

Overview of Performance Presentation

Version 2.0

Date: April 2010

Produced by: Dr. Stefan J. Illmer



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 - 1.1. The client's performance evaluation problem
 - 1.2. Is this a "normal" performance presentation a "good" one?
 - 1.3. The need for performance presentation standards
2. Vision and objectives of the GIPS Standards
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 - 6.5. At the end: marketing and the GIPS Standards

Agenda

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7. Case study on determining a track record

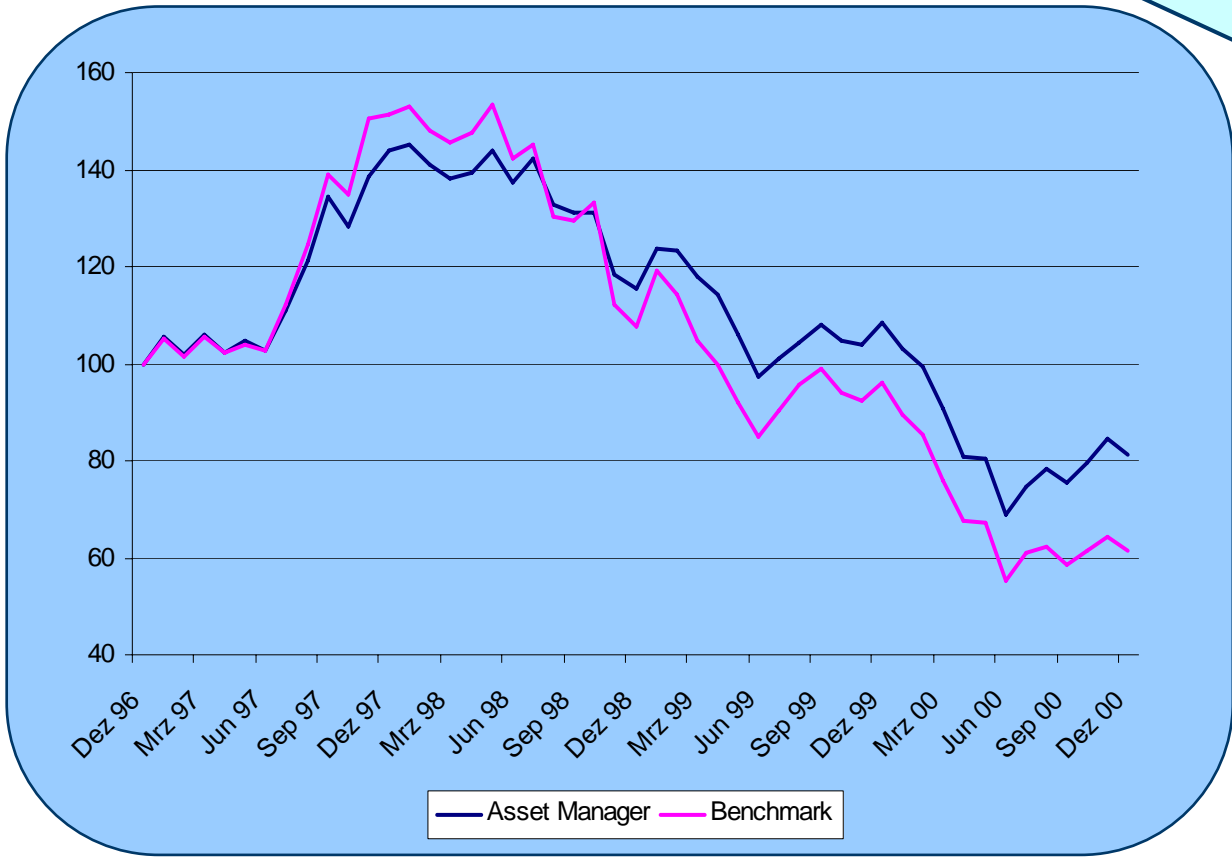
7.1. Determining a track record

1. The need for the GIPS standards

The client's performance evaluation problem

(1/3)

Is this a good asset manager ?



The client's performance evaluation problem

(2/3)

Who is the better asset manager ?



Asset Manager A	Asset Manager B
5 % p.a.	5 % p.a.

The client's performance evaluation problem

(3/3)

What kind of accounts are presented?

How is the return calculated?

What accounts are presented by this history?



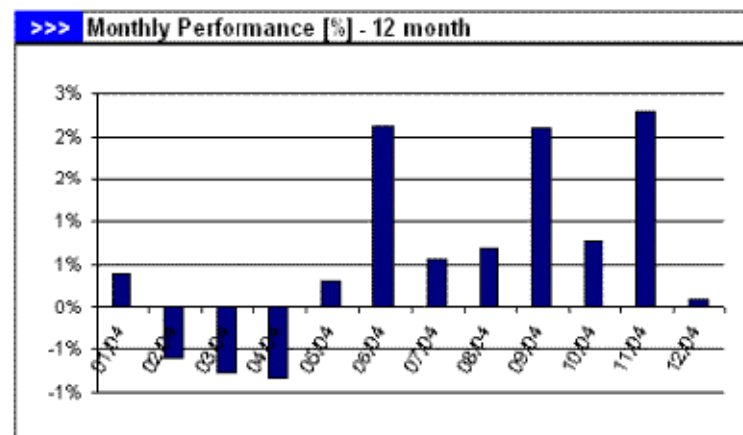
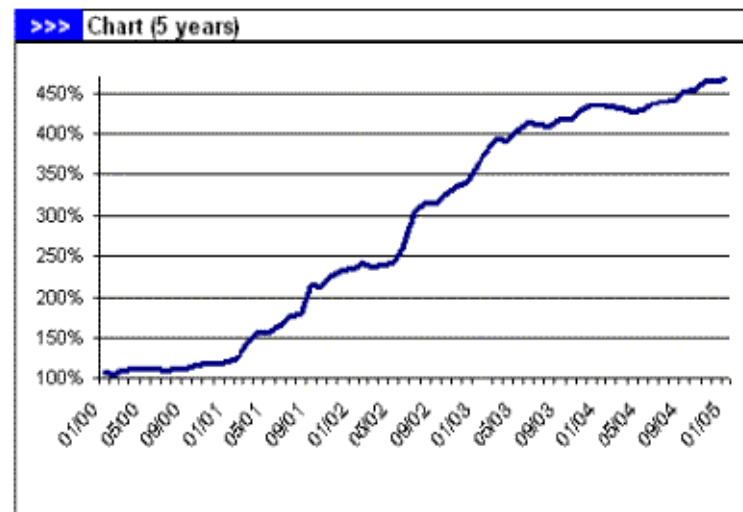
=> Do we really need to ask these "unnecessary" questions ?

Is this "normal" performance presentation a "good" one?

