

# Decision oriented or comprehensive return measurement

- from an asset owner perspective

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# Starting point

## Asset owner driven investment reporting

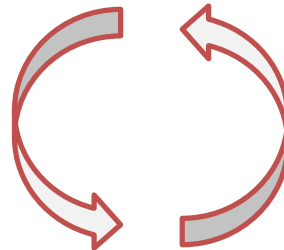
This type of investment reporting is designed by the asset owner – considering the asset owner's specific circumstances. The objective is to provide relevant management information for internal decision makers.

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

# Comprehensive return measurement

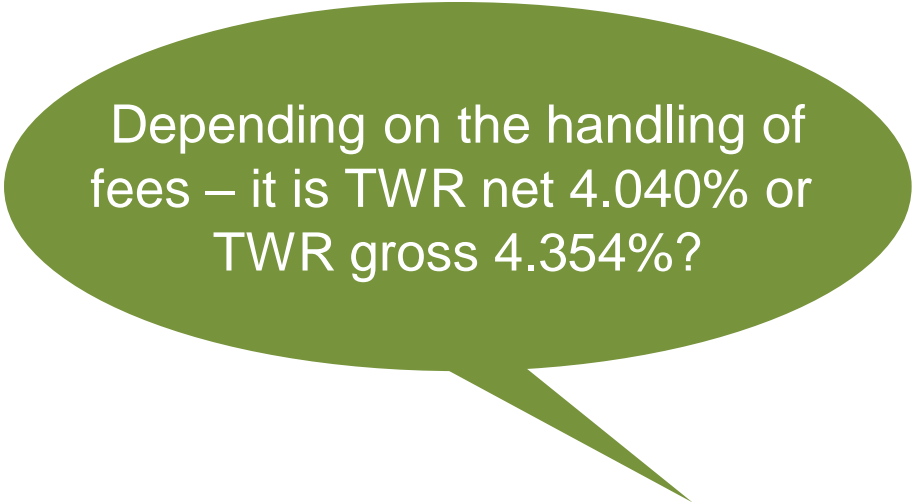
(2/8)



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

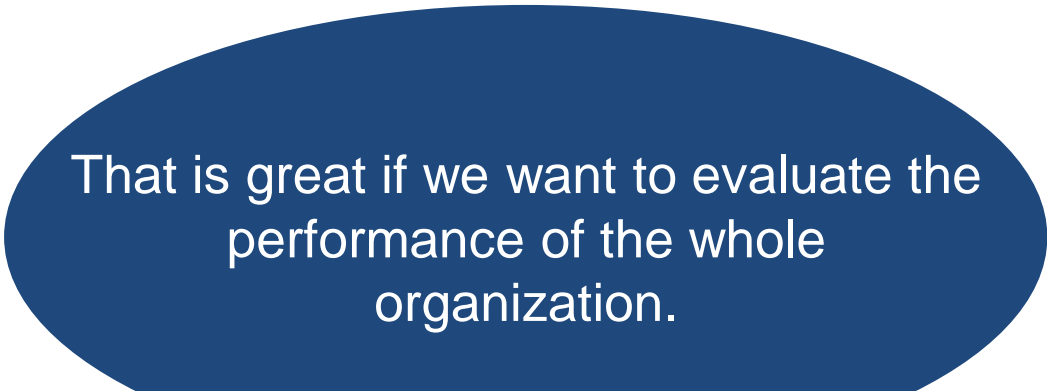
# Comprehensive return measurement

(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

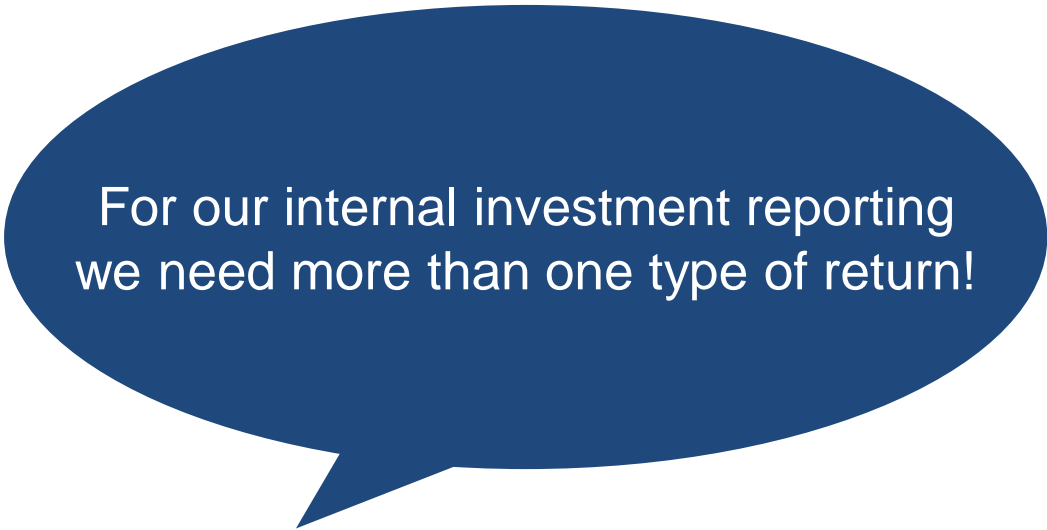
(6/8)

Type of profit and costs / taxes	Profit / costs
<b>Net AM profit</b>	<b>4'040</b>
<b>Net AM profit (internal account 1)</b>	<b>1'040</b>
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
<b>Gross AM profit (internal account 1)</b>	<b>1'070</b>
<b>Net AM profit (external account 2)</b>	<b>3'000</b>
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
<b>Gross AM profit (external account 2)</b>	<b>3'366</b>



# 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
<b>Gross TWR for total assets</b>	<b>+ 4.396%</b>	<b>+ 4.396%</b>
<b>Net TWR for total assets</b>	<b>+ 4.040%</b>	<b>+ 4.040%</b>
<b>Net TWR for bonds (50%)</b>	<b>+ 2.080%</b>	<b>+ 1.040%</b>
Gross TWR for account bonds	+ 2.140%	
...	...	
<b>Net TWR for equities (50%)</b>	<b>+ 6.000%</b>	<b>+ 3.000%</b>
Gross TWR for account equities	+ 6.732%	
...	...	

Additional information:

<b>Gross MWR for total assets</b>	<b>+ 4.896%</b>	
<b>Net MWR for total assets</b>	<b>+ 4.540%</b>	

# 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

# Contact details

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