

INVITATION TO COMMENT: Revising the GIPS Standards (“Gold” GIPS)

The Investment Performance Council (IPC) of the Association for Investment Management and Research (AIMR[®]) seeks comment on the proposals set forth below regarding revisions to the Global Investment Performance Standards (GIPS[®]). Comments must be submitted in writing and be received by AIMR no later than **1 August 2004**. Please submit your comments as early as possible to facilitate the process. All comments and replies will be made public on AIMR’s website (unless otherwise requested). Comments should be addressed to:

Association for Investment Management and Research
Professional Standards & Advocacy Department
Reference: “Gold” GIPS Standards
P.O. Box 3668
Charlottesville, Virginia 22903
FAX: 1-434-951-5320
E-mail: standardsetting@aimr.org

AIMR accepts responses in hardcopy and via fax, but it would be helpful if an electronic version is submitted as well.

Executive Summary

AIMR has long been committed to establishing one broadly accepted standard for calculating and presenting investment performance history. In April 1999, AIMR sponsored and published the Global Investment Performance Standards (GIPS[®]) to meet the needs of the globalized investment management industry. AIMR’s goal in developing and evolving the GIPS standards is to establish them as the recognised standard for calculating and presenting investment performance around the world and for the Standards to become a firm’s “passport” to market services globally. As of December 2003, approximately 25 countries have adopted the GIPS standards as the core of their local standards.

In order to maintain global relevance, AIMR and the Investment Performance Council (IPC) agree that the GIPS standards must be continually updated through interpretations, guidance statements, and new provisions. Since the release of GIPS standards, the IPC has regularly clarified the existing Standards through guidance statements and interpretations. However, AIMR and the IPC adopted an evolutionary approach when expanding and modifying GIPS provisions.

Recognising that the investment industry is constantly changing and that the GIPS standards must be flexible to remain effective, the IPC strategy for the evolution and implementation of the GIPS Standards is to avoid introducing major changes to the GIPS standards before January 2005. The IPC is committed to maintaining a sensible balance between improving the GIPS standards and causing undue disruption to firms that are, or are in the process of, claiming compliance.

In the IPC’s view, the proposed improvements to the GIPS standards represent the “gold” standard and promote the highest quality and most rigorous performance presentation and measurement practices firms can adopt. The proposed “gold” GIPS standards will help eliminate the need for separate standards in different jurisdictions.

The development strategy for the GIPS standards also includes extending coverage to other asset classes and adding requirements and recommendations on issues such as advertising and fees. It also involves a review of the existing GIPS provisions in an effort to eliminate those no longer necessary and adding new provisions that promote best practice.

Background

A short history of the development of the GIPS standards and their evolution:

- In 1995, AIMR sponsored and funded the Global Investment Performance Standards Committee to develop global standards for calculating and presenting investment performance. This committee was replaced by the Investment Performance Council (IPC) in 1999.
- The project was a true industry initiative. Representatives from key constituencies such as the National Association of Pension Funds (NAPF) in the United Kingdom, the Security Analyst's Association of Japan (SAAJ), Germany's securities analyst association (DVFA), and the European Federation of Financial Analyst Societies (EFFAS) participated as well as representatives from Australia, Brazil, Chile, Denmark, Hong Kong, Malaysia, the Netherlands, New Zealand, South Africa, Switzerland, and Thailand.
- The initial GIPS proposal was designed to create a minimum global standard that would:
 - Permit and facilitate acceptance and adoption in developing markets;
 - Give the global investment management industry one commonly accepted method for calculating and presenting performance; and
 - Address only liquid asset classes (equity, fixed income, and cash).
- In 1998, the proposed GIPS standards were circulated for comment to more than 4,000 individuals who had expressed interest and were posted on the AIMR Web site.
- The IPC always intended that when a sufficient number of countries adopted GIPS (there are now 25+ countries) that provisions for other asset classes (e.g., real estate, private equity) and other issues (e.g., fees, derivatives and leverage, advertising) would be added.
- The IPC believes that the GIPS standards should promote the best performance presentation and measurement practices and help eliminate the need for local standards.
- Proposed adoption of the revisions to the GIPS standards is planned for early 2005 with an effective date of 1 January 2006.

“Gold” GIPS Evolution Process

To help in strategy development and implementation, the IPC charged the Country Standards Subcommittee (CSSC) with developing and coordinating an action plan. The seven points of the CSSC's action plan were:

- 1) Incorporate all IPC technical subcommittee proposals
 - Real estate
 - Venture capital
 - Fees
 - Advertising
- 2) Review current GIPS recommendations and recommend upgrades to requirements

- 3) Review and improve the current GIPS standards
- 4) Formalize provisions and key concepts previously introduced in IPC guidance statements
- 5) Review and introduce new provisions based on local best practices
- 6) Final editing of the “gold” GIPS standards
- 7) Release of the “gold” GIPS standards for public comment

Summary of Proposed Revisions to the GIPS Standards

Following is a summary of the more significant revisions to the GIPS standards:

Deleted Provisions

- Definition of Firm is no longer permitted as:
 - an entity registered with the appropriate national regulatory authority overseeing the entity’s investment management activities; *or*
 - all assets managed to one or more base currencies (for firms managing global assets).
- Removed total firm assets disclosure

New Provisions

- As of 2006, must asset-weight portfolio returns at least monthly
- As of 2006, calendar month-end valuation required
- As of 2010, verification by a third party will be mandatory
- Must provide a compliant presentation to all prospective clients
- Must provide a list and description of composites to any prospect that requests it
- Must have written policies and procedures used for compliance
- Must abide by guidance and interpretations, including the GIPS Handbook
- Must be prepared to provide a compliant presentation for any of the firm’s composites
- Must disclose that the calculation methods and valuation sources are available upon request
- Must disclose any discretionary use of a Sub-advisor(s)
- Must disclose a description of the investment objectives/style/strategy of the composite

Modified Provisions

- Clarified requirement to use trade date accounting: As of 2005, must recognize the asset or liability on the date the transaction is entered into
- Upgraded recommendation to requirement: must disclose the fee schedule appropriate to the presentation
- Upgraded recommendation to requirement: must disclose any events which help a prospective client interpret the performance record

Target Effective Dates Moved

- Moved accrual accounting requirement for dividends from 2005 to 2010

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| <ul style="list-style-type: none">• Moved requirement for carve outs to be managed with their own cash from 2005 to 2010 |
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Comment Requested

AIMR and the IPC are seeking comments from the general public on the proposals set forth in the revised GIPS standards. Comments should be limited to focus on new items that have not yet been released for public comment. Technical provisions (such as real estate, advertising, private equity, and fees) have already been issued for a period of public comment and the IPC has finalized the provisions based on the comments received. To view the technical provisions and the Adopting Releases (which respond to comments received) for each of the technical provisions, please visit AIMR's website at www.aimr.org.

General Comments

AIMR seeks general commentary on the proposals set forth in this document, including, but not limited to, responses to the following questions:

1. Do you support AIMR's effort to revise and expand the GIPS standards?
2. Do you agree with the evolution process for the GIPS standards as outlined above?
3. Is the language of the Standards straightforward and comprehensible? If not, how can it be improved?
4. What modifications, if any, should be made to this proposal?
5. Do you agree with the numbering and format of the proposed revised GIPS standards?
6. Should AIMR consider any other methods for meeting the objectives of evolving the GIPS standards?

Specific Comments

AIMR seeks comments on the following, specific provisions of the proposal:

1. Is the new requirement that mandates firms to provide a compliant presentation to all prospective clients too onerous a burden for firms claiming compliance with the GIPS standards?
2. Is the new requirement that mandates firms to provide a list and description of composites to any prospective client that makes such a request too onerous a burden for firms claiming compliance with the GIPS standards?
3. Do you agree with the new recommendation that states the firm should not market a composite to a prospective client with assets less than the composite's minimum asset level?
4. Do you agree with the new requirement that mandates firms to be prepared to provide a compliant presentation for any composite on the firm's list of composites to a prospective client that makes such a request?
5. Do you agree with the new requirement that requires firms to calculate composite performance by asset-weighting the member portfolio returns at least monthly (beginning 2005)?
6. Do you agree that the effective date should be moved from 2005 to 2010 for the requirement that stipulates a carve-out return be managed separately with its own cash balance?
7. Is it reasonable for the GIPS standards to require firms beginning 2010 to value portfolios on the date of any external cash flow?

8. Should the GIPS standards require firms to retroactively disclose the following when carve-out segments are used?
- (a) a list of the underlying composites from which the carve-out was drawn, and
 - (b) the percentage of the composite that is composed of carve-outs.

If commentators put forward other proposals, AIMR requests they explain how their proposals satisfy these objectives.

<i>Proposed Adoption Date:</i> February 2005?
<i>Proposed Effective Date:</i> 1 January 2006
<i>Retroactive Application:</i> No
<i>Public Comment Period:</i> February 2004 – August 2004

GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS)

As Adopted by the AIMR Board of Governors February 2005(?)

Outline

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GLOBAL INVESTMENT PERFORMANCE STANDARDS

I. INTRODUCTION

PREAMBLE - WHY IS A GLOBAL STANDARD NEEDED?

1. The financial markets and the investment management industry are becoming increasingly global in nature. Given the variety of financial entities and countries involved, this globalization of the investment process and the exponential growth of assets under management demonstrate the need to standardize the calculation and presentation of investment performance.
2. Prospective clients and asset managers will benefit from an established standard for investment performance measurement and presentation that is recognized worldwide. Investment practices, regulation, performance measurement, and reporting of performance results vary considerably from country to country. Some countries have guidelines that are widely accepted within their borders, and others have few recognized standards for presenting investment performance.
3. Requiring investment managers to adhere to performance presentation standards will help assure investors that the performance information is both complete and fairly presented. Firms in countries with minimal presentation standards will be able to compete for business on an equal footing with firms from countries with more developed standards. Firms from countries with established practices will have more confidence of being fairly compared to “local” firms when competing for business in countries that have not previously adopted performance standards.
4. Both prospective and existing clients of investment firms will benefit from a global investment performance standard by having a greater degree of confidence in the performance numbers presented by the firms. Performance standards that are accepted in all countries enable all investment firms to measure and present their investment performance so that clients can readily compare investment performance among firms.

VISION STATEMENT

5. A global investment performance standard leads to readily accepted presentations of investment performance that (1) present performance results which are readily comparable among investment managers, without regard to geographic location, and (2) facilitate a dialogue between investment managers and their prospective clients about the critical issues of how the manager achieved performance results and future investment strategies.

