

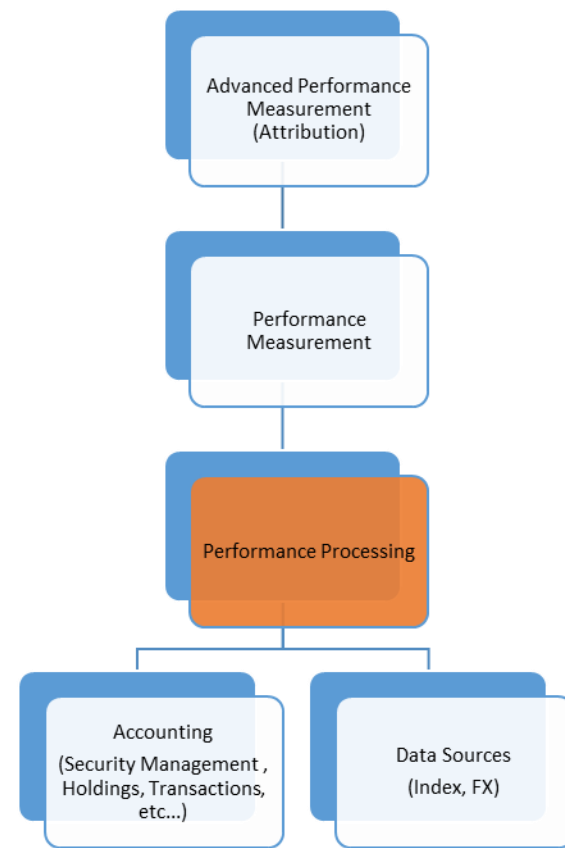
PERFORMANCE MANAGEMENT - EXAMPLES

November 2017



Performance Management

- More often than not, the tasks involved in properly managing performance are overlooked. What occurs as a result is that firms are unknowingly using and presenting incorrect performance numbers and analyses. The flow chart presents a generalized overview of **Performance Measurement Management (PMM)**.
- An important step in PMM is the **Performance Processing** which properly maps accounting transactions for performance purposes and allows the proper treatment of corporate actions, currency impacts and other.



The following examples are actual situations of incorrect performance measurement management, and show the necessary corrections and the impact on performance

Currency Impact on Cash Returns

- **Issue:** The first two columns presented in **Table 1** show actual performance return (%) in **Base Currency**, however the **Base Currency** presented in the first column shows an incorrect return of -200%.
- **Reason for Error:** Omission of the currency movement in the ending market value accumulated during the month.
- **Correction:** The return is corrected by accounting for the currency impact of \$258.55 USD in the ending market value.
- **Result:** The correct return of 0% is reflected.

Currency Impact on Cash Returns

Table 1: Cash Returns

5/31/2013	In Base Currency	In Base Currency Performance Should Be
Class/Security	BRITISH POUND STERLING	BRITISH POUND STERLING
Class/Security Code	10040GBP_INTLC4	10040GBP_INTLC4
Weight	0.00	0.00
Return (%)	-200.00	0.00
Contribution	0.00	0.00
Ending Market Value	0.00	258.55
Beginning Market Value	0.00	0.00
Cash Flow	258.55	258.55
Dollars Earned	-258.55	0.00
DW Cash Flow	129.28	129.28
Average Investment	129.28	129.28

The correct return of 0% is reflected

The return is corrected by accounting for the currency impact of \$258.55 USD in the ending market value.



Return of Capital

- **Issue:** Treatment of the Return of Capital as a **Cash Withdrawal** rather than as a **Sale**.
- **Reason for Error:** The transaction was incorrectly mapped between accounting and performance which resulted in a return of -6.08%.
- **Correction:** Correctly mapping the Return of Capital transaction from a **Cash Withdrawal** to a **Sale**, thus correctly impacting both security and cash.
- **Result:** The correct return of 7.05% is reflected.

Return of Capital

Table 2: Return of Capital

4/30/2013	Current Performance	Performance should be
Class/Security	ZURICH FINANCIAL SERVICES AG C	ZURICH FINANCIAL SERVICES AG C
Class/Security Code	ZURN.VX_INTLC5	ZURN.VX_INTLC5
Weight	1.88	1.88
Return (%)	-6.08	7.05
Contribution	-0.11	0.13
Ending Market Value	373,352.28	373,352.28
Beginning Market Value	372,745.34	372,745.34
Cash Flow	24,382.18	-24,382.18
Dollars Earned	-23,775.24	24,989.12
DW Cash Flow	18,286.64	-18,286.64
Average Investment	391,031.98	354,458.70

The correct return of 7.05% is reflected.

Correctly mapping the Return of Capital transaction from a **Cash Withdrawal** to a **Sale**, thus correctly impacting both security and cash.



