

2020 GIPS® standards: Overview and key changes

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What are the GIPS standards?

Global Investment Performance standards (GIPS®) are the globally accepted framework for transparent investment performance reporting to prospective clients

- Introduced in 1999 and administered by CFA Institute
- Globally, more than 1,700 investment managers comply with the GIPS standards
- Voluntary: Legal regulations prevail over the GIPS standards
- Include requirements and recommendations on administration of composites, portfolios and funds, input data, performance calculation methods and reporting
- Only apply to reporting intended for potential investment management clients, not to existing clients
- Report performance at the composite level, not for individual portfolios or funds
- GIPS compliance can be claimed only on a firm-wide basis, not for individual composites, portfolios or funds
- Require an initial presentation of a track record of at least 5 years (1 year for asset owners) or since inception of the firm
- GIPS compliance means a commitment to provide any potential client with a GIPS report upon request
- The GIPS standards recommend, but not require, independent audit ('GIPS verification')



GIPS 2010:

www.gipsstandards.org

GIPS 2020:

<https://www.cfainstitute.org/ethics-standards/codes/gips-standards>

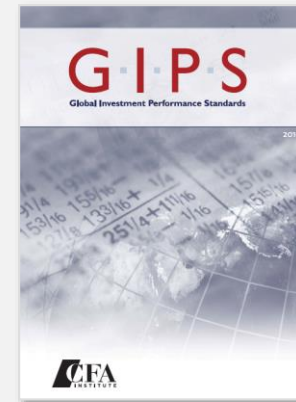
GIPS standards: Evolution



GIPS 1999



GIPS 2005



GIPS 2010



GIPS 2020

GIPS 1999 → 2005

- Private equity
- Real estate
- Advertising
- Guidance Statements
- Country standards → GIPS

GIPS 2005 → 2010

- New presentation and disclosure requirements
- Valuation principles
- Revision of PE and RE guidance
- New Guidance Statements

GIPS 2010 → 2020

- Separate standards for firms, asset owners, verifiers
- Special regime for pooled funds
- MWR expansion
- Former PE and RE guidance consolidated under Private Market Investments
- New GIPS reports
- New guidance (e.g. overlay strategies)

2020 GIPS standards: Objectives and effective date



- Consolidate various GIPS guidance issued since the 2010 GIPS standards
- Better accommodate the needs of managers of pooled funds and alternative investments, as well as firms focussing on high-net-worth clients
- Better address applicability for asset owners
- Further improve GIPS reporting
- Effective date 1.1.2020. GIPS reports that include performance for periods ending on or after 31.12.2020 must be prepared in accordance with the 2020 GIPS standards. GIPS reports that include performance for periods ending prior to 31.12.2020 (e.g. YTD-returns through 30.09.2020) may be prepared in accordance with the 2010 GIPS standards.

2020 GIPS standards: New structure

The 2020 GIPS standards introduce three separate frameworks for (1) Firms, (2) Asset Owners and (3) Verifiers, and enhance the performance reporting specifically for pooled funds and for presentation of money-weighted returns.

Firms

General provisions:

1. Fundamentals of compliance
2. Input data and calculation methodology
3. Composite and pooled fund maintenance

Composite reports:

4. TWR report
5. MWR report

Pooled fund reports:

6. TWR report
7. MWR report

8. Advertising Guidelines:

- Composite
- Limited distribution pooled fund
- Broad distribution pooled fund

Glossary

Asset owners

General provisions:

21. Fundamentals of compliance
22. Input data and calculation methodology
23. Total fund and composite maintenance

Asset owner reports:

24. Total fund and composite TWR report
25. Composite MWR report

26. Advertising Guidelines

Glossary

Verifiers

- Verification
- Performance examination

Glossary

Composites vs. pooled funds

The 2020 GIPS standards introduce tailored concepts to better reflect the peculiarities of segregated portfolios vs. pooled funds.

Firms need to consider what is being offered:

- Investment strategy offered as a segregated portfolio (or as both a segregated portfolio and a pooled fund)
- Participation in a specific broad distribution pooled fund
- Participation in a specific limited distribution pooled fund

Composite (grouping of portfolios with comparable investment strategy):

Firm sells an investment strategy to a client (who may opt to invest either through a segregated portfolio or a pooled fund)

Broad distribution pooled fund (BDPF):

Firm sells participation in a specific fund. Typically, no direct contact between the firm and the pooled fund investor. Regulated under a framework that would permit the general public to purchase or hold the pooled fund's shares. Not exclusively offered in one-on-one presentations.

