

Performance Perspectives

with Dave Spaulding

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What happened to AIMR?

By now, you may have heard that the Association for Investment Management and Research is no more – it's now the CFA Institute. We can therefore expect a change in the name AIMR-PPS® at some point in the future.

Such a change in the name for the standards will probably be beneficial, especially given the confusion that exists within the industry about the differences between the AIMR-PPS and GIPS®. "Gold" GIPS is a process to move to a single, universally accepted standard. But this won't happen any time soon. In the mean time, it's important for firms that comply with the AIMR-PPS to recognize that they are also compliant with GIPS. And, for firms that are looking to hire a manager, to consider firms that are GIPS compliant, but perhaps not AIMR-PPS compliant.¹

Much progress has been made on GIPS, and the new version (which is open for public comment) is just the next step in the process. We should enthusiastically endorse these standards and look forward to the day when there is a single standard.

A new attribution effect?

In the November 2003 issue,² I commented on how one could see the interaction effect compounded if the portfolio is invested in sectors (or securities, for stock level attribution) that the index isn't in, or vice-versa. Many software vendors allow the firm to designate where they want the effect to be shown (i.e., selection or allocation) when these situations arise.

At one of my classes, a student suggested that a more appropriate treatment would be for the system to *highlight* these occurrences and show the results in an "off benchmark bet" effect. Such increased visibility would provide greater insight into what has occurred (i.e., that the manager chose to invest somewhere other than where the benchmark was, or chose to avoid a place where the index was).

I see this as a good idea and one that many will find of interest. As I mentioned in the December 2003 newsletter, I'm not a big fan of stock level attribution. But, if you are using such a system and these events occur, your choices are (a) have the effects show up in interaction, (b) assign them to allocation, or (c) put it in selection. A fourth choice ((d) off benchmark bet) is another option you may want to consider. At this level, it's probably more appropriate to lump it with selection, as we expect active managers to select different securities.

¹ How can a firm be GIPS compliant but not compliant with the AIMR-PPS? Well, for one thing, they may have five years of history for GIPS but not the ten that the AIMR-PPS requires. Also, since the AIMR-PPS has some other requirements that go beyond GIPS (e.g., for private placements, real estate, advertising), a GIPS-compliant firm may miss something that's in the AIMR standards.

² As well as in a recent article in *The Journal of Performance Measurement*® ("Demystifying the Interaction Effect," Winter 2003/2004).

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, we focus on the money management industry.

Our involvement with the industry isn't limited to consulting. We're actively involved as members of the Association for Investment Management & Research (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.

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At the sector level, where the manager may have avoided a sector or gone into a sector where the index wasn't, the *off benchmark bet* effect has greater value, and I would encourage you to consider this.

Certification of Investment Performance Professionals

I'm happy to report that we have formed a new non-profit entity: The Foundation of Investment Performance Professionals. This institution will be a membership group for those engaged in investment performance measurement. More details on the group will be forthcoming.

Perhaps what's of greater importance is the Blue Ribbon Committee (affectionately referred to as the "BRC") we've formed. This roughly 20-member group is hard at work on developing a formal certification program for investment performance professionals.

We formed the BRC last year and held our first conference call in January. Because this is a global group, with representatives throughout North America and Europe, such a venue is best for us. We hold monthly conference call meetings.

Before we headed down this path too far, we conducted an informal e-mail survey to validate the interest in a certification program. Roughly 80% of those responding supported it, so we're now moving forward.

The certification examination is expected to last approximately three hours and will cover:

- rates of return
- presentation standards
- attribution
- benchmarks
- risk measurement
- industry basics
- style analysis.

We've formed *task forces* to focus on each of these areas, with each task force being charged to (a) come up with the exam content and (b) develop a "body of knowledge" (i.e., resources / references) for their specific area.

The first test is planned for November 2005 (we obviously have a great deal of work ahead of us). It will be issued at various sites throughout North America, Europe, and elsewhere.

The BRC developed a mission statement for the certification:

The purpose of Certification is to distinguish those professionals who have obtained broader and more extensive knowledge of investment performance measurement. It will also serve as a way to enhance the presence and visibility of those engaged in investment performance measurement and analysis.

