



# Global Investment Performance Standards

## EXPOSURE DRAFT OF THE 2020 GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®)

Effective Date: 1 January 2020

Public Comment Period: 31 August 2018 – 31 December 2018

# EXPOSURE DRAFT OF THE 2020 GIPS STANDARDS

## INVITATION TO COMMENT

CFA Institute established the GIPS Executive Committee as the governing body for the Global Investment Performance Standards (GIPS®). The GIPS Technical Committee (TC) is responsible for technical oversight of the GIPS standards. The GIPS TC seeks comment on the following proposal regarding the 2020 edition of the Global Investment Performance Standards Exposure Draft.

Throughout the document, there are boxes that contain information or questions to explain the rationale, elicit feedback on specific issues, and highlight key proposed requirements. In addition to responding to the specific comments or questions for which you have an opinion, please provide feedback on any other information in the document, including items you support. Comments are most helpful when they refer to specific provisions or the Request for Comment number, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed wording changes. All comment letters will be considered carefully and are greatly appreciated.

Comments must be received no later than 31 December 2018. Please submit your comments as early as possible to facilitate the review process. Unless otherwise requested, all comments will be made public on the GIPS standards website ([www.gipsstandards.org](http://www.gipsstandards.org)). Comments may be submitted as follows:

Email: [standards@cfainstitute.org](mailto:standards@cfainstitute.org)

Post:

CFA Institute  
Global Investment Performance Standards  
Re: GIPS 2020 Exposure Draft  
915 East High Street  
Charlottesville, VA 22902  
USA

# EXECUTIVE SUMMARY

The mission of the GIPS Executive Committee is to promote ethics and integrity and instill trust through the use of the Global Investment Performance Standards (GIPS®) by achieving:

- universal demand for compliance by asset owners,
- universal adoption by asset managers, and
- universal support from regulators for the ultimate benefit of the global investment community.

To achieve this mission, the GIPS standards must be relevant and applicable to all asset managers, regardless of structure, client type, asset class, or investment strategy. Although part or all of 85 out of the top 100 asset managers in the world claim compliance with the GIPS standards, there has not been widespread adoption among alternative investment managers or managers of pooled funds. The GIPS standards in their current form can be improved to facilitate such adoption.

As we recently passed the 30th anniversary of the performance standards, we realized that it was time to consider how the GIPS standards can be changed to achieve these goals and bring them to the next level in the 2020 edition of the GIPS standards. In May 2017, the GIPS 20/20 Consultation Paper was released for public comment to provide our thinking on the way the GIPS standards should be, rather than the way they have always been. The public comments from the GIPS 20/20 Consultation Paper helped to inform us on the overall direction of the Exposure Draft of the 2020 edition of the GIPS Standards (“GIPS 2020 Exposure Draft”).

CFA Institute Staff, the GIPS EC, and the GIPS TC, in collaboration with various technical subcommittees and working groups, reviewed responses to the GIPS 2020 Consultation Paper and the existing provisions and guidance in an effort to improve the GIPS standards in the GIPS 2020 Exposure Draft. Those provisions that are no longer necessary have been eliminated, and new provisions have been added to promote best practice. Numerous edits have also been made in order to clarify the GIPS standards.

## New Structure for GIPS 2020

The proposed structure differs from the structure of the current edition of the GIPS standards. The current edition of the GIPS standards (GIPS 2010) focused solely on firms, although both firms and asset owners may comply. The GIPS 2020 Exposure Draft includes Sections 1–7 for firms and Sections 8–12 for asset owners. Section 13, GIPS Advertising Guidelines, covers both firms and asset owners, as does the Glossary in Section 14. The Table of Contents on page 10 lists all sections. Firms and asset owners claiming compliance will refer to the relevant sections and will not need to review the other sections to determine which provisions apply.

One goal of the new structure is to try to reduce complexity and eliminate the need to go back and forth between sections to determine which requirements apply. Each GIPS report section is self-contained and includes all items that must be considered when creating the respective report for a composite, pooled fund, or total fund. (Because firms and asset owners may now prepare reports beyond composites, the term “compliant presentation” has been replaced with three options: GIPS Composite Report, GIPS Pooled Fund Report, and GIPS Asset Owner Report.) For example, a firm presenting a GIPS Composite Report using a time-weighted return will have to refer only to Section 4 to find all requirements and recommendations needed to create that report. If an asset owner is presenting an additional composite in a GIPS Asset Owner Report using a money-weighted return, it would refer only to Section 12 to find all requirements and recommendations needed to prepare that specific report. The same is true for valuation and calculation requirements: All are in one section, regardless of asset class.

In many instances, the information required or recommended is consistent across all GIPS report types, but there are some differences. To assist with your review, we have prepared matrices that include all presentation and disclosure provisions across the four firm reports and allow comparison of the reports. We have also prepared matrices that compare firm reports with asset owner reports. We hope that these matrices will make your review process more efficient.

Although these structural changes require some duplication and result in a considerably longer document, we hope this approach will provide clarity and simplify GIPS report preparation. Finally, given the extensive changes to the structure, a tracked changes version would not be readable so this has not been created.

## **Addition of Key Requirements Included in Other Guidance**

Firms and asset owners must comply with all applicable requirements of the GIPS standards. These requirements may be found in provisions, Guidance Statements, Question & Answers, or the GIPS Handbook provision discussions. Many of these requirements resulted from interpretative guidance that was written after the issuance of GIPS 2010. We identified all GIPS requirements outside of the provisions, evaluated each requirement, and included key requirements as new provisions.

## **Citations**

In the GIPS 2020 Exposure Draft, each provision includes a reference to the source of that provision and indicates whether it is from a GIPS 2010 provision (noting the current provision number), from existing guidance outside the provisions (e.g., from a Guidance Statement), or if it is a new idea. In these citations, “HB discussion” refers to the discussion of each provision that is found in Chapter 3 of the *GIPS Handbook*, 3rd Edition (2012), and “GS” refers to Guidance Statements.

## **Glossary Terms and Dates**

Words in all-capital letters are defined terms that can be found in the Glossary. Within the Glossary, we identify Glossary terms that are new. Also, there are no dates within the provisions. A footnote at the end of a provision indicates either a past or current effective date.

## **Guidance Statements in Process**

Guidance Statements on Risk, Benchmarks, Overlay Strategies, Supplemental Information, and Verifier Independence have been issued for public comment but have not yet been finalized. The Subcommittee or Working Group responsible for each of these Guidance Statements reviewed all comment letters and provided recommendations for provisions. The GIPS 2020 Exposure Draft reflects these recommendations.

## **Verification**

The current GIPS standards include a chapter on verification. Given all of the changes to the provisions in the GIPS 2020 Exposure Draft, significant changes were needed in the verification section. For example, the required verification procedures currently address testing composites, so this has been revised to address testing of pooled funds as well. Also, the compliance statement included in GIPS reports (e.g., in provision 4.C.1) has been modified to reflect new proposed language for verification reports. GIPS 2020 attempts to better align the verification report language with the required verification procedures. The verification report language has not been finalized and will be addressed in more detail in the verification

guidance. The verification guidance will be issued for public comment as a separate document, with a planned issuance date of 31 October 2018.

## Key Technical Concepts for Firms

### Composites versus Pooled Funds

Currently all actual, fee-paying, discretionary portfolios must be included in at least one composite. Managers of pooled funds have questioned the logic behind the requirement to place all pooled funds in a composite, even if it is a single-fund composite. The pooled fund manager is not selling participation in a composite; it is selling participation in a pooled fund. Calling a pooled fund a composite, and presenting it as a composite, is not the best approach. In the GIPS 2020 Exposure Draft, a firm must create composites that represent the strategies the firm offers as a segregated account. (A segregated account is defined as a portfolio owned by a single client.) There is no longer a requirement to create a composite that includes only one or more pooled funds if the firm does not offer the strategy of the pooled fund(s) as a composite strategy to segregated accounts. If a pooled fund strategy is the same as a composite strategy, the pooled fund must be included in the composite and a GIPS Composite Report is required to be presented to composite prospective clients. If the pooled fund strategy and composite strategy are different (e.g., to accommodate cash flow differences), pooled funds are not required to be included in the composite. Please note that we use the term “portfolio” within the provisions to include both segregated accounts and pooled funds.

### Limited Distribution Pooled Funds and Broad Distribution Pooled Funds

The GIPS 2020 Exposure Draft addresses two categories of pooled funds: limited distribution pooled funds and broad distribution pooled funds. A limited distribution pooled fund is typically sold in one-on-one presentations and offers participation in that specific fund (e.g., hedge funds, commingled funds). These funds are often not highly regulated. Broad distribution pooled funds are typically sold to the general public, and the firm may not know the pooled fund investor. These funds are typically highly regulated.

In the GIPS 2020 Exposure Draft, a firm selling participation in a limited distribution pooled fund is required to prepare and present a GIPS Pooled Fund Report to all pooled fund prospective investors. A GIPS Pooled Fund Report for a limited distribution pooled fund is similar to a GIPS Composite Report, in that it will have required numerical and disclosure items. The GIPS Pooled Fund Report reflects only the specific pooled fund’s information, however, and is not based on a composite.

A firm selling participation in a broad distribution pooled fund is not required to prepare and present a GIPS Pooled Fund Report to all pooled fund prospective investors of the broad distribution pooled fund, but it may do so if it wishes. A firm selling participation in a broad distribution pooled fund that would like to promote its claim of compliance with the GIPS standards but does not wish to prepare a GIPS Pooled Fund Report can do so in a GIPS Advertisement prepared in accordance with the GIPS Advertising Guidelines. If a firm does not wish to prepare a GIPS Pooled Fund Report or a GIPS Advertisement for a broad distribution pooled fund, it must not use the GIPS claim of compliance in materials for that broad distribution pooled fund.

### Money-Weighted Returns

Some managers of closed-end funds have felt that the current strict asset-class approach used to determine which returns are required to be presented forced them to prepare reports that were not in line with their business. In the 2010 edition of the GIPS standards, private equity composite reports are required to include internal rates of return (IRRs) only. Closed-end real estate composites are required to include both IRRs and time-weighted returns (TWRs). All other closed-end funds are required to present TWRs. Many closed-end fund managers not managing private equity have said that they wish to present

only IRRs to prospective clients. If they comply with the 2010 edition of the GIPS standards, however, they are required to present TWRs, which they feel is not appropriate.

In the GIPS 2020 Exposure Draft, we have removed the asset class distinction and allow firms more flexibility for presenting money-weighted returns. (We have replaced the term internal rate of return with money-weighted return [MWR]). A firm may choose to present MWRs instead of TWRs when certain criteria are met for a specific composite or pooled fund. To present MWRs, a firm must control the cash flows for the pooled fund or portfolios within a composite, and it must meet at least one other specified criteria (e.g., the pooled fund has a fixed capital commitment). Once a firm chooses the return that is appropriate for the composite or pooled fund, the GIPS Composite or Pooled Fund Report for the selected return type is required to be presented. A firm may also present both TWRs and MWRs. The firm must consistently report the selected return type(s) and related report. If the firm changes the return type that is presented, it is required to disclose the change. A firm must not switch between TWR and MWR, or remove one return type if both are presented, solely to present more-favorable performance.

### **Total Firm Assets and Advisory Assets**

Currently, total firm assets must include both discretionary and non-discretionary assets managed by the firm. In the GIPS 2020 Exposure Draft, this requirement still holds. In the GIPS 2020 Exposure Draft, however, we allow firms to present advisory-only assets that are not managed by the firm but require that advisory-only assets be calculated and presented separately from total firm assets. This approach is to recognize that many firms' business models are changing. Also, firms have taken different approaches for how to treat committed capital when calculating total firm assets. Some firms consider committed capital to be part of total firm assets because the firm is charging an investment management fee on the committed capital. Other firms exclude committed capital because they believe committed capital is not under management before it is called. We propose requiring firms to not include committed capital in total firm assets.

### **Estimated Transaction Costs**

Currently, all returns must be calculated after the deduction of actual trading expenses incurred during the period, and estimated trading expenses are not allowed. When the GIPS standards were originally created, trading expenses were generally higher than they are now and were more standardized. Today, trading expenses can be charged in a variety of ways and may not be under a firm's control. Indeed, in some instances, firms may not have the ability to determine how or where trading expenses are charged. In the GIPS 2020 Exposure Draft, we took the opportunity to change the term from trading expenses to transaction costs, to reflect a broader concept. We have decided to introduce allowing estimated transaction costs for composites if returns calculated using estimated transaction costs are equal to or lower than those that would have been calculated using actual transaction costs.

### **Portability**

In the GIPS 2010 edition, the notion of portability hinges on the requirement that performance from a past firm or affiliation must be linked to or used to represent the historical performance of a new or acquiring firm if, on a composite-specific basis, certain criteria are met. We have received feedback over the years that firms that do not want to meet the criteria will not do so, and portability will not be achieved. We decided to change the perspective and allow firms to choose to port returns if certain criteria are met.

Currently, firms have a one-year grace period to bring any non-compliant assets into compliance. We clarified that assets of the acquired non-compliant firm or affiliation must meet all the requirements of the GIPS standards within one year of the acquisition date, on a prospective basis. We believe that the one-year grace period should apply to performance at the new or acquiring firm, with no limit on when firms may port history from the prior firm or affiliation.

## **Carve-Outs**

For periods beginning on or after 1 January 2010, firms are prohibited from allocating cash to carve-outs and including those carve-outs in composites. As of that date, to be included in a composite, a carve-out must be managed with its own dedicated cash. We have heard that this inability to allocate cash has caused private wealth firms to not seek compliance with the GIPS standards—requiring portfolio segments to have their own cash is not reasonable for a business that manages many thousands of portfolios and manages each segment of a total portfolio individually. Some private equity and real estate firms have also expressed concern that the inability to create returns that include assets drawn from multiple portfolios or funds does not meet their reporting needs. After much debate, we decided to propose allowing firms to once again allocate cash to carve-outs. If firms choose to allocate cash to a carve-out, they must do so for all carve-outs managed in that strategy. Once firms obtain a standalone portfolio managed in the same strategy as the carve-out(s) with allocated cash, they must create a composite that includes only standalone portfolios and must present the performance of this composite alongside the performance of the composite that includes carve-outs with allocated cash.

## **Key Technical Concepts for Asset Owners**

### **Asset Owner Definition versus Firm Definition**

Consistent with the Guidance Statement on the Application of the GIPS Standards to Asset Owners, if an asset owner has the authority to compete for business by marketing to prospective clients, as is done by firms, the part of the asset owner that is competing for assets must be defined as a separate firm. This separate firm must follow all sections of the GIPS standards related to firms and all applicable requirements. We think it is important to share with you that this concept will continue on in the GIPS 2020 Exposure Draft and hope to receive your comments on this point.

### **Time-Weighted Returns versus Money-Weighted Returns**

Asset owners are required to present a GIPS Asset Owner Report for all total funds to those who have direct oversight responsibility for total fund assets. (For asset owners, the term compliant presentation has been changed to GIPS Asset Owner Report.) The same is true for any additional composites that the asset owner creates and presents in a GIPS Asset Owner Report. The requirement in the GIPS 2020 Exposure Draft is that asset owners must present total fund TWRs following the Asset Owner Total Fund and Composite TWR Report requirements in Section 11. Asset owners may also include total fund MWRs in the GIPS Asset Owner Report, but these returns must be in addition to the required TWRs. Asset owners may also create additional GIPS composites and present performance in a GIPS Asset Owner Report for the underlying strategies. These additional composites can be presented using either TWRs or MWRs.

### **Asset Owner Carve-Outs**

Asset owners select particular asset classes and choose how they are managed. Some asset owners treat cash as a separate asset class, while others include cash in each underlying portfolio, whether managed internally or by external managers. Given that asset owners are not selling a product's performance to prospective clients and instead are presenting performance to those with direct oversight responsibility, we think it is not appropriate to require asset owners to create carve-outs with actual or allocated cash when presenting GIPS-compliant asset class composite performance. Should asset owners ever decide to use an additional composite to compete for business by marketing to prospective clients, the asset owners would be required to comply with requirements applicable to firms. The carve-out would then be required to be managed separately with its own cash balance, or cash would have to be allocated.

## Required MWRs

In the Asset Owner MWR Additional Composite Report, we require the annualized composite since-inception MWR through the most recent annual period end. If the asset owner does not have records to support this track record, however, the asset owner must instead present the annualized MWR for the longest period for which the asset owner has such records, through the most recent annual period end. This is to acknowledge that some asset owners have very long histories and that sufficient records may not be available to support the entire track record. Ideally, an asset owner would present the entire MWR track record since inception but, if those records do not exist, we feel it is most appropriate to present GIPS-compliant performance for the longest period possible to those with direct oversight responsibility.

## Key Technical Concepts for Firms and Asset Owners

### Private Market Investments Valuation

In the 2010 edition of the GIPS standards, the valuation frequency requirements are based on the underlying asset class of a composite and the portfolio type. For example, investments are required to be valued monthly and at the time of large cash flows, with the following exceptions:

- Private equity funds must be valued annually;
- Real estate portfolios must be valued quarterly; and
- Alternative investment strategy funds must be valued annually and whenever there are subscriptions and redemptions.

In the GIPS 2020 Exposure Draft, the required valuation frequency depends primarily on the type of return being presented (TWR versus MWR) and whether the portfolio is included in a composite or is presented as a standalone pooled fund.

Currently, only Real Estate investments are required to receive an external valuation once a year. There is an exception when clients opt out of the annual external valuation, in which case the external valuation is required once every three years. We have heard from asset owners that the requirement to value externally should be extended to private equity, infrastructure, and other real assets in addition to real estate (i.e., private market investments) to gain more comfort in the values. In addition, we have heard that in many parts of the real estate industry, a three-year exception for external valuation is not a high enough standard. It is not common practice, however, for firms to obtain external valuations for certain private market investments in some markets. We feel that to assist firms and asset owners in getting an independent opinion on valuation, additional valuation options should be allowed. In the GIPS 2020 Exposure Draft, we propose that at least once every 12 months, all private market investments must have an external valuation, have a valuation review, or be subject to a financial statement audit. The goal is to improve the quality of valuations for more asset classes on a more frequent basis, while acknowledging that there is more than one way to accomplish this goal.

### Timeliness of Updating GIPS Composite, Pooled Fund, and Asset Owner Reports

In the past, we have seen compliant presentations with performance that is not current, including cases where composite information is more than two years old. We are proposing that firms and asset owners update GIPS reports within six months of the annual period end date.

### Time Period for Disclosures

We frequently hear that there are too many disclosures required in GIPS reports. We have reconsidered all disclosures and introduced “sunset” provisions where possible—that is, although all required disclosures must be included for at least one year, some disclosures may subsequently be deleted once



the firm or asset owner determines that they are no longer relevant to interpreting the performance track record. It is important that GIPS reports are meaningful and readable.

## **Effective Date**

The adoption of the revised GIPS standards is planned for mid-2019 with an effective date of 1 January 2020. GIPS Composite Reports, GIPS Pooled Fund Reports, and GIPS Asset Owner Reports that include performance for periods ending on or after 31 December 2020 must be prepared in accordance with the 2020 edition of the GIPS standards.

Although the GIPS standards have enjoyed much success over the years, it is time to make them more relevant to all firms and asset owners. We recognize that this GIPS 2020 Exposure Draft is different from anything we have done before. We look forward to receiving your feedback.

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# 1. FIRM FUNDAMENTALS OF COMPLIANCE

## 1.A. Firm Fundamentals of Compliance — Requirements

- 1.A.1 The GIPS standards MUST be applied on a FIRM-wide basis. Compliance MUST be met on a FIRM-wide basis and cannot be met on a COMPOSITE, POOLED FUND, or PORTFOLIO basis. (0.A.4/0.A.4 HB discussion)
- 1.A.2 The FIRM MUST be defined as an investment firm, subsidiary, or division held out to the public as a DISTINCT BUSINESS ENTITY. (0.A.12)
- 1.A.3 The FIRM MUST comply with all applicable REQUIREMENTS of the GIPS standards, including any Guidance Statements, interpretations, and Questions & Answers (Q&As) published by CFA Institute and the GIPS Executive Committee, which are available on the GIPS standards website (www.gipsstandards.org). (0.A.1)
- 1.A.4 The FIRM MUST:
  - a. Document its policies and procedures used in establishing and maintaining compliance with the REQUIREMENTS of the GIPS standards, as well as any RECOMMENDATIONS it has chosen to adopt, and apply them consistently. (0.A.5)
  - b. Create policies and procedures to monitor and identify changes and additions to all of the Guidance Statements, interpretations, and Q&As published by CFA Institute and the GIPS Executive Committee. (0.A.1 HB discussion)
- 1.A.5 The FIRM MUST:
  - a. Comply with all applicable laws and regulations regarding the calculation and presentation of performance. (0.A.2)
  - b. Create policies and procedures to monitor and identify changes and additions to laws and regulations regarding the calculation and presentation of performance. (0.A.2 HB discussion)
- 1.A.6 The FIRM MUST NOT present performance or PERFORMANCE-RELATED INFORMATION that is false or misleading. This applies to all performance or PERFORMANCE-RELATED INFORMATION on a FIRM-wide basis and is not limited to those materials that reference the GIPS standards. The FIRM may provide any performance or PERFORMANCE-RELATED INFORMATION that is specifically requested by a PROSPECTIVE CLIENT or PROSPECTIVE INVESTOR for use in a one-on-one presentation. (0.A.3/0.A.3 HB discussion/0.A.9 HB Discussion)
- 1.A.7 If the FIRM does not meet all the applicable REQUIREMENTS of the GIPS standards, the FIRM MUST NOT represent or state that it is “in compliance with the Global Investment Performance Standards except for...” or make any other statements that may indicate compliance or partial compliance with the GIPS standards. (0.A.6)
- 1.A.8 Statements referring to the calculation methodology as being “in accordance,” “in compliance,” or “consistent” with the Global Investment Performance Standards, or similar statements, are prohibited. (0.A.7)

- 1.A.9 The FIRM MUST NOT make statements referring to the performance of an existing client or POOLED FUND investor as being “calculated in accordance with the Global Investment Performance Standards”, except for when a GIPS-compliant FIRM reports the performance of a SEGREGATED ACCOUNT to its existing client or a POOLED FUND to its existing investor. (0.A.8)
- 1.A.10 The FIRM MUST present a GIPS REPORT that is appropriate to the recipient. (New) The FIRM MUST make every reasonable effort to:
- a. Provide a GIPS COMPOSITE REPORT to all PROSPECTIVE CLIENTS when they initially become a PROSPECTIVE CLIENT. The FIRM MUST NOT choose to which PROSPECTIVE CLIENTS it presents a GIPS COMPOSITE REPORT. Once the FIRM has provided a GIPS COMPOSITE REPORT to a PROSPECTIVE CLIENT, the FIRM MUST provide an updated GIPS COMPOSITE REPORT at least once every 12 months if the PROSPECTIVE CLIENT is still a PROSPECTIVE CLIENT. (0.A.9/0.A.9 HB discussion)
  - b. Provide a GIPS POOLED FUND REPORT to all LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTORS when they initially become a PROSPECTIVE INVESTOR. The FIRM MUST NOT choose to which LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTORS it presents a GIPS POOLED FUND REPORT. Once the FIRM has provided a GIPS POOLED FUND REPORT to a LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR, the FIRM MUST provide an updated GIPS POOLED FUND REPORT at least once every 12 months if the LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR is still a LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR. (New)

**Request for Comment #1**

We use the terms “limited distribution pooled fund” and “broad distribution pooled fund.” A limited distribution pooled fund is typically sold in one-on-one presentations and offers participation in that specific fund (e.g., hedge funds, commingled funds). In some markets, these funds are not highly regulated. Broad distribution pooled funds are typically sold to the general public, and the firm may not know the client. These funds are typically highly regulated.

- a. Are the terms limited distribution pooled fund and broad distribution pooled fund easily understood?
- b. Are there terms that would better differentiate these two categories of funds? One suggestion is to use the terms “private funds” and “public funds.”

- 1.A.11 The FIRM may provide a GIPS POOLED FUND REPORT to BROAD DISTRIBUTION POOLED FUND PROSPECTIVE INVESTORS but is not REQUIRED to do so. (New)

- 1.A.12 The FIRM MUST update GIPS COMPOSITE REPORTS and GIPS POOLED FUND REPORTS to include information through the most recent annual period end within six months of that annual period end. (New)

**Request for Comment #2**

Currently, the GIPS standards are silent on how quickly firms must update GIPS compliant presentations. (The term compliant presentation has been replaced with GIPS Composite Reports and GIPS Pooled Fund Reports. We also use the term GIPS Report to include both GIPS Composite Reports and GIPS Pooled Fund Reports.) Some firms present returns that are several years old, often providing as the rationale the fact that they are waiting for the verification to be completed before updating the reports. We believe that firms should be required to update GIPS reports on a timely basis, even if the verification is not complete.

- a. Do you agree that firms should be required to update GIPS reports within a specified time period?
- b. Do you agree that six months is the appropriate amount of time?

- 1.A.13 The FIRM MUST be able to demonstrate how it made every reasonable effort to provide: (New)
- a. A GIPS COMPOSITE REPORT to those PROSPECTIVE CLIENTS REQUIRED to receive a GIPS COMPOSITE REPORT.
  - b. A GIPS POOLED FUND REPORT to those LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTORS REQUIRED to receive a GIPS POOLED FUND REPORT.
- 1.A.14 If the FIRM is selling participation in a new LIMITED DISTRIBUTION POOLED FUND that does not yet have a track record, the FIRM MUST present the most appropriate track record for the new LIMITED DISTRIBUTION POOLED FUND, if available. The most appropriate track record may be from a COMPOSITE or another POOLED FUND that is managed according to the same or similar strategy as the new LIMITED DISTRIBUTION POOLED FUND. (New)
- 1.A.15 A COMPOSITE BENCHMARK used in a GIPS COMPOSITE REPORT MUST reflect the investment mandate, objective, or strategy of the COMPOSITE. The FIRM MUST NOT use a price-only BENCHMARK in GIPS COMPOSITE REPORTS. (5.A.1.e/5.A.1.e. HB Q&A)
- 1.A.16 A POOLED FUND BENCHMARK used in a GIPS POOLED FUND REPORT MUST reflect the investment mandate, objective, or strategy of the POOLED FUND. The FIRM MUST NOT use a price-only BENCHMARK in GIPS POOLED FUND REPORTS. (5.A.1/5.A.1.e. HB Q&A/New)
- 1.A.17 The FIRM MUST correct MATERIAL ERRORS in GIPS COMPOSITE REPORTS and MUST: (Error Correction GS)
- a. Provide a corrected GIPS COMPOSITE REPORT to existing clients that received the erroneous GIPS COMPOSITE REPORT.
  - b. Make every reasonable effort to provide the corrected GIPS COMPOSITE REPORT to all PROSPECTIVE CLIENTS and other parties that received the erroneous GIPS COMPOSITE REPORT.
- 1.A.18 The FIRM MUST correct MATERIAL ERRORS in GIPS POOLED FUND REPORTS and MUST: (Error Correction GS/New)
- a. Provide a corrected GIPS POOLED FUND REPORT to existing investors that received the erroneous GIPS POOLED FUND REPORT.

- b. Make every reasonable effort to provide the corrected GIPS POOLED FUND REPORT to all PROSPECTIVE INVESTORS and other parties that received the erroneous GIPS POOLED FUND REPORT.

1.A.19 The FIRM MUST maintain:

- a. A complete list of COMPOSITE DESCRIPTIONS. The FIRM MUST include terminated COMPOSITES on this list for at least five years after the COMPOSITE TERMINATION DATE. (0.A.10)
- b. A complete list of POOLED FUND DESCRIPTIONS for LIMITED DISTRIBUTION POOLED FUNDS. The FIRM MUST include terminated LIMITED DISTRIBUTION POOLED FUNDS on this list for at least five years after the POOLED FUND TERMINATION DATE. (New)
- c. A complete list of BROAD DISTRIBUTION POOLED FUNDS. The FIRM MUST include terminated BROAD DISTRIBUTION POOLED FUNDS on this list for at least five years after the POOLED FUND TERMINATION DATE. (New)

**Request for Comment #3**

Firms are required to include terminated pooled funds on the respective list for at least five years after the pooled fund termination date. This approach is consistent with the requirement for the list of composites. Is it appropriate for firms to include terminated pooled funds on these lists when the pooled funds are not available for prospective investors?

1.A.20 The FIRM MUST provide:

- a. The complete list of COMPOSITE DESCRIPTIONS to any PROSPECTIVE CLIENT that makes such a request. (0.A.10)
- b. The complete list of POOLED FUND DESCRIPTIONS for LIMITED DISTRIBUTION POOLED FUNDS appropriate to any LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR that makes such a request. (New)
- c. The complete list of BROAD DISTRIBUTION POOLED FUNDS appropriate to any BROAD DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR that makes such a request. (New)
- d. The POOLED FUND DESCRIPTION for any BROAD DISTRIBUTION POOLED FUND to any BROAD DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR that makes such a request. (New)

#### Request for Comment #4

Currently, firms are required to provide a complete list of composite descriptions to any prospective client that makes such a request. Under the new GIPS 2020 structure, firms can manage strategies for three types of products: composites, limited distribution pooled funds, and broad distribution pooled funds. This approach also creates three types of prospects: prospective clients for composites, prospective investors for limited distribution pooled funds, and prospective investors for broad distribution pooled funds.

- a. Considering limited distribution pooled funds, we expect that firms would either wish to or would be required by regulation to tailor the list of these funds to the individual prospect. For example, a firm that offers these funds to prospects throughout the world would include only the funds appropriate to an investor in Switzerland if a Swiss prospect asked for this list. Do you agree that firms should be required to provide a list of only those funds that are appropriate to the specific prospect?
- b. Unlike the lists for composites and limited distribution pooled funds, which must include both the name and the description of either all composites or limited distribution pooled funds, firms that manage broad distribution pooled funds would instead be required to have a list of such funds, and provide that list upon request. As a second step, firms would be required to provide the description of any broad distribution pooled fund upon request. We took this approach to acknowledge that many firms manage very large numbers of such funds, and maintaining a list of descriptions could be very challenging. We also acknowledge that most firms have very limited contact with prospects for these funds, if any. Do you agree with this two-step approach for broad distribution pooled funds?

#### 1.A.21 The FIRM MUST provide:

- a. A GIPS COMPOSITE REPORT for any COMPOSITE listed on the FIRM'S list of COMPOSITE DESCRIPTIONS to any PROSPECTIVE CLIENT that makes such a request. (0.A.11)
- b. A GIPS POOLED FUND REPORT for any LIMITED DISTRIBUTION POOLED FUND listed on the FIRM'S list of POOLED FUND DESCRIPTIONS for LIMITED DISTRIBUTION POOLED FUNDS to any LIMITED DISTRIBUTION POOLED FUND PROSPECTIVE INVESTOR that makes such a request. (New)

1.A.22 All data and information necessary to support all items included in GIPS COMPOSITE REPORTS, GIPS POOLED FUND REPORTS, and GIPS ADVERTISEMENTS MUST be captured, maintained, and readily available, for all periods presented in these reports and advertisements. (1.A.1/New)

1.A.23 The FIRM is responsible for its claim of compliance with the GIPS standards and MUST ensure that the records and information provided by any third party on which the FIRM relies meet the REQUIREMENTS of the GIPS standards. (Recordkeeping GS)

1.A.24 The FIRM MUST NOT LINK actual performance with historical THEORETICAL PERFORMANCE. (3.A.3/Draft GS on Supplemental Information/New)

1.A.25 Changes in a FIRM'S organization MUST NOT lead to alteration of historical performance. (0.A.15)

- 1.A.26 For TIME-WEIGHTED RETURNS, the FIRM MUST NOT LINK non-GIPS-compliant performance for periods beginning on or after the MINIMUM EFFECTIVE COMPLIANCE DATE to GIPS-compliant performance. The FIRM may LINK non-GIPS-compliant performance to GIPS-compliant performance provided that only GIPS-compliant performance is presented for periods beginning on or after the MINIMUM EFFECTIVE COMPLIANCE DATE. (5.A.3/6.A.15/8.A.7)
- 1.A.27 For MONEY-WEIGHTED RETURNS, the FIRM MUST NOT present non-GIPS-compliant performance for periods ending on or after the MINIMUM EFFECTIVE COMPLIANCE DATE. The FIRM may present non-GIPS-compliant performance for periods ending prior to the MINIMUM EFFECTIVE COMPLIANCE DATE. (6.A.15/7.A.28)
- 1.A.28 When the FIRM jointly markets with other firms, the FIRM claiming compliance with the GIPS standards MUST be sure that it is clearly defined and separate relative to other firms being marketed, and that it is clear which FIRM is claiming compliance. (0.A.16)
- 1.A.29 Performance from a past firm or affiliation may be LINKED to and used to represent the historical performance of the new or acquiring FIRM. If the FIRM chooses to do this, it MUST meet the following REQUIREMENTS on a COMPOSITE–specific or POOLED FUND–specific basis: (5.A.8.a/5.A.8 HB discussion/New)
- a. Substantially all of the investment decision makers are employed by the new or acquiring FIRM (e.g., research department staff, portfolio managers, and other relevant staff);
  - b. The decision-making process remains substantially intact and independent within the new or acquiring FIRM; and
  - c. The new or acquiring FIRM has records that document and support the performance.
- If any of the above REQUIREMENTS are not met, the performance from a past firm or affiliation MUST NOT be linked to the ongoing performance record of the new or acquiring FIRM.
- 1.A.30 If a FIRM acquires another firm or affiliation, the FIRM has one year to bring any non-compliant assets into compliance. Assets of the acquired non-compliant firm or affiliation MUST meet all the REQUIREMENTS of the GIPS standards within one year of the acquisition date, on a going forward basis. (5.A.8.b/5.A.8.b HB discussion/New)



### **Request for Comment #5**

In the GIPS 2010 edition, the notion of portability hinges on the requirement that performance from a past firm or affiliation must be linked to or used to represent the historical performance of a new or acquiring firm if, on a composite-specific basis, certain criteria are met. We have received feedback over the years that firms that do not want to meet the criteria will not do so, and portability will not be achieved. We decided to change the perspective and allow firms to choose to port returns if certain criteria are met.

- a. Do you agree that firms should be allowed to choose, for each composite or pooled fund, when returns from a prior firm or affiliation are used to present the historical performance of the new or acquiring firm, if certain tests are met?
- b. The one-year grace period allows a firm that acquires a non-compliant firm to not lose its compliant status because it does not immediately meet the requirements of the GIPS standards for the acquired assets. Do you agree that the one-year grace period should apply only to performance at the new or acquiring firm, and that firms should be able to port history from the prior firm or affiliation after the one-year grace period?
- c. In addition to the three tests that a firm must meet if it wishes to link performance from a prior firm or affiliation, there is a fourth test that must be met. There must not be a break in the track record between the prior firm or affiliation and the new or acquiring firm. Should this test be specified within this provision?

1.A.31 The FIRM MUST present TIME-WEIGHTED RETURNS unless certain criteria are met, in which case the FIRM may present MONEY-WEIGHTED RETURNS. The FIRM may present MONEY-WEIGHTED RETURNS only if the FIRM has control over the EXTERNAL CASH FLOWS into the PORTFOLIOS in the COMPOSITE or POOLED FUND, and the PORTFOLIOS in the COMPOSITE have or the POOLED FUND has at least one of the following characteristics: (New)

- a. CLOSED-END
- b. FIXED LIFE
- c. FIXED COMMITMENT
- d. ILLIQUID INVESTMENTS are a significant part of the investment strategy.

### **Request for Comment #6**

Firms may choose to present money-weighted returns instead of time-weighted returns for a specific composite or pooled fund if the firm controls the cash flows and meets at least one of the additional criteria for the composite or pooled fund.

- a. Are the additional criteria the correct criteria for determining if money-weighted returns may be presented?
- b. Are the appropriate names used for these additional criteria?
- c. Should firms instead be required to present money-weighted returns versus time-weighted returns for a specific composite or pooled fund when the firm controls the cash flows and it meets at least one of the additional criteria?

- 1.A.32 The FIRM MUST choose to present TIME-WEIGHTED RETURNS, MONEY-WEIGHTED RETURNS, or both for each COMPOSITE or POOLED FUND, and it MUST consistently present the selected returns for each COMPOSITE or POOLED FUND. (New)
- 1.A.33 If a FIRM chooses to include a GIPS COMPOSITE REPORT or GIPS POOLED FUND REPORT in marketing materials, the FIRM MUST disclose prominently (e.g., in the table of contents) that a GIPS COMPOSITE REPORT or GIPS POOLED FUND REPORT is included in the marketing materials. (Draft GS on Supplemental Information/New)
- 1.A.34 The FIRM MUST notify CFA Institute of its claim of compliance by submitting the GIPS COMPLIANCE NOTIFICATION FORM. This form: (GIPS Q&A Firm Notification Requirement)
- MUST be filed when the FIRM initially claims compliance with the GIPS standards.
  - MUST be updated annually with information as of the most recent 31 December, with the exception of FIRM contact information, which MUST be current as of the form submission date.
  - MUST be filed annually thereafter by 30 June.
- 1.A.35 If a FIRM chooses to be verified, it MUST create policies and procedures for determining that the verifier is independent from the FIRM. (Draft GS on Verifier Independence/New)

## 1.B. Firm Fundamentals of Compliance — Recommendations

- 1.B.1 The FIRM SHOULD comply with the RECOMMENDATIONS of the GIPS standards, including RECOMMENDATIONS in any Guidance Statements, interpretations, and Q&As published by CFA Institute and the GIPS Executive Committee, which are available on the GIPS website ([www.gipsstandards.org](http://www.gipsstandards.org)). (0.B.1)
- 1.B.2 The FIRM SHOULD update GIPS COMPOSITE REPORTS and GIPS POOLED FUND REPORTS quarterly. (5.B.9)
- 1.B.3 The FIRM SHOULD be verified. (0.B.2)
- 1.B.4 The FIRM SHOULD adopt the broadest, most meaningful definition of the FIRM. The scope of this definition SHOULD include all geographical (country, regional, etc.) offices operating under the same brand name, regardless of the actual name of the individual investment management company. (0.B.3)
- 1.B.5 The FIRM SHOULD provide to each existing client, on an annual basis, a GIPS COMPOSITE REPORT of the COMPOSITE in which the client's PORTFOLIO is included. (0.B.4)
- 1.B.6 The FIRM SHOULD provide to each LIMITED DISTRIBUTION POOLED FUND existing investor, on an annual basis, a GIPS POOLED FUND REPORT of the LIMITED DISTRIBUTION POOLED FUND in which the investor is invested. (New)
- 1.B.7 If the FIRM chooses to not include a GIPS COMPOSITE REPORT or GIPS POOLED FUND REPORT for LIMITED DISTRIBUTION POOLED FUNDS in marketing materials that include performance and/or PERFORMANCE-RELATED INFORMATION, the FIRM SHOULD disclose how to obtain the related GIPS COMPOSITE REPORT or GIPS POOLED FUND REPORT for LIMITED DISTRIBUTION POOLED FUNDS. (Draft GS on Supplemental Information/New)

## 2. FIRM INPUT DATA AND CALCULATION METHODOLOGY

### 2.A. Firm Input Data and Calculation Methodology — Requirements

#### Firm Assets, Composite Assets, and Pooled Fund Assets

##### 2.A.1 TOTAL FIRM ASSETS:

- a. MUST be the aggregate FAIR VALUE of all discretionary and non-discretionary assets managed by the FIRM. This includes both fee-paying and non-fee-paying PORTFOLIOS.<sup>1</sup> (0.A.13)
- b. MUST NOT include ADVISORY-ONLY ASSETS. (0.A.13 HB discussion)
- c. MUST NOT include uncalled COMMITTED CAPITAL.<sup>2</sup> (New)

#### Request for Comment #7

Currently, total firm assets must include both discretionary and non-discretionary assets managed by the firm. In the GIPS 2020 Exposure Draft, this requirement still holds. In the GIPS 2020 Exposure Draft, however, we allow firms to present advisory-only assets that are not managed by the firm but require that advisory-only assets be presented separately from total firm assets. This approach is to recognize that many firms' business models are changing. Also, firms have approached the treatment of committed capital differently when calculating total firm assets. Some firms consider committed capital to be part of total firm assets because the firm is charging an investment management fee on the committed capital. Other firms exclude committed capital because it is not under management before capital is called. We propose that firms must not include committed capital in total firm assets.

