VOLUME 5 – ISSUE 3 NOVEMBER 2007

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

VERIFIER INDEPENDENCE

The GIPS® standards think so much of the issue of verifier independence that we have a guidance statement devoted solely to this topic. But it's interesting how some verifiers occasionally breach the rules.

We're aware of two verifiers who had previously prepared GIPS statements for their clients, even though this is something that the verifier is supposed to check! (How do you find an error when you check your own work…would be kind of embarrassing, yes?) We're pleased to report that as a result of our guidance and communication with these firms, they've ceased doing this (even though both firms are competitors of ours, we prefer that all verifiers perform their work in an appropriate manner).

Well, we've also learned that at least one verifier has an "affiliate" who provides consulting to firms becoming compliant. Now, there's nothing wrong with helping a firm become compliant, but the firm must be mindful of the fine line that separates being independent and losing independence.

An example of going too far is when the firm (affiliate) helps clean the firm's data up. For example, if a firm has data that is in error (perhaps they had previously deleted terminated accounts and need to put them back in). This is a problem because an "affiliate" is incongruent with the concept of independence. This situation struck me as a problem so I confirmed it with Jonathan Boersma of the CFA Institute. Managers that engage a verifier to help clean up the data, even if it's with an "affiliate," cannot then have that verifier conduct the verification, as their independence has been violated. Since there's a relationship between the ones who helped organize the data and the ones who would review it, we have a problem. Bottom line: such activities are not permitted. If an affiliate helps prepare the data, a non-affiliated organization must then conduct the verification.

TERMINATING COMPOSITES

Do the GIPS standards permit a firm to "terminate" a composite? What does the word "terminate" mean? Or, for that matter, what's a "terminated composite"? Unfortunately, the standards don't provide answers to any of these questions. But, I will attempt to provide some clarity.

Definition: Terminated Composite: a composite that has ceased to be active, as a result of the elimination of portfolios after a certain date. (Impressive, right?)

Okay, so how does one terminate a composite? Well, it can happen because:

1) All the accounts leave
2) The strategy changes and all the accounts are removed
3) The manager decides that the strategy no longer needs to be active, and so the firm removes the accounts.

Okay, so you may wonder, how does one remove the accounts? What justifies this action?

While I have no references within the Standards to point to in order to support this, I do have an e-mail from Jonathan Boersma of the CFA Institute who opined that "yes, you can terminate a composite," provided that the accounts that you remove are all in at least one other composite.

Let's say that you created an institutional composite for a particular strategy and this composite includes your Taft Hartley (i.e., union pension fund) accounts. In addition, you created a separate composite that houses only the Taft Hartley accounts, as you believed that having a separate composite would appeal to these prospects. But, after several years you find that all these prospects are quite content with (and actually prefer to see) your larger institutional composite. And so, rather than continue to maintain it, you want to eliminate (i.e., terminate) the Taft Hartley composite. Can you? Yes! Again, as long as these accounts are in at least one other composite. You will be required to keep this composite on your list and description of composites for at least five years. In addition, I suggest you have a note in your disclosures to indicate that it was the firm's decision to terminate the composite on a particular date.

VERIFIERS' CORNER

"It depends upon what the meaning of the word 'is' is."

A client asked if they can add accounts to composites when the accounts are "fully invested." I've always discouraged the use of this approach as it lacks the objectivity that we believe is necessary with the standards. However, at the recent GIPS conference, one speaker advocated the use of this approach, so I decided to research it a bit.

I contacted several other verifiers who generally agreed with me that this wasn't a good idea. However, there's nothing in the Standards that prohibits it. What we do find is that "Composites must include new portfolios on a timely and consistent basis after the portfolio comes under management ..."

Neither the words "timely" nor "consistent" are defined. As for consistent, one could argue that bringing accounts in when they're "fully invested" meets the criteria.

The key is that whatever criteria a firm uses, it must be objective and testable. It can't be left to, for example, the will of the portfolio manager when an account is added.

Therefore, if you want to employ this approach, your definition of "fully invested" must be clearly defined, in such a way that anyone would draw the same conclusion on the timing to add an account, given the level of investment of a portfolio.

My recommendation, however, remains the same: try to avoid this approach and use date-sensitive criteria (e.g., "bring the account into the composite after it's been under management for a full month").

The Journal of Performance Measurement®:

UPCOMING ARTICLES

Performance Measurement for Pension Funds
– *Auke Plantinga, University of Groningen*

Multi-currency Attribution – Part 1
– *Carl Bacon CIPM, StatPro Group plc.*

A Hierarchy of Methods for Calculating Rates of Return
– *Yuri Shestopaloff, Ph.D. and Alex Shestopaloff, SegmentSoft Inc.*

Analysis of Ranking Factors for a Risk Averse Investor in a Non-Gaussian World
– *Massimo Di Pierro, Ph.D., School of Computer Science Telecommunications and Information Systems at DePaul University and Jack Mosevich, Ph.D., Merrill Lynch*

A Brinson Model Alternative: an Equity Attribution Model with Orthogonal Risk Contributions
– *Andrew Colin, Ph.D., StatPro Group plc.*

The Journal Interview

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.

COMMENTS FROM READERS

Dave,

As always, I enjoyed reading this month's Performance Perspectives.

On one point I disagree with your conclusion.

The piece quotes the SEC no-action letter: "In our view, as long as an advertisement for investment advisory services does not include an explicit or implicit reference to a particular fund, it would not be an advertisement for the fund."

I believe that what they meant is that you can't tell anyone which fund is in the composite. You can, however, say that the composite includes (or may include) one or more mutual funds which are net of all fees and expenses.

