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WHY AREN'T ALL INVESTMENT MANAGERS GIPS® COMPLIANT?

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The Global Investment Performance Standards (GIPS) are industry-defined voluntary standards, which investment managers can use to fairly represent their investment performance to potential clients.

As it is not a regulatory requirement, adhering to GIPS is completely voluntary on the part of the investment manager and although the Standards may be widely accepted within the industry, the number of compliant firms remains low. Further investigation reveals that these compliant firms are predominantly comprised of the larger investment managers, with many of the smaller managers being noticeably absent.

If one accepts that GIPS is an impartial standard and that it improves the overall market environment, why then is the number of compliant firms so low? What makes GIPS a more attractive proposition for larger investment managers than smaller investment managers?

The answer may lie in the examination of the following three key challenges:

1. The business case for becoming GIPS compliant
2. The availability of the necessary skills
3. The cost of GIPS compliance

A voluntary standard that affects marketing and sales can only be fair if it does not exclude any of the market players - for any reason.

1. The most important reason we decide to do things or not, is having a clear understanding of the WHY. If an investment manager does not agree or understand the why, it is difficult to overcome the other two challenges. If someone is told that they can do something if they want to, but it is not clear what the advantage will be, it will be challenging to convince them to invest money and time into it.

2. Many smaller investment managers do not have the luxury of a performance team that can perform these tasks. Performance is generally handled by one person or in other cases outsourced. Business-as-usual is always prioritised, which means that an undertaking like creating a policy document can take anything from 6 months to a year to complete. By using people with the necessary expertise and experience it can shorten the timeframe of an implementation considerably, with smaller investment firms getting compliant in a matter of weeks. Whilst other resources in the company may have the requisite skills to manage GIPS compliance, they too are usually more focused on their own business-as-usual responsibilities and deliverables.

3. Implementing GIPS can be expensive and outside the budget of many smaller investment managers. The cost relates to 3 elements:

a. **System** – All performance data and composite information needs to be stored. Many vendors that supply performance systems have included a GIPS management tool with their solution. Many of these systems are very advanced when set up correctly and can make staying compliant very easy. Unfortunately, this typically comes at a considerable cost which the smaller investment managers simply cannot afford.

b. **Implementation** of the system and of GIPS. In many instances, a specialist knows what is required and can facilitate/implement much more efficiently than a company that starts from scratch. This also costs money and if it is a complex implementation, it can cost significantly more than what smaller managers are able to afford. The cost of a firm deciding to implement GIPS themselves is a bit more difficult to price. If you take the extended period that it realistically can take to complete an implementation internally, the cost may very well be higher than utilising an external specialist. An incorrect GIPS compliance implementation is an additional risk, which will result in increased verification costs. Finally, the opportunity cost of not being compliant and losing a potential new client as a result, could be much more than the implementation cost of a well-run project to implement GIPS compliance.

c. **Verification** is not mandatory but many of the managers who see the value in achieving GIPS compliance also go through the effort to get verified. In many instances, this can be as expensive as the implementation itself.

Investment performance is increasingly being scrutinised by a wide variety of industry stakeholders. More recently we are seeing the global trend of Asset Owners beginning to comply with GIPS. Their motivation has less to do with marketing and sales, and more to do with achieving greater credibility. The best way to achieve this is by complying with an accepted industry standard.

GIPS compliance is a key consideration for all investment managers who want to credibly present their performance and capabilities to an extremely competitive industry.

Chris Lourens is a GIPS SME's, who is ideally positioned to assist firms with addressing the challenges discussed in this article and achieving GIPS compliance in a timely and cost-efficient manner. Contact me to understand how we can assist you to achieve this competitive advantage for your firm.



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