The Northern Trust Company

Investment Risk and Analytical Services

Co-ordinated Response to the Draft version of the GIPS 2010

Comments on Exposure Draft: Sections 0-5

- Verification (0.A.7, Section III): for a person to be a qualified verifier, is there a minimum requirement for professional accreditation, such as CIPM (as an example)?

- Large Cashflow Definition (2.A.2, 3.A.10, 4.A.27): what scope is there for firms to define consistently and without prejudice ex ante, the definition of what constitutes a large cashflow? Is it the commonly accepted wisdom of 5% or 10% of NAV or some other metric? Is it enough for the firm to disclose this metric without providing any underlying rationale for the metric? Of importance is the performance calculation methodology used by the firm, especially when considering the differing impact of large flows on different asset classes, vis-à-vis their inherent volatility (e.g., cash vs. equities).

- Disclosure of Short Positions (4.A.5): disclosing short positions in an attempt to delineate the risks carried therein may not achieve the stated goal; after all some short positions may just be for hedging purposes, some may be part of a pairs trade for alpha purposes, some may be netting off trades. Point being there may be various uses for short positions and the standards do not (perhaps cannot or should not) distinguish between them all or be so prescriptive as to do so.

- **Disclosure of Composite Description (4.A.20)**: agree with the disclosure of the description in an attempt to increase transparency, but question arises around what quantitatively and qualitatively, could be classified as key characteristics of the composite, especially insofar as highlighting the risks as well.

- Risk Measures (4.A.29, 5.B.7): using 3yr ann. ex post standard deviation in a prescriptive manner as the only risk measure could lead to issues of inappropriateness. However, given it is a basic risk statistic that applies almost universally, a more holistic approach may be for the firm to display the same in a time-series format (for portfolio and for benchmark, where avail.) over 5 yrs (or as much as possible if portfolio life is < 5yrs) and to also disclose the high/low/median statistics for the measure. Another addendum may be to disclose where available, the comparable peer group universe SD over the same time frame. Firms should be encouraged to report other risk statistics as appropriate for the composite strategy, with disclosures supporting the appropriateness of the same.

- Non-annualisation of Returns less than 1 Year (5.A.3): this could be relaxed for cash / cash-like products where a crediting rate style of return would mitigate any misleading return derivation. However, given the events of the past 2 years (2007-08) and the impact of financial markets on short duration funds for example, care would have to be taken in funds other than conservative money-market or like funds.

Comments on Private Equity: Section 7

- Stock distributions must be included and valued at time of distribution (7.A.4): Valued at time of distribution is highly ambiguous as managers have latitude in determining the distribution value as set forth in the Limited Partnership Agreement; there are various methods to determine the value of the distribution such as a average value over a timeframe. Many investors (not managers) are asking to track the distributed stock alongside and as part of the partnership until it is sold since the stocks often have lockup periods. To many investors, the distributed value means nothing until they get their money through the actual sale. Often, taxable clients do not acknowledge the distribution value in accounting as they do not want the tax event until the stock is actually sold.

- Gross of fees comments (7.A.20): the institute remains tacit on the issues of exactly what constitutes a gross number. Unlike other asset classes, management fees for most PE partnerships are capitalized and eventually returned as part of the return of capital later in the life of the partnership. Performance service providers often do not have sufficient details or inclination to separate and gross out the return of fees embedded in the return of capital resulting in double dipping of positive impact of to the gross of fee calc. For the investor, the gross of fee number makes no sense whatsoever given how fees behave in private equity. The gross fee is truly not gross as defined, because is still includes the biggest fee, carried interest, which can be 20 to 30% of the fund return. Even the net of fee return is truly not net of fees as the management fees are returned in the returns of capital later on the life of the partnership. The term "net to the investor" is growing in popularity amongst service providers and investors.

- Paid in Capital (PIC) (7.A.24c): Paid In Capital should carry a stronger definition. Depending on the treatment of non-capitalized fee and expenses as well as recallable return of capital, the PIC can have multiple results. The glossary could be more precise in the definition.

- Distributed to Paid In (DPI) (7.A.24.b): DPI could be better defined in the glossary as it can result in varied results depending on the treatment of recallable returns of capital.

- Annualized SI-IRR SHOULD be calculated using daily cash flows (7.B.2): daily cash flow weighted returns could be challenging, especially as cash flow timing does make a difference to varying degrees and does cause problems when reconciling returns.

Comments on Fair Value: Appendix D

- Valuation Process for Fair Value (7): the idea of using a decision-tree based price source template is a great way of ensuring that the spirit of 'fair value' is maintained in the standards. An action item could be to produce a pro-forma template as a checklist both for the valuer and for the verifier when programming the valuation model for a portfolio. Another item would be to include in the composite disclosures, in % bands, the proportion of the composite that is valued in steps (a) through to (e)