CFA Institute®
Global Investment
Performance Standards

EXPOSURE DRAFT

GUIDANCE STATEMENT FOR OCIO STRATEGIES

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CFA Institute

Invitation to Comment

Exposure Draft of the Guidance Statement for OCIO Strategies

CFA Institute established the GIPS Standards for Outsourced Chief Investment Officers (OCIOs) Working Group to propose guidance for how to apply the Global Investment Performance Standards (GIPS®) to OCIO strategies. The OCIO Working Group and the GIPS Standards Technical Committee seek comment on the proposal set forth herein regarding the Guidance Statement for OCIO Strategies.

Questions are positioned throughout the document to elicit feedback on specific issues and highlight key proposed requirements. In addition to responding to the specific questions, please provide feedback on the entire document, including items you support. All comment letters will be considered carefully and are greatly appreciated.

Comments must be received no later than 20 November 2023. Please submit your comments as early as possible to facilitate the review process. Unless otherwise requested, all comments and replies will be made public on the GIPS standards website (www.gipsstandards.org). Comments may be submitted by email to standards@cfainstitute.org.

Introduction

The GIPS standards are ethical standards for calculating and presenting investment performance based on the principles of fair representation and full disclosure.

The following guidance has been developed to address applying the GIPS standards to Outsourced Chief Investment Officer (OCIO) strategies. Firms that choose to comply with the GIPS standards must follow all the applicable requirements of the GIPS Standards for Firms as well as the guidance as outlined in the Guidance Statement for OCIO Strategies when presenting a GIPS Report for an OCIO strategy.

This Guidance Statement includes several defined terms. The terms are included in the Glossary and are indicated throughout the document using an initial capital letter (e.g., Total OCIO Portfolio).

Scope of the Guidance Statement for OCIO Strategies

The purpose of this Guidance Statement is to provide guidance on how to apply the GIPS standards to OCIO strategies. Guidance is provided in the following areas:

- What is an OCIO?
- Definition of an OCIO Strategy and Total OCIO Portfolio
- When the Guidance Statement for OCIO Strategies Does Not Apply
- Examples for Determining if the Guidance Statement for OCIO Strategies is Applicable
- Required OCIO Composite Structure
- Currencies
- Legacy Assets
- Selection of Benchmarks
- Required OCIO Composite Returns
- OCIO Strategy–Specific Disclosures
- Distribution of GIPS Reports
- OCIO Strategies Managed Using a Pooled Fund
- Laws and Regulations
- Effective Date
- Glossary
- Sample OCIO Strategy GIPS Composite Report

What Is an OCIO?

An OCIO provides investment advice and investment management services on an outsourced basis for Total OCIO Portfolios of institutional investors, such as pension funds, endowments, and foundations. An OCIO acts as a fiduciary, and its responsibilities typically include spending policy/liabilities analysis, investment policy development, portfolio construction, and ongoing portfolio management. OCIO investment advice can take different forms but often includes learning about the asset owner's financial objectives, including any return objectives or liabilities, and helping to develop the strategic asset allocation and investment policy statement for the asset owner's Total OCIO Portfolio. An OCIO is then responsible for implementing the investments for the Total OCIO Portfolio.

As an example, DEF Pension Fund needs to fund its retirees' pension payments, and it also needs to grow its assets because it is underfunded. The DEF Pension Fund has a board of trustees that is ultimately responsible for ensuring that DEF is investing the pension fund appropriately. The pension fund's board decides to outsource the entire investment function and hire a firm that manages OCIO strategies rather than hiring dedicated investment personnel in-house. The firm conducts an asset–liability analysis and works with the pension fund's board to determine the strategic asset allocation and investment policy statement. The firm will then have full discretion to implement the strategy, including making tactical asset allocation changes, selecting external managers and investments, portfolio construction, and ongoing portfolio management.

A firm that manages OCIO strategies can be part of a larger firm that manages non-OCIO strategies, part of a consulting firm that provides some clients with only investment advice, or a standalone firm that is dedicated to managing only Total OCIO Portfolios. Firms may offer OCIO strategies that are tailored to each client or may offer bespoke pooled funds that reflect OCIO strategies. Any firm that claims compliance with the GIPS Standards for Firms and manages one or more OCIO Total Portfolios must also comply with the Guidance Statement for OCIO Strategies.

Definition of an OCIO Strategy and Total OCIO Portfolio

An OCIO Strategy is defined as a strategy in which a firm provides investment advice and investment management services on an outsourced basis for Total OCIO Portfolios of institutional investors, such as pensions, endowments, and foundations.

A Total OCIO Portfolio is defined as a pool of assets managed by a firm in an OCIO Strategy according to an institutional investor's investment mandate, which is typically composed of multiple asset classes. The Total OCIO Portfolio usually consists of underlying portfolios, each representing one of the strategies used to achieve the Total OCIO Portfolio's investment mandate.

A Total OCIO Portfolio will have the following characteristics:

1) It is a portfolio of an institutional client for which the firm has provided investment advice as to the asset allocation of the total portfolio.
2) It is composed of multiple asset classes.
3) It is not a portion of a larger portfolio with a strategic asset allocation that considers other asset classes.

