



## More Highlights from the GIPS® Standards Annual Conference

The GIPS Standards Annual Conference, sponsored by CFA Institute, was held in Boston in late September. In our October newsletter we described highlights from several sessions and promised to provide more information in our next newsletter. Highlights from various sessions follow.

**Firm Management: Where Does Performance Fit?** The three presenters for this session were Stephen Campisi, CFA and Principal at Intuitive Performance Solutions, James M. Edmonds, CFA and Global Head of Performance at AllianceBernstein, and Holly H. Miller, Partner at Stone House Consulting, LLC.

The session followed a Q&A format and started with an informal survey by a show of hands to indicate where performance teams are located within the organizational structure of the firms represented in the audience. The overwhelming majority of performance teams were located in operations, followed by a small number in compliance, and only one or two in sales/marketing or portfolio management. When asked where they thought the performance team should be located in the back, middle or front office, it was generally agreed that the answer depends on what the best fit is for a particular firm, given the firm's individual needs or considerations (e.g. size and nature of the business). However, all three of the panelists stressed the importance of ensuring that the performance team remain independent of the internal stakeholders (i.e. portfolio management, sales/marketing). The panelists answered a question on the functions of the performance team and also generally agreed that this would depend on several factors, including the size of the firm, the skill set of team members, and the amount of technology and resources dedicated to performance. The functions the panelists believed would generally be covered by performance teams included the calculation of portfolio and composite-level returns, risk and analytics, attribution, GIPS compliance and composite management, and reporting, including both client and marketing/sales. Mr. Campisi also stated that performance teams should be more involved in external communications as they are in a position to understand the firm's products and investment process and will most likely also have people with the skills required to effectively communi-

cate to external parties. Mr. Campisi also stated that at most firms, individuals not involved in performance measurement would be surprised at the depth and breadth of knowledge housed within the performance team. When asked what skills, experience, and education a member of the team should have, Ms. Miller said that analysts should start in operations/accounting in order to obtain an understanding of the inputs into performance. Ms. Miller also stated that if she were looking for a performance analyst from another department within the firm, she would look for someone with initiative and a willingness to learn and perform above and beyond what is expected of them in their current role. All panelists generally agreed that performance analysts should pursue CFA and/or CIPM designations.

**GIPS Help Desk Live: Q&A Roundtable and GIPS 2010 Q&A Session Q&As** were discussed in several sessions, and we have picked out some key questions that were discussed. We wouldn't be surprised to see official Q&As on these topics be issued in the future.

**Can a significant cash flow policy consider both the size of the cash flow as well as the portfolio's return? For example, can our significant cash flow policy state that a portfolio is removed from the composite only if the cash flow is above the level of significance and the portfolio's return is more than a certain percentage from the mean return?** No. A level of significance is meant to be the level above which you believe the portfolio is non-discretionary. The deviation of the return from the mean should not be a consideration in deciding whether a portfolio should be removed from the composite.

**Are Q&As in the AIMR-PPS Q&A database authoritative?** No. The AIMR-PPS Q&A database may provide some guidance when no other information is available, but AIMR-PPS Q&As are no longer authoritative. Firms that have used the AIMR-PPS Q&A database as guidance in the past should make sure the guidance has not been replaced by GIPS guidance statements or Q&As in the GIPS Q&A database.

**As of 1 January 2010 portfolios must be revalued for large cash flows. Can**

*(Continued on page 2)*

### Inside this issue:

Six New GIPS Q&As Issued 2

Upcoming GIPS Workshops and European Conference 4

## More Highlights from the GIPS® Standards Annual Conference

**we set a level of large that is so large we will never (or very rarely) need to revalue?** No. The level should be set at an amount above which the performance would be distorted if the portfolio was not revalued. Remember that this value can be different from composite to composite. [VPS note: As we mentioned in the October newsletter there will be a new explicit requirement to not deviate from this policy, meaning that if a cash flow falls below your “large” threshold, you will not be allowed to revalue the portfolio.]

**Can we differentiate between cash and in-kind transfers for large cash flow or significant cash flow purposes?** No. Cash flows should be treated the same, regardless of type. [VPS note: We can think of one potential exception. In the case where a transition manager is used and the incoming portfolio already reflects the manager’s strategy, you may be able to make an exception and transfer the in-kind portfolio without treating it as a large or significant cash flow.]

