

PERFORMANCE PERSPECTIVES

with David Spaulding



VOLUME 11 – ISSUE 8

APRIL 2014

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

GIPS ALERT: SOMETHING YOU NEED TO BE AWARE OF!!!

We just learned of a proposed change to the Global Investment Performance Standards (GIPS®); I had heard rumblings about it some time ago, and now it's here *in black and white*.

The CFA Institute wants firms who claim compliance with the Standards to annually provide them with information regarding their claim of compliance. The draft input form wants to know, for example:

- Contact information for the individual responsible for compliance
- Firm assets
- Asset classes the firm manages
- Investment vehicles used
- Verification status, including the name of the verifier

We find the following:

FIRMS MUST notify CFA Institute of their claim of compliance at <http://www.gipsstandards.com/xxxx.aspx> and update the notification information annually.

No indication is provided as to what will happen to a firm who fails to submit this information, though I suspect their claim of compliance will be voided.

The CFA Institute says, "The purpose of this new requirement is to address the expressed requests of various stakeholders across the globe for more information related to compliance with the GIPS standards. The information gathered will also help stakeholders of the GIPS standards understand trends that indicate where growth in the adoption of the GIPS standards is taking place, which markets need more resources, where more promotional efforts should be focused, etc. The firm specific information gathered through the notification process will be kept confidential. However, summary information or statistics from the database may be released publically. A list of the names and website addresses (if provided) of all firms that claim compliance with the GIPS standards will be posted on the GIPS standards website, unless a firm requests not to be listed. Firms will be required to update this information on an annual basis."

A variety of firms and institutions, including The Spaulding Group and the CFA Institute have, on occasion, conducted surveys to gain information; and we obtain a sample of the total of firms that could join in.

It's not clear why the CFA Institute is looking to require the disclosure of these details.



<http://www.SpauldingGrp.com>

The Journal of Performance Measurement®

UPCOMING ARTICLES

**Operational and IT
Consequences of
Performance Reporting**
– *Bruce Russell*

**Measuring Performance
in the Presence of Deposits
and Withdrawals**
– *Thomas Becker*

The Journal Interview
– *Richard Mitchell*

**Cumulative Frongello-
Equivalent Attribution**
– *Tim Svenson*

**Milestone – Risk-Adjusted
Performance Attribution**
– *Jose Menchero*

**A Simplified Fixed Income
Attribution Model**
– *Peter Simmons,
Anton Karadakov*

This could potentially cause some issues if not handled properly:

- Is this information relevant to one's compliance with the Standards? It's not yet clear.
- This is time consuming and puts more work on the plate of performance professionals.
- What happens if a firm is mistakenly left off the list, and they lose a client or prospect as a result?
- Will there be penalties to firms who fail to report?

How to respond

If you would like to comment on this you can and I will step you through it.

First, go to <http://www.gipsstandards.org/news/Pages/detail.aspx?ID=39>. (Here's a tiny URL alternative: <http://tinyurl.com/og4vj9r>). You'll find the following:

Comments will be accepted through an **online form** for the very first time. **Please submit your feedback no later than Monday, 7 July 2014.**

Simply click on the highlighted field. This will take you to a summary page which briefly describes what is proposed.

At the bottom of the page you'll find a button labeled "AGREE & CONTINUE" (I'll confess that I don't know what I agreed to, but I hit it anyway). Once you hit this button, you'll be presented with the draft form.

You **DO NOT** have to fill this out; it's merely a sample form. After the form you'll find a series of questions. Please fill these out and share your thoughts. If you think this is a great idea, then by all means, let them know! But, if you're like me, and really (a) don't see this exercise as having any real value, (b) don't want your claim of compliance to be dependent on you submitting this information annually to the CFA Institute, (c) have concerns with the potential sharing of these details with competitors or others that you'd otherwise not share it with, (d) don't like losing control over certain critical details of your business, and/or (e) don't want to be bothered with this extra chore, then it's critically important that you tell them.

When you're done commenting, (yes, this is a multi-step process), at the bottom of the page you'll find a "NEXT" button. Before you click it, you can indicate if you'd prefer your information not to be made public.

Click the "NEXT" button and you'll be asked for your name, company name, and email address. Hit the next "NEXT" and you'll be done.

When you look at the list of questions there is one that is not asked:

"Should firms that claim compliance be required to register their claim of compliance annually with the CFA Institute?"

But you can still communicate your thoughts in the eighth question, which is open-ended.

