

# 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)

## TO PARAPHRASE MARK TWAIN, THE REPORTS OF *PERFORMANCE PERSPECTIVES'* DEATH HAVE BEEN GREATLY EXAGGERATED

We have heard from many folks saying they would miss our online newsletter, now that we are introducing one dedicated for our clients. Perish the thought. Our 10-year old newsletter is now 10 years and one month old, and getting older by the month! We included the following in last month's issue:

### A NEW NEWSLETTER IS COMING!

And now that we've concluded 10 years of publishing this newsletter, we're introducing a new one!

**The Performance Professional's Insider Circle Newsletter** will be introduced next month. **Performance Perspectives will continue**, and most of its content will be incorporated into our new newsletter. What makes the new newsletter different are:

but apparently weren't clear enough; sorry for the confusion.

## UAPS IS MOVING FORWARD

We recently announced that the Universal Advisor Performance Standards (UAPS) draft is now available for public comment. It can be accessed at [www.UAPStandards.org](http://www.UAPStandards.org). We greatly appreciate the help that Brightscope and our board have provided over the past several months. I want to especially acknowledge Larry Campbell, Trevor Davies, Joe Klimas, Carlos Leute, and John Scully, who were especially active members of the committee.

Please let us know your thoughts. We've gotten some very nice press, but that's really not the point of this exercise; rather, it's to develop a standard to meet the needs of those firms and individuals who aren't able to comply with the Global Investment Performance Standards (GIPS®). We have seen a lot of interest in this effort and hope to have a final version posted soon.

## GIPS & POOLED FUNDS: PLEASE THINK SIMPLICITY

You don't have to be in the U.S. Army (or probably any military branch) very long before you hear the admonition, KISS, uttered. This month's puzzle deals with acronyms, and this, in fact, is an often used one.

<http://www.SpauldingGrp.com>

# The Journal of Performance Measurement®

## UPCOMING ARTICLES

### Fixed Income Attribution: The Constant Quest to Explain Residuals

– Bai Gu

### Effective Return of Portfolio Positions

– Peter Todd

### Mathematics Behind Multi- Level Attribution Keeping Apples and Oranges Separate

– Dmitry Cherkasov

### A Modification of the Modified Dietz Approach

– PA Cucurachi, V. Pomante

### The Journal Interview

– Joseph McDonagh, CFA

No, it's not the rock band; it stands for Keep It Simple, Stupid.<sup>1</sup> Perhaps this advice should be followed universally.

Keeping things simple should be something we all strive for; sadly, there are some who go out of their way to make things complicated (or at least sound complicated). I have been reading Nobel laureate in physics Leon Lederman's best seller, *The God Particle*. In it he speaks of his (and many others', including Greek philosophers such as Democritus and Thales)) desire for simplicity.

Unfortunately, not everyone thinks in these terms.

My wife and I recently leased a new Lexus SUV, that came with a built-in navigation system. I'll confess some hesitation here, as we have several portable GPSes, and the expense seems unjustifiable, but we got a model with one, nevertheless. Perhaps had I had the chance to actually use it I would have thought otherwise. But putting that aside, let us for a moment consider its manual. It numbers 452 pages; not because it is provided in multiple languages (it's all in English). Imagine, 452 pages to talk about a navigation device; it's as if the U.S. Congress wrote it!



My wife recently purchased a new curling iron. After she got it home, she decided against keeping it. And why, you may ask? Because it was simply (pun intended) too complicated. It did much more than she would ever have wanted, with way too many features, so she opted to return it and find something more to her liking.

### **Pooled fund guidance is on its way**

It appears that there is a move afoot to, in my view, further enhance the complexity of the GIPS standards, at least relative to pooled funds. At the annual GIPS conference in Boston, we heard from Annie Lo and Ann Putallaz, about an initiative to provide a guidance statement on this very subject. They did a great job explaining what's going on; it was just not news many (most?) of us wanted to hear.

We were told that many individuals in our industry have asked for guidance regarding pooled funds. Over the years, I, as I imagine most verifiers, have been asked for such guidance; and, I have reason to believe that we have probably been pretty consistent in our responses. A pooled fund is the account that we are concerned with for GIPS purposes, not the individual shareholders; that's pretty simple. It is not that we don't care about these folks; but rather, for GIPS purposes the manager is selling themselves to be the owner or provider of the pooled product; once that is done, we allow the individual product's materials (e.g., mutual fund prospectus) take care of providing the prospective shareholder with the information they require to make the decision whether to invest or not.

