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AIA's Journey to GIPS[®] Compliance

A case study in future-proofing
investment operations



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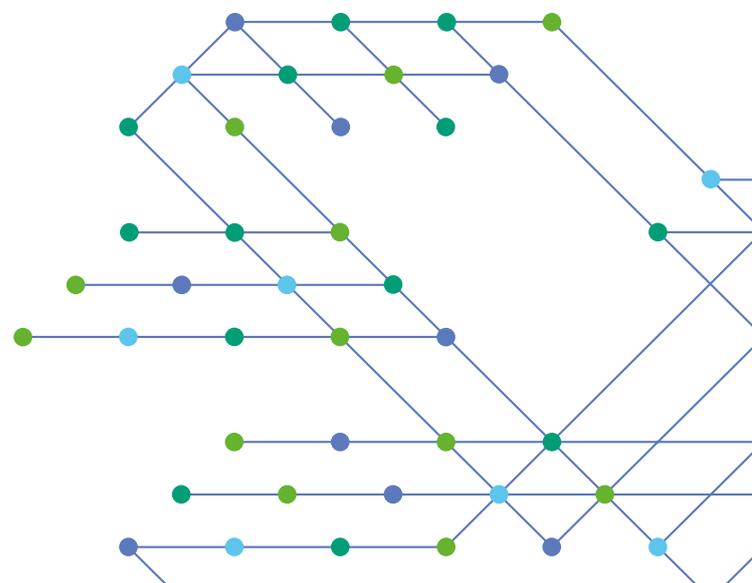
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For AIA, the journey to Global Investment Performance Standards (GIPS®) compliance has been as important as the achievement.

The AIA Journey

Why might an asset owner choose to comply with the Global Investment Performance Standards (GIPS®)? The extra effort is worth it when considering the many benefits, which include improved investment outcomes, scalable data, easier conversations with management, and improved regulator and investor trust. A significant benefit also can be realised in being able to compare internally managed assets with assets managed by external managers in a standardised way.

Three years ago, after AIA Group CIO Mark Konyn initiated a project to improve practices across both its external managers and internal investment teams, Insurer AIA Group set off along the road to implement the CFA Institute GIPS standards. In this process, AIA became the first asset owner in Asia Pacific to adopt the GIPS standards. Additionally, AIA used this process as the catalyst to make sweeping changes that have modernised its operations, improved its investment outcomes, and added robust governance to support its balance sheet.

According to Konyn, the value of compliance is not only in being able to tick the box but also in revealing new ways of doing things. What started merely as an exercise to become compliant has resulted in a more efficient process that embeds the performance standards deeply into the operational, investment, and governance infrastructure. It has become the means, rather than the end, making compliance part of "who we are and what we do."

AIA now uses the GIPS standards to harmonise reporting across the 18 markets in which it operates and across its external managers. The result is consistent, credible data that inform investment decision making and can be scaled to meet a number of other evolving reporting needs. This effort is supported by a culture of best practices and efficiency in internal processes that reduces administration and positions AIA for business growth in a changing regulatory landscape. As a listed firm with global investors, living and breathing global best practices has improved investor relations, too.

Managers competing for mandates from AIA will need to use GIPS-compliant methodology and governance. Konyn sees this as a positive move for the Asian investment industry in helping to drive best practices. He advises other asset owners to, "Just do it. When we started this, I believed the end goal would be worth it, but we didn't realise how valuable the process would be in helping us transform. The results have gone far beyond our expectations."

Executive Summary

As part of a multiyear initiative to future-proof their investment function, AIA identified adoption of the Global Investment Performance Standards (GIPS®) as a key project. AIA is the first asset owner in Asia Pacific to claim compliance, and the first insurance organisation globally to do so. This case study details why and how AIA became compliant with the GIPS standards and highlights the benefits this brings to the organisation and the broader industry.

