

PERFORMANCE PERSPECTIVES

with David Spaulding



VOLUME 6 – ISSUE 12

AUGUST 2009

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>

SIX YEARS AND STILL GOING STRONG...

This issue of our newsletter marks the end of six years of continuous commentary. The fact that I've been able to continue to find topics to comment on simply affirms what many have known for a long time: I'm opinionated. Sometimes my strong views get me into trouble, which is never my intention. I've heard from many readers who have said they appreciate my candor and advice, as well as my insights and sharing of information.

I have come to find that I very much enjoy writing. As a rather poor English student in school, this revelation would be a shock to many of my teachers. But writing allows the sharing of ideas and is an excellent way to communicate. I have found that I rarely get phone calls any more, as most folks communicate with me via e-mail; the same may be true for you, as well. There are, however, a few problems with e-mails. First, many writers aren't as diligent about their crafting of messages, and so it's often the case where good grammar is ignored. Even with the availability of spell-check, many messages are replete with misspelled words. Because we tend to think, compose, and immediately send e-mails, we don't take the time to reflect on the wording; consequently, some times our messages are perhaps a tad stronger than we might otherwise want them to be (what my wife, Betty, calls "killer e-mails"). Unfortunately, once we hit the "send" button, the message is on its way and we can't retrieve it. I am guilty of all of these shortcomings myself, and so really can't criticize others, though I wish we'd all be a bit more circumspect when employing this medium.

SPEAKING OF WRITING, AN ARTICLE...

The New York Society of Security Analysts began a journal and asked me to write a piece on GIPS 2010, for which I was quite pleased to comply. It is in the current issue and can be found on-line, should you be interested in reading it:

www.theinvestmentprofessional.com/vol_2_no_3/hotzones-compliance.html.

AND WRITING...

I'm working on an article on Value at Risk, which should appear before year-end. It will provide a simple explanation of VaR, as well as the math behind one approach.

VaR continues to be a somewhat controversial measure, as all of risk is. The approach I'll describe assumes a normal distribution, which of course isn't typical of returns...it's kind of like the Wizard from *The Wizard of Oz* who asks Dorothy and her friends to "pay no attention to that man behind the curtain."

The reality is that many of our risk and risk-adjusted return measures make such assumptions (e.g., standard deviation, Sharpe ratio), and reality doesn't always prove to be harmful to the results. But one still must be somewhat cautious in how they employ these measures.

We'll discuss this further.

The Journal of Performance Measurement®:

UPCOMING ARTICLES

Determining the Optimal Mutual Fund Style Classification Methodology

– *David M. Blanchett, CFA and
Craig Israelson, Ph.D.*

101 Ways to Measure Performance

– *Philippe Cogneau, and
Georges Hübner*

Risk Attribution

– *Philippe Grégoire, Ph.D.*

Refining the Sharpe Ratio

– *Craig L. Israelsen, Ph.D.,
Brigham Young University*

On Turning Three: Reflections on the CIPM® Program

– *Philip Lawton, CFA, CIPM,
CFA Institute*

Performance Analytics Systems

– *In House or Vendor Package*
– *Kyle Ringrose, CFA,
Wilson HTM Investment Group*

A Global Investment Attribution Analysis Based on a Symmetrical Arithmetic Attribution Model

– *Yuri Shestopaloff, Ph.D.,
SegmentSoft Inc.*

A Comparison of Plan Sponsor Attribution Methodologies: Multi-Level Brinson Attribution vs. Macro Attribution

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

FOUR MONTHS TO GO, AND COUNTING

GIPS® is about to undergo quite a bit of change. And while the provisions within GIPS 2010 don't take effect until January 1, 2011, there are other requirements which will take effect this coming January, so you should be prepared. No doubt you are, but we want to take a moment to restate what we've mentioned in the past, as repetition is not always a bad thing.

First, we have the provision that requires revaluing portfolios for all "large" external cash flows.¹ By "external," we mean contributions and/or withdrawals of cash and/or securities into or out of the portfolio ("internal" refers to cash flows within a portfolio, which can include purchases, sales, and income). You get to define what "large" means, and this definition can vary by composite. You should document these details.

We have found that most firms have adopted this provision for some time, with many revaluing daily. One item that hasn't been explained, however, is what "revalue" means: does it mean "reprice" or should positions be "reconciled." I favor the latter, but so far haven't seen any guidance.

