

GIPS®
Global Investment
Performance Standards

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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.

The goal of the GIPS Executive Committee is to have all firms adopt the GIPS standards as the standard for investment firms to present historical investment performance information

Objectives

- 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
- Promote investor interests and instill investor confidence

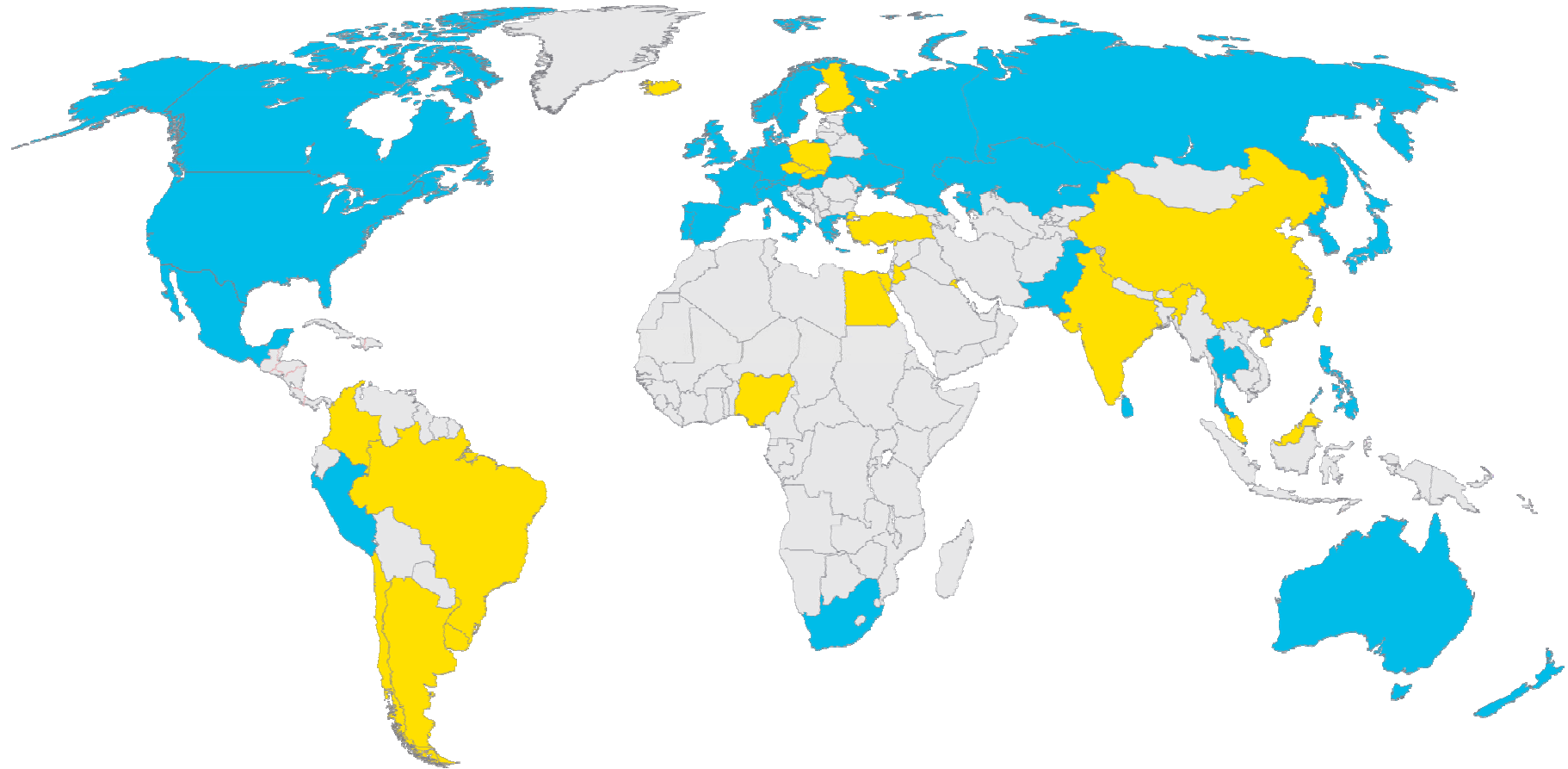
Why Were Performance Standards Necessary?


- Lack of reporting consistency
 - Back testing
 - Performance Record Portability
 - Model portfolios
 - Survivorship
 - Representative portfolio
- Lack of industry-wide comparability
- Lack of regulatory guidance
 - Self-regulation of the industry

Mission

Promote ethics and integrity and instill trust through the use of the Global Investment Performance Standards by achieving universal demand for compliance by asset owners, adoption by asset managers, and support from regulators for the ultimate benefit of the global investment community.

