

G·I·P·S

Global Investment Performance Standards

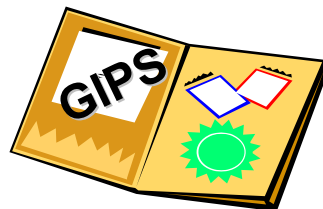
GIPS Standards Today

2009

What Are Global Investment Performance Standards?

Ethical principles to achieve full disclosure and fair representation of investment performance—the “Global Passport”

The goal of the GIPS Executive Committee is to have all firms adopt the GIPS standards as the standard for investment firms to present historical investment performance information



The Global Passport

Objectives

- Ensure accurate and consistent data
- Obtain worldwide acceptance of standards for calculating and presenting results
- Promote fair, global competition among investment firms
- Promote industry self-regulation on a global basis

Benefits of the GIPS Standards

- Enhanced ability to compare performance between firms and strategies
- Consistency in calculation and presentation of performance results, such as frequency of valuation, treatment of large cash flows and handling of accruals
- Full disclosure of important details on performance data presented, such as fees, composite construction criteria, dispersion of returns, etc.
- Firms recognized for adherence to industry best practice
- Strengthened internal processes and controls; improved risk management

What is a GIPS report . . .

This report does not necessarily contain all required disclosures

GIPS compliant presentations are based on unique situations of firms and composites.

Sample 2 Asset Management Company

Equities World BM MSCI Active Mandates Direct

Reporting Currency CHF

Creation Date 01 July 1999

Period	Total Return (%)	MSCI World (ri) in CHF Benchmark Return (%)	Number of Portfolios	Composite Dispersion (Range)	Total Composite Assets (millions)	Percentage of Firm Assets (%)
2004	18.0	19.6	6	0.2	84.3	<0.1
2003	-35.3	-33.0	8	0.7	126.6	0.1
2002	-16.0	-14.5	8	1.5	233.0	0.2
2001	-13.5	-11.8	7	1.3	202.1	0.2
2000	60.2	46.1	<5	N/A	143.7	0.2
1999	21.3	17.5	<5	N/A	62.8	<0.1
1998	22.5	26.3	<5	N/A	16.1	<0.1

...What is a GIPS Report?

Sample 2 Asset Management Company Equities World BM MSCI Active Mandates Direct

Compliance Statement

Sample 2 Asset Management Company has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Definition of the Firm

Sample 2 Asset Management Company is an independent investment management firm established in 1997. Sample 2 Asset Management Company manages a variety of equity, fixed income, and balanced assets for primarily Swiss and European clients. Additional information regarding the firm's policies and procedures for calculating and reporting performance returns is available upon request.

Benchmark

Sources of foreign exchange rates may be different between the composite and the benchmark.

Fees

Performance figures are presented gross of management fees, custodial fees, and withholding taxes but net of all trading expenses.

List of Composites

A complete listing and description of all composites is available on request.

Verification

Sample 2 Asset Management Company has been verified by an independent verifier on an annual basis from 1998 through 2003.

Fee Schedule

The standard fixed management fee for accounts with assets under management of up to CHF50 million is 0.35% per annum.

Minimum Account Size

The minimum portfolio size for inclusion in Equities World BM MSCI composite is CHF1 million.

