

Global Investment Performance Standards

GUIDANCE STATEMENT ON THE USE OF SUPPLEMENTAL INFORMATION

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Initial Effective Date:	1/1/2011
Revised Effective Date:	1/1/2018
Retroactive Application:	Not Required
Public Comment Period:	12/1/2016 – 2/28/2017



Global Investment Performance Standards INVITATION TO COMMENT:

Exposure Draft of the Revised Guidance Statement on the Use of Supplemental Information

CFA Institute established the GIPS Executive Committee as the governing body for the Global Investment Performance Standards (GIPS®). The GIPS Technical Committee, responsible for technical oversight of the GIPS standards, seeks comment on the proposal set forth here regarding the Revised Guidance Statement on the Use of Supplemental Information.

Comments must be submitted and received no later than 28 February 2017. Responses will be accepted by email, hard copy, and fax. Please submit your comments as early as possible to facilitate the review process. Unless you request otherwise, all comments and replies will be made public on the GIPS standards website (www.gipsstandards.org). Comments may be submitted as follows:

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Global Investment Performance Standards

Re: Guidance Statement on the Use of Supplemental Information

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Executive Summary

The purpose of revising the Guidance Statement is to address certain issues that have arisen over the years with respect to the original Guidance Statement. The GIPS Technical Committee decided to address these areas of confusion.

This revised Guidance Statement represents a major overhaul of the original work. The Technical Committee took the opportunity to discuss what labeling performance and performance-related information as supplemental information is designed to accomplish. It was determined that the goal is to ensure that prospective clients understand the information they are receiving and the difference between “compliant information” (i.e., information included in a compliant presentation that is either required or recommended by the GIPS standards) and other performance and performance-related information that is not required or recommended by the GIPS standards. The Technical Committee decided to place more reliance on GIPS provision 0.A.3, which states that firms must not present performance or performance-related information that is false or misleading. This provision is one of the few GIPS provisions that applies to all performance and performance-related information that a firm produces. It is not limited to information included in GIPS-compliant presentations.

One of the important changes is that this Guidance Statement clearly designates when firms are required to label performance and performance-related information as supplemental information and when such labeling is not recommended. This Guidance Statement also discusses how and

when firms are expected to refer to the related GIPS-compliant presentation within and outside of a pitch book.

Another important change is that more interpretation is provided about the treatment of results that are not based on actual assets but on theoretical information (e.g., model, back-tested, hypothetical, simulated, indicative, *ex-ante*, forward-looking results).

Effective Date

The expected effective date of the revised Guidance Statement on the Use of Supplemental Information is 1 January 2018.

Comments Requested

Questions are positioned throughout the document to elicit feedback on specific issues. In addition to responding to these questions, please provide feedback on the entire document, including items you support. All comment letters will be considered carefully and are greatly appreciated. The deadline to submit feedback is 28 February 2017.

Guidance Statement on the Use of Supplemental Information Exposure Draft

Introduction

In preparing performance reports, firms must keep in mind the spirit and objectives of the Global Investment Performance Standards (GIPS®): fair representation and full disclosure. Meeting the intent of the GIPS standards may necessitate including information in compliant presentations beyond the required and recommended provisions of the GIPS standards to adequately cover the firm's specific situations. Firms that claim compliance with the GIPS standards are encouraged to present all relevant information, beyond that required and recommended in the GIPS standards, to fully explain their performance.

What Is Supplemental Information?

Supplemental information is defined as any performance-related information included as part of a compliant presentation that supplements or enhances the required and/or recommended provisions of the GIPS standards. Supplemental information should provide users of the compliant presentation with the proper context in which to understand the performance results. Because supplemental information has the potential to be misleading in relation to the firm's claim of compliance, this Guidance Statement defines and addresses the proper use of supplemental information.

What Is Not Supplemental Information?

