Global Investment Performance Standards (GIPS®) for Firms

Explanation of the Provisions in Section 6

June 2020

CFA Institute®
Global Investment
Performance Standards

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ISBN 978-1-942713-89-0

INTRODUCTION

The Explanation of the Provisions in Section 6 provides interpretation of each provision that is included in Section 6—Pooled Fund Time-Weighted Return Report. Firms that choose to comply with the Global Investment Performance Standards (GIPS®) must comply with all applicable requirements of the GIPS standards, including any Guidance Statements, interpretations, and Questions and Answers (Q&As) published by CFA Institute and the GIPS standards governing bodies.

Section 6 includes the requirements and recommendations for preparing a GIPS Pooled Fund Report that includes time-weighted returns. Firms that prepare a GIPS Pooled Fund Report that includes time-weighted returns must include the required numerical information and disclosures specified in Section 6, if applicable to the specific pooled fund.

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

6. POOLED FUND TIME-WEIGHTED RETURN REPORT

The following provisions apply to POOLED FUNDS that include TIME-WEIGHTED RETURNS in a GIPS POOLED FUND REPORT.

6.A. Presentation and Reporting—Requirements

Provision 6.A.1

The FIRM MUST present in each GIPS POOLED FUND REPORT:

a. At least five years of performance (or for the period since the POOLED FUND INCEPTION DATE if the POOLED FUND has been in existence less than five years) that meets the REQUIREMENTS of the GIPS standards. After the FIRM presents a minimum of five years of GIPS-compliant performance (or for the period since the POOLED FUND INCEPTION DATE if the POOLED FUND has been in existence less than five years), the FIRM MUST present an additional year of performance each year, building up to a minimum of 10 years of GIPS-compliant performance.

Discussion

To claim compliance, a firm is required to meet all applicable requirements of the GIPS standards on a firm-wide basis for at least a five-year period, or since inception of the firm if the firm has been in existence for less than five years. When initially claiming compliance with the GIPS standards, a firm must present a minimum of five years of pooled fund performance or performance since the inception of the pooled fund if the pooled fund has been in existence for less than five years.

Once the firm has its initial minimum five years of GIPS-compliant history, the firm must continue to add annual returns to each GIPS Pooled Fund Report, so that five years after initially claiming compliance with the GIPS standards, the firm will have a 10-year performance record for its pooled funds. It is recommended that firms present a pooled fund's history for more than the minimum required periods. (See Provision 6.B.6.)

Provision 6.A.1

The FIRM MUST present in each GIPS POOLED FUND REPORT:

b. POOLED FUND returns for each annual period.

Discussion

The GIPS standards require the presentation of annual pooled fund returns. Firms must clearly label the annual presentation periods. Firms must define the annual reporting period on a pooled fund-by-pooled fund basis and apply it consistently. For purposes of comparability, best practice would be for a firm to report pooled fund performance on a calendar year-end basis.

Within each GIPS Pooled Fund Report, the annual periods must be consistent. For example, a firm that reports a pooled fund's performance annually as of 30 June must consistently report data for years ending 30 June for that pooled fund. The firm may decide in the future to change to a 31 December valuation and reporting date; however, the firm may not mix 30 June and 31 December valuation and reporting dates in the same GIPS Pooled Fund Report.

Although the GIPS standards require the presentation of annual returns, it is recommended that firms present more frequent returns, such as quarterly or monthly returns. (See Provision 6.B.2.b.) More frequent returns help prospective investors evaluate a pooled fund's track record.

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

Provision 6.A.1

The FIRM MUST present in each GIPS POOLED FUND REPORT:

c. When the initial period is less than a full year, the return from the POOLED FUND INCEPTION DATE through the initial annual period end.[44]

Discussion

When a pooled fund has an initial period that is less than a full year, the GIPS standards require that the return be presented for the partial year from the pooled fund inception date through the

[44] REQUIRED for POOLED FUNDS with a POOLED FUND INCEPTION DATE of 1 January 2011 or later.

initial annual period end. This is required for pooled funds that begin on or after 1 January 2011. Although not required to do so for pooled funds that begin prior to this date, firms should consider presenting the initial partial year of performance for all pooled funds.

For example, assume that a firm presents pooled fund returns for annual periods ended 31 December, and a new pooled fund is created with a track record beginning 1 April 2018. The initial GIPS Pooled Fund Report for this pooled fund must include the pooled fund return for the period from 1 April 2018 through 31 December 2018. Subsequently, the firm must add annual returns, building up to a minimum 10-year track record.

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

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

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

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

Provision 6.A.1

The FIRM MUST present in each GIPS POOLED FUND REPORT:

d. When the POOLED FUND terminates, the return from the last annual period end through the POOLED FUND TERMINATION DATE.[45]

Discussion

The GIPS standards require that returns from the last annual period end through the pooled fund termination date be presented for pooled funds with a termination date of 1 January 2011 or later. Assume that a firm presents pooled fund returns for annual periods ended 31 December and a pooled fund terminates so that the track record ends 31 August 2017. The GIPS Pooled Fund

[45] REQUIRED for POOLED FUNDS with a POOLED FUND TERMINATION DATE of 1 January 2011 or later.

Report for this pooled fund must include the pooled fund return for the period from 1 January 2017 through 31 August 2017. Partial-year returns must not be annualized. As an example, a pooled fund that terminates on 31 January 2020 and has a one-month return for January 2020 of 3% (which equates to an annualized return of 42.6%) would be required to present that 3% as the partial year's performance.

The annualized return of 42.6% must not be presented. Some spreadsheet and software applications automatically annualize all returns, and firms are reminded that for periods of less than a year, the firm must "de-annualize" any annualized returns that are calculated.

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

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

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

Provision 6.A.1

The FIRM MUST present in each GIPS POOLED FUND REPORT:

e. The TOTAL RETURN for the BENCHMARK for each annual period and for all other periods for which POOLED FUND returns are presented, unless the FIRM determines there is no appropriate BENCHMARK.

Discussion

Benchmarks are important tools that aid in the planning, implementation, and evaluation of a pooled fund's investment policy. They also help facilitate discussions with prospective investors regarding the relationship between risk and return. As a result, firms are required to present a total return for the benchmark that reflects the pooled fund's investment mandate, objective, or strategy for each annual period. A firm may choose to present more than one benchmark in a GIPS Pooled Fund Report and, if it does so, it must include all required information for all benchmarks included in a GIPS Pooled Fund Report.

In addition to the required annual benchmark returns, firms must also present benchmark returns for the same periods for which pooled fund returns are presented. For example, if the GIPS Pooled Fund Report includes quarterly pooled fund returns, quarterly benchmark returns must also be included.

Because the GIPS standards require that the total return for the benchmark be presented, a price-only index would not satisfy the requirements of the GIPS standards. This scenario also applies to benchmarks that are components of a blended benchmark. A price-only benchmark may be presented in a GIPS Pooled Fund Report as supplemental information only if it is presented in addition to a total return benchmark. It must be labeled as a price-only benchmark, and there must be sufficient disclosures so that a prospective investor understands the difference between the return of a price-only benchmark and the return of a total return benchmark. Firms must not present only a price-only benchmark even if no appropriate total return benchmark is available for a specific pooled fund. If a firm determines that no appropriate benchmark for the pooled fund exists, it must not present a benchmark and must disclose why no benchmark is presented. (See Provision 6.C.26.)

Some benchmarks, such as commodity benchmarks, may not have income because the asset class does not create income, but they are still considered to be total return benchmarks. Target returns, such as an 8% hurdle rate, may also not have income, but this is not considered a price-only return.

Provision 6.A.1

The FIRM MUST present in each GIPS POOLED FUND REPORT:

f. POOLED FUND assets as of each annual period end.

Discussion

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

Provision 6.A.1

The FIRM MUST present in each GIPS POOLED FUND REPORT:

g. TOTAL FIRM ASSETS as of each annual period end.[46]

Discussion

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

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

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

Provision 6.A.1

The FIRM MUST present in each GIPS POOLED FUND REPORT:

h. For POOLED FUNDS for which monthly POOLED FUND returns are available, the three-year annualized EX POST STANDARD DEVIATION (using monthly returns) of the POOLED FUND and the BENCHMARK as of each annual period end.[47]

Discussion

Evaluating past performance requires an understanding of the risks taken to achieve the results. Standard deviation is universally defined as a measure of the variability of returns. For pooled

[46] REQUIRED for periods ending on or after 31 December 2020. For periods ending prior to 31 December 2020, FIRMS may present either TOTAL FIRM ASSETS or POOLED FUND assets as a percentage of TOTAL FIRM ASSETS.
[47] REQUIRED for periods ending on or after 1 January 2011.

funds for which monthly returns are available, the GIPS standards require the presentation of ex post standard deviation, often referred to as external standard deviation. Ex post standard deviation is a measure of the volatility of pooled fund and benchmark returns over time, and it is intended to measure the risk of investing in the pooled fund. For periods ending on or after 1 January 2011, firms must present, as of each annual period end, the three-year annualized ex post standard deviation using monthly returns for both the pooled fund and the benchmark.

