

# PERFORMANCE PERSPECTIVES

with David Spaulding



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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)

## WHAT HAPPENED TO APRIL?

Oh, darn...slipped behind a bit. And so, rather than having a late April we are just having a May. This skipping of a month will help me get *back on track*.

## NON-GIPS VERIFICATIONS...AN OPTION, FOR MANY!

Not all managers claim compliance with the Global Investment Performance Standards (GIPS®). There can be several reasons for this. Perhaps they don't believe it will help them. Perhaps they feel they can't justify the cost. Perhaps they're not able to, for countless reasons (missing records, unable to properly "carve out" a proper "firm definition," it's a single manager within a large enterprise).



However, in this post-Madoff era, many investors want some degree of comfort that the reported returns have some validity.

In a *Wall Street Journal* piece titled "Financial Advisers: Show Us Your Numbers,"<sup>1</sup> Jason Zweig wrote "While some financial advisers who cater to individual investors are willing to calculate and report their own average historical returns, the vast majority still don't—and probably won't until investors smarten up and start demanding it."

And even if you are showing your returns, do they carry the same weight they would had they been independently reviewed? I think not.

Thus, our proprietary "non-GIPS verification" services.

With this service, we are not obligated to follow the prescribed rules of GIPS. It therefore provides us, and our clients, with a great deal of flexibility. For example,

- Perhaps you manage 10 or more strategies, but only want a few to be reviewed: we can do that.
- Or, you don't have a composite, but would like your "representative portfolio" reviewed: not a problem.
- Or, you do have a composite, but it doesn't align with GIPS' rules (e.g., instead of using asset-weighted returns, you use equal-weighted<sup>2</sup>): we can verify this.
- Or, you'd like your model reviewed: we do these.
- Or, you have back-tested results: we've verified these, too!

We can tailor the verification to meet your requirements.

<http://www.SpauldingGrp.com>

<sup>1</sup> July 11, 2014.

<sup>2</sup> Which I personally prefer, and believe are superior to asset-weighted.

# The Journal of Performance Measurement®

## UPCOMING ARTICLES

**Fair and Transparent  
Performance Fee – Part Two**  
– *Steinar Eikeland*

**Puzzles in Risk and  
Performance: Part 3**  
– *Marcus Hedbring*

**The Journal Interview**  
– *Karyn Vincent*

**Annual Risk Measures  
and Related Statistics**  
– *Arno E. Weber*

**Performance Attribution  
for Passive Strategies**  
– *Dax Johnson*

**The Case Against Time-  
Weighted Return for  
Alternative Investments**  
– *Timothy F. Peterson*

But, we won't do something if we believe it's improper. For example, a client calculated their returns annually (not by linking monthly returns, but by doing Modified Dietz on an annual basis): we said we couldn't, as this would, in a sense, *endorse* their clearly non-standard method. They understood, and recalculated their returns for us.

We conduct these for several of our clients. One of our larger clients has us review their strategies quarterly, but most of the rest are annual.

If a non-GIPS verification sounds like something you'd be interested in, please check out our website (<http://www.spauldinggrp.com/non-gips/>) or contact Patrick Fowler (732-873-5700; [PFowler@SpauldingGrp.com](mailto:PFowler@SpauldingGrp.com)).

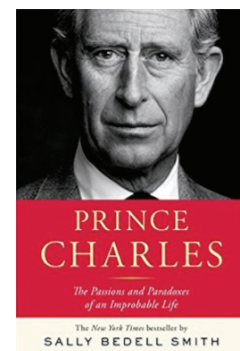
## BOOK REVIEW: PRINCE CHARLES

My older brother was born less than a week after the UK's Prince Charles. Perhaps that's a reason for some degree of interest on my part of this notable character. He's lived quite a difficult life, in my view, though obviously the entire time surrounded by wealth, servants, and the accouterments that go along with such a lofty position.

