures
- GE Portfolio Simplification: Simplify the Global Equity portfolio through rationalization and reduction of the number of strategies
- Affiliate Investment Programs (AIP) Process and Technology (TOM #24): Develop more robust processes and technology to replace the current manual/spreadsheet methods used in the AIP for processing cash flows, rebalancing, communicating trades and reporting



## 2014-16 Investment Office Roadmap

### ***Private Equity (PE) Initiatives***

- PE Enhanced Performance: Utilize the Annual Capital Allocation Plan and Private Equity House Views, secondary market, selected co- investment opportunities, and customized investment accounts to restructure and rebalance the Portfolio to enhance performance over a 10-year period
- Private Equity Portfolio Management, Accounting and Data Services (PEARS, TOM #2): Establish an integrated solution that incorporates (1) a Portfolio Management System and (2) Accounting and Data Services so that Private Equity staff have the depth of data and support needed to enhance investment monitoring, improve risk management, reduce operational inefficiencies and increase transparency
- Organization Change and Talent Management: Integrate new professionals into the PE Program using the PE Academy and leverage broad skill sets of the entire team to execute PE Strategic Plan
- TOM, Emerging Manager and California Investments: Support the objective INVO TOM by reducing costs in an effort to enhance performance. Support Targeted Investment Programs with the execution the CalPERS Emerging Manager Five-Year Plan

### ***Global Fixed Income (GFI) Initiatives***

- GFI Alpha Target Return: Hit annual alpha target return of 30bps for GFI Program
- ESG Incorporation: Partner with Corporate Governance staff on the development and implementation of incorporating Environmental, Social and Governance factors into the credit evaluation process
- ARS Program Review: Conduct a review of the Absolute Return Strategies Program's complexity and costs in order to make a recommendation on the program's continuation to the Investment Committee
- Aladdin Reports Restructure: Restructure Aladdin Reports to better monitor and manage the risks of the internally managed International Fixed Income Program

### ***Real Assets (RA) Initiatives***

- RA Benchmark Performance: Meet the established Benchmark performance for the Real Assets Unit
- Functional Reorganization: Continue to implement and monitor the effectiveness of the functional reorganization within Real Assets
- Quarterly Investment Monitoring Process: Develop more robust processes, including the identification of opportunities for process automation within AREIS in an effort to minimize errors and standardize reports

## Strategic Objective 2 – Investment Risk Management

**Establish a comprehensive portfolio risk management system and practices to measure, manage, and communicate investment risks.**

Today (FROM)	Vision (TO)
<ul style="list-style-type: none"> <li>Dated risk system and tools for total fund</li> </ul>	<ul style="list-style-type: none"> <li>Enhanced RMS, with better tools and more functionality (private assets, scenario testing, what if's and risk attributions)</li> </ul>
<ul style="list-style-type: none"> <li>No consistent risk framework for investment decisions</li> </ul>	<ul style="list-style-type: none"> <li>Use of robust investment processes to include risk considerations at asset class, portfolio and transaction levels</li> </ul>
<ul style="list-style-type: none"> <li>Investment policies and parameters defined by asset classes – no independent risk review</li> </ul>	<ul style="list-style-type: none"> <li>Risk review by Asset Allocation/Risk Unit prior to policy approval (standard setting and risk ownership)</li> </ul>
<ul style="list-style-type: none"> <li>Less transparency with total fund and asset class risk</li> </ul>	<ul style="list-style-type: none"> <li>More transparency (risk reporting and enhanced metrics to Investment Strategy Group and Board)</li> </ul>
<ul style="list-style-type: none"> <li>Limited Risk Budgeting</li> </ul>	<ul style="list-style-type: none"> <li>Enhance Total Fund Risk Budgeting and expand to Asset Classes</li> </ul>

### Initiatives

- Trust Level Investment Risk Management: Implement an industry standard, investment risk management framework (governance model, categories and metrics) appropriate for all multi-asset investment trusts (total fund).
- Liquidity and Cash Management : Working with Asset Allocation, determine Liquidity, Leverage and FX Hedging levels across the total fund, including owning appropriate policies as described in the TOM working papers
- Risk Reporting Improvements: Improve the communication of investment risks with the Board and INVO staff, assuring that reporting addresses standard risk categories and integrates performance (returns, attribution), risk metrics, and commentary/analyses
- Benchmark Workshop: Establish a common understanding of terminology/definitions around benchmarks with the Board and the Investment Committee



## Strategic Objective 3 – Asset Allocation

Implement a risk-based, dynamic asset allocation approach.

