HIGHLIGHTS FROM THE 2020 GIPS STANDARDS FOR FIRMS

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AGENDA

• The 2020 GIPS standards public comment process
• The 2020 GIPS standards structure
• Key changes for firms
• Effective date
PUBLIC COMMENT PROCESS

• The Exposure Draft of the 2020 GIPS Standards (2020 Exposure Draft) was available for public comment from 1 September 2018 through 31 December 2018

• We received more than 5,200 individual comments from more than 120 organizations

• Every comment was evaluated and considered, resulting in a recommendation for any needed changes to the provisions

• Proposed changes were then reviewed with and approved by the GIPS Standards Technical Committee and the GIPS Standards Executive Committee
2020 STRUCTURE

• The 2020 GIPS Standards include three separate documents, or chapters:
  - GIPS Standards for Firms
  - GIPS Standards for Asset Owners
  - GIPS Standards for Verifiers

• Asset managers that compete for business must follow the GIPS Standards for Firms

• No separate asset-class sections for real estate, private equity, or wrap fee portfolios

• Each section includes any asset-class or asset-type specific provisions
  - E.g., overlay, carve-outs, wrap-fee, private market investments

• Dates have been removed from provisions and are included in footnotes

• Defined terms are in small capital letters
SECTIONS IN THE 2020 GIPS STANDARDS FOR FIRMS

General Provisions

1. Fundamentals of Compliance
2. Input Data and Calculation Methodology
3. Composite and Pooled Fund Maintenance

GIPS Composite Reports

4. Time-Weighted Returns
5. Money-Weighted Returns

GIPS Pooled Fund Reports

6. Time-Weighted Returns
7. Money-Weighted Returns

8. GIPS Advertising Guidelines
   - Composites
   - Limited Distribution Pooled Funds
   - Broad Distribution Pooled Funds

Glossary

Appendices

- Sample GIPS Composite Reports
- Sample GIPS Pooled Fund Reports
- Sample GIPS Advertisements
- Sample Lists
PORTFOLIO TYPES

• In the 2020 GIPS standards, firms need to classify all portfolios as either:
  - A segregated account
  - A broad distribution pooled fund
  - A limited distribution pooled fund
• Segregated account is a portfolio owned by a single client
• Broad distribution pooled fund (BDPF) is a pooled fund that is regulated under a framework that would permit the general public to purchase or hold the pooled fund’s shares and is not exclusively offered in one-on-one presentations
  - e.g., US ‘40 Act mutual funds, UCITS funds,
• Limited distribution pooled fund (LDPF) is any pooled fund that is not a broad distribution pooled fund
  - E.g., limited partnerships, private equity funds
• The term “portfolio” includes both segregated accounts and pooled funds
REQUIRED COMPOSITES

• A composite is an aggregation of one or more portfolios that are managed according to a similar investment mandate, objective, or strategy.

• A composite must include all portfolios that meet the composite definition.

• In 2010, all actual, fee-paying, discretionary portfolios must be included in at least one composite.

• In 2020, the firm must create composites for the firm’s strategies that are managed for or offered as a segregated account.

• All actual, fee-paying, discretionary segregated accounts must be included in at least one composite.

• All actual, fee-paying, discretionary pooled funds must be included in at least one composite if they meet the composite definition.

• The firm is not required to create a composite that includes only one or more pooled funds, if the strategy of the fund(s) is not offered as a composite strategy to segregated accounts.
  - May terminate composites that were created to include only one or more pooled funds when the firm does not offer the pooled fund strategy as a composite strategy.
LIST OF COMPOSITES AND POOLED FUND DESCRIPTIONS

- A composite description is general information regarding the investment mandate, objective, or strategy of the composite. 
- A pooled fund description is general information regarding the investment mandate, objective, or strategy of the pooled fund. 
- In 2020, firms must maintain:
  - A complete list of composite descriptions 
  - A complete list of pooled fund descriptions for LDPFs 
  - A complete list (without descriptions) of BDPFs
PROSPECTIVE CLIENTS VS PROSPECTIVE INVESTORS

