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Performance Perspectives

Insights from the performance experts

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Monetizing Excess Returns: Bridging the Gap Between Percentages and Dollars

In issue 28-2 of *The Journal of Performance Measurement* (Winter 2023/2024), David Spaulding, DPS, CIPM, and Terry Honner, CIPM, dive into an increasingly relevant topic in investment performance measurement: monetizing excess returns. While excess returns are typically expressed in percentage terms, there is growing demand from investors, asset owners, and performance professionals to translate these figures into monetary values to better communicate the financial impact of investment decisions.

This article provides a comprehensive method for monetizing both portfolio and benchmark returns, explores the challenges associated with time-weighted returns, and presents an alternative perspective that can enhance how firms evaluate and report performance.

The Concept of Monetizing Excess Returns

Investment professionals are accustomed to measuring portfolio performance against a benchmark using percent-based excess returns. However, many industry participants, including clients and senior executives, want to see the results in dollar terms, understanding not just how much better an investment performed but what that means in actual monetary gains.

The article introduces a straightforward approach to monetization:

- **Portfolio Monetization**: Calculate the gain/loss in dollar terms by comparing the beginning and ending values of the portfolio.
- **Benchmark Monetization**: Apply the benchmark's percentage return to the portfolio's starting value to estimate the hypothetical gain/loss if the portfolio had performed exactly like the benchmark.
- **Excess Return Monetization**: Subtract the benchmark's monetized gain/loss from the portfolio's monetized gain/loss.

This process allows firms to quantify the financial impact of investment decisions and better explain performance to clients, stakeholders, and compliance teams.

Challenges in Monetizing Returns

While the method for converting percentage excess returns into dollar values is relatively simple, several key challenges arise:

1. The Issue with Time-Weighted Returns

Time-weighted returns (TWRs) are widely used in performance measurement because they eliminate the impact of cash flows, ensuring that investment managers are not unfairly rewarded or penalized for external contributions or withdrawals made by the client. However, the disconnect between TWR and actual dollar performance creates potential confusion.

Issue Contents:

The Voice

Author: David Spaulding, DPS, CIPM

In response to a reader's comments.

We don't often get comments from readers, but greatly appreciate them when we do. Mike Stevens, CIPM, who is a Vice President at PGIM Fixed Income, offered the following in response to a piece I wrote:

I just read the February Newsletter and would guess you'll get a few comments on the "Who Knew?" article. When I read the first part of the article that noted suspicion that stale prices might be problematic for daily returns, I was sure the focus would be on the impact of stale prices when there are external flows. That will certainly cause problems, although in my experience the impact is generally immaterial. When I continued to the example I was surprised to see that was not the focus, and that the example was flawed.

For instance, a portfolio may show a positive return, but due to poor cash flow timing, the client may have lost money overall. This presents communication difficulties, as an investor might struggle to reconcile a strong reported return with a financial loss.

2. Handling External Cash Flows

When clients make deposits or withdrawals, the way cash flows are handled affects how returns are monetized. The article outlines two primary approaches:

- **Start-of-day cash flow treatment**: The portfolio's return is measured up until the day before a cash flow, and the monetized return is adjusted accordingly.
- **End-of-day cash flow treatment**: The cash flow is ignored until the end of the day, at which point it is added to the portfolio's ending value.

Each method produces slightly different results, making it important for firms to choose and document a consistent approach.

3. The Debate Over Resetting Benchmark Values

A key question in monetizing returns is: should benchmark values be reset periodically?

- One school of thought argues that benchmarks should be allowed to "run", meaning their gains or losses should accumulate over time. This approach preserves the integrity of the benchmark return calculation, ensuring that the excess return is an accurate reflection of relative performance.
- The opposing view suggests that resetting the benchmark periodically (e.g., daily, monthly, or quarterly) ensures that excess return calculations remain comparable across time periods.

The article presents an example comparing Bitcoin vs. the S&P 500 over two months. If the benchmark value is reset after the first month, the results appear more intuitive in shorter timeframes, but they introduce distortions when analyzing performance over a multi-period horizon.

Ultimately, the decision of whether to reset the benchmark depends on the specific performance questions being asked and whether maintaining a consistent comparison over time is more important than simplifying short-term calculations.

Alternative Approaches: Money-Weighted Returns

Given the challenges associated with time-weighted excess return monetization, the authors suggest considering money-weighted returns (MWRs), such as the internal rate of return (IRR), when reporting to asset owners and clients.

Why consider money-weighted returns?

- **MWRs account for the actual timing of cash flows**, making them more reflective of the real investor experience.
- **They align better with financial outcomes**, ensuring that if a client lost money overall, the reported return also reflects a negative result.

