

Global Investment Performance Standards (GIPS®) for Firms

Explanation of the
Provisions in Section 8

June 2020



CFA Institute®
Global Investment
Performance Standards

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INTRODUCTION

The Explanation of the Provisions in Section 8 provides interpretation of each provision contained in Section 8: GIPS Advertising Guidelines. Firms that choose to comply with the Global Investment Performance Standards (GIPS®) must comply with all applicable requirements of the GIPS standards, including any Guidance Statements, interpretations, and Questions and Answers (Q&As) published by CFA Institute and the GIPS standards governing bodies.

If a firm claims compliance with the GIPS standards and chooses to advertise its claim of compliance, the firm must either include a GIPS Report in the advertisement or prepare a GIPS Advertisement in accordance with the GIPS Advertising Guidelines. The GIPS Advertising Guidelines section includes the fundamental requirements involved in preparing a GIPS Advertisement, what is required when a GIPS Advertisement does not include performance, and the specific requirements and recommendations for a GIPS Advertisement for a composite, a limited distribution pooled fund, or a broad distribution pooled fund (BDPF) that includes performance. The requirements and recommendations take into account the typically abbreviated nature of an advertisement.

Firms managing BDPFs are not required to prepare GIPS Reports specifically for BDPFs. If a firm wishes to reference its claim of compliance with the GIPS standards in marketing materials for a BDPF, it may do so in a GIPS Pooled Fund Report or in a GIPS Advertisement that is prepared for that BDPF.

Each provision appears in a grey text box. Some words in the provisions are in small capital letters, which indicates defined terms that can be found in the GIPS Standards Glossary. Following each provision is a discussion that provides interpretive guidance to help readers understand the provision.

8. GIPS ADVERTISING GUIDELINES

Purpose of the GIPS Advertising Guidelines

The GIPS Advertising Guidelines provide firms with options for advertising when mentioning the firm's claim of compliance. The GIPS Advertising Guidelines do not replace the GIPS standards, nor do they absolve firms from presenting GIPS Composite Reports and GIPS Pooled Fund Reports as required by the GIPS standards. These guidelines apply only to firms that already satisfy all the applicable requirements of the GIPS standards on a firm-wide basis and prepare an advertisement that adheres to the requirements of the GIPS Advertising Guidelines (a "GIPS Advertisement"). Firms may also choose to include a GIPS Composite Report or GIPS Pooled Fund Report in the advertisement.

Definitions

Advertisement

For the GIPS Advertising Guidelines, an advertisement includes any materials that are distributed to or designed for use in newspapers, magazines, firm brochures, pooled fund fact sheets, pooled fund offering documents, letters, media, websites, or any other written or electronic material distributed to more than one party, and there is no contact between the firm and the reader of the advertisement. One-on-one presentations and individual client reporting are not considered advertisements.

GIPS Advertisement

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

Relationship of the GIPS Advertising Guidelines to Regulatory Requirements

When preparing GIPS Advertisements, firms must also adhere to all applicable laws and regulations governing advertisements. Firms 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, firms 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. Firms 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.

8.A. Fundamental Requirements of the GIPS Advertising Guidelines

Provision 8.A.1

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

Discussion

A firm 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 Report in the advertisement.
- Do not mention the GIPS standards in the advertisement.

A firm that chooses to claim compliance in an advertisement must either meet the requirements of the GIPS Advertising Guidelines or include a GIPS Report in the advertisement. Firms are not required to claim compliance with the GIPS standards in advertisements.

Firms claiming compliance with the GIPS standards must ensure that all performance or performance-related information in marketing materials is not false or misleading and adheres to the guiding principles of fair representation and full disclosure, whether or not the materials contain a claim of compliance with the GIPS standards.

Provision 8.A.2

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

Discussion

If a firm 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 firm must also adhere to all applicable laws and regulations governing advertisements.

Provision 8.A.3

The FIRM 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 firms to be able to ensure the validity of their claim of compliance. It is, therefore, important for current and prospective clients and investors, verifiers, and regulators to have confidence that all items included in a GIPS Advertisement are supported by the appropriate records.

Firms 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. This requirement is consistent with the regulatory requirements of many countries. In some jurisdictions, however, regulators require records to be kept for longer periods than those required by the GIPS standards. Care should be taken to ensure that the firm follows the strictest of the recordkeeping requirements applicable to the firm.

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 1.A.25 for more information about the records required to be retained to support a GIPS Advertisement.

Provision 8.A.4

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

Discussion

Composite or pooled fund performance reflects only the performance of actual assets managed by the firm. 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 composite or pooled fund has less than a year of performance. Many firms 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-2020	\$ 1,000,000	Contribution
10-Sep-2020	\$ 75,000	Contribution
30-Sep-2020	\$ 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, the calculation is as follows:

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

$$= 2.38\%$$

Provision 8.A.5

When TIME-WEIGHTED RETURNS are presented in a GIPS ADVERTISEMENT, the FIRM MUST NOT LINK non-GIPS-compliant performance for periods beginning on or after the MINIMUM EFFECTIVE COMPLIANCE DATE to GIPS-compliant performance. The FIRM may LINK non-GIPS-compliant performance to GIPS-compliant performance in a GIPS ADVERTISEMENT provided that only GIPS-compliant performance is presented for periods beginning on or after the MINIMUM EFFECTIVE COMPLIANCE DATE.

Discussion

The minimum effective compliance date is the date after which only GIPS-compliant performance may be presented in GIPS Advertisements. When presenting time-weighted returns in a GIPS Advertisement, the firm must not link non-GIPS-compliant performance for periods beginning on or after the minimum effective compliance date to GIPS-compliant performance. Most composites and pooled funds have a minimum effective compliance date of 1 January 2000. Therefore, for these composites and pooled funds, performance for periods beginning on or after 1 January 2000 that does not comply with the GIPS standards must not be presented as part of a GIPS Advertisement.

Real estate and private equity composites and pooled funds and wrap fee composites have a different minimum effective compliance date of 1 January 2006. For these composites and pooled funds, performance for periods beginning on or after 1 January 2006 that does not comply with the GIPS standards must not be presented in a GIPS Advertisement.

The GIPS standards allow firms to link non-GIPS-compliant performance to the composite's or pooled fund's GIPS-compliant history in a GIPS Advertisement provided that only GIPS-compliant performance is presented for periods beginning on or after the minimum effective compliance date. Firms are reminded, however, that they must comply with all applicable laws and regulations regarding the calculation and presentation of performance. Firms that manage broad distribution pooled funds (BDPFs) are typically required by laws or regulations to present the BDPF's performance for specified periods in the advertisement. These required performance periods may include periods for which the firm does not claim compliance with the GIPS standards. A firm that claims compliance with the GIPS standards may, therefore, link non-GIPS-compliant performance for any period to GIPS-compliant performance in a GIPS Advertisement when calculating returns that are required by laws or regulations to be presented for a BDPF's advertisement, as well as in any other materials outside of a GIPS Advertisement or GIPS Report in which the firm is required to present such information. However, if a firm chooses to prepare a GIPS Pooled Fund Report for a BDPF, the firm must consider the minimum effective compliance date. See Provision 1.A.29. The firm must also disclose any conflict with the GIPS standards or GIPS Advertising Guidelines. See Provision 8.G.15.

Provision 8.A.6

When MONEY-WEIGHTED RETURNS are presented in a GIPS ADVERTISEMENT, the FIRM MUST NOT present non-GIPS-compliant performance for periods ending on or after the MINIMUM EFFECTIVE COMPLIANCE DATE. The FIRM may present non-GIPS-compliant performance in a GIPS ADVERTISEMENT provided that only GIPS-compliant performance is presented for periods ending on or after the MINIMUM EFFECTIVE COMPLIANCE DATE.*

Discussion

The minimum effective compliance date is the date after which only GIPS-compliant performance may be presented by a firm in GIPS Advertisements. For money-weighted returns, the firm must not present non-GIPS-compliant performance for periods ending on or after the minimum effective compliance date. Most composites and pooled funds have a minimum effective compliance date of 1 January 2000. For these composites and pooled funds, performance for periods ending on or after 1 January 2000 that does not comply with the GIPS standards must not be presented as part of a GIPS Advertisement. Real estate and private equity composites and pooled funds have a minimum effective compliance date of 1 January 2006. For these composites and pooled funds, performance for periods ending on or after 1 January 2006 that does not comply with the GIPS standards must not be presented in a GIPS Advertisement. For any performance presented

* The 2020 edition of the GIPS standards incorrectly uses the word "link" versus "present."

for periods ended prior to the minimum effective compliance date that does not comply with the GIPS standards in a GIPS Advertisement, firms must disclose the periods of non-compliance.

The measurement period for a since-inception money-weighted return (MWR) is the period from the inception date of the composite or pooled fund through the end of the period that is being reported. The beginning date remains constant and the ending date is extended as the measurement period becomes longer. The period-end date will determine what is a compliant time period for GIPS Advertisement purposes.

