

Future of investment reporting

Date: 20. November 2012
Produced by: Dr. Stefan J. Illmer

Agenda

- Current challenges of investment reporting
- Consequences on the organizational setup
- Consequences on the investment reporting
- Consequences on best practices for investment reporting
- Contact and disclaimer

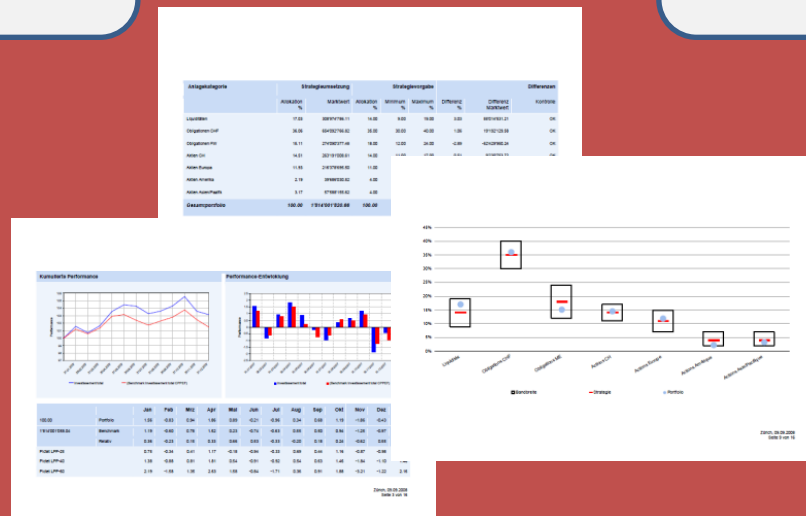
Current challenges of investment reporting



Main challenges of investment reporting

Regulations and industry standards

Needs of the users of investment reporting



Costs of investment reporting

Complexity of investments and analytics

Remark: Sample investment reporting downloaded from www.chsoft.ch on the 16. February 2012.

Challenge – regulations and industry standards

Due to the increasing need and pressure to protect and to empower the investors:

- More regulations with respect to transparency and this often through addressing performance presentation and risk measurement aspects.
 - More self-regulation through industry best practices or industry standards in areas currently partially or not covered by regulations.
- => Pressure to implement required regulations and best practices with huge impact on the existing data management and reporting setup.



Challenge – needs of the users of investment reporting (1/3)

Due to the increasing know how and level of professionalism of the users of the investment reporting:

- More detailed information and tailor-made data requested.
 - Need for better / higher data quality and herewith reporting quality.
 - Need for better reflection of the investment process.
 - More detailed, more user-specific and more tailor-made analytics.
 - Need for higher reporting frequency and more online reporting requests.
- => Pressure to offer customized and tailor-made investment reporting solutions with huge impact on the existing data management and reporting setup.



Challenge – needs of the users of investment reporting (2/3)

=> Especially considering the complexity of data quality and data flows

	Portfolio			Benchmark			Management effects			Total
	Return	Weight	Contribution	Return	Weight	Contribution	Asset allocation	Stock picking	Interaction	
Cash	0.50%	10.00%	0.05%	0.10%	6.00%	0.01%	0.00%	0.02%	0.02%	0.04%
Domestic bonds	2.80%	22.00%	0.62%	3.00%	20.00%	0.60%	0.06%	-0.04%	0.00%	0.02%
Foreign bonds	3.00%	10.00%	0.30%	2.00%	15.00%	0.30%	-0.10%	0.15%	-0.05%	0.00%
Domestic equities	-0.50%	15.00%	-0.08%	-2.00%	14.00%	-0.28%	-0.02%	0.21%	0.02%	0.21%
Foreign equities	2.50%	14.00%	0.35%	4.00%	16.00%	0.64%	-0.08%	-0.24%	0.03%	-0.29%
Mortgages	5.00%	5.00%	0.25%	0.50%	3.00%	0.02%	0.01%	0.14%	0.09%	0.24%
Real estate	1.00%	16.00%	0.16%	2.00%	20.00%	0.40%	-0.08%	-0.20%	0.04%	-0.24%
Commodities	-12.00%	4.00%	-0.48%	-10.00%	4.00%	-0.40%	0.00%	-0.08%	0.00%	-0.08%
Private equity	2.00%	3.00%	0.06%	1.00%	1.00%	0.01%	0.02%	0.01%	0.02%	0.05%
Hedge funds	1.00%	1.00%	0.01%	3.00%	1.00%	0.03%	0.00%	-0.02%	0.00%	-0.02%
Total	1.24%	100.00%	1.24%	1.32%	100.00%	1.32%	-0.19%	-0.05%	0.16%	-0.08%

	Portfolio			Benchmark			Management effects			Total
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Private equity	2.00%	3.00%	0.06%	1.00%	1.00%	0.01%	0.02%	0.01%	0.02%	0.05%
Hedge funds	1.00%	1.00%	0.01%	3.00%	1.00%	0.03%	0.00%	-0.02%	0.00%	-0.02%
Total	1.24%	100.00%	1.24%	1.32%	100.00%	1.32%	-0.19%	-0.05%	0.16%	-0.08%

Best practice reporting / analysis ?

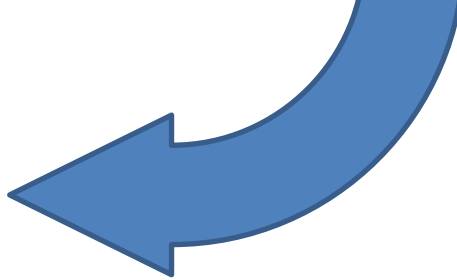
Indexed fixed income account

stocks wrongly classified

NAV not up to date

	Portfolio			Benchmark			Management effects			Total
	Return	Weight	Contribution	Return	Weight	Contribution	Asset allocation	Stock picking	Interaction	
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Foreign bonds	3.00%	10.00%	0.30%	2.00%	15.00%	0.30%	-0.10%	0.15%	-0.05%	0.00%
Domestic equities	-0.50%	11.00%	-0.06%	-2.00%	14.00%	-0.28%	0.06%	0.21%	-0.05%	0.23%
Foreign equities	2.50%	18.00%	0.45%	4.00%	16.00%	0.64%	0.08%	-0.24%	-0.03%	-0.19%
Mortgages	5.00%	5.00%	0.25%	0.50%	3.00%	0.02%	0.01%	0.14%	0.09%	0.24%
Real estate	1.00%	16.00%	0.16%	2.00%	20.00%	0.40%	-0.08%	-0.20%	0.04%	-0.24%
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Hedge funds	4.00%	1.00%	0.04%	3.00%	1.00%	0.03%	0.00%	0.01%	0.00%	0.01%
Total	1.44%	100.00%	1.44%	1.32%	100.00%	1.32%	0.05%	0.02%	0.04%	0.11%

