

**FIDUCIARY MANAGEMENT PROVIDERS TO UK PENSION SCHEMES**

SAMPLE POLICY MANUAL

JULY 2020



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1. **Definition of the Fiduciary Management Provider (31.A.2)**

Seaquest Fiduciary Services (Seaquest) is defined as the fiduciary management provider for the purpose of compliance with the GIPS Standards for Fiduciary Management Providers to UK Pension Schemes (GIPS standards for FMPs). Seaquest provides advice and investment management services to United Kingdom (UK) pension trustees on an on-going basis with respect to 100% of the available assets of a pension scheme.

The fiduciary management provider, Seaquest Fiduciary Services, is defined differently from Seaquest Fiduciary Services Incorporated, the legal entity. Any schemes managed for pensions outside of the UK by the legal entity are excluded from the definition of the fiduciary management provider.

1. **Changes to the Fiduciary Management Provider Definition (31.A.22, 34.C.15)**

There have been no changes to the definition of the fiduciary management provider (FMP) or changes to the organization since Seaquest began claiming compliance with the GIPS standards for FMPs. If a change is made in the future, the date and description of the redefinition will be included in all of the FMPs GIPS Composite Reports for as long as it is applicable to the presentations.

1. **Periods of Compliance (31.A.3)**

Seaquest Fiduciary Services began claiming compliance with the GIPS Standards for FMPs in January 2020. Seaquest initially complied for the required minimum five year period, from 1 January 2015 through 31 December 2019.

1. **Maintaining Compliance (31.A.1 and 31.A.4)**

Seaquest is committed to maintaining compliance with the GIPS Standards for FMPs. Seaquest acknowledges that compliance with the GIPS standards for FMPs must be met on a fiduciary management provider-wide basis, and not on a composite or scheme basis. The Seaquest Performance Committee is ultimately responsible for ensuring the company complies with all applicable requirements of the GIPS standards for FMPs. The Performance Committee also oversees client reporting, helping to ensure consistency in the information that is provided to both current and prospective clients. The Performance Committee meets quarterly and includes representatives from performance, portfolio management, compliance, marketing, operations, and client services.

1. **Documenting GIPS Standards Policies and Procedures (31.A.5)**

Seaquest has implemented certain policies and procedures for maintaining compliance with the GIPS standards for FMPs as documented in this GIPS Standards for FMPs Policy Manual. The Performance Manager is responsible for documenting these policies and procedures in the policy manual. The GIPS Standards for FMPs Policy Manual is maintained on the company’s intranet.

1. **Monitoring and Changing GIPS Standards Policies and Procedures (31.A.5 and 31.A.6)**

The GIPS Standards for FMPs Policy Manual is reviewed at least annually to ensure the policies and procedures are consistent with current GIPS standards for FMPs guidance and remain relevant for Seaquest’s business practices. The Performance Manager is responsible for monitoring any changes to the requirements to the GIPS Standards for FMPs, including any guidance published by CFA Institute and the GIPS standards for FMPs governing bodies. The Performance Manager participates in the Forum for FMPs, which meets periodically. At each Forum meeting the representative from CFA Institute provides an update about any technical changes or new guidance with which FMPs must comply.

Seaquest must also comply with all applicable laws and regulations regarding the calculation and presentation of performance. The Performance Manager will consult with the Compliance Manager periodically to determine if any regulatory changes have been made that require a change to the GIPS standards for FMPs policies and procedures.

If changes to the GIPS Standards for FMPs Policy Manual are required, the Performance Manager will submit a draft of the proposed changes to the Seaquest Performance Committee for review and approval. Once changes are approved, the updated GIPS standards for FMPs Policy Manual will be posted on the company’s intranet set and a memo describing the changes will be distributed to relevant staff.

1. **CFA Institute Notification (31.A.27)**

Seaquest initially claimed compliance with the GIPS standards for FMPs in January 2020. At that time the Performance Manger completed and submitted the GIPS standards for FMPs Compliance Notification Form Annually, by no later than 30 June, the Performance Manager will submit to CFA Institute the GIPS standards for FMPs Compliance Notification Form. The Performance Manager is listed as the primary contact and the CCO is listed as the secondary contact. Seaquest allows its name to be listed on the CFA Institute website as a compliant company.

1. **Proper References to the GIPS Standards (31.A.9, 31.A.10, 34.C.1, 34.C.2)**

The only reference to the GIPS standards for FMPs that Seaquest makes is within the GIPS Composite Report and is as follows:

“Seaquest Fiduciary Services (Seaquest) claims compliance with the Global Investment Performance Standards (GIPS®) for FMPs and has prepared and presented this report in compliance with the GIPS standards for FMPs.”

Seaquest will make no statements referring to the calculation methodology as being “in accordance,” “in compliance,” or “consistent” with the GIPS standards for FMPs, or similar statements, because this is not permitted. Seaquest may refer to an individual scheme’s performance as “calculated in accordance with the GIPS standards for FMPs” when reporting performance of a scheme to a current client.