Standard deviation for both the pooled fund and the benchmark must be calculated using 36 monthly returns. The same formula must be used to calculate standard deviations for the pooled fund and the benchmark.

Some pooled funds, such as those for private market investments, may not have monthly returns. For these pooled funds, if the pooled fund has at least three annual periods of performance, firms must disclose if the three-year annualized ex post standard deviation of the pooled fund and/or benchmark is not presented because 36 monthly returns are not available. (See Provision 6.C.29.)

Ex Post Standard Deviation (External)

Ex post standard deviation is calculated as follows:

$$\text{Pooled fund or benchmark ex post standard deviation} = \sqrt{\frac{\sum\left[R_i - MEAN(R)\right]^2}{n}},$$

where R_i is the ith monthly pooled fund or benchmark return, n is the number of monthly returns used for the external standard deviation calculation (the use of n is best practice and preferable, but either n or $n - 1$ in the denominator of the standard deviation calculation is acceptable), and $MEAN(R)$ is the mean monthly return of the pooled fund or the benchmark over the period for which the external standard deviation is being calculated, where:

$$MEAN(R) = \frac{R_1 + R_2 + \ldots + R_i}{n},$$

where R_1 is the time-weighted return for the first monthly pooled fund or benchmark return, R_i is the ith monthly pooled fund or benchmark return, and n is the number of returns used in the calculation (required to be 36 monthly returns to satisfy this requirement).

Firms are required to select a methodology (i.e., the use of n or $n - 1$) on a pooled fund–specific basis, document it in their policies and procedures, and consistently apply that methodology.

To annualize the three-year ex post standard deviation calculated using monthly returns, the result of the foregoing standard deviation formula must be multiplied by the square root of 12.

If the firm presents only pooled fund gross returns in the GIPS Pooled Fund Report, the firm should use gross returns to calculate the external standard deviation. If a firm presents only pooled fund net returns in the GIPS Pooled Fund Report, the firm should use net returns to calculate the external standard deviation. If the firm presents both pooled fund gross returns and net returns, it is recommended that the firm use pooled fund gross returns to calculate the external standard deviation. (See Provision 2.B.7.) The firm must disclose which returns (pooled fund gross returns or pooled fund net returns) were used to calculate the external standard deviation. (See Provision 6.C.35.)

Provision 6.A.2

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

Discussion

Markets are not always liquid, and investment prices are not always objective and/or observable. As the last level of the recommended valuation hierarchy indicates (see Provision 2.B.6), it may be necessary for a firm to use subjective unobservable inputs to value an investment for which markets are not active on the measurement date. Examples of subjective unobservable inputs include an assumed discount rate, an assumed occupancy rate for a commercial building, and the default rate used for the valuation of a security in default. Examples related to insurance-linked securities include assumptions regarding hurricane damage and mortality rates. Unobservable inputs should be used to measure fair value only when observable inputs and prices are not available or appropriate. Unobservable inputs reflect the firm's own assumptions about the assumptions that market participants would use in pricing the investment and should be developed based on the best information available under the circumstances.

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

Sample Disclosure:

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

Provision 6.A.3

The FIRM MUST clearly label or identify:

a. The periods that are presented.

b. If POOLED FUND returns are POOLED FUND GROSS RETURNS or POOLED FUND NET RETURNS.

Discussion

All periods presented in a GIPS Pooled Fund Report must be clearly labeled or identified. This includes annual periods, partial-year periods, and any additional periods presented.

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

Provision 6.A.4

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

Discussion

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

- a description for all benchmarks,
- a disclosure of changes to (or deletion of) any benchmark, and
- the three-year annualized ex post standard deviation of all benchmarks.

If the firm designates benchmarks as primary and secondary benchmarks, it must disclose when these designations change (e.g., if a primary benchmark becomes a secondary benchmark), because such a change in designation is considered a benchmark change. In all instances, if multiple benchmarks are presented in a GIPS Pooled Fund Report and one or more of the benchmarks is removed from the GIPS Pooled Fund Report, the firm must disclose this fact. (See Provision 6.C.27.)

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

Provision 6.A.5

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

Discussion

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

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

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

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

Pooled fund expense ratios that are calculated for periods of less than one year must be annualized. Assume that a pooled fund starts on 1 April, and the firm calculates an expense ratio of

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

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

Provision 6.A.6

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

a. Present POOLED FUND uncalled COMMITTED CAPITAL for the same periods for which the combination of POOLED FUND assets and POOLED FUND uncalled COMMITTED CAPITAL is presented.

b. Clearly label POOLED FUND uncalled COMMITTED CAPITAL as such.

c. Clearly label the combination of POOLED FUND assets and POOLED FUND uncalled COMMITTED CAPITAL as such.

Discussion

Committed capital is defined as pledges of capital to an investment vehicle by investors (limited partners and the general partner) or the firm and is typically drawn down over a period of time. Uncalled committed capital, also known as dry powder, is the amount of capital that has not yet been drawn. Because uncalled committed capital is not considered actual pooled fund assets, pooled fund uncalled committed capital must not be included in the calculation of pooled fund assets as of 1 January 2020. This is consistent with the requirement to not include uncalled committed capital in total firm assets for periods beginning on or after 1 January 2020. (See Provision 2.A.1.)

A firm may report pooled fund uncalled committed capital in addition to the required presentation of pooled fund assets, if it wishes to do so. The inclusion of information on pooled fund uncalled committed capital provides prospective investors with a more complete picture of the firm's investments and the amount of capital that is currently committed to a future investment.

If a firm chooses to present information on pooled fund uncalled committed capital, it may present pooled fund uncalled committed capital as either:

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

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

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

Provision 6.A.7

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

a. Present FIRM-wide uncalled COMMITTED CAPITAL for the same periods for which the combination of TOTAL FIRM ASSETS and FIRM-wide uncalled COMMITTED CAPITAL is presented.

b. Clearly label FIRM-wide uncalled COMMITTED CAPITAL as such.

c. Clearly label the combination of TOTAL FIRM ASSETS and FIRM-wide uncalled COMMITTED CAPITAL as such.

Discussion

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

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

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

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

Provision 6.A.8

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

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

Discussion

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

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

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

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

Provision 6.A.9

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

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

Discussion

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

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

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

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

Provision 6.A.10

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

Discussion

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

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

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

A firm may instead convert pooled fund returns. Starting with pooled fund returns calculated in its base currency, a pooled fund return can be converted using the movement in the exchange rate between the base currency and the reporting currency over the period of the return. The following example illustrates this method:

Suppose that the return of a pooled fund in euros for the year 2018 is +5.00%. The exchange rate for 1 euro to the US dollar at the start of the year was 1.2008, and at the end of the year it is 1.14315. First calculate the movement in the exchange rate over the year:

$$FX\ return = \frac{FX_{end}}{FX_{start}} - 1$$

$$FX\ return = \frac{1.14315}{1.2008} - 1 = -0.0480, \text{or} - 4.80\%$$

The exchange rate movement and the euro pooled fund return are then multiplied to determine the USD pooled fund return:

$$\begin{aligned}\text{USD Pooled Fund Return} &= (1 + 0.05) \times (1 - 0.0480) - 1 = (1.05 \times 0.952) - 1 \\ &= -0.00041, \text{ or } -0.041\%\end{aligned}$$

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

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

Provision 6.A.11

Any SUPPLEMENTAL INFORMATION included in the GIPS POOLED FUND REPORT:

a. MUST relate directly to the POOLED FUND.

b. MUST NOT contradict or conflict with the REQUIRED or RECOMMENDED information in the GIPS POOLED FUND REPORT.

c. MUST be clearly labeled as SUPPLEMENTAL INFORMATION.

Discussion

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

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

Supplemental information should provide users of the GIPS Pooled Fund Report with the proper context in which to understand the performance results. Common examples of supplemental information include the following:

- segment returns that do not include cash,
- money-weighted returns (MWRs) when the firm does not meet the tests for presenting only MWRs, and
- a price-only benchmark presented in addition to a total return benchmark.