The inception date is always incorporated into a since-inception MWR in contrast to a time-weighted return (TWR), which does not necessarily incorporate since-inception results. It could be argued that the since-inception basis of MWR reporting would mean that any period of historical non-compliance could make the current period also non-compliant because the current calculation includes inputs from periods for which the firm did not claim compliance with the GIPS standards. This is not the case, however—a firm may present returns that use inputs (i.e., cash flows) from periods for which the firm did not claim compliance as long as the inputs meet any applicable requirements of the GIPS standards. Daily external cash flows must be used within any GIPS-compliant since-inception MWR calculation as of 1 January 2020. Prior to 1 January 2020, quarterly or more-frequent external cash flows must be used.

Firms are reminded that they must comply with all applicable laws and regulations regarding the calculation and presentation of performance and they must not present performance or performance-related information that is false or misleading.

Provision 8.A.7

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

Discussion

In the spirit of fair representation and full disclosure, all 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 Composite Report. This requirement is to ensure consistency in the performance reported by a firm. If a GIPS Advertisement is more current than the corresponding GIPS Composite Report, it is permissible to include more-recent performance in the GIPS Advertisement, as long as this performance will be included in the GIPS Composite Report when it is updated or would be included in the GIPS Composite Report if it were issued as of the date of the GIPS Advertisement.

Provision 8.A.8

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

Discussion

In the spirit of fair representation and full disclosure, all disclosures included in a GIPS Advertisement must be consistent with the disclosures that have been included in or that will be included in the corresponding GIPS Composite Report. This requirement is to ensure consistency in information reported by a firm. If a GIPS Advertisement is more current than the corresponding GIPS Composite 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 Composite Report when it is updated or would be included in the GIPS Composite Report if it were issued as of the date of the GIPS Advertisement.

Provision 8.A.9

LIMITED DISTRIBUTION POOLED FUND returns included in a GIPS ADVERTISEMENT MUST be derived from the returns included in or that will be included in the corresponding GIPS POOLED FUND REPORT.

Discussion

In the spirit of fair representation and full disclosure, all limited distribution pooled fund (LDPF) 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 Pooled Fund Report. This requirement is to ensure consistency in the performance reported by a firm. If a GIPS Advertisement is more current than the corresponding GIPS Pooled Fund Report, it is permissible to include more-recent performance in the GIPS Advertisement, as long as this performance will be included in the GIPS Pooled Fund Report when it is updated or would be included in the GIPS Pooled Fund Report if it were issued as of the date of the GIPS Advertisement.

If the firm does not prepare a GIPS Pooled Fund Report for the LDPF but instead includes the LDPF in a composite for which a GIPS Composite Report is prepared, the LDPF returns presented in a GIPS Advertisement must be derived from the returns that would be included in a GIPS Pooled Fund Report for that LDPF if a GIPS Pooled Fund Report for that LDPF were created.

(See Provision 2.A.26 for information regarding the calculation of time-weighted returns for pooled funds that are not included in composites and Provision 2.A.29 for information regarding the calculation of money-weighted returns for pooled funds that are not included in composites.)

Provision 8.A.10

Disclosures included in a GIPS ADVERTISEMENT for a LIMITED DISTRIBUTION POOLED FUND MUST be consistent with the related disclosure included in the corresponding GIPS POOLED FUND REPORT, unless the disclosure included in the GIPS ADVERTISEMENT is more current and has not yet been reflected in the corresponding GIPS POOLED FUND REPORT.

Discussion

In the spirit of fair representation and full disclosure, all disclosures included in a GIPS Advertisement for a limited distribution pooled fund (LDPF) must be consistent with the disclosures included in or that will be included in the corresponding GIPS Pooled Fund Report. This requirement is to ensure consistency in information reported by a firm. If a GIPS Advertisement is more current than the corresponding GIPS Pooled Fund 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 Pooled Fund Report when it is updated or would be included in the GIPS Pooled Fund Report if it were issued as of the date of the GIPS Advertisement.

If the firm does not prepare a GIPS Pooled Fund Report for the LDPF but instead includes the LDPF in a composite for which a GIPS Composite Report is prepared, the disclosures presented in a GIPS Advertisement for the LDPF must be consistent with the related disclosures that would be included in a GIPS Pooled Fund Report if a GIPS Pooled Fund Report for that LDPF were created.

Provision 8.A.11

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 a prospective client or prospective investor understands the difference between the return of a price-only benchmark and the return of a total return benchmark. Firms must not present only a price-only benchmark in a GIPS Advertisement, even if no appropriate total return benchmark is available for a specific composite or pooled fund. If a firm determines that no appropriate benchmark for the composite or pooled fund 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.

The public market equivalent (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 pooled fund or composite and that can be compared with the MWR of the pooled fund or composite. When the firm 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 Composite Report or GIPS Pooled Fund Report. If more than one benchmark is included in the corresponding GIPS Composite Report or GIPS Pooled Fund Report, the firm should consider whether multiple benchmarks should be presented in the GIPS Advertisement.

Provision 8.A.12

The FIRM MUST clearly label or identify:

- a. The name of the COMPOSITE OR POOLED 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 pooled 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. Firms 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 a firm includes a custom benchmark that is net of model fees and costs, 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 net of fees and costs as well as the fees and costs that were used.

Provision 8.A.13

Other information beyond what is REQUIRED or RECOMMENDED under the GIPS Advertising Guidelines (e.g., COMPOSITE or POOLED 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 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 8.A.14

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

Discussion

Firms must present all required and recommended information in a GIPS Advertisement in the same currency (e.g., composite or pooled fund 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 firm to not disclose this fact.

If a firm chooses to present a composite or pooled fund in a different currency, the firm must convert all of the required information into the new currency. If the firm chooses to present performance in multiple currencies in the same GIPS Advertisement, the firm must convert all of the required information into each of the currencies and ensure it is clear in which currencies performance is reported. The firm must also convert any recommended information it chooses to present in the GIPS Advertisement containing the converted information. See Provision 4.A.12 for guidance on converting composite time-weighted returns and Provision 7.A.12 for converting pooled fund money-weighted returns.

8.B. GIPS Advertisements That Do Not Include Performance

Provision 8.B.1

The FIRM MUST disclose the GIPS Advertising Guidelines compliance statement:

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

Discussion

A firm 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 Composite Report or a GIPS Pooled Fund Report in its advertisement. If a firm 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 FIRM] 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 Composite Report or GIPS Pooled Fund 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 a firm chooses to translate the compliance statement into a language for which there is no official translation of the GIPS standards, the firm must take care to ensure that the translation used reflects the required wording of the compliance statement.

Provision 8.B.2

The FIRM 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 firms 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 firm or the verifier.

CFA Institute (owner of the GIPS® trademark) may take appropriate action against any firm 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 their firm, 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 firms claiming compliance with the GIPS standards may also take enforcement actions against firms that falsely claim compliance with the GIPS standards.

Firms 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 CFA Institute website (www.cfainstitute.org) for additional guidance on the proper use of “GIPS”.

Provision 8.B.3

The FIRM MUST disclose how to obtain GIPS-compliant performance information for the FIRM’s strategies and products.

Discussion

An advertisement is typically brief and provides limited information regarding the firm and its strategies and products. A reader of a GIPS Advertisement may want to receive additional information in order to have a more complete understanding of a firm’s investment offerings, including performance. It is, therefore, required that firms disclose in a GIPS Advertisement that does not include performance how to obtain GIPS-compliant performance information. GIPS-compliant performance information includes GIPS Reports and the firm’s required list of composite descriptions, list of limited distribution pooled fund descriptions, and list of broad distribution pooled funds.

Sample Disclosure:

“To receive additional information regarding Ava Advisors, including GIPS-compliant performance information for Ava Advisors’ strategies and products, contact Lucia Bear at +41 34 5678910 or write Ava Advisors, One Squirrel Street, Uetikon, Switzerland or lbear@avaadvisors.com.”

COMPOSITES

8.C. GIPS Advertisements for a Composite That Include Performance—Requirements

Provision 8.C.1

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

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

Discussion

Provision 8.C.1 does not require a firm presenting time-weighted returns in a GIPS Advertisement to include all four options (a through d) mentioned in the provision. Rather, a firm 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 8.C.1 include the presentation of annualized 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 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 firm chooses to comply with Provision 8.C.1.a, it must present the one-, three-, and five-year annualized composite returns through the most recent period end. If the composite has been in existence for less than five years, the firm must also present the annualized composite return from the composite inception date through the most recent period end, in addition to the most recent one-year return (and the three-year annualized return, if the composite has been in existence for three years or longer).

The most recent period-end date is as of the most recent month- 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 firm may choose whether to use month-end or quarter-end periods.

If the firm chooses to comply with Provision 8.C.1.b, it must present the period-to-date composite return in addition to the one-, three-, and five-year annualized composite returns through the same period as presented in the corresponding GIPS Composite Report. For example, if the GIPS Composite Report includes calendar-year annual returns, then the annualized returns in the GIPS Advertisements must be through the most recent 31 December. If the composite has been in existence for less than five years, the firm must also present the annualized composite return from the composite inception date through the most recent period end (either month or quarter end), in addition to the one-year return (and the three-year annualized return, if the composite has been in existence for three years or longer).

