

Financial Data Impact Report

2023

Discover the key data management trends
transforming the investment management industry

sigtech

Data Budgets Soar as Investment Managers Seek Competitive Edge



Daniel Leveau

VP Investor Solutions at SigTech

SigTech's annual *Financial Data Impact Report* offers valuable insight into the opportunities and challenges presented by the rapidly evolving field of data management. This report is based on feedback from 121 global investors, collectively responsible for assets under management (AUM) of over \$2.5 trillion.¹

Data management and quant analytics are becoming increasingly central in the investment management industry. Investors must stay abreast of the latest technological advancements to maintain their edge and remain competitive.

Our study reveals that, as a consequence of these efforts, 80% of investors expect to increase their spending on data. The most sought-after data categories are traditional market data and data for digital assets, followed by high-frequency data.

However, there is strong consensus that the process of onboarding data is complicated, time-consuming, and frustrating. Although investors do not agree on the best approach to validating and cleaning data, the most common solution is to partner with a third-party service provider that can provide the necessary tools and expertise.

The market for alternative data is growing rapidly as investors recognize its potential to provide unique insights. 75% of those surveyed intend to increase their usage in the next 12 months. However, many investors still struggle to utilize it effectively, citing operationalization and quantifying its value as the key challenges.

The study further emphasizes the strong trend for outsourcing, with 79% of firms expecting an increase in the next two years. The primary reasons for this increase are the expediting of both operational and research processes.

¹ This survey was conducted in collaboration with Researchscape

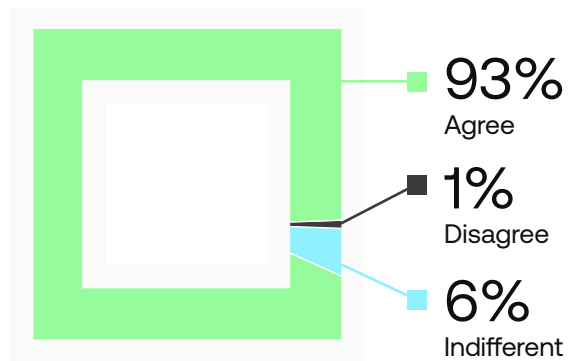
Chapter 1

Market for Data:
Rapid Expansion Persists

Data management in the investment management industry is becoming more complex and time-consuming. In order to maintain a competitive advantage, investors must embrace the latest technological advancements and be able to analyze large amounts of data quickly and accurately. This applies to both systematic and discretionary investment managers, with the latter increasingly adopting a hybrid investment process. The trend towards quantification is universal across the industry.

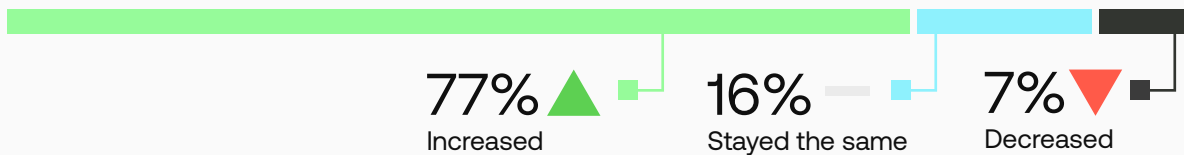
Our study shows that there is almost **universal agreement that accessing high quality data and having the tech stack to process it efficiently is key to delivering alpha**. This insight supports the findings of last year’s study.

How strongly do you agree or disagree with this view: For investors to achieve above-average returns in the future, accessing high quality data and having the technological capabilities to process it efficiently will be key?

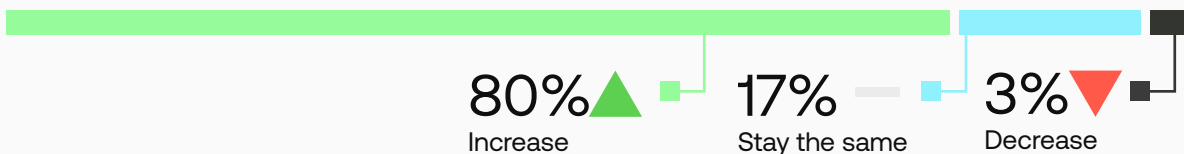


It is unsurprising that investors have increased their data budgets in recent years; 77% having done so over the past two years compared with only 7% presiding over a decrease. This trend is expected to continue, with **80% of firms planning to increase their budgets**, of which 22% expect a significant increase. This impulse is particularly strong amongst larger investors.

