

SBAI Continues its Focus on Big Data and Artificial Intelligence

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The Standards Board for Alternative Investments (SBAI) recently held its fourth significant “Big Data and Artificial Intelligence (AI)” roundtable, following similar events in New York, Hong Kong and San Francisco.

The SBAI is the global standard-setting body for the alternative investment industry and custodian of the Alternative Investment Standards. The SBAI and the Standards are supported by approximately 200 alternative investment managers and institutional investors who collectively manage \$3.5 trillion.

This most recent SBAI Big Data and Artificial Intelligence (AI) roundtable was hosted by Nasdaq in London and brought together over 80 leading practitioners from the US, Europe and China. Speakers came from Amplitude Deep Learning, Hivemind, Jasper Capital International, Man Group, Marshall Wace, Nasdaq, Simmons & Simmons and Systematica Investments.

Thomas Deinet, Executive Director of the SBAI said: “The topics of big data and AI continue to grab the industry’s attention, and we are delighted to have been able to bring together leading experts, both to explore how these tools are impacting investment strategies and to better understand the key legal and compliance considerations.”

Conor Taggart, Managing Director of EMEA Strategic Relationships for Nasdaq’s Global Information Services, said: “Data is the lifeblood of financial markets, and Artificial Intelligence is making it easier to give a larger segment of the investing public access to important market data. The work the SBAI does is vital for navigating the important issues surrounding data and AI, and this aligns with Nasdaq’s mission of making markets more accessible.”

Key observations from the practitioner roundtable included:

- Artificial intelligence itself is not new, with key drivers of innovation including increasing quantity of new data, advances in computing power and storage, software tools and advanced statistical and neural networking techniques, which allow managers to process unprecedented amounts of (unstructured) information.
- Human input is critically important in guiding the overall process – AI programmes can only do specific narrow tasks.
- Big data characteristics include not just the volume of data but also the variety, velocity and “noise” in the data. All of this requires sophisticated techniques to extract the potential information content.

- There is an important difference between “deductive reasoning” based on facts providing certain conclusions and “inductive reasoning” based on evidence (e.g., finding correlations/patterns) and which provides conclusions that are probable (*“it’s true until proven wrong”*).
- The nature of (market) data means that we are not dealing with deterministic systems but with human (and machine) actors in the markets; so, one might not observe the same results over and over again.
- The use case for neural networks includes identification/pattern recognition/classification and function approximation; there is discussion about the ability of neural networks to forecast price data for different time horizons.
- There inevitably is a challenge when training “data hungry” neural networks, including overfitting when training on data sets that are not (yet) large enough; there is a question about whether market data sets can be extended synthetically in lab environments.
- Trade execution is an area where (systematic) managers have extensive internal and external data, and machine learning can help to calibrate trade algorithms continuously.
- Explaining the attribution from AI-directed investment strategies can be challenging because trading programme decisions can blur the lines between fundamental, technical and macro analyses (similar to human gut feeling).

The second panel explored the data onboarding process, legal/compliance considerations and regulatory developments:

- There is a need to understand the overall data (onboarding) workflow in investment firms (including market scanning) and to get researchers interested in particular datasets; vendor due diligence, trial data agreements, mapping new data into firms’ internal data universe and ongoing delivery are also essential.
- There naturally must be a cost / benefit assessment of new data; there also are differences in approach between discretionary (“quantamental”) and systematic use case.
- There are a variety of approaches to organising data and inventory-taking to facilitate easy access/use across different portfolio management teams.
- Legal and compliance concerns include intellectual property considerations, detection of insider information and personal data
 - Assessing potential “insider content” when companies are selling data from their business
 - Concerns about “exclusive data” not made available to others
 - Risks and issues to consider when using crowd-sourced stock recommendations
 - Impact of GDPR and upcoming e-privacy regulation in the European Union on the data-collection abilities of brokers and other service providers
- The recent enhancement of use terms for Apple IOS third party Apps that collect data will result in better protection of user data and might restrict the sale of this data going forward.

As part of its important role in facilitating the development of good market practices, the SBAI will continue the exploration of this evolving topic at upcoming roundtables to help managers, investors and other market participants understand the state of innovation and implications for markets and participants.

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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:
 - Dame Amelia Fawcett, Chairman, Standards Board for Alternative Investments (SBAI)
 - Jane Buchan, CEO, PAAMCO
 - Clint Carlson, President & CIO, Carlson Capital
 - Bruce Cundick, CIO, Utah Retirement Systems

- Luke Ellis, CEO, Man Group plc
- Stuart Fiertz, Co-Founder & President, Cheyne Capital
- David George, Deputy Chief Investment Officer, Public Markets, Future Fund Australia
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- Dale West, Senior Managing Director, Teacher Retirement System of Texas
- Poul Winslow, Senior Managing Director, Global Head of Capital Markets and Factor Investing, Canada Pension Plan Investment Board

4. The Founders of the SBAI are:

- Brummer and Partners
- Cheyne Capital
- CQS
- Man Group plc
- Marshall Wace
- Oz Management
- Winton Capital Management

5. The Core Supporters of the SBAI are:

- Aberdeen Asset Management
- Albourne Partners
- Arrowgrass Capital Partners LLP
- Carlson Capital
- Citadel
- Ionic Capital Management LLC
- PAAMCO
- PAG