

Best Practices in Analytics, Investment Risk and Performance & Attribution

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The Landscape

- Portfolio Management Cycle
- Evolution of Analytics, Investment Risk and Performance & Attribution practice

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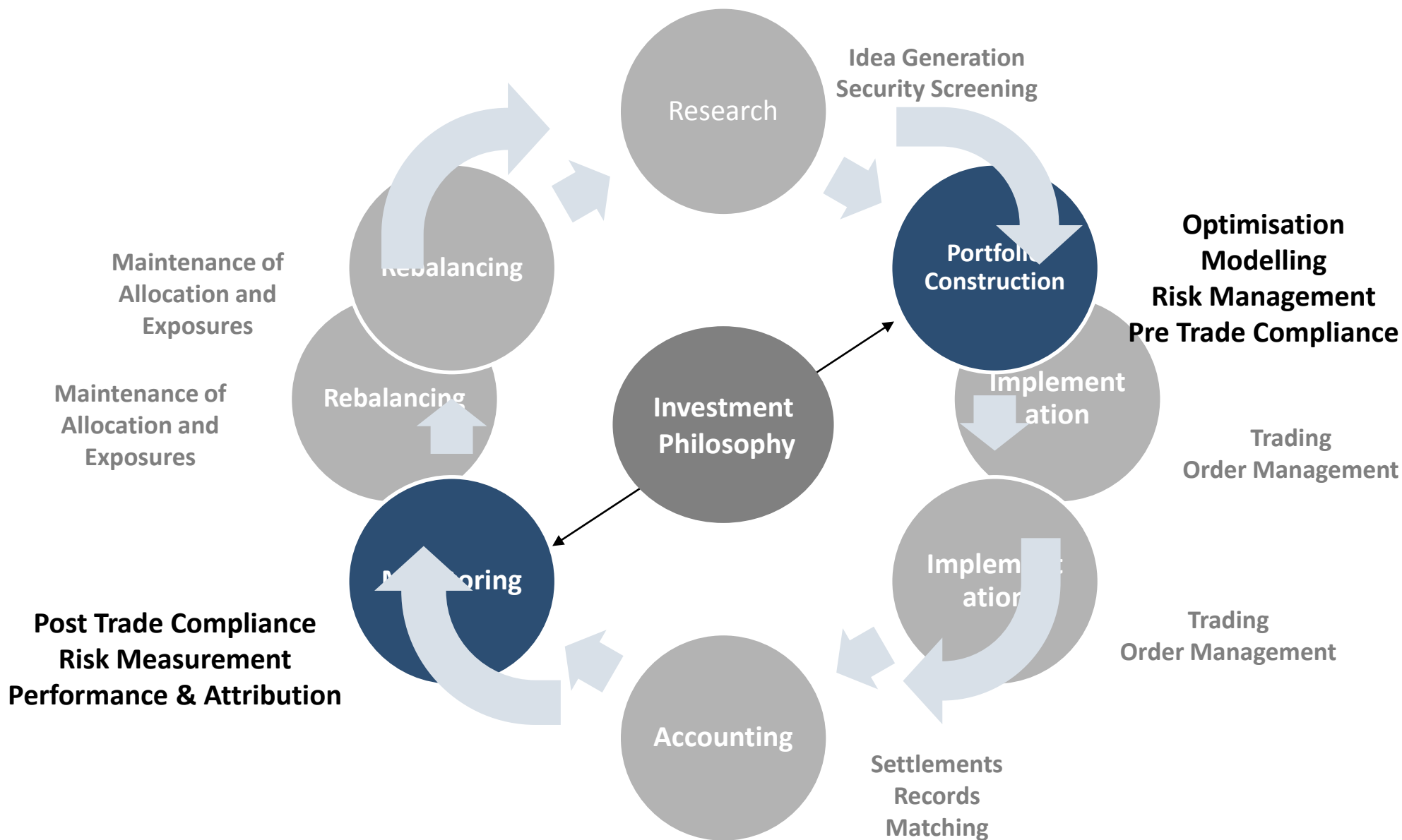
Key Considerations

- Variation in Approaches
- Best Practice Model
- Critical Criteria

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Achieving Best Practice

- Best Practice – the what and the how
- Concluding Points



1980-Mid 90's

Mid 1990's-00's

Future Trends

Analytics & Risk

- Mostly Third party data and some internal
- Nascent ex post te, some ex ante te and optimisation

