

**INTERNAL EDUCATION
FOR A FIRM
CLAIMING COMPLIANCE
WITH THE GIPS[®] STANDARDS**

TABLE OF CONTENTS

Summary.....	2
Introduction.....	2
Coming into Compliance.....	2
Getting Started.....	4
Getting Management Buy-In.....	4
Designating an Expert on the GIPS Standards.....	4
Identifying the Teams to Target.....	4
Determining the Audience.....	6
Setting Up the Presentations.....	6
The Educational Presentation in Brief.....	7
The Educational Presentation in Greater Detail.....	7
1. Putting the GIPS Standards into Context.....	8
2. The Importance of Compliance with the GIPS Standards to the Firm.....	8
3. The Importance of Compliance with the GIPS Standards to Investors.....	8
4. The Importance of Maintaining Compliance with the GIPS Standards for the Firm.....	9
5. Some Key Requirements of the GIPS Standards.....	9
6. The Importance of Teamwork.....	10
7. Compliant Presentations.....	10
8. The Importance of Documentation.....	12
9. The Importance of Communication.....	12
10. Compliance: Portfolios and Composites.....	12
11. Composite Minimum and Marketing Minimum.....	13
12. Wrap (SMA) Track Record (if relevant to your firm).....	13
13. Verification and Performance Examination.....	13
14. Conclusion.....	14
Appendix: A Brief History of the GIPS Standards.....	15

INTERNAL EDUCATION FOR A FIRM CLAIMING COMPLIANCE WITH THE GIPS® STANDARDS

[Note: This paper and accompanying template were published in 2012 and do not include any changes to the GIPS standards that occurred after that date. Please determine if any changes to the GIPS standards need to be incorporated into your educational materials.]

SUMMARY

Think of the number of individuals within a firm who directly or indirectly impact the firm's compliance with the Global Investment Performance Standards (GIPS®). It's likely to be a surprisingly high percentage of employees. If a firm is to be successful in its efforts to be compliant, these professionals need to know enough about the GIPS standards to understand how their actions can impact compliance. Employing internal education on the GIPS standards is one way to achieve this.

This paper is aimed at anyone who is charged with establishing and/or maintaining compliance with the GIPS standards. Whether part of a large or small firm – whether the team responsible for compliance with the GIPS standards is made up of one person or a dozen people – this paper should help in the process of designing and executing an internal education program for a firm.

In putting together this paper, we have gathered insights from those who are familiar with the practicalities and pitfalls of maintaining compliance, including those who have carried out internal education sessions for their own firms. We have also provided a PowerPoint template to help firms with efforts to create internal education sessions. It is important to keep in mind, though, that the template is based on the information in this paper and should only be used after careful consideration of the material below. In addition, since every firm is unique, the internal education sessions for a particular firm will only have meaning if the template is taken along with the suggestions below, to create a presentation that is focused on the firm and its specific circumstances. We trust, however, that the paper and template will help save time and effort, allowing firms to concentrate on tailoring a message to fit their needs.

INTRODUCTION

Coming into Compliance

The path to compliance with the GIPS standards often follows a very predictable pattern. Firms first make the decision that compliance with the GIPS standards is important, and then embark on the initiative to become compliant. (For the steps involved in becoming compliant, please see <http://www.GIPSstandards.org/compliance/about/index.html>.) For some firms, this may be an easy project because they were already following most of the provisions that the GIPS standards require. At a minimum, the firm will need to review their written policies and procedures related to compliance with the GIPS standards, check to make sure that all portfolios are accounted for and in the right composites, and modify the marketing materials in order to be ready to claim compliance. Sometimes, however, compliance with the GIPS standards is not as easy to achieve. A policies & procedures manual may have to be drafted from scratch. It may take time and thought to define the firm or determine which portfolios go into which composites. The

calculation methodology may have to be changed. Marketing materials may require a lot more work than simple modifications.

Compliance with the GIPS standards can be challenging to maintain. The GIPS standards and local regulations evolve over time to address developments in the financial markets, and this may require changes in the firm's procedures. There may be internal realignment within the firm. A client's investment mandate, objectives or strategy guidelines may change. New portfolios are added and some are terminated. For all these reasons, compliance with the GIPS standards is not easy to achieve or maintain. It is an endeavor that requires the involvement of teams throughout the firm. If colleagues outside of the team overseeing compliance with the GIPS standards help with the task of maintaining compliance, they need to understand their role. Therefore, internal education on the GIPS standards is critical for any firm who claims compliance with the Standards.

