To Whom It May Concern:
I like to express my opinion to the revised verification / private equity / real estate
guidance statement.

Verification

Page 1. Verifier Qualification Requirement
….. a practical level of expertise regarding investment management practices,
including performance calculation procedures and business processes.

My comment: my experience working with verifiers wasn’t positive. During several of
my past meetings with verifiers, I always felt the burden of proof rest on the firm side and
at many circumstances found it necessary to train verifiers on various aspects of stock
market / asset management functions.

A question from a verifier that I still vividly remember: please explain why this mutual
fund has more flows than this pension separate manage portfolio. My respond was this:
please study the mutual fund industry and get an understanding on how transfer agents
facilitate the subscriptions / redemptions. For pension account, answering my question
would respond to your question. How often did you put or took out money from your
own personal 401K, IRA or retirement account?

During that meeting, I should have but did not ask the verifier this question. Instead of
testing my knowledge (picking my brain) you should be asking me the following
questions: 1) Do you have access / control on updating the flows / adjustments in the
performance system? 2) How do you treat mutual fund / pension & separate manage
portfolio in composite construction? 3) Could you provide reason(s) for the decision?

Just in case someone wants to know, below would have been my personal answers (not
from the various films’ policies and procedures) if the above questions were asked:

1) I believe no performance analysts should have control access to the accounting
system / performance engine. However, all performance analysts should know
how to identify the issue, determine a possible solution, and notify the proper
team to get the return / issue fix.

2) I believe mutual fund and separate manage portfolio should always be separated
for composite construction.

3a) Different calculation (without going into details) – mutual funds uses unit per
share to compute the return. The subscriptions / redemptions (flows) going into
mutual funds are money per previously calculated outstanding shares. Because of
the data, the mutual fund return calculation does not require the flows to be back
out. Separate manage portfolio return calculation uses the money flow / weighted money flow and need to back out the flows
3b) Ownership and investment objective – mutual funds (regardless open or closed) is setup for continues ownership change. This allows investors to invest or divest every day at multiple distribution channels. Typically regulars govern mutual funds. The investment team manages the mutual fund as stated in the prospectus or the intended strategy. Separate manage portfolios could be the same as mutual fund or be more specific and normally focus to the client agree with the investment team (IMA). The investment team has to focus not just the strategy but the agreed mandates as well.
3c) Structural setup: very frequent, open-end mutual funds have certain percentage of portfolio in cash for possible of redemptions. Because there are no inflows for closed end funds, it also need to set aside certain amount of cash to pay for operational / management fee expenses. In addition, there are government oversights that prohibit mutual funds to hold in excess of certain level of positions. Where as separately manage portfolios have greatly flexibility (when agreed with the client) to execute the intended strategy.
3d) Operational issue: data use for international / global strategy could differ between the asset manage firms versus the fund accountant. The data issues could be related to: prices, fair valuation methods, timing of accounting process, and others.

Because of many gray areas in the GIPS guidance, following the spirit of “fair representation and full disclosure” and respond to the best of my own ability, I debated on many ideas and concepts proposed by the verifiers during several meetings. I was later told my efforts resulted in a letter to senior managers stating that I didn’t understand GIPS guidance.

I understand when a team performs an accounting audit on a public company, at least one member in the team (preferable the leader or manager of the team) must have a CPA license. I believe a similar requirement should be apply to people performing verifications / examination. At least one member in the engaging team or the person performing a verification / examination is required to hold a CIPM charter (or passing a similar / higher level test, like the CFA). In addition, GIPS guidance should have a statement stating the following: verifiers / examiners are encourage to take and pass the CIPM exams.

Verification Report – Page 5
A statement indicating that verification does not ensure the accuracy of any specific composite presentation and

My comment: I don’t feel this sentence is appropriate and may give a negative impression to users / followers of GIPS standards. I recommend the below revision: A statement indicting that verification does not provide a reasonable assurance to the tested of any specific composite and …..
**Please note, I’m not familiar with Real Estate / Private Equity industries. Below are my thoughts that may or may not be practical in these two areas.**

**Real Estate**
*Introduction and Scope – Page 1*
My comment: I like to offer my view / definition to the real estate provision:
- Real estate includes tangible assets where ownership is / could be direct.
- Real estate does not include non tangible assets where ownership is only indirect.

*Composite Construction – Page 6*
Second paragraph – users and recipients of real estate performance frequently request only an aggregation of property – level performance……
My comment: Is this provision about striping out certain segment of the composite and then presenting that specific segment performance? If so, not only does this fall under supplemental information but this event could also touch on carve-outs provision. Under the eyes of GIPS, assuming the real estate portfolios are setup as the carve-outs guidance stated, is carve-outs allowable in the real estate investment?

**Private Equity**
*Special Case of Evergreen Funds of Funds - Page 6*
“*It does not have a finite life and is in essence evergreen.*”
- My comment: I think it might be best to state a specific period.

“The manager of the funds of funds charges a management fee to the clients.”
- My comment: I recommend revising the sentence to the following: “The manager operating of the funds of funds portfolios charges a management fee to the clients.”

