CFA Institute®
Global Investment
Performance Standards

GUIDANCE STATEMENT ON BENCHMARKS FOR ASSET OWNERS

EFFECTIVE DATE: 30 JUNE 2023
PUBLIC COMMENT PERIOD: 23 JUNE 2022 – 22 AUGUST 2022

CFA Institute

www.gipsstandards.org

CONTENTS

GUIDANCE STATEMENT ON BENCHMARKS FOR ASSET OWNERS

Introduction

The GIPS standards are ethical standards for calculating and presenting investment performance based on the principles of fair representation and full disclosure.

One important element in the fair representation of investment performance is the choice of a benchmark. Several provisions of the GIPS standards focus on benchmarks. The GIPS standards require asset owners to select an appropriate total return benchmark for each total fund and composite, if an appropriate benchmark is available, and to present benchmark performance in GIPS Asset Owner Reports.

The GIPS standards define a benchmark as a point of reference against which the total fund's or composite's returns or risks are compared. Properly used, a benchmark should be a focal point when evaluating performance. The thoughtful choice of a benchmark will enhance the performance evaluation by clearly defining expectations and success.

Sample benchmark-related disclosures are included throughout this Guidance Statement.

The Role of Benchmarks

Benchmarks are used to evaluate total fund and composite performance.

A total fund is defined as a pool of assets managed by an asset owner according to a specific investment mandate, which is typically composed of multiple asset classes. The total fund usually consists of underlying portfolios, each representing one of the strategies used to achieve the asset owner's investment mandate.

Total funds often use a policy benchmark. Asset owners may do an asset–liability study or another type of analysis to arrive at the asset classes and appropriate weightings (e.g., strategic asset allocation) to achieve an expected return and risk profile for a total fund. Asset class benchmarks are chosen to reflect each underlying asset class and typically represent the segment of the market from which investments for the strategy are drawn. These benchmarks may be an index or another type of benchmark, depending on the asset class. The asset owner then creates a policy benchmark that incorporates the strategic weightings of asset class benchmarks and is the default position. Investment decisions are made relative to benchmark weights, exposures, and risks.

Some asset owners instead use a target return benchmark, whereby a target return is established that indicates the return needed to maintain a minimum or desired level of assets for a total fund. A target return benchmark could also be used for an additional composite.

Some asset owners manage more than one total fund. When an asset owner manages total funds that are managed according to a similar investment mandate, objective, or strategy, the asset owner may choose to include multiple total funds in a total fund composite. A composite is an aggregation of one or more portfolios or total funds that are managed according to a similar investment mandate, objective, or strategy.

Asset owners may also wish to present the results of the underlying asset classes and report the performance of that asset class in compliance with the GIPS standards. An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report. A GIPS Asset Owner Report is an asset owner's presentation for a total fund or composite that contains all the information required by the GIPS standards and may also include recommended information or supplemental information.

Total Fund Benchmark: Total fund benchmarks are often a blend of asset class benchmarks based on the policy weights of the respective asset classes (i.e., a policy benchmark). Some asset owners use a benchmark that is a target return (e.g., inflation plus 5%) in addition to or in lieu of a policy benchmark.

Total Fund Composite Benchmark: Total funds that are included in a total fund composite may have different policy benchmarks. If this is the case, the appropriate benchmark for the total fund composite is a portfolio-weighted custom benchmark. A portfolio-weighted custom benchmark is created using the benchmarks of the individual portfolios in the composite.

Additional Composite Benchmark: Portfolios that are included in an additional composite may have different portfolio benchmarks. If this is the case, the appropriate benchmark for the additional composite is the one that best reflects the overall strategy of that asset class. The appropriate benchmark may be a portfolio-weighted custom benchmark or a single benchmark that best represents the asset class.

Presentation and Reporting of Benchmarks

When an appropriate benchmark exists and time-weighted returns are presented, asset owners must present the benchmark return for each annual period in GIPS Asset Owner Reports. In addition to the required annual benchmark returns, asset owners must also present benchmark returns for any additional periods for which total fund or composite returns are presented. For example, if the GIPS Asset Owner Report includes partial-period or quarterly composite or total fund returns, it must also include benchmark returns for the same periods.

Example showing a GIPS Asset Owner Report excerpt with quarterly and annual time-weighted returns.

Period	Total Fund Gross Return (%)	Total Fund Net Return (%)	Blended Benchmark Return (%)	3-Year Annualized Standard Deviation Total Fund (%)	3-Year Annualized Standard Deviation Benchmark (%)	Total Fund Assets and Total Asset Owner Assets ($M)
2Q 2021	1.43	1.30	0.24			
1Q 2021	2.14	1.95	1.99			
2020	**7.51**	**6.46**	**6.30**	**3.25**	**3.37**	**1,414**
4Q 2020	1.62	1.37	1.25			
3Q 2020	2.36	2.11	2.29			
2Q 2020	1.89	1.64	1.45			
1Q 2020	1.44	1.19	1.17			
2019	**33.08**	**31.80**	**29.76**	**5.03**	**5.32**	**1,252**
4Q 2019	8.50	8.24	7.85			
3Q 2019	8.17	7.91	7.48			
2Q 2019	5.54	5.28	4.98			
1Q 2019	7.44	7.18	6.63			

GIPS Asset Owner Reports for additional composites that include money-weighted returns must include the annualized composite since-inception money-weighted return through the most recent annual period end. Many asset owners, however, have very long histories, and some of the earlier records may not be sufficient to support the entire track record of the additional composite. If the asset owner does not have the records to support the track record from the composite's inception through the most recent annual period end, the asset owner must present the annualized money-weighted return for the longest uninterrupted period for which the asset owner has such records, through the most recent annual period end. Asset owners must present benchmark returns for these required periods and for any additional periods for which composite returns are presented. For example, if a GIPS Asset Owner Report includes money-weighted returns through each annual period end, then benchmark returns for these same periods must also be included.

Example showing a GIPS Asset Owner Report excerpt with since-inception money-weighted returns.

Kora's Foundation
Private Equity Composite
1 January 2017 to 31 December 2020

31 December*	Since-Inception Composite Net MWR (%)	Since-Inception Custom Benchmark MWR (%)	Number of Portfolios	Composite Assets ($M)	Total Asset Owner Assets ($M)
2020	23.85	21.52	6	98	2,155
2019	9.06	12.35	4	55	2,033
2018	9.32	7.56	2	40	1,890
2017	20.06	18.69	1	24	1,842

*Returns are for the period from 1 January 2017 (inception date) through 31 December of the respective year.