OBJECTIVES

6. To obtain worldwide acceptance of a standard for the calculation and presentation of investment performance in a fair, comparable format that provides full disclosure.
7. To ensure accurate and consistent investment performance data for reporting, record keeping, marketing, and presentation.

8. To promote fair, global competition among investment firms for all markets without creating barriers to entry for new firms.
9. To foster the notion of industry “self-regulation” on a global basis.

OVERVIEW

10. The "Global Investment Performance Standards" (GIPS) have several key characteristics:
 - a. GIPS are ethical standards for investment performance presentation to ensure fair representation and full disclosure of an investment manager’s performance.
 - b. GIPS require managers to include all actual fee-paying, discretionary portfolios in composites defined according to similar strategy and/or investment objective and require firms to show GIPS compliant history for a minimum of 5 years, or since inception of the firm or composite if in existence less than 5 years.
 - c. GIPS require firms to use certain calculation and presentation methods and to make certain disclosures along with the performance record.
 - d. GIPS rely on the integrity of input data. The accuracy of input data is critical to the accuracy of the performance presentation. For example, benchmarks and composites should be created/selected on an ex ante basis, not after the fact.
 - e. GIPS consist of guidelines that firms are required to follow in order to claim compliance. The adoption of other elements of GIPS is recommended for firms to achieve best practice in performance presentation.
 - f. GIPS apply to the presentation of investment performance of assets managed on behalf of a third party.
 - g. GIPS should be applied with the goal of full disclosure and fair representation of investment performance. Meeting the objective of full and fair disclosure is likely to require more than compliance with the minimum requirements of GIPS. If an investment firm applies GIPS in a performance situation that is not addressed specifically by the standards or is open to interpretation, disclosures other than those required by GIPS may be necessary. To fully explain the performance included in a presentation, firms are encouraged to present all relevant supplemental information.
 - h. In cases in which applicable local or country-specific law or regulation conflicts with GIPS, the Standards require firms to comply with the local law or regulation and make full disclosure of the conflict.
 - i. GIPS do not address every aspect of performance measurement, valuation, attribution, or coverage of all asset classes. GIPS will evolve over time to address additional aspects of investment performance. Certain recommended elements in GIPS may become requirements in the future.

SCOPE

11. Application of GIPS. Investment management firms from any country may come into compliance with GIPS. Compliance with GIPS will facilitate a firm's participation in the investment management industry on a global level.
12. Definition of a Firm. (moved to the "Fundamentals of Compliance" section)
13. Historical Performance Record.
 - a. A firm is required to present, at a minimum, 5 years of annual investment performance that is compliant with GIPS. If the firm or composite has been in existence less than five years, firms must present performance since the inception of the firm or composite; and
 - b. After a firm presents five years of compliance history, firms must present additional annual performance up to ten years. For example, after a firm presents five years of compliant history, the firm must add an additional year of performance each year so that after five years of claiming compliance, the firm presents a ten year performance record.
 - c. A firm may link non-GIPS-compliant performance record to their compliant history, so long as no non-compliant performance is presented for periods after January 1, 2000 and the firm discloses the periods of non-compliance and explains how the presentation is not in compliance with GIPS.

Nothing in this section shall prevent firms from immediately presenting more than five years of performance results.

COMPLIANCE

14. Requirements. Firms must meet all the requirements set forth in GIPS to claim compliance with GIPS. Although GIPS requirements must be met immediately by a firm claiming compliance, the following requirements do not go into effect until a future date:
 - a. For periods beginning 1 January 2008, real estate investments must be valued at least quarterly.
 - b. For periods beginning 1 January 2010, firms must value portfolios on the date of any external cash flow.
 - c. For periods beginning 1 January 2010, Accrual Accounting must be used for dividends (as of the ex dividend date).
 - d. For periods beginning 1 January 2010, carve-out returns must not be included in single asset class composite returns unless the carve-outs are actually managed separately with their own cash balances.
 - e. Verification will be mandatory effective 1 January 2010. The verification report must cover periods from 1 January 2010 forward, at a minimum. Firms will have until 31 December 2011 to complete the initial verification. If a verification report has not been issued by 31 December 2011, the firm may no longer claim GIPS compliance.

Until these future requirements become effective, these provisions should be considered recommendations. Firms are encouraged to implement these requirements prior to their effective date. To ease compliance

with GIPS when the future requirements take effect, firms should design performance software to incorporate these future requirements.

15. **Compliance Check.** Firms must take all steps necessary to ensure that they have satisfied all of the requirements of GIPS before claiming compliance with GIPS. Firms are strongly encouraged to perform periodic internal compliance checks and implement adequate business controls on all stages of the investment performance process -- from data input to presentation material -- to ensure the validity of compliance claims.
16. **Third-party Performance Measurement and Composite Construction.** GIPS recognize the role of independent third-party performance measurers and the value they can add to the firm's performance-measurement activities. Where third-party performance measurement is an established practice or is available, firms are encouraged to use this service as it applies to the investment firm. Similarly, where the practice is to allow third parties to construct composites for investment firms, firms can use such composites in a GIPS-compliant presentation only if the composites comply with GIPS.
17. **Claim of Compliance.** (moved to the “Fundamentals of Compliance Section”)
18. **Sample Presentations.** Sample presentations, shown in Appendix A, provide examples of what a compliant performance presentation might look like, including disclosures.

IMPLEMENTING A GLOBAL STANDARD

19. – 21. Deleted

22. In 2000, the Investment Performance Council (IPC) was created and given the responsibility to meet the ongoing needs for maintaining and developing high-quality global investment performance standards. The IPC provides a practical and effective implementation structure for the GIPS standards and encourages wider public participation in an industry-wide standard.
23. One of the principal objectives of the IPC is for all countries to adopt the GIPS standards as the common method for calculating and presenting investment performance. As of June 2003, more than 20 countries around the world have adopted or are in the process of adopting the GIPS standards or of establishing a local investment performance standard. The IPC believes the establishment and acceptance of the GIPS standards are vital steps in facilitating the availability of comparable investment performance history on a global basis. GIPS compliance provides firms with a “passport” and creates a level playing field where all firms can compete on equal footing. However, for the GIPS passport to be effective, sponsors of all country standards must remove or minimize potential local “barriers to entry” in the form of additional requirements, over and above those found in the GIPS standards.
24. The presence of a local sponsoring organization for investment performance standards is essential for their effective implementation and on-going operation within a country. Such country sponsors also provide an important link between the Investment Performance Council (IPC), AIMR’s governing body for GIPS, and the local markets in which investment managers operate.

The country sponsor, by actively supporting the standards and the work of the IPC, will ensure that the country's interests can and will be taken into account as GIPS are developed going forward. Compliance with GIPS standards is voluntary, but support from the local country sponsor will help to drive the success of the GIPS standards.

25. The IPC strongly encourages countries without an investment performance standard in place to accept GIPS standards as the local standard and translate them into the local language when necessary, thus promoting a "Translation of GIPS" (TG). However, the IPC recognizes that some countries will need to adopt certain requirements in addition to the GIPS standards, especially when required by specific local regulation or to meet existing, well-established practice. Therefore, to achieve a globally harmonized investment performance presentation practice, the IPC is promoting a "Country Version of GIPS" (CVG) approach. Under this approach, countries will adopt the GIPS standards as their core standards. This core will be supplemented where provisions over and above GIPS standards are necessary, preferably only to satisfy local regulatory or legal requirements and well-established practices. Any other differences must be transitioned out of the CVG during a specified period, so that the CVG converges with the GIPS standards.
26. Compliance with the GIPS standards will provide investment managers with a "right of access" to be considered alongside investment managers who comply with the local CVG standard, thereby allowing all managers to be evaluated on equal terms.
27. Although GIPS may be translated into many languages, if a discrepancy arises between the different versions of the standards (e.g., TGs and/or CVGs), the English version of GIPS is controlling.
28. The IPC will continue to develop the GIPS standards so that they maintain their relevance within the changing investment management industry.
29. The self-regulatory nature of GIPS necessitates a strong commitment to ethical integrity. Self-regulation also facilitates regulators in exercising their responsibility for ensuring the fair disclosure of information to and within the financial markets in general. The IPC and AIMR encourage regulators to:
 - recognize the benefit of voluntary compliance with standards which represent global best practices,
 - give consideration to adopting a function favored by some regulators, namely to enforce sanctions upon false claims of compliance as fraudulent advertising,
 - recognize and encourage independent verification services.
30. Where existing laws, regulations, or industry standards already impose performance presentation standards, firms are strongly encouraged to comply with GIPS in addition to those local requirements. Compliance with applicable law or regulation does not necessarily lead to compliance with GIPS. When complying with GIPS and local law or regulation, firms must disclose any local laws and regulations that conflict with GIPS.
31. The GIPS standards contain overarching principles that must be applied in all situations where a firm claims compliance. However, within the GIPS standards there are supplemental private equity and real estate provisions that must be applied to these asset classes (see Sections 6 and 7 of the GIPS standards).

II. CONTENT OF THE GLOBAL INVESTMENT PERFORMANCE STANDARDS

The GIPS standards are divided into eight sections that reflect the basic elements involved in presenting performance information: Fundamentals of Compliance, Input Data, Calculation Methodology, Composite Construction, Disclosures, Presentation and Reporting, Real Estate, and Venture Capital and Private Equity.

Fundamentals of Compliance: Two of the most critical issues that a firm must consider when becoming compliant with the GIPS standards are the definition of the firm and the firm's definition of discretion. The definition of the firm is the foundation for firm-wide compliance and creates defined boundaries whereby total firm assets can be determined. The firm's definition of discretion establishes criteria to judge which portfolios should be in a composite to accurately reflect the application of the firm's investment strategy. Once a firm meets all of the requirements of the GIPS standards, it must appropriately use the claim of compliance to indicate adherence to the Standards.

Input Data: Consistency of input data is critical to effective compliance with GIPS and establishes the foundation for full, fair, and comparable investment performance presentations. The Standards provide the blueprint for a firm to follow in constructing this foundation.

Calculation Methodology: Achieving comparability among investment management firms' performance presentations requires uniformity in methods used to calculate returns. The Standards mandate the use of certain calculation methodologies (e.g., performance must be calculated using a time-weighted total rate of return method).

Composite Construction: A composite is an aggregation of a number of portfolios into a single group that represents a particular investment objective or strategy. The composite return is the asset-weighted average of the performance results of all the portfolios in the composite. Creating meaningful, asset-weighted composites is critical to the fair presentation, consistency, and comparability of results over time and among firms.

