

INVESTMENT PERFORMANCE

MODELS, BENCHMARKS, AND GIPS®

MICHAEL F. BECK, MBA, CFP®, CIPM, CAIA, CPA (NOT IN PUBLIC PRACTICE)
MEMBER OF GLOBAL INVESTMENT PERFORMANCE STANDARDS INVESTMENT MANAGER SUB COMMITTEE

IMPORTANT INFORMATION

These are the views of the presenter and not their employer or any other agency relationship.

The information presented is currently what is proposed in the GIPS® 2020 Standards and may change prior to the release of the final document!

The timeline of the proposed changes may also be adjusted to reflect changes or other items that may arise.

GIPS® is a registered trademark owned by CFA Institute.

GOALS

Gain an understanding of the Global Investment Performance Standards GIPS®

Firm wide Verification / Composite examination

Learn why theoretical (non existent) or back-tested performance should not be used for official returns

Show why a proper benchmark should be used for performance presentations

Common investment performance issues that cause incorrect returns for accounts/composites

What's coming up in the GIPS® world?



“

PERFORMANCE DATA QUOTED REPRESENTS PAST PERFORMANCE; PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS.

”

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS AND NO INVESTMENT IS GUARANTEED FOR RETURN OF PRINCIPAL AND/OR RETURN ON INVESTMENTS. RESULTS MAY VARY AMONG ACCOUNTS.



Financial Analysts Journal

The magazine for investment management

September/October 1987

\$9.00

60

40

60

40

**IN DEFENSE OF A
60/40
ASSET MIX FOR
PENSION FUNDS**

60

40

PERFORMANCE PRESENTATION STANDARDS

1993

with commentary and interpretation

AIMR

WHERE DID GIPS® COME FROM? AND WHY?

Global Investment
Performance Standards
(GIPS®) Handbook

SECOND EDITION
2006

*Guidance and Interpretations
for the GIPS Standards*

 CFA Institute

**GLOBAL
INVESTMENT
PERFORMANCE
STANDARDS
HANDBOOK**

3RD EDITION
2012



2ND AND 3RD EDITIONS
2006 AND 2012

EXPOSURE DRAFT PAPER 2018

OVER 100 COMMENTS RECEIVED



**Global
Investment
Performance
Standards**

EXPOSURE DRAFT OF THE 2020
GLOBAL INVESTMENT
PERFORMANCE STANDARDS
(GIPS®)

Effective Date: 1 January 2020

Public Comment Period: 31 August 2018 – 31 December 2018



CFA Institute

www.gpiestandards.org

© 2018 CFA Institute. All rights reserved.

(2010) **CURRENT GIPS STANDARDS FRAMEWORK**

0 – FUNDAMENTALS OF COMPLIANCE

1 – INPUT DATA

2 – CALCULATION METHODOLOGY

3 – COMPOSITE CONSTRUCTION

4 – DISCLOSURE

5 – PRESENTATION & REPORTING

6 – REAL ESTATE

7 – PRIVATE EQUITY

8 – WRAP FEE/SMA

ADVERTISING GUIDELINES

GLOSSARY

VERIFICATION / COMPOSITE EXAMINATION

Verification is the review of an investment management firm's performance measurement processes and procedures by an independent third-party verifier.

- Sampling process of entire firm – not just one composite for verification
- Must have process and procedure documents in place
- Usually done annually
- The standards describe the minimum procedures that must be completed by the verifier.
- Total Firm Assets / All Composites (open and closed)

- ▶ - Restated accounts
- ▶ - Closed Accounts
- ▶ - Changed Strategy
- ▶ Not enough documentation on changes
- ▶ Minimal (if any) composite disclosures
- ▶ - Timing of cash flows
 - ▶ Daily
 - ▶ Monthly
 - ▶ Monthly with large cash flows
- ▶ Interface Issues
- ▶ Transaction Mapping / New Transactions

