

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

CIPC COMMENTS ON VERIFIERS LACK OF "FIELDWORK"

I recently learned that the Canadian Investment Performance Council, in their response to the GIPS® 2010 "Disclosure Draft," commented on the practice of certain verifiers to not do "fieldwork."¹ They wrote:

"Consistency of verification process is fine, but the greater issues is [sic] the quality of verifiers. We feel there needs to be greater oversight of the verifiers to ensure that the companies are having quality audits performed.



"We have noted major US verifiers coming to Canada and claiming they do not need to conduct fieldwork thus reducing the costs of performing verifications. This is counter to the Verification Standards but there is no body to take these concerns to."

For some time we've known of certain verifiers who are able to conduct "remote verifications," something that is truly a mystery to us, as we could not do a quality job without visiting our clients' offices. During our reviews we often request additional reports to substantiate various issues that arise, and sit with our client to address questions. Fieldwork should be a standard practice, but apparently not for some.

We believe that the GIPS Executive Committee's Verifier Subcommittee needs to take a stand on this matter. In 1992 I suggested that somehow we needed to *verify the verifiers*, and 17 years later, nothing has happened. While I realize that such an action would be quite difficult, we at least should have some basic standards of practice that verifiers should be expected to follow. We have "best practices" for firms that claim compliance with GIPS, why not for verifiers, too?

SAMPLING...

Continuing the GIPS Verification theme, I want to spend some time on the issue of sampling. In a recent blog post² I addressed this to some extent, because of a firm we're speaking with. This firm has roughly 1,000 composites, and their current verifier only looks at the "marketed composites," which comprise roughly 2% of the total. Does this seem appropriate?



We conducted a "mini survey" of other verifiers and found one other that felt that a 2% sample was sufficient, but was flabbergasted to learn of the verifier whose 2% sample only consisted of "marketed composites." The other two verifiers felt that a sample of 10% or more was appropriate; we leaned towards 10-15 percent.

<http://www.SpauldingGrp.com>

¹ See http://www.gipsstandards.org/news/releases/2009/pdf/cipc_comment103.pdf

² "Sampling, what does it mean." November 11, 2009.
<http://investmentperformanceguy.blogspot.com/2009/11/sampling-what-does-it-mean.html>

The Journal of Performance Measurement®:

UPCOMING ARTICLES

Decomposing the Money – Weighted Rate of Return – an Update

– *Stefan J. Illmer*

Models of Risk and Financial Crises

– *Paul D. Kaplan*

Multi-Currency Performance Attribution

– *Jose Menchero and Ben Davis*

Strategic Asset Allocation and Risk Attribution

– *Philippe Gregoire and
Philippe Vandooren*

The (more than) 100 Ways to Measure Portfolio Performance: Part 2: Special Measures and Comparison

– *Philippe Cogneau and
Georges Hübner*

I'm fortunate to be taking a course right now that deals with research design; the book³ for the course is excellent and provides a tremendous amount of guidance for various aspects of research. This book is an excellent guide for verification, too, as verification is a form of research, yes?

One topic that is well developed in the research field deals with "reliability." The authors quote a definition from the American Psychological Association: "Reliability refers to the degree to which test scores are free from errors of measurement." The "test scores" associated with verification would essentially be the tests that a verifier conducts in reviewing a firm's composite construction, and adherence to both the GIPS standards, and the firm's policies and procedures.

In conducting any research, including verifications, one must be conscious of "threats to validity," which are factors that can invalidate their study. In assessing validity the verifier should engage in a "deductive process" where the verifier is their "own most trenchant critic." "Selection" is a potential threat to validity. In the case of verification we are obviously referring to the selection of composites to review. Nonrandom selection is a clear example of a threat to validity, and there's not much more nonrandom than to only select a firm's "marketed composites." While we include most, if not all, a firm's marketed composites in our review, we also look at a sample of the "non-marketed" composites.

"Generalizing of findings to or across target populations" is risky when ones sample is potentially faulty, as we would argue is the case when only "marketed" composites are selected. In such a case, the presumption of the sample of composites being truly representative of the firm's overall compliance is clearly fraught with doubt.

The standards have been around (in their prior form as the AIMR-PPS®, and now as GIPS) for going on 20 years...isn't it time for some "best practices for verifiers" to be offered?

