

2010 GLOBAL INVESTMENT PERFORMANCE STANDARDS EXPOSURE DRAFT

Draft Comments from the GIPS Investor/Consultant Subcommittee

Overall comments:

The Investor/Consultant Subcommittee believes the Exposure Draft enhances the overall clarity of GIPS standards and generally agrees with the provisions where specific comment is requested. Comments or suggestions are noted below:

O.A.2

Agree with replacing “potential clients” with “PROSPECTIVE CLIENTS”. The definition of “PROSPECTIVE CLIENTS” in the glossary section is clear and suitable.

O.A.4

Agree to clearly define “SUB-ADVISOR”. The newly added definition of “SUB-ADVISOR” in the glossary section is clear and suitable.

O.A.5; O.B.1; O.A.6

Agree with the amendment. The amended version removes potential ambiguity.

O.A.7

Agree with disclosing the firm’s verification status and with the specification of dates in the compliance statement, the concept of “current verification” can be dropped because it will be apparent by looking at the specified dates. Under this suggestion, the second provision relating to firms that have been verified but are not currently verified could be dropped and O.A.7 simplified as follows:

Suggest replacing the second sentence of the compliance statement “For FIRMS that are currently verified:...” with “[Insert name for FIRM] has been independently verified for the period commencing [insert state date of period] and ending [insert end date of period]”. Also suggest adding the following text to “For the purposes of this provision a VERIFICATION is considered current if the VERIFICATION REPORT covers a period ending not more than 24 months prior to the ending date of the current reporting period.”

O.A.8; O.A.9; O.A.10

Agree with the amendment. The amended version removes potential ambiguity.

O.A.12; O.A.13; O.A.14; O.A.15; O.A.16; O.A.17

Agree with the amendment. The amended version removes potential ambiguity.

O.B.3; O.B.4; 1.A.1

Agree with the amendment. The amended version removes potential ambiguity.

1.A.2

Agree that “fair value” is a superior concept to “market value”. We understand that fair value accounting calls for market values to be used when they exist, but recognizes that sometimes they don’t exist, in which case estimates are appropriate.

1.A.3 (c)

We believe the last sentence (c) should say “no less frequently than required by the valuation policy” because there is no issue with more frequent valuation.

1.A.3; 1.A.4; 1.A.5; 1.A.7; 1.B.4

Agree with the amendment. The amended version removes potential ambiguity.

2.A.1; 2.A.2

Agree with the amendment. The newly added defined terms (e.g. TOTAL RETURNS and LINKED) are consider appropriate.

2.A.5; 2.A.6; 2.A.7

Agree with the amendment. The amended version is clear and suitable.

3.A.1

Agree with inclusion of non-fee paying discretionary portfolios in composites.

3.A.2; 3.A.3; 3.A.5; 3.A.6; 3.A.7; 3.A.8

Agree with the amendment. The amended version removes potential ambiguity.

3.A.9

Will the provision “FIRMS MUST NOT present a COMPOSITE to a PROSPECTIVE CLIENT known to have PORTFOLIO with assets less than the COMPOSITE’S minimum asset level” serve to protect prospective clients against misleading information? If the idea is “FIRMS MUST NOT market a COMPOSITE.....” then it is appropriate.

4.A

We generally agree that firms should be allowed to remove certain disclosures after a defined period of time. However, which disclosures would be eligible for removal and after what period of time would be difficult to tell, it really depends on how significant (or how minor) the issue may be. Allowing the FIRM to decide the time limits for certain disclosures is also acceptable.

4.A.5

Agree with including short positions provisions.

4.A.7

We suggest requiring disclosure of the level of withholding tax deducted in the benchmark.

4.A.7; 4.A.8; 4.A.9

Agree with the amendment. The amended version removes potential ambiguity.

4.A.11; 4.A.12; 4.A.16; 4.A.17; 4.A.18; 4.A.19

Agree with the amendment. The newly added defined terms (e.g. COMPLIANT PRESENTATION and SUB-ADVISOR(S)) are clear and suitable.

4.A.20

The statement “FIRMS MUST disclose the COMPOSITE DESCRIPTION which must include sufficient information to allow a PROSPECTIVE CLIENT to understand the key characteristics of the COMPOSITE strategy, including risks.” is unclear and may trigger FIRMS to deliver lengthy but non-comparable information to investors – this will create headaches to investors.

- The amended version added “... and MUST include enough information to allow a PROSPECTIVE CLIENT to understand the key characteristics of the COMPOSITE strategy, including risks.” appears very subjective.
- The words “...including risks” are unclear. We are unclear if the risk disclosure would include (a) a few pages of risks descriptions that include market risk, interest rate risk, political risk, etc. or (b) certain DISPERSION measures like standard deviation, high/low.....
- We generally agree with requiring the disclosure of key characteristics and risks in the composite description. We suggest illustrative examples be provided and a Q&A be developed. The drafting of 4.A.20 could be improved to remove possible unclear description.

