THE GLOBAL STANDARD

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Attribution
Delivering Value with the Values

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One of the challenges investment managers face in delivering meaningful investment analysis is the differing needs of different types of investors. The objectives of an institutional investor can vary significantly from a high-net-worth individual or family office. The one thing that is common among these constituent groups is a rising need to provide increasingly detailed information. Based on a 2011 survey by the Spaulding Group, there has been a continued increase in the delivery of attribution information to clients.

Before tackling the reporting needs, we need to look at the challenges associated with how the data is calculated. At the core of this issue is the growing number of methodologies available, lack of a clear preferred method and the varying ability to capture some of the key data points needed for a complete analysis. While the Spaulding survey did show a large number of firms preferring transaction - versus holdings-based attribution, we still see significant differences within models that propagate themselves with the large number of proprietary calculation methods. We continue to see differences in the most basic approach to the analysis, how returns are smoothed — arithmetic or geometric. This lack of consistency makes supporting our clients even more challenging. Ultimately, investors are best served by managers who can articulate the strengths of their calculation approach and those who best explain the reasoning behind their investment results, then use that data to improve the investment process.

What is clear is the understanding that all constituent groups want to see a breakdown of the alpha to understand the reason behind the excess return. Why did their portfolio differ from a benchmark and/or what is the source of the return? Hence, the challenge for the performance analyst becomes presenting the data in the right format to tell your story understanding that different audiences have differing needs. It is not groundbreaking research to categorize the recipients at a high level. However what is rarely done is a review of the client's reporting requirements. The most simplistic investors are asking what contributed to their return through an analysis derived simply by multiplying the sector weight by the return to see what drove the overall return. As you move up the sophistication chain, the effort is to determine where the value of investment management came from, did I make the right bets — security, sector, yield, duration, etc. The most educated recipients ask for additional factors to come into play, whether they are multi-factor based models or further analysis around the level of risk taken.

Regardless of how we calculate the values, the reporting must be clear, concise and meet the expectation of the audience. Firms need to ask themselves detailed questions: Who is the customer? Consultants? High-net-worth investors? Institutional investors? What is their level of understanding of the topic? What do they really want to know? At the same time, they must not forget how to drive the internal value of this analysis within the investment process. The one thing that is clear: There is no "one size fits all" solution to customer requirements.

Client Service, Strong Performance and Why You Should CARE!

Steve S. Sobhi
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With the Dow Jones Industrial Average (DJIA) at a four (4) year high, it's easy for many in the investment management industry to lean on a strong market and in many cases resulting performance when speaking to clients. However, I challenge you to not take the easy road!

I've had the privilege of working as consultant in the industry for over twelve (12) years and have seen first-hand an increasingly competitive marketplace. It is my opinion that, one cannot "live" on strong performance alone. Performance must be balanced with unparalleled client service! I suggest that the industry take the "high road" and see the strong market as opportunity to work even harder to ensure that the needs of their clients are being met. The truth is, as we all know, you can't always count on good or great performance to keep your clients happy. By creating client loyalty in the stronger times, I believe you will increase the odds of successfully riding out any storms with your clients that may come.

So, how do you develop an effective plan that fosters client loyalty? In my opinion, you simply need to CARE about them.

Consult with them.
Anticipate their needs.
Respond to their questions and concerns in a timely fashion!
Exceed their expectations.

The age old expression, "ask and you shall receive" still holds true. The easiest way to learn more about your clients' is to Consult with them. Ask them if they are pleased with the services you are providing and if there is anything that they need that you aren't currently offering. Some of the most effective ways to do this, in my experience, is face-to-face and via survey (e.g. surveymonkey.com). This invaluable

(continued on page 2)

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information will provide insight that will keep your business growing as the industry and client needs evolve.

The next trait in a creating an environment of unparalleled client service is to Anticipate your clients' needs before they know they need it or want it. This will tell your clients' that one, you truly know them and their needs and interests and two, that you are aware of the marketplace and are ensuring your services are at the forefront of the industry.

I know that we have all been on the other end as a client or customer. I am sure you will agree that one of the worst client experiences you've ever had surrounds the service provider, consultant, etc. not being responsive to your needs. So, this one is simple with regards to your clients. Always Respond to their questions, concerns and needs in a timely fashion! Even if you cannot resolve it now, let them know you understand their concerns and are in touch with someone who can. Just don't "drop the ball". Honesty and being forthright goes a long way in creating client loyalty!

The last key train in creating strong client loyalty is to Exceed their expectations. Continuing to "wow" your clients will only lead to more business for you in the long run. Happy clients who are able to champion your business to prospects are the ultimate compliment.

