FINAL REVISED GUIDANCE STATEMENT ON THE APPLICATION OF
THE GIPS STANDARDS TO ASSET OWNERS
WEBINAR

Wylie A. Tollette, CFA, CPA
Chief Operating Investment Officer, CalPERS Investment Office

Beth Kaiser, CFA, CIPM
Director – Investment Performance Standards, CFA Institute

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WEBINAR AGENDA

Basics about GIPS and Asset Owners

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Highlight and explain differences from this version of the Guidance Statement to the first version of this Guidance Statement.
WHAT ARE GLOBAL INVESTMENT PERFORMANCE STANDARDS?

The GIPS standards are:

Voluntary standards governing the calculation and presentation of investment performance based on the ethical principles of fair representation and full disclosure.
GIPS STANDARDS GOALS

✓ Ensure accurate and consistent data,
✓ Obtain worldwide acceptance of a single standard for calculating and presenting performance,
✓ Promote fair, global competition among investment firms,
✓ Promote industry self-regulation on a global basis, and
✓ Promote investor interests and instill investor confidence.
OBJECTIVES OF THE GIPS STANDARDS

- Transparency
- Consistency
- Disclosure
- Comparability

Assessment of the asset manager’s performance
WHAT CAN GIPS HELP ASSET OWNERS WITH?

The GIPS standards include guidance on:
- Valuation
- Performance calculation
- Composite construction
- Appropriate presentation and reporting
- Other important performance-related information
AUTHORITATIVE GUIDANCE

The following items are considered part of the GIPS Standards authoritative guidance and interpretation:

- The GIPS Standards
- GIPS Handbook
- All GIPS Guidance Statements
- All Q&As in the GIPS Q&A Database
- Any Updates or Clarifications Published by the GIPS EC and CFA Institute
CURRENT GUIDANCE STATEMENTS

- Application of the GIPS Standards to Asset Owners
- Alternative Investment Strategies and Structures
- Broadly Distributed Pooled Funds
- 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
BENEFITS OF AN INDUSTRY CREATED PERFORMANCE STANDARD

➤ Prospective Investors:
  ▪ Transparency and confidence
  ▪ Ethical commitment - ‘best practice’ professionalism
  ▪ Viewed as the norm

➤ Firms:
  ▪ Global passport
  ▪ Self regulation
  ▪ Enhance internal controls
BENEFITS OF AN INDUSTRY CREATED PERFORMANCE STANDARD

Asset Owners:

- Demonstrates commitment to follow global industry standard and best practice
  - Performance Calculation
  - Performance Presentation
  - Valuation

- Establishes robust performance policies and procedures
BENEFITS OF AN INDUSTRY CREATED PERFORMANCE STANDARD

➢ Asset Owners (cont’d):
  ▪ Commitment to consistent, transparent, and comparable methods of calculating and presenting performance
  ▪ Adopt same principles required by external investment managers
WHO CAN CLAIM COMPLIANCE WITH THE GIPS STANDARDS?

- Entities with discretion over the assets under management, either by managing assets directly or having the discretion to hire and fire underlying investment managers can claim compliance.

- Who is considered to be an “asset owner” under the new guidance statement?
  - Entities that manage investments, directly and/or through the use of external managers, on behalf of participants, beneficiaries, or the organization itself, including (but not limited to):
WHO CAN CLAIM COMPLIANCE WITH THE GIPS STANDARDS?

(cont’d)…

- Public and private pension funds
- Endowments
- Foundations
- Family offices
- Provident funds
- Insurers and reinsurers
- Sovereign wealth funds
- Fiduciaries

➢ The term “asset owner” applies to organizations and NOT to individuals.
HISTORY OF THE GIPS STANDARDS AND ASSET OWNERS

- GIPS Standards were traditionally designed for investment managers.
- Asset Owners were also allowed to claim compliance.
  - Asset Owners were confused about how to apply provisions not originally designed for them.
- New Guidance Statement provides interpretation on asset owner related requirements and recommendations.
Why is guidance needed specifically for asset owners?

- Typically accountable to an oversight board (e.g., board of trustees) responsible for establishing investment policies and monitoring performance.
- Most do not have prospective clients.
- Most do not compete for business.
- Manage assets to support the mission of an organization.
- Often only accountable to their oversight boards.
HISTORY OF THE GIPS STANDARDS AND ASSET OWNERS

Why is guidance needed specifically for asset owners (cont’d)?

- Different model from investment managers.
- Investment managers market performance to attract and retain clients.
- Many GIPS provisions relate to marketing to prospective clients
  - Applies differently to asset owners.
- Many GIPS provisions are not clearly interpreted for the use of asset owners.

Guidance Statement addresses differences.

