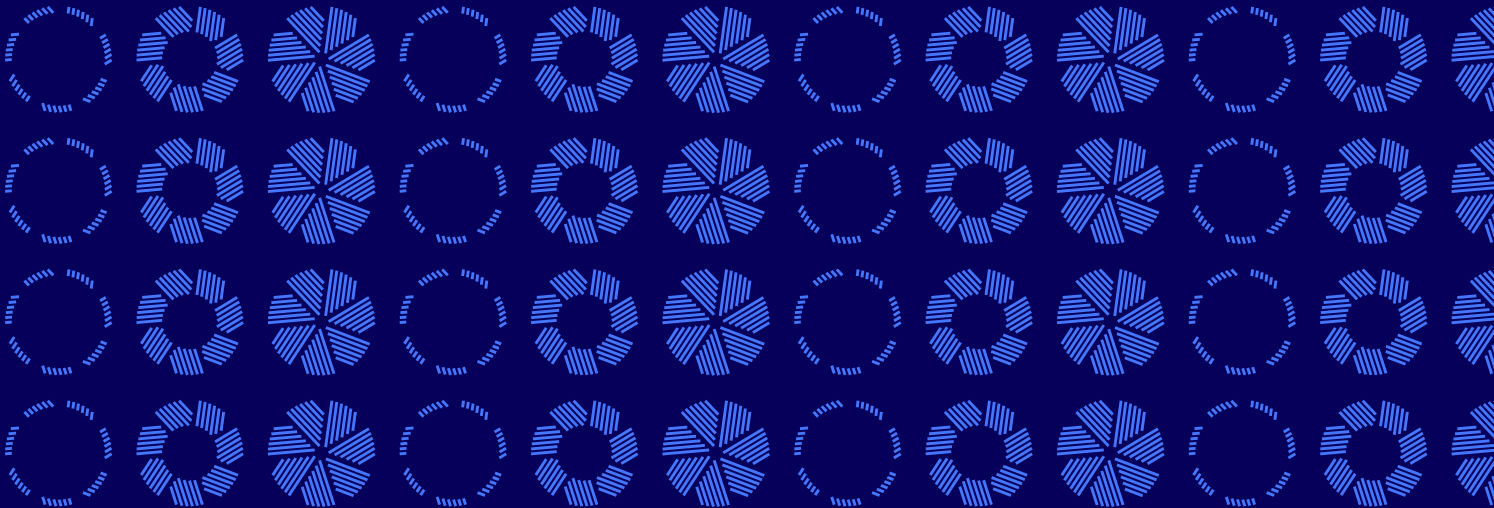




# Global Investment Performance Standards

## GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) FOR VERIFIERS WHEN VERIFYING FIDUCIARY MANAGERS

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# GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS®) FOR VERIFIERS WHEN VERIFYING FIDUCIARY MANAGERS

## Verification

### Purpose of Verification

VERIFICATION is intended to provide a FIDUCIARY MANAGER and its prospective and current clients additional confidence in the FIDUCIARY MANAGER'S claim of compliance with the Global Investment Performance Standards (GIPS®) for Fiduciary Management Providers to UK Pension Schemes ("GIPS standards for FMPs"). VERIFICATION may increase the knowledge of the FIDUCIARY MANAGER'S performance measurement team and improve the consistency and quality of the FIDUCIARY MANAGER'S GIPS standards for FMPs-related performance information. VERIFICATION may result in improved internal policies and procedures, as well as marketing advantages for the FIDUCIARY MANAGER.

VERIFICATION brings additional credibility to the claim of compliance and supports the overall guiding principles of full disclosure and fair representation of a FIDUCIARY MANAGER'S investment performance. In defining the minimum REQUIRED VERIFICATION procedures, the GIPS standards for FMPs governing bodies considered the cost and effort that FIDUCIARY MANAGERS MUST undertake to be verified.

### When the GIPS Standards for Verifiers When Verifying Fiduciary Managers Are Applicable

In June 2019, the United Kingdom's Competition and Markets Authority (CMA) published "The Investment Consultancy and Fiduciary Management Market Investigation Order 2019" (the Order) based on a market investigation of the supply and acquisition of investment consultancy services and fiduciary management services to prospective UK Pension Scheme Trustee clients. The CMA decided on a package of remedies to be implemented with respect to Investment Consultancy Services and Fiduciary Management Services.

Part 6 of the Order outlines specific requirements for Fiduciary Management Providers when presenting historical performance to prospective Pension Scheme Trustee clients. It also requires Fiduciary Management Providers to present historical performance to prospective UK Pension Scheme Trustee clients using standardized methodologies and templates. The GIPS standards for FMPs address Part 6 of the Order and provide prospective Pension Scheme Trustee clients with greater transparency and comparability of Fiduciary Management Providers' historical investment performance. The GIPS Standards for Verifiers When Verifying Fiduciary Managers apply only to UK Pension Scheme assets that are subject to Part 6 of the CMA Order as outlined in the GIPS standards for FMPs.

## Verifier Qualification Requirements

The VERIFICATION MUST be performed by a qualified independent third party:

- Verifiers MUST have appropriate professional abilities and experience, as well as a practical level of expertise regarding audit methodology and investment management practices, including investment accounting, performance calculation methodologies, and business processes.
- Verifiers MUST be knowledgeable about the GIPS standards for FMPs and MUST understand all the REQUIREMENTS and RECOMMENDATIONS of the GIPS standards for FMPs, including all Guidance Statements, interpretations, and Questions & Answers (Q&As) published by CFA Institute and the GIPS standards for FMPs governing bodies.
- Verifiers MUST also be knowledgeable about applicable laws and regulations regarding the calculation and presentation of performance.

The verifier MUST be independent from the FIDUCIARY MANAGER. Please see the Guidance Statement on Verifier Independence for additional guidance.

Verifiers are auditing, consulting, and other firms that have a high degree of knowledge about the investment management industry. Verifiers MUST follow any applicable professional guidance and standards of practice within their industry when performing a VERIFICATION.

## Scope of Verification

A single VERIFICATION REPORT is issued on a FIDUCIARY MANAGER-wide basis. VERIFICATION cannot be carried out only on a COMPOSITE and, accordingly, provides no assurance about the performance of any specific COMPOSITE or any specific GIPS COMPOSITE REPORT. FIDUCIARY MANAGERS MUST NOT state that a specific COMPOSITE has been "verified" or make any claim to that effect.

FIDUCIARY MANAGERS MUST comply with all applicable REQUIREMENTS of the GIPS standards for FMPs, which include REQUIREMENTS beyond those specified in the REQUIRED VERIFICATION procedures. Therefore, VERIFICATION does not provide assurance on the FIDUCIARY MANAGER'S claim of compliance with the GIPS standards for FMPs in its entirety.

The initial minimum period for which VERIFICATION can be performed is one year (or from the FIDUCIARY MANAGER inception date through period end if less than one year) of a FIDUCIARY MANAGER'S presented performance. It is RECOMMENDED that FIDUCIARY MANAGERS be verified for all periods for which compliance with the GIPS standards for FMPs is claimed.

## Agreeing on the Terms of the Engagement

Prior to commencing the engagement, the verifier MUST agree on the terms of the VERIFICATION with the FIDUCIARY MANAGER. The agreed terms MUST be specified in an engagement letter or other suitable form of written agreement and MUST include the following:

- a. The objective and scope of the engagement, including the period(s) being verified;
- b. The verifier's responsibilities;
- c. The FIDUCIARY MANAGER'S responsibilities;
- d. A statement about the inherent limitations of a VERIFICATION;
- e. A statement that the GIPS standards for FMPs are the evaluation criteria for the engagement;
- f. A statement that the VERIFICATION does not provide assurance on the operating effectiveness of the FIDUCIARY MANAGER'S controls or policies and procedures for complying with the GIPS standards for FMPs; and
- g. A statement that the FIDUCIARY MANAGER agrees to provide the verifier with a representation letter at the conclusion of the VERIFICATION.

The engagement letter SHOULD also include any other terms and conditions relevant to the VERIFICATION.

## Required Verification Procedures

A VERIFICATION MUST be conducted in accordance with the REQUIRED VERIFICATION procedures of the GIPS standards for FMPs. The following are the minimum procedures verifiers MUST perform when conducting a VERIFICATION. Verifiers MUST complete the VERIFICATION in accordance with these procedures prior to issuing a VERIFICATION REPORT to the FIDUCIARY MANAGER.

## ***Planning Procedures***

The verifier **MUST** consider the following presumptions:

- Information obtained from independent third parties provides greater assurance than information obtained from the FIDUCIARY MANAGER;
- Information obtained from the verifier's direct personal knowledge (such as through tangible documentation, observation, computation, operating tests, or inspection) is more persuasive than information obtained indirectly; and
- Information obtained from a FIDUCIARY MANAGER with an effective control environment is more reliable than information obtained from a FIDUCIARY MANAGER without an effective control environment.

The verifier **MUST** consider the following matters when designing test procedures:

- The nature and materiality of the information to be tested;
- The control environment (including the extent to which automated and manual processes are used);
- The likelihood of misstatements;
- Knowledge obtained during current and previous engagements;
- The extent to which the information is affected by judgment; and
- Inadequacies in the underlying data.

