



**Global Investment Performance Standards**

**Guidance Statement on Wrap Fee/Separately  
Managed Account (SMA) Portfolios**

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[www.gipsstandards.org](http://www.gipsstandards.org)

## **GIPS® Guidance Statement on Wrap Fee/Separately Managed Account (SMA) Portfolio**

### **Introduction**

The purpose of the GIPS® standards is to create performance presentations that allow for greater comparability of returns and increase the transparency of information provided to prospective clients. While it is impossible to develop standards that cover every situation, the GIPS standards provide a general framework that can be applied to many different circumstances. It is important to remember the underlying principles of the GIPS standards: fair representation and full disclosure.

In order to provide prospective clients with a variety of investment options, firms offer different types of investment products/services as well as fee structures. One of these structures offers clients the ability to “bundle” multiple fees incurred during the management of a portfolio (i.e., bundled fees). Bundled fees can include any combination of management, trading, custody, and other administrative fees. Two specific examples of bundled fees are wrap fees<sup>1</sup> and all-in fees<sup>2</sup>. Wrap fee/SMA portfolios are unique and significantly different from traditional brokerage or investment management relationships, and as a result, additional guidance is necessary for firms managing wrap fee/SMA portfolios on how to apply the GIPS standards.

### **Scope**

This Guidance Statement clarifies and interprets the broader GIPS provisions, specifically addressed from the perspective of the wrap fee/SMA investment management firm, and is applicable to those GIPS-compliant firms that have discretionary portfolio management responsibility for wrap fee/SMA portfolios. The wrap fee/SMA provisions and related guidance apply to the calculation and presentation of performance when presenting a compliant presentation to a wrap fee/SMA prospective client (which includes prospective wrap fee/SMA sponsors or prospective wrap fee/SMA clients, and existing wrap fee/SMA sponsors). Unless otherwise noted, the wrap fee/SMA provisions and related guidance supplement all the provisions and guidance of the GIPS standards.

Although there are different types of wrap fee/SMA structures, these provisions apply to all wrap fee/SMA portfolios where there are bundled fees and the wrap fee/SMA sponsor serves as an intermediary between the firm and the end user of the investment services. The wrap fee/SMA provisions and this Guidance Statement are not applicable to portfolios defined as other types of bundled fee portfolios. These provisions are also not applicable to model portfolios that are provided by a firm to a wrap fee/SMA sponsor if

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<sup>1</sup>A wrap fee is defined as a type of bundled fee and is specific to a particular type of investment product. The wrap fee is charged by a wrap fee sponsor for investment management services and typically includes associated trading expenses that cannot be separately identified. Wrap fees can be all-inclusive, asset-based fees and may include a combination of investment management fees, trading expenses, custody fees, and/or administrative fees. A wrap fee portfolio is sometimes referred to as a “separately managed account” or “managed account.”

<sup>2</sup>An all-in fee is defined as a type of bundled fee that can include any combination of investment management fees, trading expenses, custody fees, and administrative fees. All-in-fees are client specific and are typically offered in certain jurisdictions where asset management, brokerage, and custody services are offered by the same company.

the firm does not have discretionary portfolio management responsibility for the individual wrap fee/SMA portfolios. Similarly, a firm or overlay manager in a multiple strategy portfolio (MSP) or similar program is also excluded from applying the wrap fee/SMA provisions and this guidance to such portfolios if they do not have discretion.

All wrap fee/SMA compliant presentations that include performance results for periods beginning on or after 1 January 2006 must meet all the requirements and the following guidance.

This guidance does not impose any specific additional requirements for a firm to monitor the use of its performance information once it has been provided to a third party; however, as in all situations where the performance information of the firm is distributed by a third party, the firm should take appropriate measures to ensure that its performance is not misrepresented or used in a misleading fashion.

