



CFA Institute[®]

Global Investment Performance Standards

GUIDE FOR CREATING A GIPS[®] STANDARDS POLICIES AND PROCEDURES MANUAL FOR ASSET OWNERS



CFA Institute

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**Guide for Creating a
GIPS® Standards Policies and Procedures Manual for Asset Owners**

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Introduction

Asset owners can be public or private pension plans, endowments, foundations, family offices, provident funds, insurers and reinsurers, sovereign wealth funds, and fiduciaries. Given that there are so many different types and varieties of asset owners, there is no “one size fits all” GIPS Standards Policies and Procedures Manual (P&P Manual) for asset owners. Each asset owner’s P&P Manual must be created for the specific conditions and circumstances of the asset owner. This guide for creating a P&P Manual does not cover every GIPS standards requirement and recommendation. Asset owners should, therefore, take care to make sure they have reviewed and addressed all of the GIPS standards requirements that are applicable to their organization, as well as any recommendations the asset owner has chosen to adopt.

When determining which requirements of the GIPS standards are applicable to the asset owner, the asset owner must consider not only the GIPS standards but also any requirements that are included in Guidance Statements, interpretations (see the GIPS Standards Handbook), and Questions and Answers published by CFA Institute and the GIPS standards governing bodies. A list of requirements outside the provisions is included on the GIPS standards website, on the Tools webpage.

This guide is not authoritative guidance and is simply a starting point to help asset owners think about what should be included in a P&P Manual.

Each asset owner will need to tailor its policies and procedures to fit its situation. For example, this guide assumes that the asset owner has a GIPS Standards Oversight Committee, but some asset owners may not have a GIPS Standards Oversight Committee. As another example, some asset owners will have created additional composites while other asset owners will not. Also, policies and procedures will differ depending on whether an asset owner manages assets internally and/or uses external managers.

Important Points to Keep in Mind

The GIPS standards require documentation of the policies and procedures used in establishing and maintaining compliance with the GIPS standards. Because the GIPS standards are not static and may change over time, asset owners must establish policies and procedures to identify any changes in the GIPS standards that affect them.

Asset owners must also comply with any laws and regulations regarding the calculation and presentation of performance. Laws and regulations can also change over time, so the GIPS standards require the creation of policies and procedures to monitor and identify changes in and additions to laws and regulations regarding the calculation and presentation of performance.

The P&P Manual serves a number of important functions. The P&P Manual:

- indicates choices where there are approved alternatives;
- specifies policies/rules for situations that the GIPS standards do not explicitly cover; and
- documents procedures for consistent application of GIPS standards policies.

Before creating a P&P Manual, there are a few things that it would be helpful to know. First, it is important to understand the difference between a “policy” and a “procedure.”

Policy: A basic principle used to guide decisions and actions

Procedure: An action required to implement a policy

Because procedures are so asset owner specific, this sample P&P Manual focuses primarily on policies but also includes some procedures. Detailed operational procedures will often reside outside of the asset owner’s P&P Manual but may, in some cases, be incorporated or referenced within the P&P Manual. For

example, an asset owner may include key concepts of its valuation procedures within the P&P Manual but refer to detailed valuation procedures that are maintained by the Operations Department.

Here are some important points for asset owners to keep in mind as they develop their own P&P Manual:

- Asset owners should identify personnel, or those who hold certain job titles or positions at the asset owner, who will be responsible for developing and maintaining the policies and procedures and for ensuring that all applicable requirements are being followed. It is likely that several areas within the asset owner (accounting, legal and compliance, investment operations, portfolio management, etc.) will need to be involved.
- Policies and procedures are unique to an asset owner – there is no “one size fits all” template. While getting help from others outside of the asset owner is fine, the P&P Manual must be designed for the specific asset owner.
- If an asset owner relies on records and information provided by any third party, there must be policies and procedures for ensuring these records and information meet any requirements of the GIPS standards.
- A P&P Manual should not simply repeat the GIPS standards provisions. Here is an example based on Provision 21.A.6.b, which states that the asset owner must 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 standards governing bodies.
 - Incorrect: “Policies and procedures have been created to monitor and identify changes in and additions to the GIPS standards, as well as all of the Guidance Statements, interpretations, and Q&As published by CFA Institute.” This would not be an appropriate policy because it simply repeats the provision and does not include the actions the asset owner will take to comply with the requirement.
 - Correct: “In order to stay informed of any new guidance, interpretations, or changes to the GIPS standards relevant to the asset owner, staff members responsible for compliance with the GIPS standards:
 - subscribe to the CFA Institute GIPS Standards Newsletter;
 - review the information provided by the asset owner’s verifier and other performance industry service providers, regarding interpretation of and news about the GIPS standards;
 - participate in webinars and other online training programs offered by industry leaders; and
 - regularly attend industry conferences, including the GIPS Standards Annual Conference sponsored by CFA Institute.”
- Asset owners must have policies and procedures in place for:
 - reviewing and ensuring that all required information is included in a GIPS Asset Owner Report and that the information is accurate; and
 - ensuring that all materials adhere to applicable laws and regulations regarding the calculation and presentation of performance results.
- Any changes in the asset owner’s GIPS standards policies and procedures should be applied prospectively and not retrospectively.
- Both current and previous versions of the asset owner’s P&P Manual must be maintained so there is an accurate history of policies and procedures for the entire period for which the asset owner claims compliance. Some asset owners will create a new version of the P&P Manual when a change is made, while others will update the same document noting any changes and the effective date of the changes. What is important is that asset owners are able to identify when changes to policies are effective so that anyone who is reviewing the policies and procedures, including verifiers, will know which policy was in place for which time period.

Here are some questions to ask as policies and procedures are being formulated:

- For each requirement, and each recommendation that the asset owner chooses to adopt, do the policies and procedures clearly explain:
 - what is being done to meet the requirement or recommendation;
 - how it is done; and
 - who is responsible for doing it?
- Does the policy or procedure conform to:
 - the GIPS standards;
 - regulatory requirements;
 - the principles of fair representation and full disclosure?
- Is the policy or procedure easy to understand and apply consistently given the work processes and systems in place?
- Are appropriate internal controls included or referenced in the asset owner’s policies and procedures?

Requirements and Recommendations

Requirements are provisions, tasks, or actions that must be followed or performed.

Recommendations are provisions, tasks, or actions that are not required to be followed but that should be followed. It is a recommendation of the GIPS standards that asset owners comply with the recommendations of the GIPS standards.

Requirements and recommendations can be found in the provisions or in interpretive guidance, including the GIPS Standards Handbook, Guidance Statements, and Q&As. A list of requirements outside the provisions can be found on the GIPS Standards website (www.gipsstandards.org) on the Tools webpage.

The contents for each topic in this guide are as follows:

- Background on key points that asset owners should consider and document in the asset owner’s P&P Manual.
- Sample policy.

