CASH FLOWS typically controlled by:

INVESTMENT MANAGER:

- how & when to invest new inflows/contributions into a fund
- whether to reinvest or distribute dividends & capital gains

INVESTOR:

- timing and amount of capital contributions & distributions/withdrawals

MWR affected by size & timing of CFs

TWR NOT affected by size & timing of CFs

CONCLUSIONS:

Investment managers in PUBLIC MARKETS

suitable benchmark:

PRIVATE EQUITY managers

suitable benchmark:

Investors

suitable benchmark:

↑ Also reflected in GIPS: Global Investment Performance Standards

require use of TWR unless manager controls external external CFs into the fund & fund:

- is closed-end

OR

- is fixed-life
- has fixed commitment from investors to provide capital
- contains significant portion of ILLIQUID investment

PUBLIC MARKETS: managers MUST use TWR!

PRIVATE MARKETS/PRIVATE EQUITY: managers MAY use MWR

GIPS does not recommend a measure to use by investors

Dealing with DAILY VALUATION

linking daily returns to compute annual TWR:

$$r_{TW} = (1+r_1) \times (1+r_2) \times \ldots \times (1+r_{365}) - 1$$

if annualizing: $\left(1+r_{daily}\right)^{365} - 1$