

Performance Trust Investment Philosophy

THE BIRTH OF SHAPE MANAGEMENT

Performance Trust was established in 1994 as the founders witnessed an increasingly untenable situation in the way fixed income securities were bought and sold. Generally speaking, they believed both sellers and buyers of bonds were using a flawed framework to make decisions, obscuring true risk and reward characteristics. However, the consequences of this were not surprisingly borne by the buyers, benefits accruing to the sellers and issuers. In response, Performance Trust founders resolved to teach investors how to make more informed decisions with the goal of improving performance. This has become a decision-making framework that we now call Shape Management. Today, Performance Trust runs premier fixed income education programs nationwide and helps institutional investors and advisors manage their bond portfolios across the country.

AVOID PREDICTIONS, FOCUS ON OUTCOMES

Famous investor Peter Lynch once said, “Nobody can predict interest rates, the future direction of the economy or the stock market. Dismiss all such forecasts and concentrate on what’s actually happening to the companies in which you’ve invested.” History has affirmed Peter’s belief and most people would agree with him. This doesn’t mean there isn’t any value to such forecasts. Rather, it’s emphasizing the importance of focusing your efforts on the right things. That’s why at Performance Trust we don’t spend time making economic

predictions but instead focus our efforts on generating potential total returns across interest rate scenarios. Shape Management is a decision framework that uses future value to calculate potential total returns over time.

FUTURE VALUE AND TOTAL RETURN

Traditional frameworks rely heavily on present value metrics such as yield, duration, or option-adjusted spread (OAS) to make decisions. One reason for this reliance is because this information is typically the only information readily available. Performance Trust believes that more information is necessary to make informed decisions. Shape Management uses future value to calculate potential total returns in various outcomes. Why don’t others use this information? Future value pricing and total return calculations are not readily available – they must be generated. Not only does this require extra effort, it requires additional expertise.

Future value at horizon is particularly important in bonds because price sensitivities change as contractual maturities approach. This is a major advantage of using future value in lieu of duration. And further, because fixed maturities enjoy mathematical properties, it’s possible to calculate future value prices in multiple what-if outcomes. This adds valuable information and provides the required terminal pricing necessary to calculate total returns. The returns can then be used for pre-investment comparative analysis. Further, this approach shifts the focus from forecasting, to an objective consideration of multiple outcomes.



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