PERFORMANCE PERSPECTIVES
with David Spaulding

VOLUME 6 – ISSUE 11 JULY 2009

SINGLE ACCOUNT COMPOSITES

After more than 15 years of having standards on presenting performance to prospects, there still remains confusion and division regarding single account composites. For many, they're seen as an unnecessary drudgery that serves little or no purpose, since their results reflect the performance for strategies they are unlikely to offer to anyone else. But to others they are seen as a way to adhere to the principles of the standards, no matter how rigorous and challenging they may be at times.

At conferences in 1992 and 1993 I heard one speaker in particular champion the idea of "turkey" composites, suggesting that "everyone" will have them. Not being familiar with the term, I inquired, only to learn that these were "catch all" composites into which firms would group "misfits," that didn't align well with anyone else. AIMR (now the CFA Institute) was a bit slow to respond to this idea but did offer an edict around 1994 or 1995, clearly stating that such groupings were disallowed. I had always been suspicious of "turkey" composites and was pleased by this decision.

Many firms still employ them today, although their prohibition is clearly outlined within the standards and handbook. But what options does a firm have when encountering a long list of such accounts?

Well, if the firm can group two or more of them together, so that a common strategy is visible, that's fine. Or, if their GIPS® discretion policy is such that some can be excluded completely, that's okay, too. And, today firms don't have to group any of these accounts if they don't pay fees, although this is likely to change come January 2011. Also, if the accounts are below the firm's minimum, they can be excluded. Other than that, the firm is pretty much obligated to group these accounts into composites and not assemble them in a "junk" (one of the many other descriptive names meaning "catch all") composite.

GIPS 2010…THE PEOPLE HAVE SPOKEN

I've already commented at length in my blog (http://investmentperformanceguy.blogspot.com/) about the feedback we've seen about the proposed changes to the GIPS® standards, but will offer a few more thoughts here.

I find it quite gratifying to see SO many individuals taking the time to chime in on this important issue. And while I'd like to think that our newsletter may have caused some to participate in this process and perhaps support some of our views, there's no way to know for sure.

As a member of the USIPC and the U.S. verifier roundtable, I had the additional benefit of participating in the responses that they offered. And although I didn't necessarily agree with everything we submitted, by far I did. It's important to again state that the opinions I express here are my own and not necessarily those of the committees I'm a member of.

The Journal of Performance Measurement®:

UPCOMING ARTICLES

Determining the Optimal Mutual Fund Style Classification Methodology
– ***David M. Blanchett, CFA and Craig Israelson, Ph.D.***

101 Ways to Measure Performance
– ***Philippe Cogneau, and Georges Hübner***

Risk Attribution
– ***Philippe Grégoire, Ph.D.***

Refining the Sharpe Ratio
– ***Craig L. Israelsen, Ph.D., Brigham Young University***

On Turning Three: Reflections on the CIPM® Program
– ***Philip Lawton, CFA, CIPM, CFA Institute***

Performance Analytics Systems – In House or Vendor Package
– ***Kyle Ringrose, CFA, Wilson HTM Investment Group***

A Global Investment Attribution Analysis Based on a Symmetrical Arithmetic Attribution Model
– ***Yuri Shestopaloff, Ph.D., SegmentSoft Inc.***

A Comparison of Plan Sponsor Attribution Methodologies: Multi-Level Brinson Attribution vs. Macro Attribution
– ***John D. Simpson, CIPM, The Spaulding Group, Inc.***

I've commented before about the items that I am most strongly opposed to, which include the proposed recommendation that compliant firms provide clients with presentations annually, the requirement to disclose "proprietary assets," and the requirement to disclose, for a year, any material corrections that were made to a presentation. To see so many others agreeing with my position said that I wasn't the only one that found problems here. And while I fully support the GIPS Executive Committee's role and obligation to offer such ideas, I appreciate even more the opportunity to offer opinions.

And now we must sit patiently and await the final document, which will hopefully appear by year end.

CONFUSION CAUSED BY TIME-WEIGHTING

We had a discussion with a software client of ours this month regarding problems they and their clients are finding with reports that show subportfolio returns all above or below the overall portfolio return. Apparently this is occurring with greater frequency today, possibly due to the highly volatile market, coupled with the transfer of money across different asset classes.

