

## **GIPS® - Global Investment Performance Standards**

**Jonathan Boersma, CFA**  
**Executive Director**  
**Global Investment Performance Standards**

## **Global Membership Organization**

**Mission:** To lead the investment profession globally by setting the highest standards of ethics, education, and professional excellence

**Members:** 90,000+ investment professionals in 128 countries; 84% hold the CFA charter

**Candidates:** Nearly 130,000 people sitting for one of the three levels of exam

**Offices:** New York, Hong Kong, London & Charlottesville, VA

## Mission

- ▶ To be a **leading voice for investors** on issues of fairness, efficiency, and investor protection in global capital markets.

**We all know...**

**Past results  
are no guarantee of  
future performance.**

# Evaluating Performance

Is this a good asset manager ?



# Performance Evaluation

Who is the better  
asset manager ?

Manager A

Manager B

5 %

5 %



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

## A GENIUS FOR MANAGING MONEY.

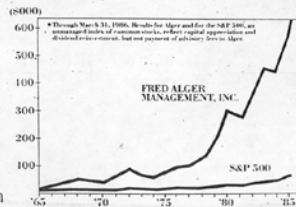
Meet Fred Alger: The legendary money manager whose unique investment disciplines over 21 years have consistently outperformed the market averages and, to the best of our



FRED ALGER: THE MAN BEHIND THE LEGEND.

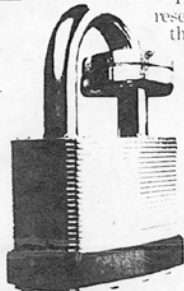
\$10,000 invested with Fred Alger in 1965 would have grown to \$679,395 today; a gain of better than 21% compounded annually and more than 10 times the gain in the S&P 500 stock index over the same span? Fred Alger Management, Inc. is perhaps the most carefully thought-out firm on Wall Street. You would 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 money

knowledge, every manager of diversified portfolios on 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 1,400 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.

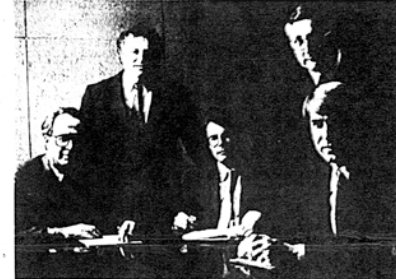
The original research generated by Alger's 30 handpicked analysts is not for sale to anybody. Only Alger analysts can use it. And only Alger clients can profit from it.

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 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



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



SYSTEMS DESIGNED TO FIND THE RARE OYSTER WITH THE PEARL.

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.



