Global Investment Performance Standards (GIPS®) for Asset Owners

Explanation of the Provisions in Section 24

October 2020

CFA Institute®
Global Investment Performance Standards

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INTRODUCTION

The Explanation of the Provisions in Section 24 provides interpretation of each provision that is included in Section 24—Total Fund and Composite Time-Weighted Return Report. Asset owners that choose to comply with the Global Investment Performance Standards (GIPS®) must comply with all applicable requirements of the GIPS standards, including any Guidance Statements, interpretations, and Questions and Answers (Q&As) published by CFA Institute and the GIPS standards governing bodies.

Section 24 includes the requirements and recommendations for preparing a GIPS Asset Owner Report that includes time-weighted returns. Asset owners that prepare a GIPS Asset Owner Report that includes time-weighted returns must include the required numerical information and disclosures specified in Section 24, if applicable to the specific total fund or composite.

Each provision is included in a grey text box. Within the provisions are words appearing in small capital letters. This indicates defined terms that can be found in the GIPS Standards Glossary. Following each provision is a discussion that provides interpretive guidance to help readers understand the provision.

24. TOTAL FUND AND COMPOSITE TIME-WEIGHTED RETURN REPORT

The following provisions apply to ASSET OWNERS that include TIME-WEIGHTED RETURNS in a GIPS ASSET OWNER REPORT.

24.A. Presentation and Reporting—Requirements

Provision 24.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

a. At least one year of performance (or for the period since the TOTAL FUND or COMPOSITE INCEPTION DATE if the TOTAL FUND or COMPOSITE has been in existence less than one year) that meets the REQUIREMENTS of the GIPS standards. After the ASSET OWNER presents a minimum of one year of GIPS-compliant performance (or for the period since the TOTAL FUND or COMPOSITE INCEPTION DATE if the TOTAL FUND or COMPOSITE has been in existence less than one year), the ASSET OWNER MUST present an additional year of performance each year, building up to a minimum of 10 years of GIPS-compliant performance.

Discussion

To claim compliance, an asset owner is required to meet all applicable requirements of the GIPS standards on an asset owner–wide basis for at least a one-year period, or since inception of the asset owner if the asset owner has been in existence for less than one year. When initially claiming compliance with the GIPS standards, an asset owner must present a minimum of one year of total fund or composite performance, or performance since the inception of the total fund or composite if the total fund or composite has been in existence for less than one year.

Once the asset owner has its initial minimum one year of GIPS-compliant history, the asset owner must continue to add annual returns to each GIPS Asset Owner Report, so that 9 years after initially claiming compliance with the GIPS standards, the asset owner will have a 10-year performance record for its total fund(s) or composites. It is recommended that asset owners present a total fund's or composite's history for more than the minimum required periods. (See Provision 24.B.8.)

Because of the unique nature of asset owners, in that they do not compete for clients, asset owners must initially present at least one year of GIPS-compliant performance that meets the requirements of the GIPS standards, instead of requiring an initial five-year compliant track record as is required for firms. Importantly, this exception is allowed only for asset owners that do not compete for business. It applies only for asset owners that manage an entity's assets solely for the purpose of supporting the organization and are accountable only to their respective oversight boards. If an asset owner competes for business, please see Provision 21.A.24 for more information.

If an asset owner initially claims compliance for a period longer than one year, the asset owner must present a track record for the entire period for which it claims compliance. See Provision 21.A.4 for a discussion of the periods for which asset owners must initially comply with the GIPS standards.

An asset owner newly coming into compliance with the GIPS standards may have elected to bring only one year of its track record into compliance. If this asset owner has a historical track record longer than one year that it is not bringing into compliance, it may present the longer track record outside of the GIPS Asset Owner Report. It may link the compliant and the non-compliant track record outside of the GIPS Asset Owner Report. The GIPS Asset Owner Report must include only GIPS-compliant information.

Provision 24.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

b. For TOTAL FUNDS, TOTAL FUND returns that are NET-OF-FEES.[24]

Discussion

Because the total fund net-of-fees return reflects performance after the deduction of transaction costs and all other fees and costs associated with management of the assets, this return is required to be presented for total funds and composites of total funds. For asset owners, a net-of-fees return is defined as the return that reflects the deduction of:

- transaction costs,
- all fees and expenses for externally managed pooled funds,
- investment management fees for externally managed segregated accounts, and
- investment management costs.

[24] REQUIRED for periods beginning on or after 1 January 2015.

The presentation of net-of-fees returns is required for periods beginning on or after 1 January 2015. Please see the discussion of the calculation of net-of-fees returns in Provision 22.A.24.

Asset owners may choose to present gross-of-fees returns and net-of-external-cost-only returns in addition to presenting the required net-of-fees returns in GIPS Asset Owner Reports. (Please see the related discussion in Provision 24.B.1.)

Provision 24.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

c. TOTAL FUND or COMPOSITE returns for each annual period.

Discussion

The GIPS standards require the presentation of annual total fund or composite returns. Asset owners must clearly label the annual presentation periods. Asset owners must define the annual reporting period on a total fund–by–total fund or composite-by-composite basis and apply it consistently. For purposes of comparability, best practice would be for an asset owner to report total fund or composite performance on a calendar-year-end basis.

Within each GIPS Asset Owner Report, the annual periods must be consistent. For example, an asset owner that reports a total fund's or composite's performance annually as of 30 June must consistently report annual returns for years ending 30 June for that total fund or composite. The asset owner may decide in the future to change to a 31 December valuation and performance reporting date; however, the asset owner may not mix 30 June and 31 December valuation and reporting dates in the same GIPS Asset Owner Report.

More-frequent returns help the oversight body evaluate a total fund's or composite's track record. Asset owners are therefore recommended to present more-frequent returns, such as quarterly or monthly returns, in addition to the required annual returns. (See Provision 24.B.3.c.)

Provision 24.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

d. When the initial period is less than a full year, the return from the TOTAL FUND or COMPOSITE INCEPTION DATE through the initial annual period end.[25]

[25] REQUIRED for COMPOSITES with a COMPOSITE INCEPTION DATE <u>and TOTAL FUNDS with an inception date</u> of 1 January 2011 or later. (Note that this footnote in the 2020 edition of the GIPS standards should be revised to include the underlined words.)

Discussion

When a total fund or composite has an initial period that is less than a full year, the GIPS standards require that the return be presented for the partial year from the total fund or composite inception date through the initial annual period end. This is required for total funds or composites that begin on or after 1 January 2011. Although not required to do so for total funds or composites that begin prior to this date, asset owners should consider presenting the initial partial year of performance for all total funds or composites.

For example, assume that an asset owner presents total fund or composite returns for annual periods ended 31 December, and a new composite is created with a track record beginning 1 April 2018. The initial GIPS Asset Owner Report for this composite must include the composite return for the period from 1 April 2018 through 31 December 2018. Subsequently, the asset owner must add annual returns, building up to a minimum 10-year track record.

Partial-year returns must not be annualized. As an example, a total fund or composite that began on 1 December 2020 and has a one-month initial return through 31 December 2020 of 3% (which equates to an annualized return of 42.6%) would be required to present that 3% as the partial year's performance. The annualized return of 42.6% must not be presented. Some spreadsheet and software applications automatically annualize all returns, and asset owners are reminded that for periods of less than a year, the asset owner must "de-annualize" any annualized returns that are calculated.

The method chosen to de-annualize a return is at the discretion of the asset owner, but it must be a geometric calculation. In the situation just presented, the 42.6% annualized return could be de-annualized using one of the following formulas:

$$\left\{\left[(1+0.426)^{\left(\frac{1}{12}\right)}\right]-1\right\}\times 100 = 3\%, \quad \text{or} \quad \left\{\left[(1+0.426)^{\left(\frac{31}{365}\right)}\right]-1\right\}\times 100 = 3\%,$$

both resulting in a non-annualized one-month return of 3%.

Provision 24.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

e. When the TOTAL FUND or COMPOSITE terminates, the return from the last annual period end through the TOTAL FUND TERMINATION DATE or COMPOSITE TERMINATION DATE.[26]

[26] REQUIRED for COMPOSITES with a COMPOSITE TERMINATION DATE and TOTAL FUNDS with a termination date of 1 January 2011 or later. (Note that this footnote in the 2020 edition of the GIPS standards should be revised to include the underlined words.)

Discussion

The GIPS standards require that returns from the last annual period end through the total fund or composite termination date be presented for total funds and composites with a termination date of 1 January 2011 or later. Assume that an asset owner presents total fund and composite returns for annual periods ended 31 December, and a composite terminates so that the track record ends 31 August 2020. The GIPS Asset Owner Report for this composite must include the composite return for the period from 1 January 2020 through 31 August 2020.

Partial-year returns must not be annualized. As an example, a composite that terminates on 31 January 2020 and has a one-month return for January 2020 of 3% (which equates to an annualized return of 42.6%) would be required to present that 3% as the partial year's performance. The annualized return of 42.6% must not be presented. Some spreadsheet and software applications automatically annualize all returns, and asset owners are reminded that for periods of less than a year, the asset owner must "de-annualize" any annualized returns that are calculated.

The method chosen to de-annualize a return is at the discretion of the asset owner, but it must be a geometric calculation. In the situation just presented, the 42.6% annualized return could be de-annualized using one of the following formulas:

$$\left\{\left[(1+0.426)^{\left(\frac{1}{12}\right)}\right]-1\right\}\times 100 = 3\%, \quad \text{or} \quad \left\{\left[(1+0.426)^{\left(\frac{31}{365}\right)}\right]-1\right\}\times 100 = 3\%,$$

both resulting in a non-annualized one-month return of 3%.

Provision 24.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

f. The TOTAL RETURN for the BENCHMARK for each annual period and for all other periods for which TOTAL FUND or COMPOSITE returns are presented, unless the ASSET OWNER determines there is no appropriate BENCHMARK.

Discussion

Benchmarks are important tools that aid in the planning, implementation, and evaluation of a total fund's or composite's investment policy. They also help facilitate discussions with the oversight body regarding the relationship between risk and return. As a result, asset owners are required to present a total return for the benchmark that reflects the total fund's or composite's investment mandate, objective, or strategy for each annual period. An asset owner may choose to present more than one benchmark in a GIPS Asset Owner Report and, if it does so, it must include all required information for all benchmarks included in a GIPS Asset Owner Report.

In addition to the required annual benchmark returns, asset owners must also present benchmark returns for the same periods for which total fund or composite returns are presented. For example, if the GIPS Asset Owner Report includes quarterly total fund or composite returns, quarterly benchmark returns must also be included.

It is important that the benchmark provide a fair comparison with the performance of the total fund or composite being presented in a GIPS Asset Owner Report. For example, comparing the performance of an international equities composite that has a preferred tax status with a benchmark that uses the highest tax rate could give the oversight body an incorrect impression of the composite's relative performance. If such a benchmark is the only possible benchmark to use and cannot be adjusted, the difference in tax rates used in calculating the performance of the composite and the benchmark should be disclosed. Please refer to the discussion of Provision 24.D.3 for sample disclosures for when there is a material difference between the benchmark and the total fund or composite.

Because the GIPS standards require that the total return for the benchmark be presented, a price-only index would not satisfy the requirements of the GIPS standards. This scenario also applies to benchmarks that are components of a blended benchmark. A price-only benchmark may be presented in a GIPS Asset Owner Report as supplemental information only if it is presented in addition to a total return benchmark. It must be labeled as a price-only benchmark, and there must be sufficient disclosures so that the oversight body understands the difference between the return of a price-only benchmark and the return of a total return benchmark. Asset owners must not present only a price-only benchmark, even if no appropriate total return benchmark is available for the total fund or composite. If an asset owner determines that no appropriate benchmark for the total fund or composite exists, it must not present a benchmark and must disclose why no benchmark is presented. (See Provision 24.C.25.)

Some benchmarks, such as commodity benchmarks, may not have income because the asset class does not create income, but they are still considered to be total return benchmarks. Target returns, such as an 8% hurdle rate, may also not have income, but this is not considered a price-only return.

Provision 24.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

g. The number of TOTAL FUNDS or PORTFOLIOS in the COMPOSITE as of each annual period end.[27]

[27] REQUIRED for periods ending on or after 31 December 2020. For periods ending prior to 31 December 2020, if the COMPOSITE contains five or fewer PORTFOLIOS at period end, the number of PORTFOLIOS is not REQUIRED.

Discussion

For periods ending on or after 31 December 2020, each GIPS Asset Owner Report for a composite must include the number of total funds or portfolios included in the composite. These figures must be presented as of the end of each annual period that is included in a composite's GIPS Asset Owner Report. This requirement provides information to the oversight body on the size of the composite, measured by the number of total funds or portfolios in the composite. As an example, if there were two portfolios in the composite for the full year but four portfolios in the composite at year end, the asset owner would present four, the actual number of portfolios in the composite at year end.

For periods ending prior to 31 December 2020, if the composite contains five or fewer total funds or portfolios at period end, the number of total funds or portfolios in the composite is not required to be disclosed, although the asset owner may choose to present this information.

Provision 24.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

h. TOTAL FUND assets or COMPOSITE assets as of each annual period end.

Discussion

Each GIPS Asset Owner Report must include the amount of total fund or composite assets as of the end of each annual period that is included in the GIPS Asset Owner Report. This requirement provides information to the oversight body on the size of the total fund or composite, measured by the amount of assets it contains. When the total fund or composite strategy uses leverage, total fund or composite assets must be presented net of the leverage and not grossed up as if the leverage did not exist. For example, if a total fund or composite has $200 million in net assets, and $50 million of those assets have been borrowed by an external manager, the total fund's or composite's gross assets are $250 million. When calculating total fund or composite assets, the asset owner must use $200 million. If any total funds or composites use leverage, the asset owner should also present to the oversight body assets that are grossed up as if the leverage did not exist.

See the discussion of Provision 22.A.2 for additional guidance on the calculation of total fund or composite assets.

Provision 24.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

i. TOTAL ASSET OWNER ASSETS as of each annual period end.[28]

Discussion

For annual periods ending on or after 31 December 2020, the asset owner must present total asset owner assets as of each annual period end. For annual periods ending prior to this date, the asset owner must present either total asset owner assets or total fund assets or composite assets as a percentage of total asset owner assets. Leverage must be deducted when calculating total asset owner assets. For example, if a composite has $200 million in net assets, and $50 million of those assets have been borrowed by an external manager, the composite's gross assets are $250 million. The asset owner must use $200 million when calculating total asset owner assets, not $250 million. The inclusion of both total fund assets or composite assets and total asset owner assets in a GIPS Asset Owner Report will help the oversight body understand the total fund or composite size in relation to total asset owner assets. If any total funds or composites use leverage, the asset owner should also present to the oversight body assets that are grossed up as if the leverage did not exist.

Both discretionary and non-discretionary portfolios are included in total asset owner assets. Total asset owner assets include assets assigned to an external manager provided the asset owner has discretion over the selection of the external manager. Operating cash accounts that are not available for investment should not be included in total asset owner assets.

Asset owners must be sure that assets are not double-counted because counting assets more than once would not fairly represent total asset owner assets.

See the discussion of Provision 22.A.1 for additional guidance on the calculation of total asset owner assets, Provision 22.A.3 for a discussion of double-counting assets, and Provision 22.A.8 for additional guidance on the treatment of cash and cash equivalents.

[28] REQUIRED for periods ending on or after 31 December 2020. For periods ending prior to 31 December 2020, the ASSET OWNER may present either TOTAL ASSET OWNER ASSETS or TOTAL FUND assets or COMPOSITE assets as a percentage of TOTAL ASSET OWNER ASSETS.