• Prospective client is any person or entity that has expressed interest in one of the firm’s composite strategies and qualifies to invest in the composite
  - Current clients may qualify as prospective clients for any composite strategy that differs from their current investment strategy
  - Investment consultants and other third parties are included as prospective clients if they represent individuals or entities that qualify as prospective clients

• Prospective investor is any person or entity that has expressed interest in one of the firm’s pooled funds and qualifies to invest in the pooled fund
  - Current pooled fund investors may qualify as prospective investors for any pooled fund that differs from their current pooled fund
  - Investment consultants and other third parties are included as prospective investors if they represent individuals or entities that qualify as prospective investors
LIST OF COMPOSITES AND POOLED FUND DESCRIPTIONS

• In 2020, firms must provide:
  - The complete list of composite descriptions to any prospective client that makes such a request
  - The complete list of pooled fund descriptions for LDPFs to any LDPF prospective investor that makes such a request
    - This list may be tailored to the prospect, but this is not required to be tailored
  - The complete list of BDPFs to any BDPF prospective investor that makes such a request
    - If the firm’s website includes all such funds, the firm may instead direct the prospective investor to the website
  - The pooled fund description for any BDPF to any BDPF prospective investor that makes such a request
**GIPS REPORTS**

- In 2010, firms are required to make every reasonable effort to provide a compliant presentation to all prospective clients.
- In 2020 “Compliant Presentations” are renamed:
  - GIPS Composite Reports – for composites
  - GIPS Pooled Fund Reports – for pooled funds
- A GIPS Composite Report is a presentation for a composite that includes all of the information required by the GIPS standards. It may also include recommended information or supplemental information.
- A GIPS Pooled Fund Report is a presentation for a pooled fund that includes all of the information required by the GIPS standards. It may also include recommended information or supplemental information.
- The term “GIPS Report” includes both GIPS Composite Reports and GIPS Pooled Fund Reports.
- Sample GIPS Composite Report excerpt is on the next slide.
### Spinning Top Investments

**Large Cap Growth Composite**

1 February 2011 to 31 December 2020

<table>
<thead>
<tr>
<th>Year</th>
<th>Composite Gross TWR (%)</th>
<th>Composite Net TWR (%)</th>
<th>Benchmark Return (%)</th>
<th>3-Year Std Deviation</th>
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<tr>
<td>2011</td>
<td>2.18</td>
<td>1.25</td>
<td>1.17</td>
<td>31</td>
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<td>18.66</td>
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<td>38</td>
</tr>
<tr>
<td>2014</td>
<td>14.50</td>
<td>13.37</td>
<td>13.03</td>
<td>45</td>
</tr>
<tr>
<td>2015</td>
<td>6.52</td>
<td>5.47</td>
<td>5.87</td>
<td>48</td>
</tr>
<tr>
<td>2016</td>
<td>6.22</td>
<td>7.15</td>
<td>7.09</td>
<td>49</td>
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<td>2017</td>
<td>33.78</td>
<td>32.48</td>
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<td>44</td>
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<tr>
<td>2018</td>
<td>-0.84</td>
<td>-1.83</td>
<td>-0.86</td>
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</tr>
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<td>2019</td>
<td>33.08</td>
<td>31.78</td>
<td>20.76</td>
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<tr>
<td>2020</td>
<td>7.51</td>
<td>6.44</td>
<td>6.30</td>
<td>54</td>
</tr>
</tbody>
</table>

**Notes:**
- Returns are for the period 1 February 2011 to 31 December 2011.
- Spinning Top Investments acquired the composite through an acquisition of ABC Capital in May 2014. Firm assets prior to 2014 are not presented because the composite was not part of the firm.

### Disclosures

1. Spinning Top Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Spinning Top Investments has been independently verified for the periods 1 January 2011 to 31 December 2020. The verification report is available upon request.

