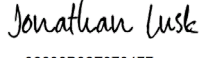





RETIREMENT BOARD POLICY AND REFERENCE MANUAL

<p>SUBJECT: INVESTMENT PERFORMANCE INCENTIVE (IPI) POLICY</p>	<p>Section: 2-54</p> <p>Date Adopted/Revised: 6/23/2026</p>
<p>SYSTEM(S): JOINT</p>	<p>Approved: <small>DocuSigned by:</small>  <small>06698832F978477</small> FIRE AND POLICE RETIREMENT BOARD CHAIR</p> <p>Approved: <small>Signed by:</small>  <small>80BAC29F1B71140F</small> EMPLOYEES RETIREMENT BOARD CHAIR</p>

PURPOSE

The purpose of this Investment Performance Incentive (IPI) Policy (the "Policy") is to establish a structured, transparent, and fiducially sound framework under which the City of Fresno Retirement Systems ("CFRS" or "Systems") may award performance-based incentive compensation to members of its Investment Team.

POLICY

See attached Investment Performance Incentive (IPI) Policy.

CITY OF FRESNO
RETIREMENT SYSTEMS

Fire & Police and Employees Retirement Boards

FIRE & POLICE BOARD

Jonathan Lusk, Chair
 Chris Cooper, Vice-Chair
 Lynn Bennink · Lawrence French · Robert Beckwith

EMPLOYEES BOARD

Tyler Kamalani, Chair
 Kaleb Neufeld, Vice Chair
 Marvell French · Ruth F. Quinto · Alfredo Molina

RETIREMENT ADMINISTRATOR

Robert Theller

INVESTMENT PERFORMANCE INCENTIVE (IPI) POLICY

CFRS Investment Team — Retirement Administrator, Deputy Chief Investment Officer, and Investment Officer

Policy Reference	Detail
Policy Title	CFRS Investment Performance Incentive
Adopting Boards	Fire & Police Retirement Board; Employees Retirement Board
Adoption Date	June 23, 2026 (on Board adoption)
Effective Date	July 1, 2026 (contingent LACERA final disposition)
First Award Date	July 2027
Authority	Cal. Const. art. XVI, § 17 (Prop. 162); Fresno City Charter § 910; Fresno Municipal Code ch. 3
Next Scheduled Review	After LACERA final disposition then annually in July

Article 1. Purpose and Findings

- 1.1 The purpose of this Investment Performance Incentive (IPI) Policy (the “Policy”) is to establish a structured, transparent, and fiduciarily sound framework under which the City of Fresno Retirement Systems (“CFRS” or “Systems”) may award performance-based incentive compensation to members of its Investment Team.
- 1.2 Many retirement systems provide performance-based incentive opportunities. The Boards find that CFRS is an outlier among public pension plans: its Retirement Administrator operates under a dual Chief Executive Officer / Chief Investment Officer role, manages a multi-billion-dollar portfolio and currently provides no formal investment incentive compensation.
- 1.3 The Boards further find that recruiting and retaining expert investment talent is necessary to achieve the Systems’ long-term return objectives and is a proper exercise of the Boards’ fiduciary duty to participants and beneficiaries. This Policy is designed to align CFRS Investment Team performance with the long-term objectives of the fund, to reward above-benchmark returns, and to ensure that incentive payouts reflect fiduciary outcomes.
- 1.4 Along with other pension plans, this Policy is modeled on the established frameworks of CalPERS, CalSTRS, and the Orange County Employees Retirement System (OCERS), with parameters scaled appropriately to CFRS’s asset size, membership, and organizational complexity. Supporting background, comparisons, and sample calculations appear in Appendix A.

Article 2. Legal Authority

- 2.1 **Constitutional and statutory basis.** Article XVI, Section 17 of the California Constitution (as amended by Proposition 162, 1992) vests the Boards with sole and exclusive responsibility to administer the System and provides that the Boards’ duty to participants and beneficiaries takes precedence over any other duty. This plenary authority includes the power to set employment classifications and salaries for System employees, to establish incentive compensation programs as reasonable expenses of System administration, and to determine compensation structures necessary to recruit and retain qualified investment professionals.¹
- 2.2 **Charter authority.** CFRS was created by the Fresno City Charter, with assets held in trust solely for members and beneficiaries. The Employees Retirement System (established June 1, 1939) derives its authority from Fresno City Charter Section 910 and Article 5 of Chapter 3 of the Fresno Municipal Code. The Fire and Police Retirement System (established July 1, 1955) is governed by Articles 3 and 4 of Chapter 3 of the Fresno Municipal Code. Each Board has authority to establish administrative and investment policies and to manage System assets, subject to its fiduciary duties and applicable state law.

