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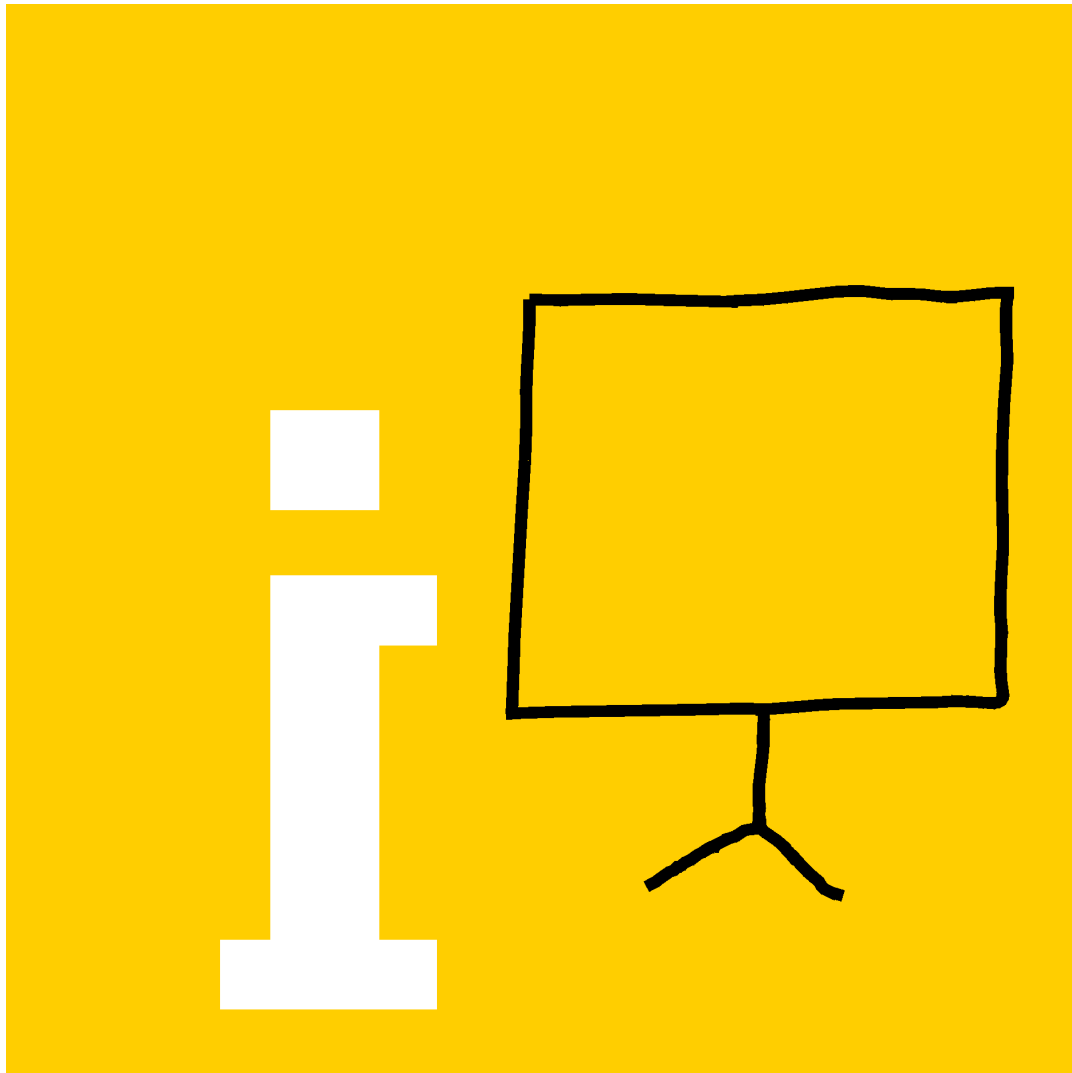
**Snapshot survey of fixed income attribution**

**Ashley Payn**

December 2005

Our experience

Your success



## **Participants**

To ensure anonymity, none of the responding fund management companies will be named. In total, there were responses from 16 performance departments - all of which are UK-based fund managers.