- a. Do you agree that firms should be required to not include advisory-only assets in total firm assets?
- b. Do you agree that firms should be required to not include committed capital in total firm assets?

##### 2.A.2 TOTAL FIRM ASSETS, COMPOSITE assets, and POOLED FUND assets MUST:

- a. Include only actual assets managed by the FIRM. (3.A.2/New)
- b. Be calculated including the impact of any leverage and not grossed up as if the leverage did not exist. (5.A.1.g HB discussion/New)

##### 2.A.3 The FIRM MUST NOT double count assets when calculating TOTAL FIRM ASSETS, COMPOSITE assets, or POOLED FUND assets. (0.A.13 HB discussion/Alternative Investment GS/New)

<sup>1</sup> REQUIRED for periods beginning on or after 1 January 2011. For periods prior to 1 January 2011, TOTAL FIRM ASSETS MUST be the aggregate of either the FAIR VALUE or the MARKET VALUE of all discretionary and non-discretionary assets under management within the defined FIRM.

<sup>2</sup> REQUIRED for periods beginning on or after 1 January 2020.

- 2.A.4 Any PORTFOLIOS for which the FIRM has discretion over the selection of a SUB-ADVISOR MUST be subject to the same policies and procedures as other PORTFOLIOS. (0.A.14/New)
- 2.A.5 COMPOSITE and POOLED FUND performance MUST be calculated using only actual assets managed by the FIRM. (3.A.2 HB discussion/New)

## Overlay Exposure

- 2.A.6 Total FIRM OVERLAY EXPOSURE MUST include all discretionary and non-discretionary OVERLAY STRATEGY PORTFOLIOS for which a FIRM has investment management responsibility. (Draft GS on Overlay/New)
- 2.A.7 When calculating OVERLAY EXPOSURE, the FIRM MUST: (Draft GS on Overlay/New)
  - a. Use the notional exposure of the OVERLAY STRATEGY PORTFOLIOS, the value of the underlying PORTFOLIOS being overlaid, or a specified target exposure.
  - b. Use the same method for all PORTFOLIOS within a COMPOSITE.
- 2.A.8 When calculating OVERLAY STRATEGY PORTFOLIO returns, the FIRM MUST: (Draft GS on Overlay/New)
  - a. Use as the denominator the notional exposure of the OVERLAY STRATEGY PORTFOLIOS, the value of the underlying PORTFOLIO being overlaid, or a specified target exposure.
  - b. Use the same method for all PORTFOLIOS within a COMPOSITE.
- 2.A.9 For all PORTFOLIOS within a COMPOSITE, the same method MUST be used to determine the denominator used in the OVERLAY STRATEGY PORTFOLIO return calculation and to calculate OVERLAY EXPOSURE.

## General/Accounting

- 2.A.10 TOTAL RETURNS MUST be used. (2.A.1)
- 2.A.11 TRADE DATE ACCOUNTING MUST be used.<sup>3</sup> (1.A.5)
- 2.A.12 ACCRUAL ACCOUNTING MUST be used for fixed-income securities and all other investments that earn interest income, except that interest income on cash and cash equivalents may be recognized on a cash basis. Any accrued income MUST be included in the beginning and ending PORTFOLIO values when performance is calculated. (1.A.6/1.A.6 HB discussion)
- 2.A.13 Returns from cash and cash equivalents MUST be included in all return calculations, even if the FIRM does not control the specific cash investment(s). (2.A.3/2.A.3 HB discussion)
- 2.A.14 Returns for periods of less than one year MUST NOT be annualized. (5.A.4)

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<sup>3</sup> REQUIRED for periods beginning on or after 1 January 2005.

- 2.A.15 All returns MUST be calculated after the deduction of the TRANSACTION COSTS incurred during the period. The FIRM may use estimated TRANSACTION COSTS only if the FIRM can determine that estimated TRANSACTION COSTS are greater than or equal to actual TRANSACTION COSTS. (2.A.4/New)

#### **Request for Comment #8**

Currently, all returns must be calculated after the deduction of actual trading expenses incurred during the period, and estimated trading expenses are not allowed. When the GIPS standards were originally created, trading expenses were generally higher than they are now and were more standardized. Today, trading expenses can be charged in a variety of ways and may not be under a firm's control. Indeed, in some instances, firms may not have the ability to determine how or where trading expenses are charged. We have decided to introduce allowing estimated transaction costs (the term that replaces trading costs) for composites if returns calculated using estimated transaction costs are equal to or lower than those that would have been calculated using actual transaction costs.

- a. Do you agree that estimated transaction costs should be allowed?
- b. Do you believe that firms will have the ability to determine if estimated transaction costs are more conservative than actual transaction costs?

Research costs and their relationship to transaction costs have become a focus in some markets. We do not specify how research costs must be treated, and we also do not require any related disclosures.

- c. Should firms be required or recommended to treat research costs in a specific way?
- d. Should firms be required or recommended to disclose how research costs are reflected in returns?
- e. Should firms be required or recommended to disclose if research costs are separately charged to clients?

- 2.A.16 For PORTFOLIOS with BUNDLED FEES, if the FIRM cannot estimate TRANSACTION COSTS or if actual TRANSACTION COSTS cannot be segregated from a BUNDLED FEE: (2.A.5/New)
- a. When calculating GROSS-OF-FEES returns, returns MUST be reduced by the entire BUNDLED FEE or the portion of the BUNDLED FEE that includes the TRANSACTION COSTS.
  - b. When calculating NET-OF-FEES returns, returns MUST be reduced by the entire BUNDLED FEE or the portion of the BUNDLED FEE that includes the TRANSACTION COSTS and the INVESTMENT MANAGEMENT FEE.
- 2.A.17 All REQUIRED returns MUST be calculated including the impact of any leverage, unless otherwise specified. (Alternative Investment GS/New)
- 2.A.18 The FIRM MUST calculate performance in accordance with its COMPOSITE-specific or POOLED FUND-specific calculation policies. (2.A.2/New)

- 2.A.19 For PORTFOLIOS invested in underlying POOLED FUNDS, all returns MUST reflect the deduction of all fees and expenses charged at the underlying POOLED FUND level, unless the FIRM controls the INVESTMENT MANAGEMENT FEES of the underlying POOLED FUNDS. When the FIRM controls the INVESTMENT MANAGEMENT FEES of the underlying POOLED FUNDS, the FIRM may calculate GROSS-OF-FEES returns that do not reflect the deduction of the underlying POOLED FUND INVESTMENT MANAGEMENT FEES. (Alternative Investment GS)
- 2.A.20 When calculating ADDITIONAL RISK MEASURES: (5.A.2.a HB discussion/New)
- a. The PERIODICITY of the COMPOSITE or POOLED FUND returns and the BENCHMARK returns MUST be the same.
  - b. The risk measure calculation methodology of the COMPOSITE or POOLED FUND and the BENCHMARK MUST be the same.

## Valuation

- 2.A.21 PORTFOLIOS MUST be valued in accordance with the definition of FAIR VALUE.<sup>4</sup> (1.A.2/6.A.1/7.A.1)
- 2.A.22 The FIRM MUST value PORTFOLIOS in accordance with the COMPOSITE-specific or POOLED FUND-specific valuation policy. (1.A.3/New)
- 2.A.23 If the FIRM uses the last available historical price or preliminary, estimated values as FAIR VALUES, the FIRM MUST: (Alternative Investment GS)
- a. Consider them to be the best approximation of the current FAIR VALUE.
  - b. Assess the differences between preliminary, estimated values and final values and the impact on COMPOSITE or POOLED FUND assets, TOTAL FIRM ASSETS, and performance, and make any adjustments when final values are received.

### Request for Comment #9

The Guidance Statement on Alternative Investment Strategies and Structures provides guidance for firms that manage alternative strategies if the firm places reliance on valuations that are received with a significant time lag (e.g., for portfolios or funds invested in third-party hedge funds). There is some concern that firms may adopt the use of preliminary, estimated values for liquid strategies where more appropriate valuations are available.

- a. Should this guidance be limited to certain types of assets, such as investments in third-party private market investment funds?
- b. Should this guidance instead continue to be included in guidance rather than included as a provision?

<sup>4</sup> REQUIRED for periods beginning on or after 1 January 2011. For periods prior to 1 January 2011, PORTFOLIO valuations (excluding REAL ESTATE and PRIVATE EQUITY) MUST be based on FAIR VALUES or MARKET VALUES and not on cost basis or book values. For periods prior to 1 January 2011, REAL ESTATE investments MUST be valued at FAIR VALUE or MARKET VALUE (as previously defined for REAL ESTATE in the 2005 edition of the GIPS standards). For periods ending prior to 1 January 2011, PRIVATE EQUITY investments MUST be valued at FAIR VALUE, according to the GIPS Private Equity Valuation Principles in Appendix D of the 2005 edition of the GIPS standards, or the GIPS Valuation Principles in Chapter II of the 2010 edition of the GIPS standards.

- 2.A.24 COMPOSITES and POOLED FUNDS MUST have consistent beginning and ending annual valuation and return calculation dates. Unless the COMPOSITE or POOLED FUND is reported on a non-calendar fiscal year, the beginning and ending valuation dates MUST be at calendar year end or on the last business day of the year.<sup>5</sup> (1.A.7)

## Portfolios — Time-Weighted Returns

- 2.A.25 When calculating TIME-WEIGHTED RETURNS for PORTFOLIOS that are included in COMPOSITES, all PORTFOLIOS except PRIVATE MARKET INVESTMENT PORTFOLIOS (see 2.A.41) MUST be valued:
- At least monthly.<sup>6</sup> (1.A.3.a)
  - As of the calendar month end or the last business day of the month.<sup>7</sup> (1.A.4)
  - On the date of all LARGE CASH FLOWS. The FIRM MUST define LARGE CASH FLOW for each COMPOSITE to determine when PORTFOLIOS in that COMPOSITE MUST be valued.<sup>8</sup> (1.A.3.b)
- 2.A.26 When calculating TIME-WEIGHTED RETURNS for all PORTFOLIOS except PRIVATE MARKET INVESTMENT PORTFOLIOS (see 2.A.42) included in COMPOSITES, the FIRM MUST:
- Calculate returns at least monthly.<sup>9</sup> (2.A.2.a)
  - Calculate monthly returns through the calendar month end or the last business day of the month.<sup>10</sup> (4.A.26 HB discussion)
  - Calculate sub-period returns at the time of all LARGE CASH FLOWS, if daily returns are not calculated.<sup>11</sup> (2.A.2 HB discussion/New)
  - Calculate PORTFOLIO returns that adjust for daily-weighted EXTERNAL CASH FLOWS, if daily returns are not calculated.<sup>12</sup> (2.A.2/New)
  - Treat EXTERNAL CASH FLOWS according to the FIRM'S COMPOSITE-specific policy. (2.A.2)
  - Geometrically LINK periodic and sub-period returns. (2.A.2)
  - Consistently apply the calculation methodology used for an individual PORTFOLIO. (Calculation Methodology GS)

## Pooled Funds

- 2.A.27 When calculating TIME-WEIGHTED RETURNS for POOLED FUNDS that are not included in a COMPOSITE, POOLED FUNDS MUST be valued: (Alternative Investment GS a-c)
- At least annually.
  - As of the calendar or fiscal year end.
  - Whenever there are subscriptions to or redemptions from the POOLED FUND.
  - As of the period end for any period for which performance is calculated. (New)

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<sup>5</sup> REQUIRED for periods beginning on or after 1 January 2006.

<sup>6</sup> REQUIRED for periods beginning on or after 1 January 2001. For periods prior to 1 January 2001, PORTFOLIOS MUST be valued at least quarterly.

<sup>7</sup> REQUIRED for periods beginning on or after 1 January 2010.

<sup>8</sup> REQUIRED for periods beginning on or after 1 January 2010.

<sup>9</sup> REQUIRED for periods beginning on or after 1 January 2001.

<sup>10</sup> REQUIRED for periods beginning on or after 1 January 2010.

<sup>11</sup> REQUIRED for periods beginning on or after 1 January 2010.

<sup>12</sup> REQUIRED for periods beginning on or after 1 January 2005.



- 2.A.28 When calculating TIME-WEIGHTED RETURNS for POOLED FUNDS that are not included in a COMPOSITE, the FIRM MUST: (New)
- Calculate returns at least annually.
  - Calculate annual returns through the calendar or fiscal year end or the last business day of the year.
  - Calculate sub-period returns at the time of all subscriptions and redemptions.
  - Geometrically LINK periodic and sub-period returns.
  - Calculate POOLED FUND NET RETURNS that are net of TOTAL POOLED FUND FEES.
- 2.A.29 The FIRM MUST establish a POOLED FUND INCEPTION DATE for each POOLED FUND to determine when the POOLED FUND'S track record begins.<sup>13</sup> (New)

### Money-Weighted Returns

- 2.A.30 When calculating MONEY-WEIGHTED RETURNS, the FIRM MUST value PORTFOLIOS at least annually and as of the period end for any period for which performance is calculated. (7.A.2/New)
- 2.A.31 When calculating MONEY-WEIGHTED RETURNS, the FIRM MUST:
- Calculate annualized SINCE-INCEPTION MONEY-WEIGHTED RETURNS. (7.A.3)
  - Calculate MONEY-WEIGHTED RETURNS using daily EXTERNAL CASH FLOWS.<sup>14</sup> (6.A.18/7.A.4)
  - Include stock DISTRIBUTIONS as EXTERNAL CASH FLOWS and value stock DISTRIBUTIONS at the time of DISTRIBUTION. (7.A.4)
  - Calculate COMPOSITE MONEY-WEIGHTED RETURNS by aggregating the PORTFOLIO-level information for those PORTFOLIOS included in the COMPOSITE. (New)
  - Calculate POOLED FUND NET RETURNS that are net of TOTAL POOLED FUND FEES. (New)

#### Request for Comment #10

When calculating since-inception internal rates of returns (now referred to as money-weighted returns), currently private equity portfolios are required to use daily external cash flows for periods beginning on or after 1 January 2011. Real estate closed-end funds are required to use quarterly or more frequent external cash flows. It is proposed that all portfolios and pooled funds, including private equity, would be required to use daily cash flows when calculating money-weighted returns for periods beginning on or after 1 January 2020, and quarterly external cash flows for periods prior to 1 January 2020.

- Do you agree that firms should be required to use daily external cash flows as of 1 January 2020 when calculating money-weighted returns?
- Is the change to lessen the required frequency for private equity for periods prior to 1 January 2020 appropriate?

<sup>13</sup> REQUIRED for periods beginning on or after 1 January 2020. For periods prior to 1 January 2020, PRIVATE EQUITY PRIMARY FUNDS MUST be included in at least one COMPOSITE defined by VINTAGE YEAR and investment mandate, objective, or strategy. For periods prior to 1 January 2020, PRIVATE EQUITY POOLED FUNDS OF FUNDS MUST be included in at least one COMPOSITE defined by VINTAGE YEAR of the POOLED FUND OF FUNDS and/or investment mandate, objective, or strategy.

<sup>14</sup> REQUIRED for periods ending on or after 1 January 2020. For periods ending prior to 1 January 2020, MONEY-WEIGHTED RETURNS MUST be calculated using quarterly or more frequent EXTERNAL CASH FLOWS.



## Net Returns

- 2.A.32 When calculating COMPOSITE NET-OF-FEES returns, INVESTMENT MANAGEMENT FEES used in the calculation MUST be either: (1.B.4 HB Q&A)
- Actual INVESTMENT MANAGEMENT FEES incurred by each PORTFOLIO in the COMPOSITE, or
  - The highest INVESTMENT MANAGEMENT FEE appropriate to PROSPECTIVE CLIENTS.
- 2.A.33 If the FIRM uses model INVESTMENT MANAGEMENT FEES to calculate COMPOSITE NET-OF-FEES returns, the returns calculated MUST be equal to or lower than those that would have been calculated using actual INVESTMENT MANAGEMENT FEES. (Alternative Investment GS)
- 2.A.34 When calculating POOLED FUND NET RETURNS, TOTAL POOLED FUND FEES used in the calculation MUST be either: (Alternative Investment GS/New)
- Actual TOTAL POOLED FUND FEES, or
  - The highest TOTAL POOLED FUND FEES appropriate to PROSPECTIVE INVESTORS.
- 2.A.35 If the FIRM uses model TOTAL POOLED FUND FEES to calculate POOLED FUND NET RETURNS, the returns calculated MUST be equal to or lower than those that would have been calculated using actual TOTAL POOLED FUND FEES. (Alternative Investment GS/New)

## Composite Returns

- 2.A.36 COMPOSITE TIME-WEIGHTED RETURNS except PRIVATE MARKET INVESTMENT COMPOSITES (see 2.A.43) MUST be calculated by asset-weighting the individual PORTFOLIO returns at least monthly.<sup>15</sup> (2.A.7)
- 2.A.37 COMPOSITE TIME-WEIGHTED RETURNS MUST be calculated by asset-weighting the individual PORTFOLIO returns using beginning-of-period values or a method that reflects both beginning-of-period values and EXTERNAL CASH FLOWS. (2.A.6)
- 2.A.38 COMPOSITE GROSS-OF-FEES RETURNS MUST reflect the deduction of TRANSACTION COSTS. (4.A.5 HB discussion)
- 2.A.39 COMPOSITE NET-OF-FEES RETURNS MUST reflect the deduction of TRANSACTION COSTS and INVESTMENT MANAGEMENT FEES. (4.A.6 HB discussion)
- 2.A.40 The FIRM MUST reflect any PERFORMANCE-BASED FEE CLAWBACK in the period in which it is earned. The FIRM MUST NOT restate returns to eliminate previously reflected PERFORMANCE-BASED FEES.<sup>16</sup> (New)

## Private Market Investments

- 2.A.41 When calculating TIME-WEIGHTED RETURNS for PRIVATE MARKET INVESTMENT PORTFOLIOS that are included in COMPOSITES, PRIVATE MARKET INVESTMENT PORTFOLIOS MUST be valued:
- At least quarterly.<sup>17</sup> (6.A.2/7.A.2/New)
  - As of each quarter end or the last business day of the quarter.<sup>18</sup> (6.A.3)

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<sup>15</sup> REQUIRED for periods beginning on or after 1 January 2010. For periods beginning on or after 1 January 2006 and ending prior to 1 January 2010, COMPOSITE returns MUST be calculated by asset-weighting the individual PORTFOLIO returns at least quarterly.

<sup>16</sup> REQUIRED for periods beginning on or after 1 January 2020.

<sup>17</sup> REQUIRED for periods beginning on or after 1 January 2008.

<sup>18</sup> REQUIRED for periods beginning on or after 1 January 2010.

- 2.A.42 When calculating TIME-WEIGHTED RETURNS for PRIVATE MARKET INVESTMENT PORTFOLIOS that are included in COMPOSITES, the FIRM MUST:
- Calculate returns at least quarterly.<sup>19</sup> (6.A.6/New)
  - Calculate quarterly returns through the calendar quarter end or the last business day of the quarter.<sup>20</sup> (6.A.3/New)
  - Calculate PORTFOLIO returns that adjust for daily-weighted EXTERNAL CASH FLOWS.<sup>21</sup> (New)
  - Treat EXTERNAL CASH FLOWS according to the FIRM'S COMPOSITE-specific policy. (2.A.2/New)
  - Geometrically LINK periodic and sub-period returns. (2.A.2/New)
  - Consistently apply the calculation methodology used for an individual PORTFOLIO. (Calculation Methodology GS)
- 2.A.43 COMPOSITE TIME-WEIGHTED RETURNS for PRIVATE MARKET INVESTMENT COMPOSITES MUST be calculated by asset-weighting the individual PORTFOLIO returns at least quarterly. (6.A.9/New)
- 2.A.44 At least once every 12 months, PRIVATE MARKET INVESTMENTS MUST:<sup>22</sup> (6.A.4/New)
- Have an EXTERNAL VALUATION, or
  - Have a VALUATION REVIEW, or
  - Be subject to a financial statement audit.

#### Request for Comment #11

Currently, real estate investments are required to receive an external valuation at least once every 12 months, with an exception for when clients opt out of the external valuation. In that case, firms must obtain an external valuation at least once every 36 months. We expanded the notion of external valuation beyond the current requirement for real estate to private market investments but broadened the type of valuations that are allowed. Private market investments include real estate, infrastructure, timberland, private equity, and similar investments that are illiquid and not traded on an exchange. These assets must have an external valuation, valuation review, or be subject to a financial statement audit at least once every 12 months.

- Do you agree that private market investments should be required to have an external valuation, valuation review, or be subject to a financial statement audit?
- Is once every 12 months the appropriate valuation frequency given the expanded types of valuation that are allowed?
- Are there any other types of valuation that should also be allowed?

<sup>19</sup> REQUIRED for periods beginning on or after 1 January 2008.

<sup>20</sup> REQUIRED for periods beginning on or after 1 January 2010.

<sup>21</sup> REQUIRED for periods beginning on or after 1 January 2010.

<sup>22</sup> REQUIRED for periods beginning on or after 1 January 2020. For periods beginning on or after 1 January 2012 and ending prior to 1 January 2020, REAL ESTATE investments MUST have an EXTERNAL VALUATION at least once every 12 months unless client agreements stipulate otherwise, in which case REAL ESTATE investments MUST have an EXTERNAL VALUATION at least once every 36 months or per the client agreement if the client agreement REQUIRES EXTERNAL VALUATIONS more frequently than every 36 months. For periods prior to 1 January 2012, REAL ESTATE investments MUST have an EXTERNAL VALUATION at least once every 36 months.

- 2.A.45 EXTERNAL VALUATIONS and VALUATION REVIEWS MUST be performed by an external, qualified valuer or appraiser. (6.A.5/New)
- 2.A.46 Financial statement audits for PRIVATE MARKET INVESTMENTS MUST be performed by an independent, qualified public accounting firm. (New)
- 2.A.47 The FIRM MUST NOT use EXTERNAL VALUATIONS or VALUATION REVIEWS where the valuer's or appraiser's fee is contingent upon the investment's value. (Valuation Principles/New)

### Carve-outs

- 2.A.48 When calculating NET-OF-FEES returns of COMPOSITES containing CARVE-OUTS, the INVESTMENT MANAGEMENT FEES for the CARVE-OUTS MUST be representative of the INVESTMENT MANAGEMENT FEES charged or that would be charged to the PROSPECTIVE CLIENT: (New)
- When presenting performance to a PROSPECTIVE CLIENT for a standalone PORTFOLIO, the INVESTMENT MANAGEMENT FEE MUST be representative of the INVESTMENT MANAGEMENT FEES for a standalone PORTFOLIO managed according to that strategy.
  - When presenting performance to a PROSPECTIVE CLIENT for a multi-asset strategy PORTFOLIO, the INVESTMENT MANAGEMENT FEE MUST be representative of the INVESTMENT MANAGEMENT FEES for a multi-asset strategy PORTFOLIO managed according to that strategy.

### Wrap Fee

- 2.A.49 When calculating returns to be presented to a WRAP FEE PROSPECTIVE CLIENT, returns MUST be calculated net of the entire WRAP FEE. This is applicable to all WRAP FEE PORTFOLIOS in the COMPOSITE as well as any non-WRAP FEE PORTFOLIOS in the COMPOSITE. (8.A.6/Wrap Fee GS)

### Side Pockets and Subscription Lines of Credit

- 2.A.50 All COMPOSITE and POOLED FUND returns MUST include the impact of any SIDE POCKETS held by PORTFOLIOS in the COMPOSITE or the POOLED FUND. (New)

#### Request for Comment #12

Currently, firms are required to present returns both with and without side pockets, when a composite includes only one pooled fund that has discretionary side pockets. Composites with multiple portfolios are not required to present returns both with and without side pockets. To eliminate differences between composites and pooled funds, and to acknowledge that firms should be accountable for all returns, including those of side pockets, firms will be required to present returns that include side pockets. Firms will not be required to present returns that do not include side pockets. Do you agree with this approach?

- 2.A.51 When calculating returns for COMPOSITES and POOLED FUNDS that include SUBSCRIPTION LINES OF CREDIT activity, the FIRM MUST include the cash flows, values, and associated costs for any SUBSCRIPTION LINES OF CREDIT.<sup>23</sup> (Alternative Investment GS/New)

<sup>23</sup> REQUIRED for periods beginning on or after 1 January 2020.

## 2.B. Firm Input Data and Calculation Methodology — Recommendations

- 2.B.1 The FIRM SHOULD value PORTFOLIOS on the date of all EXTERNAL CASH FLOWS. (1.B.1)
- 2.B.2 Valuations SHOULD be obtained from a qualified independent third party. (1.B.2)
- 2.B.3 ACCRUAL ACCOUNTING SHOULD be used for dividends (as of the ex-dividend date). (1.B.3)
- 2.B.4 The FIRM SHOULD accrue INVESTMENT MANAGEMENT FEES. (1.B.4)
- 2.B.5 Returns SHOULD be calculated net of non-reclaimable withholding taxes on dividends, interest, and capital gains. Reclaimable withholding taxes SHOULD be accrued. (2.B.1)
- 2.B.6 The FIRM SHOULD incorporate the following hierarchy into its policies and procedures for determining FAIR VALUE for PORTFOLIO investments on a COMPOSITE-specific or POOLED FUND-specific basis. (Valuation Principles)
  - a. Investments MUST be valued using objective, observable, unadjusted quoted market prices for identical investments in active markets on the measurement date, if available. If not available, then investments SHOULD be valued using;
  - b. Objective, observable quoted market prices for similar investments in active markets. If not available or appropriate, then investments SHOULD be valued using;
  - c. Quoted prices for identical or similar investments in markets that are not active (markets in which there are few transactions for the investment, the prices are not current, or price quotations vary substantially over time and/or between market makers). If not available or appropriate, then investments SHOULD be valued based on;
  - d. Market-based inputs, other than quoted prices, that are observable for the investment. If not available or appropriate, then investments SHOULD be valued based on;
  - e. Subjective, unobservable inputs for the investment where markets are not active at the measurement date. Unobservable inputs SHOULD only be used to measure FAIR VALUE to the extent that observable inputs and prices are not available or appropriate. Unobservable inputs reflect the FIRM'S own assumptions about the assumptions that market participants would use in pricing the investment and SHOULD be developed based on the best information available under the circumstances.
- 2.B.7 The FIRM SHOULD use GROSS-OF-FEES returns when calculating risk measures. (Draft Risk GS/New)

### Request for Comment #13

Firms are recommended to use gross-of-fees returns when calculating risk measures. Do you believe that firms should instead be recommended to use net-of-fees returns to calculate risk measures when only net-of-fees returns are presented in a GIPS Composite Report or GIPS Pooled Fund Report? Would your answer differ when there are performance-based fees or carried interest?

- 2.B.8 PRIVATE MARKET INVESTMENTS SHOULD have an EXTERNAL VALUATION at least once every 12 months. (6.B.1/New)

# 3. FIRM COMPOSITE AND POOLED FUND MAINTENANCE

## 3.A. Firm Composite and Pooled Fund Maintenance — Requirements

- 3.A.1 The FIRM MUST create COMPOSITES that represent the FIRM'S strategies offered as a SEGREGATED ACCOUNT. (New)
- 3.A.2 All actual, fee-paying, discretionary SEGREGATED ACCOUNTS MUST be included in at least one COMPOSITE. Non-discretionary PORTFOLIOS MUST NOT be included in a FIRM'S COMPOSITES. (3.A.1/New)
- 3.A.3 All actual, fee-paying, discretionary POOLED FUNDS MUST be included in at least one COMPOSITE if they meet a COMPOSITE DEFINITION. The FIRM is not REQUIRED to create a COMPOSITE that only includes one or more POOLED FUNDS unless the FIRM offers the strategy as a SEGREGATED ACCOUNT. The FIRM may terminate any COMPOSITE that was created solely to include one or more POOLED FUNDS if the COMPOSITE is not representative of the FIRM'S strategy offered as a SEGREGATED ACCOUNT. (3.A.1/New)
- 3.A.4 Non-fee-paying discretionary PORTFOLIOS may be included in a COMPOSITE. If the FIRM includes non-fee-paying discretionary PORTFOLIOS in a COMPOSITE, those PORTFOLIOS MUST be subject to the same policies and procedures as fee-paying PORTFOLIOS. (3.A.1/3.A.1 HB discussion)
- 3.A.5 COMPOSITES MUST be defined according to investment mandate, objective, or strategy. COMPOSITES MUST include all PORTFOLIOS, including SEGREGATED ACCOUNTS and POOLED FUNDS, that meet the COMPOSITE DEFINITION. The FIRM MUST NOT exclude PORTFOLIOS from COMPOSITES based solely on legal structure differences. (3.A.4/3.A.4 HB Q&A)
- 3.A.6 Any change to a COMPOSITE DEFINITION MUST NOT be applied retroactively. (3.A.4)
- 3.A.7 COMPOSITES MUST include new PORTFOLIOS on a timely and consistent COMPOSITE-specific basis after each PORTFOLIO comes under management. (3.A.5)
- 3.A.8 COMPOSITES MUST include only those PORTFOLIOS that are managed for the full performance measurement period for which the COMPOSITE return is calculated. PORTFOLIOS that are not managed for the full performance measurement period MUST NOT be included in the COMPOSITE. (3.A.5 HB discussion)
- 3.A.9 Terminated PORTFOLIOS MUST be included in the historical performance of the COMPOSITE up to the last full measurement period that each PORTFOLIO was under management and for which the FIRM has discretion. (3.A.6/New)
- 3.A.10 PORTFOLIOS MUST NOT be moved from one COMPOSITE to another unless documented client-directed changes to a PORTFOLIO'S investment mandate, objective, or strategy or the redefinition of the COMPOSITE make it appropriate. The historical performance of the PORTFOLIO MUST remain with the original COMPOSITE. PORTFOLIOS MUST NOT be moved into or out of COMPOSITES as a result of the FIRM'S tactical changes. (3.A.7/3.A.4 HB discussion)

- 3.A.11 If the FIRM sets a minimum asset level for PORTFOLIOS to be included in a COMPOSITE, the FIRM: (3.A.9/New)
- MUST NOT include PORTFOLIOS below the minimum asset level in that COMPOSITE.
  - MUST remove from that COMPOSITE any PORTFOLIOS that fall below the minimum asset level.
  - MUST NOT apply retroactively any changes to that COMPOSITE-specific minimum asset level.
  - MUST apply the COMPOSITE-specific minimum asset level on a timely and consistent basis.
- 3.A.12 A FIRM that removes PORTFOLIOS from COMPOSITES because of SIGNIFICANT CASH FLOWS MUST define “significant” on an EX ANTE, COMPOSITE–specific basis and MUST consistently follow the COMPOSITE-specific policy. (3.A.10)
- 3.A.13 A FIRM that uses TEMPORARY NEW ACCOUNTS to remove the effect of a SIGNIFICANT CASH FLOW MUST establish policies on an EX ANTE, COMPOSITE–specific basis. TEMPORARY NEW ACCOUNTS MUST NOT be included in any COMPOSITE performance. (Significant Cash Flow GS)

## Wrap Fee

- 3.A.14 The FIRM MUST include the performance record of actual WRAP FEE PORTFOLIOS in appropriate COMPOSITES in accordance with the FIRM’S established PORTFOLIO inclusion policies. Once established, these COMPOSITES (containing actual WRAP FEE PORTFOLIOS) MUST be used when presenting GIPS COMPOSITE REPORTS to WRAP FEE PROSPECTIVE CLIENTS. (8.A.1)

### Request for Comment #14

Currently, firms are allowed to create sponsor-specific composites that include only that specific sponsor’s wrap fee portfolios, when presenting performance to that sponsor. We removed the concept of a sponsor-specific wrap fee composite. Firms may still present sponsor-specific performance, but we view this as client reporting versus composite reporting to a prospective client. We also changed the term from wrap fee/SMA to wrap fee. Do you agree with these changes?

## Carve-Outs

- 3.A.15 Any CARVE-OUT included in a COMPOSITE MUST include cash and any related income. Cash may be: (New)
- Accounted for separately, or
  - Allocated synthetically to the CARVE-OUT on a timely and consistent basis.
- 3.A.16 Any CARVE-OUT included in a COMPOSITE MUST be representative of a standalone PORTFOLIO managed or intended to be managed according to that strategy. (New)
- 3.A.17 When a FIRM creates a CARVE-OUT of a particular strategy, allocates cash to the CARVE-OUT, and includes the CARVE-OUT in a COMPOSITE, the FIRM MUST create CARVE-OUTS with allocated cash from all PORTFOLIOS and PORTFOLIO segments within the FIRM managed to that strategy and MUST include those CARVE-OUTS with allocated cash in the COMPOSITE. (New)

- 3.A.18 When the FIRM obtains standalone PORTFOLIOS managed in the same strategy as the CARVE-OUTS with allocated cash, the FIRM MUST create a separate COMPOSITE for the standalone PORTFOLIOS. (New)

#### **Request for Comment #15**

To be responsive to specific constituencies, including private wealth managers and managers of private market investments, we propose that firms may once again allocate cash to carve-outs. If firms choose to allocate cash to a carve-out, they must do this for all carve-outs managed in that strategy. Once a firm obtains a standalone portfolio managed in the same strategy as the carve-out, the firm must create a composite that includes only standalone portfolios and must present the performance of this composite alongside the performance of the composite that includes carve-outs with allocated cash.

- a. Do you agree that firms should be allowed to include in composites carve-outs with allocated cash?
- b. Should firms be required to use a specific method to allocate cash to carve-outs?
- c. Do you agree that firms should be required to create and maintain a composite that includes only standalone portfolios?

- 3.A.19 The FIRM MUST NOT combine different CARVE-OUTS to create a simulated strategy and present it as a COMPOSITE. (New)

### **3.B. Firm Composite and Pooled Fund Maintenance — Recommendations**

- 3.B.1 If the FIRM sets a minimum asset level for PORTFOLIOS to be included in a COMPOSITE, the FIRM SHOULD NOT present a GIPS COMPOSITE REPORT to a PROSPECTIVE CLIENT known not to meet the COMPOSITE'S minimum asset level. (3.B.1)
- 3.B.2 To remove the effect of a SIGNIFICANT CASH FLOW, the FIRM SHOULD use a TEMPORARY NEW ACCOUNT. (3.B.2)



## 4. FIRM COMPOSITE TIME-WEIGHTED RETURN REPORT

### Background Information

Firms that currently claim compliance with the GIPS standards and prepare compliant presentations for composites that include time-weighted returns should carefully review this section. For composites, the term compliant presentation has been replaced with GIPS Composite Report. This section includes all required numerical information and disclosures that must be included in a GIPS Composite Report that includes time-weighted returns.

**The following provisions apply to COMPOSITES that include TIME-WEIGHTED RETURNS in a GIPS COMPOSITE REPORT.**

### 4.A. Presentation and Reporting — Requirements

4.A.1 The following items MUST be presented in each GIPS COMPOSITE REPORT:

- a. At least five years of performance (or for the period since the COMPOSITE INCEPTION DATE if the COMPOSITE has been in existence less than five years) that meets the REQUIREMENTS of the GIPS standards. After the FIRM presents a minimum of five years of GIPS-compliant performance (or for the period since the COMPOSITE INCEPTION DATE if the COMPOSITE has been in existence less than five years), the FIRM MUST present an additional year of performance each year, building up to a minimum of 10 years of GIPS-compliant performance. (5.A.1.a)
- b. COMPOSITE returns for each annual period. (5.A.1.b)
- c. When the initial period is less than a full year, the return from the COMPOSITE INCEPTION DATE through the initial annual period end.<sup>1</sup> (5.A.1.c)
- d. When the COMPOSITE terminates, the return from the last annual period end through the COMPOSITE TERMINATION DATE.<sup>2</sup> (5.A.1.d)
- e. The TOTAL RETURN for the BENCHMARK for each annual period and for all other periods for which COMPOSITE returns are presented, unless the FIRM determines there is no appropriate BENCHMARK. (5.A.1.e/5.A.1.e HB discussion)
- f. The number of PORTFOLIOS in the COMPOSITE as of each annual period end. If the COMPOSITE contains five or fewer PORTFOLIOS at period end, the number of PORTFOLIOS is not REQUIRED. (5.A.1.f)
- g. COMPOSITE assets as of each annual period end. (5.A.1.g)
- h. TOTAL FIRM ASSETS as of each annual period end.<sup>3</sup> (5.A.1.h)
- i. A measure of INTERNAL DISPERSION of individual PORTFOLIO returns for each annual period. If the COMPOSITE contains five or fewer PORTFOLIOS for the full year, a measure of INTERNAL DISPERSION is not REQUIRED. (5.A.1.i)

<sup>1</sup> REQUIRED for COMPOSITES with a COMPOSITE INCEPTION DATE of 1 January 2011 or later.

<sup>2</sup> REQUIRED for COMPOSITES with a COMPOSITE TERMINATION DATE of 1 January 2011 or later.

<sup>3</sup> REQUIRED for periods ending on or after 1 January 2020. For periods ending prior to 1 January 2020, the FIRM may present either TOTAL FIRM ASSETS or COMPOSITE assets as a percentage of TOTAL FIRM ASSETS.



