

July 26, 2004

CFA Institute  
Professional Standards & Advocacy Department  
Reference: "Gold" GIPS Standards  
P.O. Box 3668  
Charlottesville, Virginia 22903

**Re: Proposed Revisions to the Global Investment Performance Standards**

Dear Sir or Madam:

Thank you for the opportunity to comment on the proposed changes to the "Gold" GIPS® standards. While I am extremely supportive of the principles underlying the Gold GIPS framework, I am concerned that the proposed standards, unless modified, would be overly burdensome for many money managers, especially those who participate in separately managed account ("SMA") programs. This is because the basic business model for SMAs is very different from that of traditional high net worth and institutional accounts.

In a traditional investment advisory model, the Manager contracts directly with the client and is responsible for every aspect of account management, including implementing investment decisions, trading accounts, maintaining records, and calculating and reporting performance. In contrast, in an SMA advisory model, the Manager contracts directly with the SMA program sponsor (the "Sponsor") rather than the client. The Manager is responsible for the day-to-day investment decisions and usually has no direct client contact. In this model, the Sponsor executes all brokerage transactions, calculates and maintains performance and is the "official" recordkeeper for the SMA client. As such, in most cases, the Manager has no choice but to rely on the Sponsor's technology platform to obtain SMA performance, especially if the Manager's system is not compatible with the Sponsor's. Herein lies the biggest challenge for SMA Managers today. While Sponsors must maintain records for SMA accounts, they have no obligation or business incentive to calculate or report performance that is GIPS compliant. And although most Managers want to be GIPS compliant, they have no leverage with the Sponsors to compel them to provide the required data. Although an initiative is underway to create a standard file format for SMA information, these recordkeeping issues will take some time to resolve given the complexity of systems involved and the limited cooperation and collaboration from Sponsors. Hence, I think it is important for the Investment Performance Council ("IPC") to acknowledge the unique challenges faced by SMA Managers and revise the Gold GIPS to accommodate these concerns. The comments below highlight those provisions of the Gold GIPS that are of particular concern for SMA Managers.

**Deleted Provisions:**

**Changes to the definition of the "Firm":**

I believe that these changes would have unfair ramifications on SMA Managers. Most Managers utilize the same investment teams and strategies for both SMA and institutional accounts. This change would preclude such Managers from excluding certain SMA programs from their definition of the Firm. This puts SMA Managers that otherwise are or could be GIPS compliant in an untenable position where due to the recordkeeping issues discussed earlier, they are unable to obtain the records necessary to maintain GIPS compliance. Historically, Managers in such situations may have excluded certain Sponsor's programs from their definition of the Firm, and in any event did not present

performance for such SMAs to potential investors. This was not done to “cherry-pick” accounts or mislead investors about their performance, but rather to act practically and responsibly given the circumstances. Accordingly, until these recordkeeping and related technology issues are resolved on an industry wide basis, the Standards should allow Managers to exclude SMA programs for which they cannot reasonably obtain the underlying records from their definition of the Firm. To compensate for this omission, Managers should be required to disclose the reasons that their performance excludes certain programs, and the percentage of excluded accounts relative to total assets under management.

New Provisions:

**Calculating composite performance monthly and using calendar month-end valuations:**

This requirement makes sense in light of the fact that since January 1, 2001, portfolio returns are calculated at least monthly. However, I think it is important for the IPC to recognize the unique challenges faced by SMA managers in this context. As discussed earlier, SMA Managers do not maintain records sufficient to calculate SMA performance, and are dependent on program sponsors and their systems for this information. Furthermore, Managers have no control over the type or frequency of the information received from Sponsors. Most Sponsors only provide quarterly reports, sometimes in hard copy only. Additionally, the information provided may be inconsistent with current AIMR performance presentation standards (“AIMR-PPS”) and with the Manager’s policies and procedures for maintaining composites. Hence, I believe that the effective date of this requirement should be extended to 2010 to allow Managers enough time to address these recordkeeping issues and to try and work with the Sponsors to obtain GIPS compliant monthly performance information.