Sample Policies

Please keep in mind that the following sample policies do not address every requirement and recommendation that may apply to an asset owner. This guide is intended to help an asset owner get started with documenting its policies and procedures. An asset owner needs to tailor its policies and procedures to its specific circumstances and must also ensure the policies and procedures are complete.

Fundamentals of Compliance

Asset Owner Definition

Background:

This section should contain the definition of the asset owner used for GIPS compliance purposes. Any changes to the asset owner definition should also be captured here as well.

Sample Policy:

XYZ Pension Plan is a government-sponsored public pension plan representing the state workers of XYZ. Public investments are managed internally by the XYZ investment office and private market investments are managed externally, primarily through investments in funds and limited partnerships. XYZ Pension Plan was established in March 1996.

Period of Compliance

Background:

The asset owner should document the dates for which it claims compliance with the GIPS standards. Asset owners may not present non-compliant performance in GIPS Asset Owner Reports for periods prior to claiming compliance.

Sample Policy:

XYZ Pension Plan initially claimed compliance with the GIPS standards for the one-year period from 1 January 2021 through 31 December 2021. XYZ Pension Plan does not include any performance in GIPS Asset Owner Reports for periods ended prior to 1 January 2021. XYZ Pension Plan continues to claim compliance with the GIPS standards on an ongoing basis.

Documenting Policies and Procedures

Background:

Asset owners must document their policies and procedures used in establishing and maintaining compliance with the GIPS standards. An asset owner must document all of the policies and procedures it follows for meeting the applicable requirements of the GIPS standards, as well as any recommendations the asset owner has chosen to adopt. There is no requirement to create and document policies and procedures to comply with requirements of the GIPS standards that do not apply to the asset owner. However, asset owners must actively make a determination about the applicability of all the provisions or other requirements of the GIPS standards and document their policies and procedures accordingly. It is recommended that asset owners review all requirements of the GIPS standards on an annual basis to determine if changes in the requirements or changes in the asset owner's investment strategies warrant changes to existing policies and procedures.

Sample Policy:

The Performance Department is responsible for maintaining the asset owner's GIPS Standards Policies and Procedures Manual (P&P Manual). The Performance Department maintains all prior versions of the P&P Manual, to document the effective date of any changes. The Performance Department is responsible for monitoring for any changes to the requirements of the GIPS standards, including any guidance published by CFA Institute and the GIPS standards governing bodies. If changes to the asset owner's policies and procedures are required, the Performance Department will submit a draft of the proposed changes to the GIPS Standards Oversight Committee for review and approval. Once changes are approved, the Performance Department will update the P&P Manual. The updated P&P Manual will be posted on the organization's intranet, and a memo describing the changes will be distributed to relevant staff.

If the oversight body or a beneficiary requests policies for valuing investments, calculating performance, or preparing GIPS Asset Owner Reports, the Performance Department will provide the policies from within the P&P Manual that are responsive to the request.

Identifying Changes to the GIPS Standards

Background:

Asset owners must ensure they are aware of any changes to the GIPS standards. Changes are often communicated through the GIPS Standards Newsletter. Changes may be in the form of Q&As, Guidance Statements, and Interpretations published by CFA Institute and its GIPS standards governing bodies.

Sample Policy:

To stay up to date with the GIPS standards, the asset owner budgets for two people to attend the CFA Institute Annual GIPS Standards Conference each year. All members of the GIPS Standards Oversight Committee and all members of the Performance Department subscribe to the GIPS Standards Newsletter

produced by CFA Institute. Also, our verification firm provides the GIPS Standards Oversight Committee with an update on any new guidance the firm needs to be aware of during the closing meeting at the end of the verification.

In addition, all employees involved with the GIPS standards are encouraged to obtain the Certificate in Performance Measurement (CIPM), which includes important concepts embodied in the GIPS standards.

Complying with Laws and Regulations

Background:

Asset owners must create policies and procedures to ensure that they adhere to all applicable laws and regulations regarding the calculation and presentation of performance. Asset owners must also have policies and procedures to identify and monitor changes and additions to laws and regulations regarding the calculation and presentation of performance. Where laws and regulations are stricter than the GIPS standards, asset owners should document where that occurs and how they will comply with the stricter laws and regulations.

Sample Policy:

XYZ Pension Plan complies with all applicable laws and regulations regarding the calculation and presentation of performance. The Compliance Department is responsible for identifying any changes to regulatory requirements that require a change to the GIPS standards policies and procedures. XYZ Pension Plan accomplishes this using a variety of methods, including the use of retained outside counsel.

The Compliance Department will notify the GIPS Standards Oversight Committee of any changes to laws and regulations that impact the asset owner's policies for complying with the GIPS standards. The performance department will update the asset owner's GIPS standards policies and procedures as appropriate.

Responsibility for GIPS Compliance

Background:

The asset owner should document those personnel or the positions of those personnel who have overall responsibility for the asset owner's compliance with the GIPS standards. Many asset owners establish a GIPS Standards Oversight Committee that includes members from all areas of the asset owner that play a role in maintaining the asset owner's compliance with the GIPS standards.

Sample Policy:

XYZ Pension Plan is committed to maintaining compliance with the GIPS standards. XYZ Pension Plan acknowledges that compliance with the GIPS standards must be met on an asset owner-wide basis, and not on a total fund-specific or composite-specific basis. The performance manager coordinates the efforts to comply with the GIPS standards with the assistance of the GIPS Standards Oversight Committee. The GIPS Standards Oversight Committee meets quarterly and includes representatives from performance, portfolio management, compliance, risk, operations, and an external GIPS Standards consultant. At these meetings, the Performance Department updates the committee on any recent events or changes to the GIPS standards that have an impact on the asset owner's compliance with the GIPS standards.

The GIPS Standards Oversight Committee is responsible for:

- reviewing new total fund or composite descriptions;
- determining that changes in the asset owner's policies and procedures resulting from changes in the GIPS standards or regulatory requirements have been made and have been properly documented in the asset owner's P&P Manual;
- overseeing the GIPS standards verification process, including selecting which total funds and composites will be examined and reviewing any potential independence issues regarding the verification process.

The GIPS Standards Oversight Committee Charter, with roles and functions, can be found in the Internal Policies and Procedures folder in the Performance Department's Intranet site.

Maintaining List of Total Funds and Composites

Background:

An asset owner is required to maintain a complete list of total fund descriptions and composite descriptions for any composite that has been presented in a GIPS Asset Owner Report. If an asset owner has only one total fund or only one total fund composite and has not chosen to create any additional composites, the GIPS Asset Owner Report for the total fund or the total fund composite represents the asset owner's list of total fund and composite descriptions. This is because the composite description in the GIPS Asset Report for the total fund or the total fund composite is required to be included in the GIPS Asset Owner Report, and the GIPS Asset Owner Report can be used to meet this requirement. If an asset owner chooses to create additional composites representing one or more strategies within a total fund, or the asset owner has more than one required GIPS Asset Owner Report for its total funds, a list of total fund descriptions and composite descriptions must be maintained.

