

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



BENCHMARK BLENDS: WHAT TO KNOW

A topic that is continuing to get a great deal of attention is the increasing costs of market indexes. We often discuss it at the Performance Measurement Forum, Asset Owners' Round Table, and PMAR Conferences, as well as in meetings with clients.

A recent specific area of interest is the blending of indexes. This is quite common, especially with balanced portfolios, when firms want to combine both a fixed income and equity index to derive a benchmark that is representative of the strategy.

A few key things to keep in mind:

#1 Do you have licenses for the indexes? While this may seem like a silly question, there are some who don't realize that what they read in the WSJ or see online or hear on the radio is proprietary information, requiring, in most cases, a license to publish. If you don't have a license for the indexes you use, make sure you're not violating any rules.

#2 What do your licenses say about blending? As it turns out, some market index providers have restrictions on blending their indexes, either together or with those of other providers. Some will require that *they*, the index provider, do the blending. Others will restrict the blending with other market indexes all together.



<http://www.SpauldingGrp.com>

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

You don't want to run afoul of what the agreements stipulate. We are hearing of cases where index providers are going into firms, conducting audits, and in some cases levying fines, which can be quite substantial.

What if you can't blend?

Well, if your license agreements state that you cannot blend, then, well, you can't! Or, perhaps find an alternative, such as blending ETFs of the equivalent indexes.

If you claim GIPS compliance, you're required to provide a benchmark that represents the strategy. However, if you are not able to blend, then you can't, and you would explain this. You could show the individual indexes as "supplemental information," so that the reader at least understands how each of the asset classes did relative to your composite: let them do the blending!

WHAT'S NOT MISSING FROM PMAR XVII?

This coming May we will host our 17th annual Performance Measurement, Attribution & Risk (PMAR) North America conference in Philadelphia. We have assembled an exceptional lineup of speakers and topics we are sure you'll find of value.

One topic that we won't cover: GIPS® 2020 or, more correctly, 2020 GIPS Standards (see below).

Why not? Well, what's there to say? We are approaching the deadline to comment on the two exposure drafts: December 31, 2018. Once January 1 hits, you are no longer able to share your thoughts.

Our conference is in May, but we won't learn what makes it into the final version of the Standards until June 30.

What would we talk about? "Well this was suggested, and we don't like it, but we have no idea whether it will actually be approved, but, if it does, ..." Seriously?

We won't have a session at PMAR Europe in London in June, either (unless somehow we get advance notice of what will appear in the final document).

It won't be until the Fall, when we host our third annual PMAR West conference in San Diego that we will have a conference session on the 2020 GIPS Standards.

We will host events to discuss the new version: just not until we find out what's in it! Until then, PMAR will be silent on it. But don't despair, there will be plenty of great topics to make PMAR a great event, once again.

Oh, and remember that PMAR offers two FULL days of great topics. No wonder it's #1!!!

To learn more about PMAR North American and register please go here:

<https://spauldinggrp.com/pmar-north-america/>

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.

GIPS® 2020 OR 2020 GIPS STANDARDS...WHAT'S GOING ON?

The term that is frequently bantered about for the new version of the Global Investment Performance Standards is “GIPS 2020,” and understandably so, since that is how it was introduced to us.¹

Actually, it was GIPS 20/20 (I haven't yet figured out whether it's supposed to be 2020 or 20/20, as both are being used; perhaps both are okay).

The problem is that GIPS is a registered trademark (®). And, unbeknownst to us, as well as probably 98.5% of the world, is that these marks are to be used as *adjectives*.

When we have GIPS 2020 or GIPS 20/20, GIPS is a noun. In order to “protect” the mark, the CFA Institute is encouraging us to avoid using the term in any form other than an adjective. And, we are very pleased to do this, and will attempt to educate others along the way.

To say, for example, that you are “GIPS compliant” would be incorrect. You are “compliant with the GIPS standards.”

While “GIPS 20/20” *rolls of the tongue* a lot easier than “20/20 GIPS Standards,” we will attempt to conform.



2020 GIPS VERIFICATION EXPOSURE DRAFT

I have not yet sent my comments in on the 2020 GIPS Verification Exposure draft, but plan to before the witching hour (midnight, December 31, 2018). Briefly, I'd like to say that I found the document to be overly prescriptive, which is quite different from the past practice of the Standards. I also find this over prescription unnecessary.

I also am concerned with the expansion of what the verification is to cover. For example, verifiers are now to review the client's advertising, and much more. In addition, some of the suggested wording *weakens* the value of verifications, which I think unfortunate. And while the document tells us that cost was taken into consideration, I won't be surprised if the expansion in the scope of verifications translates into higher fees.

I'm still hoping to host a webinar on this topic, though I'll confess time is running out.



¹ See https://www.gipsstandards.org/standards/documents/guidance/gips_2020_consultation_paper.pdf

December Puzzle

We are closing out the year with TWO FUN puzzles! We hope you enjoy them.

