GIPS® Committees and Working Groups

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Appendix
Introduction

The purpose of this white paper is to give an overview of the most commonly asked questions regarding GIPS Committees and Working Groups. Additionally, this paper will provide insight into best practices and industry trends surrounding the use of committees for organizations of all sizes.

Do most firms have formal GIPS Committees?

Most firms that do have formal GIPS Committees were found to either have assets in excess of $50 billion and/or were part of a global or multi-boutique entity. However, the larger majority of the firms have chosen to only have this as an informal committee and/or working group. The reasons cited for not maintaining a formal committee were the operational burden of maintaining minutes (retention, filing, approval, etc.), framework uncertainty (which members of senior management should be involved in GIPS related discussions outside of their expertise), and the approval process (in relation to our clients who are banks and/or insurance companies) required for having the committee formalized.

For larger firms that do have a formal GIPS Committee, the committee is typically in addition to an informal working group. The GIPS Committee acts as more of a steering committee and only meets annually or when significant firm decisions need to be made. For these firms, the informal GIPS team and/or working group meets at least quarterly to discuss any other GIPS issues needing to be addressed.

Included at the end of this document are five examples of GIPS Committee Charters and two examples of GIPS Committee Meeting Minutes.

How should this be done when the GIPS firm is part of a global or multi-boutique entity?

In a global or multi-boutique environment, it is important to remember that each GIPS firm is responsible for their GIPS firm decisions and documentation. If there is to be one formal GIPS committee, there needs to be documentation on how each firm is represented by the committee.

In each of the firms utilizing one formal GIPS committee, there was a representative of each firm and/or boutique (non-voting) to provide input surrounding how a respective topic may impact their specific business line. The meetings for the global firms were very infrequent and were only required when there were significant decisions to be made. The GIPS working groups for these organizations met quarterly and did not contain representation from each firm/boutique, but rather each department of the global entity supporting the respective firms/boutiques.

“The composition of the committee is more important than who the chairperson is.”
How should an emerging firm approach the formation and use of a GIPS Committee?

Generally, depending on the complexity of applying GIPS, emerging firms do not find it beneficial to have a formal GIPS committee. The most important aspect for an emerging firm is to have a key individual responsible for oversight and the application of GIPS as well as keeping abreast of any updates promulgated by CFAI and/or any applicable regulatory body. The individual responsible for GIPS should also find an efficient way to disseminate the knowledge and ensuring firm buy-in on new requirements and processes.

What are the functional roles that you have seen represented in a formal charter for GIPS committees?

The functional roles of the GIPS Committees we reviewed varied significantly across each of the firms. The roles were dependent less on titles (CEO, CCO, COO, etc.) and relied more on the individual’s knowledge of GIPS and ability to interpret and apply the Standards. There were similarities in relation to the specific questions outlined below.

Who is the chairperson?

The composition of the committee is more important than who the chairperson is. The chairperson should be very knowledgeable of GIPS and have the time to prepare and/or review the materials before they are distributed. Within most of the formal GIPS Committee charters reviewed, the chairperson was the individual in charge of either Operations, Performance, Risk, or Compliance.

Which committee participants are voting members as it relates to GIPS decisions potentially impacting all entities and/or boutiques?

The voting members as it related to GIPS decisions, included the most senior individual from each department who had knowledge of GIPS (e.g., typically not the CCO, but rather the Director of Compliance): Compliance/Legal, Performance/Risk, Operations, Sales/Marketing.

Each GIPS Committee charter reviewed had representation from the following areas. In an entity with a global framework, these may be covered by one person for all firms or a different person for each individual firm. A best practice would be identifying who is representing these areas for each firm and their designee, as applicable.

- Portfolio/Investment Management
- Compliance/Legal
- Performance/Risk
- Operations
- Sales/Marketing
- Senior Management
- Any other areas pertinent to the firm
What functions report to the GIPS committee and are interested parties respective to the decisions?

This differs substantially for each firm reviewed. However, the overall representation of specific departments remained consistent. It is important to note that each firm with a formal committee ensured that any one area and/or team was not overly represented on the committee, specifically as voting members. A majority of the GIPS Committees had informal members who attended on an as needed basis when a topic impacting their division of responsibility was being discussed.