- j. For COMPOSITES for which monthly returns are available, the three-year annualized EX POST STANDARD DEVIATION (using monthly returns) of the COMPOSITE and the BENCHMARK as of each annual period end.<sup>4</sup> (5.A.2.a/New)
  - k. For COMPOSITES for which monthly returns are not available:<sup>5</sup> (New)
    - i. An appropriate EX POST risk measure for the COMPOSITE and the BENCHMARK as of each annual period end. The same EX POST risk measure for the COMPOSITE and the BENCHMARK MUST be presented; or
    - ii. A qualitative narrative describing the COMPOSITE strategy's key risks.
  - l. The three-year annualized return of the COMPOSITE and the BENCHMARK for each period for which the three-year annualized EX POST STANDARD DEVIATION of the COMPOSITE and the BENCHMARK are presented.<sup>6</sup> (New)
- 4.A.2 The FIRM MUST present the percentage of the total FAIR VALUE of COMPOSITE assets that were valued using subjective unobservable inputs (as described in provision 2.B.6.e) as of the most recent annual period end, if such investments represent a material amount of COMPOSITE assets.<sup>7</sup> (New)
- 4.A.3 The FIRM MUST clearly label or identify:
- a. The periods that are presented. (5.A.1.b. HB discussion)
  - b. If COMPOSITE returns are GROSS-OF-FEES or NET-OF-FEES. (5.A.1.b)
- 4.A.4 If the FIRM includes more than one BENCHMARK in the GIPS COMPOSITE REPORT, the FIRM MUST present and disclose all REQUIRED information for all BENCHMARKS presented.<sup>8</sup> (Draft GS on Benchmarks/New)
- 4.A.5 If the COMPOSITE loses all of its member PORTFOLIOS, the COMPOSITE track record MUST end. If PORTFOLIOS are later added to the COMPOSITE, the COMPOSITE track record MUST restart. The periods both before and after the break in track record MUST be presented, with the break in performance clearly shown. The FIRM MUST NOT LINK performance prior to the break in track record to the performance after the break in track record. (5.A.1.a HB discussion Q&A)
- 4.A.6 If the COMPOSITE includes CARVE-OUTS with allocated cash, the FIRM MUST present the percentage of COMPOSITE assets represented by CARVE-OUTS with allocated cash as of each annual period end. (New)
- 4.A.7 If the COMPOSITE includes non-fee-paying PORTFOLIOS, the FIRM MUST present the percentage of COMPOSITE assets represented by non-fee-paying PORTFOLIOS as of each annual period end when NET-OF-FEES returns are presented and are calculated using actual INVESTMENT MANAGEMENT FEES. (5.A.6/New)
- 4.A.8 If the FIRM chooses to present ADVISORY-ONLY ASSETS, the FIRM MUST present ADVISORY-ONLY ASSETS separately from TOTAL FIRM ASSETS. (New)
- 4.A.9 All REQUIRED and RECOMMENDED information in a GIPS COMPOSITE REPORT MUST be presented in the same currency. (4.A.7 HB discussion)

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<sup>4</sup> REQUIRED for periods ending on or after 1 January 2011.

<sup>5</sup> REQUIRED for periods ending on or after 1 January 2020.

<sup>6</sup> REQUIRED for periods ending on or after 1 January 2020.

<sup>7</sup> REQUIRED for periods ending on or after 1 January 2020.

<sup>8</sup> REQUIRED for periods ending on or after 1 January 2020.

- 4.A.10 When the FIRM presents the performance of a COMPOSITE that includes CARVE-OUTS with allocated cash and also has a COMPOSITE of standalone PORTFOLIOS managed according to the same strategy, the FIRM MUST present the returns and the COMPOSITE assets of the COMPOSITE of standalone PORTFOLIOS in the GIPS COMPOSITE REPORT of the COMPOSITE that includes CARVE-OUTS with allocated cash.<sup>9</sup> (New)
- 4.A.11 For OVERLAY STRATEGY COMPOSITES, the FIRM MUST present COMPOSITE OVERLAY EXPOSURE as of each annual period end. For those periods for which the FIRM presents COMPOSITE OVERLAY EXPOSURE, the FIRM may choose not to present COMPOSITE assets if COMPOSITE assets are not considered to be meaningful.<sup>10</sup> (Draft GS on Overlay/New)
- 4.A.12 For OVERLAY STRATEGY COMPOSITES, the FIRM MUST present total FIRM OVERLAY EXPOSURE as of each annual period end. For those periods for which the FIRM presents total FIRM OVERLAY EXPOSURE, the FIRM may choose not to present TOTAL FIRM ASSETS if TOTAL FIRM ASSETS are not considered to be meaningful.<sup>11</sup> (Draft GS on Overlay/New)
- 4.A.13 For WRAP FEE COMPOSITES, when the FIRM presents performance to a WRAP FEE PROSPECTIVE CLIENT, the FIRM MUST present:
- The COMPOSITE that includes the performance of all actual WRAP FEE PORTFOLIOS, if any, managed according to the COMPOSITE investment mandate, objective, or strategy, regardless of the WRAP FEE sponsor. (8.A.5)
  - COMPOSITE performance that is net of the entire WRAP FEE. (8.A.6)
  - The percentage of COMPOSITE assets represented by WRAP FEE PORTFOLIOS as of each annual period end. (8.A.2/New)
- 4.A.14 For WRAP FEE COMPOSITES, when the FIRM presents PURE GROSS-OF-FEES returns, the FIRM MUST:
- Clearly label returns as PURE GROSS-OF-FEES. (New)
  - Identify PURE GROSS-OF-FEES returns as SUPPLEMENTAL INFORMATION. (Wrap Fee GS)
- 4.A.15 Any SUPPLEMENTAL INFORMATION included in the GIPS COMPOSITE REPORT: (Draft GS on Supplemental Information/New)
- MUST relate directly to the COMPOSITE.
  - MUST NOT contradict or conflict with the REQUIRED or RECOMMENDED information in the GIPS COMPOSITE REPORT.

## 4.B. Presentation and Reporting — Recommendations

- 4.B.1 The FIRM SHOULD present both GROSS-OF-FEES and NET-OF-FEES COMPOSITE returns. (5.B.1/New)
- 4.B.2 The FIRM SHOULD present the following items: (5.B.2)
- Cumulative returns of the COMPOSITE and the BENCHMARK for all periods.
  - Equal-weighted COMPOSITE returns.
  - Quarterly and/or monthly returns.
  - Annualized COMPOSITE and BENCHMARK returns for periods longer than 12 months.

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<sup>9</sup> REQUIRED for periods ending on or after 1 January 2020.

<sup>10</sup> REQUIRED for periods ending on or after 1 January 2020.

<sup>11</sup> REQUIRED for periods ending on or after 1 January 2020.

- 4.B.3 For all periods greater than three years for which an annualized EX POST STANDARD DEVIATION of the COMPOSITE and the BENCHMARK are presented, the FIRM SHOULD present the corresponding annualized return of the COMPOSITE and the BENCHMARK. (5.B.4/New)
- 4.B.4 For all periods greater than three years for which an annualized return of the COMPOSITE and the BENCHMARK are presented, the FIRM SHOULD present the corresponding annualized EX POST STANDARD DEVIATION (using monthly returns) of the COMPOSITE and the BENCHMARK. (5.B.5/New)
- 4.B.5 The FIRM SHOULD present relevant EX POST ADDITIONAL RISK MEASURES for the COMPOSITE and the BENCHMARK. (5.B.6/New)
- 4.B.6 The FIRM SHOULD present more than 10 years of annual performance in the GIPS COMPOSITE REPORT. (5.B.7)
- 4.B.7 The FIRM SHOULD present PROPRIETARY ASSETS as a percentage of COMPOSITE assets as of each annual period end. (New)
- 4.B.8 If the FIRM uses preliminary, estimated values as FAIR VALUE, the FIRM SHOULD present the percentage of assets in the COMPOSITE that were valued using preliminary, estimated values as of each annual period end. (Alternative Investment GS)
- 4.B.9 The FIRM SHOULD present COMPOSITE and BENCHMARK COMPONENT RETURNS for all periods presented. (6.A.14/New)

#### **Request for Comment #16**

In GIPS 2010, firms are required to present income and capital component returns for real estate composites. When calculating these component returns, firms are required to calculate each component return separately. As part of the move to eliminate asset class provisions, we have deleted these real estate-specific requirements and have expanded the concept of component returns to all composites and pooled funds. Firms would be allowed to derive one of the component returns as the difference between the total return and one of the calculated component returns. We acknowledge that component returns are widely used in some markets, but not in others. We therefore are recommending component returns to be included in GIPS Composite and Pooled Fund Reports that include time-weighted returns, and we expect that firms will present component returns where it is customary for a specific market to do so.

- a. Do you agree with eliminating the requirement for real estate portfolios to present component returns?
- b. Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?
- c. Do you agree that component returns should be recommended for all composites and pooled funds when time-weighted returns are presented?

- 4.B.10 If the FIRM has COMMITTED CAPITAL, the FIRM SHOULD present total FIRM-wide uncalled COMMITTED CAPITAL as of the most recent annual period end. (New)

## 4.C. Disclosure — Requirements

### Request for Comment #17

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the firm determines that they are no longer relevant to interpreting the performance track record.

- a. Do you agree that firms should be allowed to delete some disclosures once the firm determines that they are no longer relevant to interpreting the performance track record?
- b. Did we correctly identify the disclosures that should be allowed to be deleted once the firm determines that they are no longer relevant to interpreting the performance track record?

4.C.1 Once a FIRM has met all the applicable REQUIREMENTS of the GIPS standards, the FIRM MUST disclose its compliance with the GIPS standards using one of the following compliance statements. The compliance statement for a COMPOSITE MUST only be used in a GIPS COMPOSITE REPORT. (4.A.1/4.A.1 HB discussion/New)

a. For a FIRM that is verified:

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

The firm must establish policies and procedures for complying with all the applicable requirements of the GIPS standards, including those related to composite and pooled fund maintenance and the calculation, presentation, and distribution of performance. Verification provides assurance on whether these aforementioned policies and procedures have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a trademark owned by CFA Institute.”

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

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

The firm must establish policies and procedures for complying with all the applicable requirements of the GIPS standards, including those related to composite and pooled fund maintenance and the calculation, presentation, and distribution of performance. Verification provides assurance on whether these aforementioned policies and procedures have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The [insert name of COMPOSITE] has had a

performance examination for the periods [insert dates]. The verification and performance examination reports are available upon request. GIPS® is a trademark owned by CFA Institute.”

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

- c. For a FIRM that has not been verified:

“[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of FIRM] has not been independently verified. GIPS® is a trademark owned by CFA Institute.”

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

- 4.C.2 The FIRM MUST disclose the definition of the FIRM used to determine TOTAL FIRM ASSETS and FIRM-wide compliance. (4.A.2)
- 4.C.3 The FIRM MUST disclose the COMPOSITE DESCRIPTION. (4.A.3)
- 4.C.4 The FIRM MUST disclose:
- a. The BENCHMARK DESCRIPTION, which MUST include the key features of the BENCHMARK or the name of the BENCHMARK for a readily recognized index or other point of reference. (4.A.4/4.A.4 HB discussion)
  - b. The PERIODICITY of the BENCHMARK if BENCHMARK returns are calculated less frequently than monthly. (Draft Risk GS/New)
- 4.C.5 When presenting GROSS-OF-FEES returns, the FIRM MUST disclose if any other fees are deducted in addition to the TRANSACTION COSTS. (4.A.5)
- 4.C.6 When presenting NET-OF-FEES returns, the FIRM MUST disclose:
- a. If any other fees are deducted in addition to the INVESTMENT MANAGEMENT FEES and TRANSACTION COSTS. (4.A.6.a)
  - b. If NET-OF-FEES returns are net of any PERFORMANCE-BASED FEES or CARRIED INTEREST. (4.A.6.c/PE and RE GS)
  - c. If model or actual INVESTMENT MANAGEMENT FEES are used. (4.A.6.b)
  - d. If model INVESTMENT MANAGEMENT FEES are used, the model INVESTMENT MANAGEMENT FEE used to calculate NET-OF-FEES returns.<sup>12</sup> (New)
  - e. If model INVESTMENT MANAGEMENT FEES are used, the methodology used to calculate NET-OF-FEES returns. (Alternative Investment GS)
- 4.C.7 The FIRM MUST disclose or indicate the currency used to express performance. (4.A.7/New)
- 4.C.8 The FIRM MUST disclose which measure of INTERNAL DISPERSION is presented. (4.A.8)

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<sup>12</sup> REQUIRED for periods ending on or after 1 January 2020.

- 4.C.9 The FIRM MUST disclose the current FEE SCHEDULE appropriate to PROSPECTIVE CLIENTS. (4.A.9/New)
- a. When presenting performance to a PROSPECTIVE CLIENT for a standalone PORTFOLIO, the FEE SCHEDULE MUST reflect the FEE SCHEDULE for a standalone PORTFOLIO managed according to that strategy. (4.A.9. HB discussion)
  - b. When presenting performance of a COMPOSITE that includes CARVE-OUTS to a PROSPECTIVE CLIENT for a multi-asset strategy PORTFOLIO, the FEE SCHEDULE MUST reflect the FEE SCHEDULE for a multi-asset strategy PORTFOLIO managed according to that strategy. (Carve-outs GS/New)
  - c. When presenting a WRAP FEE COMPOSITE, the FEE SCHEDULE MUST reflect the total WRAP FEE that will be charged to the WRAP FEE PROSPECTIVE CLIENT. (Wrap Fee Q&A)
- 4.C.10 If the FEE SCHEDULE includes PERFORMANCE-BASED FEES or CARRIED INTEREST, the FIRM MUST disclose the PERFORMANCE-BASED FEE DESCRIPTION or CARRIED INTEREST DESCRIPTION. (New)
- 4.C.11 The FIRM MUST disclose the COMPOSITE INCEPTION DATE. (New)
- 4.C.12 The FIRM MUST disclose that the following lists are available upon request, if applicable: (4.A.11/New)
- a. List of COMPOSITE DESCRIPTIONS.
  - b. List of POOLED FUND DESCRIPTIONS for LIMITED DISTRIBUTION POOLED FUNDS.
  - c. List of BROAD DISTRIBUTION POOLED FUNDS.
- 4.C.13 The FIRM MUST disclose that policies for valuing investments, calculating performance, and preparing GIPS REPORTS are available upon request. (4.A.12/New)
- 4.C.14 The FIRM MUST disclose how leverage, derivatives, and short positions have been used historically, if material. (4.A.13/New)
- 4.C.15 If estimated TRANSACTION COSTS are used, the FIRM MUST disclose: (New)
- a. That estimated TRANSACTION COSTS were used.
  - b. The estimated TRANSACTION COSTS used and how they were determined.
- 4.C.16 The FIRM MUST disclose all significant events that would help a PROSPECTIVE CLIENT interpret the GIPS COMPOSITE REPORT. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (4.A.14/New)
- 4.C.17 For any performance presented for periods prior to the MINIMUM EFFECTIVE COMPLIANCE DATE that does not comply with the GIPS standards, the FIRM MUST disclose the periods of non-compliance. (4.A.15)
- 4.C.18 If the FIRM is redefined, the FIRM MUST disclose the date and description of the redefinition. (4.A.16/New)
- 4.C.19 If the COMPOSITE is redefined, the FIRM MUST disclose the date and description of the redefinition. (4.A.17/New)
- 4.C.20 The FIRM MUST disclose changes to the name of the COMPOSITE. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (4.A.18/New)
- 4.C.21 The FIRM MUST disclose: (4.A.19)



- a. The minimum asset level, if any, below which PORTFOLIOS are not included in the COMPOSITE.
  - b. Any changes to the minimum asset level.
- 4.C.22 The FIRM MUST disclose if COMPOSITE returns are gross or net of withholding taxes, if material. (4.A.20)
- 4.C.23 The FIRM MUST disclose if BENCHMARK returns are net of withholding taxes if this information is available. (4.A.20)
- 4.C.24 If the GIPS COMPOSITE REPORT conforms with laws and/or regulations that conflict with the REQUIREMENTS of the GIPS standards, the FIRM MUST disclose this fact and disclose the manner in which the laws and/or regulations conflict with the GIPS standards. (4.A.22)
- 4.C.25 If CARVE-OUTS with allocated cash are included in the COMPOSITE, the FIRM MUST: (New)
- a. Indicate CARVE-OUT in the COMPOSITE name.
  - b. Disclose that the COMPOSITE includes CARVE-OUTS with allocated cash.
  - c. Disclose the policy used to allocate cash to CARVE-OUTS.
  - d. Disclose that the GIPS COMPOSITE REPORT for the COMPOSITE of standalone PORTFOLIOS is available upon request.
- 4.C.26 The FIRM MUST disclose the use of a SUB-ADVISOR and the periods a SUB-ADVISOR was used.<sup>13</sup> (4.A.25)
- 4.C.27 The FIRM MUST disclose if the COMPOSITE'S valuation hierarchy materially differs from the RECOMMENDED valuation hierarchy. (See provision 2.B.6 for the RECOMMENDED valuation hierarchy.)<sup>14</sup> (4.A.28)
- 4.C.28 If the FIRM determines no appropriate BENCHMARK for the COMPOSITE exists, the FIRM MUST disclose why no BENCHMARK is presented. (4.A.29)
- 4.C.29 If the FIRM changes the BENCHMARK, the FIRM MUST disclose the date and description of the change. (4.A.30/New)
- a. Prospective BENCHMARK changes MUST be disclosed for as long as returns for the prior BENCHMARK are included in the GIPS COMPOSITE REPORT. (Draft Benchmark GS/New)
  - b. Retroactive BENCHMARK changes MUST be disclosed for a minimum of one year and for as long as they are relevant to interpreting the performance track record. (Draft Benchmark GS/New)
- 4.C.30 If a custom BENCHMARK or combination of multiple BENCHMARKS is used, the FIRM MUST disclose the BENCHMARK components, weights, and rebalancing process. (4.A.31)
- 4.C.31 If a PORTFOLIO-WEIGHTED CUSTOM BENCHMARK is used, the FIRM MUST disclose: (4.A.31 HB discussion)
- a. That the BENCHMARK is rebalanced using the weighted average returns of the BENCHMARKS of all of the PORTFOLIOS included in the COMPOSITE.
  - b. The frequency of the rebalancing.
  - c. The components that comprise the PORTFOLIO-WEIGHTED CUSTOM BENCHMARK, including the weights that each component represents, as of the most recent annual period end.

<sup>13</sup> REQUIRED for periods beginning on or after 1 January 2006.

<sup>14</sup> REQUIRED for periods beginning on or after 1 January 2011.

- 4.C.32 If the FIRM has adopted a SIGNIFICANT CASH FLOW policy for the COMPOSITE, the FIRM MUST disclose how the FIRM defines a SIGNIFICANT CASH FLOW for the COMPOSITE and for which periods. (4.A.32)
- 4.C.33 For COMPOSITES with at least three annual periods of performance, the FIRM MUST disclose if the three-year annualized EX POST STANDARD DEVIATION of the COMPOSITE and/or BENCHMARK is not presented because 36 monthly returns are not available. (4.A.33/New)
- 4.C.34 The FIRM MUST disclose if performance from a past firm or affiliation is LINKED to the performance of the COMPOSITE. (4.A.35)
- 4.C.35 The FIRM MUST disclose any change to the GIPS COMPOSITE REPORT resulting from the correction of a MATERIAL ERROR. Following the correction of the GIPS COMPOSITE REPORT, this disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (Error Correction GS/New)
- 4.C.36 If the FIRM chooses to not present the number of PORTFOLIOS in the COMPOSITE because there are five or fewer PORTFOLIOS in the COMPOSITE, the FIRM MUST disclose that the COMPOSITE contains five or fewer PORTFOLIOS or use similar language. (5.a.1.f HB discussion)
- 4.C.37 If the FIRM chooses to not present the INTERNAL DISPERSION of individual PORTFOLIO returns because there are five or fewer PORTFOLIOS in the COMPOSITE for the full year, the FIRM MUST disclose that the INTERNAL DISPERSION measure is not applicable or use similar language. (5.A.1.i HB discussion)
- 4.C.38 The FIRM MUST disclose if preliminary, estimated values are used to determine FAIR VALUE. (Alternative Investment GS)
- 4.C.39 If the FIRM changes the type of return(s) presented for the COMPOSITE (e.g., changes from MONEY-WEIGHTED RETURNS to TIME-WEIGHTED RETURNS), the FIRM MUST disclose the change and the date of the change. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (New)
- 4.C.40 If the FIRM presents ADDITIONAL RISK MEASURES, the FIRM MUST: (Draft Risk GS/New)
- a. Describe any ADDITIONAL RISK MEASURE.
  - b. Disclose the name of the risk-free rate if a risk-free rate is used in the calculation of the ADDITIONAL RISK MEASURE.
- 4.C.41 The FIRM MUST disclose if GROSS-OF-FEES or NET-OF-FEES returns are used to calculate presented risk measures. (Draft Risk GS/New)
- 4.C.42 For OVERLAY STRATEGY COMPOSITES, the FIRM MUST disclose when TOTAL FIRM ASSETS are not presented because they are not considered to be meaningful. (Draft GS on Overlay/New)
- 4.C.43 For OVERLAY STRATEGY COMPOSITES, the FIRM MUST disclose when COMPOSITE assets are not presented because they are not considered to be meaningful. (Draft GS on Overlay/New)
- 4.C.44 For OVERLAY STRATEGY COMPOSITES, the FIRM MUST disclose: (Draft GS on Overlay/New)
- a. The methodology used to calculate COMPOSITE OVERLAY EXPOSURE.
  - b. If collateral and collateral income are reflected in the COMPOSITE returns.



### **Request for Comment #18**

A Guidance Statement on Overlay Strategies has been exposed for public comment but has not been finalized. A key concept within this Guidance Statement is discussion of the various methods that can be used to calculate returns for overlay strategy portfolios. Because of the unique nature of overlay strategy portfolio return calculations, we propose requiring firms to disclose details about these calculations.

- a. Do you agree that firms should be required to disclose details about these calculations for overlay strategy composites?
- b. Are there other disclosures that would be meaningful that are specific to overlay strategy returns calculations?

4.C.45 For WRAP FEE COMPOSITES, when the FIRM presents PURE GROSS-OF-FEES returns, the FIRM MUST disclose that PURE GROSS-OF-FEES returns do not reflect the deduction of TRANSACTION COSTS. (Wrap Fee GS/New)

4.C.46 When the GIPS COMPOSITE REPORT includes THEORETICAL PERFORMANCE as SUPPLEMENTAL INFORMATION, the FIRM MUST disclose: (Draft GS on Supplemental Information/New)

- a. That the results are theoretical, are not based on the performance of actual PORTFOLIOS, and were derived from the retroactive or prospective application of a model.
- b. A basic description of the model and assumptions sufficient for the PROSPECTIVE CLIENT to interpret the THEORETICAL PERFORMANCE.
- c. Whether the THEORETICAL PERFORMANCE reflects the deduction of INVESTMENT MANAGEMENT FEES, TRANSACTION COSTS, or other fees and charges that an actual client PORTFOLIO would have paid or will pay.

## **4.D. Disclosure — Recommendations**

4.D.1 The FIRM SHOULD disclose material changes to valuation policies and/or methodologies. (4.B.1)

4.D.2 The FIRM SHOULD disclose material changes to calculation policies and/or methodologies. (4.B.2)

4.D.3 The FIRM SHOULD disclose material differences between the BENCHMARK and the COMPOSITE'S investment mandate, objective, or strategy. (4.B.3)

4.D.4 The FIRM SHOULD disclose the key assumptions used to value investments. (4.B.4)

4.D.5 If a parent company contains multiple firms, each FIRM within the parent company SHOULD disclose a list of the other firms contained within the parent company. (4.B.5)

4.D.6 If a COMPOSITE contains PORTFOLIOS with BUNDLED FEES, the FIRM SHOULD disclose the types of fees included in the BUNDLED FEE. (4.A.24/New)

4.D.7 If a PORTFOLIO-WEIGHTED CUSTOM BENCHMARK is used, the FIRM SHOULD disclose that the components that comprise the PORTFOLIO-WEIGHTED CUSTOM BENCHMARK, including the weights that each component represents, are available for prior periods upon request. (4.A.31 HB discussion)

- 4.D.8 If the FIRM adheres to any industry valuation guidelines in addition to the GIPS valuation REQUIREMENTS, the FIRM SHOULD disclose which guidelines have been applied. (7.A.15/New)
- 4.D.9 When using BENCHMARKS that have limitations, such as peer group BENCHMARKS, the FIRM SHOULD disclose these limitations. (Alternative Investment GS)
- 4.D.10 The FIRM SHOULD disclose if BENCHMARK returns do not reflect TRANSACTION COSTS, INVESTMENT MANAGEMENT FEES, or any other fees or costs. (New)
- 4.D.11 The FIRM SHOULD disclose the COMPOSITE CREATION DATE. (4.A.10/New)

## 5. FIRM COMPOSITE MONEY-WEIGHTED RETURN REPORT

### Background Information

Firms that currently claim compliance with the GIPS standards and prepare compliant presentations for composites for which the firm wishes to use money-weighted returns should carefully review this section. For composites, the term compliant presentation has been replaced with GIPS Composite Report. This section includes all required numerical information and disclosures that must be included in a GIPS Composite Report that includes money-weighted returns.

The following provisions apply to COMPOSITES that include MONEY-WEIGHTED RETURNS in a GIPS COMPOSITE REPORT because the FIRM meets the REQUIREMENTS specified in provision 1.A.31.

### 5.A. Presentation and Reporting — Requirements

- 5.A.1 The following items MUST be presented in each GIPS COMPOSITE REPORT:
  - a. The annualized COMPOSITE SINCE-INCEPTION MONEY-WEIGHTED RETURN through the most recent annual period end. (7.A.21.a/New)

### Request for Comment #19

We have expanded the ability to present money-weighted returns beyond private equity composites and closed-end real estate funds, if certain criteria are met. In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include since-inception internal rates of return (now renamed money-weighted returns) through each annual period end. For example, a private equity composite that has been in existence for four years would present four since-inception money-weighted returns. We propose to instead require firms to present money-weighted returns for only one period: from the composite's inception through the most recent annual period end. Do you agree that firms should be required to present returns for only one period—from inception through the most recent annual period end?

- b. When the COMPOSITE has a track record that is less than a full year, the non-annualized COMPOSITE SINCE-INCEPTION MONEY-WEIGHTED RETURN through the initial annual period end. (7.A.21.b/New)
  - c. When the COMPOSITE terminates, the annualized COMPOSITE SINCE-INCEPTION MONEY-WEIGHTED RETURN through the COMPOSITE TERMINATION DATE. (7.A.21.c/New)
  - d. The SINCE-INCEPTION MONEY-WEIGHTED RETURN for the BENCHMARK for the same periods as presented for the COMPOSITE, unless the FIRM determines there is no appropriate BENCHMARK. (7.A.24.b/New)
  - e. The number of PORTFOLIOS in the COMPOSITE as of the most recent annual period end. If the COMPOSITE contains five or fewer PORTFOLIOS at period end, the number of PORTFOLIOS is not REQUIRED. (5.A.1.f)
  - f. COMPOSITE assets as of the most recent annual period end. (5.A.1.g/New)
  - g. TOTAL FIRM ASSETS as of the most recent annual period end.<sup>1</sup> (5.A.1.h/New)
- 5.A.2 If a SUBSCRIPTION LINE OF CREDIT is used, the FIRM MUST present the COMPOSITE SINCE-INCEPTION MONEY-WEIGHTED return both with and without the SUBSCRIPTION LINE OF CREDIT activity through the most recent annual period end.<sup>2</sup> (New)

#### Request for Comment #20

Subscription lines of credit are being used by more firms and for longer periods. These lines of credit can have a significant effect on returns. As has been widely discussed in the industry, there has also been a lack of consistency in return calculations when lines of credit are used. For comparability and transparency, we propose requiring firms to present returns both with and without the subscription line of credit activity, whenever any line of credit has been used. A return with the line of credit reflects line of credit activity as an external cash flow.

- a. Do you agree that firms should be required to present returns both with and without the subscription line of credit activity?
- b. Should we be describing returns with and without the subscription line of credit differently? For example, some firms refer to these returns as levered and unlevered returns.
- c. Do you agree that firms should be required to treat all lines of credit the same and not differentiate between short-term and long-term lines of credit?
- d. We propose requiring returns with and without the subscription line of credit activity only when money-weighted returns are presented. There is no comparable requirement when time-weighted returns are presented. Do you agree that this is the correct approach?

- 5.A.3 The FIRM MUST present the percentage of the total FAIR VALUE of COMPOSITE assets that were valued using subjective, unobservable inputs (as described in provision 2.B.6.e) as of the most recent annual period end, if such investments represent a material amount of COMPOSITE assets.<sup>3</sup> (New)

<sup>1</sup>REQUIRED for periods ending on or after 1 January 2020. For periods ending prior to 1 January 2020, FIRMS may present either TOTAL FIRM ASSETS or COMPOSITE assets as a percentage of TOTAL FIRM ASSETS.

<sup>2</sup> REQUIRED for periods ending on or after 1 January 2020.

<sup>3</sup> REQUIRED for periods ending on or after 1 January 2020.

- 5.A.4 If PORTFOLIOS in the COMPOSITE have COMMITTED CAPITAL, the FIRM MUST present the following items as of the most recent annual period end: (7.A.23/New)
- a. COMPOSITE SINCE-INCEPTION PAID-IN CAPITAL. (7.A.23.a)
  - b. COMPOSITE SINCE-INCEPTION DISTRIBUTIONS. (7.A.23.b)
  - c. COMPOSITE cumulative COMMITTED CAPITAL. (7.A.23.c)
  - d. TOTAL VALUE to SINCE-INCEPTION PAID-IN CAPITAL (INVESTMENT MULTIPLE or TVPI). (7.A.23.d)
  - e. SINCE-INCEPTION DISTRIBUTIONS to SINCE-INCEPTION PAID-IN CAPITAL (REALIZATION MULTIPLE or DPI). (7.A.23.e)
  - f. SINCE-INCEPTION PAID-IN CAPITAL to cumulative COMMITTED CAPITAL (PIC MULTIPLE). (7.A.23.f)
  - g. FAIR VALUE to SINCE-INCEPTION PAID-IN CAPITAL (UNREALIZED MULTIPLE or RVPI). (7.A.23.g)

#### Request for Comment #21

In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include certain information about committed capital, distributions, and related multiples as of each annual period end. For example, a private equity composite that has been in existence for four years would present four series of information about committed capital, distributions, and related multiples. Consistent with the proposed change to require firms to present only one return—the since-inception money-weighted return through the most recent annual period end—we require information about committed capital, distributions, and related multiples as of the most recent annual period end. Do you agree that firms should be required to present information about committed capital, distributions, and related multiples only as of the most recent annual period end?

- 5.A.5 The FIRM MUST present either: <sup>4</sup> (New)
- a. An appropriate EX POST risk measure for the COMPOSITE and the BENCHMARK. The same EX POST risk measure MUST be presented for the COMPOSITE and the BENCHMARK; or
  - b. A qualitative narrative describing the COMPOSITE strategy's key risks.
- 5.A.6 The FIRM MUST clearly label or identify:
- a. The periods that are presented. (5.A.1.b. HB discussion)
  - b. If COMPOSITE returns are GROSS-OF-FEES or NET-OF-FEES. (New)
  - c. If COMPOSITE returns do or do not reflect the SUBSCRIPTION LINE OF CREDIT activity. This is REQUIRED only if the FIRM uses a SUBSCRIPTION LINE OF CREDIT. (New)
- 5.A.7 If the FIRM includes more than one BENCHMARK in the GIPS COMPOSITE REPORT, the FIRM MUST present and disclose all REQUIRED information for all BENCHMARKS presented. (Draft GS on Benchmarks/New)
- 5.A.8 If the COMPOSITE includes CARVE-OUTS with allocated cash, the FIRM MUST present the percentage of COMPOSITE assets represented by CARVE-OUTS with allocated cash as of the most recent annual period end. (New)
- 5.A.9 If the COMPOSITE includes non-fee-paying PORTFOLIOS, the FIRM MUST present the

<sup>4</sup> REQUIRED for periods ending on or after 1 January 2020.

percentage of COMPOSITE assets represented by non-fee-paying PORTFOLIOS as of the most recent annual period end when NET-OF-FEES returns are presented and are calculated using actual INVESTMENT MANAGEMENT FEES. (5.A.6/New)

- 5.A.10 If the FIRM chooses to present ADVISORY-ONLY ASSETS, the FIRM MUST present ADVISORY-ONLY ASSETS separately from TOTAL FIRM ASSETS. (New)
- 5.A.11 If the FIRM chooses to present total uncalled COMMITTED CAPITAL, the FIRM MUST present total uncalled COMMITTED CAPITAL separately from TOTAL FIRM ASSETS. (New)
- 5.A.12 All REQUIRED and RECOMMENDED information in a GIPS COMPOSITE REPORT MUST be presented in the same currency. (4.A.7 HB discussion)
- 5.A.13 When the FIRM presents the performance of a COMPOSITE that includes CARVE-OUTS with allocated cash and also has a COMPOSITE of standalone PORTFOLIOS managed according to the same strategy, the FIRM MUST present the COMPOSITE SINCE-INCEPTION MONEY WEIGHTED RETURN through the most recent annual period end and the COMPOSITE assets of the COMPOSITE of standalone PORTFOLIOS in the GIPS COMPOSITE REPORT of the COMPOSITE that includes CARVE-OUTS with allocated cash.<sup>5</sup> (New)

#### **Request for Comment #22**

Once a firm obtains standalone portfolios that are managed in the same strategy as the carve-out with allocated cash, the firm must create a composite that includes only standalone portfolios and must present the performance of the composite of standalone portfolios along with the performance of the composite that includes portfolios with allocated cash. The composite that includes carve-outs with allocated cash will have a different inception date from the composite of standalone portfolios. Do since-inception money-weighted returns with different start dates provide helpful information to prospective clients?

- 5.A.14 Any SUPPLEMENTAL INFORMATION included in the GIPS COMPOSITE REPORT: (Draft GS on Supplemental information/New)
  - a. MUST relate directly to the COMPOSITE.
  - b. MUST NOT contradict or conflict with the REQUIRED or RECOMMENDED information in the GIPS COMPOSITE REPORT.

## **5.B. Presentation and Reporting — Recommendations**

- 5.B.1 The FIRM SHOULD present SINCE-INCEPTION MONEY-WEIGHTED RETURNS as of each annual period end. (New)
- 5.B.2 The FIRM SHOULD present both GROSS-OF-FEES and NET-OF-FEES COMPOSITE SINCE-INCEPTION MONEY-WEIGHTED RETURNS. (5.B.1/New)
- 5.B.3 The FIRM SHOULD present PROPRIETARY ASSETS as a percentage of COMPOSITE assets as of the most recent annual period end. (New)

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<sup>5</sup> REQUIRED for periods beginning on or after 1 January 2020.

- 5.B.4 If the FIRM uses preliminary, estimated values as FAIR VALUE, the FIRM SHOULD present the percentage of assets in the COMPOSITE that were valued using preliminary, estimated values as of the most recent annual period end. (Alternative Investment GS)
- 5.B.5 If the FIRM that has COMMITTED CAPITAL, the FIRM SHOULD present total FIRM-wide uncalled COMMITTED CAPITAL as of the most recent annual period end. (New)

## 5.C. Disclosure — Requirements

### Request for Comment #23

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the firm determines that they are no longer relevant to interpreting the performance track record.

- a. Do you agree that firms should be allowed to delete some disclosures once the firm determines that they are no longer relevant to interpreting the performance track record?
- b. Did we correctly identify the disclosures that should be allowed to be deleted once the firm determines that they are no longer relevant to interpreting the performance track record?

- 5.C.1 Once a FIRM has met all the applicable REQUIREMENTS of the GIPS standards, the FIRM MUST disclose its compliance with the GIPS standards in a GIPS COMPOSITE REPORT using one of the following compliance statements. The compliance statement for a COMPOSITE MUST only be used in a GIPS COMPOSITE REPORT. (4.A.1/4.A.1 HB discussion/New)

- a. For a FIRM that is verified:

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

The firm must establish policies and procedures for complying with all the applicable requirements of the GIPS standards, including those related to composite and pooled fund maintenance, and the calculation, presentation, and distribution of performance. Verification provides assurance on whether these aforementioned policies and procedures have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a trademark owned by CFA Institute.”

- b. For COMPOSITES of a verified FIRM that have also had a PERFORMANCE EXAMINATION:

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

The firm must establish policies and procedures for complying with all the applicable requirements of the GIPS standards, including those related to composite and pooled fund maintenance, and the calculation, presentation, and distribution of performance. Verification provides assurance on whether these aforementioned policies and procedures have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The [insert name of COMPOSITE] has had a performance examination for the periods [insert dates]. The verification and performance examination reports are available upon request. GIPS® is a trademark owned by CFA Institute.”

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

- c. For a FIRM that has not been verified:

“[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of FIRM] has not been independently verified. GIPS® is a trademark owned by CFA Institute.”

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

- 5.C.2 The FIRM MUST disclose the definition of the FIRM used to determine TOTAL FIRM ASSETS and FIRM-wide compliance. (4.A.2)
- 5.C.3 The FIRM MUST disclose the COMPOSITE DESCRIPTION. (4.A.3)
- 5.C.4 The FIRM MUST disclose the BENCHMARK DESCRIPTION, which MUST include the key features of the BENCHMARK or the name of the BENCHMARK for a readily recognized index or other point of reference. (4.A.4/4.A.4 HB discussion)
- 5.C.5 When presenting GROSS-OF-FEES returns, the FIRM MUST disclose if any other fees are deducted in addition to the TRANSACTION COSTS. (7.A.18)
- 5.C.6 When presenting NET-OF-FEES returns, the FIRM MUST disclose:
- If any other fees are deducted in addition to the INVESTMENT MANAGEMENT FEES and TRANSACTION COSTS. (4.A.6.a)
  - If NET-OF-FEES returns are net of any PERFORMANCE-BASED FEES or CARRIED INTEREST. (4.A.6.c/PE and RE GS)
  - If model or actual INVESTMENT MANAGEMENT FEES are used. (4.A.6.b)
  - If model INVESTMENT MANAGEMENT FEES are used, the model INVESTMENT MANAGEMENT FEE used to calculate NET-OF-FEES returns.<sup>6</sup> (New)
  - If model INVESTMENT MANAGEMENT FEES are used, the methodology used to calculate NET-OF-FEES returns. (Alternative Investment GS)
- 5.C.7 The FIRM MUST disclose or indicate the currency used to express performance. (4.A.7/New)

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<sup>6</sup> REQUIRED for periods ending on or after 1 January 2020.



