

# Guidance to **E**ffective **I**nvestment **R**eporting

Eine logische Konsequenz der Best Practices für potenzielle Kunden

Date: 10. March 2015  
Presented by: Dr. Stefan J. Illmer

# Agenda

- A message from a top chef
- Introductory thoughts about best practices for investment reporting
- Best practices for investment reporting – how it started
- Principles for Investment Reporting
- Guidance to Effective Investment Reporting
- Recommendations for Effective Investment Reporting
- Implementing the Guidance to Effective Investment Reporting
- Final remarks from a top chef and summary
- Comments and questions
- Contact details and disclaimer

# A message from a top chef

# A message from a top chef

(1/3)

"Preparing an investment report is similar to preparing a meal !

The result can be exquisite, stylish and good for you – but it can also be of little nutritional value and poorly presented.



The final decision – higher / lower end or quality – is up to the consumer!"



# A message from a top chef

(2/3)

"High quality and high end cuisine is all about menu, recipes, ingredients, equipment and presentation ...

and don't forget the kitchen !"



# A message from a top chef

(3/3)

"In comparison, high quality and high end investment reporting is about content, methodologies, data, tools and illustration ...

and don't forget operations !

Common to both, generating a product that satisfies the consumer's requirements.

Therefore a final advise: To reach the top you should start reviewing and afterwards implementing best practices because that leads you to high quality and if you like to high end products."



# Introductory thoughts about best practices for investment reporting

# Basic idea behind the need for best practices

## GIPS Standards

Composite			Equities Switzerland SPI active Mandates		Inception Date		01 Jan 1997	
Benchmark			Swiss Performance Index (S) in CHF		Reporting Currency		CHF	
	Total Return (%)	Benchmark Return (%)	Number of Portfolios	Composite Dispersion (%)	Total Assets at End of Period (millions)	Percentage of Firm Assets (%)	Total Firm Assets at End of Period (millions)	
YTD Mar 02	4.3	4.1	19	0.1	1'331.2	1.2	107'791.8	
2001	-22.4	-22.0	18	0.4	1'242.6	1.2	106'108.0	
2000	11.8	11.9	16	0.5	1'420.7	1.3	109'231.3	
1999	10.4	11.7	13	1.0	1'169.3	1.3	90'207.7	
1998	14.5	15.4	12	2.4	655.3	1.4	69'271.2	
1997	59.0	55.2	11	1.3	836.2	1.7	57'342.4	

**CREDIT SUISSE ASSET MANAGEMENT Switzerland**  
Equities Switzerland SPI active Mandates Composite  
Accompanying Notes

**Compliance Statement**  
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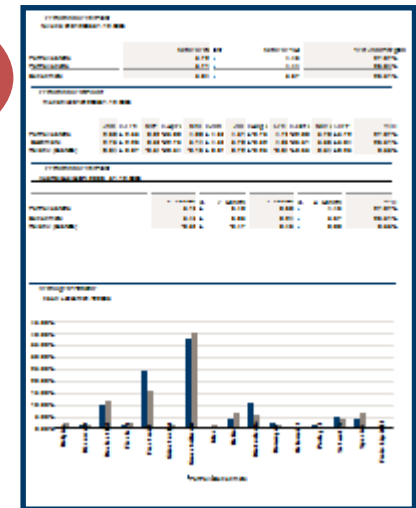
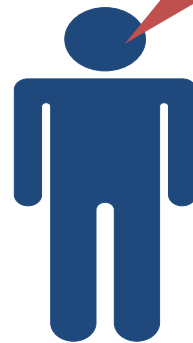
**Definition of the Firm**  
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If the composite has a customized benchmark the details are not shown in the above report file. However the full details are available on request. Sources of foreign exchange rates may be different.

Best practices for performance presentation to prospective clients

... but what about investment reporting to existing clients?

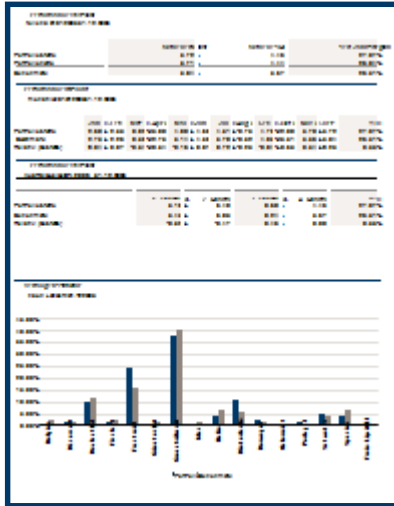
Prospective clients gain from improved transparency.



Investment reporting



# Importance of investment reporting



... is the main or even the only monitoring and controlling tool I use ...

... therefore it should be useable for that purpose !

Investment reporting

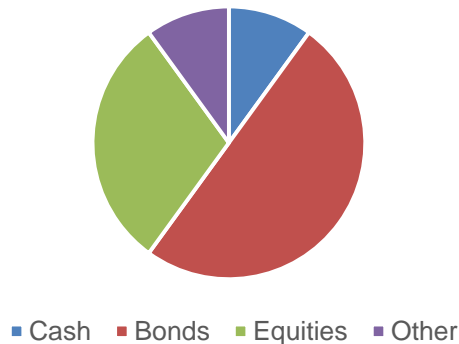


Effective investment reporting !



# A simple investment report

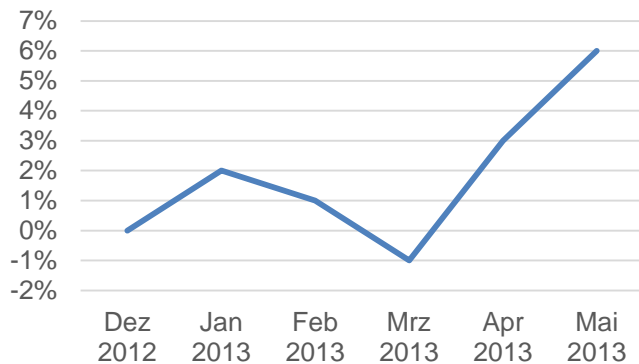
Asset Allocation



## Key figures

Total assets	1'000 EUR
Profit and loss YTD	60 EUR
Return YTD	6.0%
Benchmark return YTD	5.6%
Risk	3.3%
Benchmark risk	3.1%
Duration	2.5