Benchmark Description

To allow the oversight body to understand the benchmark against which the total fund's or composite's performance is evaluated, the asset owner must disclose the benchmark description for each benchmark included in a GIPS Asset Owner Report. The benchmark description is defined as general information regarding the investments, structure, and characteristics of the benchmark, and it must include the key features of the benchmark. In the case of a widely recognized index, such as the S&P 500 Index, the benchmark name will satisfy this requirement.

Each asset owner must decide for itself whether a benchmark is widely recognized. If the asset owner is uncertain as to whether the benchmark is widely known, the asset owner must include the benchmark description.

Sample Disclosure for a Widely Recognized Benchmark:

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

Sample Disclosure for a Benchmark That Is Not Widely Recognized:

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

Selecting an Appropriate Benchmark

Benchmarks are important tools that aid in the planning, implementation, and evaluation of a total fund's or additional composite's investment policy. They also help facilitate discussions with an asset owner's oversight body regarding the relationship between risk and return. As a result, asset owners are required to present the total return for a benchmark that reflects the total fund's or additional composite's investment mandate, objective, or strategy in all GIPS Asset Owner Reports.

The GIPS standards require that the benchmark chosen for any total fund or composite must be an appropriate total return benchmark. A benchmark is appropriate if it reflects the total fund's or composite's investment mandate, objective, or strategy. There may be multiple benchmarks, however, that meet this single criterion, particularly for an additional composite or the components of a policy benchmark. Asset owners should therefore consider additional characteristics of valid benchmarks when selecting a benchmark. A valid benchmark is one that is:

- *specified in advance*. Asset owners should select a total fund or composite benchmark prior to the evaluation period.
- *relevant*. The benchmark reflects the investment mandate, objective, or strategy of the total fund or composite.
- *measurable*. The benchmark is quantifiable.
- *unambiguous*. The constituents of the investable universe can be clearly identified and priced.
- *representative of current investment options*. The asset owner has current knowledge of the investable universe.
- *accountable*. The asset owner selects the benchmark and holds itself accountable for any deviations from the benchmark.
- *investable*. It is possible to forgo active management and simply hold the benchmark.
- *complete*. The benchmark provides a broad representation of the segment of the market to which it pertains.

Benchmarks may not have all of these qualities, particularly benchmarks used for alternative asset classes. Asset owners should choose an appropriate benchmark that has as many of these characteristics as possible.

If an asset owner is choosing an index as a benchmark or a component of a blended benchmark, it is important that the asset owner considers how the index has balanced the trade-off between being complete and investable. A more complete index can provide broader, more diversified performance, but it may be less investable. An index that has fewer and/or more-liquid securities will be more investable.

The process for determining the benchmark for a total fund or composite should be documented in the asset owner's policies and procedures. This documentation should include any review and approval processes.

The benchmark that appears in a GIPS Asset Owner Report may differ from the benchmark(s) used for the portfolios that are included in the total fund or additional composite. For example, an asset owner may decide that it is appropriate to include portfolios with different benchmarks in the same additional composite. Furthermore, an asset owner may also present more than one benchmark in a GIPS Asset Owner Report. The asset owner must determine the appropriate benchmark or benchmarks for each total fund and additional composite.

For example, an equity composite may include a global equity portfolio that is benchmarked to the MSCI All Country World Index, a domestic equity portfolio benchmarked to the S&P 500 Index, and a European equity portfolio benchmarked to the MSCI Europe Index, while the equity composite benchmark is the MSCI World Index.

Types of Benchmarks

Benchmarks used by asset owners generally can be categorized as one of the following types.

a. *Market Index*: Market indexes are those that are commonly used and widely recognized. Publicly available market indexes can be broad (e.g., global developed market equities, European bonds) or more narrowly defined (e.g., representing a country, a sector, or a style bias). An example of a broad index is the Bloomberg Global Aggregate Index, and an example of a narrow index is the S&P 500 Financials Index.

b. *Target Return*: Examples of target return strategies are those that have an objective to earn a reference rate (e.g., 3-month T-bill rate) or hurdle (e.g., CPI + 5% over a five-year period). Asset owners that use a policy benchmark for a total fund often compare total fund performance with a target return as well, to determine if the total fund is meeting a minimum level of performance that is required to fund liabilities.

Target return benchmarks are also used for certain types of asset class composites, such as hedge fund strategies and unconstrained strategies, in which the investment strategy is not managed relative to a market index. An unconstrained strategy allows an asset owner to invest across any asset class and sector and can be opportunistic. Target return benchmarks may also be used for private investments, such as a direct investment in a company or an investment in a piece of art. As a result, these types of strategies may be measured against a risk-free rate or target benchmark (e.g., the 3-month T-bill rate +2%) rather than a market index. When using a risk-free rate or target return as a benchmark, GIPS Asset Owner Reports that present the three-year annualized ex post standard deviation of the total fund or the composite and benchmark would allow the reader to understand the difference in risk between the strategy and the benchmark.

A target return benchmark may also be used to compare the success of a strategy with a fixed level of spending or liability matching. Target return benchmarks, however, do not have certain characteristics of a valid benchmark. For example, they are not investable.

Sample Disclosure:

"The portfolios in the Absolute Return Composite invest in stocks both long and short, regardless of country of domicile or market capitalization. The Composite benchmark is the 3-month T-bill rate, which is the hurdle rate, and portfolios in the composite are composed of materially different investments versus the benchmark."

Sample Disclosure:

"The Give Grants Foundation has a target return to exceed the change in the consumer price index (CPI)+5% averaged over a rolling 3-year period. CPI reflects inflation, and 5% is the Foundation's expected distribution rate."

c. *Peer Group*: Peer groups are often used as benchmarks for alternative strategies. Some common problems with peer group benchmarks include the following:

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

Also, because the peer group return is typically a median pooled fund return over a specific time period, peer group returns and risk statistics (e.g., standard deviation), which must be presented in a GIPS Asset Owner Report that includes time-weighted returns, are not necessarily meaningful because the median fund could differ for each time period used in the peer group return and risk statistic calculations.

Although the use of peer groups as benchmarks is not considered best practice, in certain asset classes (e.g., private equity, real estate, alternatives) peer groups are widely used and generally considered the best option available. When using benchmarks that have limitations, such as peer group benchmarks, the asset owner should disclose these limitations.

It is expected that the benchmark description would include whether the peer group benchmark is gross or net of fees.

Sample Disclosure:

"The peer group database includes over 1,500 fund managers and information from more than 3,200 funds. The returns are median annual net returns."

d. *Custom Benchmark*: If a custom benchmark or combination of multiple benchmarks is used, the asset owner must:

- disclose the benchmark components, weights, and rebalancing process, if applicable,
- disclose the calculation methodology, and
- clearly label the benchmark to indicate that it is a custom benchmark.

