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

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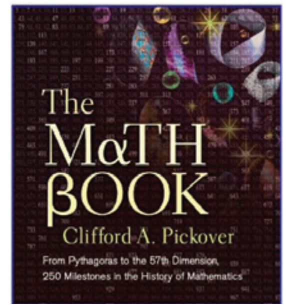
http://www.SpauldingGrp.com

BOOK REVIEW



I love math, and at times regret having not pursued an advanced degree in the field 40 years ago. And so, to pacify my affection for the subject, I periodically read math books. I recently picked up *The Math Book* by Clifford A. Pickover. It contains "250 milestones in the history of mathematics." I'm finding it to be fascinating. Each of these milestones is briefly discussed on a single page, in chronological order. While I'm familiar with some of them, many others are new to me.

Just about everyone who's been exposed to math is familiar with Fermat's last equation. It was essentially that $x^n + y^n = z^n$ has no solutions when $n > 2$. He wrote in the margin of a book that he had found the solution, but didn't have time or space to write it down. What book did he write this in? This book provides the answer![1] It may come in handy if you're ever on Jeopardy.

I learned that the "four greatest mathematicians to have walked the Earth" are thought to be Archimedes of Syracuse (c. 287 B.C. – c. 212 B.C.), Carl Friedrich Gauss (1777-1855), Isaac Newton (1642-1727), and Leonhard Euler (1707-1783). Each accomplished tremendous feats, especially given the times in which they lived.

I find it interesting that many of the mathematicians were also ordained, and many also dabbled in history. The book is well-written and quite easy to digest. You can read just a few pages at a time; perhaps that's even a better approach, then plowing through it, as I'm doing. It's on my "recommended list."

MULTI-PERIOD ATTRIBUTION… CONFUSION REIGNS

There has been QUITE a lot of back-and-forth discussion in the Investment Performance Consultants LinkedIn group, regarding multi-period attribution. What began with a fairly straightforward question from River Road's Kathleen Seagle, CIPM has transformed to a much broader topic.

As a result, we're doing two research projects. First, we launched a "mini survey"[2] to gain insights into a few basic questions:

1. For what lengths of periods do you extend attribution effects?
2. For periods longer than a year, do you annualize the linked attribution effects?

1 Diophantus's *Arithmetica*.

2 See https://www.surveymonkey.com/s/ZGG726S; note that the survey is available only through August 31. We'll publish the results in early September.

The Journal of Performance Measurement®

3. For equity attribution, do you typically report the interaction effect?

4. What attribution model do you most often employ?

These four are multiple choice, so it shouldn't take very long to complete. We have a fifth "open-ended question."

The subject offers much more to consider, however. Kathleen has agreed to work on an article with me, where we'll look into the value of evaluating attribution across long periods, the use of annualization, and the challenges in getting the numbers to tie out. We'll also consider the geometric alternative to arithmetic.

And speaking of geometric, comments I made, both on LinkedIn as well as in a blog[3] post, resulted in a fairly long conversation between me and Carl Bacon, CIPM. While I have much respect for Carl, there are a few topics we know we disagree on, and aspects of geometric cover a portion of it. While this post wasn't the first time I've pointed out one of geometric's deficiencies, it's the first time Carl's responded publicly. One of the criticisms of arithmetic is that in order to get the sum of the attribution effects to equal the excess return across time (i.e., multi-period), a smoothing factor is needed. Personally, I don't see why this is a problem, since the solution exists, and isn't difficult to implement.

While arithmetic attribution has residuals across time, geometric has them *within* time: that is, for single periods: this is one of the points that Carl disagrees with me about. In a subsequent post, I detailed the characteristics of Carl's model, which is the geometric equivalent of the Brinson-Fachler model. To make the numbers work, Carl must first introduce a term he calls the "semi-notional return". He then uses this return along with the benchmark return, to create a factor, that he applies to the selection effect. Without this factor, the numbers don't tie out, and we get a residual. I referred to this term as a "smoothing factor," since it smooths out the attribution effect. However, the term "corrective factor" might be better. Regardless, *something* is needed, otherwise we get residuals. Jose Menchero, in his article on geometric attribution, openly discusses the shortcoming with geometric, and offers an arguably better approach to smoothing, since it isn't arbitrarily applied to a single factor, but to all factors in the model.