Investit would like to thank everyone who participated.

## **About the author**

Ashley Payn is a Consultant in the Intelligence and Projects services at Investit and specialises in performance and attribution. He spent the last nine years working at Deutsche Asset Management, working on a daily stock level performance and attribution system and building performance attribution models.

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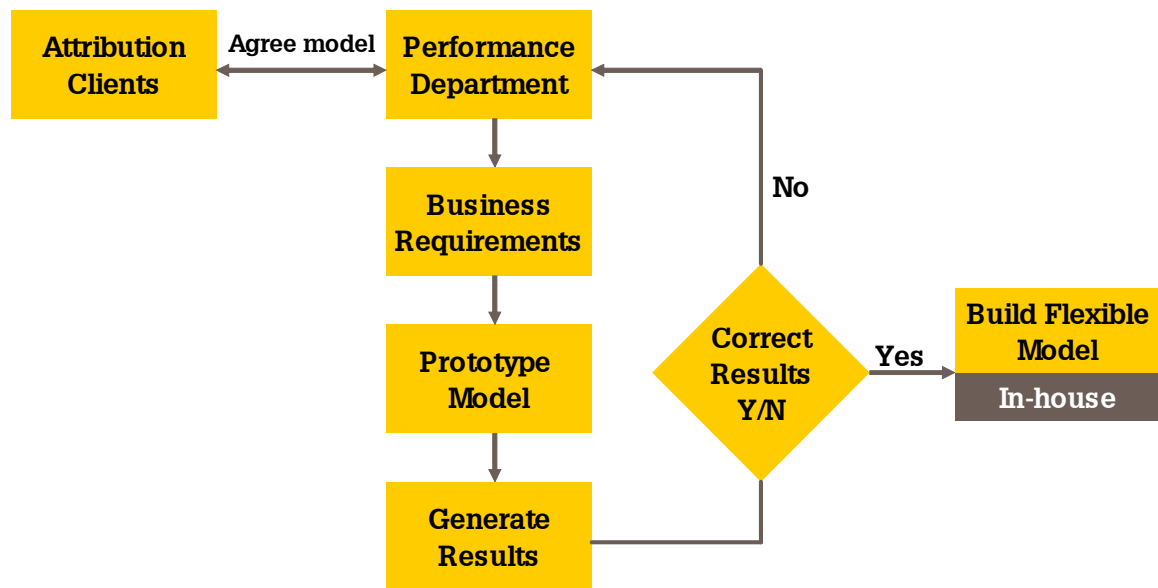
## Key findings

- 60% of respondents are planning to implement a new fixed income attribution system.
- 83% of those that will not be implementing a new system will be enhancing their current system.
- 69% of teams cannot calculate attribution for as many funds as they would like.
- 8% of performance departments have a model that completely reflects the investment decisions that it attempts to explain.
- 85% of respondents think there is a lack of quality fixed income performance analysts in the job market.
- 77% consider the current vendor offerings for fixed income attribution to be average.
- 69% of teams do not link their fixed attribution to their risk systems.
- 57% of teams do not use fixed income attribution for management information, ie as a tool to manage the fund managers.
- 67% of departments find it harder to source fixed income indices than equity indices.
- 62% of departments find it harder to recreate the official index return from the constituent stocks than for equity indices.

## Recommendation

There are no market-leading vendor systems in the area of fixed income attribution. The systems that are available do not meet the growing need of performance departments to provide a strategic and scalable fixed income attribution service - a service that reflects the investment process and that can be run for as many funds as required. Therefore, performance departments will need to consider an in-house build in order to obtain a 'best of breed' platform for fixed income attribution.

Investit recommends that the following approach be adopted to develop a fixed income attribution capability.



However, even if this approach is followed, significant issues are likely to be encountered, particularly with regard to the detailed granularity of the base data, the issues associated with sourcing and recreating index data and the additional asset characteristic data required to calculate fixed income attribution. The absence of many people with real hands-on experience of implementing such systems and of resolving these issues means that fixed income attribution is likely to remain problematic for performance teams for some time to come.

