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Wespath claims compliance with the Global Investment Performance Standards (GIPS®).¹

A Quick Guide to the Global Investment Performance Standards (GIPS®)

Organizations searching for the right investment partner to manage their institutional assets have plenty of factors to consider, but one question in particular is gaining importance throughout the industry:

“Is the prospective investment manager GIPS compliant?”

GIPS is short for the “Global Investment Performance Standards.” Sponsored by the CFA Institute, the GIPS standards provide a framework for calculating and presenting investment performance. Investors and managers can then use this universal set of standards across borders and asset classes. To date, GIPS has been adopted by organizations in more than 40 countries and regions.²

A Brief History

Today’s GIPS standards can trace their roots back several decades. In 1987, an investment industry committee was formed to develop and recommend consistent investment performance reporting standards.

The committee was guided by a now well-known *Financial Analysts Journal* article, “A Report on Setting Performance Presentation Standards,” published just prior to Black Monday. The report described how investment managers were left to create “their own standards” when presenting their performance track records. This created reporting that was, according to the authors, “varied, uneven and, in many instances, outright irresponsible and dishonest.”³ Such inconsistencies and irregularities created significant risks for investors.

The report inspired the committee to create investment performance reporting standards that upheld two key principles: fair representation and full disclosure. This led to the formation of GIPS’ predecessor guidelines, the AIMR Performance Presentation Standards, which the CFA Institute’s GIPS committee would further evolve in the mid-1990s. The first set of official GIPS standards were published in 1999.

Key Themes and Principles

Several themes from the original committee still provide the foundation for GIPS today:

Performance should be presented net-of-fees

Investors have a right to see a manager’s performance track record, after the deduction of all fees.

No “cherry picking” when building performance composites

Under GIPS, a composite is an “aggregation of one or more portfolios that are managed according to a similar investment mandate, objective, or strategy.” Managers should build composites using actual performance from *all* client accounts invested in a similar strategy—not just those with the strongest performance (“cherry picking”).



¹ For GIPS compliance purposes, the firm referenced herein is defined to include Wespath Benefits and Investments, Wespath Institutional Investments LLC and UMC Benefit Board, Inc. GIPS® is a registered trademark owned by CFA Institute.

² <https://www.cfainstitute.org/-/media/documents/code/gips/2020-gips-standards-firms.ashx>

³ <https://www.jstor.org/stable/4479056>

Key Themes and Principles (continued)

Avoid including non-discretionary accounts in composites

Non-discretionary accounts are those not under the full control of the manager, such as when clients reserve the right to make final investment management decisions. Adding non-discretionary accounts to a manager's composite can create confusion about who is truly responsible for the investment decision-making that ultimately results in a portfolio's performance.

Organizational changes should not alter performance results

If an individual or group of individuals managing a portfolio leaves a firm, the firm must continue to report that portfolio's performance, even if the organizational turnover resulted from poor portfolio performance.

Objective verification

Managers should seek to be audited by a third party, so long as there is not a significant cost burden. Though this is not a requirement for GIPS compliance, it is a recommended best practice and provides assurance to investors that the GIPS standards have been implemented appropriately. It also allows managers to market themselves as "GIPS verified."

How GIPS Is Applied Today

As mentioned, GIPS compliance is increasingly a key determining factor for organizations seeking to hire investment managers or Outsourced Chief Investment Officers (OCIOs). These organizations want to be confident that prospective investment providers are consistently and transparently reporting their performance.

Furthermore, GIPS standards help organizations with "apples to apples" comparisons. For example, if the search for an investment provider is narrowed down to two managers that are both GIPS compliant, an organization can compare their track records with confidence, knowing they are evaluating performance metrics prepared under the same standards.

The GIPS standards are also evolving alongside ever-changing industry trends. Just last year, the CFA Institute announced the latest iteration of the standards, "GIPS 2020." While the underlying principles did not change, the CFA Institute did simplify the verification process for asset owners and pooled funds, helping even more market participants present their performance in line with GIPS.



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