

The Industrial Revolution (Finally) Comes to Investing

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It has never been easy, and it never will be ...

Alpha comes from novel data, modern tech, and fundamental insight

1982

Value, quality, momentum,
and low beta/vol were
legitimately “edge”



2023

What is today’s equivalent?

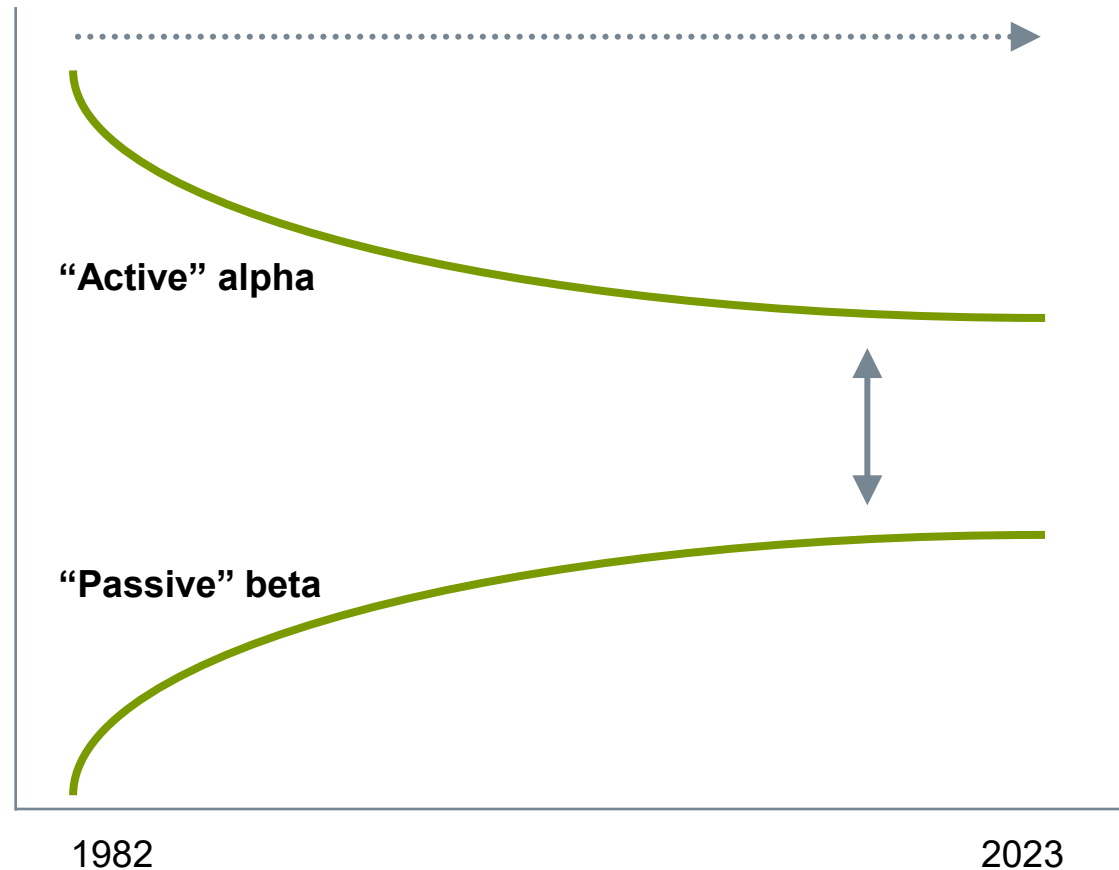
PREREQUISITES FOR ALPHA/EDGE

- Data must be hard to get
- Information is difficult/tedious to extract
- New technology/tools need to be acquired or built for scale
- Fundamental “insight” about the underlying economics is needed
- Trading/execution must be adequate to overcome t-costs

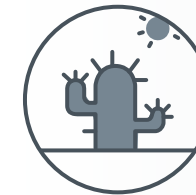
Symphony of Compression ...