# Systems

The survey findings demonstrate that the current fixed income attribution systems used by performance departments do not meet their requirements.

The majority of respondents are either planning on replacing or enhancing their current system. The attribution models do not accurately reflect the investment process and either the systems or business processes that support them are not scalable, so attribution can only be calculated on a subset of accounts.

- 60% of respondents are planning to implement a new fixed income attribution system.

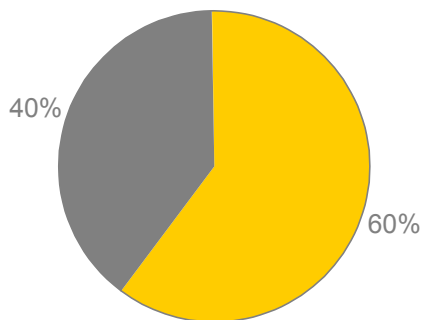


Figure 1: Performance departments planning on implementing a new fixed income attribution system

- 83% of those that will not be implementing a new system will be enhancing their current system.

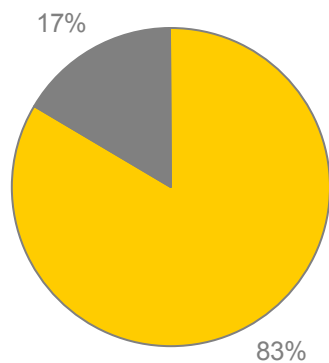


Figure 2: Are you planning to enhance your current fixed income attribution system?

- 69% of teams cannot calculate attribution for as many funds as they would like.

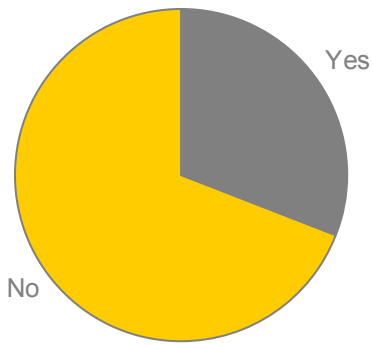


Figure 3: Do you calculate fixed income attribution for as many funds as you would like to?

- 8% of performance departments have a model that completely reflects the investment decisions that it attempts to explain.

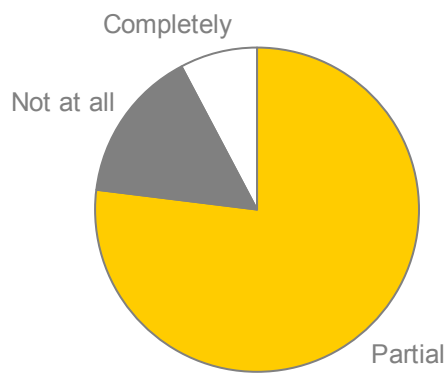


Figure 4: Does the model reflect the investment process?

- 77% consider the current vendor offerings for fixed income attribution to be average.

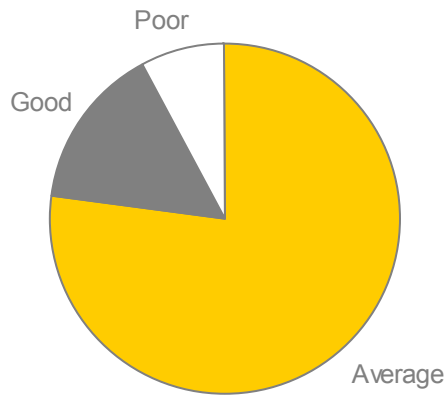


Figure 5: Opinion of current vendor systems

- 71% of teams calculate fixed attribution on a daily basis.

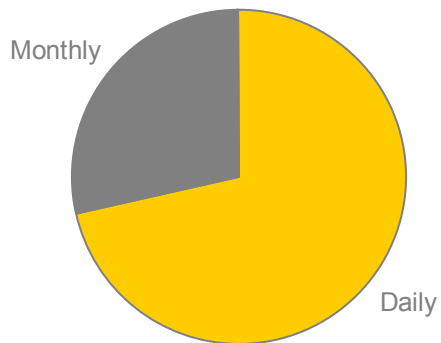


Figure 6: Are you calculating fixed income attribution daily or monthly?

