Global Investment Performance Standards
INVITATION TO COMMENT:

Exposure Draft of the Guidance Statement on the Application of the GIPS Standards to Pension Funds, Endowments, Foundations, and Other Similar Entities
CFA Institute established the GIPS Executive Committee as the governing body for the Global Investment Performance Standards (GIPS®). The GIPS Executive Committee seeks comment on the proposal set forth below regarding the Guidance Statement on the Application of the GIPS Standards to Pension Funds, Endowments, Foundations, and Other Similar Entities.

Comments must be submitted in writing and received no later than 3 June 2013. Responses will be accepted in hardcopy and via fax, but should also be submitted via e-mail. Please submit your comments as early as possible to facilitate the review process. Unless otherwise requested, all comments and replies will be made public on the GIPS standards website (www.gipsstandards.org). Comments may be submitted as follows:

E-mail: standards@cfainstitute.org
Fax: 1-434-951-5320
Post: CFA Institute
Global Investment Performance Standards
Re: Guidance Statement on the Application of the GIPS Standards to Pension Funds, Endowments, Foundations, and Other Similar Entities
560 Ray C. Hunt Drive
Charlottesville, VA 22903-2981
USA

Executive Summary
The purpose of this Guidance Statement is to address the application of the Global Investment Performance Standards (GIPS®) from the perspective of entities who manage investments, either directly or through the use of external managers, on behalf of participants, beneficiaries or the organization itself, but typically do not compete for business, i.e. do not have prospective clients. These entities include, but are not limited to, pension funds (both public and private), endowments, foundations, family offices, other institutional asset owners, and fiduciaries that have investment responsibility for a pool of assets. If these entities have discretion over the assets under management, they are able to claim compliance with the GIPS standards. For the purposes of this paper, the term “plan sponsor” is used to encompass all asset managers who typically do not have prospective clients.

Effective Date
The expected effective date of the Guidance Statement on the Application of the GIPS Standards to Pension Funds, Endowments, Foundations, and Other Similar Entities is 1 January 2014.

Comments Requested
The Executive Committee is seeking comments on the Exposure Draft of the Guidance Statement on the Application of the GIPS Standards to Pension Funds, Endowments, Foundations, and Other Similar Entities. There are questions positioned throughout the document to elicit feedback on specific issues. In addition to responding to the specific questions, please provide feedback on the entire document, including items you support. All comment letters will be considered carefully and are greatly appreciated.

GUIDANCE STATEMENT ON THE APPLICATION OF THE GIPS STANDARDS TO PENSION FUNDS, ENDOWMENTS, FOUNDATIONS AND OTHER SIMILAR ENTITIES

INTRODUCTION

Target Audience

The purpose of this Guidance Statement is to address the application of the Global Investment Performance Standards (GIPS®) from the perspective of entities who manage investments, either directly or through the use of external managers, on behalf of participants, beneficiaries or the organization itself, but typically do not compete for business, i.e. do not have prospective clients. These entities include, but are not limited to, pension funds (both public and private), endowments, foundations, family offices, other institutional asset owners, and fiduciaries that have investment responsibility for a pool of assets. If these entities have discretion over the assets under management, they are able to claim compliance with the GIPS standards. For the purposes of this paper, the term "plan sponsor" is used to encompass all asset managers who typically do not have prospective clients.

It should be noted that some pension funds have the authority to compete for business by adding other pension funds into their plans. In these multi-sponsor plans, the assets of more than one plan sponsor are consolidated under the umbrella of one total plan to gain efficiencies and cost savings. In this case, the plan sponsor responsible for the umbrella plan has prospective clients and therefore would comply with the current guidance of the GIPS standards, and is not the type of entity that falls within the scope of this Guidance Statement.

In many countries, the term plan sponsor is used specifically in reference to retirement plans. Do you feel that the broader definition of the term in the first paragraph of this Guidance Statement makes it clear that the term encompasses a broader range of entities, including endowments, foundations, sovereign wealth funds, and family offices, among others? If not, do you have a specific suggestion for an alternative term? Is a term such as "proprietary asset owners" or "captive asset owners" more appropriate to use when describing the entities for which this Guidance Statement is intended?

Reasons for a Plan Sponsor to Claim Compliance with the GIPS Standards

As pointed out in the Introduction to the GIPS standards, the establishment of a voluntary global investment performance standard leads to an accepted set of best practices for calculating and presenting investment performance that is readily comparable among investment firms, regardless of geographic location.[1] This is clearly an important goal for all entities involved in

[1] For more information on the GIPS standards, please refer to the GIPS standards website (www.gipsstandards.org).

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asset management. Whether or not a plan sponsor markets to prospective clients, its adherence to the GIPS standards demonstrates to relevant parties, such as its members, legislative bodies, oversight boards and the general public:

- A voluntary commitment to follow global industry standards with respect to performance calculation and presentation practices, based on the principles of fair representation and full disclosure.
- The willingness to follow best practice with respect to the valuation of the plan's investments.
- The establishment of robust policies and procedures in the area of investment performance measurement.
- That the plan sponsor is making investment decisions and monitoring the overall plan assets on the basis of accurate investment performance processes.
- That both the calculation and presentation of investment performance have been done on a consistent, transparent, and comparable basis.
- The willingness to adopt the same set of performance standards that are generally required of any external investment mangers that it retains.

Need for Additional Guidance for Plan Sponsors

The primary factor that differentiates plan sponsors from other entities that claim compliance with the GIPS standards is that they typically do not market to prospective clients. Instead, they manage assets on behalf of employees of a corporation or public entity, as in the case of pension funds, or on behalf of an organization, as in the case of foundations, endowments or family offices. This difference does not in any way preclude plan sponsors from claiming compliance with the GIPS standards, but does make additional guidance helpful in determining how the GIPS standards apply to their situation.

