

**AGENDA MANAGEMENT SHEET**

**Name of Committee** Pension Fund Investment Board

**Date of Committee** 3 August 2007

**Report Title** **Manager Skills Analysis and Transaction Cost Analysis**

**Summary** Report setting out the case for Warwickshire's subscribing to skills analysis and transaction cost analysis.

**For further information please contact:** Phil Triggs  
Group Accountant  
Tel: 01926 412227  
philtriggs@warwickshire.gov.uk

**Would the recommended decision be contrary to the Budget and Policy Framework?** No.

**Background papers** None

**CONSULTATION ALREADY UNDERTAKEN:-**

Details to be specified

- Other Committees  .....
- Local Member(s)
- Other Elected Members  Cllr Davis - Chair of Pension Board
- Cabinet Member  .....
- Chief Executive  .....
- Legal  Tony Maione
- Finance  David Clarke, Strategic Director of Resources (reporting officer)
- Other Chief Officers  .....
- District Councils  .....
- Health Authority  .....
- Police  .....

Other Bodies/Individuals  .....

**FINAL DECISION Yes**

**SUGGESTED NEXT STEPS:**

Details to be specified

Further consideration by this Committee  .....

To Council  .....

To Cabinet  .....

To an O & S Committee  .....

To an Area Committee  .....

Further Consultation  .....

**Pension Fund Investment Board - 3 August 2007**

**Manager Skills Analysis and Transaction Cost Analysis**

**Report of the Strategic Director of Resources**

**Recommendation**

That the Board consider the proposal to subscribe to manager skills and transaction cost analysis.

**1. Introduction**

- 1.1 Identifying manager skill when monitoring fund managers is not an easy process. Current monitoring practice consists of comparison of performance against benchmark and scrutinising the fund manager presentations at the quarterly Board meetings.
- 1.2 Board members also have the opportunity to personally interrogate fund managers at the Board meetings as well as the consultancy skills of Mercer Investment Consulting and Peter Jones, the Fund's independent consultant. However, the question must be asked as to whether our fund manager actions are scrutinised sufficiently and to maximum effect and whether trustees have sufficient ammunition with which to do that job.
- 1.3 Through the Fund's custodian, officers have identified a company called Inalytics that offer a service devoted to analysing the skills process employed in the management of equity portfolios.

**2. Skills Analysis**

- 2.1 By scrutinising every investment decision, every trade, every holding (and non-holding), on every day, Inalytics can reveal the relationship between skill and performance. The quantitative analysis builds on performance assessments, managers' reports and subjective appraisals. The detailed analysis opens up the investment process in a way that is consistent with how managers actually behave.

- 2.2 The Analytics approach examines fund managers' behaviours and how these affect alpha generation in the timing of decisions and construction of portfolios. Timing analysis identifies a manager's skill and behavioural patterns when deciding which stocks to buy and sell and whether the trades added or detracted from the portfolio's return. The analysis quantifies how stocks performed before and after each trade to identify whether managers fall into the typical traps of buying late and selling early.
- 2.3 A conviction analysis identifies how successful managers are at differentiating between out- and under-performers and then weighting their holdings accordingly. Typically, managers are skilled at deciding which stocks to buy, but undermine performance gains by cutting their winners too early and holding onto losers for too long. The conviction analysis identifies how efficiently and consistently a manager's investment views and convictions translate into alpha.
- 2.4 Analytic's reports are web-based and delivered as a series of graphs and tables. Top level analyses display main findings in the form of clear tables and graphs. Supporting data provides a trend analysis, highlighting behavioural consistency. Supplementary details are accessible via underlying statistics, such as trades and holdings, giving a more in-depth explanation of the findings. Analytic's team, many of whom are former fund managers, present key issues raised in reports to further assist the due diligence of managers.
- 2.5 In order to demonstrate their analysis, Inalytics have carried out a study on Threadneedle Asset Management for the period 1 December 2006 to 31 May 2007. The consultant will present the findings at the meeting hosted by Threadneedle on 2 August 2007.

### **3. Transaction Cost Analysis**

- 3.1 Inalytics also provide detailed analysis of transaction costs. From the resolution passed at the previous board meeting, officers have requested that the company has study the period 1 January 2007 to 31 March 2007 in respect of transactions costs for all equity managers.
- 3.2 Inaytics will also present their analysis and findings at the meeting on 2 August 2007.

### **4. Recommendation**

- 4.1 In the light of the findings from the presentation given to the Board at the meeting on 2 August 2007, the Board is asked to consider the proposal to subscribe to the manager skills and transaction cost analysis as a regular service.

DAVID CLARKE  
Strategic Director of Resources  
Shire Hall  
Warwick  
July 2007