

# Digging deeper: Measuring performance

## 3. Money weighted rate of return

### Money weighted rate of return

The money-weighted rate of return (MWR) takes into account the cash flows in and out of an investment over a given period. It's used to show the overall return on capital over that time.

The MWR is not generally appropriate for comparing the performance of different portfolios. That's because it's strongly influenced by the timing of cash flows, which may be out of a manager's control. So it is hard to see if it's the manager who has made the difference or just the timing of money in or out.

But where the MWR is useful is in showing how a specific investment is performing in light of the cashflows in or out.

While it's less useful for assessing the skills of a manager, it is very useful in indicating how well placed the client is to achieve their investment goals.

Formula for calculating the money-weighted rate of return (MWR) of a fund:

$$R = \frac{(D + V1 - V0 - C)}{(V0 + [C \times N/12])}$$

- > R = is the return on the investment
- > D = the income paid out
- > V1 = sale price of the investment at the end of its term
- > V0 = purchase price of the investment at the start of its term
- > C = new money introduced during the year
- > N = the number of months for which the new money was invested

Category:

**Investment  
insights**

#### Example

Income paid out to client of £1,000 during the term of the investment (one year). The investment's current value is £28,000, and the original amount invested was £25,000. A further £2,000 is invested six months into the year.

D = £1,000

V1 = £28,000

V0 = £25,000

C = £2,000


N = 6

To calculate the money-weighted rate of return:

$$\frac{(\pounds1,000 + \pounds28,000 - \pounds25,000 - \pounds2,000)}{(\pounds25,000 + [\pounds2,000 \times 6/12])}$$

**The money-weighted rate of return for the fund = 0.0769 or 7.69%.**

## Contact us

 0207 464 5855

 [clientsupport@columbiathreadneedle.com](mailto:clientsupport@columbiathreadneedle.com)

 [columbiathreadneedle.co.uk/adviser-edge](http://columbiathreadneedle.co.uk/adviser-edge)

Telephone calls may be recorded.

**Important information:** This document has been prepared for general information purposes only. It does not constitute advice (whether investment, legal, regulatory, tax or otherwise) provided by Columbia Threadneedle Management Limited.



© 2022 Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies.

For professional investors only. This financial promotion is issued for marketing and information purposes only by Columbia Threadneedle Investments in the UK. This material should not be considered as an offer, solicitation, advice, or an investment recommendation. This communication is valid at the date of publication and may be subject to change without notice. Information from external sources is considered reliable but there is no guarantee as to its accuracy or completeness. Actual investment parameters are agreed and set out in the prospectus or formal investment management agreement. Financial promotions are issued for marketing and information purposes; in the United Kingdom by Columbia Threadneedle Management Limited, which is authorised and regulated by the Financial Conduct Authority.

206150 (08/22). UK.