It is also the case that pension funds, endowments, foundations, and other similar entities may apply a meaning to some of the terms used in the GIPS standards that differs from the definition used in the GIPS standards or by other asset managers. This is another reason why additional guidance may be helpful to plan sponsors who seek to comply with the GIPS standards.

Application to Plan Sponsors of Terms Used in the GIPS Standards

<u>Definition of Firm</u>

Firms claiming compliance with the GIPS standards must be defined as an investment firm, subsidiary or division held out to clients or prospective clients as a distinct business entity. As defined in the GIPS standards glossary, a distinct business entity is an entity that retains discretion over the assets it manages and that should have autonomy over the investment decision-making process.

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In the case of certain plan sponsors, the firm can be thought of as the entity that has discretion and autonomy over the pool of assets being managed. For a public pension fund, the firm is generally defined by legislation. In the case of foundations, endowments, or family offices, the firm would be the entity set up by the governing body to manage the pool of assets.

If the plan sponsor manages only one pool of assets, i.e. one fund, that fund represents total firm assets. If the plan sponsor manages more than one fund, total firm assets would equal the combined assets of all of the funds managed by the plan sponsor. As is always the case when calculating total firm assets, care must be taken to avoid the double-counting of assets.

Discretion

To have discretion over assets, a firm complying with the GIPS standards must either manage the assets internally or have the ability to hire and terminate external investment managers. The entities who are the targeted audience of this Guidance Statement have control over asset allocation decisions as well.

Many firms that claim compliance with the GIPS standards use external managers, including fund of funds managers and investment management firms using sub-advisors for the management of products and/or portfolios. The fact that plan sponsors often use external managers to manage some or all of their assets is not unique among those complying with the GIPS standards, and the same standards for determining discretion apply to them as to all other firms.

The Guidance Statement on Recordkeeping Requirements indicates that a firm utilizing a third party to provide any service (e.g. sub-advisor, custodian, performance measurement) is responsible for its claim of compliance and must ensure that the records and information provided meet the requirements of the GIPS standards. Therefore, as is the case for all firms using external managers and service providers, a plan sponsor claiming compliance with the GIPS standards is responsible for ensuring that the data received from various external sources is accurate and must be able to aggregate information regarding the plan's assets that may be supplied by multiple service providers.

Composites /Composite Creation

When discussing composites and composite creation in the plan sponsor environment, it is helpful to keep in mind how the following terms are used in this Guidance Statement:

- Total Fund: A pool of assets managed by a plan sponsor according to a specific investment mandate, which is typically composed of multiple asset classes.
- Portfolio: An account representing one of the individual strategies underlying the plan sponsor's total fund.

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The plan sponsors addressed in this Guidance Statement typically manage a multi-asset total fund according to a specific investment mandate:

- for current and future retirees in the case of pension funds
- on behalf of the organization in the case of foundations, endowments and family offices

The total fund is typically made up of underlying portfolios, each representing one of the strategies used to achieve the plan sponsor's investment mandate.

A requirement of the GIPS standards is that all actual, fee-paying, discretionary portfolios must be included in at least one composite. The GIPS standards define a composite as an aggregation of one or more portfolios managed according to a similar investment mandate, objective, or strategy.[2] As pointed out above, plan sponsors typically manage a multi-asset total fund according to a specific investment mandate, so this total fund must be included in a composite.

- If the plan sponsor manages only one total fund, there will be only one required composite and it will contain the one fund.
- If the plan sponsor manages more than one total fund, all funds managed according to the same investment mandate must be included in the same composite.
- If the plan sponsor manages total funds with different investment mandates, there must be a separate composite to represent each investment mandate.

The following are examples of pension funds with different types of plan structures. A graphic depiction of the relation between strategies/portfolios, total funds and composites is included in the Appendix.

Example One: A public pension fund is charged with the management of a total fund to benefit retired policemen and firemen according to an investment mandate and guidelines set forth by the supervising legislative body. That is the only fund under management. The total fund is made up of seven underlying portfolios, each representing a different strategy, such as large-cap growth equity, long-duration fixed income, international equity, and small-cap value equity. In this case, there is one multi-class investment mandate and therefore one required composite, which contains the one total fund.

Example Two: A public pension fund is charged with the management of two separate total funds: Fund A to benefit retired policemen and firemen and Fund B to benefit retired teachers. The supervising legislative body has established the same investment mandate and guidelines for each fund, and the funds are managed with the same strategies. In this case, there is one investment mandate and one required composite, which contains Total Fund A and Total Fund B.

Example Three: A public pension fund is charged with the management of two separate funds: Fund C to benefit retired policemen and firemen and Fund D to benefit retired teachers. The supervising legislative body has established a different investment mandate for each fund. In this

[2] For purposes of this Guidance Statement, mandate, objective, and strategy are used interchangeably.

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case, there are two separate investment mandates and therefore two required composites, one of which includes Total Fund C and the other Total Fund D.

In addition to the required composite representing an investment mandate, a plan sponsor may choose to create additional composites. For example, a plan sponsor may wish to group together portfolios that are included in the total fund to create composites representing particular strategies or asset classes, or some other grouping of portfolios. To determine if such a grouping qualifies as a composite from a GIPS perspective, and for further guidance on the creation of composites, plan sponsors should refer to the Guidance Statement on Composite Definition and the Guidance Statement on the Treatment of Carve-Outs.

Note that a firm claiming compliance with the GIPS standards must be able to create a compliant presentation for each of its composites. (A compliant presentation is a presentation for a composite that contains all information required by the GIPS standards and may also include additional information and/or supplemental information.) Therefore, if a firm wishes to create composites in addition to the required composite(s), it must be able to create a compliant presentation for each of these additional composites, as well as the required composite(s). A sample compliant presentation is included in the Appendix.