If the firm chooses to comply with Provision 8.C.1.c, it must present the period-to-date composite return in addition to five years of annual composite returns. If the composite has been in existence for less than five years, the firm must present the annual composite returns for each annual period

since the composite's inception date. The annual returns must be calculated through the same period as presented in the corresponding GIPS Composite Report.

If the firm chooses to comply with Provision 8.C.1.d, it must present the annualized composite return for the total period that includes all periods presented in the corresponding GIPS Composite Report through either: a) the most recent month or quarter period end or b) the most recent annual period end. If the 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 8.A.7 requires that all 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 Composite Report. This is to ensure consistency in the performance reported by a firm. If a GIPS Advertisement is more current than the corresponding GIPS Composite Report, it is permissible to include more recent performance in the GIPS Advertisement, as long as this performance will be included in the GIPS Composite Report when it is updated or would be included in the GIPS Composite Report if it were issued as of the date of the GIPS Advertisement.

Provision 8.C.2

If MONEY-WEIGHTED RETURNS are presented in the corresponding GIPS COMPOSITE REPORT, the FIRM MUST present the annualized (for periods longer than one year) or non-annualized (for periods less than one year) COMPOSITE SINCE-INCEPTION MONEY-WEIGHTED RETURN through either:

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

Discussion

If the firm meets the criteria to present a money-weighted return (MWR) instead of a time-weighted return in a GIPS Composite Report (see Provision 1.A.35) and has chosen to do so, it must present an MWR in the corresponding GIPS Advertisement. The return presented must be the annualized (for periods longer than one year) or non-annualized (for periods less than one year) since-inception MWR 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 8.A.7 requires that all 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 Composite Report. This requirement is to ensure consistency in the performance reported by a firm. If a GIPS Advertisement

is more current than the corresponding GIPS Composite Report, it is permissible to include more-recent performance in the GIPS Advertisement, as long as this performance will be included in the GIPS Composite Report when it is updated or would be included in the GIPS Composite Report if it were issued as of the date of the GIPS Advertisement.

Provision 8.C.3

The FIRM MUST clearly label COMPOSITE returns as GROSS-OF-FEES or NET-OF-FEES.

Discussion

Firms may present either gross-of-fees composite returns or net-of-fees composite returns in a GIPS Advertisement and may also choose to present both gross-of-fees and net-of-fees returns. For prospective clients to understand the nature of the returns being presented, all returns presented must be clearly labeled as gross-of-fees or net-of-fees.

A firm may present net-of-fees returns in a GIPS Advertisement even if the corresponding GIPS Composite Report includes only gross-of-fees returns, or the firm may present gross-of-fees returns even if the corresponding GIPS Composite Report presents 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 Composite Report.

Firms advertising performance results must adhere to all applicable laws and regulations, including those governing advertisements. In some jurisdictions, laws or regulations require performance in an advertisement to be presented net-of-fees. Whether or not laws or regulations specify which returns must be presented in an advertisement, firms must clearly indicate whether returns are presented gross-of-fees or net-of-fees so that the reader of the advertisement has a clear understanding of the returns that are presented.

Provision 8.C.4

The FIRM MUST present BENCHMARK returns for the same BENCHMARK as presented in the corresponding GIPS COMPOSITE REPORT, if the corresponding GIPS COMPOSITE 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 COMPOSITE returns are presented.

Discussion

As described in Provisions 8.C.1 and 8.C.2, firms that present performance in a GIPS Advertisement for a 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 firm must present the total returns for the benchmark(s) for the same periods as the composite returns. The benchmark must be the same benchmark as presented in the corresponding GIPS Composite Report and must also be the same return type (TWR or MWR) and in the same currency as the composite returns. If more than one benchmark is included in the GIPS Composite Report, the firm should consider whether multiple benchmarks should be presented in the GIPS Advertisement.

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

Provision 8.C.5

The FIRM MUST disclose or otherwise indicate the reporting currency.

Discussion

The GIPS standards require that firms disclose the currency used to report the numerical information presented in a GIPS Advertisement. If the firm presents performance in multiple currencies in the same GIPS Advertisement, the firm 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. If firms advertise the strategy outside their home market, they should consider whether the currency symbol alone is sufficient. For example, a Canadian firm advertising only in Canada may decide to present only the \$ symbol. If the firm advertises the strategy in both the United States and Canada, the firm must disclose whether the currency is USD or CAD, because both currencies use the same currency symbol.

All required and recommended information presented in a GIPS Advertisement must be presented in the same currency. (See Provision 8.A.14.)

Sample Disclosures

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

“Performance is reported in Japanese yen.”

Provision 8.C.6

The FIRM MUST disclose the GIPS Advertising Guidelines compliance statement:

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

Discussion

A firm 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 Composite Report or a GIPS Pooled Fund Report in its advertisement. If a firm 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 FIRM] 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 Composite Report or GIPS Pooled Fund 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 a firm chooses to translate the compliance statement into a language for which there is no official translation of the GIPS standards, the firm must take care to ensure that the translation used reflects the required wording of the compliance statement.

Provision 8.C.7

The FIRM 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 firms 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 firm or the verifier.

CFA Institute (owner of the GIPS® trademark) may take appropriate action against any firm 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 their firm, 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 firms claiming compliance with the GIPS standards may also take enforcement actions against firms that falsely claim compliance with the GIPS standards.

Firms 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 CFA Institute website (www.cfainstitute.org) for additional guidance on the proper use of “GIPS”.

Provision 8.C.8

The FIRM MUST disclose how to obtain a GIPS COMPOSITE REPORT.

Discussion

An advertisement is typically brief and provides limited information regarding the firm and its strategies and products. A reader of a GIPS Advertisement may want to receive additional information on the firm’s investment strategies, including a GIPS Composite Report for the strategy presented in the advertisement. Firms are, therefore, required to disclose in a GIPS Advertisement how to obtain a GIPS Composite Report.

Sample Disclosure for a Composite:

“To receive additional information regarding Ava Advisors, including a GIPS Composite Report for the strategy presented in this advertisement, contact Lucia Bear at +41 34 5678910 or write Ava Advisors, One Squirrel Street, Uetikon, Switzerland or lbear@avaadvisors.com.”

Provision 8.C.9

The FIRM 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

Firms 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. Firms 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, firms 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 readers of the GIPS Advertisement in comparing GIPS Advertisements among firms where reporting requirements may differ because of local laws or regulations.

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.”

8.D. GIPS Advertisements for a Composite That Include Performance—Recommendations

Provision 8.D.1

The FIRM SHOULD disclose the COMPOSITE DESCRIPTION.

Discussion

To help a reader of a GIPS Advertisement more fully understand the composite being presented, it is recommended that a firm disclose the composite description in the GIPS Advertisement. The composite description is general information regarding the investment mandate, objective, or strategy of the composite. The composite description must include all key features of the composite and must include enough information to allow a reader of the advertisement to understand the key characteristics of the composite's investment mandate, objective, or strategy, including:

- the material risks of the composite's strategy,
- how leverage, derivatives, and short positions may be used, if they are a material part of the strategy, and
- if illiquid investments are a material part of the strategy.

The recommended disclosure of the composite description provides information about the composite's investment strategy that is intended to help a reader of the GIPS Advertisement who is reviewing a GIPS Advertisement for that composite. The composite description should provide sufficient information to readers of the advertisement to allow them to differentiate the significant features of the composite's strategy from other strategies within the firm and to compare products across firms. 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 8.D.3), the GIPS Advertisement will allow the reader to understand both the investment strategy employed and the benchmark against which the composite's performance is evaluated. This will help the reader to compare investments across firms.

If leverage, derivatives, and short positions may be used, and they are a material part of the strategy, this must be disclosed in the composite description. Provision 8.D.2 recommends that the firm 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 firm 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 firm must consider if it would be misleading for the firm 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 composite description identifies every risk of the strategy. Instead, firms must identify those material risks of the strategy, if any, and must disclose those risks. For example, investment concentration, correlation (or lack thereof), liquidity, and exposure to counterparties are features that may need to be included in the composite description. (See Provision 3.A.5 for additional guidance on composite descriptions.)

The key characteristics of some strategies may change in response to market events. Firms should periodically review composite descriptions to ensure they are current.

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

Sample Disclosures:

Composite Description Included in a GIPS Composite Report

“The Leveraged Bond Composite includes all institutional segregated portfolios invested in a diversified range of high-yield corporate and government bonds with the aim of providing investors with 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.”

Composite Description 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 8.D.2

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

Discussion

It is recommended that firms 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 composite description (Provision 8.D.1) would include disclosure of the firm's ability to use leverage, derivatives, and short positions, Provision 8.D.2 recommends that the firm 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 a firm discloses in the composite description that the strategy may employ up to 200% leverage. To satisfy the disclosure recommendation in Provision 8.D.2, the firm 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 sensitivity to market volatility and the potential for realized gains and/or losses."

When determining what would be material, the firm 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 firm must consider if it would be misleading to fail to disclose their use when describing the strategy.

