

AIMR PERFORMANCE PRESENTATION STANDARDS (AIMR-PPS®)

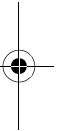
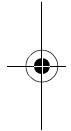
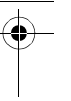
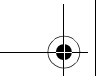
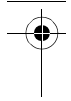
Amended and Restated as
the AIMR-PPS® Standards,
the U.S. and Canadian version of GIPS®



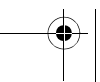
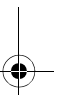
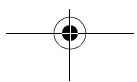
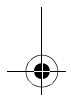
ASSOCIATION FOR INVESTMENT
MANAGEMENT AND RESEARCH

PO Box 3668
Charlottesville, VA 22903-0668 USA
Tel: 434-951-5499 • Fax: 434-951-5320
E-mail: aimrppshelpdesk@aimr.org
Internet: www.aimr.org





CFA[®], Chartered Financial Analyst[™], AIMR-PPS[®], GIPS[®], the Translation of GIPS Logo and Country Version of GIPS Logo are just a few of the trademarks owned by the Association for Investment Management and Research (AIMR[®]). To view a list of the Association for Investment Management and Research's trademarks and a Guide for the Use of AIMR's Marks, please visit our Web site at www.aimr.org.



AIMR-PPS IMPLEMENTATION COMMITTEE

2001–2002

CHAIR

James E. Hollis III, CFA
Standish Mellon Asset Management
Boston, Massachusetts

Thomas S. Drumm, CFA
Needham, Massachusetts

James L. Kermes
Glenmede Trust Company
Philadelphia, Pennsylvania

Iain W. McAra
J.P. Morgan Investment Management, Inc.
New York, New York

Neil E. Riddles, CFA
Hansberger Global Investors, Inc.
Fort Lauderdale, Florida

Douglas S. Rogers, CFA
Deloitte & Touche Investment Advisers, LLC
Chicago, Illinois

Derek A. Sasveld, CFA
Brinson Partners, Inc.
Chicago, Illinois

David D. Spaulding
The Spaulding Group, Inc.
Somerset, New Jersey

Robert H. Steinbach, CFA
Communications Solutions International
Toronto, Ontario

Karyn D. Vincent, CFA
CAPS, Inc.
Portland, Oregon

Lee N. Price, CFA (*observer*)
Price Performance Measurement Systems, Inc.
Palo Alto, California

AIMR STAFF

Jonathan A. Boersma
Alecia L. Licata
Jessica L. Mann, CFA

INVESTMENT PERFORMANCE COUNCIL (IPC)

2001–2002

CHAIR

John C. Stannard, CFA
Frank Russell Company
United Kingdom
Yoshiaki Akeda
Nomura Funds Research and Technologies Co., Ltd.
Japan

Carl R. Bacon
Statpro
United Kingdom

Louis Boulanger, CFA
William M. Mercer Limited
New Zealand

Herbert M. Chain
Deloitte & Touche LLP
United States

Lynn A. Clark
Ontario Municipal Employees Retirement System
Canada

Alain Ernewein
France

Bernd R. Fischer
Commerzbank
Germany

David J. Gamble
British Airways Pension Investment Management
United Kingdom

Lesley A. Harvey
South Africa

Brian Henderson
The WM Company
United Kingdom

Willem Hensbergen
Lombard Odier Institutional Asset Management
The Netherlands

Brian Hersey, CFA
Watson Wyatt Investment Consulting
United States



Jean-François Hirschel
Societe Generale Asset Management
France

David H. S. Hobbs
Phillips & Drew
United Kingdom

James E. Hollis III, CFA
Standish Mellon Asset Management
United States

Shigeo Ishigaki
KPMG Japan (Century Ota Showa & Co.)
Japan

Iskander Ismail
Amanah SSCM Asset Management
Malaysia

Todd A. Jankowski, CFA
The Northwestern Mutual Life Company
United States

Carol A. Kennedy
Pantheon Group
United Kingdom

Bo Knudsen
Unibank A/S
Denmark

Yoh Kuwabara
Chuo Aoyama Audit Corporation
Japan

Jörg Lilla
BHF Bank
Germany

David M. MacKendrick
DM Independent Services Ltd.
United Kingdom

Terence V. Pavlic, CFA
Pavlic Investment Advisors, Inc.
United States

Ehsan Rahman
Washington Metropolitan Area Transit Authority
United States

Deborah Reidy
National Pensions Reserve Fund
Ireland

Neil E. Riddles, CFA
Hansberger Global Investors, Inc.
United States

Max Roth
Banque Cantonale Vaudoise
Switzerland

Paul S. Saint-Pierre
Wall Street Realty Capital
United States

Maria E. Smith-Breslin
Smith Affiliated Capital Corp.
United States

Glenn Solomon
Cogent Investment Operation
Australia

Louise Spencer
PricewaterhouseCoopers LLP
United Kingdom

Cheng Chih Sung
Government of Singapore Investment Corporation
Singapore

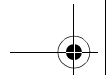
Ronald J. Surz
Roxbury Capital Management
United States

Ad J.C. van den Ouweland
Robeco Group
The Netherlands

Hans-Jörg von Euw
Julius Baer Asset Management Ltd.
Switzerland

AIMR STAFF

Jonathan A. Boersma
Alecia L. Licata
Jessica L. Mann, CFA



AIMR PERFORMANCE PRESENTATION STANDARDS (AIMR-PPS®)

Amended and Restated as

the AIMR-PPS® Standards, the U.S. and Canadian version of GIPS®

OUTLINE

I. APPLICATION OF THE GIPS STANDARDS AT THE LOCAL LEVEL

- A. BACKGROUND
- B. AIMR-PPS REQUIREMENTS AND RECOMMENDATIONS DIFFERENT FROM THE GIPS STANDARDS
- C. GLOBAL INVESTMENT PERFORMANCE STANDARDS INTRODUCTION

II. CONTENT OF THE AIMR-PPS STANDARDS

III. VERIFICATION

APPENDIXES

- A. GIPS STANDARDS SAMPLE PRESENTATION
- B. AIMR-PPS STANDARDS SAMPLE PRESENTATIONS
- C. AIMR-PPS ADVERTISING GUIDELINES
- D. GUIDANCE ON VERIFICATION



I. APPLICATION OF THE GIPS STANDARDS AT THE LOCAL LEVEL

A. BACKGROUND

The AIMR Performance Presentation Standards were first introduced by the Financial Analysts Federation's Committee for Performance Presentation Standards in the September/October 1987 issue of the *Financial Analysts Journal*. Since that time, the AIMR-PPS standards have been reviewed extensively by members of the industry and revised in response to their many comments and recommendations. The underlying principles of fair representation and full disclosure, however, have remained unchanged.

Since their establishment, the AIMR-PPS standards have received overwhelming acceptance from the U.S. and Canadian investment industry. Initially, on a global basis, only a few countries outside North America adopted the AIMR-PPS standards to serve as the local performance standards. Some countries chose to adhere to their own nationally accepted guidelines while others had few or no standards for presenting investment performance. These practices have limited the comparability of performance results from firms in different countries and have hindered the ability of firms to penetrate markets on a global basis.

Implementing a Global Standard

In 1995, therefore, AIMR recognized the need for one globally accepted set of standards for the calculation and presentation of investment performance. AIMR sponsored and funded the Global Investment Performance Standards (GIPS) Committee to develop and publish one global standard by which firms calculate and present performance to clients and prospective clients. On February 19, 1999, AIMR formally endorsed the Global Investment Performance Standards as the worldwide standard to calculate and present investment performance.

The GIPS standards, based on the underlying principles of fair representation and full disclosure, have been crafted to meet the needs and capacity of a broad range of global markets. Such standards also facilitate competition in the global investment industry by allowing clients and potential clients to make an "apples to apples" comparison of investment advisory firms.

Investment Performance Council

Following approval by the AIMR Board of Governors in 1999, the GIPS committee's role and responsibility in

developing the GIPS standards concluded. However, AIMR recognized that effective promotion, implementation, and interpretation of the Standards require an operational governance structure to meet the ongoing needs for maintaining and developing high-quality global investment performance standards. To meet these needs, AIMR established the Investment Performance Council (IPC) in 2000. The IPC also provides a practical and effective implementation structure for the GIPS standards and encourages wider public participation in an industrywide standard.

The principal goal of the IPC is to have all countries adopt the GIPS standards as the Standard for investment firms seeking to present historical investment performance. As of April 2001, approximately 25 countries around the world have adopted or are in the process of adopting the GIPS standards or of establishing a local investment performance standard. The IPC believes the establishment and acceptance of the GIPS standards are vital steps in facilitating the availability of comparable investment performance history on a global basis. GIPS compliance provides firms with a "passport" and creates a level playing field where all firms can compete on equal footing. However, for the GIPS passport to be effective, sponsors of all country standards must remove or minimize potential local "barriers to entry" in the form of additional requirements, over and above those found in the GIPS standards.

The IPC strongly encourages countries without an investment performance standard in place to accept GIPS standards as the local standard and translate them into the local language when necessary, thus promoting a "Translation of GIPS" (TG). However, the IPC recognizes that some countries will need to adopt certain requirements in addition to the GIPS standards, especially when required by specific local regulation or to meet existing, well-established practice. Therefore, to achieve a globally harmonized investment performance presentation practice, the IPC is promoting a "Country Version of GIPS" (CVG) approach. Under this approach, countries will adopt the GIPS standards as their core standards. This core will be supplemented where provisions over and above GIPS standards are necessary, preferably only to satisfy local regulatory or legal requirements and well-established practices. Any other differences must be transitioned out of the CVG

during a specified period, so that the CVG converges with the GIPS standards. In this way, compliance with the GIPS standards will provide investment managers with a “right of access” to be considered alongside investment managers who comply with the local standards, thereby allowing all managers to be measured on equal terms.

The IPC will also develop the GIPS standards as quickly as is practicable into a “gold standard.” This gold standard will eventually incorporate many of the regulatory and well-established best practices that exist in local markets around the world.

AIMR-PPS Standards as a Country Version of GIPS

In early 1999, AIMR took the first step in moving toward a global investment performance standard by significantly revising the requirements of the AIMR-PPS standards to bring them in line with the GIPS standards. AIMR has now taken the next step by redrafting the AIMR-PPS standards into the CVG format and restating them here as the U.S. and Canadian version of the GIPS standards. According to the IPC’s global strategy, AIMR is the country sponsor for the AIMR-PPS standards, the U.S. and Canadian version of the GIPS standards.

Because the GIPS standards are based on the AIMR-PPS standards, redrafting the AIMR-PPS standards into the CVG format was primarily a reorganization of the existing provisions, with only a few substantive changes. AIMR hopes that this redraft of the AIMR-PPS standards will set an example of how countries or regions with existing standards can move toward one global standard by incorporating the GIPS standards as the core of the local standard with minimal additional provisions only as necessary to satisfy the country-specific requirements (well-established practice or regulation). The AIMR-PPS standards now incorporate all the GIPS requirements and recommendations. The full text of the GIPS standards is contained in Section II of this document. Several additions to the GIPS provisions will apply in the United States and Canada to represent well-established practices, and firms must observe them in addition to all GIPS requirements in order to claim compliance with the AIMR-PPS standards. These minimal additions are noted in the text of the provisions (Section II) in italics as well as summarized in the AIMR-PPS Introduction in Section I.B. AIMR-PPS Requirements and Recommendations Different from GIPS.

The AIMR-PPS standards will automatically incorporate future developments to the GIPS standards, particularly those provisions affecting technical areas that are currently addressed in the AIMR-PPS standards but not yet addressed in the GIPS standards (e.g., real estate and venture capital).

B. AIMR-PPS SPECIFIC REQUIREMENTS AND RECOMMENDATIONS DIFFERENT FROM THE GIPS STANDARDS

Although the AIMR-PPS standards incorporate all of the core GIPS requirements and recommendations, additional provisions apply to the AIMR-PPS standards by nature of well-established practices. Firms claiming compliance with the GIPS standards must also satisfy the following AIMR-PPS specific requirements in order to claim compliance with the AIMR-PPS standards. These additions are included in the body of the AIMR-PPS provisions (Section II) as notations that are italicized.

The following provisions of the AIMR-PPS standards serve to supplement or modify existing GIPS requirements and/or recommendations.

Requirements

Section II.4.A.2. Under the GIPS standards, firms must disclose the total firm assets for each period presented. Prior to the redraft of the AIMR-PPS standards, firms were not required to disclose this information. Therefore, it is necessary to clarify that under the redrafted AIMR-PPS standards, firms must disclose total firm assets for each period **retroactively**.

Section II.4.A.13. Under the GIPS standards, firms are required to disclose whether the presentation conforms with local laws and regulations that differ from GIPS requirements and the manner in which the local standards conflict with the GIPS standards. According to existing interpretations of the AIMR-PPS standards, firms must disclose whether the presentation conforms to local laws and regulations that differ from the AIMR-PPS requirements. The GIPS provision is modified slightly to require firms to disclose whether local laws and regulations conflict with the AIMR-PPS standards.