### **Application of the GIPS Standards to Wrap Fee/SMA Portfolios**

A number of complex issues relating to achieving fair representation and full disclosure exist for a wrap fee/SMA investment manager to calculate, maintain, and present performance results in compliance with the GIPS standards. These issues result in several challenges, which include:

- A single fee is charged by a “sponsor” for several combined services (e.g., advisory, trading, custody, and other services).
  - The firm typically has no involvement in or knowledge of the total fee that is charged by the wrap fee/SMA sponsor to individual wrap fee/SMA clients. The firm typically has knowledge of only the fees it receives for its investment management services.
  - The GIPS standards require firms to deduct trading expenses from all performance. Because the total fee charged to wrap fee/SMA portfolios is determined by the sponsor, a wrap fee is difficult, if not impossible, for the firm to separate into parts in order to identify which portion is attributable to a specific service (e.g., 20% of the wrap fee is attributable to custody fees, 70% is attributable to investment management fees, 5% is attributable to trading expenses, and 5% is attributable to client reporting).
- The firm typically does not have a direct relationship with the end user of its wrap fee/SMA investment management services, even though these portfolios are often considered discretionary assets of the firm. Instead, multiple parties (typically an investment management firm, a broker or sponsor, and an end user) are involved in this business model, with the wrap fee/SMA sponsor serving as the intermediary between the firm and the end user of the investment services.
  - Firms must have records to support performance presented to satisfy laws and regulations as well as the requirements of the GIPS standards; however, wrap fee/SMA sponsors typically maintain underlying portfolio records, and firms may not have access to those records.
  - The firm provides compliant presentations and other information to wrap fee/SMA sponsors that may or may not be used by the wrap fee/SMA sponsors for presenting to wrap fee/SMA prospective clients.

- The firm provides compliant presentations and other information to prospective wrap fee/SMA sponsors that are used by the sponsor to evaluate the firm. The wrap fee/SMA sponsor typically requires specific information from the firm that may or may not comply with the GIPS standards.

### **Guiding Principles**

It is important for firms managing wrap fee/SMA portfolios to consider the following guiding principles when determining the manner in which to apply the GIPS standards to wrap fee/SMA portfolios:

- As specified in the GIPS standards, firms are required to comply with all applicable laws and regulations regarding the calculation and presentation of performance. This includes the laws and regulations relating to record keeping (e.g., having records to substantiate the performance record), which can be difficult to satisfy for some wrap fee/SMA firms.
- The GIPS standards require that all returns be calculated after the deduction of the actual trading expenses incurred during the period. The wrap fee itself may be difficult to segregate into its component parts; however, the GIPS standards require the presentation of performance after the deduction of the actual trading expenses.
- Firms may wish to calculate performance history for presentation to wrap fee/SMA prospective clients using the gross-of-fees performance results for non-wrap fee/SMA portfolios managed to the same investment mandate, objective, or strategy reduced by the highest wrap fee applicable to that product. This performance history can be presented in compliance with the GIPS standards because the performance of the investment strategy presented is based on actual assets managed by the firm and satisfies the underlying principles of fair representation and full disclosure.
- The firm must not exclude the performance of actual wrap fee/SMA portfolios when presenting performance to wrap fee/SMA prospective clients.

### **Definition of Firm**

For purposes of claiming compliance, the GIPS standards define a firm as an investment firm, subsidiary, or division held out to clients or prospective clients as a distinct business entity. This entity is a unit, division, department, or office that (1) is organizationally and functionally segregated from other units, divisions, departments, or offices, (2) retains discretion over the assets it manages, and (3) should have autonomy over the investment decision-making process. Possible criteria that can be used to determine this include:

- Being a legal entity,
- Having a distinct market or client type (e.g., institutional, retail, private client), and
- Using a separate and distinct investment process.

Organizations that have both a non-wrap fee/SMA division (e.g., institutional, private client, mutual fund) and a wrap fee/SMA division should examine the alternatives for defining the firm according to the above definition. These alternatives apply both to organizations that are just entering into the investment management industry as well as to

those that are simply expanding their operations to now incorporate wrap fee/SMA products.

There are benefits and drawbacks that must be considered for each alternative definition. Possible scenarios include:

1. Define the entire organization as the firm, and the firm claims compliance with the GIPS standards.
2. Define the divisions separately, and either:
  - a. The non-wrap fee/SMA division and the wrap fee/SMA division are defined as separate firms, and both claim compliance with the GIPS standards, or
  - b. The non-wrap fee/SMA division and the wrap fee/SMA division are defined as separate firms, and only one division claims compliance with the GIPS standards.

