Global Investment Performance Standards (GIPS®) for Fiduciary Management Providers to UK Pension Schemes

Explanation of the Provisions in Sections 31–34

September 2020

CFA Institute®
Global Investment Performance Standards

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CONTENTS

INTRODUCTION

The Global Investment Performance Standards (GIPS®) for Fiduciary Management Providers to UK Pension Schemes (GIPS standards for FMPs) are divided into four sections, which are as follows:

31. Fundamentals of Compliance

32. Input Data and Calculation Methodology

33. Composite Maintenance

34. GIPS Composite Report.

The Explanation of the Provisions in Sections 31–34 provides interpretation of each provision contained in Sections 31–34. Fiduciary Management Providers that choose to comply with the GIPS standards for FMPs must comply with all applicable requirements of the GIPS standards for FMPs, including any interpretative guidance published by CFA Institute and the GIPS standards for FMPs governing bodies.

Section 31: Fundamentals of Compliance. The Fundamentals of Compliance section includes several core principles that create the foundation for the GIPS standards for FMPs, including properly defining the Fiduciary Management Provider, providing GIPS Composite Reports to all prospective clients, adhering to applicable laws and regulations, and ensuring that information presented is not false or misleading.

Section 32: Input Data and Calculation Methodology. Consistency of input data used to calculate performance is critical to effective compliance with the GIPS standards for FMPs and establishes the foundation for full, fair, and comparable investment performance presentations. Achieving comparability among Fiduciary Management Providers' performance presentations requires uniformity in methods used to calculate returns. The GIPS standards for FMPs mandate the use of certain calculation methodologies to facilitate comparability. The Input Data and Calculation Methodology section addresses these topics.

Section 33: Composite Maintenance. A composite is an aggregation of one or more schemes managed according to a similar investment mandate, objective, or strategy. The composite return is the equal-weighted average of the performance of all scheme relative returns in the composite. Creating meaningful composites is essential to the fair presentation, consistency, and comparability of performance over time and among Fiduciary Management Providers.

Section 34: GIPS Composite Report. Section 34 includes the requirements and recommendations for preparing a GIPS Composite Report. Fiduciary Management Providers that prepare a GIPS Composite Report must include the required numerical information and disclosures specified in Section 34, if applicable to the specific composite.

Each provision appears in a grey text box. Some words in the provisions are in small capital letters, which 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.

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31. FUNDAMENTALS OF COMPLIANCE

31.A. Fundamentals of Compliance—Requirements

Provision 31.A.1

The GIPS standards for Fiduciary Management Providers to UK Pension Schemes (GIPS standards for FMPs) MUST be applied on a FIDUCIARY MANAGEMENT PROVIDER–wide basis to those organizations that are subject to Part 6 of the Competition and Markets Authority Order. Compliance MUST be met on a FIDUCIARY MANAGEMENT PROVIDER–wide basis and cannot be met on a COMPOSITE or SCHEME basis.

Discussion

The GIPS standards for FMPs provide an ethical framework for calculating and presenting a Fiduciary Management Provider's investment performance history. The definition of the Fiduciary Management Provider is the foundation for Fiduciary Management Provider–wide compliance and creates defined boundaries for determining the total Fiduciary Management Provider assets. Only Fiduciary Management Providers that are subject to Part 6 of the Competition and Markets Authority Order and manage actual assets for UK pension schemes may claim compliance with the GIPS standards for FMPs.

To claim compliance, a Fiduciary Management Provider must comply with all the applicable requirements of the GIPS standards for FMPs. Compliance cannot be met on a composite or scheme basis; it can be met only on a Fiduciary Management Provider–wide basis.

There is no requirement that the definition of the Fiduciary Management Provider, for the purpose of complying with the GIPS standards for FMPs, be the same as the legal entity. For example, if the legal entity also manages pension schemes outside of the United Kingdom, the Fiduciary Management Provider definition would include only UK pension schemes. There is no need for a separate legal entity to be created to accommodate this definition.

Provision 31.A.2

The FIDUCIARY MANAGEMENT PROVIDER MUST be defined to include all clients for which it acts as a FIDUCIARY MANAGEMENT PROVIDER.

Discussion

It is the Fiduciary Management Provider's responsibility to ensure that the definition of the Fiduciary Management Provider is appropriate, rational, and fair. The definition of the Fiduciary Management Provider must include all UK pension schemes managed that are subject to Part 6 of the Competition Markets Authority Investigation Order (the Order). Equally important, the Fiduciary Management Provider definition must exclude any pension schemes that are not subject to the Order.

Generally, a Fiduciary Management Provider provides or offers the service of making investment decisions on behalf of the Pension Scheme Trustees on an ongoing basis, with respect to all or some of the pension scheme's assets, for 100% of the full fiduciary management client assets. These actions are granted via written authority and discretion delegated by the Pension Scheme Trustees. There is no requirement that the definition of the Fiduciary Management Provider be the same as the legal entity.

Provision 31.A.3

To initially claim compliance with the GIPS standards for FMPs, the FIDUCIARY MANAGEMENT PROVIDER MUST attain compliance for a minimum of five years or for the period since the FIDUCIARY MANAGEMENT PROVIDER inception if the FIDUCIARY MANAGEMENT PROVIDER has been in existence for less than five years.

Discussion

A Fiduciary Management Provider cannot initially claim compliance with the GIPS standards for FMPs until it meets the applicable requirements of the GIPS standards for FMPs for at least a five-year period, or since inception if the Fiduciary Management Provider has been in existence for less than five years. Being in compliance for a minimum five-year period, or since inception if less than five years, means that for this period, the Fiduciary Management Provider has complied with all applicable requirements of the GIPS standards for FMPs, including any interpretive guidance published by CFA Institute and the GIPS standards governing bodies.

Assuming a Fiduciary Management Provider initially attains compliance for the minimum five-year period, it is required to present either five years of GIPS-compliant performance that complies with the GIPS standards for FMPs or performance since inception of the composite if it has been in existence less than five years. The ability to present five years of GIPS-compliant performance does not automatically mean, however, that the Fiduciary Management Provider can claim compliance with the GIPS standards for FMPs. The Fiduciary Management Provider must fulfill all of the requirements of the GIPS standards for FMPs for at least the initial five-year period or since inception if the Fiduciary

Management Provider has been in existence for less than five years, not simply the requirements relating to the presentation of performance in a GIPS Composite Report. If a Fiduciary Management Provider initially claims compliance for a longer period than 5 years, the Fiduciary Management Provider must present a track record for the entire period for which it claims compliance, or for at least 10 years if the Fiduciary Management Provider claims compliance for a period longer than 10 years.

Once a Fiduciary Management Provider has claimed compliance for a 5-year period, or since inception of the Fiduciary Management Provider if the Fiduciary Management Provider has existed less than 5 years, the Fiduciary Management Provider must include in GIPS Composite Reports an additional year of performance each year, building up to a minimum of 10 years of compliant performance. Although a Fiduciary Management Provider is required to present only 10 years of performance in a GIPS Composite Report, it is recommended that Fiduciary Management Providers present more than 10 years of performance in a GIPS Composite Report.

Examples of time periods required to be presented when first claiming compliance with the GIPS standards for FMPs:

Example 1:

A Fiduciary Management Provider has been in existence since 1 January 2011 and wishes to claim compliance starting with GIPS Composite Reports for periods ending 31 December 2019. The Fiduciary Management Provider decides to attain compliance for the minimum five-year period.

The Fiduciary Management Provider must comply with all applicable requirements of the GIPS standards for FMPs on a Fiduciary Management Provider–wide basis for an initial five-year period—in this case, from 1 January 2015 through 31 December 2019. The Fiduciary Management Provider must prepare GIPS Composite Reports that include five years of GIPS-compliant performance in its first GIPS Composite Reports for all composites that have a track record of at least five years. For all composites that have a track record of less than five years, the Fiduciary Management Provider must present a since-inception track record. The Fiduciary Management Provider must then continue to add one year of additional performance to its GIPS Composite Reports each year, building to a minimum of 10 years of GIPS-compliant performance for each composite—in this case, 1 January 2015 through 31 December 2024.

Example 2:

A Fiduciary Management Provider has been in existence since 2003 and wishes to claim compliance starting in 2020. For various reasons, the Fiduciary Management Provider can create a GIPS-compliant track record only for the period 1 January 2017 through 31 December 2019.

The Fiduciary Management Provider may not claim compliance with the GIPS standards for FMPs until it can present five years of compliant performance. In this case, the Fiduciary Management Provider must wait two more years and add compliant returns for 2020 and 2021 before it can claim compliance with the GIPS standards for FMPs.

Example 3:

A Fiduciary Management Provider has been in existence for two years and has two years of performance through 31 December 2019.

If a Fiduciary Management Provider has been in existence for less than five years, the Fiduciary Management Provider may claim compliance for the period since the Fiduciary Management Provider's inception. The Fiduciary Management Provider must present performance since the composite inception date and then build to a minimum of 10 years of GIPS-compliant performance. In this case, the Fiduciary Management Provider may clam compliance with the GIPS standards for FMPs with 2 years of GIPS-compliant performance (2018 and 2019) and add an additional year each year until it reaches a minimum of 10 years of compliant performance. A Fiduciary Management Provider is not required to present a track record longer than 10 years but is recommended to do so.

Example 4:

A Fiduciary Management Provider has been in existence for less than one year and has no annual composite performance to report.

The Fiduciary Management Provider may claim compliance with the GIPS standards for FMPs as soon as it meets all of the applicable requirements of the GIPS standards for FMPs and has performance to report. If the Fiduciary Management Provider is less than 12 months old, it is permitted to present since-inception performance in GIPS Composite Reports and claim compliance with the GIPS standards for FMPs.

Returns for periods of less than one year must not be annualized.

Example 5:

A new Fiduciary Management Provider that does not yet manage UK pension scheme assets.

The Fiduciary Management Provider must notify prospective clients that it does not yet manage assets to one of the mandatory composite structures and therefore is not able to claim compliance with the GIPS standards for FMPs. The Fiduciary Management Provider may state that it has established policies and procedures to comply with the GIPS standards for FMPs once it has performance of assets managed for full fiduciary management clients (as specified by the Order) to report.

Provision 31.A.4

The FIDUCIARY MANAGEMENT PROVIDER MUST comply with all applicable REQUIREMENTS of the GIPS standards for FMPs, including any interpretive guidance published by CFA Institute and the GIPS standards for FMPs governing bodies.

Discussion

The GIPS standards for FMPs are ethical standards for investment performance presentation to ensure fair representation and full disclosure of a Fiduciary Management Provider's performance. Fiduciary Management Providers must comply with all the requirements of the GIPS standards for FMPs that apply to the Fiduciary Management Provider, including requirements found within the provisions of the GIPS standards for FMPs as well as any guidance published by CFA Institute and the GIPS standards for FMPs governing bodies. Fiduciary Management Providers must also comply with all updates and clarifications published by these entities. This requirement is limited to guidance that relates specifically to GIPS standards for FMPs. Fiduciary Management Providers must review all of the provisions and other requirements of the GIPS standards for FMPs to determine each requirement's applicability.

The GIPS standards for FMPs must be applied with the objectives of fair representation and full disclosure of investment performance. Meeting the objectives of fair representation and full disclosure will likely require compliance with more than the minimum requirements of the GIPS standards for FMPs. If a Fiduciary Management Provider applies the GIPS standards for FMPs in a performance situation that is not addressed specifically by the GIPS standards for FMPs or is open to interpretation, disclosures other than those required by the GIPS standards for FMPs may be necessary. To fully explain the performance included in a GIPS Composite Report, Fiduciary Management Providers are encouraged to present all relevant information, beyond required and recommended information, that will help a prospective client understand the information presented. Fiduciary Management Providers are also encouraged to adopt the recommendations included in the GIPS standards for FMPs.

Provision 31.A.5

The FIDUCIARY MANAGEMENT PROVIDER MUST:

a. Document its policies and procedures used in establishing and maintaining compliance with the REQUIREMENTS of the GIPS standards for FMPs, as well as any RECOMMENDATIONS it has chosen to adopt, and apply them consistently.

b. Create policies and procedures to monitor and identify changes and additions to the GIPS standards for FMPs, including any guidance published by CFA Institute and the GIPS standards for FMPs governing bodies.

Discussion

Policies and procedures are essential to implementing adequate business controls at all stages of the investment performance process—from data input to preparing marketing materials—to ensure the validity of the claim of compliance. A Fiduciary Management Provider must document all of the policies and procedures it follows for meeting the requirements of the GIPS standards for FMPs, as well as any recommendations the Fiduciary Management Provider has chosen to adopt. There is no requirement to create and document policies and procedures to comply with requirements that do not apply to the Fiduciary Management Provider. Fiduciary Management Providers must actively make a determination about the applicability of all the requirements of the GIPS standards for FMPs, however, and document their policies and procedures accordingly.

Once a Fiduciary Management Provider establishes its policies and procedures, it must apply them consistently. Policies and procedures should be reviewed regularly to determine if they should be changed or improved, but it is not expected that they will change frequently. A Fiduciary Management Provider must not change a policy retroactively solely to enhance performance or to present the Fiduciary Management Provider in a better light. Retroactive changes to policies and procedures should be avoided.

Fiduciary Management Providers must also create policies and procedures to monitor and identify changes and additions to the GIPS standards for FMPs as well as guidance published by CFA Institute and the GIPS standards for FMPs governing bodies. A Fiduciary Management Provider should assign at least one person internally who is responsible for monitoring its compliance with the GIPS standards for FMPs. Depending on the Fiduciary Management Provider's size and complexity, it might have a team of people responsible for monitoring and maintaining compliance with the GIPS standards for FMPs. Maintaining compliance may require coordination across multiple departments, including but not limited to operations, performance, compliance, and marketing.

Provision 31.A.6

The FIDUCIARY MANAGEMENT PROVIDER MUST:

a. Comply with all applicable laws and regulations regarding the calculation and presentation of performance.
b. Create policies and procedures to monitor and identify changes and additions to laws and regulations regarding the calculation and presentation of performance.

Discussion

The GIPS standards for FMPs provide an ethical framework for calculating and presenting a Fiduciary Management Provider's investment performance history. Fiduciary Management Providers must also comply with all applicable laws and regulations regarding the calculation and presentation of performance in the country or countries in which they are domiciled as well as those countries in which they do business. Fiduciary Management Providers must create policies and procedures to ensure that they adhere to all applicable laws and regulations regarding the calculation and presentation of performance. Fiduciary Management Providers must also have policies and procedures to identify and monitor changes and additions to laws and regulations regarding the calculation and presentation of performance.

Compliance with applicable laws and regulations does not necessarily result in compliance with the GIPS standards for FMPs. Fiduciary Management Providers claiming compliance must comply with the GIPS standards for FMPs in addition to all applicable laws and regulations. In the rare cases in which laws and regulations conflict with the GIPS standards for FMPs, Fiduciary Management Providers 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 for FMPs.

Provision 31.A.7

The FIDUCIARY MANAGEMENT PROVIDER MUST NOT present performance or PERFORMANCE-RELATED INFORMATION that is false or misleading. This REQUIREMENT applies to all performance or PERFORMANCE-RELATED INFORMATION on a FIDUCIARY MANAGEMENT PROVIDER–wide basis and is not limited to those materials that reference the GIPS standards for FMPs. The FIDUCIARY MANAGEMENT PROVIDER may provide any performance or PERFORMANCE-RELATED INFORMATION that is specifically requested by a PROSPECTIVE CLIENT for use in a one-on-one presentation.

Discussion

The underlying principles of the GIPS standards for FMPs, fair representation and full disclosure, help to ensure that current and prospective clients are not given performance or performance-related information that is incomplete, inaccurate, biased, or fraudulent. Fiduciary Management Providers must not present any performance or performance-related information that is known to be inaccurate or that may mislead either prospective or current clients. This concept applies to all performance or performance-related materials on a Fiduciary Management Provider–wide basis and is not limited to those materials that reference the GIPS standards for FMPs.

Fiduciary Management Providers are not limited to providing only GIPS-compliant information to prospective clients or other interested parties. Fiduciary Management Providers may present other performance or performance-related information as long as it is not false or misleading.

The following information has an especially high risk of being interpreted by prospective clients in a way that is likely to be false or misleading:

- Actual performance linked to model, hypothetical, backtested, or simulated historical results; and

- Non-portable performance from a past Fiduciary Management Provider linked to current ongoing results.

This linked information must not be presented in a GIPS Composite Report.

Outside of a GIPS Composite Report, Fiduciary Management Providers may present this linked information if asked to do so by a prospective client. The linked information may be presented in a one-on-one presentation that is created for and will be used only by the prospective client.

The linked information may also be presented outside of a GIPS Report in marketing materials provided to other prospective clients if the following conditions are met:

- The linked information is presented in a one-on-one presentation that includes the delivery of a GIPS Composite Report, if the corresponding GIPS Composite Report has not been previously delivered to the prospective client;
- The linked information is presented only to prospective clients who the Fiduciary Management Provider believes are sufficiently knowledgeable about investments and can understand the relevance and limitations of the track record being presented;
- There are sufficient disclosures regarding the linked information so that prospective clients understand that it is not a GIPS-compliant track record. Disclosure, however, does not necessarily prevent information from being false or misleading;
- The linked information is not presented if a GIPS-compliant track record is requested; and
- The linked information is not included in a consultant database.

A Fiduciary Management Provider may wish to present performance for select time periods, other than the time period(s) required and recommended by the GIPS standards for FMPs. For example, if the market experienced a sharp decline during the first two months of the calendar year and became more stable in March, the Fiduciary Management Provider may want to show performance of its strategy from 1 January through 28 February and from 1 March through 31 December. If the performance for these select time periods is presented in addition to the performance for the required time periods, it may be presented in a GIPS Composite Report. This is permitted because the select time periods are being presented in addition to the required time periods. To present only performance for the select time periods without performance for the required time periods, especially if the select time periods were chosen because the periods had the highest performance, would be misleading and is not permitted for Fiduciary Management Providers that claim compliance with the GIPS standards for FMPs. Fiduciary Management Providers may present performance for select time periods outside of GIPS Composite Reports with the appropriate disclosure and labeling.

The Fiduciary Management Provider may provide to a prospective client any information requested by that prospective client. Such information must be restricted to a one-on-one presentation for use with that specific prospective client and must be accompanied by comprehensive disclosures that explain the information being presented. A one-on-one presentation is not limited to a formal presentation or to information presented in a face-to-face meeting. A one-on-one presentation refers to a presentation that is created for and will be used only by the prospective client who made the request.

Provision 31.A.8

If the FIDUCIARY MANAGEMENT PROVIDER does not meet all the applicable REQUIREMENTS of the GIPS standards for FMPs, the FIDUCIARY MANAGEMENT PROVIDER MUST NOT represent or state that it is "in compliance with the GIPS standards for FMPs except for…" or make any other statements that may indicate compliance or partial compliance with the GIPS standards for FMPs.

Discussion

When a Fiduciary Management Provider makes the claim of compliance with the GIPS standards for FMPs, it is representing that all of the applicable requirements of the GIPS standards for FMPs have been met on a Fiduciary Management Provider–wide basis. Either a Fiduciary Management Provider meets all of the applicable requirements of the GIPS standards for FMPs and may claim compliance, or a Fiduciary Management Provider does not meet all of the applicable requirements of the GIPS standards for FMPs and must not claim compliance or partial compliance with the GIPS standards for FMPs. If the Fiduciary Management Provider does not meet all of the applicable requirements of the GIPS standards for FMPs, the Fiduciary Management Provider must not represent or state that it is "in compliance with the GIPS standards for FMPs except for…" or make any other statements that may indicate compliance or partial compliance with the GIPS standards for FMPs.

Provision 31.A.9

Statements referring to the calculation methodology as being "in accordance," "in compliance," or "consistent" with the GIPS standards for FMPs, or similar statements, are prohibited.

Discussion

Only Fiduciary Management Providers that manage actual assets may claim compliance with the GIPS standards for FMPs.

For Fiduciary Management Providers that do manage actual assets, either directly or through the use of sub-advisors, compliance can be achieved only when the Fiduciary Management Provider has met all of the applicable requirements of the GIPS standards for FMPs on a Fiduciary Management Provider–wide basis. Compliance with the GIPS standards for FMPs involves more than simply using a particular calculation methodology. To avoid any confusion, references to the GIPS standards for FMPs must not be used in the context of reporting performance or performance presentations when the Fiduciary Management Provider is not in compliance with the GIPS standards for FMPs.

Software vendors, custodians, and other service providers do not manage actual assets and cannot claim compliance with the GIPS standards for FMPs. They may make reference to the fact that their software or services may help a Fiduciary Management Provider achieve or maintain compliance with the GIPS standards for FMPs, if that is the case. For example, a software vendor may state that its software system calculates performance that satisfies the calculation requirements of the GIPS standards for FMPs, but the vendor must not state or imply that using its system automatically makes a Fiduciary Management Provider compliant with the GIPS standards for FMPs or that its system complies with the GIPS standards for FMPs.

Consultant databases or questionnaires often require Fiduciary Management Providers to fill in monthly or quarterly performance data. The databases or questionnaires then ask the Fiduciary Management Provider to indicate whether or not the data presented has been prepared in accordance with the GIPS standards for FMPs. When responding to such a database or questionnaire, a Fiduciary Management Provider that claims compliance with the GIPS standards for FMPs may state that the returns "are prepared in compliance with the GIPS standards for FMPs" if the following conditions are met:

- The performance information used to complete the questionnaire is consistent with the information used to prepare the corresponding GIPS Composite Report;
- If applicable, the performance information used to complete the questionnaire is more current than the information currently included in the corresponding GIPS Composite Report but will be used in the future to update the corresponding GIPS Composite Report; and
- If applicable, the performance information used to complete the questionnaire is older than the information currently included in the corresponding GIPS Composite Report but could have been used to report the composite's performance for periods prior to those currently included in the GIPS Composite Report.

Provision 31.A.10

The FIDUCIARY MANAGEMENT PROVIDER MUST NOT make statements referring to the performance of a current client as being "calculated in accordance with the GIPS standards for FMPs," except for when a FIDUCIARY MANAGEMENT PROVIDER that claims compliance with the GIPS standards for FMPs reports the performance of a SCHEME to current clients.

Discussion

The GIPS standards for FMPs do not specifically address how a Fiduciary Management Provider must report performance of an individual client's scheme to current clients. The GIPS standards for FMPs do provide an ethical framework for calculating and presenting a Fiduciary Management Provider's investment performance history, allowing both prospective and current clients the best opportunity to fairly evaluate the Fiduciary Management Provider's past performance.

The Fiduciary Management Provider must not make statements referring to a current client's performance as being "calculated in accordance with the GIPS standards for FMPs," except for when a GIPS-compliant Fiduciary Management Provider reports the performance of a scheme to current clients. When a Fiduciary Management Provider that claims compliance with the GIPS standards for FMPs reports the performance of a current client's scheme to that client, the Fiduciary Management Provider may note on the current client's performance report, if applicable, that the return was calculated in accordance with the requirements of the GIPS standards for FMPs.

Provision 31.A.11

The FIDUCIARY MANAGEMENT PROVIDER MUST make every reasonable effort to provide a GIPS COMPOSITE REPORT to all PROSPECTIVE CLIENTS when they initially become PROSPECTIVE CLIENTS. The FIDUCIARY MANAGEMENT PROVIDER MUST NOT choose to which PROSPECTIVE CLIENTS it presents a GIPS COMPOSITE REPORT.

Discussion

Fiduciary Management Providers claiming compliance with the GIPS standards for FMPs must make every reasonable effort to provide all prospective clients with a GIPS Composite Report when they initially become prospective clients. The GIPS Composite Report must be one that represents the strategy being marketed to the prospective client. The Fiduciary Management Provider must not choose to which prospective clients it presents a GIPS Composite Report.

A GIPS Composite Report is defined as a presentation for a composite that contains all the information required by the GIPS standards for FMPs and may include recommended information. It may also include other information that the Fiduciary Management Provider believes would be helpful to interpreting the GIPS Composite Report. A prospective client is defined as an entity that has expressed interest in one of the Fiduciary Management Provider's composite strategies and qualifies to invest in the composite. Current clients may also qualify as prospective clients for any strategy that differs from their current investment strategy. Providing a GIPS Composite Report to current clients interested in a strategy different from their current strategy will help ensure that they have the information necessary to evaluate the new investment strategy and make an informed decision. Investment consultants, consultant databases, and other third parties are considered prospective clients if they represent entities that qualify as prospective clients.

It is up to the Fiduciary Management Provider to establish policies and procedures for determining who is considered to be a prospective client. These include policies and procedures for determining when an interested party becomes a prospective client. An interested party becomes a prospective client when two tests are met. First, the interested party must have expressed interest in a specific composite strategy or strategies. Second, the Fiduciary Management Provider must have determined that the interested party qualifies to invest in the respective composite strategy. For example, assume a Fiduciary Management Provider is meeting with an interested party to introduce the Fiduciary Management Provider to the interested party. At this initial meeting, the Fiduciary Management Provider provides information about itself in an attempt to interest the interested party in investing with the Fiduciary Management Provider. At this point, the two tests to qualify as a prospective client have not been met; therefore, the interested party is not yet a prospective client, and the Fiduciary Management Provider is not obligated to provide a GIPS Composite Report. The Fiduciary Management Provider should, however, communicate that it claims compliance with the GIPS standards for FMPs and offer to provide a list of all composite descriptions.

Once the interested party expresses interest in a specific composite strategy and the Fiduciary Management Provider determines that the interested party qualifies to invest in the composite strategy, the interested party then becomes a prospective client. This is the point at which the Fiduciary Management Provider must make every reasonable effort to provide the prospective client with the appropriate GIPS Composite Report, if the Fiduciary Management Provider has not already provided it to the prospective client.

At times, a prospective client may ask the Fiduciary Management Provider about a composite strategy that the Fiduciary Management Provider does not yet manage. For example, assume a Fiduciary Management Provider manages schemes included in two composites. One is the Liabilities + 0% < x ≤ 0.5% unconstrained composite, and the other is the Liabilities + 0% < x ≤ 0.5% hedge restriction 40% ≤ x < 60% composite. The prospective client originally was interested in (and qualified to invest in) the unconstrained composite. The prospective client learns that the Fiduciary Management Provider also manages hedge-restricted strategies but does not currently have a Liabilities + 0% < x ≤ 0.5% hedge restriction 60% ≤ x < 80% composite that the prospect is looking for. If the Fiduciary Management Provider does not have an appropriate composite to present to the prospective client, the Fiduciary Management Provider must inform the prospective client that it does not currently manage the specific style or strategy.

Because a Fiduciary Management Provider is required to demonstrate that it made every reasonable effort to provide prospective clients with a GIPS Composite Report (see Provision 31.A.14), a Fiduciary Management Provider should establish policies and procedures for tracking which GIPS Composite Reports or initial partial-period performance outside of a GIPS Composite Report were provided to which prospective clients, and when. Doing so will allow a Fiduciary

Management Provider to determine when ongoing prospective clients must receive an updated GIPS Composite Report. (See Provision 31.A.12 regarding the requirement to provide an updated GIPS Composite Report to ongoing prospective clients.) It will also allow a Fiduciary Management Provider to know who must receive a corrected GIPS Composite Report in cases for which the Fiduciary Management Provider determines that a previously distributed GIPS Composite Report contained a material error. (See Provision 31.A.15.)

It is the Fiduciary Management Provider's obligation to make every reasonable effort to provide a GIPS Composite Report to prospective clients. The Fiduciary Management Provider may do so by providing the GIPS Composite Report directly to the prospective client or by providing the prospective client with an electronic link to the GIPS Composite Report. The link provided must be a direct link to the GIPS Composite Report, however, and not simply a general link to Fiduciary Management Provider information, such as a link to the Fiduciary Management Provider's website.

