

Pension Fund Investment Sub Committee

17 November 2014

Equity Managers

Recommendation

- (1) That the sub-committee note the findings in 2.1 and 2.2

1 Introduction

- 1.1 At the sub-committee meeting dated 10 February 2014 there was a presentation from Inalytics who provided an example quantitative analysis of an equity manager to demonstrate their capability in assessing manager skill in a series of different performance measures.
- 1.2 Inalytics have subsequently studied both MFS (global equities) and Threadneedle (UK equities) in terms of skill over a six year period and will be presenting their findings at this meeting.
- 1.3 With the current DCLG consultation questioning active management and the value it adds to LGPS funds, it is helpful to look beyond the relative benchmark and look at different measures over a longer time horizon.

2. Findings

- 2.1 The skill report of MFS can be found in **Appendix A**. The skill report of Threadneedle can be found in **Appendix B**.

Background Papers

None for this covering report.

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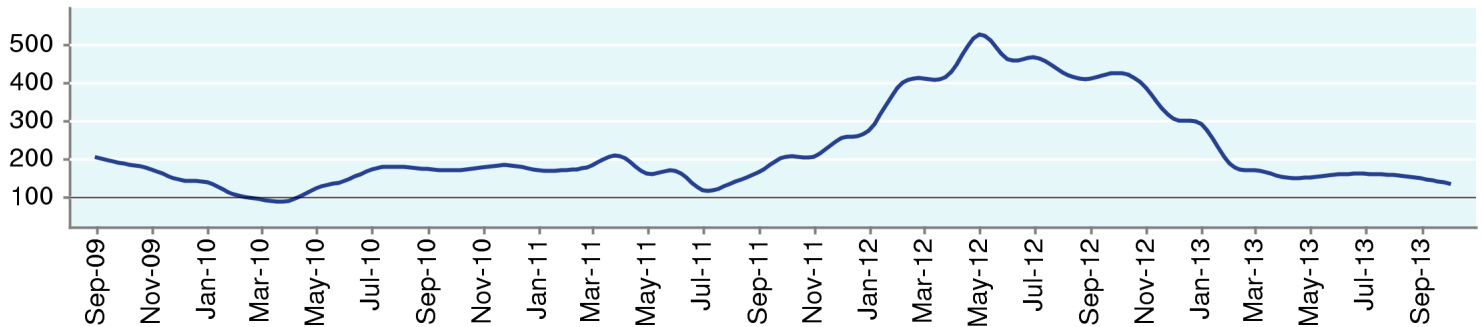
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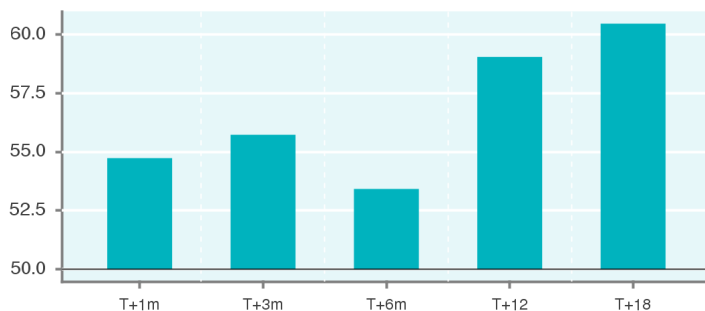
MFS - September 2014

1 - Skill at Finding Winners



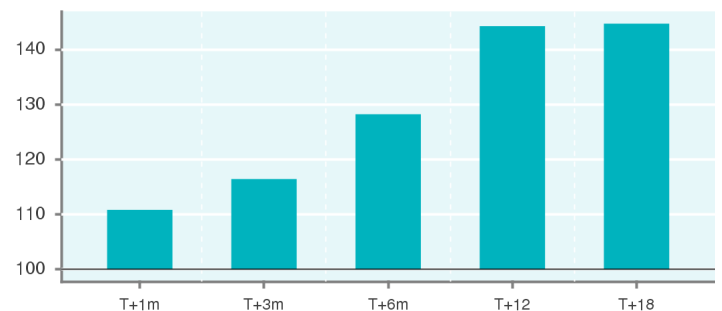
This shows the ability to find winners when buying stocks. Values above 100 indicate skill, based on the Hit Rate and Returns Ratio below.

2 - Hit Rate (%)



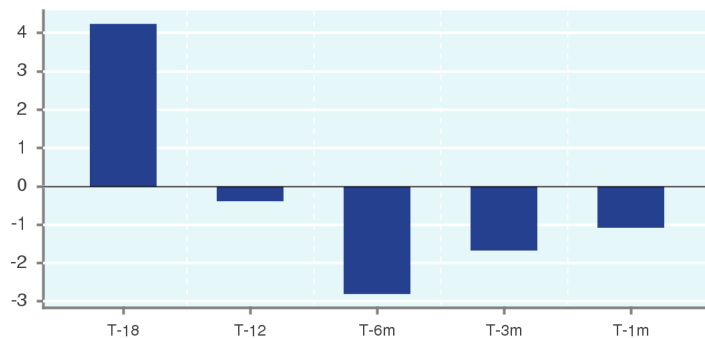
This shows the percentage of the Manager's buying decisions that outperformed. Values above 50% are good as more than half the decisions proved to be correct.

