

SAN JOSÉ RETIREMENT BOARDS
PROCEDURES FOR EVALUATING THE PERFORMANCE OF THE CIO

Background

- 1) The Board has approved the CIO Performance Evaluation Policy (“Policy”) which sets out broad criteria (Outcomes and Methods) for evaluating the performance of the CIO and the general process to be followed. The Policy further provides that the JPC shall be authorized to approve Procedures necessary to implement the Policy and that such Procedures may include detailed timelines, survey instruments, formulas, and calculation methods, and methods to ensure appropriate, independent data collection.
- 2) Accordingly, the JPC has approved these Procedures, which address the following:
 - a) The Metrics and weights associated with the broad evaluation criteria;
 - b) Guidelines for measuring and evaluating each Metric;
 - c) Guidelines for arriving at an overall evaluation of the CIO; and
 - d) Survey templates for use in the evaluation process.
- 3) The Board will begin implementing these Procedures for the Evaluation Period commencing July 1, 2020. The Board expects however that the Procedures and data collection methods will be refined and/or developed over the course of the first several evaluations.

Metrics and Weights

- 4) Tables 1 and 2 list the Metrics and associated weights for evaluating the CIO, all of which shall be approved by the Board on the recommendation of the JPC, in order to take effect. Consistent with the Policy, weights shall only be assigned to Outcomes.

Table 1 Organizational Outcomes		
Organizational Outcomes	Metrics (Weights)	Weight %
1. Investment Performance	<ul style="list-style-type: none"> Net value-added (rolling 3-year periods) 	100%
TOTAL		100%

Table 2 Management Methods		
Management Methods	Metrics	Weights
Enterprise Risk Mgmt. (Investment-related)	1. Financial audit results 2. Quality of internal audit Plan 3. Internal audit results 4. Compliance report findings 5. Quality of management's responses to above	N/A
Human Resources Mgmt. (Investment-related)	1. Employee turnover rates 2. Code of conduct violations 3. Climate survey results/City engagement survey results	
Stakeholder Relations	1. Stakeholder interview findings	
Operations Mgmt.	1. Quality of annual workplan 2. Progress on annual workplan 3. Appropriateness of any mid-year adjustments	
Leadership/Management	1. Leadership/Management survey results 2. Other	

The balance of these Procedures describe how the various Metrics will be calculated, assessed, and/or measured each year.

Organizational Outcomes

Investment Performance

- 5) Investment Performance will be evaluated by comparing the **Net Value-Added** for each of the pension trusts (“Fund”) to a **Net Value-Added Objective** for each pension trust on a 3-year rolling basis. Until 3-year rolling data becomes available, the Board and JPC will consider 1- and 2-year performance figures.
- 6) For each Fund, the Net Value-added Objective represents the added-value that the Boards, ICs and CIO/CIO believe can be achieved relative to the Investable Benchmark Portfolio (excluding private markets)¹, and is calculated as follows:

$$\begin{array}{ccccccc} \text{Current} & & \text{Assumed} & & \text{Gross} & & \text{Expected} & & \text{Net} \\ \text{Risk} & \times & \text{Information} & = & \text{Value-added} & - & \text{Investment} & = & \text{Value-added} \\ \text{Target} & & \text{Ratio} & & \text{Objective} & & \text{Costs} & & \text{Objective} \end{array}$$

- a) The Current Risk Target refers to the target level of active risk in the Fund, excluding private markets. Such target level of risk must be within the risk operating zones approved by each Board and defined in Appendix C of the respective IPS.
- b) The Assumed Information Ratio refers to the assumed level of active management skill on the part of ORS investment staff. Such skill is defined relative to other active investors. For example, if ORS investment staff are assumed to have a skill level consistent with the top-third of active investors (before fees/costs), this corresponds to an Assumed Information Ratio of 0.43; i.e. every 100 basis point of risk that is taken is assumed to generate 43 bps of added value before underlying manager fees are considered. (A median manager, by definition, has no skill in adding value and therefore has an information ratio of zero.)
- c) Expected Investment Costs are the expected costs associated with each Fund, excluding private markets. See Appendix A for details on how investment costs are to be calculated.
- 7) If the actual Net Value-Added by each Fund relative to the associated Investable Benchmark (excluding private markets) during the Evaluation Period meets or exceeds the Net Value-Added Objective, the CIO will be awarded a score equal to 100% of the weight assigned to this Metric. If the actual Net Value-Added is less than the Net Value-Added Objective, the CIO will be awarded a proportionate amount of the weight associated with this Metric; e.g. achieving 50% of the Net Value-Added Objective will be awarded 50% of the weight associated with the Metric. The lowest score that may be awarded is zero.² Note, the Net Value-Added for each Fund shall be averaged (simple average) to arrive at an overall score.

