

## GIPS: Tips for Updating Year-end Annual Disclosures

For GIPS compliant firms, it's time to update that Annual Disclosure Report once again. For firms that have left disclosures unchanged since last January, this is the time to drop AIMR-PPS from your marketing books forever, and update your compliance statement to read that your firm "has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®)."

In addition to making the switch to GIPS compliance, year-end disclosures require a new row to be added to the table for 2006: benchmark and composite performance, composite dispersion, a December 31 snapshot of firm assets OR the composite's percentage of firm assets, composite assets, and the number of accounts in the composite.

Be sure to save the detail when you backup data used in populating the new fields in the table. SEC examiners can require a firm to provide support for any of the information in the table, and if detail reports are rerun, they might generate a different result than what was originally generated for the saved consolidated summary report.

Finally, for firms that waited until fourth quarter 2006 to incorporate the revised GIPS disclosure requirements, here is a quick checklist of the disclosures that will need to be added:

- if subadvisers are used, the use and period of use,
- the use of leverage and derivatives, only if the use is deemed material,
- firm redefinitions or changes to composite names or definitions,

- if carve-outs are used, the % of the composite comprised of the carve-out,
- the statement: "Additional information regarding policies for calculating and reporting returns is available upon request."

To offset some of the additional requirements, a few dropped disclosures include:

- the use of settlement date accounting prior to January 1, 2005,
- if carve-outs are used, the list of underlying composites from which the carve-out was created,
- the percentage of the composite invested in countries/regions not included in the benchmark. ■

## SEC Releases Interpretation for Soft Dollars

The mandatory compliance date for abiding by the SEC new soft dollar interpretive release was January 24, 2007. The SEC has emphasized the importance of its new three-step process for looking at soft dollars. As a result all advisers should spend some time confirming that they are in compliance with the SEC's new parameters. At the very minimum, this will count toward your annual review and help prepare you to handle SEC examiners' questions on how you assured compliance with the guidelines. If you have a stated "no soft dollar" policy, you need to confirm that you are not, in fact receiving any soft dollar products or services. For help with this and all your compliance needs, please contact Elizabeth Cope, Associate Director, Ashland Compliance Group ([elizabeth@ashlandpartners.com](mailto:elizabeth@ashlandpartners.com)). ■

### Technical Tip

## Composite Dispersion for Advent Users: Automating the Process

Firms often encounter problems managing several accounts as part of one client relationship where each account represents a piece of the manager's total investment strategy. From a composite performance standpoint it's not an issue since the asset-weighted return looks like every other account within the composite. *The true complication arises when calculating dispersion of returns between the individual accounts.* These accounts can be rolled up into a group that is representative of the strategy and included as a single account. Advent Axy's cannot do this; however software solution providers can write macros that can recreate this process in Advent rather than using Excel.

Firms such as Client Server Specialists, Inc. (CSSI) have also developed custom solutions as described above. See CSSI's website, [www.cssi.org](http://www.cssi.org), for more information. ■



## TWR vs. DWR

**T**ime-weighted returns (TWR) measure the performance of underlying investments held over a time period negating the timing and amount of external cash flows. It can be burdensome calculating a true TWR, geometrically linking sub-period returns that surround *all* cash flows, commonly referred to as a point to point calculation. The burden is amplified for long periods with several flows because the portfolio must be revalued for each cash flow. The Global Investment Performance Standards require that performance returns are time weighted and adjusted for external cash flows; however as long as external cash flows are weighted daily, returns can be approximated. The most common calculation method that gives accurate return approximations is Modified Dietz. Beginning January 1, 2010 the standards will require that portfolios are revalued for external flows that are deemed significant.

As is the case with any rule there are exceptions. In the instance of private equity the standards require that the annualized since inception internal rate of return (IRR) is presented. The IRR or the dollar weighted return (DWR) is the return rate that equates the cash flows and ending market value to the beginning market value. One advantage to calculating the IRR is that you only need the initial price, current price and the date and amount of external cash flows, not the portfolio value on the days of the cash flows. However there is a big set back, the IRR can not be calculated algebraically; it is an iterative process with more than one solution.

The DWR is constant for all sub-periods unlike the TWR where sub-period returns vary. When calculating the return on an investment with no external cash flows the TWR and the DWR return will be the same.

Comparing TWRs may help an investor decide who should manage their money. However, when they want to know how their portfolio performed a dollar-weighted return (DWR) may be more meaningful as it takes into account the allocation decisions made by the investor, the timing and magnitude of contributions and withdrawals. ■

### Quick Comparison

	TWR	DWR/IRR
<b>Objective</b>	Evaluate manager performance	Evaluate fund/portfolio performance
<b>Cash Flows</b>	Impact of cash flows is excluded from performance	Impact of cash flow is included in performance
<b>Performance</b>	Measures the return on a dollar invested for the whole period	Result is the average return on the total amount invested

## THE ASHLAND CORNER

### Upcoming ACC Conferences

#### Save the Dates!

#### 2007 Ashland Client Conferences and Performance Workshops

CHICAGO ■ LOS ANGELES ■ NEW YORK

**A**shland is excited to announce the return of our conferences and performance workshops. We would like to thank all of you who were able to join us in 2006, and would like to extend an invitation to join us in 2007.

Our conferences will include an all new agenda with advanced sessions hosted by Ashland's Performance Resource Group. We will also be introducing a new half-day Marketing Workshop moderated by Todd J. Peters of Lyndhurst Consulting.

In addition to our pre-conference workshops in Chicago, Los Angeles and New York, our Performance Resource Group will also be hosting one day events in **Boston, Dallas, Portland OR, and Washington D.C.** Please check our new website [www.ashlandpartners.com](http://www.ashlandpartners.com) for the 2007 event dates, locations, and agendas. We look forward to seeing you there! ■

### ASHLAND PROFILE

#### Stephen S. Sobhi

Director of Client Relations  
Director – Ashland Partners International Ltd.

**S**teve serves as the Director of Client Relations for Ashland. He is an integral part of the business development, new client transition, and on-going client interests for all Ashland companies. Steve oversees the Client Relations Group that serves as resource for all Ashland professionals, fostering a cohesive team dedicated to providing excellent client service. Steve is also the Director of Ashland Partners International. ■

