

Date: 17 February 2018

Fund Managers Use AI in Their Stock Selection

Focus Malaysia (17 – 23 February 2018)

By Ismitz Matthew De Alwis



IT is intriguing that the asset management industry is able to familiarise itself with futuristic buzzwords in the likes of artificial intelligence (AI), robotics and augmented/virtual reality (AR/VR) with ease. Better still, fund managers globally no longer perceive AI-related business as hype, but rather as a sustainable long-term investment venture. The consensus is such that despite still being in an infancy state, AI has the potential to transform the global economy in profound ways by disrupting conventional economic sectors ranging from finance to healthcare, education and transportation, among others.

IDC study

A recent IDC study commissioned by Microsoft Malaysia reveals that about 7% of the GDP last year was derived from digital products and services created directly through the use of digital technologies such as mobility, cloud, Internet of Things and AI. Within the next four years, Microsoft Malaysia expects to see about 45% of the GDP to be derived from digital products and services. At the same time, the information technology giant observes that the deployment of AI by organisations across the Asia-Pacific is poised to accelerate even further. Very simply, this year and beyond will see more companies investing in digital architecture in their quest to become leaner, versatile and better to adapt to an unpredictable marketplace.

“The long-anticipated rise of AI, machine learning, robotics and AR/VR technologies will finally come together this year, hence further improving business applications,” envisages Andy Cocks, chief technology officer of system integrator Dimension Data Asia-Pacific. “Enterprise strategy-wise, hybrid IT remains a top priority despite being a tricky one as both applications and infrastructure will continue to become more programmable than ever.” A recent report published by PricewaterhouseCoopers forecasts AI to contribute up to US\$15.7 tril (RM61.86 tril) to the global economy come 2030 which is more than the current output of China and India combined. Of this, US\$6.6 tril is likely to come from



increased productivity while US\$9.1 tril is expected to come from consumption-side effects. A report entitled Fintech Spending and Innovation in Capital Markets by consultancy Opimas considered AI “the big winner” as banks, brokers, fund managers and other firms poured money into new technologies and data sources. The report came with some of the biggest names in finance, including Goldman Sachs, BlackRock and Deutsche Bank, are already looking for cheaper and faster ways to transform business lines that have until now relied on a human touch.

Growth opportunities

Faith in machine-learning technologies expanding exponentially and driving economic growth around the world has paved the way for asset management firms to launch numerous AI-oriented funds in recent times. Currently, fund managers use various tools to identify companies where revenue growth is driven by the development and application of AI. This stock-selection process is enhanced by a proprietary AI system which helps to identify profitable companies by leveraging AI systems to tap their growth prospects.

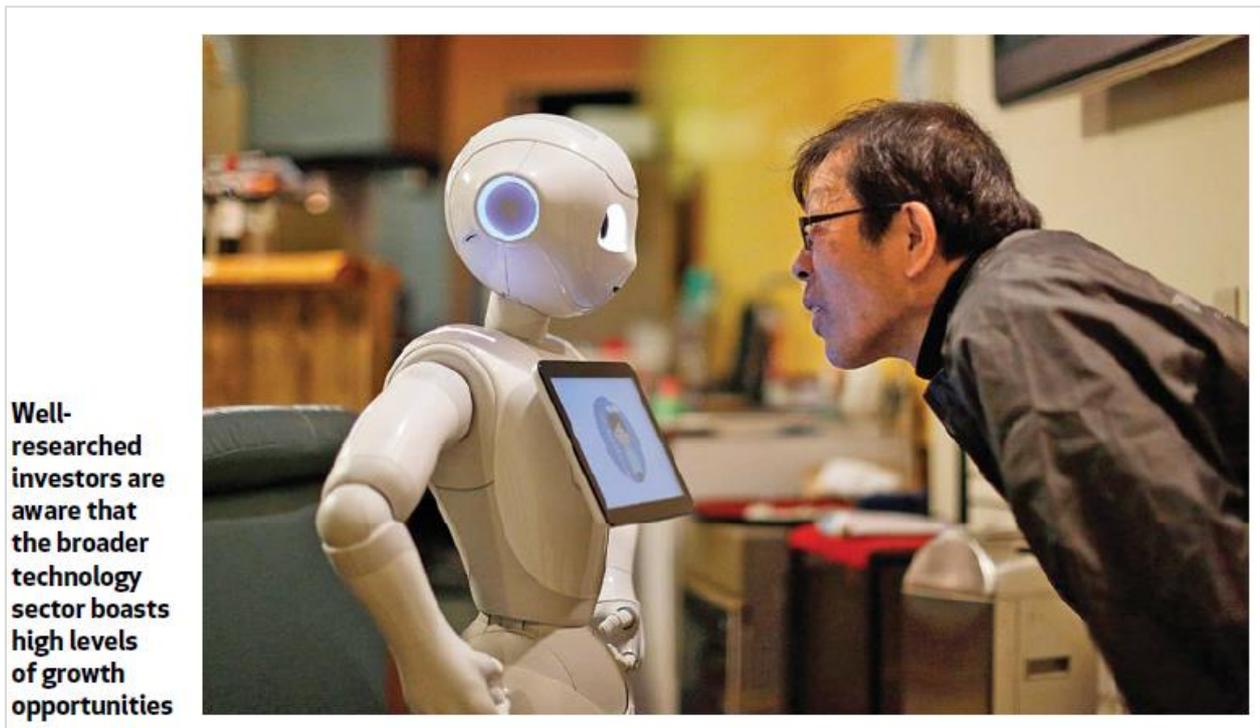
Typically, the selection process entails:

- *Research investible universe using an AI-driven screen to identify companies where revenues are directly impacted by AI;*
- *Select the most attractive investment opportunities using fundamental research and valuation measures;*
- *Construct a portfolio that is diversified by sector, region and company size; and*
- *Monitor risk and performance and manage the particular fund to adapt to changing conditions in the global economy and latest industry developments.*

Well-researched investors are aware that the broader technology sector boasts high levels of growth at a time when expansion in the overall economy is a little more tepid. Against the backdrop of modestly rising interest rates and fuller valuations, Franklin Templeton Investments executive vice-president and head of equities Stephen H Dover foresees innovative companies with the potential to disrupt existing industries – including in emerging markets – to fare particularly well. “We see opportunity not only in disruptive technology companies, but also in companies that are using technology to change entire industries,” he suggests. “And unlike during past runs in technology stocks, many of these companies have actual earnings and cash flows that can support reinvestment in

their businesses which in turn makes them less reliant on raising capital in the markets at a time when interest rates are climbing.” Together, tech jewels in the likes of Facebook, Apple, Amazon, Microsoft and Google posted average gains of 47.3% last year. Those five players alone accounted for 5.2 percentage points of the S&P’s total gain of 23.7% (their market share surged from US\$2.09 tril at the start of last year to US\$3.01 tril by end-2017).

Bright future



Well-researched investors are aware that the broader technology sector boasts high levels of growth opportunities

Although it cannot be proven that algorithm-driven trading – something which is very much aligned to AI technology – was the culprit behind the recent Wall Street sell-off which had a contagion effect on global stock markets including Bursa Malaysia, the very mention of “algorithm” is an acknowledgement that AI-related technology is itself a powerful stock selection tool for index-based funds. Unlike the highly volatile bitcoin and its cryptocurrency peers which have in recent times plummeted from a historical high of US\$19,783.06 on Dec 17 to US\$8,828.80 (as of Feb 14), this futuristic technology is here to stay. Very much related to bitcoin, however, is the Blockchain technology which was

first created in 2008 and intended to be a framework for the cryptocurrency. Alongside AI, these are two major technologies that are catalysing the pace of innovation and introducing radical shifts in every industry. With its transformative power, Blockchain is widely seen as a game changer that has the potential to lead digitalisation in almost every sector – whether asset management, intellectual property management, logistics, medical records, supply chains or the sharing economy – that involves value transactions. Hiromichi Mizuno, chief investment officer of Japan’s Government Pension Investment Fund, the world’s biggest manager of retirement savings, expects AI to be able to either replace or enhance the work of asset managers, particularly for short-term trading. While he wouldn’t be surprised if many people lose their jobs because AI has replaced their routine, he still has faith in human wisdom. “I think the long-term thinking and the environmental, social and governance-like non-numerical, non-quantitative information will continue to require human interpretation,” he justifies.

ENDS

Ismitz Matthew De Alwis is the executive director and CEO of Kenanga Investors Bhd.

Article Source:

Focus Malaysia. (Weekly Issue Feb 17 – 23, 2018)

16/02/2018 (Friday)
markets

Dear Jones

Hang Seng

Nikkei

MSCI

Surging yen drags down Nikkei

AI-Related funds are now common offering in the marketplace.

High potential of posting as potential growth

Guest Writer
by **Ismaez Muzhar De Alwis**

IT IS intriguing that the asset management industry is able to familiarise itself with futuristic buzzwords in the likes of artificial intelligence (AI), robotics and augmented/virtual reality (AR/VR) with ease. In fact still, fund managers globally no longer perceive AI-related business as a hype, but rather as a sustainable long-term investment venture.

The consensus is such that despite still being in an infancy state, AI has the potential to transform the global economy in profound ways by disrupting conventional economic sectors ranging from finance to healthcare, education and transportation, among others.

