IC SELECT – FIDUCIARY MANAGEMENT PERFORMANCE STANDARD

INTRODUCTION

IC Select Composite Construction and calculation methodology

As with other types of investment management performance presentation, the formation of composites will form the basis of the performance standard.

Compliance with a composite approach requires every pension fund managed on a fiduciary management basis to be placed in a composite. Composites should be constructed based on funds that have similar return objectives, risk tolerances and hedging constraints rather than identical benchmarks.

The construction of a fiduciary manager firm's composites is entirely at the discretion of the fiduciary manager firm. However, a recommended framework is provided.

Once the composites are constructed, a document should be maintained listing all composites, their objectives, risk parameters and hedging constraints, the number of firms in the composite, the assets under management and the date the composite was first constructed. Any pension fund carrying out a fiduciary manager selection exercise can then examine this list to understand whether the performance record being presented is the most appropriate or to agree the composite data that will be used for the purposes of their selection process. Consequently, the decision about which track record is used has effectively been passed from the fiduciary manager to the pension scheme or their advisers.

Performance Information

Performance calculation should be based on the return relative to the benchmark net of fees. These relative returns should be shown relative to both the full liabilities and the hedge adjusted liabilities. It is considered that for most schemes the benchmark will either be the liabilities, on either a gilts or swaps basis. Where the benchmark is a fixed asset split the normal CFA Institute Global Investment Performance Standard (GIPS) approach should be followed.

Risk information

It is considered that one of the main benefits of fiduciary management is an improvement in risk management relative to the liabilities. There are two types of risk metric that are considered relevant, variability of returns and downside risk.

Maximum drawdown is the preferred measure of downside risk.

Presentation of performance data

In any tender document, the approach to displaying performance information in the body of the document will be determined by the fiduciary management firm. However, an appendix must be included setting out the performance information in a standard format that shows the performance history from the inception of the composite. A further appendix should be included showing the full list of a firm's composites. By displaying the information in a standardised format in an appendix, any issues relating to the time period or presentation of information can be avoided.

Data frequency

Performance data should be calculated on a monthly basis.

Data Submission for audit purposes

Data should be submitted to IC Select using the attached spreadsheet format. A separate spreadsheet should be included for each composite and umbrella composite together with a list of all composites in the format also shown in the attached spreadsheet.

Information submitted to IC Select should be updated quarterly starting from December 2017 data.

Verification of IC Select Composites

IC Select will, at their expense, ensure compliance with the standard. It is expected that this verification will be no more frequently than annually.

Steering Group
The development of the IC Select Performance Standard is guided by a steering group comprised of:

Iain McAra (Chair)	Director GIPS EMEA Region	CFA Institute
Roger Brown	Founder and Director	IC Select
David Clare	Partner	Barnett Waddingham
Peter Dorward	Managing Director	IC Select
Andy Harrison	Director	Law Debenture
Donny Hay	Director	IC Select
Mark Latimour	Partner	Eversheds
Andre Kerr	Head of FM Oversight	XPS Investment
Neil McPherson	Managing Director	Capital Cranfield
Giles Payne	Director	Capital Cranfield
Chris Fagan	Associate Director	Muse Advisory
James Trask	Partner	LCP
Graham Wardle	Managing Director	BESTrustees
Anthony Webb	Head of FM Advisory	KPMG

Copyright
IC Select has copyrighted this approach to standardising fiduciary management performance. IC Select do not intend to charge for the use of this intellectual property. However, where this performance approach is used, fiduciary managers and other organisations presenting the data will have to highlight IC Select's intellectual property.

Where data is presented within a report, either in numerical or chart form, it should carry the disclosure as: "Source: XYZ, IC Select FM Performance Standard".

