Wespath

Our Fiduciary Focus educational series is your resource for information about not-for-profit institutional investing, board governance, OCIO services and more. Learn best practices and industry trends that improve your operations and advance your organization's mission!

Wespath claims compliance with the Global Investment Performance Standards (GIPS® Standards).[1]

A Quick Guide to the Global Investment Performance Standards (GIPS®)

Organizations searching for the right investment partner to manage their institutional assets have plenty of factors to consider, but one question in particular is gaining importance throughout the industry:

"Is the prospective investment manager GIPS compliant?"

GIPS standards is short for the "Global Investment Performance Standards." Sponsored by the CFA Institute, the GIPS standards provide a framework for calculating and presenting investment performance. Investors and managers can then use this universal set of standards across borders and asset classes. To date, GIPS standards have been adopted by organizations in more than 40 countries and regions.[2]

A Brief History

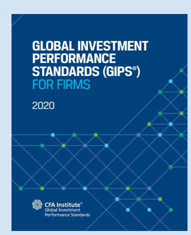
Today's GIPS standards can trace their roots back several decades. In 1987, an investment industry committee was formed to develop and recommend consistent investment performance reporting standards.

The committee was guided by a now well-known *Financial Analysts Journal* article, "A Report on Setting Performance Presentation Standards," published just prior to Black Monday. The report described how investment managers were left to create "their own standards" when presenting their performance track records. This created reporting that was, according to the authors, "varied, uneven and, in many instances, outright irresponsible and dishonest."[3] Such inconsistencies and irregularities created significant risks for investors.

The report inspired the committee to create investment performance reporting standards that upheld two key principles: fair representation and full disclosure. This led to the formation of GIPS standards' predecessor guidelines, the AIMR Performance Presentation Standards, which the CFA Institute's GIPS standards committee would further evolve in the mid-1990s. The first set of official GIPS standards were published in 1999.

Key Themes and Principles

Several themes from the original committee still provide the foundation for GIPS standards today:



Performance should be presented net-of-fees	Investors have a right to see a manager's performance track record, after the deduction of all fees.
No "cherry picking" when building performance composites	Under GIPS standards, a composite is an "aggregation of one or more portfolios that are managed according to a similar investment mandate, objective, or strategy." Managers should build composites using actual performance from *all* client accounts invested in a similar strategy—not just those with the strongest performance ("cherry picking").

[1] For GIPS standards compliance purposes, the firm referenced herein is defined to include Wespath Benefits and Investments, Wespath Institutional Investments LLC and UMC Benefit Board, Inc. GIPS® is a registered trademark owned by CFA Institute.
[2] https://www.cfainstitute.org./-/media/documents/code/gips/2020-gips-standards-firms.ashx
[3] https://www.jstor.org/stable/4479056

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Key Themes and Principles (continued)

Avoid including non-discretionary accounts in composites	Non-discretionary accounts are those not under the full control of the manager, such as when clients reserve the right to make final investment management decisions. Adding non-discretionary accounts to a manager's composite can create confusion about who is truly responsible for the investment decision-making that ultimately results in a portfolio's performance.
Organizational changes should not alter performance results	If an individual or group of individuals managing a portfolio leaves a firm, the firm must continue to report that portfolio's performance, even if the organizational turnover resulted from poor portfolio performance.
Objective verification	Managers should seek to be audited by a third party, so long as there is not a significant cost burden. Though this is not a requirement for GIPS compliance, it is a recommended best practice and provides assurance to investors that the GIPS standards have been implemented appropriately. It also allows managers to market themselves as "GIPS verified."

How GIPS Standards Are Applied Today

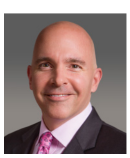
As mentioned, GIPS compliance is increasingly a key determining factor for organizations seeking to hire investment managers or Outsourced Chief Investment Officers (OCIOs). These organizations want to be confident that prospective investment providers are consistently and transparently reporting their performance.

Furthermore, GIPS standards help organizations with "apples to apples" comparisons. For example, if the search for an investment provider is narrowed down to two managers that are both GIPS compliant, an organization can compare their track records with confidence, knowing they are evaluating performance metrics prepared under the same standards.

The GIPS standards are also evolving alongside ever-changing industry trends. Just last year, the CFA Institute announced the latest iteration of the standards, "GIPS 2020." While the underlying principles did not change, the CFA Institute did simplify the verification process for asset owners and pooled funds, helping even more market participants present their performance in line with GIPS standards.

Aligned With Your Values

"Stewardship" and "Integrity" are two of our core values. We have designed our OCIO services to be transparent and easy to understand. We invite you to explore our website here, or contact:



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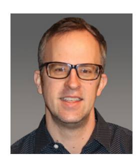

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About Wespath

Wespath Benefits and Investments (Wespath) is a not-for-profit agency that has been serving The United Methodist Church (UMC) for over a century. In accordance with its fiduciary duties, Wespath administers benefit plans and, together with its subsidiaries, including Wespath Institutional Investments, invests over $28 billion in assets on behalf of over 100,000 participants and over 130 United Methodist-affiliated institutions (as of June 30, 2021). Wespath funds invest in a sustainable manner that supports long-term value creation while having a positive impact on the environment and society and upholding the values of the UMC. Wespath maintains the largest reporting faith-based pension fund in the world. **wespath.org**

About WII

Wespath Institutional Investments (WII) is a not-for-profit subsidiary of Wespath, a general agency of The United Methodist Church (UMC). WII provides investment solutions for institutional investors related to the UMC, including foundations, children's homes, older adult facilities, higher education institutions and healthcare organizations. WII offers diversified global exposure to its world-class investment managers through a family of daily priced funds. WII's investment process proactively incorporates the consideration of environmental, social and governance (ESG) factors into investments across asset classes and in the selection of external asset managers. **wespath.com**

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