

**IMCA<sup>®</sup> Performance Reporting Guidelines****SECTION 1—INTRODUCTION****I. ENDORSEMENT**

Investment Management Consultants Association (IMCA) has established the following standards for investment performance reporting. Specifically, these standards cover the collection, analysis, and reporting of performance information related to manager search and analysis and the reporting of performance results to clients.

**II. PHILOSOPHY**

The *IMCA Performance Reporting Guidelines* stress the importance of consultants providing accurate and comparable investment performance information and appropriate disclosures to clients during manager search and analysis and performance measurement reporting. Disclosure in this context is used in a broad sense. It includes disclosures relating to preparation of the information provided as well as to potential conflicts of interest, relevant business relationships, and other pertinent considerations.

**III. PARTIES AFFECTED**

The *IMCA Performance Reporting Guidelines* are for investment management consultants. Consultants are encouraged to follow the *Performance Reporting Guidelines* in the course of conducting investment manager searches and monitoring performance.

Because of the nature of the consultant, client, and investment manager relationship, these guidelines may also affect parties outside the consulting profession. IMCA believes that these parties—clients, investment managers, custodians, and others—will benefit from the guidelines. The intent of the *Performance Reporting Guidelines* is not to create unnecessary burdens on third parties but rather to enable consultants to fulfill their professional responsibilities while assisting clients.

**IV. CFA INSTITUTE PERFORMANCE PRESENTATION STANDARDS**

The *IMCA Performance Reporting Guidelines* were designed to complement the Global Investment Performance Standards (GIPS) of the CFA Institute.

GIPS cover items detailed primarily in Section 2 of this document (Manager Search and Analysis—methodologies for managers to compile and construct performance composites). IMCA believes the CFA Institute has contributed a valuable service to the investment community and endorses GIPS.

In their current form, GIPS apply mostly to the presentation of performance composites by investment managers to prospective clients. The *IMCA Performance Reporting Guidelines*, designed to complement GIPS, are applicable to the collection and analysis of performance data obtained from investment managers, as well as the consultant's reporting, monitoring, and analysis of performance results for the client.

**V. COMPLIANCE**

Like GIPS, *IMCA's Performance Reporting Guidelines* are voluntary. No one is required to comply. The consultant may represent to clients, managers, and others that specific reports are in compliance with these standards by meeting all items and disclosures as listed in Section 4 of this document. When a manager search or performance report meets all of the Section 4 recommendations, the following written statement may be added to the report:

*"This report has been prepared and presented in compliance with the IMCA Performance Reporting Guidelines. IMCA has not been involved with the preparation or review of the report."*

**SECTION 2—MANAGER SEARCH AND ANALYSIS**

This section details standards to be followed by the consultant when assisting clients in selecting investment managers.

**I. SOURCES OF DATA**

- A. Typically, the data used in providing manager search and analysis information is an investment manager's performance composite(s). Investment managers usually prepare these composites themselves. When this is the case, the consultant should disclose that the data were prepared by the investment manager and represent the average performance of actual portfolios. In other cases, the source and definition of the data should be disclosed.
- B. The consultant should obtain performance composites that best represent the investment performance the client might have experienced as a client of the investment manager during the period being evaluated. For each investment manager who is to be evaluated, the consultant should review all composites within a firm or

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product group before selecting the appropriate composite(s) to be presented to a client. The intent is to ensure that a “select” composite is not presented to the client.

- C. In order to ensure that the performance results presented accurately reflect the actual results achieved by a particular investment firm or product, the consultant should obtain information from the investment manager to support the performance composite calculations. Requested information could include the aggregate market values and cash flows of the performance composite, the returns for individual portfolios in the performance composites, or the underlying individual portfolio performance accounting data.

