

Steve Delo

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Chief Executive of PAN Governance LLP

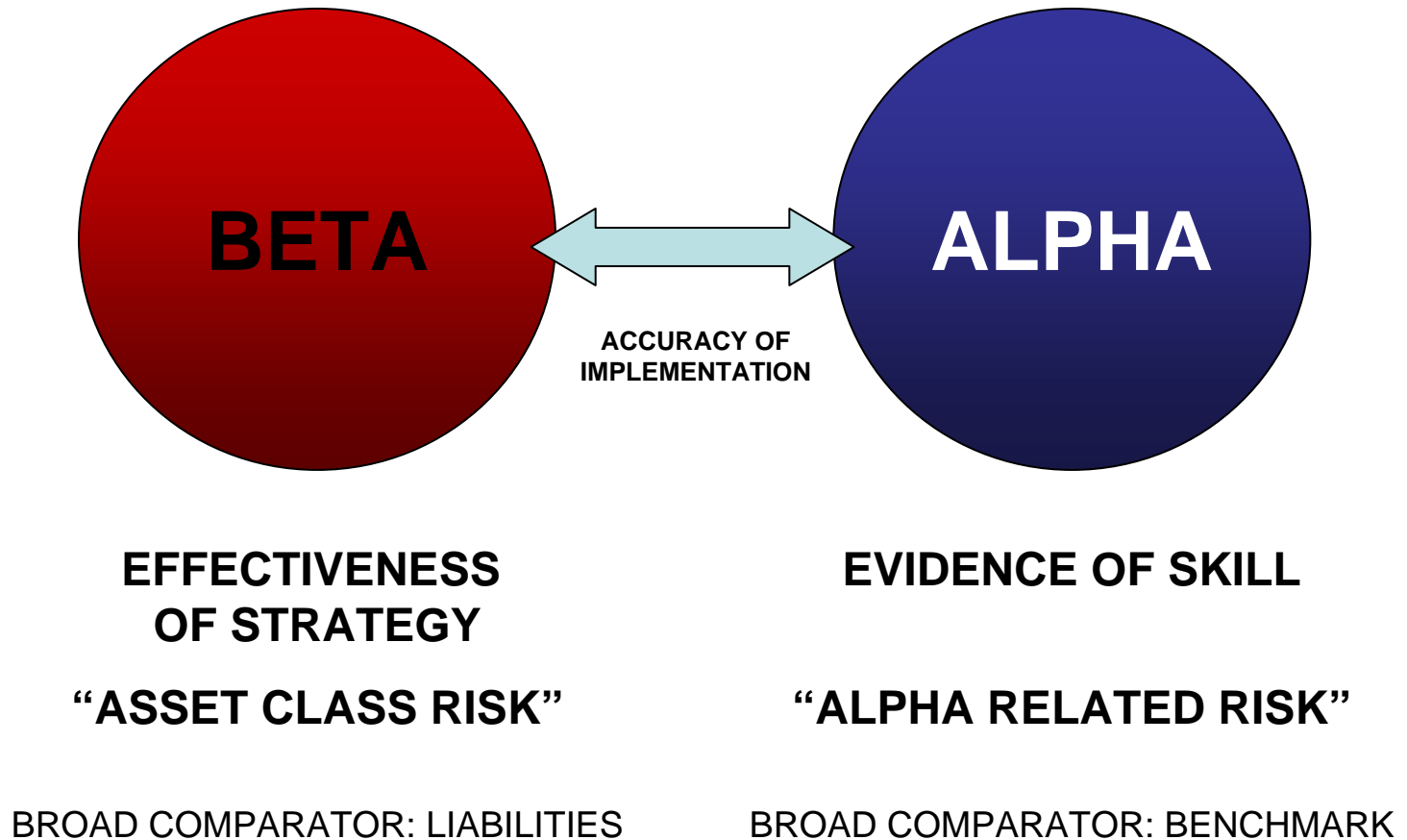
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Hard Habits to Break?





Manager/Consultant Interface



Manager/Consultant Interface

CONSULTANT
SUPPLIED

BETA



ACCURACY OF
IMPLEMENTATION

ALPHA

**EFFECTIVENESS
OF STRATEGY**

“ASSET CLASS RISK”

BROAD COMPARATOR: LIABILITIES

EVIDENCE OF SKILL

“ALPHA RELATED RISK”

BROAD COMPARATOR: BENCHMARK

Manager/Consultant Interface

Consultant verified

CONSULTANT
SUPPLIED

BETA

**EFFECTIVENESS
OF STRATEGY**

“ASSET CLASS RISK”

