



July 27, 2004

Association for Investment Management and Research
Professional Standards & Advocacy Department
Reference: "Gold" GIPS Standards
P.O. Box 3668
Charlottesville, Virginia 22903

Dear Sir / Madam:

Thank you for allowing us to comment on the proposed revisions to the Global Investment Performance Standards (GIPS®). Our comments are as follows:

General Comments:

1. Do you support AIMR's effort to revise and expand the GIPS standards?

Yes. We are happy that AIMR continues to revisit the GIPS standards and clarify problems and issues – especially as this helps promote a single, universal standard.

2. Do you agree with the evolution process for the GIPS standards as outlined above?

Yes. This evolution process is reasonable for both large and small firms.

3. Is the language of the Standards straightforward and comprehensible? If not, how can it be improved?

As with any industry, certain acronyms become common over time. We believe most people who work with the Standards on a daily basis are familiar with the wording and acronyms within the Standards, however a guide to these may be useful for others.

4. What modifications, if any, should be made to this proposal?

Mandatory Verification: We do not believe mandatory verification is a good idea. Many small investment management firms have expressed concern that requiring verification would make compliance with the Standards cost prohibitive. Therefore, we believe many smaller firms would choose not to comply.

Internal Composite Standard Deviation: The standard deviation of portfolio returns within a composite is a required disclosure on a compliant presentation. However, the method firms use to calculate this metric can deviate largely between firms, making the disclosure incomparable. While the calculation is provided in the GIPS Handbook, it is not clear exactly which method (asset-weighted or equal-weighted) should be shown on a presentation. Also, firms are confused on specific details of the calculation itself, such as using the average composite return in the calculation or using the average composite return of *only those portfolios included in the composite for the time period*.

5. Do you agree with the numbering and format of the proposed revised GIPS standards?

Yes.

6. Should AIMR consider any other methods for meeting the objectives of evolving the GIPS standards?

We believe that as the Standards change and evolve, more and more people will have questions and/or comments regarding the Standards. It would be nice to have an online forum where people that have questions regarding the Standards could exchange ideas, comments and suggestions. We believe this would help facilitate both the evolution of the Standards, as well as provide feedback as to the issues and questions people have regarding the Standards.

Specific Comments

1. Is the new requirement that mandates firms to provide a compliant presentation to all prospective clients too onerous a burden for firms claiming compliance with the GIPS standards?

We believe this would not be a problem for large, institutional investment managers, as their presentations are fewer and they have larger resources. However, small investment management firms that have predominately high net worth individuals as clients will have a difficult time meeting this requirement, as they have a larger number and more frequent presentations and they have far fewer internal resources for meeting this requirement.

2. Is the new requirement that mandates firms to provide a list and description of composites to any prospective client that makes such a request too onerous a burden for firms claiming compliance with the GIPS standards?

We believe this would not be a difficult task for any firm that complies with GIPS to achieve.

3. Do you agree with the new recommendation that states the firm should not market a composite to a prospective client with assets less than the composite's minimum asset level?

No. We have seen many investment management firms that require a certain amount of money in a portfolio in order to manage the portfolio in the appropriate strategy. For example, a portfolio of \$100,000 is managed very differently than a portfolio of \$1 million. Most small managers that market to high net worth individuals do not know the exact amount of money they would be given to manage. Therefore, this could be impossible for firms to implement.

4. Do you agree with the new requirement that mandates firms to be prepared to provide a compliant presentation for any composite on the firm's list of composites to a prospective client that makes such a request?

Yes. If the firm is claiming compliance, this is not an unreasonable request.

5. Do you agree with the new requirement that requires firms to calculate composite performance by asset weighting the member portfolio returns at least monthly (beginning 2005)?

Yes. We have seen managers try to use quarterly results with monthly composite reporting, and this only leads to confusion and error. Mandating that composite returns be calculated monthly will remove the potential for inaccurate calculations and incomparable presentations.

6. Do you agree that the effective date should be moved from 2005 to 2010 for the requirement that stipulates a carve-out return be managed separately with its own cash balance?

Yes. Many managers have come to rely quite heavily on composites constructed from cash allocations.

7. Is it reasonable for the GIPS standards to require firms beginning 2010 to value portfolios on the date of any external cash flow?

Yes. We believe this will help the comparability between investment presentations.

8. Should the GIPS standards require firms to retroactively disclose the following when carve-out segments are used?

- (a) a list of the underlying composites from which the carve-out was drawn, and**
- (b) the percentage of the composite that is composed of carve-outs.**

If commentators put forward other proposals, AIMR requests they explain how their proposals satisfy these objectives.

- (a) Yes. This would help prospective investors understand the composition of the composite.
- (b) Yes. Again, this lends itself to the composition of the composite.

We also believe a disclosure relating to the percentage of cash from which the carve-out was drawn would be useful. In most cases, only "residual" cash should be the cash that gets allocated. However, in some cases, managers are allocating cash when the cash level is 20% or higher. In this case, if only a small amount of cash is actually allocated, the manager could be "protecting" high cash levels in the underlying portfolio.

Thank you again for the opportunity to comment on the above proposed changes. We applaud the Professional Standards and Advocacy Department for their efforts in promoting and clarifying one unified Standard.

Sincerely,

David Yuska
President
CAPS, Inc.