

**INVITATION TO COMMENT:
Exposure Draft of the 2010 Global Investment Performance Standards**

CFA Institute established the GIPS Executive Committee (EC) as the governing body for the Global Investment Performance Standards (GIPS®). The GIPS EC seeks comment on the proposal set forth below regarding revisions to the GIPS standards. Comments must be in writing and received no later than **1 July 2009**. Responses will be accepted in hardcopy and via fax, but it would be helpful if an electronic version is submitted as well. Please submit your comments as early as possible to facilitate the review process. All comments and replies will be made public on the GIPS website (unless otherwise requested) at www.gipsstandards.org. Comments should be submitted via email to standards@cfainstitute.org or alternatively can be mailed or faxed as follows:

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Centre for Financial Market Integrity
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Executive Summary

The current version of the GIPS standards was published in February 2005 and became effective 1 January 2006. To maintain global relevance, and recognizing the dynamic nature of the investment industry, the GIPS standards must be continuously updated through new provisions, Guidance Statements, and interpretations. The GIPS EC, in collaboration with various technical subcommittees and working groups, has reviewed the existing provisions and guidance in an effort to improve the Standards. Those provisions that are no longer necessary have been eliminated and new provisions have been added to promote best practice. Numerous edits have also been made in order to clarify the Standards. Additional history and background on the GIPS standards can be found on the GIPS website at www.gipsstandards.org.

Effective Dates

The proposed adoption of the revised GIPS standards is planned for early 2010 with an effective date of 1 January 2011. Compliant presentations that include performance results for periods that begin on or after 1 January 2011 must be prepared in accordance with the revised GIPS standards. Prior versions of the GIPS standards may be found on the GIPS website.

Summary of Proposed Revisions to the GIPS Standards

The following is a summary of some of the more significant revisions to the GIPS standards. Further guidance, interpretation, and examples will be issued as needed once the Standards have been finalized.

1. GIPS Compliance Statement – As part of the compliance statement, firms will be required to disclose if they have been verified and for which periods the firm has been verified. This change has been proposed to stress the importance of the verification process and encourage firms to comply with the recommendation that all firms claiming compliance with the GIPS standards become verified.
2. Fair Value – Firms will be required to value all portfolios at fair value. Fair value is described at length in the GIPS Valuation Guidelines in Appendix D. The change from market value to fair value will increase the accuracy, transparency, and reliability of the valuations used to calculate performance. This is consistent with financial reporting standards set by the International Accounting Standards Board and the Financial Accounting Standards Board.
3. Non-Fee-Paying Portfolios – Firms will be required to include all discretionary non-fee-paying portfolios in at least one composite. Previously firms were permitted to choose if they wanted to include non-fee-paying portfolios in any of the firm's composites.

4. Standard Deviation – Firms will be required to disclose the 3 year annualized ex-post standard deviation of the composite and benchmark. Standard deviation is a widely understood measure and is relatively easy to calculate. Requiring a specific risk measure allows for comparability between strategies and firms.
5. Risk Disclosure – As part of the composite description, firms will be required to disclose sufficient information to allow a prospective client to understand the relevant risks of the composite strategy.
6. Proprietary Assets – Firms will be required to disclose the percentage of composite assets composed of proprietary assets (e.g., “seed” capital or “house” money).
7. Verification - The scope and purpose of verification, as well as the required verification procedures that must be followed by verifiers, have been clarified in Section III in order to increase the understanding and consistency of verification.
8. Real Estate External Valuation - Real estate investments will be required to be valued by an independent external valuer/appraiser at least once every 12 months.
9. Closed-End Real Estate Funds - There are new provisions for closed-end real estate funds. These include a requirement to present an annualized since inception internal rate of return for each year since composite inception. The additional provisions are generally similar to those required and recommended under the private equity provisions.
10. After Tax/Taxation Guidance – Country-specific guidance on taxation issues has been removed from the Standards and will be addressed separately.
11. Prospective Client – A definition of prospective client has been added to the glossary.
12. Disclosures – Feedback is requested as to how long disclosures should be required to be included in a compliant presentation. Responses should indicate which specific disclosures should be considered for deletion and for what time period. For example, “Firms should be allowed to discontinue the disclosure of any changes to a composite’s name five years after the name change.”

Comment Requested

The GIPS EC is seeking comments from the industry on the proposals set forth in the following revised GIPS 2010 Exposure Draft. In addition to comments on specific items, please provide feedback on items you support. All comments received, unless requested to be confidential, will be posted on the GIPS website. The following draft highlights each change for clarity and transparency and an unmarked copy is also available for review on the GIPS website. Words appearing in CAPITAL letters are defined in the GIPS Glossary in Appendix E.

Global Investment Performance Standards (GIPS®)
EXPOSURE DRAFT: Sections 0 – 5

0. FUNDAMENTALS OF COMPLIANCE

0.A Definition of the Firm — Requirements

- 0.A.1 The GIPS standards **MUST** be applied on a FIRM-wide basis.
- 0.A.2 FIRMS **MUST** be defined as an investment firm, subsidiary, or division held out to clients or PROSPECTIVE CLIENTS as a **DISTINCT BUSINESS ENTITY**.
- 0.A.3¹ **TOTAL FIRM ASSETS MUST** be the aggregate of the **FAIR VALUE** of all discretionary and nondiscretionary assets under management within the FIRM. This includes both fee-paying and non-fee-paying **PORTFOLIOS**.
- 0.A.4 FIRMS **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**.
- 0.A.5 Changes in a FIRM'S organization **MUST NOT** lead to alteration of historical **COMPOSITE** performance.

0.B Definition of the Firm — Recommendations

- 0.B.1 FIRMS **SHOULD** adopt the broadest, most meaningful definition of the FIRM. The scope of this definition **SHOULD** include all geographical (country, regional, etc.) offices operating under the same brand name regardless of the actual name of the individual investment management company.

0.A Document Policies and Procedures — Requirements

- 0.A.6 FIRMS **MUST** document their policies and procedures used in establishing and maintaining compliance with the GIPS standards.

0.A Claim of Compliance — Requirements

- 0.A.7 Once a FIRM has met all applicable **REQUIREMENTS** of the GIPS standards, the FIRM **MUST** use one of the following compliance statements to indicate that the FIRM is in compliance with the GIPS standards. The compliance statement **MUST** remain in a single paragraph.

For FIRMS that are currently verified:

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

For FIRMS that have been verified, but are not currently verified:

[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the

¹ For periods beginning prior to 1 January 2011, **TOTAL FIRM ASSETS MUST** be the aggregate of the **MARKET VALUE** of all discretionary and nondiscretionary assets under management within the defined FIRM.

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GIPS standards. [Insert name of FIRM] has been independently verified for the periods [insert dates]. The FIRM is not currently independently verified.

For purposes of this provision, a VERIFICATION is considered current if the VERIFICATION REPORT covers a period ending not more than 24 months ago.

For FIRMS that have not been verified:

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

Do you agree with including disclosure of the firm’s verification status in the claim of compliance?

Do you agree with the classification of a current verification being within the last 24 months?

- 0.A.8 If the FIRM does not meet all applicable REQUIREMENTS of the GIPS standards, the FIRM MUST NOT represent that it is “in compliance with the Global Investment Performance Standards except for...”, or other statements that may indicate partial compliance with the GIPS standards.
- 0.A.9 Statements referring to the calculation methodology used in a performance presentation as being “in accordance”, “in compliance”, or “consistent” with the Global Investment Performance Standards, or similar statements are prohibited.
- 0. A.10 Statements referring to the performance of a single, existing client PORTFOLIO as being “calculated in accordance with the Global Investment Performance Standards” are prohibited except when a GIPS-compliant FIRM reports the performance of an individual client’s PORTFOLIO to that client.

0.A Firm Fundamental Responsibilities — Requirements

- 0.A.11 FIRMS MUST make every reasonable effort to provide a COMPLIANT PRESENTATION to all PROSPECTIVE CLIENTS. FIRMS MUST NOT 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 has met this REQUIREMENT.
- 0.A.12 FIRMS MUST provide a complete list and description of the FIRM’S COMPOSITES to any existing or PROSPECTIVE CLIENT that makes such a request. FIRMS MUST list closed COMPOSITES on the FIRM’S list of COMPOSITES for at least 5 years after closure.
- 0.A.13 FIRMS MUST provide a COMPLIANT PRESENTATION for any COMPOSITE listed on the FIRM’S list and description of COMPOSITES to any existing or PROSPECTIVE CLIENT that makes such a request.
- 0.A.14 When the FIRM jointly markets with other firms, the FIRM claiming compliance with the GIPS standards MUST be sure that it is clearly defined and separate relative to other firms being marketed and that it is clear which FIRM is claiming compliance.
- 0.A.15 FIRMS MUST comply with all applicable REQUIREMENTS of the GIPS standards, including any updated information, Guidance Statements, interpretations, Questions & Answers (Q&As), and clarifications published by CFA Institute and the GIPS Executive Committee, which will be made available via the GIPS website (www.gipsstandards.org) as well as the *GIPS Handbook*.

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0.A.16 FIRMS MUST comply with all applicable laws and regulations regarding the calculation and reporting of returns.

0.A.17 FIRMS MUST NOT present performance or performance related information that is false or misleading.

0.B Firm Fundamental Responsibilities - Recommendations

0.B.2 FIRMS SHOULD provide to each existing client, on an annual basis, a COMPLIANT PRESENTATION for the COMPOSITE(S) in which the client's PORTFOLIO is included.

0.B.3 FIRMS SHOULD comply with the RECOMMENDATIONS of the GIPS standards, including RECOMMENDATIONS included in any updated information, Guidance Statements, interpretations, Questions & Answers (Q&As), and clarifications published by CFA Institute and the GIPS Executive Committee, which will be made available via the GIPS website (www.gipsstandards.org), as well as the *GIPS Handbook*.

0.B.4 FIRMS SHOULD be verified.

1. INPUT DATA

1.A Input Data — Requirements

1.A.1 All data and information necessary to support all items included in a COMPLIANT PRESENTATION MUST be captured and maintained.

1.A.2² For periods beginning on or after 1 January 2011, PORTFOLIOS MUST be valued at FAIR VALUE in accordance with the GIPS Valuation Principles in Appendix D.

Do you agree with the change from market value to fair value?

1.A.3³ FIRMS MUST value PORTFOLIOS in accordance with the COMPOSITE specific valuation policy. PORTFOLIOS MUST be valued:

- a) At least monthly.
- b) On the date of all LARGE CASH FLOWS.
- c) No more frequently than required by the valuation policy.

1.A.4 For periods beginning on or after 1 January 2010, FIRMS MUST value PORTFOLIOS as of the calendar month-end or the last business day of the month.

1.A.5 For periods beginning on or after 1 January 2005, FIRMS MUST use TRADE DATE ACCOUNTING.

² For periods beginning prior to 1 January 2011, PORTFOLIO valuations MUST be based on MARKET VALUES (not cost basis or book values).

³ For periods beginning prior to 1 January 2001, PORTFOLIOS MUST be valued at least quarterly. For periods beginning on or after 1 January 2001, PORTFOLIOS MUST be valued at least monthly. For periods beginning on or after 1 January 2010, FIRMS MUST value PORTFOLIOS on the date of all LARGE CASH FLOWS.

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- 1.A.6 ACCRUAL ACCOUNTING MUST be used for fixed-income securities and all other investments that accrue interest income. The FAIR VALUE of fixed-income securities MUST include accrued income.
- 1.A.7 For periods beginning on or after 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.B Input Data — Recommendations

- 1.B.1 FAIR VALUES SHOULD be obtained from a qualified independent external third party.
- 1.B.2 ACCRUAL ACCOUNTING SHOULD be used for dividends (as of the ex-dividend date).
- 1.B.3 When presenting NET-OF-FEES RETURNS, FIRMS SHOULD accrue INVESTMENT MANAGEMENT FEES.
- 1.B.4 FIRMS SHOULD value PORTFOLIOS on the date of all EXTERNAL CASH FLOWS.

