

PERFORMANCE PERSPECTIVES

with David Spaulding



VOLUME 13 – ISSUE 3

NOVEMBER/DECEMBER 2015

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

OH, NO...LATE, AGAIN!

The fourth quarter of 2015 was a record one for us, as we were extremely busy. This caused me to “double up” our November and December issues. But the delay was caused by me finally taking a couple weeks off. Well, I'm back to work and our newsletter is now complete!

DOES IT PAY TO HAVE SOFTWARE CERTIFIED?

For around 20 years, The Spaulding Group has been asked to review software. Our first such client was the now deceased, Sydney-based Damien Laker, who had a performance software system that he eventually sold to BARRA.



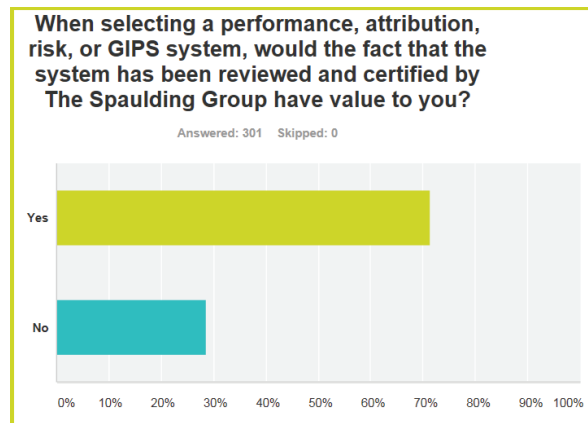
A couple broker/dealers have asked us to review their systems, as well as other firms over the intervening years.

A few years ago, we decided to formalize the practice, and now offer software certification as a product/service. To date, we've reviewed over 20 systems for 13 different firms. Of these, so far, six have passed. This should suggest that our program is fairly rigorous.

John D. Simpson, CIPM and I conduct these reviews. We both have strong software development / “IT” experience, which, along with our performance and risk measurement experience / expertise, provides us with the requisite credentials for this service.

While we've been offered this service for a few years, we never thought to ask the industry, at large, if such a service would have value. That is, if a system was certified by us, would that certification be beneficial? And so, we decided to do just that.

We were impressed with the number of responses: 301. This, to us, is more than a sufficient sample size. And the results? Graphically:



The Journal of Performance Measurement®

UPCOMING ARTICLES

Fixed Income Attribution with Carry Effect

– Tianci Dai, CFA, CIPM
Mark Elliott

The Associative Property of Attribution Linking

– Yindeng Jiang, CFA
Joseph Sáenz, Ph.D.

New Look at Multi-Period Attribution: Solving Rebalancing Issue

– Dmitry Cherkasov, CFA, CIPM

Visualization, R, ggplot2, and Applied Finance in Performance Measurement

– Rodolfo Vanzini

Contribution Fundamentals

– David Spaulding, DPS, CIPM

And numerically:

Answer Choices	Responses	
Yes	71.43%	215
No	28.57%	86
Total	301	

Pretty impressive, we think. More than 71% of the participants believe that certification has value.

What do we certify?

We offer certification for several types of systems, including:

- rates of return
- GIPS Basic
- GIPS Real Estate
- GIPS Private Equity
- equity attribution
- fixed income attribution
- *ex post* risk measurement.

We also certify custom applications.

Who gets certified?

The largest group so far to get their system certified are software vendors. Those who have passed to date are Norwood Consulting (their Composite Builder system), Informa (for GIPS support), Orion (for rates of return).

We've also conducted reviews for custodians (JP Morgan passed for their rates of return) and asset managers (Reams Asset Management passed for their fixed income attribution system).

We've obviously reviewed other firms, who haven't yet "passed." We won't "name names," as that would be inappropriate. Hopefully, they'll take corrective action so that we can certify them.

Why would anyone want to be certified?

For software vendors we think the answer is probably obvious: it allows them to tell their clients and prospects that an independent, knowledgeable and qualified third party reviewed their system and found that it meets a high level of qualification. That it essentially does what the vendor claims that it does. Additionally, because we offer recommendations, the vendor can improve their systems, and as a result, they will keep themselves in line with industry best practice and at the forefront of innovation.

