

# Performance 101

## Understanding performance calculations

### In this document, learn more about:

- Common return metrics
- Brinker Capital performance return calculations
- Frequently asked questions

### Common return metrics

#### Money-weighted or internal rate of return

If an investor wants to value the potential growth of their portfolio, the internal rate of return (IRR) method would work best. Money-weighted returns include cash flows and market timing in performance measurement. The formula for IRR is simple: when there is more money in an account, performance is given more weight than when there is less money. This is not an ideal method for measurement because performance will be overweight or underweight during different periods of returns for reasons that are unrelated to an investor's personal investment strategy.

#### Simple or straight-line return

If an investor wants to calculate point-to-point performance, this is the concept to use. The formula is simple:  $((\text{current value} - \text{original value}) / \text{original value}) \times 100$ . This measurement is an easy way to see how a single investment has performed, however, it is not a good analysis to use when judging the growth of a portfolio. Simple returns do not include cash flows as they occur, but rather lump deposits and withdrawals into the original value, thus skewing the return.

For example, if an individual invested \$50,000 in an account today and the yearly return was 10%, the account value would be \$55,000. However, if an additional \$200,000 was invested in the last month of the year, the straight-line return would be showing 2%. The investor did not lose 8%, the additional deposit was added to the original value. Therefore, simple returns are not viable when calculating investment returns.

#### Time-weighted returns (TWR)

Time-weighted returns, the preferred method of calculating returns in the investment industry, compound simple returns between cash flows so that the timing and size of those flows do not distort the percentage return. Indices, such as the Russell 3000 and S&P 500, use TWRs when publicly reporting and it is also the industry standard for financial advisors.

### Brinker Capital return calculations

Brinker Capital accountholders are generally buy-and-hold investors, making multiple deposits and withdrawals into their accounts over time. This type of action makes time-weighted returns the ideal measurement to compare and judge the performance of a Brinker Capital portfolio.

The CFA Institute's Global Investment Performance Standards (GIPS) guide defines time-weighted returns as the rate of return that best reflects the firm's ability to manage the portfolios according to a specified mandate, objective, or strategy (a more detailed explanation can be found in the full GIPS guide).

Time-weighted returns are unaffected by deposits and withdrawals in the account(s); thus, allowing for easy evaluation and comparison with other investments. For example, if two investors opened accounts with identical values in alike products on the same day, their time-weighted returns will never differentiate, regardless of cash flow activity.\* One decides to stay the course, never adding or withdrawing funds. The other experiences extremely good luck, depositing additional monies as the portfolio declines in value and removing cash when the portfolio increases in value. The second investor may have made money in the short-term, even when their portfolio decreased in value; however, their time-weighted returns would still be negative (please reference the FAQ section below to understand why an investor may have a negative percent time-weighted return but positive earnings).

Brinker Capital uses time-weighted returns to calculate percentage returns for each registration and to display returns over time on the account snapshot tab of the website, quarterly reporting packages, and ad-hoc requests.

## Frequently asked questions

### **Why do I have a positive percent time-weighted return, but negative earnings?**

If the value of an investor's account has increased from the time they began investing, their time-weighted return will be positive. However, their dollar earnings may be negative because additional monies were deposited when the value of their account was higher than it is now.

For example: An investor started with \$100,000 in their portfolio and the market rose by 40%. The account is now valued at \$140,000. Feeling good about their investment and the market, they decide to add an additional \$400,000. Immediately after, the market tanks 20%. The account just lost about \$108,000, which is much more than the initial \$40,000 gain. The time-weighted return would still be positive, because performance increased by 40% and subsequently decreased by 20%, but the earnings would be negative as the losses outweighed the gains. In summation, the time-weighted return is positive because the

investor's portfolio performed well, but the dollar return is negative because the timing of the cash flows was right before a market downturn.

### **Why do I have a negative percent time-weighted return, but positive earnings?**

If the value of an investor's account has decreased from the time they began investing, their time-weighted return will be negative. However, the dollar earnings may be positive because additional monies were deposited when the value of their account was lower than it is now.

For example: An investor started with \$100,000 in their portfolio and the market loses 40%. The account is now valued at \$60,000. Feeling confident about the market, they decide to add an additional \$400,000. Immediately after, the market booms 20%. The account just added about \$92,000, which is much more than the initial \$60,000 loss. The time-weighted return would still be negative, because performance decreased by 40% and subsequently increased by 20%, but the earnings would be positive as the gains outweighed the losses.

The resulting time-weighted return is negative because the portfolio performed well, but the dollar return is positive because the timing of the cash flows was right before a market upswing.

### **Why is my net return not exactly the difference between my gross return and the amount of my fee?**

Brinker Capital fees are paid out at the beginning of each quarter (except for new investors). Since these fees are taken out in advance, two scenarios will occur:

- In the first scenario, the market climbs for the whole year, thus the fee amount will be greater as time passes.
- In the second scenario, the market declines for the entire year, thus the fee will be slightly less as time goes on.

