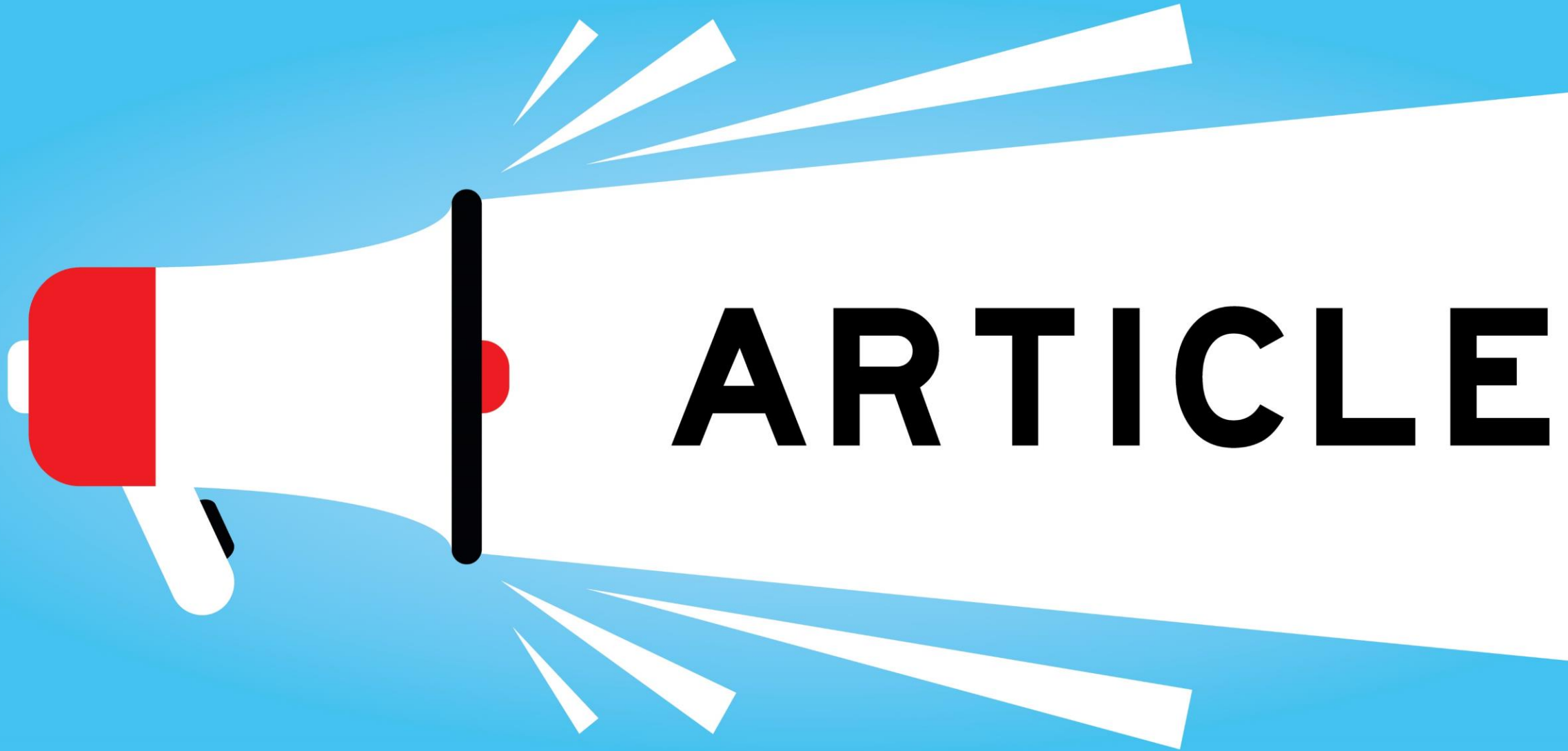


# Making Sense of Net-of-Fee Returns



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# Net of fee returns on GIPS<sup>®</sup> reports:

- If based on actual fees, they are impossible to understand; draw any meaning from.
- And, if from model fees, they are typically lower than they would be if actual fees were used

# Can anyone explain or interpret this net-of-fee return?

Gross-of-fee return = 2.78%

Net-of-fee return = 2.64%

Note: based on actual fees.

# How do we explain it to a project? What is its meaning?

**Gross-of-fee return = 2.78%**

**Net-of-fee return = 2.64%**



**Does it help to know that fees range from 0.25% to 1.00% annually, and that these returns are for one month, the month the fees were deducted?**

**Gross-of-fee return = 2.78%**

**Net-of-fee return = 2.64%**

It is my view, that the net return has ZERO meaning; we have no idea what it is based upon, and so cannot communicate about it clearly to a prospect, who will pay 0.25%, 0.35%, 1.00%

Gross-of-fee return = 2.78%

Net-of-fee return = 2.64%



*“Meaningless statistics were up one-point-five per cent  
this month over last month.”*

# An alternative: use model fee!

## Using 1.00% quarterly (0.25%) we get:

Gross-of-fee return = 2.78%

Net-of-fee return = 2.53%

# Clearer, right?

We can interpret it: it's the net return based on an annual 1.00% fee, taken quarterly 0.25%.

