Compliance is Easier Than You Think:

The Credit Manager's Path to Compliance with the 2020 Global Investment Performance Standards (GIPS®)

Introduction

Since 2011, institutional investor capital has surged into the credit asset class. As a result, investors and their consultants demand greater transparency. Due to the principles of fair representation and full disclosure, firms are increasingly relying on compliance with the Global Investment Performance Standards (GIPS®)[1] as a competitive advantage. Firms may find that regulatory trends like the new SEC Marketing Rule make the possibility of GIPS compliance more applicable than in years past. The new rule has a final compliance date of November 4, 2022 and includes requirements around the presentation of performance to prospective investors.

Claiming GIPS compliance can be less difficult than firms might anticipate. Indeed, most firms already have the information and resources needed to handle the process of becoming compliant. This paper lays out specific tasks that credit managers should focus on while working toward GIPS compliance and, for most managers, adopting the GIPS standards should be an enhancement to their current practices rather than a complete overhaul. After first discussing the rise in demand for GIPS compliance in more detail, this paper covers specific principles including firm definition, discretion, composite construction, account and composite return calculations, the GIPS Report, portability, and supplemental information.

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Demand for GIPS Compliance

Investor interest in the credit asset class has been increasing steadily since 2011. According to a Reuters[2] article (December 12, 2018), "[t]here has been US$124.6bn of US CLOs raised this year through December 7, topping the previous record of US$123.6bn set in 2014, according to LPC Collateral data. Another US$149.6bn of deals have been refinanced, reset, or reissued in 2018." This growth is not restricted to leveraged loan mandates, but has expanded to private debt, emerging market debt, and other credit mandates as well.

Increased investment results in increased scrutiny. For example, consultants that work with credit investors often demand managers exhibit the greatest degree of "institutional quality," meaning firms with best-in-class institutional controls. Institutional investors have long required traditional asset managers to comply with the GIPS standards as a "check the box" quality criterion for screening potential investment managers. This requirement has expanded to alternative asset classes and the numbers show that credit managers are responding to the demand.

According to the eVestment consultant database, as of July 31, 2019, 93% of managers with at least one product in the bank loan space claim compliance with the GIPS standards.

Of the firms claiming compliance, almost 98% have had their claim of compliance verified by a third party. Furthermore, of the top 40 CLO managers, as ranked by Creditflux, 70% claim compliance with the GIPS standards in the eVestment database as of March 31, 2019. This trend, driven by the demand from institutions, is not difficult to understand. Given their standardized calculation and presentation requirements, the GIPS standards help firms provide a deeper level of transparency for consultants and prospective investors to analyze and compare investment performance history. Table 1 is a list of institutional RFPs for significant mandates issued over the last year that are specific to the leveraged loan, high-yield, and structured credit asset classes. Noteworthy was the fact that GIPS compliance and verification is required as a minimum qualification for consideration in each of these RFPs.

[2] Haunss, K. "REFILE-US CLO issuance sets new record with more than US$124bn of volume." Reuters, December 2018. https://www.reuters.com/article/clo-record/refile-us-clo-issuance-sets-new-record-with-more-than-us124bn-of-volumeidUSL1N1YH1S5.