We have tentatively identified *CIPA - Certified Investment Performance Analyst* as the title for the certification. We need to have a trademark attorney confirm that it's available before we confirm it.

This week, I interviewed Gary Neale of Morely Fund Management (UK) for *The Journal of Performance Measurement*[®]. We discussed how this profession has grown in importance within the investment firm. This certification is just one way to further affirm and formalize the importance of those engaged in investment performance measurement. A lot more details will be forthcoming on the certification program.

We will shortly conduct our second survey on the *performance measurement professional* and *performance measurement organization*. This will afford us the opportunity to begin to track the changes that have occurred since our first survey. It will also contribute to the respect we believe that is worthy of performance measurement professionals. More details on this will be forthcoming, too.

It's official

The AIMR (I mean, CFA Institute) Board has approved the delay in the effective dates for the GIPS advertising, real estate, and private equity standards to 1 January 2006. This will align these important events with the effective date for "Gold" GIPS, and will also save us time and effort, because the local standards would technically have been required to adopt these changes in a phased approach, which is less than ideal. You are able to adopt the standards in advance of 1 January 2006, if you so choose.

Conferences, Symposiums, Luncheons

We introduced a new logo last year to capture the services and products we offer:



One of the items is "conferences." We had wanted to do a conference for some time, and last year held our first Performance Measurement, Attribution and Risk (PMAR™) conference. It was a great success, with some innovative features that our attendees, speakers and cosponsors found of value.

This year's event was last week, and I'm pleased to report that our numbers are significantly higher, with total attendance exceeding 120 people! And, it truly is an international event, with attendees who came from the UK, Germany, and Greece, and with speakers from the UK and Canada. We assembled quite a group of experts and I'm I can truly report an exceptional time. Our cosponsors were essentially the same as last year, with one change, which further demonstrates the international flavor of our event, with BI-SAM, a French software vendor participating (as well as the UK's StatPro, IDS, Eagle, DSTi, First Rate, SunGard, and Russell/Mellon).

We haven't stopped just at conferences. Earlier this year, we hosted five luncheons on "Gold" GIPS (in New York, Boston, Chicago, Los Angeles, and San Francisco).

On July 7th at 9:00 AM US EST, we will host our first web cast, which will be on "Gold" GIPS. The primary market that this is intended for is Europe, although others may sign up (details will be forthcoming).

We will host a one-day symposium on fixed income attribution (FIA) on October 27th. We are now in the process of assembling our speakers for what we are confident will be a great event for anyone interested in this topic.



Other events are planned for next year.

Your comments

We appreciate the comments we've received about our newsletter, both from e-mails as well as in person. Please let us know if there's any particular topic you'd like us to address.

This newsletter is produced by TSG Publications. It is written and edited by Dave Spaulding. The opinions expressed are his and are a result of his own industry experience.

UPCOMING TRAINING DATES

INTRODUCTION TO PERFORMANCE MEASUREMENT

<u>LOCATION</u>	<u>DATES</u>
Cape Town, ZA	July 19 - 20, 2004
Johannesburg, ZA	July 27 - 28, 2004
New York, NY	September 20 - 21, 2004
Boston, MA	October 4 - 5, 2004
Los Angeles, CA	October 18 - 19, 2004

Receive 15 CPE Credits for attending this Two-day class!

PERFORMANCE MEASUREMENT ATTRIBUTION

<u>LOCATION</u>	<u>DATES</u>
Cape Town, ZA	July 21 - 22, 2004
New York, NY	September 22 - 23, 2004
Boston, MA	October 6 - 7, 2004
Los Angeles, CA	October 20 - 21, 2004

Receive 11 CPE Credits for attending this One and a Half day class!

Gold GIPS®

<u>LOCATION</u>	<u>DATES</u>
Cape Town, ZA	July 23, 2004

These programs may qualify for AIMR Professional Development credit. If you are an AIMR member, please refer to the AIMR Web site to determine whether this program meets the criteria for AIMR PDP credit, to calculate credit hours, and to verify documentation requirements.
(www.aimr.org/memberservices/continuing/ceprogram)

2004 Performance Measurement Forum Schedule

Edinburgh, Scotland	June 9 - 10, 2004
Madrid, Spain	November 10 - 11, 2004
Orlando, FL	December 9 - 10, 2004