When conducting a VERIFICATION, the verifier **MUST** accumulate sufficient evidence and perform sufficient procedures such that the risk of not detecting errors during the VERIFICATION is mitigated to an acceptably low level.

Testing by inquiry on its own is insufficient to satisfy the REQUIRED VERIFICATION procedures when other testing procedures could reasonably be performed (e.g., inspection, observation, or recalculation). Verifiers **MUST** review sufficient and appropriate supporting documentation when performing VERIFICATION procedures.

A verifier may choose to rely on the audit and/or internal control work of a qualified and reputable independent third party. In addition, a verifier may choose to rely on other audit and/or internal control work it has provided to the FIDUCIARY MANAGER. A verifier may also accept the VERIFICATION work of another verifier as part of the basis for the VERIFICATION REPORT. If the verifier plans to rely on work performed by another party, then the work—including scope; period(s) covered; results of procedures performed; and the other party's qualifications, competency, objectivity, and reputation—**MUST** be assessed by the verifier when determining whether to place any reliance on such work. Reliance considerations and conclusions **MUST** be documented by the verifier. The verifier **MUST** use professional skepticism when deciding whether to place reliance on work performed by another party.



## **Sample Selection**

Verifiers MUST subject the entire FIDUCIARY MANAGER to testing when performing VERIFICATION procedures. Verifiers may use a sampling methodology when performing such testing procedures. The verifier MUST determine not only the appropriate sample size but also whether the sample selected is reasonable considering the FIDUCIARY MANAGER'S specific circumstances. The verifier MUST select samples from the entire period(s) being verified.

Verifiers MUST consider the following criteria when selecting samples:

- Number of COMPOSITES at the FIDUCIARY MANAGER;
- Number of SCHEMES in each COMPOSITE;
- COMPOSITE DEFINITIONS;
- COMPOSITE assets relative to TOTAL FIDUCIARY MANAGER ASSETS;
- Internal control environment at the FIDUCIARY MANAGER;
- Number of years being verified;
- Systems used in the construction and maintenance of COMPOSITES;
- Methodology and systems used for calculating and reporting performance; and
- The use of external service providers.

This list is not all-inclusive and contains only the minimum criteria that MUST be considered in the selection and evaluation of a sample. For example, one potentially useful approach would be to include in the sample a SCHEME that has the highest SCHEME RELATIVE RETURN and a SCHEME that has the lowest SCHEME RELATIVE RETURN.

Missing or incomplete documents, or the presence of errors, would warrant selecting a larger sample or applying additional VERIFICATION procedures.

## **Testing Procedures**

1. Recordkeeping: While conducting the REQUIRED testing procedures, verifiers MUST determine whether:
  - a. The FIDUCIARY MANAGER has captured and maintained the data and information necessary to support all items included in GIPS COMPOSITE REPORTS.
  - b. The data and information are available within a reasonable time.
  - c. The data and information are sufficient to support the claim of compliance on a FIDUCIARY MANAGER-wide basis.

Detailed examples of data and information that could be examined are provided in the *GIPS Standards Handbook for Fiduciary Management Providers* in the explanation of Provision 31.A.19.

2. **Policies and Procedures:** Verifiers MUST obtain the FIDUCIARY MANAGER'S policies and procedures used in establishing and maintaining compliance with the GIPS standards for FMPs. Verifiers MUST understand the FIDUCIARY MANAGER'S policies and procedures for establishing and maintaining compliance with all the applicable REQUIREMENTS and adopted RECOMMENDATIONS of the GIPS standards for FMPs.

Verifiers MUST perform sufficient procedures to determine that:

- a. The FIDUCIARY MANAGER'S policies and procedures are consistent with the GIPS standards for FMPs;
  - b. The FIDUCIARY MANAGER'S policies and procedures are complete, clear, unambiguous, and adequately documented; and
  - c. The FIDUCIARY MANAGER'S policies and procedures are suitably designed to enable the FIDUCIARY MANAGER to comply with the GIPS standards for FMPs.
3. **FIDUCIARY MANAGER Definition:** Verifiers MUST gain an understanding of the FIDUCIARY MANAGER, including the corporate structure of the FIDUCIARY MANAGER and how it operates. Verifiers MUST perform sufficient procedures to determine that the FIDUCIARY MANAGER is—and has been—appropriately defined.
  4. **List of COMPOSITE DESCRIPTIONS:** Verifiers MUST obtain the FIDUCIARY MANAGER'S list of COMPOSITE DESCRIPTIONS and then perform sufficient procedures to determine that this list is complete.
  5. **TOTAL FIDUCIARY MANAGER ASSETS:** For each annual period end within the period(s) being verified, verifiers MUST obtain:
    - ♦ A list of all SCHEMES, with each SCHEME'S value, that constitute TOTAL FIDUCIARY MANAGER ASSETS;
    - ♦ A list of all SCHEMES included in COMPOSITES; and
    - ♦ A list of all SCHEMES that are not included in any COMPOSITE.

Verifiers MUST select SCHEMES from these lists and perform sufficient procedures to determine that:

- a. The list of all SCHEMES that constitute TOTAL FIDUCIARY MANAGER ASSETS, with each SCHEME'S value, is complete.
- b. SCHEMES included in COMPOSITES and other SCHEMES not included in COMPOSITES are properly included in TOTAL FIDUCIARY MANAGER ASSETS and have not been double-counted.
- c. SCHEMES included in TOTAL FIDUCIARY MANAGER ASSETS are properly included in or excluded from COMPOSITES.
- d. TOTAL FIDUCIARY MANAGER ASSETS reflect only actual assets managed by the FIDUCIARY MANAGER.
- e. TOTAL FIDUCIARY MANAGER ASSETS are calculated accurately and reflect all SCHEME assets for which the FIDUCIARY MANAGER has investment management responsibility.

6. **SCHEMES Excluded from COMPOSITES:** Verifiers MUST obtain a list of all SCHEMES that are classified as non-discretionary and excluded from COMPOSITES during the period(s) being verified. Verifiers MUST select SCHEMES from this list and perform sufficient procedures to determine that the FIDUCIARY MANAGER'S classification of the SCHEMES as non-discretionary is appropriate by referring to the SCHEME'S investment mandate, objective, or strategy, as indicated by the SCHEME'S investment management agreement, investment guidelines, and other appropriate documentation.
7. **Assignment of SCHEMES to COMPOSITES:** Verifiers MUST obtain COMPOSITE membership details, including which SCHEMES are included, with their SCHEME RELATIVE RETURNS and values, for all period(s) being verified. This information MUST include new, existing, and terminated SCHEMES. Verifiers MUST select SCHEMES from COMPOSITES and perform sufficient procedures to determine that:
  - a. The FIDUCIARY MANAGER has defined and maintained COMPOSITES in compliance with the GIPS standards for FMPs.
  - b. The FIDUCIARY MANAGER'S policies and procedures for creating and maintaining COMPOSITES have been consistently applied.
  - c. SCHEMES included in COMPOSITES are properly classified as discretionary, as indicated by the SCHEME'S investment management agreement, investment guidelines, and other appropriate documentation.
  - d. The investment mandate, objective, or strategy of SCHEMES included in COMPOSITES, as indicated by the SCHEME'S investment management agreement, investment guidelines, SCHEME holdings, and other appropriate documentation, is consistent with the COMPOSITE DEFINITION.
  - e. SCHEMES included in the same COMPOSITE share a similar investment mandate, objective, or strategy.
  - f. The timing of inclusion of new SCHEMES in COMPOSITES is in accordance with the FIDUCIARY MANAGER'S new SCHEME policies and procedures.
  - g. The timing of exclusion of terminated SCHEMES from COMPOSITES is in accordance with the FIDUCIARY MANAGER'S terminated SCHEME policies and procedures.
  - h. Movements of SCHEMES from one COMPOSITE to another are appropriate; consistent with documented changes to a SCHEME'S investment mandate, objective, or strategy or the redefinition of the COMPOSITE; and in accordance with the FIDUCIARY MANAGER'S moved SCHEME policies and procedures.
8. **Outlier SCHEME RELATIVE RETURNS:** If appropriate, verifiers MUST perform sufficient procedures to determine that outlier returns within COMPOSITES do not indicate SCHEME RELATIVE RETURN OR COMPOSITE assignment errors. If appropriate, verifiers MUST:
  - a. For a sample of COMPOSITES, review SCHEME RELATIVE RETURNS within the COMPOSITE to identify SCHEMES with SCHEME RELATIVE RETURNS that significantly deviate from the SCHEME RELATIVE RETURNS of other SCHEMES within the COMPOSITE.