¹ For purposes of this calculation, fixed rather than floating weights will be used for public market asset classes.

² If actual Investment Costs are higher or lower than expected, the CIO may still meet the performance target provided the Net Value-added Objective is nevertheless achieved.

- 8) The following is an illustration of how the Net Value-Added Objective would be calculated for each Fund and how the CIO's performance would be evaluated against it. All figures are hypothetical and expressed in basis points (bps) unless otherwise noted.

Calculation of Net Value-Added Objective for Fund A – An Illustration (Calculated in Advance)		
Target level of active risk (Source: IPS or Risk Policy)	250	A
Assumed level of active skill by ORS staff	Top third of investors ^{3 4}	B
Corresponding information ratio for a top third active investor	0.43	C
Annualized Gross Value-added Objective	108	$D = A \times C$
Expected annual Investment Costs	90	E
Net Value-Added Objective	18	$F = D - E$
Evaluating Performance for Fund A – An Illustration		
Annualized <u>Gross</u> Return	7.30%	G
Annualized Investable Benchmark Return (exc. Private markets)	6.30%	H
Gross Value-added	120	$I = G - H$
Actual Investment Costs	105	J
Net Value-added	15	$K = I - J$
% Net Value-added relative to Objective	83%	$L = K/F$
Weight assigned to Performance Evaluation	20%	M
Score out of 20⁵	17	$N = L \times M$
An identical calculation would be performed for Fund B and a simple average of the two scores would be determined.		

- 9) In consultation with the Investment Committee Chairs, the JPC shall annually review and approve the Net Value-added Objective prior to the start of the Evaluation Period.

³ The skill is measured on an ex-ante (expected) basis, not ex-post (realized).

⁴ Metrics are applied to investable assets only (i.e. excluding private market investments).

⁵ When the % Net Value-added relative to Objective Minimum score:

< 0%, Score = 0; and

> 100%, Score = 20.

Management Methods

- 10) This section provides further detail and guidance regarding the Metrics to be used to evaluate the Management Methods used by the CIO.
- 11) The subjective Metrics encompass considerable data, information, and reports; and it is not the intention of the Board to calculate scores for each Metric. Instead, the Board and JPC are expected to use all the information to facilitate in-depth discussions with the CIO to:
 - a) Clarify the Board's expectations of the CIO;
 - b) Build on the strengths of the CIO;
 - c) Identify areas where the CIO may make unique contributions to the long-term success of ORS; and
 - d) Identify areas for further personal growth and development.

Enterprise Risk Management (Investment-related)

- 12) Enterprise risk management in connection with the investment function will be evaluated based on the following Metrics:
 - a) Satisfactory results of the external financial audit; i.e. no material findings
 - b) Results of all internal audit reports completed pursuant to the annual internal audit plan
 - c) Results of compliance reports (e.g. investment risk)
 - d) Quality of Management's response to the above external and internal audit findings

Human Resources Management (Investment-related)

- 13) The ability of the CIO to effectively manage the investment-related human resources of the ORS shall be evaluated using the following Metrics:
 - a) Employee turnover/attrition rates
 - b) Reported violations of the code of conduct
 - c) Climate survey results. Commencing in FY 2020/21, this survey will be administered to all ORS staff semi-annually in the September/October and March/April.

See Appendix B for Climate Survey.

- 14) The above climate survey shall:
 - a) Allow employees to participate on an anonymous basis.
 - b) Be administered by a the [Internal Auditor] or a third-party. The third-party or Internal Auditor shall provide a copy of the survey results to the CIO and the Designees.
- 15) In years where ORS participates in the City-mandated employee engagement survey, the results of such survey shall also be considered in the evaluation.

Stakeholder Relations

- 16) Obtaining feedback from stakeholders regarding their satisfaction with the performance of the CIO using surveys is likely to be challenging, as stakeholders may not complete surveys and/or provide enough detail. Accordingly, every 2-3 years, members of each retirement board, as designated by the JPC Designees, shall conduct personal interviews with key interested stakeholders regarding the performance of the CIO. Stakeholders to be invited to participate may include:
 - a) The Mayor's Office
 - b) Retiree Association
 - c) City Council
 - d) Active member associations
 - e) City Administration
 - f) Consultants
- 17) Interview guides shall be approved by the JPC and provided to interviewees in advance of the interviews. Board members conducting the interviews shall provide summaries of the interviews to the Designees. Summaries shall include all relevant issues and themes for consideration in the CIO evaluation. The Designees shall prepare a combined summary or may designate the CIO or other party to do so.
- 18) The JPC Designees may request that the CEO assist in scheduling/coordinating stakeholder interviews.
- 19) The first stakeholder outreach effort is not expected to occur before the FY 2021/22 Evaluation Period.

