EXPERT OPINION

# Performance oversight analysis: Looking beyond the peer group

## How directors can assess fund performance drivers to better evaluate the adviser's explanations

Dianne M. Descoteaux Jan 13, 2026, 5:08 pm

Performance oversight is not a perfunctory exercise for fund directors — it is one of their core oversight responsibilities, and it is much more complex than comparing returns to benchmarks and peer groups.

The numbers serve as critical data points, but they rarely tell the full story. Understanding the "why" behind unexpected fund performance is where fund directors can most meaningfully amplify the effectiveness of their oversight and facilitate their role in protecting shareholder interests.

There are several ways directors can assess the drivers of fund performance so that they can better evaluate the adviser's explanations, identify when performance deviations are expected or explainable and assess when they may indicate a weakness in process or discipline.

Performance analysis without sufficient depth risks becoming a primarily procedural exercise. This, in turn, can make the establishment of a 15(c) record of well-reasoned conclusions regarding advisory fees and services difficult. Whether fund performance is lagging or unusually strong, a director's assessment of the cause of unexpected performance can benefit from a keen understanding of the adviser's investment process.

Directors may wish to ask advisers how they identify investment opportunities and manage risk, and in addition can use the performance data, attribution analysis and market commentary provided by the fund's adviser to evaluate whether fund performance is consistent with a fund's investment objective and principal investment strategy.

When a fund falls behind its benchmark or peer group, relying on 'market conditions' as an explanation for underperformance may not be sufficient. Independent directors should ask questions to determine the root cause of underperformance, which can stem from numerous causes, including, but not limited to:

- fees and expenses that cause performance drag;
- poor security selection;
- unfavorable market conditions or timing;
- sector concentration in underperforming sectors;
- investments in higher volatility asset classes;
- inapt benchmark selection;
- concentration issues; or
- inconsistent or low fund flows that limit the adviser's ability to invest optimally.

In addition to evaluating the cause of underperformance, boards should also understand its expected duration. Independent directors can strengthen their oversight by requesting robust attribution analysis and candid explanations from management. Particularly important in an environment of regulatory scrutiny of the 15(c) process, independent directors may want to be mindful to challenge adviser assumptions regarding attribution analysis and document their requests for information.

For funds that are not performing as expected, boards should understand any plans by the adviser to seek to address the underperformance. Independent directors may note that some fund investment strategies may be designed to perform differently than indexes and may be expected to underperform indexes or peers under certain market conditions.

Unexpected outperformance can also be a cause for alarm, as it could indicate a misalignment with a fund's investment strategy or excessive assumption of risk. Directors may wish to consider whether unexpected outperformance reflects appropriate investment decisions or any of the following concerns:

- excessive risk-taking by the adviser;
- deviation from a fund's investment strategy;
- frequent trading;
- larger than expected sector or geographic concentration;
- unexpected market conditions;
- inapt fund benchmark selections; or
- style drift.

In some cases, however, outperformance is reflective of strong portfolio management – i.e. a high quality of service, rather than any concern. In such instances, outperformance may be considered when evaluating a higher advisory fee relative to peers.

Directors that take a rigorous performance oversight approach are best equipped to effectively assess the nature and quality of services provided by the adviser to a fund. Once directors have gained an understanding of the specific drivers of a fund's unexpected performance – good or bad – they can integrate their understanding of the adviser's strategy, the fund's risk profile and short and long-term market trends.

With this information, directors can assess the adequacy of the adviser's attribution analysis and determine if additional information should be requested for further review.

While fund performance is just one part of one of the *Gartenberg* factors considered by directors in their advisory contract review process, its significance is often substantial. Directors that develop a disciplined approach to fund performance analysis are best positioned to leverage their expertise, add value for fund shareholders, and enhance their level of oversight.

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