

26th July 2004

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

Dear Ms Licata

GOLD GIPS - COMMENTS

The WM Company is grateful for the opportunity to comment on the first draft of Gold GIPS. We have detailed our comments below.

General Comments

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

Yes

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

Yes

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

Yes, although the language would benefit from simplification.

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

FC.A.2 proposes to remove the option to define the firm as "an entity registered with the appropriate national regulatory authority". If this is the case would a firm defined in this manner have to redefine itself?

If so, this appears to be a fundamental change to GIPS which should be communicated and expanded upon to allow for further comment.

4.A.16 – The firm must disclose the Fee Schedule appropriate to the presentation

We believe further guidance is needed on how to practically implement this requirement. In particular how does one construct a fee schedule "appropriate to the presentation" given that a composite will likely contain portfolios with different fee structures?

Furthermore the level of any investment management fee is confidential and a proposed fee structure in a composite presentation is likely to be an approximation and therefore unlikely to add value.

Do you agree with the numbering and format of the proposed revised GIPS Standards?

Yes

5. Should the IPC consider any other methods for meeting the objectives of evolving the GIPS Standards?

Amongst investment managers and verifiers knowledge of GIPS is understandably high. That level of knowledge is not replicated across all trustees and plans sponsors. Greater publicity of GIPS to the end users of investment management expertise would assist in the advancement of GIPS.

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?

Yes. This would be an issue, for example, where the manager has no appropriate composite for the prospective mandate.

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

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?

Yes. We agree with this provision as a recommendation, but would object to it becoming a requirement as this would effectively exclude some managers pitching for smaller mandates and act as a barrier for smaller clients to obtain performance track records from the broadest range of managers.

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

- 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

- 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?**

In general we find it disappointing that a known deadline is now facing a delay of five years. This reflects poorly on the credibility of GIPS and is somewhat unfair on the managers who have been phasing out the use of carve-outs or developing systems to cope with the original deadline.

However while we appreciate the sensitivities surrounding carve-outs these are popular with some managers who see them as a way to enter new markets.

The current method of allocating cash together with the necessary disclosures is a simple and effective method for including a cash return with a carve-out track record. We believe that this method should remain an option for managers and that the management of carve-outs with a separate cash balance is going one step too far.

Therefore we suggest removing the requirement to manage carve-outs with a separate cash balance altogether and allowing the status quo of allocating cash to continue indefinitely.

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

No.

We have three comments to make in regard to this requirement.

a) *In practice* would valuations on the date of any external cash flow and subsequent calculation of a true time weighted rate of return give a *significantly* more accurate performance return, than the currently accepted approximations to a true TWR (e.g. Modified Dietz)? Is the additional cost and deployment of resources worth it? Furthermore the practical difficulties in obtaining accurate daily valuations (pricing, corporate actions, late trades etc) can distort a daily TWR and affect its precision.

It is our view that the additional effort and practical difficulties involved in valuing portfolios on the date of any external cashflow outweighs the potential benefits in terms of accuracy or added value.

In light of this we suggest this requirement is changed to a recommendation.

b) The use of the phrase “any” when describing cash flows is ambiguous. Does “any” include all external cash flows regardless of size in either absolute or relative terms? If so the requirement is cumbersome and the multiple valuations required would likely detract from the validity of a TWR calculation. We suggest that if this proposal is adopted that a degree of materiality should be allowed whereby only external payments over a preset level, perhaps related to the portfolio or composite size, would require portfolio revaluation.

c) If this point does become a requirement from 2010 (though this is something we oppose), firms will have to employ considerable resources to bring systems into compliance. With this in mind, to maintain the credibility of GIPS we must ensure that the 2010 deadline is attainable and immovable – unlike the carve-out requirement discussed above.

Our view is this requirement is neither attainable nor desirable for all investment managers. Therefore reclassification to a recommendation with full disclosure is the best option.

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

Yes, subject to the comments made in point 6.

If you wish to discuss any of these points in detail please contact me directly.

Yours sincerely

John Sutherland ACA

The WM Company Limited