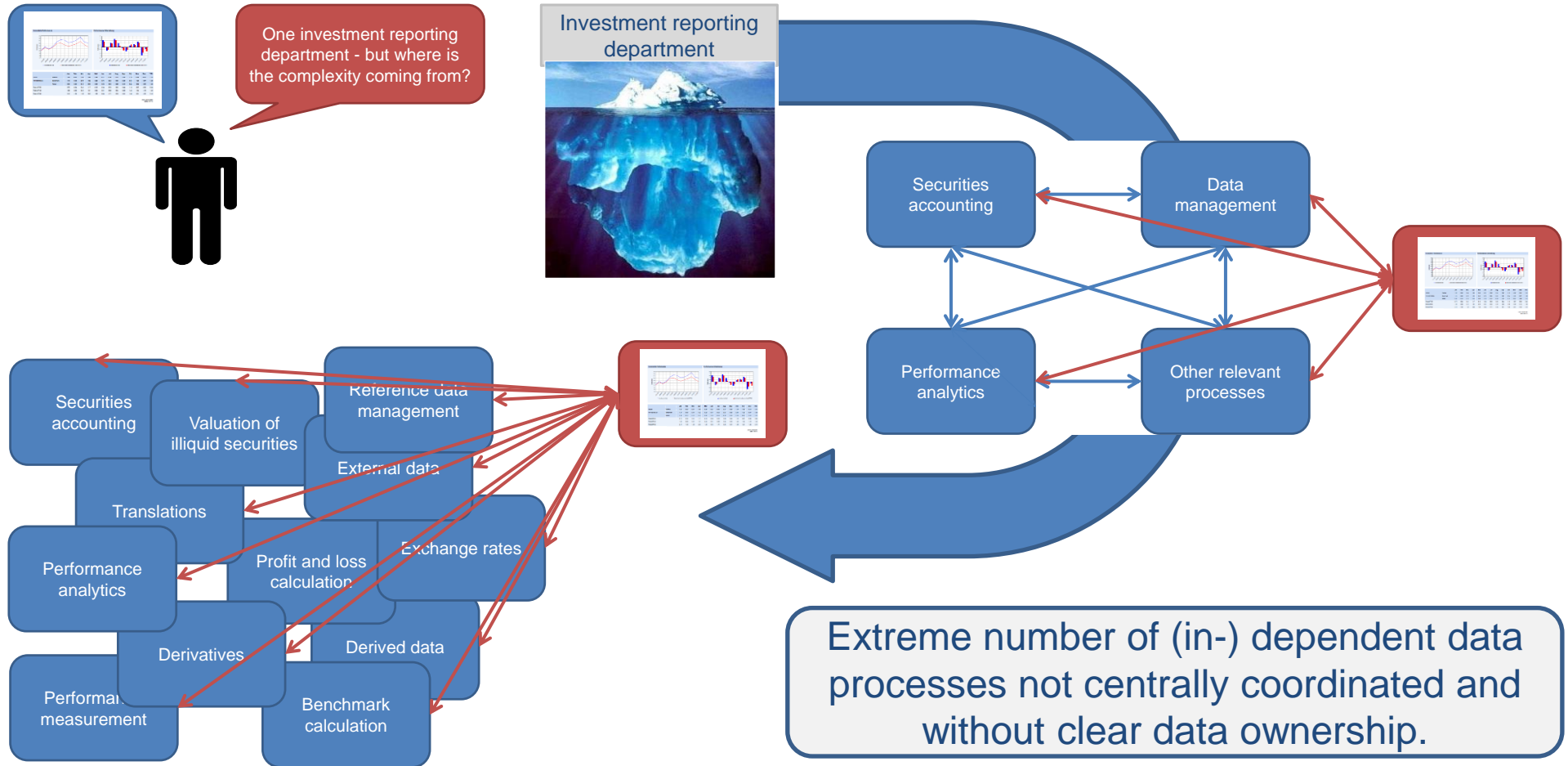
"Small" "data errors" => big impact



Data quality is becoming more and more important over time

Challenge – needs of the users of investment reporting (3/3)

=> Especially considering the complexity of data quality and data flows



Challenge – complexity of investments and analytics

Due to the increasing use of complex investments and increasing need for high sophisticated analytics:

- More frequent valuation of securities as well as of the benchmarks.
- More specific reference data to better incorporate complex investments or be able to run data demanding (performance) analytics.
- Need for look-through capabilities / functionalities for indirect investments or structured products.
- Need for after-tax investment reporting.

=> Pressure to adjust the investment reporting solutions for the change in the used set of investments with huge impact on the existing data management and reporting setup.



Challenge – costs of investment reporting

Due to the need to overcome the challenges of the investment reporting:

- Increasing costs due to huge IT investments.
- Increasing costs for data management and data licenses.
- Increasing costs due to higher demand for (more frequent) investment reportings.
- Increasing costs for more customized and tailor-made reporting solutions.
- Increasing costs for highly qualified staff.

=> Pressure on the costs of the investment reporting but also on the costs in general has a huge impact on how the needed adjustments are dealt with – especially if revenues are by trend going down.



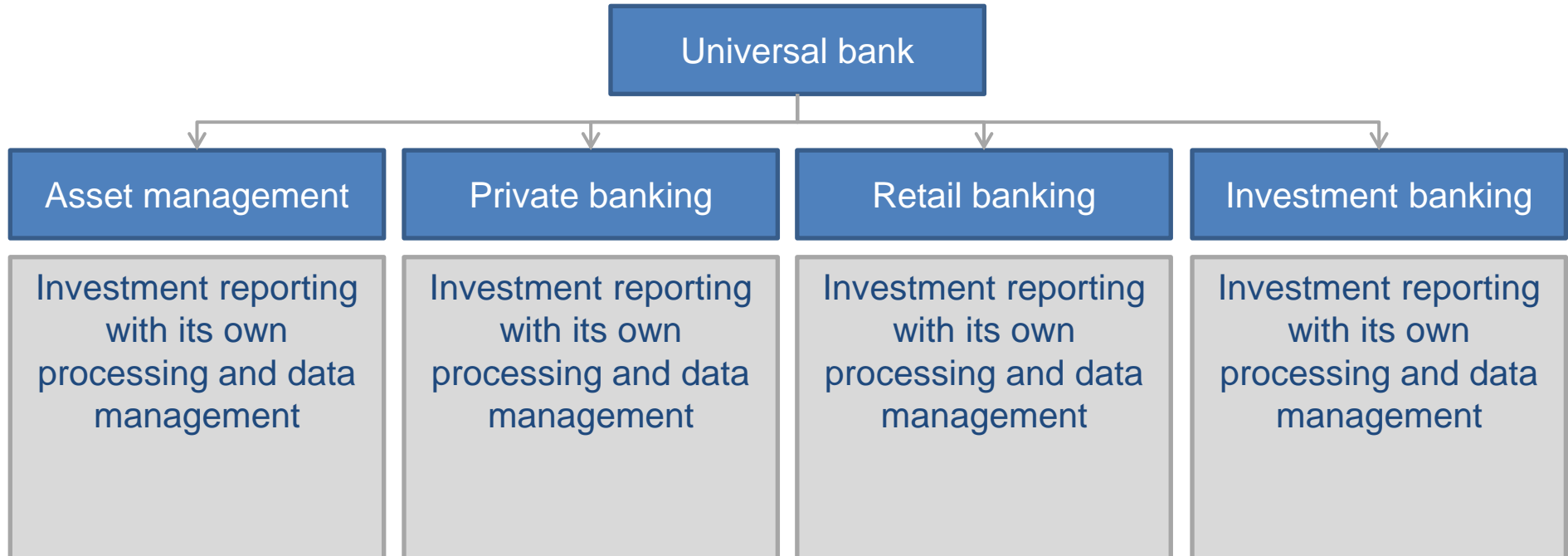
Increasing costs of investment reporting

Consequences on the organizational setup



Today's typical situation – nowadays

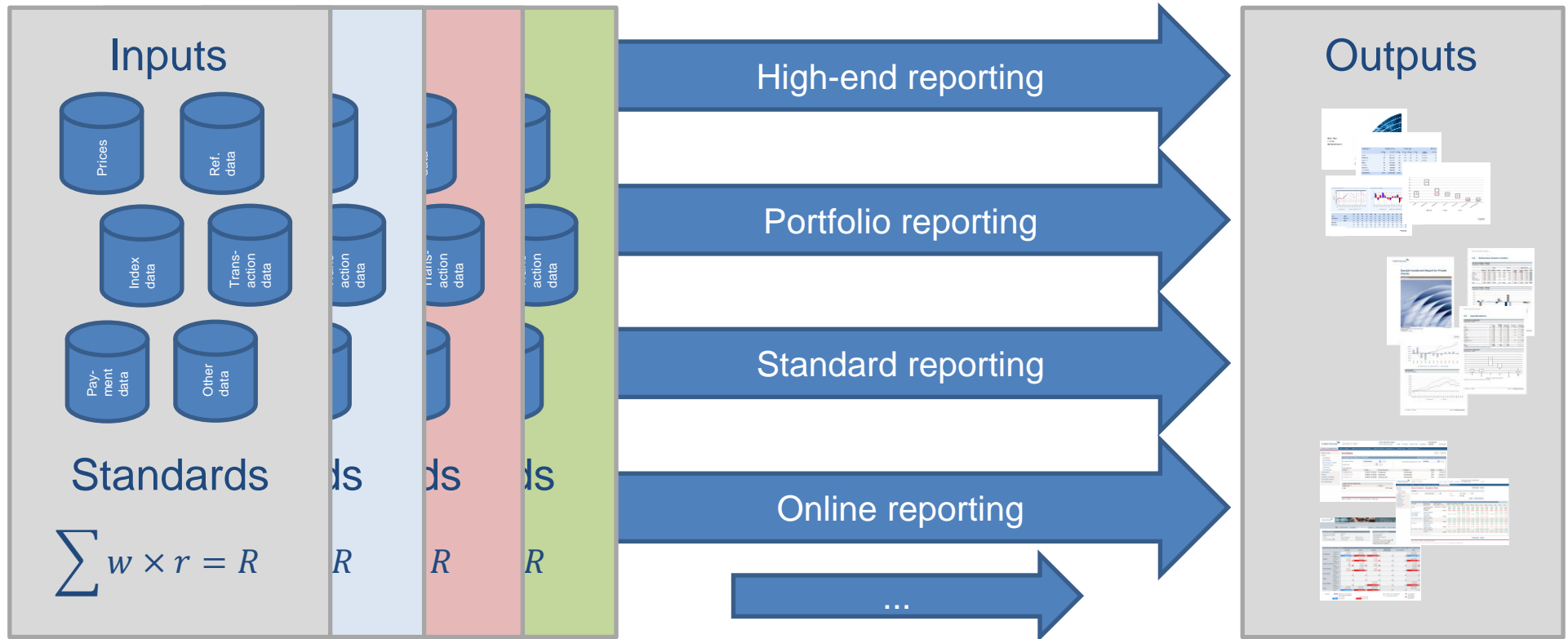
(1/5)



=> Tendency to keep decentralized and not coordinated organizations.