Provision 24.A.1

The ASSET OWNER MUST present in each GIPS ASSET OWNER REPORT:

j. For TOTAL FUNDS or COMPOSITES for which monthly COMPOSITE returns are available, the three-year annualized EX POST STANDARD DEVIATION (using monthly returns) of the TOTAL FUND or COMPOSITE and the BENCHMARK as of each annual period end.[29,A]

Discussion

Evaluating past performance requires an understanding of the risks taken to achieve the results. Standard deviation is universally defined as a measure of the variability of returns. For total funds or composites for which monthly returns are available, the GIPS standards require the presentation of ex post standard deviation. Ex post standard deviation is a measure of the volatility of a strategy and benchmark over time, and it is intended to measure the risk of investing in the strategy. For periods ending on or after 1 January 2011, asset owners must present, as of each annual period end, the three-year annualized ex post standard deviation using monthly returns for both the total fund or composite and the benchmark.

Standard deviation for both the total fund or composite and the benchmark must be calculated using 36 monthly returns. The same formula must be used to calculate standard deviation for the total fund or composite and the benchmark.

Some private market investment composites may not have monthly returns. For these composites, if the composite has at least three annual periods of performance in the GIPS Asset Owner Report, asset owners must disclose if the three-year annualized ex post standard deviation of the composite and/or benchmark is not presented because 36 monthly returns are not available. (See Provision 24.C.30.)

Ex Post Standard Deviation

Ex post standard deviation is calculated as follows:

$$\text{Total fund, composite, or benchmark ex post standard deviation} = \sqrt{\frac{\sum\left[R_i - MEAN(R)\right]^2}{n}},$$

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[29] REQUIRED for periods ending on or after 1 January 2011.

[A] Because total fund returns are required to be calculated monthly, the provision in the 2020 edition of the GIPS standards needs to be edited to remove the underlined words:

For TOTAL FUNDS or COMPOSITES for which monthly <u>TOTAL FUND OR</u> COMPOSITE returns are available, the three-year annualized ex post standard deviation (using monthly returns) of the TOTAL FUND or COMPOSITE and the BENCHMARK as of each annual period end.

where R_i is the return of the *i*th monthly total fund, composite or benchmark return, n is the number of monthly returns used for the external standard deviation calculation (the use of n is best practice and preferable, but either n or $n - 1$ in the denominator of the standard deviation calculation is acceptable), and $MEAN(R)$ is the mean monthly return of the total fund, composite, or benchmark over the period for which standard deviation is being calculated, where

$$MEAN(R) = \frac{R_1 + R_2 + \ldots + R_i}{n},$$

where R_1 is the time-weighted return for the first monthly total fund, composite, or benchmark return, R_i is the *i*th monthly total fund, composite, or benchmark return, and n is the number of returns used in the calculation (required to be 36 monthly returns to satisfy this requirement).

Asset owners are required to select a methodology (i.e., the use of n or n—1) on a total fund-specific or composite-specific basis, document it in their policies and procedures, and consistently apply that methodology.

To annualize the three-year ex post standard deviation calculated using monthly returns, the result of the foregoing standard deviation formula must be multiplied by the square root of 12.

The asset owner should use gross-of-fees returns to calculate the ex post standard deviation. (See Provision 22.B.7.) The asset owner must disclose which returns (gross-of-fees, net-of-external-costs-only, or net-of-fees) were used to calculate and present the ex post standard deviation. (See Provision 24.C.35.)

Provision 24.A.2

The ASSET OWNER MUST present the percentage of the total FAIR VALUE of TOTAL FUND assets or COMPOSITE assets that were valued using subjective unobservable inputs (as described in Provision 22.B.6) as of the most recent annual period end, if such investments represent a material amount of TOTAL FUND assets or COMPOSITE assets.

Discussion

Markets are not always liquid, and investment prices are not always objective and/or observable. As the last level of the recommended valuation hierarchy indicates (see Provision 22.B.6), it may be necessary for an asset owner to use subjective unobservable inputs to value an investment for which markets are not active at the measurement date. Examples of subjective unobservable inputs include an assumed discount rate, an assumed occupancy rate for a commercial building, and the default rate used for the valuation of a security in default. Examples related to insurance-linked securities include assumptions regarding hurricane damage and mortality rates. Unobservable inputs should be used to measure fair value only when observable inputs and prices are not available or appropriate. Unobservable inputs reflect the asset owner's own assumptions about the assumptions that market participants would use in pricing the investment and should be developed based on the best information available under the circumstances.

Asset owners must present the percentage of the total fair value of total fund assets or composite assets that were valued using subjective unobservable inputs as of the most recent annual period end, if such investments represent a material amount of total fund assets or composite assets. The amount of total fund assets or composite assets valued using subjective unobservable inputs would be considered material if it would likely influence a reader's judgment regarding the reliability of the valuation. The asset owner must decide on the criteria it will use to determine when subjective unobservable inputs represent a material amount of total fund assets or composite assets, include these criteria in its policy and procedures, and apply these criteria consistently.

Sample Disclosure:

"As of 31 December 2020, 29% of total fund assets were valued using subjective, unobservable inputs. These inputs are not supported by market activity and instead are based on internal proprietary pricing models."

Provision 24.A.3

The ASSET OWNER MUST clearly label or identify:

a. The periods that are presented.

b. If returns presented are GROSS-OF-FEES, NET-OF-EXTERNAL-COSTS-ONLY, or NET-OF-FEES.

Discussion

All periods presented in a GIPS Asset Owner Report must be clearly labeled or identified. This includes annual periods, partial-year periods, and any additional periods presented.

For total funds and total fund composites, asset owners must present net-of-fees returns in a GIPS Asset Owner Report and may also choose to present gross-of-fees and/or net-of-external-costs-only returns in addition to net-of-fees returns. For additional composites, asset owners may present either gross-of-fees returns, net-of-external-costs-only returns, or net-of-fees returns in a GIPS Asset Owner Report and may also choose to present more than one type of return. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.) For the oversight body to understand the nature of the returns being presented, all returns presented must be clearly labeled or identified as gross-of-fees, net-of-external costs-only, or net-of-fees.

Provision 24.A.4

If the ASSET OWNER presents FULL GROSS-OF-FEES RETURNS, the ASSET OWNER MUST identify them as SUPPLEMENTAL INFORMATION.

Discussion

A full gross-of-fees return is the return on investments that reflects the deduction of only transaction costs. It does not reflect the deduction of investment management fees paid for any externally managed segregated accounts or the fees and expenses for any externally managed pooled funds. Because it would not be possible to invest in these externally managed assets without paying these fees and costs, full gross-of-fees returns must be identified as supplemental information if they are included in a GIPS Asset Owner Report.

Supplemental information is any performance-related information included as part of a GIPS Asset Owner Report that supplements or enhances the requirements and/or recommendations of the GIPS standards. Supplemental information must relate directly to the total fund or composite presented in the GIPS Asset Owner Report. See Provision 24.A.8 for additional guidance on supplemental information.

Provision 24.A.5

If the ASSET OWNER includes more than one BENCHMARK in the GIPS ASSET OWNER REPORT, the ASSET OWNER MUST present and disclose all REQUIRED information for all BENCHMARKS presented.

Discussion

It is permissible to include more than one benchmark in a GIPS Asset Owner Report. All benchmarks included in a GIPS Asset Owner Report must adhere to the requirements of the GIPS standards that are applicable to benchmarks. Asset owners may label benchmarks as primary and secondary benchmarks, but the same requirements and recommendations apply to all benchmarks included in a GIPS Asset Owner Report. For example, a GIPS Asset Owner Report must include:

- a description for all benchmarks,
- a disclosure of changes to (or deletion of) any benchmark, and
- the three-year annualized ex post standard deviation of all benchmarks.

If the asset owner designates benchmarks as primary and secondary benchmarks, it must disclose when these designations change (e.g., if a primary benchmark becomes a secondary benchmark), because such a change in designation is considered a benchmark change. In all instances, if multiple benchmarks are presented in a GIPS Asset Owner Report and one or more of the benchmarks is removed from the GIPS Asset Owner Report, the asset owner must disclose this fact. (See Provision 24.C.26.)

An appropriate benchmark for a total fund or composite reflects the investment mandate, objective, or strategy of the total fund or composite. Additional benchmarks beyond appropriate benchmarks may be presented in a GIPS Asset Owner Report as supplemental information. There must be sufficient disclosure so that the oversight body understands the nature of the benchmark and why it is being presented. Disclosure, however, does not necessarily prevent information from being false or misleading. An additional benchmark must never be presented for the sole purpose of providing a favorable comparison with the performance of the total fund or composite. To do so would be misleading, regardless of the disclosures accompanying the benchmark.

Provision 24.A.6

If the COMPOSITE loses all of its member PORTFOLIOS, the COMPOSITE track record MUST end. If PORTFOLIOS are later added to the COMPOSITE, the COMPOSITE track record MUST restart. The periods both before and after the break in track record MUST be presented, with the break in performance clearly shown. The ASSET OWNER MUST NOT LINK performance prior to the break in track record to the performance after the break in track record.

Discussion

If all of the portfolios in a composite are either terminated or removed from the composite for some other reason, the composite's performance record would come to an end. After a period of time, portfolios may be added to the composite, and the composite's performance record would begin again. In such a case, there will be a break in the composite's performance record. The composite's prior performance history must not be linked to the ongoing composite performance results. An asset owner must not use the performance of a benchmark to link the performance track record from before and after the break in the composite's track record. Any performance table in a GIPS Asset Owner Report must clearly indicate the break.

For asset owners that claim compliance for a period longer than 10 years, if the break in performance occurred more than 10 years ago, the performance prior to the break does not need to be presented. In all other cases, the asset owner must present the performance both prior to and after the performance break.

Consider the following example for an asset owner that calculates performance on a monthly basis:

The asset owner has a composite that temporarily lost all of its portfolio members, resulting in a break in performance. The inception date for the composite is 1 January 2014, and there were four portfolios in the composite on 31 July 2015. During August 2015, two portfolios were liquidated and two portfolios were transferred out of the composite because of a change in their investment strategy, leaving the composite with no portfolios. During April 2016, two new portfolios managed according to the composite's investment strategy were funded and were added to the composite as of 1 May 2016, effectively reinstating the composite's performance. During 2017, three new portfolios were added to the composite.

Because all of the portfolios in the composite were either terminated or removed from the composite because of a change in their investment strategy, the performance record of the composite comes to an end as of 31 July 2015. The performance record begins again on 1 May 2016, when two new portfolios managed according to the composite's investment strategy were added to the composite. When presenting the performance of this composite, the prior performance history of the composite through 31 July 2015 must be shown but must not be linked to the ongoing composite performance results beginning 1 May 2016.

For the purpose of performance presentation, as of 31 December 2017, the composite had an uninterrupted performance track record from 1 January 2014 to 31 July 2015, a performance break from 1 August 2015 to 30 April 2016, and an uninterrupted performance track record from 1 May 2016 to 31 December 2017.

Under the principles of fair representation and full disclosure, the GIPS standards require asset owners to handle such cases with the highest transparency. In this instance, the asset owner must present both periods of performance. The periods before and after the break must be presented separately. The GIPS Asset Owner Report could present the information in this scenario as follows:

	Period Returns (%)			Assets as of Period End (USD millions)	
Period	Composite (gross of fees)	Benchmark	Number of Portfolios as of Period End	Composite	Total Asset Owner
1 Jan–31 Dec 2017	X%	X%	5	X	X
1 May–31 Dec 2016*	X%	X%	2	X	X
1 Jan–31 Jul 2015*	X%	X%	—	—	—
1 Jan–31 Dec 2014	X%	X%	4	X	X

*There were no portfolios in the composite from 1 August 2015 through 30 April 2016.

It is important that the composite data is presented in a way that makes it clear that there were no portfolios in the composite from 1 August 2015 through 30 April 2016 and that the performance presented in the GIPS Asset Owner Report is not linked across the break. The periods presented must be clearly labeled.

Although the asset owner may present a cumulative return for the period from 1 January 2014 through 31 July 2015, it must not link periods across performance breaks and present a cumulative and/or annualized return over such periods (e.g., from 1 January 2014 to 31 December 2017). The same approach would apply to the presentation of any required or recommended risk measures based on cumulative periods (e.g., three-year annualized ex post standard deviation).

The asset owner may not choose to omit performance for the incomplete years (e.g., for 2015 and 2016 in the previous example) because they are not annual returns. Such an interpretation would not meet the goals of fair representation and full disclosure.

Provision 24.A.7

All REQUIRED and RECOMMENDED information in the GIPS ASSET OWNER REPORT MUST be presented in the same currency.

Discussion

Asset owners must present all required and recommended information in a GIPS Asset Owner Report in the same currency (e.g., total fund or composite and benchmark returns, total fund or composite assets, and risk measures). Supplemental information should also be presented in the same currency. If it is not, that fact must be disclosed. Not disclosing this fact could be misleading.

If an asset owner chooses to present a total fund or composite in a different currency, the asset owner must convert all of the required information into the new currency. If the asset owner chooses to present performance in multiple currencies in the same GIPS Asset Owner Report, the asset owner must convert all of the required information into each of the currencies and ensure it is clear in which currencies performance is reported. The asset owner must also convert any recommended information it chooses to present in the GIPS Asset Owner Report containing the converted information.

In cases where a total fund or composite contains portfolios with different currencies, the asset owner must convert the individual portfolio returns to a single currency in order to calculate a total fund or composite return. It is not permissible to do so by applying the exchange rate as of the current period end to historical data.

The GIPS standards do not require or recommend a particular method for converting portfolio performance from one currency to another. Two possible options for converting returns into a different currency are as follows:

- When using the aggregate method, convert the underlying data (values and external cash flows) into the selected currency using the exchange rate on the date of each cash flow and valuation and then calculate the total fund or composite returns based on the converted values; or

- When using the weighted average method, first calculate the individual portfolio or total fund returns, then convert the portfolio or total fund returns into the selected currency, and calculate the weighted average composite return using the converted returns.

An asset owner may instead convert total fund or composite returns. Starting with total fund or composite returns calculated in its base currency, a total fund or composite return is converted using the movement in the exchange rate between the base currency and the reporting currency over the period of the return. The following example illustrates this method:

Suppose that the return of a total fund or composite in euros for the year 2018 is +5.00%. The exchange rate for 1 euro per US dollar at the start of the year was 1.2008, and at the end of the year it was 1.14315. First calculate the movement in the exchange rate over the year:

$$FX\ return = \frac{FX_{end}}{FX_{start}} - 1$$

$$FX\ return = \frac{1.14315}{1.2008} - 1 = -0.0480 \quad or \quad -4.80\%$$

The exchange rate movement and the euro total fund or composite return are then multiplied to determine the USD total fund or composite return:

$$\begin{aligned} USD\ Total\ Fund\ or\ Composite\ Return &= (1+0.05)\times(1-0.0480)-1 = (1.05\times 0.952)-1 \\ &= -0.00041, \quad \text{or} \quad -0.041\% \end{aligned}$$

It is not acceptable to convert returns by applying the exchange rate as of the current period end to the historical data, including cash flows and valuations, used to calculate returns.

It is up to the asset owner to determine the total fund–specific or composite-specific conversion method. Policies and procedures for converting returns must be established, documented, and applied consistently.

Provision 24.A.8

Any SUPPLEMENTAL INFORMATION included in the GIPS ASSET OWNER REPORT:

a. MUST relate directly to the TOTAL FUND OR COMPOSITE.

b. MUST NOT contradict or conflict with the REQUIRED OR RECOMMENDED information in the GIPS ASSET OWNER REPORT.

c. MUST be clearly labeled as SUPPLEMENTAL INFORMATION.

Discussion

Supplemental information is any performance-related information included as part of a GIPS Asset Owner Report that supplements or enhances the requirements and/or recommendations of the GIPS standards. Performance-related information includes:

- information expressed in terms of investment return and risk, and
- other information and input data that directly relate to the calculation of investment return and risk (e.g., portfolio holdings), as well as information derived from investment return and risk input data (e.g., performance contribution or attribution).

Supplemental information should provide users of the GIPS Asset Owner Report with the proper context in which to understand the performance results. Common examples of supplemental information include the following:

- segment returns (e.g., country or sector),
- full gross-of-fees returns, and
- a price-only benchmark presented in addition to a total return benchmark.

