



Performance Perspectives

Insights from the performance experts

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This month's article brief spotlights, "What Could Have Been: The Presentation of Hypothetical Performance," by Michael Caccese of K&L Gates and Lance Dial of K&L Gates, which was published in the Spring 2024 issue of *The Journal of Performance Measurement*. You can access this article by subscribing (for free) to *The Journal* ([link here](#)).

In some cases, investment advisers may seek to present "hypothetical performance," i.e., performance of a strategy that was not actually achieved by any client of the adviser. While this information can be helpful to certain investors, the United States Securities and Exchange Commission ("SEC") has long viewed hypothetical performance skeptically; however, amendments to the rules governing the adviser advertising have set forth specific conditions under which advisers can now show hypothetical performance. This article outlines the new SEC requirements, discusses some of the policy rationale behind the rules, and offers some observations for advisers to consider when assessing their own use of hypothetical performance.

To confirm your email address, click the graphic below. If you're a subscriber but haven't received a link to the current issue, please reach out to Doug Spaulding at DougSpaulding@TSGperformance.com.

Revisiting Financial Stewardship Article: The Importance of Keeping Asset Owners Fully Funded

Summary by Patrick W. Fowler

In 2012, Stephen Campisi and I penned an article for *The Journal of Performance Measurement* titled "Getting to the Heart of Investing: Financial Stewardship That Meets Client Objectives." The article emphasizes the crucial role of performance professionals as fiduciaries and highlights their responsibility to act in the best interest of their clients. We critique the narrow focus on individual investment products and benchmarks and advocate for a broader perspective that considers the overall portfolio and client goals. The article underscores the importance of loyalty, prudence, and diligence in financial stewardship, urging professionals to prioritize client objectives over mere performance metrics. We also discuss the pension crisis, advocating for a Liability Driven Investment (LDI) approach along with Cash Flow Matching (CFM) to align assets with liabilities, thus reducing risks and ensuring long-term financial stability.

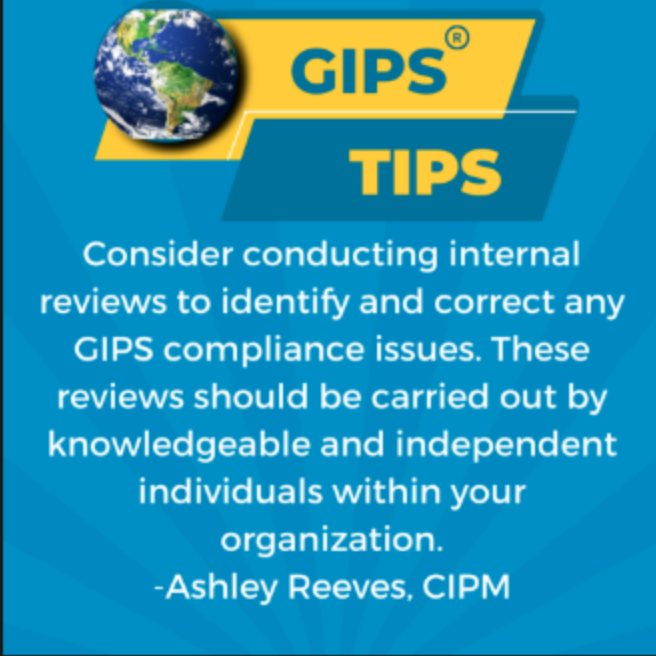
Fast forward to 2024 and we have financial markets characterized by volatility and uncertainty, making the principles outlined in the article more relevant than ever. Market fluctuations, geopolitical tensions, and economic uncertainties all contribute to an environment where maintaining the funding status of asset owners is crucial. Asset owners, such as pension funds, endowments, and foundations, rely on consistent and reliable returns to meet their long-term obligations. The significant underfunding of pensions, as highlighted in the article, is a stark reminder of the potential consequences of market downturns and inappropriate investment strategies. Ensuring that asset owners remain fully funded is essential for several reasons:

1. **Stability and Predictability:** Fully funded assets provide a stable and predictable financial foundation, allowing organizations to plan and allocate resources effectively without the risk of sudden shortfalls.
2. **Reduced Risk Exposure:** By aligning investment strategies with liabilities, as suggested through the LDI approach, asset owners can minimize exposure to market risks and interest rate fluctuations, ensuring that assets grow in tandem with liabilities.
3. **Long-term Security:** Maintaining full funding ensures that asset owners can meet their long-term commitments, such as pension payments and philanthropic goals, thereby securing the financial future of beneficiaries.
4. **Enhanced Trust and Confidence:** Fully funded status instills confidence among stakeholders, including beneficiaries, investors, and regulatory bodies, reinforcing the trust placed in the asset managers and the institutions they represent.

The volatile nature of today's financial markets, and the challenges of heightened levels of scrutiny, necessitate a disciplined and client-focused approach to investment management. Performance professionals must embrace their fiduciary responsibilities, prioritizing the financial goals and security of their clients over short-term performance metrics. By doing so, they can ensure that asset owners remain fully funded, providing stability and security in an unpredictable financial landscape.

