IN PARTNERSHIP WITH: STREAM by AlphaSense

HEDGEWEEK

Maximizing Value in Investment Research:

Using expert transcript libraries for scalable, cost-effective primary research

CONTENTS

SPEED AND STRONG EXPERTS

SETTING UP THE CHALLENGE

Primary research forms an integral part of managers' investment process. This practice allows them to make informed decisions and stay ahead of the curve. A thorough research and analysis process grants managers the opportunity to uncover emerging trends and identify sound investment prospects.

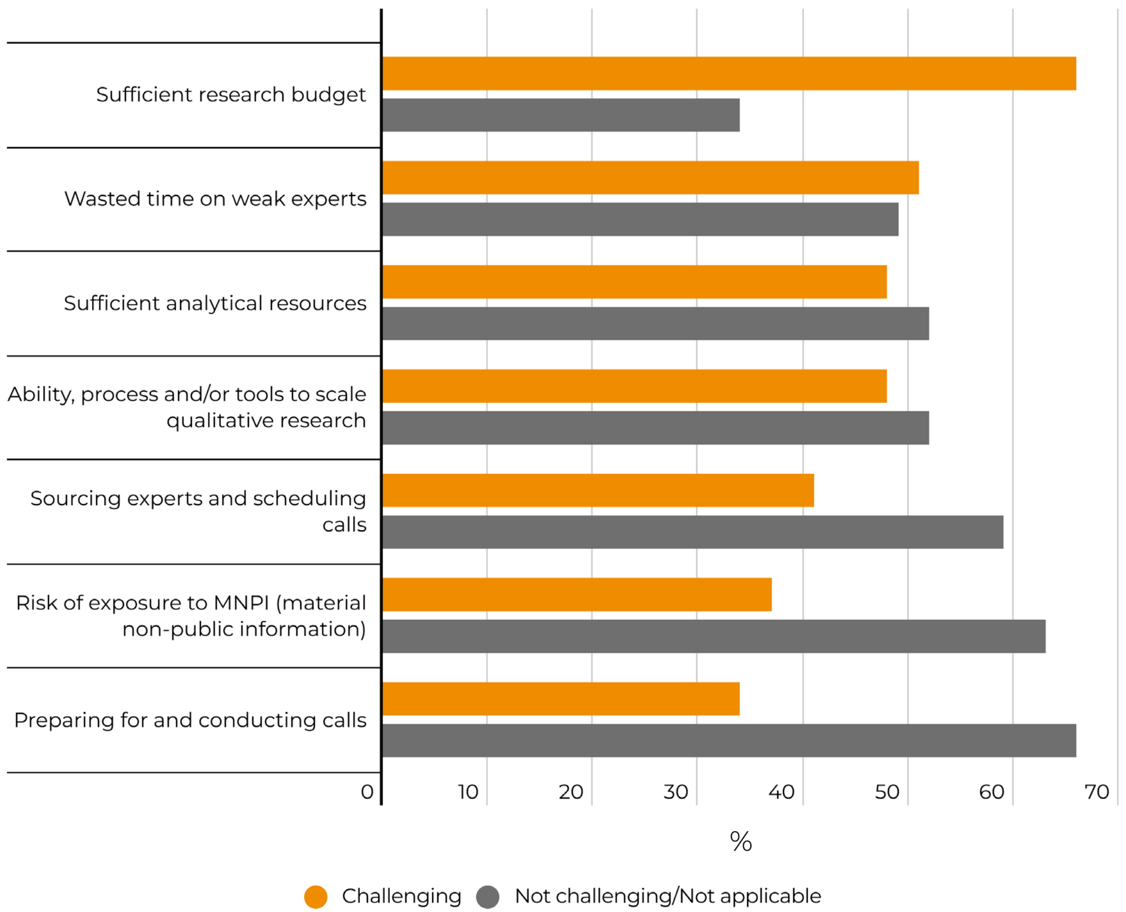
Tools which facilitate this part of the investment process are constantly evolving. The way managers successfully implement these solutions, despite their challenges, can provide a glimpse into ways in which their research process can be further enhanced to their clients' benefit.

This report outlines the findings revealed in a survey of 47 investment managers, all of whom conduct fundamental equity research. The aim of the survey was to better understand the major stresses and gaps they face when conducting research as well as the areas where they do not struggle. It also highlights the current use of expert transcript libraries among this cohort and the benefits they gain from accessing these tools.

Considering the primary difficulties managers face when conducting research, budgetary concerns far outrank the other issues under review as two thirds of respondents find this a challenge, according to the research we conducted. Budgetary challenges are stated to be the most prevalent issue among smaller scaled managers that manage portfolios of less than $500 million.