STATUS OF GIPS® ADOPTION



-  Countries with GIPS® Country Sponsors
-  Countries with interest in becoming GIPS® Country Sponsors

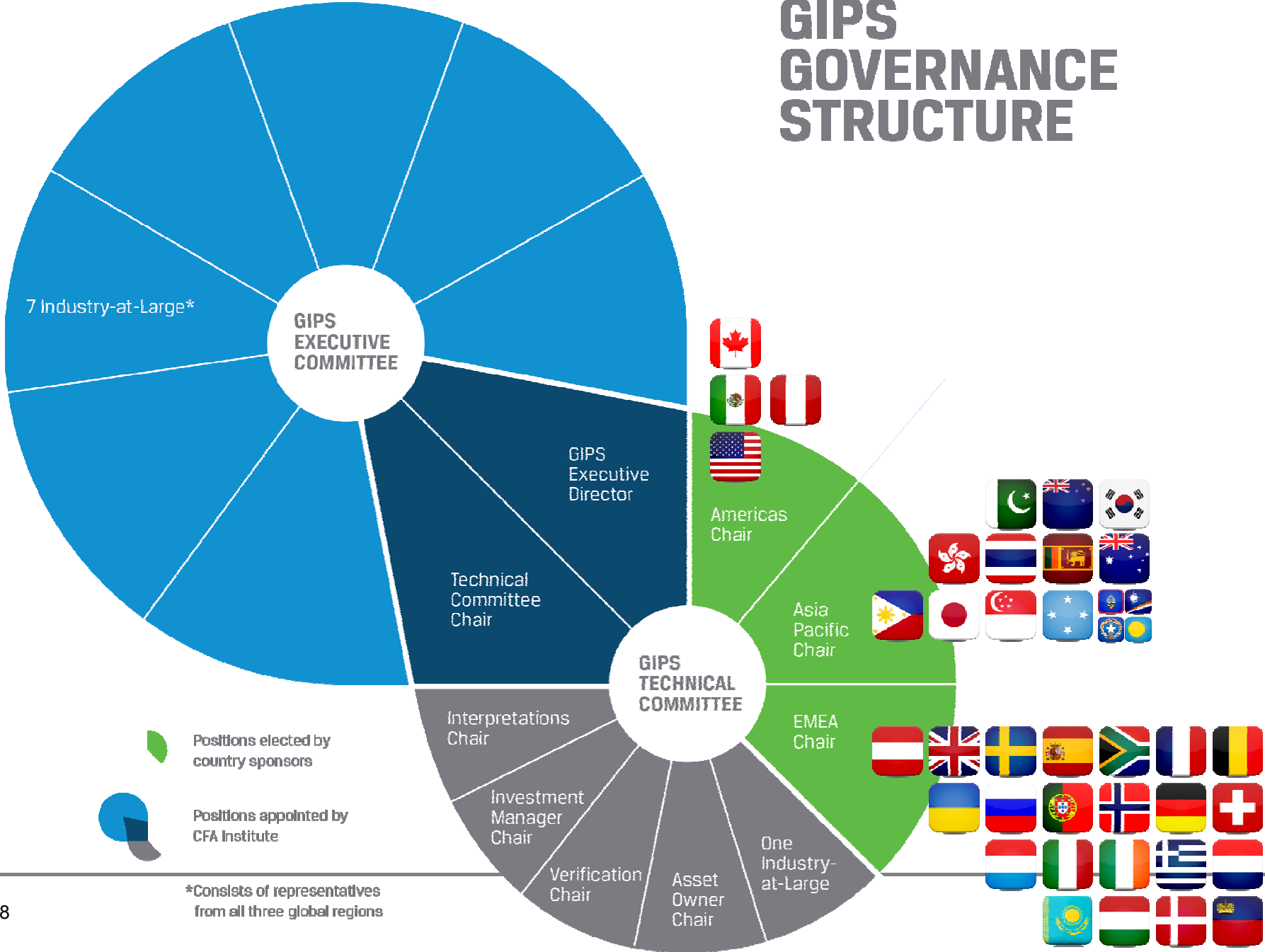
Revised as of April 2014

Current Translations of the GIPS® Standards

Endorsed translations of the 2010 edition

- [Japanese](#)
- [Korean](#)
- [Spanish](#)
- [Russian](#)
- [German](#)

GIPS GOVERNANCE STRUCTURE



GIPS Logo Usage

The GIPS logo is a visual representation indicating that a firm claims compliance with the GIPS standards. Firms that claim compliance with the GIPS standards are **only** permitted to use the GIPS logo on a GIPS compliant presentation or on an advertisement that adheres to the GIPS Advertising Guidelines. Firms are prohibited from using the GIPS logo in any other manner.

