

The *Ambachtsheer* Letter

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RESURRECTING RANVA:

ADJUSTING INVESTMENT RETURNS FOR RISK

“RANVA is a metric for people who would rather measure the right things imperfectly than the wrong things perfectly”.

from “Pension Fund Excellence”,
by Ambachtsheer and Ezra, 1998

Resurrecting RANVA

Most new ideas never catch on. Some catch on quickly, but flame out with the passage of time. Then there are those very few ideas that take time to gain acceptance, but do eventually have a sustained impact on behavior. Co-author Don Ezra and I introduced the RANVA idea (*Risk-Adjusted Net Value-Added*) in our “Pension Fund Excellence” book in 1998. It was to be a performance metric that would standardize pension fund returns not only for differences in investment expenses, but also for differences in risk exposure. As we wrote at the time, it was to be a metric that would measure the right things imperfectly, rather than the wrong things perfectly.

Seven years later, the best we can say for RANVA is that it did not catch on quickly and then flame out with the passage of time. So optimistically, it is still in the running as an idea taking time to gain acceptance, on its way to eventually impacting how performance of the globe’s pension funds is measured and managed. The goal of this *Letter* is to assess RANVA’s prospects of becoming an important performance metric in the global pension fund ‘industry’. It proceeds by reviewing how

RANVA was defined in the 1998 book, and reviews actual RANVA results achieved by a large sample of pension funds as captured in the *Cost Effectiveness Measurement Inc. (CEM)* database. The *Letter* re-examines the RANVA idea in light of this experience, and offers some further reflection on its conceptual foundation. It concludes with some thoughts on what the ‘tipping point’ conditions for broad acceptance of the RANVA idea might be, and what we can do to create those conditions.