The second change, one that is unwelcome by many, is the disallowance of cash allocation for carve-outs.² There's some confusion here: some folks think that the ability to use carve-outs goes away, but this isn't true: you can still have them, you just need to manage the cash separately, which may not be so easy for many firms. If you decide that this change means you will no longer employ carve-outs, that's fine: you should include a disclosure to this effect.

Another, easily overlooked change, is the requirement that was introduced last year via the new Error & Correction Guidance Statement, which mandates that firms disclose any material corrections to composite presentations for at least one year. You may recall that this disclosure was included in the GIPS 2010 Exposure Draft, since it merely reflects, as it should, a new requirement. The problem, as I see it, is that this provision was met with an overwhelming amount of discord from those who submitted comments. This, therefore, raises a question: might the GIPS Executive Committee decide to withdraw this new requirement? One can only hope. But until we hear something, plan to employ it.

Along with this new requirement is the requirement that you actually adopt a formal E&C policy. While some might find the guidance statement a bit prescriptive in nature, it does do a more than adequate job in helping you assess what decisions you need to consider.

Today, you can calculate your composite returns by linking monthly portfolio returns and asset weighting quarterly; effective this coming January you will be required to asset weight monthly.³ The actual wording is "at least monthly," though I would caution you before doing it more frequently, as we've found problems with daily asset weighting. I may comment on this in an upcoming newsletter.

If you're valuing portfolios as of any period other than month-end or as of the last business day of the month, you'll have to stop this coming January (and you should have been disclosing this practice⁴). Starting January 1, you must value portfolios as of the calendar month-end or the last business day of the month.⁵ This, of course, has to do with

1 *Global Investment Performance Standards*. February 2005. ¶ 2.A.2.b.

2 *Ibid.* ¶ 3.A.7

3 *Ibid.* ¶ 2.A.6.

4 *Ibid.* ¶ 4.A.25.

5 *Ibid.* ¶ 1.A.4.

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Visit PerformanceJobs.com and you'll also see that we have several jobs posted. We're very excited with the initial interest this venture has caused and look forward to it becoming the major resource for individuals seeking employment as well as firms looking to hire. If you know of someone who is looking for a career in investment performance, please direct them to our site and encourage them to submit their resume today.

PERFORMANCE
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your monthly return calculations; in many cases firms are calculating daily returns, but still for a monthly perspective, we need them linked to end as of these dates.

Most firms are already doing most of these things, so they're pretty much set. The only item which we believe isn't being done today is the disclosure of the correction of material errors, which, again, is set to be required shortly.

TO TEMPLATE OR NOT TO TEMPLATE

We began offering verifications in 1992, though we ceased doing them for a while. Our practice resumed about four years ago and this year we actually began marketing this service and have gained many new clients as a result.

On a couple of occasions we were asked whether we had "templates" for policies and procedures. We had considered offering these in the past, but were concerned that doing so might put us in a position where we'd be *verifying our own work*, which is in conflict with the Verifier Independence Guidance Statement. Well, we came upon a solution which results in a document that doesn't cause such a conflict. The document is a guide to help firms develop their P&P without crossing the line and jeopardizing our independence. We won't post them as our munificence has its limits, but they're available to all of our verification clients and Forum members. We will continue to offer suggested items to include in your P&P on our website (<http://www.spauldinggrp.com/services/resource-center/93-tips.html>), though this list admittedly needs some updating.

TRAINING AS A GAUGE ON THE MARKET

We've offered training for more than ten years, and this year began with lower than normal numbers, especially for in-house classes. We're pleased to report, however, that we've seen a significant pickup of late, which to us reflects the positive shift in the market.

Watching the DJIA graph a few months ago could be quite depressing, with the wide and dramatic swings it was taking; we haven't seen such behavior of late, which is further evidence of a calming and shift in attitudes. We of course look forward to a much more solid market and economy in the coming months, as we suspect you do as well.

SOME FAMILY NEWS

Three years ago we announced the marriage of our son, Christopher, to Monica. And now we have the pleasure to announce the birth of our first grandchild and their son, Brady, who was born August 1st. I can sincerely say that his birth has had a much greater impact on me than I would have ever expected. Unlike my wife, I hadn't been anxiously awaiting the time when I'd achieve the milestone of being a grandparent, but must say that it is all that people say it is: simply magnificent. And the boy isn't bad looking, either!



