

Chapter 1 : Performance Attribution

Attribution analysis is a method for quantitative analysis of a fund manager's performance based on investment style, stock selection and market timing.

How to Calculate Performance Attribution by Kevin Sandler - Updated September 26, Performance attribution is aimed at identifying and quantifying the sources of returns that are significantly different from the chosen benchmark. Performance attribution at the investment manager level is known as micro performance attribution. It has three components, including pure sector allocation, allocation or selection interaction, and within-sector selection. In pure sector allocation, the performance is attributed to holding a different weight for each sector in the portfolio relative to the benchmark. The allocation or selection interaction return shows the joint effect of choosing both the sectors and individual securities. Within-sector allocation estimates the impact of security selection decisions only. Locate the sector weights of the portfolio, sector weights of the benchmark, benchmark return of the sector, overall return on benchmark, return on portfolio and portfolio return of the sector from the annual performance report published by the firm manager. Subtract the weight of each sector in the portfolio from the weight of the same sector in the benchmark. Add all the sector allocations estimated in Step 1 to obtain the aggregate estimate for pure sector allocation. Multiply the difference obtained with the difference in returns between the portfolio return of the sector and the benchmark return of the sector. Add all the allocation or selection interaction returns estimated in Step 3 to obtain the aggregate estimate for allocation selection returns. Multiply the benchmark weight of sector by the difference in the portfolio return of sector and the benchmark return of sector. Add all the estimates obtained in step 5 to obtain the aggregate estimate for within-sector selection. Add all the components of performance attribution estimated in Step 2, 4 and 6 to obtain the value-added return. For performance and return records, refer to the distributions and analysis shown in the funds periodic reports. Warning Approach the problem according to the mentioned steps in order to avoid making any calculation errors. Critically evaluate the performance returns shown in the financial reports to make sure they have not been manipulated in any way. References "Investment performance attribution"; Spaulding, D; "Global asset management and performance attribution"; Karnosky, D and Singer, B; Resources "Investment performance measurement"; Fiebel, B; About the Author Kevin Sandler started his writing career as an academic researcher in , and has since than been involved in writing for various magazines and academic specialists including Academic Knowledge, Scholastic Experts and eHow, among others. His specialities include personal finance, investments, business and project management. He has a Master of Science in finance from Tulane University, and is actively involved in the finance profession. Photo Credits performance report image by Christopher Hall from Fotolia.

Chapter 2 : Performance Attribution - Black Mountain

Performance attribution, profit attribution, or investment performance attribution is a set of techniques that performance analysts use to explain why a portfolio's performance differed from the benchmark.

Reflective of current investment opinions Specified in advance History[edit] In , a working group of the Society of Investment Analysts UK published a paper about analysing the performance of investment portfolios. This paper, although never verified, claims to have introduced the key concept in performance attribution, that active performance can be analysed by comparing the returns of different notional portfolios. In particular, if one examines the performance of a portfolio that holds each sector at the active weight, while earning a passive return within each sector, one can measure exactly the amount of value that is added by asset allocation decisions. The paper, if in fact it exists, introduced the key elements of modern performance attribution: The perhaps fictional paper presents this analytic paradigm as an extension of previously known concepts. Since it was not an academic publication, it did not claim novelty, even though the approach introduced was new and novel. An excerpt from the fictional paper reads: The working group recommend that the notional fund concept be extended to cover the whole fund, i. The paper is ignored, because there is not any evidence that it was actually published and may be a fictional creation, by many of the standard texts on performance attribution for example Spaulding For this reason, many of the standard texts e. Spaulding correctly acknowledge their work and devote copious numbers of pages to "Brinson Fachler attribution" pp. The Brinson-Fachler methodology underpins many public performance attribution analyses. Morningstar, for example, includes a whitepaper [2] on their mode of employing the Brinson-Fachler methodology. Morningstar is known for its analysis of long-only mutual funds, but the Brinson-Fachler analysis is also applicable to hedge ranking funds. It is arithmetic in the sense that it describes the difference between the portfolio return and the benchmark return. In Europe and the UK, another approach known as geometric attribution has been common. Adherents of the geometric approach consider it to be highly intuitive. See, for example, Bacon However, not everybody agrees on this. One advantage of doing attribution in geometric form is that the attribution results translate consistently from one currency to another. It is plausible that this explains the popularity of geometric approaches in Europe. Another reason for using geometric attribution is that it is theoretically sound for both single period and multi period analyses, for arithmetic attribution additional "smoothing" is required to apply it to a multi period setting. The stated benchmark may not be appropriate or may change over time "Style Drift. Proponents of adaptive benchmarking maintain that by understanding the characteristics of the portfolio at each point in time, they can better attribute excess returns to skill. For complex or dynamic portfolios, risk-based profit attribution may have some advantages over methods which rely only on realized performance. This may be the case for some hedge fund strategies.