3 - Returns Ratio



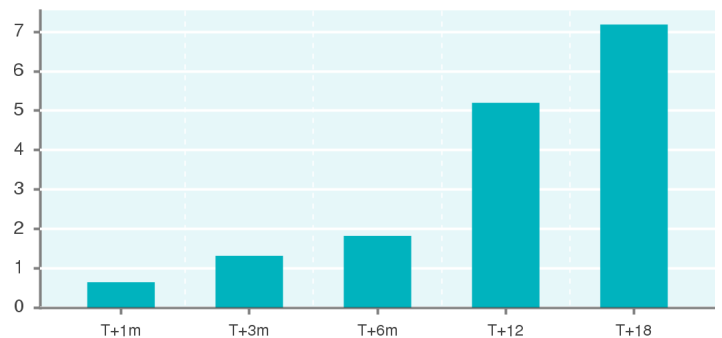
This shows whether the outperformance of the Manager's good decisions are greater than the underperformance of the losers. Values above 100 are good as the winners more than offset the losers.

4 - Average Return Prior to Trade (%)



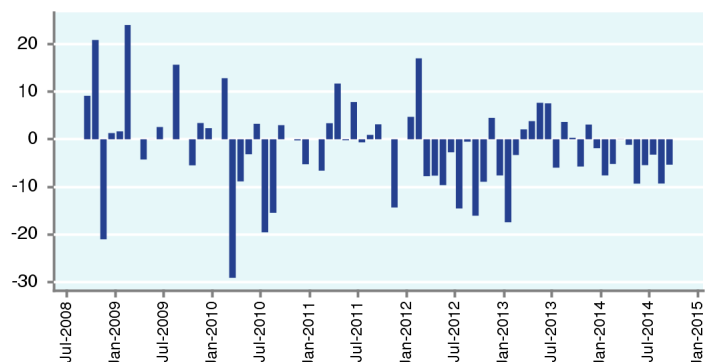
This chart shows whether the Manager's style is momentum or contrarian. Positive values indicate that stocks were prior winners and if negative, prior losers.

5 - Average Return Post Trade (%)



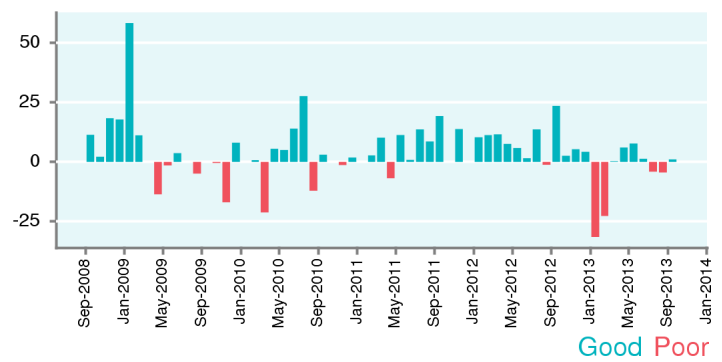
This chart shows whether the Manager has been successful at finding winners. This is indicated by positive values if the stocks outperformed the benchmark after purchase.

6 - Timing History (-12m)



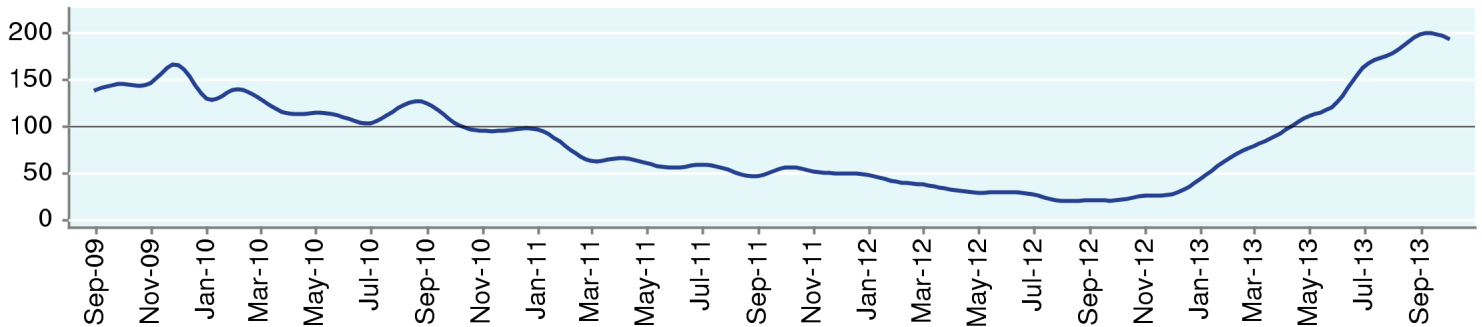
This chart drills down from Chart 4 to identify persistency in style.

7 - Timing History (+12m)



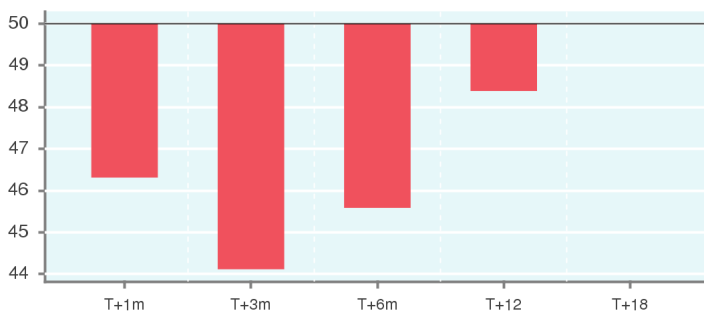
This chart drills down from Chart 5 to identify persistency in the ability to find winners.