Disclosures: Disclosures allow firms to elaborate on the raw numbers provided in the presentation and give the end user of the presentation the proper context in which to understand the performance results. To comply with GIPS, firms must disclose certain information about their performance presentation and the calculation methodology adopted by the firm. Although some disclosures are required of all firms, others are specific to certain circumstances, and thus may not be applicable in all situations.

Presentation and Reporting: After constructing the composites, gathering the input data, calculating returns, and determining the necessary disclosures, the firm must incorporate this information in presentations based on the guidelines set out in GIPS for presenting the investment performance results. No finite set of guidelines can cover all potential situations or anticipate future developments in investment industry structure, technology, products, or practices. When appropriate, firms have the responsibility to include in GIPS compliant presentations information not covered by the Standards.

Real Estate: These provisions apply to all private equity investments where returns are primarily from the holding, trading, development, or management of real estate assets. Real estate includes land, buildings under development, completed buildings, and other structures or improvements held for investment purposes. The rules apply regardless of the level of control the firm has over management of the investment. The rules apply irrespective of whether a real estate asset or investment is producing revenue and also apply to real estate

investments with leverage or gearing.

Private Equity and Venture Capital: These provisions apply to the calculation and presentation of private equity investments other than open-end or evergreen funds (which must follow the main GIPS provisions). Private equity refers to investments in non-public companies that are in various stages of development and encompasses venture investing, buyout investing, and mezzanine investing. Fund-of-fund investing as well as secondary investing are also included in private equity. Investors typically invest in private equity assets either directly or through a fund-of-funds or limited partnership.

The standards for each section are divided between requirements, listed first in each section, and recommended guidelines. Firms must follow the required elements of GIPS to claim compliance with GIPS. Firms are strongly encouraged to adopt and implement the recommendations to ensure that the firm fully adheres to the spirit and intent of GIPS. Examples of GIPS compliant presentations are included as Appendix A.

FUNDAMENTALS OF COMPLIANCE

Definition of the Firm - A. Requirements

- FC.A.1 GIPS must be applied on a firmwide basis.
- FC.A.2 The firm must be defined as an investment firm, subsidiary, or division held out to clients or potential clients as a Distinct Business Entity.
- FC.A.3 The firm must provide a compliant presentation to all prospective clients¹, i.e., the firm cannot choose to whom they want to present compliant performance. (As long as a prospective client has received a compliant presentation within the previous 12 months, the firm can present the prospect with interim performance information.)
- FC.A.4 The firm must provide a list and description² of composites to any prospective client that makes such a request.
- FC.A.5 When the firm jointly markets with other firms, the firm claiming compliance must be sure that it is clearly defined and separate relative to any other firms being marketed and that it is clear which firm is claiming compliance.
- FC.A.6 Total firm assets are equal to the market value of all discretionary and non-discretionary assets under management within the defined firm. This includes both fee-paying and non-fee-paying assets.

¹ The calculation and presentation of pooled unitized products, such as mutual funds and open-ended investment companies, is regulated in most markets. These vehicles are not subject to this requirement (FC.A.3) when a firm is advertising performance solely for a pooled unitized product.

² A description may be more abbreviated than the full definition, but should include all salient features.

FC.A.7 The firm must include the performance of assets assigned to a sub-advisor in a composite provided the firm has discretion over the selection of the sub-advisor.

FC.A.8 Changes in a firm's organization must not lead to alteration of historical composite results.

Document Policies and Procedures – A. Requirements

FC.A.9 The firm must document, in writing, their policies and procedures used in establishing and maintaining compliance with all the applicable requirements of the GIPS standards.

Clarification, Guidance and Interpretation of the GIPS Standards – A. Requirements

FC.A.10 The firm must understand all the requirements and recommendations of the GIPS standards, including any updates, reports, Guidance Statements, interpretations, or clarifications published by AIMR and the Investment Performance Council, including the most recent update to the GIPS Handbook. All clarification and update information will be made available to the public via the AIMR Web site (www.aimr.org) and must be considered when determining a firm's claim of compliance.

Claim of Compliance – A. Requirements

FC.A.11 Once a firm has met all of the required elements of GIPS, the firm must use the following "Compliance Statement" to indicate that the performance presentation is in compliance with GIPS:

(Insert name of firm) has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

FC.A.12 If the firm does not meet all of the requirements of the GIPS standards, the firm cannot represent that it is “in compliance with the Global Investment Performance Standard **except for...**”

FC.A.13 Statements referring to the calculation methodology used in a composite presentation as being “**in accordance** (or compliance) with the Global Investment Performance Standards” are prohibited.

FC.A.14 Statements referring to the performance of a single, existing client as being “calculated in accordance” with the Global Investment Performance Standards” are prohibited except when reporting the performance of that individual account to the existing client.

Definition of the Firm -- B. Recommendations

FC.B.1 The firm is strongly encouraged to adopt the broadest, most meaningful definition of the firm. The scope of this definition should include all geographic (country, regional, etc.) offices operating under the same brand name regardless of the actual name of the individual investment management companies.

INPUT DATA

1.A Requirements

- 1.A.1 All data and information necessary to support a firm's performance presentation and to perform the required calculations must be captured and maintained.
- 1.A.2 Portfolio valuations must be based on market values (not cost basis or book values).
- 1.A.3 For periods prior to 1 January 2001, portfolios must be valued at least quarterly. For periods between 1 January 2001 and 1 January 2010, portfolios must be valued at least monthly. For periods beginning 1 January 2010, the firm will be required to value portfolios on the date of any external cash flow.
- 1.A.4 The firm must use Trade-Date Accounting for periods beginning 1 January 2005.
- 1.A.5 Accrual accounting must be used for fixed income securities and all other assets that accrue interest income. Market values of fixed income securities must include accrued income.
- 1.A.6 For periods beginning 1 January 2010, Accrual Accounting must be used for dividends (as of the ex dividend date).
- 1.A.7 For periods beginning 1 January 2006, composites must have consistent beginning and ending annual valuation dates. Unless the composite is reported on a non-calendar fiscal year, the beginning and ending valuation dates must be at calendar year-end (or on the last business day of the year).
- 1.A.8 For periods beginning 1 January 2006, the firm must value portfolios as of the calendar month-end.

1.B Recommendations

- 1.B.1 replaced by 4.A.11
- 1.B.2 When presenting Net-Of-Fees returns, the firm should accrue Investment Management Fees.
- 1.B.3. Until 1 January 2010, Accrual Accounting should be used for dividends (as of the ex dividend date).

CALCULATION METHODOLOGY

2.A Requirements

- 2.A.1 Total return, including realized and unrealized gains plus income, must be used.

- 2.A.2 Time-weighted rates of return that adjust for cash flows must be used. Periodic returns must be geometrically linked. Approximated time-weighted rates of return that adjust for daily-weighted cash flows must be used for periods beginning 1 January 2005. The firm must use a “true” Time-Weighted Rate of Return calculation method for periods beginning 1 January 2010.
- 2.A.3 moved and combined with 1.A.7
- 2.A.4 Composite performance must be calculated by asset-weighting the member portfolio returns using beginning-of-period values or a method that reflects both beginning-of-period values and cash flows.
- 2.A.5 Returns from cash and cash equivalents held in portfolios must be included in total return calculations.
- 2.A.6 All returns must be calculated after the deduction of the actual Trading Expenses incurred during the period. Estimated Trading Expenses are not permitted.
- 2.A.7 If the firm sets a minimum asset level for portfolios to be included in a composite, no portfolios below that asset level can be included in that composite.
- 2.A.8 For periods beginning 1 January 2006, the firm must calculate composite performance by asset-weighting the member portfolio returns at least monthly.
- 2.A.9 If the actual direct Trading Expenses cannot be identified and segregated from a Bundled Fee:
- (a) when calculating Gross-Of-Fees returns, returns must be reduced by the entire Bundled Fee, or the portion of the Bundled Fee that includes the direct Trading Expenses. Estimated Trading Expenses are not permitted.
 - (b) when calculating Net-Of-Fees returns, returns must be reduced by the entire Bundled Fee, or the portion of the Bundled Fee that includes the direct Trading Expenses and the Investment Management Fee. Estimated Trading Expenses and Investment Management Fees are not permitted.
- 2.A.10 If a composite contains both portfolios where the actual direct Trading Expenses cannot be identified and segregated from a Bundled Fee and portfolios where the direct Trading Expenses can be identified, GIPS Calculation Methodology Requirement 2.A.9 (above) must be met for those portfolios where the direct Trading Expenses cannot be identified and segregated from a Bundled Fee when calculating the composite Gross-Of-Fees or Net-Of-Fees return.
- 2.A.11 Performance adjustments for external cash flows must be treated in a consistent manner with the firm’s documented, composite-specific policy.

2.B **Recommendations**

- 2.B.1 Returns should be calculated net of non-reclaimable withholding taxes on dividends, interest, and capital gains. Reclaimable withholding taxes should be accrued.

- 2.B.2. moved to requirements – 2.A.11
- 2.B.3 If the firm chooses to adjust for the treatment of significant cash flows, the use of a Temporary New Account is recommended.

COMPOSITE CONSTRUCTION

3.A Requirements

- 3.A.1 All actual, fee-paying, discretionary portfolios must be included in at least one composite. While non-fee-paying discretionary portfolios may be included in a composite (with appropriate disclosures), non-discretionary portfolios must not be included in a firm's composites.
- 3.A.2 The firm's composites must be defined according to similar investment objectives and/or strategies.
- 3.A.3 Composites must include new portfolios on a timely and consistent basis after the portfolio comes under management unless specifically mandated by the client.
- 3.A.4 Terminated portfolios must be included in the historical record of the appropriate composites up to the last full measurement period that the portfolio was under management.
- 3.A.5 Portfolios must not be switched from one composite to another unless documented changes in client guidelines or the redefinition of the composite make it appropriate. The historical record of the portfolio must remain with the appropriate composite.
- 3.A.6 Convertible and other hybrid securities must be treated consistently across time and within composites.
- 3.A.7 Carve-out segments excluding cash must not be used to represent a discretionary portfolio and, as such, must not be included in composite returns. When a single asset class is carved out of a multiple asset portfolio and the returns are presented as part of a single asset composite, cash must be allocated to the carve-out returns. Beginning 1 January 2010, carve-out returns must not be included in single asset class composite returns unless the carve-out is actually managed separately with its own cash balance.
- 3.A.8 Composites must include only assets under management. The firm must not link simulated or model portfolios with actual performance.

3.B Recommendations

- 3.B.1 removed – covered in Composite Construction GS
- 3.B.2 removed – covered in Composite Construction GS

- 3.B.3 Carve-out returns should not be included in single asset class composite returns unless the carve-outs are actually managed separately with their own cash balance.