Fiduciary Management Providers are not limited to providing only GIPS Composite Reports to prospective clients or interested parties. Fiduciary Management Providers may present other performance or performance-related information, in addition to the GIPS Composite Report, as long as it is not false or misleading. Fiduciary Management Providers may also provide any performance or performance-related information that a prospective client requests in a one-on-one presentation. Such information must be restricted to a one-on-one presentation for use with that specific prospective client and must be accompanied by comprehensive disclosures that explain the information being presented. A one-on-one presentation is not limited to a formal presentation or to information presented in a face-to-face meeting. In this case, the one-on-one presentation refers to a presentation that is created for and will be used only by the prospective client who made the request.

When a current client instructs a Fiduciary Management Provider to de-risk a scheme that is already managed by the Fiduciary Management Provider and does not first ask the Fiduciary Management Provider for information on the composite the scheme will move to, then the current client is not considered a prospect because the client is not "interested" in a new strategy. Instead, the client has already selected a new strategy. This scenario would qualify as a scheme that is changing strategy. (See the discussion of Provision 33.A.8 for documentation requirements for schemes that change investment mandates.)

Provision 31.A.12

Once the FIDUCIARY MANAGEMENT PROVIDER has provided a GIPS COMPOSITE REPORT to a PROSPECTIVE CLIENT, the FIDUCIARY MANAGEMENT PROVIDER MUST provide an updated GIPS COMPOSITE REPORT at least once every 12 months if the PROSPECTIVE CLIENT is still a PROSPECTIVE CLIENT.

Discussion

Some prospective clients remain prospective clients for extended periods of time. Once a Fiduciary Management Provider has provided a GIPS Composite Report to a prospective client, the Fiduciary Management Provider must provide an updated GIPS Composite Report at least once every 12 months if the prospective client is still a prospective client. If a Fiduciary Management Provider provides performance information to an investment consultant or a database, these entities qualify as prospective clients and must receive the appropriate GIPS Composite Report(s). They must also receive an updated GIPS Composite Report at least once every 12 months.

Provision 31.A.13

When providing a GIPS COMPOSITE REPORT to PROSPECTIVE CLIENTS, the FIDUCIARY MANAGEMENT PROVIDER MUST update these reports to include information through the most recent annual period end within 12 months of that annual period end.

Discussion

GIPS Composite Reports have been designed to provide information to prospective clients that will help them understand the investment mandate, characteristics, and performance of a specific composite managed by the Fiduciary Management Provider. Although a GIPS Composite Report contains important information, the value and relevance of that information are affected by the timeliness with which the GIPS Composite Report is updated. A GIPS Composite Report containing returns that are significantly out of date is not helpful to prospective clients. It is therefore required that any GIPS Composite Report provided to a prospective client must be updated within 12 months of the most recent annual period end. As an example, GIPS Composite Reports for a composite with information through 31 December 2019 must be available no later than 31 December 2020, which would be within 12 months of the most recent calendar year end.

If a specific composite is not being marketed, and there are no prospective clients for the composite, the Fiduciary Management Provider is not required to update the GIPS Composite Report. As stated in Provision 31.A.18, however, a Fiduciary Management Provider must provide a GIPS Composite Report for any composite that is on the Fiduciary Management Provider's list of composite descriptions to a prospective client upon request. Although a Fiduciary Management Provider is not required to annually update a GIPS Composite Report when there are no prospective clients for a composite, the Fiduciary Management Provider must be able to provide an updated GIPS Composite Report, within a reasonable period of time, to a prospective client for a composite.

Provision 31.A.14

The FIDUCIARY MANAGEMENT PROVIDER MUST be able to demonstrate how it made every reasonable effort to provide a GIPS COMPOSITE REPORT to those PROSPECTIVE CLIENTS REQUIRED to receive a GIPS COMPOSITE REPORT.

Discussion

Fiduciary Management Providers are required to make every reasonable effort to provide a GIPS Composite Report to all prospective clients. Fiduciary Management Providers are also required to have policies and procedures in place that are used to establish and maintain compliance with the requirements of the GIPS standards for FMPs. Therefore, any Fiduciary Management Provider claiming compliance with the GIPS standards for FMPs must have specific policies and procedures to ensure that every reasonable effort is made to provide the required GIPS Composite Report to prospective clients. These should include policies and procedures for tracking which GIPS Composite Reports were provided to which prospective clients, and when. For example, a Fiduciary Management Provider's policies and procedures might specify that the required GIPS Composite Report will be included as part of the standard package of marketing materials prepared for prospective clients, and that a checklist will be used to indicate the dates on which the GIPS Composite Report was provided to the prospective client and which version of the GIPS Composite Report was provided. Documenting the date on which the GIPS Composite Report was last provided to the prospective client, as well as the version of the GIPS Composite Report, will help a Fiduciary Management Provider fulfill the requirement that the appropriate GIPS Composite Report be provided to a prospective client who remains a prospect at least once every 12 months. The most effective policies and procedures for a Fiduciary Management Provider will depend on the circumstances surrounding the typical interactions between the Fiduciary Management Provider and its prospective clients.

To demonstrate that the Fiduciary Management Provider made a reasonable effort to provide the appropriate GIPS Composite Report to prospective clients, it is necessary for the Fiduciary Management Provider to document both the relevant policies and procedures for providing the required reports to prospective clients and the steps taken to implement the relevant policies and procedures.

Provision 31.A.15

The FIDUCIARY MANAGEMENT PROVIDER MUST correct MATERIAL ERRORS in GIPS COMPOSITE REPORTS and MUST:

a. Provide the corrected GIPS COMPOSITE REPORT to current clients that received the GIPS COMPOSITE REPORT that had the MATERIAL ERROR.

b. Make every reasonable effort to provide the corrected GIPS COMPOSITE REPORT to all current PROSPECTIVE CLIENTS that received the GIPS COMPOSITE REPORT that had the MATERIAL ERROR. The FIDUCIARY MANAGEMENT PROVIDER is not REQUIRED to provide the corrected GIPS COMPOSITE REPORT to former clients or former PROSPECTIVE CLIENTS.

Discussion

Fiduciary Management Providers claiming compliance with the GIPS standards for FMPs are likely to face situations in which errors are discovered that must be specifically addressed. Even with the tightest of controls, errors will occur. An error, which can be qualitative or quantitative, is any component of a GIPS Composite Report that is missing or inaccurate. Errors in GIPS Composite Reports can result from, but are not limited to, incorrect, incomplete, or missing:

- composite relative returns or assets,
- total Fiduciary Management Provider assets,
- internal dispersion,
- information ratio,
- maximum drawdown,
- number of schemes in a composite,
- three-year annualized ex post standard deviation, and
- disclosures.

Fiduciary Management Providers must establish error correction policies and procedures, and materiality must be defined in the error correction policies.

If a GIPS Composite Report contains a material error, the GIPS Composite Report must be corrected and the corrected GIPS Composite Report that includes a disclosure of the error must be provided to all current clients who received the GIPS Composite Report with the material error. The Fiduciary Management Provider must also make every reasonable effort to provide the corrected GIPS Composite Report to all current prospective clients that received the GIPS

Composite Report with the material error. The Fiduciary Management Provider is not required to provide the corrected GIPS Composite Report to former clients and former prospective clients that received the GIPS Composite Report that contained the material error.

The Fiduciary Management Provider generally has three options for dealing with non-material errors in GIPS Composite Reports:

1. Take no action.

   The error is deemed immaterial and does not require a change to any data or disclosures in the GIPS Composite Report.
2. Correct the GIPS Composite Report with no disclosure of the change and no distribution of the corrected GIPS Composite Report.

   The correction of the error results in a change to one or more items in the GIPS Composite Report, but these changes are deemed not material and therefore do not require disclosure of the change or distribution of the corrected GIPS Composite Report.
3. Correct the GIPS Report with disclosure of the change and no distribution of the corrected GIPS Composite Report.

   The correction of the error results in a change to one or more items in the GIPS Composite Report, but these changes are not deemed to be material. The Fiduciary Management Provider does not distribute the corrected GIPS Composite Report but, according to the Fiduciary Management Provider's pre-established error correction policies and procedures, the error does require disclosure in the corrected GIPS Composite Report.

A Fiduciary Management Provider must decide what criteria it will use to determine materiality. The following is a definition of materiality that Fiduciary Management Providers might find useful as a starting point:

> "An error (or item) is material if the magnitude of the omission or misstatement of performance presentation information, in light of surrounding circumstances, makes it probable that the judgement of a reasonable person relying on the information would have been changed by the omission or misstatement."

When determining materiality, a Fiduciary Management Provider may consider the following factors:

- magnitude of the error, in absolute and relative terms,
- whether relative returns are overstated or understated,
- significance of the missing or incorrect disclosures,
- whether the error affects returns over time or is a timing issue,
- period(s) affected by the error,

- if these policies will be applied on a Fiduciary Management Provider–wide or a composite-specific basis, and
- whether the Fiduciary Management Provider has any legal or regulatory obligations related to error correction.

The size and effect of the error may vary for different types of information (e.g., composite relative returns versus risk measures), reporting periods (e.g., monthly, quarterly, or annual returns), and time periods (e.g., prior to a specific date or more than five years ago).

It is important to remember that the omission of required information is considered an error, as well as a misstatement in the information presented. The GIPS Composite Report must be corrected to include the required information, and the Fiduciary Management Provider must apply its error correction policies to determine if the error is material.

Fiduciary Management Providers must establish and document error correction policies and procedures and implement them consistently. A Fiduciary Management Provider should strive to create an unambiguous process that includes specific steps to discover and correct errors.

Provision 31.A.16

The FIDUCIARY MANAGEMENT PROVIDER MUST maintain a complete list of COMPOSITE DESCRIPTIONS. The FIDUCIARY MANAGEMENT PROVIDER MUST include terminated COMPOSITES on this list for at least five years after the COMPOSITE TERMINATION DATE.

Discussion

Fiduciary Management Providers must maintain a complete list of composite descriptions. Fiduciary Management Providers must include terminated composites on the Fiduciary Management Provider's list of composite descriptions for at least five years after the composite termination date. One reason for this requirement is that a terminated composite may be restarted so a list of current and terminated composites may provide a more complete picture of a Fiduciary Management Provider's capabilities.

A composite description provides key information about the investment strategy. The description is not meant to replace more-comprehensive descriptions of the investment strategy included in the composite definition or investment management agreement, but it should provide enough information about the strategy to be informative while remaining concise. It must provide enough information to prospective clients to make them aware of any significant features of a composite investment strategy that may distinguish the strategy from similar strategies within and between

Fiduciary Management Providers. Composite descriptions must include information about the use of leverage, derivatives, and short positions, if they are a material part of the strategy, as well as if illiquid investments are a material part of the strategy.

When included on the list of composite descriptions, the composite description must also include the following information for each composite:

- composite name,
- composite creation date,
- composite inception date,
- composite termination date, if applicable, and
- number of schemes as of the most recent calendar year end.

Provision 31.A.17

The FIDUCIARY MANAGEMENT PROVIDER MUST provide the complete list of COMPOSITE DESCRIPTIONS to any PROSPECTIVE CLIENT that makes such a request.

Discussion

In addition to maintaining a complete list of composite descriptions, Fiduciary Management Providers must provide the list to any prospective client upon request. The discussion of Provision 31.A.16 addresses the creation of this list.

This list must include all of the Fiduciary Management Provider's composites, including those that have terminated within the past five years. Although Fiduciary Management Providers are required to provide a complete list of composite descriptions to any prospective client that makes such a request, they are encouraged to provide this information to anyone else who makes the request.

Provision 31.A.18

The FIDUCIARY MANAGEMENT PROVIDER MUST provide a GIPS COMPOSITE REPORT for any COMPOSITE listed on the FIDUCIARY MANAGEMENT PROVIDER's list of COMPOSITE DESCRIPTIONS to any PROSPECTIVE CLIENT that makes such a request.

Discussion

Provision 31.A.11 requires Fiduciary Management Providers to make every reasonable effort to provide the appropriate GIPS Composite Report to all prospective clients who are interested in a particular composite strategy. This provision requires a Fiduciary Management Provider to provide a GIPS Composite Report for any composite listed on the Fiduciary Management Provider's list of composite descriptions to a prospective client upon request.

The Fiduciary Management Provider must therefore have the ability to prepare and provide a GIPS Composite Report for any composite on the Fiduciary Management Provider's list of composite descriptions, including composites that are not typically marketed or that have been terminated within the past five years.

This requirement is an acknowledgement that, before investing with a Fiduciary Management Provider, a prospective client will often want to gain knowledge of the Fiduciary Management Provider that goes beyond information about the particular composite strategy in which they may want to invest. Requesting a GIPS Composite Report for other composites may help the prospective client gain a fuller picture of the investment activities of the Fiduciary Management Provider's investment activities and a deeper understanding of the Fiduciary Management Provider with which they are considering investing.

Provision 31.A.19

All data and information necessary to support all items included in GIPS COMPOSITE REPORTS MUST be captured, maintained, and available within a reasonable time frame, for all periods presented in these reports.

Discussion

A fundamental principle of the GIPS standards for FMPs is the need for Fiduciary Management Providers to be able to ensure the validity of their claim of compliance. It is, therefore, important for current and prospective clients and regulators to have confidence that all items included in a GIPS Composite Report are supported by the appropriate records. This provision applies to GIPS Composite Reports for all composites, whether the composite is marketed or not.

Fiduciary Management Providers must maintain records to be able to recalculate their performance history as well as substantiate all other information included in a GIPS Composite Report for all periods shown. This requirement applies to all periods for which performance is presented in the GIPS Composite Report. If the regulators require records to be kept for longer periods than those required by the GIPS standards for FMPs, care should be taken to ensure that the Fiduciary

Management Provider follows the strictest of the recordkeeping requirements applicable to the Fiduciary Management Provider.

It is understood that the required data may not be immediately available. For example, data may need to be retrieved from an offsite location or from a third-party service provider. However, the data and information required to be maintained by this provision must be available in a usable format within a reasonable time frame. In all instances, either paper (hard-copy) records or electronically stored records will suffice. If records are stored electronically, the records must be accessible and able to be printed or downloaded, if needed. Records stored in a system that is not operable and from which data cannot be retrieved will not satisfy the recordkeeping requirements.

Although most Fiduciary Management Providers are looking for a very precise list of the minimum documents that must be maintained to support all parts of the GIPS Composite Report, including the ability to recalculate the Fiduciary Management Provider's performance history, there is no single list of records that will suffice in all situations. Each Fiduciary Management Provider must determine for itself which records must be maintained. The following lists include records that Fiduciary Management Providers should consider maintaining to meet the recordkeeping requirements of this provision. None of these lists should be considered exhaustive. The actual records required will depend on the Fiduciary Management Provider's particular circumstances.

Records to Support Scheme-Level Returns

1. scheme holdings reports, with investment positions and valuations, including information supporting the determination of fair value,
2. information to prove that performance is based on actual assets, including bank/custodial statements and reconciliations,
3. scheme transactions reports,
4. outstanding trades reports,
5. corporate action reports,
6. income received/earned reports,
7. accrued income reports,
8. foreign or other withholding tax reclaim reports,
9. cash flow/weighted cash flow reports,
10. foreign exchange rates,
11. support for scheme benchmark returns,
12. information on calculation methodology used for scheme net returns and scheme relative returns,

13. information provided by a third party (e.g., a sub-advisor or custodian) where it may be necessary for a Fiduciary Management Provider to take additional steps to ensure the information provided by the third party can be relied on to meet the requirements of the GIPS standards for FMPs, and
14. investment management fee information.

Records to Support Composite-Level Returns and Other Composite-Level Data

1. schemes included in the composite,
    a. when each scheme entered (and exited, if applicable) the composite,
    b. each scheme's relative return for each period, and
    c. each scheme's ending market value for each period,
2. number of schemes in the composite and the composite assets as of each calendar year end, and any other period for which this information is presented in GIPS Composite Reports,
3. internal dispersion calculation data,
4. support for information ratio calculations,
5. support for drawdown calculations, and
6. support for annualized ex post standard deviation calculations.

Records to Support the Inclusion of a Scheme in a Specific Composite or Its Exclusion from All Composites

1. composite definitions, particularly related to the composite inclusion criteria, including the definition of discretion,
2. list of schemes excluded from composites, if any, and the reasons for exclusion,
3. investment management agreements and investment guidelines and amendments thereto,
4. reports provided to clients if used to help determine composite assignment,
5. analytics used to support composite assignment or composite exclusion, and
6. e-mail/other correspondence with clients regarding documented changes to a scheme's investment mandate, objective, or strategy.

Records to Support a Fiduciary Management Provider's Claim of Compliance

1. GIPS standards for FMPs policies and procedures, covering all periods for which the Fiduciary Management Provider claims compliance with the GIPS standards for FMPs,
2. definition of the Fiduciary Management Provider, historically and current,

3. supporting calculation for total Fiduciary Management Provider assets reported as of each calendar year end and any other period for which total Fiduciary Management Provider assets is presented in GIPS Composite Reports,
4. composite definitions, inception dates, and composite creation dates,
5. list of composite descriptions,
6. list of composite risks, and
7. GIPS Composite Reports and supporting information for all composites.

Any Additional Records Necessary to Support a Claim of Compliance

1. system and control reports from independent accountants or other third parties (e.g., accounting reports, other internal controls/compliance reports for the client and/or custodians),
2. third-party (e.g., sub-advisory, custodial, performance data provider) agreements,
3. minutes of relevant decision-making committees (e.g., a board, an investment committee, a GIPS compliance committee),
4. systems manuals, especially for the systems that generate the scheme returns, composite returns, and GIPS Composite Reports,
5. documentation of efforts made to provide all prospective clients with GIPS Composite Reports,
6. documentation of efforts made to provide, in the case of a material error, a corrected GIPS Composite Report to all appropriate parties,
7. underlying benchmark data (if not publicly available), and
8. documentation of providing the following to any prospective client that made such a request:
    a. a GIPS Composite Report,
    b. a list of composite descriptions,
    c. a list of composite risks,
    d. policies for valuing schemes,
    e. policies for calculating performance, and
    f. policies for preparing GIPS Composite Reports.

It is expected that all Fiduciary Management Providers will have disaster recovery plans to mitigate the loss of records for any reason, whether from a catastrophic event beyond the control of the Fiduciary Management Provider or a situation within the control of the Fiduciary Management Provider. If a Fiduciary Management Provider that claims compliance with the GIPS standards for FMPs experiences a catastrophic event that destroys all of its records and electronic or other backup systems, the Fiduciary Management Provider should try to reconstruct the necessary information by obtaining the information from clients, custodians, consultants, or any other party outside the Fiduciary Management Provider that might have duplicate copies of those records. If the underlying data to support the GIPS Composite Report was destroyed because of extreme circumstances beyond the Fiduciary Management Provider's control and is unavailable from other sources, however, the Fiduciary Management Provider may continue to claim compliance and show performance if the lack of records for the unavailable period(s) is disclosed.

For example, assume Fiduciary Management Provider A claims compliance with the GIPS standards for FMPs, and the records for Fiduciary Management Provider A from its inception on 1 January 2017 through 31 December 2017 were destroyed under extreme circumstances beyond the Fiduciary Management Provider's control. The Fiduciary Management Provider can claim compliance with the GIPS standards for FMPs but must disclose that the Fiduciary Management Provider's records for the period from 1 January 2017 through 31 December 2017 were destroyed under extreme circumstances beyond the Fiduciary Management Provider's control and the data are unavailable from other sources. The Fiduciary Management Provider must also consider any applicable regulatory requirements and must remember that the GIPS standards for FMPs are ethical standards based on the principles of fair representation and full disclosure. Any performance information presented must adhere to these principles.

All Fiduciary Management Providers are reminded that, above all else, they must follow all applicable laws and regulations regarding the calculation and presentation of performance, including all recordkeeping requirements.

Provision 31.A.20

The FIDUCIARY MANAGEMENT PROVIDER is responsible for its claim of compliance with the GIPS standards for FMPs and MUST ensure that the records and information provided by any third party on which the FIDUCIARY MANAGEMENT PROVIDER relies meet the REQUIREMENTS of the GIPS standards for FMPs.

Discussion

A Fiduciary Management Provider that claims compliance with the GIPS standards for FMPs is responsible for its claim of compliance. Therefore, a Fiduciary Management Provider that uses a third party to provide any service (e.g., custody or performance measurement), and relies on that service, must ensure that the records and information provided by the third-party service provider meet the requirements of the GIPS standards for FMPs. The Fiduciary Management Provider is responsible for ensuring that the data received from various external sources is accurate and must be able to aggregate information that may be supplied by external service providers as needed. A Fiduciary Management Provider should carefully research any third-party service provider and should engage only reputable service providers.

It is acknowledged that, in some cases, it may be challenging to obtain information from a third party that meets the requirements of the GIPS standards for FMPs. A Fiduciary Management Provider has the option of bringing performance in house rather than placing reliance on a third party. A Fiduciary Management Provider can also make adjustments to the information provided by a third party so that it meets the requirements of the GIPS standards for FMPs. For example, if a Fiduciary Management Provider received from a third party an asset-weighted composite return, the Fiduciary Management Provider could recalculate the composite return by equal-weighting the scheme relative returns to ensure compliance. As another example, suppose that a custodian reflects interest income on a cash basis. The Fiduciary Management Provider may make adjustments to the income information from the custodian to properly reflect accrued income.

When using third-party service providers, Fiduciary Management Providers are encouraged to ensure that adequate service-level agreements are in place to provide the historical records necessary, both currently and as needed in the future. It may be helpful to partner with custodians, administrators, prime brokers, and investment managers that understand what is needed to comply with the GIPS standards for FMPs.

Fiduciary Management Providers must establish policies and procedures to ensure that third-party information provided by a custodian or an underlying external manager adheres to the requirements of the GIPS standards for FMPs, if the Fiduciary Management Provider places reliance on that information. A thorough examination of third-party service providers' policies and procedures should be conducted when they are hired. It is recommended that Fiduciary Management Providers who claim compliance with the GIPS standards for FMPs conduct periodic testing or other monitoring procedures that ensure that the policies and procedures of any third-party service provider on which the Fiduciary Management Provider relies have not changed since the service provider was first hired and are being applied consistently and appropriately.

Provision 31.A.21

The FIDUCIARY MANAGEMENT PROVIDER MUST NOT include THEORETICAL PERFORMANCE in the GIPS COMPOSITE REPORT.

Discussion

Because the intent of the GIPS standards for FMPs is to accurately and fairly represent actual Fiduciary Management Provider performance, no theoretical performance is permitted in the GIPS Composite Report. Theoretical performance is performance that is not derived from a scheme or composite with actual assets invested in the strategy presented. Theoretical performance comes in many forms including model, backtested, hypothetical, simulated, indicative, and forward-looking performance.

Provision 31.A.22

Changes in the FIDUCIARY MANAGEMENT PROVIDER's organization MUST NOT lead to alteration of historical performance.

Discussion

Over time, the organization of a Fiduciary Management Provider may change. For example, a Fiduciary Management Provider may transition from a private to a public corporation, or a management buyout may result in a publicly traded company becoming a private entity. Regardless of the reason for the change in a Fiduciary Management Provider's organization, historical composite performance must remain part of the Fiduciary Management Provider's history. In considering issues regarding the use of historical performance, it is important to remember that performance is the record of the Fiduciary Management Provider, not of the individual. For example, suppose that a sole investment decision maker for a composite leaves a Fiduciary Management Provider and the new portfolio manager continues to manage the composite according to the same investment mandate or strategy as the previous manager. The Fiduciary Management Provider must link the historical performance of the composite to the ongoing performance achieved by the new manager.

Provision 31.A.23

The FIDUCIARY MANAGEMENT PROVIDER MUST present only performance that is in compliance with the GIPS standards for FMPs in GIPS COMPOSITE REPORTS.

Discussion

The GIPS Composite Report may include only performance that is compliant with the GIPS standards for FMPs. This requirement ensures that the information presented in a GIPS Composite Report is comparable between Fiduciary Management Providers. Non-compliant performance may not be presented. Non-compliant performance includes, but is not limited to, the following:

- asset-weighted composite returns,
- non-portable composite returns, and
- theoretical performance (e.g., hypothetical, model, and backtested performance).

Provision 31.A.24

Performance from a past FIDUCIARY MANAGEMENT PROVIDER may be used to represent the historical performance of the new or acquiring FIDUCIARY MANAGEMENT PROVIDER and LINKED to the performance of the new or acquiring FIDUCIARY MANAGEMENT PROVIDER if the new or acquiring FIDUCIARY MANAGEMENT PROVIDER meets the following REQUIREMENTS on a COMPOSITE-specific basis:

a. Substantially all of the investment decision makers MUST be employed by the new or acquiring FIDUCIARY MANAGEMENT PROVIDER (e.g., research department staff, portfolio managers, and other relevant staff);
b. The decision-making process MUST remain substantially intact and independent within the new or acquiring FIDUCIARY MANAGEMENT PROVIDER;
c. The new or acquiring FIDUCIARY MANAGEMENT PROVIDER MUST have records to support the performance; and
d. There MUST be no break in the track record between the past FIDUCIARY MANAGEMENT PROVIDER and the new or acquiring FIDUCIARY MANAGEMENT PROVIDER.

If any of the above REQUIREMENTS are not met, the performance from a past FIDUCIARY MANAGEMENT PROVIDER MUST NOT be LINKED to the ongoing performance record of the new or acquiring FIDUCIARY MANAGEMENT PROVIDER.

Discussion

When all or some investment management staff from a Fiduciary Management Provider join a new Fiduciary Management Provider, the performance of a past Fiduciary Management Provider may be linked to or used to represent the historical performance of a new or acquiring Fiduciary Management Provider if all of the following requirements are met on a composite-specific basis:

- Substantially all of the investment decision makers (e.g., research department staff, scheme managers, and other relevant staff), are employed by the new or acquiring Fiduciary Management Provider;
- The decision-making process remains substantially intact and independent within the new or acquiring Fiduciary Management Provider;
- The new or acquiring Fiduciary Management Provider has records that document and support the performance; and
- There is no break in the track record between the past Fiduciary Management Provider and the new or acquiring Fiduciary Management Provider.

If all of these portability requirements are met, the historical track record for the composite from the past or acquired Fiduciary Management Provider may be ported and linked to the continuing composite track record at the new or acquiring Fiduciary Management Provider and presented as a continuous track record. Although linking the track record is not required, it is best practice to do so.

If the Fiduciary Management Provider does not meet all of these portability requirements, it may not link the track record from the past or acquired Fiduciary Management Provider. The actions that a Fiduciary Management Provider may take with respect to the use of the composite track record from the past Fiduciary Management Provider will depend on which requirement(s) cannot be met. In all cases, performance from a past Fiduciary Management Provider must never be presented when the new or acquiring Fiduciary Management Provider does not have records to document and support the performance. Suppose that the new or acquiring Fiduciary Management Provider has records that document and support the performance from a past Fiduciary Management Provider, but one or more of the other portability requirements are not met. In such a case, performance from the past or acquired Fiduciary Management Provider must not be linked to performance at the new Fiduciary Management Provider. For guidance on situations in which a break occurs in the track record between the past Fiduciary Management Provider and the new or acquiring Fiduciary Management Provider but all other portability requirements are met, see Provision 31.A.25.

For a Fiduciary Management Provider to be able to link the track record from the past Fiduciary Management Provider to the ongoing composite performance at the new Fiduciary Management Provider in a GIPS Composite Report, the track record must include all schemes that were managed in the strategy at the past Fiduciary Management Provider—that is, it must be composite performance. Where the provision states "on a composite-specific basis," the word "composite" refers to the entire composite from the past Fiduciary Management Provider, not a subset of schemes. This is true even if the past Fiduciary Management Provider did not claim compliance with the GIPS standards for FMPs. Although the GIPS standards for FMPs do not have a requirement that all schemes must transfer from the past Fiduciary Management Provider to the new Fiduciary Management Provider, the Fiduciary Management Provider must have all the records needed to document and support the entire composite performance history. If the new or acquiring Fiduciary Management Provider cannot create a complete composite track record from the past Fiduciary Management Provider and can only create the track record using a subset of schemes, that information cannot be linked to the track record of the composite at the new or acquiring Fiduciary Management Provider in a GIPS Composite Report.

