

Global Investment Performance Standards (GIPS®) for Firms

Explanation of the
Provisions in Section 7

May 2020



CFA Institute®
Global Investment
Performance Standards

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INTRODUCTION

The Explanation of the Provisions in Section 7 provides interpretation of each provision that is included in Section 7—Pooled Fund Money-Weighted Return Report. Firms that choose to comply with the Global Investment Performance Standards (GIPS®) must comply with all applicable requirements of the GIPS standards, including any Guidance Statements, interpretations, and Questions and Answers (Q&As) published by CFA Institute and the GIPS standards governing bodies.

Section 7 includes the requirements and recommendations that apply to pooled funds that include money-weighted returns in a GIPS Pooled Fund Report, when the firm meets the requirements specified in Provision 1.A.35 and chooses to present money-weighted returns.

Each provision is included in a grey text box. Within the provisions are words appearing in small capital letters. This indicates defined terms that can be found in the GIPS Standards Glossary. Following each provision is a discussion that provides interpretive guidance to help readers understand the provision.

7. POOLED FUND MONEY-WEIGHTED RETURN REPORT

The following provisions apply to POOLED FUNDS that include MONEY-WEIGHTED RETURNS in a GIPS POOLED FUND REPORT when the FIRM meets the REQUIREMENTS specified in Provision 1.A.35 and chooses to present MONEY-WEIGHTED RETURNS.

7.A. Presentation and Reporting—Requirements

Provision 7.A.1

The FIRM MUST present in each GIPS POOLED FUND REPORT:

- a. The annualized POOLED FUND SINCE-INCEPTION MONEY-WEIGHTED RETURN through the most recent annual period end.

Discussion

To claim compliance, a firm is required to meet all applicable requirements of the GIPS standards on a firm-wide basis for at least a five-year period, or since inception of the firm if the firm has been in existence for less than five years. See Provision 1.A.3 for a discussion of the required periods for initially claiming compliance.

If a firm meets the requirements for presenting money-weighted returns in a GIPS Pooled Fund Report (see Provision 1.A.35) and chooses to do so, the firm must present the annualized pooled fund since-inception money-weighted return (SI-MWR) through the most recent annual period end.

For example, assume a firm presents returns on a calendar year-end basis. If a pooled fund has an inception date of 1 March 2015 and the most recent annual period end is 31 December 2019, the firm must present an annualized pooled fund SI-MWR from 1 March 2015 through 31 December 2019. Although only the annualized pooled fund SI-MWR through the most recent annual period end is required, it is recommended that firms present annualized pooled fund SI-MWRs through each annual period end. (See Provision 7.B.1.) In this example, doing so would mean presenting SI-MWRs from 1 March 2015 through 31 December 2015, 1 March 2015 through 31 December 2016, 1 March 2015 through 31 December 2017, and 1 March 2015 through 31 December 2018.

The SI-MWR from 1 March 2015 through 31 December 2015 must not be annualized because the return is for a period of less than one year.

Firms must clearly label the periods for which SI-MWRs are presented. Firms must select the annual period end for which SI-MWRs will be presented on a pooled fund-specific basis and apply it consistently. For purposes of comparability, best practice would be for a firm to report pooled fund SI-MWRs for periods ending on 31 December.

Firms may present pooled fund gross returns or pooled fund net returns. Firms may also choose to present both pooled fund gross returns and pooled fund net returns in a GIPS Pooled Fund Report.

Provision 7.A.1

The FIRM MUST present in each GIPS POOLED FUND REPORT:

- b. When the POOLED FUND has a track record that is less than a full year, the non-annualized POOLED FUND SINCE-INCEPTION MONEY-WEIGHTED RETURN through the initial annual period end.

Discussion

When a pooled fund has a track record of less than a full year, the firm must present the non-annualized since-inception money-weighted return (SI-MWR) through the initial annual period end. Subsequently, the firm must extend the measurement period for the SI-MWR to include the next annual period and calculate an annualized SI-MWR through the most recent annual period end.

SI-MWRs for periods of less than a full year must not be annualized. As an example, a pooled fund that began on 1 December 2020 and has a one-month initial return through 31 December 2020 of 3% (which equates to an annualized return of 42.6%) would be required to present that 3% as the partial year's performance. The annualized return of 42.6% must not be presented. Some spreadsheet and software applications automatically annualize all returns, and firms are reminded that for periods of less than a year, the firm must "de-annualize" any annualized returns that are calculated.

The method chosen to de-annualize a return is at the discretion of the firm, but it must be a geometric calculation. In the situation just presented, the 42.6% annualized return could be de-annualized by one of the following formulas:

$$\left\{ \left[\left(1 + 0.426 \right)^{\left(\frac{1}{12} \right)} \right] - 1 \right\} \times 100 = 3\% \quad \text{or} \quad \left\{ \left[\left(1 + 0.426 \right)^{\left(\frac{31}{365} \right)} \right] - 1 \right\} \times 100 = 3\%,$$

both resulting in a non-annualized one-month return of 3%.

Provision 7.A.1

The FIRM MUST present in each GIPS POOLED FUND REPORT:

- c. When the POOLED FUND terminates, the annualized POOLED FUND SINCE-INCEPTION MONEY-WEIGHTED RETURN through the POOLED FUND TERMINATION DATE.

Discussion

When a pooled fund terminates, the firm must present the annualized pooled fund since-inception money-weighted return (SI-MWR) through the pooled fund termination date. For example, if a pooled fund has an inception date of 1 July 2012 and terminates on 31 August 2019, the GIPS Pooled Fund Report for this pooled fund must include a pooled fund SI-MWR for the period from 1 July 2012 through 31 August 2019.

Provision 7.A.1

The FIRM MUST present in each GIPS POOLED FUND REPORT:

- d. The SINCE-INCEPTION MONEY-WEIGHTED RETURN for the BENCHMARK for the same periods as presented for the POOLED FUND, unless the FIRM determines there is no appropriate BENCHMARK.

Discussion

Benchmarks are important tools that aid in the planning, implementation, and evaluation of a pooled fund's investment policy. They also help facilitate discussions with prospective investors regarding the relationship between risk and return. As a result, firms are required to present the since-inception money-weighted return (SI-MWR) for the benchmark for the same periods as presented for the pooled fund, unless the firm determines that there is no appropriate benchmark.

The benchmark presented must be one that reflects the pooled fund's investment mandate, objective, or strategy. A firm may choose to present more than one benchmark in a GIPS Pooled Fund Report but must include all required information for all benchmarks presented in the GIPS Pooled Fund Report.

Because the benchmark selected for a pooled fund must be appropriate for comparison with the performance of the pooled fund, a firm must not compare a time-weighted return (TWR) benchmark with a pooled fund's SI-MWR. Public market indexes by themselves are not directly comparable to an MWR because the market indexes typically use TWRs. The public market equivalent (PME)

is a method in which a public market index is used to create a comparable MWR from a series of cash flows that replicate those of the pooled fund and that can be compared with the pooled fund's MWR. When the firm uses a PME, the market index used must be a total return benchmark.

For pooled funds that have a subscription line of credit (LOC), and the firm is required to present pooled fund returns both with and without the subscription LOC (see Provision 7.A.2), the firm must present benchmark returns for the same periods as both pooled fund returns. If the benchmark is a PME, the firm must calculate a PME using the pooled fund cash flows with the subscription LOC as well as the pooled fund cash flows without the subscription LOC.

See Provision 1.A.19 for a discussion of total return benchmarks. See the discussion of Provision 7.C.29 for additional information regarding a PME.

Provision 7.A.1

The FIRM MUST present in each GIPS POOLED FUND REPORT:

- e. POOLED FUND assets as of the most recent annual period end.

Discussion

Each GIPS Pooled Fund Report must include the pooled fund assets as of the most recent annual period end. This requirement provides information to prospective investors on the size of the pooled fund, measured by the amount of assets it contains. When the pooled fund strategy uses discretionary leverage, pooled fund assets must be presented net of the discretionary leverage and not grossed up as if the discretionary leverage did not exist. Discretionary leverage refers to loans taken at the discretion of the firm. In contrast, non-discretionary leverage refers to borrowings undertaken by the investor. For example, if the firm is managing a fund that has \$200 million in assets, and the firm chooses to borrow \$50 million, the fund's net assets are \$200 million and its gross assets are \$250 million. When calculating pooled fund assets, the firm must use \$200 million.

Provision 7.A.1

The FIRM MUST present in each GIPS POOLED FUND REPORT:

- f. TOTAL FIRM ASSETS as of the most recent annual period end.⁵²

⁵² REQUIRED for periods ending on or after 31 December 2020. For periods ending prior to 31 December 2020, FIRMS may present either TOTAL FIRM ASSETS or POOLED FUND assets as a percentage of TOTAL FIRM ASSETS.

Discussion

For periods ending on or after 31 December 2020, the firm must present total firm assets as of the most recent annual period end. For periods ending prior to this date, the firm must present either total firm assets or pooled fund assets as a percentage of total firm assets. Discretionary leverage must be deducted when calculating total firm assets. Discretionary leverage refers to loans taken at the discretion of the firm. In contrast, non-discretionary leverage refers to borrowings undertaken by the investor. For example, if the firm is managing a fund that has \$200 million in assets, and the firm chooses to borrow \$50 million, the firm must use \$200 million when calculating total firm assets, not \$250 million. The inclusion of both pooled fund assets and total firm assets in a GIPS Pooled Fund Report will help a prospective investor understand the pooled fund size in relation to total firm assets.

Firms must be sure that assets are not double-counted because counting assets more than once would not fairly represent total firm assets.

See the discussion of Provision 2.A.1 for additional guidance on the calculation of total firm assets.

Provision 7.A.2

If a SUBSCRIPTION LINE OF CREDIT is used, the FIRM MUST present the POOLED FUND SINCE-INCEPTION MONEY-WEIGHTED RETURN both with and without the SUBSCRIPTION LINE OF CREDIT through the most recent annual period end. The FIRM is not REQUIRED to present returns without the SUBSCRIPTION LINE OF CREDIT when the SUBSCRIPTION LINE OF CREDIT has all of the following characteristics.⁵³

- a. The principal was repaid within 120 days using COMMITTED CAPITAL drawn down through a capital call.
- b. No principal was used to fund DISTRIBUTIONS.

Discussion

A subscription line of credit (LOC) is a loan facility that is usually put in place to facilitate administration when firms are calling for funds from investors. A subscription LOC can have a significant effect on returns. However, there has been a lack of consistency in return calculations when a subscription LOC is used. For comparability and transparency, firms that use a subscription LOC must calculate and present the since-inception money-weighted return (SI-MWR) that includes the subscription LOC. For periods ending on or after 31 December 2020, firms are required to

⁵³REQUIRED for periods ending on or after 31 December 2020.

also calculate and present a SI-MWR that does not include the subscription LOC unless the subscription LOC has the following two characteristics:

- The principal was repaid within 120 days using committed capital drawn down through a capital call; and
- No principal was used to fund distributions.

If the subscription LOC has both of these characteristics, the firm is not required to calculate and present a SI-MWR that does not include the subscription LOC.

Presenting pooled fund returns with and without the subscription LOC provides prospective investors with a more complete understanding of the pooled fund's performance and the effect of the subscription LOC on the pooled fund's returns.

If returns both with and without the subscription LOC are required to be presented in a GIPS Pooled Fund Report, these returns must be comparable. If the firm presents gross returns only, gross returns with and without the subscription LOC must be presented. If the firm presents net returns only, net returns with and without the subscription LOC must be presented. If the firm presents both gross and net returns, the firm must present gross returns with and without the subscription LOC as well as net returns with and without the subscription LOC.

The SI-MWRs with and without the subscription LOC are required for the SI-MWR that is presented through the most recent annual period end. If a firm chooses to also include SI-MWRs through each annual period end, the SI-MWRs with and without the subscription LOC must be presented in the GIPS Pooled Fund Report.

See Provision 2.A.50 for guidance for calculating returns with and without the subscription LOC.

Provision 7.A.3

The FIRM MUST present the percentage of the total FAIR VALUE of POOLED FUND assets that were valued using subjective unobservable inputs (as described in provision 2.B.6.e) as of the most recent annual period end, if such investments represent a material amount of POOLED FUND assets.

Discussion

Markets are not always liquid, and investment prices are not always objective and/or observable. As the last level of the recommended valuation hierarchy indicates (see Provision 2.B.6), it may be necessary for a firm to use subjective unobservable inputs to value an investment for which markets are not active on the measurement date. Examples of subjective unobservable inputs include

an assumed discount rate, an assumed occupancy rate for a commercial building, and the default rate used for the valuation of a security in default. Examples related to insurance-linked securities include assumptions regarding hurricane damage and mortality rates. Unobservable inputs should be used to measure fair value only when observable inputs and prices are not available or appropriate. Unobservable inputs reflect the firm's own assumptions about the assumptions that market participants would use in pricing the investment and should be developed based on the best information available under the circumstances.

Firms must present the percentage of the total fair value of pooled fund assets that were valued using subjective unobservable inputs as of the most recent annual period end, if such investments represent a material amount of pooled fund assets. The amount of pooled fund assets valued using subjective unobservable inputs would be considered material if it would likely influence a reader's judgment regarding the reliability of the valuation. The firm must decide on the criteria it will use to determine when subjective unobservable inputs represent a material amount of pooled fund assets, include these criteria in its policy and procedures, and apply these criteria consistently.

Sample Disclosure:

"As of 31 December 2020, 29% of pooled fund assets were valued using subjective unobservable inputs. These inputs are not supported by market activity and instead are based on internal proprietary pricing models."

Provision 7.A.4

If the POOLED FUND has COMMITTED CAPITAL, the FIRM MUST present the following items as of the most recent annual period end:

- a. POOLED FUND SINCE-INCEPTION PAID-IN CAPITAL.
- b. POOLED FUND SINCE-INCEPTION DISTRIBUTIONS.
- c. POOLED FUND cumulative COMMITTED CAPITAL.
- d. TOTAL VALUE to SINCE-INCEPTION PAID-IN CAPITAL (INVESTMENT MULTIPLE or TVPI).
- e. SINCE-INCEPTION DISTRIBUTIONS to SINCE-INCEPTION PAID-IN CAPITAL (REALIZATION MULTIPLE or DPI).
- f. SINCE-INCEPTION PAID-IN CAPITAL to cumulative COMMITTED CAPITAL (PIC MULTIPLE).
- g. RESIDUAL VALUE to SINCE-INCEPTION PAID-IN CAPITAL (UNREALIZED MULTIPLE or RVPI).