- b. Select a sample of SCHEMES with outlier SCHEME RELATIVE RETURNS and for each SCHEME determine that:
    - i. There are no input data or SCHEME RELATIVE RETURN calculation errors relating to the outlier returns.
    - ii. The SCHEME is properly included in the COMPOSITE.
- 9. Input Data: For selected SCHEMES, verifiers MUST perform sufficient procedures to determine that the treatment of the following items is consistent with the FIDUCIARY MANAGER'S policies and procedures:
  - a. Classification of SCHEME flows (e.g., receipts, disbursements, dividends, interest, fees, expenses, and taxes);
  - b. Accounting treatment of dividend and interest income;
  - c. Accounting treatment of taxes, tax reclaims, and tax accruals;
  - d. Accounting treatment of TRANSACTION COSTS;
  - e. Accounting treatment of fees and expenses; and
  - f. Accounting treatment of and valuation methodologies for investments.
- 10. Performance Based on Actual Assets: For selected SCHEMES, verifiers MUST perform sufficient procedures to determine that SCHEME holdings, income, and cash flows are supported by appropriate documents from independent third parties, if applicable. Examples of appropriate documents include custodian, fund accounting, and broker statements.
- 11. Performance Measurement: Verifiers MUST perform sufficient procedures to determine that the FIDUCIARY MANAGER has calculated performance in accordance with the REQUIREMENTS of the GIPS standards for FMPs and the FIDUCIARY MANAGER'S policies and procedures. Verifiers MUST, for a sample of SCHEME RELATIVE RETURNS and COMPOSITE RELATIVE RETURNS, recalculate returns to determine that:
  - a. An acceptable return formula as REQUIRED by the GIPS standards for FMPs is used.
  - b. BENCHMARK returns used to calculate SCHEME RELATIVE RETURNS are appropriately calculated.
  - c. The FIDUCIARY MANAGER'S calculations, including the treatment of any fees and expenses, are in accordance with the FIDUCIARY MANAGER'S policies and procedures.
- 12. GIPS COMPOSITE REPORTS: Verifiers MUST perform sufficient procedures on a sample of GIPS COMPOSITE REPORTS to determine that each GIPS COMPOSITE REPORT includes all the numerical information and disclosures REQUIRED by the GIPS standards for FMPs. If the FIDUCIARY MANAGER includes performance from a past FIDUCIARY MANAGER or affiliation, verifiers SHOULD include GIPS COMPOSITE REPORTS that include such information in this sample.

For each GIPS COMPOSITE REPORT selected for testing, verifiers MUST perform the following procedures:

- a. Test COMPOSITE calculations to determine that all presented numerical information:
    - i. Adheres to the REQUIREMENTS of the GIPS standards for FMPs.
    - ii. Is accurate.
    - iii. Is consistent with the FIDUCIARY MANAGER'S records and policies and procedures.
  - b. Determine that the BENCHMARKS used to calculate SCHEME RELATIVE RETURNS are appropriate.
  - c. Review disclosures to determine that all REQUIRED disclosures are included and all disclosures are consistent with the FIDUCIARY MANAGER'S records and its policies and procedures.
  - d. If the GIPS COMPOSITE REPORT includes ported performance from a past FIDUCIARY MANAGER or affiliation and the period(s) being verified includes performance from the past FIDUCIARY MANAGER or affiliation, determine that:
    - i. The REQUIREMENTS relating to investment decision makers, the decision-making process, and supporting records have been met.
    - ii. If the performance is LINKED, there is no break in performance between the performance from the past FIDUCIARY MANAGER or affiliation and the performance of the FIDUCIARY MANAGER.
    - iii. If there is a break in performance, the break is clearly shown.
    - iv. The COMPOSITE performance from a past FIDUCIARY MANAGER or affiliation includes all SCHEMES that met the COMPOSITE DEFINITION at the past FIDUCIARY MANAGER or affiliation.
    - v. The GIPS COMPOSITE REPORT includes the REQUIRED disclosures about the ported performance.
- 13. Providing GIPS COMPOSITE REPORTS:** Verifiers MUST perform sufficient procedures to determine that the FIDUCIARY MANAGER has made every reasonable effort to provide the appropriate GIPS COMPOSITE REPORT to PROSPECTIVE CLIENTS.
- 14. Marketing Materials:** Verifiers MUST gain an understanding of the FIDUCIARY MANAGER'S marketing practices. Verifiers MUST select a sample of marketing materials, if applicable, and MUST perform the following procedures:
- a. For each selection of marketing materials that includes a GIPS COMPOSITE REPORT, verifiers MUST perform sufficient procedures to determine that:
    - i. The GIPS COMPOSITE REPORT includes all information REQUIRED by the GIPS standards for FMPs.

- ii. The numerical information in the GIPS COMPOSITE REPORT is accurate and consistent with the FIDUCIARY MANAGER'S records and its policies and procedures.
  - iii. The disclosures in the GIPS COMPOSITE REPORT are consistent with the FIDUCIARY MANAGER'S records and its policies and procedures.
  - b. For each selection of marketing materials that does not include a GIPS COMPOSITE REPORT, verifiers MUST perform sufficient procedures to determine that it does not include any improper references to the GIPS standards for FMPs.
- 15. Error Correction: Verifiers MUST gain an understanding of errors in GIPS COMPOSITE REPORTS that have occurred in, were identified in, or affect the period(s) being verified. If errors have occurred, verifiers MUST select errors for testing and perform sufficient procedures to determine that:**
- a. The FIDUCIARY MANAGER'S errors have been treated in accordance with the FIDUCIARY MANAGER'S error correction policies and procedures.
  - b. For MATERIAL ERRORS, the FIDUCIARY MANAGER has (1) provided the corrected GIPS COMPOSITE REPORT to current clients and any former verifiers that received the GIPS COMPOSITE REPORT that had the MATERIAL ERROR, as well as to the current verifier, and (2) made every reasonable effort to provide the corrected GIPS COMPOSITE REPORT to current PROSPECTIVE CLIENTS that received the GIPS COMPOSITE REPORT that had the MATERIAL ERROR.
- 16. Notification to CFA Institute: Verifiers MUST perform sufficient procedures to determine that the FIDUCIARY MANAGER has met the REQUIREMENT to notify CFA Institute of its claim of compliance with the GIPS standards for FMPs by submitting the GIPS standards for FMPs COMPLIANCE NOTIFICATION FORM.**

## Maintenance of Verifier Documentation

The verifier MUST maintain sufficient documentation of the following items for all VERIFICATION procedures performed that are necessary to support the VERIFICATION REPORT:

- a. The nature, timing, and extent of all procedures performed, including planning procedures, sample size rationale, sample selections, and testing procedures applied;
- b. The results of all procedures performed and the evidence obtained;
- c. Significant findings or issues arising during the VERIFICATION, the conclusions reached thereon, and any significant professional judgments made in reaching those conclusions; and
- d. Supporting evidence that the verifier has conducted all REQUIRED VERIFICATION procedures.

## Representation Letter<sup>1</sup>

At the conclusion of the VERIFICATION engagement and prior to issuing the VERIFICATION REPORT, the verifier MUST obtain written representations signed by the FIDUCIARY MANAGER'S management who the verifier believes are responsible for and knowledgeable about the matters covered in the representations. The representation letter MUST include the following matters:

- The FIDUCIARY MANAGER complies with the GIPS standards for FMPs for all period(s) being verified;
- The FIDUCIARY MANAGER'S policies and procedures for establishing and maintaining compliance with the GIPS standards for FMPs are properly described in the FIDUCIARY MANAGER'S GIPS standards for FMPs policies and procedures;
- The FIDUCIARY MANAGER'S policies and procedures for complying with the GIPS standards for FMPs have been designed in compliance with the GIPS standards for FMPs and have been implemented on a FIDUCIARY MANAGER-wide basis for all period(s) being verified;
- The FIDUCIARY MANAGER is in compliance with the GIPS standards for FMPs on a FIDUCIARY MANAGER-wide basis;
- The FIDUCIARY MANAGER'S management bears all responsibility for maintaining compliance with the GIPS standards for FMPs, including production and distribution of all GIPS COMPOSITE REPORTS;
- The GIPS COMPOSITE REPORTS are a fair and honest representation of the FIDUCIARY MANAGER'S investment performance;
- The FIDUCIARY MANAGER has not knowingly presented performance or PERFORMANCE-RELATED INFORMATION that is false or misleading;
- To the best of the FIDUCIARY MANAGER'S knowledge and belief, there has been no:
  - ♦ fraud or alleged fraud involving management or employees who have significant roles in the FIDUCIARY MANAGER'S policies and procedures relating to compliance with the GIPS standards for FMPs or
  - ♦ fraud or alleged fraud involving others that could have a material effect on the FIDUCIARY MANAGER'S compliance with the GIPS standards for FMPs;
- The FIDUCIARY MANAGER has provided the verifier with all necessary documents to enable the verifier to perform the VERIFICATION, and no relevant documents have been withheld;
- The period(s) on which the verifier is reporting is stated;

<sup>1</sup>Words in small capital letters are defined terms that can be found in the Glossary. These terms are not expected to be in small capital letters when included in a representation letter, VERIFICATION REPORT, or PERFORMANCE EXAMINATION REPORT.

