Global Investment Performance Standards (GIPS®) for Asset Owners

Explanation of the Provisions in Section 25

October 2020

CFA Institute®
Global Investment Performance Standards

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ISBN 978-1-942713-98-2

INTRODUCTION

The Explanation of the Provisions in Section 25 provides interpretation of each provision that is included in Section 25—Additional Composite Money-Weighted Return Report. Asset owners 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 25 includes the requirements and recommendations that apply to asset owners that calculate and report additional composite performance in a GIPS Asset Owner Report using money-weighted returns. An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.

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. Below each provision is a discussion that provides interpretive guidance to help readers understand the provision.

25. ADDITIONAL COMPOSITE MONEY-WEIGHTED RETURN REPORT

The following provisions apply to ASSET OWNERS that calculate and report additional COMPOSITE performance in a GIPS ASSET OWNER REPORT using MONEY-WEIGHTED RETURNS. An additional COMPOSITE is a grouping of PORTFOLIOS representing a particular strategy or asset class that the ASSET OWNER chooses to present in a GIPS ASSET OWNER REPORT.

25.A. Presentation and Reporting—Requirements

Provision 25.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

a. The annualized COMPOSITE SINCE-INCEPTION MONEY-WEIGHTED RETURN through the most recent annual period end. If the ASSET OWNER has no records to support this track record, the ASSET OWNER MUST present the ANNUALIZED MONEY-WEIGHTED RETURN for the longest period for which the ASSET OWNER has such records, through the most recent annual period end.

Discussion

To claim compliance, an asset owner is required to meet all applicable requirements of the GIPS standards on an asset owner–wide basis for at least a one-year period, or since inception of the asset owner if the asset owner has been in existence for less than one year.

Although a time-weighted return (TWR) is required for a GIPS Asset Owner Report for a total fund or total fund composite, an asset owner may choose to present either a TWR or money-weighted return (MWR) in a GIPS Asset Owner Report for an additional composite. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.) If an asset owner chooses to present an MWR for an additional composite, the asset owner must present the annualized composite since-inception MWR (SI-MWR) through the most recent annual period end.

For example, assume that an asset owner presents returns on a calendar-year-end basis. If a composite has an inception date of 1 March 2015 and the most recent annual period end is

31 December 2019, the asset owner must present an annualized composite SI-MWR from 1 March 2015 through 31 December 2019. Although only the annualized composite SI-MWR through the most recent annual period end is required, it is recommended that asset owners present annualized composite SI-MWRs through each annual period end. (See Provision 25.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, in addition to the required return from 1 March 2015 through 31 December 2019. 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.

Many asset owners, however, have very long histories, and some of the earlier records may not be sufficient to support the entire track record of the additional composite. If the asset owner does not have the records to support the track record from the composite's inception through the most recent annual period end, the asset owner must present the annualized MWR for the longest uninterrupted period for which the asset owner has such records, through the most recent annual period end.

Asset owners must clearly label the periods for which MWRs are presented. Asset owners must select the annual period end for which MWRs will be presented on a composite-specific basis and apply it consistently. For purposes of comparability, best practice would be for an asset owner to report composite MWRs for periods ending on 31 December.

Additional composite returns may be presented either gross-of-fees, net-of-fees, or net-of-external-costs-only. Asset owners may also choose to present more than one type of return in a GIPS Asset Owner Report.

Provision 25.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

b. When the COMPOSITE has a track record that is less than a full year, the non-annualized COMPOSITE SINCE-INCEPTION MONEY-WEIGHTED RETURN or the COMPOSITE non-annualized MONEY-WEIGHTED RETURN for the longest period for which the ASSET OWNER has records through the initial annual period end.

Discussion

If the additional composite has a track record of less than a full year, the asset owner must present the non-annualized composite since-inception money-weighted return (SI-MWR) or the composite non-annualized MWR for the longest period for which the asset owner has records through the initial annual period end. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.) Subsequently, the asset owner must extend the measurement period for the MWR to include the next annual period and calculate an annualized MWR through the most recent annual period end.

MWRs for periods of less than a full year must not be annualized. As an example, a composite 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 asset owners are reminded that for periods of less than a year, the asset owner must "de-annualize" any annualized returns that are calculated.

The method chosen to de-annualize a return is at the discretion of the asset owner, 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:

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

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

Provision 25.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

c. When the COMPOSITE terminates, the annualized COMPOSITE SINCE-INCEPTION MONEY-WEIGHTED RETURN through the COMPOSITE TERMINATION DATE or the COMPOSITE annualized MONEY-WEIGHTED RETURN for the longest period for which the ASSET OWNER has records through the COMPOSITE TERMINATION DATE.

Discussion

When an additional composite terminates, the asset owner must present the annualized composite since-inception money-weighted return (SI-MWR) through the composite termination date. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.) For example, if a composite has an inception date of 1 July 2012 and terminates on 31 August 2019, the GIPS Asset Owner Report for this composite must include a composite SI-MWR for the period from 1 July 2012 through 31 August 2019.

If the asset owner does not have the records to support the track record from the composite's inception through the composite's termination date, the asset owner must present the annualized MWR for the longest period for which the asset owner has such records, through the composite termination date.

Provision 25.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

d. The MONEY-WEIGHTED RETURN for the BENCHMARK for the same periods as presented for the COMPOSITE, unless the ASSET OWNER determines there is no appropriate BENCHMARK.

Discussion

Benchmarks are important tools that aid in the planning, implementation, and evaluation of a composite's investment policy. They also help facilitate discussions with the oversight body regarding the relationship between risk and return. As a result, asset owners are required to present the money-weighted return (MWR) for the benchmark for the same periods as presented for the additional composite, unless the asset owner determines there is no appropriate benchmark. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.)

The benchmark presented must be one that reflects the composite's investment mandate, objective, or strategy. An asset owner may choose to present more than one benchmark in a GIPS Asset Owner Report but must include all required information for all benchmarks presented in the GIPS Asset Owner Report.

Because the benchmark selected for a composite must be appropriate for comparison with the performance of the composite, an asset owner must not compare a time-weighted return (TWR) benchmark with a composite's MWR. Public market indices by themselves are not directly comparable to an MWR because the market indices 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 composite and that can be compared with the composite's MWR. When the asset owner uses a PME, the market index used must be a total return benchmark.

See Provision 21.A.15 for a discussion of total return benchmarks. See the discussion of Provision 25.C.28 for additional information regarding a PME.

Provision 25.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

e. The number of PORTFOLIOS in the COMPOSITE as of the most recent annual period end.[33]

Discussion

For periods ending on or after 31 December 2020, each GIPS Asset Owner Report for an additional composite must present the number of portfolios included in the composite as of the most recent annual period end. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.) This requirement provides information to the oversight body on the size of the composite, measured by the number of portfolios in the composite. For example, if there were four portfolios in the composite for the full period but eight portfolios in the composite at the most recent annual period end, the asset owner would present eight, the actual number of portfolios in the composite at the most recent annual period end.

For periods ending prior to 31 December 2020, if the composite contains five or fewer portfolios as of the most recent annual period end, the number of portfolios in the composite is not required to be presented, although the asset owner may choose to present this information.

Provision 25.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

f. COMPOSITE assets as of the most recent annual period end.

Discussion

Each GIPS Asset Owner Report must include the amount of composite assets as of the most recent annual period end. This requirement provides information to the oversight body on the size of the composite, measured by the amount of assets it contains. When the composite strategy uses leverage, composite assets must be presented net of the leverage and not grossed up as if the leverage did not exist. For example, if a composite has $200 million in net assets, and $50 million of those assets have been borrowed by an external manager, the composite's

[33] REQUIRED for periods ending on or after 31 December 2020. For periods ending prior to 31 December 2020, if the COMPOSITE contains five or fewer PORTFOLIOS at period end, the number of PORTFOLIOS is not REQUIRED.

gross assets are $250 million. When calculating composite assets, the asset owner must use $200 million. If the composite uses leverage, the asset owner should also present to the oversight body assets that are grossed up as if the leverage did not exist.

