



GIPS[®] Overview

(Global Investment Performance Standards)

Presented by Finnovative Inc.

Presentation for CFA Society of San Francisco

March 17, 2011



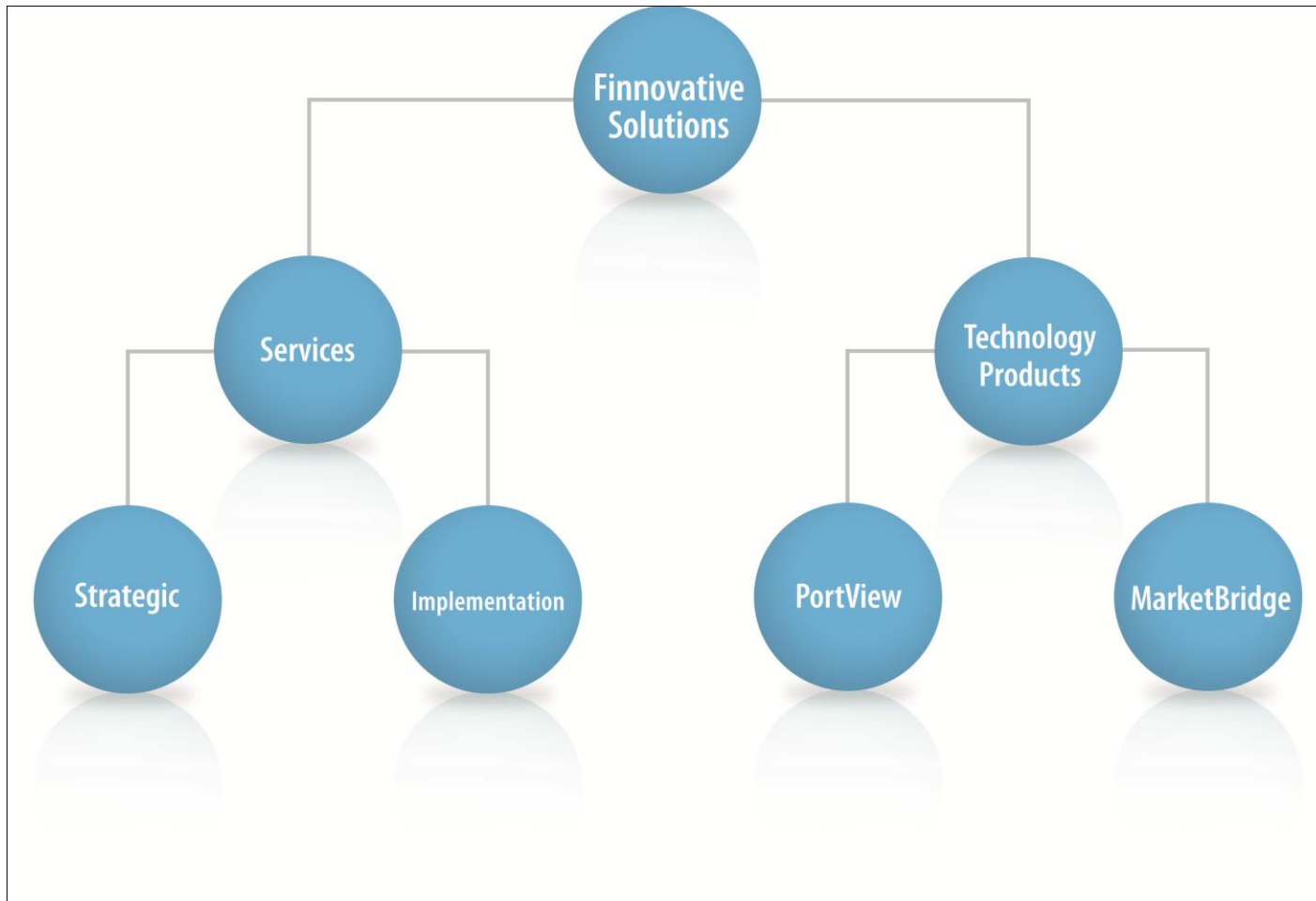
Agenda

- 1) Introduction
- 2) Demystifying GIPS
- 3) Process for Becoming GIPS Compliant
- 4) Common Challenges in Claiming GIPS Compliance
- 5) New Trends and Case Studies
- 6) Conclusion and Q & A

