CFA Institute®
Global Investment Performance Standards

GUIDANCE STATEMENT ON BENCHMARKS FOR FIRMS

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Introduction

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

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

The GIPS standards define a benchmark as a point of reference against which the composite's or pooled fund's returns or risks are compared. Financial market indexes, based on hypothetical portfolios of securities that represent a particular segment of the financial market, are often used as benchmarks. Examples of indexes are the S&P 500 Index and the FTSE 100 Index.

Properly used, a benchmark should be a focal point when evaluating a strategy. The thoughtful choice of a benchmark will enhance the performance evaluation of the investment strategy by clearly defining expectations and success.

This Guidance Statement was updated in July 2023 to add concepts taken from the Guidance Statement on Benchmarks for Asset Owners, which was issued in April 2023. Added language is indicated by being in blue, small caps font.

The Role of Benchmarks

Because firms manage different kinds of strategies, the benchmarks they are measured against can also be used differently. The relationship of investment strategies to benchmarks generally falls into one of three categories:

1. Benchmark Relative: Investment decisions are made relative to benchmark weights, exposures, and risks. The portfolio may be very similar to the benchmark in this instance (e.g., passive and active index strategies).
2. Benchmark Aware: Investment decisions are not as closely tied to characteristics of the benchmark, although the benchmark typically represents the segment of the market from which securities for the strategy are drawn. There are usually distinct differences between the portfolio and the benchmark (e.g., concentrated strategies).

3. Benchmark Agnostic: Investment decisions are not made relative to a benchmark. Benchmarks are treated as target returns or hurdles to outperform, or there may be no appropriate benchmark. This scenario is common with absolute return and some alternative strategies, as well as for strategies not covered by index providers. In these instances, firms often use a predefined target return that is not based on a market index.

Presentation and Reporting of Benchmarks

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

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

Period	Composite Gross Return (%)	Composite Net Return (%)	Benchmark Return (%)	Number of Portfolios	Internal Dispersion (%)	Composite Assets ($M)	Firm Assets ($M)
2Q 2021	1.43	1.30	0.24				
1Q 2021	2.14	1.95	1.99				
2020	**7.51**	**6.46**	**6.30**	**54**	**2.5**	**575**	**1,414**
4Q 2020	1.62	1.37	1.25				
3Q 2020	2.36	2.11	2.29				
2Q 2020	1.89	1.64	1.45				
1Q 2020	1.44	1.19	1.17				
2019	**33.08**	**31.80**	**29.76**	**51**	**3.5**	**549**	**1,252**
4Q 2019	8.50	8.24	7.85				
3Q 2019	8.17	7.91	7.48				
2Q 2019	5.54	5.28	4.98				
1Q 2019	7.44	7.18	6.63				

When an appropriate benchmark exists and money-weighted returns are presented, firms are required to present the benchmark since-inception money-weighted return (SI-MWR) for the same periods as presented for the composite or pooled fund. For composites or pooled funds that have a subscription line of credit (LOC), if the firm is required to present composite or pooled fund returns both with and without the subscription LOC, the firm must present benchmark returns for the same periods as both composite or pooled fund returns.

Example showing a GIPS Pooled Fund Report excerpt with since-inception money-weighted returns both with and without the subscription line of credit (LOC).

	Since-Inception Money-Weighted Returns			
Year	**Fund with Line of Credit (net) (%)[1]**	**Custom Benchmark (%)[1]**	**Fund without Line of Credit (net) (%)[2]**	**Custom Benchmark (%)[2]**
2020	3.50	2.90	2.50	2.32

(1) Return is for the period from 1 July 2012 (date of the first capital call) through 31 December 2020.

(2) Return is for the period from 16 May 2011 (date of the first fund investment) through 31 December 2020.