Supplemental information must relate directly to the total fund or composite and must not contradict or conflict with the required or recommended information in the GIPS Asset Owner Report. Examples of information that relates directly to the total fund or composite and would be considered supplemental information include segment returns (e.g., country or sector), performance attribution, and composite or portfolio-level holdings. An example of information that would conflict with the GIPS standards is a price-only benchmark presented as supplemental information in the absence of a total return benchmark.

The following is a more complete list of the principles that apply when supplemental information is presented. Supplemental information must:

- satisfy the spirit and principles of the GIPS standards—fair representation and full disclosure,
- comply with all applicable laws and regulations regarding the calculation and presentation of performance,
- not include performance or performance-related information that is false or misleading,
- relate directly to the total fund or composite and supplement or enhance the required or recommended information included in the total fund's or composite's GIPS Asset Owner Report,
- not contradict or conflict with the required or recommended information in the GIPS Asset Owner Report,
- be clearly labeled as supplemental information, and
- not be shown with greater prominence than the required total fund or composite information.

24.B. Presentation and Reporting—Recommendations

Provision 24.B.1

The ASSET OWNER SHOULD present GROSS-OF-FEES and NET-OF-EXTERNAL-COSTS-ONLY TOTAL FUND returns.

Discussion

For total funds and total fund composites, an asset owner must present net-of-fees returns in a GIPS Asset Owner Report. In addition to the required net-of-fees returns, the asset owner may choose to present gross-of-fees and/or net-of-external-costs-only returns in a GIPS Asset Owner Report. Each type of return provides important information to the oversight body.

A net-of-fees return is the return that reflects the deduction of transaction costs, all fees and expenses for externally managed pooled funds, investment management fees for externally managed segregated accounts, and investment management costs. Net-of-fees returns therefore provide the best indication to the oversight body of the returns received over time, after taking into account the effect of internal and external investment management fees and costs.

A gross-of-fees return is the return on investments reduced by transaction costs and all fees and expenses for externally managed pooled funds. This return gives the clearest indication of the "investment return" for the assets included in the total fund.

A net-of-external-costs-only return is the gross-of-fees return reduced by investment management fees for externally managed segregated accounts. It therefore is the best indication of the returns received over time, after taking into account the effect of external management fees. Please see the discussion of the calculation of net-of-fees, net-of-external-costs-only, and gross-of-fees returns in Provision 22.A.24.

Because net-of-fees, net-of-external-costs-only, and gross-of-fees returns all provide important information to the oversight body, it is recommended that asset owners present all three types of returns in a GIPS Asset Owner Report. Presenting more than one type of return in a GIPS Asset Owner Report can provide the oversight body with insight on the relative sizes of the fees and costs associated with externally managed pooled funds and segregated accounts, as well as internally managed assets.

Provision 24.B.2

The ASSET OWNER SHOULD present GROSS-OF-FEES, NET-OF-EXTERNAL-COSTS-ONLY, and NET-OF-FEES COMPOSITE returns.

Discussion

Asset owners are required to present net-of-fees returns in GIPS Asset Owner Reports for total funds and composites of total funds. For additional composites, an asset owner may choose to present either gross-of-fees, net-of-external-costs-only, or net-of-fees composite returns in a GIPS Asset Owner Report. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.) In all GIPS Asset Owner Reports, the asset owner may also choose to present more than one type of return. Each type of return provides important information to the oversight body.

A composite gross-of-fees return is the return on investments reduced by transaction costs and all fees and expenses for externally managed pooled funds. This return gives the clearest indication of the "investment return" for the assets included in the composite.

A composite net-of-external-costs-only return is the gross-of-fees return reduced by investment management fees for externally managed segregated accounts. It therefore is the best indication of the returns received over time, after taking into account the effect of external investment management fees and expenses.

A composite net-of-fees return is the return that reflects the deduction of transaction costs, all fees and expenses for externally managed pooled funds, investment management fees for externally managed segregated accounts, and investment management costs. Net-of-fees returns therefore provide the best indication to the oversight body of the returns received over time, after taking into account the effect of internal and external investment management fees and costs. Please see the discussion of the calculation of net-of-fees, net-of-external-costs-only, and gross-of-fees returns in Provision 22.A.24.

Because gross-of-fees, net-of-external-costs-only, and net-of-fees composite returns all provide important information to the oversight body, it is recommended that asset owners present all three types of returns in a GIPS Asset Owner Report. Presenting more than one type of return in a GIPS Asset Owner Report can provide the oversight body with insight on the relative sizes of the fees and costs associated with externally managed pooled funds and segregated accounts, as well as internally managed assets.

Provision 24.B.3

The ASSET OWNER SHOULD present the following items:

a. Cumulative returns of the TOTAL FUND or COMPOSITE and the BENCHMARK for all periods.

Discussion

Cumulative returns of the total fund or composite and the benchmark provide additional useful information to the oversight body by indicating the total rate of return for a defined period of performance. It is therefore recommended that cumulative returns for all periods presented in the GIPS Asset Owner Report be provided in addition to the required annual returns.

To calculate cumulative returns of a total fund or composite for any period, the historical daily, monthly, quarterly, or annual sub-period returns are geometrically linked according to the following formula:

$$R_{CUM} = \left[(1+R_1)\times(1+R_2)\times\ldots\times(1+R_n)\right]-1,$$

where R_1 is the total fund or composite return for Period 1 and R_n is the total fund or composite return for the most recent period.

Example for a Composite:

Asset Owner ABC has the following annual returns that were calculated from monthly composite returns and are presented in the GIPS Asset Owner Report:

	Composite	$1 + R_n$
2015	2.3%	1.023
2016	−4.7%	0.953
2017	6.9%	1.069
2018	3.2%	1.032
2019	0.9%	1.009
Jan 2020–Jun 2020	−3.1%	0.969

To calculate the composite cumulative return for the period from January 2015 through June 2020, the returns are linked:

$$\begin{aligned}\text{Composite cumulative return} &= \left[(1.023)\times(0.953)\times(1.069)\times(1.032)\times(1.009)\times(0.969)\right]-1\\ &= 0.052, \quad \text{or} \quad 5.2\%.\end{aligned}$$

If the composite experiences a break in the track record, the periods before and after the break must not be linked. Therefore, in such a case, a cumulative return may be calculated up to the break and a separate cumulative return may be calculated for the performance period that begins after the break. However, the asset owner must not calculate a cumulative return across the periods that include the break. Additional guidance on how to calculate and present performance if there is a break in the track record is included in the discussion of Provision 24.A.6.

Provision 24.B.3

The ASSET OWNER SHOULD present the following items:

b. Equal-weighted COMPOSITE returns.

Discussion

The GIPS standards require that composite time-weighted returns be calculated by asset-weighting the individual total fund or portfolio returns or by using the aggregate method. (See Provision 22.A.28.) This approach allows for a larger total fund or portfolio to have more weight on a composite's return than a smaller total fund or portfolio. Equal-weighted composite returns, however, provide another useful perspective on composite performance. The simple average provides a measure of the asset owner's ability to obtain consistent returns for all total funds or portfolios regardless of size. It is therefore recommended that asset owners also include equal-weighted composite returns in a GIPS Asset Owner Report.

The formula for the equal-weighted composite return, R_{EQUAL}, is

$$R_{EQUAL} = \frac{R_{PORT\,1} + R_{PORT\,2} + \ldots + R_{PORTi}}{n},$$

where R_{PORT1} is the time-weighted return for the first total fund or portfolio in the composite, R_{PORTi} is the ith total fund or portfolio return in the composite, and n is the number of total funds or portfolios in the composite.

Provision 24.B.3

The ASSET OWNER SHOULD present the following items:

c. Quarterly and/or monthly returns.

Discussion

Although the GIPS standards require the presentation of annual returns for the total fund or composite and the benchmark (Provisions 24.A.1.c and 24.A.1.f), it is recommended that asset owners present more-frequent returns, such as quarterly or monthly returns. More-frequent returns help the oversight body evaluate a total fund's or composite's track record. Asset owners must present benchmark returns for the same periods for which total fund or composite returns are presented. If the GIPS Asset Owner Report includes annual and quarterly total fund or composite returns, annual and quarterly benchmark returns must also be presented.

Provision 24.B.3

The ASSET OWNER SHOULD present the following items:

d. Annualized TOTAL FUND or COMPOSITE and BENCHMARK returns for periods longer than 12 months.

Discussion

It is recommended that asset owners show the results of both the total fund or composite and the benchmark for periods longer than 12 months in annualized terms to help the oversight body in the evaluation of the total fund's or composite's track record. Annualized returns are created by calculating the geometric mean, not the arithmetic mean, and represent the geometric average annual compound return achieved over the defined period of more than one year. Sub-period returns during the investment period are geometrically linked to calculate the cumulative return. Then the *n*th root of the cumulative return is calculated, where *n* is the number of years in the period. Annualized performance is permitted only for periods of one year or more.

The formula for calculating annualized performance is as follows:

$$\text{Annualized return (\%)} = [(1 + R)^{1/n}] - 1,$$

where R is the cumulative return for the period and n is the number of years in the period.

For example, assume a total fund's or composite's cumulative return for a five-year period is 150.0%. It has a five-year average annual compound return, or annualized return, of 20.11%, which is calculated as:

$$\left[(1+1.5)^{\frac{1}{5}}\right]-1=0.2011=20.11\%.$$

If instead the 150% is achieved over 12.5 years, the 12.5-year average annual compound return, or annualized return, is 7.61%, which is calculated as:

$$\left[(1+1.5)^{\frac{1}{5}}\right]-1=0.0761=7.61\%.$$

If a composite experiences a break in the track record, the periods before and after the break must not be linked, and annualized returns must not be calculated across the break in performance.

Provision 24.B.4

The ASSET OWNER SHOULD present MONEY-WEIGHTED RETURNS for TOTAL FUNDS when the ASSET OWNER believes MONEY-WEIGHTED RETURNS are helpful and important in understanding the performance of the TOTAL FUND.

Discussion

While asset owners must present time-weighted returns (TWRs) for total funds and composites of total funds, it is recommended that money-weighted returns (MWRs) be presented as well if the asset owner believes that MWRs are helpful and important in understanding the performance of the total fund or a composite of total funds. In addition, local regulations may require some asset owners to report MWRs in financial statements. Because asset owners are required to present net-of-fees returns for total funds or composites of total funds, it is recommended that any MWRs included in a GIPS Asset Owner Report should be net-of-fees.

While the required TWRs represent the performance of the asset owner, MWRs represent the combination of the asset owner's performance and the effect of cash flows. In the case of a pension plan, although neither the pension plan sponsor nor the pension fund participants typically control the timing of the cash flows into or out of the total fund, MWRs may be informative in determining how the timing of plan contributions and withdrawals has affected the total fund's performance. MWRs may also be a better indicator of the total fund's profitability.

Provision 24.B.5

For all periods for which an annualized EX POST STANDARD DEVIATION of the TOTAL FUND or COMPOSITE and the BENCHMARK are presented, the ASSET OWNER SHOULD present the corresponding annualized return of the TOTAL FUND or COMPOSITE and the BENCHMARK.

Discussion

To provide context so that the oversight body can better understand the ex post standard deviation, it is recommended that asset owners present annualized returns for the total fund or composite and the benchmark for the same periods for which an annualized standard deviation is presented. For example, if an asset owner chooses to present 5-year, 7-year, and 10-year annualized standard deviations in addition to the required 3-year annualized standard deviation, asset owners are encouraged to also present the corresponding 3-year, 5-year, 7-year, and 10-year annualized returns for the total fund or composite and the benchmark. This information will help the oversight body to better interpret risk and return in the context of the return distribution for all periods for which an annualized standard deviation is presented.

Provision 24.B.6

For all periods greater than three years for which an annualized return of the TOTAL FUND or COMPOSITE and the BENCHMARK are presented, the ASSET OWNER SHOULD present the corresponding annualized EX POST STANDARD DEVIATION (using monthly returns) of the TOTAL FUND or COMPOSITE and the BENCHMARK.

Discussion

To provide context so that the oversight body can interpret the annualized total fund or composite and benchmark returns, it is recommended that asset owners present the annualized ex post standard deviation (using monthly returns) for both the total fund or composite and the benchmark for the same periods that annualized total fund or composite and benchmark returns are presented. For example, if an asset owner chooses to present the 5-year, 7-year, and 10-year annualized total fund or composite and benchmark returns, asset owners are encouraged to also present the corresponding 5-year, 7-year, and 10-year annualized ex post standard deviation of the total fund or composite and benchmark. This information will help the oversight body to assess and compare risk and return for all periods for which annualized returns are presented.

Provision 24.B.7

The ASSET OWNER SHOULD present relevant EX POST ADDITIONAL RISK MEASURES for the TOTAL FUND or COMPOSITE and the BENCHMARK.

Discussion

For total funds, and for composites for which monthly composite returns are available, asset owners must present the three-year annualized ex post standard deviation (using monthly returns) of the total fund or composite and the benchmark as of each annual period end. This information is required for periods ending on or after 1 January 2011. (See Provision 24.A.1.j.) Additional risk measures are any risk measures included in a GIPS Asset Owner Report beyond those required to be presented. It is recommended that asset owners present relevant ex post additional risk measures for the total fund or composite and the benchmark in a GIPS Asset Owner Report. There may be additional risk measures that would be especially helpful to the oversight body when interpreting a total fund's or composite's returns. There are many risk and quantitative measures that are routinely calculated to help a reader evaluate and understand the return and risk characteristics of a particular investment strategy. Determining which risk measures are relevant to a strategy requires an understanding of the characteristics and limitations of each measure and insight into both the portfolio construction process and investment strategy. Several risk measures are commonly used, but there is no clear consensus on what constitutes relevant risk measures for evaluating portfolios that contain derivatives, alternatives, and/or illiquid assets.

A number of factors should be considered when selecting relevant risk measures, including the following:

- Comparability: The risk measure selected should allow objective comparisons across similar strategies to be made.
- Computational transparency: All inputs to the calculation should be readily available and understood.
- Interpretational transparency: In isolation as a single figure or presented as a time series, the risk measure should aid interpretation and provide context to the performance figures presented.
- Investment process or strategy consistency: The risk measure should provide insight into the underlying investment process.
- Risk measure stability: The selected risk measure should be sensitive to market and portfolio movements but should not exhibit excessive range swings such that interpretation of the absolute and relative values is compromised.

Provision 24.B.8

The ASSET OWNER SHOULD present more than 10 years of annual performance in the GIPS ASSET OWNER REPORT.

Discussion

Once the total fund or composite has its initial minimum 1-year (or since-inception) compliant history, the asset owner must continue to add annual returns to each GIPS Asset Owner Report for the next 9 years, at a minimum, so that the asset owner will build up to a 10-year compliant performance record for its total funds and composites.

At some point, an asset owner will have a minimum 10-year compliant track record for a specific total fund or composite. When the asset owner eventually adds an additional annual return to a 10-year track record in a GIPS Asset Owner Report, the asset owner may delete the information for the oldest year included or may instead present a longer track record. It is recommended that asset owners include more than the minimum 10 years of annual performance in a GIPS Asset Owner Report to provide more information to its oversight body.

Provision 24.B.9

If the ASSET OWNER uses preliminary, estimated values as FAIR VALUE, the ASSET OWNER SHOULD present the percentage of assets in the TOTAL FUND or COMPOSITE that were valued using preliminary, estimated values as of each annual period end.

Discussion

The use of preliminary, estimated values as fair value is common for some alternative strategies, including those that invest in externally managed pooled funds for which the asset owner relies on valuations provided by the fund external managers. When using preliminary, estimated values as fair value, it is important to remember the underlying principles of the GIPS standards: fair representation and full disclosure. If using preliminary, estimated values, asset owners must disclose this fact in the relevant GIPS Asset Owner Report (Provision 24.C.32). It is recommended that the asset owner also present the percentage of assets in the total fund or composite that were valued using preliminary, estimated values as of each annual period end. Doing so provides important information that allows the oversight body to better assess the valuations and performance record presented.

