

PERFORMANCE PERSPECTIVES

with David Spaulding



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Since 1990, The Spaulding Group has had an increasing presence in the money management industry. Unlike most consulting firms that support a variety of industries, our focus is on the money management industry.

Our involvement with the industry isn't limited to consulting. We're actively involved as members of the CFA Institute (formerly AIMR), the New York Society of Security Analysts (NYSSA), and other industry groups. Our president and founder regularly speaks at and/or chairs industry conferences and is a frequent author and source of information to various industry publications.

Our clients appreciate our industry focus. We understand their business, their needs, and the opportunities to make them more efficient and competitive.

For additional information about The Spaulding Group and our services, please visit our web site or contact Chris Spaulding at CSpaulding@SpauldingGrp.com

<http://www.SpauldingGrp.com>

TEN YEARS OF PERFORMANCE PERSPECTIVES CLOSE OUT

This issue marks the end of 10 years of publishing this newsletter. As someone who had attempted twice before to provide a newsletter, each time doing so for a significantly shorter period, I know how challenging this is, and am pleased that we've successfully produced 120 issues to date. And, we have no plans to stop, as the dynamics of our industry are such that there's always plenty to talk (write) about.



A NEW NEWSLETTER IS COMING!

And now that we've concluded 10 years of publishing this newsletter, we're introducing a new one!

The Performance Professional's Insider Circle Newsletter will be introduced next month. Performance Perspectives will continue, and most of its content will be incorporated into our new newsletter. What makes the new newsletter different are:



1. It will be for TSG clients, only. This newsletter reaches in excess of 10,000 performance measurement professionals around the world. The new newsletter will be "for clients only."
2. It will be mailed! This newsletter is emailed, and is also available on our company's website. The new newsletter will be delivered *the old fashioned way*: by postal service (or as some say, "by post").
3. It will be expanded. In addition to what is provided here, it will include some additional features and expanded content.

We are very excited with this new launch, and look forward to hearing from our clients on what they think.

TOP TRENDS IN PERFORMANCE MEASUREMENT

Occasionally, we're asked to identify what we believe to be the top 10 or so trends in performance measurement. I thought I'd share with you some of what I'd put on this list (but not all at once!).

The move to money-weighting

Am I dreaming? No, I don't think so. More and more firms are realizing the benefits of augmenting, or in some cases replacing, their time-weighted returns with money-weighting. A good sign of this movement is the GIPS® (Global Investment Performance Standards) draft guidance statement for asset owners.

The Journal of Performance Measurement®

UPCOMING ARTICLES

Fixed Income Attribution: The Constant Quest to Explain Residuals

– Bai Gu

Effective Return of Portfolio Positions

– Peter Todd

Mathematics Behind Multi- Level Attribution Keeping Apples and Oranges Separate

– Dmitry Cherkasov

A Modification of the Modified Dietz Approach

– PA Cucurachi, V. Pomante

The Journal Interview

– Joseph McDonagh, CFA

This is a trend that we strongly encourage (I'm sure you're not surprised to read that!).

Smart device delivery of reports

While still relatively new and evolving, we are beginning to see software vendors giving their clients the option of having reports delivered to iPhones, iPads, iPods (scratch that), and similar devices. Such flexibility is good for at least two audiences. First, the client, who may want the ability to look at their statements as easily as they access *The Wall Street Journal* and other publications. Second, for the firm's sales, marketing, portfolio management, and client servicing folks, who may want to use such methods to review information with clients and prospects.

As one who is on his third iPhone, second iPod (I know that doesn't count, but thought worth tossing in), and first iPad, I know how important this technology is. Any vendor who isn't considering such a move is missing out, I believe.

A trend I encourage wholeheartedly!



Asset owner adoption of GIPS

This has been a long time coming. Several years ago the idea of a pension fund claiming compliance with GIPS would have been considered nonsensical or even perhaps blasphemous.¹ But the new GIPS guidance statement (still in draft form), as well as the preliminary materials that were produced on this topic, suggest that the decision to claim compliance is a good thing.