Outside of a GIPS Composite Report, an acquiring Fiduciary Management Provider that has records for only a subset of schemes in a composite from a past Fiduciary Management Provider may link the performance of the subset of schemes in the composite to the ongoing performance of the composite at the new Fiduciary Management Provider if the linking is requested by a prospective client. The linked information may be presented in a one-on-one presentation that is created for and will be used only by the prospective client.

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The linked information may also be presented outside of a GIPS Report if the following conditions are met:

- The linked information is presented in a one-on-one presentation that includes the delivery of a GIPS Composite Report, if the corresponding GIPS Composite Report has not been previously delivered to the prospective client;
- The linked information is presented only to prospective clients who the Fiduciary Management Provider believes are sufficiently knowledgeable about investments and can understand the relevance and limitations of the track record being presented;
- There are sufficient disclosures regarding the linked information so that prospective clients understand that this is not a GIPS-compliant track record. Disclosure, however, does not necessarily prevent information from being false or misleading;
- The linked information is not presented if a GIPS-compliant track record is requested; and
- The linked information is not included in a consultant database.

If an acquired Fiduciary Management Provider is compliant with the GIPS standards for FMPs, the performance history meets the portability requirements, and the new or acquiring Fiduciary Management Provider chooses to port the performance, then the Fiduciary Management Provider must port the entire compliant track record that was presented by the acquired Fiduciary Management Provider. If the ported track record is longer than 10 years, the acquiring Fiduciary Management Provider may choose to present only a 10-year track record in GIPS Composite Reports.

If a Fiduciary Management Provider wishes to port performance from an acquired non-compliant Fiduciary Management Provider and link it to the Fiduciary Management Provider's ongoing performance, if it is possible, it must build a composite track record from the prior Fiduciary Management Provider of at least five years, or since inception if the composite has been in existence for less than five years. If it is not possible to build a composite track record from the prior Fiduciary Management Provider of at least five years, or since inception if the composite has been in existence for less than five years, it must build the history for as long as the Fiduciary Management Provider is able to do so.

There may be cases in which a similar strategy is managed by the past Fiduciary Management Provider and the new or acquiring Fiduciary Management Provider. The new or acquiring Fiduciary Management Provider cannot combine the pre-acquisition track records or assets of a composite from the acquired Fiduciary Management Provider with a composite from the acquiring Fiduciary Management Provider and then show the combined track record or assets as GIPS-compliant information. The Fiduciary Management Provider must determine if it will use the track record from the past Fiduciary Management Provider or use its own track record. On a prospective basis, the ongoing composite may consist of schemes from the past Fiduciary Management Provider that have transferred to the new or acquiring Fiduciary Management

Provider and continue the same investment mandate or strategy as well as schemes from the new or acquiring Fiduciary Management Provider that meet the definition of the composite.

Example

FMP A is acquired by and merges with FMP B to create FMP AB. The effective merger date is 1 August 2020. Both FMP A and FMP B claim compliance with the GIPS standards for FMPs, and all portability requirements are met. Both Fiduciary Management Providers manage an Unconstrained Liabilities Plus 0.5% < x ≤ 1.5% Composite strategy (Composite A and Composite B, respectively). It is decided that, after the acquisition, all schemes will be managed according to the Composite A strategy, and Composite A will be the surviving composite. The schemes in Composite B will be modified to conform to the strategy of Composite A and moved into Composite A. Composite B will cease to exist. FMP AB wants to present a track record for its Unconstrained Liabilities Plus 0.5% < x ≤ 1.5% Composite that includes performance from FMP A.

The historical track record presented for the Fiduciary Management Provider's Unconstrained Liabilities Plus 0.5% < x ≤ 1.5% Composite through 31 July 2020 would be the track record for FMP A's unconstrained composite.

Starting 1 August 2020, the effective date of the merger, the historical track record of Composite A will be linked to the ongoing performance of Composite A. Starting no earlier than 1 August 2020, Composite A will include the schemes from Composite B that are now managed in the same strategy as the schemes in Composite A.

Provision 31.A.25

Performance from a past FIDUCIARY MANAGEMENT PROVIDER may be used to represent the historical performance of the new or acquiring FIDUCIARY MANAGEMENT PROVIDER when there is a break in the track record between the past FIDUCIARY MANAGEMENT PROVIDER and the new or acquiring FIDUCIARY MANAGEMENT PROVIDER if the new or acquiring FIDUCIARY MANAGEMENT PROVIDER meets the following REQUIREMENTS on a COMPOSITE-specific basis:

a. Substantially all of the investment decision makers MUST be employed by the new or acquiring FIDUCIARY MANAGEMENT PROVIDER (e.g., research department staff, portfolio managers, and other relevant staff);
b. The decision-making process MUST remain substantially intact and independent within the new or acquiring FIDUCIARY MANAGEMENT PROVIDER;
c. The new or acquiring FIDUCIARY MANAGEMENT PROVIDER MUST have records to support the performance;

d. The new or acquiring FIDUCIARY MANAGEMENT PROVIDER MUST separately present the performance before the break and after the break; and
e. The new or acquiring FIDUCIARY MANAGEMENT PROVIDER MUST NOT LINK performance prior to the break in the track record to the performance after the break in the track record.

Discussion

A break in the performance track record between the past Fiduciary Management Provider and the new Fiduciary Management Provider may occur for a number of reasons. For example, an acquired team may be required to take a garden leave prior to joining the new Fiduciary Management Provider, and the schemes previously managed by the acquired team would not be managed by them during the garden leave, resulting in a gap in performance until a track record is established at the new Fiduciary Management Provider. If there is a break in the performance track record between the past Fiduciary Management Provider and the new or acquiring Fiduciary Management Provider, it may be permissible for performance from the past Fiduciary Management Provider to be used to represent the historical performance of the new or acquiring Fiduciary Management Provider if certain requirements are met.

First, the Fiduciary Management Provider must meet the requirements for portability listed in a through c in the provision:

- Substantially all of the investment decision makers are employed by the new or acquiring Fiduciary Management Provider;
- The decision-making process remains substantially intact and independent within the new or acquiring Fiduciary Management Provider; and
- The new or acquiring Fiduciary Management Provider has the records to support performance.

Second, the Fiduciary Management Provider must meet the requirements for the presentation of the performance from the past Fiduciary Management Provider listed in d through e in the provision:

- Performance before and after the break in the track record must be presented separately; and
- Performance prior to the break in the track record must not be linked to the performance after the break in the track record.

If the Fiduciary Management Provider does not meet all of the tests specified in items a through c, the performance from the past Fiduciary Management Provider must not be used to represent the historical performance of the new or acquiring Fiduciary Management Provider.

If all of the tests specified in items a through c are met, and the Fiduciary Management Provider chooses to present the performance from the past Fiduciary Management Provider, the track record must be shown in two segments: one segment representing performance before the break in the track record and one segment representing performance after the break in the track record.

As an example, suppose that FMP A acquires FMP B, which managed the Unconstrained Liabilities Plus 0.5% < x ≤ 1.5% Composite. All conditions for portability are met, except that a break occurs in this composite's performance track record during the acquisition process. The performance track record for the Unconstrained Liabilities Plus 0.5% < x ≤ 1.5% Composite at FMP B begins on 1 August 2018 and ends on 18 June 2020, the date of the acquisition. The track record resumes at FMP A on 1 July 2020. The complete track record for the Unconstrained Liabilities Plus 0.5% < x ≤ 1.5% Composite may be shown, but it must be shown in two segments. It may then show performance from 1 July 2020 forward. These two segments of the composite's track record must be presented separately and must not be linked.

The following example shows an excerpt of a GIPS Composite Report and how the performance might be presented, with the break in performance clearly indicated.

Year	Composite Relative Net Returns to Full Liabilities TWR (%)	Annualized 36-Month Ex Post Std Dev to Full Liabilities (%)	Annualized 36-Month Information Ratio to Full Liabilities (%)	Number of Schemes	Composite Assets (£)	FMP Assets (£)[3]
1 Jul–31 Dec 2020[1]	1.04			6	1,791,785,332	34,121,522,443
1 Jan–31 May 2020[1]	0.42					N/A
2019	−0.02	0.71	−0.95	5	1,972,403,885	N/A
2018[2]	1.01	0.88	−1.00	4	1,783,136,218	N/A

(1) There were no schemes in the composite in June 2020.

(2) Returns are for the period from 1 August 2018 (inception date) through 31 December 2018.

(3) FMP A acquired composite assets from FMP B on 1 July 2020. FMP assets prior to 2020 are shown as not applicable (N/A) because the composite was not part of FMP A.

In keeping with the principles of fair representation and full disclosure, the GIPS standards for FMPs require Fiduciary Management Providers to handle all situations involving a break in performance with the highest transparency.

In order for a Fiduciary Management Provider to be able to use the track record from the past Fiduciary Management Provider in a GIPS Composite Report, the track record must include all schemes that were managed in the strategy at the past Fiduciary Management Provider—that is, it must be composite performance. Where the provision states "on a composite-specific basis," the word "composite" refers to the entire composite from the past Fiduciary Management Provider, not a subset of schemes. This is true even if the past Fiduciary Management Provider did not claim compliance with the GIPS standards for FMPs. Although the GIPS standards for FMPs do not have a requirement that all schemes must transfer from the past Fiduciary Management Provider to the new Fiduciary Management Provider, the Fiduciary Management Provider must have all the records needed to document and support the entire composite performance history. If the new or acquiring Fiduciary Management Provider cannot create a complete composite track record from the past Fiduciary Management Provider and can only create the track record using a subset of schemes, that information cannot be used at the new or acquiring Fiduciary Management Provider in a GIPS Composite Report.

Outside of a GIPS Composite Report, an acquiring Fiduciary Management Provider that has records for only a subset of schemes in a composite from a past Fiduciary Management Provider may use the performance of the subset of schemes from the past Fiduciary Management Provider at the new Fiduciary Management Provider if the information is requested by a prospective client. The subset information may be presented in a one-on-one presentation that is created for and will be used only by the prospective client.

The subset information may also be presented outside of a GIPS Composite Report if the following conditions are met:

- The subset information is presented in a one-on-one presentation that includes the delivery of a GIPS Composite Report, if the corresponding GIPS Composite Report has not been previously delivered to the prospective client;
- The subset information is presented only to prospective clients who the Fiduciary Management Provider believes are sufficiently knowledgeable about investments and can understand the relevance and limitations of the track record being presented;
- There are sufficient disclosures regarding the subset information so that prospective clients understand that this is not a GIPS-compliant track record. Disclosure, however, does not necessarily prevent information from being false or misleading;
- The subset information is not presented if a GIPS-compliant track record is requested; and
- The subset information is not included in a consultant database.

Provision 31.A.26

If the FIDUCIARY MANAGEMENT PROVIDER chooses to include a GIPS COMPOSITE REPORT in marketing materials, the FIDUCIARY MANAGEMENT PROVIDER MUST indicate this fact in the marketing materials.

Discussion

Provision 31.A.11 requires Fiduciary Management Providers to make every reasonable effort to provide a GIPS Composite Report to prospective clients. If a GIPS Composite Report is included in marketing materials, there must be a disclosure that will inform prospective clients that a GIPS Composite Report is included in the marketing materials. The disclosure should be prominent (e.g., included in the table of contents) and is intended to help prospective clients locate the GIPS Composite Report within the marketing materials. Such a disclosure will help to highlight the importance of the GIPS Composite Report.

Provision 31.A.27

The FIDUCIARY MANAGEMENT PROVIDER MUST notify CFA Institute of its claim of compliance by submitting the GIPS standards for FMPs COMPLIANCE NOTIFICATION FORM. This form:

a. MUST be filed when the FIDUCIARY MANAGEMENT PROVIDER initially claims compliance with the GIPS standards for FMPs.
b. MUST be updated annually with information as of the most recent 31 December, with the exception of FIDUCIARY MANAGEMENT PROVIDER contact information, which MUST be current as of the form submission date.
c. MUST be filed annually thereafter by 30 June.

Discussion

Fiduciary Management Providers must notify CFA Institute of their claim of compliance by submitting the Compliance Notification Form, which can be found on the CFA Institute website (cfainstitute.org.)

When first coming into compliance, the Fiduciary Management Provider must submit the Compliance Notification Form to CFA Institute using the email address gipsfmps.uk@cfainstitute.org once it has met all of the requirements of the GIPS standards for FMPs. The Fiduciary Management Provider must not claim compliance with the GIPS standards for FMPs unless the Compliance Notification Form has been submitted to CFA Institute.

After the initial filing, the form must be filed annually by 30 June. Information provided in the Compliance Notification Form must be as of the most recent 31 December, with the exception of the Fiduciary Management Provider's contact information. Contact information must be current as of the form's submission date. Fiduciary Management Providers must establish policies and procedures to ensure the form is submitted by the deadline.

The Compliance Notification Form must reflect the definition of the Fiduciary Management Provider used to determine Fiduciary Management Provider–wide compliance with the GIPS standards for FMPs, even when the definition of the Fiduciary Management Provider differs from the legal entity of the Fiduciary Management Provider.

31.B. Fundamentals of Compliance—Recommendations

Provision 31.B.1

The FIDUCIARY MANAGEMENT PROVIDER SHOULD comply with the RECOMMENDATIONS of the GIPS standards for FMPs, including RECOMMENDATIONS in any interpretive guidance published by CFA Institute and the GIPS standards for FMPs governing bodies.

Discussion

The recommendations contained in the GIPS standards for FMPs are suggested tasks or actions that are considered best practice and should be followed or performed, although they are not required. The GIPS standards for FMPs must be applied with the objectives of fair representation and full disclosure of investment performance. However, meeting the objectives of fair representation and full disclosure, which are the fundamental principles of the GIPS standards for FMPs, may mean that a Fiduciary Management Provider must follow the recommendations in addition to the requirements of the GIPS standards for FMPs. If a Fiduciary Management Provider chooses to adopt any recommendations, its policies and procedures must reflect how that recommendation is applied.

Provision 31.B.2

The FIDUCIARY MANAGEMENT PROVIDER SHOULD update GIPS COMPOSITE REPORTS quarterly.

Discussion

GIPS Composite Reports contain important information, but the value and relevance of that information are affected by the timeliness with which the GIPS Composite Report is updated. A GIPS Composite Report that includes returns that are significantly out of date is not helpful to prospective clients. For this reason, it is required that Fiduciary Management Providers update GIPS Composite Reports within 12 months of the end of the most recent calendar year. In the interest of fair representation and full disclosure, however, it is recommended that GIPS Composite Reports be updated quarterly to provide more timely information to prospective clients.

When updating a GIPS Composite Report to include monthly, quarterly, or year-to-date returns, Fiduciary Management Providers are required to update only the following information:

- composite relative returns, and
- significant events that would help a prospective client understand the GIPS Composite Report.

Fiduciary Management Providers may also update other information in the GIPS Composite Report, such as number of schemes in the composite and composite assets, but are not required to do so.

Provision 31.B.3

The FIDUCIARY MANAGEMENT PROVIDER SHOULD provide to each current client, on an annual basis, a GIPS COMPOSITE REPORT of the COMPOSITE in which the client's SCHEME is included.

Discussion

It is recommended, but not required, that Fiduciary Management Providers provide a GIPS Composite Report to current clients. It is likely to be helpful for a client to know how the client's own scheme performed relative to other schemes that are managed according to the same investment objective, mandate, or strategy. In addition to composite performance, GIPS Composite Reports include important disclosures and presentation items that a Fiduciary Management Provider may not provide to current clients as a regular part of client reporting. These disclosures and presentation items may provide useful information to current clients in their periodic assessment of the Fiduciary Management Provider.

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32. INPUT DATA AND CALCULATION METHODOLOGY

32.A. Input Data and Calculation Methodology—Requirements

Fiduciary Management Provider Assets and Composite Assets

Provision 32.A.1

Total fiduciary management provider assets:

a. Must be the aggregate fair value of all schemes managed by the fiduciary management provider.
b. Must include assets assigned to a sub-advisor provided the fiduciary management provider has discretion over the selection of the sub-advisor.

Discussion

The definition of the Fiduciary Management Provider delineates the universe of all UK pension schemes that must be included in total Fiduciary Management Provider assets. All discretionary and non-discretionary assets for which the Fiduciary Management Provider has investment management responsibility must be included in total Fiduciary Management Provider assets. This includes assets assigned to a sub-advisor, provided the Fiduciary Management Provider has discretion over the selection of the sub-advisor.

For all periods, Fiduciary Management Providers must value all assets in accordance with the definition of fair value. Fair value is defined in the GIPS standards for FMPs as the amount at which an investment could be sold in an arm's-length transaction between willing parties in an orderly transaction. The valuation must be determined using the objective, observable, unadjusted quoted market price for an identical investment in an active market on the measurement date, if available. In the absence of an objective, observable, unadjusted quoted market price for an identical investment in an active market on the measurement date, the valuation must represent the Fiduciary Management Provider's best estimate of the fair value. Fair value must include any accrued income.

Total Fiduciary Management Provider assets must reflect the fair value of all assets within the Fiduciary Management Provider definition.

Some Fiduciary Management Providers use a sub-advisor to manage part or all of a particular strategy. For example, if a Fiduciary Management Provider specializes in managing equities, it might hire a sub-advisor to manage its fixed-income assets. If a Fiduciary Management Provider has discretion over selecting (i.e., can hire and/or fire) the sub-advisor, the Fiduciary Management Provider must include the assets managed by the sub-advisor in total Fiduciary Management Provider assets. If the Fiduciary Management Provider does not have discretion over sub-advisor selection, it must not include the sub-advised assets in total Fiduciary Management Provider assets or composite assets.

A Fiduciary Management Provider retains the responsibility for its claim of compliance for all of its assets, including its discretionary sub-advised assets and their reported performance. Therefore, all discretionary sub-advised assets must be treated by the Fiduciary Management Provider in the same manner as assets managed internally, and must be subject to the same policies and procedures as internally managed assets. If the Fiduciary Management Provider intends to place reliance on information from sub-advisors, it must ensure that the records and information provided by the sub-advisor meet the requirements of the GIPS standards for FMPs. For reliance on third-party records and information, please refer to Provision 31.A.20.

Total Fiduciary Management Provider assets must include:

- assets for which the Fiduciary Management Provider has either conditional or unconditional authority to make investment decisions,
- assets managed outside the Fiduciary Management Provider (e.g., by sub-advisors) for which the Fiduciary Management Provider has asset allocation (assignment) authority (i.e., the Fiduciary Management Provider has discretion over the selection of the sub-advisor), and
- cash and cash equivalents (substitutes).

Note that schemes that are managed but not yet included in a composite because they have not yet met the new scheme composite inclusion policy must nonetheless be included in total Fiduciary Management Provider assets.

Total Fiduciary Management Provider assets must exclude theoretical schemes (e.g., hypothetical, model, or backtested).

Total Fiduciary Management Provider assets reported for any given time period must be the same in all of the Fiduciary Management Provider's GIPS Composite Reports.

Provision 32.A.2

TOTAL FIDUCIARY MANAGEMENT PROVIDER ASSETS and COMPOSITE assets MUST:

a. Include only actual assets managed by the FIDUCIARY MANAGEMENT PROVIDER.
b. Be calculated net of discretionary leverage and not grossed up as if the leverage did not exist.

Discussion

Total Fiduciary Management Provider assets and composite assets must include only actual assets managed by the Fiduciary Management Provider. Assets represented by simulated, backtested, or model performance must not be included in total Fiduciary Management Provider assets or composite assets because such assets do not represent actual assets managed by the Fiduciary Management Provider.

When a composite strategy employs discretionary leverage, the composite assets and total Fiduciary Management Provider assets must be presented net of the discretionary leverage and not grossed up as if the leverage did not exist. Discretionary leverage refers to loans taken at the discretion of the Fiduciary Management Provider or a sub-advisor. For example, if the Fiduciary Management Provider hires a sub-advisor to manage a portion of a scheme, and the sub-advisor uses leverage, the Fiduciary Management Provider must include the net assets managed by the sub-advisor, and not the gross assets, in composite and total Fiduciary Management Provider assets.

Provision 32.A.3

The FIDUCIARY MANAGEMENT PROVIDER MUST NOT double count assets when calculating TOTAL FIDUCIARY MANAGEMENT PROVIDER ASSETS.

Discussion

Fiduciary Management Providers are prohibited from double counting assets when calculating total Fiduciary Management Provider assets. If double counting is not eliminated, assets reported will be inflated and result in a misleading GIPS Composite Report. For Fiduciary Management

Providers that include schemes in more than one composite, care must be taken to ensure assets are not counted more than once.

As an example, suppose that FMP XYZ has two composites. Composite 1 is the Unconstrained Liabilities plus 1.5% $< x \leq$ 2.5% Composite that contains the following three schemes:

Scheme 1: contracted for a liabilities plus 1.5% target with net assets of £20 million,

Scheme 2: contracted for a liabilities plus 1.75% target with net assets of £30 million, and

Scheme 3: contracted for a liabilities plus 2.25% target with net assets of £10 million.

Composite 2 is the sub-composite Unconstrained Liabilities plus 1.5% $< x \leq$2.0% Composite, which includes the following two schemes:

Scheme 1: contracted for a liabilities plus 1.5% target with net assets of £20 million, and

Scheme 2: contracted for a liabilities plus 1.75% target with net assets of £30 million.

- What is the correct amount of composite assets in the Unconstrained Liabilities plus 1.5% $< x \leq$2.5% Composite?

  The Unconstrained Liabilities plus 1.5% $< x \leq$2.5% Composite has composite assets of £60 million.

- What is the correct amount of composite assets in the Unconstrained Liabilities plus 1.5% $< x \leq$2.0% Composite?

  The Unconstrained Liabilities plus 1.5% $< x \leq$2.0% Composite has composite assets of £50 million.

- What is the correct amount of total Fiduciary Management Provider assets?

  Total Fiduciary Management Provider assets equal £60 million. Although schemes 1 and 2 are each included in two composites, for the purpose of the total Fiduciary Management Provider assets calculation, the value of the scheme assets may be counted only once.

Scheme	Included in	Composite 1 Assets (£ millions)	Composite 2 Assets (£ millions)	Total Fiduciary Management Provider Assets (£ millions)
1	Composite 1 & 2	20	20	20
2	Composite 1 & 2	30	30	30
3	Composite 1	10		10
Total		60	50	60

Provision 32.A.4

COMPOSITE performance MUST be calculated using only actual assets managed by the FIDUCIARY MANAGEMENT PROVIDER.

Discussion

Composite performance must be calculated using only actual assets managed by the Fiduciary Management Provider. This performance must include any sub-advised assets for which the Fiduciary Management Provider has discretion when selecting the sub-advisor.

Simulated, backtested, or model performance must not be included in any composites because such performance does not represent actual assets managed by the Fiduciary Management Provider.

A ported composite track record (a track record from a past or acquired Fiduciary Management Provider that meets the portability requirements and can be used by the new or acquiring Fiduciary Management Provider) is considered to be an extension of the new or acquiring Fiduciary Management Provider. The assets of the ported track record must be included in composite assets. Although a ported track record is not based on actual assets that had been managed at the new or acquiring Fiduciary Management Provider, it must be based on actual assets at the past or acquired Fiduciary Management Provider.

General/Accounting

Provision 32.A.5

TOTAL RETURNS MUST be used.

Discussion

Total return, which is measured over a specified period, has two components: (1) the appreciation or depreciation (capital change) of the assets in the scheme over the specified period and (2) the income earned on the assets in the scheme over the specified period. When calculating the performance of a scheme, Fiduciary Management Providers are required to use a total return.

Provision 32.A.6

TRADE DATE ACCOUNTING MUST be used.

Discussion

For the purpose of complying with the GIPS standards for FMPs, trade date accounting is defined as recognizing the asset or liability on the date of the purchase or sale and not on the settlement date. Recognizing the asset or liability within three business days of the date the transaction is entered into (the trade date [T], T + 1, T + 2, or T + 3) satisfies the trade date accounting requirement for purposes of the GIPS standards for FMPs. Settlement date accounting recognizes the asset or liability on the date when the exchange of cash and investments is completed.

For purchases, when using settlement date accounting, any movement in value between the trade date or booking date and the settlement date will not affect performance until the settlement date. For purchases, when using trade date accounting, the change in value will be reflected for each valuation between trade date and settlement date. Performance comparisons between schemes and/or composites that use settlement date accounting and those that use trade date accounting may not be valid. The same problem occurs when comparing settlement date schemes and composites with their benchmarks.

The principle behind requiring trade date accounting is to ensure there is not a significant lag between trade execution and reflecting the trade in the performance of a scheme. For the purpose of compliance with the GIPS standards for FMPs, schemes are considered to satisfy the trade date accounting requirement provided that transactions are recorded and recognized consistently and within normal market practice—typically, a period between trade date and up to three business days after trade date (T + 3).

For some pooled fund investments, Fiduciary Management Providers may need to differentiate between the date of placing a subscription/redemption order and the date of the effective asset ownership transfer. The date of the execution or transfer of ownership (in this case, when the definitive quantity and settlement price of the asset being purchased/sold is determined and becomes known) should be considered the trade date.

External cash flows are typically booked on the date when they are actually received or distributed. If a Fiduciary Management Provider receives notification of incoming funds and trades on a pre-announced external cash inflow before it is received into the scheme, the scheme will become leveraged during the period between the trade date and the date when the external cash inflow is physically received. To “cover” this additional exposure and eliminate the leverage effect, Fiduciary Management Providers may choose to apply the trade date and settlement date principles to pre-arranged external cash flows by booking the external cash flow with a trade date that reflects the date the Fiduciary Management Provider may trade in advance of the external cash inflow and a settlement date that reflects the date when the cash is received. If the Fiduciary Management Provider chooses to match the trade date of pre-announced external cash flows to the trade date of trades related to those external cash flows, it should establish this as its policy and treat all pre-announced external cash flows consistently.

Provision 32.A.7

ACCRUAL ACCOUNTING MUST be used for fixed-income securities and all other investments that earn interest income, except that interest income on cash and cash equivalents may be recognized on a cash basis. Any accrued income MUST be included in the beginning and ending SCHEME values when performance is calculated.

Discussion

Accrual accounting allows the recording of financial transactions as they come into existence rather than when they are paid or settled. When determining the valuation for a security that pays interest income, Fiduciary Management Providers must include the income that would have been received at the end of the performance period had the security actually paid interest income earned during the performance period.

Accrued interest income must be included in the beginning and ending scheme values when performance is calculated. Interest should be accrued for a security in the scheme using whatever method is customary and appropriate for that security.

Some instruments already include accrued income as part of the security's market price. If income for these instruments is being accrued as part of the income recognition process, steps should be taken to ensure that the income is not double counted.

Income on cash and cash equivalents may be recognized on either an accrual or cash basis. Accrued income for cash and cash equivalents can be more difficult to calculate. Unlike bonds with a known coupon rate, some short-term securities (e.g., overnight deposits) may not have a published interest rate. Fiduciary Management Providers could consider using the last actual known interest rate to accrue income for the most recent period. When the actual rate becomes known, an adjustment can then be made to allocate the actual income earned to the proper period. In this way, there is no systematic underestimation or overestimation of income, and income is also properly assigned to the period when earned. Cash-basis accounting (recording the income for short-term cash and cash equivalents as it is actually received) will tend to lag the suggested accrual method by recognizing income a month after it was earned. Either method is acceptable, however, and the method chosen must be used consistently.

