

August 17, 2022

CFA Institute
Global Investment Performance Standards

Re: Exposure Draft Guidance Statement on Benchmarks for Asset Owners

Dear GIPS Standards Technical Committee,

We would like to thank you for providing the Guidance Statement on Benchmarks for Asset Owners and allowing us to provide feedback on such an important role in evaluating performance. Please see our comments and responses to the questions below.

Question 1: 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?

While it is not common to use net of fee benchmarks with long only, public benchmarks, private asset peer universe benchmarks are often net of fees. Proper disclosure referencing the net of fee benchmark and the calculation methodology would be preferred.

Question 2: 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?

Leverage benchmarks should be allowed to be presented and utilized. Leverage benchmarks better reflect the risks of a strategy that uses leverage. Proper disclosures are necessary and would include reference to the benchmark being leveraged as well as the calculation methodology.

Question 3: 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?

Overall the list is fairly in depth and detailed. ETF benchmarks should not be used in the event that a public market benchmark is available. ETFs typically include expense ratios while there are near-zero fee passive alternative options in the public markets.

Question 4: 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?

Moving asset weights according to a schedule when an asset owner is transitioning from one asset allocation to another should be allowed. This can be used by those asset owners that may not want to incur excessive transaction costs or trading to get to a new allocation all at once. It should be disclosed in advance the intention to get to a new asset allocation in a transition and over a specific time frame.

Question 5: 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?

Actual weight benchmarks should be allowed to be used instead of policy weight benchmark in instances when private asset classes are involved. In many, if not most instance, it is infeasible or impossible to rebalance a private asset class to a fixed weight. Actual weights, as long as they fall within a predetermined range could mitigate concerns that the policy approved asset allocation is being undermined or unaccounted for. Actual weights instead of policy when only public market assets are involved are not necessary and should not be allowed unless a pre-established transition is taking place.

Question 6: 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?

Asset owners should be allowed to present a lagged benchmark to match the date of lagged valuations in an (private) asset class. This is very common in private equity. The portfolio and benchmark timing should be synchronized otherwise it introduces a fictitious extra volatility due to timing mismatches. It should be disclosed that the benchmark is being lagged. In addition, to matching the timing, lagging the benchmark also address an availability issue. Private equity peer universe benchmarks are not available for almost 3 months after the valuation date. It is not feasible to use the current period benchmark in a timely fashion.

Thank you,

Pension Reserves Investment Management Board