For custodians, we believe that similar benefits can be realized. Granted, custodians aren't selling software, but they are using software to provide services to their clients. Having the ability to tell their clients that their systems have been certified should,

HALL OF FAME

We are seeking nominations for the Performance & Risk Measurement Hall of Fame. The Advisory Board of *The Journal of Performance Measurement*[®] will be voting shortly on this year's candidates, and we'd like your help to ensure that worthy individuals are included.

Please submit names to the Journal's editor, Douglas Spaulding, by January 30. You can email Doug at DougSpaulding@SpauldingGrp.com. Thanks!

we believe, provide an added degree of comfort to them. And again, we provide recommendations which should allow them to improve their systems.

As for asset managers, they benefit by having increased confidence in what they're doing. Many firms who've developed their own systems get things wrong, or lack capabilities we believe are necessary to stay current, effective and reliable.

What does certification entail?

John and I developed formal criteria that we use to do our evaluations. There are eight areas we review:

- **Functionality:** Does the system have the minimum functionality that most firms require? We also look at how the performance system integrates to other systems. While not a required criterion, the system's features will also be reviewed and may be commented on.
- **Calculations:** Does the system have the minimum calculations that most firms would require, and are they accurate?
- **Completeness:** Is the system complete, in that it has everything that would normally be required?
- **Screens/User Interface:** Does the system have adequate screens to view and maintain data and provide access to information?
- **Reports:** Does the system have adequate reports for the intended audience to view information?
- **Usability:** Is the system usable? Is it sufficiently user friendly and does it provide information in a timely manner? While not a required threshold, we may comment on the system's scalability. Is there adequate systems documentation?
- **Controls:** Does the system provide appropriate and sufficient controls? Are audit trails maintained where appropriate? Does the system provide the ability to reconcile data?
- **Workflow:** Is the system designed in such a way, or provide sufficient flexibility, to adapt to an organization's work flow?

This assessment is based on what John and I believe are required, and given we both have 30+ years experience in the industry, have developed systems and seen many, we feel we're qualified to make such an assessment. And apparently most of the industry does, too.

We thank the 301 individuals who participated in our survey.

A TIP TO OVERCOME JET LAG

The first time I flew to Australia from my home in New Jersey was around 15 years ago. I made the trip with my wife. It wasn't so bad going, but coming back was terrible: it took me a week to recover, and my wife was suffering from jet lag for two weeks.

Not wanting to ever have to go through that again, I was committed to finding a way to cope.

My next trip to "down under," I decided to set my watch to my destination as soon as I boarded, and, to act as if I was there. Meaning, that if I would be sleeping there, I slept (or tried to) on the plane. The result: when I returned home, I was fine. No jet lag, whatsoever.

I've made many more trips to Australia, as well as New Zealand and Asia since then, and haven't suffered. Oh, occasionally I may need a bit of an adjustment, but definitely nothing major.

I do the same regardless of where I'm going. And since I clock over 100,000 miles a year, I do a lot of travelling.



PUZZLE TIME

One of the more popular features of our newsletter is the puzzle. *The Wall Street Journal* recently ran a story on the use of puzzles to promote the teaching of mathematics.¹

