

**EUROPEAN INVESTMENT PERFORMANCE SUBCOMMITTEE
QUESTIONNAIRE FOR INVESTORS**

Questionnaire for Investors
European Investment Performance
Subcommittee

Please note that 'Investors' throughout this document refers to fund management clients – mainly institutional clients. 'Investors' and 'Clients' are used interchangeably.

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Objective

Investors' ability to make sound investment decisions depends on availability of accurate and consistent information derived from objective calculation methodology and presented in transparent and comparable format. The aim of this questionnaire is to help investors to determine the extent to which asset managers' performance measurement and presentation satisfy best practice required under the Global Investment Performance Standards (GIPS).

There is need for rigorous scrutiny. Even a fair and verified performance presentation is unlikely to address all the questions for various reasons. For example, the presentation reflects a standard and a standard is unlikely to relate to individual questions. Also, some presentations prepared by asset managers may inadvertently appear subjective.

This document is only intended as a guide **not** a cookbook. Therefore, investors are advised to seek expert advice where necessary including help with the evaluation of fund managers' responses to questions contained in this document.

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Introduction

In asset management performance reporting is a business imperative. If managers' performance claims are part of a formal selection process, investors are recommended to obtain answers to the (below) mentioned questions in writing, especially before allowing such claims as supporting evidence in the manager selection process.

Some of the factors that may influence fund managers' decision to include or exclude an account from a composite are:

- clients' risk constraints
- performance objective
- benchmark hedge ratio
- discretion to invest in assets that are not included in the benchmark
- asset allocation ranges
- credit rating of fixed income instruments
- individual security restrictions

It would be prudent for clients to seek clarification from qualified source as to which of the above factors may have had material impact on the managers' performance record.

Investors should insist on data for individual years. Such data is more informative statistically than data for rolling overlapping periods of years. However, the latter may also be included **purely as supplemental information** in a performance presentation as a measure of consistency. A manager attempting to present data only for overlapping periods **should** be requested to resubmit the correct performance information for individual years.

Also, clients should ask for information on the number of accounts included for each year, the aggregate values of funds being reported for each year and the percentage of total value represented by the largest single account in each year. Amongst other benefits, this may provide a more reliable indication of portfolio structure and risk for a single portfolio.

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PART A: COMPANY POLICY & INTERNAL CONTROL - Compulsory

1. Is your firm GIPS compliant?
 - a. if so, when did your firm become compliant?
 - b. was compliant status verified? If so by whom?
 - c. if non-compliant, give reasons and state whether compliant status is being considered.
 - d. is compliance with the GIPS integral to your firm's business strategy?
 - e. do you follow the GIPS Advertising Guidelines?

2. Briefly describe your firm's performance data generation environment
 - a. what controls exist to ensure data integrity?
 - b. how often are controls reviewed and who has responsibility for managing the review process?

3. Please state whether your firm uses trade-date or settlement-date valuation basis.

4. Briefly describe the portfolio valuation sources and calculation methodology used.
 - a. is the methodology consistent across products (pooled and segregated) and throughout the organisation?
 - b. what are your accrual accounting policies for equities, bonds and cash?

5. How do you calculate your performance figures – gross or net of asset management fees? Are there other fees/charges included or excluded in your calculation?

6. Do you revalue portfolios on the date of the cash flow in case significant cash flows distort the performance?

7. Please briefly describe the role of your compliance department in the performance reporting process.
 - a. over how many years are your internal and external audit reviews available?
 - b. how often do you review client Agreements and where are they kept?

8. Are your composites all managed against specific benchmarks?
 - a. by how much do the composite differ from the benchmark in terms of allocation to different markets/regions? (please specify difference in percentage and at cost)
 - b. are the composites and benchmarks shown gross or net of income and capital gains taxes? (please give the rates that you use for composites and benchmarks)

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9. Do portfolios constituting the composites have common benchmarks throughout the period for which your performance results are shown?