*1. Define the entire organization as the firm, and the firm claims compliance with the GIPS standards.*

The GIPS standards recommend that firms adopt the broadest, most meaningful definition of the firm. If both the wrap fee/SMA and non-wrap fee/SMA divisions are held out to the public as one entity, in order to meet the objectives of fair representation and full disclosure, it is required that the entire organization, including both the non-wrap fee/SMA and wrap fee/SMA divisions, be defined as the firm for purposes of compliance with the GIPS standards. The organization will likely benefit from this broad definition because:

- Both the non-wrap fee/SMA and wrap fee/SMA portfolios are included in and increase total firm assets.
- The firm has the option to combine wrap fee/SMA and non-wrap fee/SMA portfolios managed according to a similar investment mandate, objective, or strategy in the same composite provided that additional required calculations and disclosures are made.
- Prior to the firm acquiring actual wrap fee/SMA portfolios, the firm can use the historical, non-wrap fee/SMA gross-of-fees performance history, adjusted to deduct the highest total wrap fee charged to the end user by the wrap fee/SMA sponsor, in order to calculate a wrap fee/SMA performance history.

However, the firm should also consider the following potential disadvantage of defining the entire organization as the firm: If the firm includes wrap fee/SMA portfolios in a composite that is presented to prospective clients other than wrap fee/SMA prospective clients or wrap fee/SMA clients, the firm must deduct the entire wrap fee from the performance of the wrap fee/SMA portfolios unless the firm is able to identify and deduct either actual trading expenses charged to wrap fee/SMA portfolios or the portion of the wrap fee that includes actual trading expenses charged to wrap fee/SMA portfolios.

*2. Define the divisions separately.*

Organizations that choose to hold the divisions out to the public as separate and distinct entities must define the divisions as separate firms for purposes of compliance. The claim of compliance with the GIPS standards may be made solely by either division, or both divisions may make the claim of compliance independent of each

other. Firms claiming compliance with the GIPS standards may not show assets or performance of another firm except as supplemental information to an appropriate compliant presentation of the firm.

It is possible that the divisions of an organization may not be organizationally and functionally separate or independent of each other, but because:

- their operations and functions are distinct within the organization and
  - the divisions are held out to the public as distinct business entities,
- the organization would be permitted to define one or both of the divisions as separate firms for purposes of compliance.

### **Underlying Records**

Firms have options for satisfying the GIPS requirement that all data and information necessary to support all items included in a compliant presentation must be captured and maintained.

Some firms do not maintain or have access to the data necessary to substantiate portfolio-level performance. In order to satisfy this requirement of the GIPS standards, firms may choose to:

- Place reliance on the performance calculated and reported by the wrap fee/SMA sponsor. This can be done on either the aggregate level, effectively viewing the wrap fee/SMA sponsor as a single portfolio, or on the underlying wrap fee/SMA portfolio level. When relying on information provided by a third party (in this instance, the wrap fee/SMA sponsor), the firm claiming compliance with the GIPS standards must take the necessary steps to be satisfied that the information provided by the wrap fee/SMA sponsor can be relied on to meet the requirements of the GIPS standards.
- Utilize “shadow accounting”<sup>3</sup> to track the wrap fee/SMA portfolios on their in-house performance measurement systems.
- Exclude the wrap fee/SMA division from the definition of the firm (see above).

A firm claiming compliance with the GIPS standards is responsible for its claim of compliance and is responsible, as well, for reporting information in compliance with the GIPS standards to prospective clients. The firm must be sure that the performance provided by the wrap fee/SMA sponsor can be used by the firm to satisfy the requirements of the GIPS standards, or the firm must maintain separate/duplicate records that meet the requirements of the GIPS standards. Further, if the firm undertakes the verification process, the wrap fee/SMA portfolios are subject to the same level of testing as all other portfolios within the firm.

For periods beginning on or after 1 January 2006, the firm must maintain or have access to supporting records for all portfolios included in a composite. A lack of records is not a reason to classify portfolios as non-discretionary.

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<sup>3</sup>“Shadow accounting” is the process of maintaining investment performance records for each portfolio that enables an investment management firm to determine beginning and end of reporting period values and cash flows.

## Constructing and Maintaining Composites for Wrap Fee/SMA Portfolios

While the same investment strategy can be employed by the firm for wrap fee/SMA and non-wrap fee/SMA portfolios, the delivery of information about the strategy to the end user is what distinguishes wrap fee/SMA portfolios and necessitates additional guidance for creating and maintaining composites that include wrap fee/SMA portfolios.