2. CALCULATION METHODOLOGY

2.A Calculation Methodology — Requirements

- 2.A.1 TOTAL RETURNS MUST be used.
- 2.A.2⁴ TIME-WEIGHTED RATES OF RETURN that adjust for EXTERNAL CASH FLOWS MUST be used. Periodic returns MUST be geometrically LINKED. EXTERNAL CASH FLOWS MUST be treated in a consistent manner with the FIRM'S documented, COMPOSITE-specific policy. FIRMS MUST define LARGE CASH FLOW for each COMPOSITE to determine when the PORTFOLIOS in that COMPOSITE are to be revalued for calculating performance.
- 2.A.3 COMPOSITE returns MUST be calculated by asset weighting the individual PORTFOLIO returns using beginning-of-period values or a method that reflects both beginning-of-period values and EXTERNAL CASH FLOWS.
- 2.A.4 Returns from cash and cash equivalents held in PORTFOLIOS MUST be included in TOTAL RETURN calculations.
- 2.A.5 All returns MUST be calculated after the deduction of the actual TRADING EXPENSES incurred during the period. FIRMS MUST NOT use estimated TRADING EXPENSES.
- 2.A.6⁵ For periods beginning on or after 1 January 2010, COMPOSITE returns MUST be calculated by asset weighting the individual PORTFOLIO returns at least monthly.

⁴ For periods beginning on or after 1 January 2005, FIRMS MUST use approximated rates of return that adjust for daily-weighted EXTERNAL CASH FLOWS. For periods beginning on or after 1 January 2010, FIRMS MUST value PORTFOLIOS on the date of all LARGE EXTERNAL CASH FLOWS.

⁵ For periods beginning on or after 1 January 2006, FIRMS MUST calculate COMPOSITE returns by asset weighting the individual PORTFOLIO returns at least quarterly,

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- 2.A.7 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. FIRMS MUST NOT use estimated TRADING EXPENSES.
 - 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. FIRMS MUST NOT use estimated TRADING EXPENSES.

2.B Calculation Methodology — 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.

3. COMPOSITE CONSTRUCTION

3.A Composite Construction — Requirements

- 3.A.1⁶ All actual discretionary PORTFOLIOS MUST be included in at least one COMPOSITE. Nondiscretionary PORTFOLIOS MUST NOT be included in a FIRM'S COMPOSITES.

Do you agree with requiring the inclusion of non-fee paying discretionary portfolios in composites?

- 3.A.2 COMPOSITES MUST be defined according to similar investment objectives and/or strategies. COMPOSITES MUST include all PORTFOLIOS that meet the COMPOSITE DEFINITION. The full COMPOSITE DEFINITION MUST be made available on request.
- 3.A.3 COMPOSITES MUST include new PORTFOLIOS on a timely and consistent basis after the PORTFOLIO comes under management.
- 3.A.4 Terminated PORTFOLIOS MUST be included in the historical returns 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.6⁷ For periods beginning on or after 1 January 2010, CARVE-OUTS MUST NOT be included in COMPOSITES unless the CARVE-OUT is actually managed separately with its own cash balance.
- 3.A.7 COMPOSITES MUST include only assets under management within the defined FIRM. FIRMS

⁶ For periods beginning prior to 1 January 2011, all actual, fee-paying, discretionary PORTFOLIOS MUST be included in at least one COMPOSITE.

⁷ For periods beginning prior to 1 January 2010, if CARVE-OUTS are included in a COMPOSITE, cash MUST be allocated to the CARVE-OUT in a timely and consistent manner.

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MUST NOT LINK simulated or model PORTFOLIOS with actual performance.

- 3.A.8 If a FIRM sets a minimum asset level for PORTFOLIOS to be included in a COMPOSITE, FIRMS MUST NOT include PORTFOLIOS below that asset level in that COMPOSITE. Any changes to a COMPOSITE-specific minimum asset level MUST NOT be applied retroactively.
- 3.A.9 FIRMS MUST NOT present a COMPOSITE to a PROSPECTIVE CLIENT known to have a PORTFOLIO with assets less than the COMPOSITE'S minimum asset level.

Do you agree with changing 3.A.9 from a recommendation to a requirement?

- 3.A.10 FIRMS that wish to remove PORTFOLIOS from COMPOSITES in cases of SIGNIFICANT CASH FLOWS MUST define “significant” on an EX-ANTE COMPOSITE-specific basis and MUST consistently follow the COMPOSITE-specific SIGNIFICANT CASH FLOW policy.

3.B Composite Construction — Recommendations

3. B.1 To remove the effect of a SIGNIFICANT CASH FLOW, FIRMS SHOULD use TEMPORARY NEW ACCOUNTS.

4. DISCLOSURE

4.A Disclosures — Requirements

Should firms be allowed to remove certain disclosures after a defined period of time? If so, which disclosures would be eligible for removal and after what period of time?

- 4.A.1 FIRMS MUST disclose the definition of “FIRM” used to determine the TOTAL FIRM ASSETS and FIRM-wide compliance.
- 4.A.2 FIRMS MUST disclose the availability of a complete list and description of the FIRM'S COMPOSITES.
- 4.A.3 FIRMS MUST disclose the minimum asset level, if any, below which PORTFOLIOS are not included in a COMPOSITE. FIRMS MUST also disclose any changes to the minimum asset level.
- 4.A.4 FIRMS MUST disclose the currency used to express performance.
- 4.A.5 FIRMS MUST disclose the presence, use, and extent of leverage, derivatives and/or short positions, if material, including a description of the frequency of use and characteristics of the instruments sufficient to identify risks.

Do you agree with the inclusion of short positions in provision 4.A.5?

- 4.A.6 FIRMS MUST clearly label returns as GROSS-OF-FEES or NET-OF-FEES.
- 4.A.7 FIRMS MUST disclose relevant details of the treatment of withholding tax on dividends, interest income, and capital gains, if material. FIRMS MUST also disclose if BENCHMARK returns are net

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of withholding tax.

- 4.A.8 FIRMS MUST disclose and describe any known material differences in the exchange rates or valuation sources used among the PORTFOLIOS within a COMPOSITE and between the COMPOSITE and the BENCHMARK.
- 4.A.9 If the COMPLIANT PRESENTATION conforms with laws and regulations that differ from the REQUIREMENTS of the GIPS standards, FIRMS MUST disclose this fact and disclose the manner in which the laws and regulations conflict with the GIPS standards.
- 4.A.10 For any performance presented for periods prior to 1 January 2000 that does not comply with the GIPS standards, FIRMS MUST disclose the period of non-compliance.
- 4.A.11 For periods beginning prior to 1 January 2010, if CARVE-OUTS are included in a COMPOSITE, FIRMS MUST disclose the policy used to allocate cash to CARVE-OUTS.
- 4.A.12 FIRMS MUST disclose the FEE SCHEDULE appropriate to the COMPLIANT PRESENTATION.
- 4.A.13 If a COMPOSITE contains PORTFOLIOS with BUNDLED FEES, FIRMS MUST disclose for each annual period shown the percentage of COMPOSITE assets that is BUNDLED FEE PORTFOLIOS.
- 4.A.14 If a COMPOSITE contains PORTFOLIOS with BUNDLED FEES, FIRMS MUST disclose the various types of fees that are included in the BUNDLED FEE.
- 4.A.15 When presenting GROSS-OF-FEES RETURNS, FIRMS MUST disclose if any other fees are deducted in addition to the direct TRADING EXPENSES.
- 4.A.16 When presenting NET-OF-FEES RETURNS, FIRMS MUST disclose:
 - a) If any other fees are deducted in addition to the INVESTMENT MANAGEMENT FEE and direct TRADING EXPENSES.
 - b) If model or actual INVESTMENT MANAGEMENT FEES are used.
 - c) If returns are net of PERFORMANCE BASED FEES.
- 4.A.17 FIRMS MUST disclose that information regarding policies for valuing PORTFOLIOS, calculating and reporting returns, and preparing COMPLIANT PRESENTATIONS is available upon request.
- 4.A.18 For periods beginning on or after 1 January 2006, FIRMS MUST disclose the use of a SUB-ADVISOR(S) and the periods a SUB-ADVISOR(S) was used.
- 4.A.19 FIRMS MUST disclose all significant events that would help a PROSPECTIVE CLIENT interpret the performance record.
- 4.A.20 FIRMS MUST disclose the COMPOSITE DESCRIPTION which must include sufficient information to allow a PROSPECTIVE CLIENT to understand the key characteristics of the COMPOSITE strategy, including risks.

Do you agree with requiring the disclosure of key characteristics and risks in the composite description?

- 4.A.21 If a FIRM is redefined, the FIRM MUST disclose the date, nature, and reason for the redefinition.

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- 4.A.22 If a FIRM has redefined a COMPOSITE, the FIRM MUST disclose the date, nature, and reason for the change. Changes to COMPOSITE DEFINITIONS MUST NOT be applied retroactively.
- 4.A.23 FIRMS MUST disclose any changes to the name of a COMPOSITE.
- 4.A.24 FIRMS MUST disclose the COMPOSITE CREATION DATE.
- 4.A.25 FIRMS MUST disclose if, for periods beginning prior to 1 January 2010, calendar month-end PORTFOLIO valuations or valuations on the last business day of the month are not used.
- 4.A.26 FIRMS MUST disclose which DISPERSION measure is presented.
- 4.A.27 If the FIRM has adopted a SIGNIFICANT CASH FLOW policy for a specific COMPOSITE, then the FIRM MUST disclose how the FIRM defines a SIGNIFICANT CASH FLOW for that COMPOSITE, and for which period(s).
- 4.A.28 FIRMS MUST disclose, for a minimum of 12 months, any change to the COMPLIANT PRESENTATION due to a correction of a material error.
- 4.A.29 FIRMS MUST disclose the 3 year annualized EX-POST STANDARD DEVIATION (using a minimum of monthly periods) for the COMPOSITE and for the BENCHMARK as of the most recent annual period presented. The PERIODICITY of the COMPOSITE MUST be identical to the PERIODICITY of the BENCHMARK when calculating EX-POST STANDARD DEVIATION.

Do you agree with the inclusion of a standard deviation disclosure?

4.B Disclosures — Recommendations

- 4.B.1 If a parent company contains multiple defined FIRMS, each FIRM within the parent company SHOULD disclose a list of the other FIRMS contained within the parent company.
- 4.B.2 FIRMS SHOULD disclose the key assumptions used to value investments.
- 4.B.3 FIRMS SHOULD disclose the description of the BENCHMARK and FIRMS SHOULD disclose material differences between the BENCHMARK and COMPOSITE strategy.

5. PRESENTATION AND REPORTING

5.A Presentation and Reporting — Requirements

- 5.A.1 The following items MUST be included in each COMPLIANT PRESENTATION:
 - a) At least 5 years of annual performance (or a record for the period since FIRM or COMPOSITE inception if the FIRM or COMPOSITE has been in existence less than 5 years) that meets the REQUIREMENTS of the GIPS standards; after presenting 5 years of annual performance, the FIRM MUST present additional annual performance up to a minimum of 10 years. (For example, after a FIRM presents a minimum 5 years of compliant history, the FIRM MUST add an additional year of performance each year so that after 5 years of claiming compliance, the FIRM presents a minimum 10-year performance record.)

