



Global Investment Performance Standards

Guidance Statement on Performance Record Portability

Adoption Date: 28 September 2010

Effective Date: 1 January 2011

Retroactive Application: Not Required

www.gipsstandards.org

GIPS® Guidance Statement on Performance Record Portability (Revised)

Introduction

In the current global market for merger, acquisition, and consolidation of investment management firms, past performance records are increasingly valuable assets for their owners. ~~But~~ ~~Historical~~ records are the result of many factors (e.g., people, process, discipline, ~~and~~ strategy) that may not be easily transferred to a new entity and still warrant having the same label as the old entity. The applicability and integrity of the performance record is only as good as the ongoing integrity of the strategy and all the contributing factors. ~~Portability of performance records is a very important area that should be clarified within the Global Investment Performance Standards (GIPS®).~~ In addition, because the legal issues and requirements surrounding portability can be particularly complex, firms are reminded that ~~under the GIPS standards~~ they must comply with all applicable laws and regulations regarding the calculation and presentation of performance, which includes laws and regulations related to portability, before applying this Guidance Statement.

Performance is the Record of the Firm, Not of the Individual

Changes in a firm's organization are must not ~~permitted to~~ lead to alteration of historical composite performance results. Therefore, composites must include all ~~accounts~~ portfolios managed by a member of a firm, even if the individual responsible for the past results is no longer with the firm. Composites must not include portfolios managed by members of the firm before they joined the firm, unless ~~Provision 5.A.4 (provided the conditions listed below) is~~ are met. If the ~~Provision is~~ conditions are met on a composite-specific basis, performance ~~track records of a past firm or affiliation~~ must be linked to or used by the manager, or group of managers, to represent the historical ~~record~~ performance of a new or acquiring firm, affiliation or a newly formed entity. Using the performance data from a prior firm or affiliation as supplemental information is permitted as long as the past record is identified clearly as such and is not linked to the results of the new affiliation. If the provisions for portability are met, then it is possible for multiple firms to claim the same performance history as their own.

~~Provision 0.A.2 of the~~ The GIPS® standards provides how a firm is to be defined within the context of the GIPS s Standards. "Firm" mergers can happen within an affiliated group and this Guidance Statement will apply to such situations. ~~As Provision II.5.A.4. (d) of the GIPS standards reads,~~ "If a ~~compliant~~ firm acquires ~~or is acquired by a noncompliant~~ another firm or affiliation, the firms ~~has~~ ve one year to bring ~~any~~ the non-compliant assets into compliance". However, the important determinant of allowable performance record portability is not a firm's former compliance with the GIPS standards, but whether the acquiring firm continues the original strategy that defined the composite with all of its continuing factors.

Performance data from a prior firm may be used, with the proper disclosures, as supplemental information. If the conditions ~~of Provision 5.A.4 (listed below)~~ are not met, this supplemental information must not be linked to the ongoing performance of the new firm. The key issue is the linking of prior performance results to the ongoing performance record at the new firm or affiliation.

When a manager, group of managers, or an entire firm joins a new firm, ~~Provision 5.A.4 requires or affiliation, the GIPS standards require that:~~

- Performance ~~track records~~ of a past firm or affiliation must be linked to or used to represent the historical ~~record~~ performance of a new ~~or acquiring firm or new affiliation~~ if, ~~on a composite-specific basis:~~
 - Substantially all ~~of~~ the investment decision-~~makers~~ are employed by the new ~~or acquiring firm~~ (i.e., research department ~~staff~~, portfolio managers, ~~and~~ other relevant staff);
 - The ~~staff and~~ decision-making process remains ~~substantially~~ intact and independent within the new ~~or acquiring firm~~; and
 - *The new ~~or acquiring firm~~ has records that document and support the ~~reported~~ performance.*
- If a ~~compliant~~ firm acquires ~~another firm or affiliation~~ or is acquired by a ~~noncompliant firm~~, the firms ~~have has~~ one year to bring ~~the any~~ non-compliant assets into compliance.
- ~~Firms must disclose if the performance from the a past firm are or affiliation is~~ linked to the performance ~~record~~ of the ~~new~~ firm.

~~In addition to 5.A.4.(a) and 5.A.4.(b), when one firm joins an existing firm, performance of composites from both firms must be linked to the ongoing returns if substantially all the assets from the past firm's composite transfer to the new firm.~~

If all of the above requirements are not met, the past performance record of the former firm or ~~manager or group of managers~~ affiliation from the former firm ~~cannot~~ ~~must not~~ be linked to the ongoing performance record ~~at the~~ of a new ~~or acquiring firm~~. However, the past performance record may be presented as supplemental information when relevant, ~~provided the new or acquiring firm has all data and information necessary to support the performance.~~

In the case where two firms join and two composites are to be merged, the new firm must first determine if there is a “surviving” composite. A surviving composite is the composite that represents the continuity of investment strategy, process, and personnel. In order to be a surviving composite, the ~~staff and~~ decision-making process ~~of the composite~~ must remain ~~substantially~~ intact and independent at the new firm.

If the firm identifies a surviving composite, its performance history ~~can~~ ~~must~~ be presented and linked to the ongoing performance of the merged composite. It is recommended that the performance of the “non-surviving” composite be made available as supplemental information upon request. For example, as a result of a merger, two composites (“C” and “D”) are combined in a merged composite “CD.” If the firm is able to satisfy all the rules of portability and determines that composite C is the surviving composite, then the performance history from composite C ~~may~~ ~~must~~ be linked to the on-going record of composite CD. Although the assets from composite D are included in composite CD, the performance history of composite D ~~are~~ ~~is~~ not linked to the ongoing record of composite CD but should be made available upon request.

