



Unlocking GIPS® Compliance Benefits for Asset Owners

INTRODUCTION

For asset owners, the investment performance function effectively serves the Chief Investment Officer (CIO) and Risk, both of whom have a vested interest in overseeing and optimizing the fund's total performance and maintaining a cross-asset class view. The lack of access to complete and reliable data from asset class silos can hinder cross-firm evaluations and investment performance. Performance teams can be understaffed and may lack the influence needed to advocate for essential practices such as data normalization and benchmarking. Organizations that empower their performance teams with the necessary authority, tools, and access to accurate data benefit from improved total fund and cross-asset decision-making.

The Global Investment Performance Standards (GIPS) provide a comprehensive framework to achieve this goal. Originally created by the CFA Institute to standardize the performance reporting of managers for prospective clients, GIPS standards have been adapted to address the needs of asset owners. While asset owners do not market to typical prospects, their oversight bodies require them to demonstrate adherence to industry best practices, which helps mitigate risks associated with performance misrepresentation. Recognizing this need, the CFA Institute simplified and clarified the GIPS standards for asset owners. By applying these standards, performance teams are better equipped to challenge investment teams' potentially biased interpretations of nuanced scenarios.

UNIQUE DATA CHALLENGES IMPACT ASSET OWNERS

global equity, fixed income, private equity, and opportunistic investments, with each functioning as an independent business unit. This creates unique challenges, especially for oversight groups that need to reaggregate disparate data from multiple investment teams. Performance, Risk, and the CIO all share this time-consuming task. Outsourced service providers and investment consultants further complicate data aggregation by providing additional inputs, often with differing timing assumptions impacting valuations for lagged assets or varying market data inputs, such as pricing and benchmarks.

According to a 2023 CFA Institute survey, 78% of asset owners reported difficulties in consolidating data from various asset classes and external advisors, emphasizing the need for standard performance measurement frameworks like the GIPS standards.

GIPS COMPLIANCE ENHANCES OPERATIONAL EFFICIENCY

Left to their own devices, independent asset class teams may make decisions that benefit their specific asset class. They are often influenced by system constraints and generally operate in a relative vacuum, thus complicating top-level objectives and making attribution analysis very challenging.

GIPS standards address this issue by requiring firms to establish and adopt firm-wide Policies & Procedures. Creating the Policies & Procedures improves firm-wide consistency, and operational efficiency through cross-functional dialogue. Cross-asset class consistency streamlines performance calculations, reporting, and audit processes, reduces the likelihood of errors and facilitates smoother operations within the investment management team. This consistency also enables comparative analysis to help identify strengths and areas for improvement in investment strategies and performance.

A study by PwC found that organizations adhering to GIPS standards saw a 20% reduction in performance reporting errors and a 15% increase in operations efficiency.

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GIPS COMPLIANCE AND SEGREGATION OF DUTIES

Despite diligent efforts to maintain segregation of duties and independence, portfolio managers often wield significant influence, sometimes overshadowing less assertive performance analysts. This disparity can be exacerbated when investing in assets with complex operational assumptions potentially compromising objective, consistent decision-making.

GIPS standards require firms to develop a robust Policies & Procedures and to set firm-wide guidelines for treating assets and investment scenarios in a consistent manner across the firm. A typical Policies & Procedures includes calculation methodology, market data sources, valuation hierarchy, data quality, and other aspects at the firm level rather than within asset class silos. This top-level approach ensures an even playing field across the organization, preventing any individual or department from making unilateral decisions or creating their own rules for valuation, benchmarking, or other GIPS-prescribed practices.

Compliance with the GIPS standards bolsters the credibility and influence of the performance function within the organization. It ensures that performance metrics are rigorously maintained and validated. This adherence reinforces the integrity of performance reporting and enhances the position of performance analysts in strategic discussions.

GIPS COMPLIANCE SUPPORTS DECISION-MAKING AND STRATEGY DEVELOPMENT

It is essential for the CIO to have normalized organizational data. Differences in methodology, sourcing, pricing preferences, statistics, or any underlying assumptions make total fund evaluations manually time-consuming and can obscure findings and recommendations. Asset owners have large portfolios of assets with lagged valuations, such as real estate, private equity, and hedge funds. Reports can easily present multiple, slightly different, yet valid perspectives on these assets due to variations in the timing and availability of information. Compliance with the GIPS standards benefit the CIO as cross-organizational data consistency enables them to look across all asset classes confidently.

While GIPS compliance isn't a magic bullet for solving all the challenges associated with alternative assets, a strong culture of standards supported by GIPS adherence makes cross-asset class governance issues easier to manage.

HOW MERADIA CAN HELP

Achieving GIPS compliance is not just about adhering to standards; it's about empowering your performance team to deliver the clean, accurate data necessary for strategic decision-making. GIPS compliance can transform how asset owners manage performance by enhancing operational efficiency, supporting informed decision-making, and reinforcing the segregation of duties. Partnering with experts like Meradia ensures a smooth implementation process tailored to your organization's unique challenges and complexities. Embrace GIPS compliance to elevate your investment performance management and drive better outcomes for your stakeholders.

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Natasha E. Romanova, CIPM, is a performance expert supporting Meradia's clients with performance transformations and GIPS Compliance and Reporting. She has helped firms achieve and maintain GIPS compliance and advised on industry best practices. Natasha has been a key player on multiple teams that completed engagements and produced client deliverables on time and on budget.

Laurie Hesketh, CIPM, is a Managing Director who oversees strategic engagements for Meradia's clients. Laurie leads and advises on the complex nuances involved in transformation projects from a change management perspective. She is an expert in investment performance as well as the accounting and market data inputs that drive meaningful analytics. A seasoned consultant, Laurie has served many organizations including asset managers, asset owners, wealth managers, service providers as well as key industry vendors. Having started her career in technology as an application developer and then application architect, she has a strong understanding of the technological underpinnings that are necessary for large-scale transformation and repeatability.