Investor	Date of Issuance/ Deadline	Mandate Name	Mandate (Millions)	GIPS Compliance Requirement
LA Police and Fire	May 7, 2021	Private credit	$300	Please describe in detail how your returns were calculated and address the following in your response: a) Are all your clients included? b) What was the pricing source of the investments? c) Is the data GIPS compliant? d) Were you returns calculated by your firm or by others? e) Are your returns audited? If so, please provide details. f) Are your returns attributable to the team that would be assigned to LAFPP's account?
CIty of Los Angeles Department of Fire and Water	March 22, 2021	Active extended global credit	$800	"The firm must have at least a five-year track record (i.e., not simulated or back tested), Global Investment Performance Standards (GIPS) compliant performance history for the period ending 12/31/2020 in the proposed Global Credit mandate."
Taiwan Labor Equity	March 2, 2021	Credit	Not specified	"The evaluation and expression of the proposed product investment performance shall be in line with the requirements of Global Investment Performance Standards (GIPS) as provided by CFA Institute or the standards of other countries, provided that the applicant shall submit a certificate of equivalence of GIPS requirements at the time of application. If the applicant provide with composite performance, each component performance should be GIPS-compliant, or compliant of the standards of other countries. The composite performance does not necessarily be GIPS-compliant, or compliant of the standards of other countries but its construction should be explained in detail. If the standards of other countries are adopted, apart from the original performance track record, please provide the performance data calculated based on GIPS standard. The certificate of equivalence of GIPS requirements shall be issued by local monetary authority, asset management association, accounting firms or GIPS verifiers."
New York State Insurance Fund	February 24, 2021	Private placement corporate bonds	Not specified	"Candidate firms must have a minimum of five years of verifiable GIPS-compliant performance history managing the proposed product for institutional clients." Source
New York State Insurance Fund	February 24, 2021	Credit	Not specified	"Candidate firms must have a minimum of five years of verifiable GIPS-compliant performance history managing the proposed product for institutional clients." Source
Texas Education Agency	January 6, 2021	US high yield fixed income	Not speci-fied	"Firm confirmation that performance data is prepared according to the calculation methodologies as described in the CFA Institute's Global Investment Performance Standards (GIPS)."

Table 1. Examples of Institutional RFPs

When faced with the prospect of losing mandates by not being GIPS compliant, managers must weigh the challenges and costs of coming into compliance with the GIPS standards. The challenges of claiming GIPS compliance can generally be placed into two categories: qualitative and quantitative. Qualitative tasks like defining the firm and structuring composites often require substantial senior management involvement as these issues require high-level decision making. Quantitative tasks require operations and/or performance personnel as these may require a high volume of data.

In the sections that follow, we discuss, based on our experience, the areas where credit managers encounter the most difficulty during their initial quest to claim compliance. We also highlight the specific considerations most critical to achieving this goal. In doing so, we hope to provide solutions to many common challenges.

Fundamentals for Claiming Compliance

Firm Definition

The GIPS standards require compliance to be attained on a firm-wide basis, and not on a specific vehicle, account, or strategy. One of the first challenges faced by asset managers is defining the firm. The GIPS standards are designed around fair representation and full disclosure when marketing performance information to prospective investors and the main considerations for firm definition should include how the firm is held out to the public and the broadest definition that includes all the firm's accounts. When completed, this definition determines which assets will be included as firm assets under management (AUM). This sum will include discretionary, non-discretionary, fee-paying, and non-fee-paying accounts.

For many larger asset managers, especially firms that manage assets across multiple business lines, attaining GIPS compliance at the legal entity, or "parent," level may not be practical. As such, these firms should consider the entire framework before deciding on the definition of the firm. Figure 1 illustrates some potential options for a firm with multiple business lines.

Because Firm A has four lines of business held out to the public as distinct divisions, the firm claiming GIPS compliance could be defined solely as the Credit and Private Equity division, as shown, or as any of the other "standalone" divisions. Conversely, if "the firm" is held out as one that encompasses all three alternative investment divisions, the firm could combine the three alternative assets divisions within the definition of the firm. As another option, Firm A could bring the entire company into compliance. Although the latter option is recommended by the GIPS standards, it may be impractical depending on the firm's circumstances. In this scenario, the GIPS standards would apply to all four divisions. Once the firm definition is established, the GIPS standards must be applied to all accounts within the firm definition.