Today's typical situation – nowadays

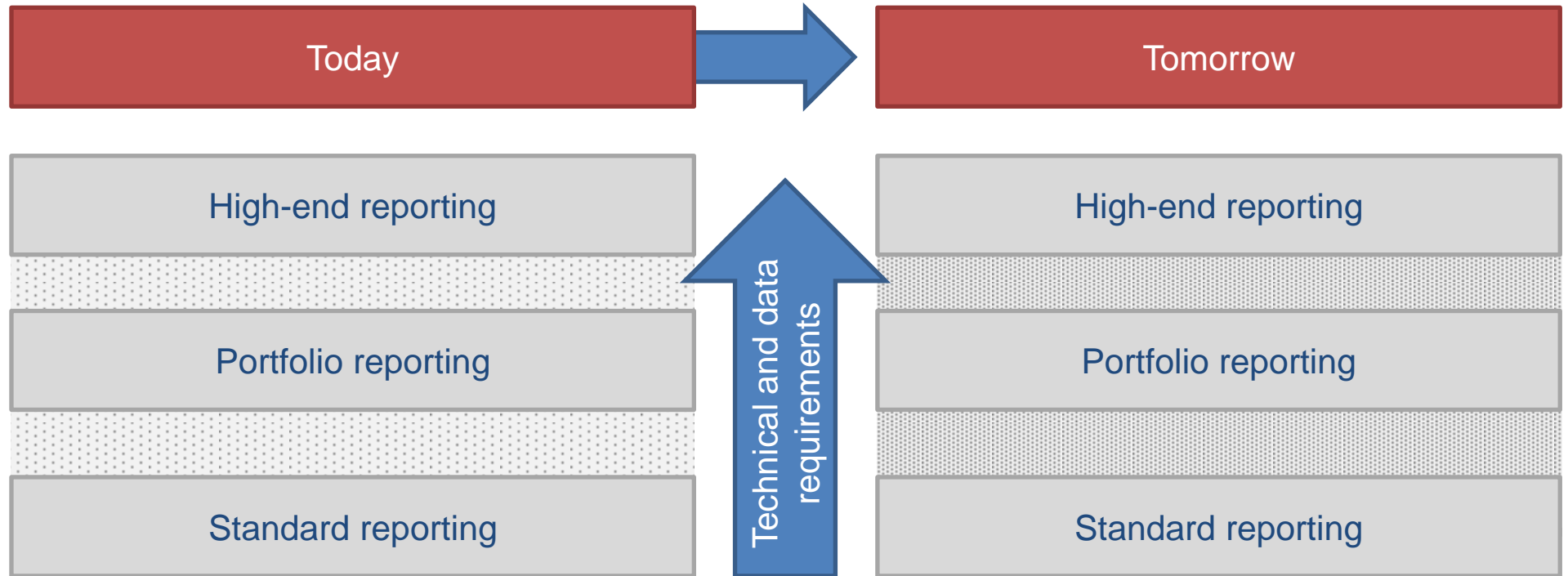
(2/5)



=> Tendency to increase inconsistencies with respect to the underlying data and formulas (e.g. reference data or calculation of performance figures).

Today's typical situation – nowadays

(3/5)



=> Tendency towards more complex and overlapping functionalities of the different reporting products (e.g. risk analysis, performance attribution, consolidation of accounts).

Today's typical situation – nowadays

(4/5)

Evidence of need for organizational action (data and formula):

- Portfolio valuation is not best practice
=> e.g. no “real” trade date accounting and / or no accrual accounting for dividends.
- Pricing of securities is not always appropriate
=> e.g. no multiple pricing sources, not always updated prices or no fair value concept implemented.
- Data quality is not state of art
=> e.g. with respect to reference data like asset categories, security names or benchmarks.
- Data quality is not consistent throughout the different systems
=> e.g. no consistent data hierarchies or policies and therefore no consistent input data throughout the organization.

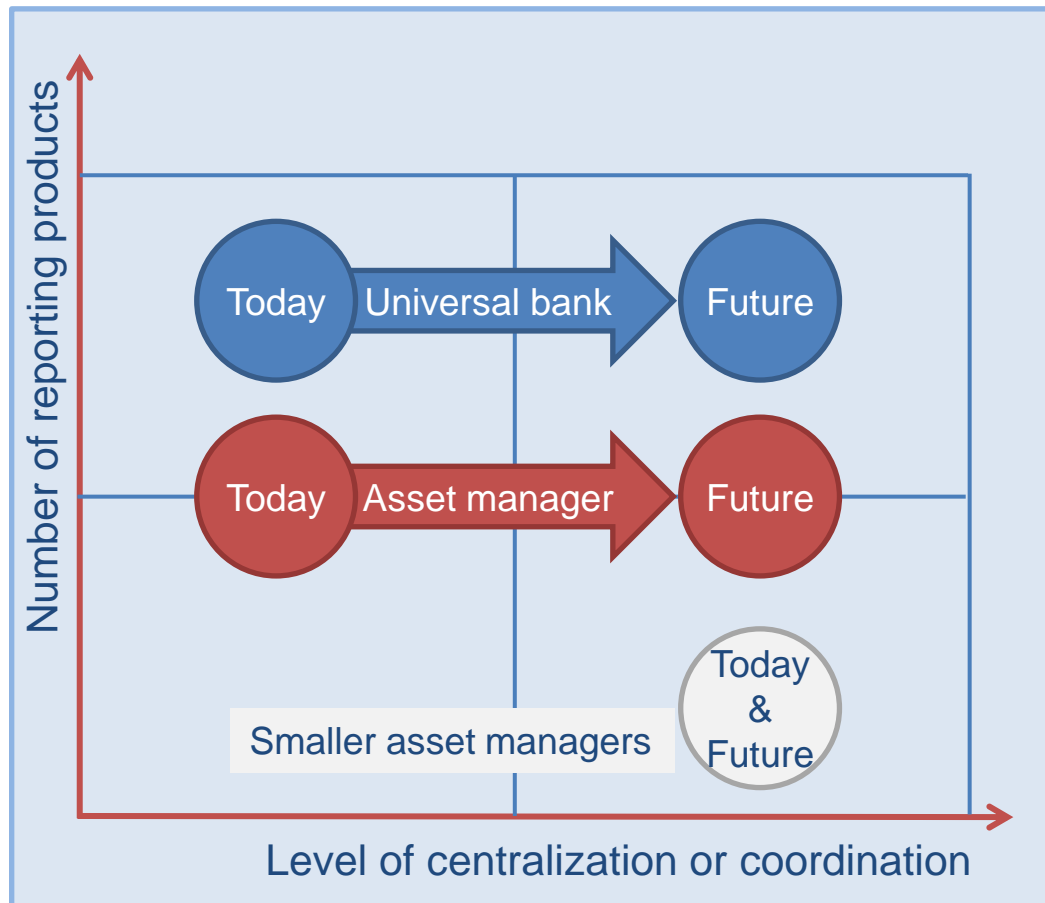
Today's typical situation – nowadays

(5/5)

Evidence of need for organizational action (data and formula - continued):

- Taxes not addressed in investment reporting
=> e.g. no after tax return calculation, only partially tax related data available for further analytics and reporting.
- Performance calculation is not best practice
=> e.g. no daily return calculation and no flexibility on return calculation methodologies.
- Calculations are not standardized
=> e.g. no coordinated and therefore no consistent formulas throughout the organization.
- Presentations are not standardized
=> e.g. with respect to corporate identity, layout, format or disclaimers.
- ...