Over half of investment managers/respondents (51%) also struggle with wasting time on weak experts. This underlines the importance of finding the right people to speak to when conducting research. In contrast, fewer respondents (41%) say sourcing experts is something they find challenging.

When conducting research how challenging do you find the following?



Arguably, having issues with weak experts and actually sourcing the experts are two parts of the research process which are inherently connected. Sourcing an expert may not be considered difficult as a task in a vacuum, but sourcing the right expert is a tougher task.

Resources have been stretched all across the investment management industry and research is no exception. With just under half, 48% of respondents battle with having enough analytical resources at their disposal. A report by consultancy BCG[1] suggests tackling this challenge by leveraging AI and other machine learning tools.

"Adapt your talent strategy for advantage today and tomorrow. Create a 'bionic organization' by focusing human talent where it is needed most, in areas requiring imagination, empathy, or ethics, and leveraging AI where it is especially adept," the report outlines.

Considering the areas of research that managers find more straightforward, only around a third say preparing and

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> I love the way Stream formats the questions, in that they are bolded, because that's the first place I'll look in the transcript. It allows me to see whether this transcript in particular is worth my time? Is this client asking the right questions, ones that I'd be asking? **I'm very focused on return on time**. I'm very stingy with my own time. If reading through a handful of transcripts reveals that something doesn't look interesting, then I'll move on.

Raj Shah

Co-Founder, Stoic Point Capital Management conducting calls is a challenge. Furthermore, the risk of exposure to material non-public information (MNPI) is not a significant concern given that 63% state that it is not a challenge. Most likely, the low level of concern in this respect could be driven by the raft of regulation and guidance that managers have been subjected to around this issue. However, they need to remain alert to the potential risks here.

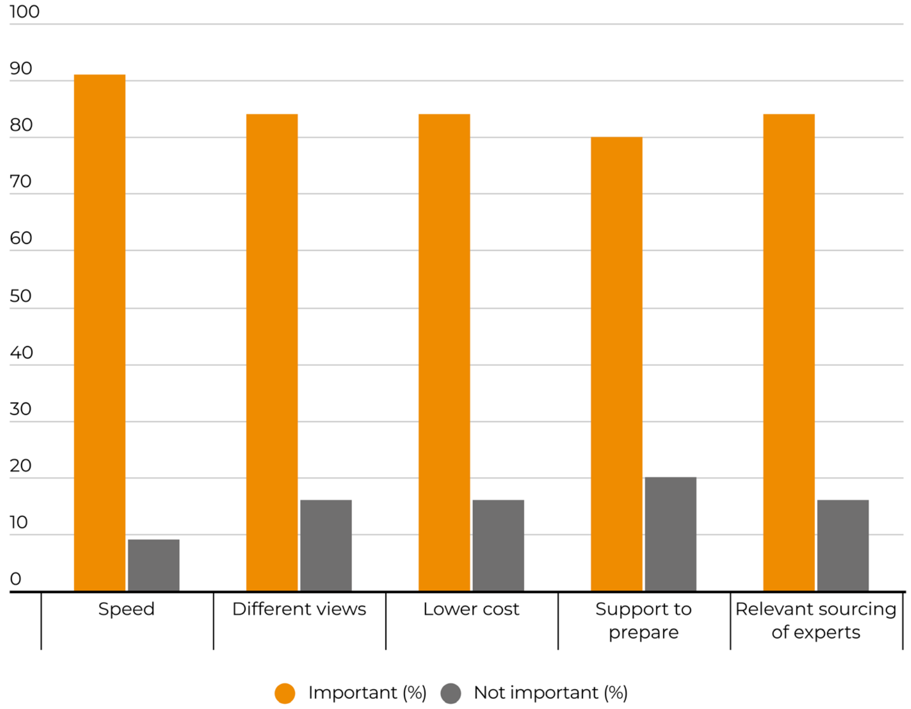
When considering the survey results in further detail, we find that managers in Europe and North America are the least likely to struggle when it comes to preparing for and conducting calls. Going into expert calls with a clear objective is crucial to potentially achieving the desired outcome.

“You need to be really prepared. Sometimes a call or meeting just goes the wrong way and you need to also be able to manage the meeting to get the best out of it,” Stefan Rheinwald, Head of Equity Research, Japanese Equities, Waverton, an independent investment management firm with £9.1bn in AUM.

