CFA Institute®
Global Investment
Performance Standards

SURVEY REPORT OF US FIRMS ON THE DISTRIBUTION OF GIPS REPORTS

CFA Institute

www.gipsstandards.org

Executive Summary

During the fourth quarter of 2020, the United States Investment Performance Committee (USIPC), in conjunction with CFA Institute, conducted a survey of US firms to learn about the policies and procedures that firms claiming compliance with the Global Investment Performance Standards (GIPS®) are using to implement the requirements for distributing GIPS Reports. Key takeaways include the following:

- A majority of the survey respondents (66%) indicated that their firm's marketing department will be primarily responsible for tracking and distributing GIPS Reports to prospective clients and prospective investors (together, "prospects").
- More than half of the firms responding (56%) will use some form of a client relationship management (CRM) system to track the distribution of GIPS Reports to prospects.
- The criteria for determining whether a prospect remains an ongoing prospect varied greatly, but 41% of survey respondents will not consider a prospect to be an ongoing prospect after 12 months without interaction.
- For firms managing one or more limited distribution pooled funds, the majority (66%) indicated that they will continue to provide GIPS Composite Reports to limited distribution pooled fund prospects rather than providing a GIPS Pooled Fund Report.
- More than half of respondents (57%) indicated that they will maintain one version of the GIPS Composite Report that includes both composite and pooled fund fee schedules. Approximately 24% will attach separate exhibits with relevant fee schedules, and 14% will maintain multiple versions of the GIPS Reports with different fee schedules.

About the Survey

Although one of the longstanding fundamentals of GIPS compliance has been to make every reasonable effort to provide GIPS Reports[1] to all prospective clients, new provisions in the 2020 edition of GIPS standards may require firms to reconsider their current policies and procedures. We conducted this survey to determine how firms are addressing the requirements related to GIPS Report distribution. The remaining sections of this report analyze the survey results, summarize the key takeaways, reference some of the relevant guidance from the 2020 edition of the GIPS standards, and suggest best practices for firms to consider when complying with these requirements.

GIPS Compliance Status of Survey Respondents

At the time we administered the survey, firms could comply with either the 2010 edition or the 2020 edition of the GIPS standards. We wanted to know whether respondents were already subject to the requirements in the 2020 edition or if they were responding based on what they expected to do after complying with the 2020 edition. As shown in Exhibit 1, a slight majority of firms (58%) already claimed compliance with the 2020 edition of the GIPS standards at the time the survey was taken, while the remainder (42%) still adhered to the 2010 edition of the GIPS standards.

Which option best describes your firm?	
We comply with the 2010 edition of the GIPS standards.	41.5%
We comply with the 2020 edition of the GIPS standards.	58.5%

Exhibit 1 Compliance with the GIPS Standards

Demographics

To gain insight into the firms that responded to our survey, we asked about assets and types of portfolios managed.

[1] A GIPS Report is a presentation for a composite or a pooled fund that includes all of the information required by the GIPS standards.

Firm size had a fairly even distribution across respondents. The two largest groups—approximately 18% each—had total firm assets of more than USD250 billion or between USD5 billion and USD20 billion. The smallest portion of the respondents had between USD250 million and USD1 billion (approximately 6%) or less than USD250 million (approximately 8%). Exhibit 2 shows the full breakdown.

Please indicate your firm's current total firm assets.	
Less than USD250 million	7.9%
USD250 million to USD1 billion	5.9%
USD1 billion to less than USD5 billion	15.8%
USD5 billion to less than USD20 billion	18.4%
USD20 billion to less than USD50 billion	17.1%
USD50 billion to less than USD250 billion	16.4%
More than USD250 billion	18.4%

Exhibit 2 Total Firm Assets

Respondents were asked what types of portfolios their firm manages. As expected, the overwhelming majority of the respondents (approximately 97%) indicated that their firm manages segregated accounts.[2] Approximately 64% of respondents indicated that their firm manages broad distribution pooled funds, and approximately 56% indicated that their firm manages limited distribution pooled funds.[3] Exhibit 3 summarizes the responses.