- 5.C.8 The FIRM MUST disclose the current FEE SCHEDULE appropriate to PROSPECTIVE CLIENTS. (4.A.9/New)
- a. When presenting performance of a COMPOSITE to a PROSPECTIVE CLIENT for a standalone PORTFOLIO, the FEE SCHEDULE MUST reflect the FEE SCHEDULE for a standalone PORTFOLIO managed according to that strategy. (4.A.9 HB discussion)
  - b. When presenting performance of a COMPOSITE that includes CARVE-OUTS to a PROSPECTIVE CLIENT for a multi-asset strategy PORTFOLIO, the FEE SCHEDULE MUST reflect the FEE SCHEDULE for a multi-asset strategy PORTFOLIO managed according to that strategy. (Carve-outs GS/New)
- 5.C.9 If the FEE SCHEDULE includes PERFORMANCE-BASED FEES or CARRIED INTEREST, the FIRM MUST disclose the PERFORMANCE-BASED FEE DESCRIPTION or CARRIED INTEREST DESCRIPTION. (New)
- 5.C.10 The FIRM MUST disclose the COMPOSITE INCEPTION DATE. (New)
- 5.C.11 The FIRM MUST disclose that the following lists are available upon request, if applicable: (4.A.11/New)
- a. List of COMPOSITE DESCRIPTIONS.
  - b. List of POOLED FUND DESCRIPTIONS for LIMITED DISTRIBUTION POOLED FUNDS.
  - c. List of BROAD DISTRIBUTION POOLED FUNDS.
- 5.C.12 The FIRM MUST disclose that policies for valuing investments, calculating performance, and preparing GIPS REPORTS are available upon request. (4.A.12/New)
- 5.C.13 The FIRM MUST disclose how leverage, derivatives, and short positions have been used historically, if material. (4.A.13/New)
- 5.C.14 If estimated TRANSACTION COSTS are used, the FIRM MUST disclose: (New)
- a. That estimated TRANSACTION COSTS were used.
  - b. The estimated TRANSACTION COSTS used and how they were determined.
- 5.C.15 The FIRM MUST disclose all significant events that would help a PROSPECTIVE CLIENT interpret the GIPS COMPOSITE REPORT. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (4.A.14/New)
- 5.C.16 For any performance presented for periods prior to the MINIMUM EFFECTIVE COMPLIANCE DATE that does not comply with the GIPS standards, the FIRM MUST disclose the periods of non-compliance. (4.A.15)
- 5.C.17 If the FIRM is redefined, the FIRM MUST disclose the date and description of the redefinition. (4.A.16/New)
- 5.C.18 If the COMPOSITE is redefined, the FIRM MUST disclose the date and description of the redefinition. (4.A.17/New)
- 5.C.19 The FIRM MUST disclose changes to the name of the COMPOSITE. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (4.A.18/New)
- 5.C.20 The FIRM MUST disclose: (4.A.19)
- a. The minimum asset level, if any, below which PORTFOLIOS are not included in the COMPOSITE.
  - b. Any changes to the minimum asset level.



- 5.C.21 The FIRM MUST disclose if COMPOSITE returns are gross or net of withholding taxes, if material. (4.A.20)
- 5.C.22 The FIRM MUST disclose if BENCHMARK returns are net of withholding taxes if this information is available. (4.A.20)
- 5.C.23 If the GIPS COMPOSITE REPORT conforms with laws and/or regulations that conflict with the REQUIREMENTS of the GIPS standards, the FIRM MUST disclose this fact and disclose the manner in which the laws and/or regulations conflict with the GIPS standards. (4.A.22)
- 5.C.24 If CARVE-OUTS with allocated cash are included in the COMPOSITE, the FIRM MUST: (New)
- a. Indicate CARVE-OUT in the COMPOSITE name.
  - b. Disclose that the COMPOSITE includes CARVE-OUTS with allocated cash.
  - c. Disclose the policy used to allocate cash to CARVE-OUTS.
  - d. Disclose that the GIPS COMPOSITE REPORT for the COMPOSITE of standalone PORTFOLIOS is available upon request.
- 5.C.25 The FIRM MUST disclose the use of a SUB-ADVISOR and the periods a SUB-ADVISOR was used.<sup>7</sup> (4.A.25)
- 5.C.26 The FIRM MUST disclose if the COMPOSITE'S valuation hierarchy materially differs from the RECOMMENDED valuation hierarchy. (See provision 2.B.6 for the RECOMMENDED valuation hierarchy.)<sup>8</sup> (4.A.28)
- 5.C.27 If the FIRM determines no appropriate BENCHMARK for the COMPOSITE exists, the FIRM MUST disclose why no BENCHMARK is presented. (4.A.29)
- 5.C.28 If the FIRM changes the BENCHMARK, the FIRM MUST disclose the date and description of the change. (4.A.30/New)
- a. Prospective BENCHMARK changes MUST be disclosed for as long as returns for the prior BENCHMARK are included in the GIPS COMPOSITE REPORT. (Draft Benchmark GS/New)
  - b. Retroactive BENCHMARK changes MUST be disclosed for a minimum of one year and for as long as they are relevant to interpreting the performance track record. (Draft Benchmark GS/New)
- 5.C.29 If a custom BENCHMARK or combination of multiple BENCHMARKS is used, the FIRM MUST disclose the BENCHMARK components, weights, and rebalancing process. (4.A.31)
- 5.C.30 The FIRM MUST disclose the calculation methodology used for the BENCHMARK. If the FIRM presents the PUBLIC MARKET EQUIVALENT of the COMPOSITE as a BENCHMARK, the FIRM MUST also disclose the index used to calculate the PUBLIC MARKET EQUIVALENT. (7.A.16)
- 5.C.31 The FIRM MUST disclose if performance from a past firm or affiliation is LINKED to the performance of the COMPOSITE. (4.A.35)
- 5.C.32 The FIRM MUST disclose the frequency of EXTERNAL CASH FLOWS used in the MONEY-WEIGHTED RETURN calculation if daily frequency was not used.<sup>9</sup> (7.A.17)

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<sup>7</sup>REQUIRED for periods beginning on or after 1 January 2006.

<sup>8</sup> REQUIRED for periods beginning on or after 1 January 2011.

<sup>9</sup> REQUIRED for periods ending prior to 1 January 2020.

- 5.C.33 If a SUBSCRIPTION LINE OF CREDIT is used, the FIRM MUST disclose: (New)
- a. The purpose for using the SUBSCRIPTION LINE OF CREDIT.
  - b. The size of the SUBSCRIPTION LINE OF CREDIT as of the most recent annual period end.
  - c. The SUBSCRIPTION LINE OF CREDIT amount outstanding as of the most recent annual period end.
- 5.C.34 The FIRM MUST disclose any change to the GIPS COMPOSITE REPORT resulting from the correction of a MATERIAL ERROR. Following the correction of the GIPS COMPOSITE REPORT, this disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (Error Correction GS/New)
- 5.C.35 If the FIRM chooses to not present the number of PORTFOLIOS in the COMPOSITE because there are five or fewer PORTFOLIOS in the COMPOSITE, the FIRM MUST disclose that the COMPOSITE contains five or fewer PORTFOLIOS or use similar language. (5.a.1.f HB discussion)
- 5.C.36 The FIRM MUST disclose if preliminary, estimated values are used to determine FAIR VALUE. (Alternative Investment GS)
- 5.C.37 If the FIRM changes the type of return(s) presented for the COMPOSITE (e.g., changes from TIME-WEIGHTED RETURNS to MONEY-WEIGHTED RETURNS), the FIRM MUST disclose the change and the date of the change. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (New)
- 5.C.38 If the FIRM presents ADDITIONAL RISK MEASURES, the FIRM MUST: (Draft Risk GS/New)
- a. Describe any ADDITIONAL RISK MEASURE.
  - b. Disclose the name of the risk-free rate if a risk-free rate is used in the calculation of the ADDITIONAL RISK MEASURE.
- 5.C.39 The FIRM MUST disclose if GROSS-OF-FEES or NET-OF-FEES returns are used to calculate presented risk measures. (Draft Risk GS/New)
- 5.C.40 When the GIPS COMPOSITE REPORT includes THEORETICAL PERFORMANCE as SUPPLEMENTAL INFORMATION, the FIRM MUST disclose: (Draft GS on Supplemental Information/New)
- a. That the results are theoretical, are not based on the performance of actual PORTFOLIOS, and were derived from the retroactive or prospective application of a model.
  - b. A basic description of the model and assumptions sufficient for the PROSPECTIVE CLIENT to interpret the THEORETICAL PERFORMANCE.
  - c. Whether the THEORETICAL PERFORMANCE reflects the deduction of INVESTMENT MANAGEMENT FEES, TRANSACTION COSTS, or other fees and charges that an actual client PORTFOLIO would have paid or will pay.

## 5.D. Disclosure — Recommendations

- 5.D.1 The FIRM SHOULD disclose material changes to valuation policies and/or methodologies. (4.B.1)
- 5.D.2 The FIRM SHOULD disclose material changes to calculation policies and/or methodologies. (4.B.2)
- 5.D.3 The FIRM SHOULD disclose material differences between the BENCHMARK and the COMPOSITE'S investment mandate, objective, or strategy. (4.B.3)
- 5.D.4 The FIRM SHOULD disclose the key assumptions used to value investments. (4.B.4)

- 5.D.5 If a parent company contains multiple firms, each FIRM within the parent company SHOULD disclose a list of the other firms contained within the parent company. (4.B.5)
- 5.D.6 If a COMPOSITE contains PORTFOLIOS with BUNDLED FEES, the FIRM SHOULD disclose the types of fees included in the BUNDLED FEE. (4.A.24/New)
- 5.D.7 If the FIRM adheres to any industry valuation guidelines in addition to the GIPS valuation REQUIREMENTS, the FIRM SHOULD disclose which guidelines have been applied. (7.A.15/New)
- 5.D.8 When using BENCHMARKS that have limitations, such as peer group BENCHMARKS, the FIRM SHOULD disclose these limitations. (Alternative Investment GS)
- 5.D.9 The FIRM SHOULD disclose if BENCHMARK returns do not reflect TRANSACTION COSTS, INVESTMENT MANAGEMENT FEES, or any other fees or costs. (New)
- 5.D.10 The FIRM SHOULD disclose the COMPOSITE CREATION DATE. (4.A.10/New)

## 6. FIRM POOLED FUND TIME-WEIGHTED RETURN REPORT

### Background Information

Firms that currently claim compliance with the GIPS standards and manage limited distribution pooled funds that will now be presented as a pooled fund, versus a composite, should carefully review this section. This section would also apply if a firm chooses to prepare a GIPS Pooled Fund Report for a broad distribution pooled fund. For pooled funds, the term compliant presentation has been replaced with GIPS Pooled Fund Report. This section includes all required numerical information and disclosures that must be included in a GIPS Pooled Fund Report that includes time-weighted returns.

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

### 6.A. Presentation and Reporting — Requirements

- 6.A.1 The following items MUST be presented in each GIPS POOLED FUND REPORT:
  - a. At least five years of performance (or for the period since the POOLED FUND INCEPTION DATE if the POOLED FUND has been in existence less than five years) that meets the REQUIREMENTS of the GIPS standards. After the FIRM presents a minimum of five years of GIPS-compliant performance (or for the period since the POOLED FUND INCEPTION DATE if the POOLED FUND has been in existence less than five years), the FIRM MUST present an additional year of performance each year, building up to a minimum of 10 years of GIPS-compliant performance. (5.A.1.a)
  - b. POOLED FUND NET RETURNS for each annual period. (5.A.1.b)

## Request for Comment #24

Investors in a pooled fund will be impacted by all fees and costs incurred by the fund. Therefore, we require firms to present pooled fund returns that are net of all fees and expenses. Do you agree the firms should be required to present pooled fund returns that are net of all fees and expenses?

- c. When the initial period is less than a full year, the return from the POOLED FUND INCEPTION DATE through the initial annual period end.<sup>1</sup> (5.A.1.c)
  - d. When the POOLED FUND terminates, the return from the last annual period end through the POOLED FUND TERMINATION DATE.<sup>2</sup> (5.A.1.d)
  - e. The TOTAL RETURN for the BENCHMARK for each annual period and for all other periods for which POOLED FUND returns are presented, unless the FIRM determines there is no appropriate BENCHMARK. (5.A.1.e/5.A.1.e HB discussion)
  - f. POOLED FUND assets as of each annual period end. (5.A.1.g)
  - g. TOTAL FIRM ASSETS as of each annual period end.<sup>3</sup> (5.A.1.h)
  - h. For POOLED FUNDS for which monthly returns are available, the three-year annualized EX POST STANDARD DEVIATION (using monthly returns) of the POOLED FUND and the BENCHMARK as of each annual period end.<sup>4</sup> (5.A.2.a/New)
  - i. For POOLED FUNDS for which monthly returns are not available:<sup>5</sup> (New)
    - i. An appropriate EX POST risk measure for the POOLED FUND and the BENCHMARK as of each annual period end. The same EX POST risk measure for the POOLED FUND and the BENCHMARK MUST be presented; or
    - ii. A qualitative narrative describing the POOLED FUND strategy's key risks.
  - j. The three-year annualized return of the POOLED FUND and the BENCHMARK for each period for which the three-year annualized EX POST STANDARD DEVIATION of the POOLED FUND and the BENCHMARK are presented.<sup>6</sup> (New)
- 6.A.2 The FIRM MUST present the percentage of the total FAIR VALUE of POOLED FUND assets that were valued using subjective unobservable inputs (as described in provision 2.B.6.e) as of the most recent annual period end, if such investments represent a material amount of POOLED FUND assets.<sup>7</sup> (New)
- 6.A.3 The FIRM MUST clearly label or identify:
- a. The periods that are presented. (5.A.1.b HB discussion)
  - b. Which POOLED FUND returns are presented (e.g., POOLED FUND GROSS RETURNS or POOLED FUND NET RETURNS). (5.A.1.b)
- 6.A.4 If the FIRM includes more than one BENCHMARK in the GIPS POOLED FUND REPORT, the FIRM MUST present and disclose all REQUIRED information for all BENCHMARKS presented.<sup>8</sup> (Draft GS on Benchmarks/New)
- 6.A.5 If the FIRM chooses to present ADVISORY-ONLY ASSETS, the FIRM MUST present ADVISORY-ONLY ASSETS separately from TOTAL FIRM ASSETS. (New)

<sup>1</sup> REQUIRED for POOLED FUNDS with a POOLED FUND INCEPTION DATE of 1 January 2011 or later.

<sup>2</sup> REQUIRED for POOLED FUNDS with a POOLED FUND TERMINATION DATE of 1 January 2011 or later.

<sup>3</sup> REQUIRED for periods ending on or after 1 January 2020. For periods ending prior to 1 January 2020, FIRMS may present either TOTAL FIRM ASSETS or POOLED FUND assets as a percentage of TOTAL FIRM ASSETS.

<sup>4</sup> REQUIRED for periods ending on or after 1 January 2011.

<sup>5</sup> REQUIRED for periods ending on or after 1 January 2020.

<sup>6</sup> REQUIRED for periods ending on or after 1 January 2020.

<sup>7</sup> REQUIRED for periods ending on or after 1 January 2020.

<sup>8</sup> REQUIRED for periods ending on or after 1 January 2020.

- 6.A.6 All REQUIRED and RECOMMENDED information in a GIPS POOLED FUND REPORT MUST be presented in the same currency. (4.A.7 HB discussion)
- 6.A.7 Any SUPPLEMENTAL INFORMATION included in the GIPS POOLED FUND REPORT: (Draft GS on Supplemental Information/New)
  - a. MUST relate directly to the POOLED FUND.
  - b. MUST NOT contradict or conflict with the REQUIRED or RECOMMENDED information in the GIPS POOLED FUND REPORT.

## 6.B. Presentation and Reporting — Recommendations

- 6.B.1 The FIRM SHOULD present POOLED FUND GROSS RETURNS for the same periods that POOLED FUND NET RETURNS are presented. (5.B.1/New)
- 6.B.2 The FIRM SHOULD present the following items: (5.B.2)
  - a. Cumulative returns of the POOLED FUND and the BENCHMARK for all periods.
  - b. Quarterly and/or monthly returns.
  - c. Annualized POOLED FUND and BENCHMARK returns for periods longer than 12 months.
- 6.B.3 For all periods greater than three years for which an annualized EX POST STANDARD DEVIATION of the POOLED FUND and the BENCHMARK are presented, the FIRM SHOULD present the corresponding annualized return of the POOLED FUND and the BENCHMARK. (5.B.4/New)
- 6.B.4 For all periods greater than three years for which an annualized return of the POOLED FUND and the BENCHMARK are presented, the FIRM SHOULD present the corresponding annualized EX POST STANDARD DEVIATION (using monthly returns) of the POOLED FUND and the BENCHMARK. (5.B.5/New)
- 6.B.5 The FIRM SHOULD present relevant EX POST ADDITIONAL RISK MEASURES for the POOLED FUND and the BENCHMARK. (5.B.6/New)
- 6.B.6 The FIRM SHOULD present more than 10 years of annual performance in the GIPS POOLED FUND REPORT. (5.B.7)
- 6.B.7 The FIRM SHOULD present the POOLED FUND EXPENSE RATIO for each period presented. (New)
- 6.B.8 The FIRM SHOULD present PROPRIETARY ASSETS as a percentage of POOLED FUND assets as of each annual period end. (New)
- 6.B.9 If the FIRM uses preliminary, estimated values as FAIR VALUE, the FIRM SHOULD present the percentage of assets in the POOLED FUND that were valued using preliminary, estimated values as of each annual period end. (Alternative Investment GS)

6.B.10 The FIRM SHOULD present POOLED FUND and BENCHMARK COMPONENT RETURNS for all periods presented. (6.A.14/New)

**Request for Comment #25**

In GIPS 2010, firms are required to present income and capital component returns for real estate composites. When calculating these component returns, firms are required to calculate each component return separately. As part of the move to eliminate asset class provisions, we have deleted these real estate-specific requirements and have expanded the concept of component returns to all composites and pooled funds. Firms would be allowed to derive one of the component returns as the difference between the total return and one of the calculated component returns. We acknowledge that component returns are widely used in some markets but not in others. We therefore are recommending component returns to be included in GIPS Composite and Pooled Fund Reports that include time-weighted returns, and we expect that firms will present component returns where it is customary for a specific market to do so.

- a. Do you agree with eliminating the requirement for real estate portfolios to present component returns?
- b. Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?
- c. Do you agree that component returns should be recommended for all composites and pooled funds when time-weighted returns are presented?

6.B.11 For POOLED FUNDS OF FUNDS, the FIRM SHOULD present the percentage, if any, of POOLED FUND assets that is invested in DIRECT INVESTMENTS (rather than in fund investment vehicles) as of each annual period end. (7.A.26/New)

6.B.12 If the FIRM has COMMITTED CAPITAL, the FIRM SHOULD present total FIRM-wide uncalled COMMITTED CAPITAL as of the most recent annual period end. (New)

6.B.13 The FIRM SHOULD present the total FAIR VALUE of the FIRM'S co-investments related to the POOLED FUND as of the most recent annual period end. (New)

## 6.C. Disclosure — Requirements

### Request for Comment #26

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the firm determines that they are no longer relevant to interpreting the performance track record.

- a. Do you agree that firms should be allowed to delete some disclosures once the firm determines that they are no longer relevant to interpreting the performance track record?
- b. Did we correctly identify the disclosures that should be allowed to be deleted once the firm determines that they are no longer relevant to interpreting the performance track record?

6.C.1 Once a FIRM has met all the applicable REQUIREMENTS of the GIPS standards, the FIRM MUST disclose its compliance with the GIPS standards using one of the following compliance statements. The compliance statement for a POOLED FUND MUST only be used in a GIPS POOLED FUND REPORT. [\(4.A.1/4.A.1 HB discussion/New\)](#)

a. For a FIRM that is verified:

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

The firm must establish policies and procedures for complying with all the applicable requirements of the GIPS standards, including those related to composite and pooled fund maintenance, and the calculation, presentation, and distribution of performance. Verification provides assurance on whether these aforementioned policies and procedures have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a trademark owned by CFA Institute.”

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

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

The firm must establish policies and procedures for complying with all the applicable requirements of the GIPS standards, including those related to composite and pooled fund maintenance, and the calculation, presentation, and distribution of performance. Verification provides assurance on whether these aforementioned policies and procedures have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The [insert name of POOLED FUND] has had a performance examination for the periods [insert dates]. The verification and performance



examination reports are available upon request. GIPS® is a trademark owned by CFA Institute.”

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

- c. For a FIRM that has not been verified:

“[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of FIRM] has not been independently verified. GIPS® is a trademark owned by CFA Institute.”

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

- 6.C.2 The FIRM MUST disclose the definition of the FIRM used to determine TOTAL FIRM ASSETS and FIRM-wide compliance. (4.A.2)
- 6.C.3 The FIRM MUST disclose the POOLED FUND DESCRIPTION. (4.A.3/New)
- 6.C.4 The FIRM MUST disclose:
- The BENCHMARK DESCRIPTION, which MUST include the key features of the BENCHMARK or the name of the BENCHMARK for a readily recognized index or other point of reference. (4.A.4/4.A.4 HB discussion)
  - The PERIODICITY of the BENCHMARK if BENCHMARK returns are calculated less frequently than monthly. (Draft Risk GS/New)
- 6.C.5 When presenting POOLED FUND GROSS RETURNS, the FIRM MUST disclose if any other fees are deducted in addition to the TRANSACTION COSTS. (4.A.5)
- 6.C.6 With respect to POOLED FUND NET RETURNS, the FIRM MUST disclose:
- If POOLED FUND NET RETURNS are calculated using model or actual INVESTMENT MANAGEMENT FEES or TOTAL POOLED FUND FEES. (4.A.6.b/New)
  - If POOLED FUND NET RETURNS are net of any PERFORMANCE-BASED FEES or CARRIED INTEREST. (4.A.6.c/PE and RE GS)
  - If model INVESTMENT MANAGEMENT FEES or TOTAL POOLED FUND FEES are used, the model INVESTMENT MANAGEMENT FEE or TOTAL POOLED FUND FEE used to calculate POOLED FUND NET RETURNS. (New)
  - If model INVESTMENT MANAGEMENT FEES or TOTAL POOLED FUND FEES are used, the methodology used to calculate POOLED FUND NET RETURNS.<sup>9</sup> (Alternative Investment GS/New)
  - If the POOLED FUND has a partnership structure, on which assets the POOLED FUND NET RETURNS are calculated. (New)
  - If the POOLED FUND has multiple share classes, the share class used to calculate POOLED FUND NET RETURNS. (New)
- 6.C.7 The FIRM MUST disclose or indicate the currency used to express performance. (4.A.7/New)
- 6.C.8 The FIRM MUST disclose the current FEE SCHEDULE appropriate to PROSPECTIVE INVESTORS. (4.A.9/New)

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<sup>9</sup> REQUIRED for periods ending on or after 1 January 2020.



- 6.C.9 If the FEE SCHEDULE includes PERFORMANCE-BASED FEES or CARRIED INTEREST, the FIRM MUST disclose the PERFORMANCE-BASED FEE DESCRIPTION or CARRIED INTEREST DESCRIPTION. (New)
- 6.C.10 The FIRM MUST disclose what the POOLED FUND INCEPTION DATE represents. (New)
- 6.C.11 The FIRM MUST disclose that the following lists are available upon request, if applicable: (4.A.11/New)
- a. List of COMPOSITE DESCRIPTIONS.
  - b. List of POOLED FUND DESCRIPTIONS for LIMITED DISTRIBUTION POOLED FUNDS.
  - c. List of BROAD DISTRIBUTION POOLED FUNDS.
- 6.C.12 The FIRM MUST disclose that policies for valuing investments, calculating performance, and preparing GIPS REPORTS are available upon request. (4.A.12/New)
- 6.C.13 The FIRM MUST disclose how leverage, derivatives, and short positions have been used historically, if material. (4.A.13/New)
- 6.C.14 The FIRM MUST disclose all significant events that would help a PROSPECTIVE INVESTOR interpret the GIPS POOLED FUND REPORT. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (4.A.14/New)
- 6.C.15 For any performance presented for periods prior to the MINIMUM EFFECTIVE COMPLIANCE DATE that does not comply with the GIPS standards, the FIRM MUST disclose the periods of non-compliance. (4.A.15)
- 6.C.16 If the FIRM is redefined, the FIRM MUST disclose the date and description of the redefinition. (4.A.16/New)
- 6.C.17 If the POOLED FUND'S investment mandate, objective, or strategy is changed, the FIRM MUST disclose the date and description of the change. (4.A.17/New)
- 6.C.18 The FIRM MUST disclose changes to the name of the POOLED FUND. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (4.A.18/New)
- 6.C.19 The FIRM MUST disclose if POOLED FUND returns are gross or net of withholding taxes, if material. (4.A.20)
- 6.C.20 The FIRM MUST disclose if BENCHMARK returns are net of withholding taxes if this information is available. (4.A.20)
- 6.C.21 If the GIPS POOLED FUND REPORT conforms with laws and/or regulations that conflict with the REQUIREMENTS of the GIPS standards, the FIRM MUST disclose this fact and disclose the manner in which the laws and/or regulations conflict with the GIPS standards. (4.A.22)
- 6.C.22 The FIRM MUST disclose the use of a SUB-ADVISOR and the periods a SUB-ADVISOR was used.<sup>10</sup> (4.A.25)
- 6.C.23 The FIRM MUST disclose if the POOLED FUND'S valuation hierarchy materially differs from the RECOMMENDED valuation hierarchy. (See provision 2.B.6 for the RECOMMENDED valuation hierarchy.)<sup>11</sup> (4.A.28)

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<sup>10</sup> REQUIRED for periods beginning on or after 1 January 2006.

<sup>11</sup> REQUIRED for periods beginning on or after 1 January 2011.

- 6.C.24 If the FIRM determines no appropriate BENCHMARK for the POOLED FUND exists, the FIRM MUST disclose why no BENCHMARK is presented. (4.A.29)
- 6.C.25 If the FIRM changes the BENCHMARK, the FIRM MUST disclose the date and description of the change. (4.A.30/New)
- Prospective BENCHMARK changes MUST be disclosed for as long as returns for the prior BENCHMARK are included in the GIPS POOLED FUND REPORT. (Draft Benchmark GS/New)
  - Retroactive BENCHMARK changes MUST be disclosed for a minimum of one year and for as long as they are relevant to interpreting the performance track record. (Draft Benchmark GS/New)
- 6.C.26 If a custom BENCHMARK or combination of multiple BENCHMARKS is used, the FIRM MUST disclose the BENCHMARK components, weights, and rebalancing process. (4.A.31)
- 6.C.27 For POOLED FUNDS with at least three annual periods of performance, the FIRM MUST disclose if the three-year annualized EX POST STANDARD DEVIATION of the POOLED FUND and/or BENCHMARK is not presented because 36 monthly returns are not available. (4.A.33/New)
- 6.C.28 The FIRM MUST disclose if performance from a past firm or affiliation is LINKED to the performance of the POOLED FUND. (4.A.35)
- 6.C.29 The FIRM MUST disclose if it chooses to opt out of monthly valuation and how frequently investments are valued. (Alternative Investment GS)
- 6.C.30 The FIRM MUST disclose any change to the GIPS POOLED FUND REPORT resulting from the correction of a MATERIAL ERROR. Following the correction of the GIPS POOLED FUND REPORT, this disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (Error Correction GS/New)
- 6.C.31 The FIRM MUST disclose if preliminary, estimated values are used to determine FAIR VALUE. (Alternative Investment GS)
- 6.C.32 If the FIRM changes the type of return(s) presented for the POOLED FUND (e.g., changes from MONEY-WEIGHTED RETURNS to TIME-WEIGHTED RETURNS), the FIRM MUST disclose the change and the date of the change. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (New)
- 6.C.33 If the FIRM presents ADDITIONAL RISK MEASURES, the FIRM MUST: (Draft Risk GS/New)
- Describe any ADDITIONAL RISK MEASURE.
  - Disclose the name of the risk-free rate if a risk-free rate is used in the calculation of the ADDITIONAL RISK MEASURE.
- 6.C.34 The FIRM MUST disclose if POOLED FUND GROSS RETURNS or POOLED FUND NET RETURNS are used to calculate presented risk measures. (Draft Risk GS/New)
- 6.C.35 When the GIPS POOLED FUND REPORT includes THEORETICAL PERFORMANCE as SUPPLEMENTAL INFORMATION, the FIRM MUST disclose: (Draft GS on Supplemental Information/New)
- That the results are theoretical, are not based on the performance of actual PORTFOLIOS, and were derived from the retroactive or prospective application of a model.
  - A basic description of the model and assumptions sufficient for the PROSPECTIVE INVESTOR to interpret the THEORETICAL PERFORMANCE.

- c. Whether the THEORETICAL PERFORMANCE reflects the deduction of INVESTMENT MANAGEMENT FEES, TRANSACTION COSTS, or other fees and charges that an actual POOLED FUND investor would have paid or will pay.

## 6.D. Disclosure — Recommendations

- 6.D.1 The FIRM SHOULD disclose material changes to valuation policies and/or methodologies. (4.B.1)
- 6.D.2 The FIRM SHOULD disclose material changes to calculation policies and/or methodologies. (4.B.2)
- 6.D.3 The FIRM SHOULD disclose material differences between the BENCHMARK and the POOLED FUND'S investment mandate, objective, or strategy. (4.B.3)
- 6.D.4 The FIRM SHOULD disclose the key assumptions used to value investments. (4.B.4)
- 6.D.5 If a parent company contains multiple firms, each FIRM within the parent company SHOULD disclose a list of the other firms contained within the parent company. (4.B.5)
- 6.D.6 If the FIRM adheres to any industry valuation guidelines in addition to the GIPS valuation REQUIREMENTS, the FIRM SHOULD disclose which guidelines have been applied. (7.A.15/New)
- 6.D.7 When using BENCHMARKS that have limitations, such as peer group BENCHMARKS, the FIRM SHOULD disclose these limitations. (Alternative Investment GS)
- 6.D.8 The FIRM SHOULD disclose if BENCHMARK returns do not reflect TRANSACTION COSTS, INVESTMENT MANAGEMENT FEES, or any other fees or costs. (New)

## 7. FIRM POOLED FUND MONEY-WEIGHTED RETURN REPORT

### Background Information

Firms that currently claim compliance with the GIPS standards and prepare compliant presentations for private equity composites or closed-end real estate funds should carefully review this section. This section would also apply if a firm chooses to prepare a GIPS Pooled Fund Report for a broad distribution pooled fund. For pooled funds, the term compliant presentation has been replaced with GIPS Pooled Fund Report. This section includes all required numerical information and disclosures that must be included in a GIPS Pooled Fund Report that includes money-weighted returns.

**The following provisions apply to POOLED FUNDS that include MONEY-WEIGHTED RETURNS in a GIPS POOLED FUND REPORT because the FIRM meets the REQUIREMENTS specified in provision 1.A.31.**

## 7.A. Presentation and Reporting — Requirements

7.A.1 The following items MUST be presented in each GIPS POOLED FUND REPORT:

- a. The annualized SINCE-INCEPTION MONEY-WEIGHTED POOLED FUND NET RETURN through the most recent annual period end. (7.A.21.a/New)

### Request for Comment #27

In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include since-inception internal rates of return (now renamed money-weighted returns) through each annual period end. For example, a private equity composite that has been in existence for four years would present four since-inception money-weighted returns. We propose to instead require firms to present money-weighted returns for only one period: from the pooled fund's inception through the most recent annual period end. Also, investors in a pooled fund will be impacted by all fees and costs incurred by the fund. Therefore, we require firms to present pooled fund returns that are net of all fees and expenses.

- a. Do you agree that firms should be required to present returns for only one period—from inception through the most recent annual period end?
  - b. Do you agree the firms should be required to present pooled fund returns that are net of all fees and expenses?
- 
- b. When the POOLED FUND has a track record that is less than a full year, the non-annualized SINCE-INCEPTION MONEY-WEIGHTED POOLED FUND NET RETURN through the initial annual period end. (7.A.21.b/New)
  - c. When the POOLED FUND terminates, the annualized SINCE-INCEPTION MONEY-WEIGHTED POOLED FUND NET RETURN through the POOLED FUND TERMINATION DATE. (7.A.21.c/New)
  - d. The SINCE-INCEPTION MONEY-WEIGHTED RETURN for the BENCHMARK for the same periods as presented for the POOLED FUND, unless the FIRM determines there is no appropriate BENCHMARK. (7.A.24.b/New)
  - e. POOLED FUND assets as of the most recent annual period end. (5.A.1.g/New)
  - f. TOTAL FIRM ASSETS as of the most recent annual period end.<sup>1</sup> (5.A.1.h/New)

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<sup>1</sup> REQUIRED for periods ending on or after 1 January 2020. For periods ending prior to 1 January 2020, FIRMS may present either TOTAL FIRM ASSETS or POOLED FUND assets as a percentage of TOTAL FIRM ASSETS.

- 7.A.2 If a SUBSCRIPTION LINE OF CREDIT is used, the FIRM MUST present the SINCE-INCEPTION MONEY-WEIGHTED POOLED FUND NET RETURN both with and without the SUBSCRIPTION LINE OF CREDIT activity through the most recent annual period end.<sup>2</sup> (New)

#### Request for Comment #28

Subscription lines of credit are being used by more firms and for longer periods. These lines of credit can have a significant effect on returns. As has been widely discussed in the industry, there has also been a lack of consistency in return calculations when lines of credit are used. For comparability and transparency, we propose requiring firms to present returns both with and without the subscription line of credit activity, whenever any line of credit has been used. A return with the line of credit reflects line of credit activity as an external cash flow.

- a. Do you agree that firms should be required to present returns both with and without the subscription line of credit activity?
- b. Should we be describing returns with and without the subscription line of credit differently? For example, some firms refer to these returns as levered and unlevered returns.
- c. Do you agree that firms should be required to treat all lines of credit the same and not differentiate between short-term and long-term lines of credit?
- d. We propose requiring returns with and without the subscription line of credit activity only when money-weighted returns are presented. There is no comparable requirement when time-weighted returns are presented. Do you agree that this is the correct approach?

- 7.A.3 The FIRM MUST present the percentage of the total FAIR VALUE of POOLED FUND assets that were valued using subjective unobservable inputs (as described in provision 2.B.6.e) as of the most recent annual period end, if such investments represent a material amount of POOLED FUND assets.<sup>3</sup> (New)

- 7.A.4 For POOLED FUNDS that have COMMITTED CAPITAL, the FIRM MUST present the following items as of the most recent annual period end: (7.A.23/New)
- a. POOLED FUND SINCE-INCEPTION PAID-IN CAPITAL. (7.A.23.a)
  - b. POOLED FUND SINCE-INCEPTION DISTRIBUTIONS. (7.A.23.b)
  - c. POOLED FUND cumulative COMMITTED CAPITAL. (7.A.23.c)
  - d. TOTAL VALUE to SINCE-INCEPTION PAID-IN CAPITAL (INVESTMENT MULTIPLE or TVPI). (7.A.23.d)
  - e. SINCE-INCEPTION DISTRIBUTIONS to SINCE-INCEPTION PAID-IN CAPITAL (REALIZATION MULTIPLE or DPI). (7.A.23.e)
  - f. SINCE-INCEPTION PAID-IN CAPITAL to cumulative COMMITTED CAPITAL (PIC MULTIPLE). (7.A.23.f)
  - g. FAIR VALUE to SINCE-INCEPTION PAID-IN CAPITAL (UNREALIZED MULTIPLE or RVPI). (7.A.23.g)

<sup>2</sup> REQUIRED for periods ending on or after 1 January 2020.

<sup>3</sup> REQUIRED for periods ending on or after 1 January 2020.

### Request for Comment #29

In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include certain information about committed capital, distributions, and related multiples as of each annual period end. For example, a private equity composite that has been in existence for four years would present four series of information about committed capital, distributions, and related multiples. Consistent with the proposed change to require firms to present only one return—the since-inception money-weighted return through the most recent annual period end—we require information about committed capital, distributions, and related multiples as of the most recent annual period end. Do you agree that firms should be required to present information about committed capital, distributions, and related multiples only as of the most recent annual period end?

- 7.A.5 The FIRM MUST present either: <sup>4</sup> (New)
- a. An appropriate EX POST risk measure for the POOLED FUND and the BENCHMARK. The same EX POST risk measure MUST be presented for the POOLED FUND and the BENCHMARK; or
  - b. A qualitative narrative describing the POOLED FUND strategy's key risks.
- 7.A.6 The FIRM MUST clearly label or identify:
- a. The periods that are presented. (5.A.1.b HB discussion)
  - b. Which POOLED FUND returns are presented (e.g., POOLED FUND GROSS RETURNS or POOLED FUND NET RETURNS). (New)
  - c. If POOLED FUND returns do or do not reflect the SUBSCRIPTION LINE OF CREDIT activity. This is REQUIRED only if the FIRM uses a SUBSCRIPTION LINE OF CREDIT. (New)
- 7.A.7 If the FIRM includes more than one BENCHMARK in the GIPS POOLED FUND REPORT, the FIRM MUST present and disclose all REQUIRED information for all BENCHMARKS presented.<sup>5</sup> (Draft GS on Benchmarks/New)
- 7.A.8 If the FIRM chooses to present ADVISORY-ONLY ASSETS, the FIRM MUST present ADVISORY-ONLY ASSETS separately from TOTAL FIRM ASSETS. (New)
- 7.A.9 If the FIRM chooses to present total uncalled COMMITTED CAPITAL, the FIRM MUST present total uncalled COMMITTED CAPITAL separately from TOTAL FIRM ASSETS. (New)
- 7.A.10 All REQUIRED and RECOMMENDED information in a GIPS POOLED FUND REPORT MUST be presented in the same currency. (4.A.7 HB discussion)
- 7.A.11 Any SUPPLEMENTAL INFORMATION included in the GIPS POOLED FUND REPORT: (Draft GS on Supplemental information/New)
- a. MUST relate directly to the POOLED FUND.
  - b. MUST NOT contradict or conflict with the REQUIRED or RECOMMENDED information in the GIPS POOLED FUND REPORT.

<sup>4</sup> REQUIRED for periods ending on or after 1 January 2020.

<sup>5</sup> REQUIRED for periods ending on or after 1 January 2020.

## 7.B. Presentation and Reporting — Recommendations

- 7.B.1 The FIRM SHOULD present SINCE-INCEPTION MONEY-WEIGHTED POOLED FUND NET RETURNS as of each annual period end. (New)
- 7.B.2 The FIRM SHOULD present SINCE-INCEPTION MONEY-WEIGHTED POOLED FUND GROSS RETURNS for the same periods that SINCE-INCEPTION MONEY-WEIGHTED POOLED FUND NET RETURNS are presented. (5.B.1/New)
- 7.B.3 The FIRM SHOULD present the current POOLED FUND EXPENSE RATIO. (New)
- 7.B.4 The FIRM SHOULD present PROPRIETARY ASSETS as a percentage of POOLED FUND assets as of the most recent annual period end. (New)
- 7.B.5 If the FIRM uses preliminary, estimated values as FAIR VALUE, the FIRM SHOULD present the percentage of assets in the POOLED FUND that were valued using preliminary, estimated values as of the most recent annual period end. (Alternative Investment GS)
- 7.B.6 For POOLED FUNDS OF FUNDS, the FIRM SHOULD present the percentage, if any, of POOLED FUND assets that is invested in DIRECT INVESTMENTS (rather than in fund investment vehicles) as of the most recent annual period end. (7.A.26/New)
- 7.B.7 If the FIRM has COMMITTED CAPITAL, the FIRM SHOULD present total FIRM-wide uncalled COMMITTED CAPITAL as of the most recent annual period end. (New)
- 7.B.8 The FIRM SHOULD present the total FAIR VALUE of the FIRM'S co-investments related to the POOLED FUND as of the most recent annual period end. (New)

## 7.C. Disclosure — Requirements

### Request for Comment #30

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the firm determines that they are no longer relevant to interpreting the performance track record.

- a. Do you agree that firms should be allowed to delete some disclosures once the firm determines that they are no longer relevant to interpreting the performance track record?
- b. Did we correctly identify the disclosures that should be allowed to be deleted once the firm determines that they are no longer relevant to interpreting the performance track record?