   A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm’s policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards.
GIPS REPORTS

• Firms must make every reasonable effort to provide a GIPS Composite Report to all prospective clients when they initially become prospective clients
  - Once the firm has provided a GIPS Composite Report to a prospective client, the firm must provide an updated GIPS Composite Report at least once every 12 months, if the prospective client is still a prospective client

• Firms must make every reasonable effort to provide a GIPS Report to all prospective LDPF prospective investors when they initially become prospective investors. The GIPS Report may be either:
  - A GIPS Pooled Fund Report for the respective LDPF, or
  - A GIPS Composite Report. A GIPS Composite Report may be provided only if the LDPF is included in the respective composite
  - Once the firm has provided a GIPS Report to a prospective investor, the firm must provide an updated GIPS Report at least once every 12 months, if the prospective investor is still a prospective investor

• Firms may provide a GIPS Pooled Fund Report to BDPF prospective investors, but are not required to do so
UPDATING GIPS REPORTS

• When providing GIPS Reports to prospective clients and prospective investors, firms must update these reports to include information through the most recent annual period end within 12 months of that annual period end
  - This is a change from the 2020 Exposure Draft, where we proposed updating within 6 months
• For example, assume the firm includes calendar year annual returns in GIPS Reports
  - The firm must include 2019 annual returns no later than 31 December 2020
• Firms are not required to update GIPS Reports for composites or pooled funds that are not marketed when these GIPS Reports are not provided to any prospects
• Firms must be able to demonstrate how they met the requirements to distribute GIPS Reports
NEW LIMITED DISTRIBUTION POOLED FUND

• If the firm is selling participation in a brand new LDPF, this pooled fund will not have a track record to present to prospective investors.

• The firm should present the most appropriate track record for the new LDPF, if available.
  - This was a proposed requirement in the 2020 Exposure Draft.

• The most appropriate track record is a GIPS Report for a composite or another pooled fund that is managed according to the same or similar strategy as the new LDPF.
RECORDKEEPING

• All data and information necessary to support all items included in:
  - GIPS Composite Reports
  - GIPS Pooled Fund Reports
  - GIPS Advertisements

must be captured, maintained, and available within a reasonable time frame, for all period presented in these reports and advertisements
CARVE-OUTS

• A carve-out is a portion of a portfolio that is by itself representative of a distinct investment strategy
  - E.g., the small cap segment of an equity portfolio

• Any carve-out included in a composite must be representative of a standalone portfolio managed or intended to be managed according to that strategy

• In 2010, as of 1 January 2010, firms are prohibited from allocating cash to carve-outs and including those carve-outs in composites
  - As of that date, to be included in a composite, a carve-out must be managed with its own dedicated cash

• In 2020, firms are allowed to once again allocate cash to carve-outs

• Any carve-out included in a composite must include cash and any related income. Cash may be:
  - Accounted for separately, or
  - Allocated synthetically
CARVE-OUTS

• If the firm chooses to allocate cash to a carve-out and include it in a composite, it must create carve-outs with allocated cash for all carve-outs managed in the same strategy across the entire firm
  - All carve-outs with allocated cash must be included in the composite
• Once the firm obtains a standalone portfolio managed in the same strategy as the carve-out(s) with allocated cash, it must create a composite that includes only standalone portfolios
• The GIPS Composite Report for the composite that includes the carve-out(s) with allocated cash must include returns and composite assets for the standalone composite as well
  - See Appendix A, Sample 5, for a GIPS Composite Report for a composite that includes carve-outs with allocated cash
EXTERNAL VALUATION

• In 2010, only real estate investments are required to receive an external valuation
  - External valuation are required once every 12 months, or
  - When client agreements state otherwise, external valuations are instead required at least once every 36 months

• In the 2020 Exposure Draft, we proposed expanding the concept of obtaining independent valuations to private equity, infrastructure, and other real assets, including real estate (i.e., private market investments), and also expanded the types of independent valuations
  - This proposal did not move forward

• In 2020, private market investments except real estate are recommended to have external valuations
  - This is in addition to fair valuing investments whenever a portfolio is valued
REAL ESTATE

