



ATTEST **BVS**

Welcome to the February edition of our newsletter. In light of the year-end flurry of reporting, we highlight some of the important requirements of the GIPS Advertising Guidelines and offer some practical policies. This edition also touches on key dates for new requirements and spotlights one of our great employees. As always, please feel free to let us know if you have any questions or thoughts for future newsletters.

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GIPS Compliance and Advertising

As firms are meeting with prospects and presenting their 2007 returns, we thought it would be a great time to review the GIPS Advertising Guidelines along with common questions we field related to performance advertising and the claim of GIPS compliance.

Most firms market their returns via one or more of the following channels: one-on-one presentations, consultant databases and RFP's, marketing brochures/updates and websites. We will address best practices for each of these media and also discuss ways to promote your claim of GIPS compliance and verification by an independent third-party.

One-on-One Presentations

When marketing to larger prospects, whether initiated by a referral or a consultant, firms typically will have a one-on-one presentation with the prospect. It is extremely important for the firm to supply the GIPS compliant composite presentation for the proposed strategy as part of this presentation. Most

firms will include the GIPS compliant presentation in their "pitch-book" along with additional performance information. If the additional performance information can be tied back to the data in the GIPS composite presentation, this data does not have to be labeled as Supplemental Information.

Many firms present Supplemental Information that might be supplemental to the composite presentation and its required statistics and disclosures. The GIPS define Supplemental Information as "Any performance-related information included as part of a compliant performance presentation that supplements or enhances the required and/or recommended disclosure and presentation provisions of the GIPS standards." Examples of supplemental information include asset class returns without cash, "pure" gross of fees returns, model/simulated returns, etc.

When presented, Supplemental Information must be very well disclosed as such, and the firm also must disclose any other pertinent facts to help the



prospect interpret the information. There are no specific requirements in terms of where Supplemental Information must be placed in relation to the compliant presentation; however, the Guidance Statement does recommend that it be placed on a separate page when in doubt.

The GIPS mandate that all current prospects receive the fully compliant presentation at least once every 12 months. Because most firms do not maintain detailed logs of when prospects receive the compliant presentation, we recommend that firms always include the appropriate GIPS compliant presentation(s) in all “pitch-books”.

Consultant Databases and RFP’s

When populating consultant databases, GIPS compliant firms should always populate the databases with data from their GIPS compliant composite data. If there is not a location in the database to append the fully compliant presentation, the firm should make sure the consultant database receives the fully compliant presentation at least once every 12 months.

Consultants often ask for data that must be customized to their requests after reviewing data found in consultant databases. When responding to specific requests, GIPS compliant firms can adapt their reporting to fit the needs of the consultant. Of course, fair representation and full disclosure should always be underlying themes.

When completing RFP’s firms can certainly tailor their answers to meet the needs of the consultant; however, the performance data should be derived from the GIPS compliant composites just as stated above for the consultant databases. In addition, firms should append the appropriate GIPS compliant composite presentation to the RFP.

Performance Updates/Mailings

Most firms send a quarterly newsletter with performance to update prospects on how their strategies have been performing. Both the GIPS and the SEC

consider these situations other than one-on-one presentations to be advertisements. These quarterly reports have commonly been referred to as “flash reports” by the CFA Institute in the past. These reports must meet the GIPS Advertising Guidelines if the firm is stating their claim of GIPS compliance in the update.

Surprisingly, if the firm does not claim GIPS compliance in the advertisement, it is not required to adhere to the GIPS Advertising Guidelines. However, keep in mind that GIPS compliant firms cannot choose to whom they want to present compliant information. As a result, we believe that a GIPS compliant firm should adhere to all requirements in one-on-one presentations. For situations other than one-on-one, we believe the firm should adhere to the Advertising Guidelines unless it presents the fully compliant GIPS presentation.

This should not be seen as alarming or burdensome because the GIPS Advertising Guidelines are both practical and already in use by most firms, to a large degree, whether they know it or not. When presenting performance, the Advertising Guidelines require firms to present period-to-date, 1 year, 3 year and 5 year annualized returns. If the firm would rather present 5 years of annual returns, they may do so, but we rarely see this option utilized. The firm also must show a benchmark for corresponding periods. Believe it or not, this is the only data required to be presented when adhering to the GIPS Advertising Guidelines. There are eight disclosures that must at least be considered for the advertisement and six of these must be used in all cases (e.g. description of the Firm, description of the strategy, whether returns are gross or net of fees, etc.). Please let us know if you would like a copy of the GIPS Advertising Guidelines.