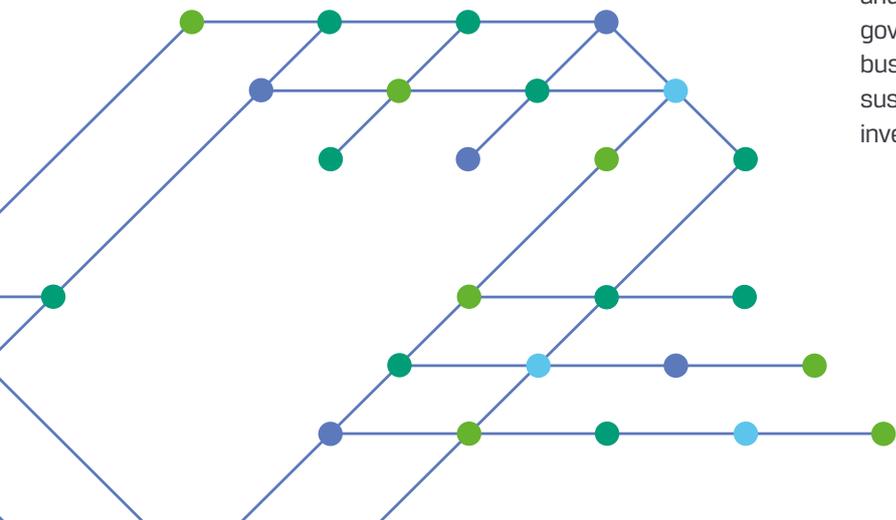
AIA is the largest independent publicly listed pan-Asian life insurance group with a presence in 18 markets across the Asia Pacific region. AIA Investments (Investments) is a key internal function that invests the Group's assets to ensure AIA's financial sustainability and to deliver targeted risk-weighted returns and efficient capital deployment.

The CFA Institute GIPS standards are a rigorous set of performance standards based on the principles of fair representation and full disclosure. They enable investment managers and asset owners to follow an ethical framework for the calculation and presentation of investment performance. This allows investors to compare performance and track records across products. The GIPS standards have been adopted by more than 1,700 investment firms and asset owners in 47 markets and are recognised around the world for their unparalleled credibility, integrity, scope, and uniformity.

AIA's process to become compliant with the GIPS standards involved multiple teams within the organisation. Integral to success was strong leadership from Mark Konyon, the Group CIO who sponsored the project internally, with support from Group management at the highest levels.

Successful outcomes have been both practical and cultural, and include the following:

- **An overhaul of data and data governance**, resulting in consistency and a focus on decision-useful data across the Investments business.
- **Better-informed investment decisions**, in particular, through the use of data for tactical asset allocation and new reports that bring added dimensions to understanding performance factors within portfolios.
- **Standardisation of terminology and reporting processes** across AIA's 18 regional markets as well as external managers, creating comparability and a more robust risk management and governance framework with a common reporting language.
- **Improved credibility** for the Investments activities with both internal and external stakeholders. This includes AIA's Group management, as well as shareholders, regulators, and the end clients AIA serves.
- **A scalable framework** for quicker responses to incoming requests and more flexibility in creating new reports, saving time, and improving efficiency.
- **A culture of best practice** that enables the organization to respond quickly to future changes affecting the business and the insurance industry as a whole, which embeds governance into the infrastructure of the Investments business. This culture aligns with AIA's strong focus on sustainability, both in its business model and its investment strategy.



Who? Key Functions

The following team leaders were instrumental in leading the process of achieving compliance with the GIPS standards:



Mark Konyn, Group CIO, heads the Investments function within AIA Group. This includes a Group-level internal asset management company and a series of local asset management companies and investment departments delivering targeted risk-weighted returns on all of the Group's assets. Konyn is the owner and key sponsor of the initiative.



Soo Thiam Tan, Regional Director of Fixed Income, heads the pan-Asian fixed-income group, including teams in 18 regional markets. This group was most affected by the introduction of benchmarks for the fixed-income portfolios resulting from the adoption of the GIPS standards. As part of their ongoing management and analysis of portfolios, this group uses many of the new reports.