For most performance measurement professionals, any discussion about geometric is purely academic, since most firms use the arithmetic approach.

NO, I DIDN'T INVENT MONEY-WEIGHTED PERFORMANCE

Allow me to share with you a comment that came into my blog, from an anonymous poster:

I think there is really no need to keep pushing the MWR as a prefferred [SIC] option (one would think you invented the formula). Clearly, MWR is not an option, [SIC] it all depends on what the end goal is. Quite frankly, as performance professionals, [SIC] who are more interested in the mathematics and 'sense' of both types of return calculations, we 'usually' act on behalf of HNW clients who have no time and interest in finding

3 http://spauldinggrp.com/multi-period-performance-attribution/

out which is which, but clearly, since we act on behalf of clients, more often than not, *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.

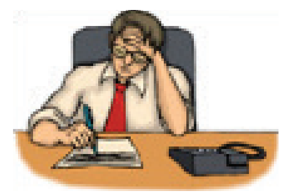
And so, please contact our editor, Doug Spaulding (732-873-5700) with your suggestions.

we go with the TWR that provides a snesible [SIC] approach to getting the 'pportfolio [SIC] manager's' [SIC] rate of return. personally, [SIC] i [SIC] think when you listen to the arguments fro [SIC] TWR, it will bcome [SIC] clearer that if you become a little disinvolved [SIC] and appreciative of what the TWR is used for, then you will stop trying to argue which is better!

Why this individual chose to be anonymous is unknown, other than perhaps to protect him/herself from his/her spelling and grammatical limitations (probably a "him"). I guess my passion for money-weighting may, at times, be excessive, and perhaps this is the writer's point. While I do believe money-weighting is better, because it should have greater use, clearly I appreciate the benefits of time-weighting. I hope the writer introduces himself, so we can have a reasonable conversation on the topic. Many clearly find money-weighting beneficial, and we might even suggest a trend is afoot, given the recent requirements for its use.

One need never be concerned with identifying themselves to me, with alternative views. My friends Carl Bacon and Steve Campisi, for example, have no trouble telling me when they think I'm mistaken. I won't publish anonymous comments on the blog, and have made an exception in this case by posting it here, but thought comments were worthy.

SPEAKING OF THE BLOG...



If you've read my blog in the past, you probably noticed that it moved. For the first several years I used Google's "blog spot" system to house it. It allowed me to "get up and running" very quickly, and served our needs quite well. However, a couple years ago a social media consultant advised me to move it. It took a bit longer than we expected, and we decided to include its move along with the redesign of our company's website. Now, the blog is accessible from the website, which should make it much easier to find. John Simpson's blog has also been relocated.

PUZZLE TIME

July Puzzle

Last month's puzzle was a bit different: a word puzzle.

The beginning of eternity
The end of time and space
The beginning of every end,
And the end of every place.

What is it?

Claude Giguere	Canada
Todd Juillerat	USA
Joe Dabney	USA
Gerard van Breukelen	Netherlands
Philip Lawton	USA
Dorian Young	USA
Anthony Howland	UK
Tom Stapleton	UK
Debi Rossi	USA

The answer is: the letter "e." I guess the message is that sometimes we over-complicate things when the answers should be obvious. Several folks participated, suggesting that this sort of puzzle is a popular one; we'll return to it.

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.

August Puzzle

Two trains begin their respective journeys 150 miles apart from each other. They travel toward each other along the same track. The first (Train A) is traveling at 60 miles per hour (mph); the second travels at 90 mph. A fly goes back and forth between the two trains until they collide. If the fly's speed is 120 mph, how far will it travel?

BEHIND THE SCENES AT TSG

Jaime Fowler Puerschner

Jaime Fowler Puerschner is the Vice President, Events for The Spaulding Group. Jaime started at The Spaulding Group in May of 2004. She received her Bachelors Degree in Communication from Douglass College, Rutgers University in 1999. Jaime is responsible for the planning and coordination of the annual PMAR Conferences, the Performance Measurement Forums, and monthly training courses and meetings. Jaime received her certification as a Certified Meeting Professional (CMP) in January 2011.

