

The four numbers, on one page

Chapters 1, 7 and 17. Page one of the report: every basis, the same type size, no headline. The spread and the outperformance are printed under the table, not in a footnote.

Mandate		Manager	
Prepared by		Date	

Basis	Window (exact dates)	Annualised	The question it answers
Time-weighted, gross			
Time-weighted, net (net of what: say it)			
Rolling three years, net			
Money-weighted, net			
Benchmark (weights, rebalancing)			

Line under the table	Figure	Marchwood, for scale
Spread between the four mandate figures (highest less lowest)		
Gross outperformance, a year		
Net outperformance, a year		
Spread divided by net outperformance		
Time-weighted net less money-weighted (the flow effect)		

The line every return carries: basis (gross or net, and net of what), horizon (exact start and end dates), flows (time-weighted or money-weighted).

Written out: "___ per cent a year, net of ___, from ___ to ___, time-weighted / money-weighted." If the presenter cannot fill the blanks from memory, the number is a candidate, not an answer.

Marchwood: 5.0887 gross, 4.8012 net, 6.8290 rolling three-year, 4.1272 money-weighted, benchmark 4.7455; spread 2.7017 against net outperformance 0.0556, a ratio of 48.6.

Reading the mandate

Chapter 2. Five statements and two silences. Turn to the reporting clause before the fee clause.

Mandate		Manager	
Prepared by		Date	

Item	Answer	Evidence / note
What the document says		
Objective: against what, over what horizon, with what margin? Has the margin ever been met on the basis the objective is written in?		
Benchmark: weights, rebalancing rule, date the weights were fixed		
Permitted ranges, segment by segment: which are wide, which narrow; which did the manager actually use?		
Fee schedule: rates, breakpoint, fee base (opening, closing, average), charging date		
Reporting obligation: frequency, and what the report must contain		
What it is silent about		
Who chooses the timing of contributions and withdrawals, who must give notice, who reports the effect		
Which return basis is reported against the benchmark (gross / net, time / money-weighted)		
Which window: since inception, rolling (from which date), calendar years		
What happens when the annual verdicts and the contractual (multi-year) verdict disagree		
The two paragraphs to add		
Basis: time-weighted gross and net AND money-weighted, same period, printed adjacent, difference stated in money and labelled as the effect of flow timing		
Owner of the timing: flow timing is a trustee decision with a return consequence, and the trustees will see it measured		

Range in the document	Lowest held	Highest held	Band actually used

Marchwood: equities 44 to 50 against 45, bonds 20 to 26 against 25; one wide permission and three narrow ones, and the wide one produced 0.7550 of the 0.7970 of allocation in Year 3.

The benchmark, interrogated

Chapter 3. Three tests and three decisions. Ask these before reading the active return.

Mandate		Manager	
Prepared by		Date	

Test	Answer	Evidence
Investable: could every segment have been bought on day one, at a known cost, without a private arrangement?		
Specified in advance: in writing, before the period, with the date the weights were fixed		
Holdable: nothing in the mandate forbids the positions the benchmark assumes		

Decision inside the benchmark	Who took it, and when	What it was worth (one year / annualised)
Rebalancing rule (annual, quarterly, drift): price the alternative for one year		
Policy weights: price five points moved between the two largest segments		
Cash line: price the composite fully invested		
Segment definitions: any appraisal-based or non-investable series?		

Rebalancing, one year: drifted weight of each segment = policy weight x (1 + its return) / (1 + composite return). Composite on drifted weights: _____ against rebalanced _____ ; the rule was worth _____ .

Marchwood: rebalancing worth 0.5010 in Year 2; five points to equities move the bar 0.98 in Year 1 and 0.755 in Year 3, 0.20 a year annualised; a fully invested composite is a higher bar in three of five years (the book says four).

Time-weighted return, built by hand

Chapter 4. Chain the account's own values, not rounded returns; break at every external flow; state how a mid-period flow is weighted.

Mandate		Manager	
Prepared by		Date	

Period	Opening (after flow)	External flow	Closing	Return	Growth factor	Cumulative

Line	Gross	Net	Benchmark
Cumulative factor			
Annualised: factor^(1/years) - 1			
Arithmetic mean of the periods			
Mean less annualised (volatility drag)			

Item	Answer	Evidence / note
Seams to check		
Were annual returns rounded before chaining? (chain the custodian values instead)		
Valuation frequency: daily (no weighting) or monthly with a Dietz weight?		
Mid-period flow: weight used, and the return at full and at half weight		
Does the chain of printed annual returns reproduce the headline within rounding?		