Access to transcripts can help with this preparation. “That’s one of the biggest benefits of Stream. When I was working at another fund, this was before we had expert transcript libraries, the only way I could learn how to interview was to do a call with another colleague, who had more experience,” says Andrew Rosenblum, Managing Partner, Bonsai Partners, “Being able to read transcripts, I am able to steal liberally from the interviewer’s style, and the questions they ask. They say good artists borrow, and great artists steal. I’m unapologetic about taking great questions that other people ask.”

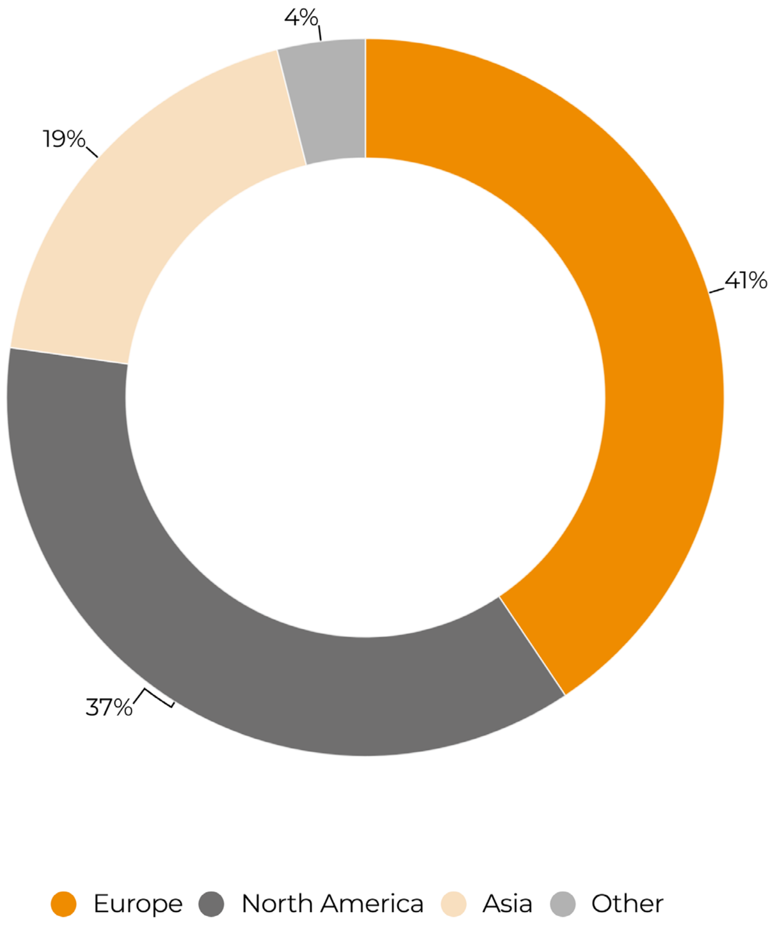
The concept of preparing for calls can also be tied back to the strength of the experts interviewed – an element which managers consider to be very important, given the fact that 51% struggle with wasting time on weak experts. However, one can argue that if a manager is unprepared, they might consider an expert to be weak, when in reality it is the lack of a clear goal going into that meeting which may have led to unsatisfactory results.

When conducting research how important are the following characteristics of the process you follow?



“Preparing for and conducting calls”

“Not challenging” responses (by region)



SPEED IS KEY

Conducting research involves a variety of dimensions – from finding the right people, to ensuring that the insights have broad coverage while maintaining depth, all within a cost-effective manner. Another aim of this study is to better understand the parts of the research process to which managers attach greatest value.

All the characteristics under review are considered important by equity managers when conducting research, though their top priority is speed. A significant majority (91%) say this is human talent where it is needed most, in areas requiring imagination, empathy, or ethics, and leveraging AI where it is especially adept,” the report outlines.

Considering the areas of research that managers find more straightforward, only around a third say preparing and conducting calls is a challenge. Furthermore, the risk of exposure to material non-public information (MNPI) is not a significant concern given that 63% state that it is not a challenge. Most likely, the low level of concern in this respect could be driven by the raft of regulation and guidance that managers have been subjected to around this issue. However, they need to remain alert to the potential risks here.

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The concept of preparing for calls can also be tied back to important. The one concern here could be that managers, in the search for speed to insight, could run the risk of sacrificing value or quality.

Access to a transcript library can quickly help them filter their ideas and support or negate a hypothesis. Jake Barfield, Founder & Portfolio Manager, Asheville Capital Management, says: "I'll give you an example [of speed to insight]. The credit chargeback space was an area that I was somewhat interested in. I was looking through the expert database and I saw that there were five or six experts in this space that all had call time availability. I scheduled calls with every single one of them. In two days I had enough information to determine that the credit chargeback space was not interesting to me."