For example, a member of the RFP/Presentation team would attend if there were to be discussion surrounding a firm decision on what to include from a GIPS standpoint within a specific RFP.

Other areas of concern that are not addressed above but should consider in formation of a GIPS committee?

As indicated above, a majority of the firms have an informal GIPS working group that handles most GIPS related discussion items. In the majority, the firms with formal committees met only on an annual or as needed basis to discuss higher level GIPS related items. Additionally, as with any GIPS policy and procedure, if you are going to form a GIPS committee, adherence to your meeting procedures is key (e.g., frequency of meetings, record retention of minutes, etc.). It is almost certain that a regulator would request relevant GIPS committee meeting items to ensure that your organization is adhering to processes and procedures that the firm has documented.

A general consensus of responsibilities and documents provided for each meeting are:

- Review/approve new policies and changes to existing policies, composite definitions, and any other GIPS related matters.
- Review of existing policies on at least an annual basis to ensure they still meet the needs of the firm and current business decisions.
- Review new guidance and determine its applicability to the global firm and/ the individual firms or boutiques (e.g., new guidance statements, Q&A’s, etc.).
- Review composite presentations on an annual basis to determine if there are any additional disclosures required (e.g., materiality related disclosures that may change over time).

If you are going to form a GIPS committee, adherence to your meeting procedures is key.
• Items typically reviewed on a quarterly/monthly basis by the working group:

1. List of new accounts during the period and composite inclusions.
2. List of terminated accounts during the period and composite exclusions.
3. List of accounts that changed mandates during the period and resulting composite membership changes.
4. Policies and procedures related to any new composites created during the period.

Every firm must consider multiple factors when determining if and how to utilize a committee and whether that will be an informal or formal group. This white paper provides insight into best practices and industry trends to help your firm effectively navigate the best solution to fit your needs. Please do not hesitate to contact your Ashland Partners engagement team as a resource with any questions or comments on all aspects of your firm’s GIPS compliance.

See the following Appendix for examples of GIPS Committee Charters and Committee Meeting Minutes
Appendix

Example #1

GIPS Committee

The purpose of the GIPS Committee is to:

- Establish and maintain a group of personnel within the firm that is knowledgeable about the GIPS Standards and keeps abreast of changes to the Standards as well as other industry best practices;
- Suggest, approve, and implement changes to the firm’s GIPS Policies and Procedures; and
- Monitor the firm’s practices to ensure adherence to the firm’s Policies and Procedures.

The GIPS Committee consists of:

- Name 1 (Operations)
- Name 2 (Investments)
- Name 3 (Compliance)
- Name 4 (Marketing), Committee Chair

Periodic Reviews

On a quarterly basis, [FIRM] will:

- Ensure composites have been constructed in accordance with the firm’s Policies and Procedures.
- Maintain a list of prospective clients that have received marketing material, and a description of the material provided.
- Review accounts that have entered or exited composites to ensure they have client directed instructions noted.
- Review the firm’s list of composites and descriptions to ensure they are up to date.
- Maintain a list of prospective clients that have received marketing material, and a description of the material provided.

At least annually, [FIRM] will:

- Review the definition of the firm to ensure it is accurate in light of any recent or anticipated changes to the organization.
- Review composite fee schedules to ensure they are current.
- Review and modify the GIPS Policies & Procedures document to ensure it is current and reflects any recent or anticipated changes in the Standards or in the firm’s business practices.
- Prepare Annual Disclosure Presentations (Appendix B) for all marketed composites.
Example #2

GIPS Committee

The purpose of the GIPS Committee is to:

- Establish and maintain a group of personnel within the firm that is knowledgeable about the GIPS Standards and keeps abreast of changes to the Standards as well as other industry best practices;
- Suggest, approve, and implement changes to the firm’s GIPS Policies and Procedures; and
- Monitor the firm’s practices to ensure adherence to the firm’s Policies and Procedures.

The GIPS Committee shall consists of representatives from the following departments:

- Operations
- Performance
- Product Information
- Strategic Marketing
- Compliance

**Other members may be substituted in the absence of the above members.

Periodic Reviews

On a monthly basis, [FIRM] should:

- Ensure composites have been constructed in accordance with the firm’s Policies and Procedures.
- Ensure all newly developed marketing material contains the appropriate disclosure language and/or includes the most recent (and appropriate) Disclosure Presentation (Quarterly or Annual).
- Maintain a list of prospective clients that have received marketing material, and a description of the material provided.