• Real estate includes wholly owned or partially owned:
  - Investments in land, including products grown from the land (e.g. timber or crops)
  - Buildings under development, completed buildings, and other structures or improvements
  - Equity-oriented debt (e.g., participating mortgage loans)
  - Private interest in a property for which some portion of return to the investor at the time of investment relates to the performance of the underlying real estate

• In 2020, real estate portfolios are divided into two categories:
  - Real estate open-end funds
  - All other portfolios that hold any real estate
REAL ESTATE VALUATION

• Real estate investments in a real estate open-end fund must have an external valuation at least once every 12 months
  - Required for periods beginning on or after 1 January 2020
• Real estate investments that are not in a real estate open-end fund must:
  - Have an external valuation at least once every 12 months unless client agreements stipulate otherwise, in which case real estate investments must have an valuation at least once every 36 months or per the client agreement if the client agreement requires external valuations more frequently than every 36 months; or
  - Be subject to an annual financial statement audit performed by an independent public accounting firm. The real estate investments must be accounted for at fair value, and the most recent audited financial statements available must contain an unmodified opinion issued by an independent public accounting firm.
REAL ESTATE VALUATION

• External valuations for real estate investments must be performed by an independent third party who is a professionally designated or certified commercial property valuer or appraiser. In markets where these professionals are not available, the firm must take necessary steps to ensure that only qualified independent property valuers or appraisers are used.

• The firm must not use external valuations for real estate investments when the valuer’s or appraiser’s fee is contingent upon the investment’s appraised value.
VALUATION FREQUENCY

• In 2010, valuation frequency requirements are based on the underlying asset class of a composite and the portfolio type.

• Investments must be valued monthly and at the time of large cash flows, with the following exceptions:
  - Private equity must be valued annually
  - Real estate must be valued quarterly
  - Alternative investment strategy funds must be valued annually and whenever there are subscriptions or redemptions

• In 2020, valuation frequency depends on:
  - The type of return being presented (time-weighted versus money-weighted)
  - Whether the portfolio is included in a composite or presented as a standalone pooled fund
TIME-WEIGHTED VS MONEY-WEIGHTED RETURNS

• Time-weighted return (TWR) is a method of calculating period-by-period returns that reflects the change in value and negates the effects of external cash flows

• Money-weighted return (MWR) is a return for a period that reflects the change in value and the timing and size of external cash flows
  - In 2010, the term internal rate of return (IRR) was used

• Firms must present TWRs unless certain criteria are met, in which case the firm may present MWRs.

• Firms may choose to present MWRs vs TWRs if, for the composite or pooled fund:
  - The firm has control over external cash flows, and
  - Each composite portfolio has, or the pooled fund has, at least one of the following characteristics:
    - It is closed – end
    - It has a fixed life
    - It has a fixed capital commitment
    - Illiquid investments are a significant part of the composite or pooled fund’s investment strategy
**VALUATION AND RETURN CALCULATION FREQUENCY**

**Time-weighted returns (TWR)**
- Portfolios in composites (except private market investment portfolios)
  - At least monthly
  - At the time of large cash flows
- Private market investment portfolios in composites
  - At least quarterly
  - No requirement to value at the time of large cash flows
- Pooled funds not in composites
  - At least annually
  - At the time of all subscriptions and redemptions
  - Whenever returns are calculated

**Money-weighted returns (MWR)**
- Portfolios in composites and pooled funds
  - Annually
  - Whenever returns are calculated
PORTFOLIO-LEVEL CALCULATIONS

Time-weighted returns (TWR)
• Portfolios in composites (except private market investment portfolios)
  - At least monthly
  - Sub-period returns at the time of large cash flows
    - Use daily-weighted cash flows
• Private market investment portfolios in composites
  - At least quarterly
  - Use daily-weighted cash flows
• Pooled funds not in composites
  - At least annually
  - Sub-period returns at the time of all subscriptions and redemptions

Money-weighted returns (MWR)
• Portfolios in composites and pooled funds
  - Annualized since-inception MWRs
  - Use daily cash flows as of 1 Jan 2020, and at least quarterly cash flows before then
COMPOSITE-LEVEL CALCULATIONS

Time-weighted returns (TWR)
- Composites (except private market investment composites)
  - Asset weight portfolio returns (or use the aggregate method) at least monthly
- Private market investment composites
  - Asset weight portfolio returns (or use the aggregate method) at least quarterly

Money-weighted returns (MWR)
- Must aggregate the portfolio-level information for those portfolios included in the composite for the period from inception through the most recent annual period end
TRANSACTION COSTS  
(FORMERLY TRADING EXPENSES)

• In 2010, firms are required to calculate returns after the deduction of actual trading expenses during the period.