Each GIPS Composite Report will include the following disclaimer.

“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.”

This disclosure will also be included in any client report that refers to the GIPS standards for FMPs.

1. **List of Composite Descriptions (31.A.16, 31.A.17)**

The Performance Department is responsible for maintaining a complete list of composite descriptions. The list of composite descriptions includes all of the company’s current composite strategies plus any composite that terminated within the last five years. The list of composite descriptions is provided to any prospective client that makes such a request. A current PDF version of the list of composite descriptions is available on the company’s intranet in the Approved Distribution Documentation/GIPS folder. Marketing staff are responsible for logging the distribution of the list of composite descriptions into the Seaquest Marketing Materials Log. The Marketing Materials log tracks what document, including the version, was provided to a specific entity and the date it was provided. The act of making an entry into the Marketing Materials Log also places an entry in the prospect’s CRM file identifying the documentation provided. See Appendix A.

1. **List of Composite Risks (34.C.8)**

The Performance Department is responsible for maintaining summaries about the risks of each composite that is included on the list of composite descriptions. When a composite is first created, performance staff will work with the portfolio manager to identify and summarize the risks of the composite strategy. Annually, the composite risk summary is reviewed with the portfolio manager to ensure the risk summary remains relevant and complete. When a list of composite risks is requested by a prospective client, the request is forwarded to the Performance Department who will provide the current version of the composite risk summary. Performance staff are responsible for logging the distribution of the list of composite risks into the Seaquest Marketing Materials Log. See Appendix B.

1. **Third Party Service Providers (31.A.20)**

Seaquest on occasion will contract with a third-party to provide performance measurement services. Seaquest may also contract with sub-advisers and place reliance on their calculation of performance. When Seaquest relies on the information provided by these third parties, Seaquest acknowledges that it is responsible for ensuring the information provided meets the requirements of the GIPS standards for FMPs. Seaquest also must ensure it has access to the documentation and data supporting the information used in the calculation of scheme and composite performance.

The Legal Department ensures that service-level agreements with third-party services providers provide Seaquest with adequate access to documentation supporting both current and historical performance if the records are not captured in-house. They also ensure these agreements contractually support Seaquest’s ability to obtain this critical information in the event the companies end their business relationship.

To ensure Seaquest can place reliance on the information provided by a third-party, the Performance Department conducts a thorough examination of the third-party service provider’s policies and procedures. Seaquest may also hire a chartered accounting firm to assist with diligence efforts. The goal of the policy and procedures review is to evaluate if third-party valuations and performance calculations are consistent with the requirements of the GIPS standards for FMPs. Once the Performance Department has determined that nothing in the provider’s policies and procedures and any return calculation methodology places Seaquest’s claim of compliance with the GIPS standards for FMPs at risk, they will notify the Legal Department of their finding. The Legal Department will not execute a contract with a third-party service provider until the Performance Department has submitted their due diligence report. Subsequently, the Performance staff will periodically test valuations and/or performance provided by the third party to confirm it is appropriate to continue to place reliance on the information provided. The Performance staff may also request updated policies and procedures from a third-party service provider to ensure no changes that would affect compliance have been made.

1. **Custodian Reconciliation (32.A.2.a, 32.A.4)**

Cash transactions, and ending cash and security positions are reconciled daily to the custodian statement for each scheme by the Accounting Department. At month end, security positions and valuations as well as income accruals are reconciled to the custodian statement. All differences are researched and resolved. Reconciled month-end data is the source for Total FMP Assets and return calculations, which ensures only actual assets are included in Total FMP Assets, composite assets, and composite performance.

1. **Accounting**
	1. *Trade Date Accounting* **(32.A.6)**

Since 1 January 2015 all security trades are recorded on a trade date basis. Previously, some schemes used settlement date accounting. For the purpose of this policy, recognizing the asset or liability within three days of the transaction date qualifies as trade date.

* 1. *Income Recognition* **(32.A.7)**

For internally managed assets:

* Interest income is accrued for all fixed income securities.
* Income on short term cash accounts is recorded on a cash basis.
* Dividends are accrued on ex-date.

For externally managed assets

* Dividends may or may not be accrued, depending on the external manager’s calculation policy.
	1. *Transaction Costs* **(32.A.10)**

Transaction costs are defined as the actual costs of buying or selling investments. Examples of these costs are brokerage commissions, exchange fees and/or taxes, and/or bid–offer spreads from either internal or external brokers.

Transaction costs are deducted when calculating scheme returns. Transaction costs are recorded in the trading system at the time of the transaction (trading date) and uploaded into the accounting system. The security value, net of all transaction costs, is uploaded to the performance system to be used in the return calculation. Quarterly a system report is exported to Excel that lists each scheme that was traded during the quarter, the dollar amount traded, number of shares traded, and commissions paid. Performance staff will review the data and identify any scheme that does not appear to be paying transaction costs or the amount is so low it appears to be incorrect. Exceptions will be researched and resolved.