Future => centralization or coordination of reporting products



Discussions should be:

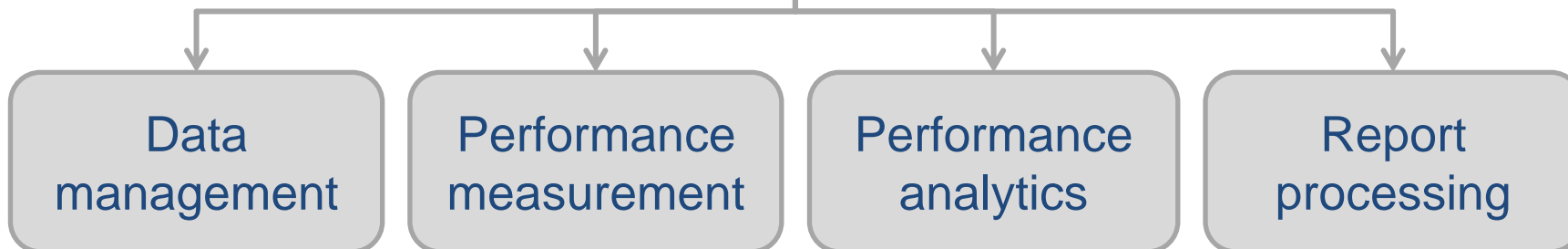
- **Location driven**
e.g. focusing on organization, location or region.
- **Content driven**
e.g. focusing on layout, input data or business logic.
- **Tool driven**
e.g. focusing on software or analytics.
- **Infrastructure driven**
e.g. focusing on data bases, interfaces or location.

Future => input driven organization

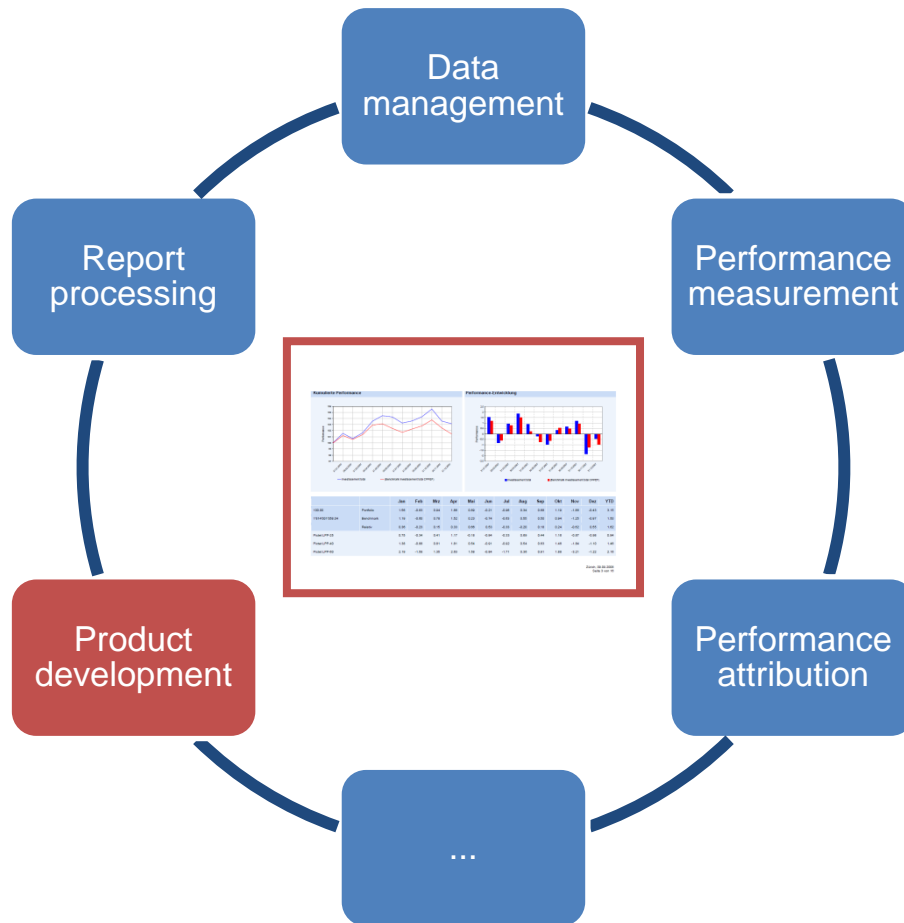


Discussions should focus on:

- Consistent data flows.
- Consistent data quality.
- Reduction of data redundancies.
- Reduction of process redundancies.
- ...



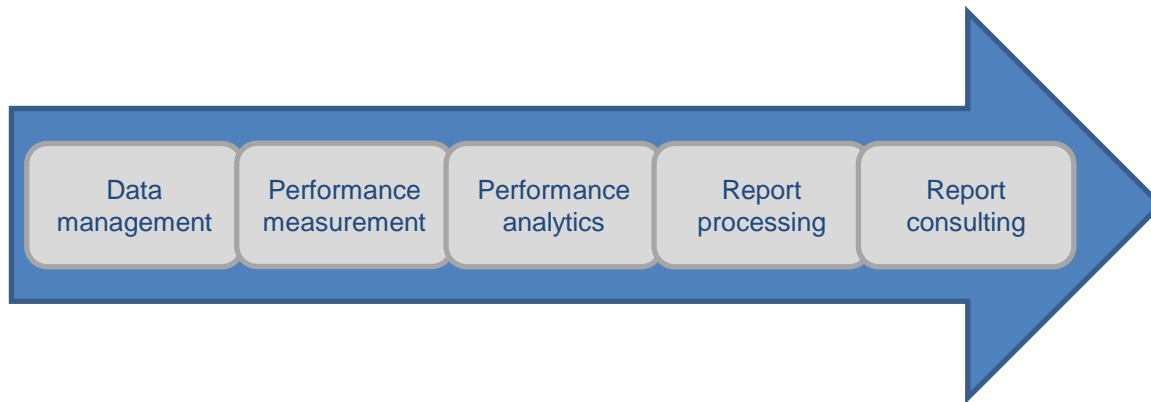
Future => centralization of reporting processes



Discussions should focus on:

- Using synergies.
- Addressing data and process dependencies.
- Creating critical mass to use economies of scale.
- Sharing of know how and experience.
- Create better deputy organizations and realistic career opportunities.
- ...