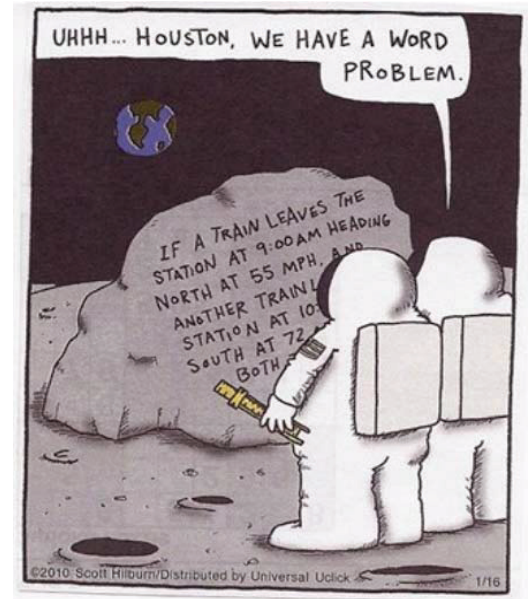
October Puzzle

Last month's puzzle, however, didn't garner as many responses as we normally get. This is interesting, since it's one of the types of puzzles which the WSJ article mentioned as being popular. But it was admittedly difficult (five stars?). It took me some time to come up with an approach, which I'll share below.

John Simpson travels a lot for our company. This gives him a chance to meet lots of people, from all parts of the USA. In September, John flew to five different US cities on business and he flew a different airline each time. During each trip he chatted with the person next to him, and no two people he talked to held the same job.

From the information below, determine the date John made each flight (each was on a Wednesday, exactly one week apart, starting on September 2nd), the airline he flew, his destination, and the profession of the person who sat next to him on each flight.

1. Three consecutive flights were, in order from first to last, the flight John took with Alaska Air, the flight where he sat next to the Pension Fund Trustee, and the flight he took to Atlanta.
2. John sat beside the Risk Analyst on a flight some time earlier in the month than the one he took to Seattle.
3. The week he flew United was some time earlier in the month than the trip to Boston, which was some time earlier in the month than the trip where he sat next to the Portfolio Manager.
4. It wasn't on the trip to San Diego where John sat next to the Performance Analyst.
5. John didn't fly Southwest on his trip to Seattle, and he didn't fly Alaska Air on the trip where he sat next to the Risk Analyst.
6. Atlanta was not John's destination on the trip where he made the acquaintance of the Portfolio Manager.



¹ <http://www.wsj.com/articles/our-puzzling-failures-in-math-education-1452268175>

7. The Delta flight was exactly two weeks before the flight where John passed the time chatting with the Compliance Officer.

Dates: September 2nd, September 9th, September 16th, September 23rd, September 30th

Airlines: United, Delta, American Airlines, Southwest, Alaska Air

Destinations: Atlanta, Boston, Chicago, San Diego, Seattle

Seat Mates: Compliance Officer, Portfolio Manager, Performance Analyst, Risk Analyst, Pension Fund Trustee.

We had a puzzle several years ago that was along this line; perhaps we'll resurrect it. This class of puzzle involves deductive reasoning. The puzzle we previously ran came from the Law School Aptitude Test (presumably lawyers need to think deductively (kind of Sherlock Holmes like).

The approach that worked for me was to construct a table with dates and begin with what I knew directly from the clues, with nothing further, simply to be able to figure out where things might fit.

	Airlines					Destinations					Seat Mates				
	United	Delta	American	Southwest (not to Seattle)	Alaska Air (not with Risk Anal)	Atlanta (not with PM)	Boston	Chicago	San Diego (not with Perf Anal)	Seattle (not with Southwest; later than risk)	CCO	PM (not to Atlanta)	Perf Anal (not to San Diego)	Risk Anal (not with Alaska Air; before)	PF Trste
9/2						No (1)	No (3)				No (7)	No (3)			No (1)
9/9						No (1)					No (7)	No (3)			
9/16															
9/23	No (3)	No (7)			No (1)										
9/30	No (3)	No (7)			No (1)										No (1)

I'll confess that even though I thought this was the best approach, it took me some time before I was able to figure out one of the missing pieces. Part of the process is to see where the matches aren't allowed (e.g., Delta isn't with the CCO, and is two weeks before). These are required in order to *back into* the answers (thus, the deductive logic).

Since United, Delta, and Alaska Air are all excluded from the last two weeks, we know that American and Southwest must be in one of each of these weeks, so that's helpful. But even knowing that (which I figured out immediately), it really wasn't until much later that I was able to figure out which went where, and that was because of the Southwest not going to Seattle and Alaska Air not being the flight with the Risk Analyst.

