



Vincent Performance
Services LLC

2009

**Survey of Compliance with the Global Investment
Performance Standards (GIPS®)**

<http://www.vincentperformance.com/Survey.htm>

2009 Survey of Compliance with the Global Investment Performance Standards (GIPS®)



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Introduction

We are pleased to present the results of the Vincent Performance Services LLC 2009 Survey of Compliance with the Global Investment Performance Standards (GIPS®). This year's survey focused on three broad themes: (1) Compliance with the GIPS standards, (2) Changes to the Standards scheduled to take effect on January 1, 2010, and (3) the GIPS 2010 Exposure Draft, which is expected to have an effective date of January 1, 2011.

Methodology

The Vincent Performance Services LLC 2009 Survey of Compliance with the Global Investment Performance Standards (GIPS®) was conducted from March 2009 to June 2009. The results of the survey are divided into six sections: Firm Description, Claiming Compliance, Verification and Examinations, Changes to the GIPS Standards effective January 1, 2010, the GIPS 2010 Exposure Draft, and Comments/Suggestions.

The population for the survey was determined as follows. We began with the 758 largest money managers of U.S. institutional tax-exempt assets as listed in the May 26, 2008 edition of *Pensions & Investments*. From this list we identified the U.S. and Canadian firms. The *Pensions & Investments* listing provided firm information for only the top 250 largest firms. We therefore had to eliminate some firms whose name alone did not allow us to identify the firm. We also attempted to identify individual "GIPS firms" within some of the larger firms. This process resulted in a final survey population of 674 firms. Of the 674 firms invited to participate in the survey, we received 64 responses, resulting in a response rate of 9.5%.

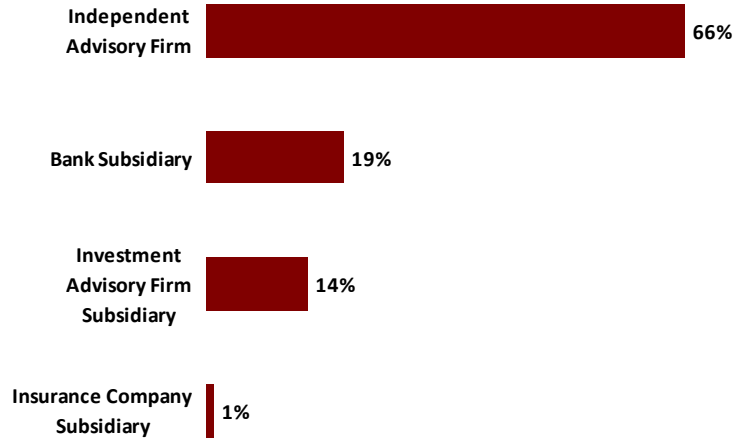
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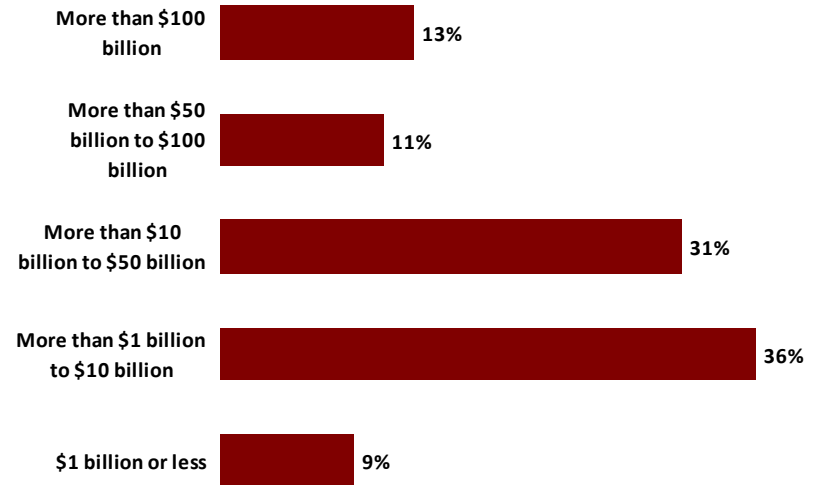
Firm Description

Most respondents identified themselves as independent advisory firms, although results also include responses from subsidiaries of investment advisors, insurance companies, and banks.

Which statement best describes your firm?



What are your firm's current assets under management?



For analytical purposes, we classified firms as either small or large. Small firms are defined as firms with assets under management (AUM) of \$10 billion or less, and large firms as greater than \$10 billion AUM.

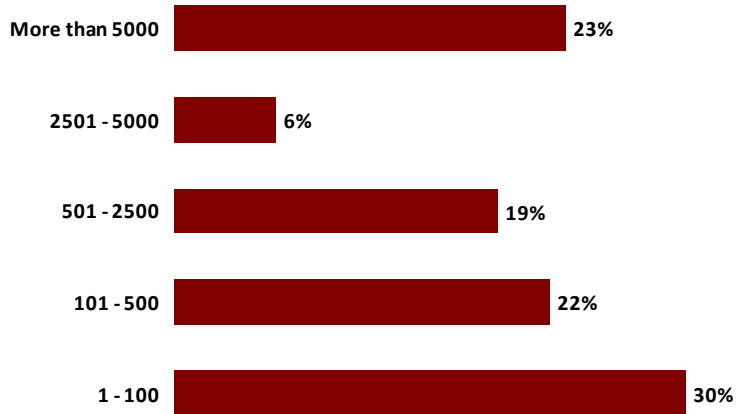
Just over half of the responding firms manage 500 or fewer accounts, yet 85% of those firms manage assets with an average account size greater than \$10 million. Of the approximately 48% of firms managing more than 500 accounts, only 26% had an average account size greater than \$10 million. This is consistent with our findings from last year suggesting that managers with fewer accounts typically manage larger pension and foundation accounts, while those with a large number of accounts are more likely to manage high net worth or individual accounts in addition to institutional accounts.

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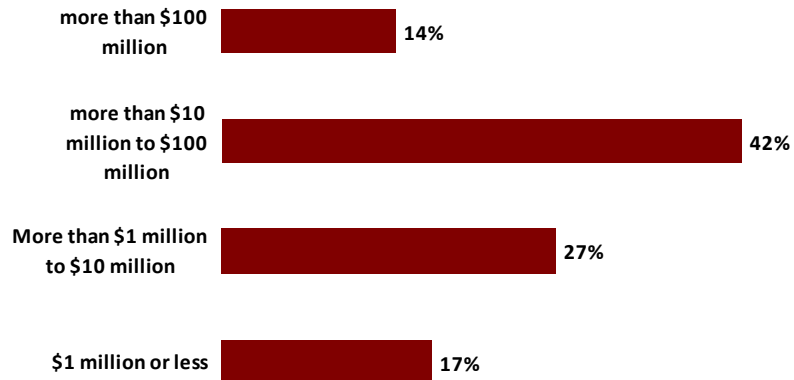
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How many accounts do you currently manage?