Garth Jones, Group CFO, oversees the insurance group's balance sheet and financial performance, with responsibility for ensuring assets from Investments are aligned with future liabilities. His team also uses reports from the Investments team for engagement with AIA's Board of Directors, shareholders, and regulators.



Trevor Persaud, Head of Investment Solutions, runs a range of transformation projects for the Investments function, including compliance with the GIPS standards, tactical asset allocation, and investment optimisation. Persaud ran the feasibility study that formed the basis of the initiative and is involved in the implementation of performance standards on an ongoing basis.



Kevin Brocklehurst, Regional Director of Investment Governance, leads the team that was integral to the initiative, helping scope the project and assisting the middle-office experts in translating the process and outcomes of the GIPS standards into the AIA governance framework. This team acts as the first line of defence in maintaining the policies and procedures on an ongoing basis.



Siew-Cheong Kong, Regional Director of Investment Operations, manages all of the investment operations and middle-office functions and is responsible for investment reporting and risk and quantitative analytics. This team also designs and produces reports that are used in a variety of ways, including by the portfolio management teams to inform decision making, for investment committee meetings, and for management to compare performance data from 18 markets and across external managers. This team was responsible for the majority of the work involved in changing the data and reporting models in order to achieve compliance with the GIPS standards, researching benchmark selection, and implementing new reports.

Why? The Objectives

AIA Investments set out to meet the following objectives:

Future proofing using a globally recognised best practice framework.

AIA embarked on a multiyear project to future proof its business model and ensure that the organisation is **well positioned to adapt to a rapidly changing and dynamic investment market**. This is particularly important given the convergence of regulations and technology driving change through the global insurance industry. The GIPS standards, which require the use of fair value rather than book value, are well aligned with changes in the broader accounting and regulatory worlds in which AIA operates, in which market-based metrics are increasingly relevant.

Implementation of the GIPS standards was selected as a key component of transformation of the Investments function, providing a well-established framework, particularly in the standardisation of terminology, governance, and data requirements. As Konyyn says, "If you try to overhaul your data, you'll end up doing it twice if you don't have a clear framework. The GIPS standards provide that for you."

"We wanted to strengthen the credibility of the investment process and improve our investment decision-making capabilities so we're well prepared to respond to future requirements. We wanted to understand the gaps and build a structure that helps us be the best we can be."

Mark Konyyn, Group CIO

Improving data consistency and credibility.

The Investments group wanted to build confidence that the **data being combined from many different internal businesses was consistent and comparable. This group also hoped to drive more granular insight into factors affecting investment performance**. Consistent data across the businesses supports the matching of investment assets to liabilities and provides more context to understand investment decision making and risk-return profiles of the investments.

The GIPS standards are well known by asset managers, many of whom are required to comply by their clients; however, for asset owners, the benefit is directly related to increasing data-driven insights into risk and performance of their own assets.

Building systematic and scalable processes, embedded in governance.

Compliance with the GIPS standards was intended to support other transformation projects within the Investments team with a focus on efficiency and best practice. These projects include enhancing tactical asset allocation and the creation of centralised centres of excellence with a consistent governance model for certain investment and middle-office functions.

"We set out to better understand, quantify, and classify all the investments that we are responsible for. That created a systematic process which can be optimized and maintained consistently over time."

Trevor Persaud, Head of Investment Solutions

How? The Process

The process to achieve compliance with the GIPS standards involved seven key steps:

01

Choosing the GIPS standards

Functions involved: Group CIO, Group Management, Investment Governance, Investment Operations

The project supported the goals of improving the operating model and the governance of the Investments function. With a focus on data and standardisation, the GIPS standards are well aligned with AIA's decision to use global best practices. The GIPS standards also provide a well-recognised framework for transformational change of data and governance processes, supported both by the CFA Institute Global Industry Standards team and a range of industry consultants and verification providers with deep technical knowledge.