* 1. *Withholding Taxes* **(32.B.5)**

Scheme and composite returns are calculated net of non-reclaimable withholding taxes. Reclaimable withholding taxes are not accrued. If any withheld taxes are subsequently received they will be recorded as income upon receipt. To assist with reconciliation to the custodian statement, the full dividend amount is accrued and the withholding tax is posted as a negative adjustment to income.

* 1. *Pooled fund investments* **(32.A.12, 32.A.15, 34.A.2, 34.C.27)**

Seaquest uses pooled fund investments for illiquid asset classes, including private equity and real estate. Fair values for these fund holdings are the most recently obtained net asset value (NAV). These values are not grossed up for fees and expenses charged at the underlying pooled fund level. For all composites that include schemes with such investments, Seaquest discloses that preliminary, estimated values are used as fair values. When actual values are received, Seaquest assesses the difference between the estimated and final value. Seaquest does not adjust historical values. Instead, Seaquest tracks these differences and semi-annually assesses whether it is appropriate to continue to use the estimated values as fair values.

Seaquest also considers these assets as being valued using subjective, unobservable inputs, and discloses for each composite the percentage of composite assets valued using subjective, unobservable inputs as of the most recent calendar year end.

1. **Valuation Frequency (32.A.16, 32.A.17)**

As of 1 January 2015, scheme assets are valued daily, on every business day. Prior to January 2015, Schemes were valued on the last business day of the month and on the date of all large cash flows. For periods prior to January 2015, a large cash flow was defined as a single flow equal to or greater than 10% of the scheme value at the beginning of the month for all schemes. All composites used the same large cash flow policy.

1. **Valuation (32.A.13, 32.A.14, 32.B.6)**

For all periods, investments, including assets managed by sub-advisors that were selected by Seaquest, are fair valued. When available, investments are valued using objective, observable, unadjusted market prices for identical investments. Seaquest employs the valuation hierarchy recommended by the GIPS Standards for FMPs (see below).

1. Investments must be valued using objective, observable, unadjusted quoted market prices for identical investments in active markets on the measurement date, if available. if such prices are not available, then investments should be valued using;
2. Objective, observable quoted market prices for similar investments in active markets. If such prices are not available or appropriate, then investments should be valued using;
3. Quoted prices for identical or similar investments in markets that are not active (markets in which there are few transactions for the investment, the prices are not current, or price quotations vary substantially over time and/or between market makers). If such prices are not available or appropriate, then investments should be valued based on;
4. Market-based inputs, other than quoted prices, that are observable for the investment. If such inputs are not available or appropriate, then investments should be valued based on;
5. Subjective, unobservable inputs for the investment where markets are not active at the measurement date. Unobservable inputs should be used to measure fair value only when observable inputs and prices are not available or appropriate. Unobservable inputs reflect the full fiduciary manager’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.

The Operations Department is responsible for loading the pricing files from the pricing sources at end of day. Fixed income pricing is obtained from FI Valuation Services and equity pricing is obtained from Equity Valuation Services. Exception reports are run to identify large changes in price (+/- 4%) or missing prices. The Operations team researches the exceptions. If a price change is required, the information is submitted to the pricing committee for review, approval and correction. Only select members of the Pricing Committee can input changes into the trading system. Other staff do not have system access to make a price change.

All schemes are valued using the same pricing sources and methods. There are no differences between composites.

1. **Total Fiduciary Management Provider Assets (32.A.1, 32.A.2, 32.A.3, 32.A.8)**

Total FMP Assets are calculated by the Finance Department monthly. The calculation is reviewed by representatives from the Operations Department and the Performance Department prior to being finalized. The performance staff will reconcile Total FMP Assets to those included in FMP composites. Any differences will be researched and resolved.

Total FMP Assets includes:

* Actual discretionary and non-discretionary assets of UK pension schemes managed by Seaquest.
* All assets assigned to a sub-advisor for which Seaquest has discretion over the selection of the sub-advisor.

All scheme assets are valued in accordance with the definition of fair value, include cash and cash equivalents, and are calculated net of leverage.

Additionally, any theoretical performance, such as model or hypothetical schemes, are excluded from Composite and Total FMP Assets.

Some schemes are included in more than one composite. The GIPS standards for FMPs do not allow a fiduciary management provider to double-count assets when calculating Composite or Total FMP Assets. Scheme assets that are included in multiple composites are identified and the scheme‘s value is included only once when calculating Total FMP Assets.

1. **Composite Assets (32.A.2, 32.A.4)**

Composite assets are calculated monthly and include only actual assets of schemes included in the composite for the entire month, and includes those assets assigned to a sub-advisor provided Seaquest has discretion over the selection of the sub-advisor. All composite assets are valued in accordance with the definition of fair value and are calculated net of leverage.

