

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, we focus 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

When I'm wrong, I'm wrong. Granted, it may take me quite a while to acknowledge this (in spite of the onslaught of opposition), but eventually I'll concede. And concede, I must. However, this was only done after I finally reached someone whom I hold in especially high regard.

Now, what am I admitting? That the Modified Dietz is (dare I say it? You can't possibly know how hard this is) money-weighted. There, I said it.

Peter Dietz passed away more than ten years ago, so I obviously couldn't speak with him about this. However, I got pretty close...after several attempts, I was able to connect with Jeanette Kirschman who was a colleague of Peter Dietz's and coauthored at least one paper with him.¹ I asked and she answered: that the Modified Dietz is money-weighted for the short periods and over time, when linked, becomes time-weighted.

As I've suggested in earlier pieces, there's much confusion because of the varied conflicting sources and the lack of clarity as to what "money weighting" and "time weighting" really mean. Hopefully, over time, we'll come to some resolution as to how to best describe the differences.

People will still, no doubt, be confused, because the Modified Dietz is the most common method for time-weighted performance and is rarely used for money-weighted performance.² However, the key is the use of the formula over short time periods (e.g., a month) and then geometrically link these returns to achieve a time-weighted return for the period.

Well, I'm glad that's finally over.

PREMATURE OBITUARY

"The reports of my death are greatly exaggerated."

~~– Mark Twain~~ AIMR-PPS

I have, of late, been commenting on the upcoming demise of the AIMR-PPS® and the other CVGs (Country Versions of GIPS). However, some clarity is in order.

1 Dietz, Peter O. & Jeannette R. Kirschman. 1983. "Evaluating Portfolio Performance." Managing Investment Portfolios. The Institute of Chartered Financial Analysts.

2 Although we're currently working with a client whose using the Modified Dietz as a proxy for IRR, with plans to replace it in the near future with the IRR.

The Journal of Performance Measurement®:

UPCOMING ARTICLES

**A Wake-Up Call for
Private Equity on GIPS**
by Carol Kennedy

**Achieving and Maintaining
AIMR-PPS® (GIPS®)
Compliance** by Ann Putallaz

The CGIPS Program by
Philip Lawton

Vendor roundtable Interview:
Wilshire Associates, First Rate
Investment Systems, StatPro,
CAPS, Mellon Analytical
Solutions, Microgen, SS&C,
and Eagle Investment
Systems

You see, effective 1 January 2006, the CVGs actually won't be dead (they may be on life support, but won't actually be dead, yet) - firms can still reference it in their presentation materials. It isn't until managers begin to report on 2006 returns that they must reference GIPS®. In my opinion, firms should move quickly to drop the label, but it will be some time before everyone makes the inevitable switch. Sorry if I added to the confusion.

It's anyone's guess, however, as to when the plan sponsor and consulting community will stop referring to the AIMR-PPS. As I commented last month, we were quite pleased to see the increase in support for GIPS through our recent survey. But there will no doubt be hangers on who will continue to refer to the AIMR-PPS and the other CVGs.

CGIPS™ – IT'S COMING TO A THEATER NEAR YOU

Actually, not to a theater, but to a test facility.

I had the pleasure of interviewing Philip Lawton recently for an upcoming issue of *The Journal of Performance Measurement*®. In case you were unaware, Philip heads the CGIPS program and CGIPS is the certification program the CFA Institute is establishing for performance measurement professionals. I don't want to steal too much from the interview, but will share some salient points with you:

- The acronym "CGIPS" stands for "Certificate in Global Investment Performance Standards." But don't be fooled – the test isn't limited to GIPS®. It will also include ethics, return calculations, and attribution.
- There will be two levels: the Principles exam and the Expert exam. To be eligible to be CGIPS-certified, you must pass both levels.
- The exams will be available in 400 proctored test centers in 80 countries.
- If all goes well in these final weeks, the program will open for enrollment November 1, with the first Principles examination window scheduled for the months of March and April 2006. The next Principles exam along with the first Expert exam will then be in the months of September and October 2006.

To help individuals prepare for the exam, we are holding two-day classes starting this coming January in New York, Chicago, Boston, Los Angeles, and London. Other dates and locations will be added. For more information, please contact Patrick Fowler (PFowler@SpauldingGrp.com) or Christopher Spaulding (CSpaulding@SpauldingGrp.com).