In order for a firm claiming compliance with the GIPS standards to present performance for a specific strategy to wrap fee/SMA prospective clients that the firm historically managed for *only* non-wrap fee/SMA portfolios, the firm must satisfy the following:

- a. The firm definition must include both the wrap fee/SMA and non-wrap fee/SMA assets,
- b. There were no wrap fee/SMA portfolios under management for the particular strategy during the time periods for which the firm compiles the wrap fee/SMA performance using *only* non-wrap fee/SMA portfolios, and
- c. For all wrap fee/SMA composite presentations that include periods prior to the composite containing an *actual* wrap fee/SMA portfolio, the firm must disclose, for each period presented, that the composite does not contain actual wrap fee/SMA portfolios (i.e., that 0% or none of the composite portfolios/assets are wrap fee/SMA portfolios). This disclosure will be used by the firm prior to the implementation of the GIPS provision requiring firms with composites that include portfolios with bundled fees to present the percentage of composite assets represented by portfolios with bundled fees as of each annual period end.

The firm may calculate a wrap fee/SMA performance history for a specific strategy by using that strategy's gross-of-fees non-wrap fee/SMA composite history reduced by the highest total wrap fee charged to the client (end user) by the wrap fee/SMA sponsor for the strategy (product), resulting in net-of-fees wrap fee/SMA performance.

It is up to the firm to determine the appropriate highest wrap fee to deduct. This highest wrap fee should be obtained from the prospective wrap fee/SMA sponsor and should be comparable for the investment mandate, objective, or strategy of the wrap fee/SMA composite. "Pure" gross-of-fees performance (i.e., gross of all expenses, including trading expenses) is only permitted as supplemental information to a compliant presentation. It is recognized that when starting with the gross-of-fees non-wrap fee/SMA composite history, the gross-of-fees performance already reflects the deduction of actual trading expenses incurred. By then reducing the composite performance by the highest total wrap fee, which includes a portion attributable to trading expenses, performance will reflect the deduction of trading expenses two times (actual and portion of highest wrap fee). If the firm can identify the portion of the highest total wrap fee attributable to trading expenses, the firm may first calculate performance reflecting the deduction of both actual trading expenses and the highest wrap fee; the firm may then increase this result by the identifiable portion of the wrap fee attributable to trading expenses in order to compute a net-of-fees return.

In order to assist prospective clients and their understanding of the fees charged in these situations, when presenting gross-of-fees returns, firms must disclose if other fees are

deducted in addition to the trading expenses. When presenting net-of-fees returns, firms must disclose if any other fees are deducted in addition to the investment management fee and trading expenses.

Beyond building an initial track record for presentation to wrap fee/SMA prospective clients, the firm must consider whether it will revise its wrap fee/SMA composite history as it accumulates an actual wrap fee/SMA performance record. Once a firm acquires one or more wrap fee/SMA portfolios for management, the firm must include the performance of the actual wrap fee/SMA portfolio(s) in an appropriate composite in accordance with the firm's established portfolio inclusion policies. The firm must determine if it will combine wrap fee/SMA portfolios in a composite with non-wrap fee/SMA portfolios with the same strategy or if it will have separate composites for non-wrap fee/SMA portfolios.

The firm has three options to consider:

1. Keep the calculated history, redefine the composite to include only actual wrap fee/SMA portfolios going forward, and include relevant disclosures related to the redefinition;
2. Continue to include the ongoing performance of the non-wrap fee/SMA portfolios and combine it with performance of actual wrap fee/SMA portfolios; or
3. Create a new composite to represent only actual wrap fee/SMA portfolios. The new composite will reflect a recent composite creation date.

The firm must not exclude the performance of *actual* wrap fee/SMA portfolios from the appropriate composite(s). When presenting wrap fee/SMA performance to wrap fee/SMA prospective clients, the firm must choose one of the three options listed above.

Firms must not redefine a composite on a retroactive basis. Once the firm includes non-wrap fee/SMA portfolios in the wrap fee/SMA composite history, the firm must *not* retroactively strip those portfolios out of the composite in order to create a "wrap fee/SMA only" composite history.

### **Compliant Presentation**

Depending on the recipient of the presentation, there are different requirements for presenting wrap fee/SMA performance results. Specifically, most wrap fee/SMA sponsors need different statistics and disclosures than retail investors. These differences result in separate requirements depending on if the composite results are presented to a prospective client or are solely for the internal use of an existing wrap fee/SMA sponsor. The firm may provide its performance to wrap fee/SMA prospective clients to generate new business or may provide its performance to existing wrap fee/SMA sponsors for the sponsor's internal use.