10. Describe the systems used in connection with the adoption and implementation of the GIPS

11. Do you use third party performance measurers (e.g. WM, CAPS)?

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PART B: QUALITY OF OUTPUT & COST - Compulsory

1. Has the calculation or presentation of your performance records ever been the subject of any dispute with a client(s) or industry body/Regulator? If so, please give full details including any settlement or fine and explain any corrective action that you have taken.
2. Please provide details of your firm's remuneration structure including details of any performance-related element(s)
 - a. state whether smaller accounts attract higher fee scales
 - b. do you operate soft commission arrangements? If so, please explain
 - c. is your fee schedule subject to a minimum charge? If so, please state the amount.
 - d. provide an appropriate fee schedule with each composite presentation
3. Is the presentation and reporting format adopted by your firm consistent with the GIPS?
 - a. if yes, since when did you introduce the style of presentation and reporting?
 - b. if no, give reasons for using a different format
4. Please provide details of your current independent verifiers. Is the verifier of the performance results and the corporate auditor of the firm the same individual/company? (please give the reasons for your arrangement)
5. Is independent validation of performance records and third party advice on composite creation and management integral to your performance measurement process?
 - a. what is the frequency of the independent verification?
 - b. how consistent is the verification exercise? (as at what date of every year?)
6. Have you changed your verifiers in the last 12 months? If so, was the change the result of a competitive process?
7. Please provide proof of your firm's compliance with the GIPS and the following:
 - a. copy of approved firm-wide internal guidelines for GIPS
 - b. set of presentation material (pooled and segregated) showing verified GIPS compliant performance track record
 - c. latest verification statement by recognized independent verifier.
8. If your firm is currently pursuing compliance, what is the timeline for becoming fully compliant? Is it a dedicated global or local project?

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PART C: ADDITIONAL QUESTIONS

Optional (Investors may wish to draw extra questions from these)

I. General

1. Please provide information on any significant event within the firm (such as ownership or personnel changes) that would help to interpret the performance record.
2. What are the criteria used by your firm to determine the appropriate composite and how does the profile of the presented composite match the needs of the investor?
3. Have changes in the investment process of the presented composite occurred?
 - a. are there any predecessor composites?
 - b. have these raised any portability issues?
4. Please explain how the considered composite fits into the strategic policy of your firm and percentage of assets represented by the composite.
5. Please provide full list and description of your firm's composites including date of creation.

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II. Company Policy & Internal Control

1. What checks are made before performance data is integrated into presentations?
2. Describe the nature and role of derivative instruments or leverage used and the extent to which their impact are measured and reflected in your track record.
 - a. please provide copy of approved current house guidelines governing the use of all synthetic instruments to clarify their function in the portfolio
 - b. do you operate integrated risk control process that ensures that house guidelines are not breached?
3. Please provide the following information:
 - c. equal-weighted means and median returns for each composite
 - d. volatility over time of the aggregate composite return
4. Describe your approach to performance attribution analysis
5. Please provide a copy of the latest performance attribution report if available
 - a. is the report in line with the EIPC style of presentation?
6. What is your firm's approach to composite creation?
 - a. define your firm and any discretion following GIPS definition. Does it include private clients, retail funds, real estate etc? (Please specify any exclusion from the scope of the definition)
 - b. describe the strategies over which your firm has full discretion
 - c. are there any portability issues – integration dates, duplicated products etc?
7. Do you maintain a threshold for assets within the composite? If so, what is the minimum asset level?
8. Describe the factors that influence your decision to include or exclude a portfolio from a composite. Which of these factors are likely to have significant impact on your performance results?
9. Does a carve-out form part or provide the basis for any of your composites? (please provide full details). Please explain how cash is allocated to the carve-out returns.
10. What are the processes and procedures for portfolios in transition?

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III. Quality of Output & Cost

1. Do you calculate returns net of non-reclaimable withholding taxes on dividends, interest, and capital gains?
2. Do you accrue reclaimable withholding taxes?
3. Are non-fee-paying portfolios included in your composites? What is the proportion of the composite assets that make up such portfolios?
3. Please provide information on the average weighted management and other applicable fees if net-of-fee performance is presented.

IV. Global/International Portfolios

1. Do you translate your performance into clients' local currency?
2. Is currency hedging reflected in the calculation of the benchmark results for your international or multi-currency accounts?
3. Please explain the relationship between the composites and different levels of authorised asset exposure?

V. Multi-Asset Portfolios & Alternative Investments

1. Please provide information on the different calculation methodologies used for the different asset classes. Explain the necessity of using different methodologies and to what extent this influences the performance figures.

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Related Documents

- Global Investment Performance Standards
- Guidance for Assessing Manager's Performance Presentations (NAPF)
- RFP for Verifiers (EIPC)
- EIPC Guidance on Performance Attribution Presentation
- EIPC Guidance for Presenting Risk Measures