Asset owners must include terminated total funds and terminated composites on the list of total fund descriptions and composite descriptions for at least five years after the total fund termination date or composite termination date.

Asset owners should document policies and procedures for who maintains this list and how they are updated as total funds and composites are launched or terminated.

In addition to maintaining a complete list of total fund descriptions and composite descriptions, as applicable to the asset owner, asset owners must provide this list to the oversight body upon request. If an asset owner has only one required total fund or only one required total fund composite, and has not chosen to create any additional composites, the GIPS Asset Owner Report for the total fund or the total fund composite may be used.

Although asset owners are required to provide the complete list of total fund descriptions and composite descriptions to the oversight body upon request, they are encouraged to provide this information to anyone else who makes the request.

Sample Policy:

The Performance Department is responsible for maintaining the asset owner's list of total fund and composite descriptions. This list has been created and is available on the asset owner's Performance Department Intranet site. On an annual basis, the Performance Department updates this list to remove any total funds or composites that terminated more than five years ago. To facilitate the removal of terminated total funds or composites after five years, terminated total funds or composites are maintained in a separate section of the list of composite descriptions, and the termination date is noted.

Annually, the Performance Department reconciles the list of total fund and composite descriptions to the current list of total funds or composites from the composite management software. The Performance Department adds any new total funds or composites, and any corresponding descriptions.

The Compliance Department may access these lists on the Performance Department Intranet site in order to respond to any oversight body request. Although we are not required to provide this list to anyone else, it is our policy to provide this list upon request to any beneficiary who makes a request to obtain this list.

Recordkeeping

Background:

Records that support the performance information presented in GIPS Asset Owner Reports must be captured, maintained, and made available within a reasonable timeframe. This recordkeeping requirement applies to all the periods that are presented in GIPS Asset Owner Reports. This section should include the types of records that are maintained and the systems that store those records. Asset owners also need to consider regulatory recordkeeping requirements. Regulatory requirements may be stricter than the GIPS standards requirement, and the asset owner must follow the stricter requirement. If an asset owner uses a third party as part of its process for complying with the GIPS standards, and it places reliance on records from the third party, the asset owner must establish policies and procedures to ensure that the third-party performance records and information that it uses meet the requirements of the GIPS standards.

Sample Policy:

It is XYZ Pension Plan's policy to keep all documentation supporting performance since the plan was established in 1996. However, complete records for some private equity investments do not exist for periods prior to 1 January 2012. Records to support performance information for all portfolios and benchmarks are stored in the asset owner's portfolio accounting and performance systems. These records include reports to support holdings, valuations, cash flows, transactions, and return calculations. Custody reports and reconciliations are maintained by the Operations Department on the shared drive of the Intranet site.

Multiple departments within the asset owner are responsible for documentation that supports performance reported in a GIPS Asset Owner Report. Fee and cost information is maintained by the Finance Department, agreements with external managers are maintained by the Legal Department, and any supporting Excel calculations are stored on the Performance Department Intranet site. Most documentation is stored electronically on site, with a backup maintained at an off-site location per the organization's disaster recovery policy. Some hard copy documentation prior to January 2005 is stored at an off-site location.

XYZ Pension Plan relies on valuation data from external managers for some of its portfolios. XYZ Pension Plan acknowledges that it is responsible for ensuring the information provided by the external managers meets the requirements of the GIPS standards. XYZ Pension Plan also ensures it has access to the data supporting the valuations.

The Legal Department will obtain input from the Performance Department to ensure all required records are addressed in the service-level agreements. The Legal Department ensures that service-level agreements with any third party provide XYZ Pension Plan with adequate access to documentation supporting any records upon which XYZ Pension Plan relies. They also ensure these agreements contractually support XYZ Pension Plan's ability to obtain this critical information in the event the companies end their business relationship. The Legal Department reports on the status of these contracts to the GIPS Standards Oversight Committee.

GIPS Compliance Notification Form

Background:

An asset owner is required to notify CFA Institute of its claim of compliance when the asset owner initially claims compliance with the GIPS standards by submitting a GIPS Compliance Notification Form. Subsequently, the asset owner must file an updated GIPS Compliance Notification Form annually, by 30 June. Information within the GIPS Compliance Notification Form must be as of the most recent 31 December. The asset owner should document in its policies and procedures who is responsible for filing its annual GIPS Compliance Notification Form and the date the form is due.

Sample Policy:

The Performance Manager is responsible for submitting the GIPS Compliance Notification Form annually. The filing is in our Compliance Calendar for filing by 31 March. The Performance Manager is listed as the primary contact, and the Chief Compliance Officer is listed as the secondary contact. XYZ Pension Plan allows its name to be listed on the CFA Institute website as a GIPS-compliant asset owner. The Performance Manager will save a copy of the submitted GIPS Compliance Notification Form that it receives from CFA Institute to the Performance Function Intranet site.

Input Data and Calculations

Calculating Total Asset Owner Assets

Background:

This section should discuss how the asset owner calculates total asset owner assets for GIPS compliance purposes. This calculation may be different from the asset owner's calculation of assets under management for regulatory or financial statement reporting purposes. Total asset owner assets include 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 asset owner assets must also include both fee-paying and non-fee-paying portfolios. One example of a non-fee-paying portfolio is one that is internally managed and no explicit investment management fees are charged for managing those assets. Cash and cash equivalents that are considered discretionary and part of the investable assets of the total fund must also be included in total fund assets.

Sample Policy:

Total asset owner assets are calculated by the Finance Department monthly. Total asset owner assets include all assets assigned to an external manager for which XYZ Pension Plan has discretion over the selection of the external manager.

The calculation is reviewed by representatives from the Operations Department and the Performance Department prior to being finalized.

Any theoretical performance, such as model accounts in the performance system, are flagged as model portfolios and excluded from total asset owner assets.

Use of Fair Value

Background:

Asset owners are required to fair value all portfolios. Fair value is defined as the amount at which an investment could be sold in an arm's length transaction between willing parties in an orderly transaction. The valuation must be determined using the objective, observable, unadjusted quoted market price for an identical investment in an active market on the measurement date, if available. In the absence of an objective, observable, unadjusted quoted market price for an identical investment in an active market on the measurement date, the valuation must represent the asset owner's best estimate of the fair value. Fair value must include any accrued income. Asset owners often have detailed valuation policies and procedures that do not reside within the GIPS Standards Policies and Procedures. Asset owners may summarize the valuation policies and procedures within the GIPS Standards Policies and Procedures and refer to the more detailed valuation policies and procedures.

Sample Policy:

XYZ Pension Plan’s objective is to ensure the accuracy of all asset prices maintained in the asset owner’s investment systems.

The asset owner has established a three-level pricing hierarchy for internally managed assets.

- Level 1: Quoted prices in active markets for identical investments
- Level 2: Other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3: Significant unobservable inputs (including the analyst’s assumptions in determining the fair value of investments)

For Level 1 assets, the pricing team works with third-party pricing vendors to collect prices on a daily basis.