Operations Management

- 20) The operational management skills of the CIO shall be assessed by reviewing the CIO's annual workplan and associated status reports and considering the following:
 - a) Quality of the annual workplan; i.e. did the CIO identify critical initiatives that need to be carried out during the year to have the greatest impact on the operational metrics and the future success of the System?
 - b) Does the workplan include unique contributions that the CIO will personally strive to make to the organization over the coming year?
 - c) Did the CIO make sufficient progress during the year in completing the workplan?
 - d) Did the CIO exercise good judgement in responding to unexpected events during the year and adjusting workplan accordingly?

Leadership/Management Abilities

- 21) An assessment of the CIO's leadership/management skills shall be carried out using a survey of all board members. See Appendix C for the survey instrument.
- 22) The Designees shall administer the survey or may direct an independent party to do so.

Year-end Evaluation

- 23) As per the Policy, in July/August of each year, the CIO shall prepare a draft Preliminary Report summarizing all the necessary data and reports pertaining to the performance Metrics including the CIO's self-assessment.
- 24) The CIO shall submit the draft Preliminary Report to the Designees, who shall finalize it for distribution to the Board along with a Worksheet (See Appendix D for Worksheet template). The Worksheet shall allow Board members to rate the CIO's performance on each of the Methods using the following scale and the CIO shall use the same scale in his self-assessment:
- Exceeds expectations
 - Meets expectations
 - Needs improvement
- 25) The CIO Performance Evaluation Policy (paragraphs 13-15) describes the remaining steps in the evaluation process.

Procedure Review & History

- 26) These procedures shall be reviewed annually by the JPC.
- 27) The JPC approved these procedures on [mm, dd, yy].

Appendix A

Investment Costs

For the purposes of calculating Net Value-Added, **Investment Costs** shall consist of the investment-related costs associated with managing the investment portfolios of both the Police and Fire Department Retirement Plan and the Federated Employees' Retirement System, excluding the private market assets.

Investment Costs shall be calculated using the same approach and methodology used in preparing the Annual Fee Report ("Fee Report") that is submitted to the City. The following adjustments shall be made to the costs included in the Fee Report in order to arrive at Investment Costs:

- 1) Where possible, all fees and costs attributable to the private market assets of the portfolios shall be excluded from Investment Costs including:
 - a) Investment Manager Fees
 - b) Investment Manager Incentive Fees
 - c) Operating Expenses
 - d) Custodian fees
 - e) Consultant fees/costs
 - f) Travel costs
 - g) Staff compensation costs
- 2) Consulting costs associated with asset allocation studies shall be excluded from Investment Costs, given that such studies do not support the active management program but instead support the Board in determining the strategic asset allocation policy.

Appendix B

Employee Climate Survey

Rate the extent to which you agree with the following statements over the past year.

1 - Strongly Disagree **3 – Neutral**

5 – Strongly Agree

2 - Disagree

4 - Agree

NA - Not Applicable (e.g. I just joined ORS)

	1	2	3	4	5	NA
1. The strategic direction (e.g. goals and objectives) of the Investment Division is sufficiently clear .	()	()	()	()	()	()
2. My supervisor provides me with sufficiently clear and consistent direction to allow me to perform my duties well.	()	()	()	()	()	()
3. I feel comfortable giving upward feedback to my supervisor.	()	()	()	()	()	()
4. The ORS office premises and facilities are adequate to allow me to carry out my duties effectively.	()	()	()	()	()	()
5. I have the authority to make the decisions necessary for me to complete my work	()	()	()	()	()	()
6. Investment staff are treated fairly, respectfully, and ethically .	()	()	()	()	()	()
7. I find the social and work environment within the Investment Division satisfying .	()	()	()	()	()	()
8. I feel that my co-workers respect one another .	()	()	()	()	()	()
9. I feel valued at work.	()	()	()	()	()	()
10. I am sufficiently motivated and energized by the mission and work of ORS.	()	()	()	()	()	()
11. My ideas and contributions are recognized by my superiors.	()	()	()	()	()	()
12. My daily job activities are sufficiently interesting/challenging .	()	()	()	()	()	()
13. I feel I am often under excessive pressure at work.	()	()	()	()	()	()
14. I have sufficient opportunities to develop my knowledge and skills through training or work assignments.	()	()	()	()	()	()
15. I find my job rewarding .	()	()	()	()	()	()
16. I typically look forward to going to work.	()	()	()	()	()	()
17. I would recommend the Investment Division as a place of employment to a friend.	()	()	()	()	()	()