Provision 24.B.10

For REAL ESTATE COMPOSITES, the ASSET OWNER SHOULD present COMPOSITE and BENCHMARK COMPONENT RETURNS for all periods presented.

Discussion

For real estate composites, it is recommended that asset owners also present composite and benchmark component returns in addition to total returns. Component returns separate the total return into a capital return and an income return. Component returns provide additional information to the oversight body regarding the sources of the total return and the nature of the investment strategy. The income return is generally viewed as more stable than the capital return. When evaluating real estate investments, it is helpful for the oversight body to know the contribution from the income and capital returns.

Given the unique nature of internal investment management costs, which typically do not flow through the portfolios and are not reflected in net investment income, the net-of-fees capital return formula assumes that these costs need to be reflected as a separate item that must be deducted in order to calculate the net-of-fees capital return. It is also assumed that all investment management costs are allocated to the capital component. Given these assumptions, internal investment management costs are not reflected in the numerator of the gross-of-fees or net-of-external-costs-only component returns. Internal investment management costs must be subtracted in the numerator of the net-of-fees total return.

The following are examples of formulas that may be used to calculate the income returns and capital returns for a real estate investment. The formulas presented use the following terms:

r_t^{GFI} = gross-of-fees income return for period t

r_t^{NECI} = net-of-external-costs-only income return for period t

r_t^{NFI} = net-of-fees income return for period t

r_t^{GFC} = gross-of-fees capital return for period t

r_t^{NECC} = net-of-external-costs-only capital return for period t

r_t^{NFC} = net-of-fees capital return for period t

r_t^{GFT} = gross-of-fees total return for period t

r_t^{NECT} = net-of-external-costs-only total return for period t

r_t^{NFT} = net-of-fees total return for period t

NII_t = net investment income (after interest expense, advisory fees, and any performance-based fees allocated to the income component for performance calculation purposes) for period t

IMC_t^C = investment management costs allocated to the capital component (for performance calculation purposes) for period t

AF_t = advisory fee (asset-based portion of investment management fee expensed, excluding any performance-based fees) for externally managed segregated accounts for period t. *AF_t does not include investment management fees for externally managed pooled funds.*

PF_t^C = performance-based fees allocated to the capital component (for performance calculation purposes) for externally managed segregated accounts for period t. *PF_t^C does not include performance-based fees for externally managed pooled funds.*

PF_t^I = performance-based fees allocated to the income component (for performance calculation purposes) for externally managed segregated accounts for period t. *PF_t^I does not include performance-based fees for externally managed pooled funds.*

V_t^B = the beginning value of the portfolio for period t

V_t^E = the ending value of the portfolio for period t

j = the number of external cash flows (1, 2, 3, . . . , J) in period t

$CF_{j,t}$ = the value of cash flow j in period t

$W_{j,t}$ = the weight of cash flow j in period t (assuming the cash flow occurred at the end of the day) as calculated according to the following formula:

$$w_{j,t} = \frac{D_t - D_{j,t}}{D_t},$$

where

$w_{j,t}$ = the weight of cash flow j in period t, assuming the cash flow occurred at the end of the day

D_t = the total number of calendar days in period t

$D_{j,t}$ = the number of calendar days from the beginning of period t to cash flow j

For directly owned real estate investments, the acquisition, disposition, and financing services performed by the asset owner or a third party on a particular transaction are considered transaction costs and must be deducted from gross-of-fees, net-of-external-costs-only, and net-of-fees returns. These items (also referred to as "brokerage expenses") are direct costs incurred upon implementation of a particular investment transaction. It is recommended that these transaction costs be reflected in the capital returns.

The term "net investment income" is intended to reflect the effect of ownership and financing structures and includes all underlying property-level activity. Investment-level returns are distinct from property-level returns. Investment-level returns reflect the effect of ownership and financing structures and include all underlying property-level activity. Property-level returns exclude all of the non-property (investment-level) balance sheet items, as well as income and expenses, and include only the income and expenses that directly relate to operation of the property. Property-level returns are not used for reporting performance in compliance with the GIPS standards, although they may be shown as supplemental information.

Income Return

The income return measures the investment income earned on all investments (including cash and cash equivalents) during the measurement period, net of all non-recoverable expenditures, interest expense on debt, and property taxes. The income return is computed as a percentage of the capital employed. Capital employed is defined as the "weighted average equity" (weighted average capital) during the measurement period. Capital employed does not include any income return or capital return earned during the measurement period. Beginning capital is adjusted by weighting the external cash flows that occurred during the period.

The numerator in the gross-of-fees income return represents the investment income for the portfolio during the period, including any income earned during the period at the investment level, and also reflects all income, fees, and expenses at the property level.

The formula for gross-of-fees income return is as follows:

$$r_t^{GFI} = \frac{NII_t + AF_t + PF_t^I}{V_t^B + \sum_{j=1}^{J}(CF_{j,t} \times W_{j,t})}.$$

The numerator in the net-of-external-costs-only income return and net-of-fees income return represents the net investment income for the portfolio during the period. This figure includes any income earned as well as expenses and fees deducted at the investment level and all income, fees, and expenses at the property level.

The formulas for net-of-external-costs-only income return and net-of-fees income return are the same and are stated as follows:

$$r_t^{NECI} \quad \text{or} \quad r_t^{NFI} = \frac{NII_t}{V_t^B + \sum_{j=1}^{J}(CF_{j,t} \times W_{j,t})}.$$

Capital Return

Capital return is the change in value of the real estate investments and cash and/or cash equivalent assets held throughout the measurement period, adjusted for all capital expenditures (subtracted) and net proceeds from sales (added). The capital return is computed as a percentage of the capital employed. Capital return is also known as "capital appreciation return" or "appreciation return."

The capital return numerator reflects the change (increase or decrease) in investment value adjusted for capital improvements, sales, refinancing, and net investment income activity. The numerator includes both realized gains/losses and the change in unrealized gains/losses from the prior period.

The net-of-fees capital return reflects the deduction of any performance-based (incentive) fees attributable to the capital component for performance calculation purposes. This figure excludes any performance-based fees attributable to the income component for performance calculation purposes. It also reflects the deduction of internal investment management costs.

The formula for gross-of-fees capital return is as follows:

$$r_t^{GFC} = \frac{V_t^E - V_t^B - \sum_{j=1}^{J} CF_{j,t} - NII_t + PF_t^C}{V_t^B + \sum_{j=1}^{J}(CF_{j,t} \times W_{j,t})}.$$

The formula for net-of-external-costs-only capital return is as follows:

$$r_t^{NECC} = \frac{V_t^E - V_t^B - \sum_{j=1}^{J} CF_{j,t} - NII_t}{V_t^B + \sum_{j=1}^{J}(CF_{j,t} \times W_{j,t})}.$$

The formula for net-of-fees capital return is as follows:

$$r_t^{NFC} = \frac{V_t^E - V_t^B - \sum_{j=1}^{J} CF_{j,t} - NII_t - IMC_t^C}{V_t^B + \sum_{j=1}^{J} (CF_{j,t} \times W_{j,t})}.$$

Total Return

The total return is the percentage change in value of real estate investments, including all capital return and income return components, expressed as a percentage of the capital employed over the measurement period. The numerator of the total return calculation measures the change (increase or decrease) in investment value from both income (loss) and realized and unrealized gains and losses. The net-of-fees total return also reflects the deduction of internal investment management costs.

The formula for gross-of-fees total return is as follows:

$$r_t^{GFT} = \frac{V_t^E - V_t^B - \sum_{j=1}^{J} CF_{j,t} + AF_t + PF_t^I + PF_t^C}{V_t^B + \sum_{j=1}^{J} (CF_{j,t} \times W_{j,t})}.$$

The formula for net-of-external-costs-only total return is as follows:

$$r_t^{NECT} = \frac{V_t^E - V_t^B - \sum_{j=1}^{J} CF_{j,t}}{V_t^B + \sum_{j=1}^{J} (CF_{j,t} \times W_{j,t})}.$$

The formula for net-of-fees total return is as follows:

$$r_t^{NFT} = \frac{V_t^E - V_t^B - \sum_{j=1}^{J} CF_{j,t} - IMC_t^C}{V_t^B + \sum_{j=1}^{J} (CF_{j,t} \times W_{j,t})}.$$

All performance results, both total returns and component returns, must be clearly identified so that the oversight body can properly interpret and compare performance. To interpret performance data, the oversight body needs to know what the performance results represent.

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24.C. Disclosure—Requirements

Provision 24.C.1

Once the ASSET OWNER has met all the applicable REQUIREMENTS of the GIPS standards, the ASSET OWNER MUST disclose its compliance with the GIPS standards using one of the following compliance statements. The compliance statement MUST only be used in a GIPS ASSET OWNER REPORT.

a. For an ASSET OWNER that is verified:

"[Insert name of ASSET OWNER] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of ASSET OWNER] has been independently verified for the periods [insert dates]. The verification report(s) is/are available upon request.

"An asset owner that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the asset owner's policies and procedures related to total fund and composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on an asset owner–wide basis. Verification does not provide assurance on the accuracy of any specific performance report."

b. For TOTAL FUNDS or COMPOSITES of a verified ASSET OWNER that have also had a PERFORMANCE EXAMINATION:

"[Insert name of ASSET OWNER] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of ASSET OWNER] has been independently verified for the periods [insert dates].

"An asset owner that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the asset owner's policies and procedures related to total fund and composite maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on an asset owner–wide basis. The [insert name of TOTAL FUND OR COMPOSITE] has had a performance examination for the periods [insert dates]. The verification and performance examination reports are available upon request."

The compliance statement for an ASSET OWNER that is verified or for TOTAL FUNDS or COMPOSITES of a verified ASSET OWNER that have also had a PERFORMANCE EXAMINATION is complete only when both paragraphs are shown together, one after the other.

c. For an ASSET OWNER that has not been verified:

"[Insert name of ASSET OWNER] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of ASSET OWNER] has not been independently verified."

The ASSET OWNER MUST NOT exclude any portion of the respective compliance statement. Any modifications to the compliance statement MUST be additive.

Discussion

An asset owner meeting all the requirements of the GIPS standards must use one of the three compliance statements in each of its GIPS Asset Owner Reports. The English version of the compliance statements is the controlling version. If an asset owner chooses to translate the compliance statement into a language for which there is no official translation of the GIPS standards, the asset owner must take care to ensure that the translation used reflects the required wording of the compliance statement used in Provision 24.C.1.a, 24.C.1.b, or 24.C.1.c.

It is acceptable to combine both paragraphs of the compliance statement for a verified asset owner (Provision 24.C.1.a) into a single paragraph. If the paragraphs are not combined, the compliance statement for a verified asset owner is complete only when both paragraphs are shown together, one after the other. An asset owner may not separate the two required paragraphs from each other.

The same is true for the compliance statement for a total fund or composite that has also had a performance examination (Provision 24.C.1.b). Both paragraphs of the compliance statement may be combined into a single paragraph. If the paragraphs are not combined, the compliance statement is complete only when both paragraphs are shown together, one after the other. An asset owner may not separate the two required paragraphs from each other.

When preparing the GIPS Asset Owner Report for a total fund or composite that has had a performance examination, the asset owner may choose to use either the verification or performance examination compliance statement. For example, an asset owner might choose to use the verification compliance statement for all GIPS Asset Owner Reports, including GIPS Asset Owner Reports for total funds and composites that have had a performance examination, if it wishes to standardize the compliance statement for all GIPS Asset Owner Reports throughout the asset owner. In this situation, the asset owner may also disclose that a specific total fund or composite has had a performance examination.

The language in each compliance statement must not exclude any portion of the respective compliance statement, with one exception. In the second paragraph of both 24.C.1.a and 24.C.1.b, there is a reference to "total fund and composite maintenance." The asset owner may delete the words "and composite" if the asset owner reports all total funds separately and has not created any total fund composites or additional composites. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.)

There may also be instances where it may be appropriate for an asset owner to modify the language slightly. For example, an asset owner may modify the language to include the name of the asset owner's verifier, if the asset owner wishes to disclose this information. An asset owner may also need to modify the language to add more details about the name of the asset owner that has been verified or the dates of the verification if the verification period was not continuous. Any modifications must be additive and must not result in a compliance statement that is false or misleading.

Provision 24.C.2

The ASSET OWNER MUST disclose the following: "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."

Discussion

"GIPS®" is a registered trademark of CFA Institute, and asset owners are required to acknowledge this fact in all GIPS Asset Owner Reports. The required disclosure may appear in the body of the GIPS Asset Owner Report or in a footnote to the report. The term "this organization", which is included in the required disclosure, refers to any entity associated with the GIPS Asset Owner Report, either the asset owner or the verifier.

CFA Institute (owner of the GIPS® trademark) may take appropriate action against any asset owner that misuses the mark "GIPS®" or any compliance statement, including false claims of compliance with the GIPS standards. CFA Institute members, CFA Program charterholders, CFA candidates, CIPM Program certificants, and CIPM candidates who misuse the term "GIPS" or any compliance statement, misrepresent their performance history or the performance history of the asset owner, or falsely claim compliance with the GIPS standards are also subject to disciplinary sanctions under the CFA Institute Code of Ethics and Standards of Professional Conduct. Possible disciplinary sanctions include public censure, suspension of membership, and revocation of the CFA charter or CIPM certificate.

Regulators with jurisdiction over asset owners claiming compliance with the GIPS standards may also take enforcement actions against asset owners that falsely claim compliance with the GIPS standards.

Asset owners may also use the following language to replace the first sentence in this required disclosure: "GIPS® is a registered trademark owned by CFA Institute."

See the GIPS Standards Trademark Usage Guidelines on the CFA Institute website (www.cfainstitute.org) for additional guidance on the proper use of "GIPS".

Provision 24.C.3

The ASSET OWNER MUST disclose the definition of the ASSET OWNER used to determine TOTAL ASSET OWNER ASSETS and ASSET OWNER–wide compliance.

Discussion

To claim compliance with the GIPS standards, an asset owner must comply with all applicable requirements of the GIPS standards on an asset owner–wide basis. Accordingly, the asset owner must determine exactly how it will be defined for the purpose of compliance. The GIPS standards require that an asset owner be defined as the entity that manages investments, directly and/or through the use of external managers, on behalf of participants, beneficiaries, or the organization itself. These entities include, but are not limited to, public and private pension funds, endowments, foundations, family offices, provident funds, insurers and reinsurers, sovereign wealth funds, and fiduciaries. Asset owners must have discretion over total asset owner assets, either by managing assets directly or by having the discretion to hire and fire external managers. For a public pension fund, the asset owner is generally defined by legislation. In the case of foundations, endowments, or family offices, the asset owner is the entity established by the governing body to manage the pool of assets.

In some situations, an organization may act as both an asset owner, where investment authority and ownership are vested with the organization itself, as well as a firm (asset manager) that competes for assets whose vesting lies with external clients. In such cases, the asset owner has two choices in how to define itself for the purpose of complying with the GIPS standards.

- The asset owner bifurcates its assets into two entities: one defined as an asset owner and one defined as a firm.
- The asset owner does not bifurcate its assets and instead defines itself as both an asset owner and a firm. When calculating and presenting performance to its oversight body, the asset

owner follows the GIPS Standards for Asset Owners. When calculating and presenting performance to prospective clients or prospective investors, the asset owner follows the GIPS Standards for Firms.

See Provision 21.A.24 for additional guidance on situations in which an asset owner competes for business, including those instances in which an asset owner acts as both an asset owner and a firm that competes for business.

Sample Disclosures:

Example 1:

Genius University Endowment is a university endowment fund and manages assets solely for Genius University.

Sample Disclosure for Example 1:

"For the purpose of complying with the GIPS standards, the asset owner is defined as the Genius University Endowment (GUE), established in 1972 by the Genius University Investment Committee of the Genius Corporation, and is the manager of GUE's assets."

