Illmer
Investment Performance
Consulting AG

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

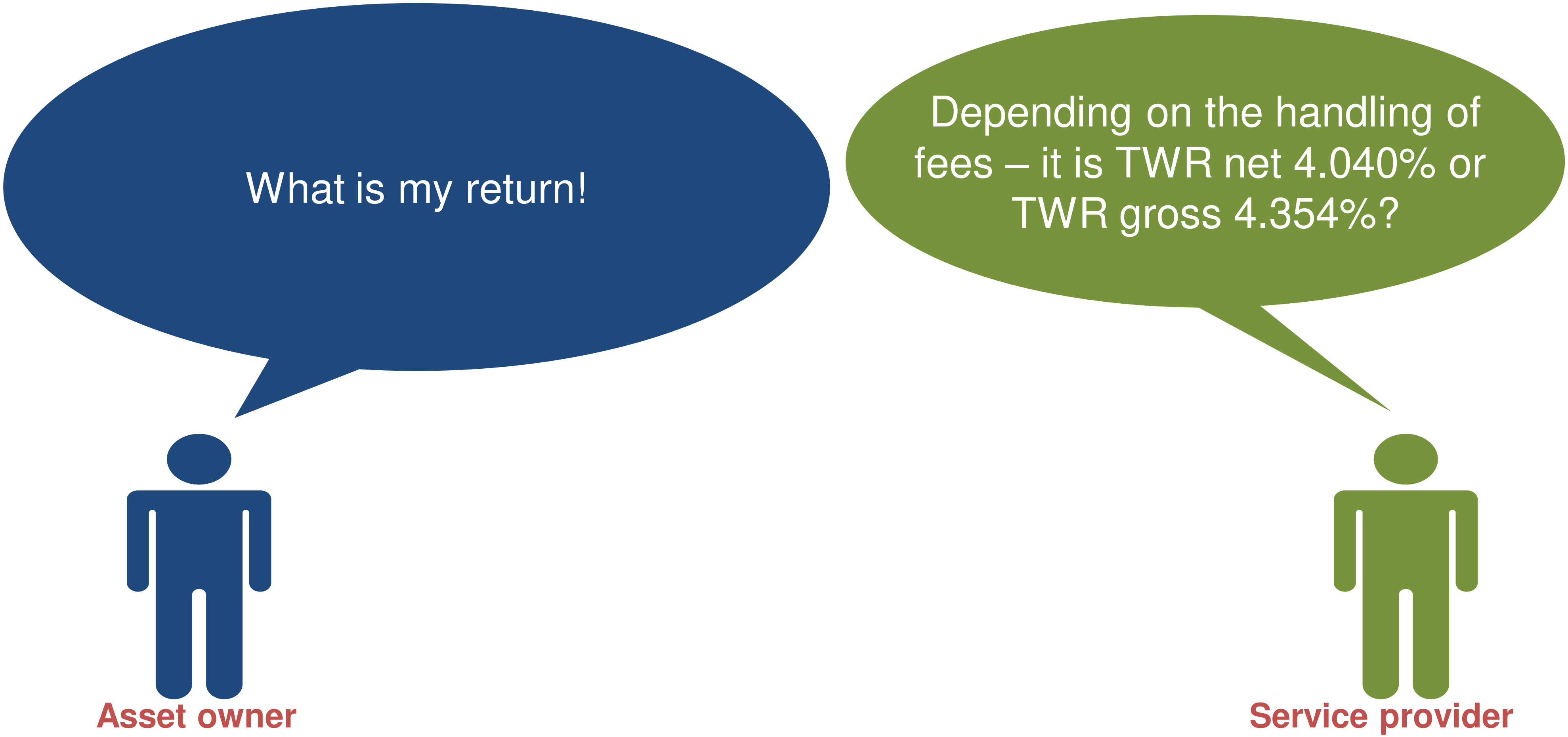
This type of investment reporting is mainly designed by the service provider – maybe considering a kind of standard asset owner.
The objective is to make the service provider look better or to provide a reasonable report with low costs and with no risk.