See the [GIPS website](#) for more information.

GIPS Advertising Guidelines

The GIPS Advertising Guidelines provide firms with options for advertising performance when mentioning the firm's claim of compliance. The GIPS Advertising Guidelines do not replace the GIPS standards, nor do they absolve firms from presenting a compliant presentation as required by the GIPS standards. These guidelines only apply to firms that already satisfy all the requirements of the GIPS standards on a firm-wide basis and claim compliance with the GIPS standards in an advertisement. Firms that choose to claim compliance in an advertisement must follow the GIPS Advertising Guidelines or include a compliant in the advertisement.

Provisions of GIPS Standards

0. Fundamentals of Compliance
 1. Input Data
 2. Calculation Methodology
 3. Composite Construction
 4. Disclosure
 5. Presentation and Reporting
 6. Real Estate
 7. Private Equity
 8. Wrap Fee/Separately Managed Accounts (SMA) Portfolios

The GIPS standards must be applied on a firm-wide basis.

Provisions of GIPS Standards

0. **Fundamentals of Compliance:** Several core principles create the foundation for the GIPS standards, including properly defining the firm, providing compliant presentations to all prospective clients, adhering to applicable laws and regulations, and ensuring that information presented is not false or misleading.
 1. **Input Data:** Consistency of input data used to calculate performance is critical to effective compliance with the GIPS standards establishes the foundation for full, fair, and comparable investment performance presentations.
 2. **Calculation Methodology:** Achieving comparability among investment management firms' performance presentations requires uniformity in methods used to calculate returns. The GIPS standards mandate the use of certain calculation methodologies to facilitate comparability.
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Provisions of GIPS Standards

- 3. Composite Construction:** A composite is an aggregation of one or more portfolios managed according to similar investment mandate, objective, or strategy. Creating meaningful composites is essential to the fair presentation, consistency, and comparability of performance over time and among firms.
- 4. Disclosure:** Disclosures allow firms to elaborate on the data provided in the presentation and give the reader proper context in which to understand the performance. To comply with the GIPS standards, firms must disclose certain information in all compliant presentations regarding their performance and the policies adopted by the firm.

Provisions of GIPS Standards

5. **Presentation and Reporting:** After constructing the composites, gathering the input data, calculating returns, and determining the necessary disclosures, the firm must incorporate this information in presentations based on the requirements of the GIPS standards for presenting investment performance.

6. **Real Estate:** Unless otherwise noted, this section supplements all of the required and recommended provisions in Sections 0 – 5 in Chapter 1. Real Estate provisions were first included in the 2005 edition of the GIPS standards and became effective 1 January 2006. The 2010 edition of the GIPS standards includes new provisions for closed-end real estate funds.

Provisions of GIPS Standards

7. **Private Equity:** Unless otherwise noted, this section supplements all of the required and recommended provisions in Sections 0 – 5 in Chapter 1. Private Equity provisions were first included in the 2005 edition of the GIPS standards and became effective 1 January 2006. Firms should note that certain provisions in Sections 0 – 5 in Chapter 1 of the GIPS standards do not apply to private equity investments or are superseded by provisions within Section 7 in Chapter 1.
8. **Wrap Fee/Separately Managed Accounts (SMA)**
Portfolios: Unless otherwise noted, this section supplements all of the required and recommended provisions in Sections 0 – 5 in Chapter 1. Firms should note that certain provisions in Sections 0 – 5 in Chapter 1 of the GIPS standards do not apply to wrap fee/SMA portfolios or are superseded by provisions within Section 8 in Chapter 1.

Basics of Becoming Compliant



What Is a Compliant Presentation?

**Sample 1 Investment Firm
Balanced Growth Composite
1 January 2002 through 31 December 2011**

Year	Composite Gross Return (%)	Composite Net Return (%)	Custom Benchmark Return (%)	Composite 3-Yr St Dev (%)	Benchmark 3-Yr St Dev (%)	Number of Portfolios	Internal Dispersion (%)	Composite Assets (\$ M)	Firm Assets (\$ M)
2002	-10.5	-11.4	-11.8			31	4.5	165	236
2003	16.3	15.1	13.2			34	2.0	235	346
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	5.0	7.1			49	2.8	505	1,014
2008	-21.3	-22.1	-24.9			44	2.9	475	964
2009	16.5	15.3	14.7			47	3.1	493	983
2010	10.6	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 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.

