IMpact: An investment management podcast series

Episode 1: Unlocking investment management insights: The power of alternative data

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Reese Blair: *Hello, everyone. I'm Reese Blair, your host of IMpact, the new investment management podcast series from Deloitte. IMpact brings you hot takes and fresh perspectives from top experts in the industry. Whether we're discussing issues like regulation, recession, or resiliency, we'll take a deep dive from the latest news, trends, and challenges facing investment management professionals. Our mission is to help you focus on investing in what matters. So, tune in, learn something new, and walk away with insights that will help you make an impact on the IM industry and the world around you.*

Hey IMpact listeners, quick update. At the time of recording, Niall Hurley served as the CEO of Eagle Alpha

Reese Blair: Hello, everyone. I'm Reese Blair, your host of IMpact, the investment management podcast series from Deloitte. Today, we're exploring the intersection of investment management and technology with Niall Hurley, the (former) CEO of Eagle Alpha, a leader in the alternative data field. Niall, it's a pleasure to speak with you today.

Niall Hurley: Hi, Reese. Thanks very much for having me. I'm excited to be here.

Reese Blair: Excellent. Niall, as the (former) CEO, you're obviously at the helm guiding your company Eagle Alpha. Could you give our listeners an inside look at maybe what your daily responsibilities entail, how you lead your team?

Niall Hurley: Absolutely. So, Eagle Alpha as a company is a data platform. People know us for data vendor discovery and prioritization, helping asset managers find interesting and new datasets in the alternative data world. But also, another side of the platform, we help all of these different data owners and data vendors to discover and prioritize buyers. So, we're a key part of helping the ecosystem to function.

And we do other important things like data delivery. We deliver data directly from our platform for a number of years. We also help compliance officers. And we also have a lot of content and thought leadership. So, as CEO, I'm spending time across our various groups including our advisory and sourcing efforts, and our data engineering and business development and content development. Helping them come together to help both sides of the platform to achieve their objectives.

Reese Blair: That's helpful, Niall. I appreciate that overview. And obviously we're here today talking about alternative data. And Niall, when I think of alternative data, the mental representation that comes up for me is this quest (laughs) to uncover unique insights that may give an investor an edge, let's say, to make more informed decisions.

Niall, for those in our audience who may be unfamiliar or may be a novice on this topic, how would you define alternative data?

Niall Hurley: Yes, It's a very broad term. When we started the business in 2012, it actually wasn't a term that was broadly used. It was only probably seven or eight years ago that the words alternative data started trending. But really for most people that are familiar with this part of the data ecosystem, it represents new data sources that are away from traditional data and market data, which would be the main definitions. But even alternative itself is evolving.

You know, the last number of years, there have been a lot of specialists, data vendors, and data service companies. But now, what's quite exciting is alternative data is capturing data sources coming out of corporate environments as well. And that's becoming a more meaningful trend as well.

Reese Blair: That clarification is helpful, Niall. And, look, I think many experts would argue that the landscape of investment strategies have shifted dramatically with the rise of alternative data. You mentioned being around since 2012, and obviously, in recent years, that's been quite a significant uptick in the evolution of the use of alternative data. One could argue that it's becoming increasingly vital, right, if you want to seek to stay ahead of the curve.

I'm curious in your view, why do you think alternative data's emerged as such a crucial component in modern investment strategies? How do you see it providing investment managers with that competitive edge over more, maybe say, traditional data sources?

Niall Hurley: Absolutely. I mean, for most managers that are managing to an active mandate where they're being paid by their clients to outperform an index or an investment benchmark, whether that's a short-term or a long-term horizon, they're looking to make better active decisions. Sometimes that's within a discretionary or a human form; sometimes it's in a systematic quantitative form. But ultimately they need data to make decisions, and that's nothing new within the investment industry.