# WHAT DOES IT TAKE TO PRODUCE FOR

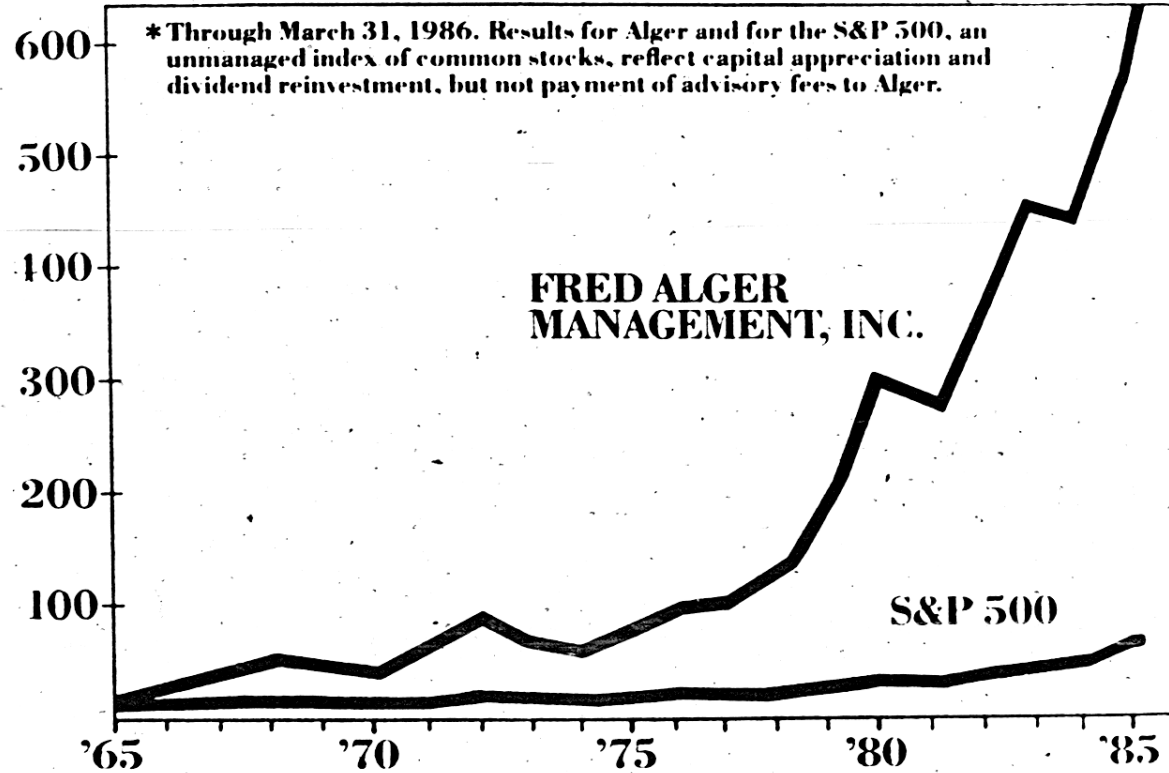
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**A