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What Is a Compliant Presentation (continued)

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 valuing 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.

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What Is a Compliant Presentation? (continued)

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.

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....more on Compliant Presentations

- All GIPS compliant presentations contain two key parts:
 - Presentations of data (Numeric)
 - Required disclosures about how the data were compiled and calculated (Narrative)
- A report is NOT compliant with the Standards unless it contains both parts

Current Guidance Statements

- 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

Who Benefits from the GIPS standards?

- Investors
 - Plan sponsors
 - High-net-worth investors
 - Retail investors
- Investment Managers
 - Including equity, fixed income, hedge fund, private equity, and real estate investment management firms
- Intermediaries
 - Consultants

Benefit to Investors & Intermediaries

- Enhanced ability to compare performance between firms and strategies
- Consistency in calculation and presentation of performance results, such as frequency of valuation, treatment of large cash flows, and handling of accruals
- Full disclosure of important details on performance data presented, such as fees, composite construction criteria, dispersion of returns, etc.

Benefit to Investment Managers

- Firms recognized for adherence to industry best practice
- Strengthened internal processes and controls; improved risk management
- Introduces transparency to the performance presentation and generates an improved view of the track record
- Market has determined that it wishes to embrace the GIPS standards

Evolutionary Approach of the GIPS Standards

1. Extending the scope of the GIPS standards to adequately address:
 - Additional investment vehicles and strategies (e.g., private equity, hedge funds)
 - Technical areas (e.g., fees, derivatives)
2. Evolving the standards:
 - By providing on-going guidance and interpretations
 - By reviewing the entire contents of the GIPS standards periodically
3. Endorsing translations of the GIPS standards and partnering with GIPS Country Sponsors

Key Changes in GIPS 2010

- Compliance Statement – As part of the GIPS compliance statement, investment firms will be required to disclose whether their firm has or has not been verified.
- Fair Value – The Standards require firms to report portfolio performance based on a fair value methodology.
- Risk Disclosures – As part of the composite description, firms will be required to disclose sufficient information to allow a prospective client to understand the relevant risks of the composite strategy.
- Verification – The scope and purpose of verification, as well as the required verification procedures that must be followed by verifiers have been clarified in order to increase the understanding and consistency of verification.

Key Changes in GIPS 2010

- continued -

- Standard Deviation – Investment firms will be required to present the three-year annualized ex-post standard deviation of the composite and benchmark.
- Prospective Client – Newly defined as any person or entity that has expressed interest in one of the firm’s strategies and qualifies to invest in the composite.
- Benchmark Description – Firms must disclose the benchmark description to include key features of the benchmark, or the name of the benchmark for a readily recognized index or other point of reference.

Verification

- Verification is the review of an investment management firm's performance measurement policies and procedures by an independent third party, testing:
 - That the firm complies with all the composite construction requirements of the GIPS standards on a firm-wide basis
 - That the firm's policies and procedures are designed to calculate and present performance results in compliance with the GIPS standards
- Applies to entire firm – not specific composites
- Firms report that verification not only provides a marketing advantage, but improves the firm's internal policies and procedures

Verification in GIPS 2010

(Effective 1 January 2011)

- Verification
 - Requirement to disclose (within the claim of compliance) whether a firm has been verified or not and prescribed text describing what is and is not covered by verification
 - Clarifications:
 - Initial minimum period for which verification can be performed is one year (or from firm inception through year end)
 - The scope and purpose of verification
 - The tests a verifier must perform
 - The firm must provide to the verifier the firm's GIPS policies and procedures
 - Verification does not provide assurance that specific composite returns are correctly calculated and presented

Real Estate in GIPS 2010

(Effective 1 January 2011)

- Real Estate
 - As of 1 Jan 2012, real estate investments must be externally valued at least once every 12 months – or as per client agreement – at least every 36-months
 - Closed-end real estate funds would be required:
 - To present an annualized, net-of-fees, since-inception internal rate of return for each year end (in addition to the current time-weighted component returns)
 - To disclose, as of each period end presented:
 - Composite since inception paid-in capital (PIC);
 - Composite since inception distributions;
 - Composite cumulative committed capital;
 - Total value to since inception PIC (TVPI);
 - Since inception distributions to since inception PIC (DPI);
 - Since inception PIC to cumulative committed capital (PIC multiple);
 - Residual value to since inception PIC (RVPI)
 - Required to calculate income and capital component returns separately (no longer able to derive one from the other)
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Private Equity in GIPS 2010

(Effective 1 January 2011)

- Firms must calculate annualised Since Inception Internal Rates of Return (SI-IRR) using daily cash flows as of 1 Jan 2011 (rather than the current monthly OR daily cash flows)
- For primary funds, all PE investments must be included in a composite defined by vintage year AND investment mandate, objective or strategy
- For fund-of-funds, all PE investments must be included in a composite defined by fund-of-funds vintage AND/OR investment mandate, objective or strategy

Why Is Compliance Important to Alternative Investment Firms and Their Investors?