For example, in a real-world case, an investor adds capital to a portfolio right before a market decline. The portfolio's time-weighted return might still appear positive, but in dollar terms, the client suffered a loss. If the goal is to evaluate the investor's experience, an MWR approach would be more appropriate.

Implications for Performance Teams

The discussion around monetizing excess returns highlights several key considerations for performance teams:

✔ **Transparency Matters** – Clients and stakeholders increasingly want dollar-based insights, not just percentage returns.
✔ **Know Your Audience** – Asset managers may favor TWRs, while asset owners may benefit from MWRs.

In the second part of the example the securities are only valued monthly or when traded. But it's still a daily calculation and there are as many sub-period returns as days in the month, not just two sub-periods as stated. A daily return calculation would include days of zero return prior to the trades and for days after the trades. There will also be a return of 3.03% for the last day of the month when the securities are re-priced. The key missing piece is the return for the day of the trades of 3.13% (the change in value from 160,000 to 165,000). The correct return for the month is 6.25%. I've never seen a system behave as shown in the example.

I'll include the tables as they appeared:

What Actually Occurs (daily pricing)				
Start-of-Month Holdings/Values				
Holdings	Shares	Price	Starting Value	Returns
A	5,000	10	50,000	
B	5,000	20	100,000	
Cash			10,000	
Total			160,000	
Portfolio Value BEFORE Trades				
A	5,000	11	55,000	Return: from
B	5,000	18	90,000	start to just
Cash			10,000	before trades
Total			155,000	-3.13%
Trading: Sell A; Buy C				
Sell A	5,000	11	55,000	
Buy C	10,000	6	60,000	
Cash			5,000	
Portfolio Value AFTER Trades				
B	5,000	18	90,000	
C	10,000	6	60,000	
Cash			5,000	
Total			155,000	
End-of-Month Holdings/Values				
B	5,000	19	95,000	Return from
C	10,000	7	70,000	after trade to
Cash			5,000	end of month
Total			170,000	9.68%
Monthly Return (chain-linked)				6.25%

What System Thinks (monthly pricing)				
Start-of-Month Holdings/Values				
Holdings	Shares	Price	Starting Value	Returns
A	5,000	10	50,000	
B	5,000	20	100,000	
Cash			10,000	
Total			160,000	
Portfolio Value BEFORE Trades				
A	5,000	10	50,000	Return: from
B	5,000	20	100,000	start to just
Cash			10,000	before trades
Total			160,000	0.00%
Trading: Sell A; Buy C				
Sell A	5,000	11	55,000	
Buy C	10,000	6	60,000	
Cash			5,000	
Portfolio Value AFTER Trades				
B	5,000	20	100,000	
C	10,000	6	60,000	
Cash			5,000	
Total			165,000	
End-of-Month Holdings/Values				
B	5,000	19	95,000	Return from
C	10,000	7	70,000	after trade to
Cash			5,000	end of month
Total			170,000	3.03%
Monthly Return (chain-linked)				3.03%

I'll go through Mike's comments point-by-point.

- *"it's still a daily calculation and there are as many sub-period returns as days in the month, not just two sub-periods as stated."*

Quite true. I chose not to include the daily valuations, to save space and because such details are unnecessary, until the portfolio changed in structure, as a result of cash flows or trades.

Consider the following scenario:

- The start-of-month value is 160,000; and let's assume we're talking March So, this is the value as of close-of-business February 28, which is a Friday. This is also the starting value on Monday, March 3.
- Let's say for argument sake the trade occurs on Wednesday, March 12. So, let's consider the daily values for this portfolio:

Trading Days	VB	VE
3/3/2025	160,000	161,000
3/4/2025	161,000	161,500
3/5/2025	161,500	160,250
3/6/2025	160,250	159,500
3/7/2025	159,500	157,000
3/10/2025	157,000	156,000
3/11/2025	156,000	155,000
3/12/2025	**155,000**	**156,000**
3/13/2025	156,000	158,000
3/14/2025	158,000	158,500
3/17/2025	158,500	160,000
3/18/2025	160,000	161,000
3/19/2025	161,000	162,000
3/20/2025	162,000	163,000
3/21/2025	163,000	164,000
3/24/2025	164,000	165,000
3/25/2025	165,000	166,000
3/26/2025	166,000	167,000
3/27/2025	167,000	168,000
3/28/2025	168,000	170,000

In the left-hand panel of the first table, I mention that the return "just before" the trades is -3.13 percent. I didn't bother to provide the details as shown in the second panel, but only used the value *just before the trade* and the start-of-month value:

$$\frac{V_{BeforeTrade}}{V_B} - 1 = \frac{155{,}000}{160{,}000} - 1 = -3.13\%$$

But, let's do this using the daily values, instead.