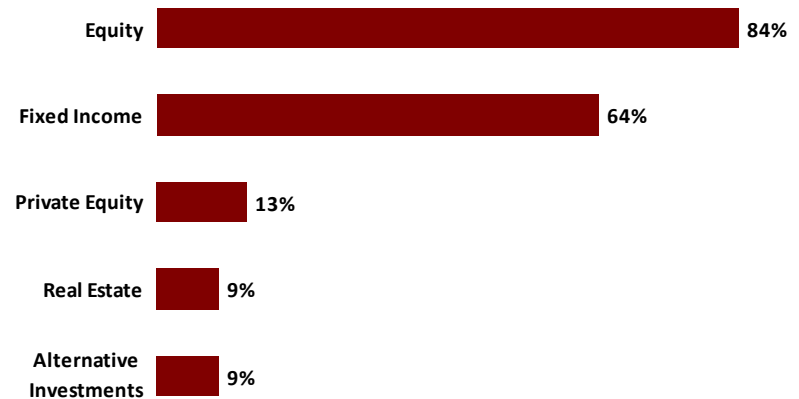


What is your average account size?



Respondent firms manage a diverse set of assets including fixed income, equity, private equity, non-REIT real estate, and alternative assets.

Which asset classes does your firm manage?



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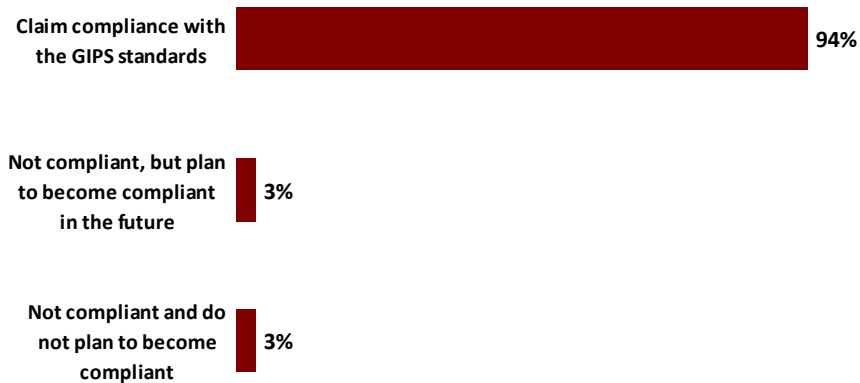
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Claiming Compliance

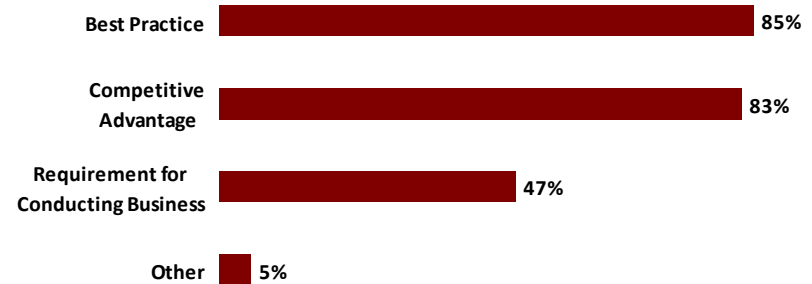
Consistent with last year, compliance with the GIPS standards is the industry standard for institutional asset managers. Few institutional clients in North America issue RFPs without asking if the manager is compliant with the GIPS standards, as do most databases. Ninety-four percent of respondents claim compliance with the GIPS standards compared to 96% of respondents claiming compliance with the Standards last year, 3% do not currently claim compliance, but plan to in the near future, and 3% were not compliant and do not plan on becoming compliant.

Which statement best describes your firm's compliance with the GIPS standards?



We asked why firms choose to claim compliance with the GIPS standards. The vast majority of firms (85%) answered that claiming compliance is best practice, with competitive advantage coming in a close second at 83%. A smaller, yet sizeable, 47% of respondents said claiming compliance is a requirement for doing business. One respondent replied that “In the institutional market, not claiming compliance would destroy our chances of new business.” Another responded, “Not sure it’s a competitive advantage anymore, but it certainly would be a competitive disadvantage if we were not able to claim GIPS compliance.”

Why does your firm claim compliance with the GIPS standards?



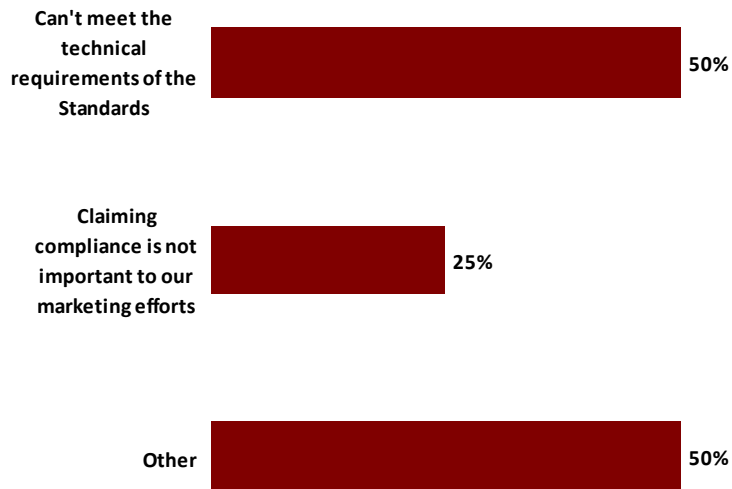
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We asked non-compliant firms why they do not comply with the Standards. No firm said that the cost of compliance was an issue this year. Firms either could not meet the technical requirements, or in the case of one firm, claiming compliance was not important to their marketing efforts. Another firm noted that they have been working towards being able to claim compliance with the GIPS standards and expect to be able to make that claim in 2009.

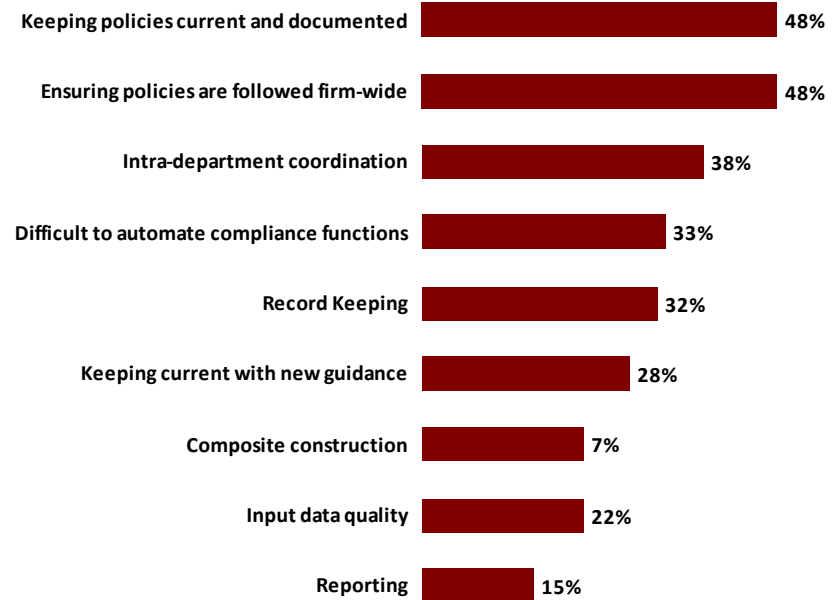
Why does your firm not claim compliance with the GIPS standards?