DISCLOSURES

4.A Requirements

- 4.A.1 The firm must disclose the definition of "firm" used to determine the firm's total assets and firmwide compliance.
- 4.A.2 removed
- 4.A.3 The firm must disclose the availability of a complete list and description³ of all of the firm's composites. The firm must be prepared to provide a compliant presentation for any composite listed on the firm's list of composites.
- 4.A.4 For periods prior to 1 January 2005, the firm must disclose if it employs a transaction accounting method other than Trade Date Accounting.
- 4.A.5 The firm must document and disclose the minimum asset level, if any, below which portfolios are not included in a composite. The firm must also disclose any changes to the minimum asset level and must not retroactively apply the new limit. The firm should not market a composite to a prospective client with assets less than the composite's minimum asset level.
- 4.A.6 The firm must disclose the currency used to express performance.
- 4.A.7 If applicable, the firm must disclose the presence, use, and extent of leverage or derivatives including a description¹ of the use, frequency, and characteristics of the instruments sufficient to identify risks.
- 4.A.8 The firm must clearly label returns as Gross-Of-Fees or Net-Of-Fees.
- 4.A.9 The firm must disclose relevant details of the treatment of withholding tax on dividends, interest income and capital gains. If using indexes that are net-of-taxes, the firm must disclose the tax basis of the composite (e.g. Luxembourg based or U.S. based) versus that of the benchmark.
- 4.A.10 For composites managed against a benchmark, the firm must disclose the percentage of the composites invested in countries, regions, or sectors not included in the benchmark for the most recent period.
- 4.A.11 The firm must disclose and describe any known inconsistencies in the exchange rates used among the portfolios within a composite and between the composite and the benchmark.
- 4.A.12 moved to Presentation and Reporting – 5.A.8.

³ A description may be more abbreviated than the full definition, but should include all salient features.

- 4.A.13 If the presentation conforms with local laws and regulations that differ from GIPS requirements, the firm must disclose this fact and disclose the manner in which the local laws and regulations conflict with GIPS.
- 4.A.14 For any performance presented for periods prior to 1 January 2000 that does not comply with GIPS, the firm must disclose the period of non-compliance and how the presentation is not in compliance with GIPS.
- 4.A.15 For periods prior to 1 January 2010, when a single asset class is carved out of a multiple asset portfolio and the returns are presented as part of a single asset composite, the firm must disclose the policy used to allocate cash to the carve-out returns.
- 4.A.16 The firm must disclose the Fee Schedule appropriate to the presentation.
- 4.A.17 If a composite contains portfolios with Bundled Fees, the firm must disclose for each annual period shown the percentage of composite assets that are Bundled Fee portfolios.
- 4.A.18 If a composite contains portfolios with Bundled Fees, the firm must disclose the various types of fees that are included in the Bundled Fee.
- 4.A.19 When presenting Gross-Of-Fees returns, the firm must disclose if any other fees are included in addition to the direct Trading Expenses.
- 4.A.20 When presenting Net-Of-Fees returns, the firm must disclose if any other fees are included in addition to the Investment Management Fee and direct Trading Expenses.
- 4.A.21 The firm must disclose that the portfolio, composite, and benchmark calculation methods and valuation sources are available upon request.
- 4.A.22 The firm must disclose any discretionary use of a sub-advisor(s).
- 4.A.23 The firm must disclose any events (such as ownership or personnel changes, significant deviations between annual and interim performance results, etc.) which help a prospective client interpret the performance record.
- 4.A.24 The firm must disclose a description⁴ of the investment objectives, style, and/or strategy of the composite.
- 4.A.25 If a firm is redefined, it must disclose the date and reason for the redefinition.
- 4.A.26 If a firm determines that it is appropriate to redefine a composite, the firm must disclose the date and nature of the change. Changes to composites must not be applied retroactively.

⁴ A description may be more abbreviated than the full definition, but should include all salient features.

- 4.A.27 The firm must disclose any changes to the name of a composite.
- 4.A.28 The firm must list “discontinued” composites on the firm’s list of composites for at least five years after discontinuation.
- 4.A.29 The firm must provide the standard Compliance Statement indicating firmwide compliance with the GIPS standards.
- 4.A.30 The firm must disclose the composite creation date.
- 4.B **Recommendations**
- 4.B.1 replaced by 4.A.17
- 4.B.2 replaced by 4.A.17
- 4.B.3 replaced by 4.A.19
- 4.B.4 replaced by 4.A.19
- 4.B.5 replaced by 4.A.21
- 4.B.6. If a parent company contains multiple defined firms, each firm within the parent company is strongly encouraged to disclose a list of the other firms contained within the parent company.
- 4.B.7 The firm should disclose when a change in a calculation methodology or valuation source results in a material impact on the performance of a composite return.

PRESENTATION AND REPORTING

- 5.A **Requirements**
- 5.A.1 The following items must be reported:
 - (a) At least five years performance (or a record for the period since firm or composite inception, if the firm or composite has been in existence less than five years) that is GIPS compliant; After presenting five years of performance, the firm must present additional annual performance up to ten years. (For example, after a firm presents five years of compliant history, the firm must add an additional year of performance each year so that after five years of claiming compliance, the firm presents a ten year performance record)
 - (b) Annual returns for all years.
 - (c) The number of portfolios and amount of assets in the composite, and the percentage of the firm's total assets represented by the composite at the end of each annual period.
 - (d) A measure of dispersion of individual portfolio returns for each annual period.
 - (e) moved to Disclosures – 4.A.29

(f) moved to Disclosures – 4.A.30

- 5.A.2 The firm may link non-GIPS compliant performance to their compliant history, so long as the firm meets the disclosure requirements of Section 4 and no non-compliant performance is presented for periods after 1 January 2000. (For example, a firm that has been in existence since 1995 that wants to present its entire performance history and claim compliance beginning 1 January 2005, must present performance history that meets the requirements of GIPS at least from 1 January 2000, and must meet the disclosure requirements of Section 4 for any non-compliant history prior to 1 January 2000.)
- 5.A.3 Performance for periods of less than one year must not be annualized.
- 5.A.4 Performance results of a past firm or affiliation must be linked to or used to represent the historical record of a new firm or new affiliation if:
- (a) a change only in firm ownership or name occurs, or
 - (b) the firm has all of the supporting performance records to calculate the performance, substantially all the assets included in the composites transfer to the new firm, and the investment decision-making process remains substantially unchanged.
- 5.A.5 If a compliant firm acquires or is acquired by a non-compliant firm, the firms have one year to bring the non-compliant firm's acquired composites into compliance.
- 5.A.6 If a composite is formed using single asset carve-outs from multiple asset class composites the presentation must include the following:
- (a) a list of the underlying composites from which the carve-out was drawn, and
 - (b) the percentage of the composite that is composed of carve-outs.
- As of 1 January 2006, the firm must disclose this information for each annual period (retroactively and going forward).
- 5.A.7 The total return for the benchmark (or benchmarks) that reflects the investment strategy or mandate represented by the composite must be presented for each annual period. If no benchmark is presented, the presentation must explain why no benchmark is disclosed. If the firm changes the benchmark that is used for a given composite in the performance presentation, the firm must disclose both the date and the reasons for the change. If a custom benchmark or combination of multiple benchmarks is used, the firm must describe the benchmark creation and re-balancing process.
- 5.A.8 If a composite contains any non-fee-paying portfolios, the firm must disclose, as of the end of each annual period, the percentage of the composite assets represented by the non-fee-paying portfolios.
- 5.B **Recommendations**

- 5.B.1 The following items should be included in the composite presentation or disclosed as supplemental information:
- (a) composite performance gross of Investment Management Fees and Administrative Fees and before taxes (except for non-reclaimable withholding taxes),
 - (b) removed
 - (c) removed
 - (d) The firm is recommended to present the volatility over time of the aggregate composite return and benchmark return,
 - (e) moved to Disclosures – 4.A.20
- 5.B.2 Relevant composite-level risk measures such as beta, tracking error, modified duration, information ratio, Sharpe ratio, Treynor Ratio, credit ratings, and Value at Risk (VaR) should be presented along with total return for both benchmarks and composites for all periods presented.
- 5.B.3 After presenting the required five years of compliant historical performance, the firm is encouraged to bring any remaining portion of their historical track record into compliance with the GIPS standards. (This does not preclude the requirement that the firm must add annual performance to their track record on an on-going basis to build a ten year track record.)
- 5.B.4 The firm is recommended to present the following additional performance-related information:
- (a) Graphs and charts presenting specific information required or recommended under the GIPS standards
 - (b) Returns for quarterly and/or shorter time periods
 - (c) Annualized composite and benchmark returns for periods greater than 12 months
 - (d) Composite-level country and sector weightings.

REAL ESTATE

Following are provisions that apply to the calculation and presentation of real estate assets. The real estate provisions supplement all of the required and recommended elements of GIPS (outlined in Section II.1. through Section II.5.), except where the real estate provisions override the existing GIPS provisions for valuation. Investment types not considered as real estate and therefore addressed elsewhere in the general provisions of GIPS include:

- Publicly traded real estate securities including any listed securities issued by public companies,
- Commercial mortgage backed securities (CMBS),
- Private debt investments including commercial and residential loans where the expected return is solely related to contractual interest rates without any participation in the economic performance of the underlying real estate.

If a portfolio includes a mix of Private Equity Real Estate and other investments that are not equity real estate, then these requirements and recommendations only apply to the Private Equity Real Estate portion of the portfolio and the GIPS carve-out provisions (Sec II.3.A.7.) must also be applied.

6.A. Requirements - Input Data

- 6.A.1. Real estate investments must be valued at market value at least once every twelve months. By 1 January 2008, real estate investments must be valued at least quarterly. (See GIPS Section II.1.A.2. for portfolio valuation requirement.)
- 6.A.2. Real estate investments must be valued by an external professionally designated and/or governmentally certified or licensed commercial property valuer or appraiser at least once every thirty-six months (need to clarify that the first one must be completed by 31 December 2007). In markets where neither professionally designated nor appropriately sanctioned valuers or appraisers are available and valuers or appraisers from other countries bearing such credentials do not commonly operate, then the party responsible for engaging such services locally shall take necessary steps to ensure that only well-qualified property valuers are utilized.

