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INVESTMENT PERFORMANCE COUNCIL (IPC)

Guidance Statement on the Use of Supplemental Information

Preface

The Investment Performance Council (IPC) has stated its intentions to transform the current Global Investment Performance Standards (GIPS®) into “gold” standards which will represent global best practices for historical performance calculation and presentation. The IPC has agreed to follow an evolutionary approach for development of the GIPS standards, which includes a strategy of not introducing significant changes to GIPS before January 2005. This strategy is designed to maintain a sensible balance between improving the GIPS standards while avoiding undue disruption to firms that are, or are in the process of, claiming compliance.

One step in the process involves a thorough review of the current GIPS standards to identify areas that require additional clarification and/or need to be improved.

During the review of GIPS, the IPC determined that there are several recommended provisions that should be added to GIPS. However, until the “gold” GIPS standards are finalized, these recommendations will not “officially” be part of the Standards.

The IPC anticipates releasing the “gold” GIPS proposal for a period of six months to solicit industry feedback in early 2004. The proposal will likely introduce changes that are consistent with the interpretation provided in this Guidance Statement.

Introduction

The GIPS standards encourage firms that claim compliance with the Standards to present all relevant information to fully explain their performance. Because this supplemental information could have the potential to be misleading in relation to the firm’s claim of compliance, this Guidance Statement defines and addresses the proper use of supplemental information.

What Is Supplemental Information?

Supplemental Information is defined as any performance-related information included as part of a compliant performance presentation that supplements or enhances the required and/or recommended disclosure and presentation provisions of the GIPS standards. Supplemental information should provide users of the composite presentation with the proper context in which to better understand the performance results.

What Is Not Supplemental Information?

Additional Information that is required or recommended under the GIPS standards is not considered “Supplemental Information” for the purposes of compliance.

As discussed in the Preface, the IPC anticipates adding recommendations and/or requirements to the GIPS standards with the release of the “gold” GIPS public comment document. Until these new provisions are approved and effective, the IPC acknowledges the following list of items that are not currently part of the GIPS standards that are considered Additional Information (not “Supplemental Information”):

1. Graphs and charts presenting specific information that is required or recommended under the GIPS standards
2. Composite returns for quarterly and/or shorter time periods
3. Annualized composite returns
4. Composite-level country and sector weightings

Recommended Additional Information is not required to be labeled/identified as supplemental or separate from the required compliant information.

Non-Performance Related Information is also omitted from this Guidance Statement. Non-performance information includes but is not limited to general information regarding the firm, a description of the investment strategy, or details about the investment process.

A final category of information that is not considered Supplemental Information is Misleading Information. Firms that claim compliance with the GIPS standards must not present information that may mislead or deceive. For example, the following two items are misleading and unrepresentative; therefore, compliant firms are prohibited from presenting this information (unless specifically requested from the firm by a prospective or current client in a one-on-one presentation):

- A. Model, hypothetical, backtested, or simulated results linked to actual performance results
- B. Non-portable performance from a prior firm linked to current ongoing performance results

This is not an exhaustive list and is only provided to show examples of potentially misleading information.

Guiding Principles

If a firm chooses to show supplemental information, it is important to consider the following guiding principles:

1. Supplemental information must satisfy the spirit and principles of the GIPS standards: i.e., fair representation and full disclosure.
2. Supplemental information must not contradict or conflict with the information provided in the compliant composite presentation.
3. Supplemental information must be clearly labeled and identified as supplemental to a particular composite presentation.

This guidance statement does not prohibit firms from preparing and presenting information according to specific requests from prospective clients. However, firms are recommended to provide all prospective clients with a fully compliant presentation prior to or accompanying any supplemental information.

Examples of Supplemental Information

Supplemental information must relate directly to the compliant presentation. Examples of supplemental information include, but are not limited to:

- Carve out returns that exclude cash
- Non-portable returns
- Model, hypothetical, backtested, or simulated returns
- Representative account information, such as:
 - Portfolio-level country weightings
 - Portfolio-level sector weightings
 - Portfolio-level risk measures
- Attribution
- Composite or portfolio-level specific holdings
- Peer group comparisons
- Risk-adjusted performance

Information that is recommended or required by the GIPS standards and is included in a presentation is not considered Supplemental Information. For example, GIPS II.5.B.1.b encourages/recommends that firms present cumulative returns for composites and benchmarks for all periods. These returns are not considered Supplemental Information and firms that choose to present cumulative returns do not have to label them as such, as they are recommended under the GIPS standards.