How has your firm’s budget for data changed over the past two years?



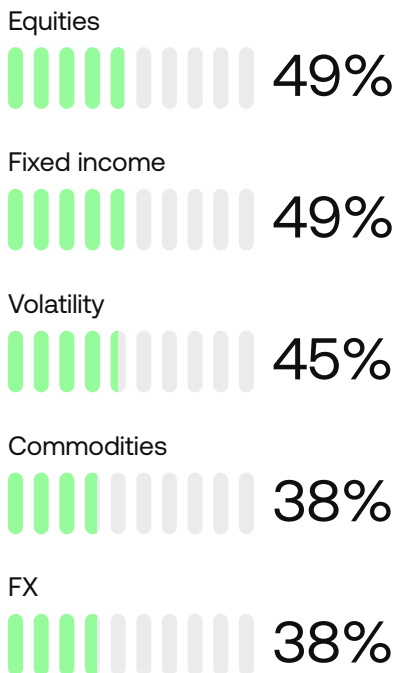
How do you see your firm’s budget for data changing over the next two years?



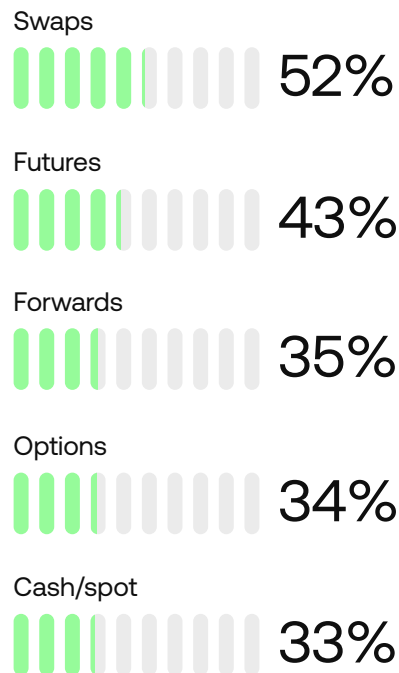
On average, the surveyed investors make use of data from five different vendors. They believe that equity and fixed income are the asset classes for which it is most difficult to access high-quality data. This insight is similar to last year’s survey, and is presumably due to these asset classes being the most widely used. More interestingly, **45% of the respondents cited volatility data** in this year’s study, up from only 17% last year. Although volatility trading is not yet mainstream, this rise is most likely due to the increasing interest in macro and tail risk strategies. These strategies often involve trading various volatility instruments or creating trading signals with various volatility measures.

In regards to financial instruments, approximately half of the investors - up from 27% in last year’s study - **find it difficult accessing high-quality swaps data**. This trend is partly driven by a general increase in portfolio managers’ interest in trading swaps (both opportunistically to generate alpha and for hedging purposes), potentiated by larger swings in - and a normalization of - the yield curve over the past year. Futures were the second most difficult instrument to obtain, with 42% of respondents citing them.

For which asset classes has your firm had the most difficulty accessing high quality data? (multiple answers possible)

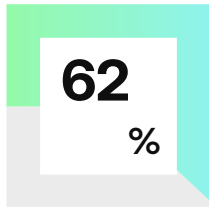


For which financial instruments has your firm had the most difficulty accessing high quality data? (multiple answers possible)

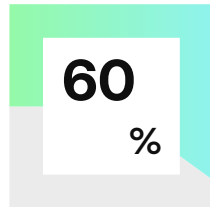


In terms of the data categories investors are most likely to increase their budgets for **traditional market data and - despite the turbulence that peaked with the collapse of FTX - data for digital assets are in highest demand.** High frequency data is the third most sought-after data category and is particularly popular among US investors. Despite alternative data generating considerable hype, only 38% of investors surveyed rank it within the top three data categories they intend to increase investment in over the next two years.

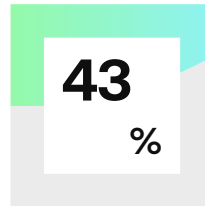
For which three data categories does your firm see the biggest growth in demand over the next two years?