An OCIO would typically be responsible for the following investment advice and investment management services:

	Service	May Require Client Approval
Investment Advice	Strategic Asset Allocation	Yes
	Spending Policy/Liability Analysis, if applicable	Yes
	Investment Policy Development	Yes
Investment Management	Portfolio Construction	
	Tactical Asset Allocation	
	Ongoing Portfolio Management	

Investment management services can be implemented by managing assets internally or using external managers.

After conducting a spending policy/liability analysis and developing a recommended investment policy statement and strategic asset allocation, an institutional client's oversight body will typically have responsibility for approving these items. The OCIO will then have discretion to execute the approved mandate.

When the Guidance Statement for OCIO Strategies Does Not Apply

Portfolios that do not include all asset classes of an OCIO Strategy

The Guidance Statement for OCIO Strategies does not apply to portfolios that are a portion of a Total OCIO Portfolio when the portfolio does not include all asset classes of the OCIO Strategy. For example, if the firm manages only the equity portion of a Total OCIO Portfolio, the Guidance Statement for OCIO Strategies does not apply.

Portfolios for which the firm does not provide both investment advice and investment management services

The Guidance Statement for OCIO Strategies does not apply to portfolios for which the firm provides investment management but does not recommend a strategic asset allocation or work with the client to develop the investment policy statement. It also does not apply when a firm provides only investment advice and does not provide investment management services.

When Fiduciary Management Providers in the UK are providing information to potential Pension Scheme Trustee clients

Organizations in the UK that meet the definition of Fiduciary Management Provider as defined in "The Investment Consultancy and Fiduciary Management Market Investigation Order 2019" must comply with the GIPS Standards for Fiduciary Management Providers (FMPs) when providing information to potential Pensions Scheme Trustee clients in the UK, including in all tender submissions and marketing communications. These organizations would not need to adhere to the Guidance Statement for OCIO Strategies when presenting performance to potential Pensions Scheme Trustee clients in the UK and would instead follow the GIPS Standards for Fiduciary Management Providers (FMPs). These firms may also choose to claim compliance with the GIPS Standards for Firms when marketing to prospective client other than Pension Scheme Trustee clients in the UK. If FMPs claim compliance with the GIPS Standards for Firms, they must comply with this Guidance Statement for their OCIO Strategies.

Examples for Determining If the Guidance Statement for OCIO Strategies Is Applicable

Example 1

A firm has been hired to manage the equity portion of a foundation's Total OCIO Portfolio. Because the equity only portfolio is not a Total OCIO Portfolio, the firm does not need to apply the Guidance Statement for OCIO Strategies to this portfolio.

Example 2

Two firms are hired to manage a pension fund's Total OCIO Portfolio. Each firm manages half of the client's portfolio using six asset classes according to the Total OCIO Portfolio investment mandate. Each firm would apply the Guidance Statement for OCIO Strategies to these portfolios.

Example 3

A firm has a traditional endowment client that has separate pools of assets governed under one investment policy statement, with each pool having its own total investment mandate. The firm is hired to provide investment advice for and manage the short-term pool that will be used to fund a near-term capital project. Because the short-term pool is managed to a total OCIO investment mandate, the short-term pool would be considered a Total OCIO Portfolio, and the firm would apply the Guidance Statement for OCIO Strategies to this portfolio.

Example 4

A firm has institutional clients for which it manages multi-asset-class portfolios, which includes implementing the client's strategic asset allocation and selecting external managers. The firm does not recommend a strategic asset allocation or work with the client to develop the investment policy statement. Because the firm is providing only investment management services and is not providing investment advice for these portfolios, the firm would not apply the Guidance Statement for OCIO Strategies to these portfolios.

Example 5

A firm offers four asset allocation model portfolios that are not customized for each endowment client. The firm works with each client to determine which of the four asset allocation model portfolios is best suited for the client's Total OCIO Portfolio. The firm also manages the multi-asset-class portfolio for each client. Because the firm is providing investment advice and investment management services to the client's Total OCIO Portfolio, the firm would apply the Guidance Statement for OCIO Strategies to these portfolios.

Example 6

A firm is hired by a pension fund client to develop the Total OCIO Portfolio investment strategy and investment policy statement. For ongoing management of the portfolio, the firm's delegated responsibility is limited to the administrative or back-office tasks associated with the investments, such as raising cash monthly to pay beneficiaries or to meet operating expenses, rebalancing, and managing private investment cash flows. Any changes to the underlying investments must be approved by the pension fund client. Because the firm is providing only investment advice and is not providing ongoing investment management services for the pension fund client, the firm would not apply the Guidance Statement for OCIO Strategies to these portfolios.

<u>Question for public comment:</u>

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

Required OCIO Composite Structure

The GIPS standards allow a firm to decide how to define composites that reflect the firm's strategies. Defining composites for strategies that include multiple asset classes can be challenging, given the variety of ways a firm could define composites. To assist prospective clients of OCIO strategies and provide comparability of performance results across firms, a firm that manages or offers Total OCIO Portfolios as a segregated account is required to create composites that are consistent with the following Required OCIO Composite structure:

Figure 1: Required OCIO Composites for Total OCIO Portfolios

Required OCIO Composites	Allocation to Liability-Hedging Assets	Allocation to Growth Assets
Liability-Focused Aggressive	0–20%	80–100%
Liability-Focused Moderately Aggressive	21–30%	70–79%
Liability-Focused Moderate	31–50%	50–69%
Liability-Focused Moderately Conservative	51–75%	25–49%
Liability-Focused Conservative	76–100%	0–24%
Required OCIO Composites	**Allocation to Risk-Mitigating Assets**	**Allocation to Growth Assets**
Total Return Objective Aggressive	0–20%	80–100%
Total Return Objective Moderately Aggressive	21–30%	70–79%
Total Return Objective Moderate	31–50%	50–69%
Total Return Objective Moderately Conservative	51–75%	25–49%
Total Return Objective Conservative	76–100%	0–24%

A composite that is consistent with the Required Composite structure is referred to as a Required OCIO Composite. A firm must create a Required OCIO Composite if it manages at least one Total OCIO Portfolio in the respective strategy.