**II. COMPOSITE CONSTRUCTION**

- A. Investment management consultants should use composites from firms that are in compliance with GIPS. If a consultant chooses to use a firm that is not in compliance with CFA Institute standards, the noncompliance must be disclosed to the client. The individual composites presented should also be prepared in compliance with GIPS, and noncompliance should be disclosed. For non-compliant firms and composites, the reasons for noncompliance should be disclosed to the client. Supplemental information should not be presented on a stand-alone basis.
- B. Consultants, at a minimum, should use quarterly rate-of-return data in calculations. Monthly rate-of-return data are preferable.
- C. Consultants are encouraged to obtain additional quantitative information about the performance composite—for example, equal-weighted results, the median, range, standard deviation, and other information necessary to effectively assess that a composite is representative of the investment product. This additional information includes required GIPS disclosures.
- D. Model (simulated) portfolio: The consultant may present model portfolio results to a client as supplemental information, subject to the following constraints:
1. The consultant should provide the client with full disclosure concerning the methodology used and assumptions made. A statement that no assets were actually managed using the model must be included.

2. Model portfolio results should not be linked with actual results.
3. The investment manager should be encouraged to continue to calculate model portfolio results after actual implementation of the investment product to facilitate analysis and comparison by the consultant.

- E. Hypothetical portfolio: The consultant may use hypothetical portfolio results to analyze an investment product and process, subject to the following constraints:

1. The consultant should provide the client with full disclosure concerning the weighting methodology used and assumptions made.
2. The firm must be in compliance with GIPS and the underlying composites used to construct the hypothetical portfolio must be constructed according to GIPS.
3. Disclosures for all underlying composites should be presented in accordance with the *IMCA Performance Reporting Guidelines*.
4. An example of a hypothetical portfolio is a balanced composite that combines stock and bond composites because the manager may not have managed balanced accounts in the past.

- F. Transferability of historical record:

1. Past investment results belong to the investment firm (as defined by CFA Institute) that achieved those results, not to any single individual(s), and should not be altered to reflect personnel or other organizational changes. The consultant should disclose any significant changes in the personnel or organizational structure of the investment management firm that, in the consultant's opinion, might affect future performance.
2. Performance results achieved by key investment personnel while employed with another investment firm may be used by the new firm if the consultant determines that these professionals are implementing the same investment process with similar resources and disciplines at the new firm. The prior historical record may be linked with results achieved at the new firm to provide a long-term investment record. Disclosure of these circumstances to

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the client is mandatory, as is any SEC ruling on the ownership of the track record.

## G. Special cases

In the absence of IMCA *Guidelines* or CFA Institute standards for an investment product, the manager and/or consultant should prepare performance results in accordance with appropriate, recognized industry standards such as the American Institute of Certified Public Accountants Standards. The goal should always be to have an accurate representation of the product's performance.

## H. Additional information

The consultant should review the following information for each performance composite being presented (from the inception of the firm, the inception date of the investment product, or ten years—whichever is shorter).

1. CFA Institute disclosure(s)
2. The total number and market value of portfolios included in the performance composite
3. The total number and market value of discretionary portfolios managed in a similar manner but not included in the composite
4. The total number and market value of nondiscretionary portfolios managed in a similar manner but not included in the composite
5. The average, median, smallest, and largest portfolios in the performance composite
6. The average asset allocation of the performance composite
7. An explanation of the criteria by which portfolios are excluded, deleted, or added to the performance composite
8. The standard deviation of individual portfolio returns included in the performance composite return
9. The range of returns (and the median return) within the performance composite
10. Quarterly, annual, and cumulative returns as well as the risk associated with the composite returns

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encourage investment management firms to obtain third-party verification that a performance composite is in compliance with GIPS.

