

Global Investment Performance Standards (GIPS®) for Asset Owners

Explanation of the
Provisions in Section 26

October 2020



CFA Institute®
Global Investment
Performance Standards

Global Investment Performance Standards (GIPS®) for Asset Owners

Explanation of the
Provisions in Section 26

October 2020



CFA Institute®
Global Investment
Performance Standards

GIPS® is a registered trademark owned by CFA Institute.

© 2020 CFA Institute. All rights reserved.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the copyright holder.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is distributed with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional should be sought.

ISBN 978-1-942713-99-9

INTRODUCTION

The Explanation of the Provisions in Section 26 provides interpretation of each provision that is included in Section 26—GIPS Advertising Guidelines. Asset owners may wish to prepare materials that are widely distributed, such as annual reports provided to beneficiaries and posted on the asset owner’s website. The asset owner may wish to include the fact that the asset owner claims compliance with the GIPS standards but does not wish to include a lengthy GIPS Asset Owner Report for the total fund. The asset owner may instead choose to prepare these materials following the GIPS Advertising Guidelines. To claim compliance with the GIPS standards in an advertisement, asset owners must adhere to the GIPS Advertising Guidelines or include a GIPS Asset Owner Report.

Each provision is included in a grey text box. Within the provisions are words appearing in small capital letters. This indicates defined terms that can be found in the GIPS Standards Glossary. Below each provision is a discussion that provides interpretive guidance to help readers understand the provision.

26. GIPS ADVERTISING GUIDELINES

Purpose of The GIPS Advertising Guidelines

The GIPS Advertising Guidelines provide asset owners with options for advertising when mentioning the asset owner’s claim of compliance. The GIPS Advertising Guidelines do not replace the GIPS standards, nor do they absolve asset owners from presenting GIPS Asset Owner Reports as required by the GIPS standards. These guidelines apply only to asset owners that already satisfy all the applicable requirements of the GIPS standards on an asset owner–wide basis and prepare an advertisement that adheres to the requirements of the GIPS Advertising Guidelines (a “GIPS Advertisement”). Asset owners may also choose to include a GIPS Asset Owner Report in the advertisement.

Definitions

Advertisement

For the GIPS Advertising Guidelines for asset owners, an advertisement includes any materials that are distributed to or designed for use in newspapers, magazines, asset owner brochures, letters, media, websites, or any other written or electronic material distributed to more than one party, and there is no contact between the asset owner and the reader of the advertisement.

GIPS Advertisement

A GIPS Advertisement is an advertisement by a GIPS-compliant asset owner that adheres to the requirements of the GIPS Advertising Guidelines.

Relationship of the GIPS Advertising Guidelines to Regulatory Requirements

When preparing GIPS Advertisements, asset owners must also adhere to all applicable laws and regulations governing advertisements. Asset owners are encouraged to seek legal or regulatory counsel because additional disclosures may be required. In cases where applicable laws or regulations conflict with the requirements of the GIPS standards or the GIPS Advertising Guidelines, asset owners are required to comply with the laws or regulations.

Other Information

The GIPS Advertisement may include other information beyond what is required or recommended under the GIPS Advertising Guidelines, provided the information is shown with equal or lesser prominence relative to the information required or recommended by the GIPS Advertising Guidelines and the information does not conflict with the requirements or recommendations of the GIPS standards or the GIPS Advertising Guidelines. Asset owners must adhere to the principles of fair representation and full disclosure when advertising and must not present performance or performance-related information that is false or misleading.

26.A. Fundamental Requirements of the GIPS Advertising Guidelines

Provision 26.A.1

The GIPS Advertising Guidelines apply only to ASSET OWNERS that already claim compliance with the GIPS standards.

Discussion

An asset owner that claims compliance with the GIPS standards has three options with respect to preparing an advertisement:

- Prepare the advertisement in accordance with the GIPS Advertising Guidelines.
- Include a GIPS Asset Owner Report in the advertisement.
- Do not mention the GIPS standards in the advertisement.

An asset owner that chooses to claim compliance in an advertisement must either meet the requirements of the GIPS Advertising Guidelines or include a GIPS Asset Owner Report in the advertisement. Asset owners are not required to claim compliance with the GIPS standards in advertisements.

Asset owners claiming compliance with the GIPS standards must ensure that all performance or performance-related information in advertisements is not false or misleading and adheres to the guiding principles of fair representation and full disclosure, whether or not the advertisement contains a claim of compliance with the GIPS standards.

Provision 26.A.2

An ASSET OWNER that chooses to claim compliance in a GIPS ADVERTISEMENT MUST comply with all applicable REQUIREMENTS of the GIPS Advertising Guidelines.

Discussion

If an asset owner chooses to advertise its claim of compliance with the GIPS standards by creating a GIPS Advertisement, it must comply with all applicable requirements of the GIPS Advertising Guidelines. The asset owner must also adhere to all applicable laws and regulations governing advertisements.

Provision 26.A.3

The ASSET OWNER MUST maintain all data and information necessary to support all items included in a GIPS ADVERTISEMENT.

Discussion

A fundamental principle of the GIPS standards is the need for asset owners to be able to ensure the validity of their claim of compliance. It is, therefore, important for the oversight bodies, verifiers, and regulators to have confidence that all items included in a GIPS Advertisement are supported by the appropriate records.

Asset owners must maintain records to be able to recalculate their performance history as well as substantiate all other information included in a GIPS Advertisement, for all periods shown. This requirement applies to all periods for which performance is presented in the GIPS Advertisement. There may be cases where regulators require records to be kept for longer periods than those required by the GIPS standards. Care should be taken to ensure that the asset owner follows the strictest of the recordkeeping requirements applicable to the asset owner.

