

G·I·P·S

Global Investment Performance Standards

GIPS Standards Today

2011

What Are Global Investment Performance Standards?

Voluntary standards governing the calculation and presentation of investment performance based on the ethical principles of fair representation and full disclosure.

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

Objectives

- Ensure accurate and consistent data
- Obtain worldwide acceptance of standards for calculating and presenting performance
- 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

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)
2. Evolving the Standards:
 - By providing on-going guidance and interpretations
 - By reviewing the entire contents of the GIPS standards periodically
3. Endorsing translations of the GIPS standards and partnering with GIPS Country Sponsors

Current Translations of the GIPS® Standards

Endorsed translations of the 2005 edition

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

Endorsed translations of the 2010 edition

- [Japanese](#)
- Korean

Provisions of GIPS Standards

0. Fundamentals of Compliance
 1. Input Data
 2. Calculation Methodology
 3. Composite Construction
 4. Disclosure
 5. Presentation and Reporting
 6. Real Estate
 7. Private Equity
 8. Wrap Fee/Separately Managed Accounts (SMA) Portfolios

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 Cash Flows
- Use of Supplemental Information
- Verification
- Country-Specific Taxation Issues
- Verifier Independence
- Wrap Fee/Separately Managed Account
- Fees Provisions
- Private Equity
- Real Estate
- Impact of Euro Conversion

What New Provisions Are Effective Now?

From the 2005 edition of the GIPS Standards

- For periods beginning 1 January 2010:
 - FIRMS MUST:
 - 1.A.3 Value PORTFOLIOS on the date of all LARGE EXTERNAL CASH FLOWS
 - 1.A.4 Value PORTFOLIOS as of the calendar month-end or the last business day of the month
 - COMPOSITE returns MUST:
 - 2.A.6 Be calculated by asset weighting the individual PORTFOLIO returns at least monthly
 - CARVE-OUT returns:
 - 3.A.7 Are not permitted to be included in single asset class COMPOSITE returns unless the CARVE-OUTS are actually managed separately with their own cash balances
- The Error Correction Guidance Statement is effective 1 January 2010

Quick Reminder on GIPS Reports

- All GIPS compliant presentations contain two key parts:
 - Presentations of data
 - Required disclosures about how the data were compiled and calculated
- A report is NOT compliant with the Standards unless it contains both parts

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.

XYZ 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?

XYZ 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.

Regulators Awareness of GIPS Compliance

Switzerland

FINMA, the Swiss regulator:

- mandates independent asset managers to adhere to standards customary in the industry and to FINMA code of conduct guidelines, implicitly recognizing the GIPS standards
- endorses the Swiss Funds Association performance calculation and publication guidelines for investment funds, based on the GIPS standards

Regulators Awareness of GIPS Compliance

United States

Securities & Exchange Commission, U.S. regulator:

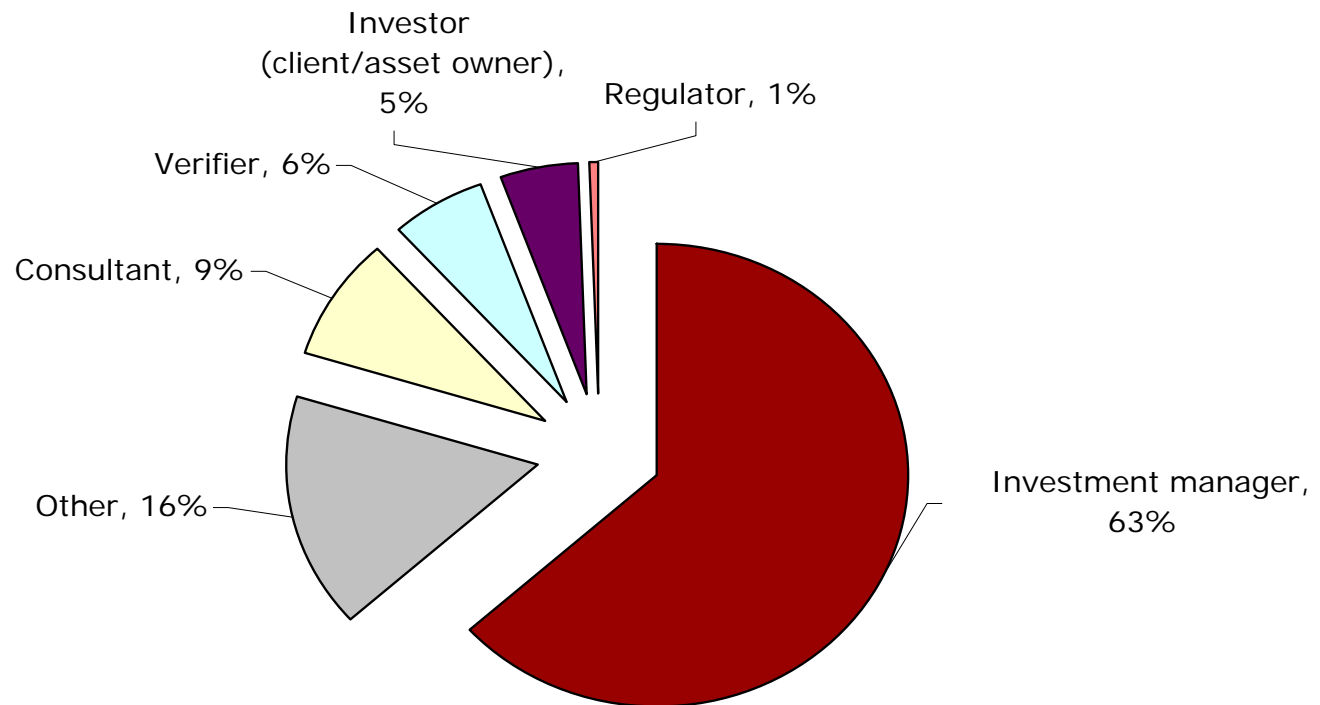
- False claims of GIPS compliance are often cited as a misrepresentation of performance
- The SEC comments on the “performance sweep” conducted. Some details regarding this were included in a “Compliance Alert” that the SEC issued in June 2007
 - See www.sec.gov/about/offices/ocie/complialert.htm