Today (FROM)	Vision (TO)
<ul style="list-style-type: none"><li>• Long-term, static allocation framework</li></ul>	<ul style="list-style-type: none"><li>• More dynamic framework, responsive to market conditions</li></ul>
<ul style="list-style-type: none"><li>• Capital allocated at asset class level</li></ul>	<ul style="list-style-type: none"><li>• Total fund portfolio design to include asset classes, separate alpha strategies (ARS, opportunistic) and hedges</li></ul>
<ul style="list-style-type: none"><li>• Liquidity managed separately by asset class</li></ul>	<ul style="list-style-type: none"><li>• Capital allocation better planned and aligned with overall fund liquidity</li></ul>

### Initiatives

- Affiliate Funds ALM Review: Design, construct, and prepare the structure and content of an Affiliate Funds Asset Liability Management review
- Integrated ALM Framework: Partner with Actuarial Office to develop and implement an integrated asset liability management framework
- Currency Positioning Strategy: Reevaluate currency hedging strategy and bring a recommendation to the Investment Committee



## Strategic Objective 4 – Cost Effectiveness

Enhance cost effectiveness of the investment program to improve net returns on assets.

Today (FROM)	Vision (TO)
<ul style="list-style-type: none"> <li>Management Reporting: Inadequate reporting systems and data for effective cost management</li> </ul>	<ul style="list-style-type: none"> <li>Automated financial reporting system; development of timely and meaningful reports</li> </ul>
<ul style="list-style-type: none"> <li>Cost Awareness: Fragmented understanding of budgetary resources and the total costs to manage portfolio at asset class level</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive knowledge of total costs being incurred to manage portfolio throughout INVO</li> </ul>
<ul style="list-style-type: none"> <li>Governance Structure: Siloed control structure that did not address the comprehensive INVO budget</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of budgetary control structure that addresses INVO and each asset class</li> </ul>
<ul style="list-style-type: none"> <li>Fee Reduction: Lack of focus on management and consulting fees paid</li> </ul>	<ul style="list-style-type: none"> <li>Development of monitoring processes that tracks and communicates cost savings efforts</li> </ul>
<ul style="list-style-type: none"> <li>Cost Management: Lack of flexibility to drive best cost/value when incurring expenses</li> </ul>	<ul style="list-style-type: none"> <li>Greater flexibility to manage resources in the best interest of the fund and drive cost value</li> </ul>
<ul style="list-style-type: none"> <li>Benchmarking: Difficult to compare cost performance against relevant peers</li> </ul>	<ul style="list-style-type: none"> <li>Development of meaningful benchmarking statistics and outperform relevant peers per unit of value</li> </ul>

### Initiatives

- INVO Expense Management & CAFR Support (TOM #3): Design comprehensive financial reporting materials to enable automated, periodic reporting of total cost to manage the portfolio
- Performance Measurement & Attribution (TOM #11): Establish an agreed upon cost allocation methodology approach for financial reporting
- Board Financial Reporting: Develop and implement annual financial reporting to the Board



## Strategic Objective 5 – Emerging Manager Programs

**Implement CalPERS Five-Year Plan for Emerging Managers to provide opportunities for participation of emerging investment managers across the Investment Office.**

Today (FROM)	Vision (TO)
<ul style="list-style-type: none"> <li>Asset class focused program performance, administration and reporting</li> </ul>	<ul style="list-style-type: none"> <li>Integrated Total Fund approach as detailed in CalPERS Emerging Manager Five-Year Plan</li> </ul>
<ul style="list-style-type: none"> <li>Unplanned, unintended and unreported strategies and outcomes</li> </ul>	<ul style="list-style-type: none"> <li>Consistent, clearly established investment strategies, robust risk assessment and reporting, clear communication of programs outcomes</li> </ul>
<ul style="list-style-type: none"> <li>Unclear understanding of exposure, poor performance data, low awareness of cost</li> </ul>	<ul style="list-style-type: none"> <li>Establish and accurately report EM exposure, performance and cost</li> </ul>
<ul style="list-style-type: none"> <li>Lack of communications with stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Improved communications and strengthened relationships with EM community and interested stakeholders</li> </ul>
<ul style="list-style-type: none"> <li>EM community uncertain how to approach INVO, submit investment proposals, and receive feedback</li> </ul>	<ul style="list-style-type: none"> <li>Consistent access and opportunity for EM submittal of investment proposals. EM's provided appropriate feedback on investment proposals</li> </ul>