One final important point related to advertising is that although the GIPS Advertising Guidelines allow firms to present either gross or net of fees returns, firms registered with the SEC will want to make sure they are presenting net of fees returns in



advertisements. Firms also will need to consider additional regulatory requirements outside the scope of the GIPS.

Websites

The current version of the GIPS Advertising Guidelines does not have specific requirements for presenting performance on websites. However, websites certainly are considered advertisements. Therefore, if you do not show the fully compliant presentation on your website, we recommend that you present performance that meets the GIPS Advertising Guidelines.

Compliant and Verified, Now What?

Because becoming GIPS compliant and verified is a meaningful investment, firms frequently ask us how they can effectively communicate their new status when we complete the initial verification process.

Some firms will send mailers or postcards that do not contain performance information, but only announce to the public that they now claim GIPS compliance and have received third-party verification. When sending this type of announcement, the firm will want to make sure the three disclosure requirements in the GIPS Advertising Guidelines for advertisements that exclude performance information are met.

When firms complete the initial verification, it is not uncommon for them to correct performance numbers due to mistakes uncovered in the verification process. Although no one wants to admit to making an error and broadcast it to the public, we view the end of the verification as a great time to share revised numbers with prospects.

If the firm explains that they just completed the GIPS verification process and want the prospect to know this along with the fact that they claim compliance, the error can accurately be portrayed as something found in the verification process and that the firm wants to be honest and forthright about making sure the prospect has accurate information. Our



opinion is that the firm will be applauded by the prospect for meeting the high ethical standards represented by the GIPS, and this positive reassurance typically will outweigh the negatives of having to restate performance. As the proposed Guidance Statement for Error Correction states in its introduction “The GIPS standards do not currently specifically address the issue of accuracy; however, even with the tightest of controls, errors will occur.” The verification process is a great way to help ensure errors are caught sooner rather than later.

When first claiming compliance and verification, the firm most likely will want to update consultant databases to reflect that the firm does claim compliance and that it has been verified. Typically, the firm can input their compliance status, verification status, verification firm and periods verified. Most databases and RFP’s also will ask if the composite/product has received a Performance Examination in addition to the firm being verified. Often these questions are not asked correctly from a technical standpoint; however, firms are not expected to put themselves at a disadvantage because of incorrectly phrased questions.

On a final note related to promoting your claim of GIPS compliance and verification, keep in mind that the GIPS do recommend that you disclose if you have been verified along with the date range and verification firm performing the services.



New Guidance for 2008

As we enter 2008, it is important for us to note a recent change in the Real Estate Guidelines of the GIPS.

Effective January 1, 2008, Real Estate investments must be valued, at market value, at least quarterly. Prior to January 1, 2008, Real Estate investments were only required to be valued at least once every twelve months.

The quarterly valuation requirement does not

state that the Real Estate investment must be valued quarterly by an external appraiser. The GIPS only require an external appraiser to value the property once every thirty-six months (even though a twelve month frequency is recommended). Alternate methods typically used for quarterly valuations include the discounted cash flow valuation model, capitalized income approach, and sales comparison approach.

Employee Spotlight: Douglas Finlay



Douglas Finlay is a verification associate serving our client base with the initial and on-going verification of GIPS compliance.

Prior to joining ACA, Douglas completed an internship with Templeton Capital Management, a Chattanooga-based hedge fund. His previous work experience also includes management and marketing roles for a distribution company.

He graduated from the University of the South with a BA in History and is a MBA candidate at the University of Tennessee at Chattanooga. He is a member of the CFA Institute and Chattanooga Society of Financial Analysts. Douglas will be taking the CIPM exam in the coming months.

March 2008 Conference

Learn to survive the dangerous compliance waters at ACA's Compliance Conference.

We are excited to let you know about ACA's upcoming SEC conference. The conference will be held March 11 - 13, 2008 in Scottsdale, Arizona. It will cover a wide array of topics pertaining to SEC compliance, including some of the more challenging issues facing the industry today. To learn more, please visit www.acacompliancegroup.com/conference/.

Topics will Include:

- ▶ Trading
- ▶ The Compliance Program
- ▶ Code of Ethics
- ▶ Performance/GIPS