Discussion

Although the money-weighted return (MWR) is the basic metric used to report performance for pooled funds where the firm has control over the cash flows, has met the other requirements for presenting an MWR, and has chosen to present MWRs, it is not the only useful metric used to gauge performance. Other measures are also useful to provide additional insight. The MWR by its nature is sensitive to early cash flow events, and the MWR calculation assumes that the residual value, or fair value, of a pooled fund is totally liquid whereas in reality, the residual value may be illiquid. Other metrics have been developed that allow a prospective investor to examine aspects of performance other than simply a rate of return.

a. POOLED FUND SINCE-INCEPTION PAID-IN CAPITAL.

The pooled fund since-inception paid-in capital consists of all capital inflows to a pooled fund by the investors (e.g., limited partners). These inflows are also referred to as contributions to a pooled fund by the investors. Paid-in capital also includes distributions that are subsequently recalled and reinvested into the pooled fund.

b. POOLED FUND SINCE-INCEPTION DISTRIBUTIONS.

Pooled fund since-inception distributions includes all cash and stock distributed from a pooled fund to the investors (e.g., limited partners).

c. POOLED FUND CUMULATIVE COMMITTED CAPITAL.

The pooled fund cumulative committed capital represents the total pledges of capital to a pooled fund by the investors (e.g., limited partners). Committed capital can be either drawn (paid-in) or undrawn (dry powder).

d. TOTAL VALUE TO SINCE-INCEPTION PAID-IN CAPITAL (INVESTMENT MULTIPLE OR TVPI).

The investment multiple, or TVPI, provides investors with a multiple that indicates how many times more the investment is worth compared with the original investment without taking into account the time value of money. Also known as the Multiple of Investment Capital (MOIC), it is equal to the sum of the pooled fund since-inception distributions and its residual value (i.e., fair value) divided by the pooled fund since-inception paid-in capital. The investment multiple is calculated as follows:

$$\text{TVPI} = \frac{\text{Since – Inception Distributions} + \text{Residual Value}}{\text{Since – Inception Paid – In Capital}}$$

TVPI can also be calculated as DPI + RVPI, where

DPI = realization multiple (see Provision 7.A.4.e)

RVPI = unrealized multiple (see Provision 7.A.4.g)

e. SINCE-INCEPTION DISTRIBUTIONS to SINCE-INCEPTION PAID-IN CAPITAL (REALIZATION MULTIPLE or DPI).

The DPI, or realization multiple, measures how much invested capital has actually been returned to investors. It is the amount of invested capital that investors have “realized” and is often viewed as the amount of the TVPI that is “realized.” TVPI, also known as the investment multiple, is calculated as total value divided by since-inception paid-in capital. (See Provision 7.A.4.d.) DPI is calculated as follows:

$$\text{DPI} = \frac{\text{Since – Inception Distributions}}{\text{Since – Inception Paid – In Capital}}$$

f. SINCE-INCEPTION PAID-IN CAPITAL to cumulative COMMITTED CAPITAL (PIC MULTIPLE).

The paid-in capital multiple, also known as the PIC multiple or PIC ratio, gives prospective investors information regarding how much committed capital has actually been drawn down or called. It is also known as the “dry-powder ratio” because it measures how much capital has already been invested and therefore indicates how much is left to invest. The PIC multiple is calculated as follows:

$$\text{PIC} = \frac{\text{Since – Inception Paid – In Capital}}{\text{Cumulative Committed Capital}}$$

Distributions can be either recallable or non-recallable. If a distribution is recallable, after the pooled fund distributes proceeds to its investors, it can draw down the same capital again, which makes it possible for the pooled fund to draw capital in excess of its total committed capital. A recallable distribution must be treated as an actual distribution and, if and when that distribution is recalled (drawn again), it must be treated as additional paid-in capital.

Recallable distributions affect the performance metric calculations. Firms may wish to consider additional disclosure when there is a material effect on the PIC or realization multiples. If a recallable distribution is re-contributed and reflected as paid-in capital a second time, the result will be that cumulative paid-in capital since inception is higher than total committed capital. It also means that the realization multiple (DPI), unrealized multiple (RVPI), and investment multiple (TVPI) will be lower. (For more information on DPI, RVPI, and TVPI, please see Provisions 7.A.4.e, 7.A.4.g, and 7.A.4.d, respectively). All else being equal, for pooled funds that have had recallable distributions, the denominator will be increased and the PIC multiple will be higher.

g. RESIDUAL VALUE to SINCE-INCEPTION PAID-IN CAPITAL (UNREALIZED MULTIPLE or RVPI).

The unrealized multiple, or RVPI, is the converse of the realization multiple. It is equal to the pooled fund’s residual value (or fair value) at the end of the period divided by since-inception paid-in capital. It is calculated as follows:

$$\text{RVPI} = \frac{\text{Residual Value}}{\text{Since – Inception Paid – In Capital}}$$

Provision 7.A.5

The FIRM MUST clearly label or identify:

- a. The periods that are presented.
- b. If POOLED FUND returns are POOLED FUND GROSS RETURNS or POOLED FUND NET RETURNS.
- c. If POOLED FUND returns do or do not reflect the SUBSCRIPTION LINE OF CREDIT. This information is REQUIRED only if the FIRM presents returns both with and without the SUBSCRIPTION LINE OF CREDIT.

Discussion

All periods presented in a GIPS Pooled Fund Report must be clearly labeled or identified.

Firms may present pooled fund gross returns or pooled fund net returns in a GIPS Pooled Fund Report and may also choose to present both pooled fund gross returns and pooled fund net returns. For prospective investors to understand the nature of the returns being presented, the returns included in a GIPS Pooled Fund Report must be clearly labeled or identified as either gross returns or net returns.

If a firm uses a subscription line of credit (LOC), and it is required to present returns both with and without this subscription LOC, the firm must clearly indicate whether the pooled fund returns do or do not reflect the subscription LOC. If no subscription LOC is used or the firm is not required to present returns both with and without the subscription LOC, this disclosure is not required.

Provision 7.A.6

If the FIRM includes more than one BENCHMARK in the GIPS POOLED FUND REPORT, the FIRM MUST present and disclose all REQUIRED information for all BENCHMARKS presented.

Discussion

It is permissible to include more than one benchmark in a GIPS Pooled Fund Report. All benchmarks included in a GIPS Pooled Fund Report must adhere to the requirements of the GIPS standards that are applicable to benchmarks. Firms may label benchmarks as primary and secondary benchmarks, but the same requirements and recommendations apply to all

benchmarks included in a GIPS Pooled Fund Report. For example, a GIPS Pooled Fund Report must include:

- a description for all benchmarks, and
- a disclosure of changes to (or deletion of) any benchmark.

If the firm designates benchmarks as primary and secondary benchmarks, it must disclose when these designations change (e.g., if a primary benchmark becomes a secondary benchmark), because such a change in designation is considered a benchmark change. In all instances, if multiple benchmarks are presented in a GIPS Pooled Fund Report and one or more of the benchmarks is removed from the GIPS Pooled Fund Report, the firm must disclose this fact. (See Provision 7.C.27.)

An appropriate benchmark for a pooled fund reflects the investment mandate, objective, or strategy of the pooled fund. Additional benchmarks beyond appropriate benchmarks may be presented in a GIPS Pooled Fund Report as supplemental information. There must be sufficient disclosure so that a prospective investor understands the nature of the benchmark and why it is being presented. Disclosure, however, does not necessarily prevent information from being false or misleading. An additional benchmark must never be presented for the sole purpose of providing a favorable comparison to the performance of the pooled fund. To do so would be misleading, regardless of the disclosures accompanying the benchmark.

Provision 7.A.7

The FIRM MUST present the POOLED FUND EXPENSE RATIO appropriate to PROSPECTIVE INVESTORS.

Discussion

Firms must present the expense ratio that is applicable to prospective investors for the specific pooled fund. The pooled fund expense ratio is the ratio of total pooled fund expenses to average net assets. The expense ratio should not reflect transaction costs.

The expense ratio gives prospective investors important insight into the total fees and expenses paid by investors in the fund. For example, a pooled fund expense ratio of 2% indicates that an investor will pay \$20 in expenses each year for every \$1,000 invested, in addition to transaction costs. An expense ratio also helps investors compare expenses across funds, because even a small difference in fees can have a significant effect over time.

If the pooled fund has multiple share classes, the firm may present multiple expense ratios or may present only the expense ratio appropriate to the prospective investor. The firm may also

use the highest expense ratio as the expense ratio that can be used for all prospective investors of the fund. Expense ratios must reflect any performance-based fees or carried interest, if accrued or charged to the pooled fund. Presenting a range of expense ratios (e.g., the expense ratio for all share classes ranges between 0.40% and 0.85%) would not satisfy this requirement.

Because expense ratios can change over time, firms must determine which expense ratio to present. A firm might choose to present the expense ratio as of the most recent annual period end, or the last known expense ratio. When the expense ratio has had a material change resulting from a change in assets or costs, the firm should present a more current expense ratio that reflects what a prospective investor is likely to pay at the current time.

Pooled fund expense ratios that are calculated for periods of less than one year must be annualized. Assume that a pooled fund starts on 1 April, and the firm calculates an expense ratio of 0.75% for the period from 1 April 2019 through 31 December 2019. The firm must present an annualized rate of 1.00%, representing a pooled fund expense ratio for the entire year rather than the 0.75% that represents an expense ratio for only nine months. Presenting an annualized expense ratio facilitates the comparison of expense ratios across funds and firms. Firms may also present the non-annualized expense ratio but must clearly disclose or indicate that the expense ratio is not annualized.

This presentation requirement is not satisfied if the firm does not include the expense ratio in the GIPS Pooled Fund Report and instead makes reference to another document that includes the expense ratio, such as a fund prospectus. The expense ratio may be an exhibit attached to the GIPS Pooled Fund Report. The exhibit may be the pooled fund's offering documents, if the offering documents include the appropriate expense ratio.

Provision 7.A.8

If the FIRM chooses to present POOLED FUND uncalled COMMITTED CAPITAL or a combination of POOLED FUND assets and POOLED FUND uncalled COMMITTED CAPITAL, the FIRM MUST:

- a. Present POOLED FUND uncalled COMMITTED CAPITAL for the same periods for which the combination of POOLED FUND assets and POOLED FUND uncalled COMMITTED CAPITAL is presented.
- b. Clearly label POOLED FUND uncalled COMMITTED CAPITAL as such.
- c. Clearly label the combination of POOLED FUND assets and POOLED FUND uncalled COMMITTED CAPITAL as such.

Discussion

Committed capital is defined as pledges of capital to an investment vehicle by investors (limited partners and the general partner) or the firm and is typically drawn down over a period of time. Uncalled committed capital, also known as dry powder, is the amount of capital that has not yet been drawn. Because uncalled committed capital is not considered actual pooled fund assets, pooled fund uncalled committed capital must not be included in the calculation of pooled fund assets as of 1 January 2020. This is consistent with the requirement to not include uncalled committed capital in total firm assets for periods beginning on or after 1 January 2020. (See Provision 2.A.1.) A firm may report pooled fund uncalled committed capital in addition to the required presentation of pooled fund assets, if it wishes to do so. The inclusion of information on pooled fund uncalled committed capital provides prospective investors with a more complete picture of the firm's investments and the amount of capital that is currently committed to a future investment. If a firm chooses to present information on pooled fund uncalled committed capital it may present pooled fund uncalled committed capital as either:

- a separate value, or
- the combination of pooled fund assets and pooled fund uncalled committed capital.

If a firm chooses to present pooled fund uncalled committed capital as a separate value, the information must be clearly labeled.

If a firm chooses to present the combination of pooled fund assets and pooled fund uncalled committed capital, it must present pooled fund uncalled committed capital for the same periods for which the combination of pooled fund assets and pooled fund uncalled committed capital is presented. Both pooled fund uncalled committed capital and the combination of pooled fund assets and pooled fund uncalled committed capital must be clearly labeled as such.

Provision 7.A.9

If the FIRM chooses to present FIRM-wide uncalled COMMITTED CAPITAL or a combination of TOTAL FIRM ASSETS and FIRM-wide uncalled COMMITTED CAPITAL, the FIRM MUST:

- a. Present FIRM-wide uncalled COMMITTED CAPITAL for the same periods for which the combination of TOTAL FIRM ASSETS and FIRM-wide uncalled COMMITTED CAPITAL is presented.
- b. Clearly label FIRM-wide uncalled COMMITTED CAPITAL as such.
- c. Clearly label the combination of TOTAL FIRM ASSETS and FIRM-wide uncalled COMMITTED CAPITAL as such.

Discussion

Committed capital is defined as pledges of capital to an investment vehicle by investors (limited partners and the general partner) or the firm and is typically drawn down over a period of time. Uncalled committed capital, also known as dry powder, is the amount of capital that has not yet been drawn. For periods beginning on or after 1 January 2020, uncalled committed capital must not be included in total firm assets. (See Provision 2.A.1.) Although firm-wide uncalled committed capital must not be included in the calculation of total firm assets as of 1 January 2020, a firm may report firm-wide uncalled committed capital in addition to the required presentation of total firm assets, if it wishes to do so. The inclusion of information on firm-wide uncalled committed capital provides prospective investors with a more complete picture of the firm's investments and the amount of its capital that is currently committed to a future investment. If a firm chooses to present information on firm-wide uncalled committed capital, it may present firm-wide uncalled committed capital as either:

- a separate value, or
- the combination of total firm assets and firm-wide uncalled committed capital.

If a firm chooses to present firm-wide uncalled committed capital as a separate value, the information must be clearly labeled.

If a firm chooses to present the combination of total firm assets and firm-wide uncalled committed capital, the firm must present firm-wide uncalled committed capital for the same periods for which the combination of total firm assets and firm-wide uncalled committed capital is presented. Both firm-wide uncalled committed capital and the combination of total firm assets and firm-wide uncalled committed capital must be clearly labeled as such.

Provision 7.A.10

If the FIRM chooses to present ADVISORY-ONLY ASSETS that reflect the POOLED FUND'S investment mandate, objective, or strategy or a combination of POOLED FUND assets and ADVISORY-ONLY ASSETS that reflect the POOLED FUND'S investment mandate, objective, or strategy, the FIRM MUST:

- a. Present ADVISORY-ONLY ASSETS that reflect the POOLED FUND'S investment mandate, objective, or strategy for the same periods for which the combination of POOLED FUND assets and ADVISORY-ONLY ASSETS that reflect the POOLED FUND'S investment mandate, objective, or strategy is presented.
- b. Clearly label ADVISORY-ONLY ASSETS that reflect the POOLED FUND'S investment mandate, objective, or strategy as such.
- c. Clearly label the combination of POOLED FUND assets and ADVISORY-ONLY ASSETS that reflect the POOLED FUND'S investment mandate, objective, or strategy as such.

