

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

Explanation of the
Provisions in Section 34

August 2020



CFA Institute®
Global Investment
Performance Standards

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

Explanation of the
Provisions in Section 34

August 2020



CFA Institute®
Global Investment
Performance Standards

GIPS® is a registered trademark owned by CFA Institute.

© 2020 CFA Institute. All rights reserved.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the copyright holder.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is distributed with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional should be sought.

INTRODUCTION

The Explanation of the Provisions in Section 34 provides interpretation of each provision contained in Section 34: GIPS Composite Report. Fiduciary Management Providers that choose to comply with the Global Investment Performance Standards (GIPS®) for Fiduciary Management Providers to UK Pension Schemes (GIPS standards for FMPs) 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.

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.

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.

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:

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

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

Provision 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:

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

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

Provision 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, 90th percentile, and 10th 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	10 th Percentile	4.79%	=PERCENTILE.INC(B2:B11,0.1)
16	Median	5.15%	=MEDIAN(B2:B11)
17	90 th 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:

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

where R_i is the return of the i th 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 $\text{MEAN}(R)$ is the mean monthly composite relative return over the period for which external standard deviation is being calculated, where

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

where R_1 is the first monthly composite relative return, R_i is the i th 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:

- I. 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:

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

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:

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

where

R_i = monthly composite relative return

N = number of 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	Peak 1	
2	4.277%	109.862		
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.

Period	Annualized Composite Relative Net Returns to Full Liabilities			
	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

^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.

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.

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

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.

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.

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 + $0\% < x \leq 0.5\%$ | 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 $1.5\% < x \leq 2.5\%$ Composite was renamed the Unconstrained Liabilities Plus $1.5\% < x \leq 2.5\%$ 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.

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."

www.cfainstitute.org