UPCOMING EVENTS

This has been a phenomenally busy year for us and the activity isn't slowing down.

John Simpson and I have the pleasure of speaking at this month's annual CFA Institute conference on the standards: John will speak on after-tax performance while I will join two of my friends (Donna Glass of Deloitte and Matt Forstenhausler of Ernst & Young) on a panel.



*Fixed Income Attribution is the **hottest** area in performance measurement today*

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At the beginning of November we will hold our second annual Fixed Income Attribution (FIA) Symposium. We were really pleased with last year's program but believe that this year's will be even better. We've lined up some great topics and speakers.

The Performance Measurement Forum will be holding its Fall (Autumn) / Winter meetings shortly, in Brussels, Belgium (15-16 November) and Orlando, Florida (1-2 December).

In addition to teaching our classes at sights open to the general public, we also conduct in-house classes.³ This year already we've conducted in-house classes for the Abu Dhabi Investment Authority (the third time I've made this trip), State Street, Prudential, Fidelity, Boston Advisors, as well as others. Before the year is out we'll be doing a few more of these classes, including the World Bank (our second time there) and the OPEC Fund for International Development in Vienna.

One of the huge advantages of adding John Simpson to our staff is that he can (and already has) conduct the classes, too!

Even though we have less than three months remaining in 2005, we're making sure we continue to keep pretty busy.

KEEP THOSE CARDS & LETTERS COMING

We appreciate the occasional e-mail we get regarding our newsletter. Occasionally, 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.

³ This approach is ideal for firms looking to train several individuals as the tuition is lower and travel expenses are virtually eliminated.

TRAINING...

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Customized In-House Training is also available. Please call or email for additional details.

INTRODUCTION TO 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 Introduction to Performance Measurement on these dates:

November 7-8, 2005 Boston, MA

November 7-8, 2005 Los Angeles, CA

December 6-7, 2005 Washington, DC

15 CPE Credits upon course completion

PERFORMANCE MEASUREMENT ATTRIBUTION

A day and a half devoted to this increasingly important topic. The Spaulding Group, Inc. invites you to attend Performance Measurement Attribution on these dates:

November 9-10, 2005 Boston, MA

November 9-10, 2005 Los Angeles, CA

December 8-9, 2005 Washington, DC

11 CPE Credits upon course completion

These programs may qualify for the CFA Institute's Professional Development Credit. If you are a member of the CFA Institute, please refer to their website to determine whether this program meets the criteria for CFA Institute PDP credit, to calculate credit hours, and to verify documentation requirements. www.cfainstitute.org/pdprogram

CGIPS PRINCIPLES EXAM PREPARATION

The two-day CGIPS Principles Exam Preparation class will provide you with a solid foundation for your formal study of the CGIPS Principles Exam. It will also help you identify any areas in your performance background that might need reinforcement. The earlier you commit yourself, the greater the probability of success.

January 23-24, 2006 – New York, NY

January 23-24, 2006 – Los Angeles, CA

January 26-27, 2006 – Boston, MA

January 26-27, 2006 – Chicago, IL

January 30-31, 2006 – London, England

THE SPAULDING GROUP'S 2005 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION	DEADLINE
November 2	Fixed Income Attribution (FIA™) Symposium	New York, NY (USA)	November 1, 2005
November 7-8	Introduction to Performance Measurement Training	Boston, MA (USA)	November 4, 2005
November 7-8	Introduction to Performance Measurement Training	Los Angeles, CA (USA)	November 4, 2005
November 9-10	Performance Measurement Attribution Training	Boston, MA (USA)	November 4, 2005
November 9-10	Performance Measurement Attribution Training	Los Angeles, CA (USA)	November 4, 2005
November 15-16	Performance Measurement Forum	Brussels, Belgium	November 11, 2005
December 1-2	Performance Measurement Forum	Orlando, FL (USA)	November 25, 2005
December 6-7	Introduction to Performance Measurement Training	Washington, DC (USA)	December 2, 2005
December 8-9	Performance Measurement Attribution Training	Washington, DC (USA)	December 2, 2005

For Additional information on any of our 2005 events, please contact Christopher Spaulding at 732-873-5700