STRATEGIC
RETIREMENT
GROUP

CAPITAL MANAGEMENT & WEALTH PRESERVATION

How am I doing? Levels of Benchmarking

When investors look at the returns on their portfolios, they want to know, "How am I doing?" Although it's a simple question, from experience, we know there could be multiple meanings behind the question. "How am I doing?" could mean:

- Am I making money?
- Am I reaching my goals?
- Are other investors doing better than I am?
- How am I doing against a benchmark?

Evaluating investment performance across the objective-based strategies we have the privilege of managing for our clients is an essential part of SRG's investment process. Specifically, we have three levels of benchmarking we employ across all our client's portfolios.

Level 1: Target: Each of the objective-based portfolios we manage has a target return goal we are looking to achieve over a market cycle (typically 5-7 years). These target return goals are a key link between portfolios and planning because they factor into the returns we use in financial projections for clients.

For example, a common rule of thumb in the financial industry is "the 4% rule" which says under most circumstances, an investor can withdraw 4% of their savings annually, adjusted for inflation, and have a low risk of running out of money. Being mindful of the 4% rule, our target return goal is 4%, meaning we are seeking to average 4% or more per year over a market cycle. While returns in any given year may be more or less than 4%, if we can achieve or exceed that return over a market cycle, we know clients are likely in good shape for meeting their cash flow objectives for that specific portion of their overall portfolio.

Level 2: Peer Group: We also compare each of the strategies we manage to a Morningstar Peer Group which reflects the actual performance of a group of fund managers who are managing money in a similar style. Each month, our team looks at performance across strategies and focuses on any key differences between our returns and that of the peer group. Sometimes we may be doing things which are very different from the peer group in an effort to meet client goals (i.e., hedging risk, having more inflation protection) and we want to be able to articulate how these decisions are impacting performance in our clients' accounts relative to other managers out there.

While we may not always outperform the peer group in every strategy all of the time, if we can outperform managers who have a similar objective net of all expenses most of the time AND offer all of the other planning and services we provide, the result is a compelling value proposition for clients.

Level 3: Policy Portfolio Attribution: The final level of benchmarking is where we get a little nerdy (don't worry – we won't bore you with all of the math). We have constructed a static hypothetical portfolio of index funds, which we call a "policy portfolio," which we use as an internal benchmark for each of the strategies we manage for clients. We then use that policy portfolio benchmark as a basis for "attribution," which is a fancy term for measuring the impact of our active management decisions.

When we are making decisions to overweight or underweight a specific asset class, or use an active fund manager over an index fund, we are making purposeful deviations from the policy portfolio in an effort to make a positive impact on our clients' results. Attribution answers the question, "are the investment decisions creating or reducing value?" Each quarter the SRG Team creates an internal attribution report for each of our objective-based strategies. The report gives us information such as, for example, "overweighting global stocks relative to the policy portfolio by 5% added +0.47% in additional return over the policy portfolio." In other words, the "policy portfolio attribution" gives us specific information to evaluate the efficacy of investment decisions and make course corrections if necessary.

We have the privilege of managing objective-based portfolios for clients and those portfolios are specifically designed to serve as tools to achieve the goals in our clients' financial plans. The three levels of benchmarking we employ to evaluate portfolios are essential to making sure we have a consistent link between portfolios and planning so we can help our clients live out their purpose and have their lives reflect an incredible story.

Note: There is no guarantee that portfolio objectives, return targets, or volatility targets will be met in any SRG portfolio.

Investments are subject to risk, including the loss of principal. Because investment return and principal value fluctuate, shares may be worth more or less than their original value. Some investments are not suitable for all investors, and there is no guarantee that any investing goal will be met. Past performance is no guarantee of future results. Talk to your financial advisor before making any investing decisions. Asset allocation programs and diversification do not assure a profit or protect against loss in declining markets. No program can guarantee that any objective or goal will be achieved.

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