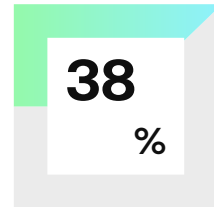
Digital assets data



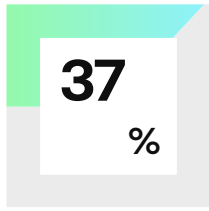
Market data



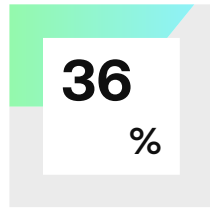
High frequency data



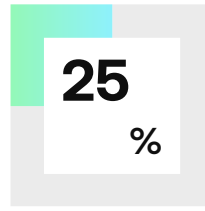
Alternative data



Macroeconomic data



Fundamental data



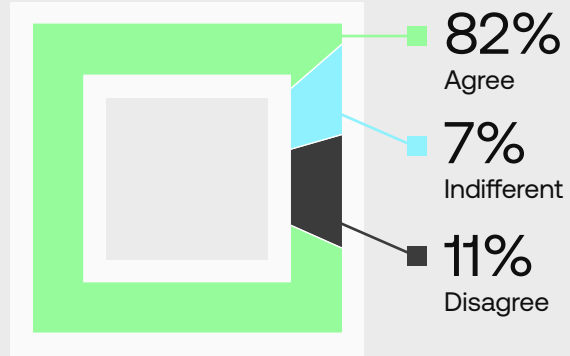
Reference data

Chapter 2

Investors Struggle with Data Onboarding Complexities

Data consumption is soaring, both in terms of the variety of data consumed and the number of sources it emanates from. However, the vast majority of investors consider the process of negotiating with data providers, analyzing datasets, and ensuring its quality tedious. As a result, investors are rethinking their operating models to find efficient and scalable solutions to challenges that fall outside their core competencies.

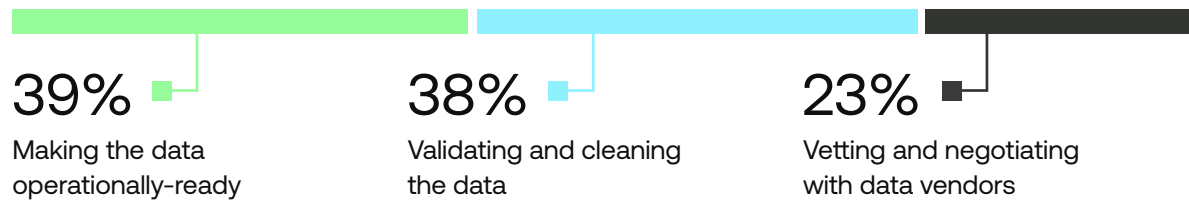
How strongly do you agree or disagree with this view: The process to evaluate datasets, negotiate with data vendors and ensure that the data is validated and clean is frustrating?



The study reveals that, on average, investors take **approximately three months to onboard a new dataset**; from the initial point of contact with the data vendor to when the dataset becomes operational in internal systems.

Furthermore, three out of four investors cite making the data operationally-ready, and validating and cleaning the data as the most frustrating parts of the onboarding process. Those remaining listed vetting and negotiating with data vendors. Examining geographical variance amongst respondents, North American firms identified validating and cleaning data as particularly challenging.

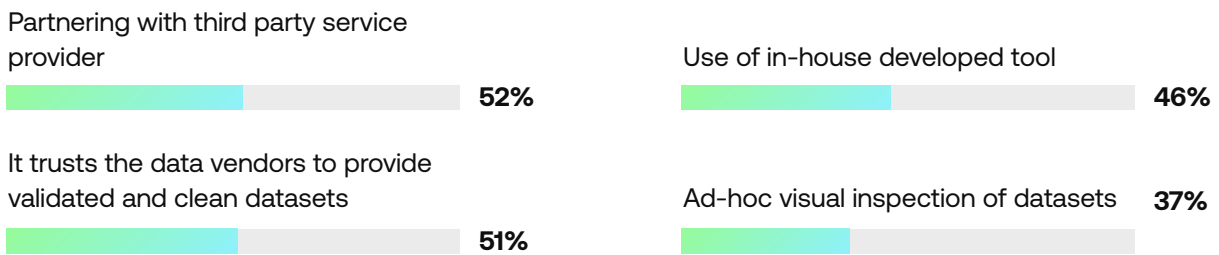
What is the most frustrating part of onboarding a new dataset?



Little agreement can be found regarding the relative complexity of accessing clean and validated data directly from vendors. Despite a larger proportion of respondents citing difficulty (38%) rather than ease (32%), no consensus emerged.

