

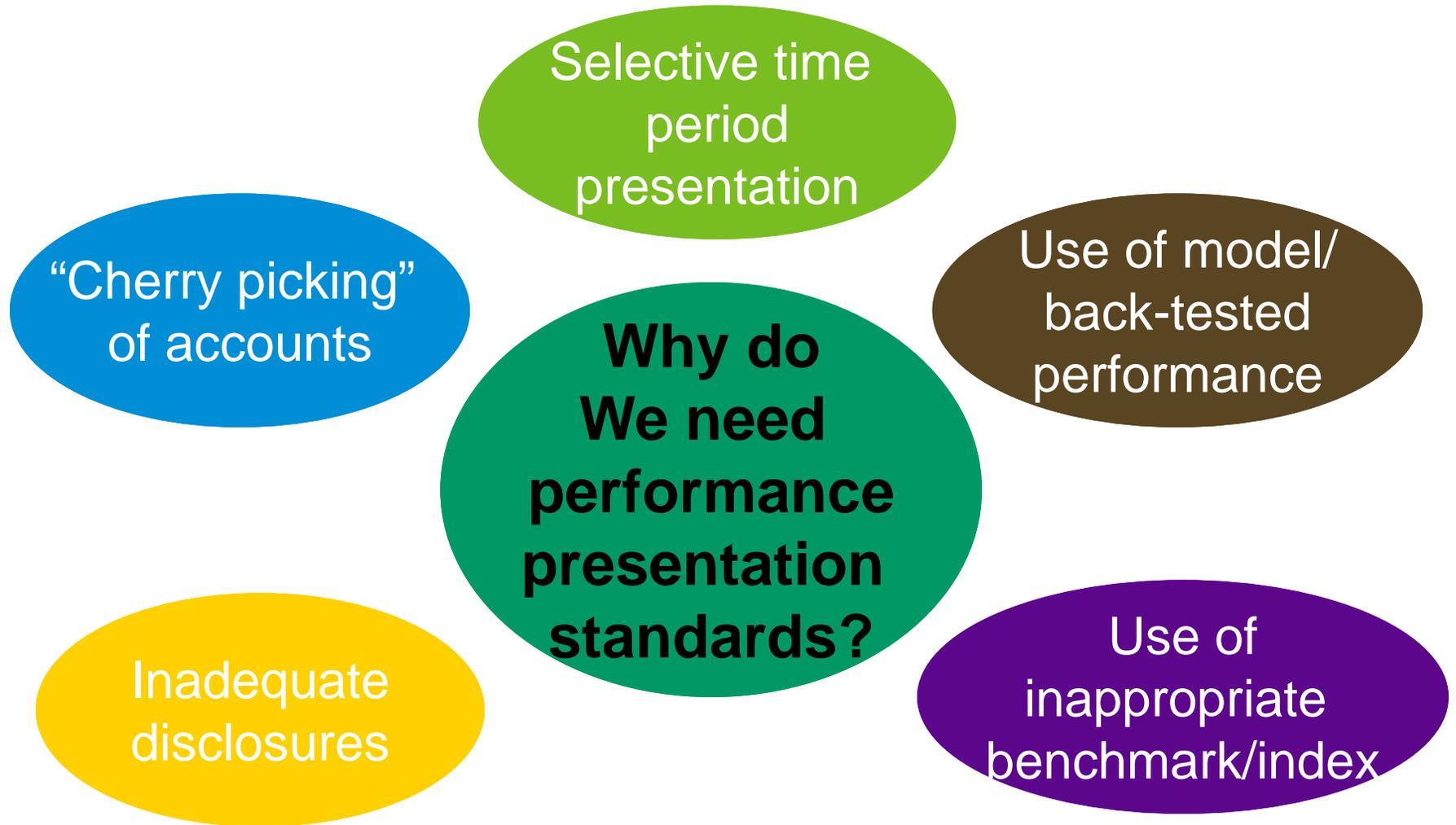


# GLOBAL INVESTMENT PERFORMANCE STANDARDS

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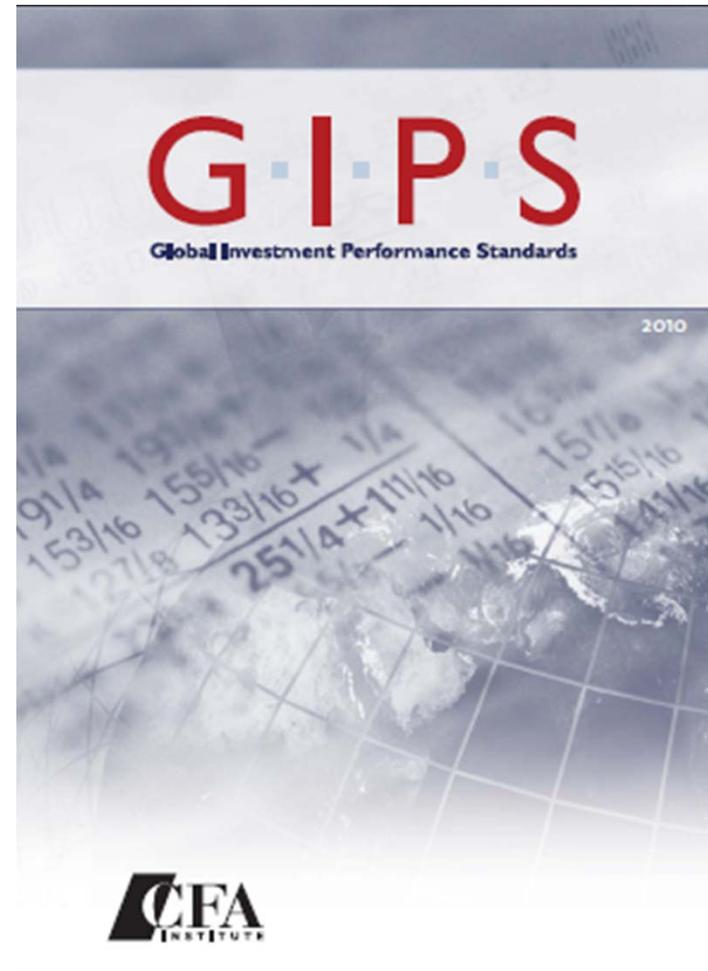


# THE NEED FOR STANDARDS



# WHAT ARE THE THE GIPS STANDARDS?

- **Voluntary** ethical standards for **Fair Representation and Full Disclosure** of the calculation and presentation of investment performance



# OBJECTIVES OF THE GIPS STANDARDS

Transparency

Consistency

Assessment  
of the asset  
manager's  
performance

Disclosure

Comparability

# BENEFITS OF AN INDUSTRY CREATED PERFORMANCE STANDARD

- Investment Firms:
  - Global passport
  - Self regulation and voluntary ethical commitment - “best practice” that promotes professionalism & discipline
  - Enhanced internal control & process