Example 2:

Organization ABC acts as both an asset owner, managing assets for the ABC retirement system, and as an asset manager that competes for assets whose vesting lies with external clients. For the purpose of complying with the GIPS standards, Organization ABC has decided to bifurcate its assets into two entities: ABC Retirement System (ABCRS), which manages assets exclusively for the ABC Retirement System, and Firm ABC, which competes for business.

Sample Disclosure in a GIPS Asset Owner Report for Example 2:

"For the purpose of complying with the GIPS standards, ABC Retirement System (ABCRS) is defined as the division of Organization ABC that manages assets exclusively for the pension plan of Organization ABC."

Sample Disclosure in Firm ABC's GIPS Composite Report for Example 2:

"For the purpose of complying with the GIPS standards, ABC Investment Management is defined as the division of Organization ABC that is authorized by Organization ABC's governing body to compete for business."

Provision 24.C.4

The ASSET OWNER MUST disclose the TOTAL FUND DESCRIPTION or COMPOSITE DESCRIPTION.

Discussion

The total fund description is defined as general information regarding the total fund's investment mandate, objective, or strategy, and it is expected to include the following:

- the total fund's asset allocation as of the most recent annual period end,
- the total fund's investment objective,
- the total fund's material risks,
- the actuarial rate of return or spending policy description,
- a description of the asset classes and/or other groupings within the total fund, such as the composition of the asset class, strategy used, types of management used (e.g., active, passive, internal, external), and relevant exposures,
- how leverage, derivatives, and short positions may be used, if they are a material part of the strategy, and
- if illiquid investments are a material part of the strategy.

The composite description is defined as 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 the oversight body to understand the key characteristics of the composite's investment mandate, objective, or strategy, including:

- the material risks of the composite's strategy,
- how leverage, derivatives, and short positions may be used, if they are a material part of the strategy, and
- if illiquid investments are a material part of the strategy.

The composite definition goes a step further than the composite description and includes the detailed criteria that determine the assignment of total funds or portfolios to composites, such as investment constraints or restrictions. Although the composite description is a required disclosure, the composite definition is not a required disclosure. (See Provision 23.A.4 for additional information regarding the difference between a composite definition and composite description.)

The required disclosure of the total fund description or composite description provides information about the total fund's or composite's investment strategy or asset class(es) that is intended to help the oversight body understand the total fund or composite presented in a GIPS Asset Owner Report. The disclosed strategy features will likely affect both the historical and expected risk and returns. Along with the required benchmark description (see Provision 24.C.5), the GIPS Asset Owner Report will allow the oversight body to understand both the investment strategy employed and the benchmark against which the total fund's or composite's performance is evaluated.

If leverage, derivatives, or short positions may be used, and they are a material part of the strategy, this information must be disclosed in the total fund description or composite description. Provision 24.C.14 requires that the asset owner disclose how leverage, derivatives, and short positions have been used historically, if material. Taken together, these two required disclosures provide a more complete picture about the presence, use, and extent of leverage, derivatives, and short positions. When determining what would be material, the asset owner must consider whether the disclosure of how leverage, derivatives, and/or short positions may be used and/or have been used historically is likely to affect the oversight body's view of the risk involved in the strategy. If so, it would be misleading for the asset owner to fail to disclose their use to the oversight body when describing the strategy.

Generally, all investment products or strategies have some degree of inherent risk (e.g., market risk), but it is not intended that the total fund description or composite description identifies every risk of the strategy. Instead, asset owners must identify those material risks of the strategy, if any, and must disclose those risks. For example, investment concentration, correlation (or lack thereof), liquidity, and exposure to counterparties are features that may need to be included in the total fund description or composite description. (See Provision 21.A.17 for additional guidance on the disclosure of risks in a total fund description or composite description.)

The key characteristics of some strategies may change given market events. Asset owners should periodically review total fund descriptions and composite descriptions to ensure they are current.

Sample Disclosure for a Total Fund:

"The Firefighters Total Fund includes all discretionary assets managed by Any State Retirement System for the benefit of firefighter participants. The strategy reflects the actual asset allocation approved each year by the board, based on the funded status, risk budget, and actuarial rate of return studies. Performance is measured against a blended benchmark using asset class benchmarks based on the total fund's policy weights as established at the beginning of each fiscal year. The longer-term investment objective is to earn, over moving 20-year periods, an annualized rate of return that equals or exceeds the actuarial rate of return approved by Any State Retirement System. The Total Fund's asset allocation is designed to provide high long-term return at optimal risk consistent with the board's expected long-term objectives. Investment risks are diversified across a broad range of market sectors, securities, and other investments. This strategy reduces portfolio risk to adverse developments in sectors and issuers experiencing unusual difficulties. The primary risks of the Total Fund include asset allocation risk and liquidity risk."

Sample Disclosure for a Composite:

"The 2018 Vintage Year Private Equity Composite includes all private equity investments with an initial capital call from limited partners in 2018. The composite focuses on investments in venture and buyout/growth funds. The risks of investing in private equity are funding risk, liquidity risk, market risk, and capital risk. Risk is diversified by investing across different types of private equity such as venture capital, leveraged buyouts, and international funds."

A Sample List of Total Fund and Composite Descriptions can be found in Appendix D of the GIPS standards.

Provision 24.C.5

The ASSET OWNER MUST disclose:

a. The BENCHMARK DESCRIPTION, which MUST include the key features of the BENCHMARK or the name of the BENCHMARK for a readily recognized index or other point of reference.
b. The PERIODICITY of the BENCHMARK if BENCHMARK returns are calculated less frequently than monthly.

Discussion

Asset owners are required to disclose a description of each benchmark included in a GIPS Asset Owner Report. The benchmark description is general information regarding the investments, structure, and characteristics of the benchmark, and it must include the key features of the benchmark. In the case of a widely recognized benchmark, such as the S&P 500® Index, the name of the benchmark will satisfy this requirement. (S&P 500® is a registered trademark of Standard & Poor's Financial Services LLC.) Each asset owner must decide for itself whether a benchmark is widely recognized. If the asset owner is not certain as to whether the benchmark is widely known, the asset owner must include the benchmark description.

If the benchmark returns are calculated less frequently than monthly, the periodicity of the benchmark must be disclosed.

Sample Disclosure for a Widely Recognized Benchmark:

"The benchmark is the S&P 500® Index."

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Sample Disclosure for a Benchmark That Is Not Widely Recognized:

"The benchmark is the XYZ World Index, which is designed to measure the equity market performance of developed market countries. The benchmark is market-cap weighted and is composed of all XYZ country-specific developed market indices."

Sample Disclosure for an Index with Returns Calculated Less Frequently Than Monthly:

"The ABC Property Index (API) is a quarterly, unleveraged composite total return for private commercial real estate properties held for investment purposes only. All properties in the API have been acquired, at least in part, on behalf of tax-exempt institutional investors."

Provision 24.C.6

When presenting GROSS-OF-FEES returns, the ASSET OWNER MUST disclose if any other fees are deducted in addition to the TRANSACTION COSTS and fees and expenses for externally managed POOLED FUNDS.

Discussion

When presenting gross-of-fees returns, it is important that there are sufficient disclosures so that the oversight body can understand what the returns actually represent.

A gross-of-fees return is the return on investments reduced by transaction costs and all fees and expenses for externally managed pooled funds. If an asset owner presents a gross-of-fees return in a GIPS Asset Owner Report, the asset owner must disclose if any other fees, such as custody fees for externally managed segregated accounts, are deducted in addition to transaction costs and fees and expenses for externally managed pooled funds.

Sample Disclosure:

"Gross-of-fees returns reflect the deduction of transaction costs, fees and expenses for externally managed pooled funds, and custodian fees for externally managed segregated accounts."

Provision 24.C.7

When presenting NET-OF-EXTERNAL-COSTS-ONLY returns, the ASSET OWNER MUST disclose if any other fees are deducted in addition to the TRANSACTION COSTS, fees and expenses for externally managed POOLED FUNDS, and INVESTMENT MANAGEMENT FEES for externally managed SEGREGATED ACCOUNTS.

Discussion

When presenting net-of-external-costs-only returns, it is important that there are sufficient disclosures so that the oversight body can understand what the returns actually represent.

Net-of-external-costs-only returns are required to reflect the deduction of transaction costs, all fees and expenses for externally managed pooled funds, and investment management fees for externally managed segregated accounts.[B] Investment management fees include both asset-based fees and performance-based fees or carried interest. Other expenses may also be deducted, (e.g., custody fees for segregated accounts). If other fees are deducted from the net-of-external-costs-only returns, this fact must be disclosed.

Sample Disclosure:

"Net-of-external-costs-only returns are net of transaction costs, all fees and expenses for externally managed pooled funds, and investment management fees and custodian fees for externally managed segregated accounts."

Provision 24.C.8

When presenting NET-OF-FEES returns, the ASSET OWNER MUST disclose if any other fees are deducted in addition to the TRANSACTION COSTS, fees and expenses for externally managed POOLED FUNDS, INVESTMENT MANAGEMENT FEES for externally managed SEGREGATED ACCOUNTS, and INVESTMENT MANAGEMENT COSTS.[C]

Discussion

When presenting net-of-fees returns, it is important that there be sufficient disclosures so that the oversight body can understand what the returns actually represent.

Net-of-fees returns are required to reflect the deduction of transaction costs, fees and expenses for externally managed pooled funds, investment management fees for externally managed segregated

[B] The definition of NET-OF-EXTERNAL-COSTS-ONLY included in the Glossary in the 2020 edition of the GIPS standards is incorrect and should state:

The GROSS-OF-FEES return reduced by INVESTMENT MANAGEMENT FEES for externally managed SEGREGATED ACCOUNTS.

[C] The first sentence of the provision in the 2020 edition of the GIPS standards incorrectly included the word "COMPOSITE" and stated:

When presenting COMPOSITE NET-OF-FEES returns, the ASSET OWNER MUST disclose if any other fees are deducted in addition to the TRANSACTION COSTS, fees and expenses for externally managed POOLED FUNDS, INVESTMENT MANAGEMENT FEES for externally managed SEGREGATED ACCOUNTS, and INVESTMENT MANAGEMENT COSTS.

accounts, and investment management costs. Investment management fees include both asset-based fees and performance-based fees or carried interest. In the rare instance where other fees and expenses beyond those required to be deducted are also deducted, this information must be disclosed.

Sample Disclosure:

"Net-of-fees returns are net of transaction costs, fees and expenses for externally managed pooled funds, investment management fees for externally managed segregated accounts, investment management costs, and insurance agency costs."

Provision 24.C.9

The ASSET OWNER MUST disclose or otherwise indicate the reporting currency.

Discussion

The GIPS standards require that asset owners disclose the currency used to report the numerical information presented in a GIPS Asset Owner Report. If the asset owner presents performance in multiple currencies in the same GIPS Asset Owner Report, the asset owner must ensure it is clear which currencies are used to calculate and report performance and assets.

Labeling the columns within a GIPS Asset Owner Report with the appropriate currency symbol would satisfy this requirement, as would a written disclosure.

All required and recommended information presented in a GIPS Asset Owner Report must be presented in the same currency. (See Provision 24.A.7.)

Sample Disclosures:

"Valuations are computed and all information is reported in Canadian dollars."

"All numerical information is reported in Japanese yen."

Provision 24.C.10

The ASSET OWNER MUST disclose the TOTAL FUND INCEPTION DATE or COMPOSITE INCEPTION DATE.

Discussion

When reviewing the performance data in a GIPS Asset Owner Report, it is important that the oversight body has sufficient information regarding the length of the total fund or composite track record to put the performance presented in the GIPS Asset Owner Report in perspective. Therefore, the inception date of the total fund or composite being presented in the GIPS Asset Owner Report must be disclosed. The oversight body can then compare the periods of performance presented in the GIPS Asset Owner Report with the length of the total fund's or composite's track record, and it can request additional information for historical periods not included in the GIPS Asset Owner Report. If there has been a break in the performance record of a composite, the initial inception date before the break is the date that would be disclosed.

Sample Disclosure for a Total Fund:

"The Total Fund was established in 1989."

Sample Disclosures for Composites:

"The Domestic Equity Composite has an inception date of 1 August 1994, the date on which domestic equities were first managed as an asset class within the Total Fund."

"The Global Fixed Income Composite has an inception date of 1 November 2015. There was a break in performance from 1 March 2019 through 30 November 2019. During that period, there were no portfolios in the composite. Composite performance began again on 1 December 2019."

Provision 24.C.11

For COMPOSITES, the ASSET OWNER MUST disclose the COMPOSITE CREATION DATE.

Discussion

Asset owners must disclose the composite creation date, which is the date on which the asset owner first grouped one or more portfolios together to create the composite. The composite creation date is not necessarily the same as the composite inception date. The composite inception date is the initial date of the composite's performance record and is a required disclosure. (See Provision 24.C.10.) The composite creation date can be significantly after the composite inception date, depending on when the asset owner first grouped the individual portfolios together to create the composite. This information allows the oversight body to compare the composite creation date with the composite inception date to determine whether the asset owner grouped portfolios together into a composite retroactively or created the composite at the beginning of the composite's performance track record.

For those asset owners that created composites many years ago, it may be impossible to know the specific day a composite was created. Some asset owners disclose a composite creation date as a month, or even a year, when the composite was created in the very distant past. Newly created composites should have more-precise composite creation dates.

Sample Disclosures:

"The Real Estate Composite was created on 17 July 2019. This is the date on which portfolios were first grouped together to create the composite."

"The Core Fixed Income Composite was created in November 2009."

Provision 24.C.12

If the ASSET OWNER chooses to create additional COMPOSITES, or if the ASSET OWNER has more than one REQUIRED TOTAL FUND, the ASSET OWNER MUST disclose that the ASSET OWNER's list of TOTAL FUND DESCRIPTIONS and COMPOSITE DESCRIPTIONS is available upon request.

Discussion

An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report. If the asset owner chooses to create additional composites representing one or more strategies within a total fund, or if the asset owner has more than one required GIPS Asset Owner Report for its total funds, a list of total fund descriptions and composite descriptions must be maintained and made available to the oversight body upon request. (See Provisions 21.A.17 and 21.A.18 for additional guidance on the creation and distribution of the list of total fund descriptions and composite descriptions.) The asset owner must disclose, in each GIPS Asset Owner Report, that a list of total fund descriptions and composite descriptions is available upon request. When an asset owner competes for business and chooses to claim compliance with the GIPS standards while competing for business, this list must include the strategies from the part of the organization that competes for business.

If the asset owner has only one total fund or only one total fund composite and has not chosen to create any additional composites, the GIPS Asset Owner Report for the total fund or the total fund composite represents the asset owner's list of total fund descriptions and composite descriptions. This is because the description of the total fund or the total fund composite is required to be included in the relevant GIPS Asset Owner Report, and so the GIPS Asset Owner Report can be used to meet this requirement. In such cases, the asset owner is not required to disclose that this list is available upon request.

The list of total fund descriptions and composite descriptions itself does not need to be included in each GIPS Asset Owner Report but must be available upon request. The list of total fund descriptions and composite descriptions must include the total fund description or composite description for each current total fund, total fund composite, or additional composite, as well as a description for all total funds or composites that have terminated in the past five years. The total fund descriptions and composite descriptions disclosed in GIPS Asset Owner Reports must be consistent with the descriptions included in the list of total fund descriptions and composite descriptions. (Please see Provision 23.A.4 for a discussion of total fund descriptions and composite descriptions.)

A Sample List of Total Fund and Composite Descriptions can be found in Appendix D of the GIPS standards.

This requirement exists to provide the oversight body with a complete picture of the asset owner's total funds and composites.

Sample Disclosure:

"A list of total fund descriptions and composite descriptions is available upon request."

Provision 24.C.13

The ASSET OWNER MUST disclose that policies for valuing investments, calculating performance, and preparing GIPS ASSET OWNER REPORTS are available upon request.

Discussion

In each GIPS Asset Owner Report, asset owners must disclose the availability of policies for valuing investments, calculating performance, and preparing GIPS Asset Owner Reports. The policies are not required to be included in each GIPS Asset Owner Report but must be available upon request. Asset owners are not required to provide the related procedures, in addition to the policies, but may do so.