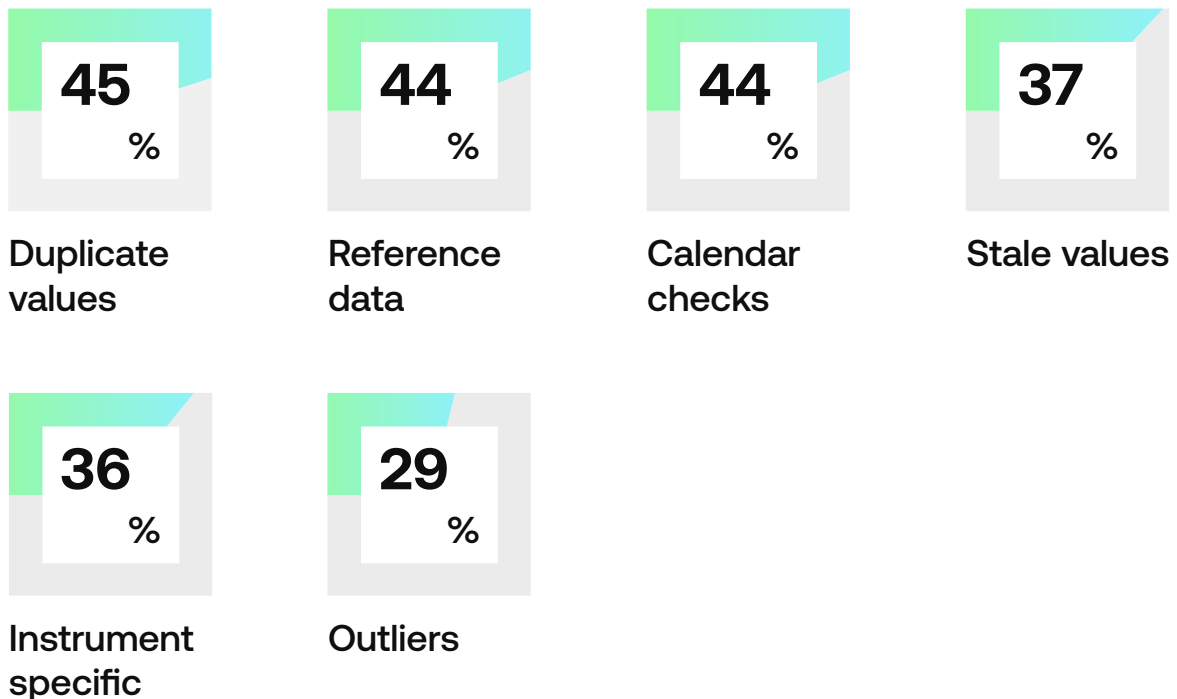
As data and quantitative analytics become increasingly necessary for investment processes, **access to clean and validated data is emerging as a top priority for investors**. Surprisingly, half of our respondents trust data vendors to provide high-quality data, without the need for further cleaning. While consensus on the best approach is absent, **the most common method is to partner with a third-party service provider** that can supply the necessary tools and expertise. In-house developed tools are also a popular method, with ad-hoc inspection of the data the least common.

**How does your firm currently go about validating and cleaning datasets?
(multiple answers possible)**



Unfortunately, errors in the raw data provided by vendors are common. It is essential to locate and fix them to ensure the accuracy of any investment decisions made with the data. The most common errors observed in raw data are duplicate values, mismatched dates in trading calendars, and inaccurate reference data.

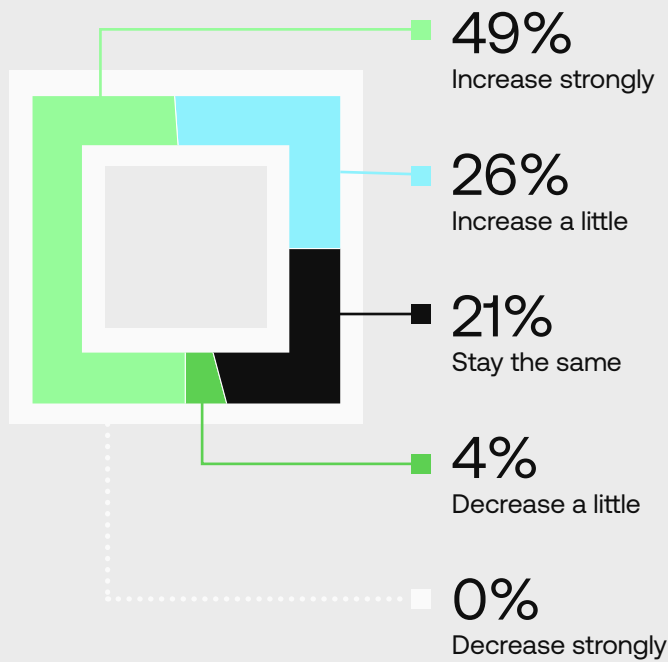
What are the most common errors you need to correct in the raw data provided by the data vendors? (multiple answers possible)



