

Fi360

Fi360
Fiduciary
Score®

The Top
Quartile

2018 Q1

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INTRODUCTION

RAISING THE BAR

This quarter, over 77,985 investments received a Fi360 Fiduciary Score® and 18 percent achieved the highest mark, passing the scrutiny of nine rigorous filters. Investment selection and monitoring is an important fiduciary responsibility, and the Fi360 Fiduciary Score has been designed to help the marketplace understand if investments are performing well from a fiduciary perspective.

We are pleased to see a diverse set of asset managers with investments in the top two quartiles of the Fi360 Fiduciary Score. These firms are consistently scoring well in 11 categories; two categories are “eliminators”, and nine others may generate points. Like golf, earning fewer points is the goal! Firms who rank in the top two quartiles adhere to meaningful fiduciary standards.

Active asset managers are well represented in the top two quartiles this period. Of the 317 asset managers who had more than 50% of their investments score in the top-half relative to category peers, 234, or 73%, had all their investments labeled as active. Choosing a passive index fund may be the default choice for many advisors these days, but as noted in my recent blog post, [Do bad index funds exist?](#), passive index funds aren't always prudent selections. Regardless of the investment strategy, a prudent fiduciary process is still required and can accommodate all types of investments.

Since 2003, the Fi360 has ranked asset managers based on the percentage of their investments that received a top Fi360 Fiduciary Score®. Advisors use the Fi360 Fiduciary Score®, and these rankings, to cull their investment lists. Asset managers use our scores to evangelize their funds and select investments for fund-of-fund strategies. We're proud of the supporting role we play in advisor and asset manager processes.

Helping enable you to profitably implement prudent fiduciary practices is our passion. We will continue to monitor our score criteria and methodology - looking for ways to raise the bar. Thank you for reading!

Michael Limbacher, AIF®, Product Manager

WHAT WE MEASURE

The **Fi360 Fiduciary Score®** is a peer percentile ranking.

The **Fi360 Fiduciary Score®** is a peer percent ranking of an investment against a set of quantitative due diligence criteria selected to reflect prudent fiduciary management.

Fi360 evaluates four investment universes: Open-End Mutual Funds (MFs), Exchange-Traded Funds (ETFs), Collective Investment Trusts (CITs) and Group Annuities (GRPAs).

It is important to note that asset managers may report multiple names. For example, Principal Life Insurance Company and Principal Funds will appear as separate asset managers; Charles Schwab Bank appears separately from Schwab Funds.

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FI360 FIDUCIARY SCORE RANGES

1st Quartile (0-25)

2nd Quartile (26-50)

3rd Quartile (51-75)

4th Quartile (76-100)

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The Fi360 Fiduciary Score, which ranges from 0 to 100 (with zero being the most preferred mark), is calculated monthly for registered investments with at least three years of history. Asset managers must contain at least two distinct investments with a three-year history to be considered in the ranking.

Fiduciary best practices require advisors document a consistent, prudent process. This is where we can help; Fi360 literally wrote the book on prudent fiduciary practices. And then we created the Fi360 Fiduciary Score to help advisors cull their investment selections using a fiduciary standard of care. The complete Fi360 Fiduciary Score methodology is available [here](#).

HOW IT WORKS

Criteria that cause an investment to be omitted from the Fi360 Fiduciary Score®

1. Regulatory oversight – Unregistered investments are excluded
2. Minimum track record – Funds without a 3-year history are excluded

Total number of investments considered: **89,964**

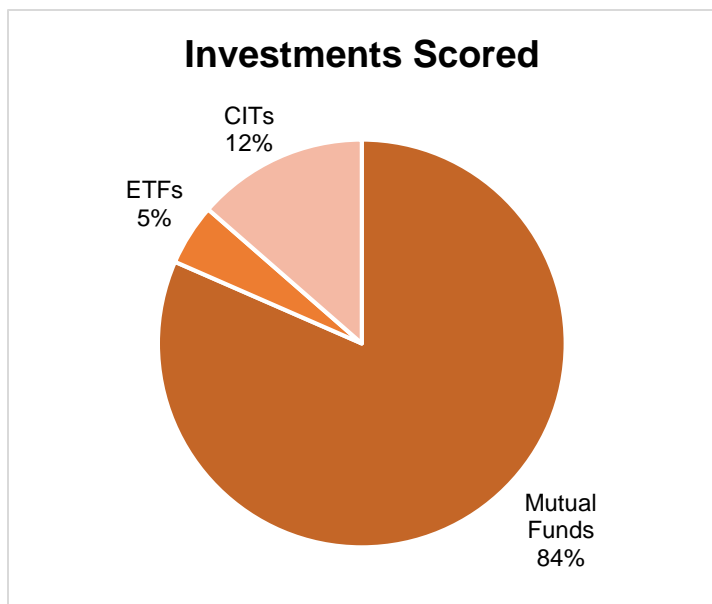
Total number of investments excluded: **11,979**

