

Reading 3:

- a. GIPS are principles investment firms can voluntarily follow. They are designed to avoid misrepresentations of historical investment results to clients and prospects. GIPS allow clients to more easily compare investment performance among investment firms and have more confidence in reported performance.
- b. A composite is a grouping of discretionary portfolios representing a similar investment strategy, objective, or mandate. A composite must include all portfolios (current and past) that the firm has managed in accordance with this particular strategy. The firm should identify which composite each managed portfolio is to be included in before the portfolio's performance is known.
- c. Firms are encouraged to pursue independent verification of GIPS compliance. If they seek verification, it must be performed by a third party, not by the firm itself.
The third-party verifier must attest that (1) the firm has complied with all GIPS requirements for composite construction on a firm-wide basis, and (2) the firm's process and procedures are established to present performance in accordance with the calculation methodology required by GIPS, the data requirements of GIPS, and in the format required by GIPS.

Reading 4

- a. GIPS contain both required and recommended provisions. Certain recommendations may become requirements in the future.
Firms must include all fee-paying, discretionary portfolios in composites for a minimum of five years or since firm or composite inception.
Total firm assets include the total market value of discretionary and nondiscretionary assets, including fee-paying and non-fee-paying accounts.
There is no such thing as partial compliance. There are to be no statements referring to calculation methodologies used in a composite presentation as being "in accordance with GIPS." Similarly, there should be no statements referring to the performance of an individual client as being "calculated in accordance with GIPS" unless a compliant firm is reporting results directly to the client.
- b. GIPS compliance must be firmwide, where the "firm" is the distinct business entity that is held out to clients and prospects.
A firm's initial GIPS-compliant historical performance record must include a minimum of five years of historical data, or since firm or composite inception. After the five years has been achieved, the firm must add one additional year of performance each year, up to a minimum of 10 years.
Non-GIPS-compliant information may be linked to compliant history, but no noncompliant performance can be presented after Jan 1, 2000. Firms must clearly identify the noncompliant portion of results.
- c. Firms that presented performance in compliance with a Country Version of GIPS(CVG) may claim GIPS compliance for any CVG-compliant results prior to Jan 1, 2006.
If country-specific regulations conflict with GIPS, firms must follow the applicable country-specific regulations but must also disclose the nature of the conflict with GIPS.
- d. The nine sections of GIPS are:
 - 0. Fundamentals of compliance. These are issues for firms to consider when claiming GIPS

compliance(e.g., firm definition).

1. Input data. Input data should be consistent in order to establish full, fair, and comparable investment performance presentations.
2. Calculation methodology. Certain uniform methodologies are required for portfolio and composite return calculations.
3. Composite construction. Creation of meaningful, asset-weighted composites is important to achieve a fair presentation.
4. Disclosure, certain information must be disclosed about the presentation and the policies adopted by the firm.
5. Presentation and reporting. Investment performance must be presented according to GIPS requirements, and when appropriate, other firm-specific information should be included.
6. Real estate. These provisions apply to all real estate investments regardless of the level of control the firm has.
7. Private equity. These must be valued according to the GIPS private equity valuation principles, unless it is an open-end or evergreen fund (which must follow regular GIPS).
8. Wrap fee/separately managed account (SMA) portfolios. Certain special GIPS standard apply to these.