Chapter 3

Alternative Data Usage Set to Soar,
Despite Challenges in Adoption
and Utilization

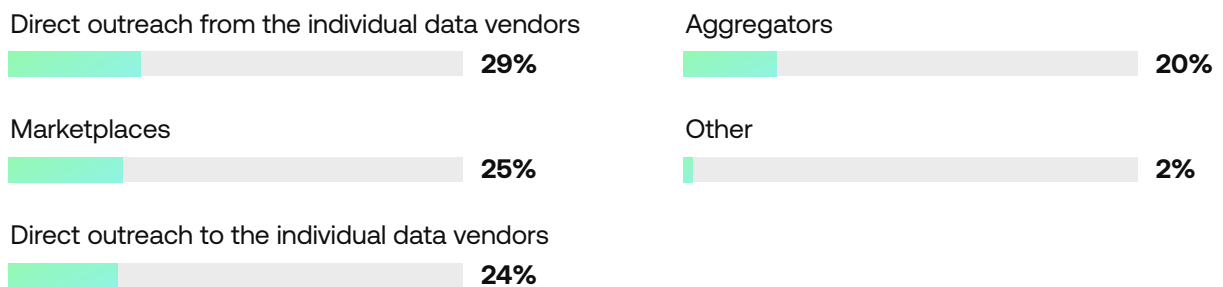
How do you see your firm’s use of alternative data change over the coming 12 months?



The market for alternative data is highly fragmented, with a multitude of data providers offering an ever-widening range of datasets. In recent years, the market has experienced rapid growth with investors recognizing the potential for alternative data to provide unique insights. **75% of those surveyed intend to increase their use of alternative data in the next 12 months, with only 4% expecting to use less of it.** This confirms the case for continued strong growth.