31 July 2018

IC SELECT – FIDUCIARY MANAGEMENT PERFORMANCE STANDARD

GUIDELINES

1. General

1.1. All requirements should be complied with and, if not, this must be noted where compliance is not met.

1.2. The performance standard must be applied to all fiduciary management clients of a firm

1.3. A full list of composite descriptions must be maintained. This must show the composite name, description, creation date, start date, end date (for terminated composites) and the current number of schemes in the composite. Terminated composites must be maintained on the list for at least three years.

1.4. Historical composite performance should not be altered following a change in the organisation of the firm. However, any such change or changes affecting the team managing a composite must be highlighted including the date that any change took place.

1.5. Performance data must be updated annually at the calendar year and should be updated quarterly.

2. Definition of the firm

2.1. For purposes of claiming compliance with the IC Select Fiduciary Management Performance Standard, the standard defines a firm as an investment firm, subsidiary, or division held out to clients or prospective clients as a distinct business entity. This entity is a unit, division, department, or office that (1) is organisationally and functionally segregated from other units, divisions, departments, or offices, (2) retains discretion over the assets it manages, and (3) should have autonomy over the investment decision-making process. Possible criteria that can be used to determine this include the following:

- being a legal entity,
- having a distinct market or client type (e.g. DB pension funds)
- using a separate and distinct investment process

3. Provision of performance information to prospective clients

3.1. IC Select Fiduciary Management Performance data only has to be supplied to a prospective client. A prospective client is defined as any person or entity that has expressed an interest in one of the firm's composite strategies and qualifies to invest in the composite. Existing clients may also qualify as prospective clients for any strategy that is different from their current investment strategy.

4. Performance Calculation

4.1. Returns must be shown relative to the full liability benchmark for unconstrained mandates and, for hedge constrained mandates, returns should be shown relative to the full liability benchmark and hedge ratio adjusted benchmark with equal prominence. Any objective (e.g. benchmark + X%) must be ignored in the calculation of relative returns.

4.2. Returns relative to benchmark must be calculated for each scheme:

- NET of all charges, **including** performance fees, and base fees for both the fiduciary manager and any sub-advisors.

4.3. Time weighted returns must be used. Periodic and sub-periodic returns must be geometrically linked.

4.4. Relative returns should be calculated using the geometric difference methodology. Until the end of 2019, arithmetic differences may be used.

4.5. Scheme returns must be calculated at least monthly.

4.6. Return calculations must include returns from cash and cash equivalents held in the schemes.

4.7. Returns must be calculated after the deduction of all trading and other related expenses

4.8. Composite returns must be calculated by equally weighting the individual scheme returns on the basis described in 3.2 relative to their benchmark.

4.9. Returns should not be annualised for part year returns.

4.10. Returns should be calculated net of non-reclaimable withholding taxes on dividends, interest and capital gains.

5. Benchmark Definition

5.1. The full liability benchmark should be the liability benchmark used to report performance to the client. This can be either the full liability cash-flows, a liability proxy benchmark constructed from gilts or swaps or, if neither of these exist, a gilt of similar duration to the liabilities.

5.2. Where a client has restricted the level of interest rate hedging, performance should also be shown relative to the hedge ratio adjusted liability benchmark. The hedge ratio adjusted liability benchmark is calculated by including cash for the proportion where interest rate hedging is not allowed and the full liabilities for the proportion of liabilities where hedging is allowed. This reflects the client's responsibility for the decision to limit hedging on a proportion of the liabilities.

5.3. If a proxy asset benchmark or a gilt of similar duration to the liabilities is used as the benchmark, then the notes must include the following disclaimer:

"The performance track record has been compared to a proxy asset benchmark/gilt of similar duration to the liabilities. The level of volatility risk reported will typically be lower where a proxy asset benchmark/gilt of similar duration to the liabilities has been used."

