

The Value of GIPS® Compliance

An Industry Survey

SUMMARY REPORT
December 16, 2009

Conducted by:



INTRODUCTION

What impact have the Global Investment Performance Standards (GIPS®) had on the investment industry? Who requires GIPS® compliance and why? Database and Analytics provider eVestment Alliance and GIPS® verification firm ACA Beacon Verification Services teamed up and invited asset managers to participate in a web-based survey intended to gather data on how the GIPS® have affected their marketing efforts.

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BACKGROUND & GOALS

Within the U.S. investment management industry, GIPS® compliance and verification have long been considered de facto requirements to be included in request for proposals (“RFPs”) for institutional assets. More recently, many wrap/SMA sponsors have also made GIPS® compliance and verification a prerequisite for inclusion on their platforms. The survey gathered information from investment managers in order to answer the following questions:

- Who claims compliance with the GIPS® and why?
- What percentage of RFPs request a claim of GIPS® compliance and/or verification?
- Do prospective clients require investment managers to claim GIPS® compliance?
- What challenges do firms that claim compliance face?

The goal was to solicit feedback from a broader range of investment managers than past industry surveys on GIPS® compliance. To ensure a broad range, while avoiding any bias towards the larger asset managers, the population for the survey was created from all firms that voluntarily submitted returns to eVestment Alliance as of October 31, 2009. We believe this population to be fair and representative of the institutional space for two reasons: 1) eVestment is the top third-party institutional investment database used by more than 70% of the Top 50 Consultants ranked by Worldwide Institutional Advisory Assets (source: Pensions & Investments 2009 Consultant Rankings); and 2) managers can input data into eVestment about their firm and its products for free.



The survey was sent to a total of 1,561 firms that submitted information to eVestment Alliance as of October 31, 2009. The survey was available to these recipients from November 9th through November 20th of 2009. When the survey window closed, a total of 333 firms had responded to the survey, resulting in a response rate of 21%.

Note that firms submitting information to eVestment Alliance are asked whether or not they claim compliance with the GIPS®. Interestingly, 68% of the 1,561 firms claim compliance with the GIPS® (as referenced by their latest database entries). Of the survey respondents, 75% responded that they claim compliance with the GIPS®. While it appears that firms claiming compliance with the GIPS® responded to the survey slightly more than non-compliant firms, we believe that the results are representative of the marketplace.

		Compliant	Non-compliant	Verified	Non-verified
All firms	Population	68%	32%	75%	25%
	Survey Respondents	75%	25%	84%	16%

We hope you enjoy reading the results of the survey; some of the data may surprise you. Given the premium the market has placed on due diligence, it is our belief that the information contained herein will be of great benefit to your firm’s marketing efforts. If you have any questions regarding the survey, you may contact Christie Dillard of ACA Beacon Verification Services (866.279.0750) or Tom Builder of eVestment Alliance (678.569.1470).

CORE DEMOGRAPHICS

A wide range of firms were represented in the survey, from smaller, emerging managers to the largest asset managers. Respondents were diverse in terms of assets under management, client type, and investment focus.

What are your firm’s Assets Under Management (AUM)?

- **23%** Under \$500 Million
- **35%** \$500 Million to \$5 Billion
- **27%** \$5 Billion to \$50 Billion
- **15%** Over \$50 Billion

What percentage of total firm AUM is comprised of institutional assets?

- **21%** Less than 25%
- **18%** 26% to 50%
- **18%** 51% to 75%
- **43%** Greater than 75%

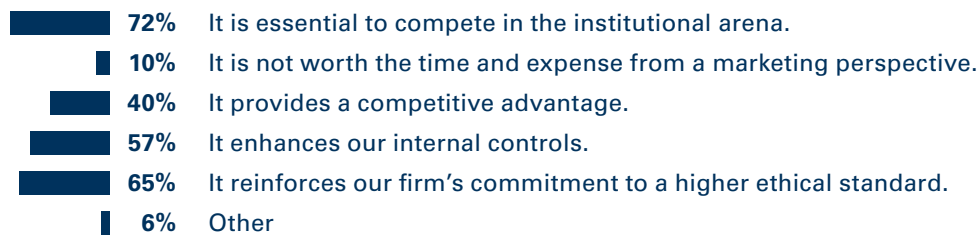
Compared to previous industry surveys, smaller, boutique firms were well represented: 58% of respondents manage less than \$5 billion. The majority of respondents (62%) were in the \$500 million to \$50 billion range.

