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INTRODUCTION TO PERFORMANCE STANDARDS (GIPS)

1. Viroqua DeSoto, CFA, is reading a discussion in an online forum about the construction and purpose of composites in performance reporting. She finds these statements from participants:
Statement 1: The purpose of composites is to let investors know how well a firm has performed managing different types of securities or investment strategies.
Statement 2: A managed portfolio should have a performance history of at least one year before the firm assigns it to a composite.
With respect to both statements:
 - (A) only one is correct.
 - (B) both are correct.
 - (C) both are incorrect.
2. Which of the following parties may adopt and claim compliance with Global Investment Performance Standards (GIPS)?
 - (A) An investment management firm located in Indonesia.
 - (B) A software firm that developed a software package that assists investment firms in achieving GIPS compliance.
 - (C) The chief compliance officer for a regional money manager.
3. The section of the Global Investment Performance Standards (GIPS) that outlines defining the firm and documenting firm policies and procedures is:
 - (A) Composite and Pooled Fund Maintenance.
 - (B) GIPS Advertising Guidelines.
 - (C) Fundamentals of Compliance.
4. Which of the following statements about a GIPS-compliant firm's verification of GIPS compliance is *most accurate*? Verification is:
 - (A) optional, but if chosen it must be performed by an independent third party.
 - (B) required, and may be performed by the firm's internal auditors.
 - (C) required, and must be performed by an independent third party.

5. The purpose of composites in a GIPS-compliant performance presentation is to:
 - (A) clearly distinguish the entity that is presented to the public as a GIPS-compliant firm.
 - (B) provide information about a firm's performance in various asset classes or investment strategies.
 - (C) present overall firm performance in a single statistic that is comparable across firms.

6. McGregor Investment Management promotes itself as a fixed-income investment management firm. The vast majority of the discretionary portfolios it manages are fixed-income portfolios. McGregor does, however, manage a few portfolios utilizing a growth equity investment strategy, but the firm has no intention of ever promoting this strategy. Under the Global Investment Performance Standards (GIPS), must these portfolios be included in a composite?
 - (A) Yes, because the portfolios are managed to a widely recognized investment strategy.
 - (B) No, because the firm does not normally manage portfolios to a growth equity strategy and does not promote it to potential clients.
 - (C) Yes, because the portfolios are discretionary.

7. When measuring and presenting their investment performance, GIPS compliant firms are required to:
 - (A) include terminated accounts in their performance history.
 - (B) disclose the performance of the best-performing accounts in each composite.
 - (C) exclude time periods that are unrepresentative of the firm's performance history.

8. Which of the following statements *most accurately describes* why the Global Investment Performance Standards (GIPS) were created?
 - (A) Establish ethical requirements for individuals who are responsible for performance presentation.
 - (B) Provide a single globally accepted set of regulatory guidelines among developed securities markets.
 - (C) Meet the need for a single globally accepted set of investment performance presentation standards.

9. With regard to Global Investment Performance standards (GIPS), if the Chief Investment Officer of an investment advisory firm also is a CFA charterholder:
 - (A) the firm is required to comply with GIPS.
 - (B) neither the firm nor the charterholder are required to comply with GIPS.
 - (C) the charterholder is required to comply with GIPS.

10. Which of the following is *least likely one* of the eight sections of the GIPS standards for firms?
 - (A) Pooled Fund Money-Weighted Return Report.
 - (B) Implementation and Verification.
 - (C) Input Data and Calculation Methodology.

11. When verifying a firm's compliance with Global Performance Investment Standards (GIPS), the verifier must:
 - (A) attest that the firm's processes and procedures are established to present performance in accordance with GIPS requirements.
 - (B) clearly identify the composites for which verification has been performed.
 - (C) disclose whether the verification was performed by the firm's internal auditors or a third party.

12. Which of the following statements *most accurately describes* the requirements for GIPS verification?
 - (A) A firm must select a representative set of composites for third-party GIPS verification.
 - (B) Third-party verification is required for a firm to claim compliance with GIPS.
 - (C) Verification of GIPS compliance is recommended, but not required.

13. Which of the following statements *most accurately describes* verification under the Global Investment Performance Standards (GIPS)? GIPS verification:
 - (A) is required for a firm to claim GIPS compliance.
 - (B) requires a verification report to be issued for the entire firm.
 - (C) requires verification of individual composites.

14. When calculating the performance of a composite, which of the following actions complies with GIPS?
 - (A) Including a portfolio in two composites because it represents the investment strategies of both.
 - (B) Defining a composite so as to include portfolios that have been discontinued.
 - (C) Assigning each portfolio to a single composite at the end of the year based on its holdings over the year.

15. Lora Murphy has an account at Ferrell Investments, a GIPS-compliant firm. Murphy invests in small-cap value stocks and pays Ferrell a standard fee to execute her buy and sell orders, but does not permit her account manager to initiate trades on her behalf. According to GIPS, is Ferrell required to include Murphy's portfolio in their small-cap value stock composite?
 - (A) No, because the portfolio is non-discretionary.
 - (B) No, because constructing composites is voluntary.
 - (C) Yes, because the portfolio is consistent with the defined strategy for this composite.

