



## 2016-17 PERFORMANCE PLAN

<b>CHECK ONE:</b>
Status Update
<input checked="" type="checkbox"/> 1 <sup>st</sup> Semiannual
<input type="checkbox"/> 2 <sup>nd</sup> Semiannual

<b>Name:</b> Ted Eliopoulos	<b>Position:</b> Chief Investment Officer
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### Key Business Objectives

Weight	Performance Measure
10%	<p><b>Key Business Objectives</b>                      Deliverables:                      By June 30, 2017, in support of the CalPERS 2016-17 Business Plan, improve CalPERS' ability to achieve risk-adjusted investment returns.</p> <p><b>Goal A: Improve long-term pension and health benefit sustainability</b>                      Fund the System through an integrated view of pension assets and liabilities:</p> <ul style="list-style-type: none"> <li>• Build effective investment risk and performance attribution review and decision processes within and across asset classes to ensure risks are fully understood, intended, and compensated</li> <li>• Enhance the Capital Allocation framework through improved risk factor modeling and greater understanding and ownership of trust-level investment risk and performance</li> </ul> <p>Deliver target risk-adjusted investment returns:</p> <ul style="list-style-type: none"> <li>• Explore long-term planning considerations including private assets business model, talent management, and office locations</li> <li>• Develop enhanced governance and protocols to improve efficiencies and controls in assessing and engaging external managers and migrating additional asset types in house</li> <li>• Enhance cost effectiveness, resource allocation, and efficiency of the investment program to increase net returns on assets</li> <li>• Enhance the investment platform and internal controls environment to achieve optimum efficiency</li> <li>• Develop a framework for the integration of CalPERS Investment Beliefs and ESG risk considerations into the investment decision-making process, including completing the key deliverables and objectives targeted for the current fiscal year in the Global Governance ESG Strategic Plan approved by the Board in August 2016.</li> </ul> <p>Implement the objectives set forth for FY 2016-17 in the FY 2016-17 Investment Office Roadmap.</p>
10%	<p><b><u>Leadership</u></b>  <u>By June 30, 2017, provide leadership, decision-making and resource allocation in support of CalPERS' customer satisfaction driven organization to ensure the following leadership priorities are met:</u></p> <ul style="list-style-type: none"> <li>• <u>Core Values, Diversity &amp; Inclusion</u></li> <li>• <u>Workforce Planning</u></li> <li>• <u>Team Member Engagement &amp; Accountability</u></li> <li>• <u>Succession Planning</u></li> </ul>