Does the discussion in the preamble to Section 3 – Composite Construction adequately convey the information that: a) a plan sponsor has only one required composite if it has only one investment mandate; and b) the creation of additional composites for underlying asset classes or strategies is permissible but not required?

Prospective Client

Provision 0.A.9 of the GIPS standards requires that every reasonable effort be made by the firm to provide a compliant presentation to all prospective clients. Sections 4. Disclosure and 5. Presentation and Reporting of the GIPS standards deal with the required and recommended contents of the compliant presentation. As pointed out earlier, the key differentiating factor regarding plan sponsors is that they do not typically market to prospective clients. The fact that plan sponsors do not have prospective clients does not relieve them of the disclosure, presentation and reporting requirements contained in the GIPS standards. Plan sponsors are required to prepare the compliant presentation. Rather than providing the compliant presentation to prospective clients, they must make every reasonable effort to provide the presentation to those who have oversight responsibility for total fund assets, such as a board of trustees charged with establishing investment policies or mandates for the fund, and monitoring the performance of the fund relative to its objectives. Plan sponsors who wish to have broader distribution of the compliant presentation may include the presentation on their website and/or make reference to the compliant presentation in their annual report, a newsletter, or by some other means in accordance with the GIPS Advertising Guidelines.

In the case of public pension funds that have the legislative authority to market to a specific group of other public plans, the plan sponsor must abide by all requirements in the GIPS standards regarding prospective clients.

Does the discussion of "oversight responsibility" provide sufficient guidance to plan sponsors to help them determine who must get the compliant presentation?

APPLICATION OF THE GIPS STANDARDS TO PLAN SPONSORS

This Guidance Statement applies to any plan sponsor who has investment discretion over a plan's assets and wishes to claim compliance with the GIPS standards. The 2010 edition of the GIPS standards includes the following chapters:

- I. Provisions of the Global Investment Performance Standards
  - 0. Fundamentals of Compliance
  - 1. Input Data
  - 2. Calculation Methodology
  - 3. Composite Construction
  - 4. Disclosure
  - 5. Presentation and Reporting
  - 6. Real Estate
  - 7. Private Equity
  - 8. Wrap Fee/Separately Managed Account (SMA) Portfolios
- II. GIPS Valuation Principles
- III. GIPS Advertising Guidelines
- IV. Verification
- V. Glossary

This Guidance Statement clarifies how the specific requirements and recommendations of the GIPS standards apply to plan sponsors. It addresses only those provisions that require clarification for plan sponsors, either because of the lack of prospective clients or because of a possible difference in the way that the GIPS standards and plan sponsors define a particular term. If a provision is not addressed, it should be assumed that it applies to plan sponsors in the same manner that it would apply to any other investment manager.

Plan sponsors are reminded that compliance with the GIPS standards requires compliance with all requirements of the GIPS standards. This would include not only the provisions themselves, but any updates, Guidance Statements, interpretations, Q&A's, and clarifications published by CFA Institute and the GIPS Executive Committee.

0. FUNDAMENTALS OF COMPLIANCE

0.A.4 The GIPS standards MUST be applied on a FIRM-wide basis.

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As pointed out in the Introduction to this Guidance Statement, firms claiming compliance with the GIPS standards must be defined as an investment firm, subsidiary or division held out to clients or prospective clients as a distinct business entity. As defined in the GIPS standards glossary, a distinct business entity is an entity that retains discretion over the assets it manages and that should have autonomy over the investment decision-making process. In the case of plan sponsors, the firm is defined as the organization or entity that has discretion over the total assets managed by the entity. In the case of public pension funds, this entity is typically defined by legislation. In the case of foundations, endowments, or family offices, the firm would be the entity set up by the governing body to manage the pool of assets.

0.A.5 Firms MUST document their policies and procedures used in establishing and maintaining compliance with the GIPS standards, including ensuring the existence and ownership of client assets, and MUST apply them consistently.

Even though plan sponsors typically do not manage third party client assets, plan sponsors are not exempt from this requirement. Plan sponsors must establish policies and procedures to ensure the existence and ownership of the assets under their management.

0.A.8 Statements referring to the performance of a single, existing client PORTFOLIO as being "calculated in accordance with the Global Investment Performance Standards" are prohibited, except when a GIPS-compliant FIRM reports the performance of an individual client's PORTFOLIO to that client.

For most plan sponsors, the required composite will include only one multi-asset total fund. As is always the case, when reporting performance of an existing client's portfolio to that client (which in this case would be those entrusted with oversight responsibility for fund assets, such as the Board of Trustees that oversees the plan), it is permissible to state that this fund's performance was calculated in accordance with the Global Investment Performance Standards, if this statement is true.

0.A.9 FIRMS MUST make every reasonable effort to provide a COMPLIANT PRESENTATION to all PROSPECTIVE CLIENTS. FIRMS MUST NOT choose to whom they present a COMPLIANT PRESENTATION. As long as a PROSPECTIVE CLIENT has received a COMPLIANT PRESENTATION within the previous 12 months, the FIRM has met this REQUIREMENT.

As pointed out in the Introduction to this Guidance Statement, plan sponsors who do not have prospective clients must make every reasonable effort to provide a compliant presentation to those entrusted with oversight responsibility for fund assets, such as the Board of Trustees that oversees the plan. An updated version of the compliant

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presentation must be provided to those with oversight responsibility for the plan's assets at least once every 12 months.

0.A.10 FIRMS MUST provide a complete list of COMPOSITE DESCRIPTIONS to any PROSPECTIVE CLIENT that makes such a request. FIRMS MUST include terminated COMPOSITES on the FIRM'S list of COMPOSITE DESCRIPTIONS for at least five years after the COMPOSITE TERMINATION DATE.