On a quarterly basis, [FIRM] should:

- Review the firm’s list of composites and descriptions to ensure they are up to date.
- Prepare a Quarterly Disclosure Presentation as needed for the most frequently marketed composites.
- Maintain a list of prospective clients that have received marketing material, and a description of the material provided.

At least annually, [FIRM] should:

- Review the definition of the firm to ensure it is accurate in light of any recent or anticipated changes to the organization.
- Review composite fee schedules to ensure they are current.
- Review and modify the GIPS Policies & Procedures document to ensure it is current and reflects any recent or anticipated changes in the Standards or in the firm’s business practices.
- Prepare Annual Disclosure Presentations (Appendix B) for all composites.
Example #3

GIPS Committee

The GIPS Committee has affirmed that [FIRM] is to uphold the GIPS standards and employees must adhere to these Policies and Procedures, and the GIPS standards in the formulation, development, and presentation of material representing [FIRM'S] composites.

The GIPS Committee has determined the following delineation of responsibilities:

- **Client Services** – Is to implement these GIPS standards and policies when producing presentations and related materials, and maintain records of presentations and other communications. Those who present to clients, including but not limited to, Client Service Officers and the Portfolio Managers, must observe GIPS standards and [FIRM'S] policies in response to required and recommended elements of the GIPS standards.

- **Operations** – Is responsible for working with [SOFTWARE VENDOR] to create and monitor the calculation of performance returns. [SOFTWARE VENDOR] calculates performance, maintains records, assigns accounts, retains documentation of performance calculations, and maintains the data supporting performance calculations, composite assignment, and changes to composite assignment. (PLEASE SEE APPENDIX C FOR DETAILED PROCEDURES).

- **Trading** – Is responsible for alerting Operations and Compliance of composite membership edits, strategy revisions, and all composite construction edits.

- **Compliance** – Is responsible for reviewing and monitoring composite procedures and all testing and composite reconciliation. Compliance will review composite assignments with Operations and Trading, as well as any changes in composite policies or disclosures, and then present to the Composite Committee for approval.

- Compliance is to maintain the Policies and Procedures, revise for changes to GIPS, advise all parties of new and revised standards and interpretations as provided by GIPS, and maintain a list and description of all composites. Questions regarding the Policies and Procedures and the GIPS standards may be forwarded to the Chief Compliance Officer.
Example #4

GIPS Committee
The GIPS Steering Committee, acting on [FIRM’S] current business plan, initiated the verification process and set in place the groundwork for the remediation process. The Working Group compiled all historical records and completed all projects required to satisfy the independent auditor’s recommendations. GIPS verification was first achieved for the [FIRM] GIPS Firm on [DATE].

GIPS Oversight
- Chair –
- Operations –
- Information Technology –
- Compliance –
- Legal –

GIPS Working Group
- Chair – [This was a multi-boutique committee, these could be representatives from each of the boutiques]
- Operations –
- Information Technology –
- Compliance –
- Legal –

The Oversight Committee is charged with insuring that the [FIRM] GIPS Firms (BOUTIQUE #1 and BOUTIQUE #2) maintain their GIPS Compliant status. The Committee will meet at least annually to review all new and terminated accounts/composites, changes to composites, benchmarks, procedural updates, and other issues raised by the GIPS Working Group.

The GIPS Working Group meets on a monthly basis to discuss and resolve operational issues, systems enhancements, treatment of new accounts, etc. The Policy and Procedures Manual is updated as necessary to reflect changes in our policies and procedures related to the Standards.

Daily GIPS Responsibilities
It will be the responsibility of each of the separate divisions to maintain individual daily records for the accounts managed by their group.
- Position reconciliation with custodian.
- Pricing maintenance.
- Inspect for significant cash flows.

On a monthly basis, summary data (market values and returns) will be rolled up to a consolidated database.

In addition, records of all account status changes should be maintained by the separate divisions. The account status changes include new accounts, terminated accounts, and existing accounts with investment guideline changes. The account status changes should be reviewed by the GIPS Oversight Committee during the scheduled meetings.