Challenges of Compliance

We asked firms to select the most challenging aspects of maintaining compliance with the GIPS standards. The most significant challenges identified were documenting and keeping the GIPS Policy and Procedures manual current, and ensuring that policies are followed firm-wide. We've observed firms struggle with the aforementioned while performing verification and examination of composites, so the result is not surprising. Intra-department coordination was listed as the next most challenging area. We tend to see this as especially challenging for firms that have acquired other asset managers where there is often a lack of understanding by all parties as to the compliance and record keeping requirements needed to claim and maintain compliance with the Standards.

Which are the most challenging aspects of maintaining compliance with the GIPS standards? (Top 9 responses listed)





Verification and Examinations

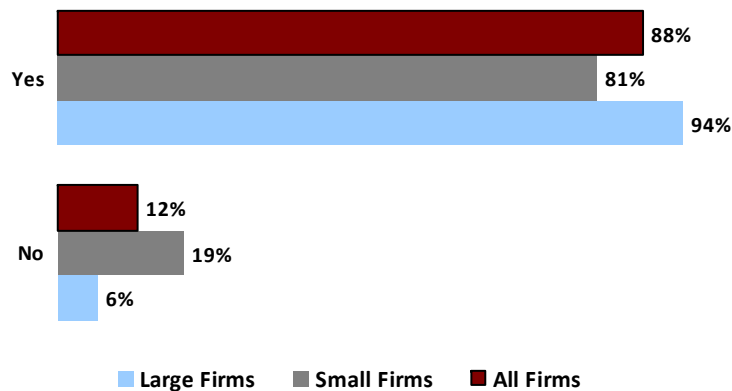
Firm Verification

Verification is the review of an investment management firm’s performance measurement processes and procedures by an independent third-party verifier. Currently the GIPS standards do not require a firm to be verified, however, they recommend that firms pursue verification.

While there has been much discussion over whether verification will become mandatory at some point in the future, the current view from the GIPS Executive Committee (the committee that oversees the Standards) is that verification will not be mandatory. Instead, as part of the 2010 Exposure Draft (see page 12), it is proposed that a firm disclose its verification status.

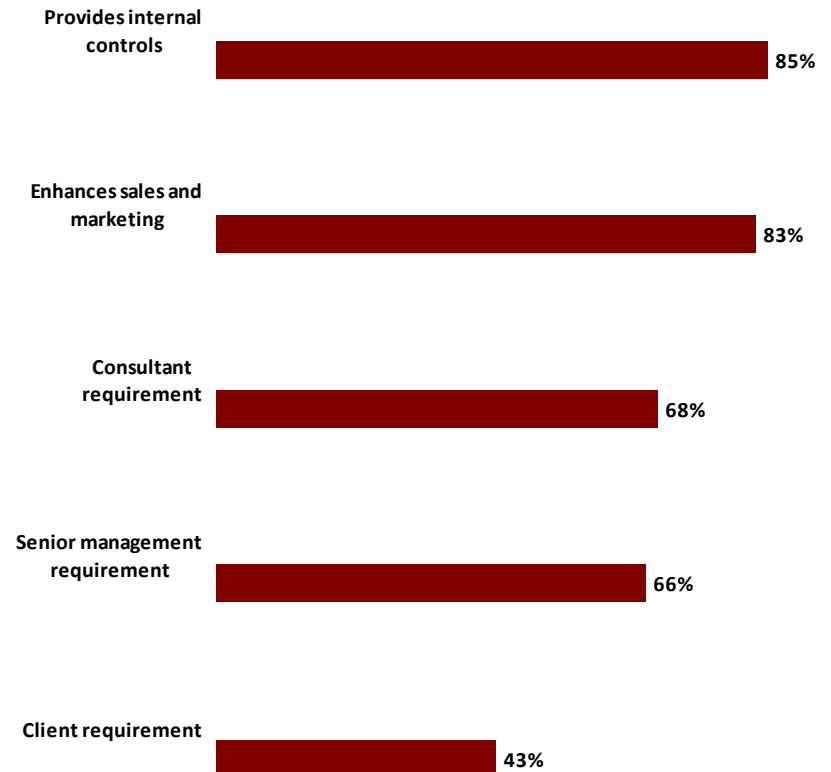
The majority of firms responding to the survey have been verified. Of the firms that stated they claim compliance with the Standards, 88% are verified. There was not a large difference in the percentage of large and small firms choosing to be verified.

If your firm claims compliance with the Standards, has your firm been verified?



We asked firms to identify the reasons why their firm voluntarily chose to be verified. Similar to last year, firms most frequently responded that they are verified because it provides good internal controls and verification benefits sales and marketing efforts.

If your firm was verified, why did you undertake the verification?



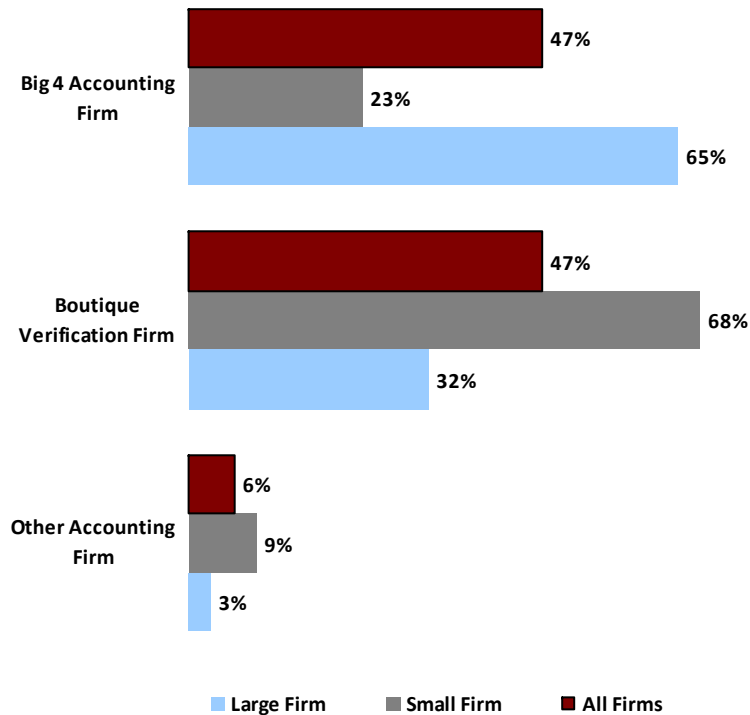


For firms choosing to be verified, the choice of verifier was dominated by the Big 4 and Boutique verifiers. The Big 4 had a larger share of the large firms compared with the Boutique firms, while the reverse was true for smaller firms. The results are not surprising, as larger firms will often have their primary auditor to also perform the verification.