Discussion

Pooled fund advisory-only assets are assets for which the firm provides investment recommendations in line with the pooled fund's strategy but for which the firm has no control over implementation of investment decisions and no trading authority for the assets. Although pooled fund advisory-only assets must not be included in the calculation of pooled fund assets because the firm does not manage these assets, a firm may wish to provide information on pooled fund advisory-only assets that reflect the pooled fund's investment mandate, objective, or strategy, in addition to the required presentation of pooled fund assets. The inclusion of information on pooled fund advisory-only assets provides prospective investors additional information about a firm's business model and the types of investment-related services that it provides. If a firm chooses to present information on pooled fund advisory-only assets, it may present pooled fund advisory-only assets as either:

- a separate value, or
- the combination of pooled fund assets and pooled fund advisory-only assets.

If a firm chooses to present pooled fund advisory-only assets as a separate value, the information must be clearly labeled.

If a firm chooses to present the combination of pooled fund assets and pooled fund advisory-only assets, the firm must present pooled fund advisory-only assets for the same periods for which the combination of pooled fund assets and pooled fund advisory-only assets is presented. Both pooled fund advisory-only assets and the combination of pooled fund assets and pooled fund advisory-only assets must be clearly labeled as such.

Provision 7.A.11

If the FIRM chooses to present FIRM-wide ADVISORY-ONLY ASSETS or a combination of TOTAL FIRM ASSETS and FIRM-wide ADVISORY-ONLY ASSETS, the FIRM MUST:

- a. Present FIRM-wide ADVISORY-ONLY ASSETS for the same periods for which the combination of TOTAL FIRM ASSETS and FIRM-wide ADVISORY-ONLY ASSETS is presented.
- b. Clearly label FIRM-wide ADVISORY-ONLY ASSETS as such.
- c. Clearly label the combination of TOTAL FIRM ASSETS and FIRM-wide ADVISORY-ONLY ASSETS as such.

Discussion

Advisory-only assets are assets for which the firm provides investment recommendations but for which the firm has no control over implementation of investment decisions and no trading

authority for the assets. Although firm-wide advisory-only assets must not be included in the calculation of total firm assets because the firm does not manage these assets, a firm may wish to provide information on firm-wide advisory-only assets in addition to the required presentation of total firm assets. The inclusion of information on firm-wide advisory-only assets provides prospective investors additional information about a firm's business model and the types of investment-related services that it provides. If a firm chooses to present information on firm-wide advisory-only assets, it may present firm-wide advisory-only assets as either:

- a separate value, or
- the combination of total firm assets and firm-wide advisory-only assets.

If a firm chooses to present firm-wide advisory-only assets as a separate value, the information must be clearly labeled.

If a firm chooses to present the combination of total firm assets and firm-wide advisory-only assets, the firm must present firm-wide advisory-only assets for the same periods for which the combination of total firm assets and firm-wide advisory-only assets is presented. Both the firm-wide advisory-only assets and the combination of total firm assets and firm-wide advisory-only assets must be clearly labeled as such.

Provision 7.A.12

All REQUIRED and RECOMMENDED information in the GIPS POOLED FUND REPORT MUST be presented in the same currency.

Discussion

Firms must present all required and recommended information in a GIPS Pooled Fund Report in the same currency (e.g., pooled fund and benchmark returns, pooled fund assets, and total firm assets). This requirement is not applicable to the fee schedule. Supplemental information should also be presented in the same currency. If it is not, that fact must be disclosed. Not disclosing this fact could be misleading.

If a firm chooses to present a pooled fund in a different currency, the firm must convert all of the required information into the new currency. If the firm chooses to present performance in multiple currencies in the same GIPS Pooled Fund Report, the firm must convert all of the required information into each of the currencies and ensure it is clear in which currencies performance is reported. The firm must also convert any recommended information it chooses to present in the GIPS Pooled Fund Report containing the converted information.

The GIPS standards do not require or recommend a particular method for converting performance from one currency to another. One option for converting returns into a different currency is to convert the underlying data (values and external cash flows) into the selected currency using the exchange rate on the date of each cash flow or valuation date, and then calculate the pooled fund returns based on the converted data.

It is not acceptable to convert returns by applying the exchange rate as of the current period end to the historical data, including cash flows and valuations, used to calculate returns.

It is up to the firm to determine the pooled fund–specific conversion method. Policies and procedures for converting returns must be established, documented, and applied consistently.

Provision 7.A.13

Any SUPPLEMENTAL INFORMATION included in the GIPS POOLED FUND REPORT:

- a. MUST relate directly to the POOLED FUND.
- b. MUST NOT contradict or conflict with the REQUIRED OR RECOMMENDED information in the GIPS POOLED FUND REPORT.
- c. MUST be clearly labeled as SUPPLEMENTAL INFORMATION.

Discussion

Supplemental information is any performance-related information included as part of a GIPS Pooled Fund Report that supplements or enhances the requirements and/or recommendations of the GIPS standards. Performance-related information includes:

- information expressed in terms of investment return and risk, and
- other information and input data that directly relate to the calculation of investment return and risk (e.g., pooled fund holdings), as well as information derived from investment return and risk input data (e.g. performance contribution or attribution).

Supplemental information should provide users of the GIPS Pooled Fund Report with the proper context in which to understand the performance results. Common examples of supplemental information for a GIPS Pooled Fund Report that presents money-weighted returns (MWRs) include the following:

- projected investment-level MWRs,
- projected multiples, and
- benchmark time-weighted returns.

Supplemental information must relate directly to the pooled fund and must not contradict or conflict with the required or recommended information in the GIPS Pooled Fund Report. Examples of information that relates directly to the pooled fund and would be considered supplemental information include segment returns (e.g., country or sector), performance attribution, and pooled fund holdings. An example of information that would conflict with the GIPS standards is an MWR that includes data from a past firm when the firm does not meet the portability tests specified in Provision 1.A.32.

The following is a more complete list of the principles that apply when supplemental information is presented. Supplemental information must:

- satisfy the spirit and principles of the GIPS standards—fair representation and full disclosure,
- comply with all applicable laws and regulations regarding the calculation and presentation of performance,
- not include performance or performance-related information that is false or misleading,
- relate directly to the pooled fund and supplement or enhance the required or recommended information included in the GIPS Pooled Fund Report,
- not contradict or conflict with the required or recommended information in the GIPS Pooled Fund Report,
- be clearly labeled as supplemental information, and
- not be shown with greater prominence than the required pooled fund information.

7.B. Presentation and Reporting—Recommendations

Provision 7.B.1

The FIRM SHOULD present annualized SINCE-INCEPTION MONEY-WEIGHTED POOLED FUND GROSS RETURNS and SINCE-INCEPTION MONEY-WEIGHTED POOLED FUND NET RETURNS AS of each annual period end.

Discussion

A firm is required to present either a since-inception money-weighted pooled fund gross return or since-inception money-weighted pooled fund net return in a GIPS Pooled Fund Report that presents money-weighted returns. Each type of return provides important information to prospective investors.

Because a since-inception money-weighted pooled fund gross return is the return on investments reduced by any transaction costs, it is the best measure of the firm's investment management

ability and can be thought of as the “investment return.” In addition, because fees are sometimes negotiable, pooled fund gross returns show the firm’s expertise in managing assets without the effect of the firm’s or investor’s negotiating skills. Gross returns also allow prospective investors to better compare performance between firms.

Since-inception money-weighted pooled fund net returns reflect the deduction of all pooled fund fees and costs, including investment management fees, administrative fees, and other costs. Pooled fund net returns therefore provide the best indication to prospective investors of the returns that the firm’s investors in a particular fund received or would have received over time, after taking into account the effect of all fees and costs associated with the pooled fund.

Because both pooled fund gross returns and pooled fund net returns provide important information to prospective investors, it is recommended that firms present both since-inception money-weighted pooled fund gross returns and since-inception money-weighted pooled fund net returns in a GIPS Pooled Fund Report.

Also, while a firm is required to present only the annualized pooled fund since-inception money-weighted return (SI-MWR) through the most recent annual period end, it is recommended that the firm also present SI-MWRs as of each annual period end. Doing so will provide prospective investors with a more complete picture of the performance of the pooled fund over time.

Provision 7.B.2

If the POOLED FUND has COMMITTED CAPITAL, the FIRM SHOULD present the following items as of each annual period end:

- a. POOLED FUND SINCE-INCEPTION PAID-IN CAPITAL.
- b. POOLED FUND SINCE-INCEPTION DISTRIBUTIONS.
- c. POOLED FUND cumulative COMMITTED CAPITAL.
- d. TOTAL VALUE to SINCE-INCEPTION PAID-IN CAPITAL (INVESTMENT MULTIPLE or TVPI).
- e. SINCE-INCEPTION DISTRIBUTIONS to SINCE-INCEPTION PAID-IN CAPITAL (REALIZATION MULTIPLE or DPI).
- f. SINCE-INCEPTION PAID-IN CAPITAL to cumulative COMMITTED CAPITAL (PIC MULTIPLE).
- g. RESIDUAL VALUE to SINCE-INCEPTION PAID-IN CAPITAL (UNREALIZED MULTIPLE or RVPI).

Discussion

Firms are required to present the pooled fund since-inception money-weighted return (SI-MWR), through the most recent annual period end, as well as the since-inception paid-in capital,

since-inception distributions, cumulative committed capital, investment multiple (TVPI), realization multiple (DPI), PIC multiple, and unrealized multiple (RVPI), as of the most recent annual period end. If firms choose to present additional SI-MWRs through prior annual period ends, firms are recommended to also present the same metrics as of each additional period end for which returns are presented. See Provision 7.A.4 for further discussion of these metrics.

Provision 7.B.3

The FIRM SHOULD present PROPRIETARY ASSETS as a percentage of POOLED FUND assets as of the most recent annual period end.

Discussion

Proprietary assets are assets owned by the firm, the firm's management, and/or the firm's parent company that are managed by the firm. General partner assets in a pooled fund are considered proprietary assets. Knowing how much of a pooled fund's assets are proprietary and how much are managed for external investors provides prospective investors with additional insight regarding the pooled fund, especially when a significant percentage of the pooled fund's assets are proprietary. If a pooled fund includes proprietary assets, it is recommended that firms present proprietary assets as a percentage of pooled fund assets as of the most recent annual period end.

Provision 7.B.4

The FIRM SHOULD present an appropriate EX POST risk measure for the POOLED FUND and the BENCHMARK. The same EX POST risk measure SHOULD be presented for the POOLED FUND and the BENCHMARK.

Discussion

Evaluating past performance requires an understanding of the risks taken to achieve the results. Although firms are required to include a qualitative narrative of material risks as part of the pooled fund description, firms should also include an ex post risk measure for the pooled fund and benchmark. Any risk measure presented must be calculated on an ex post basis and be based on actual historical data. Some examples of ex post risk measures that may be presented include drawdown measures, interest rate risk measures (e.g., duration), credit risk measures (e.g., credit spread), and liquidity risk measures. Because no quantitative risk measure is required for pooled funds that present money-weighted returns, all risk measures presented are considered additional risk measures.

If the firm chooses to present an ex post risk measure for the pooled fund and benchmark, the same ex post risk measure should be presented for the pooled fund and benchmark. The risk measure must be one that the firm determines is appropriate for the pooled fund. When choosing an appropriate ex post risk measure to present, the firm should satisfy itself that there are sufficient data points for the selected risk measure to be statistically significant so as not to be misleading. Firms are required to describe any additional risk measure that is included in the GIPS Pooled Fund Report (see Provision 7.C.36).

Provision 7.B.5

If the FIRM uses preliminary, estimated values as FAIR VALUE, the FIRM SHOULD present the percentage of assets in the POOLED FUND that were valued using preliminary, estimated values as of the most recent annual period end.

Discussion

The use of preliminary, estimated values as fair value is common for some alternative strategies, including those that invest in underlying funds for which the firm relies on valuations provided by the underlying fund managers. When using preliminary, estimated values as fair value, it is important to remember the underlying principles of the GIPS standards: fair representation and full disclosure. If using preliminary, estimated values, firms must disclose this fact in the relevant GIPS Pooled Fund Report (see Provision 7.C.34). It is recommended that the firm also present the percentage of assets in the pooled fund that were valued using preliminary, estimated values as of the most recent annual period end. This provides important information that allows prospective investors to better assess the valuations and performance record presented.

Provision 7.B.6

For POOLED FUNDS OF FUNDS, the FIRM SHOULD present the percentage, if any, of POOLED FUND assets that is invested in DIRECT INVESTMENTS (rather than in fund investment vehicles) as of the most recent annual period end.

Discussion

Direct investments by a fund of funds are investments made directly in companies rather than investments made through pooled funds. Direct investments may augment the strategy used in the investment in underlying pooled funds. Direct investments may have different terms and conditions that might change the fund of funds' return characteristics, such as a different fee

structure. By presenting the percentage of investments dedicated to direct investments as of the most recent annual period end, the firm is providing additional transparency and allowing the prospective investor to factor in additional criteria when analyzing the returns included in the GIPS Pooled Fund Report for the fund of funds. If no assets are invested in direct investments, this recommendation is not applicable.

Provision 7.B.7

If the FIRM has COMMITTED CAPITAL, the FIRM SHOULD present FIRM-wide uncalled COMMITTED CAPITAL as of the most recent annual period end.

Discussion

Committed capital is defined as pledges of capital to an investment vehicle by investors (limited partners and the general partner) or the firm and is typically drawn down over a period of time. Uncalled committed capital, also known as dry powder, is the amount of capital that has not yet been drawn. If a firm has committed capital, it is recommended that the firm present total firm-wide uncalled committed capital as of the most recent annual period end. This information provides prospective investors a more complete picture of the capital that is currently committed to a future investment. If the firm chooses to present firm-wide uncalled committed capital, it may present this amount separately from total firm assets. The firm may also choose to present the combination of total firm assets and firm-wide uncalled committed capital. Provision 7.A.9 discusses the requirements relating to the presentation of firm-wide uncalled committed capital in a GIPS Pooled Fund Report.

Provision 7.B.8

The FIRM SHOULD present the total FAIR VALUE of the FIRM'S co-investments related to the POOLED FUND as of the most recent annual period end.

Discussion

Direct investments are investments made directly in companies rather than investments made through pooled fund investments. Co-investments are a type of direct investment in which pooled fund investors invest additional capital alongside the pooled fund's investments. It is recommended that the firm present the total fair value of the firm's co-investments related to the pooled fund as of the most recent annual period end. This information will give prospective investors a more complete picture of the nature of the investments related to the pooled fund.

7.C. Disclosure—Requirements

Provision 7.C.1

Once the FIRM has met all the applicable REQUIREMENTS of the GIPS standards, the FIRM MUST disclose its compliance with the GIPS standards using one of the following compliance statements. The compliance statement for a POOLED FUND MUST only be used in a GIPS POOLED FUND REPORT.

a. For a FIRM that is verified:

“[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of FIRM] has been independently verified for the periods [insert dates]. The verification report(s) is/are available upon request.