Location of Supplemental Information

Supplemental information must be clearly labeled and identified as supplemental to a particular composite presentation. The presentation and location of Supplemental Information in relation to the GIPS required or recommended data depends on the type of Supplemental Information and its potential to mislead prospective clients.

There are certain situations that allow for the presentation of both compliant and Supplemental Information on the same page; however, firms should consider that there are also many situations that call for the separation of compliant and Supplemental Information. When in doubt, firms are encouraged to place the compliant and Supplemental Information on separate pages.

Firms should provide all prospective clients with a fully compliant presentation prior to or accompanying any supplemental information. Firms must identify all Supplemental Information to a specific compliant presentation, for example:

- place supplemental information on the same or back of the page as the compliant data – if appropriate

- include a statement indicating that the supplemental information complements the XYZ Composite presentation (as provided on pg. 11 or provided on 15 March 200X)

This Guidance Statement does not restrict firms from providing any specific information requested by prospective clients or their agents.

Supplemental Information – Verification

Supplemental Information is not subject to verification under the GIPS standards. It is the ultimate responsibility of the firm claiming compliance to ensure that it abides by the ethical principles and spirit of the GIPS standards each time it presents performance results.

Effective Date

This Guidance Statement is effective 1 January 2004. Firms currently coming into compliance should apply this guidance to all periods. Firms are encouraged to apply this guidance prior to the Effective Date; however, this guidance must be applied to all presentations that include performance for periods after 31 December 2003.

Application:

1. *Can supplemental information be presented on the same page as the compliant presentation?*

Yes. Supplemental information can be presented on the same page as long as it satisfies the guiding principles of the Supplemental Information Guidance Statement (i.e., is not misleading, does not contradict or conflict with the required compliant information, is clearly labeled, and references the appropriate composite presentation that it supplements).

2. *Firm A has a market brochure that describes the firm, staff, and investment process. One of the pages contains the compliant presentation for a specific composite. Do all the other pages of the brochure need to be labeled as supplemental information?*

No. Supplemental Information is defined as any performance-related information included as part of a compliant performance presentation that supplements or enhances the required and/or recommended disclosure and presentation provisions of the GIPS standards. Supplemental information does not include general information regarding the firm or the investment strategy or process.

3. *XYZ firm created a presentation booklet that primarily highlights performance information that is considered supplemental. The booklet shows an appropriate compliant presentation in the back of the book as an appendix. Is it acceptable for the supplemental information to precede the compliant presentation?*

Yes, provided the supplemental information:

- is not misleading,
- does not contradict or conflict with the compliant information, and

- is clearly labeled as supplemental.

The firm must include a statement indicating that the supplemental information complements a compliant composite presentation, which can be found in the Appendix of the booklet.

4. *Are there any limits to what can be shown as supplemental information?*

The definition and guiding principles of this *Guidance Statement on the Use of Supplemental Information* are very specific about the types of information that should and should not be shown in conjunction to a fully-compliant GIPS composite presentation. When in doubt, firms should always turn their focus to the first guiding principle of the *Guidance Statement*, which is also the fundamental objective of the Standards: to ensure fair representation and full disclosure of performance results. By continually using this principle to guide the calculation and presentation of performance, firms are sure to satisfy the spirit and provisions of the GIPS standards.

Specifically, firms that claim compliance with the GIPS standards must not present information that may mislead or deceive. For example, the following two items are misleading and unrepresentative; therefore, compliant firms are prohibited from presenting this information (unless specifically requested from the firm by a prospective or current client in a one-on-one presentation):

- Model, hypothetical, backtested, or simulated results linked to actual performance results
- Non-portable performance from a prior firm linked to current ongoing performance results

This is not an exhaustive list and is only provided to show examples of potentially misleading information.