Supplemental information must relate directly to the pooled fund and must not contradict or conflict with the required or recommended information in the GIPS Pooled Fund Report. Examples of information that relates directly to the pooled fund and would be considered supplemental information include segment returns (e.g., country or sector), performance attribution, and pooled fund holdings. An example of information that would conflict with the GIPS standards is the presentation of a price-only benchmark when no total return benchmark is 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 pooled fund and supplement or enhance the required or recommended information included in the pooled fund's GIPS Pooled Fund Report,
- not contradict or conflict with the required or recommended information in the GIPS Pooled Fund Report,
- be clearly labeled as supplemental information, and
- not be shown with greater prominence than the required pooled fund information.

6.B. Presentation and Reporting—Recommendations

Provision 6.B.1

The FIRM SHOULD present both POOLED FUND GROSS RETURNS and POOLED FUND NET RETURNS.

Discussion

A firm may choose to present either pooled fund gross returns or pooled fund net returns in a GIPS Pooled Fund Report. A firm may also choose to present both pooled fund gross returns and pooled fund net returns in a GIPS Pooled Fund Report. Each type of return provides important information to prospective investors.

Because a pooled fund gross return is the return on investments reduced by any transaction costs, it is the best measure of the firm's investment management ability and can be thought of as the "investment return." In addition, because fees are sometimes negotiable, presenting pooled fund gross returns shows the firm's expertise in managing assets without the effect of the firm's or investor's negotiating skills. Pooled fund gross returns also allow prospective investors to better compare performance between firms.

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

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

Provision 6.B.2

The FIRM SHOULD present the following items:

a. Cumulative returns of the POOLED FUND and the BENCHMARK for all periods.

Discussion

Cumulative returns of the pooled fund and benchmark provide additional useful information to prospective investors by indicating the total rate of return for a defined period of performance. It is therefore recommended that cumulative returns for all periods be provided in addition to the required annual returns.

To calculate cumulative returns of a pooled fund for any period, the historical daily, monthly, quarterly, or annual sub-period returns are geometrically linked according to the following formula:

$$R_{CUM} = \left[\left(1+R_1\right)\times\left(1+R_2\right)\times\ldots\times\left(1+R_n\right)\right]-1,$$

where R_1 is the pooled fund return for Period 1 and R_n is the pooled fund return for the most recent period.

Example:

Firm ABC has the following annual returns that were calculated from monthly pooled fund returns:

	Pooled Fund	$1 + R_n$
2015	2.3%	1.023
2016	−4.7%	0.953
2017	6.9%	1.069
2018	3.2%	1.032
2019	0.9%	1.009
Jan 2020–Jun 2020	−3.1%	0.969

To calculate the pooled fund cumulative return for the period from January 2015 through June 2020, the returns are linked:

$$\text{Pooled fund cumulative return}$$
$$= \left[(1.023)\times(0.953)\times(1.069)\times(1.032)\times(1.009)\times(0.969)\right]-1=0.052, \text{or } 5.2\%.$$

Provision 6.B.2

The FIRM SHOULD present the following items:

b. Quarterly and/or monthly returns.

Discussion

Although the GIPS standards require the presentation of annual returns for the pooled fund and benchmark (Provisions 6.A.1.b and 6.A.1.e), it is recommended that firms present more-frequent returns, such as quarterly or monthly returns. More-frequent returns help prospective investors evaluate a pooled fund's track record. Firms must present benchmark returns for the same periods for which pooled fund returns are presented. If the GIPS Pooled Fund Report includes annual and quarterly pooled fund returns, annual and quarterly benchmark returns must also be presented.

Provision 6.B.2

The FIRM SHOULD present the following items:

c. Annualized POOLED FUND and BENCHMARK returns for periods longer than 12 months.

Discussion

It is recommended that firms show the results of both the pooled fund and the benchmark for periods longer than 12 months in annualized terms to help prospective investors evaluate the pooled fund's track record. Annualized returns are created by calculating the geometric mean, not the arithmetic mean, and represent the geometric average annual compound return achieved over the defined period of more than one year. Sub-period returns during the investment period are geometrically linked to calculate the cumulative return. Then the *n*th root of the cumulative return is calculated, where *n* is the number of years in the period. Annualized performance is permitted only for periods of one year or more.

The formula for calculating annualized performance is as follows:

$$\text{Annualized return (\%)} = [(1 + R)^{1/n}] - 1,$$

where R is the cumulative return for the period and n is the number of years in the period.

For example, assume a pooled fund's cumulative return for a five-year period is 150.0%. It has a five-year average annual compound return, or annualized return, of 20.11%, calculated as:

$$\left[(1+1.5)^{\frac{1}{5}}\right] - 1 = 0.2011 = 20.11\%.$$

If instead the 150% is achieved over 12.5 years, the 12.5-year average annual compound return, or annualized return, is 7.61%, calculated as:

$$\left[(1+1.5)^{\frac{1}{12.5}}\right] - 1 = 0.0761 = 7.61\%.$$

Provision 6.B.3

For all periods for which an annualized EX POST STANDARD DEVIATION of the POOLED FUND and the BENCHMARK are presented, the FIRM SHOULD present the corresponding annualized return of the POOLED FUND and the BENCHMARK.

Discussion

To provide context so that the prospective investor can better understand the ex post standard deviation, it is recommended that firms present annualized returns for the pooled fund and benchmark for the same periods for which annualized standard deviation is presented. For example, if a firm chooses to present the 5-year, 7-year, and 10-year annualized standard deviations in addition to the required 3-year annualized standard deviation, firms are encouraged to also present the corresponding 3-year, 5-year, 7-year, and 10-year annualized returns for the pooled fund and the benchmark. Doing so will help prospective investors to better interpret risk and return in the context of the return distribution for all periods for which an annualized standard deviation is presented.

Provision 6.B.4

For all periods greater than three years for which an annualized return of the POOLED FUND and the BENCHMARK are presented, the FIRM SHOULD present the corresponding annualized EX POST STANDARD DEVIATION (using monthly returns) of the POOLED FUND and the BENCHMARK.

Discussion

To provide context so that the prospective investor can interpret the annualized pooled fund and benchmark returns, it is recommended that firms present the annualized ex post standard deviation (using monthly returns) for both the pooled fund and benchmark for the same periods that annualized pooled fund and benchmark returns are presented. For example, if a firm chooses to present the 5-year, 7-year, and 10-year annualized pooled fund and benchmark returns, firms are encouraged to also present the corresponding 5-year, 7-year, and 10-year annualized ex post standard deviations of the pooled fund and benchmark. Doing so will help prospective investors to assess and compare risk and return for all periods for which annualized returns are presented.

Provision 6.B.5

The FIRM SHOULD present relevant EX POST ADDITIONAL RISK MEASURES for the POOLED FUND and the BENCHMARK.

Discussion

For pooled funds for which monthly pooled fund returns are available, firms must present the three-year annualized ex post standard deviation (using monthly returns) of the pooled fund and the benchmark as of each annual period end. This is required for periods ending on or after 1 January 2011. (See Provision 6.A.1.h.) Additional risk measures are risk measures included in a GIPS Pooled Fund Report beyond those required to be presented. It is recommended that firms present relevant ex post additional risk measures for the pooled fund and benchmark in a GIPS Pooled Fund Report. Currently, there is no single risk measure that comprehensively and consistently captures every risk to which an asset class, product, or strategy is exposed or sensitive. Also, there may be additional risk measures that would be especially helpful to prospective investors when interpreting a pooled fund's return. There are many risk and quantitative measures that are routinely calculated to help a reader evaluate and understand the return and risk characteristics of a particular investment strategy. Determining which risk measures are relevant to a pooled fund requires an understanding of the characteristics and limitations of each measure and insight into the portfolio construction process and investment strategy. Several risk measures are commonly used within the industry, but there is less of a consensus over what constitutes relevant risk measures when evaluating pooled funds containing derivatives, alternatives, and/or illiquid assets. Some firms have developed proprietary measures, which, despite providing insight into the strategy, make comparisons across managers problematic.

A number of factors should be considered when selecting relevant risk measures, including the following:

- Comparability: The risk measure selected should allow objective comparisons across firms to be made.
- Computational transparency: All inputs to the calculation should be readily available and understood.
- Interpretational transparency: In isolation as a single figure or presented as a time series, the risk measure should aid interpretation and provide context to the performance figures presented.
- Investment process or strategy consistency: The risk measure should provide insight into the underlying investment process.
- Risk measure stability: The selected risk measure should be sensitive to market and portfolio movements but should not exhibit excessive range swings such that interpretation of the absolute and relative values is compromised.

Provision 6.B.6

The FIRM SHOULD present more than 10 years of annual performance in the GIPS POOLED FUND REPORT.