Understanding the mechanics and importance of client service is not rocket science. However, it's easy for many organizations to become complacent as they experience success and have client service fall to the wayside.

CARE about client service and your clients will care about you in times of strong performance and in times of challenge.

Center for Applied Research

State Street Corporation

State Street launched its Center for Applied Research in June 2011 to provide clients with strategic insights into issues that will shape the future of the investment management industry. Building on the success of State Street's established Vision thought-leadership program, the Center brings together resources within the financial services industry and across State Street to produce timely research on the topics that are most important to investors worldwide.

A focus on the industry trends that matter to you
We select our research topics based on input from investment management industry professionals across the Americas, EMEA and Asia Pacific, including:

- Institutional and retail asset owners
- Traditional and alternative asset managers
- Insurance firms
- Distributors
- Advisors

Each 12- to 18-month research study will include both primary research, driven by face-to-face interviews, and secondary research methods. The research will be global in nature and equally weighted across the Americas, Europe, the Middle East and Africa, and Asia Pacific, and cover topics such as country-level assessment of:

- Investor behavioral shifts
- Asset depth
- Asset Allocation patterns
- Regulatory implications
- Fee analysis
- Competitive landscape analysis

Research will be delivered in easy-to-use formats, such as executive summary white papers and PowerPoint presentation decks. We can also customize our delivery approach, providing company briefings, conferences and multimedia presentations to meet your c-suite and board of director needs.

A highly experienced research team Our Center for Applied Research is an independent think tank which resides at the corporate level and comprises a global team of researchers located across the Americas, EMEA and Asia Pacific. Senior Vice President Kelly McKenna leads the team overseeing strategy and operations for the Center, and Suzanne Duncan, senior vice president, has been appointed global head of research for the Center.

Ms. McKenna re-joined State Street in 2010, and has more than 25 years of industry sales and sales leadership experience, designing strategic plans for new business development with top institutional clients. Ms. Duncan recently re-joined State Street from IBM Corporation, where she led research for the financial markets industry. She has presented research at more than 200 conferences and her research has been featured in over 250 media outlets worldwide.

About State Street
With $22.8 trillion in assets under custody and administration, and $2.1 trillion in assets under management* as of June 30, 2011, State Street is a leading financial services provider serving some of the world's most sophisticated institutions. We offer a flexible suite of services that spans the investment spectrum, including investment management, research and trading, and investment servicing. Our global reach, expertise and unique combination of consistency and innovation help clients manage uncertainty, act on growth opportunities, enhance the value of their service and optimize cost structures.
**This AUM includes the assets of the SPDR Gold Trust (approx. $58 billion as of June 30, 2011), for which State Street Global Markets, LLC, an affiliate of State Street Global Advisors, serves as the marketing agent.*

In Risk Management, the Data Really Matters

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One of the most basic premises of investment management is that increased risk has the potential for increased reward. This is the main driver of optimizing portfolios to maximize your return for the accepted risk tolerance. However, portfolio optimization requires us to consider factors based upon historical risk, returns and target weights, which can seem odd when you provide the client with the ultimate hedge of "past performance is not indicative of future results." It also means you believe that in the real world all market/asset correlations will remain static. A quick review of any online news site will demonstrate that is not true. Political or economic instability have a significant effect on markets, and measuring the future impact is challenging to say the least. Where does that leave us? What we need to do is first understand what risk measures are telling us and then consistently evaluate our models to limit missed or masked exposure.

While major events in history can repeat themselves — or at a minimum have striking similarities to past events — the timing is unknown and can be extremely long, caused by differing factors and have varying results on security returns. Obviously, past returns, beta and correlations do have significant meaning. What we need to understand is which data elements and points are more critical than others. Applying a higher weighting factor for more recent elements may be the prudent solution, considering that the more recent data may represent conditions that still exist in the market — especially when markets are more volatile. Your data needs to change as frequently as you reanalyze your portfolio. Stale data is obviously ineffective. Your tradeoff becomes the cost to acquire data more frequently in determining which of the factors are truly relevant to your model versus less timely analyses.

The next consideration is the bifurcation of returns to analyze the factors behind the excess. It is critical to make sure that the factors that drove the return are properly identified. Missed — or in some cases masked — factors will wreak havoc with a model. This again means that we have to subscribe to more frequent market data updates and consistently examine our attribution and contribution models to make sure they are telling us the right story.

Should all this analysis not effectively optimize portfolios, the tendency is to quickly readjust our model which is the right thing to do in many cases, however that may not always be the only course of action. Ensuring the factors and weights are obviously important to the output. What we also need to do is review the quality and effectiveness of the inputs — validate the usefulness of the data. Further analysis needs to be done to determine if the timing is relevant, and if the source accurate, reliable and timely in its delivery of data.