

PRACTICE S-2.5

SELECTED ASSET CLASSES ARE CONSISTENT WITH IMPLEMENTATION AND MONITORING CONSTRAINTS.

There is no formula the Investment Steward can follow to determine the best number of asset classes—the appropriate number is determined by facts and circumstances. How many asset classes should be considered? Or in the case of participant-directed retirement plans, how many investment options should be offered?

The answer is dependent on certain variables:

- Size of the portfolio
- Investment expertise of the investment decision-makers
- Ability of the decision-makers to properly monitor the strategies and/or investment options
- Sensitivity to investment expenses—more asset classes and/or options may mean higher portfolio expenses. The additional costs of added diversification should be evaluated in light of the price the fiduciary pays for being less-diversified

The Steward's choice of asset classes and their subsequent weighting within the allocation strategy will have more impact on the long-term performance of the investment portfolio than any other decision.

CRITERIA

- 2.5.1** Individuals responsible for implementing and monitoring investment decisions have the time, inclination, and knowledge to do so effectively.
- 2.5.2** The process and tools used to implement and monitor investments in the selected asset classes are effective.
- 2.5.3** The ability to access suitable investment products within all selected asset classes has been considered.

Substantiation

Employee Retirement Income Security Act of 1974 [ERISA]

§404(a)(1)(C)

Other

H.R. Report No. 1280, 93rd Congress, 2d Sess.304, reprinted in 1974 U.S. Code Cong. & Admin. News 5038 (1974)

Uniform Prudent Investor Act [UPIA]

§2(b)

Other

Restatement of Trusts 3d: Prudent Investor Rule §227, comment

Uniform Prudent Management of Institutional Funds Act [UPMIFA]

§3(e)

Management of Public Employee Retirement Systems Act [MPERS]

§8(a)(1); §8(a)(4); §10(2)