



## Top 3 Reasons Why Asset Owners Should Claim GIPS® Compliance

Compliance with the GIPS standards is widely adopted within the institutional asset management industry as it is considered the industry's best practice for calculating and reporting investment performance. Asset owners' need for reliable and transparent investment performance when evaluating and hiring outsourced investment managers is a major reason for the rise in the Standards' popularity. In recent years, the industry has seen a trend in asset owners' turning their attention to their own investment performance reporting and adopting the GIPS standards. This movement has now gained momentum with CFA Institute's release of guidance specific to asset owners to make adoption of the standards easier. Aside from better-fit guidance allowing for easier implementation, why are asset owners interested in claiming compliance with the GIPS standards?

### ETHICS & GOVERNANCE

The GIPS standards are voluntary and are usually not required by a regulatory body. If a firm or organization commits to a higher, ethical practice, it signals to the entire organization, oversight board, governing bodies, plan beneficiaries, and the industry that it is willing to go above and beyond what is necessary and shows a commitment to best practices and good governance. Furthermore, if an asset manager requires its external managers to be GIPS-compliant, it shows they are holding themselves accountable to the same high standard.

*"The GIPS standards allow firms to demonstrate that investment performance reporting meets globally accepted ethical best practices," said Robert Paterson, Investment Manager at CalPERS. "As an asset owner, adopting the GIPS standards indicates our commitment to use the highest rigorous performance calculation and presentation standards in our reporting. The GIPS standards are a critical part of our commitment to integrity, transparency, and the interests of our beneficiaries."*<sup>1</sup>

### TRANSPARENCY

For many public pension plans and asset owners, especially those with many beneficiaries, the principles of transparency are paramount.

With investors and beneficiaries concerned about headline risk, complying with the voluntary performance standards instills trust and confidence that the investment performance reporting they receive is reliable and discloses all relevant information related to the stated performance.

*"We feel it's important for PRIM to always maintain the highest standards, and the GIPS standards are a globally accepted methodology for calculating and presenting investment performance. Adopting these standards demonstrates a commitment to transparency, ethical best practices, and strong internal controls," said Michael G. Trotsky, Executive Director and Chief Investment Officer of the \$70 billion Massachusetts Pension Reserves Investment Management Board (PRIM) in Feb 2019 when first claiming GIPS compliance.*<sup>2</sup>

### INTERNAL CONTROLS

It is a well-known fact in performance operations departments that the creation of internal policies and procedures are not only necessary for their operations but also serves as an enhancement of internal controls. This holds true for asset owners as well, especially if they are managing assets internally and accounting for and reporting on the performance of those assets. With improved documentation and internal controls, asset owners improve the consistency and reliability of their performance input data, valuations, and calculations.

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## INTERNAL CONTROLS (CONTINUED)

Furthermore, it's especially important to ensure consistency and proper controls around the calculation of investment results for downstream activities like the calculation of incentive compensation for the management team.

*"We believe that adopting a uniform standard like GIPS is crucial because investment performance is the most significant information we communicate and forms the foundation of trust for our beneficiaries," said Michael Hitchcock, CEO at RSIC. "We strongly support asset owners like ourselves adopting a consistent set of best practices and standards for investment performance reporting."*<sup>3</sup>

## CONCLUSION

Many firms and organizations want to instill confidence and build trust with their stakeholders by demonstrating the organization's commitment to ethics, transparency, good governance, and enhanced controls. Even though asset owners may not have the traditional marketing incentives to claim compliance with the GIPS standards, there are many other benefits, and compliance is viewed positively by their oversight board, governing bodies, and plan beneficiaries. As the momentum continues, we will see more asset owners continue to adopt the GIPS standards.

## HOW MERADIA CAN HELP

Meradia has the experience to help asset owners come into compliance with the GIPS standards. Regardless of internal structure, asset types, or level of complexity, Meradia knows the challenges asset owners face. Our expert consulting team leverages decades of experience in the investment performance and GIPS consulting industry.

*GIPS® is a registered trademark owned by CFA Institute.*

## REFERENCES:

<sup>1</sup>[CalPERS Announces Compliance with the Global Investment Performance Standards from CFA Institute](#), Business Wire, Accessed 11/15/2022

<sup>2</sup>[MassPRIM adopts Global Investment Performance Standards](#), Pensions & Investments, Accessed 11/15/2022

<sup>3</sup>[RSIC Announces Compliance with the Global Investment Performance Standards \(GIPS®\)](#), Retirement System Investment Commission (RISA), Accessed 11/15/2022



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brings her long-standing reputation with performance consulting to assist Meradia's clients to establish successful performance practices while solving GIPS® and operational challenges. Alicia has over 19 years of functional and technical experience with performance measurement and the GIPS standards. A recognized industry expert, she has spoken extensively on GIPS standards, best practices for model performance, internal controls for marketing performance returns, preparing for an SEC examination, and performance system considerations. Alicia's knowledge of performance processes stems from her career both as a consultant and a practitioner.

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