- Additional information that is required or recommended under the GIPS standards is not considered “supplemental information.” Additional information is not required to be labeled and identified as additional information. Additional information does not have to be separate from the required information.
- Non-performance-related information is not required to be labeled and identified as supplemental or separate from the required compliant information. Non-performance-related information includes, but is not limited to, general information regarding the firm, ownership structures, staff biographies, or details about the investment process.
- Theoretical performance not based on assets managed by the firm that is not related to the respective composite. In certain instances, a strategy is completely new and does not have any relationship to, supplement, or enhance a strategy that the firm currently manages. In this case, the firm must not present this completely theoretical performance as supplemental to a composite for which it has no relevance.
- False or misleading information. Firms that claim compliance with the GIPS standards must not present performance or performance-related information that is false or misleading. For example, the following four items are misleading and unrepresentative; therefore, compliant firms are prohibited from presenting this information (unless specifically requested of the firm by a prospective client or existing client):
 1. Theoretical performance results mathematically or presentationally linked to actual performance results (e.g., a new composite's actual track record linked to history of its back-tested strategy to create a longer track record).
 2. Nonportable performance from a prior firm mathematically or presentationally linked to current ongoing performance results.

3. Composite performance compared with an inappropriate benchmark.
4. Performance that is not clearly labeled and described in a manner that clarifies the exact nature of the information being presented (e.g., theoretical performance presented as actual performance).

This list is not exhaustive and is provided only to show examples of potentially misleading information.

This Guidance Statement does not prohibit firms from preparing and presenting information according to specific requests from clients or prospective clients. Firms may provide any prospective client with any performance and/or performance-related information if it is requested.

Question 1) Should theoretical performance not based on assets managed by the firm and not related to the respective composite be allowed to be labeled as supplemental information and included in a compliant presentation?

Question 2) Do the preceding four items accurately reflect misleading information? Should other examples of misleading information be included?

Guiding Principles

The underlying principles of fair representation and full disclosure help to ensure that prospective clients and existing clients are not given performance or performance-related information that is incomplete, inaccurate, biased, or fraudulent. This concept applies to all performance or performance-related information in all materials on a firmwide basis and is not limited to those materials that reference the GIPS standards (e.g., compliant presentations).

If a firm chooses to present supplemental information as part of a compliant presentation, the following guiding principles apply:

- Supplemental information must satisfy the spirit and principles of the GIPS standards—fair representation and full disclosure.
- Supplemental information must comply with all applicable laws and regulations regarding the calculation and presentation of performance.
- Supplemental information must not include performance or performance-related information that is false or misleading.
- Supplemental information must supplement or enhance the related composite's compliant presentation.
- Supplemental information must not contradict or conflict with the required or recommended information in the compliant presentation.
- Supplemental information must be clearly labeled and identified as supplemental to the composite.

If a firm presents information outside of a compliant presentation that would be considered supplemental information if it were in a compliant presentation, the following guiding principles apply:

- Performance and/or performance-related information must not contradict or conflict with the information provided in the related compliant presentation.
- Performance and/or performance-related information must be clearly described so that a prospective client understands its nature.
- Firms should disclose how to obtain the related GIPS-compliant presentation.

Please note that when performance and/or performance-related information that can be included in a compliant presentation as supplemental information is used outside of a compliant presentation, the information should not be labeled as supplemental information. Given the definition, firms should not label performance or performance-related information as supplemental information if the information is not within the compliant presentation; however, firms must clearly describe the information being presented and should disclose how to obtain the related compliant presentation.

For example:

If attribution of a representative portfolio for a European Equity Composite is presented in a marketing document and the marketing document does not include the European Equity Composite compliant presentation, the firm would not label the attribution as supplemental information. The firm would clearly identify the information as being from a representative portfolio and describe it as being derived from one portfolio in order to distinguish it from composite information. The firm would disclose how to obtain a compliant presentation for the related composite. This disclosure does not absolve that firm from the requirement to make every reasonable effort to provide a compliant presentation to all prospective clients.

