

CFA Institute
Global Investment Performance Standards GIPS
Re: Guidance Statement on Alternative Investment Strategies and Structures
P.O. Box 3668
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USA

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Basel, June 7, 2011
A.170.4 / MST / SLO

Re: Comments on Exposure Draft of the Guidance Statement on Alternative Investment Strategies and Structures

Dear Sirs

We refer to your invitation to comment on the Exposure Draft of the Guidance Statement on Alternative Investment Strategies and Structures and would like to thank you very much for the opportunity to present our views.

The Swiss Bankers Association (SBA) is the leading professional organization of the Swiss financial centre. We offer the following comments in our capacity as Country Sponsor for GIPS in Switzerland. Our remarks and suggestions have been developed in the context of our Expert Group on GIPS in which both banks as well as auditors are represented.

In general, the Swiss Bankers Association welcomes the development of the GIPS Guidance Statement on Alternative Investment Strategies and Structures. We are convinced that the new Guidance Statement creates an adequate basis for the implementation of GIPS in alternative strategies and should facilitate the proliferation of the GIPS standards in the alternative investment space, especially for hedge funds.

The remarks below, both regarding content and form, follow the chronology of the Exposure Draft. Thereby, we also address the specific questions asked in the consultation package.

Question 2.2.2: Do you agree with the proposed requirements related to the frequency of portfolio valuations? Why or why not?

2

While we understand that from 1.1.2010 there is a general GIPS requirement to value portfolios upon all large external cash flows and, in the absence of cash flows, at least monthly, we believe that for illiquid alternative investments (e.g., specific commodities such as timber) an exception should be considered to allow for less frequent (e.g., quarterly) valuations. In addition, it should be made clear that a portfolio as a whole must be valued on a monthly basis as required by GIPS (assuming no large external cash flows) but some specific investments within the portfolio may still be valued on a less frequent than monthly basis (similarly to the Private Equity and Real Estate investments). In addition, firms should be allowed to use the last available historical market price of an investment as a proxy for the fair value, provided that they define this approach in the GIPS valuation policy and apply it consistently.

Question 2.2.3: Do you agree with the proposed treatment of estimated versus final values? Do you support different guidance for pooled funds and managed portfolios? Do you agree with requiring the disclosure of the use of estimated values? Why or why not?

We agree with the proposed treatment of estimated versus final values, support different guidance for pooled funds and managed portfolios and also agree with requiring the disclosure of the use of estimated values.

In addition, we believe that firms should be allowed to use final values of the previous month for the current month valuation when the final values of the current month are not yet available, even if the estimated values are already available.

Question 2.3.1: Do you agree with the proposed treatment of gross-of-fees returns and net-of-fees returns for master-feeder structures? Why or why not?

Yes, we agree with the proposed treatment of gross-of-fees returns and net-of-fees returns for master-feeder structures.

In some fund-of-funds structures where both the umbrella and the underlying funds are managed by the same firm, a management fee may (for legal purposes) be split and charged both at the umbrella and the underlying level, e.g. 20% of the total management fee at the umbrella fund level and 80% of the total management fee at the underlying fund level. The current wording in the Guidance states that "If presenting gross-of-fees returns for a fund-of-funds composite strategy, firms must present the gross-of-fees returns net of all of the underlying funds' fees and expenses". We believe that in the situation described above it would be inappropriate to disallow grossing up the management fees charged at the underlying fund level because those fees are part of the overall management fee compensation of the firm.

Question 2.4.3: Do you agree with the proposed treatment of side pockets? Why or why not? Should a firm be required to disclose the creation of a side pocket in all instances? Or, only when a side pocket is created to hold non-discretionary assets that are no longer reflected in composite performance? What should be required to be disclosed?

Yes, we agree with the proposed treatment of side pockets. We agree that those investments segregated in a side pocket that are no longer managed in a discretionary way should be excluded from the composite. Firms should be required to disclose only when a side pocket is created to hold non-discretionary assets that are no longer reflected in composite performance, and in particular, to disclose the following:

- 1) Month / year of the removal of the side-pocketed assets
- 2) Percentage of the side-pocketed assets in the total composite assets at the point of time of the exclusion of the side pocket from the composite.

According to section 2.4.3: “Firms must not claim that illiquid securities are non-discretionary in order to exclude the performance of the illiquid securities from the portfolio or the composite”. We suggest changing the wording as follows: “Firms must not claim that illiquid securities are non-discretionary **just because of their illiquidity** in order to exclude the performance of the illiquid securities from the portfolio or the composite” – in order to make it consistent with the analogous sentence in Question 2.5.2.

Question 2.5.2: Do you agree with the proposed treatment of illiquid investments? Why or why not?

Yes, we agree with the proposed treatment of illiquid investments.