THE SPAULDING GROUP'S 2009 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
September 15-16, 2009	Introduction to Performance Measurement Training	Boston, MA (USA)
September 17-18, 2009	Performance Measurement Attribution Training	Boston, MA (USA)
October 20-21, 2009	Introduction to Performance Measurement Training	San Francisco, CA (USA)
October 22-23, 2009	Performance Measurement Attribution Training	San Francisco, CA (USA)
November 12-13, 2009	Performance Measurement Forum	Rome, Italy
November 19, 2009	Trends in Attribution Symposium (TIA III)	New Brunswick, NJ (USA)
December 3-4, 2009	Performance Measurement Forum	Orlando, FL (USA)
December 8-9, 2009	Introduction to Performance Measurement Training	New Brunswick, NJ (USA)
December 9-10, 2009	Performance Measurement Attribution Training	New Brunswick, NJ (USA)

For additional information on any of our 2009 events, please contact Christopher Spaulding at 732-873-5700

*Reminder –
Early Bird Discount
Ends August 31st
Call today to register!*



TRAINING...

Gain the Critical Knowledge Needed for Performance Measurement and Performance Attribution

TO REGISTER:

Phone: 1-732-873-5700

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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:

September 15-16, 2009 – Boston, MA

December 7-8, 2009 – New Brunswick, NJ

October 20-21, 2009 – San Francisco, CA

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:

September 17-18, 2009 – Boston, MA

December 9-10, 2009 – New Brunswick, NJ

October 22-23, 2009 – San Francisco, CA

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, over 2,000 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 transporting their staff to our training location and limits their time away from the office. And, because we discount the 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). The two-day Advanced Performance Measurement Class combines elements from both classes and expands on them.

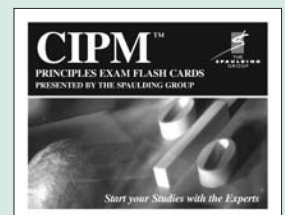
UPDATED CIPM Principles and Expert Flash cards are now available on our web store. Please visit www.SpgShop.com today to order your set.

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
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- Strengthen and reinforce core CIPM principles

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





THE JOURNAL OF PERFORMANCE MEASUREMENT'S
THIRD ANNUAL INTERNATIONAL
**TRENDS IN ATTRIBUTION
SYMPOSIUM**

THE HELDRICH HOTEL, NEW BRUNSWICK, NJ
NOVEMBER 19, 2009

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

On November 19, 2009 we will hold our Third Annual International Trends in Attribution Symposium (TIA). This is an entire day focused on the important topic of attribution.

We have assembled notable speakers with excellent topics to provide you with the conceptual as well as practical information you require to better address the expanding realm of attribution. This focused event will provide important information that is essential to you and your firm. Attend and you will gain greater insights, discover opportunities and methodologies, and learn of the latest theories about this hugely important topic.

Space is limited, please take advantage of our discounted pricing by calling us today at 732-873-5700, or complete and fax back the back of this form to 732-873-3997 or simply visit us online at www.SpauldingGrp.com.

As an added incentive, we are giving away The Spaulding Series' latest book: *Classics in Investment Performance Measurement* to the first 10 paid registrants.

Early Bird
Discount Rate

Register for TIA III by
August 31 and pay

\$895*



* Rate increases to only \$995 after that!

CONFERENCE SPONSORS

Special Thanks To Our Sponsors...



AGENDA: THURSDAY, NOVEMBER 19, 2009

7:15 - 8:15 AM	REGISTRATION: CONTINENTAL BREAKFAST
8:15 - 8:30 AM	WELCOME <i>David D. Spaulding, CIPM, The Spaulding Group, Inc.</i>
8:30 - 9:30 AM	RISK ATTRIBUTION FOR PORTFOLIOS WITH STRATEGIC ASSET ALLOCATION <i>Philippe Grégoire, Ph.D., Orfival</i> <ul style="list-style-type: none">• Tactical asset allocation• Diversification and allocation effect• Selection effect
9:30 - 10:15 AM	PERFORMANCE ATTRIBUTION FOR YIELD CURVE INSENSITIVE DEBT SECTORS <i>Timothy P. Ryan, The Hartford Investment Management</i> <ul style="list-style-type: none">• Introduce the concept of return neutralized weight analysis• Apply this attribution approach to yield curve insensitive debt sectors• Quickly extend this approach to yield-curve sensitive markets• Present, by example, the material and compelling benefits this analysis has over the standard attribution formulas

