
Performance Evaluation and Attribution of Security Portfolios

by

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Table of Contents

[Cover image](#)

[Title page](#)

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[Chapter 14. Analysis of Multi-Asset Class Portfolios and Hedge Funds](#)

[14.1 Basic Considerations](#)

[14.2 Attribution Analysis on Two Levels](#)

[14.3 Attribution Analysis on Three Levels](#)

[14.4 Implementation in practice](#)

[14.5 Risk-Adjusted Attribution Analysis Based On the Systematic Risk](#)

[14.6 Risk-Adjusted Attribution Analysis Based on the Information Ratio](#)

[14.7 Chapter 014, Analysis of Multi-Asset Class Portfolios and Hedge Funds Special Aspects in the Analysis of Chapter 014, Analysis of Multi-Asset Class Portfolios and Hedge Funds Hedge Funds](#)

[14.8 Chapter-End Problems](#)

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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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