



MEMORANDUM

TO: JOINT PERSONNEL COMMITTEE
FROM: TOM IANNUCCI & VALTER VIOLA, CORTEX APPLIED RESEARCH
SUBJECT: CEO PERFORMANCE METRICS, WEIGHTS, AND RELATED PARAMETERS
DATE: AUGUST 6, 2020
CC:

The policy for evaluating the performance of the CEO requires that the JPC recommend the performance Metrics and applicable weights to the Boards for approval.

Tables 1 and 2 contain staff's and Cortex's recommendations regarding the Metrics, weights, and benchmarks for the CEO Evaluation Period July 1, 2020 to June 30, 2021.

Appendix A contains data and calculations to support the recommended investment Metric (Net Value-Added Objective).

If any member of the JPC has questions concerning this memorandum, please feel free to contact ORS senior management or Tom Iannucci of Cortex (tiannucci@cortexconsulting.com or 416- 967-0252 ext. 223).

Table 1 Organizational Outcomes		
Organizational Outcomes	Metrics, Sub-weights, & Benchmarks	Total Weights %
1. Investment Performance	<ul style="list-style-type: none"> Net value-added (rolling 3-year periods) <p>Benchmark: Net Value-Added above the Investable Benchmark (excluding private markets) of 18 bps.</p> <p>See Appendix for supporting calculations.</p>	20%
2. Benefit Admin. Cost-effectiveness	<ul style="list-style-type: none"> Administration Cost-per-Member (ACPM) <p>Benchmark: None for current Evaluation Period. (Benchmark to be developed after customer service data is collected in FY2021)</p>	10%
3. Member Service	<i>Benefit Delivery:</i>	35%
	<ul style="list-style-type: none"> Timeliness of monthly pension payments (4% weight) Timeliness of pension notifications of payment (1% weight) Timeliness of pension inceptions (normal, deferred vested, survivors and non-member DROs) (30% equal weighted) <p>Benchmark: Percentage scores will be calculated and applied to the weight applicable for each Metric.</p>	
	<i>Member Satisfaction:</i>	35%
	<ul style="list-style-type: none"> Group counselling session survey results (14%) ORS Website visitor survey results (7%) ORS Member Portal visitor survey results (14%) <p>Benchmark: Percentage scores will be calculated and applied to the weight applicable to each Metric.</p>	
TOTAL		100%

Table 2 Management Methods		
Management Methods	Metrics	Weights
Enterprise Risk Mgmt.	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	No Weights to be Applied Performance to be assessed as follows: <ul style="list-style-type: none"> • Exceeds expectations • Meets expectations • Needs improvement
Human Resources Mgmt.	1. Employee turnover rates 2. Code of conduct violations 3. Climate survey results/City engagement survey results	
Stakeholder Relations	1. Stakeholder interview findings <i>Stakeholder interviews will occur every 2-3 years. Interviews will not be scheduled for FY 2020/21</i>	
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 Trustee observations	

APPENDIX A
DATA AND CALCULATIONS TO SUPPORT CALCULATION OF NET VALUE-ADDED OBJECTIVE

Table I Calculation of Net Value-Added Objective (3-Year Rolling)			
		P&F	Federated
A	Target level of active risk (Source: IPS or Risk Policy)	250	250
B	Assumed level of active skill by ORS staff	Top third of investors ^{1 2}	Top third of investors
C	Corresponding information ratio for a top third active investor	0.43	0.43
D	Annualized Gross Value-added Objective (A x C) (bps)	108	108
E	Expected annual Investment Costs (bps) (see Table II for details)	82	89
F	Net Value-Added Objective (D – E)	26	19

¹ The skill is measured on an ex-ante (expected) basis, not ex-post (realized).

² Metrics are applied to investable assets only (i.e. excluding private market investments).

Table II
Calculation of Expected Investment Costs³

	P&F			Federated		
Investment Costs (\$Millions)	Total	Public Mkt. Related	Private Mkt. Related	Total	Public Mkt. Related	Private Mkt. Related
I. PORTFOLIO FEES & OPX						
Passive	0.8	0.8		0.5	0.5	
Active	6.9	6.9		3.2	3.2	
Hedged	15.7	15.7		11.8	11.8	
Private	9.7	-	9.7	9.7	-	9.7
Sub-total	33.1	23.4	9.7	25.2	15.5	9.7
Rounding*	0.1	0.1	-	0.2	0.2	-
Total Portfolio Fees & OPX	33.2	23.5	9.7	25.4	15.7	9.7
II. PENSION & OTHER INVESTMENT COSTS						
Investment Staff Salary/Benefits ⁴	1.0	0.5	0.5	0.6	0.3	0.3
Consultants ⁵	0.7	0.4	0.3	0.6	0.3	0.3
Custodian ⁶	0.3	-	0.3	0.3	-	0.3
Other Vendors & Travel ⁷	0.5	0.3	0.2	0.4	0.2	0.2
Sub-total	2.5	1.2	1.3	1.9	0.8	1.1
Rounding*	0.1	0.1	-	0.1	0.1	-
Total Pension & Other Investment Costs	2.6	1.3	1.3	2.0	0.9	1.1
Total Fees & Costs (\$Millions)	35.8	24.8	11.0	27.4	16.6	10.8

Total Assets (\$Millions)⁸	3,658	3,037	621	2,171	1,861	310
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**Total Fees & Costs/
Total Assets (bps)**

82

89

* Rounding is needed to match the 2018 Annual Fee Report, and is allocated to Public Markets.

³ Source: 2018 Annual Fee Report (Tables 3 & 5); We have used 2018 data as the initial estimate for FY2020.

⁴ For simplicity, we have allocated staff costs 50/50 to public and private.

⁵ Same assumption as above, except for rounding.

⁶ We have assumed custodian costs are essentially the same regardless of whether assets are managed actively, so we have not included any custodian fees in public markets.

⁷ For simplicity, we have assumed 50/50 allocation to public and private, except for rounding.

⁸ Source: Average balances from 2018 Annual Fee Report