

PERFORMANCE PERSPECTIVES

with David Spaulding



VOLUME 10 – ISSUE 1

SEPTEMBER 2012

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

10 YEARS ALREADY?

This issue marks the beginning of the tenth year of publishing this monthly newsletter. And while this may not appear to be much of a big deal, having started two prior newsletters which didn't make it nearly this far, I'm pleased that we're still able to produce them on a steady basis.

As you might imagine, publishing so frequently can, at times, be a challenge. I often begin writing in the first or second week of the month, but then *things get in the way*, and I'm forced to wrap it up quickly as the month comes to a close (this month being yet another example).

I am grateful to Patrick Fowler, who manages the process of turning my words into what actually appears in our newsletter, and Cybill Conklin, who handles the actual layout each month.

Obviously, we're not the only company to offer a newsletter, although I think we're the only one in our segment of the industry that produces them monthly. And, if you're a regular reader you know that I'm quite comfortable sharing my candid views about a variety of topics. Some of my remarks don't always sit well with some in our industry. One individual accused me of frequently "attacking" members of the GIPS® Executive Committee. This disturbed me a great deal, because I never thought my comments had extended to "attacks," and so I asked for some examples. After several months of waiting, with no examples provided, my only conclusion has been that none could be found. "Disagreements" do not constitute "attacks."

I regularly write *letters to the editor* in our two local newspapers, and I'll admit that at times the language does qualify as being "attacks," (and, as you might expect, some individuals offer letters in reply which are likewise attacks) but to adamantly suggest that I do this here is, I believe, unfair and incorrect. I will give you my opinion about things the EC is considering or doing, but at no time do I "attack." I recognize that most of the members are volunteers, who strive to serve our industry. Just as I wouldn't attack the replacement officials currently working the NFL (National Football League) games, as I believe they're trying to do their best, I won't attack these performance measurement professionals.

Over the years we've often gotten responses to material that has appeared here; occasionally in support, and sometimes in opposition. We welcome both.

And, we welcome your suggestions as to how the newsletter can improve. Please send your comments to me (DSpaulding@SpauldingGrp.com). Thanks!



The Journal of Performance Measurement®

UPCOMING ARTICLES

Venture and Private Equity Performance Update: One Cheer for FAS157

– Susan Woodward

A New Choice in Multi-period Investment Performance Attribution: Effective Return versus Geometric Smoothing

– Ronald J. Surz

Analyzing Diversification Effects, Sector Allocations, Market Conditions, and Factor Tilts in Advanced Equity Beta Strategies: The Case of Efficient Indices

– Felix Goltz and Dev Sahos

Flows and Woes: The True Cost of Spot Trading Policy

– Matthew Lyberg and
Alexander Dunegan

Rethinking Portfolio Risk in Asset Management

– Charles T. Hage

IS THE SEC NOW VERIFYING THE VERIFIERS?

In a recent blog post¹ I commented about a Star Tribune (Minneapolis, MN) article titled “SEC widens fraud inquiry into Twin Cities money manager.” The reporter, Dan Brown, wrote that “[late] last month, *the SEC served subpoenas on two companies that certify compliance* with a rigorous financial reporting system known as the Global Investment Performance Standard [sic] (GIPS). The subpoenas seek all information related to work they’ve done on behalf of Welliver, Stringfield, DBlaine Capital, or a mutual fund called DBlaine Fund.” <emphasis added>

One obvious question: why would the Securities & Exchange Commission take such an unprecedented² step, to seek information from a firm’s verifiers? One possibility: they wish to conduct some sort of verification of the work these firms did. At the present time there is no way of knowing the SEC’s motives. We can speculate, as I am doing, of course, but until (if at any point) details about this come out, there’s not much more we can do.

For 20 years I (and many others) have lobbied for a “verification of verifiers.” However, so far nothing has been done. I admit that this is a difficult topic, but something is probably needed. I’d prefer that it not be the SEC who conducts these reviews.



I had lunch this week with an attorney friend who serves our industry. We discussed the quality of verifications and he introduced a term I wasn’t previously familiar with, “verification in a box.” He suggested that some verifiers do, in a sense, offer them: quick, simple, easy verifications. Sadly, they offer no quality defense against enforcement action. And so, why would anyone choose to accept such work? Well, because they’re quick, simple, and easy, of course!

Verifiers are, in a sense, “gate keepers,” are they not? They serve to protect the industry, by conducting reviews of firm’s who claim compliance with GIPS. Most managers who serve the institutional market recognize that *compliance is a must*, if you’re going to grow your business. But compliance alone isn’t usually sufficient: verifications are more often than not also required. There’s an expectation that the verifications have some value, though. When they don’t, problems can occur.

