Exabel

Alternative Data
for Investment 2023

Research Report

Insights from 100 discretionary portfolio managers and analysts on the application of alternative data in investment management.

2023

Introduction

Demand for alternative data* as an integral part of alpha generation for institutional investors continues to accelerate. Driven by the widespread adoption of mature datasets as part of baseline research, investment professionals are now seeking more diverse datasets as well as sophisticated technology and analytics to work with.

In January 2023, we commissioned the market research company Pureprofile to conduct a study with 100 discretionary portfolio managers and investment analysts, to capture their views on alternative data. The survey respondents are based in the US, UK, Singapore and Hong Kong, and collectively manage ~$969 billion in assets.

Our report finds that:

- The inclusion of alternative data as a source for insights is now mainstream for institutional investors.
- The majority of respondents expect their organization's use of alternative data to grow strongly, measured by both the number of datasets and aggregate spend.
- As spend on alternative data continues to grow, respondents expect funds will look increasingly to third-party technology providers to solve the challenges of combining and analyzing alternative data at accelerating scale and pace.

Key findings

96% of portfolio managers and investment analysts surveyed are already using alternative data to support their strategies

90% of investment professionals expect the use of alternative data by funds to increase between now and 2025

91% of investors expect their use of third-party software systems to analyze alternative data to increase between now and 2028

Alternative data refers to non-traditional data sets that investors use to support their investment strategies. Some examples of this include data on credit card transactions, mobile devices, satellite imagery, social media sentiment, product reviews and traffic to websites.

Growth & demand

Growth is not uniform - institutional investors are seeking diverse datasets across different categories.

76% of portfolio managers and investment analysts surveyed think consumer spending data will provide an outsized informational edge in the future

44% of investors expect a dramatic increase in the use of employment data (e.g. job listings, average salary, employee satisfaction statistics)

35% of investors expect a dramatic increase in the use of social sentiment data (e.g. consumer behaviour and reaction to brands' content and positioning

As the sector's appetite for alternative data grows in variety, scale and complexity, the challenges professionals face become more apparent.

71% of investment professionals find combining data from different sources the most challenging problem faced when using alternative data

53% of investors struggle to process raw, alternative data in a usable format for their fundamental equities research

In seeking to better manage and solve these challenges, investment teams are turning to external, third party solutions.

70% of investment professionals expect to see an increase in the use of third-party software systems to analyze alternative data over the next 5 years
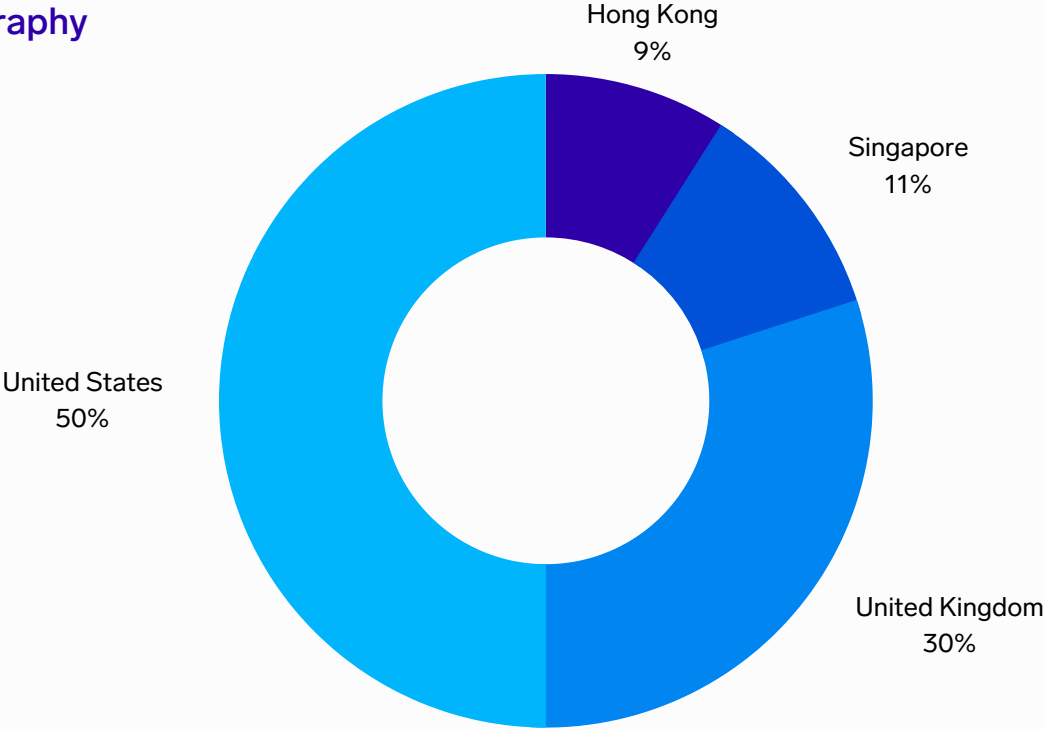
69% of investors agree that third-party systems "are more effective than our in house systems for analyzing data"
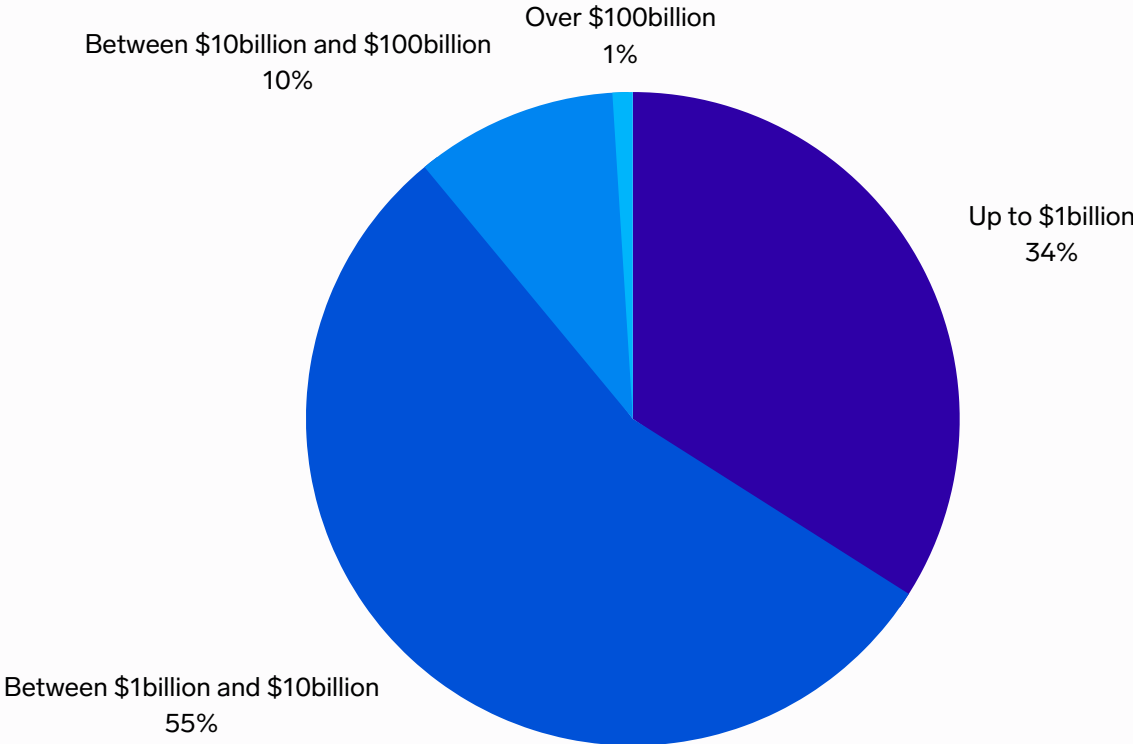
Respondent demographics

We surveyed 100 active portfolio managers and investment analysts from discretionary public equity funds with ~$969 billion collectively in AUM.