*Wrap fee/SMA results for wrap fee/SMA prospective clients (the first time the firm presents performance to a wrap fee/SMA prospective client to obtain new business)*

When presenting performance to a wrap fee/SMA prospective client, performance must be shown net-of-fees (i.e., the entire wrap fee). Firms may also present gross-of-fees

returns as additional information and/or “pure” gross-of-fees returns as supplemental information.<sup>4</sup>

The GIPS standards require firms to define composites according to investment mandates, objectives, or strategies. In order to facilitate the comparability of performance results and prevent firms from cherry-picking their best performing portfolios for presentation, firms must group all appropriate wrap fee/SMA portfolios in a composite according to the same investment objective, mandate, or strategy (creating a style-defined composite) regardless of the wrap fee/SMA sponsor. If the firm has no actual wrap fee/SMA portfolios under management for the specified strategy, this style-defined composite will be composed of *only* non-wrap fee/SMA portfolios managed to the specified strategy using the gross-of-fees performance results reduced by the highest wrap fee applicable to that strategy.

Once the firm has actual wrap fee/SMA portfolios under management, the firm has two options for composite construction:

1. If the firm chooses to define its composites to include only actual wrap fee/SMA portfolios going forward, the style-defined composite will consist of portfolios from all wrap fee/SMA sponsors that are managed to the specified strategy.
2. If the firm chooses to continue to combine the ongoing performance of the non-wrap fee/SMA portfolios and actual wrap fee/SMA portfolios in the same composite, the style-defined composite will consist of the continuing non-wrap fee/SMA portfolios as well as all wrap fee/SMA portfolios managed to the specified strategy, regardless of the wrap fee/SMA sponsor.

Regardless of the firm’s composite construction choice, this style-defined composite must be presented to wrap fee/SMA prospective client in order to demonstrate a full and fair picture of the firm’s ability to manage wrap fee/SMA portfolios in the defined style. A firm may choose to present additional information and/or supplemental information demonstrating the firm’s ability to manage portfolios for a specific wrap fee/SMA sponsor or group of wrap fee/SMA sponsors.

When a firm that claims compliance with the GIPS standards prepares a compliant presentation to be provided to wrap fee/SMA prospective clients (either directly by the firm or through the wrap fee/SMA sponsor), performance must be prepared net-of-fees, reflecting the actual wrap fee or the highest wrap fee charged to clients by the wrap fee/SMA sponsor. The firm may prepare other information as requested by the wrap fee/SMA sponsor consistent with the ethical principles of the GIPS standards.

*Wrap fee/SMA results for existing wrap fee/SMA sponsors only for the sponsor’s internal use*

When reporting performance to an *existing* wrap fee/SMA sponsor for the sponsor’s internal use, the firm may choose whether to show returns on a gross-of-fees or net-of-fees basis. (Firms may also present “pure” gross-of-fees returns as supplemental

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<sup>4</sup>See the Guidance Statement on the Use of Supplemental Information at [www.gipsstandards.org](http://www.gipsstandards.org).

information.) However, as described above, all presentations that are prepared by the firm and will be provided to wrap fee/SMA prospective clients must be presented net-of-fees, reflecting the actual wrap fee or the highest wrap fee charged to clients by the wrap fee/SMA sponsor.

When a firm is reporting the performance of a wrap fee/SMA program to an existing wrap fee/SMA sponsor for the sponsor's internal use, there is a need to report how the firm has performed managing a particular program or "product" for that individual wrap fee/SMA sponsor. The firm may report the performance of the composite that includes only the portfolios managed for that wrap fee/SMA sponsor. Similar to the concept of existing client reporting, a firm may choose to create a smaller composite consisting only of the portfolios managed for the wrap fee/SMA sponsor in order to present to that sponsor the performance of their own wrap fee/SMA product. Provided all the requirements of the GIPS standards are met on a firm-wide basis, the sponsor-specific composite presentation may include the claim of compliance. The firm must reflect the name of the existing wrap fee/SMA sponsor in the sponsor-specific compliant presentation. Further, if the presentation does not include net-of-fees returns, the firm must include a prominent disclosure stating that the sponsor-specific compliant presentation is only for the internal use of the named wrap fee/SMA sponsor.