Section II.4.A.14. The GIPS standards do not have an “effective date.” Instead, the GIPS standards require firms to initially have at least five years of compliant performance history, and for any performance presented for periods prior to January 1, 2000, that does not comply with the GIPS standards, firms must

disclose the period of non-compliance and how the presentation is not in compliance with the GIPS standards. The AIMR-PPS standards have four effective dates for compliance, which are provided in the AIMR-PPS Introduction, Section I.B. Under the AIMR-PPS standards, when firms present performance results for periods prior to the applicable effective dates of the AIMR-PPS standards that do not comply with the AIMR-PPS standards, they must disclose the periods of non-compliance and how the presentation is not in compliance with the AIMR-PPS standards.

Section II.4.A.16. and II.4.B.3. Under the GIPS standards, firms are recommended to disclose the fee schedule (see Section II.4.B.3). The AIMR-PPS standards require firms to disclose the fee schedule. To claim compliance with the AIMR-PPS standards, the presentation must disclose the firm's fee schedule appropriate to the presentation.

Section II.5.A.1.(a). AIMR-PPS standards have a more stringent requirement regarding the length of the historical record of performance that must be shown. The GIPS standards require firms to present 5 years (initially, building up to 10 years) whereas the AIMR-PPS standards require 10 years. Firms claiming compliance with the AIMR-PPS standards must present 10 years of performance history (or since firm inception if inception is less than 10 years).

Section II.5.A.1.(c). Both the AIMR-PPS standards and the GIPS standards require firms to present the number of portfolios and amount of assets in the composite and the percentage of the firm's total assets represented by the composite **at the end of each period**. However, prior to the redraft of the AIMR-PPS standards, firms could choose when to calculate these figures (e.g., beginning or end of period). The redrafted AIMR-PPS standards now retroactively require (for all periods after January 1, 1997) firms to provide the number of portfolios and amount of assets in the composite and the percentage of the firm's total assets represented by the composite at the **end** of each period. Prior to January 1, 1997, firms may choose to report these figures as of the beginning of the period or as of the end of the period, as long as the method prior to January 1, 1997, is consistently followed and disclosed.

Section II.5.A.1.(e). Firms must use the approved AIMR-PPS "Compliance Statement" as provided in Section I.B of the AIMR-PPS Introduction in order to claim compliance with the AIMR-PPS standards.

Section II.5.A.2. Under the GIPS standards, firms may link non-GIPS-compliant performance to their compliant history so long as firms meet the disclosure requirements of Section II.4 and no non-compliant performance is presented for periods after January 1, 2000. Firms claiming compliance with the AIMR-PPS standards and wishing to also claim GIPS compliance must note the potential historical differences between the AIMR-PPS and GIPS standards and disclose those differences. (See Section I.B. AIMR-PPS and GIPS Standards for a discussion of the historical differences.) The effective dates of compliance and retroactive compliance guidelines for the AIMR-PPS standards are also provided below.

Section II.5.A.8. The GIPS standards do not have a specific requirement to prohibit firms from restating composite results following a change in the firm's organization. The AIMR-PPS standards include a requirement that firms may not restate composite results following changes in a firm's organization.

Additional AIMR-PPS Sections

By implementing the CVG approach, the AIMR-PPS standards have adopted the GIPS standards as the core principles (subject to minor differences noted in italics). Sections II.1 through II.5 reflect the basic elements involved in presenting performance information: Input Data, Calculation Methodology, Composite Construction, Disclosures, and Presentation and Reporting. The AIMR-PPS standards also consist of four additional sections (II.6 through II.9) that address the calculation and presentation of performance for alternative asset categories (e.g., real estate, venture and private placements, wrap-fee accounts, and after-tax returns). These additional sections have been imported from the previous version of the AIMR-PPS standards with no changes (except for minor changes made to requirements II.8.A.2 and II.8.A.3 to clarify the wrap-fee requirements). However, they will be changed to conform to the GIPS standards over time as guidelines in these technical areas are developed and adopted by the IPC and AIMR.

Verification

Section III. Verification. The GIPS standards contain one level of Verification, whereas Verification under the AIMR-PPS standards has previously consisted of two levels: Level I (firmwide verification) and Level II (verification of a specific composite). To encourage the convergence of the AIMR-PPS standards and the GIPS

standards, Section III. Verification only contains the Level I (GIPS) verification procedures. Level I (GIPS) verification focuses on firmwide compliance by confirming that an investment firm has complied with all the composite construction requirements on a firmwide basis and that the firm's processes and procedures are designed to calculate and present performance results in compliance with the AIMR-PPS standards.

The redrafted AIMR-PPS standards also serve as the initial steps to creating only one level of verification in the United States and Canada by eliminating as of January 1, 2003, "Level II (composite) verification" as an accepted form of verification. Instead, like the GIPS standards, an investment management firm may choose to have a further, more extensive, specifically focused examination or performance audit of a specific composite presentation. After January 1, 2003, firms will not be able to make the claim that a particular composite has been "verified" but can claim that the composite returns have been examined or audited. Until January 1, 2003, the previous Level II verification procedures have been retitled "Performance Examination (Level II)" and have been redrafted to focus on the need for the verifier to conduct and report on a Level I verification prior to issuing a Performance Examination (Level II) report.

Additional guidance for issuing and using a Level I verification report as well as the procedures for conducting a Performance Examination (Level II) is provided in Appendix D Verification Guidance. This Appendix serves to provide the U.S. and Canadian verification industry with guidance and to provide more clear and workable performance examination procedures.

AIMR-PPS and GIPS Standards

Firms currently wishing to comply with the GIPS standards must be able to meet all of the GIPS requirements, including a five-year compliant historical record. As of January 1, 2002, all firms that claim compliance with the AIMR-PPS standards will also have a minimum of five years of GIPS-compliant history (or compliant history since firm inception) and can therefore claim compliance with the GIPS standards. However, before asserting their GIPS claim, firms must consider that the GIPS standards include a disclosure requirement that states any performance presented prior to January 1, 2000, that does not comply with the GIPS standards must be disclosed and firms must explain how the presentation is not in compliance with the GIPS stan-

dards (Section II.4.A.14). From a calculation perspective, the AIMR-PPS and the GIPS standards are the same for all performance results for periods after January 1, 1997. However, for performance results for periods prior to 1997, two potential issues exist under the AIMR-PPS standards that could result in performance reporting that adheres to the AIMR-PPS standards but does not meet the GIPS requirements and would warrant the additional GIPS disclosure:

- **Disclosures:** Under the GIPS standards, firms are required to disclose the number of portfolios and amount of assets in the composite and the percentage of the firm's total assets represented by the composite as of the **end** of the period. Under the AIMR-PPS standards, firms must disclose these figures as of the **end** of the period for all periods after January 1, 1997, but prior to 1997, firms can choose when to make these disclosures (beginning or end of period) under the AIMR-PPS standards.
- **Appropriate Treatment of Accrued Income:** According to the GIPS standards, in both the numerator and denominator, the market values of fixed-income securities must include accrued income for all periods. Prior to January 1, 1997, the AIMR-PPS standards did not specify that firms must accrue income in both the beginning and ending market values (numerator and denominator) for performance calculations.

Effective Dates for Compliance

The AIMR Performance Presentation Standards, amended and restated as the AIMR-PPS Standards, the U.S. and Canadian version of GIPS, were adopted by the AIMR Board of Governors on May 20, 2001. To facilitate the transition to the revised Standards, firms claiming compliance with the AIMR-PPS standards will have until December 31, 2001 to satisfy the new requirements resulting from the revision. The implementation date of the revised Standards is January 1, 2002. On this date, the restated Standards will fully replace the previous version of the Standards and any performance presentations created on or after January 1, 2002, must comply with the revised AIMR-PPS standards.

The GIPS standards were adopted without an effective date for compliance. Because the AIMR-PPS standards preceded the GIPS standards, it was necessary to develop effective dates for compliance with the AIMR-PPS standards to allow firms to build a compliant track record and develop the infrastructure necessary to

comply while promoting the importance and relevance of standards. For an investment firm to claim compliance with the AIMR-PPS standards, the firm must meet the following historical effective dates:

- From January 1, 1993, all of the firm's actual discretionary fee-paying nontaxable portfolios solely invested in U.S. and/or Canadian investments must be presented in composites that adhere to the AIMR-PPS standards.
- From January 1, 1994, all of the firm's actual discretionary fee-paying portfolios invested in non-U.S. and/or non-Canadian investments ("international portfolios") and taxable portfolios (both U.S., Canadian and international) must be presented in composites that adhere to the AIMR-PPS standards.
- From July 1, 1995, all of the firm's actual discretionary fee-paying portfolios meeting the definition of a wrap-fee account must be presented in composites that adhere to the AIMR-PPS standards.
- From January 1, 1997, all of the firm's composites and performance presentations must include accrued income in both the beginning and ending market values for performance calculations.

Clarification, Guidance and Interpretation of the AIMR-PPS Standards

Firms that claim compliance with the AIMR-PPS standards must understand all the requirements and recommendations of the AIMR-PPS standards, including any updates, reports, or clarifications published by the AIMR-PPS Implementation Committee or the Investment Performance Council, including the most recent version of the AIMR Performance Presentation Standards Handbook. All clarification and update information will be made available to the public via the AIMR Web site (www.aimr.org/standards/) and must be considered when determining a firm's claim of compliance.

Once the AIMR-PPS standards are endorsed by the IPC as a CVG, the IPC will become the responsible body for interpreting, clarifying, and expanding the GIPS standards (which are the core of the AIMR-PPS standards). The AIMR-PPS Implementation Committee will only interpret and expand the AIMR-PPS standards to address U.S. and Canadian issues (e.g., after-tax performance reporting).

Firm Policies and Procedures

Implicit in an investment firm's claim of compliance is the need for the firm to document, in writing, its poli-

cies and procedures used in establishing and maintaining compliance with all the applicable requirements of the AIMR-PPS standards. Documented policies and procedures will not only aid firms in their ongoing maintenance of compliance but will also benefit both verifiers and regulators in examining a firm's claim of compliance with the AIMR-PPS standards.

AIMR-PPS Advertising Guidelines

The ability to advertise performance results is essential to every investment adviser. AIMR recently developed the AIMR-PPS Advertising Guidelines to allow firms to claim compliance with the AIMR-PPS standards and present limited or no performance information in an advertisement as long as the firm adheres to the Guidelines. The Guidelines require that firms present certain information that is a subset of the information required by the AIMR-PPS standards. Alternatively, firms can claim compliance with the standards without presenting any performance information. AIMR anticipates that the IPC will use the AIMR-PPS Advertising Guidelines as a base to develop similar guidance to allow firms to advertise their claim of compliance with the GIPS standards.

AIMR-PPS Claim of Compliance

Once a firm has met all of the required elements of the AIMR-PPS standards, the firm may use the following "Compliance Statement" on a performance presentation that meets all of the requirements of the Standards to indicate that the presentation is in compliance with the AIMR-PPS standards:

[Insert name of firm] has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), the U.S. and Canadian version of the Global Investment Performance Standards (GIPS®). AIMR has not been involved in the preparation or review of this report.

The AIMR-PPS Claim of Compliance statement can only be made on a presentation that fully adheres to the requirements of the AIMR-PPS standards. Firms wishing to claim compliance with both the AIMR-PPS and the GIPS standards must include the AIMR-PPS Compliance Statement as well as the GIPS Compliance Statement set out in the GIPS Introduction in Section I.C.17 of this document.

Retroactive Compliance

The AIMR-PPS standards require that firms report, at a minimum, ten years of investment performance

(or performance since the inception of the firm if inception is less than ten years) to claim compliance with the Standards. The record prior to the January 1, 1993, implementation date of the Standards need not be restated for a firm to claim compliance as long as the firm follows the guidelines of retroactive compliance. However, firms must present 10 years of annual performance (assuming inception is at least ten years ago) in order to satisfy the requirements of the AIMR-PPS standards.

Firms with records or performance calculations for periods prior to the applicable effective date(s) that are not in conformance with the AIMR-PPS standards can still claim compliance with the AIMR-PPS standards if certain conditions are met. To claim compliance, the firm has three options:

- restate its historical performance numbers in accordance with the AIMR-PPS standards;
- restate its historical performance in accordance with the Relaxed Retroactive Standards, explained in the paragraphs below, for retroactive compliance; or
- use its nonconforming historical performance and disclose specifically when and how the performance is not in compliance.

The first option is the desired approach. For the second option, under the Relaxed Retroactive guidelines for compliance prior to January 1, 1993, two relaxations are allowed:

- Portfolios and composites may be valued on an annual basis as a maximum. Valuation periods for both portfolios and composites may be as long as one year (although if cash flows were significant during the year, valuations should be done more frequently). To qualify for inclusion in a composite that is valued annually, a portfolio must have been under management according to a strategy appropriate to the composite for at least one year.
- Accrual accounting need not be applied.

For the third option, if a firm claims compliance with the AIMR-PPS standards but the performance record prior to the applicable effective date is not in compliance and the non-compliance periods are linked to periods that are in compliance, the firm must:

- disclose that the full record is not in compliance,
- identify the non-compliance periods, and
- explain exactly how the non-compliance periods are out of compliance.

In any case, the performance record after the applicable effective dates must adhere fully to the requirements of the AIMR-PPS standards.

C. GLOBAL INVESTMENT PERFORMANCE STANDARDS INTRODUCTION

The IPC's standardized CVG approach requires that CVGs include the GIPS Introduction in its entirety with no additions or modifications. The following section contains the full text of the GIPS Introduction as adopted by the AIMR Board of Governors on February 19, 1999.

All references made to GIPS below are relevant to the AIMR-PPS standards as well (except where highlighted in italics).