Provision 25.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

g. TOTAL ASSET OWNER ASSETS as of the most recent annual period end.[34]

Discussion

For periods ending on or after 31 December 2020, the asset owner must present total asset owner assets as of the most recent annual period end. For periods ending prior to this date, the asset owner must present either total asset owner assets or composite assets as a percentage of total asset owner assets. Leverage must be deducted when calculating total asset owner assets. For example, if a composite has $200 million in net assets, and $50 million of those assets have been borrowed by an external manager, the composite's gross assets are $250 million. The asset owner must use $200 million when calculating total asset owner assets, not $250 million. The inclusion of both composite assets and total asset owner assets in a GIPS Asset Owner Report will help the oversight body understand the composite size in relation to total asset owner assets. If any total funds or composites use leverage, the asset owner should also present to the oversight body assets that are grossed up as if the leverage did not exist.

Both discretionary and non-discretionary portfolios are included in total asset owner assets. Total asset owner assets include assets assigned to an external manager provided the asset owner has discretion over the selection of the external manager. Operating cash accounts that are not available for investment should not be included in total asset owner assets.

Asset owners must be sure that assets are not double-counted, because double-counting assets would not fairly represent the asset owner's assets.

See the discussion of Provision 22.A.1 for additional guidance on the calculation of total asset owner assets and Provision 22.A.8 for additional guidance on the treatment of cash and cash equivalents.

[34] REQUIRED for periods ending on or after 31 December 2020. For periods ending prior to 31 December 2020, ASSET OWNERS may present either TOTAL ASSET OWNER ASSETS or COMPOSITE assets as a percentage of TOTAL ASSET OWNER ASSETS.

Provision 25.A.2

The ASSET OWNER MUST present the percentage of the total FAIR VALUE of COMPOSITE assets that were valued using subjective unobservable inputs (as described in provision 22.B.6) as of the most recent annual period end, if such investments represent a material amount of COMPOSITE 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 22.B.6), it may be necessary for an asset owner 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 asset owner'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.

Asset owners must present the percentage of the total fair value of composite assets that were valued using subjective unobservable inputs as of the most recent annual period end, if such investments represent a material amount of composite assets. The amount of composite 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 asset owner must decide on the criteria it will use to determine when subjective unobservable inputs represent a material amount of composite assets, include these criteria in its policy and procedures, and apply these criteria consistently.

Sample Disclosure:

"As of 31 December 2020, 29% of composite 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 25.A.3

For composites where the underlying portfolios have committed capital, the asset owner must present the following items as of the most recent annual period end:

a. Composite since-inception paid-in capital.
b. Composite since-inception distributions.
c. Composite 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 composites for which the asset owner 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 composite is totally liquid. In reality, however, the residual value may be illiquid. Other metrics have been developed that allow the oversight body to examine aspects of performance other than simply a rate of return.

a. Composite since-inception paid-in capital.

The composite since-inception paid-in capital consists of all capital flows to an external manager or externally managed pooled fund. These capital flows are also referred to as contributions to external managers or pooled funds by the asset owner. Paid-in capital also includes distributions to the asset owner that are subsequently recalled by external managers or pooled funds.

b. Composite since-inception distributions.

The composite since-inception distributions include all cash and stock distributed from external managers or pooled funds to the asset owner. Distributions include both recallable and non-recallable distributions.

c. Composite cumulative committed capital.

The composite cumulative committed capital represents the total pledges of capital to external managers or pooled funds by the asset owner. 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 the oversight body 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 composite since-inception distributions and its residual value (i.e., fair value) divided by the composite since-inception paid-in capital. The investment multiple is calculated as follows:

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

TVPI can also be calculated as DPI + RVPI, where: -

DPI = realization multiple (see Provision 25.A.3.e)

RVPI = unrealized multiple (see Provision 25.A.3.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 the asset owner. It is the amount of invested capital that has been "realized" by the asset owner 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 25.A.3.d). DPI is calculated as follows:

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

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 the oversight body 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 capital is left to invest. The PIC multiple is calculated as follows:

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

Distributions can be either recallable or non-recallable. If a distribution is recallable, after the external manager or pooled fund distributes proceeds to the asset owner, it can draw down the same capital again, which makes it possible for the composite 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. Asset owners 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 25.A.3.e, 25.A.3.g, and 25.A.3.d, respectively.) All else being equal, for composites 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 composite's residual value (or fair value) at the end of the period divided by since-inception paid-in capital, and is calculated as follows:

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

Provision 25.A.4

The asset owner must clearly label or identify:

a. The periods that are presented.

b. If returns presented are gross-of-fees, net-of-external-costs-only, or net-of-fees.

Discussion

All periods presented in a GIPS Asset Owner Report must be clearly labeled or identified.

Asset owners may present either gross-of-fees returns, net-of-external-costs-only returns, or net-of-fees returns in a GIPS Asset Owner Report for an additional composite and may also choose to present more than one type of return. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset

Owner Report.) For the oversight body to understand the nature of the returns being presented, all returns presented must be clearly labeled or identified as gross-of-fees, net-of-external costs-only, or net-of-fees.

Provision 25.A.5

If the ASSET OWNER presents FULL GROSS-OF-FEES RETURNS, the ASSET OWNER MUST identify them as SUPPLEMENTAL INFORMATION.

Discussion

A full gross-of-fees return is the return on investments that reflects the deduction of only transaction costs. It does not reflect the deduction of investment management fees paid for any externally managed segregated accounts or the fees and expenses for any externally managed pooled funds. Because it would not be possible to invest in these externally managed assets without paying these fees and costs, full-gross-of-fees returns must be identified as supplemental information if they are included in a GIPS Asset Owner Report.

Supplemental information is any performance-related information included as part of a GIPS Asset Owner Report that supplements or enhances the requirements and/or recommendations of the GIPS standards. Supplemental information must relate directly to the composite presented in the GIPS Asset Owner Report. See Provision 25.A.8 for additional guidance on supplemental information.

Provision 25.A.6

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

Discussion

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

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

If the asset owner 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 Asset Owner Report and one or more of the benchmarks is removed from the GIPS Asset Owner Report, the asset owner must disclose this fact. (See Provision 25.C.26.)

An appropriate benchmark for a composite reflects the investment mandate, objective, or strategy of the composite. Additional benchmarks beyond appropriate benchmarks may be presented in a GIPS Asset Owner Report as supplemental information. For example, an asset owner may choose to present a time-weighted return benchmark in a GIPS Asset Owner Report along with an appropriate money-weighted return benchmark. There must be sufficient disclosure so that the oversight body 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 composite. To do so would be misleading, regardless of the disclosures accompanying the benchmark.

Provision 25.A.7

All REQUIRED and RECOMMENDED information in the GIPS ASSET OWNER REPORT MUST be presented in the same currency.

Discussion

Asset owners must present all required and recommended information in a GIPS Asset Owner Report in the same currency (e.g., composite and benchmark returns, composite assets, and total asset owner assets). 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 an asset owner chooses to present a composite in a different currency, the asset owner must convert all of the required information into the new currency. It is not permissible to do so by applying the exchange rate as of the current period end to historical data.

If the asset owner chooses to present performance in multiple currencies in the same GIPS Asset Owner Report, the asset owner must convert all of the required information into each of the currencies and ensure it is clear in which currencies performance is reported. The asset owner must also convert any recommended information it chooses to present in the GIPS Asset Owner Report containing the converted information.

In cases where a composite contains portfolios with different currencies, the asset owner must convert the individual portfolio cash flows and valuations to a single currency in order to calculate a composite return. It is not permissible to do so by applying the exchange rate as of the current period end to historical data.

It is up to the asset owner to determine the composite-specific conversion method. Policies and procedures for converting returns must be established, documented, and applied consistently.

Provision 25.A.8

Any SUPPLEMENTAL INFORMATION included in the GIPS ASSET OWNER REPORT:

a. MUST relate directly to the COMPOSITE.
b. MUST NOT contradict or conflict with the REQUIRED or RECOMMENDED information in the GIPS ASSET OWNER REPORT.
c. MUST be clearly labeled as SUPPLEMENTAL INFORMATION.

Discussion

Supplemental information is any performance-related information included as part of a GIPS Asset Owner 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., composite 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 Asset Owner Report with the proper context in which to understand the performance results. Common examples of supplemental information for a GIPS Asset Owner Report that presents money-weighted returns (MWRs) include the following:

- projected investment-level MWRs,
- projected multiples,
- benchmark time-weighted returns, and
- a full gross-of-fees return.

