Manulife Investment Management

Investor education

Understanding your personal rate of return

Measuring the performance of your investments can help you evaluate the progress you're making toward achieving your personal financial goals. Starting as of December 2021, Manulife uses the dollar-weighted rate of return methodology to calculate your personal rate of return; this is the methodology that's recommended by the Canadian insurance regulators. Your personal rate of return is available to you through Manulife online access and on your semiannual segregated fund statements.

How the dollar-weighted rate of return works—a more accurate representation

Dollar-weighted rate of return (DWRR) takes into account the performance of the segregated funds you hold within your contract, as well as the timing and amount of any deposits or withdrawals you've made. It provides a more complete and personal view of how your contract has performed. With DWRR, large deposits and/or large withdrawals can result in a significant variance when compared with another common method of calculating performance information—time-weighted rate of return (TWRR). While the outcomes of DWRR and TWRR may vary, this doesn't change how your personal basket of investments has actually performed—DWRR simply provides you with a **clearer picture** of your performance results.

Differences between DWRR and TWRR

Where DWRR measures both the performance of your investments as well as money flows in and out of your contract, TWRR only considers the performance of your investments. As a result, this means:

- Additional deposits made before periods of stronger performance result in a **higher DWRR** than TWRR
- Additional deposits made before periods of weaker performance result in a **lower DWRR** than TWRR
- Withdrawals made before periods of weaker performance result in a **higher DWRR** than TWRR
- Withdrawals made before periods of stronger performance result in a **lower DWRR** than TWRR
- If there are no additional deposits or withdrawals made during the period, DWRR and TWRR are **the same**

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Comparing DWRR and TWRR

The following examples show how both DWRR and TWRR measure performance in different scenarios. In each example, both Client A and Client B make an initial deposit of $10,000 at the beginning of the year, with Client B making an additional $5,000 deposit later in the year. The only difference between the examples is the performance returns.

Example 1: opening a contract in a period of stronger performance

Investment period	Performance return	Ending balance for Client A	Ending balance for Client B
January 2, 2020		$10,000 initial deposit	$10,000 initial deposit
April 1, 2020	2%	$10,200	$10,200
July 1, 2020	4%	$10,608	$10,608
October 1, 2020	1%	$10,714	$15,714 $5,000 additional deposit
December 31, 2020	-5%	$10,178	$14,928
One year time-weighted rate of return		1.78%	1.78%
One year dollar-weighted rate of return		1.78%	-0.64%

For illustration purposes only.

Example 2: opening a contract in a period of weaker performance

Investment period	Performance return	Ending balance for Client A	Ending balance for Client B
January 2, 2020		$10,000 initial deposit	$10,000 initial deposit
April 1, 2020	-5%	$9,500	$9,500
July 1, 2020	1%	$9,595	$9,595
October 1, 2020	4%	$9,978	$14,978 $5,000 additional deposit
December 31, 2020	2%	$10,178	$15,278
One year time-weighted rate of return		1.78%	1.78%
One year dollar-weighted rate of return		1.78%	2.48%

For illustration purposes only.

Results:

- As TWRR doesn't consider the timing or amount of the additional $5,000 deposit, both clients have the same TWRR over the investment period
- In Example 1, since Client B made a sizable additional deposit later in the investment period when performance was weaker, Client B experienced a lower DWRR than Client A
- Conversely, in Example 2, Client B made the same additional deposit later in the investment period when performance was stronger and experienced a higher DWRR than Client A
- During periods where no additional deposits were made—as was the case for Client A—the TWRR and DWRR are equal

While the performance results of DWRR and TWRR may differ, this doesn't affect how your personal investments have performed.

For more information, contact your advisor or visit manulifeim.ca

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