Description of the Measure:
The Calmar’s ratio is a relative measure of performance. It is given as the annualized return of the fund, deducted the yield of an investment without risk, divided by the maximum draw-down on a given period.

Interpretation
The Calmar’s ratio is conceived to provide information about the mean return obtained by the portfolio manager put in perspective with the potential maximum loss supported by the investor.

Use:
The Calmar’s ratio belongs to the family of the so called risk adjusted indicators that combine return and risk in one single value. It is useful to evaluate the quality rather than the quantity of the returns of a fund. It represents the return by risk unit approximated by the maximum draw-down. The highest the reading of the indicator, the better the quality of the returns on a relative Reward/risk basis.

Potential Misuse:
This ratio reliability depends on the quality of the measure of draw-downs. Therefore, it relies on the stability of the management process and portfolio risk exposure.

Formula:

\[
Calmar_{p,t} = \frac{E_t(R_{p,t})}{Max(Drawdown_{p,t})}
\]

where:
\(E_t(R_{p,t})\) is the three-year average annual return;
\(Max(Drawdown_{p,t})\) is the maximum draw-down over period.
Three-year data of weekly series is considered.