- 7.C.1 Once a FIRM has met all the applicable REQUIREMENTS of the GIPS standards, the FIRM MUST disclose its compliance with the GIPS standards in a GIPS POOLED FUND REPORT using one of the following compliance statements. The compliance statement for a POOLED FUND MUST only be used in a GIPS POOLED FUND REPORT. (4.A.1/4.A.1 HB discussion/New)
  - a. For a FIRM that is verified:



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

The firm must establish policies and procedures for complying with all the applicable requirements of the GIPS standards, including those related to composite and pooled fund maintenance, and the calculation, presentation, and distribution of performance. Verification provides assurance on whether these aforementioned policies and procedures have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a trademark owned by CFA Institute.”

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

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

The firm must establish policies and procedures for complying with all the applicable requirements of the GIPS standards, including those related to composite and pooled fund maintenance, and the calculation, presentation, and distribution of performance. Verification provides assurance on whether these aforementioned policies and procedures have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The [insert name of POOLED FUND] has had a performance examination for the periods [insert dates]. The verification and performance examination reports are available upon request. GIPS® is a trademark owned by CFA Institute.”

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

c. For a FIRM that has not been verified:

“[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of FIRM] has not been independently verified. GIPS® is a trademark owned by CFA Institute.”

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

7.C.2 The FIRM MUST disclose the definition of the FIRM used to determine TOTAL FIRM ASSETS and FIRM-wide compliance. (4.A.2)

7.C.3 The FIRM MUST disclose the POOLED FUND DESCRIPTION. (4.A.3/New)

7.C.4 The FIRM MUST disclose the BENCHMARK DESCRIPTION, which MUST include the key features of the BENCHMARK or the name of the BENCHMARK for a readily recognized index or other point of reference. (4.A.4/4.A.4 HB discussion)



- 7.C.5 When presenting POOLED FUND GROSS RETURNS, the FIRM MUST disclose if any other fees are deducted in addition to the TRANSACTION COSTS. (7.A.18)
- 7.C.6 With respect to POOLED FUND NET RETURNS, the FIRM MUST disclose:
- a. If POOLED FUND NET RETURNS are calculated using model or actual INVESTMENT MANAGEMENT FEES or TOTAL POOLED FUND FEES. (4.A.6.b/New)
  - b. If POOLED FUND NET RETURNS are net of any PERFORMANCE-BASED FEES or CARRIED INTEREST. (4.A.6.c/PE and RE GS)
  - c. If model INVESTMENT MANAGEMENT FEES or TOTAL POOLED FUND FEES are used, the model INVESTMENT MANAGEMENT FEE or TOTAL POOLED FUND FEE used to calculate POOLED FUND NET RETURNS.<sup>6</sup> (New)
  - d. If model INVESTMENT MANAGEMENT FEES or TOTAL POOLED FUND FEES are used, the methodology used to calculate POOLED FUND NET RETURNS. (Alternative Investment GS/New)
  - e. If the POOLED FUND has a partnership structure, on which assets the POOLED FUND NET RETURNS are calculated. (New)
  - f. If the POOLED FUND has multiple share classes, the share class used to calculate POOLED FUND NET RETURNS. (New)
- 7.C.7 The FIRM MUST disclose or indicate the currency used to express performance. (4.A.7/New)
- 7.C.8 The FIRM MUST disclose the current FEE SCHEDULE appropriate to PROSPECTIVE INVESTORS. (4.A.9/New)
- 7.C.9 If the FEE SCHEDULE includes PERFORMANCE-BASED FEES or CARRIED INTEREST, the FIRM MUST disclose the PERFORMANCE-BASED FEE DESCRIPTION or CARRIED INTEREST DESCRIPTION. (New)
- 7.C.10 The FIRM MUST disclose what the POOLED FUND INCEPTION DATE represents. (New)
- 7.C.11 The FIRM MUST disclose that the following lists are available upon request, if applicable: (4.A.11/New)
- a. List of COMPOSITE DESCRIPTIONS.
  - b. List of POOLED FUND DESCRIPTIONS for LIMITED DISTRIBUTION POOLED FUNDS.
  - c. List of BROAD DISTRIBUTION POOLED FUNDS.
- 7.C.12 The FIRM MUST disclose that policies for valuing investments, calculating performance, and preparing GIPS REPORTS are available upon request. (4.A.12/New)
- 7.C.13 The FIRM MUST disclose how leverage, derivatives, and short positions have been used historically, if material. (4.A.13/New)
- 7.C.14 The FIRM MUST disclose all significant events that would help a PROSPECTIVE INVESTOR interpret the GIPS POOLED FUND REPORT. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (4.A.14/New)
- 7.C.15 For any performance presented for periods prior to the MINIMUM EFFECTIVE COMPLIANCE DATE that does not comply with the GIPS standards, the FIRM MUST disclose the periods of non-compliance. (4.A.15)

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<sup>6</sup> REQUIRED for periods ending on or after 1 January 2020.

- 7.C.16 If the FIRM is redefined, the FIRM MUST disclose the date and description of the redefinition. (4.A.16/New)
- 7.C.17 If the POOLED FUND'S investment mandate, objective, or strategy is changed, the FIRM MUST disclose the date and description of the change. (4.A.17/New)
- 7.C.18 The FIRM MUST disclose changes to the name of the POOLED FUND. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (4.A.18/New)
- 7.C.19 The FIRM MUST disclose if POOLED FUND returns are gross or net of withholding taxes, if material. (4.A.20)
- 7.C.20 The FIRM MUST disclose if BENCHMARK returns are net of withholding taxes if this information is available. (4.A.20)
- 7.C.21 If the GIPS POOLED FUND REPORT conforms with laws and/or regulations that conflict with the REQUIREMENTS of the GIPS standards, the FIRM MUST disclose this fact and disclose the manner in which the laws and/or regulations conflict with the GIPS standards. (4.A.22)
- 7.C.22 The FIRM MUST disclose the use of a SUB-ADVISOR and the periods a SUB-ADVISOR was used.<sup>7</sup> (4.A.25)
- 7.C.23 The FIRM MUST disclose if the POOLED FUND'S valuation hierarchy materially differs from the RECOMMENDED valuation hierarchy.<sup>8</sup> (See provision 2.B.6 for the RECOMMENDED valuation hierarchy.) (4.A.28)
- 7.C.24 If the FIRM determines no appropriate BENCHMARK for the POOLED FUND exists, the FIRM MUST disclose why no BENCHMARK is presented. (4.A.29)
- 7.C.25 If the FIRM changes the BENCHMARK, the FIRM MUST disclose the date and description of the change. (4.A.30/New)
- a. Prospective BENCHMARK changes MUST be disclosed for as long as returns for the prior BENCHMARK are included in the GIPS POOLED FUND REPORT. (Draft Benchmark GS/New)
  - b. Retroactive BENCHMARK changes MUST be disclosed for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (Draft Benchmark GS/New)
- 7.C.26 If a custom BENCHMARK or combination of multiple BENCHMARKS is used, the FIRM MUST disclose the BENCHMARK components, weights, and rebalancing process. (4.A.31)
- 7.C.27 The FIRM MUST disclose the calculation methodology used for the BENCHMARK. If the FIRM presents the PUBLIC MARKET EQUIVALENT of a POOLED FUND as a BENCHMARK, the FIRM MUST also disclose the index used to calculate the PUBLIC MARKET EQUIVALENT. (7.A.16)
- 7.C.28 The FIRM MUST disclose if the performance from a past firm or affiliation is LINKED to the performance of the POOLED FUND. (4.A.35)
- 7.C.29 The FIRM MUST disclose the frequency of EXTERNAL CASH FLOWS used in the MONEY-WEIGHTED RETURN calculation if daily frequency was not used.<sup>9</sup> (7.A.17)

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<sup>7</sup> REQUIRED for periods beginning on or after 1 January 2006.

<sup>8</sup> REQUIRED for periods beginning on or after 1 January 2011.

<sup>9</sup> REQUIRED for periods ending prior to 1 January 2020.

- 7.C.30 If a SUBSCRIPTION LINE OF CREDIT is used, the FIRM MUST disclose: (New)
- The purpose for using the SUBSCRIPTION LINE OF CREDIT.
  - The size of the SUBSCRIPTION LINE OF CREDIT as of the most recent annual period end.
  - The SUBSCRIPTION LINE OF CREDIT amount outstanding as of the most recent annual period end.
- 7.C.31 The FIRM MUST disclose any change to the GIPS POOLED FUND REPORT resulting from the correction of a MATERIAL ERROR. Following the correction of the GIPS POOLED FUND REPORT, this disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (Error Correction GS/New)
- 7.C.32 The FIRM MUST disclose if preliminary, estimated values are used to determine FAIR VALUE. (Alternative Investment GS)
- 7.C.33 If the FIRM changes the type of return(s) presented for the POOLED FUND (e.g., changes from TIME-WEIGHTED RETURNS to MONEY-WEIGHTED RETURNS), the FIRM MUST disclose the change and the date of the change. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (New)
- 7.C.34 If the FIRM presents ADDITIONAL RISK MEASURES, the FIRM MUST: (Draft Risk GS/New)
- Describe any ADDITIONAL RISK MEASURE.
  - Disclose the name of the risk-free rate if a risk-free rate is used in the calculation of the ADDITIONAL RISK MEASURE.
- 7.C.35 THE FIRM MUST disclose if POOLED FUND GROSS RETURNS or POOLED FUND NET RETURNS are used to calculate presented risk measures. (Draft Risk GS/New)
- 7.C.36 When the GIPS POOLED FUND REPORT includes THEORETICAL PERFORMANCE as SUPPLEMENTAL INFORMATION, the FIRM MUST disclose: (Draft GS on Supplemental Information/New)
- That the results are theoretical, are not based on the performance of actual PORTFOLIOS, and were derived from the retroactive or prospective application of a model.
  - A basic description of the model and assumptions sufficient for the PROSPECTIVE INVESTOR to interpret the THEORETICAL PERFORMANCE.
  - Whether the THEORETICAL PERFORMANCE reflects the deduction of INVESTMENT MANAGEMENT FEES, TRANSACTION COSTS, or other fees and charges that an actual POOLED FUND investor would have paid or will pay.

## 7.D. Disclosure — Recommendations

- 7.D.1 The FIRM SHOULD disclose material changes to valuation policies and/or methodologies. (4.B.1)
- 7.D.2 The FIRM SHOULD disclose material changes to calculation policies and/or methodologies. (4.B.2)
- 7.D.3 The FIRM SHOULD disclose material differences between the BENCHMARK and the POOLED FUND'S investment mandate, objective, or strategy. (4.B.3)
- 7.D.4 The FIRM SHOULD disclose the key assumptions used to value investments. (4.B.4)
- 7.D.5 If a parent company contains multiple firms, each FIRM within the parent company SHOULD disclose a list of the other firms contained within the parent company. (4.B.5)

- 7.D.6 If the FIRM adheres to any industry valuation guidelines in addition to the GIPS valuation REQUIREMENTS, the FIRM SHOULD disclose which guidelines have been applied. (7.A.15/New)
- 7.D.7 When using BENCHMARKS that have limitations, such as peer group BENCHMARKS, the FIRM SHOULD disclose these limitations. (Alternative Investment GS)
- 7.D.8 The FIRM SHOULD disclose if BENCHMARK returns do not reflect TRANSACTION COSTS, INVESTMENT MANAGEMENT FEES, or any other fees or costs. (New)

## 8. ASSET OWNER FUNDAMENTALS OF COMPLIANCE

### 8.A. Asset Owner Fundamentals of Compliance — Requirements

- 8.A.1 The GIPS standards MUST be applied on an ASSET OWNER–wide basis. Compliance MUST be met on an ASSET OWNER–wide basis and cannot be met on a TOTAL FUND, COMPOSITE, POOLED FUND, or PORTFOLIO basis. (0.A.4/0.A.4 HB discussion)
- 8.A.2 An ASSET OWNER MUST be defined as an entity that manages investments, directly and/or through the use of EXTERNAL MANAGERS, on behalf of participants, beneficiaries, or the organization itself. These entities include, but are not limited to, public and private pension funds, endowments, foundations, family offices, provident funds, insurers and reinsurers, sovereign wealth funds, and fiduciaries. (Asset Owner GS)
- 8.A.3 The ASSET OWNER MUST have discretion over TOTAL FUND assets, either by managing assets directly or by having the discretion to hire and fire EXTERNAL MANAGERS. (0.A.12/Asset Owner GS)
- 8.A.4 The ASSET OWNER MUST comply with all applicable REQUIREMENTS of the GIPS standards, including any Guidance Statements, interpretations, and Questions & Answers (Q&As) published by CFA Institute and the GIPS Executive Committee, which are available on the GIPS standards website (www.gipsstandards.org). (0.A.1)
- 8.A.5 The ASSET OWNER MUST:
  - a. Document its policies and procedures used in establishing and maintaining compliance with the REQUIREMENTS of the GIPS standards, as well as any RECOMMENDATIONS it has chosen to adopt, and apply them consistently. (0.A.5)
  - b. Create policies and procedures to monitor and identify changes and additions to all of the Guidance Statements, interpretations, and Q&As published by CFA Institute and the GIPS Executive Committee. (0.A.1 HB discussion)
- 8.A.6 The ASSET OWNER MUST:
  - a. Comply with all applicable laws and regulations regarding the calculation and presentation of performance. (0.A.2)
  - b. Create policies and procedures to monitor and identify changes and additions to laws and regulations regarding the calculation and presentation of performance. (0.A.2 HB discussion)

- 8.A.7 The ASSET OWNER MUST NOT present performance or PERFORMANCE-RELATED INFORMATION that is false or misleading. This applies to all performance or PERFORMANCE-RELATED INFORMATION on an ASSET OWNER–wide basis and is not limited to those materials that reference the GIPS standards. The ASSET OWNER may provide any performance or PERFORMANCE-RELATED INFORMATION that is specifically requested by those who have direct oversight responsibility for TOTAL ASSET OWNER ASSETS. (0.A.3/0.A.3 HB Discussion/0.A.9 HB Discussion/Asset Owner GS)
- 8.A.8 If the ASSET OWNER does not meet all the applicable REQUIREMENTS of the GIPS standards, the ASSET OWNER MUST NOT represent or state that it is “in compliance with the Global Investment Performance Standards except for...” or make any other statements that may indicate compliance or partial compliance with the GIPS standards. (0.A.6)
- 8.A.9 Statements referring to the calculation methodology as being “in accordance,” “in compliance,” or “consistent” with the Global Investment Performance Standards, or similar statements, are prohibited. (0.A.7)
- 8.A.10 The ASSET OWNER MUST make every reasonable effort to:
- Provide a GIPS ASSET OWNER REPORT to those who have direct oversight responsibility for TOTAL FUND assets and TOTAL ASSET OWNER ASSETS. (Asset Owner GS)
  - Provide a GIPS ASSET OWNER REPORT to those who have direct oversight responsibility for TOTAL FUND assets and TOTAL ASSET OWNER ASSETS for any additional COMPOSITES that have been created. (Asset Owner GS)
  - Provide an updated GIPS ASSET OWNER REPORT for all TOTAL FUNDS and any additional COMPOSITES that have been created to those with oversight responsibility for TOTAL FUND assets and TOTAL ASSET OWNER ASSETS at least once every 12 months. (0.A.9/0.A.9 HB discussion/Asset Owner GS)
- 8.A.11 The ASSET OWNER may provide a GIPS ASSET OWNER REPORT to those who have a more indirect fiduciary role, but is not REQUIRED to do so. (Asset Owner GS)
- 8.A.12 The ASSET OWNER MUST update GIPS ASSET OWNER REPORTS to include information through the most recent annual period end within six months of that annual period end. (New)

#### **Request for Comment #31**

Currently, the GIPS standards are silent on how quickly asset owners must update GIPS-compliant presentations. (For Asset Owners, the term compliant presentation has been replaced with GIPS Asset Owner Report.) Although we have not seen this happen with asset owners, some firms present returns that are several years old, often providing as the rationale the fact that they are waiting for the verification to be completed before updating the reports. We believe that firms and asset owners should be required to update GIPS reports on a timely basis, even if the verification is not complete.

- Do you agree that asset owners should be required to update GIPS reports within a specified time period?
- Do you agree that six months is the appropriate amount of time?

- 8.A.13 The ASSET OWNER MUST be able to demonstrate how it made every reasonable effort to provide GIPS ASSET OWNER REPORTS to those who have direct oversight responsibility for TOTAL FUND assets and TOTAL ASSET OWNER ASSETS. (New)

- 8.A.14 A BENCHMARK used in a GIPS ASSET OWNER REPORT MUST reflect the investment mandate, objective, or strategy of the TOTAL FUND or COMPOSITE. The ASSET OWNER MUST NOT use a price-only BENCHMARK in GIPS ASSET OWNER REPORTS. (5.A.1.e/5.A.1.e HB Q&A)
- 8.A.15 The ASSET OWNER MUST correct MATERIAL ERRORS in GIPS ASSET OWNER REPORTS and MUST: (Error Correction GS)
- a. Provide a corrected GIPS ASSET OWNER REPORT to those who have direct oversight responsibility for TOTAL FUND assets and TOTAL ASSET OWNER ASSETS and that received the erroneous GIPS ASSET OWNER REPORT.
  - b. Make every reasonable effort to provide the corrected GIPS ASSET OWNER REPORT to all other parties that received the erroneous GIPS ASSET OWNER REPORT.
- 8.A.16 The ASSET OWNER MUST maintain a complete list of TOTAL FUND DESCRIPTIONS and COMPOSITE DESCRIPTIONS for any COMPOSITE that has been presented in a GIPS ASSET OWNER REPORT. The ASSET OWNER MUST include terminated TOTAL FUNDS and COMPOSITES on this list for at least five years after the TOTAL FUND or COMPOSITE TERMINATION DATE. If the ASSET OWNER has only one REQUIRED TOTAL FUND and has not chosen to create any additional COMPOSITES, the GIPS ASSET OWNER REPORT for the TOTAL FUND, which MUST include the TOTAL FUND DESCRIPTION, may be used. (0.A.10/Asset Owner GS)
- 8.A.17 The ASSET OWNER MUST provide the complete list of TOTAL FUND DESCRIPTIONS and COMPOSITE DESCRIPTIONS to those who have direct oversight responsibility for TOTAL FUND assets and TOTAL ASSET OWNER ASSETS and that make such a request. If the ASSET OWNER has only one REQUIRED TOTAL FUND and has not chosen to create any additional COMPOSITES, the GIPS ASSET OWNER REPORT for the TOTAL FUND, which MUST include the TOTAL FUND DESCRIPTION, may be used. (0.A.10/Asset Owner GS)
- 8.A.18 All data and information necessary to support all items included in GIPS ASSET OWNER REPORTS and GIPS ADVERTISEMENTS MUST be captured, maintained, and readily available, for all periods presented in these reports and advertisements. (1.A.1/New)
- 8.A.19 The ASSET OWNER is responsible for its claim of compliance with the GIPS standards and MUST ensure that the records and information provided by any third party on which the ASSET OWNER relies meet the REQUIREMENTS of the GIPS standards. (Recordkeeping GS)
- 8.A.20 The ASSET OWNER MUST NOT LINK actual performance with historical THEORETICAL PERFORMANCE. (3.A.3/Draft GS on Supplemental Information/New)
- 8.A.21 Changes in an ASSET OWNER'S organization MUST NOT lead to alteration of historical performance. (0.A.15)
- 8.A.22 For TIME-WEIGHTED RETURNS, the ASSET OWNER MUST NOT LINK non-GIPS-compliant performance to its GIPS-compliant performance in GIPS ASSET OWNER REPORTS. (5.A.3/6.A.15)
- 8.A.23 For MONEY-WEIGHTED RETURNS, the ASSET OWNER MUST NOT present non-GIPS-compliant performance for periods ending prior to when GIPS-compliant returns are first presented. (7.A.28/New)



- 8.A.24 If an ASSET OWNER has the authority to compete for business by marketing to PROSPECTIVE CLIENTS, as is done by FIRMS, the part of the ASSET OWNER that is competing for assets MUST be defined as a separate FIRM. This separate FIRM MUST follow all sections of the GIPS standards related to FIRMS and all applicable REQUIREMENTS. (Asset Owner GS)

**Request for Comment #32**

Consistent with the Guidance Statement on the Application of the GIPS Standards to Asset Owners, if an asset owner has the authority to compete for business by marketing to prospective clients, as is done by firms, the part of the asset owner that is competing for assets must be defined as a separate firm. This separate firm must follow all sections of the GIPS standards related to firms and all applicable requirements. Do you agree that this concept should continue?

- 8.A.25 The ASSET OWNER MUST present TIME-WEIGHTED RETURNS for all TOTAL FUNDS. The ASSET OWNER may present MONEY-WEIGHTED RETURNS in addition to TIME-WEIGHTED RETURNS for TOTAL FUNDS. (Asset Owner GS/New)
- 8.A.26 The ASSET OWNER MUST choose to present TIME-WEIGHTED RETURNS, MONEY-WEIGHTED RETURNS, or both for each additional COMPOSITE, and it MUST consistently present the selected returns for each additional COMPOSITE. (New)

**Request for Comment #33**

Asset owners may choose to present time-weighted returns or money-weighted returns for additional composites. Do you agree that asset owners should be allowed to choose which returns are presented for the optional additional composites?

- 8.A.27 The ASSET OWNER MUST notify CFA Institute of its claim of compliance by submitting the GIPS COMPLIANCE NOTIFICATION FORM. This form: (GIPS Q&A Firm Notification Requirement)
- MUST be filed when the ASSET OWNER initially claims compliance with the GIPS standards.
  - MUST be updated annually with information as of the most recent 31 December, with the exception of ASSET OWNER contact information, which MUST be current as of the form submission date.
  - MUST be filed annually thereafter by 30 June.
- 8.A.28 If an ASSET OWNER chooses to be verified, it MUST create policies and procedures for determining that the verifier is independent from the ASSET OWNER. (Draft GS on Verifier Independence/New)

## 8.B. Asset Owner Fundamentals of Compliance — Recommendations

- 8.B.1 The ASSET OWNER SHOULD comply with the RECOMMENDATIONS of the GIPS standards, including RECOMMENDATIONS in any Guidance Statements, interpretations, and Q&As published by CFA Institute and the GIPS Executive Committee, which are available on the GIPS website ([www.gipsstandards.org](http://www.gipsstandards.org)). (0.B.1)

- 8.B.2 The ASSET OWNER SHOULD update GIPS ASSET OWNER REPORTS quarterly. (5.B.9)
- 8.B.3 The ASSET OWNER SHOULD be verified. (0.B.2)

## 9. ASSET OWNER INPUT DATA AND CALCULATION METHODOLOGY

### 9.A. Asset Owner Input Data and Calculation Methodology — Requirements

#### Assets

- 9.A.1 TOTAL ASSET OWNER ASSETS MUST be the aggregate FAIR VALUE of all discretionary and non-discretionary assets managed by the ASSET OWNER. This includes both fee-paying and non-fee-paying PORTFOLIOS.<sup>1</sup> (0.A.13)
- 9.A.2 TOTAL ASSET OWNER ASSETS, TOTAL FUND assets, and COMPOSITE assets MUST:
- Include only actual assets managed by the ASSET OWNER. (3.A.2/New)
  - Be calculated including the impact of any leverage, and not grossed up as if the leverage did not exist. (5.A.1.g HB discussion/New)
- 9.A.3 The ASSET OWNER MUST NOT double count assets when calculating TOTAL ASSET OWNER ASSETS, TOTAL FUND assets, and COMPOSITE assets. (0.A.13 HB discussion/Alternative Investment GS/New)
- 9.A.4 Any assets for which the ASSET OWNER has discretion over the selection of an EXTERNAL MANAGER MUST be subject to the same policies and procedures as assets managed internally. (0.A.14/New)
- 9.A.5 TOTAL FUND and COMPOSITE performance MUST be calculated using only actual assets managed by the ASSET OWNER. (3.A.2 HB discussion/New)

#### General/Accounting

- 9.A.6 TOTAL RETURNS MUST be used. (2.A.1)
- 9.A.7 TRADE DATE ACCOUNTING MUST be used.<sup>2</sup> (1.A.5)
- 9.A.8 ACCRUAL ACCOUNTING MUST be used for fixed-income securities and all other investments that earn interest income, except that interest income on cash and cash equivalents may be recognized on a cash basis. Any accrued income MUST be included in the beginning and ending TOTAL FUND and PORTFOLIO values when performance is calculated. (1.A.6/1.A.6 HB discussion)

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<sup>1</sup> REQUIRED for periods beginning on or after 1 January 2011. For periods prior to 1 January 2011, TOTAL ASSET OWNER ASSETS MUST be the aggregate of either the FAIR VALUE or the MARKET VALUE of all discretionary and non-discretionary assets managed by the ASSET OWNER.

<sup>2</sup> REQUIRED for periods beginning on or after 1 January 2005.



- 9.A.9 Cash and cash equivalents that are considered discretionary and part of the investable assets of the TOTAL FUND or the COMPOSITE MUST be included in all TOTAL FUND assets or COMPOSITE assets and performance calculations. (2.A.3/2.A.3 HB discussion)
- 9.A.10 Returns for periods of less than one year MUST NOT be annualized. (5.A.4)
- 9.A.11 All returns MUST be calculated after the deduction of the TRANSACTION COSTS incurred during the period. The ASSET OWNER may use estimated TRANSACTION COSTS only if the ASSET OWNER can determine that estimated TRANSACTION COSTS are greater than or equal to actual TRANSACTION COSTS. (2.A.4/New)

#### **Request for Comment #34**

Currently, all returns must be calculated after the deduction of actual trading expenses incurred during the period, and estimated trading expenses are not allowed. When the GIPS standards were originally created, trading expenses were generally higher than they are now and were more standardized. Today, trading expenses can be charged in a variety of ways and may not be under an asset owner's control. Indeed, in some instances, asset owners may not have the ability to determine how or where trading expenses are charged. We have decided to introduce allowing estimated transaction costs (the term that replaces trading costs) if returns calculated using estimated transaction costs are equal to or lower than those that would have been calculated using actual transaction costs.

- a. Do you agree that estimated transaction costs should be allowed?
- b. Do you believe that asset owners will have the ability to determine if estimated transaction costs are more conservative than actual transaction costs?

- 9.A.12 For PORTFOLIOS with BUNDLED FEES, if the ASSET OWNER cannot estimate TRANSACTION COSTS or if actual TRANSACTION COSTS cannot be segregated from a BUNDLED FEE, when calculating GROSS-OF-FEES returns or NET-OF-EXTERNAL-COSTS-ONLY returns, these returns MUST be reduced by the entire BUNDLED FEE or the portion of the BUNDLED FEE that includes the TRANSACTION COSTS. (2.A.5/New)
- 9.A.13 All REQUIRED returns MUST be calculated including the impact of any leverage, unless otherwise specified. (Alternative Investment GS/New)
- 9.A.14 The ASSET OWNER MUST calculate performance in accordance with its TOTAL FUND-specific or COMPOSITE-specific calculation policies. (2.A.2)
- 9.A.15 For an ASSET OWNER invested in underlying POOLED FUNDS, all returns MUST reflect the deduction of all fees and expenses charged at the underlying POOLED FUND level. (Alternative Investment GS)
- 9.A.16 When calculating ADDITIONAL RISK MEASURES: (5.A.2.a HB discussion/New)
- a. The PERIODICITY of the TOTAL FUND or COMPOSITE returns and the BENCHMARK returns MUST be the same.
  - b. The risk measure calculation methodology of the TOTAL FUND or COMPOSITE and the BENCHMARK MUST be the same.

## Valuation

- 9.A.17 TOTAL FUNDS and PORTFOLIOS MUST be valued in accordance with the definition of FAIR VALUE.<sup>3</sup> (1.A.2/6.A.1/7.A.1)
- 9.A.18 The ASSET OWNER MUST value TOTAL FUNDS and PORTFOLIOS in accordance with the TOTAL FUND-specific or COMPOSITE-specific valuation policy. (1.A.3/New)
- 9.A.19 If the ASSET OWNER uses the last available historical price or preliminary, estimated values as FAIR VALUES, the ASSET OWNER MUST: (Alternative Investment GS)
- Consider them to be the best approximation of the current FAIR VALUE.
  - Assess the differences between preliminary, estimated values and final values and the impact on TOTAL FUND assets or COMPOSITE assets, TOTAL ASSET OWNER ASSETS, and performance, and make any adjustments when final values are received.

### Request for Comment #35

The Guidance Statement on Alternative Investment Strategies and Structures provides guidance for asset owners that manage alternative strategies if the asset owner places reliance on valuations that are received with a significant time lag (e.g., for portfolios or funds invested in third-party hedge funds). There is some concern that asset owners may adopt the use of preliminary, estimated values for liquid strategies where more appropriate valuations are available.

- Should this guidance be limited to certain types of assets, such as investments in third-party private market investment funds?
- Should this guidance instead continue to be included in guidance rather than included as a provision?

- 9.A.20 TOTAL FUNDS and COMPOSITES MUST have consistent beginning and ending annual valuation and return calculation dates. Unless the TOTAL FUND or COMPOSITE is reported on a non-calendar fiscal year, the beginning and ending valuation dates MUST be at calendar year end or on the last business day of the year.<sup>4</sup> (1.A.7)

## Time-Weighted Returns

- 9.A.21 When calculating TIME-WEIGHTED RETURNS, TOTAL FUNDS and PORTFOLIOS except PRIVATE MARKET INVESTMENT PORTFOLIOS (see 9.A.33) MUST be valued:
- At least monthly.<sup>5</sup> (1.A.3.a)
  - As of the calendar month end or the last business day of the month.<sup>6</sup> (1.A.4)

<sup>3</sup> REQUIRED for periods beginning on or after 1 January 2011. For periods prior to 1 January 2011, PORTFOLIO valuations (excluding REAL ESTATE and PRIVATE EQUITY) MUST be based on FAIR VALUES or MARKET VALUES and not on cost basis or book values. For periods prior to 1 January 2011, REAL ESTATE investments MUST be valued at FAIR VALUE or MARKET VALUE (as previously defined for REAL ESTATE in the 2005 edition of the GIPS standards). For periods ending prior to 1 January 2011, PRIVATE EQUITY investments MUST be valued at FAIR VALUE, according to the GIPS Private Equity Valuation Principles in Appendix D of the 2005 version of the GIPS standards, or the GIPS Valuation Principles in Chapter II of the 2010 edition of the GIPS standards.

<sup>4</sup> REQUIRED for periods beginning on or after 1 January 2006.

<sup>5</sup> REQUIRED for periods beginning on or after 1 January 2001. For periods prior to 1 January 2001, PORTFOLIOS MUST be valued at least quarterly.

<sup>6</sup> REQUIRED for periods beginning on or after 1 January 2010.

- c. On the date of all LARGE CASH FLOWS. The ASSET OWNER MUST define LARGE CASH FLOW for each TOTAL FUND and COMPOSITE to determine when the TOTAL FUND and PORTFOLIOS in a COMPOSITE MUST be valued.<sup>7</sup> (1.A.3.b)
- 9.A.22 When calculating TIME-WEIGHTED RETURNS for TOTAL FUNDS and PORTFOLIOS except PRIVATE MARKET INVESTMENT PORTFOLIOS (see 9.A.34), the ASSET OWNER MUST:
- a. Calculate returns at least monthly.<sup>8</sup> (2.A.2.a)
  - b. Calculate monthly returns through the calendar month end or the last business day of the month.<sup>9</sup> (4.A.26 HB discussion)
  - c. Calculate sub-period returns at the time of all LARGE CASH FLOWS, if daily returns are not calculated.<sup>10</sup> (2.A.2 HB discussion/New)
  - d. Calculate TOTAL FUND and PORTFOLIO returns that adjust for daily-weighted EXTERNAL CASH FLOWS, if daily returns are not calculated.<sup>11</sup> (2.A.2/New)
  - e. Treat EXTERNAL CASH FLOWS according to the TOTAL FUND-specific or COMPOSITE-specific policy. (2.A.2)
  - f. Geometrically LINK periodic and sub-period returns. (2.A.2)
  - g. Consistently apply the calculation methodology used for an individual TOTAL FUND or PORTFOLIO. (Calculation Methodology GS)

## Money-Weighted Returns

- 9.A.23 When calculating MONEY-WEIGHTED RETURNS, the ASSET OWNER MUST value PORTFOLIOS at least annually and as of the period end for any period for which performance is calculated. (7.A.2/New)
- 9.A.24 When calculating MONEY-WEIGHTED RETURNS for COMPOSITES, the ASSET OWNER MUST:
- a. Calculate annualized SINCE-INCEPTION MONEY-WEIGHTED RETURNS or the ANNUALIZED MONEY-WEIGHTED RETURN for the longest period for which the ASSET OWNER has sufficient records. (7.A.3/New)
  - b. Calculate MONEY-WEIGHTED RETURNS using daily EXTERNAL CASH FLOWS.<sup>12</sup> (6.A.18/7.A.4)
  - c. Include stock DISTRIBUTIONS as EXTERNAL CASH FLOWS and value stock DISTRIBUTIONS at the time of DISTRIBUTION. (7.A.4)
  - d. Calculate COMPOSITE MONEY-WEIGHTED RETURNS by aggregating the PORTFOLIO-level information for those PORTFOLIOS included in the COMPOSITE. (New)

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<sup>7</sup> REQUIRED for periods beginning on or after 1 January 2010.

<sup>8</sup> REQUIRED for periods beginning on or after 1 January 2001.

<sup>9</sup> REQUIRED for periods beginning on or after 1 January 2010.

<sup>10</sup> REQUIRED for periods beginning on or after 1 January 2010.

<sup>11</sup> REQUIRED for periods beginning on or after 1 January 2005.

<sup>12</sup> REQUIRED for periods ending on or after 1 January 2020. For periods ending prior to 1 January 2020, MONEY-WEIGHTED RETURNS MUST be calculated using quarterly or more frequent EXTERNAL CASH FLOWS.

### Request for Comment #36

When calculating since-inception internal rates of returns (now referred to as money-weighted returns), currently private equity portfolios are required to use daily external cash flows for periods beginning on or after 1 January 2011. Real estate closed-end funds are required to use quarterly or more frequent external cash flows. It is proposed that all portfolios and pooled funds, including private equity, would be required to use daily cash flows when calculating money-weighted returns for periods beginning on or after 1 January 2020, and quarterly external cash flows for periods prior to 1 January 2020.

- a. Do you agree that asset owners should be required to use daily external cash flows as of 1 January 2020 when calculating money-weighted returns?
- b. Is the change to lessen the required frequency for private equity for periods prior to 1 January 2020 appropriate?

### Gross and Net Returns

- 9.A.25 When the ASSET OWNER calculates TOTAL FUND and COMPOSITE NET-OF-FEES returns, these returns MUST reflect the deduction of:<sup>13</sup> (Asset Owner GS)
- a. TRANSACTION COSTS.
  - b. All fees and expenses for externally managed POOLED FUNDS.
  - c. INVESTMENT MANAGEMENT FEES for externally managed SEGREGATED ACCOUNTS.
  - d. INVESTMENT MANAGEMENT COSTS.
- 9.A.26 When the ASSET OWNER calculates TOTAL FUND and COMPOSITE NET-OF-EXTERNAL COSTS ONLY returns, these returns MUST reflect the deduction of:<sup>14</sup> (Asset Owner GS)
- a. TRANSACTION COSTS.
  - b. All fees and expenses for externally managed POOLED FUNDS.
  - c. INVESTMENT MANAGEMENT FEES for externally managed SEGREGATED ACCOUNTS.
- 9.A.27 When the ASSET OWNER calculates TOTAL FUND and COMPOSITE GROSS-OF-FEES returns, these returns MUST reflect the deduction of:<sup>15</sup> (Asset Owner GS)
- a. TRANSACTION COSTS.
  - b. All fees and expenses for externally managed POOLED FUNDS.
- 9.A.28 When calculating NET-OF-FEES returns, INVESTMENT MANAGEMENT FEES and INVESTMENT MANAGEMENT COSTS used in the calculation MUST be either: (1.B.4 HB Q&A)
- a. Actual INVESTMENT MANAGEMENT FEES and INVESTMENT MANAGEMENT COSTS incurred by each PORTFOLIO in the COMPOSITE or TOTAL FUND, or
  - b. The highest INVESTMENT MANAGEMENT FEE and INVESTMENT MANAGEMENT COSTS appropriate to the COMPOSITE or TOTAL FUND.

<sup>13</sup> REQUIRED for periods beginning on or after 1 January 2015.

<sup>14</sup> REQUIRED for periods beginning on or after 1 January 2015.

<sup>15</sup> REQUIRED for periods beginning on or after 1 January 2015.

- 9.A.29 If the ASSET OWNER uses model INVESTMENT MANAGEMENT FEES or INVESTMENT MANAGEMENT COSTS to calculate NET-OF-FEES returns, NET-OF-FEES returns calculated MUST be equal to or lower than those that would have been calculated using actual INVESTMENT MANAGEMENT FEES and INVESTMENT MANAGEMENT COSTS. (Alternative Investment GS/Asset Owner GS)

## Composite Returns

- 9.A.30 COMPOSITE TIME-WEIGHTED RETURNS except PRIVATE MARKET INVESTMENT COMPOSITES (see 9.A.35) MUST be calculated by asset-weighting the individual TOTAL FUND or PORTFOLIO returns at least monthly.<sup>16</sup> (2.A.7)
- 9.A.31 COMPOSITE TIME-WEIGHTED RETURNS MUST be calculated by asset-weighting the individual PORTFOLIO returns using beginning-of-period values or a method that reflects both beginning-of-period values and EXTERNAL CASH FLOWS. (2.A.6)
- 9.A.32 The ASSET OWNER MUST reflect any PERFORMANCE-BASED FEE CLAWBACK in the period in which it is earned. The ASSET OWNER MUST NOT restate returns to eliminate previously reflected PERFORMANCE-BASED FEES.<sup>17</sup> (New)

## Private Market Investments

- 9.A.33 When calculating TIME-WEIGHTED RETURNS for PRIVATE MARKET INVESTMENT PORTFOLIOS that are included in COMPOSITES, PRIVATE MARKET INVESTMENT PORTFOLIOS MUST be valued:
- At least quarterly.<sup>18</sup> (6.A.2/7.A.2/New)
  - As of each quarter end or the last business day of the quarter.<sup>19</sup> (6.A.3)
- 9.A.34 When calculating TIME-WEIGHTED RETURNS for PRIVATE MARKET INVESTMENT PORTFOLIOS that are included in COMPOSITES, the ASSET OWNER MUST:
- Calculate returns at least quarterly.<sup>20</sup> (6.A.6/New)
  - Calculate quarterly returns through the calendar quarter end or the last business day of the quarter.<sup>21</sup> (6.A.3/New)
  - Calculate PORTFOLIO returns that adjust for daily-weighted EXTERNAL CASH FLOWS.<sup>22</sup> (New)
  - Treat EXTERNAL CASH FLOWS according to the ASSET OWNER'S COMPOSITE-specific policy. (2.A.2/New)
  - Geometrically LINK periodic and sub-period returns. (2.A.2/New)
  - Consistently apply the calculation methodology used for an individual PORTFOLIO. (Calculation Methodology GS)
- 9.A.35 COMPOSITE TIME-WEIGHTED RETURNS for PRIVATE MARKET INVESTMENT COMPOSITES MUST be calculated by asset-weighting the individual PORTFOLIO returns at least quarterly. (6.A.9/New)

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<sup>16</sup> REQUIRED for periods beginning on or after 1 January 2010. For periods beginning on or after 1 January 2006 and ending prior to 1 January 2010, COMPOSITE returns MUST be calculated by asset-weighting the individual PORTFOLIO returns at least quarterly.

