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November 24, 2017

CFA Institute
Global Investment Performance Standards
915 East High Street
Charlottesville, VA 22902

Re: Exposure Draft of Guidance Statement on Overlay Strategies

CIBC Asset Management (CAM), the asset management subsidiary of CIBC, provides a range of high-quality investment management services and solutions to individual and institutional investors. CAM oversees more than $100 billion of assets on behalf of over 1,000,000 investors. We manage about $794 million in asset allocation overlay strategies and $31.3 billion in notional currency overlay assets. CIBC Asset Management is submitting a comment letter in response to the Exposure Draft of the Guidance Statement on Overlay Strategies posted for public comment from August 29, 2017 to November 27, 2017.

DETERMINATION OF TOTAL OVERLAY EXPOSURE

One of the comments was to have more details surrounding the definition of overlay exposure especially with option overwriting overlay. The view is that this can be complicated and could lead to some overstatement or delinking of real overlay exposure if the guidelines are not clearly stated or detailed enough.

Another comment that was passed on is in regards to a firm receiving a particular fee for the Overlay management versus a firm that simply using derivatives as a tool for a particular mandate. The concern is the later should not be considered as a derivative overlay mandate hence should not be included the total firm overlay exposure.

- Should there be some language clarifying what is considered as a specific overlay service (based on the fact that fees are received, stated in the investment policy / official documents…)?

PERFORMANCE CALCULATION

Denominator

Question 5: Are the methods used to calculate the denominator in an overlay portfolio return calculation appropriate?

I do not believe that the exposure draft addresses the situation where the overlay returns are calculated by using the excess return over a certain benchmark. We have some more complex portfolios in which we have a cash equitization mandate as well as an active currency management mandate. These portfolios have a stated benchmark and the currency manager takes his positions from the exposure of the benchmark. Therefore currency forwards are bought to bring the portfolio's currency exposure back to the exposure of the benchmark (the starting point of the currency manager) – we refer to the Profit/Loss from these specific forwards as the "completion hedge". In our accounting system, we have no way of distinguishing between the forwards that were bought for the "completion hedge" and "active currency management" which is why our consultant developed a mechanic to separate the two while taking into account the excess return over the benchmark.

- Does this make sense or is more detail needed?

Compounding Returns over Time

Question 8: Do you agree that the returns for overlay portfolios must be geometrically linked when the overlay exposure changes over the time period? If not, please explain what method(s) you believe is appropriate.

Question 9: Do you agree that the returns for overlay returns must not be geometrically linked when the exposure remains constant, but rather the returns must be calculated as the cumulative profit/loss for the calculation period divided by the denominator? If not, please explain what method(s) you believe is appropriate.

We have concerns with the suggestion that if the overlay exposure changes over time then the returns for overlay portfolios should be geometrically linked and if the exposure remains constant, then the returns for overlay portfolios should be <u>not</u> be geometrically linked. Our portfolios get updated currency exposures values at different times – some are daily, some monthly, some quarterly and others in a blue moon.

- What frequency is considered to be constant and what is considered to be changing over time?
- If two overlay portfolios have the same type of mandate, yet the method used to compound over time is different due to the frequency in which the exposure is updated, does this mean that these two portfolios need to be in separate composites?
- Would it not be simpler to have one general methodology that is applicable to both constant and changing exposure over time?

- This is the method that we currently use at our firm to calculate the portfolio returns:

Reference	Date	Underlying Exposure	Profit/Loss from Overlay Strategy	End of period Market Value (aggregated)	Monthly Total Return	Year-to-Date Total Return
(A)	(B)	(C)	(D)	(E)	(F)	(G)
(i)	31-Dec-14	*500,000,000*		500,000,000		
(ii)	31-Jan-15	*500,000,000*	50,000,000	550,000,000	10.00%	10.00%
(iii)	28-Feb-15	*500,000,000*	20,000,000	570,000,000	3.64%	14.00%
(iv)	31-Mar-15	*500,000,000*	-24,000,000		-4.21%	9.20%

In this example we are assuming that the currency exposure remains constant. The Profit and Loss from the Overlay strategy is added to the currency exposure in order to calculate the beginning period notional value which represents the denominator your formula. We basically aggregate the currency exposure amount with the Profit/Loss generated by the overlay strategy to obtain the beginning notional value. We run our calculations on a daily basis and geometrically linking these daily returns over time makes sense.

As a general question, with this guidance statement on overlay strategies, does this permit a firm to "carve-out" the active currency overlay management of portfolio? The concept of carve-outs composites in GIPS was eliminated years ago, but if a firm manages a portfolio with a segregated international mandate as well as an active currency management overlay – would we be allowed to single out the overlay mandate and include it in an appropriate overlay strategy composite?

Please let me know if you have any questions and thank you for all the hard work.

Sincerely,

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