BROAD COMPARATOR: LIABILITIES

MANAGER
SUPPLIED

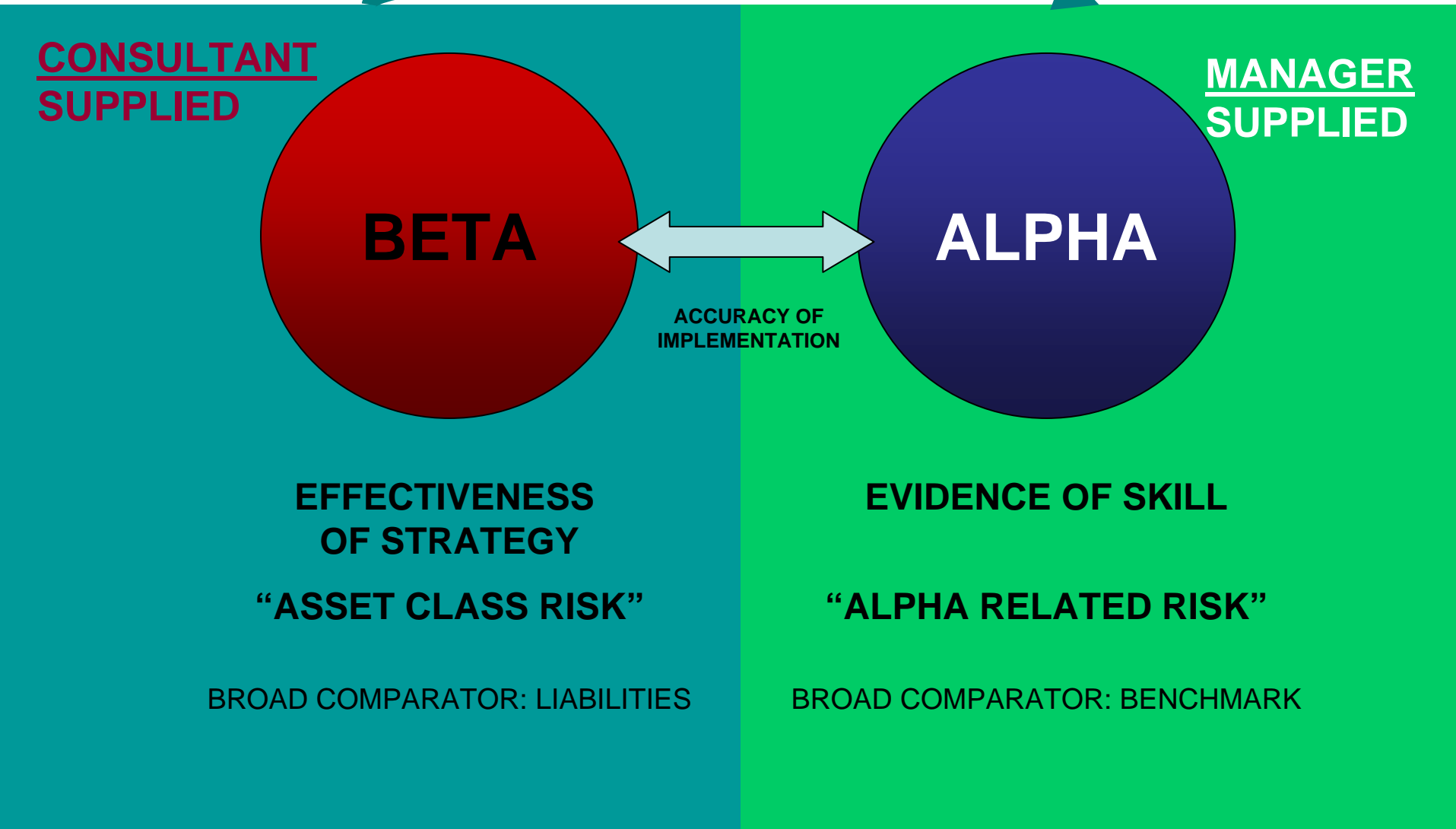
ALPHA

EVIDENCE OF SKILL

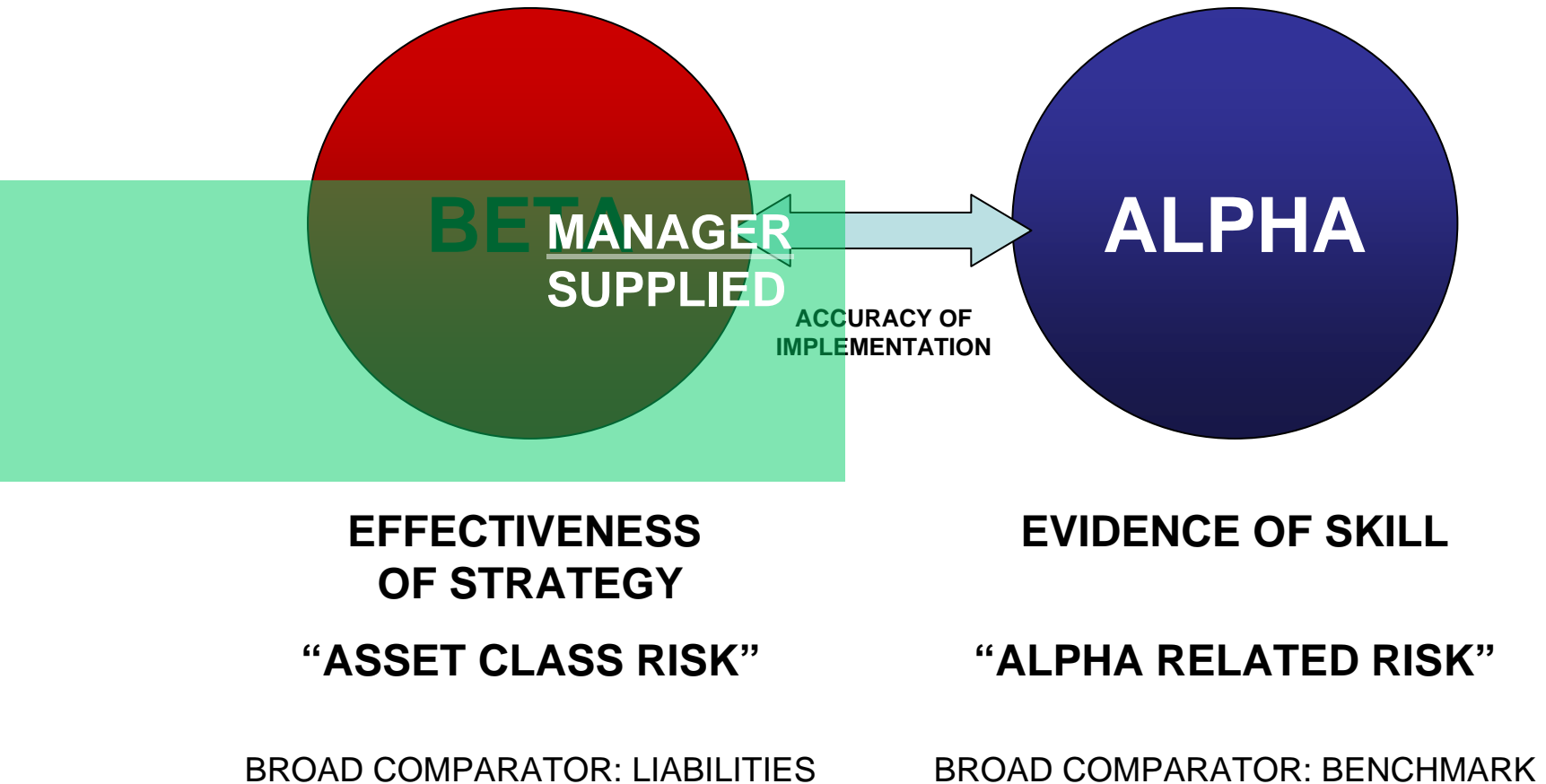
“ALPHA RELATED RISK”

