

Presenting Performance for SMAs

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SMA's & GIPS Compliance? (Are we having fun yet?)

Definition of the firm

You have some decisions to make.

- **Define the entire organization as the “firm” and the “firm” claims compliance with the GIPS standards.**

- **Define the divisions separately with either;**
 - **The non-wrap fee/SMA division and wrap fee/SMA division are defined as separate “firms”, and both claim compliance with the standards;**

or

 - **The non-wrap fee/SMA division and wrap fee/SMA division are defined as separate “firms”, and only one division claims compliance with the standards.**

“Firms” as Separate Divisions

- **Define the divisions separately with:**
 - **The non-wrap fee/SMA division and wrap fee/SMA division are defined as separate “firms”, and only one division claims compliance with the standards.**

- **It is possible that the divisions of an organization may not be organizationally and functionally separate or independent of each other, however, you can separate because:**
 - **Their operations and functions are distinct within the organization,**
and
 - **The divisions are held out to the public as distinct entities**

Citigroup Asset Management (CAM)

- **CAM – Institutional and CAM SMA – Separate Divisions**

***CAM Institutional* is an AIMR and GIPS compliant business.**

***CAM – SMA* makes no claim of AIMR or GIPS compliance.**

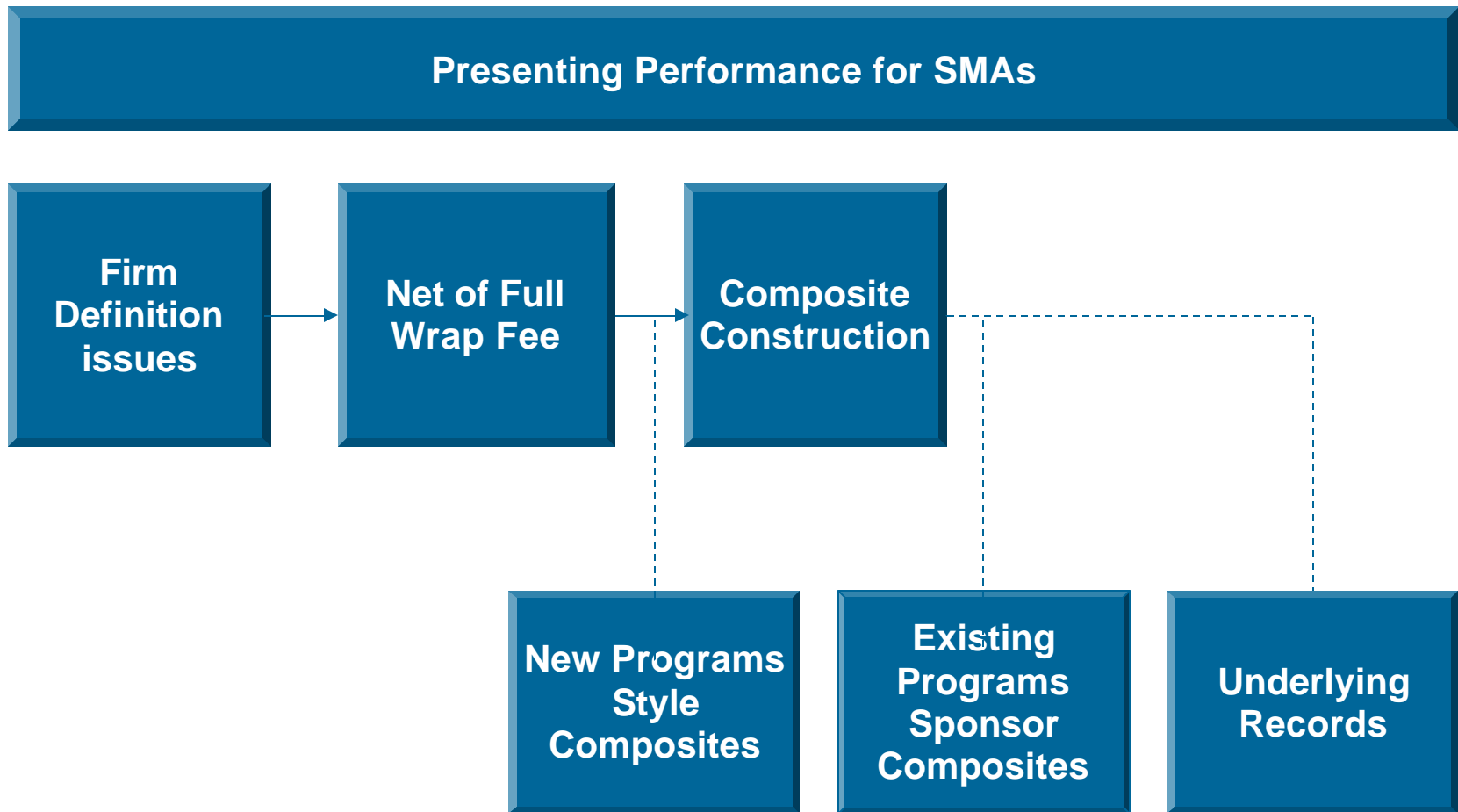
CAM - Institutional

- **CAM – Institutional has:**
 - **Historically comprised of legacy firms such as Salomon Brothers, Smith Barney, Citibank, etc.**
 - **Historically had AIMR and GIPS compliant regional firms in major investment centers in North America, London, Japan, Australia**
 - **Been moving toward a single Global GIPS “firm”**
 - **Performed annually verification by prominent third party accounting firm**
 - **Historically run its’ Institutional business separate and distinct from the SMA business**
 - **Always excluded wrap portfolios from the Institutional firm, even prior to the CFA Institute SMA guidance**

CAM – SMA business

- **SMA business has:**
 - **Been a separate and distinct business**
 - **Separate operations and marketing franchise**
 - **Involved numerous sponsor channels, with over 200,000+ accounts**
 - **Joined with the MMI to offer comment to the CFA Institute as it developed the SMA guidance**
 - **Remained a non-compliant business**
 - **Future prospects - TBD**

GIPS Standards for SMAs



Other Principles of Compliance

Net of Full Wrap Fee

- **Required to show returns net of the entire wrap fee**

Style Composites

- **Must include all actual wrap/SMA portfolios of a single strategy regardless of sponsor**
- **Must be provided to wrap/SMA prospects**

Sponsor Composites

- **Can only be provided to existing sponsors**
- **Must disclose the name of the sponsor represented by the sponsor specific composite**
- **Only for use by the named sponsor**

Underlying Records

- **Utilize shadow accounting on all portfolios**
- **Aggregate level; view the entire SMA sponsor as a single portfolio**
- **All portfolios are subject to verification**

Looking ahead

- **The Sponsor/Manager relationship is evolving.**
- **Sponsors may recommend or require compliance.**
- **Managers are dependent upon Sponsors in order to be compliant in the SMA space.**
- **Technology advances are needed to enable shadow accounting in an efficient and cost effective way.**
- **The Jan 1 2006 implementation date could be detrimental to many firms and to the CFA Institute. There should have been at least a 12 months period after the Adoption date (August 2005) prior to implementation.**
- **The aggressive date may lead some firms to “opt out” of compliance by re-defining their firms without SMA.**