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- b) Annual returns for all years. For COMPOSITES with a COMPOSITE INCEPTION DATE beginning on or after 1 January 2011, when the initial period is less than a full year, FIRMS MUST present returns from the COMPOSITE inception through the initial year-end.
 - c) The number of PORTFOLIOS and amount of assets in the COMPOSITE, and either the percentage of the TOTAL FIRM ASSETS represented by the COMPOSITE or the amount of TOTAL FIRM ASSETS at the end of each annual period. If the COMPOSITE contains 5 PORTFOLIOS or less, the number of PORTFOLIOS is not REQUIRED.
 - d) A measure of DISPERSION of individual PORTFOLIO returns for each annual period. If the COMPOSITE contains 5 PORTFOLIOS or less for the full year, a measure of DISPERSION is not REQUIRED.
- 5.A.2 FIRMS may LINK non-GIPS-compliant returns to their compliant history so long as the FIRMS meet the disclosure REQUIREMENTS for non-compliant performance and only compliant returns are presented for periods after 1 January 2000.
- 5.A.3 Returns for periods of less than 1 year MUST NOT be annualized.
- 5.A.4 a) Performance track records of a past firm or affiliation MUST be LINKED to or used to represent the historical record of a new FIRM if, on a COMPOSITE-specific basis:
- i) Substantially all the investment decision makers are employed by the new FIRM (e.g., research department, portfolio managers, and other relevant staff),
 - ii) The decision-making process remains substantially intact and independent within the new FIRM, and
 - iii) The new FIRM has records that document and support the reported performance.
- b) The new FIRM MUST disclose that the performance from the past firm or affiliation are LINKED to the performance record of the new FIRM.
- c) If a FIRM acquires another firm or affiliation, the FIRM has 1 year to bring any non-compliant assets into compliance.
- 5.A.5 For periods beginning on or after 1 January 2006 and ending prior to 1 January 2011, if a COMPOSITE includes CARVE-OUTS, the COMPLIANT PRESENTATION MUST include the percentage of the COMPOSITE assets that is composed of CARVE-OUTS.

Is it appropriate to discontinue disclosure 5.A.5 for periods after 1 January 2011?

- 5.A.6 The TOTAL RETURN for the BENCHMARK (or BENCHMARKS) that reflects the investment strategy or mandate represented by the COMPOSITE MUST be presented for each period.
- a) If the FIRM determines no appropriate BENCHMARK for the COMPOSITE exists, the FIRM MUST disclose why no BENCHMARK is presented.
 - b) If the FIRM changes the BENCHMARK, the FIRM MUST disclose the date, nature, and reason(s) for the change.

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- c) If a custom BENCHMARK or combination of multiple BENCHMARKS is used, the FIRM MUST disclose the BENCHMARK creation and re-balancing process.
- 5.A.7 If a COMPOSITE contains any non-fee-paying PORTFOLIOS, the FIRM MUST present, as of the end of each annual period, the percentage of the COMPOSITE assets represented by the non-fee-paying PORTFOLIOS.
- 5.A.8 For periods beginning on or after 1 January 2011, if a COMPOSITE contains any PROPRIETARY ASSETS, the FIRM MUST present, as of the end of each annual period, the percentage of the COMPOSITE assets represented by the PROPRIETARY ASSETS.

Do you agree with the requirement to present the percentage of the composite assets composed of proprietary assets?

5.B Presentation and Reporting — Recommendations

- 5.B.1 FIRMS SHOULD present GROSS-OF-FEES RETURNS.
- 5.B.2 FIRMS SHOULD present the following items:
 - a) Cumulative returns for COMPOSITE and BENCHMARKS for all periods,
 - b) Equal-weighted mean and median returns for each COMPOSITE,
 - c) Returns for quarterly and/or monthly time periods,
 - d) Annualized COMPOSITE and BENCHMARK returns for periods greater than 12 months.
- 5.B.3 FIRMS SHOULD present additional relevant COMPOSITE-level risk measures.
- 5.B.4 After presenting the REQUIRED minimum of 5 years of compliant historical performance, FIRMS SHOULD bring any remaining portion of its historical track record into compliance with the GIPS standards.
- 5.B.5 FIRMS SHOULD present greater than 10 years of annual performance in the COMPLIANT PRESENTATION.
- 5.B.6 FIRMS SHOULD update COMPLIANT PRESENTATIONS quarterly.
- 5.B.7 FIRMS SHOULD present the 3 year annualized EX-POST STANDARD DEVIATION (using a minimum of monthly periods) and the corresponding 3 year annualized TOTAL RETURN for each annual period presented for the COMPOSITE and for the BENCHMARK. The PERIODICITY of the COMPOSITE MUST be identical to the PERIODICITY of the BENCHMARK when calculating EX-POST STANDARD DEVIATION.

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EXPOSURE DRAFT: Section 6 – Real Estate

6. REAL ESTATE

Unless otherwise noted, the following REAL ESTATE provisions supplement all the REQUIRED and RECOMMENDED elements of the GIPS standards as outlined in Sections II.0. through Section II.5.

REAL ESTATE provisions were first included in the GIPS standards in 2005 and were effective 1 January 2006. All COMPLIANT PRESENTATIONS that included REAL ESTATE performance results for periods after 31 December 2005 were REQUIRED to meet all the REQUIREMENTS of the REAL ESTATE provisions of the 2005 version of the GIPS standards. The following REAL ESTATE provisions are effective 1 January 2011. Unless otherwise noted, all COMPLIANT PRESENTATIONS that include REAL ESTATE performance results for periods after 31 December 2010 are REQUIRED to meet all the REQUIREMENTS and SHOULD adhere to all the RECOMMENDATIONS of the following REAL ESTATE provisions.

If a PORTFOLIO includes a mix of REAL ESTATE and other investments that are not REAL ESTATE, then these REQUIREMENTS and RECOMMENDATIONS MUST apply if the majority of the FAIR VALUE of PORTFOLIO investments are REAL ESTATE.

Investment types not considered as REAL ESTATE and, therefore, the FIRM MUST adhere to Sections II.0. through Section II.5., 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.

6.A Real Estate Input Data — Requirements (1.A.3.a, 1.A.3.b, and 1.A.4 do not apply)

- 6.A.1¹ REAL ESTATE investments MUST be valued at FAIR VALUE at least quarterly in accordance with GIPS Valuation Principles in Appendix D.
- 6.A.2 REAL ESTATE investments MUST be valued by an independent external PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER/APPRaiser at least once every 36 months. For periods beginning on or after 1 January 2012, REAL ESTATE investments MUST be valued by an independent external PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER/APPRaiser at least once every 12 months. 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 FIRM MUST take necessary steps to ensure that only well-qualified independent property valuers or appraisers are used.

Do you agree that real estate investments must be valued by an independent external appraiser every 12 months beginning 1 January 2012?

- 6.A.3 For periods beginning on or after 1 January 2010, FIRMS MUST value PORTFOLIOS as of the calendar quarter-end or the last business day of the quarter.

6.B Real Estate Input Data — Recommendations (1.B.1 and 1.B.4 do not apply)

- 6.B.1 For periods beginning prior to 1 January 2012, REAL ESTATE investments SHOULD be valued by an independent external PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER / APPRAISER at least once every 12 months.

¹ For periods ending prior to 1 January 2008, REAL ESTATE investments MUST be valued at MARKET VALUE at least once every 12 months.

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6.A Real Estate Calculation Methodology – Requirements (2.A.6 does not apply)

- 6.A.4 INCOME and CAPITAL RETURNS (component returns) MUST be calculated separately using geometrically LINKED TIME-WEIGHTED RATES OF RETURN.
- 6.A.5 TIME-WEIGHTED COMPOSITE returns and component returns MUST be calculated by asset weighting the individual PORTFOLIO returns at least quarterly.

The following provision is an additional REQUIREMENT for CLOSED-END REAL ESTATE FUNDS:

Do you agree with the additional requirements and recommendations for closed-end real estate funds as defined?

- 6.A.6² The annualized since inception INTERNAL RATE OF RETURN (SI-IRR) must be calculated using the period-end valuation of the COMPOSITE as a terminal value. For periods beginning on or after 1 January 2011, SI-IRR MUST be calculated using daily cash flows.

6.B Real Estate Calculation Methodology – Recommendations

The following provision is an additional RECOMMENDATION for CLOSED-END REAL ESTATE FUNDS:

- 6.B.2 For periods beginning prior to 1 January 2011, the annualized SI-IRR SHOULD be calculated using daily cash flows.

6.A Real Estate Composite Construction — Requirements

The following provision is an additional REQUIREMENT for CLOSED-END REAL ESTATE FUNDS:

- 6.A.7 Each COMPOSITE MUST be defined by investment strategy and VINTAGE YEAR. These classifications MUST remain consistent throughout the life of the COMPOSITE.

6.A Real Estate Disclosures — Requirements (4.A.10, 4.A.25, and 4.A.29 do not apply)

- 6.A.8 The following items MUST be disclosed in COMPLIANT PRESENTATIONS for REAL ESTATE COMPOSITES:
 - a. The FIRM'S description of discretion.
 - b. The valuation methodologies (e.g., discounted cash flow valuation model, capitalized income approach, sales comparison approach, the valuation of debt payable in determining the value of leveraged REAL ESTATE) and material changes to valuation methodologies.
 - c. For periods beginning on or after 1 January 2012, FIRMS must explain and disclose the impact of material differences between:
 - i. The valuation used in performance reporting and the valuation used in financial reporting.
 - ii. The EXTERNAL VALUATION and the valuation used in performance reporting.
 - d. As a measure of annual dispersion, the high and low TIME-WEIGHTED RATES OF RETURN for the individual PORTFOLIOS in the COMPOSITE.

² When calculating the SI-IRR, the periods beginning prior to 1 January 2011 MUST be calculated at a minimum using quarterly cash flows.

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EXPOSURE DRAFT: Section 6 – Real Estate

- e. The percent of total FAIR VALUE of COMPOSITE assets valued using an EXTERNAL VALUATION to total FAIR VALUE of COMPOSITE assets.
 - f. For periods beginning prior to 1 January 2012, the frequency REAL ESTATE investments are valued by external valuers or appraisers.
- 6.A.9 FIRMS MUST disclose the following as applicable:
- a. Component returns are calculated separately using geometrically LINKED TIME-WEIGHTED RATES OF RETURN and so the sum of income and capital returns may not equal the TOTAL RETURN due to the interaction (compounding) effect.
 - b. Component returns are adjusted such that the sum of income and capital returns is equal to the TOTAL RETURN (allowed only for periods beginning prior to 1 January 2011).
- 6.A.10 For any TIME-WEIGHTED RATES OF RETURN presented for periods prior to 1 January 2006 that does not comply with the GIPS standards, FIRMS MUST disclose the period of non-compliance.

The following provisions are additional REQUIREMENTS for CLOSED-END REAL ESTATE FUNDS:

- 6.A.11 FIRMS MUST disclose the period of non-compliance when presenting non-GIPS-compliant annualized SI-IRR and MUST meet the disclosure REQUIREMENTS for non-compliant performance.
- 6.A.12 FIRMS MUST disclose the periods of cash flows used in the SI-IRR calculation if daily cash flows are not used for periods beginning prior to 1 January 2011.
- 6.A.13 FIRMS MUST disclose the VINTAGE YEAR of the COMPOSITE and how the VINTAGE YEAR was defined.
- 6.A.14 FIRMS MUST disclose the FINAL REALIZATION (LIQUIDATION) DATE of all closed COMPOSITES.

6.B Real Estate Disclosures — Recommendations

- 6.B.3 FIRMS SHOULD disclose the basis of accounting for the PORTFOLIOS in the COMPOSITE (e.g. U.S. GAAP, IFRS or other basis of accounting).

6.A Real Estate Presentation and Reporting — Requirements (5.A.2 does not apply)

- 6.A.15 FIRM MUST present component returns in addition to TOTAL RETURN.

Do you agree that component returns must be disclosed, and that the method described in provision 6.A.9.b will no longer be acceptable for periods beginning after 1 January 2011?

- 6.A.16 FIRMS may LINK non-GIPS-compliant TIME-WEIGHTED RATES OF RETURN to compliant history so long as the FIRMS meet the disclosure REQUIREMENTS for non-compliant performance and only compliant returns are presented for periods after 1 January 2006.

The following provisions are additional REQUIREMENTS for CLOSED-END REAL ESTATE FUNDS:

- 6.A.17 FIRMS MUST present NET-OF-FEES annualized SI-IRR of the COMPOSITE for each year since the COMPOSITE inception and FIRMS MUST present at least 5 years of performance (or a record for the period since FIRM or COMPOSITE inception if the FIRM or COMPOSITE has been in existence less than 5 years) that meets the REQUIREMENTS of the GIPS

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standards. When the initial period is less than a full year, FIRMS MUST present NET-OF-FEES annualized SI-IRR from COMPOSITE inception through the initial year end.