BEHIND THE SCENES AT TSG

Jed Schneider, CIPM, FRM



I am a Senior Vice President responsible for Verification Services at The Spaulding Group, and will be at the firm three years on June 1st.

One of the great things about working for TSG is the passion everyone has towards what we do. It is evident in our conversations internally and with our clients. I believe the passion we have towards performance measurement spills into the entire performance industry.

I have a Bachelor's Degree in Applied Mathematics from Stony Brook University and a Master's Degree in Statistics from Baruch College. I have both the CIPM (Certificate in Investment Performance Measurement) and FRM (Financial Risk Manager) designation. I enjoy golf and play racquetball regularly. I am married for almost 24 years and have two children (one in college and one on her way in a year). I live in Bergen County, NJ, and have been living in New Jersey for over 20 years.

Executive summary to what?

The materials include an "executive summary." Standard practice is for these narratives to *summarize* a larger document; but there is no larger document. Will there be? If yes, will that be made public for comment, too?

If the intent of this annual registration was solely to identify the firms that claim compliance, and perhaps if they've been verified, then I'd have no objection, and believe it would be worthwhile. Simply asking:

- 1) Do you claim compliance?
- 2) What is the name of the firm?
- 3) Have you been verified?

That's it! But the questions included here go well beyond this. For example, by requiring firms to list the name of their verifiers, they're essentially providing the client lists of all verification firms, which is something all verifiers would love to have access to; and who wouldn't? This, and other details, should not be collected unless it is made universally accessible and transparent.

I admit that I am shocked, surprised, bewildered, perplexed, disappointed, confused, concerned, and even a bit angered by this proposed change.

Remember, if you fail to offer your comments and views, you can't complain if the decision is one you don't approve of. While **you have until July 7th** to send in your comments, why wait? You may forget! And so, please visit the site today, and let them know what you think! It will take you only a few minutes to share your thoughts.

INTERVIEWED!

I have had the pleasure of interviewing lots of folks for *The Journal of Performance Measurement*[®], and am, on occasion, interviewed myself (this occurred more often when I was in politics, but still once in a while). I was quite flattered when BI-SAM asked to interview me for their online newsletter. Their questions were quite interesting, and hopefully my answers are of value.



You can find the interview here: http://www.bi-sam.com/media-center/interview-with-dr-david-spaulding-april-2014?utm_source=B-Connected+-+Apr+2014+-+US+version&utm_campaign=Newsletter+-+April+2014&utm_medium=email...

Boy, that's quite a mouthful, right? Okay, how about <http://tinyurl.com/kgvwrwu>?

I was also interviewed by our local paper recently; it seems that a 63-year old getting a doctorate is newsworthy. I was extremely pleased by the article, so will share it's tiny URL with you, too: <http://tinyurl.com/ka7rfc7>

KEEP THOSE CARDS & LETTERS COMING

We appreciate the emails we receive regarding our newsletter. Mostly, 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.

PUZZLE TIME

March Puzzle

Last month we posed the following: *you have three bags, each containing two marbles. Bag #1 contains two white marbles, bag #2 contains two black marbles, and bag #3 contains one white marble and one black marble.*

You pick a random bag and take out one marble. Given that this is a white marble, what is the probability that the remaining marble from the same bag is also white?

If you're like me, you were probably tempted to respond 50 percent; and this is a common response, but it's wrong.

To solve the puzzle begin by labeling the marbles by the bags they're in:

- Bag 1 contains 1a (white) and 1b (white)
- Bag 2 contains 2a (black) and 2b (black)
- Bag 3 contains 3a (white) and 3b (black).



Each marble has an equal chance of being picked, since your selection was entirely random. Since you picked a white marble, we know that you didn't pick a black one (duh!), and so you didn't choose from Bag 2. There are three white marbles, and therefore you have a one-third chance of picking one of them. We can look at it from a distribution / probability perspective:

Bag / Marble	Probability
Bag 1 (1a) (white)	1/3
Bag 1 (1b) (white)	1/3
Bag 2 (2a) (black)	0
Bag 2 (2b) (black)	0
Bag 3 (3a) (white)	1/3
Bag 3 (3b) (black)	0

Jed Schneider	USA
Malcolm Smith	UK
Hans Braker	Netherlands
Matthys Strydom	South Africa
Tom Stapleton	UK
Jonathan McGee	USA
Jonathan McGee Jr.	USA
Gerard van Breukelen	Netherlands

Given that a white marble was chosen and there are only three white marbles, each had a one-third chance of being the one chosen (this is different than saying what is the probability of picking one marble versus another; we have been told we have a white marble).