Cumulated return

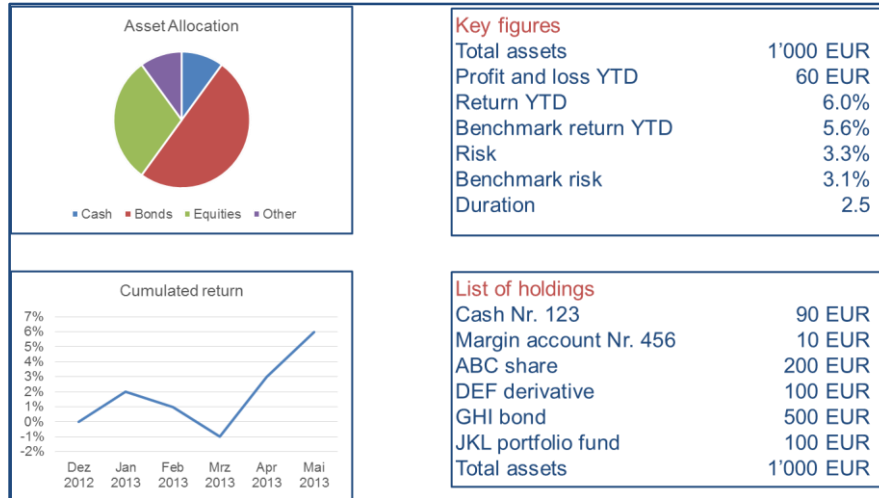


## List of holdings

Cash Nr. 123	90 EUR
Margin account Nr. 456	10 EUR
ABC share	200 EUR
DEF derivative	100 EUR
GHI bond	500 EUR
JKL portfolio fund	100 EUR
Total assets	1'000 EUR

# Transparency – A simple investment report

(1/2)



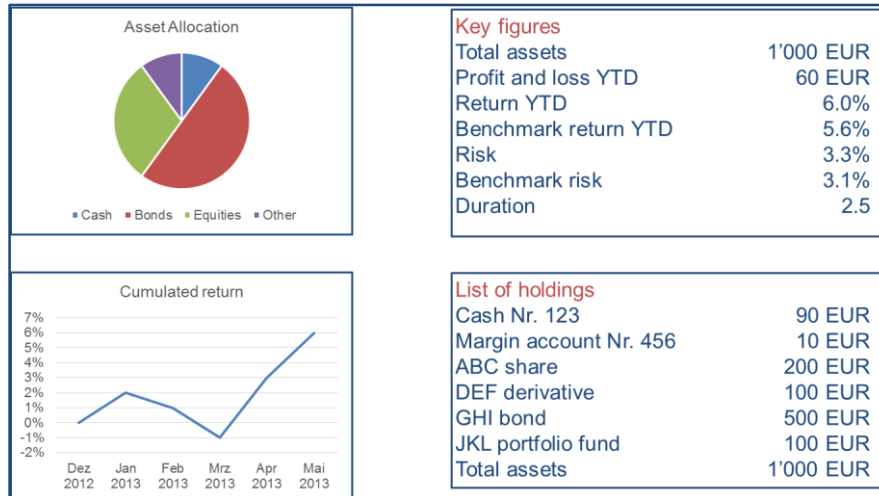
## Internet definitions:

“Lack of hidden agendas and conditions, accompanied by the availability of full information required for collaboration, cooperation, and collective decision making.”

“Minimum degree of disclosure to which agreements, dealings, practices, and transactions are open to all for verification.”

# Transparency – A simple investment report

(2/2)

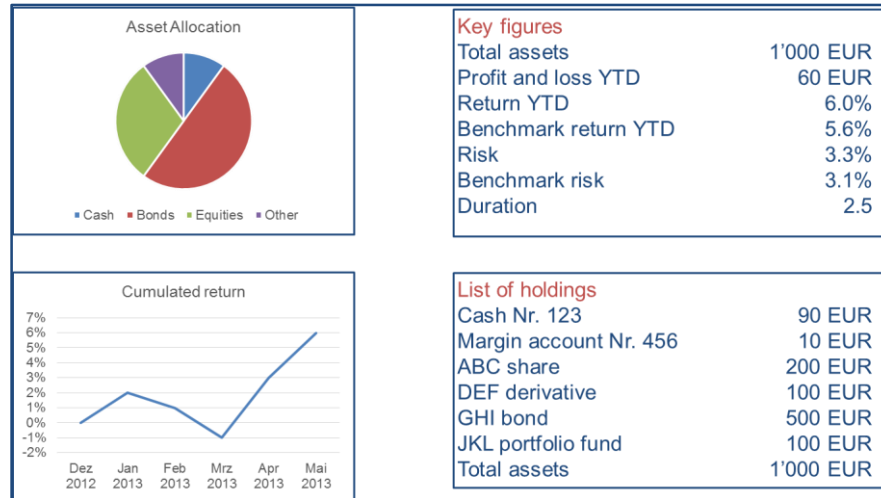


## Questions to ask to increase transparency:

- Is the valuation based on fair values?
- Is the profit and loss gross or net of fees?
- Is the return gross or net of fees?
- Is the return based on trade date accounting?
- How are accruals treated?
- What is the benchmark?
- What is the risk measure?
- Are the true exposures reflected in the asset allocation?
- What type of duration is shown?
- Does the duration include only the bonds?
- What is the inception date?
- What is the reference currency?
- What is the reporting period and date?
- and so forth ...

# Fairness – A simple investment report

(1/2)



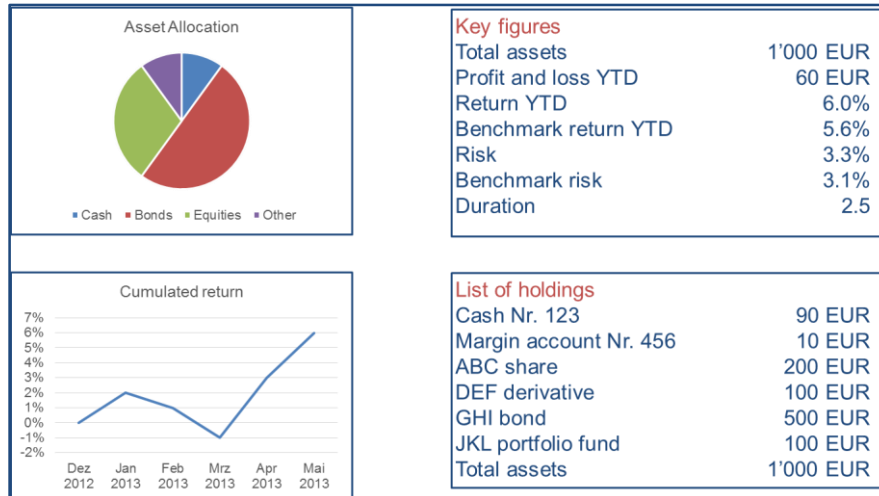
## Internet definitions:

“The state, condition, or quality of being fair, or free from bias or injustice; evenhandedness”

“Fair means free from favoritism, self-interest, or preference in judgment.”

