

Index

- Absolute risk measures, 124
- Actual portfolios, 19
- Administrative composite, 42–43
- Advertising guidelines, 171–177
 - example, 176t
- Advisory-only portfolios, 16
- Aggregate method for calculating composite returns, 93, 96
- Alpha, 134, 136
 - contrasting definitions of, 136t
 - Jensen's alpha, 134
 - regression alpha 135
- Annual average return, 105–107
- Annual fees, conversion to a monthly equivalent, 99f
- Annualized downside deviation, 125–126
 - example, 126f
- Annualized ex-post standard deviation, 121
- Annualized information ratio, 131
 - example, 132f
- Annualized regression alpha, 135
 - example, 135f
- Annualized return, 105
 - calculation, 106, 107
 - leap years and, 107
- Annualized Sharpe ratio, 129
 - example, 130f
- Annualized Sortino ratio, 129
 - example, 131f
- Annualized standard deviation, 121
 - example, 122f
- Annualized tracking error, 127
 - example, 128f
- Annual Jensen's alpha, 134
 - example, 134f
- Arithmetic mean return, 104
- Array formulas in Excel, 101–102
- Assets under management (AUM), *see* Firm Assets
- Asset weighted dispersion, 114–118
- Asset weighted standard deviation, 115–117
 - calculation, 117
 - example, 116f
 - presentation, 145
- Association for Investment Management and Research Performance Presentation Standards (AIMR-PPS), 4
- GIPS standards, convergence, 5
- Average invested balance, 94–95
 - calculation, 95
- Benchmark,
 - changes, 164
 - components, disclosure, 165
 - custom, 164–165
 - description, 152, 174
 - presentation, absence, 164, 174
 - returns, 144, 174
 - three-year annualized ex-post standard deviation, 147–148
- Best Quartile Dollar Dispersion, 117
- Bundled fees, 119, 161–162
- Capital Asset Pricing Model (CAPM), 131–133
 - assumptions, 133
 - beta, 133
 - Jensen's Alpha, 134
 - statistics, 133
 - example, 134f
- Carve-outs, 38–40
 - cash allocation method, disclosure, 161
 - composite percentage, 149
- Cash flows, 194–195
 - day weighting, 75–76
 - external, 60–61
 - impact on performance, 71
 - in-kind, 60–61
 - internal, 60–61
 - investor timing and returns, 68f
 - large, 34
 - significant, 34
 - subperiod boundaries, 77
 - weighting, 86–88
- Certificate in Investment Performance Measurement (CIPM) program, 5
- CFA Institute, xvii
 - GIPS standards oversight, 4
- Chain linking (geometric compounding), 78
- Claim of Compliance
 - in advertising, 173
 - in compliant presentations, 150–152
 - minimum periods, 16–18
- Closed portfolios, 28–29, 237–238
- Commissions, *see* Trading expenses
- Committed capital, 196

- Compliant presentations, 141
 - recommended disclosures and numerical items, 168–170
 - required disclosures, 149–167
 - required numerical items, 141–149
 - supplemental information, 170–171
- Composite constituents
 - determining, 23–44
 - excluding a portfolio from all composites, 41–43
 - including a portfolio in multiple composites, 40–41
 - quarterly composite inclusion rules, 27
- Composites
 - administrative composite, 42–43
 - assets, 197
 - compliant presentation, 141
 - recommended disclosures and numerical items, 168–170
 - required disclosures, 149–167
 - required numerical items, 141–149
 - supplemental information, 170–171
 - construction, 18–19, 237
 - creation date, 155
 - defining, 13, 23–50
 - definition, completeness, ensuring, 223–224
 - description, 12, 152, 174
 - dispersion calculation, 109
 - existing portfolios, 238
 - history break, performance presentation, 32, 33t
 - minimums, 31–34, 160
 - usage, reconsideration, 222
 - name change, 159
 - new portfolios, 25–28
 - inclusion policy, samples, 26
 - pooled funds, inclusion/exclusion decision, 24–25
 - redefinition, 43–44, 159
 - return calculation, 91
 - risk calculation, 119
 - strategy, modification, 43
 - terminated portfolio, 28–29
 - three-year annualized ex-post standard deviation, 147–148
- Composite-level return calculation, 91–108
 - aggregate method, 96
