



CFA Institute

Global Investment Performance Standards

GUIDE FOR CREATING A GIPS®
STANDARDS POLICIES AND
PROCEDURES MANUAL FOR FIRMS
MANAGING ONLY BROAD
DISTRIBUTION POOLED FUNDS

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**Guide for Creating a GIPS® Standards Policies and Procedures Manual for Firms Managing
Only Broad Distribution Pooled Funds**

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Introduction

There is no “one size fits all” GIPS® Standards Policies and Procedures Manual (P&P Manual). Each firm’s P&P Manual must be created for the specific conditions and circumstances of the firm. This guide for creating a P&P Manual is for firms that manage only broad distribution pooled funds (BDPFs), but it does not cover every GIPS standards requirement and recommendation. Firms should, therefore, take care to make sure they have reviewed and addressed all of the GIPS standards requirements that are applicable to the firm, as well as any recommendations the firm has chosen to adopt.

When determining which requirements of the GIPS standards are applicable to the firm, the firm must consider not only the GIPS standards but also any requirements that are included in Guidance Statements, interpretations (see the GIPS Standards Handbook for Firms), and Questions and Answers published by CFA Institute and the GIPS standards governing bodies. A list of requirements outside the provisions is included on the GIPS standards website, on the Tools webpage. Firms that manage only BDPFs should pay particular attention to the Guidance Statement on Firms Managing Only BDPFs.

This guide is not authoritative guidance and is simply a starting point to help firms managing only BDPFs think about what should be included in a P&P Manual.

Each firm will need to tailor its policies and procedures to fit its situation. For example, this guide assumes that the firm has a GIPS Standards Oversight Committee, and this committee is referenced throughout this document. Some firms, however, may not have a GIPS Standards Oversight Committee.

We included as appendices policies for portability and firms jointly marketing, which will not apply to all firms. If these topics apply to a firm, it must include these topics within its P&P Manual.

Important Points to Keep in Mind

The GIPS standards require a firm to document its policies and procedures used in establishing and maintaining compliance with the GIPS standards. Because the GIPS standards are not static and may change over time, firms must establish policies and procedures to identify any changes in the GIPS standards that affect them.

Firms must also comply with any laws and regulations regarding the calculation and presentation of performance. Laws and regulations can also change over time, so the GIPS standards require the creation of policies and procedures to monitor and identify changes in and additions to laws and regulations regarding the calculation and presentation of performance.

The P&P Manual serves a number of important functions. The P&P Manual:

- indicates choices made by the firm where there are approved alternatives;
- specifies policies/rules for situations that the GIPS standards do not explicitly cover; and
- documents procedures for consistent application of GIPS standards policies.

Before a firm creates a P&P Manual, there are a few things that are helpful to know. First, it is important to understand the difference between a “policy” and a “procedure.”

Policy: A basic principle used to guide decisions and actions

Procedure: An action required to implement a policy

Because procedures are firm specific, this sample P&P Manual focuses primarily on policies but also includes some procedures. Detailed operational procedures will often reside outside of the firm's P&P Manual but may, in some cases, be incorporated or referenced within the P&P Manual. For example, a firm may include key concepts of its valuation procedures within the P&P Manual but refer to detailed valuation procedures that are maintained separately.

Here are some important points for firms to keep in mind as they develop their own P&P Manual:

- Firms should identify personnel, or those who hold certain job titles or positions at the firm, who will be responsible for developing and maintaining the policies and procedures and for ensuring that all applicable requirements are being followed. It is likely that several areas within the firm (accounting, legal and compliance, investment operations, risk management, marketing, etc.) will need to be involved.
- Policies and procedures are unique to a firm — there is no “one size fits all” template. While getting help from others outside of the firm is fine, the P&P Manual must be designed for the specific firm.
- If a firm relies on third-party data, there must be policies and procedures for ensuring this data meets any calculation requirements of the GIPS standards.
- A P&P Manual should not simply repeat the GIPS standards provisions. Here is an example based on Provision 1.A.5.b, which states that the firm must create policies and procedures to monitor and identify changes and additions to all of the Guidance Statements, interpretations, and Q&As published by CFA Institute and the GIPS standards governing bodies.
 - Incorrect: “Policies and procedures have been created to monitor and identify changes in and additions to the GIPS standards, as well as all of the Guidance Statements, interpretations, and Q&As published by CFA Institute.” This would not be an appropriate policy because it simply repeats the provision and does not include the actions the firm will take to comply with the requirement.
 - Correct: “In order to stay informed of any new guidance, interpretations, or changes to the GIPS standards relevant to the firm, staff members responsible for compliance with the GIPS standards:
 - regularly attend industry conferences, including the GIPS Standards Annual Conference sponsored by CFA Institute;
 - participate in webinars and other online training programs offered by industry leaders;
 - subscribe to the CFA Institute GIPS Standards Newsletter; and
 - review the information provided by the firm's verifier and other performance industry service providers, regarding interpretation of and news about the GIPS standards.”
- Firms must have policies and procedures in place for:
 - reviewing and ensuring that all pooled fund returns meet the input data and calculation requirements of the GIPS standards; and
 - ensuring that all materials adhere to applicable laws and regulations regarding the calculation and presentation of performance results.
- Any changes in the firm's GIPS standards policies and procedures should be applied prospectively and not retrospectively.
- Both current and previous versions of the firm's P&P Manual must be maintained so there is an accurate history of policies and procedures for the entire period for which the firm claims compliance. Some firms will create a new version of the P&P Manual when a change is made, while others will update the same document noting any changes and the effective date of the changes. What is important is that firms are able to identify when changes to policies are effective so that anyone who is reviewing the policies and procedures, including verifiers, will know which policy was in place for which time period.

