

To: CFA Institute
Re: Exposure Draft of the Guidance Statement for OCIO Strategies
Date: 20 November 2023

Thank you for the invitation to comment on the Exposure Draft of the Guidance Statement for OCIO Strategies. The Securities Analysts Association of Japan, the GIPS Standards Sponsor in Japan, is pleased to submit comments as follows:

Comments on Questions

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

It is not clear for the following reasons:

- The responsibilities and roles of institutional investors (asset owners) and those of firms that manage OCIO strategies are not so clear. Although an example of “DEF Pension Fund” describes such responsibilities between an asset owner and a firm to some extent (in the 1st paragraph on page 3), it is not sufficient. The responsibilities and roles of asset owners and those of firms should be more clearly explained for the purpose of this Guidance Statement. The purpose and benefits of OCIO services should also be described as there are jurisdictions where such services are not yet widespread. We believe they provide a basic framework that would be helpful in understanding when a firm must apply the Guidance Statement for OCIO Strategies.

The Exposure Draft uses the term “institutional investors” in some places and “asset owners” in others. Since the GIPS Standards for Asset Owners define the term “asset owner”, “asset owners” should be used consistently.

- On page 3, “OCIO Strategy” is defined as “a strategy for Total OCIO Portfolio”, while “Total OCIO Portfolio” is defined as “a pool of assets managed in an OCIO Strategy.” Circular logic?

One factor leading to such self-contradictions is the use of an initial capital letter (i.e., “Total OCIO Portfolio”) for both that of asset owners and that of firms, although the term “Total OCIO Portfolio” is defined in the Glossary as the Total OCIO Portfolio (a pool of assets) managed by a firm. This causes a confusion in the understanding of Total OCIO Portfolio (in some cases for asset owners and in others for firms) throughout the Exposure Draft.

- On page 4, it is stated that the Guidance Statement for OCIO Strategies does not apply to portfolios for which the firm provides investment management but does not recommend a strategic asset allocation or work with the client to develop the investment policy statement.

However, in Example 2, the Guidance Statement is applied to the two firms that appear to only manage the client’s portfolio. Example 2 is not suitable for determining whether the Guidance Statement is applicable.

- In Example 1, the expression of “does not need to apply” is unclear. It should read “must not apply”.
- In Japan, it is usual for a discretionary management mandate in the form of investment in specific asset classes, multi-asset classes, etc. (such as in Example 1 and Example 4) to be given to a firm after an asset owner has decided on the investment policy and strategy occasionally with the advice of third-party consultants. It appears unclear at this stage how OCIO services will be implemented in Japan in the future, and we believe that issues related to conflicts of interest and regulatory frameworks are key considerations.

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

We basically agree from the viewpoint of comparability of OCIO composites. However, the following points need to be considered:

- The use of OCIO composites as shown in Figure 1 should not be mandatory but a recommendation as we believe firms should be able to have more flexibility in constructing OCIO composites depending on their OCIO strategies.
- As it is difficult to make appropriate performance comparisons based on asset allocation ranges alone, disclosure of risk indicators such as absolute risk level and duration should be required.
- Firms should be required to present to prospective clients all the OCIO composites that they maintain for Total OCIO Portfolios, as we understand that what lies behind the proposed composite structure is essential need for greater comparability among firms providing OCIO services.
- In addition, questions may arise about additional composites. The Exposure Draft states that a firm may include “portion of Total OCIO Portfolios” into composites other than the “Required OCIO Composites”. We need further clarification on this. For instance, can a firm create a composite for a single asset portfolio or carve-out that it manages as part of a Total OCIO Portfolio? Or can a firm create composites that have an allocation range of hedged assets and/or growth assets that is different from the “Required OCIO Composites”?

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

We basically agree. However, the following points need to be considered:

- Differentiating liability-focused composites from total return objective composites should be a recommendation as we do not believe that liability-focused/total return objective is the only criterion and there may be other criteria for differentiation for firms. If standardization is the primary driver for this Guidance, it should be explicitly explained.

- What the adjectives used to label each OCIO composite (such as “Aggressive,” “Moderately Aggressive,” etc.) represent may vary depending on interpretation. How about replacing them with simple numbers (Liability-Focused #1, Liability-Focused #2, ...)?

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?

We basically agree. However, the following points need to be considered.

- Although five types of composites are shown in Figure 1, each under “Liability-Focused” and “Total Return Objective”, the determination of types of composites and asset allocation ranges should be left to the discretion of each firm, we believe.
- The criteria for “Moderate” may vary from firm to firm.
- It appears that there is no theory that supports only the proposed allocation ranges, as far as we know.

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

We agree. However, we believe that there may be too much discretion on the part of the firm to exclude/consider legacy assets.

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

We agree.

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

We do not agree. We recommend that firms should be able to present either gross or net returns (or both) and not be required to present both, as we generally believe that presenting gross returns and the current fee schedule appropriate to prospective clients would be sufficient for the purpose of the GIPS standards.

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?

We agree.

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

We agree.

Other Comment

Is it correct to understand that the Guidance Statement does not need to be applied in such a case where a firm does not intend to market the OCIO strategy, even if the situation exists (in relation to specific clients) that appears to meet the definition of OCIO services given in the Guidance statement, i.e., the provision of both investment advice and discretionary investment management?

A handwritten signature in brown ink that reads "Yoh Kuwabara". The signature is written in a cursive style with a large initial "Y".

Yoh Kuwabara
Chair
Investment Performance Standards Committee of SAAJ