 - beginning assets weighted method, 93–94
 - example, 94t
 - beginning assets plus weighted cash flow method, 94–95
 - example, 95t
 - considerations, 97–100
 - equal weighted method, 96
 - example, 96t
 - frequency, 97
 - gross-of-fee, 98
 - multi-period, 100–108
 - net-of-fee, 98–100
 - quarterly frequency composite return, 97
 - example, 98f
- Compounding, 64, 78
 - example, 65f
 - gross/net return differences, 103f
- Correlation coefficient, 127
- Country Sponsors, 5
- Country Versions of GIPS (CVG)
 - compliance date differences, 18
 - creation, 4
 - elimination, 4
- Covariance, 127
- Cumulative growth rates, 102
- Cumulative returns, 100–102
 - example, 101f, 102f
- Currency, 154
- Custodian fees, 161–162
- Custodian reconciliations, 211–212
- Custom benchmark, 164–165
- Daily returns, 84, 90
- Day weighting cash flows, 75
 - beginning of day assumption, 76
 - end of day assumption, 76
- Derivatives, presence/usage/extent, disclosure, 157, 174, 177
- Dietz, Peter, 74
- Dietz method, return calculation, 74
 - Modified Dietz method, 74
 - original Dietz method, 74
 - usage, for GIPS compliance purposes, 89t
- Disclosures
 - length of time to report, 168
 - recommended, 168–170
 - required, 149–167
- Discretion
 - definition, real estate, 199
 - definition, wrap fee/SMA, 185–188
 - firm level definition, 20
 - portfolio definition, 20–23
- Dispersion, 109
 - alternatives to standard deviation, 114t, 115f
 - asset-weighted, 114–118
 - equal-weighted, 111–113
 - standard deviation, 111
- Dividend income, 84
- Dollar return, percentage return (contrast), 56f
- Dollar weighted return, *see* Money weighted return
- Double-counting, prohibition, 146–147
- Downside deviation (semideviation), 125–126
 - example, 126f
- Downside risk measures, 124–126
- Equal weighted dispersion, 111–114
 - measures, 113–114
 - statistics, 109–110
- Equal weighted internal dispersion measures, 114t
 - example, 96f
- Equal weighted standard deviation, 111–113
 - example, 113f
- Error correction, 215–220

- Error form, creation, 220
 - levels, example, 218t
 - material error correction
 - compliant presentation, obligation, 216
 - disclosure, 167
 - policy
 - establishment, 215–217
 - sample, 217–220
- Exchange rates, material differences, 161
- Excluded portfolios
 - determination, 41–43
 - identification, ensuring, 244
 - maintenance, 224
- Executive Committee (EC), GIPS decision-making authority, 6
- Existing portfolios, 238
- Ex-post risk measures vs. ex-ante risk measures, 137
- External cash flows, internal cash flows, contrast, 60–61
- Fair value, 16, 83, 191–192
- Fee-in-lieu portfolios, 162
- Fee-paying portfolios, 19
- Fees, *see* Management Fees
- Firm assets, 15–16
 - advisory-only portfolios, 21
 - calculation, 146–147
 - firm assets, reconciliation, 243
 - private equity, 197
 - reconciliation, 209, 243
 - reporting, 146
 - subadvisors, 162
- Firms
 - changes, 15
 - creation process, 15
 - definition of the firm, 13–23, 152, 173, 236
 - examples, 14
 - Guidance Statement on Definition of the Firm*, 14
 - redefinition, 15, 158–159
 - total firm assets, 15–16
- First-quartile returns, 111, 114
- Frequency
 - of composite returns, 97–98
 - of portfolio returns, 84–86, 89t
 - of private equity valuations, 193
 - of real estate valuations, 200–201
 - of verification, 231
- Future value, example, 65f
- Geometric average return, 105–107
 - example, 106f
 - leap year, 107f
- Geometric linking (compounding), 78
- Geometric mean return, 104–105
 - example, 105f
- Global Investment Performance Standards (GIPS)
 - convergence, 5
 - edition (2005), 4–5
 - edition (2010), 5
- Executive Committee (EC), explanation, 6f
- Fundamentals of Compliance, 8–12
 - goals and objectives, xvii
 - governance, 5–7
 - Guidance Statement on Definition of the Firm*, 14
 - Guidance Statement on Error Correction*, 167, 215
 - Guidance Statement on Performance Examinations*, 234