It is understood that the required data may not be immediately available. For example, data may need to be retrieved from an offsite location or from a third-party service provider. However, the data and information required to be maintained by this provision must be available in a usable format within a reasonable time frame. In all instances, either paper (hard-copy) records or electronically stored records will suffice. If records are stored electronically, the records must be accessible and able to be printed or downloaded, if needed. Records stored in a system that is not operable and from which data cannot be retrieved will not satisfy the recordkeeping requirements.

Please refer to Provision 21.A.19 for more information about the records required to be retained to support a GIPS Advertisement.

Provision 26.A.4

Returns for periods of less than one year included in a GIPS ADVERTISEMENT MUST NOT be annualized.

Discussion

Total fund or composite performance reflects only the performance of actual assets managed by the asset owner. When returns for periods of less than one year are annualized, the partial-year return is “extended” in order to create an annual return. The extrapolation of the partial-year return produces a simulated return and does not reflect the performance of actual assets. Therefore, performance for periods of less than one year must not be annualized in a GIPS Advertisement.

Care must be taken when money-weighted returns (MWRs) are calculated and the total fund or composite has less than a year of performance. Many asset owners use Excel to calculate MWRs using the XIRR function. The XIRR function calculates an annualized internal rate of return (IRR) (an IRR is a method that can be used to calculate an MWR). When calculating an XIRR for a period of less than one year, the annualized return generated must be “de-annualized.”

The non-annualized since-inception IRR (SI-IRR) can be calculated as follows:

$$R_{SI-IRR} = \left[(1 + r_{SI-IRR})^{\frac{TD}{365}} \right] - 1,$$

where

R_{SI-IRR} = non-annualized since-inception internal rate of return

r_{SI-IRR} = annualized since-inception internal rate of return

TD = total number of calendar days in the measurement period (less than one year)

For example, a portfolio is funded with \$1,000,000 cash on 1 September 2020. Another \$75,000 is contributed on 10 September 2020. At the end of the month, 30 September 2020, the portfolio is valued at \$1,100,000. Also assume that end-of-day cash flows are used. Using Excel’s XIRR formula, the annualized SI-IRR is 34.41%.

Dates	External Cash Flows & Ending Valuation	Explanation
1 Sep 20	\$(1,000,000)	Contribution
10 Sep 20	\$(75,000)	Contribution
30 Sep 20	\$1,100,000	Portfolio value as of 30 September 2020
	34.41%	Calculated annualized return using XIRR

To calculate the non-annualized return in Excel using the non-annualized SI-IRR formula above the calculation is as follows:

$$(1+0.3441)^{(29/365)}-1 = 2.38\%$$

Provision 26.A.5

TOTAL FUND or COMPOSITE returns included in a GIPS ADVERTISEMENT MUST be derived from the returns included in or that will be included in the corresponding GIPS ASSET OWNER REPORT.

Discussion

In the spirit of fair representation and full disclosure, all total fund or composite returns included in a GIPS Advertisement must be derived from the returns that have been included in or that will be included in the corresponding GIPS Asset Owner Report. This requirement is to ensure consistency in the performance reported by an asset owner. If a GIPS Advertisement is more current than the corresponding GIPS Asset Owner Report, it is permissible to include more-recent performance in the GIPS Advertisement, as long as this performance will be included in the GIPS Asset Owner Report when it is updated or would be included in the GIPS Asset Owner Report if it were issued as of the date of the GIPS Advertisement.

Provision 26.A.6

Disclosures included in a GIPS ADVERTISEMENT for a TOTAL FUND or COMPOSITE MUST be consistent with the related disclosure included in the corresponding GIPS ASSET OWNER REPORT, unless the disclosure included in the GIPS ADVERTISEMENT is more current and has not yet been reflected in the corresponding GIPS ASSET OWNER REPORT.

Discussion

In the spirit of fair representation and full disclosure, all disclosures included in a GIPS Advertisement must be consistent with the disclosures included in or that will be included in the corresponding GIPS Asset Owner Report. This requirement is to ensure consistency in information reported by an asset owner. If a GIPS Advertisement is more current than the corresponding GIPS Asset Owner Report, it is permissible to include a more current disclosure in the GIPS Advertisement, as long as the more current disclosure will be included in the GIPS Asset Owner Report if it were issued as of the date of the GIPS Advertisement.

Provision 26.A.7

BENCHMARK returns included in a GIPS ADVERTISEMENT MUST be TOTAL RETURNS.

Discussion

Because the GIPS standards require that benchmark returns presented in a GIPS Advertisement be total returns, a price-only index would not satisfy the requirements of the GIPS Advertising Guidelines. This also applies to benchmarks that are components of a blended benchmark. A price-only benchmark may be presented in a GIPS Advertisement only if it is presented in addition to a total return benchmark. It must be labeled as a price-only benchmark, and there must be sufficient disclosures so that the oversight body understands the difference between the return of a price-only benchmark and the return of a total return benchmark. Asset owners must not present only a price-only benchmark in a GIPS Advertisement even if no appropriate total return benchmark is available for a specific total fund or composite. If an asset owner determines that no appropriate benchmark for the total fund or composite exists, it must not present a benchmark.

Some benchmarks may appear to be price-only benchmarks because they do not include income, but they should be considered total return benchmarks. These include the following:

- public market equivalent (PME) benchmarks,
- commodity benchmarks, and similar benchmarks, that do not have income because of the nature of the benchmark constituents, and
- target returns, such as an 8% hurdle rate.

A PME is a method in which a public market index is used to create a comparable money-weighted return (MWR) from a series of cash flows that replicate those of the total fund or composite and that can be compared with the MWR of the total fund or composite. When the asset owner uses a PME, the market index used must be a total return benchmark.

The benchmark presented in the GIPS Advertisement must be consistent with the benchmark presented in the corresponding GIPS Asset Owner Report. If more than one benchmark is included

in the corresponding GIPS Asset Owner Report, the asset owner should consider whether multiple benchmarks should be presented in the GIPS Advertisement.