The Required OCIO Composite structure separates “liability-focused” strategies from “total return” strategies, as follows:

- Liability-focused composites: consist of Total OCIO Portfolios managed with an objective to meet a liability stream for some or all of the client’s assets. Examples include corporate pension fund and insurance portfolios.
- Total return objective composites: consist of Total OCIO Portfolios managed with a total return objective and no liability matching. Examples include endowment, foundation, Taft–Hartley pension fund, operating reserve, and family office portfolios.

The Required OCIO Composites are defined based on a combination of the strategy (liability-focused or total return objective) and asset allocation rather than by client type. This will allow prospective clients to better compare smaller and larger firms that manage OCIO strategies.

The composite structure for liability-focused strategies is defined by asset allocation even though the portfolios are typically managed to a certain hedge ratio or duration. Defining composites by hedge ratio or duration could lead to many complexities, including return calculation challenges, and many prospective clients might not fully understand the composite definitions. Therefore, to make the composite structure understandable for clients, the Required OCIO Composite structure is based on a simple asset allocation percentage.

All actual, fee-paying, discretionary Total OCIO Portfolios must be included in a Required OCIO Composite. A Total OCIO Portfolio must be assigned to a Required OCIO Composite based on the portfolio’s strategic allocation to certain types of assets. Total OCIO Portfolios with a liability-hedging mandate will be assigned to a liability-focused composite based on the strategic allocation to liability-hedging assets. Total OCIO Portfolios with a total return objective will be assigned to a total return objective composite based on the strategic allocation to total return assets.

Asset Classifications Used for Asset Allocations

For liability-focused composites, assets will be classified as either liability-hedging or growth assets. For total return composites, assets will be classified as either growth or risk-mitigating assets. A firm must establish policies and procedures for determining how an asset is classified by strategy. This determination must be made on an ex ante basis, with one exception. When a firm initially creates Required OCIO Composites, it may classify assets on an ex post basis. Once a firm has classified asset types, any retroactive changes to an asset's classification would be subject to a firm's error correction policies.

For liability-focused OCIO composites:

- Liability-hedging assets include assets that are used to hedge liabilities. These assets are intended to move in the same direction as the liability stream. Examples of assets that would typically be considered liability-hedging assets are government bonds, stripped government bonds, high-quality corporates, or any derivative of these bonds.
- All other assets that are not considered liability-hedging assets would be considered growth assets. For example, a low-volatility hedge fund used to lower risk of the overall portfolio would be considered a growth asset because it is not being used to hedge liabilities.

For total return objective OCIO composites:

- Growth assets include assets that are used to seek returns and that increase a portfolio's risk.
- Examples of assets that would be considered growth assets are equities, high-yield bonds, and private equity.
- All other assets would be considered risk-mitigating assets. The intention could be to mitigate total portfolio risk or other types of risk, such as inflation risk. Examples of assets that would typically be considered risk-mitigating assets would be cash, cash equivalents, and core bond funds.
- Some assets are more challenging to categorize and may be categorized differently at different points in time. For example, emerging market debt might be considered risk-mitigating at one time but considered growth at other times. Firms will have discretion to determine how these assets are categorized.

Optional Non-Required OCIO Composites

Although firms are required to include all discretionary, fee-paying, Total OCIO Portfolios in a Required OCIO Composite, this should be viewed as a minimum requirement for the treatment of Total OCIO Portfolios. A firm may include Total OCIO Portfolios, or portions of Total OCIO Portfolios, in composites other than Required OCIO Composites. Such portfolios must be included in other composites if they meet a composite's definition. For example, a firm might create a composite that is more broadly defined (e.g., a composite combining the Total Return Objective Aggressive Composite and the Total Return Objective Moderately Aggressive Composite) or more narrowly defined (e.g., creating a sub-composite from a Required OCIO Composite based on client types).

Use of Asset Allocation Ranges

Total OCIO Portfolios must be assigned to a Required OCIO Composite based on the portfolio's target asset allocation, not the actual asset allocation weights. If a Total OCIO Portfolio's strategic asset allocation includes ranges and not specific target percentages for asset classes, the firm should use the midpoint of the asset allocation range as the target allocation. For example, if a Total OCIO Portfolio has a strategic allocation to liability-focused assets of 70%–80%, the firm would use the midpoint of 75% for composite assignment purposes.

Currencies

Reporting currency must not be used as a criterion for assigning Total OCIO Portfolios to a Required OCIO Composite denominated in a different currency unless it affects the investment strategy. For example, suppose that a firm manages Total OCIO Portfolios invested in a Total Return Objective Moderate strategy. Some investors in this strategy require reporting in Swiss francs (CHF), some require reporting in British pounds (GBP), and others require reporting in US dollars (USD). If the difference in reporting currencies does not create a difference in the strategy, the firm may not create different composites based on the client reporting currencies.

