

The Outlook

Performance Evaluation: Outlook for Discretionary Investment Management

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Starting from the year of 2006, for those SITCA members who conduct discretionary investment management (DIM) business, portfolio information and holdings are required to be submitted for performance evaluation purpose. The said requirement and future evaluation will definitely help Taiwan's DIM market improved with a higher transparency and achieved the best practice. Upon the publication of performance evaluation, investors who need DIM service shall be able to determine which service provider is capable of providing the DIM service in accordance with its long-term performance and applicable risk data.

DIM business is unique by its very nature because it is not one-size-fit-all but rather custom-made. Therefore, the investment amount and investment operation for each contract shall vary substantially to suit each customer's demands. In the past, DIM performance evaluation was not done consistently and data were not available to the public. Therefore, investors have raised serious doubts concerning the creditability of data from SITCA members who conduct the DIM service.

Since relevant information was not made transparent, good players were most likely to be driven out of the market by bad ones. Even worse, more often than not, DIM market information provided to the investors was not truthful. On the other hand, there was no open and trustworthy platform that could provide valuable information to investors who desire for reputable players. Under such circumstance, many SITE members could at best only provide mutual fund performance data to investors.

However, there is a substantial difference in comparing performance between a DIM business and retailed mutual fund. For example, the classification of DIM service and mutual fund is different substantially in overseas investment, and a tiny SITE or SICE that is with small AUM may achieve excellent performance through innovative and flexible operation. Thus, it is able to have a head-to-head competition with other larger investment company for pension fund or university endowment fund business. Such positive competition and information transparency may help the DIM market grow its business and achieve innovation.

The author would like to explain the importance of performance evaluation to the development of DIM market with an example of personal experience. The author used to work for a small investment company in 1985 while studying for Ph.D degree in New York. Unlike traditional fund operation, the company used financial modeling and derivative products in managing client's portfolios. The company had gone through stock crash in 1987 in the United States and the bear market in early 90's but was able to demonstrate to investors with a long-term outstanding track record. Today, it has grown

from a less-than-twenty-employee firm to the second largest hedge fund in the United States with over 10 billion assets under management. If this company is to be situated in a market without any transparency, how could investors tell the good asset management from the bad ones and what could be expected for a sound market development and innovation?

Upon the rise of Taiwan pension market, the impact of DIM business on economy and banking will become even more important. For a healthy development and innovative breakthrough of the DIM market, the first priority shall be information transparency. Moreover, an open and fair performance evaluation system must be in place to provide investors with accurate information and to have the outstanding business stood out from the crowd. As a result, a small SITE/SICE with healthy internal management and innovative breakthrough may stand on the top of other rivals. The old evils of SITE and SICE could have been corrected through this new performance evaluation. Most important of all, the operation scale of DIM business does not stand for its performance, in a fair and open environment, innovative investment management and portfolio managers will be noticed. The performance of manager and the long-term track record of DIM service instead of their marketing ability and operation scale will become gradually important.

At the last, but not the least, the author is one of the commissioners for discretionary business performance rating plan and does understand the importance and complicity of the plan. The plan will be successful with the support and effort of competent authority and the entire industry. Hopefully, fair and transparent information will be provided to everyone in the discretionary market in the near future.