1. **Scheme Returns (32.A.5, 32.A.11, 32.A.18, 32.A.19, 32.A.20)**

Since January 2015, all scheme-level performance is calculated using XYZ Performance software. The system calculates a daily time-weighted, total return. Cash flows are assumed to happen at the end of the day. The daily returns are geometrically linked to calculate the monthly scheme return.

$$Daily Net Return =\frac{EMV-BMV-CF}{BMV}$$

Scheme net returns reflect the deduction of all transaction costs, custody and administrative fees, investment management fees, and any other fees and expenses incurred by the scheme. Seaquest investment management fees are primarily asset based, but some clients have a performance-based fee component. Investment management fees, including performance-based fees, are accrued monthly. All other fees and expenses are reflected on a cash basis.

All scheme returns are calculated using the same methodology. There are no differences between composites.

1. **Scheme Return Review**

Preliminary scheme net returns are available on the fifth business day after month-end. Reports are generated that identify outlier returns. Outliers are researched and resolved prior to the returns being finalized for the month. Once corrections are made, if any, the monthly scheme returns are updated and finalized.

1. **Scheme Relative Returns (32.A.23, 32.A.24, 32.A.25, 32.A.26, 32.A.27, 32.A.28, 32.A.29)**

Once monthly scheme returns are finalized, monthly scheme relative returns are calculated. The monthly scheme relative return is the difference between the monthly scheme net return and the monthly benchmark return (any objective in addition to the benchmark, e.g., benchmark + X%, is ignored in the calculation of the benchmark return). For periods ended prior to 1 January 2020, the arithmetic difference methodology is used. As of 1 January 2020, monthly scheme relative returns are calculated using the geometric difference methodology.

Assume a scheme monthly return of 5.00%, with a benchmark return of 3.00%. The arithmetic relative return is calculated as:



The geometric relative return is calculated as:



If the scheme has an unconstrained mandate, monthly scheme relative returns are calculated relative to the client’s liability benchmark.

If the scheme has a hedge constrained mandate, monthly scheme relative returns are calculated relative to the client’s liability benchmark and the client’s hedge ratio adjusted benchmark.

Client hedge ratio adjusted benchmarks are calculated by the Performance Team monthly, using Excel, using the current hedge ratio information provided by the Legal Department. Each hedge ratio adjusted benchmark includes cash for the proportion where the interest rate hedging is not allowed, and the full liabilities for the proportion of liabilities where hedging is allowed.

1. **Composite Relative Return (32.A.9, 32.A.1.m, 32.A.21, 32.A.22, 34.A.1.b, 34.A.1.c)**

The monthly composite relative return is calculated by equal weighting monthly scheme relative returns.

The annual composite relative return is calculated by geometrically linking the monthly composite relative returns.

To calculate the composite relative returns for the 1, 3, 5, 7, and 10 year periods, and from composite inception, through the most recent annual period end, composite relative returns for the respective period are geometrically linked to calculate a cumulative return for the period. The cumulative return is then annualized using the following formula:

$$Annualized Return \left(\%\right)=\left\{\left[\left.\left(1 + R\right.\right)^{\frac{1}{n}}\right]-1\right\} x 100, $$

Where R is the cumulative return for the period, which is calculated by geometrically linking the sub-period returns during the period, and n is the number of years in the period.

For example, a portfolio’s cumulative return for a five-year period is 150.0%. It has a five-year average annual compound return, or annualized return, of 20.11%:

$$\left[\left.\left(1 + 1.5\right.\right)^{\frac{1}{5}}\right]-1=20.11\%$$

If the 150% is earned over 12.5 years, its 12.5-year average annual compound return, or annualized return, is

$$\left[\left.\left(1 + 1.5\right.\right)^{\frac{1}{12.5}}\right]-1=7.61\%$$

Returns for partial years are not annualized.

This information is calculated by the Performance Team using Excel. The Performance Manager reviews and approves all calculations prior to including the information in the GIPS Composite Reports.

There are two types of composite relative returns used by Seaquest in the generation of the GIPS Composite Report:

* Composite Net Return Relative to the Liabilities Benchmark
* Composite Net Return Relative to the Hedge Adjusted Benchmark

If the composite mandate is unconstrained, any information required to be included in the GIPS Composite Report that is calculated using composite relative returns must be calculated relative to the liability benchmark

For hedge constrained mandates, any information required to be included in the GIPS Composite Report that is calculated using composite relative returns must be calculated relative to both the liability benchmark and the hedge ratio adjusted benchmark.

1. **Internal Dispersion (34.A.1.j)**

The GIPS standards for FMPs have different internal dispersion reporting requirements depending on the type of composite.

1. When 3 or less schemes are included in the composite for the full year, internal dispersion information is not required to be presented. Seaquest’s policy is to not present internal dispersion information when 3 or less schemes are included in the composite for the full year.
2. When 4 to 9 schemes are included in the composite for the full year, the median, high, and low annual individual scheme relative returns are presented.
3. When 10 or more schemes are included in the composite for the full year, the median, high, low, 90th percentile, and 10th percentile annual individual scheme relative returns are presented.