Sample Disclosure

“The attribution presented reflects the results of the representative account of the European Equity Composite. To receive a European Equity Composite GIPS-compliant presentation, contact Jean Paul at +12 (034) 5678910 or write SI Sample Ten Investments, One Main Street, Resultland 12KJ4 or jpaul@sisample10inv.com.re.”

If the firm chooses to include a compliant presentation in a marketing document (e.g., pitch book), any performance and/or performance-related information included in the marketing document outside of the compliant presentation (e.g., attribution for a representative portfolio, *ex-ante* composite-level risk statistics) must be clearly identified. The performance and/or performance-related information must be described. The firm must also include a reference to the location of the compliant presentation in the marketing materials.

For example:

If the Asia Pacific Composite compliant presentation is included in a pitch book on page 25 and composite-level top ten holdings in the Asia Pacific Composite are included in the same pitch book on page 12, composite-level top ten holdings must be clearly described. A statement must be included indicating that the Asia Pacific Composite compliant presentation is on page 25.

Sample Disclosure

“The composite-level top ten holdings are an aggregate of the portfolio-level holdings in the composite. Please refer to page 25 for the Asia Pacific Composite’s GIPS-compliant presentation.”

When the term “supplemental information” is used hereafter, it means performance and/or performance-related information that is included in a compliant presentation.

Question 3) Do you agree that firms should not label information as supplemental information if it is presented outside of a compliant presentation?

Question 4) If information that would be supplemental information if it were in a compliant presentation is presented outside of a compliant presentation, should firms be required to disclose how to obtain a compliant presentation?

Question 5) Do you agree that firms should be required to direct the reader to the compliant presentation if the compliant presentation is included within a marketing document (e.g., pitch book)?

Question 6) Do you believe that the prohibition against presenting any false or misleading performance-related information is strong enough to deter firms from doing so, or should this prohibition be explained more?

Location of Supplemental Information

If a firm chooses to present supplemental information within a compliant presentation, it must be clearly labeled and identified as supplemental information. The presentation and location of supplemental information in relation to the required or recommended information depends on the type of supplemental information and its potential to mislead prospective clients. Supplemental information must not be shown with greater prominence than the required or recommended composite information.

There are certain situations that allow for the presentation of required, recommended, and supplemental information on the same page; however, firms should consider that there may be situations that call for required/recommended information and supplemental information to be placed on different pages. When in doubt, firms are encouraged to place the required/recommended information and supplemental information on different pages with appropriate labeling. Whether the supplemental information is presented on the same page as or on a different page from the required/recommended information, supplemental information must be clearly distinguished and labeled as such.

Sample Policy

Performance prior to 2014 is that of the Growth Equity team prior to joining our firm. The prior track record is based on a representative portfolio; therefore, the track record must not be linked to the ongoing track record. We present the prior track record as supplemental information in the Growth Equity Composite compliant presentation, clearly label it as such, and include appropriate disclosures. Because of the potential to mislead, we include this supplemental information on a different page from the required and recommended information.

Actual and Theoretical Supplemental Information

Supplemental information can be either actual or theoretical in nature. Examples of each and related guidance follow:

Actual Performance

Actual performance means that the results are based on actual assets. Some examples of actual performance that would be supplemental information include the following:

- Representative portfolio information
- Composite attribution
- Pure gross-of-fees returns
- Non-portable returns
- Segment returns (e.g., country, sector, asset class returns that may or may not include cash)

Representative Portfolio Information

For a variety of reasons, firms may wish to present performance and/or performance-related information from an individual portfolio within a composite (i.e., representative portfolio) instead of the composite itself as supplemental information. Some examples are portfolio-level attribution, returns, country weightings, sector weightings, holdings, and risk characteristics. Representative portfolio information must be clearly labeled as supplemental information. Firms should present composite information instead of representative portfolio information.