In contrast, differences in portfolio base currencies that have a material effect on strategy implementation must be considered when defining composites. For example, if one Total OCIO Portfolio invests cash and short-term equivalents in CAD, while another Total OCIO Portfolio invests cash and short-term equivalents in Euros, this difference may justify the use of Required OCIO Composites in different base currencies (e.g., Total Return Objective Moderate (CAD) Composite and Total Return Objective Moderate (Euro) Composite). Additionally, if currency hedging is part of the investment strategy, different composites may be required (e.g., Total Return Objective Moderate (CAD Hedged) Composite and Total Return Objective Moderate (Euro Hedged) Composite). Although the hedged returns of portfolios denominated in different currencies are intended to be similar if they are managed to the same strategy, there will be a difference in returns (even with perfect hedging) equivalent to the cost (or benefit) of hedging. This cost (or benefit) of hedging caused by the interest rate differential between currencies can be significant over time.

Questions for public comment:

2. Do you agree with the use of a Required OCIO Composite structure?
3. Do you agree with differentiating liability-focused composites from total return objective composites in the Required OCIO Composite structure?
4. The proposed asset allocation ranges for the Required OCIO Composites have been created based on a widely used set of OCIO indices, which is built to include the most common 60/40 portfolio in the middle of the moderate bucket. Do you agree with these ranges, or do you think we should take a different approach?

Legacy Assets

Firms that manage Total OCIO Portfolios often inherit legacy assets that they might wish to sell but may not be able to do so on a timely basis, or even on a longer-term basis. The high cost of disposing of some legacy assets may also cause a firm to keep legacy assets it would otherwise wish to sell. A firm must determine how the existence of legacy assets in a portfolio affects the firm's classification of the portfolio as discretionary or non-discretionary. A discretionary portfolio is one for which the firm has the ability to implement its intended strategy. Firms have three options for determining which Total OCIO Portfolios with legacy assets are considered discretionary and will be included in a Required OCIO Composite:

1. Exclude from composites portfolios with legacy assets when the legacy assets materially affect the ability of the firm to implement its intended OCIO strategy. A firm may consider the amount of legacy assets and type of legacy assets when making this determination.
2. Include in composites portfolios with legacy assets, regardless of the amount or type of legacy assets, because the firm determines that it can still manage these portfolios to its intended OCIO strategy.
3. Include in composites the portion of the portfolio that excludes legacy assets when this portion of the portfolio is consistent with a Total OCIO Portfolio.

Firms may establish such policies on a composite-specific basis and must apply these policies consistently. Because the approach to legacy assets and the effect on discretion may vary from composite to composite and from firm to firm, the firm must disclose in the GIPS Report information about the portfolios or assets it excludes from the composite due to legacy assets. This disclosure will allow the user of the GIPS Report to compare composites across firms and to inquire further about legacy asset positions.

Sample Disclosure

"The Total Return Aggressive Composite excludes those portfolios whose private market investments acquired by a prior investment manager exceed 5% of the portfolio's initial total value. Such portfolios are re-assessed annually."

Sample Disclosure

"The Total Return Objective Moderate Composite includes portfolios that have legacy assets. The legacy assets are excluded from the portfolio and the remaining portion is included in the composite. The individual portfolio benchmarks used within the portfolio-weighted custom benchmark are also adjusted to remove the benchmarks associated with the excluded legacy assets."

<u>Questions for public comment:</u>

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

Selection of Benchmarks

Benchmarks are important tools that aid in the planning, implementation, and evaluation of a composite's track record. They also help facilitate discussions with prospects regarding the relationship between risk and return. As a result, firms are required to present the total return for a benchmark that reflects the composite's or pooled fund's investment mandate, objective, or strategy in all GIPS Reports. Benchmarks are addressed in detail in the Guidance Statement on Benchmarks for Firms.

Common Benchmarks for OCIO Strategies

Some of the benchmarks applicable to OCIO strategies include:

- Portfolio-weighted custom benchmarks: A portfolio-weighted custom benchmark is created using the benchmarks of the individual portfolios in the composite. Although the investment mandates, objectives, or strategies of the portfolios in the composite are similar, the actual application of the strategies may differ. This type of benchmark, however, has limitations with respect to its comprehension by a prospective client. The GIPS standards require that if a portfolio-weighted custom benchmark is used, the firm must disclose:

- that the benchmark is rebalanced using the weighted average returns of the benchmarks of all of the portfolios included in the composite,
- the frequency of the rebalancing,
- the components that constitute the portfolio-weighted custom benchmark, including the weights that each component represents, as of the most recent annual period end, and
- that the components of the portfolio-weighted custom benchmark, including the component weights, are available for prior periods upon request.

For a composite that includes multiple Total OCIO Portfolios with highly customized benchmarks, there may be instances in which the portfolio-weighted custom benchmark consists of a very large number of underlying benchmarks. In these cases, some of the weightings of the component parts may be so small, and the list of benchmarks so long, that listing all of them would make the disclosures difficult to read. In these instances, firms must disclose the major components and weightings of the customized benchmark as of the most recent annual period end and must offer to make the smaller, undisclosed components available upon request.