Firms that claim compliance with the GIPS standards range from small business entities managing significantly less than \$1 billion in assets, with the whole firm housed in one office building to entities with assets of over \$1 trillion with offices around the globe. While this paper refers to "teams", there are firms where the compliance team, operations team, or team overseeing compliance with the GIPS standards consists of just one person. This makes it even more imperative that others in the firm know why it is important for the firm to be compliant with the GIPS standards and what their roles are in maintaining compliance.

The best way to conduct internal education on the GIPS standards depends on how the firm is structured, factoring in its size and the number of geographic locations. In some cases, the team responsible for the Standards can meet with other employees in face-to-face meetings. In other situations, educating members of the firm on the GIPS standards may require the use of conference calls or webcasts. While the format of the educational sessions may vary widely, the core content of the sessions is likely to be remarkably similar from situation to situation, assuming that the team overseeing compliance with the GIPS standards is spearheading the firm's initiative on GIPS education. If another team is responsible, for example, the compliance team, the steps should be virtually identical.

GETTING STARTED

Getting Management Buy-In

The first step for an internal education initiative is to gain management buy-in. In some firms, this can be relatively informal. The team responsible for the GIPS standards may see the need to educate other teams about the GIPS standards and is empowered to act. In other firms, the team may need to work through specific channels to get the consent for internal training. In either case, there is some groundwork that needs to be laid out before the initiative can begin.

Designating an Expert on the GIPS standards

It is important that at least one person in the firm be identified as the “go to” person for issues relating to the GIPS standards. No matter how well-structured and informative an educational initiative may be, if there is no point person who is in charge of compliance with the GIPS standards, communication can be a challenge.

Identifying the Teams to Target

Almost every team in the firm is involved in the GIPS standards in one way or another. However, in some cases, for instance with the operations or legal/compliance team, the educational initiative is likely to take a form other than a periodic workshop.

Operations Team

When a firm is first becoming compliant with the GIPS standards, a lot of interaction between the team responsible for GIPS compliance and the operations team needs to take place, particularly around the issues related to Input Data and Calculation Methodology. Modifications might have to be made to the performance calculation process so that the team responsible for compliance with the GIPS standards is confident that the right calculation methodology is being used. The goal is to ensure that the operations team understands the applicable requirements of the GIPS standards and that the systems and procedures are in place to ensure data accuracy and adequate quality control.

As part of this process, a strong ongoing communication loop between the team involved with the GIPS standards and the operations team needs to be established, along with an awareness of the type of information that needs to flow between the teams. For example, there should be the understanding that the team overseeing the GIPS standards will be consulted when projects are undertaken that could impact performance measurement, assignment of portfolios to composites, the calculation of assets under management, valuation, and other issues related to the GIPS standards. On a day-to-day basis, the operations team should know that the team involved with the GIPS standards needs to be notified about retroactive changes to data and the reasons for the changes, and should be consulted when decisions have to be made about how to treat a particular fee or an infrequent type of capital action. In firms with a strong culture of compliance, there are usually processes set up to ensure that the appropriate notification takes place.

Note that colleagues on the operations team may view compliance with the GIPS standards as more of a marketing need than an operations issue. Pointing out the benefits of compliance to them can be greatly beneficial. Such benefits might include improved data integrity, improved communication among those involved in the data process, and a consistent and known set of

principles governing assets under management calculations, performance measurement methodology, and the classification of assets.

Legal / Compliance Team

In some firms, the legal/compliance team may handle compliance with the GIPS standards. In many firms, however, the legal/compliance team focuses on regulatory compliance while a separate team handles compliance with the GIPS standards. Since a regulator may investigate a firm's claim of compliance with the GIPS standards when it is conducting an examination of the firm, and since the GIPS standards require that a firm comply with all applicable laws and regulations regarding the calculation and presentation of performance, these teams, if separate, must work closely together. There should be constant communication back and forth as issues come up, so that matters are handled with an eye to requirements of both regulators and the GIPS standards. While the educational initiative may not be aimed at the legal/compliance team because of the ongoing communication regarding compliance with both the GIPS standards and regulatory requirements, one or more members of the legal/compliance team may choose to sit in on the sessions to: a) get a refresher on some of the key issues related to the firm's compliance with the GIPS standards and b) answer any general questions on issues that may come up that deal more with regulatory matters than with the GIPS standards.