There are several types of custom benchmarks:

i. *Blended Benchmarks*: Blended benchmarks are created by combining two or more indexes. A total fund is typically composed of multiple asset classes. Therefore, the total fund benchmark is often a blend of asset class benchmarks based on the policy weights of the respective asset classes. If a blended benchmark, based on the asset classes in the total fund, is presented in a GIPS Asset Owner Report, the asset owner must disclose the benchmark(s) used by each asset class, along with their weights as of the most recent annual period end. General information regarding the investments, structure, and/or characteristics of the benchmarks must also be disclosed. This information will assist the oversight body in understanding the benchmark against which the performance of the total fund is being compared.

Sample Disclosure:

"The Total Fund blended benchmark is calculated monthly using a blend of the asset class benchmarks based on the Total Fund's benchmark policy weights for the respective asset classes. Each asset class uses a total return benchmark. The benchmark policy weights listed in the following table are as of 31 December 2022. Benchmark policy weights and asset class weights for prior periods are available upon request.

Asset Class Benchmarks

Benchmark Policy Weights

31 Dec 2022 (%)

Asset Class	Benchmark	Benchmark Policy Weights 31 December 2022 (%)
Absolute Return	Juniper 9- to 12-Month Treasury Index	23
Domestic Equity	Desmond Total Stock Index	20
Fixed Income	Juniper 1- to 3-Year Treasury Index	9
International Equity	Smith All Country World Index ex US	22
Natural Resources	Jackson Associates Natural Resources Index	8
Private Equity	Jackson Associates Private Equity Index	10
Real Estate	Farley US REIT Index	4
Cash	Juniper 1- to 3-Month Treasury Index	4

"Descriptions of the blended benchmark components are as follows. The Juniper 9- to 12-Month Treasury Index includes all publicly issued US Treasury bills with a remaining maturity between 9 and 12 months. The Desmond Total Stock Index tracks the US broad equity market for companies of any market capitalization size. The Juniper 1- to 3-Year Treasury Index measures the performance of US Treasury bonds maturing in one to three years. The Smith All Country World Index ex US provides a broad measure of stock performance throughout the world, excluding US-based companies. This market-capitalization-weighted index includes companies doing business in both developed and emerging markets. The Jackson Associates Natural Resources Index represents domestic securities that are classified as energy and materials sector stocks, excluding securities associated with the chemicals industry and the steel industry. The Jackson Associates Private Equity Index is composed of the top private equity funds that meet defined criteria such as liquidity, size, exposure, and activity requirements. The Farley US REIT Index is composed of equity real estate investment trusts. The index is a free float–adjusted market-capitalization-weighted index. The Juniper 1- to 3-Month Treasury Index includes all publicly issued US Treasury bills with a remaining maturity between one and three months."

Asset owners may also use a blended benchmark as an asset class benchmark. As an example, an asset owner could calculate an international blended benchmark on a monthly basis, using 70% of the XYZ World Index and 30% of the XYZ Emerging Markets Index.

ii. *Portfolio-Weighted Custom Benchmark*: Asset owners may use a portfolio-weighted custom benchmark, which is created using the benchmarks of the individual portfolios in the composite. If such a benchmark is used, asset owners must disclose that the benchmark is calculated using the weighted average returns of the benchmarks of all portfolios included in the composite, along with the frequency of the rebalancing.

Additionally, in the spirit of full disclosure and fair representation, asset owners must disclose the components that constitute the portfolio-weighted custom benchmark, including the weight that each component represents, as of the most recent annual period end. Asset owners must also disclose that information regarding the components of the portfolio-weighted custom benchmark, as well as the component weights, is available for prior periods upon request.

Asset owners are not required to disclose how the underlying portfolio benchmarks and weights have changed each period.

Sample Disclosure for an Additional Composite Benchmark:

"The Fixed Income Custom Benchmark is calculated using the benchmarks of the portfolios in the composite. The benchmark is rebalanced monthly based on the beginning values of portfolios included in the composite. As of 31 December 2022, the breakdown of the benchmark is 88.2% XYZ US Long Government/Credit Index and 11.8% XYZ US Long Government/Credit A+ Index. The breakdown of the custom benchmark for different time periods is available upon request."

Sample Disclosure for a Total Fund Composite Benchmark:

"The Total Fund Composite includes three total funds. Each total fund has its own policy benchmark. The Total Fund Composite benchmark is a custom benchmark that is calculated using the benchmarks of the total funds. The benchmark is calculated monthly based on the beginning values of the total funds included in the composite. As of 30 June 2022, the benchmark weights were as follows:"

Benchmark	Benchmark Weights 30 June 2022 (%)
XYZ 9- to 12-Month Treasury Index	12
XYZ Total Stock Index	20
XYZ All Country World Index ex US	22
XYZ Aggregate Fixed Income Index	18
XYZ Private Equity Index	10
XYZ US REIT Index	14
XYZ 1- to 3-Month Treasury Index	4

iii. *Liability-Driven Investing Benchmark*: Liability-driven investing (LDI) strategies are highly customized investment strategies for which the main objective is to have sufficient assets to meet current and future liabilities. A total fund that has an investment objective to earn a return that equals or exceeds the actuarial rate of return could be considered an LDI strategy. Standard market indexes may not be appropriate benchmarks for LDI strategies. Benchmarks for LDI strategies are typically constructed from a customized set of securities designed to match a defined liability stream. This liability stream may be based on actuarially estimated characteristics, such as duration and convexity, without reference to specific securities.

Sample Disclosure for a Total Fund LDI Benchmark

"The XYZ benchmark is calculated by overlaying the pension plan's liabilities on a US Treasury zero coupon yield curve. The benchmark represents this pension plan's specific liability stream matching."

iv. *Custom Net Benchmark*: Asset owners may use benchmarks that reflect the deduction of fees or expenses. To calculate net benchmark returns, some asset owners deduct transaction costs, taxes, or internal costs. Some benchmark providers also provide returns that reflect the deduction of transaction costs.

If an asset owner presents a custom net benchmark, it may do so only when it presents comparable total fund or additional composite returns that reflect the deduction of the same fees or expenses. For example, assume the asset owner wishes to include a custom net benchmark that reflects the deduction of all fees and costs, including internal costs for an additional composite. The asset owner must present composite net-of-fees returns.

When an asset owner includes custom net benchmark returns in a GIPS Asset Owner Report, the asset owner must clearly label the benchmark as a custom net benchmark and disclose the calculation methodology.

