

Discretionary investment management

J10 July 2015 edition

Web update 02: 4 November 2015

Please note the following update to your copy of the July 2015 edition of the J10 study text:

Chapter 9, section B3B, example 9.4, page 9/11

Please amend the example to read as follows (amendments in **bold**):

Example 9.4

At the start of the year, a portfolio has a value of £100m; after six months, its value is £110m just after a cash dividend of £2m was paid out. By the end of twelve months, the portfolio value has risen to £130m.

We calculate the holding period return for the first six months:

$$r_1 = \frac{2 + 110 - 100}{100} = 12.00\%$$

For the second period, the holding period return is:

$$r_2 = \frac{130 - 110}{110} = \mathbf{18.18\%}$$

We can now link these returns to calculate the TWR:

$$1 + R = (1 + r_1)(1 + r_2)$$

Where:

$$R = \text{TWR.}$$

$$1 + R = (1.12)(\mathbf{1.1818})$$

$$1 + R = \mathbf{1.3236}$$

$$R = \mathbf{0.3236 \text{ or } 32.36\%}$$

The time-weighted return is **32.36%** for the portfolio for the one-year period.

This replaces the current reference to '100' in the denominator for the holding period return for the second period and the subsequent corrections are as a result of this change to the calculation.