Discussion

Once the pooled fund has its initial minimum 5-year (or since-inception) compliant history, the firm must continue to add annual returns to each GIPS Pooled Fund Report for the next 5 years, at a minimum, so that the firm will build up to a 10-year compliant performance record for its pooled funds.

At some point, a firm will have a minimum 10-year compliant track record for a specific pooled fund. When the firm eventually adds an additional annual return to a 10-year track record in a GIPS Pooled Fund Report, the firm may delete the information for the oldest year included or may instead present a longer track record. It is recommended that firms include more than the minimum 10 years of annual performance in a GIPS Pooled Fund Report to provide more information to prospective investors. If any performance is presented that does not comply with the GIPS standards (only allowed for periods prior to 1 January 2006 for real estate and private equity pooled funds and prior to 1 January 2000 for all other pooled funds), firms must disclose the period(s) of non-compliance.

Provision 6.B.7

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

Discussion

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

Provision 6.B.8

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

Discussion

The use of preliminary, estimated values as fair value is common for some alternative strategies, including those that invest in underlying funds for which the firm relies on valuations provided by the underlying fund managers. When using preliminary, estimated values as fair value, it is important to remember the underlying principles of the GIPS standards: fair representation and full disclosure. If using preliminary, estimated values, firms must disclose this fact in the relevant GIPS Pooled Fund Report (Provision 6.C.32). It is recommended that the firm also present the percentage of assets in the pooled fund that were valued using preliminary, estimated values as of each annual period end. This provides important information that allows prospective investors to better assess the valuations and performance record presented.

Provision 6.B.9

For REAL ESTATE POOLED FUNDS, the FIRM SHOULD present POOLED FUND and BENCHMARK COMPONENT RETURNS for all periods presented.

Discussion

For real estate pooled funds, it is recommended that firms also present pooled fund and benchmark component returns in addition to total returns. Component returns separate the total return into a capital return and an income return. Component returns provide additional information to prospective investors regarding the sources of the total return and the nature of the investment strategy. The income return is generally viewed as more stable than the capital return. Real estate investors typically want to know the contribution from the income and capital returns.

The following are examples of formulas that may be used to calculate the income return and capital return for a real estate pooled fund. The formulas presented use the following terms:

r_t^{GI} = gross income return for period t
r_t^{NI} = net income return for period t
r_t^{GC} = gross capital return for period t
r_t^{NC} = net capital return for period t
r_t^{GT} = gross total return for period t
r_t^{NT} = net total return for period t
NII_t = net investment income (after interest expense, advisory fees, and any performance-based fees allocated to the income component for performance calculation purposes) for period t

AF_t = advisory fee (asset-based portion of investment management fee expensed, including any acquisition and disposition fees that are included as an advisory fee and excluding any performance-based fees) for period t

PF_t^C = performance-based fees allocated to the capital component (for performance calculation purposes) for period t

PF_t^I = performance-based fees allocated to the income component (for performance calculation purposes) for period t

V_t^B = the beginning value of the pooled fund for period t

V_t^E = the ending value of the pooled fund for period t

FC_t = fees charged by the firm and capitalized for accounting purposes but treated as an investment management fee for performance purposes for the period t (including acquisition and disposition fees)

j = the number of external cash flows (1, 2, 3, . . . , J) in period t

$CF_{j,t}$ = the value of cash flow j in period t

$W_{j,t}$ = the weight of cash flow j in period t (assuming the cash flow occurred at the end of the day) as calculated according to the following formula:

$$w_{j,t} = \frac{D_t - D_{j,t}}{D_t},$$

where

$w_{j,t}$ = the weight of cash flow j in period t, assuming the cash flow occurred at the end of the day

D_t = the total number of calendar days in period t

$D_{j,t}$ = the number of calendar days from the beginning of period t to cash flow j

Acquisition, disposition, and financing services performed by the firm, an affiliate of the firm, or a third party on a particular transaction are considered transaction costs and must be deducted from both pooled fund gross returns and pooled fund net returns. These items (also referred to as "brokerage expenses") are direct costs incurred upon implementation of a particular investment transaction and are considered transaction costs. It is recommended that these transaction costs be accounted for through the capital returns. Please note that the acquisition and disposition transaction costs described earlier are different from investment management fees specifically associated with acquisition and disposition services performed by the firm. It is common practice in the real estate industry to have investment management agreements separate the investment management fee into one or more of the following components: base investment management, acquisition, disposition, and financing. In this scenario, the fees specifically relating to acquisition and disposition are typically considered to be part of the investment management fee because these relate to the investment management responsibilities performed by the firm in formulating its investment decisions as part of the normal investment decision-making process. Financing fees, if applicable, are typically identified separately in the investment management agreement and are classified as transaction costs because they are usually related to post-acquisition refinancing.

The term "net investment income" is intended to reflect the effect of ownership and financing structures and includes all underlying property-level activity. Investment-level returns are distinct from property-level returns. Investment-level returns reflect the effect of ownership and financing structures and include all underlying property-level activity. Property-level returns exclude all of the non-property (investment-level) balance sheet items, as well as income and expenses, and include only those income and expenses that directly relate to the operation of the property. Property-level returns are not used for reporting performance in compliance with the GIPS standards, although they may be shown as supplemental information.

Income Return

The income return measures the investment income earned on all investments (including cash and cash equivalents) during the measurement period, net of all non-recoverable expenditures, interest expense on debt, and property taxes. The income return is computed as a percentage of the capital employed. Capital employed is defined as the "weighted average equity" (weighted average capital) during the measurement period. Capital employed does not include any income return or capital return earned during the measurement period. Beginning capital is adjusted by weighting the external cash flows that occurred during the period.

The numerator in the gross income return represents the investment income for the pooled fund during the period, including any income earned during the period at the investment level, and also reflects all income, fees, and expenses at the property level.

The formula for gross income return is as follows:

$$r_t^{GI} = \frac{NII_t + AF_t + PF_t^I}{V_t^B + \sum_{j=1}^{J}\left(CF_{j,t} \times W_{j,t}\right)}.$$

The numerator in the net income return represents the net investment income for the pooled fund during the period. This figure would include any income earned and expenses and fees deducted at the investment level and all income, fees, and expenses at the property level.

The formula for net income return is as follows:

$$r_t^{NI} = \frac{NII_t}{V_t^B + \sum_{j=1}^{J}\left(CF_{j,t} \times W_{j,t}\right)}.$$

Capital Return

The capital return is the change in value of the real estate investments and cash and/or cash equivalent assets held throughout the measurement period, adjusted for all capital expenditures (subtracted) and net proceeds from sales (added). The capital return is computed as a percentage of the capital employed. Capital return is also known as "capital appreciation return" or "appreciation return."

The capital return numerator reflects the change (increase or decrease) in investment value adjusted for capital improvements, sales, refinancing, and net investment income activity. The numerator includes both realized gains/losses and the change in unrealized gains/losses from the prior period.

The net capital return reflects the deduction of any performance-based (incentive) fees attributable to the capital component for performance calculation purposes. This figure would exclude any performance-based fees attributable to the income component for performance calculation purposes.

The formula for gross capital return is as follows:

$$r_t^{GC} = \frac{V_t^E - V_t^B - \sum_{j=1}^{J} CF_{j,t} - NII_t + PF_t^C + FC_t}{V_t^B + \sum_{j=1}^{J} \left(CF_{j,t} \times W_{j,t} \right)}.$$

The formula for net capital return is as follows:

$$r_t^{NC} = \frac{V_t^E - V_t^B - \sum_{j=1}^{J} CF_{j,t} - NII_t}{V_t^B + \sum_{j=1}^{J} \left(CF_{j,t} \times W_{j,t} \right)}.$$

Total Return

The total return is the percentage change in value of real estate investments, including all capital return and income return components, expressed as a percentage of the capital employed over the measurement period. The total return numerator measures the change (increase or decrease) in investment value from both income (loss) and realized and unrealized gains and losses.

The formula for gross total return is as follows:

$$r_t^{GT} = \frac{V_t^E - V_t^B - \sum_{j=1}^{J} CF_{j,t} + AF_t + PF_t^I + PF_t^C + FC_t}{V_t^B + \sum_{j=1}^{J} \left(CF_{j,t} \times W_{j,t} \right)}.$$

The formula for net total return is as follows:

$$r_t^{NT} = \frac{V_t^E - V_t^B - \sum_{j=1}^{J} CF_{j,t}}{V_t^B + \sum_{j=1}^{J}\left(CF_{j,t} \times W_{j,t}\right)}.$$

The formulas for calculating gross component returns and gross total returns assume that no administrative fees were charged. If administrative fees are charged to the fund, the firm should adjust the numerator in the gross return formulas to add back any administrative fees.