COMMON VERIFICATION ISSUES

Glenmede Investment Management, LP

Composite Performance Presentation

Core Fixed Income Composite

January 1, 1990 through December 31, 2018

Period	Returns Gross of Fees (%)	Returns Net of Fees (%)	Barclays US Aggregate Index (%)	Composite 3YR Std Deviation	Barclays US Aggregate 3YR Std Deviation	Number of Accounts	Composite Market Value (\$millions)	Total Firm Market Value (\$millions)	Percentage of Firm Assets	Internal Std Deviation (%)
2018 Year	(0.00)	(0.40)	0.01	2.6%	2.8%	15	604	14,589	4%	0.04
2017 Year	3.45	3.04	3.54	2.4%	2.8%	14	608	17,598	3%	0.10
2016 Year	1.94	1.53	2.65	2.6%	3.0%	12	576	14,642	4%	0.08
2015 Year	1.53	1.13	0.55	2.7%	2.9%	10	534	13,053	4%	0.14
2014 Year	5.15	4.73	5.96	2.6%	2.6%	8	495	9,753	5%	0.09
2013 Year	(2.13)	(2.52)	(2.02)	2.7%	2.7%	7	436	7,147	6%	0.06
2012 Year	4.89	4.48	4.22	2.5%	2.4%	13	567	5,929	10%	0.16
2011 Year	7.58	7.15	7.84	2.9%	2.8%	8	465	5,243	9%	0.02
2010 Year	6.36	5.94	6.54			9	463	4,992	9%	0.16
2009 Year	4.96	4.55	5.93			15	711	4,752	15%	0.30
2008 Year	7.45	7.03	5.24			13	636	4,845	13%	0.52

Annualized Performance - Period Ending December 31, 2018

Period	Return (%) Gross of Fees	Return (%) Net of Fees	Barclays US Agg Index (%)
1 Year	(0.00)	(0.40)	0.01
3 Year	1.79	1.38	2.06
5 Year	2.40	1.99	2.52
10 Year	3.33	2.92	3.48
Since Inception	5.96	5.54	5.82

Separate Account Fee Schedule:

First \$5 million	0.40% on market v alue
Next \$10 million	0.30% on market v alue
Next \$35 million	0.25% on market v alue
Over \$50 million	Negotiable

Past performance is not indicative of future performance.

Glenmede Investment Management, LP (the "Firm" or GIM) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Glenmede Investment Management, LP has been independently verified for the period of 1/1/1993 to 6/30/2018. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Glenmede Investment Management, LP, a registered Investment Advisor, is an affiliate of the Glenmede Trust Company, NA (GTC). Effective January 1, 2007, the Investment Product Management Group of GTC became Glenmede Investment Management, LP. All performance prior to January 1, 2007, shown here as the performance of GIM, was previously reported as the performance of the Investment Product Management Group of the Glenmede Trust Company. "Firm" assets are defined as all assets managed by the Glenmede Investment Management, LP. A complete list of firm composites and performance is available upon request.

The Strategic Equity Composite objective is to achieve above-benchmark long term return, consistent with reasonable risk to principal, by investing in well-managed companies with durable business models, good growth prospects, and attractive valuations. Prior to 3/31/2017, this composite was known as the Strategic Growth Composite. Current portfolio managers are John Kichula (since 2/28/2015) and Mark Livingston (since 02/29/2016). Peter Zuleba was manager from 12/31/2004 to 02/29/2016.

The composite was created on 12/1/2004 and has an inception date of 3/31/2004. The composite is comprised of all the Glenmede Investment Management, LP Strategic Equity non-restricted, discretionary and actively managed accounts over \$250,000. Accounts are included in the composite beginning with the first full month of performance through the last full month of performance. Accounts falling below the minimum or experiencing net cash flows of 30% or greater of beginning market value are excluded from the composite for that month. Performance results are calculated on a total return basis and include all realized and unrealized capital gains and losses as well as dividends and interest. Portfolios in the composites presented record transactions based on trade date. Portfolio performance calculations are time-weighted to account for periodic contributions and withdrawals. Composite returns consist of size-weighted portfolio returns using beginning of period values to weight portfolio returns. Monthly linking of interim performance results is used to calculate year-to-date and annual returns. All of the composite's valuations and returns are computed and stated in U.S. Dollars. Additional information regarding the Firm's policies for valuing portfolios, calculating performance and preparing compliant presentations, is available upon request. The gross of fee returns reflect composite performance results that include transaction costs. Net of fee returns reflect composite performance results that have been adjusted to reflect a deduction for investment management fees at the highest model rate of 0.75% reflected on the performance presentation.