#### *The use of aggregate information*

The use of aggregate information for performance and performance-related reporting purposes is permitted. 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. For example, at year-end, if a firm is managing 1,000 underlying wrap fee/SMA portfolios for one sponsor and the firm effectively views the sponsor as a single portfolio, the firm may choose to report "1" or " $\leq 5$ " for the number of portfolios in the composite. The GIPS standards provide that the firm is not required to disclose the number of portfolios if there are five or fewer portfolios in the (wrap fee/SMA) composite.

Alternatively, the firm may choose to rely on the underlying portfolios of each sponsor, and the performance and performance-related information presented will reflect the individual wrap fee/SMA portfolios (end users). Using the example above, the firm will report "1,000" for the number of portfolios in the composite.

#### **Calculating Gross-of-Fee and Net-of-Fee Returns for Wrap Fee/SMA Composites**

The GIPS standards require that returns are calculated net of actual trading expenses. For wrap fee/SMA portfolios, this concept is not easily applied because the wrap fee itself may be difficult, if not impossible, to segregate into its component parts. In some cases, the actual fees charged to each wrap fee/SMA portfolio are not available. See examples of calculations in Exhibit C.

*Calculating performance for composites that include wrap fee/SMA portfolios to be presented to a wrap fee/SMA prospective client (the first time performance is shown to obtain new business)*

When calculating performance to be presented to a wrap fee/SMA prospective client, a gross-of-fees return or “pure” gross-of-fees return must be reduced by the entire wrap fee in order to compute net-of-fees returns. This reduction is applicable to all wrap fee/SMA portfolios in the composite as well as any non-wrap-fee/SMA portfolios in the composite. The net-of-fees requirement for *wrap fee/SMA prospective clients* is applicable regardless of whether the firm can determine the portion of the wrap fee that includes trading expenses.

*Calculating performance for an existing wrap fee/SMA sponsor’s composite only for the sponsor’s internal use*

When calculating performance to be presented to an existing wrap fee/SMA sponsor for the sponsor’s internal use, performance can be calculated and presented either gross-of-fees or net-of-fees. These calculations can be difficult to compute for wrap fee/SMA portfolios because the wrap fee cannot be broken into its components.

Therefore, in cases where the trading expenses cannot be identified and segregated from a total wrap fee, either the entire wrap fee or the portion of the wrap fee containing the trading expenses must reduce the gross-of-fees returns. In these cases, custody and other administrative fees might be included in (reduce) the gross-of-fees and returns. Firms may find that the gross-of-fees return is equal to the net-of-fees return.

If firms can identify these other fees and expenses, firms are permitted to add back any fees and expenses except for the trading expenses for gross-of-fees returns and may add back any fees and expenses except for the trading expenses and investment management fees for net-of-fees returns.

**Calculating Internal Dispersion for a Wrap Fee/SMA Composite**

The GIPS standards require that all compliant presentations include a measure of dispersion of portfolio returns, considering only those portfolios that have been included in the composite for the full year. Firms are encouraged to maintain the individual (end user) portfolio-level returns, which will facilitate the computation of the required measure of dispersion (and number of portfolios within the composite).

A firm may choose to view the aggregate performance information reported by a wrap fee/SMA sponsor as a single portfolio. This measure of internal dispersion considers the sponsor-level returns, not the portfolio-level returns that are consolidated in the sponsor-level returns. If the composite contains five or fewer portfolios for the full year, a measure of internal dispersion is not required.

**Supplemental/Additional Information**

The GIPS standards recommend that firms present information that supplements the required compliant presentation that will assist clients to interpret the record. With regard to presenting wrap fee/SMA performance to wrap fee/SMA prospective clients, firms are required to show net-of-fees performance results; however, they are permitted to show

“additional information” in the form of gross-of-fees results (i.e., reduced by trading expenses) as well as “supplemental information” in the form of “pure” gross-of-fees results (i.e., gross of all expenses, including trading expenses). See the Guidance Statement on the Use of Supplemental Information.

**Effective Date**

The effective date for this Guidance Statement is 1 January 2011. When bringing past performance into compliance, firms may comply with this version of the Guidance Statement or with prior versions in effect at the time. The prior version of this Guidance Statement is available on the GIPS standards website ([www.gipsstandards.org](http://www.gipsstandards.org)).