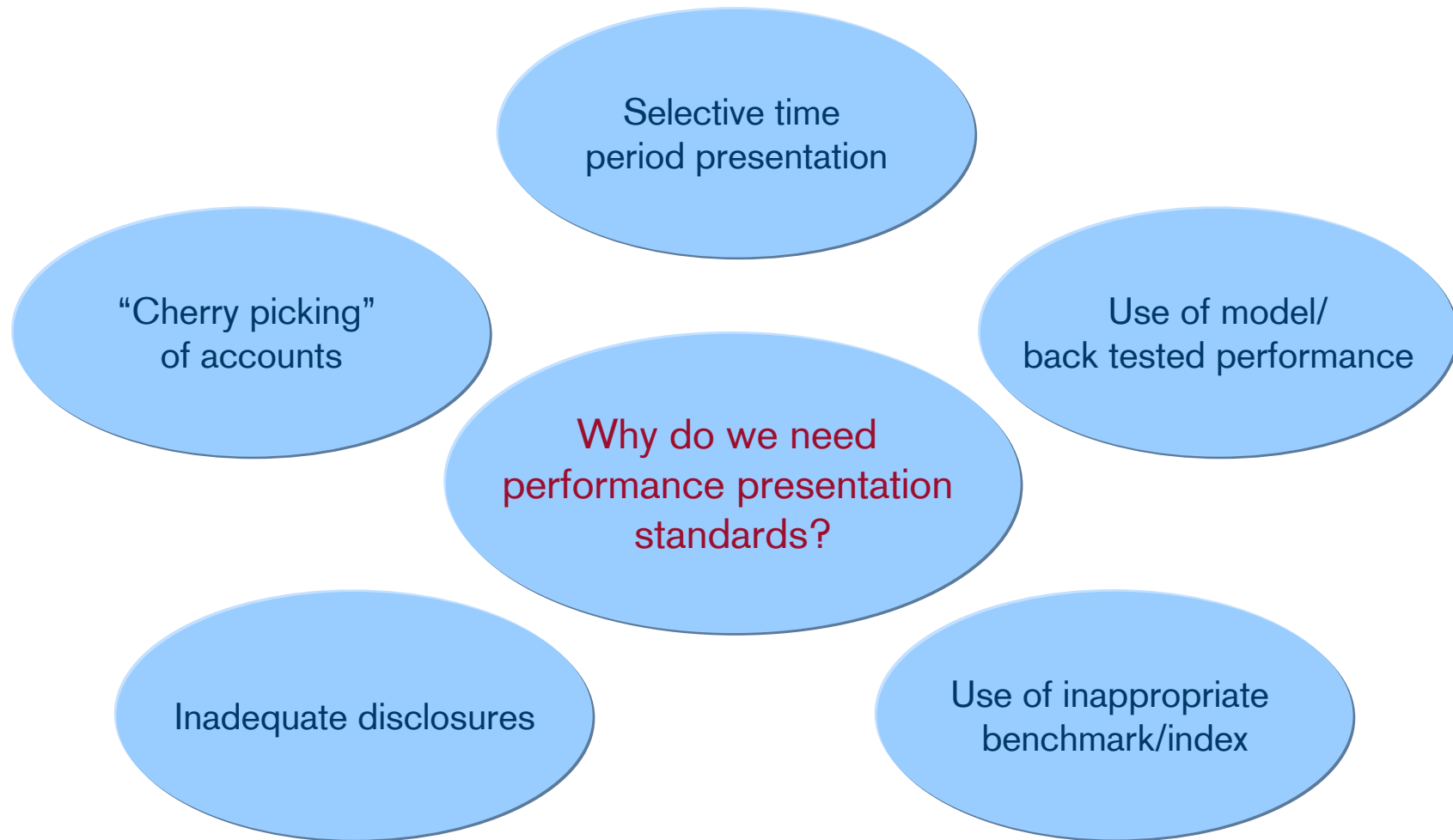
>>> Performance	
Period	%
1 month	0,1%
3 month	3,2%
6 month	6,7%
1 year	7,3%
2 years	36,7%
3 years	100,7%
5 years	365,8%

>>> Performance Indicators	
Volatility 1 year	1,1%
Volatility 2 years	1,8%
Sharpe Ratio 1 year	6,60
Maximum Time to recover [days]	120
Maximum Drawdown [5 years period]	2,2%
Share of winning month	77,0%

>>> Conditions / Parameter Settings	
Fixed Income Investment	90,0%
Interest rate p.a. on Fixed Income	3,5%
Alternative Investment [Futures]	10,0%
Commissions per Roundturn [in EUR]	2,00
Slippage per Roundturn [in EUR]	7,00
Money Management Parameters:	
Fixed Fraction:	2,0%
Security Faktor:	1,5%
Margin Faktor:	2,0%



The need for performance presentation standards



2. Vision and objectives of the GIPS standards

Objectives of the GIPS initiative

(1/2)

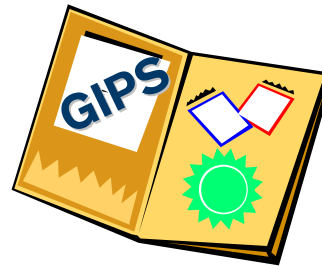
- Global standardization of performance measurement and reporting.
- Replacement of AIMR-PPS as "the" global standard.
- Replacement of the local PPS.
- Global self-regulation.
- Better understanding of the different national circumstances.
- "Gold standard" as the global standard for performance presentations.

Objectives of the GIPS initiative

(2/2)