The current third-party pricing vendors are as follows:

Asset Class	Vendor
Equities	Main Market Pricing Services
Bank Loans	Bank Loan Pricing Direct
Bonds	Main Market Pricing Services
CLOs	Securitized Pricing Direct
Fx Rates	Currency Exchange Worldwide

For thinly traded securities, the asset owner may utilize broker pricing to the extent the prices provided by the third-party pricing vendors are determined to not be accurate.

On a monthly basis, the pricing team provides a summary report of all asset prices, including documentation to support Level 3 prices, to the Valuation Committee for review and approval.

Please refer to the Valuation Policies and Procedures maintained by the Operations Department in the fair value folder on the Intranet site.

Externally Managed Portfolios

External managers for public investments provide transactions and ending positions to the Operations Department each day. We value these investments in the same manner as internal investments. On a monthly basis the Operations Department reconciles internal valuations with external valuations, and if differences above a pre-established range for the asset class occur, the Operations Department follows up with the external manager.

For private market investments where XYZ Pension Plan is a limited partner, valuation information is typically provided by the General Partner within two to three months after the valuation date. These investments are valued using the last available valuation from the General Partner, adjusted for any contributions and distributions.

Calculating Portfolio-Level Returns

Background:

Sections 22 and 23 of the GIPS standards include numerous requirements applicable to the data and the methodology that are used to calculate portfolio-level returns. This section should include information on the data inputs and portfolio-level return calculations.

Sample Policy:

Input data – The following conventions apply to all total fund and portfolio returns:

- Total returns – Returns that reflect capital appreciation/depreciation and income earned are calculated

for all portfolios.

- Transaction costs – All returns reflect the deduction of transaction costs. Transaction costs include brokerage commissions, exchange fees and/or taxes, and bid–offer spreads.
- Trade date accounting – All purchases and sales are recorded on trade date.
- Income – Interest and dividend income are recognized on an accrual basis, except income on short-term cash account is recognized on a cash basis. Accrued income is included in market values.
- Withholding taxes – Dividends are reflected net of all withholding taxes. Reclaimable withholding taxes are recognized on a cash basis if and when received.
- Fair Value – Investments are valued according to our fair value policies, which can be found in the Operations Department fair value folder on the Intranet site.
- All cash and cash equivalents are considered discretionary and included in total fund return calculations.
- Estimated values – XYZ Pension Plan uses preliminary or estimated values as fair value when the final valuations are not yet available.
- Leverage – All portfolio values are net of leverage.
- Overlay – Currency forward contracts are used to hedge currency exposure.

Reconciliation to the custodian – The Operations Department reconciles cash transactions and ending cash and security positions to the custodian on a daily basis. At month end, security positions and valuations as well as income accruals are reconciled to the custodian statement. All differences are researched and resolved. Reconciled month-end data is the source for total asset owner assets, which ensures only actual assets are included in total asset owner assets and composite assets.

Valuation – The Operations Department is responsible for loading the pricing files from the pricing sources at the end of each day. Exception reports are run to identify large changes in price (+/-4%) or missing prices. The Operations Department researches the exceptions. If a price change is required, the information is submitted to the Valuation Committee for review, approval, and correction. Only select members of the Valuation Committee can input changes into the trading system. Other staff do not have system access to make a price change.

For public investments, all segregated accounts and investments in pooled funds are valued daily. Private market investments are valued monthly.

Private equity funds are valued using the latest available valuation from the General Partner, with positions adjusted for any capital activity.

Total fund and portfolio-level return calculations

XYZ Pension Plan's performance system is used to calculate all returns.

Total fund returns are calculated monthly using the Modified Dietz method. The total fund will be revalued during the month if daily cash flows exceed 10%.

Total fund returns are calculated monthly. We include gross and net returns in the total fund GIPS Asset Owner Report. Gross returns reflect the deduction of transaction costs and all fees and expenses for externally managed pooled funds. Net returns reflect 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. We estimate the monthly investment management costs by using 1/12th of the prior year's annual total investment costs in basis points. For example, if the annual investment management cost impact was 17 bps, we deduct 1/12th of 17 bps on a monthly basis.

Portfolio level returns for public investment portfolios are calculated daily. The following return formula is used to calculate a daily gross return. Gross returns are net of transaction costs and all fees and expenses for externally managed pooled funds.

$$\text{Daily Gross Return} = \frac{\text{Ending Market Value} - \text{Beginning Market Value} - \text{External Cash Flows}}{\text{Beginning Market Value}}$$

Market values include accrued income.

Market values include the unrealized gain/loss on forward contracts.

Daily returns are geometrically linked to calculate monthly gross returns, using the following formula.

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

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

Hedge Funds and Real Estate Funds

The Performance Department obtains market value and NAV information from the fund administrator and then uses this information to calculate fund performance as of calendar month end in Excel. The fund net return is used for total fund gross and net returns.

When a fund has a performance fee, the Performance Department is responsible for reviewing offering documents and doing a reasonableness check of the net return.

Private Equity Funds

Because we decide when to commit assets to private equity funds, we have decided that the money-weighted return is the most appropriate return for the private equity asset class composite. The money-weighted return is calculated in Excel using the Internal Rate of Return (XIRR) calculation on a quarterly basis as of calendar quarter-ends. The internal rate of return (IRR) solves for the R that makes this equation true. W_i is the weight of external cash flow i , assumed to happen at the end of day.

$$\text{Terminal Value} = \sum_{i=0}^n CF_i (1 + R)^{W_i}$$

Effective 1 January 2020, cash flows are reflected on the date that they occur. Prior to 1 January 2020, cash flows were reflected quarterly. Stock distributions are included as external cash flows and reflect the value at the time of distribution, on the date we receive the distribution.

If reporting an IRR for a period less than a year, the XIRR is unannualized as follows:

$$R_{SI-IRR} = \left[(1 + r_{SI-IRR})^{\frac{TD}{365}} \right] - 1,$$

where

R_{SI-IRR} = non-annualized since-inception internal rate of return (SI-IRR)

r_{SI-IRR} = annualized SI-IRR

TD = total number of calendar days in the measurement period (less than one year)

Overlay Portfolios

XYZ Pension Plan manages several overlay portfolios that are used for efficient foreign currency exposure hedging of the total fund assets. The overlay portfolios are set up on the same portfolio management system as the underlying portfolios and are linked to the respective underlying portfolios. The internal overlay manager receives the underlying foreign currency exposures on a daily basis from the portfolio management system and implements the hedging ratio in accordance with the monthly decision of the AO Investment Committee. Overlay portfolios are included in the Total Fund. No separate composites are presented for the overlay portfolios. As a result, no dedicated time-weighted return (TWR) performance calculation is performed for the overlay portfolios – the investment results of the overlay portfolios (gains or losses) are included in the Total Fund performance, and their assets are included in the Total Fund assets.