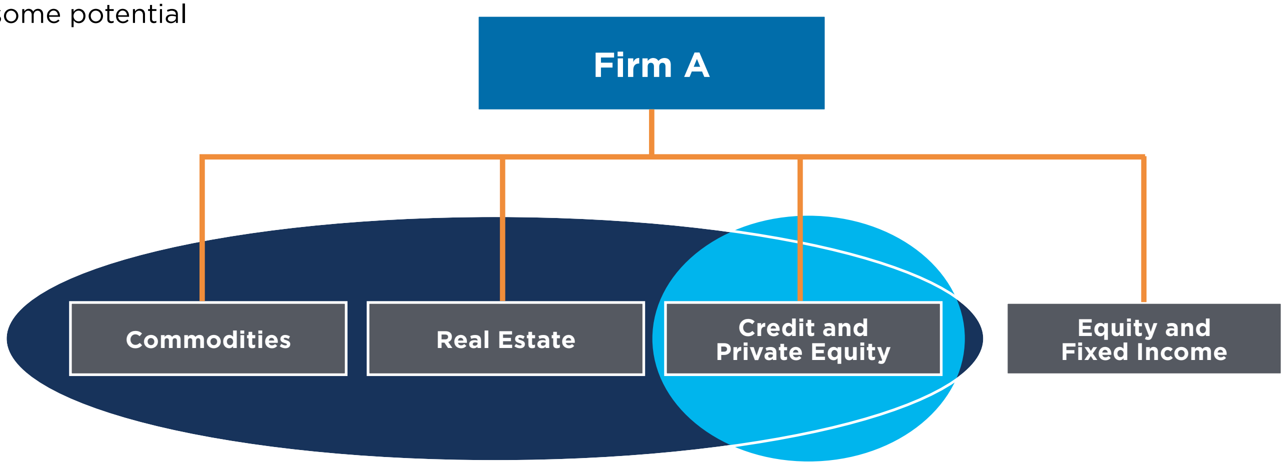

Figure 1. Illustration of Firm Definition Options for an Entity with Multiple Business Lines

Definition Of Discretion

Discretion from a GIPS perspective refers to a firm's ability to implement a given investment strategy. If the adviser is required to obtain the client's approval to implement an investment decision, then the adviser does not have discretion over the client's account. It is important to note that contractual discretion does not automatically translate into GIPS discretion. For example, if the account does not allow full implementation of a strategy, it may be considered non-discretionary for GIPS compliance purposes. Once discretion has been defined, firms must determine which accounts are discretionary and which are non-discretionary. This is imperative because all discretionary fee-paying segregated accounts must be aggregated by strategy into "composites." To be specific, the GIPS standards define a composite as "an aggregation of one or more portfolios managed according to a similar investment mandate, objective, or strategy." All accounts categorized as non-discretionary for GIPS compliance purposes would not be included in composites. They must still, however, be included in total firm assets. Conversely, not all client-directed restrictions are a reason to deem an account non-discretionary. Some restrictions may not prevent a manager from executing the intended strategy. In these cases, the accounts can be considered discretionary.

Considerations when defining discretion include frequent or scheduled cash withdrawals, restrictions on purchasing certain securities or sectors, mandates for higher-than-normal cash balances, restrictions on purchasing new issues, and credit quality limitations. Credit managers often work with vehicles that have warrants constricting the investment universe as well as sector and cash. Although these impose constraints on the portfolio, the key determination is whether the restrictions impede the manager's ability to implement a defined investment strategy.

Composite Construction

Firms must include all actual, fee-paying, discretionary, segregated accounts in at least one composite defined by investment mandate, objective or strategy. Non-discretionary portfolios are not allowed to be included in composites but must be included in total firm assets. Before the 2020 GIPS standards, the concept of presenting performance to prospective investors was based on a composite framework. The challenge alternative managers face is the firm is typically marketing a fund, rather than a composite. While the concept of a composite has not gone away, the 2020 GIPS standards give firms that manage pooled funds flexibility in terms of how to market and present the performance of their strategies, whether it be in a composite framework or via the pooled fund (note that pooled funds must also be included in any composite for which the pooled fund meets the composite definition). A firm would present a GIPS Composite Report to a prospective segregated account client but would present a GIPS Pooled Fund Report to a prospective investor in a limited distribution pooled fund. It should be noted that a firm can still elect to show a GIPS Composite Report to a prospective investor in a limited distribution pooled fund if that pooled fund is included in the composite presented.

Question: We merged with another firm and inherited some CLOs that are past their reinvestment period. Does this impact their discretionary status?