However, given the other elements the managers say they value - about eight in ten (84%) say relevant sourcing of experts, lower cost and gathering a variety of views from different parts of an organization are important – their focus on quality should be on track.

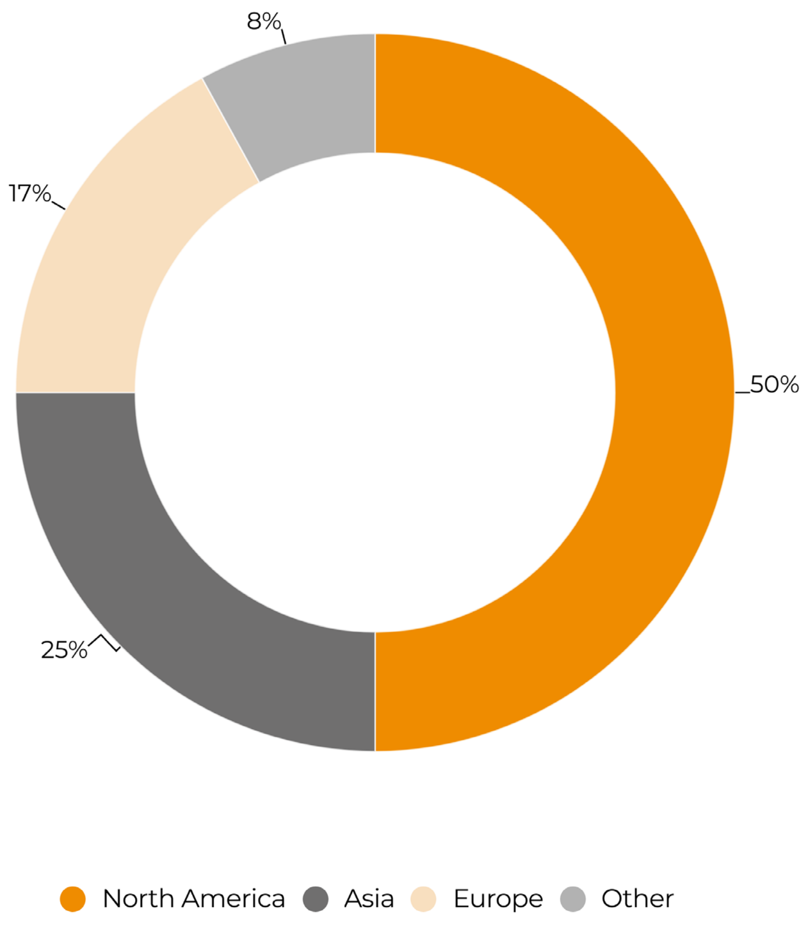
The need to access relevant experts once again harks back to the second key challenge outlined earlier, where wasting time on weak experts was found to be a considerable struggle.[2]

Considering the results by region, managers in North America are more concerned about cost than their

[2] https://www.streamrg.com/wp-content/uploads/2023/05/Stream-by-AlphaSense-ebook-expert-insights-flywheel-maximize-return-on-time.pdf

Priorities when conducting research

Concerned about cost (by region)



counterparts in Asia and Europe. Half of those who say a more inexpensive option is important are based in North America. A quarter of them are in Asia and 17% of managers prioritizing lower cost are European.

A KEY PART OF THE JIGSAW

One of the tools at managers' disposal when conducting research is an expert transcript library, like the one offered by Stream by AlphaSense. The use of these solutions has been growing among managers as they look to scale their research prowess and build more efficient processes into their business.

These libraries compile transcripts of expert, investor-led interviews with a variety of stakeholders including former company executives, customers and partners and make them available to other researchers and investors. Such libraries span multiple industries and markets.