If a benchmark is changed from one that was previously not reduced by transaction costs to one that is reduced by transaction costs, this new benchmark return calculation approach qualifies as a prospective benchmark change. The date and description of the prospective benchmark change must be disclosed for as long as the GIPS Asset Owner Report includes returns for the prior benchmark, and the description should include the periods for which transaction costs are deducted. For example, "Effective July 2022, benchmark returns reflect the deduction of transaction costs that are calculated using the bid–offer spread for all new additions to the index, as well as any security whose weight increases in the index at each monthly rebalancing, beginning with the 30 June 2022 rebalancing. The beginning-of-month calculated transaction cost adjustment is applied to index returns daily for the following calendar month. Benchmark returns prior to July 2022 do not reflect the deduction of transaction costs."

The asset owner should label the benchmark returns to make clear that the benchmark returns are reduced by transaction costs—for example, "XYZ Fixed Income Index (net of transaction costs)." The asset owner is not required to disclose the basis point difference between the benchmark returns with transaction costs and the benchmark returns without transaction costs.

v. *Bespoke Benchmark*: Bespoke benchmarks are universes of securities created by the asset owner that specify a benchmark that better reflects the investment strategy than an index available from an index provider. Many types of bespoke custom benchmarks exist, such as those created by narrowing the opportunity set of investments (e.g., excluding specific stocks) or by establishing customized rules for inclusion in the benchmark (e.g., including specific sectors or applying ESG factors to an index).

vi. *Custom Benchmark with Leverage*: If the total fund or composite includes leverage, some asset owners may build leverage into the benchmark. The leverage may take different forms. When leverage is embedded within asset class expectations and that asset class has a levered return expectation, the asset owner may determine that it is appropriate to use a levered benchmark as a basis of comparison. Leverage may also be applied at the total fund level, where the strategic asset allocation includes asset exposure in excess of the total fund's net assets. In both instances, the asset owner should systematically incorporate into the benchmark the additional asset exposure as well as the cost to finance that additional exposure. The cost of financing is expected to be a part of the custom benchmark calculation methodology disclosure.
It may be more challenging to isolate the cost of financing when using derivatives. When using derivatives, the asset owner should attempt to determine the cost of financing and disclose this amount. An unlevered benchmark should be presented alongside the custom benchmark with leverage.

Example 1

A composite for a leveraged loan strategy may target 40% leverage at the asset class level. If the benchmark is the S&P/LSTA Leveraged Loan Total Return Index, the benchmark may be calculated by:

- multiplying the benchmark return by a factor of 1.4, and
- deducting the cost to finance the 40% leverage.

Example 2

A total fund has asset exposure of 65% allocation to equities and 40% allocation to bonds, which results in 105% gross asset exposure. To fund the additional asset exposure, the total fund finances 5%. Assuming a quarterly total fund rebalance, the benchmark may be calculated as follows:

Segment	Equities	Income	Financing (i.e., leverage)
Segment Benchmark	XYZ AC World Daily TR	XYZ Global Aggregate	3-Month US Treasury Bill + 25 bps/yr
Date	% Change	% Change	% Change
3/31/2022	2.166%	−0.045%	0.031%
2/28/2022	−2.583%	−1.189%	0.013%
1/31/2022	−4.911%	−2.049%	−0.004%
Cumulative return (A_i)	−5.361%	−3.257%	0.040%
Starting weight (B_i)	65%	40%	−5%
Contribution to BM return ($C_i = A_i*B_i$)	−3.485%	−1.303%	−0.002%
Total BM return (Sum of C_i)	−4.789%		

The financing cost may include the impact of holding cash for purposes of variation margin (in the preceding example, this is the 25 bp spread on top of the 3-month T-bill rate).

e. *Exchange-Traded Fund (ETF)*: An ETF is a pooled fund that tracks a specific investment universe that is expressed by a market index or a basket and that is listed on an exchange. Unlike a market index, an ETF incurs trading costs and other charges, including taxes. Because of these incurred costs, an ETF may underperform the market index that it tracks. If an ETF is chosen as the benchmark for an additional composite, the asset owner should present net-of-fees composite returns.

As part of the benchmark description for an ETF, the asset owner must disclose the following items:

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

If the asset owner also presents composite gross-of-fees returns, it should present ETF returns that are grossed up, but it is not required to do so.

Practical Considerations

An asset owner may want to take into account the following practical considerations when choosing an appropriate benchmark.

a. *Currency*: Returns can differ significantly depending on the currency in which they are expressed. Benchmark returns must be presented in the same currency as the total fund or composite returns. While returns obtained from an index provider may be in a different currency from that of the total fund or composite, asset owners are required to convert benchmark returns into the same currency as the total fund or composite.

If an asset owner chooses to present a total fund or composite performance in a different currency, all required and recommended information in the GIPS Asset Owner Report, including benchmark returns, must be converted into the new currency. An asset owner should use the same calculation methodology and exchange rates for converting benchmark returns that it uses for converting total fund or composite returns, if possible.

If an asset owner is receiving benchmark returns from an index provider, it is important to consider that the index provider may be using exchange rates or a different calculation methodology for performing the currency conversion. Thus, when an asset owner converts benchmark returns into a different currency, the resulting benchmark returns in the GIPS Asset Owner Report may differ from benchmark returns published by the index provider. As such, asset owners should consider disclosing information about currency conversion methods.

Sample Disclosure:

"Sources of currency exchange rates may differ between the composite and the benchmark; however, there have been no material differences to date."

b. *Currency Hedging*: Benchmarks can be hedged, unhedged, or partially hedged against movements in spot currencies. Hedging can be used for a number of purposes (e.g., to eliminate currency effects or to add alpha). If a hedged or partially hedged benchmark is used, the hedging criteria for the benchmark is expected to be disclosed as a part of the benchmark description.

The asset owner should disclose material differences between the benchmark and the total fund's or composite's investment mandate, objective, or strategy. If the hedging criteria of the total fund or composite materially differ from the benchmark, asset owners should disclose this fact.

Sample Disclosure:

"The XYZ European Equity Index is 50% hedged to the US dollar. The ABC European Equity Composite maintains a 45%–55% hedge to the US dollar."

c. *Geographical or Sector Exposure*: Although investment markets are becoming increasingly global, many regions and countries have biases toward economic trends or certain industry sectors. For example, the Pacific region and the emerging markets sector traditionally tend to have different risk profiles from those of developed markets, and the Australian market is concentrated around natural resource sectors. If a benchmark has a bias that is not obvious, the asset owner should include this information within the benchmark description.

Sample Disclosure:

"The XYZ 1000 Index has a significant exposure to the financial services sector. As of 31 December 20xx, this exposure was 34%. This differs from the composite's strategy, which limits exposure to any individual sector to 15% of net assets."

d. *Fixed-Income Characteristics*: When selecting a fixed-income benchmark, it is important to consider characteristics such as duration, credit quality, and yield. These characteristics are expected to be included in the benchmark description.

