

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 Patrick Fowler at PFowler@SpauldingGrp.com

SHOULD THE CIPM® PROGRAM BE TESTING A CANDIDATE'S ANALYTICAL SKILLS?

A thought occurred to me recently, that the CIPM program is perhaps missing an opportunity to evaluate a candidate's analytical skills.

At this month's PMAR, Steve Campisi, CFA, did a masterful job in addressing the various roles of the performance analyst. For many years I've known that there are some who have successfully extended their role into the front office, by providing great insights and guidance, as a result of their analysis. There should be opportunities for others to do the same.



In recent weeks I've encountered scenarios where numbers both made no sense, but were right, and made sense, but were wrong. How's an analyst to know? Should this not be addressed? Can't it be taught, at least at the fundamental levels?

We address some of this in our Fundamentals of Investment Performance Measurement course. More is needed though, I believe. And, the CIPM can be a great place to at least attempt a level of scrutiny in terms of one's abilities.

WHAT'S THE MACRO STRUCTURE OF YOUR PERFORMANCE MEASUREMENT ORGANIZATION?

WI'm listening to a lecture on rhetoric titled "A Way With Words." It is taught by Wheaton Professor Michael D.C. Drout, who, by the way, will be our guest speaker at PMAR 2019!

Dr. Drout speaks of the need to establish the "macro structure" of a paper, and references the five-paragraph structure. He explained that while some might think that the approach to writing should be bottom-up, in reality, a top-down approach is better.

That made me think of the performance measurement organization. I suspect that if we look back over the past 20-30 years, if your firm has been around that long, we would see that the structure did, in fact, evolve bottom-up. In our Fundamentals of Performance Measurement class, we speak of the evolution of performance measurement, and I believe that many organizations evolved in this very way.

We began with only calculating rates of return at the portfolio level. Eventually, we started to dive down into sectors and securities. This is one reason why firms mistakenly (in my view) use the exact same method to derive those returns: that is, that time-

The Journal of Performance Measurement®

UPCOMING ARTICLES

Residuals on Duration-based Fixed Income Attribution

– *João Sousa Dias,
Eagle Investment Systems*

GIPS 20/20

– *Carl R. Bacon, CIPM, StatPro*

The Journal Interview

– *Nick Sharp, Ph.D., MSCI*

Net-of-Fee Performance Calculations

– *Andre Mirabelli, Ph.D.,
Opturo and Krista Harvey,
CFA, CIPM, TIAA*

A Measure for Evaluating the Distributions of Ex-Ante Forecast Returns

– *Masahito Shimizu,
Tokyo Institute of Technology*

Confronting the Challenges of Multi-Level Attribution

– *David Spaulding, DPS, CIPM,
The Spaulding Group*

weighting is used at all levels, regardless of who is controlling the cash flows. But, that's a different matter, and we'll move along.

Perhaps the next thing to be introduced were benchmarks, because a return by itself says nothing. "We had a 19.75% return in 2017." So what? Was that good, was it bad? Who knows, without having a yardstick (or, if you prefer, a meter stick) to compare it with?

We next consider the risk that was taken to achieve the return. Such questions as "was the manager (or should I say portfolio or client) adequately compensated for the risk taken?" and "was the level of risk taken acceptable to the client" are worthy of consideration. I realize that there are some who think that there is no such thing as ex post risk measurement, but the reality is that most firms engage in it, and there is, in fact, great value from performing these calculations.

While performance attribution has been around for at least 30 or 40 years, it only started to come into broad use over the past 10-15 years. It is just another logical extension to this evolution, as it tells us where the returns came from (that is, what were the contributions from the decisions made?).

The structure has also evolved in terms of its size and the roles. Larger organizations will have "global heads" of performance, risk, GIPS, etc. We frequently see multiple levels of performance analysts. Some firms are structured such that individuals are specialists, while others have members of the team perform a wide variety of tasks.

More, no doubt, can be said, but I'm running out of time. I'll close with the following:

What is next with this evolution? I guess we'll have to wait to see, but no doubt there will be more to come.

PMAR 25!

Earlier this month we held our 16th annual PMAR North America conference. Next month we will hold our 9th PMAR Europe in London, and later this year we'll hold our second PMAR West.

What this means (and sadly, only just occurred to me) is that our PMAR North America marked our 25th overall PMAR conference (counting the other two locations)! Pretty cool, I think!

Thanks to all who've helped make these annual programs a success.



PRESENTATION: THE BEST GIPS POLICIES & PROCEDURES

I was in Boston last week, conducting four days of training. I took advantage of the opportunity to visit Appleton Partners' offices, to present Drew Peterson, CFA, CIPM, with their award for being named having the best GIPS Policies & Procedures. As you will see from the accompanying photos, we were joined by the firm's CEO, Douglas Chamberlain, CFA.