• In 2020, firms may use either actual or estimated transaction costs for portfolios included in composites.
  - Estimated transaction costs may be used only for those portfolios for which actual transaction costs are not known.
PORTABILITY

• In 2010, firms are required to link to performance from a prior firm or affiliation, if portability tests are met, on a composite-specific basis.

• In 2020, firms may choose to link performance from a past firm or affiliation, if the four portability tests are met, on a composite-specific or pooled fund-specific basis:
  - Substantially all the investment decision makers are employed by the new firm.
  - The decision-making process remains substantially intact and independent within the new firm.
  - The firm has records to support the performance from the past firm, and
  - There is no break between the past firm and the new firm.

• A second portability provision (1.A.33) states that when the first three portability tests are met, but there is a break between the past firm and the new firm, the track record from the prior firm may be used, but it must not be linked to the track record at the new firm.
PORTABILITY

• In 2020, clarifies the one year grace period
  - The one-year grace periods allows a compliant firm to not lose its compliant status when it acquires a non-compliant firm or affiliation
  - Assets of the acquired non-compliant firm or affiliation must meet all the requirements of the GIPS standards within one year of the acquisition date, on a prospective basis
  - There is no time limit on when firms may port history from the past firm or affiliation
GIPS REPORTS FOR FIRMS

• Four GIPS Report options
  - Composite TWRs – section 4
  - Composite MWRs – section 5
  - Pooled Fund TWRs – section 6
  - Pooled Fund MWRs – section 7

• Each section is self-contained, and includes all required and recommended provisions for creating the respective GIPS Report

• Firms must determine which returns will be presented for each composite and LDPF, and must consistently present the selected returns
  - The same is true for any BDPF the firm chooses to present in a GIPS Pooled Fund Report
RETURNS IN GIPS REPORTS

• In the 2020 Exposure Draft, proposed requiring GIPS Pooled Fund Reports to include pooled fund net returns
  - Pooled fund net returns reflect the deduction of all fees and expenses, including investment management fees, administrative fees, and other costs
  - This proposal did not move forward
• In 2020, firms may choose which returns to present in GIPS Reports, for both composites and pooled funds
  - Gross only, net only, or both
  - Subject to regulatory requirements
REQUIRED MONEY-WEIGHTED RETURNS

• In 2020, GIPS Reports that include MWRs are required to include MWRs for only one period – from inception through the most recent annual period end
  - In 2010, were required to include SI-IRRs through each annual period end

• In 2020, GIPS Reports that include MWRs are required to include information about committed capital, distributions, and related multiples only as of the most recent annual period end
  - In 2010, were required to include this information as of each annual period end

• In 2020, composites and pooled funds that use a subscription line of credit and present MWRs must present MWRs both with and without the subscription line of credit activity. The returns without the subscription line of credit is not required if the subscription line of credit has the following characteristics:
  - The principal was repaid within 120 days using committed capital drawn down through a capital call
  - No principal was used to fund distributions
## Subscription Line of Credit