Total Fund–Level and Composite-Level Calculations

Total Fund and Composite Returns

Background:

This section should provide the methodology and formulas used to calculate total fund and composite returns, as well as the frequency of these calculations.

Sample Policy:

The total fund uses time-weighted returns. We calculate performance for two additional composites – domestic equity and private equity. The public equity composite uses time weighted returns. Total fund and domestic equity composite returns are calculated monthly. Private equity composite returns are calculated quarterly.

Monthly total fund returns are calculated by combining all individual portfolios into one aggregate portfolio. The combined performance reflects the total fund’s overall mandate.

Monthly domestic equity composite returns are calculated by combining all individual domestic equity portfolios into one aggregate portfolio. The combined performance reflects the domestic equity mandate.

The private equity composite uses money-weighted returns. When calculating composite money-weighted returns, XYZ Pension Plan aggregates the fund level information for all private equity funds included in the composite. The combined performance reflects the private equity mandates. Because we do not have records to support all funds for periods prior to 2012, our private equity composite track record begins on 1 January 2013.

Monthly returns are geometrically linked to arrive at the annual return, where the annual return (R_{ANN}) is:

$$R_{ANN} = [(1 + R_1) \times (1 + R_2) \times \dots \times (1 + R_n)] - 1,$$

where R_1 is the total fund or composite return for Period 1 and R_n is the total fund or composite return for the most recent period.

Three-Year Annualized Standard Deviation

Background:

This section should detail the policies and procedures for calculating the asset owner’s three-year annualized ex post standard deviation that is included in its GIPS Asset Owner Reports. Asset owners are required to present the three-year annualized ex post standard deviation using monthly returns of the total fund or composite and the benchmark as of each annual period end. The same formula must be used to calculate the standard deviation for the total fund or composite and the benchmark.

Asset owners may also include other risk measures, known as “additional risk measures.” When an asset owner calculates additional risk measures, the periodicity of the total fund or composite returns and the benchmark returns must be the same, and the risk measure calculation methodology of the total fund or composite and the benchmark must be the same.

Sample Policy:

XYZ Pension Plan does not yet have three annual returns in its GIPS Asset Owner Reports; therefore we do not yet calculate the three-year annualized ex post standard deviation. Once three years of returns are included in a GIPS Asset Owner Report, we will use the STDEVP function in Excel to calculate the three-year annualized ex post standard deviation. The result will be multiplied by the square root of 12.

We will use monthly gross total fund returns for the GIPS Asset Owner Report for the total fund and monthly gross composite returns for GIPS Asset Owner Reports for the domestic equity composite.

We will use the same calculation methodology to calculate the benchmark three-year annualized ex post standard deviation.

Total Fund and Composite Maintenance

Total Funds and Composites

Background:

Total funds must include all assets managed by the asset owner as part of the total fund’s investment mandate, objective, or strategy. 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 be presented either separately to the oversight body or as a composite to the oversight body. If the asset owner manages total funds according to different strategies, then each total fund must be presented separately to the oversight body.

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.

Sample Policy:

XYZ Pension Plan manages one total fund. All assets managed internally and externally are included in the total fund. We have created additional composites for domestic equity and the private equity asset classes.

Defining Composites

Background:

If an asset owner manages more than one total fund according to the same investment strategy, it has a choice regarding the use of composites. The asset owner may include all total funds managed according to the same investment strategy in a total fund composite, create a GIPS Asset Owner Report for the total fund composite, and present composite performance to its oversight body. Alternatively, the asset owner may

choose to not create a composite and instead present each total fund separately to its oversight body. If an asset owner decides to create one or more total fund composites, these would be considered required composites.

In addition to any required total fund composites, an asset owner may choose to create one or more additional composites. An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report. If an asset owner chooses to create total fund composites or additional composites, the GIPS standards require asset owners to develop objective criteria for defining the total funds or additional composites. Asset owners must establish objective criteria for defining composites that will allow the oversight body to know that all portfolios managed according to that definition are included. When considering how to define composites, asset owners may define composites by investment mandate, style, or strategy; asset class; the use of derivatives; leverage and/or hedging; targeted risk metrics; and investment constraints or restrictions.

Sample Policy:

XYZ Pension Plan has only one total fund. We have chosen to create additional composites for the domestic equity and private equity asset class, and these additional composites are included in GIPS Asset Owner reports that are provided to the oversight body. We also report asset class performance as supplemental information in the total fund GIPS Asset Owner Report.

The GIPS Standards Oversight Committee will determine if any additional composites should be created.

Composite Redefinition

Background:

Although investment strategies can change over time, in most cases asset owners should not change the definition of a total fund composite or additional composite. Generally, changes in strategy result in the creation of a new composite. In some cases, however, it may be appropriate to redefine a composite.

If an asset owner determines that it is appropriate to redefine a composite, it must disclose the date and description of the redefinition. If a composite definition is changed, the redefinition must not be applied retroactively.

Sample Policy:

If a change in composite definition is requested, the GIPS Standards Oversight Committee will determine if it is appropriate. Any approved change will be applied on a prospective basis. The historical performance of the composite prior to the redefinition will not change.

Benchmarks

Background:

Asset owners should document how and when a benchmark is selected for the asset owner's total funds and composites. The benchmark selected for a total fund or composite, which will be presented in a GIPS Asset Owner Report, reflects the investment mandate, objective, or strategy of the total fund or composite. The benchmark for a composite can differ from the benchmarks of the portfolios included in the composite.

Benchmark selection should be done on an ex ante basis, and an asset owner must not select a benchmark based on how the total fund or composite performed relative to the benchmark. Also, benchmarks must be total return benchmarks. A price-only benchmark must not be used in a GIPS Asset Owner Report. Finally, there are cases where it may be appropriate to change the benchmark for a total fund or composite. For example, a more appropriate benchmark may be created that did not exist before. An asset owner's P&P

Manual should describe how changes to benchmarks are handled. Benchmarks are addressed in the Guidance Statement for Benchmarks for Asset Owners.

Sample Policy:

Benchmarks are selected for the total fund and any additional composites when the total fund or composite is defined. The primary benchmark of the total fund is a blend of asset class benchmarks based on the policy weights of the respective asset classes in the total fund (i.e., policy benchmark). A secondary benchmark of the total fund is a target return of CPI +5%.

Each additional composite benchmark is aligned with the investment mandate of the asset class.

Benchmark Returns

Benchmark returns are calculated in the asset owner's performance system. When calculating the total fund benchmark return, asset class benchmark returns are weighted using the policy weights in effect for the month. Benchmark returns for private equity are lagged to match the timing of the returns of the private equity asset class. The underlying index values used in the calculations are sourced directly from the index vendors. Returns are calculated on a daily or monthly basis depending on the frequency of the index data. Returns for longer time periods are calculated by geometrically linking daily or monthly returns.

