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The Global Investment Performance Standards (GIPS®) are ethical standards for investment performance presentation to ensure fair representation and full disclosure of investment performance.

This letter is a summary of our position on CSA's requirement to use a money-weighted rate of return (MWR) calculation methodology.

This letter represents EVIV Group's opinion and does not reflect the opinions or views of any of our clients.

Recommendation

The Money-weighted rate of return (MWR) can differ substantially from the true Time-weighted rate of return (TWR) depending largely on a combination of the following three variables:

1. The timing of the cash-flows
2. The size of the cash-flows relative to the size of the portfolio
3. The volatility of the portfolio's market value

When large contributions are made prior to a period of relatively good performance, or large withdrawals are made prior to a period of poor performance, the money-weighted rate of return will overstate portfolio performance, relative to the true time-weighted rate of return.

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In times when there are no external cash-flows., MWR will always be equal to TWR.

The regulation should require a manager to be able to present MWR upon a client's request when the client wants to see how cash deposits/withdrawals affected the overall performance of the portfolio or fund but should not make it mandatory for routine reporting.

Risk

MWR will create a huge loophole in KYC (Know Your Client) requirements when assessing clients' risk tolerance. Let's take a look at the extreme example:

Date	Market Value (MV)	Cash Flow (CF)	MV After Cash Flow
31-Dec-07	**$ 1,000.00**		
31-Dec-08	$ 500.00	$ 500.00	$ 1,000.00
31-Dec-09	$ 1,500.00	$ -500.00	$ 1,000.00
31-Dec-10	**$ 1,000.00**		

Money-weighted rate of return (MWR) is the **average** growth rate of all money invested over the total investment period; therefore, MWR for the period in this example equals zero.

Using TWR, the portfolio return will be close to -25% (negative 25%).

From Risk 101 we know that Risk is the Volatility of the returns. In this case, the manager would be able to invest clients' money in extremely volatile and risky strategies.

MWR does not allow classical risk analytics, as MWR is calculated for the total measurement period and therefore just one (static) number without any fluctuation (=> no classical risk statistics possible).

Unethical practice

The case above can also be read as an example of a radical scheme in which a manager can "borrow" "new" money to cover significant losses. It can be done by using a temporally new account or simply by transferring money within family accounts (husband, wife, trust fund, education fund…) to create temporary leverage for recouping losses. MWR will never raise a red flag in the total performance for the period, while with TWR, the manager's true performance is revealed (0.00% MWR vs. -25% TWR).

Since Inception

Assuming a MWR is calculated over many periods, the formula will tend to place a greater weight on the performance in periods when the account size is biggest, which could be misleading to an investor, especially the most unsophisticated.

Additional Information

Any portfolio performance-related information like attribution, top 10 holdings, contributors and detractors, and so on, will become meaningless and misleading as their numbers will not add up to the MWR affected by the cash-flow.

Benchmarking

An appropriate Benchmark is key to a strategic asset allocation:

- To establish client objective and constraints
- To specify asset classes eligible for the portfolio
- To specify capital market expectations
- To derive an efficient portfolio frontier
- To find and set the optimal asset mix

Calculating MWR for benchmarks is not possible and therefore, MWR is not useful for presenting performance relative to a meaningful benchmark. In addition, MWR is impacted by

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the timing of cash flows and therefore MWR is not useful for comparing the performance of different portfolios.

Marketing

The Global Investment Performance Standards (GIPS) are ethical standards for investment performance presentation to ensure fair representation and full disclosure of investment performance.

The core principle of GIPS is to use composites instead of cherry-picking when marketing performance. One cannot create a meaningful composite when using MWR to calculate returns on the portfolios within the composite.

Conclusion

Despite the fact that CSA's recent decision to move forward with mandating MWR is now final, we respectfully request a reconsideration of this approach.

If you have any questions regarding the comments set out above, please do not hesitate to contact EVIV Group at 1-888-364-5111.

Sincerely,

Emil Vassenine, CIPM

CEO EVIV Group