



The Focused Fiduciary

Welcome to our 4th edition of the Nottingham Focused Fiduciary. This month we will briefly discuss the various ways to measure and monitor your investment manager. As an Investment Trustee, your constituents depend on your due diligence for selecting and monitoring a third party investment manager. What are some common ways to monitor your investment manager?

Today we will explore:

- *Performance Relative to Benchmarks*
- *Commission Rates*
- *Soft-Dollar Usage*
- *Best Execution Practices*

First, **Performance** isn't everything... but it is a very important measure of success. When looking at the performance of your investment manager, do not simply look at their numbers alone. Take a step back and determine if or how they are generating returns relative to their peers and benchmarks. If an asset manager is consistently underperforming their benchmark, this could signal one of two problems: following the wrong benchmark or just unfortunate asset selection.

Understand the **Commission Rates** that your investment manager may charge. Asset Managers earn compensation from either an asset-based, flat, or performance fee, or a mixture of the few. Today, most firms have an asset-based fee structure and have moved away from strictly performance based compensations, primarily because it eliminates many conflicts of interest. However, there are pros and cons between the two types of compensation. We will discuss commission vs. fee-based compensation in greater detail in a later issue. Nonetheless, I encourage you to understand how your investment manager is compensated.

What are **Soft Dollars**? Soft dollars are commissions charged by the broker/dealer when your third party money managers purchases shares through them. Instead of paying for trading with cash, typically these "soft dollar" commissions are used to purchase research from various sources or the same broker/dealer. Research is meant to enhance the ability of your investment firm, making these types of commissions beneficial to you, the constituent. I encourage you to ask your investment manager how they're using soft-dollar commissions.

Lastly, what are **Best Execution** practices? Best execution practices are actions investment firms take to trade at the best price for their client. There are multiple strategies broker/dealers use to accomplish best execution. However, there are two specific questions the Securities & Exchange Commission (SEC) will ask Investment Advisers when evaluating Best Execution.

- Is the current line-up of broker-dealers the best available?
- Are there alternatives that would give clients a better deal?

Today, we grazed upon four very broad topics when measuring and monitoring an investment manager. I hope this newsletter has sparked some awareness, so that you can make well-informed and confident decisions for your constituents.

As always, if you have any questions regarding your Fiduciary role please feel free to give Nottingham Advisors a call at 716-633-3800 or contact me by e-mail at brock.wilkinson@nottinghamadvisors.com.

In the next article we will be discuss the five must ask questions for your pension consultant! If you'd like any other topics explored for future newsletters, please feel free to contact me. Thank you for reading, and have a great day.