Sample Disclosure:

"The Global Short Term Treasury Index is designed to measure the performance of local currency treasury bill markets and includes treasury securities issued with a maturity of less than one year."

e. *Breadth or Concentration of the Index*: A greater number of constituents in an index will make the benchmark less concentrated. Even a broad market index, however, can have significant weightings in some companies and industries if it is constructed via market capitalization. Conversely, a smaller number of constituents in an index will make it more concentrated.

> **Sample Disclosure:**
>
> "The XYZ Index is a market-cap-weighted benchmark of the largest 400 securities in the United States. As of 31 December 20YY, the four largest stocks are in the technology sector, which results in a 32% weight in this sector."

f. *Asset Mix*: The asset mix of a blended benchmark often reflects the neutral, long-term asset allocation of the total fund's or composite's investment strategy. If the asset mix of the investment strategy does not reflect that of the benchmark, large differences in returns between the two are likely to occur over time.

> **Sample Disclosure:**
>
> "The benchmark is a blend of 50% of the XYZ Equity Index and 50% of the XYZ Fixed Income Index, and it is rebalanced weekly. While the composite's strategic allocation is 50% equity/50% fixed income, the composite strategy may tactically change the equity allocation up to a maximum of 70%."

g. *Style*: If the additional composite has a style bias, the asset owner should choose a benchmark that reflects the composite's style. For example, a growth composite is best compared with a growth index, whereas a composite in which the investment style moves between growth and value companies would warrant comparison with a broader or core index that captures both investment styles.

> **Sample Disclosure:**
>
> "The benchmark is the XYZ Mid Cap Value Index. The XYZ Mid Cap Value Index measures the performance of the mid-cap value segment of the US equity universe. It includes those XYZ Mid Cap Index companies with lower price-to-book ratios and lower forecasted growth values."

h. *Sector*: It is advisable to choose a benchmark with a sector concentration similar to the additional composite's long-term investment strategy because the dispersion between sector returns can be significant and sector returns can be volatile (e.g., information technology in the technology sector boom/bust or the financial sector in the 2008 crisis). Benchmarks can be defined at various levels of sector granularity based on the industry classifications of index providers.

Sample Disclosure:

"The benchmark is the XYZ AC World Information Technology Index, which is a sector of the broader XYZ AC World Index and is consistent with the composite strategy."

i. *Net/Gross of Withholding Tax*: Global investing requires recognition of the tax consequences of investing in different countries. The GIPS standards do not require asset owners to reflect withholding taxes, either reclaimable or non-reclaimable taxes, in a certain manner. Asset owners may choose whether or not to reflect the effect of withholding taxes when calculating performance and, similarly, whether or not to use a benchmark that reflects the effect of withholding taxes. The GIPS standards 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 should be accrued. If withholding taxes are material, asset owners must disclose how withholding taxes are treated when calculating performance. An asset owner must determine the level at which withholding taxes become material, document this level in its policies and procedures, and apply it consistently.

To facilitate the comparison of total fund or composite returns and benchmark returns, benchmark returns should reflect the recognition of withholding taxes on similar terms as the total fund or composite returns. For international indexes for which withholding taxes may be incurred, index providers often offer both gross-of-withholding-tax and net-of-withholding-tax options. If both options are available, asset owners should select the benchmark that is most consistent with the treatment of withholding taxes for the portfolios in the total fund or composite. Asset owners must disclose if benchmark returns are net of withholding taxes if this information is available. If the benchmark name indicates that the benchmark is net of withholding taxes, no additional disclosure is necessary.

Sample Disclosure:

"Total fund returns are net of all foreign non-reclaimable withholding taxes. Reclaimable taxes are recognized if and when received. Benchmark returns are net of withholding taxes from the perspective of a non-resident institutional investor."

j. *Frequency of Rebalancing*: When a benchmark is a blend of two or more indexes, it is important to consider the frequency of rebalancing and its potential impact. The frequency of portfolio rebalancing may change in response to different factors, such as a shift in the asset mix caused by market movement. For asset owners, total fund benchmarks typically consist of multiple asset classes blended together to create a policy benchmark. The policy benchmark will be rebalanced periodically (e.g., monthly).

Frequent rebalancing can result in increased turnover and transaction costs in the portfolio, which are not a consideration for benchmarks. Less frequent rebalancing can lead to an unintended shift in asset mix during steadily rising or falling markets. Asset owners should carefully consider the appropriate frequency of benchmark rebalancing for each total fund or additional composite that uses a blended benchmark.

Sample Disclosure:

"The blended benchmark is composed of 60% XYZ High Yield Municipal Bond Index and 40% XYZ Municipal Bond Index and is rebalanced monthly. The XYZ High Yield Municipal Bond Index includes bonds that are non-investment grade, unrated, or rated below Ba1 by ABC with a remaining maturity of at least one year. The XYZ Municipal Bond Index consists of a broad selection of investment-grade general obligation and revenue bonds of maturities ranging from 1 year to 30 years and is representative of the tax-exempt bond market."

k. *Asset Allocation Transition*: When an asset owner changes an asset allocation, it is usually not possible for asset owners to move significant amounts of money from one asset class to another within a short period of time, especially when the asset allocation change involves illiquid asset classes. Buying and selling large amounts of assets within a short period of time may also have undesirable market impacts. For these reasons, asset owners typically transition from one asset allocation to another over an extended period of time according to a predefined transition schedule that eventually will reach the target policy benchmark allocation by a predefined date.

When transitioning from one asset allocation to another, asset owners may wish to calculate a benchmark that reduces tracking error between the total fund or composite and the benchmark during periods of rebalancing, and the rebalancing should be done using a predefined schedule. The asset owner would change weightings incrementally on a regularly scheduled basis (e.g., monthly or quarterly). For example, if a total fund's hedge fund asset allocation is currently 15% and the new asset allocation is 20%, the asset owner may increase the allocation to hedge funds by 1% each month until reaching the 20% target. In this instance, the asset owner would increase the policy benchmark hedge fund allocation by 1% each month for five months.

The rebalancing would be included as part of the custom benchmark description, which includes the benchmark components, weights, and rebalancing process.

l. *Actual-Weight Benchmark*: Some asset owners may wish to calculate a benchmark return that reflects the actual weights of each asset class instead of the policy weights. As described earlier, it may take some time to change the asset allocation. For example, a total fund may have a policy benchmark with a public equity policy weight of 85% and private equity policy weight of 15%, while the actual weights are 80% and 20%, respectively. In this instance, the actual-weight benchmark would include the public equity benchmark at a weighting of 80% and the private equity benchmark at a weighting of 20%. When an actual-weight benchmark is used, asset owners must disclose that the benchmark reflects actual weights rather than policy weights. The benchmark description should include the fact that the actual-weight benchmark eliminates the impact of asset allocation decisions.

