



Performance Presentation & Standards (GIPS)

Why are Standards Needed?


- “**All**” asset managers above average
- “Cherry picking” accounts
- “Cherry picking” time periods
- Self-selection
- Misleading advertising

Misleading Advertising

THE WALL STREET JOURNAL TUESDAY, JUNE 17, 1986

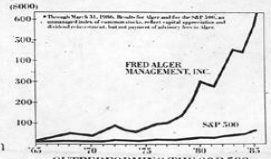
WHAT DOES IT TAKE TO PRODUCE ANNUAL COMPOUND GROWTH OF 21% FOR 21 YEARS?

A GENIUS FOR MANAGING MONEY.



MEET FRED ALGER: The legendary money manager whose unique investment disciplines over 21 years have consistently outperformed the market averages and, to the best of our knowledge, every manager of diversified portfolios on Wall Street. \$10,000 invested with Fred Alger in 1965 would have grown to \$679,385 today; a gain of better than 21% compounded annually and more than 10 times the gain in the


FRED ALGER: THE MAN BEHIND THE LEGEND. S&P 500 stock index over the same span? Fred Alger Management, Inc. is perhaps the most carefully thought-out firm on Wall Street. You would be hard-pressed to find an investment operation quite so competitive, quite so disciplined, quite so unencumbered by traditional ways of investing. Or quite so successful. First and foremost, Fred Alger is a research organization. Unlike most Wall Street



OUTPERFORMING THE S&P 500 BETTER THAN 10 TO 1 SINCE 1965. to anybody. Only Alger analysts can use it. And only Alger clients can profit from it. They profit from a higher productivity of superior investment ideas. Alger's analysts follow 1,100 stocks—250 more than Merrill Lynch—continuously. And Alger's analysts have developed computer models so sophisticated, they can often forecast a company's earnings better than the company can forecast its own. Fred Alger may be the most computerized money manager on Wall Street. Yet he insists that his analysts chart the progress of every single stock in the portfolio by hand. It's a creative discipline he's convinced forces even better investment ideas to surface. His 11 senior analysts and 19 research associates are possibly the most talented, most intuitive on Wall Street. Armed with an uncanny ability to discover the rare pearl in the oyster, they search out what he calls the "serendipitous factor," found only in companies undergoing a rapid positive change in their life cycle or

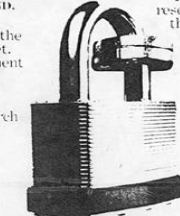
managers, Alger will not buy outside research. Because you can't outperform everybody else by using everybody else's research. The original research generated by Alger's 30 handpicked analysts is not for sale

with a high unit volume growth rate. Once they find such companies, Alger's analysts are free to act. Because Fred Alger has eliminated anything that interferes with maximum performance. He employs no portfolio managers and no investment committees. His analysts themselves make all the investment decisions. Twice a week, they must defend their buy and sell recommendations before the toughest jury on Wall Street: fellow analysts who relentlessly press the logic of every move. The performance of every stock in the Alger portfolios is scrutinized twice a day. With his SYSTEMS DESIGNED TO FIND THE RARE OYSTER WITH THE PEARL, research system constantly generating better investment ideas, it's strictly survival of the fittest stocks. Even then, there are diversification and liquidity disciplines. An opening position of no more than 3% of a portfolio is typically devoted to any one