- The FIDUCIARY MANAGER complies with all applicable laws and regulations regarding the calculation and presentation of performance;
- The FIDUCIARY MANAGER meets the definition of Fiduciary Management Provider that appears in Part 2 of “The Investment Consultancy and Fiduciary Management Market Investigation Order 2019” issued by the Competition and Markets Authority on 10 June 2019 in respect to all or some of the pension SCHEME assets, for 100% of the Full Fiduciary Management Client Assets; and
- No events that would materially influence performance results or the outcome of the VERIFICATION have occurred up to the date of the representation letter.

The representation letter SHOULD also include any other relevant representations made to the verifier during the VERIFICATION.

## Verification Report<sup>2</sup>

The VERIFICATION REPORT MUST opine that, for the period(s) for which the VERIFICATION has been performed, the FIDUCIARY MANAGER’S policies and procedures for complying with the GIPS standards for FMPs related to COMPOSITE maintenance, as well as the calculation, presentation, and distribution of performance, have been, in all material respects:

- Designed in compliance with the GIPS standards for FMPs and
- Implemented on a FIDUCIARY MANAGER-wide basis.

The following information is also REQUIRED to be included in the VERIFICATION REPORT:

- The report title, which MUST include the word “verification”;
- The report date;
- The report addressee;
- The defined FIDUCIARY MANAGER for which the VERIFICATION has been performed;
- The period(s) for which the VERIFICATION has been performed;
- The respective responsibilities of the FIDUCIARY MANAGER’S management and of the verifier, including a statement acknowledging the FIDUCIARY MANAGER’S responsibility for the claim of compliance;
- A statement to the effect that the VERIFICATION has been performed in accordance with the REQUIRED VERIFICATION procedures of the GIPS standards for FMPs;
- A statement indicating that the VERIFICATION includes testing performed on a sample basis;

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<sup>2</sup>Words in small capital letters are defined terms that can be found in the Glossary. These terms are not expected to be in small capital letters when included in a representation letter, VERIFICATION REPORT, or PERFORMANCE EXAMINATION REPORT.



- Language indicating that the verifier is independent from the FIDUCIARY MANAGER;
- A statement indicating that the VERIFICATION does not provide assurance on any specific performance report;
- A statement indicating that the VERIFICATION does not provide assurance on the operating effectiveness of the FIDUCIARY MANAGER'S controls or policies and procedures for complying with the GIPS standards for FMPs;
- A statement describing any other professional guidance that has been applied (e.g., AICPA, IAASB, or ICAEW guidance);
- The following statement: "GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein."; and
- The signature or official seal of the verifier.

In addition to the REQUIRED content, the VERIFICATION REPORT may also include other information, as appropriate.

After completing the VERIFICATION procedures, the verifier may conclude that the FIDUCIARY MANAGER is not in compliance with the GIPS standards for FMPs or that the FIDUCIARY MANAGER'S records cannot support a VERIFICATION. In such situations, the verifier MUST inform the FIDUCIARY MANAGER why a VERIFICATION REPORT could not be issued. A VERIFICATION REPORT MUST NOT be issued when the verifier knows that the FIDUCIARY MANAGER is not in compliance with the GIPS standards for FMPs or the records of the FIDUCIARY MANAGER cannot support a VERIFICATION.

The FIDUCIARY MANAGER MUST NOT state that it has been verified unless a VERIFICATION REPORT has been issued.

## Recommendation Letter

After the VERIFICATION is complete, the verifier SHOULD issue a recommendation letter to the FIDUCIARY MANAGER describing specific findings, recommendations, and other areas for improvement arising from the VERIFICATION.

## Performance Examination

### Purpose and Scope of Performance Examination

In addition to VERIFICATION, a FIDUCIARY MANAGER may choose to also have a PERFORMANCE EXAMINATION of a specific COMPOSITE. The detailed testing of any of the FIDUCIARY MANAGER'S

COMPOSITES and their associated GIPS COMPOSITE REPORTS by an independent verifier is called a PERFORMANCE EXAMINATION.

A PERFORMANCE EXAMINATION may only be performed either concurrently with or subsequent to the completion of a VERIFICATION. The FIDUCIARY MANAGER MUST be verified for the period(s) covered by the PERFORMANCE EXAMINATION REPORT. The VERIFICATION and the PERFORMANCE EXAMINATION need not be performed by the same verifier. The PERFORMANCE EXAMINATION MUST be performed by a qualified independent third party. Please see the Guidance Statement on Verifier Independence for additional guidance.

A PERFORMANCE EXAMINATION is not REQUIRED for a FIDUCIARY MANAGER to be verified. However, a FIDUCIARY MANAGER may be asked or may choose to obtain a PERFORMANCE EXAMINATION of one or more of the FIDUCIARY MANAGER'S COMPOSITES.

A PERFORMANCE EXAMINATION tests, for a specific COMPOSITE:

- a. Whether the FIDUCIARY MANAGER has constructed the COMPOSITE and calculated the COMPOSITE performance in compliance with the GIPS standards for FMPs and
- b. Whether the FIDUCIARY MANAGER has prepared and presented the GIPS COMPOSITE REPORT in compliance with the GIPS standards.

## Verifier Qualification Requirements

The PERFORMANCE EXAMINATION MUST be performed by a qualified independent third party:

- Verifiers MUST have appropriate professional abilities and experience, as well as a practical level of expertise regarding audit methodology and investment management practices, including investment accounting, performance calculation methodologies, and business processes.
- Verifiers MUST be knowledgeable of the GIPS standards for FMPs and MUST understand all the REQUIREMENTS and RECOMMENDATIONS of the GIPS standards for FMPs, including all applicable Guidance Statements, interpretations, and Questions & Answers (Q&As) published by CFA Institute and the GIPS standards for FMPs governing bodies.
- Verifiers MUST also be knowledgeable of applicable laws and regulations regarding the calculation and presentation of performance.

The verifier MUST be independent from the FIDUCIARY MANAGER. Please see the Guidance Statement on Verifier Independence for additional guidance.

Verifiers are auditing, consulting, and other firms that have a high degree of knowledge regarding the investment management industry. Verifiers MUST follow any applicable professional guidance and standards of practice within their industry when performing a PERFORMANCE EXAMINATION.

## Agreeing on the Terms of the Engagement

Prior to commencing the engagement, the verifier **MUST** agree on the terms of the PERFORMANCE EXAMINATION with the FIDUCIARY MANAGER. The agreed terms **MUST** be specified in an engagement letter or other suitable form of written agreement and **MUST** include the following:

- a. The objective and scope of the engagement, including the period(s) being examined;
- b. The verifier's responsibilities;
- c. The FIDUCIARY MANAGER'S responsibilities;
- d. A statement about the inherent limitations of a PERFORMANCE EXAMINATION;
- e. A statement that the GIPS standards for FMPs are the evaluation criteria for the engagement; and
- f. A statement that the FIDUCIARY MANAGER agrees to provide the verifier with a representation letter at the conclusion of the PERFORMANCE EXAMINATION.

The engagement letter **SHOULD** also include any other terms and conditions relevant to the PERFORMANCE EXAMINATION.

## Required Performance Examination Procedures

A PERFORMANCE EXAMINATION **MUST** be conducted in accordance with the REQUIRED PERFORMANCE EXAMINATION procedures of the GIPS standards for FMPs. The following are the minimum procedures verifiers **MUST** perform when conducting a PERFORMANCE EXAMINATION. Verifiers **MUST** complete the PERFORMANCE EXAMINATION in accordance with these procedures prior to issuing a PERFORMANCE EXAMINATION REPORT to the FIDUCIARY MANAGER.

### *Planning Procedures*

The verifier **MUST** consider the following presumptions:

- Information obtained from independent third parties provides greater assurance than the same information obtained from the FIDUCIARY MANAGER;
- Information obtained from the verifier's direct personal knowledge (such as through tangible documentation, observation, computation, operating tests, or inspection) is more persuasive than information obtained indirectly; and
- Information obtained from a FIDUCIARY MANAGER with an effective control environment is more reliable than information obtained from a FIDUCIARY MANAGER without an effective control environment.

The verifier **MUST** consider the following matters when designing test procedures:

- The nature and materiality of the information to be tested;
- The control environment (including the extent to which automated and manual processes are used);
- The likelihood of misstatements;
- Knowledge obtained during current and previous engagements;
- The extent to which the information is affected by judgment; and
- Inadequacies in the underlying data.

When conducting a **PERFORMANCE EXAMINATION**, the verifier **MUST** accumulate sufficient evidence and perform sufficient procedures such that the risk of not detecting errors during the **PERFORMANCE EXAMINATION** is mitigated to an acceptably low level.

Testing by inquiry on its own is insufficient to satisfy the **REQUIRED PERFORMANCE EXAMINATION** procedures when other testing procedures could reasonably be performed (e.g., inspection, observation, or recalculation). Verifiers **MUST** review sufficient and appropriate supporting documentation when conducting **PERFORMANCE EXAMINATION** procedures.

A verifier may choose to rely on the audit and/or internal control work of a qualified and reputable independent third party. In addition, a verifier may choose to rely on other audit and/or internal control work it has provided to the **FIDUCIARY MANAGER**. A verifier may also accept the **VERIFICATION** work of another verifier as part of the basis for the verifier's **PERFORMANCE EXAMINATION REPORT**. If the verifier plans to rely on work performed by another party, then the work—including its scope, the period(s) covered, the results of procedures performed, and the other party's qualifications, competency, objectivity, and reputation—**MUST** be assessed by the verifier when determining whether to place any reliance on such work. Reliance considerations and conclusions **MUST** be documented by the verifier. The verifier **MUST** use professional skepticism when deciding whether to place reliance on work performed by another party.

