CFA Institute® Global Investment Performance Standards

GIPS® STANDARDS NEWSLETTER

October 2023 Edition

Thank You for Joining Us in Chicago

Thanks to everyone who attended the 27th Annual GIPS® Standards Conference! We hope you enjoyed it as much as we did. With almost four hundred in-person attendees, the GIPS Standards Conference continues to be the industry's leading event for performance and compliance professionals.

If you were unable to join us in Chicago, be sure to take advantage of the opportunity to watch sessions on demand. You can purchase the [Digital Content Package for USD449] to watch all of the presentations. On-demand viewing will be available 30 October–31 December.

We Want Your Feedback – Exposure Draft of the Guidance Statement for OCIO Strategies

The GIPS Standards Technical Committee has issued the Exposure Draft of the Guidance Statement for OCIO Strategies for public comment. This proposed Guidance Statement addresses how to apply the GIPS standards to Outsourced Chief Investment Officer (OCIO) portfolios, including the use of a required OCIO composite structure, treatment of legacy assets, and fee transparency. Comments may be submitted by email to standards@cfainstitute.org and must be received by 20 November 2023.

On 28 September, CFA Institute hosted a webinar to discuss the exposure draft. In this webinar, we explained what an OCIO strategy is, why this guidance was needed, and the key decisions made by the OCIO Working Group. You can listen to the webinar recording and view the webinar slides on the GIPS standards website.

Dear GIPS Standards Help Desk

This month's Help Desk question asks if a firm must include the percentage of non-fee-paying assets, as of each annual period end, for a composite that includes a single pooled fund with non-fee-paying share classes.

Question: Per provision 4.A.7, if a composite includes non-fee-paying portfolios, the firm must present the percentage of composite assets represented by non-fee-paying portfolios as of each annual period end when net-of-fees returns are presented and are calculated using actual investment management fees. If the composite includes a single pooled fund with multiple underlying share classes and one of the underlying share classes is non-fee paying, would the firm need to disclose the percentage represented by the non-fee-paying share classes? Or would it only apply if the whole portfolio is non-fee paying? The composite net return is calculated using the NAV return of each share class. There is no overlap of returns between fee-paying and non-fee-paying investors.

Answer: You indicated that the composite net return is calculated using the NAV return of each share class. Because the firm uses actual management fees and includes the net return of all share classes, including the share class that is non-fee paying, the firm must present the percentage of non-fee-paying assets. If the firm uses model fees to calculate net returns or uses the net returns from a fee-paying share class, such as the share class with the highest management fee, then the firm would not be required to disclose the percentage of non-fee-paying assets. Including a share class that is non-fee paying does not reflect the return a fee-paying client would have earned. By presenting the percentage of non-fee-paying assets, the prospect will have an indication that net returns would have been lower had all assets been fee paying.

Here is a simple example: Assume you have two share classes, A & B, and class A has a management fee of 1.00% while class B is non-fee paying. The fee schedule for prospective investors is also 1.00%. Assume both share classes are included in the composite and are weighted by their beginning assets, with each share class representing 50% of the total fund. By including the non-fee-paying share class, it appears that clients in the fund paid a management fee of only 0.50% (50% x 1.00% + 50% x 0.00%).

Note that if the firm is subject to the SEC Marketing Rule, the firm should consider applying a model fee to the non-fee-paying assets (see page 9 of Reconciling the GIPS Standards and the SEC Marketing Rule).

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