This information is calculated by the Performance Team using Excel. The Performance Manager reviews and approves all calculations prior to including the information in the GIPS Composite Reports.

1. **Annualized Ex Post Standard Deviation (32.A.30, 34.A.1.k, 34.A.1.l)**

The three-year annualized ex-post standard deviation of the composite relative return is presented in the GIPS Composite Report as of the end of each calendar year end, once the composite has at least three years of performance included in the GIPS Composite Report. The standard deviation is calculated by applying the Excel formula STDEVP to the 36 monthly composite relative returns and then multiplying that number by the square root of 12, i.e., SQRT(12). When the composite has less than 36 months of performance the three-year annualized ex-post standard deviation is not required to be presented and Seaquest’s policy is to not present this information.

Additionally, the annualized ex post standard deviation (using monthly composite relative returns) for the three, five, seven, and ten-year periods and for the period from the composite inception date through the most recent calendar year end are presented in a GIPS Composite Report, when applicable. The formula is the same as noted above, except the number of months captured in the Excel STDEVP formula is adjusted to 36 (3-yr), 60 (5-yr), 84 (7-yr), 120 (10-yr) and so on.

This information is calculated by the Performance Team using Excel. The Performance Manager reviews and approves all calculations prior to including the information in the GIPS Composite Reports.

1. **Annualized Information Ratio (32.A.32, 34.A.1.n, 34.A.1.o)**

The annualized information ratio is a measure of the benchmark relative return gained for taking on benchmark relative risk. The information ratio is calculated by dividing the annualized composite relative return by the ex-post annualized standard deviation for the same period. The three-year annualized information ratio, using monthly composite relative returns, is calculated for each composite as of each calendar year end. When the composite has less than 36 months of performance the three-year annualized information ratio is not required to be presented. Additionally, the annualized information ratios (using monthly composite relative returns) for the three, five, seven, and ten-year periods and for the period from the composite inception date through the most recent calendar year end, are calculated for each composite, when applicable.

The annualized information ratio is calculated as follows:

$$Annualized information ratio= \frac{\left(\frac{\sum\_{}^{}\left(Ri\right)}{N}\right) x P}{σ\left(Ri\right) x \sqrt{P}}$$

Where:

*Ri* is the composite relative return

*N* is the number of observations

*P* is the number of periodic observations in a year (i.e., 12)

σ = standard deviation

This information is calculated by the Performance Team using Excel. The Performance Manager reviews and approves all calculations prior to including the information in the GIPS Composite Reports.

1. **Maximum Drawdown (32.A.31, 34.A.1.p)**

The maximum drawdown is the maximum observed loss from a peak to a trough of the composite relative return for a specific period of time. The maximum drawdown is an indicator of downside risk over a specified period. The maximum drawdown is calculated as the peak value before the largest drop in the cumulative composite relative return value minus the lowest cumulative composite relative return before a new high is established divided by the peak cumulative composite relative return value before the largest drop. Maximum drawdown is calculated for each composite, for the 1, 3, 5, 7, and 10 year periods, and from composite inception, through the most recent annual period end.

This information is calculated by the Performance Team using Excel. The Performance Manager reviews and approves all calculations prior to including the information in the GIPS Composite Reports.

1. **Composite Creation/Definition (33.A.1, 33.A.2, 33.A.3)**

Seaquest composites are defined according to the required composite structure in the GIPS standards for FMPs, according to investment mandate specified by each client. All actual, discretionary pension schemes are included in one of the required composites shown in the graph below. When a new composite is created, performance staff will work with portfolio management on the composite definition. This definition will provide the criteria for assigning schemes to the composite. The performance staff, portfolio management, and marketing staff will work together on the composite description that will be included in the list of composite description and the GIPS Composite Report. Once the composite description is drafted, it will be presented to the Performance Committee for final approval prior to being included in the list of composite descriptions and the GIPS Composite Report.



1. **Composite Redefinition (33.A.3, 33.A.4, 34.C.16)**

To date, Seaquest has not redefined any composite. If a composite is redefined in the future, the date and description of the redefinition will be disclosed in the GIPS Composite Report for as long as it is applicable to the presentation. Changes will be made on a prospective basis only.

1. **Composite Benchmark**

There are no benchmarks at the composite level. Schemes that have an unconstrained mandate use a liability benchmark that is calculated from the liability cash flows of the pension scheme discounted at either gilts, swaps, or a combination of gilts and swaps. Schemes that have a hedge constrained mandate will use two benchmarks: a liability benchmark and a hedge ratio adjusted benchmark. The liability benchmark is the same as that used for unconstrained mandates. The hedge ratio adjusted benchmark for a scheme is constructed from a liability proxy benchmark of gilts and swaps for the unconstrained portion and short-term government bonds are used as a proxy for the constrained portion.

1. **New Scheme Composite Inclusion (33.A.5, 33.A.6, 33.B.1)**

New Schemes are included in a composite the first full month under management. For example, if the scheme funds on 17 March 2020, the scheme will be included in the composite beginning 1 April 2020. No scheme is included in a composite for a partial period.