All performance results, both total returns and component returns, must be clearly identified so that prospective investors can properly interpret and compare performance. In order to interpret performance data, prospective investors need to know what the performance results represent.

Provision 6.B.10

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

Discussion

Direct investments by a fund of funds are investments made directly in companies rather than investments made through pooled funds. Direct investments may augment the strategy used in the investment in underlying pooled funds. Direct investments may have different terms and conditions that might change the return characteristics of the fund of funds, such as a different fee structure. By presenting the percentage of investments dedicated to direct investments as of each annual period end, the firm is providing additional transparency and allowing the prospective investor to factor in additional criteria when analyzing the returns included in the GIPS Pooled Fund Report for the fund of funds. If no assets are invested in direct investments, this recommendation is not applicable.

Provision 6.B.11

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

Discussion

Committed capital is defined as pledges of capital to an investment vehicle by investors (limited partners and the general partner) or the firm and is typically drawn down over a period of time.

Uncalled committed capital, also known as dry powder, is the amount of capital that has not yet been drawn. If a firm has committed capital, it is recommended that the firm present total firm-wide uncalled committed capital as of each annual period end. This information provides prospective investors a more complete picture of the capital that is currently committed to a future investment. If the firm chooses to present firm-wide uncalled committed capital, it may present this amount separately from total firm assets. The firm may also choose to present the combination of total firm assets and firm-wide uncalled committed capital. Provision 6.A.7 discusses the requirements relating to the presentation of firm-wide uncalled committed capital in a GIPS Pooled Fund Report.

Provision 6.B.12

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

Discussion

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

6.C. Disclosure—Requirements

Provision 6.C.1

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

a. For a FIRM that is verified:

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

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

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

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

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

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

c. For a FIRM that has not been verified:

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

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

Discussion

A firm meeting all the requirements of the GIPS standards must use one of the three compliance statements in each of its GIPS Pooled Fund Reports. The English version of the compliance statements is the controlling version. If a firm chooses to translate the claim of compliance into a language for which there is no official translation of the GIPS standards, the firm must take care to ensure that the translation used reflects the required wording of the claim of compliance used in Provisions 6.C.1.a, 6.C.1.b, or 6.C.1.c.

It is acceptable to combine both paragraphs of the claim of compliance for a verified firm (Provision 6.C.1.a) into a single paragraph. If the paragraphs are not combined, the claim of compliance for a verified firm is complete only when both paragraphs are shown together, one after the other. A firm may not separate the two required paragraphs from each other.

The same is true for the claim of compliance for a pooled fund that has also had a performance examination (Provision 6.C.1.b). Both paragraphs of the claim of compliance may be combined into a single paragraph. If the paragraphs are not combined, the claim of compliance is complete only when both paragraphs are shown together, one after the other. A firm may not separate the two required paragraphs from each other.

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

The language in each compliance statement must not exclude any portion of the respective compliance statement, with one exception. In the second paragraph of both 6.C.1.a and 6.C.1.b, there is a reference to "composite and pooled fund maintenance." The firm may delete the words "composite and" if no composites are included within the definition of the firm.

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

Provision 6.C.2

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

Discussion

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

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

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

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

Provision 6.C.3

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

Discussion

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

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

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

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

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

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

Sample Disclosures:

Example 1:

Firm A is a multinational investment firm with offices around the world, including in Japan, Australia, the United Kingdom, and the United States. Although all of its offices are part of the global parent company, each office is registered with the appropriate national regulatory authority, and each is held out to investors and prospective investors as a distinct business entity. The firm has defined its offices in Japan, Australia, the United Kingdom, and the United States as separate firms for the purpose of complying with the GIPS standards. The offices in Japan, the United Kingdom, and the United States claim compliance with the GIPS standards. Firm A's Australia office, however, does not claim compliance with the GIPS standards.

Sample Disclosure for Firm A—US:

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

Example 2:

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

Sample Disclosure for Firm B Institutional Investment Management:

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

Example 3:

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

Sample Disclosure for Firm C—Indexed Investing:

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

Provision 6.C.4

The FIRM MUST disclose the POOLED FUND DESCRIPTION.

Discussion

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

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

The required disclosure of the pooled fund description provides information about the pooled fund's investment strategy that is intended to help a prospective investor who is considering an investment in a pooled fund and is reviewing a GIPS Pooled Fund Report for that pooled fund. The pooled fund description should provide sufficient information to prospective investors to allow them to differentiate the significant features of the pooled fund from other strategies or pooled funds within the firm and to compare products across firms. The disclosed strategy features will likely affect both the historical and expected risk and returns. Along with the required benchmark description (see Provision 6.C.5), the GIPS Pooled Fund Report will allow prospective investors to understand both the investment strategy employed and the benchmark against which the pooled fund's performance is evaluated. This will help prospective investors to compare investments across firms.

If leverage, derivatives, and short positions may be used, and they are a material part of the strategy, this must be disclosed in the pooled fund description. Provision 6.C.15 requires that the firm disclose how leverage, derivatives, and short positions have been used historically, if material. Taken together, these two required disclosures provide a more complete picture about the presence, use, and extent of leverage, derivatives, and short positions. When determining what would be material, the firm must consider whether the disclosure of how leverage, derivatives, and/or short positions may be used and/or have been used historically is likely to affect a prospective investor's view of the risk involved in the pooled fund's strategy. If so, it would be misleading for the firm to fail to disclose their use to these prospective investors when describing the strategy.

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

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

Sample Disclosures:

"The Large Cap Equity Growth Fund invests in large-capitalization US stocks that are considered to have growth in earnings prospects that is superior to that of the average company within the benchmark, the XYZ Large Cap Growth Index. The targeted tracking error between the pooled fund and the benchmark is less than 3%."

"The Leveraged Bond Pooled Fund invests in a diversified range of high-yield corporate and government bonds with the aim of providing investors with a high level of income while seeking to maximize the total return. The fund is invested in domestic and international fixed-income securities of varying maturities. The strategy allows investment in exchange-traded and OTC derivative contracts (including, but not limited to, options, futures, swaps, and forward currency contracts) for the purposes of risk, volatility, and currency exposure management. The strategy allows leverage up to but not exceeding twice the value of the fund's investments through the use of repurchase financing arrangements with counterparties. Inherent in derivative instrument investments is the risk of counterparty default. Leverage may also magnify losses as well as gains to the extent that leverage is employed. The benchmark is the XYZ Capital Global Aggregate Bond Index."

"The Juneau Private Placement Bond Fund invests in investment-grade, long-term, fixed-rate private placement bonds denominated in Canadian dollars, in a variety of industries. Private placement bonds are illiquid investments and have restrictions on transferability. The fund primarily invests in private placement bonds with maturities greater than 10 years that are, therefore, sensitive to changes in interest rates. Investments in the fund are subject to credit risk."

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

Provision 6.C.5

The FIRM MUST disclose:

a. 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.
b. The PERIODICITY of the BENCHMARK if BENCHMARK returns are calculated less frequently than monthly.

Discussion

Firms are required to disclose a description of each benchmark included in a GIPS Pooled Fund Report. The benchmark description is defined as general information regarding the investments, structure, and/or characteristics of the benchmark, and it must include the key features of the benchmark. In the case of a widely recognized benchmark, such as the S&P 500® Index, the name of the benchmark will satisfy this requirement. (S&P 500® is a registered trademark of Standard & Poor's Financial Services LLC.) Each firm must decide for itself whether a benchmark is widely recognized. If the firm is not certain as to whether the benchmark is widely known, the firm must include the benchmark description.

If the benchmark returns are calculated less frequently than monthly, the periodicity of the benchmark must be disclosed.

Sample Disclosure for a Widely Recognized Benchmark:

"The benchmark is the S&P 500® Index."

Sample Disclosure for a Benchmark That Is Not Widely Recognized:

"The benchmark is the XYZ World Index, which is designed to measure the equity market performance of developed market countries. The benchmark is market-cap weighted and is composed of all XYZ country-specific developed market indices."

Sample Disclosure for an Index with Returns Calculated Less Frequently than Monthly:

"The ABC Property Index (API) is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only. All properties in the API have been acquired, at least in part, on behalf of tax-exempt institutional investors."