Geography

Hong Kong
9%

Singapore
11%

United States
50%

United Kingdom
30%

AUM breakdown

Between $10billion and $100billion
10%

Over $100billion
1%

Up to $1billion
34%

Between $1billion and $10billion
55%

Current usage of alternative data in discretionary investing

Of the discretionary investing-focused portfolio managers and investment analysts surveyed for Exabel's study, 96% said they currently use alternative data to support their strategies [Figure 1]. In terms of when they started using this, 16% said within the past 12 months, and 39% said it was between one and three years ago. A further 39% said it was between three to five years ago [Figure 2].

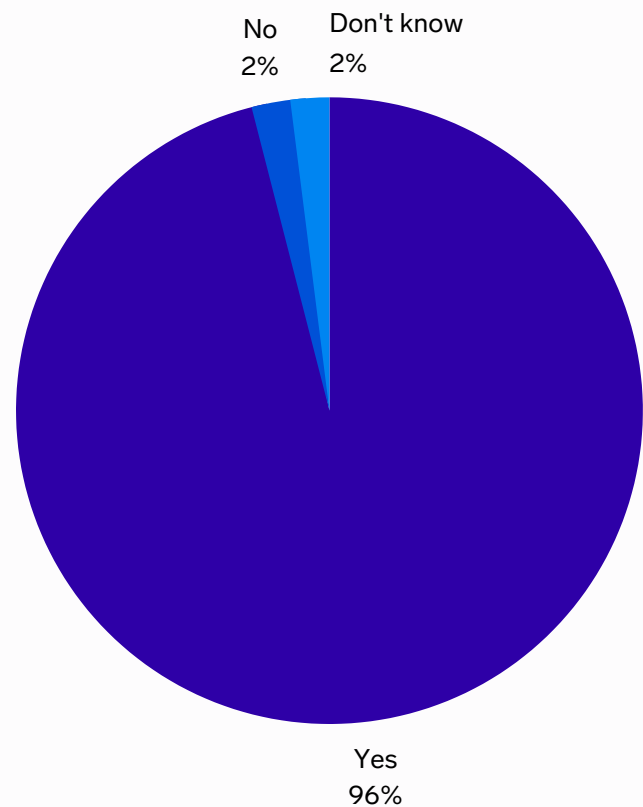## Does the organization you work for use alternative data to support their investment research?

No
2%

Don't know
2%

Yes
96%

Figure 1

Thinking about the organization you work for, when did they start using alternative data?

More than 5 years ago
5.2%

Within the past 12 months
15.6%

3 to 5 years ago
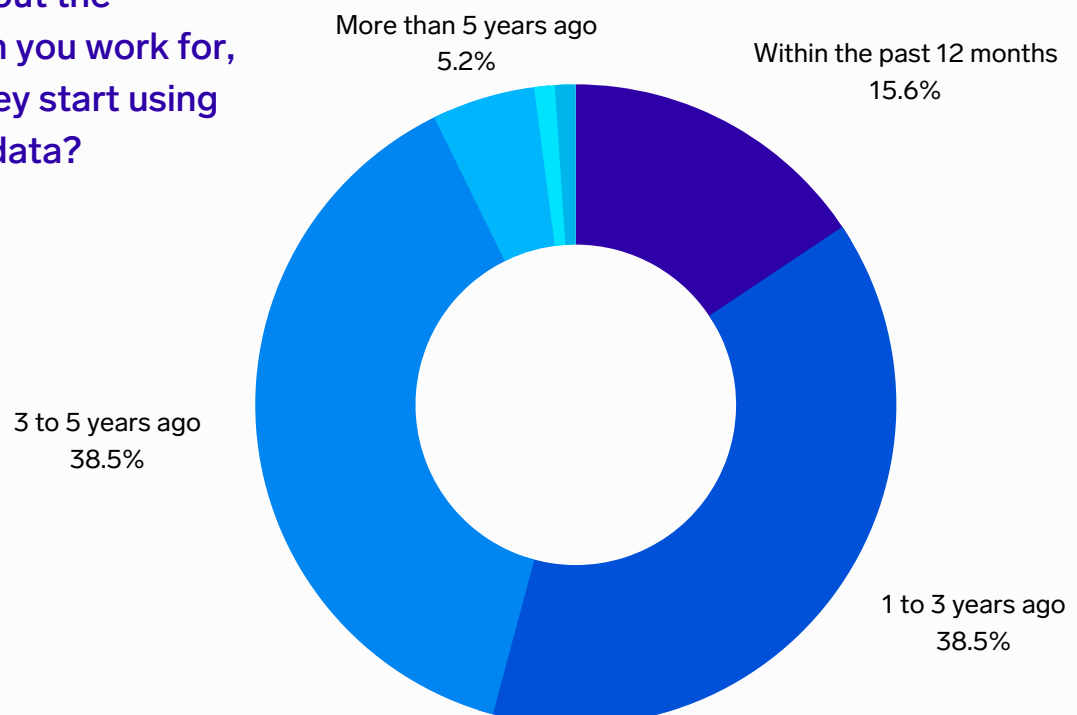38.5%

1 to 3 years ago
38.5%

Figure 2

The use of alternative data is becoming increasingly important for investment firms to help them identify innovative ideas to generate increased alpha. That is a view that 98% of investment professionals interviewed said they agree with. Half (50%) said they 'strongly' agree with this sentiment.

More than four out of ten (41%) professional investors surveyed said they strongly agree with the view that alternative data can provide a close to real-time picture for investment managers that enhances their decision making. A further 58% said they agree with this view.

Of those professional investors interviewed, 97% say their budgets for buying and managing alternative data has increased over the past two years. Some 40% say it has increased by 50% or more, with 6% claiming it has more than doubled [Figure 3].

Percentage increase in budgets for alternative data over the past two years	Percentage of active fund managers and investment analysts who have seen this increase in budgets for alternative data for the funds they help to manage
Increased by up to 10%	9%
Increased by between 10% and 25%	24%
Increased by between 25% and 50%	24%
Increased by between 50% and 75%	22%
Increased by between 75% and 100%	12%
Increased by between 100% and 200%	6%
It has not changed	2%
Don't know	1%

Figure 3

When it comes how alternative data budgets are used, 47% of investment professionals interviewed say half or more of it goes on buying the actual data itself, with 30% saying this level of spending goes on software and technology needed to analyze it. Some 26% of those interviewed said half or more of their alternative data budgets is spent on headcount and the people needed to interpret the data [Figure 4].

Thinking about the fund/funds you help to manage and their current budget for buying and managing alternative data, how is this allocated between the following areas?

	Up to 10%	Between 10% and 25%	Between 25% and 50%	Between 50% and 75%	Between 75% and 100%
Headcount	8%	38%	28%	19%	7%
Software/ technology	11%	29%	30%	22%	8%
Buying the actual data itself	5%	15%	33%	36%	11%

Figure 4

Professional investors plan to make more use of alternative data

Our study reveals that 90% of active portfolio managers and investment analysts expect the use of alternative data by funds to increase between now and 2025 – 29% anticipate a dramatic increase [Figure 5].