Classic active investing has been squeezed into “no man’s land”

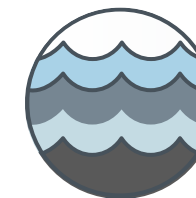
Information Ratio



- Pure alpha
- Highly differentiated processes
- Intense focus on risk management
- \$\$\$ for data, tech, people



- Modern quant and traditional fundamental
- Common data, tech and people
- Episodic performance and low differentiation
- IR ~0.4



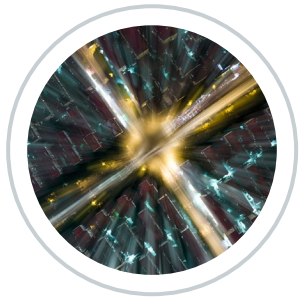
- “Factor surfing” aka. timing
- Enhanced index/smart beta
- Classic factors, sensibly combined
- IR ~0.2
- Very scalable

... And Quant For All

Quant and fundamental research are critical to every component of modern investing

Q: Are you a quant shop or a fundamental shop?

A: That's a silly question. We are an alpha shop.



Data Collection

- Analog: Company meetings
- Digital: Alt-data
- Proprietary: Internally generated



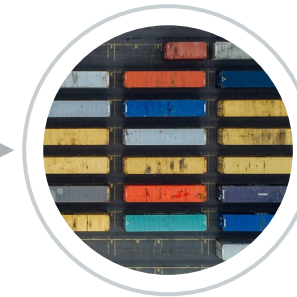
Idea Generation

- Connecting the dots
- Economic intuition
- Fundamental analysis
- Quant models
- Forecasting outcomes