### *Initiatives*

- Emerging Manager 5 Year Plan Implementation: Implement work streams in the Emerging Manager Five Year Plan
- Investment Office Diversity and Inclusion: Initiate the INVO Diversity and Inclusion Task Force to identify, prioritize, and implement Investment Office Diversity and Inclusion initiatives

## Strategic Objective 6 – ESG Investment Strategy

**Ensure CalPERS acts as a principled and effective investor by advocating corporate governance and financial market reform, overseeing the effective management of the three forms of capital: financial, physical and human; and effectively engaging with portfolio companies and policymakers.**

Today (FROM)	Vision (TO)
<ul style="list-style-type: none"> <li>• Inconsistent and partial reporting on CalPERS ESG initiatives</li> </ul>	<ul style="list-style-type: none"> <li>• Total Fund report, "Towards Sustainable Investment"</li> </ul>
<ul style="list-style-type: none"> <li>• Multiple guidelines on ESG across asset classes and ESG initiatives / programs</li> </ul>	<ul style="list-style-type: none"> <li>• Total Fund Principles on Sustainability and agreed list of priority initiatives</li> </ul>
<ul style="list-style-type: none"> <li>• Varied internal and external manager expectations on sustainable investment</li> </ul>	<ul style="list-style-type: none"> <li>• Total Fund ESG expectations document for internal and external managers</li> </ul>
<ul style="list-style-type: none"> <li>• Lack of consensus on the evidence linking sustainability factors to performance</li> </ul>	<ul style="list-style-type: none"> <li>• Definition and analysis of sustainability factors and their impact on risk and return</li> </ul>
<ul style="list-style-type: none"> <li>• Financial market reform priorities focused on U.S. capital markets</li> </ul>	<ul style="list-style-type: none"> <li>• Advancing reform priorities in global capital markets based on investment exposure</li> </ul>
<ul style="list-style-type: none"> <li>• Unstructured process for managing CalPERS institutional relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Prioritizing, monitoring and advancing CalPERS leadership through relationships</li> </ul>
<ul style="list-style-type: none"> <li>• Domestic Focus List program</li> </ul>	<ul style="list-style-type: none"> <li>• Monetized global Focus List program</li> </ul>

### Initiatives

- **Manager Expectations:** In alignment with TOM, develop Total Fund Investment Manager Expectations on integrating relevant sustainable investment considerations into investment decision making
- **Investment Beliefs Integration:** As part of the Rapid Results Investment Beliefs project, conduct a survey with investment office staff to determine how integrated IBs are today and where there is potential for further integration and provide recommendations
- **Financial Markets:** Engage in federal and international policy development to advance CalPERS Financial Market reform priorities

***Initiatives (continued)***

- Focus List Companies Monetization: Monetize and monitor Focus List companies and conduct company engagements on issues tied to the three forms of capital: financial, physical and human. Develop an investment policy statement for the Focus List Program
- Sustainable Investment Research Initiative (SIRI) Phase 2: Update/refresh of the SIRI database to enhance understanding of how human capital factors impact investors' ability to deliver sustainable, risk-adjusted returns on behalf of beneficiaries
- Total Fund Sustainability Report: Publish the second version of the Total Fund report on all of CalPERS environmental, social and governance initiatives across our investments and internal operations
- Principles and Proxy Voting: Execute proxy voting responsibilities in line with the Board approved CalPERS Global Principles of Accountable Corporate Governance. Pursue corporate governance reform surrounding Environmental, Social, and Governance (ESG) issues at portfolio companies by filing shareowner resolutions or through company engagements



## Strategic Objective 7 – Organization, Systems, and Controls

**Design, develop and implement a robust operating model that minimizes complexity, improves transparency and strengthens processes, systems, governance, and controls.**

**Reduce operational risk by developing a risk aware culture with clear metrics and operational risk management processes/governance.**

