

GIPS® News

April 2006



Dear Clients and Business Associates,

The Revised GIPS are already in effect since January 1, 2006. Performance data up to December 31, 2005, can be presented in accordance with the 1999 version of GIPS or corresponding to country versions of GIPS. However, many asset man-

agers have already switched over to the Revised GIPS, putting the new standards to a practical test.

The last months have seen a lot of discussion between the various country sponsors and representatives of the CFA Institute about the proposal for a new GIPS governance structure. Todd Juillerat, the newly appointed head of the Regional Investment Performance Committee (RIPS) of the Americas, gave us his view on the successful transition to the new governance structure, which should be announced later this year. Once the new scene is set, it will allow the focus to shift again to more technical issues, for example the new and revised Guidance

Statements and evolving demands of the marketplace which the GIPS should take into account. In this respect, a short comparison of the GIPS Private Equity Provisions and the EVCA Standards is provided in this newsletter edition.

We hope you will enjoy the current issue.

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In this issue:

- 1 **Editorial**
Susanne Klemm Groguz
- 1 **Update of the EIPC Meeting and New GIPS Governance Structure**
- 2 **Revised GIPS Guidance Statements**
- 2 **The Dutch Translation of the Revised GIPS**
- 2 **New Chair of the Americas RIPS**
Interview with Todd Juillerat
- 4 **Transformation of EVCA Standards into GIPS – Some Highlights**
- 5 **Upcoming Conferences and Seminars**
- 6 **Contacts**

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Update of the EIPC Meeting and New GIPS Governance Structure

More than 32 participants from 19 countries met in November 2005 for the most recent meeting of the European Investment Performance Committee (EIPC) in Belgium. The EIPC working groups on client reporting, risk measures and balanced accounts, performance measurement and presentation all presented the latest update reports. The new governance and structure of the committees that oversee the GIPS standards was the most important discussion of the meeting. Full details on the governance and structure are to be published once the dis-

cussions are finalized and approved later this year.

In preparation for the new GIPS governance structure, several elections took place at the end of 2005: Hans-Jörg von Euw was elected as Chairman of the GIPS Council, Dr. Stefan Illmer as Chairman of the Regional Investment Performance Subcommittee (RIPS) for Europe, Middle East and Africa, the former EIPC. Todd Juillerat was elected as the Chairman of the RIPS for Americas and Louis Boulanger as Chairman of the Asia Pacific RIPS. ■

Revised GIPS Guidance Statements

The CFA Institute has recently released revised versions of all the Guidance Statements reflecting the revised GIPS standards. Please refer to the revised Guidance Statements for interpretations regarding the revised GIPS standards ([http://www.cfainstitute.org/cfac](http://www.cfainstitute.org/cfacentre/ips/Guid_stmnt.html)

[entre/ips/Guid_stmnt.html](http://www.cfainstitute.org/cfacentre/ips/gips/pdf/31JanuaryCorrections.pdf)). An errata sheet, which contains minor corrections and edits to the GIPS standards (2006 version), is available at <http://www.cfainstitute.org/cfacentre/ips/gips/pdf/31JanuaryCorrections.pdf> ■

The Dutch Translation of the Revised GIPS

On January 26, 2006, the Dutch translation of the Revised GIPS was presented to the members of the Beroepsvereniging van Beleggingsdeskundigen (VBA), the Dutch country sponsor of GIPS, by the VBA's Investment Performance Measurement Com-

mittee. This new translation replaced the VBA-PPS 2003, which was a translation of GIPS 1999. The Dutch translation has been adopted by the Investment Performance Council and endorsed by the CFA Institute Board. ■

New Chair of the Americas RIPS – Todd Juillerat



Todd Juillerat is a busy man. In addition to his appointment as Chair of the Americas RIPS and corresponding seat on the GIPS Executive Committee, he is global head of investment performance at INVESCO where, among other things, he is responsible for the GIPS compliance of one of the largest asset managers to have successfully achieved it as a single global firm. As if that wasn't enough, Todd was kind enough to make the time to share his insights with Ernst & Young as both a senior member of the GIPS structure and of one of the largest global asset managers to claim GIPS compliance.