We use a Public Market Equivalent (PME methodology) as a benchmark for our private equity composite. These PMEs are calculated by applying the composite's cash flows to a hypothetical investment in a public market index growing at the rate of the return of the public market index, to calculate the SI-IRR of a benchmark that is comparable to the private equity composite's IRR. The PME is calculated for the same period as the private equity composite.

New Portfolio Inclusion Policy

Background:

A portfolio is considered to be an investment. Therefore, asset owners must include new portfolios in total funds and composites on a timely and consistent basis as soon as they are funded.

Sample Policy:

XYZ Pension Plan includes all new portfolios in the total fund and any relevant additional composites as soon as the portfolios are funded, even if funding is done through a series of staggered contributions.

Closed Portfolio Exclusion Policy

Background:

A portfolio is considered to be an investment. Therefore, terminated portfolios must be included in the historical performance of the total fund or composite through the final day the assets are managed. If all portfolios are removed from an additional composite, for any reason, the performance record of the additional composite comes to an end.

Sample Policy:

Terminated portfolios are included in the total fund and any relevant additional composites through the final day the assets are managed.

Moving Portfolios between Composites

Background:

If an asset owner chooses to create a composite that includes more than one total fund, or if the asset owner creates additional composites, then total funds and portfolios must not be moved from one composite to another unless either documented asset owner-directed changes to a total fund's or 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 must not be moved into or out of composites as a result of tactical changes. Documentation of a change in a total fund's or portfolio's investment mandate, objective, or strategy can include, but is not limited to, letters, emails, and internal memorandums documenting the change.

Sample Policy:

Portfolios for which XYZ Pension Plan directs a change in strategy are removed from the old additional composite following the closed portfolio exclusion policy and are included in the new additional composite following the new portfolio inclusion policy.

Cash Accounts

Background:

Asset owners often maintain a number of cash accounts. Some are held within the total fund and are available for investment along with other total fund assets. When cash and cash equivalents are considered discretionary and part of the investable assets of the total fund, they must be included in all total fund assets and performance calculations. If the asset owner does not control the actual investment of cash (e.g., cash is always invested in a custodial money market fund) but does control the amount of the total fund that is allocated to cash, then the cash assets must be included in the asset owner's total fund assets and the performance of cash must be included in the total fund performance.

Operating cash accounts that are not available for investment, such as a checking account used for payments to beneficiaries, vendors, and others, should not be included in total fund assets and performance calculations. If a cash account has multiple purposes and is available for investment as well as used as an operating cash account, and an asset owner is unable to differentiate the portion of the cash account that is available for investment, it is recommended that a conservative approach be taken. The entire cash account should be considered available for investment and included in total fund assets and performance calculations.

Cash accounts that are not included in total fund assets because they are not available for investment must not be used in the calculation of total asset owner assets and performance calculations. Asset owners must create policies and procedures for the treatment of cash accounts and apply them consistently.

Cash is not required to be included in additional composite assets or additional composite performance.

Sample Policy:

XYZ Pension Plan has an operational cash account that includes only cash available for investment. This investment cash account is included in total fund assets and total fund performance. Cash is not included in additional composite performance. XYZ Pension Plan has an operational cash account that is used as a checking account and is not available for investment. This operational cash account is excluded from total fund assets and total fund performance.

Performance Review Process

Background:

Asset owners should establish policies to review performance on a monthly basis to determine if there are obvious performance anomalies that should be researched.

Sample Policy:

XYZ Pension Plan reviews all total fund, composite, asset class, and portfolio returns on a monthly basis. All portfolio returns are compared to the related benchmark to determine if there are outliers that should be researched.

Outlier portfolio returns are flagged for review, to determine that return calculations are correct.

GIPS Asset Owner Reports

Selecting TWRs or MWRs

Background:

The asset owner must present time-weighted returns (TWRs) for all total funds and total fund composites. Although asset owners must present TWRs for total funds and total fund composites in GIPS Asset Owner Reports, it is recommended that money-weighted returns (MWRs) also be presented if the asset owner believes that the presentation of MWRs would be helpful and important in understanding the performance of the total fund or total fund composite.

For GIPS Asset Owner Reports representing additional composites, the asset owner may choose to present either TWRs, MWRs, or both. There are no criteria that must be met for an MWR to be presented in a GIPS Asset Owner Report for an additional composite. Once an asset owner has chosen which return(s) it will present in a GIPS Asset Owner Report for an additional composite, the asset owner must consistently present the return(s) selected for each additional composite. To “consistently present” the selected returns means that, once an asset owner has chosen the type of return to present in a GIPS Asset Owner Report for an additional composite (TWR, MWR, or both), it must continue to present the selected return(s) unless there is a compelling reason to change the type of return presented. Doing so is important for consistency in the presentation of an asset owner’s track record and to prevent the changing of the type of return presented in order to present more-favorable returns.

Sample Policy:

XYZ Pension Plan includes time-weighted returns and does not include money-weighted returns in total fund GIPS Asset Owner Reports.

XYZ Pension Plan includes time-weighted returns in the domestic equity composite GIPS Asset Owner Report and money-weighted returns in the private equity composite GIPS Asset Owner Report.

Preparing GIPS Asset Owner Reports

Background:

An asset owner’s policies and procedures do not need to address every metric and disclosure that is included in a GIPS Asset Owner Report, but policies and procedures should address:

- When an asset owner has a choice in which metric to present, what the asset owner has selected.
- How the asset owner ensures that all required numerical information and disclosures are included in GIPS Asset Owner Reports.
- The periods that are included in a GIPS Asset Owner Report (e.g., the 10 most recent annual periods).
- How often GIPS Asset Owner Reports are updated.
- Who reviews GIPS Asset Owner Reports for completeness and accuracy.
- Any laws or regulations that conflict with the GIPS standards, and the manner in which the laws or regulations conflict with the GIPS standards.

GIPS Asset Owner Reports must be updated through the most recent annual period end within 12 months of that annual period end.

Asset owners typically provide comprehensive investment reporting to the Oversight Body. When providing a GIPS Asset Owner Report for a total fund, asset owners often include asset class returns as supplemental information. Supplemental information may be included in a GIPS Asset Owner Report. Supplemental information is any performance-related information included as part of a GIPS Asset Owner Report that supplements or enhances the requirements and/or recommendations of the GIPS standards. Any supplemental information included in the GIPS Asset Owner Report:

- Must relate directly to the total fund or composite.
- Must not contradict or conflict with the required or recommended information in the GIPS Asset Owner Report.
- Must be clearly labeled as supplemental information.

Sample Policy:

The Performance Department is responsible for preparing all GIPS Asset Owner Reports. The Performance Department reviews all GIPS Asset Owner Reports before final review by the Compliance Department. GIPS Asset Owner Reports are updated annually, once December returns and total asset owner assets are finalized. This update is typically done by the end of February. Once the Compliance Department has completed its review, the Compliance Department is provided with all updated GIPS Asset Owner Reports to include with the board materials.