6.A.18 If GROSS-OF-FEES annualized SI-IRR is presented, FIRMS MUST present GROSS-OF-FEES annualized SI-IRR of the COMPOSITE for each year since COMPOSITE inception and FIRMS MUST present at least 5 years of performance (or a record for the period since FIRM or COMPOSITE inception if the FIRM or COMPOSITE has been in existence less than 5 years) that meets the REQUIREMENTS of the GIPS standards. When the initial period is less than a full year and GROSS-OF-FEES annualized SI-IRR is presented, FIRMS MUST present GROSS-OF-FEES annualized SI-IRR from COMPOSITE inception through the initial year end.

6.A.19 FIRMS MUST present, as of each period end:

- a. Total COMPOSITE since inception COMMITTED CAPITAL
- b. Total COMPOSITE since inception PAID-IN CAPITAL (cumulative DRAWDOWN)
- c. Total COMPOSITE since inception cumulative INVESTED CAPITAL
- d. Total COMPOSITE since inception cumulative DISTRIBUTIONS

6.A.20 FIRMS MUST present, as of each period end:

- 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 MULTIPLE)
- d. RESIDUAL VALUE TO PAID-IN CAPITAL (RVPI)

6.B Real Estate Presentation and Reporting — Recommendations (5.B.1 and 5.B.7 do not apply)

6.B.4 FIRMS SHOULD present GROSS-OF-FEES TOTAL RETURN and NET-OF-FEES TOTAL RETURN.

6.B.5 When available, the component returns of the appropriate REAL ESTATE BENCHMARK SHOULD be presented.

The following provision is an additional RECOMMENDATION for CLOSED-END REAL ESTATE FUNDS:

6.B.6 FIRMS SHOULD present GROSS-OF-FEES annualized SI-IRR for each year since COMPOSITE inception.

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EXPOSURE DRAFT: Section 7 – Private Equity

7. PRIVATE EQUITY

Unless otherwise noted, the following PRIVATE EQUITY provisions supplement all the REQUIRED and RECOMMENDED elements of the GIPS standards as outlined in Sections II.0. through Section II.5.

PRIVATE EQUITY provisions were first included in the GIPS standards in 2005 and were effective 1 January 2006. All COMPLIANT PRESENTATIONS that included PRIVATE EQUITY performance results for periods after 31 December 2005 were REQUIRED to meet all the REQUIREMENTS of the PRIVATE EQUITY provisions of the 2005 version of the GIPS standards. The following PRIVATE EQUITY provisions are effective 1 January 2011. Unless otherwise noted, all COMPLIANT PRESENTATIONS that include PRIVATE EQUITY performance results for periods after 31 December 2010 are REQUIRED to meet all the REQUIREMENTS and SHOULD adhere to all the RECOMMENDATIONS of the following PRIVATE EQUITY provisions.

The following are provisions that apply to the calculation and presentation of PRIVATE EQUITY investments other than PRIVATE EQUITY OPEN-END and EVERGREEN FUNDS (which MUST follow the main GIPS provisions), and CLOSED-END REAL ESTATE FUNDS (which MUST follow Section II.6).

7.A Private Equity Input Data — Requirements (1.A.3 and 1.A.4 do not apply)

- 7.A.1¹ For periods beginning on or after 1 January 2011, PRIVATE EQUITY investments MUST be valued at FAIR VALUE at least annually in accordance with the GIPS Valuation Principles in Appendix D.
- 7.A.2. For periods beginning on or after 1 January 2010, FIRMS MUST value PORTFOLIOS as of the calendar year-end or the last business day of the year.

7.B Private Equity Input Data — Recommendations (1.B.4 does not apply)

- 7.B.1 PRIVATE EQUITY investments SHOULD be valued at FAIR VALUE quarterly in accordance with the GIPS Valuation Principles in Appendix D.

7.A Private Equity Calculation Methodology — Requirements (2.A.2, 2.A.3, and 2.A.6 do not apply)

- 7.A.3 FIRMS MUST calculate the annualized since-inception INTERNAL RATE OF RETURN (SI-IRR).
- 7.A.4² For periods beginning on or after 1 January 2011, the annualized SI-IRR MUST be calculated using daily cash flows and the period-end valuation of the COMPOSITE as a terminal value. Stock DISTRIBUTIONS MUST be included as cash flows and MUST be valued at the time of DISTRIBUTION.
- 7.A.5 NET-OF-FEES RETURNS MUST be net of actual INVESTMENT MANAGEMENT FEES (including CARRIED INTEREST) and TRANSACTION EXPENSES.
- 7.A.6 All returns MUST be net of all underlying partnership and/or fund fees and CARRIED

¹ For periods ending prior to 1 January 2011, PRIVATE EQUITY investments MUST be valued according to the GIPS Private Equity Valuation Principles. The GIPS Private Equity Valuation Principles can be found in Appendix D of the 2005 version of the GIPS standards on the GIPS website (www.gipsstandards.org).

² When calculating the SI-IRR, periods beginning prior to 1 January 2011 MUST be calculated using either daily or monthly cash flows.

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INTEREST and NET-OF-FEES RETURNS MUST, in addition, be net of all actual INVESTMENT MANAGEMENT FEES, expenses, and CARRIED INTEREST.

7.B Private Equity Calculation Methodology — Recommendations

- 7.B.2 For periods beginning prior to 1 January 2011, the annualized SI-IRR SHOULD be calculated using daily cash flows.

7.A. Private Equity Composite Construction — Requirements (3.A.10 does not apply)

- 7.A.7 All PRIVATE EQUITY investments, excluding funds of funds, MUST be included in a COMPOSITE defined by investment strategy and VINTAGE YEAR. These classifications MUST remain consistent throughout the life of the COMPOSITE.
- 7.A.8 Partnership/fund investment strategies and DIRECT INVESTMENT strategies MUST be included in separate COMPOSITES.
- 7.A.9 For funds of funds, all discretionary investments MUST be included in at least one COMPOSITE defined by investment strategy and/or VINTAGE YEAR.

7.B. Private Equity Composite Construction — Recommendations (3.B.1 does not apply)

7.A. Private Equity Disclosures — Requirements (4.A.10, 4.A.25, 4.A.26, 4.A.27, and 4.A.29 do not apply)

- 7.A.10 FIRMS MUST disclose the VINTAGE YEAR of the COMPOSITE and how the VINTAGE YEAR is defined.
- 7.A.11 FIRMS MUST disclose the FINAL LIQUIDATION DATE of all liquidated COMPOSITES.
- 7.A.12 FIRMS MUST disclose the unrealized appreciation/depreciation of the COMPOSITE for the most recent period.
- 7.A.13 FIRMS MUST disclose the valuation methodologies used to value PRIVATE EQUITY investments. If any material change in valuation methodologies occurred, the change MUST be disclosed.
- 7.A.14 If the COMPLIANT PRESENTATION complies with valuation guidelines in addition to the GIPS Valuation Principles, FIRMS MUST disclose which guidelines have been used.
- 7.A.15 FIRMS MUST disclose the calculation methodology used for the BENCHMARK. If FIRMS present the PUBLIC MARKET EQUIVALENT of a COMPOSITE as a benchmark, FIRMS MUST disclose the index used.
- 7.A.16 FIRMS MUST disclose if a valuation basis other than FAIR VALUE was used for periods beginning prior to 1 January 2011.
- 7.A.17 FIRMS MUST explain and disclose the impact of material differences between the valuation used in performance reporting and the valuation used in financial reporting at period end.
- 7.A.18 FIRMS MUST disclose the frequency of cash flows used in the SI-IRR calculation if daily cash flows are not used for periods beginning prior to 1 January 2011.

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EXPOSURE DRAFT: Section 7 – Private Equity

7.A.19 FIRMS MUST disclose any period of non-compliance and MUST meet the disclosure REQUIREMENTS for non-compliant performance.

7.A Private Equity Presentation and Reporting — Requirements (5.A.1.a, 5.A.1.b, 5.A.1.d, and 5.A.2 do not apply)

7.A.20 FIRMS MUST present both the NET-OF-FEES and GROSS-OF-FEES annualized SI-IRR of the COMPOSITE for each year since COMPOSITE inception and FIRMS MUST present at least 5 years of performance (or a record for the period since FIRM or COMPOSITE inception if the FIRM or COMPOSITE has been in existence less than 5 years) that meets the REQUIREMENTS of the GIPS standards. When the initial period is less than a full year, FIRMS MUST present the NET-OF-FEES and GROSS-OF-FEES annualized SI-IRR from the COMPOSITE inception through the initial year end.

7.A.21 For periods beginning on or after 1 January 2011, for funds of funds, if the COMPOSITE is defined by investment strategy only, FIRMS MUST also present the GROSS-OF-FEES and/or NET-OF-FEES annualized SI-IRR of the underlying funds by VINTAGE YEAR as of the most recent year end.

7.A.22³ FIRMS MUST present as of each period end:

- a. Total COMPOSITE since inception PAID-IN CAPITAL (cumulative DRAWDOWN),
- b. Total COMPOSITE since inception DISTRIBUTIONS

7.A.23 For periods beginning on or after 1 January 2011, FIRMS MUST present as of each period end:

- a. Total COMPOSITE since inception COMMITTED CAPITAL
- b. Total COMPOSITE since inception AMOUNT REALIZED

7.A.24 FIRMS MUST present as of each period end:

- 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 MULTIPLE)
- d. RESIDUAL VALUE to PAID-IN CAPITAL (RVPI)

7.A.25⁴ The time period used to calculate the annualized SI-IRR for the BENCHMARK MUST be the same as the VINTAGE YEAR of the COMPOSITE and MUST reflect the investment strategy represented by the COMPOSITE.

7.B Private Equity Presentation and Reporting — Recommendations (5.B.1 and 5.B.7 do not apply)

7.B.3 If a fund of funds COMPOSITE is defined by VINTAGE YEAR only, FIRMS SHOULD also present the GROSS-OF-FEES and/or NET-OF-FEES annualized SI-IRR of the underlying funds by investment strategy as of the most recent period end.

³ For periods beginning prior to 1 January 2011, FIRMS MUST present the total current INVESTED CAPITAL for each period presented.

⁴ For periods beginning prior to 1 January 2011, if no BENCHMARK is presented, the presentation MUST explain why no BENCHMARK is presented.

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EXPOSURE DRAFT: Section 8 – Wrap Fee/SMA

8. WRAP FEES/SMA

The following are provisions that apply to the calculation and presentation of WRAP FEE/SMA assets when presenting to a prospective WRAP FEE/SMA sponsor or WRAP FEE/SMA PROSPECTIVE CLIENT (“WRAP FEE/SMA PROSPECTIVE CLIENT”) and existing WRAP FEE/SMA sponsors or existing WRAP FEE/SMA clients. Unless otherwise noted, the following WRAP FEE/SMA provisions supplement all of the REQUIRED and RECOMMENDED elements of the GIPS standards (outlined in Section II.0 through Section II.5), except the WRAP FEE/SMA REQUIREMENTS that override GIPS provisions 4.A.10 and 5.A.2.

These provisions are applicable only to those FIRMS that manage WRAP FEE/SMA PORTFOLIOS. While there are different types of WRAP FEE/SMA structures, these provisions apply to all WRAP FEE/SMA PORTFOLIOS where there are BUNDLED FEES and the WRAP FEE/SMA sponsor serves as an intermediary between the FIRM and the end user of the investment services. These provisions are not applicable to those FIRMS that manage PORTFOLIOS defined as other types of BUNDLED FEE PORTFOLIOS. These provisions are also not applicable to those FIRMS that provide model PORTFOLIOS to WRAP FEE/SMA sponsors, but have no discretionary portfolio management responsibility for individual WRAP FEE/SMA PORTFOLIOS. Similarly, a FIRM or overlay manager in a multiple strategy portfolio or similar program is also excluded from applying these provisions to such PORTFOLIOS if they do not have discretion.

All WRAP FEE/SMA COMPLIANT PRESENTATIONS that include performance results for periods beginning on or after 1 January 2006 are REQUIRED to meet the REQUIREMENTS of the following WRAP FEE/SMA provisions.