Benchmark Description

To allow prospective clients and prospective investors to understand the benchmark against which the composite's or pooled fund's performance is evaluated, the firm must disclose the benchmark description for each benchmark included in a GIPS Report. The benchmark description is defined as general information regarding the investments, structure, and characteristics of the benchmark, and it must include the key features of the benchmark. In the case of a widely recognized index or other point of reference, such as the S&P 500 Index, the benchmark name will satisfy this requirement.

Each firm must decide for itself whether a benchmark is widely recognized. If the firm is uncertain as to whether the benchmark is widely recognized, the firm must include the benchmark description. This decision is subjective. A benchmark that is readily recognized in some markets (e.g., ISEQ Overall Index in Ireland) may not be readily recognized outside of the local market.

Sample Disclosure for a Widely Recognized Benchmark:

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

Sample Disclosure for a Benchmark That Is Not Widely Recognized:

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

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

Selecting an Appropriate Benchmark

The benchmark for a segregated account is often chosen by the client, prospective client, or consultant, whereas the composite or pooled fund benchmark is generally chosen by the firm. The GIPS standards require that the benchmark chosen for any composite or pooled fund must be an appropriate total return benchmark. A benchmark is appropriate if it reflects the composite's or pooled fund's investment mandate, objective, or strategy. There may be multiple benchmarks, however, that meet this single criterion. Firms should therefore consider additional characteristics of valid benchmarks when selecting a benchmark. A valid composite or pooled fund benchmark is one that is:

- *specified in advance*. Although this scenario may not always be the case, firms should select a composite or pooled fund benchmark prior to the evaluation period.
- *relevant*. The benchmark reflects the investment mandate, objective, or strategy of the composite or pooled fund.
- *measurable*. The benchmark is quantifiable.
- *unambiguous*. The constituents of the investable universe can be clearly identified and priced.
- *representative of current investment options*. The firm has current knowledge of the investable universe.
- *accountable*. The firm selects the benchmark and is accountable for any deviations from the benchmark.
- *investable*. It is possible to forgo active management and simply hold the benchmark.
- *complete*. The benchmark provides a broad representation of the segment of the market to which it pertains.

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

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

Composites must be defined according to investment mandate, objective, or strategy, and they must include all portfolios that meet the composite definition. Portfolios included in the same composite because they meet the composite definition, however, will not necessarily have the same benchmark.

For example, a Large-Cap US Equity Composite may include some portfolios that are benchmarked to the Russell 1000 Index and some that are benchmarked to the S&P 500 Index.

All portfolios in the composite are managed similarly even though they may have different benchmarks chosen by the asset owners. The composite benchmark could be either the Russell 1000 Index or the S&P 500 Index as long as the composite benchmark best represents the investment mandate, objective, or strategy of the Large-Cap US Equity Composite.

Another example is a composite containing portfolios with similar but not identical balanced mandates (e.g., 60% Equity/40% Bond and 57% Equity/43% Bond). In this scenario, firms may use a portfolio-weighted custom benchmark or a blended benchmark as the composite benchmark. Please refer to the section on Types of Benchmarks for more information about portfolio-weighted custom benchmarks.

If all portfolios in the composite are managed against a widely recognized benchmark or a blend of well-known indexes, firms should assign that benchmark to the composite. This benchmark could be a broad index (e.g., MSCI World Index), a style index (e.g., Russell 1000 Growth Index), or a blend (e.g., 50% MSCI World Index, 50% Russell 1000 Growth Index).

Types of Benchmarks

The following types of benchmarks are frequently used.