Future => efficiency driven outsourcing debates



100% Inhouse



100% Outsourcing

=> reporting products and / or process steps

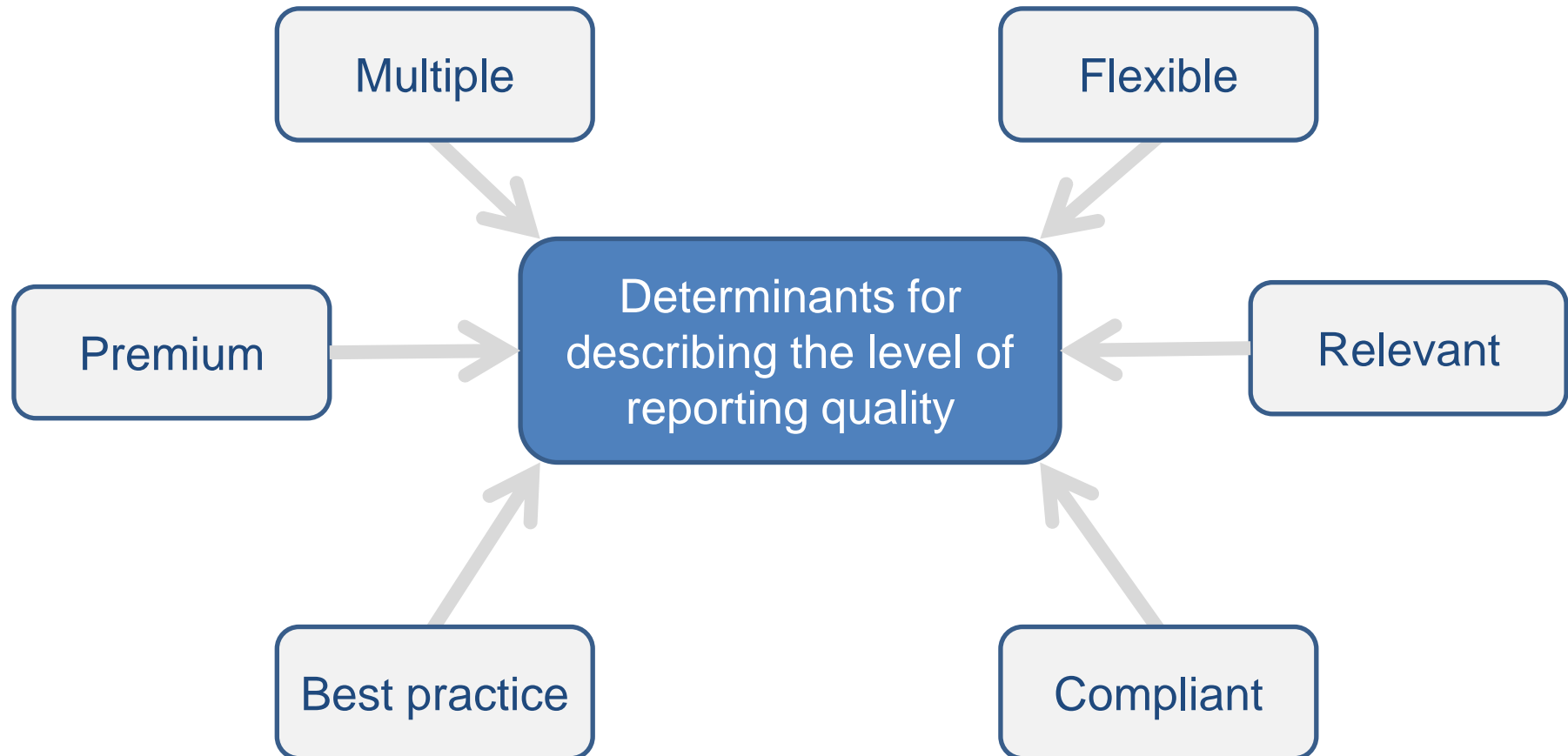
Discussions should focus on:

- Product and service offering.
- Strength and weaknesses within the overall value chain.
- Current and future challenges.
- ...

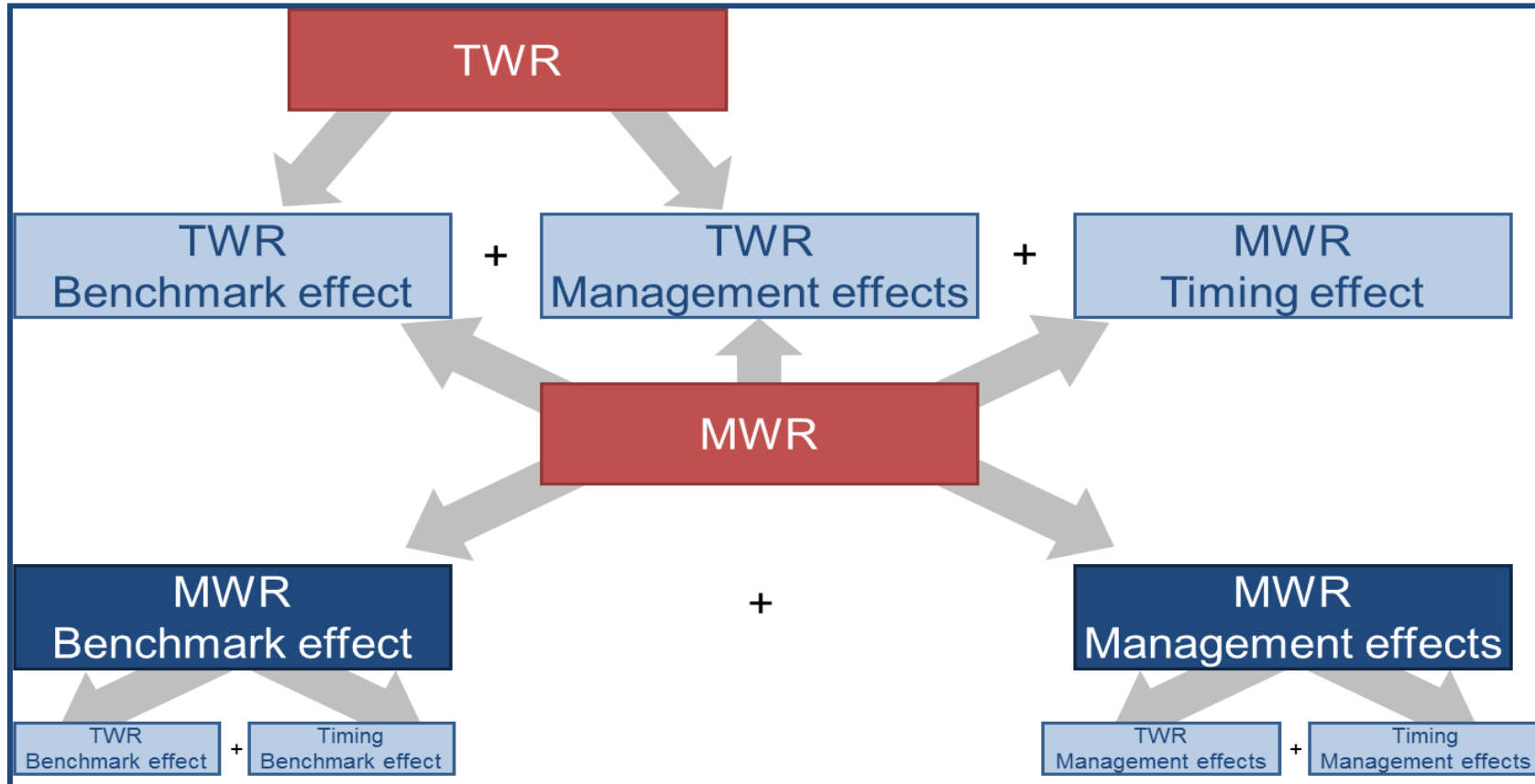
Consequences on the investment reporting



