

EXPOSURE DRAFT OF THE GIPS GUIDANCE STATEMENT ON BENCHMARKS

December 2017





Public Commentary & Effective Date

- Public Comment Period: 10/30/2017 – 1/29/2018.
- Expected effective date of the Guidance Statement on Benchmarks is January 1, 2019.



Purpose and Topics

- Purpose:
 1. New interpretation on benchmarks as it pertains to the application of GIPS®
- Topics:
 1. Select appropriate benchmark
 2. Role of benchmarks
 3. Considerations using benchmarks within compliant presentations



Concepts and Organization of Information

- Concepts:
 1. Price-Only Benchmarks
 2. Multiple Benchmarks
 3. Benchmark Changes
- Organization of Information:
 1. Consolidates and organizes benchmark-related information presently dispersed throughout the GIPS standards.

Role

- Benchmarks are fundamental to “fair representation” providing point of reference to performance and risk.
- Different strategies require different category of benchmarks:
 1. Relative – Measure investment decisions relative to benchmark weights.
 2. Aware – Benchmark serves as an investable universe.
 3. Neutral – Benchmark treated as a target return.

Compliant Presentation and Reporting

- Must present benchmark total return for each annual period.
- Present benchmark returns for any additional periods:
 1. Partial
 2. Quarterly

Appropriate Selection

- Appropriate if reflects composite's:
 1. Investment Mandate
 2. Objective
 3. Strategy
- Good qualities:
 1. Specified in Advance
 2. Relevant
 3. Measurable
 4. Unambiguous
 5. Representative of Current Investment Opinions
 6. Accountable
 7. Investable
 8. Complete



Appropriate Selection

- Process for determining benchmark should be maintained in policies and procedures.
- All actual fee-paying, discretionary portfolios must be included in at least one composite.



Types of Benchmark

- Market Indexes
- Blended Benchmarks
- Custom
- Absolute Value/Target Return

Types of Benchmark

- Peer Groups and Universes
- Factor Based Models
- Return Based
- Exchange Traded Fund
- Portfolio-Weighted Composite



Selection Considerations

- Currency
- Currency Hedging
- Geographical exposure
- Breadth or Concentration of the Index



Selection Considerations

- Asset Mix
- Style
- Sector
- Net/Gross Withholding Tax Returns



Selection Considerations

- After-Tax Benchmarks
- Custom Net-of-Fees Benchmarks
- Frequency of Rebalancing
- Other (i.e. Liquidity, Valuation, Construction)



Private Equity and Real Estate

- Private Equity and Closed-End Real Estate Composites:
 1. No client driven external cash flows
 2. Benchmarks not widely available
- Need to:
 1. Present since-inception IRR for composites and benchmarks.
- Solution:
 1. Public Market Equivalent (“PME”) method.



Alternative Strategies

- Smart Beta
- Liability Driven Investing
- Unconstrained
- Long/Short Strategies



Other Considerations

- Total Return vs Price-Only Return Benchmarks
- Income Sweeping
- Benchmark Changes
- Multiple Benchmarks
- Data Sources



Other Considerations

- Off-Benchmark Assets
- Benchmark Description
- Standard Deviation and Other Risk Measures
- Advertisement



Any Questions?

Appendix



GIPS® Standards

Ethical standards for the calculation and presentation of investment performance to ensure fair representation and full disclosure of investment performance.



Management Team

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Founder and Managing Director

Industry Experience: Performance and Research

Career began: 1999

Founded: 2010

David Rowen, CFA, FRM, CIPM

Managing Director

Industry Experience: Investment Management and Research

Career began: 1994

Joined team: 2015

Kosta Segounis, CPA, CA, CFA, CIPM

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Industry Experience: Due Diligence and Investment Compliance

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