Modified Dietz: $r = (V_{end} - V_{begin} - F) / (V_{begin} + F \times w)$. Marchwood Year 3: 12.2431 at full weight, 10.2066 at half: 2.04 points from a date assumption.

Money-weighted return, solved and checked

Chapter 5. The scheme's dated flows, a sign convention, and the forward check a trustee can argue with.

Mandate		Manager	
Prepared by		Date	

Time (years)	Event	Flow (out of the scheme negative)	Discount factor at the solution	Present value

Check	Result
Sign changes in the series (one means one positive root)	
Present values sum to zero within rounding of the rate	
Forward check: contributions accumulated at the rate, net of receipts, equal the terminal value	
Time-weighted net less money-weighted, a year	
The same gap in money: net capital x net time-weighted factor, less the terminal value	

Flow	Amount	Measured against being there from day one: flow x (full-period factor - factor from its own date)

Marchwood: 4.1272; gap 0.6739 a year and 6,357,745.18. Flow by flow: the late transfer costs 14,469,294.80 and the early payment gains 8,111,549.62; they net exactly to the total. The payout was 28.5 per cent of the value it was paid from.

The fee, year by year, and what it took

Chapters 6 and 12. The four columns most reports omit, the effective rate computed by you, and the fee in money beside the gain.

Mandate		Manager	
Prepared by		Date	

Year	Opening	Pre-fee closing	Fee base	Fee	Effective rate, bp	Fee / opening, bp

Line	Figure
Fees over the period, in money	
Gain over the period: terminal value less net contributions	
Fees as a share of the gain	
Fee drag on the annualised return (gross less net)	
Fees as a share of the gross outperformance	
Asset-weighted effective rate: fees / sum of fee bases	

Item	Answer	Evidence / note
Not in the net return: ask by name		
Custody and depositary		
Administration and reporting		
Transition costs on flows and rebalancing		
Dealing costs inside the segment returns (expect an estimate, or silence)		

Two-tier closed form: effective rate = marginal rate + breakpoint x (headline - marginal) / average assets. Marchwood: 22 bp + 325,000 / assets; 7,616,440.40 of fees, 6.9298 per cent of the gain, 83.7893 per cent of the gross outperformance.

Attribution that reconciles

Chapter 9. Read the reconciliation first and the commentary second.

Mandate		Manager	
Prepared by		Date	

Segment	Bmk weight	Ptf weight	Bmk return	Ptf return	Allocation	Selection	Interaction

Period	Allocation	Selection	Interaction	Total	Active return	Difference (must be 0)

Aggregation	Figure
Arithmetic mean of the annual totals	
Geometric outperformance (annualised gross less annualised benchmark)	
Difference: compounding, stated on the page in those words	

Allocation = $(wp - wb) \times (rb - Rb)$; selection = $wb \times (rp - rb)$; interaction = $(wp - wb) \times (rp - rb)$. Ask: policy or drifted weights? how often does the benchmark rebalance? Marchwood reconciles in every year; 0.3712 arithmetic against 0.3432 geometric.

Risk page: what five observations can bear

Chapters 10 and 11. Every ratio with its denominator convention, gross and net labelled, and the years of data it would need.

Mandate		Manager	
Prepared by		Date	

Measure	Gross	Net	Convention / note
Mean active return (arithmetic)			
Tracking error (sample, n - 1)			
Information ratio			
t-statistic: IR x sqrt(years)			
Years of data for t = 2: $(2 / IR)^2$			
Volatility, portfolio and benchmark			
Sharpe ratio (risk-free = ____)			

Selection alone	Figure
Mean selection a year	
Standard deviation of selection	
t-statistic on its own dispersion	
Years to reach 1.96: $(1.96 \times sd / mean)^2$	
Selection needed to pay the fee drag	
Years for that size to show	

Net information ratio = mean of the NET active returns / tracking error. Marchwood: 0.5624 gross, 0.1262 net (0.1287 on the net tracking error; the book prints 0.1268). Keep the tracking error and the volatility pair; strike ratios the sample cannot bear.

The benchmark as an account

Chapter 13. The same flows, the benchmark return, a stated implementation fee, a terminal value in money.