1 - Skill at Knowing When to Sell



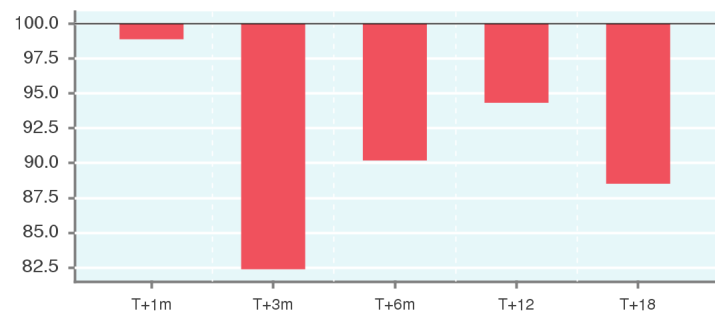
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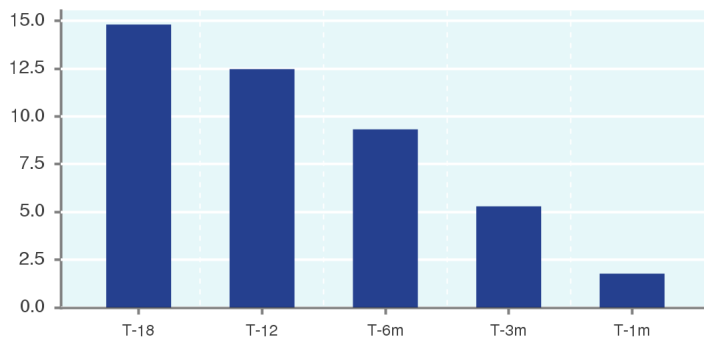
This shows the percentage of the Manager's selling decisions that proved correct by underperforming. Values above 50% are good because more than half the decisions proved to be correct.

3 - Returns Ratio



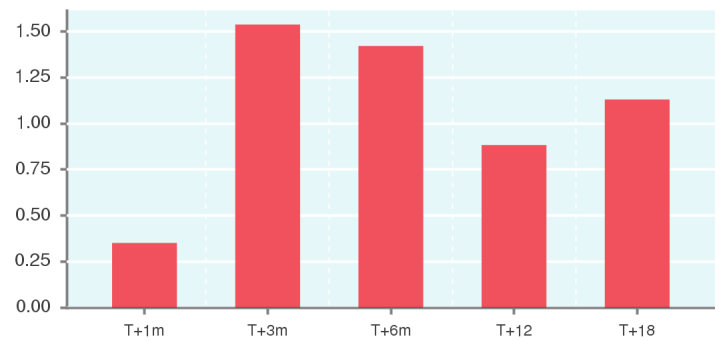
This shows whether the underperformance of the good selling decisions is greater than the outperformance of the poor ones. Values above 100 are good.

4 - Average Return Prior to Trade (%)



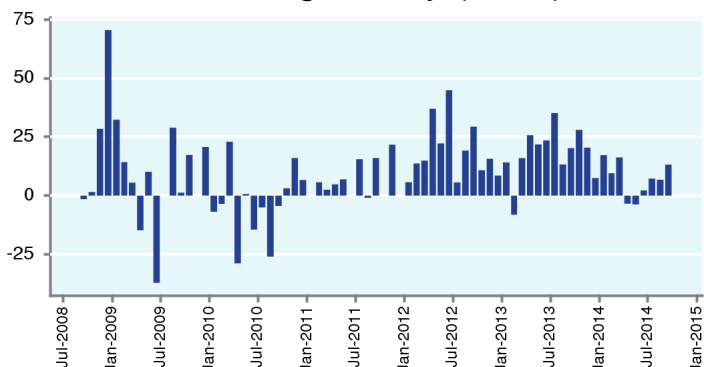
This chart shows whether the Manager is selling their winners. Positive values indicate that winners were sold.