Stock Dividend

- **Issue:** Treatment of a corporate action as a **Purchase** and not as **Income** for performance purposes, which resulted in a incorrect return 0.13% (base currency).
- **Reason for Error:** Mapping of the stock dividend transaction.
- **Correction:** Transferring the impact from capital (i.e. **Purchase**) to **Income**.
- **Result:** The correct return of 2.33% is reflected.

Stock Dividend

Table 3: Stock Dividend

5/31/2013	Base Currency	Local Currency	Performance should be Base Currency
Class/Security	HONG KONG EXCHANGES AND CLEARI	HONG KONG EXCHANGES AND CLEARI	HONG KONG EXCHANGES AND CLEARI
Class/Security Code	0388.HK_RFPXC5	0388.HK_RFPXC5	0388.HK_RFPXC5
Weight	1.37	1.37	1.37
Return (%)	0.13	0.16	2.33
Contribution	0.00	0.00	0.00
Ending Market Value	382,957.49	2,972,822.40	382,957.49
Beginning Market Value	382,484.94	2,968,312.60	382,484.94
Cash Flow	-13.66	-106.10	-8,439.44
Dollars Earned	486.21	4,615.90	8,911.99
DW Cash Flow	-0.22	-1.71	-136.12
Average Investment	382,484.72	2,968,310.89	382,484.72

Treatment of a corporate action as a **Purchase** and not as **Income** for performance purposes, which resulted in a incorrect return 0.13% (base currency)

Stock Dividend

Table 4: Stock Dividend

	Current Transaction		Proposed Procedure	
Type	Equity	Equity	Equity	Equity
Security	0388.HK	0388.HK	0388.HK	0388.HK
Security Name	HONG KONG EXCHANGES AND CLEARI	HONG KONG EXCHANGES AND CLEARI	HONG KONG EXCHANGES AND CLEARI	HONG KONG EXCHANGES AND CLEARI
Transaction Date	5/31/2013	5/31/2013	5/31/2013	5/31/2013
Transaction Type	PU	PU	PU	IN
Transaction Currency	USD	USD	USD	USD
Quantity	251	251	251	251
Capital Amount	4,213	0	0	0
Income Amount	0	0	0	4,213
Cash Effect	4,213	0	0	0
Cash Effect Security	10040HKD_RFPXC5	10040HKD_RFPXC5	10040HKD_RFPXC5	10040HKD_RFPXC5
Cash Effect Currency Code	HKD	HKD	HKD	HKD

Corrected by transferring the impact from capital (i.e. **Purchase**) to **Income**.

Spin-Off

- **Issue:** Processing incorrectly the corporate action (spin off of **Mallinckrodt Plc**) which resulted in a large negative return on the parent company (**Covidien Plc**) of -8.74%.
- **Reason for Error:** Missing sale transaction to offset the decrease in market value of the parent company from a performance perspective.
- **Correction:** Generate a sale transaction on the parent company.
- **Result:** The correct return of 0.00% is reflected on the parent company.

Spin-Off

Table 5: Spin-Off

Daily Return Report (Incorrect Management)		
Date	2013-07-01	2013-07-01
Security	Covidien Plc	Mallinckrodt Plc
Begin Market Value	\$304,585	\$0
End Market Value	\$277,965	\$26,620
Positive Flows	\$0	\$26,620
Negative Flows	\$0	\$0
Total Flows	\$0	\$26,620
Gross Return	-8.74%	0.00%

Processing incorrectly the corporate action (spin off of **Mallinckrodt Plc**) which resulted in a large negative return on the parent company (**Covidien Plc**) of -8.74%.

Spin-Off

Table 6: Spin-Off

Daily Return Report (Correct Management)		
Date	2013-07-01	2013-07-01
Security	Covidien Plc	Mallinckrodt Plc
Begin Market Value	\$304,585	\$0
End Market Value	\$277,965	\$26,620
Positive Flows	-\$26,620	\$26,620
Negative Flows	\$0	\$0
Total Flows	-\$26,620	\$26,620
Gross Return	0.00%	0.00%

Corrected by generating a sale transaction on the parent company with the correct return of 0.00% reflected on the parent company

Conclusion

Performance Measurement Management is critical to ensuring the highest quality of information is used by the firm and sent to clients. The impacts of poor management may not seem evident at first but eventually they become apparent and present risks in portfolio management (**strategy risk**) and reporting (**reputational risk**).

It is important to note that although a few examples were presented exclusively at the security level, their impact on performance is significant and felt at all levels. These issues cumulate over time and over all holdings. They impact the following:

- Performance Returns (Alpha)
- Asset Class/Sector impact
- Attribution
- Marketing/ Reporting (Reputational risk)
- Erroneous feedback (Impacting front office decisions)



Who was Phocion?

- Athenian statesman from c. 402 BC – c. 318
- Nicknamed "The Good"
- Courage to stand up against popular opinion
- Avoided corruption
- Loyal to the best interests of all Athenians
- Never mistreated anyone
- Never gave insincere counsel



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