The decision to use actual weights, the benchmark components, the rebalancing schedule, and rebalancing methodology (e.g., using beginning-of-period weights) should be determined in advance. If actual-weight benchmarks are used, the term "actual-weight" should be used in the name of the benchmark to indicate it is a custom benchmark. The asset owner must also disclose details about the calculation methodology of the benchmark, which is expected to include the frequency of calculation. The policy-weight benchmark should also be included in the GIPS Asset Owner Report alongside the actual-weight benchmark.

m. *Lagged Benchmark*: Private market investments are often valued using the last available historical price or preliminary estimated values. Asset owners should consider how private market investments are valued when determining the appropriate benchmark for these assets, in order to prevent a mismatch of information between the total fund or composite and the benchmark. For example, information for the equity and fixed-income asset classes within a total fund and the related policy benchmark is as of 30 June, but the information from the private market investments and hedge funds is as of 31 March. In this instance, the asset owner should use the private equity benchmark return from the previous quarter (i.e., 31 March) to match the timing of the return for the private equity asset class but use the equity and fixed-income benchmarks as of 30 June. The asset owner would disclose that there is a difference in valuation dates for those asset classes. The portfolio and benchmark timing should be synchronized to prevent differences due to timing mismatches. In addition to matching the timing, lagging the benchmark also addresses an availability issue. Private equity peer universe benchmarks are often not available until three months or more after the valuation date. It is not feasible to use the current period private equity benchmark in a timely fashion.

If an appropriate asset class benchmark is not available in a timely fashion for an additional composite, the asset owner may choose not to include an asset class benchmark return in the GIPS Asset Owner Report and must disclose why no asset class benchmark is presented. The asset owner may label the benchmark returns as preliminary and then update the GIPS Asset Owner Report when the benchmark returns are available. If the total fund policy benchmark has an asset class benchmark that is not available in a timely fashion, the asset owner might choose to use the actual return of that asset class or the target return of that asset class when calculating the total fund benchmark return. When using the asset class return or the target return as a component of the total fund benchmark calculation, the asset owner would disclose this fact as part of the benchmark description. The asset owner may label the GIPS Asset Owner Report as preliminary and then update the GIPS Asset Owner Report when the asset class benchmark returns are available.

n. *Other Considerations*: Additional considerations when selecting a benchmark include the following:
    - The liquidity of the benchmark's constituents. It may prove easier to manage a strategy against a benchmark with securities that have greater liquidity.
    - When and how valuations are established for the benchmark and the portfolios in the total fund or the composite. The timing used for prices and exchange rates of benchmark constituents may vary among different index providers. The pricing process used may also differ, especially for less liquid securities.
    - The way the benchmark is constructed (e.g., GDP-weighted, market-cap-weighted, price-weighted). Asset owners should consider the weighting structure of constituents within the benchmark. Different weighting methodologies are now increasingly available in the market, and asset owners will need to consider the relevance of the selected benchmark's weighting structure to the management of the total fund or composite.
    - Performance-improvement activities. A portfolio may engage in activities, such as stock lending, to improve performance, whereas a benchmark does not. One exception might be an ETF that is used as a benchmark. Many ETFs do engage in stock lending.
    - The cost of benchmarks. If an asset owner is comparing similar indices when choosing a benchmark, the cost of the benchmark may be a consideration. However, all benchmarks must be appropriate. Cost cannot be used as a reason for selecting an inappropriate benchmark.

No Appropriate Benchmark

The benchmark must reflect the investment mandate, objective, or strategy of the total fund or composite. Although there is typically an appropriate benchmark for traditional strategies, it is more common for asset owners that manage alternative strategies to determine that no appropriate benchmark exists for the additional composite. In the rare instances when this is the case, the asset owner must disclose why no benchmark is presented. When calculating a policy benchmark, however, asset owners must include a benchmark for all components of the total fund. For example, if an asset owner determines that there is no appropriate benchmark for its alternatives asset class, it might choose to use the actual return or the target return of the alternatives asset class when calculating the total fund benchmark return. When using the asset class return or the target return as a component of the total fund benchmark calculation, the asset owner must disclose this fact as part of the benchmark description.

Sample Disclosure for an Absolute Return Additional Composite:

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

Sample Disclosure for a Total Fund Benchmark:

"The Absolute Return asset class has no benchmark because we believe that no benchmark that reflects this strategy exists. The total fund policy benchmark uses the actual return of the absolute return asset class."

Private Market Investments

Private market investments include real assets (e.g., real estate and infrastructure), private equity, and similar investments that are illiquid, not publicly traded, and not traded on an exchange. Asset owners may encounter certain challenges when selecting and presenting benchmarks for additional composites with private market investment strategies. Many private market investment strategies present since-inception money-weighted returns (SI-MWRs), and selecting appropriate benchmarks for these strategies can be particularly challenging.

Benchmarks for some private market investment strategies, such as private equity and real estate strategies, are not widely available and are typically vintage-year peer universes available only through commercial vendors. Standard public market indexes are typically calculated using time-weighted returns, whereas private market investment strategies are often presented using SI-MWRs and are, therefore, not directly comparable with a public market index that uses time-weighted returns. If an asset owner chooses to present a public market index when presenting an SI-MWR for an additional composite, it should do so using the public market equivalent (PME) method. Asset owners may also choose to present a time-weighted return (i.e., non-PME) benchmark as supplemental information.

The PME method uses a public market index to create a comparable SI-MWR from a series of cash flows that replicate those of the composite or pooled fund and that can be compared with the SI-MWR of the composite or pooled fund. Asset owners that choose to present an additional composite's PME as a benchmark must disclose the market index used to calculate the PME.

Given the unique nature of a PME, if the market index used to calculate the PME is not readily recognized, the asset owner must also disclose the description of this market index.

A PME can be calculated in several ways, but a common method is to simulate investing the composite's external cash flows in a public market index to create a hypothetical investment that earns the returns of a public market index. By combining the additional composite's cash flows with the hypothetical investment, asset owners can calculate the SI-MWR of a benchmark to which the composite's SI-MWR is comparable. Asset owners should be aware that depending on the calculation method used, the PME calculation can fail if the composite outperforms the public market index and the distributions cause the hypothetical investment to go into a short position. Asset owners may choose the PME benchmark calculation method they consider appropriate, provided that the method is applied consistently. Given the customized nature of PME benchmarks, they will be unique to the composite.

When including a private market investment benchmark as one component of a blended policy benchmark for the total fund, the asset owner must include a time-weighted return (TWR) benchmark for this component. Asset owners must not combine TWRs with MWRs when creating a blended benchmark return.

