Guidance Statement on Performance Record Portability (Practical Example)

Daniel Jöcker, Investment Controlling
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Notenstein Private Bank Ltd - Facts and Figures

Finances
- Assets under management: CHF 21 billion
- Balance sheet total: CHF 3.9 billion
- Equity: CHF 320 million

No. of employees
- ca. 700

Supervision
- Notenstein Private Bank Ltd is subject to the supervision of the Swiss Financial Markets Authority FINMA

Legal form
- Limited company, 100% owned by Raiffeisen Switzerland (cooperative)

Participations
- 1741 Asset Management AG: 100% owned by Notenstein
- Leonteq (former EFG Financial Products): 22.5%

Note: As of 31 January 2013
Notenstein Private Bank Ltd - Facts and Figures

13 branches across Switzerland – HQ in St. Gallen
1. The Old GIPS Firm
2. Merger of Wegelin/ Notenstein with Raiffeisen
3. The New GIPS firm
4. Guidance Statement on Performance Record Portability
5. Verification
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The Old GIPS Firm

The old organisational set-up
Firm definition

- Multiple teams in separate regional offices under common investment strategies for institutional clients
- Defined client group
- No Private clients
- Including mandates managed by Wegelin Asset Management investment process
Merger of Wegelin/ Notenstein with Raiffeisen

New Legal Structure

Prior

Wegelin & Co.

Wegelin Asset Management

Relevant for GIPS firm

100 %

Merger

RAiffeisen

1741 Asset Management

Not GIPS compliant

Relevant for GIPS firm

100 %

Relevant for GIPS firm

100 %

Not GIPS compliant
Past merger – A new organisation

Reorganisation and streamlining of the institutional business:

**Concentration** of all institutional mandates under one department and one new investment process

**New institutional business unit** with sole discretion over all institutional mandates

**Held up to the public** in terms of marketability
Merger of Wegelin/ Notenstein with Raiffeisen

Consequences for the old GIPS firm

Detaching institutional mandates from the different investment teams and transferring them into the reorganised new institutional business unit

„Carving out" of the old GIPS firm

- Asset Management mandates were excluded as "Wegelin Asset Management" changed into a independent company - 1741 Asset Management - which was no longer permitted to manage single discretionary mandates
- The fund business stayed within 1741 Asset Management as its core business
Merger of Wegelin/ Notenstein with Raiffeisen

The new organisational set-up of the institutional business
# The New GIPS firm

## Meeting the GIPS firm definition criteria

<table>
<thead>
<tr>
<th>Criteria*</th>
<th>New GIPS firm</th>
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</thead>
<tbody>
<tr>
<td>• Unit or department</td>
<td>• Institutional client business unit</td>
</tr>
<tr>
<td>• Organizationally and functionally segregated from other units</td>
<td>• Separate organisational unit (directly represented in the management board)</td>
</tr>
<tr>
<td>• Discretion over the assets</td>
<td>• Firm holds itself out to the public as a distinct business entity</td>
</tr>
<tr>
<td>• Autonomy over investment decision-making process</td>
<td>• Discretion over the assets</td>
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• Distinct investment process with new strategies and products

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* GIPS – GS on Definition of the Firm
The New GIPS firm

The new firm definition

What happens with the historical record of the old GIPS firm as mandates managed by the old GIPS firm transfer to the new firm?

Changes in a firm's organization must not lead to a change in historical performance!

GS on Performance Record Portability
Underlying factors of performance history

GIPS, through the GS on Performance Record Portability emphasizes the fundamental underlying factors that create a performance history:

Applicability and integrity of the performance record is only as good as the ongoing integrity of each strategy and all the contributing factors. This may not be easily transferable and rewards additional attention to each composite.
GS on Performance Record Portability

The Composite specific perspective

If original strategy on a composite-specific basis is continued, the performance must be moved to the new firm and on-going performance record must be established.

Requirements that have to be met:

- Substantial number of decision-makers remain with the firm (research, PM, etc.)
- Decision making process remains substantially intact and independent
- Acquiring/new firm has records that support and document the performance
Check for track record portability

1. Analyze whether the acquiring firm continues the original strategy that defined the composite with all of its continuing factors.

2. Continuation of original strategy:
   - Yes: Performance of a past firm or affiliation must not be linked.
   - No: Proceed to the next step.

3. Analyze whether substantially all of the investment decision makers are employed by the new or acquiring firm (e.g., research department staff, portfolio managers, other relevant staff).

4. Substantially all of the investment decision makers are employed:
   - Yes: Performance of a past firm or affiliation must not be linked.
   - No: Proceed to the next step.