But from an efficient market hypothesis, if you want to be academic about it, you would argue that a lot of the traditional data sources are reflected in asset prices today. And so, if we can use new data sources to have a better understanding of asset prices or markets or share prices or macro markets, we should be utilizing it. And people are increasingly utilizing it to help with their performance.

So ultimately a big driver of using more data comes down to outperforming your benchmarks—an alpha, so to speak. But even it's also about confirming your thesis. So, I have this view that pricing is improving in this company and I'm going to own shares in that company. OK. Well, do you want to wait for the company to confirm that to you? Or do you want to use data sources to confirm that pricing is improving for their products? And there's lots of ways that you can measure different parts of any investment thesis with new data sources.

Reese Blair: That's really helpful. I think you sort of outlined the why people should look to alternative data to get that edge that we're talking about. Don't want to get too far off the notion of the supply trends that we're seeing in alternative data, how that's evolved. What are some of the elements that you think are driving the supply trends around this topic?

Niall Hurley: Well, firstly as you mentioned, as a consumer, there's things that we're doing today and how we're behaving and devices and use of technology that affectively increases our digital footprint, so to speak, you know. As you say, we've all got devices. We've got wearables. We do more things online. So, there's more ways through technology in terms of how we capture.

The second element would be the cost of converting that data capture and the processing power and the infrastructure that's available to us has increased. So the cost of creating datasets has become more affordable. So those are two big drivers of what's driving supply.

And then, of course, the other side is on the demand side. There's now more budget available. So this creates a supply response. There's more asset managers now—or corporate consumers of data. And the attribution being given to data has increased. So now, data budgets are growing. With an increase in demand, there's a supply response.

So that's part of the dynamic that we've seen. It does mean that we're adding probably 20 data products per month to our platform in terms of deep profiles. These are datasets that not just metadata and tear sheets, but it's due diligence documents. It's connected data where we scan the outlined data. We're doing all of these things now.

So, the ability to monitor and stay on top of all these new supply sources has changed dramatically, versus seven or eight years ago.

Reese Blair: That's well stated. On that notion of the supply trends that we're seeing around alternative data, I want to get your thoughts on regulatory frameworks, things that you're seeing, around how do you govern this information gathering, collection, validation, etc.

Niall Hurley: Sure. I think sometimes there can be concerns around personally identifiable information [PII], privacy points.

The reality is, what an investment analyst needs to know is what 5 million, 10 million, 20 million people are doing. So, on personally identifiable information, investment managers do not nor have any need or have any interest in receiving anything that was representative of PII.

That's the first point. Any data source that's being assessed, there's confirmed response that there's no personally identifiable information in the data. So, that's a given.

The second is ensuring that the data collection methodology has been done correctly. So, with any dataset, before it gets purchased, it goes into a back-testing phase often with lagged data that's less sensitive, lagged by six months. There will be more questions prior to data access on whether there were consents to collect that data and how is that collection done.

And ultimately, what a compliance officer and a lawyer will be very sensitive to is that there is the right to collect and the right to sell the data. And that there has been no deception nor breach of fiduciary duty in collecting that data. And that's what compliance teams are very sensitive to—that if there's been any activity that could involve deception or breach of fiduciary duty—because then you're into much more complex areas like MNPI.

And it's really important to know that funds that are working with all of these new data sources, they're all SEC regulated and other regulators internationally. And they're very focused on compliance around all of their data ingestion and research activities. So there's a lot of checks and balances that a data product or a dataset will go through before it gets subscribed to. And then ongoing, compliance points through the data life cycle.

Reese Blair: You mentioned a term, MNPI. Can you maybe just define that for our listeners?

Niall Hurley: Sure.

Reese Blair: I don't want to assume everyone knows what that is.

Niall Hurley: Yeah, absolutely. Material nonpublic information.

Reese Blair: Perfect.

