

Why Asset Owners Should Use the GIPS Standards

By Beth Kaiser, CFA, CIPM

In the past, some in the investment industry have thought that only asset managers are permitted to claim compliance with the GIPS standards. But that perception is not true. In addition to investment management firms, asset owners are also able to claim compliance—as long as they have discretion over the assets under management.

Asset owners include (but are not limited to) pension funds (both public and private), endowments, foundations, family offices, other institutional asset owners, sovereign wealth funds, and fiduciaries that have investment responsibility for a pool of assets. A number of asset owners currently claim compliance with the GIPS standards.

In fact, in many cases, large asset owners look and operate just like asset managers. They have investment mandates, manage discretionary assets, and can be compensated based on performance. The difference is that they typically do not have external clients. Many of these asset owners utilize third-party sub-advisers to manage some or all of their assets, while others may manage the assets entirely themselves. This is the same as any other asset manager that may use a sub-adviser to manage a specific asset class, portfolio segment, or strategy.

The GIPS standards are applicable to asset owners and investment consultants in two critical ways: (1) Asset owners and investment consultants demand GIPS compliance from the investment management firms they hire and (2) asset owners claim compliance with the GIPS standards themselves.

The success of the GIPS standards is due in large part to the asset owner and investment consultant communities requiring compliance from investment management firms. Asset owners and investment consultants typically inquire whether a prospective investment management firm is GIPS compliant, which in turn impacts whether or not the firm is hired.

Asset owners familiar with the GIPS standards recognize their benefit and have worked to apply the same principles to their own performance calculations and presentations by also claiming compliance.

Many asset owners and consultants create requests for proposals (RFPs) to gather information about investment management firms and strategies they would like to employ. We recommend that you include specific questions about GIPS compliance in the RFP to establish both a firm's compliance status and the details of its claim. We have created an RFP template, which recommends questions to ask and information on how to evaluate the answers. The template is available at www.gipsstandards.org.

About the GIPS Standards

Endorsed by more than 30 sponsors globally, the GIPS standards provide guidance on the calculation and presentation of performance to ensure a level playing field for evaluating investment results. The GIPS standards allow investors and others to compare investment performance on a consistent basis because claiming compliance means adhering to a set of comprehensive standards that include input data, calculation methodology, composite construction, disclosures, and presentation and reporting, among others.

BENEFITS FOR ASSET OWNERS

An asset owner's compliance with the GIPS standards demonstrates five important things to legislative bodies, oversight boards, and the general public: (1) a voluntary commitment to follow global industry standards (with respect to performance calculation and presentation) based on the principles of fair representation and full disclosure; (2) adherence to best practice with respect to the valuation of investments; (3) the establishment of robust investment performance policies and procedures; (4) a commitment to methods of calculation and presentation of investment performance that are consistent, transparent, and comparable; and (5) a commitment to adopt the same set of performance standards often required of any external investment managers that the asset owner retains.

To help asset owners navigate the process for claiming compliance with the GIPS standards, we've created a guidance statement (titled "Application of the GIPS Standards to Asset Owners," which is available at www.gipsstandards.org) to help determine how the GIPS standards can be applied to their organization. Asset owners may apply a meaning to some of the terms used in the GIPS standards that differs from the definitions used in the GIPS standards or by traditional investment managers. This is another reason why additional guidance may be helpful to asset owners complying with the GIPS standards.

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KEEP GOING

"Application of the GIPS Standards to Asset Owners" [<http://bit.ly/1RUPKSP>]

"GIPS RFP Factsheet" (Model RFP Template) [<http://bit.ly/1iDBIJe>]