

PERFORMANCE PERSPECTIVES

with David Spaulding



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Since 1990, The Spaulding Group, Inc., an employee-owned business, has had an increasing presence in the money management industry.

The Spaulding Group, Inc. is the fastest-growing verification firm, serving clients around the globe, with assets ranging from less than \$100 million to more than \$1 trillion. We provide an array of other performance measurement services and products, including consulting, publishing (*The Journal of Performance Measurement*®), research, and training. We also host the Performance Measurement Forum, the Asset Owners' Round Table, and the Annual PMAR™ Conferences.

We are actively involved as members of the CFA Institute and other industry groups. The Spaulding Group has also led the charge for the industry in the handling of error correction, attribution guidelines/ standards, and Investment Performance Measurement Analyst Certification (since handed over to the CFA Institute and now called the CIPM program).

Several of our senior staff regularly speak at and/or chairs industry conferences. Our founder and CEO, David Spaulding, is a frequent author and source of information to various industry publications. Our firm continues to make huge contributions to our industry, in terms of valuable content, innovative ideas, and volunteer activities.

Our clients appreciate our industry focus and understanding of their business, their needs, and the opportunities to make them more efficient and competitive.

<http://www.SpauldingGrp.com>

Confronting ambiguities (Part I of a TBD number)

“Many ambiguities remain to be dissolved, in spite of an often-pedantic scholastic precision.”

Simone de Beauvoir
The Second Sex

I recently posted¹ on LinkedIn that I had begun reading this book. Little did I expect to find something I could employ in my profession, but, as often occurs, I did.

This line jumped out at me, as I do think it very much applies to our field.

There are many ambiguities; and, a great deal of confusion and controversy. These are some of the things I love about investment performance measurement.

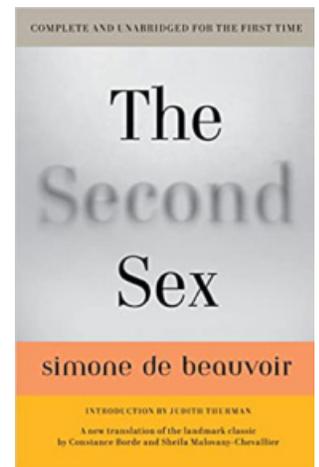
Sadly, some are offended when you challenge their ideas and opinions; we should be open to the ideas of others, and the challenges they offer in our direction.

One of the greatest ambiguities is the concept of time- versus money-weighted returns. I had a consulting assignment recently, where I was offering my views to a client who wished to employ a money-weighted method (the internal rate of return, fortunately²). They wanted to capture certain periods of investments, using the IRR, and then to link these values. They thought the linking of money-weighted returns would result in a longer period money-weighted return.

But, that's not how it worked.

The 1968 BAI Standards³ offered three ways to calculate what we now refer to as time-weighted returns:

- the exact method, where we revalue for all large cash flows. This results in the “true, time-weighted return.”
- the “linked IRR,” which, today, is referred to as “Modified BAI.” It involves calculating the IRR for periods between cash flows, and then linking them. This constitutes an “approximation” to the true, time-weighted return.
- regression, which nobody uses; probably for very good reasons.



The Journal of Performance Measurement®

UPCOMING WINTER ISSUE

The Spaulding Group's 2020
GIPS® Standards Survey Results
- *David D. Spaulding, DPS, CIPM,
The Spaulding Group*

Look Before You Leap: A
Risk-Based Framework to
Aid Middle- and Back-Office
Outsourcing
- *Jose Michaelraj, CIPM, CAIA,
Meradia*

Hidden Errors in Regression-
Based Attribution
- *Leigh Sneddon, Ph.D., CFA,
Mayfield Investment Solutions,
Inc.*

The Journal Interview
- *Kathleen Seagle, CIPM,
The Spaulding Group*

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<https://spauldinggrp.com/free-journal-of-performance-measurement/>

And so, what our client was suggesting would result in an approximation to the exact TWR, not a money-weighted return.

With money-weighting, we value the portfolio at only two points: the start and end of the period; cash flows are weighted based on when they occur.

Ah, my beloved CIPM®

Many people in our industry are aware of my devotion to the Certificate in Investment Performance Measurement. And, for good reason: it was my idea! But, that's another story, too.

