

Morningstar® Office Tip Sheet:

Understanding Return Percentages in Morningstar Office

By now you've likely determined which performance methodology you will use to calculate your performance number, either Money-weighted returns (IRR) or Time-weighted returns (TWR). However, you may be asking yourself: How exactly does this methodology affect the overall return number for a portfolio?

Returns combine the following factors into an overall performance number:

- ▶ investment gains
- ▶ income, and
- ▶ portfolio cash flows.

IRR calculates returns according to how much money is in an account within a given time period. Performance is affected by large additions or withdrawals into the account. In other words, IRR is highly affected by cash flows.

TWR evenly distributes returns over time using daily valuations. This calculation is similar to comparisons of ending market value vs. beginning market value for each day's returns. Unlike IRR, where performance is affected by cash flows, TWR's performance is based on market conditions.

Neither method is right or wrong for you to choose. Some advisors like to present one methodology over the other; others prefer to show both pictures. The key is to determine which type of data you want emphasized.

Overview

How does IRR affect the return percentage?

How does TWR affect the return performance?

Which return method is right for me?

Ensuring that your performance number is accurate is a vital step in process of building your reporting package. You can review your client account performance numbers at the reporting levels detailed in the following table:

Level	Description
Practice	Use the Global Performance Summary to review the market value and return percentage at a glance for every account within your practice.
Client	When using the TWR methodology, run the TWR Diagnostic Report to review return percentages at the aggregate level for each client.
Account	To review return percentages for each account individually, run the IRR Diagnostic Report or the TWR Diagnostic Report.

How do I review whether my performance number is correct in Morningstar Office?

► Click [here](#) to view a companion video to this document.