Clarifies the appropriate requirements and recommendations.
HISTORY OF THE GIPS STANDARDS AND ASSET OWNERS

- Which asset owners must follow this Guidance Statement?
  - Do not compete for business or market to prospective clients.
  - Manage assets of other related asset owners to gain efficiencies and cost savings.
    - Do not compete for business or market to prospective clients.
HISTORY OF THE GIPS STANDARDS AND ASSET OWNERS

➤ Which asset owners should not follow this Guidance Statement?
  ▪ Authority to compete for business and market to prospective clients.
  ▪ If can attract and retain prospective clients, and adopt the investment manager model.

➤ What should the asset owners do who should not follow this Guidance Statement?
  ▪ Must follow the existing GIPS requirements.
  ▪ May use this Guidance Statement as helpful reference for understanding GIPS terms.
WHEN AN ASSET OWNER COMPETES FOR BUSINESS

Which guidance should asset owners follow who both act as a true asset owner that does not compete for business for its pension plan and as investment manager that competes for business at other times with a different product?

• Separate into 2 GIPS firms.

• Part of the organization acting as an asset manager must be defined as a separate firm that initially brings 5 yr track record into compliance building to 10 yrs.

  - Adheres to the broader GIPS standards.

• Part of the organization acting as an asset owner must be defined as a separate firm that may initially come into compliance with a 1-yr track record building to 10 yrs.

  - Adheres to the Asset Owner Guidance Statement.
WHEN AN ASSET OWNER COMPETES FOR BUSINESS

Which guidance should asset owners follow who both act as a true asset owner that does not compete for business and as investment manager that does compete for business at other times?

- If offering investment in the same product to prospective clients that the asset owner is managing, organization must consider itself an asset manager for GIPS-compliance and present a five-yr track record when initially coming into compliance building to 10yrs.

- Difficult to separate into 2 GIPS firms, therefore, the asset owner would adhere to the existing guidance and requirements of the GIPS standards and must not present only a 1-yr track record when initially coming into compliance.
**REVISED ASSET OWNER GUIDANCE**

- Required track record in a Compliant Presentation
    - Initially required 5 years (or since inception) building to 10 years

- 2018 Version of the Guidance Statement
  - Initially require ONE year of performance building to 10 years.
REVISED ASSET OWNER GUIDANCE

- The Guidance Statement explains that provision 5.A.3 does not apply (requires only GIPS-compliant performance to be presented after 1 January 2000)
  - Does not apply with new 1-year track record rule.
  - Asset owners can come into compliance at any time.
  - Compliant data does not have to be presented for 5 years or back to 2000 INITIALLY
  - Must always build to 10 years of compliance
REVISED ASSET OWNER GUIDANCE

Real Estate and Private Equity Guidance

➢ 2015 version of the Guidance Statement
  ▪ Less specifics about valuation and calculation requirements
REVISED ASSET OWNER GUIDANCE

Real Estate and Private Equity Guidance

➤ 2018 version of this Guidance Statement

❖ More information about how to treat valuation and performance calculation for private equity real estate

▪ When part of a total fund composite, present TWRR
  ○ Value monthly and at the time of large cash flows
  ○ Last valuation +/- cash flows unless significant event

❖ When calculating and presenting asset class composites, present IRR for closed-end funds.

▪ Follow asset class specific guidance
▪ Real Estate quarterly valuation
▪ Private Equity annual valuation
REVISED ASSET OWNER GUIDANCE

Effective Date(s)

➤ 2018 version of the Guidance Statement
  ▪ Effective 1 January 2018
  ▪ Must comply with this version for periods after 1 Jan 18.
  ▪ For periods beginning 1 Jan 15 and 1 Jan 18, must comply with either the 2015 or the 2018 version of the Asset Owner Guidance Statement.
  ▪ For periods prior to 1 Jan 15, must comply with the 2010 edition of the GIPS standards, or the 2015 or the 2018 version of the Asset Owner Guidance Statement.
REVISED ASSET OWNER GUIDANCE

Effective Date(s)

- Retroactive application is not required.
- If choose to apply the 2015 or the 2018 versions of these guidance statements retroactively, must disclose whether any restatement of the historical track record was necessary as a result of the retroactive application.
REVISED ASSET OWNER GUIDANCE

Other Important Details About Exposure Draft

➢ A new sample compliant presentation
➢ Minor corrections throughout the document
  ▪ Addresses questions
  ▪ Additional improvements
RESOURCES

- The GIPS standards website:
  - Complete List of Guidance Statements
  - Q&A Database
  - Free Webcasts
  - How to Become Compliant
- The GIPS standards Handbook
- Helpdesk: gips@cfainstitute.org
- GIPS Newsletter
- Twitter: @gips
- Certificate in Investment Performance Measurement (CIPM): cfainstitute.org/cipm

www.gipsstandards.org