As you probably know, we are big supporters and champions of investment performance measurement professionals.

That said, I think it would be a good thing if the CIPM had a way to evaluate a performance measurer's analytic skills. Memorizing facts is not that challenging; analyzing data can be a chore.

I was recently presented with a problem by a client: their performance measurement system's rate of return varied considerably from that of the custodian. Now, we know there can be various reasons for this, including:

- different methods/calculations (e.g., Modified Dietz vs. the Exact method)
- different pricing sources
- different sources and/or timings for foreign exchange rates.

Another is trade date vs. settlement date accounting. Usually, this doesn't make a big difference. However, in this particular case, it was the chief contributor to the differences.

Now, why am I mentioning this within the context of the CIPM? I am concerned that very few CIPM certificate holders would have been able to diagnose this. But shouldn't they all? I would think so.

But, how do we test for this?

Okay, so enough rambling: what's my point?

Well, how many CIPM certificate holders would have fielded the question from our client properly? That is, to be able to tell them "sorry, but linking IRRs does not result in a longer period money-weighted return"?

How many get the ambiguities, or even know the ones that are there?

We are all, to some extent, learning. And the more we discover, the more we realize we don't necessarily know.

When I'm lecturing, I welcome questions, and tell my students that if I don't know the answer, I'll make something up. Fortunately, that doesn't happen too often.

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.

Puzzle

Where's the puzzle? It's coming ... I promise. I'm juggling writing and verifying and consulting and lecturing (plus, a bit of socializing, as well).

Endnotes

1. <https://www.linkedin.com/posts/activity-6897683696078385152-zXEq>
2. The 2020 version of the GIPS® standards now allow firms/institutions to substitute an alternative to the IRR, such as Modified Dietz. To me, this is a huge mistake. But, we'll save that for another time.
3. Bank Administration Institute. 1968. Measuring the Investment Performance of Pension Funds.



THE SPAULDING GROUP'S 2022
INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
February 16, 2022	GIPS For Asset Owners Training with State Street (North America)	Virtual
February 17, 2022	GIPS For Asset Owners Training with State Street (North America)	Virtual
May 10-11, 2022	PMAR North America	Philadelphia, PA
May 23, 2022	Asset Owner Roundtable Meeting	Nashville, TN
May 24-25, 2022	North American Meeting of the Performance Measurement Forum	Nashville, TN
June 16-17, 2022	EMEA Meeting of the Performance Measurement Forum	Amsterdam, The Netherlands
November 10-11, 2022	EMEA Meeting of the Performance Measurement Forum	London, England
November 15-16, 2022	Fundamentals of Performance Measurement Training Class	San Diego, CA
November 16, 2022	Asset Owner Roundtable Meeting	San Diego, CA
November 16, 2022	Broker/Dealer Symposium – First Meeting	San Diego, CA
November 17-18, 2022	North American Meeting of the Performance Measurement Forum	San Diego, CA

For additional information on any of our 2022 events, please contact Patrick Fowler at 732-873-5700.

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HERE'S THE PROBLEM

Your staff needs training in performance, risk, attribution, or the GIPS® standards, but you're not able to give them the training they need.

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THIS MEANS

Either you have to take the time to create a program internally and continually update it, which is time and labor intensive, or your team is forced to learn what they need on the job, which means they aren't adding as much value as they could.

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- ✓ Peace of mind—Indispensable staff get the training, yet are still accessible should you need them
- ✓ Improved morale, investing in your staff shows them your commitment



It's hard to find such focused training around the topic of performance measurement along with experienced instructors who can get into the details of various calculations. I recommend this two-day training course for firms looking to provide a good foundation on this topic." – Rajiv Mathur, Kaiser Permanente

TO LEARN MORE, PLEASE CONTACT:

Patrick Fowler, 732-873-5700

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AVAILABLE CLASSES:

- ✓ Fundamentals of Performance Measurement
- ✓ Performance Measurement Attribution
- ✓ Portfolio Risk Measurement
- ✓ GIPS standards workshop
- ✓ Investment Performance Measurement Boot Camp
- ✓ Performance Measurement for Non-Performance Professionals
- ✓ Performance Measurement for Plan Sponsors and Consultants
- ✓ Or, customize a class to meet your specific needs

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