June 1, 2017

GIPS Standards Committee,

After conversations with Karyn Vincent, Jed Schneider and the NYSSA Performance & Risk Committee and some further thought, I would like to retract all my previous comments to 20/20 and replace them with my following opinion.

When calculating an IRR or other return for each period (e.g., a return for each day or an IRR for each month) in a set of periods and then calculating and reporting a return for the total period (e.g., a year or years composed of the days or months), the return of the total longer period (e.g., year or years) should always (as is straightforward and easy to do) be calculated by time-linking (like in TWRs) the daily or IRR returns of the periods for each of which a return has already been calculated. This is so that the available information about the valuation at the end of each of the intermediate periods is not discarded when providing return information about the longer periods.

Then, in addition, one can also calculate and report the directly calculated IRR for the total period, which entails throwing away any information about the closing value of each month. This longer period IRR is also a relevant measure. But it is also always relevant to report for the long reporting periods the time-linking of the most reliable portfolio returns for the shortest period for which one has enveloping valuations, no matter how (e.g., using daily, some monthly Dietz or IRR) those shorter period returns were obtained. Thus, both the so-defined TWR and the directly calculated IRR returns should be displayed for the longer periods.

Therefore, since at some periodicity or other some valuations are always available, I suggest requiring reporting both the TWR and IRR for the required total reporting periods, even if the TWR is a linking of the IRR returns of the shortest periods for which one has enveloping valuations. This TWR for the longer periods and the directly calculated IRR for the longer periods address different economically meaningful questions applicable to all portfolios, so why ever hold back such dual possibly relevant information when it is so easily calculated from the data that is already required to be available?

Note that nothing in this argument limits any of it to any specific set of asset classes or another. Once you have calculated what is the most relevant return for your shortest enveloped periods, time link them. And if you are not directly calculating IRRs for the longest periods, why not? When it comes to return information about the total reporting period that takes essentially no extra effort, more relevant information always provides more worthwhile insight. It seems irresponsible to withhold any such relevant information.

Andre