

Comment on the draft of “Gold” GIPS

Comments are organized by listing the specific item with Victory Capital Management Inc. comment directly following the target item.

Requirement FC.A.2: The firm must be defined as an investment firm, subsidiary, or division held out to clients or potential clients as a Distinct Business Entity.

Current options for defining the firm include the ability to define the firm as an entity registered with the appropriate national regulatory authority overseeing the entity’s investment management activities. The ability of a firm to take advantage of a “natural” separation of operations when appropriate is very helpful and should be maintained and not eliminated. The option for Firm Definition based on regulatory entity should continue to be included in Gold GIPS.

Requirement FC.A.7: The firm must include the performance of assets assigned to a sub-advisor in a composite provided the firm has discretion over the selection of the sub-advisor.

We agree with the basis of this requirement. We believe that the requirement should state that assets managed through a sub-advisory agreement are part of firm assets and must be presented. Further we believe that it is unnecessary to identify such assets at the composite level. Inclusion in the composite is a firm decision based on discretion and similarity of investment style. That the assets are sub-advised has no bearing on the proper inclusion in a composite. We agree with the addition of this requirement with a realignment of the focus to the firm level versus the composite level presentation.

Requirement FC.A.14: Statements referring to the performance of a single, existing client as being “calculated in accordance” with the Global Investment Performance Standards are prohibited except when reporting the performance of that individual account to the existing client.

We do not agree with this new requirement. We believe uniform disclosures and presentation better strengthen a firm’s ability to maintain compliance. Exceptions to reporting open the door for inappropriate or inaccurate disclosures concerning calculating performance in accordance with the GIPS standards. Managing proper information for compliance becomes more difficult with additional options and can be problematic with a multi-level channel of distribution (e.g. consultant use and Wrap/SMA distribution). We believe the requirement should be to prohibit the ability to refer to a “GIPS compliant calculation” in any circumstance.

Recommendation FC.B.1: The firm is strongly encouraged to adopt the broadest, most meaningful definition of the firm. The scope of this definition should include all geographic (country, regional, etc.) offices operating under the same brand name regardless of the actual name of the individual investment management companies.

We do not necessarily agree with the idea that a single, large firm is better than an entity that has several compliant firms within it. For large, dynamic firms a global definition that includes all offices and differently named divisions would be difficult to maintain. A firm could have significant changes in a short period and could necessitate a lengthy disclosure just to describe the most current firm definition. We would like to see this recommendation deleted from the GIPS standards.

Requirement 1.A.1: All data and information necessary to support a firm's performance presentation and to perform the required calculations must be captured and maintained.

The word "all" as used is too broad. The implication is that everything relating to performance must be kept. We believe that the wording should be changed to illustrate that only necessary or sufficient information needs to be maintained.

Requirement 1.A.3: For periods prior to 1 January 2001, portfolios must be valued at least quarterly. For periods between 1 January 2001 and 1 January 2010, portfolios must be valued at least monthly. For periods beginning 1 January 2010, the firm will be required to value portfolios on the date of any external cash flow.

Comment: The ability to value a portfolio on the date of any external cash flow requires the availability of daily pricing and a performance system that can use daily valuations to produce partial-period returns to produce the monthly return. The necessary infrastructure to accommodate both of these capabilities does not exist in every firm wishing to be compliant.

There is also a doubt as to the marginal benefit of valuing at any external cash flow and producing a more accurate return. Dividend payments and other income can be at such a level as to produce no meaningful change for a rate of return.

We strongly believe that daily pricing and valuation at any external cash flow should be a recommendation only.

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

We believe that the use of trade date accounting should be a recommendation and not a requirement. Settlement date accounting continues to be used within the U.S. market and the advent of T+3 settlement (and the possibility of moving to T+1) minimizes the effect of settle versus trade date performance.

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

We believe the impact of the using cash versus accrual basis for dividends is minimal. We believe that the use of accrual accounting for dividends should be a recommendation, not a requirement.

Recommendation 1.B.2: When presenting Net-of-Fees returns, the firm should accrue Investment Management Fees.

We believe that this new recommendation intends to suggest that when a firm is calculating net-of-fee returns, a firm should recognize fees ratably, versus only when paid. We agree with this theory and believe this recommendation should be clarified to say just that.

Requirement 2.A.2: Time-weighted rates of return that adjust for cash flows must be used. Periodic returns must be geometrically linked. Approximated time-weighted rates of return that adjust for daily-weighted cash flows must be used for periods beginning 1 January 2005. The firm must use a "true" Time-Weighted Rate of Return calculation method for periods beginning 1 January 2010.

Because of the reliance on third parties to produce performance for accountholders and the widespread use of mid-month cash flow weighting we believe this requirement should be delayed or become a recommendation and revisited in the future.

Requirement 2.A.6: All returns must be calculated after the deduction of the actual Trading Expenses incurred during the period. Estimated Trading Expenses are not permitted.

We believe model transaction fees should be permitted as long as the amount and use of the model fee are fully disclosed. The broad use of bundled fees and the substance of transaction fees on performance need to be considered. Therefore we believe the ban on the use of estimated transaction costs should be eliminated.

Requirement 2.A.8: For periods beginning 1 January 2006, the firm must calculate composite performance by asset-weighting the member portfolio returns at least monthly.

Previous guidelines have not addressed the frequency of composite calculations. Many firms process their composites on a quarterly basis as far as reporting and updating composite participation. While the beginning market value for quarterly portfolios can be substantially different from the ending market value for portfolios it can represent uniform processing. There is further concern in the area of wrap composites where a compliant firm must rely on plan sponsors for performance and monthly returns and values may not be available. Victory believes monthly asset-weighting calculations for composites should only be a recommendation and not a requirement.

