



## KYC: Know Your (Performance Attribution) Calculations

### SUMMARY

Meradia was retained by a global investment firm to help it detail and verify contribution calculations and issue a document with the relevant information to satisfy a diverse group of clients.

### CHALLENGES

- Overcome legacy system challenges related to performance calculations
- Building relationships with a key group of stakeholders within a short period of time
- Draft versatile, plain English document for the firm to use with a wide audience

### SOLUTION

- Identify calculation discrepancies between legacy and new systems
- Verify and validate calculations to assess viability and accuracy
- Produce document explaining calculation methodologies to be used with clients

### BACKGROUND

A leading global investment company was amid converting from one performance attribution system to another, and was experiencing discrepancies in the performance contribution calculations. Worse, one of the firm's biggest clients uncovered the issue, further highlighting the critical nature of resolving the problem. Without a resolution to the ongoing calculation discrepancies, the conversion faced operational and reputational risk.

Recognizing this, the investment firm retained Meradia to review the performance attribution calculations between both systems, develop an understanding of the discrepancies and draft a plain English document that could be used both with the firm's brokers and its end clients. Meradia's extensive performance attribution experience, combined with deep conversion and data management expertise led to a successful, short-term engagement that addressed the concerns of the firm and other key stakeholders.

### ANALYSIS

For short-term, high profile projects that impact multiple key stakeholders, hitting the ground running is paramount. Additionally, establishing relationships and demonstrating subject matter expertise is critical in getting the necessary information quickly to move the project along. Meradia set out to examine both performance attribution systems to begin the arduous process of comparing contribution calculations.

Meradia applied its well-honed performance attribution expertise by comparing each system's calculation methodologies with the established and recognized industry standard for calculating contribution. Using the accepted formulas, Meradia was able to identify calculation methodologies applied by each system. This review uncovered that the incumbent system used an arithmetic approach to calculating contribution, whereas the new system applied logarithmic processes.

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## ANALYSIS (continued)

With this information in hand, Meradia then outlined how the respective methodologies produced differing results. By understanding the variances in the calculation methodologies, Meradia was able to produce documentation that provided a clear explanation, with accompanying calculations, of the discrepancies between the two systems. Further, Meradia's assessment concluded that:

1. The incumbent methodology, while accurate and easy to understand for short time spans, contained deficiencies that became exaggerated as the time period expanded.
2. The new system's methodology for attributing security effects to changes in the portfolio return stream over time are more accurate and result in a smoother and more reasonable contribution return stream.

This documentation was presented to the investment firm as a means of outlining the issues, and providing a clear approach to communication.

## RESULTS

Meradia tapped into its deep performance attribution expertise to drive a successful, albeit short-term, engagement that allayed concerns of multiple stakeholders that the contribution calculations of the investment firm's system were accurate and reliable. Additionally, Meradia produced documentation explaining the discrepancies that the client was able to distribute to various audiences, including its broad group of brokers and end clients.

## ABOUT MERADIA

Meradia specializes in strategic advisory and implementation services for the investment management industry.

Since 1997 we have helped our clients enhance their processes, productivity and profitability through improvements in operations and technology. Meradia leverages its time-tested methodologies to solve business challenges, including strategic assessment, workflow optimization, vendor selection, and system implementation.

Our extensive client portfolio includes seven of the top 10 global asset managers, institutional asset managers, OCIO, wealth, trust, and global insurance companies. We pride ourselves on our 93% client re-engagement rate.

Driving innovation to achieve clients' strategic goals — Meradia delivers results.

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