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

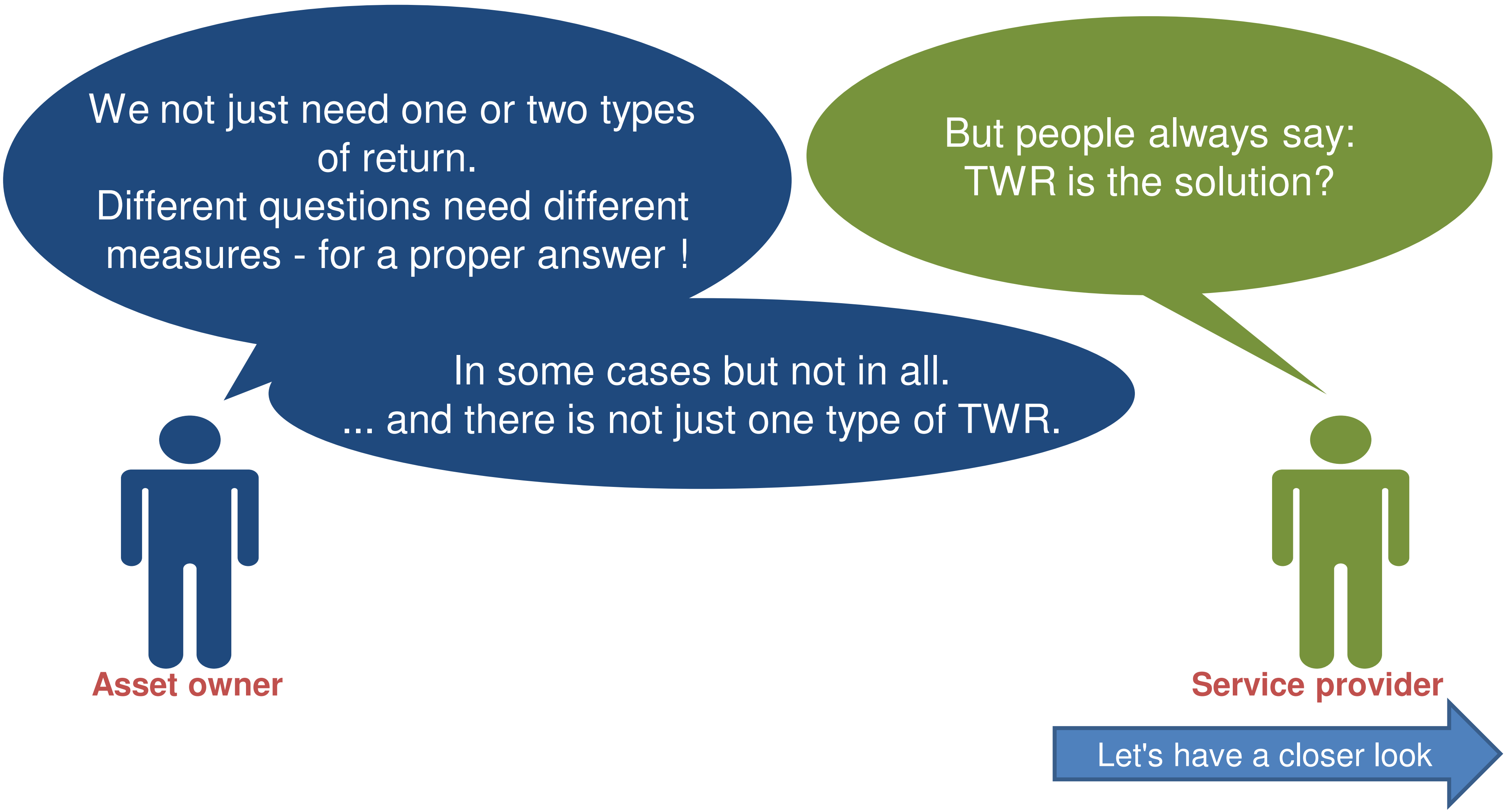
Comprehensive return measurement (1/8)

