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Interpretive Guidance for Fees Provisions

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 investors. While it is impossible to develop standards that cover every situation, GIPS 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 the global investment industry, fees are charged in many different ways and a variety of terms are used. In order to promote comparability, it is important that firms around the world treat fees consistently and in a comparable manner. The terms that are used can confuse the matter considerably. In some parts of the world the Net-Of-Fees Return is the starting point and Investment Management Fees are added back to arrive at the Gross-Of-Fees Return. In other places the opposite is true and fees are deducted from the Gross-Of-Fees Return to arrive at the Net-Of-Fees Return. In some regions the terms fee, duty, cost, charge, and expense have different meanings, while in other regions these terms are interchangeable. This highlights the need for common definitions, which are included in the GIPS standards Glossary.

There is a range of different types of costs and/or fees that a client incurs when maintaining an investment portfolio. In general, there are three main types of fees and/or costs: Investment Management Fees, brokerage commissions, and Administrative Fees. Administrative Fees include Custody Fees and may also include accounting fees, consulting fees, legal fees, performance measurement fees, and other applicable fees. In some situations, the only fees that the firm controls are the Investment Management Fee and the Trading Expenses (i.e., the direct cost of buying or selling the assets). Therefore, only the Investment Management Fee and the Trading Expenses should impact the firm's returns. Even though Custody Fees are a necessary additional cost of owning a portfolio, many investment managers are not involved in the selection of the custodian or in the negotiation of the Custody Fees. Accordingly, in order to promote comparability, Custody Fees should not be reflected in (i.e., reduce) the firm's returns.

The GIPS standards are based on the concept of presenting composite performance to a prospective client rather than presenting individual portfolio returns to an existing client. Firms should, however, consider if existing clients will benefit from the presentation of their individual portfolio returns after the reduction of all fees associated with owning an investment portfolio (i.e., including Administrative Fees). This Client Return (the Net-Of-Fees Return reduced by all Administrative Fees) may be useful to prospective and existing clients to fully understand the actual return that has been earned and the total amount of fees incurred. These Administrative Fees, however, are typically outside the control of the investment management firm and, as such, should not reduce the firm's Gross-Of-Fees or Net-Of-Fees Returns.

The Gross-Of-Fees Return is defined to be the return on assets reduced by any Trading Expenses. It should also be reduced by non-reclaimable withholding taxes incurred during the period. Because the Gross-Of-Fees Return includes only the return on assets and the associated cost of buying and selling those assets, it is the best measure of the firm's investment management ability and can be thought of as the "investment return". In addition, because fees are sometimes negotiable, presenting Gross-Of-Fees Returns shows the firm's expertise in managing assets without the impact of the firm's or client's negotiating skills. Accordingly, firms are recommended to present Gross-Of-Fees Returns. A prospective client, however, must also consider the effect of fees on performance. **As a prospective client evaluates and compares investment firms, the most universal point of comparison is the Gross-Of-Fees Return less the Investment Management Fee that the prospective client expects to pay.** Consequently, firms are required to disclose in each composite presentation the Fee Schedule that is appropriate to the presentation.

The Fee Schedule should be current and relevant to the composite and presentation. While a current Fee Schedule may not assist a prospective client interpret historical performance, it is the most relevant. Firms should also disclose additional information related to the firm's fees (e.g., if performance-based fees are available, if other fees are charged by a subadvisor or through a fund-of-funds structure).

The Net-Of-Fees Return is defined to be the Gross-Of-Fees Return reduced by the Investment Management Fees incurred. It is important to recognize that the Net-Of-Fees Return consists of two distinct components: the Gross-Of-Fees Return and the impact of the Investment Management Fee (see Fees Example Scenario A). Firms are also encouraged to present Net-Of-Fees Returns. In order to reflect the most accurate Net-Of-Fees Return, fees and expenses should be accrued, when possible.

The GIPS standards require that returns must be calculated after the deduction of actual Trading Expenses. Trading Expenses can be:

- Direct: as in the case of brokerage commissions and any other regulatory fee, duty, and/or tax (e.g., stamp duty, SEC fee, etc.) associated with an individual transaction, or
- Indirect: such as a bid/ask spread.

For purposes of the GIPS standards, firms must include (i.e., reduce) both Gross-Of-Fees and Net-Of-Fees Returns by the Trading Expenses incurred in the purchase or sale of securities. These costs must be included because they must be incurred in order to implement the investment strategy. Estimated Trading Expenses are not permitted.

In some cases (particularly when initially compiling a 'compliant' track record), the actual fees charged to each discretionary portfolio under management are not available. Firms that wish to show Net-Of-Fees performance results are permitted to use the highest Investment Management Fee incurred by portfolios in the composite to reduce Gross-Of-Fees performance.

However, it is not permissible to use the highest Investment Management Fee to add to the Net-Of-Fees Return in order to obtain a Gross-Of-Fees Return. Adding back the highest fee would result in overstating the Gross-Of-Fees Return. When adjusting from Net-Of-Fees to Gross-Of-Fees performance, firms must use either the actual fees or the weighted-average fee for the composite.

Many custodial banks charge part of the Custody Fee based on the number and type of transactions. These fees, even though they are charged on a per transaction basis, are still part of the Custody Fee and should not be included in the Trading expenses.