XYZ Pension Plan presents the information required by the GIPS standards in each GIPS Asset Owner Report for all periods for which XYZ Pension Plan claims compliance (since 1 January 2021).

For the total fund, both gross-of-fees and net-of-fees returns are included. For additional composites, only gross-of-fees returns are included.

The Performance Department and Compliance Department are responsible for ensuring all of the required information and disclosures are included in the GIPS Asset Owner Report. The Performance Department completes the CFA Institute Disclosure Checklist for each GIPS Asset Owner Report and provides the checklist and the draft GIPS Asset Owner Reports to the Compliance Department. All GIPS Asset Owner Reports are reviewed by the Compliance Department.

Any potential significant events (e.g., a portfolio manager leaving), will be reviewed by the GIPS Standards Oversight Committee to determine if it is a significant event that needs to be disclosed. There will be no change to the historical track record as a result of a significant event.

Distributing GIPS Asset Owner Reports

Background:

This section should address the distribution of GIPS Asset Owner Reports. It should include who at the asset owner is responsible for ensuring that the oversight body receives the GIPS Asset Owner Reports annually for all total funds, total fund composites, and any additional composites. Because an asset owner is required to demonstrate that it provided the oversight body with the required GIPS Asset Owner Reports, an asset owner should establish policies and procedures for tracking which GIPS Asset Owner Reports were provided to the oversight body and any other entities and when they were provided. Doing so will allow an asset owner to determine when the oversight body must receive an updated GIPS Asset Owner Report. It will also allow an asset owner to know who must receive a corrected GIPS Asset Owner Report in cases for which the asset owner determines that a previously distributed GIPS Asset Owner Report contained a material error.

Asset owners that wish to distribute a GIPS Asset Owner Report more broadly may include it on their websites and in their annual reports, newsletters, and other distributed materials.

Asset owners are not limited to providing only GIPS Asset Owner Reports to their oversight bodies. Asset owners may present other performance or performance-related information, in addition to the GIPS Asset Owner Report, as long as it is not false or misleading. Asset owners may also provide any performance or performance-related information their oversight bodies request. Such information must be accompanied by comprehensive disclosures that explain the information being presented.

Sample Policy:

The appropriate GIPS Asset Owner Reports are included in the year-end investment reports for the Board. The GIPS Asset Owner Report for the total fund and any additional composites are also provided to the Investment Committee. We also post the GIPS Asset Owner Report for the total fund on our website. The Compliance Department documents each time the total fund and additional composite GIPS Asset Owner Reports are given to the Oversight Body or a beneficiary, including the date and version.

Error Correction Policy

Background:

Asset owners must establish error correction policies and procedures, and materiality must be defined in the error correction policies. If a GIPS Asset Owner Report contains a material error, the GIPS Asset Owner Report must be corrected and the corrected GIPS Asset Owner Report that includes a disclosure of the error must be provided to the current verifier and to any former verifiers that received the GIPS Asset Owner Report with the material error. Former verifiers that received the GIPS Asset Owner Report with the material error must receive the corrected GIPS Asset Owner Report with a disclosure of the error in case the error affects a previously issued verification report or performance examination report. The asset owner must also provide the corrected GIPS Asset Owner Report to any oversight body that received the GIPS Asset Owner Report that had the material error.

Sample Policy:

To address errors that occur in GIPS Asset Owner Reports, we have adopted the following policies and procedures.

1. Definition of error

An error is defined as any component of a GIPS Asset Owner Report that is missing or inaccurate. Errors can be quantitative or qualitative. All errors in GIPS Asset Owner Reports are subject to this Error Correction Policy.

2. Definition of material error

A material error is defined as any error in a GIPS Asset Owner Report that must be corrected and disclosed in a corrected GIPS Asset Owner Report.

3. Definition of materiality

An error (or item) is material if the magnitude of the omission or misstatement of performance information, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed by the omission or misstatement. When considering materiality, and more than one error has occurred, errors will be considered in the aggregate for each reporting period. Errors that may be considered immaterial individually may be material when considered in the aggregate.

4. Determining level of error

The table below establishes thresholds for determining the level of quantitative errors.

A Level 1 error is any error that is below the threshold for a Level 2 error.

Level 1, 2, and 3 errors are considered non-material errors.

Level 4 errors are considered material errors.

Error	Asset Class	Level 4 Error		Level 3 Error		Level 2 Error	
		Absolute Change	Relative Change	Absolute Change	Relative Change	Absolute Change	Relative Change
Annual total fund return	Multi-asset	≥ +/- 15 bps and	≥ +/- 5%	≥ +/- 8 bps and < 15 bps and	≥ +/- 5%	≥ +/- 6 bps and < 10 bps and	≥ +/- 5%
Annual composite return	Equity	≥ +/- 20 bps and	≥ +/- 5%	≥ +/- 15 bps and < 20 bps and	≥ +/- 5%	≥ +/- 10 bps and < 15 bps and	≥ +/- 5%
	Private market investments	≥ +/- 30 bps and	≥ +/- 5%	≥ +/- 25 bps and < 30 bps and	≥ +/- 5%	≥ +/- 20 bps and < 25 bps and	≥ +/- 5%
	Fixed income	≥ +/- 10 bps and	≥ +/- 5%	≥ +/- 7 bps and < 10 bps and	≥ +/- 5%	≥ +/- 3 bps and < 7 bps and	≥ +/- 5%
Annual total fund benchmark return	Multi-asset	≥ +/- 15 bps	n/a	≥ +/- 10 bps and < 20 bps	n/a	≥ +/- 6 bps and < 10 bps	n/a
Annual composite benchmark return	Equity	≥ +/- 20 bps	n/a	≥ +/- 15 bps and < 20 bps	n/a	≥ +/- 10 bps and < 15 bps	n/a
	Private market investments	≥ +/- 30 bps and	≥ +/- 5%	≥ +/- 25 bps and < 30 bps and	≥ +/- 5%	≥ +/- 20 bps and < 25 bps and	≥ +/- 5%
	Fixed income	≥ +/- 10 bps	n/a	≥ +/- 7 bps and < 10 bps	n/a	≥ +/- 3 bps and < 7 bps	n/a
Total Asset Owner Assets	All	n/a	≥ +/- 10%	n/a	≥ +/- 7% and < 10%	n/a	≥ +/- 3% and < 7%
Total Fund/Composite Assets	All	n/a	≥ +/- 10%	n/a	≥ +/- 7% and < 10%	n/a	≥ +/- 3% and < 7%
Number of portfolios	All	≥ +/- 5 and	≥ +/- 10%	n/a	≥ +/- 7% and < 10%	n/a	≥ +/- 3% and < 7%

Error	Asset Class	Level 4 Error		Level 3 Error		Level 2 Error	
		Absolute Change	Relative Change	Absolute Change	Relative Change	Absolute Change	Relative Change
3-year external standard deviation	All	n/a	≥ +/- 10%	n/a	≥ +/- 7% and < 10%	n/a	≥ +/- 3% and < 7%

Any error in total fund or composite returns that causes the corrected return to change from outperforming the benchmark to underperforming the benchmark is considered a Level 4 error.