Mandate		Manager	
Prepared by		Date	

Year	Flow	Opening	Fee	Closing	Mandate closing	Lead

Line	Figure
Implementation fee assumed, and why (property and cash segments?)	
Active terminal less index terminal	
Extra fee paid for active management	
Value created before the manager's fee (sum of the two lines above)	
Share kept by the client	
Index fee at which the two finish level (negative if the mandate beat a free index)	
Flat active fee at which the mandate only ties the index	

Marchwood: 547,495,942.65 against 549,908,879.55; ahead 2,412,936.89 having charged 6,263,206.77 more; the client kept 27.8 per cent. Level fees: minus 3.08 bp for the index, 36.00 bp flat for the mandate.

The flow effect, addressed to its owner

Chapters 14 and 17, page four. Headed with the trustees' name, not the manager's. Not a judgement; a measurement.

Mandate		Manager	
Prepared by		Date	

Date	Flow	Decided by	Reason	Balance it met	Return of the period that followed

Line	Figure
Time-weighted net, since inception	
Money-weighted net, same period, same decimals	
Difference, a year	
Difference in money: net capital at the time-weighted factor less the terminal value	
As a multiple of the net outperformance	
As a share of the fees over the same period	

For the next known payment: amount _____ due _____. Expected cost of holding it in cash until then _____ ; one standard deviation of leaving it invested _____. Decision and owner: _____ .

Covering note: the difference measures the timing of the scheme's own cash; it will sometimes be positive. Marchwood: 0.6739 a year, 6,357,745.18, 12.1 times the net outperformance.

Every window, with its benchmark

Chapters 15 and 17, page five. Every window the data supports, in date order, none omitted.

Mandate		Manager	
Prepared by		Date	

Window (exact dates)	Net annualised	Benchmark, same window	Net active	Year that left the window	Its return

Next roll	Figure
Year leaving at the next roll, and its return	
Return the incoming year needs to hold the headline (it is the leaving year's, to rounding)	
Shortcut: one third of (incoming - leaving) for a three-year window	
Distance of the most extreme year from the since-inception return, divided by three	

Marchwood: 5.1900, 3.5956 and 6.8290 against benchmarks of 4.8631, 3.6320 and 6.7793; net active 0.3269, -0.0364 and 0.0497. The benchmark column is computable from the annual benchmark returns: never leave it blank.

Opening a composite

Chapter 16. A composite is a statement about a strategy; your account is a statement about a mandate.

Mandate		Manager	
Prepared by		Date	

Year	Portfolios at start	Added	Left	Composite assets	Firm assets	Dispersion	Gross / net

Item	Answer	Evidence / note
Questions with answers		
What defines membership? Would a mandate like ours qualify?		
How many mandates in this strategy were lost in five years, and what did they return while held?		
Discontinued composites: the list		
Gross or net; if net, of actual fees or of a model fee?		
The annual net returns of the largest mandate resembling ours, with its benchmark		
Our distance from the strategy		
Composite gross, a year		
Our time-weighted net, a year (the fee)		
Our money-weighted net, a year (the flows)		
Distance from the pitch-book number to our own experience		

Marchwood: 5.0887 gross to 4.1272 money-weighted is 0.9614 a year (the book prints 0.9615): 0.2875 of fees and 0.6739 of flows.

Retain or replace: the decision paper

Chapter 18. Four things before the conclusion, and the sentence for the minute.

Mandate		Manager	
Prepared by		Date	

Question	Answer
Which window, and what do the adjacent windows say?	
Gross or net, and net of what?	
Transition cost estimate: basis points, money, source of the quotation	
Months out of the market or in a transition portfolio, and its expected cost and one standard deviation	
Years of the incumbent's margin the change consumes	
Years before the replacement's edge could show at $t = 2$	

Transition cost, bp	Cost in money	Years of margin to recover

The minute: "The Board retains / replaces _____ on a _____ (basis), _____-year return of _____ against _____ (comparator), a margin of _____ worth _____ against _____, in the expectation that _____; the Board notes _____ (significance) and that the money-weighted return is _____ for reasons arising from its own flow decisions."

Marchwood: margin 482,587.38 a year; 25 bp costs 1,374,772.20, 2.85 years; 43.8788 bp consumes the five-year margin. Date it, file it, and read it at the next appointment.