$$\prod_{D=1}^{n} \frac{V_{DailyEnding_D}}{V_{DailyBeginning_D}} - 1$$
$$= \left[\frac{161{,}000}{160{,}000} \times \frac{161{,}500}{161{,}000} \times \frac{160{,}250}{161{,}500} \times \frac{159{,}500}{160{,}250} \times \frac{157{,}000}{159{,}250} \times \frac{156{,}000}{157{,}000} \times \frac{155{,}000}{156{,}000}\right] - 1$$
$$= \left[\frac{\cancel{161{,}000}}{160{,}000} \times \frac{\cancel{161{,}500}}{\cancel{161{,}000}} \times \frac{\cancel{160{,}250}}{\cancel{161{,}500}} \times \frac{\cancel{159{,}500}}{\cancel{160{,}250}} \times \frac{\cancel{157{,}000}}{\cancel{159{,}250}} \times \frac{\cancel{156{,}000}}{\cancel{157{,}000}} \times \frac{155{,}000}{\cancel{156{,}000}}\right] - 1$$
$$= \frac{155{,}000}{160{,}000} - 1 = -3.13\%$$

✔ **Document Methodologies** – Whether using start-of-day, end-of-day, or reset-based calculations, firms should standardize and communicate their approach to avoid confusion.
✔ **Be Prepared for Challenges** – In cases where TWR-based monetization yields counterintuitive results, performance teams must be ready to explain the numbers.

Conclusion: The Future of Monetized Returns

As investment firms and asset owners continue to demand more intuitive performance reporting, the ability to translate returns into meaningful monetary values will become increasingly important.

This article provides a structured method for monetizing returns while acknowledging the challenges associated with time-weighted calculations, cash flows, and benchmark resetting. It also highlights the benefits of considering money-weighted returns in certain scenarios, particularly when communicating investment outcomes to clients.

Looking ahead, further research is needed to refine these methodologies, particularly in areas such as:

- **How to attribute excess dollars to specific investment decisions.**
- **The impact of monetization at different levels (e.g., asset class vs. total portfolio).**
- **Refining methodologies to ensure consistency in multi-period excess return calculations.**

For firms seeking to enhance their performance reporting framework, this article serves as an essential guide to bridging the gap between excess returns in percentages and real-world financial outcomes.

Read the full article in *The Journal of Performance Measurement* here.

GIPS® Tips

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Are you tired of being treated like just another number by your GIPS verifier? At TSG, we prioritize your satisfaction and success above all else.

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Since the ending value for March 3 is the starting value for March 4 (161,000), we can cancel them out. We learn this from basic arithmetic, correct? And, the ending value on March 4 is the starting value on March 5 (161,500), so, again, we cancel them out. We continue this until the end of the month. After we're done cancelling common terms in the numerator and denominator, we end up with the same value as shown originally: i.e., the value *just before the trade* and the value *at the start of the month*.

The return for the period following the trade is the value of the portfolio after the trade (155,000) and the end of the month (170,000), or

$$\frac{V_{EndOfMonth}}{V_{AfterTrade}} - 1 = \frac{170{,}000}{155{,}000} - 1 = 9.68\%$$

Based on the way the daily values cancel themselves out for the first part of the month, hopefully the reader will understand that the same thing occurs for the second part of the month.

We geometrically link the returns, to get the return for the month:

$$R_{Month} = \prod (r_i + 1) - 1 =$$
$$(-0.0313 + 1) \times (0.0968 + 1) - 1 = 6.25\%$$

Because we had no external cash flows, we could calculate this return by simply using the end-of-month and start-of-month values:

$$R_{Month} = \frac{V_E}{V_B} - 1 = \frac{170{,}000}{160{,}000} - 1 = 6.25\%$$

And so, yes, I could have put all the daily values into the table, but it wouldn't have altered the results. Sorry I failed to explain this in the original piece.

- *There will also be a return of 3.03% for the last day of the month when the securities are re-priced.*

From a daily perspective, using the [now identified] daily values would be from 168,000 to 170,000. However, we really do not care what occurs on that day, because we've shown the daily returns net themselves out, by cancelling out common terms between the numerator and denominator.

- *The key missing piece is the return for the day of the trades of 13% (the change in value from 160,000 to 165,000). The correct return for the month is 6.25%.*

I agree. The correct return is 6.25%. That's my point. And, as for Mike's final point:

- *I've never seen a system behave as shown in the example.*

Again, this is my point.

If a vendor offers daily returns but does not require daily pricing, a situation like this can occur.

