STATE STREET GLOBAL ADVISORS

Exposure Draft of the Guidance Statement for OCIO Strategies

Thank you for the invitation to comment on the Exposure Draft of the Guidance Statement for OCIO Strategies. We appreciate the opportunity to share our view on this important topic and below are our responses to each question posed in the exposure draft.

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

For traditional OCIO firms or firms that derive the majority of their AUM from OCIO business, the guidance statement as written is reasonably clear. However, the Guidance Statement is less clear as it relates to our firm, and presumably other larger asset managers who claim compliance with the GIPS® standards and have a relatively small OCIO offering as part of their product lineup. While we generally agree with the definition of an OCIO Strategy/Total Portfolio there two terms in particular that we feel need to be further clarified such as the definition of an “institutional client” and what constitutes “investment advice”.

While some examples of an “institutional client” are fairly straightforward and perhaps universally understood, by performing a quick online search to define what an “institutional client” is, you’ll get numerous definitions which vary from source to source. In the absence of any specific definition, firms will be left to define this themselves, which may lead to inconsistencies from one firm to another. This could detract from the objective of this GS to have comparability in the marketplace.

Looking at what constitutes “investment advice”, the Guidance Statement (GS) states in the “*What Is an OCIO*” section that *“OCIO investment advice can take different forms but often includes learning about the asset owner’s financial objectives, including any return objectives or liabilities, and helping to develop the strategic asset allocation and investment policy statement for the asset owner’s Total OCIO Portfolio”*. However, example 5 in the “*Examples for Determining If the Guidance Statement for OCIO Strategies Is Applicable*” describes a scenario where a firm offers an off the shelf asset allocation model to a client that would be a best suited, but [seemingly] did not collaborate with the client on any sort of investment policy and/or other deeper aspects of the client return objective/liabilities. Continuing with this logic, would a Target Date Retirement strategy where a firm matches a client with a product based on their retirement age be considered an OCIO strategy as defined in the GS? In our view a basic exchange of information that would be discussed without an extensive partnership with the client to shape or guide the investment policy or objectives would not constitute “investment advice”. However, as the GS is written, it may unintentionally apply. Another example is with our Institutional Solutions Group business that has many off-the-shelf multi-asset class products both for strategic and tactical asset allocation. While some discussion may take place during client engagements this does not seem in the ‘spirit’ of what the OCIO GS is trying to capture with “*investment advice*”. Again, given how it is currently written/defined this might inadvertently fall under this category and would need to be included. Our recommendation would be to redefine “investment advice” to include <u>all</u> the key aspects of an OCIO relationship, focusing on their fiduciary responsibility of taking over most/all of the clients investment policy and overall financial objectives.

There are two other examples that In our view, seems to display a disconnect or contradiction within the GS which are related to examples 2 & 3 in the “*Examples for Determining If the Guidance Statement for OCIO Strategies Is Applicable*” section. Specifically, in example 2, each firm manages half of the pension’s fund Total OCIO portfolio which seems to meet the first criteria of when the GS for OCIO strategies does not apply ["*Portfolios that do not include all asset classes of an OCIO Strategy*"]. Similarly, example 3, while the firm was hired for OCIO advice and manages the short-term pool, it does not manage any other pools and therefore would also seem to meet the first criteria of when the GS does not apply.

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

No, we do not agree with the use of a required OCIO composite structure, especially for firms that are already GIPS® compliant. As a GIPS® compliant firm, we already have existing composites for our OCIO business and forcing the adoption of this new required structure to maintain GIPS® compliance is a huge departure from the existing standards. Also, for GIPS® compliant firms where OCIO is not the majority of their firm AUM, or that only offer OCIO as an add-on to their core business, this required structure will provide little added value while creating an enormous burden for the initial one-time effort to comply as well as for ongoing maintenance.