1. INTRODUCTION

PREAMBLE—WHY IS A GLOBAL STANDARD NEEDED?

1. The financial markets and the investment management industry are becoming increasingly global in nature. Given the variety of financial entities and countries involved, this globalization of the investment process and the exponential growth of assets under management demonstrate the need to standardize the calculation and presentation of investment performance.
2. Prospective clients and asset managers will benefit from an established standard for investment performance measurement and presentation that is recognized worldwide. Investment practices, regulation, performance measurement, and reporting of performance results vary considerably from country to country. Some countries have guidelines that are widely accepted within their borders, and others have few recognized standards for presenting investment performance.
3. Requiring investment managers to adhere to performance presentation standards will help assure investors that the performance information is both complete and fairly presented. Firms in countries with minimal presentation standards will be able to compete for business on an equal footing with firms from countries that have more developed standards. Firms from countries with established practices will have more confidence of being fairly compared to "local" firms when competing for business in countries that have not previously adopted performance standards.
4. Both prospective and existing clients of investment firms will benefit from a global investment performance standard by having a greater degree of confidence in the performance numbers presented by the firms. Performance standards that

are accepted in **all** countries enable all investment firms to measure and present their investment performance so that clients can readily compare investment performance among firms.

VISION STATEMENT

5. A global investment performance standard leads to readily accepted presentations of investment performance that (1) present performance results which are readily comparable among investment managers, without regard to geographic location, and (2) facilitate a dialogue between investment managers and their prospective clients about the critical issues of how the manager achieved performance results and future investment strategies.

OBJECTIVES

6. To obtain worldwide acceptance of a standard for the calculation and presentation of investment performance in a fair, comparable format that provides full disclosure.
7. To ensure accurate and consistent investment performance data for reporting, record keeping, marketing, and presentation.
8. To promote fair, global competition among investment firms for all markets without creating barriers to entry for new firms.
9. To foster the notion of industry self-regulation on a global basis.

OVERVIEW

10. The Global Investment Performance Standards (GIPS) have several key characteristics:
 - a. GIPS are ethical standards for investment performance presentation to ensure fair representation and full disclosure of an investment firm's performance history.
 - b. GIPS exist as a minimum worldwide standard where local or country-specific law, regulation, or industry standards may not exist for investment performance measurement and/or presentation.
 - c. GIPS require managers to include all actual fee-paying, discretionary portfolios in composites defined according to similar strategy and/or investment objective and require firms to show GIPS-compliant history for a minimum of five years, or since inception of the firm or composite if in existence less than

five years. *The AIMR-PPS standards require that a firm report ten years of annual investment performance (or since firm inception if inception is less than ten years).*

- d. GIPS require firms to use certain calculation and presentation methods and to make certain disclosures along with the performance record.
- e. GIPS rely on the integrity of input data. The accuracy of input data is critical to the accuracy of the performance presentation. For example, benchmarks and composites should be created/selected on an ex ante basis, not after the fact.
- f. GIPS consist of guidelines that firms are required to follow in order to claim compliance. The adoption of other elements of GIPS is recommended for firms to achieve best practice in performance presentation.
- g. GIPS apply to the presentation of investment performance of assets managed on behalf of a third party.
- h. GIPS should be applied with the goal of full disclosure and fair representation of investment performance. Meeting the objective of full and fair disclosure is likely to require more than compliance with the minimum requirements of GIPS. If an investment firm applies GIPS in a performance situation that is not addressed specifically by the standards or is open to interpretation, disclosures other than those required by GIPS may be necessary. To fully explain the performance included in a presentation, firms are encouraged to present all relevant supplemental information.
- i. In cases in which applicable local or country-specific law or regulation conflicts with GIPS, the Standards require firms to comply with the local law or regulation and make full disclosure of the conflict.
- j. GIPS do not address every aspect of performance measurement, valuation, attribution, or coverage of all asset classes. GIPS will evolve over time to address additional aspects of investment performance. Certain recommended elements in GIPS may become requirements in the future.

SCOPE

11. **Application of GIPS.** Investment management firms from any country may come into compliance with GIPS. Compliance with GIPS will facilitate a firm's participation in the investment management industry on a global level.
12. **Definition of a Firm.** GIPS must be applied on a firmwide basis. A firm may define itself as:
 - a. an entity registered with the appropriate national regulatory authority overseeing the entity's investment management activities; or
 - b. an investment firm, subsidiary, or division held out to clients or potential clients as a distinct business unit (e.g., a subsidiary firm or distinct business unit managing private client assets may claim compliance for itself without its parent organization being in compliance);
 - c. (until January 1, 2005) all assets managed to one or more base currencies (for firms managing global assets).

When presenting investment performance in compliance with GIPS, an investment management firm must state how it defines itself as a "firm."

13. Historical Performance Record.

- a. A firm is required to present, at a minimum, five years of annual investment performance that is compliant with GIPS. If the firm or composite has been in existence less than five years, firms must present performance since the inception of the firm or composite. *The AIMR-PPS standards require that a firm report ten years of annual investment performance (or since firm inception if inception is less than ten years).*
- b. After a firm presents five years of compliant history, firms must present additional annual performance up to ten years. For example, after a firm presents five years of compliant history, the firm must add an additional year of performance each year so that after five years of claiming compliance, the firm presents a ten-year performance record.
- c. A firm may link a non-GIPS-compliant performance record to their compliant history so long as no non-compliant performance is

presented for periods after January 1, 2000, and the firm discloses the periods of non-compliance and explains how the presentation is not in compliance with GIPS. *After January 1, 2002, firms that meet the requirements of the AIMR-PPS standards also meet all the requirements of the GIPS standards and can therefore claim compliance with GIPS. However, prior to asserting their GIPS claim, firms must consider that GIPS includes a disclosure requirement that states any performance presented prior to January 1, 2000, that does not comply with the GIPS standards must be disclosed and firms must explain how the presentation is not in compliance with GIPS (Section II.4.A.14). For a discussion of the possible historical differences between the AIMR-PPS and GIPS standards, see Section I.B AIMR-PPS and GIPS Standards.*

Nothing in this section shall prevent firms from immediately presenting more than five years of performance results.

COMPLIANCE

14. **Requirements.** Firms must meet **all** the requirements set forth in GIPS to claim compliance with GIPS. Although GIPS requirements must be met immediately by a firm claiming compliance, the following requirements do not go into effect until a future date:
 - a. Portfolios must be valued at least monthly for periods beginning January 1, 2001.
 - b. Time-weighted rates of return adjusted for cash flows are required. Firms must use time-weighted rates of return **adjusted for daily-weighted** cash flows for periods beginning January 1, 2005.
 - c. For periods beginning January 1, 2010, firms will likely be required to value portfolios on the date of any external cash flow.
 - d. Firms must use trade-date accounting for periods beginning January 1, 2005.
 - e. Accrual accounting must be used for dividends (as of the ex dividend date) for periods beginning January 1, 2005.

Until these future requirements become effective, these provisions should be considered recommendations. Firms are encouraged to implement these requirements prior to their effective date. To ease compliance with GIPS when the future requirements take

effect, firms should design performance software to incorporate these future requirements.

15. **Compliance Check.** Firms must take all steps necessary to ensure that they have satisfied all of the requirements of GIPS before claiming compliance with GIPS. Firms are strongly encouraged to perform periodic internal compliance checks and implement adequate business controls on all stages of the investment performance process—from data input to presentation material—to ensure the validity of compliance claims.
16. **Third-Party Performance Measurement and Composite Construction.** GIPS recognize the role of independent third-party performance measurers and the value they can add to the firm's performance-measurement activities. Where third-party performance measurement is an established practice or is available, firms are encouraged to use this service as it applies to the investment firm. Similarly, where the practice is to allow third parties to construct composites for investment firms, firms can use such composites in a GIPS-compliant presentation only if the composites comply with GIPS.
17. **Claim of Compliance.** Once a firm has met all of the required elements of GIPS, the firm may use the following "Compliance Statement" to indicate that the performance presentation is in compliance with GIPS:

[Insert name of firm] has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

In order to claim compliance with the AIMR-PPS standards, firms must use the following Claim of Compliance Statement:

[Insert name of firm] has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), the U.S. and Canadian version of the Global Investment Performance Standards (GIPS®). AIMR has not been involved in the preparation or review of this report.

If the performance presentation does not meet all of the requirements of GIPS, firms cannot represent that the performance presentation is "in

compliance with the Global Investment Performance Standards **except for . . .**” Statements referring to the calculation methodology used in a presentation as being “**in accordance** (or compliance) with the Global Investment Performance Standards” are prohibited except when applied to the performance of a single, existing client.

18. **Sample Presentation.** A sample presentation, shown in Appendix A, provides an example of what a compliant performance presentation could look like, including disclosures.

RELATIONSHIP OF GIPS WITH COUNTRY-SPECIFIC LAWS, REGULATIONS, AND INDUSTRY STANDARDS

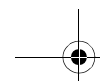
19. GIPS fill the void where no country standards exist. Regulators and investment organizations worldwide are strongly encouraged to recognize and adopt GIPS as the performance presentation standard applicable to their constituencies. If there is a need for country-specific guidelines that go beyond GIPS, regulators and organizations are encouraged to develop and implement such guidelines to augment, but not conflict with, GIPS. Regulators are urged to supervise country compliance with GIPS and any country-specific standards that may exist.
20. Where existing laws, regulations, or industry standards already impose performance presentation standards, firms are strongly encouraged to comply with GIPS **in addition** to those local requirements. Compliance with applicable law or regulation does not necessarily lead to compliance with GIPS. When complying with GIPS and local

law or regulation, firms must disclose any local laws and regulations that conflict with GIPS. *The AIMR-PPS standards require firms to disclose whether the presentation conforms with local laws and regulations that differ from AIMR-PPS requirements and the manner in which the local standards conflict with the AIMR-PPS standards.*

21. The establishment of GIPS will minimize the complexities that result with the existing contingent reciprocity agreements among organizations with their own standards. Organizations are encouraged to recognize GIPS rather than establish “country-to-country” reciprocity agreements for country-specific standards. When a country or group establishes local performance presentation standards, such standards should incorporate all of the required elements of the GIPS and state that compliance with GIPS is equivalent to compliance with the local standards.
22. *As required by the IPC, countries with existing standards must specifically acknowledge GIPS paragraph 21 (above) by including the following “right of access” statement to emphasize that firms that are GIPS-compliant but not in compliance with the CVG (e.g. AIMR-PPS) are permitted to compete with managers that comply with the CVG in manager searches, and so on.*

Right of Access statement:

“A GIPS-compliant firm is permitted to present its GIPS-compliant investment performance in any market and should receive full consideration alongside an investment firm that claims compliance with the AIMR-PPS standards.”



II. CONTENT OF THE AIMR-PPS STANDARDS

(Amended and Restated as
the AIMR-PPS Standards, the U.S. and Canadian Version of GIPS)

OUTLINE

Provisions of the AIMR-PPS and Global Investment Performance Standards*

1. Input Data
2. Calculation Methodology
3. Composite Construction
4. Disclosures
5. Presentation and Reporting

Additional AIMR-PPS Provisions For Alternative Asset Categories

6. Real Estate
7. Venture and Private Placements
8. Wrap-Fee Accounts
9. After-Tax Performance

*The GIPS Provisions above have been supplemented or modified with additional AIMR-PPS requirements and recommendations. The additions are highlighted in italics in this section and are summarized in the AIMR-PPS Introduction Section I.B.



Provisions of the AIMR-PPS and Global Investment Performance Standards

All references made to GIPS below are relevant to the AIMR-PPS standards as well (except where indicated by italics).

GIPS is divided into five sections that reflect the basic elements involved in presenting performance information: Input Data, Calculation Methodology, Composite Construction, Disclosures, and Presentation and Reporting.

1. **Input Data:** Consistency of input data is critical to effective compliance with GIPS and establishes the foundation for full, fair, and comparable investment performance presentations. The Standards provide the blueprint for a firm to follow in constructing this foundation.
2. **Calculation Methodology:** Achieving comparability among investment management firms' performance presentations requires uniformity in methods used to calculate returns. The Standards mandate the use of certain calculation methodologies (e.g., performance must be calculated using a time-weighted total-rate-of-return method).
3. **Composite Construction:** A composite is an aggregation of a number of portfolios into a single group that represents a particular investment objective or strategy. The composite return is the asset-weighted average of the performance results of all the portfolios in the composite. Creating meaningful, asset-weighted composites is critical to the fair presentation, consistency, and comparability of results over time and among firms.
4. **Disclosures:** Disclosures allow firms to elaborate on the raw numbers provided in the presentation and give the end user of the presentation the proper context in which to understand the perfor-

mance results. To comply with GIPS, firms must disclose certain information about their performance presentation and the calculation methodology adopted by the firm. Although some disclosures are required of all firms, others are specific to certain circumstances and thus may not be applicable in all situations.

5. **Presentation and Reporting:** After constructing the composites, gathering the input data, calculating returns, and determining the necessary disclosures, the firm must incorporate this information in presentations based on the guidelines set out in GIPS for presenting the investment performance results. No finite set of guidelines can cover all potential situations or anticipate future developments in investment industry structure, technology, products, or practices. When appropriate, firms have the responsibility to include in GIPS-compliant presentations information not covered by the Standards.