Of all respondents, 61% answered that more than half of their total AUM is comprised of institutional assets. We will highlight some interesting correlations in the survey as to who claims compliance based on the size of the firm and proportion of institutional assets under management.

VIEW OF GIPS® COMPLIANCE

We asked all respondents (compliant and non-compliant firms) to express their overall view of GIPS® compliance. 72% of respondents answered that a claim of GIPS® compliance is essential to compete in the institutional arena.

Which of the following describe your firm's view of GIPS® compliance (please check all that apply)?



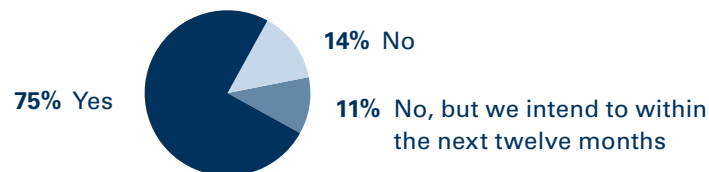
Key Findings:

- Respondents believe GIPS® Compliance is a passport to play in the institutional asset marketplace
- The core values of the GIPS®, fair representation and full disclosure, are embraced by firms; 65% of respondents comply with the GIPS® as part of their firm's commitment to high ethical standards

WHO CLAIMS COMPLIANCE WITH THE GIPS®?

The survey results revealed that 75% of the firms represented claim compliance with the GIPS®. Noteworthy is the fact that another 11% plan to claim compliance in the next 12 months.

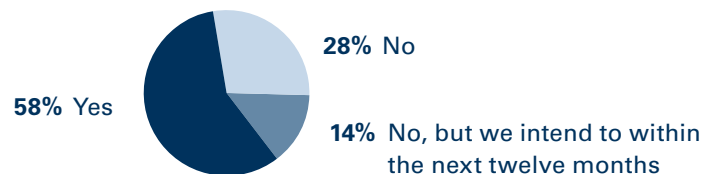
Does your firm currently claim compliance with the GIPS®?



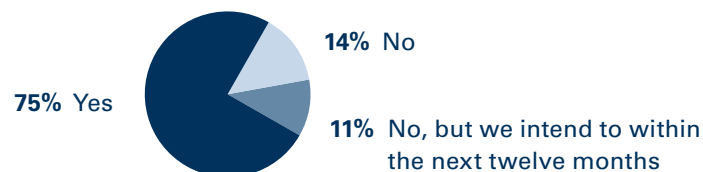
When we filter the responses by AUM, we see the percentage of firms claiming compliance with the GIPS® increase as AUM increases. This is of no surprise, as the largest asset managers were the original firms to embrace the GIPS® (formerly AIMR-PPS) standards in the mid 1990's.

Does your firm currently claim compliance with the GIPS®?

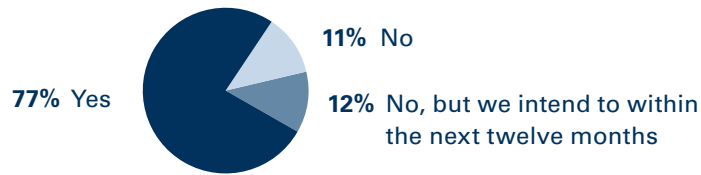
Less than \$500 Million in AUM



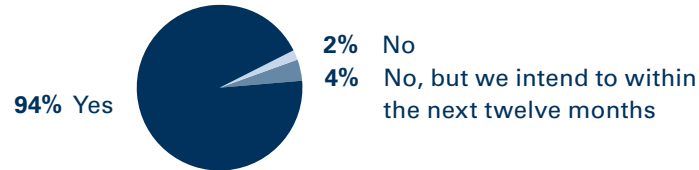
\$500 Million to \$5 Billion



\$5 Billion to \$50 Billion



Over \$50 Billion



Key Findings:

- The GIPS® are being embraced by firms irrespective of their size.
- The larger the firm, the more likely they are to claim GIPS® compliance.
- A large portion of non-compliant respondents recognize the need to claim GIPS® compliance.

