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INVESTMENT PERFORMANCE COUNCIL (IPC)

Guidance Statement on Performance Record Portability

In the current global market for merger, acquisition, and consolidation of investment management firms, past performance records are increasingly valuable assets for their owners. But historical records are the result of many factors (i.e. people, process, discipline, and 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. Portability of performance records is a very important area that should be clarified within the Global Investment Performance Standards (GIPS[®]). In addition, because the legal issues and requirements surrounding portability can be particularly complex, firms are reminded that, under the GIPS standards, they must comply with all applicable laws and regulations regarding portability before applying this Guidance Statement.

Performance is the record of the firm, not of the individual. In most cases, with the exceptions noted in “a” and “b” below, performance results of a prior firm must not be used to represent the historical record of a new affiliation or a newly formed entity. 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.

Changes in a firm's organization should not lead to alteration of composite results. Therefore, composites must include all accounts managed by a member of a firm, even if the individual responsible for the past results is no longer with the firm, and composites should not include portfolios managed by members of the firm before they joined the firm.

The “firm” is consistently defined by the GIPS standards in Section I.12. “Firm” mergers can happen within an affiliated group and this guidance statement will apply to such situations. As Section II.5.A.5. of the GIPS standards reads, “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 assets into compliance.” However, the important determinant of allowable performance record portability is not a firm’s former compliance with 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. Unless the provisions listed under items ‘a’ and ‘b’ are 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 affiliation.

a. **When a manager, group of managers, or an entire firm joins a new firm, a composite’s past performance may be linked with the ongoing results of the new firm only if all of the following conditions are true for that composite:**

- Substantially all the investment decision makers are employed by the new firm (i.e., research department, portfolio managers, and other relevant staff),
- The staff and decision-making process remain intact and independent within the new firm,
- The new firm discloses that the performance results from the old firm are linked to the performance record of the new firm, and
- The new firm has records that document and support the reported performance.

In addition to the above four rules, when one firm (Firm A) joins an existing firm (Firm B), performance from one of Firm A’s composites can be linked to the ongoing results of Firm B only if:

- Substantially all the assets from Firm A’s composite transfer over to Firm B.

Most cases will not meet all of the above requirements, in which case the past performance record of the former firm cannot be linked to the ongoing performance record at the new firm. However, the past performance record may be presented as supplemental information when relevant.

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 staff and decision-making process of the composite must remain intact and independent at the new firm.

If the firm identifies a “surviving” composite, its performance history can 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” may 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” are 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 historic 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. 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.

- b. **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 firm going forward and leave the results from the former firm unchanged.

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

Firms should keep in mind that this Guidance Statement falls under the over-riding principles of the GIPS standards: fair representation and full disclosure. Firms are encouraged to disclose any significant events within the firm (such as changes in the personnel responsible for investment management) that would help a current or prospective client interpret the performance record.