Jaime was promoted to Vice President, Events in May 2011.

She also is the Assistant Editor of *The Journal of Performance Measurement*.

Jaime has been with the firm for over 10 years and enjoys the support of the team, the ability to contribute to the growth of the firm and the family feel of the office. Jaime enjoys spending time with her family, going to the gym, and relaxing on the beach. Jaime and her husband, Brian, have three children, the youngest was just born at the end of June, and a Siberian Husky named Roscoe.

A white paper from DST:

Fixed Income Attribution: A Look at Key Challenges & Possible Solutions

It is more imperative than ever for investment teams to develop and implement a pragmatic approach to fixed income attribution given the size of the fixed income market, the weight that asset managers assign to this asset class, and the diversification benefits the asset class provides to investors. Yet, recent findings indicate that the use of fixed income attribution tools to pinpoint the sources of risk and return from fixed income strategies has declined. This article, produced by DST, examines the key challenges that investment managers encounter when considering fixed income attribution approaches and explores possible solutions.

Bernd Fischer, Ph.D.

Managing Director at IDS – Investment Data Services

Bio:

Bernd is a managing director at IDS GmbH – Analysis and Reporting Services (IDS), a wholly owned subsidiary of Allianz SE. IDS offers a full range of managed services in risk and performance analysis, including the production of fact sheets, Solvency II reports and key investor documents among others. Mr. Fischer is the author of the standard works "Performanceanalyse in der Praxis" (Oldenbourg, in German) and "Performance Evaluation and Attribution of Security Portfolios" (Academic Press, in English, jointly with Russ Wermers, University of Maryland). He is furthermore a member of the advisory board of the Journal of Performance Measurement.

CLIENT'S CORNER

1. How long have you been involved in performance?

I have been involved with performance during my entire career, i.e. for 19 years. After receiving my Ph.D. in mathematics I started as a performance analyst at Dresdner Bank Asset Management and later moved to a more general role as Global Head of Risk and Performance at Commerzbank.

2. What do you enjoy most about it?

It is exciting to develop complex solutions - tailored to the needs of investment firms - and to see them implemented. IDS has for instance implemented many sophisticated reporting solutions for regulatory requirements including Basel III and, most recently, Solvency II. We are also working at adopting our attribution methodology to meet the requirements of today's market conditions. It is always exciting to follow these developments and to be the first mover on the market. I also enjoy working in a team of talented people.

