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Introduction

Welcome to the summer edition of **focus**, the quarterly newsletter from **performa**, the leading provider of GIPS consultancy and software.



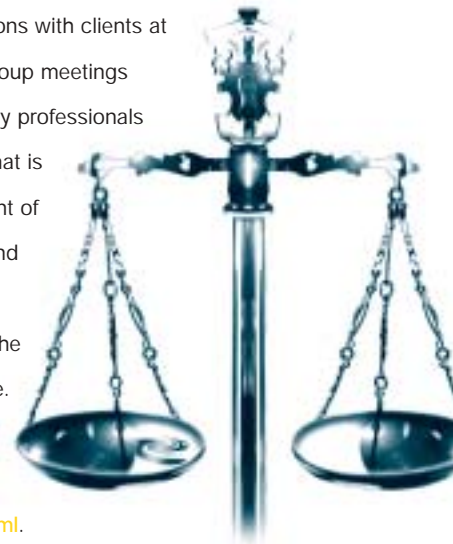
Patrick McBratney
Technical Director
introduces the
summer issue

As you may be aware, **performa** has an extensive network of friends in the performance measurement field and so are never far removed from the discussions on the latest industry issues. A **performa** GIPS Working Party has been formed internally to keep abreast of all new proposed industry guidelines. The main objective is to consider the potential impact of any new provisions on our marketing strategy and product development plans.

A performa GIPS

Working Party has been formed internally to keep abreast of all new proposed industry guidelines

All new guidelines are contemplated carefully, taking into account discussions with clients at the **performa** User Group meetings and also other industry professionals at events. One area that is attracting a fair amount of



interest is the proposed addition of a “Leverage and Derivatives provision and guidance” to the GIPS standards. We are pleased to have had available the facility to offer our view on this proposed guideline. Our contribution, along with an assortment of other interesting opinions, can be viewed at www.aimr.com/standards/issues/ld_comments.html.

On a lighter note, our CEO Anthony Howland is leading a squad of ‘veterans’ in a cross-channel swim this summer in aid of several charitable organisations. We would like to wish Anthony and his team the best of luck for their efforts.

Finally, I would like to thank Darren Crowley of Pictet Asset Management for this month’s industry comment entitled ‘Remuneration based on Composites’.

Please continue to tell us what you would like to read about in focus and we will use our best endeavours to accommodate.

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Darren Crowley

Head of Performance Management
Pictet Asset Management
UK Limited

Industry Comment

Remuneration based on composites?

Based on the assumption that the main product Asset Managers sell is investment performance - *surely one of the best ways to remunerate the fund managers responsible is based on the excess performance they generate against the risks they take.*

Immediately questions arise, for instance, *how do you measure managers consistently? Over what period? How do you adjust for risk? What is the remuneration scale? Arithmetic or geometric excess calculation?* etc. In this short article I do not propose to answer these questions because each asset manager is structured differently and offers different products, but I do propose to put forward the case for using a risk adjusted excess return of verified Performance Presentation Standard (PPS) composites as an option for providing a consistent basis for transparently measuring fund managers.

Performance Presentation Standard composites are used by a firm to market its investment performance to the global community. Composites are structured to provide clients with an accurate, fair and transparent measure of the investment returns provided by the company. Portfolios of similar Investment Mandates will be grouped together to make a composite and normally they will be managed consistently by the same fund manager or team. I believe it is a positive message to show that we pay our managers more for beating the client's investment benchmarks. Linking composites to pay will also focus attention on composite construction and the monthly results will generate significant interest. Also it requires the performance team to strictly comply to the predefined and disclosed composite rules. In addition, being verified by independent auditors will provide internal and external confidence in the composite calculations used

to remunerate. Lastly companies put significant resources aside to become GIPS compliant so why not utilise the composite results for another very important purpose.

Of course other factors should also be taken into consideration, for instance, you may also wish to reward based on the dispersion between accounts in a composite, thus providing an incentive for managers who produce consistent investment returns. Also you could remunerate based on peer group rankings if you find a suitable peer group to measure your products against.

Whatever measure you use, I would suggest it is simple to understand, easy to calculate, check and report on, and most importantly, be fair and consistent. There are even some composite software providers out there to help you!




Chiswell Associates - *Setting the standard for Charities and Private Clients*

Background - Chiswell is a UK-based investment manager that specialises in providing investment management for charities, pension funds, other institutions, and families with substantial assets. Specifically, Chiswell focuses on servicing segregated mandates for charities and smaller pension funds so often neglected by the large scale groups. The total amount of assets under management for the firm currently stands at approximately £1.7 billion, of which around 75% consists of charitable and private client funds.