WHY DO FIRMS COMPLY WITH THE GIPS®?

We asked the firms who participated in the survey that were not GIPS® compliant why they did not claim compliance with the Standards. The principal response to this question was that claiming compliance was cost prohibitive.

Please select the reasons why your firm does not claim GIPS® compliance (please check all that apply).

- 37% We plan to claim compliance in the next 12 months.
- 11% Lack of technology/data management issues
- 19% Too time consuming
- 39% Cost Prohibitive
- 19% We do not see the value.
- 12% Too cumbersome
- 3% It doesn't make sense in our industry.
- 23% Other

We asked a similar question to firms who do claim compliance with the Standards. We wanted to know why those firms chose to comply. Of the respondents, 88% reported marketing to institutional sponsors as a primary reason.

Which of the following options best describe your firm's reasons for claiming GIPS® compliance (please check all that apply)?



Key Findings:

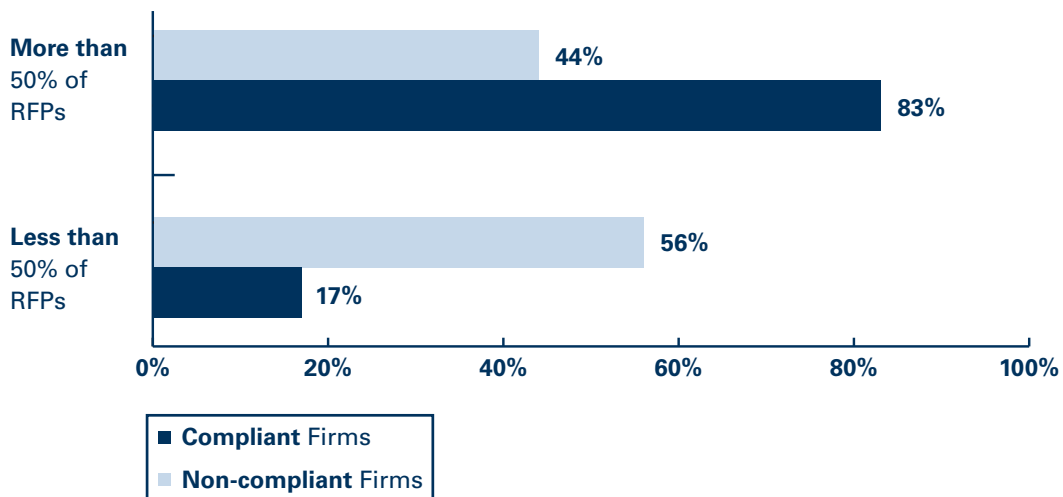
- Firms who do not claim compliance find the process to be too cost prohibitive.
- Prospective investors and consultants are driving the market for GIPS® compliance and demand GIPS® compliance from the managers they employ.
- Firms comply with the GIPS® because it is an industry best practice and they want to hold themselves to a higher ethical standard.

WHAT PERCENTAGE OF REQUEST FOR PROPOSALS REQUIRE A CLAIM OF GIPS® COMPLIANCE?

We posed the following questions to both compliant and non-compliant firms in an attempt to determine the effect GIPS® compliance has had on the investment industry.

The following charts illustrate that consultants and request for proposals (RFPs) often influence whether or not a firm claims compliance with the Standards.

How often do Request for Proposals (RFPs) request a claim of GIPS® compliance?

