



Global Investment Performance Standards

Guidance Statement on Fees

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Retroactive Application: Not Required

www.gipsstandards.org

GIPS® ~~Interpretive Guidance for~~ Statement on Fees Provisions

The purpose of the GIPS® standards is to create performancecompliant presentations that allow for greater comparability of returns and increase ~~d-the~~ transparency of information provided to investors. While it is impossible to develop standards that cover every situation, the GIPS standards provide a general framework that can be applied to many different circumstances. It is important to remember the underlying principles of the GIPS standards: fair representation and full disclosure.

In the global investment industry, fees are charged in many different ways and a variety of terms are used. In order to promote comparability, it is important that firms around the world treat fees consistently and in a comparable manner. The terms that are used can confuse the matter considerably. In some parts of the world the net-of-fees return is the starting point and investment management fees are added back to arrive at the gross-of-fees return. In other places the opposite is true and investment management fees are deducted from the gross-of-fees return to arrive at the net-of-fees return. In some regions, the terms “fee,” “duty,” “cost,” “charge,” and “expense” have different meanings, while in other regions, these terms are interchangeable. This highlights the need for common definitions, which are included in the GIPS standards Glossary.

There is a range of different types of costs and/or fees that a client incurs when maintaining an investment portfolio. In general, there are three main types of fees and/or costs: investment management fees, ~~brokerage commission~~ trading expenses, and administrative fees. Administrative fees are defined as all fees other than trading expenses and investment management fees and include custody fees, ~~and may also include~~ accounting fees, auditing fees, consulting fees, legal fees, performance measurement fees, and other applicable ~~related~~ fees. In some situations, the only fees that the firm controls are the investment management fees and the trading expenses (i.e., the direct ~~actual~~ cost of buying or selling ~~the assets~~ investments). Therefore, only the investment management fees and the trading expenses should impact the firm’s returns. Even though custody fees are a necessary additional cost of owning a portfolio, many investment managers are not involved in the selection of the custodian or in the negotiation of the custody fees. Accordingly, in order to promote comparability, custody fees should not be reflected in (i.e., should not reduce) the firm’s returns.

The GIPS standards are based on the concept of presenting composite performance to a prospective clients rather than presenting individual portfolio returns to ~~an~~ existing clients. Firms should, however, consider if existing clients will benefit from the presentation of their individual portfolio returns after the reduction of all fees associated with owning an investment portfolio (i.e., including administrative fees). This “client return” (the net-of-fees return reduced by all administrative fees) may be useful to prospective and existing clients to fully understand the actual return that has been earned and the total amount of fees incurred. These administrative fees, however, are typically outside the control of the ~~investment management~~ firm and, as such, should not reduce ~~the firm’s~~ gross-of-fees or net-of-fees returns.

The gross-of-fees return is defined ~~to be as~~ the return on assets investments reduced by any trading expenses.¹ ~~Returns It should also be reduced by~~ calculated net of non-reclaimable withholding taxes ~~incurred during the period. on dividends, interest, and capital gains. Reclaimable withholding taxes should be accrued.~~ Because the gross-of-fees return includes only the return on assets investments and the associated ~~cost of buying and selling those assets~~ trading expenses, it is the best measure of the firm's investment management ability and can be thought of as the "investment return." In addition, because fees are sometimes negotiable, presenting gross-of-fees returns shows the firm's expertise in managing assets without the impact of the firm's or client's negotiating skills. Accordingly, firms are recommended to present gross-of-fees returns. A prospective client, however, must also consider the effect of fees on performance. As a prospective client evaluates and compares investment firms, the most universal point of comparison is the gross-of-fees return less the investment management fee that the prospective client expects to pay. Consequently, firms are required to disclose in each composite compliant presentation the fee schedule that is appropriate to the compliant presentation. When presenting gross-of-fees returns, firms must also disclose if any other fees are deducted in addition to the trading expenses.

The fee schedule ~~should~~ must be current ~~and relevant to the composite and presentation.~~ While a current fee schedule may not assist a prospective client when interpreting historical performance, it is the most relevant to the prospective client. Firms should also disclose additional information related to the firm's fees (e.g., if performance-based fees are available, if other fees are charged by a sub-advisor or through a fund-of-funds structure).