Requirement 2.A.9: If the actual direct Trading Expenses cannot be identified and segregated from a Bundled Fee:

(a) when calculating Gross-Of-Fees returns, returns must be reduced by the entire Bundled Fee, or the portion of the Bundled Fee that includes the direct Trading Expenses. Estimated Trading Expenses are not permitted.

(b) when calculating Net-Of-Fees returns, returns must be reduced by the entire Bundled Fee, or the portion of the Bundled Fee that includes the direct Trading Expenses and the Investment Management Fee. Estimated Trading Expenses and Investment Management Fees are not permitted.

We believe estimated (or model) Trading Expenses and Investment Management Fees should be permitted if properly disclosed.

Requirement 2.A.10: If a composite contains both portfolios where the actual direct Trading Expenses cannot be identified and segregated from a Bundled Fee and portfolios where the direct Trading Expenses can be identified, GIPS Calculation Methodology Requirement 2.A.9 (above) must be met for those portfolios where the direct Trading Expenses cannot be identified and segregated from a Bundled Fee when calculating the composite Gross-Of-Fees or Net-Of-Fees return.

We think this requirement needs additional clarification. It appears that the requirement seeks to illustrate that “bundled-fee” accounts included in a composite with accounts that have discretely identified trading expenses deducted from performance then the “bundled fee” accounts must be

included at net of the entire bundled fee unless the transaction fee is determined and deducted as well.

As previously mentioned, we believe estimated (or model) Trading Expenses and Investment Management Fees should be permitted if properly disclosed

Requirement 3.A.7: Carve-out segments excluding cash must not be used to represent a discretionary portfolio and, as such, must not be included in composite returns. When a single asset class is carved out of a multiple asset portfolio and the returns are presented as part of a single asset composite, cash must be allocated to the carve-out returns. Beginning 1 January 2010, carve-out returns must not be included in single asset composite returns unless the carve-out is actually managed separately with its own cash balance.

We believe that carve-outs are very useful and will continue to be widely used in the future. Further we believe the ability allocate cash should be continued with proper disclosure and that the ban on using carve-outs be eliminated

Recommendation 3.B.3: Carve-out returns should not be included in single asset class composite returns unless the carve-outs are actually managed separately with their own cash balance.

Carve-outs are widely used and provide very beneficial information for investors. We believe this recommendation should be eliminated.

Requirement 4.A.17: If a composite contains portfolios with Bundled Fees, the firm must disclose for each annual period shown the percentage of composite assets that are Bundled Fee portfolios.

Since the presentation of accounts with bundled fees are adequately addressed in other requirements we do not see the need for additional guidance at the composite level. Delineating composite participation on fee structure can be addressed in supplemental information if needed or desired. We recommend that his additional disclosure be eliminated.

Requirement 4.A.18: If a composite contains portfolios with Bundled Fees, the firm must disclose the various types of fees that are included in the Bundled Fee.

The preponderance of composites presenting the performance of “bundled-fee” will be shown net of the entire bundled fee. Disclosing the types of fees involved is unnecessary or can be addressed in supplemental information if needed or desired. Any value in disclosing the fee components would be captured via requirement 4.A.20. We believe this requirement should be eliminated.

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

We believe this additional disclosure adds minimal value if any at all. Request for such information would be extremely infrequent. We believe this requirement should be eliminated.

Requirement 4.A.23: The firm must disclose any events (such as ownership or personnel changes, significant deviations between annual and interim performance results, etc.), which help a prospective client interpret the performance record.

If implemented, this requirement should be applied going forward only; any retroactive compliance would be problematic. Additional clarification is needed for which events' disclosures would be of help to prospective clients.

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 believe that a firm's list of composites should reflect the firm's current offering of investment styles (i.e. products). We believe this new requirement should be eliminated.

Recommendation 4.B.7: The firm should disclose when a change in a calculation methodology or valuation source results in a material impact on the performance of a composite return.

We believe that only a disclosure of a change in methodology or valuation source is warranted and see only marginal value in disclosing such information. We believe this recommendation should be eliminated.

Requirement 5.A.4: Performance results of a past firm or affiliation must be linked to or used to represent the historical record of a new firm or new affiliation if:

- (a) a change only in firm ownership or name occurs, or
- (b) the firm has all of the supporting performance records to calculate the performance, substantially all the assets included in the composites transfer to the new firm, and the investment decision-making process remains substantially unchanged.

We believe that the GIPS standards on Portability adequately address the issues targeted by this requirement. We further believe that the linking of prior firm results should remain voluntary but can be done only if Portability standards are met.

Requirement 5.A.5: If a compliant firm acquires or is acquired by a non-compliant firm, the firms have one year to bring the non-compliant firm's acquired composites into compliance.

We believe additional clarification is needed on this issue. Specifically if the acquired firm's historical record needs to be in compliance or only from the point of acquisition forward. We believe the latter should be the standard and any prior period disclosed as under previous ownership. The unintended effect of requiring full historical compliance for an acquired, non-compliant firm could be to unravel the acquiring firm's compliance and could provide influence on what should be a market-oriented decision or transaction.

Requirement 5.A.6: If a composite is formed using single asset carve-outs from multiple asset class composites the presentation must include the following:

- (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.

As of 1 January 2006, the firm must disclose this information for each annual period (retroactively and going forward).

We believe this disclosure should be required on a prospective basis only.

Verification

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.

We believe verification should not be mandatory. The AIMR-PPS change in verification is still progressing through the investment and auditing industries. The associated dollar and time cost of a verification is burdensome for annual requirements. Further we believe the investment industry should drive the need for verification.

Thank you.