EDC study

A recent EDC study commissioned by Microsoft Malaysia reveals that about 7% of the GDP last year was derived from digital products and services created directly through the use of digital technologies such as mobility, cloud, internet of things and AI.

Within the next three years, Microsoft Malaysia expects to see about 45% of the GDP to be derived from digital products and services. At the same time, the international technology giant observes that the deployment of AI by organisations across the Asia-Pacific region is accelerating ever further.

Very simply, this year and beyond will see more companies investing in digital technologies in their quest to become leaner, more agile and better placed to adapt to an unpredictable marketplace.

The long-underrated rise of AI, machine learning, robotics and AR/VR technologies will likely come together this year, hence further improving business applications," envisages Andy Sacks, chief technology officer of systems integrator Dimension Data Asia-Pacific.

"Enterprise strategy-wise, hybrid IT remains a top priority despite being a tricky one as both applications and infrastructure will continue to become more programmable than ever."

A recent report published by venture capitalists Coopers & Lybrand (CL) in the US, titled 'AI in the global economy come 2030' which is more than the current output of China and India combined. CL's US\$1.1 tril is likely to come from increased productivity while US\$1.4 tril is expected to come from consumption-side effects.

A report entitled 'Predict Growth and Innovation in Capital Markets' by consultancy Optima considered AI "the big winner" as banks, brokers, fund managers and other firms poured money into new technologies and data sources.

The report came with some of the biggest names in finance, including Goldman Sachs, BlackRock and Deutsche Bank, are already looking for cheaper and faster ways to transform business lines that have until now relied on a human touch.

Growth opportunities

Fields in machine-learning, robotics expanding exponentially and driving economic growth around the world has paved the way for asset management firms to launch numerous AI-oriented funds in recent times.

Currently, fund managers use various tools to identify companies where revenue growth is driven by the development and application of AI. This stock-selection process is enhanced by a proprietary AI system which helps to identify profitable companies by leveraging AI systems to tap their growth prospects.

Typically, the selection process entails:

- research investable universe using an AI-driven screen to identify companies where revenues are directly impacted by AI;
- Select the most attractive investment opportunities using fundamental research and valuation measures;
- Conduct a portfolio that is diversified by sector, region and company size; and
- Monitor risk and performance and manage the portfolio based to adapt to changing conditions in the global economy and local industry developments.

Well-researched investors are aware that the broader technology sector boasts high levels of growth at a time when expansion in the overall economy is a little more tepid.

Against the backdrop of modestly rising interest rates and falling valuations, Franklin Templeton Investments executive vice-president and head of equities Stephen H Dover foresees innovative companies with the potential to disrupt existing industries - including in emerging markets - to fare particularly well.

"We see opportunity not only in disruptive technology companies, but also in companies that are using technology to change entire industries," he explains.

"And unlike during past runs in technology stocks, many of these companies have actual earnings and cash flows that can support reinvestment in their business which in turn makes them less reliant on raising capital in the market at a time when interest rates are climbing."

Today, tech funds in the likes of Facebook, Apple, Amazon, Microsoft and Google posted average gains of 47.7% last year. These five players alone accounted for 4.1 percentage points of the S&P's total gain of 27.5% (their market share surged from 15.5% in 2014 at the start of last year to 25.5% as of end-2017).

Bright future

Although it cannot be proven that algorithm-driven trading - something which is very much aligned to AI technology - was the culprit behind the recent Wall Street sell-off which had a contagion effect on global stock markets including in Asia, Malaysia, the very notion of "algorithm" is an acknowledgment that AI-related technology is itself a powerful stock selection tool for tech-based funds.

Unlike the highly volatile Bitcoin and its cryptocurrency peers which have in several times plummeted from a historical high of US\$1,150 on Dec 17 to US\$130 on Jan 16, 2018, the historic technology boom is still going strong.

Very much related to Bitcoin however is the blockchain technology which was first created in 2008 and intended to be a framework for the cryptocurrency, Bitcoin. AI, Blockchain and IoT are two major technologies that are catalysing the pace of innovation and introducing radical shifts in every industry.

With its transformative power, blockchain is widely seen as a game changer that has the potential to lead digitalisation in almost every sector - whether asset management, individual property management, logistics, medical records, supply chains or the sharing economy - that involves value transactions.

Hirotsugu Mizuno, chief investment officer of Japan's Government Pension Investment Fund, the world's largest manager of retirement savings, expects AI to be able to either replace or enhance the work of asset managers, particularly for short-term trading.

"While he wouldn't be surprised if many people lose their jobs because AI has replaced their routine, he still has faith in human wisdom."

"I think the long-term thinking and the environmental, social and governance-like non-commercial, non-quantifiable information will continue to require human interpretation," he justifies (Barr's).