EXHIBIT A  
 Exhibit A Investments  
 Large-Cap SMA Composite  
 1 January 2001 through 31 December 2010

Year	Net Return (%)	“Pure” Gross Return* (%)	XYZ Index Return (%)	Internal Dispersion (%)	As of 31 December			
					Number of Portfolios	Composite Assets (\$ millions)	Firm Assets (\$ millions)	% of SMA Portfolios
2010	8.4	11.1	10.2	0.7	1,834	2,125	18,222	100
2009	21.1	24.0	21.1	1.1	1,730	2,130	17,635	100
2008	-39.7	-38.0	-39.8	1.0	1,631	2,141	19,246	100
2007	1.4	4.0	6.2	1.2	1,532	2,127	14,819	100
2006	11.4	14.1	10.5	0.9	1,428	2,116	12,362	100
2005	1.0	3.5	4.3	0.8	68	1,115	12,051	0
2004	6.8	9.5	4.9	1.0	52	1,110	13,419	0
2003	23.9	26.9	27.0	1.1	46	990	10,612	0
2002	-24.4	-22.3	-19.1	0.9	38	975	9,422	0
2001	-17.7	-15.5	-12.8	0.8	41	870	8,632	0

\*Beginning 1 January 2006, “pure” gross-of-fees returns do not reflect the deduction of any expenses, including trading costs. “Pure” gross-of-fees returns are supplemental to net returns.

1. Exhibit A Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Exhibit A Investments has been independently verified for the period from 1 April 1996 through 31 December 2009.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm’s policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Large Cap SMA Composite has been examined for the period from 1 January 2006 through 31 December 2009. The verification and performance examination reports are available upon request.

2. Exhibit A Investments is an independent investment adviser registered under the Investment Advisers Act of 1940, was founded in March 1996, and manages global large-cap equity, fixed-income, and balanced strategies.
3. Beginning 1 January 2006, the Composite includes all separately managed (wrap) portfolios benchmarked to the XYZ Index. Performance results prior to 2006 are based on the Large-Cap Institutional Composite returns.
4. The Large-Cap SMA Composite is comprised of portfolios invested in U.S. equities which have a market capitalization greater than \$5 billion.
5. The composite was created in February 2006. A list of composite descriptions is available upon request.
6. All returns are expressed in U.S. dollars. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

## Guidance Statement on Wrap Fee/Separately Managed Account (SMA) Portfolios

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7. The XYZ Index represents the companies in the U.S. equity market with the largest market capitalizations. The XYZ Index returns are provided to represent the investment environment existing during the time periods shown. For comparison purposes, the index is fully invested and includes the reinvestment of income. The returns for the index do not include any trading costs, management fees, or other costs. Index returns have been taken from published sources.
8. “Pure” gross returns, presented as supplemental information, from 2006 through 2010 do not reflect the deduction of any trading costs, fees or expenses and are presented for comparison purposes only. “Pure” gross returns prior to 2006 reflect the deduction of trading costs. The SMA fee includes all charges for trading costs, portfolio management, custody, and other administrative fees. Net returns are calculated by subtracting the highest applicable SMA fee (2.50% on an annual basis, or 0.21% monthly) on a monthly basis from the “pure” gross composite monthly return. The standard fee schedule in effect as follows: 2.50% on total assets.
9. The dispersion is measured by the equal-weighted standard deviation of annual returns of those portfolios that are included in the composite for the full year.
10. At 31 December 2010, the three-year annualized standard deviation of the composite and the benchmark are 12.3% and 13.2%, respectively.
11. Past performance is not an indicator of future results.

### Supplemental Information

Year	“Pure” Gross Return* (%)	Net Return (%) Assuming 3% SMA Fees	Net Return (%) Assuming 2% SMA Fees
2010	11.1	7.9	9.0
2009	24.0	20.5	21.7
2008	-38.0	-40.1	-39.4
2007	4.0	0.9	2.0
2006	14.1	10.8	11.9
2005	3.5	0.5	1.5
2004	9.5	6.3	7.4
2003	26.9	23.3	24.5
2002	-22.3	-24.8	-23.9
2001	-15.5	-18.1	-17.2

