

## Changes to Presentation Requirements Under the 2020 GIPS Standards

### GIPS Composite Time-Weighted Return Reports

After years of development, the 2020 edition of the Global Investment Performance Standards (the “2020 GIPS® standards”) has now been finalized and made available to the public through the CFA Institute website ([www.cfainstitute.org](http://www.cfainstitute.org)). The effective date for the 2020 GIPS standards is January 1, 2020, which means that firms that decide to claim compliance need to be prepared to adopt and implement the bulk of the changes at that point. There is one caveat to the general effective date in that the reporting requirements have a longer timeline – reports that satisfy the new requirements will not need to be created in most cases until 2021.

Firms may also choose to early adopt the 2020 GIPS standards – they do not need to wait until the year 2020 arrives. However, if a firm chooses to adopt the new GIPS standards early, they cannot selectively adhere to certain changes and not others. The firm would need to comply with all requirements of the 2020 GIPS standards, including the reporting requirements – which is where some of the more significant changes can be found. Many of the changes are to terminology (notably, GIPS Compliant Presentations are now referred to as GIPS Reports) or the specific wording of required disclosures, but there are some new disclosures and statistics that firms will need to incorporate into their materials as well. Following is a summary of the amendments that will need to be made to convert the firm’s existing composite presentations to meet the new requirements. The items identified as “general requirements” will need to be considered across most presentations, while the “situational requirements” are only required under certain scenarios. Additionally, on the last page we have included a list of disclosures that were required previously but have been relaxed to recommendations or removed completely under the 2020 GIPS standards.

#### General Requirements

- New compliance statement for verified firms:
  - “[Firm Name] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Firm Name] has been independently verified for the period [insert dates]. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm’s policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.”
- CFA Institute trademark disclaimer: GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.
- In addition to disclosing that a list of composite descriptions is available upon request, disclose that a *list of pooled fund descriptions for limited distribution pooled funds* and a *list of broad distribution pooled funds* are available, if applicable.

- Must present total firm assets as of each annual period end (presenting the composite assets as a percentage of firm assets is no longer an acceptable alternative).
- Disclose the composite *inception date* in addition to the creation date.
- Disclose whether internal dispersion (and any other risk measures presented) is calculated using gross-of-fees or net-of-fees returns.
- Ensure composite descriptions address each of the following, if applicable: (1) the material risks of the composite's strategy, (2) how leverage, derivatives, and short positions may be used, if they are a material part of the strategy, and (3) if illiquid investments are a material part of the strategy.
- Fee schedules must be customized to the intended audience, whether presenting to a prospective client for a standalone portfolio, a prospective client for a multi-asset strategy portfolio, a wrap fee prospective client, or to a prospective investor in a pooled fund. Specific to pooled funds, when presenting a GIPS Composite Report to a prospective investor for a pooled fund included in the composite, disclose the pooled fund's *current fee schedule and expense ratio*.

### **Situational Requirements**

#### **Benchmarks**

- Disclose the periodicity of benchmark returns, if calculated less frequently than monthly.
- If a custom benchmark or combination of multiple benchmarks is used:
  - Disclose the benchmark components, weights, and rebalancing process, if applicable
  - Disclose the calculation methodology
  - Clearly label the benchmark to indicate that it is a *custom benchmark*
- If presenting more than one benchmark in the GIPS Report, present and disclose all required information for all benchmarks presented, including:
  - Benchmark returns for all periods that composite returns are presented
  - Benchmark descriptions
  - If benchmark returns are net of withholding taxes
  - The three-year annualized ex-post standard deviation of the benchmark returns as of each annual period end

#### **Leverage, Derivatives and Short Positions**

- In addition to the language regarding the potential use of leverage, derivatives, and short positions that must be included in the composite description, also disclose how leverage, derivatives, and short positions *have been used historically*.

#### **Fair Value**

- Present the percentage of the total fair value of composite assets that were valued using subjective unobservable inputs as of the most recent annual period end, if such investments represent a material amount of composite assets.
- Disclose if preliminary, estimated values are used to determine fair value.

#### **Fees**

- If model investment management fees are used to calculate net-of-fees composite returns:
  - Disclose the methodology used to calculate net-of-fees returns
  - Disclose the model investment management fee used, if gross-of-fees returns are not presented

- Disclose if fees and expenses other than investment management fees (e.g., research costs) are separately charged by the firm to clients, if material.
- If the fee schedule includes performance-based fees or carried interest, include a *description* of the performance-based fee or carried interest.