Sample Disclosure for a Non-PME Benchmark:

"The benchmark is the SI-IRR for the ACME Advisory US Venture Capital Funds Universe – 2016 Vintage Year. The vintage year is determined by the date of the first capital call for each fund in the universe."

Sample Disclosure for a Private Equity PME Benchmark:

"The benchmark is the public market equivalent (PME) of the ABC Mid-Cap Equity Index, which tracks the performance of US mid-cap companies. The PME is a method by which a public market index is used to create an SI-MWR that (1) is comparable to a composite's SI-MWR from a series of cash flows that are the same as those of the composite and (2) uses a theoretical investment value. The theoretical investment value is derived by simulating buying and selling of the public market index using the dates and amounts of actual composite cash flows."

Real Estate

For real estate additional composites, asset owners are recommended to present composite and benchmark component returns (i.e., capital returns and income returns) for all periods presented in a GIPS Asset Owner Report.

Sample Disclosure for a Real Estate Composite Benchmark:

"The ABC Benchmark returns have been taken from published sources. The benchmark includes the property price evaluation component and also the net cash flow from rental income component. The benchmark is leveraged, includes various real estate property types, and excludes cash, cash equivalents, and other non-property-related assets, liabilities, income, and expenses. The extent of leverage used by the benchmark may differ from that of the portfolios in the composite. As of 31 December 2022, the benchmark leverage was 52%."

Total Return vs. Price-Only Return Benchmarks

The GIPS standards require that all total fund or composite and benchmark returns included in GIPS Asset Owner Reports must be total returns. This is required because it can be misleading to compare a total fund or composite return that includes income (i.e., a total return) with a benchmark return that does not also include income (i.e., a price-only return). This requirement also applies to benchmarks that are components of a blended benchmark. A blended benchmark combines two or more indexes, such as a benchmark that consists of 50% of the ABC Index and 50% of the DEF Index. In this example, both the ABC Index and the DEF Index must be total return benchmarks, not price-only benchmarks.

A price-only benchmark may be presented in a GIPS Asset Owner Report as supplemental information only if it is presented in addition to a total return benchmark. It must be labeled as a price-only benchmark, and there must be sufficient disclosures so that the oversight body understands the difference between the return of a price-only benchmark and the return of a total return benchmark. If no appropriate total return benchmark exists for the total fund or the composite, the asset owner must not present a price-only benchmark in a GIPS Asset Owner Report and must disclose why no benchmark is presented. If no appropriate total return benchmark exists, the asset owner may not present a price-only benchmark in a GIPS Asset Owner Report but may present it outside of a GIPS Asset Owner Report. In such cases, "price only" must be included in the label or the name of the benchmark. As in all cases where a price-only benchmark is presented, there must be sufficient disclosures so that an oversight body understands the difference between the return of a price-only benchmark and the return of a total return benchmark.

Some benchmarks may appear to be price-only benchmarks because they do not include income, but they should be considered total return benchmarks. These include the following:

- PME benchmarks,
- commodity benchmarks, and similar benchmarks, that do not have income because of the nature of the benchmark constituents, and
- target returns, such as an 8% hurdle rate or CPI.

Benchmark Changes

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

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

In most cases, the asset owner should change the benchmark going forward only and should not change it retroactively. If the asset owner changes the benchmark prospectively and presents benchmark returns that combine two different benchmarks, the date and description of the change must be disclosed for as long as returns for the prior benchmark are included in the GIPS Asset Owner Report.

For example, assume an asset owner changes the benchmark for a composite in June 2015, and the change is made prospectively. As long as benchmark returns from 2015 or prior periods are included in the GIPS Asset Owner Report, the asset owner must include this disclosure.

Asset owners must also carefully identify the benchmark as a custom benchmark in the GIPS Asset Owner Report and must make clear that the benchmark returns are not those of the current benchmark for all periods. It would not be appropriate to label the benchmark returns with the name of the current benchmark. The asset owner must provide information, including labeling of the benchmark, that is sufficient to allow the oversight body to distinguish the prior benchmark returns from the current benchmark returns.

There may be times when an asset owner determines that it is appropriate to change the benchmark retroactively. For example, because benchmarks are continually evolving, if the asset owner finds that a new benchmark is a better comparison for an investment strategy, the asset owner may consider changing the benchmark retroactively. Another reason for changing a benchmark retroactively might be the cost incurred when using certain benchmarks. If an asset owner finds that the fees paid to an index provider for a certain index or indexes are becoming prohibitive, the asset owner may find an alternative appropriate benchmark that is representative of the strategy but has lower fees. Cost cannot be used as a reason for selecting an inappropriate benchmark.

This required disclosure applies to a fundamental change in the benchmark—for example, a change in an index used in calculating the benchmark—rather than to periodic minor changes in benchmark weights and components. If an asset owner uses a custom benchmark that is a blend of one or more benchmarks, a change in the weights of the constituent benchmarks is not considered a benchmark change within the scope of this required disclosure.

For example, the benchmark may change every quarter as part of the normal procedure. In this instance, it is appropriate to disclose that the benchmark is rebalanced quarterly using the actual weights of the asset classes in the total fund. An asset owner is not required to disclose how the asset class weights have changed each quarter but may do so.

When an asset owner changes a benchmark retroactively, the asset owner is encouraged to continue to also present the old benchmark. Disclosures related to a retroactive change in a benchmark must be included in the respective GIPS Asset Owner Report for a minimum of one year and for as long as the disclosures are relevant to interpreting the performance track record. The asset owner must consider the underlying principles of the GIPS standards, which are fair representation and full disclosure, when determining how long this disclosure will be included in the GIPS Asset Owner Report.

Changes to the benchmark primarily intended to make performance look better by lowering the benchmark return violate the spirit of the GIPS standards.

Sample Disclosure for a Prospective Benchmark Change:

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

Sample Disclosure for a Retroactive Benchmark Change:

"In January 2021, the benchmark was changed from ABC Index to XYZ Index for all periods."

Off-Benchmark Assets

A good way to understand the role of a benchmark in an investment strategy is to know how much the asset owner can invest in assets not held within the total fund or composite benchmark (known as off-benchmark assets). The percentage of off-benchmark assets can provide important information about the benchmark's appropriateness to the strategy. Asset owners should disclose the allowed percentage range for strategy deviations from the total fund's or composite's benchmark as part of the total fund or composite description. Asset owners should also disclose all material differences between the benchmark and the total fund's or composite's investment mandate, objective, or strategy. The oversight body will be better able to evaluate the strategy's performance relative to the benchmark presented if it understands any material differences between the total fund or composite and the benchmark.

Sample Disclosures:

"The Fixed Income Composite benchmark is the XYZ Core index, which is composed of investment grade securities. The composite opportunistically invests up to 15% in below-investment-grade securities."