02

Setting up the project

Functions involved: Investment Operations, Investment Solutions, Group CIO

AIA conducted a feasibility study to determine the benefit of the GIPS standards for the organisation and to analyse the structures and processes needed to achieve compliance when applied to its business model. This led to a dedicated internal project with funding and staff allocation clearly defined. It became clear that many additional benefits would be delivered if the model was embedded using the data and governance processes rather than as a standalone structure.

03

Communicating with stakeholders

Functions involved: Group CIO, Investment Operations, Investment Solutions, Investment Governance, Portfolio Management, Risk, Management of Local Businesses

As the project evolved, it became apparent that many teams would be affected, both in the selection and provision of data and as users of new reports. It was essential that communication around the requirements, intended output, and the benefits was clear and consistent across a broad range of stakeholders, including group management, portfolio management teams across the different markets, and risk and compliance teams. Konym's strong CIO support throughout the project to "keep everyone on track and focused on the benefits" was essential.

04

Defining metrics for new performance reports

Functions involved: Investment Operations, Portfolio Management, Investment Solutions, Investment Governance, Group CIO, Group Management, Local Businesses

Investment operations and portfolio management teams collaborated to

- review current reports, compare them to reports required for compliance with the GIPS standards, and ask questions about what data was decision-useful as well as why and how; and
- align data requirements and systems across markets and embed them within a new centralised data warehouse.

How? The Process

The process to achieve compliance with the GIPS standards involved seven key steps:

05

Implementing the framework and being verified

Functions involved: Investment Operations, Investment Solutions, Investment Governance, Portfolio Management

Much of the "heavy lifting" of implementation was performed by the Investment Operations middle-office team, with guidance on the framework provided by Investment Solutions and Investment Governance. Specifically, this involved

- standardising terminology and establishing processes for setting up funds, resulting in a consistent and centrally managed Fund Control List with fixed procedures for any changes to it;
- researching, identifying, and agreeing to suitable benchmarks for each fund in collaboration with portfolio management teams across AIA's 18 regional markets;
- making decisions over authority and use of data to ensure integrity and a robust data governance model;
- taking AIA's established internal governance framework of policies, procedures, training, and certification and embedding GIPS standards requirements into them; and
- Using an external firm to independently review AIA's processes and reports, and conduct a verification of the organisation.

While this may not change the investment allocation, this enables the investment teams to consider how well their portfolios are performing compared with external metrics (and why they performed in that way), determine what aspect of the investment is contributing to performance, and validate or explain variations. This analysis should result in better investment outcomes over the long term.

Group management and local business management teams are using the reports for improved asset-liability matching as well as to support conversations with the Board of Directors and external stakeholders, including regulators and investors.

New uses of data and reports are constantly evolving, for example, to inform decisions about which regional business units should manage certain assets for optimal outcomes and to improve tactical asset allocation.

"Without the GIPS standards, we couldn't achieve our goals for tactical asset allocation to improve total returns."

Mark Konyn, Group CIO

06

Using the new reports

Functions involved: Group CIO, Portfolio Management, Group Management, Local Businesses

Portfolio management teams now use the reports as part of a quarterly attribution process. These reports provide extra context, information, and new dimensions to understand the risk profile and performance of the portfolios, particularly with regard to comparisons against market benchmarks.

07

Supporting ongoing governance and cultural change

AIA has established a dedicated GIPS standards committee for oversight of any changes to the core procedures or policies, ensuring long-term consistency and confidence in the data. The result is a discipline that allows every investment to be consistently mapped to the mandate and reporting, which provides a high degree of confidence in the numbers for all users, both internal and external. The framework is now structurally embedded into the fabric of the overall investment governance process.

Where? An Asset Owner's Organisation

The first insurer in the world to become compliant with the GIPS standards as an asset owner

AIA has established a new model for measuring performance of insurance assets, which sets them up well for improved investment outcomes and potential changes in accounting and regulatory models in the global insurance industry.