<sup>17</sup> REQUIRED for periods beginning on or after 1 January 2020.

<sup>18</sup> REQUIRED for periods beginning on or after 1 January 2008.

<sup>19</sup> REQUIRED for periods beginning on or after 1 January 2010.

<sup>20</sup> REQUIRED for periods beginning on or after 1 January 2008.

<sup>21</sup> REQUIRED for periods beginning on or after 1 January 2010.

<sup>22</sup> REQUIRED for periods beginning on or after 1 January 2010.

9.A.36 At least once every 12 months, PRIVATE MARKET INVESTMENTS MUST:<sup>23</sup> (6.A.4/New)

- a. Have an EXTERNAL VALUATION, or
- b. Have a VALUATION REVIEW, or
- c. Be subject to a financial statement audit.

#### **Request for Comment #37**

Currently, real estate investments are required to receive an external valuation at least once every 12 months, with an exception for when clients opt out of the external valuation. In that case, asset owners must obtain an external valuation at least once every 36 months. We expanded the notion of external valuation beyond the current requirement for real estate to private market investments but broadened the type of valuations that are allowed. Private market investments include real estate, infrastructure, timberland, private equity, and similar investments that are illiquid and not traded on an exchange. These assets must have an external valuation, valuation review, or be subject to a financial statement audit at least once every 12 months.

- a. Do you agree that private market investments should be required to have an external valuation, valuation review, or be subject to a financial statement audit?
- b. Is once every 12 months the appropriate valuation frequency given the expanded types of valuation that are allowed?
- c. Are there any other types of valuation that should also be allowed?

9.A.37 EXTERNAL VALUATIONS and VALUATION REVIEWS MUST be performed by an external, qualified valuer or appraiser. (6.A.5/New)

9.A.38 Financial statement audits for PRIVATE MARKET INVESTMENTS MUST be performed by an independent, qualified public accounting firm. (New)

9.A.39 The ASSET OWNER MUST NOT use EXTERNAL VALUATIONS or VALUATION REVIEWS where the valuer's or appraiser's fee is contingent upon the investment's value. (Valuation Principles/New)

#### **Side Pockets**

9.A.40 All TOTAL FUND, COMPOSITE, and POOLED FUND returns MUST include the impact of any SIDE POCKETS held by TOTAL FUNDS, PORTFOLIOS, or POOLED FUNDS. (New)

#### **Request for Comment #38**

Asset owners will be required to present returns that include side pockets but will not be required to present returns that do not include side pockets. Do you agree with this approach?

<sup>23</sup> REQUIRED for periods beginning on or after 1 January 2020. For periods beginning on or after 1 January 2012 and ending prior to 1 January 2020, REAL ESTATE investments MUST have an EXTERNAL VALUATION at least once every 12 months unless client agreements stipulate otherwise, in which case REAL ESTATE investments MUST have an EXTERNAL VALUATION at least once every 36 months or per the client agreement if the client agreement REQUIRES EXTERNAL VALUATIONS more frequently than every 36 months. For periods prior to 1 January 2012, REAL ESTATE investments MUST have an EXTERNAL VALUATION at least once every 36 months.



## 9.B. Asset Owner Input Data and Calculation Methodology — Recommendations

- 9.B.1 The ASSET OWNER SHOULD value TOTAL FUNDS and PORTFOLIOS on the date of all EXTERNAL CASH FLOWS. (1.B.1)
- 9.B.2 Valuations SHOULD be obtained from a qualified independent third party. (1.B.2)
- 9.B.3 ACCRUAL ACCOUNTING SHOULD be used for dividends (as of the ex-dividend date). (1.B.3)
- 9.B.4 The ASSET OWNER SHOULD accrue INVESTMENT MANAGEMENT FEES and INVESTMENT MANAGEMENT COSTS. (1.B.4)
- 9.B.5 Returns SHOULD be calculated net of non-reclaimable withholding taxes on dividends, interest, and capital gains. Reclaimable withholding taxes SHOULD be accrued. (2.B.1)
- 9.B.6 The ASSET OWNER SHOULD incorporate the following hierarchy into its policies and procedures for determining FAIR VALUE for PORTFOLIO investments on a COMPOSITE-specific or POOLED FUND-specific basis. (Valuation Principles)
- Investments MUST be valued using objective, observable, unadjusted quoted market prices for identical investments in active markets on the measurement date, if available. If not available, then investments SHOULD be valued using;
  - Objective, observable quoted market prices for similar investments in active markets. If not available or appropriate, then investments SHOULD be valued using;
  - Quoted prices for identical or similar investments in markets that are not active (markets in which there are few transactions for the investment, the prices are not current, or price quotations vary substantially over time and/or between market makers). If not available or appropriate, then investments SHOULD be valued based on;
  - Market-based inputs, other than quoted prices, that are observable for the investment. If not available or appropriate, then investments SHOULD be valued based on;
  - Subjective, unobservable inputs for the investment where markets are not active at the measurement date. Unobservable inputs SHOULD only be used to measure FAIR VALUE to the extent that observable inputs and prices are not available or appropriate. Unobservable inputs reflect the ASSET OWNER'S own assumptions about the assumptions that market participants would use in pricing the investment and SHOULD be developed based on the best information available under the circumstances.
- 9.B.7 The ASSET OWNER SHOULD use GROSS-OF-FEES returns when calculating risk measures. (Draft Risk GS/New)

### Request for Comment #39

Asset owners are recommended to use gross-of-fees returns when calculating risk measures. Do you believe that asset owners should instead be recommended to use net-of-fees returns to calculate risk measures when only net-of-fees returns are presented in a GIPS Asset Owner Report? Would your answer differ when there are performance-based fees or carried interest?

- 9.B.8 PRIVATE MARKET INVESTMENTS SHOULD have an EXTERNAL VALUATION at least once every 12 months. (6.B.1/New)
- 9.B.9 Operating cash accounts that are not fully available for investment SHOULD NOT be included in TOTAL ASSET OWNER ASSETS, TOTAL FUND assets, or COMPOSITE assets. (Asset Owner



GS)

- 9.B.10 Operating cash accounts that are not fully available for investment SHOULD NOT be included in TOTAL FUND returns or COMPOSITE returns. (Asset Owner GS)

## 10. ASSET OWNER TOTAL FUND AND COMPOSITE MAINTENANCE

### 10.A. Asset Owner Total Fund and Composite Maintenance — Requirements

- 10.A.1 TOTAL FUNDS MUST include all assets managed by the ASSET OWNER as part of the TOTAL FUND'S investment mandate, objective, or strategy. (Asset Owner GS)
- 10.A.2 If the ASSET OWNER manages more than one TOTAL FUND according to the same strategy, all TOTAL FUNDS managed according to the same investment strategy MUST either be:<sup>1</sup> (Asset Owner GS)
- Presented separately to those who have direct oversight responsibility for each TOTAL FUND, or
  - Presented as a COMPOSITE to those who have direct oversight responsibility for the TOTAL FUNDS.
- 10.A.3 If the ASSET OWNER manages TOTAL FUNDS with different strategies, then each TOTAL FUND MUST be presented separately to those who have direct oversight responsibility for TOTAL ASSET OWNER ASSETS. (Asset Owner GS)
- 10.A.4 COMPOSITES MUST be defined according to investment mandate, objective, or strategy. COMPOSITES MUST include all PORTFOLIOS that meet the COMPOSITE DEFINITION. If the ASSET OWNER chooses to create an additional COMPOSITE, then all PORTFOLIOS that meet the COMPOSITE DEFINITION MUST be included in the additional COMPOSITE. (3.A.4/3.A.4 HB Q&A/Asset Owner GS)
- 10.A.5 Any change to a COMPOSITE DEFINITION MUST NOT be applied retroactively. (3.A.4)
- 10.A.6 TOTAL FUNDS and COMPOSITES MUST include new PORTFOLIOS on a timely and consistent basis as soon as they are funded. (3.A.5/Asset Owner GS)
- 10.A.7 Terminated PORTFOLIOS MUST be included in the historical performance of the TOTAL FUND or COMPOSITE through the final day the assets are managed. (3.A.6/Asset Owner GS)
- 10.A.8 If the ASSET OWNER chooses to create a COMPOSITE that includes more than one TOTAL FUND, or if the ASSET OWNER creates additional COMPOSITES, PORTFOLIOS MUST NOT be moved from one COMPOSITE to another unless documented ASSET OWNER-directed changes to a PORTFOLIO'S investment mandate, objective, or strategy or the redefinition of the COMPOSITE make it appropriate. The historical performance of the TOTAL FUND or PORTFOLIO MUST remain with the original COMPOSITE. TOTAL FUNDS and PORTFOLIOS

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<sup>1</sup> REQUIRED for periods beginning on or after 1 January 2015.

MUST NOT be moved into or out of COMPOSITES as a result of tactical changes. (3.A.7/3.A.4 HB discussion)

- 10.A.9 If the ASSET OWNER chooses to create additional COMPOSITES and if the ASSET OWNER sets a minimum asset level for PORTFOLIOS to be included in a COMPOSITE, the ASSET OWNER: (3.A.9)
- MUST NOT include PORTFOLIOS below the minimum asset level in that COMPOSITE.
  - MUST remove from that COMPOSITE any PORTFOLIOS that fall below the minimum asset level.
  - MUST NOT apply retroactively any changes to that COMPOSITE-specific minimum asset level.
  - MUST apply the COMPOSITE-specific minimum asset level on a timely and consistent basis.
- 10.A.10 The ASSET OWNER MUST NOT adopt SIGNIFICANT CASH FLOW policies.<sup>2</sup> (Asset Owner GS)

## 11. ASSET OWNER TOTAL FUND AND COMPOSITE TIME-WEIGHTED RETURN REPORT

### Background Information

Asset owners that currently claim compliance with the GIPS standards and prepare compliant presentations for total funds or additional composites should carefully review this section. For asset owners, the term compliant presentation has been replaced with GIPS Asset Owner Report. This section includes all required numerical information and disclosures that must be included in a GIPS Asset Owner Report that includes time-weighted returns.

**The following provisions apply to ASSET OWNERS that include TIME-WEIGHTED RETURNS in a GIPS ASSET OWNER REPORT.**

### 11.A. Presentation and Reporting — Requirements

- 11.A.1 The following items MUST be presented in each GIPS ASSET OWNER REPORT:
- At least one year of performance (or for the period since the TOTAL FUND or COMPOSITE INCEPTION DATE if the TOTAL FUND or COMPOSITE has been in existence less than one year) that meets the REQUIREMENTS of the GIPS standards. After the ASSET OWNER presents a minimum of one year of GIPS-compliant performance (or for the period since the TOTAL FUND or COMPOSITE INCEPTION DATE if the TOTAL FUND or COMPOSITE has been in existence less than one year), the ASSET OWNER MUST present an additional year of performance each year, building up to a minimum of 10 years of GIPS-compliant performance. (Asset Owner GS)
  - For TOTAL FUNDS, TOTAL FUND returns that are NET-OF-FEES.<sup>1</sup> (Asset Owner GS)
  - TOTAL FUND or COMPOSITE returns for each annual period. (5.A.1/1.A.7 HB Q&A)

<sup>2</sup> REQUIRED for periods beginning on or after 1 January 2015.

<sup>1</sup> REQUIRED for periods beginning on or after 1 January 2015.

- d. When the initial period is less than a full year, the return from the TOTAL FUND or COMPOSITE INCEPTION DATE through the initial annual period end.<sup>2</sup> (5.A.1.c)
  - e. When the TOTAL FUND or COMPOSITE terminates, the return from the last annual period end through the TOTAL FUND or COMPOSITE TERMINATION DATE.<sup>3</sup> (5.A.1.d)
  - f. The TOTAL RETURN for the BENCHMARK for each annual period and for all other periods for which TOTAL FUND or COMPOSITE returns are presented, unless the ASSET OWNER determines there is no appropriate BENCHMARK. (5.A.1.e/5.A.1.e HB Discussion)
  - g. The number of TOTAL FUNDS or PORTFOLIOS in the COMPOSITE as of each annual period end.<sup>4</sup> (5.A.1.f/New)
  - h. TOTAL FUND assets or COMPOSITE assets as of each annual period end. (5.A.1.g)
  - i. TOTAL ASSET OWNER ASSETS as of each annual period end.<sup>5</sup> (5.A.1.h)
  - j. For TOTAL FUNDS or COMPOSITES for which monthly returns are available, 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.<sup>6</sup> (5.A.2.a/New)
  - k. For COMPOSITES for which monthly returns are not available:<sup>7</sup> (New)
    - i. An appropriate EX POST risk measure for the COMPOSITE and the BENCHMARK as of each annual period end. The same EX POST risk measure for the COMPOSITE and the BENCHMARK MUST be presented; or
    - ii. A qualitative narrative describing the COMPOSITE strategy's key risks.
  - l. The three-year annualized return of the TOTAL FUND or COMPOSITE and the BENCHMARK for each period for which the three-year annualized EX POST STANDARD DEVIATION of the TOTAL FUND or COMPOSITE and the BENCHMARK are presented.<sup>8</sup> (New)
- 11.A.2 The ASSET OWNER MUST present the percentage of the total FAIR VALUE of TOTAL FUND assets or COMPOSITE assets that were valued using subjective unobservable inputs (as described in provision 9.B.6) as of the most recent annual period end, if such investments represent a material amount of TOTAL FUND assets or COMPOSITE assets.<sup>9</sup> (New)
- 11.A.3 The ASSET OWNER MUST clearly label or identify:
- a. The periods that are presented. (5.A.1.b HB discussion)
  - b. Which returns are presented (e.g., GROSS-OF-FEES, NET-OF-EXTERNAL COSTS ONLY, or NET-OF-FEES). (5.A.1.b)
- 11.A.4 If the ASSET OWNER presents FULL GROSS-OF-FEES returns, the ASSET OWNER MUST identify them as SUPPLEMENTAL INFORMATION. (Asset Owner GS)
- 11.A.5 If the ASSET OWNER includes more than one BENCHMARK in the GIPS ASSET OWNER REPORT, the ASSET OWNER MUST present and disclose all REQUIRED information for all BENCHMARKS presented.<sup>10</sup> (Draft GS on Benchmarks/New)

<sup>2</sup> REQUIRED for COMPOSITES with a COMPOSITE INCEPTION DATE of 1 January 2011 or later.

<sup>3</sup> REQUIRED for COMPOSITES with a COMPOSITE TERMINATION DATE of 1 January 2011 or later.

<sup>4</sup> REQUIRED for periods ending on or after 1 January 2020. For periods ending prior to 1 January 2020, if the COMPOSITE contains five or fewer PORTFOLIOS at period end, the number of PORTFOLIOS is not REQUIRED.

<sup>5</sup> REQUIRED for periods ending on or after 1 January 2020. For periods ending prior to 1 January 2020, the ASSET OWNER may present either TOTAL ASSET OWNER ASSETS or TOTAL FUND assets or COMPOSITE assets as a percentage of TOTAL ASSET OWNER ASSETS.

<sup>6</sup> REQUIRED for periods ending on or after 1 January 2011.

<sup>7</sup> REQUIRED for periods ending on or after 1 January 2020.

<sup>8</sup> REQUIRED for periods ending on or after 1 January 2020.

<sup>9</sup> REQUIRED for periods ending on or after 1 January 2020.

<sup>10</sup> REQUIRED for periods ending on or after 1 January 2020.

- 11.A.6 If the COMPOSITE loses all of its member PORTFOLIOS, the COMPOSITE track record MUST end. If PORTFOLIOS are later added to the COMPOSITE, the COMPOSITE track record MUST restart. The periods both before and after the break in track record MUST be presented, with the break in performance clearly shown. The ASSET OWNER MUST NOT LINK performance prior to the break in track record to the performance after the break in track record. (5.A.1.a HB discussion Q&A)
- 11.A.7 All REQUIRED and RECOMMENDED information in a GIPS ASSET OWNER REPORT MUST be presented in the same currency. (4.A.7 HB discussion)
- 11.A.8 Any SUPPLEMENTAL INFORMATION included in the GIPS ASSET OWNER REPORT: (Draft GS on Supplemental Information/New)
  - a. MUST relate directly to the TOTAL FUND or COMPOSITE.
  - b. MUST NOT contradict or conflict with the REQUIRED or RECOMMENDED information in the GIPS ASSET OWNER REPORT.

## 11.B. Presentation and Reporting — Recommendations

- 11.B.1 The ASSET OWNER SHOULD present GROSS-OF-FEES and NET-OF-EXTERNAL-COSTS-ONLY TOTAL FUND returns. (5.B.1/New)
- 11.B.2 The ASSET OWNER SHOULD present GROSS-OF-FEES, NET-OF-EXTERNAL-COSTS-ONLY, and NET-OF-FEES COMPOSITE returns. (5.B.1/New)
- 11.B.3 The ASSET OWNER SHOULD present the following items: (5.B.2)
  - a. Cumulative returns of the TOTAL FUND or COMPOSITE and the BENCHMARK for all periods.
  - b. Equal-weighted COMPOSITE returns.
  - c. Quarterly and/or monthly returns.
  - d. Annualized TOTAL FUND or COMPOSITE and BENCHMARK returns for periods longer than 12 months.
- 11.B.4 The ASSET OWNER SHOULD present MONEY-WEIGHTED RETURNS for TOTAL FUNDS when the ASSET OWNER believes MONEY-WEIGHTED RETURNS are helpful and important in understanding the performance of the TOTAL FUND. (Asset Owner GS)
- 11.B.5 For all periods greater than three years for which an annualized EX POST STANDARD DEVIATION of the TOTAL FUND or COMPOSITE and the BENCHMARK are presented, the ASSET OWNER SHOULD present the corresponding annualized return of the TOTAL FUND or COMPOSITE and the BENCHMARK. (5.B.4/New)
- 11.B.6 For all periods for which an annualized return of the TOTAL FUND or COMPOSITE and the BENCHMARK are presented, the ASSET OWNER SHOULD present the corresponding annualized EX POST STANDARD DEVIATION (using monthly returns) of the TOTAL FUND or COMPOSITE and the BENCHMARK. (5.B.5/New)
- 11.B.7 The ASSET OWNER SHOULD present relevant EX POST ADDITIONAL RISK MEASURES for the TOTAL FUND or COMPOSITE and the BENCHMARK. (5.B.6/New)
- 11.B.8 The ASSET OWNER SHOULD present more than 10 years of annual performance in the GIPS ASSET OWNER REPORT. (5.B.7)
- 11.B.9 If the ASSET OWNER uses preliminary, estimated values as FAIR VALUE, the ASSET OWNER SHOULD disclose the percentage of assets in the TOTAL FUND or COMPOSITE that were

valued using preliminary, estimated values as of each annual period end. (Alternative Investment GS)

11.B.10 The ASSET OWNER SHOULD present COMPOSITE and BENCHMARK COMPONENT RETURNS for all periods presented. (6.A.14/New)

#### **Request for Comment #40**

In GIPS 2010, asset owners are required to present income and capital component returns for real estate composites. When calculating these component returns, asset owners are required to calculate each component return separately. As part of the move to eliminate asset class provisions, we have deleted these real estate-specific requirements and have expanded the concept of component returns to all composites and total funds. Asset owners would be allowed to derive one of the component returns as the difference between the total return and one of the calculated component returns. We acknowledge that component returns are widely used in some markets but not in others. We therefore are recommending component returns to be included in GIPS Asset Owner Reports that include time-weighted returns, and we expect that asset owners will present component returns where it is customary for a specific market to do so.

- a. Do you agree with eliminating the requirement for real estate portfolios to present component returns?
- b. Do you agree with eliminating the requirement for real estate portfolios to separately calculate component returns?
- c. Do you agree that component returns should be recommended for all total funds and composites when time-weighted returns are presented?

11.B.11 If the ASSET OWNER has COMMITTED CAPITAL, the ASSET OWNER SHOULD present total ASSET OWNER-wide uncalled COMMITTED CAPITAL as of the most recent annual period end. (New)

## **11.C. Disclosure — Requirements**

#### **Request for Comment #41**

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the asset owner determines that they are no longer relevant to interpreting the performance track record.

- a. Do you agree that asset owners should be allowed to delete some disclosures once the asset owner determines that they are no longer relevant to interpreting the performance track record?
- b. Did we correctly identify the disclosures that should be allowed to be deleted once the asset owner determines that they are no longer relevant to interpreting the performance track record?

11.C.1 Once an ASSET OWNER has met all the applicable REQUIREMENTS of the GIPS standards, the ASSET OWNER MUST disclose its compliance with the GIPS standards using one of the following compliance statements. The compliance statement MUST only be used in a GIPS ASSET OWNER REPORT. (4.A.1/4.A.1 HB discussion/New)

a. For an ASSET OWNER that is verified:

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

The asset owner must establish policies and procedures for complying with all the applicable requirements of the GIPS standards, including those related to total fund and composite maintenance, and the calculation, presentation, and distribution of performance. Verification provides assurance on whether these aforementioned policies and procedures have been designed in compliance with the GIPS standards and have been implemented on an asset owner-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a trademark owned by CFA Institute.”

b. For TOTAL FUNDS or COMPOSITES of a verified ASSET OWNER that have also had a PERFORMANCE EXAMINATION:

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

The asset owner must establish policies and procedures for complying with all the applicable requirements of the GIPS standards, including those related to total fund and composite maintenance, and the calculation, presentation, and distribution of performance. Verification provides assurance on whether these aforementioned policies and procedures have been designed in compliance with the GIPS standards and have been implemented on an asset owner-wide basis. The [insert name of TOTAL FUND or COMPOSITE] has had a performance examination for the periods [insert dates]. The verification and performance examination reports are available upon request. GIPS® is a trademark owned by CFA Institute.”

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

c. For an ASSET OWNER that has not been verified:

“[Insert name of ASSET OWNER] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of ASSET OWNER] has not been independently verified. GIPS® is a trademark owned by CFA Institute.”

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



- 11.C.2 The ASSET OWNER MUST disclose the ASSET OWNER definition used to determine TOTAL ASSET OWNER ASSETS and ASSET OWNER–wide compliance. (4.A.2)
- 11.C.3 The ASSET OWNER MUST disclose the TOTAL FUND DESCRIPTION or COMPOSITE DESCRIPTION. (4.A.3)
- 11.C.4 The ASSET OWNER MUST disclose:
- The BENCHMARK DESCRIPTION, which MUST include the key features of the BENCHMARK or the name of the BENCHMARK for a readily recognized index or other point of reference. (4.A.4/4.A.4 HB discussion)
  - The PERIODICITY of the BENCHMARK if BENCHMARK returns are calculated less frequently than monthly. (Draft Risk GS)
- 11.C.5 When presenting GROSS-OF-FEES returns, the ASSET OWNER MUST disclose if any other fees are deducted in addition to the TRANSACTION COSTS and fees and expenses for externally managed POOLED FUNDS. (4.A.5/Asset Owner GS)
- 11.C.6 When presenting NET-OF-EXTERNAL-COSTS-ONLY returns, the ASSET OWNER MUST disclose if any other fees are deducted in addition to the TRANSACTION COSTS, fees and expenses for externally managed POOLED FUNDS, and INVESTMENT MANAGEMENT FEES for externally managed SEGREGATED ACCOUNTS. (4.A.5/Asset Owner GS)
- 11.C.7 When presenting NET-OF-FEES returns, the ASSET OWNER MUST disclose:
- For COMPOSITES, if any other fees are deducted in addition to the INVESTMENT MANAGEMENT FEES and TRANSACTION COSTS. (4.A.6.a)
  - If NET-OF-FEES returns are net of any PERFORMANCE-BASED FEES or CARRIED INTEREST. (4.A.6.c/PE and RE GS)
  - If model or actual INVESTMENT MANAGEMENT FEES or INVESTMENT MANAGEMENT COSTS are used. (4.A.6.a/Asset Owner GS)
  - If model INVESTMENT MANAGEMENT FEES or INVESTMENT MANAGEMENT COSTS are used, the model fee or the model cost used to calculate NET-OF-FEES returns.<sup>11</sup> (New)
  - If model INVESTMENT MANAGEMENT FEES or model INVESTMENT MANAGEMENT COSTS are used, the methodology used to calculate NET-OF-FEES returns. (Alternative Investment GS)
- 11.C.8 If estimated TRANSACTION COSTS are used, the ASSET OWNER MUST disclose: (New)
- That estimated TRANSACTION COSTS were used.
  - The estimated TRANSACTION COSTS used and how they were determined.
- 11.C.9 If the ASSET OWNER is compensated in a manner similar to a FIRM, the ASSET OWNER MUST disclose the current FEE SCHEDULE. (4.A.9/Asset Owner GS)
- 11.C.10 If the FEE SCHEDULE includes PERFORMANCE-BASED FEES or CARRIED INTEREST, the ASSET OWNER MUST disclose the PERFORMANCE-BASED FEE DESCRIPTION or CARRIED INTEREST DESCRIPTION. (New)
- 11.C.11 The ASSET OWNER MUST disclose or indicate the currency used to express performance. (4.A.7/New)
- 11.C.12 The ASSET OWNER MUST disclose the TOTAL FUND INCEPTION DATE or COMPOSITE INCEPTION DATE. (New)

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<sup>11</sup> REQUIRED for periods ending on or after 1 January 2020.



- 11.C.13 If the ASSET OWNER chooses to create additional COMPOSITES, or if the ASSET OWNER has more than one REQUIRED TOTAL FUND, the ASSET OWNER MUST disclose that the ASSET OWNER'S list of TOTAL FUND DESCRIPTIONS and COMPOSITE DESCRIPTIONS is available upon request. (4.A.11/Asset Owner GS)
- 11.C.14 The ASSET OWNER MUST disclose that policies for valuing investments, calculating performance, and preparing GIPS ASSET OWNER REPORTS are available upon request. (4.A.12/New)
- 11.C.15 The ASSET OWNER MUST disclose how leverage, derivatives, and short positions have been used historically, if material. (4.A.13/New)
- 11.C.16 The ASSET OWNER MUST disclose all significant events that would help those who have direct oversight responsibility for TOTAL ASSET OWNER ASSETS interpret the GIPS ASSET OWNER REPORT. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (4.A.14/New)
- 11.C.17 If the ASSET OWNER is redefined, the ASSET OWNER MUST disclose the date and description of the redefinition. (4.A.16/New)
- 11.C.18 If a COMPOSITE is redefined, the ASSET OWNER MUST disclose the date and description of the redefinition. (4.A.17/New)
- 11.C.19 The ASSET OWNER MUST disclose changes to the name of a TOTAL FUND or COMPOSITE. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (4.A.18/New)
- 11.C.20 The ASSET OWNER MUST disclose: (4.A.19)
- a. The minimum asset level, if any, below which PORTFOLIOS are not included in a COMPOSITE.
  - b. Any changes to the minimum asset level.
- 11.C.21 The ASSET OWNER MUST disclose if TOTAL FUND or COMPOSITE returns are gross or net of withholding taxes, if material. (4.A.20)
- 11.C.22 The ASSET OWNER MUST disclose if BENCHMARK returns are net of withholding taxes if this information is available. (4.A.20)
- 11.C.23 If the GIPS ASSET OWNER REPORT conforms with laws and/or regulations that conflict with the REQUIREMENTS of the GIPS standards, the ASSET OWNER MUST disclose this fact and disclose the manner in which the laws and/or regulations conflict with the GIPS standards. (4.A.22)
- 11.C.24 The ASSET OWNER MUST disclose the use of EXTERNAL MANAGERS and the periods EXTERNAL MANAGERS were used.<sup>12</sup> (4.A.25/New)
- 11.C.25 The ASSET OWNER MUST disclose if the TOTAL FUND'S or COMPOSITE'S valuation hierarchy materially differs from the RECOMMENDED valuation hierarchy.<sup>13</sup> (See provision 9.B.6 for the RECOMMENDED valuation hierarchy.) (4.A.28)
- 11.C.26 If the ASSET OWNER determines no appropriate BENCHMARK for the TOTAL FUND or COMPOSITE exists, the ASSET OWNER MUST disclose why no BENCHMARK is presented. (4.A.29)

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<sup>12</sup> REQUIRED for periods beginning on or after 1 January 2006.

<sup>13</sup> REQUIRED for periods beginning on or after 1 January 2011.

- 11.C.27 If the ASSET OWNER changes the BENCHMARK, the ASSET OWNER MUST disclose the date and description of the change. (4.A.30/New)
- Prospective BENCHMARK changes MUST be disclosed for as long as returns for the prior BENCHMARK are included in the GIPS ASSET OWNER REPORT. (Draft Benchmark GS/New)
  - Retroactive BENCHMARK changes MUST be disclosed for a minimum of one year and for as long as they are relevant to interpreting the performance track record. (Draft Benchmark GS/New)
- 11.C.28 If a custom BENCHMARK or combination of multiple BENCHMARKS is used, the ASSET OWNER MUST disclose the BENCHMARK components, weights, and rebalancing process. If the TOTAL FUND BENCHMARK is a blend of asset class BENCHMARKS based on the policy weights of the respective asset classes, the ASSET OWNER MUST disclose the BENCHMARKS used by each asset class along with their weights as of the most recent annual period end as well as general information regarding the investments, structure, and/or characteristics of the BENCHMARKS. (4.A.31/Asset Owner GS)
- 11.C.29 For TOTAL FUNDS and COMPOSITES with at least three annual periods of performance, the ASSET OWNER MUST disclose if the three-year annualized EX POST STANDARD DEVIATION of the TOTAL FUND or COMPOSITE and/or BENCHMARK is not presented because 36 monthly returns are not available. (4.A.33/New)
- 11.C.30 The ASSET OWNER MUST disclose any change to the GIPS ASSET OWNER REPORT resulting from the correction of a MATERIAL ERROR. Following the correction of the GIPS ASSET OWNER REPORT, this disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (Error Correction GS/New)
- 11.C.31 The ASSET OWNER MUST disclose if preliminary, estimated values are used to determine FAIR VALUE. (Alternative Investment GS)
- 11.C.32 If the ASSET OWNER changes the type of return(s) presented for the COMPOSITE (e.g., changes from MONEY-WEIGHTED RETURNS to TIME-WEIGHTED RETURNS), the ASSET OWNER MUST disclose the change and the date of the change. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (New)
- 11.C.33 If the ASSET OWNER presents ADDITIONAL RISK MEASURES, the ASSET OWNER MUST: (Draft Risk GS/New)
- Describe any ADDITIONAL RISK MEASURE.
  - Disclose the name of the risk-free rate if a risk-free rate is used in the calculation of the ADDITIONAL RISK MEASURE.
- 11.C.34 The ASSET OWNER MUST disclose if GROSS-OF-FEES, NET-OF-EXTERNAL-COSTS-ONLY, or NET-OF-FEES returns are used to calculate presented risk measures. (Draft Risk GS)
- 11.C.35 When the GIPS ASSET OWNER REPORT includes THEORETICAL PERFORMANCE as SUPPLEMENTAL INFORMATION, the ASSET OWNER MUST disclose: (Draft GS on Supplemental Information/New)
- That the results are theoretical, are not based on the performance of actual PORTFOLIOS, and were derived from the retroactive or prospective application of a model.
  - A basic description of the model and assumptions sufficient for those who have direct oversight responsibility for TOTAL ASSET OWNER ASSETS to interpret the THEORETICAL PERFORMANCE.

- c. Whether the THEORETICAL PERFORMANCE reflects the deduction of INVESTMENT MANAGEMENT FEES, INVESTMENT MANAGEMENT COSTS, and TRANSACTION COSTS.

## 11.D. Disclosure — Recommendations

- 11.D.1 The ASSET OWNER SHOULD disclose material changes to valuation policies and/or methodologies. (4.B.1)
- 11.D.2 The ASSET OWNER SHOULD disclose material changes to calculation policies and/or methodologies. (4.B.2)
- 11.D.3 The ASSET OWNER SHOULD disclose material differences between the BENCHMARK and the TOTAL FUND'S or COMPOSITE'S investment mandate, objective, or strategy. (4.B.3)
- 11.D.4 The ASSET OWNER SHOULD disclose the key assumptions used to value investments. (4.B.4)
- 11.D.5 If the ASSET OWNER adheres to any industry valuation guidelines in addition to the GIPS valuation REQUIREMENTS, the ASSET OWNER SHOULD disclose which guidelines have been applied. (7.A.15/New)
- 11.D.6 When using BENCHMARKS that have limitations, such as peer group BENCHMARKS, the ASSET OWNER SHOULD disclose these limitations. (Alternative Investment GS)
- 11.D.7 The ASSET OWNER SHOULD disclose if BENCHMARK returns do not reflect TRANSACTION COSTS, INVESTMENT MANAGEMENT FEES, or any other fees or costs. (New)
- 11.D.8 For COMPOSITES, the ASSET OWNER SHOULD disclose the COMPOSITE CREATION DATE. (4.A.10/New)

## 12. ASSET OWNER ADDITIONAL COMPOSITE MONEY-WEIGHTED RETURN REPORT

### Background Information

Asset owners that currently claim compliance with the GIPS standards and prepare compliant presentations that include money-weighted returns should carefully review this section. For asset owners, the term compliant presentation has been replaced with GIPS Asset Owner Report. This section includes all required numerical information and disclosures that must be included in a GIPS Asset Owner Report that includes money-weighted returns.

**The following provisions apply to ASSET OWNERS that calculate and report additional COMPOSITE performance in a GIPS ASSET OWNER REPORT using MONEY-WEIGHTED RETURNS.**

## 12.A. Presentation and Reporting — Requirements

12.A.1 The following items MUST be presented in each GIPS ASSET OWNER REPORT:

- a. The annualized COMPOSITE SINCE-INCEPTION MONEY-WEIGHTED RETURN through the most recent annual period end. If the ASSET OWNER does not have records to support this track record, the ASSET OWNER MUST present the ANNUALIZED MONEY-WEIGHTED RETURN for the longest period for which the ASSET OWNER has such records, through the most recent annual period end. (New)

### Request for Comment #42

Asset owners may choose to present money-weighted returns for additional composites in a GIPS Asset Owner Report. In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include since-inception internal rates of return (now renamed money-weighted returns) through each annual period end. For example, a private equity composite that has been in existence for four years would present four since-inception money-weighted returns. We propose to instead require asset owners to present money-weighted returns for only one period: from the composite's inception through the most recent annual period end. If the asset owner does not have records to support this track record, however, the asset owner must present the annualized money-weighted return for the longest period for which the asset owner has such records, through the most recent annual period end. This is to acknowledge that asset owners have very long histories and some of the earlier records may not be sufficient to support the entire track record.

- a. Do you agree that asset owners should be required to present only one return: the since-inception money-weighted return through the most recent annual period end?
- b. When asset owners do not have records to support the entire track record, do you agree that asset owners should instead be required to present the money-weighted return for the longest period for which the asset owner has such records?

- b. When the COMPOSITE has a track record that is less than a full year, the non-annualized COMPOSITE SINCE-INCEPTION MONEY-WEIGHTED RETURN or the COMPOSITE non-annualized MONEY-WEIGHTED RETURNS for the longest period for which the ASSET OWNER has records through the initial annual period end. (7.A.21.b/New)
- c. When the COMPOSITE terminates, the annualized COMPOSITE SINCE-INCEPTION MONEY-WEIGHTED RETURN through the COMPOSITE TERMINATION DATE or the COMPOSITE annualized MONEY-WEIGHTED RETURN for the longest period for which the ASSET OWNER has records through the COMPOSITE TERMINATION DATE. (7.A.21.c/New)
- d. The MONEY-WEIGHTED RETURN for the BENCHMARK for the same periods as presented for the COMPOSITE, unless the ASSET OWNER determines there is no appropriate BENCHMARK. (7.A.24.b/New)
- e. The number of PORTFOLIOS in the COMPOSITE as of the most recent annual period end.<sup>1</sup> (5.A.1.f/New)
- f. COMPOSITE assets as of the most recent annual period end. (5.A.1.g/New)

<sup>1</sup> REQUIRED for periods ending on or after 1 January 2020. For periods ending prior to 1 January 2020, if the COMPOSITE contains five or fewer PORTFOLIOS at period end, the number of PORTFOLIOS is not REQUIRED.

- g. TOTAL ASSET OWNER ASSETS as of the most recent annual period end.<sup>2</sup> (5.A.1.h/New)
- 12.A.2 The ASSET OWNER MUST present the percentage of the total FAIR VALUE of COMPOSITE assets that were valued using subjective unobservable inputs (as described in provision 9.B.6) as of the most recent annual period end, if such investments represent a material amount of COMPOSITE assets.<sup>3</sup> (New)
- 12.A.3 For COMPOSITES where the underlying PORTFOLIOS have COMMITTED CAPITAL, the ASSET OWNER MUST present the following items as of the most recent annual period end: (7.A.23/New)
- a. COMPOSITE SINCE-INCEPTION PAID-IN CAPITAL. (7.A.23.a)
  - b. COMPOSITE SINCE-INCEPTION DISTRIBUTIONS. (7.A.23.b)
  - c. COMPOSITE cumulative COMMITTED CAPITAL. (7.A.23.c)
  - d. TOTAL VALUE to SINCE-INCEPTION PAID-IN CAPITAL (INVESTMENT MULTIPLE or TVPI). (7.A.23.d)
  - e. SINCE-INCEPTION DISTRIBUTIONS to SINCE-INCEPTION PAID-IN CAPITAL (REALIZATION MULTIPLE or DPI). (7.A.23.e)
  - f. SINCE-INCEPTION PAID-IN CAPITAL to cumulative COMMITTED CAPITAL (PIC MULTIPLE). (7.A.23.f)
  - g. FAIR VALUE to SINCE-INCEPTION PAID-IN CAPITAL (UNREALIZED MULTIPLE or RVPI). (7.A.23.g)

**Request for Comment #43**

In GIPS 2010, compliant presentations for private equity composites and closed-end real estate funds are required to include certain information about committed capital, distributions, and related multiples as of each annual period end. For example, a private equity composite that has been in existence for four years would present four series of information about committed capital, distributions, and related multiples. Consistent with the proposed change to require asset owners to present only one return—the since-inception money-weighted return through the most recent annual period end or, in the absence of records, the money-weighted returns for the longest period for which the records are available through the most recent annual period end—we require information about committed capital, distributions, and related multiples as of the most recent annual period end. Do you agree that asset owners should be required to present information about committed capital, distributions, and related multiples only as of the most recent annual period end?

