

How Hedge Funds are Using Alternative Data and Quantitative Analysis

More hedge fund managers are using alternative data to gain a competitive advantage, said results of a new survey from the Alternative Investment Management Association and SS&C Technologies.

Considering how fast technology is moving, those that fail to adapt risk losing a potential advantage in the competitive race to deliver the rarest of returns – alpha. Consequently, most managers are in the process of updating their investment processes and business models to accommodate the growing amount of alternative data.

Our role of a definition is to provide clarity when using a concept, as quantitative firm we prefer weather patterns, satellite imagery and logistics data, as well as web crawled data.

MAIN USES OF ALTERNATIVE DATA



A tool for generating outperformance

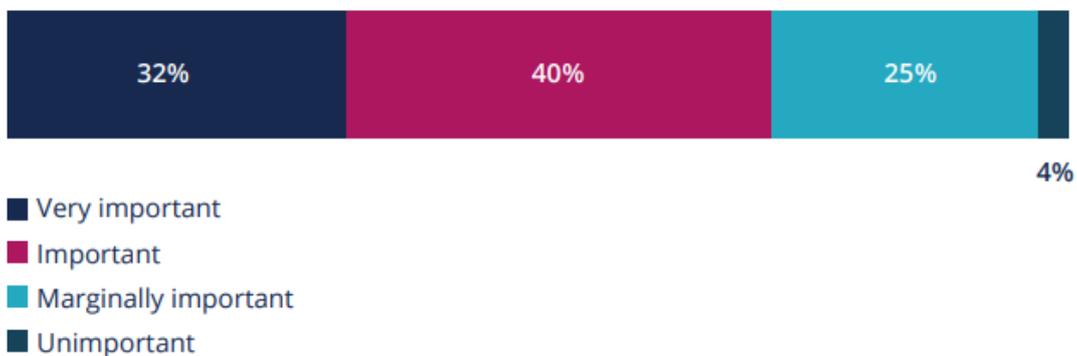
Generating alpha –i.e. delivering a return that can be solely attributed to the hedge fund manager’s skill rather than anything else – is the holy grail of any investment activity. However, for alpha to be delivered, managers need to first identify and then exploit an investable edge – that is, they need to spot opportunities that other market participants either overlooked or completely missed and, importantly, allocate to them in a proportion that, at the overall portfolio level, more than makes up for the positions that do not go as well as initially thought. Alpha herefore is hard to come by.

Demonstrating return on investment

Another challenge for managers represents the need to demonstrate a return on investment (ROI) on the cost of alternative data. Indeed, 72% of all users (i.e. both “market leaders” and “the rest of the market”) say alt data is especially important or important to enhancing their overall value proposition.

However, justifying the costs associated with alternative data and the advantages hedge fund managers aim to extract from it is key for the wider adoption of alt data sources across the industry.

THE IMPORTANCE OF ALTERNATIVE DATA FOR ENHANCING YOUR VALUE PROPOSITION (USERS ONLY)



CONCLUSION

Investors have always been innovative in seeking out new ways to gain an informational edge. Hedge funds have always embraced change, constantly innovating to deliver superior returns to investors. Many of the industry’s longest established names have been at the forefront of rigorous data driven investing.

There is broad optimism regarding hedge funds continued use of alternative data in the years ahead, with many of our respondents believing that its use will become more mainstream soon.

Hedge funds with their long tradition of pioneering change and bringing new forms of innovation to investment management are ready to take up this challenge.