GENIUS FOR MANAGING MONEY: FRED ALGER,  
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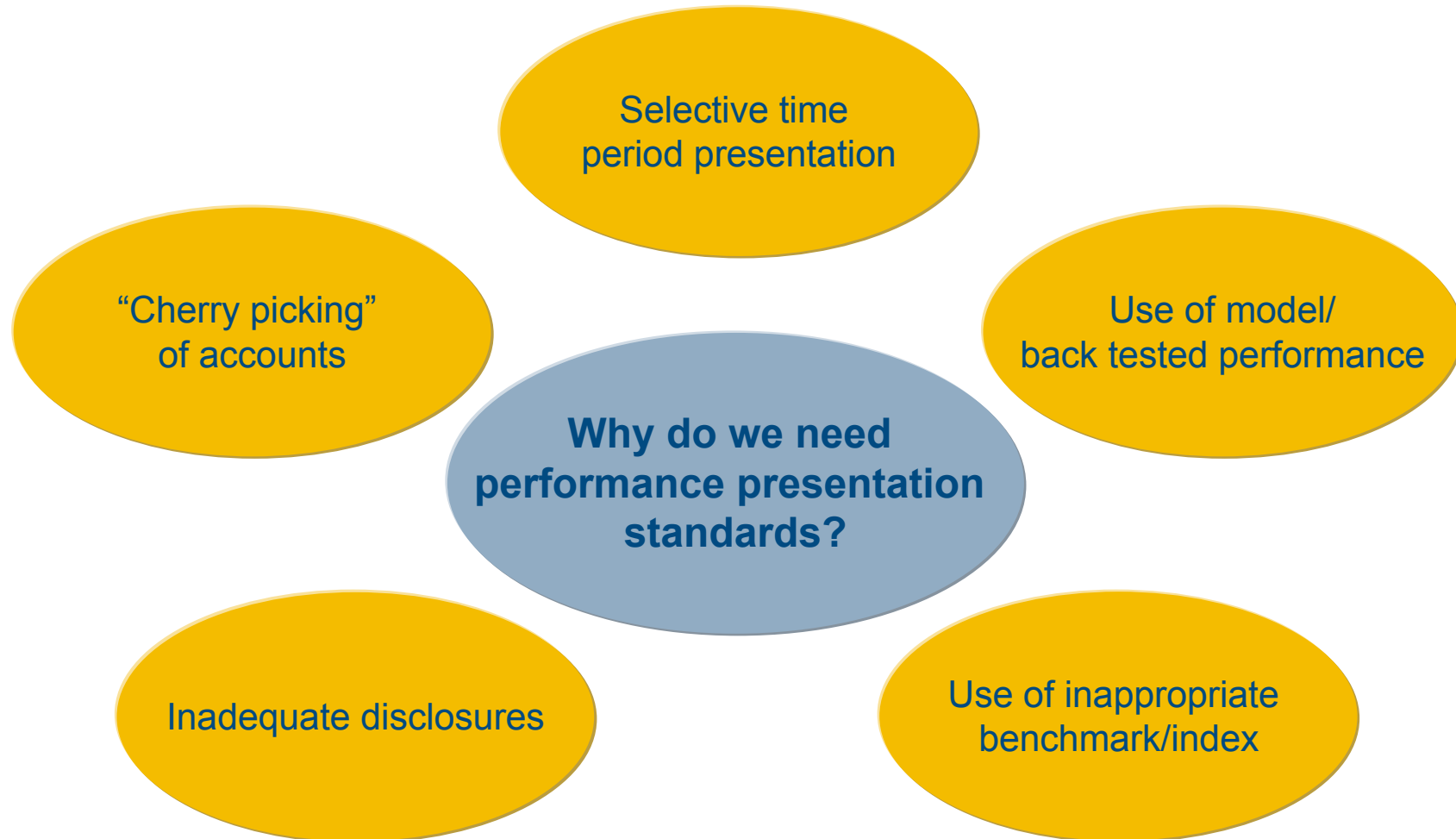


