

Global
Investment
Performance
Standards

UNDERSTANDING
THE GIPS[®]
STANDARDS:
A GUIDE FOR
ASSET OWNERS



CFA Institute



Ethics. Integrity. Fair representation.

Full disclosure. All are essential principles for investment managers to succeed. But these principles may be subject to different interpretation and application. That is why a set of global performance standards maintained by an independent, highly respected professional organization provides many benefits to investment managers, asset owners, and the investment industry worldwide. That set of standards is called the Global Investment Performance Standards (GIPS®).



CFA Institute owns and maintains the GIPS standards. They have been adopted in more than 40 countries with thousands of investment managers claiming compliance, including 85 of the Cerulli Top 100 largest global asset management firms. The GIPS standards are well established as the premier investment performance benchmark for investment managers presenting performance to asset owners. They provide guidance for calculation and presentation of performance, ensuring a universally credible set of standards and industry best practice for evaluating investment results.

Compliance with the GIPS standards demands adherence to a comprehensive framework, including input data, calculation methodology, composite construction, disclosures, and presentation and reporting, among others.

The GIPS Executive Committee (EC) is responsible for the strategic development, promotion, and implementation of the GIPS standards. The EC is a global governing body that includes senior industry professionals representing various regional, technical, and other stakeholders. The EC oversees the volunteer network responsible for reviewing and updating the GIPS standards through guidance statements, interpretations, questions and answers, clarifications, and periodic revisions.



THE GIPS STANDARDS ARE APPLICABLE TO ASSET OWNERS

Asset owners include, but are not limited to, pension funds (both public and private), endowments, foundations, family offices, other institutional asset owners, sovereign wealth funds, and fiduciaries that have investment responsibility for a pool of assets.

The GIPS standards apply to asset owners in two ways:

- Asset owners can require compliance with the GIPS standards from the investment management firms they hire
- Asset owners themselves can claim compliance with the GIPS standards

Before hiring an investment management firm, asset owners typically inquire about whether a prospective investment management firm is GIPS compliant. The success of the GIPS standards is due in large part to these inquiries. Some asset owners go a step further and hire only those firms that claim compliance with the GIPS standards. Through this exposure, many asset owners have come to recognize the benefits of the GIPS standards and have applied the principles to their own performance calculations and presentations by claiming compliance. Asset owners that have discretion over their assets under management can initially claim compliance with the GIPS standards with just 1 year of compliant history and then build to 10 years of compliant history.

BENEFITS OF ASSET OWNERS REQUIRING COMPLIANCE

Asset owners benefit from requiring external investment managers they hire to claim compliance with the GIPS standards in many ways.

Hiring compliant firms provides

- an enhanced ability to compare performance between investment managers and strategies.
- increased transparency of the performance presentation.
- consistency in calculation methods, including frequency of valuation and income accruals.
- full disclosure of important details about the performance data presented, including key characteristics of the composite's investment mandate and the treatment of investment management fees.
- strengthened internal processes and controls.

ASSET OWNERS COMPLYING WITH THE GIPS STANDARDS

Large asset owners generally operate just like an investment management firm. They have investment mandates, manage discretionary assets, and can be compensated based on performance, but they typically do not have external clients. Some asset owners manage the assets themselves. Many asset owners use third-party sub-advisers to manage some or all of their assets similar to an investment manager that may use a sub-adviser to manage a specific asset class, portfolio segment, or strategy.

The fact that asset owners often use external investment managers to manage some or all of their assets is not unique among firms complying with the GIPS standards. The same concept for determining discretion applies to asset owners as it does to all other firms. If an asset owner chooses to outsource some or all of its investment functions and/or operations, it can still claim compliance with the GIPS standards as long as it retains discretion over the assets it manages.

The asset owner must retain responsibility for compliance with all aspects of the GIPS standards, including valuation, calculation methodology, composite construction, and the creation of the GIPS compliant presentation.

BENEFITS OF ASSET OWNERS CLAIMING COMPLIANCE

Asset owners benefit from claiming compliance with the GIPS standards in many ways.

Claiming compliance

- demonstrates to legislative bodies, oversight boards, and the general public a voluntary commitment to follow global performance calculation and presentation standards based on fair representation and full disclosure principles.
- shows that the asset owner adheres to investment valuation best practices.
- establishes robust investment performance policies and procedures.
- indicates a commitment to the calculation and presentation of investment performance methods that are consistent, transparent, and comparable.
- indicates a commitment to adopt the same performance standards often required of any external investment managers the asset owner retains.



THE GUIDANCE STATEMENT

The Guidance Statement on the Application of the GIPS Standards to Asset Owners was written from the perspective of entities managing investments, either directly or through the use of external managers, on behalf of participants, beneficiaries, or the organization itself, but typically not competing for business—that is, they do not have prospective clients.

The primary factor that differentiates asset owners from other entities that claim compliance with the GIPS standards is that asset owners typically do not market to prospective clients. Instead, they manage assets on behalf of employees of a corporation or public entity (as in the case of pension funds) or on behalf of other asset owners (e.g., foundations, endowments, family offices). This difference does not preclude asset owners from claiming compliance with the GIPS standards, but it does make additional guidance helpful in determining how they can be applied to their organization.

Asset owners may also apply a meaning to some of the terms used in the GIPS standards that differ from the definition used in the GIPS standards or by traditional investment managers, which is another reason why additional guidance may be helpful to asset owners that seek to comply with the GIPS standards.



RESOURCES

There are many resources available to asset owners requiring compliance from the firms they hire and/or if they choose to comply themselves. It is important to be familiar with all of the guidance and information available on the GIPS standards.

Please visit www.gipsstandards.org to access these resources or email the GIPS Helpdesk at gips@cfainstitute.org with any questions.

LEARN

about the GIPS standards and performance measurement:

- Global Investment Performance Standards (GIPS®) Handbook
- Guidance Statements
- GIPS Q&A Database
- Certificate in Investment Performance Measurement (CIPM)
- Webcasts and Articles

ENSURE

that the firm you hire is really GIPS compliant:

- Model RFP Template: A guide to the sections in RFPs related to compliance with the GIPS standards. It also includes sample questions and requests for documentation that help asset owners assess the validity of an investment management firm's claim of compliance with the GIPS standards.

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