Supplemental information must relate directly to the composite and must not contradict or conflict with the required or recommended information in the GIPS Asset Owner Report. Examples of information that relates directly to the composite and would be considered supplemental information include segment returns (e.g., country or sector), performance attribution, and composite or portfolio-level holdings. An example of information that would conflict with the GIPS standards is the use of a price-only benchmark when a total return benchmark is not presented.

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 composite and supplement or enhance the required or recommended information included in the GIPS Asset Owner Report,
- not contradict or conflict with the required or recommended information in the GIPS Asset Owner Report,
- be clearly labeled as supplemental information, and
- not be shown with greater prominence than the required composite information.

25.B. Presentation and Reporting—Recommendations

Provision 25.B.1

The ASSET OWNER SHOULD present SINCE-INCEPTION MONEY-WEIGHTED RETURNS as of each annual period end.

Discussion

Although an asset owner is required to present only the annualized composite since-inception money-weighed return (SI-MWR) through the most recent annual period end, it is recommended that the asset owner also present SI-MWRs as of each annual period end. When the asset owner does not have records to support the track record from the composite's inception, it is required to present the MWR for the longest period for which the asset owner has such records (see Provision 25.A.1.a). In addition, it is recommended that the asset owner present the annualized composite MWR for the longest period for which the asset owner has such records as of each annual period end. Doing so will provide the oversight body with a more complete picture of the performance of the composite over time.

Provision 25.B.2

For COMPOSITES where the underlying PORTFOLIOS have COMMITTED CAPITAL, the ASSET OWNER SHOULD present the following items as of each annual period end:

a. COMPOSITE SINCE-INCEPTION PAID-IN CAPITAL.
b. COMPOSITE SINCE-INCEPTION DISTRIBUTIONS.
c. COMPOSITE 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

Asset owners are required to present the composite since-inception money-weighted return (SI-MWR), or the MWR for the longest period for which for which the asset owner has records to support the track record of the composite (see Provision 25.A.1.a), 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 asset owners choose to present additional SI-MWRs through prior annual period ends, asset owners are recommended to also present the same metrics as of each additional period end for which returns are presented. See Provision 25.A.3 for further discussion of these metrics.

Provision 25.B.3

The ASSET OWNER SHOULD present GROSS-OF-FEES, NET-OF-EXTERNAL-COSTS-ONLY, and NET-OF-FEES COMPOSITE RETURNS.

Discussion

For additional composites, an asset owner may choose to present either gross-of-fees, net-of-external-costs-only, or net-of-fees composite returns in a GIPS Asset Owner Report. The asset owner may also choose to present more than one type of return. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.) Each type of return provides important information to the oversight body.

A composite gross-of-fees return is the return on investments reduced by transaction costs and all fees and expenses for externally managed pooled funds. This return gives the clearest indication of the “investment return” for the assets included in the composite.

A composite net-of-external-costs-only return is the gross-of-fees return reduced by investment management fees for externally managed segregated accounts. It, therefore, is the best indication of the returns received over time, after taking into account the effect of external management fees.

A composite net-of-fees return is the return that reflects the deduction of transaction costs, all fees and expenses for externally managed pooled funds, investment management fees for externally managed segregated accounts, and investment management costs. Net-of-fees returns therefore provide the best indication to the oversight body of the returns received over time, after taking into account the effect of all internal and external investment management fees and costs. Please see the discussion of the calculation of net-of-fees, net-of-external-costs-only, and gross-of-fees returns in Provision 22.A.24.

Because gross-of-fees, net-of-external-costs-only, and net-of-fees returns all provide important information to the oversight body, it is recommended that asset owners present all three types of returns in a GIPS Asset Owner Report for an additional composite. Presenting more than one type of return in a GIPS Asset Owner Report can provide the oversight body with insight on the relative sizes of the fees and costs associated with externally managed pooled funds and segregated accounts, as well as internally managed assets.

Provision 25.B.4

The ASSET OWNER SHOULD present an appropriate EX POST risk measure for the COMPOSITE and the BENCHMARK. The same EX POST risk measure SHOULD be presented for the COMPOSITE and the BENCHMARK.

Discussion

Evaluating past performance requires an understanding of the risks taken to achieve the results. Although asset owners are required to include a qualitative narrative of material risks as part of the composite description, asset owners should also include an ex post risk measure for the composite 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 composites that present money-weighted returns, all risk measures presented are considered additional risk measures.

If the asset owner chooses to present an ex post risk measure for the composite and benchmark, the same ex post risk measure should be presented for the composite and benchmark. The risk measure must be one that the asset owner determines is appropriate for the composite. When choosing an appropriate ex post risk measure to present, the asset owner should satisfy itself that there are sufficient data points for the selected risk measure to be statistically significant so as not to be misleading. Asset owners are required to describe any additional risk measure that is included in the GIPS Asset Owner Report (see Provision 25.C.33).

Provision 25.B.5

If the ASSET OWNER uses preliminary, estimated values as FAIR VALUE, the ASSET OWNER SHOULD present the percentage of assets in the COMPOSITE 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 externally managed pooled funds for which the asset owner relies on valuations provided by the fund external 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, asset owners must disclose this fact in the relevant GIPS Asset Owner Report (see Provision 25.C.31). It is recommended that the asset owner also present the percentage of assets in the composite that were valued using preliminary, estimated values as of the most recent annual period end. Doing so provides important information that allows the oversight body to better assess the valuations and performance record presented.

25.C. Disclosure—Requirements

Provision 25.C.1

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

a. For an ASSET OWNER that is verified:

“[Insert name of ASSET OWNER] 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 ASSET OWNER] has been independently verified for the periods [insert dates]. The verification report(s) is/are available upon request.

“An asset owner 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 asset owner’s policies and procedures related to total fund and composite 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 an asset owner–wide basis. Verification does not provide assurance on the accuracy of any specific performance report.”

b. For COMPOSITES of a verified ASSET OWNER that have also had a PERFORMANCE EXAMINATION:

“[Insert name of ASSET OWNER] 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 ASSET OWNER] has been independently verified for the periods [insert dates].

“An asset owner 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 asset owner’s policies and procedures related to total fund and composite 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 an asset owner–wide basis. The [insert name of COMPOSITE] has had a performance examination for the periods [insert dates]. The verification and performance examination reports are available upon request.”

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

c. For an ASSET OWNER that has not been verified:

"[Insert name of ASSET OWNER] 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 ASSET OWNER] has not been independently verified."

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

Discussion

An asset owner meeting all the requirements of the GIPS standards must use one of the three compliance statements in each of its GIPS Asset Owner Reports. The English version of the compliance statements is the controlling version. If an asset owner chooses to translate the compliance statement into a language for which there is no official translation of the GIPS standards, the asset owner must take care to ensure that the translation used reflects the required wording of the compliance statement used in Provision 25.C.1.a, 25.C.1.b, or 25.C.1.c.

It is acceptable to combine both paragraphs of the compliance statement for a verified asset owner (Provision 25.C.1.a) into a single paragraph. If the paragraphs are not combined, the compliance statement for a verified asset owner is complete only when both paragraphs are shown together, one after the other. An asset owner may not separate the two required paragraphs from each other.

The same is true for the compliance statement for a composite that has also had a performance examination (Provision 25.C.1.b). Both paragraphs of the compliance statement may be combined into a single paragraph. If the paragraphs are not combined, the compliance statement is complete only when both paragraphs are shown together, one after the other. An asset owner may not separate the two required paragraphs from each other.

When preparing the GIPS Asset Owner Report for a composite that has had a performance examination, the asset owner may choose to use either the verification or performance examination compliance statement. For example, an asset owner might choose to use the verification compliance statement for all GIPS Asset Owner Reports, including GIPS Asset Owner Reports for composites that have had a performance examination, if it wishes to standardize the compliance statement for all GIPS Asset Owner Reports throughout the asset owner. In this situation, the asset owner may also disclose that a specific composite has had a performance examination.

The language in each compliance statement must not exclude any portion of the respective compliance statement. There may also be instances where it may be appropriate for an asset owner to modify the language slightly. For example, an asset owner may modify the language to include the name of the asset owner's verifier, if the asset owner wishes to disclose this information. An asset owner may also need to modify the language to add more details about the name of the asset owner 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 25.C.2

The ASSET OWNER 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 asset owners are required to acknowledge this fact in all GIPS Asset Owner Reports. The required disclosure may appear in the body of the GIPS Asset Owner 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 Asset Owner Report, either the asset owner or the verifier.

