



## Performance Measurement

Composite Performance Reporting  
and Support of Global Investment  
Performance Standards (GIPS®)



## Composite Performance Reporting Overview

The Composite Performance Reporting solution offered by Market Street Advisors supports any investment management firm that requires a highly efficient process and wants to be compliant with the Global Investment Performance Standards (GIPS®) published by the CFA Institute.

Composite Performance Reports include:

- > Composite performance calculation methodologies capable of supporting equal-weighted and asset-weighted performance composites on the basis of both net of fees and gross of fees
  
- > A robust and efficient portfolio performance calculation methodology utilizing:
  - Time weighted rates of return (i.e., total return)
  - Daily valuation
  - Trade date accrual accounting for asset classes
  
- > Reporting tools designed to assist in the development of performance presentation material, including (but not limited to):
  - Annual returns for all years
  - The number of portfolios and amount of assets in the composite
  - Percentage of the total firm assets represented by the composite
  - Multiple measures of dispersion, including asset-weighted standard deviation of individual portfolio returns for each annual period
  - Cumulative and annualized returns for the composite and the benchmark index over any user-defined time period

The Performance Composites function provides a breakdown of the individual accounts that comprise each Composite. The information provided is typically used by internal compliance and audit personnel (commonly referred to as “Verifiers”) to verify management reports provided to investors.

## A Note About This Document

The purpose of this document is to describe how features of the Market Street Advisors system support the standards outlined in the Global Investment Performance Standards (GIPS®) as amended by the Investment Performance Council on 7 December 2004 and adopted by the CFA Institute Board of Governors 4 February 2005.

The section numbers and titles on the following pages refer to the same sections as outlined in the standards mentioned above, which is available on the CFA Institute’s Web site at [www.cfainstitute.org/centre/ips/gips/pdf/GIPS\\_2006.pdf](http://www.cfainstitute.org/centre/ips/gips/pdf/GIPS_2006.pdf).

This document deals specifically with calculation methodology and composite construction. Consequently, other topics addressed in the CFA Institute’s original publication have been omitted. These include sections related to Disclosure, Presentation and Reporting, Verification, and GIPS® Advertising Guidelines (these functions and deliverables are created by the investment management firm using data from Market Street Advisors; compliance with these sections of GIPS® are the responsibility of the investment management firm).



## GIPS® Statement

(from Performance Standards publication)

### 1. Input Data

#### 1.A Input Data — Requirements

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.

1.A.2 PORTFOLIO valuations MUST be based on MARKET VALUES (not cost basis or book values).

1.A.3 For periods prior to 1 January 2001, PORTFOLIOS MUST be valued at least quarterly. For periods between 1 January 2001 and 1 January 2010, PORTFOLIOS MUST be valued at least monthly. For periods beginning 1 January 2010, FIRMS MUST value PORTFOLIOS on the date of all LARGE EXTERNAL CASH FLOWS.

1.A.4 For periods beginning 1 January 2010, FIRMS MUST value PORTFOLIOS as of the calendar month-end or the last business day of the month.

1.A.5 For periods beginning 1 January 2005, FIRMS MUST use TRADE DATE ACCOUNTING.

1.A.6 ACCRUAL ACCOUNTING MUST be used for fixed-income securities and all other assets that accrue interest income. MARKET VALUES of fixed-income securities MUST include accrued income.

1.A.7 For periods beginning 1 January 2006, COMPOSITES MUST have consistent beginning and ending annual valuation dates. Unless the COMPOSITE is reported on a non calendar fiscal year, the beginning and ending valuation dates MUST be at calendar year-end (or on the last business day of the year).

#### 1.B Input Data — Recommendations

1.B.1 ACCRUAL ACCOUNTING SHOULD be used for dividends (as of the ex-dividend date).

1.B.2 When presenting NET-OF-FEES RETURNS, FIRMS SHOULD accrue INVESTMENT MANAGEMENT FEES.

1.B.3 Calendar month-end valuations or valuations on the last business day of the month are RECOMMENDED.

## Market Street Advisors Compliance

Compliant

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Portfolios are valued daily; daily returns are then geometrically linked into a monthly number.

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System can support accrual of fees. However, in general clients are recognizing fees when actually paid at custodian.

Compliant



## GIPS® Statement

(from Performance Standards publication)

### 2. Calculation Methodology

#### 2.A Calculation Methodology — Requirements

2.A.1 Total return, including realized and unrealized gains and losses plus income, MUST be used. [corrected September 2005]

2.A.2 TIME-WEIGHTED RATES OF RETURN that adjust for EXTERNAL CASH FLOWS MUST be used. Periodic returns MUST be geometrically linked. EXTERNAL CASH FLOWS MUST be treated in a consistent manner with the FIRM'S documented, COMPOSITE-specific policy. At a minimum: a. For periods beginning 1 January 2005, FIRMS MUST use approximated rates of return that adjust for daily-weighted EXTERNAL CASH FLOWS. b. For periods beginning 1 January 2010, FIRMS MUST value PORTFOLIOS on the date of all LARGE EXTERNAL CASH FLOWS.

2.A.3 COMPOSITE returns MUST be calculated by asset weighting the individual PORTFOLIO returns using beginning-of-period values or a method that reflects both beginning-of-period values and EXTERNAL CASH FLOWS.

2.A.4 Returns from cash and cash equivalents held in PORTFOLIOS MUST be included in TOTAL RETURN calculations.

2.A.5 All returns MUST be calculated after the deduction of the actual TRADING EXPENSES incurred during the period. Estimated TRADING EXPENSES are not permitted.