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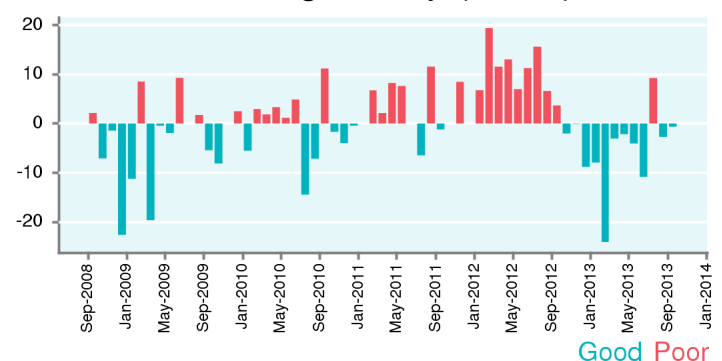
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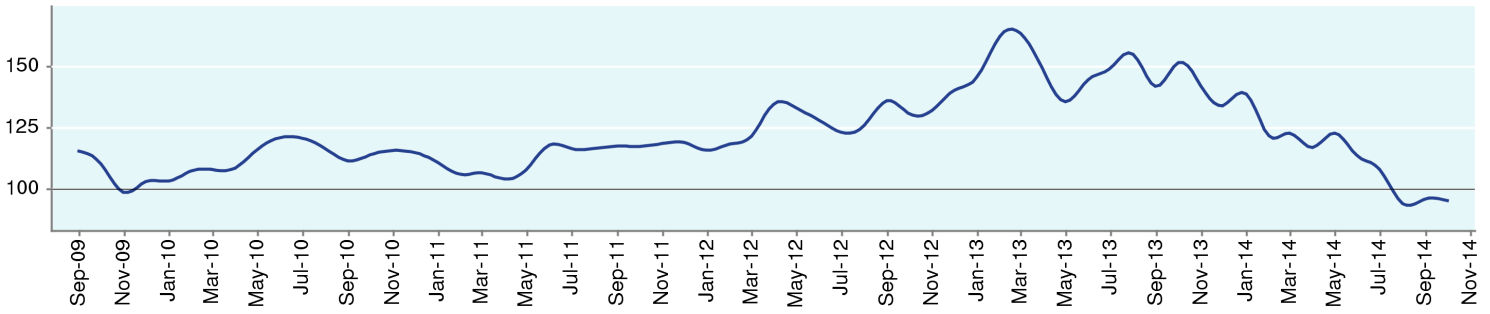
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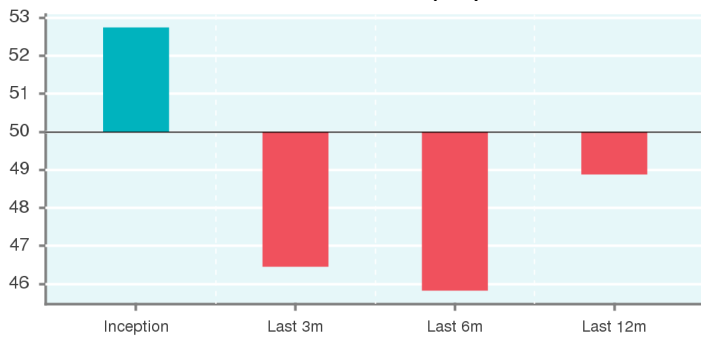
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1 - Skill at Holding Winners



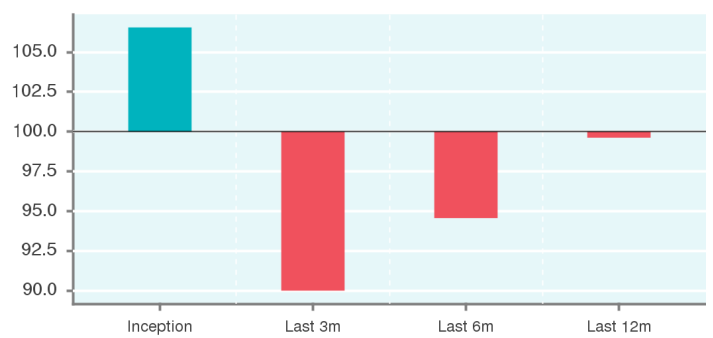
This captures the Manager's ability to add value from their overweight decisions. A value above 100 indicates skill, based on the Hit Rate and Contribution Ratio below.

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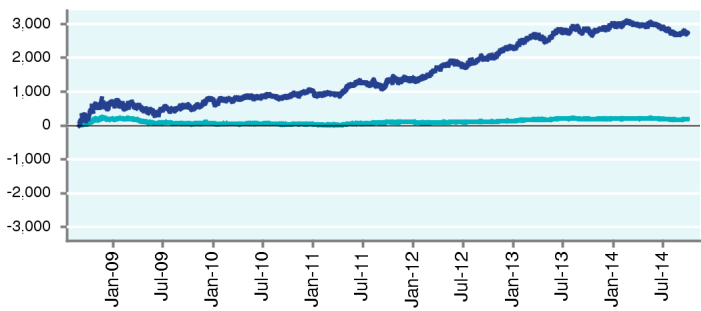
This shows the percentage of the overweights that added value. A value above 50% is good.

3 - Contribution Ratio



This shows whether the added value from the good decisions offsets the negative contribution from the poor ones. Values above 100 are good because the value from the winners are more than offsetting the losers.

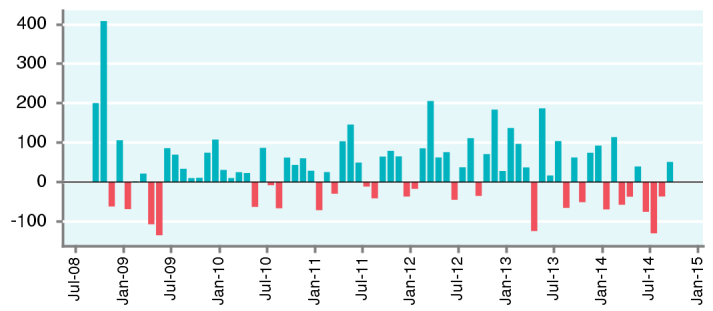
4 - Total Added Value (bps)



Overweight Underweight

This shows the cumulative added value from the overweight and the underweight stocks.