Appendix B (cont'd)

2) *Hypothetically, if you were to quit tomorrow, what would your reason be?*

3) *Please use the space below to provide any **additional comments or suggestions** related to your experience working at ORS.*

Appendix C

Management/Leadership Survey

Chief Investment Officer Survey

The CIO:	Needs Improvement	Meets Expectations	Exceeds Expectations	Unable to Assess
1. Projects a positive image for himself and the retirements systems to all stakeholders.				
2. Effectively represents and promotes the interests of the retirement system to stakeholders.				
3. Promotes and maintains trust and confidence vis-a-vis key stakeholders (e.g. the City Council).				
4. Demonstrates a high degree of personal integrity, ethics, and decorum.				
5. Promotes high levels of integrity, professionalism, and decorum throughout the organization.				
6. Generates energy and enthusiasm.				
7. Demonstrates a commitment to innovation and creativity and encourages the same from those around him.				
8. Demonstrates an appreciation of both the "big picture" (e.g. strategy and policy) and the day-to-day tasks of management and administration.				
9. Effectively monitors trends in the environment (e.g. the City, pension industry, etc.) that may have a significant impact on the Systems.				
10. Provides sound recommendations or guidance to the Board/committees regarding board policy matters and decisions.				
11. Demonstrates good judgment in his actions, decisions, and communications.				
12. Keeps the Board and IC properly informed of all relevant matters.				

Please elaborate on any of the scores your provided above:

The CIO:	Needs Improvement	Meets Expectations	Exceeds Expectations	Unable to Assess
13. Provides clear, accurate and informative written reports and memoranda.				
14. Communicates effectively in oral reports, presentations, and other communications.				
15. Articulates a clear and appropriate strategy and direction for the investment program.				
16. Responds appropriately to unexpected events and changes in the environment, making reasonable changes and trade-offs.				
17. Is responsive to questions and concerns of board members.				
18. Welcomes feedback, suggestions, new ideas, and constructive criticism.				
19. Demonstrates a strong service orientation towards the membership.				
20. Demonstrates a strong service orientation towards key stakeholders.				
21. Demonstrates appropriate leadership and oversight of the investment function.				
22. Demonstrates an ability to work effectively with the senior management team.				
23. Promotes staff satisfaction, development, and recognition.				
24. Promotes appropriate leadership development opportunities for staff such as leadership training, team assignments, and special projects.				

Please elaborate on any of the scores your provided above:

The CIO:	Needs Improvement	Meets Expectations	Exceeds Expectations	Unable to Assess
25. Demonstrates sufficient technical and professional knowledge of investments.				
26. Provides effective support to the Board and its committees in their policy- and decision-making functions, including identifying and analyzing issues requiring Board policy and providing clear, well-supported recommendations.				
27. Effectively supports the Board's orientation and training needs.				
28. Develops and recommends an appropriate operating budget for the Investment Division.				
29. Provides all necessary assistance and support to ensure Board and IC meetings are efficient and effective.				
30. Interacts effectively with the media and the general public.				
31. Demonstrates an ability to work effectively with the Mayor's Office, City Council, and City Administration.				
32. Utilizes consultants and other service providers in an effective and efficient manner.				
33. Works to ensure the Board is provided all the investment-related information and reports it needs to be effective and efficient.				

Please elaborate on any of the scores your provided above:

Please elaborate on any areas where you believe the CIO is particularly strong:

Please elaborate on any areas where you believe the CIO could improve:

Appendix E

Worksheet Template

CIO PERFORMANCE EVALUATION – FY2023

WORKSHEET

This Worksheet serves as a tool Board members may use to organize their thoughts and impressions concerning the methods the CIO used to achieve the agreed-upon performance Outcomes in 2023. The Worksheet contains five sections corresponding to the Methods the Board identified for evaluation purposes. It also contains one additional open-ended section to allow Board members to write notes on any “Other” metrics, criteria, and factors they believe should also be considered in the evaluation, but that were not contemplated by the Board at the time the Metrics were approved.