Any given period will have a difference of the gross versus net return which is different than the fee unless the portfolio is exactly flat for the period (0% return). The following are two simple illustrations to explain the difference:

\*This is under the assumption that a rebalance occurs immediately after funds are deposited or withdrawn; however, Brinker Capital has 48 hours to rebalance an account per our client service level agreements. Therefore, marginally divergent performance returns will occur.

## Market climbs

	Beg market value	Fee	Fee	End market value	Gross return	Net return	Difference
Q1	\$100,000.00	1.20%	\$300.00	\$101,694.00	2.00%	1.69%	0.31%
Q2	\$101,694.00	1.20%	\$305.08	\$103,416.70	2.00%	1.69%	0.31%
Q3	\$103,416.70	1.20%	\$310.25	\$105,168.58	2.00%	1.69%	0.31%
Q4	\$105,168.58	1.20%	\$315.51	\$106,950.13	2.00%	1.69%	0.31%
Cumulative					8.24%	6.95%	1.29%

## Market declines

	Beg market value	Fee	Fee	End market value	Gross return	Net return	Difference
Q1	\$100,000.00	1.20%	\$300.00	\$97,706.00	-2.00%	-2.29%	0.29%
Q2	\$97,706.00	1.20%	\$293.12	\$95,464.62	-2.00%	-2.29%	0.29%
Q3	\$95,464.62	1.20%	\$286.39	\$93,274.67	-2.00%	-2.29%	0.29%
Q4	\$93,274.67	1.20%	\$279.82	\$91,134.95	-2.00%	-2.29%	0.29%
Cumulative					-7.76%	-8.87%	1.11%

### Why doesn't my custodial statement month-end balance match my Brinker Capital report?

Custodial statements are generated immediately following month-end. Transactions that settle after the end of the month will be captured in the following month's custodial statement. Brinker Capital reports will show these transactions in the month that the transaction occurred because Brinker Capital utilizes a trade date system rather than settlement date system used by our custodians.

When there are pending trades, usually during the end of the month, that occur in an account, Brinker Capital recognizes those buys immediately (using the trade date) and provides a market value based on the month end date of the security. The custodial statement will recognize the buy in the "pending trades" section and value them at the price they were bought.

These pending trades will not show on a custodial statement until it is "settled" the following month and any changes to those purchases will not reflect in the previous month's statement "pending trades" section. Additionally, the custodial statement values are reported on a cash basis, whereas, the quarterly report values are reported on an accrual basis. The accrual basis

report reflects dividends and interest that may have been declared by a security but not yet paid.

### What is the difference between gross and net returns?

The gross rate of return is the total rate of return on an investment before the deduction of fees. The net rate of return includes the deduction of fees in the time-weighted return calculation. Brinker Capital's website displays performance returns as gross of fees. The client-specific reports that appear on the website can be run either gross or net of management fees. Net of fees reports will not include the investment management total fee in the contribution/withdrawals figure, whereas, gross of fees reports will include the management fee.

### What should I do when my performance returns are showing N/A on the web site?

Often when an account is going through a rebalance, prices on bonds were not updated, or a transaction is not captured by our data vendor, a N/A designation will appear on your account snapshot page. If a report is needed while N/A appears on the website, a member of the Brinker Capital client service team can run the report. These breaks are often resolved within a day or two and the account snapshot will be updated once the portfolio has been reconciled.

## What does this performance report do for me?

Brinker Capital has several on-demand reports for both advisors and investors. Several of these are available at the account level and the others are located under the clients report section of the website:

- **Account snapshot portfolio summary:** as-of date performance report that includes account holdings, performance, flows, and asset allocation
- **Account summary:** as-of date performance report that includes performance, flows, and asset allocation
- **Client reports:** portal to report manager
- **Contribution and withdrawal:** cash flow report from inception of account
- **Growth of a dollar:** as-of date graph that shows the growth of portfolio since inception and standard deviation versus product pertinent benchmarks in a secondary graph
- **Performance analysis by portfolio:** shows monthly, quarterly, yearly performance returns, and flow information over a specified date range
- **Performance detail by manager:** as-of date report that shows more detailed flow information and returns versus industry related benchmarks
- **Portfolio performance:** as-of date report that shows calendar and trailing year performance returns in graph and table formats
- **Quarterly report:** portal to the quarterly reports that are sent through the mail
- **Realized gain loss:** a report that shows the cumulative amount of realized gains and losses resulting from the sale of securities during a specified date range
- **Unrealized gain loss:** an as-of report that shows holdings in an account as well as the increase or decrease in the value of those securities that have not been realized because the security has not been sold
- **PB account summary:** as-of date report specifically for Personal Benchmark clients showing allocation, total performance, and flows

To learn more about Brinker Capital's investment approach, multi-asset class portfolios, or for updated performance data for any of our solutions, contact us today.



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