Why GIPS for Charities and Private Clients? - The investment management of Charities, and especially that of Private Clients, is becoming one of the fastest growing client segments. Although not given as much prominence as their bedfellow, the Institutional Pension Fund, both these funds raise quite particular challenges to be addressed and met. Following institutional demand, the introduction of industry guidelines, such as the Global Investment Performance Standards (GIPS), is based on a need for clarity of investment mandates, as well as the selection of a relevant benchmark from which performance can be properly evaluated. It is paramount that clients have utmost confidence in the calculation and presentation of all performance results. It is perceived that compliance with GIPS requirements will prove to be hugely beneficial to both clients and investment managers alike. More recently, the Private Clients investment arena in particular has recognised this benefit and, hence, is witnessing a similar push for their operations to become more transparent.

Nowadays, it is incumbent upon investment managers to demonstrate a better knowledge of their customers' requirements and to ensure that consistent and compliant investment advice is provided to meet the highest industry standard. Given the often more stringent requirements that Charity management brings, combined with demand for more complex investment choices, this has amplified the processing burden and, therefore, potentially operational costs. The key challenge, therefore, is to ensure the quality of service meets the highest standard as well as being cost-effective.

The Experience - To meet this key challenge, **performa** were invited to work alongside Chiswell in identifying a number of primary considerations that will impact on Chiswell's objective to be compliant with the highest industry standards. **performa** recommended that the performance reporting function be reviewed in terms of:

-  *existing procedures and controls*
-  *identifying operational areas where further automation can be built in, and*
-  *setting up a solid compliance framework*

Acting on these recommendations involved undertaking a cost-benefit analysis based on:

-  *systems – in terms of speed, controls, maintenance and ability to comply with ongoing developments of industry standards, and*
-  *availability of resources*

Highlighting these potential issues afforded Chiswell the opportunity of streamlining their performance measurement approach in order to enhance transparency, consistency and completeness. Beyond simply achieving greater accuracy in their performance measurement function, Chiswell now employs a more efficient distribution of manpower and resource from focusing on a more centralised systems solution. Notably, this means the increased expenses resulting from the additional processing and operational burden associated with this compliance effort have been managed in a more cost-effective manner.

Conclusion - In meeting the primary objective of attaining the GIPS compliance "kite-mark" stamped to their performance reporting function, Chiswell will be recognised as amongst the first investment managers to have achieved this superior performance objective for all of the major business segments; Institutional, Charity and Private Clients.

"When choosing a software provider it was important to us that the *best product came with the best service*. At Chiswell we look in others for those values in which, we take pride ourselves; an excellence in client focus.

We have been fortunate to find these qualities in Performa, whom have never failed to make us feel that we were their only client.

Their time and advice has always been given without hesitation and their User Group has made us not only part of the ongoing product development but a part of a larger community of professionals".

Matthew Hicks
Head of Performance,
Chiswell Associates



performa

news
the latest news from performa consultants

Investors in People



performa are very pleased to have been recognised by the Learning & Skills Council as an "Investor in People" organisation

after achieving the required Standard on 27th March 2003. performa acknowledges the importance of its staff and embraces a commitment to training and development. We look forward to the benefits that improved people performance will continue to deliver to our company and our clients.

Anthony's Charity Swim

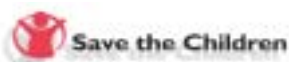
As you probably know by now; our CEO

Anthony Howland will be leading a team of

swimmers across the English Channel next month.

This venerable and considerable effort is being undertaken with the aim of raising £100,000 for charity.

All monies raised will be split evenly between the following four charities:



If you have not yet received a sponsor form and would like to contribute, please contact Anthony on AnthonyHowland@performa.uk.com for further information.

performa

summer 2003 calendar of events

PLACE: Evanston, Illinois, USA
DATE: 3-8 August
EVENT: 2003 Financial Analysts Seminar

AUGUST
3-8

The internationally recognised Financial Analysts Seminar is one of the longest running, most comprehensive continuing education programs for developing investment professionals. For a complete brochure and application form, visit <http://www.aimr.org/conferences/03FAS.html>

PLACE: Singapore & Hong Kong
DATE: 28-29 August & 1-2 September
EVENT: The Asia Business Forum:

Investment Performance Measurement Conferences Agenda: Asia Pacific's top-level gathering of Investment Management professionals.

Two conferences on Investment Performance Measurement - held to cover the latest trends and developments in their respective regions of Southeast Asia & North Asia. Performa *Chairman*, Dean Brown, will be a key note speaker at the Singapore venue. For further details, visit <http://www.abf-asis.com>

AUGUST
28-29
SEPT
1-2

PLACE: The Royal Garden Hotel, London
DATE: 7-8 October
EVENT: PRIMA Hedge

This forward-looking performance measurement programme will focus on the latest methods and advances that have become requirements for hedge fund reporting. Attendees will examine different calculation conventions, review how to standardised reporting, ascertain the developments for attribution standards and gain a thorough understanding on the developments of the GIPS standards when presenting hedge fund performance.

This comprehensive programme has been devised following strong demand from the industry following the successful performance event PRIMA held earlier this year in February.

For more information on performa and the services we offer contact:

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