Data Mining

Asset managers double spending on new data in hunt for edge

With its fees under pressure, investment groups are attempting to reinvigorate returns

Alternative data is generally considered to be anything outside of traditional information like economic statistics and corporate reports, such as satellite images

Robin Wigglesworth in New York MAY 8, 2018

Investment groups have more than doubled their spending on new digital information sets and data scientists in the past two years, as the asset management industry has tried to reinvigorate its fading fortunes.

Asset managers last year spent a total of $373m on data sets and hiring new employees to parse them, up 60 per cent on 2016, and will probably spend a total of $616m this year, according to a survey of investors by AlternativeData.org, a trade body for the industry. It forecasts that overall expenditures will climb to over $1bn by 2020.

With its fees under pressure from passive, cheap index-tracking funds, the money management industry is exploring various ways to deploy technology and data to cut costs and improve the efficiency of both back-office functions like fund distribution and compliance as well as on the investment side.

“We continue to add investment research staff and are working on a more comprehensive data strategy, including enhancements in the ease of doing business for advisers . . . as well as enhanced data availability for our distribution and investment management teams,” said Benjamin Clouse, Waddell & Reed chief financial officer, in the asset manager’s quarterly earnings call.

There is no clean definition of alternative data, but it is generally considered to be anything outside of traditional information like economic statistics and corporate reports, such as satellite images, credit card sales, sentiment analysis, mobile geolocation data and website scraping. Typically, the data sets are so large that they need to be parsed with artificial intelligence techniques like machine learning.

“Far from creating a level playing field, where more readily available information simply leads to greater market efficiency, this information revolution is having the opposite effect,” Schroders, the UK investment group, noted in a report last month. “Fund managers which invest properly in this area will benefit from an ‘information edge’.”

Alternativedata.org, a body supported by YipitData, one of the swelling number of digital data providers targeting the investment industry, got its estimates from surveying asset managers, but some experts put the numbers much higher. Opimas, a consultancy, estimates that investors are spending about $5bn a year on alternative data, and expect the industry to grow 30 per cent annually in the coming years.

The demand for data scientists able to clean up and extract potentially valuable signals from these mammoth digital data sets has deepened over the past year, with people in the industry complaining over an intense battle to find, train and keep people with the technical knowledge to bridge the world of algorithmic data-crunching and finance.

Some are turning to acquisitions to build up their ability to harness new digital data sets. Franklin Resources, often known as Franklin Templeton, in March bought Random Forest Capital, a debt-focused, data-led investment company for an undisclosed amount, hoping that its technology can support the wider asset manager.

“The advanced pace of technological disruption is impacting the traditional investment landscape, providing new ways to identify and originate investment opportunities that generate value for investors,” said Chris Molumphy, chief investment officer of Franklin Templeton’s fixed income group, in a statement at the time.