Internal Standard Deviation measures the consistency of a composite's performance results with respect to the individual portfolio returns within that composite. The dispersion of the gross returns of each composite is calculated by the asset-weighted deviation method. Only portfolios that have been managed for the full period have been included in the presented dispersion calculations of each composite. For periods with five or fewer portfolios, disclosure of dispersion and the number of accounts is not presented. The three-year annualized ex-post standard deviation measures the variability of the gross composite and index returns over the preceding 36-month period.

The Standard and Poor's 500 Composite Index consists of 500 widely held common stocks. This unmanaged index is a total return index with dividends reinvested. One cannot invest directly in an index.

- ▶ Specified in advance
- ▶ Appropriate
- ▶ Measurable
- ▶ Unambiguous
- ▶ Reflective of current investment opinions
- ▶ Accountable/Owned
- ▶ Investable

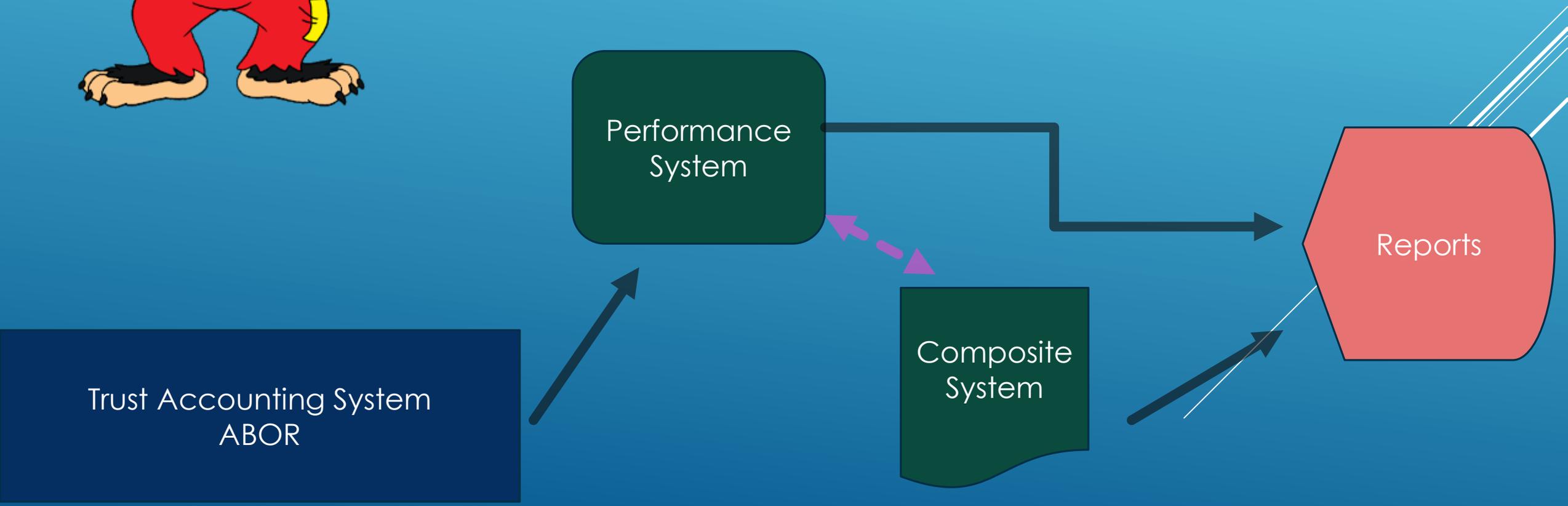


BENCHMARKING

WHY DO GOOD RETURNS TURN BAD?