The Standards for each section are divided between requirements, listed first in each section, and recommended guidelines. Firms must follow the required elements of GIPS to claim compliance with GIPS. Firms are strongly encouraged to adopt and implement the recommendations to ensure that the firm fully adheres to the spirit and intent of GIPS. An example of a GIPS-compliant presentation for a single composite is included in Appendix A. *Examples of AIMR-PPS-compliant presentations are also provided in Appendix B.*

Although GIPS may be translated into many languages, if a discrepancy arises between the different versions of the standards, the English version of GIPS is controlling.

Additional AIMR-PPS Provisions For Alternative Asset Categories

The following four sections (6–9) contain additional requirements and recommendations for firms to follow when presenting the performance results of Additional Asset Categories in compliance with the AIMR-PPS standards. These sections are reproduced exactly from the previous version of the AIMR-PPS standards with no changes (except for minor changes made to requirements II.8.A.2 and II.8.A.3 to clarify the wrap-fee requirements). As the GIPS standards are developed to address these alternative asset categories, these sections will be changed to conform to the new GIPS guidelines.

6. **Real Estate:** *Because of its unique characteristics, particularly the lack of a readily verifiable secondary market to determine asset values, real estate performance presentation guidelines warrant separate treatment. This section provides guidelines for calculating and presenting the performance results of real estate investments.*
7. **Venture and Private Placements:** *AIMR recognizes that there are difficulties inherent in applying the requirements of the AIMR-PPS standards to investments in venture and private placements. AIMR developed this section to recognize the special requirements of these different asset classes within the overall ethical framework of the standards.*
8. **Wrap-Fee Accounts:** *Firms must follow the requirements in this section when reporting performance results on wrap-fee accounts in compliance with the AIMR-PPS standards. For purposes of the AIMR Performance Presentation Standards, the definition of a wrap account is the same as the U.S. Securities and Exchange Commission's definition of a wrap-fee program: "a program [account] under which any client is charged a specified fee or fees not based directly upon transactions in a client's account for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and execution of client transactions."*
9. **After-Tax Performance:** *Currently, firms are recommended to present performance results after the effects of taxes. If firms are reporting performance after-tax results in compliance, they must follow the requirements in this section. The objective of these guidelines is to provide additional information that will help prospective clients to assess results in a meaningful way when considering the tax implications of the investment. The After-Tax Subcommittee of the AIMR-PPS Implementation Committee is currently working to revise the required and recommended elements of the after-tax provisions.*

1. Input Data

1.A. Requirements

- 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.
- 1.A.2. Portfolio valuations must be based on market values (not cost basis or book values).
- 1.A.3. Portfolios must be valued at least quarterly. For periods beginning January 1, 2001, portfolios must be valued at least monthly. For periods beginning January 1, 2010, it is anticipated that firms will be required to value portfolios on the date of any external cash flow.
- 1.A.4. Firms must use trade-date accounting for periods beginning January 1, 2005.
- 1.A.5. Accrual accounting must be used for fixed-income securities and all other assets that accrue interest income.
- 1.A.6. Accrual accounting must be used for dividends (as of the ex dividend date) for periods beginning January 1, 2005.

1.B. Recommendations

- 1.B.1. Sources of exchange rates should be the same for the composite and the benchmark.

2. Calculation Methodology

2.A. Requirements

- 2.A.1. Total return, including realized and unrealized gains plus income, must be used.
- 2.A.2. Time-weighted rates of return that adjust for cash flows must be used. Periodic returns must be geometrically linked. Time-weighted rates of return that adjust for daily-weighted cash flows must be used for periods beginning January 1, 2005. Actual valuations at the time of external cash flows will likely be required for periods beginning January 1, 2010.

- 2.A.3. In both the numerator and the denominator, the market values of fixed-income securities must include accrued income.

- 2.A.4. Composites must be asset weighted using beginning-of-period weightings or another method that reflects both beginning market value and cash flows.

- 2.A.5. Returns from cash and cash equivalents held in portfolios must be included in total-return calculations.

- 2.A.6. Performance must be calculated after the deduction of all trading expenses.

- 2.A.7. If a firm sets a minimum asset level for portfolios to be included in a composite, no portfolios below that asset level can be included in that composite.

2.B. Recommendations

- 2.B.1. Returns should be calculated net of non-reclaimable withholding taxes on dividends, interest, and capital gains. Reclaimable withholding taxes should be accrued.

- 2.B.2. Performance adjustments for external cash flows should be treated in a consistent manner. Significant cash flows (i.e., 10 percent of the portfolio or greater) that distort performance (i.e., plus or minus 0.2 percent for the period) may require portfolio revaluation on the date of the cash flow (or after investment) and the geometric linking of subperiods. Actual valuations at the time of any external cash flows will likely be required for periods beginning January 1, 2010.

3. Composite Construction

3.A. Requirements

- 3.A.1. All actual fee-paying discretionary portfolios must be included in at least one composite.
- 3.A.2. Firm composites must be defined according to similar investment objectives and/or strategies.

- 3.A.3. Composites must include new portfolios on a timely and consistent basis after the portfolio comes under management—unless specifically mandated by the client.
- 3.A.4. Terminated portfolios must be included in the historical record of the appropriate composites up to the last full measurement period that the portfolio was under management.
- 3.A.5. Portfolios must not be switched from one composite to another unless documented changes in client guidelines or the redefinition of the composite make switching appropriate. The historical record of the portfolio must remain with the appropriate composite.
- 3.A.6. Convertible and other hybrid securities must be treated consistently across time and within composites.
- 3.A.7. Carve-out returns excluding cash cannot be used to create a stand-alone composite. 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 and the allocation method must be disclosed. Beginning January 1, 2005, carve-out returns must not be included in single asset class composite returns unless the carve-outs are actually managed separately with their own cash allocations.
- 3.A.8. Composites must include only assets under management and may not link simulated or model portfolios with actual performance.

3.B. Recommendations

- 3.B.1. Separate composites should be created to reflect different levels of allowed asset exposure.
- 3.B.2. Unless the use of hedging is negligible, portfolios that allow the use of hedging should be included in different composites from those that do not.

4. Disclosures

4.A. Requirements

The following disclosures are **mandatory**:

- 4.A.1. The definition of “firm” used to determine the firm’s total assets and firm-wide compliance.
- 4.A.2. Total firm assets for each period (*Under the AIMR-PPS standards, firms must disclose total firm assets retroactively for all periods presented*).
- 4.A.3. The availability of a complete list and description of all of the firm’s composites.
- 4.A.4. If settlement-date valuation is used by the firm.
- 4.A.5. The minimum asset level, if any, below which portfolios are not included in a composite.
- 4.A.6. The currency used to express performance.
- 4.A.7. The presence, use, and extent of leverage or derivatives, including a description of the use, frequency, and characteristics of the instruments sufficient to identify risks.
- 4.A.8. Whether performance results are calculated gross or net of investment management fees and other fees paid by the clients to the firm or to the firm’s affiliates.
- 4.A.9. Relevant details of the treatment of withholding tax on dividends, interest income, and capital gains. If using indexes that are net of taxes, firms must disclose the tax basis of the composite (e.g., Luxembourg based or U.S. based) versus that of the benchmark.
- 4.A.10. For composites managed against specific benchmarks, the percentage of the composites invested in countries or regions not included in the benchmark.
- 4.A.11. Any known inconsistencies between the chosen source of exchange rates and those of the benchmark must be described and presented.

4.A.12. Whether the firm has included any non-fee-paying portfolios in composites and the percentage of composite assets that are non-fee-paying portfolios.

4.A.13. *The AIMR-PPS standards require that firms disclose whether the presentation conforms with local laws and regulations that differ from AIMR-PPS requirements and the manner in which the local standards conflict with the AIMR-PPS standards. (GIPS requirement: Whether the presentation conforms with local laws and regulations that differ from GIPS requirements and the manner in which the local standards conflict with GIPS.)*

4.A.14. *The effective dates for AIMR-PPS compliance are provided in the AIMR-PPS Introduction, Section I.B. For any performance presented for periods prior to the applicable effective dates, the period of non-compliance and how the presentation is not in compliance with the AIMR-PPS standards. (GIPS requirement: For any performance presented for periods prior to January 1, 2000, that does not comply with GIPS, the period of non-compliance and how the presentation is not in compliance with GIPS.)*

4.A.15. 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, the method used to allocate cash to the carve-out returns.

4.A.16. *The AIMR-PPS standards require firms to disclose the firm's fee schedule(s) appropriate to the presentation (GIPS recommendation: firms should disclose the fee schedule appropriate to the presentation, see Section II.4.B.3 below).*

4.B. Recommendations

The following disclosures are **recommended**:

- 4.B.1. The portfolio valuation sources and methods used by the firm.
- 4.B.2. The calculation method used by the firm.

4.B.3. *The AIMR-PPS standards require that firms disclose the fee schedule appropriate to the presentation (See Section II.4.A.16). (GIPS recommendation: When gross-of-fee performance is presented, the firm's fee schedule[s] appropriate to the presentation.)*

4.B.4. When only net-of-fee performance is presented, the average weighted management and other applicable fees.

4.B.5. Any significant events within the firm (such as ownership or personnel changes) that would help a prospective client interpret the performance record.

5. Presentation and Reporting

5.A. Requirements

5.A.1. The following items must be reported:

- (a) *The AIMR-PPS standards require firms to present, at a minimum, ten years of annual performance history. See Introduction, Section I.B, for a discussion on the Effective Dates and Retroactive Compliance. (GIPS requirement: At least five years of performance [or a record for the period since firm inception, if inception is less than five years] that is GIPS compliant. After presenting five years of performance, firms must present additional annual performance up to 10 years. [For example, after a firm presents five years of compliant history, the firm must add an additional year of performance each year so that after five years of claiming compliance, the firm presents a 10-year performance record.]*
- (b) Annual returns for all years.
- (c) The number of portfolios and amount of assets in the composite and the percentage of the firm's total assets represented by the composite at the end of each period. *(For all periods after January 1, 1997, the AIMR-PPS standards require firms to provide the number of*

portfolios and amount of assets in the composite and the percentage of the firm's total assets represented by the composite at the end of each period. Prior to January 1, 1997, firms may choose to report these figures as of the beginning of the period or as of the end of the period, as long as the method prior to January 1, 1997, is consistently followed.)

- (d) A measure of the dispersion of individual component portfolio returns around the aggregate composite return.
- (e) *The AIMR-PPS standards require firms to use the approved AIMR-PPS "Compliance Statement" provided in the AIMR-PPS Introduction, Section I.B, indicating firmwide compliance with the AIMR-PPS standards. (GIPS requirement: The standard Compliance Statement indicating firmwide compliance with the GIPS.)*
- (f) The composite creation date.

5.A.2. *The Effective Dates of Compliance and Retroactive Compliance Guidelines for the AIMR-PPS standards are provided in the AIMR-PPS Introduction, Section I.B. (GIPS requirement: Firms may link non-GIPS-compliant performance to their compliant history so long as firms meet the disclosure requirements of Section 4 and no non-compliant performance is presented for periods after January 1, 2000. For example, a firm that has been in existence since 1990 that wants to present its entire performance history and claim compliance as of January 1, 2000, must present performance history that meets the requirements of GIPS at least from January 1, 1995, and must meet the disclosure requirements of Section 4 for any non-compliant history prior to January 1, 1995.)*

5.A.3. Performance for periods of less than one year must not be annualized.

5.A.4. Performance results of a past firm or affiliation can only 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.

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 assets into compliance.

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

- (i) a list of the underlying composites from which the carve-out was drawn, *and*
- (ii) the percentage of each composite the carve-out represents.

5.A.7. The total return for the benchmark (or benchmarks) that reflects the investment strategy or mandate represented by the composite must be presented for the same periods for which the composite return is presented. If no benchmark is presented, the presentation must explain why no benchmark is disclosed. If the firm changes the benchmark that is used for a given composite in the performance presentation, the firm must disclose both the date and the reasons for the change. If a custom benchmark or combination of multiple benchmarks is used, the firm must describe the benchmark creation and rebalancing process.

5.A.8. *The AIMR-PPS standards state that composite results may not be restated following changes in a firm's organization.*

5.B. Recommendations

5.B.1. The following items should be included in the composite presentation or disclosed as supplemental information:

- (a) composite performance gross of investment management fees and custody fees and before taxes (except for non-reclaimable withholding taxes),
- (b) cumulative returns for composite and benchmarks for all periods,
- (c) equal-weighted means and median returns for each composite,
- (d) volatility over time of the aggregate composite return, and
- (e) inconsistencies among portfolios within a composite in the use of exchange rates.

5.B.2. Relevant risk measures—such as volatility, tracking error, beta, modified duration, etc.—should be presented along with total return for both benchmarks and composites.

6. Real Estate

6.A. Requirements

6.A.1. Real estate must be valued through an independent appraisal at least once every three years unless client agreements state otherwise.

6.A.2. Real estate valuations must be reviewed at least quarterly.

6.A.3. Component returns for participating or convertible mortgages must be allocated as follows:

- (a) basic cash interest to income return,
- (b) contingent interest (current receivable) to income return,
- (c) basic accrued interest (deferred) to income return,
- (d) additional contingent interest (deferred, payable at maturity, prepayment, or sale) to appreciation return,

- (e) return that is currently payable from operations to income return, and
- (f) all other sources of income that are deferred or realizable in the future to the appreciation component.

6.A.4. Returns from income and capital appreciation must be presented in addition to total return.

