

SAN JOSÉ RETIREMENT BOARDS
DRAFT 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, 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, 2021. To prepare for such implementation, Staff will continue to develop and refine the necessary data collection tools in advance of the above date and shall update the JPC on its progress. To further prepare, the Board may conduct a mock evaluation in the fall of 2021.

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.

Table 1 Organizational Outcomes (Total Weight in Overall Evaluation: 60%)		
Organizational Outcomes	Metrics (Weights)	Sub-Weights %
1. Investment Performance (rolling 3-yr.)	<ul style="list-style-type: none"> • Net Fund Performance vs. Investable Benchmark Portfolio • Performance of private mkt portfolio vs. appropriate private market benchmark (TBD) • Total Fund Sharpe Ratio vs. comparable peer Ratio 	<p>No sub-weights shall be established for each Metric</p> <p>Max. 60% weight is applied using the following scale:</p> <ul style="list-style-type: none"> • Outstanding • Commendable • Satisfactory • Needs improvement
		60%

Table 2 Management Methods (Total Weight in Overall Evaluation: 40%)		
Management Methods	Metrics	Weights
Enterprise Risk Management	<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 sub-weights shall be established for each Metric</p>
Human Resources Management	<ol style="list-style-type: none"> 1. Employee turnover rates 2. Code of conduct violations 3. Climate/City engagement survey results 	<p>Max. 40% weight is applied using the following scale:</p> <ul style="list-style-type: none"> • Outstanding • Commendable • Satisfactory • Needs improvement
Stakeholder Relations	<ol style="list-style-type: none"> 1. Stakeholder interview findings 	
Operations Management	<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 	

Determining a Final Evaluation Score and Adjustments to Compensation

- 5) As per the framework in Table 3 below, the Boards shall rate the CIO on Organizational Outcomes and Management Methods. Using the ratings and the corresponding baseline parameters, also set out in Table 3, the Boards shall exercise their discretion to determine:
 - a) An Individual Performance-based Compensation Adjustments (“IPCA”), and
 - b) An Additional Executive Leave to be awarded to the CIO.¹

- 6) The baseline parameters set out in Table 3 are not intended to restrict the Boards’ ability to exercise their discretion to award higher or lower IPCA and Executive Leave reflecting relevant factors and circumstances such as the magnitude of the year’s out-performance or under-performance, the amounts awarded in prior years, peer practices, etc.

Table 3			
Organizational Outcomes Rating (60% Weight)	Management Methods Rating (40% Weight)	Baseline IPCA Award (%)	Baseline Additional Executive Leave (Days)
Outstanding	Outstanding	3%-5% >3%	5
Commendable	Commendable	2%-3%	4
Satisfactory	Satisfactory	1	2
Needs Improvement	Needs Improvement	0	0

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

¹ IPCA and Additional Executive Leave are terms used in the City’s Management Performance Program.

Organizational Outcomes

Investment Performance Metrics

- 5) Investment Performance will be evaluated by assessing the investment performance of the Fund relative to the following Metrics and corresponding benchmarks:
 - a) Total Fund Performance versus the return on the Investable Benchmark Portfolio;
 - b) Performance of the Fund's private market asset classes versus an appropriate Private Markets Benchmark.
 - c) The Total Fund Sharpe Ratio versus the Total Fund Sharpe Ratio of an appropriate public fund peer group.
- 6) The above Investment Metrics together shall have a weight of 60% in the overall evaluation (See Table 1); i.e. the above investment Metrics shall be evaluated *as a group* with no weights assigned to individual Investment Metrics.
- 7) The Investment Metrics shall be determined using rolling 3-year data once such data is available. Until that time, the Metrics shall be based on available data (i.e., 1- or 2-year data).
- 8) The Investment Metrics shall be evaluated net of external manager fees.
- 9) Investment performance and benchmark returns shall be supplied by the General Investment Consultant and shall correspond to the data provided in the Consultant's quarterly performance report. See benchmark definitions in the table below.

Investment Benchmarks	Definition/Composition
Investable Benchmark Portfolio	The Investable Benchmark Portfolio includes the same underlying benchmarks as the Strategic Asset Allocation Portfolio (SAAP), but would use an actual invested weight for each asset class. This will account for weighting differences to the SAAP in asset classes that take more than one year to invest (private markets asset classes)
Private Markets Benchmark	TBD

- 10) Each Board shall evaluate investment performance separately considering only the performance of their respective funds. As provided for in the CIO Performance Evaluation Policy, if the two boards arrive at different ratings or awards, the Designees may reconcile the differences when developing final recommendations for the Boards.

Management Methods

- 11) This section provides further detail and guidance regarding the Metrics to be used to evaluate the Management Methods used by the CIO.
- 12) 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 arrive at an overall aggregate score on the CIO's management methods.

