

Mutual fund due diligence worksheet

With more mutual funds currently available than stocks trading on the New York Stock Exchange, how can you be sure you've selected the right one? Use this worksheet to ensure you have a disciplined process for selecting mutual funds.



Management Team

How well do you know the management team?

Key considerations

- **Experience:** An experienced team may be better suited for navigating volatile markets.
- **Firm:** The backing of a large investment organization could provide the team additional supporting resources.
- **Investment:** Large investment in the fund shows a team's conviction in the strategy and their abilities.
- **Organization:** A team with clear organization and responsibilities allows investment professionals to dedicate their time to the fund.

Questions to ask

- How long has the team been running the fund and what are their prior experiences?
- How does the team divide and assign the responsibilities of managing the fund?
- How much AUM does the team's firm have?
- How much does the team have invested in the fund?
- Has the team seen turnover recently?
- How does the team communicate with the fund's investors?



Performance

How has the fund performed?

Key considerations

- **Active share:** A higher share indicates that the fund's holdings differ significantly from its benchmark.
- **Capture ratios:** A higher upside/downside capture ratio results from the fund participating more in its benchmark's upward/downward movements.
- **Rolling returns:** Analyzing rolling returns rather than standard performance periods gives a sense for a fund's consistency.
- **Sharpe ratio:** A higher ratio means the fund has efficiently taken on risk to achieve returns.

Questions to ask

- Has the fund been able to consistently meet its objectives?
- Has performance met expectations across a variety of markets?
- What is the fund's active share, capture ratios and Sharpe ratio?
- What is the fund's expense ratio?
- What has historically driven the performance of the fund?

Philosophy

What is the objective of the fund?

Key considerations

- **Capacity:** A fund with limited capacity could complicate the ability to make future investments.
- **Investment approach:** Understand the goals of the fund and how they align with your portfolio's objectives.
- **Risk/return expectations:** It should be clear which markets are more or less favorable for the fund and the level of risk it should realize over a full market cycle.
- **Unconstrained funds:** Funds that are not bound to a benchmark may have very different behaviors and holdings at times.

Questions to ask

- What is the goal of the fund and how does it intend to achieve its goal?
- Has the fund's investment approach changed over time?
- What is the fund's benchmark?
- What market environments should lead to the fund outperforming or underperforming its benchmark?
- What makes the fund different than its peers?
- Does the fund have capacity constraints?

Process

How does the fund build its portfolio?

Key considerations

- **Construction:** A top-down portfolio takes positions that reflect views on macroeconomic factors while a bottom-up portfolio focuses on selecting individual securities.
- **Idea generation:** An understanding of where ideas come from and how they are evaluated will give insight into how the team functions.
- **Risk management:** A fund should have clear, quantitative policies for how its risks are monitored and levels that are permissible.

Questions to ask

- What is the process for surfacing investment ideas and making investment decisions?
- What is the fund's universe?
- Is the fund a top-down or bottom-up portfolio?
- What is the fund's sell discipline?
- How does the fund manage risk?
- How are security weights within the fund determined?

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