5. Analyze whether the decision-making process remains substantially intact and independent within the new or acquiring firm.

6. Substantially all of the investment decision makers are employed:
   - Yes: Proceed to the next step.
   - No: Performance of a past firm or affiliation must not be linked.

7. Analyze whether the new or acquiring firm has records that document and support the performance.

8. Records exist:
   - Yes: Performance of a past firm or affiliation must not be linked.
   - No: Performance of a past firm or affiliation must not be linked.
# GS on Performance Record Portability

## Results for the new Notenstein GIPS firm

<table>
<thead>
<tr>
<th>Surviving composites</th>
<th>New GIPS firm</th>
</tr>
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</table>
| • 100% equity portfolios & strategies  
• 100% fixed-income portfolios & strategies | Current mandates changed to new investment strategy |
| Only direct investments (no funds) | • funds instead of direct investments  
• multiple asset class strategies |
| → Historical performance has to be linked | Investment process and instrument selection changed so that risk/return characteristics changed significantly. |
Surviving and new composites – timeline

**Surviving Composites**
- 100% Equity Direct
- 100% Fixed Income Direct

**New Composites**
- 100% Equity Direct
- 100% Fixed Income Direct
- New strategy 1

**Old Composites**
- Old strategy 1

**Timeline Events**
1. 100% Equity composite start date
2. 100% Fixed Income composite start date
3. Start date old strategy
4. Inception date new GIPS firm
5. Today

1 Jan 2012
Verification

Aspects to consider during a redefinition

Definition of the firm

- Organisational set-up
- People
- Investment Process

Composite structure and strategy

Determine surviving and non-surviving composites (see previous slide):
- Does a substantial number of decision-makers remain with the firm?
- Is the decision making process substantially intact and independent?
- Are there some records which support and document the performance?

Reporting / disclosures

- Linked historical composites
- Firm definition must contain redefinition
- Supplemental information upon request: Record of non-surviving composites (recommended)

Data

- Transfer of records from old to new GIPS firm
## Verification

### Data transfer

<table>
<thead>
<tr>
<th>Completeness of information for the old GIPS firm</th>
<th>Transfer of mandates into new GIPS firm</th>
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</thead>
<tbody>
<tr>
<td><strong>Mandates:</strong> Complete at the inception date? (new mandates, mutations and closed mandates)</td>
<td>Check placement of mandates from old GIPS firm into the relevant composites (new or surviving) based on new firm and composite definition</td>
</tr>
<tr>
<td><strong>Composites:</strong> Which mandate in which composite? (Composite rules)</td>
<td>• How can these mandates be identified consistently in the systems and controls?</td>
</tr>
<tr>
<td><strong>Analysis of all portfolios</strong> from the old GIPS firm in terms of:</td>
<td>Check from appropriate documentation whether that mandate has been put into correct new composite</td>
</tr>
<tr>
<td>Which of them fall out of the new GIPS firm?</td>
<td>• Who really has discretion?</td>
</tr>
<tr>
<td>Which are included in the GIPS firm and in a discretionary composite?</td>
<td></td>
</tr>
<tr>
<td>Which are included in the GIPS firm, but classified as non-discretionary?</td>
<td></td>
</tr>
</tbody>
</table>
Verification

Does the data match?

Surviving Composites

New Composites

Old Composites

100 % Equity Direct

100 % Fixed Income Direct

100 % Equity Direct

100 % Fixed Income Direct

New strategy 1

Old strategy 1

1 Jan 2012
Conclusion

Lessons learned

Going through the fundamentals of compliance * again...

<table>
<thead>
<tr>
<th>Firmwide compliance</th>
<th>Use of composites</th>
<th>Policies and procedures</th>
<th>No false or misleading compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm definition, complete compliance</td>
<td>Composite definition, checking performance track record portability</td>
<td>GIPS manual, internal controls in new organization, ...</td>
<td>Check integrity of strategy on composite specific basis (GS on Performance Record Portability)</td>
</tr>
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... but Why Not?
- People may still be in process of reorganisation
- Planning of new products is on the way
- New strategies possible
- Etc.

GIPS Office together with the verifier looks at all underlying procedures and policies, may ask question nobody has asked before, brings additional input to the organization of the investment process, ...

Source: * Bruce Feibel (2003)
Discussion

Questions & answers
Your Contact

Daniel Jöcker
Head of Investment Controlling
Notenstein Private Bank Ltd
Bohl 17, 9004 St. Gallen
Tel (direct) +41 (0)71 242 58 73
E-Mail: daniel.joecker@notenstein.ch
www.notenstein.ch