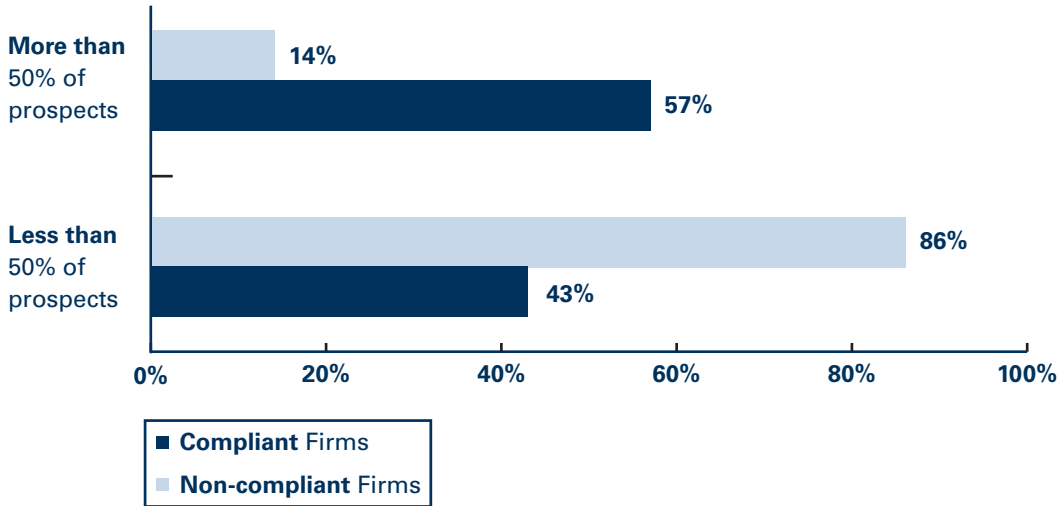


Key Finding:

83% of firms claiming compliance with the GIPS® stated that over half of all RFPs they receive request a claim of GIPS® compliance, while only 44% of non-compliant firms see GIPS® compliance as a requirement in the majority of RFPs.

The following graph indicates that compliant firms have more prospective clients requiring GIPS® as a prerequisite compared to noncompliant firms.

What percentage of your prospective clients require GIPS® compliance as a prerequisite for consideration?

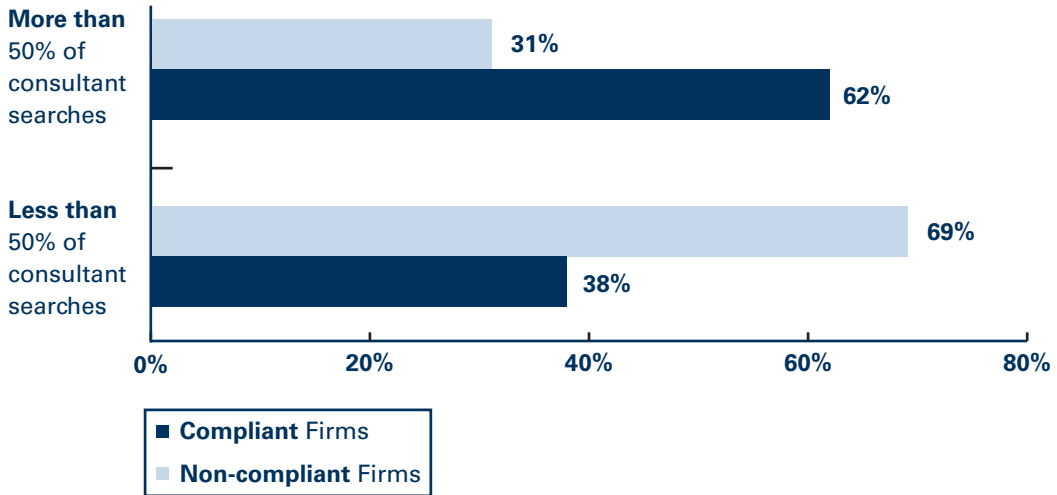


Key Finding:

Compliant firms believe that prospective clients demand GIPS® compliance, whereas non-compliant firms have experienced that prospective clients place little emphasis on GIPS®.

The following statistics compare responses from compliant and non-compliant firms related to consultants using GIPS® compliance as a screen in manager selection:

What percentage of manager searches performed by consultants do you believe use GIPS® compliance and/or verification as part of the initial screen/filter?



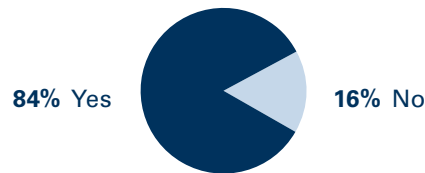
Key Finding:

62% of compliant firms believe over half of all manager searches conducted by consultants use GIPS® compliance as an initial filter, far more than the non-compliant firms' responses of 31%.

VERIFICATION

Of compliant firms, 84% chose to have their claim of compliance verified by a third-party verification firm.

Has your firm's claim of compliance been verified?