Enterprise Risk Management

- 13) Enterprise risk management will be evaluated based on the following Metrics in connection with investment matters for which the CIO is responsible:
 - 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

- 14) The ability of the CIO to effectively manage the human resources of the ORS investment staff shall be evaluated using the following Metrics:
 - a) Employee turnover/attrition rates
 - b) Reported violations of the code of conduct
 - c) Climate survey results. The survey is to be administered to all ORS staff at least annually.
- 15) The above climate survey shall:
 - a) Allow employees to participate on an anonymous basis.
 - b) Be administered by the Internal Auditor. The Internal Auditor shall provide a copy of the survey results to the CIO and the Designees.
- 16) 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

- 17) 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 and City Council Liaison
 - d) Active member associations
 - e) City Administration
 - f) Consultants
- 18) 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 evaluation. The Designees shall prepare a combined summary or may designate another party to do so.
- 19) The JPC Designees may request that the CIO assist in scheduling/coordinating stakeholder interviews.
- 20) The first stakeholder outreach effort is not expected to occur before the FY 2021/22 Evaluation Period.

Operations Management

- 21) 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 investment program?
 - 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 judgment in responding to unexpected events during the year and adjusting workplan accordingly?

Leadership/Management Abilities

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

Year-end Evaluation

- 24) 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.
- 25) 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 B for Worksheet template). The Worksheet shall allow Board members to rate the CIO's performance using the following scale and the CIO shall use the same scale in his self-assessment:
- Outstanding
 - Commendable
 - Satisfactory
 - Needs improvement
- 26) Within three months of the end of the Evaluation Period (i.e., by September 30), the Designees shall submit the preliminary CIO Performance Report to the Boards and shall, separately or jointly, meet with each Board in closed session to review the Report and gather any additional input. The preliminary CIO Performance Report shall be provided to the Boards at least seven days prior to the closed session meetings.
- 27) In their respective closed session(s), each Board shall rate the CIO's Performance Outcomes and Management Methods (e.g. "Outstanding") and arrive at preliminary determinations regarding Individual Personal Compensation Adjustments ("IPCA") and Additional Executive Leave Days to be awarded to the CIO.

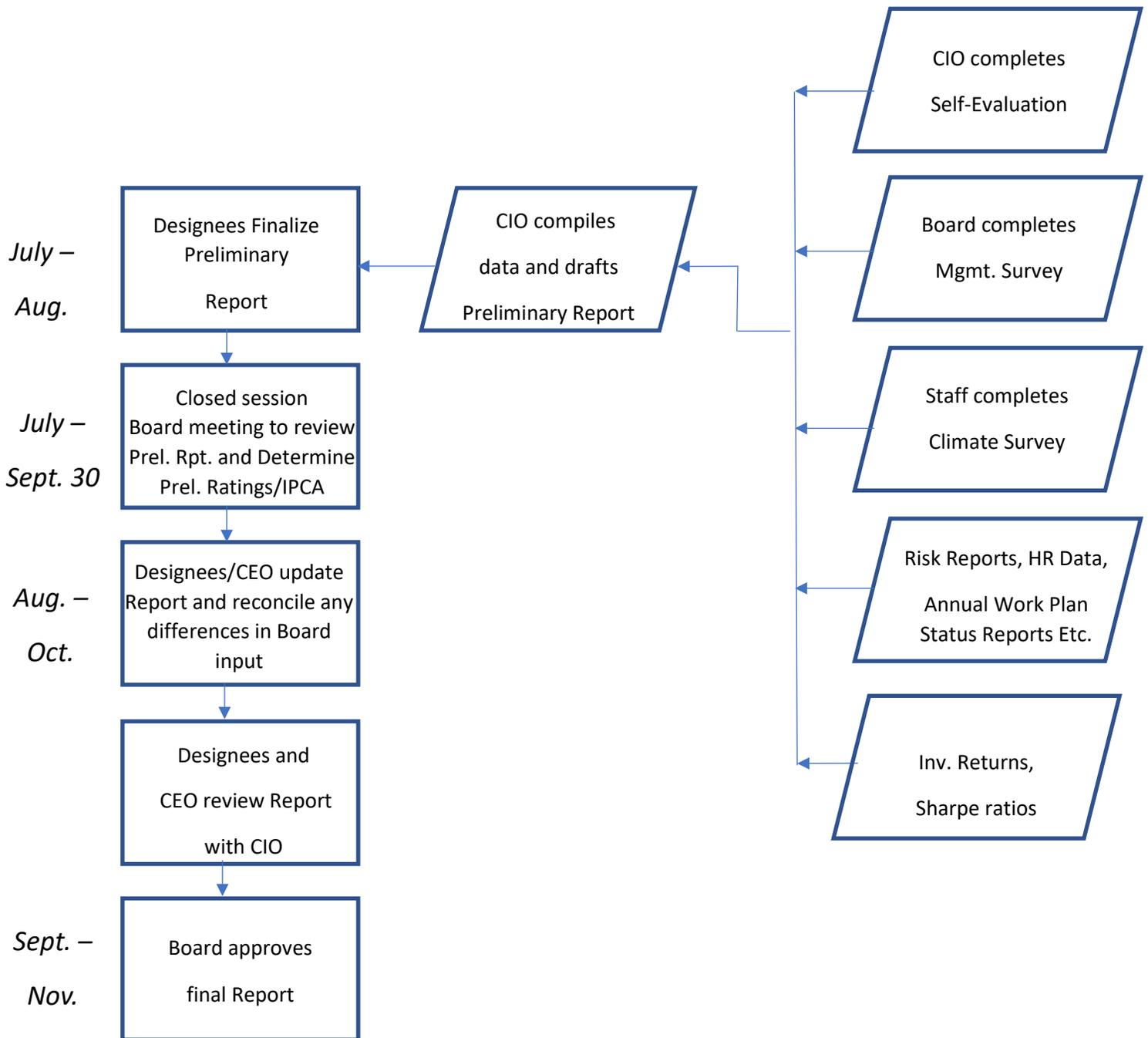
- 28) The CEO shall participate in a portion of the above closed sessions to deliberate with the Boards and share the CEO's perspective on the CIO's performance. Part of the closed session, however, shall be held without the CEO present.
- 29) Within 30 days of the above sessions with the Boards, the Designees and the CEO shall update the CIO Performance Report to reflect any additional input received from the Boards at the closed sessions, review the updated Report with the CIO, and subsequently prepare a final version of the Report for recommendation to the Boards.
- 30) Within 60 days of the Boards' closed sessions (i.e. by November 30), the Designees and the CEO shall present the final recommended CIO Performance Report to each Board for approval. The CIO shall receive a copy of the Report once approved and shall have the option to address the JPC, the Investment Committees, and/or the Boards in connection with the evaluation.

