
Performance Evaluation and Attribution of Security Portfolios

by

Bernd Fischer

Russ Wermers

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Academic Press is an imprint of Elsevier

The Boulevard, Langford Lane,

Kidlington, Oxford OX5 1GB, UK

225 Wyman Street, Waltham, MA 02451, USA

First edition 2013

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British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Chapter 014, Analysis of Multi-Asset Class Portfolios and Hedge Funds Library

Library of Congress Cataloging-in-Publication Data

A catalog record for this book is available from the Library of Congress

ISBN-13: 978-0-08-092652-0

For information on all Academic Press publications visit our web site at store.elsevier.com

Printed and bound in the US

12 13 14 15 16 10 9 8 7 6 5 4 3 2 1

Chapter 14

Analysis of Multi-Asset Class Portfolios and Hedge Funds

Abstract

In this chapter the traditional Brinson approach to attribution analysis will be extended to funds invested in several asset classes. Furthermore, Chapter 014, Analysis of Multi-Asset Class Portfolios and Hedge Funds approaches will be sketched for the incorporation of the risk dimension into the attribution analysis. Finally certain aspects surrounding the analysis of hedge funds will be introduced. Several new risk and performance measures will be critically discussed in this context.

14.1 Basic Chapter 014, Analysis of Multi-Asset Class Portfolios and Hedge Funds Considerations

So far only portfolios with one category of securities (stocks or bonds) have been considered (if one disregards here the cash segment, which was occasionally included in the considerations). In reality, many portfolios invest in several asset classes (balanced portfolios), the weights of which are set by the portfolio manager. For such portfolios the investment process has an additional decision level, which has not been considered in the methodologies described so far.

The approach described in the following is a generalization of the Brinson approach, by introducing an additional effect, which measures the allocation decision Chapter 014, Analysis of Multi-Asset Class Portfolios and Hedge Funds in regard to the asset class. For the purpose of this treatment this allocation effect will be called global allocation, and the resulting contributions, global allocation contributions.¹ [Figure 14.1](#) illustrates the investment process with this additional decision level.

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