- Improved view of the firm's track record
 - Many alternative firms have started managing separate accounts
 - Current and potential investors can compare performance results between the hedge fund and any separate accounts following the same strategy
- Due diligence
 - GIPS-compliant hedge fund managers have adopted many best-practice policies and procedures that can reduce operational risk

Why Is Compliance Important to Alternative Investment Firms and Their Investors?

- Consistency
 - Ensure the same standard of care is applied to the selection and review of alternative investment managers as that applied to traditional managers
- Transparency
 - The Standards provide for key data and disclosures to be provided to investors

The GIPS Standards Strategic Plan

- **Evolve:** Develop interpretations and guidance on the application of the GIPS standards
- **Expand:** Add new content to the GIPS standards as needed
- **Engage:** Increase the involvement of investors and regulators
- **Evaluate:** Review governance structure and positioning
- **Extend:** Increase the depth and breadth of the reach of the GIPS standards, both geographically and by asset class/investment type
- **Educate:** Provide on-going educational materials and training

2014 Goals and Objectives

- Develop interpretations and guidance on the application of the GIPS standards
 - Develop guidance on applying the GIPS standards to pooled funds and retail products
 - Develop guidance on the risk-related provisions
 - Update guidance on supplemental information
 - Expand guidance on portability: mergers and acquisitions
 - Develop guidance on overlay assets
 - Develop guidance on applying the GIPS standards to pension plans and other asset owners

2014 Goals and Objectives

- Increase the involvement of investors and regulators
 - Develop plan to engage investors, including sovereign wealth funds, and investment consultants
 - Develop plan for engaging regulators with goal of harmonization
 - Evaluate participation of country sponsors and develop plan for improving participation

2014 Goals and Objectives

- Review governance structure and positioning
 - On-going review of organizational structure and governance
 - Explore options for tracking compliance rates and gathering market data
 - Explore feasibility of verifier oversight/code of ethics

2014 Goals and Objectives

- Increase the depth and breadth of the reach of the GIPS standards, both geographically and by asset class/investment type
 - Focus outreach efforts on firms, industry groups, consultants, and asset owners
 - Increase number of country sponsors, specifically focusing on the Middle East, Latin America, China, and India

2014 Goals and Objectives

- Provide on-going educational materials and training
 - Develop focused materials for sales and marketing professionals and RFP teams
 - Enhance resources available on the GIPS standards website
 - Develop guidance for firms initially becoming compliant
 - Develop guidance for firms in developing markets

Resources

- The GIPS standards website:
 - Complete list of Guidance Statements
 - Q&A Database
 - Free webcasts
- The GIPS standards Handbook
- Helpdesk: gips@cfainstitute.org
- E-mail Alert List: standards@cfainstitute.org
- Twitter: [gipsstandards](https://twitter.com/gipsstandards)
- Certificate in Investment Performance Measurement (CIPM):
cfainstitute.org/cipm

www.gipsstandards.org

O CFA Society Czech Republic

- CFA Society Czech Republic je nezisková organizace finančních profesionálů, založená v dubnu 2002. Je jednou ze 144 členských asociací CFA Institute a jejím cílem je prosazovat nejvyšší standardy etiky, odbornosti a profesionality v české a slovenské finanční komunitě. Kromě toho zvyšuje povědomí studijních programech CFA Institute: CFA, CIPM a Claritas. V současné době sdružuje 140 členů, většinou držitelů titulu CFA (Chartered Financial Analyst), a více než 1000 kandidátů z ČR a Slovenska přihlášených do programu CFA. Členy jsou především portfolio manažeři, finanční analytici, investiční bankéři, konzultanti, finanční poradci, risk manažeři, i vrcholoví manažeři finančních institucí. Sponzory CFA Society jsou EY, ČSOB Asset Management a ING Investment Management. Pro více informací navštivte webové stránky www.czechcfa.cz.