Asset Managers Are Able to the executive director and CEO of Kenanga Investors Ltd.

Fund managers use AI in their stock selection

Well-researched investors are aware that the broader technology sector boasts high levels of growth opportunities

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KENANGA INVESTORS BERHAD (353563-P)

Fund managers use AI in their stock selection

- AI-related funds are now common offering in the marketplace
- High potential of posting exponential growth



Guest writer
Ianthe Matthew De Alen

IT IS intriguing that the asset management industry is able to familiarise itself with futuristic buzzwords in the likes of artificial intelligence (AI), robotics and augmented virtual reality (AR) with ease.

After all, fund managers globally no longer perceive AI-related business as a foppish investment venture. The consensus is such that despite still being in an infancy state, AI has the potential to transform the global economy in profound ways by disrupting conventional economic sectors ranging from finance to healthcare, education and transportation, among others.

IBC study

A recent IBC study commissioned by Microsoft Malaysia reveals that about 7% of the GDP last year was derived from digital products and services created directly through the use of digital technologies such as mobility, cloud, internet of things and AI.

Within the next four years, Microsoft Malaysia expects to see about 40% of the GDP to be derived from digital products and services. At the same time, the information technology giant observes that the deployment of AI by organisations across the Asia-Pacific is poised to accelerate even further.

Very simply, this year and beyond will see more companies investing in digital architecture in their quest to become leaner, versatile and better placed

to adapt to an unpredictable marketplace.

"The long-anticipated rise of AI, machine learning, robotics and AR/VR technologies will finally come together this year, hence further improving business applications," envisages Andy Cocks, chief technology officer of systems integrator Dimension Data Asia-Pacific.

"Enterprise strategy-wise, hybrid IT remains a top priority despite being a risky one as both applications and infrastructure will continue to become more unmanageable than ever."

A recent report published by PricewaterhouseCoopers forecasts AI to contribute up to US\$6.2 trillion (RM30.86 trillion) to the global economy come 2030, which is more than the current output of China and India combined. Of this, US\$6.0 trillion is likely to come from increased productivity while US\$0.2 trillion is expected to come from consumption-side efforts.

A report entitled *FinTech Spending and Innovation in Capital Markets* by consultant Opium considered AI "the big winner" as banks, brokers, fund managers and other firms poured money into new technologies and data sources.

The report came with some of the biggest names in finance, including Goldman Sachs, BlackRock and Deutsche Bank, are already looking for cheaper and faster ways to transform business lines that have until now relied on a human touch.

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"We see opportunity not only in disruptive technology companies, but also in companies that are using technology to change entire industries," he suggests.

"And unlike during past runs in technology stocks, many of these companies have actual earnings and cash flows that can support reinvestment in their businesses which in turn

makes them less reliant on raising capital in the markets at a time when interest rates are climbing."

Together, tech jewels in the likes of Facebook, Apple, Amazon, Microsoft and Google posted average gains of 27.5% last year. These five players alone accounted for 1.3 percentage points of the S&P 500 total gain of 11.7% their market share surged from US\$1.66 trillion at the start of last year to US\$3.09 trillion by end-2017.

Bright future

Although it cannot be proven that algorithm-driven trading - something which is very much aligned to AI technology - was the culprit behind the recent Wall Street sell-off which had a contagion effect on global stock markets including Bursa Malaysia, the very mention of "algorithm" has acknowledged that AI-related technology is itself a powerful stock selection tool for index-based funds.

Unlike the highly volatile bitcoin and its cryptocurrency peers which have recently plummeted from a historical high of US\$679.00 on Dec 17 to US\$162.80 (as of Feb 14), blockchain technology is here to stay.

Very much related to bitcoin, however, is the blockchain technology which was first created in 2008 and intended to be a framework for the cryptocurrency. Alongside AI, these are two major technologies that are catalysing the pace of innovation and attracting radical shifts in every industry.

With its transformative power, blockchain is widely seen as a game-changer that has the potential to lead digitalisation in almost every sector - whether asset management, intellectual property management, logistics, medical records, supply chains or the sharing economy - that involves value transactions.

Hiroaki Mizuno, chief investment officer of Japan's Government Pension Investment Fund, the world's biggest manager of retirement savings, expects AI to be able to either replace or enhance the work of asset managers, particularly in short-term trading.

While he wouldn't be surprised if many people lose their jobs because AI has replaced their routine, he still has faith in human wisdom.

"I think the long-term thinking and the environmental, social and governance-like non-monetary, non-quantifiable information will continue to require human interpretation," he finishes.

Ianthe Matthew De Alen is the executive director and CEO of Kenanga Investors Asia.

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