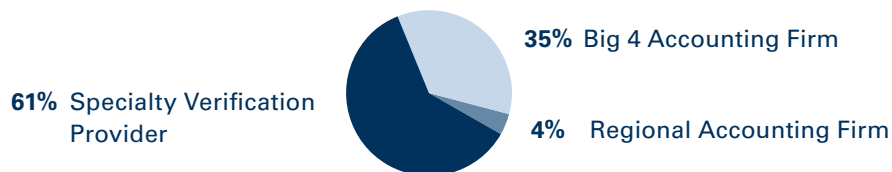
We first asked firms the reasons why they chose to have their GIPS® claim of compliance verified. Similar to why firms choose to claim compliance, the overwhelming majority (85%) of firms are verified to market their firm to institutional sponsors.

Please select up to three of the most important reasons for verification.



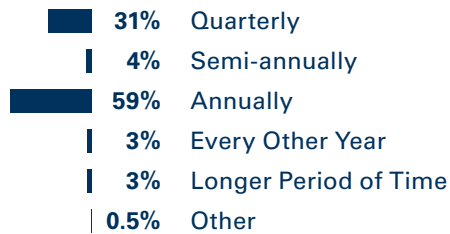
We also wanted to know the type of verification provider that each firm engaged. The majority of firms chose to work with a specialty verification provider.

Under which category does your verification provider fall?



We asked firms how frequently their claim of compliance was verified. At the total populations level, the majority of firms (59%) updated their verification annually.

How frequently is your firm verified?



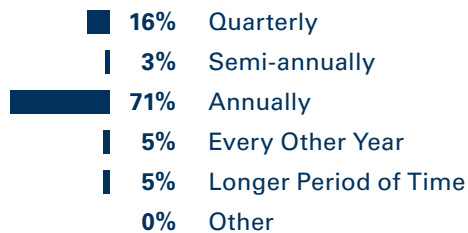
We were able to draw some interesting conclusions based on a firm's asset under management here as well.

How frequently is your firm verified?

Under \$5 Billion

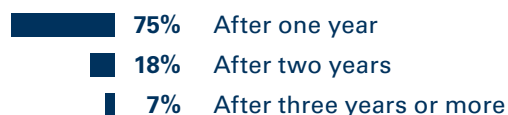


Over \$5 Billion



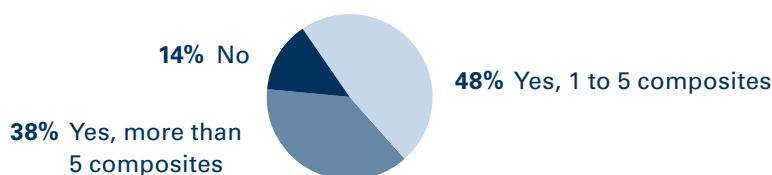
One of the proposed changes to the Standards that will take effect January 1, 2011 is to require firms to disclose whether or not their claim of compliance has been verified. Because of this, we asked firms what constitutes an acceptable period of time between verifications. Interestingly, 75% of firms participating in the survey thought that a period of longer than one year constituted a stale verification.

In your opinion, what constitutes an acceptable period of time between verifications (e.g. when does a verification lose validity)?



Respondent firms tend to have performance examinations completed on their marketed composites. We confirmed this in the survey by asking the following question:

Does your firm have Performance Examinations conducted on specific composites?



Key Findings:

- Verification goes hand in hand with claiming compliance. Of managers that comply with the GIPS®, 84% also received a firm-wide verification.
- Larger firms (greater than \$5 billion in AUM) tend to have their verifications performed on an annual basis, while firms with less than \$5 billion in AUM receive verifications more frequently. The logistics of going through a verification cycle might be more challenging for larger firms.
- The majority of firms chose to have performance examinations completed on at least one composite.
- 75% of respondents believe that verification becomes stale after 12 months.

GENERAL INDUSTRY & COMPLIANCE INFORMATION

We wanted to gather some general information from firms regarding recent market events and what challenges these events present with respect to GIPS® compliance. The following results are from compliant firms only.