Which of the following types of portfolios does your firm manage? Select all that apply.	
Segregated Accounts	96.6%
Broad Distribution Pooled Funds (e.g., mutual funds)	63.8%
Limited Distribution Pooled Funds (e.g., hedge funds)	56.4%

Exhibit 3 Types of Portfolios Managed

[2] A segregated account is a portfolio owned by a single client.
[3] A broad distribution pooled fund is a pooled fund that is regulated under a framework that would permit the general public to purchase or hold the pooled fund's shares and is not exclusively offered in one-on-one presentations. A limited distribution pooled fund is any pooled fund that is not a broad distribution pooled fund.

Department Responsible for Distributing GIPS Reports

Maintaining compliance with the GIPS standards requires involvement from many departments within a firm. To better understand who is responsible for distributing GIPS Reports, we asked respondents which department is primarily responsible for ensuring that GIPS Reports are provided to prospective clients and prospective investors.[4] The survey clearly shows that in the majority of firms (irrespective of firm size), the Marketing/Sales/Business Development departments hold this responsibility. The GIPS Report is generally included within marketing materials produced by the Marketing/Sales/Business Development department, such as pitch books or fact sheets, and thus it is unsurprising that these departments are also primarily responsible for ensuring that GIPS Reports are provided to prospects. Exhibits 4 and 5 summarize participants' responses about GIPS Report distribution.

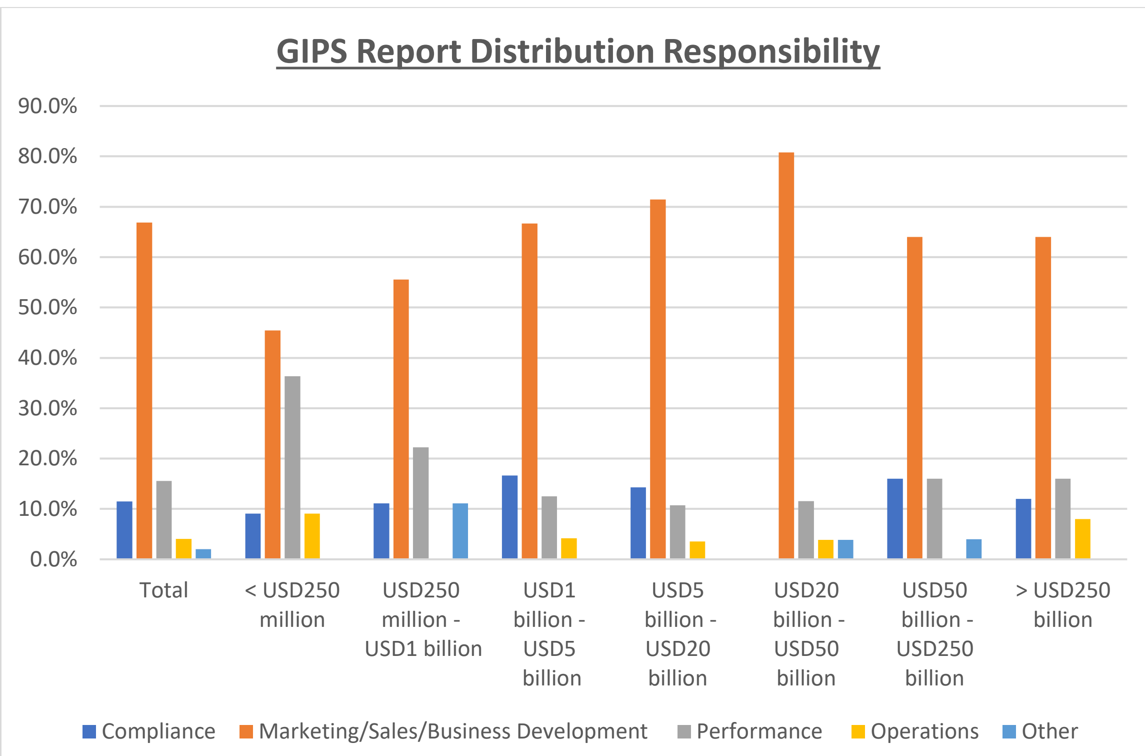

Exhibit 4 GIPS Report Distribution Responsibility by Total Firm Assets

[4] A prospective client is a person or entity that has expressed interest in one of the firm's composite strategies, and a prospective investor is a person or entity that has expressed interest in a pooled fund. These persons or entities must also be qualified to invest in that strategy or pooled fund.

