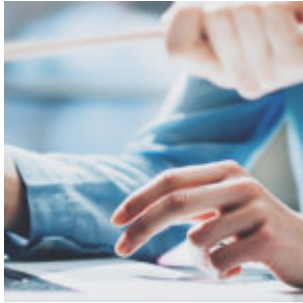


Customizing Annualized Performance Return Calculations in Orion



One of the main ways Orion Connect helps financial advisors like you provide a better client experience is the ability to generate customized reports in the format your clients not only prefer but also can understand.

We're also continually adding new functionality and features to our innovative reporting tools in order to give you even more control over the way you build reports for clients so that you can show the value of your services and their progress toward their financial goals.

Therefore, Orion Connect allows advisors to choose how to annualize a performance return. Let's dive into customizing annualized performance return calculations for this week's Tech Tip.

What is Annualization?

The intent of annualization is to give context to the growth or decline of an investment based on the amount of time it has been around. In Orion, annualization refers to how an advisor can calculate more of an annual average rate of return versus a cumulative, running performance number.

A really simplified example of this methodology is where we show a 27 percent increase for a portfolio but that the increase took place over seven years. This would equate to the portfolio having an annualized return of about 3 percent per year since it took seven years to achieve the 27 percent increase.

The only difference between an annualized return and an unannualized (cumulative) return is simply the amount of time included and whether or not we're factoring that into the equation.

How to Calculate An Annualized Return

The equation for annualizing a performance below looks like this:

$$AR = ((TRF+1)^{(365.2425/DD)})-1$$

AR = Annualized Return (in decimal format)

TRF = Total Return Factor/Unannualized Return (in decimal format)

DD = Difference in the number of days between the start and end date

Using the example from the previous section, the equation would look like this:

$$AR = ((0.27+1)^{(365.2425/2555)})-1$$

$$AR = 0.03478583871 \text{ or } 3.48 \text{ percent}$$

Annualization Settings in Orion

In Orion, firms can choose whether or not to annualize their generated performance returns, both across the entire database and on specific reports.

The annualization settings are controlled in two places in Orion:

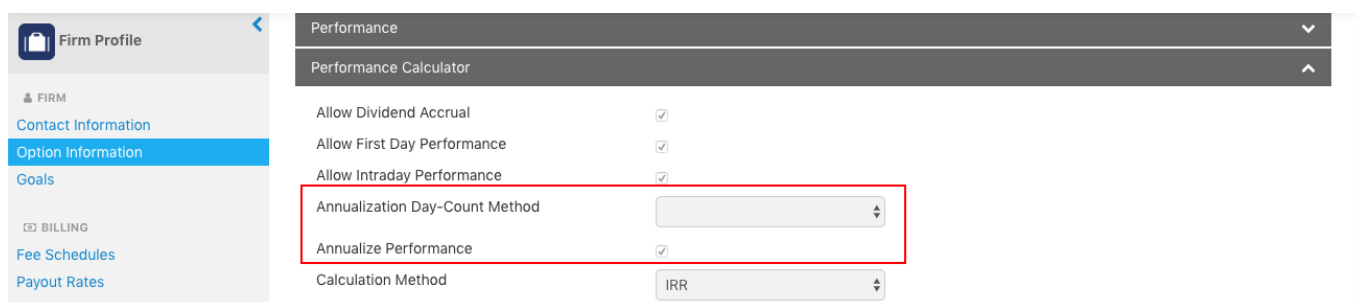
- Firm Profile app
- Report Builder 3.0

Settings in Firm Profile App

The firm-level setting that drives the database default is found in the Firm Profile app. The setting consists of the option to either annualize performance for periods greater than a year or not. That is maintained with a simple checkbox icon.

The secondary portion of the calculation depends on the setting titled "Annualization Day-Count Method" (see image below). This tells the system to include all days within the date range, even weekends, as part of the day count in

the calculation, or to only use days that had value.