For plan sponsors who do not have prospective clients, such a list must be provided to those who have oversight responsibility for the plan upon request. If the plan sponsor has only one investment mandate and therefore only one required composite, and has not chosen to create any additional composites, the compliant presentation for the one composite, which must include the composite description, can be used to satisfy Provision 0.A.10.

0.A.11 FIRMS MUST provide a COMPLIANT PRESENTATION for any COMPOSITE listed on the FIRM'S list of COMPOSITE DESCRIPTIONS to any PROSPECTIVE CLIENT that makes such a request.

See the discussion under Provisions 0.A.9 and 0.A.10. In the case of a plan sponsor, any material that must be provided to a prospective client must be provided to those with oversight responsibility for the plan's assets.

0.A.12 FIRMS MUST be defined as an investment firm, subsidiary, or division held out to clients or PROSPECTIVE CLIENTS as a DISTINCT BUSINESS ENTITY.

For plan sponsors, firms are defined as the organization or entity that has discretion over the plan's assets. Please see the discussion under Provision 0.A.4 for additional information.

0.B.4 FIRMS SHOULD provide to each existing client, on an annual basis, a COMPLIANT PRESENTATION of the COMPOSITE in which the client's PORTFOLIO is included.

Please refer to the discussion under Provision 0.A.9. An updated version of the compliant presentation must be provided to those with oversight responsibility for the plan's assets at least once every 12 months.

From the perspective of a particular country or region, are there any issues specific to the type of entities that are the target audience for this Guidance Statement related to "working cash" or other liquid assets that require additional guidance with respect to the calculation of total fund assets?

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1. INPUT DATA

The provisions within Section 1 (Input Data) do not require further clarification for application to plan sponsors. However, it should be noted that, as of 1 January 2011, firms must use Fair Value when calculating the value of fund assets. (Market value was required prior to 1 January 2011.) Fair value is explained in detail in Chapter II: GIPS Valuation Principles of the GIPS standards.

It should also be noted that, when calculations are done for an individual asset class, the requirements for that asset class (such as real estate and private equity) must be followed, as applicable. For example, the Real Estate provisions found in Provisions 6.A.1 through 6.A.5 (Input Data) would apply to a plan sponsor if real estate assets are included in the total fund. In the case of Private Equity, Provisions 7.A.1 and 7.A.2 (Input Data) would apply if private equity assets are included in the total fund.

2. CALCULATION METHODOLOGY

All provisions within Section 2 (Calculation Methodology) apply to a plan sponsor. Note, however, that for a plan sponsor, the total fund is typically a multi-asset fund, including such asset classes as equity, fixed income, real estate and private equity, that has been designed to fulfill the investment mandate. Although there are different types of assets included in the total fund, total fund performance must be calculated using a consistently applied time-weighted return methodology that adheres to the requirements of the GIPS standards.

While plan sponsors must report time-weighted returns (TWR), which are required by the GIPS standards, they may find it useful to calculate and report money-weighted returns (MWR) as well. While the required TWR represents the performance of the plan sponsor, the MWR represents the combination of the plan sponsor's performance and the impact of cash flows. Although neither the plan sponsor nor the pension fund participants generally control the timing of the cash flows into or out of the total fund, the MWR may be informative in determining how the timing of plan contributions and withdrawals has impacted the total fund's performance.

<u>Calculation of Gross-of-Fee and Net-of-Fee Returns</u>
Gross-of-fee returns must reflect only the deduction of transaction costs. Net-of-fee returns must reflect the deduction of transaction costs and investment management fees. For plan sponsors, determining investment management fees can be a complex process. For example, in the case of externally managed assets, the asset values provided by third-party investment managers may be net of the fees paid by the plan sponsor to the third parties. The cost of oversight of externally managed assets often needs to be considered as a component of investment management fees. In addition, calculation of the true investment management fees for internally managed assets is not a straightforward process. It may involve a pro-rata share of overhead, as well as allocated technology and other non-investment department expenses. Unlike traditional investment management fees that are typically charged as a percentage of the value of a portfolio's assets, investment management fees for a plan sponsor may be determined differently. Given the

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different layers of costs associated with a plan sponsor, and the fact that reported returns may be gross or net of investment management fees, it is important that there is sufficient disclosure to provide clarity on what is included in the total fund returns being presented. The returns presented must be clearly identified as gross-of-fee or net-of-fee returns.

3. COMPOSITE CONSTRUCTION

To understand the application of this section of the GIPS standards to plan sponsors, please refer to the section on Composites/Composite Creation contained in the Introduction to this Guidance Statement. The key points from this discussion are three-fold: 1) the only required composite for most plan sponsors is the composite corresponding to the investment mandate of the total fund. (If the plan sponsor has more than one investment mandate, there would be more than one required composite); 2) the plan sponsor may choose to create additional composites to reflect the performance a portfolio or portfolios included in the total fund that reflect individual strategies or asset classes, but this is not required; 3) a plan sponsor must be able to create a compliant presentation for each composite that it creates.

Any interpretations regarding composite construction that are necessary for a plan sponsor are indicated in the section below. Remember that, for the purposes of this Guidance Statement, the term "portfolio" refers to an account representing one of the strategies that make up the total fund, rather than a client account. This difference should be taken into consideration when applying Section 3 of the GIPS standards to a plan sponsor.

3.A.1 All actual, fee-paying, discretionary PORTFOLIOS MUST be included in at least one COMPOSITE. Although non-fee-paying discretionary PORTFOLIOS may be included in a COMPOSITE (with appropriate disclosure), non-discretionary PORTFOLIOS MUST NOT be included in a FIRM'S COMPOSITES.

The only required composite for most plan sponsors is the composite representing the investment mandate of the total fund. If the plan sponsor manages funds with different investment mandates, then each investment mandate must be represented by a separate composite. All managed assets would be considered discretionary at the total fund level and would be included in the appropriate composite. Due to the nature of plan sponsors, all assets managed by the plan sponsor must be included in the composite, whether they are fee-paying or non-fee-paying.