If the firm determines that neither composite maintains all the elements of continuity, then there has not been a merger of composites and neither historical ~~al~~ performance record

can be linked to the ongoing composite performance record, but it is recommended that both of the “non-surviving” composites be presented as supplemental information, provided the firm has all data and information necessary to support the performance. For example, if the staff of two firms are combined into one and the investment decision-making process is shared (and thus changed), the historical performance records of both of the non-surviving composites should be presented as supplemental information and must not be linked to the ongoing results of the new composite.

If the presenting firm is a “manager of managers” and is hired by its clients because of the presenting firm’s manager selection skills, and the firm maintains discretion of the underlying assets (has the control to hire or fire the sub-advisor), the firm must include those assets in the total firm assets and present the performance of the underlying assets in the presenting firm’s composites. Similarly, if the presenting firm replaces one sub-advisor with another, the presenting firm must include within the same composite the performance of the assets assigned to the new firm sub-advisor going forward and leave the results from the former firm sub-advisor unchanged. Provision 4.A.18 requires The GIPS standards require that beginning 1 January 2006, firms must disclose the use of a sub-advisor(s) and the periods a sub-advisor(s) was used.

If the presenting firm does not have discretion over the selection of the underlying assets managed by the sub-advisor, then the performance record of the underlying assets must not be included in the presenting firm’s performance composites.

Firms must keep in mind that this Guidance Statement falls under the over-riding principles of the GIPS standards: fair representation and full disclosure. Provision 4.A.19 requires The GIPS standards require that firms must disclose all significant events that would help a prospective client interpret the performance record-compliant presentation. As such, if events that impact the firm’s operations and/or investment process (for example, rises to the level of a significant event (e.g., change in ownership, merger or acquisition, departure of key investment professional, etc.), they must be disclosed.

Effective Date

The effective date for this Guidance Statement is 1 January 2011. When bringing past performance into compliance, firms may comply with this version of the Guidance Statement or with prior versions in effect at the time. Prior versions of this Guidance Statement are available on the GIPS standards website (www.gipsstandards.org). This Guidance Statement was originally effective 18 May 2001 and was revised to reflect the GIPS standards effective as of 1 January 2006.

Firms are encouraged, but not required, to apply this guidance prior to the original Effective Date of 18 May 2001; however, the original guidance must be applied to all presentations that include performance for periods on and after that date.

The revisions made to this guidance (effective 1 January 2006) must be applied to all presentations that include performance for periods after 31 December 2005.

Applications:

- ~~1.—If Firm A acquires Firm B and all of the portability requirements are met, is Firm A required to present Firm B’s historical performance, or can Firm A choose to not present Firm B’s historical performance?~~

~~The GIPS standards are based on the fundamental principles of fair representation and full disclosure. If all of the portability requirements are satisfied and Firm B is included in the definition of Firm A, Firm A must use Firm B’s historical performance. If Firm A were permitted to exclude Firm B’s historical performance, it would be cherry-picking which is against the spirit of fair representation of the GIPS standards.~~

- ~~2.—The Guidance Statement on Performance Record Portability states “Performance track records of a past firm or affiliation must be linked to or used to represent the historical record of a new firm or new affiliation if,” certain conditions are met. What does performance track record refer to in this instance? Can a firm create the composite history based on the portfolios that transfer to the new firm if the history is representative of the old composite?~~

~~The concept of portability revolves around the ability to bring a track record from one firm to another. It would not be representative to recreate a record with only selected portfolios. The performance track record refers to the entire composite from the old firm. In addition to meeting all the elements of the Guidance Statement, in order for a firm to be able to link the composite from the old firm to the on-going performance of the new firm, the entire composite performance history, including all portfolios, must be used. The firm must have all the records needed to substantiate that performance history.~~

- ~~3.—Manager A previously worked for Firm X that was not compliant with the GIPS standards. Manager A left Firm X and was hired by Firm Z. Firm Z and Manager A are satisfied that the situation meets all the rules of portability. Can Manager A’s performance history at Firm X become compliant or can it not be used because it is non-compliant?~~

~~To clarify, the performance history can never become “compliant.” Compliance with the Standards can only be achieved on a firm-wide basis.~~

~~If the manager (or management team) satisfies all the requirements of the Guidance Statement on Performance Record Portability (including bringing all the supporting documentation and records to Firm Z), then Firm Z can use the records to construct a composite history that can be used. As provided in the Guidance Statement on Performance Record Portability, the important determinant of allowable performance record portability is not a firm’s former compliance with the GIPS standards but whether the acquiring firm continues the original strategy that defined the composite with all of its continuing factors.~~

~~Most cases will not meet all of the portability requirements, in which case the past performance record of the manager cannot be linked to the ongoing performance record of the firm. The past performance record of the manager can be presented as supplemental information when relevant.~~

~~Please note one of the rules of portability requires that the staff and decision-making~~

~~process remain intact and independent at the new firm. If the investment process is somehow changed, or if the investment staff changes, the historical records of the new manager can only be presented as supplemental information and cannot be linked to the ongoing record of the firm.~~