Metrics																			
Weight	<i>Performance data for all Metrics to be provided in year-end report</i>																		
40%	<b>Total Fund Performance</b> Return deviation in basis points relative to: Total Fund performance versus Total Fund policy benchmark (7/1/12 - 6/30/17)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #D3D3D3;">Variance (bps) from Benchmark</th> <th style="background-color: #D3D3D3;">Payout Ratio</th> </tr> </thead> <tbody> <tr><td style="text-align: center;">+35</td><td style="text-align: center;">1.50</td></tr> <tr><td style="text-align: center;">+30</td><td style="text-align: center;">1.41</td></tr> <tr><td style="text-align: center;">+20</td><td style="text-align: center;">1.25</td></tr> <tr><td style="text-align: center;">+5</td><td style="text-align: center;">1.00</td></tr> <tr><td style="text-align: center;">0</td><td style="text-align: center;">.76</td></tr> <tr><td style="text-align: center;">-15</td><td style="text-align: center;">.05</td></tr> <tr><td style="text-align: center;">&lt; -15</td><td style="text-align: center;">.00</td></tr> </tbody> </table>	Variance (bps) from Benchmark	Payout Ratio	+35	1.50	+30	1.41	+20	1.25	+5	1.00	0	.76	-15	.05	< -15	.00	
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<del>20%</del> <u>15%</u>	<b>Investment Office CEM</b> The 2016-17 annual participation in the CEM benchmarking (CEM) survey analyzes CalPERS' investment costs and return performance over a five-year period against a customized peer group.	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #D3D3D3;">Score</th> <th style="background-color: #D3D3D3;">Rating</th> </tr> </thead> <tbody> <tr><td style="text-align: center;">Outperforms US Benchmark on Net Value Added (Returns) <b>and</b> Cost by 0.2% and 5 bps, respectively</td><td style="text-align: center;">1.50</td></tr> <tr><td style="text-align: center;">Outperforms US Benchmark on Returns <b>and</b> Cost by .001% and 1 bps, respectively</td><td style="text-align: center;">1.00</td></tr> <tr><td style="text-align: center;">Outperforms US Benchmark on Cost <b>or</b> Outperforms US Benchmark on Returns</td><td style="text-align: center;">.50</td></tr> <tr><td style="text-align: center;">Underperforms US Benchmark on Returns <b>and</b> Cost</td><td style="text-align: center;">0.00</td></tr> </tbody> </table>	Score	Rating	Outperforms US Benchmark on Net Value Added (Returns) <b>and</b> Cost by 0.2% and 5 bps, respectively	1.50	Outperforms US Benchmark on Returns <b>and</b> Cost by .001% and 1 bps, respectively	1.00	Outperforms US Benchmark on Cost <b>or</b> Outperforms US Benchmark on Returns	.50	Underperforms US Benchmark on Returns <b>and</b> Cost	0.00							
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<del>20%</del> <u>15%</u>	<b>Stakeholder Engagement</b> The Stakeholder Engagement Metric for 2016-17 is based on results of the following three Stakeholder Engagement Survey questions: <ul style="list-style-type: none"> <li>• Is CalPERS sensitive to the needs of Stakeholders?</li> <li>• Does CalPERS do a good job of keeping its stakeholders informed?</li> <li>• On a scale of one to ten, how would you rate CalPERS being effective in engaging and communicating with stakeholders?</li> </ul>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #D3D3D3;">Score</th> <th style="background-color: #D3D3D3;">Rating</th> </tr> </thead> <tbody> <tr><td style="text-align: center;">75%</td><td style="text-align: center;">1.50</td></tr> <tr><td style="text-align: center;">73% to &lt; 75%</td><td style="text-align: center;">1.25</td></tr> <tr><td style="text-align: center;">71% to &lt; 73%</td><td style="text-align: center;">1.00</td></tr> <tr><td style="text-align: center;">69% to &lt; 71%</td><td style="text-align: center;">.75</td></tr> <tr><td style="text-align: center;">67% to &lt; 69%</td><td style="text-align: center;">.50</td></tr> <tr><td style="text-align: center;">&lt; 67%</td><td style="text-align: center;">0.00</td></tr> </tbody> </table>	Score	Rating	75%	1.50	73% to < 75%	1.25	71% to < 73%	1.00	69% to < 71%	.75	67% to < 69%	.50	< 67%	0.00			
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10%	<b>Enterprise Operational Effectiveness</b> The Enterprise Operational Effectiveness Metric for 2016-17 is defined as Overhead Operating Costs as a percentage of Total Operating Costs ("OOC"). <ul style="list-style-type: none"> <li>• Total Overhead Operating Costs ("OOC") identify all administrative costs not mapped directly to Product and Service Delivery Operating Costs ("PSDOC")</li> <li>• <math>OOC = OOC / (OOC + PSDOC)</math></li> </ul>	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #D3D3D3;">Score</th> <th style="background-color: #D3D3D3;">Rating</th> </tr> </thead> <tbody> <tr><td style="text-align: center;">33.8%</td><td style="text-align: center;">1.50</td></tr> <tr><td style="text-align: center;">34.3%</td><td style="text-align: center;">1.25</td></tr> <tr><td style="text-align: center;">34.9%</td><td style="text-align: center;">1.00</td></tr> <tr><td style="text-align: center;">35.9%</td><td style="text-align: center;">.75</td></tr> <tr><td style="text-align: center;">36.4%</td><td style="text-align: center;">.50</td></tr> <tr><td style="text-align: center;">&gt;36.4%</td><td style="text-align: center;">0.00</td></tr> </tbody> </table> <p style="font-size: small; text-align: center;"><i>Intermediate points are interpolated</i></p>	Score	Rating	33.8%	1.50	34.3%	1.25	34.9%	1.00	35.9%	.75	36.4%	.50	>36.4%	0.00			
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Semiannual Status Update – Key Business Objectives
<p><b>Business Effectiveness</b></p> <ul style="list-style-type: none"> <li>○ Reduced Strategic Managers to 160</li> <li>○ Private Markets Business Model – Continue to explore the universe of private equity investment models</li> <li>○ Global Investment Performance Standards (GIPS) Implementation – GIPS feasibility study completed successfully - targeting July 1, 2017 implementation.</li> <li>○ Establish Investment Manager Engagement Program – Presented to IC in December the External Manager Monitoring and Evaluation Roadmap Initiative and FY16/17 business plan.</li> </ul> <p><b>Enhanced Capital Allocation Framework</b></p> <ul style="list-style-type: none"> <li>○ Functionalized ISG Subcommittees and standardized administrative protocols</li> <li>○ Currency Strategy Evaluation, with a focus on private markets – Assessed and evaluated currency impact within the</li> </ul>

