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Sent: Wednesday, June 17, 2020 6:40 AM

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Subject: Grand Jury Response-Performance Measures

Good Morning, Ms. Fukushima:

I am please to provide you below with a memorandum that provides an overview of the process and results of the Boards is Administration's approval of the performance measures/metrics for the CEO and CIO annual performance reviews.

Please note as the Boards will review and confirm the metrics annually at the outset of the evaluation period and as they get more working experience through the process, it is likely the metrics may be revised or expanded over time.

Let us know if you have any other questions or comments, thank you.

Roberto L. Peña

BACKGROUND

On behalf of the boards of the Police and Fire Department Retirement Plan and the Federated City Employees' Retirement System, I am pleased to provide the following update regarding our efforts to respond to the recent recommendations of the Grand Jury. In particular, the boards would like to update the Grand Jury on recommendation 4. b), which is reproduced below for reference purposes:

"The Boards of Administration should implement employee reviews based on measurable goals and performance metrics for the CEO and CIO. The goals and performance metrics should be completed and made public by December 31, 2019 (later extended to June 30, 2020)."

In 2019, in response to the above recommendation, the boards directed their Joint Personnel Committee ("JPC") to develop the performance metrics for the Chief Executive Officer ("CEO") and Chief Investment Officer ("CIO"). The JPC met numerous times in 2019 and 2020 and developed a recommended CEO Performance Evaluation Policy and a recommended CIO Performance Evaluation Policy. The Boards approved identical versions of the policies in public session in May 2020 (the Federated Board) and in June 2020 (the Police and Fire Board).

The policies set out the processes and performance metrics that will be used to evaluate the CEO and CIO each year. Given the timing of their approval, the board will only begin applying the policies in the 2020/21 fiscal year. Below is a summary of the performance metrics, which we understand were the focus of the Grand Jury's recommendation.

OVERVIEW

The boards approved two categories of performance metrics:

- Metrics pertaining to performance outcomes ("Outcomes"). These relate to the specific organizational outcomes the CEO and CIO are expected to accomplish personally and through their staff and service providers. The metrics pertaining to Outcomes are quantitative and measurable in nature.
- Metrics pertaining to management methods ("Methods"). These relate to the management methods the CEO and CIO use to accomplish the Outcomes. The Methods are relatively subjective and qualitative in nature, but the boards believe that if the CEO's and CIO's Methods fall short of the boards' expectations in these areas, they will eventually affect the Outcomes. It is therefore important that the Methods be assessed each year along with the Outcomes.

CEO PERFORMANCE METRICS

The CEO's performance metrics pertaining to Outcomes are summarized in Table 1 below:

| Table 1 Organizational Outcomes & Metrics – CEO | |
|--|--|
| Outcomes | Metrics |
| 1. Investment Performance | Investment net value-added relative to benchmark (rolling 3-year periods)* |
| 2. Benefit Administration Cost-effectiveness | Administration Cost-per-Member (ACPM) (rolling 3-year periods)* |
| 3. Member Service Quality | <i>Benefit Delivery Effectiveness:</i> |
| | a) Timeliness of monthly pension payments |
| | b) Timeliness of pension notifications of payment |
| | c) Timeliness of pension inceptions (i.e., initial benefit payment for normal, deferred vested, survivors and non-member DROs) |
| | <i>Member Satisfaction (to be measured using surveys):</i> |
| | a) Group counselling session attendee satisfaction |
| | b) ORS Website visitor satisfaction |
| | c) ORS Member Portal visitor satisfaction |

*For FY 2020/21 and FY 2021/22, the boards will consider 1 and 2-year rolling periods, respectively.

The CEO's performance metrics pertaining to Methods are summarized in Table 2 below:

| Table 2 Management Methods & Metrics – CEO | |
|---|---|
| Methods | Metrics |
| 1. Enterprise Risk Mgmt. | <ul style="list-style-type: none"> • Financial audit results • Quality of internal audit plan • Internal audit results • Compliance report findings • Quality of management's responses to above report findings |
| 2. Human Resources Mgmt. | <ul style="list-style-type: none"> • Employee turnover rates • Code of conduct violations • Employee climate survey results |
| 3. Stakeholder Relations | <ul style="list-style-type: none"> • Stakeholder interview findings (every 2-3 years) |
| 4. Operations Management | <ul style="list-style-type: none"> • Quality of annual CEO workplan • Progress on annual CEO workplan |
| 5. Leadership/Management | <ul style="list-style-type: none"> • Leadership/Management performance (based on board member survey results and discussions) |
| 6. Other | <ul style="list-style-type: none"> • Other factors or issues that occurred during the year that had not been contemplated at the outset of the year. |

CIO PERFORMANCE METRICS

The CIO's performance metrics pertaining to Outcomes are summarized in Table 3 below:

| Table 3 Organizational Outcomes & Metrics – CIO | |
|--|--|
| Organizational Outcomes | Metrics |
| 1. Investment Performance | <ul style="list-style-type: none">Investment net value-added relative to benchmark (rolling 3-year periods)* |

*For 2021 and 2022, the boards will consider 1 and 2-year rolling periods, respectively.

The CIO's performance metrics pertaining to Methods are summarized in Table 4 below:

| Table 4 Management Methods & Metrics – CIO | |
|---|---|
| Methods | Metrics |
| 1. Enterprise Risk Mgmt. | <ul style="list-style-type: none">Financial audit resultsQuality of internal audit planInternal audit resultsCompliance report findingsQuality of management's responses to above report findings |
| 2. Human Resources Mgmt. | <ul style="list-style-type: none">Employee turnover ratesCode of conduct violationsEmployee climate survey results |
| 3. Stakeholder Relations | <ul style="list-style-type: none">Stakeholder interview findings (every 2-3 years) |
| 4. Operations Management | <ul style="list-style-type: none">Quality of annual CIO workplanProgress on annual CIO workplan |
| 5. Leadership/Management | <ul style="list-style-type: none">Leadership/Management performance (based on board member survey results and discussions) |
| 6. Other | <ul style="list-style-type: none">Other factors or issues that occurred during the year that had not been contemplated at the outset of the year. |

Note, there are fewer Outcomes and related metrics for the CIO than the CEO, given the differences between the two positions. The Methods however are identical for each position. According to the evaluation policies, the boards will review and confirm the metrics annually at the outset of the evaluation period. While the boards expect the Outcomes and Means to remain relatively constant over time, the metrics may be expanded over time; e.g. the boards may add additional metrics to assess member satisfaction.

We appreciate the work and recommendations of the Grand Jury; and we trust the above adequately addresses the recommendation regarding performance metrics. If the Grand Jury has any questions, please feel free to contact me.