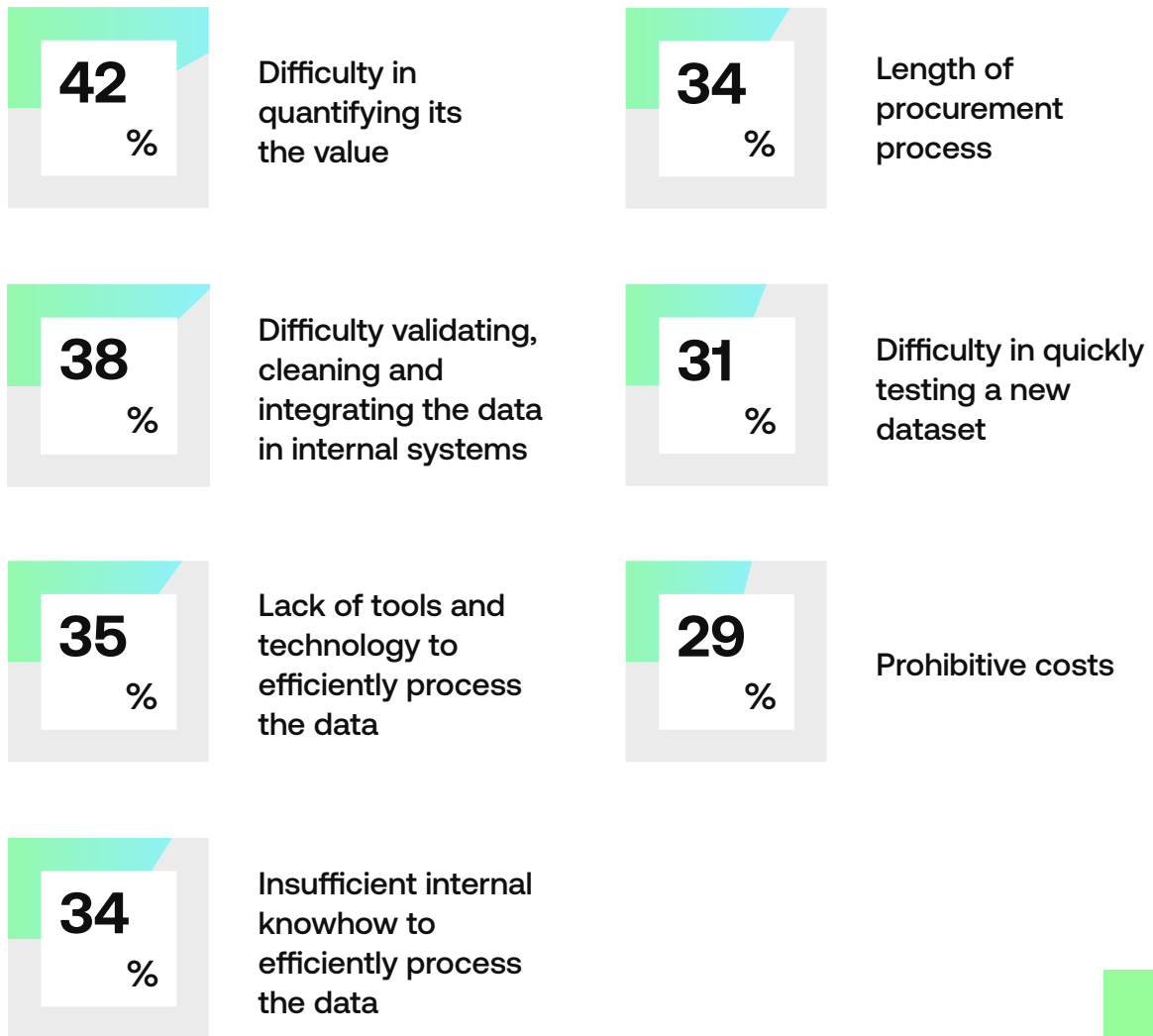
However, there is **no clear standard for determining how data vendors and data users can best connect**. Our study shows that investors believe that direct outreach from data vendors is the best approach, followed by specialized marketplaces (i.e. AWS and Azure), and investors approaching data vendors directly. Surprisingly, data aggregators were the least preferred option among the choices presented. Though, as shown in the graph below, the differences in preference between the various methods are fairly small.

How do you find the best alternative data vendors?



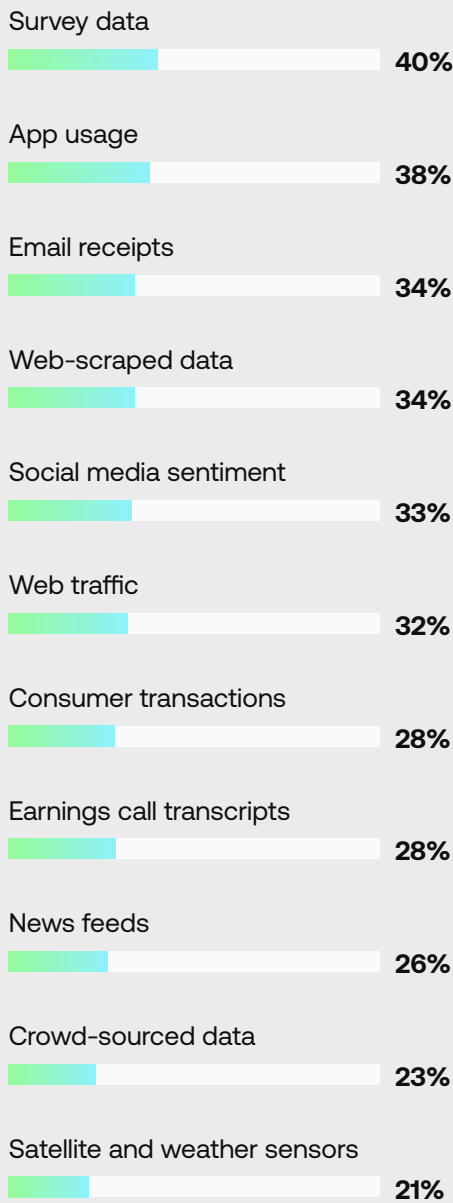
Despite alternative data becoming commonplace within the investment management industry, many **investors still struggle to utilize it effectively**. The main obstacles investors face in this regard are: quantifying the value of alternative datasets, validating, cleaning and integrating the data into internal systems, and a lack of tools and technology to process it efficiently. Interestingly, the - often high - cost of alternative datasets is viewed as the least significant concern.

