

READING

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Investment Performance Presentation: An Introduction (an excerpt)

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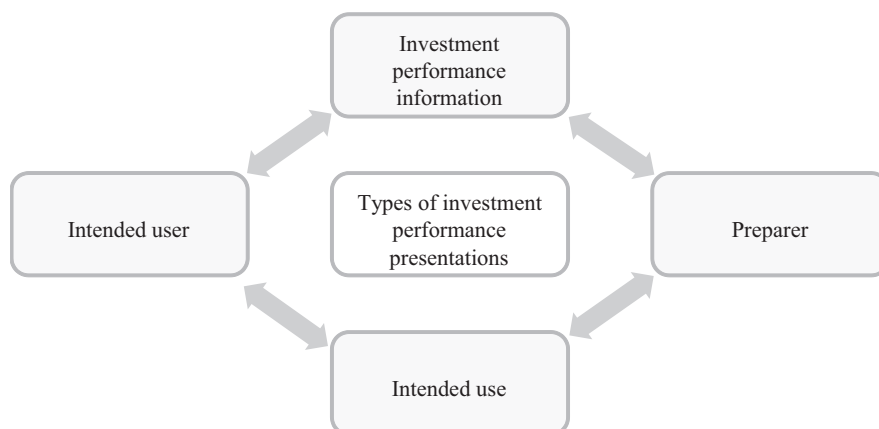
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2.2 Defining Factors of Investment Performance Presentations

In general, reporting as a process is defined as the transfer of any information or data in any form and format from the preparer of the information to the intended user(s). Investment performance presentation covers every type of reporting of investment performance information or data—whether via file, online display, or paper. Exhibit 2 diagrams four factors that determine the type of IPP:

- the investment performance information to be communicated,
- the intended user of the presentation,
- the intended use of the presentation, and
- the preparer of the presentation.

Exhibit 2 Factors that Determine Investment Performance Presentations



The variations of the determining factors are manifold. Examples of each are provided below:

- Investment performance information: Profit and loss figures; performance figures (return and risk), ex-ante (forward looking) and ex-post (historical) performance figures; portfolio, benchmark, composite, and peer group performance figures; or performance analytics including performance attribution.
- Intended user: Prospective or existing clients, marketing, control or compliance officers, portfolio managers, investment committee members, senior management, investment consultants, regulators, or tax authorities.
- Intended use: Determination of the sources of the absolute or relative return and risk, monitoring the implementation of the investment strategy, monitoring the agreed risk limits, product review, performance appraisal,¹ or peer group comparisons.
- Preparer of presentation: (Global) custodian, investment management company, broker, financial analyst, investment advisor, investment consultant, investment controller, or the investor.

Different types of investment performance presentations can be characterized along these dimensions. For example, consider the return attribution report for a multi-asset class portfolio illustrated in Exhibit 3.² It consists of information analyzing the sources of investment returns in terms of investment management decisions—in particular, asset allocation and stock selection.³ The preparer of the presentation may be the investment manager or a consultant hired by the investor, and the end user may be the investment manager (for control purposes) or the investor (for monitoring purposes and performance appraisal). Other sets of characteristics can define other kinds of IPPs such as risk analysis, composite presentations, performance watch lists, or peer group comparisons.

¹ In general, performance appraisal is defined as the evaluation of performance for evidence of investment skill.

² “Return attribution” is frequently referred to as “performance attribution.”

³ The management effects illustrated in Exhibit 3 were calculated using the Brinson, Hood, and Beebower methodology.

Exhibit 3 Sample Return Attribution Report

	Portfolio			Benchmark			Management Effects			Total
	Return	Weight	Contribution	Return	Weight	Contribution	Asset allocation	Stock picking	Interaction	
Cash	0.50%	10.00%	0.05%	0.10%	6.00%	0.01%	0.00%	0.02%	0.02%	0.04%
Domestic bonds	1.50%	22.00%	0.33%	0.50%	20.00%	0.10%	0.01%	0.20%	0.02%	0.23%
Foreign bonds	3.00%	10.00%	0.30%	4.50%	15.00%	0.68%	-0.23%	-0.23%	0.08%	-0.38%
Domestic equities	2.00%	17.00%	0.34%	2.50%	14.00%	0.35%	0.08%	-0.07%	-0.02%	-0.01%
Foreign equities	0.50%	12.00%	0.06%	-2.00%	16.00%	-0.32%	0.08%	0.40%	-0.10%	0.38%
Mortgages	0.50%	5.00%	0.03%	0.50%	3.00%	0.02%	0.01%	0.00%	0.00%	0.01%
Real estate	2.00%	16.00%	0.32%	1.50%	20.00%	0.30%	-0.06%	0.10%	-0.02%	0.02%
Commodities	6.00%	4.00%	0.24%	3.00%	4.00%	0.12%	0.00%	0.12%	0.00%	0.12%
Private equity	2.00%	3.00%	0.06%	0.50%	1.00%	0.01%	0.01%	0.02%	0.03%	0.06%
Hedge funds	1.00%	1.00%	0.01%	-1.50%	1.00%	-0.02%	0.00%	0.03%	0.00%	0.03%
Total	1.74%	100.00%	1.74%	1.24%	100.00%	1.24%	-0.10%	0.59%	0.01%	0.50%