

PERFORMANCE ATTRIBUTION

WHAT WILL YOU LEARN?

- ▶ What is performance attribution?
- ▶ What are performance attribution procedures?
- ▶ Why use performance attribution?

PERFORMANCE ATTRIBUTION

- ▶ Performance (or return) attribution breaks down returns into the component due to
 - ▶ The performance of the asset class according to the benchmark
 - ▶ The active weighting decision made by the manager to that benchmark
 - ▶ The manager's security selection

PERFORMANCE ATTRIBUTION: EXAMPLES

PERFORMANCE ATTRIBUTION

ATTRIBUTION ANALYSIS: AN EXAMPLE

Asset Class	Weights		Return	
	Portfolio P	Benchmark	Portfolio P	Benchmark
Large Cap	0.50	0.40	18%	15%
Mid Cap	0.30	0.35	21%	12%
Small Cap	0.20	0.25	8%	16%
Total return			16.9%	14.2%
Return difference			2.7%	

CONTRIBUTION FROM ASSET ALLOCATION

Weights			Return		Asset allocation	
Asset Class	Portfolio P	Benchmark	Portfolio P	Benchmark	Active weight	Attribution
Large Cap	0.50	0.40	18%	15%		
Mid Cap	0.30	0.35	21%	12%		
Small Cap	0.20	0.25	8%	16%		
Total return			16.9%	14.2%		
Return difference			2.7%			

CONTRIBUTION FROM SECURITY SELECTION

Weights			Return		Security selection	
Asset Class	Portfolio P	Benchmark	Portfolio P	Benchmark	Excess performance	Attribution
Large Cap	0.50	0.40	18%	15%		
Mid Cap	0.30	0.35	21%	12%		
Small Cap	0.20	0.25	8%	16%		
Total return			16.9%	14.2%		
Return difference			2.7%			

ATTRIBUTION ANALYSIS

Asset Class	Weights		Return		Asset allocation		Security selection	
	Portfolio P	Benchmark	Portfolio P	Benchmark	Active weight	Attribution	Excess performance	Attribution
Large Cap	0.50	0.40	18%	15%	10.0%	1.5%	3.0%	1.5%
Mid Cap	0.30	0.35	21%	12%	-5.0%	-0.6%	9.0%	2.7%
Small Cap	0.20	0.25	8%	16%	-5.0%	-0.8%	-8.0%	-1.6%
		Total return	16.9%	14.2%		0.1%		2.6%
		Return difference	2.7%					

SUMMARY

- Performance attribution dissects a portfolio's return into its components to determine the exact sources of gains and the effectiveness of the stock selection process.