This process has required a cultural and mindset shift to embrace the use of benchmarks and mark-to-market models for fixed income, which often has been seen as irrelevant when managing buy-and-maintain insurance portfolios designed to align with specific liability objectives. After clearly determining how the benchmarks would be used, the AIA teams consistently agree this has resulted in one of the biggest areas of transformation.

- Communication was key to addressing initial concerns from fixed-income specialists across the different markets that they may be held accountable to external metrics that were not aligned with portfolio objectives.
- It was important to reassure specialists that they would not need to manage their portfolios to total return benchmarks, remaining focused on matching to liabilities, but that benchmarks could provide valuable contextual information about performance relative to market-driven factors.
- Portfolio management teams and investment operations collaborated to identify relevant benchmarks with a focus on replication of duration and credit risk profile. These benchmarks often were based on local market benchmarks and included custom composites, for example, of corporate and government bonds.
- Although AIA is managing assets for risk while benchmarks show price performance period to period, the insight generated by benchmark comparisons provide clarity and context to inform the risk–return profile.
- The process of defining and implementing benchmarks has fostered collaboration between portfolio management and middle-office teams and raised the profile of and respect for the value that investment operations and middle-office function bring to the business.

Although benchmarking fixed income was a challenging part of the implementation for an insurance asset owner, the AIA team is consistently positive about the benefits this has brought.

"There was initial resistance to these tools based on a lack of experience in how they could help us. But by forcing scrutiny and governance, we've found it extremely useful in being able to better decide, explain and justify our tactical decisions within the context of broader market performance."

Mark Konyyn, Group CIO

"As PMs there are clear benefits for us to be more aware of risk within the portfolios, especially top-down risk and not just credit risk. The portfolios have been hugely tested this year and the data we have due to the implementation of the GIPS standards has given us the context that tells us to hold our course, don't panic. Under different market conditions the divergence from the benchmark varies, which helps us understand the risk/performance correlation better. This gives us more information to decide whether to dial risk up or down and the ability to ask more questions that validate our risk and asset allocation decisions."

Soo Thiam Tan, Regional Director of Fixed Income

"The whole initiative did put the portfolio managers in the spotlight, but it also helped them better evaluate their performance. It helps enable a clearer articulation and evidence of why specific investment decisions have been made. By putting a 'microscope on the process' it has changed how the team look at portfolios and what is contributing value within them – for example how much value is being added from new issuance discounts, sector selection, stock selection, and timing – which helps us manage portfolios more effectively."

Garth Jones, Group CFO

"This has brought a lot of recognition to the middle-office team whose value is highly visible in the implementation of the 'gold standard' of performance reporting."

Siew-Cheong Kong, Regional Director of Investment Operations

What? The Outcomes

AIA Investments has benefitted from implementation of the GIPS standards, in the following ways:

Outcome 1

An overhaul of data processes and data governance, resulting in consistency and a focus on decision-useful data across the Investments business.

"The GIPS standards take away ambiguity about how to do things. This ensures consistency and discipline. It enables more dynamic assessment of assets to liabilities and helps us drive specific financial outcomes. It's also a helpful part of our framework for assessing external managers. And across the board, confidence in the performance numbers and data is very high."

Mark Konyyn, Group CIO

"The ability to measure everything in a comparable way drives accountability and is a key function of success."

Kevin Brocklehurst, Regional Director of Investment Governance

Outcome 2

Better-informed investment decisions, in particular through the use of data for tactical asset allocation, and new reports bring added dimensions to understanding performance factors within portfolios.

"The metrics allow for improved comparison of the different portfolios, which can help determine the allocation of assets across different regional teams/portfolios etc. They give managers new dimensions in understanding the factors affecting the portfolios so they can ask better questions and provide context to explain their decision making."

Soo Thiam Tan, Regional Director of Fixed Income

"For an asset owner, the GIPS standards are not required to win mandates, they create a framework that informs better investment decision making. This directly affects 'their money' — the benefits of a good decision or the downside of a poor one directly impacts their own assets, especially given they hold all the risk."

