

# PERFORMANCE PERSPECTIVES

with David Spaulding



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JULY 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.

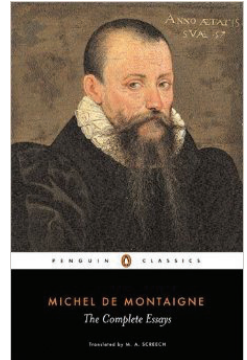
Our clients appreciate our industry focus. We understand their business, their needs, and the opportunities to make them more efficient and competitive.

For additional information about The Spaulding Group and our services, please visit our web site or contact Chris Spaulding at [CSpaulding@SpauldingGrp.com](mailto:CSpaulding@SpauldingGrp.com)

<http://www.SpauldingGrp.com>

## “OPINION IS NOT KNOWLEDGE”

The above quote comes from the Introduction to Michel de Montaigne's *The Complete Essays*, translated by M.A. Screech. Montaigne was a 16th century philosopher, who I was introduced to in a recent audio course I took. Another quote from the Introduction is “Pride is the sin of sins: intellectually it leads to Man's arrogantly taking mere opinion for knowledge [sic].” These are the views of sceptics, who deny the ability of us to know virtually anything.



A counter to this is Epicureanism, which “holds that the senses give Man access to infallible certainty.” The book's introduction also includes a snippet from a poem by Lucretius, which I'll paraphrase:

*We are persuaded that no opposing reasons, however sharp or compelling, however probable or verisimilitudinous, however firm or strong could ever dislodge me from my judgement.*

Ours is an industry where we occasionally come upon someone who makes *statements of fact*, when they're really *statements of opinion*. For many, distinguishing the difference can be difficult, especially when these opinions are expressed in very strong ways, with hubris intending to leave little doubt in what's spoken or written. But is it hubris or the reflection of infallible certainty?

Readers and conference attendees should be on guard for such things, as they may be mislead. As you no doubt know, there are many ways to do the many things which we're called upon to accomplish, in measuring returns, attribution, and risk. Each has advantages and disadvantages, differences which are worth understanding, benefits worth appreciating.

Personally, I try to distinguish between mere opinion and those beliefs which I have exceptional confidence in being correct (but arguably these are still opinions, too).

## AUTOMATING OUR VERIFICATION PRACTICE

On a few occasions we've been approached by software vendors who suggest we consider using their tools to help automate our GIPS® verification process. While the concept seems to have value on the surface, we believe it is something that is neither beneficial nor practical.



GIPS verification is about process: a compliant firm's process to achieve and maintain compliance. We use a fairly rigorous series of tests as part of our own somewhat regimented and scripted review.

# 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

This doesn't mean we don't use automation: we do, though it's generally limited to Excel, for *ad hoc* testing and analysis. Portfolio accounting and performance measurement systems are able to provide us with the reports we require, from which we're able to conduct our tests.

Some folks in the industry might be persuaded that an automated approach is more sophisticated; we believe it isn't. It removes the personal attention that we believe is needed.

Fortunately, none of our clients have questioned this, at least not to any great extent. If their prior verifier required files to be sent, they may wonder if we do, too. When we explain our approach, which is fairly well spelled out in our proposals, they seem content.

My background, as well as John Simpson's, is software development, something we each did for a very long time. And so, one might expect that we would want to be able to automate, at least to some extent, the verification process. We both agree that it really doesn't play an important role. We love automation and champion its use, but only where it makes sense.

## THE SPAULDING GROUP HAS REACHED A MILESTONE: 25 YEARS SERVING THE INVESTMENT INDUSTRY!

We are very pleased to announce that our firm is now 25 years old. Reaching the quarter-century mark is quite exciting for us. I prepared a brief letter, which we're including with this issue, that addresses this achievement in some detail.

July 25 is the anniversary of our firm's incorporation, so we're "25 on the 25th!" A nice coincidence.

There are too many people to thank for our success, and I'd no doubt leave many names off, so will simply say "thank you." We are truly blessed to have the opportunity to work in such an exciting part of the investment industry.

A few of our colleagues were kind enough to share their thoughts with us regarding this milestone:

David,

Congratulations!!