8.A WRAP FEE/SMA Composite Construction – Requirements

- 8.A.1 The FIRM MUST include the performance record of actual WRAP FEE/SMA PORTFOLIOS in appropriate COMPOSITES in accordance with the FIRM’S established PORTFOLIO inclusion policies. Once established, these COMPOSITES (containing actual WRAP FEE/SMA PORTFOLIOS) MUST be used in the FIRM’S COMPLIANT PRESENTATIONS to WRAP FEE/SMA PROSPECTIVE CLIENTS.

8.A WRAP FEE/SMA Disclosures – Requirements (4.A.10 does not apply)

- 8.A.2 For all WRAP FEE/SMA COMPLIANT PRESENTATIONS that include periods prior to the COMPOSITE containing an actual WRAP FEE/SMA PORTFOLIO, the FIRM MUST disclose, for each period presented, that the COMPOSITE does not contain actual WRAP FEE/SMA PORTFOLIOS (i.e., that 0% or none of the COMPOSITE PORTFOLIOS or assets are WRAP FEE/SMA PORTFOLIOS or assets).
- 8.A.3 For any performance presented for periods beginning prior to 1 January 2006 that does not comply with the GIPS standards, FIRMS MUST disclose the period of non-compliance.

8.A WRAP FEE/SMA Presentation and Reporting – Requirements (5.A.2 does not apply)

- 8.A.4 When FIRMS present performance to a WRAP FEE/SMA PROSPECTIVE CLIENT, the COMPOSITE presented MUST include the performance of all appropriate, actual WRAP FEE/SMA PORTFOLIOS, if any, managed with similar investment objectives and/or strategies, regardless of the WRAP FEE/SMA sponsor (resulting in a “style-defined COMPOSITE”).
- 8.A.5 When FIRMS present performance to a WRAP FEE/SMA PROSPECTIVE CLIENT, performance MUST be shown net of the entire WRAP FEE.
- 8.A.6 8.A.6 When FIRMS present COMPOSITE performance to an existing WRAP FEE/SMA sponsor, which includes only that sponsor’s WRAP FEE/SMA PORTFOLIOS (resulting in a “sponsor-specific COMPOSITE”):
- FIRMS MUST disclose the name of the WRAP FEE/SMA sponsor represented by the sponsor-specific composite; and

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EXPOSURE DRAFT: Section 8 – Wrap Fee/SMA

- If the sponsor-specific COMPOSITE COMPLIANT PRESENTATION is intended for the purpose of generating WRAP FEE/SMA business and does not include performance net of the entire WRAP FEE, the COMPLIANT PRESENTATION MUST disclose that the named sponsor-specific COMPLIANT PRESENTATION is only for the use of the named WRAP FEE/SMA sponsor.

Is it appropriate and/or necessary to include provision 8.A.6, which addresses presenting performance to existing clients, in the GIPS standards?

Should firms be allowed to present a “sponsor-specific composite” as opposed to a “style-specific composite”?

- 8.A.7 FIRMS may LINK non-GIPS-compliant returns to their compliant history so long as the FIRMS meet the disclosure REQUIREMENTS for non-compliant performance and only compliant returns are presented for periods after 1 January 2006.

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EXPOSURE DRAFT: Section III – Verification

III. VERIFICATION

VERIFICATION is intended to give both a FIRM and its existing and PROSPECTIVE CLIENTS an added sense of confidence in the FIRM's claim of compliance. VERIFICATION should also increase the knowledge of the FIRM's performance measurement team, as well as the consistency and quality of its COMPLIANT PRESENTATIONS. VERIFICATION may also provide improved internal processes and procedures, as well as significant marketing advantages to the FIRM.

The GIPS standards RECOMMEND that FIRMS be verified.

The VERIFICATION procedures attempt to strike a balance between ensuring the quality, accuracy, and relevance of performance presentations and minimizing the cost to FIRMS.

A. SCOPE AND PURPOSE OF GIPS VERIFICATION

1. VERIFICATION MUST be performed by a qualified independent third-party.
2. VERIFICATION is intended to determine whether:
 - a. The FIRM has complied with all the COMPOSITE construction REQUIREMENTS of the GIPS standards on a FIRM-wide basis, and
 - b. The FIRM'S processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards.
3. A single VERIFICATION REPORT is issued with respect to the whole FIRM; VERIFICATION cannot be carried out on a COMPOSITE and, accordingly, does not provide assurance about the performance results of any specific COMPOSITE.
4. VERIFICATION helps to bring credibility to the claim of compliance and supports the overall guiding principles of full disclosure and fair representation of a FIRM'S investment performance.
5. The initial minimum period for which VERIFICATION can be performed is 1 year (or FIRM inception date through year-end if less than one year) of a FIRM'S presented performance. The RECOMMENDED period over which VERIFICATION is performed is that part of the FIRM'S track record for which compliance with the GIPS standards is claimed.
6. A VERIFICATION REPORT MUST opine as to whether:
 - a. The FIRM has complied with all the COMPOSITE construction REQUIREMENTS of the GIPS standards on a FIRM-wide 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 state that it has been verified.

7. A principal verifier may accept the work of a local or previous verifier as part of the basis for the principal verifier's opinion. A principal verifier may also choose to rely on the audit and/or internal control work of a qualified and reputable independent third party. In addition, a principal verifier may choose to rely on the other audit and/or internal control work performed by the VERIFICATION firm. If reliance on another party's work is planned, the scope of work including time period covered, testing results, qualifications, competency, objectivity and

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EXPOSURE DRAFT: Section III – Verification

reputation MUST be assessed by the principal verifier when making the determination as to whether to place any reliance on such work. Reliance considerations and conclusions MUST be documented by the principal verifier. The principal verifier MUST use professional skepticism when deciding whether to place reliance on work performed by another independent third party.

8. **Sample Account Selection:** Verifiers MUST at a minimum subject the entire FIRM to testing when performing VERIFICATION procedures unless reliance is placed on work performed by a qualified and reputable independent third party or appropriate alternative control procedures have been performed by the verifier. Verifiers may use a sampling methodology when performing such procedures. Verifiers are RECOMMENDED to consider the following criteria when selecting sample(s):
 - i. Number of COMPOSITES at the FIRM;
 - ii. Number of PORTFOLIOS in each COMPOSITE;
 - iii. Type of COMPOSITE;
 - iv. Total assets under management;
 - v. Internal control structure at the FIRM (system of checks and balances in place);
 - vi. Number of years being verified; and
 - vii. Computer applications, software used in the construction and maintenance of COMPOSITES, the use of external performance measurers, and the method of calculation of performance results.

This list is not all-inclusive and contains only the minimum criteria that are RECOMMENDED to be used in the selection and evaluation of a sample for testing. For example, one potentially useful approach would be to include in the sample a PORTFOLIO that has the largest impact on COMPOSITE performance because of its size or because of extremely good or bad performance. Missing or incomplete documents, or the presence of errors, would normally be expected to warrant selecting a larger sample or applying additional VERIFICATION procedures.

9. After performing the VERIFICATION the verifier may conclude that the FIRM is not in compliance with the GIPS standards 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 could not be issued. A VERIFICATION REPORT MUST NOT be issued when the verifier knows that the FIRM is not in compliance with the GIPS standards or the records of the FIRM cannot support a complete VERIFICATION.
10. The minimum GIPS VERIFICATION procedures are described in section III.B Required GIPS VERIFICATION Procedures. The VERIFICATION REPORT MUST state that the VERIFICATION has been conducted in accordance with these VERIFICATION procedures.

B. REQUIRED GIPS VERIFICATION PROCEDURES

The following are the minimum procedures that verifiers MUST follow when conducting a VERIFICATION. Verifiers MUST follow these procedures, as applicable, prior to issuing a VERIFICATION REPORT to the FIRM:

1. Pre-VERIFICATION Procedures
 - a. **Knowledge of GIPS Standards:** Verifiers MUST understand all the REQUIREMENTS and RECOMMENDATIONS of the GIPS standards, including any updated information, Guidance Statements, interpretations, Questions & Answers (Q&As), and clarifications published by CFA Institute and the GIPS Executive Committee, which will be made available via the GIPS website (www.gipsstandards.org) as well as in the *GIPS Handbook*.

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EXPOSURE DRAFT: Section III – Verification

Should specific verification procedures be included for GIPS provisions 0.A.16 and 0.A.17?

- b. Knowledge of the Relevant Regulations: Verifiers MUST be knowledgeable of laws and regulations applicable to the FIRM and MUST consider any differences between the GIPS standards and the laws and regulations.
 - c. Knowledge of the FIRM: Verifiers MUST gain an understanding of the FIRM, including the corporate structure of the FIRM and how it operates.
 - d. Knowledge of FIRM Policies and Procedures: Verifiers MUST understand the FIRM'S assumptions and policies and procedures for establishing and maintaining compliance with all applicable REQUIREMENTS and RECOMMENDATIONS of the GIPS standards. The verifier MUST obtain a copy of the FIRM'S GIPS policies and procedures and ensure that all applicable policies and procedures are properly included and adequately documented.
 - e. Knowledge of Valuation Basis and Performance Calculations: Verifiers MUST understand the methodologies, policies and procedures used to value PORTFOLIOS and compute investment performance.
2. VERIFICATION Procedures
- a. Definition of the FIRM: Verifiers must perform sufficient procedures to conclude whether the FIRM is, and has been, appropriately defined.
 - b. Fundamentals of Compliance. Verifiers MUST perform sufficient procedures to determine that:
 - i. The FIRM has defined and maintained COMPOSITES in compliance with the GIPS standards and consistent with its policies and procedures;
 - ii. All of the FIRM'S actual discretionary PORTFOLIOS are included in at least one COMPOSITE;
 - iii. The FIRM'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. The COMPOSITE BENCHMARK is consistent with the investment style, strategy, or objective of the COMPOSITE and has been consistently applied over time;
 - vi. The FIRM'S policies and procedures for creating and maintaining COMPOSITES have been consistently applied;
 - vii. The FIRM'S list and description of COMPOSITES is complete; and
 - viii. TOTAL FIRM ASSETS are appropriately calculated and disclosed.
 - c. Determination of Discretionary Status of Accounts. Verifiers MUST obtain a listing of all FIRM PORTFOLIOS and determine on a sample basis whether the FIRM'S classification of the account as discretionary or nondiscretionary is appropriate by referring to the account's advisory agreement or investment guidelines and the FIRM'S policies and procedures for determining investment discretion.
 - d. Allocation of Accounts to COMPOSITES: For selected accounts, verifiers MUST perform sufficient testing to be satisfied that:
 - i. The timing of the initial inclusion in the COMPOSITE is in accordance with policies and procedures of the FIRM. Verifiers MUST obtain a listing of all open accounts for all COMPOSITES for the years being verified in conjunction with this testing;
 - ii. The timing of exclusion from the COMPOSITE is in accordance with

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EXPOSURE DRAFT: Section III – Verification

- policies and procedures of the FIRM for closed accounts. Verifiers MUST obtain a listing of all closed accounts for all COMPOSITES for the years being verified in conjunction with this testing;
- iii. The objectives set forth in the account agreement are consistent with the FIRM'S COMPOSITE DEFINITION as indicated by the account agreement, PORTFOLIO summary, or other appropriate documented evidence;
 - iv. PORTFOLIOS are completely and accurately included in COMPOSITES by tracing selected accounts from a) account agreements to the COMPOSITES and b) COMPOSITES to account agreements;
 - v. All PORTFOLIOS sharing the same investment guidelines are included in the same COMPOSITE; and
 - vi. Movements from one COMPOSITE to another are consistent with the investment guidelines set forth by the specific account agreement or with documented guidelines of the FIRM'S clients.
- e. **Data Review:** For selected accounts, verifiers MUST perform sufficient testing in each of the following areas to be satisfied that the policy adopted by the FIRM is in accordance with the GIPS standards, and the treatment of these items is consistent with the FIRM'S policy:
- i. Classification of PORTFOLIO flows (e.g., injections, disbursements, dividends, interest, fees, and taxes);
 - ii. Accounting treatment of income, interest, and dividend accruals and receipts;
 - iii. Treatment of taxes, tax reclaims, and tax accruals;
 - iv. Accounting treatment of purchases, sales, and the opening and closing of other positions; and
 - v. Accounting and valuation methodology for investments, including derivatives.
- f. **Performance Measurement Calculation:** Recognizing that VERIFICATION does not provide assurance that specific COMPOSITE returns are correctly calculated and presented, Verifiers MUST be satisfied that the FIRM has calculated and presented performance in accordance with the documented policies and procedures adopted by the FIRM. Verifiers MUST, at a minimum, perform the following procedures unless reliance is placed on work performed by an appropriate independent third party or appropriate alternative control procedures have been performed by the verifier:
- i. Recalculate rates of return for a sample of accounts in the FIRM, determine that an acceptable return formula as prescribed by the GIPS standards (e.g., TIME-WEIGHTED RATE OF RETURN) is utilized, and determine that the FIRM'S treatment is in accordance with the FIRM'S policies and procedures. The verifier MUST also determine that any fees and expenses are accounted for in accordance with the GIPS standards, and are treated in accordance with the FIRM'S policies and procedures; and
 - ii. Take a sample of COMPOSITE calculations to determine the accuracy of all required numerical data.
- g. **COMPLIANT PRESENTATIONS:** Verifiers MUST test a sample of COMPLIANT PRESENTATIONS to determine that the presentations include all the information and disclosures REQUIRED by the GIPS standards. The information and disclosures MUST be consistent with the FIRM'S records, documented policies and procedures, and the verifier's testing results.

