

## Practice Guideline 101 Investment Performance and Measurement Explanatory Memorandum

March 2024

### 1. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared by the Investments and Advice Sub-Committee, which is a sub-committee of the Superannuation & Investments Practice Committee (SIPC) to assist Members in understanding the proposed Practice Guideline “Investment Performance and Measurement” (PG 101). This PG replaces the Professional Standard PS 101 (issued in March 2021).

PG 101 applies to any Member that is likely, directly or indirectly, to be relied upon by a person or entity in the calculation of investment returns (“investment performance”). The calculation and presentation of investment performance is an integral part for Members working in the investment industry and is also widely used by Members working in the superannuation and insurance industries. PG 101 is intended to assist Members by setting out well-established or generally accepted actuarial practices and/or techniques for Members providing advice concerning the measurement and presentation of investment performance across all practice areas.

### 2. Background

The key drivers of the replacement of PS 101 with the proposed PG 101 include:

- Members provide advice concerning the measurement and presentation of investment performance for a range of purposes in several different practice areas, so practices and/or techniques may vary depending on the use and/or practice area. For example,
  - While it is generally accepted practice that investment performance be disclosed net of transaction and operational costs, there are circumstances where operational costs are not considered; and
  - While excess return should generally be calculated arithmetically, there are circumstances where it may be more appropriate to calculate geometric excess return, such as in performance attribution analysis.
- Inclusion of Global Investment Performance Standards (“GIPS”).
- Changes to reflect updates the Financial Services Council (“FSC”) Standards.
- Clarification of the measurement of investment performance on a ‘before tax’ and ‘after tax’ basis.

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- Members calculating investment performance to assess the skill of the investment product or to compare to an investment benchmark should consider the timing of market valuations and make allowances so that comparisons are performed on a consistent basis.

### **3. Key items covered in PG 101**

The key items covered in the PG include:

- Key inputs into investment performance calculation.
- Approach to investment performance, including the uses of investment performance measurement, and specific factors that are relevant to these uses.
- The uses of investment performance measurement in the superannuation and insurance industries.

### **4. Consultation Process**

PG 101 was drafted by a working group of the Investments and Advice Sub-Committee and reviewed by the relevant Practice Committees and the Professional Practice Committee. The draft was exposed to the membership for comment, leading to a small number of non-substantive changes. The final version was then approved by the Professional Practice Committee and by Council.

### **5. Commencement Date**

PG 101 will be effective for relevant services provided on or after 31 March 2024.

**End of Explanatory Memorandum**