# Investor's Dilemma



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# The need for standards



## Objectives of the GIPS standards

- Promote investor protection through the fair representation and full disclosure of performance
- Global standardization of best practice for performance measurement and reporting
- Replacement of the local performance standards
- Create a “global passport” for firms marketing abroad

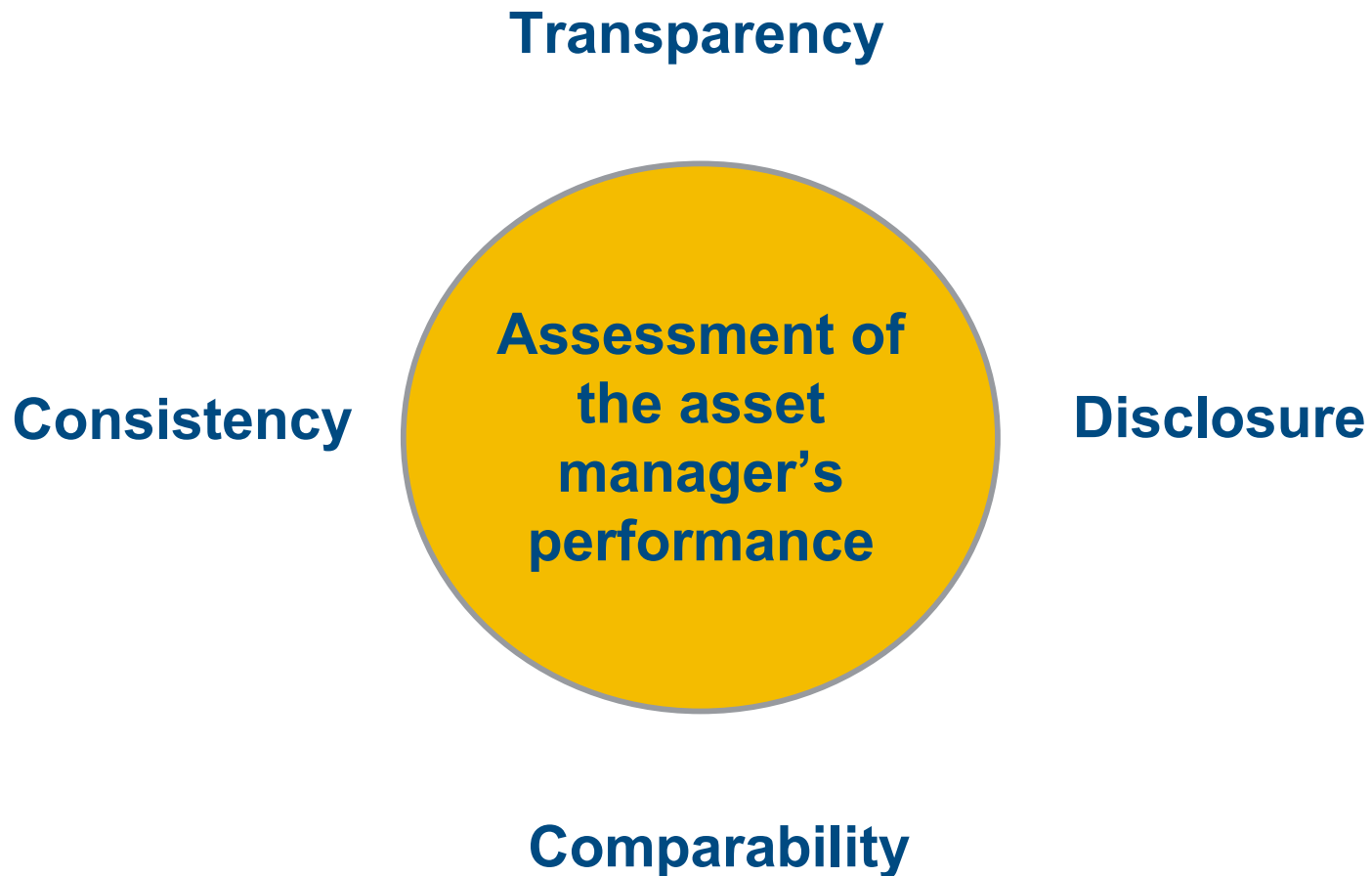
## Prospective Investors:

- ▶ Transparency and confidence
- ▶ Ethical commitment - 'best practice' professionalism
- ▶ Viewed as the norm

## Firms:

- ▶ Global passport
- ▶ Self regulation
- ▶ Enhance internal controls

# Objectives of the GIPS standards



## AIMR-PPS Standards

### Standards drafted in 1987 – Adopted 1993

- ▶ Voluntary, ethical principles
- ▶ Fair representation and full disclosure
- ▶ Ensure accurate & consistent data
- ▶ Promote fair competition
- ▶ Industry self-regulation