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- h. Maintenance of Records: The verifier **MUST** maintain sufficient documentation to support all procedures performed supporting the issuance of the **VERIFICATION REPORT** including all significant judgments and conclusions made by the verifier.
- i. Representation Letter: The verifier **MUST** obtain a representation letter from the **FIRM** confirming policies and procedures are as described in the policies and procedures document, and have been consistently applied throughout the period under review. The representation letter **MUST** confirm that the **FIRM** complies with the **GIPS** standards for the period verified. The representation letter **MUST** also contain any other specific representations made to the verifier during the **VERIFICATION** .

C. GIPS PERFORMANCE EXAMINATIONS

Separate from a **GIPS VERIFICATION**, a **FIRM** may choose to have a further, more extensive, specifically focused examination (**GIPS PERFORMANCE EXAMINATION** or **PERFORMANCE EXAMINATION**) of a specific **COMPOSITE COMPLIANT PRESENTATION**.

VERIFICATION cannot be carried out on a **COMPOSITE** and does not provide assurance about the results of any specific **COMPOSITE**. **FIRMS** cannot state that a particular **COMPOSITE COMPLIANT PRESENTATION** has been “**GIPS verified**” or make any claim to that effect. **GIPS VERIFICATION** relates only to **FIRM-wide VERIFICATION**.

To state a **VERIFICATION REPORT** has been received, a **PERFORMANCE EXAMINATION** of a **COMPOSITE COMPLIANT PRESENTATION** is not **REQUIRED**. Please see the **Guidance Statement on GIPS PERFORMANCE EXAMINATIONS** for additional guidance.

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EXPOSURE DRAFT: Appendix C – GIPS Advertising Guidelines

A. PURPOSE OF THE GIPS ADVERTISING GUIDELINES

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 a COMPLIANT PRESENTATION as REQUIRED by the GIPS standards.. The guidelines only apply to FIRMS that already satisfy all the REQUIREMENTS of the Standards on a FIRM-wide basis and claim compliance with the Standards in an advertisement. FIRMS that choose to claim compliance in an advertisement MUST follow the GIPS Advertising Guidelines or include a COMPLIANT PRESENTATION in the advertisement.

Definition of Advertisement

For the purposes of these guidelines, an advertisement includes any materials that are distributed to or designed for use in newspapers, magazines, FIRM brochures, letters, media, websites, 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

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 because it is likely that additional disclosures are REQUIRED. In cases where applicable law or regulation conflicts with the GIPS Advertising Guidelines, FIRMS are REQUIRED to comply with the law or regulation.

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 applicable regulations when a FIRM is advertising performance solely for pooled unitized products.

Other Information

FIRMS may include other information beyond what is REQUIRED under the GIPS Advertising Guidelines, provided the information is shown with equal or lesser prominence to the information REQUIRED by the GIPS Advertising Guidelines and does not conflict with the GIPS standards and/or the GIPS Advertising Guidelines. FIRMS MUST adhere to the principles of fair representation and full disclosure when creating an advertisement.

B. REQUIREMENTS OF THE GIPS ADVERTISING GUIDELINES

All advertisements that include a claim of compliance with the GIPS standards by following the GIPS Advertising Guidelines MUST disclose the following:

1. The definition of the FIRM.
2. How a PROSPECTIVE CLIENT can obtain a COMPLIANT PRESENTATION and/or a complete list and description of the FIRM'S COMPOSITES.
3. The GIPS compliance statement for advertisements. The compliance statement MUST remain in a single paragraph.

For FIRMS that are currently verified:

[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®). [Insert name of FIRM] has been independently verified for the periods [insert dates]. A copy of the verification report(s) is/are available upon request.

For FIRMS that have been verified, but are not currently verified:

[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®). [Insert name of FIRM] has been independently verified for the periods

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[insert dates]. The FIRM is not currently independently verified.

For purposes of this provision, a VERIFICATION is considered current if the VERIFICATION REPORT covers a period ending not more than 24 months ago.

For FIRMS that have not been verified:

[Insert name of FIRM] claims compliance with the Global Investment Performance Standards (GIPS®). [Insert name of FIRM] has not been independently verified.

All advertisements that include a claim of compliance with the GIPS standards by following the GIPS Advertising Guidelines and that present performance results MUST also disclose the following information. The relevant information MUST be taken or derived from a COMPLIANT PRESENTATION:

4. The COMPOSITE DESCRIPTION.
5. COMPOSITE performance results according to one of the following:
 - a. 1-, 3-, and 5-year annualized COMPOSITE returns through the most recent period with the end-of period date clearly identified. If the COMPOSITE has been in existence for less than 5 years, FIRMS MUST also present the annualized returns since inception of the COMPOSITE. (For example, if a COMPOSITE has been in existence for 4 years, FIRMS MUST present 1-, 3-, and 4-year annualized returns through the most recent period). Periods of less than 1 year MUST NOT be annualized.
 - b. Period-to-date COMPOSITE returns in addition to 1-, 3-, and 5-year annualized COMPOSITE returns through the same period of time as presented in the corresponding COMPLIANT PRESENTATION with the end-of period date clearly identified. If the COMPOSITE has been in existence for less than 5 years, FIRMS MUST also present the annualized returns since inception of the COMPOSITE (For example, if a COMPOSITE has been in existence for 4 years, FIRMS MUST present 1-, 3-, and 4-year annualized returns in addition to the period-to-date COMPOSITE return). Periods of less than 1 year MUST NOT be annualized.
 - c. Period-to-date COMPOSITE returns in addition to 5 years of annual COMPOSITE 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-OF-FEES and/or NET-OF-FEES.
7. The TOTAL RETURN for the BENCHMARK for the same periods for which the COMPOSITE return is presented and a description of that BENCHMARK. FIRMS MUST present TOTAL RETURNS for the same BENCHMARK as presented in the corresponding COMPLIANT PRESENTATION. If the FIRM determines no appropriate BENCHMARK for the COMPOSITE exists, the FIRM MUST disclose why no BENCHMARK is presented.
8. The currency used to express performance.
9. The presence, use, and extent of leverage, derivatives, and/or short positions, if material, including a description of the frequency of use and characteristics of the instruments sufficient to identify risks.
10. For any performance presented for periods prior to 1 January 2000 in an advertisement that does not comply with the GIPS standards, FIRMS MUST disclose the period(s) of non-compliance.
11. If the advertisement conforms with laws and regulations that conflict with the GIPS standards and/or the GIPS Advertising Guidelines, FIRMS MUST disclose this fact and the manner in which the laws and regulations conflict with the GIPS standards and/or the GIPS Advertising Guidelines.

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EXPOSURE DRAFT: Appendix D – GIPS Valuation Principles

INTRODUCTION

FAIR VALUE has now been adopted in a significant number of jurisdictions and is mandatory under the GIPS standards. FIRMS claiming compliance with the GIPS standards MUST adhere to the REQUIREMENTS and SHOULD apply the RECOMMENDATIONS below. The shift to a broader FAIR VALUE REQUIREMENT has implications for all FIRMS claiming compliance with the GIPS standards.

The concept of FAIR VALUE has been addressed by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), as well as other organizations. The Valuation Principles are drawn from the existing IASB and FASB definitions and guidance relating to FAIR VALUE.

While some FIRMS may utilize external third parties to value investments, the FIRM retains its responsibility for compliance with the GIPS standards, including the GIPS Valuation Principles.

Do you agree with the requirements and recommendations in the GIPS Valuation Principles below?

FAIR VALUE DEFINITION

FAIR VALUE is defined as the amount at which an asset could be exchanged in a current arm's length transaction between willing parties in which the parties each acted knowledgeably, prudently, and without compulsion.

VALUATION REQUIREMENTS AND RECOMMENDATIONS

1. For periods beginning on or after 1 January 2011, PORTFOLIOS MUST be valued at FAIR VALUE. (Provision 1.A.2)
2. FIRMS MUST comply with all applicable laws and regulations regarding the calculation and reporting of returns. (Provision 0.A.16) Therefore, FIRMS MUST assess their current obligations relating to FAIR VALUE.
3. If the COMPLIANT PRESENTATION conforms with laws and regulations that differ from the REQUIREMENTS of the GIPS standards, FIRMS MUST disclose this fact and disclose the manner in which the laws and regulations conflict with the GIPS standards. (Provision 4.A.9)
4. FIRMS MUST document their policies and procedures used in establishing and maintaining compliance with the GIPS standards. (Provision 0.A.6) Consequently, FIRMS MUST document their valuation policies, procedures, and methodologies. Any change in the valuation methodologies or assumptions MUST be documented in the FIRM'S valuation policies and procedures.
5. FIRMS MUST disclose that information regarding policies for valuing PORTFOLIOS, calculating and reporting returns, and preparing COMPLIANT PRESENTATIONS is available upon request. (Provision 4.A.17)
6. The valuation MUST represent the observable market price of investments or, in the absence of a readily observable appropriate market price, MUST represent management's best estimate of the market price prepared using market-based inputs.
7. The following hierarchy MUST be incorporated into the valuation process when determining FAIR VALUE for PORTFOLIO investments. Valuations MUST be:
 - a. Objective, observable, unadjusted quoted market prices in active markets for identical investments on the measurement date. If not available, then FIRMS MUST use;

Global Investment Performance Standards (GIPS®)
EXPOSURE DRAFT: Appendix D – GIPS Valuation Principles

- b. Objective, observable quoted market prices for similar investments in active markets, If not available, then FIRMS MUST use;
 - c. Quoted prices for identical or similar investments in markets that are not active (markets in which there are few transactions for the investment, the prices are not current, or price quotations vary substantially over time or market makers). If not available, then FIRMS MUST use;
 - d. Market-based inputs other than quoted prices which are observable for the investment. If not available, then FIRMS MUST use;
 - e. Subjective, unobservable inputs for the investments where markets are not active at the measurement date. Unobservable inputs SHOULD only be used to measure FAIR VALUE to the extent that observable inputs and prices are not available. Unobservable inputs reflect the FIRM'S own assumptions about the assumptions that market participants would use in pricing the investment and MUST be developed based on the best information available under the circumstances.
8. FIRMS MUST disclose if PORTFOLIO investments are valued using subjective unobservable inputs that are material to the COMPOSITE as of each period end.
9. If a change in valuation methodology gives rise to a material change in the valuation, the description and the effect of the change SHOULD be disclosed.
10. FIRMS SHOULD disclose the key assumptions used to value investments. (Provision 4.B.2)
11. FAIR VALUES SHOULD be obtained from a qualified independent external third party. (Provision 1.B.1)

REQUIREMENTS AND RECOMMENDATIONS SPECIFIC TO REAL ESTATE

The following are valuation REQUIREMENTS and RECOMMENDATIONS that apply to REAL ESTATE. Unless otherwise noted, the valuation REQUIREMENTS AND RECOMMENDATIONS related to REAL ESTATE supplement all of the REQUIRED and RECOMMENDED elements of the main GIPS Valuation Principles (not including the PRIVATE EQUITY valuation REQUIREMENTS and RECOMMENDATIONS below).