Sample Disclosure:

"Centerville Police and Fire Retirement System's policies for valuing portfolios, calculating performance, and preparing GIPS Asset Owner Reports are available upon request."

Provision 24.C.14

The ASSET OWNER MUST disclose how leverage, derivatives, and short positions have been used historically, if material.

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Discussion

Asset owners must provide enough information in a GIPS Asset Owner Report to allow the oversight body to understand how leverage, derivatives, and short positions have been employed historically and may be used going forward. Although the total fund description or composite description includes disclosure of the asset owner's ability to use leverage, derivatives, and short positions (see Provision 24.C.4), this provision requires that the asset owner disclose the leverage, derivatives, and short positions that have been used historically, if material. Taken together, these two required disclosures provide a more complete picture of the presence, use, and extent of leverage, derivatives, and short positions.

For example, assume an asset owner discloses in a composite description that the strategy may employ up to 200% leverage. To satisfy the disclosure requirement in Provision 24.C.14, the asset owner might state, "Since the inception of the strategy, the leverage has averaged 110% of the composite's value; however, during 2019 the leverage averaged 160%, which greatly increased the sensitivity to market volatility and the potential for realized gains and/or losses."

No disclosure is required if leverage, derivatives, and short positions have not been used or if their use has not been material. When determining what would be material, the asset owner must consider whether the disclosure of how leverage, derivatives, and/or short positions have been used historically is likely to affect the oversight body's view of the risk involved in the strategy. If so, it would be misleading for the asset owner to fail to disclose their use to the oversight body when describing the strategy.

Provision 24.C.15

If estimated TRANSACTION COSTS are used, the ASSET OWNER MUST disclose:

a. That estimated TRANSACTION COSTS were used.

b. The estimated TRANSACTION COSTS used and how they were determined

Discussion

Gross-of-fees, net-of-external-costs-only, and net-of-fees total fund and composite returns must reflect the deduction of transaction costs, which are the costs of buying or selling investments. Asset owners may use either actual or estimated transaction costs when calculating returns. Estimated transaction costs may be used only for portfolios for which the actual transaction costs are not known. Provision 22.A.10 provides guidance on the use of estimated transaction costs.

If estimated transaction costs are used in calculating returns, there must be a disclosure that estimated transaction costs were used. An asset owner must also disclose the estimated transaction costs used and how they were determined. An asset owner might, for example, determine estimated transaction costs based on other portfolios whose transaction costs are known.

Sample Disclosure for a Total Fund:

"The transaction costs for some portfolios in the total fund are not known and must be estimated. The estimated transaction costs for these portfolios are determined based on the average transaction cost per share incurred by portfolios in the total fund that trade in similar markets and under similar conditions and whose transaction costs are known. The estimated transaction costs for those portfolios for which actual transaction costs are not known is 8 Swiss francs per trade."

Sample Disclosure for a Composite:

"Some portfolios in the composite do not pay explicit transaction costs for security purchases and sales. Estimated transaction costs for these portfolios are used, and these are determined based on the average transaction cost per share incurred by portfolios in the composite that pay explicit transaction costs. The average transaction cost was determined to be $0.031 per share. A model transaction cost per share of $0.04 is applied to each investment transaction."

Provision 24.C.16

The ASSET OWNER MUST disclose all significant events that would help the OVERSIGHT BODY interpret the GIPS ASSET OWNER REPORT. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the track record.

Discussion

The GIPS standards are based on the principles of fair representation and full disclosure. Meeting these objectives requires a good faith commitment on the part of the asset owner to adhere to the spirit of the GIPS standards. The GIPS standards cannot foresee and cover every situation that might occur. Therefore, this provision requires that asset owners disclose all significant events that would help explain the asset owner's GIPS Asset Owner Report to the oversight body. The primary goal of this requirement is to provide relevant information to the oversight body so that it can understand the potential effect of the significant event on the total fund's or composite's investment strategy and the asset owner.

Significant events are determined by the asset owner and would include, as examples, a material change in personnel responsible for investment management, significant changes to the investment management process, or the loss of historical records resulting from a catastrophic event.

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The departure of someone who was the single investment decision maker for one or more strategies within the total fund would likely qualify as a significant event.

Depending on the situation, a general statement describing the significant event that has occurred may be sufficient. Other situations may require asset owners to disclose specific information pertaining to the significant event. The disclosure regarding the significant event must be included in the GIPS Asset Owner Report for a minimum of one year and for as long as it is relevant to interpreting the performance track record. As an example, if there is a legislative change that requires an asset owner to manage the assets of an additional retirement system, resulting in a large increase in total asset owner assets, the asset owner may disclose this significant event for as long as the large change in total asset owner assets is included in the GIPS Asset Owner Report. In contrast, a change in an asset owner's chief investment officer (CIO) is a change that an asset owner may believe should be disclosed for one year only.

The asset owner must consider the underlying principles of the GIPS standards, which are fair representation and full disclosure, when determining how long the disclosure will be included in the GIPS Asset Owner Report.

Sample Disclosure:

"In March 2019, the portfolio manager responsible for the internal management of all fixed-income assets of the Midway State Municipal Retirement System (MSMRS) left MSMRS. Her duties have been assumed by a member of the MSMRS investment management team. No change in the fixed-income strategy is anticipated."

Provision 24.C.17

If the ASSET OWNER is redefined, the ASSET OWNER MUST disclose the date and description of the redefinition.

Discussion

An asset owner redefinition occurs when something changes with how the asset owner is structured. For example, there may be cases where there are significant changes to an asset owner due to legislation-driven changes in the case of pension funds or changes dictated by the governing body in the case of foundations, endowments, or family offices. In some cases, as a result of a significant alteration in an asset owner's structure or organization, a change can be so great that it creates a new asset owner. Changes in investment mandate or personnel are not events that typically cause an asset owner redefinition. A simple asset owner name change is also not a sufficient reason to redefine the asset owner.

The GIPS standards require that changes in an asset owner's organization must not lead to alteration of historical total fund or composite performance (see Provision 21.A.22).

Sample Disclosures:

"On 1 July 2018, the Prodigy University Endowment for Theater Studies was redefined by the Prodigy University Investment Committee to include the endowments for all creative art studies at Prodigy University, including theater, dance, music, writing, and visual arts, and was renamed the Prodigy University Endowment for the Creative Arts."

"On 1 August 2019, Midway City was created through the merger of the municipalities of New Town and Old Town. On that date, the retirement systems of New Town and Old Town were merged to create the Midway City Retirement System (MCRS)."

Provision 24.C.18

If a COMPOSITE is redefined, the ASSET OWNER MUST disclose the date and description of the redefinition.

Discussion

The investment mandate, objective, or strategy of a composite of total funds or an additional composite can change over time. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.) In some cases, such a change results in the termination of one composite and the creation of a new composite. In other cases, it may be appropriate to redefine the composite. If a composite is redefined, the asset owner must disclose the date and description of the redefinition. See Provision 23.A.4 for guidance on composite definitions.

Sample Disclosure for a Total Fund Composite:

"As of 1 June 2019, the Goodtown Municipal Employees Total Fund, representing Goodtown municipal employees other than firefighters and police officers, was added to the Goodtown Municipal Retirement System (GMRS) total fund composite. Prior to 1 June 2019, the GMRS total fund composite included two total funds: the Goodtown Firefighters Total Fund and the Goodtown Police Officers Total Fund. The Goodtown Municipal Employees Total Fund had previously been presented to the oversight body separately."

Sample Disclosure for an Additional Composite:

"As of 1 July 2019, the fixed-income strategy includes the use of interest rate futures to modify duration and manage interest rate risk. Prior to this date, the fixed-income strategy did not involve the active management of interest rate risk."

Provision 24.C.19

The ASSET OWNER MUST disclose changes to the name of a TOTAL FUND or COMPOSITE. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the track record.

Discussion

When an asset owner's oversight body is evaluating total funds or composites, it is important that members of that oversight body understand exactly which total funds or composites they are assessing. If an asset owner changes the name of a total fund or composite, the change must be disclosed in the GIPS Asset Owner Report. The name change must be disclosed for a minimum of one year and potentially for more than one year if the asset owner determines the disclosure is still relevant and meaningful. The asset owner must consider the underlying principles of the GIPS standards, which are fair representation and full disclosure, when determining how long the disclosure will be included in the GIPS Asset Owner Report.

Sample Disclosure for a Total Fund:

"On 1 July 2018, the ABC Endowment for the Arts Total Fund was renamed the ABC Endowment for Science and the Arts Total Fund."

Sample Disclosure for a Composite:

"As of 1 January 2016, the XYZ Index Composite was renamed the US Equity Large Cap Composite."

Provision 24.C.20

The ASSET OWNER MUST disclose if TOTAL FUND or COMPOSITE returns are gross or net of withholding taxes, if material.

Discussion

Global investing requires recognition of the tax consequences of investing in different countries. The GIPS standards do not require asset owners to reflect withholding taxes, either reclaimable or non-reclaimable taxes, in a certain manner. Asset owners may choose whether or not to reflect the effect of withholding taxes when calculating performance. The GIPS standards do recommend that performance be reported net of non-reclaimable withholding taxes on dividends, interest, and capital gains and also recommend that reclaimable foreign withholding taxes be accrued (see Provision 22.B.5). If withholding taxes are material, asset owners must disclose how withholding taxes are treated when calculating performance. An asset owner must determine the level at which withholding taxes become material, document the level in its policies and procedures, and apply it consistently.

Sample Disclosure:

"Total fund returns are net of all foreign non-reclaimable withholding taxes. Reclaimable withholding taxes are recognized if and when received."

Provision 24.C.21

The ASSET OWNER MUST disclose if BENCHMARK returns are net of withholding taxes if this information is available.

Discussion

Global investing requires recognition of the tax consequences of investing in different countries. The GIPS standards do not require asset owners to reflect withholding taxes, either reclaimable or non-reclaimable taxes, in a certain manner. Asset owners may choose whether or not to reflect the effect of withholding taxes when calculating total fund or composite performance and, similarly, whether or not to use a benchmark that reflects the effect of withholding taxes.

As Provision 24.C.20 indicates, if withholding taxes are material, asset owners must disclose how withholding taxes are treated when calculating performance. To facilitate the comparison of total fund or composite returns and benchmark returns, asset owners must also disclose if the benchmark returns are net of withholding taxes if this information is available. If the benchmark name indicates that the benchmark is net of withholding taxes, no additional disclosure is necessary.

Sample Disclosures:

"Benchmark returns are net of withholding taxes."

"The benchmark is the XYZ World Net Total Return Index."

Provision 24.C.22

If the GIPS ASSET OWNER REPORT conforms with laws and/or regulations that conflict with the REQUIREMENTS of the GIPS standards, the ASSET OWNER MUST disclose this fact and disclose the manner in which the laws and/or regulations conflict with the GIPS standards.

Discussion

Asset owners must comply with all applicable laws and regulations regarding the calculation and presentation of performance. Compliance with applicable laws and regulations, however, does not necessarily result in compliance with the GIPS standards. Asset owners must also comply with all of the applicable requirements of the GIPS standards. In the rare cases where laws and regulations conflict with the GIPS standards, asset owners are required to comply with the laws and regulations and disclose the manner in which the laws and/or regulations conflict with the GIPS standards.

This disclosure will assist the oversight body in understanding the difference between the reporting requirements of applicable laws and regulations and those of the GIPS standards.

Sample Disclosure:

"Local laws do not allow the presentation of returns of less than one year, which is in conflict with the GIPS standards. Therefore, no performance is presented for this composite for the period from 1 July 2018 (the inception date of the composite) through 31 December 2018."

Provision 24.C.23

The ASSET OWNER MUST disclose the use of EXTERNAL MANAGERS and the periods EXTERNAL MANAGERS were used.[30]

Discussion

Some asset owners use an external manager to manage part or all of a particular strategy. For example, an asset owner might manage most of its fixed-income assets internally but hire external managers to manage its equity, private equity, and real estate assets. The GIPS standards require that asset owners include the performance of assets assigned to an external manager in its total fund(s) and in any additional composite that the asset own has chosen to create, provided the asset owner

[30] REQUIRED for periods beginning on or after 1 January 2006.

has the authority to allocate the assets to an external manager. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.) In the spirit of full disclosure, an asset owner must disclose the fact that an external manager was used in the management of the total fund or composite strategy and the periods for which an external manager was used. This is required for periods beginning on or after 1 January 2006. It is not necessary to disclose the name of the external manager.

Sample Disclosures for a Total Fund:

"Since 2005, the Centerville Police and Fire Retirement System (CPFRS) has hired external managers to manage all fixed-income portfolios."

"All assets in the Everytown Municipal Retirement System (EMRS) are managed externally since inception of the total fund."

Sample Disclosures for a Composite:

"The International Equity Composite has used external managers for all periods presented."

"The Global Private Equity Composite used an external manager from its inception on 1 October 2018 through 31 May 2020. It has been internally managed since 1 June 2020."

Provision 24.C.24

The ASSET OWNER MUST disclose if the TOTAL FUND'S or COMPOSITE'S valuation hierarchy materially differs from the RECOMMENDED valuation hierarchy.[31] (See Provision 22.B.6 for the RECOMMENDED valuation hierarchy.)

Discussion

Asset owners must establish policies and procedures for determining portfolio valuations. For periods beginning on or after 1 January 2011, those valuations must be determined in accordance with the definition of fair value. Provision 22.B.6 includes a recommended valuation hierarchy that asset owners should incorporate into their policies and procedures for determining fair value for portfolio investments. Asset owners must establish a valuation hierarchy on a total fund–specific or composite-specific basis. It is acceptable for asset owners to apply a different valuation hierarchy to specific total funds or composites provided the valuation methodology conforms to the definition of fair value. If the valuation hierarchy materially differs from the recommended

[31] REQUIRED for periods beginning on or after 1 January 2011.

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valuation hierarchy, the asset owner must disclose this fact. The oversight body will be informed and then may request additional information about the asset owner's valuation policies.

Sample Disclosure:

"All portfolio investments in the Private Equity Composite are valued using our proprietary valuation models to determine fair value. Our valuation procedures materially differ from the recommended valuation hierarchy in the GIPS standards."

Provision 24.C.25

If the ASSET OWNER determines no appropriate BENCHMARK for the TOTAL FUND or COMPOSITE exists, the ASSET OWNER MUST disclose why no BENCHMARK is presented.

Discussion

Benchmarks are important tools that aid in the planning, implementation, and evaluation of an investment strategy. They also help facilitate discussions with the oversight body regarding the relationship between total fund or composite risk and return. As a result, the GIPS standards require asset owners to provide benchmark total returns in all GIPS Asset Owner Reports. The benchmark must reflect the investment mandate, objective, or strategy of the total fund or composite. Although there is typically an appropriate benchmark for traditional strategies, it is more common for asset owners with alternative strategies to determine that no appropriate benchmark for the alternative strategy composite exists. If this is the case, the asset owner must disclose why no benchmark is presented.

Sample Disclosure:

"Because the composite's strategy is absolute return where investments are permitted in all asset classes, no benchmark is presented because we believe that no benchmark that reflects this strategy exists."

Provision 24.C.26

If the ASSET OWNER changes the BENCHMARK, the ASSET OWNER MUST disclose:

a. For a prospective BENCHMARK change, the date and description of the change. Changes MUST be disclosed for as long as returns for the prior BENCHMARK are included in the GIPS ASSET OWNER REPORT.
b. For a retroactive BENCHMARK change, the date and description of the change. Changes MUST be disclosed for a minimum of one year and for as long as they are relevant to interpreting the track record.

Discussion

Asset owners must disclose the date and description of any changes to the benchmark over time. A benchmark change can take two forms:

- The benchmark is changed from one benchmark to another on a prospective basis only.
- The benchmark is changed for all periods (i.e., retroactively).