How do you see the use of alternative data by investment managers changing over the next two years?
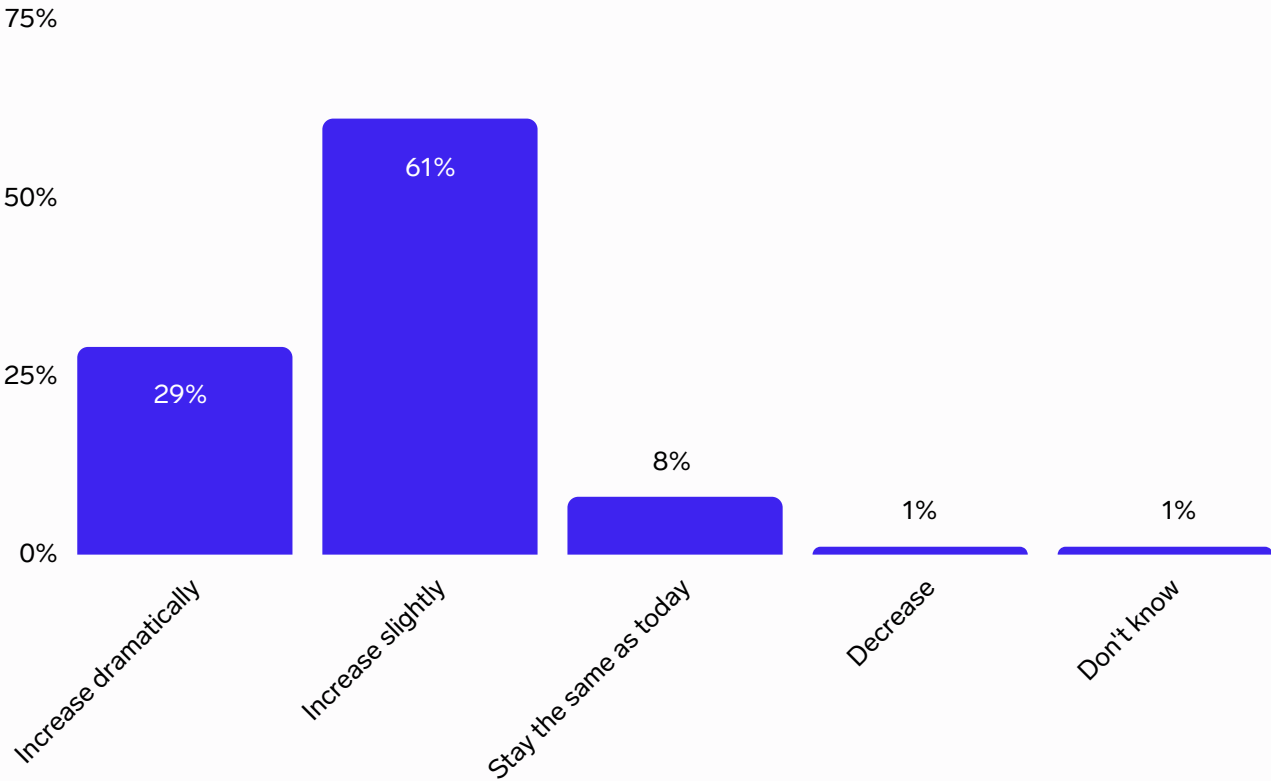

Figure 5

Overall, 98% of portfolio managers and investment analysts in discretionary investing say their senior management teams are committed to using alternative data, with 31% saying they are 'very committed' [Figure 6]. Around one in four (24%) expect their employers' budgets for buying alternative data to increase dramatically this year, and a further 70% anticipate a slight increase [Figure 7].

How committed do you think the senior management team where you work/of the funds you help manage, are to using alternative data?
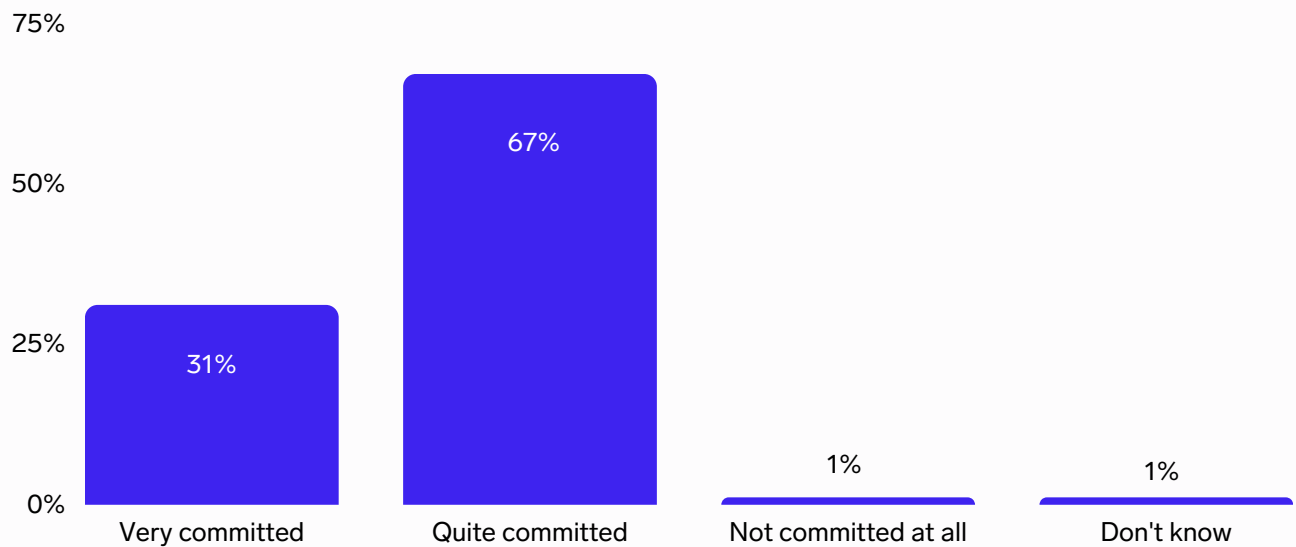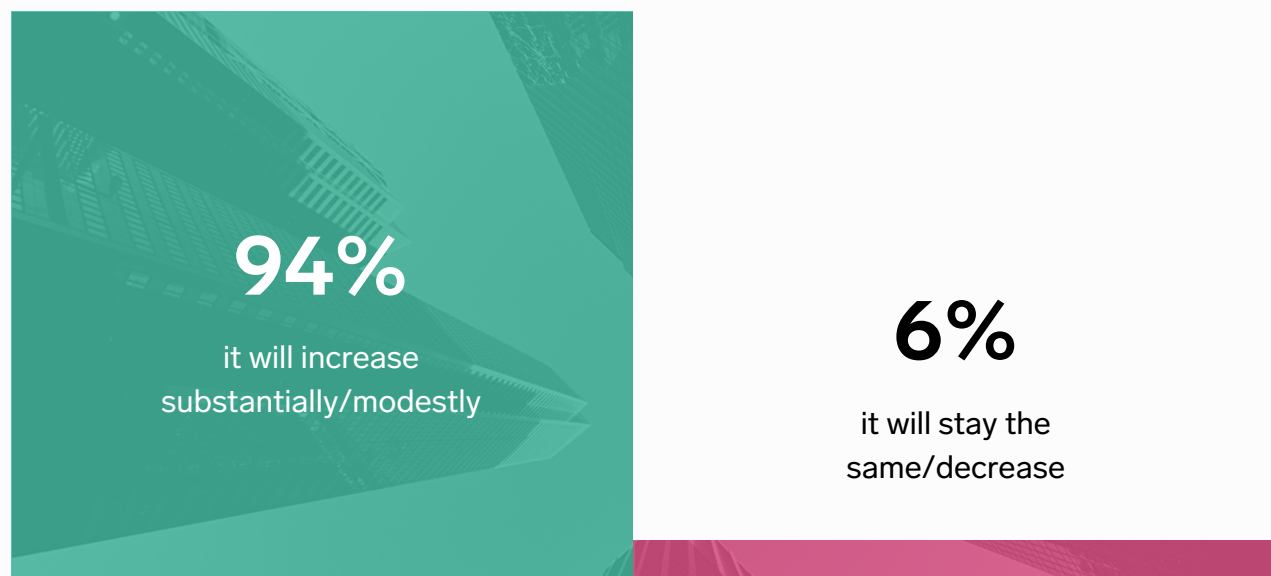