Questions to ask as policies and procedures are being formulated:

- For each requirement and each recommendation that the firm chooses to adopt, do the policies and procedures clearly explain:
 - what is being done to meet the requirement or recommendation;
 - how it is done; and
 - who is responsible for doing it?
- Does the policy or procedure conform to:
 - the GIPS standards;
 - regulatory requirements; and
 - the principles of fair representation and full disclosure?
- Is the policy or procedure easy to understand and apply consistently given the work processes and systems in place?
- Are appropriate internal controls included or referenced in the firm's policies and procedures?

Requirements and Recommendations

Requirements are provisions, tasks, or actions that must be followed or performed.

Recommendations are provisions, tasks, or actions that are not required to be followed but that should be followed. It is a recommendation of the GIPS standards that firms comply with the recommendations of the GIPS standards.

Requirements and recommendations can be found in the provisions or in interpretive guidance, including the GIPS Standards Handbook, Guidance Statements, and Q&As. A list of requirements outside the provisions can be found on the GIPS Standards website (www.gipsstandards.org) on the Tools webpage under Resources.

The contents for each topic in this guide are as follows:

- Background on key points that firms should consider and document in the firm's P&P Manual.
- Sample policy.

Sample Policies

Please keep in mind that the following sample policies do not address every requirement and recommendation that may apply to a firm. This guide is intended to help a firm get started with documenting its policies and procedures. A firm needs to tailor its policies and procedures to its specific circumstances and must also ensure the policies and procedures are complete.

Fundamentals of Compliance

Firm Definition

Background:

This section should contain the definition of the firm used for GIPS compliance purposes. Any changes to the firm definition should also be captured here as well.

Sample Policy:

XYZ Investments is an independent investment adviser registered under the Investment Advisers Act of 1940 and was founded in March 1996. The firm manages only broad distribution pooled funds.

Period of Compliance

Background:

The firm should document the dates for which it claims compliance with the GIPS standards. It should also include the dates for any performance presented for periods ended prior to the minimum effective compliance date that does not comply with the GIPS standards, if any.

Sample Policy:

XYZ Investments initially claimed compliance with the GIPS standards for the five-year period from 1 January 2012 through 31 December 2016. XYZ Investments continues to claim compliance with the GIPS standards on an ongoing basis.

Documenting Policies and Procedures

Background:

Firms must document their policies and procedures used in establishing and maintaining compliance with the GIPS standards. A firm must document all of the policies and procedures it follows for meeting the applicable requirements of the GIPS standards, as well as any recommendations the firm has chosen to adopt. There is no requirement to create and document policies and procedures to comply with requirements of the GIPS standards that do not apply to the firm. However, firms must actively make a determination about the applicability of all of the provisions or other requirements of the GIPS standards and document their policies and procedures accordingly. It is recommended that firms review all requirements of the GIPS standards on an annual basis to determine if changes in the requirements or changes in the firm's investment strategies warrant changes to existing policies and procedures.

Sample Policy:

The Performance Department is responsible for maintaining the firm's GIPS Standards Policies and Procedures Manual (P&P Manual). The Performance Department maintains all prior versions of the P&P Manual, to document the effective date of any changes. The Performance Department is responsible for monitoring for any changes to the requirements of the GIPS standards, including any guidance published by CFA Institute and the GIPS standards governing bodies. If changes to the firm's policies and procedures are required, the Performance Department will submit a draft of the proposed changes to the GIPS Standards Oversight Committee for review and approval. Once changes are approved, the Performance Department will update the P&P Manual. The updated P&P Manual will be posted on the company's intranet, and a memo describing the changes will be distributed to relevant staff.

Identifying Changes to the GIPS Standards

Background:

Firms must ensure they are aware of any changes to the GIPS standards. Changes to the GIPS standards are communicated through the GIPS Standards Newsletter. Changes may be in the form of Q&As, Guidance Statements, and Interpretations published by CFA Institute and the GIPS standards governing bodies.

Sample Policy:

To stay up to date with the GIPS standards, the firm budgets for two people to attend the CFA Institute GIPS Standards Annual Conference each year. All members of the GIPS Standards Oversight Committee and all members of the Performance Department subscribe to the GIPS Standards Newsletter produced by CFA Institute. Also, our verification firm provides the GIPS Standards Oversight Committee with an update on any new guidance the firm needs to be aware of during the closing meeting at the end of the verification.

