



Global Asset
Management

RBC Global Asset Management

GIPS® Exposure Draft: **GUIDANCE STATEMENT ON BENCHMARKS**

Request for Comment

Last Reviewed:

January 26, 2018

General Comments: Overall we feel this guidance statement is well thought out and should provide firms with the clarification needed to apply the standards across their firms. One thing that should be kept in mind when making future changes to the standards is the size of the compliant presentation. The current requirements already take up substantial real estate on reports, making it difficult to show things like secondary benchmarks even though the information could be useful to a prospective investor. At the end of the day GIPS® is the global standard used for marketing to Institutional investors, so material needs to also look good while still proving all the information necessary for a potential client to make an informed decision.

Rebalance:

The guidance statement states that firms must disclose any difference in the rebalance process between the portfolio and benchmark. At times we will use the ability to rebalance as a tactical call so having to disclose all differences could become materially time consuming. Can you confirm that firms would only be required to disclose the fact that the portfolio does not always follow the benchmark re-balance schedule?

LDI Clarification:

In the 2010 guidance statement on composite construction the following language is used

“Firms are not permitted to include portfolios with materially dissimilar investment mandates, objectives, or strategies in the same composite. The performance of such a composite is meaningless. In the case where there are many portfolios with unique, defining investment characteristics, it may be necessary for the firm to create numerous single-portfolio composites.”

Looking at the guidance statement there is a paragraph that seems to contradict that statement on page 14 as LDI mandates are customized to the client yet the ability to combine them into 1 single composite seems to be an option.

“**Liability-Driven Investing (LDI):** LDI strategies are highly customized investment strategies for which the main objective is to gain sufficient assets to meet current and future liabilities. Standard public market indexes are generally not appropriate benchmarks for LDI strategies. Benchmarks for LDI strategies are typically constructed of a bespoke set of securities designed to match a client's defined liability stream. The liability stream may be based on actuarially estimated characteristics, such as duration and convexity, without reference to specific securities. For example, a benchmark for a UK-based pension portfolio is a ladder of UK government bonds for which the cash flow stream matches the liability stream of the portfolio. The ladder of UK government bonds is a better match of the portfolio's liabilities than a broad all government bond benchmark published by an index provider. For a composite that includes multiple LDI portfolios, a portfolio-weighted composite benchmark is often used.”

Below we have answered the questions set out in the guidance statement.

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?

Answer: Yes we agree. Can you clarify what the thinking is behind being able to use an ETF based on the market index, rather than using the actual market index? We feel it could give funds the ability to artificially inflate their ability to add value compared to a fund that uses the actual market index. We know it will be disclosed, but that assumes that all users have sufficient level of sophistication and product knowledge to understand the disclosure.

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

Answer: Yes we agree

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?

Answer: Yes we agree that stated hedging policy for the benchmark should be disclosed. Can you confirm that when you say that any material difference between the composite and benchmark must be disclosed are you referring to the stated hedging policy of the mandate only, or are you also addressing any material difference at any point in time? We also use hedging as a part of our active management and tactical calls to add value so having to disclose all material differences over the life of a product is not practical and should not have to be disclosed.

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?

Answer: No we think there should be the option to show the net of withholding tax composite vs. gross of withholding tax benchmark and disclose the fact that the composite is net of withholding taxes. The gross of withholding tax is usually the more broadly accepted benchmark when marketing in certain markets. We agree that you shouldn't be allowed to show a gross of withholding tax composite vs. a net of withholdings taxes benchmark.

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?

Answer: No we do not agree as it creates too much potential to artificially create the appearance you are adding value compared to another manager that isn't using the same custom benchmark.

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?

Answer: Yes these are custom benchmarks and could differ significantly between firms.

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

Answer: Yes we agree the total return composite shouldn't be allowed to be compared to a price return benchmark unless the asset class doesn't have the ability to pay income, such as commodities.

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?

Answer: Yes we agree. The disclosure would only be meaningful to prospective clients that would have received both benchmarks.

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

Answer: Yes we agree.

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?

Answer: Yes we agree

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?

Answer: We see this as being very subjective and could cause confusion for some firms. Similar to the safe harbor list for the guidance statement on pooled funds, the CFA should consider creating a database of recognized benchmarks. These could be country specific with the help of the country sponsors.

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?

Answer: No depending on the circumstance showing all of the requirements might not be relevant to the comparison.

Please let us know if you have any question or need us to clarify any statements made.

Regards,

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