1.0 Introduction

- Mr. Nitin M. Barve, CFA is a Co-Founder and Principal of Finnovative Inc. [Finnovative has helped over 80 investment management firms in areas such as to risk management, performance analytics, operations, reporting, and GIPS to help them improve their AUM and Performance while meeting compliance and efficiency goals. Finnovative is listed on GIPS web-site as a solution provider for GIPS compliance (www.gipsstandards.org)]
- Nitin's prior experience includes work with Citibank, Wells Fargo, and Charles Schwab. Areas of focus include OTC derivatives, modeling, performance measurement and risk management.
- Since 2006, instructor for three study sessions (incl GIPS) at the CFA Level III review program at CFA San Francisco. Since 2008, Adjunct professor at the School of Economics and Business Administration (Instructor for Financial Engineering and Risk Management) at Saint Mary's College in Moraga, CA.
- MS and BS from IIT, Mumbai/Chennai and has been a CFA charterholder since 1996.

1.0 Finnovative Introduction





1.0 Finnovative Introduction

Services

- GIPS: Assess Eligibility, Build Composites, Verification & Examination
- Enterprise-level Operations & Technology Assessment and Roadmap
- Business Continuity Planning and Periodic Testing
- Interim and Transition Management services

Technology Products

- *MarketBridge*: Data Integration Toolkit in partnership with Bloomberg LP
- *PortView*: Performance Analytics and Composite Management tool for GIPS compliance



2.0 Demystifying GIPS

- 1) Definitions of GIPS: What it is, What it is not
- 2) Why GIPS?
- 3) The evolution of GIPS
- 4) Abuses that GIPS is designed to curtail
- 5) Benefits of GIPS
- 6) GIPS and the demand for increased transparency
- 7) Documents impacted by GIPS

2.1 Demystifying GIPS

GIPS is:

- Global Investment Performance Standards are Sponsored by CFA (Chartered Financial Analyst) Institute (earlier known as AIMR)
- A worldwide standard for **calculating and presenting** performance
- All about Accuracy and Consistency, Policies and Procedures is IMPORTANT
- a voluntary ETHICAL standard
- Relevant for only investment management firms or subsidiaries
- A firm-wide concept and an all-or-none (NO exceptions allowed)



2.1 Demystifying GIPS

GIPS is NOT:

- Applicable to firms that are **not investment management** firms
- Applicable to individuals
- Mandatory as it is not a regulatory standard
- A one-time activity; requires on-going monitoring



2.2 Demystifying GIPS

Why GIPS came into existence:

- Prevent fraudulent or misleading ways of communicating performance
- Support the ability to uncover fraud and avoid abuses
- Establish globally recognized uniform practices