**III. DISCLOSURE AND PRESENTATION OF COMPOSITE RESULTS TO CLIENTS**

- A. Sources of data and definitions relating to these data should be disclosed.
- B. Whenever investment results containing leverage are presented to a client, the details regarding the leverage should be disclosed.
- C. For comparative purposes, the consultant should present the performance composite on both a gross basis (before deduction of the investment management fee) and a net basis (after deduction of the investment management fee). If only gross return information is presented to the client, additional information should be provided to enable the client to determine the impact of the manager's fee. The consultant must be consistent when using gross or net data. The manager's fee must also be presented.
- D. The consultant should use "best efforts" to ensure that any rate-of-return comparisons are reasonable and appropriate.
- E. The consultant should present annual and cumulative returns for each performance composite to clients in a format that facilitates the objective comparison of one manager with another. At a minimum, each year and each longest common time period should be included in the report. Returns for client-requested time periods, market cycles, or other time periods should be presented when needed. At a minimum, the returns for each composite should be presented from the inception of the firm, the inception of the investment product, or ten years—whichever is shorter.
- F. Rates of return for periods longer than one year should be presented in annualized form. Returns for periods shorter than one year should never be annualized.
- G. Statistical measures of risk
  1. In addition to rates of return, measures of risk should be presented to give the client a more complete picture of the investment manager's results. The consultant should determine the number of observations that are sufficient for

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- risk calculations.
2. At a minimum, portfolio risk should be measured by calculation of an annualized standard deviation derived from monthly or quarterly total rates of return for a meaningful reporting period (as determined by the consultant).
  3. Measures of beta, residual standard deviation, correlation, covariance, semivariance, or other measures may be presented when appropriate.
  4. Presentation of fundamental portfolio characteristics such as price-earnings ratio, duration, yield, or quality is encouraged.
- H. Benchmarks
1. The intent in including benchmark comparisons is to provide the client with a means of comparing the investment managers being evaluated.
  2. The consultant should ensure that benchmarks are appropriate.
  3. Comparisons should be made for any time periods for which performance composite results are being presented. At a minimum, annual and cumulative returns should be compared. The inclusion of other time periods (e.g., quarterly, market cycles) is encouraged.
  4. Comparisons must include the presentation of appropriate measures of risk over time; these measures might include standard deviation of return and beta.
- I. Sample peer comparisons
1. The consultant should determine the appropriate investment product sample or grouping, based on information analyzed by the consultant.
  2. The consultant should disclose to the client the composition of any investment product sample used, including the treatment of fees.
  3. The consultant should disclose to the client that biases appear in all peer group samples, such as survivor, back-fill, classification, and composition biases.
- J. Information provided to the client directly by the investment manager(s) should be in compliance with GIPS.

- K. The consultant is responsible for providing the client with appropriate disclosures regarding potential conflicts of interest, relevant business relationships, and other pertinent considerations.

**IV. NONTRADITIONAL ASSET CLASSES**

- A. Types of assets  
These asset classes would include, but would not be limited to, derivative securities, municipal bonds, private investments, commodities, and real estate.
- B. Treatment  
Nontraditional assets should generally be handled in accordance with GIPS.
- C. Disclosure  
Because many nontraditional asset classes involve complex investment strategies, complete disclosure of the nature and consequences of the investment strategies being used is essential.

**SECTION 3—  
REPORTING PERFORMANCE  
RESULTS TO CLIENTS**

This section presents guidelines to be followed by the consultant in monitoring the historical and ongoing investment performance results of a client's existing investment managers.

**I. SOURCES OF DATA**

- A. The data obtained for performance measurement purposes should consist of security market values and transactions.
- B. The sources of data used in monitoring the historical and ongoing investment performance of a client's investment managers should be independent of the investment manager being evaluated. The consultant should avoid using data obtained directly from the manager unless these data are the sole available source of information. In this case, the consultant should substantiate the data whenever possible and must disclose their use to the client.
- C. The preferred source of data is the custodian (bank, brokerage firm, insurance company, or others providing custodial services) that provides independent valuation of all security holdings and all portfolio transactions. Performance results, where possible, should be reconciled with the manager's reported performance.