Twenty five years ago investment performance measurement and attribution was in its incipient stages of development. You and your associates have made a major contribution to the investment profession by founding the Journal of Performance Measurement and providing the vital leadership for the rigorous expansion of this discipline.

Best wishes for the next twenty five years!

Gary P. Brinson

**25<sup>th</sup>**  
1990 - 2015  
Anniversary

"The Spaulding Group has made enormous contributions to the performance industry over the last quarter century. The Spaulding Group brought practitioners together through their many outstanding conferences and forums, while helping to advance the field and promote best practices through the Journal of Performance Measurement. In short, the Spaulding Group has been instrumental in forging the community of performance professionals that we enjoy today."

Jose Menchero, PhD, CFA

Hi David –

You and your great team at the Spaulding group have helped advance investment performance and risk professional practice within the organizations I've been associated with and have actually "raised the bar" for the entire industry – well done and congratulations on 25 successful years!

Cheers  
Wylie

**Wylie A. Tollette, CFA CPA**  
Chief Operating Investment Officer  
CalPERS Investment Office

*"I've had the privilege of associating with The Spaulding Group since 2003. I look to them as a constant in the changing world of investment performance. Not only are they professional and knowledgeable innovators in our industry, they are also fun...adding enjoyment to the intense field of performance analysis, attribution and risk."*

**Tricia Bailey, CIPM**  
Waddell & Reed, Inc

*"We have been working with the Spaulding Group for over 5 years now and we are impressed by the professionalism and enthusiasm they approach all matters related to performance. The Spaulding Group provides a combination of extensive experience with deep knowledge and research in the field and is a unique source of information and advice. We are sure we will be working with the Spaulding Group for a long time in the future. Happy 25 Years Anniversary! I wish the next 25 years to be full of even more success!"*

**Nikolaos Spyridakis**  
Portfolio/Performance Analyst  
Rogge Global Partners

*"The Spaulding Group has helped to raise the visibility of investment performance measurement as a profession. Through publishing the Journal of Performance Measurement as well as organizing conferences and industry forums, they have been instrumental in helping the community to develop and share best practices."*

**Frances Barney, CFA**  
Head of Global Risk Solutions Consulting – Americas  
BNY Mellon

## CASH FLOW TREATMENT

I recently did a three-part blog series on cash flow timing, and thought I'd carry that topic here, as not everyone reads my blog, and this newsletter allows me the opportunity to go a bit deeper than the blog does.

This topic is one I've addressed in the past. Mary Cait McCarthy, CFA, FRM of Credit Suisse did a presentation at both PMAR Europe and the EMEA Performance Measurement Forum meeting in June, specifically addressing the impact of "first day issues on performance measurement and attribution." This was the catalyst for this most recent round of comments.



In Mary Cait's presentation, she used a scenario where end-of-day pricing is employed, so that's what we'll begin with, here. I'll use her examples, as I believe they're quite helpful.

We'll assume, as she did, a daily return environment, and will use Modified Dietz as our formula:

$$R_{EOD} = \frac{V_E - V_B - \sum C}{V_B + 0 \times \sum C}$$

My denominator shows the superfluous weighting of the cash flow, only to (a) point out that the factor is present and (b) that it's weighted by zero, since it's an end-of-day treatment.

We have three cases to contend with (please refer to Table 1).

### Case 1

Since the beginning value is zero, we can quickly see that our return will be problematic, because we'll be dividing by zero, which isn't permitted (it's classified as being "undefined"). This holds whether we're calculating the return of the portfolio or the security, since the portfolio only consists of this single security.

What's our solution? I'll "cut to the quick" and suggest that we should default to treating inflows as start-of-day events. We will use following formula:

$$R_{SOD} = \frac{V_E - V_B - \sum C}{V_B + 1 \times \sum C}$$

Again, we use a superfluous multiplier in the denominator ("1"), to signify that the flows are being treated as start-of-day events.

### Case 2

Here we have two securities: one that is present the full time and a second that's added during the day; it's added, presumably, because of a cash flow, which could, in reality be cash, which was used to purchase the security, or a free-receive of the security, itself.