“A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.”

b. For POOLED FUNDS of a verified FIRM that have also had a PERFORMANCE EXAMINATION:

“[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of FIRM] has been independently verified for the periods [insert dates].

“A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The [insert name of POOLED FUND] has had a performance examination for the periods [insert dates]. The verification and performance examination reports are available upon request.”

The compliance statement for a FIRM that is verified or for POOLED FUNDS of a verified FIRM that have also had a PERFORMANCE EXAMINATION is complete only when both paragraphs are shown together, one after the other.

c. For a FIRM that has not been verified:

“[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of FIRM] has not been independently verified.”

The FIRM MUST NOT exclude any portion of the respective compliance statement. Any modifications to the compliance statement MUST be additive.

Discussion

A firm meeting all the requirements of the GIPS standards must use one of the three compliance statements in each of its GIPS Pooled Fund Reports. The English version of the compliance statements is the controlling version. If a firm chooses to translate the claim of compliance into a language for which there is no official translation of the GIPS standards, the firm must take care to ensure that the translation used reflects the required wording of the claim of compliance used in Provisions 7.C.1.a, 7.C.1.b, or 7.C.1.c.

It is acceptable to combine both paragraphs of the claim of compliance for a verified firm (Provision 7.C.1.a) into a single paragraph. If the paragraphs are not combined, the claim of compliance for a verified firm is complete only when both paragraphs are shown together, one after the other. A firm may not separate the two required paragraphs from each other.

The same is true for the claim of compliance for a pooled fund that has also had a performance examination (Provision 7.C.1.b). Both paragraphs of the claim of compliance may be combined into a single paragraph. If the paragraphs are not combined, the claim of compliance is complete only when both paragraphs are shown together, one after the other. A firm may not separate the two required paragraphs from each other.

When preparing the GIPS Pooled Fund Report for a pooled fund that has had a performance examination, the firm may choose to use either the verification or performance examination compliance statement. For example, a firm might choose to use the verification compliance statement for all GIPS Reports, including GIPS Reports for pooled funds and composites that have had a performance examination, if it wishes to standardize the compliance statement for all GIPS Reports throughout the firm. In this situation, the firm may also disclose that a specific pooled fund has had a performance examination.

The language in each compliance statement must not exclude any portion of the respective compliance statement, with one exception. In the second paragraph of both 7.C.1.a and 7.C.1.b, there is a reference to “composite and pooled fund maintenance.” The firm may delete the words “composite and” if no composites are included within the definition of the firm.

There may also be instances where it may be appropriate for a firm to modify the language slightly. For example, a firm may modify the language to include the name of the firm's verifier, if the firm wishes to disclose this information. A firm may also need to modify the language to add more details about the name of the firm that has been verified or the dates of the verification if the verification period was not continuous. Any modifications must be additive and must not result in a compliance statement that is false or misleading.

Provision 7.C.2

The FIRM MUST disclose the following: "GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein."

Discussion

"GIPS®" is a registered trademark of CFA Institute, and firms are required to acknowledge this fact in all GIPS Pooled Fund Reports. The required disclosure may appear in the body of the GIPS Pooled Fund Report or in a footnote to the report. The term "this organization", which is included in the required disclosure, refers to any entity associated with the GIPS Pooled Fund Report, either the firm or the verifier.

CFA Institute (owner of the GIPS® trademark) may take appropriate action against any firm that misuses the mark "GIPS®" or any compliance statement, including false claims of compliance with the GIPS standards. CFA Institute members, CFA Program charterholders, CFA candidates, CIPM Program certificants, and CIPM candidates who misuse the term "GIPS" or any compliance statement, misrepresent their performance history or the performance history of their firm, or falsely claim compliance with the GIPS standards are also subject to disciplinary sanctions under the CFA Institute Code of Ethics and Standards of Professional Conduct. Possible disciplinary sanctions include public censure, suspension of membership, and revocation of the CFA charter or CIPM certificate.

Regulators with jurisdiction over firms claiming compliance with the GIPS standards may also take enforcement actions against firms that falsely claim compliance with the GIPS standards.

Firms may also use the following language to replace the first sentence in this required disclosure: "GIPS® is a registered trademark owned by CFA Institute." See the GIPS Standards Trademark Usage Guidelines on the CFA Institute website (www.cfainstitute.org) for additional guidance on the proper use of "GIPS".

Provision 7.C.3

The FIRM MUST disclose the definition of the FIRM used to determine TOTAL FIRM ASSETS and FIRM-wide compliance.

Discussion

To claim compliance with the GIPS standards, a firm must comply with all applicable requirements of the GIPS standards on a firm-wide basis. Accordingly, the firm must determine exactly how it will be defined for the purpose of compliance. The GIPS standards require that a firm must be defined as an investment firm, subsidiary, or division held out to the public as a distinct business entity.

A distinct business entity is a unit, division, department, or office that is organizationally and functionally segregated from other units, divisions, departments, or offices; that retains discretion over the assets it manages; and that should have autonomy over the investment decision-making process.

Possible criteria that can be used to determine this status include:

- being a legal entity,
- having a distinct market or client type (e.g., institutional, retail, private client), and
- using a separate and distinct investment process.

See Provision 1.A.2 for a more detailed discussion of defining the firm.

Because there are often a number of closely related units or divisions within larger investment management entities, it is critical to disclose the precise definition of the firm that is presenting the performance results and would be responsible for the management of the pooled fund's assets. This provision requires the firm to disclose sufficient details of the entity that is presenting investment performance such that the firm is clearly identified.

Sample Disclosures:

Example 1:

Firm A is a multinational investment firm with offices around the world, including in Japan, Australia, the United Kingdom, and the United States. Although all of its offices are part of the global parent company, each office is registered with the appropriate national regulatory authority, and each is held out to the public as a distinct business entity. The firm has defined its offices in Japan, Australia, the United Kingdom, and the United States as separate firms for the purpose of complying with the GIPS standards. The offices in Japan, the United Kingdom, and the

United States claim compliance with the GIPS standards. Firm A's Australia office, however, does not claim compliance with the GIPS standards.

Sample Disclosure for Firm A—US:

“For the purpose of complying with the GIPS standards, the firm is defined as Firm A—US, which serves US clients and investors and is a subsidiary of Firm A, a multinational investment firm with offices globally. Firm A also has subsidiaries in the United Kingdom, Australia, and Japan, which are not included in the definition of the firm for purposes of compliance with the GIPS standards.”

Example 2:

Firm B has two divisions, each of which serves a distinct client type. Firm B Institutional Investment Management manages institutional assets. Firm B Retail Investors manages retail assets. The firm has determined that it will create two separate firms for the purpose of complying with the GIPS standards.

Sample Disclosure for Firm B Institutional Investment Management:

“For the purpose of complying with the GIPS standards, the firm is defined as Firm B Institutional Investment Management, the institutional asset management division of Firm B.”

Example 3:

Firm C is an investment management firm that offers both active and passive (indexed) investment strategies. For the purpose of complying with the GIPS standards, the firm has decided to create two separate firms: one that offers active investment strategies and one that offers indexed investment strategies.

Sample Disclosure for Firm C—Indexed Investing

“For the purpose of complying with the GIPS standards, the firm is defined as Firm C—Indexed Investing. Firm C—Indexed Investing is the division of Firm C that offers indexed investment strategies to investors.”

Provision 7.C.4

The FIRM MUST disclose the POOLED FUND DESCRIPTION.

Discussion

The pooled fund description is defined as general information regarding the investment mandate, objective, or strategy of the pooled fund. The pooled fund description must include enough information to allow a prospective investor to understand the key characteristics of the pooled fund's investment mandate, objective, or strategy, including:

- the material risks of the pooled fund's strategy,
- how leverage, derivatives, and short positions may be used, if they are a material part of the strategy, and
- if illiquid investments are a material part of the strategy.

The required disclosure of the pooled fund description provides information about the pooled fund's investment strategy that is intended to help a prospective investor who is considering an investment in a pooled fund and is reviewing a GIPS Pooled Fund Report for that pooled fund. The pooled fund description should provide sufficient information to prospective investors to allow them to differentiate the significant features of the pooled fund from other strategies or pooled funds within the firm and to compare products across firms. The disclosed strategy features will likely affect both the historical and expected risk and returns. Along with the required benchmark description (see Provision 7.C.5), the GIPS Pooled Fund Report will allow prospective investors to understand both the investment strategy employed and the benchmark against which the pooled fund's performance is evaluated. This will help prospective investors to compare investments across firms.

If leverage, derivatives, and short positions may be used, and they are a material part of the strategy, this must be disclosed in the pooled fund description. Provision 7.C.15 requires that the firm disclose how leverage, derivatives, and short positions have been used historically, if material. Taken together, these two required disclosures provide a more complete picture about the presence, use, and extent of leverage, derivatives, and short positions. When determining what would be material, the firm must consider whether the disclosure of how leverage, derivatives, and/or short positions may be used and/or have been used historically is likely to affect a prospective investor's view of the risk involved in the pooled fund strategy. If so, it would be misleading for the firm to fail to disclose their use to prospective investors when describing the strategy.

Generally, all investment products or strategies have some degree of inherent risk (e.g., market risk), but it is not intended that the pooled fund description identifies every risk of the pooled fund's strategy. Instead, firms must identify those material risks of the strategy, if any, and must disclose those risks. For example, investment concentration, correlation (or lack thereof), liquidity, and exposure to counterparties are features that may need to be included in the pooled fund description.

The key characteristics of some pooled fund strategies may change given market events. Firms should periodically review pooled fund descriptions to ensure they are current.

Sample Disclosure:

“The Armor Distressed Debt Fund’s returns reflect the EUR share class. The fund invests at least 85% of its assets in distressed euro-denominated bonds that have credit ratings of CCC or lower by at least one major credit rating agency. Key risks include widening corporate spreads and defaults, high levels of government debt, and elevated political tensions, which could lead to abrupt changes in monetary policy by the European Central Bank (ECB). A material amount of the fund’s investments may be illiquid.”

A Sample List of Pooled Fund Descriptions can be found in Appendix D of the GIPS standards.

Provision 7.C.5

The FIRM MUST disclose the BENCHMARK DESCRIPTION, which MUST include the key features of the BENCHMARK or the name of the BENCHMARK for a readily recognized index or other point of reference.

Discussion

Firms are required to disclose a description of each benchmark included in a GIPS Pooled Fund Report. The benchmark description is defined as general information regarding the investments, structure, and/or characteristics of the benchmark, and it must include the key features of the benchmark. In the case of a widely-recognized benchmark, the name of the benchmark will satisfy this requirement. There are few money-weighted return benchmarks that would be considered widely recognized. If the firm presents a public market equivalent (PME) as a benchmark, the benchmark description must include the name of the market index that is used to calculate the PME. Given the unique nature of a PME, if the market index used to calculate the PME is not readily recognized, the firm must also disclose the description of this benchmark. See the discussion of Provision 7.C.29 for an explanation of a PME. Each firm must decide for itself whether a benchmark is widely recognized. If the firm is not certain as to whether the benchmark is widely known, the firm must include the benchmark description.

Sample Disclosure:

“The custom benchmark return is calculated by applying the investment cash flows of the Armor Distressed Debt Fund to the XYZ Eurozone Distressed Debt Bond Index. The index reflects a portfolio of euro-denominated distressed debt bonds issued in Eurozone countries that generally have credit ratings of CCC or lower from the main rating agencies and are listed on the XYZ platforms.”

Provision 7.C.6

When presenting POOLED FUND GROSS RETURNS, the FIRM MUST disclose if any other fees are deducted in addition to TRANSACTION COSTS.

Discussion

A pooled fund gross return is the return on investments reduced by any transaction costs. If a firm presents a pooled fund gross return in a GIPS Pooled Fund Report, the firm must disclose if any other fees are deducted in addition to actual transaction costs. For example, a pooled fund's gross return might reflect the deduction of administrative expenses, such as custodian and fund accounting fees. The same is true for a fund of funds. Firms are not required to disclose that returns reflect the deduction of expenses incurred in underlying investments, including investments in other pooled funds.

In cases where fees other than transactions costs have been deducted from the gross returns, this disclosure helps prospective investors understand the gross returns being presented and therefore compare performance across firms.

Firms may calculate pooled fund gross returns that do not reflect the deduction of the underlying pooled fund investment management fees only when the firm controls the investment management fees of the underlying pooled funds. In such situations, the firm can present the pooled fund gross returns that are gross of the underlying funds' investment management fees but net of the underlying funds' transaction costs and other expenses. The following represent some situations in which this criterion is met:

- Both underlying funds and the fund of funds are managed by the same firm and there is effectively a fee rebate or waiver at the fund-of-funds level for those fees charged at the underlying fund level.
- A fund of funds resembles a master-feeder structure that invests in one or multiple underlying funds managed by the same firm, and its investment management fee model is structured so that the investment management fee is either partially or fully charged at the underlying fund level.

Sample Disclosure:

“Gross returns reflect the deduction of administrative expenses but do not reflect the deduction of investment management fees.”

Provision 7.C.7

When presenting POOLED FUND NET RETURNS, the FIRM MUST disclose:

- a. If POOLED FUND NET RETURNS are calculated using model or actual TOTAL POOLED FUND FEES.
- b. If POOLED FUND NET RETURNS are net of any PERFORMANCE-BASED FEES OR CARRIED INTEREST.
- c. If model INVESTMENT MANAGEMENT FEES or model TOTAL POOLED FUND FEES are used and POOLED FUND GROSS RETURNS are not presented, the model INVESTMENT MANAGEMENT FEE or model TOTAL POOLED FUND FEE used to calculate POOLED FUND NET RETURNS.⁵⁴
- d. If model INVESTMENT MANAGEMENT FEES or model TOTAL POOLED FUND FEES are used, the methodology used to calculate POOLED FUND NET RETURNS.
- e. If the POOLED FUND has a partnership structure, on which assets the POOLED FUND NET RETURNS are calculated.
- f. If the POOLED FUND has multiple share classes, and one share class is used to calculate POOLED FUND NET RETURNS, the share class used to calculate POOLED FUND NET RETURNS.

Discussion

When presenting returns, it is important that there are sufficient disclosures so that prospective investors can understand what the returns actually represent.

Pooled fund net returns are required to reflect the deduction of all fees and expenses, including transaction costs, investment management fees, administrative fees, and other costs. When calculating pooled fund net returns, the fees used in the calculation must include both asset-based and performance-based fees. If the pooled fund net returns are net of any performance-based fees or carried interest, that fact must be disclosed.