Since we have three white marbles, we can now consider what the chances are that the other one is white. Well, we need to consider each marble separately:

- If you picked 1a, then the second marble is 1b, which is white
- If you picked 1b, then the second marble is 1a, which is white
- If you picked 3a, then the second marble is 3b, which is black

Each of these three scenarios has equal (1/3) probability. Since we're interested in the second marble being white, it's merely $1/3 + 1/3 = 2/3$, and two-thirds is our answer! Several readers got it correct, including a father/son pair, who did so individually (the son is eight years old!).

February Puzzle Correction

Last month I failed to mention that Hans Braker also got the correct answer; our apology to Hans for the omission.

YOUR MISSION:
**Attend
PMAR 2014**

**Only 17 spaces
remain!**



**Will you accept this mission?
Do you have what it takes
to be a Special Agent of
Performance Measurement?**



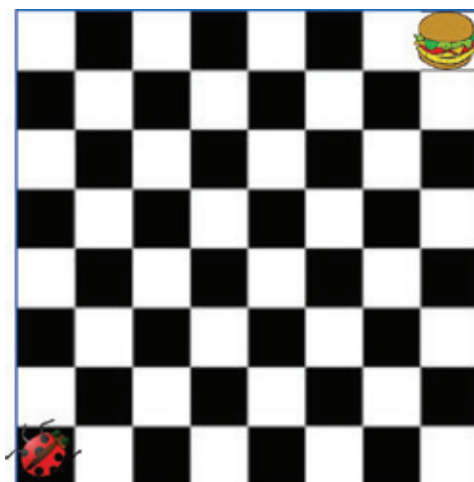
CONFIDENTIAL

April Puzzle

We have a standard chess/checker board (i.e., 8 squares across, 8 squares down, for a total of 64 squares).

A bug sits in the lower left corner and wants to reach the upper right corner, where there is some food, ready to be eaten. The bug can only move either right or up, one square at a time.

How many possible unique paths are there that lead the bug to the food?



FROM OUR READERS

Our friend, Neil Riddles, CFA, CIPM sent us the following note regarding last month's issue:

Dave,

I liked the March newsletter concerning rebalancing benchmarks and the idea of capturing active versus strategy in the benchmark.

I was thinking about the Frank Sortino example. I am not sure the example as worded allows me to conclude whether the benchmark should be Topix or Topix less Banks. This is my thinking:

- If the manager will never consider investing in Japanese banks, he does not follow them now and does not plan to, then the benchmark should be Topix less Banks. The strategy is Japanese equity excluding banks.*
- If the manager does not believe Japanese banks are a good investment now (or perhaps for the foreseeable future) but he will invest in them when he considers them to be attractive then banks belong in the benchmark. The strategy is Japanese equity. There are no attractive banks at the moment so avoiding banks would be tactical.*

*Regards,
Neil*

Interesting points, from the *Benchmark King*!

The Journal of Performance Measurement® has begun a series on performance measurement professionals, and we need your help to identify the folks we should include. We focus on one or two people in each issue, with the list driven by input from other PMPs.

And so, please contact our editor, Doug Spaulding (732-873-5700) with your suggestions.

Tricia Bailey, CIPM

Bio:

Tricia Bailey has worked in the investment performance industry for over 11 years. She is currently the Unit Manager for the Performance Analysis Group at Waddell & Reed Investment Management. Prior to working at Waddell & Reed, Tricia was the performance group at Wasatch Advisors.



CLIENT'S CORNER

1. How long have you been involved in performance?

I was introduced to performance in the beginning of 2003 so I have been involved with performance for 11+ years now.

2. What do you enjoy most about it?

What intrigued me the most in 2003 was the niche area of the investment industry performance was and the opportunity to make a unique career in this area. I enjoy the varied aspects involved with performance – there is so much more than just calculating returns. As David says, one of the “3 C’s” in our niche of the industry is change. There’s always a new challenge with performance. I enjoy the people I get to work with in my role at Waddell & Reed and the value-add I feel my group provides. And I enjoy all the “performance” people I associate with in the industry.

3. What role does The Spaulding Group play at your firm?

TSG plays quite a large role at Waddell & Reed. First of all, it’s through PerformanceJobs.com that I found the job here at Waddell & Reed. We participate on the Performance Forum. We regularly attend the PMAR Conference. We participate in monthly webinars and in the monthly Performance Think Tank. We subscribe to *The Journal of Performance Measurement* and have consulted with TSG as well. Plus we have several of David’s books in our library. We heavily rely on TSG’s expertise and experience in the performance world.

