

40 Things You Need to Know About the 2020 GIPS® Standards

After years of development, the 2020 edition of the Global Investment Performance Standards (“GIPS® standards”) has now been finalized. Following is a summary of some of the key items that you should be aware as you start to amend your GIPS compliance program.

- 1) New structure – separate documents (or chapters) for firms, asset owners, and verifiers.
- 2) Compliant Presentations are now referred to as GIPS Reports.
- 3) There are multiple types of GIPS Reports.
- 4) GIPS Composite Reports are for reporting composite information.
- 5) GIPS Pooled Fund Reports are for reporting information on a specific pooled fund.
- 6) The GIPS standards now have requirements related to presenting performance for pooled funds.
- 7) The GIPS standards separate pooled funds into two broad categories: limited distribution funds (e.g., private funds) and broad distribution funds (e.g., mutual funds).
- 8) Portfolios that are owned by a single client are referred to as segregated accounts. This includes separate accounts and funds-of-one.
- 9) Pooled funds that are managed to strategies that are not offered as segregated accounts will no longer need to be included in composites.
- 10) If a limited distribution pooled fund *is not* included in a composite, then the firm must make every reasonable effort to provide a GIPS Pooled Fund Report to all prospective investors in that fund.
- 11) If a limited distribution pooled fund *is* included in a composite, firms will have the option of either providing a GIPS Pooled Fund Report or a GIPS Composite Report to prospective investors in that fund – but one or the other needs to be provided.
- 12) Firms may provide GIPS Reports to prospective investors in broad distribution pooled funds but are not required to do so.
- 13) Similar to the list of composite descriptions, firms that manage private funds will also have to maintain a list of limited distribution pooled fund descriptions.
- 14) Managers of public funds will need to maintain a list of broad distribution pooled funds – but descriptions don’t need to be included.
- 15) Fund lists do not need to include terminated funds.
- 16) The GIPS Advertising Guidelines have been expanded to include guidance for broad distribution pooled funds. The previously released Guidance Statement on Broadly Distributed Pooled Funds is no longer applicable.
- 17) GIPS Reports are also differentiated by the return measures presented: time-weighted returns (TWRs) or money-weighted returns (MWRs).
- 18) Internal rate of return (IRR) is considered a type of money-weighted return.
- 19) The presentation of MWRs is no longer limited to private equity and closed-end real estate products. Firms will have the option of presenting MWRs rather than TWRs in situations where the firm has control over the timing of external cash flows into the portfolios in the composite or the pooled fund and the product also has one of the following characteristics: (1) closed-end, (2) fixed life, (3) fixed commitment, or (4) illiquid investments are a significant part of the investment strategy.
- 20) If a subscription line of credit is used by a fund or by portfolios included in a composite that presents MWRs, performance must be presented with and without the subscription line of credit with some exceptions.
- 21) Carve-outs with allocated cash are back – but with a number of caveats.

- 22) Composites of standalone portfolios must be maintained separately from carve-out composites and information on the standalone composite must be included in the GIPS Composite Report for the carve-out composite.
- 23) If all segments of a multi-asset class portfolio are included in separate composites, firms will no longer be required to include the combined multi-asset class portfolio in a composite unless it represents a strategy that is offered to prospective clients as a segregated account.
- 24) Portfolios can be moved between composites without specific client direction if the client contract grants the firm discretion to change the portfolio's strategic allocation and the portfolio manager maintains documentation of the allocation change.
- 25) Porting a track record from a prior firm is now optional (previously required when all criteria were met).
- 26) Calculation and reporting requirements specific to overlay strategies have been added.
- 27) If actual transaction costs are not known, the deduction of estimated trading costs from performance will be permitted.
- 28) When calculating TWRs for private market investment portfolios that are included in composites, the portfolios must be valued at least *quarterly* (unlike other portfolios that are included in composites, which require monthly valuation).
- 29) When calculating TWRs for pooled funds that are not included in composites, the pooled funds must be valued at least *annually* and whenever there are subscriptions to or redemptions from the pooled fund.
- 30) When using model fees to calculate net-of-fees performance, firms will no longer be required to use the highest investment management fee as the model fee. However, firms will still be required to ensure that net-of-fees performance calculated using model fees is equal to or lower than results that would have been calculated using actual fees.
- 31) For real estate investments that are not held in open-end funds, firms can rely on financial statement audits to support fair values rather than receiving external valuations.
- 32) The impact of discretionary side pockets must be accounted for in composite and pooled fund returns.
- 33) Total firm assets can no longer include uncalled committed capital.
- 34) In addition to presenting total firm assets in GIPS Reports, firms have the option of presenting advisory-only assets or uncalled committed capital. If combined with total firm assets, components must also be presented individually.
- 35) Firms that are verified will be required to gain an understanding of the verifier's policies for maintaining independence and must consider the verifier's assessment of independence.
- 36) When the firm identifies and corrects a material error in a GIPS Report, the corrected GIPS Report must be provided to the firm's current verifier (assuming the firm is verified), even if the verifier did not receive the erroneous report.
- 37) There are a number of disclosure changes impacting GIPS Composite Reports, too many to list here, but implementing the changes should not be overly burdensome.
- 38) The effective date of the 2020 GIPS standards is January 1, 2020.
- 39) GIPS Reports do not need to be updated to meet the new requirements until 2021, after performance is included through YE 2020.
- 40) Early adoption is permitted, but it's all or nothing!

About GPS

Guardian Performance Solutions (“GPS”) provides compliance consultation services to investment management firms located throughout the country. Our expertise and focus is to review performance advertisements for adherence with regulatory requirements, draft necessary advertising disclosures, and work with firms to achieve and maintain compliance with the Global Investment Performance Standards (GIPS®).

We partner with clients and actively work as a direct extension of their in-house team to document GIPS policies and procedures, determine criteria for composite construction, calculate performance, create the firm’s list of composites, maintain GIPS compliant disclosure presentations, and liaison with the firm’s verifier to oversee an efficient and timely verification project. Additional information can be found at www.GuardianPerformanceSolutions.com.