**Can we have a policy where a composite’s significant cash flow policy is suspended if there is only one portfolio left in the composite?** No. The level of significance is meant to represent the level above which a portfolio is temporarily considered non-discretionary. There would be no justification for changing this level based on the number of accounts in the composite. [VPS note: Remember that if a composite loses all of its portfolios, even temporarily, you will no longer be able to link the performance achieved prior to the portfolio being removed with performance achieved

once the portfolio is re-included. A solution is to use “temporary new accounts.” Under this scenario, you would set up a temporary new account on your system and in the case of a significant withdrawal, you would transfer the cash or securities to the new temporary account for liquidation and/or distribution to the client. The portfolio would treat the transfer as a withdrawal and performance would be calculated to include the cash outflow at the date of the transfer to the temporary account. For a significant cash inflow the process would be similar. Set up a temporary new account and place the funds or securities in the temporary account until all the funds/securities have been invested in line with the strategy at which time they would be transferred to the main portfolio, and you would treat the transaction as an incoming cash flow for performance purposes.]

**Provision 0.A.11 requires us to make every reasonable effort to provide a compliant presentation to all prospective clients. Can we meet this requirement by telling a prospective client that they can get the compliant presentation on our website? Alternatively if we provide them with a CD that includes all of our firm’s compliant presentations when we first meet with them, would that suffice?** You do not satisfy the requirement to make every reasonable effort to provide a prospective client with a compliant presentation by simply referring them to the compliant presentation on your website. You would, however, satisfy this requirement if you provide a prospective client with a CD that includes all of the appropriate presentation(s).

*“You do not satisfy the requirement to make every reasonable effort to provide a prospective client with a compliant presentation by simply referring them to the compliant presentation on your website.”*

## Six New GIPS® Q&As Issued

Six new Question and Answers were recently added to the [GIPS Q&A Database](#). The Q&As are under the broad classifications of Cash Flows, Discretion, and Error Correction. (You can also find them by searching by date, for items added after September 2009.) Neither the questions or answers are direct quotes, and include our opinions along with additional explanatory language. A summary of the key points from each Q&A follows.

**If I use the Aggregate Method to calculate monthly performance must I create a large cash flow policy at both the portfolio and the composite level?**

Some firms use the aggregate method, whereby all the assets and cash flows are aggregated and treated as one portfolio to calculate monthly performance. When this method is used portfolio-level returns are not used in the composite calculation. However, a firm using the aggregate method does not get a “pass” on being required to revalue portfolios for large cash flows as of 1/1/10. As of this date firms must create a large cash flow policy for each composite. Firms using the aggregate method must create a large cash flow policy at both the composite and portfolio levels. The large cash flow policy does not have to be the same for

*(Continued on page 3)*

## Six New GIPS® Q&As Issued

*(Continued from page 2)*

both the composite and its portfolios. You could set up your policy where you revalue the portfolio for any external cash flows that exceed ten percent of the portfolio's beginning market value, but only revalue the composite if the cash flow that triggered the portfolio revaluation exceeds a certain monetary amount or a certain percentage of the composite's assets. Likewise, you could decide to adopt a policy where the composite is revalued anytime a portfolio is revalued, regardless of how immaterial the impact might be at the composite level. By doing this you would prevent those situations where you have a composite return that doesn't seem to make sense relative to the returns of the portfolios in the composite.

**Beginning 1 January 2010, firms will be required to value portfolios on the date of all large external cash flows. Can the Modified Dietz method still be used?** The short answer is yes. A firm that does not have any large external cash flows may continue to use the Modified Dietz method as they currently use it. If a large external cash flow occurs, firms using the Modified Dietz method will calculate performance up to the date of the large external cash flow in accordance with their procedures for valuing the portfolio for large external cash flows, and will use the Modified Dietz method for the sub-period. They will then calculate another partial period return using the Modified Dietz method from the date of the cash flow to the next period end or to month end if there are no more large cash flows during the month. The partial period returns are then geometrically linked to arrive at the monthly return.

**As of 1 January 2010 the GIPS standards require portfolios to be valued "on the date of" all large external cash flows. We currently use the assumption that all cash flows occur at the beginning of day in our calculation. When an external large cash flow occurs, we revalue the portfolio at the close of business on the day prior to the external large cash flow. Will the requirement to value portfolios for large external cash flows beginning 1 January 2010 "on the date of the cash flow" mean our policy is no longer acceptable and that we must revalue the portfolio on the exact date of the external large cash flow?** No, your formula is acceptable. The intent is to require firms to revalue portfolios at the time of all large cash flows. Revaluing portfolios as of the

prior day's closing value is acceptable and appropriate if the firm assumes cash flows occur at the beginning of the day.