This vendor, who this piece was based on, retains the same price until the trade day, when the portfolio is revalued. And so, we have:

$$R_{FirstPart} = \frac{160{,}000}{160{,}000} - 1 = 0.00\%$$
$$R_{SecondPart} = \frac{170{,}000}{165{,}000} - 1 = 3.03\%$$

And these returns link to 3.03 percent.

But, there's more …

Thanks to Mike Stevens for reaching out. By taking another look, I found that I was missing an all important mid-point return for our monthly valuation panel:

$$R_{FirstPart} = \frac{160{,}000}{160{,}000} - 1 = 0.00\%$$
$$R_{MiddlePart} = \frac{165{,}000}{160{,}000} - 1 = 3.13\%$$
$$R_{SecondPart} = \frac{170{,}000}{165{,}000} - 1 = 3.03\%$$

My goof, of course. If we link these three returns, we get the 6.25% return, which matches the daily. This suggests that, in reality, there isn't a problem if we only value monthly but employ a daily return method. But, *not so fast* …

What if we have an external cash flow during the period?

The Journal of Performance Measurement®

This month's article brief spotlights "Contribution to Internal Rate of Return – Scenarios and Solutions" by Satheesh Jagannathan of BNY, which was published in the Winter 2024/2025 issue of *The Journal of Performance Measurement*. You can access this article by subscribing (for free) to *The Journal* (link here).

The Internal Rate of Return (IRR) is a widely used metric in performance presentations especially when the asset manager has complete control over the timing of cash flows. In multi-asset portfolios, it is desirable to see each asset's contribution to the portfolio's total IRR. Dr. Stefan Illmer and Wolfgang Marty provided a straightforward approach to compute the IRR contributions. This paper delves deeper into the scenarios and provides an enhanced math that works for all the listed scenarios.

To confirm your email address, click the graphic below. If you're a subscriber but haven't received a link to the current issue, please reach out to Doug Spaulding at DougSpaulding@TSGperformance.com.

I've adjusted the earlier example, to introduce a mid-period inflow of $15,000. Note this is less than 10% of the market value, so we are not obligated to revalue with our monthly pricing method.

Cash Flow Example									
What Actually Occurs (daily pricing)					What System Thinks (monthly pricing)				
Start-of-Month Holdings/Values					Start-of-Month Holdings/Values				
Holdings	Shares	Price	Starting Value	Returns	Holdings	Shares	Price	Starting Value	Returns
A	5,000	10	50,000		A	5,000	10	50,000	
B	5,000	20	100,000		B	5,000	20	100,000	
Cash			10,000		Cash			10,000	
Total			160,000		Total			160,000	
Portfolio Value BEFORE Cash Flow (C/F)					Portfolio Value BEFORE Trades				
A	5,000	11	55,000	Return: from	A	5,000	10	50,000	Return: from
B	5,000	18	90,000	start to just	B	5,000	20	100,000	start to just
Cash			10,000	before C/F	Cash			10,000	before trades
Total			155,000	-3.13%	Total			160,000	0.00%
Buy C					Buy C				
Cash flow			15,000		Cash flow			15,000	
Buy C	3,000	5	15,000		Buy C	3,000	5	15,000	
Portfolio Value AFTER Trade					Portfolio Value AFTER Trade				
A	5,000	11	55,000		A	5,000	10	50,000	
B	5,000	18	90,000		B	5,000	20	100,000	
C	3,000	5	15,000		C	3,000	5	15,000	
Cash			10,000		Cash			10,000	
Total			170,000		Total			175,000	
End-of-Month Holdings/Values					End-of-Month Holdings (revalue)				
A	5,000	12	60,000	Return from	A	5,000	12	60,000	Return from
B	5,000	21	105,000	after trade to	B	5,000	21	105,000	after trade to
C	3,000	6	18,000	end of month	C	3,000	6	18,000	end of month
Cash			10,000		Cash			10,000	
Total			193,000	13.53%	Total			193,000	10.29%
Monthly Return (chain-linked)				9.98%	Monthly Return (chain-linked)				10.29%

In both cases, we calculate returns from the start-of-the-month to the point *just before* the flow, and then from the point where the flow occurs to the end of the month. Because when we value only monthly we miss the drop in performance, our return is overstated, 10.29% vs. 9.98 percent.

Again, I thank Mike for his comments, as it caused me to *have another look*.

Quote of the Month

"You better bring your A-game, as I'm bringing mine."
– Attributed to Gene Hackman

Source: https://www.bbc.com/news/articles/cvgwwyrnpzdo

Industry Dates and Conferences

Celebrating 35 Years of Excellence: What to Expect from TSG in 2025

As TSG marks its 35th anniversary, we're thrilled to announce a dynamic lineup of events, learning opportunities, and networking activities designed to elevate your performance measurement expertise and strengthen our vibrant community. Here's what's in store for the year ahead:

April: Forums and Roundtables

Engage with Industry Leaders

- **April 23rd: Asset Owner Roundtable (AORT) –** Toronto, Canada – A platform for advanced discussions on performance and risk.
- **April 24th-25th: North American Forum** – Toronto, Canada – Join our membership group for thought leadership, practical insights, and collaborative dialogue.

