



ATTEST **BVS**

The summer of 2008 marks a particularly important occasion for Beacon—we are now seven years old! To highlight our birthday, our feature article reflects on the values and principles that have enabled Beacon to evolve and grow into the organization that we are today. Our second article discusses fee coding in Advent. This topic was of particular interest in the Q&A session of our most recent webcast, “An Advent User’s Guide to GIPS Compliance and Verification.” This anniversary edition also offers the perfect opportunity to thank all of our current clients for their great partnerships. We certainly could not be the successful company that we are without you, and we appreciate your support.

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Beacon Celebrates 7th Anniversary

August is a very special month for us at Beacon for two reasons. August 1st marked our seventh anniversary while August 31st marks our first anniversary as a division of ACA Compliance Group.

This is our favorite time of the year to thank our clients and supporters for making us what we have always strived to be: the premier GIPS verification provider in the industry.

In addition to providing educational material in this newsletter, we wanted to dedicate this area to what separates us from the competition.

First, our knowledge of investment management, performance measurement and the GIPS is unparalleled. Among our 15 professionals, we have 4 CFA charter holders, 6 CIPM charter holders, and 1 CPA. All professionals without the CIPM are working towards this designation, as Beacon continues to focus solely on the GIPS. In addition to being experts in the GIPS, we have instant access to consultants throughout the other compliance divisions of ACA to assist with regulatory questions.

Second, because our experience is rooted in investment management, performance measurement and the GIPS, we have the most breadth (CONTINUED)



in the industry when it comes to addressing client issues from the proper perspective. We believe the quantitative analysis that is the foundation of our competitors' services should only be a piece of the due diligence performed during a verification. For this reason, a significant portion of our time and efforts is dedicated to analyzing claims of GIPS compliance from qualitative perspectives. As an example, we believe composite construction is the foundation of the GIPS, which never can be totally automated and always will require thought and input from the client.

Third, the depth of our team and client base is positioned to best serve each client. We have worked with over 175 investment management firms over the last 7 years ranging in size from 20 million to 450 billion in assets under management. With a client to professional ratio of approximately 10:1, a GIPS compliant firm can feel comfortable their needs will be met quickly and accurately. Perhaps most impressive, we have only lost one client to our competition (due to cost), and the client returned a year later due to the robust nature of our service.

Fourth, we treat our clients as partners. We are here to help them navigate complex issues related to the GIPS as opposed to simply auditing numbers.

We ensure that we remain an independent third party; therefore, we never step into a management role. But, we consult heavily with clients in terms of what we view as best practices and options for successfully implementing subjective areas of the GIPS.

Lastly, our high level of service is second to none. Clients can attest to the level of service they receive regardless of how minor or major the question or issue presented. This high level of service and client-centric mentality goes hand-in-hand with our belief that investment management firms need knowledgeable partners when it comes to GIPS compliance and not auditors that view the verification as a commodity.

For all these reasons, we believe we have forged our own unique, specialized service that cannot be compared to others in the field. If you are not a client, we hope you will take the opportunity to ask our clients about our dedicated, value added service.

Many thanks again to our clients and supporters, as we believe our reputation is a true reflection of your own strong reputations.

Fee Coding in Advent

During Beacon's most recent webcast, "An Advent Users Guide to GIPS Compliance and Verification," we received numerous questions related to the fee coding of exus vs. epus in Advent and which ones to use at which times. Because this topic seems to be of general interest to many firms who use Advent we are happy to share some of this discussion.

Any transaction coded as exus results in performance gross of that fee, whether one is updating the .pbf or .prf. Any transaction coded as epus results in performance net of that fee when updating the .prf. However, in the .pbf it is gross of the fee. Traditionally, when calculating performance, epus manfee is used for management fees and exus is used for custodian fees. In the case of (CONTINUED)



wrap accounts where trading costs are bundled or wrapped into one fee charged by the sponsor it can be difficult to achieve a gross return within Advent. For example, let's say the sponsor charged \$150 for a given time period for a particular account and the manager receives \$50 for the management fee. The code for the \$50 management fee is easy—epus manfee. The \$100 is not so easy. The reason is because all performance must be net of trading costs to comply with the GIPS. If we do not know the exact amount of trading costs within the \$100, we must reduce both gross and net performance by the entire \$100. The fee coding of exus within Advent will not achieve this result because it causes performance to be gross of that line item (but our goal is to achieve a return that is net of the \$100 line item). So here are the solutions:

- **Present only net returns that are compliant.** Code the \$100 as epus which means that net performance will be net of the \$100 portion (and the \$50 man fee). Gross returns are not presented.
- **Present pure gross returns along with compliant net returns.** Code the \$100 as epus which means net returns are compliant (as described above) but gross performance will be gross of the \$100 (and thus gross of trading costs). Performance that is gross of trading costs is defined as “pure” gross returns and is not compliant but can be

presented as supplemental information with proper disclosure, meaning it must always be shown in conjunction with the compliant net returns.



- **Use a secondary software such as Excel.** One can calculate a pure gross return in Advent and then use Excel to net down the pure gross by the sponsor's fee (in % form) to calculate a compliant gross return. For example, if the \$100 fee that goes to the sponsor (which includes trading costs) is equivalent to 1.00% per annum, one can take the pure gross return from Advent and net it down by the 100 bps in Excel (a simple subtraction formula can be used.) This is usually done on a monthly or quarterly basis.
- **Long work-around in Advent.** There is a longer, somewhat difficult work around in Advent but it requires changing the location of performance file directories and adjusting the fee coding. Beacon only works with two firms that do this because it requires some advanced understanding of Advent (and patience)!

Beacon Verification Services Conferences 2008

Beacon Verification Services will be exhibiting at the following conferences in 2008. We look forward to seeing you there!

Advent Software
8–10 September 2008
Bellagio Hotel
Las Vegas, Nevada

GIPS Standards Annual Conference
25–26 September 2008
Westin Copley Place
Boston, Massachusetts

Schwab IMPACT® Conference
23–26 September 2008
Georgia World Center
Atlanta, Georgia



Upcoming Webcast

Adherence to GIPS and SEC Rules When Marketing September 23, 2008 at 1:00 pm EST

Jeff Tarumianz, CFA, CIPM

Ted Eichenlaub, Partner

Many firms claiming GIPS compliance are unclear on presentation requirements, especially if and when they conflict with local law. This webcast will focus on the marketing aspects of GIPS compliance and how the Standards should be applied to one-on-one presentations and advertising situations. Because advertising is always one of the SEC's hot issues, we will also address disclosure and best practice as they relate to performance presentation from an SEC standpoint.

To register for this webcast or any of our other upcoming webcasts, go to webcasts.acacompliancegroup.com

Congratulations!

We would like to offer our warmest congratulations to Alicia Hyde for passing the Level II exam of the CFA Program!

ACA's Fall 2008 Compliance Conference

Join ACA Compliance Group and *IM Insight* at their compliance conference geared towards investment advisers and hedge fund managers. The conference will be held September 8-10 in Boston, MA. Knowledgeable speakers will provide valuable information on timely issues present in the securities industry.



Topics Include:

- Anti-Money Laundering Provisions to Advisers
- New Form ADV Part II
- Valuation
- Trading & Trade Errors
- Best Execution
- Privacy and Regulation S-P
- How to Manage an SEC Inspection
- Advisers to Mutual Funds: How to Comply with Investment Company Act Rule 38a-1
- GIPS Workshop
- Identifying Prohibited Transactions for Mutual Funds
- Workshop, Peer Group, and More!

To learn more, please visit:

www.acacompliancegroup.com/conference08