In addition, all employees involved with the GIPS standards are encouraged to obtain the Certificate in Investment Performance Measurement (CIPM®), which includes important concepts embodied in the GIPS standards.

Complying with Laws and Regulations

Background:

Firms must create policies and procedures to ensure that they adhere to all applicable laws and regulations regarding the calculation and presentation of performance. Firms must also have policies and procedures to identify and monitor changes and additions to laws and regulations regarding the calculation and presentation of performance. Where laws and regulations are stricter than the GIPS standards, firms should document where that occurs and how they will comply with the stricter laws and regulations.

Sample Policy:

XYZ Investments complies with all applicable laws and regulations regarding the calculation and presentation of performance. The Compliance Department is responsible for identifying any changes to regulatory requirements that require a change to the GIPS standards policies and procedures. XYZ Investments accomplishes this using a variety of methods, including the use of retained outside counsel.

The Compliance Department will notify the GIPS Standards Oversight Committee of any changes to laws and regulations that impact the firm's policies for complying with the GIPS standards. The Performance Department will update the firm's GIPS standards policies and procedures as appropriate.

Responsibility for GIPS Compliance

Background:

The firm should document those personnel or the positions of those personnel who have overall responsibility for the firm's compliance with the GIPS standards. Many firms establish a GIPS Standards Oversight Committee that includes members from all areas of the firm that play a role in maintaining the firm's compliance with the GIPS standards.

Sample Policy:

XYZ Investments is committed to maintaining compliance with the GIPS standards. XYZ Investments acknowledges that compliance with the GIPS standards must be met on a firm-wide basis and not on a pooled fund basis. The Performance Manager coordinates the efforts to comply with the GIPS standards with the assistance of the GIPS Standards Oversight Committee. The GIPS Standards Oversight Committee meets quarterly and includes representatives from performance, portfolio management, operations, compliance, marketing, risk, and client service. At these meetings, the Performance Department updates the committee on any recent events or changes to the GIPS standards that have an impact on the firm's compliance with the GIPS standards.

The GIPS Standards Oversight Committee is responsible for:

- reviewing new pooled fund descriptions;
- determining that changes in the firm's policies and procedures resulting from changes in the GIPS standards or regulatory requirements have been made and have been properly documented in the firm's P&P Manual; and
- overseeing the GIPS standards verification process.

The GIPS Standards Oversight Charter, with roles and functions, can be found in the Internal Policies and Procedures folder in the Performance Department's Intranet site.

Ensuring That the Guidance Statement on Firms Managing Only BDPFs Is Applicable

Background:

For purposes of adhering to the Guidance Statement on Firms Managing Only BDPFs, the firm must not offer composite strategies, prepare GIPS Reports, or prepare GIPS Advertisements. If a firm begins to offer composite strategies, prepare GIPS Reports, or prepare GIPS Advertisements, or if it begins to manage segregated accounts or limited distribution pooled funds, the firm may no longer follow the Guidance Statement on Firms Managing Only BDPFs and must instead comply with all of the applicable requirements of the GIPS Standards for Firms.

Sample Policy:

The Performance Manager is responsible for ensuring that the firm is not offering composite strategies and is not preparing GIPS Reports or GIPS Advertisements. The Performance Manager will review all new pooled fund offering documents to ensure that only BDPFs are being offered. The Performance Manager will have regular meetings with Marketing and Compliance to ensure that the firm is not offering composite strategies. The Performance Manager controls all performance data that is used in any marketing materials and will ensure that no GIPS Reports or GIPS Advertisements are created.

Maintaining Lists of Broad Distribution Pooled Funds

Background:

A firm is required to maintain a complete list of BDPFs. It is not required that a firm's list of BDPFs include terminated pooled funds. Once a pooled fund is closed, it is no longer available for investment and typically would not be restarted. The list can be at the fund level; it does not have to be at the share class level.

Firms are not required to maintain a complete list of BDPF descriptions. Instead, a firm must provide the list of BDPFs and a description of any BDPF to any consultant database and to those organizations for which the firm prepares an RFP response that makes such a request.

If the firm includes information about all of its BDPFs on its website, the firm may direct a consultant database or indicate in an RFP response to consult its website rather than provide the list directly. Firms may provide a prospectus or offering document for the BDPF to fulfill a request for a description of that BDPF.

Firms should document policies and procedures for who maintains these lists and how they are updated as pooled funds are launched or terminated.

Sample Policy:

The Performance Department is responsible for maintaining the firm's list of BDPFs. This list is available on the firm's Performance Department Intranet site. On a quarterly basis, the Performance Department updates this list to include any new BDPFs and remove any BDPF that has terminated.

Annually, the Performance Department reconciles the list of BDPFs to the list of pooled funds maintained by the Fund Accounting Department.