Figure 6

Thinking of the organization you work for and the funds you help to manage, how do you see their budget for buying/using alternative data changing in 2023, when compared to 2022?

Figure 7

94%
it will increase substantially/modestly

6%
it will stay the same/decrease

In terms of what types of alternative data investment management professionals expect to be used more over the next three years, 52% anticipate a dramatic increase in the use of consumer spending data (e.g. credit card transactions), and 44% expect greater use of employment data (e.g. job listings, average salary, employee satisfaction statistics). Some 37% anticipate a dramatic increase in the use of web-scraped data such as web searches and click through rates, as do 35% regarding the use of social sentiment data (e.g. consumer behaviour and reaction to brands' content and positioning) [Figure 8].
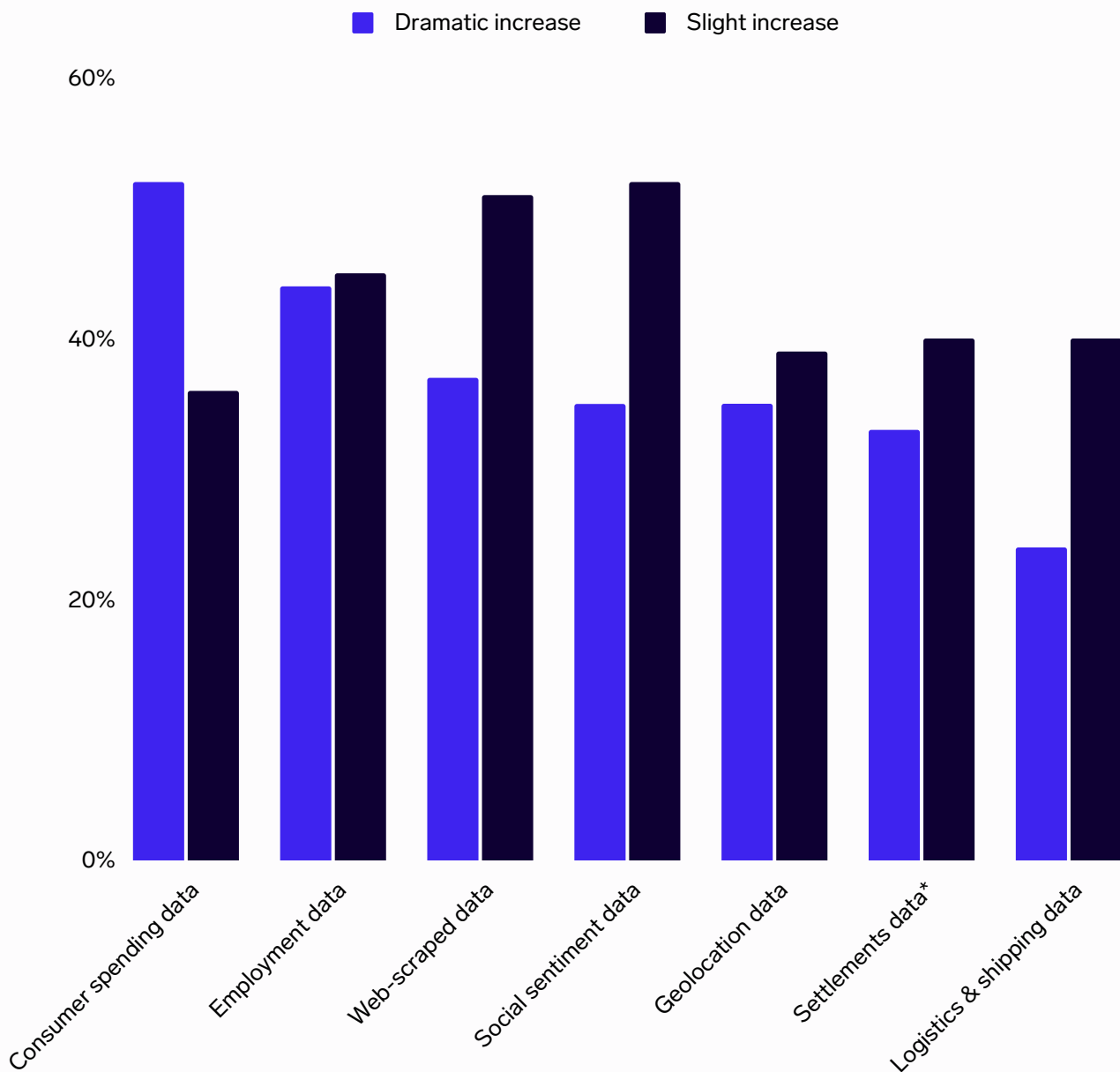

Figure 8   *(e.g. stock movements, positions, etc.)

The effectiveness of using alternative data in discretionary investing

According to our research, just 23% of professional investors surveyed describe their organization's process for using it as 'excellent'. Some 63% describe it as good, but around one in eight (12%) say it is average [Figure 9].

The process to extract benefits from alternative data can be extremely challenging. Just 28% of investment professionals surveyed think the funds they help to manage do a very good job in integrating alternative data into their processes. Around six out of ten (61%) believe they do this quite well, but one in ten (10%) describe their ability to do so as average [Figure 10].

