

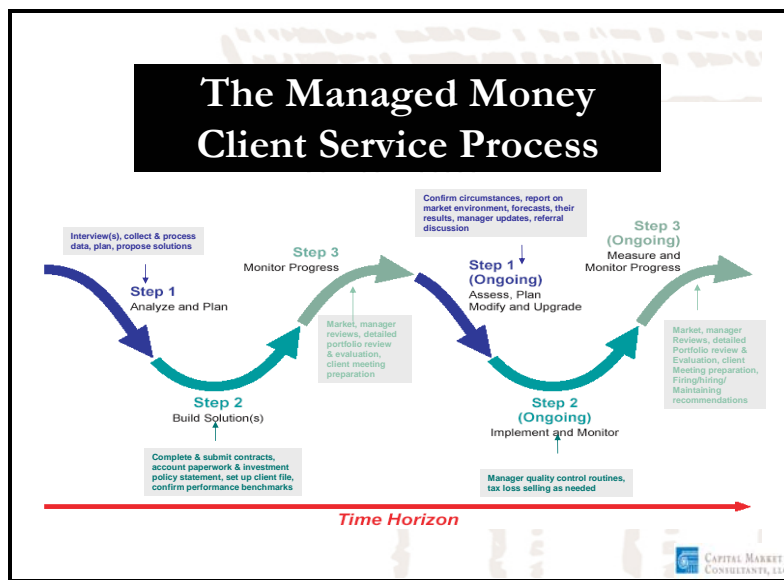
Chapter 13

Performance Reporting and Client Meetings

Introduction

Periodic reporting to clients on the performance of their managed account(s) is a critical and even required component of an advisor's client servicing and communication routine (see Chart 1). The phrase "managed money" or "managed account" not only refers to the investment manager making portfolio construction and maintenance decisions but just as importantly it also refers to the advisor who has chosen to use professional money management as part of their total approach to portfolio care and client servicing. The world of money management is not merely the marketing and selling of a separately managed account; a better description is that it is a process by which a client's circumstances are evaluated, and then their capital is allocated, professionally managed and reviewed over time. Effective performance reporting to clients is a vital part of fulfilling the promise of a managed account to the investor. Further, prudent portfolio monitoring and supervision practices are often based on both regulatory code and case law for retirement plans (ERISA), trusts (UPIA) and public retirement funds¹.

Chart 1



Copyright 2002-2004 Capital Market Consultants, LLC All rights reserved.

Above and beyond complying with legal and regulatory standards of care, and delivering an important service the client is paying for through recurring fees, there is good reason for advisors to take performance reporting meetings very seriously: effective performance reporting routines *create value* in the lives of clients that accrue to the reputation, brand and business development efforts of the advisor. How so?

¹ Prudent Investment Practices A Handbook for Investment Fiduciaries by the Foundation for Fiduciary Studies

- ➔ It is proof to the client that you are proactively being accountable for your recommendations – arguably, professional accountability is an attribute worth acquiring for the novice.
- ➔ It is proof, if positioned properly with the client, that you are objectively measuring and assessing the investment products in their portfolio *as third-party providers* with you serving as a client advocate and not an agent for the investment manager - this approach positions you on “the same side of the table” as the client.
- ➔ It is proof to the client that you are progressively measuring progress towards their life goals.
- ➔ In well orchestrated client review meetings, your overall organization and preparation communicates a brand polished with confidence.

In short, it is helpful to think of performance reporting as a crucial ongoing standard for client retention activity.

Guidelines for Performance Reporting and Client Meetings

Before providing detailed recommendations on the kind of practice procedures you should consider regarding performance reporting a bit of perspective is in order so as not to lose sight of the forest for the trees.

Performance reporting in many ways is the nexus of data in managed accounts. It is all too easy for advisors to get consumed by the numbers and charts and forget that the point of the exercise is primarily to inform the client about how they are doing. Keep the focus on *total portfolio performance*. This is not the time to provide them with a crash course in finance and get into subject matter that should be reserved for another time and day. Try to keep your reporting at a level of detail and sophistication that is appropriate for the client’s needs. This will vary from client to client –be sensitive to their needs. Remember, you are there to communicate not pontificate. We recommend performance reporting should generally be in more summary form unless circumstances about an individual manager or market conditions require getting into further detail.

