

# Ethical Performance Presentation By Money Managers

“What is your track record?” This question is commonly asked by investors when reviewing money managers. Unfortunately, the answers can often prove to be misleading. Investors who want assurance that they are seeing the true historical performance of a money manager should require the following:

1. **Real-money performance results** Performance should not be hypothetical, simulated, or back-tested.
2. **Compliance with Global Investment Performance Standards (“GIPS®”)** GIPS were established as ethical standards to ensure full disclosure and fair presentation of a firm’s performance track record.
3. **Composites and their assets** GIPS dictates that all managed accounts be in a performance “composite”. Client accounts managed with a similar strategy are in the same composite. Composites will have names such as “Equity-Income Composite”, “Balanced Composite”, etc. For every year of a composite, you should find presented the investment return, number of accounts and total assets in the composite.
4. **No “cherry picking”** Money managers may want to show you only their better-performing composites. Even if the manager is only being considered for a particular investment strategy, to gain greater insight, review the performance of all the firm’s composites. You don’t want to be sold the only thing that happened to work for the money manager.
5. **The firm’s own investment performance** Some money managers claim expertise in selecting other money managers and mutual funds. Such recommendations often change. Obtain performance for the clients *of the firm you’d be working with* (not the money managers or funds currently being recommended).
6. **Verified performance figures** Always ask money-management firms for a CPA-prepared “Verification Report” stating firm-wide compliance with GIPS, as well as performance examination reports for the composites. It is wise to view all non-examined performance results with skepticism.