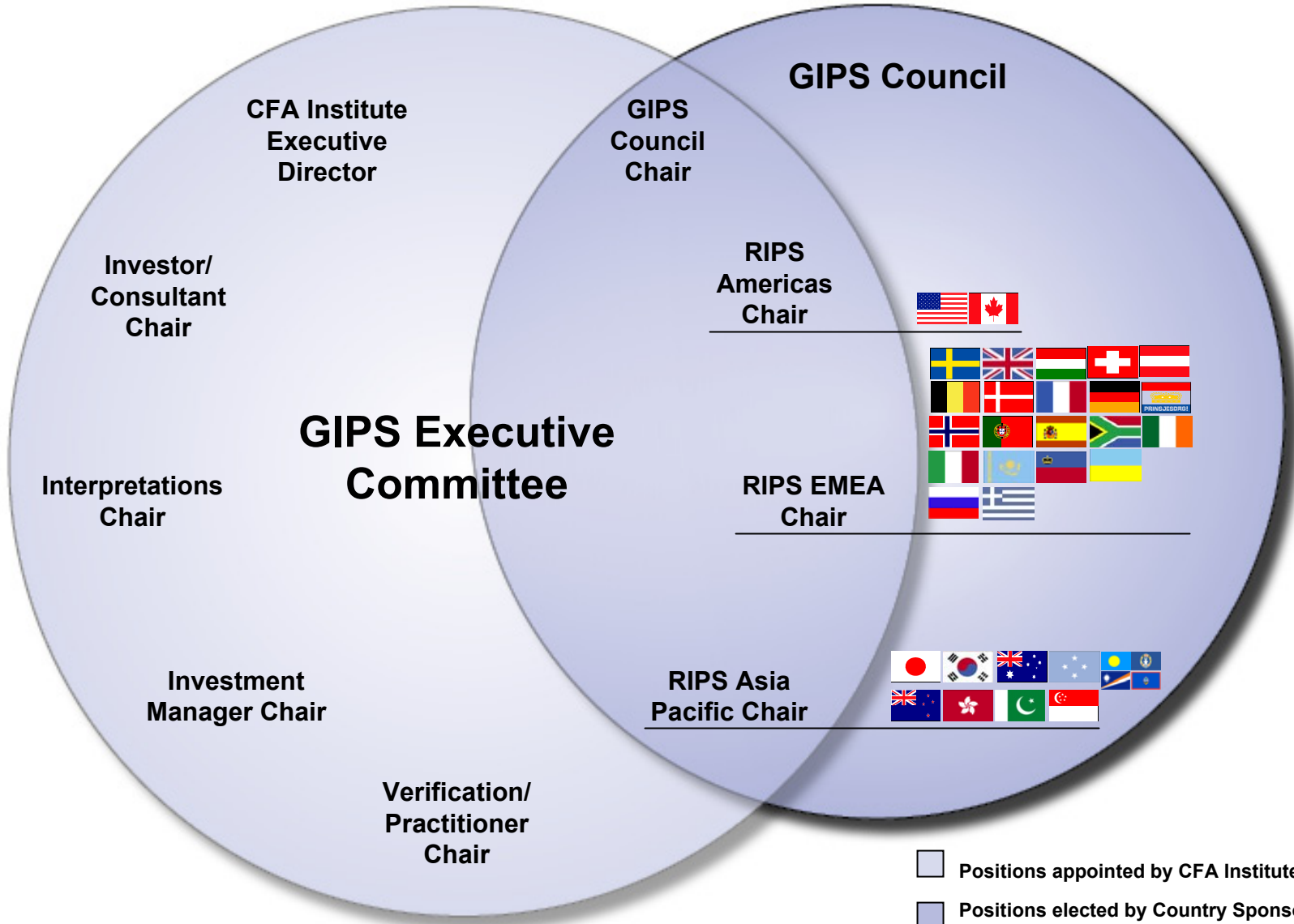
Who Benefits from the GIPS standards?

- Investors
 - Plan sponsors
 - High-net-worth investors
 - Retail investors
- Investment Managers
 - Including equity, fixed income, hedge fund, private equity, and real estate investment management firms
- Intermediaries
 - Consultants

Evolutionary Approach of the GIPS Standards

1. Extending the scope of the GIPS standards to adequately address:
 - Additional investment vehicles and strategies (e.g., private equity, hedge funds)
 - Technical areas (e.g., fees, derivatives, tax)
2. Evolving the Standards:
 - By providing on-going guidance and interpretations (GIPS Interpretations Library)
 - By reviewing the entire contents of the GIPS standards periodically (2010, 2015 etc.)
3. Endorsing Translations of GIPS (TGs) and partnering with GIPS Country Sponsors

GIPS Governance Structure



Current Translations of GIPS®

Endorsed translations of GIPS 2005

- [French](#)
- German
- [Hungarian](#)
- [Italian](#)
- [Japanese](#)
- Korean
- [Russian](#)
- [Simplified Chinese](#)
- [Spanish](#)
- [Ukrainian](#)

Current Guidance Statements

- Error Correction
- Performance Examinations
- Record Keeping
- Calculation Methodology
- Composite Definition
- Definition of Firm
- Performance Record Portability
- Treatment of Carve-Outs
- Treatment of Significant Flows
- Use of Supplemental Information
- Verification
- Country Specific Taxation Issues
- Verifier Independence
- Wrap Fee/Separately Managed Account
- Fees Provisions
- Private Equity and Real Estate
- Impact of Euro Conversion

Verification

- Verification is the review of an investment management firm's performance measurement processes and procedures by an independent third party, testing:
 - That the firm complies with all the composite construction requirements of the GIPS standards on a firm-wide basis
 - That the firm's processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards
- Applies to entire firm – not specific composites
- Firms report that verification not only provides a marketing advantage, but improves the firm's internal processes and procedures

Verification – Next Steps

- Currently a recommendation in the GIPS standards
- Encouraged by the GIPS Executive Committee
- Verified firms are encouraged to disclose that they have been verified; such disclosures must include the periods verified if presentation includes results for periods not subjected to a firm-wide verification
- The GIPS 2010 Exposure Draft will include a proposed change to include an explicit disclosure of whether or not the firm has been verified