3.A.4 COMPOSITES MUST be defined according to investment mandate, objective, or strategy. COMPOSITES MUST include all PORTFOLIOS that meet the COMPOSITE DEFINITION. Any change to a COMPOSITE DEFINITION MUST NOT be applied retroactively. The COMPOSITE DEFINITION MUST be made available upon request.

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As pointed out in the Introduction, the required composite must include all funds managed according to the same investment mandate. If the plan sponsor chooses to create additional composites at the portfolio level, then all portfolios that meet the same composite definition must be included in the portfolio-level composite. When composites are created at the portfolio level, the carve-out requirements must be met. (See discussion under Provision 3.A.8 and the Guidance Statement on the Treatment of Carve-Outs.)

3.A.5 COMPOSITES MUST include new PORTFOLIOS on a timely and consistent basis after each PORTFOLIO comes under management.

Since the only required composite for a plan sponsor represents the total fund, any new portfolios within the total fund must be included in the total fund composite as soon as they are funded. If a total fund is being established or if the plan sponsor chooses to create additional composites representing an asset class or strategy included in the total fund, then this requirement is relevant.

3.A.6 Terminated PORTFOLIOS MUST be included in the historical performance of the COMPOSITE up to the last full measurement period that each PORTFOLIO was under management.

Since the required composite for a plan sponsor is based on the total fund, any terminated portfolios must be included in total fund performance through the day that the assets are last managed. If a total fund is being terminated or if the plan sponsor chooses to create additional composites representing an asset class or strategy included in the total fund, then this requirement is relevant.

3.A.7 PORTFOLIOS MUST NOT be switched from one COMPOSITE to another unless documented changes to a PORTFOLIO'S investment mandate, objective, or strategy or the redefinition of the COMPOSITE makes it appropriate. The historical performance of the PORTFOLIO MUST remain with the original COMPOSITE.

For a plan sponsor, the required composite includes all portfolios managed according to a particular investment mandate. If the plan sponsor chooses to create additional composites representing an asset class or strategy within the total fund, this provision is relevant.

3.A.8 For periods beginning on or after 1 January 2010, a CARVE-OUT MUST NOT be included in a COMPOSITE unless the CARVE-OUT is managed separately with its own cash balance.

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The term “carve-out” may be a term that is not familiar to a plan sponsor. As defined in the GIPS standards, a carve-out is a portion of a portfolio that is by itself representative of a distinct investment strategy. It is used to create a track record for a narrower mandate from a multi-strategy portfolio managed to a broader mandate. For periods beginning on or after 1 January 2010, a carve-out must be managed separately with its own cash balance.

The concept of carve-outs applies to a plan sponsor if they are choosing to create a composite for one or more of the underlying strategies within the total fund. If the plan sponsor is only creating the required composite representing the total fund’s investment mandate, the requirements relating to carve-outs are not relevant since cash as well as all other assets of the total fund are already included in the composite. For more information, please refer to Guidance Statement on the Treatment of Carve-Outs.

3.A.9 If the FIRM sets a minimum asset level for PORTFOLIOS to be included in a COMPOSITE, the FIRM MUST NOT include PORTFOLIOS below the minimum asset level in that COMPOSITE. Any changes to a COMPOSITE-specific minimum asset level MUST NOT be applied retroactively.

All discretionary portfolios and investments, regardless of their size, must be included in the required composite for a plan sponsor. However, if the plan sponsor chooses to create additional composites representing an asset class or strategy within the total fund, this provision is relevant.

3.A.10 FIRMS that wish to remove PORTFOLIOS from COMPOSITES in cases of SIGNIFICANT CASH FLOWS MUST define “significant” on an EX-ANTE, COMPOSITE-specific basis and MUST consistently follow the COMPOSITE-specific policy.

No portfolio may be removed from the required total fund composite because of a cash flow.

3.B.2 To remove the effect of a SIGNIFICANT CASH FLOW, the FIRM SHOULD use a TEMPORARY NEW ACCOUNT.

This recommendation is not relevant to a plan sponsor managing a total fund, since all cash flows must be reflected in the total fund. If a plan sponsor manages third party client assets, the recommendation is relevant.

4. DISCLOSURE

4.A.2 FIRMS MUST disclose the definition of the FIRM used to determine TOTAL FIRM ASSETS and FIRM-wide compliance.

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Please refer to the Introduction section of this Guidance Statement for a detailed discussion of how the concepts of Firm and Total Firm Assets apply to plan sponsors. As is true for all firms that claim compliance with the GIPS standards, the specific definition of the firm must be included in the plan sponsor's compliant presentation.

4.A.3 FIRMS MUST disclose the COMPOSITE DESCRIPTION.

For plan sponsors, this description, which must include all key features of the composite, would be expected to include the following: the asset allocation of the total fund as of the most recent annual period end; the investment objective of the total fund; descriptions of the asset classes and/or other groupings within the total fund; all key characteristics, such as the composition of each asset class, strategy utilized, types of management used (active, passive, internal, external) and relevant exposures, including the use of leverage, derivatives, and short positions.

4.A.4 FIRMS MUST disclose the BENCHMARK DESCRIPTION.

For plan sponsors, the total fund benchmark is typically a blend of the asset class benchmarks based on the policy weights of the respective asset classes. The benchmarks utilized by each asset class must be disclosed, along with their weights, as well as general information regarding the investments, structure, and/or characteristics of the benchmark. Typically the components and/or weights of the multi-asset class benchmark for the total fund change periodically. Plan sponsors must therefore disclose in the compliant presentation that information about historical benchmark component or weight changes is available upon request. Material changes to benchmark components or weights must be disclosed.

4.A.5 When presenting GROSS-OF-FEES returns, FIRMS MUST disclose if any other fees are deducted in addition to the TRADING EXPENSES.