Provision 26.A.8

The ASSET OWNER MUST clearly label or identify:

- a. The name of the COMPOSITE or TOTAL FUND for which the GIPS ADVERTISEMENT is prepared.
- b. The name of any BENCHMARK included in the GIPS ADVERTISEMENT.
- c. The periods that are presented in the GIPS ADVERTISEMENT.

Discussion

The items presented in a GIPS Advertisement must be clearly labeled or identified so there is clarity regarding the information being presented. Among the items included in a GIPS Advertisement that must be clearly identified or labeled are:

- the name of the composite or total fund for which the GIPS Advertisement is prepared,
- the name of any benchmark included in the GIPS Advertisement, and
- the time periods presented.

The name of the benchmark is particularly important when a customized benchmark is used. Asset owners may need to include more than the name of a customized benchmark when more information is needed for a reader to understand the information presented. For example, if an asset owner includes a custom benchmark that has a hedge applied, simply stating that the benchmark is a custom benchmark would not allow a reader to understand the benchmark returns. It would be appropriate to disclose that the benchmark is hedged and how the hedge was applied.

Provision 26.A.9

Other information beyond what is REQUIRED or RECOMMENDED under the GIPS Advertising Guidelines (e.g., COMPOSITE or TOTAL FUND returns for additional periods) MUST be presented with equal or lesser prominence relative to the information REQUIRED or RECOMMENDED by the GIPS Advertising Guidelines. This information MUST NOT conflict with the REQUIREMENTS or RECOMMENDATIONS of the GIPS standards or the GIPS Advertising Guidelines.

Discussion

A GIPS Advertisement may include information beyond what is required or recommended under the GIPS Advertising Guidelines. For example, returns for periods in addition to the required periods may be shown. However, information beyond what is required or recommended must:

- be shown with equal or lesser prominence relative to the information that is required or recommended,
- not conflict with the requirements or recommendations of the GIPS standards or the GIPS Advertising Guidelines,
- not be false or misleading, and
- adhere to the principles of fair representation and full disclosure.

As an example, assume that a GIPS Advertisement for a total fund or composite includes all information required by the GIPS Advertising Guidelines in a size 10 font. Including backtested hypothetical performance in size 18 font would not be allowed because this information would not be shown with equal or lesser prominence.

Provision 26.A.10

All REQUIRED and RECOMMENDED information in a GIPS ADVERTISEMENT MUST be presented in the same currency.

Discussion

Asset owners must present all required and recommended information in a GIPS Advertisement in the same currency (e.g., total fund or composite and benchmark returns). Any information beyond what is required or recommended by the GIPS Advertising Guidelines should also be presented in the same currency. If it is not, that fact must be disclosed. It would be misleading for the asset owner to not disclose this fact.

If an asset owner chooses to present a total fund or composite in a different currency, the asset owner must convert all of the required information into the new currency. If the asset owner chooses to present performance in multiple currencies in the same GIPS Advertisement, the asset owner must convert all of the required information into each of the currencies and ensure it is clear in which currencies performance is reported. The asset owner must also convert any recommended information it chooses to present in the GIPS Advertisement containing the converted information. See Provision 24.A.7 for guidance on converting total fund or composite time-weighted returns and Provision 25.A.7 for guidance on converting composite money-weighted returns.

26.B. GIPS Advertisements That Do Not Include Performance

Provision 26.B.1

The ASSET OWNER MUST disclose the GIPS Advertising Guidelines compliance statement:

“[Insert name of ASSET OWNER] claims compliance with the Global Investment Performance Standards (GIPS®).”

Discussion

An asset owner has two ways of advertising its claim of compliance with the GIPS standards: 1) by following the GIPS Advertising Guidelines or 2) by including a GIPS Asset Owner Report in its advertisement. If an asset owner has chosen to advertise its claim of compliance by following the GIPS Advertising Guidelines, it must include the following compliance statement in the GIPS Advertisement:

“[Insert name of ASSET OWNER] claims compliance with the Global Investment Performance Standards (GIPS®).”

The compliance statement required by the GIPS Advertising Guidelines is different from the compliance statement required to be disclosed in a GIPS Asset Owner Report. The GIPS Advertising Guidelines compliance statement must appear exactly as presented in this provision and may not be reworded in any way. The English version of the compliance statement is the controlling version. If an asset owner chooses to translate the compliance statement into a language for which there is no official translation of the GIPS standards, the asset owner must take care to ensure that the translation used reflects the required wording of the compliance statement.

Provision 26.B.2

The ASSET OWNER MUST disclose the following: “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.”

Discussion

“GIPS®” is a registered trademark of CFA Institute, and asset owners are required to acknowledge this in all GIPS Advertisements. The required disclosure may appear in the body of the GIPS Advertisement or in a footnote to the GIPS Advertisement. The term “this organization,” which is

included in the required disclosure, refers to any entity associated with the GIPS Advertisement, either the asset owner or the verifier.

CFA Institute (owner of the GIPS® trademark) may take appropriate action against any asset owner that misuses the mark “GIPS®” or any compliance statement, including false claims of compliance with the GIPS standards. CFA Institute members, CFA Program charterholders, CFA candidates, CIPM Program certificants, and CIPM candidates who misuse the term “GIPS” or any compliance statement, misrepresent their performance history or the performance history of the asset owner, or falsely claim compliance with the GIPS standards are also subject to disciplinary sanctions under the CFA Institute Code of Ethics and Standards of Professional Conduct. Possible disciplinary sanctions include public censure, suspension of membership, and revocation of the CFA charter or CIPM certificate.

Regulators with jurisdiction over asset owners claiming compliance with the GIPS standards may also take enforcement actions against asset owners that falsely claim compliance with the GIPS standards.