The Marketing and Sales Departments may access this list on the Performance Department Intranet site to respond to any prospective investor's request to obtain this list. If a description of a BDPF is requested by a prospective investor, the Performance Department will prepare the description and provide it to the Marketing or Sales Department representative who received the request. The Marketing and Sales Departments will report all such requests to the GIPS Standards Oversight Committee.

Recordkeeping

Background:

A firm that follows the Guidance Statement on Firms Managing Only BDPFs does not prepare GIPS Reports. However, when a firm claims compliance with the GIPS standards following the Guidance Statement on Firms Managing Only BDPFs and provides performance or performance-related information to consultant databases and when responding to RFPs, it should capture and maintain records to support such performance and apply the same recordkeeping policies that would apply to a GIPS Report or GIPS Advertisement. This section should include the types of records that are maintained and the systems that store those records. Firms also need to consider regulatory recordkeeping requirements. Regulatory requirements may be stricter than the GIPS standards requirement, and the firm must follow the stricter requirement. If a firm uses a third party as part of its process for complying with the GIPS standards, and it places reliance on records from the third party, the firm must establish policies and procedures to ensure that the third-party performance records and information that it uses meet the requirements of the GIPS standards.

Sample Policy:

It is XYZ Investments' policy to keep all documentation supporting performance since the firm's inception. Records to support performance information for all pooled funds and benchmarks are stored in the firm's portfolio accounting and performance systems. These records include reports to support holdings, valuations, cash flows, transactions, and return calculations. Custody reports and reconciliations are maintained by the Operations and Fund Accounting Departments on the shared drive of the Intranet site.

Multiple departments within the firm are responsible for documentation that supports performance reported to consultant databases and when responding to RFPs. Fee information is maintained by the Finance Department; fund management agreements and offering documents are maintained by the Legal Department; and any supporting Excel calculations are stored on the Performance Department Intranet site. Most documentation is stored electronically on site with a backup maintained at an off-site location per the company's disaster recovery policy. Some hard-copy documentation prior to January 2005 is stored at an off-site location.

XYZ Investments relies on valuation data from sub-advisors for some of its multi-strategy pooled funds. XYZ Investments acknowledges that it is responsible for ensuring the information provided by the sub-advisors meets the requirements of the GIPS standards. XYZ Investments also ensures it has access to the data supporting the valuations.

The Legal Department will obtain input from the Performance Department to ensure all required records are addressed in the service-level agreements. The Legal Department ensures that service-level agreements with any third party provide XYZ Investments with adequate access to documentation supporting any records upon which XYZ Investments relies. They also ensure these agreements contractually support XYZ Investment's ability to obtain this critical information in the event the companies end their business relationship. The Legal Department reports on the status of these contracts to the GIPS Standards Oversight Committee.

GIPS Compliance Notification Form

Background:

A firm is required to notify CFA Institute of its claim of compliance when the firm initially claims compliance with the GIPS standards by submitting a GIPS Compliance Notification Form. Subsequently, the firm must file an updated GIPS Compliance Notification Form annually, by 30 June. Information within the GIPS Compliance

Notification Form must be as of the most recent 31 December. The firm should document in its policies and procedures who is responsible for filing its annual GIPS Compliance Notification Form and the date the form is due.

Sample Policy:

The Performance Manager is responsible for submitting the GIPS Compliance Notification Form annually. The filing is in our Compliance Calendar for filing by 31 March. The Performance Manager is listed as the primary contact, and the Chief Compliance Officer is listed as the secondary contact. XYZ Investments allows its name to be listed on the CFA Institute website as a GIPS-compliant firm. The Performance Manager will save a copy of the submitted GIPS Compliance Notification Form and the receipt confirmation from CFA Institute to the Performance Department Intranet site.

Input Data and Calculations

Calculating Total Firm Assets

Background:

This section should discuss how the firm calculates total firm assets for GIPS compliance purposes. This calculation may be different from the firm's calculation of assets under management for regulatory reporting purposes, especially if the legal entity is defined differently than the GIPS compliant firm. Total firm assets include assets assigned to a sub-advisor provided the firm has discretion over the selection of the sub-advisor. Total firm assets define the universe of portfolios that must be considered in the GIPS compliance process. The firm should document how different types of assets are treated for total firm assets calculation purposes. (See the table in the GIPS Standards Handbook discussion of Provision 2.A.1 for additional guidance.) Also, the firm needs to establish policies to ensure that assets are not double counted, if applicable. Double counting of assets can occur when a pooled fund invests in another pooled fund that is also included in total firm assets. When reporting to a consultant database or responding to an RFP or questionnaire, a firm that claims compliance with the GIPS standards may report total firm assets that would be included in a GIPS Report, if one were to be prepared.

Sample Policy:

Total firm assets are calculated by the Finance Department monthly. Total firm assets include all assets assigned to a sub-advisor for which XYZ Investments has discretion over the selection of the sub-advisor.

The calculation is reviewed by representatives from the Operations Department and the Performance Department prior to being finalized.