<sup>1</sup> I recall hearing a "one-star" (aka, a Brigadier General) once read it as "keep it simple, son." Perhaps he was trying to be kind and non-offensive, but this was the only time in my military career (and life, for that matter) that I heard it uttered this way. I also want to make it PERFECTLY CLEAR that by no means am I using this term to suggest that anyone involved with the Standards is stupid; that would be incorrect, inappropriate, invalid, and offensive. I am merely using it, along with the rest of this introduction, to serve as the basis for the suggestion that simplicity is a good thing and a worthy goal.

# ATTRIBUTION *Week*

NOVEMBER 11-15, 2013  
an online  
 conference event

*“The Spaulding Group’s webinars are a cost effective way to train and keep my staff up to date on topics related to performance measurement, attribution, risk and GIPS. The online convenience allows us to train all of our staff without the hassle and expense of travel. It also provides us with an opportunity to get together and ask questions from industry experts that we would not otherwise have access to.”*

– Cinda Whitten

*Director of Investment Operations  
 at Principal Global Investors*

**November 11, 2013 - 11:00 AM (EST)**

## **Fundamentals of Performance Attribution**

*Stephen Campisi, CFA, US Trust*

- Learn the Fundamentals of Performance Attribution
- Learn how and why they are important to the overall investment story
- Learn how to begin to translate the story

**November 12, 2013 - 11:00 AM (EST)**

## **Factor Attribution for Fixed Income**

*Mary Cait McCarthy, Credit Suisse*

**November 13, 2013 - 12:00 Noon (EST)**

## **Multi-currency Attribution**

*John D. Simpson, CIPM,  
 The Spaulding Group*

**November 14, 2013 - 12:00 Noon (EST)**

## **Multi-Factor Attribution**

*Jose Menchero, Ph.D., CFA, MSCI*

**November 15, 2013 - 11:00 AM (EST)**

## **Transaction vs Holdings Based Attribution**

*Dave Spaulding, CIPM  
 The Spaulding Group*

What we learned really scared me.<sup>2</sup> It is being suggested that managers must provide composite presentations to these shareholder prospects.

A simple response: why?

Further: what is to be gained from this?

And further still: what justification can be given for the added complexity, inconvenience, and cost that will result?

Imagine for a moment the degree of complexity this will bring about. By giving presentations to these prospects, you open yourself to inquiries into your “list of composite descriptions” and many of your policies, by folks who should care less and, in many (most) cases wouldn’t qualify for these investments, any way. If we’re doing this to educate them on GIPS, a simple question is gnawing at me: WHY? Aren’t there more important things to educate them about (such as time- versus money-weighting, or more basically, why returns matter)? Is it to promote GIPS even more than we already have?

Some of these complexities were acknowledged, which seem to result in the possibility of variations to compliant statements. In addition, not ALL managers of pooled funds would have to do this; under some circumstances (e.g., who the distributor is) they’d be exempt.

I asked if the number of accounts reported in the presentation would reflect the number of shareholders; the response was “no,” since the FUND is the account. EXACTLY! The FUND is the account. So, why are we treating the individual shareholders as individual accounts for GIPS purposes? Isn’t this a contradiction?

Talk about turning something quite simple (the fund equals the account) to something extremely complex (so do the shareholders, but not all the time).

Many folks came up to me following this presentation seeking my ideas; no one, I mean NO ONE, felt this was a good idea (this included managers and other verifiers). A couple folks offered the following criterion to be used to define a prospect/client: someone who can FIRE a manager. Excellent! Yes! A shareholder cannot FIRE a manager. They can take their money and leave, but the manager will remain.

Let us please recall that the Standards are NOT to be overly prescriptive; that some interpretation is permitted. And while we may not all agree on the interpretations, there needs to be a limit to putting some folk’s view above that of others.

Let us hope that this idea never gets into print; and, if it does, that the industry will, in unison, say “no!”

<sup>2</sup> I even blogged about the fear it provided!  
<http://investmentperformanceguy.blogspot.com/2013/09/scary-stuff-and-it-isnt-even-halloween.html>

## KEEP THOSE CARDS & LETTERS COMING

*We appreciate the e-mails 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.*

## MONTHLY PUZZLE

### July Puzzle

Oops! We failed to include the following folks who got the puzzle correct:

- Larry Campbell – USA
- Debi Rossi – USA
- David Plantamura – USA

Here's what we posted for last month:

### **August Puzzle**

I think you'll find this a bit more challenging. There is a single elimination tennis tournament (i.e., if you lose, you're out). We have two questions for you to consider:

- If there are 255 matches, how many players participated?
- How many matches will be played if 56 players participate?

