Introduction to Portfolio Drift Reports in Archer

Archer provides powerful insight tools for managers seeking to monitor drift in accounts associated with portfolio models. The concept of “drift” is simple: a measure of how far away a portfolio is from its intended target.

Managers can use the Portfolio Drift dashboard to quickly scan their accounts by portfolio model to see a visual representation of how far a group of accounts may differ from their assigned model portfolios. The dashboard also provides an option to see details of drift by security, indicating which holdings may be causing the variance.

Additional portfolio drift analysis is available through the Download Center’s “Compliance - Portfolio Drift” report. This report provides detailed information on each security that is outside of its allowable drift range, and includes a minimum transaction amount necessary to bring it back into range, as well as a single number representing each account’s overall drift.

The “Compliance - Portfolio Drift” report includes only accounts for which a Portfolio Model Restriction is in effect. This restriction defines the upper and lower tolerance for when a security is deemed to have drifted from the model. It is this violation that is reported on the Drift Report, allowing managers to focus on the positions needing attention without filtering through securities that are only a few basis points away from their intended targets. To get started, follow the steps outlined below.

Create a Portfolio Model Restriction
To create a Portfolio Model Restriction, start at the Add New Restrictions screen in the Manager Workstation.

- Complete the Restriction Name and Description Fields, and for Restriction Type, select “Portfolio Model.” Click to tab 2.
- Use the drop down menu to select an existing Portfolio Model that you want to use as the basis for comparison.
- Next, complete the Maximum and Minimum fields to establish the tolerance levels for when a security should be considered in and out of balance to its weight within the Portfolio Model. You may use one or a combination of all available fields.
- Select whether you would like to allow “outside securities” -- securities not presently in the model portfolio. Selecting “Yes” and specifying a drift % will show securities not in the model and outside of the specified limit.
- For Restriction Type, select either Total Portfolio or Target Equity to compare only the equity partition of each account to the model. Selecting Target Equity is particularly useful in drift reports for balanced accounts that use a model portfolio for their equity partition.

Assign Your Portfolio Model Restriction to Accounts
You can assign the Portfolio Model Restriction either to one account at a time using the Account Restrictions tab in Dashflow®, or you can add the restriction to a group of accounts using the Account Group Restrictions screen in Manager Workstation. In either case, specify a Validation Type of “Market Drift Only,” otherwise your restriction will affect trading in the account. For group restrictions:

- Select an existing account group from the drop down menu. (All accounts contained in the group will have this restriction assigned.) Click “Next.”
- Choose the Portfolio Model Restriction that you created from the drop down menu.
- Choose “Market Drift Only” for Validation Type.
- Click “Save.”

Running the Report
Report information is updated overnight using end-of-day data.

- To run the report, select “Compliance - Portfolio Drift” in the Download Center, and click to the “Report Criteria” tab.
- Select the account group for which you want to generate the report, and click the “Submit Report” tab.
- To customize the report, click on the “Customize button, select which columns you wish to appear on the final report and in which order, then “Submit Report.”
- The “Submit Report” tab will confirm what you have chosen. When satisfied, click Submit to view the report online or download the report as an Excel spreadsheet.

See the last page for a detailed illustration of this report.
Re: Fresh
Portfolio Drift

Portfolio Drift Dashboard

Part of a suite of dashboards available in Archer, the Portfolio Drift dashboard presents data and charts for managers to quickly scan account groups’ positions relative to assigned models. The initial view includes a table of accounts grouped by portfolio model, with their market value, number of accounts, and average drift score.

A chart, shown at the right, provides a visual representation of the data with hover-over data, providing a fast, intuitive way to see which account groups may require review. The dashboard can be toggled to detailed information that shows drift by account group at the security level, providing a deeper level of insight that can be exported to Excel for sharing or additional analysis.

Additional Drift Tools

Drift monitoring tools are available throughout Archer. Order management scenarios can generate a “versus the model” view of the account’s positions, showing the impact of the new order.

Model-based order management scenarios, such as the Single Account scenario, are specifically designed to allow investment managers to view accounts’ current and model portfolio weights and the resulting drift from the accounts’ assigned portfolio models.
Anatomy of the Compliance - Portfolio Drift Report

Setting Limits for the Drift Report

There are three types of comparisons to use when setting the upper and lower thresholds for security comparisons. Each has a Maximum and Minimum value.

Constant
Use this comparison to set limits on the absolute weight of a single security. For example, if you do not want any security to be greater than 10% of the total weight, enter 10% in the Maximum field. Use the Minimum field to set the lower limit; 0.05% will flag any security that has fallen below this absolute weight.

Index Offset
This comparison can be thought of as a simple plus or minus calculation. If you were to set the Maximum to 5% and the Minimum to -3%, given a holding with a model weight of 4%, then the threshold limits would be 9% and 1% (4% + 5% = 9%, and 4% - 3% = 1%). Anything above or below the threshold limits would cause the security to appear in the Drift Report.

Multiplier
Similar to Index Offset in that it compares a security’s weight to a model, however, this comparison uses multiplication. For example, a Maximum value of 1.25 will set an upper threshold of 1.25 times a security’s weight in the model. A value of 0.75 for the Minimum setting will use 0.75 times a security’s weight in the model to set a lower threshold (the Minimum value will usually be less than 10). Given a security with a 4% weight in the model, the thresholds would then be 4% x 1.25 = 5%, and 4% x 0.75 = 3%.

Using the Drift Score

Because portfolio drift involves overweights and underweights, the negative drift will offset the positive drift. To account for this while providing a single number that indicates the total amount a portfolio strays from its intended model, Archer has created a single number known as the “drift score.”

The drift score can range from 0 to 100, with 0 representing a portfolio perfectly in compliance with its assigned model. A score of 100 represents a portfolio with no holdings in its model. This is the “Drift Score,” providing a single-number representation of how far it is away from its assigned model. 0 represents no drift, 100 represents a portfolio with no holdings in its model.

To derive the drift score, Archer sums the absolute value of all individual holdings’ drift, then divides the total by 2 to present an intuitive, easy to understand number that can range from 0 to 100.

Note: In the Portfolio Drift Report, decimals are shown to facilitate the use of Excel functionality such as macros. In the example above, decimals from the Report have been formatted as percentages.

Example of an account that has drifted away from its model

<table>
<thead>
<tr>
<th>Underweight</th>
<th>Overweight</th>
</tr>
</thead>
<tbody>
<tr>
<td>-25%</td>
<td>+10%</td>
</tr>
<tr>
<td>-100%</td>
<td>0%</td>
</tr>
<tr>
<td>-25%</td>
<td>+25%</td>
</tr>
</tbody>
</table>

Total “Distance” Away from Model; Drift Score = 17.5

Example of an account with 100% in cash versus an all equity model

<table>
<thead>
<tr>
<th>Underweight all positions in model</th>
<th>Overweight none</th>
</tr>
</thead>
<tbody>
<tr>
<td>-100%</td>
<td>0%</td>
</tr>
<tr>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Total “Distance” Away from Model; Drift Score = 50

Example of an account fully invested in securities not in its model

<table>
<thead>
<tr>
<th>Underweight all positions in model</th>
<th>Overweight all positions not in model</th>
</tr>
</thead>
<tbody>
<tr>
<td>-100%</td>
<td>0%</td>
</tr>
<tr>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Total “Distance” Away from Model; Drift Score = 100

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