12. The external valuation process MUST adhere to practices of the relevant valuation governing body (for example, RICS Valuation Standards (Red Book), the Appraisal Institute National Uniform Standards of Professional Appraisal Practice (USPAP), or International Valuation Standards (IVS)).
13. The FIRM MUST NOT use appraisals where the valuer's or appraiser's fee is contingent upon the appraised asset value.
14. REAL ESTATE investments MUST be valued by an independent external PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER / APPRAISER at least once every 36 months. For periods beginning on or after 1 January 2012, REAL ESTATE investments MUST be valued by an independent external, PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER/APPRaiser at least once every 12 months. 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 FIRM MUST take necessary steps to ensure that only well-qualified independent property valuers or appraisers are used. (Provision 6.A.2) Supersedes general principle number 11 above.
15. The FIRM MUST disclose the valuation methodologies (e.g., discounted cash flow valuation model, capitalized income approach, sales comparison approach, the valuation of debt payable in

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EXPOSURE DRAFT: Appendix D – GIPS Valuation Principles

determining the value of leveraged REAL ESTATE) and material changes to valuation methodologies. (Provision 6.A.8.b) Supersedes general principle number 9 above.

16. For periods beginning on or after 1 January 2012, FIRMS must explain and disclose the impact of material differences between: (Provision 6.A.8.c)
 - a. The valuation used in performance reporting and the valuation used in financial reporting.
 - b. The EXTERNAL VALUATION and the valuation used in performance reporting.
17. FIRMS MUST disclose the percent of total FAIR VALUE of COMPOSITE assets valued using an EXTERNAL VALUATION to total FAIR VALUE of COMPOSITE assets. (Provision 6.A.8.e)
18. For periods beginning prior to 1 January 2012, FIRMS MUST disclose the frequency REAL ESTATE investments are valued by external valuers or appraisers. (Provision 6.A.8.f)
19. Although appraisal standards may allow for a range of estimated values, it is RECOMMENDED that a single value be obtained from external valuers or appraisers because only one amount is used in performance reporting.
20. It is RECOMMENDED that the external appraisal firm be rotated every three to five years.
21. For periods beginning prior to 1 January 2012, REAL ESTATE investments SHOULD be valued by an independent external PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER/APPRaiser at least once every 12 months. (Provision 6.B.1)
22. FIRMS SHOULD disclose the basis of accounting for the PORTFOLIOS in the COMPOSITE (e.g. US GAAP, IFRS or other basis of accounting). (Provision 6.B.3)

REQUIREMENTS AND RECOMMENDATIONS SPECIFIC TO PRIVATE EQUITY

Prior to 1 January 2011, the GIPS standards recommended FAIR VALUE for PRIVATE EQUITY investments. The following REQUIREMENTS and RECOMMENDATIONS apply to the valuation of PRIVATE EQUITY investments other than PRIVATE EQUITY OPEN-END and EVERGREEN FUNDS which MUST follow the main GIPS Valuation Principles above, and CLOSED-END REAL ESTATE FUNDS which MUST follow the valuation REQUIREMENTS and RECOMMENDATIONS related to REAL ESTATE. The valuation REQUIREMENTS and RECOMMENDATIONS related to PRIVATE EQUITY supplement all of the REQUIRED and RECOMMENDED elements of the main GIPS Valuation Principles (not including the REAL ESTATE valuation REQUIREMENTS and RECOMMENDATIONS) above.

23. The selection of the valuation methodology MUST be the most appropriate for a particular investment based on the nature, facts and circumstances of the investment.
24. FIRMS MUST disclose the valuation methodologies used to value PRIVATE EQUITY investments. If any material change in valuation methodologies occurred, the change MUST be disclosed. (Provision 7.A.13)
25. If the COMPLIANT PRESENTATION complies with valuation guidelines in addition to the GIPS Valuation Principles, FIRMS MUST disclose which guidelines have been used. (Provision 7.A.14)
26. FIRMS MUST disclose if a valuation basis other than FAIR VALUE was used for periods beginning prior to 1 January 2011. (Provision 7.A.16)
27. FIRMS MUST explain and disclose the impact of material differences between the valuation used in performance reporting and the valuation used in financial reporting at period end. (Provision 7.A.17)

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EXPOSURE DRAFT: Appendix D – GIPS Valuation Principles

28. The following considerations SHOULD be incorporated into the valuation process:

- a. The quality and reliability of the data used in each methodology;
- b. The comparability of enterprise or transaction data;
- c. The stage of development of the enterprise; and
- d. Any additional considerations unique to the enterprise.

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EXPOSURE DRAFT: Appendix E – GIPS Glossary

ACCRUAL ACCOUNTING The system of recording financial transactions as they come into existence as a legally enforceable claim, rather than when they are paid (i.e., settle).

ADDITIONAL INFORMATION Information that is RECOMMENDED under the GIPS standards and is not considered as SUPPLEMENTAL INFORMATION.

ADMINISTRATIVE FEES All fees other than TRADING EXPENSES and the INVESTMENT MANAGEMENT FEE. ADMINISTRATIVE FEES include CUSTODY FEES, accounting fees, auditing fees, consulting fees, legal fees, performance measurement fees, or other related fees. These ADMINISTRATIVE FEES are typically outside the control of the 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 may be controlled by the FIRM. (See the term “BUNDLED FEE.”)

ALL-IN-FEE A type of BUNDLED FEE that can include any combination of INVESTMENT MANAGEMENT FEES, TRADING EXPENSES, CUSTODY FEES, and ADMINISTRATIVE FEES. ALL-IN-FEES are client-specific and typically offered by banks in certain jurisdictions where the asset management, brokerage, and custody services are part of the same company.

AMOUNT REALIZED (PRIVATE EQUITY) Proceeds obtained from the liquidation of investments.

BENCHMARK An independent rate of return (or hurdle rate) against which the performance and/or risk of an investment strategy is compared. The BENCHMARK MUST reflect the investment strategy or mandate represented by the COMPOSITE, or the target return.

BUNDLED FEE A fee that combines multiple fees into one total or “bundled” fee. BUNDLED FEES can include any combination of INVESTMENT MANAGEMENT FEE, TRADING EXPENSES, CUSTODY FEES, and ADMINISTRATIVE FEES. Two specific examples of BUNDLED FEES are WRAP FEES and the ALL-IN-FEES.

CAPITAL EMPLOYED (REAL ESTATE) The denominator of the return calculations, defined as the “weighted-average equity” (weighted-average capital) during the measurement period. CAPITAL EMPLOYED does 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.

CAPITAL RETURN (REAL ESTATE) The change in the FAIR VALUE of the REAL ESTATE investments and cash and/or cash equivalent assets held throughout the measurement period (ENDING FAIR VALUE less beginning FAIR 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. Also known as capital appreciation return or appreciation return.

CARRIED INTEREST (PRIVATE EQUITY and REAL ESTATE) The profits that GENERAL PARTNERS are allocated (either accrued or received) from the profits of the investments made by the fund. Also known as “carry” or “promote”.

CARVE-OUT: A portion of a PORTFOLIO that is by itself representative of a distinct investment strategy.

CLOSED-END FUND (PRIVATE EQUITY and REAL ESTATE) A type of investment fund where the number of investors and the total COMMITTED CAPITAL is fixed, is not open for subscriptions and/or redemptions, and there is a capital call (DRAWDOWN) process in place that is controlled by the GENERAL PARTNER.

COMMITTED CAPITAL (PRIVATE EQUITY and REAL ESTATE) Pledges of capital to a PRIVATE EQUITY or REAL ESTATE fund by the LIMITED PARTNERS and the GENERAL PARTNER. This money is typically not received at once but drawn down over three to five years, starting in the year the fund is formed. Also known as “commitments.”

COMPLIANT PRESENTATION: A presentation for a COMPOSITE that contains all information required by the GIPS standards and may also include ADDITIONAL INFORMATION or SUPPLEMENTAL INFORMATION.

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EXPOSURE DRAFT: Appendix E – GIPS Glossary

COMPOSITE Aggregation of individual PORTFOLIOS managed according to a similar investment mandate, objective, or strategy.

COMPOSITE CREATION DATE The date when the FIRM first groups the PORTFOLIOS to create a COMPOSITE. The COMPOSITE CREATION DATE is not necessarily the earliest date for which performance is reported for the COMPOSITE. (See COMPOSITE INCEPTION DATE.)

COMPOSITE DEFINITION Detailed criteria that determine the allocation of portfolios to COMPOSITES. COMPOSITE DEFINITIONS MUST be documented in the FIRM'S policies and procedures.

COMPOSITE DESCRIPTION General information regarding the strategy of the COMPOSITE. A description may be more abbreviated than the COMPOSITE DEFINITION but includes all key features of the COMPOSITE and MUST include enough information to allow a PROSPECTIVE CLIENT to understand the key characteristics of the COMPOSITE strategy, including risks.

COMPOSITE INCEPTION DATE The earliest date for which performance is reported for the COMPOSITE in a COMPLIANT PRESENTATION. The COMPOSITE INCEPTION DATE is not necessarily the date the PORTFOLIOS are grouped together to create a COMPOSITE. Instead, it is the initial date of the performance record. (See COMPOSITE CREATION DATE.)

CUSTODY FEES The fees payable to the custodian for the safekeeping of PORTFOLIO 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.

DIRECT INVESTMENTS (PRIVATE EQUITY) An investment made directly in PRIVATE EQUITY assets.

DISPERSION A measure of the spread of the annual returns of individual PORTFOLIOS within a COMPOSITE. Measures may include, but are not limited to, high/low, inter-quartile range, and standard deviation (asset weighted or equal weighted).

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 should have autonomy over the investment decision-making process. Possible criteria that can be used to determine this include:

- 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 and REAL ESTATE) Cash or the value of stock disbursed to the LIMITED PARTNERS of a PRIVATE EQUITY or REAL ESTATE fund.

DRAWDOWN (PRIVATE EQUITY and REAL ESTATE) The intermittent transfer of funds from the LIMITED PARTNERS to the GENERAL PARTNER'S control. A DRAWDOWN is also known as a capital call.

EVERGREEN FUND (PRIVATE EQUITY) An OPEN-END FUND that allows for on-going investment and/or redemption by investors. Some EVERGREEN FUNDS reinvest profits in order to ensure the availability of capital for future investments.

EX-ANTE Before the fact.

EX-POST After the fact.

EXTERNAL CASH FLOW Capital (cash or investments) contributions to or withdrawals from a PORTFOLIO.

EXTERNAL VALUATION (REAL ESTATE) An assessment of FAIR VALUE performed by an

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EXPOSURE DRAFT: Appendix E – GIPS Glossary

independent third party who is a qualified, PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY VALUER/APPRaiser.

FAIR VALUE The amount at which an asset could be exchanged in a current arm's length transaction between willing parties in which the parties each acted knowledgeably, prudently, and without compulsion. See GIPS Valuation Principles in Appendix D.

FEE SCHEDULE The FIRM'S current INVESTMENT MANAGEMENT FEES or BUNDLED FEES relevant to the particular COMPLIANT PRESENTATION. This schedule is typically listed by asset level ranges and should be appropriate to the PROSPECTIVE CLIENT receiving the COMPLIANT PRESENTATION.

FINAL LIQUIDATION DATE (PRIVATE EQUITY) The date when a COMPOSITE is fully distributed.

FINAL REALIZATION (LIQUIDATION) DATE (REAL ESTATE) The date when a COMPOSITE is fully distributed.

FIRM The term FIRM refers to the entity defined for compliance with the GIPS standards. See the term "DISTINCT BUSINESS ENTITY."