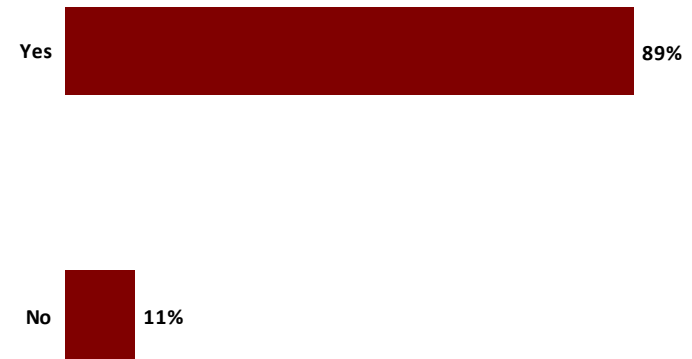
Composite Examinations

In addition to verification, a firm may choose to have additional testing performed on a specific composite. This is referred to as a composite examination or composite audit. Of the firms that were verified, 89% opted to have composites examined.

If your firm is verified, who performed the most recent verification?



In addition to a firmwide verification, did your firm have composites examined?

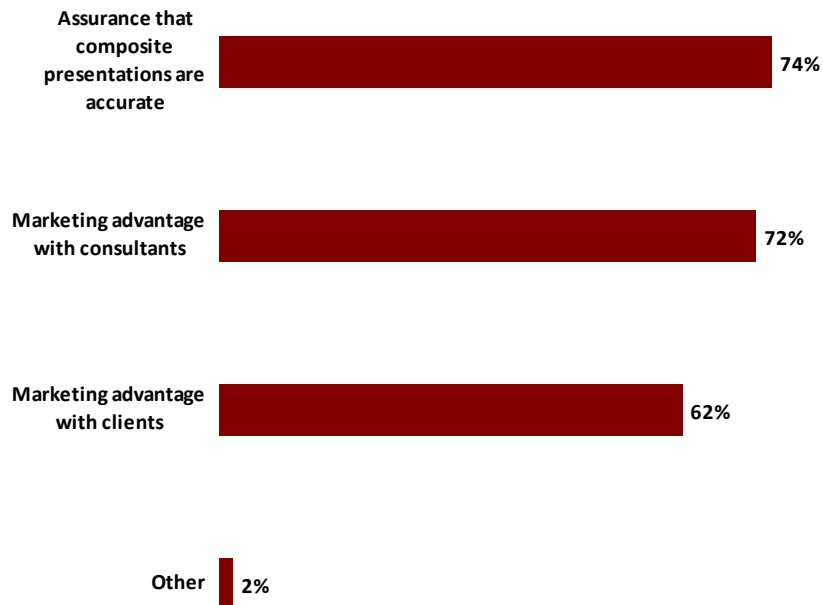


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Of the firms choosing to have performance examinations, 74% said they did so because it provides assurance that specific performance presentations are accurate. In addition, nearly 72% responded that they choose to have composites examined because it provides a marketing advantage with consultants and clients. These are down from last year's reported numbers of 88% and 80% respectively.

What was your firm's motivation for having composites examined?



Changes to the GIPS Standards Effective January 1, 2010.

On January 1, 2010, several changes are scheduled to occur with the GIPS standards. These changes are part of the existing GIPS standards and guidance and are not expected to change as a result of the GIPS 2010 Exposure Draft public comment process. Specifically, (1) firms must value all portfolios as of month end or the last business day of the month, (2) firms must revalue portfolios for large cash flows, (3) composites must be calculated at least monthly, (4) firms will no longer be allowed to include in composites accounts that are carve-outs with allocated cash, and (5) firms must have an established error correction policies.

2010 requirement to value portfolio as of month end or last business day

Ninety-seven percent of respondents said that revaluing portfolios as of month end, or the last business day would not be an issue. This is not surprising as most U.S. firms already follow this practice.

As of January 1, 2010, all portfolios must be valued as of month end, or the last business day of the month. Will this change impact your firm?



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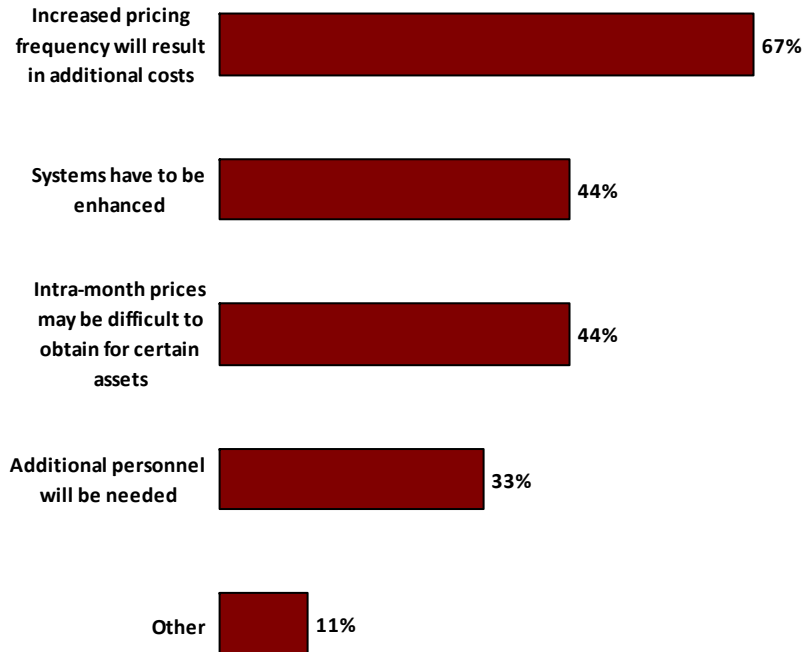
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2010 requirement to revalue portfolio for large cash flows

Fifteen percent of respondents said that revaluing a portfolio for large cash flows would be problematic. The increased costs associated with pricing the portfolio more frequently was selected as having the greatest impact, followed closely by systems needing to be enhanced and difficulty in obtaining prices for certain assets.

How will the requirement to revalue portfolios for cash flows above a predetermined threshold impact your firm?



2010 requirement to calculate composites at least monthly

As of January 1, 2010, the GIPS standards will require firms to calculate composite returns at least monthly. Ninety-five percent of firms responded that they are already meeting this requirement with only five percent noting that they will need to change their composite calculation policy.

As of January 1, 2010, composites must be calculated at least monthly. Quarterly composite calculations will no longer be allowed. Will this change impact your firm?



