

K & D D CONSULTING LTD

Association for Investment Management and Research
Professional Standards and Advocacy Department
Reference: GIPS Advertising Guidelines
P.O. Box 3668
Charlottesville,
Virginia 22903
U.S.A.

27th December, 2002

Dear Sirs,

Re: GIPS Advertising Guidelines – Invitation to Comment

K & D D Consulting Limited provides performance measurement consultancy services to the U.K. Investment Management industry and specialises in the area of performance presentation standards. In the pages that follow we offer our comments on the draft GIPS Advertising Guidelines. Should any of these comments require clarification, please contact Keith Dudley on:

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Yours faithfully,

Keith Dudley

K & D D CONSULTING LTD

Do you support AIMR's effort to develop Advertising Guidelines to be added to the GIPS standards?

K & D D Consulting Limited fully supports the introduction of Advertising Guidelines to the GIPS standards. We would encourage every effort to be made to harmonise the Advertising Guidelines across the various 'Country Version of GIPS' that exist, or that may subsequently be introduced, in order to minimise variation of application across markets.

Do you agree with the proposed Effective Date of 1 May 2003?

Yes.

Do you agree with the information and disclosures required in both of the scenarios (advertisements that include a claim of compliance and advertisements that include both a claim of compliance and performance results)? Should additional information be provided in an advertisement? Are there too many required disclosures?

Advertisements that include a claim of compliance:-

This section requires that a description of the firm be included. In a fully GIPS compliant presentation, many firms have, by necessity, lengthy descriptions of the compliant firm. Such descriptions may not transcribe well in, or be particularly relevant to, an advertisement and it should therefore be stated as being acceptable for the description given in such circumstances to be different to that which appears in the firm's fully compliant presentation.

Advertisements that include a claim of compliance and Performance Results:-

Point 5. of this section gives firms the option to show only 1, 3 and 5 year annualised composite performance with year to date results. Showing only these periods has the potential to disguise periods of poor performance that may have occurred within the whole 5 (or 3, or longer) year period shown. In addition, these may not be periods shown in a fully compliant presentation (which the Advertising Guidelines state performance should be drawn from). Therefore, we would suggest that 5 or more individual years (or individual years since firm inception) of annual composite performance returns must be shown, with other periods, such as annualised periods, being shown in addition, if the manager chooses. Individual annual years of performance are required in GIPS 5.A.1.(a) and would therefore already be in a fully compliant presentation.

Point 7. of this section says that 'The benchmark return for the same periods for which the composite return is presented.' should be included. We recommend that this point be expanded to say that the benchmark used must be named and described.

We would also recommend that this section should be enhanced such that firms should be required to include the following additional points:

1. Where supplemental performance information is included, any periods of non-compliance should be disclosed together with an explanation of what the non-compliant information is and why it is not in compliance.
2. The percentage of composite investments outside of the benchmark, where this is material (GIPS 4.A.10)

At some point in the future, should the GIPS Advertising Guidelines be mandatory for all GIPS-compliant firms? In other words, should a GIPS-compliant firm be required to follow specific rules when advertising, regardless of whether the advertisement includes a claim of compliance?

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A firm claiming compliance with the GIPS Standards cannot be selective in their application, i.e. they cannot choose to be compliant for some presentations and not for others. As such, it would seem logical that compliant firms be required to adhere, at all times, to any GIPS Advertising Guidelines that are introduced. However, we can foresee that, as the draft Advertising guidelines currently stand, it would not be workable to make compliance mandatory unless firms were able to advertise the performance of those funds that are specifically designed for the retail/mutual market in their own right.

Investors in the retail/mutual fund market place will want to know the performance and associated information for the particular fund that they are being invited to invest in. (This is the well established practice in this marketplace.) Showing the performance of a composite that may contain funds other than the retail/mutual fund in question will not be meaningful in this context.

Furthermore, in some markets it is only possible for investors to buy funds authorised in their own market. Composite performance may include funds that are not licensed for sale in the investors' market.

Given the above, we recommend that the draft Advertising Standards be amended to include a provision that allows a compliant firm to advertise its retail/mutual funds in their own right, whilst still advertising its compliance to GIPS. In such instances, in addition to the disclosures and information that the draft Advertising Guidelines require to be included in an advertisement, a compliant firm should be required to make reference both to the fact that the particular retail/mutual fund is drawn from a compliant composite and to details of where a fully compliant presentation for this composite may be obtained.

With this amendment, we believe it would be possible to make adherence to the GIPS Advertising Guidelines mandatory for GIPS compliant firms with effect from 1 May 2003 (or the date on which the Guidelines eventually become effective).

Should AIMR consider any other methods for creating Advertising Guidelines for the GIPS standards?

We are not clear on what is meant by this point and therefore are unable to offer comment.

Other Comments

1. There is a typing error in section A., paragraph 3, sentence 2 of the draft guidelines. The sentence reads "The Guidelines are voluntary for GIPS-compliant firms that choose not include a claim of compliance in their advertisements." The word "to" appears to have been omitted between 'not' and 'include'.
2. Clarification on the meaning of "one-on-one" presentations should be included in the published guidelines.