A firm must disclose if model or actual total pooled fund fees are used to calculate pooled fund net returns. (See Provision 2.A.33 for an explanation of when model total pooled fund fees may be used.) Given the nature of a money-weighted return calculation, in most instances firms will use actual investment management fees and actual total pooled fund fees. However, there may be cases where it is appropriate to use model fees, such as when a pooled fund is seeded with firm capital and no investment management fees are charged. If model fees are used, and gross returns are presented along with the net returns, prospective investors can easily determine the model fee used by deducting the net returns from the gross returns. For periods ending on or after 31 December 2020, however, if model investment management fees or model total pooled fund fees are used and pooled fund gross returns are not presented, the firm must disclose the model

⁵⁴REQUIRED for periods ending on or after 31 December 2020.

investment management fees or model total pooled fund fees used to calculate pooled fund net returns. The methodology used in the calculation of pooled fund net returns must also be disclosed if model investment management fees or model total pooled fund fees are used. Given the nature of a money-weighted return calculation, in most instances firms will use actual total pooled fund fees. In some cases, however, it may be appropriate to use model fees, such as when a pooled fund is seeded with firm capital and no fees or expenses are charged.

Because general partner assets are not charged an investment management fee, the inclusion of general partner assets in the calculation of pooled fund net returns will boost net returns relative to the returns actually received by pooled fund investors. Therefore, in order for prospective investors to understand the pooled fund net returns presented in a GIPS Pooled Fund Report, if a pooled fund has a partnership structure, firms must disclose whether returns are calculated based on the general partner assets, the limited partner assets, or total pooled fund assets. To present the most relevant returns for prospective investors, it is common practice for pooled fund net returns to be calculated using only the limited partner assets and cash flows.

Pooled funds often have multiple share classes, with each class typically having different fees and expenses. In addition, there are often restrictions on what type of investor can purchase a particular share class. When a pooled fund has multiple share classes, firms must disclose which share class was used to calculate pooled fund net returns. This information will help prospective investors determine if the returns are based on fees and expenses that are high or low relative to the fund's other share classes. It will also help investors determine if the returns are based on a share class for which they are eligible. If the returns are based on a share class for which they are not eligible, a prospective investor can then request information for a share class for which they are eligible.

Sample Disclosure for Actual Total Pooled Fund Fees:

“Pooled fund net returns are net of actual total pooled fund fees, including incentive fees, which are recorded on an accrual basis. Net returns are calculated using the assets of the limited partners.”

Sample Disclosure for Model Total Pooled Fund Fees:

“Net returns are calculated by applying a model total pooled fund fee of 0.4125% on a quarterly basis. This equates to a model annual total pooled fund fee of 1.65%. The model fee is based on the actual administrative expenses as stated in the 2019 audited financial statements and applying the highest tier of the standard fee schedule that a limited partner would pay.”

Provision 7.C.8

The FIRM MUST disclose which fees and expenses other than INVESTMENT MANAGEMENT FEES (e.g., research costs) are separately charged by the FIRM to investors, if material.

Discussion

Administrative fees and costs are typically paid from a pooled fund's assets. Investment management fees may be paid from a pooled fund's assets or may be separately charged to investors. In some cases, other fees and expenses, such as investment research costs, may be billed by the firm directly to the investor. When any fees and expenses other than investment management fees are separately charged by the firm to investors, and these fees and expenses are material, the firm must disclose which fees and expenses are separately charged. When determining if additional fees or expenses would be considered material, a firm must consider whether the additional fees or expenses are significant enough to reduce a prospective investor's assessment of the attractiveness of the expected returns of the pooled fund relative to total fees charged. If so, the firm's failure to disclose these additional fees or expenses would violate the principle of full disclosure.

Sample Disclosure:

"In addition to the fees charged directly to the pooled fund and reflected in the pooled fund's net return, investment research costs are charged directly to investors, as stipulated in the pooled fund offering memo."

Provision 7.C.9

The FIRM MUST disclose or otherwise indicate the reporting currency.

Discussion

The GIPS standards require that firms disclose the currency used to report the numerical information presented in a GIPS Pooled Fund Report. If the firm presents performance in multiple currencies in the same GIPS Pooled Fund Report, the firm must ensure it is clear which currencies are used to calculate performance and assets.

Labeling the columns within a GIPS Pooled Fund Report with the appropriate currency symbol would satisfy this requirement, as would a written disclosure. If firms market the strategy outside their home market, they should consider whether the currency symbol alone is sufficient. For example, a Canadian firm marketing only in Canada may decide to present only the \$ symbol. If the firm markets the strategy in both the United States and Canada, the firm must disclose whether the currency is USD or CAD, because both currencies use the same currency symbol.

All required and recommended information presented in a GIPS Pooled Fund Report must be presented in the same currency. (See Provision 7.A.12.)

Sample Disclosures:

“Valuations are computed and all information is reported in Canadian dollars.”

“All numerical information is reported in Japanese yen.”

Provision 7.C.10

The FIRM MUST disclose the current FEE SCHEDULE appropriate to PROSPECTIVE INVESTORS.

Discussion

Firms must disclose the current schedule of investment management fees that is applicable to prospective investors for the specific pooled fund. The fee schedule can be asset-based, performance based, or a combination of both. Firms are also required to disclose the pooled fund’s expense ratio, which includes investment management fees as well as all other pooled fund expenses. See Provision 7.A.7 for a discussion of pooled fund expense ratios.

The fee schedule should be appropriate to the particular prospective investors and must be current. Although a current fee schedule may not assist a prospective investor when interpreting historical performance because the actual fees paid may differ from the fee schedule disclosed, it is the most relevant fee schedule for the prospective investor. The actual fee that the prospective investor may pay (if the investor hires the firm) could also differ from the fee schedule disclosed in the GIPS Pooled Fund Report. For example, the prospective investor may be able to negotiate a lower fee.

If the pooled fund has multiple fee schedules, the firm may use the highest fee schedule as the appropriate fee that can be used for all prospective investors. The firm may also include multiple fee schedules in the GIPS Pooled Fund Report. Including a range of fee schedules (e.g., management fees range from 0.50% to 0.95%) would not satisfy this requirement.

This disclosure requirement is not satisfied if the firm does not include the fee schedule in the GIPS Pooled Fund Report and instead makes reference to another document that includes the fee schedule, such as Form ADV, which is a US regulatory document, or a fund prospectus. The fee schedule may be an exhibit attached to the GIPS Pooled Fund Report. The exhibit may be the pooled fund’s offering documents, if the offering documents include the appropriate current fee schedule.

Sample Disclosure:

“The annual fee schedule for Fund XYZ is as follows:

First €10 million	0.80%
Next €40 million	0.60%
Above €50 million	0.30%

Provision 7.C.11

If the FEE SCHEDULE includes PERFORMANCE-BASED FEES OR CARRIED INTEREST, the FIRM MUST disclose the PERFORMANCE-BASED FEE DESCRIPTION OR CARRIED INTEREST DESCRIPTION.

Discussion

Sufficient information must be included with any fee schedule included in a GIPS Pooled Fund Report to allow prospective investors to understand the nature of the firm's compensation. If performance-based fees or carried interest are included in the fee schedule, the firm must disclose a description of the performance-based fees and/or carried interest. Relevant information for a performance-based fee includes the performance-based fee rate, hurdle rate, clawback, high watermark, reset frequency, accrual frequency, crystallization schedule, and on what basis fees are charged. Relevant information for carried interest includes the hurdle rate, crystallization schedule, and high watermark.

Sample Disclosure:

"The standard fee schedule is as follows:

Management fee is 0.75% per annum, charged on a quarterly basis on the period-end value of fund net assets.

Performance fee:

The performance fee is earned when the fund's total return, reduced by the pro rata accrued fixed management fee, exceeds the benchmark return (the excess return) and the fund's net asset value is above the high watermark, which is the fund's net asset value as of the last year end when the performance fee crystallized. The performance fee is 10% of the excess return, which is calculated arithmetically, accrued quarterly, and crystallizes annually. Further details of the performance fee calculation are available upon request."

Provision 7.C.12

The FIRM MUST disclose the POOLED FUND INCEPTION DATE and what the POOLED FUND INCEPTION DATE represents.

Discussion

Because an inception date may represent a different point in the life of a fund for different funds, a firm must disclose the pooled fund inception date and what the pooled fund inception date represents. For example, for a broad distribution pooled fund, the inception date is the date on which the fund commences operations and begins trading. For a limited distribution fund, the inception date may be based on one of the following dates: (1) when investment management fees are first charged, (2) when the first investment-related cash flow takes place, (3) when the first capital call is made, or (4) when the first committed capital is closed and legally binding. It is only with appropriate disclosure that prospective investors can understand what the inception date represents.

Sample Disclosure for a Broad Distribution Pooled Fund:

“The Small-Cap Growth Fund has an inception date of 1 May 2017, the date on which the Fund began operations.”

Sample Disclosure for a Limited Distribution Pooled Fund:

“The Global Growth Fund has an inception date of 15 September 2019, the date of the first capital call from the Fund’s limited partners.”

Provision 7.C.13

The FIRM MUST disclose that the following lists are available upon request, if applicable:

- a. List of COMPOSITE DESCRIPTIONS.
- b. List of POOLED FUND DESCRIPTIONS for LIMITED DISTRIBUTION POOLED FUNDS.
- c. List of BROAD DISTRIBUTION POOLED FUNDS.

Discussion

In each GIPS Pooled Fund Report, firms must disclose that a list of composite descriptions and a list of pooled fund descriptions for limited distribution pooled funds (LDPFs) are available upon request, if applicable to the firm. The firm must also disclose that a list of broad distribution pooled funds (BDPFs) is available upon request, if BDPFs are included within the definition of the firm. The required list of LDPF descriptions and of BDPFs is at the fund level and not the share class level.

If the firm does not sell participation in a fund (e.g., the firm manages the assets but another legal entity distributes the fund and the firm does not sell shares in the fund), the firm must consider

the portfolio a segregated account and would include the portfolio in a composite. This would include sub-advised pooled funds. The segregated account would not be included on the list of LDPF descriptions or the list of BDPFs. In addition, a portfolio with a pooled fund wrapper (i.e., a single-investor pooled fund), which is unitized but is not available to other investors, is also considered a segregated account, would be included in a composite, and would not appear on a list of LDPF descriptions or a list of BDPFs.

As noted in the discussion of Provision 1.A.22, if a pooled fund is included in a composite but the firm offers participation in the fund, either directly or through an agent, the pooled fund must still appear on the required list of LDPF descriptions or the list of BDPFs, as appropriate.

The firm may combine its list of composite descriptions, its list of LDPF descriptions, and its list of BDPFs into one document, if it wishes to do so. The firm may also prepare a list of all the strategies that it offers and may indicate, as part of the strategy description, the types of portfolios (segregated account, LDPF, or BDPF) in which the strategy is available. This list of strategies can be in narrative or table format.

This requirement exists to provide prospective investors with a complete picture of the firm's composites and pooled funds. Prospective investors may then request information that will allow them to evaluate whether the GIPS Pooled Fund Report they have received is the most appropriate and to determine if there are any other GIPS Composite Reports or GIPS Pooled Fund Reports that they should also request to see.

a. List of COMPOSITE DESCRIPTIONS.

If composites are included within the definition of the firm, the firm must disclose, in each GIPS Pooled Fund Report, that the firm's list of composite descriptions is available upon request. The list of composite descriptions itself does not need to be included in each GIPS Pooled Fund Report but must be available upon request. The list of composite descriptions must include the composite description for each current composite, as well as a description for all composites that have terminated in the past five years. The composite descriptions disclosed in GIPS Composite Reports must be consistent with the descriptions included in the list of composite descriptions.

An explanation of composite descriptions can be found in the discussion of Provision 1.A.22. A Sample List of Composite Descriptions can be found in Appendix D of the GIPS standards.

b. List of POOLED FUND DESCRIPTIONS FOR LIMITED DISTRIBUTION POOLED FUNDS.

If LDPFs are included within the definition of a firm, the firm must disclose, in each GIPS Pooled Fund Report, that the firm's list of descriptions of LDPFs is available upon request. An LDPF is any pooled fund that is not a BDPE. A BDPE is any pooled fund that is regulated under a framework that would permit the general public to purchase or hold the pooled fund's shares and is not exclusively offered in one-on-one presentations. LDPFs are often referred to as "private funds." These funds are typically sold in one-on-one presentations and may not be highly regulated. The list of

LDPF descriptions does not need to be included in each GIPS Pooled Fund Report but must be available upon request. The list of LDPF descriptions must include the pooled fund description for each current pooled fund but does not have to include terminated funds. Terminated LDPFs are treated differently from terminated composites because, although a firm can restart a composite strategy when a prospective client hires the firm for a strategy that was previously closed, the firm does not have the same ability to restart a pooled fund. The pooled fund descriptions disclosed in GIPS Pooled Fund Reports must be consistent with the descriptions included in the list of pooled fund descriptions.

The list of LDPF descriptions may be tailored to include only those LDPFs for which a prospective investor is eligible, but the firm is not required to do this.

An explanation of LDPF descriptions can be found in the discussion of Provision 1.A.22. A Sample List of Pooled Fund Descriptions can be found in Appendix D of the GIPS standards.

c. List of BROAD DISTRIBUTION POOLED FUNDS.

In addition to the lists of composite descriptions and LDPF descriptions, firms must also disclose, in each GIPS Pooled Fund Report, that a list of BDPFs is available upon request, if applicable to the firm. A BDPF is any pooled fund that is regulated under a framework that would permit the general public to purchase or hold the pooled fund's shares and is not exclusively offered in one-on-one presentations. These funds are typically sold to the general public and are highly regulated.

Note that the required list of BDPFs is a list of the names of the firm's BDPFs only. No descriptions of the BDPFs are required. The list of BDPF names does not need to be included in each GIPS Pooled Fund Report but must be available upon request. The list of BDPFs must include the names of all current BDPFs but does not need to include terminated BDPFs. Terminated BDPFs are treated differently from terminated composites because, although a firm can restart a composite strategy when a prospective client hires the firm for a strategy that was previously closed, the firm does not have the same ability to restart a pooled fund. If a firm includes information about all of its BDPFs on its website, the firm may provide a link to the website to fulfill the requirement to provide the list of BDPFs upon request.

This list may be tailored to include only those BDPFs for which a prospective investor is eligible, but the firm is not required to do this.

Sample Disclosures:

For Firms with Composites and Limited Distribution Pooled Funds

"A list of composite descriptions and a list of limited distribution pooled fund descriptions are available upon request."

For Firms with Composites, Limited Distribution Pooled Funds, and Broad Distribution Pooled Funds

“A list of composite descriptions, a list of limited distribution pooled fund descriptions, and a list of broad distribution pooled funds are available upon request.”

For Firms That Offer Strategies in Multiple Vehicles

“A list of all composite and pooled fund investment strategies offered by the firm, with a description of each strategy, is available upon request. The type of portfolios in which each strategy is available (segregated account, limited distribution pooled fund, or broad distribution pooled fund) is indicated in the description of each strategy.”