CFA Institute (owner of the GIPS® trademark) may take appropriate action against any asset owner 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 the asset owner, 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 asset owners claiming compliance with the GIPS standards may also take enforcement actions against asset owners that falsely claim compliance with the GIPS standards.

Asset owners 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 25.C.3

The ASSET OWNER MUST disclose the definition of the ASSET OWNER used to determine TOTAL ASSET OWNER ASSETS and ASSET OWNER–wide compliance.

Discussion

To claim compliance with the GIPS standards, an asset owner must comply with all applicable requirements of the GIPS standards on an asset owner–wide basis. Accordingly, the asset owner must determine exactly how it will be defined for the purpose of compliance. The GIPS standards require that an asset owner be defined as the entity that manages investments, directly and/or through the use of external managers, on behalf of participants, beneficiaries, or the organization itself. These entities include, but are not limited to, public and private pension funds, endowments, foundations, family offices, provident funds, insurers and reinsurers, sovereign wealth funds, and fiduciaries. Asset owners must have discretion over total asset owner assets, either by managing assets directly or by having the discretion to hire and fire external managers. For a public pension fund, the asset owner is generally defined by legislation. In the case of foundations, endowments, or family offices, the asset owner is the entity established by the governing body to manage the pool of assets.

In some situations, an organization may act as both an asset owner, where investment authority and ownership are vested with the organization itself, as well as a firm (asset manager) that competes for assets whose vesting lies with external clients. In such cases, the asset owner has two choices in how to define itself for the purpose of complying with the GIPS standards.

- The asset owner bifurcates its assets into two entities: one defined as an asset owner and one defined as a firm.
- The asset owner does not bifurcate its assets and instead defines itself as both an asset owner and a firm. When calculating and presenting performance to its oversight body, the asset owner follows the GIPS Standards for Asset Owners. When calculating and presenting performance to prospective clients or prospective investors, the asset owner follows the GIPS Standards for Firms.

See Provision 21.A.24 for additional guidance on situations in which an asset owner competes for business, including those instances in which an asset owner acts as both an asset owner and a firm that competes for business.

Sample Disclosures:

Example 1:

Genius University Endowment is a university endowment fund and manages assets solely for Genius University.

Sample Disclosure for Example 1:

"For the purpose of complying with the GIPS standards, the asset owner is defined as the Genius University Endowment (GUE), established in 1972 by the Genius University Investment Committee of the Genius Corporation, and is the manager of GUE's assets."

Example 2:

Organization ABC acts as both an asset owner, managing assets for the ABC retirement system, and as an asset manager that competes for assets whose vesting lies with external clients. For the purpose of complying with the GIPS standards, Organization ABC has decided to bifurcate its assets into two entities: ABC Retirement System (ABCRS), which manages assets exclusively for the ABC Retirement System, and Firm ABC, which competes for business.

Sample Disclosure in a GIPS Asset Owner Report for Example 2:

"For the purpose of complying with the GIPS standards, ABC Retirement System (ABCRS) is defined as the division of Organization ABC that manages assets exclusively for the pension plan of Organization ABC."

Sample Disclosure in Firm ABC's GIPS Composite Report for Example 2:

"For the purpose of complying with the GIPS standards, ABC Investment Management is defined as the division of Organization ABC that is authorized by Organization ABC's governing body to compete for business."

Provision 25.C.4

The ASSET OWNER MUST disclose the COMPOSITE DESCRIPTION.

Discussion

The composite description is defined as general information regarding the investment mandate, objective, or strategy of the composite. The composite description may be more abbreviated than the composite definition but must include all key features of the composite and must include enough information to allow the oversight body to understand the key characteristics of the composite's investment mandate, objective, or strategy, including:

- the material risks of the composite'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 composite definition goes a step further than the composite description and includes the detailed criteria that determine the assignment of portfolios to composites, such as investment constraints or restrictions. Although the composite description is a required disclosure, the composite definition is not a required disclosure. (See the discussion of Provision 23.A.4 for additional information regarding the difference between a composite definition and a composite description.)

The required disclosure of the composite description provides information about the composite's investment strategy or asset class(es) that is intended to help the oversight body understand the composite presented in a GIPS Asset Owner Report. The disclosed strategy features will likely affect both the historical and expected risk and returns. Along with the required benchmark description (see Provision 25.C.5), the GIPS Asset Owner Report will allow the oversight body to understand both the investment strategy employed and the benchmark against which the composite's performance is evaluated.

If leverage, derivatives, and short positions may be used, and they are a material part of the strategy, this information must be disclosed in the composite description. Provision 25.C.14 requires that the asset owner 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 asset owner 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 the oversight body's view of the risk involved in the strategy. If so, it would be misleading for the asset owner to fail to disclose their use to the oversight body 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 composite description identifies every risk of the strategy. Instead, asset owners 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 composite description. (See Provision 21.A.17 for additional guidance on the disclosure of risks in a composite description.)

The key characteristics of some strategies may change given market events. Asset owners should periodically review composite descriptions to ensure they are current.

Sample Disclosures:

"The Distressed Debt Composite 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 composite's investments may be illiquid."

"The 2018 Vintage Year Private Equity Composite includes all private equity investments with an initial capital call from limited partners in 2018. The composite focuses on investments in venture and buyout/growth funds. The risks of investing in private equity are funding risk, liquidity risk, market risk, and capital risk. Risk is diversified by investing across different types of private equity such as venture capital, leveraged buyouts, and international funds."

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

Provision 25.C.5

The ASSET OWNER 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

Asset owners are required to disclose a description of each benchmark included in a GIPS Asset Owner Report. The benchmark description is general information regarding the investments, structure, and 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 asset owner 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

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PME. Given the unique nature of a PME, if the market index used to calculate the PME is not readily recognized, the asset owner must also disclose the description of this benchmark. See the discussion of Provision 25.C.28 for an explanation of a PME. Each asset owner must decide for itself whether a benchmark is widely recognized. If the asset owner is not certain as to whether the benchmark is widely known, the asset owner must include the benchmark description.

Sample Disclosure:

"The custom benchmark return is calculated by applying the investment cash flows of the Distressed Debt Composite 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 25.C.6

When presenting GROSS-OF-FEES returns, the ASSET OWNER MUST disclose if any other fees are deducted in addition to TRANSACTION COSTS and fees and expenses for externally managed POOLED FUNDS.

Discussion

When presenting gross-of-fees returns, it is important that there are sufficient disclosures so that the oversight body can understand what the returns actually represent.

A gross-of-fees return is the return on investments reduced by transaction costs and all fees and expenses for externally managed pooled funds. If an asset owner presents a gross-of-fees return in a GIPS Asset Owner Report, the asset owner must disclose if any other fees, such as custody fees for externally managed segregated accounts, are deducted in addition to transaction costs and fees and expenses for externally managed pooled funds.

Sample Disclosure:

"Gross-of-fees returns reflect the deduction of transaction costs, fees and expenses for externally managed pooled funds, and custodian fees for externally managed segregated accounts."

Provision 25.C.7

When presenting NET-OF-EXTERNAL-COSTS-ONLY returns, the ASSET OWNER MUST disclose if any other fees are deducted in addition to the TRANSACTION COSTS, fees and expenses for externally managed POOLED FUNDS, and INVESTMENT MANAGEMENT FEES for externally managed SEGREGATED ACCOUNTS.

Discussion

When presenting net-of-external-costs-only returns, it is important that there are sufficient disclosures so that the oversight body can understand what the returns actually represent.

Net-of-external-costs-only returns are required to reflect the deduction of transaction costs, all fees and expenses for externally managed pooled funds, and investment management fees for externally managed segregated accounts.[A] Investment management fees include both asset-based fees and performance-based fees or carried interest. Other expenses may also be deducted (e.g., custody fees for segregated accounts). If other fees are deducted from the net-of-external-costs-only returns, this information must be disclosed.

Sample Disclosure:

"Net-of-external-costs-only returns are net of transaction costs, all fees and expenses for externally managed pooled funds, and investment management fees and custodian fees for externally managed segregated accounts."