Niall Hurley: So, what could be deemed insider trading? This is a very complex area in the data world because there's limited if no legal precedence around testing MNPI as it relates to data. Where we see a regulator take action against an investment manager on an MNPI issue—and a lot of the cases that we monitor as it relates to material nonpublic information and data—they have their groundings in commercial interest, not regulatory or SEC matters.

So there are still a lot of areas around MNPI where a compliance team needs to take an approach of being prudent, being conservative, to make sure, as I said, points around consents, confirmation from the data owner that they have the right to collect, the right to sell—there will be no deception in gathering the data, and so forth. They're all very clear. And all of this is documented, memorialized, timestamped, so that if there is ever a regulatory investigation that it'll be very evident that the fund had followed due process.

Reese Blair: You said so many key terms that as an auditor literally light me up on the inside, right? We talked about good documentation. We talked about confidentiality, guardrails, checks and balances. Knowing that regulations play such an important role around the governing of alternative data, hopefully our listeners can sleep better at night knowing that this information is being monitored, how it's being collected, how it's being used. Very helpful.

Let's pivot, right? We've sort of covered the supply side of alternative data. I want to pivot to the demand side. And there is, clearly—you mentioned in the past several years—an increasing demand for alternative data. And particularly among investment professionals, folks who are obviously chasing alpha. What do you think is contributing to that trend? I think I know the answer, but I'm curious to get your take on that, Niall.

Niall Hurley: Yeah. So, we talked about portfolio alpha and performance. For any active manager, they do want to be outperforming both their peers and their benchmarks to help their business attract capital. If they go through extended periods of underperformance, the risk is they lose capital. So, there's immediate business need to make sure that your research processes, your investment processes, are innovating and trying new approaches, whether that is expert networks, whether that is independent research providers, whether it's data. Also, all of these things are important drivers on the demand side.

You also see instances where there can be, like, a regulatory evolution. So, if you take environmental, social, [and] governance-related investment, where you saw an increase in mandates. Often this was a trend that was more prevalent in Europe—but it's also important in North America—that investors wanted to ensure that capital was being allocated, in a manner, that was, positive, in terms of environmental, social, and governance [ESG]. And data had a really important role to play there because often to adhere to these regulatory frameworks, you needed to be able to measure things like emissions, or supply chain activity, or changes in workforce.

Measuring these types of changes within a business or within an industry is not straightforward to do with information that often gets self-disclosed in an annual report. You need to find other ways of measuring what a business is truly doing. And then the other side that is also important is sometimes what some people call, "operational alpha," i.e., efficiency. If you're in a research team and you cover 500 companies, how much of your year are what you spend reviewing annual reports or regulatory filings, or auditor's statements? If you added up all the hours that it would take for analysts to do that, there are things you can do now where you can put that through a large language model, or natural language processing, where the accuracy of these models are improving all the time. And you could say, "Well, we used to spend 5,000 hours a year doing this on 500 companies. We've now reduced that to 2,500 hours," for example.

So now, we can take that time. We can either give it back to employees, or we can use it to do other exercises, like go out and go to more conferences, or go speak to more management teams, or do other things that are additive to our research efforts. That type of thing is becoming more prevalent.

So, what it means is sometimes processes that have been validated in the quantitative world are now able to come over into the discretionary world and help with overall efficiency around managing money.

Reese Blair: That's a novel concept, Niall. To be honest, I didn't think about operational alpha in the concept of efficiency. It makes a lot of sense. You also said a few things around the world of ESG and some of the regulatory needs. Let's maybe unpack that a little bit, and zoom out. Let's maybe just think about overall risk management. How would you say the demand for alternative data is helping with decision-making and risk management?

And maybe staying away from certain sectors, or certain ideas and theses, that maybe come up that folks may probably either pivot towards or stay away from. How do you see the alternative data driving that behavior?

Niall Hurley: That's really important because often people can stereotype with alternative data and have a perspective that it relates to shorter-term trading. It's used by hedge funds, and it's for predicting that this company is going to have a better or worse quarter, in terms of its earnings results. People have this stereotype or assumption that it's all short-term use cases.