The Performance Measurement Forum and AORT events foster interactive networking and knowledge sharing, connecting professionals with global leaders to tackle pressing challenges and innovative solutions.

May: PMAR Connections

Join the Premier Conference in Investment Performance Measurement

- May **21st-22nd: PMAR North America** at The Heldrich in New Brunswick – Experience cutting-edge sessions and thought-provoking discussions led by top industry speakers.

ATTN: TSG Verification Clients

As a reminder, all TSG verification clients receive full, unlimited access to our **Insiders.TSGperformance.com** site filled with tools, templates, checklists, and educational materials designed to make compliance and verification as easy as possible for you and your firm.

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Our classes cover a wide range of performance measurement concepts, including the Fundamentals (Rates of Return, Attribution, Benchmarking, Risk, and the GIPS standards), and deeper dives into Attribution to include Equity Attribution, Fixed Income Attribution, Multi-Level Attribution, and Multi-Period Attribution. Students will also have access to the newly released Python for the Performance Measurement Professional class. Whether you want to get new members of your performance team trained, or you're looking to fill in gaps of experienced staff, these classes fit every experience level. This is also a great way to give non-performance professionals a solid overview of performance methodologies and jargon.

The multi-pass gives students *unrestricted access* to TSG's entire suite of on-demand training classes and conference recordings available on our online training Institute. This includes more than 80 lessons and over 50 hours of content that's directly beneficial to investment professionals. To learn more, contact Andrew Tona at (ATona@TSGPerformance.com).

In The News

"At Rimes, we choose to partner with TSG because they are a trusted leader in the performance measurement industry. Their deep expertise, credibility, and strong industry relationships help position us in front of the right audience, the decision-makers who matter most to our business.

TSG's reputation for delivering high-quality insights, industry-leading events, and thought leadership makes them an invaluable partner. Whether through their respected conferences, engaging Forum membership groups, educational resources, or GIPS consulting expertise, they consistently provide access to a network of engaged professionals who are actively shaping the future of investment performance measurement.

By working with TSG, we not only enhance our brand visibility but also strengthen our ability to connect with clients who benefit from our solutions. Their integrity, professionalism, and commitment to the industry make them an essential partner in our growth strategy."

– Todd Swearingen, Rimes

For over 26 years, PMAR has been the flagship conference where investment performance professionals gather to shape the industry's future.

June: EMEA Forum in Belfast

- **June 19th-20th: Performance Measurement Forum (EMEA)** – Belfast, Northern Ireland – Convene with global leaders for dynamic discussions.

Explore performance and risk topics, implementation strategies, and innovative solutions tailored to the European market.

July: Toronto Networking Event

- **July 22nd: Performance Measurement Networking in Toronto, Canada** – Partnering with Rimes Technologies and First Rate, this event provides a space to connect and share insights.

Stay tuned for additional details on this interactive gathering in one of Canada's key financial hubs.

September: PMAR Europe in London

- **September 17th: PMAR Europe** – London's premier event for innovation and networking.

This is the European counterpart to our North American event, focusing on cutting-edge topics and innovations.

October: Performance Training in San Francisco

Develop key skills with our in-depth, in-person training programs:

- **October 7th-8th: Fundamentals of Performance Measurement Training** – Ideal for newcomers or those seeking a refresher.
- **October 8th-9th: Performance Measurement Attribution Training** – Dive deep into attribution methodologies to enhance your expertise.

November: Fall EMEA Forum in Copenhagen

- **November 6th-7th: Performance Measurement Forum (EMEA)** – Copenhagen, Denmark – Expand your perspective with insights from global leaders at our fall meeting in Denmark.

December: Year-End Wrap-Up in Louisville

Conclude 2025 with these essential events:

- **December 3rd: Fall Asset Owner Roundtable (AORT)** – Louisville, KY – Advanced discussions to round out the year.
- **December 4th-5th: Fall North American Forum** – Louisville, KY – Close the year with innovation and collaboration.

Celebrating 35 Years of Excellence

- We take immense pride in our legacy of success, innovation, and leadership. As we look ahead, TSG remains committed to advancing the field of investment performance measurement and empowering professionals worldwide.

Mark Your Calendars! Let's make 2025 a year to remember.

For information on the 2025 events and membership opportunities, please contact Patrick Fowler at 732-873-5700.