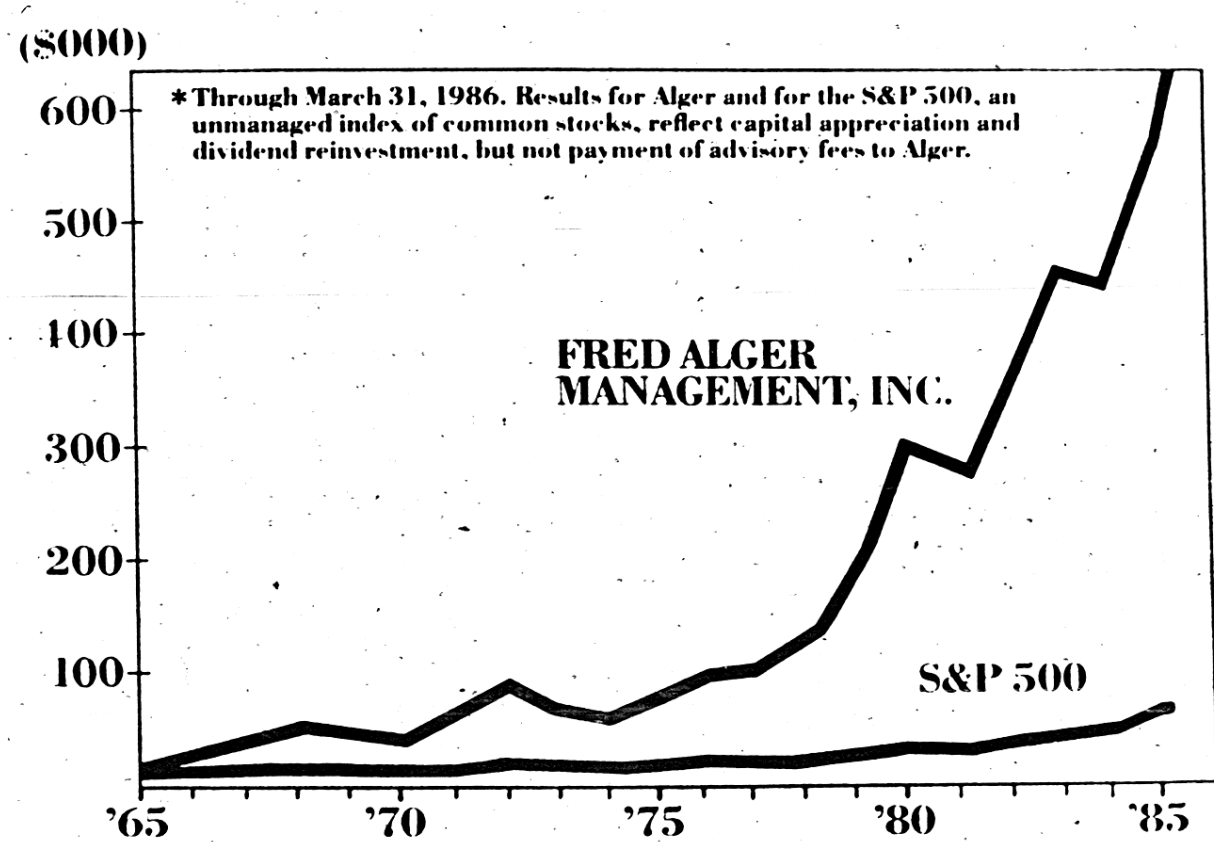


stock. And overall, no more than eight days' trading volume can usually be held in any stock. Fred Alger Management, Inc. Unique investment disciplines and uniquely talented people that add up to a genius for managing money. A genius that over 21 years has compiled an extraordinary record. While not guaranteeing future performance, it is a genius that promises Fred Alger's clients the higher probability of success. Success that could be yours. Interested pension fund sponsors and individual investors should call 1-800-223-3810, ext. 100 (in New York, call collect 212-806-8800, ext. 100) and ask for Krista Woodall, Senior Vice President. To request a copy of the audited performance report, write: Fred Alger Management, Inc., Dept. 150, 75 Maiden Lane, New York, N.Y. 10038.

A GENIUS FOR MANAGING MONEY: FRED ALGER, IRWIN SCHWARTZ, DAVID ALGER, GEORGE BOGGIO, AND ROBERT LYON.



Misleading Advertising



Global Investment Performance Standards

The CFA Institute **Global Investment Performance Standards (GIPS®)** are an investment industry standard for calculating and presenting historical investment performance.