Ernst & Young: Congratulations on your appointment to chair the Americas RIPS. We have all heard a great deal about the new structure for the standard-setting organisation. What do you think will be the key to ensuring the changes made are successful?

Todd Juillerat: Thank you for your kind and generous introduction. I believe the overriding key element that will result in the successful transition is literally the foundation on which the new structure is built. Relative to the former Investment Performance Council (IPC), the new arrangement is smaller and should thus be more nimble. The committee has more autonomy and discretion, which should speed up the process of making and executing decisions. And the country sponsors are individually and collectively given a stronger voice within the process. Taken together, these are tremendously powerful enhancements that should serve us well. And, of course, the ongoing commitment of CFA Institute

staff and the many strong professionals throughout the world who dedicate their time and talents make the whole initiative possible.

That all having been said, what will make the performance standards successful, and what has always made them successful, is the way in which they're market driven. The industry is calling for guidance and direction, with a growing bias that it be global in scope. The GIPS standards are the vehicle through which we can be responsive to the needs exhibited by the marketplace.

What has been the local response in the United States to the 2005 GIPS replacing AIMR-PPS, and what is the feeling for how the adoption process is going?

In all honesty, I believe the response and reaction have been rather modest. The AIMR-PPS standards have been so ingrained within the US market that it's second nature for people to refer to them. Even today, people who are well attuned to the changes that have taken place will occasionally refer to AIMR-PPS although they quickly correct themselves. I believe the fact there are rather insignificant changes from one to the other has caused there to be not as much talk about the transition. But I believe people are aware of the changes, as evidenced by the record turnout at the Annual AIMR-PPS Conference last October, which was literally standing room only in a huge ballroom in Philadelphia. Much credit goes to CFA Institute, the GIPS Convergence Stakeholder Education Working Group and the AIMR-PPS Implementation Committee for communicating early and often about the changes.

What items other than the 2005 GIPS are on the Americas RIPS agenda at the moment?

Obviously the transition to the new GIPS standards is the predominant issue, far and away. We'll continue focusing on communication and fielding inquiries related to this. We'll want to be very attuned to the ongoing needs of the marketplace, in terms of guidance statements that need to be completed

or initiated. And my personal mission is to try to spread the standards and attain adoption in other parts of the Americas region. As you know, the USA and Canada have historically had a joint country sponsorship. We're looking at whether it's appropriate and feasible to have each country with its own separate sponsorship and corresponding representation on the GIPS Council. I also want to cultivate interest in other countries within the Americas. Now is the ideal and opportune time, with new global standards and an operating structure that gives each country a «seat at the table», to pursue adoption in Latin American countries with developed or developing markets. It's quite exciting, and I've begun brushing up on my Spanish speaking skills, which have become rather rusty since last taking courses in college.

What are the principal benefits from having a single, globally compliant firm?

I see two key benefits. First, and I'll relate this directly to INVESCO although I expect it applies to other firms in similar scenarios, it allows us to present ourselves as an integrated firm. Appearing seamless to the marketplace promotes the concept that we are a single firm, rather than several affiliated firms that aren't really working together. That's how our investment personnel operate, so it's great to have the materials we put into the marketplace reflect that fact. Secondly, there are benefits in terms of efficiency (and thus cost) and internal best practices and controls. I've always been a huge proponent of the idea that claiming compliance with the performance standards has a phenomenal unintended benefit of improving a firm's internal controls and better understanding its own business. Being able to do that on a global basis, rather than an assortment of regional ones, is a great thing.

Looking to the future, what do you believe will be the key obstacles and challenges for GIPS?

I suppose a key challenge is staying in step with the industry, which continues to evolve

and grow at an extraordinarily fast pace. The degree of innovation in terms of investment securities, vehicles and strategies is very rapid and shows absolutely no signs of slowing. The challenge for us involved with the administration of the GIPS standards will be to sense the trends and be quick to respond with appropriate guidance statements. And, as I stated previously, spreading the adoption of GIPS to more and more countries, not only within the Americas but the EMEA and Asia Pacific regions as well. But I think we're up for the challenge, and excited to put things in place for the benefit of the industry and the marketplace of investors. ■

Transformation of EVCA Standards into GIPS – Some Highlights

The Venture Capital and Private Equity Subcommittee, which is part of the Investment Performance Council of the CFA Institute, has set Private Equity Provisions for GIPS of which the (revised) effective date was January 1, 2006.