# Fairness – A simple investment report

(2/2)

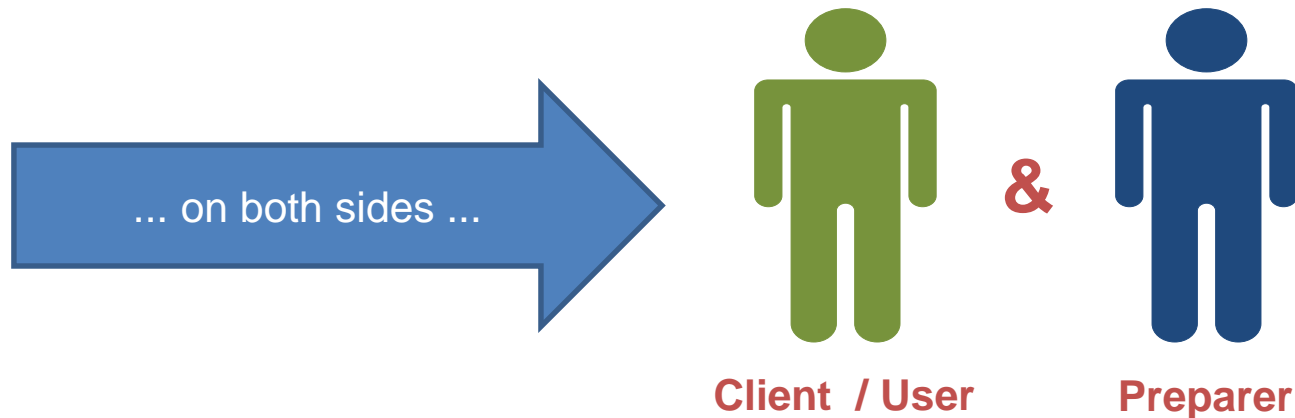


## Questions to ask to check for fairness:

- Who designed the report and its content?
- Is the return calculated from a client or a portfolio manager perspective?
- Is the return gross or net of all fees?
- Is the return gross or net of taxes?
- Is the benchmark appropriate to the investment strategy?
- Were there any changes to the benchmark?
- Is the risk measure appropriate for the investment strategy?
- Are complex products reflected according to their economic exposure?
- What are the “total” fees earned by the parties involved, like asset manager or custodian?
- and so forth ...

# Why best practices for investment reporting are needed

1. Missing transparency and clarity.
2. Not considering the client perspective.
3. Missing fee transparency.
4. Necessity for guidance for complex technical issues.
5. Lack of understanding between the preparers and the users.
6. Anticipating regulatory trends.



# Best practices for investment reporting – how it started



# How it started

(1/2)

- 2001: Discussion started within the European Investment Performance Committee (EIPC) on transparency needs with respect to performance attribution.
- 2002: EIPC published "Guidance for Users of Attribution Analysis".
- 2004: EIPC published "Guidance on Performance Attribution Presentation".
- 2005: Discussion started within the EIPC on transparency needs with respect to investment reporting.
- 2006: EMEA RIPS published the "Guidance for Recipients of Investment Reporting" => List of questions to ask asset managers with respect to client reporting.
- 2006: Discussion started within GIPS Executive Committee and its subcommittees on transparency needs with respect to client reporting to "existing clients".

# How it started

(2/2)

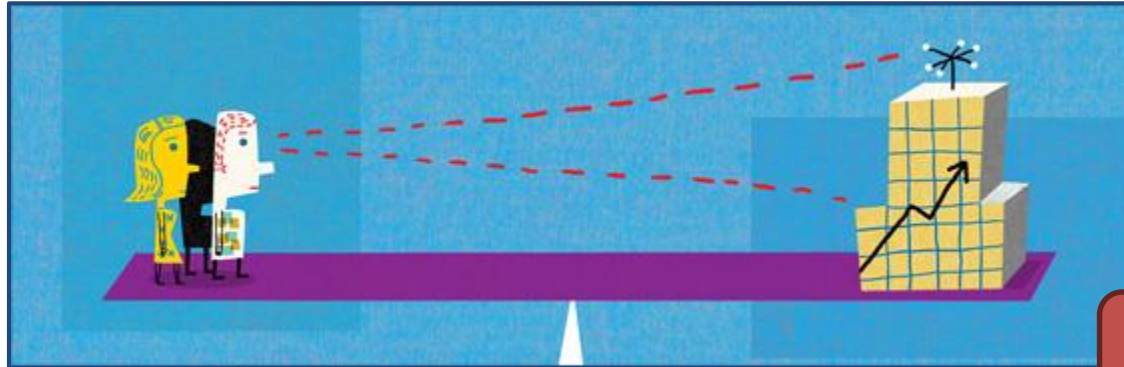
- 2009: CFA Institute decided to form a working group on guidance on investment reporting.
- 2010: Investment Reporting Working Group (IRWG) was formed and started working in December 2010.
- 2012: Initiative was integrated into the project “Future of Finance” of the CFA Institute.
- 2013: “Principles for Investment Reporting” – First edition – published.
- 2014: “Principles for Investment Reporting” – Second edition – published.
- 2014: “Guidance to Effective Investment Reporting” – First edition – published.

# Definition of investment reporting

- The IRWG understands investment reporting as a subset of client reporting within the investment management industry.
- Investment reporting is defined as the **transparent and fair** preparation and presentation of investment information including
  - the investments made,
  - the results achieved,
  - the risks taken, and
  - the taxes as well as management and maintenance fees incurred.
- Investment reporting encompasses not only the output, but also the inputs, the creation of reports, the communication between the preparer and the user, and the respective policies and procedures.
- Investment reporting focuses on current exposures of the investments and includes reports on asset allocation, performance, and risk, etc.

# Principles for Investment Reporting – First edition

2013



Future of  
Finance

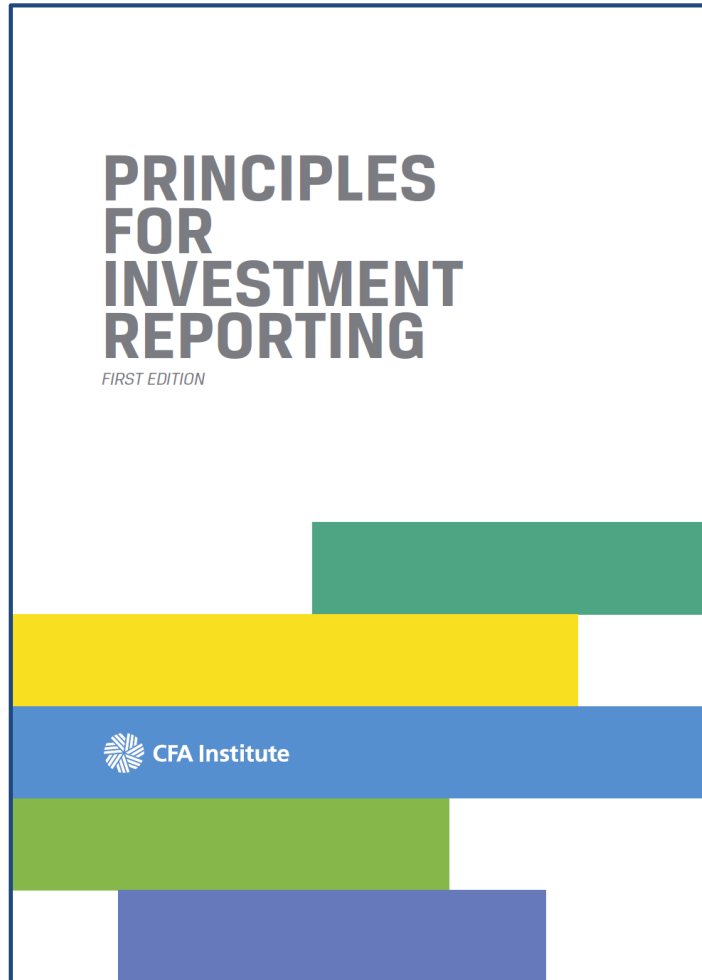
“Clear, trustworthy investment reporting continues to be the most valuable tool for communicating investment information. Whether you use this information as an investor or as a financial professional, it is what you don’t know that can be the most damaging. In today’s complex investment marketplace, there is a need for a tool set of guidelines to advance the next stage of evolution for investment reporting.