Regulators Take Note of GIPS Compliance

- The SEC comments on the “performance sweep” conducted. Some details regarding this were included in a recent “Compliance Alert” that the SEC issued in June 2007
 - See www.sec.gov/about/offices/ocie/complialert.htm
- False claims of GIPS compliance are often cited as misrepresentation of performance results

SEC Cited Top 10 Deficiencies

- Carve-out disclosures missing
- Number of portfolios and amount of assets in composite disclosures
- Fee schedules not included
- Method used to allocate cash to carve-outs not explained
- Availability of list and description of composites not indicated
- Total firm assets missing
- Failure to abide by the rule that all fee-paying accounts be in at least one composite
- Website claim of compliance needed details
- Firm claimed compliance in only some advertisements
- Insufficient or no policies & procedures

GIPS Research Survey

Results as of 1 January 2008

Responses from:

- 20 Country Sponsors
- 806 Stakeholders Worldwide:

Industry:

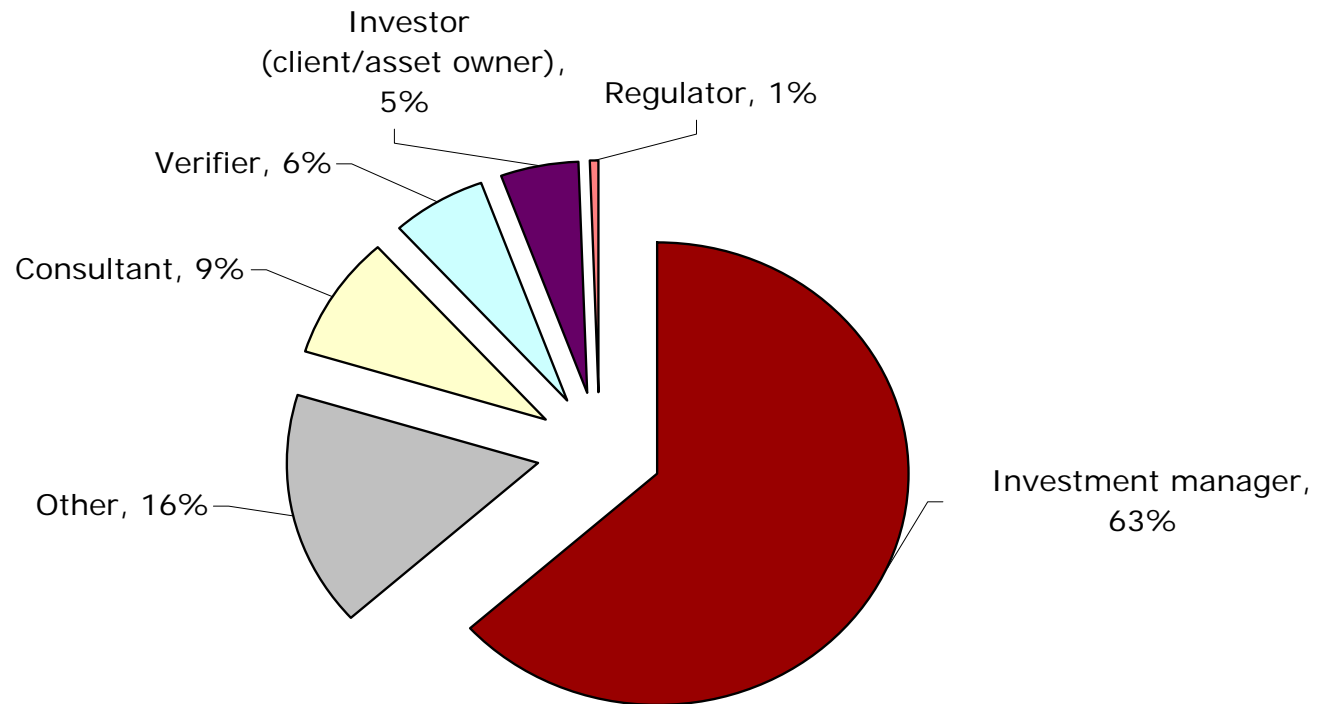
- 63% Investment Managers
- 9% Consultants
- 6% Verifiers
- 5% Investors
- 1% Regulators

Geographic:

- 33% United Kingdom
- 31% United States
- 10% Japan

GIPS Research Survey Stakeholder Response

Profile of Respondents: Job Function
(N=806)



GIPS Research Survey

- Verification
 - Data provided helpful guidance to GIPS Executive Committee in developing Verification Statement proposal
- GIPS 2010 Review
 - Data instrumental in decisions regarding future effective dates and current recommendations
 - Data provided to Interpretations and Verification/Practitioner Subcommittees
- Ongoing Analysis and Review of Survey Data
 - Local data from Stakeholders provided to Country Sponsors to facilitate further discussion

GIPS Research Survey – Key Findings

- Are there current recommendations that should become requirements in the 2010 version of the GIPS standards?
- 62% of Country Sponsors responded yes, BUT...
- Only 14% Stakeholders responding yes

Recommendations Cited:

- 1, 3, and 5 year annualized rate of return
- Risk Measures
- 2.B.2 (Firms should calculate returns by asset weighting the number of portfolios at least monthly; 2.B.3 (Firms should value portfolios on the date of all large external cash flows)
- 1.B.3 (Calculate month-end values on last business day of month)
- 4.B.2 (Firms should disclose when a change in calculation/valuation results in a material impact on composite performance)

GIPS Research Survey – Key Findings

Do future effective dates in current version of the GIPS standards need to be re-evaluated?