6.A.5. The performance presentation must disclose:

- (a) the absence of independent appraisals,
- (b) the source of the valuation and the valuation policy,
- (c) total fee structure and its relationship to asset valuation,
- (d) the return formula and accounting policies for such items as capital expenditures, tenant improvements, and leasing commissions,
- (e) the cash distribution and retention policy,
- (f) whether the returns are:
 - based on audited operating results,
 - exclude any investment expense that may be paid by the investors, or
 - include interest income from short-term cash investments or other related investments,
- (g) the cash distribution and retention policies with regard to income earned at the investment level.

6.B. Recommendations

6.B.1. Income earned at the investment level should be included in the computation of income return regardless of the investor's accounting policies for recognizing income from real estate investments.

6.B.2. Equity ownership investment strategies should be presented separately.

6.B.3. When presenting the components of total return, recognition of income at the investment level, rather than at the operating level, is preferred.

7. *Venture and Private Placements*

7.A. *Requirements*

- 7.A.1. *All discretionary pooled funds of funds and separately managed portfolios must be included in composites defined by vintage year (i.e., the year of fund formation and first takedown of capital).*
- 7.A.2. *For general partners:*
 - (a) *Cumulative internal rate of return (IRR) must be presented since inception of the fund and be net of fees, expenses, and carry to the general partner.*
 - (b) *IRR must be calculated based on cash-on-cash returns plus residual value.*
 - (c) *Presentation of return information must be in a vintage-year format.*
- 7.A.3. *For general partners, the performance presentation must disclose:*
 - (a) *changes in the general partner since inception of fund,*
 - (b) *type of investment, and*
 - (c) *investment strategy.*
- 7.A.4. *For intermediaries and investment advisors:*
 - (a) *For separately managed accounts and commingled fund-of-funds structures, cumulative IRR must be presented since inception of the fund and be net of fees, expenses, and carry to the general partners but gross of investment advisory fees unless net of fees is required to meet applicable regulatory requirements.*
 - (b) *Calculation of IRR must be based on an aggregation of all the appropriate partnership cash flows into one IRR calculation—as if from one investment.*
 - (c) *The inclusion of all discretionary pooled fund-of-funds and separately managed portfolios in composites must be defined by vintage year.*
- 7.A.5. *For intermediaries and investment advisors, the performance presentation must disclose:*
 - (a) *the number of portfolios and funds included in the vintage-year composite,*
 - (b) *composite assets,*

- (c) *composite assets in each vintage year as a percentage of total firm assets (discretionary and nondiscretionary committed capital), and*
- (d) *composite assets in each vintage year as a percentage of total private equity assets.*

7.B. *Recommendations*

- 7.B.1. *General partners:*
 - (a) *Industry guidelines should be used for valuation of venture capital investments,*
 - (b) *Valuation should be either cost or discount to comparables in the public market for buyout, mezzanine, distressed, or special situation investments, and*
 - (c) *IRR should be calculated net of fees, expenses, and carry without public stocks discounted and assuming stock distributions were held.*
- 7.B.2. *Net cumulative IRR (after deduction of advisory fees and any other administrative expenses or carried interest) should be calculated for separately managed accounts, managed accounts, and commingled fund-of-funds structures.*
- 7.B.3. *For general partners, the following should be disclosed:*
 - (a) *gross IRR (before fees, expenses, and carry), which should be used at the fund and the portfolio level, as supplemental information,*
 - (b) *the multiple on committed capital net of fees and carry to the general partners,*
 - (c) *the multiple on invested capital gross of fees and carry,*
 - (d) *the distribution multiple on paid-in capital net of fees to the general partners, and*
 - (e) *the residual multiple on paid-in capital net of fees and carry to the limited partners.*
- 7.B.4. *For intermediaries and investment advisors, the number and size should be disclosed in terms of committed capital of discretionary and nondiscretionary consulting clients.*

8. *Wrap-Fee Accounts*

8.A. *Requirements*

- 8.A.1. *Wrap-fee performance must be shown net of all fees charged directly or indirectly to the account (unless transaction expenses can be determined and deducted).*
- 8.A.2. *When a firm includes portfolios as part of a wrap-fee composite that do not meet the wrap-fee definition, the firm must disclose for each year presented:*
 - (a) *the dollar amount of the non-wrap-fee portfolios represented and*
 - (b) *the fee deducted, which should be the highest applicable wrap fee.*
- 8.A.3. *Pure gross-of-fees performance may only be presented as supplemental information (in addition to the required net-of-fees performance). Such supplemental information must disclose:*
 - (a) *fees,*
 - (b) *investment style, and*
 - (c) *the information that "pure" gross-of-fees return does not include transaction costs.*

8.B. *Recommendations*

- 8.B.1. *Wrap-fee portfolios should be grouped in separate composites from "non-wrapped" composites.*

9. *After-Tax Performance*

Following are provisions that apply to firms that wish to show after-tax performance results in compliance with the AIMR-PPS standards. Currently, firms are only recommended to present after-tax performance.

9.A. *Requirements*

- 9.A.1. *For after-tax composites:*
 - (a) *Taxes must be recognized in the same period as when the taxable event occurred.*
 - (b) *Taxes on income and realized capital gains must be subtracted from results regardless of whether taxes are paid from assets outside the account or from account assets.*

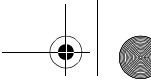
- (c) *The maximum federal income tax rates appropriate to the portfolios must be assumed.*
- (d) *The return for after-tax composites that hold both taxable and tax-exempt securities must be adjusted to an after-tax basis rather than being "grossed up" to a taxable equivalent.*
- (e) *Calculation of after-tax returns for tax-exempt bonds must include amortization and accretion of premiums or discounts.*
- (f) *Taxes on income are to be recognized on an accrual basis.*

9.A.2. *The performance presentation must disclose:*

- (a) *for composites of taxable portfolios, the composite assets as a percentage of total assets in taxable portfolios (including nondiscretionary assets) managed according to the same strategy for the same type of client,*
- (b) *the tax rate assumptions if performance results are presented after taxes, and*
- (c) *both client average and manager average performance if adjustments are made for nondiscretionary cash withdrawals.*

9.B. *Recommendations*

- 9.B.1. *Portfolios should be grouped by tax rate.*
- 9.B.2. *Portfolios may be grouped by vintage year, or similar proxy, to group portfolios with similar amounts of unrealized capital gains.*
- 9.B.3. *Cash-basis accounting is to be used if required by applicable law.*
- 9.B.4. *Calculations should be adjusted for non-discretionary capital gains.*
- 9.B.5. *Benchmark returns should be calculated using the actual turnover in the benchmark index, if available; otherwise, an approximation is acceptable.*
- 9.B.6. *If returns are presented before taxes, a total rate of return for the composite should be presented without adjustment for tax-exempt income to a pretax basis.*



9.B.7. *If returns are presented after taxes, client-specific tax rates may be used for each portfolio (but composite performance should be based on the same tax rate for all clients in the composite).*

9.B.8. *The following presentations should be made for composites:*

- (a) beginning and ending market values,*
- (b) contributions and withdrawals,*
- (c) beginning and ending unrealized capital gains,*

(d) realized short-term and long-term capital gains,

(e) taxable income and tax-exempt income,

(f) the accounting convention used for the treatment of realized capital gains (e.g., highest cost, average cost, lowest cost, FIFO, LIFO), and

(g) the method or source for computing after-tax benchmark return.

III. VERIFICATION

All references made to GIPS below are relevant to the AIMR-PPS standards and references to verification are relevant to Level I Verification as well. Additional guidance on verification, including the procedures for conducting a Performance Examination (Level II), is available in Appendix D.

The primary purpose of verification is to establish that a firm claiming compliance with GIPS has adhered to the standards. Verification will also increase the understanding and professionalism of performance-measurement teams and consistency of presentation of performance results.

The verification procedures attempt to strike a balance between ensuring the quality, accuracy, and relevance of performance presentations and minimizing the cost to investment firms of independent review of performance results. Investment firms should assess the benefits of improved internal processes and procedures, which are as significant as the marketing advantages of verification.

The goal of the GIPS committee in drafting the verification procedures is to encourage broad acceptance of verification.

A. Scope and Purpose of Verification

1. Verification is the review of an investment management firm's performance-measurement processes and procedures by an independent third-party "verifier." Verification tests
 - (a) whether the investment firm has complied with all the composite construction requirements of GIPS on a firmwide basis and
 - (b) whether the firm's processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards.

A single verification report is issued in respect to the whole firm; GIPS verification cannot be carried out for a single composite.

2. Third party verification brings credibility to the claim of compliance and supports the overall guiding principles of full disclosure and fair representation of investment performance. Verification is *strongly encouraged* and is expected to become mandatory (but no earlier than 2005).

Countries may require verification sooner through the establishment of local standards.

3. The initial minimum period for which verification can be performed is one year of a firm's presented performance. The recommended period over which verification is performed will be that part of the firm's track record for which GIPS compliance is claimed.
4. A verification report must confirm that
 - (a) the investment firm has complied with all the composite construction requirements of GIPS on a firmwide basis and
 - (b) the firm's processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards.

Without such a report from the verifier, the firm cannot claim that its claim of compliance with GIPS has been verified.

5. After performing the verification, the verifier may conclude that the firm is not in compliance with GIPS or that the records of the firm cannot support a complete verification. In such situations, the verifier must issue a statement to the firm clarifying why a verification report was not possible.
6. A principal verifier may accept the work of a local or previous verifier as part of the basis for the principal verifier's opinion.
7. The minimum GIPS verification procedures are described in Section III.B Required Verification Procedures.

B. Required Verification Procedures

The following are the **minimum** procedures that verifiers must follow when verifying an investment firm's compliance with GIPS. Verifiers must follow these procedures prior to issuing a verification report to the firm:

1. Pre-Verification Procedures

- A. **Knowledge of the Firm.** Verifiers must obtain selected samples of the firm's investment performance reports, and other available information regarding the firm, to ensure appropriate knowledge of the firm.

B. Knowledge of GIPS. Verifiers must understand the requirements and recommendations of GIPS, including any updates, reports, or clarifications of GIPS published by the Investment Performance Council, the AIMR-sponsored body responsible for oversight of the Global Investment Performance Standards.

C. Knowledge of the Performance Standards. Verifiers must be knowledgeable of country-specific performance standards, laws, and regulations applicable to the firm, and must determine any differences between GIPS and the country-specific standards, laws, and regulations.

D. Knowledge of Firm Policies. Verifiers must determine the firm's assumptions and policies for establishing and maintaining compliance with all applicable requirements of GIPS. At a minimum, verifiers must determine the following policies and procedures of the firm:

- i. Policy with regard to investment discretion. The verifier must receive from the firm, in writing, the firm's definition of investment discretion and the firm's guidelines for determining whether accounts are fully discretionary.
- ii. Policy with regard to the definition of composites according to investment strategy. The verifier must obtain the firm's list of composite definitions with written criteria for including accounts in each composite.
- iii. Policy with regard to the timing of inclusion of new accounts in the composites.
- iv. Policy with regard to timing of exclusion of closed accounts in the composites.
- v. Policy with regard to the accrual of interest and dividend income.
- vi. Policy with regard to the market valuation of investment securities.
- vii. Method for computing time-weighted portfolio return.
- viii. Assumptions on the timing of capital inflows/outflows.
- ix. Method for computing composite returns.
- x. Policy with regard to the presentation of composite returns.
- xi. Policies regarding timing of implied taxes due on income and realized capital gains for reporting performance on an after-tax basis.

xii. Policies regarding use of securities/countries not included in a composite's benchmark.

xiii. Use of leverage and other derivatives.

xiv. Any other policies and procedures relevant to performance presentation.

E. Knowledge of Valuation Basis for Performance Calculations. Verifiers must ensure that they understand the methods and policies used to record valuation information for performance calculation purposes. In particular, verifiers must determine that:

- i. the firm's policy on classifying fund flows (e.g., injections, disbursements, dividends, interest, fees, taxes, etc.) is consistent with the desired results and will give rise to accurate returns;
- ii. the firm's accounting treatment of income, interest, and dividend receipts is consistent with cash account and cash accruals definitions;
- iii. the firm's treatment of taxes, tax reclaims, and tax accruals is correct, and the manner used is consistent with the desired method (i.e., gross- or net-of-tax return);
- iv. the firm's policies on recognizing purchases, sales, and the opening and closing of other positions are internally consistent and will produce accurate results; and
- v. the firm's accounting for investments and derivatives is consistent with GIPS.

2. Verification Procedures

A. Definition of the Firm. Verifiers must determine that the firm is, and has been, appropriately defined.

B. Composite Construction. Verifiers must be satisfied that:

- i. the firm has defined and maintained composites according to reasonable guidelines in compliance with GIPS;
- ii. all of the firm's actual discretionary fee-paying portfolios are included in a composite;
- iii. the manager's definition of discretion has been consistently applied over time;
- iv. at all times, all accounts are included in their respective composites and no accounts that belong in a particular composite have been excluded;

- v. composite benchmarks are consistent with composite definitions and have been consistently applied over time;
- vi. the firm's guidelines for creating and maintaining composites have been consistently applied; and
- vii. the firm's list of composites is complete.

C. Nondiscretionary Accounts. Verifiers must obtain a listing of all firm portfolios and determine on a sampling basis whether the manager's classification of the account as discretionary or nondiscretionary is appropriate by referring to the account agreement and the manager's written guidelines for determining investment discretion.