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- D. Whenever summary market valuations, cash flows, or returns obtained from another consultant, the custodian, or the client are used instead of the original data, the consultant should use “best efforts” to confirm the validity and accuracy of the aggregation process. Additionally, the consultant should obtain information regarding the basis of the aggregated data—for example, cash versus accrual, trade date versus settlement date, gross basis (before deduction of fees) versus net basis (after deduction of fees).
- E. The client should be informed regarding the source(s) of data used for performance reporting, particularly the use of noncustodial sources.
- F. For mutual funds, the consultant may use data obtained from a third-party provider. The source of the data must be disclosed to the client.
- G. There are special considerations regarding the collection of historical data for a new client or portfolio:
  - 1. For reasons such as lack of original statements or client cost constraints, historical data sometimes may have to be obtained in compiled form from a consultant, the custodian, or the client.
  - 2. If historical data are obtained from several different sources, the consultant should use best efforts to confirm that all data being used are consistent. The consultant should avoid mixing dissimilar data and should note the potential impact to the client when historical data are obtained from more than one source.
  - 3. If dissimilar data must be used, the consultant should ensure that adjustments are made as necessary to ensure that discrepancies or discontinuities are not introduced into the performance results.
  - 4. The amount of historical data obtained should be consistent with the reporting goal of providing the client an accurate assessment of past performance.
- H. Composite, model, or hypothetical returns should not be used for monitoring the historical and ongoing investment performance results of a client’s existing investment managers.
- I. Frequency of data collection

- 1. The interval of valuation data should be monthly; the minimum frequency should be quarterly.
- 2. The interval for aggregation of transaction data should be daily; the minimum frequency should be monthly.
- J. Data obtained must always be checked for completeness and accuracy. The consultant should not assume that the custodial statements are complete and without error. Typical items that should be checked include missing or inaccurate pricing, transactions, or corporate actions, as well as posting in an incorrect period. When missing or incorrect information is discovered, it should be adjusted. In all cases, adjustments should be made in accordance with the goal of providing the client a performance report that is an accurate representation of portfolio results.

**II. PERFORMANCE ANALYSIS**

- A. Calculations
  - 1. The reporting start date should be the date that represents the appropriate starting point for monitoring the investment manager’s results, which is generally the month following inception.
  - 2. When portfolio performance is segregated, cash and equivalents should be treated as a distinct asset class.
  - 3. Portfolio data should be calculated on the basis of trade date. When trade-date accounting is not possible, settlement-date accounting may be used.
  - 4. Switching between trade-date and settlement-date calculations is not permitted unless required for reasons such as a change in the accounting basis of the underlying custodial reports.
  - 5. Interest income should be calculated on an accrual basis. The use of dividend receivables is strongly recommended.
  - 6. Estimates of accrued income are permissible and should be disclosed to the client when used in lieu of actual accrued income.
  - 7. Convertible securities should be treated as a separate asset class or equity asset.

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8. Total rate of return, including capital appreciation plus income, is strongly recommended for judging overall investment results.
  9. A time-weighted rate-of-return calculation that minimizes the impact of cash flows should be used for any comparisons of the investment manager with appropriate indices or other managers.
  10. A dollar-weighted (internal) rate-of-return calculation should be used for comparisons with "dollar-" or "value-based" investment objective(s) such as actuarial rates of return or inflation. Dollar-weighted returns should also be used for some alternative investments where the manager controls cash flows.
  11. When cash flow in excess of 10 percent of the market value of the portfolio or portfolio segment occurs, and the interim market value is available, an interim time-weighted calculation should be performed.
  12. Gross returns (before deduction of fees) and net returns (after deduction of fees) should be calculated.
  13. Returns should always be calculated after deduction of brokerage commissions.
  14. Vehicle-specific considerations:
    - a. Wrap-fee performance should be presented after deduction of all bundled fees. Gross performance (before all bundled fees) may also be shown.
    - b. Net performance calculations for pooled private investment vehicles should reflect all fees and commissions both inside and outside of the vehicle.
    - c. Mutual fund performance should be presented after deduction of all expenses, including loads.
- B. Client composites
1. Individual portfolios should be aggregated into a composite portfolio to enable the client to evaluate the performance of an overall pool of assets (e.g., the performance of the salaried employees' plan or the equity-oriented investment managers).
    2. Composites should be aggregated by combining the market values and cash flows of the individual portfolios.
    3. For client-reporting purposes, composites should not be created by averaging the returns of the individual portfolios.
- C. Statistical measures of risk
1. Measures of risk should be presented in addition to rates of return to give the client a more complete picture of the investment manager's results. The consultant should determine the number of observations that are sufficient for risk calculations.
  2. At a minimum, portfolio risk should be measured by calculating an annualized standard deviation derived from monthly or quarterly total rates of return for a meaningful reporting period (as determined by the consultant).
  3. Beta, residual standard deviation, correlation, covariance, semivariance, or other measures may be presented when appropriate.
  4. Presentation of fundamental portfolio characteristics such as yield, price-earnings ratio, duration, or quality is encouraged.
- D. Benchmarks
1. Benchmarks that represent the portfolio's investment style, strategy, and level of risk should be selected.
  2. Benchmarks should be constructed on the basis of total return.
  3. Balanced benchmarks should be constructed when necessary. Appropriate rebalancing techniques should be used.
  4. The benchmarks used as comparisons for a portfolio segment should reflect as accurately as possible the type of investment assets held in that segment.
  5. Benchmark comparisons should be applied consistently over time, and any substantial changes in their composition should be disclosed to the client.
  6. Composite results should be presented with their own set of benchmarks that reflect the asset mix and investment objective of the combined pool of assets.