5. Quantitative errors not covered by the table above.

Not every possible type of quantitative error is covered by the table above. Quantitative errors not covered by the table above, such as an error in the percentage of assets that were valued using subjective, unobservable inputs, will be reviewed by the GIPS Standards Oversight Committee, which will decide how the error should be handled and which level of corrective action will be taken.

6. Qualitative errors

Qualitative errors, which can be missing, incomplete, or incorrect disclosures, will be corrected immediately. Qualitative errors will be reviewed by the GIPS Standards Oversight Committee, which will decide how the error should be handled and which level of corrective action will be taken.

7. Time periods

It is our policy to not differentiate errors based on the period in which they occur. All errors are treated the same, regardless of the period in which they occurred.

8. Corrective actions by level

We have developed the following categories for actions to be taken once an error has been identified and the error correction level has been determined:

Level 1

- Take no action.

Level 2

- Correct the data error in the system, if appropriate;
- Correct the GIPS Asset Owner Report;
- Do not disclose the change.

Level 3

- Correct the data error in the system, if appropriate;
- Correct the GIPS Asset Owner Report;
- Disclose the change;
- Do not distribute the corrected GIPS Asset Owner Report.

Level 4

- Correct the data error in the system, if appropriate;
- Correct the GIPS Asset Owner Report;
- Disclose the change;

- For GIPS Asset Owner Reports:
 - Provide the corrected GIPS Asset Owner Report to the current verifier.
 - Provide the corrected GIPS Asset Owner Report to any former verifiers that received the GIPS Asset Owner Report that had the material error.
 - Provide the corrected GIPS Asset Owner Report to the oversight body that received the GIPS Asset Owner Report that had the material error.

9. GIPS Standards Oversight Committee

The GIPS Standards Oversight Committee is responsible for reviewing all errors. The GIPS Standards Oversight Committee will discuss the nature of the error and if any additional procedures need to be implemented to minimize the likelihood that the same type of error reoccurs.

10. Error incident report

The responsible Performance Function team member will complete an Error Incident Report and submit this Report to the GIPS Standards Oversight Committee, along with the incorrect GIPS Asset Owner Report and the corrected GIPS Asset Owner Report, if applicable. The Error Incident Report will include the following information, as applicable:

- The total fund or composite affected by the error
- For the fund or composite, the affected portfolios
- The affected periods
- How the error was identified
- Materiality calculation
- Action level taken
- Steps taken or to be taken to prevent the same type of error from happening again
- Changes needed to the error correction policy

11. Distribution of corrected GIPS Asset Owner Reports

When a material error occurs, the distribution of the corrected GIPS Asset Owner Report that includes disclosure of the change resulting from the correction of the material error will be overseen by a member of the Compliance Department. The Compliance Department will also provide the Error Incident Report to the Oversight Body.

It is our policy to provide a corrected GIPS Asset Owner Report with disclosure of the change resulting from the material error to beneficiaries who may have obtained the GIPS Asset Owner Report that had the material error from our website.

12. Changes to the error correction policy

Changes to the Error Correction Policy must be approved by the GIPS Standards Oversight Committee.

Verification

Background:

If an asset owner is verified, this section should include who the verifier is and the frequency of verification. It should also indicate if the asset owner chooses to have any performance examinations conducted. If the asset owner has chosen to engage a verifier, it must gain an understanding of how the verifier maintains independence from the asset owner and it must determine that the verifier is independent. An asset owner's policies and procedures should indicate what steps an asset owner takes to determine if the verifier is independent. The determination of independence is an ongoing process and must be performed in connection with each verification engagement.

Sample Policy:

XYZ Pension Plan is verified annually after year end. XYZ Pension Plan uses ABC Verification Services as its verifier. Prior to renewing the contract, we obtain a copy of ABC Verification Services' policies for maintaining independence. The Performance Manager will discuss with the verifier any questions that were raised from reviewing the policies for maintaining independence. In addition, the Performance Manager will inquire internally to determine whether there are other services performed by the verifier for the asset owner that could cause an independence issue. The Performance Manager will report any concerns to the GIPS Standards Oversight Committee. Additionally, the GIPS Standards Oversight Committee will review any new or changed relationships that the asset owner has with the verifier to see if any potential conflicts of interest have been raised.

XYZ Pension Plan obtains performance examinations for its total fund. The claim of compliance included in the GIPS Asset Owner Report is tailored to reflect that the total fund has had a performance exam.

GIPS Advertisements

Background:

Asset owners are not required to use the GIPS Advertising Guidelines but may do so if they wish. The GIPS Advertising Guidelines provide an asset owner with options for advertising its claim of compliance with the GIPS standards. If the asset owner chooses to follow the GIPS Advertising Guidelines, the asset owner should ensure that it has policies and procedures for determining that all required information and disclosures are included in the advertisement.

Sample Policy:

XYZ Pension Plan prepares a GIPS Advertisement for the total fund for inclusion in the total fund's Comprehensive Annual Report. XYZ Pension Plan also includes the GIPS Advertisement on the organization's website. The Performance Department and Compliance Department will review all GIPS Advertisements to determine that all required information and disclosures are included.

Other Materials with Performance Information

Background:

Most of the GIPS standards requirements focus on the performance information that is presented in GIPS Asset Owner Reports. However, there are requirements that affect areas outside of the GIPS Asset Owner Reports. One broad requirement that covers all materials that an asset owner produces, including board materials, the website, and other presentations, is that an asset owner cannot present any performance information that is false or misleading. An asset owner should address in its policies and procedures how they ensure that no false or misleading information is produced or distributed. Some examples of information that has an especially high risk of being interpreted by the oversight body in a way that is likely to be false and misleading include actual performance linked to model, hypothetical, backtested, or simulated historical results, as well as performance compared with an inappropriate benchmark.

Outside of a GIPS Asset Owner Report, asset owners may present actual performance linked to historical theoretical performance to the oversight body. The linked information may be presented in a presentation that is created for and will be used only by the oversight body. There must be sufficient disclosures regarding the linked performance so that the oversight body understands the relevance and limitations of the information.

Sample Policy:

The Performance Department and Compliance Department, and Internal Legal Counsel are jointly responsible for reviewing all board materials to ensure they have any information required by laws and regulations, and to ensure that they do not include information that is false or misleading.

Only actual performance information is included within a GIPS Asset Owner Report, but hypothetical performance is allowed outside of a GIPS Asset Owner Report subject to the Compliance Department's review and approval. Actual performance linked to hypothetical performance is not included in GIPS Asset Owner Reports, but it may be presented outside of a GIPS Asset Owner Report, subject to Compliance Department approval.

Outside of GIPS Asset Owner Reports, total fund and additional composite since-inception TWRs are presented linking compliant and non-compliant actual returns.