Answer: The definition of discretion is a fundamental question within the GIPS standards. Each firm must determine its own definition. If there are accounts for which the firm cannot implement its intended investment strategy, these accounts must not be considered discretionary for GIPS compliance purposes. In the case of a portfolio past the reinvestment period, if a firm cannot reconstitute the account sufficiently to match the investment strategy, the account should be deemed non-discretionary.

Credit managers often manage a variety of investment vehicle types (commitment-based funds, commingled funds, segregated accounts, etc.). After the discretionary status of an account or pooled fund is determined, firms must then consider constructing composites. The GIPS standards require firms create and maintain composites for all strategies for which the firm manages segregated accounts or markets to segregated accounts. When constructing composites, credit firms must consider what exactly is being marketed. For example, if the firm is vehicle agnostic, and simply wishes to market a leveraged loan strategy, the firm may consider combining all vehicles that invest in leveraged loans into one composite. Conversely, if the firm is interested in taking a pooled fund to the market place, the discretionary pooled fund is not required to be included in one of the firm's composites, if doing so would create a single-fund composite.

The GIPS standards permit firms broad latitude in defining composites. The key factor is that once created, procedures for creating and maintaining composites must be applied consistently. Different firms can have differing frameworks and policies for composite maintenance. These can range from differences in inclusion/exclusion policies to the structure/membership of the composites. Assuming these policies reflect the nature of the strategies, all are permissible.

In addition, the 2020 GIPS standards allow firms to carve-out segments across all accounts in the firm even if those segments do not maintain their own cash balances. The carved-out segments must be representative of standalone accounts managed according to a given strategy. "Carve-outs" can be included in a composite and this composite's returns can be calculated and presented for marketing purposes. Under the 2010 GIPS standards, this was not allowed, and firms were only permitted to show this performance as supplemental information.

Question: We manage accounts with different structures, including pooled funds, CLOs, segregated accounts and hedge funds. What are our options for including them in composites?

Answer: One of the considerations for composite construction is the portfolio type. Under the 2020 GIPS standards, a firm is no longer required to create a composite that only includes pooled funds, unless the firm offers that strategy as a segregated account. In the example below, if the hedge fund is not marketed as a strategy to solicit segregated accounts, and it does not meet any composite definitions, then a composite that contains the hedge fund as its sole member is not necessary anymore. In this situation, a firm will maintain a list of composites and a list of pooled funds and will calculate and present returns for those vehicles. Additionally, an account or fund can reside in more than one composite if it meets all parameters for each composite. For example, a CLO can reside in a broad loan composite and a more restrictive CLO-only composite. Firms can set the composite policy to fit their management style. Consistent with the spirit of the GIPS standards, once the firm has set the policy, it must follow it consistently.

