

GIPS – The Case for Compliance

Fund managers' performance appraisal is an important exercise undertaken by trustees in the course of discharging their stewardship obligation. But reviewing the results of incumbent managers or evaluating the track records of firms competing for new mandates is a daunting task even for experienced trustees. The difficulty stems from the lack of transparency in the information supplied by some firms. Also, there is the problem of inconsistency in the way in which firms calculate and present their results. What some managers fail to appreciate is that trustees already face a multitude of challenges in their fiduciary role and that they need comfort, awareness and protection when it comes to the management of their assets. There is strong relationship between the quality of trustees' decisions and usefulness of information available to them. Comparing fund managers' results prepared and presented in different formats undermine trustees' ability to make the sound decisions. In the absence of standards in the methods behind published results, it is impossible to make fair judgements about what the figures suggest in relation to managers' strategies, strengths and weakness.

Good fund managers anticipate and take pro-active actions rather than react against the tide of competition. Compliance with Global Investment Performance Standards (GIPS) represents the right approach to marketing. It is an opportunity for fund managers to demonstrate integrity in the information that they produce. Credibility or the lack of it influences choice. With GIPS the benefit is mutual – level playing field for managers and transparency for trustees. Every fund manager know that information about their firm, key personnel and products is just half the battle to win new clients or retain existing ones. The initial stage of the selection process is where the primary focus is on whether or not firms are qualified to participate in the process and also, whether the candidates have observed certain conventions relating to the submission of their tenders. Interestingly, many fund managers fall or stumble badly at this first important hurdle through sheer carelessness or/and lack of features distinguishing them from the herd.

The battle to make the final shortlist is tough. But to beat the competition and emerge as the winner is even tougher. Competition stiffens at the final stage. It is the “show-us-what else-you've got” stage. The race to win the mandate is now less crowded but intense scrutiny of each manager's submission must take place to protect the integrity of the selection process. Yet there is no magical formula to deciding the winner – the firm that manages to stand out from the rest! Trustees like to see evidence of transparency and flexibility of service. Certain areas are of particular interest to them, namely: investment process, reporting and structure of charges.

Given the difficulties in global markets and recent corporate scandals – boards, auditors and analysts, few asset managers would argue against existence of performance standards to protect clients who rely on performance information to make investment decisions. Question is should fund managers be allowed to mislead clients? Cherry picking is wilful manipulation with intent to conceal facts in order to gain unfair advantage.

In an environment as dynamic and competitive as fund management, there is no better way to protect clients as well as level the playing field than to encourage adoption of standards. It is cost-effective for managers and their clients. There is growing frustration at the apparent lack of effort by investment consultants to promote GIPS. Unwillingness to support an initiative designed to ensure simplicity and clarity is a culpable error of judgement. Consultants' business logic for opposing GIPS is flawed for the simple reason that it appears to be putting their balance sheets before clients' interests. It reveals a lack of perception about what the clients need.

These are indeed testing times for pension funds and with investors' sentiment so fragile, the need for openness has never been greater. Proponents of GIPS know that a minor problem (a manager cherry-picking) can develop into a major dilemma (clients and potential clients using inaccurate information to make critical decisions). Some fund managers are on edge about the high cost of achieving compliance. They have one's sympathy but it makes good business sense to be compliant. How else can they demonstrate honesty and customer-care in an area that is so prone to manipulation and accusation? GIPS compliance should be viewed as a necessity rather than a luxury. It is a valuable tool in the sales and marketing armoury. Pro-active compliance is better than being "forced" to be compliant. Also, as more and more firms seek to become compliant, it is likely that verification charges will fall as new verifiers emerge.

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