THE SPAULDING GROUP'S 2014 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
May 19-20	Fundamentals of Performance Measurement	New Brunswick, NJ (USA)
May 20	Fundamentals of GIPS Workshop	Philadelphia, PA (USA)
May 21-22	PMAR XII North America Westin Philadelphia	Philadelphia, PA (USA)
June 10-11	PMAR V Europe America Square Conference Centre	London, England
June 17-18	Fundamentals of Performance Measurement	Chicago, IL (USA)
June 19-20	Performance Measurement Attribution	Chicago, IL (USA)
June 19-20	Performance Measurement Forum – EMEA Forum	Berlin, Germany
July 15-16	Fundamentals of Performance Measurement	San Francisco, CA (USA)
July 15-16	Fundamentals of Performance Measurement	Sydney, Australia
July 17-18	Performance Measurement Attribution	San Francisco, CA (USA)
July 17-18	Performance Measurement Attribution	Sydney, Australia
July 22-23	Fundamentals of Performance Measurement	New York, NY (USA)
July 22-23	Fundamentals of Performance Measurement	Hong Kong
July 24-25	Performance Measurement Attribution	New York, NY (USA)
July 24-25	Performance Measurement Attribution	Hong Kong
August 18-19	CIPM Principles Prep Class	Chicago, IL (USA)
August 20-22	CIPM Expert Prep Class	Chicago, IL (USA)
September 17	Portfolio Risk Class	Boston, MA (USA)
September 23-24	Fundamentals of Performance Measurement	Los Angeles, CA (USA)
September 25-26	Performance Measurement Attribution	Los Angeles, CA (USA)
October 14-15	Fundamentals of Performance Measurement	Chicago, IL (USA)
October 16-17	Performance Measurement Attribution	Chicago, IL (USA)
November 11-12	Fundamentals of Performance Measurement	Dallas, TX (USA)
November 13-14	Performance Measurement Attribution	Dallas, TX (USA)
December 9-10	Fundamentals of Performance Measurement	New Brunswick, NJ (USA)
December 11-12	Performance Measurement Attribution	New Brunswick, NJ (USA)

For additional information on any of our 2014 events, please contact Christopher Spaulding at 732-873-5700

TRAINING...

Gain the Critical Knowledge Needed for Performance Measurement and Performance Attribution

TO REGISTER:

Phone: 1-732-873-5700

Fax: 1-732-873-3997

E-mail: info@SpauldingGrp.com



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**

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:

May 19-20, 2014 – New Brunswick, NJ

June 17-18, 2014 – Chicago, IL

July 15-16, 2014 – San Francisco, CA

July 15-16, 2014 – Sydney, Australia

July 22-23, 2014 – New York, NY

July 22-23, 2014 – Hong Kong

September 23-24, 2014 – Los Angeles, CA

October 14-15, 2014 – Chicago, IL

November 11-12, 2014 – Dallas, TX

December 9-10, 2014 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

CFA Institute has approved this program, offered by The Spaulding Group, for 12 CE credit hours. If you are a CFA Institute member, CE credit for your participation in this program will be automatically recorded in your CE tracking tool.



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:

June 19-20, 2014 – Chicago, IL

July 17-18, 2014 – San Francisco, CA

July 17-18, 2014 – Sydney, Australia

July 24-25, 2014 – New York, NY

July 24-25, 2014 – Hong Kong

September 25-26, 2014 – Los Angeles, CA

October 16-17, 2014 – Chicago, IL

November 13-14, 2014 – Dallas, TX

December 11-12, 2014 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

CFA Institute has approved this program, offered by The Spaulding Group, for 12 CE credit hours. If you are a CFA Institute member, CE credit for your participation in this program will be automatically recorded in your CE tracking tool.



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.

CIPM PREP TRAINING: August 18-19, 2014 – Principles Level–Chicago, IL
August 20-22, 2014 – Expert Level–Chicago, IL

UPDATED CIPM Principles and Expert Flash cards are now available on our web store. Please visit www.SpgShop.com today to order your set.

Our performance experts have created a study aid which can't be beat: **flash cards!** These handy cards will help you and your associates prepare for the upcoming CIPM Principles Exam. Unlike a computer-based study aid, you can take them anywhere to help you test your knowledge.

Benefits of Flash Cards:

- Work at your own pace
- Immediate feedback
- Strengthen and reinforce core CIPM principles

These cards are a **must have** for anyone preparing to take the CIPM Exams.

