ADVISOR INSIGHTS

November 2017
Part 2 of 3

Answering Your Clients' Questions about the **Performance of their Investments**

In 2018, investors will receive, for the second year in a row, personalized reports outlining details of the fees that they paid and the performance of their investments over the previous year.

This issue of *Advisor Insights* provides some straightforward answers to questions that your clients might ask as they aim to understand the information that they received and will continue to receive about their report on the performance of their investments.

An Opportunity to Strengthen Your Relationships with Clients

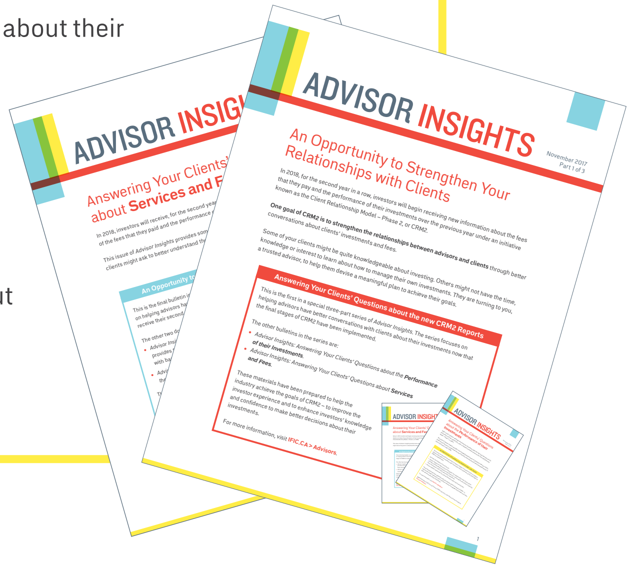
This is part of a special three-part series of *Advisor Insights*. The series focuses on helping advisors have better conversations with clients about their investments as they begin to receive personalized annual reports on performance and fees for the second year.

The other two bulletins in the series are:

- *Advisor Insights: An Opportunity to Strengthen Your Relationships with Clients*, which provides some guiding principles to help frame your conversations with clients, along with basic information to tell clients about their investments.
- *Advisor Insights: Answering Your Clients' Questions about **Services and Fees**.*

These materials have been prepared to help the industry improve the investor experience and enhance investors' knowledge and confidence to make better decisions about their investments.

For more information, visit **IFIC.CA > Advisors**.



Responses to Clients' Questions

How well did my investments perform?

For the second year, we are providing detailed information to you about how well your investments performed **after costs have been deducted**. To locate this information on your statement, look for the term "Personal Rate of Return". Some firms will use the more technical term: "Money-Weighted Rate of Return".

Your personal rate of return is unique to you because it is based on:

- The timing of when you deposited money into and withdrew money out of your account,
- Dividends and interest that you earned within the account, and
- Changes in the market value of the securities held within your account.

A **"target rate of return"** is a goal that some investors set, often with the help of a financial advisor. For example, an investor might set a goal of saving 'x' dollars by a certain year in order to retire comfortably. To achieve that goal, based on the investor's current and planned savings, the investor will aim to earn a certain rate of return – the target rate – each year.

Since each investor has a different combination of deposits and withdrawals, each investor may have a different personal rate of return.

You may wish to compare your personal rate of return to your target rate of return to see whether you are on track to meet your investment goals.

What if I don't meet my target rate of return each year?

If you don't meet your target rate of return in a particular year, there is no reason to panic but it is important to ask questions so that you have all the facts and can consider whether you need to adjust your investments. It could be that markets have had a bad year overall. Many investments are long-term, so as long as you are meeting your target on average over the years, you are on a path that is leading you toward your goal.

Shouldn't I use a benchmark to figure out whether my investments are performing well?

The answer to this is: yes… and no.

"**No**" mainly because benchmarks are not relevant comparisons to your personal rate of return. A benchmark evaluates the performance of a fund over a time period, and does not take into account the timing of your personal deposits or withdrawals.

"**Yes**" because benchmarks may be helpful for other purposes. For example, they can help you understand how well a fund has performed compared to a similar group of securities or index over the same time period.

A **"benchmark "** is information that helps you compare the relative performance of a fund. Students compare their marks to the class average to understand how well they did. In the same way, an "investment benchmark" helps you understand how well your fund performed compared to groups of similar investments.

What benchmark should I use and how can it help me understand how well my investments have done?

There are many different benchmarks and it is important to use the right one. You would not compare your math mark to the class average on an English test. In the same way, you should not compare your equity fund to a benchmark for bond funds.

Market indexes (such as the S&P/TSX Composite Index) are often used as benchmarks. Market indexes provide good historic information but aren't perfect comparisons to your investment for many reasons. For example:

1. A market index does not reflect the costs of managing and operating a mutual fund. To compare your mutual fund to a benchmark, subtract the fund costs from the benchmark.
2. A market index measures performance over a specific time period. If you held the mutual fund over a different time period, it will not be a perfect match.
3. Benchmarks use a "time-weighted" formula to calculate performance. The new performance report that you have received uses a "money-weighted" formula to calculate your personal return. [Plain language explanations of these terms are provided in the box to the right.]

Some funds do not use benchmarks. A fund that uses a benchmark will list it in its Management Report of Fund Performance, which you can find on the fund company's website.

Why do the performance numbers in *Fund Facts* not match the performance on my new performance report?

The **performance numbers in *Fund Facts*** use a "time-weighted" formula (see description to the right) to calculate the rate of return for the fund. These numbers can be used to compare the returns of different investment funds over the same timeframe.

The **performance information in your personalized report** is calculated using a "money-weighted" formula (see description to the right). It tells you how well **your** investments have performed, taking into account the timing of your deposits and withdrawals.

The **"time-weighted"** formula calculates the rate of return for money that is placed in a fund and left in the same investment until the end of a time period (such as one year). This method is not influenced by the timing and size of deposits and withdrawals of investors. It is used to compare the returns of different investment funds over the same timeframe.

The **"money-weighted"** formula is impacted by the timing of your deposits and withdrawals in and out of your account, as well as dividends and interest that you earned within the account, and changes in the market value of the securities held within your account. Since each investor has a different combination of deposits and withdrawals, each investor could have a different personal rate of return.