A scheme may qualify for inclusion in more than one composite when sub-composites are created using liability + 0.5% bands. Schemes are included in each composite for which it qualifies.

1. **Terminated Scheme Composite Exclusion (33.A.7)**

Terminated schemes are removed from a composite after the last full month the scheme is managed to the composite strategy. For example, if the client termination notice is received on 26 June 2020, the scheme is excluded from the composite after 31 May 2020. Historical performance of terminated schemes remains in the composite.

1. **Composite Exclusion / Inclusion for Schemes That Change Investment Strategy (33.A.8)**

Schemes may change composite assignment if there is a documented client-directed change to a scheme’s investment mandate, objective, or strategy. Schemes that change investment strategy will be excluded from the current composite after the last full month Seaquest had authority to manage the scheme to the prior investment strategy. The scheme will be included in the new composite per Seaquest’s new scheme composite inception policy. This allows for the scheme to be excluded from all composites during transition to the new strategy. When a scheme has a change in composite assignment, the historical performance of the scheme remains with the original composite. Some schemes have predetermined glide paths based on funded status (de-risking), which may result in a composite change. All predetermined glide paths are documented in the client’s file. The performance team reviews all schemes on a quarterly basis with the portfolio management team to determine if any scheme must be removed from one composite and included in another composite as a result of a change in asset allocation following the glide path.

No change is composite assignment is made due to a change in the tactical holdings of the scheme.

1. **Preparing GIPS Composite Reports (31.A.13, 31.A.21, 31.A.23, 34.A.1.e, 34.A.1.f, 34.A.3, 34.A.4)**

All numerical information in a GIPS Composite Report is clearly labeled or identified, including the periods presented. All composites present annual calendar periods in GIPS Composite Reports. Seaquest’s policy is to include only annual periods and to not present monthly or quarterly performance in GIPS Composite Reports, except for when a composite is new or it terminates. For new composites, the first period of performance is for the period from composite inception through the initial annual period end. For terminated composites, the last period of performance is for the period from the last calendar year end through the composite termination date.

Only GIPS-compliant performance is included in a GIPS Composite Report. No other information is included, including model, hypothetical, or backtested performance.

The Performance Team is responsible for creating a GIPS Composite Report for each composite on the list of composite descriptions, and including all required information. Once created, the GIPS Composite Report is reviewed by two members of the performance staff to ensure all numerical information and disclosures required by the GIPS standards for FMPs are included in the GIPS Composite Report and that all of the numerical information in the GIPS Composite Report is accurate. After review and sign off by the Performance Manager, the GIPS Composite Report is provided to marketing and the portfolio management team for review. Feedback is considered and, when appropriate, updates are made to the GIPS Composite Report. The GIPS Composite Report is then forwarded to the CCO for a final review. A final version of the GIPS Composite Report is posted to the company’s intranet, in the Approved Distribution Documentation/GIPS folder. It is Seaquest’s policy to not post GIPS Composite Reports to the Seaquest website.

Total FMP Assets are finalized annually in late February. When this is finalized, all GIPS Composite Reports are updated to include information for the last annual calendar period. All GIPS Composite Reports are reviewed and approved by the Performance Manager.

If a composite loses all of its members, the composite track record stops. If in the future a new client has a mandate that fits the composite definition of the terminated composite, the composite will be restarted. However, performance across the break in performance is not linked. The two separate periods of performance are clearly labeled and information about the break in performance is disclosed.

1. **Providing GIPS Composite Reports (31.A.11, 31.A.12, 31.A.14, 31.A.18)**

Once a prospective client for a specific strategy has been identified, staff will contact the Marketing Department to obtain the current GIPS Composite Report.

Seaquest defines a prospective client as any entity that has expressed interest in a specific Seaquest composite strategy, qualifies to invest in that strategy, and is in active discussions with Seaquest staff concerning the strategy. A current client may also qualify as a prospective client if they express interest in a composite strategy that differs from the strategy in which they are currently invested. Databases, investment consultants, and other third parties are considered prospective clients because they represent entities that qualify as prospective clients. When information is provided to any database or consultant it is logged as a prospective client. Once GIPS Composite Reports are updated to include the most recent calendar year information, the Performance Manager coordinates with the marketing team to identify all prospective clients, including databases and consultants, that continue to be ongoing prospective clients. All ongoing prospective clients receive the appropriate updated GIPS Composite Report. Any prospective client that has had no contact with Seaquest for more than 18 months is no longer considered an ongoing prospective client.

If a prospective client requests information about any composite managed by Seaquest, Seaquest will provide a GIPS Composite Report for that strategy to the prospective client for that strategy.

Marketing staff are responsible for logging the distribution of all GIPS Composite Reports into the Seaquest Marketing Materials Log.