 - Guidance Statement on Treatment of Significant Cash Flows*, 38
 - Guidance Statement on the Use of Supplemental Information*, 170–171
 - Guidance Statement on Verification*, 232
 - Guidance Statement on Verifier Independence*, 232–233
 - history, 4–5
 - laws/regulations, compliance 11
 - organization, 7
 - oversight committee, establishment, 205–206
 - recommendations vs. requirements 4
 - referencing compliance in advertisements, 141
 - scope, 3
- GIPS Manual, 206
 - availability of policies, 153–154
 - completeness, 206–207
 - documentation, 9
 - policies versus procedures, 10
- GIPS Standards Newsletter, 210
- GIPS Standards website, 5
- Gross-of-fee returns, 98–100
- Gross-of-fees since inception IRRs, 193–194
- Growth rate (wealth relative rate), 78
- Guaranteed investment contracts (GICs), book value, 16
 - Guidance Statement on Definition of the Firm*, 14
 - Guidance Statement on Error Correction*, 167, 215
 - Guidance Statement on Performance Examinations*, 234
 - Guidance Statement on the Use of Supplemental Information*, 170–171
 - Guidance Statement on Treatment of Significant Cash Flows*, disclosure, 38
 - Guidance Statement on Verification*, 232
 - Guidance Statement on Verifier Independence*, 232–233
- Hypothetical portfolios, performance, 9, 19
- Income accrued (earned), 57, 83
- Income retention/reinvestment, effect on return compounding, 64
- Information ratio, 129
 - example, 132f
- In-kind contributions, monetary value, 60–61
- Input data to portfolio-level return calculations, 83–84
- Interest income, 83
 - accrual requirement, 83

- Internal cash flows vs. external cash flows, 60–61
- Internal dispersion, 109–110
 - measure, 144–146, 202
 - usage, 154
- Internal rate of return (IRR), 71–77
 - calculation, 72
 - example, 72f, 73f
 - periods less than a year, 73f
 - shortcomings, 73–74
- Investable assets, base, 75
- Investment multiple, 196
- Investors
 - timing decisions and returns, 67–68
- Jensen's alpha, 134
 - example, 134f
- Large cash flow
 - definition, 85
 - return calculations, 101
 - significant cash flow, contrast, 35t
- Leap year period, annualizing returns, 107f
- Leverage, presence/use/extent, disclosure, 157, 174, 177
- List of composite descriptions, 12
 - availability, 152–153
 - completeness, ensuring, 221, 242
 - GIPS Advertising Guidelines, 173
- Lift-out, 47
- Maintaining compliance, 205–211
- Management Fees
 - actual vs. model, 212
 - bundled fees, 161–162
 - converting annual to monthly equivalent, 92t
 - disclosing deduction from gross returns, 155–156
 - fee-paying and non-fee-paying portfolios, 19
 - fee schedule, 154–155
 - net-of-fee returns, 98
 - use of accrual accounting, 24
- Marketing materials, references to the GIPS standards, 243
- Marketing minimum vs. composite minimum, 32
- Market value, 16, 57, 83, 89t
- Mean absolute deviation (MAD), 120–121
- Median returns, 114t
- Merger, *see* Portability
- Mid-month cash flow assumption, 86–87
- Model fees, 98–100, 102–103, 213
- Model portfolios, 9, 19, 185–186
- Modern Portfolio Theory (MPT), 132–133
- Modified Dietz return calculation, 74–77
 - usage for GIPS compliance purposes, 89t
- Money, time value, 63–67
- Money weighted return (MWR), 67–77
 - use in estimating the TWR, 81–82
 - use in private equity, 192
 - use in real estate, 202–203
 - time weighted return, contrast, 82t
- Monthly composite-level return, 93
- Monthly portfolio-level return, 94
- MPT statistics, *see* CAPM statistics
- Multi-asset composites, 224–225
- Multi-period composite returns, 100–107
- Multi-period compound return, 105–106
- Multi-period gross returns, net returns (reconciling), 103
- Net asset value (NAV), 156
 - basis of return calculation, 155–156
- Net-of-fee composite returns, 98, 213
- Net-of-fee portfolio-level returns, 98
- Net-of-fee since inception IRRs, 193–194
- New firm, portability tests, 45–47
- New portfolios, 25–28, 237–238
