

The background of the cover features a dark blue and purple gradient with a faint grid pattern. Overlaid on this is a line graph with a jagged, fluctuating line, resembling a financial time series or stock price chart. In the foreground, a row of sharpened orange pencils is arranged in a way that their tips form a jagged, upward-trending line, mirroring the shape of the financial chart behind them.

performance measurement in finance

firms, funds and managers

EDITED BY

John Knight & Stephen Satchell



PERFORMANCE MEASUREMENT IN FINANCE

Firms, Funds and Managers

Edited by

John Knight

Stephen Satchell

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PERFORMANCE MEASUREMENT IN FINANCE

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Preface

The purpose of this book is to bring together recent research on performance measurement, from both academic and practitioner perspectives. As in previous edited works by ourselves, we start with some survey chapters to allow readers to refresh their knowledge.

Before we describe the contents of this book, it is worth considering a number of themes in performance measurement that are of current interest. First, there are issues such as how to deal with complex multi-period portfolio returns where the assets may be derivatives and returns non-linear and non-normal. Second, there are issues to do with short performance histories; third, there are problems to do with benchmark failure as many indices have recently experienced unprecedented levels of entry and exit. Finally, there are deep issues connecting the volatility of markets to the use of benchmarks; if all managers are rewarded in the same way and are measured against the same yardsticks, we get herding behaviour and the possibilities of excess volatility and panic.

While the book does not claim to answer and resolve all the above questions and issues, it does address them.

The first chapter by Nathalie Farah deals with the financial theory relevant to performance measurement. Next, Guoqiang Wang discusses issues of econometrics and statistics associated with performance measurement.

Dr Emmanuel Acar and Andrew Pearson discuss the real-world problems associated with stochastic exposures, i.e. when portfolio weights are themselves random. Focusing on Value at Risk, they show how awareness of stochastic exposures/stochastic cash flow information can be incorporated into an improved performance measurement methodology.

Gaurav Amin and Dr Harry Kat use recent theoretical results to evaluate performance in hedge funds, their methodology is particularly suited to dynamic trading strategies.

Professor David Blake and Professor Allan Timmermann investigate the merits of different benchmarks used in the UK and USA. This is a research area of great topicality as indices such as the FT100 have recently been found wanting as a choice of benchmark.

Frances Cowell brings a practitioner's perspective onto the issue of performance evaluation via simulation and the methodology that lies behind a performance simulator.

Dr Soosung Hwang and Professor Mark Salmon use the theory of copulae and 14 UK investment trusts to analyse the non-linear dependency properties of standard performance measures. For those not familiar with copula theory, this is a powerful technique for modelling non-standard correlations.

Professor Bob Korkie, who has made many important contributions to performance issues in finance, has contributed two chapters. The first is a detailed case study of a Canadian investment company, Nesbitt Burns. The second, joint with Dr Turtle, is a theoretical paper addressing the changing opportunity set in an intertemporal context. This set is equivalent to the feasible mean-variance space in a one period world and hence one can measure performance by considering frontier slopes.

Dr Mark Lundin and Dr Stephen Satchell investigate performance issues in a long-short framework and advocate a particular measure of risk. Dr Emanuela Sciubbia presents an analysis of performance from the perspective of economic theory.

David Spaulding considers the important issue of how to calculate rates of return. His chapter contrasts various methods and demonstrates that the differences can be significant. Professor Ian Tonks, in the final chapter, presents an analysis of UK pension fund performance focusing on whether there is an optimal fund size.

John Knight and Stephen Satchell

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