30 November 2017

Hi- If it's not too late, we had a few responses. Please see responses below and let us know if we can provide any additional information.

Question 6-this should be a recommendation, not a requirement.

Question 9- there were thoughts within our firm that the return should be geometrically linked, regardless of the constant exposure. Just because the product is designed to refund or take as income any P&L, doesn't mean it should suffer vs. an identical sub-period return strategy. This is an operational difference, and not one that should disadvantage one composite vs. another.

Question 10- it seems enough that firms have the option to disclose the exposure. Not sure a recommendation is warranted.

Question 12- the proposed timeline is sufficient.

Would you consider adding another type of overlay in section 2? One where there is an overlay specifically designed against a portfolio not managed by the overlay manager. In this case, the objective may be superior risk adjusted return, such as Sharpe Ratio. The value add can only be measured when the overlay and underlying portfolio are aggregated, then compared to the underlying portfolio. For example, the overall return may be negative for the overlay, but it may have a disproportionally large reduction in overall risk, leading to success, but only in the total portfolio context. This seems like a practical use case. If we didn't miss it, could this scenario be addressed?

One last question- How should strategies assigned to add value on a target notional (say $20MM), be measured when the overlay account is sitting on cash (say $2MM) used for settlement of derivatives (say daily Futures margin). Is it fair to use Overlay P&L / $20MM, when there is an additional $2MM committed to the strategy? The treatment would vary on a client by client basis.

Thanks!

Carolyn

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