Sample Disclosure for a Portfolio-Weighted Custom Benchmark

"The Total Return Moderate Composite benchmark is a portfolio-weighted custom benchmark that is calculated using the benchmarks of the portfolios in the composites. The benchmark is rebalanced monthly based on the beginning values of portfolios included in the composite. Each portfolio's benchmark is based on its strategic target asset allocation. As of 31 December 2022, the composite benchmark is composed of 9% International XYZ Index, 8% Global ABC Equity Index, 9% DEF US Equity Large Cap, 17% GHI US Equity All Cap, 12% JKL US Agg, 4% MNO US High Yield, 4% PQR Emerging Markets Bond, 3% TSU US Credit, 3% US TIPS, 6% QQQ Hedge Fund Peer Group, 9% DEF US Large Cap + 5%, 5% YRT Private Equity Peer Group, and 8% RTO Real Estate Peer Group. The remaining allocations are all under 1% and are available upon request. The breakdown of the custom benchmark for prior periods is available upon request."

A firm is not required to disclose how the underlying portfolio benchmarks and weights have changed each period.

- Peer Groups: Peer groups are often used for comparing like-managed strategies. For example, the investment objective may be to perform in the top quartile of similar OCIO mandates managed by firms over a three-year period. A peer group benchmark may be used, but it must reflect the investment mandate, objective, or strategy of the composite or pooled fund.

  If the peer group benchmark has limitations, such as a self-reporting bias, differences in periodicity of returns, or survivorship bias, where historical returns of closed portfolios are removed from the peer group benchmark, the firm should disclose these limitations.

Sample Disclosure for a Peer Group Benchmark

"The benchmark is a peer group of OCIO portfolios with a 0–20% allocation to risk-mitigating assets that is calculated using the average net of fees return, equally weighted, as reported by OCIOs, for all constituents within this asset allocation range. Constituents must be at least $50m or greater and are classified as fully discretionary by the respective firm managing the OCIO portfolio. The peer group benchmark may exclude OCIO portfolios that have terminated."

- Lagged benchmarks: Because private market investments are used by firms in some multi-asset strategies, there is often a timing difference between the performance used for traditional assets (e.g., equity and fixed income) and those used for private market investments (e.g., private equity). Firms should consider how private market investments are valued when determining the appropriate benchmark for these assets, in order to prevent a mismatch of information between the composite and the benchmark. For example, information for the equity and fixed-income asset classes within a composite and the related policy benchmark is as of 30 June, but the information from private market investments is as of 31 March. In this instance, the firm should use the private equity benchmark return from the previous quarter (i.e., 31 March) to match the timing of the return for the private equity asset class but use the equity and fixed-income benchmarks as of 30 June. The firm would disclose that there is a difference in valuation dates for those asset classes. The portfolio and benchmark timing should be synchronized to prevent differences due to timing mismatches. In addition to matching the timing, lagging the benchmark also addresses an availability issue. Private equity peer universe benchmarks are often not available until three months or more after the valuation date. It is not feasible to use the current period private equity benchmark in a timely fashion.

Required OCIO Composite Returns

Total OCIO Portfolios may incur investment management fees in a variety of ways. For example, a portfolio may pay investment management fees to the firm managing the portfolio, to external managers, and through pooled fund holdings. The pooled fund holdings could be proprietary funds or external funds. Also, investment management fees paid to the firm may be offset by fees paid to proprietary funds. Because of the complexity of the different investment management fees that may be charged for an OCIO strategy, a firm must present both gross-of-fees and net-of-fees returns for Required OCIO Composites. Presenting both of these returns, along with the fee schedule, will allow prospective clients to understand the full costs of the OCIO strategy and assess returns from different firms.

Both gross-of-fees and net-of-fees returns for a Required OCIO Composite must reflect the deduction of transaction costs as well as fees and expenses for underlying pooled funds and externally managed segregated account. Net-of-fees returns must also reflect the deduction of the investment management fees for the firm managing the OCIO Strategy. The difference between gross-of-fees and net-of-fees returns for a Required OCIO Composite will typically be the investment management fees paid to the firm managing the OCIO Strategy

There is one exception for calculating returns when the firm controls the investment management fees of the underlying pooled funds. This may occur when both underlying funds and the Total OCIO Portfolio are managed by the same firm, and there is effectively a fee rebate or waiver at the Total OCIO Portfolio level for those fees charged at the underlying fund level. In such a case, the firm can present the gross-of-fees returns gross of the underlying funds' investment management fees but net of the underlying funds' transaction costs and other expenses.

Firms may also present pure gross-of-fees returns as supplemental information. A pure gross-of-fees return is the return on investments that is not reduced by any transaction costs or fees and expenses of underlying pooled funds and segregated accounts.

The following table illustrates the calculations for the different types of returns that a firm may calculate:

Return Type	Return	Information Type
Pure gross-of-fees return	11.00%	Supplemental information
Fees and expenses for underlying pooled funds and segregated accounts	–0.40%	
Transaction costs	–0.04%	
Gross-of-fees return	10.56%	Required
OCIO Investment management fee	–0.50%	
Net-of-fees return	10.06%	Required

Question for public comment:

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

Time-Weighted Returns

A Total OCIO Portfolio typically has multiple asset classes, including asset classes such as equity, fixed income, real estate, and private equity. Performance for some of these asset classes, including real estate and private equity, is often reported using money-weighted returns (MWRs). However, when calculating performance for a Total OCIO Portfolio, the firm must calculate a time-weighted return (TWR).