See Diagram on following page for a summary of the process.

Procedure Review & History

- 31) These procedures shall be reviewed annually by the JPC.
- 32) The JPC approved these procedures on April 30, 2021.

CIO Evaluation Process – Summary



Appendix A

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, capital markets, etc.) that may have a significant impact on the investment programs.				
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 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.				

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.				
29. Provides all necessary assistance and support to ensure 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 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 B
Worksheet Template

CIO PERFORMANCE EVALUATION – FY20XX

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 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) **Outstanding**
- b) **Commendable**
- c) **Satisfactory**
- d) **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 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) **Outstanding**
- b) **Commendable**
- c) **Satisfactory**
- d) **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 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 Report²
- 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) **Outstanding**
- b) **Commendable**
- c) **Satisfactory**
- d) **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:

² Stakeholder interviews were conducted by Board members and summarized jointly by the Board Chairs.

D) OPERATIONS MANAGEMENT

The 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) **Outstanding**
- b) **Commendable**
- c) **Satisfactory**
- d) **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 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) **Outstanding**
- b) **Commendable**
- c) **Satisfactory**
- d) **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:

Appendix C:

Final Evaluation and Compensation Adjustment Template

Executive Name: _____ Evaluation Period: [mm, dd, yy to mm, dd, yy]

Framework			
Organizational Outcomes Numerical Score (60% Weight)	Management Methods Rating (40% Weight)	Baseline IPCA Award (%)	Baseline Additional Executive Leave (Days)
Outstanding	Outstanding	3-5 >3%	5
Commendable	Commendable	2-3	4
Satisfactory	Satisfactory	1	2
Needs Improvement	Needs Improvement	0	0

Organizational Outcome Score Earned: _____

Management Methods Rating Earned: _____

IPCA Awarded: _____ %

Additional Executive Leave awarded: _____ Days

Key Gaps Identified in the Evaluation:

Agreed-Upon Personal Improvement Goals for Next Year (These should be separate and distinct from any goals or initiatives included in the CIO's Annual Workplan):

Signed: _____ Signed: _____

JPC Designee, Federated

Chief Executive Officer

Signed: _____

JPC Designee, Police & Fire

Appendix D

City Management Performance Program (MPP) Award Guidelines

Attached is memorandum issued by David Sykes, City Manager, which describes the Management Performance Program (MPP) Award Guidelines. Key elements the Boards should be particularly aware of are summarized below:

1. **Salary Range:** The CIO's base salary must fall within the salary range.
2. **Non-Pensionable Pay:** All City employees, including the CIO, currently receive an annual 5% increase in salary, which is non-pensionable. Non-Pensionable Pay is independent of the Salary Range; i.e. an employee shall receive Non-Pensionable Pay of 5% even if the employee is already at the top of their Salary Range.
3. **Annual Automobile Allowance:** All department heads, including the CIO, receive an Annual Automobile Allowance of \$4,200.
4. **Executive Days:** Management employees, including the CIO, receive a minimum of 5 Executive Days off with pay, over and above any applicable vacation days. Furthermore, they may earn up to an additional 5 Executive Days each year based on their performance at the discretion of their supervisor (i.e., the Boards in the case of the CIO). Executive Days awarded in one year may not be carried forward to future years.
5. **Individual Performance-Based Compensation Adjustments (IPCA):** City employees may earn one-time or ongoing IPCA of a maximum of 2.5% each year. If employees are below the top of the salary range, IPCA is an ongoing annual increase. Any IPCA (or portion thereof) that places an employee above the salary range shall be a one-time increase. In the case of the CIO, the Boards may grant reasonable IPCA in excess of 2.5% provided it is the best interests of the retirement systems and they do so in a prudent manner. (Note, this option is also available for other City employees at the option of the City.)