While we understand and recognize the desire to standardize the OCIO landscape to provide a more meaningful 'apples-to-apples' comparison amongst the OCIO firms, we would support having a recommended composite structure so that firms may choose to adopt or alternatively to have a separate complementary GIPS® Standard for OCIOs altogether. This leaves the choice up to each firm to weigh adoption of the proposed structure and its potentially beneficial impact on their business, versus the initial outlay of time, resources, and ongoing maintenance it would take to put in place.

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

Yes, in general we agree with bifurcating liability-focused from total return objective in a recommended/voluntary composite structure.

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?

No, we do not agree with the ranges as we feel they are too granular and will cause portfolios to frequently move between ranges. This will add to the operational burden of maintaining the composite structure as outlined. We would recommend reducing the ranges from 5 to 3 (conservative, moderate, and aggressive) for each category which would reduce the number of composites needed from 10 to 6.

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

Yes, we do agree with the proposed three options but would also recommend having a materiality threshold (% of AUM) associated with each. This would prevent firms from omitting or including legacy assets that might potentially skew their OCIO performance and ability.

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

Yes, we agree with the required disclosure.

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

Yes, we agree with requiring both gross & net returns, especially given the impact of the SEC marketing rule on GIPS® reporting.

However, we disagree with the calculation of gross-of-fees performance which is not consistent between internally managed and externally managed segregated accounts. Having two different gross-of-fees (GOF) methodologies based on internal vs external segregated accounts is not only confusing but potentially misleading in our view. As written, the GOF calculation may incentivize OCIO managers to use in-house products which, all things being equal, would show higher GOF performance compared to an externally managed product. In addition, this GOF calculation may penalize OCIO firms that do not offer many in-house products which, all things being equal, would show lower GOF performance. We would strongly recommend changing the GOF calculation to make it consistent across internal versus external segregated accounts.

Lastly, given the complexity of the OCIO investment management fee structure / fee arrangements we would recommend there be an option to use a model OCIO management fee in addition to using the actual OCIO management fee charged. This would be similar and consistent with the net of fee treatment in the GIPS® 2020 standards (provision 2.A.30).

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?

No, we do not agree with requiring firms to present at least five years of performance. Given the time, resources, and operational burden of retroactively building the composite structure, we would strongly recommend three years at the most.

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

No, we do not agree with the 12 month timeline from issue date. It would be a significant undertaking which would require a substantial allocation of time, resources, and operational setup to comply with the GS as written. Given this, we would strongly recommend having at least 18+ months to comply, with the effective start date beginning January 1st, 20yy. Having a January 1st effective date would alleviate the issue of having a partial calendar year performance if firms choose to only go back the required history.

Other Comments:

While we can understand the need or desire to implement a standard for OCIO firms which would aid clients and consultants in their search and selection decision, we do not feel this should be added to the existing GIPS® standards. This is a monumental change for firms that already comply with the GIPS® standards, shifting away from allowing the firm to define their composites and strategies, to requiring a rigid composite structure. In addition, the work required by GIPS® compliant firms to implement the OCIO GS as written would be extremely burdensome, and many larger asset management firms such as ourselves that offer OCIO as a small piece of their product suite would see little to no benefit. If the OCIO GS is adopted as part of the GIPS® standards, there is the potential for existing GIPS® compliant firms to view this as being too resource or operationally taxing, and possibly exclude their OCIO business from their GIPS® firm definition to avoid compliance, or in the extreme, to not claim compliance with GIPS® altogether. Either one of these potential scenarios would only reduce the acceptance of GIPS® and its adoption in the marketplace.

If there truly is a need for standardizing the OCIO industry then we would strongly recommend considering a separate, "GIPS® Standards for OCIOs", that firms can choose to voluntary comply with. This would be more aligned with how the Fiduciary Management Providers in the UK have a distinct standard for their needs which is separate, but can co-exist with the GIPS® standards.

Please feel free to contact us with any questions or concerns on our commentary.

Thank you,

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