November 17, 2023

VIA EMAIL

GIPS Standards Technical Committee
CFA Institute
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Re: Exposure Draft Guidance Statement for OCIO Strategies

Members of the GIPS Standards Technical Committee:

Thank you for the opportunity to comment on this draft guidance statement. Our responses to the questions provided within the exposure draft are as follows.

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

While this guidance is clear in general and offers valuable information for firms involved in OCIO activities, there are areas where we believe clarity can be enhanced. First, we believe there is very little guidance with respect to the concept of a prospective client. For example, while the existing draft notes it applies to Total OCIO portfolios of institutional investors, such as pension funds, endowments, and foundations, could this also include other entities, such as family offices? If the guidance is limited to specifically institutional investors, we believe institutional investor should be a defined term within the glossary.

This may be a broader consideration for the guidance in general, but OCIOs may be more complex than this guidance anticipates. In our experience, OCIOs define themselves in a variety of ways and so, while this guidance may fit a certain segment of the OCIO industry, we wonder if there may be entities that may be confused as to how to define their organization and apply the guidance. For example, if an entity manages for institutional investors, but they do not compete for business, would this guidance apply? Does it apply to asset owners who manage the funds of other institutions and do compete for business (and thus do or can hold themselves out as both Owners and Firms)?

Finally, we question limiting the guidance to institutional investors. We have several clients that are private wealth managers and believe they would meet the two requirements of providing investment advice and investment management services. What would be the rationale for limiting this to just institutional investors when firms that manage other client types may be able to meet these requirements, but would not be able to apply this guidance?

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

While we believe this structure should be recommended to enhance comparability across OCIO strategies, we believe requiring a composite structure is not consistent with the general GIPS guidance on composite construction for firms. Why should there be a required structure for this type of manager when there isn't one for other types of managers? (And, we would not encourage that there should be). We believe that composites should reflect what is most meaningful to prospective clients about how the firm defines its own strategies and composites. We would hope this guidance statement would be similar to the prior Guidance Statement on Composite Definition from January 1, 2011, and more recently in the guidance for Provision 3.A.5 where CFA Institute provides a suggested hierarchy and constraints/guidelines for defining OCIO strategy composites.

We believe this required composite structure may decrease compliance in the OCIO space and may also constrict the innovation of OCIO strategies. We are concerned that firms will find this structure too prescriptive and not reflective of their actual strategies, which will lead to a scenario where firms create and maintain two sets of composites, one that the firm is required to create to be compliant and one that reflects the firm's actual strategies and marketing efforts. Additionally, we believe smaller firms will find all of this too burdensome to warrant compliance with the GIPS standards.

We therefore ask that the composite structure be a recommendation, not a requirement.

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

As stated above, we believe this composite structure should be recommended rather than required. But we do agree that differentiating liability-focused composites from total return objective composites is a reasonable approach.

One comment we do have relates to the firm's ability to 1) determine how an asset is classified by strategy and 2) change their classification of assets on a prospective basis. If comparability is the justification for requiring a specific composite structure, what does this do to comparability?

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?

Within the proposed required composite structure, we find this part of the structure to be the most problematic. In our experience, we believe most firms would find that these ranges are not reflective of their strategies. Firms should be allowed to determine these asset allocation ranges based on their strategies. If the other elements of the proposed required composite structure are required in the final version of the guidance and asset allocation ranges are required, we feel strongly that these ranges should be dictated by the firm based on ranges more suited to their strategies.

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

While we generally agree with these options, legacy assets are not just an OCIO consideration as there are other firms that claim compliance with the GIPS standards that also must deal with legacy assets, e.g., private wealth managers. We believe the guidance for legacy assets, in general, should be expanded as a consideration under discretion, it should apply to all firms where legacy assets are a consideration and not specifically to OCIO strategies.

Our firm has provided guidance for these situations for years under the existing guidance for discretion. When a client directs the firm to hold legacy assets, it is up to the firm to first determine whether these assets would be considered discretionary or non-discretionary. If these legacy assets are determined to be discretionary, then they would be treated as all other discretionary assets within the portfolio and the firm's managers would now "own" these assets. If these legacy assets are determined to be non-discretionary, then they would be treated as any other client-restricted assets would be with respect to the firm's existing policies for discretion and exclusion.

If the firm is able to segregate these non-discretionary legacy assets from the main, discretionary portfolio, then the main, discretionary portfolio needs to meet the composite definition for inclusion. This is already required within Section 3 of the GIPS standards and this would be consistent with what other firms are doing that are able use technology to segregate portfolio assets for a variety of composite construction considerations.

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

As stated in response to question #5, legacy assets are not just an OCIO consideration. There should be no additional or different disclosure requirements that OCIO strategy composites need to adhere to that others do not. We think the requirements should remain consistent throughout, and this should be evaluated as a requirement under the next edition of the GIPS standards for all firms that deal with legacy assets. We believe this disclosure should be a recommendation rather than a requirement.

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

While it should be recommended, there should be no additional or different requirements that OCIO strategy composites need to adhere to that others do not. We think the requirements should remain consistent throughout; i.e., it should be a recommendation for OCIO firms as it is with non-OCIO firms.

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, but with some updates to the wording. We believe the intent here is to have this requirement be aligned with the existing guidance and requirements for firms that compete for business and market to prospective clients. If that is the case, please update the language to match the language in Provision 1.A.3 and to state, "…compliance for a minimum of five years or for the period since the firm inception if the firm has been in existence for less than five years."

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

Ideally, CFA Institute would provide more time for implementing the guidance. We would recommend a longer time frame, e.g. 18 months. However, we believe 12 months would be the minimum that firms that already claim compliance with the GIPS standards would need to implement any necessary changes.

Additional Comment

With respect to the defined terms and the glossary, we believe this guidance should be consistent with other GIPS guidance, where defined terms that can be found in the glossary are denoted with small capital letters. The use of an initial capital letter for defined terms is confusing.

Again, thank you for the opportunity to comment. We hope you find these comments helpful.

Sincerely,

The Spaulding Group, Inc.

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