

# 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 Chris Spaulding at [CSpaulding@SpauldingGrp.com](mailto:CSpaulding@SpauldingGrp.com)

## 15TH ANNIVERSARY OF JPM IS WORTHY OF A CELEBRATION

*The Journal of Performance Measurement*<sup>®</sup> is in its 15th year of publishing: quite a feat, I would say (and hope you'd agree). In late 1995 a thought occurred to me that our industry might benefit if we had a publication dedicated to performance and risk, and so I reached out to my friend, James (Jamie) Hollis (then of Standish, Ayer & Wood) and asked what he thought. He responded enthusiastically to the idea. I next called Bob McAllister (then of Belevedere) and asked him; again, I got positive feedback. I had known and respected both these gentlemen for a long time and this endorsement was all I needed to move forward.

There was just one problem: I had never published anything before, so how to start? Well, I looked at other publications, and saw that they typically had an advisory or editorial board, so off I was to form ours. Our inaugural group consisted of Matt Forstenhausler, Philip Halpern, Jamie Hollis, Lloyd Karp, Cindy Kent, Steve Lerit, Bob McAllister, Iain McAra, Kirk Narick, Lee Price, Neil Riddles, Brian Singer, Mike Smith, and John Stannard. Neil, Brian, Steve, Iain, and Matt still serve!<sup>1</sup>

We next had to find an editor and identify some articles. Over our 15 years we have had three editors: first Maureen Duffy, then Sabina Hastings, and now Douglas Spaulding. We next had to find some articles, so I reached out to a number of colleagues, and was able to come up with several submissions. But from the very beginning we insisted on employing a "double blind review,"<sup>2</sup> to ensure that our articles were of value. Our initial layout was done using WordPerfect, but since then we have graduated to more sophisticated desktop publishing software. Our journal's look changed, from a rather drab and customary appearance to the colorful look it has today; this change occurred at the start of our fourth year.

Starting with our third issue we began to include an interview (the first was with Mike Caccese, then of AIMR). I have handled most of these, and have enjoyed this duty quite a lot. I have had the pleasure of meeting and interviewing two Nobel Prize winners (Bill Sharpe and the late Franco Modigliani); renowned investors including Gary Brinson (twice!), Jack Bogle, and Barton Biggs; and many others involved in our industry from one perspective or another.

In 2001 we introduced our annual Dietz Award, to recognize the best article of the year. Modeled after the *Financial Analysts Journal's* Graham & Dodd Award, it has become a highly admired and cherished mark of distinction. Our advisory board votes on the best article for each issue and then from this group, the best overall. We host an annual dinner, which is part of the Performance Measurement Forum's Fall/Winter meeting. There, we not only recognize the Dietz Award recipient, but also the "honorable mentions," (the other quarterly issue victors), the most requested article of the year, and the top advisory board members.

<http://www.SpauldingGrp.com>

1 The advisory board has grown and now has 30 members. We are greatly indebted to these individuals for their support of the publication, which includes reviewing articles and offering input to our operation.

2 This means that neither the reviewers nor the author(s) know the identify of the other party, so to avoid any bias for or against the article.

# The Journal of Performance Measurement®:

## UPCOMING ARTICLES

### Refining Core-Satellite Investing

– Ronald J. Surz

### An Advanced Methodology for Fund Rating

– Noel Amenc and Veronique Le Sourd

### The Journal Interview:

– James Edmonds

### Life Settlements: Valuation and Performance Reporting for an Emerging Asset Class

– Darwin M. Bayston, Douglas R. Lempereur, and Anthony Pecore

### The Characteristics of Factor Portfolios

– Jose Menchero

### Tailoring Manager Allocation to Market Conditions Using Alpha Optimization: Part 1

– Eric A Stubbs and Enrique Jaen

*The Journal* has been the resource for virtually all current thinking and ideas in our sector of the industry. It's where Frank Russell first published their previously secretive attribution linking method, which no doubt served as the basis for other models, such as the one Jose Menchero (then of Vestek) designed. We have been the source for numerous fixed income attribution models, such as the ones designed by Tim Lord, Steve Campisi, Andrew McLaren, and Gerard van Breukelen.

Because of the major place the performance presentation standards hold in our industry, we have made sure to include articles that addressed them and have been fortunate to always have a representative from the CFA Institute (previously, AIMR) on our board. In addition, we have always had at least one verifier (initially Matt, who was joined by Herb Chain).