Asset owners may also use the following language to replace the first sentence in this required disclosure: “GIPS® is a registered trademark owned by CFA Institute.” See the GIPS Standards Trademark Usage Guidelines on the GIPS standards website (www.gipsstandards.org) for additional guidance on the use of “GIPS”.

Provision 26.B.3

The ASSET OWNER MUST disclose how a participant or beneficiary may obtain GIPS-compliant performance information for the ASSET OWNER’S strategies and products.

Discussion

An advertisement is typically brief and provides limited information regarding the asset owner and its strategies and products. A participant or beneficiary may want to receive additional information in order to have a more complete understanding of an asset owner’s investment performance. It is, therefore, required that asset owners disclose in a GIPS Advertisement how to obtain GIPS-compliant performance information. GIPS-compliant performance information includes GIPS Asset Owner Reports and the asset owner’s required lists of total fund descriptions and composite descriptions.

Sample Disclosure:

“To receive additional information regarding Centralville Police and Fire Retirement Systems (CPFRS), including GIPS-compliant performance information, contact Susan Jenry at (779) 873-XXXX or write Centralville Police and Fire Retirement Systems, One Midtown Street, Centralville, Michigan, 48XXX or susan.jenry@CPFRS.org.”

26.C. GIPS Advertisements for a Total Fund or Composite That Include Performance—Requirements

Provision 26.C.1

If TIME-WEIGHTED RETURNS are presented in the corresponding GIPS ASSET OWNER REPORT, the ASSET OWNER MUST present TOTAL FUND or COMPOSITE TOTAL RETURNS according to one of the following:

- a. One-, three-, and five-year annualized TOTAL FUND or COMPOSITE returns through the most recent period. If the TOTAL FUND or COMPOSITE has been in existence for less than five years, or the ASSET OWNER presents less than five years of performance in the corresponding GIPS ASSET OWNER REPORT, the ASSET OWNER MUST also present the annualized return that includes all periods presented in the corresponding GIPS ASSET OWNER REPORT.
- b. The period-to-date TOTAL FUND or COMPOSITE return in addition to one-, three-, and five-year annualized TOTAL FUND or COMPOSITE returns through the same period as presented in the corresponding GIPS ASSET OWNER REPORT. If the TOTAL FUND or COMPOSITE has been in existence for less than five years, or the ASSET OWNER presents less than five years of performance in the corresponding GIPS ASSET OWNER REPORT, the ASSET OWNER MUST also present the annualized return that includes all periods presented in the corresponding GIPS ASSET OWNER REPORT.
- c. The period-to-date TOTAL FUND or COMPOSITE return in addition to five years of annual TOTAL FUND or COMPOSITE returns (or for each annual period presented in the corresponding GIPS ASSET OWNER REPORT if less than five years). The annual returns MUST be calculated through the same period as presented in the corresponding GIPS ASSET OWNER REPORT.
- d. The annualized TOTAL FUND or COMPOSITE return for the total period that includes all periods presented in the corresponding GIPS ASSET OWNER REPORT, through either:
 - i. The most recent period end, or
 - ii. The most recent annual period end.

Discussion

Provision 26.C.1 does not require an asset owner presenting time-weighted returns in a GIPS Advertisement to include all four options (a through d) mentioned in the provision. Rather, an asset owner must present performance in accordance with one of the options described in

the provision. A GIPS Advertisement must also adhere to all applicable laws and regulations governing advertisements.

Three of the four options in Provision 26.C.1 include the presentation of annualized total fund or composite returns, which represent the geometric average annual compound return achieved over the defined period of more than one year. Annualized performance is permitted only for periods of one year or more.

The formula for calculating annualized performance is as follows:

$$\text{Annualized Return (\%)} = [(1 + R)^{1/n}] - 1,$$

where R is the cumulative return for the period, which is calculated by geometrically linking the sub-period returns during the period, and n is the number of years in the period.

For example, assume a total fund's or composite's cumulative return for a five-year period is 150.0%. It has a five-year average annual compound return, or annualized return, of 20.11%, which is calculated as:

$$[(1 + 1.50)^{\frac{1}{5}}] - 1 = 0.2011 = 20.11\%.$$

If instead the 150% is earned over 12.5 years, the 12.5-year average annual compound return, or annualized return, is 7.61%, which is calculated as:

$$[(1 + 1.50)^{\frac{1}{12.5}}] - 1 = 0.0761 = 7.61\%.$$

If the asset owner chooses to comply with Provision 26.C.1.a, it must present the one-, three-, and five-year annualized total fund or composite returns through the most recent period end. If the total fund or composite has been in existence for less than five years, or the asset owner presents less than five years of performance in the corresponding GIPS Asset Owner Report, the asset owner must also present the annualized total fund or composite return that includes all periods presented in the corresponding GIPS Asset Owner Report.

The most recent period-end date is as of the most recent month-end or quarter-end date. For example, if preparing a GIPS Advertisement in May, the most recent quarter end would be 31 March and the most recent month end would be 30 April. The asset owner may choose whether to use month-end or quarter-end periods.

If the asset owner chooses to comply with Provision 26.C.1.b, it must present the period-to-date total fund or composite return in addition to the one-, three-, and five-year annualized total fund or composite returns through the same period as presented in the corresponding GIPS Asset Owner Report. For example, if the GIPS Asset Owner Report includes calendar-year annual returns, then the annualized returns in the GIPS Advertisement must be through the most recent 31 December. If the total fund or composite has been in existence for less than five years, or the asset owner presents less than five years of performance in the corresponding GIPS Asset Owner

Report, the asset owner must also present the annualized total fund or composite return that includes all periods presented in the corresponding GIPS Asset Owner Report through the most recent period end (either month end or quarter end).

If the asset owner chooses to comply with Provision 26.C.1.c, it must present the period-to-date total fund or composite return in addition to five years of annual total fund or composite returns (or for each annual period presented in the corresponding GIPS Asset Owner Report if less than five years). The annual returns must be calculated through the same period as presented in the corresponding GIPS Asset Owner Report.