Provision 7.C.14

The FIRM MUST disclose that policies for valuing investments, calculating performance, and preparing GIPS REPORTS are available upon request.

Discussion

In each GIPS Pooled Fund Report, firms must disclose the availability of policies for valuing investments, calculating performance, and preparing GIPS Reports. The policies are not required to be included in each GIPS Pooled Fund Report but must be available upon request. Firms are not required to provide the related procedures, in addition to the policies, but may do so.

Sample Disclosure:

“Firm XYZ’s policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.”

Provision 7.C.15

The FIRM MUST disclose how leverage, derivatives, and short positions have been used historically, if material.

Discussion

Firms must provide enough information in a GIPS Pooled Fund Report to allow a prospective investor to understand how leverage, derivatives, and short positions have been employed

historically and may be used going forward. Although the pooled fund description includes disclosure of the firm's ability to use leverage, derivatives, and short positions (see Provision 7.C.4), Provision 7.C.15 requires that the firm disclose the leverage, derivatives, and short positions that have been used historically, if material. Taken together, these two required disclosures provide a more complete picture of the presence, use, and extent of leverage, derivatives, and short positions.

For example, assume a firm discloses in the pooled fund description that the strategy may employ up to 200% leverage. To satisfy the disclosure requirement in Provision 7.C.15, the firm might state, "Since the inception of the pooled fund, the leverage has averaged 110% of the pooled fund's value; however, during 2019 the leverage averaged 160%, which greatly increased the sensitivity to market volatility and the potential for realized gains and/or losses."

No disclosure is required if leverage, derivatives, and short positions have not been used or if their use has not been material. When determining what would be material, the firm must consider whether the disclosure of how leverage, derivatives, and/or short positions have been used historically is likely to affect a prospective investor's view of the risk involved in the pooled fund's strategy. If so, it would be misleading for the firm to fail to disclose their use to prospective investors when describing the strategy.

Provision 7.C.16

The FIRM MUST disclose all significant events that would help a PROSPECTIVE INVESTOR interpret the GIPS POOLED FUND REPORT. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the track record.

Discussion

The GIPS standards are based on the principles of fair representation and full disclosure. Meeting these objectives requires a good faith commitment on the part of the firm to adhere to the spirit of the GIPS standards. The GIPS standards cannot foresee and cover every situation that might occur. Therefore, this provision requires that firms disclose all significant events that would help explain the firm's GIPS Pooled Fund Report to a prospective investor. The primary goal of this requirement is to provide relevant information to prospective investors so that they can understand the potential effect of the significant event on the pooled fund's investment strategy and the firm.

Significant events are determined by the firm and would include, as examples, a material change in personnel responsible for investment management, significant changes to the investment management process, the loss of historical records resulting from a catastrophic event, or a change in

firm ownership. The acquisition of a new entity or selling off part of a firm would also qualify as a significant event, as would the departure of someone who was the single investment decision maker for a strategy.

Depending on the situation, a general statement describing the significant event that has occurred may be sufficient. Other situations may require firms to disclose specific information pertaining to the significant event. The disclosure regarding the significant event must be included in the GIPS Pooled Fund Report for a minimum of one year and for as long as it is relevant to interpreting the performance track record. As an example, a firm that acquires another firm, resulting in a large increase in total firm assets, may disclose this significant event for as long as the large change in total firm assets is included in the GIPS Pooled Fund Report. In contrast, a change in a firm's chief investment officer is a change that a firm may believe should be disclosed for one year only.

The firm must consider the underlying principles of the GIPS standards, which are fair representation and full disclosure, when determining how long the disclosure will be included in the GIPS Pooled Fund Report.

Sample Disclosures:

“In June 2017, Firm G determined that the custodian bank used by all of the firm's proprietary mutual funds had failed to file reclaimable withholding tax refund requests with the appropriate authorities. At that time, all accrued reclaimable withholding taxes were written off, decreasing the Fund's monthly return by 1.06%.”

“On 15 April 2018, the quantitative asset management division of Firm Z was sold, resulting in the 2018 decrease in Firm Z's assets.”

“In February 2020, the parent company of Firm M announced plans to exit the investment management business and sell Firm M. As of April 2020, a tentative sale of Firm M has been agreed upon but not yet finalized.”

Provision 7.C.17

For any performance presented for periods prior to the MINIMUM EFFECTIVE COMPLIANCE DATE that does not comply with the GIPS standards, the FIRM MUST disclose the periods of non-compliance.

Discussion

In a GIPS Pooled Fund Report that includes money-weighted returns (MWRs), firms may present non-GIPS compliant performance only for periods ending before the minimum effective

compliance date, which is 1 January 2006 for private equity and real estate pooled funds and 1 January 2000 for all other pooled funds. (See Provision 1.A.30.) If the firm chooses to present non-compliant performance for periods prior to the minimum effective compliance date, the firm must disclose which periods are not in compliance. Prospective investors and existing investors can then inquire about the reasons why the performance prior to the minimum effective compliance date is not compliant and consider the effects of non-compliance on the historical performance.

The measurement period for a pooled fund's since-inception money-weighted return (SI-MWR) is the period from the pooled fund's inception date through the end of the period being reported. The beginning date remains constant and the ending date is extended as the measurement period becomes longer. It is necessary to use the period-end date of a SI-MWR to determine the non-compliant period.

Determining the period of compliance for an MWR calculation requires consideration of cash flows and valuations. When calculating MWRs, quarterly or more frequent cash flows must be used prior to 1 January 2020, and daily cash flows must be used as of 1 January 2020. For periods ending on or after 1 January 2011, the pooled fund must be valued in accordance with the definition of fair value. See the discussion of Provision 2.A.19 for information on valuation requirements for periods ending prior to that date.

Given that the minimum effective compliance dates are so distant, and that firms are required to present only one SI-MWR (the SI-MWR through the most recent annual period end), it is not expected that the minimum effective compliance date will have an effect on many firms that present pooled fund MWRs.

If non-compliant performance for periods ending on or after the minimum effective compliance date is included in a GIPS Pooled Fund Report, it must be labeled as supplemental information.

Sample Disclosure:

“The returns for the XYZ Private Equity Fund for periods ending prior to 31 December 2005 are not in compliance with the GIPS standards.”

Provision 7.C.18

If the FIRM is redefined, the FIRM MUST disclose the date and description of the redefinition.

Discussion

A firm redefinition occurs when something changes with how the firm is held out to the public, or when any of its distinct business entity criteria significantly change. Changes in investment style

or personnel are not events that typically cause a firm redefinition. A simple firm name change is also not a sufficient reason to redefine the firm. Corporate restructuring may cause a change with how the firm is held out to the public. As an example, a firm that was defined to include only the institutional division would be redefined when it consolidated the institutional division with the mutual fund/retail division. A merger or acquisition may cause a change in the definition of the firm, but that is not always the case.

Suppose that a firm defines itself as an investment management firm offering active equity strategies to investors. An acquisition that expanded the firm's offerings to include fixed-income strategies would result in a redefinition of the firm, because there would be a change in how the firm holds itself out to the public. An acquisition that simply added additional equity strategies to the firm's offerings would not result in a redefinition of the firm. However, the acquisition is likely to be a significant event that must be disclosed in a GIPS Pooled Fund Report. (See Provision 7.C.16.)

In some cases, as a result of a significant alteration in a firm's structure or organization, a change can be so great that it creates a new firm. See Provision 1.A.2 for guidance on firm definitions.

The GIPS standards require that changes in a firm's organization must not lead to alteration of historical performance (see Provision 1.A.28).

Sample Disclosures:

"As of 1 August 2019, XYZ Firm was redefined to include both the London and Tokyo office of XYZ Company. Previously, the firm was defined to include only the London office."

"As of 1 January 2020, XYZ Investment Management was redefined to include the wrap division."

"Effective 1 January 2019, ABC Capital Management was redefined as an investment management firm offering both equity and fixed-income strategies. Prior to the 31 December 2018 acquisition of Curtone Capital Management, an investment firm offering fixed-income strategies, ABC Capital Management offered only equity strategies."

Provision 7.C.19

If the POOLED FUND's investment mandate, objective, or strategy is changed, the FIRM MUST disclose the date and description of the change.

Discussion

Investment strategies can change over time. If there is a change in a pooled fund's investment mandate, objective, or strategy, the firm must disclose the date and description of the change.

Sample Disclosure:

“As of 1 July 2017, the strategy for the Fixed Income Pooled Fund includes the use of interest rate futures to modify duration and manage interest rate risk. Prior to this date, the Fund’s strategy did not involve the active management of interest rate risk.”

Provision 7.C.20

The FIRM MUST disclose changes to the name of the POOLED FUND. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the track record.

Discussion

When prospective investors are evaluating pooled funds over time and across firms, it is important that they understand exactly which pooled funds they are assessing. If a firm changes the name of a pooled fund, the change must be disclosed in the GIPS Pooled Fund Report. The name change must be disclosed for a minimum of one year and potentially for more than one year if the firm determines the disclosure is still relevant and meaningful. The firm must consider the underlying principles of the GIPS standards, which are fair representation and full disclosure, when determining how long the disclosure will be included in the GIPS Pooled Fund Report.

Sample Disclosure:

“As of 1 January 2016, the Small-Cap Fund was renamed the US Equity Opportunity Fund.”

Provision 7.C.21

The FIRM MUST disclose if POOLED FUND returns are gross or net of withholding taxes, if material.

Discussion

Global investing requires recognition of the tax consequences of investing in different countries. The GIPS standards do not require firms to reflect withholding taxes, either reclaimable or non-reclaimable taxes, in a certain manner. Firms may choose whether or not to reflect the effect of withholding taxes when calculating performance. The GIPS standards do recommend that performance be reported net of non-reclaimable withholding taxes on dividends, interest,

and capital gains and also recommend that reclaimable foreign withholding taxes be accrued (see Provision 2.B.5). If withholding taxes are material, firms must disclose how withholding taxes are treated when calculating performance. A firm must determine the level at which withholding taxes become material, document this level in its policies and procedures, and apply it consistently.

Sample Disclosure:

“Pooled fund returns are net of all foreign non-reclaimable withholding taxes. Reclaimable withholding taxes are reflected as income if and when received.”

Provision 7.C.22

The FIRM MUST disclose if BENCHMARK returns are net of withholding taxes if this information is available.

Discussion

Global investing requires recognition of the tax consequences of investing in different countries. The GIPS standards do not require firms to reflect withholding taxes, either reclaimable or non-reclaimable taxes, in a certain manner. Firms may choose whether or not to reflect the effect of withholding taxes when calculating pooled fund performance and, similarly, whether or not to use a benchmark that reflects the effect of withholding taxes.

As Provision 7.C.21 indicates, if withholding taxes are material, firms must disclose how withholding taxes are treated when calculating performance. To facilitate the comparison of pooled fund returns and benchmark returns, firms must also disclose if the benchmark returns are net of withholding taxes if this information is available. If the benchmark name indicates that the benchmark is net of withholding taxes, no additional disclosure is necessary.

Sample Disclosure:

“Benchmark returns are net of withholding taxes.”

Provision 7.C.23

If the GIPS POOLED FUND REPORT conforms with laws and/or regulations that conflict with the REQUIREMENTS of the GIPS standards, the FIRM MUST disclose this fact and disclose the manner in which the laws and/or regulations conflict with the GIPS standards.

Discussion

Firms must comply with all applicable laws and regulations regarding the calculation and presentation of performance. Compliance with applicable laws and regulations, however, does not necessarily result in compliance with the GIPS standards. Firms must also comply with all of the applicable requirements of the GIPS standards. In the rare cases where laws and regulations conflict with the GIPS standards, firms are required to comply with the laws and regulations and disclose the manner in which the laws and/or regulations conflict with the GIPS standards.

This disclosure will assist prospective investors in comparing GIPS Pooled Fund Reports among firms where reporting requirements may differ because of local laws or regulations.

Sample Disclosure:

“We present since-inception money-weighted returns through each annual period end. Local laws do not allow the presentation of returns of less than one year to prospective investors, which is in conflict with the GIPS standards. Therefore, no performance is presented for this pooled fund for the period from 1 July 2018 (the inception date of the pooled fund) to 31 December 2018.”

Provision 7.C.24

The FIRM MUST disclose the use of a SUB-ADVISOR and the periods a SUB-ADVISOR was used.⁵⁵

Discussion

Some firms use a sub-advisor to manage part or all of a particular strategy. For example, if a firm specializes in managing equities, it might hire a sub-advisor (a third-party investment manager) to manage the fixed-income portion of its balanced portfolios. The GIPS standards require that firms include the performance of pooled fund assets assigned to a sub-advisor in the respective pooled fund's performance. In the spirit of full disclosure, a firm must disclose the fact that a sub-advisor was used in the management of the pooled fund and the periods for which a sub-advisor was used. It is not necessary to disclose the name of the sub-advisor. This is required for periods beginning on or after 1 January 2006.

Sample Disclosures:

“A sub-advisor is used to manage the international equity allocation of the Asia Growth Balanced Fund.”

⁵⁵REQUIRED for periods beginning on or after 1 January 2006.

“A sub-advisor was used for the management of the Global Private Equity Fund from its inception in 2001 through 31 December 2018.”

Provision 7.C.25

The FIRM MUST disclose if the POOLED FUND’s valuation hierarchy materially differs from the RECOMMENDED valuation hierarchy.⁵⁶ (See provision 2.B.6 for the RECOMMENDED valuation hierarchy.)

Discussion

Firms must establish policies and procedures for determining pooled fund investment valuations. For periods beginning on or after 1 January 2011, those valuations must be determined in accordance with the definition of fair value. Provision 2.B.6 includes a recommended valuation hierarchy that firms should incorporate into their policies and procedures for determining fair value for pooled fund investments. Firms must establish a valuation hierarchy on a pooled fund–specific basis. It is acceptable for firms to apply a different valuation hierarchy to specific pooled funds provided the valuation methodology conforms to the definition of fair value. If the valuation hierarchy materially differs from the recommended valuation hierarchy, the firm must disclose this fact. Prospective investors will be informed and then may request additional information about the firm’s valuation policies.

Sample Disclosure:

“All pooled fund investments are valued using the firm’s proprietary valuation models to determine fair value. Our valuation procedures materially differ from the recommended valuation hierarchy in the GIPS standards.”

Provision 7.C.26

If the FIRM determines no appropriate BENCHMARK for the POOLED FUND exists, the FIRM MUST disclose why no BENCHMARK is presented.

⁵⁶ REQUIRED for periods beginning on or after 1 January 2011.

