

Enhancing the investment process
through artificial intelligence

Will data + AI =
enhanced alpha?

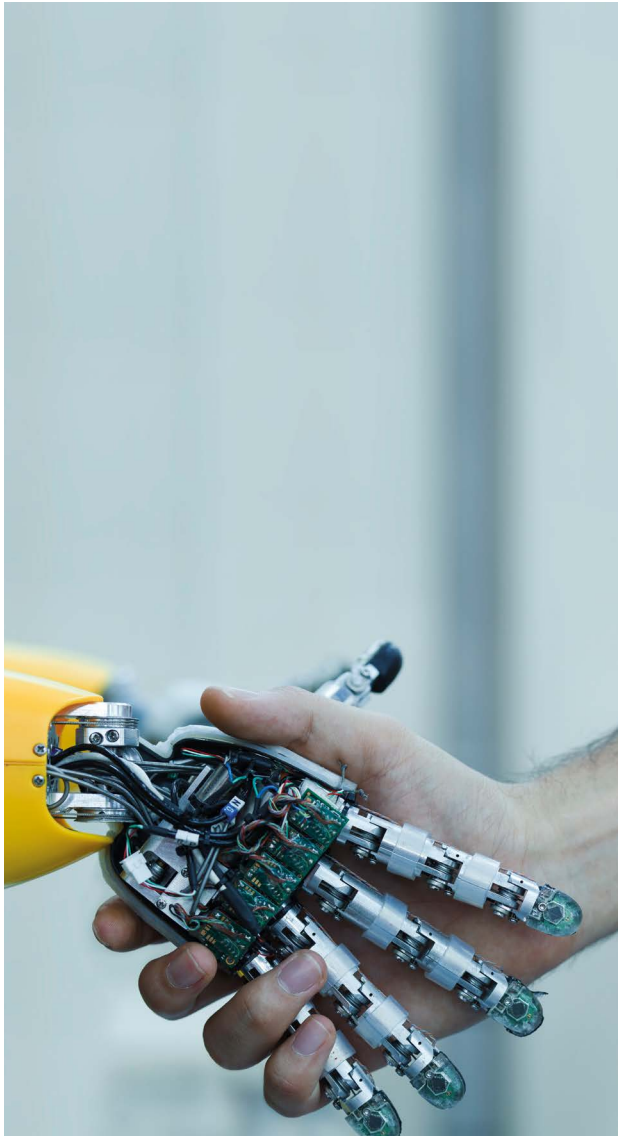
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The better the question. The better the answer.
The better the world works.



Building a better
working world

Introduction



The saying goes that you should only invest in what you know. But what do you invest in if artificial intelligence (AI) knows best?

Investing in what you know is an eminently sensible concept. Yet, we also know that the invasion of robots into investment management is seemingly unstoppable – from robo-advisory in wealth management to quant strategies and robotic process automation in asset management. So what will you invest in as investing changes?

Ever smarter computers and algorithms have improved the way money managers invest. And, as the digital revolution is transforming the asset management industry, digitized data is creating the fuel needed to feed the AI computing engine. Although we know that past performance is not necessarily an indicator of future performance, portfolio managers make investment decisions on the basis of data related to companies and their managers. And we know that AI is more efficient than human beings when it comes to sorting and analyzing vast amounts of structured and unstructured data.