US Leveraged Loan Strategy

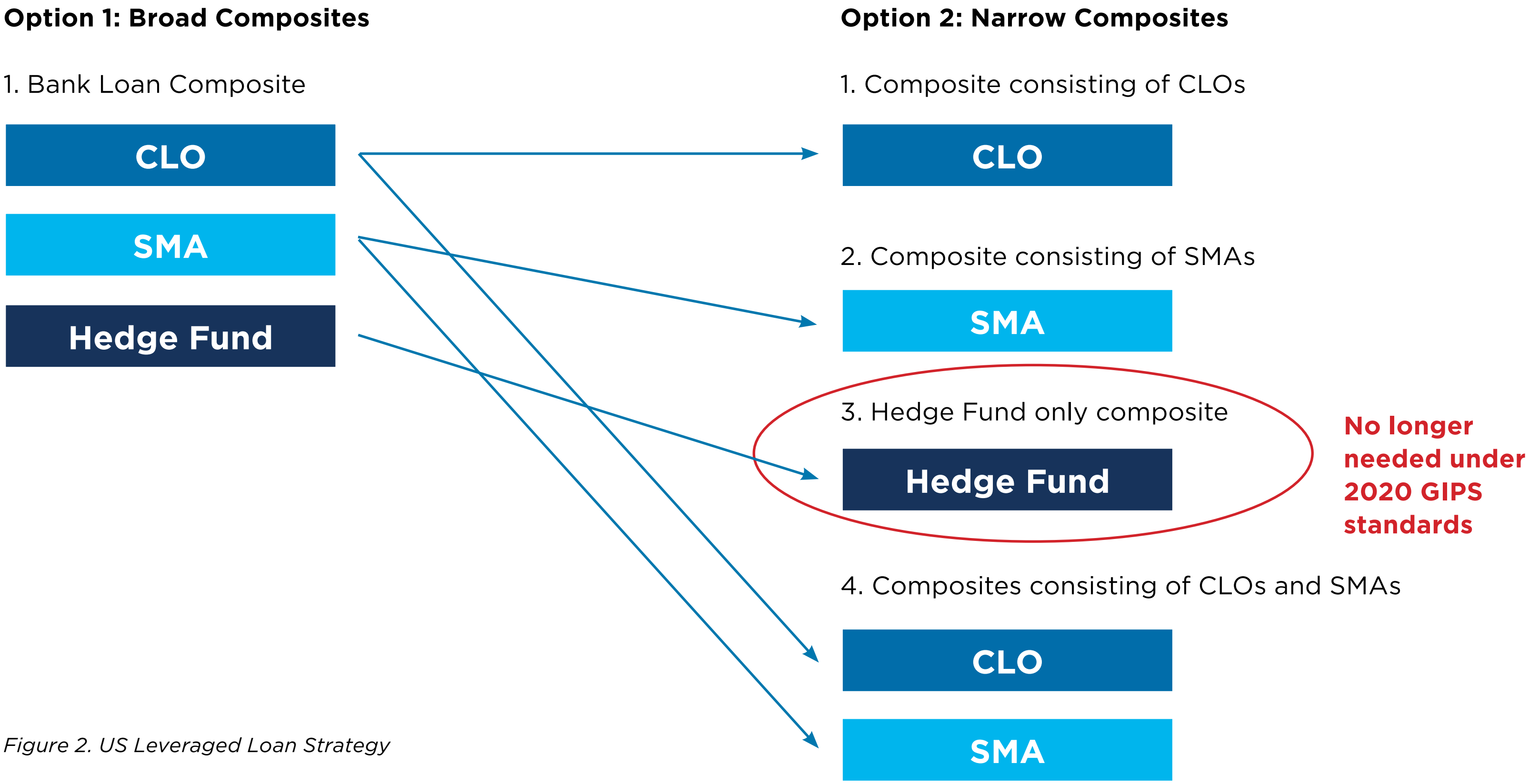

Figure 2. US Leveraged Loan Strategy

Question: When should we include portfolios in and remove them from composites?

Answer: Firms must include portfolios in composites in a timely and consistent basis when the accounts are invested according to the composite's strategy. Depending on the vehicle, this might happen at the end of the warehousing period, the end of the first month of funding, or when the account meets any objective metric that corresponds to the investment strategy. The exception to this rule comes into play when presenting since-inception money-weighted rates of returns. Those funds must be included at the fund's inception. Conversely, portfolios must exit composites at the time the manager loses discretion over them. For example, many managers contend that the end of the reinvestment period, or shortly thereafter, represents the time at which they are no longer able to fully implement their investment strategy for a CLO; thus, the portfolio should exit the composite at the end of that period. On the other hand, the notification of termination may suffice as the support for the exit of a separate account.

Input Data and Calculation Methodology

Calculation Methodology

After the creation of composites, managers must calculate performance according to the requirements of the GIPS standards. Depending on a firm's data retention level and infrastructure, this task can be the most work-intensive for credit managers coming into compliance. Many credit managers have not historically managed large numbers of separate accounts and have relied on third-party administrators for fund calculations. Consequently, these firms typically do not have portfolio software that includes composite calculation capabilities and must instead rely on spreadsheet solutions or proprietary systems to aggregate accounts into composites.