If the asset owner chooses to comply with Provision 26.C.1.d, it must present the annualized total fund or composite return for the total period that includes all periods presented in the corresponding GIPS Asset Owner Report through either: a) the most recent period end (either month end or quarter end) or b) the most recent annual period end. If the total fund or composite has been in existence for less than one year, the return must not be annualized.

In the spirit of fair representation and full disclosure, Provision 26.A.5 requires that all total fund or composite returns included in a GIPS Advertisement must be derived from the returns that have been included in or that will be included in the corresponding GIPS Asset Owner Report. This requirement is to ensure consistency in the performance reported by an asset owner. If a GIPS Advertisement is more current than the corresponding GIPS Asset Owner Report, it is permissible to include more-recent performance in the GIPS Advertisement, as long as this performance will be included in the GIPS Asset Owner Report when it is updated or would be included in the GIPS Asset Owner Report if it were issued as of the date of the GIPS Advertisement.

Provision 26.C.2

If MONEY-WEIGHTED RETURNS are presented in the corresponding GIPS ASSET OWNER REPORT, the ASSET OWNER MUST present the annualized (for periods longer than one year) or non-annualized (for periods less than one year) TOTAL FUND or COMPOSITE MONEY-WEIGHTED RETURN that has the same start date as presented in the GIPS ASSET OWNER REPORT, through either:

- a. The most recent period end, or
- b. The most recent annual period end.

Discussion

If the asset owner has chosen to present a money-weighted return (MWR) for a total fund in a GIPS Asset Owner Report in addition to the required time-weighted return (TWR), the asset

owner may present an MWR, a TWR, or both an MWR and a TWR in the corresponding GIPS Advertisement.

If the asset owner has chosen to present an MWR for an additional composite in a GIPS Asset Owner Report, it must present an MWR for the additional composite in the corresponding GIPS Advertisement. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.)

If the MWR is for a period of longer than one year, it must be annualized. If the MWR is for a period of less than one year, it must not be annualized. The MWR must have the same start date as the MWR that is presented in the GIPS Asset Owner Report. The MWR must be calculated through either: a) the most recent period end (i.e., through the most recent month or quarter end) or b) the most recent annual period end.

In the spirit of fair representation and full disclosure, Provision 26.A.5 requires that all total fund or composite returns included in a GIPS Advertisement must be derived from the returns that have been included in or that will be included in the corresponding GIPS Asset Owner Report. This requirement is to ensure consistency in the performance reported by an asset owner. If a GIPS Advertisement is more current than the corresponding GIPS Asset Owner Report, it is permissible to include more-recent performance in the GIPS Advertisement, as long as this performance will be included in the GIPS Asset Owner Report when it is updated or would be included in the GIPS Asset Owner Report if it were issued as of the date of the GIPS Advertisement.

Provision 26.C.3

The ASSET OWNER MUST clearly label TOTAL FUND or COMPOSITE returns as GROSS-OF-FEES, NET-OF-EXTERNAL-COSTS-ONLY, or NET-OF-FEES.

Discussion

Asset owners must present net-of-fees returns in a GIPS Asset Owner Report for a total fund or total fund composite, and may also choose to present gross-of-fees and net-of-external-costs-only returns in addition to the required net-of-fees returns.

Asset owners may present gross-of-fees returns, net-of-external-costs-only returns, or net-of-fees returns for an additional composite in a GIPS Asset Owner Report. (An additional composite is a grouping of portfolios representing a particular strategy or asset class that the asset owner chooses to present in a GIPS Asset Owner Report.)

An asset owner may present returns in a GIPS Advertisement that are different from those presented in the GIPS Asset Owner Report. For example, an asset owner may present gross-of-fees

returns or net-of-external-costs-only returns in a GIPS Advertisement even if the corresponding GIPS Asset Owner Report includes only net-of-fees returns, as long as the returns presented in the GIPS Advertisement are derived from the returns that would be included in the corresponding GIPS Asset Owner Report.

For readers of the advertisement to understand the nature of the returns being presented, all returns presented must be clearly labeled as gross-of-fees, net-of-external-costs-only, or net-of-fees.

Asset owners advertising performance results must adhere to all applicable laws and regulations, including those governing advertisements. Whether or not laws or regulations specify which returns must be presented in an advertisement, asset owners must clearly indicate whether returns are presented gross-of-fees, net-of-fees, or net-of-external-costs-only so that the reader of the advertisement has a clear understanding of the returns that are presented.

Provision 26.C.4

The ASSET OWNER MUST present BENCHMARK returns for the same BENCHMARK as presented in the corresponding GIPS ASSET OWNER REPORT, if the corresponding GIPS ASSET OWNER REPORT includes BENCHMARK returns. BENCHMARK returns MUST be of the same return type (TIME-WEIGHTED RETURNS OR MONEY-WEIGHTED RETURNS), in the same currency, and for the same periods for which the TOTAL FUND OR COMPOSITE returns are presented.

Discussion

As described in Provisions 26.C.1 and 26.C.2, asset owners that present performance in a GIPS Advertisement for a total fund or composite have various options for the time periods used in presenting time-weighted returns (TWRs) and money-weighted returns (MWRs). Once an option is selected, the asset owner must present the total returns for the benchmark(s) for the same periods as the total fund or composite returns. The benchmark must be the same benchmark as presented in the corresponding GIPS Asset Owner Report and must also be the same return type (TWR or MWR) and in the same currency as the total fund or composite returns. If more than one benchmark is included in the GIPS Asset Owner Report, the asset owner should consider whether multiple benchmarks should be presented in the GIPS Advertisement.

This requirement is an acknowledgement that a comparison of benchmark and total fund or composite returns will help the reader of the GIPS Advertisement determine how well the total fund or composite has performed relative to the benchmark.