- 12.A.4 The ASSET OWNER MUST present either:<sup>4</sup> (New)
- a. An appropriate EX POST risk measure for the COMPOSITE and the BENCHMARK. The same EX POST risk measure must be presented for the COMPOSITE and the BENCHMARK; or
  - b. A qualitative narrative describing the COMPOSITE strategy's key risks.
- 12.A.5 The ASSET OWNER MUST clearly label or identify:

<sup>2</sup> REQUIRED for periods ending on or after 1 January 2020. For periods ending prior to 1 January 2020, ASSET OWNERS may present either TOTAL ASSET OWNER ASSETS or COMPOSITE assets as a percentage of TOTAL ASSET OWNER ASSETS.

<sup>3</sup> REQUIRED for periods ending on or after 1 January 2020.

<sup>4</sup> REQUIRED for periods ending on or after 1 January 2020.

- a. The periods that are presented. (5.A.1.b HB discussion)
  - b. Which returns are presented (e.g., GROSS-OF-FEES, NET-OF-EXTERNAL-COSTS-ONLY, or NET-OF-FEES). (5.A.1.b)
- 12.A.6 If the ASSET OWNER presents FULL GROSS-OF-FEES returns, the ASSET OWNER MUST identify them as SUPPLEMENTAL INFORMATION. (Asset Owner GS)
- 12.A.7 If the ASSET OWNER includes more than one BENCHMARK in the GIPS ASSET OWNER REPORT, the ASSET OWNER MUST present and disclose all REQUIRED information for all BENCHMARKS presented.<sup>5</sup> (Draft GS on Benchmarks/New)
- 12.A.8 If the ASSET OWNER chooses to present total uncalled COMMITTED CAPITAL, the ASSET OWNER MUST present total uncalled COMMITTED CAPITAL separately from TOTAL ASSET OWNER ASSETS. (New)
- 12.A.9 All REQUIRED and RECOMMENDED information in a GIPS ASSET OWNER REPORT MUST be presented in the same currency. (4.A.7.b HB discussion)
- 12.A.10 Any SUPPLEMENTAL INFORMATION included in the GIPS ASSET OWNER REPORT: (Draft GS on Supplemental Information/New)
- a. MUST relate directly to the COMPOSITE.
  - b. MUST NOT contradict or conflict with the REQUIRED or RECOMMENDED information in the GIPS ASSET OWNER REPORT.

## 12.B. Presentation and Reporting — Recommendations

- 12.B.1 The ASSET OWNER SHOULD present SINCE-INCEPTION MONEY-WEIGHTED RETURNS as of each annual period end. (New)
- 12.B.2 The ASSET OWNER SHOULD present GROSS-OF-FEES, NET-OF-EXTERNAL-COSTS-ONLY, and NET-OF-FEES COMPOSITE RETURNS. (5.B.1/New)
- 12.B.3 If the ASSET OWNER uses preliminary, estimated values as FAIR VALUE, the ASSET OWNER SHOULD present the percentage of assets in the COMPOSITE that were valued using preliminary, estimated values as of the most recent annual period end. (Alternative Investment GS)
- 12.B.4 If the ASSET OWNER has COMMITTED CAPITAL, the ASSET OWNER SHOULD present total ASSET OWNER-wide uncalled COMMITTED CAPITAL as of the most recent annual period end. (New)

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<sup>5</sup> REQUIRED for periods ending on or after 1 January 2020.



## 12.C. Disclosure — Requirements

### Request for Comment #44

We frequently hear that too many disclosures are required in GIPS reports. We have introduced sunset provisions where possible—that is, although all disclosures must be included for at least one year, some disclosures may subsequently be deleted once the asset owner determines that they are no longer relevant to interpreting the performance track record.

- a. Do you agree that asset owners should be allowed to delete some disclosures once the asset owner determines that they are no longer relevant to interpreting the performance track record?
- b. Did we correctly identify the disclosures that should be allowed to be deleted once the asset owner determines that they are no longer relevant to interpreting the performance track record?

12.C.1 Once an ASSET OWNER has met all the applicable REQUIREMENTS of the GIPS standards, the ASSET OWNER MUST disclose its compliance with the GIPS standards in a GIPS ASSET OWNER REPORT using one of the following compliance statements. The compliance statement for a COMPOSITE MUST only be used in a GIPS ASSET OWNER REPORT. [\(4.A.1/4.A.1 HB discussion/New\)](#)

- a. For an ASSET OWNER that is verified:

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

The asset owner must establish policies and procedures for complying with all the applicable requirements of the GIPS standards, including those related to total fund and composite maintenance, and the calculation, presentation, and distribution of performance. Verification provides assurance on whether these aforementioned policies and procedures have been designed in compliance with the GIPS standards and have been implemented on an asset owner-wide basis. Verification does not provide assurance on the accuracy of any specific performance report. GIPS® is a trademark owned by CFA Institute.”

- b. For COMPOSITES of a verified ASSET OWNER that have also had a PERFORMANCE EXAMINATION:

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

The asset owner must establish policies and procedures for complying with all the applicable requirements of the GIPS standards, including those related to total fund and composite maintenance, and the calculation, presentation, and distribution of performance. Verification provides assurance on whether these aforementioned policies and procedures have been designed in compliance with the GIPS standards and have



been implemented on an asset owner–wide basis. The [insert name of COMPOSITE] has had a performance examination for the periods [insert dates]. The verification and performance examination reports are available upon request. GIPS® is a trademark owned by CFA Institute.”

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

- c. For an ASSET OWNER that has not been verified:

“[Insert name of ASSET OWNER] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of ASSET OWNER] has not been independently verified. GIPS® is a trademark owned by CFA Institute.”

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

- 12.C.2 The ASSET OWNER MUST disclose the ASSET OWNER definition used to determine TOTAL ASSET OWNER ASSETS and ASSET OWNER–wide compliance. (4.A.2)
- 12.C.3 The ASSET OWNER MUST disclose the COMPOSITE DESCRIPTION. (4.A.3)
- 12.C.4 The ASSET OWNER MUST disclose the BENCHMARK DESCRIPTION, which MUST include the key features of the BENCHMARK or the name of the BENCHMARK for a readily recognized index or other point of reference. (4.A.4/4.A.4 HB Discussion)
- 12.C.5 When presenting GROSS-OF-FEES returns, the ASSET OWNER MUST disclose if any other fees are deducted in addition to the TRANSACTION COSTS and fees and expenses for externally managed POOLED FUNDS. (4.A.5/Asset Owner GS)
- 12.C.6 When presenting EXTERNAL-COSTS-ONLY returns, the ASSET OWNER MUST disclose if any other fees are deducted in addition to the TRANSACTION COSTS, fees and expenses for externally managed POOLED FUNDS, and INVESTMENT MANAGEMENT FEES for externally managed SEGREGATED ACCOUNTS. (4.A.5/Asset Owner GS)
- 12.C.7 When presenting NET-OF-FEES returns, the ASSET OWNER MUST disclose:
- If any other fees are deducted in addition to the INVESTMENT MANAGEMENT FEES and TRANSACTION COSTS. (4.A.6.a)
  - If NET-OF-FEES returns are net of any PERFORMANCE-BASED FEES or CARRIED INTEREST. (4.A.6.c/PE and RE GS)
  - If model or actual INVESTMENT MANAGEMENT FEES or INVESTMENT MANAGEMENT COSTS are used. (4.A.6.a/Asset Owner GS)
  - If model INVESTMENT MANAGEMENT FEES or INVESTMENT MANAGEMENT COSTS are used, the model fee or the model cost used to calculate NET-OF-FEES returns.<sup>6</sup> (New)
  - If model INVESTMENT MANAGEMENT FEES or model INVESTMENT MANAGEMENT COSTS are used, the methodology used to calculate NET-OF-FEES returns. (Alternative Investment GS)

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<sup>6</sup> REQUIRED for periods ending on or after 1 January 2020.

- 12.C.8 If estimated TRANSACTION COSTS are used, the ASSET OWNER MUST disclose: (New)
- a. That estimated TRANSACTION COSTS were used.
  - b. The estimated TRANSACTION COSTS used and how they were determined.
- 12.C.9 If the ASSET OWNER is compensated in a similar manner to a FIRM, the ASSET OWNER MUST disclose the current FEE SCHEDULE. (4.A.9/Asset Owner GS)
- 12.C.10 If the FEE SCHEDULE includes PERFORMANCE-BASED FEES or CARRIED INTEREST, the ASSET OWNER MUST disclose the PERFORMANCE-BASED FEE DESCRIPTION or CARRIED INTEREST DESCRIPTION. (New)
- 12.C.11 The ASSET OWNER MUST disclose or indicate the currency used to express performance. (4.A.7/New)
- 12.C.12 The ASSET OWNER MUST disclose the COMPOSITE INCEPTION DATE. (New)
- 12.C.13 If the ASSET OWNER chooses to create additional COMPOSITES, or if the ASSET OWNER has more than one REQUIRED TOTAL FUND, the ASSET OWNER MUST disclose that the ASSET OWNER'S list of TOTAL FUND DESCRIPTIONS and COMPOSITE DESCRIPTIONS is available upon request. (4.A.11/Asset Owner GS)
- 12.C.14 The ASSET OWNER MUST disclose that policies for valuing investments, calculating performance, and preparing GIPS ASSET OWNER REPORTS are available upon request. (4.A.12/New)
- 12.C.15 The ASSET OWNER MUST disclose how leverage, derivatives, and short positions have been used historically, if material. (4.A.13/New)
- 12.C.16 The ASSET OWNER MUST disclose all significant events that would help those who have direct oversight responsibility for TOTAL ASSET OWNER ASSETS interpret the GIPS ASSET OWNER REPORT. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (4.A.14/New)
- 12.C.17 If the ASSET OWNER is redefined, the ASSET OWNER MUST disclose the date and description of the redefinition. (4.A.16/New)
- 12.C.18 If a COMPOSITE is redefined, the ASSET OWNER MUST disclose the date and description of the redefinition. (4.A.17/New)
- 12.C.19 The ASSET OWNER MUST disclose changes to the name of the COMPOSITE. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (4.A.18/New)
- 12.C.20 The ASSET OWNER MUST disclose: (4.A.19)
- a. The minimum asset level, if any, below which PORTFOLIOS are not included in a COMPOSITE.
  - b. Any changes to the minimum asset level.
- 12.C.21 The ASSET OWNER MUST disclose if COMPOSITE returns are gross or net of withholding taxes, if material. (4.A.20)
- 12.C.22 The ASSET OWNER MUST disclose if BENCHMARK returns are net of withholding taxes if this information is available. (4.A.20)
- 12.C.23 If the GIPS ASSET OWNER REPORT conforms with laws and/or regulations that conflict with the REQUIREMENTS of the GIPS standards, the ASSET OWNER MUST disclose this fact and disclose the manner in which the laws and/or regulations conflict with the GIPS standards. (4.A.22)

- 12.C.24 The ASSET OWNER MUST disclose the use of EXTERNAL MANAGERS and the periods EXTERNAL MANAGERS were used.<sup>7</sup> (4.A.25/New)
- 12.C.25 The ASSET OWNER MUST disclose if the COMPOSITE'S valuation hierarchy materially differs from the RECOMMENDED valuation hierarchy.<sup>8</sup> (See provision 9.B.6 for the RECOMMENDED valuation hierarchy.) (4.A.28)
- 12.C.26 If the ASSET OWNER determines no appropriate BENCHMARK for the COMPOSITE exists, the ASSET OWNER MUST disclose why no BENCHMARK is presented. (4.A.29)
- 12.C.27 If the ASSET OWNER changes the BENCHMARK, the ASSET OWNER MUST disclose the date and description of the change. (4.A.30/New)
- a. Prospective BENCHMARK changes MUST be disclosed for as long as returns for the prior BENCHMARK are included in the GIPS ASSET OWNER REPORT. (Draft Benchmark GS/New)
  - b. Retroactive BENCHMARK changes MUST be disclosed for a minimum of one year and for as long as they are relevant to interpreting the performance track record. (Draft Benchmark GS/New)
- 12.C.28 If a custom BENCHMARK or combination of multiple BENCHMARKS is used, the ASSET OWNER MUST disclose the BENCHMARK components, weights, and rebalancing process. (4.A.31)
- 12.C.29 The ASSET OWNER MUST disclose the calculation methodology used for the BENCHMARK. If the ASSET OWNER presents the PUBLIC MARKET EQUIVALENT of the COMPOSITE as a BENCHMARK, the ASSET OWNER MUST disclose the index used to calculate the PUBLIC MARKET EQUIVALENT. (7.A.16)
- 12.C.30 The ASSET OWNER MUST disclose the frequency of EXTERNAL CASH FLOWS used in the MONEY-WEIGHTED RETURN calculation if daily frequency was not used. (7.A.17)
- 12.C.31 The ASSET OWNER MUST disclose any change to the GIPS ASSET OWNER REPORT resulting from the correction of a MATERIAL ERROR. Following the correction of the GIPS ASSET OWNER REPORT, this disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (Error Correction GS/New)
- 12.C.32 The ASSET OWNER MUST disclose if preliminary, estimated values are used to determine FAIR VALUE. (Alternative Investment GS)
- 12.C.33 If the ASSET OWNER changes the type of return(s) presented for the COMPOSITE (e.g., changes from TIME-WEIGHTED RETURNS to MONEY-WEIGHTED RETURNS), the ASSET OWNER MUST disclose the change and the date of the change. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the performance track record. (New)
- 12.C.34 If the ASSET OWNER presents ADDITIONAL RISK MEASURES, the ASSET OWNER MUST: (Draft Risk GS/New)
- a. Describe any ADDITIONAL RISK MEASURE.
  - b. Disclose the name of the risk-free rate if a risk-free rate is used in the calculation of the ADDITIONAL RISK MEASURE.

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<sup>7</sup> REQUIRED for periods beginning on or after 1 January 2006.

<sup>8</sup> REQUIRED for periods beginning on or after 1 January 2011.

- 12.C.35 The ASSET OWNER MUST disclose if GROSS-OF-FEES, NET-OF-EXTERNAL-COSTS-ONLY, or NET-OF-FEES returns are used to calculate presented risk measures. (Draft Risk GS/New)
- 12.C.36 When the GIPS ASSET OWNER REPORT includes THEORETICAL PERFORMANCE as SUPPLEMENTAL INFORMATION, the ASSET OWNER MUST disclose: (Draft GS on Supplemental Information/New)
- a. That the results are theoretical, are not based on the performance of actual PORTFOLIOS, and were derived from the retroactive or prospective application of a model.
  - b. A basic description of the model and assumptions sufficient for those who have direct oversight responsibility for TOTAL ASSET OWNER ASSETS to interpret the THEORETICAL PERFORMANCE.
  - c. Whether the THEORETICAL PERFORMANCE reflects the deduction of INVESTMENT MANAGEMENT FEES, INVESTMENT MANAGEMENT COSTS, and TRANSACTION COSTS.

## 12.D. Disclosure — Recommendations

- 12.D.1 The ASSET OWNER SHOULD disclose material changes to valuation policies and/or methodologies. (4.B.1)
- 12.D.2 The ASSET OWNER SHOULD disclose material changes to calculation policies and/or methodologies. (4.B.2)
- 12.D.3 The ASSET OWNER SHOULD disclose material differences between the BENCHMARK and the COMPOSITE'S investment mandate, objective, or strategy. (4.B.3)
- 12.D.4 The ASSET OWNER SHOULD disclose the key assumptions used to value investments. (4.B.4)
- 12.D.5 If the ASSET OWNER adheres to any industry valuation guidelines in addition to the GIPS valuation REQUIREMENTS, the ASSET OWNER SHOULD disclose which guidelines have been applied. (7.A.15/New)
- 12.D.6 When using BENCHMARKS that have limitations, such as peer group BENCHMARKS, the ASSET OWNER SHOULD disclose these limitations. (Alternative Investment GS)
- 12.D.7 The ASSET OWNER SHOULD disclose if BENCHMARK returns do not reflect TRANSACTION COSTS, INVESTMENT MANAGEMENT FEES, or any other fees or costs. (New)
- 12.D.8 The ASSET OWNER SHOULD disclose the COMPOSITE CREATION DATE. (4.A.10/New)

# 13. GIPS ADVERTISING GUIDELINES

## Purpose of the GIPS Advertising Guidelines

The GIPS Advertising Guidelines provide FIRMS and ASSET OWNERS with options for advertising when mentioning the FIRM'S or ASSET OWNER'S claim of compliance. The GIPS Advertising Guidelines do not replace the GIPS standards, nor do they absolve FIRMS and ASSET OWNERS from presenting GIPS COMPOSITE REPORTS, GIPS POOLED FUND REPORTS, and GIPS ASSET OWNER REPORTS as REQUIRED by the GIPS standards. These guidelines apply only to FIRMS and ASSET OWNERS that already satisfy all the applicable REQUIREMENTS of the GIPS standards on a FIRM-wide or ASSET

OWNER-wide basis and prepare an advertisement that adheres to the REQUIREMENTS of the GIPS Advertising Guidelines (a “GIPS ADVERTISEMENT”). FIRMS and ASSET OWNERS may also choose to include a GIPS COMPOSITE REPORT, GIPS POOLED FUND REPORT, or GIPS ASSET OWNER REPORT in the advertisement.

## **Definitions**

### **Advertisement**

For the GIPS Advertising Guidelines, an advertisement includes any materials that are distributed to or designed for use in newspapers, magazines, FIRM or ASSET OWNER brochures, POOLED FUND fact sheets, POOLED FUND offering documents, letters, media, websites, or any other written or electronic material distributed to more than one party, and there is no contact between the FIRM or the ASSET OWNER and the reader of the advertisement. One-on-one presentations and individual client reporting are not considered advertisements.

### **GIPS Advertisement**

A GIPS ADVERTISEMENT is an advertisement by a GIPS-compliant FIRM or ASSET OWNER that adheres to the REQUIREMENTS of the GIPS Advertising Guidelines.

## **Relationship of the GIPS Advertising Guidelines to Regulatory Requirements**

When preparing GIPS ADVERTISEMENTS, FIRMS and ASSET OWNERS MUST also adhere to all applicable laws and regulations governing advertisements. FIRMS and ASSET OWNERS are encouraged to seek legal or regulatory counsel because additional disclosures may be REQUIRED. In cases where applicable laws or regulations conflict with the REQUIREMENTS of the GIPS standards or the GIPS Advertising Guidelines, FIRMS and ASSET OWNERS are REQUIRED to comply with the laws or regulations.

## **Other Information**

The GIPS ADVERTISEMENT may include other information beyond what is REQUIRED or RECOMMENDED under the GIPS Advertising Guidelines provided the information is shown with equal or lesser prominence relative to the information REQUIRED or RECOMMENDED by the GIPS Advertising Guidelines and the information does not conflict with the REQUIREMENTS or RECOMMENDATIONS of the GIPS standards or the GIPS Advertising Guidelines. FIRMS and ASSET OWNERS MUST adhere to the principles of fair representation and full disclosure when advertising and MUST NOT present performance or PERFORMANCE-RELATED INFORMATION that is false or misleading.

## 13.A. Fundamental Requirements of the GIPS Advertising Guidelines

- 13.A.1 The GIPS Advertising Guidelines apply only to FIRMS and ASSET OWNERS that already claim compliance with the GIPS standards. [\(Adv Guidelines\)](#)
- 13.A.2 FIRMS and ASSET OWNERS that choose to claim compliance in a GIPS ADVERTISEMENT MUST comply with all applicable REQUIREMENTS of the GIPS Advertising Guidelines. [\(Adv Guidelines\)](#)
- 13.A.3 FIRMS and ASSET OWNERS MUST maintain all data and information necessary to support all items included in a GIPS ADVERTISEMENT. [\(New\)](#)
- 13.A.4 Returns for periods of less than one year included in a GIPS ADVERTISEMENT MUST NOT be annualized. [\(New\)](#)
- 13.A.5 COMPOSITE returns included in a GIPS ADVERTISEMENT MUST be derived from the returns included in or that will be included in the corresponding GIPS COMPOSITE REPORT. [\(Adv Guidelines HB discussion\)](#)
- 13.A.6 Disclosures included in a GIPS ADVERTISEMENT for a COMPOSITE MUST be consistent with the related disclosure included in the corresponding GIPS COMPOSITE REPORT, unless the disclosure included in the GIPS ADVERTISEMENT is more current and it has not yet been reflected in the corresponding GIPS COMPOSITE REPORT. [\(Adv Guidelines HB discussion\)](#)
- 13.A.7 LIMITED DISTRIBUTION POOLED FUND returns included in a GIPS ADVERTISEMENT MUST be derived from the returns included in or that will be included in the corresponding GIPS POOLED FUND REPORT. [\(New\)](#)
- 13.A.8 Disclosures included in a GIPS ADVERTISEMENT for a LIMITED DISTRIBUTION POOLED FUND MUST be consistent with the related disclosure included in the corresponding GIPS POOLED FUND REPORT, unless the disclosure included in the GIPS ADVERTISEMENT is more current and it has not yet been reflected in the corresponding GIPS POOLED FUND REPORT. [\(New\)](#)
- 13.A.9 ASSET OWNER TOTAL FUND or COMPOSITE returns included in a GIPS ADVERTISEMENT MUST be derived from the returns included in or that will be included in the corresponding GIPS ASSET OWNER REPORT. [\(New\)](#)
- 13.A.10 Disclosures included in a GIPS ADVERTISEMENT for an ASSET OWNER TOTAL FUND or COMPOSITE MUST be consistent with the related disclosure included in the corresponding GIPS ASSET OWNER REPORT, unless the disclosure included in the GIPS ADVERTISEMENT is more current and it has not yet been reflected in the corresponding GIPS ASSET OWNER REPORT. [\(New\)](#)
- 13.A.11 BENCHMARK returns included in a GIPS ADVERTISEMENT MUST be TOTAL RETURNS. [\(Adv Guidelines\)](#)
- 13.A.12 FIRMS and ASSET OWNERS MUST clearly label or identify: [\(New\)](#)
  - a. The name of the COMPOSITE, POOLED FUND, or TOTAL FUND for which the GIPS ADVERTISEMENT is prepared.
  - b. The name of any BENCHMARK included in the GIPS ADVERTISEMENT.
  - c. The periods that are presented in the GIPS ADVERTISEMENT.
  - d. If returns do or do not reflect the SUBSCRIPTION LINE OF CREDIT activity. This is REQUIRED only if a SUBSCRIPTION LINE OF CREDIT is used.
- 13.A.13 Other information beyond what is REQUIRED or RECOMMENDED under the GIPS Advertising Guidelines (e.g., COMPOSITE, POOLED FUND, or TOTAL FUND returns for additional periods)

MUST be presented with equal or lesser prominence relative to the information REQUIRED or RECOMMENDED by the GIPS Advertising Guidelines. This information MUST NOT conflict with the REQUIREMENTS or RECOMMENDATIONS of the GIPS standards or the GIPS Advertising Guidelines. (Adv Guidelines)

13.A.14 All REQUIRED and RECOMMENDED information in a GIPS ADVERTISEMENT MUST be presented in the same currency. (New)

## 13.B. Advertisements that do not Include Performance

13.B.1 FIRMS and ASSET OWNERS MUST disclose the GIPS Advertising Guidelines compliance statement: (Adv Guidelines/New)

“[Insert name of FIRM or ASSET OWNER] claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a trademark owned by CFA Institute.”

13.B.2 FIRMS and ASSET OWNERS MUST disclose how to obtain GIPS-compliant performance information for the FIRM'S or ASSET OWNER'S' strategies and products. (Adv Guidelines/New)

### Request for Comment #45

Except for broad distribution pooled funds, firms and asset owners are not required to include risk measures, either quantitative or qualitative, in GIPS advertisements that include performance. Should firms and asset owners be required or recommended to include risk measures in all GIPS advertisements?

## FIRM COMPOSITES

### 13.C. Advertisements for a Composite of a Firm that Include Performance — Requirements

13.C.1 If TIME-WEIGHTED RETURNS are presented in the corresponding GIPS COMPOSITE REPORT, the FIRM MUST present COMPOSITE TOTAL RETURNS according to one of the following: (Adv Guidelines a–c)

- a. One-, three-, and five-year annualized COMPOSITE returns through the most recent period. If the COMPOSITE has been in existence for less than five years, the FIRM MUST also present the annualized return since the COMPOSITE INCEPTION DATE.
- b. The period-to-date COMPOSITE return in addition to one-, three-, and five-year annualized COMPOSITE returns through the same period as presented in the corresponding GIPS COMPOSITE REPORT. If the COMPOSITE has been in existence for less than five years, the FIRM MUST also present the annualized return since the COMPOSITE INCEPTION DATE.
- c. The period-to-date COMPOSITE return in addition to five years of annual COMPOSITE returns (or for each annual period since the COMPOSITE INCEPTION DATE if the COMPOSITE has been in existence for less than five years). The annual returns MUST be calculated through the same period as presented in the corresponding GIPS COMPOSITE REPORT.



- d. The annualized COMPOSITE return for the total period that includes all periods presented in the corresponding GIPS COMPOSITE REPORT, through either: (New)
  - i. The most recent period end, or
  - ii. The most recent annual period end.
- 13.C.2 If MONEY-WEIGHTED RETURNS are presented in the corresponding GIPS COMPOSITE REPORT, the FIRM MUST present the annualized (for periods longer than one year) or non-annualized (for periods less than one year) COMPOSITE SINCE-INCEPTION MONEY-WEIGHTED RETURN through either: (New)
  - a. The most recent period end, or
  - b. The most recent annual period end.
- 13.C.3 The FIRM MUST clearly label COMPOSITE returns as GROSS-OF-FEES or NET-OF-FEES. (New)
- 13.C.4 The FIRM MUST present BENCHMARK returns for the same BENCHMARK as presented in the corresponding GIPS COMPOSITE REPORT, if the corresponding GIPS COMPOSITE 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 COMPOSITE returns are presented. (Adv Guidelines/HB discussion)
- 13.C.5 The FIRM MUST disclose or otherwise indicate the currency used to express performance. (Adv Guidelines)
- 13.C.6 The FIRM MUST disclose the GIPS Advertising Guidelines compliance statement: (Adv Guidelines/New)
 

“[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a trademark owned by CFA Institute.”
- 13.C.7 The FIRM MUST disclose how to obtain a GIPS COMPOSITE REPORT. (Adv Guidelines/New)
- 13.C.8 The FIRM MUST disclose if the GIPS ADVERTISEMENT conforms with laws or regulations that conflict with the REQUIREMENTS or RECOMMENDATIONS of the GIPS standards or the GIPS Advertising Guidelines, and the manner in which the laws or regulations conflict with the GIPS standards or the GIPS Advertising Guidelines. (Adv Guidelines)

## 13.D. Advertisements for a Composite of a Firm that Include Performance — Recommendations

- 13.D.1 The FIRM SHOULD disclose the COMPOSITE DESCRIPTION. (New)
- 13.D.2 The FIRM SHOULD disclose how leverage, derivatives, and short positions have been used historically, if material. (New)
- 13.D.3 The FIRM SHOULD disclose the BENCHMARK DESCRIPTION, which MUST include the key features of the BENCHMARK or the name of the BENCHMARK for a readily recognized index or other point of reference. (New)
- 13.D.4 If the FIRM determines no appropriate BENCHMARK for the COMPOSITE exists, the FIRM SHOULD disclose why no BENCHMARK is presented. (New)
- 13.D.5 The FIRM SHOULD disclose the definition of the FIRM. (New)

## FIRM LIMITED DISTRIBUTION POOLED FUNDS

### 13.E. Advertisements for a Limited Distribution Pooled Fund of a Firm that Include Performance — Requirements (All provisions in this section are new)

- 13.E.1 If TIME-WEIGHTED RETURNS are presented in the corresponding GIPS POOLED FUND REPORT, the FIRM MUST present POOLED FUND NET RETURNS according to one of the following:
- One-, three-, and five-year annualized returns through the most recent period. If the POOLED FUND has been in existence for less than five years, the FIRM MUST also present the annualized return since the POOLED FUND INCEPTION DATE.
  - The period-to-date return in addition to one-, three-, and five-year annualized returns through the same period as presented in the corresponding GIPS POOLED FUND REPORT. If the POOLED FUND has been in existence for less than five years, the FIRM MUST also present the annualized return since the POOLED FUND INCEPTION DATE.
  - The period-to-date return in addition to five years of annual returns (or for each annual period since the POOLED FUND INCEPTION DATE if the POOLED FUND has been in existence for less than five years). The annual returns MUST be calculated through the same period as presented in the corresponding GIPS POOLED FUND REPORT.
  - The annualized POOLED FUND return for the total period that includes all periods presented in the corresponding GIPS POOLED FUND REPORT, through either:
    - The most recent period end, or
    - The most recent annual period end.
- 13.E.2 If MONEY-WEIGHTED RETURNS are presented in the corresponding GIPS POOLED FUND REPORT, the FIRM MUST present the annualized (for periods longer than one year) or non-annualized (for periods less than one year) SINCE-INCEPTION MONEY-WEIGHTED POOLED FUND NET RETURN through either:
- The most recent period end, or
  - The most recent annual period end.
- 13.E.3 The FIRM MUST clearly label POOLED FUND NET RETURNS as net of TOTAL POOLED FUND FEES.
- 13.E.4 The FIRM MUST clearly label POOLED FUND GROSS RETURNS as gross of TOTAL POOLED FUND FEES, if presented.
- 13.E.5 The FIRM MUST present BENCHMARK returns for the same BENCHMARK as presented in the corresponding GIPS POOLED FUND REPORT, if the corresponding GIPS POOLED FUND 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 POOLED FUND returns are presented.
- 13.E.6 The FIRM MUST disclose or otherwise indicate the currency used to express performance.
- 13.E.7 The FIRM MUST disclose the GIPS Advertising Guidelines compliance statement:
- “[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a trademark owned by CFA Institute.”
- 13.E.8 The FIRM MUST disclose how to obtain a GIPS POOLED FUND REPORT.

- 13.E.9 The FIRM MUST disclose if the GIPS ADVERTISEMENT conforms with laws or regulations that conflict with the REQUIREMENTS or RECOMMENDATIONS of the GIPS standards or the GIPS Advertising Guidelines, and the manner in which the laws or regulations conflict with the GIPS standards or the GIPS Advertising Guidelines.

### **13.F. Advertisements for a Limited Distribution Pooled Fund of a Firm that Include Performance — Recommendations (All provisions in this section are new)**

- 13.F.1 The FIRM SHOULD disclose the POOLED FUND DESCRIPTION.
- 13.F.2 The FIRM SHOULD disclose how leverage, derivatives, and short positions have been used historically, if material.
- 13.F.3 The FIRM SHOULD disclose the BENCHMARK DESCRIPTION, which MUST include the key features of the BENCHMARK or the name of the BENCHMARK for a readily recognized index or other point of reference.
- 13.F.4 If the FIRM determines no appropriate BENCHMARK for the POOLED FUND exists, the FIRM SHOULD disclose why no BENCHMARK is presented.
- 13.F.5 The FIRM SHOULD disclose the definition of the FIRM.
- 13.F.6 The FIRM SHOULD present POOLED FUND returns that include the SUBSCRIPTION LINE OF CREDIT activity.

## **FIRM BROAD DISTRIBUTION POOLED FUNDS**

### **13.G. Advertisements for a Broad Distribution Pooled Fund of a Firm that Include Performance — Requirements**

- 13.G.1 If local laws or regulations mandate specific POOLED FUND returns, the FIRM MUST present POOLED FUND returns according to the methodology and for the periods REQUIRED by local laws or regulations. (GS on Broadly Distributed Pooled Funds)
- 13.G.2 If local laws or regulations do not mandate a methodology for calculating POOLED FUND returns, the FIRM MUST calculate and present POOLED FUND NET RETURNS. (GS on Broadly Distributed Pooled Funds)
- 13.G.3 If specific periods are not mandated by local laws or regulations, POOLED FUND returns REQUIRED by local laws or regulation or POOLED FUND NET RETURNS MUST be presented consistent with one of the following options:
- One-, three-, and five-year annualized returns through the most recent period. If the POOLED FUND has been in existence for less than five years, the FIRM MUST also present the annualized return since the POOLED FUND INCEPTION DATE.
  - The period-to-date return in addition to one-, three-, and five-year annualized returns through the most recent period. If the POOLED FUND has been in existence for less than five years, the FIRM MUST also present the annualized return since the POOLED FUND INCEPTION DATE.

- c. The period-to-date return in addition to five years of annual returns (or for each annual period since the POOLED FUND INCEPTION DATE if the POOLED FUND has been in existence for less than five years).
  - d. The annualized POOLED FUND return since the POOLED FUND INCEPTION DATE through the most recent period.
- 13.G.4 If the GIPS ADVERTISEMENT is created for a specific POOLED FUND share class, POOLED FUND returns MUST reflect the fees and expenses of that specific share class. [\(GS on Broadly Distributed Pooled Funds\)](#)
- 13.G.5 If the GIPS ADVERTISEMENT is not created for a specific share class, POOLED FUND returns MUST reflect the fees and expenses of: [\(GS on Broadly Distributed Pooled Funds\)](#)
- a. The share class with the maximum fee that is available for general distribution, or
  - b. All share classes.
- 13.G.6 The FIRM MUST clearly label POOLED FUND returns as gross or net of TOTAL POOLED FUND FEES. [\(New\)](#)
- 13.G.7 The FIRM MUST present BENCHMARK TOTAL RETURNS for the same periods for which the POOLED FUND is presented, unless the FIRM determines there is no appropriate BENCHMARK. [\(New\)](#)

**Request for Comment #46**

Do you agree that firms should be required to include benchmark returns in a GIPS Advertisement for a broad distribution pooled fund that includes performance?

- 13.G.8 The FIRM MUST disclose the current EXPENSE RATIO, and which fees and costs are included in the EXPENSE RATIO. The FIRM MUST disclose if PERFORMANCE-BASED FEES are not reflected in the EXPENSE RATIO, if applicable. [\(New\)](#)
- 13.G.9 The FIRM MUST disclose or otherwise indicate the currency used to express performance. [\(GS on Broadly Distributed Pooled Funds\)](#)
- 13.G.10 The FIRM MUST disclose the POOLED FUND DESCRIPTION. [\(GS on Broadly Distributed Pooled Funds\)](#)
- 13.G.11 If local laws or regulations mandate specific information about the POOLED FUND'S risk, as either a qualitative narrative or a quantitative metric, the FIRM MUST disclose this information. [\(GS on Broadly Distributed Pooled Funds\)](#)
- 13.G.12 If local laws or regulations do not mandate specific information about the POOLED FUND'S risk, the FIRM MUST choose an appropriate risk measure or qualitative disclosure that a PROSPECTIVE INVESTOR is likely to understand and MUST present this information. [\(GS on Broadly Distributed Pooled Funds\)](#)
- 13.G.13 The FIRM MUST disclose the BENCHMARK DESCRIPTION, which MUST include the key features of the BENCHMARK or the name of the BENCHMARK for a readily recognized index or other point of reference. [\(New\)](#)
- 13.G.14 The FIRM MUST disclose the GIPS Advertising Guidelines compliance statement: [\(GS on Broadly Distributed Pooled Funds/New\)](#)

"[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a trademark owned by CFA Institute."

13.G.15 The FIRM MUST disclose if the GIPS ADVERTISEMENT conforms with laws or regulations that conflict with the REQUIREMENTS or RECOMMENDATIONS of the GIPS standards or the GIPS Advertising Guidelines, and the manner in which the laws or regulations conflict with the GIPS standards or the GIPS Advertising Guidelines. (New)

## 13.H. Advertisements for a Broad Distribution Pooled Fund of a Firm that Include Performance — Recommendations

13.H.1 If the FIRM determines no appropriate BENCHMARK for the POOLED FUND exists, the FIRM SHOULD disclose why no BENCHMARK is presented. (New)

13.H.2 The FIRM SHOULD disclose the POOLED FUND'S SALES CHARGES AND LOADS. (GS on Broadly Distributed Pooled Funds)

### Request for Comment #47

The term “sales charges and loads” is defined as the costs associated with buying or selling shares of a pooled fund. Is this a well-understood term, or is there a better term?

13.H.3 The FIRM SHOULD disclose how SALES CHARGES AND LOADS are reflected in the POOLED FUND'S returns, if applicable. (GS on Broadly Distributed Pooled Funds)

13.H.4 The FIRM SHOULD disclose the definition of the FIRM. (GS on Broadly Distributed Pooled Funds)

## ASSET OWNER

### 13.I. Advertisements for a Total Fund or Composite of an Asset Owner that Include Performance — Requirements (All provisions in this section are new)

- 13.I.1 If TIME-WEIGHTED RETURNS are presented in the corresponding GIPS ASSET OWNER REPORT, the ASSET OWNER MUST present TOTAL FUND or COMPOSITE TOTAL RETURNS according to one of the following:
- a. One-, three-, and five-year annualized TOTAL FUND or COMPOSITE returns through the most recent period. If the TOTAL FUND or COMPOSITE has been in existence for less than five years, or the ASSET OWNER presents less than five years of performance in the corresponding GIPS ASSET OWNER REPORT, the ASSET OWNER MUST also present the annualized return that includes all periods presented in the corresponding GIPS ASSET OWNER REPORT.
  - b. The period-to-date TOTAL FUND or COMPOSITE return in addition to one-, three-, and five-year annualized TOTAL FUND or COMPOSITE returns through the same period as presented in the corresponding GIPS ASSET OWNER REPORT. If the TOTAL FUND or COMPOSITE has been in existence for less than five years, or the ASSET OWNER presents less than five years of performance in the corresponding GIPS ASSET OWNER REPORT,

- the ASSET OWNER MUST also present the annualized return that includes all periods presented in the corresponding GIPS ASSET OWNER REPORT.
- c. The period-to-date TOTAL FUND or COMPOSITE return in addition to five years of annual TOTAL FUND or COMPOSITE returns (or for each annual period presented in the corresponding GIPS ASSET OWNER REPORT if less than five years). The annual returns MUST be calculated through the same period as presented in the corresponding GIPS ASSET OWNER REPORT.
  - d. The annualized TOTAL FUND or COMPOSITE return for the total period that includes all periods presented in the corresponding GIPS ASSET OWNER REPORT, through either:
    - i. The most recent period end, or
    - ii. The most recent annual period end.
- 13.I.2 If MONEY-WEIGHTED RETURNS are presented in the corresponding GIPS ASSET OWNER REPORT, the ASSET OWNER MUST present the annualized (for periods longer than one year) or non-annualized (for periods less than one year) COMPOSITE MONEY-WEIGHTED RETURN that has the same start date as presented in the GIPS ASSET OWNER REPORT, through either:
- a. The most recent period end, or
  - b. The most recent annual period end.
- 13.I.3 The ASSET OWNER MUST clearly label TOTAL FUND or COMPOSITE returns as GROSS-OF-FEES, NET-OF-EXTERNAL COSTS ONLY, or NET-OF-FEES.
- 13.I.4 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 COMPOSITE returns are presented.
- 13.I.5 The ASSET OWNER MUST disclose or otherwise indicate the currency used to express performance.
- 13.I.6 The ASSET OWNER MUST disclose the GIPS Advertising Guidelines compliance statement:
- “[Insert name of ASSET OWNER] claims “[compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a trademark owned by CFA Institute.”
- 13.I.7 The ASSET OWNER MUST disclose how to obtain a GIPS ASSET OWNER REPORT.
- 13.I.8 The ASSET OWNER MUST disclose if the GIPS ADVERTISEMENT conforms with laws or regulations that conflict with the REQUIREMENTS or RECOMMENDATIONS of the GIPS standards or the GIPS Advertising Guidelines, and the manner in which the laws or regulations conflict with the GIPS standards or the GIPS Advertising Guidelines.