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7. The return for an individual manager should be contrasted to the manager's composite return for the appropriate mandate.
- E. Comparative sample peer construction
1. If a manager's performance is compared with that of a peer group of managers, the peer group should be of similar style.
  2. Time-weighted total rates of return should be used for construction of and comparisons with peer group samples.
  3. Returns should be calculated either before or after deduction of investment management fees to ensure consistency and to allow comparison with the client portfolio.
  4. Cash and equivalents for portfolios in the comparative sample should be treated in a manner consistent with the management of the client's portfolio.
  5. The consultant should disclose to the client the construction and composition of any sample used for comparative purposes.
  6. Sample comparisons should remain consistent over time unless material changes have occurred in the client's portfolio.
  7. If measures of risk are presented for the portfolios in the comparative sample, a consistent method for calculating these measures should be used for all component portfolios.
  8. If balanced-portfolio comparative samples are constructed from the returns for equity, fixed income, cash and equivalents, and other types of portfolios, returns for the balanced portfolio should be calculated with the assumption of at least annual rebalancing.
  9. The consultant should disclose to the client that biases appear in all peer group samples, such as, survivor, back-fill, classification, and composition biases.

**III. DISCLOSURE AND PRESENTATION OF RESULTS TO CLIENTS****A. General**

1. The format of the performance report should clearly show the client what the investment results were, how the results compare with

those of various benchmarks, and how much risk was incurred to achieve the investment results.

2. Any nonconformity with the IMCA *Performance Reporting Guidelines* should be disclosed to the client.
3. The consultant is responsible for providing the client with appropriate disclosure regarding potential conflicts of interest, relevant business relationships, and other pertinent considerations.

**B. Time periods**

1. Time periods presented should include quarterly, annual, and cumulative periods, market cycles, and any other time periods necessary to present an accurate and objective assessment of the investment manager's performance.
2. To minimize time-period bias, the consultant should normally focus on longer time periods and trends, while also being mindful of short-run trends, in judging the performance of the investment manager.

**IV. NONTRADITIONAL ASSET CLASSES**

- A. These asset classes would include, but would not be limited to: derivative securities, municipal bonds, private investments, and real estate.
- B. Performance reporting for nontraditional assets should be handled in a manner that provides the client with a reasonable and objective assessment of the portfolio's performance.
- C. Because many nontraditional asset classes involve complex investment strategies, complete disclosure of the nature and consequences of the investment strategies being used is essential.

**SECTION 4—  
RECOMMENDED REPORTING AND  
DISCLOSURES****I. Minimum Recommended Reporting and Disclosures—Manager Search and Analysis**

Listed below are the minimum recommended reporting and disclosures for compliance with the IMCA *Performance Reporting Guidelines* regarding manager search and analysis.

