

Association for Investment Management and Research  
Professional Standards & Advocacy Department  
Reference: "Gold" GIPS Standards  
P.O. Box 3668  
Charlottesville, VA 22903

Dear Sir or Madam:

Thank you for the opportunity to comment. The following is a summary of opinions and concerns presented by Prudential Real Estate Investors and Prudential Fixed Income regarding the proposed "Gold" provisions of the Global Investment Performance Standards (GIPS). We would not be opposed to the publication of our comments, however please to not attribute them to the above named entities.

### **General Comments**

AIMR seeks general commentary on the proposals set forth in this document, including, but not limited to, responses to the following questions:

1. Do you support AIMR's effort to revise and expand the GIPS standards?

Yes, we support AIMR's effort to revise and expand the GIPS standards. We welcome added guidance and clarity of intent for reporting global performance standards.

2. Do you agree with the evolution process for the GIPS standards as outlined above?

Yes, we agree with the evolution process for the GIPS standards as it will standardize the performance presentation standards throughout the world and allow for a competitive market place based on the same baseline.

3. Is the language of the Standards straightforward and comprehensible? If not, how can it be improved?

In general, we feel that the language is comprehensible although at times it is difficult to interpret the intent. Some of the standards do not directly state the purpose behind them or how to apply over the various asset classes.

4. What modifications, if any, should be made to this proposal?

Please see our comments below:

**Mandatory Verification (effective 1/1/2010)** We feel verification should be voluntary. If verification becomes mandatory, firms will be forced to incur additional expenses. If a firm cannot afford the expense of verification in a particular year, that firm would be forced to forfeit their claim of compliance. Incurring this expense should be at the discretion of the investment firms. Prospective clients request information about whether a firm is verified and use

this information in selecting an adviser. Prospective clients are educated in the meaning of verification and do not need the protection of having the firm verified given the costs imposed on advisers.

**4.A.23 – Disclosing events that help a prospective client interpret the performance record.** We oppose upgrading this provision from a recommendation to a requirement (in particular disclosing significant deviations between annual and interim performance results). Adding additional disclosure describing significant deviations between annual and interim performance results is in effect, a market/performance commentary explaining the reason why performance changed from one period to another. Most deviations would be due to market conditions and explanations would not be necessary. Permitting an adviser to determine which deviations are appropriate to address would be more effective than disclosing deviations caused by market fluctuations. Normally, a prospective client would not receive a performance presentation on a regular basis and there would not be a need to write commentary for each time period. Additionally, in a one-on-one presentation to a prospective client, performance is thoroughly discussed as to why there is significant under/over-performance for a particular time period.

**4.A.11 – Firms must disclose and describe any known inconsistencies in the exchange rates used among portfolios within a composite and between the composite and the benchmark.** We oppose upgrading this provision from a recommendation to a requirement since in today's environment of global markets it is very possible to have accounts within a composite using different sources of exchange rates based on the different custodian banks being used. In most cases, the investment firm does not select the custodian; it is the client who makes this decision. We do not see the value in adding additional footnotes when it is unlikely that composite members will use the same exchange rate among themselves as well as compared to the benchmark exchange rate. It is also unlikely that inconsistencies in exchange rates could be used to manipulate performance.

**6 – Real Estate provisions not including publicly traded real estate securities, commercial mortgage back securities and private debt instruments including commercial and residential loans without any participation as real estate assets will result in carve-out provisions under Section II.3.A.7 to be applied.**

We oppose carve-out provisions being applied as indicated in the guidance for publicly traded real estate securities, commercial mortgage backed securities and private debt investments including commercial and residential loans without any participation – doing so under this guidance would lead to cash allocation (2010 separate bank accounts) and monthly valuations, which is costly and not completed for Real Estate Funds. The characteristics of the aforementioned investment types are so integrated with the real estate strategies of a given

composite that to carve them out would change the product strategy and therefore force an unnatural reallocation of the composite.

Instead we would propose that real estate composites using such investment vehicles to achieve their strategy be able to include such investment types as real estate investments.

**6 – Real Estate definition & 6.A.3. – Other disclosure requirements of GIPS for Private Equity Real Estate investments...** Historically, private equity composites (real estate and other) reported performance as an IRR/vintage year composite following all of the AIMR-PPS guidance for such investment vehicles. In Gold GIPS as it is written and defines real estate investments, there is no transition language provided for the conversion from a Private Equity composite to a Real Estate Private Equity composite. We would require guidance for the transition from IRR/vintage year composite to a time-weighted income/appreciation/total real estate composite. We would also require purpose and background for such change so that appropriate disclosures can be included.

5. Do you agree with the numbering and format of the proposed revised GIPS standards?

Yes, we agree with the format.

6. Should AIMR consider any other methods for meeting the objectives of evolving the GIPS standards?

At this point, we do not have any suggestions to offer.

### **Specific Comments**

AIMR seeks comments on the following, specific provisions of the proposal:

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?

No, this requirement is not too onerous as it has been a requirement of the AIMR-PPS – US and Canadian version.

2. Is the new requirement that mandates firms to provide a list and description of composites to any prospective client that makes such a request too onerous a burden for firms claiming compliance with the GIPS standards?

No, this requirement is not too onerous as it has been a requirement of the AIMR-PPS – US and Canadian version.

3. Do you agree with the new recommendation that states the firm should not market a composite to a prospective client with assets less than the composite's minimum asset level?

No, we do not agree with this recommendation. We feel that firms should be able to market the strategy of a composite to a prospective client with assets less than the composite's minimum asset level with appropriate disclosure. The firm should make it clear to the prospective client that this composite has a minimum requirement that would prevent their account from being included in it.

4. Do you agree with the new requirement that mandates firms to be prepared to provide a compliant presentation for any composite on the firm's list of composites to a prospective client that makes such a request?

Yes, we agree with this requirement as it is presently required of the AIMR-PPS – US and Canadian version.

5. Do you agree with the new requirement that requires firms to calculate composite performance by asset-weighting the member portfolio returns at least monthly (beginning 2005)?

Yes, since it is already a requirement that account performance be calculated monthly for all asset types except real estate, it is logical to calculate composite performance by asset-weighting the member portfolios monthly, as well (for all asset types except real estate).

6. 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?

We agree that the effective date of this requirement should be moved to 2010 because currently many firms are not able to manage carve-out portfolios with their own cash balance. We think the extra time before making this a requirement will allow firms to enhance their systems to handle cash as it relates to carve-outs.

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

We feel that it is reasonable for the standards to require firms to value portfolios on the date of any external cash flow. The industry seems to be moving toward daily valuation and it can be assumed that this would provide more accurate performance returns.

8. Should the GIPS standards require firms to retroactively disclose the following when carve-out segments are used?

- a. a list of the underlying composites from which the carve-out was drawn, and

b. the percentage of the composite that is composed of carve-outs.

We do not think this level of disclosure should be required. Providing this level of detail is unnecessary and may confuse the investor. We would not oppose disclosing that the composite includes a carved-out portfolio(s) and additional information could be provided if requested by a prospective client.

If commentators put forward other proposals, AIMR requests they explain how their proposals satisfy these objectives.