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

b. *Absolute Value or Target Return*: Examples of absolute value and target return strategies are those that have an objective to earn a predetermined rate or hurdle, such as 5% to 10% average annual return or CPI+5% over a five-year period, respectively. Absolute value or target return benchmarks are popular with certain types of hedge funds and other market-neutral approaches in which the investment strategy has no relevance to a market index. An absolute value benchmark may also be used to compare the success of a strategy with a fixed level of spending or liability matching.

c. *Peer Groups and Manager Universes*: Peer groups and manager universes are often used for comparing like-managed funds within a given industry, country, or sector. For example, the investment objective may be to perform in the top quartile of UK managers over a three-year period. Some common problems with peer group benchmarks include the following:

   - self-reporting bias (only some pooled funds choose to report performance data),
   - survivorship bias (historical returns of closed pooled funds are removed from the peer group benchmark),

- inability to obtain returns for the same periods as the composite or pooled fund, and
- lack of investability (some pooled funds within a peer group benchmark are closed to new investors).

Also, because a peer group is typically a median pooled fund return over a specific time period, risk statistics (e.g., standard deviation), which must be presented in a GIPS Report that includes time-weighted returns, are not necessarily meaningful because the median fund could differ for each time period used in the peer group calculation. Although the use of peer groups as benchmarks is not considered best practice, in certain asset classes (e.g., private equity, real estate, alternatives), peer groups are widely used and generally considered the best option available. When using benchmarks that have limitations, such as peer group benchmarks, the firm should disclose these limitations.

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

d. *Returns-Based Benchmarks*: Returns-based benchmarks are a type of blended benchmark that involves estimating historical exposures to various style indexes by performing a regression analysis comparing the historical returns of the portfolios with the returns of the related style indexes. A common example has been to use returns-based benchmarks to determine style biases in a portfolio's track record. Blended market indexes are developed from this approach and may be included in an investment objective (e.g., the objective is to outperform a blend of J% Growth Index and K% Value Index, rebalanced monthly, over an X-year period, where J and K represent the portfolio's long-term style exposures.)

e. *Factor-Based Models*: This type of benchmark involves calculating a return based on a predefined set of risk exposures, such as the CAPM (capital asset pricing model), which relates the beta of a portfolio to an expected rate of return. For example, an investment objective may be to outperform a beta-adjusted benchmark return over a three-year period.

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

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

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

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

g. *Custom Benchmarks*: If a custom benchmark or combination of multiple benchmarks is used, the firm must:

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

Custom benchmarks include the following benchmark types:

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

ii. *Blended Benchmarks*: Blended benchmarks are created by combining two or more indexes. This type of benchmark may be used as a comparison for balanced strategies, asset allocation strategies, and liability-matched investments, among others. The components of a blended benchmark can range from a simple blend (e.g., 60% XYZ World, 40% XYZ Aggregate Fixed Income, rebalanced on a monthly basis) to complex blends of multiple indexes rebalanced at irregular intervals.

iii. *Portfolio-Weighted Custom Benchmark*: A portfolio-weighted custom benchmark is created using the benchmarks of the individual portfolios in the composite. Although the investment mandates, objectives, or strategies of the portfolios in the composite are similar, the actual application of the strategies may differ. Examples of these strategies include liability-driven investing (LDI) and balanced strategies. Using a portfolio-weighted custom benchmark can help reduce the proliferation of single-member composites for which the investment mandate is similar but other factors in the client guidelines vary. This type of benchmark, however, has limitations with respect to its comprehension by a prospective client or prospective investor. It should be noted that a publicly available market index is generally more understandable to the prospective client and easier to measure versus a portfolio-weighted custom benchmark. The GIPS standards require that if a portfolio-weighted custom benchmark is used, the firm must disclose:

   - that the benchmark is rebalanced using the weighted average returns of the benchmarks of all of the portfolios included in the composite,
   - the frequency of the rebalancing,

- the components that constitute the portfolio-weighted custom benchmark, including the weights that each component represents, as of the most recent annual period end, and
- that the components of the portfolio-weighted custom benchmark, including the component weights, are available for prior periods upon request.

