Fund Lab: Understanding the Basic Performance Monitoring Tools

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Why Monitor Funds?

- Fiduciary duty
- Early detection of problems
- Leads to a better plan over time (more satisfied participants)

A lack of time, expertise or both often keeps plan sponsors from effectively monitoring their defined contribution funds.

The 5 P’s of Fund Analysis

- People
- Process
- Portfolio
- Price
- Performance

People

- Depth and stability of the team
  - manager tenure
  - composition of team
- Relationship between managers & analysts
  - size of team
  - staffing practices
- Clarity of the decision-making process
  - flow of information
  - accountability

Process

- Sound theoretical basis
  - makes intuitive sense
  - consistent with generally accepted investing principles
  - testable hypothesis
- Sustainability of process
  - replicated (or at least tested) through various market cycles
- Risk exposure and controls
  - proven through experience
  - concrete examples

Portfolio

- Consistency with stated process
  - holdings
  - sector distribution
- Stability over time
  - style drift
  - portfolio turnover
- Risk exposures
  - big bets
  - firmly held convictions

Price

- Competitiveness within category
  - economies of scale
- Control over expense
  - trading
  - administration (caps, etc.)

Performance

- Competitiveness
  - against a benchmark index
  - relative to peers

But above all, is performance consistent with your expectations from the stated process and portfolio?

Remember…

As a defined contribution plan fiduciary, you are not asked to predict the future.

However, you are required to monitor funds to determine their suitability for inclusion in the investment line-up.

And, nothing replaces documentation in proving fulfillment of fiduciary duty.

Thanks for your time!

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