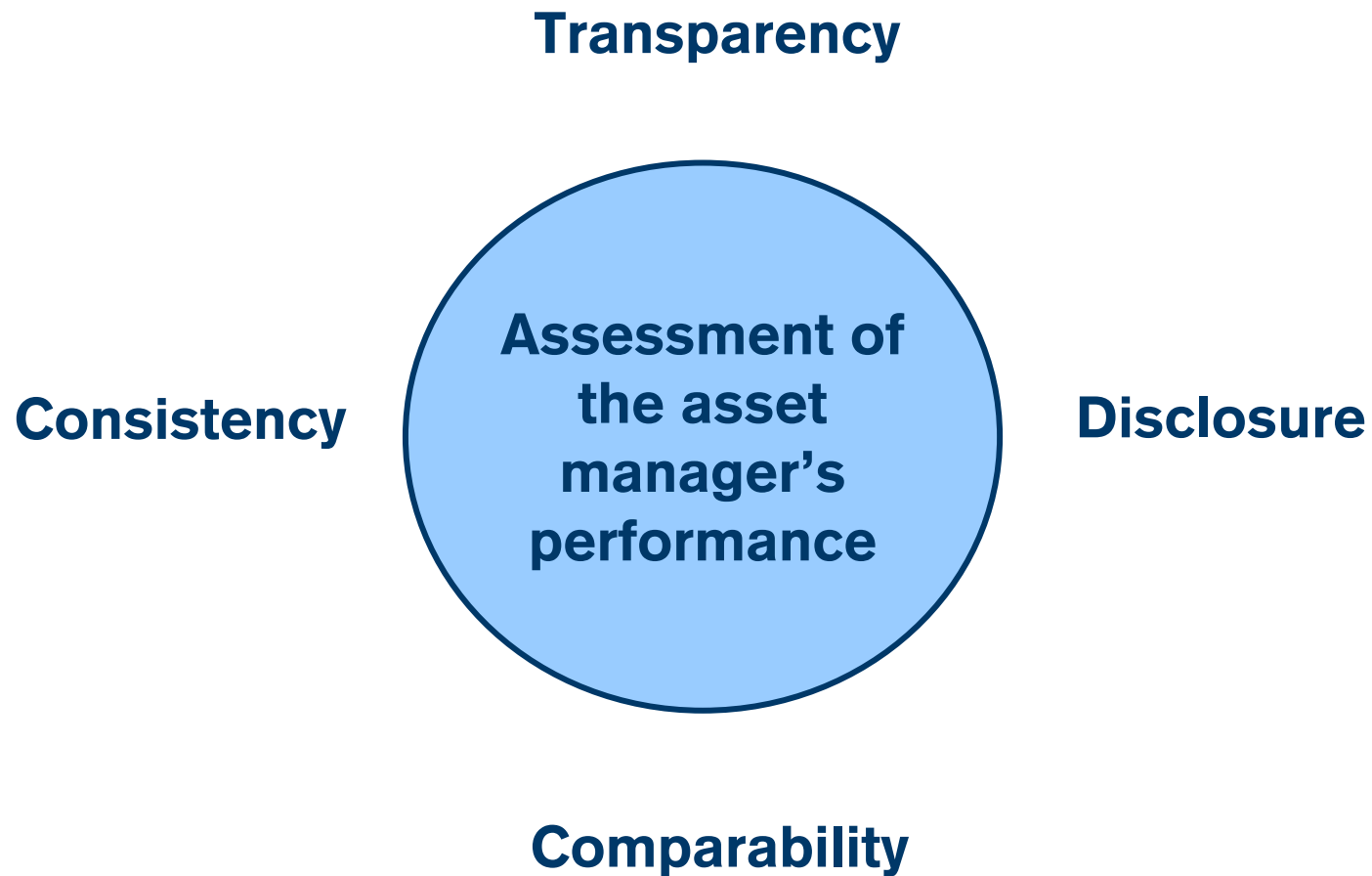
- Promote fair competition in the asset management industry globally through initializing a

„GLOBAL PASSPORT“,

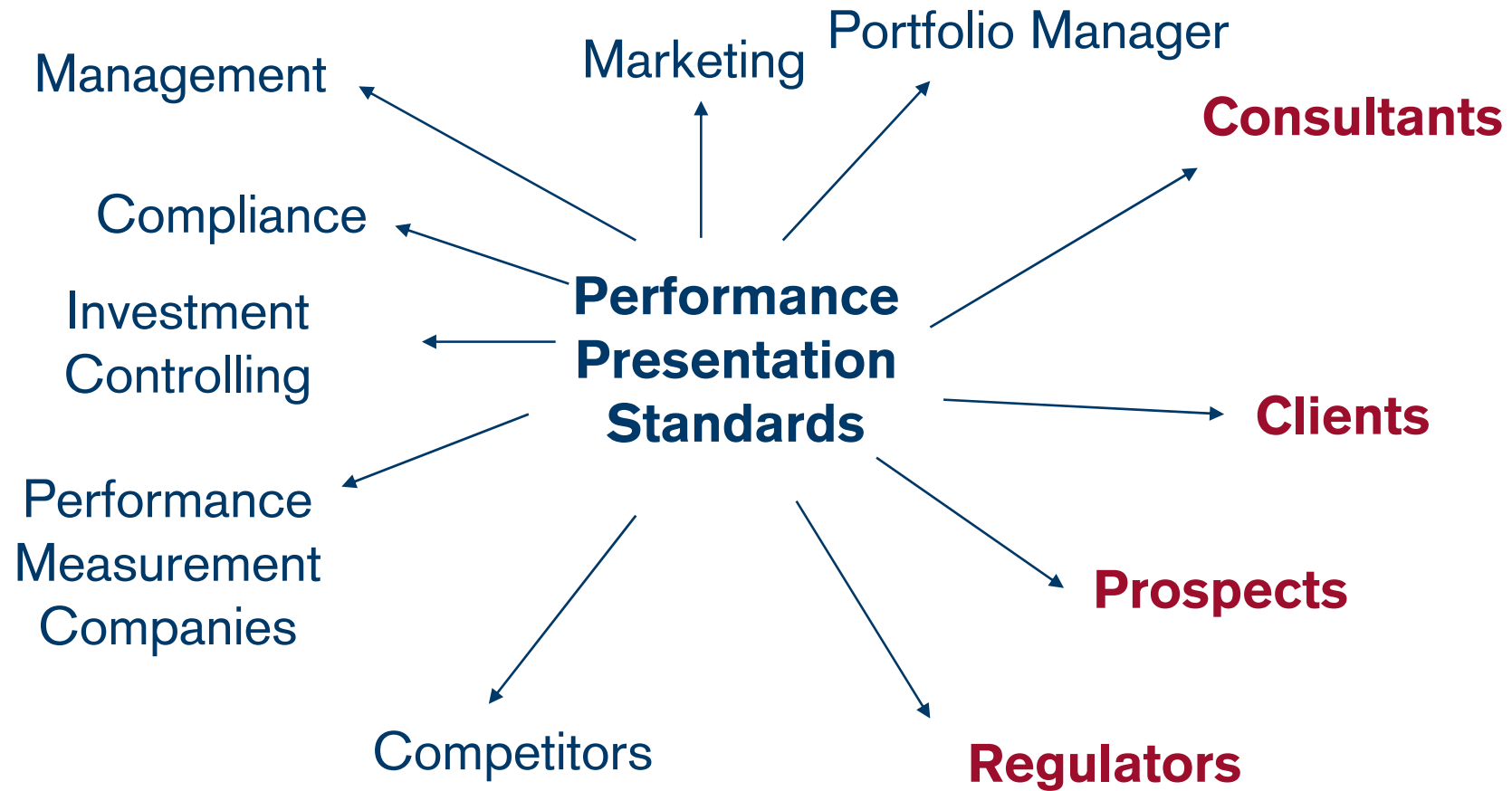


i.e. "free entry" for all companies in all countries or the reduction of the local barriers of entry.