BROAD COMPARATOR: BENCHMARK

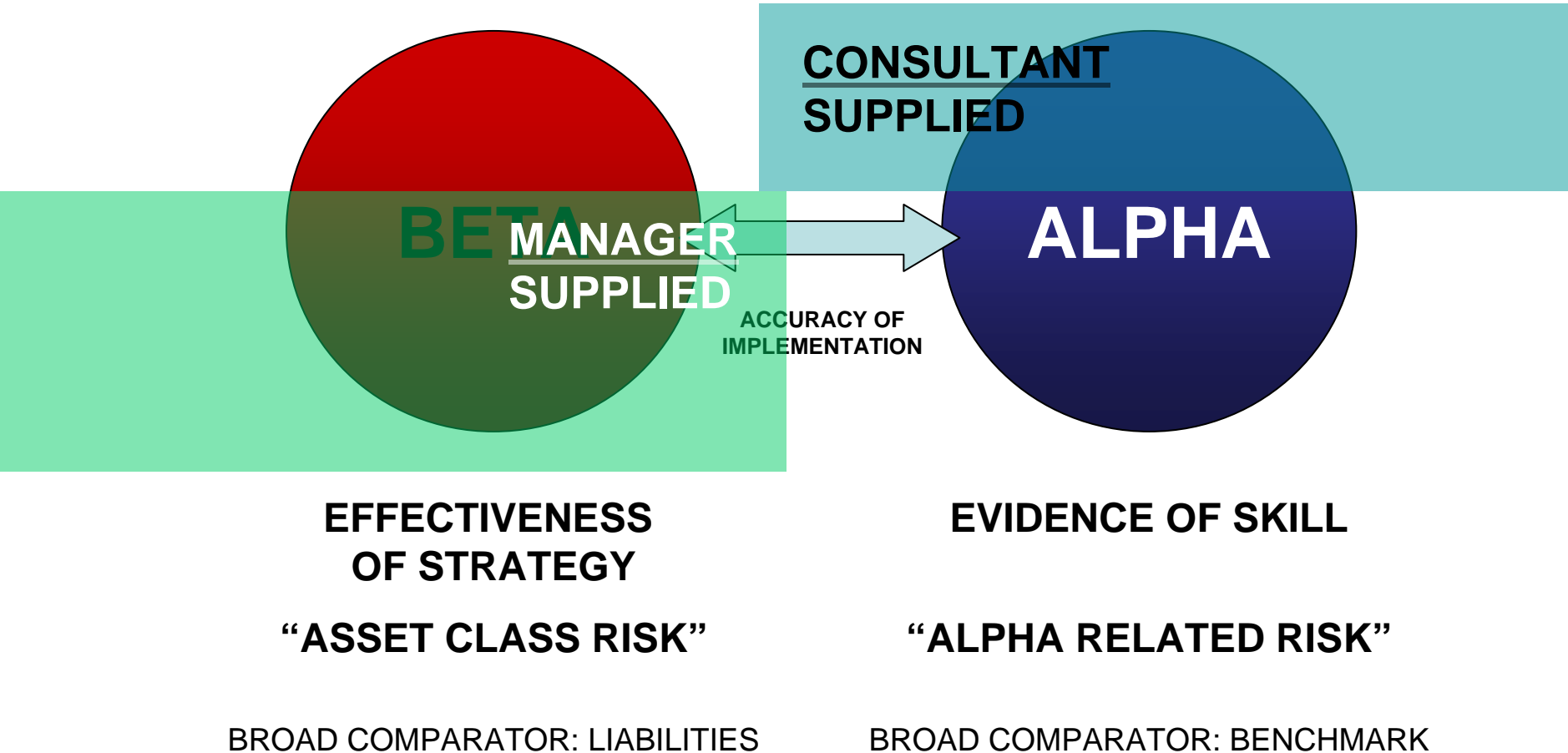
ACCURACY OF
IMPLEMENTATION



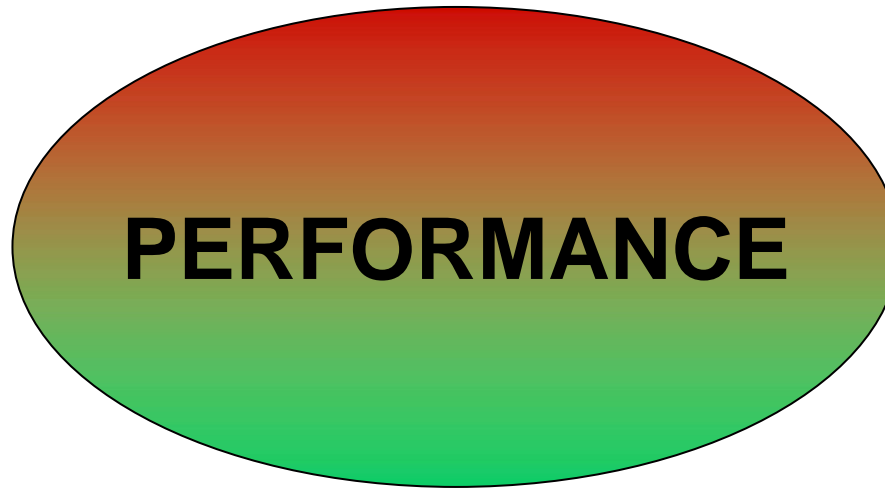
Manager/Consultant Interface



Manager/Consultant Interface



Temptations for Trustees!



POSITIVE NUMBERS

RETURNS VERSUS VARIOUS PEERS AND RANDOM PROVIDERS

SHORT TERM TRENDS

TIGHT COMPARATOR: BENCHMARK

DATA

i.e. indicator (useful)

SIGNAL

i.e. randomness (useless...DANGEROUS)

NOISE

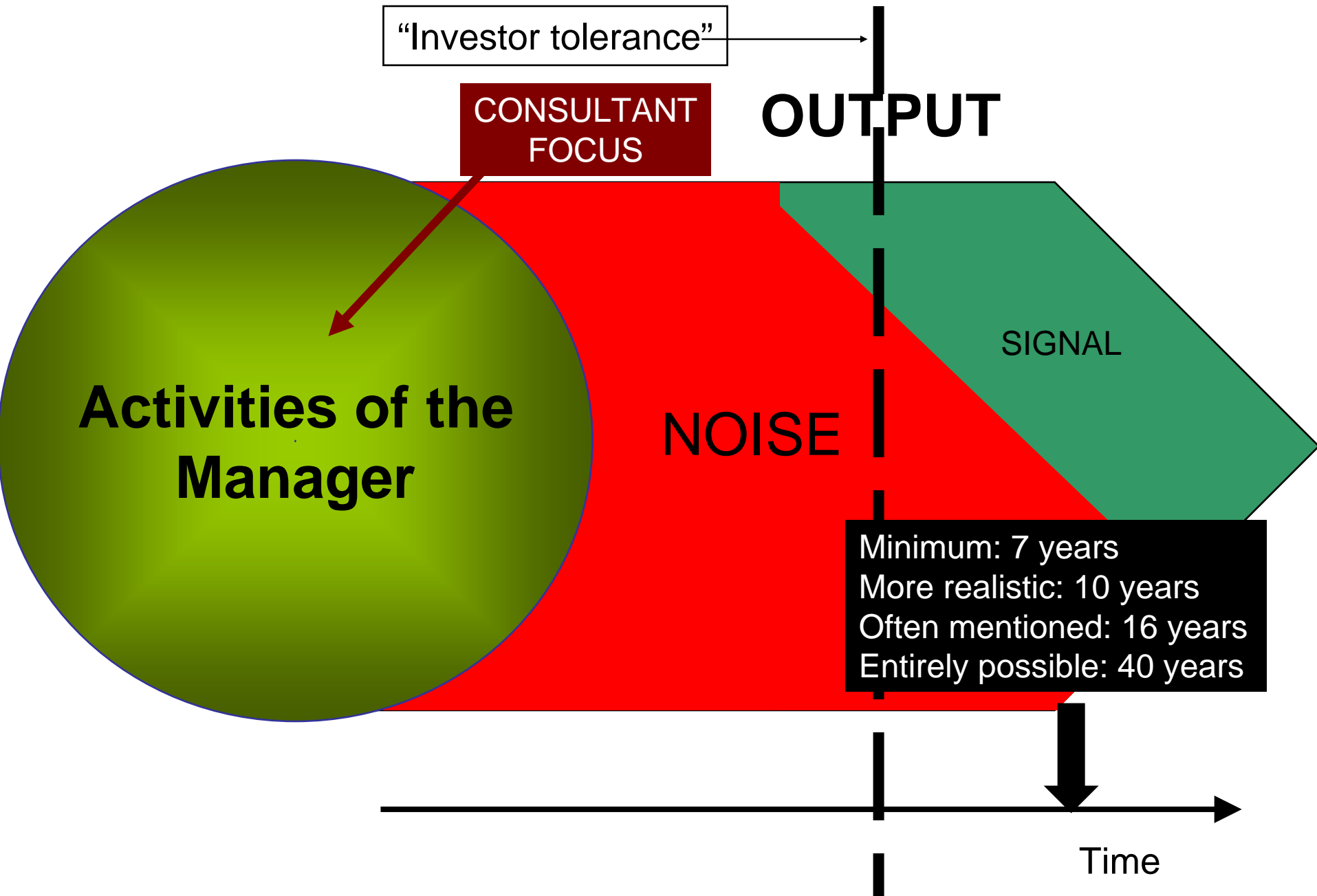
OUTPUT

**Activities of the
Manager**

DATA

Time







Manager Universe



Broad Research of the Universe

(FILTERING ORIENTATED - infrequent but consistent)

Manager Universe



Broad Research of the Universe

(FILTERING ORIENTATED - infrequent but consistent)

Manager Universe

Potential managers



Broad Research of the Universe

(FILTERING ORIENTATED - infrequent but consistent)

Manager Universe

Potential managers

“Buy” List

Broad Research of the Universe

(FILTERING ORIENTATED - infrequent but consistent)

Manager Universe

Potential managers

“Buy” List

Bespoke Qualitative Research
based on YOUR requirements

(DECISION ORIENTATED)