 - inclusion policy, 26
 - fully invested in the strategy test, 27
- Non-fee-paying portfolios, 19–20
 - composite percentage, 149
- Nonreclaimable withholding tax, 84
- Normal distribution, 111
- Open-end private equity fund, 189–190
- Open-end private equity fund of funds, 190
- Outlier returns 213–214, 233–234
- Paid-in capital, 195, 196
- Peer group average, 68
- Percentage return, dollar return (contrast), 56f
- Percent rate of return, 58
- Performance-based fees, 157, 212–213
- Performance examination, 227–230, 231, 232, 235
- PIC multiple, 196
- Policies and procedures (documenting), 9. *See also* GIPS Manual
- Population vs. Sample, 113
- Portability, 44–50
 - compliant presentation excerpt, portable track record, 49t
 - composite survival, acquiring firm determination, 48
 - tests, 45–47
- Portfolio-level returns
 - calculation, 53, 82–90
 - accounting data inputs, 83
 - frequency, 83, 84–86
 - input data, 83–84
 - methodology selection, 90
 - quarterly portfolio return frequency, 201
 - review, 244
 - components, 57–60
- Portfolios
 - discretionary status, 20–21
 - excluded from composites, 34, 41–43
 - existing portfolios, 238
 - firm assets, inclusion, 40–41
 - inclusion in composites, 40–41
 - investment mandate, documenting changes, 30
 - large cash flow, 35
 - new portfolios, 25–28, 237–238

- significant cash flow, 34
- switched portfolios, 29, 239
- terminated portfolios, 28–29, 238
- Portfolio valuation
 - frequency, 84–86
 - GPS-recommended valuation hierarchy, 163
 - policies, availability, 153–154
 - private equity, 191
 - real estate, 200
 - requirements, 16, 83
- Pre-verification procedures, 234–236
- Private equity, 188–198
 - committed capital, 196
 - direct investments, 189
 - fund of funds, 189
 - investments, valuation, 191–192
 - fund of funds, 192
 - primary fund, 189
 - provisions
 - application, 190
 - minimum effective date, 179–180
 - recallable distributions, 195
 - secondary fund, 189
 - since inception internal rate of return (usage), 189
 - calculation requirements, 192–195
 - statistical disclosures, 195–197
 - valuation roll forward, 192
 - vintage year, 190–191
- Private Equity Valuation Principles, 191–192
- Proprietary assets
 - composite inclusion, disclosure, 169–170
 - definition, 20
- Prospective clients
 - defining, 208–209
 - wrap fee/SMA, 181–182
- Public market equivalent, 195
- Pure gross return, 181
- Quartile dollar dispersion (QDD), 117–118
 - example, 118f
- Quartile returns, 114
- Rate of return, 53. *See also* Returns
 - interpretation, 54–55
- Real estate, 198–203
 - capital component returns, 202
 - closed end funds, 202–203
 - external valuations, 200
 - income component returns, 202
 - internal dispersion measure, required, 202
 - internal valuations, 200
 - minimum effective date, 179–180
- Real estate investment trusts (REITs), 198
 - provisions, application, 198–199
- Realization multiple, 196
- Recordkeeping,
 - adequacy (testing), 211–212
 - portability, 46
- Regional Investment Performance Subcommittee (RIPS), 6–7
- Regression alpha, 135
- Regression analysis, 135
- Regression beta, 135
- Regression coefficients, 132–133
- Regression statistics, example, 135f
- Relative risk measures, 126–127
- Return on investment (ROI), 60–63
 - example, 62f
 - percent calculation, 62
- Returns
 - annualization, 105–107
 - averaging, 103–105
 - calculation, 54–56, 76, 102, 211–215
 - frequency, consideration, 85
 - composite, 93–100
 - definition, 53
 - geometric linking (chain linking), 78
 - internal rate of return (IRR), 71–77
 - measuring investor, 67–76
 - measuring investment manager, 77–82
 - modified Dietz, 74–77
 - money weighted (MWR), 67–71, 192–193
 - multi-period calculation, 100–103
 - portfolio accounting inputs, 83–84
 - portfolio return, as composite inputs, 82–90
 - return on investment, 60–63
 - single period calculation, 54–63
 - time weighted (TWR), 77–82
- Risk (19–137)
