

## WHAT ARE PCI?

PCI are a set of private client indices designed by Asset Risk Consultants (ARC) to be used by private clients and their advisers in assessing the performance of any discretionary portfolio with a non-specialist mandate.

The PCI indices provide a unique insight into the actual returns being generated by investment managers for their discretionary private client portfolios. The indices are based on real performance numbers provided by participating investment managers.

There are no pre-set asset allocations; no asset class restrictions; no concentration limits; and no index performances used. Only actual performance numbers are included in the calculation of the indices.

The indices are available free of charge to trustees and private client advisers through a web-based subscription service which can be found at [www.assetrisk.com/pci](http://www.assetrisk.com/pci)

## WHY USE PCI?

In recent years it has become the norm for investment managers to adopt a multi-asset class approach to discretionary portfolio construction. Thus, private clients have seen their portfolios extended to incorporate not just the traditional cash, bonds and equities but also hedge funds, property, commodities, structured products, currency overlays and private equity.

Few investors wish to place all their investment assets with a single fund manager. Rather, they prefer to employ several investment managers, often with differing investment mandates and styles. This diversity, whilst delivering risk reduction, makes portfolio design and analysis more complex.

This trend has meant that the traditional index-based approach to benchmarking performance has become increasingly moribund. In response managers have tended towards absolute rather than relative return measures.

The shift to cash-plus style benchmarking has, however, left private clients and their advisers in a quandary. Given the volatility of financial markets, how can the evolution of manager performance be assessed?

The PCI series of indices have been designed to solve this performance measurement conundrum.

The ARC PCI series allow performance to be assessed against a realistic and sizable peer group for the first time. With over twenty investment houses contributing performance data, all the major investment styles, approaches and philosophies are represented ensuring that PCI is unique in coverage and scope.

For private clients and their professional advisers, PCI provides an objective means of placing investment performance into context. Reflecting the opportunity set afforded by today's sophisticated and everchanging financial market, PCI is a barometer for the state of the private client investment management industry.

## PCI CATEGORIES

There are four PCI categories covering the spectrum of risk: Cautious; Balanced Asset; Steady Growth; and Equity Risk.

### Cautious

The definition of a Cautious portfolio is one where the historical variability of returns has been less than 40% of that recorded by world equities. The dominant asset classes tend to be cash, bonds and hedge funds.

### Balanced Asset

Balanced Asset portfolios are those in one where the historical variability of returns has been around 50% of that recorded by world equities. Balanced asset portfolios tend to encompass the widest range of asset classes. Managers often refer to multi-asset class strategies in this risk category as being absolute return oriented.

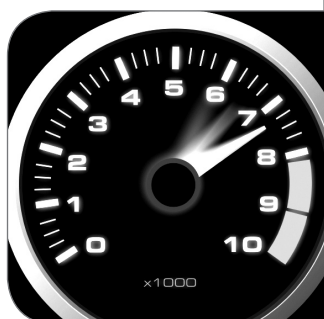
### Steady Growth

Portfolios falling into the Steady Growth risk category have a risk profile of between 60 - 80% of world equity markets. They usually have a significant allocation to equities but also have exposure to a range of other asset classes. Traditionally, such portfolios would have been tagged as "balanced".

### Equity Risk

The Equity Risk category encompasses all portfolios with a risk profile similar to that of the equity markets. Traditionally, such portfolios would have been tagged as "growth". Equities tend to be the dominant asset class.

# information into knowledge



Category	Risk relative to equity markets
ARC Cautious PCI	0 - 40%
ARC Balanced Asset PCI	40 - 60%
ARC Steady Growth PCI	60 - 80%
ARC Equity Risk PCI	80 - 120%

## USING PCI

The PCI indices are intended to be used to help private clients and their professional advisers place portfolio performance into context.

### Establish Portfolio Risk Profile

The first step is to establish which of the four PCI indices to use. PCI's are categorised according to risk relative to the equity markets. The portfolios investment objective should provide guidance as should the percentage of the portfolio invested in equities.

### Obtain Portfolio Performance Data

This should be available from the investment manager or can be calculated from portfolio valuations and statements. Monthly or quarterly performance data is best, but semiannual or annual data can still be compared to the PCI results.

### Performance Comparison

Once the portfolio performance has been established, it can be compared against the appropriate PCI index. PCI reports allow return comparisons over any desired period from their launch date of December 2003.

For ease of reference some common periods are precalculated but the monthly index data is also made available.

PCI reports also incorporate information on quartile ranges for returns and portfolio drawdowns. These ranges help place investment manager performance into context versus a realistic peer group.

## DATA INTEGRITY

ARC recognises that data integrity is critical to the acceptance of the PCI indices as suitable performance yardsticks. Thus, the data verification task is taken extremely seriously. Each quarter Data Contributors are asked to sign off on their data submissions and a series of validation checks are made. In addition, all Data Contributors have contractually undertaken to ensure that data supplied by them for PCI accurately reflects the investment performance of their discretionary private client team.

The data supplied falls into one of four categories:

### GIPS Composite Numbers

Those investment managers who have adopted the GIPS reporting standard supply their GIPS performance data for each of their defined client categories.

### Actual Portfolio Data

For those managers who have not adopted the GIPS reporting standard, the preferred route is for managers to provide actual performance numbers for all their unconstrained discretionary private client portfolios.

### Fund Performance Data

Investment managers who offer a unitised version of their discretionary private client investment solutions may choose to supply performance data for these funds as a proxy for the performance being delivered by their discretionary private client business as a whole.

### Audited Model

In exceptional circumstances, the performance of model portfolios may be accepted provided that ARC can verify that the performance numbers being submitted are representative of the performance of typical discretionary portfolios.

All data supplied for the calculation of the PCI indices is subject to a verification and validation procedure by ARC. Each quarter, any suspect data is excluded by ARC from the calculation process.

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