

Global Investment Performance Standards (GIPS) Compliance

Several factors are driving increased adoption of Global Investment Performance Standards (GIPS) by asset managers. Firms with a global presence see the need for standardized performance reporting across regions. Greater government oversight and regulation, especially since the 2008 financial crisis, now dovetail with GIPS requirements. Finally, institutional investors demand transparency and a consistent methodology for comparing manager performance.

GIPS Compliance in Charles River

Charles River has developed Performance Measurement & Attribution (PMA) capabilities for portfolio managers who wish to comply with GIPS. Managers can access all capabilities that support GIPS compliance through the centralized portfolio management workspace in the Charles River Investment Management Solution (IMS). Data is maintained with the latest GIPS standards and guidance, and the platform allows GIPS verification of performance, attribution, and risk measures of portfolios and composites using the PMA dashboard. In addition, portfolio managers can access the composite construction rules repository and reports to verify investment firms' claims of GIPS compliance.

Managers have access to data and reporting that have been designed specifically to support GIPS requirements:

- To fulfill GIPS data input requirements, Charles River IMS provides valuation through the Investment Book of Record (IBOR), accrual and trade-based performance, management fee accruals, and custom benchmark construction.
- A standard calculation methodology is required to facilitate comparability among investment managers. Charles River PMA includes transaction-based, holdings-based, and time-weighted returns, GIPS-compliant attribution methods, and automatic processing of accounting data through IBOR.
- Composite management and construction are fundamental requirements of GIPS compliance. Through the PMA dashboard, managers can create composite definitions and disclosures, member rules, establish timing of inclusion/exclusion, access asset-weighted composite returns, and internal dispersion measures.
- Managers can "lock" GIPS performance reports so any upstream data doesn't affect performance in the reports. In addition, returns can be scrubbed and errors fixed.
- Charles River PMA supports GIPS reporting and disclosure requirements that include drill-down capabilities, outlier analysis, and an audit trail of changes.

Key Capabilities and Benefits

- A single source of reference data helps ensure consistency and comparability
- Automatic rules-based capability to track composite entries and exits
- Calculation methodologies are consistent with GIPS recommendations
- Maintain a full audit trail by creating, maintaining, and storing composites
- Supports firm and composite disclosure reporting
- Customize report footnotes and disclosures

GIPS 2020: Broader Standards, Greater Consistency across Asset Classes

On January 1, 2020, revised GIPS standards go into effect. GIPS 2020 will address shortcomings that exist in the current standards. The current iteration, GIPS 2010, includes generic requirements that do not take into account the unique needs of asset classes such as private equity and real estate. Also, no specific guidelines were specified for vehicles such as pooled funds. The revisions will broaden the scope to account for these differences and provide specific requirements to managers investing in all asset classes.

Further, GIPS 2020 addresses the needs of asset owners, not just managers. Compliance standards will encompass three main types of relationships between asset owners and asset managers, including:

- One to one: the typical approach addressed in past GIPS guidelines where a strategy's performance is shown through composite returns, and the investment manager has an individual relationship with clients
- One to many: a pooled fund distributed across many investors
- One to none: accounts for those who only report internally and not to outside clients such as family offices or sovereign wealth funds

Charles River strives to remain abreast of upcoming changes to GIPS guidelines and implements enhancements to our systems in advance of dates stipulated by the CFA Institute. Our platform can adapt to new guidelines for calculation methodologies, composite construction, disclosures, and performance presentation both from an asset manager's, as well as asset owner's, perspective.

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