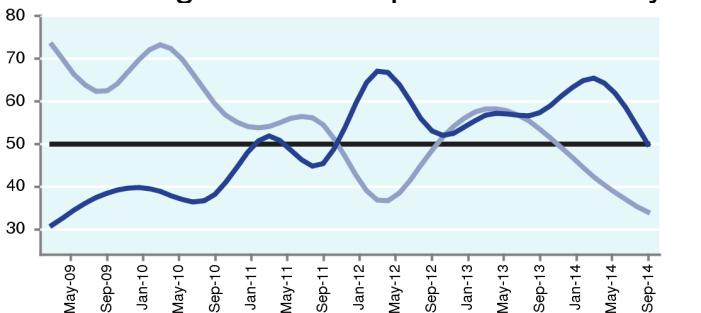
5 - Persistency (bps)



Good Poor

This shows the historical monthly contributions from the overweight stocks.

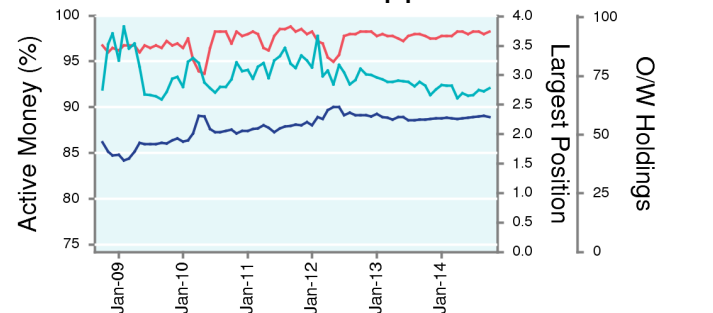
6 - Adding Value on Up and Down Days



Up Day Down Day 50%

This shows the performance of the days that the Manager out (under) performed on up (down) days.

7 - Risk Appetite



Active Money Largest Position O/W Holdings

The chart shows the Active Money, the number of holdings and the largest active position.

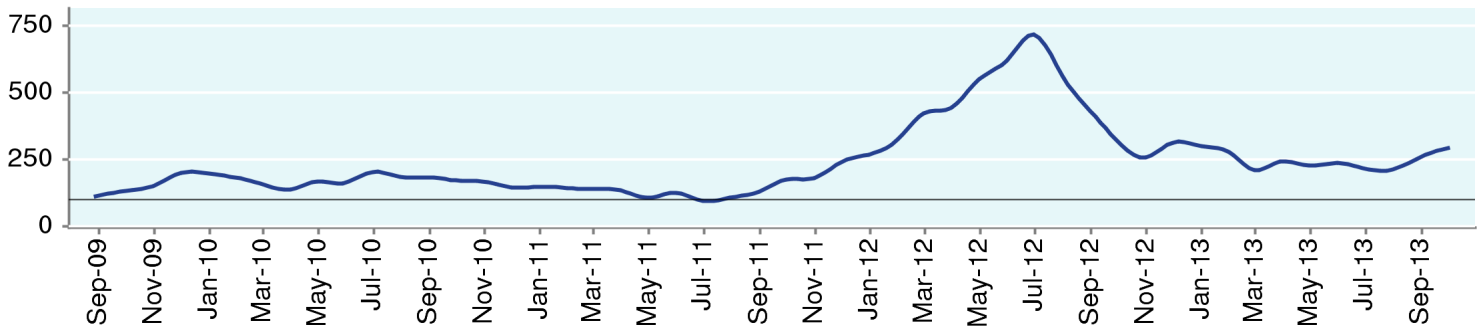
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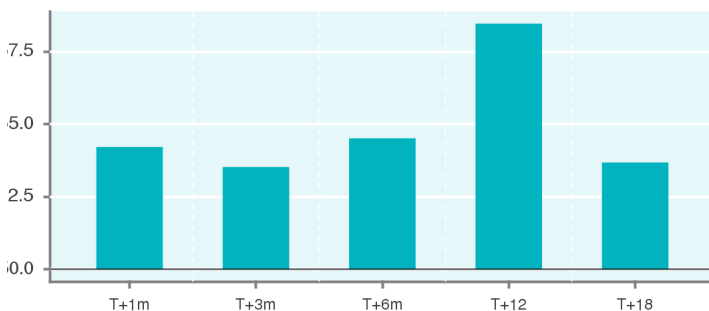
Threadneedle - September 2014

