



Performance Perspectives

with David Spaulding

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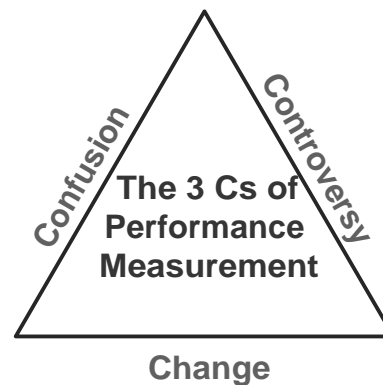
A new year,...., a new look

We decided to make some changes in our appearance. After managing to produce 12 monthly issues of this newsletter, we thought that the start of a new production year would be the fitting time to introduce these changes. Sabina Hastings did the design work, and we hope you like it.

The 3 Cs

And speaking of change, this word fits in well with our first topic – the 3 Cs of performance measurement.

Some time ago I realized that there were two C words which are prevalent in performance measurement: controversy and confusion. And then it hit me that there's a third C word: change.



What's confusing? Plenty. The AIMR-PPS[®] and GIPS[®] have lots of things which people find confusing, from composite construction to how to define your firm to rules of discretion. Many find the differences between time-weighting and money-weighting to be confusing. And attribution as a whole is confusing, especially to those who are just beginning to explore it.

Controversy? Where do we begin? How about whether arithmetic or geometric attribution is better? Or, whether the Dietz method is time-weighted or money-weighted? Not to mention the many arguments over which linking method is better.

And change is constant in our industry, with no apparent sign of it slowing down.

So there you have it, the 3 Cs of performance measurement. We're sure you can think of many examples yourself. But we all must be mindful of these attributes when we're dealing with this subject matter.

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 Association for Investment Management & Research (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>

(Oh, by the way, I'll be doing my first presentation on this subject at the upcoming FMC Users' Conference in Toronto, October 28).

IPC Meeting – Washington D.C.

The Investment Performance Council (IPC) held its semi-annual meeting in Washington D.C. on Thursday, October 23. This was one of the best meetings I've attended. Unfortunately, some of the best parts took place in our closed session, so I'm not yet at liberty to share these details with you.

However, suffice it to say that we discussed some of the comments on "Gold" GIPS. Over the next several weeks, the Country Standard Subcommittee (CSSC) will work on revising the earlier draft. The IPC is scheduled to finalize and approve "Gold" GIPS on December 7th, with a backup date of December 14th. It next goes to the External Relations and Volunteer Involvement Committee in January, 2005. And finally, it goes to the CFAI Board of Governors for adoption (10-12 February, 2005).

My expectation is that you will be both surprised and pleased by what's coming.

New Guidance Statements

We voted on four new guidance statements to be distributed for public comment:

- Record Keeping
- Error Correction
- Verifier Independence
- Wrap Fees/Separately Managed Accounts
- Leverage & Derivatives

The most exciting GS is for the wrap fee industry, which also goes by the name "Separately Managed Accounts" (SMA). We realize that this term can be confusing for some, especially for those outside the United States, but it wasn't our idea – we were happy with "wrap fee accounts."

This GS is one that the industry has been waiting on for some time. It took the AIMR-PPS Implementation Committee quite a while to come up with something we believe will be much more welcome by those involved in this product area, and we're hopeful that this version will *do the trick!*

Again, I'd love to go into detail, but I'm sworn to secrecy! However, in our October newsletter, I'll share with you some of the key points.

As for the other guidance statements, they're important, too. As always, you're encouraged to review them and voice your comments. They'll all be posted on the CFAI website (www.CFAInstitute.org).

Allow me a moment to reflect

What I'm about to share with you has absolutely nothing to do with performance measurement, but I think it's kind of interesting and hope you'll agree.

I recall that when I was a child, a television program had an episode where they depicted what someone perceived a computer to look like. This was about 1958 (yes, I know it's hard to believe, but I am that old). What they showed was a box, where you would ask a question and it would respond with the answer. Quite farfetched, as I think you would agree.

In 1958, there weren't very many computers. In fact, it was highly likely that you wouldn't encounter one at all. And the programming languages weren't very advanced – COBOL and FORTRAN, third generation languages you may have heard of, for example, hadn't yet been developed. Many people were actually writing programs in machine language at that time – quite basic and challenging.

Well, here we are close to 50 years later, and that vision of a computer that I saw on TV has become a reality! Just visit the Google website, for example, and key in just about any question, and you'll be returned hundreds, perhaps thousands of web sites that will be filled with answers. Quite impressive, I have to say.

I doubt if the developers of the ENIAC or the Univac-1 ever imagined that computers would one day serve as powerful typewriters, basically impacting many industries along the way. And, to have an extremely powerful database of information which can be accessed randomly in a matter of seconds. And where we encounter computers on a regular and virtually constant basis.

Without the advances we've seen in information technology (what we used to call data processing), we couldn't do very much of what we accomplish in performance measurement today. And one can only imagine what the next 50 years will bring.



2005 – not to soon to start planning

Like most firms, we're beginning to look ahead to 2005. We've already scheduled PMAR III (May 16-17, in New York City) as well as our first few months of training classes.

This year we introduced our first luncheon series, which dealt with "Gold" GIPS. In addition, we did our first web cast, also on this subject. Since the reception was quite good, we will be planning more in the coming year.

We're also planning our publishing schedule for 2005 and may be asking for your input. This year we published Peter Dietz's classic, *Pension Funds: Measuring Investment Performance*. We're planning to publish my third book, *The Handbook of Investment Performance Measurement: A User's Guide* by year-end as well as the second edition of the *Performance, Attribution and Risk Measurement Reference Guide*. We are completely out of the first edition and hope to have this revised version available by the end of October.



This newsletter is produced by TSG Publications. It is written and edited by Dave Spaulding. The opinions expressed are his and are a result of his own industry experience. Content layout by Sabina T. Hastings.

UPCOMING TRAINING DATES

INTRODUCTION TO PERFORMANCE MEASUREMENT

<u>LOCATION</u>	<u>DATES</u>
Boston, MA	October 4 - 5, 2004
Los Angeles, CA	October 18 - 19, 2004

Receive 15 CPE Credits for attending this Two-day class!

PERFORMANCE MEASUREMENT ATTRIBUTION

<u>LOCATION</u>	<u>DATES</u>
Boston, MA	October 6 - 7, 2004
Los Angeles, CA	October 20 - 21, 2004

Receive 11 CPE Credits for attending this One and a Half day class!

These programs may qualify for CFA Institute Professional Development Program credit. If you are an CFAI member, please refer to the CFAI Web site to determine whether this program meets the criteria for CFAI PDP credit, to calculate credit hours, and to verify documentation requirements.
(www.cfainstitute.org/pdprogram)

2004

Performance Measurement Forum Schedule

Madrid, Spain	November 10 - 11, 2004
Orlando, FL	December 9 - 10, 2004