1. **Recordkeeping (31.A.19)**

Since-inception, it is Seaquest’s policy to keep all documentation related to client contracts, investment mandates, and all records supporting performance. Multiple departments within the company have ownership over various documentation that supports performance reported in a GIPS Composite Report. Most documentation is stored electronically on-site with a back-up maintained at an off-site location per the company’s disaster recovery policy. Some hard copy documentation that pre-dates January 2015 is stored at a local off-site location.

1. **Marketing (31.A.26)**

It is Seaquest’s policy to include any GIPS Composite Report that must be provided to a prospective client as Appendix A in all pitch books. The table of contents includes an entry for Appendix A, and the table of contents entry is named Required GIPS Composite Reports. Also, on any page in the pitch book that includes composite performance, a footnote is added that states: “See Appendix A for GIPS Composite Reports that Seaquest is required to provide to you.” When new marketing materials are created that include a GIPS Composite Report, the document must be reviewed and approved by certain staff in the marketing, compliance, and Performance Departments, to ensure adequate references to the GIPS Composite Report are included.

1. **Composite Error Correction (31.A.7, 31.A.15)**

Seaquest uses different levels of materiality when determining which action it will take in response to an error in a GIPS Composite Report. Policies concerning error correction in a GIPS Composite Report not only takes into consideration the requirements of the GIPS Standards for FMPs to correct, disclose, and redistribute a GIPS Composite Report to anyone that received the GIPS Composite report that had a material error. The policy also strives to meet our obligation to present performance-related information that is not false or misleading. Recognizing that occasionally a reporting error will happen, it is our policy to correct mistakes even when they do not meet the definition of a material error that requires redistribution.

An error within a GIPS Composite Report can be quantitative, such as the composite relative return being overstated, or qualitative, as in a missing or incomplete required disclosure. To ensure consistency in the action taken to correct an error, the following matrix addresses the proper action to take for quantitative errors within a GIPS Composite Report. As identified in the matrix, we consider the absolute size of the error, the direction of the error, and the relative difference from the original value reported. We categorize errors into four levels:

Level 1 – Take no action

Level 2 – Correct system data and in the GIPS Composite Report, but make no disclosure

Level 3 – Correct system data, correct the GIPS Composite Report, and disclose the correction.

Level 4 - Correct system data, correct the GIPS Composite Report, disclose the correction, and redistribute the corrected GIPS Composite Report to prospective and current clients that received the GIPS Composite Report with the material error.

| **Performance Metric** | **Level 1** | **Level 2** | **Level 3** | **Level 4** |
| --- | --- | --- | --- | --- |
| Annual Composite Relative Return | < ± 5%relative difference  | ±5.1% - 10% relative difference |  ± 10.1% -25% relative difference | ≥ ±25.1%  relative difference |
| Number of Schemes | < ± 5%relative difference  | ±5.1% - 10% relative difference |  ± 10.1% -25% relative difference | ≥ ±25.1%  relative difference |
| Composite Assets | < ± 5%relative difference  | ±5.1% - 10% relative difference |  ± 10.1% -25% relative difference | ≥ ±25.1%  relative difference |
| FMP Total Assets | < ± 5%relative difference  | ±5.1% - 10% relative difference |  ± 10.1% -25% relative difference | ≥ ±25.1%  relative difference |
| Internal Dispersion | < ± 5%relative difference  | ±5.1% - 10% relative difference |  ± 10.1% -25% relative difference | ≥ ±25.1%  relative difference |
| Ex Post Standard Deviation | < ± 5%relative difference  | ±5.1% - 10% relative difference |  ± 10.1% -25% relative difference | ≥ ±25.1%  relative difference |
| Information Ratio | < ± 5%relative difference  | ±5.1% - 10% relative difference |  ± 10.1% -25% relative difference | ≥ ±25.1%  relative difference |
| Maximum Drawdown | < ± 5%relative difference  | ±5.1% - 10% relative difference |  ± 10.1% -25% relative difference | ≥ ±25.1%  relative difference |

When the error is qualitative in nature, such as a misstated or missing disclosure, or there are multiple errors within a single presentation, professional judgement will be used to determine the appropriate level of response needed. In determining the proper response, staff will consider the impact the error(s) would have on a prospective client’s decision to invest in the strategy. When an error is noted, an error correction form is completed that details the error found, analysis performed, the resolution, and if applicable, any changes in the performance system or procedures to minimize the chance of a similar type of error happening in the future (See Appendix C – error correction form). Completed error correction forms for Level 3 and Level 4 errors are included in the quarterly meeting packet of the Performance Committee. For Level 4 errors, the Performance Committee, and the Portfolio Manager are notified prior to the redistribution of the GIPS Composite Report.

The following must receive a corrected GIPS Composite Report with disclosure of the material error:

1. Any current client that received the GIPS Composite Report with the material error.
2. Any prospective client that received the GIPS Composite Report with the material error that is still considered an active prospect. If the prospect has stopped discussions concerning the product, they are no longer considered an active prospect.