Trevor Persaud, Head of Investment Solutions

Outcome 3

Standardisation of terminology and reporting processes across AIA's 18 regional markets as well as external managers, creating comparability and a more robust risk management and governance framework with a common reporting language.

"We can have good conversations with management, using credible market referenced data that gives us a common language and basis for those discussions."

Soo Thiam Tan, Regional Director of Fixed Income

"The new data and information can improve the quality of the investment conversations both within the business and for local businesses with their external stakeholders."

Siew-Cheong Kong, Regional Director of Investment Operations

Outcome 4

Improved credibility for the Investments activities with both internal and external stakeholders. This includes AIA's Group management, as well as shareholders, regulators, and the end clients AIA serves.

"I'm confident in the data that can now be produced, using it in discussions with the Board, shareholders, and rating agencies. And for an asset management company, compliance with the GIPS standards is certainly a great ticket to bring along when speaking with your regulators."

Garth Jones, Group CFO

"The GIPS standards have enhanced the credibility of the information coming from the investment function to stakeholders, such as finance, risk, and compliance. As a result, this has enhanced the overall credibility of the whole investment function."

Kevin Brocklehurst, Regional Director of Investment Governance

"We all know that our reports are accurate, consistent and follow an objective and independent methodology."

Siew-Cheong Kong, Regional Director of Investment Operations

Outcome 5

Scalable processes that enable quicker responses to incoming requests and more flexibility in creating new reports, saving time and improving efficiency.

"The project has driven improvements in the middle-office processes to be able to respond much quicker to front-office requests. They did a lot of work on the implementation in a relatively short period of time."

Soo Thiam Tan, Regional Director of Fixed Income

"Uses of data are constantly improving and increasing. There's a realisation now that what we can do with the data in its new format creates massive potential in upgrading monitoring and reporting, making changes, and improving investment outcomes."

Trevor Persaud, Head of Investment Solutions

"The plumbing we put in place for compliance with the GIPS standards will now form the basis of all investment reporting and can be leveraged to create specific reports for specific needs."

Siew-Cheong Kong, Regional Director of Investment Operations

Outcome 6

A culture of best practice which enables the organisation to respond quickly to future changes affecting the business and the insurance industry as a whole, and embeds governance into the infrastructure of the Investments business. This aligns with AIA's strong focus on Sustainability, both in its business model and its investment strategy.

"Once the wheels were set in motion, the GIPS standards became all-encompassing and a lot of people bought into it. It's become a byword internally for improving processes and best practice."

Trevor Persaud, Head of Investment Solutions

"The entire process has enhanced the function and effectiveness of the investment operations team. It's raised aspirations for best practice."