If your organization is currently using alternative data, how would you describe the process of using this data?
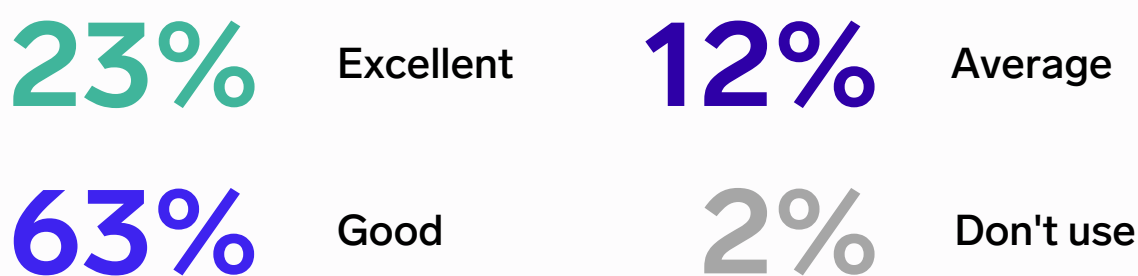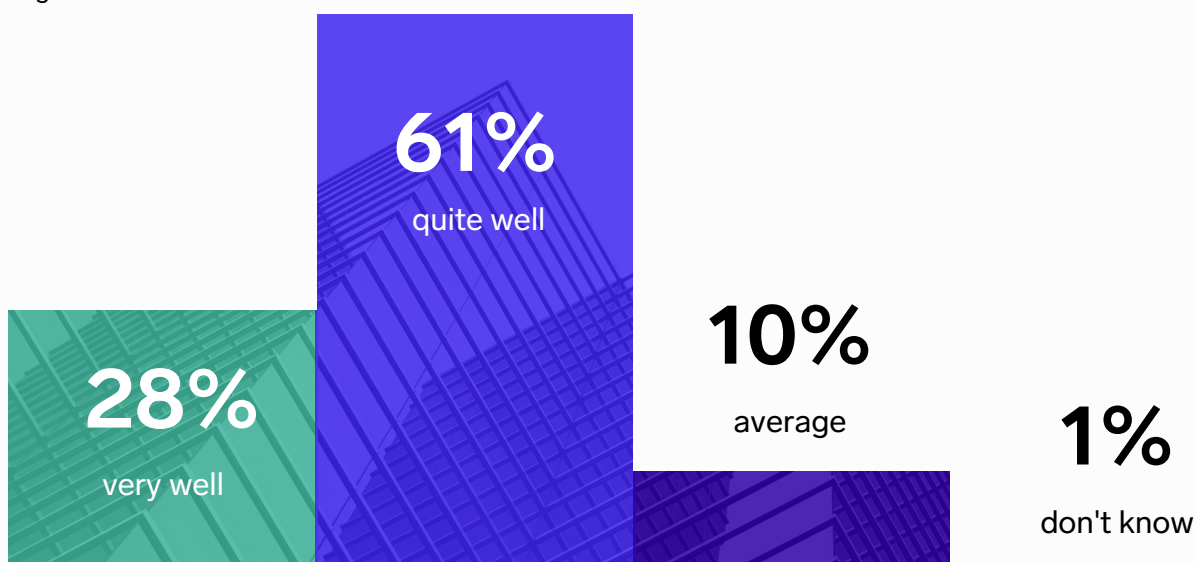
23% Excellent

12% Average

63% Good

2% Don't use

Figure 9

How well do you think the funds you help to manage integrate alternative data into their investment management processes?

Figure 10

61%
quite well

10%
average

28%
very well

1%
don't know

When asked what the most significant barrier to extracting benefits from alternative data is, 53% of investment professionals surveyed said there is too much of it and it is hard to prioritise, followed by 21% who said its quality is sometimes not good enough. Some 15% identified difficulties in integrating alternative data into their systems as the biggest challenge [Figure 11]

What do you feel is the most significant barrier in extracting benefits from alternative data?

Barriers to extracting value from alternative data	Percentage of professional investors surveyed who selected this as the most significant barrier to extracting benefits from alternative data
Too much alternative data and it is difficult to prioritise this	53%
Quality of alternative data that we have bought has not been good enough	21%
It is difficult to integrate data into our systems	15%
The data isn't presented in a useable format	7%
We don't have enough internal resources e.g. data analysts to make the most of the data	4%

Figure 11

A growing focus on 3rd party support for sourcing, analyzing and managing alternative data

When it comes to analyzing alternative data, 71% of portfolio managers and investment analysts surveyed say they use third party software systems. The study found half (49%) of professional investors interviewed say they use systems provided by data vendors, and 45% use in house built software systems. One in three (33%) say they use basic tooling such as Excel and Tableau [Figure 12].

When analyzing alternative data, which of the following systems do you use?

Not currently using
1.5%

Basic tooling
16.4%

In-house built systems
22.4%

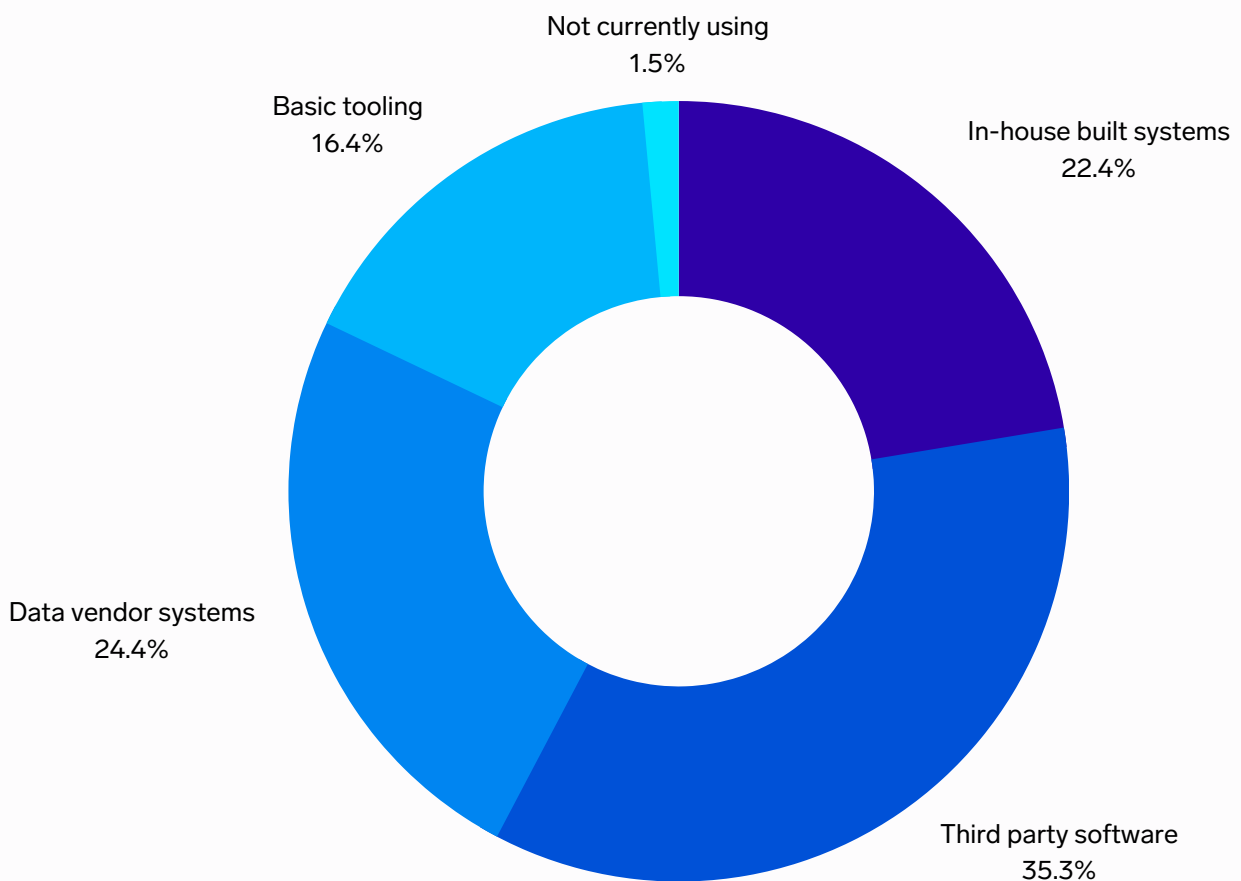Data vendor systems
24.4%

Third party software
35.3%

Figure 12

Some 91% expect their use of third-party software systems to analyze alternative data to increase between now and 2028, with 21% expecting a dramatic increase [Figure 13]. In terms of why they expect usage to increase, 69% of professional investors interviewed said it is because it is more economical to do so than invest in their own in house systems, followed by 51% who said they provide a more consistent way to work with different types and sources of data [Figure 14].