But actually, for a lot of users, the alternative data can just validate a thesis, which comes into the risk side. And a lot of firms—established firms—they have a process that works for them and that they have developed over many years. They're not looking to change their research process. But a lot of this can come down to controlling risks, as you say.

Why would you not do that? It's not that you're suddenly becoming a short-term macro trader; you're just validating a thesis that we own these names because we believe the economy is going to improve. And is the data confirming that that's the case? In which case, we should continue with this thematic in our portfolio, or we need to be aware that whatever our thoughts are on this is not coming through or being validated by the data. So, we need to maybe have a rethink about that. That doesn't necessarily have to turn you into a short-term trader or change your investment process.

Reese Blair: Niall, Eagle Alpha has been around since 2012, and I am sure that you will have come across examples where alternative data may have influenced the outcome of an investment portfolio, someone got a home run, someone struck out (laughs), right?

So looking for the good and the bad, in a real example—obviously without disclosing too much—where alternative data has actually influenced the outcome of a decision, or someone having some measure of success, or epic failure.

Niall Hurley: Absolutely. So, yes, you're right. We have confidentiality clauses in place with our clients, and we are very sensitive to protecting any research questions. So I'll discuss one example, at a higher level.

But when you had COVID and the government decisions to impose lockdowns, within a number of weeks of that, one pattern we saw across our client base—and often very long-term investors—was doing a lot more work on supply chain disruption and impacts on pricing and inflation. And if you think about how that evolved and where inflation started to manifest itself in government data and caused a significant change in central bank interest rate policy globally, there was quite a long lead time between lockdown and when that came through in the government data.

But if you were working with alternative data, you would have been able to start creating a whole time-series analysis across different types of data that would be representative of elements like CPI and PPI, and other government inflation measures, but with the benefit of them being in real time. And so, that type of work was something that a lot of large multi-strategy funds and multi-asset institutions started doing in that period. And as we know, it wasn't for quite a number of quarters that we saw changes in government policy.

That's one area where I would say there's a type of very meaningful impact these type of data sources can have in investment portfolios.

Reese Blair: That's helpful. As you were saying that I realize that the conversation thus far has been very pro-alternative data (laughs), right?

But what are some of the headwinds? What are some of the challenges that investment managers may encounter if they were to incorporate alternative data into their decision-making processes?

Niall Hurley: Absolutely. Working with all of these data sources can present a number of challenges. And most of the time, you can really break the challenges down into three areas.

And the first is a skills gap to work with the data. The second can be a budget challenge where there are all these data sources—working with a wide variety of data sources has a cost. And then also, with companies that want to use more data, there needs to be a corporate culture around being data-intensive as a firm. And so, it's really across skills, budget, and culture.

Those would be the three main challenges. So speaking to each of them, the good thing from a skills perspective is generally what you've seen when you look at workforce data. Firms are hiring more data scientists and more data engineers and more quantitative researchers that are comfortable working with complex data.

Some of those skills have gone into a smaller group of asset managers that are very advanced. What you would like to see in the industry is that there is a broadening of those skill sets going further through the industry. So that's the first element—having the skills and having the talent that knows how to work with these data sources.

The second thing is budget. The asset managers have the requirement to access market data, access sale-side research. These are big drivers of budget we spend each year. So, having that residual available to spend on alternative data sources can be a challenge. Particularly when the industry goes through a difficult performance period—something like 2023 was like that. But generally, 2024 is better.

And then, the culture point. It's really important that through the CIO function, through the leadership, through all the analysts and PMs, that you have data champions, people through the business that are truly data-centric. That's really key because it can take time to get your infrastructure in place, to have the right expectations. You could be back testing a lot of data each year to have a portion of that convert where you bring it into your production environment, or into your live research environment, or your live trading environment, on an ongoing basis.

