November 14, 2023

Krista Harvey
CFA Institute
Global Investment Performance Standards
RE: Guidance Statement for OCIO Strategies Exposure Draft
915 East High Street
Charlottesville, VA 22902

Dear Ms. Harvey,

Thank you for the opportunity to comment on the Exposure Draft Guidance Statement for OCIO Strategies ("Exposure Draft"). We appreciate the opportunity to share our perspective to help shape the Standards.

To provide some background on our firm and the perspective that we come from, we are not ourselves a GIPS compliant firm. We are a consulting firm with a Performance Division specializing in helping investment managers and OCIO firms become GIPS compliant and maintain that compliance on an ongoing basis. In the course of providing this consulting we have worked with some firms that are OCIO managers who come from a consulting background and other OCIO managers that come from investment firms. We also work with many large firms that claim compliance and have a small OCIO branch of their business. ACA has completed verifications for several OCIO firms with varying asset sizes and complexities. Our feedback provided is based on our experience working with these firms and includes both our personal opinions as well as the opinions our clients have shared with us over the years.

Please find enclosed our responses to each of the questions posed in the Exposure Draft. Feel free to contact us if you wish to discuss any of our responses in more detail.

Best Regards,

ACA Group

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

   The application of this guidance to traditional OCIO firms is clear. There is some concern that other managers who provide investment advice and investment management services may be subject to these requirements unintentionally. We believe this unintentional application can be alleviated by limiting the application of this guidance statement to OCIO firms marketing to search consultants while also defining “institutional client” and “search consultant”.

   For the definition of Total OCIO Portfolio we request clarification and/or a definition for the term “institutional client.” We were unable to find “institutional client” defined within the GIPS standards. Absent guidance each investment manager will need to make their own determinations and that may vary from what the CFA Institute intended. Considerations could include a certain total asset size or a certain client type regardless of asset size. Other questions exist over the incorporation of family offices and size distinctions (Example $1M family office vs a $100M family office). We feel “institutional” should be defined if it remains one of the determining factors for portfolio qualification as a Total OCIO Portfolio.

   Limiting the scope of the guidance to search consultants and defining key terms would exclude those investment managers who directly manage family trusts, foundations, and endowments that offer investment advice and investment management for high-net-worth individuals. These managers have historically not considered themselves to be an “OCIO” due to the direct relationships and customized nature of addressing financial needs of their clients. Under the current definition of a Total OCIO Portfolio, they would be compelled to comply. If this is intentional, we would recommend guidance on how a firm would monitor the existence of Total OCIO Portfolios on an ongoing basis. This could be operationally difficult and draining on resources for firms that are not traditional OCIOs.

   Additionally we feel this guidance should only apply to firms that manage Total OCIO Portfolios ***and*** use search consultants to market their strategies. For those firms that directly market to prospective clients, the Global Investment Performance Standards (GIPS®) for Firms requirements can be followed. This would be similar to how the guidance statement on wrap portfolios applies only when presenting to a prospective wrap fee sponsor, prospective wrap fee client, or current wrap fee sponsor.

Limiting this guidance to firms that use search consultants would also alleviate the burden on many banks that have a related Registered Investment Adviser "RIA" claiming compliance and offering OCIO services. It is our experience that the OCIO portion of the RIA business is simply an added benefit for their banking clients, and they do not market through search consultants. They market directly to their banking clients applying a variety of composite strategies. In many instances they do not consider themselves an OCIO firm. We are concerned RIAs within banks will find this composite structure too cumbersome while providing no additional benefit causing a detraction in those claiming compliance with the GIPS standards.

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

We appreciate the need for search consultants to receive an apples-to-apples comparison around investment performance. For this reason, we agree with the use of the required OCIO Composite structure for search consultants only. We disagree with the requirement that every firm that manages a Total OCIO Portfolio, as currently defined, be required to adhere to the OCIO Composite structure. It is our view that those firms that have been claiming compliance under the current GIPS standards framework and already established composites surrounding their firm's strategies will be at a disadvantage.