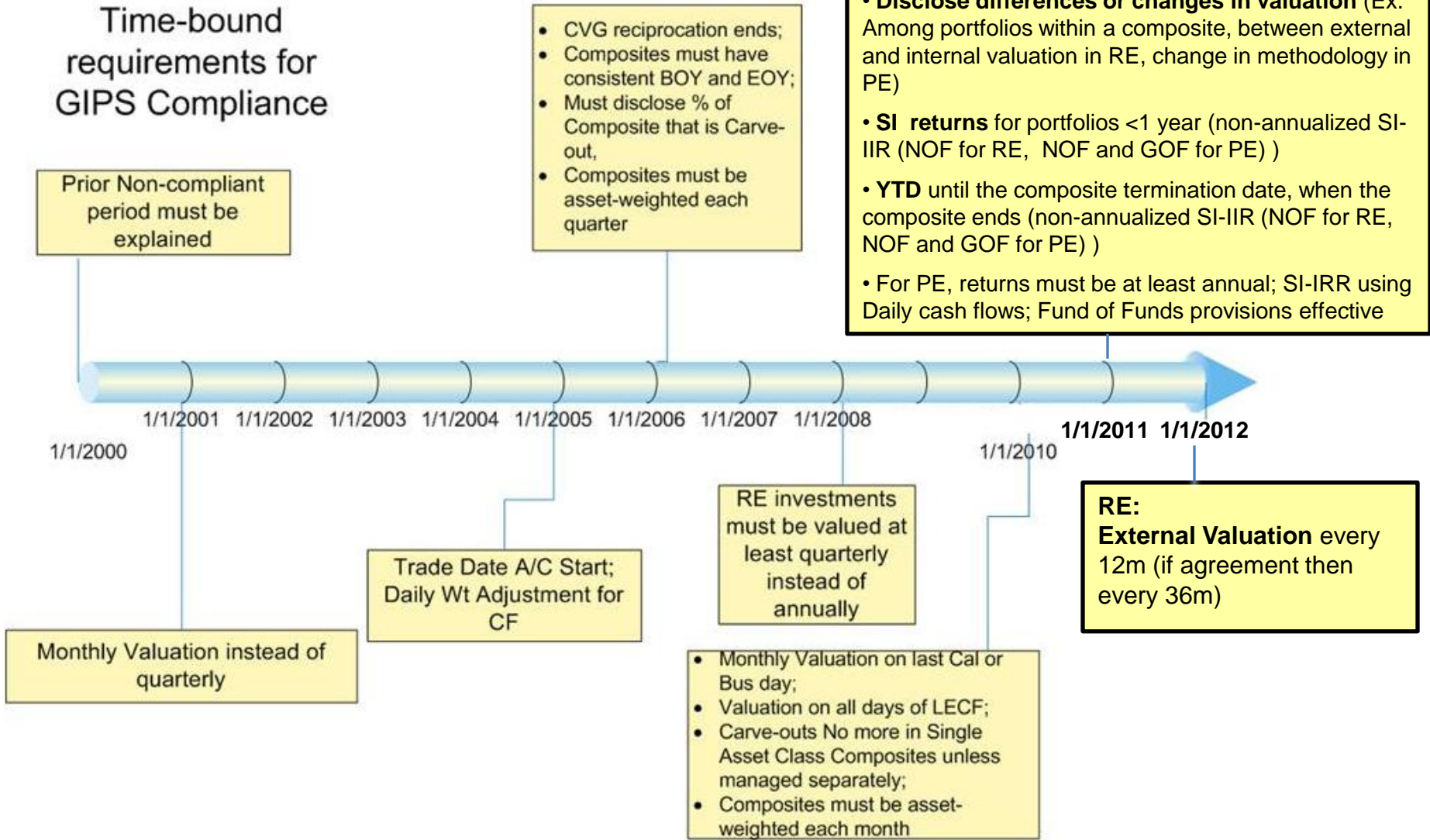


2.3 Demystifying GIPS

Evolution of GIPS:

- 1990 – AIMR-PPS[®] adopted by AIMR[®]
- 1993 – PPS[®] Handbook First Edition Published
- 1997 – PPS[®] Handbook Second Edition Published
- 2002 – GIPS[®] Handbook First Edition Published
- 2005 – GIPS[®] Handbook Next Edition Published
- 2010 – GIPS[®] Handbook Latest Edition Published

Time-bound requirements for GIPS Compliance





2.3 Demystifying GIPS

Key Changes (effective 1/1/2010)

- Monthly Valuation only at EOM
- Carve-outs must be managed separately with their cash allocations
- Valuations of portfolios on all days with Large External Cash Flows

Key Changes (effective 1/1/2011)

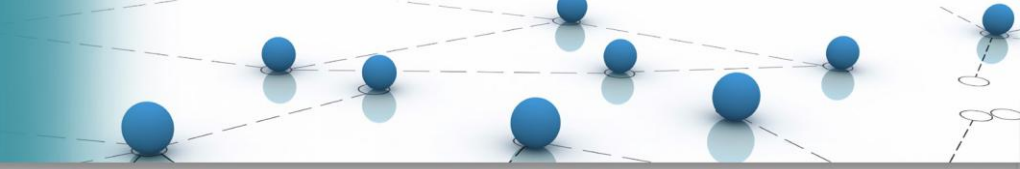
- Fair Value Methodology (required when no market value is available)
- Standard Deviation of both composites and benchmark needs to be displayed
- Verification Status disclosure



2.4 Demystifying GIPS

Examples of abuses that GIPS is designed to curtail:

- Mixing *real* portfolios with *simulated* (model) portfolios
- Annualizing partial-period returns
- Cherry-picking only the best portfolios and periods
- Using a “Beaten” benchmark for comparison
- Using unsubstantiated asset prices and valuations
- Using graphics to dilute the real contents



2.5 Demystifying GIPS

Benefits of GIPS: (For investors)

- Higher level of assurance of accurate and consistent performance reporting
- Easier to identify investment firms' suitability to client objectives
- Increased peer group credibility and opportunity for broader asset gathering of institutional funds

