

SBAI Holds Big Data and Artificial Intelligence Roundtable

19 March 2018

The Standards Board for Alternative Investments (SBAI) held a “Big Data and Artificial Intelligence (AI)” roundtable in New York to discuss the current state of innovation in this area as well as the legal and compliance challenges related to new data sources.

The SBAI roundtable was held at Winton’s New York office and brought together leading practitioners from the US, Canada, Europe and China, including representatives from Blackrock, BlueMountain Capital, Dechert, Hivemind, Jasper Capital International, Man Numeric, Periscope Capital and Winton Group.

Thomas Deinet, Executive Director of the SBAI said: “Big data and AI are playing an increasing role in informing investment decision-making, both in quantitative and fundamental investment strategies. This is an area of fast innovation and it is important that firms understand potential compliance risks and pitfalls.”

Key observations from the roundtable included:

- Despite the name “Artificial Intelligence” implying that computers can operate flexibly on their own, at this point, AI programmes can only do specific, narrow tasks. Humans are required to direct the programs and judge whether the output makes sense.
- Assembling and cleaning alternative data sets is still labour intensive, requiring a combination of human judgement and computer processing.
- AI itself is not new; what has changed is the amount of data and computing power. This is allowing managers to rapidly process unprecedented amounts of new information.
- Explaining the attribution from AI-directed investment strategies can be challenging, because trading programme decisions can blur the lines between fundamental, technical and macro analysis.
- When acquiring data sets from vendors, it is critical to perform thorough due diligence to ensure the data does not violate personal privacy and that the source of the data has the legal right to sell it. Managers should perform an end-to-end analysis to ensure they understand every step of the process used to assemble the data.
- Some companies are selling data arising from their business, and managers should ensure that the data does not inadvertently contain insider information.
- Regulators are taking an interest in Big Data and AI and educating themselves. During regular exams they are likely to start exploring what data sets a manager uses and how the manager ensures that using this data does not violate securities regulations.

“The SBAI has been at the forefront of this discussion, bringing together managers and investors to look into the intersection of technology and alternative asset management,” said Deinet. “We will continue to explore Big Data and Artificial Intelligence at our global roundtables, providing a forum for industry participants to advance their knowledge and share best practices.”

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Notes to editors:

1. The SBAI (formerly known as Hedge Fund Standards Board (HFBS)) was formed in January 2008 as the standard-setting body for the alternative investment industry, bringing together managers and investors globally to help determine how the industry should operate. It is custodian of the Alternative Investment Standards, which create a framework of transparency, integrity and good governance for the industry, facilitate investor due diligence and complement public policy. The SBAI also provides practical guidance through the SBAI Toolbox to investors and managers in areas such as fund governance, standardised transparency and risk reporting, cyber security and a standardised total expense ratio. The SBAI is supported by more than 125 alternative investment managers with approximately \$1 trillion in aggregate assets and by more than 65 institutional investors overseeing \$2 trillion in assets. The Standards and the full list of signatories and supporters are available at www.sbai.org.
2. In July 2014, the SBAI became an affiliate member of the International Organisation of Securities Commissions (“IOSCO”). In April 2017, Ashley Alder, CEO of the Securities and Futures Commission of Hong Kong and Chairman of IOSCO, said: “When the industry evolves its own robust conduct standards, particularly through an organisation like the HFSB, where funds and investors come together, laws and regulations we enforce are less likely to be breached. There is no reason why the Standards should only apply to hedge fund managers, and we would like to encourage the HFSB to explore widening its remit.” In May 2016, Gerard Fitzpatrick, Senior Executive Leader, Investment Managers and Superannuation at the Australian Securities Commission (ASIC) said: “I commend the HFSB for identifying the importance of adequate risk disclosure and its ongoing transparency initiatives, including the launch of the standardised Administrator Transparency Report last year and the Open Protocol risk reporting standard. These initiatives are not just relevant to hedge fund managers but to all alternative investment funds and beyond.”
3. The Trustees of the SBAI are:
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4. The Founders of the SBAI are:

- AlphaGen Capital
- Brummer and Partners
- Cheyne Capital
- CQS
- Man Group plc
- Marshall Wace
- Och-Ziff Capital Management
- Winton Capital Management

5. The Core Supporters of the SBAI are:

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