The first: An orchestra of 120 players takes 1 hour and 20 minutes to play Bach's Christmas Oratorio. How long would it take for 60 players to play it? Let P be the number of players and T the time of playing.

The second: Solve this equation

$$\frac{9!}{8!(3^2)} = ?$$

PLEASE REMEMBER TO COMMENT ON THE 2020 GIPS EXPOSURE DRAFT(S)!!!!

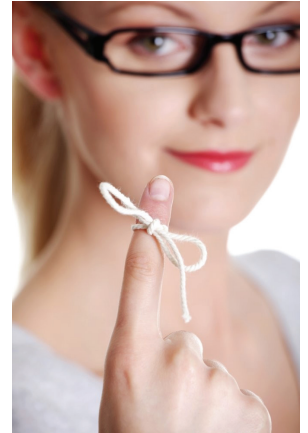
You have until December 31 to get your comments in. These are major changes that will impact you if you claim compliance with the GIPS standards. Please, take the time to review and comment.

Exposure Draft for 2020 GIPS Standards

https://www.gipsstandards.org/standards/Documents/gips_2020_exposure_draft.pdf

Exposure Draft for 2020 GIPS Standards for Verifiers

https://www.gipsstandards.org/standards/Documents/gips_2020_verif_exposure_draft.pdf

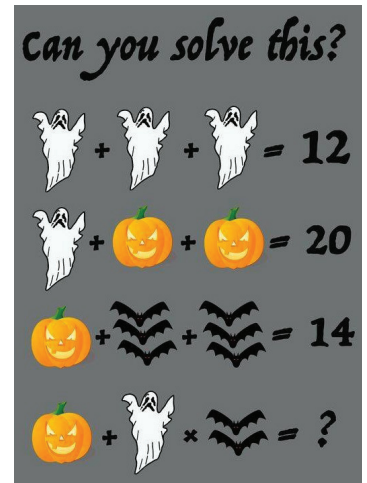


PUZZLE TIME!

October Puzzle

Kind of a scary one for October, yes? This is essentially simple algebra, right?

- The sum of three ghosts equal 12, so each equals 4
- 4 + the sum of two pumpkins equals 20, meaning the two pumpkins equals 16, resulting in each equaling 8
- 8 + the sum of two sets of bats equals 14. Thus, the two sets of bats equals 6, each then equaling 3.



I didn't notice that the graphic had only two bats in the bottom, but I'm assuming, as our readers did, that it was an error, so the bats will equal 3.

Well, we can see that we are to add a pumpkin to the product of a ghost and two bats. This now gets into the realm of order, as well as ensuring we know what the bats are. When I grew up, we were taught "PMDAS": Please, My Dear Aunt Sally, or, Parenthesis, Multiplication, Division, Addition, Subtraction. That would be the order you'd do the math. And so, I'd first multiply the ghost (4) times the bats (3) to get 12, then multiplying times the pumpkin, which is 8, which yields 96.

However, as I understand it today, we are taught to go from left-to-right. And so, we'd add the pumpkin (4) to the ghost (8) to get 12; we then multiply times the bats (3) to get 36.

Sadly, all of our readers save for one didn't notice that the last equation has a "×" not a "+" between the ghost and bats, so got it wrong. We'll give them half credit! As for the one who did notice the multiplication, he somehow erred in his answer, so we have no correct responses. Darn! But, we can debate the proper order to solve the equation, as well as whether the two bats represent the value 2 rather than three. Hopefully this month's will fare better!

**THE SPAULDING GROUP'S 2019
INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS**

DATE	EVENT	LOCATION
February 11-12, 2019	Fundamentals of Performance Measurement	San Francisco, CA
May 21-22, 2019	Fundamentals of Performance Measurement	Boston, MA
May 23-24, 2019	Performance Measurement Attribution	Boston, MA
July 23-24, 2019	Fundamentals of Performance Measurement	Toronto, ON
July 25-26, 2019	Performance Measurement Attribution	Toronto, ON
August 6-7, 2019	Fundamentals of Performance Measurement	Chicago, IL
August 8-9, 2019	Performance Measurement Attribution	Chicago, IL
November 20, 2019	GIPS Workshop	San Diego, CA
November 21-22, 2019	Fundamentals of Performance Measurement	San Diego, CA
December 9-10, 2019	Fundamentals of Performance Measurement	New Brunswick, NJ
December 11-12, 2019	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

TO REGISTER:

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Fax: 1-732-873-3997

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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:

February 11-12, 2019 – San Francisco, CA

May 21-22, 2019 – Boston, MA

July 23-24, 2019 – Toronto, ON

August 6-7, 2019 – Chicago, IL

November 21-22, 2019 – San Diego, CA

December 9-10, 2019 – 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:

May 23-24, 2019 – Boston, MA

July 25-26, 2019 – Toronto, ON

August 8-9, 2019 – Chicago, IL

December 11-12, 2019 – New Brunswick, NJ

15 CPE & 12 PD Credits upon course completion

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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.