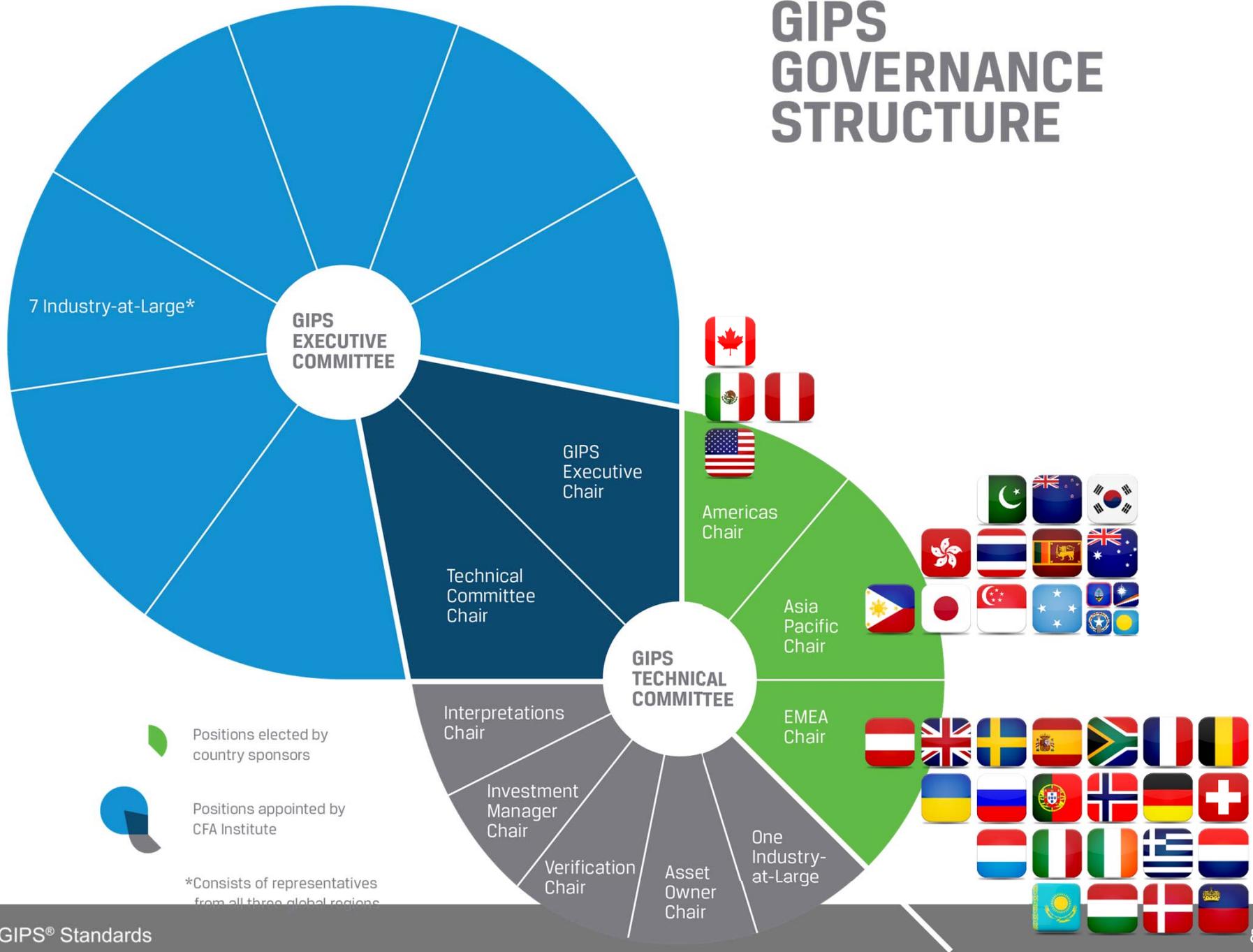
# BENEFITS OF AN INDUSTRY CREATED PERFORMANCE STANDARD

- Prospective Investors:
  - Transparency and confidence
  - Comparability of global managers' performance results during selection
  - Consistency and reliability