Article Submissions

The Journal of Performance Measurement® Is Currently Accepting Article Submissions

The Journal of Performance Measurement is currently accepting article submissions on topics including performance measurement, risk, ESG, AI, and attribution. We are particularly interested in articles that cover practical performance issues and solutions that performance professionals face every day. All articles are subject to a double-blind review process before being approved for publication. White papers will also be considered. For more information and to receive our manuscript guidelines, please contact Douglas Spaulding at DougSpaulding@TSGperformance.com.

Submission deadlines

Spring Issue: May 14, 2025

Summer Issue: July 14, 2025

Compliance Corner

The SEC recently published some FAQs regarding their Marketing Rule (see https://tinyurl.com/bdexbbxn), that all SEC registered firms should review. One, in particular, caught our attention, as it's a subject that has been frequently discussed; **what measures constitute performance?**

For some time, we have been rather candid that certain statistics, such as attribution and risk, are not, performance. At an annual GIPS conference, one speaker [from the SEC] suggested that yield would be performance, but we totally disagree. This suggestion engendered much discussion and debate. And so, to have this statement from the SEC seems to clarify the topic quite a bit. This item is worth reviewing. Here is the text as it appears in the FAQ document:

Q. The marketing rule does not define "performance" and, as a result, investment advisers may need to determine whether certain portfolio or investment characteristics ("characteristics") are performance under the marketing rule. If such characteristics are performance, would the staff recommend enforcement action if an adviser displays characteristics calculated without reflecting the deduction of all fees and expenses that a client or investor has paid or would have paid in connection with the investment adviser's investment advisory services to the relevant portfolio(s) ("gross characteristics"), without also

That's a Good Question

Question: I'm curious if you have any resources or best practice guidance for the treatment of Financial Planning fees in account level performance.

For example, if an advisor charges an advisory fee of 1% of discretionary AUM and an annual financial planning fee of $5,000 – When reporting the performance for that account should the net of fee performance be net of both the 1% AUM based fee and the $5,000?

Response from *John D. Simpson, CIPM*:

Using the GIPS standards as the example of best practice:

- gross returns would reflect the deduction of transaction costs; if anything else is deducted, you would disclose what that is
- net returns would reflect the deduction of transaction costs and management fees (including performance fees); f anything else is deducted, you would disclose what that is

One might argue that net returns should reflect all costs the investor will incur. If the prospect comes to you directly, then you would not need to be net of fees of advisors that the prospect avoids by coming to you directly. If they come to you via another advisor, an argument could be made to present returns net of that advisor's services, especially if that advisor is affiliated with you.

You could also show returns before and after the financial planning fees.

This is an area where you should get input from your legal counsel to see what your firm is comfortable showing. The GIPS standards offer flexibility, but you also need to be concerned with the SEC marketing rule. That puts this in the realm of "should" rather than "must." I would say if the financial planning fees cannot be avoided and/or if they are offered by affiliated advisors, you should consider being net of those fees and disclosing that they have been deducted.

Please submit your questions to Patrick Fowler.

Potpourri

AI Compliance Alert: DeepSeek Raises Security Concerns

The recent introduction of DeepSeek, a high-performance AI model developed with a modest $6 million investment, has prompted swift reactions within the compliance industry. Chuck Martin, MBA, Chief Operating Officer at Vigilant, observes that compliance professionals are imposing significant restrictions on DeepSeek usage, mirroring earlier responses to AI tools like ChatGPT. Some firms have gone as far as banning access to DeepSeek on company-issued devices, even for personal use, due to potential cybersecurity risks.

The AI community has also raised alarms over DeepSeek's inherent censorship mechanisms. Investigations reveal that the model actively censors discussions on sensitive topics, particularly those politically sensitive in China, such as the Tiananmen Square massacre. This censorship is enforced through two primary methods: training the model to provide specific answers and utilizing server firewalls to shut down restricted inquiries. Notably, these biases persist even when the model is downloaded and operated offline.

Given these developments, it's crucial for compliance professionals to thoroughly assess the potential risks associated with integrating AI tools like DeepSeek into their operations. Balancing technological advancements with robust security measures remains a top priority to safeguard organizational integrity.

Read the article here.

showing the corresponding characteristics calculated after the deduction of all fees and expenses ("net characteristics")?

A. The staff recognizes that advisers may be unsure whether certain characteristics (*e.g.*, yield, coupon rate, contribution to return, volatility, sector or geographic returns, attribution analyses, the Sharpe ratio, the Sortino ratio, and other similar metrics)[8]are "performance" under the rule. In addition, even if such characteristics were to qualify as performance, calculating these characteristics net of fees and expenses may be impossible or lead to misleading or confusing results. However, in the staff's view, when an adviser prominently displays the gross and net performance of the total portfolio calculated pursuant to the requirements of the marketing rule and presented in a manner that is not otherwise materially misleading, and provides appropriate accompanying information about the characteristic and how it is calculated, there is little risk that prospective clients and prospective investors will be misled about the impact of fees and expenses on their returns when viewing such a characteristic.