The answer to this conundrum is quite simple: you're doing it wrong! Why would you calculate subportfolio returns using time-weighting when the MANAGER controls these cash flows? This runs to the very heart of the logic that brought us time-weighting… to eliminate the effect of cash flows at the portfolio level because the manager doesn't control the flows here. Okay, so what do we do when the manager DOES control the flows? Use money-weighting.

A friend of ours, Stefan Illmer, has created a group on LinkedIn for those, like me, who LOVE moneyweighting: "Friends of MWR and IRR." A few of our colleagues, who will remain nameless, will no doubt not be joining this group, and that's fine. But I'm thrilled that Stefan took the initiative to form it (I wish we had thought of it first) and am hopeful it will spur further interest in what many of us have realized is the better approach, in general.

SPEAKING ABOUT LINKEDIN…

Internal Rate of Return IRR WORKING GROUP

Now that I'm on LinkedIn, Facebook, and have a blog, one of my colleagues asked if Twittering is far behind…it isn't. But, we're definitely becoming more engaged on LinkedIn. We see this as a great way to communicate within the broad performance universe.

We will shortly launch our second group (our first is for members of the Performance Measurement Forum) which will be for members of the IRR Working Group. We are considering other groups, too. If you'd like us to sponsor a group, please let us know. Oh, and feel free to link to me, as my list continues to grow.

We're also pleased with the feedback we're getting for our recently launched blog. Feel free to offer comments on it, too!

STANDARD DEVIATION AND FALLING OFF THE FENCE

In last month's issue I commented how I had "fallen off the fence" and decided that the proposed requirement to GIPS to report annualized standard deviation was a bad idea. One of the members of the EC, Carl Bacon, offered the following in response:

David,

Please find response as requested.

"David I read with interest your views on standard deviation as a risk measure, I'm pleased you've fallen off the fence – that allows me to safely jump on the other side.

Actually, technically standard deviation isn't even a measure of volatility, although I do accept it's in common, even universal use around the world, variability is a better term. Originally volatility referred to systematic risk such as beta or duration, ever wondered why Treynor ratio is called "reward to volatility"?

You can use variability as a measure or risk or uncertainty, but is it a good measure of risk? You should read Eling & Schumacher, Journal of Banking & Finance 2006. They use an extremely wide range of risk measures in the denominator of various risk-adjusted performance measures and conclude in practice they are all highly correlated and actually recommend using the Sharpe ratio (and by implication standard deviation) since it is the easiest to calculate.

Actually, I don't agree with them, I believe the investor should choose the most appropriate measure based on their own preferences.

Based on preference, downside risk might be chosen, but should we ignore risk on the upside because we are naturally less concerned about upside variability? High upside risk might be an indication of high downside risk – I would definitely like to see evidence from the manager that the return series is likely to be asymmetric before dismissing upside risk so quickly.

It's not too difficult to adjust standard deviation for skewness and kurtosis in the return distribution if you want to – i.e. using the adjusted Sharpe ratio.

In the context of comparison annualisation is simply not an issue – remember you are simply multiplying by the same constant – root 12 for monthly for all managers. I agree monthly annualised should not be compared with quarterly or weekly annualised numbers.

Given I believe the investor should choose the most appropriate measure, why do I support the use of standard deviation in GIPS? Well despite the well documented draw-backs, there is still value in standard deviation, its easy to calculate and in common usage. Variability of return is an issue for clients –requiring standard deviation will allow comparison and managers will not be able to hide variability. Self-selection of risk measures is more open to abuse than say self selection of dispersion measures. If there are valid reasons, managers can choose to show a different additional measure and explain why it is appropriate. They can even explain why standard deviation is not appropriate for them – but I still believe they should publish it"

Best regards

Carl

KEEP THOSE CARDS & LETTERS COMING

We appreciate the occasional e-mail we get regarding our newsletter. Occasionally, 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.

WEBINARS

We held a week-long webinar this month on fixed income attribution: the response was phenomenal, which we greatly appreciate. Next month we'll hold a webinar on risk-adjusted performance and the topic for September will be the performance measurement professional. Please let us know of other topics you'd like us to address. To order a copy, please visit our store at www.spgshop.com.

A NEW BOOK ON HEDGE FUND PERFORMANCE

We wanted to make you aware of a recently published book, edited by one of the members of *The Journal of Performance Measurement's* editorial board, John Longo, titled *Hedge Fund Alpha – A Framework for Generating and Understanding Investment Performance*. I *just* received a copy and am looking forward to reading it. If this is a topic that's of interest to you, we encourage you to consider getting a copy. Oh, and congratulations, John!

