



ATTEST **BVS**

Welcome to the May edition of our newsletter. This month we take time to discuss Supplemental Information. Supplemental information can be used to clarify and expound upon information required or recommended by the Standards. In the article we will identify exactly what Supplemental Information is, as well as how to use it appropriately.

INSIDE THIS ISSUE

Supplemental Information	1	BVS Conferences 2008	3
GIPS Roundtable on Hedge Funds.	3	ACA's Fall 2008 Conference.	3

Supplemental Information

For a potential investor, perhaps the most important attribute of any firm is good performance. In trying to “put its best foot forward,” it might be easy for an investment firm to include any and all positive information. As clients prepare their performance reports, we often remind them to consider the underlying spirit of the GIPS: fair representation and full disclosure.

At a minimum, firms must adhere to this guiding principle and provide the required statistics and disclosures. Firms that choose to stand out from their peers may desire to present more information than is required so as to fully explain their performance. This is perfectly acceptable as long as no false appearance or misleading information is created.

When a firm chooses to go beyond what is required and recommended, it can present what is known as “Supplemental Information.” Supplemental information can take many forms, and it is important to know what is and what is not supplemental information. Supplemental Information is defined by the CFA Institute’s

Guidance Statement on the Use of 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.” In other words, when a prospective client reviews a firm’s compliant presentations, the presence of extra performance related information might help in the interpretation of the existing data.

What Supplemental Information Is Not Misleading Information

In keeping with the spirit of fair representation and full disclosure, it is imperative that this added information not be misleading. Some examples of misleading information include model, hypothetical, backtested, or simulated results that are linked to actual performance results. It is not hard to understand why information such as this is prohibited from appearing in a firm’s compliant presentations, as prospective clients could easily be de- (CONTINUED)



ceived into thinking that investment with a particular firm could lead to unrepresentative returns. In addition, non-portable performance from a prior firm that is linked to current performance results is not permitted. A track record of performance achieved with an investment team at one firm cannot fairly be expected to be representative of performance achieved by a largely different team at another firm.

Additional Information

Another example of information which is not supplemental is Additional Information which is required or recommended under the GIPS. Additional Information is typically information recommended by the Standards and is based on actual performance. Such measures include annualized returns, composite-level sector weightings, and risk measures such as the Sharpe and Treynor ratios.

Non-Performance Related Information

Non-performance related information is generally understood to be items such as firm information, investment decision-making processes, and details of the investment strategy. Any general information regarding the firm will fall under this category.

If a firm chooses to present supplemental information, they must be careful to do so without violating the GIPS or the previously mentioned underlying principles. Supplemental information must be clearly labeled as such and not be misleading or contradict the required and/or recommended information. One point to highlight here is that a firm is not prohibited from providing information specifically requested by a prospect. Thus, a firm can present information not allowed to be supplemental such as linked model, backtested, and hypothetical returns if directly requested by a prospective client. This is of course remembering that a firm must first have shown a compliant presentation to a prospect within the last twelve months.

What is Supplemental Information?

Now that we know what is not supplemental information, we can discuss what can be included as supplemental information. As long as the information is not misleading and is directly related to the performance presentation, the following can be used as supplemental information.

- Carve-out returns that exclude cash
- Non-portable returns
- Model, hypothetical, backtested, or simulated returns (that are linked to actual performance)
- Attribution Statistics
- Composite or portfolio-level specific holdings
- Peer group comparisons
- Risk-adjusted performance

As mentioned earlier, supplemental information must be clearly identified and labeled as such. Otherwise this information could be construed as misleading and therefore completely inappropriate for a presentation. Firms must be careful in the placement of supplemental information in order to avoid both confusion and misrepresentation. At times this can be difficult, but firms are encouraged to reflect on the principles of fair representation and full disclosure in making this decision. When the appropriate placement of supplemental information is questionable, the Standards recommend presenting the information on a separate page from the compliant presentation.

Final Thoughts

The presentation of supplemental information is often a delicate undertaking. There are many cases when the firm wants to present this information in an attempt to represent its track record as comprehensively as possible. In fact, we have noted that it is not unusual for a firm's supplemental information to be even more conservative than the actual performance which was achieved. Even so, it is paramount that a firm disclose and present the supplemental information accordingly.



GIPS Roundtable on Hedge Funds

ACA Beacon Verification Services held a *GIPS for Hedge Funds* Roundtable in New York City on May 20, 2008. The event was attended by over 70 people representing more than 50 investment firms. The Roundtable focused on GIPS-related issues specific to the hedge fund industry and the demands that

are being placed on hedge funds from different areas of the institutional market, hedge fund trade groups, and regulatory bodies. Due to the success of this event, ACA Beacon Verification Services is planning on holding a similar event this fall. Stay tuned for more information.

Beacon Verification Services Conferences 2008

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

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

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

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

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
- Identifying Prohibited Transactions for Mutual Funds
- Workshop, Peer Group, and More!

To learn more, please visit:
www.acacompliancegroup.com/conference08