Selected
Manager

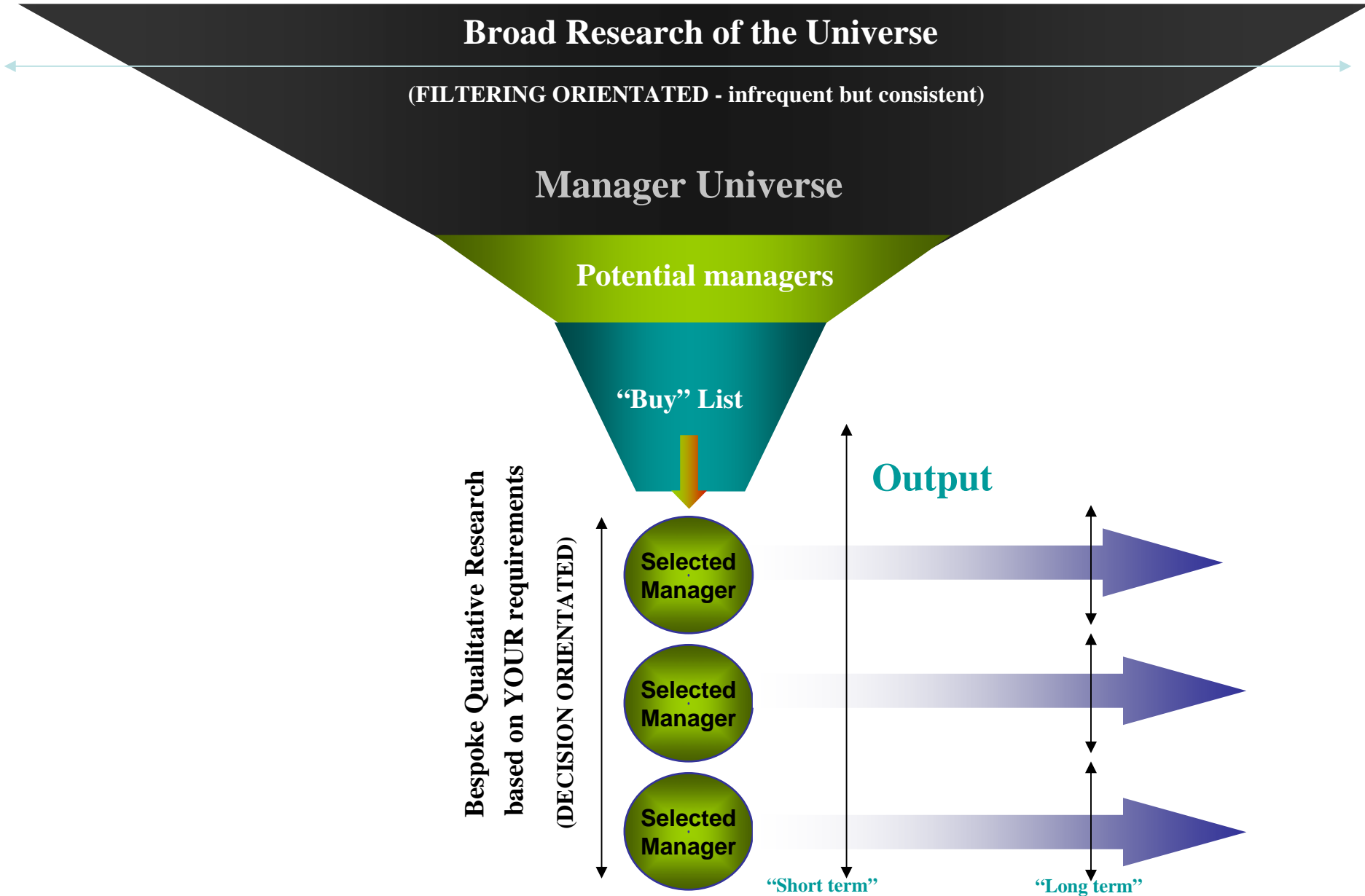
Selected
Manager

Selected
Manager

Output

“Short term”

“Long term”



Broad Research of the Universe

(FILTERING ORIENTATED - infrequent but consistent)

Manager Universe

Potential managers

“Buy

Poor Manager Evaluation

Output

Bespoke Qualitative Research
based on YOUR requirements

(DECISION ORIENTATED)

Selected
Manager

Selected
Manager

Selected
Manager

“Short term”

“Long term”

?!

Broad Research of the Universe

(FILTERING ORIENTATED - infrequent but consistent)

Manager Universe

Potential managers

"Buy" List

Good Manager Evaluation

Bespoke Qualitative Research
based on YOUR requirements
(DECISION ORIENTATED)

Selected Manager

Selected Manager

Selected Manager

Output

Beat
passive!

"Short term"

"Long term"

The Driving **Monitoring** Question:

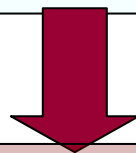
When should you replace an investment manager?:

- 1. When it has underperformed for a short period**
- 2. When it has underperformed for a substantial period**
- 3. When it has failed to explain its failure**
- 4. When you've failed to understand its failure**
- 5. When you've given it a chance to improve – and it's still failed**
- 6. When you no longer believe it can add value**

The Driving **Monitoring** Question:

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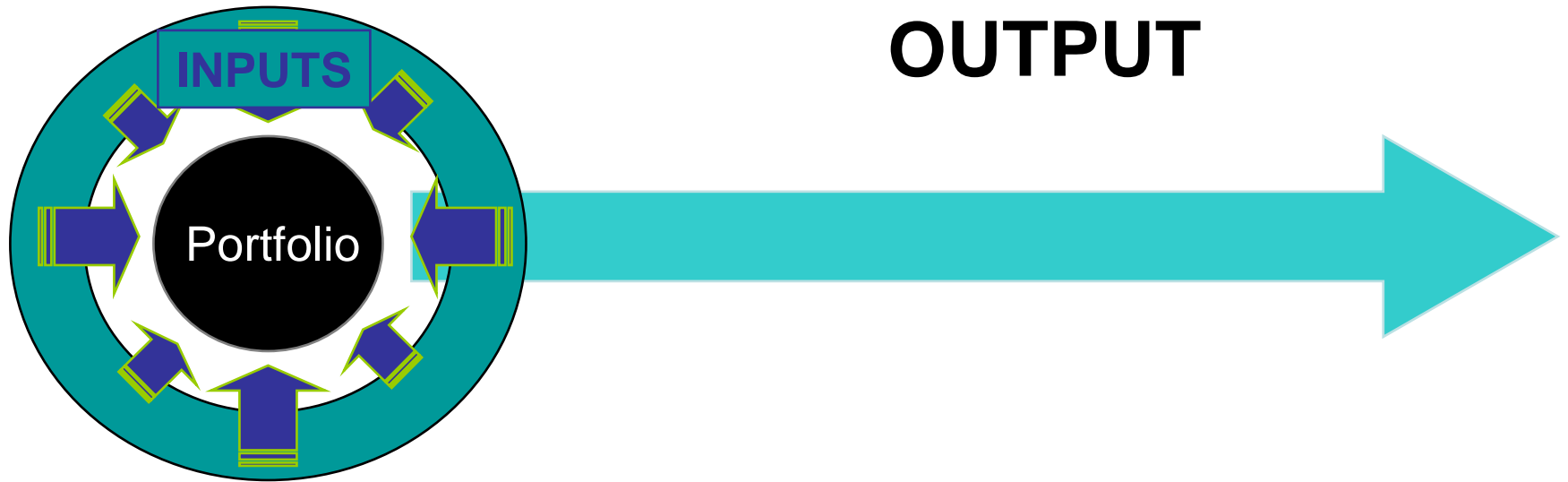
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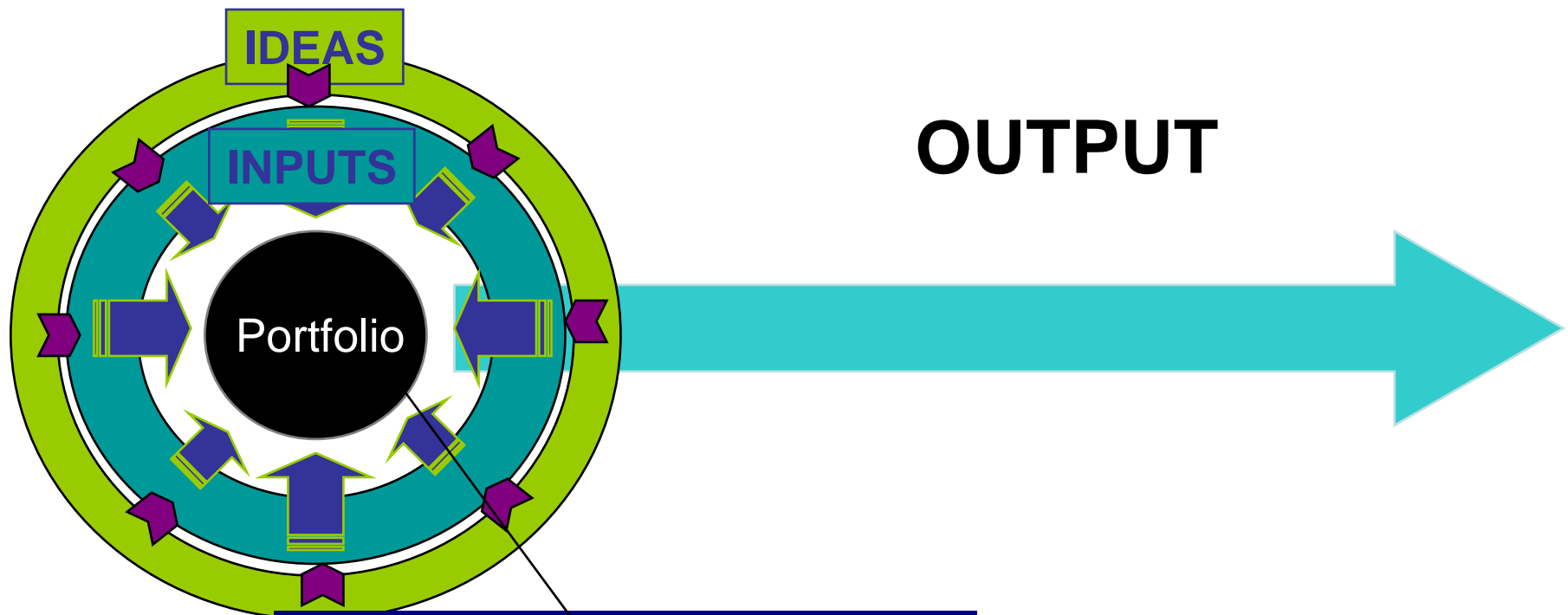


Monitoring and Selection Principles



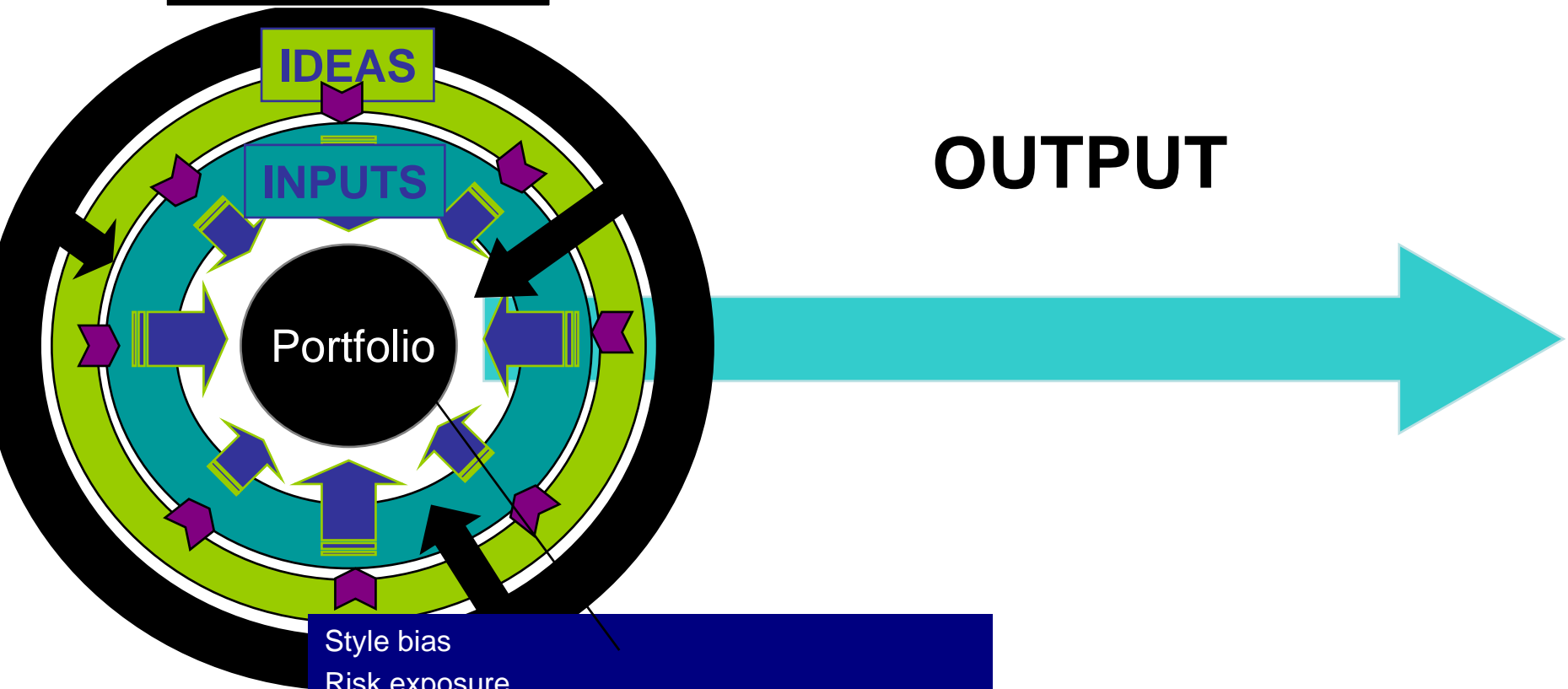
OUTPUT





Style bias
Risk exposure
Purchase/sale disciplines
Quality of intellectual input
Robustness and continuity of philosophy
Consistency of process for identifying mispricings
Accuracy and quality of Implementation
Overall risk controlsAND MANY MORE

