

# Assessing Fund Performance

Funds and fund managers have many ways to differentiate themselves. It may be on investment style (growth vs. value)\* or where they invest (in Canada or world-wide). Past performance is a key indicator on how well their philosophies have worked in the past. Performance can be measured in many ways. When you review the performance record of any investment fund, there are several things to consider:

## Annualized Returns

An annualized rate of return is the return on a fund over a period other than one year and is calculated to give a comparable one-year return. Annualized returns are a bit more complicated than average returns, which you can get by adding up the annual returns of a fund and dividing by the number of years. Your CUMIS Fund Fact Sheets show annualized returns at a specific date for three, five and ten years. Care should be taken when using annualized returns in isolation as an annualized return may “hide” a bad year because of the averaging of all the good years used in the calculation. At the extreme, a very good year may make the annualized returns look impressive even though there are a few bad years in the period under review. Conversely, one bad year may hide several good years of returns. To see through the annualized returns, it is also important to look at the annual returns, which are also available on the CUMIS Fund Fact Sheets. Annual returns will show you how a fund has fluctuated from year to year and will reveal the good and potentially bad years.

## Annual Returns

The annual return is the fund return for any 12-month period. Looking at annual returns can ensure that the manager has had a consistent track record of delivering performance and whether there are big swings in returns from year to year. If a fund is able to deliver steady returns year after year, chances are it has a low volatility rating. Steadiness means that the manager of a fund is able to manage successfully with most market conditions and that the fund doesn't base its success, or lack of success, on an occasional hot streak.

## Performance Compared to a Benchmark

Your CUMIS Fund Fact Sheets provide a benchmark for each fund. The benchmark will give you an idea on how the entire market has done based on the index where the manager invests, such as the S&P/TSX Composite Index, which tracks companies trading on the Toronto Stock Exchange. The goal of a non-index, or actively-managed fund manager is to consistently beat the index. You can see how a manager has performed vs. their benchmark by reviewing these lines on the Fund Fact Sheet.

## Performance Compared to other Funds

Your retirement plan may have many investment choices. Funds in similar classes, such as Canadian Equity, can be compared to each other. Remember to review fees as well as each fund manager may have a different investment management fee.

Remember, past performance is one criterion to use to select a fund and does not guarantee future returns!

\* for a definition of value and growth investment styles, see article called “Making sense of fund manager style.”