# CONTENTS

## Foreword
Robert R. Johnson, CFA  xi

## Introduction
Philip Lawton, CFA, CIPM, and Todd Jankowski, CFA  1

### PART I: OVERVIEW OF PERFORMANCE EVALUATION

#### CHAPTER 1
Evaluating Portfolio Performance  11

### PART II: PERFORMANCE MEASUREMENT

#### CHAPTER 2
Benchmarks and Investment Management  81
Laurence B. Siegel  
*Reprinted from the Research Foundation of CFA Institute (2003).*

#### CHAPTER 3
The Importance of Index Selection  189
Christopher G. Luck, CFA  

#### CHAPTER 4
After-Tax Performance Evaluation  203
James M. Poterba  

#### CHAPTER 5
Taxable Benchmarks: The Complexity Increases  217
Lee N. Price, CFA  

#### CHAPTER 6
Overcoming Cap-Weighted Bond Benchmark Deficiencies  233
William L. Nemerever, CFA  
CHAPTER 7
Yield Bogeys 251
Brent Ambrose and Arthur Warga

CHAPTER 8
Jumping on the Benchmark Bandwagon: Benchmark Methodologies Are the Subject of Vigorous Debate 259
Crystal Detamore-Rodman

PART III: PERFORMANCE ATTRIBUTION

CHAPTER 9
Determinants of Portfolio Performance 267
Gary P. Brinson, L. Randolph Hood, CFA, and Gilbert L. Beebower

CHAPTER 10
Determinants of Portfolio Performance II: An Update 277
Gary P. Brinson, Brian D. Singer, CFA, and Gilbert L. Beebower

CHAPTER 11
Determinants of Portfolio Performance—20 Years Later 289
L. Randolph Hood, CFA

CHAPTER 12
Equity Portfolio Characteristics in Performance Analysis 293
Stephen C. Gaudette, CFA, and Philip Lawton, CFA, CIPM

CHAPTER 13
Mutual Fund Performance: Does Fund Size Matter? 307
Daniel C. Indro, Christine X. Jiang, Michael Y. Hu, and Wayne Y. Lee

CHAPTER 14
Multiperiod Arithmetic Attribution 327
José Menchero, CFA

CHAPTER 15
Optimized Geometric Attribution 351
José Menchero, CFA

CHAPTER 16
Custom Factor Attribution 367
José Menchero, CFA, and Vijay Poduri, CFA
CHAPTER 17
Return, Risk, and Performance Attribution 387
Kevin Terhaar, CFA

CHAPTER 18
Global Asset Management and Performance Attribution 397
Denis S. Karnosky and Brian D. Singer, CFA
Reprinted from The Research Foundation of CFA Institute (February 1994).

CHAPTER 19
Currency Overlay in Performance Evaluation 457
Cornelia Paape

PART IV: PERFORMANCE APPRAISAL

CHAPTER 20
On the Performance of Hedge Funds 481
Bing Liang

CHAPTER 21
Funds of Hedge Funds: Performance and Persistence 501
Stan Beckers

CHAPTER 22
Hedge Fund Due Diligence: Putting Together the Pieces of the Mosaic Helps Reveal Operational Risks 513
Cynthia Harrington, CFA

CHAPTER 23
Putting Risk Measurement in Context: Why One Size Does Not Fit All 517
Cynthia Harrington, CFA

CHAPTER 24
Conditional Performance Evaluation, Revisited 521
Wayne E. Ferson and Meijun Qian
Reprinted from The Research Foundation of CFA Institute (September 2004).

CHAPTER 25
Distinguishing True Alpha from Beta 591
Laurence B. Siegel
CHAPTER 26
A Portfolio Performance Index 605
Michael Stutzer

CHAPTER 27
Approximating the Confidence Intervals for Sharpe Style Weights 619
Angelo Lobosco and Dan DiBartolomeo

CHAPTER 28
The Statistics of Sharpe Ratios 629
Andrew W. Lo

CHAPTER 29
Risk-Adjusted Performance: The Correlation Correction 653
Arun S. Muralidhar

CHAPTER 30
Index Changes and Losses to Index Fund Investors 669
Honghui Chen, Gregory Noronha, CFA, and Vijay Singal, CFA

CHAPTER 31
Information Ratios and Batting Averages 693
Neil Constable and Jeremy Armitage, CFA

CHAPTER 32
The Information Ratio 705
Thomas H. Goodwin

CHAPTER 33
Does Asset Allocation Policy Explain 40, 90, or 100 Percent of Performance? 719
Roger G. Ibbotson and Paul D. Kaplan

CHAPTER 34
Fund Management Changes and Equity Style Shifts 731
John G. Gallo and Larry J. Lockwood

CHAPTER 35
Managing Performance: Monitoring and Transitioning Managers 745
Louisa Wright Sellers
CHAPTER 36
Does the Emperor Wear Clothes or Not? The Final Word (or Almost) on the Parable of Investment Management 757
Philip Halpern, Nancy Calkins, and Tom Ruggels

CHAPTER 37
Does Historical Performance Predict Future Performance? 767
Ronald N. Kahn and Andrew Rudd

CHAPTER 38
Evaluating Fund Performance in a Dynamic Market 785
Wayne E. Ferson and Vincent A. Warther

CHAPTER 39
Investment Performance Appraisal 799
John P. Meier, CFA

CHAPTER 40
Thinking Outside the Box: Risk Management Firms Put a Creative Spin on Coupling Theory with Practice 815
Susan Trammell, CFA

PART V: GLOBAL INVESTMENT PERFORMANCE STANDARDS

CHAPTER 41
Global Investment Performance Standards 825
Philip Lawton, CFA, CIPM, and W. Bruce Remington, CFA

APPENDIX A
Global Investment Performance Standards (GIPS®) 899
Reprinted from the CFA Institute Centre for Financial Market Integrity (February 2005).

APPENDIX B
Corrections to GIPS Standards 2005: Last Updated October 31, 2006 951

About the Contributors 953

Index 956