The GIPS standards are developed, maintained, and promoted through the collaboration of:



Volunteers from the investment community



GIPS Standards Sponsors, which include 60+ not-for-profit organizations



CFA Institute®, a global association of investment management professionals

By establishing standardised requirements for calculating and presenting performance, the GIPS standards make it possible for:



Investment managers to compete on an equal footing in all markets.



Investors to compare the past performance of asset managers.



Asset owners to fully disclose and fairly present performance to oversight bodies and stakeholders.

Over 1,800 organizations, across 48 markets, claim compliance with the GIPS standards.

GIPS (Why Should Asset Managers Do It?)

- Global Passport
- Marketing Advantage
- Asset owner-driven (*Level –playing field*)
- Self-Regulation
- Internal Control (*Good practice*)
 - More efficient
 - Better data/ information
 - Risk Control

GIPS (Why Asset Owners Should Demand It?)

- Differentiate between “good” and “bad” asset managers

- Basic Hygiene factor
 - If not compliant, is the asset manager?:
 - i. Not committed to ethical standards
 - ii. Controls so weak they cannot achieve compliance
 - iii. Not prepared to make the appropriate investment

Benefits of the GIPS Standards

- Enhanced ability to compare performance between firms and strategies
- Consistency in calculation and presentation of performance results, such as frequency of valuation, treatment of large cash flows, and handling of accruals
- Full disclosure of important details on performance data presented, such as fees, composite construction criteria, dispersion of returns, etc.
- Firms recognized for adherence to industry best practice
- Strengthened internal processes and controls; improved risk management

Who are Standards Aimed At?

- All “users” of Investment Performance Information
 - Institutional
 - Private Clients
 - Retail, if not covered by existing regulations
 - Even internal asset owners
- All asset/product types
 - Equity/ Fixed Income/ Multi-currency
 - Real Estate/ Property
 - Venture Capital/Private Equity
 - Derivatives/Overlay/Leverage
 - Hedge Funds/ Alternative Investments/ Absolute Return

“CHAPTERS” in the 2020 GIPS Standards



What is Verification?

- Verification tests
 - Whether the firm has complied with the composite construction requirements of GIPS on a firmwide basis, and
 - Whether the firm's processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards.
- Verification is performed firmwide
 - Verification cannot be conducted on a composite-specific basis
- Verification is voluntary
 - Remains voluntary in 2020 version of GIPS

Who Performs Verifications?

- Verification must be performed by an independent third party
 - The firm and the verifier must not have a direct conflict of interest
 - Consultancy or audit engagements do not necessarily create a direct conflict of interest
- No specific qualification requirements to be a verifier
- Verifiers must be knowledgeable about the Standards and also have a practical level of expertise
- Verifiers can be auditors, consultants, or any other type of firm

Why be Verified?

- Verifiers add real value
- Compliance without verification is high risk
- The performance measurement process will be improved
- Verification ensures global consistency

Verification Output

- Verification letter/report
- Comfort
 - Compliance without verification is high risk
- Management recommendation letter
 - Areas for improvement
- Verified List of Composites
- Composite-specific reports
 - Performance audit/examination only

Resources

- 2020 edition of the GIPS standards
 - www.cfainstitute.org/ethics/codes/gips-standards
- Recorded webinars
 - www.gipsstandards.org/compliance/Pages/articles.aspx
- Help Desk
 - gips@cfainstitute.org
- Interpretations of the provisions in the 2020 GIPS standards are included in the GIPS Standards Handbook for Firms (November 2020)

Data Visualization

Core skill set of performance analysts

█ Floating Bar charts

█ Histograms

█ Line graphs

█ Heat maps

█ Snail charts

█ Scatter diagrams

█ Spider diagrams

█ Speed dials

█ Performance triangles

Data Visualization

- Dashboard design
- Factsheet design
- Focus on the users requirements
- Fast absorption of data
- Focus on key numbers
- Don't show off
- Don't forget the humble table Dashboard