2.A.6 For periods beginning 1 January 2006, FIRMS MUST calculate COMPOSITE returns by asset weighting the individual PORTFOLIO returns at least quarterly. For periods beginning 1 January 2010, COMPOSITE returns MUST be calculated by asset weighting the individual PORTFOLIO returns at least monthly.

2.A.7 If the actual direct TRADING EXPENSES cannot be identified and segregated from a BUNDLED FEE: a. when calculating GROSS-OF-FEES RETURNS, returns MUST be reduced by the entire BUNDLED FEE or the portion of the BUNDLED FEE that includes the direct TRADING EXPENSES. The use of estimated TRADING EXPENSES is not permitted. b. when calculating NET-OF-FEES RETURNS, returns MUST be reduced by the entire BUNDLED FEE or the portion of the BUNDLED FEE that includes the direct TRADING EXPENSES and the INVESTMENT MANAGEMENT FEE. The use of estimated TRADING EXPENSES is not permitted.

## Market Street Advisors Compliance

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Daily returns are geometrically linked into a monthly number.

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Monthly asset weighting of Composites is performed.

Compliant



## GIPS® Statement

(from Performance Standards publication)

### 2.B Calculation Methodology — Recommendations

2.B.1 Returns SHOULD be calculated net of non-reclaimable withholding taxes on dividends, interest, and capital gains. Reclaimable withholding taxes SHOULD be accrued.

2.B.2 FIRMS SHOULD calculate COMPOSITE returns by asset weighting the member PORTFOLIOS at least monthly.

2.B.3 FIRMS SHOULD value PORTFOLIOS on the date of all LARGE EXTERNAL CASH FLOWS.

### 3. Composite Construction

#### 3.A Composite Construction — Requirements

3.A.1 All actual, fee-paying, discretionary PORTFOLIOS MUST be included in at least one COMPOSITE. Although non-fee-paying discretionary PORTFOLIOS may be included in a COMPOSITE (with appropriate disclosures), nondiscretionary PORTFOLIOS are not permitted to be included in a FIRM'S COMPOSITES.

3.A.2 COMPOSITES MUST be defined according to similar investment objectives and/or strategies. The full COMPOSITE DEFINITION MUST be made available on request.

3.A.3 COMPOSITES MUST include new PORTFOLIOS on a timely and consistent basis after the PORTFOLIO comes under management unless specifically mandated by the client.

3.A.4 Terminated PORTFOLIOS MUST be included in the historical returns of the appropriate COMPOSITES up to the last full measurement period that the PORTFOLIO was under management.

## Market Street Advisors Compliance

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System can support accrual of reclaimable withholding taxes.

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System provides an automated rules based system. Multiple fields are available for setting the rules including: Objective, Style, Manager, Portfolio Model, Asset value, discretionary code, etc.

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Generally, portfolios are included in the first full month after inception or after a significant change in their investment objective. Terminated accounts are removed following the last full month they qualify for a given composite based on the automated rules based system.

### Compliant



## GIPS® Statement

(from Performance Standards publication)

3.A.5 PORTFOLIOS are not permitted to be switched from one COMPOSITE to another unless documented changes in client guidelines or the redefinition of the COMPOSITE make it appropriate. The historical record of the PORTFOLIO MUST remain with the appropriate COMPOSITE.

3.A.6 Convertible and other hybrid securities MUST be treated consistently across time and within COMPOSITES.

3.A.7 CARVE-OUT segments excluding cash are not permitted to be used to represent a discretionary PORTFOLIO and, as such, are not permitted to be included in COMPOSITE returns. When a single asset class is carved out of a multiple asset class PORTFOLIO and the returns are presented as part of a single asset COMPOSITE, cash MUST be allocated to the CARVE-OUT returns in a timely and consistent manner. Beginning 1 January 2010, CARVE-OUT returns are not permitted to be included in single asset class COMPOSITE returns unless the CARVE-OUT is actually managed separately with its own cash balance.

3.A.8 COMPOSITES MUST include only assets under management within the defined FIRM. FIRMS are not permitted to link simulated or model PORTFOLIOS with actual performance.

3.A.9 If a FIRM sets a minimum asset level for PORTFOLIOS to be included in a COMPOSITE, no PORTFOLIOS below that asset level can be included in that COMPOSITE. Any changes to a COMPOSITE-specific minimum asset level are not permitted to be applied retroactively.

### 3.B Composite Construction — Recommendations

3.B.1 CARVE-OUT returns SHOULD not be included in single asset class COMPOSITE returns unless the CARVE-OUTS are actually managed separately with their own cash balance.

3.B.2 To remove the effect of a significant EXTERNAL CASH FLOW, the use of a TEMPORARY NEW ACCOUNT is RECOMMENDED (as opposed to adjusting the COMPOSITE composition to remove PORTFOLIOS with significant EXTERNAL CASH FLOWS).

3.B.3 FIRMS SHOULD not market a COMPOSITE to a prospective client who has assets less than the COMPOSITE'S minimum asset level.

## Market Street Advisors Compliance

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The automated account Dashflow system tracks historical changes to the account profile. In addition, a user is able to attach documentation (text, Microsoft Office, PDF, or images) to track and store historical records related to a change in the client's guidelines.

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Account size is one of a number of fields that can be used by the automated rule based system that helps investment manager's to build and maintain composites on the system. This helps to ensure that a consistent approach is being applied.

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Because we use daily valuation, this is not an issue.

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