It has served as a forum for the debate of various topics (such as Steve Campisi and my attempt to challenge our friend Carl Bacon on the subject of time- versus money-weighted attribution). Occasionally we see articles offered that respond to a previous one, which only adds to the lively discussion.

Although officially a quarterly publication, in 2002 we introduced a fifth issue, called our “supplement,” which has typically focused on a single topic, often the one that we recently conducted a survey on. Our technology supplements have served as a resource for firms looking for software, as our handy “wall charts” provide a great deal of detail on what the various vendors have to offer.<sup>3</sup> We also typically include an interview with representatives from the survey sponsors, which provide great insights into what is occurring in our industry, relative to the main topic of that respective issue.

*The Journal* has been referred to as the “bible of performance measurement.” It has subscribers from all over the globe. We firmly believe that anyone who considers themselves a “performance measurement professional” should be a subscriber, as it is the source of so many critically important articles. The articles are so well valued that the CFA Institute includes several in their CIPM™ (Certificate in Performance Measurement) program!

Our advertisers obviously help us a great deal in covering our expenses, which as you can imagine are quite high. We greatly appreciate their support, and are hopeful that our readers strongly consider them when looking for new products.

We have considered offering an electronic version but have hesitated because we suspect that many folks would end up printing the articles anyway. And the *Journal*, like many similar professional or academic publications, adorn the bookshelves of many individuals.<sup>4</sup> And speaking of articles, we received requests early on for copies. A week doesn't go by when we don't receive at least a few requests.

I don't want this newsletter to be viewed as a “sales pitch,” but, we firmly believe that if you are a *performance measurement professional* your library should include *The Journal of Performance Measurement* and you should receive it on a quarterly basis. If you've never subscribed, here's your chance to try it out (**subscribe today!**). If you're not completely satisfied, we'll refund 100% of your investment.

<sup>3</sup> One vendor, who had chosen not to participate in a survey, called us in a panic because a firm that was doing a search refused to consider them because they weren't in the table!

<sup>4</sup> In the February 12-13, 2011 Wall Street Journal, Eric Ormsby uses the expression “titles whose mere presence confers dignity on a bookcase.” We believe this applies to *The Journal of Performance Measurement*.

## Upcoming Events:

**March 7, 2011**

### **Risk Survey Results Luncheon**

Jersey City, NJ

**March 28, 2011**

### **11:00 am – 1:00 pm Leverage Ratio Webinar**

With David Asermely,  
BNY Mellon Asset Servicing

**March 28-29, 2011**

### **2011 First Rate Performance Conference**

Arlington, Texas Sheraton Hotel  
*Conference website can be found here*  
[http://www.firstrate.com/  
about-first-rate/events](http://www.firstrate.com/about-first-rate/events)

## COMMON GIPS MISTAKES & MISUNDERSTANDINGS

It's that time of the year when many firms want their firm verification for GIPS done. And as always the case, we discover actions that were taken that weren't consistent with the standards.

Perhaps if the standards were like a cook book or chemistry book, with very detailed steps, we wouldn't see these problems as often or as much, but it's not and we do. I've begun to highlight some of them in my blog, but will share one with you now.



A fixed income manager called to question the rule that went into effect in January 2010, that requires firms to revalue their portfolio for large flows.<sup>5</sup> This firm typically values many of their accounts only monthly, in accordance with client directives, and they were concerned that this change might result in returns being different for the client than for the composite. Not to worry: they're often different. Take mutual funds – many firms that manage mutual funds shadow the funds on their accounting system so that they aren't netted by administrative and other fees. This results in two different returns: a daily one for the fund and a different one for the composite.

The basis for this change is accuracy: pure and simple. Modified Dietz, for example, is an approximation to the true, exact, time-weighted rate of return, which is impacted by large flows and volatile markets. Therefore, to improve the accuracy of the composite returns, which are based on the portfolio returns, we now revalue.<sup>6</sup>

## ANIMATION NATION HAS ARRIVED

If you're a reader of my [blog](#) you probably noticed the introduction of animation posts earlier this month. The *Wall Street Journal* had an [article](#) on the proliferation of this form of communication being introduced, and I decided there was an opportunity to use it, too.