Performance & Attribution

- Third Party with some in house
- Equity Attribution standard

Structure & Resources

Large Functional Teams, reporting lines based on legacy

Technology

Spreadsheets/Terminals and reports

- In house
- Move from te to MCAR and VaR

- Post GIPS internal operations

Independent Operational and separate Investment Strategy Teams

RAD, accounting legacy, data management tools, specialist performance and risk systems and tools

- Some Third Party with Internal resources focusing on analysis
- Customised and objective oriented

- **Third Party**

Business Intelligence, Product Management and investment strategy / process teams

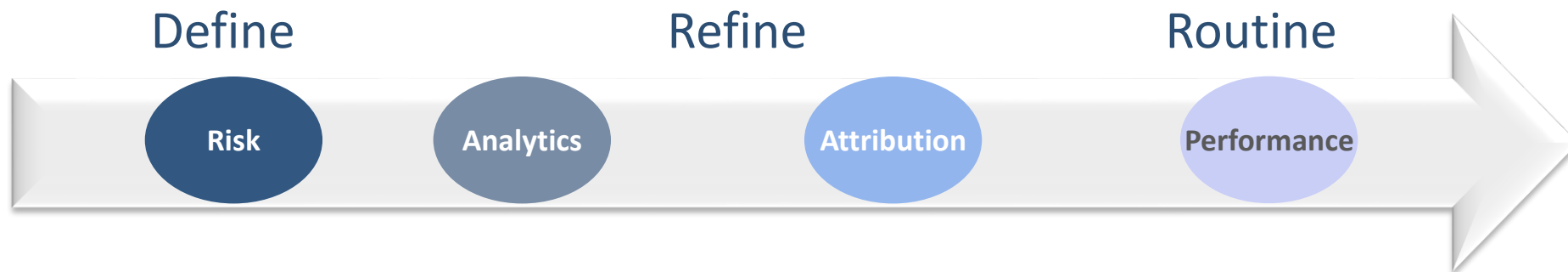
RAD, Portals, Dashboards and other MIS tools

- ≡ Independence of Risk Management Team
- ≡ Independence of Performance Team
- ≡ Attribution on all funds
- ≡ Position vs. Transaction based Attribution
- ≡ KPIs and Fund Manager Appraisal
- ≡ Standardized Client Reporting

One man's best practice is another man's ideal:

- ≡ Type of Asset Manager
- ≡ Client Type
- ≡ Size
- ≡ Scale
- ≡ Maturity
- ≡ Geography

Stage of Process



- ⌘ What is your target market, size and scale?
- ⌘ How well do your analytics, investment risk and performance & attribution tools reflect consistency with your investment strategy?
- ⌘ What are the practical considerations relevant for the firm in terms of people, processes and technology?
- ⌘ Assess the cost and benefits of outsourcing

- ≡ Demonstrate objective management, challenge and control over investment outcomes and products
- ≡ Provide feedback and validation on the investment process
- ≡ Monitor surprises, leakages and dispersion
- ≡ **Provide a basis for objective appraisal and compensation of fund managers – KPI's**
- ≡ As a side effect support client reporting needs

Elements of Best Practice in Performance & Attribution – the how

Element	Common Practice
Total returns vs benchmarks (net and gross)	✓
Performance Review	✗
Sub portfolio / sector returns vs benchmarks	✓
GIPS Composites	✗
KPI Calculation	✗
Biggest contributor/detractors	✓
Ex post risk measures and ratios -Treynor, Sortino etc.	✓
Stock level returns and attribution	-
Style, Factor and FI Attribution	✗
Analyst and research process appraisal	✗

- ≡ Demonstrate objective management, challenge and control over investment outcomes and products
- ≡ Provide **input to**, feedback and validation on the investment process
- ≡ **Control**, monitor and **manage** surprises, leakages and dispersion – i.e. the risks
- ≡ Provide a basis for objective appraisal and compensation of fund managers – KPI's
- ≡ As a side effect support client reporting needs

Elements of Best Practice in Analytics and Investment risk

– the how

Element	Common Practice
Economic exposures	✓
Portfolio characteristics	✓
Marginal contribution to active / total risk	✓
Factor and Style exposure	-
Factor attribution	✗
VaR & CVaR	✓
Back Testing/Optimization	✗

- ≡ Evolution not revolution
- ≡ Appraise what standard is relevant to your organisation and budget accordingly
- ≡ Prioritise structure and governance (the what) and plan implementation carefully

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