Account Return Calculation

The first calculation to address is the account-level return. To ensure the fair representation of the statistics presented in a GIPS Composite Report or GIPS Pooled Fund Report (formerly "Compliant Presentation"), the GIPS standards have specific input and calculation requirements. Prior to calculating these returns, firms must value accounts in accordance with the valuation requirements prescribed by the GIPS standards. The total valuation of the account needs to include all underlying discretionary positions in the account. This must include cash (the sum of all cash accounts affiliated with the account's management, such as principal and interest cash), the fair market value of assets, derivative positions, and the accrued interest of the entire discretionary account.

The GIPS standards provide two methods for calculating account returns: the time-weighted rate of return (TWRR) and the money-weighted rate of return (MWRR). Historically, firms were only permitted to present a money-weighted rate of return for private equity-style funds. Even for commitment-based funds, the GIPS standards required firms to show a time-weighted rate of return.

The 2020 GIPS standards allow firms more flexibility with respect to the presentation of performance. Firms must choose whether to present time-weighted returns, money-weighted returns, or both for each composite or pooled fund. The guidance now allows firms to present money-weighted returns for portfolios included in composites or pooled funds, if the firm has control over the external cash flows and meets at least one of the following characteristics:

a. Closed-end

b. Fixed life

c. Fixed commitment

d. Illiquid investments make up a significant part of the investment strategy

This is a welcome change to the GIPS standards because now, fund managers that control subscriptions and redemptions can choose to show a MWRR if the above criteria are met. The most common type of MWRR is a since-inception rate of return (SI-IRR). This calculation measures the compound growth rate of all monies in the account over the period in question.

For vehicles where managers do not control cash flows (e.g., separate accounts and most hedge funds), the GIPS standards still require TWRR for the return calculation. This calculation represents the growth of one unit of money initially invested.

TWRR Method

The TWRR method removes the effect of external cash flows that the manager does not control. The GIPS standards require that all accounts in composites be valued at least monthly and at the point of all large cash flows. The necessary inputs for the calculation are the beginning and ending account market values (inclusive of cash and all discretionary securities) and the external cash flows and their effective date (distributions/contributions to the account). While the calculation and data support for these returns may be easily obtained for separate accounts and externally administered funds, the calculation for structured vehicles often takes some effort to organize for historical periods. Managers typically must construct the correct fair values by aggregating different reports from their existing system(s). In the case of most credit managers, however, this task does not have to be daunting because these managers typically do not oversee thousands of accounts. Table 2 provides a simplified example of a TWRR calculation.

Assets	
Beginning of Period	
$600,000.00	Bank Loans
$92,500.00	Bonds
$20,000.00	Principal Cash
$10,000.00	Accrued Interest
$100,000.00	Interest Cash
$822,500.00	**Beginning Value**
End of Period	
$603,000.00	Bank Loans
$92,712.75	Bonds
$20,100.00	Principal Cash
$10,080.00	Accrued Interest
$101,00.00	Interest Cash
$826,892.75	**Ending Value**
Beginning of Period	
($826,892.75 - $822,500.00) = / $822,500.00	**0.53%**

Table 2. Illustrative TWRR Calculation

Note that this example assumes no external cash flows for the period presented.

In some cases, there may be illiquid assets held within portfolios that do not lend themselves to daily or monthly valuations because they must be valued using subjective, unobservable inputs. Firms must establish policies and procedures for valuing these types of investments in accordance with ASC 820 of Financial Accounting Standards Board. A review of the firm's valuation policy will need to be completed to confirm the methods used to value these less liquid assets meet the valuation requirements of the GIPS standards. However, the GIPS valuation requirements do line up substantially with ASC 820. In cases where these types of illiquid investments valued using subjective, unobservable inputs represent a material amount of the assets in a particular composite or strategy, disclosure is required.