### **Sample Selection**

Verifiers **MUST** subject the entire **COMPOSITE** to testing when conducting **PERFORMANCE EXAMINATION** procedures. Verifiers may use a sampling methodology when performing such testing procedures. The verifier **MUST** determine not only the appropriate sample size but also whether the sample selected is reasonable considering the **FIDUCIARY MANAGER'S** specific circumstances. The verifier **MUST** select samples from the entire period(s) being examined.

Verifiers **MUST** consider the following criteria when selecting samples:

- Number of **SCHEMES** in the **COMPOSITE**;
- **COMPOSITE DEFINITION**;

- Internal control environment at the FIDUCIARY MANAGER;
- Number of years being examined;
- Systems used in the construction and maintenance of COMPOSITES;
- Methodology and systems used for calculating and reporting performance; and
- The use of external service providers.

This list is not all-inclusive and contains only the minimum criteria that MUST be considered in the selection and evaluation of a sample. For example, one potentially useful approach for a COMPOSITE PERFORMANCE EXAMINATION would be to include in the sample a SCHEME that has the highest SCHEME RELATIVE RETURN and a SCHEME that has the lowest SCHEME RELATIVE RETURN. Missing or incomplete documents, or the presence of errors, would warrant selecting a larger sample or applying additional PERFORMANCE EXAMINATION procedures.

### **Testing Procedures**

1. Recordkeeping: While conducting the REQUIRED testing procedures, verifiers MUST determine whether:

- a. The FIDUCIARY MANAGER has captured and maintained the data and information necessary to support all items included in the GIPS COMPOSITE REPORT.
- b. The data and information are available within a reasonable time frame.

Detailed examples of data and information that could be examined are provided in the *GIPS Standards Handbook for Fiduciary Management Providers* in the explanation of Provision 31.A.19.

2. Policies and Procedures: Verifiers MUST obtain the FIDUCIARY MANAGER'S policies and procedures used in establishing and maintaining compliance with the GIPS standards for FMPs that are relevant to the COMPOSITE being examined. Verifiers MUST understand the FIDUCIARY MANAGER'S policies and procedures for establishing and maintaining compliance with all the applicable REQUIREMENTS and adopted RECOMMENDATIONS of the GIPS standards for FMPs that are relevant to the COMPOSITE being examined. Verifiers MUST perform sufficient procedures to determine that, with respect to the COMPOSITE being examined:
  - a. The FIDUCIARY MANAGER'S policies and procedures are consistent with the GIPS standards for FMPs;
  - b. The FIDUCIARY MANAGER'S policies and procedures are complete, clear, unambiguous, and adequately documented; and
  - c. The FIDUCIARY MANAGER'S policies and procedures are suitably designed to enable the FIDUCIARY MANAGER to construct the COMPOSITE, calculate COMPOSITE performance, and prepare and present the GIPS COMPOSITE REPORT in compliance with the GIPS standards for FMPs.

3. **FIDUCIARY MANAGER Definition:** Verifiers MUST gain an understanding of the FIDUCIARY MANAGER, including the corporate structure of the FIDUCIARY MANAGER and how it operates.
4. **Assignment of SCHEMES to COMPOSITES:** The verifier MUST obtain a list of all open (both new and existing) and terminated SCHEMES for the COMPOSITE for the period(s) under examination, including each SCHEME'S returns and values for all periods, and perform sufficient procedures to determine, for the COMPOSITE being examined, that:
  - a. The FIDUCIARY MANAGER has defined and maintained the COMPOSITE in compliance with the GIPS standards for FMPs.
  - b. The FIDUCIARY MANAGER'S policies and procedures for creating and maintaining the COMPOSITE have been consistently applied.
  - c. SCHEMES included in the COMPOSITE are properly classified as discretionary, as indicated by the SCHEME'S investment management agreement, investment guidelines, and other appropriate documentation.
  - d. The investment mandate, objective, or strategy of SCHEMES included in the COMPOSITE, as indicated by the SCHEME'S investment management agreement, investment guidelines, SCHEME holdings, and other appropriate documentation, is consistent with the COMPOSITE DEFINITION.
  - e. The timing of inclusion of new SCHEMES in the COMPOSITE is in accordance with the FIDUCIARY MANAGER'S new SCHEME policies and procedures.
  - f. The timing of exclusion of terminated SCHEMES from the COMPOSITE is in accordance with the FIDUCIARY MANAGER'S terminated SCHEME policies and procedures.
  - g. Movements of SCHEMES into and out of the COMPOSITE are appropriate; consistent either with documented changes to a SCHEME'S investment mandate, objective, or strategy or with the redefinition of the COMPOSITE; and in accordance with the FIDUCIARY MANAGER'S policies and procedures for moved SCHEMES.
5. **Outlier Returns:** If appropriate, verifiers MUST perform sufficient procedures to determine that outlier returns within the COMPOSITE being examined do not indicate SCHEME RELATIVE RETURN or COMPOSITE assignment errors. If appropriate, verifiers MUST:
  - a. Review SCHEME RELATIVE RETURNS within the COMPOSITE being examined, to identify SCHEMES with SCHEME RELATIVE RETURNS that significantly deviate from the SCHEME RELATIVE RETURNS of other SCHEMES within the COMPOSITE.
  - b. Select all SCHEMES with outlier returns and for each SCHEME determine that:
    - i. There are no input data or SCHEME RELATIVE RETURN calculation errors relating to the outlier returns.
    - ii. The SCHEME is properly included in the COMPOSITE being examined.

**6. EXTERNAL CASH FLOWS: Verifiers MUST determine that EXTERNAL CASH FLOWS for SCHEMES in the COMPOSITE being examined are:**

- ♦ Properly recorded in SCHEMES;
- ♦ Recorded at the correct amounts;
- ♦ Properly identified as a LARGE CASH FLOW (as defined by the FIDUCIARY MANAGER'S policies and procedures); and
- ♦ Recorded on a timely basis in accordance with the FIDUCIARY MANAGER'S policies and procedures.

Verifiers MUST perform sufficient procedures to determine that:

- a. EXTERNAL CASH FLOWS reflect appropriate supporting documentation, such as custody statements, client subscription and redemption notifications, or internal records;
- b. EXTERNAL CASH FLOWS reflect proper valuation and timely recording; and
- c. The recording of EXTERNAL CASH FLOWS is appropriate and in accordance with the FIDUCIARY MANAGER'S policies and procedures.

**7. Income and Expenses: Verifiers MUST determine that income and expenses for SCHEMES in the COMPOSITE being examined are:**

- ♦ Properly recorded in SCHEMES;
- ♦ Recorded at the correct amounts; and
- ♦ Recorded on a timely basis.

Verifiers MUST perform sufficient procedures to determine that the treatment of the following items is consistent with the FIDUCIARY MANAGER'S policies and procedures:

- a. Classification of SCHEME flows (e.g., receipts, disbursements, dividends, interest, fees, expenses, and taxes);
- b. Accounting treatment of dividend and interest income;
- c. Accounting treatment of taxes, tax reclaims, and tax accruals;
- d. Accounting treatment of TRANSACTION COSTS;
- e. Accounting treatment of fees and expenses; and
- f. Accounting treatment of and valuation methodologies for investments.

**8. SCHEME Valuation: Verifiers MUST determine that investments, including derivatives, for SCHEMES in the COMPOSITE being examined are:**

- ♦ Valued correctly and
- ♦ Valued on the correct dates.

Verifiers MUST perform sufficient procedures to determine that:

- a. SCHEME holdings are complete and accurate, as well as consistent with appropriate documentation such as custody statements and reconciliations;

- b. Investment valuations are in accordance with the FIDUCIARY MANAGER'S valuation policies and procedures, as well as the GIPS standards for FMPs valuation REQUIREMENTS;
  - c. SCHEMES are valued on the date of all LARGE CASH FLOWS in accordance with the FIDUCIARY MANAGER'S policies and procedures;
  - d. Foreign currency exchange rates are in accordance with the FIDUCIARY MANAGER'S valuation policies; and
  - e. The method(s) used for SCHEME valuation are consistently applied.
9. Performance Based on Actual Assets: For the COMPOSITE being examined, verifiers MUST perform sufficient procedures to determine that SCHEME holdings, income, and cash flows are supported by appropriate documents from independent third parties, if applicable. Examples of appropriate documents include custodian, fund accounting, and broker statements.
10. Performance Measurement: Verifiers MUST perform sufficient procedures to determine that the FIDUCIARY MANAGER has calculated performance for the COMPOSITE being examined in accordance with the REQUIREMENTS of the GIPS standards for FMPs and the FIDUCIARY MANAGER'S policies and procedures. Verifiers MUST, for a sample of SCHEME RELATIVE RETURNS and COMPOSITE RELATIVE RETURNS, recalculate returns to determine that:
- a. An acceptable return formula as REQUIRED by the GIPS standards for FMPs is used to calculate SCHEME returns.
  - b. BENCHMARK returns used to calculate SCHEME RELATIVE RETURNS are appropriately calculated.
  - c. SCHEME RELATIVE RETURNS and COMPOSITE RELATIVE RETURNS are appropriately calculated.
  - d. The FIDUCIARY MANAGER'S calculations, including the treatment of any fees and expenses, are in accordance with the FIDUCIARY MANAGER'S policies and procedures.
11. GIPS COMPOSITE REPORTS: Verifiers MUST perform sufficient procedures on the GIPS COMPOSITE REPORT for the COMPOSITE being examined to determine that the GIPS COMPOSITE REPORT includes all the numerical information and disclosures REQUIRED by the GIPS standards for FMPs and that any other information included beyond the REQUIRED information is appropriate.