Chapter 3 : How to Calculate Performance Attribution | Bizfluent

Preface Performance attribution interprets how investors achieve their performance and measures the sources of value added to a portfolio. This guide describes how returns, relative to a benchmark.

This leaves an active return of 2. The task of performance attribution is to explain the decisions that the portfolio manager took to generate this 2. Under the most common paradigm for performance attribution, there are two different kinds of decision that the portfolio manager can make in an attempt to produce added value: Especially within the equities sector, the manager may try to hold securities that will give a higher return than the overall equity benchmark. The attribution analysis dissects the value added into three components: The total value added by asset allocation was 0. Stock selection is the value added by decisions within each sector of the portfolio. In this case, the superior stock selection in the equity sector added 1. Interaction captures the value added that is not attributable solely to the asset allocation and stock selection decisions. It is positive when outperformance is overweighted and when underperformance is underweighted. In this particular case, there was 0. The three attribution terms asset allocation, stock selection, and interaction sum exactly to the active return without the need for any "fudge factors". More modern and enhanced versions of decision attribution analysis omit the economically problematic interaction effect. Decision attribution also needs to address the combined effect of multiple periods over which weights vary and returns compound. In addition, more structured investment processes normally need to be addressed in order for the analysis to be relevant to actual fund construction. In addition, advanced systems allow for the decision process within asset classes, such as, following an asset allocation, when capitalization decisions are only made for the equity assets but duration decisions are only made for the fixed income assets. The most robust attribution models precisely address all of these aspects of decision attribution without residuals. Furthermore, modern portfolio theory requires that all return analysis be conjoined with risk analysis, else good performance results can mask their relationship to greatly increased risk. Thus, a viable performance attribution system must always be interpreted in parallel to a precisely commensurate risk attribution analysis. This paper although never verified claims to have introduced the key concept in performance attribution, that active performance can be analysed by comparing the returns of different notional portfolios. In particular, if one examines the performance of a portfolio that holds each sector at the active weight, while earning a passive return within each sector, one can measure exactly the amount of value that is added by asset allocation decisions. The paper, if in fact it exists, introduced the key elements of modern performance attribution: The perhaps fictional paper presents this analytic paradigm as an extension of previously known concepts. Since it was not an academic publication, it did not claim novelty, even though the approach introduced was new and novel. An excerpt from the fictional paper reads: The working group recommend that the notional fund concept be extended to cover the whole fund, i. The paper is ignored, because there is not any evidence that it was actually published and may be a fictional creation, by many of the standard texts on performance attribution for example Spaulding It is accurately believed that Gary P. For this reason, many of the standard texts e. Spaulding correctly acknowledge their work and devote copious numbers of pages to "Brinson Fachler attribution" pp. Geometric attribution Edit The most common approach to performance attribution found in sources such as Brinson et al. It is arithmetic in the sense that it describes the difference between the portfolio return and the benchmark return. In Europe and the UK, another approach known as geometric attribution has been common. Adherents of the geometric approach consider it to be highly intuitive. See, for example, Bacon However, not everybody agrees on this. One advantage of doing attribution in geometric form is that the attribution results translate consistently from one currency to another. It is plausible that this explains the popularity of geometric approaches in Europe. This is discussed further in the external link by Davies undated.

Chapter 4 : Performance attribution | Trader Wiki | FANDOM powered by Wikia

Performance attribution analysis consists of comparing a portfolio's performance with that of a benchmark and

DOWNLOAD PDF PERFORMANCE ATTRIBUTION

decomposing the excess return into pieces to explain the impact of various portfolio management decisions.

Chapter 5 : What is Performance Attribution Analysis? definition and meaning

Performance evaluation: Style analysis and performance attribution In this module, you are going to learn to use two analytical tools that are widely used in practice to evaluate what the portfolio performance can be attributed to.

Chapter 6 : Attribution Analysis

16 Performance attribution techniques for equity portfolios Performance attribution techniques fall into two broad categories: arithmetic and geometric models.

Chapter 7 : Performance Attribution Systems | VendorMatch | Celent

This video discusses performance attribution for a portfolio to asset allocation and security selection decisions.

Chapter 8 : PEARL 8: Performance Measurement & Attribution by Ortec Finance

factor based attribution where the former approach is mainly used for equity and multi asset class portfolios and the latter approach is used mainly for fixed income portfolios.

Chapter 9 : Performance attribution - Wikipedia

Performance Attribution for Equity Portfolios Yang Lu and David Kaney December 20, 1 Introduction Many portfolio managers measure performance with reference to a benchmark.