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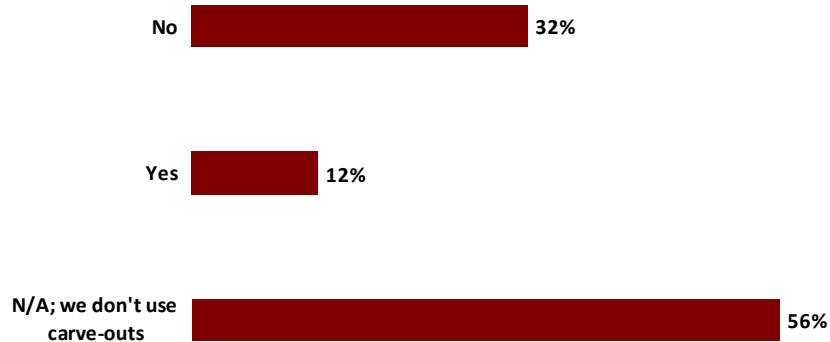
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2010 ban on carve-outs with allocated cash

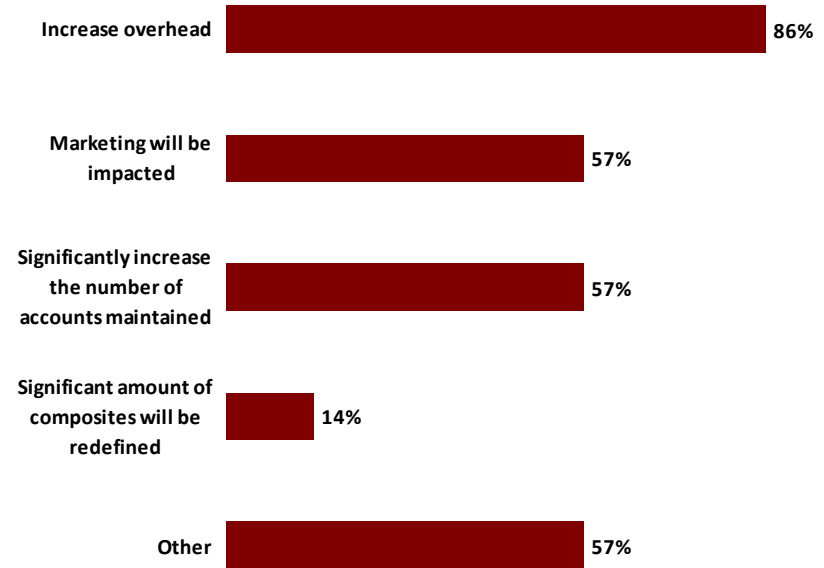
As of January 1, 2010, the GIPS standards will no longer permit carve-outs with allocated cash to be included in composites. Instead, each sleeve or segment of the portfolio will have to be managed as a separate sub-portfolio with its own cash balance. Since many firms rely heavily on carve-out composites (especially managers of balanced products), we were curious to learn what impact the change would have on those managers. The number of firms that said they would be impacted by the ban on carve-outs is down slightly this year from 18% to 12%.

As of 1/1/2010 a firm will no longer be able to include carve-outs (with allocated cash) in asset-class composites. Will the ban on carve-outs in the year 2010 impact you?



The biggest change we noted of any responses between last year's survey and the 2009 survey is how firms will be impacted by the ban on carve-outs. Last year only 26% of firms noted an increase in overhead as a major issue, while this year 86% noted this as the major issue. This is likely due to two major factors. As we approach the January 1, 2010 deadline, firms are beginning to realize the time and resources required to meet the new requirement. We also recognize that the number of firms responding that the ban on carve-outs is an issue is relatively small and may be skewing the results somewhat. Whatever the reason, firms don't have much time left to make the changes needed. We also noted that 57% of firms said the impact on marketing, and the significant increase in the number of accounts to be maintained, were important issues. One firm said they are likely to have further disclosures, possible loss of composite history (closed composites), and a significant loss in composite assets and accounts.

How will the ban on the use of carve-outs as of 1/1/2010 impact your firm?





2010 Error Correction Policy

As of January 1, 2010, firm’s must have established an error correction policy. We wanted to know how many firms have established such a policy. Fifty-five percent of the firms surveyed said they have established an error correction policy. Forty percent said they are in the process of establishing a policy, while five percent said they have not established an error correction policy.

As of 1/1/2010 a firm must have established an error correction policy. Has your firm established an error correction policy?



GIPS 2010 Exposure Draft

Not to be confused with the five changes taking effect on January 1, 2010, CFA Institute issued the [GIPS 2010 Exposure Draft](#) seeking public comment on several proposed changes to take effect beginning on or after January 1, 2011. We wanted to know what your thoughts were on what we believe are the more significant proposed changes.

Disclosure of a firm’s verification status

Disclosure of a firm’s verification status would be changed from a recommendation to a requirement. Firms would be required to explicitly state whether the firm has been verified or not; and if the firm has been verified, for which periods the firm has been verified. A third option is also provided for a firm that has not been “currently” verified. Currently is defined as a verification that occurred more than 24 months ago. The three compliance statement options are as follows:

For FIRMS that have been independently verified:

“[Insert name of Firm] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of Firm] has been independently verified for the periods [insert dates]. A copy of the verification report(s) is/are available upon request.”

For FIRMS that have not been independently verified:

“[Insert name of Firm] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of Firm] has not been independently verified.”



For FIRMS that have been verified, but are not currently verified. For purposes of this provision, a verification is considered current if the verification report covers a period ending not more than 24 months ago.

"[Insert name of Firm] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. [Insert name of Firm] has been independently verified for the periods [insert dates]. The Firm is not currently independently verified."

- We wanted to know if firms support the change to require the disclosure of verification status. Eighty-seven percent of the respondents support the change while 13% do not.

Do you support the change to require firms to disclose their verification status?



We asked those that responded yes why they support the disclosure of verification status. Of those that support the disclosure of verification status, 92% said that disclosing verification status gives credibility to the claim of compliance; 40% said it will encourage firms that claim compliance and have not been verified to pursue verification. This proposed change elicited many comments, including the following:

- Gives prominence to the fact that verification has been undertaken and derives value from that exercise by allowing us to 'advertise' formally that we have submitted ourselves to be verified;
- We also believe the disclosure of verification status should be expanded to include whether the Firm has had a performance examination as part of their verification;
- Provides clarity on the issue. Many readers may currently assume a firm has been verified;
- Easy to determine firm's verification status;
- Agree with disclosure but do not agree with "not currently verified" statement. It should be up to the reader to decide what is or is not current;
- Raises stature of verification in eyes of the investor;
- I think it is an important piece of information for prospects/consultants - many prospects may not think to ask, and it is not asked about in some consultant databases;
- Competitive advantage for verified firms;
- Requiring a statement on verification eliminates any question as to whether verification has taken place. Without the statement, some may conclude that compliance with GIPS automatically includes verification;
- Firms that have invested in verification might see a competitive advantage here.