Verifiers MUST perform the following procedures:

- a. Test COMPOSITE calculations to determine that all presented numerical information:
  - i. Adheres to the REQUIREMENTS of the GIPS standards for FMPs.
  - ii. Is accurate.
  - iii. Is consistent with the FIDUCIARY MANAGER'S records and its policies and procedures.
- b. Determine that the BENCHMARKS used to calculate SCHEME RELATIVE RETURNS are appropriate.



- c. Review disclosures to determine that all REQUIRED disclosures are included and all disclosures are consistent with the FIDUCIARY MANAGER'S records and policies and procedures.
- d. If the GIPS REPORT includes ported performance from a past FIDUCIARY MANAGER or affiliation and the period(s) being examined includes performance from the past FIDUCIARY MANAGER or affiliation, determine that:
  - i. The REQUIREMENTS relating to investment decision makers, the decision-making process, and supporting records have been met.
  - ii. If the performance is LINKED, there is no break in performance between the performance from the past FIDUCIARY MANAGER or affiliation and the performance of the FIDUCIARY MANAGER.
  - iii. If there is a break in performance, the break is clearly shown.
  - iv. The COMPOSITE performance from a past FIDUCIARY MANAGER or affiliation includes all SCHEMES that met the COMPOSITE DEFINITION at the past FIDUCIARY MANAGER or affiliation.
  - v. The GIPS COMPOSITE REPORT includes the REQUIRED disclosures about the ported performance.
- e. Error correction: Verifiers MUST gain an understanding of errors in the GIPS COMPOSITE REPORT that have occurred in, were identified in, or affect the period(s) being examined. If errors have occurred, verifiers MUST select errors for testing and perform sufficient procedures to determine that:
  - i. The FIDUCIARY MANAGER'S errors have been treated in accordance with the FIDUCIARY MANAGER'S error correction policies and procedures.
  - ii. For MATERIAL ERRORS, the FIDUCIARY MANAGER has (1) provided the corrected GIPS COMPOSITE REPORT to all current clients and any former verifiers that received the GIPS COMPOSITE REPORT that had the MATERIAL ERROR, as well as to the current verifier, and (2) made every reasonable effort to provide the corrected GIPS COMPOSITE REPORT to current PROSPECTIVE CLIENTS that received the GIPS COMPOSITE REPORT that had the MATERIAL ERROR.

## Maintenance of Verifier Documentation

The verifier MUST maintain sufficient documentation of the following items for all PERFORMANCE EXAMINATION procedures performed that are necessary to support the PERFORMANCE EXAMINATION REPORT:

- a. The nature, timing, and extent of all procedures performed, including planning procedures, sample size rationale, sample selections, and testing procedures applied;
- b. The results of all procedures performed and the evidence obtained;

- c. Significant findings or issues arising during the PERFORMANCE EXAMINATION, the conclusions reached thereon, and any significant professional judgments made in reaching those conclusions; and
- d. Supporting evidence that the verifier has conducted all REQUIRED PERFORMANCE EXAMINATION procedures.

## Representation Letter<sup>3</sup>

At the conclusion of the PERFORMANCE EXAMINATION engagement and prior to issuing the PERFORMANCE EXAMINATION REPORT, the verifier conducting the PERFORMANCE EXAMINATION MUST obtain written representations signed by the FIDUCIARY MANAGER'S management who the verifier believes are responsible for and knowledgeable about the matters covered in the representations. The representation letter MUST include the following matters:

- The FIDUCIARY MANAGER complies with the GIPS standards for FMPs for all periods being examined;
- The FIDUCIARY MANAGER'S policies and procedures for establishing and maintaining compliance with the GIPS standards for FMPs are properly described in the FIDUCIARY MANAGER'S GIPS standards for FMPs policies and procedures;
- The FIDUCIARY MANAGER'S policies and procedures for complying with the GIPS standards for FMPs have been designed in compliance with the GIPS standards for FMPs and have been implemented on a FIDUCIARY MANAGER-wide basis for all periods being examined;
- The FIDUCIARY MANAGER is in compliance with the GIPS standards for FMPs on a FIDUCIARY MANAGER-wide basis;
- The FIDUCIARY MANAGER has constructed the COMPOSITE and calculated the COMPOSITE'S performance in compliance with the GIPS standards for FMPs;
- The FIDUCIARY MANAGER has prepared and presented the GIPS COMPOSITE REPORT in compliance with the GIPS standards for FMPs;
- The FIDUCIARY MANAGER'S management bears all responsibility for maintaining compliance with the GIPS standards for FMPs, including production and distribution of the GIPS COMPOSITE REPORT;
- The GIPS COMPOSITE REPORT is a fair and accurate representation of the FIDUCIARY MANAGER'S investment performance;
- The FIDUCIARY MANAGER has not knowingly presented performance or PERFORMANCE-RELATED INFORMATION for the COMPOSITE being examined that is false or misleading;

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<sup>3</sup>Words in small capital letters are defined terms that can be found in the Glossary. These terms are not expected to be in small capital letters when included in a representation letter, VERIFICATION REPORT, or PERFORMANCE EXAMINATION REPORT.

- To the best of the FIDUCIARY MANAGER'S knowledge and belief, there has been no:
  - ♦ fraud or alleged fraud involving management or employees who have significant roles in the FIDUCIARY MANAGER'S policies and procedures relating to compliance with the GIPS standards for FMPs or
  - ♦ fraud or alleged fraud involving others that could have a material effect on the FIDUCIARY MANAGER'S compliance with the GIPS standards for FMPs;
- The FIDUCIARY MANAGER has provided the verifier with all necessary documents to enable the verifier to perform the PERFORMANCE EXAMINATION, and no relevant documents have been withheld;
- The period(s) on which the verifier is reporting is stated;
- The FIDUCIARY MANAGER complies with all applicable laws and regulations regarding the calculation and presentation of performance for the COMPOSITE being examined;
- The FIDUCIARY MANAGER meets the definition of Fiduciary Management Provider that appears in Part 2 of "The Investment Consultancy and Fiduciary Management Market Investigation Order 2019" issued by the Competition and Markets Authority on 10 June 2019 in respect to all or some of the pension SCHEME assets, for 100% of the Full Fiduciary Management Client Assets; and
- No events that would materially influence performance results or the outcome of the PERFORMANCE EXAMINATION have occurred up to the date of the representation letter.

The representation letter SHOULD also include any other relevant representations made to the verifier during the PERFORMANCE EXAMINATION.

## Performance Examination Report<sup>4</sup>

If PERFORMANCE EXAMINATIONS are performed on multiple COMPOSITES and their associated GIPS COMPOSITE REPORTS, the verifier may issue a single PERFORMANCE EXAMINATION REPORT covering the COMPOSITES and their associated GIPS COMPOSITE REPORTS that have been examined. The PERFORMANCE EXAMINATION REPORT can be prepared either as part of a VERIFICATION REPORT (combined report) or as a separate report attached to the VERIFICATION REPORT. The GIPS COMPOSITE REPORT for any COMPOSITE that has been examined MUST be included in or attached to the PERFORMANCE EXAMINATION REPORT.

1. In order for a PERFORMANCE EXAMINATION REPORT to be issued, the verifier MUST ensure that the FIDUCIARY MANAGER has received a VERIFICATION REPORT(s) covering the period(s) being examined.

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<sup>4</sup>Words in small capital letters are defined terms that can be found in the Glossary. These terms are not expected to be in small capital letters when included in a representation letter, VERIFICATION REPORT, or PERFORMANCE EXAMINATION REPORT.

2. A PERFORMANCE EXAMINATION REPORT MUST NOT cover period(s) beyond those period(s) covered by the VERIFICATION REPORT(s). A PERFORMANCE EXAMINATION REPORT MUST NOT be issued prior to the VERIFICATION REPORT.
3. Because a VERIFICATION is REQUIRED in order to receive a PERFORMANCE EXAMINATION, the PERFORMANCE EXAMINATION REPORT MUST include the period(s) for which the FIDUCIARY MANAGER has been verified.
4. The PERFORMANCE EXAMINATION REPORT MUST opine that, for the period(s) for which the PERFORMANCE EXAMINATION has been performed, the FIDUCIARY MANAGER has, in all material respects:
  - ♦ Constructed the COMPOSITE and calculated the COMPOSITE performance in compliance with the GIPS standards for FMPs and
  - ♦ Prepared and presented the GIPS COMPOSITE REPORT in compliance with the GIPS standards for FMPs.