On a quarterly basis, the Performance Department will reconcile total firm assets to pooled funds included in the list of BDPFs. Any differences will be researched and either resolved or explained. Some multi-asset-class pooled funds are invested in other pooled funds managed by the firm. Multi-asset-class pooled funds that are invested in other pooled funds managed by the firm are identified, and the portion of the multi-asset class's value invested in other pooled funds managed by the firm is included only once when calculating total firm assets.

Any theoretical performance, such as model accounts in the performance system, are flagged as model portfolios and excluded from total firm assets.

Use of Fair Value

Background:

Firms are required to fair value all pooled funds. Fair value is defined as the amount at which an investment could be sold in an arm's length transaction between willing parties in an orderly transaction. The valuation

must be determined using the objective, observable, unadjusted quoted market price for an identical investment in an active market on the measurement date, if available. In the absence of an objective, observable, unadjusted quoted market price for an identical investment in an active market on the measurement date, the valuation must represent the firm’s best estimate of the fair value. Fair value must include any accrued income.

Sample Policy:

The firm’s objective is to ensure the accuracy of all asset prices maintained in the firm’s investment systems.

Pursuant to FAS 157, the firm has established a three-level pricing hierarchy. The pricing team maintains the following guidelines to classify each asset in accordance with FAS 157 leveling classifications:

Level 1: Quoted prices in active markets for identical investments.

Level 2: Other significant observable inputs (e.g., quoted prices for similar investments, interest rates, prepayment speeds, and credit risk).

Level 3: Significant unobservable inputs (including the analyst’s assumptions in determining the fair value of investments).

For Level 1 assets, the pricing team works with third-party pricing vendors to collect prices on a daily basis. The current third-party pricing vendors are as follows:

<u>Asset Class</u>	<u>Vendor</u>
Equities	Main Market Pricing Services
Bank Loans	Bank Loan Pricing Direct
Bonds	Main Market Pricing Services
CLOs	Securitized Pricing Direct
Fx Rates	Currency Exchange Worldwide

For thinly traded securities, the firm may utilize broker pricing to the extent the prices provided by the third-party pricing vendors are determined to not be accurate.

On a monthly basis, the pricing team provides a summary report of all asset prices, including documentation to support Level 3 prices, to the Valuation Committee for review and approval.

Calculating Pooled Fund Returns

Background:

Section 2 of the GIPS standards include numerous requirements applicable to the data and the methodology used to calculate pooled fund returns. This section should include information on the data inputs and pooled fund return calculations.

Sample Policy:

Input data – The following conventions apply to all pooled fund returns:

- Total returns – Returns that reflect capital appreciation/depreciation and income earned are calculated for all pooled funds.
- Transaction costs – All returns reflect the deduction of transaction costs. Transaction costs include brokerage commissions, exchange fees and/or taxes, and bid–offer spreads.
- Trade date accounting – All purchases and sales are recorded on trade date.
- Income – Interest and dividend income are recognized on an accrual basis, except income on short-term cash accounts is recognized on a cash basis. Accrued income is included in market values.

- Withholding taxes – Dividends are reflected net of all withholding taxes. Reclaimable withholding taxes are recognized on a cash basis if and when received.
- Securities lending income – Securities lending income is recognized as income.
- Fair value – Investments are valued according to our fair value policies, which can be found in the Operations Department fair value folder on the Intranet site.
- Estimated values – XYZ Investment does not use preliminary or estimated values as fair value.
- Leverage – All pooled fund values are net of discretionary leverage. Discretionary leverage refers to loans taken at the investment manager’s discretion as allowed by the offering documents.

Reconciliation to the custodian – The Operations Department reconciles cash transactions and ending cash and security positions to the custodian on a daily basis for each pooled fund. At month end, security positions and valuations as well as income accruals are reconciled to the custodian. All differences are researched and resolved. Reconciled month-end data is the source for total firm assets, which ensures only actual assets are included in total firm assets.

All pooled funds are valued daily by Fund Accounting, and a net asset value (NAV) per share is calculated.

Net asset value (NAV) is calculated each business day as of the close of regular trading on the MMM Exchange (MMME), generally 4 pm Eastern time, by the fund accountant. In the rare event the MMME experiences unanticipated disruptions and is unavailable at the close of the trading day, NAVs will be calculated as of the close of regular trading on the QQQ Exchange (QQQE) (or another alternate exchange if the QQQE is unavailable, as determined at XYZ Investments’ discretion), generally 4 pm Eastern time. Each share class has its own NAV, which is computed by dividing the total assets, minus liabilities, allocated to the share class by the number of fund shares outstanding for that class. On local holidays or other days when the MMME is closed, the NAV is not calculated and the funds do not sell or redeem shares. However, on those days the value of a fund’s assets may be affected to the extent that the fund holds securities that change in value on those days (such as foreign securities that trade on foreign markets that are open).

Stocks held by a fund are valued at their market value when reliable market quotations are readily available from the principal exchange or market on which they are traded. Such securities are generally valued at their official closing price, the last reported sales price or, if there were no sales that day, the mean between the closing bid and asking prices. When a fund determines that market quotations either are not readily available or do not accurately reflect the value of a security, the security is priced at its fair value (the amount that the owner might reasonably expect to receive upon the current sale of the security).

