



Global Investment Performance Standards

GUIDANCE STATEMENT ON PERFORMANCE RECORD PORTABILITY

Adoption Date: 9/28/2010
Effective Date: 1/1/2011
Retroactive Application: Not Required



CFA Institute

www.gipsstandards.org

© 2014 CFA Institute

GIPS GUIDANCE STATEMENT ON PERFORMANCE RECORD PORTABILITY

Introduction

In the current global market for merger, acquisition, and consolidation of investment management firms, past performance records are increasingly valuable assets for their owners. Historical records are the result of many factors (e.g., people, process, discipline, strategy) that may not be easily transferred to a new entity and still warrant having the same label as the old entity. The applicability and integrity of the performance record is only as good as the ongoing integrity of the strategy and all the contributing factors. In addition, because the legal issues and requirements surrounding portability can be particularly complex, firms are reminded that they must comply with all applicable laws and regulations regarding the calculation and presentation of performance, which includes laws and regulations related to portability, before applying this Guidance Statement.

Performance is the Record of the Firm, Not of the Individual

Changes in a firm's organization must not lead to alteration of historical composite performance. Therefore, composites must include all portfolios managed by a member of a firm, even if the individual responsible for the past results is no longer with the firm. Composites must not include portfolios managed by members of the firm before they joined the firm unless the conditions listed below are met. If the conditions are met on a composite-specific basis, performance of a past firm or affiliation must be linked to or used to represent the historical performance of a new or acquiring firm. Using the performance data from a prior firm or affiliation as supplemental information is permitted as long as the past record is identified clearly as such and is not linked to the results of the new affiliation. If the provisions for portability are met, then it is possible for multiple firms to claim the same performance history as their own.

The GIPS[®] standards provide how a firm is to be defined within the context of the GIPS standards. "Firm" mergers can happen within an affiliated group and this Guidance Statement will apply to such situations. If a firm acquires another firm or affiliation, the firm has one year to bring any non-compliant assets into compliance. However, the important determinant of allowable performance record portability is not a firm's former compliance with the GIPS standards, but whether the acquiring firm continues the original strategy that defined the composite with all of its continuing factors.

Performance data from a prior firm may be used, with the proper disclosures, as supplemental information. If the conditions listed below are not met, this supplemental information must not be linked to the ongoing performance of the new firm. The key issue is the linking of prior performance results to the ongoing performance record at the new firm or affiliation.

When a manager, group of managers, or an entire firm joins a new firm or affiliation, the GIPS standards require that:

- Performance of a past firm or affiliation must be linked to or used to represent the historical performance of a new or acquiring firm if, on a composite-specific basis:
 - Substantially all of the investment decision makers are employed by the new or acquiring firm (e.g., research department staff, portfolio managers, other relevant staff);
 - The decision-making process remains substantially intact and independent within the new or acquiring firm; and
 - *The new or acquiring firm has records that document and support the performance.*
- If a firm acquires another firm or affiliation, the firm has one year to bring any non-compliant assets into compliance.
- Firms must disclose if the performance from a past firm or affiliation is linked to the performance of the firm.

If all of the above requirements are not met, the past performance record of the former firm or affiliation from the former firm must not be linked to the ongoing performance record of a new or acquiring firm. However, the past performance record may be presented as supplemental information when relevant, provided the new or acquiring firm has all data and information necessary to support the performance.

In the case where two firms join and two composites are to be merged, the new firm must first determine if there is a “surviving” composite. A surviving composite is the composite that represents the continuity of investment strategy, process, and personnel. In order to be a surviving composite, the decision-making process must remain substantially intact and independent at the new firm.

If the firm identifies a surviving composite, its performance history must be presented and linked to the ongoing performance of the merged composite. It is recommended that the performance of the “non-surviving” composite be made available as supplemental information upon request. For example, as a result of a merger, two composites (“C” and “D”) are combined in a merged composite “CD.” If the firm is able to satisfy all the rules of portability and determines that composite C is the surviving composite, then the performance history from composite C must be linked to the on-going record of composite CD. Although the assets from composite D are included in composite CD, the performance history of composite D is not linked to the ongoing record of composite CD but should be made available upon request.

If the firm determines that neither composite maintains all the elements of continuity, then there has not been a merger of composites and neither historical performance record can be linked to the ongoing composite performance record, but it is recommended that both of the “non-surviving” composites be presented as supplemental information, provided the firm has all data and information necessary to support the performance. For example, if the staff of two firms are combined into one and the investment decision-making process is shared (and thus changed), the historical performance records of both of the non-surviving composites should be presented as supplemental information and must not be linked to the ongoing results of the new composite.

If the presenting firm is a “manager of managers” and is hired by its clients because of the presenting firm’s manager selection skills, and the firm maintains discretion of the underlying assets (has the control to hire or fire the sub-advisor), the firm must include those assets in the total firm assets and present the performance of the underlying assets in the presenting firm’s composites. Similarly, if the presenting firm replaces one sub-advisor with another, the presenting firm must include within the same composite the performance of the assets assigned to the new sub-advisor going forward and leave the results from the former sub-advisor unchanged. The GIPS standards require that beginning 1 January 2006, firms must disclose the use of a sub-advisor(s) and the periods a sub-advisor(s) was used.

If the presenting firm does not have discretion over the selection of the sub-advisor, then the performance record of the underlying assets must not be included in the presenting firm’s composites.

Firms must keep in mind that this Guidance Statement falls under the over-riding principles of the GIPS standards: fair representation and full disclosure. The GIPS standards require that firms must disclose all significant events that would help a prospective client interpret the compliant presentation. As such, if events that impact the firm’s operations and/or investment process rise to the level of a significant event (e.g., change in ownership, merger, acquisition, departure of key investment professional), they must be disclosed.

Effective Date

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