A firm is not required to disclose how the underlying portfolio benchmarks and weights have changed each period.

iv. *Custom Net Benchmarks*: In some markets, it has become more common to use benchmarks that reflect the deduction of model fees or other expenses. To calculate net benchmark returns, some firms use the annual management charge (AMC), others use the total expense ratio (TER), and some use the bundled fee. Firms may also choose to present custom net benchmarks that reflect the deduction of transaction costs. Additionally, fees can vary by client type. Some index providers offer customized net benchmarks. Alternatively, some firms calculate their own custom net benchmark returns.

A firm may present net benchmark returns only when composite net-of-fees returns or pooled fund net returns are presented. For example, assume the firm wishes to include a custom benchmark that reflects the deduction of model or actual investment management fees, but the firm presents only gross-of-fees composite returns in the GIPS Composite Report. The firm must not present net benchmark returns when only gross-of-fees composite returns are presented. The firm may use net benchmark returns only when composite net-of-fees returns or pooled fund net returns are presented. The use of net benchmark returns when only gross-of-fees composite returns or pooled fund gross returns are presented is one instance in which disclosure is not sufficient to prevent the information presented from being false and misleading. When a firm includes net benchmark returns in a GIPS Report, the firm must clearly label the benchmark as a custom net benchmark and disclose the calculation methodology.

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

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

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

Example 1

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

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

Example 2

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

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

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

Practical Considerations

A firm may want to take into account the following practical considerations when choosing an appropriate benchmark.

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

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

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

Sample Disclosure:

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

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

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

Sample Disclosure:

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

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

Sample Disclosure:

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

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

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

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

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

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

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

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

Sample Disclosure:

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

h. *Net/Gross of Withholding Tax*: Global investing requires recognition of the tax consequences of investing in different countries. The GIPS standards do not require firms to reflect withholding taxes, either reclaimable or non-reclaimable taxes, in a certain manner. Firms may choose whether or not to reflect the effect of withholding taxes when calculating composite or pooled fund performance and, similarly, whether or not to use a benchmark that reflects the effect of withholding taxes. The GIPS standards recommend that composite and pooled fund performance be reported net of non-reclaimable withholding taxes on dividends, interest, and capital gains and also recommend that reclaimable foreign withholding taxes should be accrued. If withholding taxes for composites or pooled funds are material, firms must disclose how withholding taxes are treated when calculating performance. A FIRM MUST DETERMINE THE LEVEL AT WHICH WITHHOLDING TAXES BECOME MATERIAL, DOCUMENT THIS LEVEL IN ITS POLICIES AND PROCEDURES, AND APPLY IT CONSISTENTLY.

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

Sample Disclosure:

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

i. *After-Tax Benchmarks*: Firms may choose to present performance that takes into consideration the effect of all taxes on the portfolios in the composite or the pooled fund as supplemental information. When presenting after-tax performance, firms are encouraged to present benchmark returns that are consistent with the timing of investments and tax rates applied to the portfolios in the composite or the pooled fund.[1]

> **Sample Disclosure:**
>
> "The benchmark is a portfolio-weighted custom benchmark of the after-tax benchmark of each client's portfolio in the composite. Each client has a shadow portfolio, which approximates a passive investment in each client's benchmark, with the same inception date as the client portfolio using the benchmark's pretax returns, adjusted for the client's cash flows, cost basis, and tax rates."

j. *Frequency of Rebalancing*: When a benchmark is a blend of two or more indexes, it is important to consider the frequency of rebalancing and its potential impact. The frequency of portfolio rebalancing may be defined by the client or the firm and can be triggered by different factors, such as a shift in the asset mix caused by market movement. Frequent rebalancing can result in increased turnover and transaction costs in the portfolio, which are not a consideration for benchmarks. Less frequent rebalancing can lead to an unintended shift in asset mix during steadily rising or falling markets. Firms should carefully consider the appropriate frequency of benchmark rebalancing for each investment strategy that uses a blended benchmark. A blended benchmark's components, weights, and rebalancing process, if applicable, as well as the calculation methodology, must be disclosed.