¹ California Proposition 162 (1992), Ballotpedia.
[https://ballotpedia.org/California_Proposition_162_Public_Employee_Retirement_Benefits_Initiative_\(1992\)](https://ballotpedia.org/California_Proposition_162_Public_Employee_Retirement_Benefits_Initiative_(1992))

2.3 Non-pensionable status. Definition of compensation and the exclusions set forth in FMC sections 3-501(i)(4) and 3-501(i)(5)(iii), exclude from pensionable compensation certain bonuses and awards. Accordingly, CFRS IPI constitutes a bonus or other pay that is excluded from “pensionable compensation” and shall not be reported as compensation earnable for retirement benefit purposes.

Article 3. Definitions

As used in this Policy, the following terms have the meanings set forth below:

“Alpha” means the portfolio’s excess return relative to the Policy Benchmark, measured in basis points on a three-year rolling-average basis, net of fees.

“Award” means an investment incentive compensation payment determined under Article 6 and approved under Article 7.

“Base Salary” means annual salary without fringe benefits.

“CFRS Investment Team” means the individuals serving in the Covered Positions — currently the Retirement Administrator (RA), the Deputy Chief Investment Officer (DCIO), and the Investment Officer (IO) — who are eligible for Awards under this Policy.

“Eligible Participant” means an individual serving in a Covered Position (Retirement Administrator, Deputy Chief Investment Officer, or Investment Officer) who satisfies the eligibility conditions of Article 4.

“Independent Consultant” means the Boards’ general investment consultant, or other qualified third party retained to verify quantitative performance results, who is independent of the CFRS Investment Team.

“Measurement Period” means the rolling period of up to three fiscal years, composed solely of fiscal years beginning on or after the Effective Date (July 1, 2026), over which quantitative performance is measured, net of fees. No fiscal year, or portion of a fiscal year, completed before the Effective Date is included in any Measurement Period. The first Measurement Period is fiscal year 2027; the period adds each subsequently completed fiscal year until three full post-Effective-Date fiscal years have elapsed, after which it is the trailing three fiscal years on a rolling basis.

“Policy Benchmark” means the total-fund or asset-class benchmark approved by the Boards against which investment performance is measured. Policy Benchmark currently in use by CFRS is provided by independent investment consultant NEPC.

“Sharpe Ratio” means the standard measure of risk-adjusted return used to evaluate portfolio performance relative to the Policy Benchmark and to peer rankings.

“Weight” means the incentive opportunity for a Covered Position, expressed as a percentage of current base salary, as set forth in Article 5.

Article 4. Scope and Eligibility

- 4.1 Covered Positions.** This Policy applies to three investment positions: the Retirement Administrator (“RA”), the Deputy Chief Investment Officer (“DCIO”), and the Investment Officer (“IO”).
- 4.2 Eligibility conditions.** To be eligible for an Award for a given performance period, an individual must (a) have served in a Covered Position; (b) have received a performance appraisal of at least “Meets Expectations”; and (c) remain employed in good standing as of the applicable payment date, except as otherwise determined by the Boards.
- 4.3 Proration.** Awards for individuals who serve in a Covered Position for less than the full performance period, or who are promoted into a Covered Position during the period, shall be prorated. Approved non-annual leave of absence shall be treated on a prorated basis.
- 4.4 Forfeiture.** An Eligible Participant who separates from the System before the applicable payment date forfeits any unpaid Award, except as the Boards may otherwise determine.

Article 5. Weight (Incentive %)

- 5.1** Annual incentive Awards are expressed as a percentage of current base salary and vary by position, reflecting differing levels of accountability and market practice. The Weight (Incentive %) for each Covered Position is:

Covered Position	Weight (Incentive %)
Retirement Administrator (RA)	50% of base salary
Deputy Chief Investment Officer (DCIO)	30% of base salary
Investment Officer (IO)	20% of base salary

- 5.2 Conservative positioning.** The opportunities in Section 5.1 are set conservatively below CalPERS and CalSTRS and are aligned with, and below, the OCERS model, appropriately scaled to CFRS’s size and complexity. Industry comparison appears in Appendix A.

Article 6. Performance Measurement and Award Calculation

- 6.1 Incentive formula.** Each Award shall be computed using the formula = Σ (Current Base Pay \times Weight % \times Incentive % Earned), summed across the three performance components below.
- 6.2 Component weighting.** The incentive percentage earned is composed of an eighty percent (80%) quantitative component and a twenty percent (20%) qualitative component, as set forth in Sections 6.3 through 6.5.

6.3 Quantitative #1 — Total Fund Performance vs. Policy Benchmark (Alpha): Quantitative performance is measured against the Board-approved benchmark on a three-year rolling-average basis, net of fees. Alpha is credited on the following scale:

Variance from Policy Benchmark (bps, 3-yr avg.)	% of Incentive Earned
Below benchmark	0%
0–25 bps+	10%
26–50 bps+	+10%
51–75 bps+	+10%
76–100 bps+	+10%
> 101 bps+	+10% (maximum 50%)

6.4 Quantitative #2 — Risk-Adjusted Return (Sharpe Ratio):

Risk-Adjusted Return (Sharpe Ratio)	% of Incentive Earned
A. Portfolio Sharpe exceeds benchmark	10%
B. Above median peer rank	10%
C. First-quartile peer rank	+10% (maximum 30%)

6.5 Qualitative — Annual Investment Performance Appraisal:

The qualitative component evaluates and rewards individual investment contributions not captured by quantitative returns, including leadership, risk management, strategic initiatives, operational effectiveness, and culture and team development. The Annual Investment Performance Appraisal for each employee in a Covered Position will be incorporated in the employee annual performance review set forth in Article 7.

