

# GIPS 20/20 Update

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Chair, GIPS Executive Committee

20<sup>th</sup> March 2018



# The Mission of the GIPS Executive Committee

## GIPS MISSION

Promote ethics, integrity and trust via:

- Universal demand for compliance by asset owners
- Universal adoption by asset managers
- Universal support from regulators

For the ultimate benefit of the global investment community

# Why change the standards?

## CHANGE

- 10 years since the last version – consolidation required
- Composites are not suitable for all investment products
- Pooled funds do not fit neatly into the current standards
- Not all asset classes are adequately covered
  - Alternatives
  - Private Equity
  - Real Estate
  - Infrastructure
  - Overlay
- Cannot achieve the mission with the current standards

# GIPS 20/20

## THE ANSWER

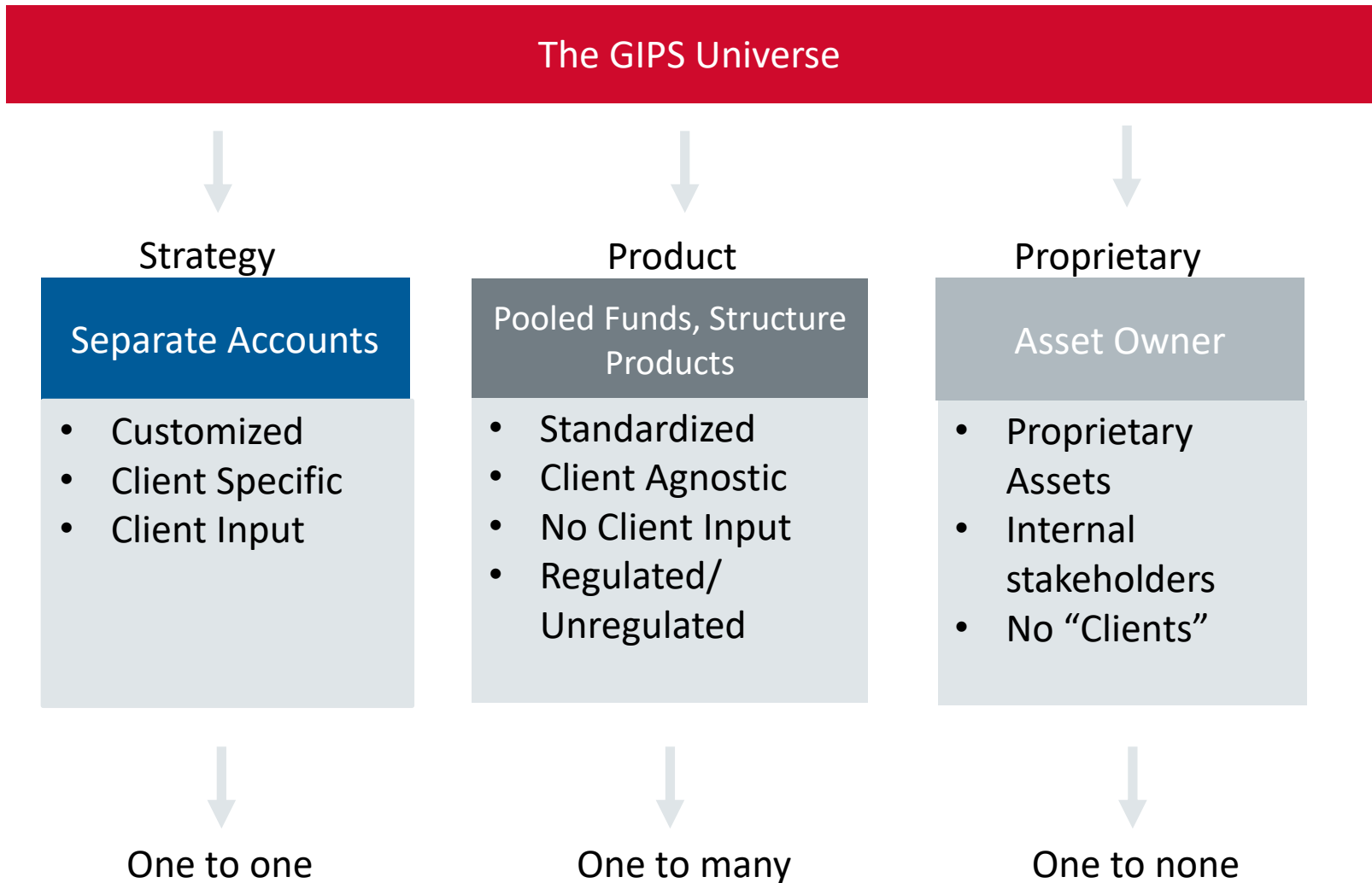
- GIPS 20/20 is the answer
  - Consultative document (processing comments)
  - First draft - 31/8/2018
  - Final version - Q1 2019
  - Effective date? - 1/1/2020
- Nothing is agreed!
- All is subject to public comment
- Please respond