The Principles for Investment Reporting serve to facilitate a dialogue between report preparers and users. As trust is rebuilt through clear and transparent reporting, it will also encourage investors to refocus on securing their financial future in partnership with investment professionals.”

=> [http://www.cfainstitute.org/learning/future/getinvolved/Pages/principles\\_for\\_investment\\_reporting.aspx?PageName=searchresults&ResultsPage=1](http://www.cfainstitute.org/learning/future/getinvolved/Pages/principles_for_investment_reporting.aspx?PageName=searchresults&ResultsPage=1)

# Principles for Investment Reporting

# Contents – Principles for Investment Reporting

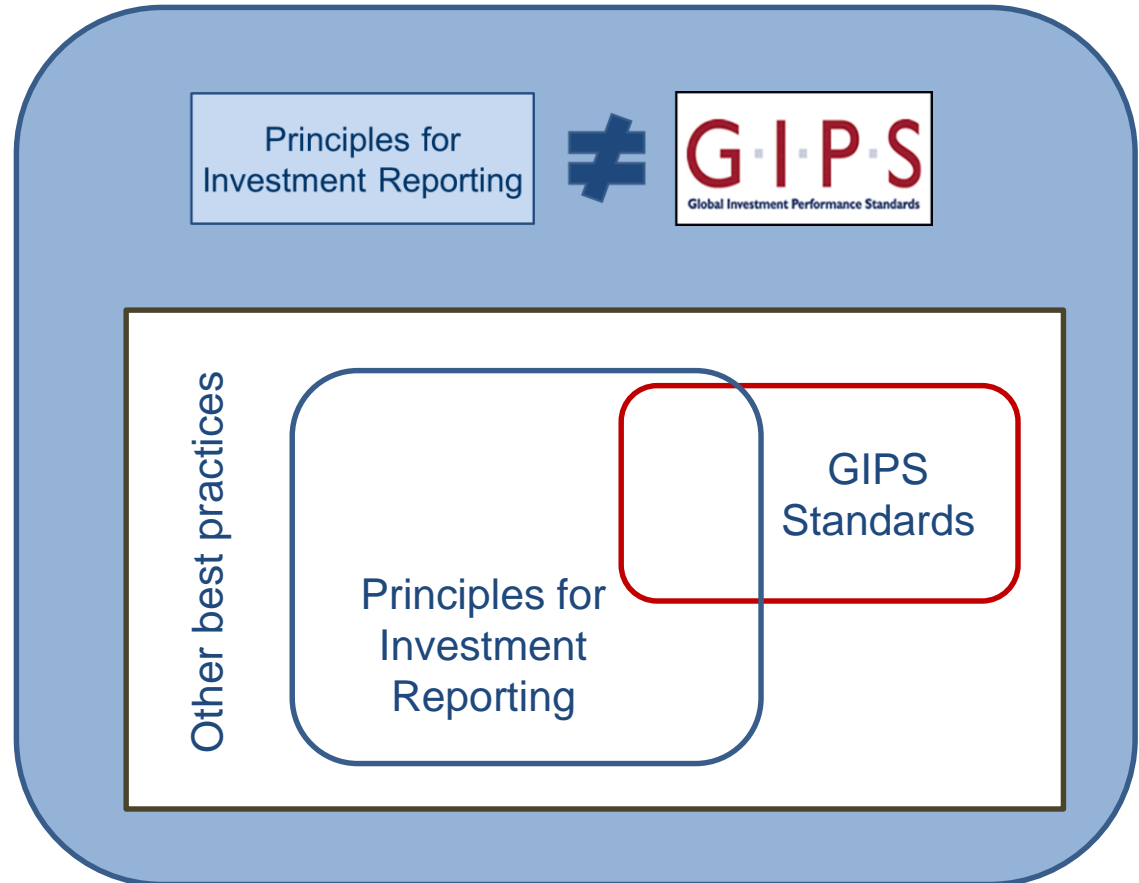
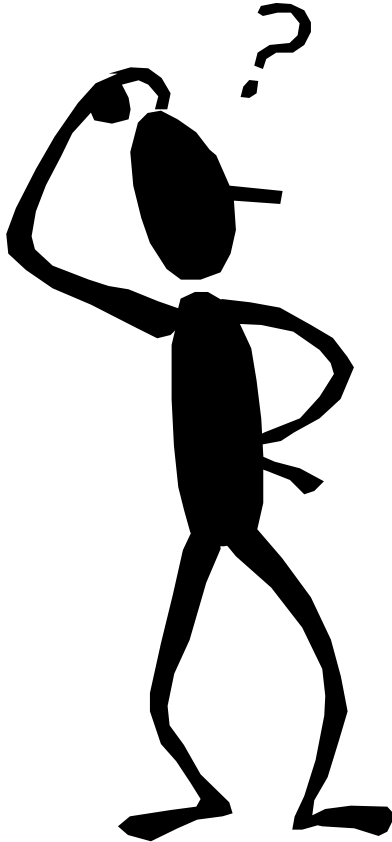


## Contents

1. Preface
2. Why principles for investment reporting are needed
3. Background and definitions
4. Stakeholders
5. Objectives
6. The five principles for investment reporting
7. Implementing the principles

# 1. Preface

(1/2)



Principles for Investment Reporting are separate and distinct from the GIPS Standards !

# 1. Preface

(2/2)

=> Purpose of the Principles for Investment Reporting

- is **not** to restrict or define what elements should be in a report
- but to address that having created a report, it should include sufficient information or indicate where the information can be readily obtained so that the recipient understands the contents of the report and the reasons behind the selection presented.



## 2. Why principles for investment reporting are needed

1. Transparency and clarity
2. Client perspective
3. Fee transparency
4. Treatment of complex technical issues
5. Understanding between the preparers and the users
6. Anticipation of regulatory trends

# 3. Background and definitions

1. How it started
2. Intentions are for the Principles for Investment Reporting
  - to become recognized guidance for investment reporting globally and
  - to promote the notion of full, accurate, and transparent disclosure and communication between all financial institutions or their agents and investment clients.
3. Definition of investment reporting
4. Distinction to the GIPS Standards
5. Flexibility of principles for investment reporting

## 4. Stakeholders

1. Stakeholders are manifold and include preparers as well as user of investment reporting, such as:
  - asset management companies;
  - mutual fund companies;
  - administrators;
  - prime broker;
  - investment consultants; and
  - asset owners.
2. Who is the (intended) user?