I won't give you all of the details, but will share with you my final spreadsheet, as well as some of my notes:

	Airlines					Destinations					Seat Mates				
	United	Delta	American	Southwest (not to Seattle)	Alaska Air (not with Risk Anal)	Atlanta (not with PM)	Boston	Chicago	San Diego (not with Perf Anal)	Seattle (not with Southwest; later than risk)	CCO	PM (not to Atlanta)	Perf Anal (not to San Diego)	Risk Anal (not with Alaska Air; before)	PF Trste
9/2	No			NO*	YES	No	No	YES****	No****	No	No	Yes	Could be	No	
	9/2 HAS TO BE either Delta or Alaska					9/2 HAS TO BE either Chicago or San Diego					9/2 HAS TO BE either Perf Anal or Risk Anal				
						Can't be BOTH San Diego & Perf Analyst					Can't be BOTH Perf Anal and San Diego				
9/9	Could be	YES		NO*	No**	No	No	YES****	Could be	No	No	No	Yes	Yes****	
9/16	Yes			NO*	No**	YES***	Could be		Could be	No	No	***	Yes	No ***	
9/23	No	No		Yes*****	No	Could be	YES***		Could be	YES***	Could be		Could be	No ***	
	Has to be EITHER SW or American														
9/30	No	No	Yes*****		No	Could be	No		Yes*****	Could be	YES***		No	No ***	
	Has to be EITHER SW or American														

* because SW and AA HAVE TO BE on either 9/23 or 9/30, can't be earlier in the month
 Delta has to be two weeks before CCO
 Since either Delta or Alaska HAVE TO be on 9/2, and since 9/2 doesn't work for the CCO, then Alaska has to be 9/2.
 ** Therefore Alaska can't be 9/9 or 9/16
 *** We therefore KNOW that 9/9 has to be Pension Fund Trustee and 9/16 has to be Atlanta (1)
 We then also know that the PM can't be on 9/16
 We can also conclude that since Boston could only be 9/16 or 9/23, and since Atlanta is 9/16, it MUST be 9/23!
 And since the trip to Boston is before the PM flew, the PM has to be on 9/30
 The CCO only had two possible dates, 9/23 or 9/30; since 9/30 is the PM, it has to be 9/23
 And since the Delta flight is exactly two weeks before the trip w/the CCO, the Delta flight has to be 9/9, meaning Alaska is 9/2 and United is 9/16
 The risk analysts can't be on 9/2, since he didn't fly Alaska Air, so it has to be on 9/16, meaning the performance analyst is 9/2
 **** Since the trip to San Diego wasn't with the performance analyst, then he couldn't have flown on 9/2, so has to be Chicago
 *****The trip to Seattle has to be after the trip with the risk analyst; the risk analyst flew on 9/16; since 9/23 is to Boston, Seattle must be 9/30
 And San Diego must be 9/9
 And since Southwest didn't go to Seattle, it has to be on 9/23 and American on 9/30

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.

To summarize:

- 9/2: Alaska Air to Chicago with the Performance Analyst
- 9/9: Delta to San Diego with the Pension Fund Trustee
- 9/16: United to Atlanta with the Risk Analyst
- 9/23: Southwest to Boston with the Compliance Officer
- 9/30: American to Seattle with the Portfolio Manager.

We had only one participant, Gerard van Breukelen, who also happens to be the co-recipient of the Dietz Award for publishing year 2014! His response:

September 2nd	Chicago	Alaska Air	Performance Analyst
September 9th	San Diego	Delta	Pension Fund Trustee
September 16th	Atlanta	United	Risk Analyst
September 23rd	Boston	Southwest	Compliance Officer
September 30th	Seattle	American Airlines	Portfolio Manager

And since we both got the same answers, I'm confident that we're correct.²

November/December Puzzle

Since I can tell you really like deductive reasoning, we'll try again! Hopefully we'll get a few more participants.

These five investment professionals represented different firms. Unfortunately, the hotel they were all due to stay in accidentally double booked their rooms. They tried other hotels in the city, but all were fully booked. Consequently, they all agreed to share the only two rooms available in the hotel - one twin and one triple.