Provision 8.D.3

The FIRM 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

Firms 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 firm must decide for itself whether a benchmark is widely recognized. If the firm is not certain as to whether the benchmark is widely known, it is recommended that the firm 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 8.D.4

If the FIRM determines no appropriate BENCHMARK for the COMPOSITE exists, the FIRM 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 composite’s risk and return. As a result, the GIPS standards require firms to provide benchmark total returns in all GIPS Advertisements, unless the firm determines that no appropriate benchmark for the composite exists. The benchmark must reflect the investment mandate, objective, or strategy of the composite. Although there is typically an appropriate benchmark for traditional strategies, it is more common for managers of alternative strategies to determine that no appropriate benchmark for the composite exists. If this is the case, it is recommended that the firm disclose why no benchmark is presented.

Sample Disclosure:

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

Provision 8.D.5

The FIRM SHOULD disclose the definition of the FIRM.

Discussion

To claim compliance with the GIPS standards, a firm must comply with all applicable requirements of the GIPS standards on a firm-wide basis. Accordingly, the firm must determine exactly how it will be defined for the purpose of compliance. The GIPS standards require that a firm must be defined as an investment firm, subsidiary, or division held out to the public as a distinct business entity.

A distinct business entity is a unit, division, department, or office that is organizationally and functionally segregated from other units, divisions, departments, or offices, that retains discretion over the assets it manages, and that should have autonomy over the investment decision-making process.

Possible criteria that can be used to determine this status include:

- being a legal entity,
- having a distinct market or client type (e.g., institutional, retail, private client), and
- using a separate and distinct investment process.

See Provision 1.A.2 for a more detailed discussion of defining the firm.

Because there are often a number of closely related units or divisions within larger investment management entities, the precise definition of the firm that is presenting the performance results and would be responsible for the management of the assets is important information for those who are reading the GIPS Advertisement. This provision, therefore, recommends that the firm disclose sufficient details of the entity that is presenting investment performance such that the firm is clearly identified.

Sample Disclosure:

“For the purpose of complying with the GIPS standards, the firm is defined as Firm B Institutional Investment Management, the institutional asset management division of Firm B.”

LIMITED DISTRIBUTION POOLED FUNDS

8.E. GIPS Advertisements for a Limited Distribution Pooled Fund That Include Performance—Requirements

Provision 8.E.1

If TIME-WEIGHTED RETURNS are presented in the corresponding GIPS REPORT, the FIRM MUST present TIME-WEIGHTED RETURNS for the POOLED FUND according to one of the following:

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

Discussion

Provision 8.E.1 does not require a firm presenting time-weighted returns in a GIPS Advertisement to include all four options (a through d) mentioned in the provision. Rather, a firm 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 8.E.1 include the presentation of annualized pooled fund 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 pooled fund'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 firm chooses to comply with Provision 8.E.1.a, it must present the one-, three-, and five-year annualized pooled fund returns through the most recent period end. If the pooled fund has been in existence for less than five years, the firm must also present the annualized pooled fund return from the pooled fund inception date through the most recent period end, in addition to the most recent one-year return (and the three-year annualized return, if the pooled fund has been in existence for three years or longer).

The most recent period-end date is as of the most recent month- 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 firm may choose whether to use month-end or quarter-end periods.

If the firm chooses to comply with Provision 8.E.1.b, it must present the period-to-date pooled fund return in addition to the one-, three-, and five-year annualized pooled fund returns through the same period as presented in the corresponding GIPS Pooled Fund Report. For example, if the GIPS Pooled Fund Report includes calendar-year annual returns, then the annualized returns in the GIPS Advertisements must be through the most recent 31 December. If the pooled fund has been in existence for less than five years, the firm must also present the annualized pooled fund return from the pooled fund inception date through the most recent period end (either month or quarter end) in addition to the one-year return (and the three-year annualized return, if the pooled fund has been in existence for three years or longer).

If the firm chooses to comply with Provision 8.E.1.c, it must present the period-to-date pooled fund return in addition to five years of annual pooled fund returns. If the pooled fund has been in existence for less than five years, the firm must present the annual pooled fund returns for

each annual period since the pooled fund's inception date. The annual returns must be calculated through the same period as presented in the corresponding GIPS Pooled Fund Report.

If the firm chooses to comply with Provision 8.E.1.d, it must present the annualized pooled fund return for the total period that includes all periods presented in the corresponding GIPS Pooled Fund Report through either: a) the most recent month or quarter period end or b) the most recent annual period end. If the pooled fund 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 8.A.9 requires that limited distribution pooled fund (LDPF) 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 Pooled Fund Report. This requirement is to ensure consistency in the performance reported by a firm. If a GIPS Advertisement is more current than the corresponding GIPS Pooled Fund Report, it is permissible to include more-recent performance in the GIPS Advertisement, as long as this performance will be included in the GIPS Pooled Fund Report when it is updated or would be included in the GIPS Report if it were issued as of the date of the GIPS Advertisement.

If the firm does not prepare a GIPS Pooled Fund Report for the LDPF but instead includes the LDPF in a composite for which a GIPS Composite Report is prepared, the LDPF returns presented in a GIPS Advertisement must be derived from the returns that would be included in a GIPS Pooled Fund Report for that LDPF if a GIPS Pooled Fund Report for that LDPF were created. (See Provision 2.A.26 for information regarding the calculation of time-weighted returns for pooled funds that are not included in composites.)

Provision 8.E.2

If MONEY-WEIGHTED RETURNS are presented in the corresponding GIPS REPORT, the FIRM MUST present the annualized (for periods longer than one year) or non-annualized (for periods less than one year) SINCE-INCEPTION MONEY-WEIGHTED RETURN for the POOLED FUND through either:

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

Discussion

If the firm meets the criteria to present a money-weighted return (MWR) instead of a time-weighted return in a GIPS Pooled Fund Report (see Provision 1.A.35) and has chosen to do so, it must present an MWR in the corresponding GIPS Advertisement. The return presented must be the annualized (for periods longer than one year) or non-annualized (for periods less than one

year) since-inception MWR 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 8.A.9 requires that all limited distribution pooled fund (LDPF) 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 Pooled Fund Report. This is to ensure consistency in the performance reported by a firm. If a GIPS Advertisement is more current than the corresponding GIPS Pooled Fund Report, it is permissible to include more-recent performance in the GIPS Advertisement, as long as this performance will be included in the GIPS Pooled Fund Report when it is updated or would be included in the GIPS Pooled Fund Report if it were issued as of the date of the GIPS Advertisement.

If the firm does not prepare a GIPS Pooled Fund Report for the LDPF but instead includes the LDPF in a composite for which a GIPS Composite Report is prepared, the LDPF returns presented in a GIPS Advertisement must be derived from the returns that would be included in a GIPS Pooled Fund Report for that LDPF if a GIPS Pooled Fund Report for that LDPF were created. (See Provision 2.A.29 for information regarding the calculation of money-weighted returns for pooled funds that are not included in composites.)

Provision 8.E.3

The FIRM MUST clearly label POOLED FUND returns as gross or net of TOTAL POOLED FUND FEES.

Discussion

Firms may present pooled fund returns as either gross or net of total pooled fund fees in a GIPS Advertisement and may also choose to present returns both gross and net of total pooled fund fees. For readers of the GIPS Advertisement to understand the nature of the returns being presented, all returns presented must be clearly labeled as gross of total pooled fund fees or net of total pooled fund fees.

A firm may present returns net of total pooled fund fees in a GIPS Advertisement even if the corresponding GIPS Pooled Fund Report includes only returns that are gross of total pooled fund fees. The firm may also present returns that are gross of total pooled fund fees even if the corresponding GIPS Pooled Fund Report presents only returns that are net of total pooled fund fees. The returns presented in the GIPS Advertisement must be consistent with the returns that would be included in the corresponding GIPS Pooled Fund Report.

If the firm does not prepare a GIPS Pooled Fund Report for the limited distribution pooled fund (LDPF) but instead includes the LDPF in a composite for which a GIPS Composite Report is

prepared, the LDPF returns presented in a GIPS Advertisement, whether they are gross or net returns, must be consistent with the returns that would be included in the corresponding GIPS Pooled Fund Report for that LDPF if a GIPS Pooled Fund Report for that LDPF were created. (See Provision 2.A.26 for information regarding the calculation of time-weighted returns for pooled funds that are not included in composites and Provision 2.A.29 for information regarding the calculation of money-weighted returns for pooled funds that are not included in composites.)

Firms advertising performance results must adhere to all applicable laws and regulations, including those governing advertisements. In some jurisdictions, laws or regulations require performance in a pooled fund advertisement to be presented net of total pooled fund fees. Whether or not laws or regulations specify which returns must be presented in an advertisement, firms must clearly indicate whether returns are presented gross or net of total pooled fund fees so that the reader of the advertisement has a clear understanding of the returns that are presented.

Provision 8.E.4

The FIRM MUST present BENCHMARK returns for the same BENCHMARK as presented in the corresponding GIPS REPORT, if the corresponding GIPS 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 POOLED FUND returns are presented.