An issue that may arise is how to calculate the performance of a bond, including the accrual of interest, when a bond goes into default. In this situation, the Fiduciary Management Provider must recognize the loss when it occurred and must not recalculate the historical performance. The accrual of interest must be included in the calculation method up until the point of the bond's default. At that point, the calculation method would reflect the loss of accrued interest by adjusting the amount of accrued interest to zero. When and if the bond comes out of default and there is a reasonable expectation that the bond will commence paying interest, including back interest, the

Fiduciary Management Provider must begin accruing for such interest payments. The Fiduciary Management Provider must not allocate such payments over periods when they were originally due but not paid.

Provision 32.A.8

Returns from cash and cash equivalents MUST be included in all return calculations, even if the FIDUCIARY MANAGEMENT PROVIDER does not control the specific cash investment(s).

Discussion

Returns earned on cash and cash equivalents held in schemes must be combined with the returns of other assets in the scheme to calculate the scheme's return. The Fiduciary Management Provider's asset allocation decisions, including allocation to cash, are a component of investment strategy implementation and thus part of the scheme's return.

Provision 32.A.9

Returns for periods of less than one year MUST NOT be annualized.

Discussion

Composite performance reflects only the performance of actual assets managed by the Fiduciary Management Provider. When returns for less than one year are annualized, the partial-year return is "extended" in order to create an annual return. The extrapolation of the partial-year return produces a simulated return and does not reflect the performance of actual assets. The non-compliant return does not qualify for inclusion in the GIPS Composite Report. Therefore, performance for periods of less than one year must not be annualized.

Provision 32.A.10

All returns MUST be calculated after the deduction of TRANSACTION COSTS incurred during the period.

Discussion

Transaction costs are defined as the costs of buying or selling investments. These costs typically take the form of brokerage commissions, exchange fees and/or taxes, and/or bid–offer spreads from either internal or external brokers. Custodial fees charged per transaction should be considered custody fees and not transaction costs.

All returns must reflect the deduction of transaction costs incurred in the purchase or sale of investments. Transaction costs must be deducted when calculating performance because these are costs that must be paid in order to implement the investment strategy.

Provision 32.A.11

The FIDUCIARY MANAGEMENT PROVIDER MUST calculate performance in accordance with its COMPOSITE-specific calculation policies.

Discussion

A Fiduciary Management Provider must create composite-specific policies for calculating the performance of its schemes and composites. It must apply these policies consistently when calculating performance. A Fiduciary Management Provider must ensure that its policies for calculating performance address not only assets managed internally but also those managed externally, or for which performance is calculated externally. A Fiduciary Management Provider claiming compliance with the GIPS standards for FMPs that uses external managers and service providers is responsible for having policies and procedures in place to ensure that the relevant outsourced services produce information on which the Fiduciary Management Provider relies is consistent with the requirements of the GIPS standards for FMPs, and that all GIPS standards for FMPs requirements have been met.

Although it is not possible to list all of the items that must be included in a Fiduciary Management Provider's policies and procedures for calculating the performance of its schemes and composites, the following are examples of some of the items that a Fiduciary Management Provider must address in its policies and procedures relating to performance calculation:

- How the Fiduciary Management Provider ensures that the information from third-party service providers meets the requirements of the GIPS standards for FMPs and can be used, as necessary, to produce returns that comply with the GIPS standards for FMPs;
- The calculation methodology for composite assets and total Fiduciary Management Provider assets;
- The fees and expenses deducted when calculating scheme net returns;

- The treatment of reclaimable withholding taxes when recording interest income and dividends;
- The treatment of dividend income—accrued or recorded on a cash basis;
- The treatment of performance-based fee clawbacks, if any; and
- The calculation methodology for:
    - scheme returns, including the treatment of external cash flows,
    - benchmark returns,
    - scheme relative returns,
    - composite relative returns,
    - internal dispersion,
    - annualized standard deviation,
    - annualized information ratio, and
    - annualized maximum drawdown.

Policies may be established on a composite-specific basis. Once a Fiduciary Management Provider establishes its policies, it must apply them consistently.

A Fiduciary Management Provider's policies and procedures for calculating performance must be designed to ensure that the Fiduciary Management Provider adheres to all applicable laws and regulations regarding the calculation and presentation of performance. Fiduciary Management Providers must establish policies and procedures to ensure that performance and performance-related information does not include false or misleading information.

Policies and procedures should be reviewed regularly to determine if they should be changed or improved, but it is not expected that they will change frequently. A Fiduciary Management Provider must not change a policy retroactively solely to increase performance or to present the Fiduciary Management Provider in a better light. Retroactive changes to policies and procedures should be avoided.

The Fiduciary Management Provider should conduct periodic testing or other monitoring procedures to ensure that all outsourced policies and procedures are being applied consistently and appropriately.

Provision 32.A.12

For SCHEMES invested in underlying POOLED FUNDS, all returns MUST reflect the deduction of all fees and expenses charged at the underlying POOLED FUND level.

Discussion

When calculating returns for schemes invested in underlying pooled funds, all returns must reflect the deduction of all fees and expenses charged at the underlying pooled fund level, because the clients must pay these fees and expenses and they can be viewed as costs of investing in these underlying pooled funds.

Valuation

Provision 32.A.13

SCHEMES MUST be valued in accordance with the definition of FAIR VALUE.

Discussion

The quality of a return depends on the quality of the valuations included in the calculation of that return. Performance reporting is of little value unless the underlying valuations are based on sound valuation principles.

Fair value is defined as the amount at which an investment could be sold in an arm's-length transaction between willing parties in an orderly transaction. The valuation must be determined using the objective, observable, unadjusted quoted market price for an identical investment in an active market on the measurement date, if available. In the absence of an objective, observable, unadjusted quoted market price for an identical investment in an active market on the measurement date, the valuation must represent the Fiduciary Management Provider's best estimate of the fair value. Fair value must include any accrued income.

As noted in the definition of fair value, when determining fair value, Fiduciary Management Providers must use the objective, observable, unadjusted quoted market prices for identical investments in active markets on the measurement date, if available. Markets are not always liquid, however, and investment prices are not always objective and/or observable. For illiquid or hard-to-value investments, or for investments for which no observable market value or market price is available, additional steps are necessary. A Fiduciary Management Provider's valuation policies and procedures must address situations in which the market prices may be available for similar but not identical investments, inputs to valuations are subjective rather than objective, and/or markets are inactive instead of active.

Fiduciary Management Providers are required to disclose that policies for valuing investments are available upon request (see Provision 34.C.12). Fiduciary Management Providers must also disclose significant events that would help a prospective client interpret the GIPS Composite Report (see Provision 34.C.14), including significant events that have affected fair value (e.g., market dislocation events).

A very small number of circumstances exist in which cost or book value may be deemed to be fair value. Examples include stable value assets, such as Guaranteed Investment Contracts (GICS) or real estate in the first year of the purchase of the property. In such cases, if a Fiduciary Management Provider can support a determination that cost or book value and fair value are the same, it is acceptable for book value to be used in the calculation of asset values and returns.

It is important that a Fiduciary Management Provider establish fair valuation policies that take into account the specific characteristics of asset classes or investment products. For example, when a Fiduciary Management Provider invests in a private equity fund, the Fiduciary Management Provider may choose to place reliance on the valuations of the private equity fund that are provided by the general partner, adjusted for any capital calls and/or distributions.

There is a recommended valuation hierarchy in Provision 32.B.6. Fiduciary Management Providers are not required to follow the valuation hierarchy, but it is recommended that they do so.

Although a Fiduciary Management Provider may use external third parties to value investments, the Fiduciary Management Provider still retains responsibility for compliance with the GIPS standards for FMPs, which includes the requirement to fair value investments.

Provision 32.A.14

The FIDUCIARY MANAGEMENT PROVIDER MUST value SCHEMES in accordance with the COMPOSITE-specific valuation policy.

Discussion

When daily calculations are not used, a Fiduciary Management Provider must not value a scheme "opportunistically" and must follow its composite-specific valuation policies consistently. For example, assume that a Fiduciary Management Provider's valuation policy is to value schemes for large cash flows, defined in the composite-specific valuation policy as a single external cash flow equal to or greater than 5% of the scheme's beginning-of-month value. For any single external cash flow that is less than 5% of the scheme's beginning-of-month value, the Fiduciary Management Provider must not value the scheme. For any single external cash flow that is equal to or greater than 5% of the scheme's beginning-of-month value, the Fiduciary Management Provider must value the scheme. The Fiduciary Management Provider must apply the composite-specific valuation policy consistently and not "cherry-pick" when to value schemes.

Although a Fiduciary Management Provider must establish a composite-specific valuation policy, that policy may differentiate valuation frequency for different types of schemes in the composite. For example, the composite may include schemes that use different custodians that employ slightly different valuation hierarchies. The Fiduciary Management Provider needs to ensure that the custodian valuation hierarchies are reasonable and use the respective valuations consistently.

It is possible that all of a Fiduciary Management Provider's composites use the same valuation policy; however, the appropriate policy must be determined for each composite. The Fiduciary Management Provider must not simply establish this policy on a Fiduciary Management Provider–wide basis without considering whether the policy is appropriate for each composite.

A Fiduciary Management Provider must ensure that its policies for calculating performance address not only assets managed internally but also those managed externally or for which performance is calculated externally. A Fiduciary Management Provider claiming compliance with the GIPS standards for FMPs that uses external managers and service providers is responsible for having policies and procedures in place to ensure that the relevant outsourced services produce information on which the Fiduciary Management Provider relies is consistent with the requirements of the GIPS standards for FMPs, and that all GIPS standards for FMPs requirements have been met.

Policies and procedures should be reviewed regularly to determine if they should be changed or improved, but it is not expected that they will change frequently. A Fiduciary Management Provider must not change a policy retroactively solely to increase performance or to present the Fiduciary Management Provider in a better light. Retroactive changes to policies and procedures should be avoided.

The Fiduciary Management Provider should also conduct periodic testing or other monitoring procedures to ensure that all outsourced policies and procedures are being applied consistently and appropriately.

Provision 32.A.15

If the FIDUCIARY MANAGEMENT PROVIDER uses the last available historical price or preliminary, estimated value as FAIR VALUE, the FIDUCIARY MANAGEMENT PROVIDER MUST:

a. Consider it to be the best approximation of the current FAIR VALUE.

b. Assess the difference between the approximation and final value and the effect on COMPOSITE assets, TOTAL FIDUCIARY MANAGEMENT PROVIDER ASSETS, and performance, and also make any adjustments when the final value is received.

Discussion

It is not uncommon for alternative investments to be valued using preliminary, estimated values. If a Fiduciary Management Provider uses the last available historical price or preliminary, estimated values as fair value, perhaps in order to produce a GIPS Composite Report on a timely basis, the Fiduciary Management Provider must consider the estimate of value to be the best approximation of the current fair value, and this must be defined in the Fiduciary Management Provider's fair valuation policy. When using preliminary, estimated values, the Fiduciary Management Provider should obtain an understanding of the process used to establish estimated values in order to determine whether reliance can be placed on the process.

Fiduciary Management Providers must define the use of the last available historical price or preliminary, estimated values, and the treatment of subsequent final values, in their composite-specific fair valuation policies. The valuation policies must be followed consistently and made available upon request. If the Fiduciary Management Provider uses the last available historical price or preliminary, estimated values, when final values are received, the Fiduciary Management Provider must assess the difference between the estimate of value and the final value, as well as the effect on composite assets, total Fiduciary Management Provider assets, and performance. If the final values and resulting performance differ materially, Fiduciary Management Providers must determine whether any adjustments to the composite must be made on a prospective basis or retroactively.

If composite valuations are revised retroactively, Fiduciary Management Providers must consider the requirements related to error correction and the Fiduciary Management Provider's error correction policies. Differences between final and estimated values are not considered to be errors but are treated similarly.

It is important to remember the underlying principles of the GIPS standards for FMPs: fair representation and full disclosure. If differences between the estimated and final values are consistently material, the Fiduciary Management Provider should reassess whether it is proper to continue to use the estimates of fair value.

Provision 32.A.16

COMPOSITES MUST have consistent beginning and ending annual valuation dates. The beginning and ending valuation dates MUST be at calendar year end or on the last business day of the year.

Discussion

It is required that composites have consistent beginning and ending annual valuation dates. Such consistency will result in improved comparability of data. The beginning and ending valuation dates of the composite must be at calendar year end or on the last business day of the year. Schemes in a composite must therefore have beginning and ending valuation dates that are at

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calendar year end or on the last business day of the year. If the composite beginning or ending annual valuation dates fall on a weekend or a holiday, the Fiduciary Management Provider should use the valuation on the last business day of the year. If the composite ending annual valuation date differs from that of the benchmark, this difference should be disclosed. For example, if the annual period end and the last valuation falls on 30 December because of the New Year's holiday but the end of the annual period for the benchmark falls on 31 December, any material difference in performance should be disclosed. The Fiduciary Management Provider should use the benchmark value from 30 December if it is available.

Schemes—Time-Weighted Returns

Provision 32.A.17

The FIDUCIARY MANAGEMENT PROVIDER MUST value SCHEMES:

a. At least monthly.

b. As of the calendar month end or the last business day of the month.

c. On the date of all LARGE CASH FLOWS. The FIDUCIARY MANAGEMENT PROVIDER MUST define LARGE CASH FLOW for each COMPOSITE to determine when SCHEMES in that COMPOSITE MUST be valued.

Discussion

When calculating time-weighted returns for schemes included in composites, all schemes must be valued at least monthly. Valuing schemes included in the composite at different end dates does not allow for comparability of information. Fiduciary Management Providers must be consistent in defining the monthly valuation period to allow for comparability of data for all GIPS Composite Reports. It is also required that the calculation period must end on the same day as the reporting period. In other words, Fiduciary Management Providers must value schemes included in a composite on the last day of the reporting period or the nearest business day.

In addition to the requirement for Fiduciary Management Providers to value schemes included in a composite at least monthly, Fiduciary Management Providers are required to value all schemes included in a composite on the date of all large cash flows, if schemes are not valued daily.
A large cash flow, defined by the Fiduciary Management Provider for each composite, is the level at which the Fiduciary Management Provider determines that an external cash flow may distort performance if the scheme is not valued and a sub-period return is not calculated. The Fiduciary Management Provider must determine in advance (i.e., on an ex ante basis) what is considered to be a large cash flow on a composite-specific basis. Fiduciary Management Providers must define the amount in terms of the value of cash/asset flow or in terms of a percentage of the scheme

assets. Fiduciary Management Providers must also determine if a large cash flow is a single external cash flow or an aggregate of a number of external cash flows within a stated period. The determination of the large cash flow level may be influenced by a variety of factors, such as the strategy's nature, its historical and expected volatility, and its targeted cash level.

A Fiduciary Management Provider must not establish a high large cash flow level solely for the purpose of reducing the number of instances when schemes must be valued because of large cash flows. The Fiduciary Management Provider also must not base the policy on the degree to which the large cash flow affects the return. The large cash flow level chosen by the Fiduciary Management Provider on a composite-specific basis must represent the Fiduciary Management Provider's estimate of the level of external cash flow that would potentially distort the accuracy of a scheme's performance calculation if the scheme is not valued at the time of the external cash flow and a sub-period return is not calculated.

It is possible that all of a Fiduciary Management Provider's composites have the same level of large cash flows; however, the appropriate level must be determined for each composite. The Fiduciary Management Provider must not simply establish this level on a Fiduciary Management Provider–wide basis without considering whether the level is appropriate for each scheme or composite.

Revaluing schemes as of the close of the business day prior to a large external cash flow is acceptable if external cash flows are assumed to take place at the beginning of the day.

Provision 32.A.18

The FIDUCIARY MANAGEMENT PROVIDER MUST calculate TIME-WEIGHTED RETURNS and MUST:

a. Calculate returns at least monthly.
b. Calculate monthly returns through the calendar month end or the last business day of the month.
c. Calculate sub-period returns at the time of all LARGE CASH FLOWS, if daily returns are not calculated.
d. For EXTERNAL CASH FLOWS that are not LARGE CASH FLOWS, calculate SCHEME returns that adjust for daily-weighted EXTERNAL CASH FLOWS, if daily returns are not calculated.
e. Treat EXTERNAL CASH FLOWS according to the FIDUCIARY MANAGEMENT PROVIDER'S COMPOSITE-specific policy.
f. Geometrically LINK periodic and sub-period returns.
g. Consistently apply the calculation methodology used for an individual SCHEME.

Discussion

Time-weighted returns (TWRs) measure the Fiduciary Management Provider's performance and attempt to negate or neutralize the effect of external cash flows to or from the client. The GIPS standards for FMPs do not require a specific method to be used to calculate TWRs but do require the return methodology to meet certain criteria.

Although it is required that TWRs be calculated at least monthly, Fiduciary Management Providers may calculate daily returns. If daily returns are not calculated, a Fiduciary Management Provider must calculate sub-period returns for schemes at the time of all large cash flows in order to calculate a more accurate TWR. A large cash flow is the level at which the Fiduciary Management Provider determines that an external cash flow may distort performance if the scheme is not valued at the time of the external cash flow and a sub-period return is not calculated. A large cash flow is defined by the Fiduciary Management Provider for each composite to determine when the schemes in that composite are to be valued for performance calculations. Fiduciary Management Providers must define the amount, for each composite, in terms of the value of the cash/asset flow or in terms of a percentage of the scheme assets. Fiduciary Management Providers must also determine if a large cash flow is a single external cash flow or an aggregate of a number of external cash flows within a stated period.

Fiduciary Management Providers must calculate scheme TWRs at least monthly. When a Fiduciary Management Provider is calculating and presenting performance in a GIPS Composite Report, calculating returns for schemes at different end dates does not allow for the comparability of information. Therefore, to facilitate comparability, Fiduciary Management Providers must calculate monthly returns as of the calendar month end or the last business day of the month.

The actual valuation of the scheme's investments and calculation of return each time there is a large cash flow will result in a more accurate TWR calculation than using the Modified Dietz method, but it is less accurate than a "true" TWR calculation methodology, which requires valuation and return calculation with every external cash flow.

The returns calculated for each sub-period are geometrically linked according to the following formula:

$$r_t^{TWR} = \left[(1 + r_1) \times (1 + r_2) \times \ldots \times (1 + r_I)\right] - 1,$$

where r_t^{TWR} is the time-weighted return for period t and period t consists of I sub-periods.

The chief advantage of valuing a portfolio at the time of large cash flows and calculating sub-period returns is that it calculates a better estimate than the midpoint or day-weighting methods. The major disadvantage is that it requires precise valuation of the scheme each time a large cash flow occurs. In practice, this means that Fiduciary Management Providers must have the ability to value schemes on a daily basis. If all investments are not accurately priced for each sub-period valuation, errors generated in the return calculation may be greater than the errors caused by using the midpoint or day-weighting approximation methods. In such cases, it is important to be able to correct for errors, such as missed security splits, mispricings, and improperly booked transactions, because day-to-day compounding will not correct for them automatically if external cash flows occur.

The calculation of scheme returns that adjust for daily-weighted external cash flows is required, if daily returns are not calculated. The denominator in the calculation of a TWR that adjusts for daily-weighted external cash flows reflects the weighting of external cash flows for the days they have been in the scheme and available for investment during the period. A Fiduciary Management Provider must create a composite-specific policy for the treatment of external cash flows and apply the policy consistently. Examples of acceptable methods for calculating returns that adjust for daily-weighted external cash flows are the Modified Dietz method and internal rate of return (IRR). These methods are estimates of TWRs.

Modified Dietz Method

The Modified Dietz method improves upon the Original Dietz method, which assumes that all external cash flows occur during the midpoint of the period. In an attempt to determine a more accurate return, the Modified Dietz method weights each external cash flow in the denominator by the amount of time it is held in the scheme. The formula for estimating the TWR using the Modified Dietz method is

$$r_t^{MD} = \frac{V_t^E - V_t^B - \sum_{i=1}^{I} CF_{i,t}}{V_t^B + \sum_{i=1}^{I}\left(CF_{i,t} \times w_{i,t}\right)},$$

where

r_t^{MD} = the Modified Dietz return for the scheme for period t

V_t^E = the ending value of the scheme for period t

V_t^B = the beginning value of the scheme for period t

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

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

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

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

where

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

D_t = the total number of calendar days in period t

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

The numerator of $w_{i,t}$ is based on the assumption that the external cash flows occur at the end of the day. If external cash flows were assumed to occur at the beginning of the day, the numerator would be $[(D_t—D_{i,t}) + 1]$. A Fiduciary Management Provider may choose to use a beginning-of-day or end-of-day external cash flow assumption or some combination of the two. The key is to establish a policy and treat external cash flows consistently.

The chief advantage of the Modified Dietz method is that it does not require scheme valuation on the date of each external cash flow. Its chief disadvantage is that it provides a less accurate return than when the scheme is valued at the time of each external cash flow. The estimate suffers most when a combination of the following conditions exists: (1) one or more large external cash flows occur; and (2) external cash flows occur during periods of high market volatility—that is, the scheme's returns are significantly non-linear.

The following is an example of a return calculation using the Modified Dietz method. The example is for a scheme with a beginning value of £100,000 on 31 May, an ending value of £135,000 on 30 June, and external cash flows of –£2,000 on 6 June and £20,000 on 11 June. Assume the external cash flows were reflected at the end of the day.

31 May	Beginning Value (*BV*)	£100,000
6 June	Cash Flow (*CF*)	–£2,000
11 June	Cash Flow (*CF*)	£20,000
30 June	Ending Value (*EV*)	£135,000

$$R_{Modified\ Dietz} = \frac{EV - BV - CF}{BV + (W \times CF)}$$

W is the weight of the external cash flow for the month. Because June has 30 days and the external cash flows were assumed to occur at the end of the day, the weights of the external cash flows are calculated as (30 – 6)/30 = 0.80 and (30 – 11)/30 = 0.6333, respectively.

$$R_{Modified\ Dietz} = \frac{135{,}000 - 100{,}000 - (-2{,}000 + 20{,}000)}{100{,}000 + (0.80 \times -2{,}000) + (0.6333 \times 20{,}000)}$$

$$R_{Modified\ Dietz} = \frac{17{,}000}{111{,}067} = 15.31\%$$

If the Fiduciary Management Provider's policy was to treat external cash flows as occurring at the beginning of the day, the Fiduciary Management Provider would have added 1 to the numerator in the weight calculation, and the weights to be multiplied by the external cash flow would be calculated as (30 – 6 + 1)/30 = 0.8333 and (30 – 11 + 1)/30 = 0.6667, respectively.

The following is an example of a return calculation using the Modified Dietz method and revaluing during the month for a large cash flow (assumed to be 10% in this example). To calculate performance for the month, we must calculate performance for the sub-periods before and after the large external cash flow and then geometrically link the sub-period returns. In this example, we use the same data as in the prior example but instead value the scheme at the time of the large cash flow on 11 June.

31 May	Beginning Value (BV)	£100,000
6 June	Cash Flow (CF)	–£2,000
11 June	Cash Flow (CF)	£20,000
11 June	Ending Value (EV)	£125,000
30 June	Ending Value (EV)	£135,000

Sub-period 1 calculation, from 31 May through 11 June:

Because sub-period 1 has 11 days and the external cash flows are assumed to occur at the end of the day, the weight of the external cash flow on the sixth day is (11 – 6)/11 = 0.4545. The weight of the cash flow on the 11th would be zero because it is assumed to happen at the end of the day on 11 June, which is when the portfolio was revalued.

$$R_{\mathit{Modified\ Dietz}\,(\mathit{sub\text{-}period}\ 1)} = \frac{125{,}000 - 100{,}000 + (-2{,}000 + 20{,}000)}{100{,}000 + (0.4545 \times -2{,}000) + (0 \times 20{,}000)}$$

$$R_{\mathit{Modified\ Dietz}\,(\mathit{sub\text{-}period}\ 1)} = \frac{7{,}000}{99{,}091} = 7.06\%$$

Sub-period 2 calculation, from 11 June through 30 June:

$$R_{\mathit{Modified\ Dietz}\,(\mathit{sub\text{-}period}\ 2)} = \frac{135{,}000 - 125{,}000}{125{,}000}$$

$$R_{\mathit{Modified\ Dietz}\,(\mathit{sub\text{-}period}\ 2)} = \frac{10{,}000}{125{,}000} = 8.00\%$$

To calculate the monthly return, geometrically link sub-period returns 1 and 2: (1 + 0.0706) × (1 + 0.08) – 1 = 0.1563, or 15.63%.

Other formulas in addition to the Modified Dietz method for calculating approximate time-weighted rates of return are also permitted.

Internal Rate of Return (IRR) Method

The IRR, which is a money-weighted return, is the implied discount rate or effective compounded rate of return that equates the present value of cash outflows with the present value of cash inflows. The IRR Method is an acceptable method to use to calculate a TWR when no large cash flows occur during the sub-period. To create a TWR, the IRRs before and after the large cash flow are calculated and then linked together geometrically.

The IRR is that value of R that satisfies the following equation:

$$V_E = \sum_{i=0}^{n} CF_i (1+R)^{W_i},$$

where V_E and W_i are the same as for the Modified Dietz method.

The external cash flows, CF_i, are also the same as with the Modified Dietz method with one important exception: The value at the beginning of the period is also treated as an external cash flow—that is, $V_B = CF_0$.

The IRR is obtained by selecting values for R and solving the equation until the result equals V_E. For example, if three external cash flows (including the value at the beginning of the period) have occurred, the formula will have three terms:

$$V_E = CF_0(1+R)^{W_0} + CF_1(1+R)^{W_1} + CF_2(1+R)^{W_2}.$$

The first term deals with the first external cash flow, CF_0, which is the value of the scheme at the beginning of the period; W_i is the proportion of the period when the external cash flow CF_i was held in the scheme. Because CF_0 is in for the whole period, $W_0 = 1$. The larger the value of CF_i in the term, the more it will contribute to the total; but the smaller the exponent (i.e., the value of W_i), the less the term will contribute to the sum. The usual effect is that the first term, with a large CF_0 and W_0 equal to 1, will contribute far more than the other terms.

The advantages and disadvantages of the IRR method are the same as those of the Modified Dietz method. The IRR method has the additional disadvantage of requiring an iterative process solution. It is also possible to have multiple answers if both positive and negative external cash flows occur.

When calculating the TWR for schemes, periodic and sub-period returns must be linked geometrically.

A Fiduciary Management Provider must create a composite-specific policy for the treatment of external cash flows for each of its composites and apply that policy consistently. For example, the same definition of a large cash flow must be used when evaluating a cash flow for all schemes within the composite. Policies and procedures for the calculation methodology used for an individual scheme must also be created and applied consistently.

Net Returns

Provision 32.A.19

SCHEME NET RETURNS MUST reflect the deduction of actual TRANSACTIONS COSTS and all other actual fees and expenses, including INVESTMENT MANAGEMENT FEES paid to both the FIDUCIARY MANAGEMENT PROVIDER and any SUB-ADVISORS.

Discussion

Transaction costs are the costs of buying or selling investments. Investment management fees are the fees payable to the Fiduciary Management Provider for the ongoing management of a scheme. They are typically asset based (based on a percentage of assets), performance based (based on the performance of the scheme on an absolute basis or relative to a benchmark), or a combination of the two but may take other forms as well. Investment management fees include fees that are charged to clients for investment-related activities. Schemes often incur other fees and costs beyond transaction costs and investment management fees, such as custody fees. Therefore, scheme net returns must reflect the deduction of all costs associated with the scheme's assets, including transaction costs, custody fees, administrative fees, and all other fees and expenses. Scheme net returns must also reflect the deduction of investment management fees and performance-based fees paid to the Fiduciary Management Provider, underlying investment managers, and any sub-advisors.

Provision 32.A.20

When calculating SCHEME NET RETURNS, the FIDUCIARY MANAGEMENT PROVIDER MUST reflect any PERFORMANCE-BASED FEE CLAWBACK in the period in which it is repaid.

Discussion

A clawback is the repayment of previously earned performance-based fees resulting from subsequent underperformance. When calculating scheme net returns, any performance-based fee clawback must be reflected in the period in which the Fiduciary Management Provider determines previously earned performance fees must be repaid. A Fiduciary Management Provider must not restate returns to eliminate performance-based fees that were previously reflected in returns.