Why would an asset owner wish to comply? Here are a few reasons:

1. “Best practice.” The Standards are seen as best practice. And while much of the rules don't apply to asset owners, at the core there is much that does. Many asset owners want to abide by “best practice” wherever it can be found, and this is the case with GIPS.
2. Enhance credibility. Adoption to the Standards will enhance the credibility of the information provided, and this can be a good thing with the asset owner's “stake holders” (e.g., boards, pensioners, and the general public).
3. Consistency in reporting. As with the production of reports to prospects who demand GIPS compliance, reporting off of a standard will ensure some degree of consistency, which allows for better comparability across asset owners, when this is necessary. En-dowments, for example, often want to know how similar institutions are performing. By adopting a standard approach to reporting, comparability of information is enhanced.

As one who defended the notion of asset owner adoption many years ago, you'll not be surprised that I still feel that this is a worthy endeavor.

¹ Someone wrote an article for *Pensions & Investments* more than five years ago decrying the idea of pension funds claiming compliance. I responded noting that while technically the Standards were intended for asset managers, what harm is there for a plan sponsor to adopt them? It took several years for this to become a trend.

ATTRIBUTION *Week*

NOVEMBER 11-15, 2013
an online
 conference event

“The Spaulding Group’s webinars are a cost effective way to train and keep my staff up to date on topics related to performance measurement, attribution, risk and GIPS. The online convenience allows us to train all of our staff without the hassle and expense of travel. It also provides us with an opportunity to get together and ask questions from industry experts that we would not otherwise have access to.”

– Cinda Whitten

*Director of Investment Operations
 at Principal Global Investors*

November 11, 2013 - 11:00 AM (EST) Fundamentals of Performance Attribution

Stephen Campisi, CFA, US Trust

- Learn the Fundamentals of Performance Attribution
- Learn how and why they are important to the overall investment story
- Learn how to begin to translate the story

November 12, 2013 - 11:00 AM (EST) Factor Attribution for Fixed Income

Mary Cait McCarthy, Credit Suisse

November 13, 2013 - 12:00 Noon (EST) Multi-currency Attribution

*John D. Simpson, CIPM,
 The Spaulding Group*

November 14, 2013 - 12:00 Noon (EST) Multi-Factor Attribution

Jose Menchero, Ph.D., CFA, MSCI

November 15, 2013 - 11:00 AM (EST) Transaction vs Holdings Based Attribution

*Dave Spaulding, CIPM
 The Spaulding Group*

ASSET OWNERS OR PLAN SPONSORS

I served on the committee that came up with the initial draft of guidance for plan sponsors adoption of the GIPS standards. And, I will take some credit (blame?) for suggesting that the term “plan sponsor” be used more broadly, to include endowments, foundations, etc., as well as pension funds. This trend has continued with the new GIPS guidance, as mentioned above.

In reviewing some of the comments that have come in, I see that there is mixed reaction to the use of this term; this is probably to be expected, as it has traditionally been used solely for pension funds.



I am quite fine with this, and have already begun to use the more generic “asset owners” label. I think it’s clearer and cleaner, and less confusing (three Cs!). We will have to wait to see if the term, Plan Sponsor, continues with the GS. If it does, that will be fine, and both terms will be acceptable. If it does not, we’ll have to see what alternative they’ve adopted.

SURVEY TIME

The Spaulding Group is back at, this time with the fifth edition of its performance measurement technology surveys...yes, surveys, plural, as we do two: one for the users of technology and the second for the producers of technology. And this year the producer side will include (for the first time) custodians.

If you’re an asset owner and wish to participate, please contact Patrick W. Fowler (PFowler@SpauldingGrp.com). Producers of technology will be contacted directly, though you’re invited to reach out to us if we don’t get to you.

We are pleased that BI-SAM Technologies and QED Financial Enterprise Software have partnered with us to enable us to deliver this important industry research. If your firm would like to sponsor this research, please send us an email.



PUZZLE TIME!

July Puzzle

Here is what we provided last month: George tells us that if you add 5 times his age 5 years from now to 6 times his age 6 years from now, you will get 12 times his current age. How old will he be 3 years from now?

I found this to be fun, too, as it brought back memories of doing this sort of puzzle several decades ago (glad I can still do them!).

We will allow “C” to equal George’s “current age.” We know that the sum of:

5 times his age 5 years from now (or, $5 \times (C + 5)$)

6 times his age 6 years from now (or, $6 \times (C + 6)$)

KEEP THOSE CARDS & LETTERS COMING

We appreciate the e-mails we receive regarding our newsletter. Mostly, we hear positive feedback while at other times, we hear opposition to what we suggest. That's fine. We can take it. And more important, we encourage the dialogue. We see this newsletter as one way to communicate ideas and want to hear your thoughts.

equals 12 times his current age (or, $12 \times C$). We can show this mathematically as:

$$12C = 5(C+5) + 6(C+6)$$

We can expand it to: $12C = 5C + 25 + 6C + 36$

Subtracting $5C$ and $6C$ from both sides gives us: $12C - 5C - 6C = 25 + 36$

Which reduces to: $C = 25 + 36 = 61$.