Discussion

As described in Provisions 8.E.1 and 8.E.2, firms that present performance in a GIPS Advertisement for a limited distribution pooled fund 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 firm must present the total returns for the benchmark(s) for the same periods as the pooled fund returns. The benchmark must be the same benchmark as presented in the corresponding GIPS Pooled Fund Report and must also be the same return type (TWR or MWR) and in the same currency as the pooled fund returns. If more than one benchmark is included in the GIPS Pooled Fund Report, the firm should consider whether multiple benchmarks should be presented in the GIPS Advertisement.

If the firm does not prepare a GIPS Pooled Fund Report for the limited distribution pooled fund (LDPF) but instead includes the LDPF in a composite for which a GIPS Composite Report is prepared, the benchmark presented in the GIPS Advertisement must be consistent with the benchmark that would be included in the corresponding GIPS Pooled Fund Report if a GIPS Pooled Fund Report for that LDPF were created.

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

Provision 8.E.5

The FIRM MUST disclose or otherwise indicate the reporting currency.

Discussion

The GIPS standards require that firms disclose the currency used to report the numerical information presented in a GIPS Advertisement. If the firm presents performance in multiple currencies in the same GIPS Advertisement, the firm 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. If firms advertise the strategy outside their home market, they should consider whether the currency symbol alone is sufficient. For example, a Canadian firm advertising only in Canada may decide to present only the \$ symbol. If the firm advertises the strategy in both the United States and Canada, the firm must disclose whether the currency is USD or CAD, because both currencies use the same currency symbol.

All required and recommended information presented in a GIPS Advertisement must be presented in the same currency. (See Provision 8.A.14.)

Sample Disclosures:

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

“Performance is reported in Japanese yen.”

Provision 8.E.6

The FIRM MUST disclose the GIPS Advertising Guidelines compliance statement:

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

Discussion

A firm 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 Composite Report or a GIPS Pooled Fund Report in its advertisement. If a firm 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 FIRM] 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 Composite Report or GIPS Pooled Fund 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 a firm chooses to translate the compliance statement into a language for which there is no official translation of the GIPS standards, the firm must take care to ensure that the translation used reflects the required wording of the compliance statement.

Provision 8.E.7

The FIRM 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 firms 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 firm or the verifier.

CFA Institute (owner of the GIPS® trademark) may take appropriate action against any firm 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 their firm, 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 firms claiming compliance with the GIPS standards may also take enforcement actions against firms that falsely claim compliance with the GIPS standards.

Firms 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 CFA Institute website (www.cfainstitute.org) for additional guidance on the proper use of “GIPS”.

Provision 8.E.8

The FIRM MUST disclose how to obtain a GIPS REPORT.

Discussion

An advertisement is typically brief and provides limited information regarding the firm and its strategies and products. A reader of a GIPS Advertisement may want to receive additional information on the firm’s investment strategies and pooled funds, including a GIPS Report for the pooled fund presented in the advertisement. It is, therefore, required that firms disclose in a GIPS Advertisement how to obtain a GIPS Report.

Sample Disclosure for a Limited Distribution Pooled Fund:

“To receive additional information regarding Ava Advisors, including a GIPS Report for the pooled fund presented in this advertisement, contact Lucia Bear at +41 34 5678910 or write Ava Advisors, One Squirrel Street, Uetikon, Switzerland or lbear@avaadvisors.com.”

Provision 8.E.9

The FIRM 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

Firms 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. Firms 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, firms are required to comply with the laws and regulations and disclose the manner in which the laws or regulations conflict with the GIPS standards or the GIPS Advertising Guidelines.

This disclosure will assist readers of the GIPS Advertisement in comparing GIPS Advertisements among firms where reporting requirements may differ because of local laws or regulations.

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 pooled fund for the period from 1 July 2018 (the inception date of the pooled fund) through 31 December 2018.”

8.F. GIPS Advertisements for a Limited Distribution Pooled Fund That Include Performance—Recommendations

Provision 8.F.1

The FIRM SHOULD disclose the POOLED FUND DESCRIPTION.

Discussion

To help a reader of a GIPS Advertisement more fully understand the pooled fund being presented, it is recommended that a firm disclose the pooled fund description in the advertisement. The pooled fund description is general information regarding the investment mandate, objective, or strategy of the pooled fund. The pooled fund description must include all key features of the pooled fund and must include enough information to allow a reader of the advertisement to understand the key characteristics of the pooled fund’s investment mandate, objective, or strategy, including:

- the material risks of the pooled fund’s strategy,
- how leverage, derivatives, and short positions may be used, if they are a material part of the strategy, and
- if illiquid investments are a material part of the strategy.

The recommended disclosure of the pooled fund description provides information about the pooled fund's investment strategy that is intended to help a reader of the GIPS Advertisement who is reviewing a GIPS Advertisement for that pooled fund. The pooled fund description should provide sufficient information to the reader to allow them to differentiate the significant features of the pooled fund's strategy from other strategies or pooled funds within the firm and to compare products across firms. 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 8.F.3), the GIPS Advertisement will allow the reader to understand both the investment strategy employed and the benchmark against which the pooled fund's performance is evaluated. This will help the reader to compare investments across firms.

If leverage, derivatives, and short positions may be used, and they are a material part of the strategy, this must be disclosed in the pooled fund description. Provision 8.F.2 recommends that the firm 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 firm 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 pooled fund strategy. If so, the firm must consider if it would be misleading for the firm 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 pooled fund description identifies every risk of the strategy. Instead, firms must identify those material risks of the strategy, if any, and must disclose those risks. For example, investment concentration, correlation (or lack thereof), liquidity, and exposure to counterparties are features that may need to be included in the pooled fund description.

The key characteristics of some pooled fund strategies may change in response to market events. Firms should periodically review pooled fund descriptions to ensure they are current.

A sample list of pooled fund descriptions can be found in Appendix D: Sample Lists.

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

Sample Disclosures for a Limited Distribution Pooled Fund:

Pooled Fund Description Included in a GIPS Pooled Fund Report

“The 2018 Venture Capital Fund seeks long-term capital appreciation by acquiring minority interests in early-stage technology companies. The Fund invests in technology companies in Europe, Asia Pacific, and emerging markets. European venture investments are more concentrated than in the other regions and are focused on a few high-quality companies. Exit opportunities include IPOs, trade sales, and secondary sales. Opportunities in China and India will be targeted for investment, and an allocation to Chinese high-tech will be at least 10% of the invested capital over the Fund’s life. International venture capital investments are generally illiquid and are subject to currency risk. If investment opportunities and/or exit strategies become limited, the life of the fund may be extended, and capital calls and distributions may be delayed. The Fund is benchmarked to the XYZ Venture Capital Index.”

Pooled Fund Description Included in a GIPS Advertisement

“The 2018 Venture Capital Fund invests in early-stage technology companies in Europe, Asia Pacific (with at least 10% allocation to China), and emerging markets. Exit opportunities include IPOs, trade sales, and secondary sales. International venture capital investments are generally illiquid and are subject to currency risk. If investment opportunities and/or exit strategies become limited, the life of the fund may be extended, and capital calls and distributions may be delayed. The Fund is benchmarked to the XYZ Venture Capital Index.”

Provision 8.F.2

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

Discussion

It is recommended that firms 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 pooled fund description (Provision 8.F.1) would include disclosure of the firm’s ability to use leverage, derivatives, and short positions, Provision 8.F.2 recommends that the firm 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 a firm discloses in the pooled fund description that the strategy may employ up to 200% leverage. To satisfy the disclosure recommendation in Provision 8.F.2, the firm might state, “Since the inception of the pooled fund, the leverage has averaged 110% of the pooled fund’s value; however, during 2019, the leverage averaged 160%, which greatly increased the sensitivity to market volatility and the potential for realized gains and/or losses.”

When determining what would be material, the firm 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 firm must consider if it would be misleading to fail to disclose their use when describing the strategy.

Provision 8.F.3

The FIRM 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

Firms 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 firm must decide for itself whether a benchmark is widely recognized. If the firm is not certain as to whether the benchmark is widely known, it is recommended that the firm 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 custom benchmark return is calculated by applying the investment cash flows of the Armor Distressed Debt Fund to the XYZ Eurozone Distressed Debt Bond Total Return Index. The index reflects a portfolio of euro-denominated distressed debt bonds issued in Eurozone countries that generally have credit ratings of CCC or lower from the main rating agencies and are listed on the XYZ platforms.”

Provision 8.F.4

If the FIRM determines no appropriate BENCHMARK for the POOLED FUND exists, the FIRM 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 pooled fund's risk and return. As a result, the GIPS standards require firms to provide benchmark total returns in all GIPS Advertisements, unless the firm determines that no appropriate benchmark for the pooled fund's strategy exists. The benchmark must reflect the investment mandate, objective, or strategy of the pooled fund. Although there is typically an appropriate benchmark for traditional pooled fund strategies, it is more common for managers of alternative pooled fund strategies to determine that no appropriate benchmark for the pooled fund exists. If this is the case, it is recommended that the firm disclose why no benchmark is presented.

Sample Disclosure:

“Because the pooled fund's strategy is absolute return where investments are permitted in all asset classes, as a result no benchmark is presented because we believe that no benchmark that reflects this strategy exists.”