GENERAL PARTNER (PRIVATE EQUITY and REAL ESTATE) A class of partner in a partnership. The GENERAL PARTNER retains liability for the actions of the partnership. The GENERAL PARTNER is the fund manager and the LIMITED PARTNERS are the investors in the partnership. The GENERAL PARTNER earns a management fee and is typically allocated a percentage of the profits. (See "CARRIED INTEREST.")

GIPS PERFORMANCE EXAMINATION See PERFORMANCE EXAMINATION.

GIPS VERIFICATION See VERIFICATION.

GROSS-OF-FEES RETURN The return on assets reduced by any TRADING EXPENSES incurred during the period.

GROSS-OF-FEES RETURN (PRIVATE EQUITY) The return on assets reduced by any TRANSACTION EXPENSES incurred during the period.

INCOME RETURN (REAL ESTATE) The investment income earned 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) A FIRM'S best estimate of FAIR 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 FAIR VALUE.

INTERNAL RATE OF RETURN (IRR) (PRIVATE EQUITY and REAL ESTATE) The annualized implied discount rate (effective compounded rate) that equates the present value of all EXTERNAL CASH FLOWS and the present value of the RESIDUAL VALUE.

INVESTED CAPITAL (PRIVATE EQUITY and REAL ESTATE) The amount of PAID-IN CAPITAL that has been invested in PORTFOLIO investments.

INVESTMENT MANAGEMENT FEE The fee payable to the investment management FIRM for the management of a PORTFOLIO. INVESTMENT MANAGEMENT FEES are typically asset based (percentage of assets), performance based (see PERFORMANCE BASED FEE), or a combination of the two but may take different forms as well. The INVESTMENT MANAGEMENT FEE is also defined to include CARRIED INTEREST.

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INVESTMENT MULTIPLE (TVPI) (PRIVATE EQUITY and REAL ESTATE) The ratio of TOTAL VALUE to PAID-IN CAPITAL. It represents the total return of the investment to the investment not taking into consideration a compound rate of return. TOTAL VALUE can be found by adding the RESIDUAL VALUE and CAPITAL DISTRIBUTIONS together.

LARGE CASH FLOW The level at which the FIRM determines that a client directed EXTERNAL CASH FLOW may distort performance if the PORTFOLIO is not revalued. FIRMS MUST define the amount in terms of the value of cash/asset flow, or in terms of a percentage of PORTFOLIO or COMPOSITE assets, and value the PORTFOLIO at the time of all LARGE CASH FLOWS.

LIMITED PARTNER (PRIVATE EQUITY and REAL ESTATE) An investor in a LIMITED PARTNERSHIP. The GENERAL PARTNER is liable for the actions of the partnership and the LIMITED PARTNERS are generally protected from legal actions and any losses beyond their original investment.

LIMITED PARTNERSHIP (PRIVATE EQUITY and REAL ESTATE) The legal structure used by most PRIVATE EQUITY and REAL ESTATE CLOSED-END FUNDS. LIMITED PARTNERSHIPS are usually fixed life investment vehicles. The GENERAL PARTNER or FIRM manages the partnership using the policy laid down in a partnership agreement.

LINK 1) Mathematical Linking: The method by which sub-period returns are geometrically combined to calculate the period return using the following formula: Period total return = $(1+R_1)*(1+R_2)...(1+R_n))-1$ where $R_1, R_2...R_n$ are the sub-period returns for sub-period 1 through n respectively.

2) Presentational Linking: To be visually connected or otherwise associated within a COMPLIANT PRESENTATION (e.g., two pieces of information can be LINKED by placing them next to each other).

MARKET VALUE The current price at which investors buy or sell securities at a given time.

MUST A task or action that is mandatory or REQUIRED to be performed. (See the term “REQUIRE/REQUIREMENT”)

MUST NOT A task or action that is forbidden or prohibited.

NET-OF-FEES RETURN The GROSS-OF-FEES RETURN reduced by INVESTMENT MANAGEMENT FEES (including PERFORMANCE BASED FEES and CARRIED INTEREST).

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 the term “EVERGREEN FUND”)

PAID-IN CAPITAL (PRIVATE EQUITY and REAL ESTATE) The amount of COMMITTED CAPITAL a LIMITED PARTNER has actually transferred to a fund. Also known as the cumulative DRAWDOWN amount.

PERFORMANCE BASED FEE A type of INVESTMENT MANAGEMENT FEE that is typically based on the performance of the PORTFOLIO on an absolute basis or relative to a BENCHMARK .

PERFORMANCE EXAMINATION A detailed examination of a specific COMPOSITE COMPLIANT PRESENTATION by a verifier. Also known as a GIPS PERFORMANCE EXAMINATION.

PERIODICITY The length of the time period over which a variable is measured (e.g., a variable that is measured at a monthly periodicity consists of observations for each month).

PIC MULTIPLE (PRIVATE EQUITY and REAL ESTATE) The ratio of PAID-IN CAPITAL to COMMITTED CAPITAL. This ratio gives PROSPECTIVE CLIENTS information regarding how much of the total COMMITTED CAPITAL has been drawn down.

PORTFOLIO An individually managed pool of assets. A PORTFOLIO may be a sub-portfolio, account, or pooled vehicle.

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

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hybrids, such as venture leasing and venture factoring.

PROFESSIONALLY DESIGNATED, CERTIFIED, OR LICENSED COMMERCIAL PROPERTY 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 on one's experience, body of work, and test results, is then registered, licensed, or certified.

PROPRIETARY ASSETS Assets owned by the FIRM, the FIRM'S management, or the FIRM'S parent company.

PROSPECTIVE CLIENT Any person or entity that qualifies to invest in a COMPOSITE strategy (e.g., has assets above the COMPOSITE minimum asset level) and has expressed interest in one of the FIRM'S strategies. Existing clients may also qualify as PROSPECTIVE CLIENTS for any strategy that is different from their current investment mandate. Investment consultants and other third parties are included as PROSPECTIVE CLIENTS if they represent investors that qualify as PROSPECTIVE CLIENTS.

Do you agree with the definition of prospective client? If not, how should it be defined?

PUBLIC MARKET EQUIVALENT (PME) (PRIVATE EQUITY) The performance of a public market index expressed in terms of an INTERNAL RATE OF RETURN (IRR), using the same cash flows and timing as those of the COMPOSITE over the same time period. A PME can be used as a BENCHMARK by comparing the IRR of a PRIVATE EQUITY investment with the PME of a public market index.

REAL ESTATE 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.

REALIZATION MULTIPLE (DPI) (PRIVATE EQUITY and REAL ESTATE) The REALIZATION MULTIPLE is calculated by dividing the cumulative DISTRIBUTIONS by the PAID-IN CAPITAL.

RECOMMEND/RECOMMENDATION A suggested provision or task. A RECOMMENDATION is considered to be best practice but is not a REQUIREMENT. (See "SHOULD")

REQUIRE/REQUIREMENT A provision or task that MUST be followed. (See "MUST")

RESIDUAL VALUE (PRIVATE EQUITY and REAL ESTATE) The remaining equity that LIMITED PARTNERS have in the fund. (The value of the investments within the fund.)

RESIDUAL VALUE TO PAID-IN CAPITAL (RVPI) (PRIVATE EQUITY and REAL ESTATE) RESIDUAL VALUE divided by the PAID-IN CAPITAL.

SETTLEMENT DATE ACCOUNTING Recognizing the asset or liability on the date when the exchange of cash, securities, and paperwork involved in a transaction is completed.

SHOULD A task or action that is RECOMMENDED to be performed, but is not REQUIRED. (See "RECOMMEND/RECOMMENDATION")

SIGNIFICANT CASH FLOW The level at which the FIRM determines that a client directed EXTERNAL CASH FLOW may temporarily prevent the FIRM from implementing the COMPOSITE strategy.

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SUB-ADVISOR A third party investment manager hired by the FIRM to manage some or all of the FIRM'S assets.

STANDARD DEVIATION A statistical measure of how widely the actual returns were dispersed from the average return.

SUPPLEMENTAL INFORMATION Any performance-related information included as part of a COMPLIANT PRESENTATION that supplements or enhances the REQUIRED and/or RECOMMENDED disclosure and presentation provisions of the GIPS standards.

TEMPORARY NEW ACCOUNT A tool that FIRMS can use to remove the effect of SIGNIFICANT CASH FLOWS on a PORTFOLIO. When a SIGNIFICANT CASH FLOW occurs in a PORTFOLIO, the FIRM may treat this cash flow as a "TEMPORARY NEW ACCOUNT," allowing the FIRM to implement the mandate of the PORTFOLIO without the impact of the cash flow on the performance of the PORTFOLIO.

TIME-WEIGHTED RATE OF RETURN Calculation that computes period-by-period returns on an investment and removes the effects of EXTERNAL CASH FLOWS, which are generally client-driven, and best reflects the FIRM'S ability to manage assets according to a specified strategy or objective.

TOTAL FIRM ASSETS All discretionary and nondiscretionary assets for which a FIRM has investment management responsibility. TOTAL FIRM ASSETS include assets assigned to a SUB-ADVISOR provided the FIRM has discretion over the selection of the SUB-ADVISOR.

TOTAL RETURN A rate of return that includes the realized and unrealized gains and losses plus income (loss) for the measurement period.

TOTAL RETURN (REAL ESTATE) The rate of return, including all CAPITAL RETURN and INCOME RETURN elements, expressed as a percentage of the CAPITAL EMPLOYED over the measurement period.

TOTAL VALUE (PRIVATE EQUITY and REAL ESTATE) RESIDUAL VALUE plus DISTRIBUTIONS.

TRADE DATE ACCOUNTING The transaction is reflected in the PORTFOLIO on the date of the purchase or sale, and not on the SETTLEMENT DATE. Recognizing the asset or liability within 3 days of the date the transaction is entered into (trade date, T+ 1, T+2, or T+3) satisfies the TRADE DATE ACCOUNTING REQUIREMENT for purposes of the GIPS standards. (See SETTLEMENT DATE ACCOUNTING.)

TRADING EXPENSES The costs of buying or selling a security. These costs typically take the form of brokerage commissions, exchange fees and/or taxes, and bid/offer spreads from either internal or external brokers. CUSTODY FEES charged per transaction SHOULD be considered CUSTODY FEES and not TRADING EXPENSES. Estimated TRADING EXPENSES are not permitted.

TRANSACTION EXPENSES (PRIVATE EQUITY) Include all legal, financial, advisory, and investment banking fees related to buying, selling, restructuring, and recapitalizing PORTFOLIO investments.

VERIFICATION A process by which a verifier tests whether the FIRM has complied with all the COMPOSITE construction REQUIREMENTS of the GIPS standards on a FIRM-wide basis, and the FIRM'S processes and procedures are designed to calculate and present performance results in compliance with the GIPS standards. Also known as GIPS VERIFICATION.

VERIFICATION REPORT A document issued by a verifier reporting the matter being reported on, the scope of procedures performed, and the conclusions reached as to the FIRM'S compliance with all the COMPOSITE construction REQUIREMENTS of the GIPS standards on a FIRM-wide basis, and the design of its processes and procedures to calculate and present performance results in compliance with the GIPS standards as of a specified period or date.

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VINTAGE YEAR (PRIVATE EQUITY and REAL ESTATE) Two methods that can be used to determine VINTAGE YEAR include:

1. The year of the fund's first DRAWDOWN or capital call from its investors, or
2. The year when the first COMMITTED CAPITAL from outside investors is closed and legally binding.

WRAP FEE WRAP FEES are a type of BUNDLED FEE and are specific to a particular investment product. The WRAP FEE is charged by a WRAP FEE sponsor for investment management services and typically includes associated TRADING EXPENSES that cannot be separately identified. WRAP FEES can be all-inclusive asset based fees and may include a combination of INVESTMENT MANAGEMENT FEES, TRADING EXPENSES, CUSTODY FEES, and ADMINISTRATIVE FEES. WRAP FEE PORTFOLIOS are sometimes referred to as “separately managed accounts” (SMA) or “managed accounts”.