Objectives of the GIPS standards



Target groups of the GIPS reports



3. Basics of the GIPS standards

Characteristics of the GIPS standards

(1/2)

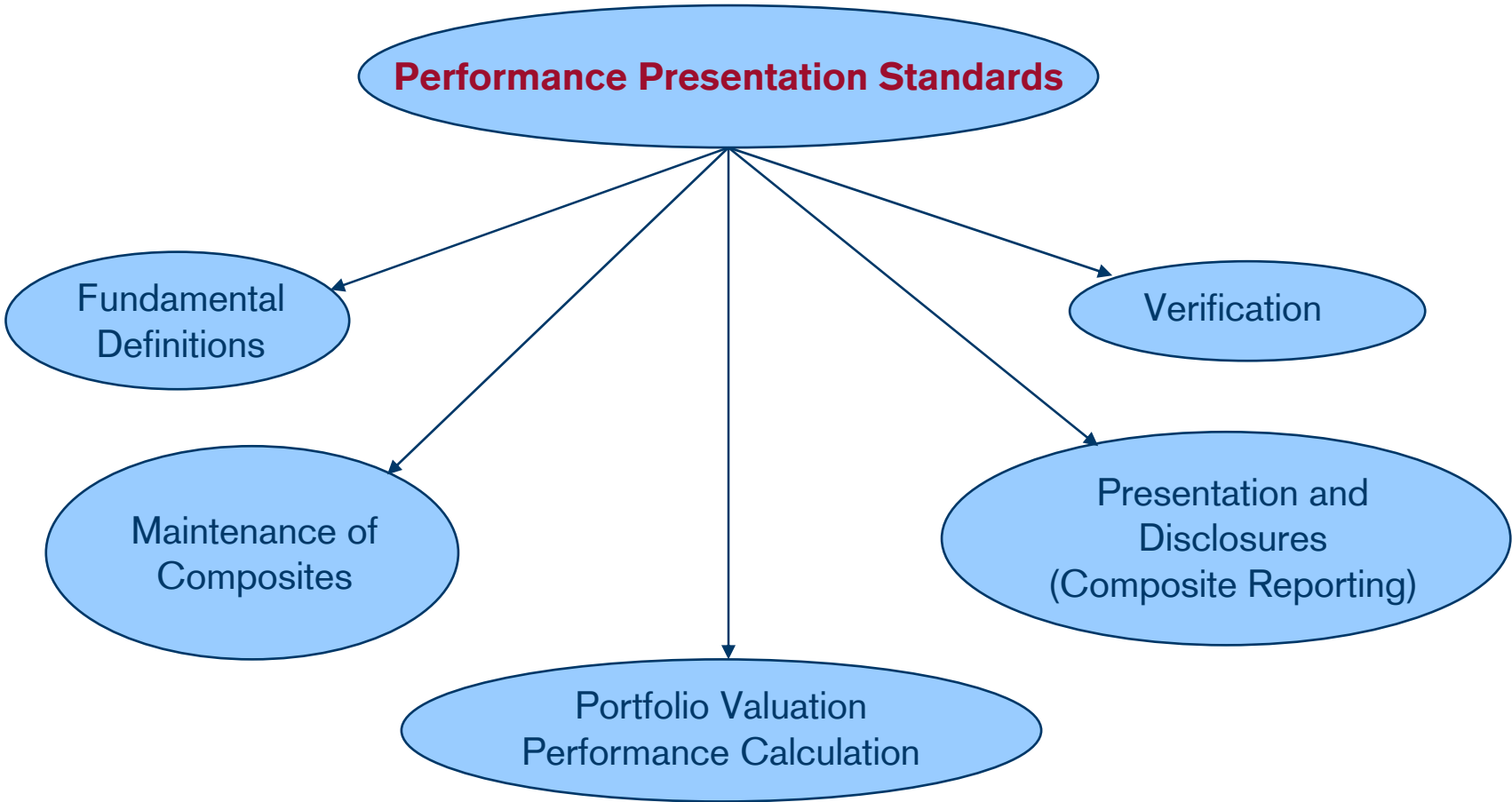
- GIPS are ethical guidelines and principles for the asset management industry to ensure fair representation and full disclosure of a firm's investment performance.
- GIPS do not have the character of law and can be applied on a voluntary basis => self regulation.
- GIPS promote industry self-regulation on a global basis.
- GIPS require firms to use certain calculation methods and to present specific information and disclosures.
- GIPS consist of requirements and recommendations.
- GIPS are mainly presentation standards and only minor calculation standards.

Characteristics of the GIPS standards

(2/2)

- GIPS relate always to a "firm".
- GIPS compliance is a black and white issue.
- Due to the complexity of the business GIPS are not complete.
- GIPS are flexible and can be adopted to a firm specific situation.
- GIPS are continuously developed and expanded.

Main areas of the GIPS standards



Basic ideas of the GIPS standards

(1/2)

- Only a firm can be in compliance with GIPS - not a product or a composite.
- All fee paying discretionary accounts must be assigned to at least one composite.
- Accounts with comparable investment strategies and/or styles have to be grouped to composites; but composites can be defined on a firm specific basis.
- The definition of investment discretionary can be firm specific.
- Total returns have to be calculated and presented (TWRs => Time-Weighted Rate of Returns).
- In general everything must be documented and consistently applied.

Basic ideas of the GIPS standards

(2/2)

- Gross returns should be presented, while the transactions costs are not allowed to be added back.
- The compliance status should be verified by an independent audit company on a regular basis.

Results of being in compliance with the GIPS standards

- GIPS tool or software.
- GIPS data base.
- GIPS reports.
- List of all composites.
- Documented GIPS policies and procedures.
- Formalized GIPS control plan.
- Verification and management letter of an external auditor/verifier.
- Additional internal controlling possibilities.
- Basis for an effective investment controlling.

What is a GIPS report?

Sample 2 Asset Management Company
Equities World BM MSCI Active Mandates Direct

Reporting Currency CHF Creation Date 01 July 1999

Period	Total Return (%)	MSCI World (r) In CHF Benchmark Return (%)	Number of Portfolios	Composite Dispersion (Range)	Total Composite Assets (millions)	Percentage of Firm Assets (%)
2004	18.0	19.6	6	0.2	84.3	<0.1
2003	-35.3	-33.0	8	0.7	126.6	0.1
2002	-16.0	-14.5	8	1.5	233.0	0.2
2001	-13.5	-11.8	7	1.3	202.1	0.2
2000	60.2	46.1	<5	N/A	143.7	0.2
1999	21.3	17.5	<5	N/A	62.8	<0.1
1998	22.5	26.3	<5	N/A	16.1	<0.1

Benchmark

Sources of foreign exchange rates may be different between the composite and the benchmark.

Fees

Performance figures are presented gross of management fees, custodial fees, and withholding taxes but net of all trading expenses.

List of Composites

A complete listing and description of all composites is available on request.

Verification

Sample 2 Asset Management Company has been verified by an independent verifier on an annual basis from 1998 through 2009.

Fee Schedule

The standard fixed management fee for accounts with assets under management of up to CHF50 million is 0.55% per annum.