Provision 8.F.5

The FIRM SHOULD disclose the definition of the FIRM.

Discussion

To claim compliance with the GIPS standards, a firm must comply with all applicable requirements of the GIPS standards on a firm-wide basis. Accordingly, the firm must determine exactly how it will be defined for the purpose of compliance. The GIPS standards require that a firm must be defined as an investment firm, subsidiary, or division held out to the public as a distinct business entity.

A distinct business entity is a unit, division, department, or office that is organizationally and functionally segregated from other units, divisions, departments, or offices, that retains discretion

over the assets it manages, and that should have autonomy over the investment decision-making process.

Possible criteria that can be used to determine this status include:

- being a legal entity,
- having a distinct market or client type (e.g., institutional, retail, private client), and
- using a separate and distinct investment process.

See Provision 1.A.2 for a more detailed discussion of defining the firm.

Because there are often a number of closely related units or divisions within larger investment management entities, the precise definition of the firm that is presenting the performance results and would be responsible for the management of the pooled fund's assets is important information for those who are reading the GIPS Advertisement. This provision, therefore, recommends that the firm disclose sufficient details of the entity that is presenting investment performance such that the firm is clearly identified.

Sample Disclosure

“For the purpose of complying with the GIPS standards, the firm is defined as Firm B Institutional Investment Management, the institutional asset management division of Firm B.”

BROAD DISTRIBUTION POOLED FUNDS

8.G. GIPS Advertisements for a Broad Distribution Pooled Fund That Include Performance—Requirements

Provision 8.G.1

If laws or regulations mandate specific POOLED FUND returns, the FIRM MUST present POOLED FUND returns according to the methodology and for the periods REQUIRED by laws or regulations.

Discussion

Laws or regulations typically specify how broad distribution pooled fund (BDPF) returns must be presented in an advertisement. If laws or regulations mandate a specific methodology for calculating BDPF returns, and specific time periods for which BDPF returns must be presented in

an advertisement, a firm must follow the laws or regulations. If laws or regulations do not mandate a specific methodology and/or periodicity, the firm must instead follow the requirements in Provision 8.G.2.

Provisions 8.G.1 and 8.G.2 address only the methodology and time periods required for the presentation of returns in a GIPS Advertisement for a BDPF. Firms must comply with all of the other applicable requirements of laws or regulations and the GIPS Advertising Guidelines as well.

Provision 8.G.2

If specific periods are not mandated by laws or regulations, POOLED FUND returns MUST be presented consistent with one of the following options:

- a. One-, three-, and five-year annualized returns through the most recent period. If the POOLED FUND has been in existence for less than five years, the FIRM MUST also present the annualized return since the POOLED FUND INCEPTION DATE.
- b. The period-to-date return in addition to one-, three-, and five-year annualized returns through the most recent period. If the POOLED FUND has been in existence for less than five years, the FIRM MUST also present the annualized return since the POOLED FUND INCEPTION DATE.
- c. The period-to-date return in addition to five years of annual returns (or for each annual period since the POOLED FUND INCEPTION DATE if the POOLED FUND has been in existence for less than five years).
- d. The annualized POOLED FUND return since the POOLED FUND INCEPTION DATE through the most recent period.

Discussion

Provision 8.G.2 does not require a firm presenting time-weighted returns in a GIPS Advertisement to include all four options (a through d) mentioned in the provision. Rather, a firm must present performance in accordance with laws or regulations (Provision 8.G.1) or one of the options described in Provision 8.G.2. A GIPS Advertisement must also adhere to all applicable laws and regulations governing advertisements.

Three of the four options in Provision 8.G.2 include the presentation of annualized pooled fund 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 pooled fund'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 firm chooses to comply with Provision 8.G.2.a, it must present the one-, three-, and five-year annualized pooled fund returns through the most recent period end. If the pooled fund has been in existence for less than five years, the firm must also present the annualized pooled fund return from the pooled fund inception date through the most recent period end, in addition to the most recent one-year return (and the three-year annualized return, if the pooled fund has been in existence for three years or longer).

The most recent period-end date is as of the most recent month- 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 firm may choose whether to use month-end or quarter-end periods.

If the firm chooses to comply with Provision 8.G.2.b, it must present the period-to-date pooled fund return in addition to the one-, three-, and five-year annualized pooled fund returns through the most recent period end (either month or quarter end). If the pooled fund has been in existence for less than five years, the firm must also present the annualized pooled fund return from the pooled fund inception date through the most recent period end (either month or quarter end) in addition to the one-year return (and the three-year annualized return, if the pooled fund has been in existence for three years or longer).

If the firm chooses to comply with Provision 8.G.2.c, it must present the period-to-date pooled fund return in addition to five years of annual pooled fund returns (or for each annual period since the pooled fund inception date if the pooled fund has been in existence for less than five years).

If the firm chooses to comply with Provision 8.G.2.d, it must present the annualized pooled fund return from the pooled fund inception date through the most recent period end (either month or

quarter end). If the pooled fund has been in existence for less than one year, the return must not be annualized.

The GIPS standards require firms to present time-weighted returns (TWRs) unless very specific circumstances are met. As discussed in Provision 1.A.35, a firm may present money-weighted returns (MWRs) instead of TWRs only if the firm has control over the external cash flows into and out of the pooled fund and the pooled fund has at least one of the following characteristics:

- closed-end
- fixed life
- fixed commitment
- illiquid investments as a significant part of the investment strategy.

A firm typically does not know the investors in a broad distribution pooled fund (BDPF) and therefore would be unable to call capital. Most BDPFs also would not meet at least one of the four specified characteristics. For these reasons, the discussion of BDPF returns presented in a GIPS Advertisement focuses on TWRs. However, MWRs may be presented in a GIPS Advertisement for a BDPF if required by laws or regulations. (See Provision 8.G.1.) If the presentation of an MWR for a BDPF is mandated by laws or regulations, the MWR presented must be the annualized (for periods longer than one year) or non-annualized (for periods less than one year) since-inception MWR through the most recent period end, unless a different period is specified by laws or regulations. Firms must follow the calculation methodology specified by laws or regulations. If local laws and regulations do not specify a calculation methodology, firms should follow the requirements for calculating MWRs included in Provision 2.A.29.

When laws or regulations do not require MWRs for BDPFs, firms may include MWRs in a GIPS Advertisement along with TWRs.

Provision 8.G.3

If the GIPS ADVERTISEMENT is created for a specific POOLED FUND share class, and POOLED FUND NET RETURNS are presented, POOLED FUND NET RETURNS MUST reflect the fees and expenses of that specific share class.

Discussion

Broad distribution pooled funds often have many share classes, each with different fees and expenses. If the GIPS Advertisement is created for a specific pooled fund share class, the pooled fund returns presented in the GIPS Advertisement must reflect the fees and expenses of that specific share class.

Provision 8.G.4

If the GIPS ADVERTISEMENT is not created for a specific share class and POOLED FUND NET RETURNS are presented, POOLED FUND NET RETURNS MUST reflect the fees and expenses of:

- a. The share class with the maximum fee that is available for general distribution, or
- b. All share classes.

Discussion

Broad distribution pooled funds (BDPFs) often have many share classes, each with different fees and expenses. It is important that the pooled fund net returns presented in a GIPS Advertisement reflect the appropriate fees and expenses so the returns are not false or misleading. If a BDPF has multiple share classes, and the GIPS Advertisement is not created for a specific share class, the firm has two options in terms of the fees and expenses that must be reflected in the pooled fund net returns presented in the GIPS Advertisement.

The first option is for the firm to present pooled fund net returns that reflect the fees and expenses of the share class that has the maximum fee and that is available for general distribution. A share class of a BDPF is considered available for general distribution if the share class is available to anyone who is qualified to invest in that pooled fund. For example, suppose that a mutual fund has only two share classes:

- a retail share class that requires a minimum initial investment of \$500, which is the lowest minimum investment for any share class in the fund, and
- an institutional share class that has a minimum initial investment of \$1,000,000.

The retail share class is considered to be available for general distribution because it is available to any investor willing to make the minimum initial investment of \$500 that is necessary to invest in the fund. The institutional share class is not considered to be available for general distribution because investment in that share class is limited to those investors who are willing to make a significantly larger investment in the fund. In this case, the retail share class is the only class of shares of the fund that is available for general distribution. It is, therefore, the fees and expense of the retail share class that must be reflected in the pooled fund net returns. If there are multiple retail share classes, the firm must use the fees and expenses of the retail share class with the highest fees and expenses that is available for general distribution.

The second option is to include information on all share classes by presenting either:

- all share classes, with the returns for each share class presented individually reflecting the fees and expenses of that share class, or
- a combined weighted average net return that reflects the fees and expenses of all share classes.

Regardless of the method chosen by a firm to present returns that appropriately reflect fees and expenses for a BDPF with multiple share classes, it is important to have sufficient disclosures so that prospective investors understand what fees and expenses are reflected in the BDPF's net returns. For example, if the firm chooses to present a combined weighted average net return that reflects the fees and expenses of all share classes, it may be appropriate to disclose that the return does not necessarily reflect the return of any individual investor. It may also be appropriate to provide details for how a reader of the advertisement would be able to obtain additional information on fees and expenses or any other information included in the GIPS Advertisement.

