Comments Related to Guidance for OCIO Strategies
Submitted by ClearView Fiduciary Alliance
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ClearView Fiduciary Alliance supports the creation of investment performance reporting guidelines that are constructed with a client-centric perspective. The guidelines should enhance transparency, accountability, and comparability across portfolios and OCIO providers in a manner that provides useful context and a consistent framework regarding portfolio risk exposures and potential performance profiles.

Our overarching observation is that the proposed guidelines appear to arise from industry and provider-based structural interpretations rather than from clients' actual experience in terms of return, volatility, and liquidity relative to specific objectives in their actual portfolios. As such, it is our view that the proposed composite structure may not provide sufficient information on what prospective clients can reasonably expect from specific providers.

We offer the comments below based on both the Exposure Draft Document as well as our reading of public comment documents provided by others -- which we believe did not fully address the issues covered in our observations below.

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

Yes, we believe the Guidance Statement is clear.

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

While we agree that guidelines should be provided to govern the composite structure, we are not in agreement with the definitions and ranges provided for several reasons. First, our guiding principle is that the ranges should be client-centric, i.e., reflective of client policy benchmarks in conjunction with their tolerance for illiquid investments -- as opposed to a provider-based set of broad asset allocation bands. While the proposed structure attempts to group portfolios within composites based on broad asset allocation profiles, it does not consider client-related volatility or liquidity tolerances, both of which can have significant impact on the overall risk profile of a portfolio.

Second, emphasis on "Growth" assets as the driver of the allocation could create an illusion of similar return and risk patterns while combining highly differentiated portfolios in the same composite grouping, resulting in poor comparability and widely disparate outcomes. Composites that on the surface may appear to offer internally consistent investment outcomes may prove in periods of market stress to produce much wider variations in outcomes than anticipated.

Finally, we encourage consideration of portfolio size in the establishment of composites guidelines. The OCIO model is experiencing adoption across a broad spectrum of clients. Providers of OCIO services to smaller clients (less than $50mm) face client-driven volatility and liquidity constraints that are often less prevalent with larger clients.

In summary, we suggest consideration of composite guidelines based on a combination of client policy benchmarks, illiquid investment tolerance, and portfolio size. In our view, such an approach would result in more internal consistency within each composite.

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

Yes. Our observation is that the liability-focused composite should likewise be client-centric, with the reporting methodology focused on the success of meeting the liability stream of the client. Accordingly, the overall return of the liability matched portfolio is less consequential than the return relative to the liability stream; the net outcome is the crucial metric rather than portfolio performance in isolation.

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 have several observations that argue against the proposed ranges.

The inclusion of illiquid investments in the ranges creates significant time-matching issues in the accurate calculation of return and volatility. When portfolios that include illiquid investments (and the resulting valuation lags) are combined with portfolios that are predominately liquid, the resulting "index" or "composite" return is unlikely to reflect the actual experience of any client. Our guiding principle is that current and prospective clients should be able to use the composites to understand the return patterns of other clients that have objectives and constraints that are similar to their own. Grouping by shared policy benchmark characteristics in conjunction with illiquidity tolerance would provide more useful information from a client viewpoint. Time-matching and volatility experiences will be better aligned among groupings that share similar policy guidelines.

From a perpetual asset pool standpoint, we agree with other commenters that a 60/40 mix is not a central allocation tendency. Institutional capital pools tend to allocate toward asset mixes that are more likely to provide positive net real returns after normalized draw rates. In our experience, a 65/35 or even 70/30 portfolio would be a more appropriate assumed "most common" portfolio.

We do not believe that a set of indices defined and controlled by any specific provider should be the basis for composite definitions. Instead, we believe composite groupings must arise from client-based needs analysis to reflect the composition of actual client portfolios rather than provider-centric allocation schemes.

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

Composites should be designed to reflect the experience of clients, providing a framework for current and prospective clients to evaluate the results of OCIO firms in a way that is applicable to their own situation. The inclusion of legacy assets in cases where the provider is incapable of removing them from the portfolio does not contribute toward the goal of better understanding the OCIO provider. We thus agree that portfolios with material exposure to legacy assets that cannot be managed should be excluded from the composite.

To the extent that legacy assets are affirmatively retained as an ongoing allocation at the discretion of the OCIO provider, such portfolios should be included in the composite. However, such a determination should be made at the outset of the client-OCIO relationship and specific portfolios should not be moved in and out of composites as definitions of the role of legacy assets in the portfolio evolve.

In those instances where legacy assets are material in size and are excluded due to illiquidity, the remaining portfolio assets should be excluded from the composite as they represent an incomplete asset allocation and are thus not representative of the portfolio's overall performance.

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

Yes

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

Consistent with our emphasis on a client-centric approach, results should be reported on a net-of-fee basis with supplemental information provided regarding fee rates for portfolios of different sizes. This ensures that current and prospective clients are able to evaluate their net returns relative to peers.

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

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

While the effective date may be set 12 months after the issuance of final guidelines, the reality of the industry is that firms will come into compliance as their systems and workflows allow, and only after they determine that GIPS compliance is in the best interests of their firm. We do not believe that a "bright line" effective date that seeks to exclude firms that are not yet in compliance is necessarily in the best interests of current or prospective clients. This assumes that high quality firms are working in good faith toward compliance or are otherwise presenting performance results in a consistent, transparent, and accurate manner. The goal of the GIPS process should be to enhance performance reporting in a way

that meets the needs of current and prospective clients. Care should be taken to avoid instituting a GIPS process which negatively affects providers that are working through complex client books in good faith toward GIPS compliance.

Respectfully submitted,

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