Typically, performance fees reward positive outperformance, whereas no fee is charged when negative excess returns occur. Some performance fee models specify a penalty (negative fee) that must be paid by the manager in case of negative excess returns, or they may require clawbacks wherein the Fiduciary Management Provider must pay back the performance fee received in the past in the case of underperformance.

The Fiduciary Management Provider may not restate historical net performance because of performance fee clawbacks. The clawback is not an error correction of the performance fees accrued and crystallized in the previous periods but represents an actual penalty for the Fiduciary Management Provider for underperforming in the current period. Restating historical performance would be misleading. The Fiduciary Management Provider must disclose that returns are net of performance-based fees. The Fiduciary Management Provider must also disclose that the Fiduciary Management Provider's policies for calculating performance are available upon request. These policies must include the methodology for reflecting performance-based fees and clawbacks in performance.

Composite Relative Returns

Provision 32.A.21

COMPOSITE RELATIVE RETURNS MUST be calculated at least monthly.

Discussion

The more frequently composite returns are calculated, the more accurate the results will be. Composite returns must be calculated at least monthly. The schemes included in the composite must be consistent for the monthly performance measurement period.

Provision 32.A.22

COMPOSITE RELATIVE RETURNS MUST be calculated by equal-weighting the individual SCHEME RELATIVE RETURNS.

Discussion

A composite is defined as an aggregation of one or more schemes managed according to a similar investment mandate, objective, or strategy. The objective in calculating the composite's relative return is to use a method that will give equal importance to every scheme relative return in the composite.

When calculating composite relative returns for a specific period, only schemes that are included in the composite for the entire performance period are included in the calculation. For example, when calculating monthly composite relative returns, only those schemes' relative returns that are managed on a discretionary basis for the full month are included in the composite relative return calculation. Schemes that begin during the month, close during the month, or are otherwise determined to not qualify for inclusion in the composite for the full month must not be included in the composite relative return calculation. Fiduciary Management Providers must create and document policies and procedures for calculating composite relative returns and follow the policies and procedures consistently.

The formula to calculate an equal-weighted composite relative return is as follows:

$$R_t = \frac{\sum r_{k,t}}{k}$$

where

R_t = the equal-weighted relative return for the composite for period t

k = the number of schemes (1, 2, 3, . . . , k) in the composite for period t

$r_{k,t}$ = the scheme relative return of scheme k for period t

Scheme Relative Returns

Provision 32.A.23

SCHEME RELATIVE RETURNS MUST be calculated as the difference between the SCHEME NET RETURN and the BENCHMARK return.

Discussion

The GIPS standards for FMPs defines scheme relative return as the difference between the scheme net return and the benchmark return. If the Fiduciary Management Provider calculates composite performance monthly, then the scheme relative return must be calculated monthly.

If the composite strategy is an unconstrained mandate, the scheme relative return must be calculated relative to the liability benchmark. (See Provision 34.A.1.b.) If the composite strategy is a hedge-constrained mandate, the scheme relative return must be calculated relative to both the liability benchmark and the hedge ratio–adjusted benchmark. (See Provision 34.A.1.c.) Scheme relative returns are calculated as the difference between the scheme net return and the respective benchmark return.

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Provision 32.A.24

When calculating SCHEME RELATIVE RETURNS, any objective (e.g., BENCHMARK + x%) MUST be ignored.

Discussion

Fiduciary Management Providers must ignore any target outperformance above the benchmark return when calculating scheme relative returns that will be included in composite relative return calculations. For example, assume a client's liability benchmark includes a margin over the liability such as gilts + 0.5%. The margin of 0.5% must be excluded from the calculation of the liability benchmark for the purposes of calculating performance.

Provision 32.A.25

SCHEME RELATIVE RETURNS for unconstrained mandates MUST be calculated using the liability BENCHMARK.

Discussion

When calculating scheme relative returns for schemes included in a composite with an unconstrained mandate, the Fiduciary Management Provider must calculate the scheme relative return as the scheme net return less the liability benchmark return. The liability benchmark should equal the assets (or funded liabilities) of the client.

Provision 32.A.26

SCHEME RELATIVE RETURNS for hedge constrained mandates MUST be calculated using the liability BENCHMARK and the HEDGE RATIO–ADJUSTED BENCHMARK.

Discussion

When calculating scheme relative returns for schemes included in a composite with a hedge-constrained mandate, the Fiduciary Management Provider must calculate two scheme relative returns for each scheme. The first is the scheme relative return that is relative to the liability benchmark. The second is the scheme relative return that is relative to the hedge ratio–adjusted benchmark.

The hedge ratio–adjusted liability benchmark is calculated by including cash for the proportion of liabilities for which interest rate hedging is not allowed and the full liabilities for the proportion of liabilities for which hedging is allowed. This calculation reflects the client's responsibility for the decision to limit hedging on a proportion of the liabilities.

Provision 32.A.27

For periods beginning on or after 1 January 2020, SCHEME RELATIVE RETURNS MUST be calculated using the GEOMETRIC DIFFERENCE METHODOLOGY.

Discussion

As of 1 January 2020, Fiduciary Management Providers must calculate monthly scheme relative returns using the geometric difference methodology. To calculate the scheme relative return using the geometric difference methodology the Fiduciary Management Provider must first calculate the monthly scheme net return and benchmark return, ignoring any additional margin over the benchmark for each scheme. The monthly scheme relative return using the geometric difference is then calculated using the following formula (1 + Scheme Net Return)/(1 + Benchmark Return) – 1. For periods prior to 1 January 2020, Fiduciary Management Providers may calculate scheme relative returns using the arithmetic methodology. The arithmetic methodology is calculated as follows: Scheme Net Return – Benchmark Return, ignoring any additional margin over the benchmark for each scheme. Monthly scheme relative returns are equal weighted to arrive at the monthly composite relative return. The monthly composite relative returns are then geometrically linked to calculate the annual composite relative return.

Benchmarks

Provision 32.A.28

When calculating SCHEME RELATIVE RETURNS using the liability BENCHMARK, the FIDUCIARY MANAGEMENT PROVIDER MUST use the liability BENCHMARK for each respective client. The BENCHMARK may be:

a. the full liability cash flows;
b. a liability proxy BENCHMARK constructed from gilts or swaps to represent the cash flow liabilities; or
c. a gilt of similar duration to the liabilities. This option may be used only when neither the full liability cash flows nor a liability proxy BENCHMARK constructed from gilts or swaps exists.

Discussion

When calculating the scheme relative returns, the Fiduciary Management Provider should use the liability benchmark used to report performance to the client. The liability benchmark may be the full liabilities (i.e., the cash payouts to be made by the pension scheme for the life of the pension scheme discounted back to the present); a liability proxy benchmark, sometimes also referred to as an asset proxy benchmark (e.g., a portfolio of gilts or swaps that match the liabilities of the pension scheme); or a gilt of similar duration to the liabilities.

Provision 32.A.29

When calculating HEDGE RATIO–ADJUSTED BENCHMARKS, the FIDUCIARY MANAGEMENT PROVIDER MUST include cash for the proportion of liabilities where the interest rate hedging is not allowed and include the full liabilities for the proportion of liabilities where hedging is allowed.

Discussion

The hedge ratio–adjusted liability benchmark is calculated by including cash for the proportion of liabilities for which interest rate hedging is not allowed and the full liabilities for the proportion of liabilities for which hedging is allowed. This calculation reflects the client's responsibility for the decision to limit hedging on a proportion of the liabilities.

Risk Measures

Provision 32.A.30

When calculating COMPOSITE EX POST STANDARD DEVIATION, the FIDUCIARY MANAGEMENT PROVIDER MUST use monthly COMPOSITE RELATIVE RETURNS.

Discussion

To calculate the composite ex post standard deviation for any period, the Fiduciary Management Provider must use the monthly composite relative returns for the defined period.

Ex post standard deviation is calculated as follows:

$$Ex\ post\ standard\ deviation = \sqrt{\frac{\sum\left[R_i - MEAN(R)\right]^2}{n}},$$

where R_i is the return on the ith monthly composite relative return, n is the number of monthly returns used for the external standard deviation calculation (the use of n is best practice, but either n or $n - 1$ in the denominator of the standard deviation calculation is acceptable), and $MEAN(R)$ is the mean monthly composite relative return 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 first monthly composite relative return, R_i is the ith monthly composite relative return, and n is the number of monthly composite relative returns used in the calculation (e.g., for the annualized three-year ex post standard deviation, n is 36).

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

The composite relative returns used in the standard deviation calculation depend on the composite's mandate. If the composite has an unconstrained mandate, the composite relative returns that are relative to the liability benchmark must be used. (See Provision 34.A.1.b.) If the composite has a hedge-constrained mandate, the Fiduciary Management Provider must present two ex post standard deviations in the GIPS Composite Report. The first uses the composite relative returns that are relative to the liability benchmark, and the second uses the composite relative returns that are relative to the hedge ratio–adjusted benchmark. (See Provision 34.A.1.c.)

For periods prior to 1 January 2020, scheme relative returns used in composite ex post standard deviation calculations may be calculated using the arithmetic difference methodology or the geometric difference methodology. For periods beginning on or after 1 January 2020, scheme relative returns used in composite relative return calculations must be calculated using the geometric difference methodology (see Provision 32.A.27). When switching from the arithmetic difference methodology to the geometric difference methodology for scheme relative return calculations, Fiduciary Management Providers must consider if this change is a material change in calculation methodology that must be disclosed (see Provision 34.C.29).

Provision 32.A.31

When calculating MAXIMUM DRAWDOWN, the FIDUCIARY MANAGEMENT PROVIDER MUST use monthly COMPOSITE RELATIVE RETURNS.

Discussion

The maximum drawdown is the maximum observed loss from a peak to a trough using the composite relative returns for a specific period. When a Fiduciary Management Provider is calculating and presenting the maximum drawdown for one-year, three-year, five-year, seven-year, and since-inception periods, the maximum drawdown is calculated as of the period end being presented and is not calculated on a rolling period. For example, a composite that has an inception date of 1 July 2016 that is presenting information for the period from 1 July 2016 through 31 December 2020 would calculate the one-year maximum drawdown for the period from 1 January 2020 through 31 December 2020 and not the maximum drawdown for any one-year rolling period from 1 July 2016 through 31 December 2020. Likewise, the three-year maximum drawdown would be the maximum drawdown for the period from 1 January 2018 through 31 December 2020. The maximum drawdown is an indicator of the largest loss over a specified period. To calculate the maximum drawdown, the Fiduciary Management Provider must identify peaks and troughs and calculate the largest percentage loss for each peak to trough, where the Maximum Drawdown (MDD) is:

$$\text{MDD} = \frac{\text{Trough Value} - \text{Peak Value}}{\text{Peak Value}}$$

Consider the following two examples. In Scenario 1, there are two peaks and troughs, but the max drawdown is the peak to trough with the greatest percentage loss (Peak 1 to Trough 1 with a percentage loss of 5.50%). In Scenario 2, there is only one period with a peak to trough.

Scenario 1

Period	Relative Return	Indexed Value	Peak to Trough	Drawdown	
0		100.000	Peak 1		
1	−5.496%	94.504	Trough 1	5.50%	←Max Drawdown
2	4.277%	98.545			
3	−0.480%	98.073			
4	−0.749%	97.338			
5	3.477%	100.722			
6	2.478%	103.218	Peak 2		
7	−1.988%	101.165			
8	−0.899%	100.256			
9	−2.348%	97.902	Trough 2	5.15%	
10	2.008%	99.868			
11	2.158%	102.023			
12	0.110%	102.135			

Scenario 2

Period	Relative Return	Indexed Value	Peak to Trough	Drawdown	
0		100.000			
1	3.428%	103.428			
2	0.230%	103.666			
3	−1.469%	102.143			
4	3.538%	105.756	Peak 1		
5	−2.219%	103.410			
6	−0.570%	102.821			
7	1.739%	104.609			
8	−0.180%	104.421			
9	0.260%	104.692			
10	0.340%	105.048			
11	−1.919%	103.032			
12	−4.887%	97.997	Trough 1	7.34%	←Max Drawdown

The composite relative returns used in the maximum drawdown calculation depend on the composite's mandate. If the composite has an unconstrained mandate, the composite relative returns that are relative to the liability benchmark must be used. (See Provision 34.A.1.b.) If the composite has a hedge-constrained mandate, the Fiduciary Management Provider must present two maximum drawdown values in the GIPS Composite Report. The first uses the composite relative returns that are relative to the liability benchmark, and the second uses the composite relative returns that are relative to the hedge ratio–adjusted benchmark. (See Provision 34.A.1.c.)

For periods prior to 1 January 2020, scheme relative returns used in the maximum drawdown calculations may be calculated using the arithmetic difference methodology or the geometric difference methodology. For periods beginning on or after 1 January 2020, scheme relative returns used in composite relative return calculations must be calculated using the geometric difference methodology (see Provision 32.A.27). When switching from the arithmetic difference methodology to the geometric difference methodology for scheme relative return calculations, Fiduciary Management Providers must consider if this change is a material change in calculation methodology that must be disclosed (see Provision 34.C.29).

Provision 32.A.32

When calculating the INFORMATION RATIO, the FIDUCIARY MANAGEMENT PROVIDER MUST use monthly COMPOSITE RELATIVE RETURNS.

Discussion

The annualized information ratio measures the composite relative returns compared with the volatility of those returns. For periods prior to 1 January 2020, scheme relative returns used in composite relative return calculations may be calculated using the arithmetic difference methodology or the geometric difference methodology. For periods beginning on or after 1 January 2020, scheme relative returns used in composite relative return calculations must be calculated using the geometric difference methodology (see Provision 32.A.27). When switching from the arithmetic difference methodology to the geometric difference methodology for scheme relative return calculations, Fiduciary Management Providers must consider if this change is a material change in calculation methodology that must be disclosed (see Provision 34.C.29).

The annualized information ratio is calculated as follows:

$$\textit{Annualized information ratio} = \frac{\left(\frac{\sum(R_i)}{N}\right) \times P}{\sigma(R_i) \times \sqrt{P}}$$

where

R_i = monthly composite relative return

N = number of monthly observations

P = number of periodic observations in a year (i.e., 12)

σ = standard deviation

The composite relative returns used in the information ratio calculation depend on the composite's mandate. If the composite has an unconstrained mandate, the composite relative returns that are relative to the liability benchmark must be used. (See Provision 34.A.1.b.) If the composite has a hedge-constrained mandate, the Fiduciary Management Provider must present two information ratio values in the GIPS Composite Report. The first uses the composite relative returns that are relative to the liability benchmark, and the second uses the composite relative returns that are relative to the hedge ratio–adjusted benchmark. (See Provision 34.A.1.c.)

32.B. Input Data and Calculation Methodology—Recommendations

Provision 32.B.1

The FIDUCIARY MANAGEMENT PROVIDER SHOULD value SCHEMES on the date of all EXTERNAL CASH FLOWS.

Discussion

The GIPS standards for FMPs require schemes to be valued at least monthly and on the date of all large cash flows. Best practice, however, is to value schemes on the date of all external cash flows. Fiduciary Management Providers are encouraged to create a policy to value schemes on the date of all external cash flows as part of the composite-specific valuation policy, where possible.

Provision 32.B.2

Valuations SHOULD be obtained from a qualified independent third party.

Discussion

The quality of valuations used as inputs to calculate performance has a significant effect on the accuracy of scheme and composite returns; therefore, it is important that the valuations used are accurate. It is recommended that Fiduciary Management Providers obtain valuations from an independent source because a third party can provide the most objective investment valuations. In most instances, obtaining valuations from an independent third party is considered to be a best practice. A Fiduciary Management Provider claiming compliance with the GIPS standards for FMPs is responsible for its claim of compliance and must ensure that the valuations obtained from a third party can be used to satisfy the requirements of the GIPS standards for FMPs.

Provision 32.B.3

ACCRUAL ACCOUNTING SHOULD be used for dividends (as of the ex-dividend date).

Discussion

Accrual accounting determines the correct economic value of the scheme assets and allows the recording of financial transactions as they come into existence rather than when they are paid or settled. It is recommended that dividends be recognized when earned on ex-date (accrual basis) versus when paid (cash basis).

Provision 32.B.4

The FIDUCIARY MANAGEMENT PROVIDER SHOULD accrue INVESTMENT MANAGEMENT FEES.

Discussion

Investment management fees are the fees payable to the Fiduciary Management Provider for the ongoing management of a scheme. They are typically asset based (based on a percentage of assets), performance based (based on the scheme's performance either on an absolute basis or relative to a benchmark), or a combination of the two, but may take other forms as well. To reflect the most accurate net return, investment management fees should be accrued when possible. Accrual accounting allows the recording of financial transactions as they come into existence rather than when they are paid or settled. Scheme net returns can be skewed if investment management fees are reflected in the calculation as they are paid, particularly when scheme values change significantly.

Provision 32.B.5

Returns SHOULD be calculated net of non-reclaimable withholding taxes on dividends, interest, and capital gains. Reclaimable withholding taxes SHOULD be accrued.

Discussion

Global investing requires recognition of the tax consequences of investing in different countries. The GIPS standards for FMPs recommend that performance be reported net of non-reclaimable withholding taxes on dividends, interest, and capital gains. Some countries allow certain types of foreign investors to reclaim a portion of the foreign withholding taxes that are paid when transactions or payments occur. These reclaimable foreign withholding taxes may be credited back to the investor at a later date. It is recommended that reclaimable foreign withholding taxes be accrued, meaning that the refund for reclaimable withholding taxes should be recorded when the reclaimable withholding taxes become a receivable owed to the Fiduciary Management Provider rather than when the refund is actually received.

Provision 32.B.6

The FIDUCIARY MANAGEMENT PROVIDER SHOULD incorporate the following hierarchy into its policies and procedures for determining FAIR VALUE for SCHEME investments on a COMPOSITE-specific basis.

a. Investments MUST be valued using objective, observable, unadjusted quoted market prices for identical investments in active markets on the measurement date, if available. If such prices are not available, then investments SHOULD be valued using;

b. Objective, observable quoted market prices for similar investments in active markets. If such prices are not available or appropriate, then investments SHOULD be valued using;

c. Quoted prices for identical or similar investments in markets that are not active (markets in which there are few transactions for the investment, the prices are not current, or price quotations vary substantially over time and/or between market makers). If such prices are not available or appropriate, then investments SHOULD be valued based on;

d. Market-based inputs, other than quoted prices, that are observable for the investment. If such inputs are not available or appropriate, then investments SHOULD be valued based on;

e. Subjective, unobservable inputs for the investment where markets are not active at the measurement date. Unobservable inputs SHOULD be used to measure FAIR VALUE only when observable inputs and prices are not available or appropriate. Unobservable inputs reflect the FIDUCIARY MANAGEMENT PROVIDER'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.

Discussion

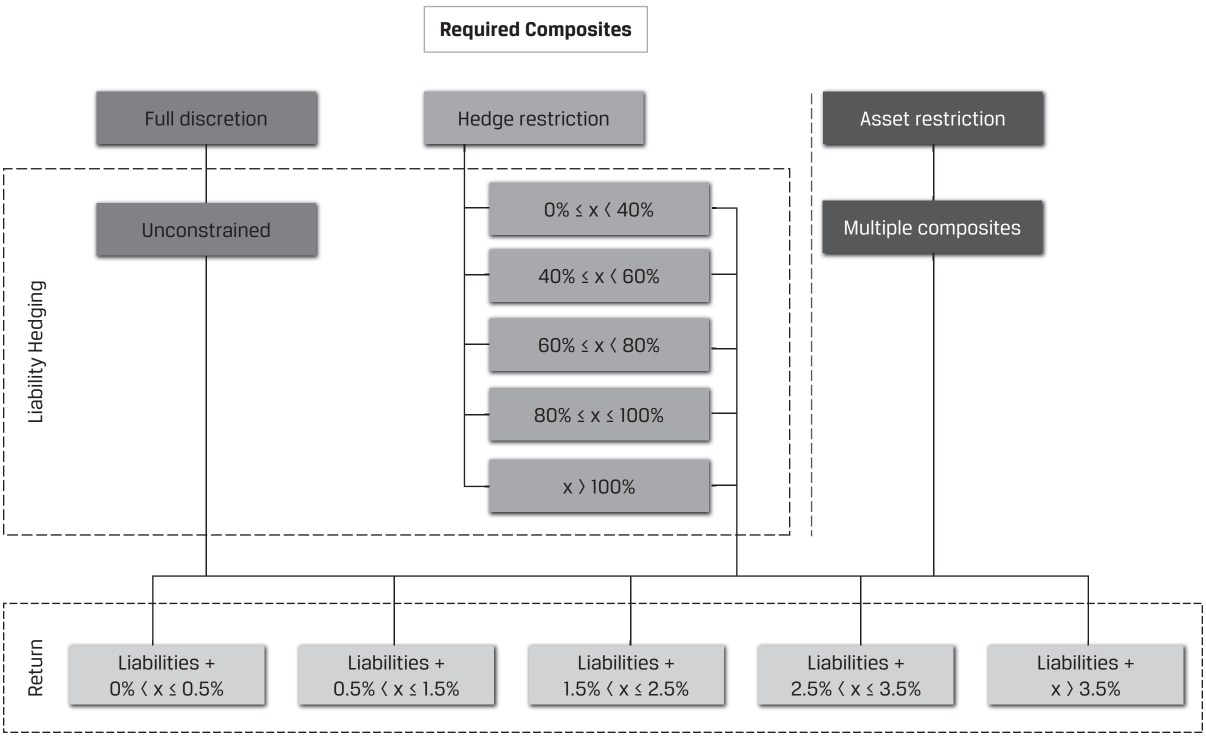
The GIPS standards for FMPs include a recommended valuation hierarchy as presented in Provision 32.B.6. It is recommended that Fiduciary Management Providers incorporate this hierarchy into their policies for determining fair value for scheme investments on a composite-specific basis.

33. COMPOSITE MAINTENANCE

33.A. Composite Maintenance—Requirements

Provision 33.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST create COMPOSITES consistent with the following REQUIRED COMPOSITE STRUCTURE. (See Appendix A for a list of REQUIRED COMPOSITES.)



Discussion

A composite is an aggregation of one or more schemes managed according to a similar investment mandate, objective, or strategy. To provide comparability of performance results from Fiduciary Management Providers, the GIPS standards for FMPs are prescriptive in how required composites may be defined. See Appendix A for a list of required composites. A Fiduciary Management Provider must create a composite if it manages at least one scheme in the respective strategy. See Provision 33.A.2 for a discussion of schemes that must be included in composites.

It is important to remember that the GIPS standards for FMPs do not differentiate between "marketed" and "non-marketed" composites. The requirement to create composites applies to all strategies that are managed for at least one scheme, whether or not the strategy is marketed by the Fiduciary Management Provider. A composite will contain only one scheme if the Fiduciary Management Provider has only one scheme that is managed for a particular strategy.

Restricted Composites

The Fiduciary Management Provider may acquire a client that imposes an investment restriction that prevents a scheme from being managed consistent with other schemes in the composite strategy. While such a scheme is discretionary, if it is included in a required composite, it could distort the composite performance and provide a prospective client with an inaccurate picture of the strategy's historical performance. To avoid this situation, schemes with client-imposed investment restrictions may be included in a "restricted" version of the required composite.

Multiple Composites

Fiduciary Management Providers are required to include discretionary schemes in at least one of the required composites. In addition to creating required composites, a Fiduciary Management Provider may wish to create sub-composites or umbrella composites. For example, the Fiduciary Management Provider may wish to create an umbrella composite that includes all schemes with a return objective of liabilities plus greater than 3.5%, regardless of the hedge restriction. All schemes that meet that criterion would be included in the umbrella composite. Fiduciary Management Providers are welcome to create composites beyond those that are consistent with the required composite structure.

Provision 33.A.2

All actual discretionary SCHEMES included in TOTAL FIDUCIARY MANAGEMENT PROVIDER ASSETS MUST be included in at least one COMPOSITE that is consistent with the REQUIRED COMPOSITE STRUCTURE.

Discussion

Because the intent of the GIPS standards for FMPs is to accurately and fairly represent Fiduciary Management Provider performance, all actual discretionary schemes must be included in at least one of the Fiduciary Management Provider's composites. This requirement helps ensure that a Fiduciary Management Provider presents a complete performance record. In the absence of this requirement, Fiduciary Management Providers could potentially exclude poorly performing schemes from composites.

An actual scheme is a scheme invested in real (tangible) assets, and it is differentiated from a hypothetical, simulated, or backtested track record for a scheme or a model scheme.

A discretionary scheme is one for which the Fiduciary Management Provider has the ability to implement its intended strategy. If documented client-imposed restrictions significantly hinder the Fiduciary Management Provider from fully implementing the strategy, the Fiduciary Management Provider may include the composite in a "restricted" version of the required composite (see the discussion for Provision 33.A.1). Including the scheme in a restricted version of the required composite allows the Fiduciary Management Provider to meet the requirement of this provision. There are degrees of discretion, and not all client-imposed restrictions will necessarily cause a scheme to be placed in a restricted version of a required composite. The Fiduciary Management Provider must determine if the restrictions will materially affect implementation of the intended strategy to the extent that the scheme is no longer representative of the strategy. Discretion may be defined at the composite or Fiduciary Management Provider level. Once the definition of discretion has been determined, it must be documented in the Fiduciary Management Provider's policies and procedures and applied consistently. Fiduciary Management Providers must document the reasons for classifying each restricted scheme as restricted.

When considering the hedge restriction, it is important to understand that this is specific to an interest rate hedge. The hedge is a percentage of liabilities, which is then applied to the assets. Because the hedge ratio is based on assets, it is possible to have an investment mandate in which more than 100% of assets are hedged. For example, if liabilities are £1 billion, assets are £700 million, and the mandate is to hedge 80% of the liabilities, the Fiduciary Management Provider will hedge £800 million (80% of £1 billion), resulting in a hedge ratio of 114% (£800 million/£700 million). This ratio will change as the value of the assets fluctuates. The scheme must not change composites when the tactical hedge ratio as a percentage of assets changes. When contributions to the scheme significantly affect the hedge ratio, the Fiduciary Management Provider should discuss with the client to determine whether there is a change in the hedge ratio that would require moving the scheme from one composite to another.

In the case of client-restricted securities (e.g., 5% of scheme assets are invested in a property trust that may not be sold), the Fiduciary Management Provider may choose to classify the restricted portion of the scheme as "unmanaged" or "unsupervised" and consider those assets to be non-discretionary. The Fiduciary Management Provider may include the remaining discretionary portion of the scheme in the composite, provided the discretionary portion is representative of the composite's strategy. All calculation and composite construction requirements would apply to the remaining discretionary portion of the scheme. The unmanaged portion of the scheme assets would be excluded from composite assets but would be included in total Fiduciary Management

Provider assets. The Fiduciary Management Provider may instead choose to consider the scheme discretionary despite the restriction and include the scheme in a required composite.

The Fiduciary Management Provider may choose to create umbrella or sub-composites, which are additional composites beyond those that the Fiduciary Management Provider is required to create. If the Fiduciary Management Provider has chosen to create additional composites, it must include a scheme in any additional composite for which it meets the composite definition. As is always the case, the Fiduciary Management Provider must be careful not to double count total Fiduciary Management Provider assets. A scheme must be counted only once, even if it is included in more than one composite. (See Provision 32.A.3.)

It is the Fiduciary Management Provider's responsibility to ensure that all of its actual discretionary schemes are included in any composite for which they meet the composite definition. Accordingly, Fiduciary Management Providers must have policies and procedures to identify changes to a scheme that would require a scheme to be reclassified for composite assignment purposes. If a scheme changes investment strategy in response to a new client-imposed restriction, or if a client-directed change in the scheme's strategy requires a change in the scheme's composite assignment, the scheme must be removed from the composite on a prospective basis only.