Of those that do not support the disclosure of verification status, 63% said stating a firm has been verified may lead some prospective clients to believe that the results for a specific composite have been examined/audited when they have not. Thirty-seven percent said firms that operate in markets without qualified verifiers may be put at a competitive disadvantage. Other comments included:

- Firms should be able to make a positive statement only, no negative assurance should be required;
- Stating that a firm has been verified may lead prospective clients to believe that the results for a particular adviser are better or more accurate than results from those who have not been verified;
- Many consultants are confused about firm-wide verification; many seem to think it's a composite performance exam;
- Indirectly puts pressure on firms to be verified, effectively requiring verification.

Change from the concept of “market value” to “fair value”

Throughout the Standards the concept of “market value” would be replaced with “fair value.” Fair value is defined as the amount at which an asset could be exchanged in a current arm’s length transaction between parties in which the parties each acted knowledgeably, prudently, and without compulsion. We wanted to know whether firm’s support this change. Seventy-two percent of the respondents support the change from market value to fair value, while 28% do not.

Of those that support the change, 79% believe fair value changes may be more reflective of the actual value of assets, while 42% believe that pricing assets at fair value is more inclusive and permits assets that were previously excluded from the Standards to be included (e.g. GICS). Comments included:

- It reflects the industry changes in the US and internationally. Given the tiered approach to obtaining fair values, from a high level, we do not anticipate this being problematic;
- Allows flexibility of using Market Value where appropriate and Fair Value where appropriate;
- Fair value is more transparent. Even if the value is due to a fire sale, the fire sale price represents the fair value on that day;
- We are forced to support this change to comply with the requirements of FAS 157;
- I do not support the way that fair value is defined in the Standards - more stringent than FASB 157. Better to simply leave the definition to local laws, regulations and accounting principles with a fall back to IASB. Also need to define term so it is not confused with fair value as refers to international mutual funds.

Do you support the change from "market value" to "fair value"?

Yes 72%

No 28%

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Of those that do not support the change to fair value, 76% said fair value pricing introduces too much subjectivity into pricing and allows prices to be manipulated. Seventy-one percent said fair value pricing for the same security across multiple firms may not be consistent. Other responses included “It’s premature to expect worldwide adoption;” and “Still evaluating.”

Non-fee paying accounts would no longer be excluded based solely on fee paying status

The ability to exclude non-fee paying accounts from composites based solely on the fact that they are non-fee paying would be eliminated. Instead, all actual, discretionary accounts would be required to be included in at least one composite, regardless of fee paying status, as of January 1, 2011. Firms would be required to continue to disclose the percentage of the composite that is composed of non-fee paying accounts as of each annual period end.

Do you support the change to include all actual, discretionary portfolios in at least one composite regardless of fee paying status?



Eighty-three percent of the respondents support including all discretionary accounts regardless of fee paying status, while 17% do not. Of those that support including non-fee paying accounts, 76% said fee paying status should not impact whether an account is included in a composite. Seventy-four percent said composites that are inclusive of all of the firm’s discretionary accounts produce results that are more representative of the firm’s historical performance record. Other comments included:

- If non-fee paying accounts are included in a composite with fee paying accounts you should only report gross of fee returns;
- The inclusion of seed accounts in unique composites will produce extra administrative tasks and potentially a much longer list of composites as it will include those strategies that were seeded but never launched and I question the value of requiring those to be included;
- Fee paying status does not necessarily bear on discretion. If discretionary, a portfolio should be included in a composite.

Of those that do not support including non-fee paying accounts in a composite, 60% said if composite net returns are calculated using actual fees, the inclusion of non-fee paying portfolios in a composite will produce misleading net composite returns. Fifty percent said non-fee paying portfolios are typically managed differently from fee-paying portfolios so they would not “qualify” for inclusion in a composite. Other comments included:

- Non-fee paying accounts are actually managed the same way here. Also, we net down these accounts based on the highest representative product fee. Why I do not support the change is the requirement to disclose what percentage of the composite the non-fee paying account represents. This information does not seem useful for a prospect and presents an additional reporting burden on the GIPS compliant organization;
- Most non-fee-paying portfolios are seed capital portfolios. These are funded and liquidated depending on market demand for the product. Including these exposes our strategy to competitors.



Disclosure of percentage of composite assets represented by proprietary portfolios as of the end of each annual period

Firms would be required to disclose the percentage of composite assets represented by proprietary portfolios as of the end of each annual period, for periods beginning on or after January 1, 2011. A proprietary portfolio is defined as a portfolio of assets that is owned by the firm, the firm’s management, or the firm’s parent company.

Sixty percent of the respondents support disclosing the percentage of composite assets composed of proprietary portfolios, while forty percent do not. Of those that support disclosing the percentage of proprietary portfolios in composite assets, 81% said prospects should know if the track record is based on internal versus third party client assets. Forty-four percent said proprietary portfolios are less constrained and may be managed differently than third party client accounts. Other comments included:

- Knowing that 3rd-party assets are invested in a strategy versus proprietary assets possibly provides prospects with some additional 'comfort'. In our case assets will follow the same strategy if they are discretionary assets whether 3rd party or internal. Again rather than this being advantageous, we do not consider this problematic;
- Sometimes proprietary portfolios that do not do well are never marketed.

Do you support the requirement to disclose the percent of composite assets represented by proprietary portfolios as of the end of each annual period, for periods beginning on or after January 1, 2011?



Of those that do not support disclosing the percentage of composite assets of proprietary portfolios, 88% said the source of an account’s funding has no impact on the way the account is managed, therefore this disclosure is not meaningful. Fifty percent said this disclosure makes it appear as if proprietary assets call into question the validity of a composite that includes proprietary assets. Other comments included:

- Proprietary accounts have little relevance in demonstrating a firm’s ability to prospects;
- What is considered proprietary assets may lead to different interpretations and, in the end, may not provide anything meaningful for comparative purposes.

Disclose if actual or model fees are used when presenting net-of-fees returns

Firms would be required to disclose if actual or model fees are used when presenting net-of-fees returns.

Eighty-five percent of respondents support requiring firms to disclose if actual or model fees are used when presenting net-of-fees returns, while only fifteen percent do not. Of those supporting the disclosure, 78% said the prospect should know how net-of-fees returns are calculated so they can best understand the actual return they might have earned. Seventy-six percent said the prospect should know how net-of-fees returns are calculated in order to make a fair comparison between competing firms.

Do you support disclosing if actual or model fees are used when presenting net-of-fees returns?



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Of those that do not support disclosing if actual or model fees are used when presenting net-of-fees returns, 89% said this information is available in the firm's policies for calculating and reporting returns, which the prospective client can request if they want additional details about the calculation. Sixty-seven percent said it is common practice to disclose how net-of-fees returns are calculated, therefore this requirement is not needed. One respondent commented that this "information is of little interest to most investors."

Prohibition against showing performance to a prospective client that is known to have assets below the composite minimum

Firms would be prohibited from showing performance of a composite that has a minimum portfolio size for inclusion to a prospective client that is known to have assets below the minimum. This is currently a recommendation, but would become a requirement. We asked if firms support this change.