Limited distribution pooled fund (LDPF):

Firm sells participation in a specific fund – any pooled fund that is not a BDPF

- If firms sell participation in specific pooled funds, they must classify them either as BDPF or LDPF
- If a pooled fund is managed by the firm on behalf of a third-party fund management company (i.e. the firm is not responsible for the fund's selling/distribution), the firm must consider such a fund a segregated portfolio and include it in a composite

Money-weighted returns (MWR)

The 2020 GIPS standards expand the flexibility to use money-weighted returns:

- Historically, firms were required to present time-weighted returns (TWR), except for specific cases of Private Equity and Real Estate
- Now firms may choose to present MWR (e.g. 'Since Inception IRR' or 'Since Inception Modified Dietz') instead of TWR for the composite or pooled fund if:
 - The firm has control over external cash flows, and
 - The portfolio or the pooled fund has, at least one of the following characteristics:
 - Closed-end
 - Fixed life
 - Fixed capital commitment
 - Illiquid investments are a significant part of the investment strategy
- GIPS reports that present MWR are required to:
 - Include MWR for only one period – since inception annualised through the most recent annual period-end (as opposed to the annual returns for TWR)
 - Include all other information (e.g. assets, committed capital, distributions and related multiples) only as of the most recent annual period-end
 - Composites and pooled funds that use a subscription line of credit must present performance both with and without the subscription line of credit effect (unless the exemption criteria are met)

New GIPS reporting

Depending on the nature of the investment portfolio being managed, the 2020 GIPS standards provide a larger number of options for performance reporting.

	Time-Weighted Return (TWR)	Money-Weighted Return (MWR)
Composite	Composite TWR report	Composite MWR report
Limited distribution pooled fund (LDPF)	<ul style="list-style-type: none"> • Pooled fund TWR report • Optional: Composite TWR report* 	<ul style="list-style-type: none"> • Pooled fund MWR report • Optional: Composite MWR report*
Broad distribution pooled fund (BDPF)	<ul style="list-style-type: none"> • No reporting • Optional: Advertising Guidelines • Optional: Pooled fund TWR report or composite report* 	–
Asset owner	<ul style="list-style-type: none"> • Total fund TWR report • Optional: Composite TWR report 	Optional: Composite MWR report

* If the pooled fund is included in the composite

GIPS Advertising Guidelines

The new guidelines expand options for referencing a firm's claim of compliance with the GIPS standards.

- Returns in a GIPS advertisement must be derived from the returns included in the corresponding GIPS report
- Advertisements with performance have a new option to present just one annualised return for the total period that includes all periods presented in the corresponding GIPS report
- A big change is the inclusion of the BDPF GIPS Advertising Guidelines. These replace the requirements previously included in the 'Guidance Statement on Broadly Distributed Pooled Funds':
 - Firms have no requirement to present performance for an individual BDPF to prospective investors in BDPFs (e.g. firms may opt not to have any GIPS reporting for BDPFs)
 - Firms may voluntarily choose to follow the GIPS Advertising Guidelines for a BDPF and make use of the existing fund marketing materials (e.g. fund factsheets)
 - Firms may also voluntarily choose to prepare a GIPS pooled fund report for a BDPF
 - Firms may also voluntarily choose to continue to keep a single-fund composite and to prepare a GIPS composite report for a BDPF
 - Firms may choose to present either net-of-fees or gross-of-fees returns for BDPFs

Valuation and performance calculation: TWR

	Portfolio valuation	Portfolio return*	Composite return
Portfolios in composites (except private market investment portfolios)	<ul style="list-style-type: none"> At least monthly At least at the time of 'large' cash flows 	<ul style="list-style-type: none"> At least monthly by geometric linking of sub-period returns Sub-period returns at least for 'large' cash flows For cash flows that are not 'large': Monthly returns that adjust for daily-weighted cash flows (e.g. Modified Dietz) 	<ul style="list-style-type: none"> At least monthly by asset-weighting portfolio returns or using the aggregate method
Private market investment portfolios in composites	<ul style="list-style-type: none"> At least quarterly No requirement to value at the time of 'large' cash flows 	<ul style="list-style-type: none"> At least quarterly returns that adjust for daily-weighted cash flows (Modified Dietz) 	<ul style="list-style-type: none"> At least quarterly by asset-weighting portfolio returns or using the aggregate method
Pooled funds not in composites	<ul style="list-style-type: none"> At least annually At the time of all subscriptions and redemptions Whenever returns are calculated 	<ul style="list-style-type: none"> At least annually Sub-period returns at the time of all subscriptions and redemptions (geometrical linking to produce annual returns) 	<ul style="list-style-type: none"> N/A