Provision 33.A.3

COMPOSITES MUST be defined according to investment mandate, objective, or strategy. COMPOSITES MUST include all SCHEMES that meet the COMPOSITE DEFINITION.

Discussion

A composite is an aggregation of one or more schemes managed according to a similar investment mandate, objective, or strategy. Creating meaningful composites is critical to fair presentation, consistency, and comparability of results over time and among Fiduciary Management Providers. Fiduciary Management Providers make the ultimate decision as to which schemes belong in each composite. Fiduciary Management Providers must document policies and procedures related to composite definition.

To create appropriate composites, Fiduciary Management Providers must understand what is meant by a composite description and a composite definition. The glossary of defined terms includes both composite description and composite definition. For many of the provisions of the GIPS standards for FMPs, it is important to understand the meaning of each term and the difference between a composite description and a composite definition.

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

- If leverage, derivatives, and short positions are a material part of the strategy.
- If illiquid investments are a material part of the strategy.

A *composite definition* is the detailed criteria that determine the assignment of schemes to composites. Criteria may include, but are not limited to, the level of discretion, the nature of the benchmark, any hedge ratio restriction, the objective or risk, and the asset restrictions that would materially affect performance.

To differentiate between a composite definition and a composite description, think of a composite description as focused on a description of the strategy represented by the composite. In contrast, a composite definition includes not only the composite strategy, as represented by the composite description, but also the criteria that determine whether and when a scheme is included in a composite. These additional criteria would include factors such as the composite-specific new scheme inclusion policy, client-imposed restriction considerations, and which composite a scheme is assigned to when there is a band (e.g., target hedge is 95% +/–5%), and if this is considered an unconstrained or constrained mandate. Fiduciary Management Providers must use their judgment in determining what information is appropriate to include in a composite description and composite definition for a specific strategy.

The following are examples of composite descriptions and composite definitions.

Liability plus between $1.5\% < x \leq 2.5\%$, Unconstrained Composite

Composite Description

The composite includes all pension schemes with the objective to earn the return target of the liability plus between $1.5\% < x \leq 2.5\%$, where the amount of liabilities that may be hedged is at our discretion. Some schemes in the composite use total return swaps on the MSCI World ex UK Index to gain exposure to global equity markets. Interest rate swaps and inflation swaps are used to hedge scheme liability interest and inflation risks. The composite was created in November 2019, which represents the first time all the schemes were grouped together in the composite. The composite inception date is 1 February 2017, which represents the date the first scheme was included in the composite. As of 31 December 2019, there are 10 schemes in the composite.

Composite Definition

The composite includes all pension schemes with the objective to earn the return target of the liability plus between $1.5\% < x \leq 2.5\%$, where the amount of liabilities that may be hedged is at our discretion. Schemes are invested primarily in five asset classes: Global Equity, Inflation-Linked Securities, Corporate Bonds and Gilts, Cash, and Alts. Schemes with higher funding ratios will have more assets allocated to Gilts than those with lower funding levels. Some schemes in the composite use total return swaps on the MSCI World ex UK Index to gain exposure to global equity markets. Interest rate swaps and inflation swaps are used to hedge scheme liability interest and inflation risks. Schemes included in the composite are measured against the present value of the full scheme liabilities. Schemes that have a restriction against investing in private equity are excluded from the composite. Schemes are included in the composite beginning the first full month under management if funded before the 15th of the month and after the first full month under management if funded on or after the 15th of the month. Schemes remain in the composite through the last full month they are managed to the strategy.

Composite descriptions are disclosed in GIPS Composite Reports and are included on the list of composite descriptions. Composite definitions must be documented in the Fiduciary Management Provider's policies and procedures.

The Fiduciary Management Provider must create composites that are consistent with the required composite structure (see Provision 33.A.1). The Fiduciary Management Provider may also create additional composites that are broader or narrower in scope than the required composites. These additional composites are often defined as umbrella composites (broader definition than the required composites) or sub-composites (narrower definition than the required composites).

Provision 33.A.4

Any change to a COMPOSITE DEFINITION MUST NOT be applied retroactively.

Discussion

A composite definition is the detailed criteria that determine the assignment of schemes to composites. Although investment strategies can change over time, in most cases Fiduciary Management Providers should not change the definition of a composite. Because of the required composite structures as specified in Provision 33.A.1, a change to a composite definition would most likely be applicable only to additional sub-composites or umbrella composites that the Fiduciary Management Provider chose to create. Umbrella composites have broader definitions than the required composites, and sub-composites have narrower definitions.

Generally, changes in strategy result in the creation of a new composite. In some cases, however, it may be appropriate to redefine a composite. If a Fiduciary Management Provider determines that it is appropriate to redefine a composite, it must disclose the date and description of the redefinition. Changes to composites must not be applied retroactively. This requirement is not intended to prevent Fiduciary Management Providers that created composites under the old IC-Select guidelines from creating composites as required by Provision 33.A.1 and applying

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the information retroactively. The Fiduciary Management Provider may choose to keep any composites created under the IC-Select guidelines or may terminate them.

When there are changes related to the implementation of the strategy, the Fiduciary Management Provider must determine if the changes to the composite's resources, process, or personnel result in a change in the investment strategy of the schemes in the composite. If the Fiduciary Management Provider determines that the changes result in a new investment strategy offered by the Fiduciary Management Provider, a new composite must be started with a current composite creation date and no composite history. The Fiduciary Management Provider must clearly document its decision and rationale. If the changes in resources, process, and personnel do not result in a change in investment strategy, the Fiduciary Management Provider must not create a new composite but must instead revise the composite description and composite definition where appropriate. The redefinition must take place on a prospective basis. This approach eliminates the opportunity to "cherry-pick" schemes that qualify for inclusion once performance results are known.

Note that if a Fiduciary Management Provider chooses to create a new composite to reflect a new investment strategy, the Fiduciary Management Provider may move schemes that meet the new composite definition into the new composite. The history of existing schemes must remain with the original composite.

The following is an example of a change in investment strategy resulting from the evolution of a strategy:

"A Fiduciary Management Provider creates a sub-composite that includes only schemes that invest at least 60% of assets in gilts and corporate bonds rated BBB and above. The composite does not include schemes that invest in below-investment-grade bonds. It is decided that the composite will now allow for up to 10% of scheme assets to be invested in below-investment-grade corporate bonds. Most client guidelines do not permit the use of below-investment-grade bonds, but some do."

The Fiduciary Management Provider is permitted to view this change as an evolution of its existing strategy rather than as the creation of a new strategy. It must change its composite description and composite definition to indicate the use of below-investment-grade bonds and the date on which the use of below-investment-grade bonds was first permitted. The schemes that do not allow the use of below-investment-grade bonds remain in the composite.

Provision 33.A.5

COMPOSITES MUST include new SCHEMES on a timely and consistent COMPOSITE-specific basis after the FIDUCIARY MANAGEMENT PROVIDER becomes responsible for the SCHEME'S performance.

Discussion

The Fiduciary Management Provider is responsible for setting reasonable guidelines for each composite regarding the inclusion of new schemes. Fiduciary Management Providers are encouraged to establish a policy that includes new schemes in composites as soon as possible, preferably at the start of the next full performance measurement period. The measurement period is the period for which the composite performance is calculated and must be for a full month.

Fiduciary Management Providers may need time to invest the assets of a new scheme to reflect the Fiduciary Management Provider's investment strategy, and the GIPS standards for FMPs allow Fiduciary Management Providers flexibility in determining when to add the new scheme to the composite. Different strategies may result in different time frames for inclusion based on the liquidity of the assets involved. Although in most situations it is fairly easy to purchase and sell securities, some securities may be more illiquid and, therefore, a longer period may initially be required to implement the Fiduciary Management Provider's strategy. Fiduciary Management Providers must establish a policy on a composite-specific basis and apply it on a timely and consistent basis.

In the case of specific instructions from the client, Fiduciary Management Providers may delay including a new scheme in a composite. For example, a client may indicate to the Fiduciary Management Provider that assets will be deposited over an extended period, which may delay the full implementation of the Fiduciary Management Provider's strategy until all assets are received. This scenario can result in an exception to the composite's new scheme inclusion policy. If a Fiduciary Management Provider determines that the incremental investing does not affect the implementation of the style or strategy, the Fiduciary Management Provider must follow its composite-specific policy for including new schemes in the composite.

Provision 33.A.6

COMPOSITES MUST include only those SCHEMES that are managed for the full performance measurement period for which the COMPOSITE return is calculated. SCHEMES that are not managed for the full performance measurement period MUST NOT be included in the COMPOSITE.

Discussion

Fiduciary Management Providers must include in the composite only those schemes that are managed for the full performance measurement period (i.e., for the full month). Including schemes that were not managed for the full month would result in returns that are not truly

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representative of the strategy for the performance period being calculated. For example, when calculating the composite return for the month of March, only schemes that have a full month of performance are included. A scheme with an inception date of 5 March would not be included, nor would a scheme that terminated on 23 March. A Fiduciary Management Provider must create policies and procedures regarding the inclusion of new schemes in a composite and must apply the policies and procedures consistently.

Provision 33.A.7

Terminated SCHEMES MUST be included in the historical performance of the COMPOSITE up to the last full measurement period that each SCHEME was under management.

Discussion

The requirement to include terminated schemes in the composite's historical performance up to the last full measurement period (i.e., the last full month) that each scheme was under management prevents survivorship bias by retaining the performance history of the scheme while it was managed to the composite's strategy. Once a client notifies the Fiduciary Management Provider of the termination, the Fiduciary Management Provider generally loses its discretion over the scheme because the Fiduciary Management Provider is restricted in its management of the scheme. In such a case, the Fiduciary Management Provider must include the scheme in the composite through the last full measurement period that each scheme was under management and exclude it from the composite for subsequent periods. As an example, suppose that a Fiduciary Management Provider was notified on 25 May of the termination of a scheme, and the Fiduciary Management Provider was instructed to immediately commence liquidating the scheme. Assuming monthly composite calculations, because the Fiduciary Management Provider lost discretion to manage the scheme effective 25 May, the scheme must be included in the composite performance calculation for April and must be excluded from the composite calculation for May. A Fiduciary Management Provider must create policies and procedures regarding the handling of termination of schemes in a composite and must apply the policies and procedures consistently.

If all of the schemes are removed from a composite, for any reason, the composite's performance record comes to an end. If, after a period of time, schemes are again included in the composite, the composite's prior performance history must be presented. The composite's prior performance history must not be linked to the ongoing composite performance results. If the break in performance occurred more than 10 years ago, the performance prior to the break does not need to be presented.

Provision 33.A.8

SCHEMES MUST NOT be moved from one COMPOSITE to another unless documented client-directed changes to a SCHEME's investment mandate, objective, or strategy make it appropriate. The historical performance of the SCHEME MUST remain with the original COMPOSITE. SCHEMES MUST NOT be moved into or out of COMPOSITES as a result of the FIDUCIARY MANAGEMENT PROVIDER's tactical changes.

Discussion

Fiduciary Management Providers are permitted to move schemes into and out of composites only when there is a documented change to a scheme's investment mandate, objective, or strategy or in the case where the redefinition of a composite makes it appropriate. Documentation of the client-directed change can include, but is not limited to, letters, e-mails, and internal memorandums documenting conversations with clients.

Over time, a client's investment objective may change. In those instances, moving a scheme from one composite to another may be necessary. For example, the client may determine that it wishes to change the target range of a hedge restriction for a scheme. This change in strategy must be documented.

Some clients contractually give the Fiduciary Management Provider a predetermined de-risking plan. Following the de-risking will cause the scheme to gradually target lower returns as the funding progresses and may therefore require a change in composite assignment. In such cases, the contract that documents the de-risking plan should be considered "client directed" documentation for the strategy change when the change in composite assignment becomes appropriate. For example, the Fiduciary Management Provider and the client may agree that if interest rates hit a certain trigger percentage (e.g., 3.00%) the Fiduciary Management Provider will increase the hedge by 10%. This agreed-upon trigger would potentially result in the scheme moving from one hedge restriction composite to another. Documentation of this change should include a reference to the original contract directing this change in strategy, when the change was made, and who directed the change. A memo to the client file or client management system noting this information would suffice.

The transfer of a scheme from one composite to another is treated as a scheme termination when it is removed from the former composite and as a new scheme when moved to the new composite. The scheme's prior history must remain in the former composite through the last full measurement period (i.e., the last full month) the scheme was managed in the former style.

33.B. Composite Maintenance—Recommendations

Provision 33.B.1

Actual schemes may be included in composites other than those that are consistent with the required composite structure (e.g., sub-composites or umbrella composites), but fiduciary management providers are not required to create such composites.

Provision 33.A.1 requires a Fiduciary Management Provider to create composites that are consistent with the required composite structure. The Fiduciary Management Provider has the option of creating umbrella composites or sub-composites, which are not required.

An umbrella composite is more broadly defined than composites required by the required composite structure. For example, assume a firm has the following required composites: Unconstrained Liabilities plus $0.5\% < x \leq 1.5\%$ Composite, and Unconstrained Liabilities plus $1.5\% < x \leq 2.5\%$ Composite. If the Fiduciary Management Provider wishes to market the performance of all schemes that have a return range of liabilities plus 0.5% to 2.5%, it may create the Unconstrained Liabilities plus $0.5\% < x \leq 2.5\%$ Composite, which will include all schemes that are included in the Unconstrained Liabilities plus $0.5\% < x \leq 1.5\%$ Composite and the Unconstrained Liabilities plus $1.5\% < x \leq 2.5\%$ Composite.

A Fiduciary Management Provider may also want to market a strategy that has a narrower definition than the required composite structure specifies. The Fiduciary Management Provider could create a composite with a tighter hedge range, such as an Unconstrained Liabilities plus $0.5\% < x \leq 1.0\%$ Composite. This sub-composite would include a subset of schemes that are included in the required Unconstrained Liabilities plus $0.5\% < x \leq 1.5\%$ Composite.

If the Fiduciary Management Provider wishes to create umbrella composites or sub-composites, it must treat them as if they were required composites. For example, an umbrella composite or sub-composite must include all schemes that meet the composite definition (see Provision 33.A.3). The Fiduciary Management Provider may not selectively include schemes in an umbrella composite or sub-composite, because doing so would be considered cherry-picking.

34. GIPS COMPOSITE REPORT

34.A. Presentation and Reporting—Requirements

Provision 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

a. At least five years of performance (or for the period since the COMPOSITE INCEPTION DATE if the COMPOSITE has been in existence less than five years) that meets the REQUIREMENTS of the GIPS standards for FMPs. After the FIDUCIARY MANAGEMENT PROVIDER presents a minimum of five years of performance in compliance with the GIPS standards for FMPs (or for the period since the COMPOSITE INCEPTION DATE if the COMPOSITE has been in existence less than five years), the FIDUCIARY MANAGEMENT PROVIDER MUST present an additional year of performance each year, building up to a minimum of 10 years of performance in compliance with the GIPS standards for FMPs.

Discussion

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

Once the Fiduciary Management Provider has its initial minimum five years of GIPS-compliant history, the Fiduciary Management Provider must continue to add annual performance to each GIPS Composite Report, so that five years after initially claiming compliance with the GIPS standards for FMPs, the Fiduciary Management Provider will have a 10-year performance record for its composites. It is recommended that Fiduciary Management Providers present a composite's history for more than the minimum required periods. (See Provision 34.B.1.)

Provision 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

b. For unconstrained mandates, any information REQUIRED to be included in the GIPS COMPOSITE REPORT that is calculated using SCHEME RELATIVE RETURNS or COMPOSITE RELATIVE RETURNS MUST be presented relative to the liability BENCHMARK.

Discussion

A Fiduciary Management Provider must define each composite strategy as either unconstrained or hedge constrained, as specified in the required composite structure (see Provision 33.A.1). If a composite is defined as an unconstrained strategy, then the scheme relative return must be presented relative to the liability benchmark. Additionally, all other information presented in the GIPS Composite Report that uses a scheme relative return or composite relative return in the calculation must use the scheme relative return or composite relative return that is relative to the liability benchmark.

Provision 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

c. For hedge-constrained mandates, any information REQUIRED to be included in the GIPS COMPOSITE REPORT that is calculated using SCHEME RELATIVE RETURNS or COMPOSITE RELATIVE RETURNS MUST be presented relative to both the liability BENCHMARK and the HEDGE RATIO–ADJUSTED BENCHMARK, with equal prominence.

Discussion

A Fiduciary Management Provider must define each composite strategy as either unconstrained or hedge constrained, as specified in the required composite structure (see Provision 33.A.1). If a composite is defined as a hedge-constrained strategy, then the scheme relative return must be presented relative to both the liability benchmark and the hedge ratio–adjusted benchmark. Additionally, all other information presented in the GIPS Composite Report that uses a scheme relative return or composite relative return in the calculation must be presented using the scheme relative return or composite relative return that is relative to both the liability benchmark and the hedge ratio–adjusted benchmark. All required information relative to the two benchmarks must be presented with equal prominence.

Provision 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

d. COMPOSITE RELATIVE RETURNS for each calendar year.

Discussion

The GIPS standards for FMPs require the presentation of annual composite relative returns for each calendar year.

Although the GIPS standards for FMPs require the presentation of annual composite relative returns, it is recommended that Fiduciary Management Providers present more frequent returns, such as quarterly returns. (See Provision 31.B.2.) More frequent returns help prospective clients evaluate a composite's track record.

Provision 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

e. When the initial period is less than a full year, the COMPOSITE RELATIVE RETURN from the COMPOSITE INCEPTION DATE through the initial calendar year end.

Discussion

When a composite has an initial period that is less than a full year, the GIPS standards for FMPs require that composite relative returns be presented for the partial year from the composite inception date through the initial calendar year end.

For example, assume that a Fiduciary Management Provider creates a new composite with a track record beginning 1 April 2020. The initial GIPS Composite Report for this composite must include the composite relative return for the period from 1 April 2020 through 31 December 2020. Subsequently, the Fiduciary Management Provider must add annual returns, building up to a minimum 10-year track record.

Partial-year composite relative returns must not be annualized. As an example, a composite that began on 1 December 2020 and has a one-month initial return through 31 December 2020 of 3% (which equates to an annualized return of 42.6%) would be required to present that 3% as the partial year's performance. The annualized return of 42.6% must not be presented.

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Some spreadsheet and software applications automatically annualize all returns, and Fiduciary Management Providers are reminded that for periods of less than a year, the Fiduciary Management Provider must “de-annualize” any annualized returns that are calculated.

The method chosen to de-annualize a return is at the discretion of the Fiduciary Management Provider, 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 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

f. When the COMPOSITE terminates, the COMPOSITE RELATIVE RETURN from the last calendar year end through the COMPOSITE TERMINATION DATE.

Discussion

The GIPS standards for FMPs require that composite relative returns from the last calendar year end through the composite termination date be presented. Assume that a Fiduciary Management Provider has a composite that terminates and the track record ends 31 August 2020. The GIPS Composite Report for this composite must include the composite relative return for the period from 1 January 2020 through 31 August 2020. Partial-year relative returns must not be annualized. As an example, a composite 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 Fiduciary Management Providers are reminded that for periods of less than a year, the Fiduciary Management Provider must “de-annualize” any annualized returns that are calculated.

The method chosen to de-annualize a return is at the discretion of the Fiduciary Management Provider, 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 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

g. The number of SCHEMES in the COMPOSITE as of each calendar year end. If the COMPOSITE contains three or fewer SCHEMES at calendar year end, the number of SCHEMES is not required.

Discussion

Each GIPS Composite Report must include information about the number of schemes included in the composite. These figures must be presented as of each calendar year end that is included in the GIPS Composite Report. This requirement provides information to prospective clients on whether the composite is composed of a small number of schemes or many. In cases where there are three schemes or fewer in a composite at period end, the Fiduciary Management Provider may choose to not present the number of schemes in the composite. The Fiduciary Management Provider might choose to do this to protect the identity and confidentiality of its clients. Because Fiduciary Management Providers must present information about the number of schemes in the composite, the Fiduciary Management Provider must either (1) state that the composite contains "three or fewer schemes," "less than four schemes," or use similar language, or (2) present the actual number of schemes in the composite. (See Provision 34.C.25.)

Note that "three or fewer schemes in the composite" refers to the number of schemes in the composite at the calendar year end and not the number of schemes in the composite for the full year. For example, if there were four schemes in the composite for the full year but eight schemes in the composite at year end, the Fiduciary Management Provider would present eight, the actual number of schemes at year end. The number of schemes in the composite also must not include those schemes that are joining the composite as of the next period.

Provision 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

h. COMPOSITE assets as of each calendar year end.

Discussion

Each GIPS Composite Report must include the amount of composite assets as of each calendar year end that is included in the GIPS Composite Report. This requirement provides information to prospective clients on the size of the composite, measured by the amount of assets it contains. When the composite strategy uses discretionary leverage, composite 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 leverage taken at the discretion of the Fiduciary Management Provider or a sub-advisor. In contrast, non-discretionary leverage refers to borrowings undertaken by the client. For example, if a composite has £200 million in assets, including £50 million of assets borrowed by a sub-advisor, the composite's net assets are £200 million and its gross assets are £250 million. When calculating composite assets, the Fiduciary Management Provider must use £200 million.

Provision 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

i. TOTAL FIDUCIARY MANAGEMENT PROVIDER ASSETS as of each calendar year end.

Discussion

The Fiduciary Management Provider must present total Fiduciary Management Provider assets as of each calendar year end. Discretionary leverage must be deducted when calculating total Fiduciary Management Provider assets. Discretionary leverage refers to leverage taken at the discretion of the Fiduciary Management Provider or a sub-advisor. In contrast, non-discretionary leverage refers to borrowings that are undertaken by the client. For example, if a composite has £200 million in assets, including £50 million borrowed by a sub-advisor, the Fiduciary Management Provider must use £200 million when calculating the total Fiduciary Management Provider's assets and not £250 million. The inclusion of both composite assets and total Fiduciary Management Provider assets in a GIPS Composite Report will help a prospective client to understand the size of the composite in relation to total Fiduciary Management Provider assets.

Schemes that are managed but do not yet meet the composite inclusion requirement are included in total Fiduciary Management Provider assets.

Fiduciary Management Providers must be sure that assets are not double counted because counting assets more than once would not fairly represent the total Fiduciary Management Provider's assets.

See the discussion of Provision 32.A.1 for additional guidance on the calculation of total Fiduciary Management Provider assets.

Provision 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

j. Information about INTERNAL DISPERSION of annual individual SCHEME RELATIVE RETURNS for each calendar year.

- **i.** If the COMPOSITE contains three or fewer SCHEMES for the full year, information about INTERNAL DISPERSION is not REQUIRED.
- **ii.** If the COMPOSITE includes four to nine SCHEMES for the full calendar year, the median, high, and low annual individual SCHEME RELATIVE RETURNS MUST be presented.
- **iii.** If the COMPOSITE includes 10 or more SCHEMES for the full calendar year, the median, high, low, 90^{th} percentile, and 10^{th} percentile annual individual SCHEME RELATIVE RETURNS MUST be presented.

Discussion

Internal dispersion is a measure of the spread of the individual annual scheme relative returns within a composite.

The GIPS standards for FMPs have different internal dispersion reporting requirements depending on the number of schemes included in the composite for the full calendar year.

Because the internal dispersion measure represents the spread of annual relative returns of individual schemes within the composite for the full year, only the schemes that have been managed for the full annual period are to be included in the internal dispersion calculation. The Fiduciary Management Provider must identify the schemes in the composite that have been included for the full annual period and calculate the annual scheme relative return for each of those schemes. The Fiduciary Management Provider must use those annual scheme relative returns to calculate the composite's internal dispersion. The GIPS standards for FMPs acknowledge that, by using only schemes that have been included in the composite for the full year in the annual internal dispersion calculation, the internal dispersion number will not precisely correlate with the actual composite relative returns but will inform a prospective client of the dispersion of annual relative returns of those schemes included in the composite for the full calendar year.

When three or fewer schemes are included in the composite for the full calendar year, internal dispersion information is not required to be presented because it is not considered to be meaningful.

When four to nine schemes are included in the composite for the full calendar year, the Fiduciary Management Provider must present the median, high, and low annual individual scheme relative returns.

When 10 or more schemes are included in the composite for the full calendar year, the Fiduciary Management Provider must present the 90th percentile and 10th percentile annual individual scheme relative returns in addition to the median, high, and low annual scheme relative returns in the GIPS Composite Report.

The following example illustrates the calculation of the various internal dispersion measures.

FMP A has a composite that consists of 15 schemes. Ten of the schemes have been in the composite for the full calendar year.

	A	B	C
1	**Scheme**	**Annual Scheme Relative Returns**	
2	1	5.20%	
3	2	4.90%	
4	3	5.50%	
5	4	5.60%	
6	5	5.10%	
7	6	4.70%	
8	7	5.20%	
9	8	4.80%	
10	9	5.30%	
11	10	5.00%	
12			
13		**Dispersion Calc**	**Formula**
14	Low	4.70%	=MIN(B2:B11)
15	10th Percentile	4.79%	=PERCENTILE.INC(B2:B11,0.1)
16	Median	5.15%	=MEDIAN(B2:B11)
17	90th Percentile	5.51%	=PERCENTILE.INC(B2:B11,0.9)
18	High	5.60%	=MAX(B2:B11)

The median scheme relative return is 5.15%, the high scheme relative return is 5.60%, and the low scheme relative return is 4.70%.

Percentile

Percentile describes the relative location of points anywhere along the range of a distribution of returns and indicates the percentage of returns that fall below a particular value. A 90th percentile return is the return below which 90% of the returns in the dataset will fall. The 10th percentile return is the value below which 10% of the returns in the dataset will fall.

In this example, the 90th percentile scheme relative return is 5.51% and the 10th percentile scheme relative return is 4.79%.

The number of internal dispersion measures that must be presented depends on the composite mandate. When the composite mandate is unconstrained, the Fiduciary Management Provider must present any required internal dispersion measures of scheme relative returns relative to the liability benchmark. When the composite mandate is a hedge-constrained mandate, the Fiduciary Management provider must present any required internal dispersion measures relative to the liability benchmark and relative to the hedge ratio–adjusted benchmark.

Provision 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

k. The three-year annualized EX POST STANDARD DEVIATION (using monthly COMPOSITE RELATIVE RETURNS) as of each calendar year end.

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. The GIPS standards for FMPs 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 composite relative returns over time, and it is intended to measure the risk of investing in the strategy. In contrast, internal standard deviation, discussed in Provision 34.A.1.j, is used to measure the dispersion of annual scheme relative returns within a composite.

Ex Post Standard Deviation (External)

Ex post standard deviation is calculated as follows:

$$\text{Composite relative return ex post standard deviation} = \sqrt{\frac{\sum\left[R_i - MEAN(R)\right]^2}{n}},$$

where R_i is the return of the ith monthly composite relative 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 composite relative return over the period for which external standard deviation is being calculated, where

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

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where R_1 is the first monthly composite relative return, R_i is the ith monthly composite relative return, and n is the number of monthly composite relative returns used in the calculation (e.g., for the annualized three-year ex post standard deviation, n is 36).

Fiduciary Management Providers are required to select a methodology (i.e., the use of n or $n - 1$) on a composite-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 composite relative returns, the result of the foregoing standard deviation formula must be multiplied by the square root of 12.

The composite relative returns used in the standard deviation calculation depend on the composite's mandate. If the composite has an unconstrained mandate, the composite relative returns that are relative to the liability benchmark must be used. (See Provision 34.A.1.b.) If the composite has a hedge-constrained mandate, the Fiduciary Management Provider must present two ex post standard deviations in the GIPS Composite Report. The first uses the composite relative returns that are relative to the liability benchmark, and the second uses the composite relative returns that are relative to the hedge ratio–adjusted benchmark. (See Provision 34.A.1.c.)

