#3-11

CFA® Exam Tips – LEVEL III

Study Tips

Portfolio Performance Evaluation - Attributions

1) Macro Performance Attribution
- *Evaluate Asset owner's decision (Fund sponsor level)*

2) Micro Performance Attribution
- *Evaluate Portfolio manager's decision (Investment manager level)*

1.

Macro Attribution	
3 Main inputs	6 Levels
1) Policy Allocations 2) Benchmark Returns 3) Fund Returns, valuations & ECF	1) Net Contributions 2) Risk-free Asset 3) Asset Categories 4) Benchmarks 5) Investment Managers 6) Allocation effects

2.

Micro Attribution	
3 components of Value-added Return	Focus
$R_V = \underbrace{\sum_{j=1}^{S}(w_{P,j}-w_{B,j})(R_{B,j}-R_B)}_{\text{pure sector allocation}} + \underbrace{\sum_{j=1}^{S}(w_{P,j}-w_{B,j})(R_{P,j}-R_{B,j})}_{\text{allocation/selection interaction}} + \underbrace{\sum_{j=1}^{S}w_{B,j}(R_{P,j}-R_{B,j})}_{\text{within-sector selection}}$	1) Mkt Sector Allocation 2) Stock picking skills

CFA Society Hong Kong Candidate Services

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