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

[1] The USIPC After-Tax Performance Standards document has useful information, particularly on the calculation of after-tax composite returns on a pre-liquidation basis. (https://www.cfainstitute.org/about/governance/committees/Documents/usipc_after_tax_performance_standards.pdf).

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

Sample Disclosure:

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

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

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

In most cases the strategic-weight benchmark is the appropriate benchmark but there may be cases where a firm may wish to present a benchmark based on actual weights. Such benchmarks are not commonly used but when they are used, the strategic-weight benchmark should also be included in the GIPS Report alongside the actual-weight benchmark. An actual-weight benchmark should be treated similar to a portfolio-weighted custom benchmark, whereby the firm discloses weights as of the most recent period end, and the firm offers to provide information about benchmark weights for prior periods.

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

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

n. *Other Considerations*: Additional considerations when selecting a benchmark include the following:

- The liquidity of the benchmark's constituents. It may prove easier to manage a strategy against a benchmark with securities that have greater liquidity.
- When and how valuations are established for the benchmark and the portfolios in the composite or the pooled fund. The timing used for prices and exchange rates of benchmark constituents may vary among different index providers. There may also be differences in the pricing process used, especially for less liquid securities.
- The way the benchmark is constructed (e.g., GDP-weighted, market-cap-weighted, price-weighted). Firms should consider the weighting structure of constituents within the benchmark. Different weighting methodologies are now increasingly available in the

market, and firms will need to consider the relevance of the selected benchmark's weighting structure to the management of the composite or the pooled fund.

- Performance-improvement activities. A portfolio may engage in activities, such as stock lending, to improve performance, whereas a benchmark does not. One exception might be an ETF that is used as a benchmark. Many ETFs do engage in stock lending.
- The cost of benchmarks. If a firm is comparing similar indices when choosing a benchmark, the cost of the benchmark may be a consideration. However, all benchmarks must be appropriate. Cost cannot be used as a reason for selecting an inappropriate benchmark.

No Appropriate Benchmark

In some situations, there may be no appropriate benchmark for a composite or pooled fund—that is, no benchmark exists that reflects the composite's or pooled fund's investment mandate, objective, or strategy. If the firm determines that no appropriate benchmark for the composite or pooled fund exists, the firm must disclose why no benchmark is presented.

When calculating a multi-asset class benchmark, firms must include a benchmark for all components of the multi-asset class benchmark. For example, if a firm determines that there is no appropriate benchmark for its alternatives asset class, it might choose to use the actual return or the target return of the alternatives asset class when calculating the multi-asset class benchmark return. When using the asset class return or the target return as a component of the multi-asset class benchmark calculation, the firm must disclose this fact as part of the benchmark description.

Sample Disclosure:

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

Private Market Investments

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

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

The PME method uses a public market index to create a comparable SI-MWR from a series of cash flows that replicate those of the composite or pooled fund and that can be compared with the SI-MWR of the composite or pooled fund. Firms that choose to present a composite's or pooled fund's PME as a benchmark must disclose the market index used to calculate the PME. Given the unique nature of a PME, if the market index used to calculate the PME is not readily recognized, the firm must also disclose the description of this market index.

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

When including a private market investment benchmark as one component of a multi-asset class benchmark, the firm must include a time-weighted return (TWR) benchmark for this component. Firms must not combine TWRs with MWRs when creating a blended benchmark return.

Sample Disclosure for a Non-PME Benchmark:

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

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Sample Disclosure for a Private Equity PME Benchmark:

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

Sample Disclosure for a Real Estate Closed-End Fund PME Benchmark:

"The benchmark is the public market equivalent (PME) of the Real Estate Publicly Traded ABC Index, which tracks the performance of moderate to highly leveraged diversified real estate investments in the United States. The PME is an index comparison method by which a public or private market index that is calculated using time-weighted rates of return is used to create an SI-MWR that (1) is comparable to a fund's SI-MWR from a series of cash flows that are the same as those of the fund and (2) uses a theoretical investment value. The theoretical investment value is derived by simulating buying and selling the index using the dates and amounts of actual fund cash flows."