When I learned of this recent biography, I immediately ordered it and began reading shortly after it arrived. I have to say that Charles is fascinating. Speaking candidly, I've come to loath his father as a result of what I've learned. My views on both of his wives have been altered a bit. And, my thoughts on the Queen have also been adjusted.

He is 68 years old (will be 69 in November), and has been waiting to become king his entire adult life. And while his "mum" is the longest serving monarch, Charles's reign will undoubtedly be one of the shorter.

The bio is excellent: quite a bit of interesting detail, provided in an excellent fashion. I highly recommend it, whether you're an Anglophile or Anglophobe. Because of my many trips to London, I've become more of the former over the past 20 years, which only added more interest on my part.



## GIPS COMPLIANT? WHAT DO YOU SHOW FOR NEW STRATEGIES?

A client recently posed the following: "New clients need to receive a GIPS-compliant presentation. But a new composite does not have any returns. So, do new clients for a new composite need to receive a GIPS-compliant presentation?"

I'm sure this has been asked before, though I don't recall if it had been to me prior to this occasion. I will share with you my answer.



Technically, “no,” since you don’t have a presentation. You’re introducing a SMID cap strategy, and previously only had small and mid cap: what do you show? You have no investors, yet!

Okay, so let’s go a bit further.

In the section titled “New Investment Strategy,” page 9, of the recent draft of the proposed revised guidance statement on Supplemental Information<sup>3</sup> there’s a suggestion that presentations cannot be prepared. I responded<sup>4</sup> suggesting that there should be no prohibition. I see nothing wrong with having a “skeleton” of the full presentation.

Why not provide some of the required disclosures that apply from section I.4 of the Standards? E.g.,

- firm definition
- composite description
- benchmark description
- the fee schedule.

You can obviously indicate that at the present time you have no returns, because you have no accounts in the strategy. But, you don’t have to stop there!

You could create “hypothetical” performance (e.g., in this case, combining your small and mid cap performance), with the appropriate disclosures. Further, you could provide the performance of your model (if you have one) or back-tested results (again, if you have it). You want to make sure that you include disclosures that are crystal clear that these are not returns from actual accounts in the strategy. Further, you’ll want to indicate if their gross- or net-of-fee, or if they’re even net of transaction costs (actual or hypothetical). Such information would need to be marked as “supplemental information.”

If the strategy is related to one or more of your other strategies, why not provide these presentations? In the case we’re dealing with here, I’d provide the small and mid-cap presentations.

Is this perfect? No, but given the limitations, it at least provides the prospect with some information that they will probably find helpful. Just make sure that everything is clearly explained, so that you can’t be accused of misleading them.

### **GIPS 20/20 CONSULTATION PAPER RELEASED**

For the fourth edition of the Global Investment Performance Standards, the GIPS Executive Committee is doing something a bit different: floating a “consultation paper,” so that their initial thoughts can get a “quick read” from the public. We have only two months to review and comment. Please visit [https://www.gipsstandards.org/standards/Documents/Guidance/gips\\_2020\\_consultation\\_paper.pdf](https://www.gipsstandards.org/standards/Documents/Guidance/gips_2020_consultation_paper.pdf) to see the document. And please let them know your thoughts. There are several questions that they’ve posed. Remember: you can always comment anonymously if you need to. Our comments will be posted shortly, in case you’re interested in our thoughts.

<sup>3</sup> [https://www.gipsstandards.org/standards/Documents/Guidance/exposure\\_draft\\_public\\_comment\\_revised\\_suppl\\_info.pdf](https://www.gipsstandards.org/standards/Documents/Guidance/exposure_draft_public_comment_revised_suppl_info.pdf)

<sup>4</sup> [https://www.gipsstandards.org/standards/Documents/Guidance/suppl\\_info\\_spaulding.pdf](https://www.gipsstandards.org/standards/Documents/Guidance/suppl_info_spaulding.pdf)

## 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

For March you were given the following:

✍. If  $3x - 2 = 7$ , then  $4x =$

(A) 3

(B) 5

(C)  $\frac{20}{3}$

(D) 9

(E) 12

$$3x - 2 = 7$$

$$3x = 7 + 2$$

$$3x = 9$$

$$x = 9 / 3$$

$$x = 3$$

Algebra, right? And so, what's the answer?