Current and future drivers for reporting quality

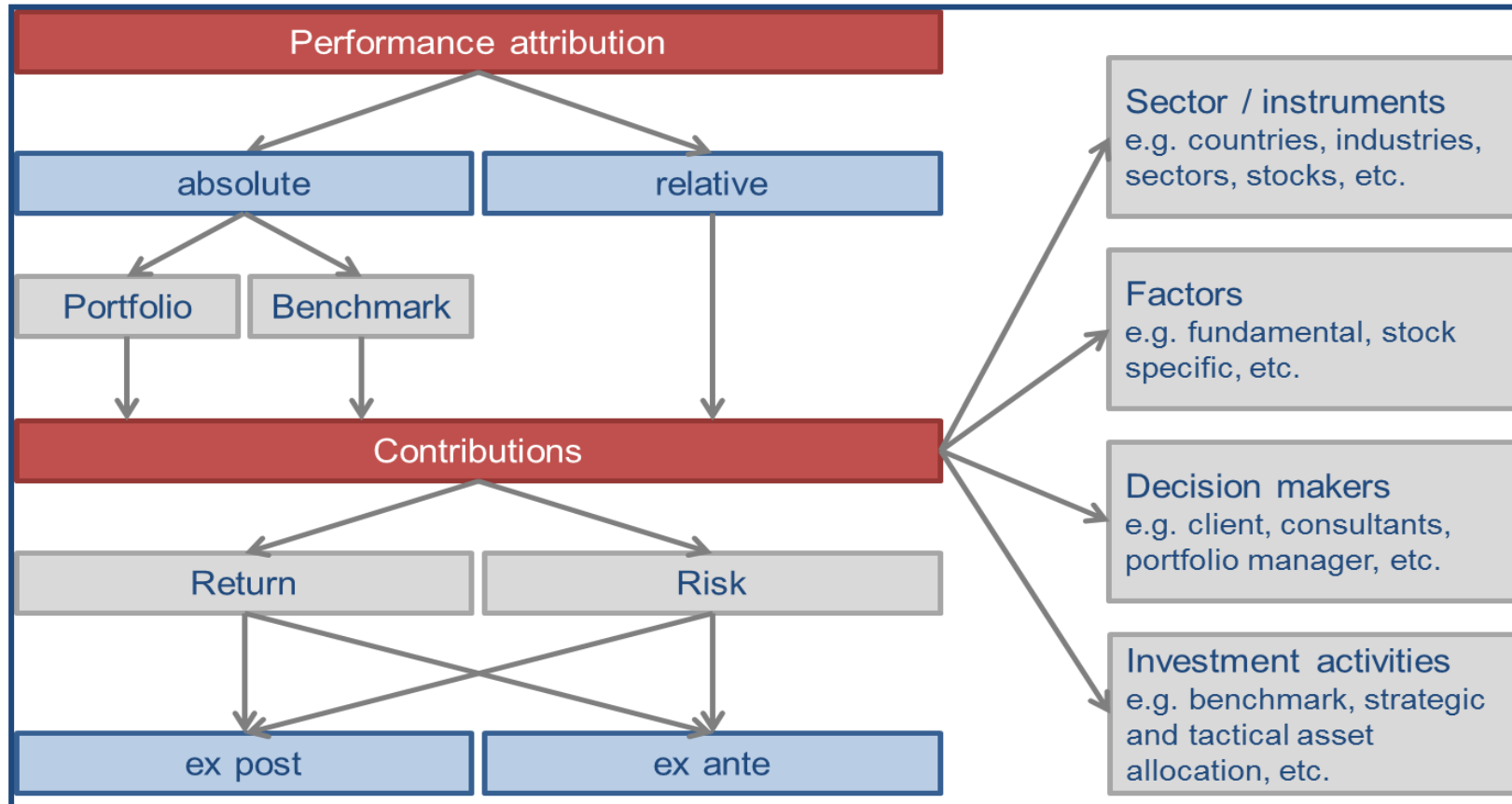


Future => user specific performance measurement



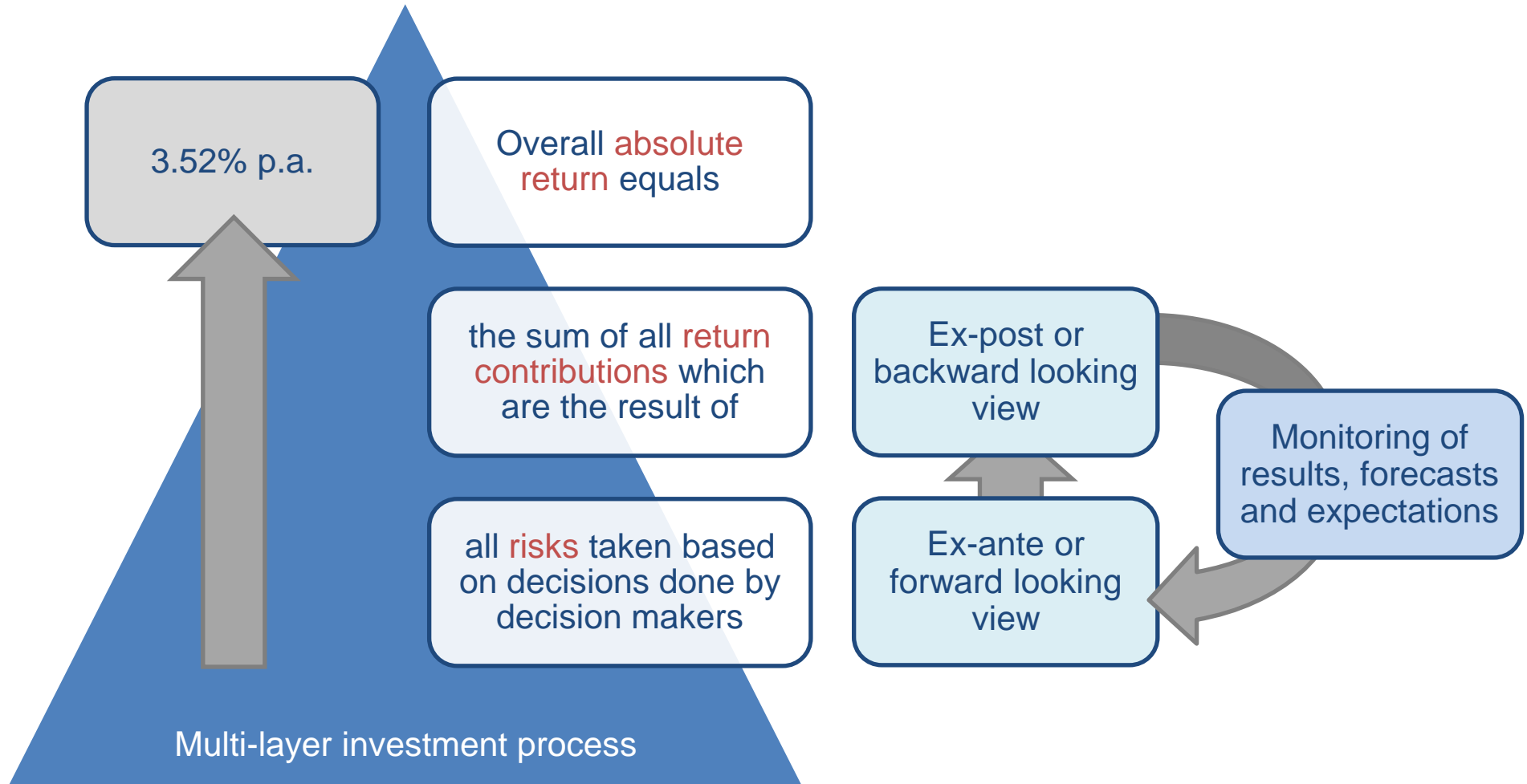
=> Measuring and reporting returns from all points of view.

Future => broad variety of available performance analytics



=> All kind of performance analytics available.

Future => comprehensive performance attribution



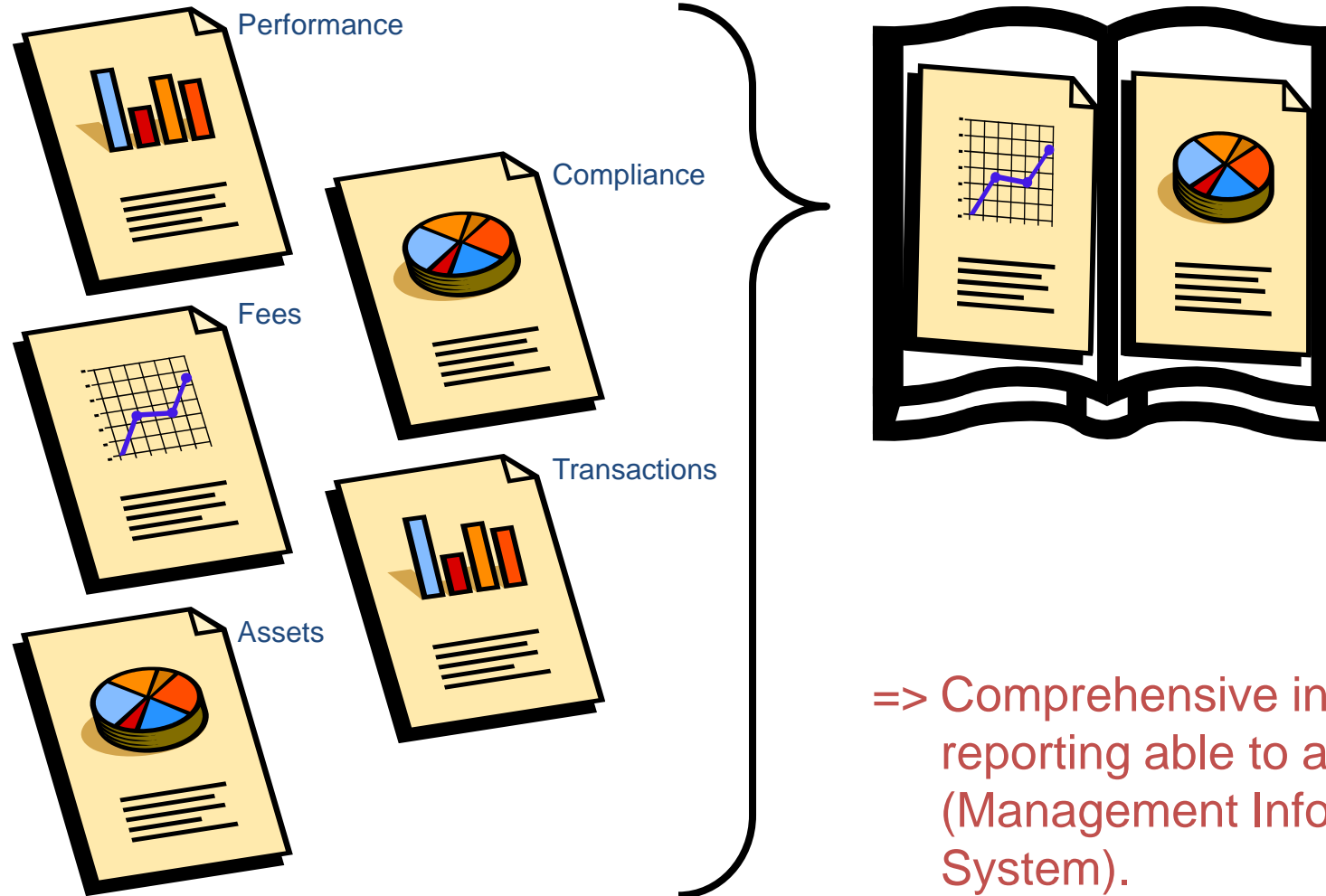
Future => use- and user-oriented data management



- All reference data is available for securities - same for benchmark constituencies - on a daily basis.
- Look-through is common practice.
- Custodians and banks share the necessary data and information.
- Standard interfaces implemented for sharing data and information.
- ...