Real Estate

For real estate composites and pooled funds, firms are recommended to present composite or pooled fund and benchmark component returns (i.e., capital returns and income returns) for all periods presented in a GIPS Report. In the 2010 edition of the GIPS standards, presenting component returns was a requirement for real estate composites. With the issuance of the 2020 GIPS standards, this is no longer a requirement, and firms are instead recommended to present component returns for real estate composites, pooled funds, and benchmarks for all periods.

Sample Disclosure for a Real Estate Composite Benchmark:

"The ABC Benchmark returns have been taken from published sources. The benchmark is leveraged, includes various real estate property types, and excludes cash, cash equivalents, and other non-property-related assets, liabilities, income, and expenses. The extent of leverage used by the benchmark may differ from that of the portfolios in the composite. As of 31 December 2020, the benchmark leverage was 52%."

Alternative Strategies

As is true for private market investment strategies, firms may find it challenging to select and present appropriate benchmarks for alternative strategies. Benchmark types often used for alternative strategies include the following:

Liability-Driven Investing (LDI): LDI strategies are highly customized investment strategies for which the main objective is to gain sufficient assets to meet current and future liabilities. Standard market indexes are generally not appropriate benchmarks for LDI strategies. Benchmarks for LDI strategies are typically constructed from a customized set of securities designed to match a client's defined liability stream. The liability stream may be based on actuarially estimated characteristics, such as duration and convexity, without reference to specific securities.

For example, a benchmark for a UK-based pension portfolio may be a ladder of UK government bonds for which the cash flow stream matches the liability stream of the portfolio. The ladder of UK government bonds is a better match for the portfolio's liabilities than a broad, all-government bond benchmark published by an index provider. For a composite that includes multiple LDI portfolios, a portfolio-weighted custom benchmark is often used. In a highly customized LDI benchmark, there may be instances in which the portfolio-weighted custom benchmark consists of a very large number of underlying benchmarks. In these cases, some of the weightings of the component parts may be so small, and the list of benchmarks so long, that listing all of them would make the disclosures difficult to read. In these instances, firms must disclose the major components and weightings of the customized benchmark and must offer to make the smaller, undisclosed components available upon request.

Sample Disclosure for a Single-Portfolio LDI Composite Benchmark:

"The XYZ benchmark is calculated by overlaying the client's liabilities on a US Treasury zero coupon yield curve. The benchmark represents this client's specific liability stream matching and may not be indicative of custom benchmarks derived for other clients."

Sample Disclosure for a Multi-Portfolio LDI Composite Benchmark:

"The LDI Composite Custom blended benchmark is calculated monthly by combining the individual account benchmarks at the same weights as the account weights in the composite. As of December 2020, the benchmark consisted of 61.3% ABC US Long Credit Index, 23.5% ABC Long Corporate Index, 7.1% ABC Long Corporate Index with 2% Issuer Cap, 2.1% ABC Long Corporate A or better, and 5% ABC Long Baa US Corporate. The remainder is in various other long-duration benchmarks, each representing less than 1% of the total blend. The components that each represent less than 1% as of December 2020, as well as the breakdown of the custom benchmark for different time periods, are available upon request."

Unconstrained: An unconstrained strategy allows a firm to invest across many asset classes and sectors, can be opportunistic, and typically allows the firm to invest anywhere. As a result, these types of strategies may be measured against a risk-free rate or target benchmark (e.g., the 3-month Treasury bill rate +2%) rather than a market index. When using a risk-free rate or target return as a benchmark, GIPS Reports that present the three-year annualized ex post standard deviation of the composite or the pooled fund and benchmark would highlight the difference in risk between the strategy and the benchmark.