Below lists the entities and the person with the daily GIPS responsibilities:

BOUTIQUE #1 – [NAME]
BOUTIQUE #2 – [NAME]
Example #5

GIPS Committee

The GIPS Working Group will meet on a monthly basis and will be responsible for the following:

- Review status of portability, verification, and other related projects as they impact GIPS.
- Ensure composites have been constructed in accordance with the firm’s policies and procedures and GIPS.
- Review the accounts that have entered or exited composites to ensure they have client directed instructions (IMA, Investment Guidelines) to support inclusion/exclusion.
- Ensure all newly developed marketing material contains the appropriate disclosure language.
- Maintain a list of prospective clients that have received marketing material and a description of the material provided.

On a quarterly basis:

- Review the AUM reconciliation between Finance and GIPS to ensure all discretionary, fee paying accounts are included in at least one composite.
- Modify the firm's list of composites and descriptions to ensure they are up to date.

At least annually:

- Review the definition of the firm to ensure it is accurate in light of any recent changes to the organization.
- Review composite fee schedules to ensure they are current.
- Modify the GIPS policies and procedures document to ensure it is current and reflects any recent changes to the Standards.
- Annual GIPS verification support and coordination.
Example Committee Meeting Minutes #1

GIPS Committee

MINUTES for 12/13/10

Members in Attendance: [NAMES]

- Minutes from the 9/27/10 meeting were approved. [NAME] has been added to the invite list.
- Deliverables Update
  - To address any miscommunication issues for marketing data, Marketing, Compliance, and Performance will meet on a quarterly basis.
  - Charter has been revised to assign voting rights to only Marketing, Compliance, and Operations.
  - Added policy to include firm change disclosure for one year on marketing materials.
- Errors - One to report
  - Focused Equity Composite
    - Background: Error found when reviewing historical composite. There was a change to one of the portfolios, but the composite was never updated to reflect the change.
    - Dates Impacted: 2009 Annual Data.
    - Based on our Error Correction policy, the error was neither greater than 50 bps nor 5% of relative performance and thus deemed immaterial.
- Ashland Verification Update - 2009
  - Currently compiling final information - Ashland has all of the information they need, they are completing their final assessment.
  - On track for 12/31/10 completion.
- [XYZ] Composite Update
  - Reviewing portfolio level data for January - September 2010.
  - Working with PMs to define family groupings for composites, then will add portfolios to composites.
  - Timeline of completion discussion - to be completed 1Q 2011.
- GIPS 2010 Changes
  - Effective on all information as of 2011, so this will impact the 1Q11 marketing materials.
  - XYZ will follow up with appropriate parties in 1Q 2011 to discuss the scope of the changes.
- [SYSTEM] Upgrade - First half of 2011
Example Committee Meeting Minutes #2

Composite Committee Meeting

Date: December 15, 2009

Attending: [NAMES]

Committee discussed the below accounts based on a review of [SOFTWARE VENDOR] performance reports (Cash Flow and Performance reports), previous composite additions and exclusions, and the firm’s GIPS composite procedures:

**Exclusions (Cash Flow Report)**

- No accounts were removed based on [FIRM] Significant Cash Flow Policy (Cash Flow Report). Items discussed:
  - No cash flow policy (NAMES).
  - [NAME] composite had [ACCOUNT NAMES] which are new accounts. (Cash flow policy is to remove accounts that have a significant daily external aggregate cash flow greater than 20% or annual flow greater than 50%. Neither account reached this limit so were left in composite.)

**Inclusions (re-inclusions from previous months)**

- [ACCOUNT NAME] – was excluded based on cash flow policy
- [ACCOUNT NAME] – was excluded based on cash flow policy
- [ACCOUNT NAME] – was excluded based on cash flow policy

**New Accounts or Composites**

- [ACCOUNT NAME] (NEW ACCOUNT 11-26-09) - added to the [NAME] composite mid-month based on discussions with Ashland. We are changing the [NAME] composite inclusion policy.

**Terminated Accounts or Composites**

- [ACCOUNT NAME] account was removed as terminated account for November.

**[FIRM] Performance Review**

- The Committee reviewed individual account performance with the associated composite returns for any possible issues. There were no issues noted for the composites.

**Reconciliation**

- Operations and Compliance performed a reconciliation of the inclusions and exclusions and noted no issues.