Case 1	V <sub>B</sub>	V <sub>E</sub>	C
Security A	0	100,500	100,000
Portfolio	0	100,500	100,000
Case 2	V <sub>B</sub>	V <sub>E</sub>	C
Security A	100,000	100,500	0
Security B	0	49,500	50,000
Portfolio	100,000	150,000	50,000
Case 3	V <sub>B</sub>	V <sub>E</sub>	C
Security A	100,000	48,500	-50,000
Security B	0	54,500	50,000
Security C	50,000	51,500	0
Portfolio	150,000	154,500	0

Table 1

Let's briefly contrast the portfolio's return if we treat the flow as a start- or end-of-day event:

$$R_{EOD} = \frac{150,000 - 100,000 - 50,000}{100,000} = \frac{0}{100,000} = 0.00\%$$

$$R_{SOD} = \frac{150,000 - 100,000 - 50,000}{100,000 + 50,000} = \frac{0}{150,000} = 0.00\%$$

This is an example where it really doesn't matter whether the flow is being treated as a start- or end-of-day event, since the appreciation in Security A of 500 is offset by the drop in value of Security B by 500, so there is no change in the portfolio's value.

Security A's return is fairly easy to calculate; here, we could use the same Modified Dietz formula stated above, or this alternative one:

$$R^A = \frac{V_E}{V_B} - 1 = \frac{100,500}{100,000} - 1 = 0.50\%$$

I didn't make a distinction on cash flow treatment, since there is no flow for Security A. Security B is a different matter, however.

As with Case 1, because Security B's starting value is zero, we can see that end-of-day treatment won't work, and so again employ start-of-day:

$$R_{SOD}^B = \frac{49,500 - 0 - 50,000}{0 + 50,000} = \frac{-500}{50,000} = -1.00\%$$

Mary Cait, in her presentation, touched on contribution, and how that might work. Clearly, in this case it wouldn't work if we were using end-of-day cash flow treatment, as B's return would be undefined, and therefore couldn't calculate contribution. But because we're using start-of-day treatment for our inflows, we can. Here's our contribution formula:

$$Contribution = \sum_{i=1}^n r^i \left( \frac{v_B^i}{\sum_{i=1}^n v_B^i} \right)$$

Security contribution is simply the sum of the individual security weights times the individual security returns. These weights are typically derived by using the beginning values. This is a problem when the beginning value is zero. If we use the formula, *out of the box*, so to speak, our results would be a problem, as Security A would have a weight of 100% and security B of 0.00 percent. We therefore need a "transaction-based" approach to contribution. This simply means we take into consideration any flows that occur.

Because we're using the start-of-day approach for cash flows, the weight of our flows will be 100% (1.00), and so are simply added to our starting value; thus, we get an adjusted starting value. If we wanted to, we could adjust our formula's notation slightly, to indicate this convention:

$$\text{Contribution}_{\text{Transaction-based}} = \sum_{i=1}^n r^i \left( \frac{v_{B^T}^i}{\sum_{i=1}^n v_{B^T}^i} \right)$$

Note that I "superscripted" the "B" with a "T," to indicate that it's a transaction-based value; there are countless ways to do this.

We expect the sum of our contribution effects to total our return. We derive them separately (please refer to Table 2).

Case 2	$V_B$	$V_E$	C	$V_B^T$	Weights	Returns	Contribution
Security A	100,000	100,500	0	100,000	66.67%	0.50%	0.33%
Security B	0	49,500	50,000	50,000	33.33%	-1.00%	-0.33%
Portfolio	100,000	150,000	50,000	150,000	100.00%		0.00%

Table 2

As predicted, the sum of our contribution effects equals our portfolio's return. This wouldn't have occurred had we treated all flows as end-of-day events.

### Case 3

In this case we have three securities and two subportfolio flows; this time there are no external flows to contend with.

Security A experiences an outflow of 50,000. I normally suggest that outflows be treated as end-of-day events. If we do that with this security we get the following return:

$$R_{EOD}^A = \frac{V_E - V_B - \sum C}{V_B + \sum 0 \times C} = \frac{48,500 - 100,000 - 50,000}{100,000 + 0 \times (-50,000)} = \frac{-1,500}{100,000} = -1.50\%$$

The problem with this logic is that the flow was needed in order to provide the necessary funds to purchase Security B. If we wait until the end of the day for these funds, how can we make this purchase? This seems intuitive, enough, but let's continue with the rest of our math.