What are your key concerns for the use of alternative data? (multiple answers possible)

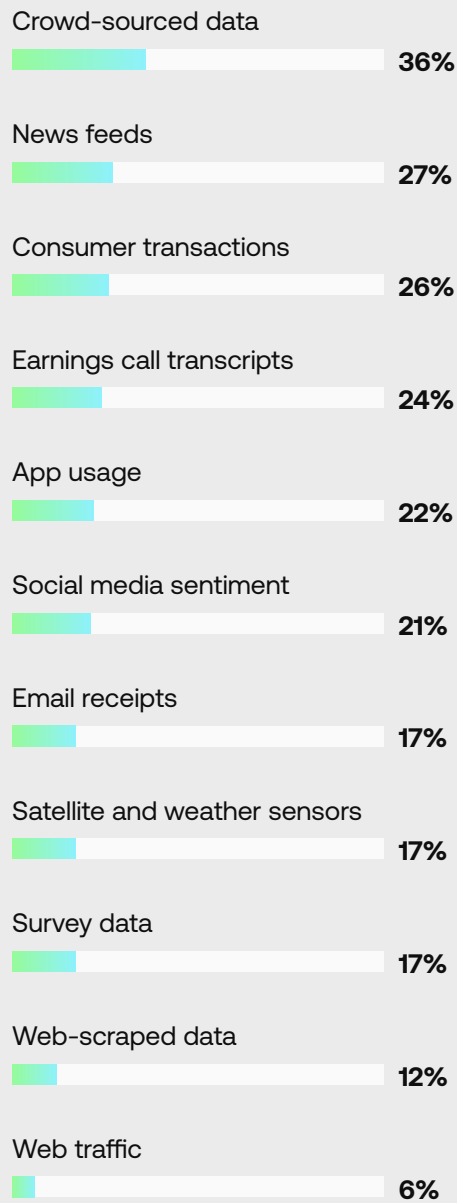


Investors are always on the lookout for new and innovative datasets to gain and maintain a competitive edge in the markets. Currently, **the most popular alternative datasets utilized by investors are survey data**. They are used to gain a better understanding of consumer behavior. App usage data is the next most popular, which is used to identify user trends and preferences. Looking towards the future, investors anticipate high demand for crowd-sourced data, followed by news feed and consumer transaction data. Except for the heavier use of earnings call transcript data by North American investors, the findings are consistent across geographical regions.

What alternative data are you currently using? (multiple answers possible)



What alternative data do you plan to use? (multiple answers possible)

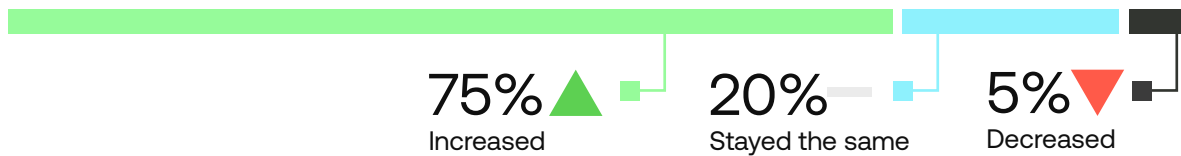


Chapter 4

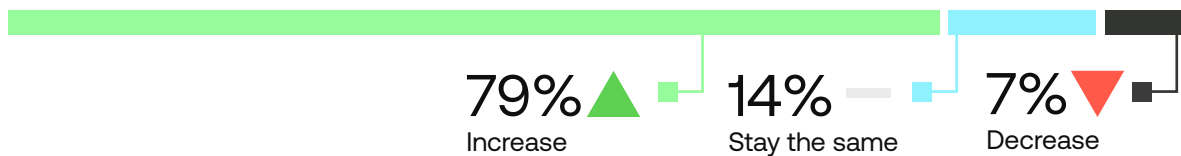
Outsourcing Poised for Continued Expansion

In today’s data-centric world, investment managers are increasingly reliant upon third-party service providers as strategic assets to support growth and innovation. Outsourcing services (i.e. research infrastructure development, data analytics and data management) can facilitate the redistribution of resources and personnel to core activities. Our study reveals that 75% of firms had increased their outsourcing of data management services in the past two years, while only 5% witnessed a small decrease. This trend is projected to continue, with 79% of firms anticipating further increases in outsourcing.