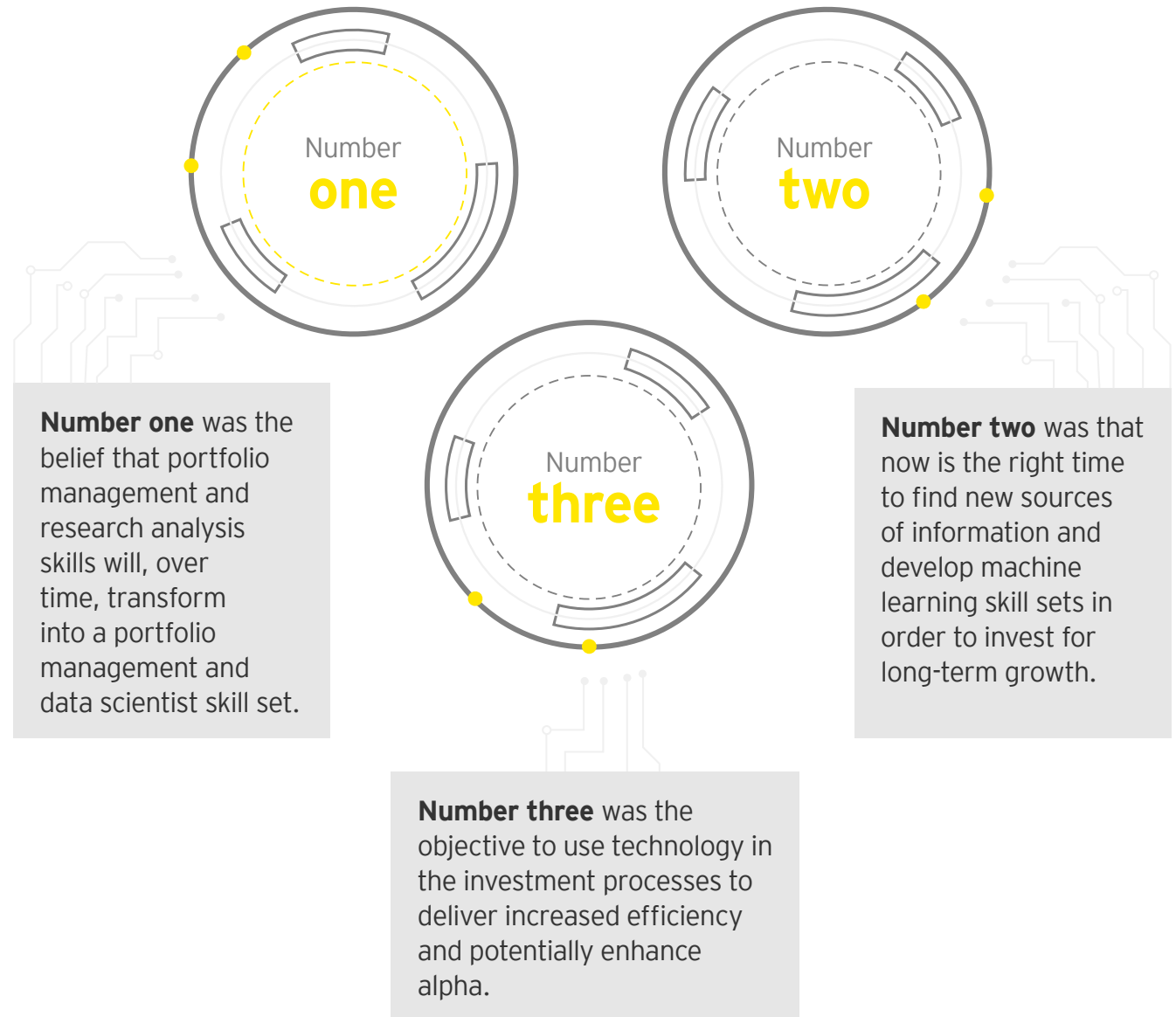
EY's Wealth and Asset Management advisors are finding that some of the largest asset managers are now reaching a critical point. They have achieved the digitization of a huge amount of data and are looking for ways to make better use of this data to serve their clients. This mountain of investment data appears impossible to scale to the human eye, even with the help of complex spreadsheets and sophisticated Visual Basic for Applications (VBAs). But this critical mass of data is exactly what AI needs in order to truly "learn" and develop insights based on these learnings. For example, analyzing data from 10 years of financial statements for dozens of companies in a typical fund manager's portfolio is the stuff of nightmares for research analysts – yet it's the perfect learning opportunity for AI.

Case study

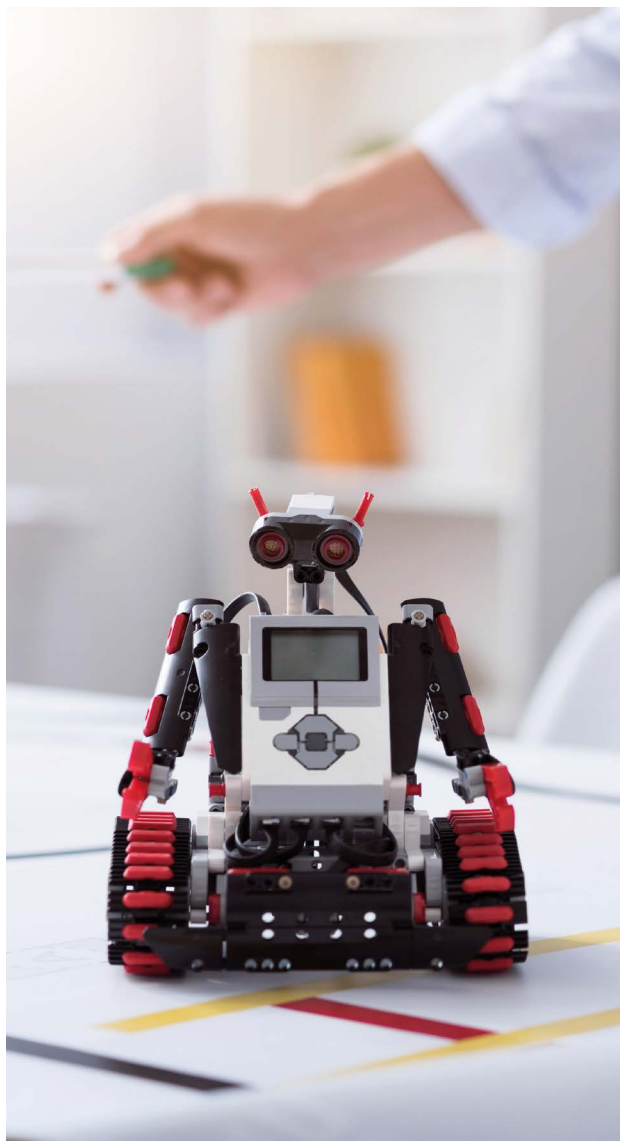
A large global asset manager approached the EY wealth and asset management advisory team. The company realized that its digital transformation journey had yielded operational efficiencies. It was ready to take the next step and focus on transforming its investment processes by leveraging new technologies. Its aim was not just to take a few steps forward, but make an innovative leap that would help create a competitive edge. It wanted that leap to support portfolio managers and research analysts to deliver more alpha, and design completely new investment products.