Forty-three percent of the respondents support making it a requirement that firms be prohibited from showing performance to a prospective client that does not meet the composite minimum, while fifty-seven percent do not support making this a requirement. Of those respondents that support making this a requirement, 21% said showing a prospect a strategy they cannot invest in may be misleading. Seventy-seven percent said composite minimums are supposed to be based on the amount of assets necessary to employ the strategy; therefore it is proper to limit the distribution to prospective clients with the ability to actually invest in the strategy. One respondent said, "Caveat with this as it is difficult to 'know' exactly the size of the asset pool that the prospect may wish to invest, but presenting the Composite that is appropriate to the prospect's situation is obviously the fair representation."

Do you support prohibiting firms from showing performance to prospective clients that do not meet the minimum asset composite requirements?





Of those respondents that do not support making this a requirement, 85% said, establishing procedures to ensure we do not violate this requirement will be very difficult, if not impossible, to do. Thirty-five percent said one particular type of composite criteria/restriction should not be treated differently than other types of restrictions when marketing to prospects. Other comments included:

- A prospect may be close to the minimum. Further, the marketer may not know exactly how much capital the prospect has or would be willing to commit;
- The potential client does not always disclose to the firm how much they intend to invest at the outset of the due diligence process. The standards should only apply to the compliant firm not its potential clients;
- Some clients want to see this. We're supposed to deny that;
- This should remain a recommendation. What if a portfolio is \$1 below the minimum market value? Some firms may make an exception and accept the business;
- Limits marketing effort and servicing small clients;
- Clients may consider more funding in the future if they find the investment style with minimum asset requirement to be suitable for them. This way they will at least know about the different levels of services;
- Just because they don't meet the minimum requirement now does not mean they won't later. Also, we may market a particular product to a prospect but feel like other products may be of interest to them as well. We should be free to present those products without worrying whether or not they have assets that meet the minimum requirement for that product;
- A Firm may sometimes present various composites to a prospect simply to illustrate the experience and historical record of the managers. The disclosures already state the asset minimums for the composite;
- May be difficult to implement if not 100% sure of size of mandate;
- This change could limit the ability of a firm to sell its products;
- The word "prohibited" is too strong. Most firms effectively do this through the prospecting process if they are following "best practices";
- This requirement will restrain flexibility in marketing investment products. A prospective client might change his mind about the amount of money he is willing to invest with a money manager if he is pleased with performance results.

Disclosure of 3-year annualized ex-post standard deviation for the composite and the benchmark as of the most recent annual period

Firms would be required to disclose the 3-year annualized ex-post standard deviation for the composite and benchmark as of the most recent annual period presented. We asked if firms support this change.

Fifty-seven percent of the respondents support requiring a firm to disclose the 3-year annualized ex-post standard deviation for the composite and the benchmark, while forty-three percent do not. Of those that support making this a requirement, 76% said it allows investors to gauge the risk of the strategy, measured by volatility of the historical returns relative to the benchmark. Seventy-one percent said standard deviation is a well known and understood measure of risk. Other responses included:

- Simple, straight forward and better than nothing (possibly) as long as the frequency, n or n-1 and method of annualizing are either dictated in the standard or required to be supplied. Using quarterly numbers rather than monthly can make a huge difference;
- I think this type of risk measure is important. It may not be perfect in all situations, but it is a well-known statistic and easy to calculate.

Do you support requiring firms to disclose the 3-year annualized ex-post standard deviation for the composite and the benchmark as of the most recent annual period presented?



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Of those that do not support making this a required disclosure, 69% said standard deviation is not a relevant risk measure for all strategies. Firms should be able to select the risk measure they think is most meaningful. Twenty-three percent said standard deviation is not an appropriate measure of risk. Other comments included:

- The standards already require an annual measure of dispersion. The client usually chooses what statistics they want to evaluate once the due diligence process begins;
- Each client/prospective client has their own risk measure that will need to be provided. i.e. 3yr vs. 5yr, monthly vs. quarterly...;
- Prospects are free to ask for any dispersion measure they want to see and over any time period they want to see it. It doesn't need to be a requirement;
- Number of observations may not make the standard deviation meaningful;
- Annual standard deviation is already presented;
- This would be fine as a recommendation, not a requirement.

Disclose the presence, use, and extent of short positions, if material

In addition to disclosing the presence, use, and extent of leverage and derivatives, if material, a firm would also be required to disclose the presence, use, and extent of short positions, if material.

Eighty-eight percent of the respondents support disclosing the presence, use, and extent of short positions, if material, while twelve percent do not. Of those that support this requirement, 89% said disclosure of the use of short positions gives prospective clients a better understanding of the risks inherent in the strategy. Sixty-six percent said a prospective client would be able to better understand differences in strategies when comparing returns from different managers. Other comments included:

- If material? Why employ a short strategy if the impact is not (supposed) to be material? Best to just declare the use of short positions if employed; period. Frequency, amount, etc. and dates employed may need to be given some parameters to enable useful comparison of impact;
- I think the term "material" should be defined better by the GIPS;
- It may be difficult to determine what is a "material" use of shorting.

Do you support requiring firms to disclose the presence, use, and extent of short positions, if material?



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Of those respondents that don't support making this a requirement, 86% said this is redundant, because the material use of short positions should already be included in the composite description disclosure (Provision 4.A.20), and 86% said it may be difficult to determine what is a material (versus immaterial) use of short positions. One respondent said they are "still evaluating."

Real estate assets must obtain external valuations at least once every 12 months effective January 1, 2012

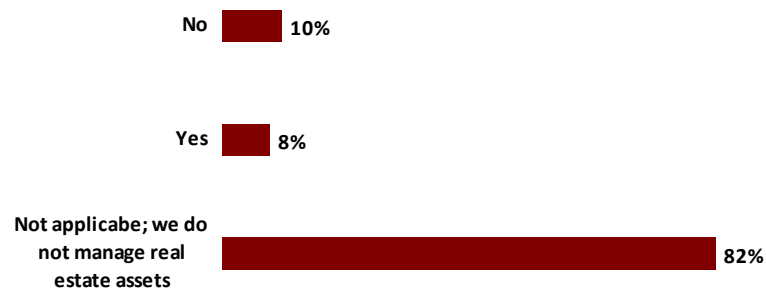
As of January 1, 2008, managers of real estate assets must obtain external valuations at least once every 36 months. As of January 1, 2012, managers of real estate assets would be required to obtain external valuations at least once every 12 months. We wanted to know if firms support this change,

Of the respondents to which real estate assets apply, 45% of the respondents support external valuations at least once every 12 months, while 55% do not.

Of those that support this requirement, 100% said more frequent external valuation will allow for more accurate performance calculations. One respondent commented, "It most likely falls in line with internal analysis performed by the manager."

Of the respondents that do not support this requirement, 83% said increasing the valuation frequency will be cost prohibitive. Thirty-three percent said external valuations are not necessarily more accurate than internal valuations. One respondent said they "have not yet come to a conclusion on this question."