The values of any foreign securities held by a fund are converted into US dollars using an exchange rate obtained from an independent third party as of the close of regular trading on the MMME.

A fund also will use fair-value pricing if the value of a security it holds has been materially affected by events occurring before the fund’s pricing time but after the close of the principal exchange or market on which the security is traded. This most commonly occurs with foreign securities, which may trade on foreign exchanges that close many hours before the fund’s pricing time. Intervening events might be company-specific (e.g., earnings report, merger announcement) or country-specific or regional/global (e.g., natural disaster, economic or political news, act of terrorism, interest rate change). Intervening events include price

movements in US markets that exceed a specified threshold or that are otherwise deemed to affect the value of foreign securities.

Fair-value pricing may be used for domestic securities—for example, if (1) trading in a security is halted and does not resume before the fund’s pricing time or a security does not trade in the course of a day and (2) the fund holds enough of the security that its price could affect the NAV.

Fair-value prices are determined by XYZ Investments according to procedures adopted by the board of trustees. When fair-value pricing is employed, the prices of securities used by a fund to calculate the NAV may differ from quoted or published prices for the same securities.

Fund share prices are published daily on our website at XYZ.com/nav.

Pooled Fund Return Calculations

We use the institutional share class for return calculations. On a monthly basis we calculate the NAV based (net/net) pooled fund return, which includes reinvestment of any capital gains and dividend distributions and is net of all pooled fund fees and expenses.

Example:

Date	NAV	Dividend	Dividend in \$	Shares reinvested	Shares	Value
9/30/2023	10.00				100	1,000.00
10/15/2023	10.12	0.2	\$20	1.976284585	101.9763	1,032.00
10/31/2023	10.15				101.9763	1,035.06
Numerator	35.06					
Denominator	1,000.00					
Net Return	3.51%					

To calculate a monthly gross return, we add back 1/12th of the annual total expense ratio (TER) to the NAV based (net/net) pooled fund return. We use the TER from the most recent annual report or semi-annual report. For funds that have short positions, we adjust the TER to deduct the expenses for dividends on short positions. For pooled funds that have an expense cap, we use the TER that is the lower of the uncapped TER or the expense cap.

Example: Monthly NAV return = 3.51%, TER = 1%, Monthly Gross Return = 3.51% + (1%/12) = 3.59%

Benchmark Selection and Returns

Background:

Firms should document how and when a benchmark is selected for the firm’s pooled funds. The benchmark selected for a pooled fund has to reflect the investment mandate, objective, or strategy of the pooled fund. Benchmark selection should be done on an ex ante basis, and a firm must not select a benchmark based on how the pooled fund performed relative to the benchmark. Also, benchmarks must be total return

benchmarks. Finally, there are cases where it may be appropriate to change the benchmark for a pooled fund. For example, a more appropriate benchmark may be created that did not exist before. A firm's P&P Manual should describe how changes to benchmarks are handled.

Sample Policy:

Benchmark Selection

Benchmarks are selected for a pooled fund when the pooled fund is created. When reporting benchmark returns to a consultant database or responding to an RFP or questionnaire, XYZ Investments will use as the benchmark the same benchmark that is used in the pooled fund's offering documents. If more than one benchmark is included in the pooled fund's offering documents, the GIPS Standards Oversight Committee will determine which benchmark will be used for databases and RFPs. For global strategies, the benchmark that is net of withholding taxes is used, if one is available, to match the treatment of withholding taxes by the pooled fund.

Benchmark Returns

Benchmark returns are calculated in the firm's performance system. The underlying index values used in the calculations are sourced directly from the index vendors. Returns are calculated on a daily or monthly basis depending on the frequency of the index data. Returns for longer time periods are calculated by geometrically linking daily or monthly returns.

Some pooled funds that have a balanced strategy use asset class weighted benchmarks, based on the strategic allocation percentages. These custom blended benchmarks are calculated monthly, assume monthly rebalancing, and are calculated using the following formula:

$$\text{Weighted Custom Blended Benchmark Monthly Return} = \sum_{i=0}^n \text{Weight}_{\text{Benchmark}_i} \times \text{Monthly Benchmark Return}_{\text{Benchmark}_i}$$

Error Correction

Background:

Firms must not present performance or performance-related information that is false or misleading. Therefore, if there is a material error when presenting performance or performance-related information to a consultant database or when responding to RFPs, firms managing only BDPFs must correct the material error and provide corrected information to the consultant database or the recipient of RFP responses. In addition, there may be regulatory requirements that must be considered.

Sample Policy:

To address material errors that occur in presentations or performance-related information that is provided to consultant databases or in an RFP response, XYZ Investments has adopted the following policies and procedures.

1. Definition of error

An error is defined as any component of a presentation or performance-related information provided to a consultant database or recipient of an RFP response that includes missing or inaccurate information. Errors can be quantitative or qualitative. All errors in presentations or performance-related information provided to a consultant database or the recipient of an RFP response are subject to this Error Correction Policy.

