In this edition of our overview of fiduciary duties, we will address the duty of:

Diversification

Investments must be diversified to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to do so.

Diversification must be considered in the context of the entire portfolio and as a part of the overall strategy considering the appropriate risk and return.

Consider the following elements as applied to the assets being managed:

- the purpose of the plan
- the size of the account
- the type of investments
- the general economic conditions
- the distribution as to a geographical area
- the distribution as to industries
- the time horizon

The investment policy statement (IPS) will set forth specific assets classes to be included in the investment portfolio. Once these asset classes have been chosen, it is important to then diversify within the asset class.

ERISA does not outline the requirements of diversification, but the House Conference Report regarding the statute does say "a fiduciary usually should not invest the whole or an unreasonable large proportion of the trust property in a single security." Case law continues to provide the best guidance on what is not construed to be diversification.

Guidelines suggest a minimum of election choices that allow diversification with materially different risk and return characteristics and minimize the risk of large investment losses. From this level the additional choices become a choice of preference of the plan. Most plans offer:

- stock funds
- bond funds
- money market funds

In a 401k plan, this duty is usually met by a plan sponsor since the average plan includes a wide array of mutual finds/ETF's spanning a diverse field of investment categories.

We hope you find this brief overview helpful on the Duty to Diversify. Please reach out to us if you have any questions you would like to discuss in greater detail.

Enjoy the holiday weekend that awaits us all.

Mike & Matt