Thinking about the funds you help to manage, over the next five years, how do you see their use of third-party software systems to analyze alternative data changing?
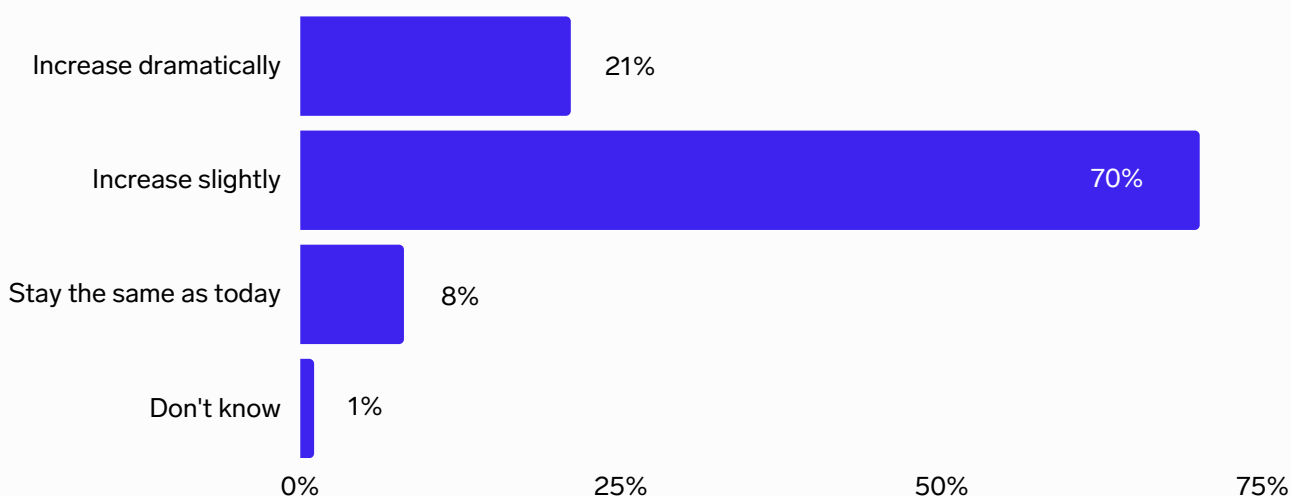
Category	Value
Increase dramatically	21%
Increase slightly	70%
Stay the same as today	8%
Don't know	1%

Figure 13

If you think it will increase, why is this?
(Tick all that apply)

46% "It is more economical to use third party systems than invest in our own in house"

69% "They are more effective than our in house systems for analyzing data"

51% "They provide a more consistent way to work with different types and sources of data"

20% "It's a specialized area that needs specialized tooling"

Figure 14

Just over half (55%) of professional investors surveyed said their organizations are using between five and ten alternative data sets, and 38% say they are using between two and five [Figure 15].

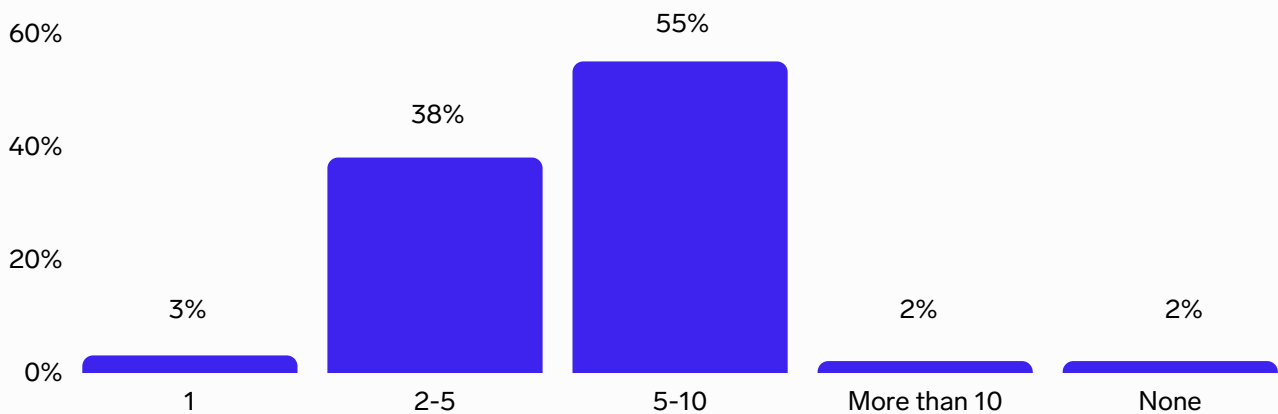## If your organization is currently using alternative data, how many datasets are you currently using?

Figure 15

Our study found that many are very reliant on third party vendors for their alternative data. Half (51%) say they source between 50% and 75% of their alternative data this way, and one in ten (10%) say they receive between 75% and 100% from third party vendors. Over the next three years 77% of professional investors say they will become more reliant on third parties for supplying alternative data [Figure 16].

Thinking about the alternative data the organization you work for uses, what percentage do you think comes from third party vendors?

Under 25%	7%
Between 25% - 50%	31%
Between 50% - 75%	51%
Between 75% - 100%	10%
Don't know	1%

Figure 16

Around 89% of professional investors surveyed said the quality of alternative data provided by data vendors is excellent or good [Figure 17].