Provision 26.C.5

The ASSET OWNER MUST disclose or otherwise indicate the reporting currency.

Discussion

The GIPS standards require that asset owners disclose the currency used to report the numerical information presented in a GIPS Advertisement. If the asset owner presents performance in multiple currencies in the same GIPS Advertisement, the asset owner must ensure it is clear which currencies are used to calculate and report performance. Labeling the columns within a GIPS Advertisement with the appropriate currency symbol would satisfy this requirement, as would a written disclosure.

All required and recommended information presented in a GIPS Advertisement must be presented in the same currency. (See Provision 26.A.10.)

Sample Disclosures:

“Valuations are computed and all information is reported in Canadian dollars.”

“Performance is reported in Japanese yen.”

Provision 26.C.6

The ASSET OWNER MUST disclose the GIPS Advertising Guidelines compliance statement:

“[Insert name of ASSET OWNER] claims compliance with the Global Investment Performance Standards (GIPS®).”

Discussion

An asset owner has two ways of advertising its claim of compliance with the GIPS standards: 1) by following the GIPS Advertising Guidelines or 2) by including a GIPS Asset Owner Report in its advertisement. If an asset owner chooses to advertise its claim of compliance by following the GIPS Advertising Guidelines, it must include the following compliance statement in the GIPS Advertisement:

“[Insert name of ASSET OWNER] claims compliance with the Global Investment Performance Standards (GIPS®).”

The compliance statement required by the GIPS Advertising Guidelines is different from the compliance statement required to be disclosed in a GIPS Asset Owner Report. The GIPS Advertising Guidelines compliance statement must appear exactly as presented in this provision and may not be reworded in any way. The English version of the compliance statement is the controlling version. If an asset owner chooses to translate the compliance statement into a language for which there is no official translation of the GIPS standards, the asset owner must take care to ensure that the translation used reflects the required wording of the compliance statement.

Provision 26.C.7

The ASSET OWNER MUST disclose the following: “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.”

Discussion

“GIPS®” is a registered trademark of CFA Institute, and asset owners are required to acknowledge this in all GIPS Advertisements. The required disclosure may appear in the body of the GIPS Advertisement or in a footnote to the GIPS Advertisement. The term “this organization,” which is included in the required disclosure, refers to any entity associated with the GIPS Advertisement, either the asset owner or the verifier.

CFA Institute (owner of the GIPS® trademark) may take appropriate action against any asset owner that misuses the mark “GIPS®” or any compliance statement, including false claims of compliance with the GIPS standards. CFA Institute members, CFA Program charterholders, CFA candidates, CIPM Program certificants, and CIPM candidates who misuse the term “GIPS®” or any compliance statement, misrepresent their performance history or the performance history of the asset owner, or falsely claim compliance with the GIPS standards are also subject to disciplinary sanctions under the CFA Institute Code of Ethics and Standards of Professional Conduct. Possible disciplinary sanctions include public censure, suspension of membership, and revocation of the CFA charter or CIPM certificate.

Regulators with jurisdiction over asset owners claiming compliance with the GIPS standards may also take enforcement actions against asset owners that falsely claim compliance with the GIPS standards.

Asset owners may also use the following language to replace the first sentence in this required disclosure: “GIPS® is a registered trademark owned by CFA Institute.” See the GIPS Standards Trademark Usage Guidelines on the GIPS standards website (www.gipsstandards.org) for additional guidance on the use of “GIPS®”.

Provision 26.C.8

The ASSET OWNER MUST disclose how to obtain a GIPS ASSET OWNER REPORT.

Discussion

An advertisement is typically brief and provides limited information regarding the asset owner and its strategies and products. A reader of a GIPS Advertisement may want to receive additional information on the asset owner's investment performance, including a GIPS Asset Owner Report for the total fund or composite presented in the advertisement. Asset owners are, therefore, required to disclose in a GIPS Advertisement how to obtain a GIPS Asset Owner Report.

Sample Disclosure:

“To receive additional information regarding Centralville Police and Fire Retirement Systems (CPFRS), including a GIPS Asset Owner Report for the total fund presented in this advertisement, contact Susan Jenry at (779) 873-XXXX or write Centralville Police and Fire Retirement Systems, One Midtown Street, Centralville, Michigan, 48XXX or susan.jenry@CPFRS.org.”

Provision 26.C.9

The ASSET OWNER MUST disclose if the GIPS ADVERTISEMENT conforms with laws or regulations that conflict with the REQUIREMENTS OR RECOMMENDATIONS of the GIPS standards or the GIPS Advertising Guidelines, as well as the manner in which the laws or regulations conflict with the GIPS standards or the GIPS Advertising Guidelines.

Discussion

Asset owners must comply with all applicable laws and regulations regarding the calculation and presentation of performance, including the advertising of performance. Compliance with applicable laws and regulations, however, does not necessarily result in compliance with the GIPS Advertising Guidelines. Asset owners must also comply with all of the applicable requirements of the GIPS Advertising Guidelines when preparing an advertisement in accordance with the GIPS Advertising Guidelines. When laws and regulations conflict with the GIPS Advertising Guidelines, asset owners are required to comply with the laws and regulations and disclose the manner in which the laws or regulations conflict with the GIPS Advertising Guidelines.

This disclosure will assist the reader in understanding the difference between the reporting requirements of applicable laws and regulations and those of the GIPS standards.

Sample Disclosure:

“Local laws do not allow the presentation of returns of less than one year in an advertisement, which is in conflict with the GIPS Advertising Guidelines. Therefore, no performance is presented for this composite for the period from 1 July 2018 (the inception date of the composite) through 31 December 2018.”

26.D. GIPS Advertisements for a Total Fund or Composite That Include Performance—Recommendations

Provision 26.D.1

The ASSET OWNER SHOULD disclose the TOTAL FUND DESCRIPTION OR COMPOSITE DESCRIPTION.