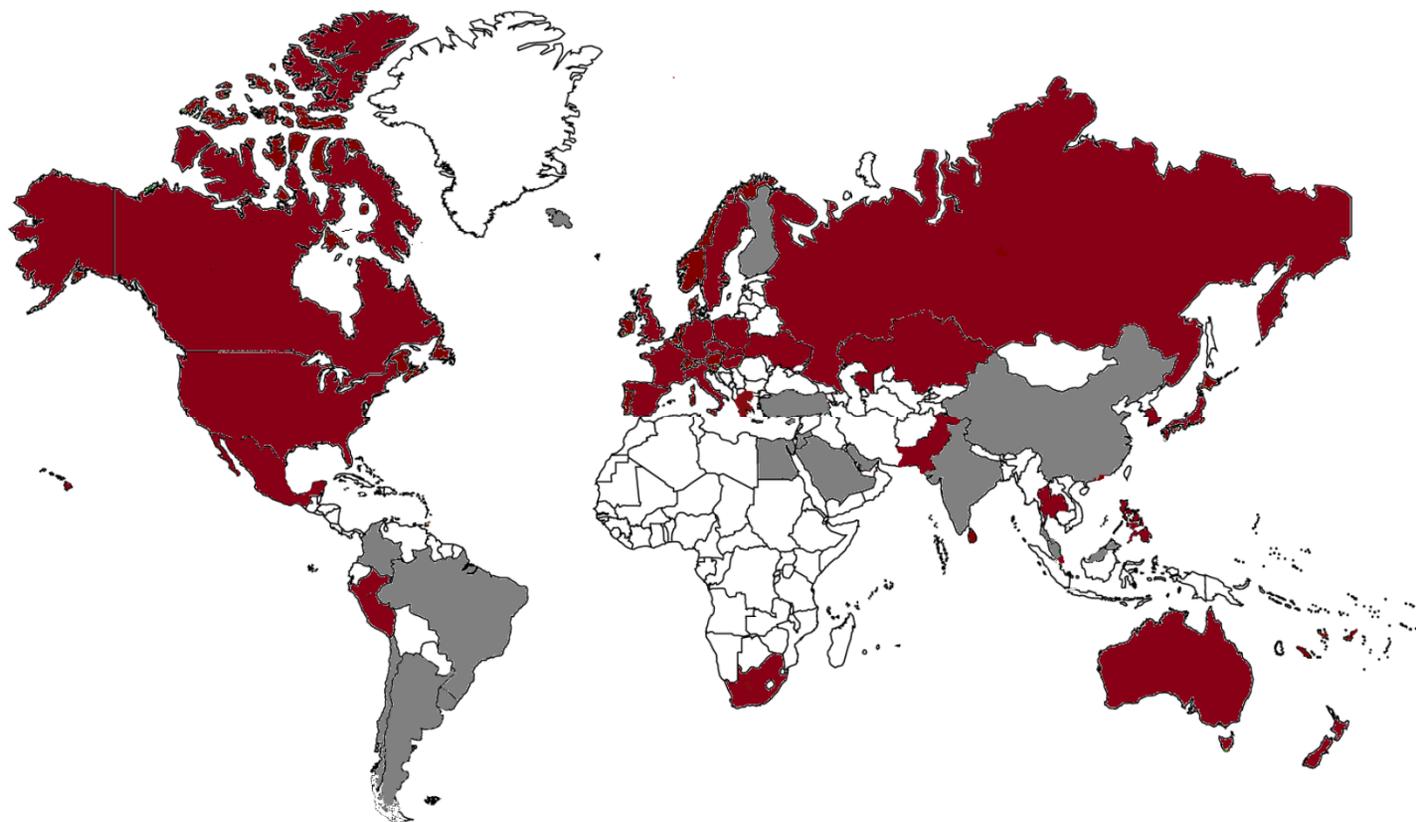
# HISTORY OF THE STANDARDS

- AIMR-PPS Standards: drafted in 1987 and adopted 1993
- GIPS Standards: Initiative began in 1995 and adopted 1999; country version of the GIPS standards still existed
- “Gold GIPS”: Moved to one global standard in 2005; country version of the GIPS standards were abolished
- “GIPS 2010”: Updated version effective from 2011; new risk disclosure required

# GIPS GOVERNANCE STRUCTURE



# STATUS OF GIPS ADOPTION



**Countries that have adopted the GIPS® standards**

**Countries with interest in adopting the GIPS standards**

# THE ROAD TO GIPS COMPLIANCE

- 5 Basic Steps:

- Learn** about the GIPS standards

- Analyze** your firm's capability to comply

- Build** or **strengthen** the infrastructure to comply

- Implement** the requirements

- Stay** up to date

# STAYING COMPLIANT WITH THE GIPS STANDARDS

- The GIPS Standards
- All GIPS Guidance Statements
- All Q&As in the GIPS Q&A Database
- GIPS Handbook
- Any Updates or Clarifications  
Published by the GIPS Executive  
Committee/GIPS Technical Committee  
and CFA Institute

# PROVISIONS OF GIPS STANDARDS

0. Fundamentals of Compliance
1. Input Data
2. Calculation Methodology
3. Composite Construction
4. Disclosure
5. Presentation and Reporting
6. Real Estate
7. Private Equity
8. Wrap Fee/Separately Managed Accounts (SMA)  
Portfolios

**The GIPS standards must be applied on a firm-wide basis.**

# CURRENT GUIDANCE STATEMENTS

- Applicability of the GIPS Standards to Asset Owners
- Alternative Investment Strategies and Structures
- Calculation Methodology
- Composite Definition
- Definition of Firm
- Error Correction
- Fees Provisions
- Impact of Euro Conversion
- Performance Examinations
- Performance Record Portability
- Private Equity
- Real Estate
- Record Keeping
- Treatment of Carve-Outs
- Treatment of Significant Cash Flows
- Use of Supplemental Information
- Verification
- Verifier Independence
- Wrap Fee/ Separately Managed Accounts

# BASIC CONCEPTS OF GIPS

## Case 1: *Firm Definition*

ABC Investments has the following four operating divisions, and all asset allocation decisions are centrally made by the Investment Policy Committee.

- Domestic institutional clients (large and small)
- Overseas institutional clients
- Retail products
- Enterprise annuity funds

**Provision 0.A.12: Firms must be defined as an investment firm, subsidiary, or division held out to clients or prospective clients as a distinct business entity.**

# BASIC CONCEPTS OF GIPS

## Case 2: *Which is the one-month return?*

Date	Market Value	Cash Flow
31/12/06	5000	
20/01/07 (end of day)	6000	
21/01/07 (beginning of day)	6500	+500
31/01/07	6900	

Which is the portfolio's time-weighted return, valuing at time of a large cash flow?

- 1)  $(6000/5000) * (6900/6500) - 1 = 27.4\%$
- 2)  $(6900 - 5000 - 500) / (5000 + 500 * 1/3) = 27.1\%$
- 3)  $(6900 - 5000 - 500) / ((5000 + 5500) / 2) = 26.7\%$

*Note: The firm defines large cash flows as > 5% of the portfolio value.*

# BASIC CONCEPTS OF GIPS

## Case 3: *Annual return?*

Firm ABC was established on 1 March 2013 & claims compliance with the GIPS standards. From its inception (1 March 2013) thru 31 December 2013, the balanced composite earned a return of 14.6%. Can Firm ABC annualize the 10-month return and present the result as the annual return for 2013?

**No, Provision 5.A.4 states that “returns for periods of less than 1 year must not be annualized.” Firms are not permitted to annualize partial-year returns. The firm must clearly disclose that the balanced composite’s 2013 return of 14.6% is for the partial period of 1 March 2013 thru 31 December 2013.**

# LATEST DEVELOPMENTS OF THE GIPS STANDARDS

- **Asset Owners** – *New guidance released in September 2014 and effective 1 January 2015*
- **Pooled Funds** – *in progress*
- **Risk** – *in progress*
- **Benchmark** – *in progress*
- **GIPS compliant firms implementation guide** – *in progress*
- **Overlay Strategies** – *in progress*
- **Verifiers Independence (update)** – *in progress*
- **Firm Notification** – *Effective 1 January 2015*