How do you rate the typical quality of the alternative data provided by data vendors?
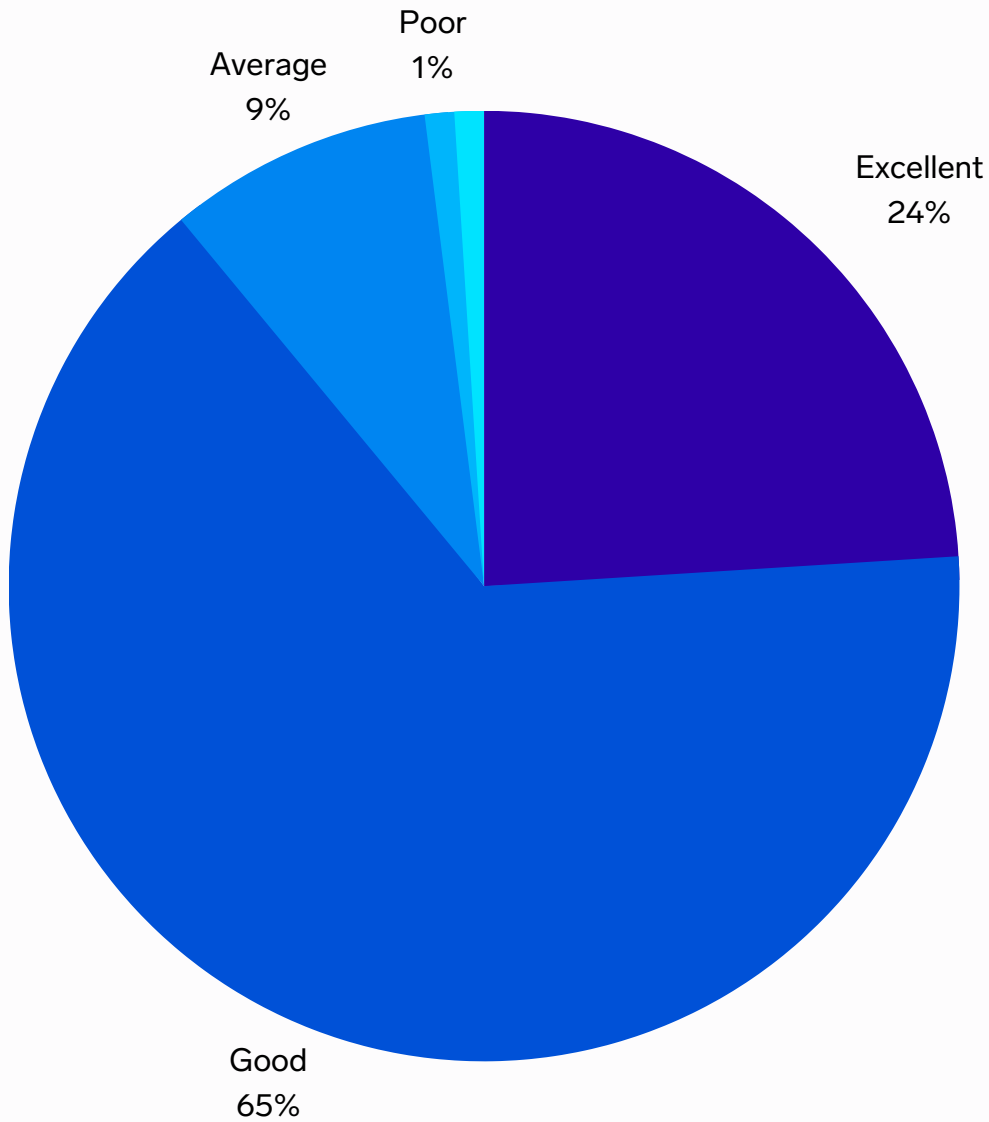

Figure 17

Future trends around alternative data

As some categories of alternative data mature and become standardized in the investment research process, Exabel's study with active portfolio managers and investment analysts reveals that 76% believe consumer spending data will provide an 'outsized' information edge in the near future. This is followed by 65% who cited web, mobile and app usage, and 58% who said employment and people moves [Figure 18].

As some categories of alternative data mature and become standardized in the investment research process, which categories do you see providing an outsized informational edge in the near future?
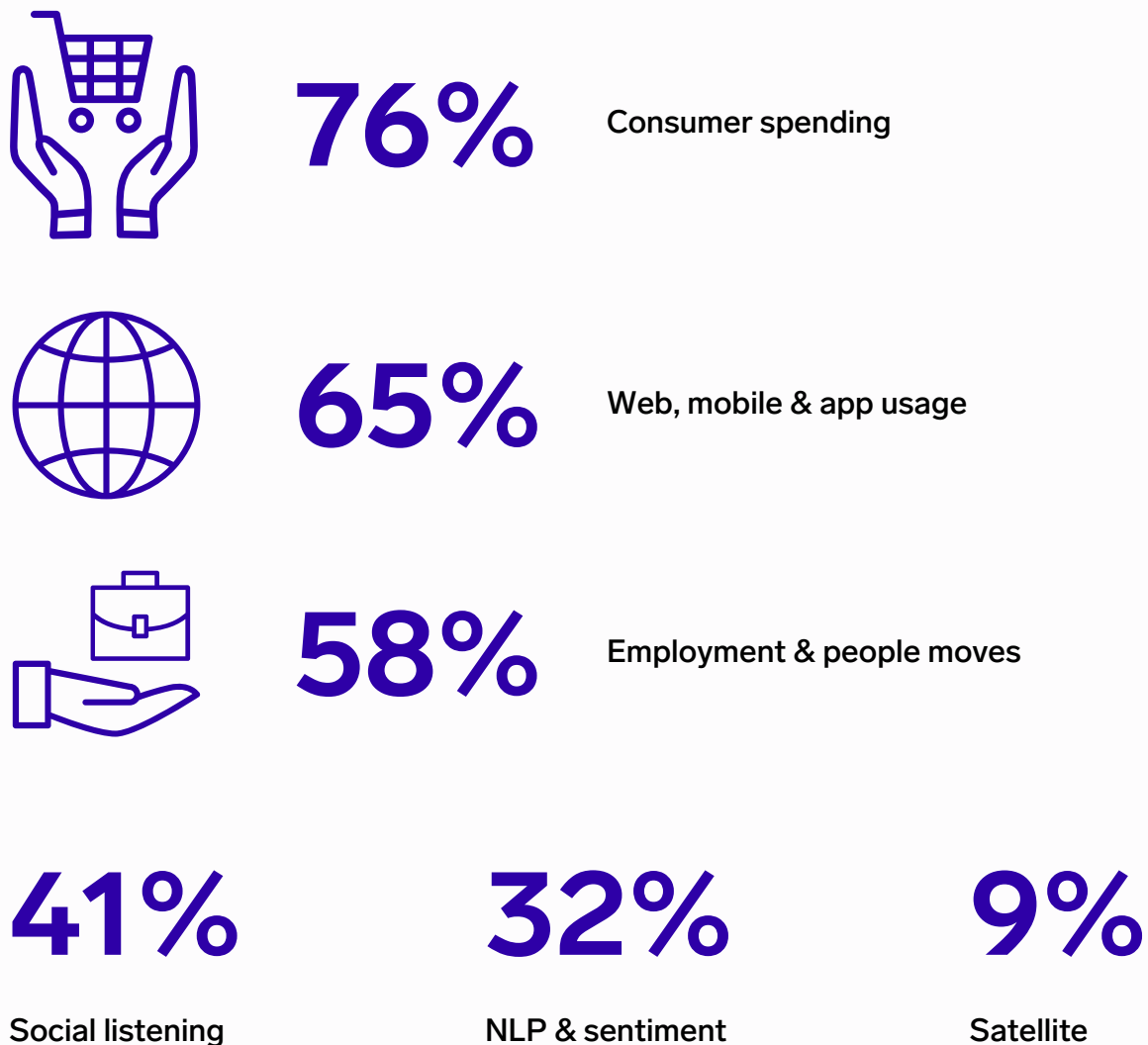
76% Consumer spending

65% Web, mobile & app usage

58% Employment & people moves

41% Social listening

32% NLP & sentiment

9% Satellite

Figure 18

When it comes to which class of investors or types of investment strategies are seen as the most progressive or sophisticated in their adoption of alternative data, 66% of those surveyed said fundamental focused funds/strategies, followed by 16% who said systematic, 7% who cited allocators, and 7% who said venture capital [Figure 19].