Our firm would rather be fired than to bend the rules to suit a recalcitrant client. I believe most of our competitors feel the same way.

I have no way of knowing, of course, if either firm did anything wrong. They have not been accused of anything improper. I hope that their work was of the highest standard, and that their client’s mischief was undetected by them for good reason. The verification practice does not benefit from bad press. We can all probably improve what we’re doing, in one way or another.

No other firm, I am sure, would want to trade places with these firms, though the potential is there for us to be asked for these materials, too. Not knowing any more than what is revealed in Brown’s article, and that subpoenas were issued, there’s not much more to say.

1 <http://www.investmentperformanceguy.blogspot.com/2012/09/is-sec-now-verifying-gips-verifiers.html>

2 To my knowledge this is the first time this has occurred.

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](#) (732-873-5700) with your suggestions.

THE 3 C'S OF PERFORMANCE EXTENDED TO FIVE

Many years ago I coined the “3 C’s of performance measurement”:

- **Confusion:** much of what we do can be confusing (e.g., when a client loses money but has a positive return, or when their composite return is greater than the returns of the individual accounts within the composite)
- **Controversy:** there’s loads of that going around (e.g., the battles that Carl Bacon and I have regarding (a) geometric vs. arithmetic attribution, (b) the benefits of money-weighting, (c) the value of the interaction effect, ...)
- **Change:** our industry is extremely dynamic, and change occurs on a regular basis (from changes to the GIPS standards, to new methods to measure risk)



Well, when it comes to GIPS compliance I’d add two more C’s:

- **Credibility:** being compliant, especially when followed up with verification, provides a degree of credibility to the numbers shown
- **Confidence:** likewise, compliance with verifications provides confidence to both the firm claiming compliance as well as their prospective clients.

Perhaps these two C’s can be extended further, as we clearly want our numbers to be credible, and for us to have confidence in what we show.

The Spaulding Group’s operational reviews and software certifications are designed to provide credibility and confidence, too, so it’s appropriate to extend these C’s much further, yes?

PMAR WITH AN ATTITUDE...

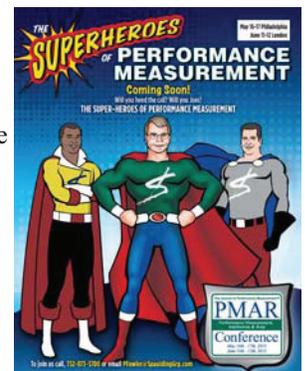
Each year, for the past ten, we have hosted our Performance Measurement, Attribution & Risk conference (PMAR). First, in the States, and more recently in Europe (London, to be exact). And every year we strive to improve upon the prior year’s event.

From the start we’ve introduced unique and innovative sessions, such as our Battle Royale and Fast Performance. We work hard to identify the best speakers to address the most important topics for our attendees. And, we strive to support our vendors, by encouraging the attendees to visit their respective booths.

This year we’re doing something totally different: we’ve adopted a “theme” for the event: the Superheroes of Performance Measurement!

We unveiled our initial marketing piece for the event at this month’s GIPS conference in Boston. The response was extremely positive.

Will the speakers be in costume? You’ll have to come to find out! But we can assure you that this theme will continue throughout the period leading up to the two



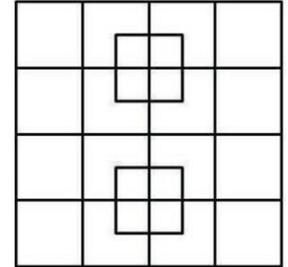
KEEP THOSE CARDS & LETTERS COMING

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.

conferences, as well as during the events themselves. We try to make our programs fun, as well as informative. We think you can already tell that these programs will live up to this objective.

PUZZLE OF THE MONTH

We decided to add a couple new features to our newsletter. The first is a puzzle. This month's has been making the rounds on Facebook, and we thought you'd find it of interest, too.



How many squares are there in this figure?

Please send your answer to me (Dspaulding@SpauldingGrp.com). We will list the names of all who get it correct in our October newsletter.

FACT OF THE MONTH

This is our second section added to the newsletter, and these monthly facts may or may not have anything to do with our industry. This month's clearly doesn't.

I just finished reading *The Presidents' Club* by Nancy Gibbs and Michael Duffy. It is chock full of interesting facts. Here's one you may find of interest: Bill Clinton, our 42nd president, rereads two letters each year. One, his "welcome letter," left by his predecessor, George H.W. Bush (aka "Bush 41"), telling him "you will be our president when you read this letter. I am rooting for you." The second was written by Richard Nixon on Russia, a few weeks before his death, which Clinton described as being so lucid and well written. Clinton drew upon Nixon's guidance and wisdom during the beginning of his presidency.