Provision 6.C.6

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

Discussion

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

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

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

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

Sample Disclosure:

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

Provision 6.C.7

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

a. If POOLED FUND NET RETURNS are calculated using model or actual TOTAL POOLED FUND FEES.
b. If POOLED FUND NET RETURNS are net of any PERFORMANCE-BASED FEES or CARRIED INTEREST.
c. If model INVESTMENT MANAGEMENT FEES or model TOTAL POOLED FUND FEES are used and POOLED FUND GROSS RETURNS are not presented, the model INVESTMENT MANAGEMENT FEE or model TOTAL POOLED FUND FEE used to calculate POOLED FUND NET RETURNS.[48]
d. If model INVESTMENT MANAGEMENT FEES or model TOTAL POOLED FUND FEES are used, the methodology used to calculate POOLED FUND NET RETURNS.
e. If the POOLED FUND has a partnership structure, on which assets the POOLED FUND NET RETURNS are calculated.
f. If the POOLED FUND has multiple share classes, and one share class is used to calculate POOLED FUND NET RETURNS, the share class used to calculate POOLED FUND NET RETURNS.

Discussion

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

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

A firm must disclose if model or actual total pooled fund fees are used to calculate pooled fund net returns. (See Provision 2.A.33 for an explanation of when model total pooled fund fees

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

may be used.) If model fees are used and gross returns are presented along with the net returns, prospective investors can easily determine the model fee used by deducting the net returns from the gross returns. For periods ending on or after 31 December 2020, however, if model investment management fees or model total pooled fund fees have been used and pooled fund gross returns are not presented, the firm must disclose the model investment management fees or model total pooled fund fees used to calculate the pooled fund net returns. The methodology used in the calculation of pooled fund net returns must be disclosed if model investment management fees or model total pooled fund fees are used.

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

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

Sample Disclosure for Actual Total Pooled Fund Fees:

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

Sample Disclosure for Model Total Pooled Fund Fees:

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

Provision 6.C.8

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

Discussion

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

Sample Disclosure:

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

Provision 6.C.9

The FIRM MUST disclose or otherwise indicate the reporting currency.

Discussion

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

Labeling the columns within a GIPS Pooled Fund Report with the appropriate currency symbol would satisfy this requirement, as would a written disclosure. If firms market the pooled fund outside their home market, they should consider whether the currency symbol alone is sufficient. For example, a Canadian firm marketing only in Canada may decide to present only the $ symbol.

If the firm markets the pooled fund in both the United States and Canada, the firm must disclose whether the currency is USD or CAD, because both currencies use the same currency symbol.

All required and recommended information presented in a GIPS Pooled Fund Report must be presented in the same currency. (See Provision 6.A.10.)

Sample Disclosures:

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

"All numerical information is reported in Japanese yen."

Provision 6.C.10

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

Discussion

Firms must disclose the current schedule of investment management fees that is applicable to prospective investors for the specific pooled fund. The fee schedule can be asset based, performance based, or a combination of both. Firms are also required to disclose the pooled fund's expense ratio, which includes investment management fees as well as all other pooled fund expenses. See Provision 6.A.5 for a discussion of pooled fund expense ratios.

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

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

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

Sample Disclosure:

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

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

Provision 6.C.11

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

Discussion

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

Sample Disclosure:

"The standard fee schedule is as follows:

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

Performance fee:

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

Provision 6.C.12

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

Discussion

When reviewing the performance data in a GIPS Pooled Fund Report, it is important that prospective investors have sufficient information regarding the length of the pooled fund track record to put the performance presented in the GIPS Pooled Fund Report in perspective. Therefore, the inception date of the pooled fund being presented in the GIPS Pooled Fund Report must be disclosed. Prospective investors can then compare the periods of performance presented in the GIPS Pooled Fund Report with the length of the pooled fund's track record, and they can request additional information for historical periods not included in the GIPS Pooled Fund Report.

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

Sample Disclosure for a Broad Distribution Pooled Fund:

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

Sample Disclosure for a Limited Distribution Pooled Fund:

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

Provision 6.C.13

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

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

Discussion

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

If the firm does not sell participation in a fund (e.g., the firm manages the assets but another legal entity distributes the fund and the firm does not sell shares in the fund), the firm must consider the portfolio a segregated account and would include the portfolio in a composite. This would include sub-advised pooled funds. The segregated account would not be included on the list of LDPF descriptions or the list of BDPFs. In addition, a portfolio with a pooled fund wrapper, (i.e., a single-investor pooled fund), which is unitized but is not available to other investors, is also considered a segregated account, would be included in a composite, and would not appear on a list of LDPF descriptions or a list of BDPFs.

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

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

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

a. List of COMPOSITE DESCRIPTIONS.

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

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

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

If LDPFs are included within the definition of a firm, the firm must disclose, in each GIPS Pooled Fund Report, that the firm's list of descriptions of LDPFs is available upon request. An LDPF is any pooled fund that is not a BDPF. A BDPF is any pooled fund that is regulated under a framework that would permit the general public to purchase or hold the pooled fund's shares and is not exclusively offered in one-on-one presentations. LDPFs are often referred to as "private funds." These funds are typically sold in one-on-one presentations and may not be highly regulated. The list of LDPF descriptions does not need to be included in each GIPS Pooled Fund Report but must be available upon request. The list of LDPF descriptions must include the pooled fund description for each current pooled fund but does not have to include terminated funds. Terminated LDPFs are treated differently from terminated composites because, although a firm can restart a composite strategy when a prospective client hires the firm for a strategy that was previously closed, the firm does not have the same ability to restart a pooled fund. The pooled fund descriptions disclosed in GIPS Pooled Fund Reports must be consistent with the descriptions included in the list of pooled fund descriptions.

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

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

c. List of BROAD DISTRIBUTION POOLED FUNDS.

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

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

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

Sample Disclosures:

For Firms with Composites and Limited Distribution Pooled Funds

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

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

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

For Firms That Offer Strategies in Multiple Vehicles

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

Provision 6.C.14

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

Discussion

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

Sample Disclosure:

"Firm XYZ's policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request."

Provision 6.C.15

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

Discussion

Firms must provide enough information in a GIPS Pooled Fund Report to allow a prospective investor to understand how leverage, derivatives, and short positions have been employed historically and may be used going forward. Although the pooled fund description includes disclosure of the firm's ability to use leverage, derivatives, and short positions (see Provision 6.C.4), Provision 6.C.15 requires that the firm disclose the leverage, derivatives, and short positions that have been used historically, if material. Taken together, these two required disclosures provide a more complete picture of the presence, use, and extent of leverage, derivatives, and short positions.

For example, assume a firm discloses in the pooled fund description that the strategy may employ up to 200% leverage. To satisfy the disclosure requirement in Provision 6.C.15, the firm might state, "Since the inception of the strategy, the leverage has averaged 110% of the pooled fund's value; however, during 2019 the leverage averaged 160%, which greatly increased the sensitivity to market volatility and the potential for realized gains and/or losses."

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

Provision 6.C.16

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

Discussion

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

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

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

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

Sample Disclosures:

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

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

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

Provision 6.C.17

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

Discussion

Firms may link non-GIPS compliant performance to their GIPS-compliant performance provided that only GIPS-compliant performance is presented for periods beginning on or after the minimum effective compliance date, which is 1 January 2006 for private equity and real estate pooled funds and 1 January 2000 for all other pooled funds. (See Provision 1.A.29.) If the firm chooses to present non-compliant performance for periods prior to the minimum effective compliance date, the firm must disclose which periods are not in compliance. Prospective investors and existing investors can then inquire about the reasons why the periods prior to the minimum effective compliance date are not compliant and consider the effects of non-compliance on the historical performance.

If non-compliant performance is included in a GIPS Pooled Fund Report after the minimum effective compliance date, it must be labeled as supplemental information and must not be linked to the GIPS-compliant performance.

Sample Disclosure:

"The performance record for the XYZ Private Equity Fund for 1995 through 1999 is not in compliance with the GIPS standards."

Provision 6.C.18

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

Discussion

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

Suppose that a firm defines itself as an investment management firm offering active equity strategies to investors. An acquisition that expanded the firm's offerings to include fixed-income strategies would result in a redefinition of the firm, because there would be a change in how the firm holds itself out to the public. An acquisition that simply added additional equity strategies to the firm's offerings would not result in a redefinition of the firm. However, the acquisition is likely to be a significant event that must be disclosed in a GIPS Pooled Fund Report. (See Provision 6.C.16.)

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

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

Sample Disclosures:

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

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

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

Provision 6.C.19

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

Discussion

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

Sample Disclosure:

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

Provision 6.C.20

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

Discussion

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

Sample Disclosure:

"As of 1 January 2016, the XYZ Index Pooled Fund was renamed the US Equity Large Cap Pooled Fund."