The legal/compliance team, if it is separate from the team responsible for the GIPS standards, is likely to understand the importance of maintaining compliance with the GIPS standards. It should be well aware of the importance of the firm living up to its claims.

Teams That Are Most Likely to Benefit from Periodic Educational Initiatives

The teams most likely to benefit from periodic educational initiatives are those that have prospect or client contact and/or are responsible for portfolio management. Regardless of what the teams are called or their reporting lines, they usually involve the functions of:

- ◆ Sales and marketing.
- ◆ Client relationship/servicing.
- ◆ Portfolio management.

It is important for members of the firm's sales and marketing team to understand what materials must be provided in various situations. It is also important for them to understand and be prepared to discuss the meaning of claiming compliance with the GIPS standards. This is also an important function for others with client contact, including those who have client servicing responsibilities. Finally, those who are involved in portfolio management must understand what types of portfolio changes need to be communicated to the team responsible for compliance with the GIPS standards in order to ensure that the composite assignments are correct.

Sales and marketing teams usually understand the importance of compliance with the GIPS standards, since they know the prevalence of questions in RFPs that focus on whether or not a firm is claims compliance with the GIPS standards. Portfolio managers and client relationship/servicing colleagues may be less aware of the importance of compliance. They are keenly aware, however, of the importance of performance data that accurately reflect the firm's strategies. And accurate composite performance requires an ongoing flow of communication regarding changes to portfolios, such as the addition of a mutual fund to a client's portfolio or

changes to a client's investment strategy or benchmark. They are therefore likely to appreciate the importance of communicating portfolio changes that could impact composite construction.

Determining the Audience

It is best to conduct GIPS education team by team, rather than in one big session, for the following reasons:

- ◆ A smaller group typically results in more interaction – especially if the participants work together and know each other well.
- ◆ The presentation can be tailored to the specific team. The portfolio managers, for example, need to hear things that are of no relevance to sales and marketing (such as the need to communicate changes to the portfolio that may impact composite assignment). Since all of the participants have a similar function, the custom presentation can focus only on the issues relevant to a particular team, resulting in the efficient use of resources.
- ◆ The discussion will likely be relevant to all those involved and result in a productive dialogue.

If the education sessions cannot be done on a team by team basis, an effort should be made to organize the presentation so that what is relevant to the whole audience comes first. Information targeted to a specific group can be reviewed separately.

Setting up the Presentations

Once the teams are identified, presentations can be set up with the team leaders. Presentations should be lively, engaging, and memorable with the goal to enable everyone involved to understand their part in ongoing compliance.

THE EDUCATIONAL PRESENTATION IN BRIEF

The opportunities to meet with each team are likely to be infrequent, so it is best to create presentations that are as informative and memorable as possible.

Since every firm is unique, there is no “cookie cutter” approach to creating a presentation that is just right for a firm. However, below are some topics that are likely to be important for every firm, and they are included in the accompanying template. The topics and sequence can be changed as necessary to customize the presentation for the needs of the firm.

1. Putting the GIPS Standards into context.
2. The importance of compliance with the GIPS standards to the firm
3. The importance of compliance with the GIPS standards to investors
4. The importance of maintaining compliance with the GIPS standards for the firm.
5. Some key requirements of the GIPS standards
6. The importance of team work
7. Compliant presentations
8. The importance of documentation
9. The importance of communication
10. Compliance: portfolios and composites.
11. Composite minimum and marketing minimum.
12. Wrap (SMA) Track Record (if relevant to your firm).
13. Verification and Performance Examination.
14. Finale.

Appendix: A brief history of the GIPS standards.