I'll tell you how I solved the first problem. While this may be a bit of "cheating," as well as some serious assumptions on my part, it seemed to work okay.

I simply constructed a few small matches, to see if there was a relationship between the numbers. For example, if we have four matches, which reduce to two, and then to one, we have a total of seven matches. And, we can easily see that we began with eight players. Therefore, 255 matches would mean 256 participants.

Thus, we have an "n-1" situation: n participants result in n-1 matches. Therefore, we can conclude that with 56 players we'll have 55 matches.

I did this up to a few levels to confirm that the relationship held.

Another way to think about this is that all players must lose, except one player. And so, if there are 255 matches, there must be 255 losers and only one winner, meaning 256 in total players.

We had several readers who got the correct answer; and, we should recognize the firm with the highest number of participants: BNY/Mellon! Thanks for joining in.

This month I'm also recognizing three participants who gave details behind their solutions:

Adam Morin	Canada
Robert Verity	USA
Anthony Howland	UK
Andrew Peakman	Switzerland
Ian Searle	UK
David Plantamura	USA
Tom Stapleton	UK
Neil Riddles	USA
Gerard van Breukelen	USA
Randy Young	USA
David Bach	USA
Nitin Sinha	USA
Chetan Thakar	USA
Tanpreet Singh	USA
Chaitanya Panchamukhi	USA
Jean Dziedzinski	USA
Vishal Patil	USA

Andrew Peakman gave a great response as to how he determined the solution:

- *If there are 255 matches, the number of players is 256 (one loser of each of the 255 matches, plus the winner of the tournament)*
- *If 56 players participate, then 55 matches will be played (one player eliminated in each match, leaving the winner)*

A very logical way to determine the solution.

Great job!

And Randy Young's answer deserves to be shown, too!

*For the August Puzzle, the trick is realizing that every match has one loser, and every entrant will lose exactly once (except the overall winner). So, if there are 255 matches, there are 255 unique losers and one overall victor -- thus, the answer is 256 players participated.*

*If 56 players participate, the answer is 55 matches will be played to determine the 55 unique losers and the one overall victor.*

Very reasonable approach.

### **September puzzle**

This month's puzzle is VERY different than ones we've done in the past, and it was the result of something I read in Leon Lederman's *The God Particle*, a book I STRONGLY recommend. In it he relates a conversation he had with the famous physicist Enrico Fermi: "Once, at a conference, I found myself on the lunch line next to Fermi. Awed to be in the presence of the great man, I asked him what his opinion was of the evidence we had just listened to, for a particle named K-zero-two. He stared at me for awhile, then said, 'Young man, if I could remember the names of those particles I would have been a botanist.'"

Okay, so what do I have in store for you? I'd like you to tell me what the following acronyms are; that is, what words the letters represent. But, no cheating! You have to answer without the aid of any research (that would be WAY too easy):

1. GIPS (yes, we start off with an easy one)
2. AIMR-PPS
3. CIPM
4. GRAP
5. VWAP
6. TWRR
7. MWRR
8. IMCA
9. ICAA
10. MAR

Now, if you want to be REALLY adventuresome (and for extra credit), try these:

1. COBOL
2. FORTRAN
3. PL/1
4. APL
5. BASIC

I'll admit that my own fascination with acronyms and abbreviations stems from my brief time in the U.S. Army: the military loves them. The often used SNAFU and FUBAR are, I believe, credited to the military. I was in the field artillery, and the artillery school goes by the abbreviation USAFAS (United States Army Field Artillery School). I was stationed in Hawaii, which fell under CINCPAC (Commander in charge of the Pacific). Many weapons begin with the letter "M" (as in M-16); what does the "M" stand for? How about the "D" in "D Day"? Or, for that matter, the "H" in "H Hour"? Again, "extra credit!"

The army prefers acronyms, and tries to make the letters soundable, which is different than what I believe the CFA Institute's wishes are: as I understand it (and I could be wrong), they prefer that one NOT make words out of the letters. And so, to refer to the CFA Institute as "see-fah-eye" wouldn't, I believe, be appreciated. I guess sounding out "gips" is okay (though some pronounce it "jips."

Please send your responses to me (DSpaulding@SpauldingGrp.com). Thanks!