**Effective 1 January 2005, firms must use approximated rates of return that adjust for daily-weighted external cash flows such as the Modified Dietz method. Given that firms will be required to revalue portfolios for large external cash flows beginning 1 January 2010, will firms still be required to adjust for daily-weighted external cash flows?** Yes. The requirement to day weight cash flows as of 1 January 2005 is not being eliminated. For firms that calculate returns monthly, the firm must continue to use a monthly rate of return methodology that adjusts for external cash flows. For example, for a firm that currently uses the Modified Dietz method, they would continue to calculate performance as they do now in months where no large external cash flows occurred. In a month where there is a large external cash flow, the firm will calculate a sub-period return using the Modified Dietz method up to the date of the large external cash flow, and then will calculate another sub-period return from the date of the external cash flow through month-end using the modified Dietz method. The two sub-period returns will be geometrically linked in order to arrive at the monthly return.

**Must a discretionary, multiple-strategy portfolio be included in a multiple-strategy composite? Would the answer be the same if each of the portfolio's segments are included in a corresponding composite? For example, if a firm manages a discretionary balanced strategy that contains equity and fixed income segments, must the balanced portfolio be included in a balanced composite if the equity and fixed income segments (including cash) are included in their respective composites?** A discretionary, multiple-strategy (or multi-asset) portfolio must be included in an appropriate multi-strategy composite. This guidance is a significant departure from guidance that was in an AIMR-PPS Q&A from October 1999. (The old Q&A can be found in the [AIMR-PPS Q&A Database](#). It's the third question under "Balanced Composites/Portfolios.") The old AIMR-PPS Q&A said that a firm could either include the total multiple-asset portfolio in a balanced composite or include each segment (with its own allocated cash) in composites with other multiple-asset portfolio segments or with other single-asset portfolio seg-

*(Continued on page 4)*

*"A discretionary, multi-strategy portfolio must be included in an appropriate multi-strategy composite.."*

## Vincent Performance Services LLC

2014 NE Broadway Street  
Portland, OR 97232

Phone: 503-288-2704

Fax: 503-548-4435

Email: [info@vincentperformance.com](mailto:info@vincentperformance.com)

**Performance is all we do.**



Vincent Performance  
Services LLC

---

[WWW.VINCENTPERFORMANCE.COM](http://WWW.VINCENTPERFORMANCE.COM)

---

Vincent Performance Services LLC provides GIPS consulting and verification 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](http://www.vincentperformance.com)

To unsubscribe or change recipient information, please send an email to

[newsletters@vincentperformance.com](mailto:newsletters@vincentperformance.com)

## Six New GIPS® Q&As Issued

*(Continued from page 3)*

ments. The key word above is “or.” Some firms that had a balanced strategy, where the equity and bond components were in stand alone composites, chose not to include the balanced portfolio in a balanced composite. The new Q&A clarifies that the firm must include the multiple-asset portfolio in an appropriate composite. Including only the segments in composites would not suffice. Assuming the segments have their own cash (as cash may no longer be allocated to segments as of 1 January 2010), the firm could also include the segments in their own composites.

**The GIPS Guidance Statement on Error Correction states that firms must disclose in a compliant presentation any changes resulting**

**from a material error for at least 12 months following the correction of the presentation. Does this apply to prospective clients that we know have not received the erroneous presentation?** No. If you are providing a compliant presentation to a prospective client who has not previously received the presentation with a material error, then you may provide them with a (corrected) compliant presentation that does not have the error disclosure. The corrected presentation with the disclosure of the material error must be provided to all prospective clients and other parties that received the erroneous presentation. However, if you are not able to determine who received the erroneous presentation, you must include the material error disclosure in the compliant presentation for a minimum of 12 months following the correction of the presentation.

## Upcoming GIPS Workshops and European Conference

On behalf of CFA Institute, we will be co-instructing an introductory GIPS workshop in New York, London, and Phoenix. The workshop is suited for performance professionals who are new to the GIPS standards, or those who wish have a thorough refresher on complying with the GIPS standards. The December workshop in New York will also highlight the recently announced approved changes to the next version of the GIPS standards. Dates and locations are as follows:

New York, December 2, 2009

London, February 23, 2010

Phoenix, March 11, 2010

We will also be speaking at the 2010 European GIPS Standards Conference, which will be held in London on February 24-25, 2010. As the revised GIPS standards will have just been released, we expect the conference will be very well attended. Information about all of these events is available on the [GIPS standards website](#).