The following information is also REQUIRED to be included in the PERFORMANCE EXAMINATION REPORT:

- ♦ The report title, which MUST include the words “performance examination”;
- ♦ The report date;
- ♦ The report addressee;
- ♦ The defined FIDUCIARY MANAGER for which the VERIFICATION has been performed;
- ♦ The period(s) for which the VERIFICATION has been performed;
- ♦ The respective responsibilities of the FIDUCIARY MANAGER’S management and of the verifier, including a statement acknowledging the FIDUCIARY MANAGER’S responsibility for the claim of compliance for the GIPS COMPOSITE REPORT;
- ♦ The period(s) for which the PERFORMANCE EXAMINATION has been performed;
- ♦ The name of the COMPOSITE that has been examined;
- ♦ A statement indicating that the PERFORMANCE EXAMINATION of the specified COMPOSITE and its associated GIPS COMPOSITE REPORT has been performed in accordance with the REQUIRED PERFORMANCE EXAMINATION procedures of the GIPS standards for FMPs;
- ♦ A statement indicating that the PERFORMANCE EXAMINATION includes testing performed on a sample basis;
- ♦ Language indicating that the verifier is independent from the FIDUCIARY MANAGER;
- ♦ A statement indicating that the PERFORMANCE EXAMINATION does not provide assurance on any other specific COMPOSITE performance report;
- ♦ A statement describing any other professional guidance that has been applied (e.g., AICPA, IAASB, or ICAEW guidance);

- ♦ The following statement: "GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein."; and
- ♦ The signature or official seal of the verifier.

In addition to the REQUIRED content, the PERFORMANCE EXAMINATION REPORT may also include other information, as appropriate.

5. After completing the PERFORMANCE EXAMINATION procedures, the verifier may conclude that the GIPS COMPOSITE REPORT does not comply with the GIPS standards for FMPs or that the FIDUCIARY MANAGER'S records cannot support the PERFORMANCE EXAMINATION. In such situations, the verifier and the FIDUCIARY MANAGER MUST consider the effect of the verifier's inability to issue the PERFORMANCE EXAMINATION REPORT on the FIDUCIARY MANAGER'S claim of compliance with the GIPS standards for FMPs. A PERFORMANCE EXAMINATION REPORT MUST NOT be issued when the verifier knows that the FIDUCIARY MANAGER is not in compliance with the GIPS standards for FMPs, the GIPS COMPOSITE REPORT does not comply with the GIPS standards for FMPs, or the records of the FIDUCIARY MANAGER cannot support the examination of the specific COMPOSITE and its associated GIPS COMPOSITE REPORT. When a PERFORMANCE EXAMINATION REPORT cannot be issued, the verifier MUST inform the FIDUCIARY MANAGER why a PERFORMANCE EXAMINATION REPORT cannot be issued.
6. The FIDUCIARY MANAGER MUST NOT state that a COMPOSITE has been examined unless a PERFORMANCE EXAMINATION REPORT has been issued.

## Recommendation Letter

After the PERFORMANCE EXAMINATION is complete, the verifier SHOULD issue a recommendation letter to the FIDUCIARY MANAGER describing specific findings, recommendations, and other areas for improvement arising from the PERFORMANCE EXAMINATION.

## Effective Date

Verifiers MUST conduct their VERIFICATION and PERFORMANCE EXAMINATION engagements in accordance with the GIPS Standards for Verifiers When Verifying Fiduciary Managers for engagements that begin on or after 1 January 2026.

# GLOSSARY

ADMINISTRATIVE FEE	All fees other than TRANSACTION COSTS and the INVESTMENT MANAGEMENT FEE. ADMINISTRATIVE FEES may include CUSTODY FEES, accounting fees, auditing fees, consulting fees, legal fees, performance measurement fees, and other related fees.
BENCHMARK	A point of reference against which the COMPOSITE'S returns or risk are compared.
COMPLIANCE NOTIFICATION FORM	The form REQUIRED to be filed with CFA Institute to notify CFA Institute that the FIDUCIARY MANAGER claims compliance with the GIPS standards for FMPs.
COMPOSITE	An aggregation of one or more SCHEMES that are managed according to a similar investment mandate, objective, or strategy.
COMPOSITE CREATION DATE	The date when the FIDUCIARY MANAGER first groups one or more SCHEMES to create a COMPOSITE. The COMPOSITE CREATION DATE is not necessarily the same as the COMPOSITE INCEPTION DATE.
COMPOSITE DEFINITION	Detailed criteria that determine the assignment of SCHEMES to COMPOSITES. Criteria may include, but are not limited to, the level of discretion, the nature of the BENCHMARK, any hedge ratio restriction, the objective or risk, and the asset restrictions that would materially affect performance.
COMPOSITE DESCRIPTION	<p>General information regarding the investment mandate, objective, or strategy of the COMPOSITE. The COMPOSITE DESCRIPTION may be more abbreviated than the COMPOSITE DEFINITION but MUST include all key features of the COMPOSITE and MUST include enough information to allow a PROSPECTIVE CLIENT to understand the key characteristics of the COMPOSITE'S investment mandate, objective, or strategy, including:</p> <ul style="list-style-type: none"> <li>• If leverage, derivatives, and short positions are a material part of the strategy.</li> <li>• If ILLIQUID INVESTMENTS are a material part of the strategy.</li> </ul> <p>This list MUST also include the following information for each composite:</p> <ul style="list-style-type: none"> <li>• COMPOSITE name</li> <li>• COMPOSITE CREATION DATE</li> <li>• COMPOSITE INCEPTION DATE</li> <li>• COMPOSITE TERMINATION DATE, if applicable</li> <li>• Number of SCHEMES as of the most recent calendar year end.</li> </ul>

COMPOSITE INCEPTION DATE	The initial date of the COMPOSITE's track record.
COMPOSITE RELATIVE RETURN	The equal-weighted average of SCHEME RELATIVE RETURNS.
COMPOSITE TERMINATION DATE	The date that the last SCHEME exits a COMPOSITE.
CUSTODY FEE	The fee payable to the custodian for the safekeeping of SCHEME assets. CUSTODY FEES are considered to be ADMINISTRATIVE FEES and typically contain an asset-based portion and a transaction-based portion. The CUSTODY FEE may also include charges for additional services, including accounting, securities lending, and/or performance measurement. Custodial fees that are charged per transaction SHOULD be included in the CUSTODY FEE and not included as part of TRANSACTION COSTS.
EXTERNAL CASH FLOW	Capital (cash or investments) that enters or exits a SCHEME. Dividend and interest income payments are not considered EXTERNAL CASH FLOWS.
FIDUCIARY MANAGER/ FIDUCIARY MANAGEMENT PROVIDER	The entity defined for compliance with the GIPS standards for FMPs. A FIDUCIARY MANAGER provides advice (or through an Interconnected Body Corporate of the provider, or a partnership or joint venture with the provider) and makes investment decisions on behalf of the Pension Scheme Trustees on an ongoing basis subject to the definition of Fiduciary Management Services in Part 2 of "The Investment Consultancy and Fiduciary Management Market Investigation Order 2019" issued on 10 June 2019 in respect of all or some of the pension SCHEME assets for 100% of the Full Fiduciary Management Client Assets.
GIPS COMPOSITE REPORT	A presentation for a COMPOSITE that contains all the information REQUIRED by the GIPS standards for FMPs and may also include RECOMMENDED information.
ILLIQUID INVESTMENTS	Investments that may be difficult to sell without a price reduction or that cannot be sold quickly because of a lack of market or ready/willing investors.
INVESTMENT MANAGEMENT FEE	For FIDUCIARY MANAGERS, a fee payable to the FIDUCIARY MANAGER for management of a SCHEME. INVESTMENT MANAGEMENT FEES are typically asset based (percentage of assets), performance based (see "PERFORMANCE-BASED FEE"), or a combination of the two but may take different forms as well.