We've gotten very positive feedback and are interested in your thoughts, too. I've decided that Mondays will be “animation day,” but I may insert an occasional one in on another day, too. (Oh, and we are quite open for “guest animators,” too!).



## PERFORMANCEJOBS.COM

Visit PerformanceJobs.com and you'll 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.

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<sup>5</sup> ¶ I.1.A.3.b. *Global Investment Performance Standards*. 2010.

<sup>6</sup> You might ask, “well, what if we use the aggregate method to derive our composite returns, must we still revalue our portfolios since their returns aren't included?” and the answer is “sorry, but yes, you still must do this.”

## THE SPAULDING GROUP'S 2011 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
March 8-9, 2011	Fundamentals of Performance Measurement Training	Boston, MA (USA)
March 10-11, 2011	Performance Measurement Attribution Training	Boston, MA (USA)
March 21-22, 2011	CIPM™ Principles Exam Preparation Class	Chicago, IL (USA)
March 23-25, 2011	CIPM™ Expert Exam Preparation Class	Chicago, IL (USA)
April 11-12, 2011	Fundamentals of Performance Measurement Training	Chicago, IL (USA)
April 13-14, 2011	Performance Measurement Attribution Training	Chicago, IL (USA)
May 16-17, 2011	Fundamentals of Performance Measurement Training	New Brunswick, NJ (USA)
July 12-13, 2011	Fundamentals of Performance Measurement Training	Toronto, Ontario
July 14-15, 2011	Performance Measurement Attribution Training	Toronto, Ontario
August 22-23, 2011	CIPM™ Principles Exam Preparation Class	New Brunswick, NJ (USA)
August 24-26, 2011	CIPM™ Expert Exam Preparation Class	New Brunswick, NJ (USA)
September 20-21, 2011	Fundamentals of Performance Measurement Training	San Francisco, CA (USA)
September 22-23, 2011	Performance Measurement Attribution Training	San Francisco, CA (USA)
October 11-12, 2011	Fundamentals of Performance Measurement Training	Chicago, IL (USA)
October 13-14, 2011	Performance Measurement Attribution Training	Chicago, IL (USA)
December 6-7, 2011	Fundamentals of Performance Measurement Training	New Brunswick, NJ (USA)
December 8-9, 2011	Performance Measurement Attribution Training	New Brunswick, NJ (USA)

*For additional information on any of our 2011 events, please contact Christopher Spaulding at 732-873-5700*

*Save  
the  
Dates!*

*The Journal of Performance Measurement®  
Ninth Annual International*

# PMAR

Performance Measurement,  
Attribution & Risk

## Conference

*May 18th - 19th, 2011*

*The Journal of Performance Measurement®  
In Association with RIMES Technologies*

# PMAR II

Performance Measurement,  
Attribution & Risk Conference

## EUROPE

*14 - 15 June 2011 – London*

## TRAINING...

### *Gain the Critical Knowledge Needed for Performance Measurement and Performance Attribution*

#### TO REGISTER:

Phone: 1-732-873-5700

Fax: 1-732-873-3997

E-mail: [info@SpauldingGrp.com](mailto:info@SpauldingGrp.com)



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#### 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 Introduction to Performance Measurement on these dates:

March 8-9, 2011 – Boston, MA

April 11-12, 2011 – Chicago, IL

May 16-17, 2011 – New Brunswick, NJ

July 12-13, 2011 – Toronto, Ontario

September 20-21, 2011 – San Francisco, CA

October 11-12, 2011 – Chicago, IL

December 6-7, 2011 – 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:

March 10-11, 2011 – Boston, MA

April 13-14, 2011 – Chicago, IL

July 14-15, 2011 – Toronto, Ontario

September 22-23, 2011 – San Francisco, CA

October 13-14, 2011 – Chicago, IL

December 8-9, 2011 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

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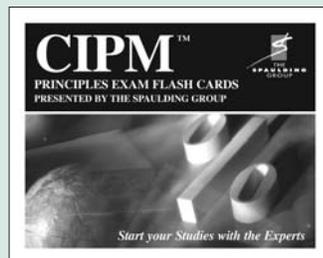
#### IN-HOUSE TRAINING

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.

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).

**UPDATED CIPM Principles and Expert Flash cards are now available on our web store. Please visit [www.SpgShop.com](http://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.

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