Provision 25.C.8

When presenting NET-OF-FEES returns, the ASSET OWNER MUST disclose if any other fees are deducted in addition to the TRANSACTION COSTS, fees and expenses for externally managed POOLED FUNDS, INVESTMENT MANAGEMENT FEES for externally managed SEGREGATED ACCOUNTS, and INVESTMENT MANAGEMENT COSTS.[B]

[A] The definition of NET-OF-EXTERNAL-COSTS-ONLY included in the Glossary in the 2020 edition of the GIPS standards is incorrect and should state:

The GROSS-OF-FEES return reduced by INVESTMENT MANAGEMENT FEES for externally managed SEGREGATED ACCOUNTS.

[B] The first sentence of the provision in the 2020 edition of the GIPS standards incorrectly included the word "composite" and stated:

When presenting COMPOSITE NET-OF-FEES returns, the ASSET OWNER MUST disclose if any other fees are deducted in addition to the TRANSACTION COSTS, fees and expenses for externally managed POOLED FUNDS, INVESTMENT MANAGEMENT FEES for externally managed SEGREGATED ACCOUNTS, and INVESTMENT MANAGEMENT COSTS.

Discussion

When presenting net-of-fees returns, it is important that there be sufficient disclosures so that the oversight body can understand what the returns actually represent.

Net-of-fees returns are required to reflect the deduction of transaction costs, fees and expenses for externally managed pooled funds, investment management fees for externally managed segregated accounts, and investment management costs. Investment management fees include both asset-based fees and performance-based fees or carried interest. In the rare instance where other fees and expenses beyond those required to be deducted are also deducted, this information must be disclosed.

Sample Disclosure:

"Net-of-fees returns are net of transaction costs, fees and expenses for externally managed pooled funds, investment management fees for externally managed segregated accounts, investment management costs, and insurance agency costs."

Provision 25.C.9

The ASSET OWNER MUST disclose or otherwise indicate the reporting currency.

Discussion

The GIPS standards require that asset owners disclose the currency used to report the numerical information presented in a GIPS Asset Owner Report. If the asset owner presents performance in multiple currencies in the same GIPS Asset Owner Report, the asset owner must ensure it is clear which currencies are used to calculate and report performance and assets.

Labeling the columns within a GIPS Asset Owner Report with the appropriate currency symbol would satisfy this requirement, as would a written disclosure.

All required and recommended information presented in a GIPS Asset Owner Report must be presented in the same currency. (See Provision 25.A.7.)

Sample Disclosures:

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

"All numerical information is reported in Japanese yen."

Provision 25.C.10

The ASSET OWNER MUST disclose the COMPOSITE INCEPTION DATE.

Discussion

When reviewing composite performance data in a GIPS Asset Owner Report, it is important that the oversight body has sufficient information regarding the length of the composite track record to put the performance presented in the GIPS Asset Owner Report in perspective. Therefore, the inception date of the composite being presented in the GIPS Asset Owner Report must be disclosed. The composite inception date is the initial date of the composite's track record, even if the complete track record is not presented in the GIPS Asset Owner Report. Asset owners are required to present the annualized since-inception money-weighted return (SI-MWR) through the most recent annual period end. (See Provision 25.A.1.a.) There may be instances, however, where the asset owner does not have records to support the entire track record since the composite's inception. If the asset owner is not presenting the SI-MWR and is instead presenting the MWR for the longest period for which that asset owner has records, the composite inception date does not change. For example, assume a private equity composite has an inception date of 24 June 2007, but the asset owner does not have records to support performance for periods prior to 1 January 2014. The asset owner, therefore, presents an MWR with a start date of 1 January 2014. The composite inception date is 24 June 2007, even though the asset owner is not presenting the SI-MWR with a start date of 24 June 2007.

Asset owners must clearly label or identify the periods that are presented. This requirement, together with the disclosure of the composite inception date, provides a full picture of the track record being presented.

If there has been a break in the performance record of a composite, the initial inception date before the break is the date that would be disclosed.

Sample Disclosures:

"The Global Growth Composite has an inception date of 15 September 2019, the date on which the first portfolio in the composite experienced its first capital call from external managers."

"The Global Fixed Income Composite has an inception date of 1 November 2015. There was a break in performance from 1 March 2019 through 30 November 2019. During that period, there were no portfolios in the composite. Composite performance began again on 1 December 2019."

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Provision 25.C.11

The ASSET OWNER MUST disclose the COMPOSITE CREATION DATE.

Discussion

Asset owners must disclose the composite creation date, which is the date on which the asset owner first grouped one or more portfolios together to create the composite. The composite creation date is not necessarily the same as the composite inception date. The composite inception date is the initial date of the composite's performance record and is a required disclosure. (See Provision 25.C.10.) The composite creation date can be significantly after the composite inception date, depending on when the asset owner first grouped the individual portfolios together to create the composite. This information allows the oversight body to compare the composite creation date with the composite inception date to determine whether the asset owner grouped portfolios together into a composite retroactively or created the composite at the beginning of the composite's performance track record.

For those asset owners that created composites many years ago, it may be impossible to know the specific day a composite was created. Some asset owners disclose a composite creation date as a month, or even a year, when the composite was created in the very distant past. Newly created composites should have more-precise composite creation dates.

Sample Disclosures:

"The Real Estate Composite was created on 17 July 2019. This is the date on which portfolios were first grouped together to create the composite."

"The Private Equity Composite was created in September 2012."

Provision 25.C.12

If the ASSET OWNER chooses to create additional COMPOSITES, or if the ASSET OWNER has more than one REQUIRED TOTAL FUND, the ASSET OWNER MUST disclose that the ASSET OWNER'S list of TOTAL FUND DESCRIPTIONS and COMPOSITE DESCRIPTIONS is available upon request.

Discussion

An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report. If the asset owner chooses to create additional composites representing one or more strategies within a total fund, or if the asset owner has more than one required GIPS Asset Owner Report for its total funds, a list of total fund descriptions and composite descriptions must be maintained and made available to the oversight body upon request. (See Provisions 21.A.17 and 21.A.18 for additional guidance on the creation and distribution of the list of total fund descriptions and composite descriptions.) The asset owner must disclose, in each GIPS Asset Owner Report, that a list of total fund descriptions and composite descriptions is available upon request. When an asset owner competes for business and chooses to claim compliance with the GIPS standards while competing for business, this list must include the strategies from the part of the organization that competes for business.

If the asset owner has only one total fund or only one total fund composite and has not chosen to create any additional composites, the GIPS Asset Owner Report for the total fund or the total fund composite represents the asset owner's list of total fund descriptions and composite descriptions. This is because the description of the total fund or the total fund composite is required to be included in the relevant GIPS Asset Owner Report, and so the GIPS Asset Owner Report can be used to meet this requirement. In such cases, the asset owner is not required to disclose that this list is available upon request.

The list of total fund descriptions and composite descriptions itself does not need to be included in each GIPS Asset Owner Report but must be available upon request. The list of total fund descriptions and composite descriptions must include the total fund description or composite description for each current total fund or composite, as well as a description for all total funds or composites that have terminated in the past five years. The total fund descriptions and composite descriptions disclosed in GIPS Asset Owner Reports must be consistent with the descriptions included in the list of total fund descriptions and composite descriptions. (Please see Provision 23.A.4 for a discussion of composite descriptions.)

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

This requirement exists to provide the oversight body with a complete picture of the asset owner's total funds and composites.

Sample Disclosure:

"A list of total fund descriptions and composite descriptions is available upon request."

Provision 25.C.13

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

Discussion

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

Sample Disclosure:

"Centerville Police and Fire Retirement System's policies for valuing portfolios, calculating performance, and preparing GIPS Asset Owner Reports are available upon request."

Provision 25.C.14

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

Discussion

Asset owners must provide enough information in a GIPS Asset Owner Report to allow the oversight body to understand how leverage, derivatives, and short positions have been employed historically and may be used going forward. Although the composite description includes disclosure of the asset owner's ability to use leverage, derivatives, and short positions (see Provision 25.C.4), this provision requires that the asset owner 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 an asset owner discloses in a composite description that the strategy may employ up to 200% leverage. To satisfy the disclosure requirement in Provision 25.C.14, the asset owner might state, “Since the inception of the strategy, the leverage has averaged 110% of the composite’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 asset owner must consider whether the disclosure of how leverage, derivatives, and/or short positions have been used historically is likely to affect the oversight body’s view of the risk involved in the strategy. If so, it would be misleading for the asset owner to fail to disclose their use to the oversight body when describing the strategy.