Discussion

Benchmarks are important tools that aid in the planning, implementation, and evaluation of an investment strategy. They also help facilitate discussions with prospective investors regarding the relationship between pooled fund risk and return. As a result, the GIPS standards require firms to provide benchmark total returns in all GIPS Pooled Fund Reports. The benchmark must reflect the investment mandate, objective, or strategy of the pooled fund. Although there is typically an appropriate benchmark for traditional strategies, it is more common for managers of alternative strategies to determine that no appropriate benchmark for the pooled fund exists. If this is the case, the firm must disclose why no benchmark is presented.

Sample Disclosure:

“Because the pooled fund’s strategy is absolute return where investments are permitted in all asset classes, no benchmark is presented because we believe that no benchmark that reflects this strategy exists.”

Provision 7.C.27

If the FIRM changes the BENCHMARK, the FIRM MUST disclose:

- a. For a prospective BENCHMARK change, the date and description of the change. Changes MUST be disclosed for as long as returns for the prior BENCHMARK are included in the GIPS POOLED FUND REPORT.
- b. For a retroactive BENCHMARK change, the date and description of the change. Changes MUST be disclosed for a minimum of one year and for as long as it is relevant to interpreting the track record.

Discussion

Firms must disclose the date and description of any changes to the benchmark over time. A benchmark change can take two forms:

- The benchmark is changed from one benchmark to another on a prospective basis only.
- The benchmark is changed for all periods (i.e., retroactively).

In most cases, the firm should only change the benchmark going forward and not change the benchmark retroactively.

If the firm changes the benchmark prospectively and presents benchmark returns that combine two different benchmarks, the date and description of the change must be disclosed for as long as

returns for the prior benchmark are included in the GIPS Pooled Fund Report. Given the nature of a money-weighted return (MWR), however, it is not expected that this situation would apply to a GIPS Pooled Fund Report that includes MWRs.

There may be times when a firm determines that it is appropriate to change the benchmark for a given pooled fund retroactively. For example, because benchmarks are continually evolving, if the firm finds that a new benchmark is a better comparison for an investment strategy, the firm may consider changing the benchmark retroactively. In the case of a retroactive benchmark change, there must be a disclosure of the date and description of the benchmark change, including the fact that the benchmark was changed retroactively. Disclosures related to a retroactive change in a benchmark must be included in the respective GIPS Pooled Fund Report for a minimum of one year and for as long as the disclosures are relevant to interpreting the performance track record. The firm must consider the underlying principles of the GIPS standards, which are fair representation and full disclosure, when determining how long this disclosure will be included in the GIPS Pooled Fund Report.

When a firm changes a benchmark retroactively, the firm is encouraged to continue to also present the old benchmark.

Changes to the benchmark primarily intended to make performance look better by lowering the benchmark return violate the spirit of the GIPS standards.

Sample Disclosure:

“In January 2017, the benchmark was changed from ABC Index to XYZ Index for all periods.”

Provision 7.C.28

If a custom BENCHMARK or combination of multiple BENCHMARKS is used, the FIRM MUST:

- a. Disclose the BENCHMARK components, weights, and rebalancing process, if applicable.
- b. Disclose the calculation methodology.
- c. Clearly label the BENCHMARK to indicate that it is a custom BENCHMARK.

Discussion

When custom benchmarks are used, the firm must disclose the benchmark components, weights, and rebalancing process, if applicable. Given the nature of money-weighted return (MWR) calculations, this disclosure will rarely apply to a GIPS Pooled Fund Report that presents MWRs.

Instead, it is expected that a firm would use a public market equivalent (PME) as a custom benchmark. See the discussion of Provision 7.C.29 for an explanation of a PME. A PME must be clearly labeled as such, and the methodology used to calculate the PME must be disclosed.

A firm may calculate a PME that is gross or net of pooled fund fees. A PME that is net of pooled fund fees is calculated using the same cash flows that are used to calculate the pooled fund net return. A firm may use a net PME benchmark only when pooled fund net returns are presented. The use of a net benchmark when only pooled fund gross returns are presented is one instance where disclosure is not sufficient to prevent the information presented from being false and misleading. When a firm includes a net benchmark in a GIPS Pooled Fund Report, the firm must clearly label the benchmark as a custom benchmark and disclose the calculation methodology.

Sample Disclosure for a PME Benchmark:

“The benchmark is the public market equivalent (PME) of the ABC Mid-Cap Equity Index, which tracks the performance of US mid-cap companies. The PME is a method by which a public market index is used to create a since-inception money-weighted return that is comparable to a fund’s since-inception money-weighted return from a series of cash flows that are the same as those of the fund and uses a theoretical investment value. The theoretical investment value is derived by buying and selling the public market index using the dates and amounts of actual pooled fund cash flows.”

Provision 7.C.29

The FIRM MUST disclose the calculation methodology used for the BENCHMARK. If the FIRM presents the PUBLIC MARKET EQUIVALENT of a POOLED FUND as a BENCHMARK, the FIRM MUST also disclose the index used to calculate the PUBLIC MARKET EQUIVALENT.

Discussion

The benchmark selected for a pooled fund must be appropriate for comparison with the performance of the pooled fund. Unlike benchmarks for publicly traded securities, however, industry benchmarks for private market investments are less widely available or are available only through certain commercial vendors. Firms may use public market indices as a benchmark for private market investments, but the public market indices by themselves are not directly comparable to a money-weighted return (MWR) because the market indices typically use a time-weighted return. The public market equivalent (PME) is a method where a public market index is used to create a comparable MWR from a series of cash flows that replicate those of the pooled fund and that can be compared with the MWR of the pooled fund.

The GIPS standards require that the calculation methodology for the benchmark be disclosed. This information provides transparency as to the comparability of performance between the pooled fund and the benchmark. If a PME is used as a benchmark, the firm must disclose which public market index is used to create the PME.

Sample Disclosure for a Non-PME Benchmark:

“The benchmark is the since-inception money-weighted return for the ACME Advisory US Venture Capital Funds Universe – 2018 Vintage Year. The vintage year is determined by the date of the first capital call for each fund in the universe.”

Sample Disclosure for a PME Benchmark:

“The benchmark is the public market equivalent (PME) of the ABC Mid-Cap Equity Index, which tracks the performance of US mid-cap companies. The PME is a method by which a public market index is used to create a since-inception money-weighted return that is comparable to a fund’s since-inception money-weighted return from a series of cash flows that are the same as those of the fund and uses a theoretical investment value. The theoretical investment value is derived by buying and selling the public market index using the dates and amounts of actual pooled fund cash flows.”

Provision 7.C.30

The FIRM MUST disclose if performance from a past firm or affiliation is presented, and for which periods.

Discussion

Although firms often think about time-weighted returns when considering portability issues, it is also possible for a money-weighted return to span two firms. Provision 1.A.32 includes the tests that must be met to determine if performance from a past firm or affiliation may be used to represent the historical performance of a new or acquiring firm and if that performance can be linked to the ongoing performance of the new or acquiring firm. Provision 1.A.33 includes the portability tests that must be met for the new or acquiring firm to use performance from a past firm or affiliation to represent its historical performance when there is a break in the track record between the past firm or affiliation and the new or acquiring firm. In this instance, the track record from the past firm or affiliation may be used if the tests are met, but the track record must not be linked to performance of the new or acquiring firm. A current since-inception money-weighted return (SI-MWR) must be calculated using only the performance after the break. A SI-MWR

from the beginning of the track record up until the break may also be presented if the tests in Provision 1.A.33 are met. The current SI-MWR for the period after the break in performance and the SI-MWR representing performance prior to the break must not be linked, however, and each must be clearly labeled.

If the firm meets the required portability tests and presents performance from a past firm or affiliation in the GIPS Pooled Fund Report, the firm must disclose this fact, as well as the periods for which performance from the past firm or affiliation is presented.

Sample Disclosure:

“The Opportunity Fund was funded in March 2016 and was managed by the Distressed Debt Team at a prior firm. On 15 December 2017, the prior firm sold the line of business that included the Distressed Debt Team to ABC Investments. Fund activity prior to 15 December 2017 is from the prior firm.”

Provision 7.C.31

The FIRM MUST disclose the frequency of EXTERNAL CASH FLOWS used in the MONEY-WEIGHTED RETURN calculation if daily frequency was not used.

Discussion

When calculating money-weighted returns (MWRs), quarterly or more frequent cash flows must be used prior to 1 January 2020, and daily cash flows must be used as of 1 January 2020. A historical cash flow stream may therefore include daily, monthly and/or quarterly cash flows. When constructing such a cash flow stream historically, and daily cash flows are not used, the firm must assume that all quarterly and monthly cash flows occurred on a particular date in the month or quarter regardless of the actual date of the cash flow. For example, all monthly or quarterly cash flows might be dated as if they occurred on the last day of the month, regardless of the actual date of the cash flow. See Provision 2.A.29 for an example of how quarterly and monthly cash flows can be reflected in an MWR calculation.

The MWR calculation is sensitive to the relative timing of cash flows and, especially early in the life of a fund, returns calculated using a quarterly cash flow dating convention can differ from returns calculated using a monthly or daily convention. Accordingly, firms are required to disclose the frequency of cash flows used in the MWR calculation if daily cash flows are not used for periods prior to 1 January 2020. It is recommended that firms use daily cash flows for all periods.

Sample Disclosure:

“The money-weighted return calculation incorporates monthly cash flows for periods prior to 1 January 2020 and daily cash flows thereafter.”

Provision 7.C.32

If a SUBSCRIPTION LINE OF CREDIT is used, and the FIRM is REQUIRED to present returns both with and without the SUBSCRIPTION LINE OF CREDIT, the FIRM MUST disclose:

- a. The purpose for using the SUBSCRIPTION LINE OF CREDIT.
- b. The size of the SUBSCRIPTION LINE OF CREDIT as of the most recent annual period end.
- c. The SUBSCRIPTION LINE OF CREDIT amount outstanding as of the most recent annual period end.

Discussion

Subscription lines of credit are being used by more firms and for longer periods, and they may have a significant effect on returns. It is therefore important that prospective investors have sufficient information about any subscription line of credit (LOC) that could influence pooled fund performance.

In those situations in which a subscription LOC is used and the firm is required to present returns both with and without the subscription LOC (see Provision 7.A.2), the firm must disclose the purpose of the subscription LOC so that prospective investors can better understand why the subscription LOC exists. In some cases, the subscription LOC is short term in nature and is put in place simply to facilitate administration when capital is being called from investors. In other cases, the subscription LOC is longer term and is used to delay the capital calls from investors. To help prospective investors put the subscription LOC in perspective, the firm must also disclose both the size of the subscription LOC and the subscription LOC amount outstanding as of the most recent annual period end.

Sample Disclosures:

“A \$100M subscription line of credit is in place as bridge financing to reduce the number of capital calls made to fund investors. As of 31 December 2020, \$40M is outstanding.”

“A \$250M subscription line of credit is in place and is used to finance investments. During the past two years, the subscription LOC was fully drawn but was repaid as of 31 December 2019.”

Provision 7.C.33

The FIRM MUST disclose any change to the GIPS POOLED FUND REPORT resulting from the correction of a MATERIAL ERROR. Following the correction of the GIPS POOLED FUND REPORT, this disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the track record. This disclosure is not REQUIRED to be included in a GIPS POOLED FUND REPORT that is provided to a PROSPECTIVE INVESTOR that did not receive the GIPS POOLED FUND REPORT containing the MATERIAL ERROR.

Discussion

Firms claiming compliance with the GIPS standards are likely to be faced with situations in which errors are discovered that must be specifically addressed. An error, which can be qualitative or quantitative, can be related to any component of a GIPS Pooled Fund Report that is missing or inaccurate. Errors in GIPS Pooled Fund Reports can result from, but are not limited to, incorrect, incomplete, or missing:

- pooled fund returns or assets,
- firm assets,
- benchmark returns, or
- disclosures.

Any material error in a GIPS Pooled Fund Report must be corrected and disclosed in a corrected GIPS Pooled Fund Report. A firm must define materiality within its error correction policies and procedures.

To adhere to this requirement, a firm must determine the criteria it will use to determine materiality. The following is a definition of materiality that firms might find useful as a starting point for their determination of materiality. “An error is material if the magnitude of the omission or misstatement of performance information, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed by the omission or misstatement.” A firm should have a defined process for determining the objective criteria it will use in determining materiality.

Disclosure of the change in the corrected GIPS Pooled Fund Report resulting from a material error must be included in the GIPS Pooled Fund Report for a minimum of 12 months following the correction of the report and for as long as it is relevant to interpreting the track record. The firm must consider the underlying principles of the GIPS standards, which are fair representation and full disclosure, when determining how long the disclosure will be included in the GIPS Pooled Fund Report that contained the material error.

Disclosure of the change resulting from a material error is not required to be included in a GIPS Pooled Fund Report that is provided to new prospective investors.

The discussion for Provision 1.A.20 provides additional information on error correction, including determination of materiality, the actions that must be taken when an error in a GIPS Pooled Fund Report is discovered, and an explanation of who must receive the revised GIPS Pooled Fund Report.

Sample Disclosure:

“This GIPS Pooled Fund Report includes a correction of the information provided for the XYZ Peer Universe. The since-inception internal rate of return for the XYZ Peer Universe through 31 December 2020 was originally presented as 3.4%. The correct return is 4.3%, as shown in this revised GIPS Pooled Fund Report.”

Provision 7.C.34

The FIRM MUST disclose if preliminary, estimated values are used to determine FAIR VALUE.

Discussion

The use of preliminary, estimated values as fair value is common for some alternative strategies, including those that invest in underlying funds, for which the firm relies on valuations provided by the underlying fund managers. When using preliminary, estimated values as fair value, it is important to remember the underlying principles of the GIPS standards: fair representation and full disclosure. If using preliminary, estimated values, firms must disclose this fact in the relevant GIPS Pooled Fund Report.

Firms that use preliminary, estimated values to determine fair value and subsequently change valuations when final values are received must determine how the firm’s error correction policies will be applied. (Please see Provision 1.A.20 for guidance on error correction policies.) Differences between the final and estimated values are not necessarily errors but are treated in a similar manner because the correction of previously presented information may be involved.

In addition to this required disclosure, it is recommended (see Provision 7.B.5) that firms present the percentage of assets in the pooled fund that were valued using preliminary, estimated values as of the most recent annual period end. This information will help prospective investors to interpret the performance record.

Sample Disclosure:

“Preliminary, estimated values were used in the determination of the fair value of the pooled fund’s assets.”

Provision 7.C.35

If the FIRM changes the type of return(s) presented for the POOLED FUND (e.g., changes from TIME-WEIGHTED RETURNS to MONEY-WEIGHTED RETURNS), the FIRM MUST disclose the change and the date of the change. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the track record.