Which class of investors, or types of investment strategies, do you see as the most progressive or sophisticated in their adoption of alternative data?
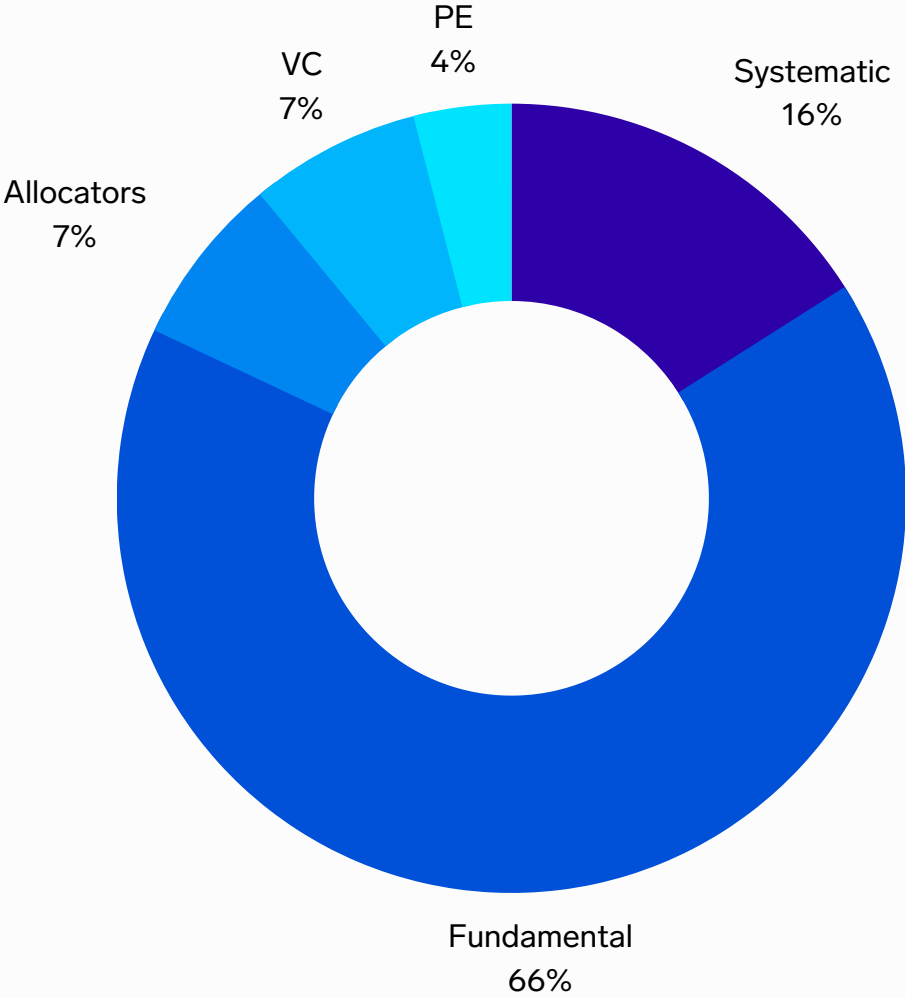
Figure 19

However, in terms of the challenges that most frustrate active fund managers and investment analysts when working with alternative data, the top three are combining data from different sources (71% of survey respondents), processing raw data into a useable format (cited by 53% of survey respondents) and comparing different datasets that are similar (49% of those surveyed) [Figure 20].

What challenges most frustrate you when working with alternative data?
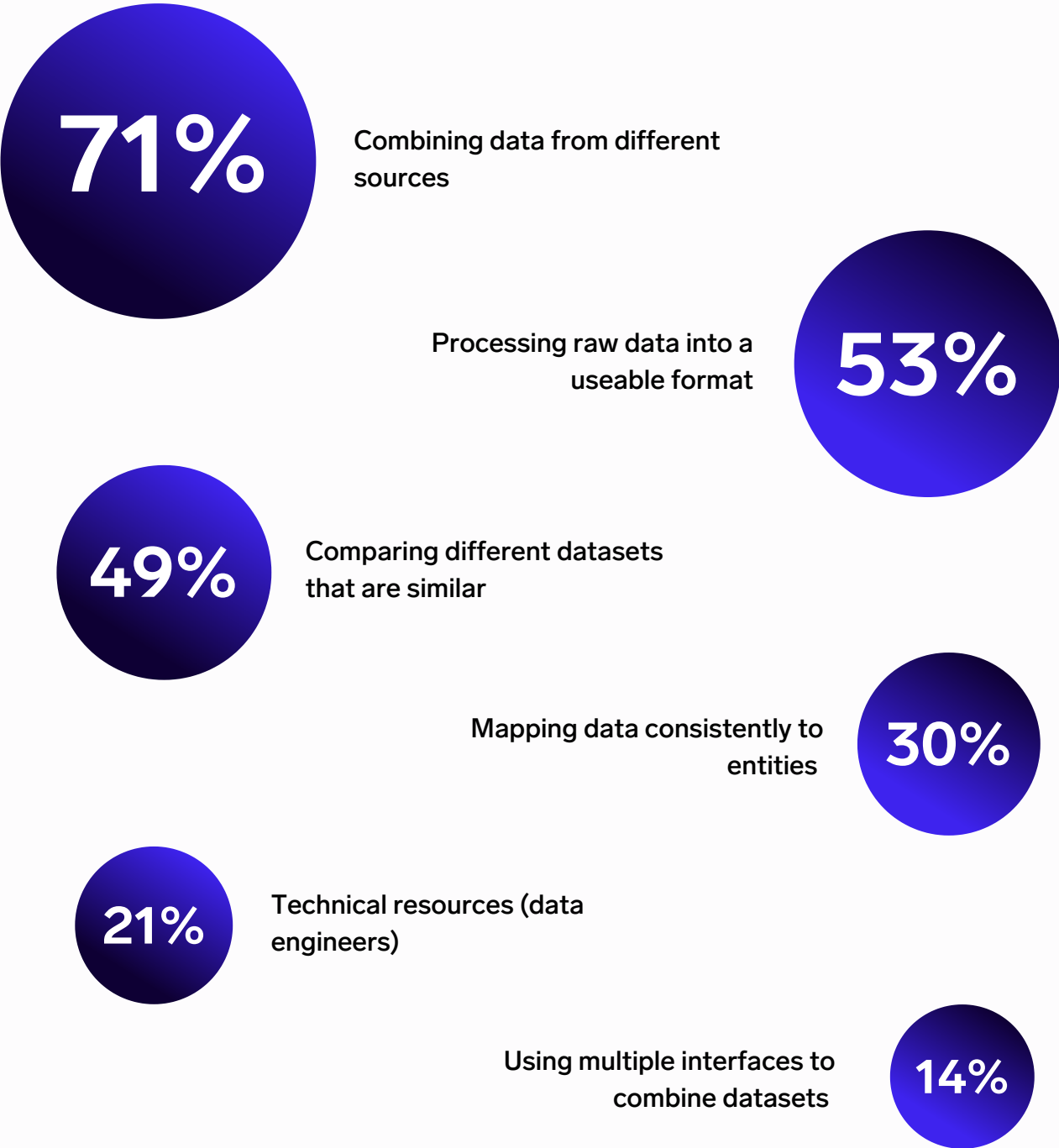(Tick all that apply)

71% Combining data from different sources

Processing raw data into a useable format **53%**

49% Comparing different datasets that are similar

Mapping data consistently to entities **30%**

21% Technical resources (data engineers)

Using multiple interfaces to combine datasets **14%**

Figure 20

About Exabel

Exabel is a leading global fintech providing investors with a platform to make the most out of alternative data within their investment processes. Its solution platform brings the investable insights from alternative data direct to investment teams, delivered on its cloud platform. Exabel works with market-leading alternative data vendors across the globe to assist them in enabling their data to be accessed by a wide range of investors.
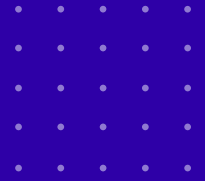
For more information, get in touch on contact@exabel.com or visit our website exabel.com

General disclaimer

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