CFA Societies Canada

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November 20, 2023

VIA EMAIL

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

Re: CFA Institute – Exposure Draft Guidance Statement for OCIO Strategies

The Canadian Investment Performance Council of CFA Societies Canada[1] (the CIPC) appreciates the opportunity to provide comments on the Exposure Draft Guidance Statement for OCIO Strategies.

Responses to Select Questions from the Exposure Draft

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

Yes, it is clear when a firm must apply the Guidance Statement for OCIO Strategies; however, we disagree with it.

The definition of a Total OCIO Portfolio includes the following characteristic: "It is a portfolio of an institutional client for which the firm *has provided investment advice* [emphasis added] as to the asset allocation of the total portfolio". We believe this characteristic would exclude some OCIOs as not all OCIOs provide investment advice for the entire time they offer OCIO strategies or even at all. To illustrate the complexity of this characteristic, consider an OCIO that initially does not offer investment advice but chooses to at a later date. Is the track record before it began to offer investment advice not relevant to the offering and therefore should be excluded from the composite(s)? Similarly, if an OCIO chooses not to offer investment advice, is it therefore prohibited from adopting these provisions?

We recommend altering the statement, "A Total OCIO Portfolio will have the following characteristics" to read "A Total OCIO Portfolio will have one or more of the following characteristics."

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[1] The Canadian Investment Performance Council (CIPC) is an advocacy council for CFA Societies Canada, representing over 21,000 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.

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Question 2: Do you agree with the use of a Required OCIO Composite structure?

No, we do not agree with the Required OCIO Composite structure.

We believe it is overly prescriptive and may not apply in all cases. For example, some OCIO firms may choose to have only three levels (e.g., Aggressive, Moderate, and Conservative), while others may elect to have more (e.g., Very Aggressive, Aggressive, Moderate, Moderately Aggressive, Moderate, Moderately Conservative, Conservative, and Very Conservative) and others may take an entirely different approach.

We suggest making the use of a Required OCIO Composite structure a recommendation and not a requirement.

Question 3: Do you agree with differentiating liability-focused composites from total return objective composites in the Required OCIO Composite structure?

We agree only if this is a recommendation. Some OCIOs may wish to design composites differently and should have the flexibility to do so. We therefore suggest this be a recommendation not a requirement.

Question 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?

No, we do not agree with these ranges. In our opinion, this approach is overly restrictive and prescriptive. OCIO firms should have the flexibility to define ranges as appropriate.

We suggest this approach be a recommendation and not a requirement.

Question 5: Do you agree with the proposed three options for the treatment of legacy assets?

Yes, we agree, though we believe the wording can be clarified by including examples. For instance, for #3, a client portfolio holds 5% in U.S. commercial real estate. The OCIO firm would not, at the present time, consider investing in this sector nor would it be an appropriate time to sell the assets and therefore retain them, even if it does not fit within the OCIO strategy. Since the other 95% of the portfolio is in line with the OCIO strategy it is included in the composite, while the balance of the 5% in U.S. commercial real estate is excluded.

We believe these can be summarized as (1) exclude the entire portfolio, (2) include the entire portfolio, and (3) include just the portion that has no legacy assets. Excluded legacy assets could be classified as “non-discretionary”.

Question 6: Do you agree with requiring firms to disclose information about their policy for the treatment of legacy assets?

No, we do not agree with requiring firms to disclose information about their policy for the treatment of legacy assets. Non-OCIO firms often inherit legacy assets and the three options outlined on page 9 can apply to them. There is no requirement for such disclosures, and we do not believe it is useful information on which to base decisions.

We suggest making this requirement a recommendation.

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

No, we do not agree with requiring both gross-of-fees and net-of-fees returns for Required OCIO Composites. We believe the Guidance Statement for OCIO Strategies should be consistent with the GIPS® Standards for Firms, recommending both gross-of-fees and net-of-fees, but not requiring both.

Question 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?

Yes, we agree; however, the wording should be revised to be consistent with the GIPS® Standards for Firms. Specifically, as per Provision 1.A.3, "To initially claim compliance with the GIPS standards, the FIRM MUST attain compliance for a minimum of five years or for the period since the FIRM inception if the FIRM has been in existence for less than five years". OCIO firm requirements should be consistent, not more stringent, than the GIPS® Standards for Firms.

Question 9: Do you agree that the effective date should be 12 months after the issue date?

Yes, we agree that the effective date should be 12 months after the issue date.

Additional Comments

In addition to responding to the "Questions for public comment," we wish to make the following comments.

1. The term Pension Scheme Trustee on page 4 is capitalized within the paragraph but is not a defined term in the Glossary. If Pension Scheme Trustee is a defined term, our recommendation is to include it in the Glossary. Otherwise, we recommend using all lowercase letters.
2. Legacy Asset is not a defined term within the document. Although a common term used, we believe it should be defined within the Glossary and stylized accordingly.
3. The Table at the bottom of page 3 does not have a value in the cells under "May Require Client Approval" for the three rows in the "Investment Management" section. We recommend inserting "No" for "Portfolio Construction" and "Ongoing Portfolio Management", but "Yes" to "Tactical Asset Allocation". On page 4 we read that organizations in the UK may be treated differently. Since these are global standards, we disagree with having specific-country rules or exceptions.

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4. While we like the examples that appear on pages 4 and 5, we believe that for Example 4, "would not apply" should read "could not apply," as there may be cases when it can.

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