Total number of investments scored: **77,985**

Criteria adding points to an investment's Fi360 Fiduciary Score®

3. **Assets in the investment** – The investment should have at least \$75 million under management (across all share classes). *5 points added if the investment has less than \$75 million in assets; 10 points added if the investment has less than \$50 million in assets.*
4. **Stability of the organization** – The longest reported manager's tenure should be at least two years. *5 points are added if the longest tenured manager is at least one but less than two years; 10 points added if the longest tenured manager is under one year.*
5. **Composition consistent with asset class** – At least 80 percent of the investment's underlying securities should be consistent with the broad asset class. For example, a Large-Cap Growth investment should not hold more than 20 percent in cash, fixed income, and/or international securities. *10 points added if more than 20 percent of the portfolio is inconsistent with the broad asset class. Note: The broad asset classes used in the composition criterion include: U.S. Stocks, U.S. Bonds and Non-U.S. Stocks. The Long-Short peer group is evaluated on the U.S. Stock and cash composition.*
6. **Style consistency** – The investment should be highly correlated to the asset class of the investment option, i.e., the Morningstar Style Box™ for the current period must match the peer group of the investment. *10 points added if the investment is not correlated to its peer group.*
7. **Expense ratio/fees relative to peers** – The fees should not be in the bottom quartile (most expensive) of the peer group. The Prospectus Net Expense Ratio is used for evaluation of mutual funds and ETFs. If the investment is purchased within a group annuity product, any recordkeeping fees added to the underlying fund expense ratios by the group annuity provider are not included in the ratio. Management fee is used in the evaluation of GRPAs. It is the maximum percentage deducted from an investment's average net assets to pay an advisor or sub-advisor. *10 points added if the investment's expense ratio is in the bottom quartile.*
8. **Risk-adjusted performance to peers** – The investment's risk-adjusted performance (Alpha and Sharpe Ratio) should be above the peer group median manager's risk-adjusted performance. (Alpha is not evaluated for Money Market and Money Market Taxable peer groups.) *2.5 points added if the risk-adjusted performance is in the third quartile; 5.0 points added if the risk-adjusted performance is in the fourth quartile; 7.5 points added if the risk-adjusted performance is in the bottom decile; 7.5 points added if not calculated.*
9. **Performance to peers** – The investment's performance should be above the peer group's median manager return for 1-, 3- and 5-year cumulative periods.
 - One-year performance relative to the median value for the peer group:**
 - 2.5 points added if in the third quartile*
 - 5.0 points added if in the fourth quartile*
 - 7.5 points added if in the bottom decile*
 - 7.5 points added if not calculated*
 - Three-year performance relative to the median value for the peer group:**
 - 5.0 points added if in the third quartile*
 - 7.5 points added if in the fourth quartile*
 - 10.0 points added if in the bottom decile*
 - 10.0 points added if not calculated*
 - Five-year performance relative to the median value for the peer group:**
 - 7.5 points added if in the third quartile*
 - 10.0 points added if in the fourth quartile*
 - 12.5 points added if in the bottom decile*
 - If the investment does not have a five-year performance history:**
 - 7.5 points added if three-year is in the third quartile*
 - 10.0 points added if three-year is in the fourth quartile*
 - 12.5 points added if three-year is in the bottom decile*
 - 12.5 points added if three-year is not calculated*

2018 | Q1 BY THE NUMBERS



These percentages exclude GRPA, Securian, Money Market

Top Quartile Investments

874 Asset Managers Scored

333	Had at least one investment score a perfect zero
317	Had more than 50% of their investments score in the top half
34	Had all investments score in the 1st quartile
102	Had more than 50% of their investments in the 1st quartile
23,805	Count of investments in the 1st quartile

Mutual Funds

660 Managers Scored

229 Asset managers have more than 50% of funds in the top half and **74 made the 1st quartile**

24,098 Funds scored

18% Scored a perfect zero

CITs

151 Managers Scored

65 Asset managers have more than 50% of investments in the top half and **24 made the 1st quartile**

4,012 Investments scored

21% Scored a perfect zero

ETFs

66 Managers Scored

49 Asset managers have more than 50% of investments in the top half and **10 made the 1st quartile**

1,437 Investments scored

18% Scored a perfect zero

TDFs

29 Asset managers have more 50% of funds in the top half and **4 made the 1st quartile**

2,140 MF TDFs scored

We average the scores of the underlying holdings for the TDF Series score

TO LEARN MORE

The Fi360 Fiduciary Score®

- **Available for asset managers** to incorporate into marketing collateral
- **Used by advisors to cull investment** selections using a fiduciary standard of care
- **Used by recordkeepers** to communicate with plan sponsors
- **Minimizes liability** through use of an independent fiduciary due diligence process
- **Offers a highly visual display** that is easy for clients to understand
- **Provides a consistent process** for investment selection and monitoring
- **Back-tested** to demonstrate relationship between scores and future performance and risk
- **Proven in the marketplace** for over 15 years



Detailed fund information is available through Fi360 Fiduciary Score® reports and the Fiduciary Focus Toolkit™.

Fiduciary Focus Toolkit™

- **Incorporate IPS watch list criteria** for a seamless client monitoring report that documents prudent due diligence
- **Helps advisors conduct more engaging meetings** with client-friendly output
- **Automates ongoing documentation** of each quarterly monitoring report, meeting minutes and investment changes
- **Minimizes the time** it takes to input data with custodian and record-keeper integrations
- **Identifies watch listed investments** with the most exposure to your firm
- **Allows for flexible due diligence** criteria for active & passive investments
- **Ensures minimum advisor due diligence** by enforcing standard due diligence criteria
- **Delivers oversight** for home office personnel



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