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 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

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

So What Is 'GIPS 2010?'

- The 2010 edition of the Standards that will be effective **1 January 2011**
 - To maintain global relevance the GIPS Executive Committee is committed to a review of the Standards every five years
 - Presentations that include results for periods beginning on or after 1 Jan 2011 must be prepared in accordance with the revised standards
- These will lead to changes in Guidance Statements and Q&As
 - A compliant firm must consider all guidance and not just the Standards themselves
 - Expect to see updated documents throughout 2010

Key Changes in GIPS 2010

- Compliance Statement – As part of the GIPS compliance statement, investment firms will be required to disclose whether their firm has or has not been verified.
- Fair Value – The Standards require firms to report portfolio performance based on a fair value methodology.
- 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 order to increase the understanding and consistency of verification.

Key Changes in GIPS 2010

- continued -

- Standard Deviation – Investment firms will be required to present the three-year annualized ex-post standard deviation of the composite and benchmark.
- Prospective Client – Newly defined as any person or entity that has expressed interest in one of the firm’s strategies and qualifies to invest in the composite.
- Benchmark Description – Firms must disclose the benchmark description to include key features of the benchmark, or the name of the benchmark for a readily recognized index or other point of reference.

Verification

- Verification is the review of an investment management firm's performance measurement policies 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 policies 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 policies and procedures

Verification in GIPS 2010

(Effective 1 January 2011)

- Verification
 - Requirement to disclose (within the claim of compliance) whether a firm has been verified or not and prescribed text describing what is and is not covered by verification
 - Clarifications:
 - Initial minimum period for which verification can be performed is one year (or from firm inception through year end)
 - The scope and purpose of verification
 - The tests a verifier must perform
 - The firm must provide to the verifier the firm's GIPS policies and procedures
 - Verification does not provide assurance that specific composite returns are correctly calculated and presented

Real Estate in GIPS 2010

(Effective 1 January 2011)

- Real Estate
 - As of 1 Jan 2012, real estate investments must be externally valued at least once every 12 months – or as per client agreement – at least every 36-months
 - Closed-end real estate funds would be required:
 - To present an annualized, net-of-fees, since-inception internal rate of return for each year end (in addition to the current time-weighted component returns)
 - To disclose, as of each period end presented:
 - Paid-in Capital (“PIC”)
 - Cumulative invested capital
 - Cumulative distributions
 - Total value to PIC
 - Cumulative distributions to PIC
 - PIC to committed capital
 - Residual value to PIC
 - Required to calculate income and capital component returns separately (no longer able to derive one from the other)

