



The PrivateBank

INVESTMENT PERFORMANCE REPORTING:
THE DO'S AND DON'TS IN TODAY'S ENVIRONMENT

May 22, 2017

- ✓ Performance Reporting: An Overview
- ✓ How do firms convey performance data?
- ✓ Technology requirements and complexities
- ✓ Common mistakes and pitfalls
- ✓ Industry/Regulatory guidelines
- ✓ Best practices for today's environment
- ✓ Examples



- Age old method of showing a client “how you did”
 - In some cases justifying “your existence”
- Account level, asset class level or sub-asset class level
- Varying degrees taken on approach to reporting
- Detailed analysis
 - Performance
 - Risk metrics
 - Cash flow

How Do Firms Convey The Information?

- Short-term
- Long-term
- Calculation Methods:
 - Time Weighted
 - Dollar Weighted
 - Internal Rate of Return
 - Net of fees
 - Gross of fees



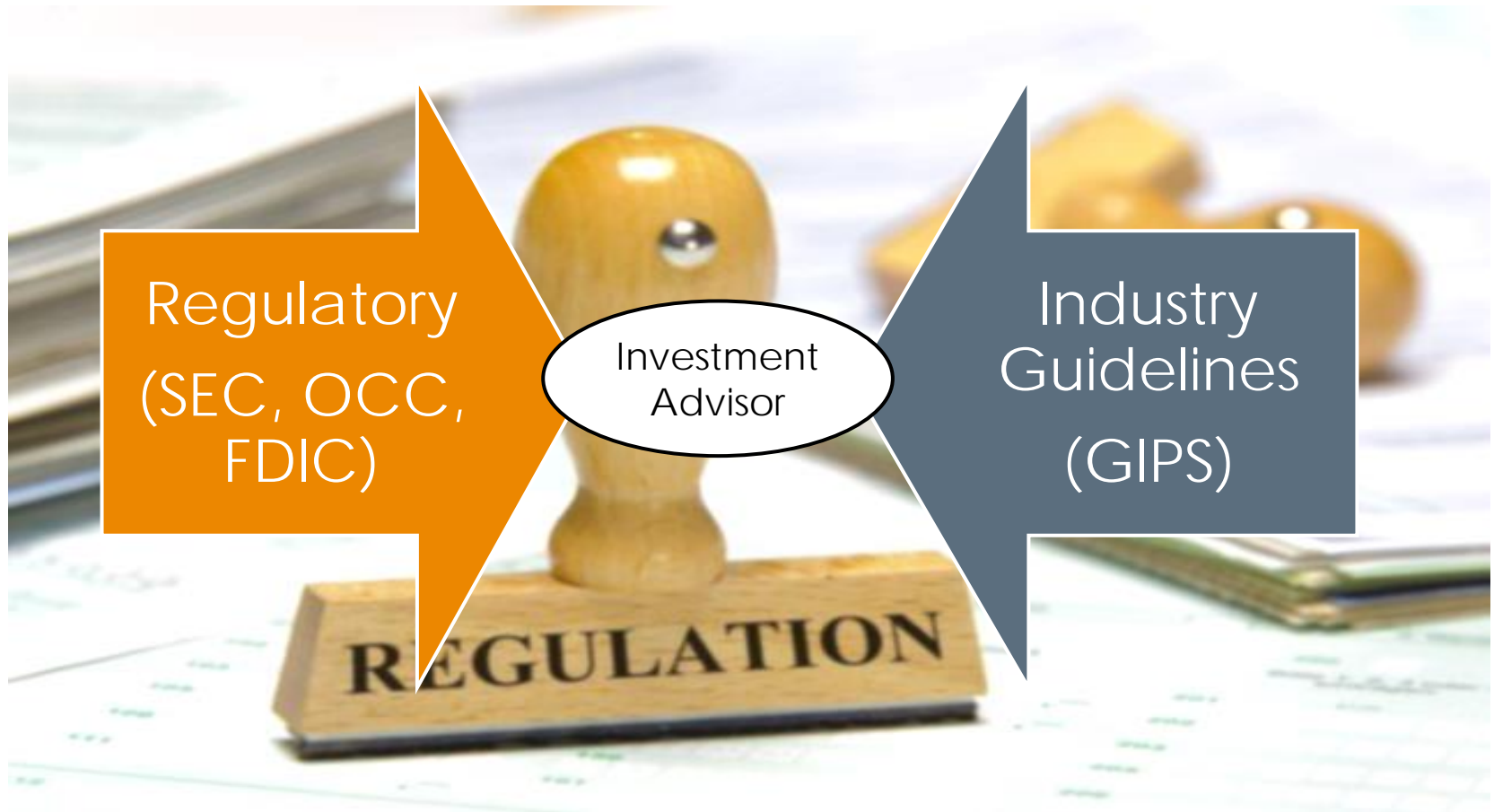
- *Complex systems are necessary to have a robust performance reporting process that can meet client needs from the most simple to the most detailed.*



- Incorrect or inconsistent benchmarks
- Use of custom benchmarks
- Back testing – “would have, could have, should have”
- Too much detail
- Lack of disclosures



Compliance to Consider



- **Section 206 of the Investment Advisers Act of 1940**
 - Prohibits the investment advisor from engaging in fraudulent, deceptive or manipulative acts and practices
 - Applies to all advisers, whether required to be registered or not
- **Rule 206(4)-1 under the Investment Advisers Act of 1940**
 - Prohibits SEC-registered investment advisers from using any advertisement that contains any untrue statement of material fact or that is otherwise false or misleading
 - Prohibits the use of client testimonials
 - Restricts the use of past specific recommendations

- Numerous SEC staff no-action and interpretive letters
 - Letters established advertising guidance on:
 - Use of past performance
 - Testimonials
 - Model portfolios
 - Effect of fees on performance
 - Comparisons of performance to indices
- Except in one-on-one situations, the SEC requires that any performance advertising include net performance as well as gross performance

- Back testing defined: *Involves the use of theoretical performance developed by applying a particular investment strategy to historical financial data*
- SEC staff regards back testing as highly suspect
- SEC has brought several enforcement cases against investment advisers relating to the use of back tested results
- SEC's enforcement cases place a heavy burden on advisers using back tested performance to ensure that clients are not misled

- OCC does not outline specific investment reporting requirements, however:

“While the OCC does not officially endorse [CFA Institute, formerly Association for Investment Management and Research] standards or require national banks to adopt them, the OCC considers them to be good guides for national banks that are constructing investment performance measurement and reporting systems” - Comptroller’s Handbook (August 2001)

“All laws and regulations applicable to the Asset Management line of business should be identified, addressed in policies and procedures, and communicated to the appropriate personnel... These laws and regulations include... various SEC regulations governing... investment adviser reporting” - Comptroller’s Handbook (January 2011)

- A voluntary set of standards, based on fundamental principles of full disclosure and fair representation of performance results
- Why is GIPS needed?
 - Standardized Investment Performance
 - Investor confidence
 - Global passport (i.e. a level playing field for asset managers)
- GIPS generally is divided into key sections (i.e. input data, calculation methodology, composite construction, disclosure, presentation and reporting, etc.)
- Not all-encompassing (no practical way to address every situation); GIPS should therefore be viewed as a minimum set of standards where local or country-specific laws, regulations, or industry standards may not exist

- ***Principles for Investment Reporting – CFA Institute***
 - Accommodates many types of stakeholders (e.g. asset managers, custodians, administrators, prime brokers, etc.)
 - Specifically addresses reporting to existing clients, whereas the GIPS standards address presentations primarily to prospective clients
- ***Performance Reporting Guidelines – Investment Management Consultants Association (IMCA)***
 - Covers the collection, analysis, and reporting of performance information related to manager search and analysis, and the reporting of performance results to clients
 - Designed to complement GIPS

- Develop standards that meet regulatory guidelines
- Establish guidelines around standardized reporting format
- Develop a policy on what benchmarks can be shown against asset classes within your asset class schema
- Report both gross and net of account level fees
- Larger firms should consider centralized processing for report production and review
- Monitor the output – periodic testing
- Keep it simple



Portfolio Report Examples: Do's and Don'ts

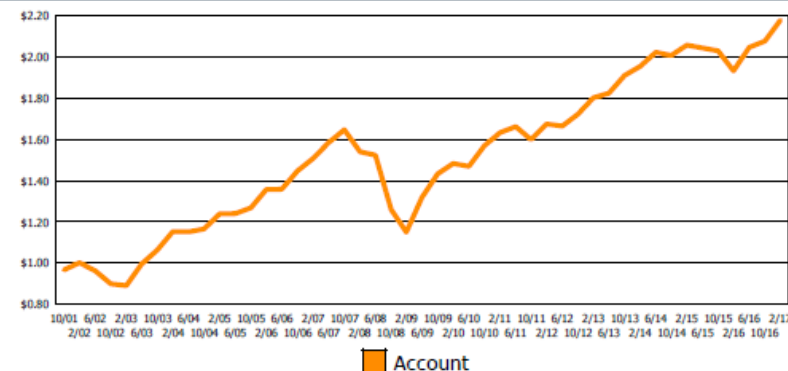
Do: Provide Direct Sufficient Information

Asset Allocation

Asset Category	Market Value	% Total
Excluded	0	0.0
Cash & Equivalents	30,232	4.5
Fixed Income	234,280	34.6
Balanced Funds	0	0.0
Equity	211,556	31.3
Liquid Real Assets	91,361	13.5
Alternatives	109,421	16.2
Non-Marketable Securities	0	0.0
Other	0	0.0
Total	\$676,850	100.0%



Growth of \$1

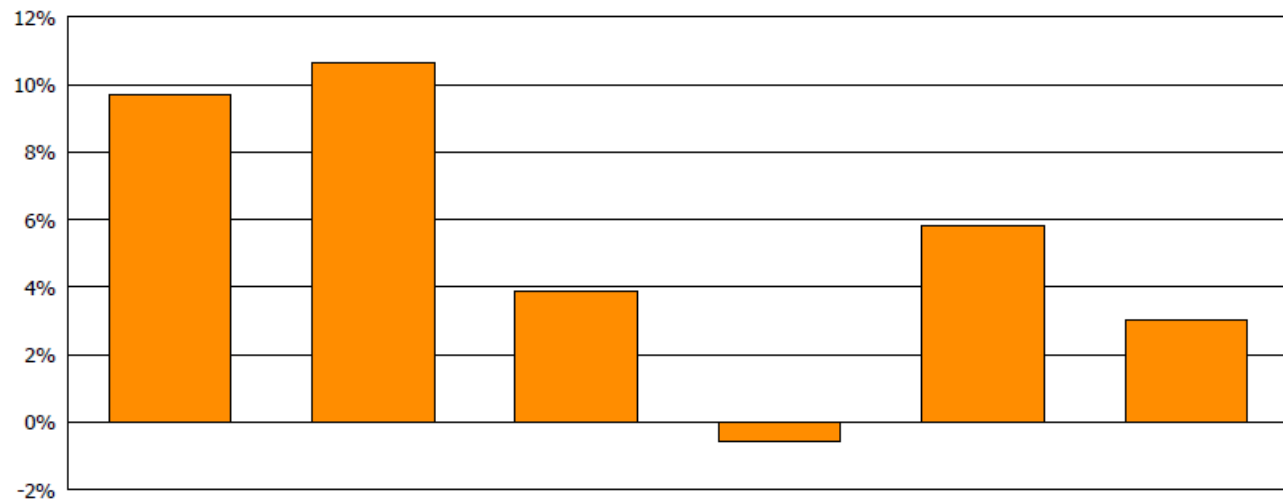


Performance


Category	Sub-Category/Index	YTD	1 Year	3 Year	5 Year	Inception	Incpt Dt
Total Managed		3.01%	12.66%	3.66%	5.39%	5.12%	07/31/01
Cash & Equivalents		0.07%	0.27%	0.14%	0.12%	0.12%	06/30/10
US T-BILL SEC MARKET 3 MONTH (D)		0.09%	0.36%	0.16%	0.12%	0.11%	06/30/10
Fixed Income		1.42%	5.39%	2.49%	2.75%	3.18%	06/30/10
BARCLAYS INTER US GVT/CREDIT		0.74%	1.10%	1.90%	1.80%	2.55%	06/30/10
Equity		5.44%	22.99%	3.93%	7.75%	9.59%	06/30/10
MSCI AC WORLD U\$		5.62%	22.07%	4.81%	8.25%	10.13%	06/30/10
Liquid Real Assets		4.53%	19.68%	9.47%	11.28%	11.28%	02/29/12
25% Commodity, 25% Real Estate, 25% MLPs, 25% Infrastructure		3.83%	23.37%	- 0.18%	2.42%	2.42%	02/29/12
Alternatives		2.04%	6.27%	4.10%	4.26%	---	06/30/10
HFRI FOF: DIVERSIFIED		2.18%	5.87%	1.59%	3.31%	---	06/30/10

Do: Provide Direct Sufficient Information (Cont.)

Total Managed Performance



Account/Index

 Sample Client

<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>YTD</u>
9.72%	10.65%	3.86%	- 0.58%	5.83%	3.01%

Account Flows

Flow Type

Beginning Market Value	\$	786,886	\$	788,902	\$	793,826	\$	725,402	\$	653,387	\$	679,278
Deposits/Withdrawals		-72,986		-75,022		-97,749		-69,666		-11,521		-21,583
Earned Income		27,895		24,766		30,410		24,286		17,322		1,581
Investment Gain		47,107		55,180		-1,085		-26,634		20,090		18,525
Ending Market Value	\$	788,902	\$	793,826	\$	725,402	\$	653,387	\$	679,278	\$	677,801

Don't: Show too much Detail

Performance

Equity	1.90%	3.54%	18.63%	2.55%	3.88%	7.58%	06/30/13
MSCI AC WORLD U\$	2.81%	5.62%	22.07%	3.46%	4.81%	8.34%	06/30/13
Domestic Equities	3.18%	4.76%	28.17%	8.76%	10.00%	13.22%	06/30/13
FRANK RUSSELL 3000 (FRC)	3.72%	5.67%	26.29%	7.88%	9.92%	13.24%	06/30/13
Global/International	1.19%	4.52%	16.10%	- 2.16%	- 1.58%	3.16%	06/30/13
MSCI AC WORLD EX US U\$	1.59%	5.19%	19.31%	- 0.71%	- 0.19%	3.88%	06/30/13
Hedged Equity	0.25%	0.63%	7.64%	---	---	---	08/31/13
S&P 500 COMPOSITE	3.97%	5.94%	24.98%	---	---	---	08/31/13
Liquid Real Assets	3.67%	4.94%	14.12%	4.05%	7.42%	6.62%	06/30/13
25% Commodity, 25% Real Estate, 25% MLPs, 25% Infrastructure	2.02%	3.83%	23.37%	- 0.63%	- 0.18%	1.51%	06/30/13
MLPs (Energy)	0.36%	5.12%	---	---	---	---	06/30/13
Alerian Energy MLP Total Return	0.40%	5.31%	---	---	---	---	06/30/13
Infrastructure	5.01%	4.86%	14.50%	7.81%	---	9.64%	06/30/14
FTSE DEVELOPED CORE INFRASTRUCTURE \$	3.40%	5.34%	17.49%	3.62%	---	4.19%	06/30/14

	1 Month	YTD	1 Year	2 Year	3 Year	Since Inception	Inception Date	Market Value	% Weight
Domestic Equities	3.18%	4.76%	28.17%	8.76%	10.00%	13.22%	06/30/2013	\$172,698	8.95%
FRANK RUSSELL 3000 (FRC)	3.72%	5.67%	26.29%	7.88%	9.92%	13.24%	06/30/2013		
Large-Cap	3.97%	5.79%	24.98%	9.33%	11.08%	13.51%	06/30/2013	\$89,261	4.63%
FRANK RUSSELL 1000 (FRC)	3.87%	5.96%	25.53%	7.92%	10.19%	13.40%	06/30/2013		
ISHARES CORE S&P 500 ETF	3.97%	5.79%	24.98%	8.14%	10.54%	14.06%	06/21/2013	\$89,261	4.63%
Mid-Cap	2.76%	5.20%	26.69%	5.94%	8.29%	12.47%	06/30/2013	\$41,395	2.15%
RUSSELL MIDCAP (EOD)	2.83%	5.31%	26.81%	6.09%	8.44%	12.60%	06/30/2013		
ISHARES RUSSELL MID-CAP ETF	2.76%	5.20%	26.69%	5.92%	8.29%	13.47%	06/21/2013	\$41,395	2.15%
Small-Cap	1.93%	2.22%	36.32%	7.67%	7.00%	11.69%	06/30/2013	\$42,041	2.18%
FRANK RUSSELL 2000 (FRC)	1.93%	2.33%	36.11%	7.58%	6.93%	11.52%	06/30/2013		
ISHARES RUSSELL 2000 ETF	1.93%	2.22%	36.32%	7.65%	7.00%	12.46%	06/21/2013	\$42,041	2.18%
Global/International	1.19%	4.52%	16.10%	-2.16%	-1.58%	3.16%	06/30/2013	\$80,554	4.18%
MSCI AC WORLD EX US U\$	1.59%	5.19%	19.31%	-0.71%	-0.19%	3.88%	06/30/2013		
Developed Markets	1.19%	4.52%	16.10%	-0.97%	-0.72%	4.75%	06/30/2013	\$80,554	4.18%
MSCI EAFE U\$	1.43%	4.37%	15.75%	-0.91%	-0.62%	4.44%	06/30/2013		
ISHARES MSCI EAFE ETF	1.19%	4.52%	16.10%	-0.97%	-0.19%	5.47%	06/21/2013	\$80,554	4.18%

- Performance reporting is a staple deliverable in our industry
- Approach from firm to firm tends to be similar, but reporting and complexity varies
- Regulatory guidelines are in place but common sense should be the key
- In some cases, advisers can be their own worst enemy
- Less is more
- What goes out the door to clients could put the firm at risk
- Adopting best practices, communicating to Advisers and executing on them is critical

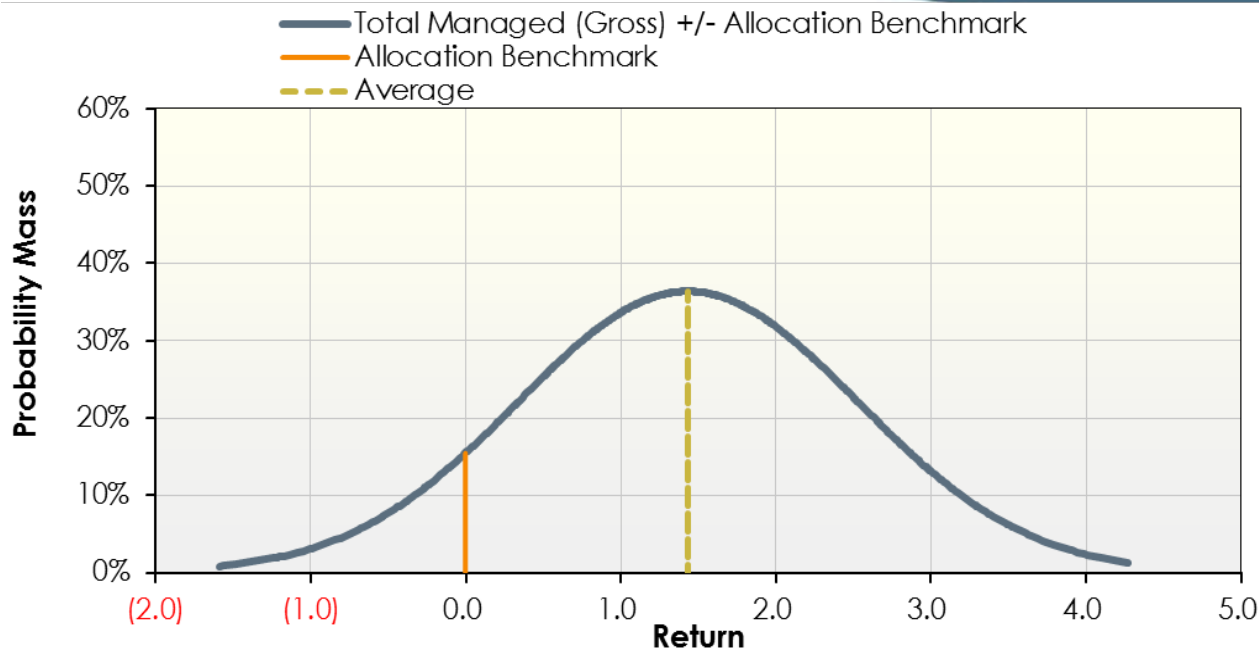
Appendix: Oversight

Account Dispersion – Total Managed (Gross)

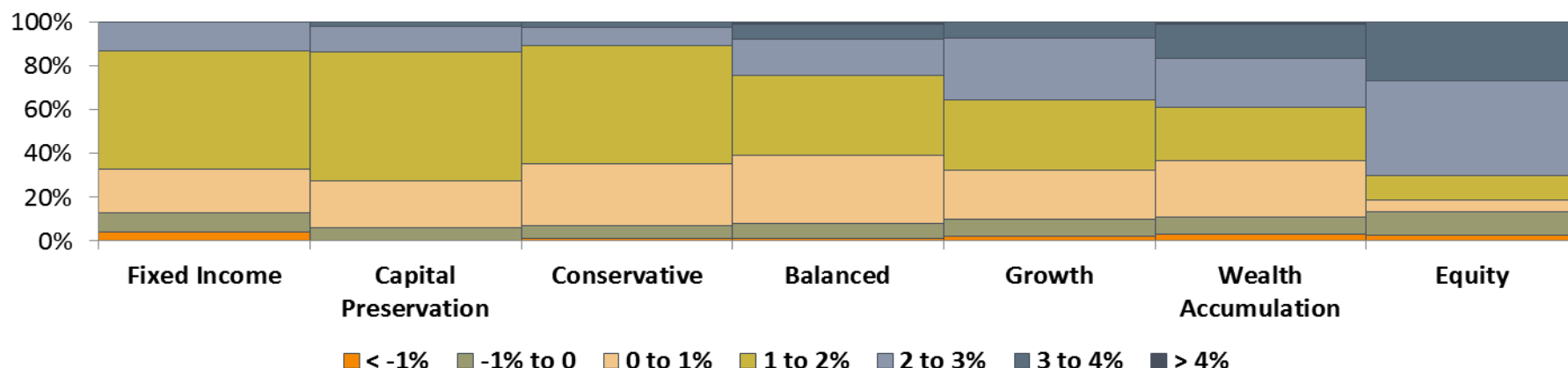


Total Managed (Gross) +/- Allocation Benchmark

	Ex. 5% Outliers	+/- Bmark
Max	11.40	4.27
5th	16.06	3.31
25th	19.00	2.15
Median	10.79	1.41
75th	13.57	0.73
95th	13.88	(0.41)
Min	7.46	(1.59)
Mean	12.88	1.43
Std. Dev	4.57	
Count	732	
Tail Loss	39	

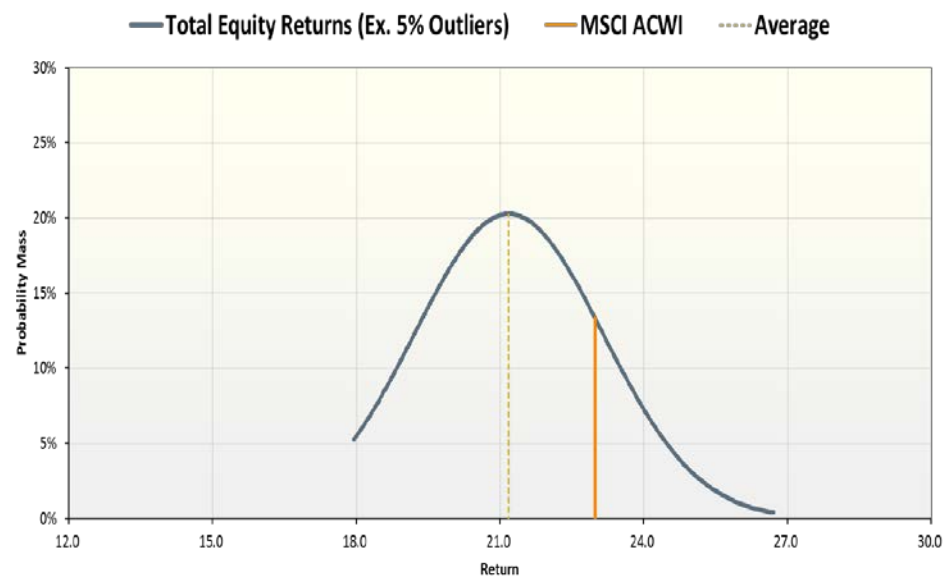


Total Managed (Gross) +/- Allocation Benchmark by Investment Objective



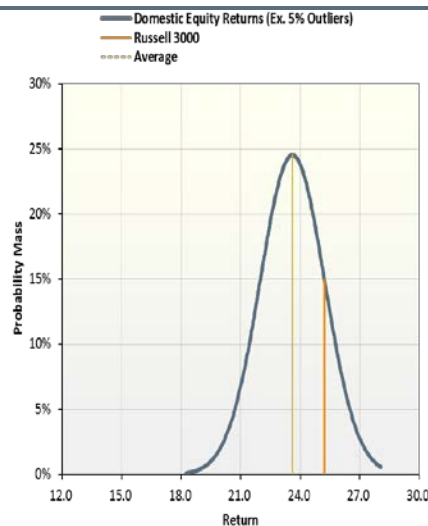
Asset Class Dispersion - Equity

	All	+/- Bmark	Ex. 5% Outliers	+/- Bmark
Max	37.09	14.12	26.71	3.74
5th	25.06	2.09	24.56	1.59
25th	22.93	(0.03)	22.79	(0.18)
Median	20.63	(2.33)	20.65	(2.32)
75th	19.47	(3.50)	19.55	(3.42)
95th	18.50	(4.46)	18.67	(4.29)
Min	0.52	(22.44)	17.95	(5.02)
Mean	21.22		21.18	
Std. Dev	2.56		1.97	
Count	710		675	
Tail Loss			35	



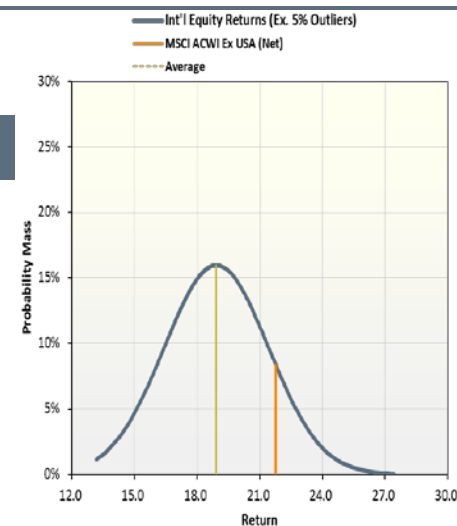
Domestic Equity Portfolio Stats

	All	+/- Bmark	Ex. 5% Outliers	+/- Bmark
Max	37.09	11.87	28.07	2.85
5th	26.36	1.14	26.01	0.79
25th	24.80	(0.42)	24.70	(0.52)
Median	23.66	(1.56)	23.66	(1.56)
75th	22.48	(2.74)	22.58	(2.64)
95th	20.05	(5.17)	21.03	(4.19)
Min	0.52	(24.70)	18.25	(6.97)
Mean	23.54		23.60	
Std. Dev	2.44		1.63	
Count	704		669	
Tail Loss			35	



Int'l Equity Portfolio Stats

	All	+/- Bmark	Ex. 5% Outliers	+/- Bmark
Max	44.58	22.83	27.43	5.67
5th	24.33	2.57	23.69	1.93
25th	20.64	(1.11)	20.51	(1.24)
Median	17.93	(3.82)	17.93	(3.82)
75th	17.29	(4.46)	17.32	(4.43)
95th	15.29	(6.46)	16.24	(5.51)
Min	9.88	(11.87)	13.18	(8.57)
Mean	19.13		18.92	
Std. Dev	3.63		2.50	
Count	684		649	
Tail Loss			35	