## 5. Objectives

(1/2)

The objectives of the Principles for Investment Reporting are:

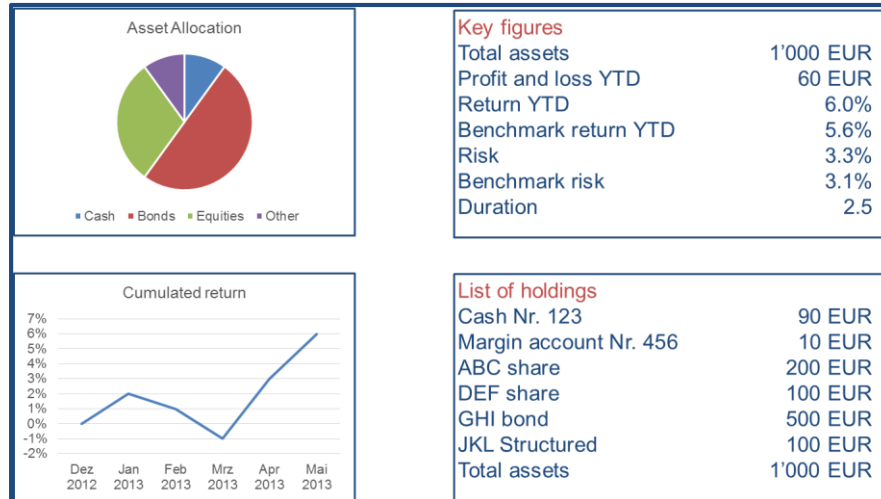
- to highlight the importance of reporting as feedback into the investment management process;
- to ensure that the user's preferences are reflected in the information contained in the report;
- to increase communication and education between the preparers and recipients of investment reporting;
- to document policies, procedures, controls, and preferences of the asset owner for report content and to make the documents available upon request;
- to provide guidance on the minimum content necessary for full, fair, transparent, and effective investment reporting;
- to promote consistency while accommodating and disclosing differences;

## 5. Objectives

(2/2)

- to provide assurance to intended users of investment reporting that the preparers who follow the Principles adhere to high ethical standards;
- to provide guidance on methodologies for preparers and intended users;
- to promote strong and consistent internal processes for preparers of investment reporting; and
- to anticipate those aspects of investment reporting for which regulation may be considered necessary and complement existing regulations.

## 6. The five Principles for Investment Reporting (1/5)



### Principles for investment reporting:

1. Communication occurs between the preparer and the user as to the purpose of and need for investment reporting.
2. Control processes, policies, and procedures are documented and followed.
3. Client preferences are reflected in the investment report.
4. Clear and transparent presentation of investment risks and results.
5. Comprehensive fee disclosure.

=> leads to effective investment reporting.

## 6. The five Principles for Investment Reporting (2/5)

Effective investment reporting reflects the following qualities:

- **active communication** occurs between the preparer and the user of the investment report, and all decisions about content of the report from this communication are documented by the preparer in, or as part of, a client agreement that is reviewed periodically by both parties;
- the **purpose** of the investment report and the **reasons** for its content and production are transparent and clearly stated;
- the investment report provides information on **changes in the investment strategy or investment style**;
- the investment report is **timely and accurate**;
- the investment report **complies with** all applicable **laws and regulations**;
- **data quality** is defined and managed according to transparent criteria, and **control processes** are defined, documented, and made available on request;

## 6. The five Principles for Investment Reporting (3/5)

- methodologies used for the production of the data in the report are disclosed or made available upon request;
- the preparer consistently adheres to the processes that are documented and makes them available upon request;
- the preparer follows an error-correction policy, which is available upon request, discloses material errors affecting information included on prior investment reports, and the definition of “material” is agreed with the user;
- the preparer has a policy for handling potential conflicts of interests—especially concerning the provision of investment information to third parties to whom this information may be advantageous. Where conflicts of interest exist, they are declared. Segregation of duties is sufficient that a fair and accurate representation of the assets to be reported occurs;



## 6. The five Principles for Investment Reporting (4/5)

- production and control processes are periodically reviewed;
- the design of the investment report reflects what the preparer and user agreed;
- the intended user or audience of the investment report and the expected use of the information are considered when the preparer designs the report;
- historical information presented in the investment report is not changed without disclosure to the user;
- the investment report is a fair representation of the investments made, results achieved, risks taken, and costs (as well as taxes) incurred; and
- the investment report is relevant and appropriate for the purpose stated and the assets and investment strategies being presented;

## 6. The five Principles for Investment Reporting (5/5)

- the investment report provides the user of the report with appropriate comparative data—such as index data, a customized benchmark, peer group data, or a GIPS composite—to allow the user to assess the relative performance of the investments;
- the investment report provides information on investment risks that have been experienced and are expected, including changes to assumptions previously adopted;
- the impact of taxes in general and the impact of taxes on performance are, where germane, reflected in the investment report; and
- the investment report is transparent regarding the fees and remuneration (e.g., commissions, referral fees) to be received by the preparer of the investment report and by third parties, such as custodians, investment management companies, or consultants, relating to the management or administration of the assets being reported.

## 7. Implementing the principles

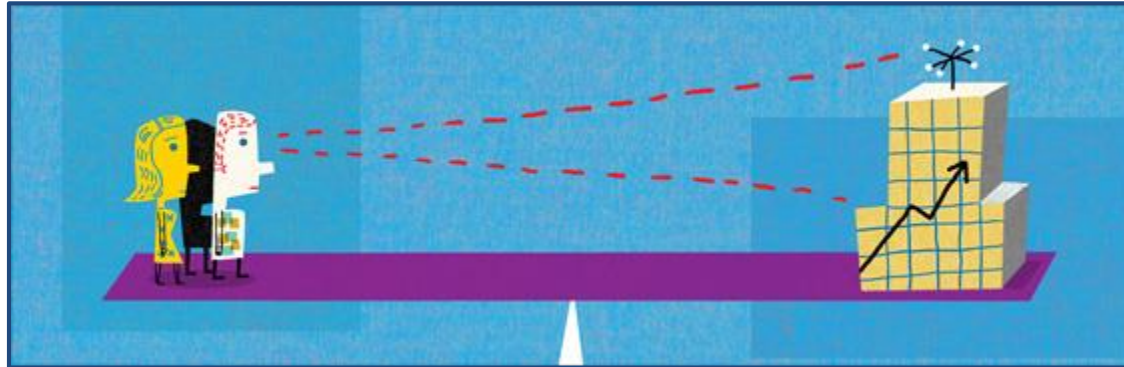
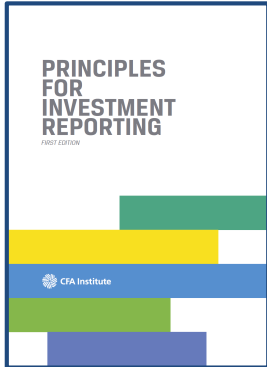
The **second edition of the principles for investment reporting** will contain a series of specific recommendations for typical report types and the information that they should contain.