Security B's return is based on start-of-date logic, and it yields 3.00 percent. And Security C experiences no flows, so its return is quite simple derive and is 1.00 percent.

Table 3 shows these results, plus our adjusted beginning values to capture the effect of the flows.

Case 3	$V_B$	$V_E$	C	$V_B^T$	Weights	Returns	Contribution
Security A	100,000	48,500	-50,000	100,000	50.00%	-1.50%	-0.75%
Security B	0	54,500	50,000	50,000	25.00%	9.00%	2.25%
Security C	50,000	51,500	0	50,000	25.00%	3.00%	0.75%
Portfolio	150,000	154,500	0	200,000	100.00%	3.00%	2.25%

Table 3

We immediately see a problem with our adjusted beginning values, as their sum exceeds what we actually started with; this is because of the treatment of A's cash flow as an end-of-day event. In addition, we see that the sum of our contribution effects doesn't match our total return.

Let's therefore do two things: we'll change our return formula for A to start-of-day treatment and adjust its beginning value to reflect this shift, too. Table 4 shows our results. We see that the sum of our adjusted beginning values now matches the actual beginning value. In addition, we see that our returns sum to the portfolio's.

Case 3	$V_B$	$V_E$	C	$V_B^T$	Weights	Returns	Contribution
Security A	100,000	48,500	-50,000	50,000	33.33%	-3.00%	-1.00%
Security B	0	54,500	50,000	50,000	33.33%	9.00%	3.00%
Security C	50,000	51,500	0	50,000	33.33%	3.00%	1.00%
Portfolio	150,000	154,500	0	150,000	100.00%	3.00%	3.00%

Table 4

### **What can we conclude?**

I thank Mary Cait McCarthy for crafting these examples, as they touch on some common experiences firms have; they allow us to provide some guidance in the handling of flows at both the portfolio and sub-portfolio levels.

For quite some time I've championed the notion of treating in-flows as start-of-day events, and outflows as end-of-day. I'll confess that for sub-portfolio treatment I've waffled a bit, even suggesting that perhaps the reverse should hold. One of my blog readers asked specifically about the case where there are offsetting flows at the sub-portfolio level: he saw that we would be double-counting if we used my standard approach, which I confessed would be the case.

Should all sub-portfolio flows be treated as start-of-day events? I'm not quite willing to make such a commitment, as I'd like to try this out a bit more. But, it's at least *food for thought*.

Your thoughts, too, are invited on this topic. Thanks!

## **PUZZLE TIME**

### **May/June Puzzle**

*Suppose you have 20 quarts of oil in one container and 20 quarts of vinegar in another. You transfer five quarts from the oil container into the vinegar container, and mix these contents up as best as you can. You then take five quarts of that mixture and transfer them to the oil container.*

*The question: is there more oil in the vinegar or more vinegar in the oil?*



## KEEP THOSE CARDS & LETTERS COMING

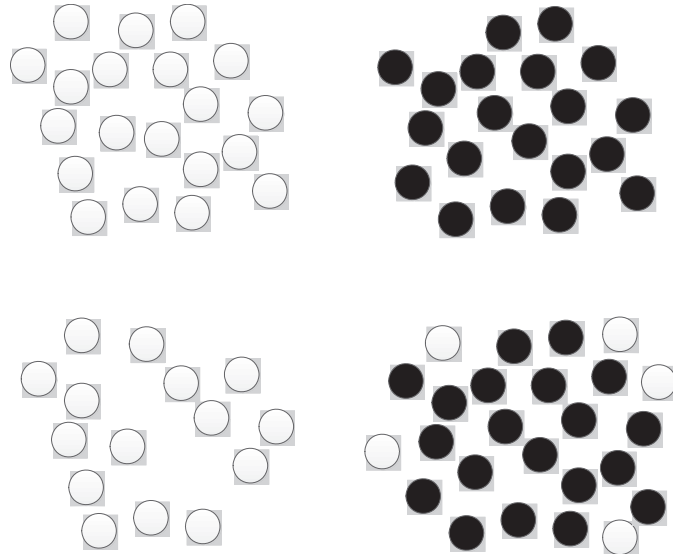
*We appreciate the emails we receive regarding our newsletter. Mostly, we hear positive feedback while at other times, we hear opposition to what we suggest. That's fine. We can take it. And more important, we encourage the dialogue. We see this newsletter as one way to communicate ideas and want to hear your thoughts.*

