

Referee Report on
“Different risk-adjusted fund performance measures: a comparison”, by Pilar Grau-Carles, Jorge Sainz, Javier Otamendi and Luis Miguel Doncel

The manuscript is concerned with the ranking of mutual funds. Funds are ranked according to different performance measures, constructed by replacing, in the definition of the classical Sharpe ratio, the standard deviation with the Value at Risk. An empirical application is also considered.

Comments

- The authors need to be more careful in citing the relevant literature. The paper appears to claim that one of its contributions is to modify the Sharpe ratio by using VaR in place of the standard deviation. This idea is by no means original to the present manuscript. Use of the normal VaR in what he calls the generalized Sharpe ratio has been proposed in Dowd (2000); use of the modified VaR has been proposed in Gregoriou and Gueyie (2003). The use of Extreme Value Theory in estimating VaR is also not new, see, e.g., Danielsson and de Vries (1997), Embrechts et al. (1998), and McNeil (1998), to name just a few. Comparison studies between performance measures are likewise abundant.
- That said, replacing the normal and modified VaR as used by Dowd (2000) and Gregoriou and Gueyie (2003), respectively, with an EVT-based VaR appears to be the only original contribution of the paper; at least I am not aware of this having been done before. It is doubtful whether this contribution alone warrants publication.
- Throughout the paper, there appears to be some confusion between measures of risk (such as VaR) and performance measures (such as the Sharpe ratio). In particular, the introduction discusses at length the importance of performance measures for banking supervision. However, it is unclear why a regulator would care about performance measures; these are typically of interest only to investors, whereas regulators rely on risk measures like the VaR. This is also manifest in the Basle accords. Even if regulators did care, their focus would be on the conditional VaR (the Basle committee suggests the 10-day ahead VaR). The present paper only considers unconditional VaR. As such, it seems to me that any reference to banking supervision is irrelevant to the paper.
- The entire topic of performance measurement appears to be outside the scope of *Economics*.

References

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- Embrechts, P., Resnick, S., and Samorodnitsky, G. (1998). Living on the edge. *Risk Magazine*, 11(1):96–100.
- Gregoriou, G. N. and Gueyie, J.-P. (2003). Risk-adjusted performance of funds of hedge funds using a modified sharpe ratio. *The Journal of Alternative Investments*, 6(3):77–83.

McNeil, A. (1998). Calculating quantile risk measures for financial return series using extreme value theory. preprint, ETH Zurich.