REVISED GUIDANCE STATEMENT ON THE USE OF SUPPLEMENTAL INFORMATION EXPOSURE DRAFT
WEBINAR

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WEBINAR AGENDA

• Goals and objectives of the GIPS standards

• Why an update of the Guidance Statement on the Use of Supplemental Information was needed

• Highlights from the revised Guidance Statement on the Use of Supplemental Information Exposure Draft
WHAT ARE THE GLOBAL INVESTMENT PERFORMANCE STANDARDS?

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

• Promote the use of accurate and consistent investment performance 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

• Promote investor interests and instill investor confidence
OBJECTIVES OF THE GIPS STANDARDS

- Transparency
- Consistency
- Disclosure
- Comparability

Assessment of the asset manager’s performance
AUTHORITATIVE GUIDANCE

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

• The GIPS Standards
• GIPS Handbook
• GIPS Guidance Statements
• Q&As in the GIPS Q&A Database
• Any Updates or Clarifications published by the GIPS Executive Committee (EC) or CFA Institute
CURRENT GUIDANCE STATEMENTS

- Application 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
WHAT IS SUPPLEMENTAL INFORMATION?

• Supplemental Information is defined as any performance-related information included as part of a compliant presentation that supplements or enhances the required and/or recommended provisions of the GIPS standards.

- A compliant presentation is a presentation for a composite that contains all of the information required by the GIPS standards, and may include other information as well.

- Sample compliant presentation follows.
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.

Notes:

1. 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.
LOCATION, LOCATION, LOCATION

- Supplemental information is limited to information within compliant presentations only
  - It must be clearly labeled and identified as supplemental to the composite

- Information that would qualify as supplemental information if it is included in a compliant presentation is not considered as such if it is in other marketing materials
  - E.g., equity returns excluding cash that are included in a compliant presentation would be labeled as supplemental information
  - The same equity-only returns in a pitch book would not be supplemental information
    - Even if the compliant presentation is an appendix in the pitch book
WHY THE CHANGE?

• When the Supplemental Information GS was created, there was no definition of “compliant presentation”

• Now compliant presentation is a defined term, and

• Provision 0.A.3 prohibits firms from presenting performance or performance-related information that is false or misleading
  - This applies to all performance or performance-related materials on a firm-wide basis
  - It is not limited to those materials that reference the GIPS standards
SUPPLEMENTAL INFORMATION – GUIDING PRINCIPLES

- Must satisfy the spirit and principles of the GIPS standards – fair representation and full disclosure
- Must comply with all applicable laws and regulations regarding the calculation and presentation of performance
- Must not include performance or performance-related information that is false or misleading
- Must supplement or enhance the related composite’s compliant presentation
- Must not contradict or conflict with the required or recommended information in the compliant presentation
- Must be clearly labeled and identified as supplemental to the composite
EXAMPLES OF SUPPLEMENTAL INFORMATION

• Asset class returns, either including or excluding cash

• Representative portfolio information
  - E.g. portfolio-level risk measures or sector weightings

• Pure gross returns
  - Returns that do not reflect the deduction of trading costs and investment management fees
  - Commonly used for wrap composites

(cont’d…)
EXAMPLES OF SUPPLEMENTAL INFORMATION

• Performance from a prior firm that does not meet all portability requirements
  - E.g. performance of a single mutual fund that was managed at a prior firm, and the fund was one of multiple accounts in the composite

• Attribution

• Internal rates of return, when IRR is not required or recommended
ADDITIONAL INFORMATION

• Additional information is composite information that is required or recommended under the GIPS standards

  - E.g., composite cumulative, annualized, or year-to-date composite returns

• Additional information is not considered supplemental information

• Additional information is not required to be labeled and identified as additional information
FALSE OR MISLEADING INFORMATION

• Must not present performance that is false or misleading

• This prohibition extends to all marketing materials, and is not limited to information included in a compliant presentation

• Information that would be considered false or misleading may be provided to clients or prospective clients only in response to a specific request from a client or prospective client
FALSE OR MISLEADING INFORMATION

• Examples of false or misleading information
  - Model performance linked to actual performance
  - Non-portable performance linked to actual performance
  - Including an inappropriate benchmark
  - Performance that is not clearly labeled and described in a manner that clarifies the exact nature of the information being presented
    - E.g., model performance presented as actual performance
THEORETICAL PERFORMANCE

• Includes all performance that is not derived from a portfolio or composite with actual assets
  - E.g., model, back-tested, hypothetical performance
  - Also referred to as “nonactual” performance