Interested in reading the full article? [Click here](#)

Have an opinion? Please share it with [Patrick Fowler](#).



Consider conducting internal reviews to identify and correct any GIPS compliance issues. These reviews should be carried out by knowledgeable and independent individuals within your organization.

-Ashley Reeves, CIPM

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- September 25 – London Performance and Risk Summit
- November 7-8 – [Autumn EMEA Meeting of the Performance Measurement Forum – Barcelona, Spain](#)
- November 20 – [Fall Meeting of the Asset Owner Roundtable \(AORT\) – Charleston, SC](#)
- November 21-22 – [Fall North American Meeting of the Performance Measurement Forum – Charleston, SC](#)

For information on the 2024 events, please contact [Patrick Fowler](#) at [732-873-5700](tel:732-873-5700).

Access TSG’s Online Training Content With One Pass

Our classes cover a wide range of performance measurement concepts, including the Fundamentals (Rates of Return, Attribution, Benchmarking, Risk, and the GIPS standards), and deeper dives into Attribution to include Equity Attribution, Fixed Income Attribution, Multi-Level Attribution, and Multi-Period Attribution. Students will also have access to the newly released Python for the Performance Measurement Professional class. Whether you want to get new members of your performance team trained, or you’re looking to fill in gaps of experienced staff, these classes fit every experience level. This is also a great way to give non-performance professionals a solid overview of performance methodologies and jargon.

The multi-pass gives students *unrestricted access* to TSG’s entire suite of on-demand training classes and conference recordings available on our online training Institute. This includes more than 80 lessons and over 50 hours of content that’s directly beneficial to investment professionals. To learn more, contact Andrew Tona at (ATona@TSGPerformance.com).

TSG’s Response to OCIO Exposure Draft

TSG responded to the exposure draft, and we will share those details, one exposure draft question at a time.

Question 7: Do you agree with requiring both gross-of-fees and net-of-fees returns for Required OCIO Composites?

While it should be recommended, there should be no additional or different requirements that OCIO strategy composites need to adhere to that others do not. We think the requirements should remain consistent throughout; i.e., the same recommendation for both OCIO firms and non-OCIO firms.

That’s a Good Question

Under the new SEC Marketing Rule, are sleeves considered hypothetical performance?

The Rule states that “extracted performance” is considered “hypothetical performance, which comes with additional requirements and limitations. And so, the question is do sleeves constitute extracted performance?

This is something we have discussed/debated internally, as there is no guidance, as of yet.

We believe that if the sleeves are managed as, if you will, separate sub-portfolios within the accounting system, they would not constitute extracted performance and therefore not be hypothetical. The rationale behind this is that

Quote of the Month

"I alone cannot change the world, but I can cast a stone across the water to create many ripples."

– Mother Teresa

ATTN: TSG Verification Clients

Attention: TSG Verification Clients Attending the 28th Annual GIPS Conference

TSG will host a dinner on September 17th for clients and invited guests. Please email Chris Spaulding if you are interested in joining us.

CSpaulding@TSGperformance.com

As a reminder, all TSG verification clients receive full, unlimited access to our [Insiders.TSGperformance.com](https://insiders.tsgperformance.com) site filled with tools, templates, checklists, and educational materials designed to make compliance and verification as easy as possible for you and your firm.

Contact CSpaulding@TSGperformance.com if you have any questions or are having trouble accessing the site.

TSG Milestones

Thank you!

Stacey Braun Associates, Inc.

for the privilege to serve as your
GIPS® verifier for the past 10 years!

We are honored and grateful for the chance to work with such a wonderful team, and we look forward to continuing to serve you.



Welcome To The Performance Measurement Forum Ontario Municipal Employees' Retirement System (OMERS)!

The [Performance Measurement Forum](https://www.performance-measurement.com) has met 103 times over the past 25 years and our next meetings are scheduled for November in Barcelona, Spain and Charleston, SC. This month we celebrate and recognize our newest member, **OMERS**.

The Performance Measurement Forum and Asset Owner Roundtable are interactive networking and practical information exchanges where performance measurement professionals examine important topics in an atmosphere conducive to dialogue, knowledge sharing, and networking. Members engage with global industry leaders to explore a variety of performance and risk topics, implementation strategies, management challenges, and policy solutions that directly apply and influence their proficiencies and effectiveness.

these sub portfolios can be distinguished from one another within the system. It is a convenience for the client to allow them to have a single custodial account, that is broken up at the manager by their portfolio accounting system. These systems tend to use fairly sophisticated logic to distinguish assets by strategy, thus allowing the system to easily break the account into separate sub portfolios, a.k.a. sleeves.

That said, this is our opinion. We encourage you to consult with your internal compliance professionals as well as your outside counsel. If you are a TSG verification client, we would be happy to discuss this further with you.

Please submit your questions to [Patrick Fowler](mailto:Patrick.Fowler@tsgperformance.com).

Potpourri



DID YOU KNOW?

- In a jiffy is an actual measurement of time: 1/100th of a second is a jiffy.
- The circulatory system is more than 60,000 miles long.
- $111,111,111 \times 111,111,111 = 12,345,678,987,654,321$
- Horses can have more than one horsepower.
- A crocodile cannot stick its tongue out.

