

# Presenting Performance for SMAs

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**Developing Performance Presentations that comply with  
GIPS and the SEC  
while managing the inherent data challenges.**

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**2005 Managed Account Solutions, October 19, 2005**

# Effective Date 1 January 2006

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- ***For periods beginning 1 January 2006, the firm must maintain or have access to supporting records for all portfolios included in a composite.***

***The lack of records is not a reason to classify these portfolios as non-discretionary.***

***....this guidance must be applied for all performance periods beginning 1 January 2006.***

***For periods prior to the effective date of 1 January 2006, the firm may link non-compliant performance to their ongoing performance record, provided the firm discloses the periods of non-compliance and explains how the presentation is not in compliance with the GIPS standards.***

- ***As in revised GIPS, 1/1/06 matters once you start using periods that include that date. Given that Compliant Presentations contain annual data there is the year of 2006 to sort out access.***

# Underlying Records

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- **GIPS provision 1.A.1 “All data and information necessary to support a firm’s performance presentation and to perform the required calculations must be captured and maintained.”**

## OPTIONS?

1. Place reliance on the performance calculated and reported by the wrap fee/SMA sponsor on either
  - the aggregate level, viewing the Sponsor as a single portfolioor
  - the underlying portfolio level
- “When relying on information provided by a 3<sup>rd</sup> party..., the firm claiming compliance...must take the necessary steps to satisfy that the information provided...can be relied on to meet the requirements of the Standards.”

# Underlying Records cont.

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- **GIPS provision 1.A.1** *“All data and information necessary to support a firm’s performance presentation and to perform the required calculations must be captured and maintained.”*

## OPTIONS?

2. Utilize “shadow accounting”.
  - Maintain records for each account from which beginning and ending period values and cash flows can be determined.
3. Exclude the wrap fee / SMA division from the definition of the firm.

# Use of Aggregate Information

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- ***The use of aggregate information for performance and performance related reporting purposes is permitted.***
- 1. A firm may choose to rely on and report aggregate information obtained from the wrap fee / SMA sponsor, effectively viewing the sponsor as a single portfolio**
    - If the Investment Manager is managing 1,000 underlying portfolios for one sponsor and views the sponsor as a single portfolio, the management firm can choose to report 1 or <5 for the number of portfolios in the composite.
  - 2. The Manager may chose to rely on the data presented by the Sponsor on each individual portfolio and information presented will reflect this. # of portfolios in the composite would be 1,000**

# Constructing and Maintaining Composites

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- **A firm claiming compliance with the GIPS standards, presenting results for a specific strategy to SMA prospects that it has historically managed for only NON-SMA portfolios must:**
  - Include SMA and NON-SMA assets in the firm definition.
  - Have no SMA portfolios under management for the strategy in those periods for which the strategy is represented by NON-SMA portfolios only.
  - For all periods in composite presentations that do NOT contain SMA portfolios, the firm must disclose that the composite does not contain SMA portfolios.

# Track record pre- and post-actual SMA's

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- **Having used non-SMA portfolios to build a track record, upon the acquisition of an actual SMA portfolio, the firm must decide whether to:**
  1. keep the existing history and redefine the composite to consist only of SMA portfolios on-going,
  2. Combine the actual SMA portfolios with the non-SMA portfolios going forward, or
  3. Create a new composite with new construction date containing SMA portfolios only.

The non-SMA composite will cease but must be included in the firm's list of composites for a minimum of 5 years as discontinued.
- **Firm cannot redefine the composite retroactively. A composite that includes non-SMA portfolios in the SMA composite history will always retain that history.**

# Composites: Style vs Sponsor

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- **Investment management firms must group all appropriate SMA portfolios in a composite according to investment style or strategy, depending on the firm's composite construction decision, the composite may also include non-SMA portfolios.**
  - Style composite must ALWAYS be presented to a prospective SMA client.
- **Reporting sponsor specific composite to existing sponsor for a strategy is permitted and can include the claim of compliance.**
- **Gross (inc. impact of trading expenses) or Net?**
  - **To Prospects:** Net-of-actual wrap or highest wrap-fee charged to clients by Sponsor
  - **To existing Sponsor:** For the purpose of generating additional business, presentation can be net (of investment management fees) or gross. Gross requires disclosure that the presentation is only for use of named sponsor.
  - **“Pure gross”** only as supplemental

# Presenting Performance for SMAs: To Do

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- **Effective date is the deadline?**
- **Review GIPS Compliance, Entity relationship & definition(s)**
- **Review SMA as separate entity or LOB within existing entity**
- **Review Composite definitions**
- **Review track record**
- **Review availability of data / level of data desired to feed composites**
- **Review presentation pre and post - actual SMAs**
- **Review fee data and disclosures**