Certain topics are important for every team to learn about, from sales/marketing to portfolio managers. Other topics are aimed more specifically at teams that have client contact and/or knowledge of the day-to-day management of client portfolios. One way to proceed is to create a master deck of slides that encompasses all of the topics relevant to the firm. When making a presentation to a particular team, the slides that are pertinent to that team can be presented.

It is important that the presentation is customized to fit the firm so that it is focused on what is relevant and essential for the specific firm and its compliance with the GIPS standards.

THE EDUCATIONAL PRESENTATION IN GREATER DETAIL

The following are illustrations of some points that may be considered for inclusion in the various sections of the presentation, depending on what is appropriate for the firm.

1. Putting the GIPS Standards into Context.

It may help to put the GIPS standards in the appropriate context for the audience by providing some information on how widespread compliance with the GIPS standards is across the globe. There are a number of surveys that provide information on this. The data below comes from the 2012 Manager and Consultant Survey conducted by ACA Compliance Group and eVestment Alliance. The survey represents the global marketplace.

In the referenced survey, 339 responses were gathered and the percentage of respondents whose firms claim compliance with the GIPS standards is 75%. . 69% of respondents believe that compliance with the GIPS standards is essential to compete in the institutional marketplace.

Since not all firms are compliant with the GIPS standards, there may be situations where a firm's compliance can become a competitive advantage. It is helpful for the sales and marketing staff to know this.

2. The Importance of Compliance with the GIPS Standards to the Firm

Participants in the survey referenced above gave a number of reasons for their firms' compliance with the GIPS standards. They included:

- ◆ It is essential to compete in the institutional arena.
- ◆ It reinforces a firm's commitment to a higher ethical standard.
- ◆ It enhances a firm's internal controls.
- ◆ It provides a competitive advantage.

Firms may have different reasons for the complying with the GIPS standards, including that the firm has a vested interest in the key principles underlying the GIPS standards: fair representation and full disclosure. Complying with the Standards is a demonstration of the firm's interest in integrity and best practices, as well as protection of investors' interests.

3. The Importance of Compliance with the GIPS Standards to Investors

Here are some of the reasons prospects, consultants and a firm's current clients value the firm being compliant with the GIPS standards:

- ◆ Comparability of investment performance across investment firms and geographic locations.
 - ✓ Consistent and comparable calculations.
 - ✓ Reliable, objective data for due diligence.
 - ✓ Required disclosures that help in understanding the performance presented.
- ◆ Greater confidence in performance data.
 - ✓ All actual, discretionary portfolios must be included in at least one composite – not just the highest performing portfolio(s) – eliminates cherry picking.
 - ✓ Annual returns for a minimum of 5 years (or since inception if there is a shorter track record) building up to minimum of 10 years must be presented– eliminates the presentation of selective time periods only.
 - ✓ Only actual performance may be included in a composite – not performance from models or back testing.
 - ✓ The history of terminated portfolios must be included in composites – survivorship bias is avoided.
- ◆ Demonstration of a firm's willingness and commitment to adopt industry best practices.
- ◆ Indication of a firm's adherence to the principles of fair representation and full disclosure.

Furthermore, the cost to an investor of hiring a firm that claims compliance with the GIPS standards is not typically a lot higher than hiring one that does not.

Although being compliant with the GIPS standards is a competitive necessity for many firms, a sales/marketing staff that understands and can articulate the importance of compliance with the GIPS Standards, without misrepresenting or misstating the facts pertaining to the GIPS standards and the firm's compliance with the GIPS standards, may be able to change compliance from a competitive necessity into a competitive advantage.

4. The Importance of Maintaining Compliance with the GIPS Standards for the Firm

If a firm claims compliance with the GIPS standards, it is important for it to live up to that claim. A solid relationship between a firm and its clients is built on trust, and that trust can be easily lost if the firm gains a reputation for making false claims of any kind. In addition, while regulatory agencies do not require firms to comply with the GIPS standards, if a firm does claim compliance with the Standards, a regulator may investigate that claim during an examination of the firm. While this might appear to be a deterrent to moving to compliance, the decision to comply is usually based on a number of strong reasons, including the desire to follow best practices regarding the presentation of performance in a fair manner, as well as competitive necessity. The potential for regulators to pay close attention to a firm's claim of compliance only adds to the importance of ensuring that all those involved are on board with compliance efforts, and know enough about the GIPS standards to make sure that their efforts are consistent with the requirements of the GIPS standards.