Performance reporting meetings should customarily be part of a client meeting where other items are discussed as well. Keep the typical performance reporting segment to no more than about 30 minutes. Avoid overdoing the detail; a performance reporting meeting does not mean you cover, line-by-line, every schedule provided. To help you avoid this trap, it is best to construct an Executive Summary document that summarizes, on a single piece of paper (or screen), the key data that the client should know about the measurement you have been doing (private investor and institutional examples are provided at the end of this chapter). Stick to the Executive Summary and only go into further detail as the need arises.

Before placing yourself and your clients on a stringent routine of regular quarterly performance reporting you should be sure about the frequency with which they want to be served. Don’t assume that institutional investment management consulting standards for frequency of reporting need apply to every retail investor. Be careful not to inundate your clients with data implying unwittingly that decisions hang in the balance and quarter to quarter changes carry significant meaning. Give them what they need to be well informed and do not treat the delivery of performance report as a heartless commodity ground out every quarter. Use it as yet another opportunity to get to know them and “resell” yourself to them with your concern.

Make sure your meetings are orderly and follow a preset agenda. This agenda can be sent to your client in advance or presented to them at the review meeting (if that is soon enough for the client). They should be told about how long your meeting will take well in advance so they can plan their time accordingly. They should know what you intend to cover. If the client has items they want to discuss you should capture that in the agenda as well so the meeting becomes a collaborative effort. The goal is for advisors to stay in control of the meeting process.

Never forget the admonition that “proper preparation prevents poor performance.” Your reports need to be in order and without errors (take the time and make the effort for perfection). If possible reports should be personalized for each client. You should always be prepared to answer questions regarding their results and the performance of the individual managers in their portfolio. This requires prep time (well in advance!) with a

regular due diligence routine (like the one described in the previous chapter). The same kind of preparation should be done so that you have a view on the economy and the capital markets as whole. This is not an admonition to forecast or predict but your clients will expect you to have a feel or point of view for what is going on.

Finally, remember that reporting performance should be done as quickly after the quarter as possible. Timely and fresh feedback to your client is important in the internet age. We know that sometimes it can take weeks to get your reports depending on who is in control of the reporting process. But, if you cannot get a full performance report until weeks after the calendar quarter is over you should consider trying to get data from your firm or the manager on their composite performance number or at least their preliminary composite number along with some commentary on the market from the manager so you know quickly after the quarter is over how they did (but not how your client did). This sense for how they have performed can be conveyed to your clients in conversation with the appropriate caveats within the first 10-20 days after the calendar quarter. Do not let weeks pass before you get in touch with your clients regardless of when your formal review meeting is scheduled.

Time management – remember not to forget the time it takes to prepare and personally deliver performance reports in client meetings. Schedule proactively and with your entire staff so everyone knows what’s coming up.

“Performance Reporting Season”

Depending on the size of your managed account business, and certainly as it becomes more successful, performance reporting and the client meetings at which these reports are delivered will generally occur throughout a time period spanning roughly the first two months of each new calendar quarter (with activity generally falling off towards the end of the period). For effective time management and pacing it is helpful to think of performance reporting “season” in three phases: preparation, client meetings and follow-up. The special challenge that is “performance reporting season” is invariably the need to integrate this period of intense routines with new business development, other client services and business administration activities.

Chart 2

Month 1						
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					
Month 2						
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	18
20	21	22	23	24	25	26
28	29	30	31			

<i>Preparation time</i>
<i>Client Meetings</i>
<i>Follow up</i>

Preparation Routines for Performance Reporting and Client Meetings

Preparation routines can vary some from firm to firm depending on the type of performance reporting schedules available. The more detailed and extensive the schedules the more preparation time is required.

1. Schedule appointments by phone and confirm with an appointment card by mail. Once the review meeting process begins subsequent appointments can be made immediately after each review meeting has been completed with an appointment card given to the client before they depart. The day before the next review meeting staff should call to confirm with the client.
2. *Have your staff compile* recent manager, economic and market data for your review. Your staff should store this information in labeled folders or a tabbed three-ring binder for ease of organization and storage. Chart 3 represents an example of how they could consolidate market information into a simple spreadsheet. This data should be available from your firm and is certainly available on commercial databases and on the internet if you are an independent practitioner.