See the introduction to Section 2 (Calculation Methodology) for additional discussion of gross-of-fee and net-of-fee returns.

4.A.6 When presenting NET-OF-FEES returns, FIRMS MUST disclose:

a. **If any other fees are deducted in addition to the INVESTMENT MANAGEMENT FEES and TRADING EXPENSES;**
b. **If model or actual INVESTMENT MANAGEMENT FEES are used; and**
c. **If returns are net of any PERFORMANCE-BASED FEES.**

See the introduction to Section 2 (Calculation Methodology) for additional discussion of gross-of-fee and net-of-fee returns.

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4.A.8 FIRMS MUST disclose which measure of INTERNAL DISPERSION is presented.

A measure of internal dispersion is not required unless a plan sponsor has more than five total funds in a composite. If the plan sponsor chooses to create additional composites at the underlying strategy level, this provision would be relevant if there are more than five portfolios in the composite.

4.A.9 FIRMS MUST disclose the FEE SCHEDULE appropriate to the COMPLIANT PRESENTATION.

This provision is not relevant to a plan sponsor who does not manage third-party assets. However, all plan sponsors must specify the costs reflected in the performance that is presented in the compliant presentation. See the introduction to Section 2 (Calculation Methodology) for additional discussion of investment management costs.

Investment management fees for a plan sponsor may be quite different from those paid by traditional firms. Do you believe that additional guidance on investment management fees is needed? If so, please provide suggested language.

4.A.11 FIRMS MUST disclose that the FIRM'S list of COMPOSITE DESCRIPTIONS is available upon request.

If the plan sponsor has only one required composite and has not chosen to create any additional composites, the compliant presentation itself represents the firm's list of composite descriptions because the description of the sole composite is included in the compliant presentation. If the plan sponsor chooses to create additional composites representing one or more strategies within the total fund, or if the plan sponsor has more than one required composite, the list of composite descriptions must be created by the plan sponsor and made available upon request to those with oversight responsibility for the assets managed by the plan sponsor.

4.A.12 FIRMS MUST disclose that policies for valuing PORTFOLIOS, calculating performance, and preparing COMPLIANT PRESENTATIONS are available upon request.

Plan sponsors must ensure that the policies for valuing assets and calculating performance pertain to not only assets managed in-house but to those that are externally managed as well. Therefore, as is the case for all firms using external managers and service providers, a plan sponsor claiming compliance with the GIPS standards is responsible for ensuring that the data received from various external sources is accurate and must be able to aggregate information regarding the plan's assets that may be supplied by multiple service providers. The processes used to calculate performance

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should be outlined in the firm's policies and procedures. In addition, as is true for all entities claiming compliance with the GIPS standards, a plan sponsor must comply with all applicable laws and regulations regarding the calculation and presentation of performance.

4.A.19 FIRMS MUST disclose the minimum asset level, if any, below which PORTFOLIOS are not included in a COMPOSITE. FIRMS MUST also disclose any changes to the minimum asset level.

See the discussion under Provision 3.A.9.

4.A.23 For periods prior to 1 January 2010, if CARVE-OUTS are included in a COMPOSITE, FIRMS MUST disclose the policy used to allocate cash to CARVE-OUTS.

Please refer to the discussion under Provision 3.A.8. This provision is relevant only if a plan sponsor chooses to create composites for one or more of the underlying strategies within the total fund that included the allocation of cash prior to 1 January 2010.

4.A.30 If the FIRM changes the BENCHMARK, the FIRM must disclose the date of, description of, and reason for the change.

This applies to a fundamental change in the benchmark, for example a change in an Index used in calculating the benchmark, rather than to periodic minor changes in weights. As explained in 4.A.4 above, an offer to provide information upon request is sufficient for benchmark changes that are not material changes to benchmark components or weights.

4.A.32 If the FIRM has adopted a SIGNIFICANT CASH FLOW policy for a specific COMPOSITE, the FIRM MUST disclose how the FIRM defines a SIGNIFICANT CASH FLOW for that COMPOSITE and for which periods.

See the discussion under Provision 3.A.10.

4.B.8 FIRMS SHOULD disclose if a composite contains proprietary assets.

For a typical plan sponsor, proprietary assets will represent 100% of the composite and this fact will already be disclosed given the nature of the composite.

5. PRESENTATION AND REPORTING

5.A.1 The following items MUST be presented in each COMPLIANT PRESENTATION:

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5.A.1.b. COMPOSITE returns for each annual period. COMPOSITE returns MUST be clearly identified as GROSS-OF-FEES or NET-OF-FEES.

See the introduction to Section 2 (Calculation Methodology) for a discussion of gross-of-fees and net-of-fees returns. It should be noted that plan sponsors are not limited to presenting composite returns in compliant presentations and should consider including additional or supplemental information that would be helpful and appropriate. See the Guidance Statement on Supplemental Information for more information.

5.A.1.f. The number of PORTFOLIOS in the COMPOSITE as of each annual period end. If the COMPOSITE contains five or fewer PORTFOLIOS at period end, the number of PORTFOLIOS is not REQUIRED.

This disclosure is not relevant to a plan sponsor if there are 5 or fewer funds in a required composite. If the plan sponsor chooses to create additional composites for the underlying strategies of the total fund, the number of portfolios must be presented if the composite contains more than five portfolios at each annual period end.

5.A.1.i. A measure of INTERNAL DISPERSION of individual PORTFOLIO returns for each annual period. If the COMPOSITE contains five or fewer PORTFOLIOS for the full year, a measure of INTERNAL DISPERSION is not REQUIRED.

The plan sponsor may simply indicate that the measure of internal dispersion is not meaningful if there are five or fewer funds in the required composite. If the plan sponsor chooses to create composites for the underlying strategies of the total fund, a measure of internal dispersion is required if the composite contains more than five portfolios for the full year.