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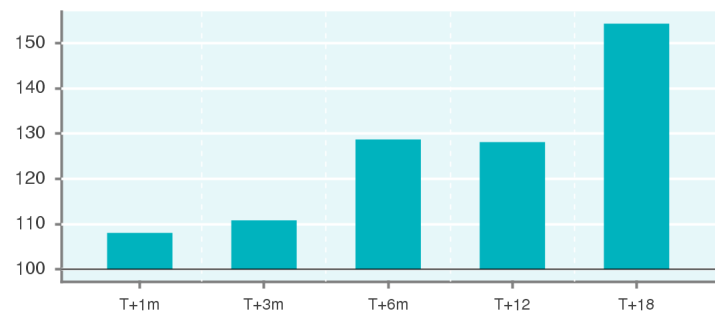
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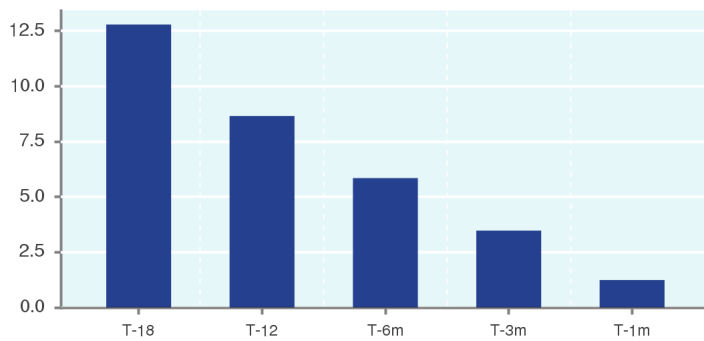
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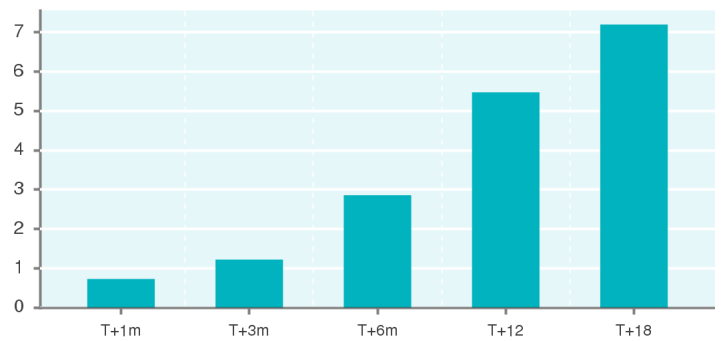
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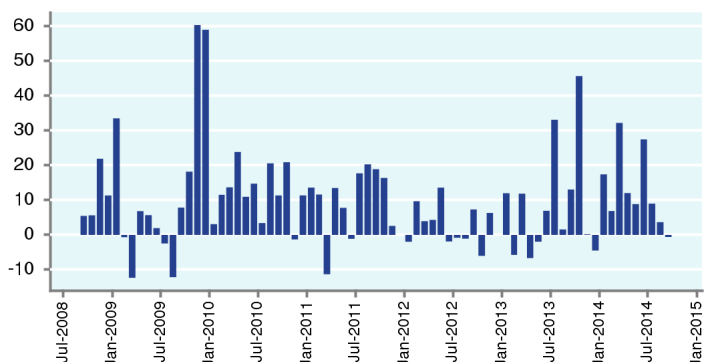
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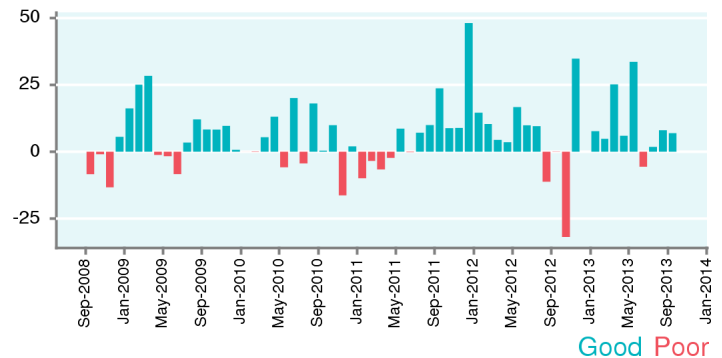
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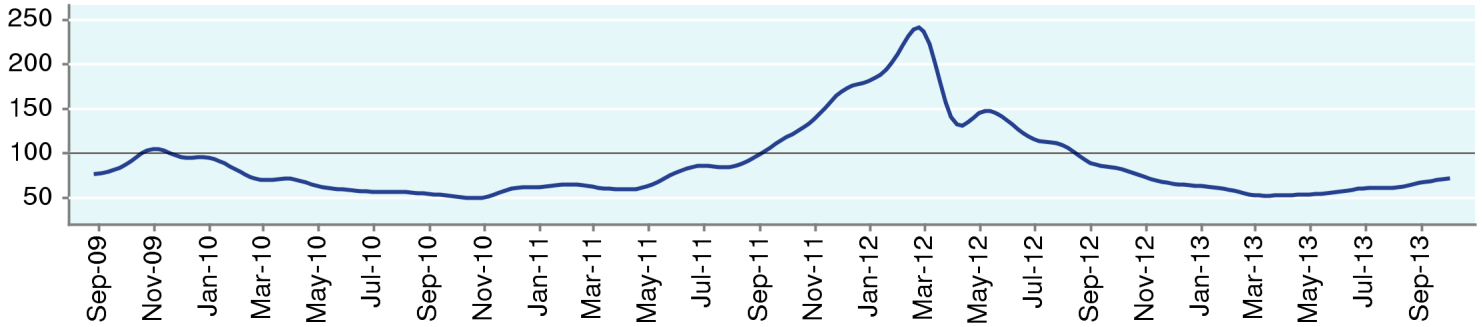
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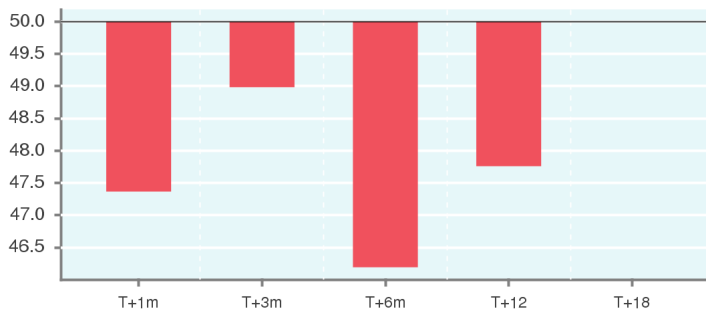