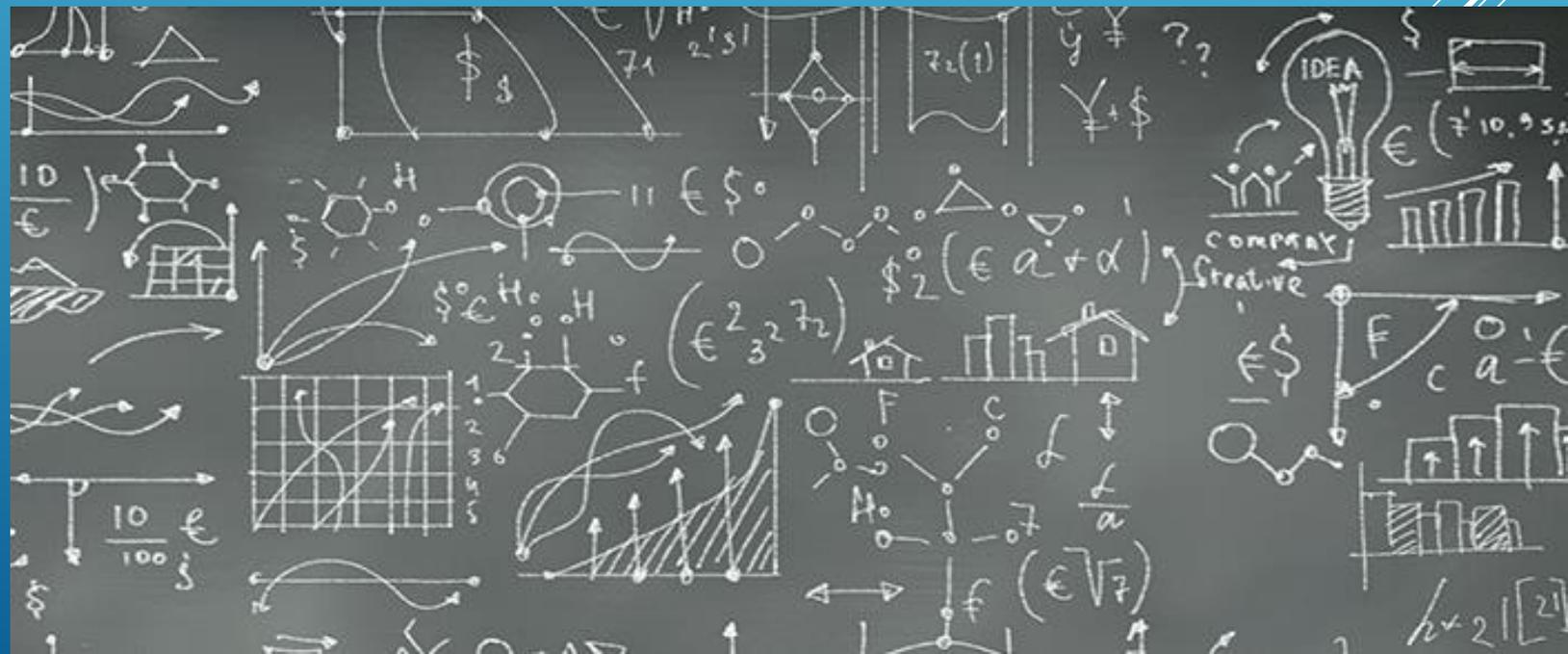


1. Corporate Actions
 1. Split – Spinoff – Cash in Lieu
2. Backdated transactions
3. Cash/Unit OOB
4. Pricing / Exchange rate timing



THEORETICAL PERFORMANCE SHOULD CAN BE USED IN A GIPS® VERIFIED FIRM'S COMPOSITES?

True or false?





WHAT HAS BEEN USED IN THEORETICAL PERFORMANCE RETURNS?



Not disclosing limitations

Not having proper backup data (or any accurate data)

- F Squared

Changing the model after the fact (retrospective changes)

WHY THE CHANGES TO GIPS?

In 30 years that asset management industry has changed and the standards should as well!

