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Since 1990, TSG, an employee-owned business, has had an increasing presence in the money management industry.

TSG 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. TSG 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.

This month's newsletter is admittedly a bit short. We could ramble on and on about the topic we address, but feel that *getting right to the point* is sufficient. It's an important one, and we hope what we share has value to you and your organization.

Sleeves: do they constitute “extracted performance” under the new SEC Marketing Rule?

In the past month, we've gotten multiple inquiries into the status of sleeves and the new SEC Marketing Rule.

On page 195 of the rule we find “‘Extracted performance’ means ‘the performance results of a subset of investments extracted from a portfolio.’”



The Rule doesn't explain what it means to “extract” performance.

What is a sleeve?

I asked the folks at Orion about sleeves, and Ryan Donovan provided the following:

“Sleeves within Orion allow firms to take multiple models (strategies) and assign them to accounts. Each model (strategy) then turns into a sleeve (*sub-account*) in Orion. For example, a firm may have an Aggressive and Conservative strategy. The firm can then create a sleeve (sub account) for the aggressive strategy and one for the conservative strategy. From a cash management perspective each of the sleeves can contain a targeted amount of cash allowing for cash to live in each sleeve based on the strategy.

“Sleeves can also allow a firm to hold a particular asset within each strategy. For example, Apple could be held in both the Aggressive and Conservative sleeves. We accomplish this accurately because the firm places trades within Orion's trading and rebalancing tool. Therefore from a reporting and performance standpoint we can track when the asset was purchased and sold to track the appropriate sub-account.” <emphasis added>

I have considered sleeves to be sub-accounts or sub-portfolios, and Ryan confirms that this is their view, as well.

At the custodian, an institution's or individual's assets might be stored in a single, unique, “legal” account. At the asset advisor, their accounting system might manage it in multiple sub-portfolios, each being distinct from the others, so as to allow individual strategies to be separate and apart.

The Journal of Performance Measurement®

UPCOMING ARTICLES

Let's Clarify the Modified
Return Methods

- *David D. Spaulding, DPS, CIPM*

Measuring Target Date Funds

- *Ron Surz*

The Journal Interview

- *Nir Kaissar, CFA*

Investment Performance
Analysis When the Distribution
of Returns is Non-Normal

- *Dan diBartolomeo*

Best GIPS® 2020 Policies &
Procedures Contest Winner

- *Opus Investment Management,
Inc.*

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ISSUE:

[https://tsgperformance.com/
free-journal-of-performance-
measurement/](https://tsgperformance.com/free-journal-of-performance-measurement/)

To me, sleeves fail the test of being “extracted performance.” There is no “extraction” being done. Rather, the accounting system is set up to manage the assets separately. In many cases, an account may have 5-10 or more sleeves, each being managed differently, and in some cases, by different individuals or even advisors [in a sub-advisory relationship, not unlike unified managed accounts, or UMAs].

Unsure?

In this same section of the Rule we find “The final rule prohibits an adviser from presenting extracted performance in an advertisement *unless* the advertisement provides, or offers to provide promptly, the performance results of the total portfolio from which the performance was extracted.”



And so, if you choose to include sleeves in a composite, and are concerned that the SEC examiner who visits might consider them to constitute extracted performance, then simply include a disclosure that “upon request, we will provide the performance results of the total portfolio from which performance was extracted,” though I’d avoid the use of the term “extracted,” as it would seem to suggest you believe it’s extracted. Instead, I’d have “... from the entire portfolio of which the sleeve is a member of.”

TSG'S 2023
INVESTMENT PERFORMANCE MEASUREMENT CALENDAR OF EVENTS

DATE	EVENT	LOCATION
April 26, 2023	Asset Owner Roundtable	Phoenix, AZ
April 27-28, 2023	Performance Measurement Forum	Phoenix, AZ
May 23, 2023	GIPS Workshop	New Brunswick, NJ
May 23, 2023	Launch of Women in Performance (Cocktail reception) https://spauldinggrp.com/events/women-in-performance-group/	New Brunswick, NJ
May 24-25, 2023	PMAR North America	New Brunswick, NJ
June 22-23, 2023	Performance Measurement Forum	Edinburgh, Scotland
November 9-10, 2023	Performance Measurement Forum	Porto, Portugal
November 29, 2023	Asset Owner Roundtable	Orlando, FL
November 30 - December 1, 2023	Performance Measurement Forum	Orlando, FL

For additional information on any of our 2023 events, please contact Patrick Fowler at 732-873-5700.

COMING SOON - OUR NEWLY FORMATTED NEWSLETTER!

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