2. Definition of material error

A material error is defined as any error in a presentation or performance-related information provided to a consultant database or the recipient of an RFP response that must be corrected according to the firm's error correction policies.

3. Definition of materiality

An error (or item) is material if the magnitude of the omission or misstatement of performance information, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed by the omission or misstatement. When the firm is considering materiality, and more than one error has occurred, errors will be considered in the aggregate for each reporting period. Errors that may be considered immaterial individually may be material when considered in the aggregate.

4. Determining materiality

The table below establishes thresholds for determining whether an error is considered material.

Error	Asset Class	Material Error	
		Absolute Change	Relative Change
Annual pooled fund return	Equity	≥ 20 bps and	≥ 5%
	Fixed Income	≥ 10 bps and	≥ 5%
Monthly pooled fund return	Equity	≥ 2 bps and	≥ 5%
	Fixed Income	≥ 1 bps and	≥ 5%
Annual benchmark return	Equity	≥ 20 bps	n/a
	Fixed Income	≥ 10 bps	n/a
Monthly benchmark return	Equity	≥ 2 bps	n/a
	Fixed Income	≥ 1 bps	n/a
Total Firm Assets	All	n/a	≥ 10%
Pooled Fund Assets	All	n/a	≥ 10%

Any error in pooled fund returns that causes the corrected return to change from outperforming the benchmark to underperforming the benchmark is considered a material error.

5. Quantitative errors not covered by the table above

Not every possible type of quantitative error is covered by the table above. Quantitative errors not covered by the table above will be reviewed by the GIPS Standards Oversight Committee, which will decide how the error should be handled and the corrective action that will be taken.

6. Qualitative errors

Qualitative errors, which can be missing, incomplete, or incorrect disclosures, will be corrected immediately. Qualitative errors will be reviewed by the GIPS Standards Oversight Committee, which will decide how the error should be handled and which level of corrective action will be taken. Any error in disclosures that is deemed to have potentially impacted a prospective investor's decision to invest will be treated as a material error.

7. Time periods

It is our policy to not differentiate errors based on the period in which they occur. All errors are treated the same, regardless of the period in which they occurred.

8. Corrective actions

We have developed the following actions to be taken once a material error has been identified:

- Correct the data error in the system, if appropriate;
- Provide corrected performance or performance-related information to the consultant database and recipient of the RFP; and
- Provide an explanation of the change in the performance or performance-related information that is appropriate to the situation.

9. GIPS Standards Oversight Committee

The GIPS Standards Oversight Committee is responsible for reviewing all errors. The GIPS Standards Oversight Committee will discuss the nature of the error and if any additional procedures need to be implemented to minimize the likelihood that the same type of error reoccurs.

10. Error incident report

The responsible Performance Department team member will complete an Error Incident Report and submit this Report to the GIPS Standards Oversight Committee, along with the incorrect information and the corrected information, if applicable. The Error Incident Report will include the following information, as applicable:

- The pooled fund affected by the error
- The affected periods
- How the error was identified
- Materiality calculation
- Action taken
- Steps taken or to be taken to prevent the same type of error from happening again
- Changes needed to the error correction policy

11. Changes to the error correction policy

Changes to the Error Correction Policy must be approved by the GIPS Standards Oversight Committee.

Verification

Background:

If a firm is verified, this section should include who the verifier is and the frequency of verification. It should also indicate if the firm chooses to have any performance examinations conducted. If the firm has chosen to engage a verifier, it must gain an understanding of how the verifier maintains independence from the firm and it must determine that the verifier is independent. A firm's policies and procedures should indicate what steps a firm takes to determine if the verifier is independent. The determination of independence is an ongoing process and must be performed in connection with each verification engagement.

Sample Policy:

XYZ Investments is verified annually after year end. XYZ Investments uses Able Verification Services as its verifier. Prior to renewing the contract, we obtain a copy of Able Verification Services' policies for maintaining independence. The Performance Manager will discuss with the verifier any questions that were

raised from reviewing the policies for maintaining independence. In addition, the Performance Manager will inquire internally to determine whether there are other services performed by the verifier for the firm that could cause an independence issue. The Performance Manager will report any concerns to the GIPS Standards Oversight Committee. Additionally, the GIPS Standards Oversight Committee will review any new or changed relationships that the firm has with the verifier to see if any potential conflicts of interest have been raised.

Marketing Materials

Background:

The GIPS standards include a broad requirement that covers all materials that a firm produces, including pitchbooks, RFP responses, database submissions, and websites — a firm cannot present any performance information that is false or misleading. A firm should address in its policies and procedures how it ensures that no false or misleading information is produced or distributed. There are also restrictions on how a firm can state that it complies with the GIPS standards and where this claim can be included. Personnel from other departments, such as sales or marketing, should be aware of how to answer prospective and current client or investor questions about GIPS compliance. The team responsible for reviewing marketing materials should be aware of the GIPS standards and regulatory requirements related to the calculation and presentation of performance information. Some examples of information that this team should be aware of are the types of performance information that have a high risk of being considered misleading (e.g., actual performance linked to theoretical performance) and what to do if jointly marketing with another firm. This team should also ensure that marketing materials do not include any references to the GIPS standards because such references would require the firm to comply with all of the applicable requirements of the GIPS Standards for Firms.