OCIO Strategy–Specific Disclosures

A GIPS Report for a Required OCIO Composite must include all of the information required by the GIPS Standards for Firms as well as any disclosures required by the Guidance Statement for OCIO Strategies.

Liability-Hedging Assets vs. Growth Assets

Although some assets can be easily classified as liability-hedging assets (e.g., government bonds) or growth assets (e.g., equities), there may be some assets that are not as easily classified (e.g., commodities) or may be considered as liability-hedging assets by one firm and growth assets by a different firm. In addition, the same firm may classify assets differently over time. For this reason, firms must disclose the types of assets included in composites and how these are classified. If the assets are classified differently for the periods presented in the GIPS Report, the firm must also disclose this fact.

Sample Disclosure

"The Total Return Objective Aggressive Composite consists of growth assets of US large cap equities, emerging market equities, high yield bonds, and venture capital funds. The liability-hedging assets consist of long duration US Treasuries, investment grade bonds, and emerging market debt. Prior to 2015, emerging market debt was classified as a growth asset."

Material Impact Disclosures

Total OCIO Portfolios within a composite can have a lot of dispersion due to customization. Therefore, there may need to be more disclosure in the GIPS Report about the types of portfolios included in the composite to fully explain the composite performance. For example, if half of the portfolios in the composite have alternative investments while the other half do not, this would be an important point for the prospective client to understand and should be disclosed. It may also be important for the prospective client to understand other factors about the portfolios in the composite, such as the average tenure of the private equity assets, the type of alternative investments used, and the funded status of the portfolios. It will be up to the firm to determine what information about the composite portfolios should be disclosed to allow a prospective client to understand the composite performance.

Fee Schedule Disclosure

Firms are required to disclose the current fee schedule appropriate to prospective clients. Because many OCIO strategies use proprietary investment products within client portfolios, a firm may need to include disclosures about fees and expenses of underlying investments so a prospective client can fully understand the fee structure. As an example, a firm that uses proprietary funds that charge investment management fees may charge a much lower, or even no, OCIO investment management fee, while a firm that does not use proprietary funds will charge what appears to be a much higher OCIO investment management fee. The firm should provide enough information about the fees and costs to allow a prospective client to understand all of the fees and costs the client will incur.

Sample Disclosure for a Firm That Uses Proprietary Funds

"The current fee schedule is 10 basis points on all assets. The firm also earns investment management fees from proprietary funds included in client portfolios. Investment management fees on these proprietary funds differ, and details about each fund's fees are available. Given the expected asset allocation for this strategy, XYZ Firm estimates the average annual fee from all proprietary funds will be approximately 50–60 basis points per annum."

Sample Disclosure for a Firm That Uses Primarily External Funds

"The OCIO investment management fee is 0.20% on all assets, excluding legacy assets.

Fees on underlying investments are expected to be as follows:

Asset Class	Underlying Fee	Description
International Equities (Active)	Total expense ratios range from 0.50% to 0.75% per annum	Internally managed mutual funds/commingled vehicles with a Total Expense Ratio

Asset Class	Underlying Fee	Description
Domestic Equities (Passive)	Total expense ratios range from 0.05% to 0.15% per annum	Externally managed ETFs with a total expense ratio
Fixed Income	Covered by stated fee	Internally managed fixed-income vehicle with offset of management fee against OCIO fee
Private Debt	Investment management fees range from 1.50% to 2.0% per annum Other fund expenses range from 0.25% to 0.75% Carried interest for most vehicles is 10% over an 8% hurdle rate with catch up	Externally managed LP/LLC structures with an investment management fee, other fund expenses, and carried interest
Hedge Funds	Total expense ratios range from 0.70% to1.25% per annum Carried interest for most hedge funds is 20%	Internally managed multi-manager fund-of-funds (FoF), with a FoF investment management fee with offset against OCIO fee. Underlying funds pay a total expense ratio plus carried interest
Public Real Assets	Total expense ratios range from 0.60% to 0.85% per annum	Externally managed mutual funds/commingled vehicles with a total expense ratio
Private Real Assets	Total expense ratios range from 0.80% to 1.00% per annum	Externally managed mutual funds/commingled vehicles with a total expense ratio
Private Equity	Investment management fees range from 1.50% to 2.0% per annum Other fund expenses range from 0.25% to 0.75%	Externally managed LP/LLC structures with an investment management fee, other fund expenses, and carried interest

Asset Class	Underlying Fee	Description
	Carried interest for most vehicles is 20%	
Legacy Private Capital	Investment management fees range from 1.50% to 2.0% per annum Other fund expenses range from 0.25% to 0.75% Carried interest for most vehicles is 10% over an 8% hurdle rate with catch up	Externally managed LP/LLC structures with an investment management fee, other fund expenses, and carried interest
Cash	Total expense ratio of 0.10%	Externally managed money market mutual fund with a total expense ratio"

Distribution of GIPS Reports

Firms must provide the relevant Required OCIO Composite's GIPS Report to all prospective clients for an OCIO strategy. If the firm does not have an appropriate Required OCIO Composite to present to a prospective client for an OCIO strategy, the firm must disclose that it does not currently manage any portfolios in the specific OCIO strategy.

