

# 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)

## NEW GIPS GUIDANCE STATEMENT!

It's been awhile since we've seen a new GIPS® Guidance Statement, but one was recently introduced for "pooled funds." I'll confess that based on what was discussed at the Annual GIPS conference a couple years ago, I expected it to be much unwelcome. And, I'm sure it's a relief to many who were a bit overwhelmed by what was hinted (actually, a bit more than "hinted") at during that session. It's much tamer than we were led to believe: I guess *cooler heads prevailed!*



Although I thought the rules were pretty clear regarding mutual funds, apparently there was confusion and differences of opinion, so this GS is a welcome addition. I'd characterize it more of a "broad investment market" guidance statement, than merely a GIPS GS.

It clarifies the question whether a firm is obligated to provide a compliant presentation to all mutual fund clients: **they aren't!**

While the GS suggests that "best practice" would be to include the compliant presentation along with the marketing material, it's only a recommendation.

I will be shortly sending my comments in, and you're welcome (make that, encouraged) to do so, as well, especially if your firm has mutual funds in its firm definition.

The "exposure draft" can be found here:

[http://www.gipsstandards.org/standards/Documents/Guidance/exposure\\_draft\\_public\\_comment\\_pooled\\_funds\\_gs.pdf](http://www.gipsstandards.org/standards/Documents/Guidance/exposure_draft_public_comment_pooled_funds_gs.pdf)

or, if you prefer a shortened version, here: <http://tinyurl.com/zdn7qwm>.

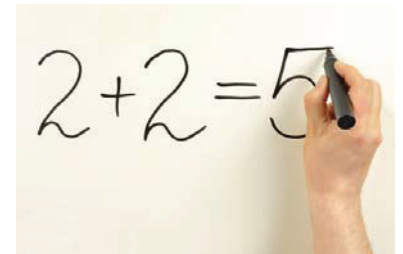
You have until April 29 to comment. The draft looks longer than it actually is, as it includes exhibits.

## PERFORMANCE MEASUREMENT... NOT EVERYONE DOES GET IT RIGHT

Over the last few weeks I've encountered a few cases where firms are not calculating performance correctly.

I found one firm that used trade dates rather than calendar dates to annualize rates of return.

Another totally botched how they accrue for equity income.



<http://www.SpauldingGrp.com>

# 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

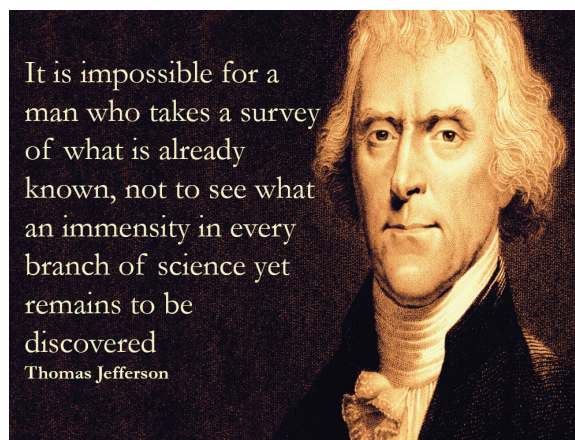
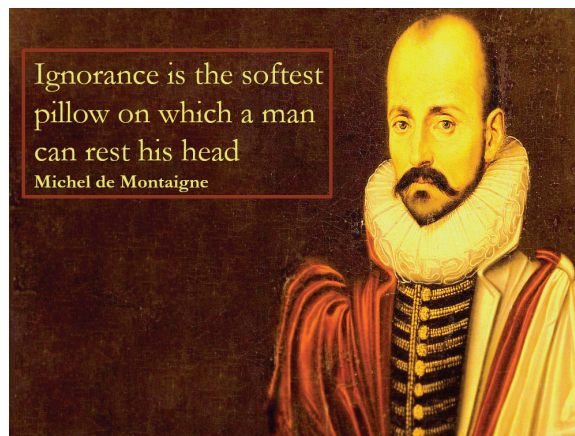
And a third provides flexibility in their system which results in their clients violating both SEC and GIPS® rules.

One case involved a “non-GIPS” verification. This firm had previously been successfully verified by another firm, multiple times. I found that their returns were in error, arguably seriously in error. Why the prior firm didn’t discover this is unknown to me. You can imagine the frustration for our client, who fully expected me to “pass” them, given their prior history, and that they were using the same system as had previously been used. But no, I couldn’t, knowing that (a) their methodology was flawed and (b) that their returns were, too.

