

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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