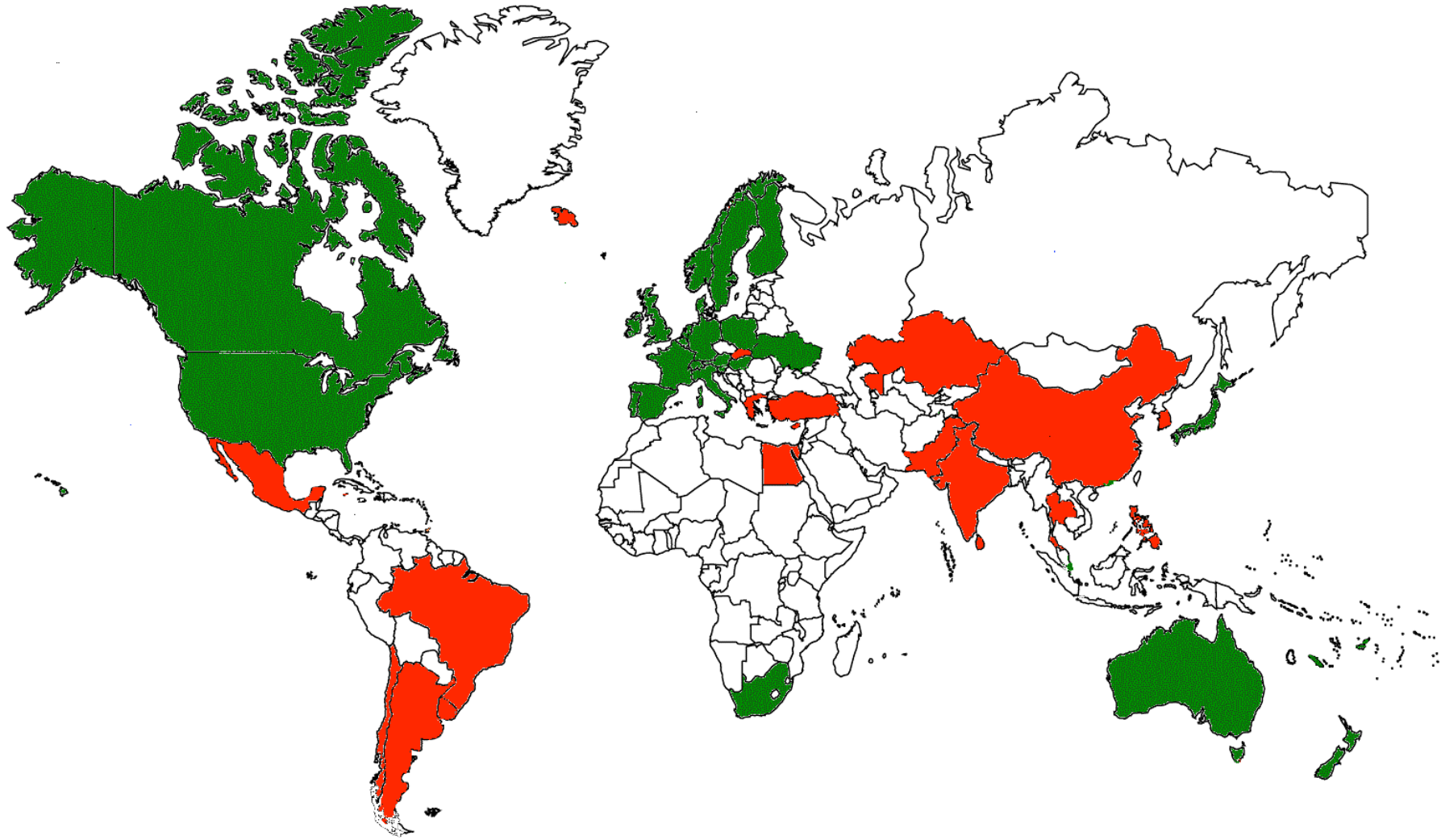
## GIPS Standards

**Initiative began in 1995 – Adopted 1999**

- Global solution
- Based on AIMR-PPS standards
- Promote fair representation & full disclosure
- “The Global Passport”



# Status of GIPS Adoption



- Countries that have adopted the GIPS® standards
- Countries with interest in adopting the GIPS standards

## Endorsed Country Sponsors

- Australia
- Austria
- Belgium
- Denmark
- France
- Germany
- Hong Kong
- Hungary
- Ireland
- Italy
- Japan
- Liechtenstein
- Luxembourg
- Micronesia
- Netherlands
- New Zealand
- Norway
- Poland
- Portugal
- Singapore
- South Africa
- Spain
- Sweden
- Switzerland
- UK
- Ukraine
- US & Canada

## Core principles

- **Firm-wide compliance**
- **All fee-paying discretionary accounts**
- **Composites**
- **Time weighted returns**
- **Performance Report/disclosures to prospective clients**