Siew-Cheong Kong, Regional Director of Investment Operations

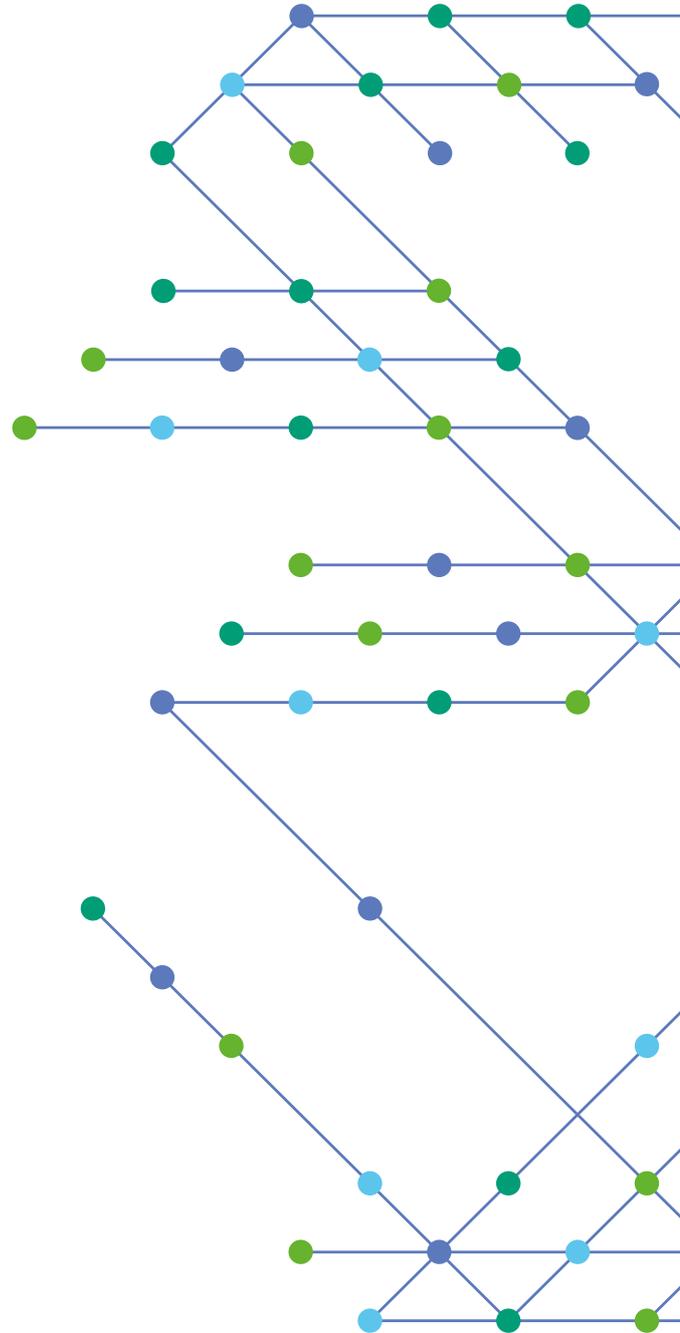
"By changing the culture to deepen understanding of total returns and benchmarking, we've introduced a new dimension that can impact portfolio managers' behaviour early in the investment cycle."

Soo Thiam Tan, Regional Director of Fixed Income

Lessons Learned

When asked what they wished they had known at the start of the process that they learned along the way, the AIA team offered a number of recommendations:

- **Remember that the GIPS standards are not a standalone process or compliance exercise, but rather a transformative tool when woven into the infrastructure of the investment and governance process.** Konyon describes a "false start" before they re-organised the project to embed the GIPS standards throughout the existing model. The benefits of embedding this process, however, are significant: "This then becomes a gift that keeps on giving. Once the GIPS standards are embedded, they're there for good and the downstream benefits to the organisation quickly start to become apparent."
- **Use available expertise.** The GIPS standards are globally recognised and supported by a range of consultants and verifiers. Jones notes, "Many of the decisions have a range of levels of implementation, from what is 'minimum required' to what is 'best practice.' Experts and consultants can help with those decisions, trade-offs, and the cost-benefit analysis."
- **Communicate, communicate, communicate.** Every AIA team agreed that the success of the project is reliant on bringing together different teams and having a clear vision for the intended outcomes and benefits. Kevin Brocklehurst, Regional Director of Investment Governance, explains, "Strong senior management is a key factor in the level of focus and success this project achieved." Siew-Cheong Kong, Regional Director of Investment Operations, agrees, "Be clear up front about what is needed – it helps when there's a lot of communication to all the key stakeholders about what it means and the benefits it will bring."