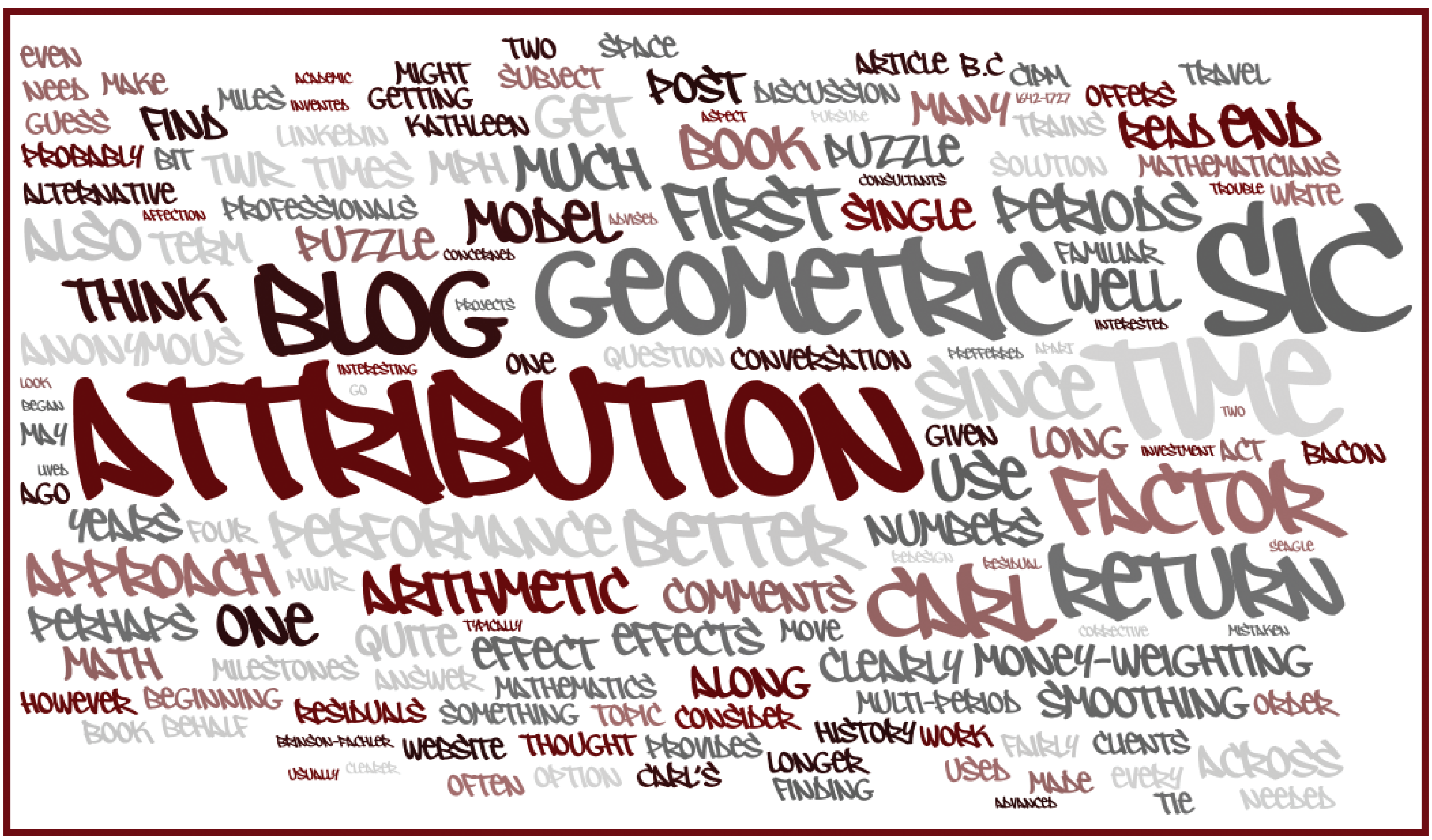
3. What role does The Spaulding Group play at your firm?

I have been a regular member of the Performance Measurement Forum since 2008. In addition, I have frequently given presentations at the Forum and the PMAR since 2001. My relationship to David Spaulding goes even back further as we were both members of the GIPS committee for many years. It is always enlightening to hear his views on performance issues.

THE SPAULDING GROUP'S 2014 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
September 17	Portfolio Risk Class	Boston, MA (USA)
September 23-24	Fundamentals of Performance Measurement	Los Angeles, CA (USA)
September 25-26	Performance Measurement Attribution	Los Angeles, CA (USA)
October 14-15	Fundamentals of Performance Measurement	Chicago, IL (USA)
October 16-17	Performance Measurement Attribution	Chicago, IL (USA)
November 11-12	Fundamentals of Performance Measurement	Dallas, TX (USA)
November 13-14	Performance Measurement Attribution	Dallas, TX (USA)
December 9-10	Fundamentals of Performance Measurement	New Brunswick, NJ (USA)
December 11-12	Performance Measurement Attribution	New Brunswick, NJ (USA)

For additional information on any of our 2014 events, please contact Christopher Spaulding at 732-873-5700



TRAINING…

Gain the Critical Knowledge Needed for Performance Measurement and Performance Attribution

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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:

September 23-24, 2014 – Los Angeles, CA
October 14-15, 2014 – Chicago, IL
November 11-12, 2014 – Dallas, TX
December 9-10, 2014 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

CE Qualified Activity CFA Institute

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:

September 25-26, 2014 – Los Angeles, CA
October 16-17, 2014 – Chicago, IL
November 13-14, 2014 – Dallas, TX
December 11-12, 2014 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

CE Qualified Activity CFA Institute

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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.

CIPM PREP TRAINING: August 18-19, 2014 – Principles Level–Chicago, IL
August 20-22, 2014 – Expert Level–Chicago, IL

UPDATED CIPM Principles and Expert Flash cards are now available on our web store. Please visit 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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