Report providers will then be able to use these recommendations to note their adherence to the principles for investment reporting.

The **structure of the Principles is flexible** so that preparers can support it fully for the client base that the preparer has defined, and expand the client base definition as the preparer's ability and client demand develops.

If the preparer cannot follow the recommendations, the preparer may supply an alternative as long as the alternative is described during the communication process, the reason the preparer cannot follow the recommendation is disclosed, and the alternative, if selected by the client, is disclosed as such in the report.

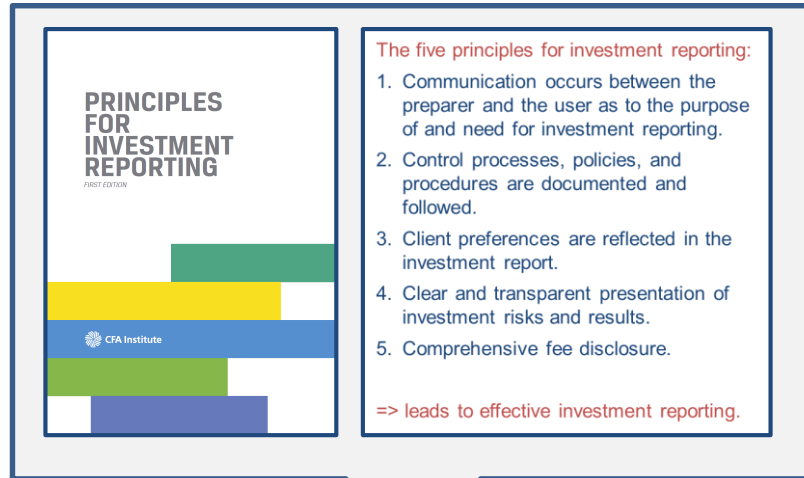
# The next step – Transparency & fairness



“This first edition outlines the key Principles, and the second edition will contain a series of recommendations that are specific to typical report types and the information that they should contain.” => [http://www.cfainstitute.org/learning/future/about/Pages/principles\\_for\\_investment\\_reporting.aspx](http://www.cfainstitute.org/learning/future/about/Pages/principles_for_investment_reporting.aspx)

# Guidance to Effective Investment Reporting

# Guidance to Effective Investment Reporting

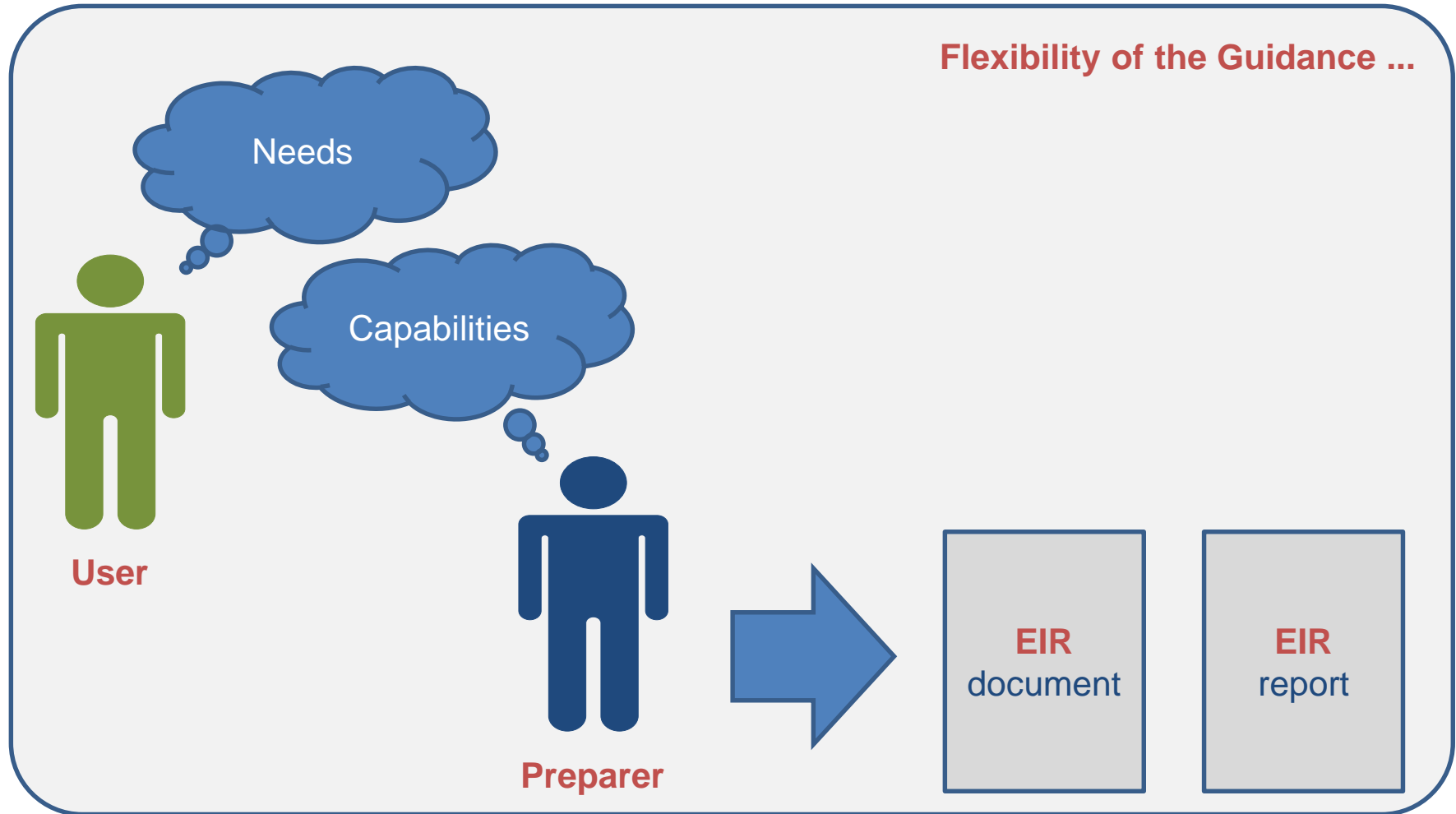


Effective investment reporting reflects certain **qualities**, which are discussed in the **Principles for Investment Reporting**.



# Recommendations for Effective Investment Reporting

# Importance of communication





# Deriving recommendations

(1/2)



# Deriving recommendations

(2a/2)

Principles

Qualities

Recommendations

## The five principles for investment reporting:

1. Communication occurs between the preparer and the user as to the purpose of and need for investment reporting.
2. Control processes, policies, and procedures are documented and followed.
3. Client preferences are reflected in the investment report.
4. Clear and transparent presentation of investment risks and results.
5. Comprehensive fee disclosure.

=> leads to effective investment reporting.