Provision 25.C.15

If estimated TRANSACTION COSTS are used, the ASSET OWNER MUST disclose:

a. That estimated TRANSACTION COSTS were used.
b. The estimated TRANSACTION COSTS used and how they were determined.

Discussion

Gross-of-fees, net-of-external-costs-only, and net-of-fees composite returns must reflect the deduction of transaction costs, which are the costs of buying or selling investments. Asset owners may use either actual or estimated transaction costs when calculating returns. Estimated transaction costs may be used only for portfolios for which the actual transaction costs are not known. Provision 22.A.10 provides guidance on the use of estimated transaction costs.

If estimated transaction costs are used in calculating returns, there must be a disclosure that estimated transaction costs were used. An asset owner must also disclose the estimated transaction costs used and how they were determined. An asset owner might, for example, determine estimated transaction costs based on other portfolios whose transaction costs are known.

Sample Disclosure for a Composite:

“Some portfolios in the composite do not pay explicit transaction costs for security purchases and sales. Estimated transaction costs for these portfolios are used, and these are determined based on the average transaction cost per share incurred by portfolios in the composite that pay explicit transaction costs. The average transaction cost was determined to be $0.031 per share. A model transaction cost per share of $0.04 is applied to each investment transaction.”

Provision 25.C.16

The ASSET OWNER MUST disclose all significant events that would help the OVERSIGHT BODY interpret the GIPS ASSET OWNER 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 asset owner 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 asset owners disclose all significant events that would help explain the asset owner's GIPS Asset Owner Report to the oversight body. The primary goal of this requirement is to provide relevant information to the oversight body so that it can understand the potential effect of the significant event on the composite's investment strategy and the asset owner.

Significant events are determined by the asset owner and would include, as examples, a material change in personnel responsible for investment management, significant changes to the investment management process, or the loss of historical records resulting from a catastrophic event. The departure of someone who was the single investment decision maker for a strategy would also qualify as a significant event.

Depending on the situation, a general statement describing the significant event that has occurred may be sufficient. Other situations may require asset owners to disclose specific information pertaining to the significant event. The disclosure regarding the significant event must be included in the GIPS Asset Owner Report for a minimum of one year and for as long as it is relevant to interpreting the performance track record. As an example, if there is a legislative change that requires an asset owner to manage the assets of an additional retirement system, resulting in a large increase in total asset owner assets, the asset owner may disclose this significant event for as long as the large change in total asset owner assets is included in the GIPS Asset Owner Report. In contrast, a change in an asset owner's chief investment officer (CIO) is a change that an asset owner may believe should be disclosed for one year only.

The asset owner 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 Asset Owner Report.

Sample Disclosure:

"In March 2019, the portfolio manager responsible for the internal management of all fixed-income assets of the Midway State Municipal Retirement System (MSMRS) left MSMRS.

Her duties have been assumed by a member of the MSMRS investment management team. No change in the fixed-income strategy is anticipated."

Provision 25.C.17

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

Discussion

An asset owner redefinition occurs when something changes with how the asset owner is structured. For example, there may be cases where there are significant changes to an asset owner due to legislation-driven changes, in the case of pension funds, or changes dictated by the governing body, in the case of foundations, endowments, or family offices. In some cases, as a result of a significant alteration in an asset owner's structure or organization, a change can be so great that it creates a new asset owner. Changes in investment style or personnel are not events that typically cause an asset owner redefinition. A simple asset owner name change is also not a sufficient reason to redefine the asset owner.

The GIPS standards require that changes in an asset owner's organization must not lead to alteration of historical total fund or composite performance (see Provision 21.A.22).

Sample Disclosures:

"On 1 July 2018, the Prodigy University Endowment for Theatre Studies was redefined by the Prodigy University Investment Committee to include the endowments for all creative art studies at Prodigy University, including theatre, dance, music, writing, and visual arts, and was renamed the Prodigy University Endowment for the Creative Arts."

"On 1 August 2019, Midway City was created through the merger of the municipalities of New Town and Old Town. On that date, the retirement systems of New Town and Old Town were merged to create the Midway City Retirement System (MCRS)."

Provision 25.C.18

If a COMPOSITE is redefined, the ASSET OWNER MUST disclose the date and description of the redefinition.

Discussion

The investment mandate, objective, or strategy of an additional composite can change over time. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.) In some cases, such a change results in the termination of one composite and the creation of a new composite. In other cases, it may be appropriate to redefine the composite. If a composite is redefined, the asset owner must disclose the date and description of the redefinition. See Provision 23.A.4 for guidance on composite definitions.

Sample Disclosure:

"As of 1 July 2017, the fixed-income strategy includes the use of interest rate futures to modify duration and manage interest rate risk. Prior to this date, the Composite's strategy did not involve the active management of interest rate risk."

Provision 25.C.19

The ASSET OWNER MUST disclose changes to the name of the COMPOSITE. 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 an asset owner's oversight body is evaluating an additional composite, it is important that it understands exactly which composite it is assessing. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.) If an asset owner changes the name of a composite, the change must be disclosed in the GIPS Asset Owner Report. The name change must be disclosed for a minimum of one year and potentially for more than one year if the asset owner determines the disclosure is still relevant and meaningful. The asset owner 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 Asset Owner Report.

Sample Disclosure:

"As of 1 January 2016, the Venture Capital Composite was renamed the Opportunity Fund Composite."

Provision 25.C.20

The ASSET OWNER MUST disclose if COMPOSITE 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 asset owners to reflect withholding taxes, either reclaimable or non-reclaimable taxes, in a certain manner. Asset owners 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 22.B.5). If withholding taxes are material, asset owners must disclose how withholding taxes are treated when calculating performance. An asset owner must determine the level at which withholding taxes become material, document the level in its policies and procedures, and apply it consistently.

Sample Disclosure:

"Portfolio returns are net of all foreign non-reclaimable withholding taxes. Reclaimable withholding taxes are reflected as income if and when received."

Provision 25.C.21

The ASSET OWNER 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 asset owners to reflect withholding taxes, either reclaimable or non-reclaimable taxes, in a certain manner. Asset owners may choose whether or not to reflect the effect of withholding taxes when calculating composite performance and, similarly, whether or not to use a benchmark that reflects the effect of withholding taxes.

As Provision 25.C.20 indicates, if withholding taxes are material, asset owners must disclose how withholding taxes are treated when calculating performance. To facilitate the comparison of composite returns and benchmark returns, asset owners 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 25.C.22

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

Discussion

Asset owners 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. Asset owners 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, asset owners 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 the oversight body in understanding the difference between the reporting requirements of applicable laws and regulations and those of the GIPS standards.

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, which is in conflict with the GIPS standards. Therefore, no performance is presented for this composite for the period from 1 July 2018 (the inception date of the composite) through 31 December 2018."

Provision 25.C.23

The ASSET OWNER MUST disclose the use of EXTERNAL MANAGERS and the periods EXTERNAL MANAGERS were used.[35]

Discussion

Some asset owners use an external manager to manage part or all of a particular strategy. For example, an asset owner might manage most of its fixed-income assets internally but hire external managers to manage its equity, private equity, and real estate assets. The GIPS standards require that asset owners include the performance of assets assigned to an external manager in its total fund(s) and in any additional composite that an asset owner has chosen to create, provided the asset owner has the authority to allocate the assets to an external manager. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.) In the spirit of full disclosure, an asset owner must disclose the fact that an external manager was used in the management of the composite strategy and the periods for which an external manager was used. This is required for periods beginning on or after 1 January 2006. It is not necessary to disclose the name of the external manager.

Sample Disclosures:

"The Global Private Equity Composite used an external manager from its inception on 1 October 2018 through 31 May 2020. It has been internally managed since 1 June 2020."

"A sub-advisor is used to manage the international equity allocation of the Asia Real Estate Composite."

Provision 25.C.24

The ASSET OWNER MUST disclose if the COMPOSITE's valuation hierarchy materially differs from the RECOMMENDED valuation hierarchy.[36] (See Provision 22.B.6 for the RECOMMENDED valuation hierarchy.)

