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Do we need performance presentation standards for performance attribution? - A practitioners note.

In performance measurement seminars about the Global Investment Performance Standards (GIPS®) people always ask about the future of these standards. This note fits into this discussion and explains why we need standards for presenting performance attribution figures. To follow the arguments it is best to refer to an example of a performance attribution report.

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An example of a performance attribution report

Presenting a performance attribution report, without appropriate disclosures, can lead to misinterpretations and to a lot of unanswered questions. Here are some of the most important questions one may have:

- What is analysed? A composite, a representative portfolio, a strategy or a model portfolio?
- Does the performance attribution analysis follow the investment decision process of the asset manager?
- Does the performance attribution analysis mirror the investment style of the asset manager?
- Is the benchmark appropriate to the investment strategy?
- Is the investment universe covered by the benchmark? Are investments outside the benchmark allowed and, if yes, is this effect allocated to the stock picking or asset allocation effect?
- Are derivatives included in this analysis and, if yes, how?
- Is leverage considered in this analysis and, if yes, is the return calculated on a cash basis?
- Which methodology is used to calculate the returns?
- Is the performance attribution system buy-and-hold or transaction based?
- Is the analysis done on a daily or monthly basis?
- Are there differences between the presented returns and the official return calculation of the custodian?
- What time period is shown and why has this been chosen?
- Are transaction costs included within the stock selection or asset allocation effect?
- Are the results presented gross or net of management fees?
- Do the management effects vary over time - what is the dispersion?
- Is the interaction effect shown separately or allocated to a specific management effect?

continued...

The questions (*on the previous page*) illustrate that a performance attribution report can easily lead to misinterpretations and consequently to wrong decisions on future investment activities. Saying this, answers to the questions *are essential in order to assess the quality of the investment process of an asset management company*.

The questions are well known to people that deal with GIPS and GIPS compliant performance presentations, such as performance analysts, asset management companies, regulators, auditors, clients, consultants and so on. The spirit of GIPS and its targets (full transparency and disclosure as well as fair representation) illustrate its future direction towards performance presentation standards for performance attribution.

Until performance presentation standards are available for performance attributions asset management companies should *follow the spirit of GIPS*. This means that they should present the performance attribution analysis in a fair and comparable format that provides full disclosure. In other words, they should present the performance attribution results in such a way as to not mislead nor contradict nor conflict with the information provided in a GIPS report. Additionally it should be stated that it is also the responsibility of the clients and especially consultants to ask the relevant questions to fully understand what is shown by an asset management company. Failing to do this may lead to misinterpretation and potential misjudgment of the performance quality of an asset management company.

From a practitioners point of view there is a clear answer to the question whether we need performance presentation standards for performance attribution: Yes we do!

Footnotes

This note summarizes the conclusion of a presentation "Pitfalls in using Performance Attribution" held by the author on the Spaulding Performance Measurement Forum in Oslo this year. The presentation is available from the author (stefan.illmer@csam.com).

A good starting point for a clients' questionnaire to asset management companies could be the EIPC working paper "Guidance for users of Attribution Analysis" or the different surveys on performance attribution done by The Spaulding Group, PriceWaterhouseCoopers and other audit or consulting firms.

Technicalsupport

In the introduction to the previous newsletter we mentioned that *the development team has moved to a larger office in Clerkenwell where they develop new ideas and products to keep performaglobal® ahead of the competition*. Well, this month their hard work bears fruit as we release version 2.1 of performaglobal.

The new release includes a combination of new functionality, enhancements to existing functionality and several new features to make life easier for users. There has also been some 'behind the scenes' work to increase the efficiency of the application. Much of the added functionality comes from suggestions within performa but a significant amount has been implemented as a result of useful feedback from clients, highlighting the benefits of good relationships and 2-way communication.

Work is also underway on the [performaglobal](http://www.performaglobal.com) website to provide new client home pages - password protected areas where information can be shared between performa and clients. *These areas will include aspects of the performa project plan, bug lists and issue progress reports.*

More information relating to the contents of [performaglobal](http://www.performaglobal.com) v2.1 is available in the release notes, which have been sent to client heads of performance, but they are also available on request by emailing solutions@performa.uk.com.

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<http://www.performaglobal.com>

performa

news
the latest news from performa consultants

Asia business forum

Anthony Howland (Product Director) has been invited to speak at the Asia Business Forum's upcoming conference on Investment Performance Measurement. The event will take place in Kuala Lumpur, Malaysia on 27 - 28 November. Anthony will be presenting "GIPS - a practical overview".

Full details are available at www.abf-asia.com.



A new face

performa have created a new series of images which pose a number of simple, yet provoking questions. These will be seen in relevant trade publications and also conference programmes.



performa lunches

performa are hosting a series of informal lunches for key performance

professionals. The primary reason behind these sessions is to facilitate performance discussion between industry peers. Our interest is to make sure that we continue to be aware of the issues that firms and verifiers are currently facing in order for us to maintain a service that will continually meet the industry's overall business requirements. *The first of these lunches took place in September, and we hope that they prove popular.*

More new recruits

We are pleased to announce that **Derick O'Brien** has recently joined performa as Head of Sales. Derick was previously Deputy Sales Director at Standard & Poor's Funds Services and brings to performa 12 years of experience working with the investment management community. His areas of expertise include strategic business development, planning and key account management.

We are also actively recruiting more account managers to ensure we maintain the correct balance of technical skill and quality support within our organisation.

performa

autumn 2002 calendar of events

PLACE: Berlin, Germany
DATE: 9th-10th October
EVENT: The 5th Annual FTSE Global Investment Forum. This international conference will draw together the most influential industry figures to share their unique experiences and unparalleled level of expertise of the latest investment techniques that impact on the success of institutional businesses today.

OCT
9/10

PLACE: New York, USA
DATE: 15th-16th October
EVENT: The 6th Annual AIMR-PPS Conference. The AIMR®-PPS conference will focus on current issues within the performance presentation standards and how they are affecting the industry. Participants will benefit from in-depth presentations by experts on the standards. *All sessions will include project guidelines for use in application.*

OCT
15/16

PLACE: Earls Court, London
DATE: 28th-29th October
EVENT: Performance Measurement & Attribution Forum 2002. This 10th annual global forum uncovers the latest trends and practices in the measurement, execution and reporting of performance analysis. It is vastly becoming recognised as the most relied upon industry event within the performance measurement and attribution field. *performa are co-sponsoring and exhibiting.*

OCT
28/29

PLACE: U.S. and Europe, including London
DATE: October /November
EVENT: The Spaulding Group: 2002 Performance Presentation Standards Survey. The Spaulding Group will be presenting a number of formal worldwide presentations during the coming months on the results of their global industry survey on performance measurement. This review has gained the support and participation of the Association of Investment Management & Research (AIMR). *Further details will be available from the Spaulding website.*

For more information on performa and the services we offer contact:

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