D. Sample Account Selection. Verifiers must obtain a listing of open and closed accounts for all composites for the years under examination. Verifiers may check compliance with GIPS using a selected sample of a firm's accounts. Verifiers should consider the following criteria when selecting the sample accounts for examination:

- i. number of composites at the firm;
- ii. number of portfolios in each composite;
- iii. nature of the composite;
- iv. total assets under management;
- v. internal control structure at the firm (system of checks and balances in place);
- vi. number of years under examination; and
- vii. computer applications, software used in the construction and maintenance of composites, the use of external performance measurers, and the calculation of performance results.

This list is not all inclusive and contains only the **minimum** criteria that should be used in the selection and evaluation of a sample for testing. For example, one potentially useful approach would be to choose a portfolio for the study sample that has the largest impact on composite performance because of its size or because of extremely good or bad performance. The lack of explicit record keeping, or the presence of errors, may warrant selecting a larger sample or applying additional verification procedures.

E. Account Review. For selected accounts, verifiers must determine:

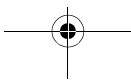
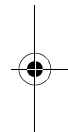
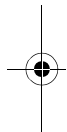
- i. whether the timing of the initial inclusion in the composite is in accordance with policies of the firm;
- ii. whether the timing of exclusion from the composite is in accordance with policies of the firm for closed accounts;
- iii. whether the objectives set forth in the account agreement are consistent with the manager's composite definition as indicated by the account agreement, portfolio summary, and composite definition;
- iv. the existence of the accounts by tracing selected accounts from account agreements to the composites;
- v. that all portfolios sharing the same guidelines are included in the same composite; and
- vi. that shifts from one composite to another are consistent with the guidelines set forth by the specific account agreement or with documented guidelines of the firm's clients.

F. Performance Measurement Calculation. Verifiers must determine whether the firm has computed performance in accordance with the policies and assumptions adopted by the firm and disclosed in its presentations. In doing so, verifiers should:

- i. recalculate rates of return for a sample of accounts in the firm using an acceptable return formula as prescribed by GIPS (i.e., time-weighted rate of return); and
- ii. take a reasonable sample of composite calculations to assure themselves of the accuracy of the asset weighting of returns, the geometric linking of returns to produce annual rates of returns, and the calculation of the dispersion of individual returns around the aggregate composite return.

G. Disclosures. Verifiers must review a sample of composite presentations to ensure that the presentations include the information and disclosures required by GIPS.

H. Maintenance of Records. The verifier must maintain sufficient information to support the verification report. The verifier must obtain a representation letter from the client firm confirming major policies and any other specific representations made to the verifier during the examination.



APPENDIX A. GIPS STANDARDS SAMPLE PRESENTATION

XYZ Investment Firm Performance Results: Balanced Composite, January 1, 1995, through December 31, 1999

Year	Total Return (%)	Benchmark Return (%)	Number of Portfolios	Composite Dispersion (%)	Total Assets at End of Period (DM millions)	Percentage of Firm Assets	Total Firm Assets
1995	16.0	14.1	26	4.5	165	70	236
1996	2.2	1.8	32	2.0	235	68	346
1997	22.4	24.1	38	5.7	344	65	529
1998	7.1	6.0	45	2.8	445	64	695
1999	8.5	8.0	48	3.1	520	62	839

XYZ Investment Firm has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Notes:

1. XYZ Investment Firm is a balanced portfolio investment manager that invests solely in German securities. XYZ Investment Firm is defined as an independent investment management firm that is not affiliated with any parent organization.
2. The benchmark: 30 percent DAX 100; 70 percent EFFAS Bund Index rebalanced monthly. Annualized compound composite return = 11.9 percent; annualized compound benchmark return = 11.4 percent.
3. Valuations are computed in German marks and from Reuters.
4. The dispersion of annual returns is measured by the standard deviation across asset-weighted portfolio returns represented within the composite for the full year.
5. Performance results are presented before management and custodial fees but after all trading commissions. The management fee schedule is attached.
6. This composite was created in February 1995. No alteration of composites as presented here has occurred because of changes in personnel or other reasons at any time. A complete list of firm composites and performance results is available upon request.

APPENDIX B. AIMR-PPS STANDARDS SAMPLE PRESENTATIONS

Following are two examples of presentations that adhere to the AIMR-PPS standards (incorporating different types of supplemental information). However, firms are not required to follow the specified format.

I. AIMR-PPS Sample Presentation

XYZ Investment Firm Performance Results: U.S. Balanced Composite January 1, 1990, through December 31, 2001

Year	Total Return (%)	Benchmark Return (%)	Number of Portfolios	Composite Dispersion (%)	Total Assets at End of Period (USD millions)	Percentage of Firm Assets	Percentage of Non-Fee-Paying Portfolios	Total Firm Assets (USD millions)
1990	12.1	9.4	6	3.2	50	80	15	63
1991	24.2	26.4	10	5.4	85	82	15	104
1992	17.0	16.4	15	3.8	120	78	12	154
1993	-3.3	-1.7	14	1.2	100	80	10	125
1994	15.8	12.8	18	4.3	124	75	10	165
1995	16.0	14.1	26	4.5	165	70	0	236
1996	2.2	1.8	32	2.0	235	68	0	346
1997	22.4	24.1	38	5.7	344	65	0	529
1998	7.1	6.0	45	2.8	445	64	0	695
1999	8.5	8.0	48	3.1	520	62	0	839
2000	-1.9	-3.7	56	4.2	681	65	0	1,036
2001	2.6	3.4	66	5.4	820	76	0	1,077

XYZ Investment Firm has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), the U.S. and Canadian version of the Global Investment Performance Standards (GIPS®). AIMR has not been involved in the preparation or review of this report.

Notes:

- XYZ Investment Firm is an independent investment management firm established in 1989. XYZ Investment Firm manages a variety of equity, fixed-income, and balanced assets for primarily U.S. and Canadian institutional clients.
- These results have been prepared and presented in compliance with the AIMR-PPS standards only for the period January 1, 1993, through December 31, 2001. The full period is not in compliance. Prior to January 1, 1993, not all fully discretionary portfolios were represented in appropriate composites. Composite results for the years 1990 through 1992 include the five largest institutional portfolios that were managed in accordance with the balanced strategy. These five accounts are consistently represented in the composite for the full period from 1990 through 2001.
- The benchmark: 60 percent S&P 500 Index; 40 percent Lehman Intermediate Aggregate Index—rebalanced monthly. Annualized compound composite return = 11.0 percent; annualized compound benchmark return = 9.9 percent.
- Valuations and returns are computed and stated in U.S. Dollars.
- The dispersion of annual returns is measured by the standard deviation across asset-weighted portfolio returns represented within the composite for the full year.
- Performance results are presented before management and custodial fees but after all trading commissions. The management fee schedule is as follows:

\$5,000,000–\$25,000,000	0.75%
\$25,000,000–\$50,000,000	0.50%
\$50,000,000—and above	0.35%
- This composite was created in February 1997.
- The minimum portfolio size for the U.S. Balanced Composite is \$5,000,000.
- Settlement-date accounting was used prior to 1992.
- A complete list of firm composites and performance results is available upon request.

II. AIMR-PPS and GIPS Sample Presentation

Generic Asset Management Core Fixed-Income Composite

Year-End	Composite Assets		Composite Accounts at Year-End	Gross Annual Return	Net Annual Return	Lehman Aggregate Index	Composite Dispersion	Total Firm Assets (\$ billions)
	Dollars (millions)	Percent of Firm Assets						
2001	374	9.4%	20	6.03%	5.74%	5.62%	1.5%	3.992
2000	357	9.7	19	11.56	11.16	11.63	1.1	3.662
1999	302	9.2	16	3.17	2.76	-0.82	1.2	3.371
1998	266	8.2	14	9.24	8.78	8.67	0.9	3.238
1997	214	8.3	12	12.97	12.48	9.68	1.6	2.591
1996	163	6.9	10	7.53	7.00	3.61	1.1	2.376
1995	241	12.9	11	20.33	19.81	18.48	1.9	1.868
1994	186	12.6	10	-1.13	-1.72	-2.92	2.1	1.476
1993	152	11.9	9	16.02	15.45	9.75	2.3	1.277
1992	130	12.4	9	8.28	7.67	7.40	1.7	1.048
1991	149	13.2	10	15.96	15.42	16.00	1.3	1.129
1990	78	9.1	10	11.24	10.66	8.95	2.2	0.857
1989	53	8.8	7	13.96	13.32	14.53	1.5	0.602
1988	31	6.7	6	8.30	7.65	7.88	1.9	0.465

Generic Asset Management has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Generic Asset Management has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), the U.S. and Canadian version of the Global Investment Performance Standards (GIPS®). AIMR has not been involved with the preparation or review of this report.

Disclosures:

Generic Asset Management is the wholly owned asset management subsidiary of Generic Global Partners, Inc. and specializes in institutional and retail investment management services, utilizing a variety of investment strategies and styles. Generic Asset Management maintains a complete list and description of composites, which is available upon request.

The Core Fixed-Income Composite was created on March 31, 1996. All returns are based in U.S. Dollars and are computed using a time-weighted total rate of return. The composite is defined to include all fee-paying, discretionary accounts over \$500,000 that are managed according to the Core Fixed-Income strategy. U.S. Treasury futures are used to manage portfolio duration on a fully covered basis (no leverage is utilized).

The dispersion of annual returns is measured by the standard deviation of asset-weighted portfolio returns represented within the composite for the full year. The standard deviation of the annual composite returns for the period of 1988–2001 is 5.6% (Gross), 5.6% (Net), and 5.9% for the Lehman Aggregate Index.

For the periods prior to January 1, 1997, accrued income was not included in the denominator of the return calculation, and therefore, these periods are not in conformance with the calculation requirements of the GIPS standards.

There have been no changes in the personnel responsible for the investment management process of this composite. Gross performance is net of all transaction costs, and net performance is net of transaction costs and investment management fees. The firm's fee schedule is as follows:

First \$10 million	0.65% per annum
Next \$20 million	0.40% per annum
Over \$30 million	0.30% per annum

Continued...

(Continued from previous page)

Supplemental Information:

The following information is provided to supplement the above presentation.

As of December 31, 2001, the average modified duration of accounts in the composite is 5.4 years and the average credit rating is AA versus 4.8 years and AAA for the Lehman Aggregate.

Annualized Net Returns:

	<i>Core Fixed-Income Composite Annualized Net Return</i>	<i>Lehman Brothers Aggregate Annualized Return</i>
3 Year	6.50%	5.35%
5 Year	8.13	6.87
10 Year	8.75	6.95

Core Fixed-Income Composition:

The following represent the core fixed-income model portfolio sector weightings as of December 31, 2001. Actual account weights may differ due to timing of cash flows and various other factors.

	<i>Composite</i>	<i>Lehman Aggregate</i>
Governments	30.3%	41.5%
Corporates	31.9	22.4
Mortgage Backed	35.6	34.2
Asset Backed	2.2	1.9

APPENDIX C. AIMR-PPS ADVERTISING GUIDELINES

I. Purpose of the AIMR-PPS Advertising Guidelines

The AIMR Performance Presentation Standards (AIMR-PPS), the U.S. and Canadian version of GIPS, provide the investment community with a set of ethical standards for investment management firms to follow when presenting their performance results to potential clients. The Standards serve to provide greater uniformity and comparability among performance presentations, to allow investors to directly compare the performance of different investment managers and to help to build an environment of credibility and trust in the investment industry. The AIMR Performance Presentation Standards are recognized as the leading industry standard in the United States and Canada for the ethical presentation of investment performance results. However, to date, the AIMR-PPS standards have not addressed the issue of advertising a firm's claim of compliance.

The ability to advertise is essential to every investment adviser. Firms claiming compliance with the AIMR-PPS standards frequently seek guidance from AIMR on the appropriate way to advertise their claim of compliance with the Standards. Previously, AIMR's position has been that firms may not present any information other than the full AIMR-PPS compliant presentation when making the claim that the firm is in compliance with the AIMR-PPS standards. AIMR developed the Advertising Guidelines to allow firms to advertise that they claim compliance with the Standards without reproducing an entire presentation (e.g., ten years of annual performance, a measure of dispersion for each year, etc.). AIMR believes that reducing the amount of information required in an advertisement is reasonable since the amount of information required in a presentation to a client may not be needed for advertisements in newspapers and magazines. The AIMR-PPS Advertising Guidelines do not replace the AIMR-PPS standards nor do they absolve firms from presenting performance presentations that adhere to the requirements of the full AIMR-PPS standards.

II. The AIMR-PPS Advertising Guidelines

The AIMR-PPS Advertising Guidelines only apply to firms that already satisfy all of the requirements of the AIMR-PPS standards on a firmwide basis and claim compliance with the AIMR-PPS standards. Firms that claim compliance can choose to advertise that claim using the AIMR-PPS Advertising Guidelines. AIMR recommends that compliant firms always present information in advertising materials that adheres to the requirements of the AIMR-PPS standards, whether or not the advertisement includes a claim of compliance (and therefore must abide

by the Advertising Guidelines) or not, in the spirit of fair representation and full disclosure.

