



## *The Future of Retirement Plans available Today*

October 28, 2009

### **CASE STUDY ON RELATIVE PERFORMANCE OF MUTUAL FUNDS VERSUS COLLECTIVE INVESTMENT FUNDS**

#### **Basic Understanding**

In a prior White Paper regarding the Net Cost Advantages of Collective Investment Funds ( CIFs ) versus Mutual Funds, we found that the operational and management costs were quantifiable and fully transparent; however we were unable to capture the definitive trading costs associated with operating a mutual fund as the SEC does not require this level of disclosure.

As a result, the industry has been left with the age old process of comparing net performance rather than detailing of what could be a substantive cost to the end product user.

#### **Background Information**

Rather than belabor an area that provides substantial comparative advantages to mutual funds, the intent of this Case Study is to compare relative performance in an open architecture environment, where all things are **equal**:

- Portfolios and Fund Managers
- Liquidity
- Trading expense
- Overall expense ratios
- Operational structure

If such an environment were to exist, one would surmise that the end result would be **equal** performance.

From a mutual fund sponsors perspective, they would like to show that there would be no loss/no gain in the selection of identical products, even though there may be more revenue and less profit on the mutual fund side, due to heavier operations expense, which SEI so adequately projected in their May, 2008 White Paper titled *Collective Investment Trusts: The New Wave in Retirement Investing* .

#### **Case Study Buffalo Funds and Great Plains Trust Company ( GPTC ) CIFs**

In our quest for commonality in terms of operational and pricing structure specifically for this case study, we became acquainted with GPTC, which provides back-office services to Kornitzer Capital Management. Kornitzer serves as fund manager for both a series of mutual funds (*Buffalo Funds*) as well as for a series of collective funds (*Pension Funds*). These funds have much of the commonality that we were seeking to perform an apples-to-apples comparison:

- Funds Managers: Identical
- Portfolios: Identical

- Liquidity Requirements: Identical
- Trading Expense: Identical
- Overall Expense Ratios: Identical (with the possibility under some circumstances that the mutual funds may pay out revenue sharing at approximately 25 bps.)
- Operational Structure: Variable depending upon MF or CIF formats, however, the end costs were essentially the same.

### Net Performance Results

The following is a summary of the relative performance for each alternative as of September 30, 2009:

Fund Name		YTD	1 Year	Annualized 3 Year	Annualized 5 Year
Mutual Fund	Buffalo Large Cap Fund	42.60%	7.60%	-1.90%	2.20%
Collective Fund	GPTC Large Cap Fund	43.60%	8.60%	-0.80%	3.70%
<b>Difference</b>		<b>1.00%</b>	<b>1.00%</b>	<b>1.10%</b>	<b>1.50%</b>
Mutual Fund	Buffalo Growth (formerly USA Global)	30.0%	-0.4%	0.0%	3.5%
Collective Fund	GPTC USA Global Fund	31.1%	0.8%	1.1%	4.4%
<b>Difference</b>		<b>1.15%</b>	<b>1.24%</b>	<b>1.09%</b>	<b>0.94%</b>
Mutual Fund	Buffalo Small Cap Fund	37.6%	12.4%	1.2%	5.4%
Collective Fund	GPTC Small Cap Fund	43.5%	17.4%	3.7%	7.1%
<b>Difference</b>		<b>5.93%</b>	<b>4.97%</b>	<b>2.52%</b>	<b>1.69%</b>
Mutual Fund	Buffalo Midcap Fund	41.9%	9.7%	-0.2%	5.3%
Collective Fund	GPTC Mid Cap Fund	47.0%	14.3%	2.0%	6.9%
<b>Difference</b>		<b>5.10%</b>	<b>4.57%</b>	<b>2.17%</b>	<b>1.56%</b>

While our interests were specifically drawn to the Midcap or Small Cap Funds for superior performance and relative Morningstar ratings, the reader will note that in every instance, the CIF product outperformed its mutual fund counterpart *and to a much greater extent in volatile markets (up to almost 500 bps.) such as seen in 2008!*

### Points to Consider

**Why the advantageous performance figures in every reporting period?**

**Answer:** In large measure, you have to look at the typical client in each fund and their respective reaction to up and down markets. A typical retail shareholder has much greater volatility in their buying and selling patterns. A typical investor in a CIF is a Plan Fiduciary or a 401k Plan Participant, who for a number of reasons tend to buy and hold. A stable asset base creates less turnover and withdrawal expenses and results in lower trading costs associated with the operation of the Fund.

## **Why huge differences in performance in years of market volatility?**

**Answer:** A typical shareholder of a mutual fund is a retail investor, who reacts to a down-market by fleeing to the sidelines and thereby drawing down on the cash position or causing a fund manager to sell off key investments at the worst moment.

In an up-market, the typical retail shareholder floods back into the mutual fund usually long after the early gains and causes a fund manager to invest inordinately in securities that they do not feel are opportune, but required in order to remain fully invested.

Correspondingly, where a CIF can only invest funds from a qualified retirement plan (trustee-directed or participant-directed), what I am told by GPTC is that the investment volatility of their CIF asset base especially during 2008 and historically is extremely stable.

A stable asset base in a down market means more assets in cash to stabilize regular securities losses and that correspondingly a fund manager need not hold a fire sale on their key investments. A stable asset base in an up-market means that the manager pretty much knows how much he will have in new assets to invest on a periodic basis. 401k Plan Participants especially make deposits every pay period regardless of whether the market is up or down. Dollar cost averaging is alive and well.

## **Conclusion**

Plan Sponsors face significant obstacles in meeting their employees' retirement objectives. Turbulent market conditions, fiduciary obligations, and identifying lower cost, higher quality investment options are prime examples of these challenges Sponsors are confronting.

Due primarily to brand recognition and technology innovations over the past 20 years, retail mutual funds and insurance products have become the dominant investment choices for Retirement Plans under \$100 Million. However, there are other investment vehicles available for plan sponsors seeking institutional money management while avoiding the administrative and marketing costs associated with mutual funds and insurance products.

Collective Investment Funds are now available to the retirement Plan Market and indeed dominate in the large and mid-size plan markets. Their popularity and adoption of CIFs is growing rapidly- average monthly collective fund dollar trading volume was up 83 percent from April 2008 to April 2009, the latest available data point.

Plan sponsors and advisors should consider collective funds when determining the most appropriate investment vehicles for their circumstance. There are several independent resources available to assist in the evaluation process including [www.cifmarketplace.com](http://www.cifmarketplace.com)