# GIPS 20/20

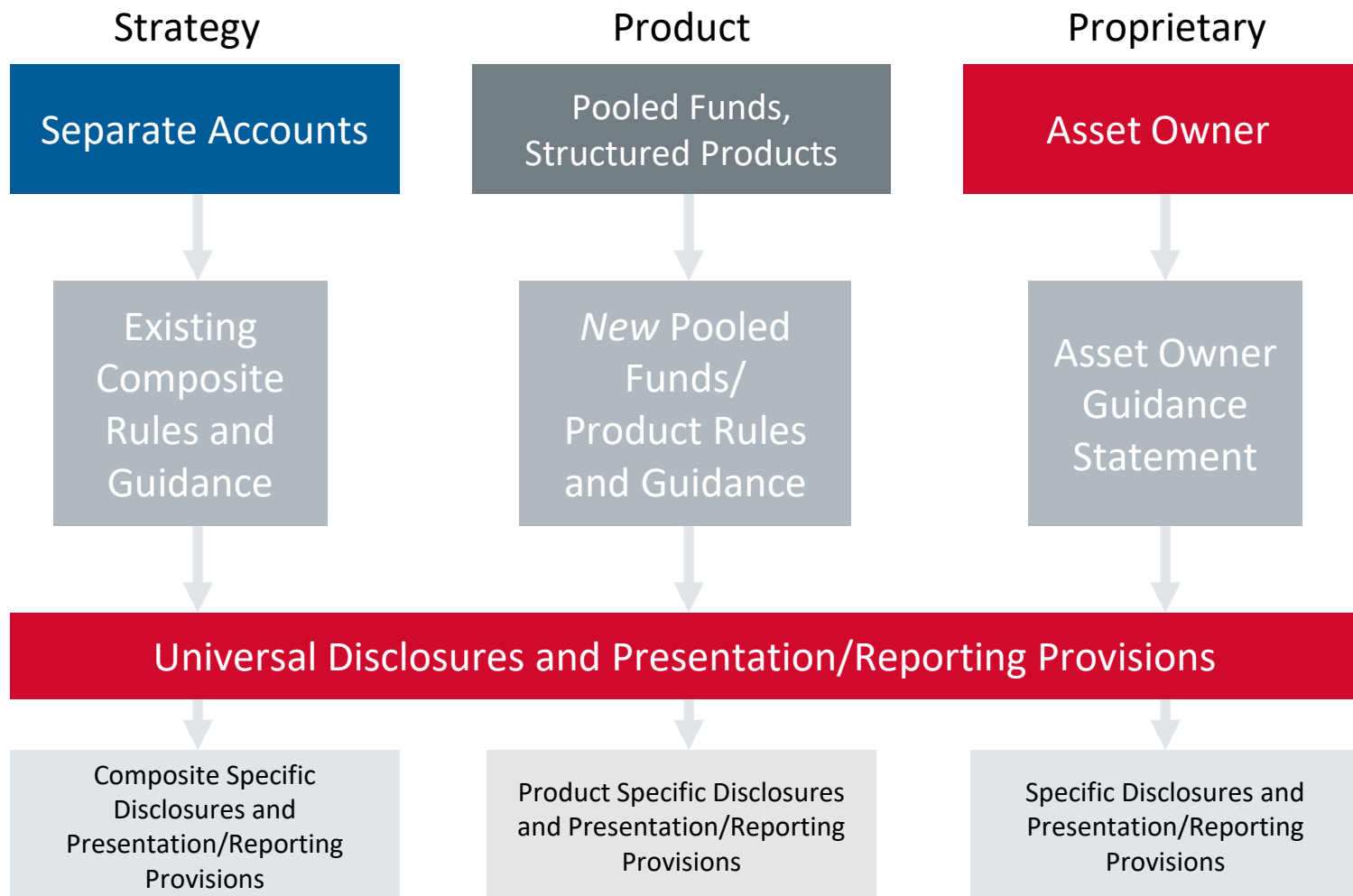
## PRINCIPLES

- Standards should be as simple as possible – but no simpler
- Those already in compliance should find this process seamless
- Retain the integrity of the standards
- Remove unnecessary complexity and barrier to entry
- Ensure relevant for all asset classes
- Ensure relevant for all types of asset manager