**Venue:** Grace Hotel Sydney

**Host:** International Business Review Conferences -IBR Conferences

**18-20 November 2013**

Description of event

**iPARM Australia - Investment Performance Measurement, Attribution & Risk Management**

2013 Forum in Sydney will have leading experts sharing up-to-date, cutting edge ideas and insight on frontiers of recent developments in performance measurement, attribution & risk management.

**Download the PDF brochure for iPARM Australia 2013 – [Click here](#)**

## Todd Brunskill,

### **Bio:**

Todd Brunskill has been with First Rate since July of 2000 and in the investment services industry since 1985. He is responsible for directing marketing efforts and determining strategic partnerships for First Rate. He also identifies new business opportunities and takes part in the direction of new solutions.

With a diverse background of expertise in the performance industry, his experience includes serving as vice president of performance measurement and consulting services at NationsBank (now Bank of America). Brunskill was also a vice president at Wilshire, where he directed many projects including the monitoring of daily performance capabilities for domestic and multi-currency portfolios. He also managed the Trust Universe Comparison Services at Wilshire

He also built extensive client relationships during his career gained a wealth of knowledge in providing solutions to clients. Before joining First Rate, Brunskill also served as an investment officer, managing the investment strategy for several funds for the Annuity Board of the Southern Baptist Convention.

He has been married to his wife Pam for almost 30 years and has 3 children. Todd graduated from Hardin Simmons University in 1984 where he received a Bachelor's degree in business administration with a focus in finance. A former professional soccer player, Brunskill is active in competitive soccer and is also serves as the director of coaching for a competitive youth soccer club in the Dallas area.



## CLIENT'S CORNER

### *1. How long have you been involved in performance?*

I have been involved with performance measurement and portfolio analysis for over 22 years and in the financial services sector for 29 years. I have served as a performance manager, investment advisor, fund manager, institutional consultant and performance vendor. I truly love this business.

### *2. What do you enjoy most about it?*

I enjoy assisting investment financial professionals and their clients to be able to understand how their investment process is performing and communicating the success of their wealth management experience. I really love to lean how advisors create value for their clients and helping them create ways to communicate their value through performance reporting that enables them to grow their business and give their clients peace of mind regarding their wealth experience.

### *3. What role does The Spaulding Group play at your firm?*

At First Rate we have enjoyed our relationship with The Spaulding Group for over 15 years. The benefits of participating in the Forum, attending and sponsoring the PMAR events, sponsoring Spaulding Group surveys and *The Journal* as well as some consulting engagements have been a part of our firm staying on top of the trends of our industry and growing our business.

We have also been pleased to have David and John as guest speakers at our annual First Rate performance conference over the years.

The biggest role TSG has played is the great friendships and long lasting relationships we have been able to make throughout our industry. We truly appreciate the role TSG has played in our journey at First Rate and the performance industry. Thank you TSG.

## THE SPAULDING GROUP'S 2013 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
October 22-23, 2013	Fundamentals of Performance Measurement Training	Chicago, IL (USA)
October 24-25, 2013	Performance Measurement Attribution Training	Chicago, IL (USA)
November 7-8, 2013	Performance Measurement Forum	Lisbon, Portugal
November 11-15, 2013	Attribution Week	Online
November 19-20, 2013	Fundamentals of Performance Measurement Training	Boston, MA (USA)
November 21-22, 2013	Performance Measurement Attribution Training	Boston, MA (USA)
December 5-6, 2013	Performance Measurement Forum	Orlando, FL (USA)
December 10-11, 2013	Fundamentals of Performance Measurement Training	New Brunswick, NJ (USA)
December 12-13, 2013	Performance Measurement Attribution Training	New Brunswick, NJ (USA)

*For additional information on any of our 2013 events, please contact Christopher Spaulding at 732-873-5700*

*The Journal of Performance Measurement* has begun a series on performance measurement professionals, and we need your help to identify the folks we should include. We focus on one or two people in each issue, with the list driven by input from other PMPs.

And so, please contact our editor, [Doug Spaulding](mailto:doug.spaulding@spauldinggroup.com) (732-873-5700) with your suggestions.

## 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 22-23, 2013 – Chicago, IL

November 19-20, 2013 – Boston, MA

December 10-11, 2013 – 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 24-25, 2013 – Chicago, IL

November 21-22, 2013 – Boston, MA

December 12-13, 2013 – 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.

#### Benefits of Flash Cards:

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