The GIPS Private Equity Principles are increasingly used as a common standard and tend to replace their corresponding measures of the European Private Equity and Venture Capital Association (EVCA). Nevertheless, the EVCA standards are still widely used in their industry and it is not likely that they will cease in the near future.

The GIPS Private Equity Provisions apply to investment structures like limited partnerships and direct investments. But they are not applicable to captive and semi-captive funds because of their non-fixed life investment pool, non-existence of outside investors as well as management fees. Also, open-end funds have to follow the general GIPS provisions as they have significant characteristics of a publicly quoted mutual fund.

A significant part of the Presentation & Reporting section is attributed to several multiples and ratios. They take into consid-

eration the non-cash-flow item (residual value) as well as cash flow items (draw-down and distributions) which are essential to calculate the performance. The realisation multiple gives details regarding the proportion between realised and unrealised returns, while investment multiples provide information about the value of the composite relative to its cost basis to prospective investors. ■

The subsequent comparison highlights essential aspects of GIPS and EVCA standards:

	GIPS	EVCA
Input Data	<ul style="list-style-type: none"> - Fair Value Hierarchy: <ol style="list-style-type: none"> 1. Market Transaction 2. Market-Based Multiples 3. Discounted Expected Future Cash Flows - Quarterly valuation 	<ul style="list-style-type: none"> - Quoted Investments <ul style="list-style-type: none"> · Market Price - Unquoted Investments <ul style="list-style-type: none"> · Conservative Value · Fair Market Value - Semi-annual valuation, annual audit
Calculation Methodology	<ul style="list-style-type: none"> Internal Rate of Return on composite level - Gross-of-Fees Return on Realised and Unrealised Investments - Net-of-Fees Return 	<ul style="list-style-type: none"> Internal Rate of Return on portfolio level - Gross Return on Realised Investments - Gross Return on all Investments - Net Return to the Funder
Composite Construction	<ul style="list-style-type: none"> - Aggregation of portfolios according to the same strategy and vintage year - Carve-Outs 	<ul style="list-style-type: none"> - Aggregation of investments according to the same strategy and vintage year on portfolio level
Disclosures	<ul style="list-style-type: none"> - Composite details (description, currency, date) - Valuation/calculation methodologies - Fee breakdown - Multiples 	<ul style="list-style-type: none"> Basic Level/Advanced Level - Application of EVCA Valuation Guidelines - Investment details ([un]quoted, cost, date) - Key financials
Presentation & Reporting	<ul style="list-style-type: none"> - Composite Items <ul style="list-style-type: none"> · Performance record of at least 5 years · Annual returns for all years · Number of portfolios and amount of assets · Dispersion of individual portfolio returns · Risk measures - Total return for the benchmark 	<ul style="list-style-type: none"> Minimum Standard (Level One)/Best Practice (Level Two) - Annual Meeting - Timing - Fund Performance - Portfolio Reporting - Stock Distribution - Capital Account
Verification	Voluntary	Voluntary

Upcoming Conferences and Seminars

59th Annual Conference: Reaching for the Investment Management Summit

May 21 to 24, 2006

Zurich, Switzerland

For more information visit www.cfainstitute.org

Research for the Practitioner V: The Research Foundation of CFA Institute Annual Workshop

May 21, 2006

Zurich, Switzerland

For more information visit www.cfainstitute.org

8th Annual European Forum:

Performance Measurement, Attribution & Risk

May 23 & 24, 2006

Amsterdam, The Netherlands

For more information visit www.cfainstitute.org

International Wealth & Tax Planning Seminar

May 29 to June 3, 2006

Pfäffikon SZ, Switzerland

For more information visit www.cfainstitute.org

5th Annual Global Investors Workshop

June 26 to 30, 2006

INSEAD

Fontainebleau, France

For more information visit www.cfainstitute.org

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