

Decision oriented or comprehensive return measurement

- from an asset owner perspective

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Starting point

Asset owner driven investment reporting

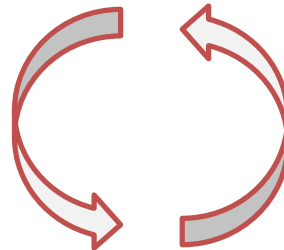
This type of investment reporting is designed by the asset owner – considering the asset owner's specific circumstances. The objective is to provide relevant management information for internal decision makers.

Asset owner have a big problem getting the relevant management information and tailor-made reports that **reflect best practice**.

Service provider driven investment reporting

This type of investment reporting is mainly designed by the service provider – maybe considering a kind of standard asset owner. The objective is to make the service provider look better or to provide a reasonable report with low costs and with no risk.

Service provider have little incentive to reflect asset owner's needs regarding tailor-made information and reports, and therefore **provide best (standard) practice**.



Comprehensive return measurement

(1/8)

Type of profit and costs / taxes	Profit / costs
Net AO profit according to accounting (before accounting related corrections like e.g. IT write-downs)	4'000
Non-asset management costs and all non-asset management taxes	40
Net AM profit	4'040
External asset management costs and taxes	314
Management fees	200
Estimated TER-costs	100
Custody fees	10
Non-reclaimable withholding taxes and other taxes	4
Internal asset management costs and taxes	32
Internal asset management costs	30
Other internal asset management costs (e.g. reporting, risk analysis)	2
Transaction costs caused by the board of directors	10
Gross AO and AM profit	4'396

Comprehensive return measurement

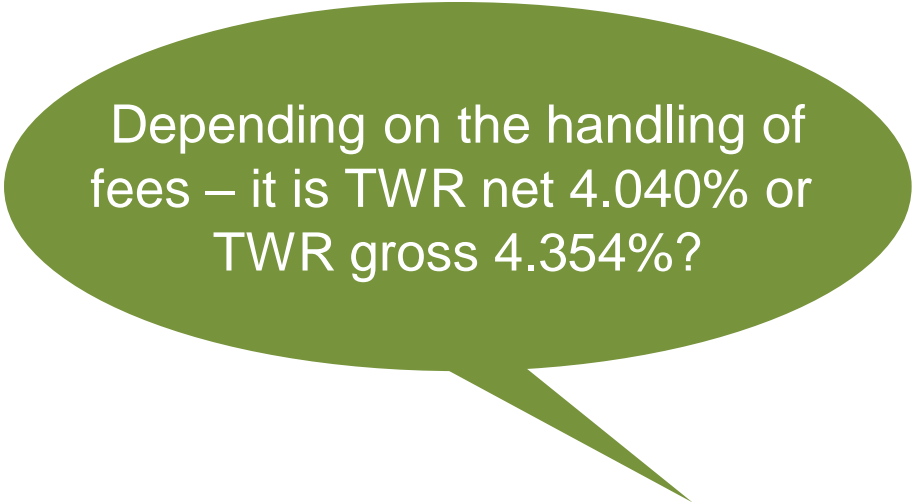
(2/8)



What is my return!



Asset owner



Depending on the handling of fees – it is TWR net 4.040% or TWR gross 4.354%?



Service provider

Comprehensive return measurement

(3/8)

We not just need one or two types of return.
Different questions need different measures - for a proper answer !

But people always say:
TWR is the solution?

In some cases but not in all.
... and there is not just one type of TWR.



Asset owner



Service provider

Let's have a closer look

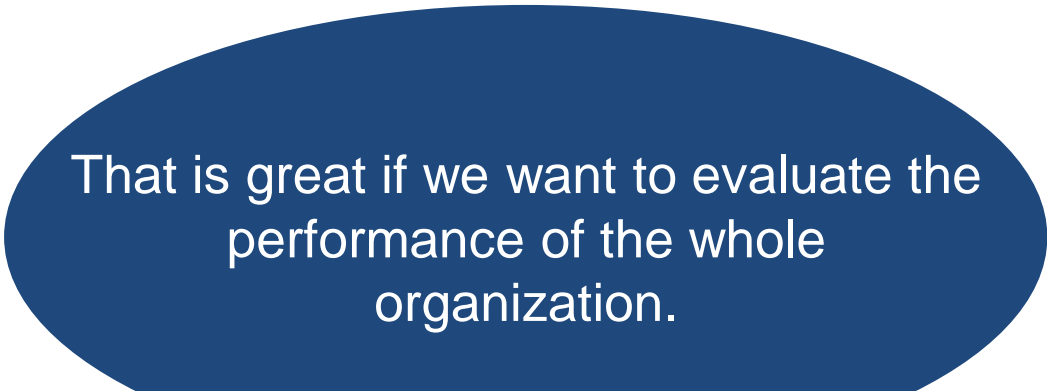
Comprehensive return measurement

(4/8)

Type of return	Underlying profit and return <small>(with total assets of 100'000 and no external cash flows)</small>	
Net AO return	$\Rightarrow 4'000$	$\Rightarrow 4.000\%$
Net AM return	$\Rightarrow 4'000 + 40 = 4'040$	$\Rightarrow 4.040\%$
Gross AM return 3	$\Rightarrow 4'040 + 314 = 4'354$	$\Rightarrow 4.354\%$
Gross AM return 2	$\Rightarrow 4'354 + 32 = 4'386$	$\Rightarrow 4.386\%$
Gross AO / AM return 1	$\Rightarrow 4'386 + 10 = 4'396$	$\Rightarrow 4.396\%$

Comprehensive return measurement

(5/8)



That is great if we want to evaluate the performance of the whole organization.



But what if looking at the individual portfolio manager?



Asset owner



Let's have a closer look

Comprehensive return measurement

(6/8)

Type of profit and costs / taxes	Profit / costs
Net AM profit	4'040
Net AM profit (internal account 1)	1'040
Account specific internal and external asset management costs and taxes	20
AO / AM driven transaction costs (due to rebalancing and changes in the strategy)	10
Gross AM profit (internal account 1)	1'070
Net AM profit (external account 2)	3'000
Account specific internal and external asset management costs and taxes	326
AO / AM driven transaction costs (due to rebalancing and changes in the strategy)	40
Gross AM profit (external account 2)	3'366

Comprehensive return measurement

(7/8)

For our internal investment reporting we need more than one type of return!



Asset owner

I was not aware of this?



Service provider

Let's have a closer look

Comprehensive return measurement

(8/8)

=> a bit more concrete if evaluating the asset management.

Returns / return contributions	YTD return	YTD return contribution to total assets
Gross TWR for total assets	+ 4.396%	+ 4.396%
Net TWR for total assets	+ 4.040%	+ 4.040%
Net TWR for bonds (50%)	+ 2.080%	+ 1.040%
Gross TWR for account bonds	+ 2.140%	
...	...	
Net TWR for equities (50%)	+ 6.000%	+ 3.000%
Gross TWR for account equities	+ 6.732%	
...	...	

Additional information:

Gross MWR for total assets	+ 4.896%	
Net MWR for total assets	+ 4.540%	

Conclusions

- Best practice investment reporting is not identical to current industry standards for presenting information to prospective clients or marketing performance track records to asset owners.
- Best practice investment reporting is not about best (standard) practices for measuring performance figures or presenting information.
- Best practice investment reporting is not about ONE FITS ALL.

But ...

- Best practice investment reporting **is about** appropriate information for the specific purpose in mind.
- Best practice investment reporting **is about** communication between the preparer and the user about the necessary and appropriate information.

Thank you!



Contact details and disclaimer

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