6. REAL ESTATE

For the Real Estate provisions, the requirements that pertain to Provisions 6.A.1 through 6.A.5 (Input Data) are relevant to a plan sponsor if real estate assets are part of the total fund. Real estate valuation principles require an external valuation to be undertaken on assets at defined intervals in accordance with client agreements. For quarterly valuation requirements effective January 1, 2010, the plan sponsor must establish and document the quarterly valuation approach in their policies and procedures. The valuation would seek to identify significant events relating to the market place or the specific real estate asset that would result in valuation changes. Fair value must be used to value all assets, including real estate assets, as of 1 January 2011. (For periods prior to 1 January 2011, Real Estate investments must be valued at market value.) Please refer to the discussion under Section 1 (Input Data).

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Provisions 6.A.6 through 6.A.26 (Calculation Methodology, Disclosure, and Presentation and Reporting) are not relevant to a plan sponsor unless the plan sponsor chooses to create an additional composite for a real estate strategy at the portfolio level.

7. PRIVATE EQUITY

For the Private Equity provisions, the requirements in Provisions 7.A.1 and 7.A.2 (Input Data) are relevant to a plan sponsor if private equity is part of the total fund. Note that it is recommended in Provision 7.B.1 that private equity investments be valued at least quarterly.

Provisions 7.A.3 through 7.A.28 (Calculation Methodology, Composite Construction, Disclosure, and Presentation and Reporting) are typically not relevant to a plan sponsor because the plan sponsor is not acting as a general partner in a closed-end private equity fund. Therefore, plan sponsors can show a time-weighted return for a private equity composite.

8. WRAP FEE/SEPARATELY MANAGED ACCOUNT (SMA) PORTFOLIOS

The provisions within Section 8 (Wrap Fee/Separately Managed Account Portfolios) are not relevant to a plan sponsor.

II. GIPS VALUATION PRINCIPLES

All provisions within Chapter II (GIPS Valuation Principles) are relevant to a plan sponsor and no further clarification is needed.

III. GIPS ADVERTISING GUIDELINES

Although plan sponsors do not typically solicit business, all provisions within Chapter III (GIPS Advertising Guidelines) are relevant to a plan sponsor. If a plan sponsor chooses to claim compliance with the GIPS standards in any written material, such as an annual financial report, the plan sponsor must follow the GIPS Advertising Guidelines or include a compliant presentation in the publication.

IV. VERIFICATION

All provisions within Chapter IV (Verification) are relevant to a plan sponsor and no further clarification is needed.

Are there any particular sections of the Guidance Statement that you believe would benefit from the inclusion of an example?

For a number of the provisions in the GIPS standards, it is stated that the GIPS standards

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apply without the need for further clarification. Do you believe that, in the case of some of the provisions that are not discussed in this Guidance Statement, they are not relevant to plan sponsors or that an explanation regarding their application to plan sponsors is needed?

Appendix
Sample Compliant Presentation

Centerville Police and Fire Retirement System
Total Fund Composite
1 January 2002 through 31 December 2011

Year	Gross Return, %	Net Return, %	Benchmark Return, %	% of Externally Managed Assets	Total Composite Assets (Equals Total Firm Assets) ($ millions)	3 Yr. Annualized Std. Deviation	
						Fund, %	Bench-mark, %
2011	3.34	3.23	3.05	35	42.8	17.1	17.3
2010	21.59	21.48	21.36	34	41.2		
2009	14.54	14.44	14.28	31	36.9		
2008	-20.66	-20.78	-19.42	34	32.7		
2007	-5.24	-5.35	-5.69	35	39.4		
2006	29.73	19.62	18.99	34	36.8		
2005	15.73	15.62	15.26	33	32.4		
2004	11.25	11.14	10.43	33	29.1		
2003	16.70	16.58	16.35	31	24.3		
2002	3.32	3.19	3.07	31	27.3		

Centerville Police and Fire Retirement System ("CPFRS") claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. CPFRS has been independently verified for the periods from 1 January 2006 through 31 December 2011.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Total Fund Composite has been examined for the periods from 1 January 2006 through 31 December 2011. The verification and performance examination reports are available upon request.

Accompanying Notes

1. For the purpose of complying with the GIPS standards the firm is defined as the Centerville Police and Fire Retirement System ("CPFRS"), which was established in 1985 by the municipality of Centerville and is the manager of the assets of the Centerville Police and Fire Retirement System. The Total Fund was created and incepted in 1985.

2. The Total Fund Composite includes all discretionary assets managed by CPFRS for the benefit of participants in the Centerville Police and Fire Retirement System. The Total Fund blended benchmark is calculated monthly using a blend of the asset class benchmarks based on the Total Fund's strategic weights for the respective asset classes. Each asset class utilizes a total return benchmark. The benchmark (strategic) weights listed below were in effect from 1 January 2011 through 31 December 2011. The asset class weights listed below are as of 31

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December 2011. Information for benchmark strategic weights and asset class weights for other periods is available upon request.

