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Professional Standards and Advocacy
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REVISING THE GIPS STANDARDS (“GOLD GIPS”)

Dear Sir / Madam,

Please find below our comments regarding the new “Gold GIPS” draft proposal.

GENERAL COMMENTS

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

Yes, we believe Gold GIPS is an important development and we support the evolution of the standards.

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

Yes, but the GIPS standards should stick to their deadlines. Many organisations have worked very hard and spent considerable time and money to meet deadlines which have now moved. So once set, we feel deadlines should not change in future.

However, by issuing revised deadlines, the draft Gold GIPS will have caused many PPS projects to slow down, as the new proposed deadlines allow more time to meet requirements. So although we are against deadline changes, we feel that it would be unfair now to go back to the original deadlines.

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

The language of the Standards can be vague in certain areas.

Examples :

- 1.A.4 : Can we assume that booking date equals trading date for European asset managers? IPC to confirm through a guidance statement.
- 4.A.4 : Do we need to disclose booking date or not? (see above)
- 4.A.10 : Rule assumes Funds are completely benchmark orientated and this may be the case for Developed Country mandates, but in the case of Emerging and Small cap mandates often benchmarks are indicative of the investment mandate and you are often allowed to invest outside the benchmark. It would be too onerous to disclose frequently where you deviate from the investment benchmark in these cases. Also it mentions you

must disclose on the most recent period, is this of any value as the historic position could be totally different ? This rule also contradicts the fact that many funds are in fact 'active' and can invest outside the benchmark. We suggest a removal or relaxation of this disclosure, that it should not be necessary to provide a specific % (unless requested) but just to state that investment outside the benchmark may exist.

- 4.A.24: Can some examples of an “abbreviated description” be provided, how brief should it be, if we state that the Fund is invested against FTSE100, is this enough?
- 5.A.1(b) : Annual returns - does the calculation refer to annual calendar years (December to December) or rolling annual returns (February to February)? If we are setting a standard this should be defined. We suggest rolling annual returns.
- 5.A.1(d) : What is meant by “dispersion” : standard-deviation, high-low return, equally weighted return, asset weighted return?
- 5.B.1 (d) : What is meant by volatility, as above it doesn't specify which volatility measure to use and also over which time periods?
- 5.B.2 : Very vague point. We need further guidance from the IPC on this point. Also over which time periods should statistics be provided?
- 5.B.3 : If the history is longer than ten years, can we show the figures since inception if over 10 years, we imagine so?
- F.C.A.3 : Vague comment. Clarification is needed on the definition of prospective client.
- F.C.A.4 : What is, according to GIPS, the minimum requirement of a composite description that we must disclose?

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

More examples and more definitions should be provided in the standards. Can be in the form of guidance statements.

5. Do you agree with the numbering and format of the proposed revised G1PS standards?

Yes.

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

No.

SPECIFIC COMMENTS

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.

However, the words “prospective client” should be fully defined. We assume prospective client refers to pension fund /retail clients rather than consultants who often require information to update monthly databases. The standards should be more exhaustive in what constitutes a prospective client by writing a full recommendation.

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.

Producing a list including descriptions is not too onerous (depending on it's frequency, annual/semi-annual). However it is unreasonable for a prospect to requests a brochure for all composites. If the client requests too many brochures we should have the right to arrange a meeting to understand their needs.

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.

Companies should have the right to market a composite brochure to everybody, but to make reference to the min account size required to enter the composite – this will be disclosed with the brochure already. Nevertheless they should also have the right to refuse a client based on the fact that the investment style may be different if the size is significantly smaller. However should a firm decide to take on a smaller investment, the client should be made aware that the smaller size may cause certain limitations, this may not produce the same results as the portfolios in the composite advertised and also will not be included in the composite until they are above the minimum a/c size.

Often we do not know the exact amount they are investing until after the final search so how could we comply to this proposal? Maybe the prospective client decides to invest less money than they originally indicated and if this is less than the minimum have we broken this recommendation? Often a pooled fund can be made up of several smaller clients so based on this recommendation we will not be able to send a pooled composite brochure to a small client, this does not make sense?

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, as long as we are talking about a valid prospective client.
Please refer to points 1 & 2 above.

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.

The requirement for portfolios to be measured monthly has been required already in 2001 so why is it 2005 for the composites?

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?

No – we would rather keep the original deadline. This question illustrates a case where lot of effort has been put in by companies to meet the previous deadline (2005) and now the deadline is postponed to 2010. These changes are unfair to those who have spent time and money to meet the set requirements. Competitors who have known this since 1999 and have not addressed the situation will be pleased and the goal of creating a level playing field on carve outs has been delayed to their advantage.

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

Yes, as it will generally improve accuracy.

Current industry discussion highlights that daily returns are not always the best way to measure actual client returns, as noise can be incorporated if daily data is not so accurate and daily TWR can ignore the cost of cash flows. This standard should be expanded to highlight the fact that inaccuracies can still occur, by including a disclosure to the client.

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

Should be treated as supplementary information, if requested by the client. It should not be mandatory, but the industry should have to disclose whether the composite contains Carve outs and the composite should state "full details on carve outs are available upon request."

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

Same as above

OTHER PROPOSAL

- We agree Verification should become mandatory
- IPC should consider the quality of verifiers i.e. establish proof that the verifier is "of a high standard". To summarise, how does the IPC control and monitor the quality of the verifiers?
- Deadlines changes should be reflected as soon as possible in the different GIPS documents available for companies. For instance, the GIPS advertising deadline has been revised but the Comparison Matrix on the website still carries the old deadline 1/6/04.

If you have any queries on the comments above please feel free to contact either Darren Crowley, Niamh Doolan or Daniel Michel Weber at Pictet Asset Management,

Yours Sincerely,

PAM Performance Measurement Team