Benefits of GIPS: (For investment firms)

- GIPS increases credibility
- Cost of not complying can exceed cost of being compliant
- Organizations in nearly 30 countries sponsor and promote GIPS so allows to compete for global business
- Latent benefits



2.6 Demystifying GIPS

Increased transparency supported by GIPS:

- Increased asset allocation to alternative investments
- GIPS contains more than 20 specific requirements and recommendations for formal disclosures;
- Specific guidelines exist for Advertising material
- GIPS promotes cohesive Internal Operating Policies and Procedures

2.6 Demystifying GIPS

Increased transparency supported by GIPS (*continued*):

The GIPS recommended Disclosures address:

- **Definitions:** Firm, Strategy, Discretion, Account inclusion/exclusion/transfer
- **Calculation Methodology:** Account Returns, Measure of Dispersion, Composite Returns, returns for blended benchmarks
- **Investment and Trading Processes:** Use of derivatives/leverage; treatment of dividends/with-holding taxes
- **Other Items:** Specific items to cover period(s) of non-compliance, known conflict with local securities laws, Real Estate & Private Equity provision
- **Advertising:** Claim to compliance; Detailed performance presentations



2.7 Demystifying GIPS

Documents impacted by GIPS:

- Private Placement Offering Memorandum (PPMs)
- Investment Management Agreements (IMAs)
- Side Letters (addendum to standard IMAs)
- Investment Committee Meeting Notes
- ADV Parts I & II
- Monthly and Quarterly Client Statements
- Marketing Material /Fact Sheets



Discussion Question-1

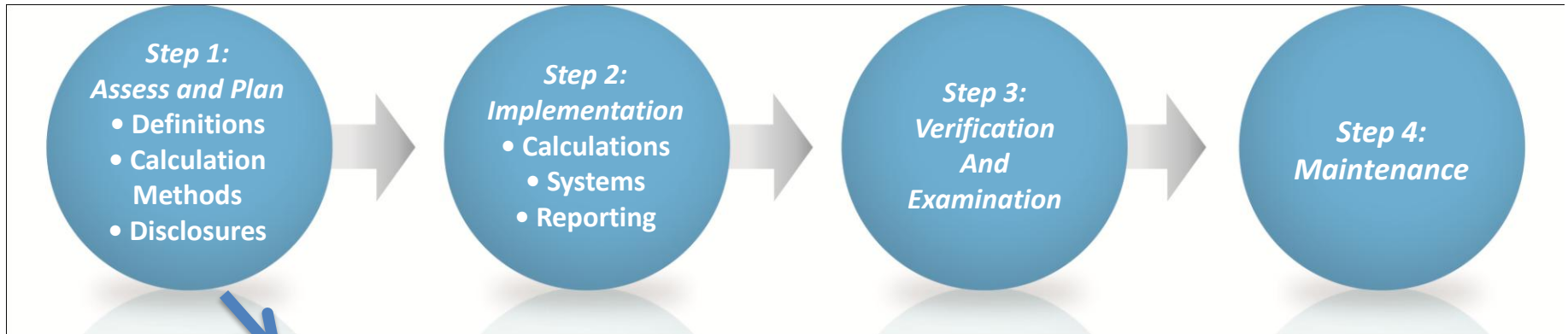
- State the reasoning behind creating composites only for marketing reasons and not for GIPS compliance

(Guess, only when and where numbers are attractive.)

Identify what provisions are not met

3.0 Process for Becoming GIPS Compliant

4 Step Process



GIPS Policies and Procedures Document

3.1 Process for Becoming GIPS Compliant

Assessment and Planning

- Review of firm history, growth, investment styles, market positioning
- Analyze and Assess investment processes, trading, valuation, and reporting
- Review infrastructure adequacy for calculations and reporting
- Identify the implementation tool (in-house, automated, 3rd Party)
- Set up policies and procedures; Calculate ROI



3.1 Process for Becoming GIPS Compliant

Assessment and Planning (*continued*): Key Terms

- Requirements and Recommendations
- Firm
- Composite
- Strategy
- Discretion
- Benchmark
- Measure of Dispersion



Discussion Question-2

Delaware Capital Management has complied with all the requirements described in the Global Investment Performance Standards (GIPS)[®] ”

State if the above is accurate for GIPS Compliance. Explain any changes required if the above statement is not in compliance.