Calculation example with and without the subscription line of credit

<table>
<thead>
<tr>
<th>Date</th>
<th>Transaction Type</th>
<th>Cash Flow</th>
<th>Cash Flow</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-Jan-2020</td>
<td>Subscription LOC Drawdown</td>
<td>(1,000,000)</td>
<td></td>
</tr>
<tr>
<td>1-Jul-2020</td>
<td>Subscription LOC Drawdown</td>
<td>(500,000)</td>
<td></td>
</tr>
<tr>
<td>1-Oct-2020</td>
<td>Subscription LOC Drawdown</td>
<td>(500,000)</td>
<td></td>
</tr>
<tr>
<td>1-Jan-2021</td>
<td>Capital Call</td>
<td>(2,000,000)</td>
<td></td>
</tr>
<tr>
<td>1-Oct-2021</td>
<td>Capital Call</td>
<td>(1,000,000)</td>
<td>(1,000,000)</td>
</tr>
<tr>
<td>31-Dec-2021</td>
<td>Ending Fair Value</td>
<td>3,500,000</td>
<td>3,500,000</td>
</tr>
<tr>
<td>SI-MWR</td>
<td></td>
<td>22.48%</td>
<td>13.23%</td>
</tr>
</tbody>
</table>
TOTAL FIRM ASSETS

- Total firm assets is the aggregate fair value of all discretionary and non-discretionary assets for which the firm has investment management responsibility.
- In 2010, firms must present, as of each annual period end:
  - Total firm assets, or
  - Composite assets as a % of total firm assets.
- In 2020, for periods beginning on or after 1 January 2020, firms must present total firm assets.
- In 2020, clarifies that:
  - Advisory-only assets must not be included in total firm assets.
  - Uncalled committed capital must not be included in total firm assets for periods beginning on or after 1 January 2020.
- Firms may present advisory-only assets and uncalled committed capital separately from total firm assets, or combined with total firm assets, as a separate value.
RISK MEASURES

• In 2010, firms are required to present the three-year annualized ex-post standard deviation for the composite and benchmark, unless monthly composite returns are not available
  - If the firm believes that the three-year annualized standard deviation is not relevant or appropriate, the firm must also present an additional risk measure
• In 2020, the requirement to present an additional risk measure has been deleted
• In 2020, firms are recommended to present additional risk measures
SUBJECTIVE UNOBSERVABLE INPUTS

- The same recommended fair value hierarchy from GIPS 2010 is included in the 2020 GIPS standards
- The bottom tier of the hierarchy is the use of subjective, unobservable inputs for the investment where markets are not active at the measurement date
  - Unobservable inputs should only be used to measure fair value to the extent that observable inputs and prices are not available or appropriate
- In 2020, new requirement to present (for periods ending on or after 1 Jan 2020) the percentage of the total fair value of composite or pooled fund assets that were valued using subjective unobservable inputs (as described in provision 2.B.6.e – the recommended fair value hierarchy) as of the most recent annual period end, if such investments represent a material amount of composite or pooled fund assets
NON-FEE-PAYING PORTFOLIOS

• In 2010, if the composite includes non-fee-paying-portfolios, firms must present the % of the composite represented by non-fee-paying portfolios as of each annual period end.

• In 2020, if the composite includes non-fee-paying portfolios, the firm must present the % of composite assets represented by non-fee-paying portfolios as of each annual period end when:
  - net-of-fees returns are presented, and
  - net-of-fees returns are calculated using actual investment management fees.

• If only gross-of-fees returns are presented, or net-of-fees returns are calculated using model investment management fees, no requirement to present this %.
BENCHMARKS

• If the firm chooses to include more than one benchmark in the GIPS Composite Report or GIPS Pooled Fund Report, the firm must include all required information for all benchmarks.
NEW OR REVISED REQUIRED DISCLOSURES

- Revised claim of compliance
  - Aligns with the required verification procedures
- New disclosure to acknowledge the GIPS registered trademark
  - “GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.”
- Composite or pooled fund inception date
- Periodicity of benchmark returns, if calculated less frequently than monthly
- Which returns are used to calculate internal risk measures, and any additional risk measures presented
- Not required to disclose that the three year annualized ex post standard deviation is not presented because 36 monthly returns are not available unless the composite or pooled fund has at least three annual periods of performance
- Additional risk measures, if included
  - A description of the additional risk measure
  - The risk free rate used, if applicable
- If the return type has changed, (e.g., changed from presenting TWRs to MWRs)
NEW OR REVISED REQUIRED DISCLOSURES