• Must ensure that prospective clients are not misled about the significance of the theoretical performance
THEORETICAL PERFORMANCE

• Should be provided only to clients or prospective clients who are sufficiently experienced and knowledgeable and able to assess the relevance and limitations of theoretical performance

• Must not be linked, either mathematically or presentationally, to actual composite performance
  - Unless requested to do so by a client or prospective client
THEORETICAL PERFORMANCE

- May be included in a compliant presentation as supplemental information in some instances, but not in others

- May be included in a compliant presentation as supplemental information only if it has relevance to the respective composite
  - E.g., back-tested results for periods prior to the composite inception

- May not be included in a compliant presentation as supplemental information if it does not have relevance to the respective composite
  - E.g., back-tested results for a new strategy that has no relevance to an existing composite
THEORETICAL PERFORMANCE DISCLOSURES

• When theoretical performance is presented as supplemental information in a compliant presentation, or in other marketing materials outside of the compliant presentation, disclosures are required

- The results are theoretical and are not based on the performance of actual portfolios

- A basic description of the model, assumptions, and inputs necessary to interpret the theoretical performance results

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THEORETICAL PERFORMANCE DISCLOSURES

- The limitations inherent in model results, particularly the fact that such results do not represent actual trading and that they may not reflect the impact that material economic and market factors might have had on the investment decision-making if the firm were actually managing client assets.

- Whether theoretical performance has not taken into account investment management fees, trading costs, or other fees or charges that a client portfolio would have paid.
NEW INVESTMENT STRATEGY

• May present theoretical performance for a new strategy the firm does not yet manage
• Must communicate that the firm does not currently manage the specific style or strategy
• Must make the list of composite descriptions available to the prospective client
• Must not include this performance as supplemental information in a compliant presentation
• Must include the four disclosures required for theoretical performance
REPRESENTATIVE PORTFOLIO INFORMATION

• May present performance or performance-related information from an individual portfolio within a composite (i.e., representative portfolio) as supplemental information
  - E.g., portfolio-level attribution or holdings

• When included as supplemental information, should disclose the criteria for selecting the representative portfolio

• Must create policies and procedures for choosing representative portfolios and presenting representative portfolio performance

• Should establish objective criteria for selecting representative portfolios
CURRENCY CONVERSIONS

• A compliant presentation may be converted to a different currency

• All required and additional information must be converted to the different currency

• Firms are recommended to also convert all supplemental information to the different currency
MARKETING MATERIALS

• Marketing materials may or may not include a compliant presentation

• If choose to include a compliant presentation in the marketing materials, must include a reference to the location of the compliant presentation in the marketing materials
  - E.g., as an appendix in a pitch book

• If choose to not include a compliant presentation in the marketing materials, should disclose how to obtain a compliant presentation for the related composite
  - This disclosure does not absolve the firm from the requirement to make every reasonable effort to provide a compliant presentation to all prospective clients
LAWS AND REGULATIONS

• Firms must comply with all applicable laws and regulations regarding the calculation and presentation of performance, including the presentation of supplemental information.

• Firms must create policies and procedures to ensure that they adhere to all applicable laws and regulations regarding the calculation and presentation of supplemental information.

• Firms must also have policies and procedures to identify and monitor changes and additions to laws and regulations regarding the calculation and presentation of performance, including supplemental information.
RECORDKEEPING

• A firm must maintain records to support its claim of compliance on a firmwide basis

• Information must be maintained to support compliant presentations and supporting information, including any supplemental information
POLICIES AND PROCEDURES

• Must establish policies and procedures for presenting supplemental information

• Must create policies and procedures for choosing representative portfolios and presenting representative portfolio performance

• When a representative portfolio leaves the composite, the firm must follow the established policies and procedures for choosing another representative portfolio

• Firms must create policies and procedures to ensure that they adhere to all applicable laws and regulations regarding the calculation and presentation of supplemental information

• Firms must also have policies and procedures to identify and monitor changes and additions to laws and regulations regarding the calculation and presentation of performance, including supplemental information
VERIFICATION AND PERFORMANCE EXAMINATION

• Supplemental information is not subject to verification under the GIPS standards

• The Guidance Statement on Performance Examinations requires the verifier to, at a minimum, determine that the supplemental information in an examined composite’s compliant presentation:
  - Is not misleading
  - Is clearly not false
  - Is allowed to be presented as supplemental information
  - Is correctly and clearly labeled and identified as supplemental information
TIMELINE

• The draft is available for public comment through 28 February 2017

• Expected effective date is 1 January 2018
RESOURCES

- The GIPS standards website:
  - 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