Under the AIMR-PPS Advertising Guidelines, firms that wish to advertise their claim of compliance in an advertisement have two options:

- A. **Advertisements That Contain Performance Results.** Firms that claim compliance with the AIMR-PPS standards and that choose to advertise their claim in an advertisement that contains performance information must follow the "Performance Advertising Provisions," which require firms to present certain information that is a subset of the information required by the AIMR-PPS standards.
- B. **Advertisements That Do Not Contain Performance Results.** Firms that choose to state their claim of compliance in an advertisement can do so without presenting any performance results provided they follow the "No-Performance Advertising Provisions."

Definition of Advertisement

For the purposes of these Guidelines, an advertisement includes any materials that are distributed or designed for use in newspapers, magazines, firm brochures, letters, or any other written or electronic material addressed to more than one person. Any written material (other than one-on-one presentations) distributed to maintain existing clients or solicit new clients for an advisor is considered an advertisement. The following clarifications are provided for guidance:

One-on-One Presentations. In one-on-one presentations of performance, the complete and full AIMR-PPS standards are still to be followed, not the AIMR-PPS Advertising Guidelines. If the investment manager readily knows the recipient of a presentation, a presentation should be considered one-on-one.

Requests For Proposals. Requests for proposals (RFPs) and consultant questionnaires are not considered advertisements for purposes of the AIMR-PPS Advertising Guidelines and should be treated as one-on-one presentations. If the performance information used to answer RFP and consultant questionnaires is from a presentation that adheres to the requirements of the Standards, the firm can state that the information provided adheres to the requirements of the AIMR-PPS standards provided the firm also attaches a fully compliant presentation to the questionnaire or RFP.

“Flash” Reports. For purposes of the Advertising Guidelines, flash reports are abbreviated presentations of composite performance for interim periods (shorter than the 12-month reporting required by the AIMR-PPS standards). AIMR considers that a performance update is a flash report only if the firm has provided the recipient of the flash report with a compliant presentation that fully adheres to the AIMR-PPS standards within the past 12 months. As long as prospective clients or consultants have received past results that adhere to the Standards within the past 12 months and a reference is made that a full presentation in compliance with the AIMR-PPS standards is available upon request, the flash numbers can be presented in any format, keeping in mind the spirit of the Standards, namely fair representation and full disclosure. However, if the prospective client has not previously (within the last 12 months) received a presentation that adheres to all the requirements of the AIMR-PPS standards, the firm must present performance results that satisfy the full AIMR-PPS standards along with any flash report.

The Internet. Internet websites are a rapidly evolving form of advertising. Because such sites are not subject to the same space limitations and their design features allow “links,” they should be treated as enhanced advertisements and certain additional information must be made available. All websites that include a firm’s claim of compliance must include a link to the complete list and description of the firm’s composites. If a claim of compliance is made on a website without including performance results (i.e., adheres to the “No Performance Advertising Provisions”) the firm must also make available a fully compliant presentation supporting those composites listed either directly through a further link or by providing contact information to request a compliant presentation, subject to the seven-day turnaround requirement. If the claim of compliance is made on a website that includes performance results (i.e., adheres to the “Performance Advertising Provisions”), the fully compliant presentation supporting the composite being advertised must be directly available via a link.

Relationship of AIMR-PPS Advertising Guidelines to Regulatory Requirements

The AIMR-PPS Advertising Guidelines are not in any way changing the scope of the activities that the U.S. Securities and Exchange Commission (SEC) and other regulatory bodies determine to fall within the regulation of advertisements. Instead they are ethical Guidelines that promote a

framework to allow investment management firms to advertise their claim of compliance with the AIMR-PPS standards.

Firms advertising performance results in compliance with these Guidelines must also adhere to all applicable regulatory rules and requirements governing the advertisement of investment performance. Firms are encouraged to seek legal counsel, as it is likely additional disclosures will apply. In cases where applicable law or regulation conflicts with the AIMR-PPS Advertising Guidelines, the Guidelines require firms to comply with the law or regulation. However, for purposes of these Advertising Guidelines, the full disclosure of the conflict need not be made.

AIMR-PPS Advertising Guidelines Claim of Compliance Legend

Advertisements that choose to mention a firm’s claim of compliance (whether performance results are included in the advertisement or not), must include the following claim of compliance legend:

[Insert name of firm] claims compliance with the AIMR Performance Presentation Standards (AIMR-PPS®), the U.S. and Canadian version of GIPS®. AIMR has not been involved with or reviewed [insert name of firm]’s claim of compliance.

A. No-Performance Advertising Provisions

Firms that choose to state their claim of compliance in an advertisement that shows no performance results must adhere to the following “No-Performance Advertising Provisions”:

A.1. Disclosures

A.1.A.1. The definition of the “firm” used to determine the firm’s total assets and firmwide compliance must be disclosed.

A.1.A.2. Firms must include the following statement in the advertisement:

“To receive a complete list and description of [insert name of firm]’s composites and/or a presentation that adheres to the AIMR-PPS standards, contact [[insert contact name, contact information, and/or internet/e-mail address].”

Firms must also provide the complete list and description of the firm’s composites and/or a relevant presentation that adheres to the AIMR-PPS standards within seven business days of any request from a client or a potential client.

Making this information available on the firm's Web site and informing the client or potential client of its availability will satisfy this requirement.

- A.1.A.3. *Firms must use the specified AIMR-PPS Advertising Guidelines Claim of Compliance legend as provided in Section II of this Appendix. Any use of the marks "AIMR" or "AIMR-PPS" except as specifically provided in the above legend or the AIMR-PPS Standards Compliance Statement legend is prohibited.*

A.2.A. Presentation and Reporting

- A.2.A.1. *The above provisions apply only to advertisements that contain no performance results. Firms that wish to present any performance results in their advertisements must adhere to the Performance Advertising Provisions outlined in the next section of this document.*

- A.2.A.2. *Firms can present supplemental information in addition to the required elements listed above provided the supplemental information is shown with equal or lesser prominence than the information required by the No-Performance Advertising Provisions. The supplemental information must be non-performance related; otherwise, the firm must adhere to the Performance Advertising Provisions outlined in the next section of this document.*

B. Performance Advertising Provisions

Firms that choose to claim compliance with the AIMR-PPS standards in an advertisement that includes performance information must adhere to the following "Performance Advertising Provisions":

B.1.A. Disclosures

- B.1.A.1. *Firms must disclose the following information, taken from a presentation that adheres to the requirements of the AIMR-PPS standards, in each advertisement:*

- (a) *the definition of the "firm" used to determine the firm's total assets and firmwide compliance,*
- (b) *a brief description of the composite/strategy,*
- (c) *if non-fee-paying portfolios are included in the composite and, if so, the percentage of non-fee-paying portfolios represented in the composite for the most recent period displayed,*
- (d) *the use and extent of leverage and derivatives, if any,*
- (e) *the currency used to express performance, the dollar amount of assets represented by the composite, and the percentage of the firm's total assets that the composite represents as of the end of the period for the most recent period displayed,*

- B.1.A.2. *Firms must include the following statement in the advertisement:*

"To receive a complete list and description of [insert name of firm]'s composites and/or a presentation that adheres to the AIMR-PPS standards, contact [insert contact name, contact information and/or internet/e-mail address]."

Firms must also provide the complete list and description of the firm's composites and/or a relevant presentation that adheres to the AIMR-PPS standards within seven business days of any request from a client or a potential client. Making this information available on the firm's Web site and informing the client or potential client of its availability will satisfy this requirement.

- B.1.A.3. *Firms must use the specified AIMR-PPS Advertising Guidelines Claim of Compliance legend as provided in Section II of this Appendix. Any use of the marks "AIMR" or "AIMR-PPS" except as specifically provided in the above legend or the AIMR-PPS standards Compliance Statement legend is prohibited.*

B.2.A. Presentation and Reporting

B.2.A.1. The following information, taken from a presentation that adheres to the requirements of the AIMR-PPS standards, must be presented in the advertisement:

- (a) Firms must present the annualized total returns for one-, five-, and ten-year periods (or record since firm inception if inception is less than ten years), with the end-of-period date clearly identified for each period presented. Firms may choose to present other total returns in addition to the required one-, five-, and ten-year periods, including quarterly returns or other annualized returns. Performance for periods of less than one year must not be annualized.*
- (b) Returns must be current and must be displayed through at least the most recent calendar quarter end (given a reasonable amount of time after the end of each quarter for the calculation of performance).*
- (c) An appropriate total return benchmark for the same time periods advertised must be presented. If no benchmark is presented, an explanation of why no benchmark is shown must be disclosed.*

B.2.A.2. Net-of-fee performance results must be presented in the advertisement. The firm may choose to also present results gross-of-fees so long as both gross and net performance results are presented with equal prominence in a format designed to facil-

itate ease of comparison of the gross-of-fee and net-of-fee results.

B.2.A.3. Firms that came into compliance with the AIMR-PPS standards under the retroactive compliance guidelines or are linking non-compliant performance prior to the applicable effective date of the Standards to periods that are in compliance with the Standards must clearly state that the full performance record is not in compliance with the Standards and must identify the periods of non-compliance. This provision does not specifically apply to firms that came into compliance under the Retroactive Compliance Guidelines as described in the Introduction of the AIMR-PPS standards Introduction (Section I.B).

B.2.A.4. Firms are encouraged to disclose Level I (GIPS) verification in the advertisement provided it discloses the period(s) for which the verification has been performed. Firms with composites that have been audited or examined under the "Performance Examination (Level II)" procedures or previously "Level II verified" may not in any way refer to the term "Level II" or "Performance Examination" in an advertisement that claims compliance.

B.2.A.5. Firms can show supplemental information in addition to the required elements listed above provided the supplemental information is clearly labeled as such and is shown with equal or lesser prominence than the information required by the Performance Advertising Provisions.

1. Sample Advertisement Including Performance Returns

XYZ INVESTMENTS			
Small-Cap Growth Composite	1 Year (ending 3/31/01)	5 Year (ending 3/31/01)	10 Year (ending 3/31/01)
Annualized Returns:			
net-of-fees	-9.3%	9.8%	12.6%
gross-of-fees	-8.8%	10.5%	13.2%
Russell 2000 Index	-15.3%	7.8%	11.8%

XYZ Investments is a registered investment advisor specializing in small-cap growth investment management. XYZ Investments utilizes a top-down and bottom-up investment process in order to find companies with the best growth potential within the fastest growing sectors. The XYZ Small-Cap Growth Composite strategy focuses on earnings growth, quality of earnings, and key valuation metrics. The XYZ Small-Cap Growth Composite assets as of March 31, 2001 were \$50 million, which represented 60% of the firm's total assets. Non-fee-paying accounts represented 5% of the XYZ Small-Cap Growth Composite as of March 31, 2001. Returns are calculated in U.S. dollars. XYZ Investments has been Level I Verified for the period January 1, 1995, through December 31, 2000.

XYZ Investments claims compliance with the AIMR Performance Presentation Standards (AIMR-PPS®), the U.S. and Canadian version of GIPS®. AIMR has not been involved with or reviewed XYZ Investments' claim of compliance.

To receive a complete list and description of XYZ Investments' composites and/or a presentation that adheres to the AIMR-PPS standards, contact John Doe at (800) 555-5555, or write XYZ Investments, One Main Street, Investmentville, USA 12345, or jdoe@xyzinv.com.

2. Sample Advertisement Including Performance Returns and Supplemental Information

ABC INVESTMENT ADVISORS					
Value Composite	Quarter* (ending 12/31/01)	1 Year (ending 12/31/01)	3 Year* (ending 12/31/01)	5 Year (ending 12/31/01)	10 Year (ending 12/31/01)
Annualized Returns:					
net-of-fees	-5.9%	-2.3%	2.9%	7.7%	9.2%
gross-of-fees	-5.4%	-1.9%	3.6%	8.3%	9.8%
S&P Value Index	-6.9%	-2.7%	2.8%	7.3%	10.2%

*These returns are presented as supplemental information to the returns required by the AIMR-PPS Advertising Guidelines.

ABC Investment Advisors is a registered investment advisor specializing in value-driven investment management strategies. The ABC Value Composite invests in companies with established operating histories, potential for dividend growth, and low P/E ratios relative to the S&P 500 Value Index. The ABC Value Composite assets as of December 31, 2001, were \$50 million, which represented 60% of the firm's total assets. Non-fee-paying accounts represent 5% of the ABC Value Composite. Returns are calculated in U.S. dollars. ABC Investment Advisors has been Level I Verified for the period January 1, 1995, through December 31, 2001.

Supplemental Information

ABC Value Composite Model Sector Relative Weightings as of 12/31/00 ^a		Volatility Measures as of 12/31/00	
Transportation	+0.3%	Beta	1.07
Utilities	+1.9%	R ²	0.86
Financial	+1.1%	Tracking Error ^b	6.7%
Health Care	-0.2%		
Capital Goods	-0.6%		
Energy	+1.2%		
Technology	-4.4%		
Basic Materials	+1.2%		
Communication Services	-2.2%		
Consumer Cyclical	+0.6%		
Consumer Staples	+1.1%		

^aWeights are relative to the S&P 500 Value Index. Actual account weightings may vary from model weightings due to various factors.
^bMeasured by the standard deviation of monthly returns for the past 60 months.

ABC Investment Advisors claims compliance with the AIMR Performance Presentation Standards (AIMR-PPS®), the U.S. and Canadian version of GIPS®.

AIMR has not been involved with or reviewed ABC Investment Advisors' claim of compliance.

