

BENCHMARKING AND PERFORMANCE REVIEW

Services for charity trustees

Trustees are legally obliged, and dutifully inclined, to review the performance of their investments. Given that many charities choose to delegate the day to day management of their portfolio to an investment manager, trustees must decide on the most effective way to accurately judge performance without allowing their managers to 'self-review'.

The importance of choosing an appropriate benchmark

Effective analysis of performance is only possible if the correct benchmark is in place. The first decision facing trustees is what type of benchmark to choose:

Single measures – A single market index eg FTSE 100, or other economic measure such as CPI can be used. A further refinement can be a positive or negative suffix eg RPI+3%.

Peer group index – This measure seeks to compare a portfolio's performance against a universe of other similar portfolios using data provided by investment managers. Some indices allow risk taken to be considered alongside performance.

Composite index – A blend of different market indices can be used to more accurately reflect the underlying assets within the charity's portfolio.

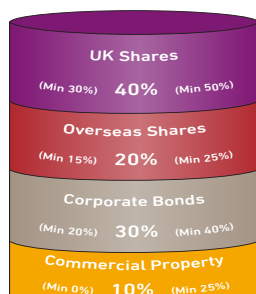
Trustees should take care to make a distinction between a benchmark and an objective metric. For instance a portfolio may have a long term goal of growing by RPI+3%, but this measure is unlikely to prove useful for regular performance reviews if the investment strategy is to invest entirely in UK shares which will be volatile in their returns. It is entirely possible for separate benchmarks and objective metrics to be used in tandem.

Constructing your benchmark

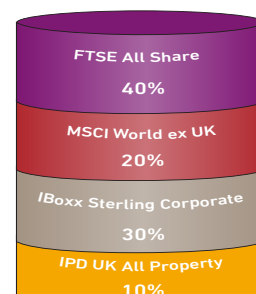
Our strong preference for most portfolios is a bespoke composite benchmark which exactly mirrors the strategic asset allocation (put simply the proportions in which the portfolio would normally be invested

in shares, bonds, property etc.) of the portfolio. The diagram below shows a simple example of how this would be achieved:

Strategic Asset Allocation



Composite Benchmark



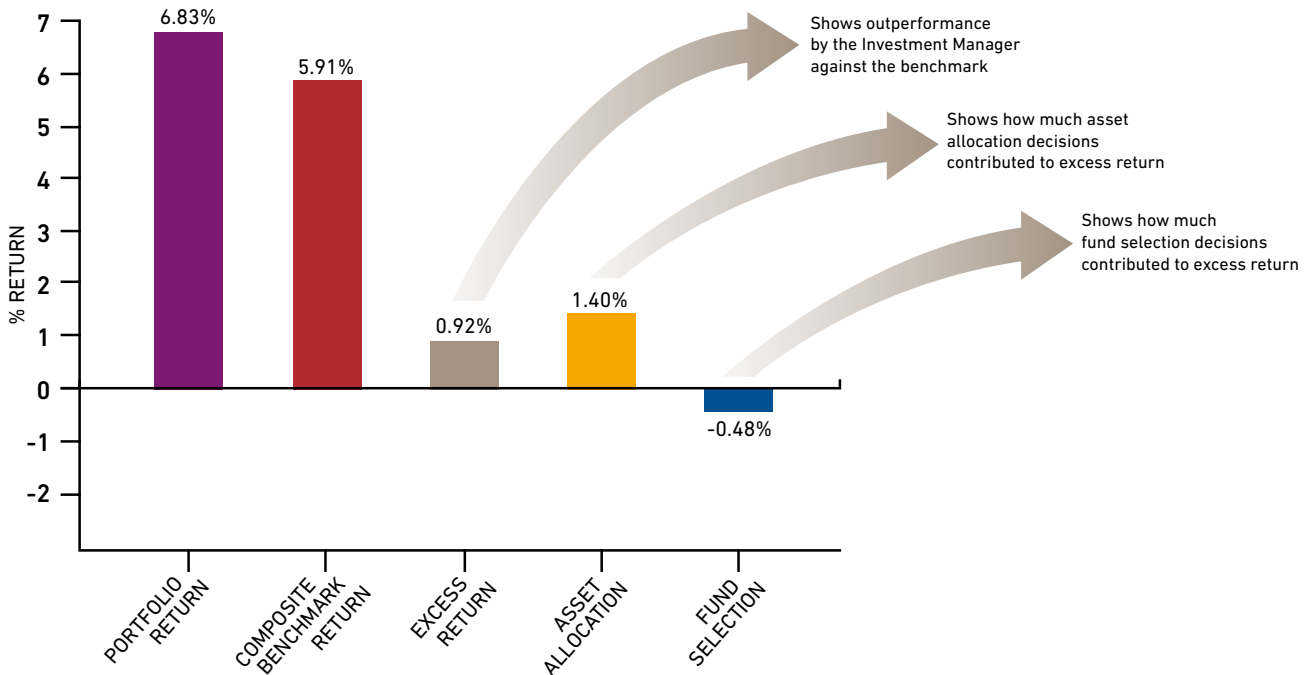
Interpreting performance against the composite benchmark

A bespoke composite benchmark enables analysis which is much more meaningful than simply comparing one number, the portfolio return, with another, the benchmark return.

Such an analysis seeks to identify the success or failure of the two main decisions which investment managers

take; firstly, whether and to what extent to move away from the strategic asset allocation e.g. to hold more gilts than usual, and secondly, what funds or stocks to buy to satisfy the required portfolio allocation.

Using this approach can pinpoint whether or not a charity's investment manager is actually adding value and how this is achieved.



Contact us

If you are interesting in talking to us about how our performance review services might help your organisation please contact:

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