

August 22, 2022

VIA EMAIL

CFA Institute
ATTN: GIPS Standards Technical Committee
915 East High Street
Charlottesville, VA
22902
standards@cfainstitute.org

Re: CFA Institute – Exposure Draft on Guidance Statement on Benchmarks for Asset Owners

The Canadian Investment Performance Council of CFA Societies Canada¹ (the CIPC) appreciates the opportunity to provide comments on the Exposure Draft Guidance Statement on Benchmarks for Asset Owners.

Responses to Select Questions from the Exposure Draft

A. Do you believe that asset owners commonly use custom benchmarks that reflect the deduction of fees or expenses? Which disclosures are necessary to accompany this type of benchmark?

Using custom benchmarks that reflect the deduction of fees or expenses does not appear to be common practice. However, there have been some instances of this occurring. For example, it may just be a reduction of the benchmark of an asset class, such as reducing the asset management fees in the real estate benchmark, given the magnitude of these fees. While uncommon, we have seen instances of transaction costs netted in benchmarks, but in those instances, they were used as secondary benchmarks, not primary (published) benchmarks.

Should custom benchmarks that reflect the deduction of fees or expenses be used, asset owners should specify the methodologies as well as the types of fees (or fee breakdown) included. The comparable fund or composite must reflect the deduction of the same fees or expenses deducted in the benchmark. Specific disclosures should include, for example, 1) labelling the benchmark as “net” with a list of the fees or expenses that are being netted 2) disclosing the effective date of the change 3) and

¹ The CIPC is an advocacy council for CFA Societies Canada, representing over 19,000 Canadian CFA charterholders, and the 12 CFA Institute Member Societies across Canada. The council includes investment professionals across Canada who review regulatory and standard setting developments involving matters relating to investment performance in Canada. Visit www.cfacanada.org to access the advocacy work of the CIPC or follow us on [LinkedIn](#).

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow. There are more than 180,000 CFA charterholders worldwide in 160 markets. CFA Institute has nine offices worldwide and there are 160 local societies. For more information, visit www.cfainstitute.org or follow us on LinkedIn and Twitter at @CFAINstitute.

providing the composition of fees or expenses that are being netted in the applicable period(s).

B. Do you believe that benchmarks adjusted for leverage should be allowed to be presented in GIPS Asset Owner Reports? Which disclosures are necessary to accompany this type of benchmark?

Yes, we believe that benchmarks adjusted for leverage should be allowed to be presented in GIPS Asset Owner Reports as it may better reflect the investment mandate or strategy. Benchmarks serve as a point of reference against which the portfolio/composite's performance and/or risk is compared. If the portfolio has leverage exposure built in and the leverage contributes to the Asset Owner's portfolio return, for fair comparison purposes the benchmark should be allowed to capture the leverage exposure as well. Otherwise, there will be mismatch in asset allocation and expected risk & return profiles. For example, excluding leverage from a real estate benchmark could bias interpretation of relative performance.

Disclosures for consideration should include naming sources of leverage, allowable ranges or limits of leverage (if applicable), rationale for the benchmark selected for leverage, any benchmark adjustments made, structure of leverage (for example, fixed or floating and duration/maturity), and whether the leverage adjustment is for implicit leverage (for example, an index based on returns of real estate funds or hedge funds would include the impact of leverage) or direct leverage.

C. Do you agree with the types of benchmarks used by asset owners? Should we modify any explanations of the benchmark types? Are any benchmark types missing?

We generally agree with the types of benchmarks used by asset owners and recommend adding an absolute benchmark, such as 5 % + CPI or Libor + 2 %.

D. When an asset owner is transitioning from one asset allocation to another, it may wish to present the policy benchmark using weightings that change incrementally during the transition period, adhering to a predefined schedule. Do you agree that asset owners should be allowed to change asset class weightings incrementally to include interim weightings in order to match the total fund weights in GIPS Asset Owner Reports, rather than using a policy weight benchmark? Which disclosures are necessary to accompany this type of benchmark?

Yes, we agree asset owners should be allowed to change asset class weightings incrementally to include interim weightings during the transition period as this allows to better interpret relative performance if the transition occurs over a longer period of time and is more representative of the investment strategy.

Asset owners typically manage large asset bases. When the policy benchmark transition from an old asset mix to a new one, it is usually infeasible for asset owners to move significant amounts of money from one asset class to another within a short period of time, especially when the asset mix change involves illiquid asset classes. Nor is this practice advisable for asset owners as buying and selling large amount of assets within a short period of time will have undesirable market impacts. For these reasons, asset

owners typically transition from one asset allocation to another over an extended period of time according to a predefined transition schedule that eventually will reach the target policy benchmark allocation by a predefined date. Reflecting the asset transition schedule in asset class weighting of the policy benchmark allows for fair comparison between portfolio and benchmark from both asset mix and risk return perspectives and should be allowed.

Disclosures for consideration include the asset mix transition schedule which clearly defines the duration of the transition and target weightings for each of the asset class at each pre-defined timelines and disclosure on the weighting methodologies applied, for example, whether it is a daily floating weight with periodic reset to the target weight or daily fixed weight till next reset or other mechanism in place.

E. Do you agree that asset owners should be able to present an actual-weight benchmark in GIPS Asset Owner Reports instead of a policy weight benchmark? Which disclosures are necessary to accompany actual-weight benchmarks?

Yes, we agree that asset owners should be able to present an actual-weight benchmark in GIPS Asset Owner Reports instead of a policy weight benchmark. In our opinion, if there is an active asset allocation program, the asset owner should be required to use a policy weight benchmark such that the active asset allocation decisions are captured in the excess return. If there is no active asset allocation program, a policy weight benchmark is still recommended so that excess return captures any rebalancing execution effects, though a strong operational process to execute rebalancing will ensure there is minimal impact from imperfect rebalancing to target.

We agree with the proposal, if an active weight benchmark is used, the asset owner must disclose that this is the case.

F. Do you agree that asset owners should be allowed to present a lagged benchmark to match the date of lagged valuations in the asset class of a total fund or additional composite? Which disclosures are necessary to accompany a lagged or partially lagged benchmark?

Yes, we agree that asset owners should be allowed to present a lagged benchmark as this can be a better representation of relative returns.

Disclosures for consideration should include the valuation date for both the relevant fund or composite and the corresponding index.

We thank you for the opportunity to provide these comments and would be happy to address any questions you may have. Please feel free to contact us at info@cfacanada.org on this or any other issue in future.

(Signed) *The Canadian Investment Performance Council of
CFA Societies Canada*

**The Canadian Investment Performance Council of
CFA Societies Canada**