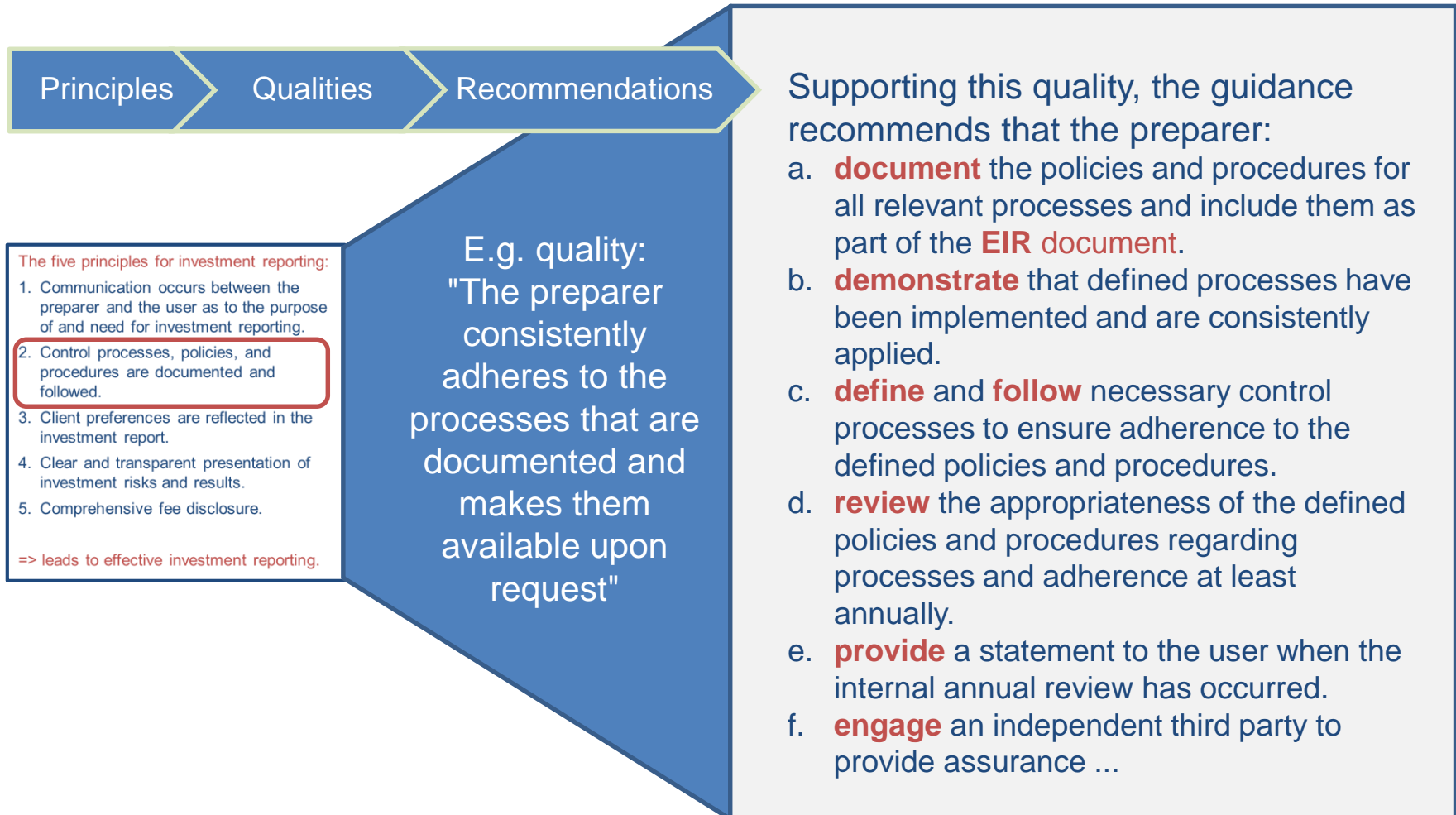
E.g. quality:  
"The purpose of the investment report and the reasons for its content and production are transparent and clearly stated"

Supporting this quality, the guidance recommends that the preparer:

- a. **discuss** with the user the purpose of the investment report.
- b. **discuss** with the user the appropriate content that supports the purpose of the investment report, presenting equally any options and the preparer's default content supporting a full and fair approach to determining the content of the investment report.
- c. **document** the conclusions of the discussions and include them as part of the **EIR document**.
- d. **confirm** the purpose and content at least annually, incorporating any changes in the ability of the preparer and in the requirements of the user as part of the **EIR document**.

# Deriving recommendations

(2b/2)



# Deriving recommendations

(2c/2)

Principles

Qualities

Recommendations

## The five principles for investment reporting:

1. Communication occurs between the preparer and the user as to the purpose of and need for investment reporting.
2. Control processes, policies, and procedures are documented and followed.
3. Client preferences are reflected in the investment report.
4. Clear and transparent presentation of investment risks and results.
5. Comprehensive fee disclosure.

=> leads to effective investment reporting.

E.g. quality:  
"The design of the investment report reflects what the preparer and user agreed to"

Supporting this quality, the guidance recommends that the preparer:

- a. **support** a process that produces investment reports that incorporate the client preferences.
- b. **discuss** all the user's preferences regarding design and content of the investment report. ...
- c. **agree** with the user on the design and content of the investment report.
- d. **document** the agreement ...
- e. **review** periodically with the user the design and content of the report, including any updates on the preparer's abilities, changes to the recommendation list, changes in the user's needs, ...
- f. **update** the respective documentation as part of the **EIR document**.

# Other recommendations

(1/2)

## Referring to:

- a. the communication between the preparer and the user.
- b. the information on changes in the investment strategy or style.
- c. the timeliness and accuracy of the investment report.
- d. the compliance with all applicable laws and regulations.
- e. the data quality with respect to the investment report.
- f. the disclosure of the used methodologies.
- g. the error-correction policy.
- h. the handling of conflicts of interest.
- i. the periodic review of the production and control processes.
- j. the consideration of the intended user if designing the report.
- k. the handling of changes to historical information presented.

# Other recommendations

(2/2)