6.A. **Requirements – Disclosures**

- 6.A.3. In addition to the other disclosure requirements of GIPS, performance presentations for private equity real estate investments must disclose:
- (a) The calculation methodology for component returns (i.e., component returns are a) calculated separately using chain-linked time weighted returns, or b) adjusted such that the sum of the income return and the capital appreciation return is equal to the total return, c) income cash recognition mode (check Peter's last e-mail on accrual)),
 - (b) The firm's description⁵ of discretion,
 - (c) The valuation methods and procedures (i.e., discounted cash flow valuation model, capitalized income approach, sales comparison approach, the valuation of debt payable in determining the value of leveraged real estate, etc.),
 - (d) The range of performance returns for the individual accounts in the composite.
 - (e) The source of the valuation (whether valued by an external valuer, internally prepared or whether values are obtained from a third party manager) for each period,
 - (f) The percent of total market value of composite assets (asset-weighted not equally-weighted) total real estate assets valued by an external valuation for each period, and
 - (g) The frequency real estate investments are valued by external valuers.

6.A. **Requirements – Presentation and Reporting**

- 6.A.4 The income and capital appreciation component returns must be presented in addition to total return.

6.B. **Recommendations – Input Data**

- 6.B.1. Real estate investments should be valued at least quarterly.

⁵ A description may be more abbreviated than the full definition, but should include all salient features.

6.B.2. Real estate investments should be valued by an external valuer or appraiser at least once every twelve months.

6.B.3. If calculating an Internal Rate of Return calculation, the firm should use quarterly cash flows at a minimum.

6.B **Recommendations – Disclosures**

6.B.4. If since inception Internal Rate of Return performance results are shown, the firm should disclose the time period that is covered as well as the frequency of the cash flows used in the calculation.

6.B **Recommendations – Presentation and Reporting**

6.B.5. When available, the capital and income segments of the appropriate real estate benchmark should be presented.

6.B.6. The firm is recommended to present the since-inception Internal Rate of Return for the composite.

6.B.7. The following items are recommended to be presented, especially in those circumstances when the investment manager has the ability to control the timing of investor capital call tranches during the fund's or portfolio's initial acquisition period:

- (a) Gross- and Net-Of-Fees (including incentive allocations) annualized since inception Time-Weighted Rate of Return and Internal Rate of Return (terminal value based on ending market value net assets of the composite) to the last year reported for the composite.
- (b) Gross and Net-of-fees (including incentive allocations) annualized since inception Time-Weighted Rate of Return and Internal Rate of Return (based on realized cash flows only, excluding unrealized gains) to the last year reported for the composite.
- (c) In addition, other performance measures may provide additional useful information for both prospective and existing investors. The GIPS Private Equity Provisions provide guidance with regard to such additional measures, including, investment and realization multiples, and ratios relating to paid-in-capital.

PRIVATE EQUITY

Following are provisions that apply to the calculation and presentation of Private Equity investments other than open-end or Evergreen Funds (which must follow the main GIPS provisions). The Private Equity provisions supplement all of the required and recommended elements of GIPS (outlined in Section II.1. through Section II.5.), except where the Private Equity provisions override the existing GIPS provisions for valuation (7.A.1. and 7.B.1.), calculation methodology (7.A.2. and 7.A.3.), fees (7.A.4. and 7.A.5.), and presentation and reporting of returns (7.A.20.).

7.A **Requirements – Input Data**

- 7.A.1 Private Equity investments must be valued according to the GIPS Private Equity Valuation Principles.
- 7.A **Requirements – Calculation Methodology**
- 7.A.2 The firm must calculate the annualized Since Inception Internal Rate of Return (SI-IRR).
- 7.A.3 The annualized SI-IRR must be calculated using either daily or monthly cash flows and the period-end valuation of the unliquidated remaining holdings. Stock Distributions must be valued at the time of Distribution.
- 7.A.4 Net-of-fees returns must be net of investment management fees, Carried Interest, and transaction expenses.
- 7.A.5 For Investment Advisors, returns must be net of all underlying partnership and/or fund fees and Carried Interest. Net-of-fees returns must, in addition, be net of all the Investment Advisor’s fees, expenses, and Carried Interest.
- 7.A **Requirements – Composite Construction**
- 7.A.6 All closed-end Private Equity investments, including, but not limited to fund-of-funds, partnerships, or Direct Investments must be included in a composite defined by strategy and Vintage Year.
- 7.A.7 Partnership/fund investments, Direct Investments, and open-end Private Equity investments (e.g., Evergreen Funds) must be in separate composites.
- 7.A **Requirements –Disclosures**
- 7.A.8 The firm must disclose the Vintage Year of the composite.
- 7.A.9 For all closed (discontinued) composites, the firm must disclose the final realization (liquidation) date of the composite.
- 7.A.10 The firm must disclose the unrealized appreciation/depreciation of the composite for the most recent period.
- 7.A.11 The firm must disclose the total Committed Capital of the composite for the most recent period.
- 7.A.12 For the most recent period, the firm must disclose the valuation methodologies used to value their Private Equity investments. If any change occurs in either valuation basis or methodology from the prior period, the change must be disclosed.
- 7.A.13 If the presentation complies with any local or regional valuation guidelines in addition to the GIPS Private Equity Valuation Principles, the firm must disclose which local or regional guidelines have been used.

- 7.A.14 The firm must document the firm's valuation review procedures and disclose that the procedures are available upon request.
- 7.A.15 The firm must disclose the definition of the composite investment strategy (e.g., early stage, development, buy-outs, generalist, turnaround, mezzanine, geography, middle market, large transaction).
- 7.A.16 If a benchmark is used, the firm must disclose the calculation methodology used for the benchmark.
- 7.A.17 If a valuation basis other than Fair Value is used to value investments within the composite, the firm must disclose for the most recent period presented their justification for why Fair Value is not applicable. Additionally the firm must disclose the following:
- (a) the carrying value of non-Fair Value basis investments relative to total fund.
 - (b) the number of holdings valued on a non-Fair Value basis.
 - (c) the absolute value of the non-Fair Value basis investments.
- 7.A.18 The firm must disclose whether they are using daily or monthly cash flows in the SI-IRR calculation.
- 7.A.19 If a firm does not use a calendar year period-end, a disclosure must be made indicating the period-end used.

7.A Requirements – Presentation & Reporting

- 7.A.20 The firm must present both the Net-of-fees and Gross-of-fees annualized SI-IRR of the composite for each year since inception.
- 7.A.21 For each period presented, the firm must report:
- (a) Paid-In Capital to date (drawn down);
 - (b) Total current Invested Capital; and
 - (c) Cumulative Distributions to date.
- 7.A.22 For each period presented, the firm must report the following multiples:
- (a) Total Value to Paid-In Capital (Investment Multiple or TVPI)
 - (b) Cumulative Distributions to Paid-In Capital (Realization Multiple or DPI)
 - (c) Paid-In Capital to Committed Capital (PIC)
 - (d) Residual Value to Paid-In Capital (RVPI)
- 7.A.23 If a benchmark is used, the cumulative annualized SI-IRR for the benchmark that reflects the same strategy and Vintage Year of the composite must be presented for the same periods for which the composite is presented. If no benchmark is shown, the presentation must explain why no benchmark is disclosed.

7.B Recommendations – Input Data

7.B.1. Private Equity investments should be valued quarterly.

7.B **Recommendations – Presentation and Reporting**

7.B.2 The firm should present the average holding period of the investments (portfolio companies) over the life of the composite.

III. VERIFICATION

The primary purpose of verification is to establish that a firm claiming compliance with GIPS has adhered to the standards. Verification will also increase the understanding and professionalism of performance-measurement teams and consistency of presentation of performance results.

The verification procedures attempt to strike a balance between ensuring the quality, accuracy, and relevance of performance presentations and minimizing the cost to investment firms of independent review of performance results. Investment firms should assess the benefits of improved internal process and procedures, which are as significant as the marketing advantages of verification.

The goal of the GIPS committee in drafting the verification procedures is to encourage broad acceptance of verification.

Verification will be mandatory effective 1 January 2010. The verification report must cover periods from 1 January 2010 forward, at a minimum. Firms will have until 31 December 2011 to complete the initial verification. If a verification report has not been issued by 31 December 2011, the firm may no longer claim GIPS compliance.

During the next GIPS revision cycle, currently planned for an effective date of 1 January 2010, a reassessment will be performed to ensure the effective date of 1 January 2010 is still appropriate in light of market conditions.

A. Scope & Purpose of Verification

1. Verification is the review of an investment management firm's performance measurement processes and procedures by an independent third-party "verifier." Verification tests:
 - A. Whether the investment firm has complied with all the composite construction requirements of GIPS on a firmwide basis, and
 - B. Whether the firm's processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards.

A single verification report is issued in respect of the whole firm; GIPS verification cannot be carried out for a single composite.

2. Third party verification brings credibility to the claim of compliance, and supports the overall guiding principles of full disclosure and fair representation of investment performance. Verification is strongly encouraged and is expected to become mandatory (but no earlier than 2010). Countries may require verification sooner through the establishment of local standards.
3. The initial minimum period for which verification can be performed is one year of a firm's presented performance. The recommended period over which verification is performed will be that part of the firm's track record for which GIPS compliance is claimed.
4. A verification report must confirm that:

- A. the investment firm has complied with all the composite construction requirements of GIPS on a firmwide basis, and
- B. the firm's processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards.

Without such a report from the verifier, the firm cannot claim that its claim of compliance with GIPS has been verified.

- 5. After performing the verification, the verifier may conclude that the firm is not in compliance with GIPS, or that the records of the firm cannot support a complete verification. In such situations, the verifier must issue a statement to the firm clarifying why a verification report was not possible.
- 6. A principal verifier may accept the work of a local or previous verifier as part of the basis for the principal verifier's opinion.
- 7. The minimum GIPS verification procedures are described in Section III(B) Required Verification Procedures.