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

DATE	EVENT	LOCATION
August 24-25, 2009	CIPM – Principles Level Preparatory Training	New Brunswick, NJ (USA)
August 26-28, 2009	CIPM – Expert Level Preparatory Training	New Brunswick, NJ (USA)
September 15-16, 2009	Introduction to Performance Measurement Training	Boston, MA (USA)
September 17-18, 2009	Performance Measurement Attribution Training	Boston, MA (USA)
October 20-21, 2009	Introduction to Performance Measurement Training	San Francisco, CA (USA)
October 22-23, 2009	Performance Measurement Attribution Training	San Francisco, CA (USA)
November 12-13, 2009	Performance Measurement Forum	Rome, Italy
November 19, 2009	Trends in Attribution Symposium (TIA III)	New Brunswick, NJ (USA)
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)

For additional information on any of our 2009 events, please contact Christopher Spaulding at 732-873-5700

Save The Date!

The Journal of Performance Measurement®
Third Annual International

TIA

Trends In Attribution

SYMPOSIUM

November 19, 2009

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

NATIONAL REGISTRY OF CPE SPONSORS

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**

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:

September 15-16, 2009 – Boston, MA

October 20-21, 2009 – San Francisco, CA

December 7-8, 2009 – New Brunswick, NJ

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.

CFA INSTITUTE PROFESSIONAL DEVELOPMENT QUALIFIED ACTIVITY 12 CREDIT HOURS

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:

September 17-18, 2009 – Boston, MA

October 22-23, 2009 – San Francisco, CA

December 9-10, 2009 – New Brunswick, NJ

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.

CFA INSTITUTE PROFESSIONAL DEVELOPMENT QUALIFIED ACTIVITY 12 CREDIT HOURS

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.

The Journal of Performance Measurement®
Third Annual International
TIA
Trends In Attribution
SYMPOSIUM
November 19, 2009

THE JOURNAL OF PERFORMANCE MEASUREMENT'S
THIRD ANNUAL INTERNATIONAL

TRENDS IN ATTRIBUTION SYMPOSIUM

THE HELDRICH HOTEL, NEW BRUNSWICK, NJ
NOVEMBER 19, 2009

Attribution is the ***hottest*** area in performance measurement today

On November 19, 2009 we will hold our Third Annual International Trends in Attribution Symposium (TIA). This is an entire day focused on the important topic of attribution.

We have assembled notable speakers with excellent topics to provide you with the conceptual as well as practical information you require to better address the expanding realm of attribution. This focused event will provide important information that is essential to you and your firm. Attend and you will gain greater insights, discover opportunities and methodologies, and learn of the latest theories about this hugely important topic.

Space is limited, please take advantage of our discounted pricing by calling us today at 732-873-5700, or complete and fax back the back of this form to 732-873-3997 or simply visit us online at www.SpauldingGrp.com.

As an added incentive, we are giving away The Spaulding Series' latest book: *Classics in Investment Performance Measurement* to the first 10 paid registrants.

Early Bird
Discount Rate
Register for TIA III by August 31 and pay
$895*

* Rate increases to only $995 after that!

CONFERENCE SPONSORS

Special Thanks To Our Sponsors...

SS&C

CIPM CERTIFICATE IN INVESTMENT PERFORMANCE MEASUREMENT

DST INTERNATIONAL

EAGLE Investment Systems

RIMES

statpro

WILSHIRE ANALYTICS

AGENDA: THURSDAY, NOVEMBER 19, 2009

7:15 - 8:15 AM **REGISTRATION: CONTINENTAL BREAKFAST**

8:15 - 8:30 AM **WELCOME**
David D. Spaulding, CIPM, The Spaulding Group, Inc.