10:15 - 11:00 AM	MORNING BREAK
11:00 - 11:45 AM	FAST ATTRIBUTION <i>John D. Simpson, CIPM, The Spaulding Group, Inc.</i> <i>Timothy R. Ryan, The Hartford Investment Management</i> <i>Stephen Campisi, CFA, Intuitive Performance Solutions</i> <i>David D. Spaulding, CIPM, The Spaulding Group, Inc.</i> <ul style="list-style-type: none">• This innovative panel approach of attribution experts and practitioners will tackle a host of topics in an exciting lightning round, which is sure to provide you with insightful perspectives, ideas and opinions



11:45 - 12:45 PM	LUNCH BREAK
12:45 - 1:45 PM	GLOBAL ATTRIBUTION <i>Ed Rackham, Ph.D., Wilshire Analytics</i> <ul style="list-style-type: none">• Construction of a global multi-factor attribution model• Attribution of portfolio returns using a multi-factor model• Analysis of global portfolio returns
1:45 - 2:45 PM	FACTOR VS. DECISION BASED ATTRIBUTION <i>Stephen Campisi, CFA, Intuitive Performance Solutions</i> <ul style="list-style-type: none">• Contrasting the two major approaches to attribution• How factors are handled• Why decisions-based may make more sense
2:45 - 3:15 PM	AFTERNOON BREAK
3:15 - 4:00 PM	ASSET OWNERS AND ATTRIBUTION: A CASE STUDY <i>Greg Stewart, BNY Mellon Asset Servicing</i> <i>Frances Barney, BNY Mellon Asset Servicing</i> <ul style="list-style-type: none">• How asset owners use attribution at all levels• Quantify the impacts of fund level versus manager level decisions• How to use attribution as an investment manager monitoring tool
4:00 - 4:45 PM	BALANCED ATTRIBUTION <i>David D. Spaulding, CIPM, The Spaulding Group, Inc.</i> <ul style="list-style-type: none">• Why is it so hard? (it isn't!)• Understanding what we are truly measuring• Getting the numbers to make sense
4:45 - 5:00 PM	CONFERENCE WRAP-UP & CONCLUSION <i>David D. Spaulding, CIPM, The Spaulding Group, Inc.</i>

EASY REGISTRATION

CONFERENCE COSTS

Register for TIA III by August 31 and pay \$895 – Rate increases to only \$995 after that!
(If you have more than three attendees, please call 732.873.5700 for special group pricing.)

Total: _____ attendees at a cost of: \$ _____

COMPANY DETAILS

Company _____ Phone: _____

Address: _____ Fax: _____

City: _____ State/Province: _____ Zip: _____

ATTENDEE DETAILS

Name: _____ Title: _____ Email: _____

Name: _____ Title: _____ Email: _____

Name: _____ Title: _____ Email: _____

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CALL: 732.873.5700

FAX: 732.873.3997

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MAIL: The Spaulding Group, Inc.
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Somerset, NJ 08873-5032, U.S.A.

MONEY BACK GUARANTEE

Any attendee who is not satisfied with the conference at the end of the day, will receive a full refund.

TERMS & CONDITIONS

Conference Fee: Includes all sessions, lunch and documentation.

Cancellations: Cancellations received in writing before November 1, 2009 will be subject to a service charge of \$159.00. After this date, the full conference fee will be charged and no refunds given.

It may be necessary for reasons beyond the control of the organization to alter the content and timing of the program or the identity of the speakers. This contract is subject to United States Law.

Are you registered? You will always receive an acknowledgement of your registration. If you do not receive a confirmation, please call 732.873.5700 to ensure that we have received your registration.

HOTEL RESERVATIONS

You are responsible for making any necessary hotel reservations. If you need a hotel room, contact:

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New Brunswick, NJ 08901
732.729.4670 – Reservation ID: 83924