

Connecting the dots like never before...

FinancialIntelligence
Informa



AI - Finding Opportunities in the Numbers

Not too long ago, fundamental and quantitative investing were miles apart. But, we have been witnessing a shift in the industry as the availability of vast amounts of data and computing power have fundamental analysts borrowing techniques from the quantitative camp to enhance decision-making. “Quantamental” investing has become the middle ground, merging machine and more traditional human-based approaches in the investment process.

Now, we are beginning to see a further shift in the entire investment spectrum as Artificial Intelligence (AI) takes hold. In particular, Machine Learning (ML), a branch of AI that automates analytical model building, is being embraced by fundamental and quantitative shops alike to understand complex relationships across large data sets, identify patterns, and predict future scenarios.

AI Pushes the Envelope Further

The rise of AI and ML in the investment community has been well documented in a number of recent surveys that show a strong uptick in current and expected usage to support idea generation, portfolio construction, risk management, and trade execution. According to one study by Greenwich Associates, 56 percent of institutional investors who were surveyed plan to increase the integration of AI into their investment process.

Capabilities like Natural Language Processing (NLP) are moving things even further—and faster. NLP lets computers respond to verbal cues instead of reacting to programmed rules, providing the ability to sift through analyst reports, news, blogs, and social media to identify investment signals that could be important to act upon. And, Computer Vision is letting machines see, identify, and interpret images the same way that people do. Of course, the objective is not to replace analysts in investment decision-making, but enable AI users to unlock new insights to make data highly actionable.

Good Data is Turbocharging AI

The boom in AI is as much about the availability of data as it is about robust computing, and the amount of electronically-available data is growing exponentially. This includes “alternative data” drawn from such things as credit card transactions, social media sentiment, and satellite imaging. Tabb Group estimated alternative data to be worth about \$200 million in the U.S. in 2016, and expects it to double within four years.

Quantitative hedge funds, in particular, see the value in these unique sources of intelligence as they strive to generate alpha ahead of the pack. That said, more traditional data continues to be important, too, now that AI can help extract insights and trends that may have been overlooked in the past given the sheer volume of information that needs to be reviewed.

AI Sheds Additional Light on Where Money is Moving

"AI users at investment firms are highly interested in the breadth, depth, and high frequency of our industry-leading mutual fund and ETF flow and allocation data, which tracks approximately \$34 trillion in assets that move around the world," says Todd Willits, Head of Business for EPFR at Informa

"Our clients are using AI to learn more from our global fund flow data to help beat benchmarks, increase assets under management, and drive new product innovation."

TODD WILLITS

HEAD OF BUSINESS FOR EPFR AT INFORMA FINANCIAL INTELLIGENCE

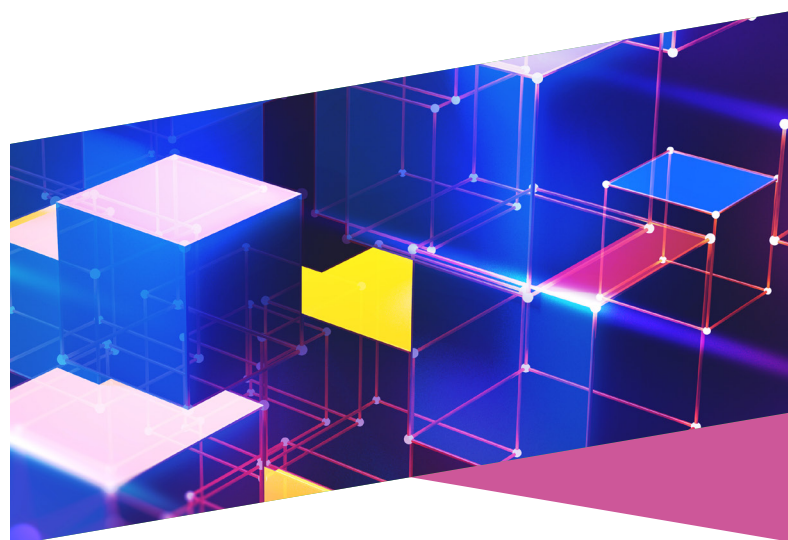
Financial Intelligence. "Our proprietary information on asset classes, fund groups, investment managers, individual funds, and share classes is fueling their systems. This is uncovering additional knowledge about trends in investor sentiment and the impact of different events on market movements, creating unique ideas to help increase alpha and minimize exposure."

ML Helps Shape Other Investment Ideas

"Working closely with our clients, we recognized the importance of helping them gain as much value from our data as possible," explains Todd. "So, we began to use systematic processes, like ML, to enable us to proactively put forward investment ideas."

For example, we looked at fund flows for the seven major regions of the world over a variety of time horizons and found that 20-day flow percentages generated the optimal returns. Equities that were ranked in the top fifth in this time group outperformed equities in the bottom fifth by 10% per year, suggesting that firms go long for the top portion and short for the bottom. We then packaged this as our Global 7 Equity Strategy for client use. We have developed a number of other strategies, as well."

"AI is definitely an enabler," says Todd, "and we are seeing important shifts taking place in the market as we and our clients combine good-quality data with state-of-the art computing techniques to take our analyses to a completely new level."



To discuss this in more detail or for further information:

Email sales.financial@informa.com
Visit financialintelligence.informa.com/epfr

¹ "Asset Managers Plan to Boost AI Spending, a Greenwich Survey Shows", June 2018, <https://www.institutionalinvestor.com/article/b18ts4fwfg53c0/Asset-Managers-Plan-to-Boost-AI-Spending-a-Greenwich-Survey-Shows>.

² "Capturing Alternative Alpha: The Rise of Alternative Data Sets", Tabb Group, November 2016.

³ In U.S. dollars.