The net-of-fees return is defined to be the gross-of-fees return reduced by the investment management fees incurred ~~-,~~ which includes performance-based fees and carried interest. It is important to recognize that the net-of-fees return consists of two distinct components: the gross-of-fees return and the impact of the investment management fee (see Fees Example Scenario A). Firms are also encouraged to present net-of-fees returns. In order to reflect the most accurate net-of-fees return, fees and expenses should be accrued, when possible. When presenting net-of-fees returns, firms must disclose if any other fees are deducted in addition to the investment management fees and trading expenses; if model or actual investment management fees are used; and if returns are net of any performance-based fees.

The GIPS standards require that returns must be calculated after the deduction of actual trading expenses. Trading expenses can be:

- Direct: as in the case of brokerage commissions and any other regulatory fee, duty, and/or tax (e.g., stamp duty, SEC fee, etc.) associated with an individual transaction, or
- Indirect: such as a bid/ask spread.

¹ For real estate and private equity portfolios, all returns must be net of transaction expenses. Transaction expenses are defined as all actual legal, financial, advisory, and investment banking fees related to buying, selling, restructuring, and/or recapitalizing portfolio investments as well as trading expenses, if any. Please see the real estate and private equity provisions and guidance.

For purposes of the GIPS standards, firms must ~~include (i.e., reduce)~~ both gross-of-fees and net-of-fees returns by the trading expenses incurred in the purchase or sale of ~~securities~~ investments. These costs must be included because they must be incurred in order to implement the investment strategy. Estimated trading expenses are not permitted.

In some cases (particularly when initially compiling a ~~‘compliant’~~ track record that complies with the GIPS standards), the actual fees charged to each discretionary portfolio under management are not available. Firms that wish to show net-of-fees performance results are permitted to use the highest investment management fee incurred by portfolios in the composite to reduce gross-of-fees performance.

However, it is not permissible to use the highest investment management fee to add to the net-of-fees return in order to obtain a gross-of-fees return. Adding back the highest fee would result in overstating the gross-of-fees return. When adjusting from net-of-fees to gross-of-fees ~~performance~~ returns, firms must use either the actual fees or the weighted-average fee for the composite.

Many custodial banks charge part of the custody fee based on the number and type of transactions. These fees, even though they are charged on a per transaction basis, are still part of the custody fee and should not be included in trading expenses.

Bundled Fees

In some cases, firms combine ~~several~~ multiple fees into one total or together to create a “bundled” fee. A bundled fee can include any combination of fees, including ~~Trading Expenses~~, investment management fees, trading expenses, custody fees, and/or administrative fees ~~any other related fees~~. A bundled fee can be specific to a client, as is the case with “all-in” fees,² or can be specific to a particular product, as is the case with “wrap” fees.³ Some bundled fees can be segregated into the various underlying components (e.g., the firm can “un-bundle” the fee and identify each segment that comprises the bundled fee – see Fees Example Scenario C). In other cases, only portions of the bundled fee can be segregated (e.g., investment management fee segment can be identified and separated, but the custody fee and trading expenses cannot – see Fees Example Scenario D). If a firm includes a portfolio with a bundled fee in a composite, it must disclose ~~that the composite contains portfolios with Bundled Fees. Firms are required to disclose the various~~ types of fees that are included in the bundled fee and must present the percentage of composite assets represented by portfolios with bundled fees as of each annual period end.

In cases where the actual trading expenses cannot be identified and segregated from a bundled fee, either the entire bundled fee, or the portion of the bundled fee containing the trading expenses, must be included in (i.e., reduce) the gross-of-fees returns and net-of-

² All-in fees are client-specific and are typically offered in certain jurisdictions where asset management, brokerage, and custody services are offered by the same company.

³ Wrap fees are charged by a wrap fee sponsor for investment management services and typically include associated trading expenses that cannot be separately identified. Wrap fees can be all-inclusive, asset-based fees and may include a combination of investment management fees, trading expenses, custody fees, and /or administrative fees. A wrap fee portfolio is sometimes referred to as a “separately managed account” (SMA) or “managed account.”

fees returns (see Fees Examples Scenarios B and D). In these cases, custody fees and other administrative fees might be included in the gross-of-fees returns and in the net-of-fees returns. Firms may also find that the gross-of-fees return is equal to the net-of-fees return. ~~In order to assist prospective clients in better understanding the fees included in the gross-of-fees return calculation, if a composite contains portfolios with bundled fees, firms must disclose the types of fees that are included in the bundled fees. When presenting net-of-fees returns, firms must disclose if any other fees are included in the Bundled Fees deducted in addition to the investment management fees and Trading Expenses. When presenting Net Of Fees Returns, firms must disclose if other fees are included in addition to the investment management fees and trading expenses.~~

Some investment product returns are typically calculated net of other fees (e.g., custody fees, and other administrative fees). In order for these portfolios to be treated consistently with regards to the definitions of gross-of-fees returns and net-of-fees returns in the GIPS Standards, when calculating gross-of-fees returns from net-of-fees returns, firms are allowed to add back all fees and expenses (e.g., investment management, custody fees, transfer agent, share registration, marketing, and regulatory fees) except for trading expenses. When calculating net-of-fees returns, firms are allowed to add back all fees and expenses except for trading expenses and the investment management fees, provided that the firm can identify all these fees. Estimated fees are not permitted.