So people need to be patient. They need to build domain knowledge on different types of data. They have to understand this data is more complex. It's not presented like traditional data and market data. There's a lot of different nuances to work with these data sources, but most of them can be addressed.

And the other positive is, versus eight years ago, when I came into the industry, the amount of tooling and solutions—when I look at our platform functionality today versus what started effectively as a spreadsheet at one point—if data companies are open to selling their data to funds at all—when I look at how advanced the platform is, how far into people's workflow it can go, it's a very meaningful change.

And there's lots of different solution providers out there that are helping solve for different skills that are needed. And it's much easier now for parts of the workflow to be outsourced, but you still need that culture of wanting to work with data, and you still need to have the budgets in place to pay for data and pay for solutions.

Reese Blair: Economic constraints, right? We've covered supply and demand. So, I feel like my economics professor would be very happy with me (laughing) at this point. But you also talked about technology, and I think this is the perfect segue and perfect opportunity to pivot into maybe taking a deeper dive into technology. And we could boil the ocean there, right? I mean, there are so many things to cover there. But maybe the topic that I know a lot of our listeners are particularly curious about is the AI [artificial intelligence] and [Generative Pre-trained Transformer] GPT-related elements of technology.

And so, I'm curious, from your perspective, Niall, about the role of AI in our field, and especially GPT models. How are they being leveraged to process and analyze alternative data in our industry?

Niall Hurley: Absolutely. I mean, it seems like some time now since GPT was every headline. But I suppose staying with our previous discussion, or framework, let me start on the supply side of the market and the data owners or the data specialists, data vendors.

GPT first had its impact really around areas that were textual in nature. So, if I was a company that reviewed filings, or reviewed news, for example, maybe some of the original approaches to natural language processing and sentiment, there was definitely some disruption and changes there, where how one would interpret vast amounts of textual data that would have evolved. So that was certainly the first instance that we saw, in terms of how GPT was changing, and large language models [LLMs] were changing the supply side. It was really in that area of news and filings and working with text.

What's quite interesting now is—what I found even within our own business—when AI first came along and suddenly we were all experts in AI. People would have said, "This is not Generative AI. This is machine learning." You can do this with SQL and Python, and so forth. But what was important was it brought an awareness beyond the data world and into the average management team. It brought into conversation the possibilities of working with data, which was a positive.

And to our earlier point, working with data is complex. But on the demand side now, if you speak to data engineers that are working with data and complex data, you're now seeing a broadening of the applications of AI and LLMs to working with other types of data besides text. And a lot of this will relate to data preparation, data tagging, data enrichment. These type of exercises could be very time-consuming. It's now possible to get through these exercises quicker and get to the stuff that's really enjoyable, which is all the alpha testing and the data science and hypothesis testing. So it's definitely having a demand there. If you speak to data engineers that are working with complex data, they're seeing improvements in what AI and LLMs can do.

So, overall, it's been a positive. And the other thing I would say is, it's definitely triggered a response in the corporate world that our data has value because all these models—AI, LLMs—they all need more and more data to create more interesting output. And so, suddenly, the value of data is once again on the agenda for corporates. And them thinking, "Hey, maybe our data is worth more externally than we realized."

Reese Blair: Are there any hurdles, any challenges, that you think could come in the way of integrating AI with alternative data? Anything that could go wrong?

Niall Hurley: Yeah. I've sat in a number of sessions now with leading lawyers and compliance discussing some of the elements around the legalities and the compliance aspects and the risk frameworks needed of working with AI. And at this point, It's a new area. So, when you're sitting in these sessions, there's definitely more questions than answers. People are still trying to work things out, and so forth.

So, on the input side, there are certain elements around licensing and permissioning, and data that you have access to that you might be putting into a model, what you're allowed to do with that. And perhaps, some of this licensing and permissioning, when it was first put in place, it didn't have to consider things like LLMs. So, that's definitely one area.