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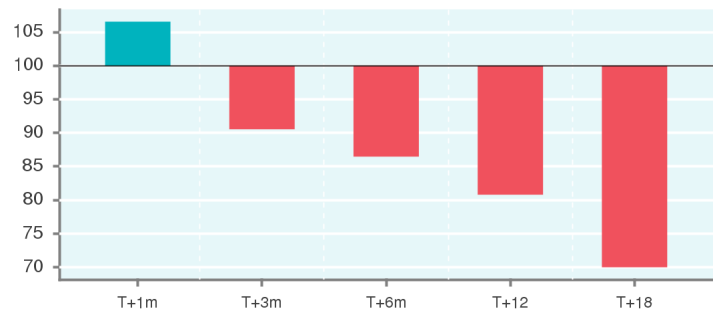
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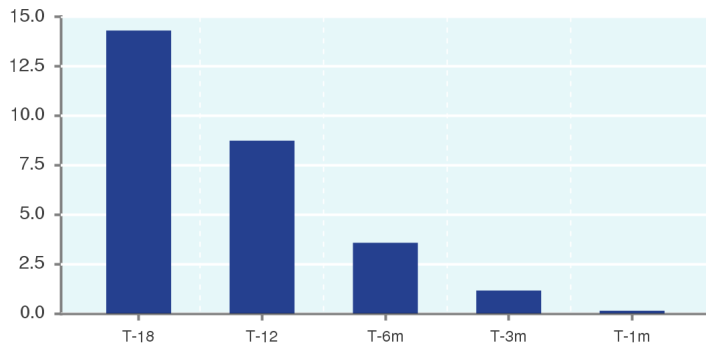
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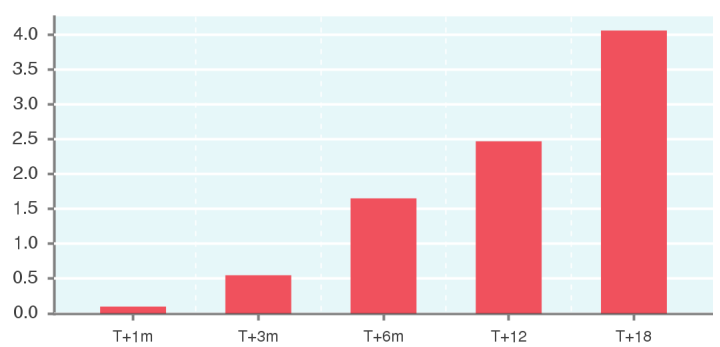
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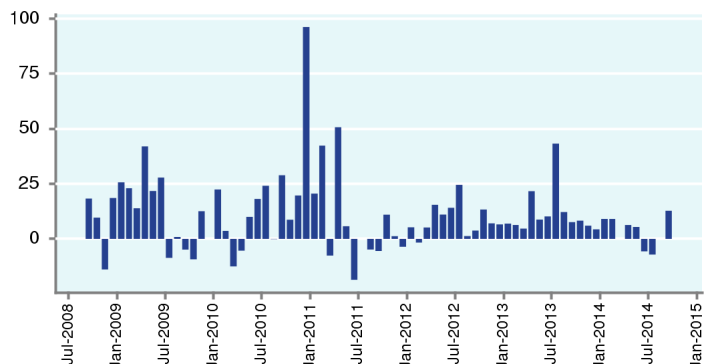
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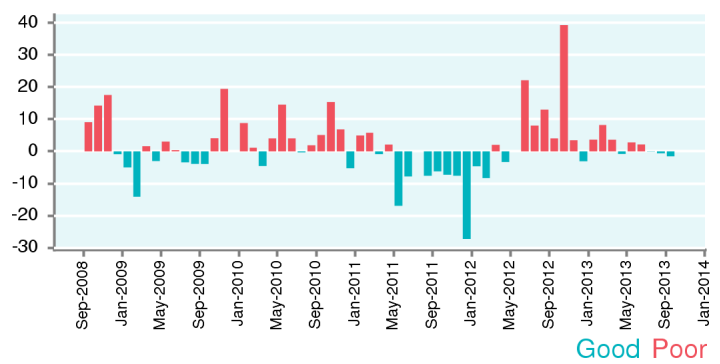
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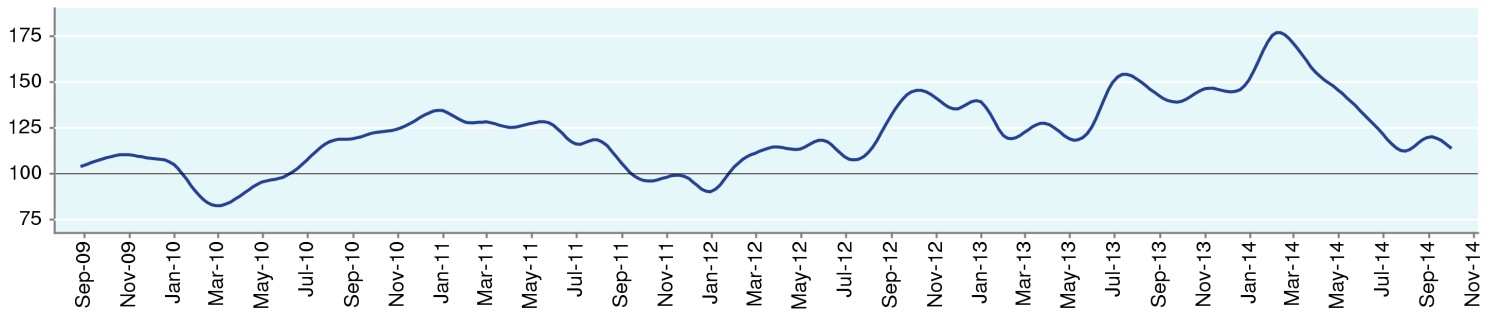