If a regulator does determine that a firm is not in compliance, the firm may be accused of fraudulent advertising. Penalties for misrepresenting compliance with the GIPS standards may include fines or being ordered to disclose to current and prospective clients, for a specified period of time, that the firm was found to be making fraudulent claims of compliance with the GIPS standards.

5. Some Key Requirements of the GIPS Standards

While going over all of the requirements of the GIPS standards may not be an ideal approach in such a presentation, a high level overview may help the audience better appreciate the nature/scope of the GIPS standards. Select requirements may be focused on. These might include some or all of the following:

- ◆ Firm assets are to be valued at fair value as opposed to market value.
 - ✓ Recommended valuation hierarchy is similar to FAS 157
- ◆ Every discretionary portfolio must be in an appropriate composite.
- ◆ All policies and procedures used in establishing and maintaining compliance must be documented.
- ◆ The firm must follow specific calculation methodologies so returns can be compared from one manager to another, including
 - ✓ Asset-weighting of individual portfolio returns.
 - ✓ Accrual accounting for fixed income securities and all other investments that earn interest income.
 - ✓ Revaluing of portfolios at least monthly and on the date of a large cash flow.

- ✓ Inclusion of the impact of cash (cannot show equity-only or fixed-income only returns, except as supplemental information).
- ✓ Deduction from total returns of actual trading expenses incurred.
- ◆ Every prospect must receive a compliant presentation that satisfies
 - ✓ All relevant regulatory requirements.
 - ✓ All of the GIPS disclosure and reporting requirements – including any significant event that would help a client interpret the performance record, such as significant personnel changes or changes in the investment style of a composite.
- ◆ A firm may include additional or supplemental information in a compliant presentation if the information
 - ✓ Does not contradict or conflict with required information.
 - ✓ Is clearly labeled as supplemental (and is of less or equal prominence).
 - ✓ Is compatible with the principles of fair representation and full disclosure.

It should be clear to those attending the education sessions that meeting these (and other) requirements of the GIPS standards is a firm-wide effort and everyone's actions count. The importance of teamwork is stressed in Section 6 below.

6. The Importance of Teamwork

With the goal to make sure that all the players understand the important part they play in maintaining compliance with the GIPS standards, below are some important points to cover:

- ◆ The team overseeing compliance with the GIPS standards is responsible for
 - ✓ Knowing the GIPS standards.
 - ✓ Keeping up with changes to the GIPS standards.
 - ✓ Setting up processes and procedures – including the lines of communication among teams – to ensure that the firm remains compliant.
- ◆ What the team responsible for compliance with the GIPS standards needs from other teams falls into a few key areas:
 - ✓ Communication of the information necessary to assign portfolios to the appropriate composite (or to establish the reason for exclusion).
 - Documentation for the strategy/mandate for new portfolios.
 - Documentation of restrictions or other circumstances that would prevent a new portfolio from being assigned to a composite.
 - Notification of changes to existing portfolios that would impact composite inclusion (along with appropriate documentation).
 - ✓ Data necessary for the calculation of composite performance and the creation of a compliant presentation and retention of all required data/records.
 - ✓ Getting the right materials to prospective clients.

7. Compliant Presentations

It is important to make sure the members of your audience are familiar with the current version of the firm's performance presentation materials. This is especially important for anyone who has contact with clients or prospective clients, since they might be asked to explain some of the features of the presentation.

- ◆ Some of the most important elements of a compliant presentation include:

- ✓ At least 5 years of annual returns building to a minimum of 10 (or since inception track record is shorter).
- ✓ The strategy's benchmark (or explanation of why no benchmark is presented).
- ✓ 3-Year annualized ex-post standard deviation for both the composite and benchmark.
- ✓ Fee schedule.
- ✓ Claim of compliance (exact wording must be followed).
 - Must indicate if the firm is or is not verified.
 - If verified, the claim of compliance must include a required explanation of verification.
- ✓ The number of portfolios in the composite, composite assets, firm assets or % of firm assets represented by the composite and internal dispersion.
- ✓ Required disclosures (some of which must be used by all firms and some of which are required only in specific circumstances).