“The timing and size of external cash flows into / from the fund of funds are determine by the third-party managers managing the underlying funds as they call the capital to make use of the investment opportunities or make distributions.”
- My comment: I recommend adding the following: “At each fund level that is operate by a third party managers” in front of the sentence stated above.

7.A.3 FIRMS MUST calculate annualized SINCE INCEPTION INTERNAL RATES OF RETURN (SI-IRR).
My comment: Isn’t this contradicting standard 7.A.21-b, where performance less than 1 year needs to be presented “non-annualized”. Should standard 7.A.3 need to include an additional statement or a reference to standard 7.A.21-b?

7.A.15 if the FIRM adheres to any industry valuation guidelines in addition to the GIPS valuation Principles, the FIRM MUST disclose with guidelines have been applied.
My comment: I think it might be best to have this guidance setup as a recommendation. I could see readers / prospects (including myself) scratching our heads reading the written materials on the disclosure. The descriptions could get very long especially for a global multi-assets portfolio.

If everyone truly believes this should be a requirement, then I like to recommend stating something of the following: “Pricing / valuation of firm policy is available upon request. For example, assume trading at different geographical location and assets statements are coming from different custodian institutions, this situation may result in multiple valuation principles use and could cause confusion to prospects.

Using SEC 10K filing as an example, for whatever the reason(s), many people view 10k filings to be an important piece of information. Be honest to ourselves and face the reality, how many average investors truly understand and use the 10K statement? How many government filings were written in a way that a reasonable investor would expect to understand? I personally don’t read 10K statement when I invest. Occasionally, I would look at the annual report but skip many small prints. The pictures in the annual report are a lot more interesting than the wordings.

I’m sure reader(s) are laughing at what I wrote. Seriously, how many people still remembers about WorldCom, Enron, Lehman and other public filings that when bankrupted? Ask yourself what were missing in those public filings and could a reasonable investor would have noticed or caught the problem just by reading the public filings?

7.A.25 For FUND OF FUNDS COMPOSITES, if the COMPOSITE is defined only by investment mandate, objective, or strategy and a BENCHMARK is presented for the underlying investments, the BENCHMARK MUST be the same VINTAGE YEAR and investment mandate, objective, or strategy as the underlying investments.

My comment: Similar to section 5 (Presentation and Reporting), I believe the guidance should include something like: “If a benchmark is use, please provide a general description of the benchmark. If not, please provide a reason why a benchmark is not use.”

Other thoughts:
- I could not find the composite calculation for private equity. Should the private equity second include something like standard 2.A.6 or 7, where it describes the composite calculation such as the following: “the composite could be asset weighted or IRR recalculated with all assets and cash flows combined as one portfolio.”

- Does private equity fund (falling under either private equity or regular guidance provisions) require to calculate risk or to provide some form of risk languages? Because of limited data, maybe calculating and quantifying risk is not feasible. How
about qualifying the type of risk(s) on the product / strategy? Should the disclosure guidance include some form of written risk language for private equity funds?

- How about Real Estate, should there be a risk number calculated? Should there be some disclosure language on the product / strategy risk as well?

- A portfolio making up of 50% with market tradable securities and 50% in private equity (value every quarter or semi annual and could be calculating using IRR or TWR). What is the best way to calculate the total monthly return? What is the best way to present and market the product during a non-quarter end period?

A verifier provided a respond to me: the portfolio contains a basket of apples and oranges (in a very general sense, this portfolio isn’t much different to a balance portfolio). For presentation, it might be appropriate to separate them and create two performances presentation.

I agree to a certain degree with that individual’s opinion. For example, using a weighted average of the TWR return (from liquid securities) and IRR return (from illiquid securities) may not be appropriate (or could it?). I believe for the performance calculation, it could be done at the portfolio by using IRR on all the assets. However, is IRR the proper calculation for this situation? What if there are flows that could not be control by the investment team? Is there an alternative way to compute the total portfolio return? For performance presentation, I do agreed with that person which is to show segment returns of the two different assets.

Why should we be thinking about this now? The market is constantly evolving, with new ideas appearing almost every time there are new regulations. Using the typical correlation method in most textbooks, adding private equity into the asset mix could reduce portfolio volatility (normally, the portfolio correlation is done using return series. Maybe the calculation makes sense to others but I certainly don’t believe this is a suitable method). As of this moment, I don’t think this type of product is offer. With creative engineering, it is only time when investors are introduce with this concepts. If possible, comments from the members of the GIPS society on this area would be very much welcome.

- GIPS has newsletter that is emailed to subscribers. Could GIPS do the same for the Q&A update. For example, an emailed would be sent whenever there is a new Q&A published on the CIPM website. This would really help me and (I’m sure) other performance practitioners.

- Can Insurance companies managing their own money (firm assets only and do not hold out to others that they are separate unite or entity) claim compliance with GIPS? If so, what would be the proper wordings be? Please advise.

Thank you for reading my comments

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