How has outsourcing of data management services at your firm changed over the past two years?



How do you see the level of outsourcing of data management services at your firm change over the next two years?



Motivating the current trend of outsourcing data management services are: the ability to speed up operational and research processes, the potential to reduce costs, and access to - and implementation of - an institutional framework for data management.

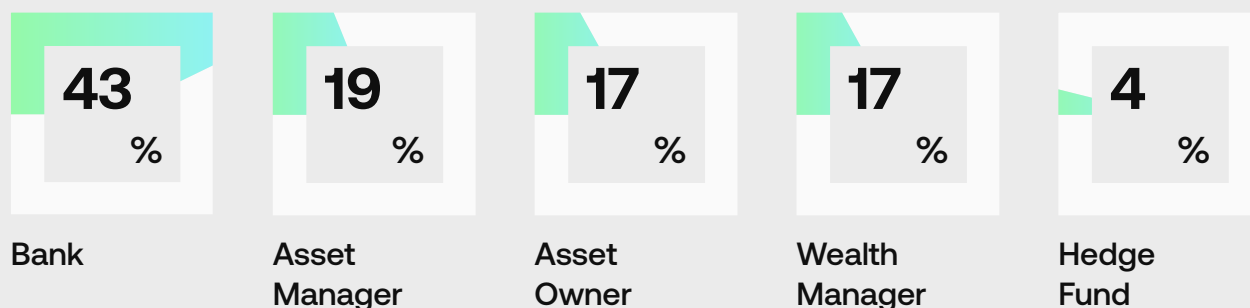
What factors are having the biggest impact on the trend to outsource data management services (ranked according to relevance)?

- 1 Speed**
 Accelerate operational and research processes
- 2 Costs**
 Reduce costs
- 3 Operational**
 Access and implement institutionalized setup
- 4 Subject matter expertise**
 Lack of inhouse knowhow, stay at the forefront of innovation

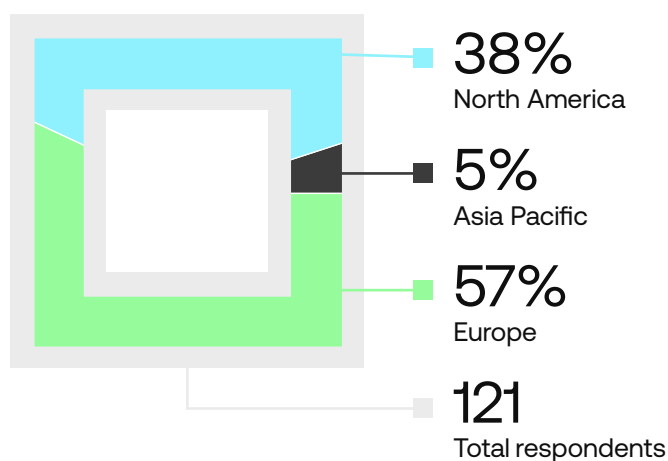
Methodology

SigTech commissioned Researchscape to conduct a survey of professionals in the investment management industry who possess a high level of knowledge about their firm's data management setup. The survey was conducted between February 16 and March 11, 2023, receiving responses from 121 professionals across 11 countries. The firms that participated in the study had a combined AUM of approximately \$2.5 trillion.

Type of firm of respondents



Geographical breakdown of respondents





Powering Signals

SigTech offers quant technologies in a SaaS platform to hedge funds, asset managers and asset owners so they can focus on beating the market.

SigTech specializes in macro strategies and cross asset allocation with operationally-ready datasets across a wide range of financial instruments. Our platform ingests, cleans and validates financial data, and provides the tools to research, build, and deploy customized strategies – providing users an edge in alpha generation.

Disclaimer

This document is provided by SigTech. It is for information purposes only. It is not an invitation or inducement to engage in any investment activity and it does not contain investment advice. The information in this document shall not be relied on in making any investment decision or in connection with any contract or otherwise. SigTech makes no representation regarding, and accepts no liability or duty of care for, the accuracy, completeness or timeliness of the information in this document or its fitness for any particular purpose or use.

© SIG Technologies Limited. All rights reserved. 2023.

sigtech

Get in touch

hello@sigtech.com
www.sigtech.com