

Quadrant's regular newsletter that highlights topics we believe will affect markets or are important in understanding them.

"A lack of transparency results in distrust and a deep sense of insecurity"

Dalai Lama

Quadrant Asset Management

Suite 720, One Lombard Pl

Winnipeg, MB

Ph: (204) 944-8124

email: inquiries@quadasset.com

web: www.quadasset.com

Commencing in 2016 the final elements of a body of regulations called the Client Relationship Model ("CRM" and "CRM2") are required to be implemented by all firms in the financial advisory business. The regulatory framework around CRM is intended to enhance transparency of fees, the reporting and managing of conflicts of interest, "know your client" and enhanced suitability practises, and account performance reporting.

At Quadrant our core principles have always called for transparency and client-oriented solutions and services. As such the new regulations are of little consequence as they represent our practises since the inception of our firm.

As part of CRM2 all financial services firms will be required to report performance, net of fees, on client statements.

There are a number of calculation methodologies that can be used to report investment returns. The two most common methods are:

1. Time-weighted Return

Calculation eliminates any distorting effects created by deposits/withdrawals to/from the portfolio.

Most suited for comparisons of managers or portfolios.

2. Money-weighted Return

Calculation includes the impact of deposits and withdrawals on portfolio returns.

Most suited to providing returns respecting an individual portfolio in light of its unique cash flows.

Each of the foregoing methods is useful in understanding portfolio performance. Time-weighted facilitates an objective assessment of the manager's contribution to portfolio returns and allows comparisons to alternate portfolios or benchmarks. Money-weighted, on the other hand, represents your portfolio's "personal" rate of return reflecting both the actions of the manager combined with the impact on performance of your individual deposits and withdrawals. Under certain circumstances the results of each calculation can be very different from the other.

EXAMPLE:

The table below compares the time-weighted return to the money-weighted return for three different scenarios with unique cash flows.

Time Period	Monthly Return of Investment	Cash Flows		
		A	B	C
		No Cash Flows	Deposit Before Period of Negative Performance	Deposit Before Period of Positive Performance
Beginning Balance		100,000	100,000	100,000
Year 1	5.00%	+ 50,000		
Year 2	-4.00%		+ 50,000	
Year 3	10.00%			+ 50,000
Balance at End of Year 3		166,320	163,680	165,880
Time-weighted return (annualized)		3.50%	3.50%	3.50%
Money-weighted return (IRR - annualized)		3.50%	3.32%	4.37%

Scenario A – No Cash Flows

The time-weighted and money-weighted return are identical because one lump sum was invested with no intermediate cash flows. This will always be the case when there are no inter-period deposits/withdrawals by the investor.

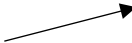
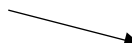
Scenario B – Deposit Before Period of Negative Performance

The money-weighted return is lower than the time-weighted return in this case as a result of a large deposit immediately before the negative performance during Year 2.

Scenario C – Deposit Before Period of Positive Performance

The money-weighted return is higher than the time-weighted return in this case as a result of a large deposit immediately before the positive performance during Year 3.

The table below offers a simplified comparison of the time-weighted and money-weighted returns under different circumstances.

Portfolio Activity	Portfolio Performance	
	 ... a period of positive portfolio performance	 ... a period of negative portfolio performance
Large contribution to portfolio just before ...	Money-weighted return will tend to be greater than time-weighted return.	Money-weighted return will tend to be less than time-weighted return.
Large withdrawal from portfolio just before ...	Money-weighted return will tend to be less than time-weighted return.	Money-weighted return will tend to be greater than time-weighted return.
No large contributions to or withdrawals from portfolio just before ...	Money-weighted return and time-weighted return will be very similar, if not the same.	Money-weighted return and time-weighted return will be very similar, if not the same.

CLIENT INVESTMENT STATEMENTS GOING FORWARD:

It is important to reiterate that there is no right or wrong way of stating performance as they are both valid and acceptable methods that are interpreted in different ways. Time-weighted return is best for evaluating investment managers against relative benchmarks while money-weighted is best for evaluating performance with respect to individual financial plans and goals.

While most financial advisory firms reported returns on a Time-weighted basis, CRM2 regulations require the provision of Money-weighted returns at least annually. Quadrant will now regularly report on a Money-weighted return basis.

If you or someone you know could benefit from our services, please have them contact our offices at 204-944-8124 or email us at inquiries@quadasset.com.

Disclosures

This report is prepared for the use of Quadrant Asset Management personnel and clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Quadrant Asset Management. Any unauthorized use or disclosure is prohibited. The information herein was obtained from various sources and Quadrant Asset Management does not guarantee its accuracy. Neither Quadrant Asset Management nor any director, officer or employee of Quadrant Asset Management accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its content.