This mission really resonated with our purpose of “building a better working world” by helping businesses accelerate innovation and leverage emerging technologies to operate more efficiently, manage risk and inspire confidence.

We agreed to collaboratively design the new foundations of the asset manager’s investment processes. At the outset, the working group, comprising EY’s Asset Management technologists and consultants, and representatives from the client’s research, portfolio management and IT teams, set out the project’s three foundational pillars:



Case study



The focus of the project was research and portfolio management; together, we identified these areas as most likely to benefit from an investment in solid digital foundations. Specifically, we agreed that the use of AI could quickly deliver the following efficiency gains:

Research

- ▶ AI-supported access to complex alternative data
- ▶ AI contribution to the creation of proprietary sentiment analysis

Portfolio management

- ▶ AI alerts sent directly to portfolio managers to manage stock-specific and market risks
- ▶ AI-assisted investment decisions

Improved information sharing and decision-making thanks to AI and digital technology

The asset manager's executive team was not only fully supportive of this aim, but was also actively working with the project team to bring about the quickest possible implementation of this potentially game-changing digital transformation. Together, we went from running workshops in the first month to prioritizing projects and allocating budgets in the second month. We organized sprints to provide minimum viable approaches and finally helped implement the AI-supported investment processes in the third month.

This large asset manager is just one of the organizations that EY is helping to translate digital data into a competitive advantage that is based on leveraging AI to augment human performance.

Making the innovative leap

We find that most asset management firms aren't yet exploiting the potential of AI; they are just at the beginning of their digital investment journey. While the fully digital asset manager of the future isn't here yet, an investment in AI brings it much closer and promises to deliver a sizeable return on investment.

To take the next step on your journey, contact your local Irish team.



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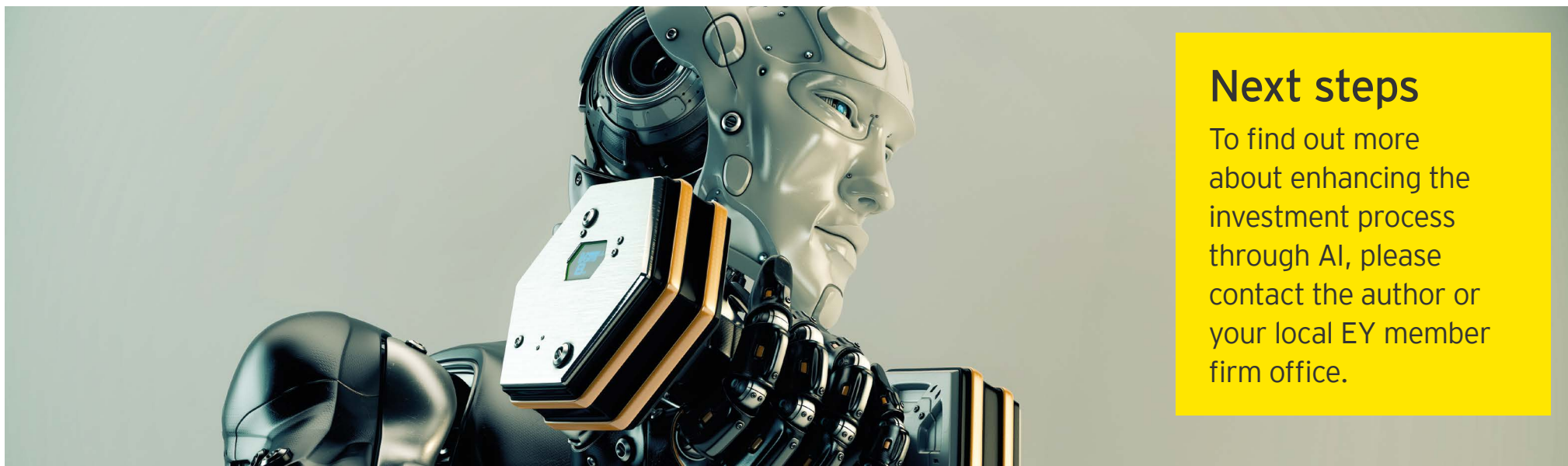


Pierre Borg

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Next steps

To find out more about enhancing the investment process through AI, please contact the author or your local EY member firm office.

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EYG No. 010131-18Gbl
75407.indd 09/18. Artwork by BSC (Ireland)
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