FACTOR VS. DECISION BASED ATTRIBUTION

At this month's Trends in Attribution (TIA) Conference, we had two sessions that dealt with factor based attribution. I have to say that this topic was addressed in perhaps the best manner ever, as Ed Rackham from Wilshire discussed his firm's model, and Steve Campisi contrasted the factor approach with decisionbased models.

Following TIA I went to a client in Toronto to conduct training and one of the students asked if I'd address factor-based attribution. This hadn't been part of our class, but we will include a section shortly. It's an interesting topic and arguably one that all performance measurement professionals should have some understanding of. I may address this matter further in our newsletter and will most likely produce an article next year to discuss it as well.

20TH YEAR

We recently began our 20th year in business. As you can imagine, we are very pleased to have reached this milestone, especially given the most recent market downturn.

20th
Anniversary
1990-2010

³ *Measurement, Design, and Analysis* by Elazar J. Pedhazur and Liora Pedhazur Schmelkin.

PERFORMANCEJOBS.COM WEBSITE

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.

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This achievement wouldn't have been possible without the support of my colleagues. I am indebted to each of them for their hard work, enthusiasm, dedication, loyalty, and friendship. I want to especially acknowledge Patrick Fowler, who has been with us for more than half of our firm's existence, and Chris Spaulding. I rely and lean on Patrick and Chris almost continuously. It has truly been a pleasure for me to see them grow and develop over the years. I want to also thank John Simpson, who has been traveling back-and-forth across our country so much of late to serve our clients and take on a variety of tasks. These three gentlemen make up our management team: a group that is helping us move forward into the next decade.

ANNOUNCING PMAR EUROPE!

This coming May will bring our 8th annual Performance Measurement, Attribution & Risk Conference...an event which has become the #1 performance conference in the States.

The following month we introduce PMAR Europe. RIMES Technologies is partnering with us for this event, providing "on the ground" support.



Both events will surely prove to be informative, insightful, educational, and fun! Please join us.

For more information, please visit our website or contact Patrick Fowler (PFowler@SpauldingGrp.com).



3rd Annual Investment Performance Analysis & Risk Management Asia 2010

February 03 - 04, 2010 | Hong Kong
www.iparmasia.com

THE SPAULDING GROUP'S 2009-2010 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
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)
February 16-17, 2010	Introduction to Performance Measurement Training	Los Angeles, CA (USA)
February 18-19, 2010	Performance Measurement Attribution Training	Los Angeles, CA (USA)
March 22-23, 2010	Introduction to Performance Measurement Training	Boston, MA (USA)
March 24-25, 2010	Performance Measurement Attribution Training	Boston, MA (USA)
April 20-21, 2010	Introduction to Performance Measurement Training	Chicago, IL (USA)
April 22-23, 2010	Performance Measurement Attribution Training	Chicago, IL (USA)
May 17-18, 2010	Introduction to Performance Measurement Training	New York, NY (USA)
July 12-16, 2009	Performance Measurement Boot Camp	New Brunswick, NJ (USA)
September 27-28, 2010	Introduction to Performance Measurement Training	Boston, MA (USA)
September 29-30, 2010	Performance Measurement Attribution Training	Boston, MA (USA)
October 19-20, 2010	Introduction to Performance Measurement Training	San Francisco, CA (USA)
October 21-22, 2010	Performance Measurement Attribution Training	San Francisco, CA (USA)
November 16-17, 2010	Introduction to Performance Measurement Training	Chicago, IL (USA)
November 18-19, 2010	Performance Measurement Attribution Training	Chicago, IL (USA)
December 7-8, 2010	Introduction to Performance Measurement Training	New Brunswick, NJ (USA)
December 9-10, 2010	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

*Save
the
Dates!*

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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:

December 8-9, 2009 – New Brunswick, NJ	September 27-28, 2010 – Boston, MA
February 16-17, 2010 – Los Angeles, CA	October 19-20, 2010 – San Francisco, CA
March 22-23, 2010 – Boston, MA	November 16-17, 2010 – Chicago, IL
April 20-21, 2010 – Chicago, IL	December 7-8, 2010 – New Brunswick, NJ
May 17-18, 2010 – New York, NY	

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:

December 9-10, 2009 – New Brunswick, NJ	September 29-30, 2010 – Boston, MA
February 18-19, 2010 – Los Angeles, CA	October 21-22, 2010 – San Francisco, CA
March 24-25, 2010 – Boston, MA	November 18-19, 2010 – Chicago, IL
April 22-23, 2010 – Chicago, IL	December 9-10, 2010 – New Brunswick, NJ

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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, 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.

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