As I mentioned last month, this puzzle comes from *The Puzzler's Dilemma*. I'll quote from its explanation of the answer:

"This puzzle is a bit of a fooler. It is tempting to believe that because the liquid originally taken from the oil container was pure oil, whereas the amount transferred back is a combination, that there is more oil in the vinegar than vinegar in the oil. A little algebra would set us straight..."

"The key step is to approach the problem via discrete units rather than amorphous blobs...suppose you have a pile of 20 white discs and a pile of 20 black discs...You take five of the white discs and place them in the black pile, which you give a thorough mixing. You then return five of the discs from the mixture ... into the original white pile. Do you have more black in the white or white in the black?"

Ponder this point a minute.



Now, consider if you take just one white disc? If you return the white disc to the white pile, both piles will have 100% of their respective color; if you return a black disc, then each will have one of the opposite color.

If you take five white and return five black, each will have five of the opposite color and 15 of its color; if you return three white and two black, then each will have two.

"In terms of the original puzzle, the amount of oil in the vinegar is therefore the same as the amount of vinegar in the oil."

I'll include Hans Braker's response, as I think it's a good one:

"The May/June puzzle is really a golden oldie. I usually do this puzzle with red wine and white wine, to avoid discussions of oil floating on vinegar.

"The fun of the puzzle is that you do not need to do any calculations or need to specify any quantity, as long as both containers hold the same volume at the start and the end. Just look at the initial situation and the final situation.



Steve Shefras	USA (via UK)
Mark David	USA
Tom Stapleton	UK
Hans Braker	Netherlands
Neil Riddles	USA
Malcolm Smith	UK
Jed Schneider	USA
Tricia Bailey	USA

“Initially, both containers hold the same volume. At the end, both again contain the same volume.

Logically, if x percent of the vinegar container now holds oil, then that x percent of ‘disappeared’ vinegar must be in the oil container. So the oil also contains x% of vinegar. So there is exactly as much oil in the vinegar as there is vinegar in the oil.

“The ‘mix as best as you can’ is actually a senseless but confusing action!

“For people who do not get this explanation instantly, I use an analogy: suppose in one room are 100 people with a yellow shirt and in another room are 100 people with a blue shirt. If you let a number of people walk from the ‘yellow room’ into the ‘blue room,’ let them mix, and take the same number of people back into the ‘yellow room’ (so both rooms again contain 100 people), then it becomes obvious to everyone: any blue shirt now in the ‘yellow room’ must match a yellow shirt in the ‘blue room.’”

### **July Puzzle**

You buy 100 lbs. of potatoes, and are told they are 99% water. After leaving them outside, you discover that they are now 98% water.

How much do they now weigh?<sup>1</sup>



<sup>1</sup> Source: *The Puzzler's Dilemma*, by Derrick Niederman.

## THE SPAULDING GROUP'S 2015 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
August 24-25	CIPM Principles Prep Class	Chicago, IL (USA)
August 26-28	CIPM Expert Prep Class	Chicago, IL (USA)
September 16	Portfolio Risk	San Diego, CA (USA)
October 15-16	APAC Performance Measurement Forum	Singapore
October 20-21	Fundamentals of Performance Measurement	Los Angeles, CA (USA)
October 22-23	Performance Measurement Attribution	Los Angeles, CA (USA)
November 5-6	Performance Measurement Forum	Prague, Czech Republic
November 18	Asset Owner Roundtable Meeting	Phoenix, AZ (USA)
November 19-20	Performance Measurement Forum	Phoenix, AZ (USA)
Nov. 30 – Dec. 4	Virtual PMAR – An online conference event	
December 8-9	Fundamentals of Performance Measurement	New Brunswick, NJ (USA)
December 10-11	Performance Measurement Attribution	New Brunswick, NJ (USA)

*For additional information on any of our 2015 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](mailto:info@SpauldingGrp.com)**



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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:

October 20-21, 2015 – Los Angeles, CA

December 8-9, 2015 – 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:

October 22-23, 2015 – Los Angeles, CA

December 10-11, 2015 – 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.