Question 4.2.1: Should portfolios managed with discretionary leverage be allowed to be deleveraged for inclusion in composite performance? Why or why not? Should portfolios managed with nondiscretionary leverage be allowed to be deleveraged for inclusion in composite performance? Why or why not?

On the one hand, we agree that portfolios managed with discretionary leverage must not be allowed to be deleveraged for inclusion in composite performance because the decision to leverage the portfolio was taken by the manager and hence the manager must bear the performance impact of such a decision.

On the other hand, we believe that portfolios managed with non-discretionary leverage should be allowed to be deleveraged. In this situation the decision to leverage the portfolio was taken by the client and hence the manager should have the option to eliminate the leverage effects, similarly to the already allowed treatment to exclude a non-discretionary investment from the composite (ref. to the Guidance Statement on Composite Definition: “In the case of client-restricted securities, the firm may choose to classify the restricted portion of the portfolio as non-discretionary”). The treatment must be consistent on a composite basis.

Question 4.2.4: Should firms be allowed to adjust portfolio and composite performance for the double-counting of assets? Alternatively, do you agree that firms should be prohibited from recalculating portfolio and composite performance to eliminate double-counted assets? Why or why not?

We believe that this problem is not specific for alternative strategies but may occur in any composite that includes pooled funds with cross-investments.

Firms should be allowed to adjust portfolio and composite performance for the double-counting of assets.

First, we believe that not allowing this is inconsistent with the requirement to eliminate the double-counting of assets for the purpose of calculation of composite and total firm assets.

Second, we point to the fact that the GIPS Guidance Statement on Calculation Methodology defines the Aggregate Return methods as combining all the composite assets and external cash flows before any calculations occur to calculate returns as if the composite were one portfolio. We are concerned that under a certain way of application of *the Aggregate Return method* for the composite performance calculation, in the case of composites containing portfolios with cross-investments, the calculated composite return may produce the result illustrated under Scenario B with elimination of double-counting. Not allowing firms to eliminate double-counting may indirectly invalidate the allowed use of the Aggregate Return method. Therefore, we urge the GIPS Executive Committee to verify this potential issue.

Question 4.3.1: When presenting net-of-fees returns, firms are allowed to reduce gross-of-fees returns by the actual investment management fee incurred by each portfolio or a model fee. The model fee must be the highest investment management fee incurred by portfolios in the composite. Should firms also be allowed to present net-of-fees returns that are reduced by a model fee which is the maximum investment management fee applicable to the prospective client, even if it is not the highest investment management fee that is incurred by portfolios in the composite? Why or why not?

We believe that firms should be allowed to present net-of-fees returns that are reduced by a model fee which is the maximum investment management fee applicable to the prospective client, even if it is not the highest investment management fee that is incurred by portfolios in the composite. We believe that it is more appropriate to adjust returns by the relevant applicable fees rather than applying the highest fee incurred in a specific portfolio. The highest fee may be a result of a special situation with a specific client in the composite which may not be generally applicable to any other prospective client.

Allowing this would obviously mean producing different versions of the GIPS compliant composite presentation, depending on the prospective client, and an additional disclosure must be added in this case, specifying that the client specific fee has been used.

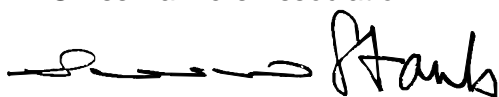
In addition, Question 4.3.1 should clearly define whether the option to reduce the gross-of-fees returns by the highest model fee is to be applied in the historical or current period perspective. For example, assume that in 2010 the highest model fee was 0.5% p.a., but in 2009 0.8% p.a.. Are firms required to deduct 0.5% or 0.8% when presenting net-of-fees returns for the year 2010? This is a general problem, not only specific to the Alternative Strategies, and we believe that a general guidance should be developed in this respect.

Additional comment

GIPS require that Trade Date accounting must be used for investment transactions. When subscribing / redeeming hedge funds, it is often the case that the transaction cannot be booked on the trade date because the fund administrator confirmation with the final settlement price of the fund is provided only after several days or even weeks after the subscription / redemption trading order has been submitted. In such a situation, it may not be possible for the fund-of-fund manager to account for the subscription / redemption on the trade date, simply because the settlement price of the fund is not known until the administrator confirmation has been received. We would like to ask the GIPS Executive Committee to provide an explicit guidance how to handle such situations in terms of the GIPS provision 1.A.5.

Again, we would like to thank you for the opportunity to comment on your exposure draft. We are very interested, of course, in seeing the further development of the Guidance Statement and wish you plenty of success in finalizing this important project. Please do not hesitate to contact us should you need additional information.

Yours sincerely,
Swiss Bankers Association

The image shows two handwritten signatures in black ink. The signature on the left is for Renate Schwob, and the signature on the right is for Markus Staub. Both signatures are written in a cursive, flowing style.

Renate Schwob

Markus Staub