

Why we need to shout about Gips compliance

The standards bring much-needed discipline and transparency to the reporting of investment performance, says Paul Temperton, CFA*

Global investment performance standards, or Gips, are a set of standards for the presentation of fund manager performance, endorsed by a total of 26 countries. Although we hear a great deal about harmonisation of standards in, for example, international accounting, it is surprising that Gips, the fund management equivalent, have received relatively little attention.

Since January 1 2006, Gips have moved away from allowing variations in national standards that took account of local country circumstances to the adoption of a uniform or 'gold' standard.

The standards are overseen by a Gips secretariat, involving a Gips executive committee working directly with a Gips Council made up of country sponsors*.

There are five main sections of Gips covering: the choice of input data; the calculation methodology (in particular, incorporating the requirement that time-weighted total rates of return are used); the construction of composites (a composite is an aggregation of several portfolios managed in a similar way); disclosures (which allow elaboration of the raw numbers to enable them to be set in their proper context); and the method of presentation.

These mirror the 'clear, fair and not misleading guidelines' laid down by the UK Financial Services Authority for marketing and reporting.

Those who are unfamiliar with Gips may well wonder what they have to recommend them. Might they be just another expensive, unnecessary bureaucratic requirement fund managers have to deal with?

The answer is that compliance with Gips certainly involves costs; but it also brings benefits to the company using them, to its clients and to the industry as a whole.

In a world that still exhibits a large degree of mistrust about returns

and risks from financial assets, this latter "externality" may well be the biggest benefit of all.

Gips are truly global and so an investment management firm that is compliant can accurately claim to have a "passport" with which to take its fund management performance worldwide. The straightforward answer to the question: "Can we trust your performance figures?" is: "Yes, they comply with Gips." In areas where the presentation of performance has been more opaque, such as in fund of funds and private equity, Gips standards deal with the specialist performance presentation requirements.

A good deal of progression is embodied within the Gips standards: they are not set in stone but are designed to provide ever more useful information to the end user over time. So each strand has a set of requirements that need to be met now; but also a set of recommendations that are optional now, but which should become binding at a future date.

For example, the standards that apply to the reporting of private equity performance include requirements that the firms must report the vintage year of the composite, the SIIR (since inception internal rate of return), paid in capital to date, the total current invested capital and cumulative distributions to date. The recommendation is that firms should present the average holding period of their investments over the life of each composite for which performance is being reported. That is, they should tell investors how long it has taken between buying a company and then selling it.

The more widely Gips are adopted, the more obvious will become the potential shortcomings of non-Gips compliant investment companies and countries. This is putting pressure on emerging countries to adopt Gips.

The Ukraine has just prepared Ukrainian and Russian translations of the standards, currently under review by the Gips Secretariat, and a Chinese translation of Gips has also just been approved.

The Gips standards will receive a further boost from the recent launch of the Certificate in Investment Performance Measurement (CIPM); a certification programme designed to provide - as the CFA Institute, its sponsoring organisation puts it - "a best-practice qualification in calculating, interpreting, and presenting investment performance figures".

Although the CIPM programme is independent of the CFA programme, and it is not necessary to be a CFA charter holder to enrol, it seems fairly likely many of the candidates for the exam will have that qualification.

Gips are a set of standards that bring discipline and transparency to the reporting of investment performance.

This is an area that, in all too many cases, is still far too opaque. For the benefit of the client and the industry as a whole they need to be adopted on a more widespread basis.

*See www.gipsstandards.org

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www.ftknowledge.com/pma/?article

This article appeared in
FT FUND MANAGEMENT
On 2nd March 2007