Minimum Account Size

The minimum portfolio size for inclusion in Equities World BM MSCI composite is CHF1 million.

Compliance Statement

Sample 2 Asset Management Company has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Definition of the Firm

Sample 2 Asset Management Company is an independent investment management firm established in 1997. Sample 2 Asset Management Company manages a variety of equity, fixed income, and balanced assets for primarily Swiss and European clients. Additional information regarding the firm's policies and procedures for calculating and reporting performance returns is available upon request.

4. History of the GIPS standards

History of the GIPS standards

(1/4)

- 1991 AIMR Implementation Committee founded
- 1993 1st version of AIMR-PPS
- 1995 EFFAS Permanent Commission on Performance Measurement and AIMR Global Standards Committee formed
- 1996 Switzerland with 1st standards in Europe (SPPS)
- 1996 Revision of AIMR-PPS
- Since 1997 Several local PPS (DE, AU, JP, UK, etc.)
- 1999 1st version of GIPS approved
- 1999 Revision of AIMR-PPS

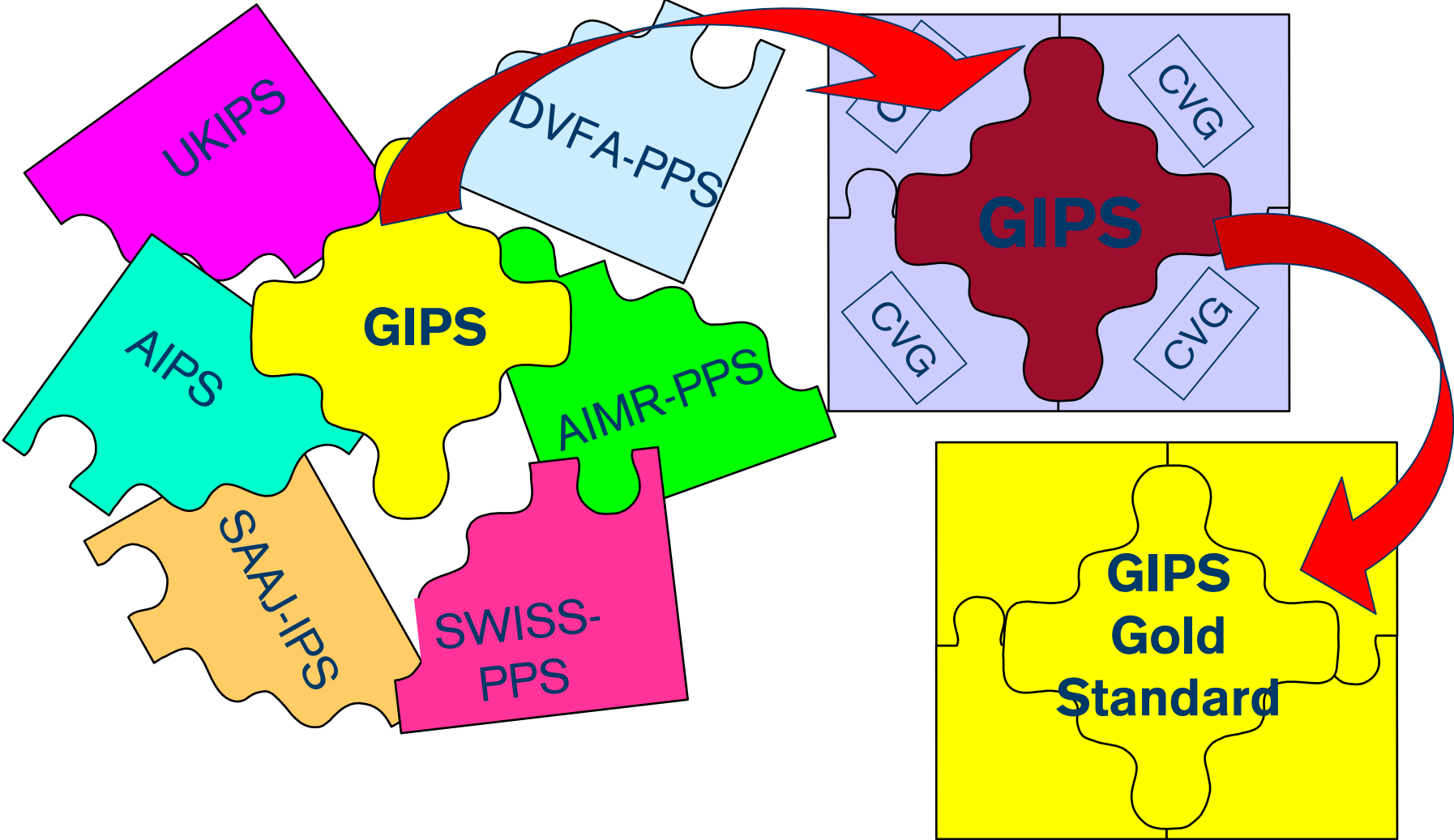
History of the GIPS standards

(2/4)

- 2000 1st IPC meeting and its sub-committees
- 2000 1st EIPC meeting
- 2001 3rd version of "AIMR-PPS - The U.S. and Canadian Version of GIPS"
- 2001 - 2005 Several country versions of GIPS (CVGs)
- since 2001 Several translations of GIPS (TGs)
- since 2001 Several guidance statements and new provisions
- 2005 2nd version of GIPS approved ("Gold Standards")
- 2006 1st EC, GIPS Council and RIPS meetings
- 2006 - 2007 CVGs went or will be away
- ~ 2010 3rd version of GIPS to be approved

History of the GIPS standards

(3/4)