 - annualizing, 122
 - definition, 119
 - presentation, 167
 - required composite and benchmark measure, 120
- Risk-adjusted return measures, 127–131
- Risk-free rate, 134
- Risk measures, 120
 - absolute risk measures, 124
 - alternatives to standard deviation, 123
 - CAPM statistics, 132–135
 - CAPM beta, 133
 - downside risk measures, 124–125
 - downside deviation, example, 126f
 - ex-post vs. ex-ante, 137
 - information ratio, example, 132f
 - Jensen's alpha, 134f
 - regression alpha, 135
 - regression beta, 135
 - regression analysis statistics, 135
 - relative risk measures, 126–127
 - risk-adjusted return measures, 127–130
 - Sharpe ratio, example, 130f
 - Sortino ratio, example, 131f
 - standard deviation, 120–123
 - tracking error, example, 128f
- RVPI multiple, 196
- Securities and Exchange Commission (SEC), 10–11
 - no-action letters, 11, 45
 - Form ADV, 154, 186

- Seed capital, 20
- Semideviation (downside deviation), 125–126
- Separately Managed Accounts (SMA), *see*
 - Wrap-fee/separately managed account (SMA) portfolios
- Sharpe, William, 129
- Sharpe ratio, 128–129
 - example, 130f
- Short positions, presence/use/extent, disclosure, 157, 174, 177
- Side pocket, usage, 25
- Significant cash flow policy, 34–38
 - definition of level of significance, 35–36
 - disclosure, 165–166
 - implementation, 36
 - large cash flow, contrast, 35t
 - guidance statement, 38
- Significant events, 158
- Since inception annualized internal rate of return (SI-IRR), 193–194
- Sortino ratio, 129
 - example, 131f
- Spliced benchmark, 164
- Standard deviation, 111–112
 - appropriateness of as a risk measure, 167
 - calculation, 112
 - composite internal dispersion, 111–113
 - example, 122f
 - population vs. sample, 112
 - risk measure, GIPS requirement, 120
- Subadvisors
 - and firm assets, 16, 146
 - and reporting, 162
- Subperiod return (for TWR calculation), 78
- Supplemental information, 170–171
- Supporting records, adequacy (testing), 211–212
- Systematic risk, 133
- Temporary new account, 37
- Terminated composites, final compliant presentation, 221
- Third-quartile returns, 114, 114
- Three-year annualized ex-post standard deviation, 120–123, 147–148
- Time value of money, 63–67
- Time weighted return (TWR), 77–82
 - approximation, 81–82
 - calculation, 74, 78–79
 - estimation, 81–82
 - example, 81f
 - GIPS requirements, 86
 - money weighted return, contrast, 82t, 83, 86
 - total return, 77–78
- Total firm assets, *see* Firm assets
- Total returns, 57, 77–78
- Tracking error, 124
 - example, 128f
- Trade date accounting, 57, 84, 89t
- Trading expenses,
 - treatment in returns, 84,
 - Wrap fee/SMA, absence, 181
- Transaction expenses
 - private equity, 193–194
 - real estate, 201
- Transition managers, usage, 28
- Unrealized capital appreciation/depreciation, 56, 58
- Unsystematic risk, 133
- Valuation, *see* Portfolio valuation
- Verification, 227–245
 - assurance provided, 228–229
 - considerations, 230–234
 - cost, 232
 - firmwide basis, 228
 - frequency, 231
 - period, 230–233
 - preparation, 241–245
 - pre-verification procedures, 234–236
 - procedures, 236–241
 - report, 241
- Verify,
 - independence/qualifications, 232–233
 - selection, 233–234
- Wealth relative rate (growth rate), 78
- Weighted cash flow, 74
- Withholding taxes, 84, 160
- Worst Quartile Dollar Dispersion, 117–118
- Wrap-fee/separately managed account (SMA) portfolios, 180–188
 - composite history, borrowed, 183–184
 - discretion (defining),
 - wrap programs, 185–186
 - wrap-fee/SMA portfolios, 186–188
 - program, discretionary status, 185–186
 - prospective clients
 - defining, 181–182
 - compliant presentation obligation, 181–182
 - provisions
 - application, 180–181
 - minimum effective date, 179–180
 - sponsor-specific composites, 182–183
 - style-defined composites, 182
 - recordkeeping, considerations, 184–185
 - return calculations
 - net, 183
 - pure gross, 181