8:30 - 9:30 AM **RISK ATTRIBUTION FOR PORTFOLIOS WITH STRATEGIC ASSET ALLOCATION**
Philippe Grégoire, Ph.D., Orfival
- *Tactical asset allocation*
- *Diversification and allocation effect*
- *Selection effect*

9:30 - 10:15 AM **PERFORMANCE ATTRIBUTION FOR YIELD CURVE INSENSITIVE DEBT SECTORS**
Timothy P. Ryan, The Hartford Investment Management
- *Introduce the concept of return neutralized weight analysis*
- *Apply this attribution approach to yield curve insensitive debt sectors*
- *Quickly extend this approach to yield-curve sensitive markets*
- *Present, by example, the material and compelling benefits this analysis has over the standard attribution formulas*

10:15 - 11:00 AM **MORNING BREAK**

11:00 - 11:45 AM **FAST ATTRIBUTION**
John D. Simpson, CIPM, The Spaulding Group, Inc.
Timothy R. Ryan, The Hartford Investment Management
Stephen Campisi, CFA, Intuitive Performance Solutions
David D. Spaulding, CIPM, The Spaulding Group, Inc.
- *This innovative panel approach of attribution experts and practitioners will tackle a host of topics in an exciting lightning round, which is sure to provide you with insightful perspectives, ideas and opinions*

FAST ATTRIBUTION

11:45 - 12:45 PM **LUNCH BREAK**

12:45 - 1:45 PM **GLOBAL ATTRIBUTION**
Ed Rackham, Ph.D., Wilshire Analytics
- *Construction of a global multi-factor attribution model*
- *Attribution of portfolio returns using a multi-factor model*
- *Analysis of global portfolio returns*

1:45 - 2:45 PM **FACTOR VS. DECISION BASED ATTRIBUTION**
Stephen Campisi, CFA, Intuitive Performance Solutions
- *Contrasting the two major approaches to attribution*
- *How factors are handled*
- *Why decisions-based may make more sense*

2:45 - 3:15 PM **AFTERNOON BREAK**

3:15 - 4:00 PM **ASSET OWNERS AND ATTRIBUTION: A CASE STUDY**
Greg Stewart, BNY Mellon Asset Servicing
Frances Barney, BNY Mellon Asset Servicing
- *How asset owners use attribution at all levels*
- *Quantify the impacts of fund level versus manager level decisions*
- *How to use attribution as an investment manager monitoring tool*

4:00 - 4:45 PM **BALANCED ATTRIBUTION**
David D. Spaulding, CIPM, The Spaulding Group, Inc.
- *Why is it so hard? (it isn't!)*
- *Understanding what we are truly measuring*
- *Getting the numbers to make sense*

4:45 - 5:00 PM **CONFERENCE WRAP-UP & CONCLUSION**
David D. Spaulding, CIPM, The Spaulding Group, Inc.

EASY REGISTRATION

CALL: 732.873.5700
FAX: 732.873.3997
WEB: www.spauldinggrp.com/tiasymp.htm
MAIL: The Spaulding Group, Inc.
33 Clyde Road, Suite 103
Somerset, NJ 08873-5032, U.S.A.

CONFERENCE COSTS

Register for TIA III by August 31 and pay $895 – Rate increases to only $995 after that!
(If you have more than three attendees, please call 732.873.5700 for special group pricing.)

Total: ________ attendees at a cost of: $_______________

COMPANY DETAILS

Company ____________________ Phone: ____________________

Address: ____________________ Fax: ____________________

City: ____________________ State/Province: ____________ Zip: ____________________

ATTENDEE DETAILS

Name: ____________________ Title: ____________ Email: ____________________

Name: ____________________ Title: ____________ Email: ____________________

Name: ____________________ Title: ____________ Email: ____________________

PAYMENT INFORMATION

Please charge my credit card: ☐ Visa ☐ Master Card ☐ American Express

Card Number: ____________________ Expiration Date: ____________

Cardholder's Name: ____________________

Card Billing Address: ____________________

Cardholder's Phone Number: ____________________

Cardholder's Signature: ____________________

MONEY BACK GUARANTEE

Any attendee who is not satisfied with the conference at the end of the day, will receive a full refund.

TERMS & CONDITIONS

Conference Fee: Includes all sessions, lunch and documentation.

Cancellations: Cancellations received in writing before November 1, 2009 will be subject to a service charge of $159.00. After this date, the full conference fee will be charged and no refunds given.

It may be necessary for reasons beyond the control of the organization to alter the content and timing of the program or the identity of the speakers. This contract is subject to United States Law.

Are you registered? You will always receive an acknowledgement of your registration. If you do not receive a confirmation, please call 732.873.5700 to ensure that we have received your registration.

HOTEL RESERVATIONS
You are responsible for making any necessary hotel reservations. If you need a hotel room, contact:

The Heldrich Hotel
10 Livingston Avenue
New Brunswick, NJ 08901
732.729.4670 – Reservation ID: 83924