#### **Estimated Trading Costs**

- If estimated transaction costs are used, disclose their use, what estimated transaction costs were used, and how the estimates were determined.

#### **Carve-Outs**

- For composites that include carve-outs with allocated cash:
  - Include “carve-out” in the composite name
  - Disclose that the composite includes carve-outs with allocated cash
  - Disclose the policy used to allocate cash to carve-out returns
  - Disclose the percentage of composite assets represented by carve-outs with allocated cash as of each annual period end
  - If a composite of standalone portfolios exists, disclose that the GIPS Composite Report for the composite of standalone portfolios is available upon request
  - If a composite of standalone portfolios exists, present the return for the composite of standalone portfolios for each annual period and the composite assets as of each annual period end

#### **Overlay Strategies**

- For overlay strategy composites:
  - Present composite overlay exposure as of each annual period end
  - Present either firm overlay exposure or total firm assets as of each annual period end
  - Disclose the methodology used to calculate composite overlay exposure and if collateral and collateral income are reflected in the composite returns

#### **Real Estate**

- For real estate investments that are not in a real estate open-end fund:
  - Disclose either that external valuations are obtained and the frequency with which they are obtained, or that firm relies on valuations from financial statement audits (whichever is applicable)

#### **Return Measures**

- If the firm changes the type of return(s) presented for the composite (e.g., changes from money-weighted returns to time-weighted returns), disclose the change and the date of the change.

#### **Additional Risk Measures**

- If presenting additional risk measures, include a description of the additional risk measure and disclose the name of the risk-free rate if a risk-free rate is used in the calculation of the additional risk measure.

#### **Additional Asset Totals**

- If presenting a combination of composites assets and composite uncalled committed capital or composite assets and advisory-only assets that reflect the composite’s strategy, present each of the values separately as well and clearly label the information

- If presenting a combination of total firm assets and firm-wide uncalled committed capital or total firm assets and firm-wide advisory-only assets, present each of the values separately as well and clearly label the information

### **Supplemental Information**

- When the GIPS Composite Report includes theoretical performance:
  - Clearly label the theoretical performance as supplemental information
  - Disclose that the results are theoretical, are not based on the performance of actual assets, and if the theoretical performance was derived from the retroactive or prospective application of a model
  - Disclose a basic description of the methodology and assumptions used to calculate the theoretical performance, including if it is based on model performance, backtested performance, or hypothetical performance
  - Disclose whether the theoretical performance reflects the deduction of actual or estimated investment management fees, transactions costs, or other fees and charges that an actual client portfolio would have paid or will pay

### **Removed or Relaxed Requirements**

- Firms may “indicate” the reporting currency, rather than disclosing it (including the currency symbol would be sufficient).
- No longer required to disclose reasons for redefinitions to the firm or composites.
- No longer required to disclose reasons for changing a benchmark.
- Presenting the percentage of non-fee-paying assets is no longer required if using model fees to calculate net-of-fees returns.
- No longer required to disclose known material differences in exchange rates or valuation sources used by portfolios within a composite or between the composite and the benchmark.
- For composites that include wrap-fee portfolios, disclosing the various types of fees included in the wrap fee has been moved from a requirement to a recommendation.
- For composites that include wrap-fee portfolios, presenting the percentage of composite assets represented by wrap-fee portfolios is only required when presenting performance to a wrap fee prospective client.
- One-year sunset periods added allowing for the removal of disclosures related to:
  - Changes to composite names
  - Retroactive benchmark changes
  - Significant events
  - Changes to the type of return presented

### **About GPS**

Guardian Performance Solutions LLC is a specialty compliance consulting firm dedicated to assisting investment advisers to achieve and maintain compliance with the Global Investment Performance Standards (GIPS®). We help advisers achieve their goals of marketing their services and growing their business, while also meeting their regulatory obligations and adhering to industry accepted standards and best practices. Because we don't provide verification services, we are free from independence concerns and can take a hands-on approach to developing and managing an adviser's performance advertising compliance program, which can include constructing composites, calculating and validating performance results, creating materials, and writing policies and procedures. Additional information can be found at [www.GuardianPerformanceSolutions.com](http://www.GuardianPerformanceSolutions.com).