The team members should be able to answer questions related to the performance presentation that may be posed by prospective clients. Role-play techniques can be excellent learning instruments. These may spark some interesting discussions among the team members in determining the right answer and may help everyone to be more prepared to answer questions pertaining to the compliant presentation.

It is also very important for the team members to understand who can be considered a prospective client.

The GIPS standards define a prospective client as any person or entity that has expressed interest in one of the firm's composite strategies and qualifies to invest in the composite. Existing clients may also qualify as prospective clients for any strategy that is different from their current investment strategy. Investment consultants and other third parties are included as prospective clients if they represent investors that qualify as prospective clients.

It might be helpful to those with sales or client relationship responsibilities to know that a prospective client that is being marketed to over a period of time – including a consultant or database – is only required to receive a compliant presentation on an annual basis. Once the prospective client has received a compliant presentation, it is acceptable to provide them with updated performance information without a compliant presentation for up to 12 months. After 12 months, however, the prospective client must again receive a compliant presentation, if they are still considered to be a prospective client.

The team should also be aware that tracking the materials received by prospective clients is very helpful in implementing a firm's error correction policy which requires that if there is a material error on a marketing piece, a corrected report must be sent to all who received the erroneous information.

8. The Importance of Documentation

It is often the case that people within a firm who have contact with clients and prospective clients don't fully understand the need for documentation as it relates to compliance with the GIPS standards.

For example, the firm should have investment guidelines for each client that include the agreed-upon mandate, objective or strategy (and benchmark as appropriate) that the firm was hired to implement. Note that it is important to have documentation that addresses the investment mandate for which the firm was hired. Often, if a firm is managing a sleeve of a large plan, the firm may have the investment guidelines for the entire plan but nothing that pertains to what the firm was hired to do. The team members must be reminded that if there is a change in the client's strategy (e.g. a change in investment objectives or benchmark), it is important to have written documentation that shows the client requested or agreed to the change.

9. The Importance of Communication

There may be changes to a portfolio that impact its eligibility for a composite. The portfolio managers in a firm should be aware that they need to make the team responsible for compliance with the GIPS standards aware of such changes, which might include:

- ◆ Addition of a pooled fund (either a proprietary or third-party fund) to a portfolio.
- ◆ Client cash needs or continuous cash flows that make it impossible for a manager to fully implement a particular strategy.
- ◆ Changes to discretion due to restrictions being added or removed.
- ◆ Changes to the strategy or benchmark.
- ◆ Changes to the fee structure – i.e. moving to or away from a bundled fee.

Anything that will impact the ability to manage a portfolio according to a particular strategy, allowing that portfolio to track other accounts in the composite, should be communicated to the team responsible for compliance with the Standards.

10. Compliance: Portfolios and Composites

There are a few fundamental rules that are good to review with portfolio managers to help them understand how the construction of the composites that represent the firm's investment strategies is handled. The more portfolio managers understand about composite construction, the more likely they will be to communicate information that might impact the composite assignment of a particular portfolio.

- ◆ Significant Cash Flow Rule
 - ✓ If a significant cash flow rule is in place for any composite, the rule must be applied without exception and can only be changed prospectively.
- ◆ Large Flows
 - ✓ As of 1 January, 2010, portfolios must be revalued on the date of all large cash flows, with "large cash flow" to be defined by the firm.
- ◆ Inclusion of New Accounts in a Composite
 - ✓ Portfolio managers should understand the policy for adding new accounts to a composite and how that policy might be impacted when a new account is funded with securities instead of cash. (For example, in the case of a fixed income

account, it might take some time to liquidate the securities that will not be held going forward.)

- ◆ Terminated Accounts

- ✓ Portfolio managers and the client relationship team need to understand that the timing of the removal of a terminated account from a composite depends on the date on which the firm was notified of the termination and lost discretion, rather than the date on which the account was finally closed on the accounting system. As soon as notification that an account is closing is received by the firm, that communication should be shared with the team overseeing compliance with the GIPS standards. The communication might indicate that the account should be frozen or liquidated immediately or managed through a certain date. As long as the team knows the client's specific instructions, they will be able to appropriately handle removal of the account from the composite.