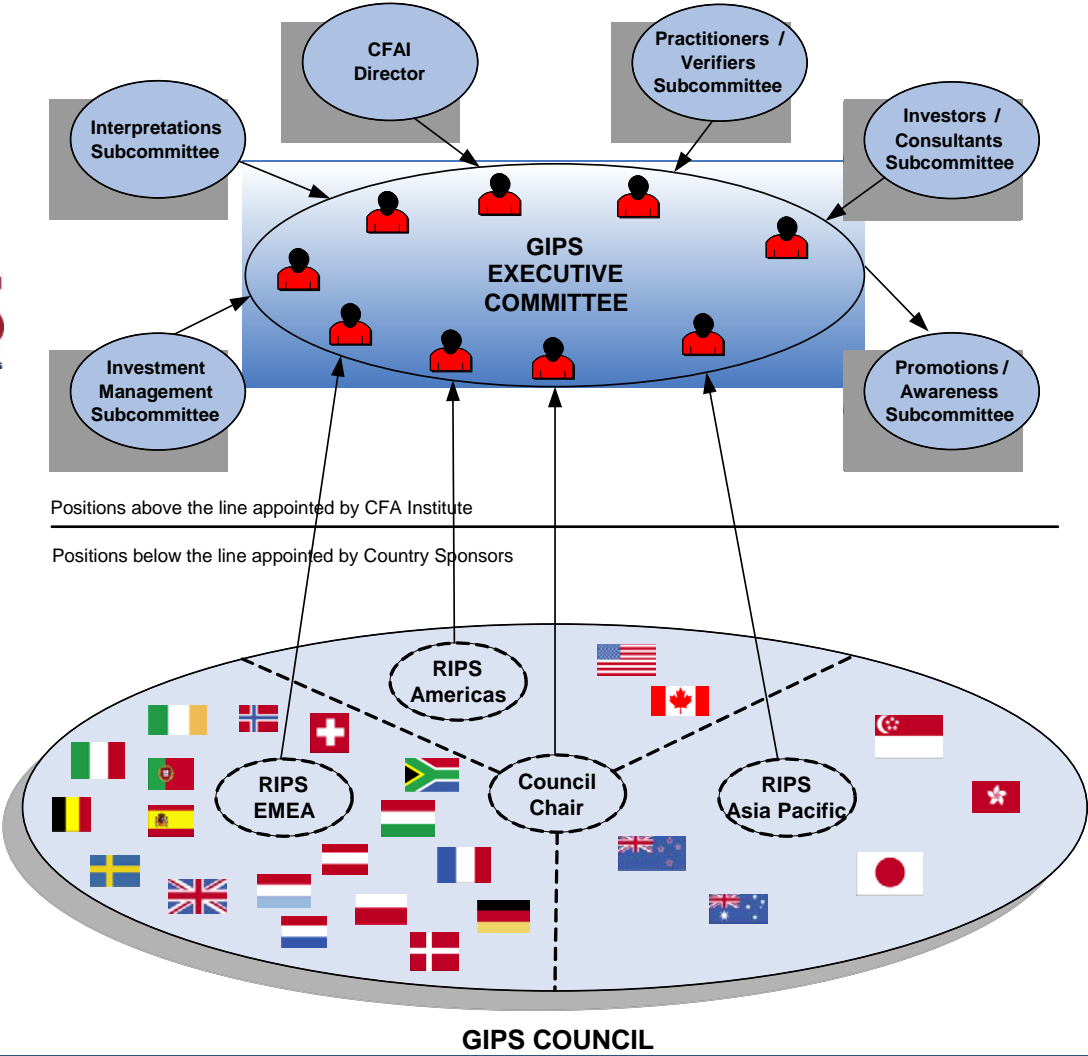
List of countries with endorsed GIPS country sponsors as of 31.12.2009:

- Australia
 - Austria
 - Belgium
 - Canada
 - Denmark
 - France
 - Germany
 - Greece
 - Hong Kong
 - Hungary
 - Ireland
 - Italy
 - Japan
 - Kazakhstan
 - Liechtenstein
 - Micronesia
 - Netherlands
 - New Zealand
 - Norway
 - Pakistan
 - Portugal
 - Russia
 - Singapore
 - South Africa
 - South Korea
 - Spain
 - Sri Lanka
 - Sweden
 - Switzerland
 - UK
 - Ukraine
 - USA
-

5. Governance structure of the GIPS initiative

Governance structure of the GIPS initiative

(1/3)



Governance structure of the GIPS initiative

(2/3)

GIPS Executive Committee (EC)

Regional, Technical, & Industry representation with 4 Country Sponsor representatives and 5 industry stakeholder representatives:
(Investment Manager, Verification/Practitioner, Investor/Consultant, Interpretations, GIPS Council Chair, 3 RIPS Chairs and Executive Director)

GIPS Council

30 Country Sponsor seats with an elected GIPS Council Chair and 3 Regional Investment Performance Subcommittee (RIPS) Chair representatives

Regional Investment Performance Subcommittees (RIPS)

3 Regional Investment Performance (RIPS) subcommittees with an elected RIPS Chair by the Country Sponsors in each region (Asia Pacific, Americas, EMEA)

Governance structure of the GIPS initiative

(3/3)

Meetings

- Regular meetings (in-person or conference calls)
- EC, RIPS and GIPS Council agendas, meetings material and minutes are available on the internet (www.gipsstandards.org)

GIPS helpdesk

- Questions to the GIPS standards can be send to the GIPS helpdesk
=> gips@cfainstitute.org
- Q&A data base
- Email alert list
=> standards@cfainstitute.org