A firm could also provide a GIPS Report for additional composites if it wishes to do so. As an example, assume a firm creates Required OCIO Composites. Because the firm focuses primarily on managing endowments and foundations (E&Fs), the firm also creates subset composites of each Required OCIO Composite that includes only E&Fs. If an endowment is interested in a total return aggressive strategy, the firm would be required to provide the GIPS Report for the Total Return Objective Aggressive Composite that includes all portfolio types, if it has such a composite. The firm could also provide a GIPS Report for the Total Return Objective Aggressive – E&F Only Composite.

Additionally, a firm may provide any additional information that the client requests. For example, a prospective client might request information based on client type (e.g., pensions or endowments and foundations), portfolios within a range of assets ($1 billion to $5 billion), or by funded status (e.g., funded status of 80% or higher). In such cases, the firm may provide the information requested by the prospect. The firm must also provide the GIPS Report for the composite, if such a composite exists.

OCIO Strategies Managed Using a Pooled Fund

Some firms manage OCIO strategies using a pooled fund. If the firm offers participation in a pooled fund to a prospective investor for an OCIO strategy, the firm may provide a GIPS Pooled Fund Report instead of a GIPS

Composite Report. Alternatively, the firm could include the pooled fund in one of the Required OCIO Composites and provide that composite's GIPS Report to prospective investors for the pooled fund.

When the firm provides a GIPS Pooled Fund Report for a pooled fund to a prospective investor for an OCIO strategy, the firm must present both pooled fund gross returns and pooled fund net returns, and it must also include all disclosures required by the Guidance Statement for OCIO Strategies.

Laws and Regulations

Firms must comply with all applicable laws and regulations regarding the calculation and presentation of performance, which may require calculating returns in a certain manner or presenting specific returns. For example, firms that are registered with the US Securities and Exchange Commission are subject to the SEC Marketing Rule, which has specific requirements when presenting performance in advertisements. For example, advertisements that include composite performance must include composite returns for certain prescribed time periods (i.e., 1-, 5-, and 10-year periods.). Information about the SEC Marketing Rule that is helpful to firms that claim compliance with the GIPS standards can be found on the US SEC Marketing Rule webpage of the GIPS standards website.

Effective Date

This Guidance Statement has an effective date of (TBD – 12 months after the Guidance Statement is issued). Firms will, therefore, have 12 months to implement the new requirements.

GIPS Reports for Required OCIO Composites that include performance for periods beginning on or after (effective date) must be prepared in accordance with this Guidance Statement. When initially preparing a GIPS Report for a Required OCIO Composite, a firm will be required to initially present at least five years of performance that meets the requirements of the GIPS standards and this Guidance Statement. If the composite or pooled fund has been in existence less than five years, the firm must present performance since the composite or pooled fund inception date. Prospectively, the firm must present an additional year of performance each year, building up to a minimum of 10 years of performance.

Firms are encouraged, but not required, to apply this guidance prior to the effective date and for more than the minimum five-year period.

Questions for public comment:

8. Do you agree with requiring firms to initially present at least five years of performance that meets the requirements of the GIPS standards and this Guidance Statement?
9. Do you agree that the effective date should be 12 months after the issue date?

Glossary

OCIO Strategy	A strategy in which a firm provides investment advice and investment management services on an outsourced basis for Total OCIO Portfolios of institutional investors, such as pensions, endowments, and foundations.
Total OCIO Portfolio	A pool of assets managed by a firm for an OCIO strategy according to an institutional investor's investment mandate, which is typically composed of multiple asset classes. The Total OCIO Portfolio usually consists of underlying portfolios, each representing one of the strategies used to achieve the Total OCIO Portfolio's investment mandate.
Required OCIO Composite	A composite that must be created according to the Required OCIO Composite structure provided in "Figure 1: Required OCIO Composites for Total OCIO Portfolios." A firm must create a Required OCIO Composite if it manages at least one Total OCIO Portfolio in the respective strategy.

Sample OCIO Strategy GIPS Composite Report

Jaxx Investments
Total Return Moderate Composite
31 December 2022

				3-Year Std Deviation					
Calendar Year	**Gross Return (%)**	**Net Return (%)**	**Benchmark Return (%)**	**Composite Gross (%)**	**Benchmark (%)**	**# of Portfolios**	**Dispersion (%)**	**Composite Assets ($ M)**	**Firm Assets ($ M)**
2013[a]	18.91	18.39	17.51	n/a	n/a	11	n/a	2,165	3,068
2014	5.58	5.16	5.86	n/a	n/a	14	2.0	2,235	2,385
2015	–0.12	–0.52	–1.09	n/a	n/a	13	1.7	2,344	2,570
2016	7.10	6.59	7.33	5.30	4.52	12	2.8	2,445	2,789
2017	16.11	15.65	15.20	7.51	7.68	15	3.1	2,520	2,851
2018	–5.61	–5.99	–5.56	6.95	5.85	14	2.8	2,505	3,385
2019	21.60	21.14	21.17	8.29	7.53	16	2.9	2,975	5,206
2020	15.71	15.28	15.18	12.27	12.91	19	3.1	3,203	5,820
2021	11.96	11.50	11.70	9.84	8.72	21	1.5	3,231	5,863
2022	–17.51	–17.98	–17.09	11.82	10.63	20	2.5	3,275	6,379

[a]Returns are for the period 1 February 2013 (inception) to 31 December 2013.

