CFA Institute®
Global Investment
Performance Standards

Save the Dates—Virtual Annual GIPS Standards Conference

In May we announced the cancellation of the in-person 24th Annual Global Investment Performance Standards (GIPS®) Conference, scheduled for 28-29 October 2020 in Chicago, due to COVID-19 concerns. We are excited to announce that the 2020 GIPS Standards Virtual Conference will consist of on-line sessions during the week of 26 October 2020. Session details and registration information will be announced in the near future. If you are interested in learning about our sponsorship opportunities, contact **sponsorshipprograms@cfainstitute.org**. Mark your calendars and save the dates!

CFA Institute and SBAI Webinar on the GIPS Standards and Its Application to Alternative Strategies

CFA Institute has partnered with the Standards Board for Alternative Investments (SBAI) and has scheduled a free webinar entitled "The Global Investment Performance Standards (GIPS®): Application to Alternative Strategies" on 21 July 2020 at 11:00 AM in Hong Kong, SAR (1:00 PM in Melbourne, Australia). This webinar is geared to all those who reside in Asia Pacific (use this **time zone converter** to see the local time in your area). Please join panelists Daryl Bradford, SVP, director, Performance and Attribution, Acadian Asset Management; Kate Misic, head of Alternative Investments, Telstra Super Pty Ltd; Kenneth Robinson, director, Global Industry Standards, CFA Institute; and moderator Thomas Deinet, executive director, SBAI, as they discuss applying the GIPS standards to alternative strategies. Space is limited to 500 attendees, so **please register here**.

Global Industry Standards (GIS) New ESG Committees: Information Coming Soon

New committees will be forming soon to support the development of a CFA Institute standard for environmental, social, and governance (ESG) disclosures for investment products. More information will be available in the August edition of the GIPS standards newsletter.

Tools and Resources

We continue to add tools and resources to assist with implementation of the 2020 edition of the GIPS standards. You can find these under "Tools and Resources" for **firms**, **asset owners**, and **fiduciary management providers to UK pension schemes**. We recently added the following items:

- Errata for firms, which lists four minor edits that are needed for the GIPS Standards for Firms.

- Explanation of the Provisions in Section 32 of the GIPS standards for Fiduciary Management Providers to UK Pension Schemes.
- A spreadsheet with the calculation in the Explanation of the Provisions in Section 32 of the GIPS standards for Fiduciary Management Providers to UK Pension Schemes.
- A Sample Policy Manual for Fiduciary Management Providers to UK Pension Schemes.

Dear GIPS Standards Help Desk

This month's Help Desk question asks about swung versus unswung pricing for pooled funds.

As firms transition to the 2020 edition of the GIPS standards, we have received some questions about the use of swung versus unswung net asset values (NAVs) as firms make changes to their policies and procedures to accommodate the reporting of pooled fund–specific information. Firms have asked if they should use swung or unswung NAVs when reporting a specific pooled fund's performance in a GIPS Pooled Fund Report. This question was first addressed in a Q&A in 2017. The short answer is that firms can use either the swung or the unswung NAV and we list the advantages and disadvantages of both. For future reference, you can find the Q&A by accessing the **Q&A database** and searching the keyword "swung." We have updated the following Q&A below to reflect 2020 terminology.

Note also that some firms do not use NAVs when calculating performance for their pooled funds. Firms may choose to calculate pooled fund performance using beginning and ending values and external cash flows, just as they would for segregated accounts.

Question: Our firm manages pooled investment funds that apply swing pricing (i.e., the fund has two sets of net asset values per share ("NAVs") – the "swung NAV" that includes a swing factor and the "unswung NAV" that corresponds to the valuation NAV). Assuming that performance is calculated on the basis of the NAV per share, which NAV should be used when calculating returns for the purpose of compliance with the GIPS standards?

Answer: The purpose of swing pricing in pooled investment funds is to provide protection to current fund shareholders against the negative dilution impact from transaction/trading costs occurring when a fund buys or sells securities as a result of external cash flows driven by fund shareholders (subscriptions and redemptions). This is achieved by transferring the estimated impact arising from transaction costs to those shareholders who subscribe or redeem fund shares. In principle, the fund's tradable NAV is adjusted with a so-called swing factor so that the shareholders who subscribe buy shares at the swung NAV that is higher than the valuation or unswung NAV. Shareholders who redeem sell shares at the swung NAV that is lower than the valuation or unswung NAV.

The approach to swing pricing may vary depending on specific parameters, including the following:

- Dual pricing versus single pricing: Dual-priced funds calculate one price for subscribers and another price for redeemers, while single-priced funds calculate one single NAV per share that is used for all capital activity (both subscriptions and redemptions).
- Full swing versus partial swing:
    - For full-swing funds, the NAV is adjusted each time there is capital activity. The direction of the swing is determined by the net capital activity of the day (i.e., net inflow or outflow).
    - For partial-swing funds, the NAV is swung only on those days when a predetermined net capital activity threshold (the swing threshold) is exceeded. As with full swing, the direction of the swing is determined by the net capital activity of the day (i.e., net inflow or outflow). Partial swing is also referred to as semi-swing pricing.

In all cases, the size of the swing factor is determined by the size and direction of the capital flows. Typically, funds that apply swing pricing calculate two types of NAV per share—the “unswung” or “valuation” NAV and the “swung” NAV. Dual-priced funds will have three prices: the valuation NAV, the swung NAV for subscriptions, and the swung NAV for redemptions. Single-priced funds will have two prices: the valuation NAV and the swung NAV.

Performance Calculation for Pooled Funds That Apply Swing Pricing
Pooled funds may calculate their performance either on the basis of NAV per share or on the basis of the total fund portfolio taking into consideration external cash flows.

Those pooled funds that calculate their performance on the basis of the NAV per share and apply swing pricing should consider the following advantages and disadvantages associated with using the swung NAV or the unswung NAV for performance calculation purposes:

Advantages of Swung NAV

- Best representation of investor return. More appropriate for investment performance reporting to current investors because the return of the fund is based on traded NAV.

Disadvantages of Swung NAV

- Introduces additional volatility and tracking error and reduces comparability against a benchmark (benchmark performance does not include swing factor impact).

- Reduces comparability against other investment managers as swing factors may be subjective and vary from manager to manager.

Advantages of Unswung NAV

- Best representation of manager return. Better comparability among investment managers. More appropriate for prospective investors.
- Return is more comparable to portfolios that are not pooled funds (i.e., segregated accounts) included in the same composite.
- Better comparability against benchmark (benchmark performance does not include swing factor impact).
- More appropriate as the basis for performance fees.

Disadvantages of Unswung NAV

- NAV is not a traded NAV that is available to investors for subscriptions/redemptions—performance does not fully correspond to the individual investor's return.
- Unswung NAV may not be published or readily available.

For GIPS compliance purposes, firms are allowed to use either the swung or unswung NAV as the basis for the fund's performance calculation. Because of the advantages just described, firms are recommended to use the unswung NAV. Firms must include policies and procedures with respect to the use of swing pricing in calculation and valuation policies and procedures and apply them consistently on a composite-specific or fund-specific basis. Firms must disclose that policies for valuing portfolios, calculating performance, and preparing GIPS Reports are available upon request. Some countries may have regulatory guidance in place with respect to the use of swing pricing for fund performance calculation purposes. Firms are reminded that they must comply with all applicable laws and regulations regarding the calculation and presentation of performance.

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