GIPS Reports

The 2010 edition of the GIPS standards required firms to create and present "GIPS Compliant Presentations" to all prospective clients that contain all the information required by the GIPS standards. The 2020 GIPS standards have replaced "GIPS Compliant Presentations" with "GIPS Reports." GIPS Reports are used for presenting the performance of composites to prospective clients. Further, there is a second category of reports for pooled funds called "GIPS Pooled Fund Reports." As noted earlier, the purpose of the GIPS standards is to allow the presentation of performance to prospective investors of specific funds in a transparent manner that is comparable across managers. In fact, the GIPS standards require compliant firms to make a reasonable effort to provide relevant GIPS Composite Reports and/or GIPS Pooled Fund Reports to prospective clients when they initially become prospective clients and at least annually if the prospective client is still a prospective client. These typically are one-page reports containing all GIPS-required statistics and disclosures for a composite or pooled fund. Figure 3 below is an example of a GIPS Composite Report.

When first coming into compliance, firms must include at least five years of history in their compliant presentations. Firms in existence for less than five years are exempt from this rule and must show performance since inception of the firm. In addition to the composite and pooled fund return calculations, the GIPS standards require additional statistics in the presentation. For composites based on the TWRR methodology, firms must include, among other things, a dispersion measure, the number of accounts, composite and firm assets, and an ex-post standard deviation as of each annual period end. For composites presenting a since-inception money-weighted rate of return, the standards call for additional information such as cumulative committed capital, since-inception distributions, and paid-in capital to increase transparency for this type of composite or pooled fund.

ABC Composite

XYZ Investment Management
Month Day, Year through Month Day, Year

Year	Gross-of-Fees Return (%)	Net-of-Fees Return (%)	Benchmark Return† (%)	Composite 3-Yr St Dev (%)	Benchmark 3-Yr St Dev (%)	Number of Portfolios	Internal Dispersion (%)	Total Composite Assets (USD mil)	Composite Percentage of Firm Assets (%)	Total Firm Assets
2010	0	0	0	0	0	0	0	0	0	0
2011	0	0	0	0	0	0	0	0	0	0
2012	0	0	0	0	0	0	0	0	0	0
2013	0	0	0	0	0	0	0	0	0	0
2014	0	0	0	0	0	0	0	0	0	0
2015	0	0	0	0	0	0	0	0	0	0
2016	0	0	0	0	0	0	0	0	0	0
2017	0	0	0	0	0	0	0	0	0	0
2018	0	0	0	0	0	0	0	0	0	0
2019	0	0	0	0	0	0	0	0	0	0

Figure 3. Example of a GIPS Composite Report.

XYZ Investment Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. XYZ has been independently verified for the periods 1/1/09 – 12/31/19. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to a composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.

Firm and Composite Information

XYZ Investment Management is an independent investment management firm that manages equity, balanced, and fixed income portfolios. The firm invests primarily in U.S. stocks and bonds.

The ABC Composite invests in small, mid, and large capitalization common stocks. The minimum account size for inclusion into the ABC Composite is $500,000.

The inception date of the ABC Composite is January 2008. ABC Composite was created in June 2008. A complete list and description of firm composites is available upon request.

Benchmark

†The benchmark is the S&P 500 Index, which is a market-capitalization weighted index containing the 500 most widely held companies (400 industrial, 20 transportation, 40 utility and 40 financial companies) chosen with respect to market size, liquidity, and industry. The volatility of the S&P 500 Index may be materially different from that of the strategy depicted, and the holdings in the strategy may differ significantly from the securities that comprise the S&P 500 Index. The S&P 500 Index is calculated on a total return basis with dividends reinvested and is not assessed a management fee.

Performance Calculations

Valuations and returns are computed and stated in U.S. Dollars. Results reflect the reinvestment of dividends and other earnings.

Gross-of-fees returns are presented before management and custodial fees, but after all trading expenses and withholding taxes. Net-of-fees returns are calculated using actual management fees that were paid and are presented before custodial fees but after management fees, all trading expenses, and withholding taxes.

The standard management fee for the ABC strategy is 1.25% per annum on the first $1 million USD and 1.00% per annum on additional assets. Additional information regarding ABC's fees is included in its Part II of Form ADV.

Internal dispersion is calculated using the asset-weighted standard deviation of all accounts included in the composite for the entire year; it is not presented for periods less than one year or when there were five or fewer portfolios in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. The standard deviation is not presented for 2009 through 2010 as it is not required for periods prior to 2011.