Source: fishersci.com/

Article Submissions

The Journal of Performance Measurement® Is Currently Accepting Article Submissions

The Journal of Performance Measurement is currently accepting article submissions on topics including performance measurement, risk, ESG, AI, and attribution. We are particularly interested in articles that cover practical performance issues and solutions that performance professionals face every day. All articles are subject to a double-blind review process before being approved for publication. White papers will also be considered. For more information and to receive our manuscript guidelines, please contact Douglas Spaulding at DougSpaulding@TSGperformance.com.

Submission deadlines

Fall Issue: October 11, 2024

Winter Issue: January 13, 2025

These one-of-a-kind learning and information exchange environments provide the capabilities and resources to give today's performance measurement professionals the knowledge necessary to benefit themselves and their organizations.

Contact [Patrick Fowler](#) if you would like information about how you can be part of this dynamic group.



Compliance Corner

How Has The Marketing Rule Affected SMA Managers Differently From Private Funds?

In a recent [FundFire](#) article, [Vigilant](#) Director, Will Clark, CIPM, MBA, discusses how the transitions required by the Marketing Rule may have affected SMA managers differently from Private Funds.

Although the Private Fund Rule has been overturned by an appeals court, the Marketing Rule remains in full effect and is a top priority for the SEC.

While current enforcement may focus on more obvious violations, it is expected that the Division of Enforcement will eventually turn its attention to the Private Fund sector as the SEC broadens its investigations.

It is crucial for Private Funds to take all necessary steps to ensure compliance with the Marketing Rule.

[Learn more here.](#)

TRIVIA TIME

Here's This Month's Trivia Questions; Answers In The Next Issue!

Responses received with all correct answers will be recognized in the next month's issue.

1. What was the first book published by Jane Austen?
2. Which two countries have the longest shared international border?
3. What year was the first iPhone released?

Submit your responses to: PFowler@TSGperformance.com

Last Month's Trivia Solutions.

1. What New York City bar was the location of a 1969 uprising credited as sparking the modern LGBTQ+ rights movement?

Answer: **The Stonewall Inn**

2. What are the first 22 cards in a tarot deck called?

Answer: **The Major Arcana**

3. What was the name of the possessed hotel in Stephen King's novel (and movie) *The Shining*, based on the real-life Stanley Hotel in Colorado?

Answer: **The Overlook Hotel**

Correct responses to the trivia questions:

- Anthony Howland
- Douglas Spaulding

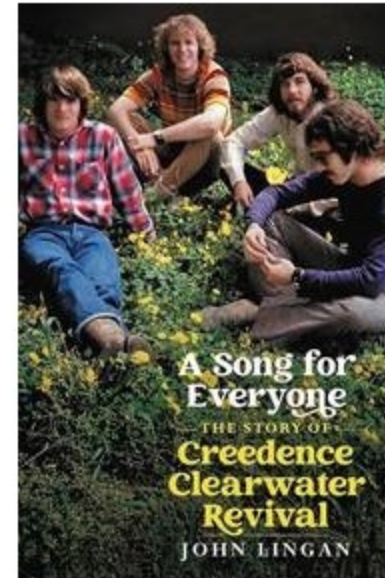
Please submit your trivia solution or puzzle ideas to [Patrick Fowler](#).

The Institute of Performance Measurement

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Book Review

A Song For Everyone, by John Lingan



I've been a fan of CCR for decades, as well as of John Fogerty as a solo artist. And so, when I discovered this book, I knew I'd want to read it. Unfortunately, I may have learned too much.

I had previously known that following the breakup of the band, John Fogerty had an estranged relationship with his older brother, Tom. So estranged that when Tom became quite ill and dying John kept away, never visiting him nor speaking with him again.

This book provided so much more in terms of John's attitude, demeanor, and relationship with the other band members. At a certain point, he became the *de facto* leader of the band, but he established some rules that didn't always sit well with the others. He would be the lead singer, despite his brother having an acknowledged beautiful voice. He would also be the only one to write songs. And it was he who decided that the band would not give encores; ever.

Here's an example of how John could be: CCR was inducted into the Rock & Roll Hall of Fame following Tom's death. The other two band members, Stu Cook and Doug Clifford, attended, and expected to be on stage to perform when one of their songs was to be sung. But John apparently had arranged for the song to be sung and performed by others, excluding Stu and Doug. Why would he have done this? To quote James Coburn from *Payback*, "That's just mean."

Several years ago, my late wife and I attended a Fogerty. It was great. I so much enjoyed the songs and his performance of them. However, now that I know a lot more about him, I won't do this again. I will continue to listen to the music, but I wouldn't want to see him perform ever again.

I guess this is a bit of a warning: that sometimes it's better to not get to know someone better. This is a 180 degree reversal of Abraham Lincoln's statement "I don't like that man. I must get to know him." Getting to know a lot more about John Fogerty was quite unpleasant.

The book is well researched and written. The author made attempts to interview John Fogerty, but [perhaps not surprisingly] this didn't occur.

If you're a CCR and Fogerty fan, you may want to avoid the book; you, like me, may get to know more than you would have liked.

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