EXHIBIT B

Exhibit B Asset Management Company

Small-Cap SMA Composite

1 January 1999 through 31 December 2010

Year	Net Return (%)	XYZ Index Return (%)	Internal Dispersion (%)	As of 31 December			
				Number of Portfolios	Composite Assets (\$ millions)	% of Firm Assets	% of SMA Portfolios
2010	10.0	8.9	0.8	583	1,432	17	100
2009	-8.9	-15.4	0.7	573	1,324	14	100
2008	6.7	7.6	1.1	563	1,243	15	100
2007	-4.5	3.5	1.0	553	976	14	100
2006	11.0	2.6	1.2	503	890	14	100
2005	14.6	14.9	0.9	433	789	11	50
2004	-3.7	-7.3	0.8	333	654	12	40
2003	14.6	10.9	1.0	233	633	13	30
2002	19.1	14.3	1.1	133	300	12	25
2001	2.3	3.7	0.9	23	162	15	20
2000	-1.6	0.7	0.8	13	120	14	0
1999	12.7	13.4	0.7	3	25	16	0

Exhibit B Asset Management Company claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Exhibit B Asset Management Company has not been independently verified.

Exhibit B Asset Management Company is an independent investment adviser registered under the Investment Advisers Act of 1940 and manages fixed-income and equity strategies.

The Small-Cap SMA Composite (Composite) includes portfolios invested in U.S. small-cap equities with market capitalization less than \$2 billion. Beginning 1 January 2006, the Small-Cap SMA Composite (Composite) includes all separately managed (wrap) portfolios benchmarked to the XYZ Small-Cap Index and sponsored by Sparky Sponsor, Inc. Performance results from 2001 through 2005 are those of Exhibit B Asset Management Company's Small-Cap Institutional Composite and small-cap wrap portfolios managed for Sparky Sponsor. Performance results from 1999 and 2000 are those of the Small-Cap Institutional Composite. The Composite was created in August 2006. A complete list of composite descriptions is available upon request.

Portfolio returns are calculated monthly using the Modified Dietz method. Portfolios are revalued for any cash flow that exceeds 10% of the portfolio's value. The SMA fee includes all charges for trading costs, portfolio management, custody, and other administrative fees. Net returns are calculated by subtracting the highest applicable SMA fee (2.50% on an annual basis or 0.625% quarterly) on a quarterly basis from the "pure" gross quarterly return.

Monthly Composite returns are calculated by weighting each account's monthly return by its relative beginning market value. All returns are expressed in U.S. dollars. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The XYZ Small-Cap Index returns represents the returns of those U.S. companies with market capitalization less than \$2 billion. The XYZ Small-Cap Index returns are provided to represent the investment environment existing during the time periods shown. For comparison purposes, the index is fully invested and includes the reinvestment of income. The returns for the index do not include any trading costs, management fees, or other costs.

## Guidance Statement on Wrap Fee/Separately Managed Account (SMA) Portfolios

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The internal dispersion is measured by the equal-weighted standard deviation of annual returns of those portfolios that are included in the Composite for the full year.

As of 31 December 2010, the three-year annualized ex-post standard deviation of the composite and the benchmark are 14.6% and 13.9%, respectively.

Past performance is not an indicator of future results. The standard fee schedule in effect is as follows: 2.50% on total assets.

EXHIBIT C

*Examples of Gross-of-Fees and Net-of-Fees Calculations*

	<b>Presenting to current wrap fee/SMA sponsors and clients (Can and choose to unbundle wrap fee)</b>	<b>Presenting to prospective wrap fee/SMA sponsors and clients</b>
<b>Non-wrap</b>		
Return on investments	Return on investments (“pure gross”)**	Return on investments (“pure gross”)**
— Trading expenses	— Portion of wrap fee that includes trading expenses that can be segregated	
<b>Gross-of-fees return</b>	<b>Gross-of-fees return</b>	— Highest wrap fee <i>Or</i> — Actual wrap Fee
— Investment management fee	— Portion of wrap fee that includes IM fee that can be segregated	
<b>Net-of-fees return</b>	<b>Net-of-fees return</b>	
— Administrative fee	— Remaining portion of wrap fee (if any)	
		<b>Gross-of-fees return</b>
Client return*	Client return*	<b>Net-of-fees return</b>
		Client return *

\*The client return is not required by the GIPS standards and is presented here as additional information that may be helpful for existing clients.

\*\*While the “pure gross” return is not required or recommended by the GIPS standards, it can be shown as supplemental information.