RISK week

NOVEMBER 12-16, 2012

*An online
conference event*

AGENDA:

A Framework for Risk Management of Hedge Funds

John Longo, Ph.D., CFA
Rutgers University

Risk Adjusted Measures

John D. Simpson, CIPM
The Spaulding Group

Value at Risk

Ben Sopranzetti, Ph.D., CPA
Rutgers University

A Client's Perspective on Risk

Stephen Campisi, CFA
US Trust

Risk Attribution

Philippe Gregoire, Ph.D.
Orfival

THE SPAULDING GROUP'S 2012 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
October 23-24, 2012	Fundamentals of Performance Measurement Training	Chicago, IL (USA)
October 25-26, 2012	Performance Measurement Attribution Training	Chicago, IL (USA)
November 8-9, 2012	Performance Measurement Forum	Istanbul, Turkey
November 12-16, 2012	Risk Week – An Online Conference Event	
November 29-30, 2012	Performance Measurement Forum	San Francisco, CA (USA)
December 4-5, 2012	Fundamentals of Performance Measurement Training	New Brunswick, NJ (USA)
December 6-7, 2012	Performance Measurement Attribution Training	New Brunswick, NJ (USA)

For additional information on any of our 2012 events, please contact Christopher Spaulding at 732-873-5700

2012 GIPS SURVEY

THE SPAULDING GROUP TO SURVEY INDUSTRY ON THE GLOBAL INVESTMENT PERFORMANCE STANDARDS (GIPS)[®]

8th Time Presentation Standards Have Been Surveyed



The Spaulding Group, Inc. (TSG - www.SpauldingGrp.com) announced today that for the eighth time since 1993, it will address the topic of the performance presentation standards (specifically, the Global Investment Performance Standards (GIPS)) in their next survey. The survey will solicit responses from asset management firms throughout the world. These results will form the basis of a detailed analysis, as well as provide a comparison with prior versions of the survey, to allow us to analyze trends and global recognition of these standards. Three firms have signed on so far to lend their support to the research effort: BI-SAM Technologies, DST Global Solutions and SS&C.

“The Global Investment Standards have succeeded on a worldwide scale unlike any other industry standard before it,” said Patrick W. Fowler, COO. “They have changed the way asset managers, especially institutional, present their performance to prospective clients. Our goal is to continue our regular monitoring of the Standards’ acceptance, to discover what, if any, changes have occurred, as well as determine how they’ve been implemented across the globe.”

Survey participants will receive complimentary copies of the survey results. All subscribers to *The Journal of Performance Measurement*[®] will receive a synopsis of the results in an upcoming issue. It is TSG’s policy to ensure confidentiality; participant details will not be shared with cosponsors or other parties. Surveys will be emailed this month. Firms can participate by visiting our website (www.SpauldingGrp.com) and clicking on the GIPS Survey button.

TRAINING...

Gain the Critical Knowledge Needed for Performance Measurement and Performance Attribution

TO REGISTER:

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E-mail: info@SpauldingGrp.com



The Spaulding Group, Inc. is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be addressed to the National Registry of CPE Sponsors, 150 Fourth Avenue North, Suite 700, Nashville, TN 37219-2417. www.nasba.org

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:

October 23-24, 2012 – Chicago, IL

December 4-5, 2012 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

The Spaulding Group is registered with CFA Institute as an Approved Provider of professional development programs. This program is eligible for 12 PD credit hours as granted by CFA Institute.



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:

October 25-26, 2012 – Chicago, IL

December 6-7, 2012 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

The Spaulding Group is registered with CFA Institute as an Approved Provider of professional development programs. This program is eligible for 12 PD credit hours as granted by CFA Institute.



IN-HOUSE TRAINING

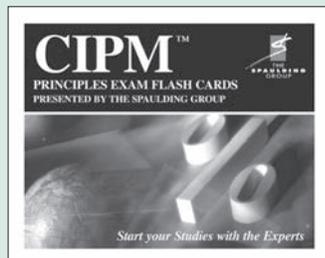
The Spaulding Group has offered in-house training to our clients since 1995. Beginning in 1998, we formalized our training, first with our Introduction to Performance Measurement class and later with our Performance Measurement Attribution class. We now also offer training for the CIPM program. To date,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

We were quite pleased when so many firms asked us to continue to provide in-house training. This saves our clients the cost of transporting their staff to our training location and limits their time away from the office. With the discounted tuition for in-house training, it saves them even more! We can teach the same class we conduct to the general market, or we can develop a class that's suited specifically to meet your needs.

The two-day introductory class is based on David Spaulding's book, Measuring Investment Performance (McGraw-Hill, 1997). The attribution class draws from David's second book Investment Performance Attribution (McGraw-Hill, 2003).

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.