"The Concentrated Equity Composite invests in only the top 20 stocks (as determined by the Kora Foundation's Investment Committee) of the stocks that are included in its benchmark, the XYZ Index."

"The Absolute Return Composite invests in stocks, both long and short, regardless of country of domicile or market capitalization. The composite benchmark is the 3-month T-bill rate, which is the hurdle rate, and is composed of materially different investments."

"The Real Estate Composite invests primarily in directly owned properties that are diversified by property type and geographic location. Up to 10% of composite assets may be invested in opportunistic commingled funds. As of 30 June 2022, debt as a percentage of composite assets was 42%. The XYZ Property Index is an unlevered composite measure of the performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only. Benchmark returns are calculated on an unleveraged basis."

Standard Deviation

Evaluating past performance requires an understanding of the risks taken to achieve the results. To provide a measure of historical risk, the GIPS standards require the presentation of external standard deviation when an asset owner presents time-weighted returns for a total fund or composite. Ex post standard deviation quantifies the variability of the total fund or composite and benchmark returns over time.

For periods ending on or after 1 January 2011, in all GIPS Asset Owner Reports where time-weighted returns are presented, including additional composites for which monthly returns are available, asset owners must present the three-year annualized ex post standard deviation (using monthly returns) of the total fund or composite and the benchmark as of each annual period end.

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

Some private market investment composites may not have monthly returns. For these composites, if the composite has at least three annual periods of performance in the GIPS Asset Owner Report, asset owners must disclose that the three-year annualized ex post standard deviation of the composite and/or benchmark is not presented because 36 monthly returns are not available.

If 36 monthly returns are not available for the additional composite but are available for the benchmark, an asset owner is not required to present the three-year annualized ex post standard deviation for the benchmark but may do so.

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

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

Multiple Benchmarks in a GIPS Asset Owner Report

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

If the asset owner includes multiple benchmarks in a GIPS Asset Owner Report and designates benchmarks as primary and secondary, it must disclose when these designations change (e.g., if a primary benchmark becomes a secondary benchmark), because such a change in designation is considered a benchmark change. In all instances, if multiple benchmarks are presented in a GIPS Asset Owner Report and one or more of the benchmarks is removed from the GIPS Asset Owner Report, the asset owner must disclose this fact.

An appropriate benchmark for a total fund or composite reflects the investment mandate, objective, or strategy of the total fund or composite. Additional benchmarks beyond appropriate benchmarks may be presented in a GIPS Asset Owner Report as supplemental information. There must be sufficient disclosure so that the oversight body understands the nature of the benchmark and why it is being presented. Disclosure, however, does not necessarily prevent information from being false or misleading. An asset owner must never present an additional benchmark for the sole purpose of providing a favorable comparison with the performance of the total fund or composite. To do so would be misleading, regardless of the disclosures accompanying the benchmark.

Error Correction

An error, which can be qualitative or quantitative, can be related to any component of a GIPS Asset Owner Report that is missing or inaccurate and, as such, includes all benchmark information. Any material error in a GIPS Asset Owner Report must be corrected and disclosed in a revised GIPS Asset Owner Report. An asset owner must define materiality within its error correction policies and procedures, and this materiality policy would consider benchmark information. Examples of errors with benchmark information include, but are not limited to, the following errors in GIPS Asset Owner Reports:

- A benchmark return or standard deviation was incorrect.
- The wrong benchmark was presented.
- A benchmark description was incorrect.

GIPS Advertisements

If an asset owner chooses to prepare an advertisement in accordance with the GIPS Advertising Guidelines (a GIPS Advertisement), the asset owner must adhere to the applicable benchmark-related requirements in the GIPS Advertising Guidelines.

The benchmark presented in the GIPS Advertisement must be consistent with the benchmark presented in the corresponding GIPS Asset Owner Report. If more than one benchmark is included in the GIPS Asset Owner Report, asset owners should consider whether multiple benchmarks should be presented in the GIPS Advertisement. Only benchmarks presented in the corresponding GIPS Asset Owner Report may be presented in a GIPS Advertisement.

Benchmark returns included in a GIPS Advertisement must be total returns. The name of any benchmark included in the GIPS Advertisement must be clearly labeled or identified.

In a GIPS Advertisement, the asset owner must present benchmark returns for the same benchmark as presented in the corresponding GIPS Asset Owner Report, if the corresponding GIPS Asset Owner Report includes benchmark returns. Benchmark returns must be of the same return type (time-weighted returns or money-weighted returns), in the same currency, and for the same periods for which the total fund or composite returns are presented.

The asset owner should disclose the benchmark description—that is, general information regarding the investments, structure, and characteristics of the benchmark. The description must include the key features of the benchmark or the name of the benchmark for a readily recognized index or other point of reference.

If the asset owner determines no appropriate benchmark for the total fund or composite exists, the asset owner should disclose why no benchmark is presented.

Supplemental Information

Supplemental information is defined as any performance-related information included as part of a GIPS Asset Owner Report that supplements or enhances the requirements and/or recommendations of the GIPS standards. For example, a Japanese equity composite may be benchmarked against a Japanese equity total return index and, as such, the GIPS Asset Owner Report would contain information on that index. The asset owner may wish to present the price-only benchmark in addition to the total return benchmark. The asset owner may present the price-only benchmark as supplemental information.

Including other index data as supplemental information can show the opportunity costs of not investing in another strategy. For example, a fixed-income composite's GIPS Asset Owner Report may include real estate, cash, or equity benchmarks as supplemental information. If other benchmarks are included as supplemental information, they must be labeled as supplemental information and there must be sufficient disclosures for the oversight body to understand the nature of the benchmark and why it is being presented.

Other Materials

Benchmark returns should be included whenever total fund or composite returns are presented outside of a GIPS Asset Owner Report. Benchmark total returns should be presented for the same periods for which total fund or composite returns are presented.

Laws and Regulations

Some jurisdictions have increased regulation surrounding benchmark calculations (e.g., blending indexes, currency conversion). Asset owners must ensure that they are aware of any benchmark-related regulations. If the asset owner is required under laws and/or regulations to present performance, including benchmark performance, within a GIPS Asset Owner Report in a manner that differs from the requirements of the GIPS standards, the asset owner must disclose this fact and also disclose the manner in which the laws and/or regulations conflict with the GIPS standards.

Policies and Procedures

Asset owners must document the policies and procedures used in establishing and maintaining compliance with the GIPS standards. This documentation includes policies and procedures for complying with all benchmark-related requirements and any recommendations with which the asset owner chooses to comply.

Effective Date

Asset owners are required to apply this guidance for periods beginning on or after 30 June 2023. Asset owners are encouraged, but not required, to apply this guidance prior to the effective date.