No widespread adoption by pooled funds or alternative managers

85 of top 100 asset management firms are GIPS® compliant

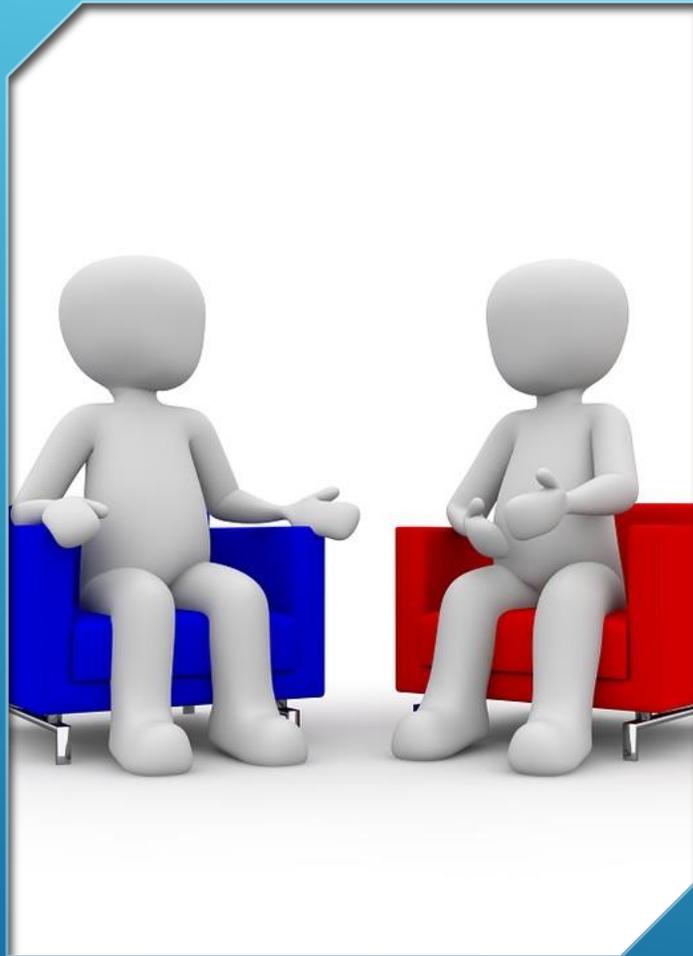
1,700 firms claim compliance

Reduce Complexity

- 2010 was the last release of the GIPS® standards
- Summer 2018 was the draft version update of the 2020 Standards
- Year End 2018 was the close of the comment period
- Final updates completed by summer 2019
- Proposed Effective date of the standards 1/1/2020

PROPOSED TIMELINE





ONE TO ONE

Historically the main purpose of the standards

-Asset Managers

Composite Accounts



ONE TO MANY

Pooled funds

Mutual funds

The asset manager may not know the end client or meet with them personally

-Limited Distribution funds

-Broad Distribution Funds



ONE TO NONE

Asset Owners

Pension Funds

Sovereign Wealth
Funds

2020 Proposed Framework

GENERAL PROVISIONS

1. FUNDAMENTALS OF COMPLIANCE
2. INPUT DATA AND CALCULATION METHODOLOGY
3. COMPOSITE AND POOLED FUND MAINTENANCE

COMPOSITE REPORTS

4. TIME-WEIGHTED RETURNS
5. MONEY-WEIGHTED RETURNS

POOLED FUND REPORTS

6. TIME-WEIGHTED RETURNS
7. MONEY-WEIGHTED RETURNS

ASSET OWNERS GENERAL PROVISIONS

8. FUNDAMENTALS OF COMPLIANCE
9. INPUT DATA AND CALCULATION METHODOLOGY
10. TOTAL FUND AND COMPOSITE MAINTENANCE

ASSET OWNER REPORTS

11. TIME-WEIGHTED RETURNS
12. MONEY-WEIGHTED RETURNS

ADDITIONAL SECTIONS

13. GIPS ADVERTISING GUIDELINES
- GLOSSARY

MAJOR CHANGES

“compliant presentation” now has 3 choices:

1. GIPS Composite report
2. GIPS Pooled Fund report
3. GIPS Asset Owners report

An asset manager that only has only time weighted report would refer to section 4

An asset owner is presenting an additional composite they would refer to section 12

LIMITED OR BROAD?

