



Performance Perspectives

with David Spaulding

Volume 2- Issue 2
October 2004

It's a sweep!

Perhaps not the kind of sweep you may be hoping for (like the Boston Red Sox sweeping Anaheim) – no, it's an *SEC performance sweep*. Something you're probably not too anxious to experience, either. But, if you are subject to SEC oversight, then you will want to know more.

We were given a copy of a letter that was recently sent to a money manager from the Philadelphia District office of the SEC. While they may not be sending this letter to everyone, it's hitting enough firms to warrant some attention. This particular letter requested the following information within three weeks (not three months, three weeks!):

1. A copy of all marketing materials provided to current, former, and prospective clients during 2001, 2002, and 2003 (the "Examination period") that contain performance information. Also, please provide the name, a description, and a copy of each performance composite used during the Examination Period, whether advertised or not.
2. A copy of the most recently completed questionnaire submitted to each third-party consultant during the Examination Period.
3. A copy of your response to each Request for Proposal during 2003. Also, please list all Requests for Proposal completed since January 2001.
4. A database containing for each client account the name, investment objective, inception date, termination date if applicable, the name(s) of the composite(s) in which the account is included if any, *monthly* market values, and *monthly* performance. (*emphasis as appears*) Please provide this information for all accounts to which you provided advisory services during the Examination Period.
5. Reports for any audit or verification of the performance results in Item 1.
6. A list of any securities that you "fair valued" for any client account included in the performance results in Item 1.
7. A detailed description of your performance calculation process to include:
 - a) internal controls;
 - b) any written policies and procedures regarding performance calculations that were in effect during the Examination Period;

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.

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>

- c) the names of individuals responsible for the calculation, along with their titles;
 - d) the performance calculation software used. Please indicate if the software is proprietary;
 - e) the performance calculation methodologies used (i.e. {sic} True Time Weighted, Modified Dietz, etc.); and
 - f) the account inclusion criteria employed in the construction of the composites in Item 1.
8. Did you, on a retroactive basis, change the composition of any composite and then use the resulting composite in any capacity? If so, please describe the circumstances and justification for doing so.

And, so, how would you feel if you were sent this letter? Could you respond in three weeks? We suspect that most firms would have a challenge responding in three months!

This activity falls within what is apparently called a “wild-cattin approach.” If an examiner uncovers a problem, which they feel might be widespread throughout the industry, a sweep may result.

How many firms are being hit with this is unknown at this time. However, we suspect that it’s more than a few. If we learn more, we’ll pass it on.

Suffice it to say, you should be prepared to respond. You should insure that you have the supporting documentation for what’s being requested. If you don’t, figure out how you can get it. If you don’t have policies and procedures, you need them. We’ve encouraged this in the past. Our website (www.SpauldingGrp.com) lists suggested topics to be included in this documentation.

If you haven’t established controls to insure that you are providing the proper management, oversight, and quality control of your performance, you need to.

If we can help, please contact Christopher Spaulding (son #1) at 732-873-5700.

And, if you got a letter, you probably won’t feel like you won the “sweepstakes” but rather got caught in the sweep. So, good luck! And please let us know how it goes. Any details will be greatly appreciated.

2005 – not to soon to start planning

Like most firms, we’re beginning to look ahead to 2005. We’ve already scheduled PMAR III (May 16-17, in New York City) as well as our first few months of training classes. We will shortly review our product and service offerings to decide what changes will be made.

This year we introduced our first luncheon series, which dealt with “Gold” GIPS®. In addition, we did our first web cast, also on this subject. Since the reception to these initiatives was quite good, we will plan more in the coming year.

We’re also working on our publishing schedule for 2005 and may be asking for your input. This year we published Peter Dietz’s classic, *Pension Funds: Measuring Investment Performance*. We’re planning to publish my third book, *The Handbook of Investment Performance Measurement: A User’s Guide* by year-end. We just published the second edition of the *Performance, Attribution and Risk Measurement Reference Guide*. We are completely out of the first edition (a sell out!) and this new edition gave us the opportunity to make some revisions and additions.

Nine years and counting

We are in our ninth year of publishing *The Journal of Performance Measurement*®. It doesn’t seem that long. We’ve published roughly 35 issues, and close to 200 articles!

Pardon me for a moment, but I need to reflect on why we're so proud of this. First, we are the **first** to survive for this long and continue to offer great articles. Second, some of the high points, such as the interviews with Jack Bogle, Gary Brinson, Franco Modigliani, and Bill Sharpe. Our advisory board is made up of some phenomenal people, who help us greatly. And, our support staff is wonderful. Sabina Hastings took on the role as our editor a few years back, and has really improved the editorial operation considerably. And, Doug Spaulding (son #2) has been doing the production work for over a year now and has streamlined the process considerably. Sue Kneller and Patrick Fowler are also involved and help make the journal a success.

We also thank our journal advertisers who help defray our costs. Their support is greatly appreciated.



An editor's note....

As Dave already mentioned, I took over the editorial duties of *The Journal* a few years ago. It is truly a collaborative effort and I also thank the Advisory Board, our staff here, and most importantly our authors.

We are in the process of collecting the votes for the 2003/2004 Dietz Award from among the articles of this past year. This is a time when we review the value of our content, who provided it, and how it is ranked by industry experts and authors. Looking back over the content, we feel a great deal of pride in the fact that we brought this material to our readers.

Now, some of you might receive this newsletter every month, but be unaware of *The Journal*. So, in celebration of the past eight years of success, we are offering a special subscription deal. We feel that if you like our newsletter, you will **love** our *Journal*.

If you subscribe before October 30, we will include a copy of our recently published supplement on performance measurement technology, which includes valuable information on the leading software vendors including three detailed wall charts that compare the vendors. If you sign up for a two year subscription, in addition to the Technology Supplement, you will receive a complimentary copy of Peter Dietz's classic book, *Pension Funds: Measuring Investment Performance*. Subscribe for three years and you'll also receive a copy of David Spaulding's book *Investment Performance Attribution*.

You can subscribe by calling (732)-873-5700 or by going to our website www.SpauldingGrp.com

Sabina T. Hastings
Editor in Chief

The Journal of Performance Measurement

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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. Content layout by Sabina T. Hastings.

UPCOMING TRAINING DATES

INTRODUCTION TO PERFORMANCE MEASUREMENT

<u>LOCATION</u>	<u>DATES</u>
Chicago, IL	January 11 - 12, 2005
New York City, NY	January 24 - 25, 2005
Boston, MA	March 8 - 9, 2005
San Francisco, CA	April 19 - 20, 2005

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

PERFORMANCE MEASUREMENT ATTRIBUTION

<u>LOCATION</u>	<u>DATES</u>
Chicago, IL	January 13- 14, 2005
New York City, NY	January 26 - 27, 2005
Boston, MA	March 10 - 11, 2005
San Francisco, CA	April 21 - 22, 2005

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

These programs may qualify for CFA Institute Professional Development Program credit. If you are an CFAI member, please refer to the CFAI Web site to determine whether this program meets the criteria for CFAI PDP credit, to calculate credit hours, and to verify documentation requirements. (www.cfainstitute.org/pdprogram)

2004

Performance Measurement Forum Schedule

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