- Vast Majority of Country Sponsors (73%) and Stakeholders (71%) do not believe an adjustment is needed

GIPS Research Survey – Key Findings

Specific areas of current version of the GIPS standards that need to be addressed/ clarified:

Country Sponsors

- Verification
Position/Decision
- Presentation of Risk
- Section 6 – Real Estate
- Section 7 – Private Equity
- 3.A.7 Carve-Out
Administration

Stakeholders

- Carve-Out Treatment
- Treatment of Fees
(management,
performance, broker)
- Risk Reporting
- Valuation - Private Equity
- Section 6 – Real Estate

GIPS Research Survey – Key Findings

New areas or issues to be addressed:

Country Sponsors

- Benchmark Selection and Presentation
- Hedge Funds
- Risk

Stakeholders

- Hedge Funds, Derivative Treatment, Leverage
- Risk
- Attribution Analysis

GIPS Research Survey – Key Findings

Most important topics identified to be developed for inclusion in the GIPS standards (not necessarily 2010):

Country Sponsors

- Risk Measures
- Benchmarks
- Alternative Investment Vehicles and Strategies
- Leverage
- Fund of Funds

Stakeholders

- Alternative Investment Vehicles and Strategies
- Leverage
- Performance Fees
- Benchmarks
- Risk Measures

What Are the Next Steps with GIPS 2010?

- January to June 2009 - Public comment period to review GIPS 2010 Exposure Draft
- After 1 July 2009 – Review public comments, incorporate revisions based on industry feedback
- Late 2009 – Finalize GIPS 2010 and develop new interpretations and guidance statements where necessary
- January 2010 - Publish and distribute GIPS 2010 to encourage early adoption – Implementation date no later than 1 January 2011

Key Issues in GIPS 2010

Proposed Revisions Include

- Compliance Statement – As part of the GIPS compliance statement, investment firms will be required to disclose whether their firm has been verified.
- Fair Value – The proposal requires firms to report portfolio performance based on fair value accounting.
- Risk Disclosures – As part of the composite description, firms will be required to disclose sufficient information to allow a prospective client to understand the relevant risks of the composite strategy.
- Verification – The scope and purpose of verification, as well as the required verification procedures that must be followed by verifiers have been clarified in Section III in order to increase the understanding and consistency of verification. I

Key Issues in GIPS 2010

Proposed Revisions - continued

- Non-fee-paying Portfolios – Investment firms will be required to include all discretionary non-fee paying portfolios in at least one composite.
- Standard Deviation – Investment firms will be required to disclose the three-year annualized ex-post standard deviation of the composite and benchmark.
- Proprietary Portfolios – Firms will be required to disclose the percentage of composites composed of proprietary assets (e.g., “seed” capital or “house” money).
- Real Estate External Valuation – For periods beginning January 1, 2012 or after, real estate investments must be valued by an independent external valuer or appraiser at least once every 12 months.

Future Requirements Forthcoming...

1 January 2010

- Must value portfolios on date of all large external cash flows (1.A.3)
- Must value portfolios as of the calendar month-end of last day of month or last business day of month(1.A.4)
- Composite returns must be calculated by asset weighting the individual portfolio returns at least monthly (2.A.6)
- Carve-out returns are not permitted in single asset class composite returns unless actually managed separately with own cash balances (3.A.7)

The EC decided that all these future requirements will become effective as of 1 January 2010

Possible Topics for Future Provisions / Guidance Recommendations

- Alternative Investment Strategies
- Risk
- Attribution
- Performance Reporting to Existing Clients

Future Focus...

- Extend ...(hedge funds, real estate, private equity, etc.)
- Evolve/Edit ...(interpretations, guidance, on-going review)
- Engage ...(all industry representatives, specifically investors)
- Evaluate ...(governance structure)
- Expand ...(new country sponsors)
- Education ...(conferences and workshops)

Interpretations & Support

- GIPS website:
 - Complete list of Guidance Statements
 - Q&A database
- Helpdesk (gips@cfainstitute.org)
- E-mail alert list (standards@cfainstitute.org)
- GIPS Executive Committee
- GIPS Country Sponsors around the world

www.gipsstandards.org