Chart 3

Capital Market Performance - Domestic Equity

Capitalization ↑ ↓	BarraS&P Value		S&P 500 Composite		BarraS&P Growth	
	1 Year	31.80%	14.64%	1 Year	28.69%	11.39%
	3 Year	-2.71%	19.09%	3 Year	-4.05%	18.32%
	5 Year	1.35%	17.61%	5 Year	-0.57%	17.15%
	Russell 1000 Value		Russell 1000		Russell 1000 Growth	
	1 Year	30.03%	12.98%	1 Year	29.90%	11.24%
	3 Year	1.22%	16.22%	3 Year	-3.78%	18.32%
	5 Year	3.56%	15.93%	5 Year	-0.14%	17.24%
	Russell Midcap Value		Russell Midcap		Russell Midcap Growth	
	1 Year	38.06%	13.08%	1 Year	40.08%	12.76%
	3 Year	8.47%	15.94%	3 Year	3.48%	18.77%
	5 Year	8.73%	15.85%	5 Year	7.23%	18.06%
Russell 2000 Value		Russell 2000		Russell 2000 Growth		
1 Year	46.02%	15.58%	1 Year	47.25%	16.21%	
3 Year	13.83%	18.68%	3 Year	6.27%	21.95%	
5 Year	12.28%	16.90%	5 Year	7.13%	22.48%	

Capital Market Performance - Other Benchmarks

Fixed	MSCI World Index		MSCI EAFE Index		MSCI World Ex. US Index	
	1 Year	33.76%	12.33%	1 Year	39.16%	14.63%
	3 Year	-3.52%	17.72%	3 Year	-2.57%	18.08%
	5 Year	-0.40%	16.28%	5 Year	0.26%	16.49%
	Int'l	LB US Aggregate Bond Index		LB US Gov. Credit Intermediate		CSFB High Yield Index
1 Year		4.11%	5.26%	1 Year	4.30%	4.74%
3 Year		7.57%	4.26%	3 Year	7.67%	3.87%
5 Year		6.62%	3.86%	5 Year	6.65%	3.44%
Real Estate		Nareit Mortgage-Reits				
	1 Year	57.39%	14.10%			
	3 Year	57.10%	16.34%			
	5 Year	24.59%	20.38%			
				LB = Lehman Brothers CSFB = Credit Suisse First Boston		

3. Review data from step 2 and prepare a one-page personal summary posting to the file or binder.
4. Call key clients with preliminary numbers and manager outlook (if necessary).
5. Prepare and or review client performance reports – keep the focus on the longer term – how is the client's portfolio performing vis-à-vis expectations, goals and the market?
6. Revise or edit, as needed.
7. Complete Executive Summaries for all clients and collate to beginning of performance report (examples for institutional and private investors are shown at the end of this chapter, Figures 1 & 2)

Chart 4

Client Name Quarterly Portfolio Review											
<i>By</i> Your name here Senior Vice President – Investments											
ABC & Co., Inc. 123 Main Street Anywhere, USA Zip Code <i>Phone number</i>											
Investment Objective:	<i>Portfolio growth and income</i> (to be taken off of firm questionnaire)										
Economy:	Key indicators and interpretation: growth, interest rates, employment, inflation data, etc. (THIS IS AN OVERVIEW)										
Market:	Overview, valuations, perspective, opportunities (THIS IS AN OVERVIEW)										
Portfolio Appraisal:	<table border="1"><tr><td>Beginning balance</td><td style="text-align: right;">\$</td></tr><tr><td>Contributions</td><td style="text-align: right;">\$</td></tr><tr><td>Withdrawals</td><td style="text-align: right;">\$</td></tr><tr><td>Ending balance</td><td style="text-align: right;">\$</td></tr><tr><td>Net gain/loss</td><td style="text-align: right;">\$</td></tr></table>	Beginning balance	\$	Contributions	\$	Withdrawals	\$	Ending balance	\$	Net gain/loss	\$
Beginning balance	\$										
Contributions	\$										
Withdrawals	\$										
Ending balance	\$										
Net gain/loss	\$										
Portfolio Performance:	<table border="1"><tr><td>Year to date</td><td style="text-align: right;">%</td></tr><tr><td>2003</td><td style="text-align: right;">%</td></tr><tr><td>2002</td><td style="text-align: right;">%</td></tr><tr><td>2001</td><td style="text-align: right;">%</td></tr><tr><td>2000</td><td style="text-align: right;">%</td></tr></table>	Year to date	%	2003	%	2002	%	2001	%	2000	%
Year to date	%										
2003	%										
2002	%										
2001	%										
2000	%										
PM issues:	here are your plans and specific points you want to discuss (e.g. discussion of re-balancing needs, consolidation of accounts, taxes, etc.)										
Client issues:	concerns, needs, changes, (ask for introductions, referrals, attorney/accountant data, capital additions)										

8. Have your staff prepare meeting agendas for each client

Preparation Routines for Client Meetings

Client meetings should be controlled by the advisor. They should be relatively modest in length – generally, no more than one hour. In order to control the time and flow of events the advisor needs to be prepared.