Which department will be primarily responsible for ensuring that GIPS Reports are provided to prospective clients and prospective investors (together, "prospects")?	
Marketing/Sales/Business Development	66.4%
Performance	15.4%
Compliance	11.4%
Operations	4.0%
Other	2.7%

Exhibit 5 GIPS Report Distribution Responsibility

Tracking of GIPS Report Distribution

Although the GIPS standards do not explicitly require firms to track the distribution of GIPS Reports, doing so will facilitate compliance with other requirements. For instance, the GIPS standards state that in the event of a material error in a GIPS Report, a firm must make every reasonable effort to provide the corrected GIPS Report to all current prospective clients and prospective investors that received the GIPS Report with the material error (see Provisions 1.A.20.c and 1.A.21.c). Furthermore, a firm is required to provide an updated GIPS Report to prospective clients and prospective investors at least once every 12 months, if the recipient still qualifies as a prospect. Finally, a firm is now required to demonstrate how it made every reasonable effort to provide prospects with GIPS Reports when required to do so (see Provision 1.A.17).

Given these requirements, a firm should establish policies and procedures for tracking which GIPS Reports were provided to which prospects, and when. Doing so will also allow a firm to determine when ongoing prospects must receive an updated GIPS Report, as well as which prospects must receive a corrected GIPS Report when a material error occurs.

A firm can use different mechanisms to track the distribution of GIPS Reports. We asked respondents which mechanisms their firms use to track the distribution of GIPS Reports to prospects. Exhibits 6 and 7 summarize the results.

