
MEMORANDUM

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

The policy for evaluating the performance of the CIO 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 CIO 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>	100%
TOTAL		100%

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

**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