

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 Patrick Fowler at
PFowler@SpauldingGrp.com



HAPPY NEW YEAR!

Last year was the best year in our firm's history. Some of the highlights:

- We held our 25th PMAR conference (in March)
- PMAR West II became a two-day conference, as PMAR North America and PMAR Europe have been. In 2017 it was a one-day conference, as we wanted to "try it out," first. And, because of its success, we will continue to host annual conferences on the west coast.
- We began our 23rd year of publishing *The Journal of Performance Measurement*®
- Christopher Spaulding returned to the firm, after a brief hiatus, to resume his position as head of marketing and client services. His official title is Executive Vice President, Global Head of Strategy and Business Development.
- Jennifer Barnette, CIPM, joined our firm as a verifier. Having spent more than two decades working for asset managers, she brings a strong background with her, and has already done a great job for us.
- We added two large asset owners as verification clients: MassPRIM and a sovereign wealth fund.
- Three of us (John D. Simpson, CIPM; Ashley Reeves, CIPM, and I) clocked over 100,000 air miles (and numerous hotel nights) serving our clients.

We are very excited with what 2019 will bring, and hope that last year was a great one for you, and that 2019 will be even better!

The Journal of Performance Measurement®

UPCOMING ARTICLES

On the Relation Between Money- and Time-Weighted Rates of Return and its Implications

– John E. Woods, Ph.D.

Target Date Fund Benchmarks

– Ronald J. Surz, PPCA Inc.

The Journal Interview

– Michael S. Caccese, Esq., K&L Gates

Public Market Equivalents: Methods and Considerations

– Timothy F. Peterson, CFA, CAIA, Cane Island Alternative Investors

Performance Measurement: Ripe for Disruption

– Mark Goodey, Dip IoD, Eagle Investment Systems

Abnormal Returns: Part 2 Returns for Short Positions and Portfolios

– Carl Bacon, CIPM, StatPro; Ian Thompson, Ph.D., StatPro; and Pierre van der Westhuizen, StatPro

RETHINKING BENCHMARK CRITERIA: WHY WE'VE GOTTEN IT WRONG AND WHAT REALLY MATTERS

At our upcoming PMAR North America conference, I will do a talk on benchmarks, with the title as shown above. For the past several years, we have found increasing interest in this topic.¹

I have had issues with the seven (now eight) criteria which we frequently see publicized for benchmarks. I wish to challenge this criteria, partly because they aren't (and probably shouldn't) be taken all that seriously.

One criterion that should be included is cost. The cost for market indices has **skyrocketed** over the past few years. In a recent blog post¹ I suggested that ETFs might be a good alternative. Several comments resulted. I believe this is a viable approach. We have started to see verification clients adopt them.

Research we did a few years ago with BNY Mellon, Northern Trust, and State Street², showed that there is little difference between the results of alternative indexes for the same market. While that research was limited to only two markets, we believe there's justification to extend these results even further.

What drives benchmark selection? Primarily it's the client; at least that's what it appears to be. And, often the client is directed by their consultant, who doesn't have to pay the index's cost.

Well, I've already said too much on this topic, at least for now, as I want to save some for my talk. Briefly, here's a summary of what the talk will be:

Summary

Many performance measurement professionals are aware of the seven (now eight) criteria for benchmarks. But, are they really what matters? Are they relevant? Aren't they typically over-looked?

Perhaps it's time to rethink what the criteria should be. What's most important? For example, when it comes to market indexes, shouldn't cost be a factor, given that we've seen rates increase significantly over the past few years? What else?

Who is the talk for?

The presentation is for anyone who is involved with benchmark oversight, selection, reporting, and usage.



1 <https://spauldinggrp.com/etfs-as-benchmarks-is-the-time-right/>

2 Barney, Frances, et al. "Are All Market Indexes Created Equal." *The Journal of Performance Measurement*. Winter 2015/2016.

KEEP THOSE CARDS & LETTERS COMING

We appreciate the emails 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.

Takeaways

- 1) Get a fresh perspective on the old (seven/eight) benchmark criteria
- 2) Gain insights into what might be better criteria to consider when selecting benchmarks
- 3) Learn of areas that should concern you when it comes to market indexes, such as pricing and license issues. (Are you violating any? We won't tell!)
- 4) Walk away with ideas for alternatives that can save your organization a lot of money.

SPEAKING OF MARKET INDEXES, LET'S NOT FORGET LICENSING LIMITS

Okay, I guess I'm not completely done with the topic of benchmarks for this month.

I'll confess that I've never read a license from a market index provider, though I suspect it's a fairly long and complicated document.

I've concluded that when I die, I'd like to return as an index provider: that's where the \$\$\$ is. Granted, they provide a great and important service. But, they also are quite well compensated for doing it.