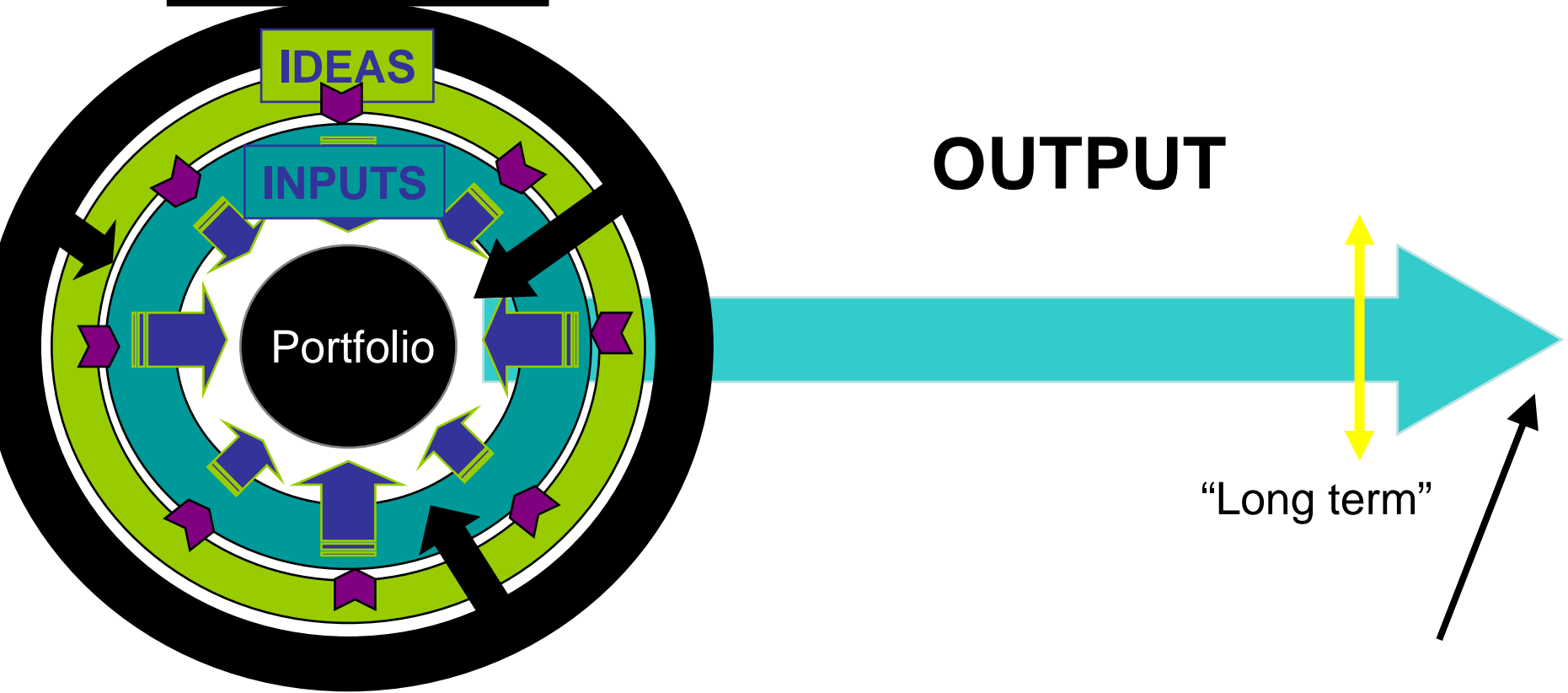
INTERFERENCE



Style bias
Risk exposure
Purchase/sale disciplines
Quality of intellectual input
Robustness and continuity of philosophy
Consistency of process for identifying mispricings
Accuracy and quality of Implementation
Overall risk controlsAND MANY MORE

BETA (STRATEGY) ISSUES

INTERFERENCE



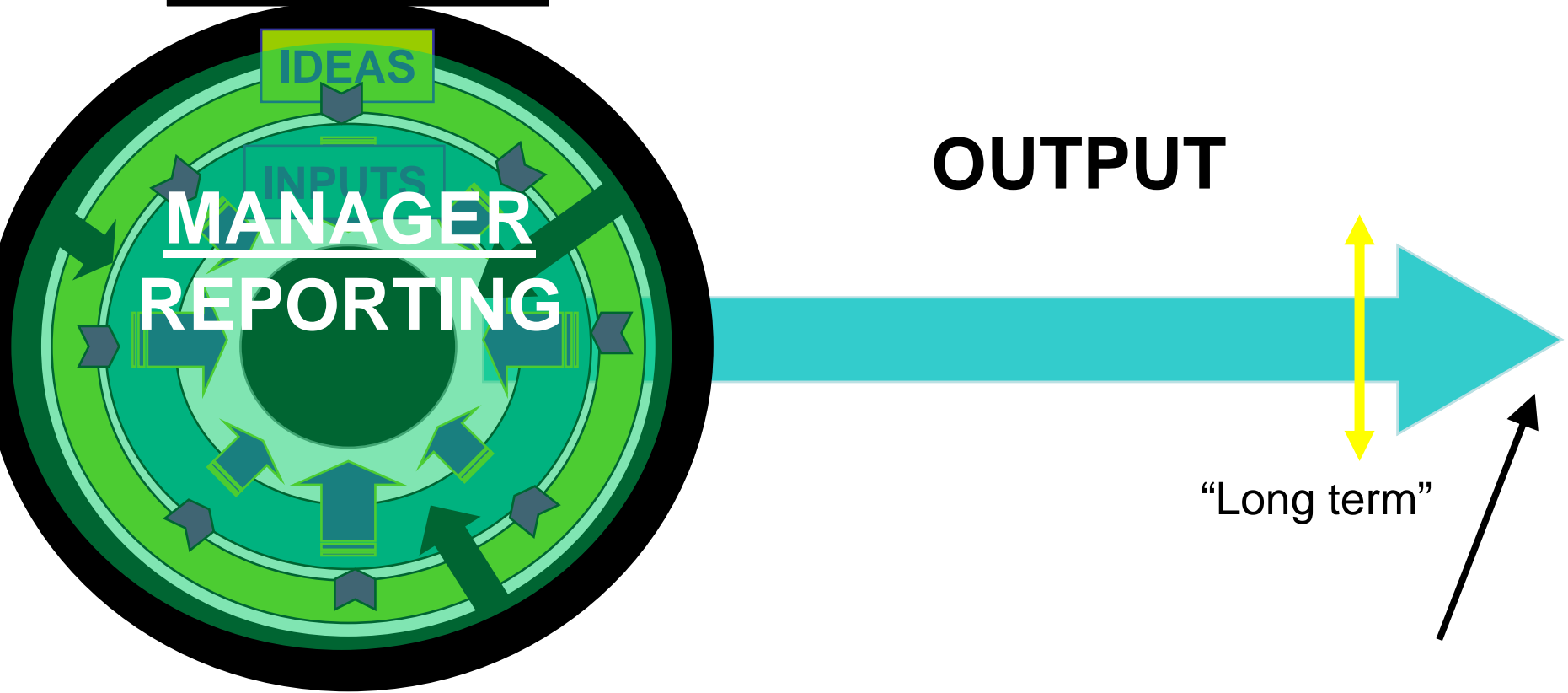
"Long term"

**Long term return
related to activities**

GENERAL ECONOMICS

BETA (STRATEGY) ISSUES

INTERFERENCE



"Long term"