Real Assets and Private Equity investment process.

- Benchmark Selection - Presented at the January 2017 Board Offsite material for public asset class roles, segments, regimes and benchmark selection.
- Total Fund Asset Allocation Strategy – Completed majority of peer fund leverage discussions; completed draft summary/takeaways from peer fund discussions and circulated with project team; started reviewing peer/academic papers for how to incorporate leverage into ALM optimization/portfolio construction process; will next complete final peer fund discussions, finalize draft leverage definition matrix, and begin analysis of potential strategies.

#### **Investment Beliefs & ESG Risk Integration**

- Presented to Investment Committee in December the Emerging and Transition Manager 2020 Plan.
- Initiated the ESG Strategic Plan – Refreshed data on the 8 previously identified S&P 500 companies with no women on their boards (3 of 8 companies have since added women) – staff will next write to the 5 remaining companies; conducted calls with global institutional investors and other organization to understand approach to engaging companies on climate change risk and wrote to global partners to explore ways for collaboration on engaging the top 100 carbon emitters as a global asset owner-led coalition. Coordinated company engagement under the new integrated structure and building process to ensure coordinated approach.
- Finalized and approved 2020 Diversity Plan and INVO Diversity & Inclusion Steering Committee. Presented a D&I update at INVO All Staff 12/8; continued regular planning meetings with Enterprise and CalSTRS to plan 2017 Diversity Forum.

#### **Investment Platform & Controls**

- Private Equity Portfolio Management Accounting & Data Services (PEARS) - Agreed to scope of work for the final release of PEARS
- Data Management, Core Capabilities – created policy artifacts in the position domain and defined roles and responsibilities; identified opportunities set; will next create new holding data report standards and add disclosures and re-write holding disclosure policy.
- Derivatives Management Future State (ESS) – Enhance collaboration between ESS, GFI and AA/RM. Continue testing/exploration of cross-asset execution platforms, and continue collaboration with other asset owner partners to discuss multi-asset technology and structural solutions.
- Asset Allocation Transition Management Platform – Tested and deployed an enhanced version of the Ryedale Allocations (Artemis) software with improved support for GE accounts; demonstrated a significantly enhanced/updated prototype of the Ryedale Transitions platform to CalPERS INVO users and stakeholders; will next develop required interfaces to other systems necessary for production readiness, conduct working session with key INVO users of planned Transitions platform; continue parallel testing of Artemis unit management functionality for GE accounts.
- Capital Analytics for Real Assets, Phase I – Completed timeline and project plan; will next hold sessions with Stakeholders to understand current processes. Workshop schedule in January.
- Trade Controls & Compliance Review – Met with State Street to finalize works stream deliverables re: externally-managed GE portfolios; scheduled GFI trade desk meetings in January and February.

#### **Investment Risk Management & Performance Attribution**

Developed enhanced framework, analysis, and presentation of Global Equity and Global Fixed Income program risk and attribution reviews

#### **Integrated Organizational Structure**

NEW:

- Investment Manager Engagement Program
- Cashflow “Waterfall” Monitoring
- Centralized administrative teams for Public Assets and Total Fund Support units
- Established new Opportunistic Credit Strategies group
- Re-aligned Global Governance to Sustainable Investment and Global Equity as presented to the Investment Committee in August 2016.
- Re-aligned Investment Risk and Performance team

The Investment Office will continue to manage and report on 2016-17 Roadmap initiatives; collaborate on the development of the 2017-22 Enterprise Strategic Plan as it relates to the Investment Office; continue progress on 2020 Vision; and, begin to identify 2017-18 Initiatives.