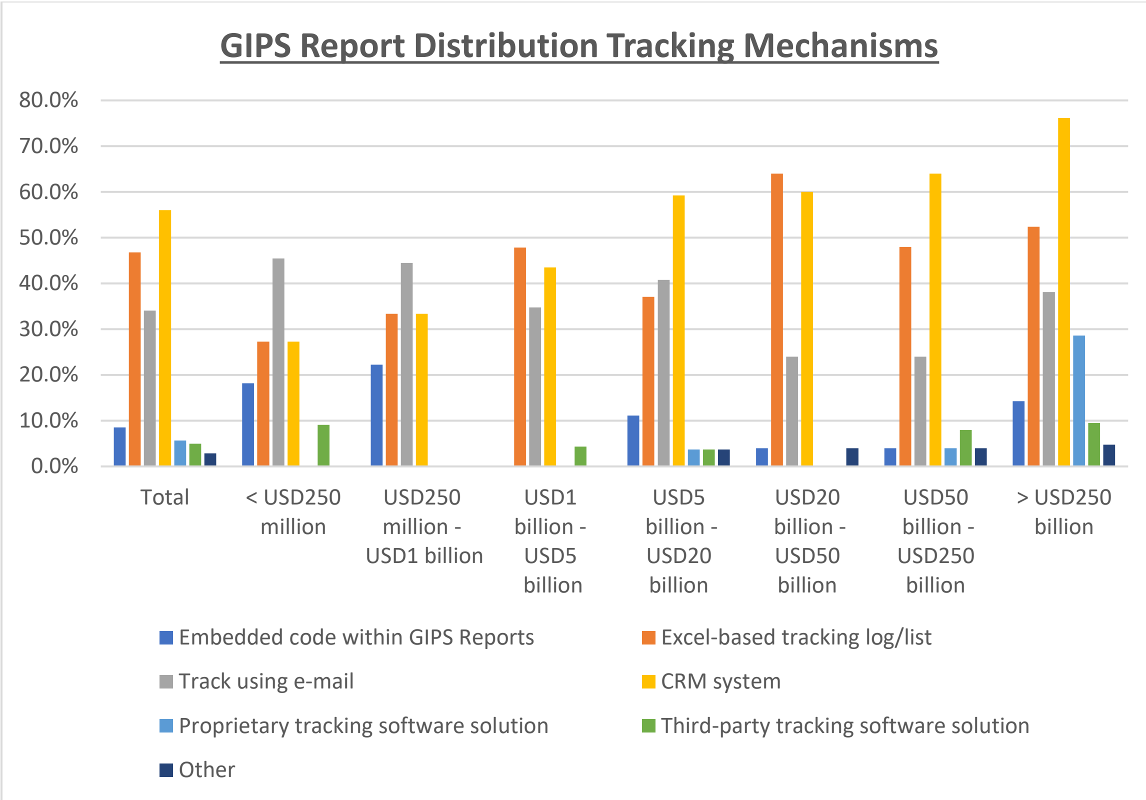

Exhibit 6 GIPS Report Distribution Tracking Mechanism by Total Firm Assets

Which mechanism(s) will your firm utilize to track the distribution of GIPS Reports to prospects? Select all that apply.	
CRM system	56.3%
Excel-based tracking log/list	46.5%
Track using email	33.8%
Proprietary tracking software solution	5.6%
Embedded code within GIPS Reports	8.5%
Third-party tracking software solution	4.9%
Other	2.8%

Exhibit 7 GIPS Report Distribution Tracking Mechanisms

The majority (56%) of firms indicated using a CRM-type system. For firms with total firm assets between USD1 billion and USD5 billion and between USD20 billion and USD50 billion, spreadsheet-based tracking is most prevalent, while tracking through emails is the most common for firms with total firm assets of less than USD1 billion. These results clearly indicate that firm size affects the level of automation used in the tracking solution.

Ongoing Prospects and GIPS Report Distribution

Nothing has fundamentally changed in the 2020 GIPS standards with respect to providing GIPS Reports to prospects. Firms are still required to make every reasonable effort to provide prospects with GIPS Reports when they initially become prospects, and then again at least once every 12 months if the prospect is still considered a prospect. The GIPS standards provide no guidance, however, for how long prospects should be considered prospects for the purpose of receiving updated GIPS Reports.

To learn more about how firms define prospects, as well as the policies that firms adopt to evaluate the status of those prospects, we asked survey respondents to describe how they will determine who is considered an ongoing prospect for the purpose of distributing GIPS Reports. Approximately 41% of respondents indicated that their firm will no longer consider a prospect to be a prospect after 12 months have passed without interaction; another 20% will do so after six months, and 10% after three months. In addition, 15% of respondents indicated that their firm does not plan to update the status of prospects. Although some firms indicated they were not yet sure of their approach to this situation, other firms specified that they would evaluate prospects on a case-by-case basis. Exhibit 8 summarizes these results.

Firms must provide updated GIPS Reports to prospects that remain prospects at least once every 12 months. Which option best describes how your firm will treat ongoing prospects for purposes of distributing GIPS Reports?	
We will no longer consider a prospect to be a prospect after 3 months have passed since we have interacted with them.	9.5%
We will no longer consider a prospect to be a prospect after 6 months have passed since we have interacted with them.	20.4%
We will no longer consider a prospect to be a prospect after 12 months have passed since we have interacted with them.	40.9%
We do not plan to update the status of prospects, i.e., once a prospect, always a prospect.	14.6%
Other (please specify):	14.6%

Exhibit 8 Policies for Who Is Considered a Prospect

For the purposes of distributing GIPS Reports, firms will find it helpful to adopt a formal policy surrounding the treatment of ongoing prospects. Regardless of the duration selected, having policies and procedures in place will help firms manage their active prospect list and compel them to periodically evaluate ongoing prospects.