• If model investment management fees are used to calculate net-of-fees returns, the model fee and methodology used (model fee required for periods ending on or after 31 December 2020)

• Leverage, derivatives, and short positions
  - Must disclose how leverage, derivatives, and short positions have been used historically, if material (no change in 2020)
  - How leverage, derivatives, and short positions may be used must be included in the composite description or pooled fund description, if they are a material part of the strategy

• In 2010, must disclose the date of, description of, and reason for a benchmark change
  - In 2020, benchmark changes differentiate retroactive changes versus prospective changes
  - In 2020, prospective benchmark changes must be disclosed for as long as returns for the prior benchmark are included in the GIPS Report
  - Retroactive changes must be disclosed for a minimum of one year and for as long as they are relevant to interpreting the performance track record

• If estimated transaction costs are used, must disclose the estimated transaction costs used, and how they were determined
NEW OR REVISED REQUIRED DISCLOSURES

• The firm must disclose the current fee schedule appropriate to prospective clients or prospective investors
  - When presenting performance to a prospective client for a standalone portfolio, the fee schedule must reflect the fee schedule for a standalone portfolio managed according to that strategy
  - When presenting performance of a composite that includes carve-outs to a prospective client for a multi-asset strategy portfolio, the fee schedule must reflect the fee schedule for a multi-asset strategy portfolio managed according to that strategy
  - When presenting a wrap fee composite to a wrap fee prospective client, the fee schedule must reflect the total wrap fee
  - When presenting a GIPS Composite Report to a prospective investor for a pooled fund included in the composite, the firm must disclose the pooled fund’s current fee schedule and expense ratio

• If the fee schedule includes performance-based fees or carried interest, must disclose the performance-based fee description or carried interest description
  - Information that would allow a prospect to understand the characteristics of the performance-based fee or carried interest (e.g., the performance-based fee rate, hurdle rate, clawback, high watermark, crystallization schedule) and on what basis fees are charged
NEW OR REVISED REQUIRED DISCLOSURES

• If theoretical performance is included as supplemental information, must:
  - Disclose that the results are theoretical, are not based on the performance of actual portfolios, and if the theoretical performance was derived from the retroactive or prospective application of a model
  - Disclose a basic description of the model and assumptions used to calculate the theoretical performance sufficient for the prospective client or prospective investor to interpret the theoretical performance, including if it is based on model performance, backtested performance, or hypothetical performance
  - Disclose whether the theoretical performance reflects the deduction of investment management fees, transaction costs, or other fees and charges that an actual client portfolio would have paid or will pay.
  - Clearly label the theoretical performance as supplemental information

• For real estate investments that are not in a real estate open-end fund, the firm must disclose that:
  - External valuations are obtained, and the frequency with which they are obtained, or
  - The firm relies on valuations from financial statement audits
SUNSET PROVISIONS

• The following disclosures must be included for a minimum of one year but may subsequently be removed if the firm determine the disclosure is no longer relevant to interpreting the track record (using section 4 as an example):
  - The firm must disclose all significant events that would help a prospective client interpret the GIPS Composite Report (4.C.19)
  - The firm must disclose changes to the name of the composite (4.C.23)
  - If the firm changes the benchmark, the firm must disclose:
    b. For a retroactive benchmark change, the date and description of the change (4.C.32.b)
  - The firm must disclose any change to the GIPS Composite Report resulting from the correction of a material error (4.C.38)
  - If the firm changes the type of return(s) presented for the composite (e.g., changes from money-weighted returns to time-weighted returns), the firm must disclose the change and the date of the change (4.C.42)
OVERLAY COMPOSITES

• An overlay strategy is one in which the management of a certain aspect of an investment strategy is carried out separately from the underlying portfolio.

• Overlay strategies are typically designed to either limit or maintain a specified risk exposure that is present in the underlying portfolio or to profit from a tactical view on the market by changing a portfolio’s specified risk exposure.
  - E.g., currency overlay, option overwrite.

• The 2020 GIPS standards include calculation requirements for overlay strategy portfolio returns.