The Exposure Draft attempts to minimize the burden on firms by allowing additional composites outside of the Required OCIO Composites. The draft also stated that at a minimum the firm must provide the prospect with the relevant Required OCIO Composite GIPS Report, but then may provide additional GIPS Reports. This will be confusing for prospects to receive multiple GIPS Reports and may diminish the intended outcome of an apples-to-apples comparison. We believe it will be confusing when marketing directly to prospects. When marketing to search consultants, the Required OCIO Composite GIPS Report and additional GIPS Reports will likely be something requested.

If the guidance is not limited to firms marketing through search consultants, our recommendation is that a firm be required to provide **at least one** GIPS Report to a prospect. If a search consultant wishes to receive the corresponding Required OCIO Composite GIPS Report, this may be provided upon request. This allows an OCIO firm to work within their own marketing practices and provide the relevant GIPS Reports to the relevant audience, which may vary between direct prospect communication and search consultants. The Required OCIO Composite GIPS Report would need to be available upon request. It is our belief that most search consultants will likely ask for this up front in the RFP process.

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

   There are very few OCIO firms that have this type of composite structure who are already claiming GIPS Compliance. Many firms have different composites based on asset allocation, but not necessarily liability-focused and total return objective composites and most portfolios have a mix of these objectives.

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?**

   In general, we agree with these ranges, but we think the aggressive band is too large. Most firms have core strategies that are 80/20 and those should fall into Moderately Aggressive instead of Aggressive. We would recommend:

Required OCIO Composites	**Allocation to Liability-Hedging Assets**	**Allocation to Growth Assets**
Liability-Focused Aggressive	**0-15% (recommended)** 0-20% (proposed)	**85-100% (recommended)** 80-100% (proposed)
Liability-Focused Moderately Aggressive	**16-30% (recommended)** 21-30% (proposed)	**70-84% (recommended)** 70-79% (proposed)

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

   We agree with the three options, but do not think firms should be limited to only those options. We believe firms should still be allowed to apply general discretionary policies that many have already created surrounding legacy assets. Our suggestion would be that firms must disclose how they determine if legacy assets are included in composites. Some firms, for example, will include legacy assets if they legally take discretion over the assets. Other firms will include the legacy assets if it is determined that they can implement their strategy around the assets and use the legacy assets as part of their strategy. We believe that both examples will be allowed under option 2. If the CFA does not believe the examples meet the definition of option 2, we would recommend a fourth option incorporate these scenarios.

A more meaningful disclosure may be to require firms to disclose the percentage of legacy assets as of each year end.

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

   Yes, we agree with this required disclosure.

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

   No, we do not agree in requiring both gross-of-fees and net-of-fees returns for Required OCIO Composites. The additional fee disclosure is sufficient for a prospect to understand the fees and differences between gross and net. It may be difficult for some firms to go back historically and calculate gross-of-fee returns. Would these firms be allowed to use a model fee and gross-up performance?

   For the required disclosure for fees on underlying investments, we believe it would provide transparency into the various fees that an OCIO client can be expected to pay. We believe there should be guidance for firms to implement as intended. Are the ranges intended to cover every portfolio for the entire time period of the track record or is it meant to be a snapshot of one moment in time? Our recommendation is that this requirement be a snapshot in time as of the last annual period. This will alleviate concerns from firms who do not have this information readily available for historical periods and provided a prospect an understanding of the current fee expectations.

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

We agree with requiring firms to initially present at least five years of performance that meets this guidance statement.

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

   Yes, we do believe this is an appropriate amount of time but only if the issue date is after 1/1/2024. We want to clarify as well that if these are effective 2/1/2024 for example, the effective date is 2/1/2025, but the GIPS Reports would not need to be updated until 12/31/2026 at the latest and the five-year period would cover 1/1/2021 – 12/31/2025. Please provide an example for firms.