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AI A DRIVING FORCE TO FUND MANAGEMENT INDUSTRY

Artificial intelligence is now a prominent feature in fund portfolio

Business Today (March 2018)

By Ismitz Matthew De Alwis

AT its recent Malaysia FutureScape event in Kuala Lumpur, the International Data Corporation (IDC) has revealed that two out of three Malaysian organisations are either planning their DX (digital experience) strategy or are actively implementing related projects to maximise their business benefits. As Malaysia strides towards embracing digital economy, the information technology (IT) market intelligence provider urges local enterprises to scale up and accelerate innovation as emerging technology trends are set to re-define IT and businesses in Malaysia over the next three years.

Of the 10 predictions made by IDC, at least three vindicated the global fund industry in its belief that artificial intelligence (AI), machine learning and robotics are capable of making real money for stock investors and – to a large extent – topple key market indexes:

- ***DX platforms:*** By 2020, 28% of all enterprises in Malaysia will have fully articulated an organisation-wide digital transformation platform strategy and will be in the process of implementing that strategy as the new IT core for competing in the digital economy.
- ***AI everywhere:*** By 2019, 30% of digital transformation initiatives in Malaysia will use AI services; by 2021, 50% of commercial enterprise apps will use AI, over 20% of consumers will interact with customer support bots, and over 20% of new industrial robots will leverage AI.
- ***Cloud 2.0:*** By 2021, Malaysian enterprise spending on cloud services and cloud-enabling hardware, software and services will reach US$621 million, leveraging the diversifying cloud environment that is 15% at the edge, over 20% specialised (non-x86) compute, and 50% multi-cloud.

In fact, a joint research produced by Microsoft and IDC Asia/Pacific expects digital transformation to add an estimated US$10 bil to Malaysia's gross domestic product (GDP) – with the growth rate poised to rise 0.6% annually come 2021. In 2017, about 7% of Malaysia's GDP was derived from digital products and services created directly through the use of digital technologies such as mobility, cloud, Internet of Things (IoT), and AI. "Within the next four years, we expect to see approximately 45% of Malaysia's GDP to be derived from digital products and services," predicted Microsoft Malaysia managing director K. Raman. "At the same time, organisations in Asia Pacific are increasingly deploying emerging technologies such as AI as part of their digital transformation initiatives, and that will accelerate growth even further."

BRIGHT SPARK

More broadly, credit rating agency Moody reckons that AI provides opportunities for firms to cut costs and optimise capital allocation, thus strengthening their creditworthiness. Pharmaceutical companies could, for example, use AI-powered applications to predict how molecules will behave and how likely they are to make a useful drug, thereby saving time and money on testing. Additionally, by learning from past performances and analysing current operating conditions, AI can help improve forecasts.

For example, packaged goods manufacturers and retailers will be able to more accurately forecast product demand and, therefore, their inventories. Very simply, 2018 and beyond will see more companies investing in digital architectures in their quest to become leaner, versatile and better placed to adapt to an unpredictable marketplace. After all, consider this: the top five tech US tech jewels – Apple, Google, Microsoft, Facebook and Amazon – generate US$550 bil in annual revenue with only 660,000 employees.

This means, each employee generates approximately US$833,000 in their annual revenue which is 15 times higher than the GDP per capita of the US. This big gap in productivity will only increase as these companies apply more and more AI in their operations. Just as the previous industrial revolution brought great benefits to those who master the technology, the increasing application of AI is poised to have a tremendous impact on the economy, society and social order.

Elsewhere, 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.

AI IS HERE TO STAY

With value in machine-learning technologies expanding exponentially and driving economic growth around the world, global asset management firms have begun to reciprocate such trends by launching 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.
- 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. Having made an important impact on the investment industry, AI is expected to go much further, especially with the rise of robo-advising which leverages the use of automation and digital techniques to build and manage investment portfolios.

With the help of a financial algorithm and a digital platform, it is indeed a true wonder that an electronic tool can now provide sophisticated wealth management services. With advancements in Machine Learning, many market observers expect machines to soon outperform even the most brilliant human financial advisors. This – along with the simplicity that comes with robo-advising – has led to the belief that machines and algorithms will manage over US$2 trillion dollars by 2020. It is a clear illustration of an industry transformation that is powered by AI, In a nutshell, clients will become more sophisticated and more self-directed regarding plain vanilla products and services. We expect high net worth (HNW) and ultra-high net worth individuals (UHNW) individuals to increasingly use alternative channels especially online and mobile channels to access market information and execute simple transactions. They will continue to prefer personal interactions with experienced advisors when it comes to portfolio reviews, product selection, and holistic advice. Fund managers must therefore strengthen their capacity to provide highly customised solutions.