**Appendices**

* 1. List of Composite Descriptions
	2. List of Composite Risks
	3. Error Correction Form

**Required Composites**

**Liabilities Plus >1.5% & ≤2.5%, ≥60% & <80% Hedging Constraint Composite**

The composite includes all schemes with a return target of the liability plus between 1.5% and 2.5% with a 60% – 80% hedging constraint. Interest rate swaps are used to extend the duration of scheme assets to match liabilities greater than 15 years.

Composite creation date: January 2020

Composite inception date: 1 January 2012

Number of schemes as of 31 Dec 2019: 19

**Liabilities Plus >2.5% & ≤3.5%, ≥60% & <80% Hedging Constraint Composite**

The composite includes all schemes with a return target of the liability plus between 2.5% and 3.5% with a 60% – 80% hedging constraint. Interest rate swaps are used to extend the duration of scheme assets to match liabilities greater than 15 years.

Composite creation date: January 2020

Composite inception date: 1 January 2012

Number of schemes as of 31 Dec 2019: 3

**Liabilities + 1.5% - 2.5%, Unconstrained Composite**

The composite includes all schemes that have a return target of the liability plus between 1.5% and 2.5% above the benchmark, and that have no hedging constraints. Interest rate swaps are used to modify the duration of scheme assets to match liabilities. Illiquid investments, primarily investments in private equity funds, are used for up to 10% of scheme assets.

Composite creation date: January 2020

Composite inception date: 1 April 2017

Number of schemes as of 31 Dec 2019: 2

**Additional Sub-Composites**

**Liabilities Plus >1.5% & ≤2.0%, ≥60% & <80% Hedging Constraint Composite**

The composite includes all schemes with a return target of the liability plus between 1.5% and 2.5% with a 60% – 80% hedging constraint. Interest rate swaps are used to extend the duration of scheme assets to match liabilities greater than 15 years.

Composite creation date: January 2020

Composite inception date: 1 January 2012

Number of schemes as of 31 Dec 2019: 11

**Liabilities Plus >2.0% & ≤2.5%, ≥60% & <80% Hedging Constraint Composite**

The composite includes all schemes with a return target of the liability plus between 1.5% and 2.5% with a 60% – 80% hedging constraint. Interest rate swaps are used to extend the duration of scheme assets to match liabilities greater than 15 years.

Composite creation date: January 2020

Composite inception date: 1 January 2012

Number of schemes as of 31 Dec 2019: 8

**Additional Umbrella Composites**

**Liabilities Plus >1.5% & ≤3.5%, ≥60% & <80% Hedging Constraint Composite**

The composite includes all schemes with a return target of the liability plus between 1.5% and 3.5% with a 60% – 80% hedging constraint. Interest rate swaps are used to extend the duration of scheme assets to match liabilities greater than 15 years.

Composite creation date: January 2020

Composite inception date: 1 January 2012

Number of schemes as of 31 Dec 2019: 22

**The following risks apply to all schemes:**

Derivatives risk: derivatives may have greater volatility than the securities or markets they relate to.

Counterparty risk: OTC derivative contracts with banks and other financial institutions may result in losses if the bank or financial institutions run into financial difficulty and are unable to meet their obligations.

Currency risk: investments may be held in currencies that are not denominated in sterling. Currency hedges may not be perfect and could result in currency exchange losses, especially in volatile markets.

Market risk: the value of any investment is not guaranteed and its value can go down as well as up.

Performance risk: the return on any investment is not guaranteed and you may receive a higher or lower return than anticipated.

Inflation risk: if the actual inflation rate exceeds the assumed inflation rate, it will erode the value of your portfolio.

Liquidity risk: In some market conditions it may be difficult to sell assets in an orderly manner. To meet cash flow needs we may need to sell investments under less than ideal conditions, which can cause assets to be sold for less than their current fair value.

Stock market risk: The chance that stock prices overall will decline.

Interest rate risk: The chance that bond prices will decline because of rising interest rates.

**Examples of composite specific risks:**

**Liabilities Plus 1.5% – 2.5%, 60% – 80% Hedging Constraint Composite**

Schemes in the composite have an objective to return between 1.5% and 2.5% over the liabilities subject to a hedge constraint between 60% to 80%. There is the risk that the scheme may not attain its investment objective due to a number of factors including asset allocation decisions, changes in actuarial assumptions that impact the liabilities, and general market conditions.

**Liabilities Plus 1.5% - 2.5%, Unconstrained Composite**

Schemes in the composite are unconstrained and have an objective to return between 1.5% and 2.5% over the liabilities. There is the risk that the scheme may not attain its investment objective due to a number of factors including asset allocation decisions, changes in actuarial assumptions that impact the liabilities, and general market conditions.

Composite affected by the error:

Portfolios affected by the error:

Periods affected by the error:

When and how the error was discovered:

Description of the error:

Materiality calculation, if applicable:

Action Level:

Steps to be taken to prevent error from reoccurring:

Changes needed to the current error correction policies, if any: