**Unit 13: Investment Performance**

[**https://quizlet.com/gb/909898824/unit-13-investment-performance-flash-cards/?i=24ef59&x=1jqt**](https://quizlet.com/gb/909898824/unit-13-investment-performance-flash-cards/?i=24ef59&x=1jqt)

What does performance measurement cover?

Calculating % investment returns.

What does performance evaluation cover?

How returns were achieved and was value added?

Money Weighted Rate of Return: What does this measure?

Overall cumulative return including money in and out.

Money Weighted Rate of Return: What is it good for?

Clients can see overall return.

Money Weighted Rate of Return: What is it bad for?

Comparing portfolio’s.

Checking consistency (discrete better for this)

Time Weighted Rate of Return: What does this measure?

Overall growth of investment excluding cashflows.

Time Weighted Rate of Return: What is it good for?

Comparing portfolio’s – ignores individual cash flow.

Time Weighted Rate of Return: Cons

Ease of use.

Needs re-calculation after every transaction.

Difference between MWRR and TMRR

MWRR includes all transactions (how much water/ soil give plant + ongoing height)

TMRR just measures overall growth (height of plant)

What does Sharpe Ratio measure?

Risk adjusted return.

Bigger the better!!

Sharpe Ratio formula

Return – RFR (Risk Free Rate) / Standard Deviation.

Sharpe Ratio Pros

Can compare between different funds/ portfolios.

e.g. equity fund should have return but higher risk.

What does a negative Sharpe Ratio indicate?

Investment has a lower return than RFR- avoid.

What does Information Ratio measure?

Risk adjusted return compared to a benchmark.

Information Ratio Formula

Return - Benchmark Return / Tracking error

Information Ratio: What is deemed good/bad?

Negative: Doing worse than benchmark.

0 = Bad (No value added)

0.5 = Good

1.0 = Exceptional.

What does Alpha measure?

Compares actual return to CAPM (expected return)

Stock picking skill of manager.

Alpha Formula

Actual return – CAPM

Benchmarking Rules

All retail funds must be compared to an approved benchmark.

e.g FTSE 100, FTSE All Share, S&P 500

Benchmarking criteria

* Unambiguous weightings.
* Investable
* Measurable
* Appropriate
* Reflective
* Specified
* Owned

What should a good benchmark do?

Assess fund performance - progress towards goals.

Insight into risk

Manager performance.

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