Discussion

A firm must present time-weighted returns (TWRs) in a GIPS Pooled Fund Report unless certain criteria are met that allow money-weighted returns (MWRs) to be presented instead of TWRs. Firms may choose to present MWRs instead of TWRs for a specific pooled fund only if the firm controls the external cash flows into the pooled fund and the pooled fund has at least one of the following characteristics: it is closed-end; fixed life; fixed commitment; or illiquid investments are a significant part of the strategy. (See Provision 1.A.35.)

When a firm changes the type of return presented for a pooled fund, the firm must disclose, in the respective GIPS Pooled Fund Report, the change in the type of return (e.g., from TWR to MWR) and the date of the change. This disclosure must be included in the GIPS Pooled Fund Report for a minimum of one year and for as long as it is relevant and helpful to the firm’s prospective investors in interpreting the pooled fund’s track record. The firm must consider the underlying principles of the GIPS standards, which are fair representation and full disclosure, when determining how long the disclosure will be included in the GIPS Pooled Fund Report.

When a firm changes the type of return presented for a pooled fund, for example from TWRs to MWRs, the firm must change the returns for all periods. As an example, suppose that a firm is presenting TWRs for a pooled fund from the inception of a pooled fund on 1 January 2013 through 31 December 2019. It decides that it will switch to present MWRs as of 1 January 2020. The firm cannot present TWRs through 31 December 2019 and an MWR from 1 January 2020 through 31 December 2020. The firm must present the since-inception MWR for the period from 1 January 2013 (the inception date of the pooled fund) through 31 December 2020 in the GIPS Pooled Fund Report for the period ended 31 December 2020.

Sample Disclosure:

“Beginning with the GIPS Pooled Fund Report for the period ended 31 December 2020, the returns presented for Fund XYZ were changed from time-weighted returns to money-weighted returns.”

Provision 7.C.36

If the FIRM presents ADDITIONAL RISK MEASURES, the FIRM MUST:

- a. Describe any ADDITIONAL RISK MEASURE.
- b. Disclose the name of the risk-free rate if a risk-free rate is used in the calculation of the ADDITIONAL RISK MEASURE.

Discussion

There is no required risk measure for a GIPS Pooled Fund Report that presents money-weighted returns. However, understanding and interpreting investment performance requires the consideration of both risk and return. It is therefore recommended that firms present additional risk measures for the pooled fund and the benchmark. (Because no quantitative risk measure is required for pooled funds that present money-weighted returns, all risk measures presented are considered additional risk measures. See Provision 7.B.4.) It is important to keep in mind that additional risk measures should be consistent with the pooled fund's strategy. For example, if the strategy includes managing foreign currency risk, the presentation of a hedge ratio would be consistent with that objective.

The GIPS Pooled Fund Report must include a description of any additional risk measure presented. If a risk-free rate is used in the calculation of an additional risk measure, the name of the risk-free rate must be disclosed. The disclosure of the name of the risk-free rate used in the calculation of an additional risk measure is required because of the importance of the selection of an appropriate risk-free rate. With a disclosure regarding the risk-free rate, the firm's prospective investors can better understand and interpret the additional risk measure(s) presented.

Provision 7.C.37

The FIRM MUST disclose if POOLED FUND GROSS RETURNS or POOLED FUND NET RETURNS are used to calculate presented risk measures.

Discussion

To help prospective investors interpret the risk measures presented in a GIPS Pooled Fund Report, the firm must disclose which returns—pooled fund gross returns or pooled fund net returns—are used in the calculation of the presented risk measures.

Sample Disclosure:

“Pooled fund net returns were used to calculate drawdown.”

Provision 7.C.38

For REAL ESTATE investments that are not in a REAL ESTATE OPEN-END FUND, the FIRM MUST disclose that:⁵⁷

- a. EXTERNAL VALUATIONS are obtained, and the frequency with which they are obtained, or
- b. The FIRM relies on valuations from financial statement audits.

Discussion

According to Provision 2.A.44, for periods beginning on or after 1 January 2012, real estate investments included in any portfolio except a real estate open-end fund must either:

- have an external valuation at least once every 12 months unless client agreements stipulate otherwise, in which case real estate investments must have an external valuation at least once every 36 months or per the client agreement if the investor agreement requires external valuations more frequently than every 36 months; or
- be subject to an annual financial statement audit performed by an independent public accounting firm. The real estate investments must be accounted for at fair value, and the most recent audited financial statements available must contain an unmodified opinion issued by an independent public accounting firm.

Because valuation is such an important issue for real estate investments, firms must inform prospective investors whether they externally value real estate investments and, if so, how frequently, or instead place reliance on valuations from audited financial statements. This disclosure is required for pooled funds that are not a real estate open-end fund, for periods ending on or after 31 December 2020.

Sample Disclosures:

“ABC Company obtains external valuations for all real estate investments annually.”

“XYZ Company relies on valuations from audited financial statements. The audits are performed by an independent public accounting firm.”

⁵⁷ REQUIRED for periods ending on or after 31 December 2020.

Provision 7.C.39

When the GIPS POOLED FUND REPORT includes THEORETICAL PERFORMANCE as SUPPLEMENTAL INFORMATION, the FIRM MUST:

- a. Disclose that the results are theoretical, are not based on the performance of actual assets, and if the THEORETICAL PERFORMANCE was derived from the retroactive or prospective application of a model.
- b. Disclose a basic description of the methodology and assumptions used to calculate the THEORETICAL PERFORMANCE sufficient for the PROSPECTIVE INVESTOR to interpret the THEORETICAL PERFORMANCE, including if it is based on model performance, backtested performance, or hypothetical performance.
- c. Disclose whether the THEORETICAL PERFORMANCE reflects the deduction of actual or estimated INVESTMENT MANAGEMENT FEES, TRANSACTION COSTS, or other fees and charges that an actual POOLED FUND investor would have paid or will pay.
- d. Clearly label the THEORETICAL PERFORMANCE as SUPPLEMENTAL INFORMATION.

Discussion

To be presented as supplemental information in a GIPS Pooled Fund Report, theoretical performance must relate to the respective pooled fund. The following are examples of theoretical performance that may be included in a GIPS Pooled Fund Report as supplemental information:

- Results created by applying a pooled fund investment strategy or methodology to historical data to indicate how a strategy constructed with the benefit of hindsight would have performed during a certain period in the past had the strategy been in existence during that period.
- Ex ante performance that is calculated by combining actual pooled fund cash flows with projected future cash flows.
- Results that include the effect of currency hedging that has been applied after the fact to the pooled fund when the pooled fund was not originally managed including the currency hedging strategy, and the hedging is not part of the actual pooled fund returns.

When theoretical performance is included as supplemental information in a GIPS Pooled Fund Report, a firm is required to include a number of disclosures to ensure that the recipients of the report, including prospective investors, understand the nature of the information being presented. Among the required disclosures are the source of the theoretical performance, the methodology and assumptions used to calculate the theoretical performance, and the treatment of fees and costs.

Firms must also clearly label the theoretical performance as supplemental information.

Sample Disclosure:

“A return history has been constructed for the period from 1 January 2015 through 31 December 2018 that reflects the application of an investment model used by XYZ Investment Management. The results are theoretical and are not based on the performance of actual assets. The return history is derived from the retroactive application of a model. The model assumes that an investment was made in the top 20 individual funds that have been identified as funds that meet the model’s ESG screening criteria currently, and assumes an equal amount was invested in each fund on an assumed quarterly capital call. The first capital call was assumed to occur on 31 December 2014. The since-inception internal rate of return for the model does not reflect the deduction of investment management fees, transaction costs or other fees and charges.”

7.D. Disclosure—Recommendations

Provision 7.D.1

The FIRM SHOULD disclose material changes to valuation policies and/or methodologies.

Discussion

Valuation is a critical component of the performance calculation. Therefore, if a change to a firm’s valuation policies and/or methodologies is material, firms should disclose the change in order to enable prospective investors to understand the potential effect of such a change.

Some examples of a material change include, but are not limited to, the following:

- new valuation principles adopted by a local accounting standards board,
- adoption of new international standards in lieu of local standards,
- change of economic criteria used to value investments, and
- change from a discounted cash flow basis to a comparables basis.

Sample Disclosure for a Policy Change:

“Prior to 1 March 2016, illiquid securities were valued internally. Subsequently, illiquid securities are valued using a third-party pricing service.”

Sample Disclosure for a Methodology Change:

“For periods prior to 1 August 2019, real estate investments were valued on a discounted cash flow basis. As of 1 August 2019, real estate investments are valued on a comparables basis.”

Provision 7.D.2

The FIRM SHOULD disclose material changes to calculation policies and/or methodologies.

Discussion

Firms have discretion to determine which policies and methodologies are used for calculating performance. Although these policies and methodologies must adhere to all applicable calculation requirements, firms may choose from a wide variety of policies and methodologies. Firms may change calculation policies and/or methodologies; however, firms must not change a calculation policy or methodology for the sole purpose of increasing performance. If a change to the calculation policies and/or methodologies is material, firms should disclose the change in order to enable prospective investors to understand the potential effect of such a change.

Sample Disclosure:

“Prior to 2019, the internal rate of return method was used to calculate since-inception money-weighted returns. Subsequently, the Modified Dietz method is used for all periods.”

Provision 7.D.3

The FIRM SHOULD disclose material differences between the BENCHMARK and the POOLED FUND’S investment mandate, objective, or strategy.

Discussion

Firms are required to disclose the pooled fund description (see Provision 7.C.4) and the benchmark description (see Provision 7.C.5) in a GIPS Pooled Fund Report. It is recommended that firms also disclose any material differences between the benchmark and the pooled fund’s investment mandate, objective, or strategy. Prospective investors will be better able to evaluate the performance of the strategy relative to the benchmark presented if they understand any material differences between the pooled fund and the benchmark.

Sample Disclosure:

“The Small-Cap Opportunities Fund is a venture capital fund that invests in small-cap startups in all sectors, with a focus on the health care and financial services sectors. The benchmark for the Fund is the public market equivalent (PME) of the ABC Small-Cap Index, which tracks the

performance of US small-cap companies. The investment strategy of the Fund differs from the small-cap investment strategies represented by the PME because the Fund concentrates its investments. As of 31 December 2019, 62% of the Fund was invested in the health care and financial services sectors, and 18% of the index was invested in these two sectors.”

Provision 7.D.4

The FIRM SHOULD disclose the key assumptions used to value investments.

Discussion

Firms are required to disclose that valuation policies are available upon request. (See Provision 7.C.14.) Because valuation is a critical component of the performance calculation, it is recommended that firms also disclose the key assumptions used when valuing pooled fund investments. This will help prospective investors better understand how the firm values investments and compare valuation assumptions for similar strategies used by different firms.

Sample Disclosure:

“The firm uses valuations reported by the general partners of the underlying pooled funds.”

Provision 7.D.5

If a parent company contains multiple firms, each FIRM within the parent company SHOULD disclose a list of the other firms contained within the parent company.

Discussion

The term “firm” is used in two different ways in Provision 7.D.5. “FIRM” is used to indicate an entity that claims compliance with the GIPS standards, whereas “firm” is used to indicate an entity that may or may not claim compliance with the GIPS standards. The definition of a firm will be based on the specific circumstances of the firm but must reflect how the firm is held out to the public as a distinct business entity. In some cases, a parent company may have two or more units, divisions, departments, or offices that are defined as separate firms within the context of the GIPS standards. To avoid confusion, a firm claiming compliance with the GIPS standards must be sure that it is clearly defined relative to the other firms within the parent company and that it is apparent which firm is claiming compliance. In the interest of fair representation and full disclosure,

firms should disclose a list of the other organizations within the parent company. Firms should also consider indicating which organizations within the parent company claim compliance with the GIPS standards.

Sample Disclosure:

“ABC Institutional Investment Management is the institutional division of ABC parent company. The private banking division of ABC parent company also claims compliance with the GIPS standards, whereas the retail division of ABC parent company does not claim compliance with the GIPS standards.”

Provision 7.D.6

If the FIRM adheres to any industry valuation guidelines in addition to the GIPS valuation REQUIREMENTS, the FIRM SHOULD disclose which guidelines have been applied.

Discussion

Some market segments, such as private equity, have developed their own valuation guidelines. For these markets, it is not uncommon for the GIPS standards valuation requirements to be supplemented by other local or international standards because other standards may be more stringent in their requirements.

The disclosure of which industry’s valuation guidelines have been used in addition to the GIPS standards valuation requirements will help prospective investors to determine the comparability of GIPS Pooled Fund Reports from different firms and/or jurisdictions.

Sample Disclosure:

“The Global Diversified Distressed Fund adheres to the XYZ Venture Capital Association’s valuation guidelines as well as the GIPS standards valuation requirements. The XYZ valuation standards are based on fair value but provide more prescriptive advice in terms of how to value specific investments, such as secondary investments and distressed debt investments.”

Provision 7.D.7

When using BENCHMARKS that have limitations, such as peer group BENCHMARKS, the FIRM SHOULD disclose these limitations.

Discussion

Firms must determine which benchmark(s) are most appropriate for pooled fund(s). When determining which benchmarks to present in a GIPS Pooled Fund Report, firms should be guided by the ethical spirit of the GIPS standards.

Some benchmarks with known limitations are often used for certain types of investments. For example, peer group benchmarks, such as hedge fund peer group universe indices, are often used for hedge funds and other alternative investment strategies. Although peer group benchmarks are frequently used to evaluate hedge funds, there are some common problems with hedge fund peer group benchmarks, including the following:

- self-reporting bias (only some hedge funds choose to report performance data),
- survivorship bias (historical returns of closed hedge funds are removed from the peer group benchmark),
- inability to obtain returns for the same periods as the pooled fund, and
- lack of investability (some hedge funds within a peer group benchmark are closed to new investors).

When using benchmarks that exhibit limitations, firms should describe these limitations in the relevant GIPS Pooled Fund Report. This helps prospective investors understand the nature of the benchmark and be aware of any known drawbacks in comparing the risk and return of the benchmark and pooled fund.

Sample Disclosure:

“The benchmark is the Hedge Fund Aggregate Multi-Style Index, which includes more than 100 hedge funds of various styles and strategies. Because this index is based on the data self-reported by the constituent funds, it may have a self-reporting bias. In addition, some funds are closed to new investors and are no longer investable. We believe that no better index exists as a comparison for the pooled fund.”

Provision 7.D.8

The FIRM SHOULD disclose how research costs are reflected in returns.

Discussion

The focus on research costs has grown in certain markets. Although research costs are often absorbed by the firm, some firms instead charge research costs directly to investors. To allow

prospective investors to understand the firm's policy for the treatment of research costs, firms should disclose if returns do or do not reflect the deduction of research costs.

Sample Disclosures:

“ABC Company bears the costs of investment research. Research costs are not separately charged to investors nor to the fund.”

“Certain investment research costs are charged directly to investors and are not paid from pooled fund assets. Therefore, fund returns do not reflect the research costs that are charged directly to investors.”

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