B. Required Verification Procedures

The following are the minimum procedures that verifiers must follow when verifying an investment firm's compliance with GIPS. Verifiers must follow these procedures prior to issuing a verification report to the firm:

1. Pre-verification Procedures

- A. Knowledge of the Firm. Verifiers must obtain selected samples of the firm's investment performance reports, and other available information regarding the firm, to ensure appropriate knowledge of the firm.
- B. Knowledge of GIPS. Verifiers must understand the requirements and recommendations of GIPS, including any updates, reports, or clarifications of GIPS published by the Investment Performance Council, the AIMR sponsored body responsible for oversight of the Global Investment Performance Standards.
- C. Knowledge of the Performance Standards. Verifiers must be knowledgeable of country-specific performance standards, laws, and regulations applicable to the firm, and must determine any differences between GIPS and the country-specific standards, laws, and regulations.
- D. Knowledge of Firm Policies. Verifiers must determine the firm's assumptions and policies for establishing and maintaining compliance with all applicable requirements of GIPS. At minimum, verifiers must determine the firm's following policies and procedures of the firm:
 - i. Policy with regard to investment discretion. The verifier must receive from the firm, in writing, the firm's definition of investment discretion and the firm's guidelines for determining whether accounts are fully discretionary;
 - ii. Policy with regard to the definition of composites according to investment strategy; the verifier must obtain the firm's list of composite definitions with written criteria for including accounts in each composite;

- iii. Policy with regard to the timing of inclusion of new accounts in the composites;
- iv. Policy with regard to timing of exclusion of closed accounts in the composites;
- v. Policy with regard to the accrual of interest and dividend income;
- vi. Policy with regard to the market valuation of investment securities;
- vii. Method for computing time-weighted portfolio return;
- viii. Assumptions on the timing of capital inflows/outflows;
- ix. Method for computing composite returns;
- x. Policy with regard to the presentation of composite returns;
- xi. Policies regarding timing of implied taxes due on income and realized capital gains for reporting performance on an after-tax basis;
- xii. Policies regarding use of securities/countries not included in a composite's benchmark;
- xiii. Use of leverage and other derivatives; and
- xiv. Any other policies and procedures relevant to performance presentation.

E. Knowledge of Valuation Basis for Performance Calculations. Verifiers must ensure that they understand the methods and policies used to record valuation information for performance calculation purposes. In particular, verifiers must determine that:

- i. The firm's policy on classifying fund flows (e.g., injections, disbursements, dividends, interest, fees, taxes, etc.) is consistent with the desired results, and will give rise to accurate returns;
- ii. The firm's accounting treatment of income, interest and dividend receipts is consistent with cash account and cash accruals definitions;
- iii. The firm's treatment of taxes, tax reclaims, and tax accruals is correct, and the manner used is consistent with the desired method (i.e., gross- or net-of-tax return);
- iv. The firm's policies on recognizing purchases, sales, and the opening and closing of other positions are internally consistent, and will produce accurate results; and
- v. The firm's accounting for investments and derivatives is consistent with GIPS.

2. Verification Procedures

A. Definition of the Firm. Verifiers must determine that the firm is, and has been, appropriately defined.

B. Composite Construction. Verifiers must be satisfied that:

- i. the firm has defined and maintained composites according to reasonable guidelines in compliance with GIPS;
- ii. all of the firm's actual discretionary fee-paying portfolios are included in a composite;
- iii. the manager's definition of discretion has been consistently applied over time;

- iv. at all times, all accounts are included in their respective composites and no accounts that belong in a particular composite have been excluded;
- v. composite benchmarks are consistent with composite definitions and have been consistently applied over time;
- vi. the firm's guidelines for creating and maintaining composites have been consistently applied; and
- vii. the firm's list of composites is complete.

C. **Non-Discretionary Accounts.** Verifiers must obtain a listing of all firm portfolios and determine on a sampling basis whether the manager's classification of the account as discretionary or non-discretionary is appropriate by referring to the account's agreement and the manager's written guidelines for determining investment discretion.

D. **Sample Account Selection.** Verifiers must obtain a listing of open and closed accounts for all composites for the years under examination. Verifiers may check compliance with GIPS using a selected sample of a firm's accounts. Verifiers should consider the following criteria when selecting the sample accounts for examination:

- i. number of composites at the firm;
- ii. number of portfolios in each composite;
- iii. nature of the composite;
- iv. total assets under management;
- v. internal control structure at the firm (system of checks and balances in place);
- vi. number of years under examination; and
- vii. computer applications, software used in the construction and maintenance of composites, the use of external performance measurers and the calculation of performance results.

This list is not all-inclusive and contains only the minimum criteria that should be used in the selection and evaluation of a sample for testing. For example, one potentially useful approach would be to choose a portfolio for the study sample that has the largest impact on composite performance because of its size, or because of extremely good or bad performance. The lack of explicit record keeping, or the presence of errors, may warrant selecting a larger sample or applying additional verification procedures.

E. **Account Review.** For selected accounts, verifiers must determine:

- i. whether the timing of the initial inclusion in the composite is in accordance with policies of the firm;
- ii. whether the timing of exclusion from the composite is in accordance with policies of the firm for closed accounts;
- iii. whether the objectives set forth in the account agreement are consistent with the manager's composite definition as indicated by the account agreement, portfolio summary, and composite definition;
- iv. the existence of the accounts by tracing selected accounts from account agreements to the composites;
- v. that all portfolios sharing the same guidelines are included in the same composite; and

vi. that shifts from one composite to another are consistent with the guidelines set forth by the specific account agreement or with documented guidelines of the firm's clients.

- F. Performance Measurement Calculation. Verifiers must determine whether the firm has computed performance in accordance with the policies and assumptions adopted by the firm and disclosed in its presentations. In doing so, verifiers should:
- i. recalculate rates of return for a sample of accounts in the firm using an acceptable return formula as prescribed by GIPS (i.e., time-weighted rate of return); and
 - ii. take a reasonable sample of composite calculations to assure themselves of the accuracy of the asset weighting of returns, the geometric linking of returns to produce annual rates of returns, and the calculation of the dispersion of individual returns around the aggregate composite return.
- G. Disclosures. Verifiers must review a sample of composite presentations to ensure that the presentations include the information and disclosures required by GIPS.
- H. Maintenance of Records. The verifier must maintain sufficient information to support the verification report. The verifier must obtain a representation letter from the client firm confirming major policies and any other specific representations made to the verifier during the examination.

C. Detailed Examinations of Investment Performance Presentations

Separate from a GIPS verification, an investment management firm may choose to have a further, more extensive, specifically focused examination (or performance audit) of a specific composite presentation.

Firms cannot make any claim that a particular composite has been independently examined with respect to GIPS unless the verifier has also followed the GIPS verification procedures set forth in Section B. Firms cannot state that a particular composite presentation has been "GIPS verified" or make any claim to that effect. GIPS verification relates only to firmwide verification. Firms can make a claim of verification after a verifier has issued a GIPS verification report.

To claim verification of a claim of compliance with the Standards, a detailed examination of a composite presentation is not required. Examinations of this type are unlikely to become a requirement of GIPS or become mandatory.

APPENDIX A. - SAMPLE PRESENTATIONS

XYZ Investment Firm Performance Results: Balanced Composite, January 1, 1995, through December 31, 1999

Year	Total Return (percent)	Benchmark Return (percent)	Number of Portfolios	Internal Composite Dispersion (percent)	Total Assets at End of Period (Euro)	Percentage of Firm Assets	Total Firm Assets
1995	16.0	14.1	26	4.5	165	70	236
1996	2.2	1.8	32	2.0	235	68	346
1997	22.4	24.1	38	5.7	344	65	529
1998	7.1	6.0	45	2.8	445	64	695
1999	8.5	8.0	48	3.1	520	62	839

XYZ Investment Firm has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Notes:

1. XYZ Investment Firm is a balanced portfolio investment manager that invests solely in German securities. XYZ Investment Firm is defined as an independent investment management firm that is not affiliated with any parent organization.
2. The benchmark: 30 percent DAX 100; 70 percent EFFAS Bund Index rebalanced monthly. Annualized compound composite return = 11.9 percent; annualized compound benchmark return = 11.4 percent.
3. Valuations are computed in German marks and from Reuters.
4. The dispersion of annual returns is measured by the standard deviation across asset-weighted portfolio returns represented within the composite for the full year.
5. Performance results are presented before management and custodial fees but after all trading commissions. The management fee schedule is attached.
6. This composite was created in February, 1995. No alteration of composites as presented here has occurred because of changes in personnel or other reasons at any time. A complete list of firm composites and performance results is available upon request.

PRIVATE EQUITY – SAMPLE PRESENTATION

ABC Private Equity Partners Buy-Out Composite 1 January 1995 through 31 December 2002

<u>Year</u>	<u>Annualized SI-IRR Gross-of-Fees (%)</u>	<u>Annualized SI-IRR Net-of-Fees (%)</u>	<u>Bench- mark Return (%)</u>	<u>Composite Assets (\$ millions)</u>	<u>% of Firm Assets</u>	<u>Total Firm Assets (\$ millions)</u>
1995	(7.5)	(11.07)	(9.42)	4.31	1.2	357.36
1996	6.2	4.53	2.83	10.04	2.5	402.78
1997	13.8	10.10	14.94	14.25	2.7	530.51
1998	13.1	9.28	14.22	25.21	4.1	613.73
1999	53.2	44.53	37.43	54.00	6.2	871.75
2000	40.6	26.47	32.97	24.25	2.1	1,153.62
2001	29.9	21.86	27.42	8.25	0.7	1,175.69
2002	25.3	17.55	25.24	10.25	0.6	1,150.78

<u>Year</u>	<u>Paid-In Capital (\$ millions)</u>	<u>Invested Capital (\$ millions)</u>	<u>Cumulative Distributions (\$ millions)</u>	<u>Investment Multiple (TVPI)</u>	<u>Realization Multiple (DPI)</u>	<u>PIC</u>	<u>RVPI</u>
1995	4.68	4.68	0	0.92	0.00	0.19	0.92
1996	9.56	9.56	0	1.05	0.00	0.38	1.05
1997	14.54	12.91	2.55	1.16	0.18	0.58	0.98
1998	23.79	22.15	2.55	1.17	0.11	0.95	1.06
1999	25.00	19.08	15.78	2.79	0.63	1.00	2.16
2000	25.00	17.46	27.44	2.07	1.10	1.00	0.97
2001	25.00	14.89	39.10	1.89	1.56	1.00	0.33
2002	25.00	13.73	41.25	2.06	1.65	1.00	0.41

TVPI = Total Value to Paid-in Capital

DPI = Distributed Capital to Paid-in Capital

PIC = Paid-in Capital to Committed Capital

RVPI = Residual Value to Paid-in Capital

ABC Private Equity Partners has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

ABC Private Equity Partners is an independent private equity investment firm, having offices in London, New York, and San Francisco. The ABC Buy-Out Composite invests in private equity buy outs and was created in January 1995.

The ABC Buy-Out Composite complies with the XYZ Venture Capital Association's valuation guidelines. Valuations are prepared by ABC's valuations committee and reviewed by an independent advisory board. ABC follows the Fair Value Basis of Valuation as recommended in the GIPS Private Equity Valuation Principles. All

investments within the ABC Buy-Out Composite are valued either using a most recent transaction or an earnings multiple. ABC's valuation review procedures are available upon request.

The GP-BO index is used as the benchmark and is constructed as the QRS index return plus 500 basis points. The benchmark return is calculated using monthly cash flows. There is only one fund in the composite for all time periods and the dispersion of portfolio returns within the composite therefore is zero for all years.