Accordingly, the staff would not recommend enforcement action to the Commission under rule 206(4)-1(d)(1) if an adviser chooses to present in an advertisement one or more gross characteristics of a portfolio or investment, even if it does not include the corresponding net characteristic(s), if:

1. the gross characteristic is clearly identified as being calculated without the deduction of fees and expenses;[9]
2. the characteristic is accompanied by a presentation of the *total portfolio's gross and net performance* consistent with the requirements of the rule;[10]
3. the total portfolio's gross and net performance is presented *with at least equal prominence to*, and in a manner designed to facilitate comparison with, the gross characteristic;[11] and
4. the gross and net performance of the total portfolio is calculated over a period that includes the entire period over which the characteristic is calculated.

Because time periods over which characteristics are calculated may not easily align with the time periods required by Rule 206(4)-1(d)(2), the staff would not recommend enforcement action to the Commission under Rule 206(4)-1(d)(2) if the characteristic presented as described above is calculated over a single, clearly disclosed period.[12]

The staff notes that any advertisement that presents characteristics in accordance with this FAQ remains subject to the general prohibitions of Rule 206(4)-1(a) (as well as section 206(1) and 206(2) of the Advisers Act).

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[8] For the avoidance of doubt, the staff positions stated herein do not apply to total return, time-weighted return, return on investment (RoI), internal rate of return (IRR), multiple on invested capital (MOIC), or Total Value to Paid in Capital (TVPI), regardless of how such metrics are labelled in the advertisement. Whether a presentation of a characteristic in an advertisement is subject to Rule 206(4)-1(d) depends on whether such characteristic is performance. The staff in this FAQ is not taking a position on whether any particular characteristic or attribute should be considered "performance" for purposes of Rule 206(4)-1. To the extent a characteristic is not performance, the presentation of such characteristic would not be within the scope of Rule 206(4)-1(d).

TSG Milestones

Upcoming Webinars / Surveys

Webinar: Should Your Firm Pursue GIPS® Compliance and Verification?

Join us for an insightful webinar exploring the benefits of GIPS® compliance and verification for investment firms. We'll discuss how adopting these standards can enhance your firm's credibility and trust, ensure standardized performance reporting, and align with industry best practices. Learn how GIPS® can help attract external capital, improve internal processes, and support regulatory alignment. Whether you're considering compliance or looking to optimize your current practices, this session will provide valuable guidance to help you make an informed decision.

Don't miss this opportunity to stay informed.

When: Tuesday, April 8, 2025 at 11:00 AM (ET)

Where: Online (and recorded)

[9] The staff would view an advertisement as clearly identifying that the **characteristic** is calculated without the deduction of fees and expenses if, for example, it discloses that the **characteristic** shown does not reflect the deduction of all fees and expenses that a client or investor has paid or would have paid and refers the recipient to the presentation of the total portfolio's gross and net performance to understand the overall effect of fees.

[10] The view of the staff expressed in this FAQ also applies to characteristics calculated based on the performance of (i) a composite aggregation of related portfolios, (ii) a representative account; (iii) a subset of a portfolio (i.e., extracted performance), and (iv) a subset extracted from a composite aggregation of related portfolios, provided the characteristics are presented in a manner consistent with the FAQ. In the case of a characteristic calculated using a representative account, the staff believes that the adviser could satisfy the positions stated herein if the gross characteristic was accompanied by the gross and net performance of a composite aggregation of all of the representative account's related portfolios (rather than the gross and net performance of the total representative account) in a manner consistent with the positions stated herein.

Such accompanying presentation of gross and net performance of the total portfolio would be subject to the requirements relating to performance in Rule 206(4)-1(d).

[11] In the staff's view, gross and net performance of the total portfolio does not need to be presented on the same page of the advertisement as the characteristic, provided that the presentation facilitates comparison between the gross and net performance of the total portfolio and the characteristic. For example, in the staff's view, presenting the gross and net performance of the total portfolio *prior* to the characteristic in the advertisement could also facilitate such comparisons and help ensure they are presented with at least equal prominence.

[12] The staff notes, however, that in each case other than a private fund, Rule 206(4)-1(d)(2) requires that advertisements that include accompanying gross and net performance of the total portfolio present such performance over one-, five-, and ten-year periods, each presented with equal prominence and ending on a date that is no less recent than the most recent calendar year-end; except that if the relevant portfolio did not exist for a particular prescribed period, then the life of the portfolio must be substituted for that period.

