

# 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>

## What software vendors need to do in response to the new SEC Marketing Rules

“I had a recent conversation with a member of our verification team, about the need for compliant firms to check with their software vendors on how they’re adjusting their system to support them in complying with these rules.

Now, just to clarify: these new rules only apply to managers who are registered with the U.S. Securities & Exchange Commission. This, of course, includes managers who may be domiciled outside the USA, but who are registered and market to U.S. investors.

While we have gone to great length to educate folks about these rules, perhaps we haven’t been clear enough to discuss the need for changes to be made to their composite system.

In this issue of our newsletter, I will highlight some of these big changes. This means, of course, if you use David Yuska’s CAPS, John Norwood’s Composite Builder, Orion, Confluence’s Evolution,<sup>1</sup> you’ll want to check with them on where they stand with these changes, as they need to be implemented by November of this year; ideally, months before, so their clients can become familiar with them and implement, where necessary.

What if you don’t use a package, do you have to worry about these changes? Well, of course you do. Implementing the changes may be more challenging, but somehow you’re going to have to do it.

The reason this impacts GIPS® compliant firms is that your GIPS composite report is now considered an advertisement; thus, you have to conform to the advertising rules.

### And so, let us proceed:

If your composite includes non-fee paying accounts, and you calculate net returns using actual fees, the GIPS standards require you to report the percentage of assets represented by non-fee paying accounts.

The HUGE issue is that with the SEC rules, you will be required to calculate returns for those non-fee paying accounts using the appropriate model fee. Can your vendor support this?

If not, you may need to recalculate your net returns using model fees.

# 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*

Practical Guideline for Funding/  
Solvency Ratio Attribution  
- *Maarten Niederer, Ortec  
Finance*

LANDMARK ARTICLE:  
The Challenges of After-  
Tax Performance Reporting  
- *Douglas S. Rogers, CFA*

PLEASE SEE OUR LATEST  
ISSUE:

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

## Additional returns

The SEC requires advertisements that include returns to report 1-, 5-, and 10-year annualized returns. But, it's not quite this simple.

First, you have to do this quarterly, unless you're not able to. If this is the case, then if there is a material move in the market between the reported returns' period and the most recent quarter, you'll need to disclose this.

Second, if you have more than one year but less than five, you'll need the 1-year and the highest number of years you do have (i.e., 2-, 3-, or 4-). What if you have one and five years, but less than 10? Then you need the highest number in addition to 1- and 5- (i.e., 6-, 7-, 8-, or 9-).

Third, what about the timing? On this, the SEC is a bit ambiguous. Recall that the GIPS standards give you a year to get your numbers updated; it seems the SEC expects you to update within about a month; but, it's unclear that this is a mandate. Hopefully, this point will be clearer.

There is a lot of confusion regarding what has to be updated. Do all the returns you report on your GIPS report? NO! Just the ones the SEC requires, which means you could be showing the calendar year 2021 returns in your GIPS table, while you're reporting through 2022 in your SEC returns table.

## Net- and gross-of-fee returns

Since your GIPS report will now be considered an advertisement, you'll need to report net-of-fee returns. In all prior versions of the GIPS standards, the recommendation was to report gross-of-fee; however, the 2020 version recommends both gross- and net-. Might this be because they knew the SEC would require you to report net? Perhaps. Regardless, you'll need to be prepared to report net, if you haven't previously. If you have reported net- but not gross-, no problem; gross isn't mandated.

## How far back must you go?

The changes are retroactive, meaning that if you report 10 years of performance in your GIPS report, and have previously shown the percent of non-fee paying, and used actual fees to derive the net returns, you'll need to apply the model fees for all years shown. Not necessarily a trivial undertaking.

You need to have a conversation with your performance vendor and/or your internal IT folks, to ensure you're able to comply. These rules go into effect November 4; by that date, you will want to be ready!

## Endnotes

1. Other vendors who provide composite systems include FactSet GIPS Solution (they recently merged with BISAM's GIPS solution); Ortec Finance; Broadridge; Tamarac (Envestnet); BNY Mellon, including Eagle; Charles River (a State Street company); SS&C/Advent Axys; and Morningstar Advisor and Direct.

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

DATE	EVENT	LOCATION
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.

# Train Your Entire Performance

## staff for half price!



### 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.

### HERE'S THE REASON

Your training budget isn't big enough to cover the expense to send your entire team to offsite training. And, even if it was, you can't have your entire team offsite at the same time.

### 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.

### WE HAVE THE SOLUTION

- ✓ Reduced tuition (save nearly \$850 per student!)
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- ✓ No time away from the office
- ✓ Option to customize a class to your firm's needs
- ✓ Scheduling flexibility—You choose the dates
- ✓ Save on development time/costs. We've done the work for you and, we regularly update the materials!
- ✓ 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:

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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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- ✓ Morgan Stanley
- ✓ Principal Global Investors
- ✓ LPL
- ✓ UBS
- ✓ Pershing
- ✓ Franklin Templeton
- ✓ Aegon
- ✓ World Bank
- ✓ Northern Trust
- ✓ Goldman Sachs
- ✓ AIMCO
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