Note that the first answer given ("A") gives us this solution, so we might be tempted to give this as our answer, but that would be incorrect, since we're asked what  $4x$  equals. And so, we need to multiply 3 by 4, which of course yields 12, which is (E).

For some readers, it has probably been awhile since you've done algebra. I can't recall the last time I did, but recall that I learned it (Algebra 1) in 9th grade, which was a few decades ago.

Several readers responded correctly:

Debi Deyo Rossi

Neil Riddles

Matthew Rayner

Daniel Kempf

Hans Braker

Anthony Howland.

### May Puzzle

I thought you might like this one, which comes from the "I Love Mathematics" page on Facebook: Something must be dreadfully wrong, right? Please find the mistake(s)!!!

$$\begin{aligned} & -20 = -20 \\ & 16 - 36 = 25 - 45 \\ & (2+2)^2 - (2+2) \times 9 = 5^2 - 5 \times 9 \\ & (2+2)^2 - 2 \times (2+2) \times \frac{9}{2} = 5^2 - 2 \times 5 \times \frac{9}{2} \\ & (2+2)^2 - 2 \times (2+2) \times \frac{9}{2} + \left(\frac{9}{2}\right)^2 = 5^2 - 2 \times 5 \times \frac{9}{2} + \left(\frac{9}{2}\right)^2 \\ & \left(2+2-\frac{9}{2}\right)^2 = \left(5-\frac{9}{2}\right)^2 \\ & 2+2-\frac{9}{2} = 5-\frac{9}{2} \\ & 2+2 = 5 \end{aligned}$$

**THE SPAULDING GROUP'S 2017  
INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS**

DATE	EVENT	LOCATION
June 14-15, 2017	PMAR Europe	London, England
June 22-23, 2017	Performance Measurement Forum	Vienna, Austria
July 17-21, 2017	Performance Measurement Boot Camp	New Brunswick, NJ
August 7-11, 2017	Performance Measurement Boot Camp	London, England
August 15-16, 2017	Fundamentals of Performance Measurement	Toronto, Ontario
August 17-18, 2017	Performance Measurement Attribution	Toronto, Ontario
September 2017	Basic Risk Measures Webcast	
October 16-17, 2017	Fundamentals of Performance Measurement	Los Angeles, CA
October 18, 2017	PMAR West Coast	Los Angeles, CA
October 19-20, 2017	Performance Measurement Attribution	Los Angeles, CA
November 2-3, 2017	Performance Measurement Forum	Rome, Italy
November 14, 2017	Asset Owner Roundtable	Orlando, FL
November 15-16, 2017	Performance Measurement Forum	Orlando, FL
December 2017	Performance Measurement for Non-Performance Professionals Webcast	
December 11-12, 2017	Fundamentals of Performance Measurement	New Brunswick, NJ
December 13-14, 2017	Performance Measurement Attribution	New Brunswick, NJ

*For additional information on any of our 2017 events, please contact Christopher Spaulding at 732-873-5700*

# Join the WIZARDS of PERFORMANCE MEASUREMENT



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America Square Conference Centre  
London, England



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To register simply give us a call  
(732-873-5700) or go to our website, [www.spauldinggrp.com/conferences/](http://www.spauldinggrp.com/conferences/)

## TRAINING...

### *Gain the Critical Knowledge Needed for Performance Measurement and Performance Attribution*

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**[www.nasba.org](http://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:

August 15-16, 2017 – Toronto, Ontario

October 16-17, 2017 – Los Angeles, CA

December 11-12, 2017 – 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:

August 17-18, 2017 – Toronto, Ontario

October 19-20, 2017 – Los Angeles, CA

December 13-14, 2017 – 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.