

Response to the draft of GIPS® Guidance statement benchmarks

Background

Rathbones has evolved from a family business into an independent FTSE 250 public company listed on the London Stock Exchange. We are one of the UK's largest and longest-established providers of high-quality, personalised discretionary investment management services for individuals and trustees. We believe we are one of the only Discretionary Fund Manager firms in the UK that are GIPS® compliant so we have provided our response with the viewpoint that we may offer different opinion to say a firm focussing on Private Equity and Real Estate.

NB: As aforementioned, Rathbones plc is a discretionary investment manager therefore some questions do not apply to our firm therefore we do not deem it necessary to have a wholehearted view on all questions but we will endeavour to answer as many questions as possible.

Question 1: Do you agree that firms should be required to disclose why they have chosen an ETF rather than a market index as the composite benchmark?

Rathbones is an active management house so our aim is to outperform a relative benchmark therefore you could argue this is technically not applicable to the strategies we implement. However, the GIPS® standards embrace transparency and fair representation therefore we would agree that firms should disclose why they have chosen an ETF rather than a market index as the composite benchmark but equally firms using a market index should always disclose the appropriate information to the client.

ETFs represent a passive investment approach and they can be seen as a good benchmark to compare the performance of a portfolio that is actively managed. Consequently, this could be a potential route our firm will explore in future.

Question 2: Do you agree that the ETF chosen must be one in which the returns are comparable to those of the composite?

Going forward, if as a firm we decided to use an ETF as we believed this was a viable benchmark for a strategy implemented at Rathbones we would agree that the ETF chosen should be one in which the asset allocation weightings and attitude to risk are comparable to those of the composite.

We adhere to this standard at present by utilising benchmarks which we deem to be relevant and which reflects the investment mandate and objective of our current composites.

Question 3: Do you agree that the hedging criteria for the benchmark must be disclosed? Do you agree that it should be required that any material difference in hedging between the composite and the benchmark be disclosed?

N/A

Question 4: Do you agree that firms should be required to select the benchmark that is most consistent with the withholding tax status of the portfolios in the composite?

If the information is readily available or feasible to obtain then yes a firm should select the benchmark that is most consistent with the withholding tax status. If the information is not easily accessible then stating so in the disclaimer should suffice. In the UK there are very few withholding based composite indices for a private client asset manager to use, So there remains a long way to go on these. Note also indices are extremely expensive in the UK so it would be detrimental to client costs, if there was an explosion in index granularity required.

Question 5: Do you agree with the creation of custom benchmarks using fees and/or trading costs to provide returns comparable with the net-of fees and/or trading costs composite returns?

This question is currently a 'hot topic' across the wider business at Rathbones. At present, the market indices we currently use as our GIPS® compliant benchmarks (which have been deemed appropriate by our third party verifier) do not currently take net of fees in to consideration. It is stated in the draft guidance that we should not select a benchmark which primarily makes performance look better, however you could technically argue that firms should be able to use a like for like comparator when displaying gross and net of fees returns to ensure impartiality. In order to be transparent and fair Rathbones do not alter their benchmarks for gross and net of fees returns but theoretically we are doing a disservice to our figures.

We would agree with the creation of net of fees custom benchmarks to ensure comparable returns are provided as this would certainly be of benefit to our firm and the client. Would you also explore the option of decreasing a gross of fees benchmark with an industry standard fee rate or average firm fee rate per annum? If stipulated in the disclaimer could we decrease a gross of fees benchmark return on a yearly basis using an average annual management fee charge to present a like for like comparison?

NB You always run the risk of "What is after fees benchmark" – Have to be careful you don't set the fee too high, and hence the benchmark too low.

Question 6: Do you agree that if a net-of-fees and/or trading costs benchmark is presented, the firm should be required to disclose the fee schedule and/or the trading costs used to derive the benchmark returns?

If a net of fees benchmark is presented, the firm should disclose the fee schedule if this is easily obtainable.

Question 7: Do you agree with the proposed treatment of price-only benchmark returns?

At Rathbones, client's viewpoints vary in terms of investment objectives and benchmarking. For our main composites which are defined by risk and objective we use a relative benchmark such as MSCI WMA Balanced total return. However, we do also provide clients with a range of defined strategies whereby we deem price-only return benchmarks as appropriate. These strategies aim to beat an inflation rate by 3% (for example) CPI +3%. Although clients will receive reports with the appropriate index, on a frequent basis clients tend to ask for an inflation plus benchmark as it is the most widely used measure of inflation and readily recognised globally.

Question 8: Do you agree that if a firm changes a benchmark retroactively, the disclosure of the change should be required to be included in the compliant presentation only for as long as it is meaningful as per the firm's policy and the disclosure can be removed once it is no longer meaningful?

We agree that if the firm changes a benchmark retroactively then this should be stipulated within the GIPS® compliant presentation only for as long as it is meaningful. After 12 months, it should be deemed meaningless to state this in all presentations going forward.

Question 9: Do you agree that firms must disclose changes to benchmark ordinal (primary, secondary)?

If a firm wishes to change the designation of multiple benchmarks from primary to secondary, then as long as this is stated within the compliant presentation then this should be deemed sufficient. If the primary benchmark is to be changed indefinitely, i.e. replaced retroactively then as discussed in question 8 it should only be disclosed for as long as it is necessary too.

On page 7 of your guidance you discuss different types of benchmarks including peer groups and universes. Particularly in our sphere, we are increasingly asked if we can use a peer group index to

compare our returns too. We agree with your sentiments that they can often display survivorship bias and they can potentially not fulfil the criteria of a “good benchmark” hence why we use relevant primary GIPS compliant benchmark.

Can you clarify the following:

If you adhere to the GIPS® standards, although it is not considered best practice, can you utilise peer group indices if the recipient requests this?

Question 10: Do you agree that firms should be allowed to present the name of the benchmark for a readily recognized index or other point of reference instead of presenting the full benchmark description?

Yes, we agree with the sentiments echoed in the question above. Presenting the full benchmark description should not be obligatory if it is readily recognised. However, how would you perceive the benchmark to be recognised by your client base?

Question 11: Do you agree that if the firm is uncertain about whether the benchmark is readily recognized by any potential prospective client, the firm should be required to include the benchmark description?

If the firm is unsure as to whether a benchmark is readily recognised, then a benchmark description should be included in the presentation.

Question 12: Do you agree that if other benchmarks are presented and labelled as supplemental information, that all of the required benchmark disclosure and presentation items should be required to be presented for all benchmarks included in the compliant presentation?

If other benchmarks are presented externally and they are not readily recognised then the firm should disclose the benchmark description within the presentation and advise that additional information can be available on request if the recipient requires further details or assistance.