11. Composite Minimum and Marketing Minimum

The difference between a composite minimum and a marketing minimum is often a source of confusion. If a firm has established a minimum asset level for any of the firm's composites, it can be helpful to review the differences between these minimums.

- ◆ A composite minimum is the minimum or smallest amount of assets necessary to manage a portfolio according to a particular strategy. If a firm chooses to set composite minimums, the minimums are likely to vary from composite to composite, being smaller for equity composites and larger for fixed income composites.

The GIPS standards recommend that a firm not market a particular strategy to prospective clients whose assets fall below the composite minimum. If the firm does not follow this recommendation, prospective clients should at least be cautioned that the composite performance reflects full implementation of the strategy and since their asset size falls below the minimum required for full implementation, their results would have likely been different than the composite results.

- ◆ A marketing minimum is the smallest amount of assets that a firm will accept in a particular strategy. This minimum is entirely at the discretion of the firm and can be as high as the firm would like. Obviously, however, the marketing minimum for any strategy should not be lower than the composite minimum for the strategy.

12. Wrap (SMA) Track Record (if relevant to your firm)

- ◆ A brief explanation of what the firm is using for the wrap (SMA) track record may be helpful to those who are marketing to wrap (SMA) plan sponsors. It may be helpful to remind those involved in marketing within the SMA channel that they must use the compliant marketing materials that meet the special requirements for wrap assets, with net-of-fees numbers that reflect the wrap fee schedule.

13. Verification and Performance Examination

Those who maintain contact with client, consultant or prospective clients might be asked to explain the difference between verification and a performance examination. Being able to offer an articulate explanation is important.

- ◆ A verification is performed by an independent third party and assesses whether a firm
 - ✓ Has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis.
 - ✓ Has policies and procedures designed to calculate and present performance in compliance with the GIPS standards.
- ◆ A performance examination may be performed if a firm has been verified. It is a detailed examination of a specific composite's compliant presentation by an independent verifier.

14. **Conclusion**

When ending the training session, key elements of the presentation that are particularly important for the team to take away from it can be quickly summarized. The vital message about the importance of a team effort should be emphasized at the close.

As mentioned in the Introduction, a template that can be customized for a firm's educational sessions on the GIPS standards, has been created and can be used in conjunction with this document to create internal education sessions on the GIPS standards.

Appendix: A Brief History of the GIPS Standards

A brief review of the history of the GIPS standards during the presentation may be deemed as valuable information by the team. It is possible, for example, that a prospect or consultant might ask a member of the Sales/Marketing team what happened to AIMR-PPS. With the information in the following Appendix, they will be able to answer such questions. It may also be helpful for the team to have a chronology with dates so they are equipped with the knowledge needed to answer questions about the history of the GIPS standards. .

Brief History of Investment Performance Standards

- ◆ The first voluntary guidelines for North American money managers were created by the Financial Analysts Federation (FAF) and introduced in 1987. These guidelines became the responsibility of AIMR (the Association for Investment Management and Research) in 1990, following the merger of the FAF and the Institute of Chartered Financial Analysts. In 2004, AIMR was renamed the CFA Institute. (CFA stands for Chartered Financial Analyst.)
- ◆ AIMR-PPS (AIMR-Performance Presentation Standards) were first introduced in 1993 and were revised in 1997 and 1999.
- ◆ Global Investment Performance Standards (GIPS[®]) came out in 1999 and were based largely on the AIMR-PPS standards.
- ◆ Effective January 1, 2002, AIMR-PPS standards became the U.S. and Canadian country version of the GIPS standards.
- ◆ By 2005, the investment industries in 25 countries followed the GIPS standards or had a country version of the Standards, such as AIMR-PPS for North America.
- ◆ On January 1, 2006, all country versions of the Standards, including AIMR-PPS, fully converged into one global standard. At that point, AIMR-PPS went away completely and any manager who had claimed compliance with AIMR-PPS now claimed compliance with the GIPS standards (assuming they remained compliant).
- ◆ Any compliant presentation with data more recent than 12/31/2005 should refer to GIPS rather than AIMR-PPS.
- ◆ As of 9/01/2012, 35 countries had joined the global partnership to develop and promote the GIPS standards.
- ◆ For more information on the Standards, visit www.gipsstandards.org.