**Providing a GIPS compliant presentation to all prospective clients:**

While I agree with this provision in theory, I think it would be difficult if not impossible to implement for SMA managers (“Manager”). This is because as mentioned above, SMA managers typically have no direct contact with prospective clients. The SMA program sponsor (the “Sponsor”), not the Manager, provides the client with information on the Manager(s) it is recommending, such as manager profiles and performance. The Sponsor may choose to provide clients with performance materials prepared by the Sponsor’s firm, which may not be GIPS compliant. As such, the Manager has no ability to ensure that a Gold GIPS compliant presentation is provided to prospective clients. Accordingly, I think that the Standards should clarify that the Manager is in compliance with GIPS if they provide GIPS compliant presentation materials to the Sponsor.

**Provide a list and description of composites to any prospect that requests it:**

The offer to provide a list and description of the firm’s composites upon request has always been a required disclosure under the current standards. I do not think this is burdensome and agree with this requirement.

**Disclose description of the investment objective/style/strategy of the composite:**

I agree with this new requirement, but I feel that some clarification is needed on how much detail should be included. As such, some examples would be very helpful.

Modified Provisions:

**Use of Trade Date accounting as of 2005:**

While I agree with this requirement, I think that the effective date should be extended to 2010 due to technology-related issues that will need to be resolved to implement this change. This is again related to the recordkeeping challenges faced by SMA Managers when they have no choice but to depend on

the Sponsors for performance records. In instances in which the Sponsors are using settlement date accounting, it is highly unlikely that the Sponsors will be able to, or willing to convert their systems to comply by 2005. As mentioned earlier, Managers generally have no leverage with the Sponsors to compel any kind of change. Therefore, an extension is necessary to enable SMA managers to work with program sponsors to comply with this requirement. An extension would also be consistent with the IPC's decision to move the effective date for accrual accounting for dividends (based on the same accrual accounting concept), from 2005 to 2010.

**Disclosure of the appropriate fee schedule:**

This provision needs to be clarified to exclude performance presentations for SMA products since it would not be relevant to prospective investors in these programs. The relevant fee schedule for clients in such programs would be the Sponsor's schedule, not the Manager's schedule. I think it would be impractical to expect the Manager to maintain multiple presentations that take into account the varying program sponsor fee schedules. Additionally, it would not make sense to disclose the Manager's fee schedule since it is usually a small component of the total fee paid by the client, and is encompassed in the Sponsor's total fee.

**Other comments:**

**Valuation on the date of any cash flow:**

While daily pricing would allow firms to more accurately calculate performance results, I think that the incremental benefit from this requirement would be minimal. Speaking from experience, SMA program composites typically consist of thousands of small accounts, making daily valuations for cash flows less than 10% in any given account statistically insignificant. Such a requirement would generate considerable costs and undue technological burdens for managers, while providing little or no added benefit to investors. Additionally, such a requirement may not even be feasible for managers that invest in illiquid municipal bonds or esoteric securities such as emerging market debt and equities, for which daily pricing may not be available. Accordingly, I strongly believe that this provision should be changed to a recommendation instead of a requirement.

**"Pure" gross-of-fees performance:**

The new provision that requires gross-of-fee returns to be calculated by deducting *actual* trading expenses is not a viable option for most SMA managers since trading expenses are embedded in the sponsor's total bundled fee and managers are not privy to the breakdown of such fees. Under the current provision, SMA managers would have to calculate the gross return after the deduction of the maximum bundled fee, but before the deduction of management fees. I believe that presenting such gross-of-fees returns would not be particularly meaningful when comparing the performance of different managers. In such cases, I believe that it would be useful and more appropriate to show "pure" gross-of-fees performance, which would put all managers on a level playing field and also aid in the comparison of the Manager's performance to their benchmark index. The benchmark index does not include any fees by definition. As such, I think the standards should be modified to state that firms may disclose "pure" gross-of-fees performance as supplemental information.

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In conclusion, I believe that the effort undertaken by the IPC to develop a global set of standards for calculating and presenting performance is a valuable initiative, and in the long run will be beneficial for both investors and investment management professionals around the world. However, I feel that in trying to achieve this goal, the Standards are becoming too rigid and too difficult to follow. My concern is that unless the standards are flexible enough to accommodate the SMA business model, they will cause SMA managers to either cease to be GIPS compliant, or cease to offer their services to SMA programs, neither of which would benefit investors. As a result, I am requesting that the IPC reconsider and revise certain aspects of the current Gold GIPS.

Sincerely,

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Rorer Asset Management, LLC