Provision 6.C.21

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

Discussion

Global investing requires recognition of the tax consequences of investing in different countries. The GIPS standards do not require firms to reflect withholding taxes, either reclaimable or non-reclaimable taxes, in a certain manner. Firms may choose whether or not to reflect the effect of withholding taxes when calculating performance. The GIPS standards do recommend that performance be reported net of non-reclaimable withholding taxes on dividends, interest, and capital gains and also recommend that reclaimable foreign withholding taxes be accrued (see Provision 2.B.5). If withholding taxes are material, firms must disclose how withholding taxes are treated when calculating performance. A firm must determine the level at which withholding taxes become material, document this level in its policies and procedures, and apply it consistently.

Sample Disclosure:

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

Provision 6.C.22

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

Discussion

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

As Provision 6.C.21 indicates, if withholding taxes are material, firms must disclose how withholding taxes are treated when calculating performance. To facilitate the comparison of pooled fund returns and benchmark returns, firms must also disclose if the benchmark returns are net of withholding taxes if this information is available. If the benchmark name indicates that the benchmark is net of withholding taxes, no additional disclosure is necessary.

Sample Disclosure:

"Benchmark returns are net of withholding taxes."

Provision 6.C.23

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

Discussion

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

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

Sample Disclosure:

"Local laws do not allow the presentation of returns of less than one year to prospective investors, which is in conflict with the GIPS standards. Therefore, no performance is presented for this pooled fund for the period from 1 July 2018 (the inception date of the pooled fund) through 31 December 2018."

Provision 6.C.24

The FIRM MUST disclose the use of a SUB-ADVISOR and the periods a SUB-ADVISOR was used.[49]

[49] REQUIRED for periods beginning on or after 1 January 2006.

Discussion

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

Sample Disclosures:

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

"A sub-advisor was used for the management of the Targeted Duration Fixed Income Pooled Fund from its inception in 2001 through 31 December 2018."

Provision 6.C.25

The FIRM MUST disclose if the POOLED FUND's valuation hierarchy materially differs from the RECOMMENDED valuation hierarchy. (See provision 2.B.6 for the RECOMMENDED valuation hierarchy.)[50]

Discussion

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

[50] REQUIRED for periods beginning on or after 1 January 2011.

Sample Disclosure:

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

Provision 6.C.26

If the FIRM determines no appropriate BENCHMARK for the POOLED FUND exists, the FIRM 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 prospective investors regarding the relationship between pooled fund risk and return. As a result, the GIPS standards require firms to provide benchmark total returns in all GIPS Pooled Fund Reports. The benchmark must reflect the investment mandate, objective, or strategy of the pooled fund. Although there is typically an appropriate benchmark for traditional strategies, it is more common for managers of alternative strategies to determine that no appropriate benchmark for the pooled fund exists. If this is the case, the firm must disclose why no benchmark is presented.

Sample Disclosure:

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

Provision 6.C.27

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

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

Discussion

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

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

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

If the firm changes the benchmark prospectively and presents benchmark returns that combine two different benchmarks, the date and description of the change must be disclosed for as long as returns for the prior benchmark are included in the GIPS Pooled Fund Report. For example, assume a firm changes the benchmark for a pooled fund in June 2015, and the change is made prospectively. As long as benchmark returns from 2015 or prior periods are included in the GIPS Pooled Fund Report, the firm must include this disclosure. Firms must also carefully identify the benchmark as a custom benchmark in the GIPS Pooled Fund Report and must make clear that the benchmark returns are not those of the current benchmark for all periods. It would not be appropriate to label the benchmark returns with the name of the current benchmark. The firm must provide information, including labeling of the benchmark, that is sufficient to allow a prospective investor to distinguish the prior benchmark returns from the current benchmark returns.

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

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

This provision applies to a fundamental change in the benchmark—for example, a change in an index used in calculating the benchmark—rather than to periodic minor changes in benchmark weights and components. If a firm uses a custom benchmark that is a blend of one or more benchmarks, a change in the weights of the constituent benchmarks is not considered a benchmark change within the scope of this provision. For example, the benchmark may change every quarter as part of the normal procedure. In this instance, it is appropriate to disclose that the benchmark is rebalanced quarterly using the weights of the asset classes in the strategy's model portfolio A firm is not required to disclose how the asset class weights have changed each quarter but may do so.

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 for a Prospective Change:

"Benchmark results presented are a combination of two indices. ABC Index was used prior to 30 September 2015; ABC Value Index is used subsequently."

Sample Disclosure for a Retroactive Change:

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

Provision 6.C.28

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

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

Discussion

When custom benchmarks are used, the firm must disclose the benchmark components, weights, and rebalancing process, if applicable, as well as the calculation methodology. For example, if the firm combines two indices, WW Index and XX Index, to create the WWXX benchmark for the pooled fund, the following would be an appropriate disclosure:

"The WWXX benchmark is a combination of 50% WW Index and 50% XX Index, calculated by weighting the respective index returns on a monthly basis."

It is also required that the benchmark be clearly labeled to indicate that it is a custom benchmark. For example, the label for the benchmark returns in a GIPS Pooled Fund Report would read "Custom Benchmark." The benchmark description and required disclosures might read as follows:

"*Custom Benchmark*: The benchmark is 100% hedged. The benchmark is based on a zero-cost one-month rolling hedge, whereby mid spot rates and one-month bid–offer forward points are applied."

In some markets, it has become more common to use benchmarks that reflect the deduction of model fees or other expenses. These net benchmarks are considered custom benchmarks. A firm must not present net benchmark returns compared with only pooled fund gross returns. For example, assume the firm wishes to include a custom benchmark that reflects the deduction of model or actual total pooled fund fees, but the firm presents only pooled fund gross returns in the GIPS Pooled Fund Report. The firm must not present net benchmark returns when only pooled fund gross returns are presented. The firm may use net benchmark returns only when pooled fund net returns are presented. The use of net benchmark returns when only pooled fund gross returns are presented is one instance where disclosure is not sufficient to prevent the information presented from being false and misleading. When a firm includes net benchmark returns in a GIPS Pooled Fund Report, the firm must clearly label the benchmark as a custom net benchmark and disclose the calculation methodology.

It is becoming more common for exchange-traded funds (ETFs) to be used as benchmarks. An ETF is a pooled fund that tracks a specific investment universe that is expressed by an index or a basket of securities and that is listed on an exchange. Unlike a market index, an ETF incurs trading costs and other charges, including taxes. Because of the incurred costs, an ETF may underperform the market index that it tracks. If an ETF is chosen as the benchmark for a strategy, the firm should present pooled fund net returns. As part of the benchmark description for an ETF, the firm must disclose the following items:

- if ETF returns are gross or net of fees and other costs, including transaction costs;
- the ETF expense ratio, if ETF net returns are presented;
- if ETF returns are based on market prices or net asset values (NAVs);
- the timing of the market close used to determine the ETF's valuations; and
- if ETF returns are gross or net of withholding taxes, if this information is available.

If the firm also presents pooled fund gross returns, it should present ETF returns that are grossed up, but it is not required to do so.

Sample Disclosures:

"Benchmark returns are a customized version of the XYZ Index, which is calculated monthly by XYZ Company. The benchmark reflects the deduction of a model fee of 1.00% per annum, which is calculated monthly by deducting 1/12 of 1% from the benchmark return."

"The benchmark is the Special ETF, which tracks the securities included in the Special Index. The ETF returns reflect the deduction of all expenses and transaction costs incurred by the Special ETF and are net of withholding taxes. As of 31 December 2019, the expense ratio was 0.14%. The Special ETF returns reflect market prices, which are determined by the midpoint between the bid and ask prices as of the closing time of the New York Stock Exchange."

Provision 6.C.29

For POOLED FUNDS with at least three annual periods of performance, the FIRM MUST disclose if the three-year annualized EX POST STANDARD DEVIATION of the POOLED FUND and/or BENCHMARK is not presented because 36 monthly returns are not available.

Discussion

For periods ending on or after 1 January 2011, firms must present the three-year annualized ex post standard deviation of the pooled fund and benchmark, which must be calculated using 36 monthly returns, as of each annual period end.

The 2010 edition of the GIPS standards required that a firm disclose, in all cases, if the three-year annualized ex post standard deviation of the pooled fund and/or benchmark is not presented because 36 monthly returns are not available. The 2020 edition of the GIPS standards modifies this requirement. This disclosure is required only if the three-year annualized ex post standard deviation is not presented for pooled funds that have at least three annual periods of performance. This change applies to all periods presented in a GIPS Pooled Fund Report.