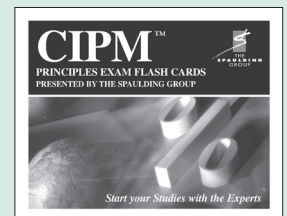
**UPDATED CIPM Principles and Expert Flash cards are now available on our web store. Please visit [www.SpgShop.com](http://www.SpgShop.com) today to order your set.**

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.

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- Work at your own pace
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These cards are a **must have** for anyone preparing to take the CIPM Exams.





July 22, 2015

Dear Clients and Friends of TSG:

### **TSG Turns 25 on the 25th!**

This month marks the 25<sup>th</sup> anniversary of the founding of our firm, specifically the 25<sup>th</sup> (when we were incorporated), and I thought it appropriate to reflect on our relatively long journey.

One point that's probably worth mentioning at the outset: I never saw myself starting a business. I consider myself somewhat *risk averse*, and always thought I'd *work for somebody else*. So, how did it happen that I started a business 25 years ago? It starts with Christmas in 1989, when a consultant who worked for me, John Vicini, gave me Anthony Robbins' 30-day program, *Personal Power*. I hadn't heard of Tony, but John knew that I enjoyed listening to audio programs, and thought I'd find this one of value: did I ever! January 1, 1990 began on a Monday, and it seemed like a good day to begin. Within 10 days I had decided to start a company, though initially it was to be a software developer (to build a portfolio accounting system, something I already had experience with). In July, while still working on my business plan, I was approached to be the "industry expert" on a software system for the U.S. branch of a Japanese firm called Quick America. Unfortunately, this two-year assignment was cut short after a few months as a result of problems with the Japanese stock market, so I found myself without a client or income. I thought I'd have time to develop my marketing plan while working on this assignment, but had to quickly get to work on my next assignment. That didn't come until early 1991, when Pershing brought me in to conduct a feasibility study for them. And so, Christmas of 1990 saw me working at Macy's.

One of my favorite quotes is, "if you want to make God laugh, tell him your plans." My original plan for the company was to develop software for clients and to conduct various operations assignments. However, in 1992, as the AIMR Performance Presentation Standards<sup>®</sup> were nearing their formal introduction, I saw an opportunity to move into verification. At my prior firm, in addition to being head of information technology, I was responsible for performance measurement, so I had some fundamental knowledge to draw upon. While serving in the Army I was briefly assigned to the Inspector General's office (of the 25<sup>th</sup> Infantry Division), and so I believed I had the requisite skills to pursue this additional service.

Over the subsequent years, we found ourselves moving more and more into performance measurement, as we added new services and products (surveys, training, *The Journal of Performance Measurement*<sup>®</sup>, the Performance Measurement Forum, PMAR, etc.). As a result, we abandoned the initial and relatively broad aspect of our business purpose to focus on performance and risk measurement. I don't believe we've ever regretted this, as it's allowed us to participate in one of the most exciting parts of the investment industry.

In addition, over time the breadth of the firms we serve (from almost strictly money managers to include custodians, broker/dealers, pension funds, endowments, foundations, family offices,

Clients and Friends of TSG

July 22, 2015

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software vendors, banks, wealth managers) as well as the geographical markets have grown considerably. This has been extremely exciting for us.

One of the first things you need to do when you start a business is come up with a name for it. At the time of its launch, I enjoyed watching The McLaughlin Group on Sundays; I thought “The Spaulding Group” sounded like a good name. Looking back, perhaps another name would have worked better, but that’s what we have been. We’ve actually, to some extent, become a “group of Spauldings,” since both my sons (Chris and Doug) joined more than ten years ago, something that still amazes their mother. It’s been truly a pleasure to have them on board.