Today (FROM)	Vision (TO)
<ul style="list-style-type: none"> <li>Risk exposure due to inefficient legacy, asset-based “cottage industry” approach geared toward specialized, siloed investment strategies</li> </ul>	<ul style="list-style-type: none"> <li>Efficient operational processes and technology with verifiable, transparent controls necessary to manage INVO wide global investment strategies</li> </ul>
<ul style="list-style-type: none"> <li>Fragmented and incomplete data and infrastructure; impossible to aggregate information for timely investment management and decision making</li> </ul>	<ul style="list-style-type: none"> <li>Integrated data and systems for efficient, timely decision making driving superior investment performance</li> </ul>
<ul style="list-style-type: none"> <li>Unnecessary complexity for the value derived</li> </ul>	<ul style="list-style-type: none"> <li>Appropriate blend of simplicity and complexity</li> </ul>
<ul style="list-style-type: none"> <li>Obscured accountability and unclear roles</li> </ul>	<ul style="list-style-type: none"> <li>Transparent organization structure, roles and processes for clear accountability</li> </ul>

### Initiatives

#### Investment Compliance and Operational Risk

- Contract Oversight Unit Integration: Establish an efficient, effective contracting process and system that ensures terms and conditions are appropriate for the nature of the services, clear performance standards for vendor services and clear payment instructions
- Maturing Investment Compliance Program: Institutionalize completed initiatives to further strengthen INVO control environment, enhance processes and systems, integrate industry best practices and adapt the program to meet changes in the regulatory environment and INVO strategy
- Maturing Operational Risk Program: Institutionalize completed initiatives to further support INVO managerial decision making, enhance operational efficiency, and integrate operational risk data. Modify the Operational Risk program based on reevaluation of risk appetites and tolerances
- Investment Policy Review (TOM #19): Review and revise existing investment policies for consistency and completeness, and establish processes for developing new policies, managing changes, and monitoring compliance
- Manager Selection and Monitoring - Standards and Compliance (TOM #8): Incorporate minimum standards for manager selection and monitoring into the Rapid Results framework that is being used as a guide by each asset class, periodically assess the standards and practices adopted by each asset class, and conduct an annual compliance survey.



### *Initiatives (continued)*

#### Investment Servicing Division

- Pricing / Valuation (TOM #12): Assure ownership and governance of pricing/valuation policies, escalation procedures and control processes that ensure accurate values for each type of asset
- Performance Measurement and Attribution (TOM #11): Provide timely, standardized analytic reports and analyses that accurately measures performance, risks and exposures in order to assist in managing portfolios, monitoring risk and performance drivers, and board reporting
- Trust (Fund) Structure Validations and Redesign (TOM #10): Validate the continued use of unitized investment pools. Design an optimized pool structure that complies with legal requirements and implement changes
- Technology Management (TOM #14): Establish an appropriate support model for all INVO applications, build skills and capabilities needed to manage third-party support services and drive changes to INVO technology architecture/infrastructure to meet INVO business needs
- Cash Management Processing and Controls (TOM #13): Establish clear ownership for cash processing and authorizations for moving cash, and correct specific issues with forecasting, reporting and controls
- Disaster Recovery / Business Continuity (TOM #22): Establish and maintain a desired level of business continuity capabilities to assure key investment activities are sustained (recovered) during disasters
- Data Management - Core Capabilities (TOM #17): Establish the core capabilities and a governance/architecture model needed to manage investment data, including: (1) evaluating needs for investment data, (2) integrating data into internal functions and third-party services, (3) managing costs and licenses, and (4) defining a long-term strategy

## Talent Management

**Enhance our ability to attract, develop and retain a highly-skilled, diverse and motivated team to ensure the success of the Investment Office.**