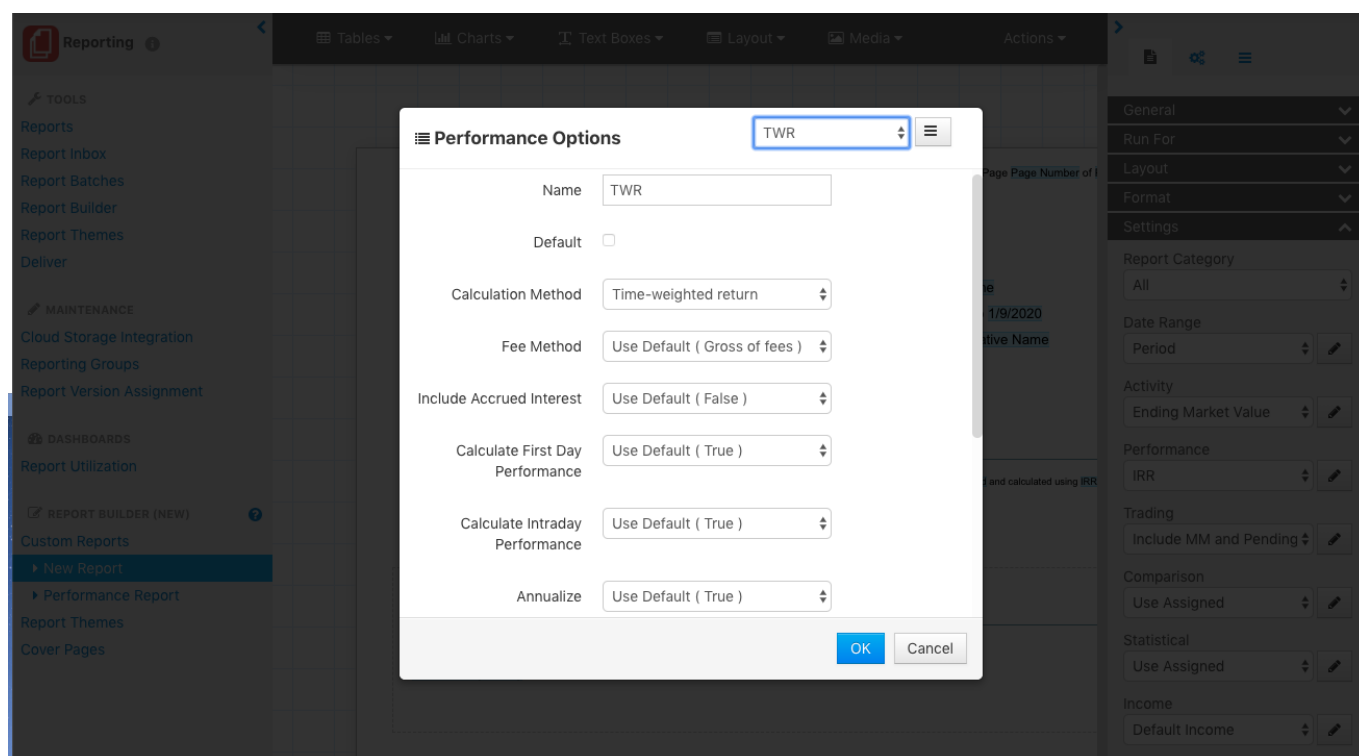


The screenshot shows a software interface with a sidebar on the left containing navigation links: Firm Profile, FIRM, Contact Information, Option Information (highlighted), Goals, BILLING, Fee Schedules, Payout Rates, and Report Schedules. The main panel is titled 'Performance' and contains a 'Performance Calculator' section. This section has several settings: 'Allow Dividend Accrual' (checked), 'Allow First Day Performance' (checked), 'Allow Intraday Performance' (checked), 'Annualization Day-Count Method' (a dropdown menu highlighted with a red box), 'Annualize Performance' (checked), and 'Calculation Method' (set to IRR).

Settings in Report Builder 3.0

The setting that establishes the performance calculation tags for the custom reports is found within Report Builder 3.0.

Having the option of whether or not to annualize the returns and determine which days are counted in the calculation allows for maximum flexibility on reports. Your firm may want to take the time to create a separate performance tag for each variation to allow for ease-of-use when applying what is desired to the Report Builder 3.0 report.



The screenshot shows the 'Performance Options' dialog box in the Report Builder 3.0 interface. The dialog has a title bar with 'Performance Options' and a dropdown menu set to 'TWR'. The settings within the dialog are: 'Name' (TWR), 'Default' (unchecked), 'Calculation Method' (Time-weighted return), 'Fee Method' (Use Default (Gross of fees)), 'Include Accrued Interest' (Use Default (False)), 'Calculate First Day Performance' (Use Default (True)), 'Calculate Intraday Performance' (Use Default (True)), and 'Annualize' (Use Default (True)). At the bottom right are 'OK' and 'Cancel' buttons. The background shows the 'Reporting' sidebar with links like Reports, Report Inbox, Report Batches, Report Builder, Report Themes, Deliver, MAINTENANCE, Cloud Storage Integration, Reporting Groups, Report Version Assignment, DASHBOARDS, Report Utilization, REPORT BUILDER (NEW), Custom Reports, New Report, Performance Report, Report Themes, and Cover Pages. On the right, a 'Settings' panel is visible with various configuration options.

Performance Questions

If you have questions about annualized performance return calculations or performance in general, contact the Orion SME Performance Team at performance@orionadvisor.com.

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