For periods prior to 1 January 2020, scheme relative returns used in composite ex post standard deviation calculations may be calculated using an arithmetic difference methodology. For periods beginning on or after 1 January 2020, scheme relative returns used in composite relative returns must be calculated using the geometric difference methodology (see Provision 32.A.27). When switching from the arithmetic difference methodology to the geometric difference methodology for calculating scheme relative returns, Fiduciary Management Providers must consider if this change is a material change in calculation methodology that must be disclosed (see Provision 34.C.29).

Provision 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

l. The annualized EX POST STANDARD DEVIATION (using monthly COMPOSITE RELATIVE RETURNS) for the 3-, 5-, 7-, and 10-year periods and for the period from the COMPOSITE INCEPTION DATE through the most recent calendar year end.

Discussion

To help prospective clients evaluate the composite's track record, Fiduciary Management Providers must present the annualized ex post standard deviation of the composite relative returns for the 3-, 5-, 7-, and 10-year periods and for the period since the inception of the composite, as applicable, through the most recent calendar year end. See the formula in the discussion of Provision 34.A.1.k.

Provision 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

m. The annualized COMPOSITE RELATIVE RETURNS for the 1-, 3-, 5-, 7-, and 10-year periods and for the period from the COMPOSITE INCEPTION DATE through the most recent calendar year end.

Discussion

To help prospective clients evaluate the composite's track record, Fiduciary Management Providers must present the annualized composite relative returns for the 1-, 3-, 5-, 7-, and 10-year periods and for the period from the inception of the composite, as applicable, through the most recent calendar year end.

Annualized composite relative returns represent the geometric average annual compound return achieved over the defined period of one year or more. Annualized performance is permitted only for periods of one year or more.

The formula for calculating annualized performance is as follows:

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

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

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

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

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

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

If the composite experiences a break in the track record, the periods before and after the break must not be linked, and annualized composite relative returns must not be calculated across the break in performance.

Provision 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

n. The three-year annualized INFORMATION RATIO (using monthly COMPOSITE RELATIVE RETURNS) as of each calendar year end.

Discussion

Evaluating past performance requires an understanding of the risks taken to achieve the results. The annualized information ratio allows prospective clients to understand the active return over the benchmark relative to the risk of the benchmark. The higher the information ratio, the more outperformance was generated per unit of risk. To help prospective clients evaluate the composite's track record, Fiduciary Management Providers must present the three-year annualized information ratio, using monthly composite relative returns, as of each calendar year end.

For periods prior to 1 January 2020, scheme relative returns used in composite relative return calculations may be calculated using an arithmetic difference methodology. For periods beginning on or after 1 January 2020, scheme relative returns used in composite relative returns must be calculated using the geometric difference methodology (see Provision 32.A.27). When switching from the arithmetic difference methodology to the geometric difference methodology for calculating scheme relative returns, Fiduciary Management Providers must consider if this change is a material change in calculation methodology that must be disclosed (see Provision 34.C.29).

The annualized information ratio is calculated as follows:

$$Annualized\,information\,ratio = \frac{\left(\dfrac{\sum(R_i)}{N}\right)\times P}{\sigma(R_i)\times\sqrt{P}}$$

where

R_i = monthly composite relative return
N = number of observations
P = number of periodic observations in a year
σ = standard deviation

The composite relative returns used in the information ratio calculation depend on the composite's mandate. If the composite has an unconstrained mandate, the composite relative returns that are relative to the liability benchmark must be used. (See Provision 34.A.1.b.) If the composite has a hedge-constrained mandate, the Fiduciary Management Provider must present two information ratio values in the GIPS Composite Report. The first uses the composite relative returns that are relative to the liability benchmark, and the second uses the composite relative returns that are relative to the hedge ratio–adjusted benchmark. (34.A.1.c.)

Provision 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

o. The annualized INFORMATION RATIO (using monthly COMPOSITE RELATIVE RETURNS) for the 3-, 5-, 7-, and 10-year periods and for the period from the COMPOSITE INCEPTION DATE through the most recent calendar year end.

Discussion

Evaluating past performance requires an understanding of the risks taken to achieve the results. The annualized information ratio allows prospective clients to understand the active return over the benchmark relative to the risk of the benchmark. The higher the information ratio, the more outperformance was generated per unit of risk. To help prospective clients evaluate the composite's track record, Fiduciary Management Providers must present the annualized information ratio for the 3-, 5-, 7-, and 10-year periods and for the period from the inception of the composite, as applicable, through the most recent calendar year end. See the formula in the discussion of Provision 34.A.1.n.

Provision 34.A.1

The FIDUCIARY MANAGEMENT PROVIDER MUST present in each GIPS COMPOSITE REPORT:

p. The MAXIMUM DRAWDOWN for the 1-, 3-, 5-, 7-, and 10-year periods and the period from the COMPOSITE INCEPTION DATE through the most recent calendar year end.

Discussion

The maximum drawdown is the maximum observed loss from a peak to a trough using the composite relative returns for a specific period. To help prospective clients evaluate the composite's track record, Fiduciary Management Providers must present the maximum drawdown for the 1-, 3-, 5-, 7-, and 10-year periods and the period from the composite inception date, as applicable, through the most recent calendar year end.

When a Fiduciary Management Provider is calculating and presenting the maximum drawdown for 1-, 3-, 5-, 7-, and 10-year, as well as since-inception periods, the maximum drawdown is calculated as of the period end being presented and is not calculated on a rolling period. For example, a composite that has an inception date of 1 July 2016 that is presenting information in the GIPS Composite Report from 1 July 2016 through 31 December 2020 would calculate the one-year maximum drawdown for the period from 1 January 2020 through 31 December 2020 and not the maximum drawdown for any one-year rolling period from 1 July 2016 through 31 December 2020. Likewise, the three-year maximum drawdown would be the maximum drawdown for the period from 1 January 2018 through 31 December 2020.

To calculate the maximum drawdown, the Fiduciary Management Provider must identify peaks and troughs and calculate the largest percentage loss for each peak to trough, where the Maximum Drawdown (MDD) is as follows:

$$\text{MDD} = \frac{\text{Trough Value} - \text{Peak Value}}{\text{Peak Value}}$$

Consider the example below. In this scenario, there are two peaks and troughs over the 36 month period. When calculating the maximum drawdown for the one-year period (e.g., the most recent 12 months, months 1 through 12), the max drawdown is peak 1 to trough 1 where the greatest percentage loss is 7.50% (calculated as 101.620/109.862-1). When calculating the maximum drawdown over the 36 month period there is a peak in month 2 followed by a trough in month 9, and a lower peak in month 14 followed by a trough in month 35 that is lower than trough 1 in month 9, resulting in a maximum drawdown over the 36 month period of 9.68% (calculated as 99.232/109.862-1).

Month	Monthly Relative return	Indexed Value	Peak to Trough	Drawdown	
		100.000			
1	5.356%	105.356			
2	4.277%	109.862	Peak 1		
3	−0.480%	109.335			
4	−0.749%	108.516			
5	−3.657%	104.547			
6	2.478%	107.138			
7	−1.988%	105.008			
8	−0.899%	104.064			
9	−2.348%	101.620	Trough 1	7.50%	←Max Drawdown 1-Year Period

Month	Monthly Relative return	Indexed Value	Peak to Trough	Drawdown	
10	2.008%	103.661			
11	2.158%	105.898			
12	0.110%	106.014			
13	2.928%	109.118			
14	0.520%	109.685	Peak 2		
15	−0.280%	109.379			
16	−3.168%	105.914			
17	−2.588%	103.173			
18	−1.339%	101.792			
19	0.709%	102.514			
20	0.010%	102.524			
21	0.130%	102.657			
22	0.220%	102.883			
23	0.809%	103.715			
24	−1.269%	102.399			
25	−0.060%	102.338			
26	0.180%	102.522			
27	−1.179%	101.313			
28	0.050%	101.364			
29	−0.620%	100.736			
30	−0.460%	100.273			
31	0.030%	100.303			
32	−0.789%	99.511			
33	−0.070%	99.441			
34	0.140%	99.580			
35	−0.350%	99.232	Trough 2	9.68%	←Max Drawdown 3-Year Period
36	0.150%	99.381			

The composite relative returns used in the maximum drawdown calculation depend on the composite's mandate. If the composite has an unconstrained mandate, the composite relative returns that are relative to the liability benchmark must be used. (See Provision 34.A.1.b.) If the composite has a hedge-constrained mandate, the Fiduciary Management Provider must present two maximum drawdown values in the GIPS Composite Report. The first uses the composite relative returns that are relative to the liability benchmark, and the second uses the composite relative returns that are relative to the hedge ratio–adjusted benchmark. (See Provision 34.A.1.c.)

For periods prior to 1 January 2020, scheme relative returns used in the maximum drawdown calculations may be calculated using an arithmetic difference methodology. For periods beginning on or after 1 January 2020, scheme relative returns used in composite relative returns must be calculated using the geometric difference methodology (see Provision 32.A.27). When switching from the arithmetic difference methodology to the geometric difference methodology for calculating scheme relative returns, Fiduciary Management Providers must consider if this change is a material change in calculation methodology that must be disclosed (see Provision 34.C.29).

Provision 34.A.2

The FIDUCIARY MANAGEMENT PROVIDER MUST present the percentage of the total FAIR VALUE of COMPOSITE assets that were valued using subjective unobservable inputs (as described in Provision 32.B.6.e) as of the most recent calendar year end, if such investments represent a material amount of COMPOSITE assets.

Discussion

Markets are not always liquid, and investment prices are not always objective and/or observable. As the last level of the recommended valuation hierarchy indicates (see Provision 32.B.6), it may be necessary for a Fiduciary Management Provider to use subjective unobservable inputs to value an investment for which markets are not active at 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 Fiduciary Management Provider'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.

Fiduciary Management Providers must present the percentage of the total fair value of composite assets that were valued using subjective unobservable inputs as of the most recent calendar year end, if such investments represent a material amount of composite assets. The amount of composite assets valued using subjective unobservable inputs would be considered material if it would likely influence a reader's judgment regarding the reliability of the valuation. The Fiduciary Management Provider must decide on the criteria it will use to determine when subjective unobservable inputs represent a material amount of composite assets, include these criteria in its policies and procedures, and apply these criteria consistently.

Sample Disclosure:

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

Provision 34.A.3

The FIDUCIARY MANAGEMENT PROVIDER MUST clearly label or identify:

a. The periods that are presented.
b. The returns and risk measures that are presented.

Discussion

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

The GIPS Composite Report includes numerous return and risk metrics such as internal dispersion measures, information ratio, maximum drawdown, and standard deviation. For prospective clients to understand the nature of the returns and risk measures that are presented, each return and risk measure must be clearly labeled or identified. For composites with a hedge-constrained mandate, Fiduciary Management Providers must indicate the type of relative return used to calculate each item—that is, if the return or risk measure is calculated relative to the liability benchmark or the hedge ratio–adjusted benchmark.

Provision 34.A.4

If the COMPOSITE loses all of its member SCHEMES, the COMPOSITE track record MUST end. If SCHEMES are later added to the COMPOSITE, the COMPOSITE track record MUST restart. The periods both before and after the break in track record MUST be presented, with the break in performance clearly shown. The FIDUCIARY MANAGEMENT PROVIDER MUST NOT LINK performance prior to the break in track record to the performance after the break in track record.

Discussion

If all of the schemes in a composite are either terminated or are removed from the composite for some other reason, such as a change in the scheme investment mandate, the composite's performance record would come to an end. After a period of time, a client may hire the Fiduciary Management Provider to manage a scheme to this same composite strategy. When this happens, the performance record of the composite begins again. In such a case, there will be a break in the composite's performance record. The composite's prior performance history must not be linked to the ongoing composite performance results. Any performance table in a GIPS Composite Report must clearly indicate the break.

For Fiduciary Management Providers that claim compliance for a period longer than 10 years, if the break in performance occurred more than 10 years ago, the performance prior to the break does not need to be presented. In all other cases, the Fiduciary Management Provider must present the performance both prior to and after the performance break.

When there is a break in performance, the Fiduciary Management Provider must not calculate any returns or risk measures across the break in performance. Consider the following example:

The Fiduciary Management Provider has a composite that lost all of its scheme members, resulting in a break in performance. The inception date for the composite is 1 July 2013, and there was one scheme in the composite on 28 February 2017. On 6 March 2017, the final scheme in the composite changed investment mandates and was excluded from the composite after February 2017, leaving the composite with no schemes. During April 2017, the Fiduciary Management Provider was once again hired to manage a scheme to the composite strategy. The new scheme entered the composite beginning 1 May 2017, per the composite-specific new scheme inclusion policy, effectively reinstating the composite's performance.

Because the only scheme in the composite was removed from the composite, the performance record of the composite comes to an end as of 28 February 2017. The performance record begins again on 1 May 2017, after the new scheme qualified to be included in the composite. When presenting the performance of this composite, the prior performance history of the composite through 28 February 2017 must be shown but must not be linked to the ongoing composite performance results beginning 1 May 2017.

For the purpose of performance presentation, as of 31 December 2020, the composite had an uninterrupted performance track record from 1 July 2013 to 28 February 2017, a "performance break" or "performance gap" from 1 March 2017 to 30 April 2017, and an uninterrupted performance track record from 1 May 2017 to 31 December 2020.

Under the principles of fair representation and full disclosure, the GIPS standards for FMPs require Fiduciary Management Providers to handle such cases with the highest transparency. In this instance, the Fiduciary Management Provider must present both periods of performance. The periods before and after the break must be presented separately. The GIPS Composite Report could present the information in this scenario as follows:

Year	Annual Composite Relative Net Return to Full Liabilities TWR (%)	3 Year Annualized Composite Relative Return (%)	Annualized Composite 36-Month Ex Post Std Dev to Full Liabilities (%)	Annualized Composite 36-Month Information Ratio to Full Liabilities (%)	Number of Schemes	Composite Assets (£)	FMP Assets (£)
2020	−1.43	0.65	0.88	0.75	10	4,803,770,307	49,357,455,375
2019	1.36				11	5,123,993,047	48,370,306,268
2018	2.07				6	3,791,785,332	44,984,384,829
1 May–31 Dec 2017[1]	0.14				1	2,371,635,365	43,185,009,436
1 Jan–28 Feb 2017[1]	−0.12						
2016	0.69	−0.92	1.01	−0.90	4	3,283,136,218	36,940,457,071
2015	−1.28				3	3,143,578,571	35,832,243,359
2014	−2.13				2	2,634,072,933	35,115,598,492
2013[2]	0.39				1	2,157,282,414	33,008,662,582

(1) There were no schemes in the composite from 1 March 2017 to 30 April 2017.

(2) Returns are for the period from 1 July 2013 (inception date) through 31 December 2013.

Dispersion of Scheme Relative Net Returns to Full Liabilities[2]					
Year	**Min**	**10th**	**Median**	**90th**	**Max**
2020	−1.62	−1.55	−1.17	−0.73	−0.17
2019	0.48	0.72	1.09	1.46	1.61
2018					
2017[1]					
2016	−0.66		1.11		1.79
2015					
2014					
2013					

(1) There were no schemes in the composite from 1 March 2017 to 30 April 2017.

(2) Dispersion of scheme relative net returns to full liabilities is not presented when there are 3 or fewer schemes included in the composite for the full year.

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	Annualized Composite Relative Net Returns to Full Liabilities			
Period	Relative Net Return	Ex Post Std Dev	Information Ratio	Maximum Drawdown
1 Year	−1.43			2.15
3 Years[1]	0.65	0.88	0.75	0.72
Since inception[2]	0.60	0.84	0.69	0.59

[1] There were no schemes in the composite from 1 March 2017 to 30 April 2017. Because returns before and after the break in the composite track record cannot be linked, there is no annualized performance or risk measures for the 5-, 7-, and 10-year periods.

[2] Since-inception returns and risk measures are for the period from 1 May 2017 through 31 December 2020.

The Fiduciary Management Provider must not omit performance for the partial years (e.g., for 2013 and 2017 in the previous example). Such an interpretation would not meet the goals of fair representation and full disclosure.

34.B. Presentation and Reporting—Recommendations

Provision 34.B.1

The FIDUCIARY MANAGEMENT PROVIDER SHOULD present more than 10 years of annual performance in the GIPS COMPOSITE REPORT.

Discussion

Once the composite has its initial minimum 5-year (or since-inception) compliant history, the Fiduciary Management Provider must continue to add annual performance to each GIPS Composite Report for the next 5 years, at a minimum, so that the Fiduciary Management Provider will build up to a 10-year compliant performance record for its composites.

At some point, a Fiduciary Management Provider will have a minimum 10-year compliant track record for a specific composite. When the Fiduciary Management Provider eventually adds an additional year of performance to a 10-year track record in a GIPS Composite Report, the Fiduciary Management Provider may delete the information for the oldest year included or may instead present a longer track record. It is recommended that Fiduciary Management Providers include more than the minimum 10 years of annual performance in a GIPS Composite Report to provide more information to prospective clients.

Provision 34.B.2

If the FIDUCIARY MANAGEMENT PROVIDER uses preliminary, estimated values as FAIR VALUE, the FIDUCIARY MANAGEMENT PROVIDER SHOULD present the percentage of assets in the COMPOSITE that were valued using preliminary, estimated values as of each calendar year 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 Fiduciary Management Provider 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 for FMPs: fair representation and full disclosure. If using preliminary, estimated values, Fiduciary Management Providers must disclose this fact in the relevant GIPS Composite Report (see Provision 34.C.27). It is recommended that the Fiduciary Management Provider also present the percentage of assets in the composite that were valued using preliminary, estimated values as of each calendar year end. This percentage provides important information that allows prospective clients to better assess the valuations and performance record presented.

34.C. Disclosure—Requirements

Provision 34.C.1

Once the FIDUCIARY MANAGEMENT PROVIDER has met all the applicable REQUIREMENTS of the GIPS standards for FMPs, the FIDUCIARY MANAGEMENT PROVIDER MUST disclose its compliance with the GIPS standards for FMPs as follows: "[Insert name of FIDUCIARY MANAGEMENT PROVIDER] claims compliance with the Global Investment Performance Standards (GIPS®) for FMPs and has prepared and presented this report in compliance with the GIPS standards for FMPs."

Discussion

A Fiduciary Management Provider meeting all of the applicable requirements of the GIPS standards for FMPs must disclose its claim of compliance in all GIPS Composite Reports using this compliance statement. The language in the compliance statement is not expected to change.

Provision 34.C.2

The FIDUCIARY MANAGEMENT PROVIDER 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 Fiduciary Management Providers are required to acknowledge this in all GIPS Composite Reports. The required disclosure may appear in the body of the GIPS Composite Report or in a footnote to the report. The term "this organization", which is included in the required disclosure, refers to the Fiduciary Management Provider.

CFA Institute (owner of the GIPS® trademark) may take appropriate action against any Fiduciary Management Provider that misuses the mark "GIPS®" or any compliance statement, including false claims of compliance with the GIPS standards for FMPs. 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 Fiduciary Management Provider, or falsely claim compliance with the GIPS standards for FMPs 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 Fiduciary Management Providers claiming compliance with the GIPS standards for FMPs may also take enforcement actions against Fiduciary Management Providers that falsely claim compliance with the GIPS standards for FMPs.

Fiduciary Management Providers 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 34.C.3

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose the definition of the FIDUCIARY MANAGEMENT PROVIDER used to determine TOTAL FIDUCIARY MANAGEMENT PROVIDER ASSETS and FIDUCIARY MANAGEMENT PROVIDER–wide compliance.

Discussion

To claim compliance with the GIPS standards for FMPs, a Fiduciary Management Provider must comply with the GIPS standards for FMPs on a Fiduciary Management Provider–wide basis. Accordingly, the Fiduciary Management Provider must determine exactly how it will be defined for the purpose of compliance. The GIPS standards for FMPs require that a Fiduciary Management Provider must be defined to include all clients for which it acts as a Fiduciary Management Provider (see Provision 31.A.2). Because the GIPS standards for FMPs are applicable only to those organizations that are subject to Part 6 of "The Investment Consultancy and Fiduciary Management Market Investigation Order 2019" published by the Competition and Markets Authority (CMA), the definition of the Fiduciary Management Provider will include only UK pension schemes managed by the Fiduciary Management Provider.

Sample Disclosure for UK Fiduciary Management Provider within a Multinational Firm:

"Fiduciary Management Provider A is a multinational investment Fiduciary Management Provider, 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, the UK office is the only office that claims compliance with the GIPS standards for FMPs and is defined to include only the UK pension schemes that are managed out of the UK office. All other offices of the global parent company fall outside of the Fiduciary Management Provider definition."

Sample Disclosure for ABC Fiduciary Management Provider–UK:

"For the purpose of complying with the GIPS standards for FMPs, the Fiduciary Management Provider is defined as ABC Fiduciary Management Provider–UK, which serves UK pension schemes and is a subsidiary of ABC Global Asset Management Company."

Sample Disclosure for Fiduciary Management Provider B:

"For the purpose of complying with the GIPS standards for FMPs, the Fiduciary Management Provider is defined as FMP B, an independent fiduciary management service provider. FMP B provides asset allocation and investment management to UK-domiciled pension schemes."

Provision 34.C.4

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose the COMPOSITE DESCRIPTION.

Discussion

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

- if leverage, derivatives, and short positions are a material part of the strategy, and
- if illiquid investments are a material part of the strategy.

When included on the list of composite descriptions, the composite description must also include the following information for each composite:[A]

- composite name,
- composite creation date,
- composite inception date,
- composite termination date, if applicable, and
- number of schemes as of the most recent calendar year end.

This information may be included in the composite description that is included in a GIPS Composite Report but this is not required.

The composite definition goes a step further than the composite description and includes the detailed criteria that determine the assignment of schemes to composites, such as level of discretion, the nature of the benchmark, any hedge ratio restrictions, the objective or risk, and the asset restrictions that would materially affect performance. Although the composite description is a

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[A] The definition for composite description included in the Glossary needs to be edited as follows:

COMPOSITE DESCRIPTION General information regarding the investment mandate, objective, or strategy of the COMPOSITE. The COMPOSITE DESCRIPTION may be more abbreviated than the COMPOSITE DEFINITION but MUST include all key features of the COMPOSITE and MUST include enough information to allow a PROSPECTIVE CLIENT to understand the key characteristics of the COMPOSITE's investment mandate, objective, or strategy, including:

- If leverage, derivatives, and short positions are a material part of the strategy.
- If illiquid investments are a material part of the strategy.

<u>When included on the list of COMPOSITE DESCRIPTIONS</u>, COMPOSITE DESCRIPTIONS MUST also include the following information for each COMPOSITE:

- COMPOSITE name
- COMPOSITE CREATION DATE
- COMPOSITE INCEPTION DATE
- COMPOSITE TERMINATION DATE, if applicable
- Number of SCHEMES as of the most recent calendar year end.

required disclosure in GIPS Composite Reports, the composite definition is not a required disclosure. (See the discussion of Provision 33.A.3 for additional information regarding composite definitions and composite descriptions.)

The required disclosure of the composite description provides information about the composite's investment strategy that is intended to help a prospective client who is considering an investment strategy and is reviewing a GIPS Composite Report for that strategy. The composite description should provide sufficient information to prospective clients to allow them to differentiate the significant features of the strategy from other strategies within the Fiduciary Management Provider and to compare strategies across Fiduciary Management Providers. The disclosed strategy features will likely affect both the historical and expected risk and returns.

If leverage, derivatives, and short positions may be used, and they are a material part of the strategy, this information must be disclosed in the composite description. Provision 34.C.13 requires that the Fiduciary Management Provider 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 Fiduciary Management Provider must consider whether the disclosure of how leverage, derivatives, and/or short positions are used and/or have been used historically is likely to affect a prospective client's view of the risk involved in the strategy. If so, it would be misleading for the Fiduciary Management Provider to fail to disclose their use to prospective clients when describing the strategy.

Generally, all investment strategies have some degree of inherent risk (e.g., market risk), but it is not intended that the composite description identifies every risk of the strategy. Instead, Fiduciary Management Providers must provide a list of composite risks to any prospective client that makes such a request (see Provision 34.C.8).

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

Sample Disclosure 1:

"The Liabilities Plus 1.5% $< x \leq$ 2.5% |Hedge Restricted $x >$ 100% Composite includes all schemes with a return target of the liability plus between 1.5% and up to 2.5% and with a hedge restriction of more than 100% of assets. The composite uses interest rate swaps to hedge liabilities greater than 10 years. Some investments held by schemes in the composite are considered illiquid."

Sample Disclosure 2:

"The Liabilities Plus 0.5% $< x \leq$ 1.5% | 40% $\leq x <$ 60% hedge-restricted and ESG asset restricted Composite includes all schemes that have Environmental, Social, and Governance (ESG) asset

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restrictions and target a return of liabilities plus between 0.5% and up to 1.5% with a hedge restriction between 40% and 60%. Schemes included in the composite may employ leverage up to 125% of scheme assets."

Provision 34.C.5

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose the BENCHMARK.

Discussion

Fiduciary Management Providers are required to disclose the benchmark used to calculate the composite relative returns included in the GIPS Composite Report. Recognizing that each scheme will likely have a unique benchmark, it is expected that the description of the benchmark will be general in nature. Unconstrained mandates must present scheme relative returns using the liability benchmark (see Provision 32.A.28), which may be:

- the full liability cash flows;
- a liability proxy benchmark constructed from gilts or swaps to represent the cash flow liabilities; or
- a gilt of similar duration to the liabilities. This option may be used only when neither the full liability cash flows nor a liability proxy benchmark constructed from gilts or swaps exists.

Hedge-constrained mandates must disclose the liability benchmark as mentioned earlier and also must disclose the hedge ratio–adjusted benchmark. The hedge ratio–adjusted benchmark must include cash for the proportion of the liabilities where the interest rate hedging is not allowed and include the full liabilities for the proportion of liabilities where hedging is allowed. (See Provision 32.A.29.)

Sample Disclosures—Liability Benchmark:

"Scheme relative returns for all schemes in the composite are calculated using the full liability cash flows of the respective scheme."

"Scheme relative returns are calculated using the full liability cash flows of the respective scheme when full liability cash flows are available. When full liability cash flows are not available for a scheme, a liability proxy benchmark constructed from gilts is used when possible. One of the schemes in the composite uses as the benchmark a gilt of similar duration to the liabilities because the other two benchmark options are not available for this scheme. The level of volatility risk reported will typically be lower when a liability proxy benchmark has been used."

"Schemes in the composite are compared against a gilt of a similar duration to the liabilities. All of the schemes have a performance track record using as the benchmark a gilt of similar duration to the liabilities. The level of volatility risk reported will typically be lower when a gilt of similar duration to the liabilities has been used."

Sample Disclosure—Hedge Ratio–Adjusted Benchmark:

"The hedge ratio–adjusted benchmark is calculated by including cash using GBP LIBOR—6 month for the proportion of the liabilities where interest rate hedging is not allowed and a liability proxy benchmark constructed from swaps for the proportion of the liability where hedging is allowed. The level of volatility risk reported will typically be lower where a liability proxy benchmark has been used."

Provision 34.C.6

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose or otherwise indicate the reporting currency.

Discussion

The GIPS standards for FMPs require that Fiduciary Management Providers disclose the currency used to report the numerical information presented in a GIPS Composite Report. It is expected that the reporting currency will be British pounds. In the rare instance when it is not, the Fiduciary Management Provider must ensure it is clear which currency is used.

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

Sample Disclosures:

"Valuations are computed and all information is reported in GBP."

Provision 34.C.7

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose that information about fees and other costs is available upon request.

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Discussion

Fiduciary Management Providers are required by other laws and regulations to provide information about fees and costs to prospective clients. Although such information is not required to be disclosed in GIPS Composite Reports, Fiduciary Management Providers are required to disclose that information about fees and other costs that schemes may incur are available upon request.

Provision 34.C.8

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose that a list of COMPOSITE risks is available upon request.