Discussion

Asset owners must establish policies and procedures for determining portfolio valuations. For periods beginning on or after 1 January 2011, those valuations must be determined in accordance

[35] REQUIRED for periods beginning on or after 1 January 2006.
[36] REQUIRED for periods beginning on or after 1 January 2011.

with the definition of fair value. Provision 22.B.6 includes a recommended valuation hierarchy that asset owners should incorporate into their policies and procedures for determining fair value for portfolio investments. Asset owners must establish a valuation hierarchy on a composite-specific basis. It is acceptable for asset owners to apply a different valuation hierarchy to specific composites provided the valuation methodology conforms to the definition of fair value. If the valuation hierarchy materially differs from the recommended valuation hierarchy, the asset owner must disclose this fact. The oversight body will be informed and then may request additional information about the asset owner's valuation policies.

Sample Disclosure:

"All portfolio investments in the Private Equity Composite are valued using our proprietary valuation models to determine fair value. Our valuation procedures materially differ from the recommended valuation hierarchy in the GIPS standards."

Provision 25.C.25

If the ASSET OWNER determines no appropriate BENCHMARK for the COMPOSITE exists, the ASSET OWNER MUST disclose why no BENCHMARK is presented.

Discussion

Benchmarks are important tools that aid in the planning, implementation, and evaluation of an investment strategy. They also help facilitate discussions with the oversight body regarding the relationship between composite risk and return. As a result, the GIPS standards require asset owners to provide benchmark total returns in all GIPS Asset Owner Reports. The benchmark must reflect the investment mandate, objective, or strategy of the composite. 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 composite exists. If this is the case, the asset owner must disclose why no benchmark is presented.

Sample Disclosure:

"Because the composite'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 25.C.26

If the ASSET OWNER changes the BENCHMARK, the ASSET OWNER 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 ASSET OWNER 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 they are relevant to interpreting the track record.

Discussion

Asset owners 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 asset owner should only change the benchmark going forward and not change the benchmark retroactively.

If the asset owner 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 Asset Owner Report. Given the nature of a money-weighted return (MWR), however, it is not expected that this situation would often apply to a GIPS Asset Owner Report that includes MWRs. If this situation does occur, this change must be disclosed.

There may be times when an asset owner determines that it is appropriate to change the benchmark for a given composite retroactively. For example, because benchmarks are continually evolving, if the asset owner finds that a new benchmark is a better comparison for an investment strategy, the asset owner 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 Asset Owner Report for a minimum of one year and for as long as the disclosures are relevant to interpreting the performance track record. The asset owner 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 Asset Owner Report.

When an asset owner changes a benchmark retroactively, the asset owner 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 25.C.27

If a custom BENCHMARK or combination of multiple BENCHMARKS is used, the ASSET OWNER 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 asset owner 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 Asset Owner Report that presents MWRs.

Instead, it is expected that an asset owner would use a public market equivalent (PME) as a custom benchmark. See the discussion of Provision 25.C.28 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.

An asset owner may calculate a PME that is a gross-of-fees, net-of-external-costs-only, or net-of-fees return. A PME that is a net-of-fees return is calculated using the same cash flows that are used to calculate the composite's net-of-fees return. An asset owner may use a net-of-fees PME benchmark only when composite net-of-fees returns are presented. The use of a net benchmark when composite net-of-fees returns are not presented is one instance where disclosure is not sufficient to prevent the information presented from being false and misleading. The same approach must be taken when calculating a PME that is a net-of-external-costs-only return. When an asset owner includes a net-of-external-costs-only or net-of-fees benchmark in a GIPS Asset Owner Report, the asset owner must clearly label the benchmark as a custom benchmark and disclose the calculation methodology.

Sample Disclosure for a Net-of-Fees 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 composite's since-inception money-weighted return from a series of cash flows that are the same as those of the composite 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 composite cash flows."

Provision 25.C.28

The ASSET OWNER MUST disclose the calculation methodology used for the BENCHMARK. If the ASSET OWNER presents the PUBLIC MARKET EQUIVALENT of the COMPOSITE as a BENCHMARK, the ASSET OWNER MUST disclose the index used to calculate the PUBLIC MARKET EQUIVALENT.

Discussion

The benchmark selected for a composite must be appropriate for comparison with the performance of the composite. Unlike benchmarks for publicly traded securities, however, industry benchmarks for private market investments are not as widely available or are available only through certain commercial vendors. Asset owners 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 in which a public market index is used to create a comparable MWR from a series of cash flows that replicate those of the composite and that can be compared with the MWR of the composite.

The GIPS standards require that the calculation methodology for the benchmark be disclosed. This disclosure provides transparency as to the comparability of performance between the composite and the benchmark. If a PME is used as a benchmark, the asset owner 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 composite's since-inception money-weighted return from a series of cash flows that are the same as those of the composite 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 composite cash flows."

Provision 25.C.29

The ASSET OWNER 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 asset owner 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 22.A.23 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 composite, returns calculated using a quarterly cash flow dating convention can differ from returns calculated using a monthly or daily convention. Accordingly, asset owners 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 asset owners 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 25.C.30

The ASSET OWNER MUST disclose any change to the GIPS ASSET OWNER REPORT resulting from the correction of a MATERIAL ERROR. Following the correction of the GIPS ASSET OWNER 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

Asset owners 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 Asset Owner Report that is missing or inaccurate. Errors in GIPS Asset Owner Reports can result from, but are not limited to, incorrect, incomplete, or missing:

- composite returns or assets,
- total asset owner assets,
- benchmark returns,
- number of portfolios in a composite, or
- disclosures.

Any material error in a GIPS Asset Owner Report must be corrected and disclosed in a revised GIPS Asset Owner Report. An asset owner must define materiality within its error correction policies and procedures.

To adhere to this requirement, an asset owner must determine the criteria it will use to determine materiality. The following is a definition of materiality that asset owners 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." An asset owner should have a defined process for determining the objective criteria it will use in determining materiality.

Disclosure of the change in the corrected GIPS Asset Owner Report resulting from a material error must be included in the GIPS Asset Owner Report for a minimum of 12 months following

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the correction of the report and for as long as it is relevant to interpreting the track record. The asset owner 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 Asset Owner Report that contained the material error.

The discussion for Provision 21.A.16 provides additional information on error correction, including the determination of materiality, the actions that must be taken when an error in a GIPS Asset Owner Report is discovered, and an explanation of who must receive the revised GIPS Asset Owner Report.

Sample Disclosure:

"This GIPS Asset Owner 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 incorrectly presented as 3.4%. The correct return is 4.3%, as shown in this revised GIPS Asset Owner Report."

Provision 25.C.31

The ASSET OWNER 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 externally managed pooled funds for which the asset owner relies on valuations provided by the fund external 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, asset owners must disclose this fact in the relevant GIPS Asset Owner Report.

Asset owners that use preliminary, estimated values to determine fair value and subsequently change valuations when final values are received must determine how the asset owner's error correction policies will be applied. (Please see Provision 21.A.16 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 25.B.5) that asset owners present the percentage of assets in the composite that were valued using preliminary, estimated values as of the most recent annual period end. This information will help the oversight body to interpret the performance record.

Sample Disclosure:

"Preliminary, estimated values were used in the determination of the fair value of the composite's assets."

Provision 25.C.32

If the ASSET OWNER changes the type of return(s) presented for the COMPOSITE (e.g., changes from TIME-WEIGHTED RETURNS to MONEY-WEIGHTED RETURNS), the ASSET OWNER 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

An asset owner may present time-weighted returns (TWRs) or money-weighted returns (MWRs) in a GIPS Asset Owner Report for an additional composite. An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report. If an asset owner changes the type of return presented for a composite, the asset owner must disclose, in the respective GIPS Asset Owner 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 Asset Owner Report for a minimum of one year and for as long as it is relevant and helpful to the asset owner's oversight body in interpreting the composite's track record. The asset owner 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 Asset Owner Report.

As an example, suppose that an asset owner is presenting TWRs for a composite from the inception of the composite on 1 January 2013 through 31 December 2019. It decides that it will switch to present MWRs as of 1 January 2020. The asset owner cannot present TWRs through 31 December 2019 and an MWR from 1 January 2020 through 31 December 2020. The asset owner must present the since-inception MWR for the period from 1 January 2013 (the inception date of the composite) through 31 December 2020 in the GIPS Asset Owner Report for the period ended 31 December 2020.