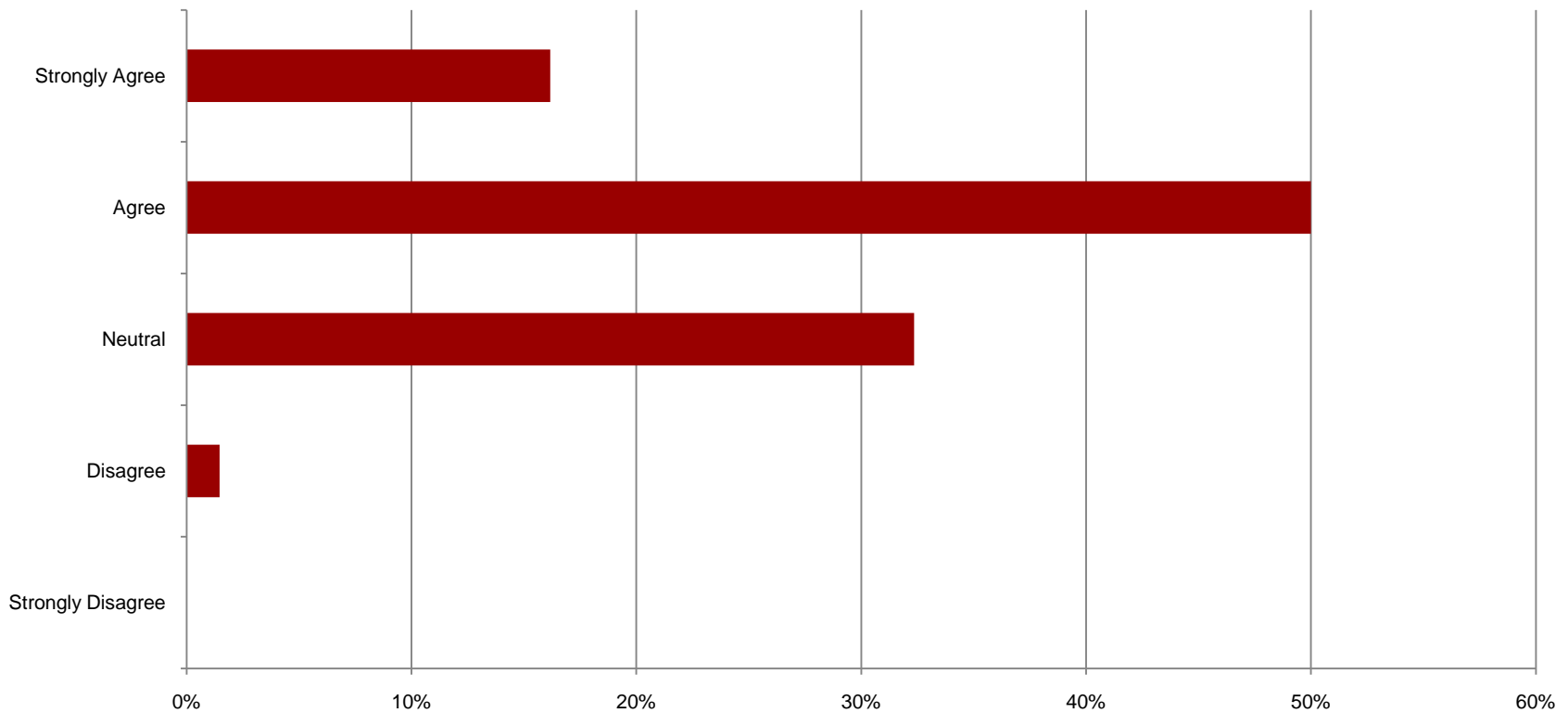
Private Equity in GIPS 2010

(Effective 1 January 2011)

- Firms must calculate annualised Since Inception Internal Rates of Return (SI-IRR) using daily cash flows as of 1 Jan 2011 (rather than the current monthly OR daily cash flows)
- For primary funds, all PE investments must be included in a composite defined by vintage year AND investment mandate, objective or strategy
- For fund-of-funds, all PE investments must be included in a composite defined by fund-of-funds vintage AND/OR investment mandate, objective or strategy”

Why Is GIPS Important to Hedge Fund Managers and Their Investors?

Compliance with the Global Investment Performance Standards (GIPS®) is coming for hedge funds



Source: [The Glass Hammer / Stone House Consulting Survey of Buy-Side Industry Trends](#), September / October 2009. Used with permission.

Why Is GIPS Important to Alternative Investment Firms and Their Investors?

- Improved view of the firm's track record
 - Many alternative firms have started managing separate accounts
 - Current and potential investors can compare performance results between the hedge fund and any separate accounts following the same strategy
- Due diligence
 - GIPS-compliant hedge fund managers have adopted many best-practice policies and procedures that can reduce operational risk

Why Is GIPS Important to Alternative Investment Firms and Their Investors?

- Consistency
 - Ensure the same standard of care is applied to the selection and review of alternative investment managers as that applied to traditional managers
- Transparency
 - The Standards provide for key data and disclosures to be provided to investors

Forthcoming Guidance

- Alternative Investment Strategies
- Risk
- Performance Reporting to Existing Clients
- Q&As specific to the 2010 edition of the GIPS Standards

Future Focus...

Extend

Evolve

Engage

Evaluate

Expand

Educate

Interpretations & Support

- The GIPS standards 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