With the new requirement for firms to be able to demonstrate that they made every reasonable effort to provide prospects with GIPS Reports, proactive management of the ongoing prospect list will become more important and beneficial to firms.

Pooled Funds and GIPS Report Distribution

The 2020 edition of the GIPS standards features an expanded focus on pooled funds and introduced the concepts of both limited distribution pooled funds (LDPFs) and broad distribution pooled funds (BDPFs). Firms need to distinguish between LDPFs and BDPFs when evaluating their pooled funds, because the GIPS Report distribution requirements differ for each type. Although firms are required to provide a GIPS Report to all LDPF prospective investors when they initially become a prospective investor, there are no distribution requirements for BDPF prospective investors.

When an LDPF is included in a composite, the 2020 edition of the GIPS standards allows firms to provide an LDPF prospective investor with either the GIPS Composite Report that includes the LDPF (i.e., the strategy performance), or the GIPS Pooled Fund Report for the LDPF (i.e., the pooled fund performance). In light of these new requirements, we asked survey respondents which type of GIPS Report they will provide to prospects for LDPFs, and 66% responded that they will continue to provide a GIPS Composite Report for the composite that includes the LDPF. The remaining responses were split between firms that will provide a GIPS Pooled Fund Report (15%) and firms that will use a mixed approach depending on the specific fund in question (19%). Exhibit 9 summarizes the responses.

If your firm offers participation in one or more limited distribution pooled funds, which type of GIPS Report will you provide to prospects for these pooled funds?	
A GIPS Composite Report for the composite that includes the limited distribution pooled fund.	66.2%
The type of GIPS Report will depend on the specific limited distribution pooled fund.	18.9%
A GIPS Pooled Fund Report.	14.9%

Exhibit 9 Type of GIPS Reports Provided to LDPF Prospects

Based on the survey responses, most firms generally appear to be taking the route of not creating separate GIPS Pooled Fund Reports when the firm is marketing an LDPF and therefore is including relevant pooled fund fee schedules and expense ratios in a single GIPS Composite Report. Intuitively, this approach makes sense given that the 2010 edition of the GIPS standards required GIPS Composite Reports (previously called Compliant Presentations) in these cases. firms that claimed compliance with the 2010 edition of the GIPS standards are familiar and likely comfortable with composites and thus may be inclined to ease into any substantial changes. Additionally, it may take time before firms can invest in the resources to create and maintain GIPS Pooled Fund Reports. One can reasonably assume the number of firms that choose to use GIPS Pooled Fund Reports will increase, but it may take some time for this movement to happen.

The 15% of respondents choosing to create GIPS Pooled Fund Reports may be in a good position to take advantage of the fact that firms are not required to create a composite that only includes one or more pooled funds when the firm does not offer the pooled fund’s strategy as a segregated account. Further, a firm may terminate any composite that was created solely to include one or more pooled funds if the strategy is not offered by the firm as a segregated account. Among the main beneficiaries of the GIPS Pooled Fund Report option are firms that were maintaining single-fund composites and have no intention of offering the strategy as a segregated account in the future, because the composites created for these funds may be discontinued. Firms that separately maintain both GIPS Composite Reports and GIPS Pooled Fund Reports also benefit, because their specific audiences are targeted more narrowly. Another benefit is that fee schedule and expense ratio disclosures are tailored more closely to the prospective client or prospective investor depending on the investment vehicle they are interested in.

The survey asked respondents that provide GIPS Composite Reports to LDPF prospects how their firms will include information about the fee schedules for LDPFs. A majority of respondents (57%) indicated that they will maintain one version of the GIPS Composite Report and include both the composite and pooled fund fee schedules. Approximately 24% stated that they will attach a separate exhibit with the relevant LDPF fee schedule, whereas 14% indicated they will maintain multiple versions of the GIPS Composite Report with different fee schedule information depending on the intended audience. Exhibit 10 summarizes the responses.