Long term return
related to activities

GENERAL ECONOMICS

BETA (STRATEGY) ISSUES

INTERFERENCE

IDEAS

INPUTS

MANAGER
REPORTING

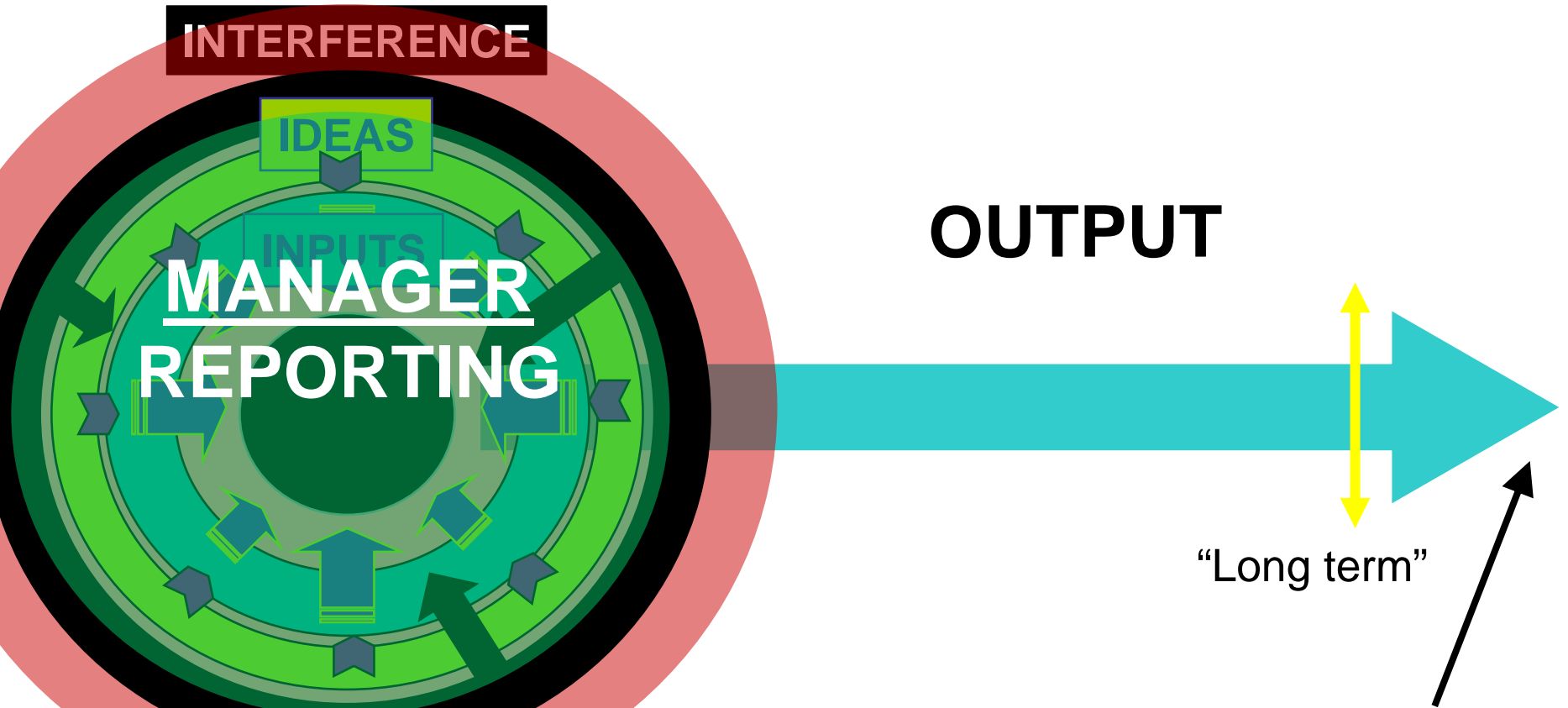
OUTPUT

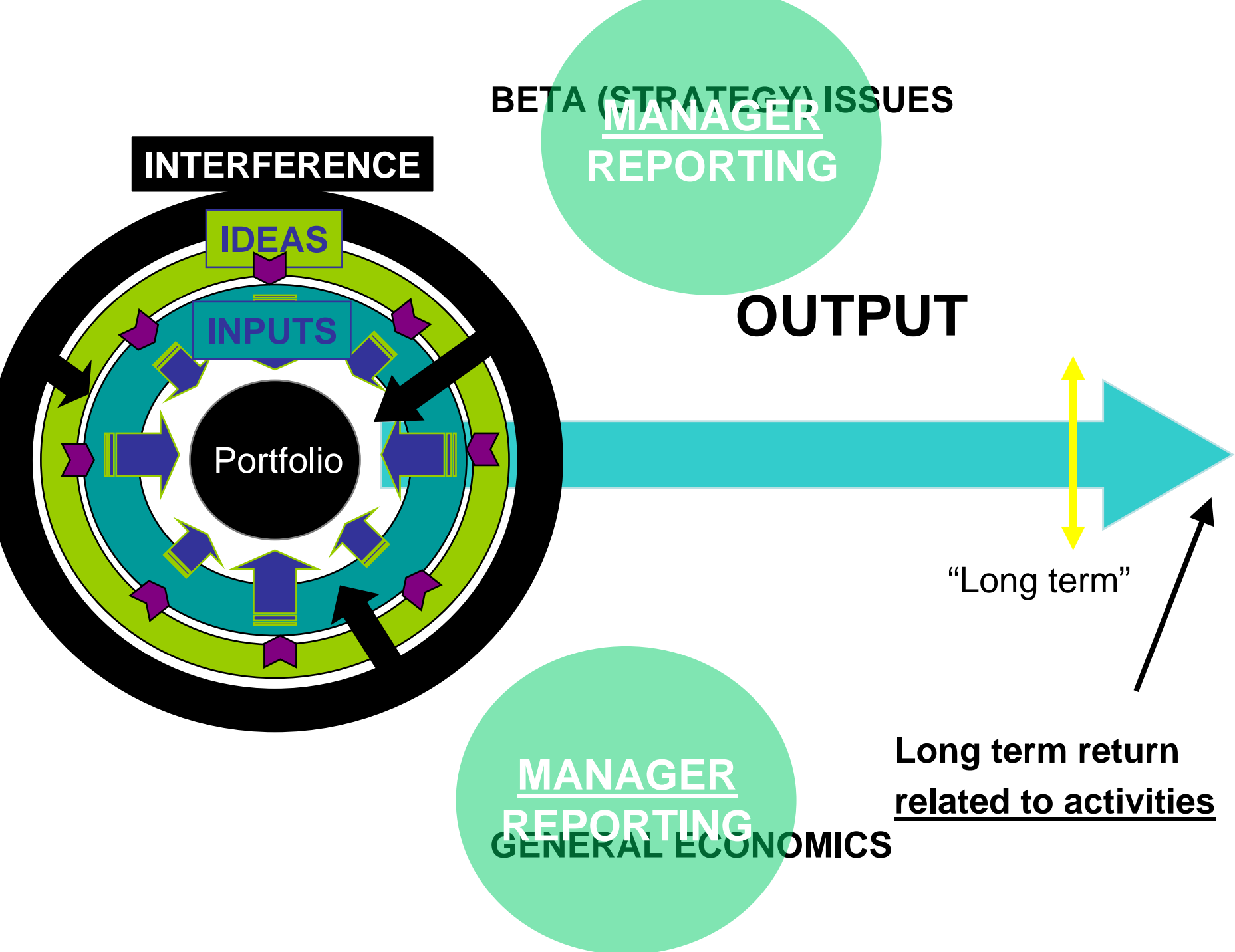
"Long term"