Policies for valuing investments, calculating performance, and preparing GIPS Reports are available upon request. "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."

Past performance does not guarantee future results.

Supplemental Information

Creating and presenting a GIPS Composite Report or GIPS Pooled Fund Report does not preclude managers from providing extra information they would like to highlight. This "supplemental information" is formally defined by the GIPS standards as "any performance-related information included as part of a GIPS Composite Report or GIPS Pooled Fund Report that supplements or enhances the requirements and/or recommendations of the GIPS standards." To stay within the spirit of the GIPS standards, this information cannot be misleading and must be properly disclosed as supplemental to the GIPS Composite Report or GIPS Pooled Fund Report. Examples of supplemental information include the returns of a sub-strategy within a composite (e.g., loan-only returns), composite-specific holdings, or attribution information. Supplemental is often represented in charts and graphs to provide further illustration of the strategy details. Assuming firms adhere to the spirit of the GIPS standards (fair representation and full disclosure), firms can present supplemental information. Figure 4 provides an example of a "loan-only" return stream. As the figure illustrates, firms can carve out the loan-only segment of the account returns and create a loan-only track record that can be shown to supplement the GIPS Composite Report or GIPS Pooled Fund Report.

Portfolio 1		Portfolio 2		Portfolio 3	
Loans	1.30%	Loans	1.10%	Loans	1.25%
Cash	0.05%	Cash	0.04%	Cash	0.03%
Equities	0.75%	Bonds/Corp	0.20%	Equities	0.50%
		High Yield	0.07%	Swaps	0.25%
Total Returns	**1.25%**	**Total Returns**	**1.08%**	**Total Returns**	**1.20%**

Loan Returns	**1.23%**

Figure 4. Illustrative Carve-Out of Loan-Only Returns Weighted by Beginning Market Value

Portability Of Past Performance

A typical example of supplemental information is a track record from a previous firm that cannot be linked to the current firm. The credit industry has experienced a tremendous number of mergers and acquisition (M&A) activity of late. As a result, the issue of portability comes up frequently. Questions regarding the use of historical track records, the merging of separate track records, and the discontinuation of investment strategies are among those topics that must be addressed when coming into compliance. The GIPS standards address portability on a composite-specific or pooled fund-specific basis. It is worth noting that prior to the release of the 2020 GIPS standards, if firms met all of the following requirements, firms were required to present the performance from the past firm or affiliation. However, the guidance now allows for firms to choose whether to present the performance of the past firm or affiliation if the following conditions are met:

» Substantially all the investment decision makers must be employed by the new or acquiring firm (e.g., research department staff, portfolio managers, and other relevant staff).

» The decision-making process must remain substantially intact and independent within the new or acquiring firm.

» The new or acquiring firm must have records that document and support the performance.

» There must be no break in the track record between the past firm or affiliation and the new or acquiring firm.

The recordkeeping requirement tends to be the biggest hurdle to porting track records, but this is essential to being able to present the historical performance on an ongoing basis. Failure to meet all listed requirements may result in the firm's inability to link the track record from the previous firm to the ongoing track record but may, in certain cases, show this as supplemental information as a long as the supporting books and records are maintained.

Concluding Thoughts

GIPS compliance has become a de-facto requirement within long-only equity and fixed income asset classes. Primarily driven by institutional allocators, the demand for GIPS compliance within the credit arena is now mirroring the demand for it within other asset classes. According to the eVestment consultant database and ACA's 2018 survey[3], 75% of consultants exclude non-compliant firms from searches some or all of the time. With such market demand, the industry is experiencing a convergence towards compliance. With the proper education, planning and resources, firms can achieve GIPS compliance in a reasonable timeframe. For firms that do not have in-house GIPS standards expertise, we recommend hiring an outside consultant/verifier that is knowledgeable, especially with applicability to credit managers.

3 "The Value of GIPS Compliance: 2018 Manager and Consultant Survey." ACA Compliance Group, August 2018. https://info.acaglobal.com/2018eVestmentSurvey

About ACA Group

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