

PEARL

The three steps in configuring attributions

At Ortec Finance, we have over 20 years of experience in setting up attribution analyses that provide valuable insights for our clients. During the last year we have used this experience to come to the three steps that everyone should consider when configuring an attribution.

Step 1: Fundamental definition choices

Define the type of attribution, the portfolio and benchmark you want to compare it with.

Is a Brinson style attribution adequate in my situation, or do I need to use more advanced techniques such as factor or fixed income attribution? Do I want to use a top-down, bottom-up or hybrid calculation approach?

Often these choices are related to the mandate of the fund under investigation, ensuring that the analysis explains the impact of the decisions made by the manager. However, from a risk management perspective it is becoming more common to also evaluate portfolios against other benchmarks or even other portfolios to get an understanding of other sources of risks in the portfolio.

Step 2: Attribution hierarchy

Select the attribution hierarchy. This is important from both a reporting and calculation perspective.

From a reporting perspective, the hierarchy determines the segments (rows) within the report. From a calculation perspective, for top-down attribution models the hierarchy determines the allocation levels, explaining the added value of the different allocation decisions.

So it is important to think about which levels should appear in your report, e.g. countries, sectors, individual securities, etc. The hierarchy can also be used to show

the impact of fees, currency management, exclusion policies, etc. Hybrid models can be used to combine the bottom-up and top-down approaches, e.g. to first measure the impact of the allocation decisions to different regions in a fixed income portfolio before evaluating the outperformance of the regions using fixed income effects based on the yield curve for the specific region.

Step 3: Calculation details

Specify the calculation settings and think carefully about the details of the excess return you want to explain.

Which components should be included in the return (fees, taxes, transaction costs, etc). Also the configuration of look through relations or model-specific settings such as how to handle benchmark or portfolio-only segments in a Brinson analysis should be addressed.

Those details are the playing field of the performance measurement expert, since it allows for very specific tailored analysis. However, using default settings can help to create efficient workflows and also provide less experienced analysts with the comfort to create new attribution analyses. Using templates for different types of attributions can also be helpful for managing multiple attributions for different funds at the same time. Ideally such templates should cover most choices of the 3 steps, so that only the portfolio and benchmark still need to be specified in order to create a new attribution.



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By capturing the choices within the three steps in templates, many attributions can be managed simultaneously through an intuitive and efficient workflow. Ortec Finance has integrated this in the solution PEARL, our acclaimed performance measurement & attribution solution for Pension Funds, Insurance Companies, Sovereign Wealth Funds, and Asset managers.

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