Discussion Question-2

Delaware Capital Management has ~~complied with all the requirements described in~~ PREPARED AND PRESENTED THIS REPORT IN COMPLIANCE WITH the Global Investment Performance Standards (GIPS)[®].
<based on verification....>”



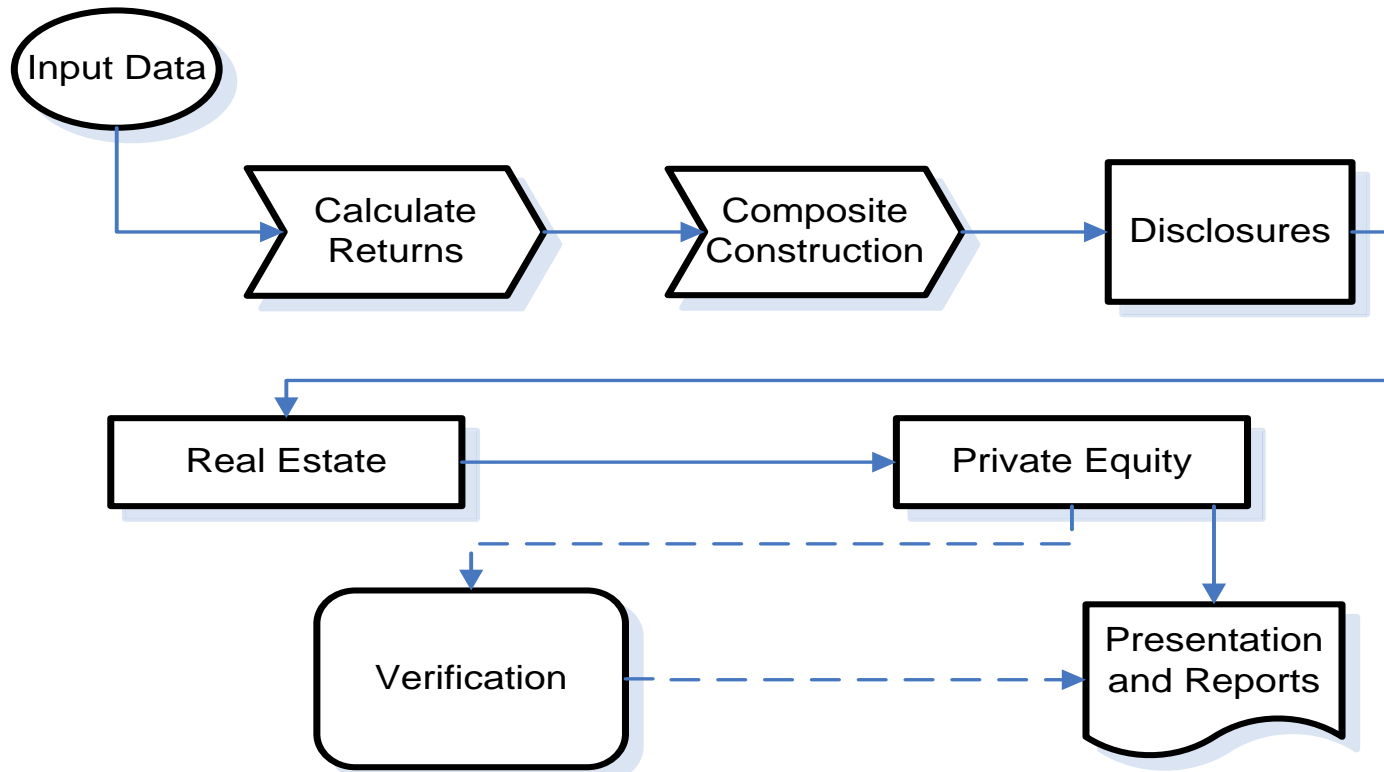
3.2 Process for Becoming GIPS Compliant

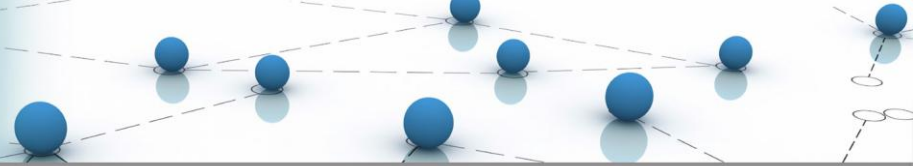
Implementation and Composite Construction