In most cases, the asset owner should only change the benchmark going forward and not change it retroactively.

If the asset owner changes the benchmark prospectively and presents benchmark returns that combine two different benchmarks, the date and description of the change must be disclosed for as long as returns for the prior benchmark are included in the GIPS Asset Owner Report. For example, assume an asset owner changes the benchmark for a total fund or composite in June 2015, and the change is made prospectively. As long as benchmark returns from 2015 or prior periods are included in the GIPS Asset Owner Report, the asset owner must include this disclosure. Asset owners must also carefully identify the benchmark as a custom benchmark in the GIPS Asset Owner Report and must make clear that the benchmark returns are not those of the current benchmark for all periods. It would not be appropriate to label the benchmark returns with the name of the current benchmark. The asset owner must provide information, including labelling of the benchmark, that is sufficient to allow the oversight body to distinguish the prior benchmark returns from the current benchmark returns.

There may be times when an asset owner determines that it is appropriate to change the benchmark for a given total fund or composite retroactively. For example, because benchmarks are continually evolving, if the asset owner finds that a new benchmark is a better comparison for an investment strategy, the asset owner may consider changing the benchmark retroactively. In the case of a retroactive benchmark change, there must be a disclosure of the date and description of the benchmark change, including the fact that the benchmark was changed retroactively. Disclosures related to a retroactive change in a benchmark must be included in the respective GIPS Asset Owner Report for a minimum of one year and for as long as the disclosures are relevant to interpreting the performance track record. The asset owner must consider the underlying principles of the GIPS standards, which are fair representation and full disclosure, when determining how long this disclosure will be included in the GIPS Asset Owner Report.

When an asset owner changes a benchmark retroactively, the asset owner is encouraged to continue to also present the old benchmark.

Changes to the benchmark primarily intended to make performance look better by lowering the benchmark return violate the spirit of the GIPS standards.

Sample Disclosure for a Prospective Change:

"Benchmark results presented are a combination of two indices. ABC Index was used prior to 30 September 2015; ABC Value Index is used subsequently."

Sample Disclosure for a Retroactive Change:

"In January 2017, the benchmark was changed from ABC Index to XYZ Index for all periods."

Provision 24.C.27

If a custom BENCHMARK or combination of multiple BENCHMARKS is used, the ASSET OWNER MUST:

a. Disclose the BENCHMARK components, weights, and rebalancing process, if applicable.
b. Disclose the calculation methodology.
c. Clearly label the BENCHMARK to indicate that it is a custom BENCHMARK.

Discussion

When custom benchmarks are used, the asset owner must disclose the benchmark components, weights, and rebalancing process, if applicable, as well as the calculation methodology. For example, if the asset owner combines two indices, WW Index and XX Index, to create the WWXX benchmark for the composite, the following would be an appropriate disclosure:

"The WWXX benchmark is a combination of 50% WW Index and 50% XX Index, calculated by weighting the respective index returns on a monthly basis."

It is also required that the benchmark be clearly labeled to indicate that it is a custom benchmark. For example, the label for the benchmark returns in a GIPS Asset Owner Report would read "Custom Benchmark" or "Total Fund Benchmark." The benchmark description and required disclosures might read as follows:

"<u>Custom Benchmark</u>: The international blended benchmark is calculated monthly using 75% of the XYZ World ex-U.S. 50% Hedged Index and 25% of the XYZ Emerging Markets Index. A forward rate is used to construct the hedge. "

It is becoming more common for exchange-traded funds (ETFs) to be used as benchmarks. An ETF is a pooled fund that tracks a specific investment universe that is expressed by an index or a basket of securities and that is listed on an exchange. Unlike a market index, an ETF incurs trading costs and other charges, including taxes. Because of the incurred costs, an ETF may underperform the market index that it tracks. If an ETF is chosen as the benchmark for a composite, the asset owner should present net-of-fees composite returns. As part of the benchmark description for an ETF, the asset owner must disclose the following items:

- if ETF returns are gross or net of fees and other costs, including transaction costs;
- the ETF expense ratio, if ETF net returns are presented;
- if ETF returns are based on market prices or net asset values (NAVs);
- the timing of the market close used to determine the ETF's valuations; and
- if ETF returns are gross or net of withholding taxes, if this information is available.

If the asset owner also presents composite gross-of-fees returns, it should present ETF returns that are grossed up, but it is not required to do so.

Sample Disclosures:

"The benchmark is the Special ETF, which tracks the securities included in the Special Index. The Special ETF returns reflect the deduction of all expenses and transaction costs incurred by the Special ETF and are net of withholding taxes. As of 31 December 2019, the expense ratio was 0.14%. The Special ETF returns reflect market prices, which are determined by the midpoint between the bid and ask prices as of the closing time of the New York Stock Exchange."

Provision 24.C.28

If the TOTAL FUND BENCHMARK is a blend of asset class BENCHMARKS based on the policy weights of the respective asset classes, the ASSET OWNER MUST disclose:

a. The BENCHMARKS used by each asset class along with their weights as of the most recent annual period end.

b. General information regarding the investments, structure, and/or characteristics of the BENCHMARKS.

Discussion

A total fund is typically composed of multiple asset classes. Therefore, the total fund benchmark is often a blend of asset class benchmarks based on the policy weights of the respective asset classes. If a blended benchmark, based on the asset classes in the total fund, is presented in a GIPS Asset Owner Report, the asset owner must disclose the benchmark(s) used by each asset class, along with their policy weights as of the most recent annual period end. General information for each benchmark must also be disclosed, including its investments, structure, and/or characteristics. This information will assist the oversight body in understanding the benchmark against which the performance of the total fund is being compared.

Sample Disclosure:

"The Total Fund blended benchmark is calculated monthly using a blend of the asset class benchmarks based on the Total Fund's benchmark policy weights for the respective asset classes. Each asset class uses a total return benchmark. The benchmark policy weights listed in the following table are as of 31 December 2020. Benchmark policy weights and asset classes weights for prior periods are available upon request.

Asset Class	Benchmark	Benchmark Policy Weight 31 Dec 2020 (%)
Absolute Return	Juniper 9- to 12-Month Treasury Index	23
Domestic Equity	Desmond Total Stock Index	20
Fixed Income	Juniper 1- to 3-Year Treasury Index	9
International Equity	Smith All Country World Index ex US Index	22
Natural Resources	Jackson Associates Natural Resources Index	8
Private Equity	Jackson Associates Private Equity Index	10
Real Estate	Farley US REIT Index	4
Cash	Juniper 1- to 3-Month Treasury Index	4

"Descriptions of the blended benchmark components are as follows. The Juniper 9- to 12-Month Treasury Index includes all publicly issued US Treasury bills with a remaining maturity between 9 and 12 months. The Desmond Total Stock Index tracks the US broad equity market for companies of any market capitalization size. The Juniper 1- to 3-Year Treasury Index measures the performance of US Treasury bonds maturing in one to three years. The Smith All Country World Index ex US provides a broad measure of stock performance throughout the world, excluding US-based companies. This market-capitalization-weighted index includes companies doing business in both developed and emerging markets. The Jackson Associates Natural Resources Index represents domestic securities that are classified as energy and materials sector stocks, excluding securities associated with the chemicals industry and the steel industry. The Jackson Associates Private Equity Index is composed of the top private equity funds that meet defined criteria such as liquidity, size, exposure, and activity requirements. The Farley US REIT Index is composed of equity real estate investment trusts. The index is a free float–adjusted market capitalization weighted index. The Juniper 1- to 3-Month Treasury Index includes all publicly issued US Treasury bills with a remaining maturity between one and three months."

Provision 24.C.29

If a PORTFOLIO-WEIGHTED CUSTOM BENCHMARK is used, the ASSET OWNER MUST disclose:

a. That the BENCHMARK is rebalanced using the weighted average returns of the BENCHMARKS of all of the PORTFOLIOS included in the COMPOSITE.

b. The frequency of the rebalancing.

c. The components that constitute the PORTFOLIO-WEIGHTED CUSTOM BENCHMARK, including the weights that each component represents, as of the most recent annual period end.

d. That the components that constitute the PORTFOLIO-WEIGHTED CUSTOM BENCHMARK, including the weights that each component represents, are available for prior periods upon request.

Discussion

Asset owners may use a portfolio-weighted custom benchmark, which is created using the benchmarks of the individual portfolios in the composite. If such a benchmark is used, asset owners must disclose that the benchmark is calculated using the weighted average returns of the benchmarks of all of the portfolios included in the composite, along with the frequency of the rebalancing. Asset owners are not required to disclose how the underlying portfolio benchmarks and weights have changed each period.

Additionally, in the spirit of full disclosure and fair representation, asset owners must disclose the components that constitute the portfolio-weighted custom benchmark, including the weight that each component represents, as of the most recent annual period end. It is also required that asset owners disclose that information regarding the components of the portfolio-weighted custom benchmark, as well as the component weights, is available for prior periods upon request.

Sample Disclosure—Custom Benchmark:

"The Long US Government/Credit Custom Benchmark is calculated using the benchmarks of the portfolios in the composite. The benchmark is rebalanced monthly based on the beginning values of portfolios included in the composite. As of 31 December 2020, the breakdown of the benchmark is 88.2% XYZ US Long Government/Credit Index and 11.8% XYZ US Long Government/Credit A+ Index. The breakdown of the custom benchmark for different time periods is available upon request."

Sample Disclosure—Total Fund Composite Benchmark:

"The Total Fund Composite includes three total funds. Each total fund has its own policy benchmark. The Total Fund Composite benchmark is a custom benchmark that is calculated using the benchmarks of the total funds. The benchmark is calculated monthly based on the beginning values of the total funds included in the composite. As of 30 June 2020, the benchmark weights were as follows:

Benchmark	Benchmark Weights 30 June 2020 (%)
XYZ 9- to 12-Month Treasury Index	12
XYZ Total Stock Index	20
XYZ All Country World Index ex US Index	22
XYZ Aggregate Fixed Income Index	18
XYZ Private Equity Index	10
XYZ US REIT Index	14
Juniper 1- to 3-Month Treasury Index	4

"The breakdown of the custom benchmark for different time periods is available upon request."

Provision 24.C.30

For COMPOSITES with at least three annual periods of performance, the ASSET OWNER MUST disclose if the three-year annualized EX POST STANDARD DEVIATION of the COMPOSITE and/or BENCHMARK is not presented because 36 monthly returns are not available.[D]

Discussion

For periods ending on or after 1 January 2011, asset owners must present the three-year annualized ex post standard deviation of the total fund or composite and the benchmark, which must be calculated using 36 monthly returns, as of each annual period end.

The 2010 edition of the GIPS standards required that an asset owner disclose, in all cases, if the three-year annualized ex post standard deviation of the total fund or composite and/or benchmark is not presented because 36 monthly returns are not available. The 2020 edition of the GIPS standards modifies this requirement. This disclosure is required only if the three-year annualized

[D] The provision in the 2020 edition of the GIPS standards incorrectly included TOTAL FUNDS and stated:

For TOTAL FUNDS and COMPOSITES with at least three annual periods of performance, the ASSET OWNER MUST disclose if the three-year annualized EX POST STANDARD DEVIATION of the TOTAL FUND or COMPOSITE and/or BENCHMARK is not presented because 36 monthly returns are not available.

ex post standard deviation is not presented for additional composites that have at least three annual periods of performance. This change applies to all periods presented in a GIPS Asset Owner Report.

If an additional composite has at least three annual periods of performance but 36 monthly returns are not available for the additional composite, asset owners are not required to present the three-year annualized ex post standard deviation for either the benchmark or the composite. This scenario often applies to private market investment composites because they are not required to have monthly returns. Asset owners must disclose that 36 monthly returns are not available for the composite. (If private market composites do have monthly valuations and 36 monthly returns are available, the three-year annualized ex post standard deviation must be presented.) If 36 monthly returns are not available for the additional composite but are available for the benchmark, an asset owner is not required to present the three-year annualized ex post standard deviation for the benchmark but may do so.

If 36 monthly returns are not available for the benchmark but are available for the additional composite, asset owners are required to present only the three-year annualized ex post standard deviation for the additional composite. In this instance, because 36 monthly returns are not available for the benchmark, asset owners must not present a three-year annualized ex post standard deviation for the benchmark using data points other than monthly. Asset owners must disclose that 36 monthly returns are not available for the benchmark.

Sample Disclosure If 36 Monthly Returns Are Available for the Composite but Not for the Benchmark:

"The three-year annualized ex post standard deviation of the benchmark is not presented because the benchmark returns are calculated quarterly."

Sample Disclosure If 36 Monthly Returns Are Not Available for the Composite:

"The three-year annualized ex post standard deviation of the composite and benchmark are not presented because the composite returns are calculated quarterly."

Provision 24.C.31

The ASSET OWNER MUST disclose any change to the GIPS ASSET OWNER REPORT resulting from the correction of a MATERIAL ERROR. Following the correction of the GIPS ASSET OWNER REPORT, this disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the track record.

Discussion

Asset owners claiming compliance with the GIPS standards are likely to face situations in which errors are discovered that must be specifically addressed. An error, which can be qualitative or quantitative, can be related to any component of a GIPS Asset Owner Report that is missing or inaccurate. Errors in GIPS Asset Owner Reports can result from, but are not limited to, incorrect, incomplete, or missing:

- total fund or composite returns or assets,
- total asset owner assets,
- benchmark returns,
- number of total funds or portfolios in a composite,
- three-year annualized ex post standard deviation, or
- disclosures.

Any material error in a GIPS Asset Owner Report must be corrected and disclosed in a revised GIPS Asset Owner Report. An asset owner must define materiality within its error correction policies and procedures.

To adhere to this requirement, an asset owner must determine the criteria it will use to determine materiality. The following is a definition of materiality that asset owners might find useful as a starting point for their determination of materiality: "An error 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." An asset owner should have a defined process for determining the objective criteria it will use in determining materiality.

Disclosure of the change in the corrected GIPS Asset Owner Report resulting from a material error must be included in the GIPS Asset Owner Report for a minimum of 12 months following the correction of the report and for as long as it is relevant to interpreting the track record. The asset owner must consider the underlying principles of the GIPS standards, which are fair representation and full disclosure, when determining how long the disclosure will be included in the GIPS Asset Owner Report that contained the material error.

The discussion for Provision 21.A.16 provides additional information on error correction, including the determination of materiality, the actions that must be taken when an error in a GIPS Asset Owner Report is discovered, and an explanation of who must receive the revised GIPS Asset Owner Report.

Sample Disclosure:

"This GIPS Asset Owner Report includes a correction of the information provided for the XYZ Index. The annual return for the XYZ Index for 2017 was originally presented as 3.4%. The correct return is 4.3%, as shown in this revised GIPS Asset Owner Report."

Provision 24.C.32

The ASSET OWNER MUST disclose if preliminary, estimated values are used to determine FAIR VALUE.

Discussion

The use of preliminary, estimated values as fair value is common for some alternative strategies, including those that invest in externally managed pooled funds for which the asset owner relies on valuations provided by the fund external managers. When using preliminary, estimated values as fair value, it is important to remember the underlying principles of the GIPS standards: fair representation and full disclosure. If using preliminary, estimated values, asset owners must disclose this fact in the relevant GIPS Asset Owner Report.

Asset owners that use preliminary, estimated values to determine fair value and subsequently change valuations when final values are received must determine how the asset owner's error correction policies will be applied. (Please see Provision 21.A.16 for guidance on error correction policies.) Differences between the final and estimated values are not necessarily errors but are treated in a similar manner because the correction of previously presented information may be involved.

In addition to this required disclosure, it is recommended (see Provision 24.B.9) that asset owners present the percentage of assets in the total fund or composite that were valued using preliminary, estimated values as of each annual period end. This information will help the oversight body to interpret the performance record.

Sample Disclosure:

"Preliminary, estimated values were used in determining the fair value of the total fund's private equity assets."