Gross-of-fee return = 2.78%

Net-of-fee return = 2.53%

**BUT, the NoF return is lower (2.53%) than the one based on actual (2.64%)**

**I.e., for increased meaning, we lose 11 bps.**

**Gross-of-fee return = 2.78%**

**Net-of-fee return = 2.53%**

**A better alternative: use actual fees, and include the asset-weighted fee!**

**The asset-weighted fee was required in the AIMR-PPS<sup>®</sup>, when actual fees were taken. But, it was never included in GIPS**

# Calculating the asset-weighted fee

$$\text{CompositeFee}^{\text{AssetWeighted}} = \frac{\sum_{i=1}^n v_i f_i}{\sum_{i=1}^n v_i}$$

where:

$v$  = individual account starting value

$f$  = individual account fee

$i$  = individual accounts



# Deriving the asset-weighted fee

Account	Starting Value	Annual Fee	Quarterly Fee	GOF Return	NOF Return
1	250,000	0.25%	0.063%	2.63%	2.57%
2	245,000	0.30%	0.075%	2.67%	2.60%
3	220,000	0.50%	0.125%	2.95%	2.83%
4	200,000	0.50%	0.125%	2.88%	2.76%
5	190,000	0.60%	0.150%	2.71%	2.56%
6	195,000	0.60%	0.150%	2.68%	2.53%
7	185,000	0.70%	0.175%	2.90%	2.73%
8	180,000	0.75%	0.188%	2.80%	2.61%
9	175,000	0.85%	0.213%	2.83%	2.62%
10	170,000	1.00%	0.250%	2.85%	2.60%
<b>Composite</b>				2.78%	2.64%
<b>Asset-wtd Annual Fee</b>		0.577%			

Our NOF return is the same one we calculated earlier (2.64%). But now we can explain it's based on an annual fee of 0.577 percent.

Account	Starting Value	Annual Fee	Quarterly Fee	GOF Return	NOF Return
1	250,000	0.25%	0.063%	2.63%	2.57%
2	245,000	0.30%	0.075%	2.67%	2.60%
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9	175,000	0.85%	0.213%	2.83%	2.62%
10	170,000	1.00%	0.250%	2.85%	2.60%
<b>Composite</b>				2.78%	2.64%
<b>Asset-wtd Annual Fee</b>		0.577%			

# But is it? Will we get the same result using 0.577% for ALL accounts? Let's see!

Account NOF returns based on the asset-wtd fee

Account	Starting Value	Annual Fee	Quarterly Fee	GOF Return	NOF Return
1	250,000	0.25%	0.063%	2.63%	2.57%
2	245,000	0.30%	0.075%	2.67%	2.60%
3	220,000	0.50%	0.125%	2.95%	2.83%
4	200,000	0.50%	0.125%	2.88%	2.76%
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10	170,000	1.00%	0.250%	2.85%	2.60%
<b>Composite</b>				2.78%	2.64%
<b>Asset-wtd Annual Fee</b>	0.577%				

Account	Starting Value	Annual Model Fee	Quarterly Model	GOF Return	NOF Return
1	250,000	0.577%	0.14%	2.63%	2.49%
2	245,000	0.577%	0.14%	2.67%	2.53%
3	220,000	0.577%	0.14%	2.95%	2.81%
4	200,000	0.577%	0.14%	2.88%	2.74%
5	190,000	0.577%	0.14%	2.71%	2.57%
6	195,000	0.577%	0.14%	2.68%	2.54%
7	185,000	0.577%	0.14%	2.90%	2.76%
8	180,000	0.577%	0.14%	2.80%	2.66%
9	175,000	0.577%	0.14%	2.83%	2.69%
10	170,000	0.577%	0.14%	2.85%	2.71%
<b>Composite</b>				2.78%	2.64%
<b>Asset-wtd Fee</b>	0.577%				

Yes!

Results in the same composite NOF return

**Disclosing the asset-weighted fee provides meaning to the net-of-fee returns when derived using actual fees.**

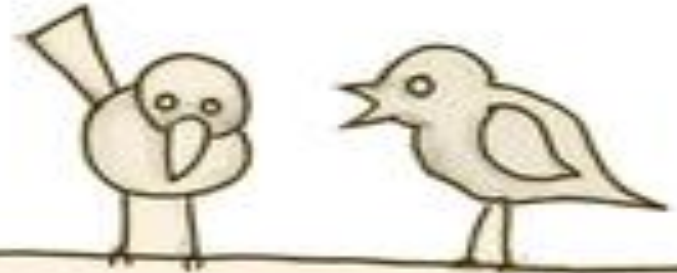
**It need only be shown as  
“supplemental information.”**

**Isn't it worth adding?**



Have  
any  
questions?

**WHAT  
DO YOU  
THINK ?**



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