Signal Combination

- Normalize inputs
- Remove biases
- Assign confidence scores
- Alpha capture



Portfolio Construction

- Optimization
- Risk models
- T-cost curves
- Multi-period issues



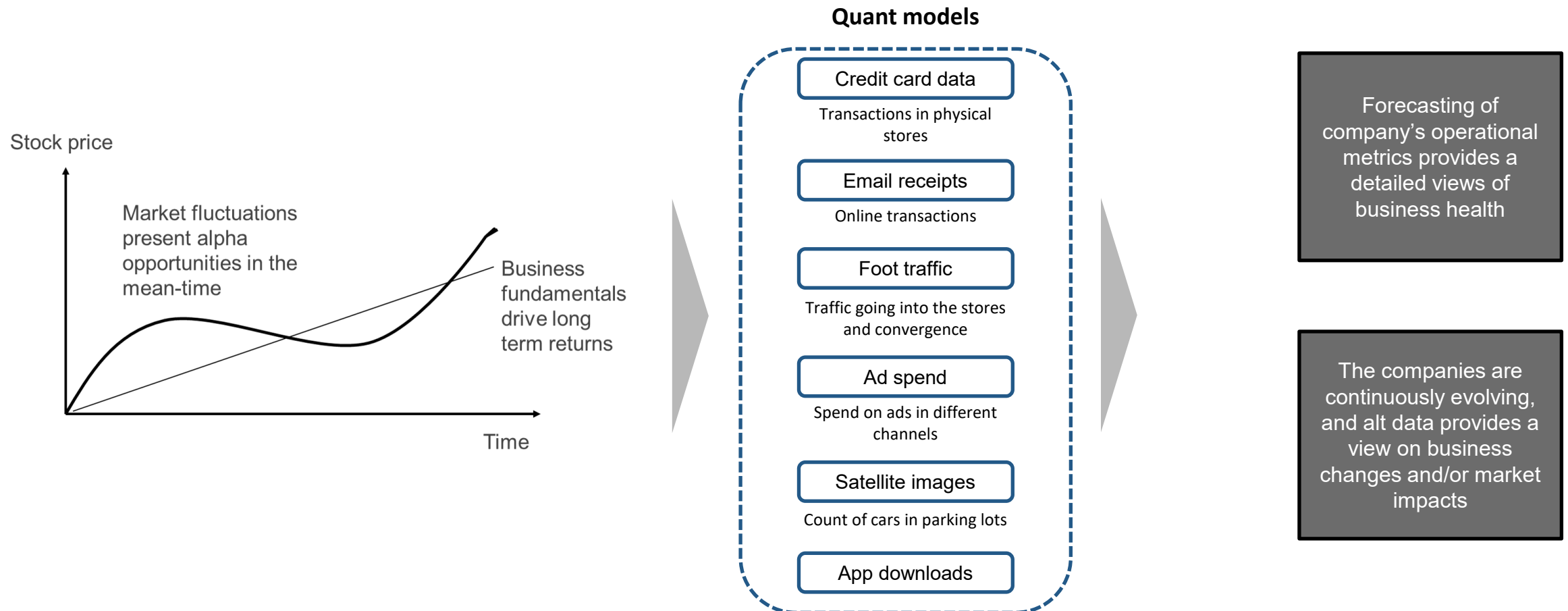
Trading & Execution

- Algo design
- Optimal routing
- Locates
- TCA

Division of labor, specialization and focus are required

Why is Alt Data Critical

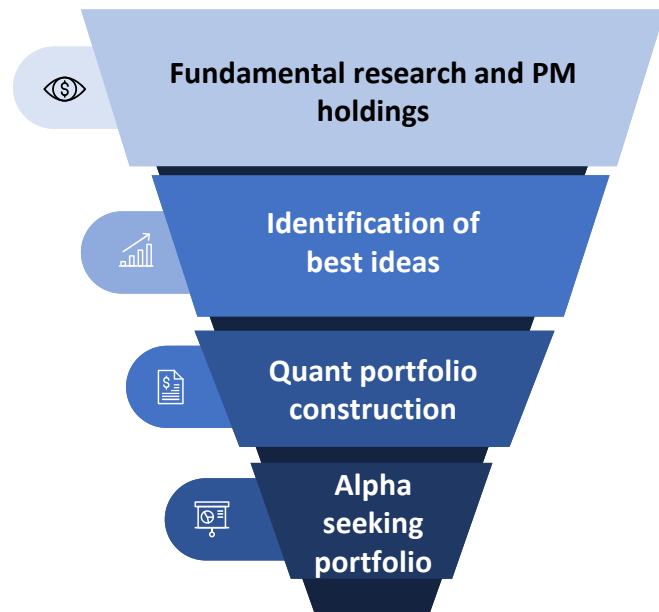
There is an abundance of alternative data being generated and collected. Extracting insights and developing quantitative techniques on alternative data allows one to build forecasts for company fundamentals, and track business health by combining forecasts from multiple sources indicative of how consumers and businesses behave.



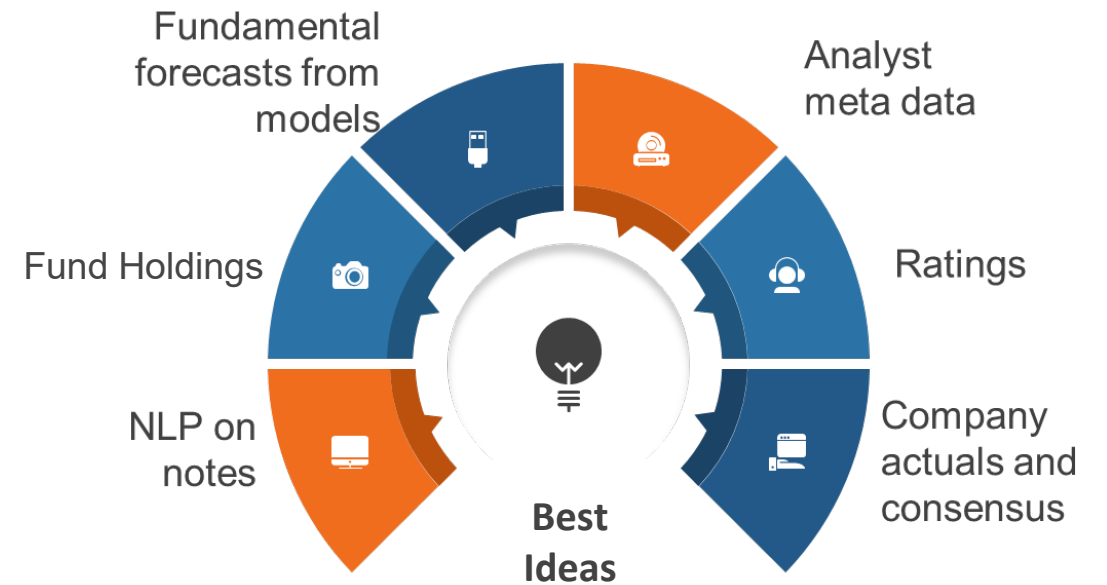
The Right Tool for Each Job

Quant/fundamental partnership to capture best ideas & build portfolios that meet client needs

Multi-Source Portfolio Construction



Capturing Best Ideas



The End

Stylized Conclusion

- Alpha comes from novel data, modern tech, and fundamental insight
- Both traditional fundamental and quant investing have been squeezed into a sort of “no man’s land”
- Asset allocators use their fee budget to pay for alpha, not beta
- You either have data others don’t, or you can extract info in ways others can’t
- Quant and data science are critical to every component of modern investing

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