The vintage year of the ABC Buy-Out Fund is 1995 and total committed capital is \$25 million. The total composite assets (unrealized gains) are \$10.25 million as of 31 December 2002.

The fund's SI-IRR calculation incorporates monthly cash flows.

A complete list of firm composites and composite performance results is available upon request.

ADVERTISEMENTS

Sample Advertisement Without Performance Returns

ABC Investments

ABC Investments is the institutional asset management division of ABC Plc and is a registered investment advisory firm specializing in qualitative, growth-oriented investment management.



ABC Investments claims compliance with the Global Investment Performance Standards (GIPS®).

To receive a complete list and description of ABC Investments' composites and/or a presentation that adheres to the GIPS standards, contact John Doe at (800) 555-1234, or write to ABC Investments, 123 Main Street, Investmentville, USA 12345, or e-mail jdoe@abcinvestments.com

Sample Advertisements Including Performance Returns

XYZ Investments: Global Equity Growth Composite Performance				
Results are shown in US \$ before fees	Period to Date (3 mths to 31 Mar 03)	1 Year (ending 31 Dec 02)	3 Years per annum (ending 31 Dec 02)	5 Years per annum (ending 31 Dec 02)
Global Equity Growth Composite	-3.84%	-19.05%	-14.98%	0.42%
MSCI World Index	-4.94%	-19.54%	-16.37%	-1.76%

OR the firm may present:

XYZ Investments: Global Equity Growth Composite Performance						
Results are shown in US \$ before fees	Period to Date (3 mths to 31 Mar 03)	31 Dec 2002	31 Dec 2001	31 Dec 2000	31 Dec 1999	31 Dec 1998
Global Equity Growth Composite	-3.84%	-19.05%	-17.05%	-8.47%	31.97%	25.87%
MSCI World Index	-4.94%	-19.54%	-16.52%	-12.92%	25.34%	24.80%

XYZ Investments is the institutional asset management subsidiary of XYZ plc and is a registered investment advisor specializing in qualitative, growth-oriented investment management. The Global Equity Growth Composite strategy focuses on earnings, growth of earnings, and key valuation metrics.

XYZ Investments claims compliance with the Global Investment Performance Standards (GIPS®).

To receive a complete list and description of XYZ Investments' composites and/or a presentation that adheres to the GIPS standards, contact Jean Paul at +12 (034) 5678910, or write XYZ Investments, One Plain Street, Resultland 12KJ4, or jpaul@xyzinv.com.re.

APPENDIX B – GIPS ADVERTISING GUIDELINES

A. Purpose Of The GIPS Advertising Guidelines

The Global Investment Performance Standards (GIPS) provide the investment community with a set of ethical standards for investment management firms to follow when presenting their performance results to potential clients. The Standards serve to provide greater uniformity and comparability among investment managers, without regard to geographic location, and to facilitate a dialogue between investment managers and their prospective clients about the critical issues of how the manager achieved historical performance results and future investment strategies. However, to date, the GIPS standards have not addressed the issue of advertising a firm's claim of compliance.

The GIPS Advertising Guidelines attempt to serve as industry global best practice for the advertisement of performance results. The GIPS Advertising Guidelines do not replace the GIPS standards nor do they absolve firms from presenting performance presentations that adhere to the requirements of the full GIPS standards. The Guidelines only apply to firms that already satisfy all of the requirements of the Standards on a firmwide basis and claim compliance with the Standards. Firms that claim compliance can choose to advertise that claim using the GIPS Advertising Guidelines.

The Guidelines are mandatory for firms that include a claim of compliance in their advertisements. The Guidelines are voluntary for firms that do not include a claim of compliance in their advertisements. All firms are encouraged to abide by these ethical guidelines.

Definition of Advertisement

For the purposes of these Guidelines, an advertisement includes any materials that are distributed or designed for use in newspapers, magazines, firm brochures, letters, media, or any other written or electronic material addressed to more than one prospective client. Any written material (other than one-on-one presentations and individual client reporting) distributed to maintain existing clients or solicit new clients for an advisor is considered an advertisement.

Relationship of GIPS Advertising Guidelines to Regulatory Requirements

The GIPS Advertising Guidelines are guidelines that promote an ethical framework for advertisements. They do not change the scope of the activities of local regulatory bodies regarding the regulation of advertisements. Firms advertising performance results must also adhere to all applicable regulatory rules and requirements governing advertisements. Firms are encouraged to seek legal or regulatory counsel, as it is likely additional disclosures are required. In cases where applicable law or regulation conflicts with the GIPS Advertising Guidelines, the Guidelines require firms to comply with the law or regulation. However, for purposes of these Advertising Guidelines, the conflict need not be disclosed.

The calculation and advertisement of pooled unitized products, such as mutual funds and open-ended investment companies, are regulated in most markets. These Advertising Guidelines are not intended to replace the regulations when a firm is advertising performance solely for a pooled unitized product. However, should a GIPS-compliant firm choose to advertise performance results, the firm must apply all applicable laws and regulations as well as the GIPS Advertising Guidelines in order to include a claim of compliance with the GIPS standards.

B. The Requirements Of The GIPS Advertising Guidelines

All advertisements that include a claim of compliance must include the following:

1. A description⁶ of the firm.
2. How an interested party can obtain a presentation that complies with the requirements of GIPS and/or a list and description of all firm composites.
3. The GIPS Advertising Guidelines Compliance Statement:
[Insert name of firm] claims compliance with the Global Investment Performance Standards (GIPS[®]).

All advertisements that include a claim of compliance and present performance results must also include the following information (the relevant information must be taken/derived from a presentation that adheres to the requirements of the GIPS standards):

4. A description⁶ of the strategy of the composite being advertised.
5. Period-to-date composite performance results in addition to either:
 - a. 1-, 3-, and 5- year cumulative annualized composite performance returns with the end-of-period date clearly identified (or annualized period since composite inception if inception is greater than 1 or less than 5 years). Periods of less than one year must not be annualized. The annualized returns must be calculated through the same period of time as presented in the corresponding compliant presentation; **OR**
 - b. 5 years of annual composite performance returns with the end-of-period date clearly identified (or since composite inception if inception is less than 5 years). The annual returns must be calculated through the same period of time as presented in the corresponding compliant presentation.
6. Whether performance is shown gross and/or net of investment management fees.
7. The appropriate composite benchmark total return for the same periods for which the composite return is presented and a description⁵ of that benchmark. (The appropriate composite benchmark return is the same benchmark total return as presented in the corresponding compliant presentation.) If no benchmark is presented, the advertisement must disclose why no benchmark is presented.
8. The currency used to express performance.
9. The description⁷ of the use and extent of leverage and derivatives, if leverage or derivatives are used as an active part of the investment strategy (i.e., not merely for efficient portfolio management) of the composite. Where leverage/derivatives do not have a material effect on returns, no disclosure is required.
10. When presenting non-compliant performance information for periods prior to 1 January 2000 in an advertisement, firms must disclose the period(s) and which specific information that is not compliant as well as provide the reason(s) the information is not in compliance with the GIPS standards.

⁶ A description may be more abbreviated than the full definition, but should include all salient features.

Supplemental Information

Firms are encouraged to present supplemental information or additional information in addition to the information required under the GIPS Advertising Guidelines, provided the supplemental information is clearly labeled as such, and shown with equal or lesser prominence than the information required under the Guidelines.

Where such information is included for non-compliant periods, these periods must be disclosed together with an explanation of what information is not compliant and why it is not in compliance with the GIPS standards.

Supplemental Information is the subject of a separate IPC Guidance Statement and users should refer to that guidance for further clarification on how to disclose such data.

APPENDIX C – GIPS GLOSSARY

Accrual Accounting: The system of recording and summarizing business and financial transactions as they come into existence as a legally enforceable claim, rather than when they settle.

Administrative Fee

All fees other than the Trading Expenses and the Investment Management Fee. Administrative Fees include Custody Fees, accounting fees, consulting fees, legal fees, performance measurement fees, or other related fees. These Administrative Fees are typically outside of the control of the investment management firm and are not included in either the Gross-Of-Fees return or the Net-Of-Fees return. However, there are some markets and investment vehicles where Administrative Fees are controlled by the firm (see Bundled Fee).

Benchmark: An investment alternative (e.g. index, portfolio, peer group or composite) or rate that serves as a basis for performance comparison or return calculation. A benchmark should be a proxy for the investment objective.

Bundled Fee A fee that combines multiple fees into one “bundled” fee. Bundled Fees can include any combination of management, transaction, Custody, and other Administrative Fees. Two specific examples of Bundled Fees are the wrap fee and the all-in fee.

All-in Fee Due to the universal banking system in some countries, asset management, brokerage, and Custody are often part of the same company. This allows banks to offer a variety of choices to customers regarding how the fee will be charged. Customers are offered numerous different fee models in which fees may be bundled together or charged separately. All-in fees can include any combination of Investment Management, Trading Expenses, Custody, and other Administrative Fees.

Wrap Fee Wrap fees are specific to a particular investment product. The U.S. Securities and Exchange Commission (SEC) defines a wrap fee account (more commonly known as a Separately Managed Account) as “any advisory program under which a specified fee or fees not based upon transactions in a client’s account is charged for investment advisory services (which may include portfolio management or advice concerning the selection of other investment advisers) and execution of client transactions”. A typical separately managed account has a contract or contracts (and fee) involving a sponsor (usually a broker or independent provider) acting as the investment advisor, an investment management firm typically as the sub-advisor, other services

(custody, consulting, reporting, performance, manager selection, monitoring, and execution of trades), distributor, and the client (brokerage customer). Wrap fees can be all-inclusive, asset-based fees (which may include any combination of management, transaction, custody, and other administrative fees).

**Capital Employed
(Real Estate):**

The denominator of the return expressions, defined as the “weighted average equity” (weighted average capital) during the measurement period. Capital employed should not include any income or capital return accrued during the measurement period. Beginning capital is adjusted by weighting the cash flows (contributions and distributions) that occurred during the period. Cash flows are typically weighted based on the actual days the flows are in or out of the portfolio. Other weighting methods are acceptable; however, once a methodology is chosen, it should be consistently applied.

**Capital Return
(Real Estate):**

The suggested definition: The change in the market value of the real estate investments and cash/cash equivalent assets held throughout the measurement period (ending market value less beginning market value) adjusted for all capital expenditures (subtracted) and the net proceeds from sales (added). The return is computed as a percentage of the capital employed through the measurement period. Synonyms: capital appreciation return, appreciation return.

