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 provides many benefits to investment managers and to the investment industry worldwide. That set of standards is called the Global Investment Performance Standards (GIPS).

The GIPS standards are owned and maintained by CFA Institute, a global not-for-profit organization of investment professionals with the mission of leading the investment profession globally by setting the highest standards of ethics, education, and professional excellence. The GIPS standards have been adopted in more than 40 countries with hundreds of investment managers claiming compliance, including 87 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 prospective clients. 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 is voluntary and demands adherence to a comprehensive framework, including input data, calculation methodology, composite construction, disclosures, and presentation and reporting, among others.

CFA Institute, through 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.

INVESTMENT MANAGERS COMPLYING WITH THE GIPS STANDARDS

Under its claim of compliance with the GIPS standards, an investment management firm can cover multiple geographic locations, investment strategies, and asset classes that operate under the same brand name. In some cases, investment management firms can choose to claim compliance for only a subset of their overall business—for example, for their hedge fund strategies as distinct from their separately managed account business, provided they are held out to the public separately.
Some investment managers use third-party sub-advisers to manage some or all of their assets—for example, in a fund-of-funds structure—or to manage a specific asset class, portfolio segment, or strategy within a fund. If an investment manager delegates investment authority to a sub-adviser or otherwise outsources investment functions and/or operations, it can still claim compliance with the GIPS standards as long as it retains the ability to hire and terminate the sub-advisers.

To promote fair representation of performance, the GIPS standards require investment managers to include all of their actual, discretionary, fee-paying portfolios in at least one "composite," which is an aggregate of one or more portfolios managed according to a similar investment mandate, objective, or strategy. Composites are the primary vehicle for presenting performance to prospective clients and must include all portfolios that meet the composite definition. In this way, investment managers cannot "cherry-pick" their best-performing portfolios to present to prospective clients.

To claim compliance, investment managers must comply with all aspects of the GIPS standards, including valuation, calculation methodology, composite construction, benchmark selection, and the creation of the GIPS compliant presentation. Investment managers must establish policies and procedures to maintain compliance with the GIPS standards as well as to ensure that adequate records supporting their full GIPS-compliant performance record are maintained.

Investment managers must report GIPS-compliant performance for a minimum of five years (or since inception if they have been in existence for less than five years). Firms that claim GIPS compliance may elect to have their claim verified by an independent third party.
Investment managers benefit from claiming compliance with the GIPS standards in many ways.

- It demonstrates to current and prospective investors, legislative bodies, and the general public a voluntary commitment to follow global performance calculation and presentation standards based on fair representation and full disclosure principles.

- It fulfills a key screening criteria for manager selection by many institutional investors as part of their due diligence process.

- It allows investors to fairly compare firms and strategies.

- It facilitates fair competition among asset managers.

- It establishes robust investment performance policies and procedures.
• It demonstrates a commitment to calculation and presentation of investment performance methods that are consistent, transparent, and comparable and that are suitable for a variety of strategies and operating scenarios.

• It makes it possible for investment managers around the world to present historical investment returns without having to restate these figures using different calculation and presentation rules.

• It demonstrates a commitment to take responsibility and maintain adequate documentation for the performance of sub-advisers.

Before hiring an investment management firm, many institutional investors inquire whether a prospective investment management firm is GIPS compliant. Some institutional investors go a step further and hire only those firms that claim compliance with the GIPS standards.
CONSIDERATIONS FOR FUND MANAGERS

A significant share of the growth in GIPS compliance in recent years has come from the investment fund industry, with an increasing number of hedge fund, real estate, and private equity firms claiming compliance and with diversified investment managers that have extended their claim of compliance to also cover their pooled fund strategies.

In many jurisdictions, managers of pooled funds are subject to significant regulatory requirements at the firm and individual fund level, including provisions that specifically pertain to performance calculation and reporting. Even within the framework of a highly regulated environment, the GIPS standards can provide guidance on performance areas that are not covered by regulation as well as comprehensive, coherent framework for reporting performance, which harmonizes regulatory requirements across jurisdictions.

Investment managers of pooled funds typically market their performance at the individual fund level, rather than in terms of composites. Multiple fee structures often coexist in a single fund to target different groups of investors and/or reflect contractual arrangements with individual investors or group of investors. Funds that invest in alternative strategies, such as hedge funds and private equity funds, are likely to encounter special challenges in such areas as benchmark selection, risk metrics, valuation of illiquid assets, and performance calculations in the presence of derivatives and leverage, among others.
These challenges do not preclude managers of pooled funds from claiming compliance with the GIPS standards, but they do make additional guidance helpful in determining how they can be applied to their organization. Specific GIPS guidance has been developed for firms that manage alternative investment funds, such as private equity, real estate, and hedge funds, as well as for broadly distributed pooled funds, such as mutual funds registered under the Investment Company Act of 1940 in the United States and funds that follow the provisions of the Undertakings for Collective Investment in Transferable Securities (UCITS) regulations in the European Union.
RESOURCES

There are many resources available to investment managers that choose to comply with the GIPS standards. 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 your firm is prepared to fulfill investors' due diligence requests pertaining to GIPS compliance:

- 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.

**KEEP UP**
with the latest news about the GIPS standards:

- Sign up for the GIPS Newsletter
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