



Exposure Draft of GIPS Guidance Statement on Overlay Strategies

November 21, 2017

RE: Invitation to Comment: Exposure Draft of the Guidance Statement regarding Overlay Strategies

To the GIPS Executive Committee:

Thank you for the opportunity to comment on the Exposure Draft of the Guidance Statement on Overlay Strategies. We are grateful for the efforts of the GIPS Executive Committee in the development of this type of guidance.

Responding Firm:
Principal Global Investors

Response to Questions:

1. Are these examples regarding the determination of discretion appropriate or are additional examples or other criteria needed? If additional examples or other criteria are needed, please explain your suggestions.

No additional examples needed from our perspective.

2. Are the three "allowable methods" for calculating overlay exposure appropriate?

Yes.

3. Are there other methods for calculating overlay exposure that are also appropriate? If so, please explain.

No additional methods from our perspective.

4. Should the allowable method(s) be required or recommended by strategy type? If so, please propose a required or recommended method by strategy type.

Recommended rather than required.

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

Yes.

6. Is the requirement to include collateral income in the overlay portfolio return when the collateral is actively managed appropriate? If not, should this be changed to a recommendation?

Recommended rather than required as there could be reasons due to the management process that would deem it inappropriate to include. Given the value of collateral in any overlay portfolio only typically is a fraction of the exposure value, the impact on returns is negligible, especially when considered against the changes in infrastructure and operations to calculate.



7. Is the requirement to establish a composite specific policy on treatment of collateral appropriate? If not, should this be changed to a recommendation?

Recommended rather than required as the collateral requirements for different clients and instruments could be different.

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 methods you believe appropriate?

Agree.

9. Do you agree that 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 methods you believe is appropriate.

Agree.

10. Should text be added to this Guidance Statement recommending disclosure of the sum of total firm overlay exposure and firm assets, also known as total firm economic exposures?

No comment.

11. Are the required disclosures appropriate? If not, please explain?

They appear to be appropriate.

12. Is the proposed effective date appropriate or would additional time be needed to implement this Guidance Statement?

The effective date of January 1, 2019 is too soon for firms to implement these changes. Our firm does have currency overlay portfolios as well as composites and these changes would impact how we have constructed and calculated our composite performance both on a historical and go forward basis. We would like to this guidance to be effective January 1, 2020.

Conclusion:

Thank you for the opportunity to respond to this exposure draft. Should you have any questions or require clarification to our responses, please contact Therese Johnson (515-362-1643) at Principal Global Investors.