Bundled Fees

In some cases, firms combine several fees together to create a Bundled Fee. A Bundled Fee can include any combination of fees including Trading Expenses, Investment Management Fees, Custody Fees, or any other related fees. A Bundled Fee can be specific to a client, as is the case with "all-in" fees, or can be specific to a particular product, as is the case with "wrap" fees. Some Bundled Fees can be segregated into the various underlying components (e.g., the firm can "un-bundle" the fee and identify each segment that comprises the Bundled Fee – see Fees Example Scenario C). In other cases, only portions of the Bundled Fee can be segregated (e.g., Investment Management Fee segment can be identified and separated, but the Custody and Trading Expenses cannot – see Fees Example Scenario D). If a firm includes a portfolio with a Bundled Fee in a composite, it must disclose that the composite contains portfolios with Bundled Fees. Firms are required to disclose the various types of fees that are included in the Bundled Fee.

In cases where the Trading Expenses cannot be identified and segregated from a Bundled Fee, either the entire Bundled Fee, or the portion of the Bundled Fee containing the Trading Expenses, must be included in (i.e., reduce) the Gross-Of-Fees and Net-Of-Fees Returns (see Fees Examples Scenarios B and D). In these cases, Custody and other Administrative Fees might be included in the Gross-Of-Fees and Net-Of-Fees Returns. Firms may also find that the Gross-Of-Fees Return is equal to the Net-Of-Fees Return. In order to assist prospective clients in better understanding the fees included in the Gross-Of-Fees Return calculation, firms must disclose if other fees are included in the Bundled Fee in addition to the Trading Expenses. When presenting Net-Of-Fees Returns, firms must disclose if other fees are included in addition to the Investment Management Fee and Trading Expenses.

Some investment product returns are typically calculated net of other fees (e.g., Custody and other Administrative Fees). In order for these portfolios to be treated consistently with regards to the definitions of Gross-Of-Fees and Net-Of-Fees in the Standards, firms are allowed to add back all fees and expenses (e.g., Investment Management, Custody, transfer agent, share registration, marketing, and regulatory fees) except for Trading Expenses. When calculating Net-Of-Fees Returns, firms are allowed to add back all fees and expenses except for Trading Expenses and the Investment Management Fee, provided that the firm can identify all these fees. Estimated fees are not permitted.

Subadvisor, Pooled Funds and Fund-of-Funds

In some situations, firms may invest a portion of a larger portfolio in a pooled fund, utilize a subadvisor, or create a fund-of-funds structure whereby additional fees are charged by the underlying fund or paid to the subadvisor. In these situations, it is most appropriate to present the return net of all fees (e.g., including Administrative Fees) since all investors must pay these fees.

However, Net-Of-Fees performance must be net of Transaction Expenses and Investment Management Fees and these fees (including the underlying fees) must not be added back to calculate Net-Of-Fees performance.

In all cases, the firm must disclose in each composite presentation the current Fee Schedule appropriate to the particular composite.

Fees Examples

For the purpose of these examples, the Trading Expenses are stated as a percentage of the beginning market value. In practice, Trading Expenses are typically accounted for in the book value of securities and are, therefore, reflected in the return on assets. These examples are presented to illustrate the concepts presented in the fee provisions and assume deduction at the beginning of the period. Actual return calculations may differ based on when the fee is deducted from the portfolio and the value used as a basis for the calculation (e.g., beginning period assets, ending period assets, weighted average period assets, etc.).

Scenario A:		**Description:**
Return on Assets	8.00%	Scenario A represents a typical fee structure where each fee can be clearly identified.
Trading Expenses	0.20%	
Investment Management Fee	1.00%	
Administrative Fees (including Custody)	0.50%	

Scenario B: Bundled Fee 1		**Description:**
Return on Assets	8.00%	Scenario B illustrates a Bundled Fee structure where the Bundled Fee cannot be separated.
Bundled Fee: Trading, Investment Management, and Administrative Fees (including Custody).	1.70%	

Scenario C: Bundled Fee 2		**Description:**
Return on Assets	8.00%	Scenario C illustrates a Bundled Fee structure where the Bundled Fee can be separated.
Bundled Fee: Trading, Investment Management, and Administrative Fees included and can be separated as follows:	1.70%	
Trading Expenses	0.20%	
Investment Management Fee	1.00%	
Administrative Fee	0.50%	

Scenario D: Bundled Fee 3		**Description:**
Return on Assets	8.00%	Scenario D illustrates a Bundled Fee structure where only the Investment Management Fee can be separated from the Bundled Fee.
Bundled Fee: Trading, Investment Management, and Administrative Fees (including Custody) included and can be separated as follows:	1.70%	
Investment Management Fee	1.00%	
Trading Expenses and Administrative Fee	0.70%	

Scenario E: Bundled Fee 4		**Description:**
Return on Assets	8.00%	Scenario E illustrates a Bundled Fee structure where only the Trading Expenses can be separated from the Bundled Fee.
Bundled Fee: Trading, Investment Management, and Administrative Fees (including Custody) included and can be separated as follows:	1.70%	
Trading Expenses	0.20%	
Investment Management and Administrative Fee	1.50%	

	Scenarios				
	A	**B**	**C**	**D**	**E**
Return on Assets	8.00%	8.00%	8.00%	8.00%	8.00%
- Trading Expenses	0.20%	1.70%	0.20%	0.70%	0.20%
Gross-Of-Fees Return	**7.80%**	**6.30%**	**7.80%**	**7.30%**	**7.80%**
- Investment Management Fee	1.00%	n/a	1.00%	1.00%	1.50%
Net-Of-Fees Return	**6.80%**	**6.30%**	**6.80%**	**6.30%**	**6.30%**
- Administrative Fee	0.50%	n/a	0.50%	n/a	n/a
Client Return*	6.30%	6.30%	6.30%	6.30%	6.30%

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