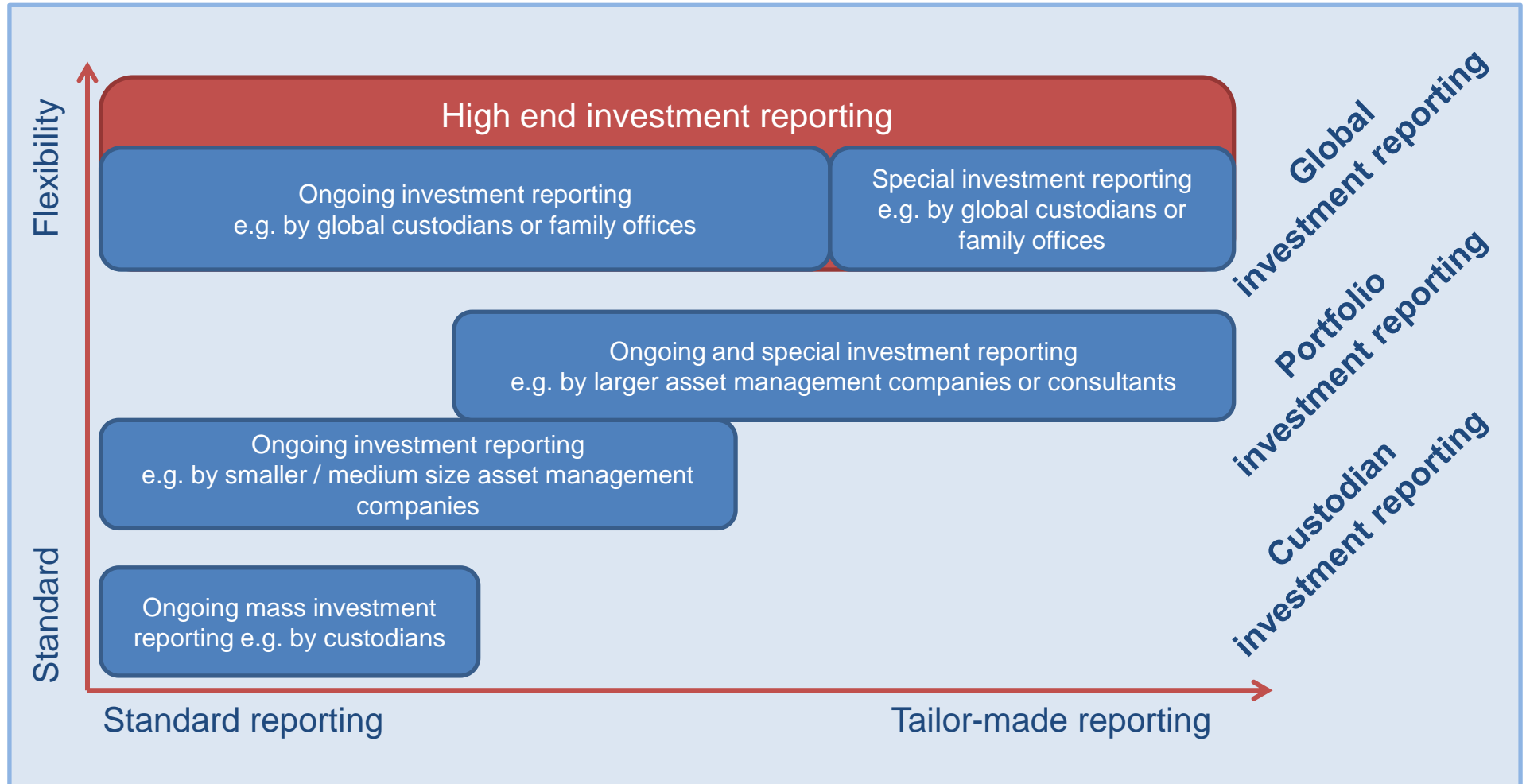
=> All needed data for investment reporting is available with good quality.

Future => use and user specific investment reporting



=> Comprehensive investment reporting able to act as a MIS (Management Information System).

Future => clear product differentiation



Consequences on best practices for investment reporting



Basic idea behind the need for best practices

GIPS Standards

Performance Presentation Standards Report

Composite: Equities Switzerland SPI active Mandates
 Benchmark: Swiss Performance Index (r) in CHF
 Inception Date: 01 Jan 1997
 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	19	0.4	1,242.6	1.2	106,006.0
2000	11.8	11.9	16	0.5	1,407.7	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	936.3	1.4	69,271.2
1997	59.0	55.2	11	1.3	836.2	1.7	50,342.4

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

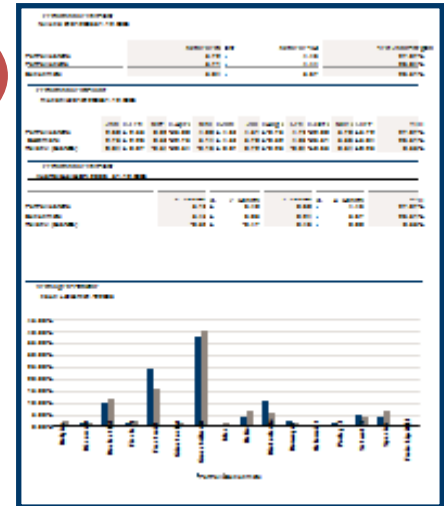
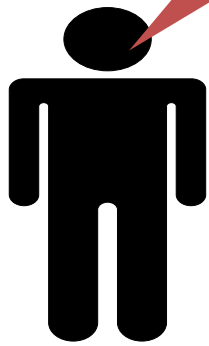
Compliance Statement
 Credit Suisse Asset Management (Switzerland) has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS) (TM), the Swiss Performance Presentation Standards (SPPS) and the Performance Presentation Standards of the Association of Investment Management and Research (AIM-PPS) (TM). The Swiss Banking Association and AMR have not been involved with the preparation or review of this report.

Definition of the Firm
 Credit Suisse Asset Management (Switzerland) is an independent investment management firm established in 1997. Credit Suisse Asset Management (Switzerland) manages a variety of equity, fixed income, and balanced assets for primarily Swiss and European clients.

Benchmark
 If the composite has a customized benchmark, the details are not shown in the above report title. However the full details are available on request. Sources of foreign exchange rates may be different.