Discussion

To help a reader of a GIPS Advertisement more fully understand the total fund or composite being presented, it is recommended that an asset owner disclose the total fund description or composite description in the GIPS Advertisement. The total fund description or composite description is general information regarding the investment mandate, objective, or strategy of the total fund or composite. The total fund description or composite description must include enough information to allow a reader of the GIPS Advertisement to understand the key characteristics of the total fund's or composite's investment mandate, objective, or strategy, including the risks of the strategy; how leverage, derivatives, and short positions may be used if they are a material part of the strategy; and whether or not illiquid assets are a material part of the strategy. In addition to these factors, the total fund description should also include:

- the total fund's asset allocation as of the most recent annual period end,
- the actuarial rate of return or spending policy description, and
- a description of the asset classes and/or other groupings within the total fund, such as the composition of the asset class, strategy used, types of management used (e.g., active, passive, internal, external), and relevant exposures.

The recommended disclosure of the total fund description or composite description provides information about the total fund's or composite's investment strategy or asset class(es) that is intended to help a reader of the GIPS Advertisement understand the total fund or composite strategy. The total fund or composite description should provide sufficient information to allow readers of the GIPS Advertisement to identify the significant features of the total fund or composite

strategy. The disclosed strategy features will likely affect both the historical and expected risk and returns. Along with the recommended disclosure of the benchmark description (see Provision 26.D.3), the GIPS Advertisement will allow the reader to understand both the investment strategy employed and the benchmark against which the total fund's or composite's performance is evaluated.

If leverage, derivatives, and short positions may be used, and they are a material part of the strategy, this must be disclosed in the total fund or composite description. Provision 26.D.2 recommends that the asset owner disclose how leverage, derivatives, and short positions have been used historically, if material. Taken together, these two recommended disclosures provide a more complete picture about the presence, use, and extent of leverage, derivatives, and short positions. When determining what would be material, the asset owner must consider whether the disclosure of how leverage, derivatives, and/or short positions are used and/or have been used historically is likely to affect a reader's view of the risk involved in the strategy. If so, the asset owner must consider if it would be misleading for the asset owner to fail to disclose their use to the reader when describing the strategy.

Generally, all investment products or strategies have some degree of inherent risk (e.g., market risk), but it is not intended that the total fund or composite description identifies every risk of the strategy. Instead, asset owners must identify those material risks of the strategy, if any, and must include those risks in the description of the total fund or composite. For example, investment concentration, correlation (or lack thereof), liquidity, and exposure to counterparties are features that may need to be included in the total fund or composite description. (See Provision 21.A.17 for additional guidance on total fund descriptions and composite descriptions.)

The key characteristics of some strategies may change in response to market events. Asset owners should periodically review total fund descriptions and composite descriptions to ensure they are current.

Given the abbreviated nature of an advertisement, there may be times when asset owners may wish to use a shorter total fund description or composite description in a GIPS Advertisement rather than the description used in the corresponding GIPS Asset Owner Report. The following examples illustrate how a description can be shortened for a GIPS Advertisement while still conveying the essential features of the total fund's or composite's strategy.

Sample Disclosures:

Total Fund Description

Included in a GIPS Asset Owner Report

“The Police Officers Total Fund includes all discretionary assets managed by Any State Retirement System for the benefit of police officer participants. The strategy reflects the actual asset allocation approved each year by the board, based on the funded status, risk

budget, and actuarial rate of return studies. Performance is measured against a blended benchmark using asset class benchmarks based on the total fund’s policy weights as established at the beginning of each fiscal year. The longer-term investment objective is to earn, over moving 20-year periods, an annualized rate of return that equals or exceeds the actuarial rate of return approved by Any State Retirement System. The Total Fund’s asset allocation is designed to provide high long-term return at optimal risk consistent with the board’s expected long-term objectives. Investment risks are diversified across a broad range of market sectors, securities, and other investments. This strategy reduces portfolio risk to adverse developments in sectors and issuers experiencing unusual difficulties. The primary risks of the Total Fund include asset allocation risk and liquidity risk.”

Included in a GIPS Advertisement

“The Police Officers Total Fund includes all discretionary assets managed by Any State Retirement System for the benefit of police officer participants. The strategy reflects the actual asset allocation approved each year by the board, based on the funded status, risk budget, and actuarial rate of return studies. The longer-term investment objective is to earn, over moving 20-year periods, an annualized rate of return that equals or exceeds the actuarial rate of return approved by Any State Retirement System. The Total Fund’s asset allocation is designed to provide high long-term return at optimal risk consistent with the board’s expected long-term objectives.”

Composite Description:

Included in a GIPS Asset Owner Report

“The Leveraged Bond Composite includes all portfolios invested in a diversified range of high-yield corporate and government bonds with the aim of providing a high level of income while seeking to maximize the total return. The portfolios are invested in domestic and international fixed income securities of varying maturities. The strategy allows investment in exchange-traded and OTC derivative contracts (including, but not limited to, options, futures, swaps, and forward currency contracts) for the purposes of risk, volatility, and currency exposure management. The strategy allows leverage up to but not exceeding twice the value of a portfolio’s investments through the use of repurchase financing arrangements with counterparties. Inherent in derivative instrument investments is the risk of counterparty default. Leverage may also magnify losses as well as gains to the extent that leverage is used. The benchmark is the XYZ Capital Global Aggregate Bond Index.”

Included in a GIPS Advertisement

“The Leveraged Bond Composite’s strategy invests in a diversified range of high-yield corporate and government bonds. The portfolios are invested in domestic and international

fixed income securities of varying maturities. The strategy allows investment in exchange-traded and OTC derivatives for the purposes of risk, volatility, and currency exposure management. The strategy allows leverage up to but not exceeding twice the value of a portfolio's investments. The benchmark is the XYZ Capital Global Aggregate Bond Index.”