Asset Class	Description	Benchmark	Benchmark (Strategic) Weight (%)	Asset Class Weight at 31 Dec 2011 (%)
Liquidity Reserves	The liquidity reserves asset class is intended to obtain a high level of current income consistent with the preservation of principal and liquidity. Investments generally consist of U.S. dollar-denominated short-term securities of corporations that are rated in the highest category (A1/P1 rating) by the rating organizations and in securities that are guaranteed by the U.S. government or one of its related agencies. Credit quality is emphasized for preservation of principal and liquidity.	The BofA Merrill Lynch 3-month U.S. Treasury Bill Index is used.	1.0	2.9
Fixed Income	The fixed income asset class is generally fully invested in domestic and international fixed income instruments, and is composed of the following issuers: U.S. Government and related agencies; mortgage backed and asset backed issuers; foreign issuers; corporations including investment grade and high yield; and emerging market debtors. The methodology employed places an emphasis on fundamental economic, portfolio and security analysis to manage sector weightings and maturity distributions. The fixed income asset class seeks diversification by market sector, quality, and issuer. The asset class is primarily managed internally, with external managers utilized in specialist segments of the market. Derivatives, including swaps and forward currency contracts may be used to adjust the exposure to interest rates, individual securities, or to various market sectors in the fixed income portfolio. Underlying exposure of derivatives for fixed income investments may not exceed 5% of Total Fund assets.	Barclays U.S. Universal Index, which represents the union of the U.S. Aggregate Index, U.S. Corporate High-Yield Index, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The Barclays U.S. Universal Index covers USD-denominated, taxable bonds that are rated either investment grade or below investment grade.	19.0	18.4
Domestic	The Domestic Equities asset class includes domestic and international	Russell 3000® Index, which measures the performance of the	37.0	34.4

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Asset Class	Description	Benchmark	Benchmark (Strategic) Weight (%)	Asset Class Weight at 31 Dec 2011 (%)
Equities	common stocks traded on U.S. exchanges, American depository receipts (ADR's), real estate investment trust shares (REITs) and domestic equity derivatives (including, but not limited to, futures, stock options and index options). Sector tilts by style, economic sectors or market capitalization are managed in accordance with the risk budget for domestic equities. A variety of portfolio management approaches including quantitative and fundamental techniques are used to diversify the source of excess return. Underlying exposure of equity derivatives may not exceed 15% of Total Fund assets.	3,000 largest U.S. companies based on total market capitalization, and represents approximately 98% of the investable U.S. equity market.		
International Equities	The international equity asset class is a diversified portfolio including both developed and emerging countries. Portfolios consist of international equities including international common stocks traded on U.S. exchanges, ADR's and ordinaries, International depository receipts (IDR's), country funds, international equity derivatives (including, but not limited to, stock options and index options), and some debt instruments. The asset class emphasizes quantitative and fundamental management approaches and exposures to security selection and country allocation decisions. Managers have the ability to add value through currency management. Underlying exposure of derivatives for international equities may not exceed 8% of Total Fund assets. Derivatives include, but are not limited to, financial, currency and stock index futures.	MSCI All Country World Index-Net ex US, which is a free float-adjusted market capitalization index denominated in U.S. dollars of approximately 45 countries and measures the equity performance of non-U.S. developed and emerging markets. MSCI assumes the maximum withholding tax rate applicable to institutional investors.	23.0	19.1
Real Estate	Real estate investments include investments in both real estate limited partnerships and publicly traded real estate investment trusts. Each real estate holding is limited to no more than 5% of the total real estate assets. All investments in real estate limited	The Real Estate blended benchmark is calculated quarterly and is a blend of two benchmarks. The benchmarks and their relative weights are as follows: NCREIF Property Index (NPI) 90%, and the Wilshire US REIT Index 10%. The	12.0	12.8

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Asset Class	Description	Benchmark	Benchmark (Strategic) Weight (%)	Asset Class Weight at 31 Dec 2011 (%)
	partnerships are valued using the most recently provided values from the respective fund's general partner.	NCREIF Property Index is an unlevered quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors – the great majority being pension funds. As such, all properties are held in a fiduciary environment. The Wilshire US REIT Index is a float-adjusted market capitalization index, of representing approximately 95 companies, that is designed to measure U.S. Equity REIT performance.		
Private Equity	Private equity investments primarily include venture and buyout/growth opportunities. Risk is diversified by investing across different types of private equity such as venture capital, leveraged buyouts, and international funds. Private equity risk is also diversified by investing across vintage years, industry sectors, investment size, development stage and geography. CPFRS typically invests as a limited partner in closed-end partnerships. Due to the nature of private equity, substantially all investments in this asset class are valued using market based inputs that are comparable but subjective in nature due to the lack of widely observable inputs.	Private Equity benchmark is 1% above the domestic public equity market (Russell 3000 Index).	8.0	12.4

The assets of CPFRS are managed in accordance with the risk budget for the Total Fund and the individual asset classes. The investment objective for the Total Fund is to earn, over moving twenty five-year periods, an annualized return that equals or exceeds the actuarial rate of return, approved by the Centerville Police and Fire Retirement Board ("Board") to value the liabilities of CPFRS. As of 31 December 2011 the actuarial rate of return is 7.5%. CPFRS hires external managers to actively manage selected portfolios. The % of externally-managed assets for the Total Fund was 35% as of 31 December 2011.

3. Returns are net of brokerage commissions, expenses related to trading, and applicable foreign withholding taxes on dividends, interest, and capital gains. All returns are expressed in U.S. dollars.

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Total Fund performance is calculated monthly using time-weighted rates of return and reflects the deduction of transaction costs. Gross returns are net of actual external investment management fees. Net returns are net of all investment management costs (internal and external). Investment management costs include internal investment department compensation, benefits, actual external manager fees and the allocation of technology service and other overhead costs and expenses. Total investment management costs to arrive at the net return have ranged from 50 to 60 basis points per year over the past 10 years. All returns are gross of reclaimable withholding taxes on interest income and dividends.

Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

4. The Total Fund Composite includes all individual portfolios that are combined into one aggregate portfolio. The performance of the combined portfolio reflects the overall mandate of the plan. Because the Total Fund Composite is one aggregate portfolio for all periods, no measure of internal dispersion of annual portfolio returns is presented.

5. The three-year annualized ex-post standard deviation measures the variability of the composite and the benchmark for the 36-month period. This measure is not required for periods ended prior to December 31, 2011.

6. Because the Total Fund Composite represents 100% of the assets managed by CPFRS, this presentation represents CPFRS's list of composite descriptions.