1. Jaxx Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Jaxx Investments has been independently verified for the periods 1 January 2010 to 31 December 2022. The verification report is available upon request.

   A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund 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 a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

2. Jaxx Investments is an independent investment advisor registered under the Investment Advisors Act of 1940. Registration does not imply a certain level of skill or training. Jaxx Investments provides discretionary

and non-discretionary investment management services to institutional clients, including OCIO advisory services.

3. The Total Return Moderate Composite includes all fee-paying, discretionary portfolios that are invested in the Total Return Moderate asset allocation strategy. Portfolios in this composite have a target allocation to growth assets of between 51% and 70%, with the remainder of portfolio assets allocated to risk-mitigating assets. Growth assets include equities and alternative investment strategies, such as real estate, commodities, private equity, and private debt. Risk-mitigating assets include fixed income, absolute return strategies, and hedge funds. Portfolios with legacy assets of 10% or more are excluded from the composite.

4. As of 31 December 2022, two portfolios in the composite representing 27% of composite assets had a 0% allocation to alternatives. The average tenure of the private equity pooled fund investments in the remaining portfolios is eight years. Approximately half of the private equity assets are benchmarked against a public market index plus a premium, and half are benchmarked against an industry peer group index.

5. The Total Return Moderate Composite benchmark is a portfolio-weighted custom benchmark that is calculated using the benchmarks of the portfolios in the composites. The benchmark is rebalanced monthly based on the beginning values of portfolios included in the composite. Each portfolio's benchmark is based on its strategic target asset allocation. As of 31 December 2022, the composite benchmark is composed of 9% International XYZ Index, 8% Global ABC Equity Index, 9% DEF US Equity Large Cap, 14% GHI US Equity All Cap, 9% JKL US Agg, 4% MNO US High Yield, 4% PQR Emerging Markets Bond, 3% TSU US Credit, 3% US TIPS, 6% QQQ Hedge Fund Peer Group, 5% DEF US Large Cap + 5%, 5% YRT Private Equity Peer Group, and 8% RTO Real Estate Peer Group. The remaining allocations are all under 3% and are available upon request. The breakdown of the custom benchmark for prior periods is available upon request.

6. Returns presented are time-weighted returns and reflect the reinvestment of dividends and other earnings. Valuations are computed and performance is reported in US dollars.

7. Gross returns are presented before OCIO management and custodial fees but after all transaction costs and underlying pooled fund fees and expenses. Composite returns are presented net of non-reclaimable withholding taxes. Reclaimable taxes are recognized if and when received. Benchmark returns are net of withholding taxes from the perspective of a non-resident institutional investor. Net-of-fees returns are calculated by deducting a model monthly management fee of 0.0333%, which is 1/12th of the highest annual management fee of 0.40%, from the monthly gross composite return.

8. The OCIO investment management fee is 0.40% on all assets, excluding legacy assets. Fees on underlying investments are expected to be as follows:

Asset Class	Underlying Fee	Description
International Equities (Active)	Total expense ratios range from 0.50% to 0.75% per annum	Internally managed mutual funds/commingled vehicles with a total expense ratio
Domestic Equities (Passive)	Total expense ratios range from 0.05% to 0.15% per annum	Externally managed ETFs with a total expense ratio

Asset Class	Underlying Fee	Description
Fixed Income	Covered by stated fee	Internally managed fixed income vehicle with offset of management fee against OCIO fee
Private Debt	Investment management fees range from 1.50% to 2.0% per annum. Other fund expenses range from 0.25% to 0.75%. Carried interest for most vehicles is 10% over an 8% hurdle rate with catch up	Externally managed LP/LLC structures with an investment management fee, other fund expenses, and carried interest
Hedge Funds	Total expense ratios range from 0.70% to 1.25% per annum. Carried interest for most hedge funds is 20%	Internally managed multi-manager fund-of-funds, with a FoF investment management fee with offset against OCIO fee. Underlying funds pay a total expense ratio plus carried interest
Public Real Assets	Total expense ratios range from 0.60% to 0.85% per annum	Externally managed mutual funds/commingled vehicles with a Total Expense Ratio
Private Real Assets	Total expense ratios range from 0.80% to 1.00% per annum	Externally managed mutual funds/commingled vehicles with a total expense ratio
Private Equity	Investment management fees range from 1.50% to 2.0% per annum. Other fund expenses range from 0.25% to 0.75%. Carried interest for most vehicles is 20%	Externally managed LP/LLC structures with an investment management fee, other fund expenses, and carried interest
Legacy Private Capital	Investment management fees range from 1.50% to 2.0% per annum. Other fund expenses range from 0.25% to 0.75%. Carried interest for most vehicles is 10% over an 8% hurdle rate with catch up	Externally managed LP/LLC structures with an investment management fee, other fund expenses, and carried interest
Cash	Total expense ratio of 0.10%	Externally managed money market mutual fund with a total expense ratio

9. Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request.
10. A list of composite descriptions is available upon request.
11. The composite was created in November 2022, and the inception date is 1 February 2013.
12. Internal dispersion is calculated using the equal-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year.
13. The three-year annualized standard deviation measures the variability of the composite gross returns and the benchmark returns over the preceding 36-month period.
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15. Past performance is not indicative of future results. As with any investment vehicle, there is always the potential for gains as well as the possibility of losses.