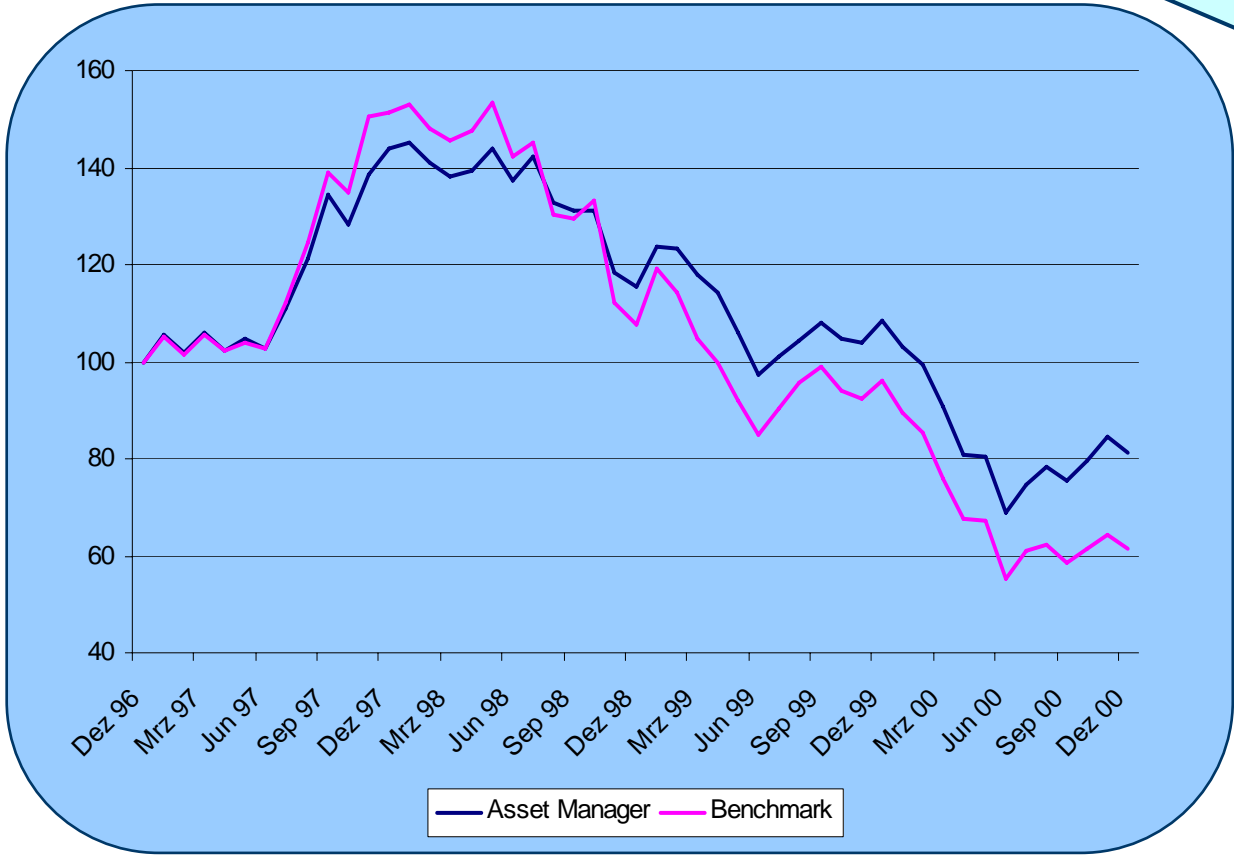
GIPS web page: www.gipsstandards.org



6. Benefits for the asset management industry

The asset manager's performance evaluation problem

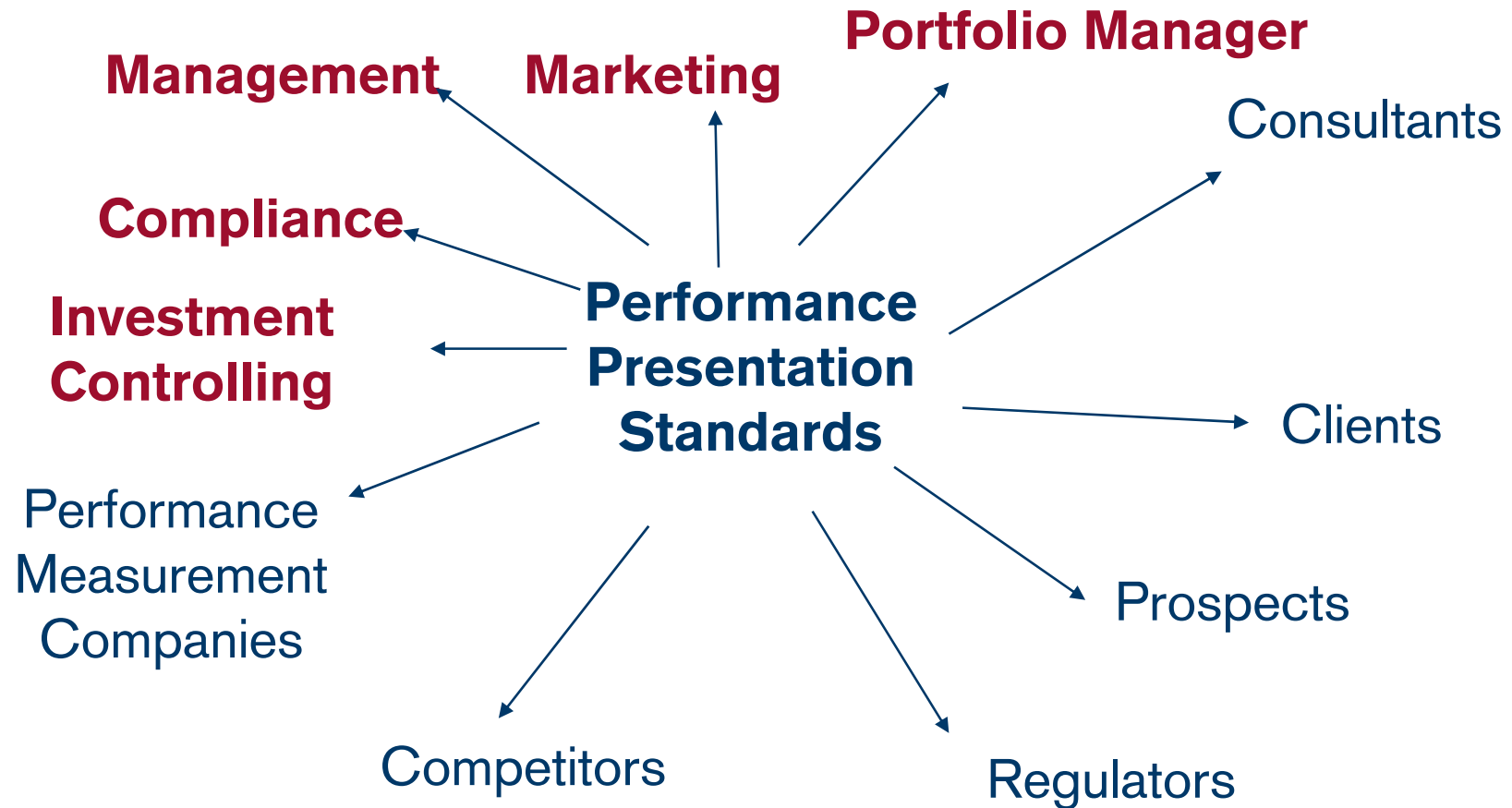
Is this a good portfolio manager ?



Benefits for the asset managers

- Advantage in acquiring clients and consultants.
- Increased transparency and understanding of performance presentations.
- Avoidance of cherry picking against clients and also against the internal management.
- Enhanced management information.
- Possibility to review the applications and methodologies used for performance measurement and presentation.
- Reduced reputational and operational risks.
- Basis for an effective investment controlling.

Target groups of the GIPS reports



Survey results: expected versus actual advantages of GIPS compliance

Befor	After	Advantages
35%	20%	Advantage against competitors
90%	55%	Advantages with clients in terms of acquisition
35%	30%	Stronger business relationship with existing clients
85%	25%	Improvement of brand reputation (e.g. due to increased transparency)
70%	85%	Improved internal controls and processes
50%	55%	Improvement of management information (MIS)
45%	45%	Reliable data basis for the comparison with other firms
60%	40%	Advantages in negotiation with consultants and intermediaries
5%	10%	Other

Source: D. Spitz, Thesis "SPPS – Eine kritische Anlyse des Status Quo und Vorschläge zur Weiterentwicklung", University of St. Gall, 2004

At the end: marketing and the GIPS Standards

- Firms must make every reasonable effort to provide a compliant presentation to all prospective clients, i.e. firms cannot choose to whom they want to present compliant performance.
- In any case, firms must provide a list and description of composites to any prospective client upon request and provide a compliant performance presentation to all prospective clients upon request for any of the firm's composites.
- The firm is only obliged to provide the above information to prospective clients.
- The firm can show to prospective clients any other supplemental information additionally to a GIPS compliant composite report.
- The GIPS Advertising Guidelines must be followed.

7. Case study on determining a track record

Determining a track record

(1/6)

Year	2007	2008	2009
Account A			
Return	6.2%	-2.0%	4.2%
Beginning assets	10.0	10.6	10.4
Account B			
Return	5.0%	-3.3%	
Beginning assets	100.0	105.0	
Account C			
Return	4.1%		
Beginning assets	500.0		

=> What track record should be shown ?