Thus, George is 61. We can confirm this:

$$5 \text{ times his age 5 years from now (or, } 5 \times (C + 5)) = 330$$

$$6 \text{ times his age 6 years from now (or, } 6 \times (C + 6)) = 402$$

which sum to 732.

And, 12 times his current age (or, $12 \times C$) = 732.

The question though isn't what his "current age" is, but what it will be 3 years from now, so the answer is "64."



And so we have the correct answer. Joining me in getting it right are:

Andrew Durkin (UK)

Malcolm Smith (UK)

Ian Searle (UK)

Jon Gordon (Australia)

Prashant Sakrawar (US)

Anthony Howland (UK)

Robert Verity

Jed Schneider (TSG; US)

Gene Smith (US)

Craig Wietz (US)

Gerard van Breukelen (Netherlands)

Jessica Laffey (TSG; US)

Christopher Spaulding (TSG; US)

Jeremy Kirkland (US)

August Puzzle

I think you'll find this a bit more challenging. There is a single elimination tennis tournament (i.e., if you lose, you're out). We have two questions for you to consider:

- If there are 255 matches, how many players participated?
- How many matches will be played if 56 players participate?

May Puzzle

Recall that our May puzzle dealt with the television program Jeopardy.

Only one winner was declared, but a second surfaced shortly afterwards: Gene Smith's submission got lost on its way to my computer, so he also deserves recognition for getting it right. In addition, he pointed out a "boo boo" (aka, a "typo") with my answer with the wager for Player A in Game 3. Player A should have been shown as wagering \$0, not \$7,500. The text had it correct, but my notation was incorrect.

Gene also stated that he felt there are variations on the "correct" wager by player B in Game 1 as Player B has a "range" of correct wagers between \$0 and \$6000. I only identified \$0, which is the simplest way to address this, but Gene is correct that there are other possible answers, too. Thanks, Gene!

Richard Mitchell, CFA, CIPM

Bio:

Richard's responsibilities include leading the Investment Services Group's performance measurement and analytics function for OPSEU Pension Trust, a large Canadian pension plan that invests globally across multiple asset classes, including public and private equities, infrastructure, real estate, commodities and fixed income.

Prior to joining OPSEU Pension Trust, Richard was responsible for the operational efficiency and service delivery of performance and attribution reporting for plan sponsors and investment managers with RBC Investor Services. He was also formerly an Investment Consultant at a large Canadian actuarial consulting firm, providing investment consulting services (establishing asset allocation and investment policy, performance evaluation, modeling and investment manager search and selection) to a broad spectrum of clients including corporations, universities, non-profit organizations and multi-employer pension plans.

In addition to the CFA and CIPM designations, Richard received his Honors Bachelor of Arts from the University of Waterloo, majoring in Economics and specializing in Finance.



CLIENT'S CORNER

This is our new section to profile a client and their experiences with The Spaulding Group, which we launched in our May 2013 issue.

1. How long have you been involved in performance?

I've been "involved" in performance for about 12 years in varying capacities, from investment manager research and due diligence to investment consulting to management level positions.

2. What do you enjoy most about it?

Performance has gotten a bad rap as being redundant or boring but as new investment vehicles are utilized and as portfolio management strategies increase in complexities, the range of my responsibilities widen allowing me to utilize my current skills and experience or develop in those areas that my positions demand. I like keeping in step with the industry and try to position myself in stride or ahead of the game. The ongoing challenge excites me.

3. What role does The Spaulding Group play at your firm?

The Spaulding Group is a valuable resource in our day-to-day operations. Time and again I personally reference the *Journal of Performance Measurement* on topics or issues that we consistently face. Our firm is also an active participant at the PMAR Conferences and in the Performance Measurement Forum, where valuable insights and knowledge are shared. I've also sent my team, both rookies and veterans, on some of the Spaulding Group's Performance Measurement & Attribution training courses.