Today (FROM)	Vision (TO)
<ul style="list-style-type: none"> <li>Fragmented recruitment process that impacts our ability to hire the most qualified and talented candidates</li> </ul>	<ul style="list-style-type: none"> <li>Strategic and targeted recruitment efforts to a broad range of diverse candidates that provide a clear consistent articulation of our unique value proposition and why people should join and stay</li> </ul>
<ul style="list-style-type: none"> <li>Job families and classification structure do not allow for alignment of necessary competencies, skills and experience</li> </ul>	<ul style="list-style-type: none"> <li>Clearly defined organization structure, classification scheme and resource strategy that minimizes organizational capability gaps and promotes employee enrichment and development</li> </ul>
<ul style="list-style-type: none"> <li>Lack of focus on employee skill development, coaching, feedback and training opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Established training, career development and performance evaluation programs that provide feedback and development opportunities for employees</li> </ul>
<ul style="list-style-type: none"> <li>Performance management and compensation structure that focuses on results with no reference to culture or values</li> </ul>	<ul style="list-style-type: none"> <li>An effectively designed and administered compensation scheme that is aligned with job families and incentivizes both results and behaviors</li> </ul>
<ul style="list-style-type: none"> <li>An organization with an inconsistent employee experience, culture and values</li> </ul>	<ul style="list-style-type: none"> <li>A culture that attracts, develops and retains a highly skilled, diverse and high performance workforce</li> </ul>

### Initiatives

- Talent Sourcing and Development: Develop a strategy to establish a Talent Pipeline of highly-skilled, diverse and motivated candidate pool, and design the next phase of financial technical training for Investment Office Staff
- INVO Classification Study and Organization Redesign Project: Partner with HRSD to finalize and implement recommendations from the Class Study – Managerial Level; initiate Class Study – Investment Officer Level
- Executive Compensation Policy Review Project: Partner with HRSD to conduct a review of the compensation policy and total cash compensation for all staff covered under the CalPERS compensation policies



For more information about the INVO Roadmap,  
visit CalPERS Insider at [Investment Office](#)  
or call INVO at (916) 795-3400.

# CalPERS Executive Leadership Competencies

The CalPERS Executive Leadership team will exemplify these essential attributes and competencies in working together to achieve the strategic objectives of the organization while cultivating a risk intelligent culture:

## Ethics and Integrity

- Exhibits ethical, honest and professional behavior at all time with all staff, customers, and stakeholders
- Chooses the right course of action, even in the face of opposition or influence
- Takes responsibility for own actions and for those of the group, team or organization
- Exemplifies the CalPERS core values of quality, respect, integrity, openness, accountability and balance

## Building Coalitions

- Develops networks and builds alliances; collaborates with customers and stakeholders to build strategic relationships and address needs
- Creates and manages a positive perception of the organization and its programs and services
- Performs effectively in an open public setting and serves as a trusted advisor and educator to customers and stakeholders
- Builds relationships of trust, confidence, and respect with members of the Board
- Works effectively with the Board to develop and manage strategic initiatives that accomplish objectives and meet CalPERS fiduciary responsibility

## Leading People

- Fosters an inclusive workplace that values diversity and respects and recognizes individual contributions
- Promotes continuous learning and the development of self and others to achieve maximum potential
- Fosters and maintains cooperative and productive relationships across all levels and functions
- Seeks to understand concerns, emotions, feelings, and differing viewpoints to resolve conflicts constructively
- Inspires commitment, pride and trust by modeling CalPERS core values
- Applies broad and extensive Executive/senior level management experience to establish and achieve strategic goals

## Leading Change

- Formulates strategic goals and objectives and implements plans consistent with CalPERS long-term interests
- Builds a shared vision and influences others to translate vision into action
- Encourages new ideas and innovation; designs and implements new or cutting edge programs/processes
- Demonstrates maturity, resiliency and sound judgment when dealing with organizational challenges
- Cultivates a risk intelligent culture, and assesses and mitigates risk when making decisions or recommending organizational strategies and tactics

## Results Driven

- Recognizes when a decision must be made and acts in a thoughtful and timely manner
- Makes decisions that produce high quality results by applying technical knowledge, analyzing problems and calculating risks
- Deals effectively with ambiguity and learns from success and failure
- Anticipates and meets the needs of both internal and external customers; delivers high-quality products and services
- Understands and ensures appropriate application of principles, strategies, requirements, regulations, and policies related to pension administration, health benefit purchasing and administration, financial markets and institutional investment programs

## Business Acumen

- Strategically manages human, financial/investment, material and information resources and assets
- Understands the organization's financial processes and effectively manages program budgets using cost-benefit thinking to set priorities and achieve results
- Builds and manages the workforce based on organizational goals, budget considerations, and staffing needs
- Keeps up-to-date on technological developments and effectively uses technology to achieve results

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