Do you support requiring firms to obtain external valuations at least once every 12 months?



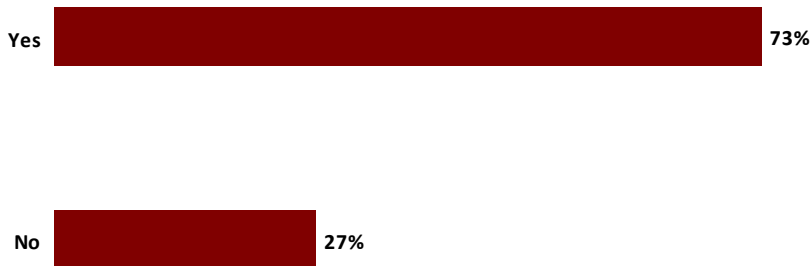


Closed-end real estate funds must calculate and report a since inception internal rate of return (SI-IRR), net of fees, in addition to time-weighted income and capital components

As of January 1, 2011, composites of closed-end real estate funds must calculate and report a since inception internal rate of return (SI-IRR), net of fees, in addition to time-weighted income and capital component returns. We asked if firms support this change.

Seventy-three percent of the respondents support the requirement that closed-end real estate funds calculate and report a since inception internal rate of return (SI-IRR), net of fees, in addition to time weighted income and capital component returns, while twenty-seven percent do not. Of those that support this requirement, 88% said it is common practice for closed-end real estate funds to report SI-IRR information so this change will standardize such reporting among various managers. Sixty-three percent said an SI-IRR return will provide helpful information to prospective clients.

Do you support requiring composites of closed-end real estate funds to calculate and report since inception internal rate of return (SI-IRR), net of fees, in addition to time weighted income and capital component returns?



Of those that do not support this requirement, 67% said preparing SI-IRR information will take unnecessary additional time and resources. Sixty-seven percent said SI-IRR information is already provided when appropriate, therefore, such requirements are not needed in the GIPS standards.

Private equity funds/composites will be required to use daily cash flows as of January 1, 2011

Currently internal rate of returns calculations (IRR) for private equity funds/composites must use either daily or monthly cash flows. As of January 1, 2011 only daily cash flow would be allowed. We asked if firms support this change.

All of the respondents that manage private equity assets responded that they support requiring daily cash flows. Eighty-eight percent responded that using daily cash flows will generate more accurate IRRs.

Do you support requiring private equity funds/composites only using daily cash flows when calculating internal rate of returns calculations (IRR)?



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Comments/Suggestions

We asked which topics/areas firms believe should be addressed or enhanced within the GIPS standards. We did not receive many comments/suggestions this year. Below are the few we did receive.

“The Fair Value guidance should be expanded to include more detail. Most practitioners are not accountants and are not experts at SFAR or international accounting standards. To apply these new provisions will require further instruction to the users.”

One respondent wanted to know what kind of oversight does the industry have for the benchmark provider? The person noted that while reviewing monthly performance returns for one index provider, they noted several monthly returns that looked out of line and asked the provider to review those months. The respondent reported that the vendor found month-end pricing errors, and subsequently restated benchmark performance.

One respondent stated they would like to see CFA Institute publish a Handbook for GIPS 2010 once it is finalized that includes all the guidance in one place, noting it is hard to hold firms accountable to complying with things that are difficult to find on the website. They would also like to see the Executive Committee move past trying to “perfect” the rate of return calculation and deal with more meaningful topics.

Another respondent noted that in these tough economic times, it is difficult to keep up with the best technology and resources to claim compliance with the GIPS standards and their upcoming expectations from firms. They also noted that with many changes happening at the SEC, most firms are unsure what the SEC will examine when looking at firms claiming compliance with the GIPS standards.

VPS Comments

We agree that with increased regulatory oversight firms will need to be diligent in their claim of compliance. We also agree that some of the upcoming and proposed GIPS standards changes may stretch the budgets at some firms. We are pleased to see that quite a few U.S. firms took the opportunity to make their voice heard during the public comment period. With respect to regulatory oversight, and in particular the SEC, we have published a number of articles related to the GIPS standards and the SEC. See “SEC staff issues first ‘ComplianceAlert’ letter” in the [July 2007 VPS Views & News newsletter](#); “SEC Update” in the [October 2007 VPS Views & News newsletter](#); “SEC Update” in the [October 2008 VPS Views & News newsletter](#), and “Preparing for the SEC Document Request List” in the [January 2009 VPS Views & News newsletter](#)

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Conclusion

The results of the Vincent Performance Services LLC 2009 Survey of Compliance with the GIPS Standards included firms of all sizes representing all of the major investable asset classes. This year's survey showed firm's continue to claim compliance with the GIPS standards as it represents best practice and offers a competitive advantage in the market place. The majority of firms claiming compliance have taken the additional step of being verified sighting several advantages, such as providing additional internal controls and enhancing sales and marketing. Most firms also had at least one composite examined noting that the examination provides assurance that composite presentations are accurate, and provides a marketing advantage with consultants.

We asked questions directed at how well firms are prepared for the changes scheduled to take effect January 1, 2010. Firm's generally appear to be ready for the changes with a few exceptions. The one area we noted that firms have more work ahead is with respect to the error correction policy. We noted that only slightly over half of the firms noted they had an error correction policy in place. We think that firms will greatly benefit from having such a policy as it sets the framework around what to do when an error has occurred. We recommend firms think broadly about the types of errors that could occur and how they would handle each one. See our [July 2008 VPS Views & News newsletter](#) for some additional guidance on establishing an error correction policy.

Finally, we asked your thoughts on the [GIPS 2010 Exposure Draft](#). Generally, firms support most of the proposed changes to the Standards. A few areas that did not garner support included prohibiting firms from showing performance to prospective clients that do not meet the minimum asset composite requirements, and requiring firms to obtain external valuations for real estate assets at least once every 12 months. Two other areas of the GIPS 2010 Exposure Draft had only marginal support. The requirement to disclose the percentage of composite assets represented by proprietary portfolios as of the end of each annual period only garnered 60% of support from respondents, while the requirement to disclose the 3-year annualized ex-post standard deviation for the composite and benchmark as of the most recent annual period had the support of only 57% of the respondents.

Although many firms want to know how others in the industry handle implementation of the GIPS standards, often this information is opaque or anecdotal at best. We hope that our survey has shed light on how the industry approaches the Standards and will serve as the basis for analysis of future changes. If you have any questions on this survey or suggestions for future surveys, please contact us at info@vincentperformance.com

Finally, we would like to thank the survey respondents for their participation in our survey. Without their shared time and insights this report would not be possible.

About Us

Vincent Performance Services LLC provides GIPS verification and consulting services to investment managers of all sizes and complexity located throughout the world. We are committed to delivering unsurpassed service based on a real understanding of the issues and a genuine enthusiasm for what we do.

Additional information about our services and expertise can be found at www.vincentperformance.com