THE SPAULDING GROUP'S 2013 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
September 18, 2013	Portfolio Risk	Boston, MA (USA)
September 24-25, 2013	Fundamentals of Performance Measurement Training	Vancouver, BC, Canada
September 26-27, 2013	Performance Measurement Attribution Training	Vancouver, BC, Canada
October 22-23, 2013	Fundamentals of Performance Measurement Training	Chicago, IL (USA)
October 24-25, 2013	Performance Measurement Attribution Training	Chicago, IL (USA)
November 7-8, 2013	Performance Measurement Forum	Lisbon, Portugal
November 11-15, 2013	Attribution Week	Online
November 19-20, 2013	Fundamentals of Performance Measurement Training	Boston, MA (USA)
November 21-22, 2013	Performance Measurement Attribution Training	Boston, MA (USA)
December 5-6, 2013	Performance Measurement Forum	Orlando, FL (USA)
December 10-11, 2013	Fundamentals of Performance Measurement Training	New Brunswick, NJ (USA)
December 12-13, 2013	Performance Measurement Attribution Training	New Brunswick, NJ (USA)

For additional information on any of our 2013 events, please contact Christopher Spaulding at 732-873-5700

The Journal of Performance Measurement has begun a series on performance measurement professionals, and we need your help to identify the folks we should include. We focus on one or two people in each issue, with the list driven by input from other PMPs.

And so, please contact our editor, [Doug Spaulding](mailto:doug.spaulding@spauldinggroup.com) (732-873-5700) with your suggestions.

TRAINING...

Gain the Critical Knowledge Needed for Performance Measurement and Performance Attribution

TO REGISTER:

Phone: 1-732-873-5700

Fax: 1-732-873-3997

E-mail: info@SpauldingGrp.com



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FUNDAMENTALS OF PERFORMANCE MEASUREMENT

A unique introduction to Performance Measurement specially designed for those individuals who require a solid grounding in all aspects of performance measurement. The Spaulding Group, Inc. invites you to attend Fundamentals of Performance Measurement on these dates:

Sept. 24-25, 2013 – Vancouver, BC, Canada
October 22-23, 2013 – Chicago, IL

November 19-20, 2013 – Boston, MA
December 10-11, 2013 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

CFA Institute has approved this program, offered by The Spaulding Group, for 12 CE credit hours. If you are a CFA Institute member, CE credit for your participation in this program will be automatically recorded in your CE tracking tool.



PERFORMANCE MEASUREMENT ATTRIBUTION

Two full days devoted to this increasingly important topic. The Spaulding Group, Inc. invites you to attend Performance Measurement Attribution on these dates:

Sept. 26-27, 2013 – Vancouver, BC, Canada
October 24-25, 2013 – Chicago, IL

November 21-22, 2013 – Boston, MA
December 12-13, 2013 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

CFA Institute has approved this program, offered by The Spaulding Group, for 12 CE credit hours. If you are a CFA Institute member, CE credit for your participation in this program will be automatically recorded in your CE tracking tool.



PORTFOLIO RISK MEASUREMENT

This class is intended for investment professionals who would like to gain a better understanding of investment risk as it pertains to portfolio risk reporting, as well as its use in predicting results.

Sept. 18, 2013 – Boston, MA

CFA Institute has approved this program, offered by The Spaulding Group, for 8 CE credit hours. If you are a CFA Institute member, CE credit for your participation in this program will be automatically recorded in your CE tracking tool.



IN-HOUSE TRAINING

The Spaulding Group has offered in-house training to our clients since 1995. Beginning in 1998, we formalized our training, first with our Introduction to Performance Measurement class and later with our Performance Measurement Attribution class. We now also offer training for the CIPM program. To date, close to 3,000 individuals have participated in our training programs, with numbers increasing monthly.

CIPM PREP TRAINING: August 19-20, 2013 – Principles Level (Chicago, IL)
August 21, 22 & 23 – Expert Level (Chicago, IL)

UPDATED CIPM Principles and Expert Flash cards are now available on our web store. Please visit www.SpgShop.com today to order your set.

Our performance experts have created a study aid which can't be beat: *flash cards!* These handy cards will help you and your associates prepare for the upcoming CIPM Principles Exam. Unlike a computer-based study aid, you can take them anywhere to help you test your knowledge.

Benefits of Flash Cards:

- Work at your own pace
- Immediate feedback
- Strengthen and reinforce core CIPM principles

These cards are a *must have* for anyone preparing to take the CIPM Exams.