When representative portfolio information is presented, firms should disclose the criteria for selecting the representative portfolio. Firms must create policies and procedures for choosing representative portfolios and presenting representative portfolio performance. It is important that firms avoid cherry-picking the best performing portfolio in a composite as the representative portfolio and, instead, choose the most representative portfolio for the composite and/or for the prospective client. Firms should establish objective criteria for selecting representative portfolios, such as length of track record or size of the portfolio or being most in line with the composite investment objectives.

When a representative portfolio leaves the composite, the firm must follow the established policies and procedures for choosing another representative portfolio that is the most representative of the composite.

Currency Conversions

Firms may convert composite returns into a different currency for a particular compliant presentation. If a firm chooses to present a composite in a different currency, the firm must convert or recalculate all required information and additional information in the new currency (e.g., composite and benchmark returns, composite assets, risk and internal dispersion measures). Firms are recommended to present supplemental information in the same currency as the required and additional information. Note that the firm must convert and present the entire track record presented in the compliant presentation rather than only a portion.

If the firm presents performance and performance-related information in multiple currencies in the same compliant presentation, the firm must disclose the currency of the information being presented.

Theoretical (“Nonactual”) Performance

The term “theoretical performance” is a broad term encompassing different types of performance that is not derived from a portfolio or composite with actual assets (“nonactual” performance). There are several names for this type of information: model, back-tested, hypothetical, simulated, indicative, *ex-ante*, forward-looking, and so on. Theoretical performance may be presented either on a historical (i.e., *ex-post*) or forward-looking (i.e., *ex-ante*) basis.

These terms and concepts may be unfamiliar to prospective clients. Firms must take care to ensure that prospective clients are not misled about the significance of the theoretical performance. Theoretical performance should be provided only to clients or prospective clients who are sufficiently experienced and knowledgeable to assess the relevance and limitations of theoretical performance.

Theoretical performance must not be mathematically or presentationally linked to composite returns either within or outside of a compliant presentation, unless requested by a client or prospective client.

The following are examples of theoretical performance that must not be included in a compliant presentation as supplemental information:

- Results that are not based on an actual strategy managed by the firm (e.g., model performance not derived from actual performance) and that have no relevance to the respective composite.
- Results that may have been derived from actual performance but not in the context in which they are being presented. If these results represent a completely new strategy, then they would not be supplementing or enhancing a composite and would not be considered to be supplemental information. For example, if the actual performance of an equity composite is combined with the actual performance of a fixed-income composite to show what the results might have been if they had been combined in a balanced strategy (but the firm is not managing assets according to this balanced strategy), this information is not supplemental to the equity and fixed-income composites. This information may be supplemental to a balanced composite once a balanced composite has actual performance.

The following are examples of theoretical performance that may be included in a compliant presentation as supplemental information:

- Results created by applying a composite investment strategy or methodology to historical data to indicate how a strategy constructed with the benefit of hindsight would have performed during a certain period in the past had the strategy been in existence during such time.
- Results created by applying a composite investment strategy or methodology to indicate how a strategy might perform in the future given assumptions about various investment and economic factors.

Even if theoretical performance may not be included in a compliant presentation as supplemental information, it may be presented outside of a compliant presentation as long as it is not false or misleading and firms comply with all applicable laws and regulations.

Question 7) Do you agree with the proposed treatment of theoretical performance within supplemental information? Why or why not?

Theoretical Performance Disclosure

When theoretical performance is included in a compliant presentation as supplemental information or in other marketing materials outside of a compliant presentation, disclosure must be provided to ensure that the prospective client understands the nature of the information being presented. Firms must make the following disclosures:

- Disclose that the results are theoretical and are not based on the performance of actual portfolios
- Disclose a basic description of the model, assumptions, and inputs necessary to interpret the theoretical performance results
- Disclose prominently the limitations inherent in model results, particularly the fact that such results do not represent actual trading and that they may not reflect the impact that material economic and market factors might have had on the investment decision-making if the firm were actually managing client assets
- Disclose whether theoretical performance has not taken into account investment management fees, trading costs, or other fees or charges that a client portfolio would have paid

Question 8) Do you agree with the proposed disclosures of theoretical performance? Do you believe any disclosures should be added or removed?