## Determining a track record

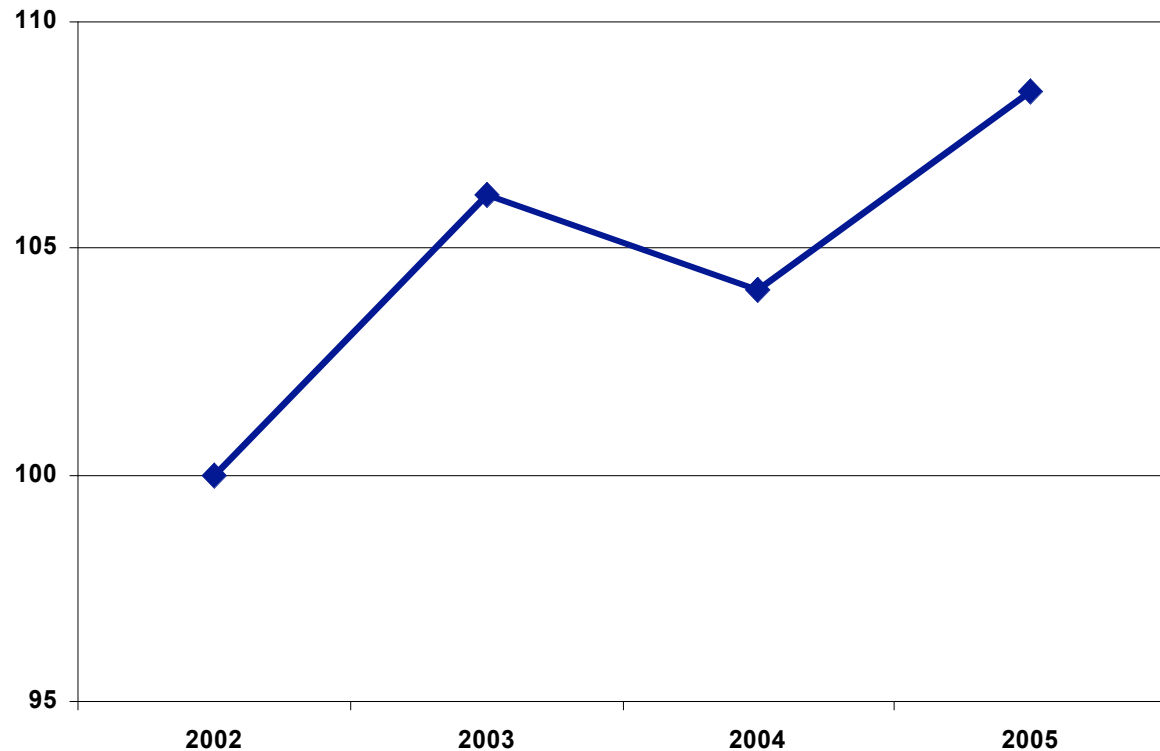
Year	2003	2004	2005
<b><u>Account A</u></b>			
Return	6.2%	-2.0%	4.2%
Beginning assets	10.0	10.6	10.4
<b><u>Account B</u></b>			
Return	5.0%	-3.3%	
Beginning assets	100.0	105.0	
<b><u>Account C</u></b>			
Return	4.1%		
Beginning assets	500.0		