(continued)

LARGE CASH FLOW	The level at which the FIDUCIARY MANAGER determines that an EXTERNAL CASH FLOW may distort the return if the SCHEME is not valued and a sub-period return is calculated. The FIDUCIARY MANAGER MUST define the amount in terms of the value of cash/asset flow or in terms of a percentage of the SCHEME assets. The FIDUCIARY MANAGER MUST also determine if a LARGE CASH FLOW is a single EXTERNAL CASH FLOW or an aggregate of a number of EXTERNAL CASH FLOWS within a stated period.
LINK	<p>The method by which sub-period returns are geometrically combined to calculate the period return, or by which periodic returns are geometrically combined to calculate longer-period returns using the following formula:</p> $\text{Period return} = [(1 + R_1) \times (1 + R_2) \dots (1 + R_n)] - 1,$ <p>where <math>R_1, R_2, \dots, R_n</math> are the sub-period or periodic returns for sub-periods or periods 1 through <math>n</math>, respectively.</p>
MATERIAL ERROR	An error in a GIPS COMPOSITE REPORT that MUST be corrected and disclosed in a corrected GIPS COMPOSITE REPORT.
MUST	A provision, task, or action that is mandatory or REQUIRED to be followed or performed. (See "REQUIRE/REQUIREMENT.")
MUST NOT	A task or action that is forbidden or prohibited.
NET RETURN	The SCHEME return that reflects the deduction of all costs associated with the SCHEME'S assets. These MUST include TRANSACTION COSTS, CUSTODY FEES, ADMINISTRATIVE FEES, and all other fees and expenses, including INVESTMENT MANAGEMENT FEES and PERFORMANCE-BASED FEES paid to the FIDUCIARY MANAGER, underlying investment managers, and any SUB-ADVISORS.
PERFORMANCE-BASED FEE	A type of INVESTMENT MANAGEMENT FEE that is typically based on the SCHEME'S performance on an absolute basis or relative to a BENCHMARK or other reference point.
PERFORMANCE EXAMINATION	A process by which an independent verifier conducts testing of a specific COMPOSITE in accordance with the REQUIRED PERFORMANCE EXAMINATION procedures of the GIPS standards for FMPs.
PERFORMANCE EXAMINATION REPORT	A report issued by an independent verifier after a PERFORMANCE EXAMINATION has been performed.



PERFORMANCE-RELATED INFORMATION	<p>Includes:</p> <ul style="list-style-type: none"> <li>• Information expressed in terms of investment return and risk.</li> <li>• Other information and input data that directly relate to the calculation of investment return and risk (e.g., SCHEME holdings), as well as information derived from investment return and risk input data (e.g., performance contribution or attribution).</li> </ul>
POOLED FUND	A fund whose ownership interests may be held by more than one investor.
PROSPECTIVE CLIENT	Any entity that has expressed interest in one of the FIDUCIARY MANAGER'S COMPOSITE strategies and qualifies to invest in the COMPOSITE. Current clients may also qualify as PROSPECTIVE CLIENTS for any COMPOSITE strategy that differs from their current investment strategy. Investment consultants and other third parties are included as PROSPECTIVE CLIENTS if they represent entities that qualify as PROSPECTIVE CLIENTS.
RECOMMEND/RECOMMENDATION	A suggested provision, task, or action that SHOULD be followed or performed. A RECOMMENDATION is considered to be best practice but is not a REQUIREMENT. (See "SHOULD.")
REQUIRE/REQUIREMENT	A provision, task, or action that MUST be followed or performed.
SCHEME	A retirement account by which an employer, and usually an employee, pays into a fund that is invested to provide the employee with a pension at retirement.
SCHEME RELATIVE RETURN	The difference between the SCHEME NET RETURN and the BENCHMARK return.
SHOULD	A provision, task, or action that is RECOMMENDED to be followed or performed and is considered to be best practice but is not REQUIRED.
SUB-ADVISOR	A third-party investment manager hired by the FIDUCIARY MANAGER to manage some or all of the assets for which a FIDUCIARY MANAGER has investment management responsibility. May also be referred to as a sub-manager or third-party investment manager.
TOTAL FIDUCIARY MANAGEMENT PROVIDER ASSETS/TOTAL FIDUCIARY MANAGER ASSETS	All discretionary and non-discretionary assets for which a FIDUCIARY MANAGER has investment management responsibility. TOTAL FIDUCIARY MANAGER ASSETS include assets assigned to a SUB-ADVISOR provided the FIDUCIARY MANAGER has discretion over the selection of the SUB-ADVISOR.

(continued)

TOTAL RETURN	The rate of return that includes the realized and unrealized gains and losses plus income for the measurement period.
TRANSACTION COSTS	The costs of buying or selling investments. These costs typically take the form of brokerage commissions, exchange fees and/or taxes, and/or bid–offer spreads from either internal or external brokers. Custodial fees charged per transaction SHOULD be considered CUSTODY FEES and not TRANSACTION COSTS.
VERIFICATION	A process by which an independent verifier conducts testing of a FIDUCIARY MANAGER on a FIDUCIARY MANAGER–wide basis, in accordance with the REQUIRED VERIFICATION procedures of the GIPS standards for FMPs.
VERIFICATION REPORT	Issued by an independent verifier after a VERIFICATION has been performed.

# APPENDIX A. SAMPLE INDEPENDENT VERIFIER'S VERIFICATION REPORT

## Independent Verifier's Verification Report

Buku Management  
20 Squirrel Lane  
London, N10 3PE, United Kingdom

We have verified whether Buku Management (the Fiduciary Manager) has, for the periods from 1 January 2018 through 31 December 2023, established policies and procedures for complying with the Global Investment Performance Standards (GIPS®) for Fiduciary Management Providers (GIPS standards for FMPs) related to composite maintenance and the calculation, presentation, and distribution of performance that are designed in compliance with the GIPS standards for FMPs, as well as whether these policies and procedures have been implemented on a Fiduciary Manager-wide basis. GIPS® is a registered trademark owned by CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

The Fiduciary Manager's management is responsible for its claim of compliance with the GIPS standards for FMPs and the design and implementation of its policies and procedures. Our responsibilities are to be independent from the Fiduciary Manager and to express an opinion based on our verification. We conducted this verification in accordance with the required verification procedures of the GIPS standards for FMPs, which include testing performed on a sample basis. We also conducted such other procedures as we considered necessary in the circumstances.

In our opinion, for the periods from 1 January 2018 through 31 December 2023, the Fiduciary Manager's policies and procedures for complying with the GIPS standards for FMPs related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been, in all material respects:

- Designed in compliance with the GIPS standards for FMPs, and
- Implemented on a Fiduciary Manager-wide basis.

This report does not relate to or provide assurance on any specific performance report of the Fiduciary Manager or on the operating effectiveness of the Fiduciary Manager's controls or policies and procedures for complying with the GIPS standards for FMPs.

ABC Verifier

14 May 2024

# APPENDIX B. SAMPLE INDEPENDENT VERIFIER'S PERFORMANCE EXAMINATION REPORT

## Independent Verifier's Performance Examination Report

Buku Management  
20 Squirrel Lane  
London, N10 3PE, United Kingdom

We have verified whether Buku Management (the Fiduciary Manager) has, for the periods from 1 January 2018 through 31 December 2023, established policies and procedures for complying with the Global Investment Performance Standards (GIPS®)<sup>5</sup> for Fiduciary Management Providers (GIPS standards for FMPs) related to composite maintenance and the calculation, presentation, and distribution of performance that are designed in compliance with the GIPS standards for FMPs, as well as whether these policies and procedures have been implemented on a Fiduciary Manager-wide basis. We have also examined the Fiduciary Manager's Liability Plus 1.5%–2.5%, 60%–80% Hedge Restricted Composite for the periods 1 January 2021 through 31 December 2023.

The Fiduciary Manager's management is responsible for its claim of compliance with the GIPS standards for FMPs and the design and implementation of its policies and procedures and for the accompanying Liability Plus 1.5%–2.5%, 60%–80% Hedge Restricted Composite's GIPS composite report. Our responsibilities are to be independent from the Fiduciary Manager and to express an opinion based on our verification and performance examination. We conducted this verification and performance examination in accordance with the required verification and performance examination procedures of the GIPS standards for FMPs, which include testing performed on a sample basis. We also conducted such other procedures as we considered necessary in the circumstances.

In our opinion, for the periods from 1 January 2018 through 31 December 2023, the Fiduciary Manager's policies and procedures for complying with the GIPS standards

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<sup>5</sup>GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

for FMPs related to composite maintenance, as well as the calculation, presentation, and distribution of performance, have been, in all material respects:

- Designed in compliance with the GIPS standards for FMPs, and
- Implemented on a Fiduciary Manager-wide basis.

Also, in our opinion, the Fiduciary Manager has, in all material respects:

- Constructed the Liability Plus 1.5%–2.5%, 60%–80% Hedge Restricted Composite and calculated the Liability Plus 1.5%–2.5%, 60%–80% Hedge Restricted Composite's performance for the periods from 1 January 2021 through 31 December 2023 in compliance with the GIPS standards for FMPs, and
- Prepared and presented the accompanying Liability Plus 1.5%–2.5%, 60%–80% Hedge Restricted Composite's GIPS composite report for the periods from 1 January 2021 through 31 December 2023 in compliance with the GIPS standards for FMPs.

We have not been engaged to examine, and did not examine, the Fiduciary Manager's Liability Plus 1.5%–2.5%, 60%–80% Hedge Restricted Composite for any periods prior to 1 January 2021. Accordingly, we express no opinion on the GIPS composite report of the Fiduciary Manager's Liability Plus 1.5%–2.5%, 60%–80% Hedge Restricted Composite for any periods prior to 1 January 2021.

This report does not relate to or provide assurance on any specific performance report of the Fiduciary Manager other than the Fiduciary Manager's accompanying Liability Plus 1.5%–2.5%, 60%–80% Hedge Restricted Composite's GIPS composite report, or on the operating effectiveness of the Fiduciary Manager's controls or policies and procedures for complying with the GIPS standards for FMPs.

XYZ Verifier

14 May 2024