New Investment Strategy

A firm may want to present a new investment strategy that it does not yet manage. In this instance, since the firm does not have an appropriate composite to present to the prospective client, the firm must communicate that it does not currently manage the specific style or strategy. The firm must be able to clearly demonstrate the strategies and investment products the firm currently manages and must make the list of composite descriptions available to the prospective client. This list must include all of the firm's composites, including composites that have terminated within the past five years.

If the firm wants to present theoretical performance to represent a completely new strategy that has not yet been managed by the firm, the firm must not include this information as supplemental information in an existing composite's compliant presentation. The reason is that the theoretical performance does not supplement or enhance an existing composite strategy that the firm manages.

All of the disclosures required when presenting theoretical performance in a compliant presentation must also be included whenever the firm presents theoretical performance of a new investment strategy. For example, suppose a firm manages one equity and one fixed-income composite and would like to begin managing a balanced strategy that blends the equity and fixed-income strategies. In this instance, the firm may present theoretical balanced performance, although not as supplemental information in the equity composite and/or the fixed-income composite compliant presentations.

When responding to an RFP (request for proposal) for a strategy a firm does not currently manage, the firm may present theoretical performance, but it must be clearly identified as such and should not be labeled as supplemental information. The firm may provide any performance or performance-related information that a client or prospective client requests. If possible, firms must include the disclosures required in the Theoretical Performance Disclosure section of this Guidance Statement.

Examples of Supplemental Information

Supplemental information must relate directly to the composite. Examples of supplemental information include, but are not limited to, the following:

- Segment returns
- Nonportable returns (not mathematically or presentationally linked)
- Some types of theoretical performance (not mathematically or presentationally linked)
- Representative portfolio information, such as
 1. Portfolio-level country weightings
 2. Portfolio-level sector weightings
 3. Portfolio-level risk measures
 4. Portfolio-level performance
- Attribution
 1. Portfolio-level attribution
 2. Composite-level attribution
- Composite or portfolio-level holdings
- Peer group rankings
- Comparisons with other return measures (e.g., opportunity cost measures, market index)
- *Ex-ante* risk and *ex-ante* risk-adjusted return measures
- Pure gross-of-fees returns (i.e., returns gross of trading expenses and investment management fees)
- Internal rates of return (IRR) when IRR is not required or recommended

Laws and Regulations

Firms must comply with all applicable laws and regulations regarding the calculation and presentation of performance, including the presentation of supplemental information. Firms must

create policies and procedures to ensure that they adhere to all applicable laws and regulations regarding the calculation and presentation of supplemental information. Firms must also have policies and procedures to identify and monitor changes and additions to laws and regulations regarding the calculation and presentation of performance, including supplemental information. Firms should be aware that the calculation and presentation of supplemental information can be an area of regulator focus. Where laws and regulations conflict with the GIPS standards, firms are required to comply with the laws and regulations and disclose the manner in which the laws and/or regulations conflict with the GIPS standards.

Recordkeeping

A firm must maintain records to support its claim of compliance on a firmwide basis. Information must be maintained to support compliant presentations and supporting information, including any supplemental information, for all composites. Please refer to the Guidance Statement on Recordkeeping Requirements for more information.

Policies and Procedures

Policies and procedures for presenting supplemental information must be established.

Verification and Performance Examination

Supplemental information is not subject to verification under the GIPS standards. Please refer to the Guidance Statement on Performance Examinations for the treatment of supplemental information in performance examinations.

Effective Date

The effective date for this Guidance Statement is 1 January 2018. When bringing past performance into compliance, firms may comply with this version of the Guidance Statement or with prior versions in effect at the time. Prior versions of this Guidance Statement are available on the GIPS standards website: www.gipsstandards.org.