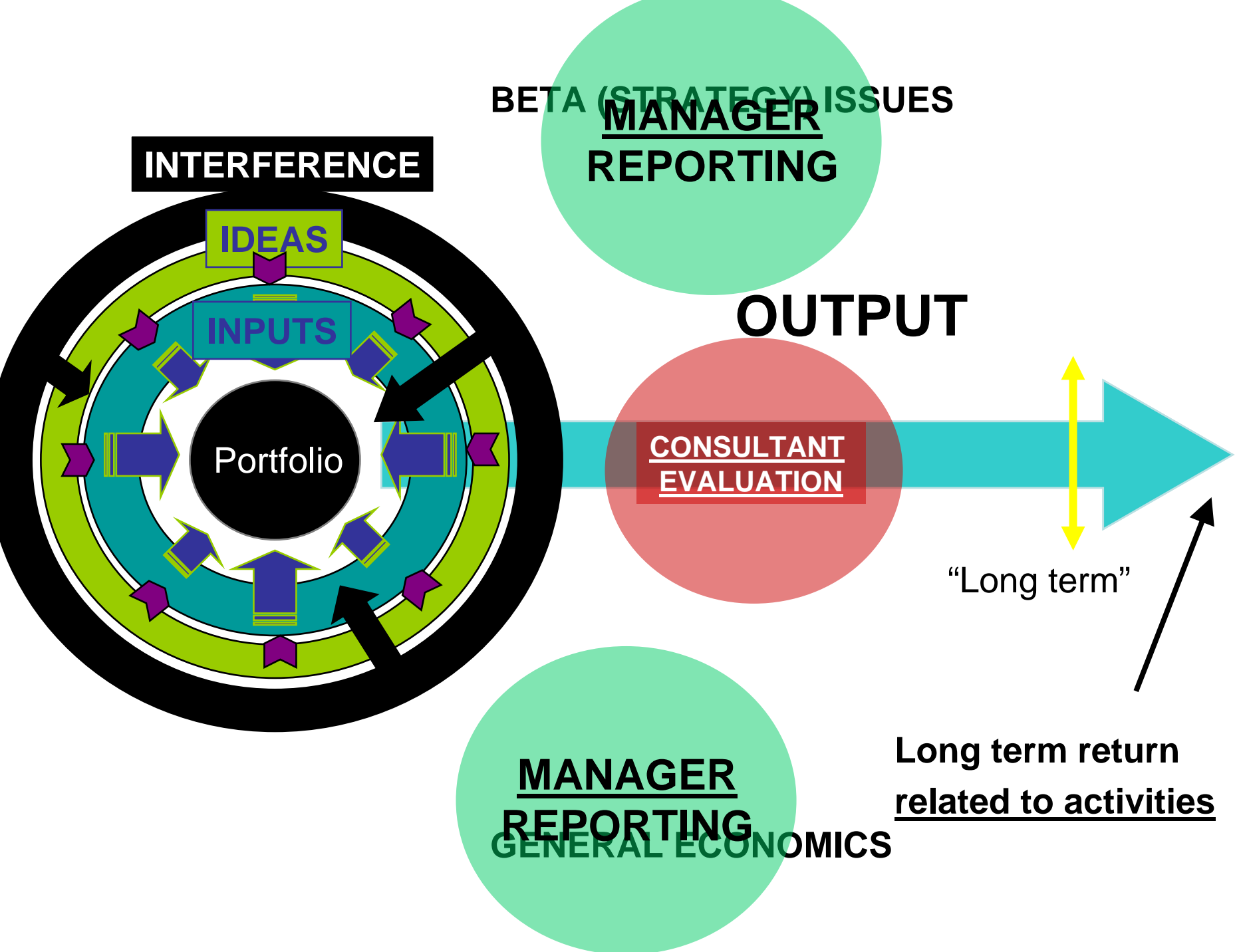
CONSULTANT EVALUATION

Long term return
related to activities

GENERAL ECONOMICS







Broad Research of the Universe

(FILTERING ORIENTATED - infrequent but consistent)

Manager Universe

Potential managers

“Buy” List

“Measuring your consultant”

Bespoke Qualitative Research
based on YOUR requirements

(DECISION ORIENTATED)

Selected
Manager

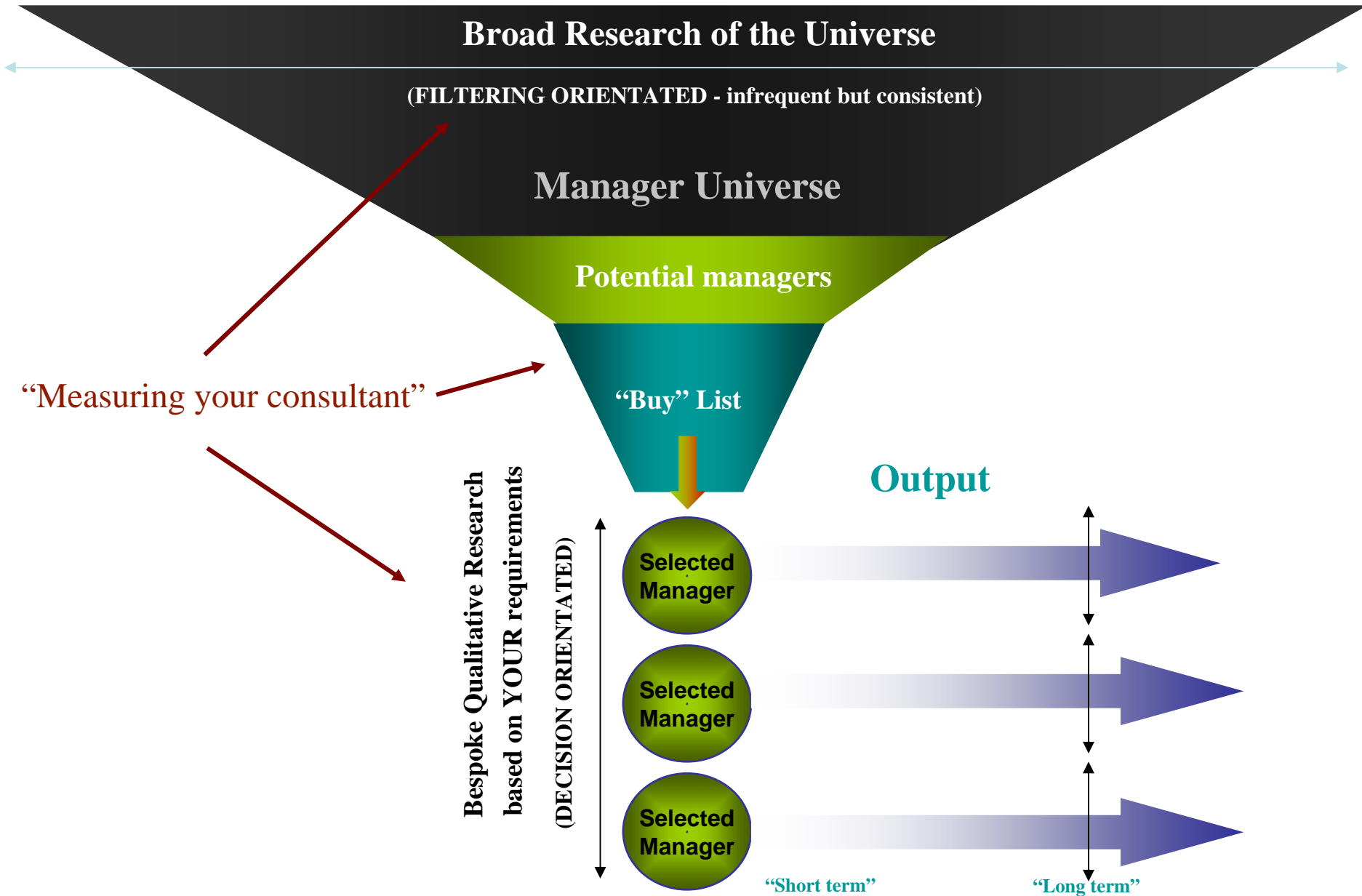
Selected
Manager

Selected
Manager

Output

“Short term”

“Long term”





“If You Leave Me Now...”

stevedelo@pantrustees.co.uk

Presentation intended for pensions and investment industry professionals

Source of visuals and titles: Official Chicago Website and other public material (with grateful thanks)



IAPF

Annual Investment

Conference

2008