One key item you probably should check, especially if you manage balanced portfolios: are you permitted to blend the indexes? E.g., let's say you want to blend the S&P 500 with the Bloomberg Barclay's Agg: can you?

If you can't, how do you handle this from a GIPS® reporting perspective?

I'll have a lot more to say on this in March at PMAR North America XVII!

PUZZLE TIME!

December Puzzles

We closed out 2019 with TWO FUN puzzles!

The first: An orchestra of 120 players takes 1 hour and 20 minutes to play Bach's Christmas Oratorio. How long would it take for 60 players to play it? Let P be the number of players and T the time of playing.

This was "fun," because it makes no sense: that is, who cares how many players there are? I got this puzzle from Facebook (I believe the "I Love Mathematics" page), and recall someone responding "that's not how you do it!" And, of course it isn't. It's a puzzle that is masquerading as a math problem. Surely, you found it fun, right?

I actually thought there could be two possible answers:

- 1) Unless you have the full 120 players, you cannot perform this piece
- 2) 1 hour and 20 minutes.

January Puzzle

This month's was submitted by our friend, Anthony Howland:

A windowless room contains three identical light bulbs. Each light is connected to one of three switches outside of the room. Each bulb is switched off at present. You are outside the room, and the door is closed. Before opening the door you may play around with the light switches as many times as you like. But once you've opened the door, you may no longer touch a switch. After this, you go into the room and examine the lights. How can you tell which switch goes to which light?

Good luck!

No one opted for the first solution, though we had several who got this correct with the second answer.

As explained Patrick Trenckansky it, "they just likely wouldn't be quite as loud!"

The second: Solve this equation

$$\frac{9!}{8!(3^2)} = ?$$

Okay, so this is "fun" because it is so simple, provided you recall what the explanation point means in math: the "factorial" function. E.g., $9! = 9 \times 8 \times 7 \times 6 \times \dots \times 2 \times 1$.

The denominator is the key. $3^2 = 9$. And so, our $8!$ ($8 \times 7 \times \dots \times 2 \times 1$) s being multiplied by 9, which is the same as $9!$ And so, it's just $9! / 9!$ which equals 1.

Patrick Trenckansky, Dan Lehrer, Tom Stapleton, and Michael Campagna, got both correct!

October puzzle

I failed to see that Matthew Rayner got this correct, though he used two bats, instead of three (which, as I mentioned, might have occurred. My oversight. Sorry, Matthew.

Cadmus Hicks noticed that I erred in my solution, as I was multiplying the product of ghost and bats (i.e., 12) times the pumpkin (i.e., 8), rather than adding! Oh, darn!!! And so, the solution should be 20.



Cadmus also provided the following:

Here is how Microsoft Excel determines the order of operations in a formula:

If you combine several operators in a single formula, Excel performs the operations in the order shown in the following table. If a formula contains operators with the same precedence - for example, if a formula contains both a multiplication and division operator - Excel evaluates the operators from left to right.

Operator	Description
: (colon) (single space)	Reference operators
, (comma)	Reference operators
-	Negation (as in -1)
%	Percent
^	Exponentiation
* and /	Multiplication and division
+ and -	Addition and subtraction

Excel only goes from left to right when two or more operators have the same precedence.

Thanks, Cadmus!

**THE SPAULDING GROUP'S 2019
INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS**

DATE	EVENT	LOCATION
February 11-12, 2019	Fundamentals of Performance Measurement	San Francisco, CA
May 21-22, 2019	Fundamentals of Performance Measurement	Boston, MA
May 23-24, 2019	Performance Measurement Attribution	Boston, MA
July 23-24, 2019	Fundamentals of Performance Measurement	Toronto, ON
July 25-26, 2019	Performance Measurement Attribution	Toronto, ON
August 6-7, 2019	Fundamentals of Performance Measurement	Chicago, IL
August 8-9, 2019	Performance Measurement Attribution	Chicago, IL
November 20, 2019	GIPS Workshop	San Diego, CA
November 21-22, 2019	Fundamentals of Performance Measurement	San Diego, CA
December 9-10, 2019	Fundamentals of Performance Measurement	New Brunswick, NJ
December 11-12, 2019	Performance Measurement Attribution	New Brunswick, NJ

For additional information on any of our 2018 events, please contact Patrick Fowler at 732-873-5700

TRAINING...

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Knowledge Needed
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and Performance
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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:

February 11-12, 2019 – San Francisco, CA

May 21-22, 2019 – Boston, MA

July 23-24, 2019 – Toronto, ON

August 6-7, 2019 – Chicago, IL

November 21-22, 2019 – San Diego, CA

December 9-10, 2019 – 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:

May 23-24, 2019 – Boston, MA

July 25-26, 2019 – Toronto, ON

August 8-9, 2019 – Chicago, IL

December 11-12, 2019 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

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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.