***SELF-REGULATED GLOBAL STANDARDS FOR THE INDUSTRY  
BY THE INDUSTRY***

# WHAT IS A COMPLIANT PRESENTATION?

**Sample 1 Investment Firm  
Balanced Growth Composite  
1 January 2002 through 31 December 2011**

<b>Year</b>	<b>Composite Gross Return (%)</b>	<b>Composite Net Return (%)</b>	<b>Custom Benchmark Return (%)</b>	<b>Composite 3-Yr St Dev (%)</b>	<b>Benchmark 3-Yr St Dev (%)</b>	<b>Number of Portfolios</b>	<b>Internal Dispersion (%)</b>	<b>Composite Assets (\$ M)</b>	<b>Firm Assets (\$ M)</b>
2002	-10.5	-11.4	-11.8			31	4.5	165	236
2003	16.3	15.1	13.2			34	2.0	235	346
2004	7.5	6.4	8.9			38	5.7	344	529
2005	1.8	0.8	0.3			45	2.8	445	695
2006	11.2	10.1	12.2			48	3.1	520	839
2007	6.1	5.0	7.1			49	2.8	505	1,014
2008	-21.3	-22.1	-24.9			44	2.9	475	964
2009	16.5	15.3	14.7			47	3.1	493	983
2010	10.6	9.5	13.0			51	3.5	549	1,114
2011	2.7	1.7	0.4	7.1	7.4	54	2.5	575	1,236

**Sample 1 Investment Firm claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sample 1 Investment Firm has been independently verified for the periods 1 January 2000 through 31 December 2010. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.**

# WHAT IS A COMPLIANT PRESENTATION?

(CONTINUED)

## Notes:

**Sample 1 Investment Firm is a balanced portfolio investment manager that invests solely in U.S.-based securities.**

**Sample 1 Investment Firm is defined as an independent investment management firm that is not affiliated with any parent organization. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.**

**The Balanced Growth Composite includes all institutional balanced portfolios that invest in large-cap U.S. equities and investment-grade bonds with the goal of providing long-term capital growth and steady income from a well-diversified strategy. Although the strategy allows for equity exposure ranging between 50–70%, the typical allocation is between 55–65%. The account minimum for the composite is \$5 million.**

**The custom benchmark is 60% YYY U.S. Equity Index and 40% ZZZ U.S. Aggregate Bond Index. The benchmark is rebalanced monthly.**

# **WHAT IS A COMPLIANT PRESENTATION?**

**(CONTINUED)**

**Valuations are computed and performance is reported in U.S. dollars.**

**Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Composite and benchmark returns are presented net of non-reclaimable withholding taxes. Net-of-fees returns are calculated by deducting the highest fee of 0.83% from the monthly gross composite return. The management fee schedule is as follows: 1.00% on the first \$25 million; 0.60% thereafter.**

**This composite was created in February 2000. A complete list of composite descriptions is available upon request.**

**Internal dispersion is calculated using the equal-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year.**

**The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The standard deviation is not presented for 2002 through 2010 because monthly composite and benchmark returns were not available, and is not required for periods prior to 2011.**

# ...MORE ON GIPS COMPLIANT PRESENTATIONS

- All GIPS compliant presentations contain two key parts:
  - Presentations of data (Numeric)
  - Required disclosures about how the data were compiled and calculated (Narrative)
- A report is NOT compliant with the Standards unless it contains both parts

# RESOURCES

- The GIPS standards website:
  - Complete List of Guidance Statements
  - Q&A Database
  - Free Webcasts
  - How to Become Compliant

<http://www.gipsstandards.org/compliance/Pages/index.aspx>
- The GIPS standards Handbook  
<http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2012.n4.full>
- Helpdesk: [gips@cfainstitute.org](mailto:gips@cfainstitute.org)
- E-mail Alert List: [standards@cfainstitute.org](mailto:standards@cfainstitute.org)
- Twitter: [@gipsstandards](https://twitter.com/gipsstandards)
- Certificate in Investment Performance Measurement (CIPM):  
[cfainstitute.org/cipm](http://cfainstitute.org/cipm)

[www.gipsstandards.org](http://www.gipsstandards.org)