

## Josephs, Nadine

---

**From:** Short, Cindy <Cindy.Short@acgnet.com>  
**Sent:** Tuesday, July 28, 2015 1:49 PM  
**To:** Davidson, Linda; Josephs, Nadine  
**Cc:** Pulos, Jason; 'Pension'; McGuire, Sharon; Bryant, Diane  
**Subject:** RE: Florida Statute 112.664 Disclosure

Linda,

Per our conversation, we have explained the differences in returns below. Please let us know if you have any additional questions.

### **RETURN CALCULATION (reasons for differences between Actuarial and ACG calculated returns)**

The actuarial rates of returns are using a different methodology to calculate returns for the client than ACG uses. Our process is calculating TWR's monthly, revaluing for significant flows intra month, and then geometrically linking those monthly returns to calculate and report to our client.

Specifically below, I have provided the definitions for the different types of returns. Results can be very different for two identically managed portfolios due to the timing of cash flows.

#### Time Weighted Returns (TWRs) vs. Internal Rates of Returns (IRRs)

Global Investment Performance Standards (GIPS) requires performance calculations using time-weighted returns (TWRs). This is what ACG uses to report to all of our clients.

TWRs:

- Give the same weight to time periods, regardless of the amount of money invested.

- Minimize the effect of cash flows on a portfolio, so they fairly compare the performance of a money manager's investment strategy to another strategy or index.

- Answer the question: "If your entire portfolio had been invested on the start date and then left alone (no contributions or withdrawals), what would your performance be?"

An IRR:

- Measures the performance of an individual portfolio between two dates.

- Gives a greater weight to those time periods when more money was invested in the portfolio. This performance method takes into account not only the size of any cash flows, but also the length of time each cash flow affected the portfolio.

- Answers the question, "If your entire portfolio had been invested in a money market account instead (and you made the same contributions and withdrawals), what interest rate would give you the same ending market value?"

- Shows the actual performance of a portfolio.

### **Gross vs. Net of Fees Status**

The specific fees for this client are not paid out of accounts that ACG monitors. We were unable to obtain this data historically. However, per the client request, last year during first quarter, we contacted current money managers and were sent the specific invoices for those accounts covering the prior three year time periods, starting in January 2011. We have now recorded fees for the last three years and are able to report net of fee returns. Hence, the returns ending fiscal years are provided with gross returns prior to September 2012.

Cindy Short  
Consulting  
Asset Consulting Group  
231 South Bemiston  
14th Floor  
St. Louis, MO 63105  
314.754.7657

---