Sample Disclosure:

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

Long–Short: A long–short strategy involves buying investments that are expected to increase in value and selling short those that are expected to decrease in value. The overall portfolio profits from both market increases and declines and may have a net market exposure of less than 100%. Benchmarks for this type of strategy should reflect the strategic market exposure of the portfolios in the composite or the pooled fund.

Sample Disclosure:

"The XYZ Composite has a strategic benchmark of 80% XYZ World Index and 20% 3-month T-bill rate although the actual exposure to the XYZ World Index will vary between 50% and 100%."

Total Return vs. Price-Only Return Benchmarks

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

A price-only benchmark may be presented in a GIPS Report as supplemental information only if it is presented in addition to a total return benchmark. It must be labeled as a price-only benchmark, and there must be sufficient disclosures so that a prospective client or prospective investor understands the difference between the return of a price-only benchmark and the return of a total return benchmark. If no appropriate total return benchmark exists for the composite or pooled fund, the firm must not present a price-only benchmark in a GIPS Report and must disclose why no benchmark is presented.

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

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

Benchmark Changes

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

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

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

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

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

There may be times when a firm determines that it is appropriate to change the benchmark retroactively. For example, because benchmarks are continually evolving, if the firm finds that a new benchmark is a better comparison for an investment strategy, the firm may consider changing the benchmark retroactively. Another reason for changing a benchmark retroactively might be the cost incurred when using certain benchmarks. If a firm finds that the fees paid to an index provider for a certain index or indexes are becoming prohibitive, the firm may find an alternative appropriate benchmark that is representative of the strategy but has lower fees. COST CANNOT BE USED AS A REASON FOR SELECTING AN INAPPROPRIATE BENCHMARK.

In the case of a retroactive benchmark change, the firm must disclose the date and description of the benchmark change, including the fact that the benchmark was changed retroactively. This required disclosure applies to a fundamental change in the benchmark—for example, a change in an index used in calculating the benchmark—rather than to periodic minor changes in benchmark weights and components. If a firm uses a custom benchmark that is a blend of one or more benchmarks, a change in the weights of the constituent benchmarks is not considered a benchmark change within the scope of this required disclosure.

For example, the benchmark may change every quarter as part of the normal procedure. In this instance, it is appropriate to disclose that the benchmark is rebalanced quarterly using the weights of the asset classes in the composite's or pooled fund's model portfolio. A firm is not required to disclose how the asset class weights have changed each quarter but may do so.

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

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

Sample Disclosure for a Prospective Change:

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

Sample Disclosure for a Retroactive Change:

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

Off-Benchmark Assets

A good way to understand the role of a benchmark in an investment strategy is to know how much the firm can invest in assets not held within the composite benchmark (off-benchmark assets). Depending on the role of the benchmark (benchmark relative, benchmark aware, or benchmark agnostic), the percentage of off-benchmark assets can provide important information about the appropriateness of the benchmark to the strategy. Firms should disclose the allowed percentage range for strategy deviations from the composite or pooled fund's benchmark as part of the composite or pooled fund description. Firms should also disclose all material differences between the benchmark and the composite's or pooled fund's investment mandate, objective, or strategy.

Sample Disclosure:

"Portfolios in the composite are allowed to hold up to 20% of securities not found in the XYZ benchmark."

Standard Deviation

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

For periods ending on or after 1 January 2011, in all GIPS Reports where time-weighted returns are presented, firms must present the three-year annualized ex post standard deviation (using monthly returns) of both the composite or pooled fund and the benchmark as of each annual period end.

If 36 monthly returns are not available for the composite or pooled fund but are available for the benchmark, a firm is not required to present the three-year annualized ex post standard deviation for the benchmark but may do so. If 36 monthly returns are not available for the benchmark but are available for the composite or pooled fund, firms are required to present only the three-year annualized ex post standard deviation for the composite or pooled fund. In this instance, because 36 monthly returns are not available for the benchmark, firms must not present a three-year annualized ex post standard deviation for the benchmark using data points other than monthly. Firms must disclose that 36 monthly returns are not available for the benchmark.