From the clues, can you work out each man's name, company and official title?

1. When the five men realized their dilemma, they drew straws to see who would share with whom. The outcome for four of them was that the CCO shared with the businessman from AB Asset Management and Edgar shared with the IT Professional.
2. Alan does not work for Reed Advisors and is not the Global Head of Performance. The Global Head of Performance does not work for Lantel Funds Management or Ocean Advisors.
3. Neither Clarkson nor Harris works for Reed Advisors. Harris is either the IT Analyst or the CCO.
4. The Guy from Reed Advisors did not share a room with Thomas.
5. Clarkson, who does not work for Lantel Funds Management, shared with either Thomas or Harris but not both.

² This puzzle is based on one I found online, though when I went back I couldn't find it. I'll try again. I changed all the details in order to make it relevant to our industry.

6. Edgar's surname is either Carson or Graves. Edgar did not share with Carl.
7. The man from Chiptech shared with the guy from Lantel Funds Management.
8. The CCO shared with the IT Analyst.
9. Carson works for either Ocean Advisors or Chipper Asset Management.
10. Neither Joshua nor Alan works for AB Asset Management
11. Fielder shared with the Global Head of Performance.
12. The fellow from Ocean Advisors shared with the IT Professional.

First names: Alan, Carl, Edgar, Joshua, Thomas.

Last names: Carson, Clarkson, Fielder, Graves, Harris.

Company: AB Asset Management, Ocean Advisors, Chipper Asset Management, Lantel Funds Management, Reed Advisors.

Position: Risk Manager, CCO, IT Professional, Global Head of Performance, IT Analyst.

THE SPAULDING GROUP'S 2016 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
March 22-23	CIPM Prep Classes – Principles Level	Los Angeles, CA (USA)
March 30- April 1	CIPM Prep Classes – Expert Level	New Brunswick, NJ (USA)
April 20	Asset Owner Roundtable Meeting	Seattle, WA (USA)
April 21-22	Performance Measurement Forum	Seattle, WA (USA)
April 26-27	Fundamentals of Performance Measurement	Toronto, ON Canada
April 28-29	Performance Measurement Attribution	Toronto, ON Canada
May 16-17	PMAR North America	Philadelphia, PA (USA)
May 19-20	Fundamentals of Performance Measurement	New Brunswick, NJ (USA)
May 19	Advanced Performance Measurement	Philadelphia, PA (USA)
June 15-16	PMAR Europe	London, England
June 23-24	Performance Measurement Forum	Dubrovnik, Croatia
July 19-20	Fundamentals of Performance Measurement	Chicago, IL (USA)
July 21-22	Performance Measurement Attribution	Chicago, IL (USA)
August 15-16	CIPM Prep Classes – Principles Level	Chicago, IL (USA)
August 17-19	CIPM Prep Classes – Expert Level	Chicago, IL (USA)
October 18-19	Fundamentals of Performance Measurement	San Francisco, CA (USA)
October 20-21	Performance Measurement Attribution	San Francisco, CA (USA)
November 3-4	Performance Measurement Forum	Reykjavik, Iceland
November 16	Asset Owner Roundtable Meeting	Austin, TX (USA)
November 17-18	Performance Measurement Forum	Austin, TX (USA)
December 6-7	Fundamentals of Performance Measurement	New Brunswick, NJ (USA)
December 8-9	Performance Measurement Attribution	New Brunswick, NJ (USA)

For additional information on any of our 2016 events, please contact Christopher Spaulding at 732-873-5700

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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:

April 26-27, 2016 – Toronto, ON Canada

October 18-19, 2016 – San Francisco, CA

May 19-20, 2016 – New Brunswick, NJ

December 6-7, 2016 – New Brunswick, NJ

July 19-20, 2016 – Chicago, IL

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:

April 28-29, 2016 – Toronto, ON Canada

October 20-21, 2016 – San Francisco, CA

July 21-22, 2016 – Chicago, IL

December 8-9, 2016 – 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.

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