Preparation will take some time: we recommend that the client case/file, meeting agenda and performance report be reviewed 1-2 days before the client meeting.

At the meeting both the client and the advisor should know what is going to be discussed and about how long the meeting will take to complete. You should either send an agenda to the client in advance or provide one to them at the meeting. A combined agenda and Executive Summary for private investors is shown in chart 4.

When the client comes to see you at your office or vice versa you must make every effort to insure that you will not be distracted while the client is with you. In that regard, phone calls should be forwarded to staff or voice mail; cell phones, radios and TV's should be turned off. The performance reporting meeting is a time where you are to give your client undivided attention. If your office is not large enough or neat and clean enough, hold the meeting in a conference room; don't let your office be a distraction. Clients should walk away from that meeting feeling certain that you showed them the ultimate in respect and were prepared professionally for them.

Performance review meetings should follow a logical path moving from “macro to micro,” from general to specific. The following agenda order works well for private investors and institutional, alike.

Chart 5

Sequence of topics	Rationale
1. Review and confirm of client investment objectives and goals	Confirm appropriateness of investment policy, identify new opportunities and upcoming issues
2. Review of the economy	Explore the general environment in which investments were being made – favorable or unfavorable?
3. Review of market performance	Details the response of market segments to the business, political and regulatory environment (<i>see Chart 3</i>)
4. Portfolio appraisal	Cover the basics: how much money the client started with, how much was added, how much withdrawn and how much the client ended with
5. Portfolio performance	Cover year-to-date numbers, rolling time periods and calendar years. Subject to availability both returns and risk characteristics should be reviewed. Compare to client goals and policy or benchmark references.
6. Portfolio management issues	Review relevant detail, issues and concerns such as need for re-balancing, further diversification, manager performance issues, tax and or estate planning issues, etc.
7. Client issues	Provide open forum for client to discuss any needs, concerns or issues
8. Review of action steps	Public agreement with client about what course of action is next
9. Schedule next performance reporting meeting	Provide appointment card

Preparation Routines for Performance Reporting Follow up

Follow up activity (really follow through activity) to client meetings is the most frequently overlooked aspect of performance reporting. Remember, while you may be thinking of the manager's performance as being most important, the client is evaluating *your ongoing performance* as an advisor simultaneously (and really as part of an overall service package). If you are representing that your service offering is a (continuous) process then your client meetings cannot be the only occasions for meaningful client contact.

Client meetings should be followed up with a written communication covering:

- The main points discussed at the meeting
- Any actions steps agreed upon and who is responsible for them
- The timeframe in which the action(s) are to be completed
- A reference to any follow up contact required
- Encouragement for the client to respond to your meeting notes by editing and returning to you so that there is complete agreement between you and the client

Any actions that need attention as a result of the performance reporting meeting should be attended to.

The Annual Review

The annual review is a variation on the normal performance reporting meeting. The primary differences are that the annual review should reconsider the appropriateness of the recommended investment policy for the client as well as provide a more extensive historical review of and analysis of individual manager performance.

In reconsidering the client's investment policy each year the principal questions you should be exploring include:

- Does the risk-return tradeoff imbedded in the portfolio asset allocation still accurately reflect the client's financial needs, objectives, time horizons and tolerance for risk?
- Does the implementation approach still match the client's level of sophistication, asset level, tax needs, cost sensitivities and need for transparency?
- Does the existing portfolio have optimal sub-styles that best manage client expectations and overall portfolio risk?

Putting manager performance in historical, longer term context allows the advisor to explore trends in return and risk patterns, style variation and performance attribution to help the client-advisor team determine just how well the manager has performed with the client's money. The principal questions that should be explored for continued engagement are:

- Has the manager's style stayed true to form?
- Has the manager performed as expected (though not necessarily hoped for)
- Are there any reasons to be concerned about the stability of the organization?
- Are there any reasons to be concerned about changes to the manager's methodology?

Conclusion

Performance reporting and client meetings represent an important part of the delivery of a professionally managed portfolio service. This aspect of the world of money management offers multiple opportunities for advisors to serve and protect the wealth of their clients. Educating and informing clients while guiding their experience is a crucial value addition advisors can learn excel at and use to their advantage in growing their business. Remember that the client not only cares about how the manager performs but how the advisor performs as well.