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- A. Performance composites presented to clients should be obtained from firms that state they are in compliance with GIPS.
- B. The investment manager should provide individual performance composites that have been prepared in accordance with GIPS. The consultant should present GIPS-compliant performance composites to clients.
- C. Supplemental performance information should be identified and disclosed. At least one GIPS-compliant performance composite should accompany the supplemental information.
- D. Model portfolio results should not be linked with performance composites of actual accounts for presentation to a client.
- E. A statement should be included indicating that because a performance composite is an average of two or more accounts, it does not represent the performance of an actual portfolio.
- F. When the investment manager has compiled the performance composite, this should be disclosed.
- G. Cumulative returns for the longest common term should be shown for each manager.
- H. Annual returns for each year presented should be shown for every manager.
- I. Rates of return for periods longer than one year should be presented on an annualized basis. Returns for periods shorter than one year should not be annualized.
- J. If only gross return information is presented to the client, information should be provided to enable the client to determine the impact of the manager's fee.
- K. The manager's fees should be presented.
- L. At least one appropriate risk measure should be presented.
- M. At least one appropriate market index or custom benchmark should be presented as a basis for comparison.
- N. The consultant should disclose potential conflicts of interest, relevant business relationships, or other pertinent information that might cause the consultant to have a conflict of interest.

**II. Minimum Recommended Reporting and Disclosures—Reporting Performance Results to Clients**

Listed below are the minimum recommended reporting and disclosures for compliance with the *IMCA Performance Reporting Guidelines* regarding reporting performance results to clients.

- A. Time-weighted total rates of return should be calculated on at least a quarterly basis, using quarterly asset valuations and monthly transactions.
- B. If the investment manager is the source of the portfolio accounting data, this should be disclosed to the client.
- C. Annual rates of return for each year should be presented for ten years or for the period from inception of the firm or inception of the investment product—whichever is shorter.
- D. A cumulative return for the period from inception of the firm or inception of the investment product to date should be shown.
- E. Rates of return for periods longer than one year should be presented on an annualized basis. Returns for periods of less than one year should not be annualized.
- F. Information should be provided to enable the client to determine the impact of the manager's fees.
- G. At least one appropriate risk measure should be presented.
- H. At least one appropriate market index or custom benchmark should be presented as a basis for comparison.
- I. The consultant should disclose potential conflicts of interest, relevant business relationships, or other pertinent information that might cause the consultant to have a conflict of interest.

**III. Recommended Additional Reporting and Disclosures—Manager Search and Analysis**

Listed below are recommended additional reporting and disclosures for compliance with the *IMCA Performance Reporting Guidelines* regarding manager search and analysis.

- A. If sufficient history exists, one-, five-, and ten-year cumulative returns should be presented.

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- B. Cumulative returns should be shown for each manager from inception of the firm, inception of the investment product, or ten years—whichever is shorter.
- C. Performance composites presented to clients should be shown on both a gross basis (before deduction of the investment manager's fee) and a net basis (after deduction of the investment manager's fee).

**IV. Recommended Additional Reporting and Disclosures—Reporting Performance Results to Clients**

Listed below are recommended additional reporting and disclosures for compliance with the IMCA *Performance Reporting Guidelines* regarding reporting performance results to clients.

- A. Time-weighted total rates of return should be calculated on at least a monthly basis, using monthly asset valuations and daily transactions.
- B. When cash flow in excess of 10 percent of the market value of a portfolio or portfolio segment occurs, and the interim market value is available or can be obtained, interim time-weighted calculations should be performed.
- C. Trade-date accounting using accrued interest should be used to calculate returns and valuations.
- D. If sufficient history exists, one-, five-, and ten-year cumulative returns should be presented.
- E. An internal or dollar-weighted rate of return should be shown for the period from inception of the firm or inception of the investment product to date.
- F. Comparative samples should contain portfolios whose performance has been calculated on the same fee basis as the portfolio(s) being analyzed.
- G. Gross and net performance should be shown.

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