## **13.J. Advertisements for a Total Fund or Composite of an Asset Owner that Include Performance — Recommendations (All provisions in this section are new)**

- 13.J.1 The ASSET OWNER SHOULD disclose the TOTAL FUND DESCRIPTION or COMPOSITE DESCRIPTION.
- 13.J.2 The ASSET OWNER SHOULD disclose how leverage, derivatives, and short positions have been used historically, if material.

- 13.J.3 The ASSET OWNER SHOULD disclose the BENCHMARK DESCRIPTION, which MUST include the key features of the BENCHMARK or the name of the BENCHMARK for a readily recognized index or other point of reference.
- 13.J.4 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.
- 13.J.5 The ASSET OWNER SHOULD disclose the ASSET OWNER definition.

## GLOSSARY

### **ACCRUAL ACCOUNTING**

The recording of transactions as income is earned or expenses are incurred, rather than when income is received or expenses are paid.

### **ADDITIONAL RISK MEASURES**

(New term)

Risk measures included in a GIPS COMPOSITE REPORT, GIPS POOLED FUND REPORT, or GIPS ASSET OWNER REPORT beyond those REQUIRED to be presented.

### **ADMINISTRATIVE FEE**

All fees other than TRANSACTION COSTS and the INVESTMENT MANAGEMENT FEE. ADMINISTRATIVE FEES include CUSTODY FEES, accounting fees, auditing fees, consulting fees, legal fees, performance measurement fees, and other related fees.

### **ADVISORY-ONLY ASSETS**

(New term)

Assets for which the FIRM provides investment recommendations but for which the FIRM has no control of implementation of investment decisions and no trading authority for the assets.

### **ALL-IN FEE**

A type of BUNDLED FEE that can include any combination of INVESTMENT MANAGEMENT FEES, TRANSACTION COSTS, CUSTODY FEES, and ADMINISTRATIVE FEES. ALL-IN FEES are typically offered in certain jurisdictions where asset management, brokerage, and custody services are offered by the same company.

### **ASSET OWNER**

(New term)

An entity that manages investments, directly and/or through the use of EXTERNAL MANAGERS, on behalf of participants, beneficiaries, or the organization itself. These entities include, but are not limited to, public and private pension funds, endowments, foundations, family offices, provident funds, insurers and reinsurers, sovereign wealth funds, and fiduciaries. ASSET OWNERS MUST have discretion over TOTAL ASSET OWNER ASSETS, either by managing assets directly or by having the discretion to hire and fire EXTERNAL MANAGERS.



<b>BENCHMARK</b>	A point of reference against which the COMPOSITE'S, POOLED FUND'S, or TOTAL FUND'S returns or risk are compared.
<b>BENCHMARK DESCRIPTION</b>	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.
<b>BROAD DISTRIBUTION POOLED FUND</b> (New term)	A POOLED FUND that is publicly available to multiple investors, for which the typical marketing practice involves no or minimal personal contact between the FIRM managing the POOLED FUND and the POOLED FUND PROSPECTIVE INVESTOR. These funds are typically sold to the general public and are highly regulated.
<b>BUNDLED FEE</b>	A fee that combines multiple fees into one total or "bundled" fee. BUNDLED FEES can include any combination of INVESTMENT MANAGEMENT FEES, TRANSACTION COSTS, CUSTODY FEES, and/or ADMINISTRATIVE FEES. Two examples of BUNDLED FEES are WRAP FEES and ALL-IN FEES.
<b>CAPITAL RETURN</b> (New term)	The portion of a TOTAL RETURN generated by realized and unrealized gains and losses.
<b>CARRIED INTEREST</b>	The profits that GENERAL PARTNERS are allocated from the profits on the investments made by the investment vehicle. Also known as "carry" or "promote."
<b>CARRIED INTEREST DESCRIPTION</b> (New term)	Information about the features of the CARRIED INTEREST calculation, such as the HURDLE RATE, CRYSTALLIZATION PERIOD, and LOSS CARRYFORWARDS.
<b>CARVE-OUT</b>	A portion of a PORTFOLIO that is by itself representative of a distinct investment strategy. It is used to create a track record for a narrower mandate from a multiple-strategy PORTFOLIO managed to a broader mandate.
<b>CLAWBACK</b> (New term)	The repayment of previously earned PERFORMANCE-BASED FEES resulting from subsequent underperformance.
<b>CLOSED-END</b>	A POOLED FUND that is not open for subscriptions and/or redemptions.

<b>COMMITTED CAPITAL</b>	Pledges of capital to an investment vehicle by investors (LIMITED PARTNERS and the GENERAL PARTNER) or by the FIRM or ASSET OWNER. COMMITTED CAPITAL is typically drawn down over a period of time. Also known as “commitments.”
<b>COMPONENT RETURNS</b> (New term)	The CAPITAL RETURNS and INCOME RETURNS of a PORTFOLIO, POOLED FUND, TOTAL FUND, OR COMPOSITE.
<b>COMPOSITE</b>	An aggregation of one or more PORTFOLIOS or TOTAL FUNDS that are managed according to a similar investment mandate, objective, or strategy.
<b>COMPOSITE CREATION DATE</b>	The date when the FIRM or ASSET OWNER first groups one or more PORTFOLIOS or TOTAL FUNDS to create a COMPOSITE. The COMPOSITE CREATION DATE is not necessarily the same as the COMPOSITE INCEPTION DATE.
<b>COMPOSITE DEFINITION</b>	Detailed criteria that determine the assignment of PORTFOLIOS to COMPOSITES. Criteria may include investment mandate, style or strategy, asset class, the use of derivatives, leverage and/or hedging, targeted risk metrics, investment constraints or restrictions, and/or PORTFOLIO type (e.g., SEGREGATED ACCOUNT or POOLED FUND, taxable versus tax exempt).
<b>COMPOSITE DESCRIPTION</b>	General information regarding the investment mandate, objective, or strategy of the COMPOSITE. The COMPOSITE DESCRIPTION may be more abbreviated than the COMPOSITE DEFINITION but MUST include all key features of the COMPOSITE and MUST include enough information to allow a PROSPECTIVE CLIENT to understand the key characteristics of the COMPOSITE’S investment mandate, objective, or strategy, including: <ul style="list-style-type: none"> <li>• The risks of the COMPOSITE’S strategy.</li> <li>• How leverage, derivatives, and short positions may be used; if they are a material part of the strategy.</li> <li>• If ILLIQUID INVESTMENTS are a material part of the strategy.</li> </ul>
<b>COMPOSITE INCEPTION DATE</b>	The initial date of the COMPOSITE’S performance record.
<b>COMPOSITE TERMINATION DATE</b>	The date that the last PORTFOLIO exits a COMPOSITE or the FIRM no longer offers the strategy to PROSPECTIVE CLIENTS.

**CRYSTALLIZATION PERIOD**  
(New term)

The period over which PERFORMANCE-BASED FEES are considered earned by the FIRM or ASSET OWNER and can no longer be reversed under the terms of a CLAWBACK provision.

**CUSTODY FEE**

The fees payable to the custodian for the safekeeping of PORTFOLIO assets. CUSTODY FEES are considered to be ADMINISTRATIVE FEES and typically contain an asset-based portion and a transaction-based portion. The CUSTODY FEE may also include charges for additional services, including accounting, securities lending, and/or performance measurement. Custodial fees that are charged per transaction SHOULD be included in the CUSTODY FEE and not included as part of TRANSACTION COSTS.

**DIRECT INVESTMENTS**

Investments made directly in companies rather than investments made in fund investment vehicles or cash and/or cash equivalents.

**DISTINCT BUSINESS ENTITY**

A unit, division, department, or office that is organizationally and functionally segregated from other units, divisions, departments, or offices and that retains discretion over the assets it manages and that SHOULD have autonomy over the investment decision-making process. Possible criteria for determining this include:

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

**DISTRIBUTION**

Cash or stock distributed to LIMITED PARTNERS (or investors) from an investment vehicle. DISTRIBUTIONS are typically at the discretion of the GENERAL PARTNER (or the FIRM). DISTRIBUTIONS included both recallable and non-recallable DISTRIBUTIONS.

**DPI (REALIZATION MULTIPLE)**

SINCE-INCEPTION DISTRIBUTIONS divided by SINCE-INCEPTION PAID-IN CAPITAL.

**EX ANTE**

Before the fact.

**EX POST**

After the fact.

**EXPENSE RATIO**  
(New term)

The ratio of total POOLED FUND expenses to average net assets. The EXPENSE RATIO SHOULD NOT reflect TRANSACTION COSTS.

**EXTERNAL CASH FLOW**

Capital (cash or investments) that enters or exits a PORTFOLIO. Dividend and interest income payments are not considered EXTERNAL CASH FLOWS.

<b>EXTERNAL MANAGER</b> (New term)	A third-party investment manager hired by an ASSET OWNER to manage some or all of the TOTAL ASSET OWNER ASSETS.
<b>EXTERNAL VALUATION</b> (New term)	An independent assessment of value performed by an external third party.
<b>FAIR VALUE</b>	The amount at which an investment could be sold in an arm's length transaction between willing parties in an orderly transaction. The valuation MUST be determined using the objective, observable, unadjusted quoted market price for an identical investment in an active market on the measurement date, if available. In the absence of an objective, observable, unadjusted quoted market price for an identical investment in an active market on the measurement date, the valuation MUST represent the FIRM'S or ASSET OWNER'S best estimate of the FAIR VALUE. FAIR VALUE MUST include any accrued income.
<b>FEE SCHEDULE</b>	The FIRM'S current schedule of INVESTMENT MANAGEMENT FEES or BUNDLED FEES appropriate to PROSPECTIVE CLIENTS or PROSPECTIVE INVESTORS.
<b>FIRM</b>	The entity defined for compliance with the GIPS standards.
<b>FIXED COMMITMENT</b> (New term)	Having a pre-determined amount of COMMITTED CAPITAL.
<b>FIXED LIFE</b> (New term)	Having a pre-determined, finite investment time horizon.
<b>FULL GROSS-OF-FEES RETURN</b> (New term)	For an ASSET OWNER, the return on investments that reflects the deduction of only TRANSACTION COSTS.
<b>GENERAL PARTNER</b>	The GENERAL PARTNER is typically the manager of a LIMITED PARTNERSHIP, and the LIMITED PARTNERS are the other investors in the LIMITED PARTNERSHIP. The GENERAL PARTNER earns an INVESTMENT MANAGEMENT FEE that may include a percentage of the LIMITED PARTNERSHIP'S profits. (See "CARRIED INTEREST.")
<b>GIPS ADVERTISEMENT</b> (New term)	An advertisement by a GIPS-compliant FIRM or ASSET OWNER that adheres to the REQUIREMENTS of the GIPS Advertising Guidelines.
<b>GIPS ASSET OWNER REPORT</b> (New term)	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.

**GIPS COMPLIANCE NOTIFICATION FORM**

(New term)

The form required to be filed with CFA Institute to notify CFA Institute that the FIRM claims compliance with the GIPS standards.

**GIPS COMPOSITE REPORT**

A presentation for a COMPOSITE that contains all the information REQUIRED by the GIPS standards and may also include RECOMMENDED information or SUPPLEMENTAL INFORMATION.

**GIPS POOLED FUND REPORT**

(New term)

A presentation for a POOLED FUND that contains all the information REQUIRED by the GIPS standards and may also include RECOMMENDED information or SUPPLEMENTAL INFORMATION.

**GIPS REPORT**

(New term)

Includes both GIPS COMPOSITE REPORTS and GIPS POOLED FUND REPORTS.

**GROSS-OF-FEES**

For FIRMS, the return on investments reduced by any TRANSACTION COSTS.

For ASSET OWNERS, the return on investments reduced by TRANSACTION COSTS and all fees and expenses for externally managed POOLED FUNDS.

**HIGH WATERMARK**

(New term)

Last highest net asset value that a POOLED FUND or SEGREGATED ACCOUNT MUST exceed in order for the investment manager to be entitled to a PERFORMANCE-BASED FEE.

**HURDLE RATE**

(New term)

Minimum rate of return that a POOLED FUND or SEGREGATED ACCOUNT MUST exceed in order for the investment manager to be able to accrue a PERFORMANCE-BASED FEE.

**ILLIQUID INVESTMENTS**

(New term)

Investments that may be difficult to sell without a price reduction or that cannot be sold quickly because of a lack of market or ready/willing investors.

**INCOME RETURN**

(New term)

The portion of a TOTAL RETURN generated by income.

**INTERNAL DISPERSION**

A measure of the spread of the annual returns of individual PORTFOLIOS within a COMPOSITE. Measures may include, but are not limited to, high/low, range, and STANDARD DEVIATION (asset-weighted or equal-weighted) of PORTFOLIO returns.

<b>INVESTMENT MANAGEMENT COSTS</b> (New term)	For an ASSET OWNER, all costs for both internally and externally managed assets. In addition to all INVESTMENT MANAGEMENT COSTS for PORTFOLIO management, it may also involve a pro rata share of overhead and other related costs and fees, including data valuation fees, investment research services, custodian fees, pro rata share of overhead (such as building and utilities), allocation of non-investment-department expenses (such as human resources, communications, and technology), and performance measurement and compliance services.
<b>INVESTMENT MANAGEMENT FEE</b>	For FIRMS, a fee payable to the FIRM for management of a PORTFOLIO. INVESTMENT MANAGEMENT FEES are typically asset based (percentage of assets), performance based (see “PERFORMANCE-BASED FEE”), or a combination of the two but may take different forms as well. INVESTMENT MANAGEMENT FEES also include CARRIED INTEREST.  For ASSET OWNERS, a fee payable to EXTERNAL MANAGERS for externally managed assets.
<b>INVESTMENT MULTIPLE (TVPI)</b>	TOTAL VALUE divided by SINCE-INCEPTION PAID-IN CAPITAL.
<b>LARGE CASH FLOW</b>	The level at which the FIRM or ASSET OWNER determines that an EXTERNAL CASH FLOW may distort the return if the PORTFOLIO or TOTAL FUND is not valued. FIRMS and ASSET OWNERS MUST define the amount in terms of the value of cash/asset flow or in terms of a percentage of the PORTFOLIO assets. COMPOSITE assets, or TOTAL FUND assets. FIRMS and ASSET OWNERS MUST also determine if a LARGE CASH FLOW is a single EXTERNAL CASH FLOW or an aggregate of a number of EXTERNAL CASH FLOWS within a stated period.
<b>LIMITED DISTRIBUTION POOLED FUND</b> (New term)	A POOLED FUND that is not publicly available to multiple investors and for which the typical marketing practice involves contact between the FIRM managing the POOLED FUND and the POOLED FUND PROSPECTIVE INVESTOR. LIMITED DISTRIBUTION POOLED FUNDS are often referred to as “private funds.” These funds are typically sold in one-on-one presentations and may not be highly regulated.
<b>LIMITED PARTNER</b>	An investor in a LIMITED PARTNERSHIP.

**LIMITED PARTNERSHIP**

The legal structure used by many PRIVATE MARKET INVESTMENT CLOSED-END POOLED FUNDS. LIMITED PARTNERSHIPS are usually FIXED LIFE investment vehicles. The GENERAL PARTNER manages the LIMITED PARTNERSHIP pursuant to the partnership agreement.

**LINK**

1. Mathematical Linking: The method by which sub-period returns are geometrically combined to calculate the period return using the following formula:

$$\text{Period return} = [(1 + R_1) \times (1 + R_2) \dots (1 + R_n)] - 1$$

where  $R_1, R_2 \dots R_n$  are the sub-period returns for sub-periods 1 through  $n$ , respectively.

2. Presentational Linking: To be visually connected or otherwise associated within a GIPS COMPOSITE REPORT, GIPS POOLED FUND REPORT, or GIPS ASSET OWNER REPORT (e.g., two pieces of information are LINKED by placing them next to each other).

**LOSS CARRYFORWARD**

(New term)

A procedure whereby a loss incurred by a POOLED FUND or SEGREGATED ACCOUNT in a prior year can be carried forward to a future period and MUST be recovered before the investment manager can charge a PERFORMANCE-BASED FEE.

**MARKET VALUE**

The price at which investors can buy or sell an investment at a given time multiplied by the quantity held, plus any accrued income.

**MATERIAL ERROR**

(New term)

An error in a GIPS COMPOSITE REPORT, GIPS POOLED FUND REPORT, or GIPS ASSET OWNER REPORT that MUST be corrected and disclosed in a corrected GIPS COMPOSITE REPORT, GIPS POOLED FUND REPORT, or GIPS ASSET OWNER REPORT.

**MINIMUM EFFECTIVE COMPLIANCE DATE**

(New term)

The date after which only compliant performance may be presented by a FIRM. REAL ESTATE, PRIVATE EQUITY, and WRAP FEE COMPOSITES have a MINIMUM EFFECTIVE COMPLIANCE DATE of 1 January 2006. All other COMPOSITES and POOLED FUNDS have a MINIMUM EFFECTIVE COMPLIANCE DATE of 1 January 2000.



<b>MONEY-WEIGHTED RETURN (MWR)</b>	The MONEY-WEIGHTED RETURN is the implied discount rate or effective compounded rate of return that equates the present value of cash outflows with the present value of cash inflows. The SINCE-INCEPTION MWR (SI-MWR) is a special case of the MWR that equates the present value of all cash flows with the period end value. The SI-MWR is always annualized except when the reporting period is less than one year, in which case the SI-MWR is not annualized.
<b>MUST</b>	A provision, task, or action that is mandatory or REQUIRED to be followed or performed. (See "REQUIRE/REQUIREMENT")
<b>MUST NOT</b>	A task or action that is forbidden or prohibited.
<b>NET-OF-EXTERNAL-COSTS-ONLY</b> (New term)	For ASSET OWNERS, the GROSS-OF-FEES return reduced by all costs for externally managed SEGREGATED ACCOUNTS.
<b>NET-OF-FEES</b>	For FIRMS, the GROSS-OF-FEES return reduced by INVESTMENT MANAGEMENT FEES.  For ASSET OWNERS, the return that reflects the deduction of TRANSACTION COSTS, all fees and expenses for externally managed POOLED FUNDS, INVESTMENT MANAGEMENT FEES for externally managed SEGREGATED ACCOUNTS, and INVESTMENT MANAGEMENT COSTS.
<b>OVERLAY EXPOSURE</b> (New term)	The economic value for which a FIRM has investment management responsibility. OVERLAY EXPOSURE is the notional value of the OVERLAY STRATEGY being managed, the value of the underlying PORTFOLIOS being overlaid, or a specified target exposure.
<b>OVERLAY STRATEGY</b> (New term)	A strategy in which the management of a certain aspect of an investment strategy is carried out separately from the underlying PORTFOLIO. OVERLAY STRATEGIES are typically designed to either limit or maintain a specified risk exposure that is present in the underlying PORTFOLIO or to profit from a tactical view on the market by changing a PORTFOLIO'S specified risk exposure.
<b>PAID-IN CAPITAL</b>	Capital inflows to a POOLED FUND, COMPOSITE, or TOTAL FUND. It includes COMMITTED CAPITAL drawn down through capital calls and DISTRIBUTIONS that are subsequently recalled and reinvested.

<b>PERFORMANCE-BASED FEE</b>	A type of INVESTMENT MANAGEMENT FEE that is typically based on the performance of the PORTFOLIO on an absolute basis or relative to a BENCHMARK or other reference point.
<b>PERFORMANCE-BASED FEE DESCRIPTION</b> (New term)	General information regarding the PERFORMANCE-BASED FEE. It MUST include enough information to allow a PROSPECTIVE CLIENT, PROSPECTIVE INVESTOR, or those that have direct oversight responsibility for TOTAL ASSET OWNER ASSETS to understand the key characteristics of the PERFORMANCE-BASED FEE, and it is expected to include information about the PERFORMANCE-BASED FEE RATE and any HURDLE RATE, CLAWBACK, LOSS CARRYFORWARD, HIGH WATERMARK, reset frequency, CRYSTALLIZATION PERIOD, and on what basis fees are charged (e.g., investment versus total assets basis).
<b>PERFORMANCE EXAMINATION</b>	A process by which an independent verifier conducts testing of a specific COMPOSITE, POOLED FUND, or TOTAL FUND, in accordance with the REQUIRED PERFORMANCE EXAMINATION procedures of the GIPS standards.
<b>PERFORMANCE EXAMINATION REPORT</b>	A PERFORMANCE EXAMINATION REPORT is issued by an independent verifier after a PERFORMANCE EXAMINATION has been performed.
<b>PERFORMANCE-RELATED INFORMATION</b> (New term)	Includes: <ul style="list-style-type: none"> <li>• information expressed in terms of investment return and risk;</li> <li>• other information and input data that directly relate to the calculation of investment return and risk (e.g., PORTFOLIO holdings), as well as information derived from investment return and risk input data (e.g., performance contribution or attribution).</li> </ul>
<b>PERIODICITY</b>	The length of the period over which a variable is measured (e.g., a variable measured at a monthly PERIODICITY consists of observations for each month).
<b>PIC MULTIPLE</b>	SINCE-INCEPTION PAID-IN CAPITAL divided by cumulative COMMITTED CAPITAL.
<b>POOLED FUND</b> (New term)	A fund whose ownership interests may be held by more than one investor.

**POOLED FUND DESCRIPTION**

(New term)

General information regarding the investment mandate, objective, or strategy of the POOLED FUND. The POOLED FUND DESCRIPTION MUST include enough information to allow a PROSPECTIVE INVESTOR to understand the key characteristics of the POOLED FUND'S investment mandate, objective, or strategy, including:

- The risks of the POOLED FUND'S strategy.
- How leverage, derivatives, and short positions may be used; if they are a material part of the strategy.
- If ILLIQUID INVESTMENTS are a material part of the strategy.

**POOLED FUND GROSS RETURN**

(New term)

The return on investments reduced by any TRANSACTION COSTS.

**POOLED FUND INCEPTION DATE**

(New term)

The date when the POOLED FUND's track record starts.

For a LIMITED DISTRIBUTION POOLED FUND, the POOLED FUND INCEPTION DATE may be based on the following dates:

- a. When investment management fees are first charged.
- b. When the first investment-related cash flow takes place.
- c. When the first capital call is made.
- d. When the first committed capital is closed and legally binding.

**POOLED FUND NET RETURN**

(New term)

The POOLED FUND GROSS RETURN reduced by all fees and costs, including INVESTMENT MANAGEMENT FEES, ADMINISTRATIVE FEES, and other costs.

**POOLED FUND OF FUNDS**

An investment vehicle that invests in underlying investment vehicles.

**POOLED FUND TERMINATION DATE**

(New term)

The date when the POOLED FUND'S value goes to zero because all monies have been distributed.

**PORTFOLIO**

For FIRMS: An individually managed group of investments. A PORTFOLIO may be a SEGREGATED ACCOUNT or a POOLED FUND.

For ASSET OWNERS: An account representing one of the strategies in or components of the ASSET OWNER'S TOTAL FUND.

**PORTFOLIO-WEIGHTED CUSTOM BENCHMARK**

(New term)

A BENCHMARK created using the BENCHMARKS of the individual PORTFOLIOS in the COMPOSITE.

<b>PRIMARY FUND</b>	An investment vehicle that makes DIRECT INVESTMENTS rather than investing in other investment vehicles.
<b>PRIVATE EQUITY</b>	Investment strategies include, but are not limited to, venture capital, leveraged buyouts, consolidations, mezzanine and distressed debt investments, and a variety of hybrids, such as venture leasing and venture factoring.
<b>PRIVATE MARKET INVESTMENTS</b> (New term)	Includes real assets (e.g., REAL ESTATE, infrastructure, and timberland), PRIVATE EQUITY, and similar investments that are illiquid, not publicly traded, and not traded on an exchange.
<b>PROPRIETARY ASSETS</b>	Investments owned by the FIRM, the FIRM'S management, and/or the FIRM'S parent company that are managed by the FIRM. GENERAL PARTNER assets in a POOLED FUND are considered PROPRIETARY ASSETS.
<b>PROSPECTIVE CLIENT</b>	Any person or entity that has expressed interest in one of the FIRM'S COMPOSITE strategies and qualifies to invest in the COMPOSITE. Existing clients may also qualify as PROSPECTIVE CLIENTS for any COMPOSITE strategy that is different from their current investment strategy. Investment consultants and other third parties are included as PROSPECTIVE CLIENTS if they represent investors that qualify as PROSPECTIVE CLIENTS.
<b>PROSPECTIVE INVESTOR</b> (New term)	Any person or entity that has expressed interest in one of the FIRM'S POOLED FUNDS and qualifies to invest in the POOLED FUND. Existing POOLED FUND investors may also qualify as PROSPECTIVE INVESTORS for any POOLED FUND that is different from their current POOLED FUND. Investment consultants and other third parties are included as PROSPECTIVE INVESTORS if they represent investors that qualify as PROSPECTIVE INVESTORS.
<b>PUBLIC MARKET EQUIVALENT (PME)</b>	The performance of a public market index expressed in terms of a MONEY-WEIGHTED RETURN (MWR), using the same cash flows and timing as those of the COMPOSITE or POOLED FUND over the same period. A PME can be used as a BENCHMARK by comparing the MWR of a COMPOSITE or POOLED FUND with the PME of a public market index.
<b>PURE GROSS-OF-FEES</b> (New term)	The return on investments that is not reduced by any TRANSACTION COSTS incurred during the period.

**REAL ESTATE**

REAL ESTATE includes land, buildings under development, completed buildings, and other structures or improvements held for investment purposes. It also includes investments in:

- wholly owned or partially owned properties,
- REAL ESTATE commingled funds, separate accounts and unit trusts,
- unlisted, private placement securities issued by private REAL ESTATE investment trusts (REITs) and REAL ESTATE operating companies (REOCs), and
- equity-oriented debt (e.g., participating mortgage loans) or any private interest in a property where some portion of return to the investor at the time of investment is related to the performance of the underlying REAL ESTATE.

**REALIZATION MULTIPLE (DPI)**

SINCE-INCEPTION DISTRIBUTIONS divided by SINCE-INCEPTION PAID-IN CAPITAL.

**RECOMMEND/RECOMMENDATION**

A suggested provision task, or action that SHOULD be followed or performed. A RECOMMENDATION is considered to be best practice but is not a REQUIREMENT. (See "SHOULD")

**REQUIRE/REQUIREMENT**

A provision, task, or action that MUST be followed or performed.

**RVPI (UNREALIZED MULTIPLE)**

FAIR VALUE divided by SINCE-INCEPTION PAID-IN CAPITAL.

**SALES CHARGES AND LOADS**

(New term)

The costs associated with buying or selling shares of a POOLED FUND.

**SEGREGATED ACCOUNT**

(New term)

For a FIRM, a PORTFOLIO owned by a single client. For an ASSET OWNER, a PORTFOLIO managed by an EXTERNAL MANAGER.

**SHOULD**

A provision, task, or action that is RECOMMENDED to be followed or performed and is considered to be best practice but is not REQUIRED.

**SHOULD NOT**

(New term)

A provision, task, or action that is RECOMMENDED not to be followed or performed and is considered best practice not to do so.

**SIDE POCKET**  
(New term)

A type of account used mainly in alternative investment POOLED FUNDS, to separate ILLIQUID INVESTMENTS or distressed assets from other, more liquid investments or to segregate investments held for a special purpose from other investments. SIDE POCKETS are typically not available for investing for new POOLED FUND investors that invest after the SIDE POCKET has been created.

**SIGNIFICANT CASH FLOW**

The level at which the FIRM determines that one or more client-directed EXTERNAL CASH FLOWS may temporarily prevent the FIRM from implementing the COMPOSITE strategy. The cash flow may be defined by the FIRM as a single flow or an aggregate of a number of flows within a stated period of time. The measure of significance MUST be determined as either a specific monetary amount (e.g., €50,000,000) or a percentage of PORTFOLIO assets (based on the most recent valuation), and no other criteria, such as impact of the cash flow or the number of PORTFOLIOS in the COMPOSITE, may be considered. Transfers of assets between asset classes within a PORTFOLIO or FIRM-initiated cash flows MUST NOT be considered SIGNIFICANT CASH FLOWS.

**SINCE-INCEPTION**

For COMPOSITES, from the COMPOSITE INCEPTION DATE.  
For POOLED FUNDS, from the POOLED FUND INCEPTION DATE.

**STANDARD DEVIATION**

A measure of the variability of returns. As a measure of INTERNAL DISPERSION, STANDARD DEVIATION quantifies the distribution of the returns of the individual PORTFOLIOS within the COMPOSITE. As a measure of historical risk, STANDARD DEVIATION quantifies the variability of the COMPOSITE, POOLED FUND, TOTAL FUND, or BENCHMARK returns over time. Also referred to as “external STANDARD DEVIATION.”

**SUB-ADVISOR**

A third-party investment manager hired by the FIRM to manage some or all of the assets for which a FIRM has investment management responsibility.

**SUBSCRIPTION LINE OF CREDIT**  
(New term)

A loan facility that is usually put in place to facilitate administration when FIRMS are calling for funds from investors.

**SUPPLEMENTAL INFORMATION**

Any PERFORMANCE-RELATED INFORMATION included as part of a GIPS COMPOSITE REPORT, GIPS POOLED FUND REPORT, or GIPS ASSET OWNER REPORT that supplements or enhances the REQUIREMENTS and/or RECOMMENDATIONS of the GIPS standards.

**TEMPORARY NEW ACCOUNT**

An account for temporarily holding client-directed EXTERNAL CASH FLOWS until they are invested according to the COMPOSITE strategy or disbursed. FIRMS can use a TEMPORARY NEW ACCOUNT to remove the effect of a SIGNIFICANT CASH FLOW on a PORTFOLIO. When a SIGNIFICANT CASH FLOW occurs in a PORTFOLIO, the FIRM may direct the EXTERNAL CASH FLOW to a TEMPORARY NEW ACCOUNT according to the COMPOSITE'S SIGNIFICANT CASH FLOW policy.

**THEORETICAL PERFORMANCE**

(New term)

Performance that is not derived from a PORTFOLIO, COMPOSITE, or TOTAL FUND with actual assets invested in the strategy presented (e.g., model, back-tested, hypothetical, simulated, indicative, EX ANTE, and forward-looking performance).

**TIME-WEIGHTED RETURN (TWR)**

A method of calculating period-by-period returns that negates the effects of EXTERNAL CASH FLOWS.

**TOTAL ASSET OWNER ASSETS**

(New term)

All discretionary and non-discretionary assets for which an ASSET OWNER has investment management responsibility. TOTAL ASSET OWNER ASSETS include assets assigned to an EXTERNAL MANAGER provided the ASSET OWNER has discretion over the selection of the EXTERNAL MANAGER.

**TOTAL FIRM ASSETS**

All discretionary and non-discretionary assets for which a FIRM has investment management responsibility. TOTAL FIRM ASSETS include assets assigned to a SUB-ADVISOR provided the FIRM has discretion over the selection of the SUB-ADVISOR.

**TOTAL FUND**

(New term)

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 is typically composed of underlying PORTFOLIOS, each representing one of the strategies used to achieve the ASSET OWNER'S investment mandate.



**TOTAL FUND DESCRIPTION**

(New term)

General information regarding the TOTAL FUND'S investment mandate, objective, or strategy and would be expected to include the following:

- The asset allocation of the TOTAL FUND as of the most recent annual period end.
- The investment objective of the TOTAL FUND.
- The actuarial rate of return or spending policy description.
- A description of the asset classes and/or other groupings within the TOTAL FUND, such as the composition of the asset class, strategy used, types of management used (e.g., active, passive, internal, external), and relevant exposures.
- How leverage, derivatives, and short positions may be used, if they are a material part of the strategy.
- If ILLIQUID INVESTMENTS are a material part of the strategy.

**TOTAL FUND INCEPTION DATE**

(New term)

For an ASSET OWNER, the date when the TOTAL FUND'S performance track record begins.

**TOTAL POOLED FUND FEES**

(New term)

All of the fees and expenses charged to the POOLED FUND, including INVESTMENT MANAGEMENT FEES, ADMINISTRATIVE FEES, and other expenses.

**TOTAL RETURN**

The rate of return that includes the realized and unrealized gains and losses plus income for the measurement period.

**TOTAL VALUE**

(New term)

FAIR VALUE plus DISTRIBUTIONS.

**TRADE DATE ACCOUNTING**

Recognizing the asset or liability on the date of the purchase or sale and not on the settlement date. Recognizing the asset or liability within three days of the date upon which the transaction is entered (trade date, T + 1, T + 2, or T + 3) satisfies the TRADE DATE ACCOUNTING REQUIREMENT for purposes of the GIPS standards.

<b>TRANSACTION COSTS</b>	The costs of buying or selling investments. These costs typically take the form of brokerage commissions, exchange fees and/or taxes, and/or bid–offer spreads from either internal or external brokers. Custodial fees charged per transaction SHOULD be considered CUSTODY FEES and not TRANSACTION COSTS. For REAL ESTATE, PRIVATE EQUITY, and other PRIVATE MARKET INVESTMENTS, TRANSACTION COSTS include all legal, financial, advisory, and investment banking fees related to buying, selling, restructuring, and/or recapitalizing investments but do not include dead deal costs.
<b>TVPI (INVESTMENT MULTIPLE)</b>	TOTAL VALUE divided by SINCE-INCEPTION PAID-IN CAPITAL.
<b>UNREALIZED MULTIPLE (RVPI)</b>	FAIR VALUE divided by SINCE-INCEPTION PAID-IN CAPITAL.
<b>VALUATION REVIEW</b> (New term)	A review of valuation inputs and assumptions performed by an external third party.
<b>VERIFICATION</b>	A process by which an independent verifier conducts testing of a FIRM on a FIRM-wide basis, or an ASSET OWNER on an ASSET OWNER-wide basis, in accordance with the REQUIRED VERIFICATION procedures of the GIPS standards.
<b>VERIFICATION REPORT</b>	A VERIFICATION REPORT is issued by an independent verifier after a VERIFICATION has been performed.
<b>WRAP FEE</b>	WRAP FEES are a type of BUNDLED FEE and are specific to a particular investment product. The WRAP FEE is charged by a WRAP FEE sponsor for investment management services and typically includes associated TRANSACTION COSTS that cannot be separately identified. WRAP FEES can be all-inclusive, asset-based fees and may include a combination of INVESTMENT MANAGEMENT FEES, TRANSACTION COSTS, CUSTODY FEES, and/or ADMINISTRATIVE FEES. A WRAP FEE PORTFOLIO is sometimes referred to as a “separately managed account” (SMA) or “managed account.”

## Retired Terms – used in GIPS 2010 but not used in GIPS 2020

<b>ADDITIONAL INFORMATION</b>	Information that is REQUIRED or RECOMMENDED under the GIPS standards and is not considered SUPPLEMENTAL INFORMATION.
<b>CAPITAL EMPLOYED</b> (real estate)	The denominator of the return calculations and is defined as the “weighted-average equity” (weighted-average capital) during the measurement period. CAPITAL EMPLOYED does not include any INCOME RETURN or CAPITAL RETURN earned during the measurement period. Beginning capital is adjusted by weighting the EXTERNAL CASH FLOWS that occurred during the period.
<b>CAPITAL RETURN</b> (real estate)	The change in value of the REAL ESTATE investments and cash and/or cash equivalent assets held throughout the measurement period, adjusted for all capital expenditures (subtracted) and net proceeds from sales (added). The CAPITAL RETURN is computed as a percentage of the CAPITAL EMPLOYED. Also known as “capital appreciation return” or “appreciation return.”
<b>EVERGREEN FUND</b> (private equity)	An OPEN-END FUND that allows for ongoing subscriptions and/or redemptions by investors.
<b>EXTERNAL VALUATION</b> (real estate)	An assessment of value performed by an independent external third party who is a qualified, PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER/APPRaiser.
<b>FINAL LIQUIDATION DATE</b> (real estate and private equity)	The date when the last PORTFOLIO in a COMPOSITE is fully distributed.
<b>GROSS-OF-FEES</b> (real estate and private equity)	The return on investments reduced by any TRANSACTION EXPENSES incurred during the period.
<b>INCOME RETURN</b> (real estate)	The investment income earned on all investments (including cash and cash equivalents) during the measurement period net of all non-recoverable expenditures, interest expense on debt, and property taxes. The INCOME RETURN is computed as a percentage of the CAPITAL EMPLOYED.
<b>INTERNAL VALUATION</b> (real estate)	A FIRM’S best estimate of value based on the most current and accurate information available under the circumstances. INTERNAL VALUATION methodologies include applying a discounted cash flow model, using a sales comparison or replacement cost approach, or conducting a review of all significant events (both general market and asset specific) that could have a material impact on the investment.

<p><b>OPEN-END FUND</b> (real estate and private equity)</p>	<p>A type of investment vehicle where the number of investors and the total COMMITTED CAPITAL is not fixed and is open for subscriptions and/or redemptions. (See “EVERGREEN FUND.”)</p>
<p><b>PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER/APPRaiser</b> (real estate)</p>	<p>In Europe, Canada, and parts of Southeast Asia, the predominant professional designation is that of the Royal Institution of Chartered Surveyors (RICS). In the United States, the professional designation is Member [of the] Appraisal Institute (MAI). In addition, each state regulates REAL ESTATE appraisers and registers, licenses, or certifies them based on their experience and test results.</p>
<p><b>RESIDUAL VALUE</b> (private equity and real estate)</p>	<p>The remaining equity that LIMITED PARTNERS (or investors) have in an investment vehicle at the end of the performance reporting period.</p>
<p><b>SECONDARY FUND</b> (private equity)</p>	<p>An investment vehicle that buys interests in existing investment vehicles.</p>
<p><b>SETTLEMENT DATE ACCOUNTING</b></p>	<p>Recognizing the asset or liability on the date when the exchange of cash and investments is completed.</p>
<p><b>TOTAL RETURN</b> (real estate)</p>	<p>The rate of return, including all CAPITAL RETURN and INCOME RETURN components, expressed as a percentage of the CAPITAL EMPLOYED over the measurement period.</p>
<p><b>TRANSACTION EXPENSES</b> (real estate and private equity)</p>	<p>All actual legal, financial, advisory, and investment banking fees related to buying, selling, restructuring, and/or recapitalizing PORTFOLIO investments as well as TRADING EXPENSES, if any.</p>
<p><b>VINTAGE YEAR</b> (real estate and private equity)</p>	<p>Two methods used to determine VINTAGE YEAR are:</p> <ol style="list-style-type: none"> <li>1. The year of the investment vehicle’s first drawdown or capital call from its investors; or</li> <li>2. The year when the first COMMITTED CAPITAL from outside investors is closed and legally binding.</li> </ol>