Provision 26.D.2

The ASSET OWNER SHOULD disclose how leverage, derivatives, and short positions have been used historically, if material.

Discussion

It is recommended that asset owners provide enough information in a GIPS Advertisement to allow a reader to understand how leverage, derivatives, and short positions have been employed historically and may be used going forward. Although the recommended disclosure of the total fund or composite description (Provision 26.D.1) would include disclosure of the asset owner's ability to use leverage, derivatives, and short positions, Provision 26.D.2 recommends that the asset owner disclose how leverage, derivatives, and short positions have been used historically, if material. Taken together, these two recommended disclosures provide a more complete picture of the presence, use, and extent of leverage, derivatives, and short positions.

For example, assume an asset owner discloses in a composite description that the strategy may employ up to 200% leverage. To satisfy the disclosure recommendation in Provision 26.D.2, the asset owner might state, “Since the inception of the strategy, the leverage has averaged 110% of the composite's value; during 2019, however, the leverage averaged 160%, which greatly increased the composite's sensitivity to market volatility and the potential for realized gains and/or losses.”

When determining what would be material, the asset owner must consider whether the disclosure of how leverage, derivatives, and/or short positions have been used historically is likely to affect a reader's view of the risk involved in the strategy. If so, the asset owner must consider if it would be misleading to fail to disclose their use when describing the strategy.

Provision 26.D.3

The ASSET OWNER SHOULD disclose the BENCHMARK DESCRIPTION, which MUST include the key features of the BENCHMARK or the name of the BENCHMARK for a readily recognized index or other point of reference.

Discussion

Asset owners are recommended to disclose a description of each benchmark included in a GIPS Advertisement. The benchmark description is defined as general information regarding the investments, structure, and/or characteristics of the benchmark, and it must include the key features of the benchmark. In the case of a widely recognized benchmark, such as the S&P 500[®] Index, the name of the benchmark will satisfy this recommendation. (S&P 500[®] is a registered trademark of Standard & Poor's Financial Services LLC.) Each asset owner must decide for itself whether a benchmark is widely recognized. If the asset owner is not certain as to whether the benchmark is widely known, it is recommended that the asset owner include the benchmark description.

Sample Disclosure for a Widely Recognized Benchmark:

“The benchmark is the S&P 500[®] Index.”

Sample Disclosure for a Benchmark That Is Not Widely Recognized:

“The benchmark is the XYZ World Total Return Index, which is designed to measure the equity market performance of developed market countries. The benchmark is market-cap weighted and is composed of all XYZ country-specific developed market indices.”

Provision 26.D.4

If the ASSET OWNER determines no appropriate BENCHMARK for the TOTAL FUND OR COMPOSITE exists, the ASSET OWNER SHOULD disclose why no BENCHMARK is presented.

Discussion

Benchmarks are important tools that aid in the planning, implementation, and evaluation of an investment strategy. They also provide information to the reader of a GIPS Advertisement regarding the relationship between a total fund's or composite's risk and return. As a result, the GIPS standards require asset owners to provide benchmark total returns in all GIPS Advertisements, unless the asset owner determines that no appropriate benchmark for the total fund or composite exists. The benchmark must reflect the investment mandate, objective, or strategy of the total fund or composite. Although there is typically an appropriate benchmark for traditional strategies, it is more common for asset owners managing alternative strategies to determine that no appropriate benchmark for the total fund or composite exists. If this is the case, it is recommended that the asset owner disclose why no benchmark is presented.

Sample Disclosure:

“Because the composite’s strategy is absolute return where investments are permitted in all asset classes, no benchmark is presented because we believe that no benchmark exists that reflects this strategy.”

Provision 26.D.5

The ASSET OWNER SHOULD disclose the ASSET OWNER definition.

Discussion

To claim compliance with the GIPS standards, an asset owner must comply with all applicable requirements of the GIPS standards on an asset owner–wide basis. Accordingly, the asset owner must determine exactly how it will be defined for the purpose of compliance. An asset owner is an entity that manages investments, either directly and/or indirectly through the use of external managers, on behalf of participants, beneficiaries, or the organization itself. These entities include, but are not limited to, public and private pension funds, endowments, foundations, family offices, provident funds, insurers and reinsurers, sovereign wealth funds, and fiduciaries. For a public pension fund, the asset owner is generally defined by legislation. In the case of foundations, endowments, or family offices, the asset owner would be the entity established by the governing body to manage the pool of assets.

There are situations in which an organization may act as both an asset owner, where investment authority and ownership are vested with the organization itself, as well as a firm (asset manager) that competes for assets whose vesting lies with external clients. See Provision 21.A.24 for additional guidance on situations in which an asset owner competes for business, including those instances in which an asset owner acts as both an asset owner and a firm that competes for business.

Sample Disclosures:

Example 1:

Genius University Endowment is a university endowment fund and manages assets solely for Genius University.

Sample Disclosure for Example 1:

“For the purposes of complying with the GIPS standards, the asset owner is defined as the Genius University Endowment (GUE), established in 1972 by the Genius University Investment Committee of the Genius Corporation and is the manager of GUE’s assets.”

Example 2:

Organization ABC acts as both an asset owner, managing assets for the ABC retirement system, and as an asset manager that competes for assets whose vesting lies with external clients. For the purpose of complying with the GIPS standards, Organization ABC has decided to bifurcate its assets into two entities: ABC Retirement System (ABCRS), which manages assets exclusively for the ABC Retirement System, and Firm ABC, which competes for business.

Sample Disclosure for Example 2:

“For the purpose of complying with the GIPS standards, ABC Retirement System (ABCRS) is defined as the division of Organization ABC that manages assets exclusively for the pension plan of Organization ABC.”

www.cfainstitute.org

ISBN 978-1-942713-99-9



9 781942 713999 >