



VOLUME 16 – ISSUE 6

JULY 2019

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

<http://www.SpauldingGrp.com>

WHAT HAPPENED?

Contrary to what you might think, our “monthly” newsletter has not ceased to be published.

The reality is that the past few months have been extremely busy for me. As a way to demonstrate this, my YTD United miles are quickly approaching 100,000. I usually fly around 120-130,000 a year, so you can guess that these have gone up quite a bit.

In addition, I've had some other issues that I've had to deal with, which have required my time and attention. Consequently, the newsletter had been put on hold.

For every month since February, I've begun the month thinking that of course, I'd get to the journal, but pretty soon thereafter, I found myself at the end of the month, with no progress made.

It's definitely not a lack of topics to address that have kept me from writing. In fact, I have had a chance to write a couple articles: one for *The Journal of Performance Measurement*®, and one for another publication (name TBA at a future date, once it's finished going through their vetting process).

Hopefully, I won't miss too many more months this year.

QUITE A TOPIC: THE 2020 GIPS® STANDARDS HAVE ARRIVED!

Talk about a “hot topic!”

The long-awaited 2020 version of the GIPS standards were delivered, on schedule (actually, a couple days early, as 30 June was a Sunday, and they were distributed on 28 June (Friday)).

I did a few pre-release presentations on what I thought would make it through, and want to share with you how well I did:

My prediction	What actually occurred
Trifurcation of the Standards	I was right in that there are three parts (“chapters”), but wrong in the makeup. I thought there'd be a separate “pooled fund” section, but it was included in the “firm” (think “asset manager”) section. Yes, there is an Asset Owner section, but the third is for verifiers, something I didn't anticipate. Half credit!
New pooled fund provisions	Not surprising that I got this one right; it was destined to be added. Get ready for some big mutual fund names to comply in the coming year or so.

The Journal of Performance Measurement®

UPCOMING ARTICLES

Portfolio Performance Evaluation: What Difference do Logarithmic Returns Make?

– Ralf Hudert, CIPM; Prof Dr.
Michael G. Schmitt, CFA; and
Prof. Dr. Michael von Thaden

Seeing the RMD in a New Light: The Required Minimum Distribution in its Implications for Retirement Portfolio Design

– Craig L. Israelsen, Ph.D.

Expected Rate of Return of Investments with Uncertain Timing

– Boris Klebanov, Ph.D.

Performance Attribution of Reserve Managers with Frozen Positions Using Extensions of the Singer & Karnosky and van Breukelen Models

– Ted K. Heemskerk and
Gerard van Breukelen

My prediction	What actually occurred
Compliant “firms” will be required to have a “verifier independence” policy	WRONG! This caught me by surprise, but apparently there was some “push back,” and so, the GIPS Executive Committee (EC) opted to drop the idea.
Broadening of MWRR	Yes, got this one right. And while I hoped that the IRR would be the only measure allowed, the EC decided to broaden it, which means the money-weighted version of Modified Dietz will be permitted as an alternative.
Ability to use estimated transaction costs	I was hoping this would make it through, and it did! Now, we only need to figure out how to do it. I believe the method I discussed in our February issue will be one that will be allowed.
“Composite % of Firm Assets” dropped as a disclosure	Hurrah! It’s no longer allowed (well, I’m sure you can show it, but instead, firms must show “firm assets.” I never liked the “% of” option, and typically recommended clients who reported it to switch)
Composite creation date replaced by composite inception date	Not sure how to grade myself on this. While there now <u>is</u> a requirement to report composite inception date, composite creation date was <u>not</u> dropped. Like myself, there are many who find value in this statistic. I guess I get half credit.
Show more than one benchmark? You’ll need to calculate stats for it, just as you do for the primary	This one, too, made it through to the final version.
Requirement to report the 36-month annualized rate of return (to accompany the 36-month annualized standard deviation)	Well, I can’t say I’m crying any tears because I was wrong: this stat is <u>not</u> going to be required. My comments recommended <u>not</u> adopting it, and apparently many others did, too, so the EC decided <u>not</u> to make it a requirement. Hurrah!
Portability easing: firms can choose whether to port history	Yes, this came through. It’s been a hotly contested topic for close to two decades. And while I didn’t actually agree with this change, at least we have settled on something. I’m sure most folks will, in fact, like this.
Hedge funds: no longer required to report returns w/o side pockets	Made it through, much to the glee of many, I’m sure. Want to show it still? Sure, go ahead. Just label “supplemental.”

