Osterweis Capital Management
Response to Request for Comments
August 2004

1. Is the new requirement that mandates firms to provide a compliant presentation to all prospective clients too onerous a burden for firms claiming compliance with the GIPS standards?

The use of multiple distribution channels makes it difficult to ensure that every prospect receives a compliant presentation. When our firm makes presentations directly to the client, it is easy to control the distribution of materials & assure that all prospects receive a compliant presentation. However when working with third parties such as consultants and financial advisors, it becomes impossible to control the types of materials and information that are distributed to prospects, making it difficult to claim compliance with the GIPS standards.

2. Do you agree that the effective date should be moved from 2005 to 2010 for the requirement that stipulates a carve-out return be managed separately with its own cash balance?

Yes.

3. Is it reasonable for the GIPS standards to require firms beginning 2010 to value portfolios on the date of any external cash flow?

We believe it is not reasonable for the GIPS standards to require a firm to reprice a portfolio for any cash flow. While we price our equity securities on a daily basis, we do not value most of our fixed income securities on a daily basis. We do not believe the benefit of daily fixed income valuations will offset the cost.

Our high net worth and institutional accounts tend to have large and irregular flows. If we do not do daily valuations for all of our securities, an option is to exclude accounts with flows from the composites. This will create a lot of movement in and out of the composites, which will be prone to error.

4. Requirement 1.A.4: The firm must use Trade-Date Accounting for periods beginning 1 January 2005.

The lag between trade and settlement dates is not significant enough to force all firms to use trade date accounting. While the systems used by many investment advisors are trade-date based, many systems used by custodians are settlement-based. If there was a requirement to use trade date accounting beginning January 1, 2005, our firm would be compliant. However, we feel that there are probably many managers out there that would find it difficult to come into compliance within the next five months.

5. Requirement 1.A.6: For periods beginning 1 January 2010, Accrual Accounting must be used for dividends (as of the ex dividend date.)

At this point, our firm is accruing dividends on ex date. By 2010, it should be possible for most firms to do the same. However, it's worth noting that (like trade vs. settle) the lag is not very long and should not have a substantial impact on returns.

6. Requirement 4.A.10: For composites managed against a benchmark, the firm must disclose the percentage of the composites invested in countries, regions, or sectors not included in the benchmark for the most recent period.

We believe that this disclosure should be required only for passive managers, or for those where the disclosure would be meaningful. This disclosure requirement does not acknowledge the way many active managers manage money. For active managers, such as ourselves, this requirement would be burdensome and not particularly informative.

7. Requirement 4.A.21: Firms must disclose that the portfolio, composite and benchmark calculation methods are available upon request.

We do not see any value in this additional disclosure. If a prospective client cares enough to ask about the performance calculation methodology, they will do so, as they would for any policy followed by the manager. We do not believe that disclosing an offer to provide such information will have any impact on a prospective client. We believe this new disclosure item should be deleted.

8. Requirement 4.A.28: The firm must list "discontinued" composites on the firm's list of composites for at least five years after discontinuation.

We do not agree with this requirement. We believe that a firm's list of composites should be specific to a point in time, and should not have to include terminated composites. We believe this new requirement should be deleted.

9. Requirement 5.A.1: The following items must be reported:…
   (d): A measure of dispersion of individual portfolio returns for each annual period.

We believe the requirement to measure dispersion based only on annual returns of those accounts that are included in the composite for the full year should be reconsidered. We believe that other dispersion measures could be more meaningful. For example, many managers calculate a dispersion measure each month or quarter. An average of these measures could be quite useful. We believe that a firm should be allowed to determine which measure of internal dispersion is most meaningful to them, and allow them to use their selected dispersion measure as long as it is fully disclosed.

10. Verification will be mandatory effective 1 January 2010. The verification report must cover periods from 1 January 2010 forward, at a minimum. Firms will have until 31 December

2011 to complete the initial verification. If a verification report has not been issued by 31 December 2011, the firm may no longer claim GIPS compliance.

For many in the industry, mandatory verification would be difficult because of the relatively small number of qualified verification firms and the cost associated with verification. More importantly, prior to making verification mandatory the CFA Institute needs to undertake an educational campaign to raise the level of understanding of verifications. Without this understanding in the industry, the claim of verification is less meaningful and not worth the expense.

11. Performance examination guidance should be added to the GIPS standards.

We agree such guidance should be added to the GIPS standards.