One of the employees we hired who has had a tremendous impact on our firm’s growth is our President and Chief Operating Officer, Patrick W. Fowler. I’ve known Patrick since he was about seven. At the time when he was graduating from Rutgers University, I was planning to hire someone, so he came in for an interview. It was more me telling him about our company and the role he’d play, than me asking questions. He joined in 1998, and so has been here for most of our firm’s life.

Like a lot of small businesses, we began in my home office. When we began to develop a composite system (for a client wanting to comply with the AIMR-PPS®), we set up a local area network in one of our spare rooms to allow our developers a place to work. The first time one of them came by around 10 o’clock at night to work, my wife, in her nightgown and robe, told me we would have to move the company out of our home. The following week we moved into our first office, a space we stayed at for about 10 years. We outgrew that space, and have been in our current quarters for over 10 years.

Over the years we’ve had other folks join us, and have been fortunate to have a fairly high retention rate. John Simpson celebrates his 10<sup>th</sup> anniversary with us this month. We had known of John for a long time, and so when he became available, both Chris and Patrick rushed into my office to announce “we have to hire John!” We are so very blessed that he agreed to join us. His hiring allowed us to open our West Coast office, and to expand our services further. John, like myself, has extensive software development experience and performance/risk measurement expertise.

By focusing on a rather narrow niche, we’ve been able to not only develop name recognition but to get to know a lot of folks. We’ve developed relationships and friendships with folks throughout the globe. This has been such a great benefit to us, both personally and as a company.

Hiring can often be a challenge. Ideally, you hire someone you already know; however, that doesn’t always work out as expected because the person you *thought you knew* might not be what you end up with. In general, we’ve brought on folks who we had at least some prior knowledge of. And for the most part, our hires have been great. Today our team includes my two sons, mentioned above: Chris is an EVP, and is responsible for strategy and business development; Doug is a VP, the Editor of *The Journal of Performance Measurement*®, and responsible for all of our publishing. Our VP of Administration / Office Manager is Linda Burk, whose exceptional organizational and

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planning skills, coupled with her great work ethic, makes our firm run pretty smoothly. Our prior head of admin, Sue Kneller, shifted to a part-time role a few years ago, and continues to provide us with great support. Steve Sobhi leads the sales effort for our Western region, and takes on occasional GIPS® verification assignments. We've known Steve for a number of years, and always found him to be bright and highly likeable; we're pleased to report that he's extremely competent, knowledgeable, and creative, too. Andrew Tona joined us last year, and wears multiple hats, including sales support, publication support, and event planning. Although we only knew him as *the guy who dated the daughter of one of our neighbors* (and eventually married), we've found that he's been a great addition to the TSG family. Debi Rossi joined us last year as a verifier / consultant: like John, we've known Debi for a very long time, and so benefit from her industry expertise. Cybill Conklin has been our graphic designer for over 10 years, and is responsible for all of our great artwork. Mary Meagher is our proof reader, and has been for more than 10 years: she supports not only the Journal but other materials we produce (including our books).

Another line I like is *if you find a turtle on a fence post, chances are someone helped him to get there*. Well, our success is owed to a lot of folks. In addition to the ones named above, there are those who have left our firm to pursue other opportunities, including John Vicini, Kevin Kubach, Jaime Fowler Puerschner and Jed Schneider.

One of the difficult aspects of developing close relationships with clients and colleagues is that they sometimes depart this life too soon. We've lost a few of our friends, such as Angela Petrucelly, Sandra Hahn-Colbert, and Frank Desharnais. In each case, we were touched and saddened by their loss. But, we also feel honored to have had the privilege to have known them.

I mentioned that I never had the ambition to start a business. And so, when I came home to announce to my wife, Betty, that I was quitting my (well paying and secure) job to start this venture, she (who is more risk averse than I) didn't have the greatest response one might have hoped for, though it was quite understandable under the circumstances. That being said, she has been a great supporter and champion through the last quarter of a century.

What the future holds for us we cannot predict, other than to say that we will continue to serve the investment industry by providing exceptional services and products for the performance and risk measurement sector. We will continue to be passionate about this field, and strive to be creative, energetic, engaging, supportive, and dedicated. We look forward to what lies ahead.

With warmest wishes,



David D. Spaulding, DPS, CIPM  
Founder / Chief Executive Officer