When providing GIPS Composite Reports to prospects for limited distribution pooled funds, how will your firm include information about the fee schedule for limited distribution pooled funds?	
Maintain one version of the GIPS Composite Report and include both composite and pooled fund fee schedules.	57.1%
Attach a separate exhibit with the relevant limited distribution pooled fund fee schedule	23.8%
Maintain multiple versions of the GIPS Composite Report with different fee schedule information depending on the intended audience.	14.3%
Other (please specify):	4.8%

Exhibit 10 Inclusion of Fee Schedules in GIPS Composite Reports

Similar to how the majority of firms plan to enhance their existing GIPS Composite Reports to include information on LDPFs, many firms seem interested in making only minimal changes by including the pooled fund fee schedules in addition to the standard composite fee schedule. The appeal of this approach is simplicity—firms already in compliance need only to add the relevant LDPF fee schedule and expense ratio to the existing GIPS Composite Report. The next option, which is likely for firms that have multiple funds in a single composite, involves planning to attach a separate exhibit including this information. Maintaining multiple versions of the GIPS Composite Report with different fee schedules depending on the intended audience will help firms to ensure that the respective prospects receive the most relevant and specific information. The downside to this approach is that, for many firms, doing so can be operationally intensive and introduce additional risk. Firms will also need to carefully determine the appropriate version for prospects while considering which versions are distributed more broadly (on a firm's website or in consultant database uploads, for example).

Note that listing a range of fee schedules and expense ratios does not meet the requirement to provide the fee schedule and expense ratio specific to the LDPF in which the prospective investor is interested. If the pooled fund has multiple share classes with different fee schedules, the firm may include multiple fee schedules, the highest fee schedule, or the fee schedule appropriate to the prospective investor. In any of these cases, the fee schedule must be current. Similarly, if the pooled fund has multiple share classes with different expense ratios, the firm may present multiple total expense ratios, the highest expense ratio, or the expense ratio appropriate to the prospective investor. The expense ratio may be current or effective as of the end date of the GIPS Composite Report.

Another aspect worth considering is the treatment of performance-based fees and how to incorporate them into the fund's total expense ratio. Although the annual asset-based investment management fees can simply be added to the expenses to derive the total expense ratios, performance-based fees will fluctuate based on how the fund performed. In any case, the expense ratio must include any performance-based fees or carried interest. Firms should ensure their methodology for calculating expense ratios is documented within their firm's policies and procedures.

Conclusion

The distribution of GIPS Reports has historically been a fundamental part of the GIPS standards, whether to provide GIPS Reports to new and ongoing prospects or to deal with the correction of an error. New requirements, and other changes brought about by the 2020 edition of the GIPS standards, will likely cause firms to reconsider policies and procedures related to distributing GIPS Reports. Additionally, the inclusion of new guidance related to pooled funds and the introduction of GIPS Pooled Fund Reports will require firms managing limited distribution pooled funds to evaluate the distribution options that will best fit the firm's needs. As the survey results illustrate, many firms have already begun thinking about these changes and implementing the necessary policies.

Some of the best practices identified as part of this survey include the following:

- With firms now being required to demonstrate how they have made every reasonable effort to provide GIPS Reports to prospective clients and prospective investors), firms will need to have a tracking system in place to help identify who received which GIPS Report and when. Firms should evaluate the different options to determine if any changes to their current procedures are needed.
- Establishing policies and procedures related to the status of prospects, including when one ceases to qualify as a prospect, will help firms manage the distribution of GIPS Reports.
- Firms should consider creating and presenting GIPS Pooled Fund Reports, which are geared toward the interests of prospective investors for a specific fund and do not require some of the presentation and disclosure items required in a GIPS Composite Report.
- Firms providing GIPS Composite Reports to LDPF prospective investors will need to determine the most appropriate approach for disclosing the composite and pooled fund fee schedules. A majority of firms participating in this survey indicated they plan to include both composite and pooled fund fee schedules in the same GIPS Composite Report. This approach requires little additional work on the part of firms already complying with the GIPS standards, and it reduces the administrative burden of maintaining multiple versions of a GIPS Report.