The second is, converting data into some form of output, going through a model. Is it prone to error? As we know, can it hallucinate? And so, does there need to be a risk framework in place that people know that this output of what you're seeing in front of you came through a model? That's another area that people discuss.

And then the third is, who owns the output? There's instances now where we have court cases around the whole intellectual property side. And to what extent is that intellectual property? To what extent does the ownership of that sitting with the data providers on the input side versus the model generated in the output on the LLM side?

So these are all very complex topics. And a lot of this is still not fully explored, or that we have a presence in place that we can be definitive on these responses.

Reese Blair: That's helpful, Niall. We could probably (laughs) go for hours trying to unpack it. I feel like we're only scraping the surface here, but I want to maybe start to think about closing down the conversation. I've really enjoyed this dialogue today, but I'd be remiss if I didn't seek your counsel. As we close out today's conversation, what advice would you give to investment managers who are beginning their journey, or maybe on their journey already but probably need to think about some additional considerations for exploring the use of alternative data?

So, whether they're just starting or on their journey, what word of advice would you give to those investment managers or individuals who are thinking about leveraging alternative data?

Niall Hurley: Sure. And going back to some of the original points I mentioned around skills, budget, culture, the first thing observing the space for many years and seeing firms that have succeeded and evolved, and seeing those that have stalled, the first thing I would say is senior buy-in within a firm. Is there true commitment from the leadership team that you want to be more data-centric in your investment research and operational processes? That's the first thing.

The second is, be patient. People go from this isn't working, to it's working, to suddenly unrealistic expectations of how much more inroads they can make. So, for many people getting started, it can be a two-year journey. You've got to get your compliance processes in place. You need to get data ingestion processes in place. You need to get back-testing processes. You need to be able to have realistic KPIs [key performance indicators]. This is the amount of data we want to test each year. This is the amount that we want to convert. This is the type of use cases we're going to apply it for, and so forth. This is how we're going to think about resourcing.

So, all these things are really important. And it's making sure you have the right expectations around them. So that's the main thing I would say. Getting buy-in, being patient, and having the right expectations and KPIs in place.

Reese Blair: You know, Niall, that's a fantastic note to end on. Thank you for your insights. Thank you for the investment of your time today. Look, as we wrap up today's episode, it is clear that alternative data has moved from a niche tool to a central component in the quest for generating alpha.

The trends we're seeing in both supply and demand, you've talked about that, right, for this data, it really underscores its growing importance. Companies are becoming more intentional about producing granular real-time data. Investment managers are increasingly eager from a demand side (laughs) to harness these insights to stay competitive.

And we touched on AI. The integration of AI has only accelerated this shift, to which it's enabling firms to process and analyze vast datasets that arguably would have been unimaginable just a few years ago. But Niall, you hit the nail on the head. The journey to adopting alternative data isn't a quick win. It often requires, as you said, at least a two-year commitment. And we need strong senior buy-in to navigate all the complexities and ensure long-term success.

And I thought the important point around setting realistic KPIs is crucial in demonstrating value along the way. I thought that was a really important takeaway that hopefully our listeners will gather from the conversation. And look, at the end of the day, investing in the research process and selecting the right data sources are really key to unlocking the full potential of alternative data.

So, with that said, to all of our listeners, we really want to thank you for joining (laughs) our conversation today on alternative data and its transformative role in investment management. Whether you're deepening your existing expertise or you're new to the field, our goal here with this podcast is to provide you with insights that not only inform but also empower you to act.

We hope today's conversation provided valuable insights into how alternative data can be accretive to your investment strategy, whatever that may be. Now more than ever, I think it's imperative to highlight and amplify the notion that I've shared with all of you in the past. Knowledge is not power. The use of knowledge is where power lies.

So, let's continue to learn and apply the insights gleaned from these conversations. Let's focus on investing in what matters. And until next time, keep engaging, keep innovating, and keep making an impact.

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