6. Fiduciary Management Composite Construction

6.1. All schemes managed by the fiduciary manager must be included in at least one composite.

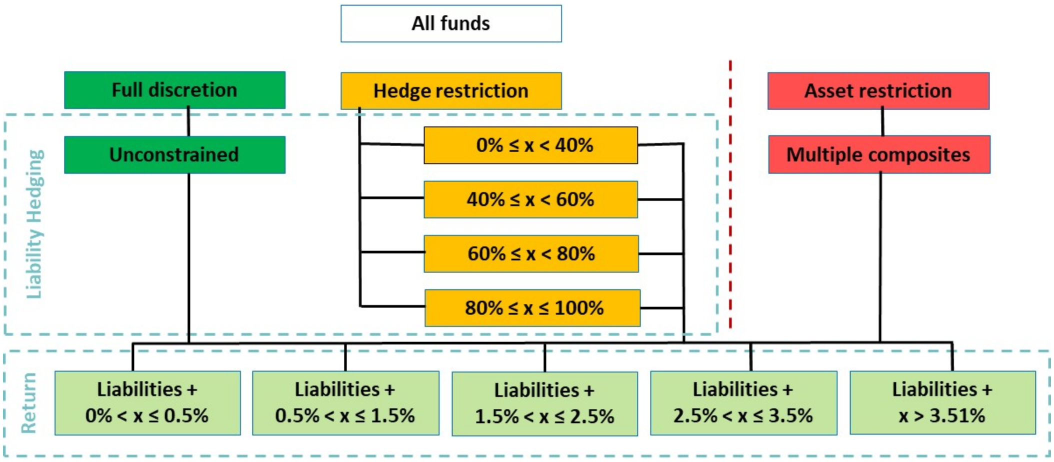
6.2. Only actual schemes can be included in composites

6.3. Simulated or model schemes must not be linked with actual pension fund data.

6.4. Each firm must decide on their composite definitions. Schemes should be included in the same composite where they are similar rather than identical. In deciding on the definitions of composites firms should consider, amongst other factors, the following:

- The level of discretion (e.g. does the client have to be consulted before an investment is made)
- The nature of the benchmark (e.g. liability, gilt or a specific asset mix)
- Any hedge ratio restriction
- Objective or risk (e.g. liability +3%)
- Size of the scheme
- Asset restrictions that would materially affect performance

6.5. The structure for composite construction is shown below. Firms must comply with this structure.



Firms may wish to add additional and supplemental composites to the recommended structure shown above. For example, they may wish to show their return bands in 0.5% intervals or their hedge bands in 10% intervals. Where more granular return or hedge bands are created firms must also create umbrella composites to align with the above structure.

6.6. The use of umbrella composites to combine similar sub-composites is encouraged although these must be clearly labelled.

6.7. Composites must include all schemes that meet the composite description.

6.8. After 30 March 2018 (the end of the set-up period) any change to a composite must not be applied retrospectively.

6.9. The composite definition must be included with the data submission.

6.10. New schemes must be included in the appropriate composite once transition is completed and the fiduciary manager becomes responsible for performance.

6.11. Terminated schemes must be included in the historical record of the composite up to the last full month that the scheme was under management.

6.12. Schemes should not be switched between composites unless documented changes to the investment mandate make it appropriate. The historical record of the scheme must remain with the original composite.

6.13. Where a scheme is moved from one composite to another, for example, as a result of de-risking, the scheme should be removed from all composites during the month or months in which the transition takes place. The performance record, up to the month of the transition must remain with the original composite. Performance following the end of the final transition month, will be included in the new composite.

6.14. Firms must document their policies and procedures used in establishing and maintaining compliance with the IC Select Fiduciary Management Performance Standard, including ensuring the existence and ownership of client assets, and must apply them consistently. Accordingly, firms must document their valuation policies, procedures, methodologies, and hierarchy, including any changes, and must apply them consistently.

