Information sheet – June 2015

Calculation of returns for DIMS providers

This information sheet outlines what methodology we expect providers of Discretionary Investment Management Services (DIMS) licensed under the Financial Markets Conduct Act 2013 (Act) (DIMS licensees) to use when calculating returns required by the Financial Markets Conduct Regulations 2014 (Regulations).

Overview

The Regulations require DIMS licensees to report the return on the investor's portfolio annually (see Regulation 211(1)(b)).

Under the Regulations, a DIMS licensee is also required to provide historic returns for their composite and/or model portfolios in their investment proposals (see Schedule 21 clauses 31 and 32).

For the purposes of providing the information required under clauses 30 to 33 of schedule 21 of the Regulations, 'return' is defined in clause 34 of schedule 21 of the Regulations as:

(a) means the percentage change in the value of the portfolio over the period; and

(b) must be calculated using a method that disregards the effect on the value of the portfolio of money or property added, or withdrawn, by an investor from the portfolio over the period; and

(c) must be calculated in accordance with an applicable framework or methodology (if any); and

(d) if the period is more than 1 year, must be calculated as the average annual compound return.

Interpretation

The Regulations' definition of return focuses on value and not performance. The definition is neutral on whether the return is calculated using a time-weighted methodology or money-weighted methodology. Both methodologies fit within the definition.

Expectations

We expect DIMS providers to use:

- money-weighted methodology to calculate returns for annual investor reporting under regulation 211
- time-weighted methodology to calculate returns for historical composite, or model portfolio returns, for meeting investment proposal requirements.

Methodologies

We expect the returns to be calculated using an industry-recognised methodology. The Global Investment Performance Standards Handbook of the CFA Institute, for example, has details on how to calculate money-weighted and time-weighted returns[1].

Appropriate approximations of methodologies recognised by the industry may be used. However, we do not expect the calculation of returns to differ materially from the industry-recognised methodologies.

We also think it is good practice to:

- have a clear, concise and effective statement explaining which methodology you are using to calculate the returns

[1] See Part 3-2 of the CFA Institute's Global Investment Performance Standards Handbook, 3rd edition 2012 (available here).

- keep a consistent use of the methodology over time
- when you do change your methodology, have clear and concise explanations to investors on how the change will affect the comparisons of returns.

Where can I find more information?

For more general information about the Act and Regulations, please visit our website. You can also subscribe for FMA updates and the latest news.

We will be monitoring how DIMS licensees are reporting returns and the methodologies used during the first phases of the new regime. We might also issue frameworks and methodologies on how to calculate returns. However, we would like to watch the industry in action under the new regime before deciding if these are needed.