

Soeren Streng's response to GIPS Executive Committee's (EC) invitation to comment on proposed GIPS 2010 Exposure Draft:

a.) Regarding the proposal to require the inclusion non-fee paying discretionary portfolios in at least one composite:

From my perspective non-fee paying accounts are mainly used by large institutions with an in-house asset management. These non-fee paying portfolios contain in this case mainly direct assets that are used for a kind of window dressing of the balance sheets by the institutionals for tax purposes or other external crossfire of influences (debt constraints etc.). So these kind of portfolios and the investment process behind are high-grade customized and are subject to frequent client interventions. At the end the resulting composite would be a kind of trash can and the outcoming results would be more or less random and not representative for any kind of investment process (due to high-grade customization, frequent non-discretionary periods by client interventions).

So, from my perspective you could skip it.

b.) Regarding 3.A.10 and 3.B.1:

I agree completely with 3.A.10. But it is not completely clear how the process of removal of external cash-flow effects 3.B.1 should be done. Would the temporary new account with the cash flow amount would be excluded from the respective composite until full investment and after that merged with the original account and so included in the composite result? That would be in my eyes a proper but a very expensive way to handle it. The set-up costs of the new (even though) temporary account and the merge would cause huge additional administrative costs.

In case that the merge will not happen, we would have several accounts for the same client within the same strategy with separate disclosure of performance results. This would ignore the portfolio context of the clients portfolio. These separate handling of every single donation with an higher amount as an separate account would highlight the timing decision of the clients investments and less the success of the investment process. Sure the composite will show exactly that success. But the existing client will ask for the client specific investment results alongside with the composite information. The long-time costs would be much higher then with an single account, but that's why you propose temporary accounts for a new external cash flow.

Thanks+Regards,

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