

To: CFA Institute  
From: Cascade Investment Compliance & Verification  
Date: November 20, 2023  
Re: Comments on the Guidance Statement on OCIO Strategies Exposure Draft

Thank you for the opportunity to provide feedback on the Guidance Statement on OCIO Strategies exposure draft. While many of the challenges faced by OCIO providers have been hurdles for wealth managers since the AIMR-PPS, we appreciate the value of the proposed guidance to address nuanced differences within the institutional marketplace and also have a few minor suggestions for additional improvements.

**Question 1: Is it clear when a firm must apply the Guidance Statement for OCIO Strategies?**

Yes, it is clear for the most part when a firm MUST apply the guidance statement and the examples are particularly helpful. Prong #3 seems to create confusion with the examples, and could be edited to state “*typically* not a portion of a larger portfolio,” be dropped as part of definition and just offered as context, or perhaps reframed as “reflects the fully diversified IPS developed for the asset pool”. We agree with other comments for example #1 on page 4 that “does not need to apply” the guidance implies that the firm could apply the guidance, and it would be more helpful for example #1 to state “would not apply” or “must not apply” the guidance.

**Question 2: Do you agree with the use of a Required OCIO Composite structure?**

Yes, generally, we see the value of a required composite structure for comparability. The simplicity of basing the definitions on the asset allocation, while at one level may seem overly simplistic, is valuable to prospective clients because it is easy to understand as a starting point for comparisons to then dive deeper and understand what is contributing to return differences.

We do specifically agree with this being a requirement rather than a recommendation, and we do not think it will confuse consultants or other institutional asset owners to be provided more than one set of composite returns (a required OCIO GIPS Composite Report and an additional, perhaps previously defined, relevant GIPS Composite Report).

**Question 3: Do you agree with differentiating liability-focused composites from total return objective composites in the Required OCIO Composite structure?**

Yes.

**Question 4: The proposed asset allocation ranges for the Required OCIO Composites have been created based on a widely used set of OCIO indices, which is built to include the most common 60/40 portfolio in the middle of the moderate bucket. Do you agree with these ranges, or do you think we should take a different approach?**

The required OCIO Composite structure might be more effective if it required at least three (3) growth/risk mitigating (or growth/liability hedging) allocating bands, rather than predefining the bands. We work with several firms offering OCIO management, and as mentioned, have also been working with multi-asset retail managers since the 1990s, and we would typically review the asset allocation of all the firm's accounts and see where the target allocations fell before recommending asset allocation bands. For some firms 5 allocation bands might make sense; for others 3 or 4 would work much better. This is more in the spirit of allowing firms to define their composites and also in keeping with the flexibility that the guidance statement allows firms to assign what is a growth vs a risk mitigating asset. While some commenters would like to see less flexibility in defining asset classes, we agree with flexibility and disclosure because of the nuanced diversification roles of asset classes interacting with different markets and different portfolio objectives, and because institutional consumers of returns will not tolerate misclassification simply to game returns.

**Question 5: Do you agree with the proposed three options for the treatment of legacy assets?**

Generally, yes, along with comments received to date, as there is no need to limit treatment to three options, or some hybrid. Rather than applying on a composite-by-composite basis, it seems like it might be more relevant to apply firmwide since these are total portfolio composites. Firms can apply different options depending on circumstances (not likely to be impacted by allocation bands of the composites).

**Question 6: Do you agree with requiring firms to disclose information about their policy for the treatment of legacy assets?**

Yes. Sample disclosures in the guidance statement are helpful.

**Question 7: Do you agree with requiring both gross-of-fees and net-of-fees returns for Required OCIO Composites?**

The GIPS Standards for Firms permit gross, net, or both, and this should be sufficient for OCIO performance, too, although we would like to see one additional disclosure, already addressed in the sample disclosure for firms with proprietary assets on Page 15, and that would be to require fee schedule disclosures to also include an estimate of the average annual fee from all proprietary funds: "The current fee schedule is 10 basis points on all assets. The firm also earns investment management fees from proprietary funds included in client portfolios. Investment management fees on these proprietary funds differ, and details about each fund's fees are available. Given the expected asset allocation for this strategy, XYZ Firm estimates the average annual fee from all proprietary funds will be approximately 50–60 basis points per annum."

**Question 8: Do you agree with requiring firms to initially present at least five years of performance that meets the requirements of the GIPS standards and this Guidance Statement?**

Yes, as this is consistent with the GIPS Standards for firms.

**Question 9: Do you agree that the effective date should be 12 months after the issue date?**

Yes.

**Final comment:** This guidance statement is valuable for OCIO managers competing for OCIO business, and it should not be limited to consultant searches, any more than firms can pick and choose to only claim GIPS compliance and provide GIPS Reports in some databases and not others. Firms that might manage OCIO assets but are not competing for more OCIO business should be able to comply with the GIPS Standards for Firms without applying this guidance statement. As already stated on Page 4: “Firms that choose to comply with the GIPS standards must follow all the applicable requirements of the GIPS Standards for Firms as well as the guidance as outlined in the Guidance Statement for OCIO Strategies ***when presenting a GIPS Report for an OCIO strategy.***” Suggested edit on Page 5, something to the effect of: “Any firm that claims compliance with the GIPS Standards for Firms and manages one or more OCIO Total Portfolios must also comply with the Guidance Statement for OCIO Strategies ***[when competing for new OCIO clients]***.”

We value the opportunity to offer our insights and sincerely hope that our comments contribute positively.

Kind regards,

Cascade Compliance