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Understanding GIPS:

Enhancing transparency and trust in the retirement fund industry

In the fast paced world of asset management, accurate representation of performance is crucial for both asset managers and potential clients. Enter the Global Investment Performance Standards (GIPS®), a set of guidelines that enable asset managers to present their performance in a fair and consistent manner.

While adherence to GIPS is not a regulatory requirement, it plays a vital role in building trust and facilitating informed decision making by potential clients when selecting an asset manager.

Despite its significance, GIPS compliance remains a challenge for many asset managers, especially smaller managers. In South Africa we have just over 20 asset managers that claim to be compliant, of which the majority are larger asset managers. In this article, we delve into the world of GIPS, its relevance to retirement funds and the factors hindering wider adoption.

GIPS: Protecting investors and fostering comparability

The primary objective of GIPS is to protect potential clients from false information and make sure they have access to genuine data. Asset managers who comply with GIPS aim to deliver thorough and uniform reporting, allowing prospective clients to compare like composites (groupings of portfolios) across firms with confidence. Asset managers must develop a policy and procedure document outlining their exact policies and how they adhere to them in order to achieve compliance. It's important to define aspects like input data, composite construction, performance computation and firm definition. All of this makes it possible for the prospective client to compare the outcomes of GIPS compliant firms.

When evaluating the performance of an asset manager who is not GIPS compliant, potential clients should consider critical questions such as whether the reported portfolio represents only the best performing investments, if the selected performance period cherry picks favourable returns, or if model portfolio returns are blended with historic returns.

Furthermore, they must determine whether the returns are money weighted or time weighted, if the benchmark is appropriate, if fees are correct and if the investment offering matches their specific needs.



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The value for retirement funds

While GIPS compliance may seem like an asset manager's concern, retirement funds should also be well versed in these standards. As stewards of their beneficiaries' financial well-being, retirement funds bear the responsibility of generating favourable returns. By requesting their asset managers to comply with GIPS, retirement funds will ensure they receive accurate and comparable reports. GIPS compliant reports ensure a level playing field, allowing retirement funds to scrutinise data, analyse methodologies and make informed decisions when selecting asset managers.

For asset managers there are many advantages including having better sight of how investment processes are implemented for all clients and ensuring performance calculations are done in line with a globally accepted standard.

Challenges hindering wider adoption

Despite the benefits of GIPS compliance, several challenges persist, preventing widespread adoption across the asset management industry. These challenges can be broadly categorised as follows:

1

BUSINESS CASE

The lack of a clear business case could be a reason why asset managers may struggle to see the tangible benefits of becoming GIPS compliant. *Nobody is asking for it, so why should we do it?* To overcome this hurdle, potential clients must ask the right questions, such as requesting a compliant report and a comprehensive list of composites. This drives home the significance of GIPS compliance and helps asset managers understand the advantages of adhering to these standards. Just asking if an asset manager is compliant is not enough.

2

SKILL SET REQUIREMENTS

Smaller asset managers often lack dedicated performance teams or individuals with the necessary expertise to implement and keep up with changes in GIPS. Business-as-usual activities take precedence, leading to delays in policy document creation and implementation. However, leveraging external experts with the requisite skills can significantly expedite the implementation process, enabling even smaller firms to achieve compliance within a matter of weeks.

3

COST IMPLICATIONS

GIPS implementation can be perceived as costly, especially for smaller asset managers with limited budgets. However, cost effective solutions exist, ensuring compliance without breaking the bank. By exploring affordable systems, carefully managing the implementation process and considering verification options, asset managers can overcome this financial hurdle.

The road to trust and transparency

In an increasingly competitive industry, GIPS compliance serves as a key differentiator for asset managers aiming to establish credibility and attract clients. However, simply knowing that a manager is GIPS compliant is not sufficient. Potential clients must demand all the essential elements of a compliant firm, including GIPS compliant reports, comprehensive lists of composites and necessary disclosures. Armed with these standardised materials, clients can confidently compare asset managers and make informed decisions.

Conclusion

The adoption of GIPS is vital for the asset management industry, as it promotes transparency, enhances trust and empowers potential clients to make informed decisions. While challenges may exist, the value of GIPS compliance should not be underestimated. For retirement funds seeking the best service and returns, understanding GIPS and demanding compliance from asset managers is a crucial step towards securing a fruitful partnership. By embracing GIPS, the retirement fund industry can foster a culture of transparency and ensure that apples are truly compared with apples.