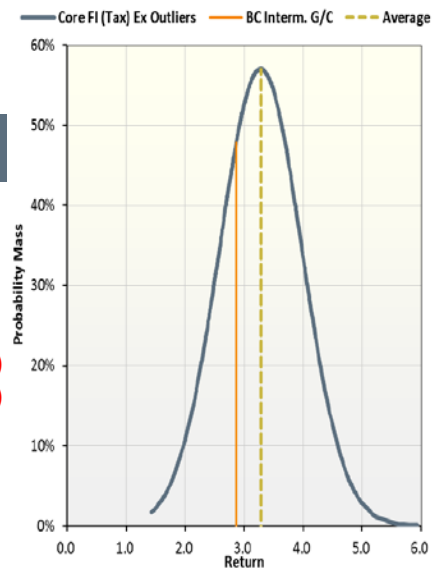


Asset Class Dispersion – Fixed Income



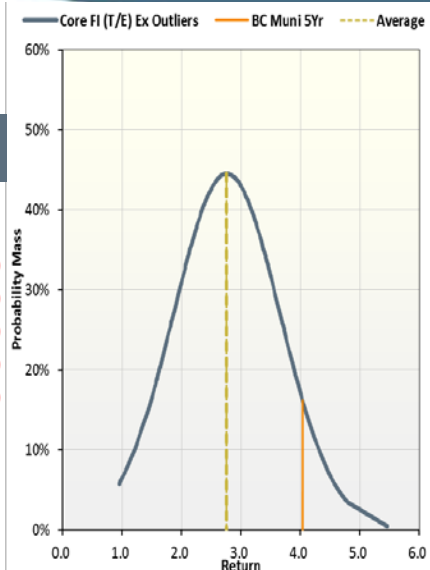
Core FI (Tax) Return Stats

	All	+/- Bmark	Ex. 5% Outliers	+/- Bmark
Max	10.96	8.10	5.93	3.08
5th	4.85	2.00	4.65	1.80
25th	3.46	0.60	3.45	0.60
Median	3.27	0.42	3.27	0.42
75th	2.90	0.05	2.95	0.09
95th	1.75	(1.10)	2.28	(0.58)
Min	(4.99)	(7.84)	1.43	(1.43)
Mean	3.27		3.28	
Std. Dev	1.17		0.70	
Count	680		645	
Tail Loss			35	



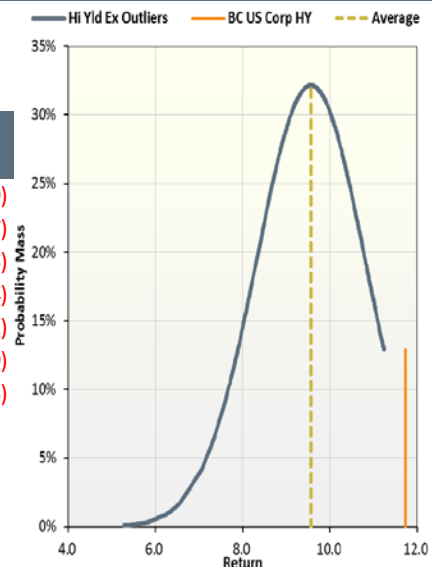
Core FI (T/E) Return Stats

	All	+/- Bmark	Ex. 5% Outliers	+/- Bmark
Max	8.86	4.89	5.47	1.49
5th	4.54	0.56	4.08	0.10
25th	3.42	(0.56)	3.40	(0.58)
Median	2.79	(1.19)	2.80	(1.18)
75th	2.08	(1.90)	2.13	(1.85)
95th	1.12	(2.86)	1.44	(2.54)
Min	(0.81)	(4.79)	0.95	(3.03)
Mean	2.78		2.76	
Std. Dev	1.12		0.90	
Count	208		197	
Tail Loss			11	



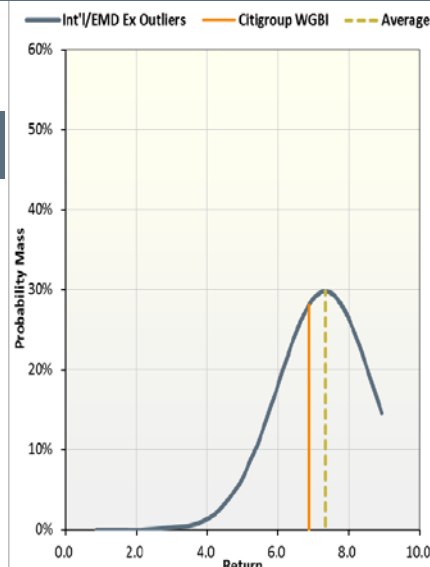
High Yld Return Stats

	All	+/- Bmark	Ex. 5% Outliers	+/- Bmark
Max	12.27	0.54	11.24	(0.49)
5th	11.08	(0.65)	11.06	(0.67)
25th	10.38	(1.35)	10.38	(1.35)
Median	9.69	(2.04)	9.69	(2.04)
75th	9.20	(2.53)	9.22	(2.51)
95th	5.53	(6.20)	6.74	(4.99)
Min	3.49	(8.24)	5.28	(6.45)
Mean	9.48		9.56	
Std. Dev	1.52		1.24	
Count	871		828	
Tail Loss			43	



Int'l FI/EMD Return Stats

	All	+/- Bmark	Ex. 5% Outliers	+/- Bmark
Max	13.06	6.21	8.94	2.09
5th	8.00	1.15	7.93	1.08
25th	7.90	1.05	7.90	1.05
Median	7.80	0.95	7.80	0.95
75th	7.39	0.54	7.48	0.63
95th	1.77	(5.08)	4.87	(1.98)
Min	0.71	(6.14)	0.86	(5.99)
Mean	7.25		7.33	
Std. Dev	1.76		1.34	
Count	821		780	
Tail Loss			41	



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