* Composites and pooled funds may present either gross or net returns, or both

Valuation and performance calculation: MWR

	Portfolio valuation	Portfolio return*	Composite return
Portfolios and pooled funds in composites	<ul style="list-style-type: none">• Annually• Whenever returns are calculated	<ul style="list-style-type: none">• Annualised since-inception MWR through the period-end presented• Use daily cash flows as of 1.1.2020, and quarterly cash flows before this date	<ul style="list-style-type: none">• Calculate composite returns by aggregating the portfolio-level information of the portfolios included in the composite
Pooled funds not in composites	<ul style="list-style-type: none">• Annually• Whenever returns are calculated	<ul style="list-style-type: none">• Annualised since-inception MWR through the period-end presented• Use daily cash flows as of 1.1.2020, and quarterly cash flows before this date	<ul style="list-style-type: none">• N/A

* Composites and pooled funds may present either gross or net returns, or both

GIPS standards for Asset Owners

The 2020 GIPS standards provide a dedicated framework for asset owners who manage their proprietary assets.

- Based on the GIPS guidance for firms, but tailored to asset owners and incorporate many of the concepts from the existing GIPS Asset Owner Guidance Statement.
- Guidance is specific to total funds and composites.
- A total fund is a pool of assets managed by an asset owner according to a specific investment strategy, which is typically composed of multiple asset classes. The total fund is typically composed of underlying portfolios.
- Total funds must present TWR and are recommended to include MWR, if MWR are helpful in understanding the performance of the total fund.
- Additional composites are asset-class composites:
 - Asset owners may choose to report additional asset-class composites, but are not required to do so
 - Additional composites may present TWR, MWR, or both
 - There are no criteria for presenting MWR – the choice is left to the asset owner
- Asset owners must make every reasonable effort to provide a GIPS asset owner report for total funds and any additional composites that have been created (if the asset owner also chooses to create a report for the additional composite) to those who have direct oversight responsibility for total fund assets and total asset owner assets.
- Asset owners must initially attain GIPS compliance for a minimum of 1 year (vs. firms: 5 years or since inception).
- Asset owners that compete for business must follow the GIPS Standards for Firms

GIPS Standards for Verifiers

Guidance that verifiers must follow when conducting verifications and performance examinations. In addition, verifiers may also follow further professional guidance.

- Guidance that verifiers must follow when conducting verifications and performance examinations. In addition, verifiers may also follow further professional guidance.
- Replaces the existing Guidance Statements on Verification and Performance Examinations.
- Clarify verification procedures in relation to the 2020 GIPS standards. Generally do not increase the scope of verification, but reflect current appropriate verification testing practices.
- The verification report must opine that, for the period(s) for which the verification has been performed, the firm's policies and procedures for complying with the GIPS standards related to composite and pooled fund maintenance as well as the calculation, presentation and distribution of performance have been, in all material respects:
 - Designed in compliance with the GIPS standards; and
 - Implemented on a firm-wide basis
- Verification does not provide assurance on the operating effectiveness of the firm's controls or policies and procedures for complying with the GIPS standards.
- Verification does not provide assurance on any specific performance report (this is covered by performance examination).
- Verifiers must conduct their engagements in accordance with the 2020 GIPS Standards for Verifiers for periods for which the verification client claims compliance with the 2020 GIPS standards. A verifier may also follow the 2020 GIPS Standards for Verifiers for all periods for which the verification is performed, even for those periods for which the verification client follows a prior edition of the GIPS standards.

Elements of the 2020 GIPS standards framework

The GIPS 2020 framework consists of the following key elements:

- 2020 GIPS standards (together with explanatory adopting releases):
<https://www.cfainstitute.org/en/ethics-standards/codes/gips-standards>
- 2020 Explanations of the Provisions (former GIPS Standards Handbook):
<https://www.cfainstitute.org/en/ethics-standards/codes/gips-standards/firms>
- 2010 GIPS Guidance Statements (being updated for the 2020 GIPS standards):
<https://www.gipsstandards.org/standards/Pages/guidance.aspx>
- 2010 Q&As (being updated for the 2020 GIPS standards):
<http://www.gipsstandards.org/standards/faqs/Pages/index.aspx>



Important:

GIPS compliant firms must comply with all above guidance where applicable!



Need for action and how PwC can support

- GIPS compliant firms should conduct a gap analysis in terms of the 2020 GIPS standards and identify necessary implementation measures that must be completed by the end of 2020
- Many new GIPS provisions are subject to interpretation that are only provided in the Explanations of the Provisions (released progressively during 2020)
- The specialised Investor Trust Services team of PwC Switzerland provides assurance to investment managers and asset owners with respect to:
 - Navigating the complex 2020 GIPS framework and interpreting new guidance
 - Gap analysis of the 2020 GIPS standards
 - Assurance during the 2020 GIPS implementation phase
 - Verification of compliance with the 2020 GIPS standards

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