

# 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)

## CLIENT REPORTING STANDARDS... NECESSARY, JUSTIFIED, OR WHAT?

Earlier this month I did a blog post on the subject of client reporting standards,<sup>1</sup> and indicated that I would take this up in greater length in this month's newsletter. What has prompted this sudden interest is the presentation that Stefan Illmer gave at this month's PMAR Europe II conference in London. Stefan is chairing a committee (the Investment Reporting Working Group, or IRWG) which the CFA Institute is sponsoring to address this topic. Stefan did an excellent job in providing the attendees with much information on the group's efforts. Beth Kaiser, of the CFA Institute, made a similar presentation at last month's PMAR IX conference in Philadelphia, PA, but because I was unable to be in the room, wasn't able to see her presentation. What I do know is that this idea is getting mixed responses, ranging from enthusiastic support to total opposition. I will summarize some of the key points from Stefan's presentation.

First, the IRWG's objectives:

- To establish investment industry best practices for reporting investment results and information that promote interests of and instill confidence in the users of investment reporting (=> principle based best practices).
- To obtain worldwide acceptance of a single standard for the reporting of investment results and information based on the principles of transparency, fair representation, and full disclosure.
- To foster the notion of industry "self-regulation" on a global basis.



I think the key here is that we're looking at a "standard," not guidance. We again see the use of the term "best practices," which I am fine with, as long as the term is defined.<sup>2</sup> And while I don't know if one will be forthcoming, I believe a correct interpretation is that *it's what the committee deems to be "best practice," based on their opinions and views*. I do not take exception to this, but I think it would be helpful if this was explained.

From Stefan's presentation we learned that the "IWRG defines investment reporting as the preparation and presentation of investment information including the illustration of the investments made, the results achieved, and the risks taken."

The working group has several goals:

- To improve the quality of investment reporting to allow better feedback into the investment decision-making process.
- To provide guidance on the minimum content of investment reporting.
- To provide guidance on methodologies for preparers and intended users of investment reporting.

<http://www.SpauldingGrp.com>

<sup>1</sup> See <http://investmentperformanceguy.blogspot.com/2011/06/client-reporting-standards-are-they.html>

<sup>2</sup> You may recall that I have asked for a similar definition in regards to the GIPS® standards.

# The Journal of Performance Measurement®:

## UPCOMING ARTICLES

**A Sector Based Approach to Fixed Income Performance Attribution**  
– *Stephen Campisi*

**Golf And The Art of Portfolio Performance Measurement**  
– *Larry Campbell*

**The Choice of Performance Measure Does Influence the Evaluation of Hedge Funds**  
– *Valeri Zakamouline*

**Properties of IRR Equation with Regard to Ambiguity of Calculating of Rate of Return and a Maximum Number of Solutions**  
– *Yuri Shestopaloff and Wolfgang Marty*

**The Journal Interview**  
– *Dean LeBaron*

**A New Empirical Method for Yield Curve Attribution**  
– *Maria Vieira*

- To provide the basis for comparability of investment reporting.
- To provide guidance on the quality of the input data for investment reporting.
- To support stronger internal processes for preparers of investment reporting.
- To provide assurance to intended users of investment reporting that preparers adhere to ethical best practices.
- To provide regulators the basis for potential future regulations in the area of investment reporting.
- To facilitate education for preparers and recipients/users of investment reporting.

The IRWG's guiding principles of the best practices are:

- The purpose for investment reporting and the reasons for its creation and content are transparent and clear.
- The type of the intended user or the audience in mind, and their expected use of the investment information, are taken into account when designing the investment reports.
- The investment reporting is a fair representation of the investments made, results achieved, and the risks taken.
- The investment reporting is relevant and appropriate for the presented asset classes and investment strategies.
- The investment reporting complies with all applicable laws and regulations.
- The policies and procedures for investment reporting are documented and available upon request.
- The policies and procedures for investment reporting are reviewed by an independent third party.

