

ANSWER:

Since all of the portfolios in the composite were either terminated or fell below the minimum level and, according to the firm's policies, are removed from the composite, the performance record of the composite would come to an end as of 31 July 2005. Since after a period of time portfolios moved above the minimum or new portfolios were added to the composite, the prior performance history of the composite must be shown but must not be linked to the on-going composite performance results.

For the purpose of performance presentation, as of 31 December 2007 the composite had an uninterrupted performance track record from 1 January 2004 to 31 July 2005, a "performance break" or "performance gap" from 1 August 2005 to 30 April 2006 and an uninterrupted performance track-record from 1 May 2006 to 31 December 2007.

Under the principles of fair representation and full disclosure, the GIPS standards require firms to handle such cases with the highest transparency. In this instance, the firm must present both periods of performance. However, the periods before and after the break must be presented separately, as follows:

Period	Period returns, %		Composite dispersion, %	Number of portfolios as of end of period	Assets under Management as of end of period, USD million	
	Composite	Benchmark			Composite	Total Firm
1.1.2007 – 31.12.2007	X%	X%	X%	5	X	X
1.5.2006 – 31.12.2006	X%	X%	–	2	X	X
1.1.2005 – 31.07.2005	X%	X%	–	–	–	–
1.1.2004 – 31.12.2004	X%	X%	X%	10	X	X

While the firm may present a cumulative return for the period from 1.1.2004 through 31.7.2005, it is *not allowed* to link periods with "performance breaks" and present a cumulative return over such periods, e.g. from 1.1.2004 to 31.12.2007. The same would apply to presentation of any recommended risk measures based on cumulated periods, e.g. volatility.

The firm may not choose to omit performance for the incomplete years, e.g. for 2005 and 2006 in the above example, justifying this by the GIPS requirement to present annual returns only. Such interpretation would not meet the goal of fair representation and full disclosure.