Sample Disclosure:

"Beginning with the GIPS Asset Owner Report for the period ended 31 December 2020, the returns presented for the XYZ Composite were changed from time-weighted returns to money-weighted returns."

Provision 25.C.33

If the ASSET OWNER presents ADDITIONAL RISK MEASURES, the ASSET OWNER 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 Asset Owner Report that presents composite money-weighted returns. However, understanding and interpreting investment performance requires the consideration of both risk and return. It is, therefore, recommended that asset owners present additional risk measures for the composite and the benchmark. (Because no quantitative risk measure is required for composites that present money-weighted returns, all risk measures presented are considered additional risk measures. See Provision 25.B.4.) It is important to keep in mind that additional risk measures should be consistent with the composite'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 Asset Owner 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. 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 asset owner's oversight body can better understand and interpret the additional risk measure(s) presented.

Provision 25.C.34

The ASSET OWNER MUST disclose if GROSS-OF-FEES, NET-OF-EXTERNAL-COSTS-ONLY, or NET-OF-FEES returns are used to calculate presented risk measures.

Discussion

To help the oversight body interpret the risk measures presented in a GIPS Asset Owner Report, the asset owner must disclose which returns—gross-of-fees, net-of-external-costs-only, or net-of-fees returns—are used in the calculation of the presented risk measures.

Sample Disclosure:

"Net-of-external-costs-only returns were used to calculate drawdown."

Provision 25.C.35

For REAL ESTATE investments that are directly owned, the ASSET OWNER MUST disclose that:[37]

a. EXTERNAL VALUATIONS are obtained and the frequency with which they are obtained; or

b. The ASSET OWNER relies on valuations from financial statement audits.

Discussion

According to Provision 22.A.33, for periods beginning on or after 1 January 2012, real estate investments that are directly owned by the asset owner must:

- have an external valuation at least once every 12 months unless the oversight body stipulates otherwise, in which case real estate investments must have an external valuation at least once every 36 months or per oversight body instructions if the oversight body 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, asset owners must inform the oversight body 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 periods ending on or after 31 December 2020.

Sample Disclosures:

"Midville Police and Fire Retirement System obtains external valuations for all real estate investments annually."

"ABC Foundation relies on valuations from audited financial statements. The audits are performed by an independent public accounting firm."

[37] REQUIRED for periods ending on or after 31 December 2020.

Provision 25.C.36

When the GIPS ASSET OWNER REPORT includes THEORETICAL PERFORMANCE as SUPPLEMENTAL INFORMATION, the ASSET OWNER 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 OVERSIGHT BODY 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, INVESTMENT MANAGEMENT COSTS, and TRANSACTION COSTS.
d. Clearly label the THEORETICAL PERFORMANCE as SUPPLEMENTAL INFORMATION.

Discussion

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

- Results created by applying a composite investment strategy or methodology to historical data, in order 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 composite cash flows with projected future cash flows.
- Results that include the effect of currency hedging that has been applied after-the-fact to the composite when the composite was not originally managed using the currency hedging strategy, and the hedging is not part of the actual composite returns.

When theoretical performance is included as supplemental information in a GIPS Asset Owner Report, an asset owner is required to include a number of disclosures to ensure that the recipients of the report, including the oversight body, 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.

Asset owners 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 Endowment Fund. The results are theoretical and are not based on the performance of actual portfolios. 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 it 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."

25.D. Disclosure—Recommendations

Provision 25.D.1

The ASSET OWNER 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 an asset owner's valuation policies and/or methodologies is material, asset owners should disclose the change in order to enable the oversight body 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 discounted cash flows 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 25.D.2

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

Discussion

Asset owners 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, asset owners may choose from a wide variety of policies and methodologies. Asset owners may change calculation policies and/or methodologies; however, asset owners 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, asset owners should disclose the change in order to enable the oversight body 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 25.D.3

The ASSET OWNER SHOULD disclose material differences between the BENCHMARK and the COMPOSITE's investment mandate, objective, or strategy.

Discussion

Asset owners are required to disclose the composite description (see Provision 25.C.4) and the benchmark description (see Provision 25.C.5) in a GIPS Asset Owner Report. It is recommended that asset owners also disclose any material differences between the benchmark and the composite's investment mandate, objective, or strategy. The oversight body will be better able to evaluate the performance of the strategy relative to the benchmark presented if they understand any material differences between the composite and the benchmark.

Sample Disclosure:

"The Small-Cap Opportunities Composite is a venture capital composite that invests in small-cap start-ups in all sectors, with a focus on the health care and financial services sectors. The benchmark for the composite 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 composite differs from the small-cap investment strategies represented by the PME because the composite concentrates its investments. As of 31 December 2019, 62% of the composite was invested in the health care and financial services sectors, while 18% of the index was invested in these two sectors."

Provision 25.D.4

The ASSET OWNER SHOULD disclose the key assumptions used to value investments.

Discussion

Asset owners are required to disclose that valuation policies are available upon request. (See Provision 25.C.13.) Because valuation is a critical component of the performance calculation, it is recommended that asset owners also disclose the key assumptions used when valuing portfolio investments. This disclosure will help the oversight body better understand how the asset owner values different types of investments.

Sample Disclosures:

"Investments are valued using recent market quotations. If there is no publicly traded reference, equity investments are valued using a market multiple approach for similar investments in active markets, and fixed-income investments are valued using inputs such as interest rates, yield curve shape, volatility, prepayments, and credit spreads."

"The valuation of the Private Equity Composite is based on valuations reported by the general partners of the externally managed pooled funds."

Provision 25.D.5

If the ASSET OWNER adheres to any industry valuation guidelines in addition to the GIPS valuation REQUIREMENTS, the ASSET OWNER 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 that are 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 demonstrate to the oversight body that the asset owner is adhering to best practices by applying the more stringent standards when valuing investments.

Sample Disclosure:

"The Global Diversified Distressed Composite 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 25.D.6

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

Discussion

Asset owners must determine which benchmark(s) are most appropriate for composite(s). When determining which benchmarks to present in a GIPS Asset Owner Report, asset owners 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 composite, and
- lack of investability (some hedge funds within a peer group benchmark are closed to new investors).

When using benchmarks that exhibit limitations, asset owners should describe these limitations in the relevant GIPS Asset Owner Report. This helps the oversight body understand the nature of the benchmark and be aware of any known drawbacks in comparing the risk and return of the benchmark and the composite.

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 this composite."

Provision 25.D.7

The ASSET OWNER SHOULD disclose information about the INVESTMENT MANAGEMENT FEES and INVESTMENT MANAGEMENT COSTS of the COMPOSITE that were incurred during the most recent annual period.

Discussion

Investment management fees are the fees payable to external managers for externally managed assets. Investment management fees are typically asset based (percentage of assets), performance based, or a combination of the two but may take different forms as well. Investment management fees also include carried interest.

Investment management costs include all internal costs for both internally and externally managed assets.[C] In addition to the costs for portfolio management, they may also involve overhead and other related costs and fees, including data valuation fees, investment research services, custody fees, pro rata share of overhead (such as building and utilities), allocation of non-investment-department expenses (such as human resources, communications, and technology), and performance measurement and compliance services. Investment management fees are not included in investment management costs.

[C] The definition of INVESTMENT MANAGEMENT COSTS included in the Glossary in the 2020 edition of the GIPS standards is incorrect and should state:

All <u>internal</u> costs for both internally and externally managed assets. In addition to costs for PORTFOLIO management, they may also involve overhead and other related costs and fees, including data valuation fees, investment research services, CUSTODY FEES, pro rata share of overhead (such as building and utilities), allocation of non-investment-department expenses (such as human resources, communications, and technology), and performance measurement and compliance services.

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Determining investment fees and costs for an asset owner, particularly investment management costs for internally managed assets, is not a straightforward process. Given the complexity of the costs incurred by an asset owner, it is recommended that the GIPS Asset Owner Report include disclosures about the investment management fees and investment management costs of the composite that were incurred during the most recent annual period. This will help the oversight body understand the more recent fees and costs paid for the external and internal management of the composite assets.

Sample disclosure:

"Total investment management costs deducted from the net-of-external-costs-only return to arrive at the net return was 0.14% for the fiscal year ended 30 June 2020. These costs include the allocation of internal overhead expenses and data valuation fees."

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ISBN 978-1-942713-98-2