RBC Global Asset Management

GIPS® Exposure Draft: **GUIDANCE STATEMENT ON OVERLAY STRATEGIES**

Request for Comment

Last Reviewed:

Nov 22, 2017

General comments:

- Can the CFA Institute please clarify what is considered in scope and out of scope for this guidance statement? We have a number of mandates that include overlays, such as currency hedging, directly in the overall mandate. These overlays therefore don't have their own cash balances. From our understanding, these overlays are not in scope, as we don't have the ability to carve out the overlay strategy according to the GIPS rules:
    - In Scope: Overlay strategies where managers are explicitly hired to manage the overlay strategy only, or where the manager has the ability to carve-out the overlay component.
    - Out of Scope: Overlay strategies that are imbedded in the overall mandate and the managers are not able to carve out the overlay component.
- On Page 5 under "Interest Rate Overlay" can the CFA Institute broaden the example list of derivatives to include repo, bond forwards, and bonds with delayed settlement.
- On Page 9 under "Absolute Return Overlay Composite Construction Criteria" we feel the last sentence is unclear and would probably benefit from adding additional information.

Question 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.

Answer: We feel this is reasonable.

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

Answer: We feel the three are appropriate.

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

Answer: No we are happy with the 3 proposed.

Question 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.

Answer: No we feel there will likely be too many 'strategy types' to effectively do this.

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

Answer: Yes we feel this is appropriate.

Question 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?

Answer: Yes we feel this is appropriate.

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

Answer: We feel this is probably worth downgrading to a recommendation. For some it may be relevant to be applied broadly, while some may differ by composite.

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.

Answer: We Agree.

Question 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 method(s) you believe is appropriate.

Answer: Agree the asset base is not changing, so compounding does not come in play. We recommend adding more information that annualized returns will still be calculated the same, the wording sounds like we would be required to provide cumulative returns.

Question 10: Should text be added to this Guidance Statement recommending disclosure of the sum of (a) total firm overlay exposure and (b) total firm assets, also known as total firm economic exposure?

Answer: Not necessary, we fell it's better to leave it distinct to avoid having total firm assets and total firm economic exposure being misunderstood.

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

Answer: We feel they are appropriate.

Question 12: Is the proposed effective date appropriate or would additional time be needed to Implement this Guidance Statement?

Answer: Additional time may be required depending on the scope clarification, and how soon firms will know the response to the feedback and the extent of any changes to the guidance.

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

Regards,

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