- Calculate monthly and annual returns for accounts and benchmarks
- Apply rules for composite inclusion and exclusion
- Calculate composite returns, dispersion measure, and other required measures
- Prepare detailed disclosures
- Produce final presentations
- Store all historical raw data
- Repeat for all composites on a monthly basis

3.2 Process: High-level GIPS Implementation

Implementation and Composite Construction





3.2 Process: Inclusion/Exclusion Decision Tree

Implementation and Composite Construction

Is Portfolio ...	Yes	No
Actual ?	MUST	NEVER
Fee-paying ?	MUST	MAY
Discretionary ?	MUST	NEVER

3.2 Sample of Requirements for Valuation

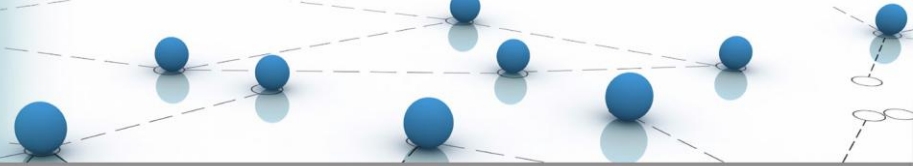
Fair value - this reflects the amount at which an investment could be exchanged in a current arm's length transaction between willing parties acting knowledgeably and prudently.

- Accrual for all fixed income or interest earning holdings
- Trade Date - consistent with the timing of when the investment decision is actually made
- All data must be captured and maintained
- Valuation Frequency:
 - Up to 1/1/2001 - Quarterly; Up to 1/1/2010 – Monthly;
 - After 1/1/2010 – at LECF (“Large External Cash Flow”)
- After 1/1/2010 – Portfolios must be valued on LCD (“Last Calendar Day”) or LBD (“Last Business Day”) of each month
- Consistent Beginning of Period (“BOP”) and End of Period (“EOP”) for composites

3.2 Sample of Recommendations for Valuation

Implementation and Composite Construction

- Accrual method for dividends as of ex-date
- If NOF (“Net of Fees”) then accrue Investment Management fee
- LCD (“Last Calendar Day”) or LBD (“Last Business Day”) even up to 1/1/2010 (after which they become “Requirements”)
- Valuation of portfolios on all (and not just “large”) external cash flow dates



3.3 Process for Becoming GIPS Compliant

Performance Verification and Examination

No	Criteria	Verification	Examination
1	Applicable at	Firm level	Composite level
2	Stand-alone?	Yes	No
3	Focus Areas	Policies applied consistently? Processes and procedures in compliance?	Correct calculations?
4	Approach	“Top-down”, wide & shallow	“Bottom-up”, narrow but deep

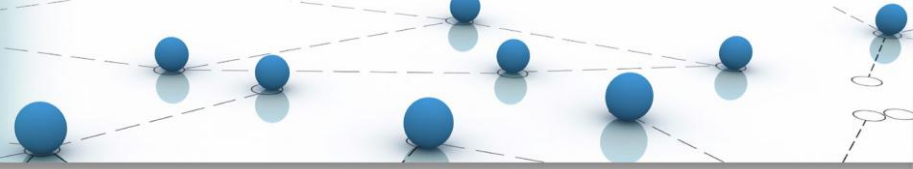
- OPTIONAL but from 1/1/2011, firms need to clearly indicate if Verified or Not.
- Verification should be done by an “independent” firm (that has not been responsible for “implementing” compliance.)



3.4 Process for Becoming GIPS Compliant

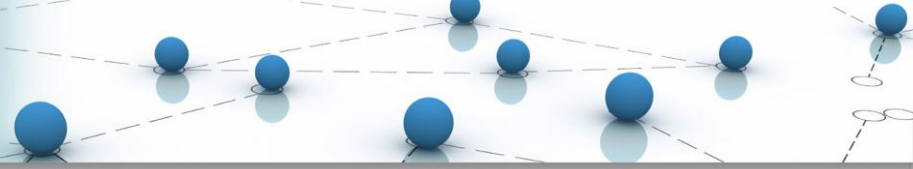
Maintenance

- Calculations need to be repeated each month/quarter
- New GIPS requirements go into effect periodically
- Firms' operating and business models evolve
- Check-list containing more than a dozen items to be reviewed each month
- Business structures (M&A, buying of books, spin-offs)
- On-going support from top management and line staff is key