Discussion

All investment strategies have some degree of inherent common risk, such as, but not limited to, market, currency, investment-specific, inflation, or interest rate risk. Fiduciary Management Providers must disclose that a list of composite risks is available upon request. This list may include these generic, systemic risks, but doing so is not required. It is not expected that the list of composite risks will include reference to every one of these generic, systemic risks unless any is materially more significant to a composite strategy than typically expected. The following are some of the risks that should be included in the list of composite risks if the risks could have had significant influence on the historical returns or are a key feature of the strategy and need to be considered alongside the future expected returns:

- liquidity risk,
- leverage and derivatives risk,
- credit/issuer risk,
- counterparty risk,
- interest rate risk, and
- currency risk.

Some strategies may be affected by market events. Fiduciary Management Providers are reminded that they should periodically review the list of composite risks to ensure they are current.

Provision 34.C.9

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose the COMPOSITE INCEPTION DATE.

Discussion

When reviewing the performance data in a GIPS Composite Report, it is important that prospective clients have sufficient information regarding the length of the composite track record to put the performance presented in the GIPS Composite Report in perspective. Therefore, the inception date of the composite being presented in the GIPS Composite Report must be disclosed. Prospective clients can then compare the periods of performance presented in the GIPS Composite Report with the length of the composite's track record, and they can request additional information for historical periods that are not included in the GIPS Composite Report. If there has been a break in the performance record of a composite, the initial inception date before the break would be the date that would be disclosed.

Sample Disclosures:

"The inception date of the Composite is 1 May 2010."

"The Unconstrained Liabilities Plus 1.5% $< x \leq$ 2.5% Composite has an inception date of 1 November 2015. There was a break in performance from 1 March 2019 through 30 November 2019. During that period, there were no schemes in the composite. Composite performance began again on 1 December 2019."

"The Unconstrained Liabilities Plus 0.5% $< x \leq$ 1.5% Composite has an inception date of 1 March 1998. Returns for periods prior to the 10-year track record presented in this report are available upon request."

Provision 34.C.10

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose the COMPOSITE CREATION DATE.

Discussion

Fiduciary Management Providers must disclose the composite creation date, which is the date on which the Fiduciary Management Provider first grouped one or more schemes together to create the composite. The composite creation date is not necessarily the same as the composite inception date. The composite inception date is the initial date of the composite's performance record and is a required disclosure. (See Provision 34.C.9.) The composite creation date can be significantly after the composite inception date, depending on when the Fiduciary Management Provider first grouped the individual schemes together to create the composite. This information allows prospective clients to compare the composite creation date with the composite inception date to determine whether the Fiduciary Management Provider grouped schemes together into a composite retroactively or created the composite at the beginning of the composite's performance track record. The intent of this disclosure is to enable prospective clients to determine if the composite was created with the benefit of hindsight.

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

Sample Disclosures:

"The Liabilities Plus 1.5% $< x \leq$ 2.5% | Hedge Restricted 60% $\leq x <$ 80% Composite was created on 17 July 2019. This is the date on which schemes were first grouped together to create the composite."

"The Unconstrained Liabilities Plus 1.5% $< x \leq$ 2.5% Composite was created in November 2014."

Provision 34.C.11

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose that the list of COMPOSITE DESCRIPTIONS is available upon request.

Discussion

In each GIPS Composite Report, Fiduciary Management Providers must disclose that a list of composite descriptions is available upon request. The list of composite descriptions itself does not need to be included in each GIPS Composite Report but must be readily 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 (see Provision 31.A.16). The composite descriptions disclosed in GIPS Composite Reports must be consistent with the information included in the list of composite descriptions.

Composite descriptions included on the list of composite descriptions must also include the following information beyond the information that is required to be included in GIPS Composite Reports:[A]

- composite name,
- composite creation date,
- composite inception date,
- composite termination date, if applicable, and
- number of schemes as of the most recent calendar year end.

[A] The definition for composite description included in the Glossary needs to be edited as follows:

COMPOSITE DESCRIPTION General information regarding the investment mandate, objective, or strategy of the COMPOSITE. The COMPOSITE DESCRIPTION may be more abbreviated than the COMPOSITE DEFINITION but MUST include all key features of the

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

Sample Disclosure:

"A list of composite descriptions is available upon request."

Provision 34.C.12

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

Discussion

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

Sample Disclosure:

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

COMPOSITE and MUST include enough information to allow a PROSPECTIVE CLIENT to understand the key characteristics of the COMPOSITE's investment mandate, objective, or strategy, including:

- If leverage, derivatives, and short positions are a material part of the strategy.
- If illiquid investments are a material part of the strategy.

When included on the list of COMPOSITE DESCRIPTIONS, COMPOSITE DESCRIPTIONS MUST also include the following information for each COMPOSITE:

- COMPOSITE name
- COMPOSITE CREATION DATE
- COMPOSITE INCEPTION DATE
- COMPOSITE TERMINATION DATE, if applicable
- NUMBER OF SCHEMES as of the most recent calendar year end.

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Provision 34.C.13

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

Discussion

Fiduciary Management Providers must provide enough information in a GIPS Composite Report to allow a prospective client to understand how leverage, derivatives, and short positions have been employed historically and may be used going forward. Although the composite description includes disclosure of the Fiduciary Management Provider's ability to use leverage, derivatives, and short positions (see Provision 34.C.4), Provision 34.C.13 requires that the Fiduciary Management Provider 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. This disclosure can be qualitative, quantitative, or both.

For example, assume a Fiduciary Management Provider discloses in the composite description that the strategy may use forward contracts. To satisfy the disclosure requirement in Provision 34.C.13, the Fiduciary Management Provider might state, "Since the inception of the strategy, interest rate swaps, inflation swaps, repurchase agreements, and total return swaps have been used, to varying degrees, to manage interest rate risk and inflation risk versus liabilities."

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 Fiduciary Management Provider must consider whether the disclosure of how leverage, derivatives, and/or short positions have been used historically is likely to affect a prospective client's view of the risk involved in the strategy. If so, it would be misleading for the Fiduciary Management Provider to fail to disclose their use to prospective clients when describing the strategy.

Provision 34.C.14

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose all significant events that would help a PROSPECTIVE CLIENT interpret the GIPS COMPOSITE 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 for FMPs are based on the principles of fair representation and full disclosure. Meeting these objectives requires a good faith commitment on the part of the Fiduciary Management Provider to adhere to the spirit of the GIPS standards for FMPs. The GIPS standards for FMPs cannot foresee and cover every eventuality that might occur. Therefore, this provision requires that Fiduciary Management Providers disclose all significant events that would help explain the Fiduciary Management Provider's GIPS Composite Report to a prospective client. The primary goal of this requirement is to provide relevant information to prospective clients so that they can understand the potential effect of the significant event on both the composite's investment strategy and the Fiduciary Management Provider.

Significant events are determined by the Fiduciary Management Provider 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 Fiduciary Management Provider ownership. The acquisition of a new entity or selling off part of a Fiduciary Management Provider would also qualify as a significant event, as would the departure of someone who was the single investment decision maker for a strategy. Other significant events might include dislocation in the valuation of certain investments such as occurred with COVID-19.

Depending on the situation, a general statement describing the significant event that has occurred may be sufficient. Other situations may require Fiduciary Management Providers to disclose specific information pertaining to the significant event. The disclosure regarding the significant event must be included in the GIPS Composite 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 Fiduciary Management Provider that acquires another Fiduciary Management Provider, resulting in a large increase in total Fiduciary Management Provider assets, may disclose this significant event for as long as the large change in total Fiduciary Management Provider assets is included in the GIPS Composite Report. In contrast, a change in a Fiduciary Management Provider's chief investment officer (CIO) is a change that a Fiduciary Management Provider may believe should be disclosed for one year only.

The Fiduciary Management Provider must consider the underlying principles of the GIPS standards for FMPs, which are fair representation and full disclosure, when determining how long the disclosure will be included in the GIPS Composite Report.

Sample Disclosures:

"Mary Popkins, the co-lead portfolio manager for the strategy, retired from FMP A on 15 April 2018. Stanley Holmes, who along with Ms. Popkins led the portfolio manager team, will continue as lead portfolio manager for the strategy. Mr. Holmes has worked for FMP A for 22 years and has been co-lead for the composite since June 2014."

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

Provision 34.C.15

If the FIDUCIARY MANAGEMENT PROVIDER is redefined, the FIDUCIARY MANAGEMENT PROVIDER MUST disclose the date and description of the redefinition.

Discussion

A Fiduciary Management Provider redefinition occurs when something changes with how the Fiduciary Management Provider is held out to the public. Changes in investment style or personnel are not events that typically cause a redefinition. A simple Fiduciary Management Provider name change is also not a sufficient reason to redefine the Fiduciary Management Provider.

Corporate restructuring may cause a change with how the Fiduciary Management Provider is held out to the public. As an example, Fiduciary Management Provider C is one of two Fiduciary Management Providers that are part of a global parent company. Both Fiduciary Management Providers are registered as separate legal entities. Fiduciary Management Provider C has claimed compliance with the GIPS standards for FMPs since December 2019, whereas Fiduciary Management Provider D has never claimed compliance. The parent company determines that both Fiduciary Management Providers have operated in a manner that would allow both entities to claim compliance with the GIPS standards for FMPs since December 2019. The Fiduciary Management Provider is redefined in July 2020 to include the assets of both Fiduciary Management Provider C and Fiduciary Management Provider D. The creation of a single Fiduciary Management Provider for the purposes of compliance with the GIPS standards for FMPs does not require the legal entities to merge. A merger or acquisition may cause a change in the definition of the Fiduciary Management Provider, but that is not always the case.

The GIPS standards for FMPs require that changes in a Fiduciary Management Provider's organization must not lead to alteration of historical composite performance (see Provision 31.A.22).

Sample Disclosure:

"As of 1 August 2019, XYZ Fiduciary Management Provider was redefined to include both the London and Edinburgh office of XYZ Company. Previously, the Fiduciary Management Provider was defined to include only the London office."

Provision 34.C.16

If the COMPOSITE is redefined, the FIDUCIARY MANAGEMENT PROVIDER MUST disclose the date and description of the redefinition.

Discussion

Investment strategies can change over time. In some cases, such a change results in the termination of one composite and the creation of a new composite. In other cases, it may be appropriate to redefine the composite. If a composite is redefined, the Fiduciary Management Provider must disclose the date and description of the redefinition. See Provision 33.A.3 for guidance on composite definitions.

Sample Disclosures:

"Effective 1 January 2020, the Liabilities + 0% < x ≤ 0.5% | Unconstrained Composite was redefined to include only those schemes that allow the use of swaps to extend the duration of the assets to match liabilities. Previously, the composite included schemes that did not allow the use of swaps."

"As of 1 July 2020, the Liabilities + x > 3.5% | Unconstrained Composite includes an allocation to emerging market equities between 2% to 7% of scheme assets. Prior to this date, the composite's strategy did not include an allocation to emerging market equities."

Provision 34.C.17

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose changes to the name of the COMPOSITE. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the track record.

Discussion

When prospective clients are evaluating composites over time and across Fiduciary Management Providers, it is important that they understand exactly which composites they are assessing. If a Fiduciary Management Provider changes the name of a composite, the change must be disclosed in the GIPS Composite Report. The name change must be disclosed for a minimum of one year and potentially for more than one year if the Fiduciary Management Provider determines the disclosure is still relevant and meaningful. The Fiduciary Management Provider must consider the underlying principles of the GIPS standards for FMPs, which are fair representation and full disclosure, when determining how long the disclosure will be included in the GIPS Composite Report.

Sample Disclosure:

"As of 1 January 2016, the Liabilities Plus 1.5% < x ≤ 2.5% Composite was renamed the Unconstrained Liabilities Plus 1.5% < x ≤ 2.5% Composite."

Provision 34.C.18

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose if SCHEME returns used to calculate COMPOSITE RELATIVE 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 for FMPs do not require Fiduciary Management Providers to reflect withholding taxes, either reclaimable or non-reclaimable taxes, in a certain manner. Fiduciary Management Providers may choose whether or not to reflect the effect of withholding taxes when calculating performance. The GIPS standards for FMPs 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 32.B.5). If withholding taxes are material, Fiduciary Management Providers must disclose how withholding taxes are treated when calculating performance. Fiduciary Management Providers must determine the level at which withholding taxes become material, document this level in their policies and procedures, and apply it consistently.

Sample Disclosure:

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

Provision 34.C.19

If the GIPS COMPOSITE REPORT conforms with laws and/or regulations that conflict with the REQUIREMENTS of the GIPS standards for FMPs, the FIDUCIARY MANAGEMENT PROVIDER MUST disclose this fact and disclose the manner in which the laws and/or regulations conflict with the GIPS standards for FMPs.

Discussion

Fiduciary Management Providers 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 for FMPs. Fiduciary Management Providers must also comply with all of the applicable requirements of the GIPS standards for FMPs. In the rare cases where laws and regulations conflict with the GIPS standards for FMPs, Fiduciary Management Providers 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 for FMPs.

This disclosure will assist prospective clients in comparing GIPS Composite Reports among Fiduciary Management Providers for which 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 clients, which is in conflict with the GIPS standards for FMPs. Therefore, no performance is presented for this composite for the period from 1 July 2018 (the inception date of the composite) through 31 December 2018."

Provision 34.C.20

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose the use of a SUB-ADVISOR and the periods a SUB-ADVISOR was used.

Discussion

Some Fiduciary Management Providers use a sub-advisor to manage part or all of a particular strategy. For example, if a Fiduciary Management Provider specializes in managing equities, it might hire a sub-advisor (a third-party investment manager) to manage fixed-income investments. The GIPS standards for FMPs require that Fiduciary Management Providers include the performance of assets assigned to a sub-advisor in a composite provided the Fiduciary Management Provider has the authority to allocate the assets to a sub-advisor. In the spirit of full disclosure, a Fiduciary Management Provider must disclose the fact that a sub-advisor was used in the management of the composite strategy and the periods for which a sub-advisor was used. It is not necessary to disclose the name of the sub-advisor.

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Sample Disclosures:

"Sub-advisors are used for all asset classes for all periods with the exception of instruments used for hedging interest rate risk, which is managed internally."

"Sub-advisors managed between 60% and 65% of the physical assets and 60% to 70% of the notional assets since composite inception."

Provision 34.C.21

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose if the COMPOSITE's valuation hierarchy materially differs from the RECOMMENDED valuation hierarchy. (See Provision 32.B.6 for the RECOMMENDED valuation hierarchy.)

Discussion

Fiduciary Management Providers must establish policies and procedures for determining scheme valuations. Provision 32.B.6 includes a recommended valuation hierarchy that Fiduciary Management Providers should incorporate into their policies and procedures for determining fair value for scheme investments. Fiduciary Management Providers must establish a valuation hierarchy on a composite-specific basis. It is acceptable for Fiduciary Management Providers to apply a different valuation hierarchy to specific composites provided the valuation methodology conforms to the definition of fair value. If the valuation hierarchy materially differs from the recommended valuation hierarchy, a Fiduciary Management Provider must disclose this fact. Prospective clients will be informed and then may request additional information about the Fiduciary Management Provider's valuation policies.

Sample Disclosure:

"All scheme investments are valued using the Fiduciary Management Provider's proprietary valuation models to determine fair value. Our valuation procedures materially differ from the recommended valuation hierarchy in the GIPS standards for FMPs."

Provision 34.C.22

If a liability proxy BENCHMARK or a gilt of similar duration to the liabilities is used as the BENCHMARK, then the FIDUCIARY MANAGEMENT PROVIDER MUST disclose the following: "Some or all of the schemes have a performance track record using a liability proxy benchmark/gilt of similar duration to the liabilities. The level of volatility risk reported will typically be lower where a liability proxy benchmark/gilt of similar duration to the liabilities has been used."

Discussion

Using a liability proxy will typically result in lower volatility than if the fiduciary manager had used the full liability cash flows to benchmark performance. This is because the liability cash flows often include cash flows long into the future (e.g., 70 years), while the longest investable gilt is only 50 years. This mismatch in investable assets to the liability cash flows creates volatility. Fiduciary Management Providers using a liability proxy instead of the liability cash flows are able to reduce volatility by including the longest dated gilt (e.g., 50-year maturity) as a proxy in place of the longest dated liability cash flows (e.g., 70-year liability cash flow). Because investments used for the liability proxy will not exactly match the liability cash flows there will be an amount of volatility that exists between the liability proxy and the actual cash flows that is not included in the volatility calculations. Furthermore, because the liability proxy is composed of investable assets, it is possible for a manager to invest in such a way to exactly match the proxy, minimizing volatility. Likewise, a gilt of similar duration will result in less volatility because the calculations do not include the volatility that exists between the gilt and the actual cash flows. By making this disclosure, the Fiduciary Management Provider is providing a possible explanation as to why the composite volatility may appear lower when compared with another similar composite that uses the actual scheme liability cash flows to calculate the scheme relative return.

Provision 34.C.23

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose if performance from a past FIDUCIARY MANAGEMENT PROVIDER is presented, and for which periods.

Discussion

Provision 31.A.24 includes the portability tests that must be met to determine if performance from a past Fiduciary Management Provider or affiliation may be used to represent the historical performance of a new or acquiring Fiduciary Management Provider and if that performance can be linked to the ongoing performance of the new or acquiring Fiduciary Management Provider. Provision 31.A.25 includes the portability tests that must be met for the new or acquiring Fiduciary Management Provider to use performance from a past Fiduciary Management Provider or affiliation to represent its historical performance when there is a break in the track record between the past Fiduciary Management Provider or affiliation and the new or acquiring Fiduciary Management Provider. In this instance, the track record from the past Fiduciary Management Provider or affiliation may be used if the tests are met, but it must not be linked to the performance at the new or acquiring Fiduciary Management Provider.

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

Sample Disclosure:

"Performance shown prior to 31 December 2016 represents results achieved by the Performance Management Team while it was a part of ABC Fiduciary Management. The Performance Management Team joined the Fiduciary Management Provider on 2 January 2017 and continues to manage the strategy with no change to the investment decision-making process."

Provision 34.C.24

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose any change to the GIPS COMPOSITE REPORT resulting from the correction of a MATERIAL ERROR. Following the correction of the GIPS COMPOSITE 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 COMPOSITE REPORT that is provided to a PROSPECTIVE CLIENT that did not receive the GIPS COMPOSITE REPORT containing the MATERIAL ERROR.

Discussion

Fiduciary Management Providers claiming compliance with the GIPS standards for FMPs 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 Composite Report that is missing or inaccurate. Errors in GIPS Composite Reports can result from, but are not limited to, incorrect, incomplete, or missing:

- composite relative returns or assets,
- Fiduciary Management Provider assets,
- dispersion measures,
- number of schemes in a composite,
- risk measures, and
- disclosures.

Any material error in a GIPS Composite Report must be corrected and disclosed in a revised GIPS Composite Report. A Fiduciary Management Provider must define materiality within its error correction policies and procedures.

To adhere to this requirement, a Fiduciary Management Provider must determine the criteria it will use to determine materiality. The following is a definition of materiality that Fiduciary Management Providers 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 Fiduciary Management Provider should have a defined process for determining the objective criteria it will use in determining materiality.

Disclosure of the change in the corrected GIPS Composite Report resulting from a material error must be included in the GIPS Composite 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 Fiduciary Management Provider must consider the underlying principles of the GIPS standards for FMPs, which are fair representation and full disclosure, when determining how long the disclosure will be included in the GIPS Composite Report that contains the material error.

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

The discussion for Provision 31.A.15 provides additional information on error correction, including the determination of materiality, the actions that must be taken when an error in a GIPS Composite Report is discovered, and an explanation of who must receive the revised GIPS Composite Report.

Sample Disclosure:

"This GIPS Composite Report includes a correction of the information provided for the 2017 composite relative return. The annual composite relative return for 2017 was originally presented as 0.50%. The correct return is –0.12%, as shown in this revised GIPS Composite Report."

Provision 34.C.25

If the FIDUCIARY MANAGEMENT PROVIDER chooses to not present the number of SCHEMES in the COMPOSITE because there are three or fewer SCHEMES in the COMPOSITE, the FIDUCIARY MANAGEMENT PROVIDER MUST disclose that the COMPOSITE contains three or fewer SCHEMES or use similar language.

Discussion

Each GIPS Composite Report must include information about the number of schemes included in the composite. These figures must be presented as of each calendar year end that is included in the

GIPS Composite Report. (See Provision 34.A.1.g.) This requirement provides information to prospective clients on whether the composite is composed of a small number of schemes or many.

In cases where there are three schemes or fewer in a composite at year end, the Fiduciary Management Provider may choose to not present the actual number of schemes in the composite. The Fiduciary Management Provider might choose to do this to protect the identity and confidentiality of its clients. Because Fiduciary Management Providers must include information about the number of schemes in the composite, Fiduciary Management Providers must either state that the composite contains "three or fewer schemes," "fewer than four schemes" (or similar language), or present the actual number of schemes in the composite.

Note that "three or fewer schemes in the composite" refers to the number of schemes in the composite at the calendar year end and not the number of schemes in the composite for the full year. If there were two schemes in the composite for the full year but six schemes in the composite at year end, the Fiduciary Management Provider would be required to present the actual number of schemes (in this example, six) in the composite at year end.

Sample Disclosure:

"ABC's policy is to not present the number of schemes in the composite when there are fewer than four schemes included in the composite as of year end."

Sample Disclosure as Part of a Table

The column where the number of schemes in the composite at year end is presented would simply note "<4" or "≤3" for any year end for which there were three or fewer schemes in the composite at year end.

Provision 34.C.26

If the FIDUCIARY MANAGEMENT PROVIDER chooses to not present the INTERNAL DISPERSION of annual individual SCHEME RELATIVE RETURNS because there are three or fewer SCHEMES in the COMPOSITE for the full year, the FIDUCIARY MANAGEMENT PROVIDER MUST disclose that the INTERNAL DISPERSION measure is not applicable or use similar language.

Discussion

The internal dispersion of the individual annual scheme relative returns must be presented for each annual period that is included in a GIPS Composite Report. When a composite contains three or fewer schemes for the full year, the measure of internal dispersion is not required to be presented. Because Fiduciary Management Providers must include some information about the internal dispersion of individual scheme relative returns, however, Fiduciary Management Providers must indicate that the internal dispersion measure is not applicable or include similar language. The Fiduciary Management Provider may instead choose to present an internal dispersion measure.

Note that "three or fewer schemes in the composite" refers to the number of schemes in the composite for the full year, not the number of schemes in the composite at year end. For example, if there were three schemes in the composite for the full year but five schemes in the composite at year end, the Fiduciary Management Provider would not be required to present the measure of internal dispersion for the composite.

Sample Disclosure:

"ABC's policy is to not present the internal dispersion when there are three or fewer schemes included in the composite for the full year."

Sample Disclosure as Part of a Table

The column where the measure of internal dispersion is presented for each annual period would simply note N.A. for any annual period for which there were 3 or fewer schemes included in the composite for the full year.

Provision 34.C.27

The FIDUCIARY MANAGEMENT PROVIDER 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 Fiduciary Management Provider relies on valuation 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 for FMPs: fair representation and full disclosure. If using preliminary, estimated values, Fiduciary Management Providers must disclose this fact in the relevant GIPS Composite Report. An example of an estimated value is where a Fiduciary Management Provider places reliance on valuations received from third parties that lag by a quarter.

Fiduciary Management Providers that use preliminary, estimated values to determine fair value and subsequently change valuations when final values are received must determine how the Fiduciary Management Provider's error correction policies will be applied. (Please see Provision 31.A.15 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 34.B.2) that Fiduciary Management Providers disclose the percentage of assets in the composite that were valued using preliminary, estimated values as of each calendar year end. This information will help prospective clients to interpret the performance record.

Sample Disclosure:

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

Provision 34.C.28

The FIDUCIARY MANAGEMENT PROVIDER MUST 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 Fiduciary Management Provider's valuation policies and/or methodologies is material, it must disclose the change in order to enable prospective clients 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 34.C.29

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose material changes to calculation policies and/or methodologies.

Discussion

Fiduciary Management Providers 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, Fiduciary Management Providers may choose from a wide variety of policies and methodologies. Fiduciary Management Providers may change calculation policies and/or methodologies; however, Fiduciary Management Providers 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, Fiduciary Management Providers must disclose the change in order to enable prospective clients to understand the potential effect of such a change.

Sample Disclosure:

"Effective 1 January 2020, scheme relative returns are calculating using the geometric difference method. Previously, the arithmetic difference was used."

Provision 34.C.30

When calculating HEDGE RATIO–ADJUSTED BENCHMARKS, the FIDUCIARY MANAGEMENT PROVIDER MUST disclose the cash proxy or rate used.

Discussion

When calculating the hedge ratio–adjusted benchmarks, Provision 32.A.29 requires Fiduciary Management Providers to include cash for the proportion of liabilities where the interest rate hedging is not allowed. Given the importance of the cash proxy or rate used in the calculation of the hedge ratio–adjusted benchmark, Fiduciary Management Providers must disclose this information.

Sample Disclosure:

"Where a client places a liability hedge constraint on a mandate, the hedge ratio–adjusted benchmark is calculated using a cash proxy of GBP LIBOR—1 month for the portion of the liabilities where interest rate hedging is not allowed and the full liabilities for the portion of the liabilities where hedging is allowed."

Provision 34.C.31

The FIDUCIARY MANAGEMENT PROVIDER MUST disclose and describe any returns or risk measures that are included in the GIPS COMPOSITE REPORT beyond those that are REQUIRED to be included.

Discussion

The GIPS standards for FMPs require certain performance and risk measures to be included in a GIPS Composite Report. (See Provision 34.A.1.) If the Fiduciary Management Provider determines that including additional return or risk information would be helpful to prospective clients, it may do so. The Fiduciary Management Provider must then disclose and describe these additional returns or risk measures.

34.D. Disclosure—Recommendations

Provision 34.D.1

The FIDUCIARY MANAGEMENT PROVIDER SHOULD disclose material differences between the BENCHMARK and the COMPOSITE's investment mandate, objective, or strategy.

Discussion

Fiduciary Management Providers are required to disclose the composite description (see Provision 34.C.4) and the benchmark used to calculate the scheme relative returns (see Provision 34.C.5) in a GIPS Composite Report. It is recommended that Fiduciary Management Providers also disclose any material differences between the benchmark and the composite's investment mandate, objective, or strategy. Prospective clients will be better able to evaluate composite relative returns if they understand any material differences between the composite strategy and the benchmark.

Sample Disclosure:

"Scheme relative returns are calculated using a gilt of similar duration as the liabilities. Schemes in the composite will be invested in assets that have different characteristics than the benchmark. For example, 70% of the assets are invested to match the key rate duration of the liability cash flows. Changes in the yield curve may affect the assets differently from the benchmark. In addition, schemes invest in growth assets, which will not be highly correlated with the benchmark."

Provision 34.D.2

The FIDUCIARY MANAGEMENT PROVIDER SHOULD disclose the key assumptions used to value investments.

Discussion

Fiduciary Management Providers are required to disclose that valuation policies are available upon request. (See Provision 34.C.12.) Because valuation is a critical component of the performance calculation, it is recommended that Fiduciary Management Providers also disclose the key assumptions used when valuing scheme investments. This disclosure will help prospective clients better understand how the Fiduciary Management Provider values investments and compare valuation assumptions for similar strategies used by different Fiduciary Management Providers.

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 34.D.3

The FIDUCIARY MANAGEMENT PROVIDER 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 Fiduciary Management Provider, some Fiduciary Management Providers instead charge research costs directly to clients. To allow prospective clients to understand the Fiduciary Management Provider's policy for the treatment of research costs, Fiduciary Management Providers should disclose if returns do or do not reflect the deduction of research costs.

Sample Disclosure:

"Fiduciary Management Provider ABC bears the costs of investment research. Research costs are not separately charged to clients."

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