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.

My prediction	What actually occurred
Cash allocation for carve-outs to make a return	This is one of the big changes, and it did go through. I suspect it will be welcomed by many, especially wealth managers.
Sunset rules	Made it through, allowing firms to discontinue reporting selected disclosures that have ceased to have much value
Timing to update presentations within a year	Okay, so the proposal was for six months, but I suggested it'd be 12, and I was right! I'm not surprised, as I think many felt that six was just too short. There definitely is a need, as we frequently see presentations of firms (not our clients, BTW) that are quite dated.

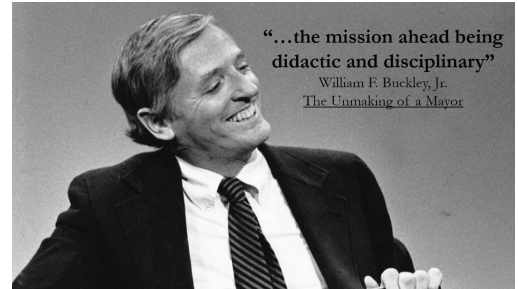
Okay, so how did I do? I calculate a score of 78.6 percent: not bad, I think. In my presentation, I spoke about the risks of making predictions, and used a recent set of very strongly worded Academy Award predictions, where the “expert” scored just 33.3 percent.

We are hosting a series of three webinars, targeting three audiences:

- asset managers (the “firm” chapter) [Ashley Reeves, CIPM handling]
- asset owners [John D. Simpson, CIPM handling]
- software developers [Jennifer Barnette and I will handle]

In addition, we are doing quite a number of other events, both webinars with other parties as well as some “in person” programs.

We will also soon publish the “Ultimate Guide” for the 2020 version, part III. I recently posted the accompanying photo of the famed writer, William F. Buckley, Jr., along with a quote that seemed to work, where I mentioned that we see our role as being didactic. That is, to be instructive. We’ve assumed this role for quite some time, and so the 2020 version of the Standards is just yet another opportunity to share our knowledge, thoughts, insights.



EARLY ADOPTION: WHAT DOES IT MEAN?

You may recall that the 2010 edition of the GIPS standards (a) went into effect on January 1, 2011 and firms had to comply by January 1, 2011.

The 2020 edition is a bit different, as it (a) goes into effect on January 1, 2020 but firms do not have to comply until January 1, 2021.

PUZZLE TIME!

February Puzzle

Our February issue had a proposed way to estimate transaction costs; the puzzle was for feedback and/or an alternative. Sadly, no one offered any.

July Puzzle

This one was passed to me by a high school friend on FaceBook:

**MOVE JUST ONE STICK
TO FIX THE EQUATION**



Note: I came up with three solutions; perhaps there are more. Feel free to just provide one.

Okay, a point of clarification on the “comply until.” Technically, firms do not have to comply until they begin to report their December 31, 2020 numbers which presumably wouldn’t occur until January 1, 2021. And so, I’m taking a bit of liberty here, but it serves as a good comparison.

Under the 2010 edition, “early adoption” meant prior to the effective date of January 1, 2011.

What does it mean under the 2020 edition?

A key point from the “adopting release”: “Firms may choose to early adopt the 2020 GIPS standards. If firms choose to early adopt, they *must not pick and choose* which provisions they adopt. They *must comply with all requirements* of the 2020 edition of the GIPS standards, including the requirements related to GIPS Reports.” <emphasis added>

The reality is that firms can adopt *certain* items in advance of adopting everything. For example, the new disclosure regarding the GIPS trademark. Firms may adopt this, without adopting everything.

And so, to me, there are two key questions:

- what does “early adoption” mean, relative to dates?
- what can firms “early adopt” without having to adopt everything?

We submitted these questions to the GIPS Help Desk. We’ll share the responses, once we get them.

THE SPAULDING GROUP’S 2019 INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
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 2019 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 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:

August 8-9, 2019 – Chicago, IL

December 11-12, 2019 – New Brunswick, NJ

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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.