Sub-advisor, Pooled Funds Investment Vehicles, and Funds of Funds

In some situations, firms may invest a portion of a larger portfolio in a pooled investment vehicle fund, utilize a sub-advisor, or create a fund-of-funds structure whereby additional fees are charged by the underlying fund or paid to the sub-advisor. In these situations, it is most appropriate to present the return net of all fees (e.g., including administrative fees) since all investors must pay these fees. However, net-of-fees performance returns must be net of transaction expenses and investment management fees and these fees (including the underlying fees) must not be added back to calculate net-of-fees performance returns.

~~In all cases, the firm must disclose in each composite presentation the current Fee Schedule appropriate to the particular composite.~~

Effective Date

The effective date for this Guidance Statement is 1 January 2011. When bringing past performance into compliance, firms may comply with this version of the Guidance Statement or with prior versions in effect at the time. Prior versions of this Guidance Statement are available on the GIPS standards website (www.gipsstandards.org).

Fees Examples

For the purpose of these examples, the trading expenses are stated as a percentage of the beginning ~~market~~ value. In practice, trading expenses are typically accounted for in the book value of securities and are, therefore, reflected in the return on ~~assets~~ investments. These examples are presented to illustrate the concepts presented in ~~the fee provisions~~ this Guidance Statement, and ~~the examples~~ assume deduction of fees and trading expenses at the beginning of the period. These examples are simplified to illustrate the differences between fee structures and are not intended to provide guidance on the actual calculations. Actual return calculations may differ based on when the fee is deducted from the portfolio and the value used as a basis for the calculation (e.g., beginning-of-period assets, ~~ending-end-of~~-period assets, weighted average period assets, ~~etc.~~).

Descriptions of Scenarios	
<i>Scenario A: A typical fee structure in which each fee can be clearly identified</i>	
Return on assets -investments	8.00%
Trading expenses	0.20%
Investment management fees	1.00%
Administrative fees (including custody fees)	0.50%
<i>Scenario B: Bundled Fee 1 (structure in which the bundled fee cannot be separated)</i>	
Return on assets -investments	8.00%
Bundled fee: Trading expenses , investment management fees , and administrative fees (including custody fees)	1.70%
<i>Scenario C: Bundled Fee 2 (structure in which the bundled fee can be separated)</i>	
Return on assets -investments	8.00%
Bundled fee: trading expenses , investment management fees , and administrative fees can be separated as follows:	1.70%
Trading expenses	0.20%
Investment management fees	1.00%
Administrative fees	0.50%
<i>Scenario D: Bundled Fee 3 (structure in which only the investment management fee can be separated from the bundled fee)</i>	
Return on assets -investments	8.00%
Bundled fee: Trading expenses , investment management fees , and administrative fees (including custody fees) can be separated as follows:	1.70%
Investment management fees	1.00%
Trading expenses and administrative fees	0.70%
<i>Scenario E: Bundled Fee 4 (structure in which only the trading expenses can be separated from the bundled fee)</i>	
Return on assets -investments	8.00%
Bundled fee: Trading expenses , investment management fees , and administrative fees (including custody fees) can be separated as follows:	1.70%
Trading expenses	0.20%
Investment management fees and administrative fees	1.50%

Calculation of Scenarios A - E					
	Scenario A	Scenario B	Scenario C	Scenario D	Scenario E
Return on assets -investments	8.00%	8.00%	8.00%	8.00%	8.00%
– Trading expenses	0.20%	1.70%	0.20%	0.70%	0.20%
= Gross-of-fees return	7.80%	6.30%	7.80%	7.30%	7.80%
– Investment management fees	1.00%	na	1.00%	1.00%	1.50%
= Net-of-fees return	6.80%	6.30%	6.80%	6.30%	6.30%
– Administrative fees	0.50%	na	0.50%	na	na
= Client return*	6.30%	6.30%	6.30%	6.30%	6.30%

na = not applicable

* The client return is not required by the GIPS standards and is presented here as additional information that may be helpful for existing clients.