Regards,
Neil

Neil E. Riddles, CFA, CIPM
Chief Risk Officer & Director of Quantitative Analysis
Hansberger Global Investors, Inc.

Not everyone agrees with me, but that's okay. We greatly appreciate Neil sharing his thoughts

A CALL FOR PAPERS

We are planning to publish a "Handbook" on risk measurement and are seeking authors to contribute to this volume. If you're interested, please send your subject and contact details to me. Thanks! (DSpaulding@SpauldingGrp.com)

THE SPAULDING GROUP'S 2007-2008 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
December 3-4	Introduction to Performance Measurement Training	New Brunswick, NJ (USA)
December 5-6	Performance Measurement Attribution Training	New Brunswick, NJ (USA)
January 15-16	Introduction to Performance Measurement Training	Chicago, IL (USA)
January 17-18	Performance Measurement Attribution Training	Chicago, IL (USA)
January 22-23	Introduction to Performance Measurement Training	Reykyavik, Iceland
January 24-25	Performance Measurement Attribution Training	Reykyavik, Iceland
February 12-13	Introduction to Performance Measurement Training	San Francisco, CA (USA)
February 14-15	Performance Measurement Attribution Training	San Francisco, CA (USA)
March 3-4	CIPM Principles Prep Class	New Brunswick, NJ (USA)
March 5-7	CIPM Expert Prep Class	New Brunswick, NJ (USA)
March 11-12	Introduction to Performance Measurement Training	Boston, MA (USA)
March 13-14	Performance Measurement Attribution Training	Boston, MA (USA)
April 15-16	Introduction to Performance Measurement Training	New York, NY (USA)
April 17-18	Performance Measurement Attribution Training	New York, NY (USA)
April 24-25	Performance Measurement Forum (North America)	TBD
May 6-7	Introduction to Performance Measurement Training	Los Angeles, CA (USA)
May 8-9	Performance Measurement Attribution Training	Los Angeles, CA (USA)
May 21-22	Performance Measurement, Attribution, & Risk (PMAR) Conference	Philadelphia, PA (USA)
June 3-4	Introduction to Performance Measurement Training	Baltimore, MD (USA)
June 5-6	Performance Measurement Attribution Training	Baltimore, MD (USA)
June 12-13	Performance Measurement Forum (Europe)	Paris, France
July 14-18	Performance Measurement Boot Camp	New Brunswick, NJ (USA)
August 25-26	CIPM Principles Prep Class	New Brunswick, NJ (USA)
August 27-29	CIPM Expert Prep Class	New Brunswick, NJ (USA)
October 7-8	Introduction to Performance Measurement Training	New York, NY (USA)
October 9-10	Performance Measurement Attribution Training	New York, NY (USA)
October 7-8	Introduction to Performance Measurement Training	San Francisco, CA (USA)
October 9-10	Performance Measurement Attribution Training	San Francisco, CA (USA)
October 22	Trends in Attribution Symposium (TIA)	Philadelphia, PA (USA)
November 4-5	Introduction to Performance Measurement Training	Boston, MA (USA)
November 6-7	Performance Measurement Attribution Training	Boston, MA (USA)
November 13-14	Performance Measurement Forum (Europe)	TBA
December 4-5	Performance Measurement Forum (North America)	TBA
December 9-10	Introduction to Performance Measurement Training	New Brunswick, NJ (USA)
December 11-12	Performance Measurement Attribution Training	New Brunswick, NJ (USA)

For additional information on any of our 2007-2008 events, please contact Christopher Spaulding at 732-873-5700

TRAINING…

Gain the Critical Knowledge Needed for Performance Measurement and Performance Attribution

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:

December 3-4, 2007 – New Brunswick, NJ
January 15-16, 2008 – Chicago, IL
January 22-23, 2008 – Reykyavik, Iceland
February 12-13, 2008 – San Francisco, CA
March 11-12, 2008 – Boston, MA
April 15-16, 2008 – New York, NY
May 6-7, 2008 – Los Angeles, CA
June 3-4, 2008 – Baltimore, MD
October 7-8, 2008 – New York, NY
October 7-8, 2008 – San Francisco, CA
November 4-5, 2008 – Boston, MA
December 9-10, 2008 – 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.

CFA INSTITUTE PROFESSIONAL DEVELOPMENT QUALIFIED ACTIVITY 12 CREDIT HOURS

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:

December 5-6, 2007 – New Brunswick, NJ
January 17-18, 2008 – Chicago, IL
January 24-25, 2008 – Reykyavik, Iceland
February 14-15, 2008 – San Francisco, CA
March 13-14, 2008 – Boston, MA
April 17-18, 2008 – New York, NY
May 8-9, 2008 – Los Angeles, CA
June 5-6, 2008 – Baltimore, MD
October 9-10, 2008 – New York, NY
October 9-10, 2008 – San Francisco, CA
November 6-7, 2008 – Boston, MA
December 11-12, 2008 – 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.

CFA INSTITUTE PROFESSIONAL DEVELOPMENT QUALIFIED ACTIVITY 12 CREDIT HOURS

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 1,500 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.

TO REGISTER:

Phone: 1-732-873-5700
Fax: 1-732-873-3997
E-mail: info@SpauldingGrp.com

NATIONAL REGISTRY OF CPE SPONSORS

The Spaulding Group, Inc. is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be addressed to the National Registry of CPE Sponsors, 150 Fourth Avenue North, Suite 700, Nashville, TN 37219-2417. **www.nasba.org**