How to Increase Transparency and Clarity

The hedge fund industry has consistent standards (such as AIMR) for performance reporting consistency and integrity, and growing numbers of institutional investors now rely upon these standards. However, there still is no consistent standard for performance reporting ***transparency and clarity*** — two attributes most investors say they want and need.

What guidelines and benchmarks can you use to raise your bar for transparency and clarity?

How can you turn your performance reports into differentiating benefits that will help to attract and retain assets over time?

Why Be More Transparent?

- **Investors will see that your styles don't drift and are the right fit for their mandates.**
- **Investors will be more engaged in monitoring results; more knowledgeable about why your strategies are performing as they are.**
- **Investors will see why your correlations work well with other portfolio assets and how your risk management process protects assets.**
- **Due diligence processes will be quicker, smoother and consistent.**
- **Client service teams will be able to have richer, meaningful conversations with clients beyond simple requests for performance.**

It's a Buyer's Market

For decades, the hedge fund industry has "pushed" performance reporting at investors and prospects. Successful hedge funds were able to define performance on their own terms, even if it meant giving investors few details, complex MPT statistics, academic attribution analysis, or unclear benchmark comparisons.

Now, it is a buyer's market. Smart managers will help investors and prospects "pull" the specific performance reporting data and formats they need for transparency, clarity, fiduciary responsibility and comfort. The best way to move from a "push" to a "pull" mentality is to review and rethink your performance reporting through the eyes of investors and prospects.

How is the new "pull" mentality different? Each investor has different needs, but we hear two common requests:

1. ***"We want to know how consistent a hedge fund's style has been over time, so we will clearly know that it is capable of fulfilling our specific need or mandate."***
2. ***"We want to know how a hedge fund's performance has correlated with other assets we hold, so we can evaluate its diversification benefit."***

The way you answer these questions matters. If you have great style consistency and attractive diversification benefits, you are more likely to capture and retain assets — even if your recent performance has struggled.

more >

Solutions for Increased Transparency and Clarity

- First, evaluate performance reporting needs of your existing investors, and also the industry's best reporting techniques for similar funds. Identify competitors that are doing the best job of meeting "pull era" needs for transparency and clarity. Above all, don't continue to push the same old reports through inertia.
- Secondly, create a consistent standardized performance report that addresses what investors want and also adopts best-of-breed methods. Repetition breeds familiarity and increases understanding.

We suggest surveying your investors, or conducting periodic "check-ins" with them (see What Matters Now, "Client Check ins"), to learn what performance data and formats they want, including what they find useful in competitors' performance reporting.

For example, you may find that most investors want more qualitative information that explains the "why" behind the numbers. Attribution data can be useful, but consistent, objective formats and commentary for reporting and explaining attribution (both the good and the bad) can work even better.

Many investors are interested in knowing hedge fund risk exposures and performance during periods of turmoil or crisis. So, let your performance reports open a window on your risk management process and ability to mitigate losses. Show how gross and net exposures changed in response to market conditions. It also can show how funds or strategies have correlated to relevant indexes in different environments. Ensure your choices of benchmarks for each fund or strategy correspond to those your investors think are most "apples-to-apples." Maintain benchmarks consistently over time.

In Summary

You can't control performance in the future, and you can't change performance in the past. But you can add consistent value for investors with performance reporting transparency and clarity.

You may not see an increase in asset-gathering or retention immediately after you begin this initiative. But we think you will see results soon enough, and they will be powerfully cumulative over time. Your performance reports also will become a differentiating feature — an integral part of your brand.

__Ulicny, Inc.,__ serves the financial services industry exclusively, helping top investment managers acquire, retain and develop assets through effective communications. With their solid understanding of institutional and high-net-worth investors, Ulicny's professionals create sales presentations, Web sites, brochures and other marketing materials that focus the discussion on investment with you.