Overall Annual Investment Performance Appraisal	% of Incentive Earned
Meets	0%
Exceeds	10%
Exceptional	20%

Article 7. Approval Authority

7.1 Evaluation and approval. Performance evaluation and Award approval for each Covered Position shall proceed as follows:

Position	Performance Evaluator	Incentive Award Approval
Retirement Administrator	Retirement Boards	Retirement Boards
Deputy Chief Investment Officer	RA, with Boards review	Retirement Boards
Investment Officer	RA, with Boards review	Retirement Boards

7.2 Benchmark establishment and changes — conflict avoidance. Because the Policy Benchmark directly affects the quantitative measurement under Article 6 and therefore the amount of potential Awards, the establishment, change, or modification of any Policy Benchmark is reserved to the Boards, acting on the recommendation of the Independent Consultant. The members of the CFRS Investment Team (currently the RA, DCIO, and IO) shall not participate in, recommend, advise on, or otherwise be involved in the decision to establish, change, or modify any Policy Benchmark. This restriction is adopted to avoid any conflict of interest under California Government Code Section 1090 and related law, recognizing that the affected individuals are financially interested in the benchmark against which their performance is measured. The Boards acknowledge that excluding the CFRS Investment Team from this process may have operational consequences, and accept those consequences as a necessary safeguard of the integrity of the Policy.

Article 8. Payment, Independent Verification, and Disclosure

8.1 Measurement and payment. Awards shall be measured over a rolling Measurement Period of up to three fiscal years, composed solely of fiscal years beginning on or after the Effective Date (July 1, 2026). No fiscal year, or any portion of a fiscal year, completed before the Effective Date shall be included in any Measurement Period.

The first Measurement Period shall be fiscal year 2027 (July 1, 2026 through June 30, 2027). For each subsequent year, the Measurement Period shall add the most recently completed fiscal year until three full post-Effective-Date fiscal years have elapsed, after which the Measurement Period shall be the trailing three fiscal years on a rolling basis.

Awards shall be calculated by CFRS Finance following the close of each fiscal year and shall be paid in July, after the verification in Section 8.2 is satisfied. Accordingly, the first Award, measured on fiscal year 2027 performance, shall be calculated and paid in July 2027.

The Measurement Period builds up and then rolls forward as follows:

Paid (July)	Measurement Period	Years measured
July 2027	FY2027	1 year (FY27)
July 2028	FY2027–FY2028	2 years
July 2029	FY2027–FY2029	3 years (full rolling)
July 2030+	Trailing 3 FY, rolling	3 years

Because every fiscal year measured begins on or after the Effective Date, no Award compensates service rendered before July 1, 2026.

- 8.2 Independent verification.** Prior to the issuance of any Award, all quantitative incentive Award calculations must be reviewed. CFRS Finance computes the Awards; verified in writing by CFRS Independent Consultant; CFRS custodian validates portfolio returns; CFRS auditor validates the process; and then CFRS Joint Boards give final approval.
- 8.3 Public disclosure.** The Boards shall publicly disclose all incentive Awards annually as part of compensation reporting.
- 8.4 Non-pensionable.** Consistent with Section 2.3, Awards are non-pensionable and shall not be included in compensation earnable for retirement benefit purposes.

Article 9. Effective Date, Review, and Amendment

- 9.1 Effective date.** This Policy is effective July 1, 2026, upon adoption by the Boards, and governs the FY2027 performance period and thereafter.
- 9.2 Measurement Period.** The first Measurement Period is fiscal year 2027 (July 1, 2026 through June 30, 2027). No performance period before the Effective Date is measured or compensated under this Policy; the Measurement Period builds up to, and thereafter rolls on, a three-fiscal-year basis as set forth in Section 8.1.
- 9.3 Periodic Review.** The Boards shall review this Policy at least annually to confirm that the incentive structure remains market-informed, fiscally sound, and consistent with the Boards’ fiduciary duties.
- 9.4 Amendment.** This Policy may be amended or repealed at any time by the Boards. No amendment shall impair an Award that has been earned and approved before the amendment’s effective date.
- 9.5 Severability.** If any provision of this Policy is held invalid or unenforceable, the remaining provisions shall continue in full force and effect.
- 9.6 Contingency.** This Policy shall be effective July 1, 2026, but its implementation is expressly contingent upon the final decision of the California Supreme Court in LACERA v. County of Los Angeles. If that decision materially affects the Boards’ authority or obligations under this Policy, the Boards will reconsider this Policy as appropriate after the Court’s opinion is issued.