Carve-Out:

A single or multiple asset class segment of a multiple asset class portfolio.

**Carried Interest
(Private Equity):**

(“Carry”) – The percentage of profits (generally 20-25%) that General Partners receive out of the profits of the investments made by the fund. For instance, a \$100 million fund raised from Limited Partners is invested into a portfolio of investments now worth \$500 million. Assume that there have been profits from proceeds of \$50 million. Limited Partners would receive \$40 million and the other \$10 million would accrue to the General Partners as their Carried Interest. Typically, Carried Interest is only paid after Limited Partners receive their original investment back. Throughout the life of the fund, Carried Interest accrues based on both realized and unrealized gains on investments in the fund.

Client Return:

The Net-Of-Fees return reduced by any Administrative Fees related to a particular portfolio. The Client Return is not required by the GIPS standards, but may be useful for existing clients to see in order to understand the impact of all fees related to their portfolio.

**Closed-End Fund
(Private Equity):**

A type of investment fund where the number of investors and the total Committed Capital is fixed (i.e., not open for subscriptions and/or redemptions).

Committed Capital (Private Equity):	("Commitments") – Pledges of capital to a Venture Capital fund. This money is typically not received at once, but drawn down over three to five years, starting in the year the fund is formed.
Composite:	Aggregation of individual portfolios or asset classes representing a similar investment mandate, objective or strategy.
Custody Fees:	The fees payable to the custodian for the safekeeping of the portfolio's assets. Custody Fees typically contain an asset-based portion and a transaction-based portion of the fee. The total Custody Fee may also include charges for additional services including accounting, securities lending, or performance measurement. Custody Fees that are charged per transaction should be included in the Custody Fee and not included as part of the Trading Expenses.
Description:	May be more abbreviated than the full definition, but should include all salient features
Direct Investments (Private Equity):	An investment made directly in Venture Capital or Private Equity assets (i.e., not via a partnership or fund).
Dispersion:	The spread of the returns of individual portfolios within a composite.
Distinct Business Entity:	A unit, division, department, or office that is organizationally and functionally segregated from other units, divisions, departments, or offices and retains discretion over the assets it manages and autonomy over the investment decision-making process. Possible criteria that can be used to determine this include: <ul style="list-style-type: none"> • being a legal entity • having a distinct market or client type (e.g., institutional, retail, private client, etc.) • using a separate and distinct investment process
Distribution (Private Equity):	Cash or the value of stock disbursed to the Limited Partners of a venture fund.
Drawdown (Private Equity):	After the total Committed Capital has been agreed upon between the General Partner and the Limited Partners, the actual transfer of funds from the Limited Partners' to the General Partners' control in as many stages as deemed necessary by the General Partner is referred to as the draw down.
Ending Market Value (Private Equity):	The remaining equity that a Limited Partner has in a fund. Also referred to as net asset value or Residual Value.

Ex-Ante:	Before the fact.
Ex-Dividend Date:	The date after which the buyer of the stock is no longer able to purchase the stock in the regular way and still receive a specific dividend payment. A holder of the stock who sells on the ex-dividend date is entitled to retain the dividend when it is paid.
External Valuation (Real Estate):	An external valuation is an assessment of market value performed by a third party who is a qualified, professionally designated, or governmentally certified or licensed valuer/appraiser. External valuations must be completed following the valuation standards of the local governing appraisal body.
Evergreen Fund (Private Equity):	An Open-End Fund that allows for on-going investment and redemption by investors. Some Evergreen Funds reinvest profits in order to ensure the availability of capital for future investments.
Fair Value:	The amount at which an asset could be acquired or sold in a current transaction between willing parties in which the parties each acted knowledgeably, prudently, and without compulsion
Fee Schedule:	A list of the firm's current Investment Management Fees or Bundled Fees for a particular presentation. This schedule is typically listed by asset level ranges and should be appropriate to the particular prospective client.
Final Realization Date (Private Equity):	The date at which a composite is fully distributed.
General Partner (Private Equity):	("GP") a class of partner in a partnership. The General Partner retains liability for the actions of the partnership. In the Private Equity world, the GP is the fund manager while the Limited Partners (LPs) are the institutional and high net worth investors in the partnership. The GP earns a management fee and a percentage of profits (See <u>Carried Interest</u>).
Gross-Of-Fees Return:	The return on assets reduced by any Trading Expenses incurred and non-reclaimable withholding taxes incurred during the period.
Income Return (Real Estate):	The suggested definition: The investment income accrued on all assets (including cash and cash equivalents) during the measurement period net of all non-recoverable expenditures, interest expense on debt, and property taxes. The return is computed as a percentage of the capital employed through the measurement period.

**Internal Valuation
(Real Estate):**

An internal valuation is an advisor's or underlying third party manager's, best estimate of market value, based on the most current and accurate information available under the circumstances. An internal valuation could include industry practice techniques, such as discounted cash flow, sales comparison, replacement cost, or a review of all significant events (both general market and asset specific) that could have a material impact on the investment. Prudent assumptions and estimates must be used, and the process must be applied consistently from period to period, except where a change would result in better estimates of market value.

**Invested Capital
(Private Equity):**

The amount of Paid-In Capital that has been invested in portfolio companies.

**Investment Advisor
(Private Equity):**

Any individual or institution that supplies investment advice to clients on a per fee basis. The Investment Advisor inherently has no role in the management of the underlying portfolio companies of a partnership/fund.

**Investment
Management Fee:**

The fee payable to the investment management firm for the on-going management of a portfolio. Investment Management Fees are typically asset based (percentage of assets), performance based (based on performance relative to a benchmark), or a combination of the two, but may take different forms as well.

**Investment Multiple
(TVPI Multiple)
(Private Equity):**

The ratio of Total Value to paid-in-capital. It represents the total return of the investment to the original investment not taking into consideration the time invested. Total Value can be found by adding the Residual Value and distributed capital together.

**Limited Partner
(Private Equity):**

("LP") an investor in a Limited Partnership. The General Partner is liable for the actions of the partnership while the Limited Partners are generally protected from legal actions and any losses beyond their original investment. The Limited Partner receives income, capital gains, and tax benefits.

**Limited Partnerships
(Private Equity):**

The legal structure used by most venture and Private Equity funds. Usually fixed life investment vehicles. The General Partner or management firm manages the partnership using policy laid down in a Partnership Agreement. The Agreement also covers, terms, fees, structures and other items agreed between the Limited Partners and the General Partner.

Market Value

(Real Estate):

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- a) Buyer and seller are typically motivated.
- b) Both parties are well informed or well advised, and each acting in what they consider their own best interests;
- c) A reasonable time is allowed for exposure in the open market.
- d) Payment is made in terms of currency or in terms of financial arrangements comparable thereto; and,
- e) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Net-Of-Fees Return:

The Gross-Of-Fees return reduced by the Investment Management Fee.

**Open-End Fund
(Private Equity):**

A type of investment fund where the number of investors and the total Committed Capital is not fixed (i.e., open for subscriptions and/or redemptions). (See, Evergreen Fund)

**Open Market Value
(Real Estate):**

An opinion of the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- a) a willing seller;
- b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

**Paid-In Capital
(Private Equity):**

The amount of Committed Capital a Limited Partner has actually transferred to a venture fund. Also known as the cumulative Drawdown amount.

**PIC Multiple
(Private Equity):**

The ratio of Paid-in-capital to Committed Capital. This ratio gives prospective

clients information regarding how much of the total commitments have been drawn down.

Private Equity:

Private Equity includes but is not limited to organizations devoted to Venture Capital, leveraged buyouts, consolidations, mezzanine and distressed debt investments, and a variety of hybrids such as venture leasing and venture factoring.

**Private Equity
Real Estate:**

Private Equity Real Estate Investments include:

- Wholly owned or partially owned properties,
- Commingled funds, property unit trusts and insurance company separate accounts,
- Unlisted, private placement securities issued by private real estate investment trusts (REITs) and real estate operating companies (REOCs), and
- Equity-oriented debt such as participating mortgage loans or any private interest in a property where some portion of return to the investor at the time of investment is related to the performance of the underlying real estate.

**Professionally Designated,
Certified or Licensed
Valuer/Appraiser
(Real Estate):**

In Europe, Canada and parts of southeast Asia, the predominant professional designation is that of the Royal Institution of Chartered Surveyors ("RICS"). In the United States, the professional designation is Member [of the] Appraisal Institute ("MAI"). In addition, each state regulates real estate appraisers and, based upon one's experience, body of work and test results, is then registered, licensed or certified.

**Realization Multiple
(Private Equity):**

The Realization Multiple (DPI) is calculated by dividing the cumulative Distributions by the paid-in-capital.

**Residual Value
(Private Equity):**

("Net Asset Value") The remaining equity that a Limited Partner has in the fund. (The value of the investments within the fund). Also can be referred to as Ending Market Value.

**Residual Value to
Paid-in-Capital (RVPI)
(Private Equity):**

Residual Value divided by the paid-in-capital.

**Settlement Date
Accounting:**

Recognizing the asset or liability on the date in which the exchange of cash, securities, and paperwork involved in a transaction is completed. Impact on performance: Between trade date and settlement date, an account does not

recognize any change between the price of the transaction and the current market value. Instead, on settlement date, the total difference between the price of the transaction and the current market value is recognized on that day.

Trade Date Accounting:	Recognizing the asset or liability on the date the transaction is entered into. Impact on performance: between trade date and settlement date, the account recognizes any change between the price of the transaction and the current market value.
Total Firm Assets:	Total firm assets are all assets for which a firm has investment management responsibility. Total firm assets include assets managed outside the firm (e.g., by sub-advisors) for which the firm has asset allocation authority.
Total Return (Real Estate):	The change in the market value of the portfolio, adjusted for all capital expenditures (subtracted), net proceeds from sales (added), and investment income accrued (added) during the measurement period, expressed as a percentage of the capital employed in the portfolio over the measurement period.
Total Value (Private Equity):	Residual Value of the portfolio plus distributed capital.
Trading Expenses:	The costs of buying or selling a security. These costs typically take the form of brokerage commissions from either internal or external brokers. In many countries, accounting standards require that transaction costs be reflected in the book value of a security. Custody Fees charged per transaction should be considered Custody Fees and not direct transaction costs. Estimated Trading Expenses are not permitted.
Venture Capital (Private Equity):	Risk capital in the form of equity and/or loan capital that is provided by an investment institution to back a business venture which is expected to grow in value.
Vintage Year (Private Equity):	The year that the Venture Capital or Private Equity fund or partnership first draws down or calls capital from its investors.