The six sections include:

1. Enterprise risk management
2. Human resources management
3. Stakeholder relations
4. Operations Management
5. Leadership/General Management
6. Other

Board members are encouraged to complete the Worksheet and bring it with them to the closed session meeting scheduled for [DATE] to discuss the CIO’s performance.

A) ENTERPRISE RISK MANAGEMENT (ERM)

The 2023 CIO Performance Report contains information to help the Board evaluate the CIO's performance in the area of Enterprise Risk Management. Such information includes:

- The recent financial audit results
- The current internal Audit Plan and summaries of the internal audits completed in the past year
- A summary of key compliance reports prepared during the past year
- Management's responses to the above audits and reports
- The CIO's self-assessment of this area

Based on my review of the information provided, my general assessment of the CIO's performance with respect to Enterprise Risk Management is (circle one):

- a) **Exceeds expectations**
- b) **Meets expectations**
- c) **Needs improvement**

Comments and suggestions I would like to share with the CIO and/or Board include:

What other factors and information, if any, influenced my rating?

Additional information or metrics related to Enterprise Risk Management for possible inclusion in next year's evaluation include:

B) HUMAN RESOURCES MANAGEMENT

The 2023 CIO Performance Report contains information to help the Board evaluate the CIO's performance in the area of Human Resources Management. Such information includes:

- Employee turnover/attrition rates
- Vacancies and hires
- Reported violations of the code of conduct
- Employee climate survey results
- The CIO's self-assessment of this area

Based on my review of the information provided, my general assessment of the CIO's performance regarding Human Resources Management is (circle one):

- a) **Exceeds expectations**
- b) **Meets expectations**
- c) **Needs improvement**

Comments and suggestions I would like to share with the CIO and/or Board include:

What other factors and information, if any, influenced my rating?

Additional information or metrics related to Human Resources Management for possible inclusion in next year's evaluation include:

C) STAKEHOLDER RELATIONS

The 2023 CIO Performance Report includes information to help the Board evaluate the CIO's effectiveness in the area of Stakeholder relations. Such information includes:

- a Stakeholder Interview Summary Report⁶
- The CIO's self-assessment of this area

Based on my review of the above, my general assessment of the CIO's performance regarding Stakeholder Relations is (circle one):

- a) **Exceeds expectations**
- b) **Meets expectations**
- c) **Needs improvement**

Comments and suggestions I would like to share with the CIO and/or the Board include:

What other factors and information, if any, influenced my rating?

Other suggested information or metrics related to Stakeholder Relations Management for inclusion in next year's evaluation include:

⁶ Stakeholder interviews were conducted by Board members and summarized jointly by the Board Chairs.

D) OPERATIONS MANAGEMENT

The 2023 CIO Performance Report contains information to help the Board evaluate the CIO's Operational Management efforts. Such information includes:

- The CIO's Annual Workplan for 2023
- Progress reports prepared by the CIO in connection with the above Workplan
- Other accomplishments and issues identified by the CIO that were not contemplated at the beginning of the evaluation period, but which the CIO wishes to bring to the Board's attention.
- The CIO's self-assessment on this Metric

Based on my review of the above information, my general assessment of the CIO's performance regarding operations management is (circle one):

- a) **Exceeds expectations**
- b) **Meets expectations**
- c) **Needs improvement**

Comments and suggestions I would like to share with the CIO and/or the Board include:

What other factors and information, if any, influenced my rating?

Other suggested information or metrics related to Operations Management for inclusion in next year's evaluation include:

E) LEADERSHIP/MANAGEMENT ABILITIES

The 2023 CIO Performance Report contains information to help the Board evaluate the CIO's general leadership and management abilities. Such information includes:

- The results of the CIO Management Survey that is completed annually by all Board members
- The CIO's self-assessment on this Metric based on the same survey instrument

Based on my review of the above, my general assessment of the CIO's general Leadership and Management Abilities is (circle one):

- a) **Exceeds expectations**
- b) **Meets expectations**
- c) **Needs improvement**

Comments and suggestions I would like to share with the CIO and/or the Board include:

What other factors and information, if any, influenced my rating?

Other suggested information or metrics related to Leadership/Management for inclusion in next year's evaluation include:

F) OTHER METRICS AND FACTORS

Were there any other accomplishments, challenges, or issues that occurred during the past year that you believe should also be factored into the evaluation and communicated to the CIO (positive or negative):

OTHER NOTES