A limited distribution pooled fund is typically sold in one-on-one presentations and offers participation in that specific fund

hedge funds / comingled funds

GIPS Pooled fund report required

Broad distribution pooled funds are typically sold to the public

Open end mutual funds

Highly regulated

NO GIPS Pooled fund report



IRR IS NOW MONEY WEIGHTED RETURN

The GIPS 2020 Exposure Draft, we have removed the asset class distinction and allow firms more flexibility for presenting money-weighted returns.

1. Control the Cash Flows

1. Closed end
2. It has a fixed life
3. Fixed capital commitments
4. Illiquid investments are significant part of strategy

Can present both MWR and TWR on the reports

A firm can not switch between return calculation methodologies unless there is a good documented reason for the change

ESTIMATED TRANSACTION COSTS (TRADING EXPENSES)

There have been many changes in the way transaction costs are calculated in the last 30 years.

In some instances, firms may not have the ability to determine how or where trading expenses are charged.

Estimates can be used for composites if returns calculated using estimated transaction costs are equal to or higher than those that would have been calculated using actual transaction costs.

Need policies and procedures for the estimation method and how it is implemented.



PORTABILITY

Currently there is a one year grace period to bring all data into compliance .

For the 2020 update, it will allow the acquired non-compliant firm or affiliation to meet all the requirements of the GIPS standards within one year of the acquisition date, on a prospective basis.

Portability is expected to be optional under the 2020 Standards.

UPDATE OF GIPS® MATERIALS

Currently there is no timeline to update the composite presentations.

It has been proposed to have them updated within 6 months after the annual periods ends.

VALUATION CHANGES

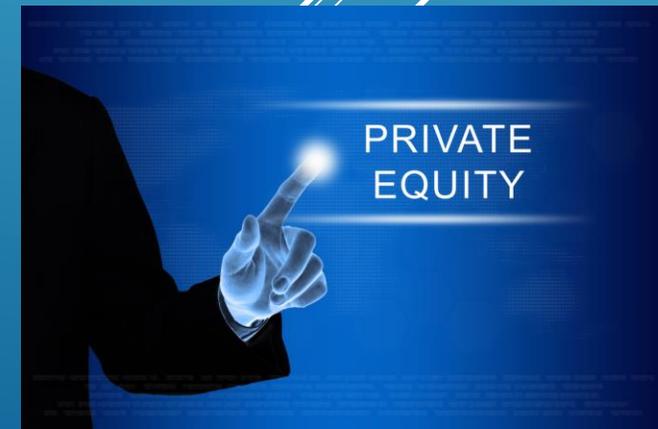
In the 2010 Standards only Real Estate needed an external valuation every 12/36 months.

The proposal is to have all Private Market Investments have a valuation every 12 months.

- Financial Statement Audit
- External review
- Valuation review

Private Market Investments

- Not traded on an exchange
- Ex, Timberland, Infrastructure, venture capital, real assets
- Generally Illiquid



SUBSCRIPTION LINES OF CREDIT

Used at beginning of funding period by GP instead of calling capital to help boost returns of the limited distribution fund.

The lines of credit can substantially change the money weighted return of the fund.

The proposed change is to show the money weighted returns of the limited distribution fund with and without the subscription lines of credit to show an 'apples to apples' comparison.

Purpose/Size/Amount must now be disclosed if using them.



DISCLOSURES

CFA®, Chartered Financial Analyst®, CIPM®, AIMR-PPS®, Let's Measure Up.™, CFA Institute Investment Foundations®, and GIPS® are trademarks owned by CFA Institute.

All of the views and materials presented are not in anyway the views of our employers, CFA Institute or agents.

More information can be found at:

www.gipsstandards.org

<https://www.cfainstitute.org/advocacy/market-integrity-insights/2019/2020-gips-industry-feedback>

MICHAEL.BECK@GLENMEDE.COM

215-419-6619

Questions?