Provision 8.G.5

The FIRM MUST clearly label POOLED FUND returns as gross or net of TOTAL POOLED FUND FEES.

Discussion

Firms may present pooled fund returns as either gross or net of total pooled fund fees in a GIPS Advertisement and may also choose to present returns both gross and net of total pooled fund fees. For readers of the GIPS Advertisement to understand the nature of the returns being presented, all returns presented must be clearly labeled as gross of total pooled fund fees or net of total pooled fund fees.

Firms advertising performance results must adhere to all applicable laws and regulations, including those governing advertisements. In some jurisdictions, laws or regulations require performance in a pooled fund advertisement to be presented net of total pooled fund fees. Whether or not laws or regulations specify which returns must be presented in an advertisement, firms must clearly indicate whether returns are presented gross or net of total pooled fund fees so that the reader of the advertisement has a clear understanding of the returns that are presented.

Provision 8.G.6

The FIRM MUST present BENCHMARK TOTAL RETURNS for the same periods for which the POOLED FUND is presented, unless the FIRM determines there is no appropriate BENCHMARK.

Discussion

As described in Provisions 8.G.1 and 8.G.2, firms that present performance in a GIPS Advertisement for a broad distribution pooled fund have various options for the periods used in

presenting returns. Once an option is selected, the firm must present benchmark total returns for the same periods for which pooled fund returns are presented. The benchmark must be in the same currency as the pooled fund returns presented in the GIPS Advertisement. This requirement is an acknowledgement that a comparison of benchmark and pooled fund returns will help the reader of the GIPS Advertisement determine how well the pooled fund has performed relative to the benchmark.

Provision 8.G.7

The FIRM MUST disclose the current EXPENSE RATIO and which fees and expenses are included in the EXPENSE RATIO. The FIRM MUST disclose if PERFORMANCE-BASED FEES are not reflected in the EXPENSE RATIO, if applicable.

Discussion

Firms must disclose the current expense ratio as well as which fees and expenses are included in the expense ratio. The pooled fund expense ratio is the ratio of total pooled fund expenses to average net assets. The expense ratio should not reflect transaction costs. The expense ratio gives readers of the GIPS Advertisement insight into the total fees and expenses involved in an investment in the fund. For example, a pooled fund expense ratio of 1.00% indicates that an investor will pay \$10 in expenses each year for every \$1,000 invested, in addition to transaction costs. An expense ratio also helps investors compare expenses across funds, because even a small difference in fees can have a significant effect over time.

Because expense ratios can change over time, firms must determine which expense ratio to present. A firm might choose to present the expense ratio as of the most recent annual period end, or the last known expense ratio. When the expense ratio has had a material change resulting from a change in assets or costs, the firm should present a more current expense ratio that reflects what a prospective investor is likely to pay at the current time.

If the pooled fund has multiple share classes, the firm may present multiple expense ratios or may present the expense ratio for the share class that has the highest expense ratio and is available for general distribution. Presenting a range of expense ratios (e.g., the expense ratio for all share classes ranges between 0.40% and 0.85%) would not satisfy this requirement. Performance-based fees are expected to be included in the expense ratio. If laws or regulations do not allow the inclusion of performance-based fees in the calculation of the expense ratio, the firm must disclose that performance-based fees are not reflected in the expense ratio.

Pooled fund expense ratios that are calculated for periods of less than one year must be annualized. For example, assume that a pooled fund starts on 1 April, and the firm calculates an expense

ratio of 0.75% for the period from 1 April 2019 through 31 December 2019. The firm must present an annualized rate of 1.00%, representing a pooled fund expense ratio for the entire year, rather than the 0.75% that represents an expense ratio for only nine months. Presenting an annualized expense ratio facilitates the comparison of expense ratios across funds and firms. Firms may also present the non-annualized expense ratio but must clearly disclose or indicate that the expense ratio is not annualized.

Sample Disclosure:

“The Fund’s expense ratio (annual, Class A) is 1.00%. The expense ratio is calculated based on the Fund’s average net assets during the Fund’s most recently completed fiscal year and has not been adjusted for current asset levels. The expense ratio includes operating costs, including administrative, compliance, distribution, management, marketing, shareholder services, and record-keeping fees. Please see the Fund’s prospectus for additional details.”

Provision 8.G.8

The FIRM MUST disclose or otherwise indicate the reporting currency.

Discussion

The GIPS standards require that firms disclose the currency used to report the numerical information presented in a GIPS Advertisement. If the firm presents performance in multiple currencies in the same GIPS Advertisement, the firm 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. If firms advertise the strategy outside their home market, they should consider whether the currency symbol alone is sufficient. For example, a Canadian firm advertising only in Canada may decide to present only the \$ symbol. If the firm advertises the strategy in both the United States and Canada, the firm must disclose whether the currency is USD or CAD, because both currencies use the same currency symbol.

All required and recommended information presented in a GIPS Advertising Report must be presented in the same currency. (See Provision 8.A.14.)

Sample Disclosures:

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

“Performance is reported in Japanese yen.”

Provision 8.G.9

The FIRM MUST disclose the POOLED FUND DESCRIPTION.

Discussion

To help a reader of a GIPS Advertisement more fully understand the pooled fund being presented, a firm must disclose the pooled fund description in the advertisement. The pooled fund description is general information regarding the investment mandate, objective, or strategy of the pooled fund. The pooled fund description must include all key features of the pooled fund and must include enough information to allow a reader of the advertisement to understand the key characteristics of the pooled fund's investment mandate, objective, or strategy, including:

- the material risks of the pooled fund's strategy,
- how leverage, derivatives, and short positions may be used, if they are a material part of the strategy, and
- if illiquid investments are a material part of the strategy.

The required disclosure of the pooled fund description provides information about the pooled fund's investment strategy that is intended to help the reader of the GIPS Advertisement who is reviewing a GIPS Advertisement for that pooled fund. The pooled fund description should provide sufficient information to the reader to allow them to differentiate the significant features of the pooled fund's strategy from other strategies or pooled funds within the firm and to compare products across firms. The disclosed strategy features will likely affect both the historical and expected risk and returns. Along with the required disclosure of the benchmark description (see Provision 8.G.12), the GIPS Advertisement will allow the reader to understand both the investment strategy employed and the benchmark against which the pooled fund's performance is evaluated. This will help the reader to compare investments across firms.

If leverage, derivatives, and short positions may be used, and they are a material part of the strategy, this must be disclosed in the pooled fund description. When determining what would be material, the firm 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 prospective investor's view of the risk involved in the strategy. If so, it would be misleading for the firm to fail to disclose their use to these prospective investors when describing the strategy. Firms should also disclose how leverage, derivative, and short positions have been used historically, if material. Doing so would provide a more complete picture about the presence, use, and extent of leverage, derivatives, and short positions.

Generally, all investment products or strategies have some degree of inherent risk (e.g., market risk), but it is not intended that the pooled fund description identifies every risk of the pooled

fund's strategy. Instead, firms must identify those material risks of the strategy, if any, and must disclose those risks. For example, investment concentration, correlation (or lack thereof), liquidity, and exposure to counterparties are features that may need to be included in the pooled fund description.

The key characteristics of some pooled fund strategies may change in response to market events. Firms should periodically review pooled fund descriptions to ensure they are current.

A sample list of pooled fund descriptions can be found in Appendix D: Sample Lists.

Sample Disclosures for a Firm's US Fixed-Income Fund:

Given the abbreviated nature of an advertisement, there may be times when firms may wish to use a shorter pooled fund description in a GIPS Advertisement than is used in other materials. The following example illustrates how a pooled fund description can be shortened for an advertisement while still conveying the essential features of the pooled fund's strategy.

Longer Version of the US Fixed-Income Fund Description

“The Fund is designed to maximize total return by investing in a portfolio of investment-grade intermediate- and long-term debt securities. The Fund will primarily invest in corporate bonds, US Treasuries, other US government and agency securities, and asset-backed, mortgage-related, and mortgage-backed securities. The Fund will invest at least 80% of its assets in bonds and up to 20% in cash and cash equivalents. The Fund is subject to general market risk, interest rate risk, credit (issuer and counterparty) risk, and liquidity risk. General market risk is the risk that the value of the securities owned by the Fund may underperform because of factors affecting particular industries or securities markets generally. Interest rate risk is the risk the values of bonds will change as a result of changes in interest rates. If rates increase, the value of bonds declines in general. Credit risk is the risk the value of investments may change because of changes in creditworthiness of issuers of debt securities and default of counterparties in investment transactions. Liquidity risk is the risk the Fund may have a loss when it sells securities to raise cash for redemption requests by shareholders.”