4.0 Common Challenges

- 1) Internal Agreement
- 2) Cost and Expertise
- 3) Platform/Data



4.1 Common Challenges

Internal Agreement

- Resistance to change
- Chief Compliance/Operations Officers may see this as unnecessary workload
- Firms ability to cohesively make joint decisions
- Disagreement about long term vision of firm 's growth
- Lack of reinforcement by senior management or “ownership” defined



4.2 Common Challenges

Cost and Expertise

- Lack of adequate knowledge-base
- Is cost of implementation justifiable?
- Is cost prohibitive longer term if major changes in business model ?
- Training or hiring of personnel to implement *and* maintain proper expert guidance firms



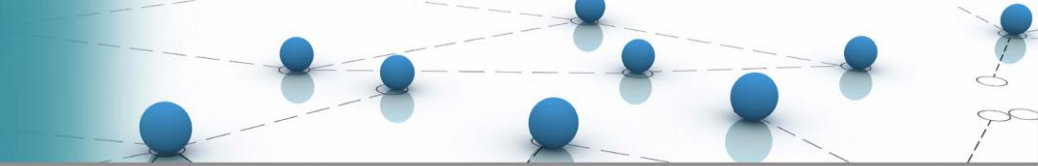
4.3 Common Challenges

Platform

- Decision-making to utilize existing systems and infrastructure
- If decision to replace, vendor selection requires assessment, selection
- How do we implement initially and then sustain an automated solution?

5.0 Recent Trends

- Smaller firms beginning to think about GIPS compliance to gain a competitive advantage
- Firms at \$100 million mark or at inception are taking steps to either be compliant or ensure their ability to claim compliance in the near term in order to:
 - To gain a competitive advantage and enter the institutional/foundation/SMA/wrap segments
 - Pre-emptive: Remove risk of higher costs in becoming compliant by having to retroactively remedy problems that prohibit them from claiming GIPS compliance
- RFPs contain more questions related to GIPS Compliance including preparedness, and plans for becoming GIPS Compliant in the future as well as GIPS Verification Status



GIPS Implementation Case Studies

5.1 Case Studies: Case Study 1

Investment Firm Profile: A wealth-management firm with AUM > \$150 million

Marketing Strategy: Emphasis on transparency and fiduciary responsibility to clients; now start to tap into endowments/foundations

Management Goals:

- 1) Ensure current and planned investment strategies present confidence to their investors and prospects
- 2) Ensure these strategies meet institutional standards including the higher level of due diligence conducted by ERISA investors



5.1 Case Studies: Case Study 2

Investment Firm Profile: Manager of manager

Marketing Strategy: Offer clients opportunity to achieve above-benchmark returns through selection of world class emerging managers

Management Goal: Adherence to highest standards of performance reporting and improved competitiveness with larger competitors. Ensure consistent and accurate client presentations.

5.1 Case Studies: Case Study 3

Investment Firm Profile: A RIA firm with both directly managed and licensed products with total AUM > \$60 Billion

Marketing Strategy: Offer proprietary strategies through SMA and LP offerings and various licensed products through partners

Management Goal: Ensure that the firm is clearly presented to be competitive with institutional and high-net-worth investor segments



6.0 Conclusion; Q & A

Conclusion

- Once understood, GIPS is not difficult to implement
- Complements Compliance and Operations, Side-benefits abound
- GIPS continually evolves
- GIPS compliance becoming a necessity in the new industry climate

- **Q & A THANK YOU!**

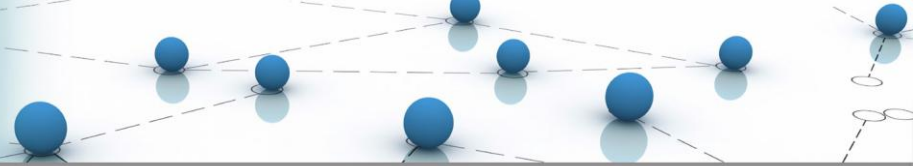
Appendix A: Sample GIPS Compliant Report

Sample GIPS Compliant Report								
XYZ Capital Management, Inc. Performance Results: XCM Equity Performance Composite								
1/1/2003 through 9/30/2007								
Year	Total Net of Fee Return (%)	Standard & Poors 500 Index Return (%)	Number of Portfolios	Dispersion (%)	Total Assets at End of Period (USD millions)	Percentage of Firm Assets	Percentage of Non-Fee-Paying Portfolios	Total Firm Assets (USD millions)
2003	7.12	26.37	18	2.01	5.00	6.24	N/A	80.11
2004	13.52	9.00	18	1.34	6.28	6.95	N/A	90.39
2005	11.84	3.00	21	1.98	9.56	10.09	N/A	94.75
2006	16.95	13.62	19	1.86	11.03	10.46	N/A	105.41
2007	12.05	7.65	26	2.02	13.08	12.17	N/A	107.48