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

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

Multiple Benchmarks in a GIPS Report

It is permissible to include more than one benchmark in a GIPS Report. For example, a firm may have a single investment process for its UK equity strategy and implements this strategy for clients with similar benchmarks (e.g., ABC All Share Index and XYZ All Stock Index). The composite is defined based on the investment process, not the benchmark, so the firm discloses the returns of both benchmarks in the GIPS Report with equal prominence. All benchmarks included in a GIPS Report must adhere to the requirements of the GIPS standards that are applicable to benchmarks. Firms may label benchmarks as primary and secondary benchmarks, but the same requirements and recommendations apply to all benchmarks included in a GIPS Report.

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

Additional benchmarks beyond appropriate benchmarks may be presented in a GIPS Report as supplemental information. There must be sufficient disclosure so that a prospective client or prospective investor understands the nature of the benchmark and why it is being presented. Disclosure, however, does not necessarily prevent information from being false or misleading. An additional benchmark must never be presented for the sole purpose of providing a favorable comparison to the performance of the composite. To do so would be misleading, regardless of the disclosures accompanying the benchmark.

Error Correction

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

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

GIPS Advertisements

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

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

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

In addition to these general requirements regarding the presentation of benchmarks in a GIPS Advertisement, there are requirements and recommendations pertaining to benchmarks that apply specifically to advertisements for composites, limited distribution pooled funds, and broad distribution pooled funds.

Composites

In a GIPS Advertisement, 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.

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.

If the firm determines no appropriate benchmark for the composite exists, the firm should disclose why no benchmark is presented.

Pooled Funds

The following guidance deals with the GIPS Advertising Guidelines requirements and recommendations related to benchmarks for Limited Distribution Pooled Funds (LDPFs) and Broad Distribution Pooled Funds (BDPFs). A BDPF is a pooled fund that is regulated under a framework that would permit the general public to purchase or hold the pooled fund's shares and is not exclusively offered in one-on-one presentations. An LDPF is any pooled fund that is not a BDPF.

Limited Distribution Pooled Funds (LDPFs)

In a GIPS Advertisement, the firm must present benchmark returns for the same benchmark as presented in the corresponding GIPS Report, if the corresponding GIPS 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 LDPF returns are presented.

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.

If the firm determines no appropriate benchmark for the pooled fund exists, the firm should disclose why no benchmark is presented.

Broad Distributed Pooled Funds (BDPFs)

In a GIPS Advertisement, the firm must present benchmark total returns for the same periods for which the BDPF returns are presented, in the same currency, unless the firm determines there is no appropriate benchmark. If the firm determines no appropriate benchmark for the BDPF exists, the firm should disclose why no benchmark is presented.

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. Note that although the benchmark description is recommended for GIPS Advertisements for composites and LDPFs, it is required for BDPFs. This is because firms are not required to provide a GIPS Report to prospective investors for a BDPF, but they are required to provide a GIPS Report to prospective clients for a composite strategy and prospective investors for an LDPF. These GIPS Reports will include a benchmark description.

Supplemental Information

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

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

Other Marketing Materials

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

Price-only benchmark returns may be presented outside of a GIPS Report. In such cases, "price only" must be included in the label or the name of the benchmark, and there must be sufficient disclosures so that a prospective client or prospective investor understands the difference between the return of a price-only benchmark and the return of a total return benchmark. Firms must not present performance and/or performance-related information that is false or misleading.

Laws and Regulations

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

Policies and Procedures

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

Effective Date

Firms are required to apply this guidance for periods beginning on or after 1 April 2021. Firms are encouraged, but not required, to apply this guidance prior to the effective date. This Guidance Statement was updated in July 2023. Because there are no new requirements in the Guidance Statement, the effective date will continue to be 1 April 2021.

