To: CFA Institute GIPS Standards Committee

From: Strategic Investment Group

Date: November 20, 2023

Subject: Public Comment on Exposure Draft of the Guidance Statement for OCIO Strategies

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Thank you for the opportunity to comment on this draft guidance statement. Overall, we believe it is well-designed and will improve performance reporting within the OCIO industry if broadly adopted, however the guidance as currently written should be enhanced to ensure the broadest adoption possible.

Please see our firm's responses to the questions posed within the draft guidance.

1. Is it clear when a firm must apply the Guidance Statement for OCIO Strategies?
    a. Yes, overall, we believe the definition of an OCIO is clear, but make the following recommendations.
    b. Proposal: Expand the OCIO definition to explicitly include "selection of managers and funds" as a core responsibility.
        i. Rationale: Selecting managers and funds, whether internal or external, is a critical function of an OCIO. Exclusion of this aspect might lead to a narrow interpretation of OCIO roles and further "gaming" of portfolio results.
    b. Proposal: Clarify the scope of investor types that an OCIO may manage. The current definition focuses solely on "institutional" investors however we believe that high net worth portfolios such as those typically managed by a family office may not traditionally be viewed as institutional but should also be included in scope.
        i. Rationale: We agree that it is important to differentiate OCIOs from retail-oriented managers and RIAs; however, the distinguishing feature of an OCIO is the portfolio implementation, including scope of asset classes included and types of products used, rather than the type of investor itself.
2. Do you agree with the use of a Required OCIO Composite structure?
    a. No, we believe the OCIO composite structure should be recommended, but not required.
    b. Proposal: Allow for more flexibility in the required composite structures.
        i. Rationale: We believe that forcing all OCIOs to adopt a uniform composite structure disadvantages boutique firms who may not have a large number of clients and who customize asset allocations to meet specific client needs, as well as those who may change a client's asset allocation over time as the client's needs change. A less prescriptive approach aligns better with the overall GIPS standards and accommodates diverse business models. Comparability could be addressed by requiring disclosure of the allocation to

and definition of growth assets in a composite, rather than rigidly defining the ranges in each composite.

3. Do you agree with differentiating liability-focused composites from total return objective composites in the Required OCIO Composite structure?
    a. Yes
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?
    a. We agree that the use of risk asset allocation ranges is appropriate for segmenting portfolios into composites. The proposed ranges provide one reasonable approach however, firms should retain the discretion to determine the most appropriate allocation ranges.
    b. Firms should be allowed to determine their own asset allocation ranges. Some firms may elect to use the suggested ranges, however other firms may choose to use a broader set of ranges that capture a larger group of their client bases to have a more robust composite. Further, ranges that are too narrow could result in broken track records for small firms and may reduce a firm's incentives to comply with the standards. While this may hinder a direct "apples to apples" comparability between firm results, this approach ensures that firms are able to adapt the standards to their business.
    c. Proposal: Furthermore, additional guidance should be included for determining how firms should assign asset classes to each band. Rather than attempt to include all asset classes in the guidance, the statement should outline a methodology for firms to determine the appropriate classification for each asset class.
5. Do you agree with the proposed three options for the treatment of legacy assets?
    a. Yes, we agree with the overall framework allowing firms to establish their own policies for legacy illiquid assets, however, we believe further clarification is necessary regarding options for carving out portions of illiquid legacy privates.
    b. Proposal: Clearly state the ability to carve out or exclude certain legacy illiquid positions from the portfolio, particularly those that are in a fund of fund structure, when testing portfolios for discretion.
        i. Rationale: This will offer firms the flexibility to manage portfolios effectively while maintaining the integrity of their OCIO strategy.
6. Do you agree with requiring firms to disclose information about their policy for the treatment of legacy assets?
    a. Yes
7. Do you agree with requiring both gross-of-fees and net-of-fees returns for Required OCIO Composites?
    a. Yes, however the current guidance that requires firms to disclose fees on all external investments is too onerous and outside the scope of the GIPS mandate.
    b. Proposal: The guidance should focus solely on disclosure of fees related to funds that are internally managed by the OCIO.
        i. Rationale: The purpose of the disclosure should be to inform prospective buyers of the OCIO's services if the OCIO is offering a reduced OCIO fee while embedding additional fees in proprietary products.
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?
    a. Yes
9. Do you agree that the effective date should be 12 months after the issue date?

   a. Yes

10. Other:
    a. Proposal: The draft guidance statement discusses various approaches to benchmarking but stops short of recommending an approach. We believe that the use of a portfolio-weighted custom benchmark, based on the composite constituents' underlying strategic target asset allocation benchmarks, is clearly the superior approach given the range of risk profiles within the composites. The guidance statement should recommend or even consider requiring the use of these benchmarks.
        i. Rationale: The use of portfolio-weighted custom benchmarks will allow prospective clients to assess excess performance more clearly.
    b. Proposal: The guidance should clarify that firms may use either the lagged or delayed (delaying the finalization of total portfolio performance until receipt of updated valuations) approach to valuations, but disclose the approach, and ensure that the benchmark appropriately matches the valuation methodology employed.