7. Performance Presentation Required Information and Standard Format

*Where compliance with this standard is claimed then the following **minimum** information presentation must be included for the most appropriate composite or composites as an appendix. Data can be included throughout the tender document or any presentation material with other presentation forms (e.g. charts): An example of the layout for a composite appendix is attached as an illustration. However, firms are encouraged to use their own layout if preferred to reflect their house style.*

7.1. The currency for the composite must be disclosed.

7.2. A minimum of 5 years', building to ten years, performance data must be presented or, if the composite inception is less than five years ago, the period from the composite start date, must be presented.

7.3. Composite returns net of all fees (see 3.3.1) for each annual period must be presented.

7.4. Composite returns net of all fees (see 3.3.1) for the previous one, three, five, seven and ten year periods and since inception must be presented.

7.5. The maximum drawdown for the previous one, three, five, seven and ten year periods and since inception must be presented calculated as a percentage as being

> (Peak value in relative net of all fees (see 3.3.1) before largest drop - Lowest value in relative net of all fees (see 3.3.1) before a new high established)/Peak value in relative net of all fees (see 3.3.1) before largest drop.

7.6. The annualised ex-post standard deviation of monthly composite NET relative returns for the previous three, five, seven and ten year periods and since inception must be presented.

7.7. The information ratio (annualised NET relative return divided by annualised ex-post standard deviation of monthly composite NET relative returns) for the previous three, five, seven and ten year periods and since inception must be presented.

7.8. Three year annualised ex-post standard deviation of 36 monthly composite NET relative returns as at the end of each annual period must be presented.

7.9. Disclosure should be made if there is insufficient data to calculate three-year ex-post standard deviation of monthly composite returns.

7.10. If three year annualised ex-post standard deviation of composite returns is not used then an explanation must be provided as to why this is not relevant or appropriate and what alternative risk measure has been used.

7.11. The information ratio (three year annualised NET relative return divided by three year annualised ex-post standard deviation of 36 monthly composite NET relative returns) at the end of each annual period must be presented.

7.12. Where performance is shown against both a full liability benchmark and a hedge adjusted benchmark then these must be shown with equal prominence.

7.13. If a case study scheme is used as part of the tender document or presentation, then the composite for this scheme must be provided. This should include the comparable measures for the case study scheme alongside its composite information.

Where there are four or more schemes in a composite, information must be provided on dispersion. For periods where there were four to nine schemes in the composite, the median, high and low should be shown. If there are ten or more schemes in a composite the median, high, low, 90th percentile and 10th percentile should be shown

7.14. If there are less than four schemes in a composite, then the number of schemes in the composite should be disclosed as "less than four".

7.15. Any change in the organisation of the firm affecting the team managing a composite must be highlighted including the date that any change took place.

7.16. Any material changes to valuation policies or methodologies must be disclosed.

7.17. Any material changes to calculation methodologies must be disclosed.

7.18. The creation date of the composite must be shown.

7.19. All performance summaries must have the note "XYZ has prepared and presented this report in compliance with the IC Select FM Performance Standards"

7.20. Where data is presented within a report, either in numerical or chart form, it must carry the disclosure as "Source: XYZ, IC Select FM Performance Standard"

IC Select Limited

ICSELECT
OVERSIGHT AND SELECTION SPECIALISTS

Example layout of information for inclusion as an appendix where performance data has been used as part of a submission

Sample Reporting Appendix Layout

Composite Name:
All funds with a return target close to liability plus 2% and with 60% - 80% hedging constraint

Composite Description
E.g. All funds with a return target between liability plus 1.5% and 2.5% with a 60% - 80% hedging constraint

Report to 31 December 2017

Currency = Sterling

Inception Date of composite 31 March

Changes in firm organisation affecting management of composite

e.g. 1) Senior portfolio manager, A N Other, left on 14 June 2013

Full Liability Benchmark

Net relative monthly returns (Benchmark = Full liabilities)