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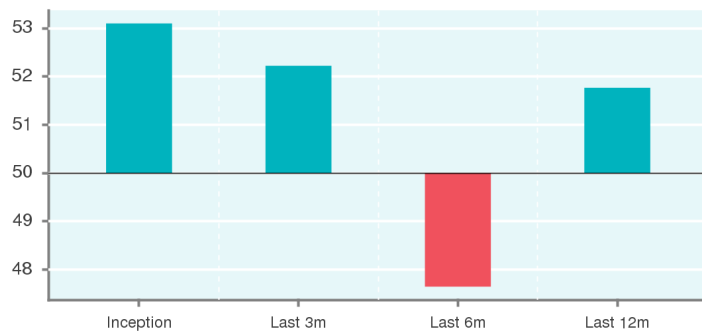
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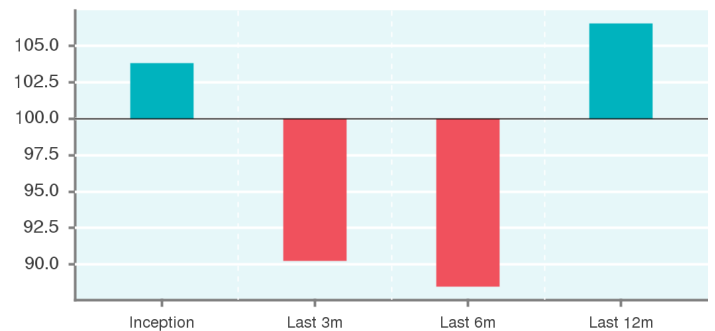
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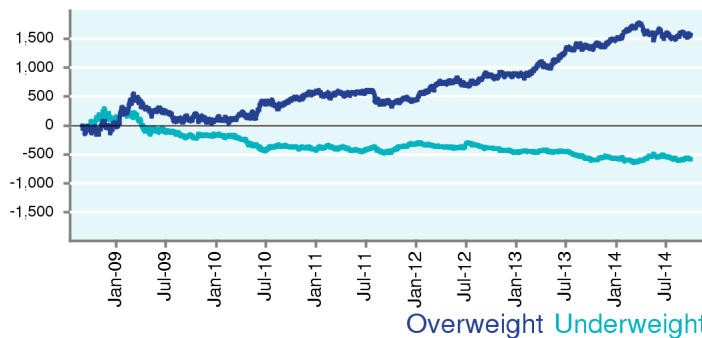
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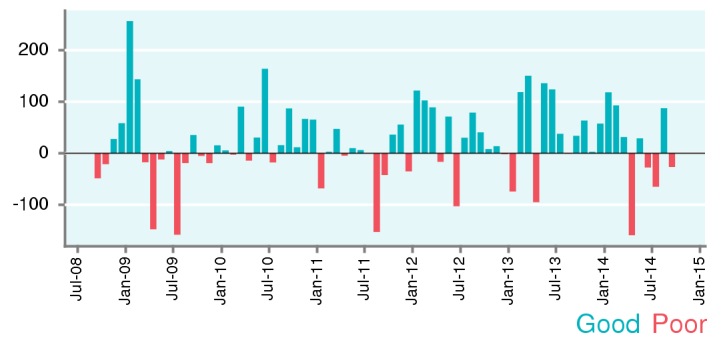
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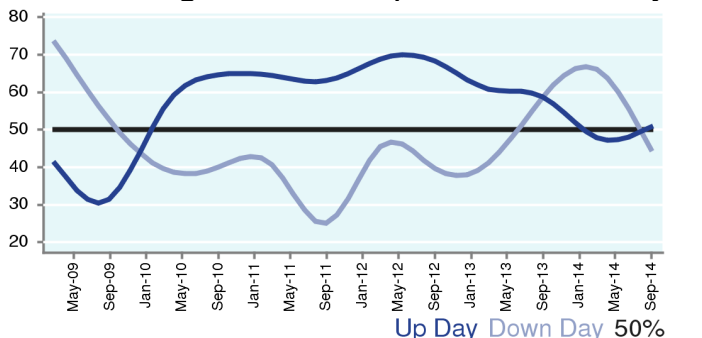
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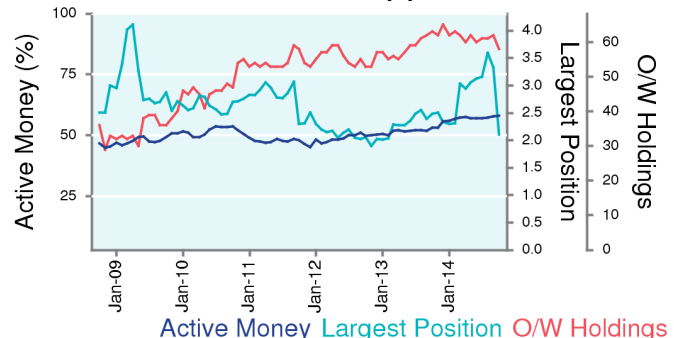
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