4.A.21; 4.A.22; 4.A.25; 4.A.27; 4.A.28

Agree with the amendment. The amended version removes potential ambiguity.

4.A.29

Agree with the inclusion of a standard deviation disclosure. Mandating the use of standard deviation, an easy to calculate and well-known statistical information, as a risk indicator could help investors to compare the information provided. Standard deviation has a number of different calculation methods and we would like to see either a requirement for a specific calculation methodology or a requirement for the chosen methodology to be disclosed.

We also note it may make more sense to require the average standard deviation of the account returns in the composite rather than the standard deviation of composite returns, since the latter will almost always be less than the average standard deviation and may therefore be misleading, especially for composites with a lot of dispersion.

4.B.1; 4.B.2

Agree with the amendment. The amended version removes potential ambiguity.

4.B.3

Material differences between the benchmark and composite strategies could be considerable. What level of “materiality” is expected? Think of a highly active, concentrated global equities strategy benchmarked to the MSCI ACWI. Managers might find this provision difficult to comply with and to get a verifier to sign-off on.

5.A.1; 5.A.2; 5.A.3; 5.A.4

Agree with the amendment. The amended version removes potential ambiguity.

5.A.5.

The question of discontinuing the disclosure is tied to the general discontinuing of disclosures discussed above in relation to 4.A. There is a period after which this disclosure would no longer be relevant.

[Our response to 4A is, “We generally agree that firms should be allowed to remove certain disclosures after a defined period of time. However, which disclosures would be eligible for removal and after what period of time would be difficult to tell, it really depends on how significant (or how minor) the issue may be. Allowing the FIRM to decide the time limits for certain disclosures is also acceptable.”]

5.A.6

Agree with the amendment. The newly added defined term (i.e. TOTAL RETURN) is clear and suitable.

5.A.8

Agree with the requirement to provide the percentage of proprietary assets in a composite.

5.B.1; 5.B.2; 5.B.4; 5.B.5; 5.B.6

Agree with the amendment. The amended version removes potential ambiguity.

5.B.3

This section refers to “additional relevant composite-level risk measures”. There’s a requirement to disclose the risks of a composite strategy (4.A.20) and a requirement for a dispersion measure (4.A.26). 5.B.7 recommends disclosure of ex-post standard deviations. The additional risk measures are therefore likely to be at least as technical as standard deviation and perhaps more so. We suggest more clarification on the risk measures this provision recommends.

5.B.7

There appears to be overlap in the recommendation of 5.B.7 and the requirement of 4.A.29. Wording changes could help clarify the differences in the two provisions.

6.A.2

We agree with independent external appraisal of real estate investments every twelve months beginning 1 January 2012. Signaling that requirement now gives firms time to prepare to comply.

6.A.3; 6.A.4; 6.A.5

Agree with the amendment. The amended version removes potential ambiguity.

6.A.6

We agree with the additional requirements and recommendations for closed-end real estate funds as defined.

6.A.15

We agree that component returns must be disclosed and that 6.A.9 b is no longer acceptable for periods beginning after 1 January 2011;

8.

We encourage feedback on the Wrap Account sections from industry associations like MMI and IMCA.

III. VERIFICATION

B. REQUIRED GIPS VERIFICATION PROCEDURES

We agree that specific verification procedures should be included for GIPS provisions 0.A.16 and 0.A.17.

Appendix C: Advertising Guidelines:

See comments in 0.A.7 above relating to currency of verification reports.

Appendix D: Valuation Principles:

We agree with the Valuation Principles. The “qualified, independent, external third party” could be electronic e.g. Bloomberg closing market quotes.

Glossary:

Internal Rate of Return:

Words along the lines of “with the PAID-IN CAPITAL” are missing from the end of the definition.

Large Cash Flow:

Suggest the opening sentence is redrafted as: “The FIRM must determine the level at which a client directed EXTERNAL CASH FLOW is considered to be a LARGE CASH FLOW because it may distort performance if the PORTFOLIO is not revalued.”

Prospective Client:

Suggest add the words “represented in that COMPOSITE” to the end of the first sentence. This addition makes it clear that the client is interested in a particular strategy related to the composite not any unspecified strategy of the firm.

Significant Cash Flow:

We think a better descriptive term is needed and suggest a term like “NON-IMPLEMENTABLE CASH FLOW” or “PROHIBITIVE CASH FLOW” to signal that the cash flow is not only large (covered elsewhere) but of sufficient size that it temporarily compromises the investment strategy and ordinary or standard methods of dealing with it don’t apply.