## Referring to (continued):

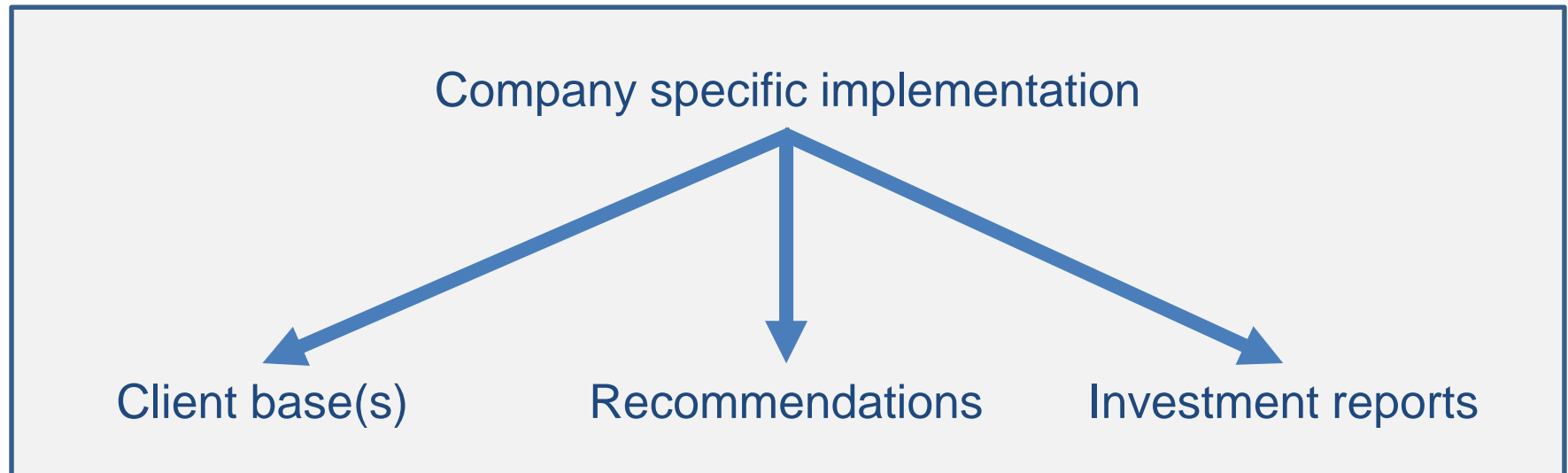
- l. the fair representation of the investment information.
- m. the relevance of the analytics to the purpose stated, and the assets and investment strategies presented.
- n. the comparative data presented.
- o. the experienced and expected investment risks.
- p. the impact of taxes on the investment results presented.
- q. the representation of fees and remuneration received by the preparer.

# Implementing the Guidance to Effective Investment Reporting

# Company specific implementation of EIR

**EIR** addresses the need for flexible guidance that allows for the production of investment reports that incorporate:

- a. the needs and requirements of the user,
- b. the capability of the preparer,
- c. the availability of sufficient information to understand the investments made, the results achieved, the risks taken, and the associated costs.





# Non-partial implementation of EIR

The Guidance to Effective Investment Reporting recommends that **all** preparers:

- a. adopt the **Principles** for Investment Reporting,
- b. implement as many **EIR** recommendations as possible, and
- c. use the **Principles** and **EIR** as their default approach to providing investment reporting to their client base.

A best-efforts approach to **EIR** cannot:

- a. be identified by a preparer as a partial implementation of **EIR**,
- b. be accompanied by a declaration of adhering to **EIR** “apart from” certain recommendations, or
- c. indicate an implementation for selected recommendations.

# EIR Statements

The Guidance to Effective Investment Reporting recommends that after implementing **all** recommendations for the defined client base(s), a preparer use the **Effective Investment Reporting Statements**.

## **Effective Investment Reporting Ability Statement:**

“[Preparer’s company name] is able to prepare and deliver investment reporting in accordance with the recommendations of the Guidance to Effective Investment Reporting (EIR) to XYZ client base.”

## **Effective Investment Reporting Report Statement:**

“This Report has been prepared in accordance with the Guidance to Effective Investment Reporting (EIR).”

=> But the **EIR Report Statement** cannot be included in a report unless the preparer is able to support the **EIR Ability Statement**.

# Stepwise implementation of EIR

1. Commitment and decision to implement EIR having reviewed the Principles and EIR.
2. Decide and define the specific client base or bases to which EIR should be offered.
3. Decide on client base specific implementation of EIR.
4. Decide on the recommendations not to be implemented – per client base.
5. Decide on how to market the EIR ability and the EIR reports.
6. Decide on how to use the EIR statements.
7. Decide on how to expand the offering to other or even all client bases considering technology and business strategy and demand.

# Results of implementing EIR

## EIR statements

### Effective Investment Reporting Ability Statement:

"[Preparer's company name] is able to prepare and deliver investment reporting in accordance with the recommendations of the Guidance to Effective Investment Reporting (EIR) to XYZ client base."

### Effective Investment Reporting Report Statement:

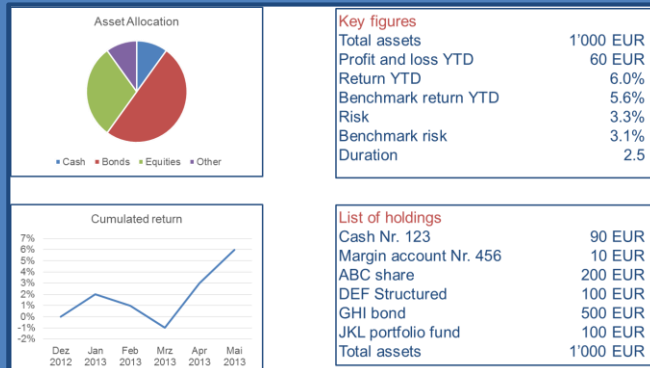
"This Report has been prepared in accordance with the Guidance to Effective Investment Reporting (EIR)."

## EIR document

**EIR** recommends that preparers maintain an **EIR document**, which can be divided into two sections:

- a section that contains the documentation that is generic to all members of the defined client base and
- a section that contains the user-specific requirements that have been determined and documented following the discussion between the preparer and the user.

## EIR report



## EIR assurance

**EIR** recommends that preparers engage an independent third party to provide **assurance** concerning their ability.

The exact scope and content of the assurance can be determined by the preparer and the assurance provider, but it should result in an assurance that the processes followed by the preparer are sufficient to support the use of the statements and the production of reports in accordance with **EIR**.

# Final remarks from a top chef and summary

# Final remarks from a top chef

(1/2)

"Preparing exquisite and stylish cuisine is  
an **art** !

It demands an attitude and ambition that  
focuses on best quality and practice in  
every aspect of the preparation."



# Final remarks from a top chef

(2/2)

"Six letters stand for the drivers of high end quality – whether it is a meal or an investment reporting:

M for multiple,  
P for premium,  
F for flexible,  
R for relevant,  
C for compliant, and  
B for best practice.

Addressing these drivers and especially the last one helps to experience an enjoyable meal ... and of course an effective investment reporting."

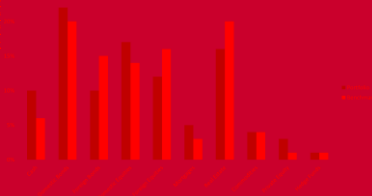


# Summary – Achieving three starred investment reports?

## Investment Reporting

### Consumer Guide

2015

Reaching the top in investment reporting is possible if implementing the **P**inciples for **I**nvestment **R**eporting and following the Guidance to **E**ffective **I**nvestment **R**eporting by:

- Addressing and covering the reporting needs of the user.
- Willing and being able to adjust the investment reporting according to changing needs of the user.
- Illustrating complex matters in an easy and understandable way through clear as well as self-explaining content and structure.
- Creating transparency on the investments made, the results achieved, the risks taken, and the taxes and costs incurred.



# Comments and questions

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## Contact details and disclaimer

# Contact details

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