Date	No of funds	Composite return relative to full liabilities net of all fees %	Composite Asset Value	% Of firm	Total firm value of all composites
2017	9	-1.43	1,209,361,816	6.31	19,165,797,401
2016	9	1.36	1,354,208,490	6.48	20,898,279,167
2015	7	2.07	2,158,777,509	6.39	33,783,685,587
2014	5	-0.48	2,376,390,223	7.01	33,900,003,181
2013	5	1.62	2,148,356,889	6.66	32,257,610,946
2012	4	-2.71	2,221,179,001	6.04	36,774,486,772
2011	2	-3.30	1,968,762,570	5.93	33,200,043,339
2010	2	0.48	2,599,135,439	6.12	42,469,533,317

Dispersion of returns relative to full liabilities

Date	Min	90th	Median	10th	Max
2017	-2.09	-2.00	-1.51	-0.94	-0.22
2016	0.61	0.93	1.40	1.89	2.08
2015	0.60	1.32	2.11	3.00	3.82
2014	-1.06	-0.86	-0.46	0.32	0.81
2013	-0.85	0.76	1.43	1.87	2.29
2012	-3.82		-2.38		-0.05
2011					
2010					

Composite annualised net return relative to full liabilities and downside risk measure

Period	Net relative return	Tracking error (Net excess return)	Information Ratio*	Maximum drawdown
1 Year	-1.43	-	-	-0.73
3 Year	1.84	4.9	0.40	-0.84
5 Year	0.86	4.1	0.61	-2.88
7 Year	0.52	4.3	-0.69	-3.12
Since inception	0.46	4.2	-0.52	-3.12

Annualised Risk Measures (Full liabilities)

Period to end	36 month Tracking error (Net excess return)	Information Ratio*
2017	4.9	0.40
2016	5.1	0.58
2015	4.3	0.75
2014	4.8	-0.34
2013	4.4	-1.00
2012	4.7	-1.16

Hedge Adjusted Liability Benchmark

Net relative monthly returns (Benchmark = Hedge adjusted liabilities)

Date	No of funds	Composite return relative to hedge adjusted liabilities net of all fees %	Composite Asset Value	% Of firm	Total firm value of all composites
2017	9	0.70	1,209,361,816	6.31	19,165,797,401
2016	9	1.84	1,354,208,490	6.48	20,898,279,167
2015	7	3.62	2,158,777,509	6.39	33,783,685,587
2014	5	-1.47	2,376,390,223	7.01	33,900,003,181
2013	5	2.34	2,148,356,889	6.66	32,257,610,946
2012	4	-0.42	2,221,179,001	6.04	36,774,486,772
2011	2	-2.04	1,968,762,570	5.93	33,200,043,339
2010	2	1.28	2,599,135,439	6.12	42,469,533,317

Dispersion of returns relative to hedge adjusted liabilities

Date	Min	90th	Median	10th	Max
2017	0.26	0.35	0.84	1.41	2.13
2016	0.94	1.26	1.73	2.22	2.41
2015	2.04	2.76	3.55	4.44	5.26
2014	-2	-1.8	-1.4	-0.62	-0.13
2013	-0.13	1.48	2.15	2.59	3.01
2012	-1.83		-0.39		1.94
2011					
2010					

Composite annualised net return relative to hedge adjusted liabilities and downside risk measure

Period	Net relative return	36 month Tracking error (Net excess return)	Information Ratio*	Maximum drawdown
1 Year	0.7	-	-	-0.12
3 Year	2.05	4.4	1.49	-0.46
5 Year	1.39	4.8	1.59	-2.68
7 Year	0.65	4.1	1.16	-2.94
Since inception	0.73	3.9	1.43	-2.94

Annualised Risk Measures (Hedge adjusted liabilities)

Period to end	36 month Tracking error (Net excess return)	Information Ratio*
2017	4.2	1.49
2016	4.5	0.88
2015	3.9	1.15
2014	4.1	0.10
2013	3.8	-0.04
2012	4.3	-0.28

* Information ratio = annualised relative return net of all fees / tracking error (Net excess return)

Note: XYZ has prepared and presented this report in compliance with the IC Select FM Performance Standards