The firm may provide to a consultant database any information requested by the consultant database. The same is true for when firms are responding to an RFP or a request from a prospective investor. The performance must be accompanied by comprehensive disclosures that explain the information being presented.

Sample Policy:

The Performance Department and Compliance Department are jointly responsible for reviewing all marketing materials to ensure that they have the information required by laws and regulations, that references to the GIPS standards are proper, and that they do not include information that is false or misleading. Please refer to the Compliance Department's "Marketing Review Policy."

When new marketing materials are created that include performance or performance-related information to be distributed to consultant databases or in response to an RFP, the document must be reviewed and approved by the Marketing, Compliance, and Performance Departments, to ensure appropriate references to the GIPS standards are included, and the information is not false or misleading.

If a concern is raised regarding a performance-related presentation that is not covered by the policy, it is reviewed by the Compliance and Performance Departments, and if it needs further review, it is reviewed by the GIPS Standards Oversight Committee.

The Marketing Department is responsible for answering Requests for Proposal (RFPs) and populating databases. For questions relating to GIPS compliance, answers are used that have been pre-approved by the Compliance and Performance Departments. For any questions that cannot be answered with the preapproved responses, the Marketing Department confirms the correct answer with the Compliance and Performance Departments.

Compliance Statement

Background:

Firms that claim compliance with the GIPS standards but manage only BDPFs and do not create GIPS Reports or GIPS Advertisements may wish to make their claim of compliance with the GIPS standards known. If a firm managing only BDPFs is verified, it may use a modified compliance statement when reporting to a consultant database or when responding to an RFP, as follows:

[Insert name of firm] claims compliance with the Global Investment Performance Standards (GIPS®). [Insert name of firm] manages only broad distribution pooled funds. [Insert name of firm] has been independently verified for the periods [insert dates]. The verification report(s) is/are available upon request.

A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. For firms that manage only broad distribution pooled funds, verification provides assurance on whether the firm's policies and procedures related to broad distribution pooled fund maintenance, as well as the calculation of performance of such funds, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis, and whether the provision of the performance of such funds is in accordance with the Guidance Statement for Firms Managing Only Broad Distribution Pooled Funds. Verification does not provide assurance on the accuracy of any specific performance report.

The following compliance statement is recommended for a firm managing only BDPFs that has not been verified:

[Insert name of firm] claims compliance with the Global Investment Performance Standards (GIPS®). [Insert name of firm] manages only broad distribution pooled funds. [Insert name of firm] has not been independently verified.

Sample Policy:

XYZ Investments has chosen not to be verified and uses the following claim of compliance statement when providing performance or performance-related information to consultant databases and when responding to RFPs:

XYZ Investments claims compliance with the Global Investment Performance Standards (GIPS®). XYZ Investments manages only broad distribution pooled funds. XYZ Investments has not been independently verified.

Appendices

Appendices on the following pages address requirements that apply to some firms, but not all.

Portability Appendix

Background:

If a firm acquires another firm, or acquires a team from another firm, it may be able to use the track record from the prior firm if it meets the portability requirements specified in Provisions 1.A.32 and 1.A.33. If the portability tests are met, the firm may choose to use the ported historical track record but is not required to do so. Firms should establish policies for determining that the portability requirements have been met prior to using the track record from a past firm or affiliation in a consultant database or when responding to an RFP.

Sample Policy:

XYZ Investments may acquire a firm or team from time to time. Prior to using the historical track record of the acquired firm or team, the Performance Department and Compliance Department will conduct due diligence to determine whether the historical track record meets the portability requirements of the GIPS standards. The results of any findings will be reported to and approved by the GIPS Standards Oversight Committee prior to including the ported track record in a consultant database or when responding to an RFP.

Joint Marketing Appendix

Background:

A firm that claims compliance with the GIPS standards may jointly market with another firm that may or may not comply with the GIPS standards. To avoid confusion when jointly marketing with another firm, a GIPS-compliant firm must be sure that it is clearly defined relative to the other firm with which it is jointly marketing, and it must be clear as to which firm is, or which firms are, claiming compliance with the GIPS standards. The clarity regarding which firm is, or which firms are, claiming compliance with the GIPS standards is necessary for the firm's joint marketing activities to meet the criterion of fair representation, a fundamental principle of the GIPS standards.

Sample Policy:

In some cases, XYZ Investments responds to an RFP jointly with other firms that are also under the control of its parent company ABC Investments. The marketing materials make clear that it is XYZ Investments that claims compliance with the GIPS standards and that XYZ Investment is a subsidiary of the parent company ABC Investments.