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)



Comprehensive return measurement (3/8)



Comprehensive return measurement (4/8)

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

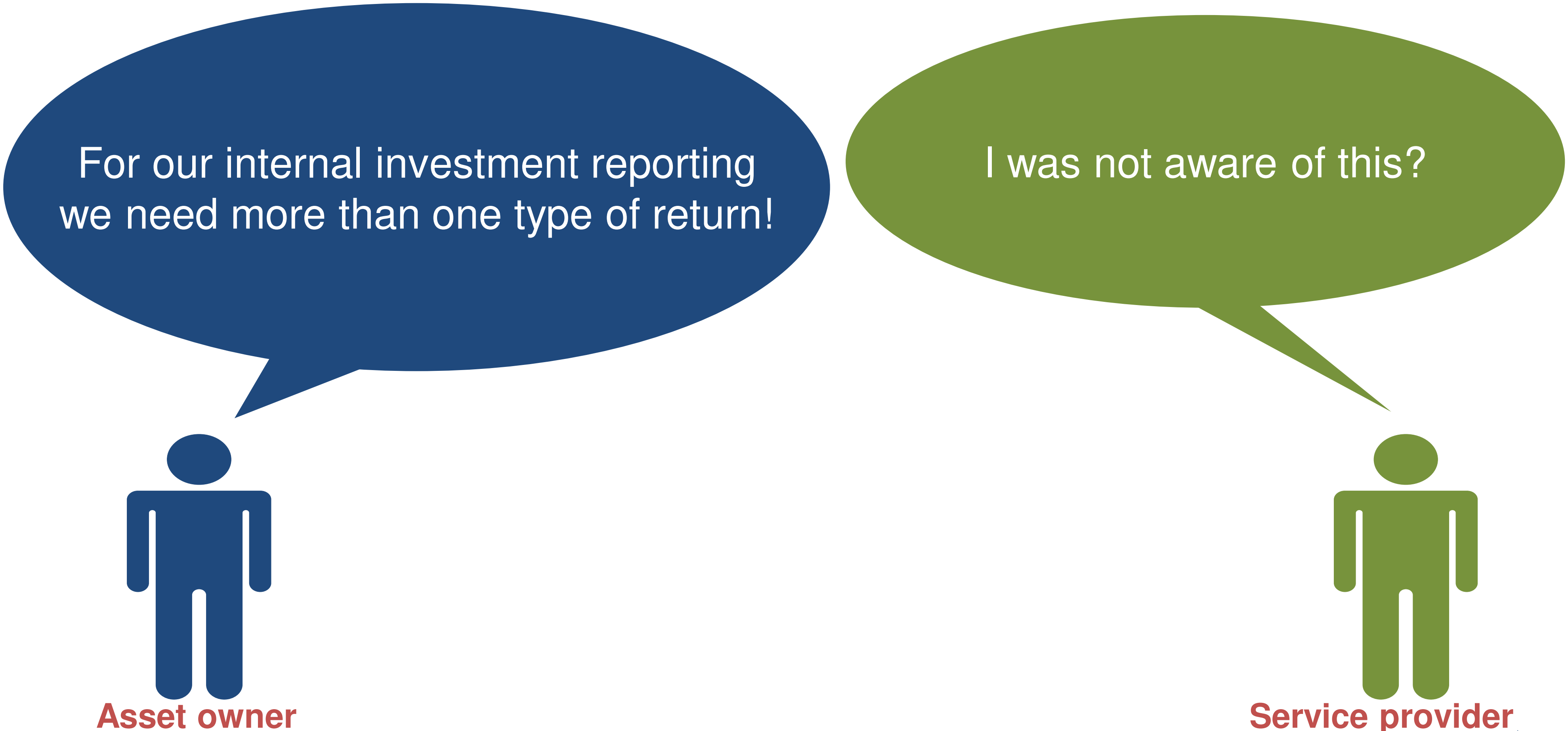
Asset owner

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)



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.

Contact details and disclaimer

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