Shorter Version of the US Fixed-Income Fund Description

“The Fund invests in a portfolio of US investment-grade intermediate- and long-term debt securities, such as corporate bonds, US Treasuries, other US government and agency securities, and asset-backed and mortgage-backed securities. Up to 20% may be held in cash and cash equivalents. The fixed-income investments must be rated investment grade or above. The Fund is subject to general market risk, interest rate risk, credit (issuer and counterparty) risk, and liquidity risk. The Fund's benchmark is the XYZ Bond Index.”

Provision 8.G.10

If laws or regulations mandate specific information about the POOLED FUND'S risk, as either a qualitative narrative or a quantitative metric, the FIRM MUST disclose this information.

Discussion

If laws or regulations mandate firms to include in an advertisement specific information about the pooled fund's risk, as either a qualitative narrative or a quantitative metric, the firm must disclose this information. This requirement applies only to the information mandated by the applicable laws or regulations to be included in an advertisement, not to other documents of the pooled fund. For example, local laws and regulations may require that funds present specific risk indicators in prospectuses, regulatory factsheets, or investor documents but not in advertisements. In this case, such risk indicators are not required to be presented in GIPS Advertisements.

When laws and regulations conflict with the GIPS standards or the GIPS Advertising Guidelines, firms are required to comply with the laws and regulations and disclose the manner in which the laws or regulations conflict with the GIPS standards or the GIPS Advertising Guidelines.

Provision 8.G.11

If laws or regulations do not mandate specific information about the POOLED FUND'S risk, the FIRM MUST choose and present an appropriate risk measure or qualitative disclosure that a PROSPECTIVE INVESTOR is likely to understand.

Discussion

Understanding and interpreting investment performance requires the consideration of both risk and return. An indication of risk is, therefore, required in all GIPS Advertisements for broad distribution pooled funds (BDPFs). If local laws or regulations do not mandate that specific information about a pooled fund's risk be included in an advertisement for a BDPF (see Provision 8.G.10), firms must choose and present an appropriate risk measure or a qualitative narrative disclosure of risk. Firms should choose a risk measure that is well known or that can be clearly presented and explained in the GIPS Advertisement so that a broad audience is likely to understand the degree of risk that the risk indicator is intended to convey.

It is important to keep in mind that risk measures should be consistent with the pooled fund's strategy. For example, if the strategy is to track the benchmark, then tracking error would be consistent with that objective.

Provision 8.G.12

The FIRM MUST 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

Firms are required to disclose a description of each benchmark included in a GIPS Advertisement for a broad distribution pooled fund. 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® Total Return Index, the name of the benchmark will satisfy this requirement. (S&P 500® is a registered trademark of Standard & Poor’s Financial Services LLC.) Each firm must decide for itself whether a benchmark is widely recognized. If the firm is not certain as to whether the benchmark is widely known, the firm must 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 8.G.13

The FIRM MUST disclose the GIPS Advertising Guidelines compliance statement:

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

Discussion

A firm 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 Composite Report or a GIPS

Pooled Fund Report in its advertisement. If a firm chooses to advertise its compliance by following the GIPS Advertising Guidelines, it must include the following claim of compliance in the GIPS Advertisement:

“[Insert name of FIRM] 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 Composite Report or GIPS Pooled Fund 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 a firm chooses to translate the compliance statement into a language for which there is no official translation of the GIPS standards, the firm must take care to ensure that the translation used reflects the required wording of the compliance statement.

Provision 8.G.14

The FIRM 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 firms 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 firm or the verifier.

CFA Institute (owner of the GIPS® trademark) may take appropriate action against any firm 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 their firm, 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 firms claiming compliance with the GIPS standards may also take enforcement actions against firms that falsely claim compliance with the GIPS standards.

Firms 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 CFA Institute website (www.cfainstitute.org) for additional guidance on the proper use of “GIPS”.

Provision 8.G.15

The FIRM 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

Firms 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. Firms must also comply with all of the applicable requirements of the GIPS standards, including the GIPS Advertising Guidelines, when preparing an advertisement in accordance with the GIPS Advertising Guidelines. When laws and regulations conflict with the GIPS standards or the GIPS Advertising Guidelines, firms are required to comply with the laws and regulations and disclose the manner in which the laws or regulations conflict with the GIPS standards or the GIPS Advertising Guidelines.

This disclosure will assist readers of the GIPS Advertisement in comparing GIPS Advertisements among firms where reporting requirements may differ because of local laws or regulations.

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.”

8.H. GIPS Advertisements for a Broad Distribution Pooled Fund That Include Performance—Recommendations

Provision 8.H.1

If the FIRM determines no appropriate BENCHMARK for the POOLED FUND exists, the FIRM 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 pooled fund’s risk and return. As a result, the GIPS standards require firms to provide benchmark total returns in all GIPS Advertisements for a broad distribution pooled fund unless the firm determines that no appropriate benchmark for the pooled fund’s strategy exists. The benchmark must reflect the investment mandate, objective, or strategy of the pooled fund. Although there is typically an appropriate benchmark for traditional pooled fund strategies, it is more common for managers of alternative pooled fund strategies to determine that no appropriate benchmark for the pooled fund exists. If this is the case, it is recommended that the firm disclose why no benchmark is presented.

Sample Disclosure:

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

Provision 8.H.2

The FIRM SHOULD disclose the POOLED FUND’S SALES CHARGES AND LOADS.

Discussion

In order for the reader of the GIPS Advertisement to have a clear understanding of the costs of buying or selling shares in a broad distribution pooled fund, it is recommended that firms disclose the pooled fund’s sales charges and loads. This information may be an important factor in a reader’s decision as to whether or not to buy shares of a particular fund.

Sales charges and loads may also be referred to as “term commission,” “entry and exit fees,” “front-end,” “back-end,” “deferred fees,” “subscription and redemption fees,” “cost of sales/purchase of funds,” “up-front fees,” and “trail commission.”

Sample Disclosures:

“The Fund has a maximum entry fee of 5.00% and an exit charge of 1.00%. In some cases, an investor might pay less. Please refer to your financial advisor or distributor for the actual entry and exit charges.”

“The sales charge (load) imposed on purchases, as well as the sales charge (load) on reinvested distributions is 3.00%. There are no distribution and/or service (12b-1) fees.”

Provision 8.H.3

The FIRM SHOULD disclose how SALES CHARGES AND LOADS are reflected in the POOLED FUND’S returns, if applicable.

Discussion

In order to help readers of a GIPS Advertisement understand what costs are reflected in a pooled fund’s returns, it is recommended that firms disclose whether or not sales charges and loads are reflected in (i.e., deducted from) the pooled fund’s returns. Sales charges and loads, which are typically charged on the front end or back end, should not be included in the calculation of the pooled fund’s returns, because regulators in some countries do not allow the inclusion of such charges when calculating pooled fund returns. If sales charges and loads have been deducted when calculating the pooled fund’s returns, the deduction of such charges should be disclosed. If sales charges and loads are not reflected in the pooled fund’s returns, it is important that readers understand that purchasing and selling shares of the pooled fund will result in costs that are not reflected in the pooled fund returns presented in the GIPS Advertisement. This recommended disclosure will also help readers in comparing pooled fund returns across funds and firms.

Sales charges and loads may also be referred to as “term commission,” “entry and exit fees,” “front-end,” “back-end,” “differed fees,” “subscription and redemption fees,” “cost of sales/purchase of funds,” “up-front fees,” and “trail commission.”

Sample Disclosure When the Pooled Fund's Returns Reflect the Deduction of Sales Charges and Loads:

“The Fund has a maximum entry fee of 5.00% and an exit charge of 1.00%. The pooled fund’s net returns reflect the deduction of both entry and exit fees.”

Sample Disclosure When the Pooled Fund's Returns Do Not Reflect the Deduction of Sales Charges and Loads:

“The Fund has sales charges and loads that total 1.50%. Sales charges and loads, which reduce the potential growth of a shareholder’s investment, have not been reflected in the Fund’s net returns presented in this advertisement.”

Provision 8.H.4

The FIRM SHOULD disclose the definition of the FIRM.

Discussion

To claim compliance with the GIPS standards, a firm must comply with all applicable requirements of the GIPS standards on a firm-wide basis. Accordingly, the firm must determine exactly how it will be defined for the purpose of compliance. The GIPS standards require that a firm must be defined as an investment firm, subsidiary, or division held out to the public as a distinct business entity.

A distinct business entity is a unit, division, department, or office that is organizationally and functionally segregated from other units, divisions, departments, or offices, that retains discretion over the assets it manages, and that should have autonomy over the investment decision-making process.

Possible criteria that can be used to determine this status include:

- being a legal entity,
- having a distinct market or client type (e.g., institutional, retail, private client), and
- using a separate and distinct investment process.

See Provision 1.A.2 for a more detailed discussion of defining the firm.

Because there are often a number of closely related units or divisions within larger investment management entities, the precise definition of the firm that is presenting the performance results and would be responsible for the management of the pooled fund’s assets is important

information for those who are reading the GIPS Advertisement. This provision, therefore, recommends that the firm disclose sufficient details of the entity that is presenting investment performance such that the firm is clearly identified.

Sample Disclosure:

“For the purpose of complying with the GIPS standards, the firm is defined as Firm B Institutional Investment Management, the institutional asset management division of Firm B.”

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