To receive a complete list and description of ABC Investment Advisors' composites and/or a presentation that adheres to the AIMR-PPS standards, contact John Doe at (800) 555-1234, or write

ABC Investment Advisors, 123 Main Street, Investmentville, USA 12345, or jdoe@abcinvestmentadvisors.com.

3. Sample Advertisement without Performance Returns

ABC INVESTMENT ADVISORS

ABC Investment Advisors is a registered investment advisory firm specializing in qualitative, value-oriented investment management. We bring an objective, knowledgeable perspective to overseeing your financial assets.

Our goal is to help you define and achieve your financial goals.

ABC Investment Advisors claims compliance with the AIMR Performance Presentation Standards (AIMR-PPS®), the U.S. and Canadian version of GIPS®. AIMR has not been involved with or reviewed ABC Investment Advisors' claim of compliance.

To receive a complete list and description of ABC Investment Advisors' composites and/or a presentation that adheres to the AIMR-PPS standards, contact John Doe at (800) 555-1234, or write ABC Investment Advisors, 123 Main Street, Investmentville, USA 12345, or jdoe@abcinvestmentadvisors.com.

4. Sample Press Release:

Alpha Global Asset Management Takes the Next Step In Providing Comparable and Meaningful Performance To Prospective Clients

Toronto – Alpha Global Asset Management (AGAM) announced today that it has completed a 12-month project to bring the firm into compliance with the AIMR-PPS Standards (AIMR-PPS®), the U.S. and Canadian version of GIPS®. AGAM includes Alpha Global Mutual Funds and Alpha Global Institutional Asset Management. Janet Smith, Chief Executive Officer of AGAM, said that the firm's compliance with the Standards "... creates a great marketing advantage for AGAM and represents our commitment to ethical practices for our clients and prospects." Smith added that AGAM was in the process of being Level I verified and hoped that the firmwide verification would be completed within the next month. To receive a complete list and description of Alpha Global Asset Management's composites and/or a presentation that adheres to the AIMR-PPS standards, contact Jane Doe at (800) 123-4567, or write Alpha Global Asset Management, 123 Any Street, Toronto, Ontario, Canada M5X 1J2, or jdoe@agam.com.

Alpha Global Asset Management claims compliance with the AIMR Performance Presentation Standards (AIMR-PPS®), the U.S. and Canadian version of GIPS®. AIMR has not been involved with or reviewed Alpha Global Asset Management's claim of compliance.

APPENDIX D. GUIDANCE ON VERIFICATION

The following guidance supplements Section III Verification of the AIMR-PPS standards. This appendix provides the U.S. and Canadian verification industry with guidance and to provide clearer, more workable verification procedures. It clarifies some practical issues that verifiers and investment management firms engaged in a verification exercise have encountered. It consists of guidance for issuing and using a Level I (GIPS) verification report as well as prescribes the procedures for conducting a Performance Examination (Level II).

This appendix is subject to future change as it is anticipated the Verification Subcommittee of the Investment Performance Council will develop and publish guidance to supplement the GIPS Verification section (same as Level I Verification). As the guidance for GIPS is developed, it will be adopted and applicable to the AIMR-PPS standards.

I. General Verification Guidance

A. Risk and Materiality

Verifiers must assess the risk associated with the particular engagement and evaluate the internal controls at the client firm. Based on this evaluation, verifiers must develop guidelines as to whether the effects of the errors and qualitative information would be material. The initial assessment may have to be revised should new relevant information be uncovered during the verification.

2. Level I Verification Guidance

A. Level I Verification Reports

A Level I Verification Report must include the following information:

- The report is for a Level I verification,
- The timeframe covered by the report,
- The verifier completed the Level I verification in accordance with the AIMR-PPS standards, and
- The verifier's opinion that:
 - (i) The firm has complied with all the composite construction requirements of the AIMR-PPS standards on a firmwide basis, and
 - (ii) The firm's processes and procedures are designed to calculate and present performance results in compliance with the AIMR-PPS standards.

Without these statements from the verifier, the firm cannot claim that it has been Level I verified.

Verifiers may require that the firm explicitly state any assertions relating to its claim of compliance, in writing, to the verifier prior to and as a condition of the verifier issuing a Level I Verification Report. Once a firm has made these assertions, the verifier will examine these assertions by performing the verification procedures outlined in Section III of the AIMR-PPS standards.

The following is the standard verification statement that should be used in the Level I Verification Report issued by verifiers to firms that have received Level I verifications under the AIMR-PPS standards. The language is subject to modification for any applicable professional standards of the verifier. The statement recognizes that the verifier cannot control whether the Level I Verification Report may be distributed by the firm as part of an AIMR-PPS compliant composite presentation that has not also had a Performance Examination (Level II) conducted.

"[ABC, name of the verifier] has completed a Level I Verification of [XYZ, name of the firm] for the time period [state the time period]. We completed this Level I Verification in accordance with the Level I Verification Procedures set forth in the AIMR Performance Presentation Standards (AIMR-PPS® standards) [as well as any other standards if applicable]. In our opinion, the firm complied with all the composite construction requirements of the AIMR-PPS standards and the firm's processes and procedures were designed to calculate and present performance results in compliance with the AIMR-PPS standards for the period [state the time period]."

"In performing the Level I Verification, we [the verifier] have not determined whether any particular composite presentation is presented in conformity with the AIMR-PPS standards."

If the firm's claim of Level I verification is contained on an AIMR-PPS compliant composite presentation that has also been examined or audited, the verifier may include in its report the following additional paragraphs relating to a Performance Examination (Level II) as a replacement for the second paragraph above:

"In addition to the firmwide Level I Verification, we [the verifier] have completed a Performance Examination (Level II) of [Composite A, identification of composite] of [XYZ, name of the firm] for the time period [state the time period]. We completed this examination in accordance with the Performance Examination procedures set forth in the AIMR-PPS

standards [as well as any other standards if applicable]. In our opinion, the performance results of [Composite A, identification of composite] for the time period [state the time period] are presented in conformity with the AIMR-PPS standards."

"This report does not relate to any particular composite presentation of [XYZ, name of the firm] other than [Composite A, identification of composite]."

3. Performance Examinations (Level II)

With the goal to shift the focus of the industry to firmwide verification, the term "Level II verification," which was previously an accepted form of verification under the AIMR-PPS standards, will be phased out on January 1, 2003. At that time, firms will no longer be able to state that a specific composite has been "Level II verified." Instead, after January 1, 2003, the AIMR-PPS standards will allow firms that have received or are in the process of receiving a firmwide (Level I) verification report to have a further, more extensive performance examination or audit of a specific composite presentation. However, firms will not be able to make the claim that a particular composite has been "verified" but can claim that the composite returns have been examined or audited. The previous Level II verification procedures have been re-titled Performance Examination (Level II) and have been redrafted to focus on the need for the verifier to conduct and report a Level I verification in order to issue a Performance Examination (Level II) report.

Once the term "Level II" verification is removed from the AIMR-PPS standards, "Level I" verification will simply be re-termed "verification."

A. Scope and Purpose of Performance Examinations (Level II)

1. A Performance Examination (Level II) requires that:
 - (i) The verifier follow all the verification procedures outlined for a Level I Verification and report on a Level I Verification, and
 - (ii) Performance results of the specific composite being examined are presented in conformity with the AIMR-PPS standards.
2. A Performance Examination (Level II) Report is issued only with respect to the composite examined by the verifier and does not attest to the accuracy of a performance presentation for any other composite.
3. After performing the Performance Examination (Level II), the verifier may conclude that the presentation does not conform to the AIMR-PPS standards or that the records of the firm cannot support the composite pre-

sentation. In such situations, the verifier should communicate to the investment management firm the reason(s) why it was not possible to provide a Performance Examination report.

4. A principal verifier may accept the work of a local or previous verifier as part of the basis for the principal verifier's opinion.

B. Procedures for Performance Examinations (Level II)

Verifiers must conduct a Level I verification as outlined for Level I (GIPS) verification (Section III) and issue a Level I verification report prior or concurrent to issuing a Performance Examination (Level II) report. A principal verifier may accept the work of a local or previous verifier as part of the basis for satisfying that a firm has previously received a Level I (GIPS) verification report.

When conducting an audit of a specific composite presentation, the verifier should consider the following presumptions, bearing in mind that they are not mutually exclusive and may be subject to important exceptions:

- Evidence obtained from independent sources outside an entity provides greater assurance about the subject matter or the assertion than evidence secured solely from within the entity.
- Information obtained from the verifier's direct personal knowledge (such as through physical examination, observation, computation, operating tests, or inspection) is more persuasive than information obtained indirectly.
- The more effective the controls over the subject matter, the more assurance they provide about the subject matter or the assertion.

In performing a Performance Examination, the verifier's objective is to accumulate sufficient evidence to limit the risk of errors occurring and not being detected during the audit to a level that is, in the verifier's judgment, appropriately low. A verifier should select from all available procedures any combination that can limit the risk of errors occurring and not being detected during the audit to an appropriately low level.

The extent to which the examination or audit procedures will be performed should be based on the verifier's consideration of (a) the nature and materiality of the information to be tested to the subject matter or the assertion taken as a whole, (b) the likelihood of misstatements, (c) knowledge obtained during current and previous engagements, (d) the extent to which the information is affected by judgment, and (e) inadequacies in the underlying data.

When conducting a Performance Examination or audit of a specific composite presentation, the verifier must consider the following objectives.

1. *Cash Flows: Verifiers should determine whether capital contributions and withdrawals are recorded in the proper accounts, at the right amounts and on a timely basis. The following procedures should be considered:*
 - (i) *On a test basis, agree cash flows to appropriate supporting documentation.*
 - (ii) *Test contributions or withdrawals of securities to ensure proper valuation and timely recording.*
 - (iii) *Consider the reasonableness and consistent application of the methods used to account for cash flows, contributions, and withdrawals.*
2. *Income and Expenses: Verifiers should determine that income and expenses are recorded in the proper accounts, at the right amounts, and on a timely basis. The following procedures should be considered:*
 - (i) *Agree significant income and expenses to supporting documentation such as custody statements.*
 - (ii) *Evaluate the reasonableness and consistent application of the methods used to record income and expenses.*
3. *Portfolio Trade Processing: Verifiers should determine that purchases and sales of securities have been recorded in the proper accounts at the correct amounts on the appropriate dates. The following procedures should be considered:*
 - (i) *On a test basis, agree significant trading activity to supporting documentation such as custody statements or trade tickets.*
 - (ii) *On a test basis, agree significant end-of-period portfolio positions to supporting documentation such as custody statements.*
 - (iii) *Evaluate the reasonableness of the portfolio trade processing system.*
4. *Portfolio Valuation: Verifiers should determine whether the end-of-period valuations of security positions are appropriate and that valuation policies are consistently applied. The following procedures should be considered:*
 - (i) *On a test basis, agree significant end-of-period security valuations to an independent pricing source.*
 - (ii) *On a test basis, agree significant foreign currency exchange rates to an independent pricing source.*
 - (iii) *Evaluate the reasonableness and consistent application of the portfolio valuation methodology.*
5. *Performance Measurement Calculation: Verifiers should determine that the performance measurement statistics have been computed in accordance with the requirements contained in the AIMR-PPS standards on a consistent basis. The following procedures should be considered:*
 - (i) *On a test basis, test the computations of account returns to ensure the use of appropriate time-weighted return calculations.*
 - (ii) *On a test basis, test the computations of composite returns to ensure the use of appropriate size-weighted return calculations.*
 - (iii) *Evaluate the reasonableness and consistent application of the performance measurement calculation.*
6. *Other Disclosures: Verifiers should determine whether all required disclosures have been properly presented in the performance presentation and that disclosures are appropriately supported by available documentation. The following procedures should be considered:*
 - (i) *Evaluate whether all of the required disclosure requirements have been adequately satisfied.*
 - (ii) *Perform tests of required disclosures as deemed necessary. These tests could involve agreeing to supporting documentation, analytical procedures, or inquiry as appropriate.*
 - (iii) *Evaluate the reasonableness and consistent application of the disclosures.*

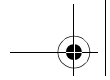
C. Performance Examination (Level II) Reports

A Performance Examination report must include the following information:

- *The report is for a performance examination of a specific composite.*
- *The composite and timeframe covered by the report.*
- *The verifier completed the examination in accordance with the AIMR-PPS standards.*
- *The verifier's opinion that the composite performance results are presented in conformity with the AIMR-PPS standards.*

Without these statements from the verifier, the firm cannot claim that the composite has been examined with respect to the AIMR-PPS standards.

Verifiers may require that the firm explicitly state any assertions necessary to support the verifier's opinion, in



writing, to the verifier prior to and as a condition of the verifier issuing a Performance Examination (Level II) report. Once a firm has made these assertions, the verifier will examine each assertion by performing the procedures outlined above.

The following is the standard examination statement that should be used in the Performance Examination (Level II) report issued by verifiers. The language is subject to modification for any applicable professional standards of the verifier.

"[ABC, name of the verifier] has completed a Performance Examination (Level II) of [Composite A, identification of composite] of [XYZ, name of the firm] for the time period [state the time period]. We completed this examination in accordance with the Performance Examination Procedures set forth in the AIMR Performance Presentation Standards (AIMR-PPS® standards) [as well as any other standards if applicable]. In our opinion, the performance results of [Composite A, identification of composite] for the time period [state the time period] are presented in conformity with the AIMR-PPS standards."