**=> What track record should be shown ?**

### Possible ways to determine a track records:

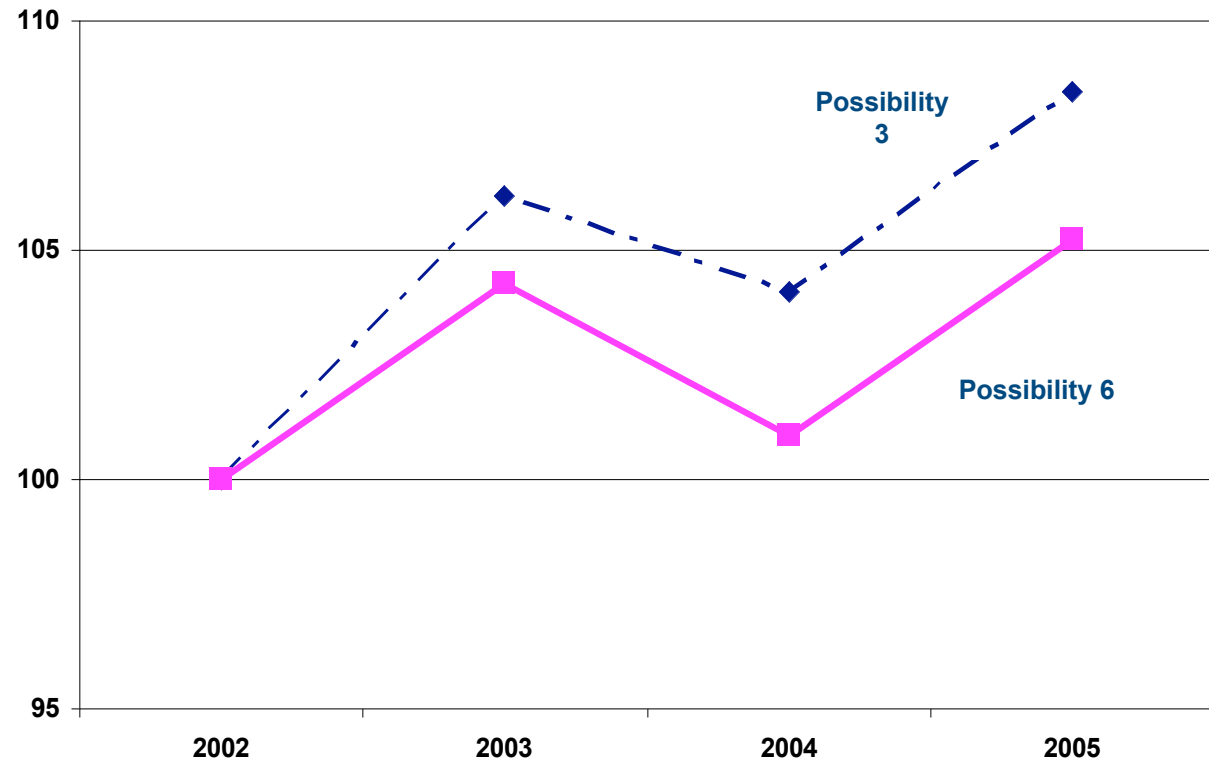
- 1: Representative account
- 2: Account with the longest history
- 3: Equally weighted average of all live accounts
- 4: Equally weighted average of all accounts
- 5: Asset weighted average of all live accounts
- 6: Asset weighted average of all accounts
- 7: Model portfolio or model strategy

**Possibility 3**  
because this reflects  
all live accounts



**=> Is this a fair performance track record ?**

**Possibility 6**  
because this reflects  
all accounts



**=> What other information is needed for a performance assessment ?**



## Determining a track record

Assets of	Composite	Benchmark	Number of
composite	return	return	accounts

2002	4.2%	4.8%	1
10.4			

2003	-3.2%	-1.5%	2
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**115.6** *A GIPS report should always be the basis for a*

2004	4.3%	3.3%	3
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# Beneficiaries of the GIPS standards



# Restoring Investor Confidence



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## Certificate in Investment Performance Measurement

- ▶ Specialized Study and Examination Program
- ▶ Independent of the CFA® Program
- ▶ Online Curriculum
  - Professional Ethics
  - Performance Measurement, Attribution, and Appraisal
  - The GIPS Standards
- ▶ Computer-Based Examinations

## CIPM Program Objectives

- ▶ Meet Industry-Wide Need for Highly Qualified, Ethically Grounded Performance Practitioners
- ▶ Professionalize the Field of Performance Evaluation and Presentation
  - Affirm Status as an Expert Domain
  - Improve Standards of Practice
  - Recognize Individual Achievement
- ▶ Foster Proficiency in Applying the GIPS® Standards
  
- ▶ More information at [www.cfainstitute.org/cipm](http://www.cfainstitute.org/cipm)

**Thank you!**

**Jonathan A. Boersma, CFA**  
**Executive Director**  
**Global Investment Performance Standards**  
**CFA Institute Centre for Financial Market Integrity**

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