• Overlay strategy composites must present composite overlay exposure and either total firm assets or total firm overlay exposure (for periods ending on or after 1 January 2020).
  - Overlay exposure is the economic value for which a firm has investment management responsibility.
  - May choose to not present composite assets or total firm assets.

• Must disclose the methodology used to calculate composite overlay exposure.

• Must disclose if collateral and collateral income are reflected in the composite returns.
WRAP FEE COMPOSITES

• In 2020, wrap fee/separately managed accounts are renamed wrap fee portfolios
• When presenting performance to wrap fee prospective clients, firms must continue to:
  - Present composites that include all wrap fee portfolios managed in the composite’s strategy
  - Present composite returns that are net of the entire wrap fee
• The concept of sponsor-specific composites has been deleted
  - Sponsor-specific performance may still be used, but this is considered client reporting
• Current practice is to present pure gross returns (as supplemental information) and net returns for wrap fee composites
• With the ability to use estimated transaction costs, firms may be able to calculate gross returns that reflect the deduction of only transaction costs
GIPS ADVERTISING GUIDELINES

• A GIPS Advertisement is an advertisement by a GIPS-compliant firm that adheres to the requirements of the GIPS Advertising Guidelines

• Firms are not required to prepare GIPS Advertisements but, if a firm chooses to do so, it must meet all the requirements of the GIPS Advertising Guidelines

• Three GIPS Advertising Guidelines options:
  - Composites
  - LDPFs
  - BDPFs
GIPS ADVERTISING GUIDELINES

• New fundamental provisions applicable to all advertisements
  - For example, composite returns in a GIPS Advertisement must be derived from the returns included in or that will be included in the corresponding GIPS Composite Report

• For composites that present TWRs in the corresponding GIPS Composite Report, there is a new TWR option:
  - The annualized composite return for the total period that includes all periods presented in the corresponding GIPS Composite Report, through either the most recent period end, or the most recent annual period end

• If the corresponding GIPS Composite Report includes MWRs, the GIPS Advertisement must include the composite since-inception MWR through either the most recent period end or the most recent annual period end
GIPS ADVERTISING GUIDELINES

• The big change in 2020 is the inclusion of BDPFs in the GIPS Advertising Guidelines
• These replace the requirements previously included in the Guidance Statement on Broadly Distributed Pooled Funds
• Firms are not required to present GIPS-compliant performance for an individual BDPF to prospective investors in the BDPF
  - Firms must comply with any laws or regulations for selling BDPFs
• Firms may voluntarily choose to follow the GIPS Advertising Guidelines for a BDPF
• Firms may also voluntarily choose to prepare a GIPS Pooled Fund Report for a BDPF
EFFECTIVE DATE

• Effective date of 1 January 2020
• GIPS Reports that include performance for periods ending on or after 31 December 2020 must be prepared in accordance with the 2020 edition of the GIPS standards
• GIPS Reports that include returns for periods ending prior to 31 December 2020 (e.g., year-to-date returns through 30 September 2020) may be prepared in accordance with the 2010 edition of the GIPS standards
• Firms may also need to make changes with respect to input data for periods beginning on or after 1 January 2020
  - E.g., real estate investments in real estate open-end funds must be externally valued at least once every 12 months as of 1 January 2020
• Firms may choose to early adopt the 2020 GIPS standards
• If firms choose to early adopt, they must not pick and choose which provisions they adopt. They must comply with all requirements of the 2020 edition of the GIPS standards, including the requirements related to GIPS Reports
RESOURCES

• The 2020 edition of the GIPS standards and related guidance are on the CFA Institute website
  - https://www.cfainstitute.org/ethics/codes/gips-standards
  - Adopting releases explain significant changes from the 2020 Exposure Draft

• The 2010 edition of the GIPS standards and related guidance are on the GIPS standards website
  - www.gipsstandards.org

• Interpretations of the 2020 GIPS standards provisions are being created
  - Goal is to issue this guidance by 31 December 2019

• Guidance statements are being updated, and other 2020 tools are also being created
  - They will be posted on the CFA Institute website as they are completed
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THANK YOU!