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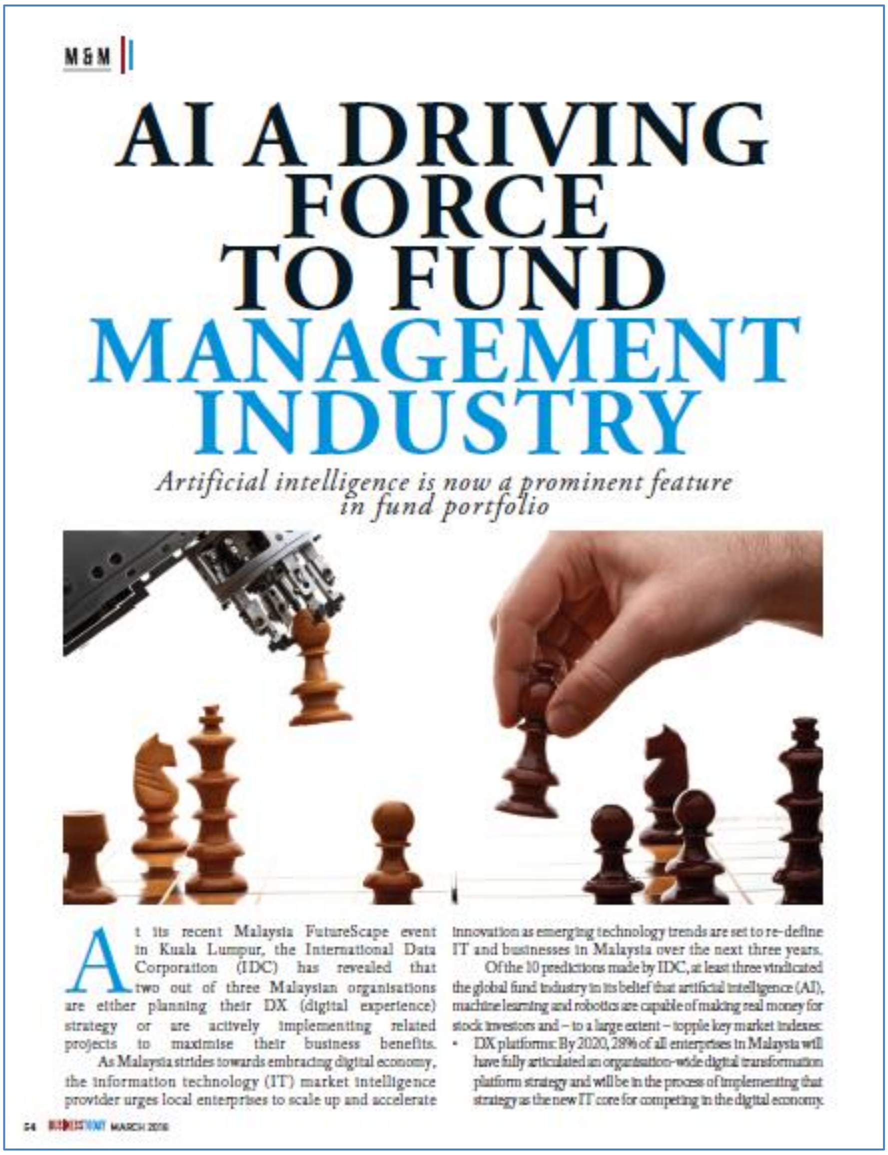

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BY ISMITZ MATTHEW DE ALWIS (EXECUTIVE DIRECTOR AND CEO OF KENANGA INVESTORS BHD)

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"Within the next four years, we expect to see approximately 45% of Malaysia's GDP to be derived from digital products and services," predicted Microsoft Malaysia managing director K. Raman. "At the same time, organisations in Asia Pacific are increasingly deploying emerging technologies such as AI as part of their digital transformation initiatives, and that will accelerate growth even further."

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