Determining a track record

(2/6)

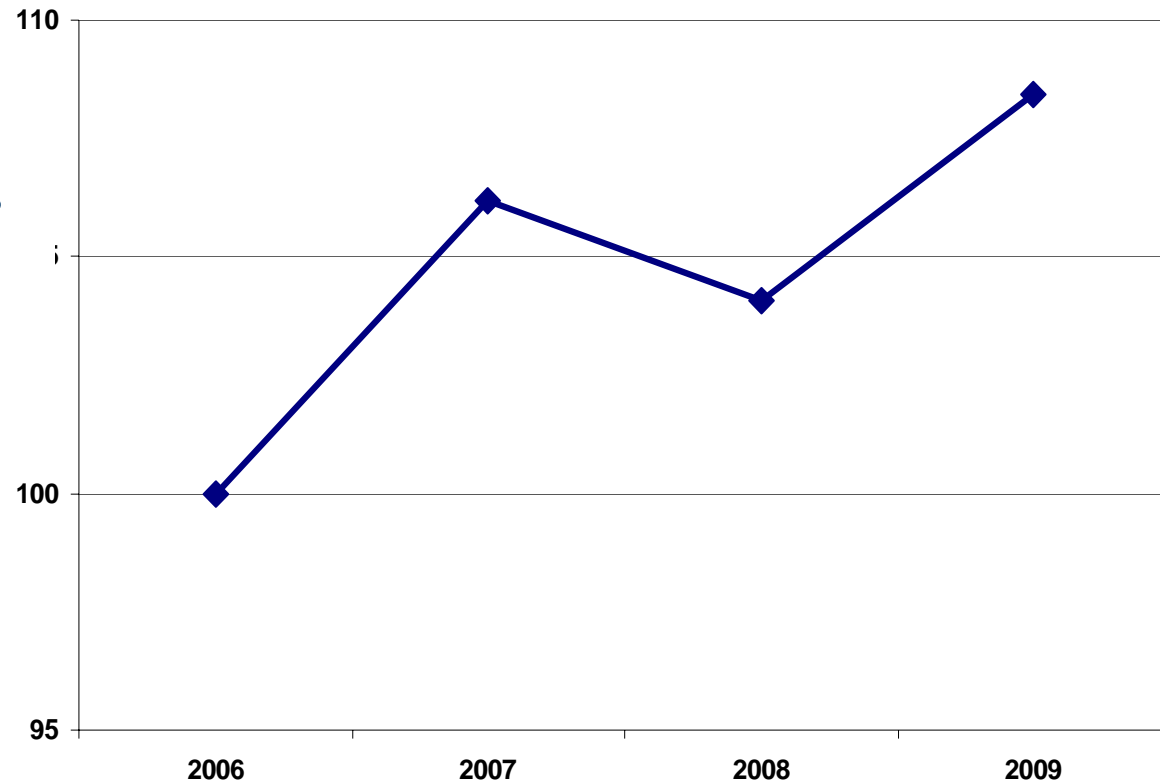
Possible ways to determine a track record

- P1: Representative account
- P2: Account with the longest history
- P3: Equally weighted average of all live accounts
- P4: Equally weighted average of all accounts
- P5: Asset weighted average of all live accounts
- P6: Asset weighted average of all accounts
- P7: Model portfolio or model strategy

Determining a track record

(3/6)

Possibility 3
because this reflects
all live accounts

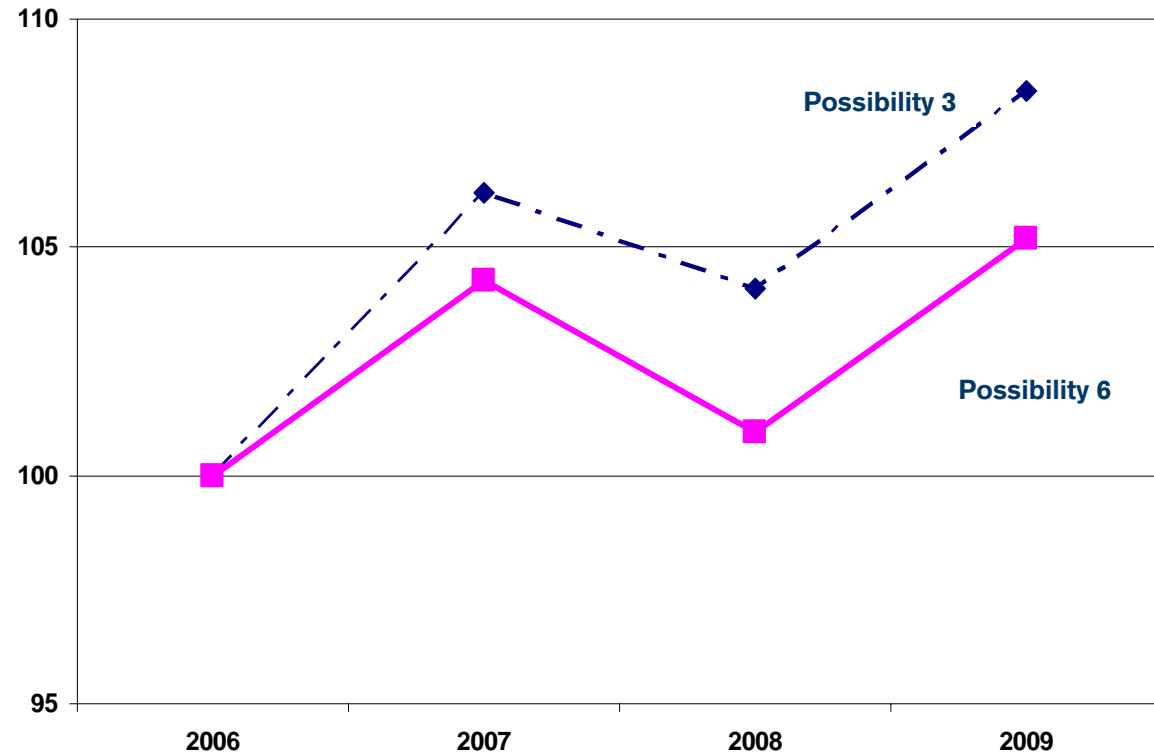


=> Is this a fair performance track record ?

Determining a track record

(4/6)

Possibility 6
because this reflects
all accounts



=> What other information is needed for a performance assessment ?

Determining a track record

(5/6)

	Composite return	Benchmark return	Number of accounts	Assets of composite
2009	4.2%	4.8%	1	10.4
2008	-3.2%	-1.5%	2	115.6
2007	4.3%	3.3%	3	610.0

=> A GIPS report should always be the basis for a performance assessment !

Determining a track record

(6/6)

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