Provision 24.C.33

If the ASSET OWNER changes the type of return(s) presented for the COMPOSITE (e.g., changes from MONEY-WEIGHTED RETURNS to TIME-WEIGHTED RETURNS), the ASSET OWNER MUST disclose the change and the date of the change. This disclosure MUST be included for a minimum of one year and for as long as it is relevant to interpreting the track record.

Discussion

Although an asset owner must present a time-weighted return (TWR) for all total funds and composites of total funds, it may choose to present either a TWR or a money-weighted return (MWR) for an additional composite. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.) If the asset owner changes the type of return presented for an additional composite, the asset owner must disclose, in the respective GIPS Asset Owner Report, the change in the type of return (from MWR to TWR or from TWR to MWR) and the date of the change. This disclosure must be included in the GIPS Asset Owner Report for a minimum of one year and for as long as it is relevant and helpful to the asset owner's oversight body in interpreting the composite's track record. The asset owner must consider the underlying principles of the GIPS standards, which are fair representation and full disclosure, when determining how long the disclosure will be included in the GIPS Asset Owner Report.

When an asset owner changes the type of return presented for an additional composite, for example from MWRs to TWRs, the asset owner must change the returns for all periods. As an example, suppose that an asset owner is presenting performance for the period from the inception of a composite on 1 January 2013 through 31 December 2020. It decides that it will switch to present TWRs as of 1 January 2020. The asset owner cannot present MWRs through 31 December 2019 and TWRs from 1 January 2020 through 31 December 2020. Instead, the asset owner must present TWRs from 1 January 2013 (the inception date of the composite) through 31 December 2020 in the GIPS Asset Owner Report for the period ended 31 December 2020.

Sample Disclosure:

"Beginning with the GIPS Asset Owner Report for the period ended 31 December 2020, the returns presented for the XYZ Composite were changed from money-weighted returns to time-weighted returns."

Provision 24.C.34

If the ASSET OWNER presents ADDITIONAL RISK MEASURES, the ASSET OWNER MUST:

a. Describe any ADDITIONAL RISK MEASURE.
b. Disclose the name of the risk-free rate if a risk-free rate is used in the calculation of the ADDITIONAL RISK MEASURE.

Discussion

Understanding and interpreting investment performance requires the consideration of both risk and return. It is therefore recommended that asset owners present additional ex post risk measures (i.e., risk measures beyond those required to be presented) for the total fund or composite and the benchmark. (See Provision 24.B.7.) It is important to keep in mind that additional risk measures should be consistent with the total fund's or composite's strategy. For example, if the strategy is to track the benchmark, then tracking error would be consistent with that objective.

The GIPS Asset Owner Report must include a description of any additional risk measure presented. If a risk-free rate is used in the calculation of an additional risk measure, the name of the risk-free rate must be disclosed. Disclosure of the name of the risk-free rate used in the calculation of an additional risk measure is required because of the importance of the selection of an appropriate risk-free rate. With a disclosure regarding the risk-free rate, the asset owner's oversight body can better understand and interpret the additional risk measure(s) presented.

Sample Disclosure:

"The Sharpe Ratio measures the performance of the total fund compared to a risk-free rate, after adjusting for risk. The risk-free rate used in the Sharpe ratio calculation is the 30-day US Treasury Bill."

Provision 24.C.35

The ASSET OWNER MUST disclose if GROSS-OF-FEES, NET-OF-EXTERNAL-COSTS-ONLY, or NET-OF-FEES returns are used to calculate presented risk measures.

Discussion

To help the oversight body interpret the risk measures presented in a GIPS Asset Owner Report, the asset owner must disclosure which returns are used in the calculation of the presented risk measures. This requirement applies to both required risk measures (e.g., the three-year annualized ex post standard deviation) and any additional risk measures. As discussed in Provision 22.B.7, it is recommended that asset owners use gross-of-fees returns when calculating risk measures.

Sample Disclosures:

"Gross-of-fees returns were used to calculate the three-year annualized ex post standard deviation of the composite."

"Gross returns were used to calculate all risk measures presented in this GIPS Asset Owner Report."

"Net-of-external-costs-only returns were used to calculate the three-year annualized ex post standard deviation of the total fund."

Provision 24.C.36

For REAL ESTATE investments that are directly owned, the ASSET OWNER MUST disclose that:[32]

a. EXTERNAL VALUATIONS are obtained and the frequency with which they are obtained; or

b. The ASSET OWNER relies on valuations from financial statement audits.

Discussion

According to Provision 22.A.33, for periods beginning on or after 1 January 2012, real estate investments that are directly owned by the asset owner must:

- have an external valuation at least once every 12 months unless the oversight body stipulates otherwise, in which case real estate investments must have an external valuation at least once every 36 months or per oversight body instructions if the oversight body requires external valuations more frequently than every 36 months; or
- be subject to an annual financial statement audit performed by an independent public accounting firm. The real estate investments must be accounted for at fair value, and the most recent audited financial statements available must contain an unmodified opinion issued by an independent public accounting firm.

Because valuation is such an important issue for real estate investments, asset owners must inform the oversight body whether they externally value real estate investments and, if so, how frequently, or instead place reliance on valuations from audited financial statements. This disclosure is required for periods ending on or after 31 December 2020.

Sample Disclosures:

"Midville Police and Fire Retirement System obtains external valuations for all real estate investments annually."

"ABC Foundation relies on valuations from audited financial statements. The audits are performed by an independent public accounting firm."

[32] REQUIRED for periods ending on or after 31 December 2020.

Provision 24.C.37

When the GIPS ASSET OWNER REPORT includes THEORETICAL PERFORMANCE as SUPPLEMENTAL INFORMATION, the ASSET OWNER MUST:

a. Disclose that the results are theoretical, are not based on the performance of actual assets, and if the THEORETICAL PERFORMANCE was derived from the retroactive or prospective application of a model.
b. Disclose a basic description of the methodology and assumptions used to calculate the THEORETICAL PERFORMANCE sufficient for the OVERSIGHT BODY to interpret the THEORETICAL PERFORMANCE, including if it is based on model performance, backtested performance, or hypothetical performance.
c. Disclose whether the THEORETICAL PERFORMANCE reflects the deduction of actual or estimated INVESTMENT MANAGEMENT FEES, INVESTMENT MANAGEMENT COSTS, and TRANSACTION COSTS.
d. Clearly label the THEORETICAL PERFORMANCE as SUPPLEMENTAL INFORMATION.

Discussion

To be presented as supplemental information in a GIPS Asset Owner Report, theoretical performance must relate to the respective total fund or composite. The following are examples of theoretical performance that may be included in a GIPS Asset Owner Report as supplemental information:

- Results created by applying a total fund or composite investment strategy or methodology to historical data, in order to indicate how a strategy constructed with the benefit of hindsight would have performed during a certain period in the past had the strategy been in existence during that period.
- Ex ante performance that is linked to actual total fund or composite performance, or that is calculated using actual total fund or composite performance.
- Results that include the effect of currency hedging that has been applied after the fact to the total fund or composite when the total fund or composite was not originally managed using the currency hedging strategy, and the hedging is not part of the actual total fund or composite returns.

When theoretical performance is included as supplemental information in a GIPS Asset Owner Report, an asset owner is required to include a number of disclosures to ensure that the oversight body understands the nature of the information being presented. Among the required disclosures are the source of the theoretical performance, the methodology and assumptions used to calculate the theoretical performance, and the treatment of fees and costs.

Asset owners must also clearly label the theoretical performance as supplemental information.

Sample Disclosure:

"A return history has been constructed for the period from 1 January 2015 through 31 December 2018 that reflects the application of an investment model used by XYZ Endowment Fund. The results are theoretical and are not based on the performance of actual portfolios. The return history is derived from the retroactive application of a model. Taking the constituents of the large-cap index at each month end, those securities that have an above-average dividend yield and an above-average dividend payout ratio were identified and reweighted by market capitalization. The next-month's performance was then applied to those stock weights to derive a model return for the month. These monthly model returns are then linked to provide annual returns. The theoretical performance presented does not reflect the deduction of investment management fees, transaction costs, or other fees and charges."

24.D. Disclosure—Recommendations

Provision 24.D.1

The ASSET OWNER SHOULD disclose material changes to valuation policies and/or methodologies.

Discussion

Valuation is a critical component of the performance calculation. Therefore, if a change to an asset owner's valuation policies and/or methodologies is material, asset owners should disclose the change in order to enable the oversight body to understand the potential effect of such a change.

Some examples of a material change include, but are not limited to, the following:

- new valuation principles adopted by a local accounting standards board,
- adoption of new international standards in lieu of local standards,
- change of economic criteria used to value investments, and
- change from a discounted cash flow basis to a comparables basis.

Sample Disclosure for a Policy Change:

"Prior to 1 March 2016, illiquid securities were valued internally. Subsequently, illiquid securities are valued using a third-party pricing service."

Sample Disclosure for a Methodology Change:

"For periods prior to 1 August 2019, real estate investments were valued on a discounted cash flow basis. As of 1 August 2019, real estate investments are valued on a comparables basis."

Provision 24.D.2

The ASSET OWNER SHOULD disclose material changes to calculation policies and/or methodologies.

Discussion

Asset owners have discretion to determine which policies and methodologies are used for calculating performance. Although these policies and methodologies must adhere to all applicable calculation requirements, asset owners may choose from a wide variety of policies and methodologies. Asset owners may change calculation policies and/or methodologies; however, asset owners must not change a calculation policy or methodology for the sole purpose of increasing performance. If a change to calculation policies and/or methodologies is material, asset owners should disclose the change in order to enable the oversight body to understand the potential effect of such a change.

Sample Disclosure:

"Effective 1 January 2010, portfolio returns are calculated daily, using a true time-weighted return methodology. Previously, portfolio returns were calculated monthly using the Modified Dietz method."

Provision 24.D.3

The ASSET OWNER SHOULD disclose material differences between the BENCHMARK and the TOTAL FUND'S or COMPOSITE'S investment mandate, objective, or strategy.

Discussion

Asset owners are required to disclose the total fund or composite description (see Provision 24.C.4) and the benchmark description (see Provision 24.C.5) in a GIPS Asset Owner Report. It is recommended that asset owners also disclose any material differences between the benchmark and the total fund's or composite's investment mandate, objective, or strategy. The oversight body will be better able to evaluate the performance of the strategy relative to the benchmark presented if they understand any material differences between the total fund or composite and the benchmark.

Sample Disclosures:

"The Concentrated Equity Composite invests in only the top 20 stocks (as determined by the Kora's Foundation Investment Committee) of the stocks that are included in its benchmark, the XYZ Index."

"The Absolute Return Composite invests in stocks, both long and short, regardless of country of domicile or market capitalization. The composite benchmark is the 3 Month T-bill rate, which is the hurdle rate, and is composed of materially different investments."

"The Real Estate Composite invests primarily in directly owned properties that are diversified by property type and geographic location. Up to 10% of composite assets may be invested in opportunistic commingled funds. As of 30 June 2020, debt as a percentage of composite assets was 42%. The XYZ Property Index is an unlevered composite measure of the performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only. Benchmark returns are calculated on an unleveraged basis."

Provision 24.D.4

The ASSET OWNER SHOULD disclose the key assumptions used to value investments.

Discussion

Asset owners are required to disclose that valuation policies are available upon request. (See Provision 24.C.13.) Because valuation is a critical component of the performance calculation, it is recommended that asset owners also disclose the key assumptions used when valuing portfolio investments. This disclosure will help the oversight body better understand how the asset owner values its different types of investments.

Sample Disclosure:

"Investments are valued using recent market quotations. If there is no publicly traded reference, equity investments are valued using a market multiples approach for similar investments in active markets, and fixed-income investments are valued using inputs such as interest rates, yield curve shape, volatility, prepayments, and credit spreads."

Provision 24.D.5

If the ASSET OWNER adheres to any industry valuation guidelines in addition to the GIPS valuation REQUIREMENTS, the ASSET OWNER SHOULD disclose which guidelines have been applied.

Discussion

Some market segments, such as private equity, have developed their own valuation guidelines. For these markets, it is not uncommon for the GIPS standards valuation requirements to be supplemented by other local or international standards that are more stringent in their requirements.

The disclosure of which industry's valuation guidelines have been used in addition to the GIPS standards valuation requirements will demonstrate to the oversight body that the asset owner is adhering to best practices by applying the more prescriptive standards when valuing investments.

Sample Disclosure:

"The Global Diversified Distressed Composite adheres to the XYZ Venture Capital Association's valuation guidelines as well as the GIPS valuation requirements. The XYZ valuation standards are based on fair value but provide more prescriptive advice in terms of how to value specific investments, such as secondary investments and distressed debt investments."

Provision 24.D.6

When using BENCHMARKS that have limitations, such as peer group BENCHMARKS, the ASSET OWNER SHOULD disclose these limitations.

Discussion

Asset owners must determine which benchmark(s) are most appropriate for total fund(s) or composite(s). When determining which benchmarks to present in a GIPS Asset Owner Report, asset owners should be guided by the ethical spirit of the GIPS standards.

Some benchmarks with known limitations are often used for certain types of investments. For example, peer group benchmarks, such as hedge fund peer group universe indices, are often used for hedge funds and other alternative investment strategies. Although peer group benchmarks are frequently used to evaluate hedge funds, there are some common problems with hedge fund peer group benchmarks, including the following:

- self-reporting bias (only some hedge funds choose to report performance data),
- survivorship bias (historical returns of closed hedge funds are removed from the peer group benchmark),
- inability to obtain returns for the same periods as the total fund or composite, and
- lack of investability (some hedge funds within a peer group benchmark are closed to new investors).

When using benchmarks that exhibit limitations, asset owners should describe these limitations in the relevant GIPS Asset Owner Report. This description helps the oversight body understand the nature of the benchmark and be aware of any known drawbacks in comparing the risk and return of the benchmark and the total fund or composite.

Sample Disclosure:

"The benchmark is the Hedge Fund Aggregate Multi-Style Index, which includes more than 100 hedge funds of various styles and strategies. Because this index is based on the data self-reported by the constituent funds, it may have a self-reporting bias. In addition, some funds are closed to new investors and are no longer investable. We believe that no better index exists as a comparison for this composite."

Provision 24.D.7

The ASSET OWNER SHOULD disclose information about the INVESTMENT MANAGEMENT FEES and INVESTMENT MANAGEMENT COSTS of the TOTAL FUND OR COMPOSITE that were incurred during the most recent annual period.

Discussion

Investment management fees are the fees payable to external managers for externally managed assets. Investment management fees are typically asset based (percentage of assets), performance based, or a combination of the two but may take different forms as well. Investment management fees also include carried interest.

Investment management costs include all internal costs for both internally and externally managed assets. In addition to the costs for portfolio management, they may also involve overhead and other related costs and fees, including data valuation fees, investment research services, custody fees, pro rata share of overhead (such as building and utilities), allocation of non-investment-department expenses (such as human resources, communications, and technology), and performance measurement and compliance services.[E] Investment management fees are not included in investment management costs.

Determining investment fees and costs for an asset owner, particularly investment management costs for internally managed assets, is not a straightforward process. Given the complexity of the costs incurred by an asset owner, it is recommended that the GIPS Asset Owner Report include disclosures about the investment management fees and investment management costs of the total fund or composite that were incurred during the most recent annual period. This information will help the oversight body understand the more recent fees and costs paid for the external and internal management of the total fund or composite assets.

Sample Disclosure:

"Total investment management costs deducted from the net-of-external-costs-only return to arrive at the net return were 0.14% for the fiscal year ended 30 June 2020. These costs include the allocation of internal overhead expenses and data valuation fees."

[E] The definition of INVESTMENT MANAGEMENT COSTS included in the Glossary in the 2020 edition of the GIPS standards is incorrect and should state:

All internal costs for both internally and externally managed assets. In addition to costs for PORTFOLIO management, they may also involve overhead and other related costs and fees, including data valuation fees, investment research services, CUSTODY FEES, pro rata share of overhead (such as building and utilities), allocation of non-investment-department expenses (such as human resources, communications, and technology), and performance measurement and compliance services.

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