# GIPS 2020



# GIPS 2020



# Consultative Document

## 1<sup>ST</sup> STEP

### The consultative document addressed:

- Client relationships
  - The three “pillars”
  - Are there any other pillars? “Advisory assets or models”
- Generic guidance for all asset classes
  - Alternative assets, overlay
- Time weighted v Money weighted returns
- Claim of compliance
- Timeliness of reporting
- How to make the standards simpler
  - Unnecessary disclosures and complexity



# Guidance Statements

## IMPACT OF GUIDANCE STATEMENTS

- Broadly Distributed Pooled Funds Guidance Statement Effective put back to 1/1/2020 from 1/1/2018
- Benchmarks, Risk, Overlay, Verifier Independence and Supplemental Information
- Work and feedback on these guidance statements continues to inform progress on GIPS 20/20 disclosure draft.

# GIPS 2020

Moving away from fixation on the “Compliant Presentation”...

1 January 2002 through 31 December 2011									
Year	Composite Gross Return (%)	Composite Net Return (%)	Custom Benchmark Return (%)	Composite 3-Yr 3d Dev (%)	Benchmark 3-Yr 3d Dev (%)	Number of Portfolios	Internal Dispersion (%)	Composite Assets (\$ B)	Firm Assets (\$ B)
2002	-10.2	-11.4	-11.8			31	4.5	165	238
2003	16.3	15.1	15.2			34	2.0	235	396
2004	7.5	6.4	8.9			38	5.7	344	529
2005	1.8	0.8	0.3			45	2.8	445	695
2006	11.2	10.1	12.2			48	3.1	520	839
2007	6.1	5.8	7.1			49	2.8	565	1,034
2008	-21.3	-22.1	-24.9			44	3.9	475	964
2009	16.5	15.8	14.7			47	3.1	493	983
2010	10.4	9.5	13.0			51	3.5	549	1,114
2011	2.7	1.7	0.4	7.1	7.4	54	2.5	575	1,236

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 2006 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:

- 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 choosing portfolios, calculating performance, and preparing compliant presentations are available upon request.
- The Balanced Growth Composite includes all institutional balanced portfolios that invest in large-cap U.S. equities and investment-grade bonds with the goal of providing long-term capital growth and steady income from a well-diversified strategy. Although the strategy allows for equity exposure ranging between 50-70%, the typical allocation is between 55-65%. The account minimum for the composite is \$5 million.
- The custom benchmark is 60% YYY U.S. Equity Index and 40% ZZZ U.S. Aggregate Bond Index. The benchmark is rebalanced monthly.
- Valuations are computed and performance is reported in U.S. dollars.
- Gross-of-fees returns are presented before management and custodial fees but after all trading expenses. Composite and benchmark returns are presented net of non-reclaimable withholding taxes. Net-of-fees returns are calculated by deducting the highest fee of 0.83% from the monthly gross composite return. The management fee schedule is as follows: 1.00% on the first \$25 million; 0.60% thereafter.
- This composite was created in February 2000. A complete list of composite descriptions is available upon request.
- Internal dispersion is calculated using the equal-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year.
- The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The standard deviation is not presented for 2002 through 2010 because monthly composite and benchmark returns were not available and is not required for periods prior to 2011.



...moving toward client and prospective client communication more broadly.

# Concluding Remarks

PLEASE RESPOND

- GIPS 20/20 is a big change
- Not such a big change for those already in compliance
  - Should be seamless
  - Consolidated standards
  - Unnecessary disclosure and complexity removed
- Relevant for asset managers of all types
  - Alternative assets
  - Retail managers, wealth management
  - Asset owners
- This is a consultative process please respond

# Questions?



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