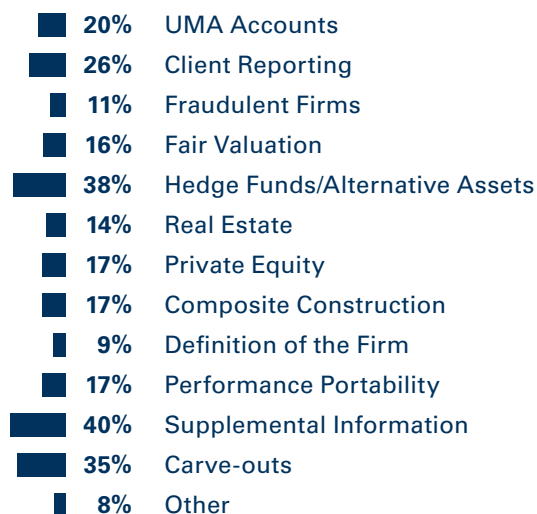
Please answer the following questions:

	Yes	No
Given recent events in the marketplace, verification should be mandatory for firms claiming compliance.	65%	35%
Managers advertising performance should be required to abide by some type of reporting standards such as the GIPS®.	92%	8%
The SEC should develop more detailed performance advertising rules and regulations.	46%	54%

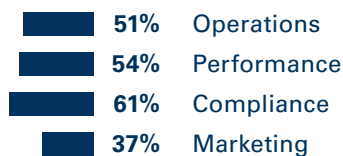
Which aspects of GIPS® compliance present the most challenges for your firm (please check all that apply)?

- 20% Performance Systems
- 8% Daily Valuation
- 5% Daily Pricing
- 6% Portability
- 12% Definition of the Firm
- 29% Composite Construction
- 30% Maintaining Compliant Presentations
- 10% Illiquid Securities (private equity, direct real estate, etc.)
- 30% None
- 10% Other

Which of the following topics do you think need additional guidance in the realm of GIPS® compliance (please check all that apply)?



Who is responsible for GIPS® compliance within your organization (please check all that apply)?



Key Findings:

- 91% of compliant respondents believe that managers should be required to abide by some reporting standard; however, the majority was opposed to having a set of standards formally adopted by the SEC.
- Composite construction, maintaining compliant presentations, and adequate performance systems were all considered significant challenges that firms face in upholding their claim of compliance.
- Additional guidance on Supplemental Information and Hedge Funds/Alternative Assets appear to be in the greatest demand by survey respondents, followed by guidance for client reporting and the treatment of UMA assets.
- The responsibility for GIPS® compliance seems to be managed by numerous departments of survey respondents, with Compliance leading the way.

ABOUT THE ORGANIZERS OF THIS SURVEY



Beacon Verification Services, a division of ACA Compliance Group, specializes in verification of the Global Investment Performance Standards (GIPS®) set forth by the CFA Institute and adopted by investment managers around the world. Beacon's several competitive advantages stem from its comprehensive knowledge of investment management and performance measurement in addition to the GIPS®. In addition to verification, ACA Beacon also offers GIPS® compliance consulting, training, workshops, and custom scope procedures. Beacon has been successful in continuing to grow our client base by providing year-round GIPS® consultation, advice on best practices, and a more robust, detailed verification.



eVestment Alliance is an innovative, web-based provider of comprehensive investment information and analytic technology. eA delivers extensive data through robust, user-friendly products with an unparalleled commitment to client service.

Through its online eASE Database, eA captures the most comprehensive dataset in the industry and distributes all information via its fully web-based *eASE Analytics* system, a platform which has set the software standard for online manager comparisons, research, and competitive intelligence. Drawing upon its data management expertise, eA has successfully launched its powerful *eASE Exchange* system to address the industry's redundant data request problems by automating the transformation and precise update of manager data to multiple databases.

The survey organizers would like to thank Douglas Finlay and Jennifer Chastain of ACA Beacon Verification Services and Joby Moore of eVestment Alliance, who provided valuable assistance in the preparation of this survey.

ACA Beacon Verification Services and eVestment Alliance have exercised professional care and diligence in the collection and processing of the information in this report. However, the data used in the preparation of this report was provided by third party sources and the survey organizers have not independently verified such data. This report is intended to be of general interest only, and does not constitute professional or legal advice. The organizers of this survey make no representations or warranties about the accuracy of this report.