## MY THOUGHTS

Over dinner, Stefan reminded me that at one time I supported standards, though I believe that it was probably guidelines I favored, such as what were developed by the European Investment Performance Council (EIPC), which Stefan chaired at one time. I may have been experiencing a “senior moment,” thus my failure to recall an earlier position. That being said, when standards are offered, especially by such a well respected and far reaching organization as the CFA Institute, a great deal of weight comes along with it. Consequently, many firms will feel obligated to comply, even if they don't wish to. This will likely translate into additional costs.

In the case of the GIPS standards, they originated partly because it was clear that there were problems regarding how some managers were reporting performance to prospects, occasionally in a misleading fashion; thus, these standards corrected a problem. But what problem needs to be corrected regarding client reporting? None that I'm aware of.

The working group is suggesting that a firm's compliance be verified by an independent outside party, not unlike GIPS verifications. And while this might be good for firms like ours (i.e., to gain new business), it means added costs to the firms who are claiming compliance.

Many firms see their reporting as something that sets themselves apart from their competition; would they want to alter what they're doing to comply with new rules? In



## 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.*

addition, asset managers often respond to specific directives from their clients; might this cause some conflicts?

Obviously at this point I don't know what the standards will include, or to what detail they will be written. I'm also aware that many firms want guidance on reporting. However, I am also aware that there are many that don't even want to see that, because if it's promulgated as "best practice," whether it's a standard or not, they will feel obligated to comply, meaning added costs.

In typical CFA Institute fashion, I would expect the draft of the standards to be made public for comments. I encourage anyone whose involved with client reporting to review the document and put forward their comments. As we learn more, we'll let you know.

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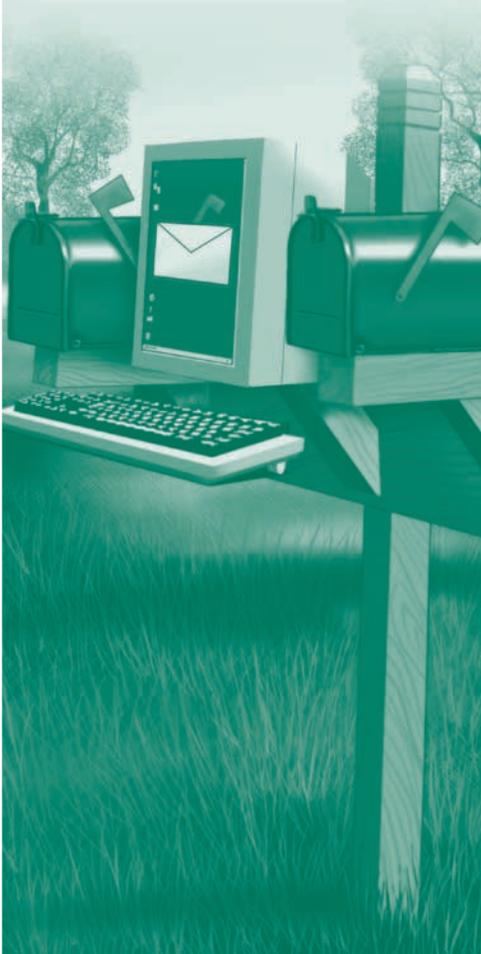
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## THE SPAULDING GROUP'S 2011 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
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 13-14, 2011	Fundamentals of Performance Measurement Training	San Francisco, CA (USA)
September 15-16, 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*

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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 Fundamentals of Performance Measurement on these dates:

July 12-13, 2011 – Toronto, Ontario

December 6-7, 2011 – New Brunswick, NJ

September 13-14, 2011 – San Francisco, CA

October 11-12, 2011 – Chicago, IL

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:

July 14-15, 2011 – Toronto, Ontario

December 8-9, 2011 – New Brunswick, NJ

September 15-16, 2011 – San Francisco, CA

October 13-14, 2011 – Chicago, IL

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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 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).

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