Conclusion

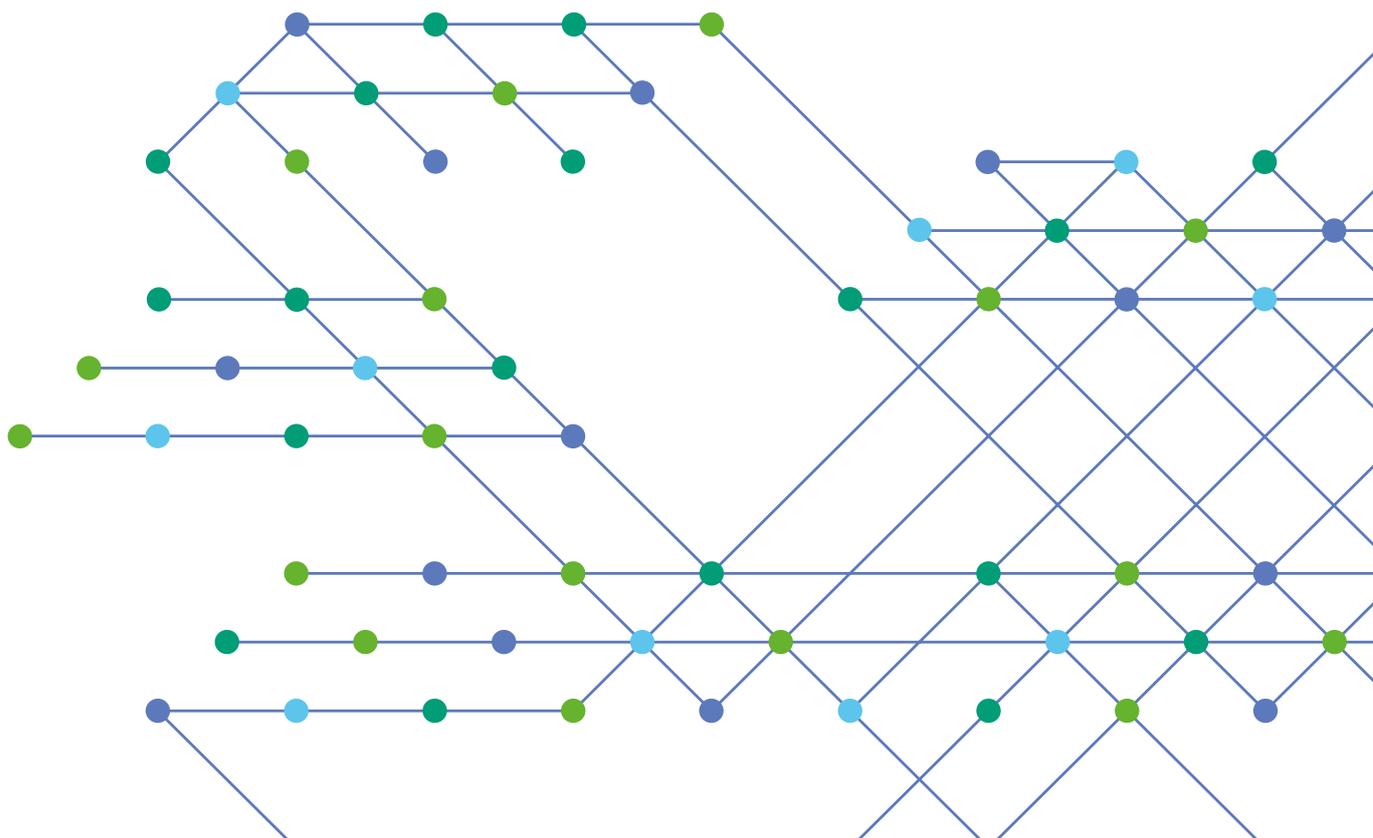
AIA's GIPS-compliance journey has been a transformative process, with benefits realised not only once compliance was achieved but also from the moment the teams started the project. This process has been driven by collaboration across a wide range of teams as well as by an organisation level of commitment to implementing best practices. The results already have justified the work, with an expectation that this framework will enable AIA to continue to evolve and perform in a rapidly changing business, investment, and regulatory landscape.

"I wish I'd known the full impact from the start. We still continue to find new benefits every day after going through the process of complying with the GIPS standards."

Trevor Persaud, Head of Investment Solutions

"Just do it. When we started this, I believed the end goal would be worth it, but we didn't realise how valuable the process would be in helping us transform. The results have gone far beyond our expectations."

Mark Konyn, Group CIO



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