Performance

Year	XCM Equity Performance (%)	Standard & Poors 500 Index (%)
2003	7.12	26.37
2004	13.52	9.00
2005	11.84	3.00
2006	16.95	13.62
2007	12.05	7.65

Equity Performance Footnote - Composite	
<p><XCM> has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS)®™</p> <p>XYZ Capital Management, Inc.(XCM) is an independent investment advisory firm established in 1997 providing personalized investment management services including portfolio management. XCM manages portfolios consisting of equity and fixed income and additional information concerning the firm can be found at www.xyz.com</p> <p>The XCM Equity Composite is comprised of all of the accounts of XYZ Capital Management that are managed with the objective of capital appreciation. Performance is based on actual account results and include reinvestments of dividends. Advisory fees have been deducted from net of fee returns. Investment return and principal value of an investment account will fluctuate and account value may be worth more or less than the original cost. The S&P 500 is an unmanaged index of 500 of the largest publicly traded U.S. companies and is widely used as a benchmark for U.S. equity portfolios but may differ in allocation and/or composition from that of the Composite. Investors cannot invest directly in an index and volatility of an index may be materially different from that of the Composite and indexes do not have management fees. Past performance is no guarantee of future results.</p>	



Appendix A: Sample GIPS Compliant Report

Year	Gross-of-fees Return (%)	Benchmark Return (%)	Number of Accounts	Internal Dispersion ¹	Composite Volatility ²	Benchmark Volatility ²	Total Composite Assets	Total Firm Assets
2011								
2010					-	-		
2009					-	-		
2008					-	-		
2007					-	-		
2006					-	-		

Identify Violations

FairView Capital Management (Western Region)

Global Equities Composite Performance Results

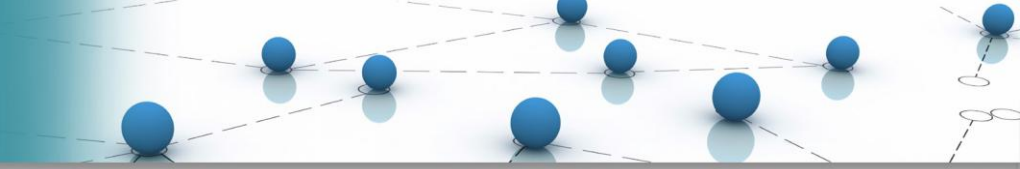
Year	Composite Return (%)	Custom Benchmark Return (%)	Number of Portfolios	Internal Dispersion	Composite Assets at BoY in Million \$	Firm Assets at EoY in Million \$
2007	4.3	1.2	6		480.14	480.14
2008	-9.2	-11	8	2.3	250.22	354.21
2009	21.3	-5	9	5.3	421.53	456.44
2010	15	6.7	12	1.2	678.15	982.32

Some violations

FairView Capital Management (Western Region)

Global Equities Composite Performance Results

Year	Composite Return (%)	Custom Benchmark Return (%)	Number of Portfolios	Internal Dispersion	Composite Assets at BoY in Million \$	Firm Assets at EoY in Million \$
2007	4.3	1.2	6		480.14	480.14
2008	-9.2	-11	8	2.3	250.22	354.21
2009	21.3	-5	9	5.3	421.53	456.44
2010	15	6.7	12	1.2	678.15	982.32



Discussion Question - 3

➤ Explain the impact on GIPS Compliance of combining Mutual and Hedge funds in a composite

➤ *Combine Mutual and Hedge funds in a composite:*

Discretion, Benchmarks, Cash Flow, Leverage, Fees



Discussion Question - 4

1. “To show performance returns since our inception, Hamilton Advisors has linked non-GIPS-compliant performance to their five years of GIPS-compliant returns.”
2. “Hamilton Advisors uses swap instruments to enhance returns in fixed income portfolios under management.”

Explain *one* additional requirement that Hamilton Advisors must satisfy for *each* of Hamilton’s statements above to be in compliance with the Global Investment Performance Standards.