## THE DYNAMICS OF INVESTMENT PERFORMANCE AND RISK MEASUREMENT

In November I gave three talks on the same topic, performance and risk measurement from a generational perspective. The idea of viewing our industry generationally was originated, as far as I can tell, by Ian Thompson, PhD, of Statpro. I immediately saw great value in this concept, and decided to build a talk around it. The talk grew into a workshop.

While reading Jon Meacham’s wonderful biography of America’s third President and author of the Declaration of Independence, Thomas Jefferson (*Thomas Jefferson – The Art of Power*), I came across two quotes which I incorporated into the session I did at the annual iPARM conference in Sydney:



If you’re interested in the slides from the presentation, just send me a note.

## PUZZLE TIME

### November/December Puzzle

One of the things that contributed to the delay in publishing this issue is my desire to solve this puzzle, which I found to be extremely challenging. I spent several hours at it.



I also noticed that I mis-worded it slightly. I found it on the Internet,<sup>1</sup> and altered the companies and positions slightly, so that they'd be more appropriate to our industry. I had meant the "IT Analyst" to be a "Performance Analyst," and failed to correct the name of one of the companies (instead of calling it Chipper Asset Management I referred to it as Chiptech, but that was probably not something that should have proved a problem. I've reworded it to be as I intended.

*This puzzle involves five investment professionals represented different firms who attended PMAR. Unfortunately, the hotel they were all due to stay in had 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 Performance 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.*
6. *Edgar's surname is either Carson or Graves. Edgar did not share with Carl.*
7. *The man from Chipper shared with the guy from Lantel Funds Management.*
8. *The CCO shared with the Performance 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, Performance Analyst.

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



## 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.*

I find that with puzzles like this, figuring out how to set it up is a great start. There are essentially five variables we're dealing with:

- Rooms (one that held two people, and one that held three)
- First names
- Last names
- Companies
- Positions.

While it would be nice to have a five-dimensional graphic we could employ, I know of none, so was forced to work with just two dimensions. After spending hours at it, I solved it, only to discover that my solution was flawed. This caused me to compose the following amazingly short poem, aptly titled, The Puzzle:

*Oh, where, oh where, did I err.*

I suspect that my days as a poet won't last very long; hopefully I'll recover from my puzzle failure.

Not having the time to spend to research the point where I veered off course, I decided to call a halt to my own search and simply provide the solution, which fortunately is provided by the only person who submitted a response: our friend, Anthony Howland.

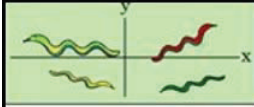


Alan	Clarkson	Ocean	Risk
Carl	Graves	AB	Perf Anal
Edgar	Carson	Chipper	Global Head
Joshua	Harris	Reed	CCO
Thomas	Fielder	Lantel	IT Prof

Anthony did as the puzzle creator suggests: begin by dividing the folks by room. I actually started that way, myself, but then changed direction. Perhaps had I remained with that strategy, success would have come. If you'd like to delve into the puzzle a bit further, you can find it here: <https://www.brainbashers.com/showpuzzles.asp?page=5>.

But let's now move to this month's puzzle:

### January/February Puzzle

The following graphics each represent a movie title; try to figure out as many as you can.

	$P(\text{Monday} \cap \text{Tuesday}) = P(\text{Monday})P(\text{Tuesday})$
$\frac{1}{n} \sum_{i=1}^n i$ 	
12.874752 km	$\begin{bmatrix} \cos \theta & -\sin \theta \\ \sin \theta & \cos \theta \end{bmatrix}$
$D = \{d : d \text{ is a dream}\}$ <small>D HAS TWO OPERATIONS, NAMELY ADDITION AND MULTIPLICATION, SATISFYING THE CONDITIONS THAT MULTIPLICATION IS DISTRIBUTIVE OVER ADDITION, THAT THE SET IS A GROUP UNDER ADDITION, AND THAT THE ELEMENTS WITH THE EXCEPTION OF THE ADDITIVE IDENTITY FORM A GROUP UNDER MULTIPLICATION.</small>	$\alpha \wedge \omega$
[13]	$F = \{x : x \text{ is a fear}\}$ $\sum_{x \in F} x$

**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 13	Asset Owner Roundtable Meeting	San Francisco, CA (USA)
April 14-15	Performance Measurement Forum	San Francisco, CA (USA)
April 21-22	Performance Measurement Forum	Hong Kong (APAC)
April 26-27	Fundamentals of Performance Measurement	Toronto, ON Canada
April 28-29	Performance Measurement Attribution	Toronto, ON Canada
May 17-18	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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## TRAINING...

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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.

**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.**

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