## Index data

Not surprisingly, given the lack of the commercial relationship between fund managers and fixed income index data suppliers, performance departments find it harder to support fixed indices than equity indices.

- 67% of teams find it harder to source fixed income index data than equity index data

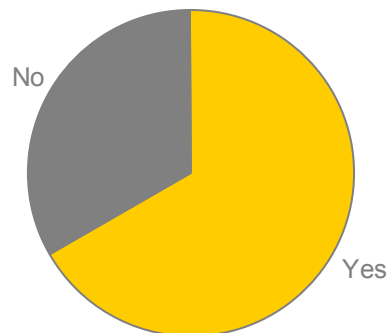


Figure 7: Do you find it harder to source fixed index data than equity index data?

- 62% of teams find the recreation of published total level returns harder for fixed indices than equity indices.

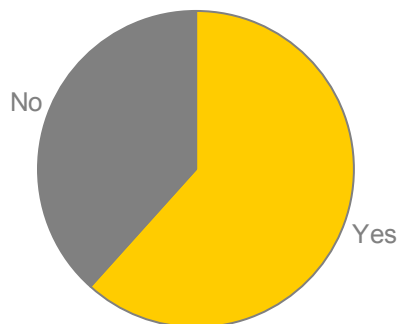


Figure 8: Is it harder to recreate published returns for fixed indices than equity indices

- 100% of teams require more characteristic data to support fixed income attribution than equity attribution.

## Risk

- 69% of respondents do not link their fixed income attribution to risk systems.

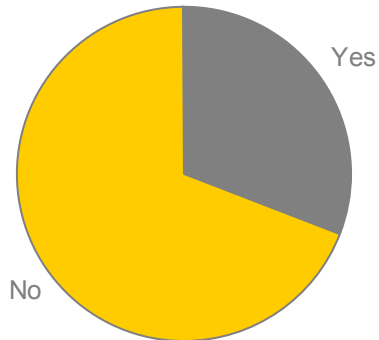


Figure 9: Do you link fixed attribution to your risk systems?

## Management information

- 57% of respondents do not use fixed income attribution for management information.

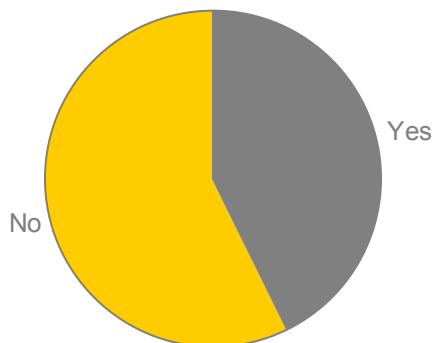


Figure 10: Is fixed income attribution used for management information?

## Influencing development

- The major areas influencing the developments of fixed income attribution are:
  - 45% investment managers
  - 35% clients
  - 25% marketing.

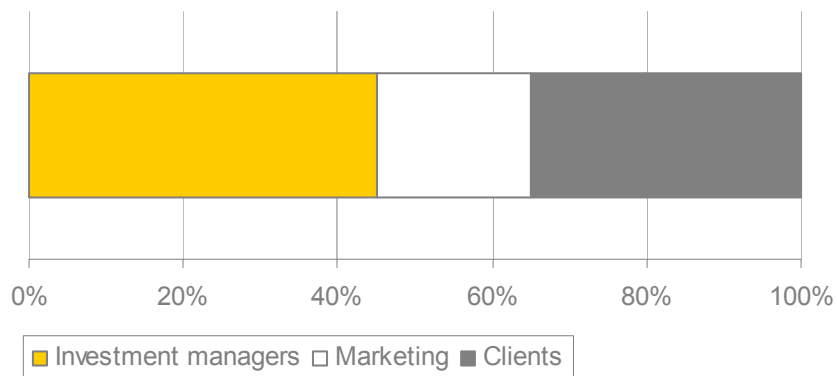


Figure 11: Who is influencing the development of fixed income attribution?