If a pooled fund has at least three annual periods of performance but 36 monthly returns are not available for the pooled fund, firms are not required to present the three-year annualized ex post standard deviation for either the benchmark or the pooled fund. This scenario often applies to private market investment pooled funds because they are not required to have monthly returns. Firms must disclose that 36 monthly returns are not available for the pooled fund. (If private market investment pooled funds do have monthly valuations and 36 monthly returns are available, the three-year annualized ex post standard deviation must be presented.) If 36 monthly returns are not available for the pooled fund but are available for the benchmark, a firm is not required to present the three-year annualized ex post standard deviation for the benchmark but may do so.

If 36 monthly returns are not available for the benchmark but are available for the pooled fund, firms are required to present only the three-year annualized ex post standard deviation for the pooled fund. In this instance, because 36 monthly returns are not available for the benchmark, firms must not present a three-year annualized ex post standard deviation for the benchmark using data points other than monthly. Firms must disclose that 36 monthly returns are not available for the benchmark.

Sample Disclosure If 36 Monthly Returns Are Available for the Pooled Fund but Not for the Benchmark:

"The three-year annualized ex post standard deviation of the benchmark is not presented because the benchmark returns are calculated quarterly."

Sample Disclosure If 36 Monthly Returns Are Not Available for the Pooled Fund:

"The three-year annualized ex post standard deviation of the fund and benchmark are not presented because the fund returns are calculated quarterly."

Provision 6.C.30

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

Discussion

Provision 1.A.32 includes the portability tests that must be met to determine if performance from a past firm or affiliation may be used to represent the historical performance of a new or acquiring firm and if that performance can be linked to the ongoing performance of the new or acquiring firm. Provision 1.A.33 includes the portability tests that must be met for the new or acquiring firm to use performance from a past firm or affiliation to represent its historical performance when there is a break in the track record between the past firm or affiliation and the new or acquiring firm. In this instance, the track record from the past firm or affiliation may be used if the tests are met, but it must not be linked to the performance of the new or acquiring firm.

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

Sample Disclosure:

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

Provision 6.C.31

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

Discussion

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

- pooled fund returns or assets,
- firm assets,
- benchmark returns,
- pooled fund inception date,
- three-year annualized ex post standard deviation, or
- disclosures.

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

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

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

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

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

Sample Disclosure:

"This GIPS Pooled Fund Report includes a correction of the information provided for the XYZ Index. The annual return for the XYZ Index for 2017 was originally presented as 3.4%. The correct return is 4.3%, as shown in this revised GIPS Pooled Fund Report."

Provision 6.C.32

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

Discussion

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

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

In addition to this required disclosure, it is recommended (see Provision 6.B.8) that firms present the percentage of assets in the pooled fund that were valued using preliminary, estimated values as of each annual period end. This information will help prospective investors to interpret the performance record.

Sample Disclosure:

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

Provision 6.C.33

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

Discussion

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

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

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

Sample Disclosure:

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

Provision 6.C.34

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

a. Describe any ADDITIONAL RISK MEASURE.

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

Discussion

Understanding and interpreting investment performance requires the consideration of both risk and return. It is therefore recommended that firms present additional risk measures (i.e., beyond those required to be presented) for the pooled fund and the benchmark. (See Provision 6.B.5.) It is important to keep in mind that additional risk measures should be consistent with the pooled fund's strategy. For example, if the strategy is to track the benchmark, then tracking error would be consistent with that objective.

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

Provision 6.C.35

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

Discussion

To help prospective investors interpret the risk measures presented in a GIPS Pooled Fund Report, the firm must disclose which returns are used in the calculation of the presented risk measures. This applies to both required risk measures (e.g., the three-year annualized ex post standard deviation) and any additional risk measures. As discussed in Provision 2.B.7, it is recommended that firms use gross returns for pooled funds when calculating risk measures.

Sample Disclosures:

"Pooled fund gross returns were used to calculate the three-year annualized ex post standard deviation of the pooled fund."

"Gross returns were used to calculate all risk measures presented in this GIPS Pooled Fund Report."

"Pooled fund net returns were used to calculate the three-year annualized ex post standard deviation of the pooled fund."

Provision 6.C.36

For REAL ESTATE investments that are not in a REAL ESTATE OPEN-END FUND, the FIRM MUST disclose that:[51]

a. EXTERNAL VALUATIONS are obtained, and the frequency for which they are obtained, or

b. The FIRM relies on valuations from financial statement audits.

Discussion

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

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

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

Sample Disclosures:

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

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

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

Provision 6.C.37

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

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

Discussion

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

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

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

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

Sample Disclosure:

"A return history has been constructed for the period from 1 January 2015 through 31 December 2018 that reflects the application of an investment model used by XYZ Investment Management. The results are theoretical and are not based on the performance of actual assets. The return history is derived from the retroactive application of a model. Taking the constituents of the large-cap index at each month end, those securities that have an above-average dividend yield and an above-average dividend payout ratio were identified and reweighted by market capitalization. The next-month's performance was then applied to those stock weights to derive a model return for the month. These monthly model returns are then linked to provide annual returns. The theoretical performance presented does not reflect the deduction of investment management fees, transaction costs, or other fees and charges."

6.D. Disclosure—Recommendations

> **Provision 6.D.1**
>
> The FIRM SHOULD disclose material changes to valuation policies and/or methodologies.

Discussion

Valuation is a critical component of the performance calculation. Therefore, if a change to a firm's valuation policies and/or methodologies is material, firms should disclose the change in order to enable prospective investors to understand the potential effect of such a change. Some examples of a material change include, but are not limited to, the following:

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

Sample Disclosure for a Policy Change:

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

Sample Disclosure for a Methodology Change:

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

Provision 6.D.2

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

Discussion

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

Sample Disclosure:

"Effective 1 January 2010, fund returns are calculated daily, using a true time-weighted return methodology. Previously, fund returns were calculated monthly using the Modified Dietz method."

Provision 6.D.3

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

Discussion

Firms are required to disclose the pooled fund description (see Provision 6.C.4) and the benchmark description (see Provision 6.C.5) in a GIPS Pooled Fund Report. It is recommended that firms also disclose any material differences between the benchmark and the pooled fund's investment mandate, objective, or strategy. Prospective investors will be better able to evaluate the performance of the strategy relative to the benchmark presented if they understand any material differences between the pooled fund and the benchmark.

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Sample Disclosures:

"The Concentrated Equity Pooled Fund focuses its investments on the health care and technology sectors. As of 31 December 2019, 62% of the Fund was invested in the health care and technology sectors, while 18% of the fund's benchmark, the XYZ Index, was invested in these two sectors."

"The Absolute Return Pooled Fund invests in stocks both long and short regardless of country of domicile or market capitalization. The Fund's benchmark is the T-bill rate, which is the hurdle rate, and is composed of materially different investments."

Provision 6.D.4

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

Discussion

Firms are required to disclose that valuation policies are available upon request. (See Provision 6.C.14.) Because valuation is a critical component of the performance calculation, it is recommended that firms also disclose the key assumptions used when valuing pooled fund investments. This will help prospective investors better understand how the firm values investments and compare valuation assumptions for similar strategies used by different firms.

Sample Disclosure:

"Investments are valued using recent market quotations. If there is no publicly traded reference, equity investments are valued using a market multiples 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 risk."

Provision 6.D.5

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

Discussion

The term "firm" is used in two different ways in Provision 6.D.5. "FIRM" is used to indicate an entity that claims compliance with the GIPS standards, whereas "firm" is used to indicate an entity that may or may not claim compliance with the GIPS standards. The definition of a firm will be based on the specific circumstances of the firm but must reflect how the firm is held out to the public as a distinct business entity. In some cases, a parent company may have two or more units, divisions, departments, or offices that are defined as separate firms within the context of the GIPS standards. To avoid confusion, a firm claiming compliance with the GIPS standards must be sure that it is clearly defined relative to the other firms within the parent company and that it is apparent which firm is claiming compliance. In the interest of fair representation and full disclosure, firms should disclose a list of the other organizations within the parent company. Firms should also consider indicating which organizations within the parent company claim compliance with the GIPS standards.

Sample Disclosure:

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

Provision 6.D.6

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

Discussion

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

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

Sample Disclosure:

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

Provision 6.D.7

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

Discussion

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

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

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

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

Sample Disclosure:

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

Provision 6.D.8

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

Discussion

The focus on research costs has grown in certain markets. Although research costs are often absorbed by the firm, some firms instead charge research costs directly to investors. To allow prospective investors to understand the firm's policy for the treatment of research costs, firms should disclose if returns do or do not reflect the deduction of research costs.

Sample Disclosures:

"ABC Company bears the costs of investment research. Research costs are not separately charged to investors or to the fund."

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

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ISBN 978-1-942713-89-0

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