[13] Rule 206(4)-1(d)(1) prohibits an investment adviser from, directly or indirectly, disseminating any advertisement that includes "any presentation of gross performance, unless the advertisement also presents net performance: (i) with at least equal prominence to, and in a format designed to facilitate comparison with, the gross performance; and (ii) calculated over the same time period, and using the same type of return and methodology, as the gross performance."

Hope you find this of value.

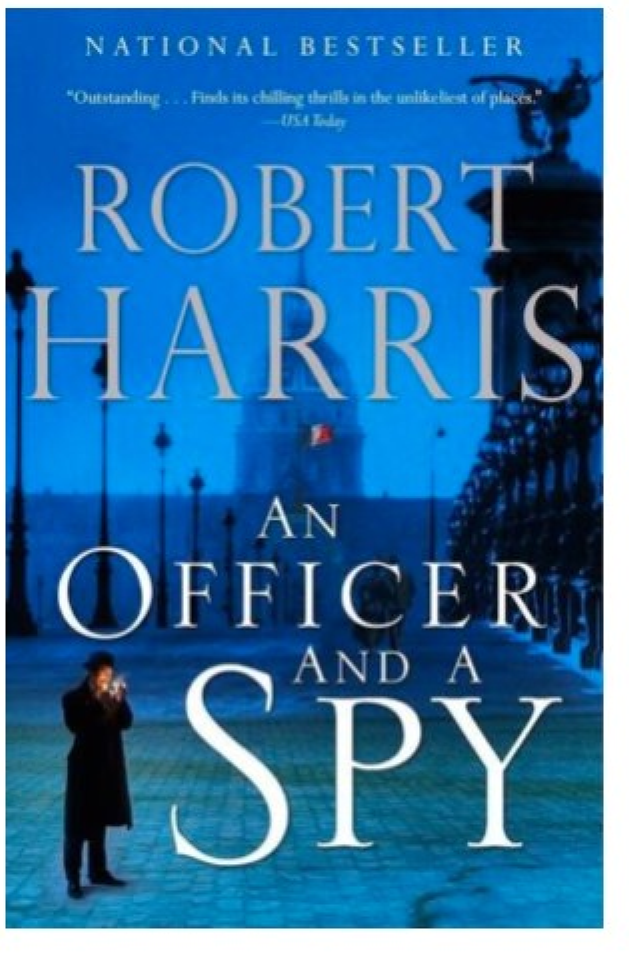
Duration: 60 minutes

Register by clicking on the graphic below or by [clicking here](#).

Book Review

An Officer and a Spy, by Robert Harris

Review by David D. Spaulding, DPS, CIPM



I'll confess a love of spy, suspense, and mystery genre. I've read all of Tom Clancy's and many of Daniel Silva's and John Le Carré's books. This was my first by Robert Harris, and it was utterly amazing.

Not simply because of the suspense aspect; this is an historical novel about the Dreyfus Affair.

While I had heard of this event from 19th century France, I hadn't previously taken the time to delve into it.

The author begins with a Note: "This book aims to use the techniques of a novel to retell the true story of the Dreyfus affair, perhaps the greatest political scandal and miscarriage of justice in history, which in the 1890s came to obsess France and ultimately the entire world. …None of the characters in the pages that follow, not even the most minor, is wholly fictional, and almost all of what occurs, at least in some form, actually happened in real life."

A shocking scandal and a truly horrible miscarriage of justice. I will not share any details, as I encourage you to take the time to read it. You will be impressed by the writing but saddened by the events it reveals.

Navigating the Future of Performance Analytics Technology

A Preview of a PMAR Presentation with Alex Shafran, CFA, Ian Thompson, Ph.D., and Shankar Venkatraman, CFA, FRM

As performance professionals navigate an era of increasing complexity and automation, the evolution of performance analytics technology has never been more critical. In the upcoming PMAR conference session, Alex Shafran, CFA, Ian Thompson, Ph.D., and Shankar Venkatraman, CFA, FRM will discuss their latest paper on how performance teams can maximize the value of technology in their operations.

Their article in *The Journal of Performance Measurement (Summer 2024)* explores key considerations for firms looking to **evolve their performance systems**, including:

- **Choosing the right operating model** including in-house, outsourced, or hybrid solutions.
- **Leveraging automation and AI** to enhance precision, efficiency, and data transparency.
- **Building the right skillset** to stay ahead of technology advancements.
- **Optimizing vendor relationships** and project management for seamless system transitions.

Join us at the conference to dive deeper into how firms can future proof their performance measurement processes and drive innovation in analytics technology.

Don't miss this insightful discussion on the next generation of performance systems.

Interested in learning more? **Sign up for PMAR North America** to experience the full presentation.