Dave Spaulding with Drew Peterson



Dave, Drew, and Appleton's CEO, Doug Chamberlain

As I explained to them, theirs were definitely quite exceptional. In fact, the idea for the contest originated from a review I did of their firm a few years back. I thought then that individuals who prepare such documents should be recognized. And as a result, we created our contest.

Great job and congratulations!

PUZZLE TIME!

April Puzzle

Was it too hard, or not hard enough? I'm not sure. Here's the puzzle:

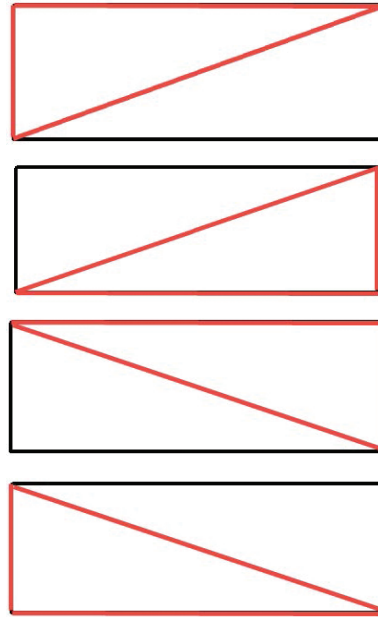
What is the maximum number of triangles you can form within the following triangle:



Please describe them, as well.

I cannot explain why, but I've had a fascination with triangles for some time, doing thought experiments about ones with bases of only a few inches, but lengths of from several inches, to several feet, and then extending several miles, wondering what one might see as they look out to the horizon between the two lines. Well, enough of that, let's move to the problem.

I think that at first the answer to this might be four:



But, there were no limitations placed on the problem. For example, I didn't say that using the lines of the rectangle, or anything like that. And even if you were to use a line or two, your result would have been much higher. That is, the answer is infinity.

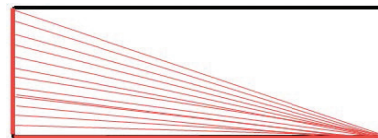
For example, if we only consider using two of the lines,



the hypotenuse can be extended to an infinite number of points along the base:

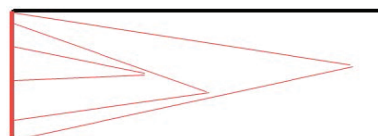


to the side:



or both!

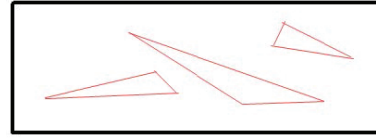
And, if we consider that we can use only one side



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.

or no sides



the possibilities are literally endless.

Perhaps this isn't a particularly exciting puzzle, but I thought that it serves as a metaphor for not being "bounded" by what you might see: that there may be many more possibilities available to you.

Hans Braker and Malcolm Smith submitted correct answers!

Oops!

I failed to mention that Neil Riddles got the February puzzle right!

May Puzzle

Fill in the nine empty boxes in the accompanying chart, using the numbers one to nine (1-9). That is, you will use each number, from one to nine. Good luck!

	x		/		2
+		x		x	
	-		+		5
-		+		-	
	+		x		48
5		37		3	

**THE SPAULDING GROUP'S 2018
INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS**

DATE	EVENT	LOCATION
June 11-12, 2018	PMAR Europe	London, England
June 13, 2018	Spaulding vs. Bacon	London, England
June 14-15, 2018	Performance Measurement Forum	Dublin, Ireland
July 16-20, 2018	Performance Measurement Boot Camp	New Brunswick, NJ
August 14-15, 2018	Fundamentals of Performance Measurement	Chicago, IL
August 16-17, 2018	Performance Measurement Attribution	Chicago, IL
October 15-16, 2018	Fundamentals of Performance Measurement	San Diego, CA
October 17-18, 2018	PMAR West Coast	San Diego, CA
November 15-16, 2018	Performance Measurement Forum	Luxembourg
November 28, 2018	Asset Owner Roundtable	Orlando, FL
November 29-30, 2018	Performance Measurement Forum	Orlando, FL
December 5-6, 2018	Fundamentals of Performance Measurement	Mumbai, India
December 11-12, 2018	Fundamentals of Performance Measurement	New Brunswick, NJ
December 13-14, 2018	Performance Measurement Attribution	New Brunswick, NJ

For additional information on any of our 2018 events, please contact Patrick Fowler 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:

August 14-15, 2018 – Chicago, IL

December 11-12, 2018 – New Brunswick, NJ

October 15-16, 2018 – San Diego, CA

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 16-17, 2018 – Chicago, IL

December 13-14, 2018 – 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.

WORKING ON YOUR 2018 BUDGET?

Don't forget to make room for conferences. And why not the Trifecta of Performance Measurement Conferences?



PMAR, Performance Measurement, Attribution & Risk, is the #1 performance measurement conference. If you've never experienced it, you owe it to yourself and your firm. And if you have, then you know the great value it is. And now, there are three to choose from!

So please set aside funds in your 2018 budget to participate in PMAR!