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

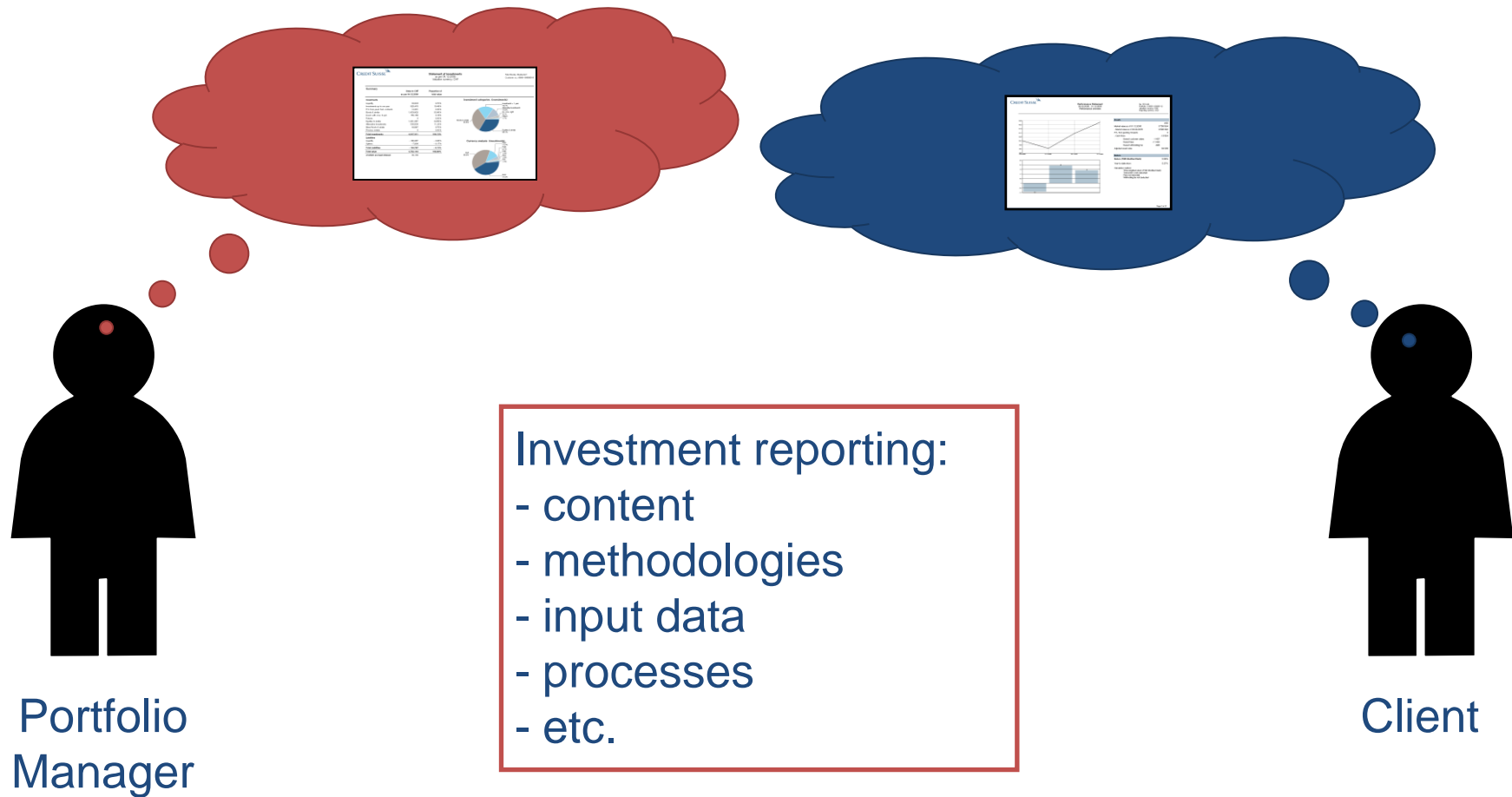
Prospective clients gain from improved transparency.



Investment reporting

Is there a common understanding?

(1/2)



Is there a common understanding?

(2/2)

Return calculation

5.12%

- TWR or MWR?
- net or gross?
- after tax?
- ...

Valuation and classification

25.71%

- what prices?
- considering leverage?
- how classified?
- ...

Benchmark

1.38%

- what BM?
- appropriate BM?
- after tax?
- ...

and others

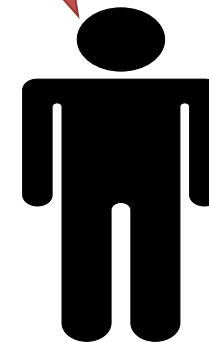


Why is guidance on investment reporting important?

- To increase transparency.
- To improve investor education.
- To enhance investment industry credibility.
- To improve communication of expectations and results.
- To better understand and mitigate risks.
- To understand and reduce conflicts of interests.
- ...

Establish best practices for investment reporting to "existing" clients !

... for sure on a global basis and for all client segments!



Relationship to GIPS Standards

Investment Reporting
Working Group
Best Practices



- Please note that the Investment Reporting Working Group Best Practices is separate and distinct from the GIPS Standards.
- Please note that this discussion is a preliminary report on work that is ongoing and evolving and therefore subject to changes (status as of September 2012).

IRWG – objectives and stakeholders

- To **establish investment industry best practices** for reporting investment results and information that promote interests of and instill confidence in the users of investment reporting (=> principle based best practices).
- To **obtain worldwide acceptance of a single standard** for the reporting of investment results and information based on the principles of transparency, fair representation, and full disclosure.
- To **foster the notion of industry “self-regulation”** on a global basis.
- The **IRWG stakeholders** are both the professional preparers and the (intended) users of investment reporting, such as:
Asset management companies, custodians, administrators, prime brokers, investment consultants, and investors.

IRWG – definition of investment reporting

- The IRWG understands investment reporting as a subset of overall client reporting within the investment management industry.
- The IRWG defines investment reporting as the preparation and presentation of investment information including the illustration of the investments made, the results achieved, and the risks taken.
- The IRWG considers investment reporting to focus on current exposures of the investments and to include reports on asset allocation, performance, and risk, etc. Therefore, the IRWG does not address reports designed for accounting, tax, and regulatory purposes.
- The IRWG considers investment reporting not only to include the output, but also the inputs and the respective policies and procedures.

IRWG – goals of the best practices

- To improve the quality of investment reporting to allow better feedback into the investment decision-making process.
- To provide guidance on the minimum content of investment reporting.
- To provide guidance on methodologies for preparers and intended users of investment reporting.
- To provide the basis for comparability of investment reporting.
- To provide guidance on the quality of the input data for investment reporting.
- To support stronger internal processes for preparers of investment reporting.
- To provide assurance to intended users of investment reporting that preparers adhere to ethical best practices.
- To provide regulators the basis for potential future regulations in the area of investment reporting.
- To facilitate education for preparers and recipients/users of investment reporting.

IRWG – guiding principles of the best practices

- The purpose for investment reporting and the reasons for its creation and content are transparent and clear.
- The type of the intended user or the audience in mind, and their expected use of the investment information, are taken into account when designing the investment reports.
- The investment reporting is a fair representation of the investments made, results achieved, and the risks taken.
- The investment reporting is relevant and appropriate for the presented asset classes and investment strategies.
- The investment reporting complies with all applicable laws and regulations.
- The policies and procedures for investment reporting are documented and available upon request.
- The policies and procedures for investment reporting are reviewed by an independent third party.

Rational for best practices for investment reporting

GIPS Standards



Performance Presentation Standards Report

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CREDIT SUISSE ASSET MANAGEMENT Switzerland
 Equities Switzerland SPI active Mandates Composite

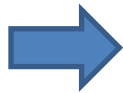
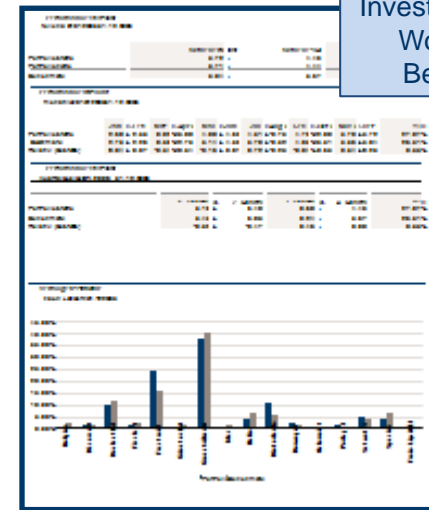
Compliance Statement

Definition of the Firm

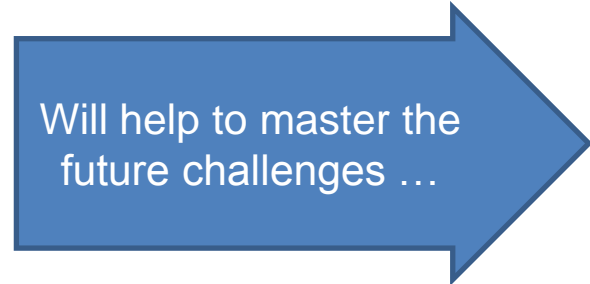
Benchmark

Investment reporting guidance

Investment Reporting Working Group Best Practices



- Better investment controlling.
- Efficiency gains.
- Reduced operational and reputational risks.
- ...



Comments and questions

Comments and questions



Contact details and disclaimer

Contact details

Illmer Investment Performance Consulting AG
Weinbergstrasse 28
CH - 8200 Schaffhausen
Switzerland
www.iipc-ag.com



Dr. Stefan Joachim Illmer
Tel. +41 / 79 / 962 20 37
Email: stefan.illmer@iipc-ag.com

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