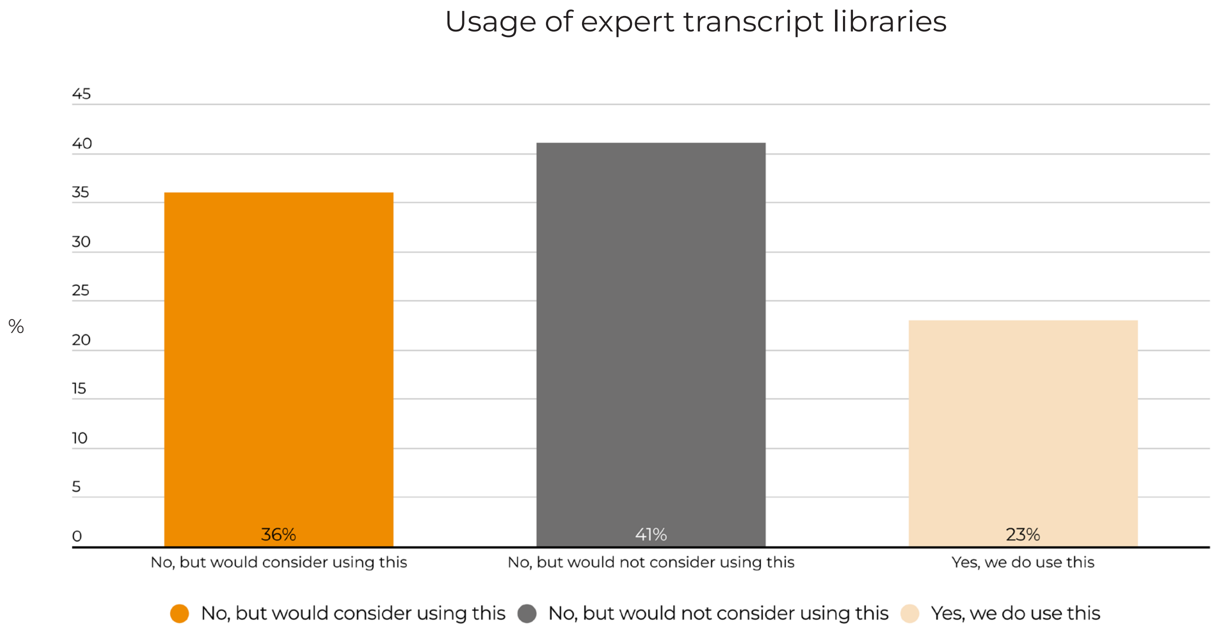
Using an expert transcript library can inject additional efficiency into a manager's research process. They can gain access to transcripts and quickly obtain valuable insight and information which saves time. With expert transcript libraries, managers are able to forgo conducting fresh sets of interviews and no longer need to rely solely on publicly available information.

In addition, access to transcript libraries can help level the playing field for smaller or independent managers that may not have the resources – both financially and in terms of staff – to conduct in-depth research internally. Straightforward access to the wealth of information housed within a library can give them a competitive edge, which they may not have had without that insight.

Despite the benefits that expert transcript libraries can provide, the majority of equity managers in this survey do not currently make use of such a tool. However the outlook for growth in the space is positive as almost four in ten (36%) say they would consider using such a service.

It's important to note, that one manager interviewed said the business model of the transcript library access doesn't work for what he requires. They don't require a constant flow of information but rather would need a "pay as you use" type structure which they could use as and when needed.

Just under a quarter of managers do currently use expert transcript libraries and in the following chapter of this report, industry commentators explain the benefits this service has provided. ■



EXPEDITING RESEARCH TECHNIQUES

The importance of alpha generation comes to the forefront once again as volatility and an uncertain market outlook means investment managers are under even more pressure to fine-tune their investment decisions and make choices which will provide high value to their investors.

Against this backdrop, they are constantly seeking ways which allow them to gain an edge over their peers in a highly competitive market. Accessing expert transcript libraries is one such method. Through these documents, they can glean information and valuable insight into the inner workings of specific companies or sectors they are reviewing.

DELIVERING PERFORMANCE THROUGH INSIGHT

The world of hedge funds is fast-paced and managers are under immense pressure to deliver performance to their clients. Investment acumen alone is not enough, they need vast amounts of data to support their choices and to then allow them to effectively monitor those investments, following allocation.

Expert transcript libraries offer a unique solution to these players, providing access to a set of archives containing transcripts of interviews with experts about companies and markets across different industries. In-depth analysis of these transcripts, can help fund managers gain valuable insight into the financial health of the companies or sectors under review. Through this exercise, they can obtain a critical understanding of industry trends, regulatory changes and other factors which could impact a company's or a sector's performance going forward.

Expert transcript libraries can also help managers better identify potential investment opportunities ahead of the competition, gauge growth prospects of the sector or company under review, all of which can support them in making better informed investment decisions.

Gaining this unique insight is critical for providing managers with support for an investment thesis which can be competitive and help raise their strategy above those of their peers and fine-tune their investment choices.

For example, when considering investing in a particular company, managers can assess whether the company's ethos is translating well across their customer base. So, is the value proposition they are putting forward what their clients feel they are receiving?

Deep analysis of such transcripts can also help managers build a more holistic view of a company's competitive stance, in that smaller ticket advantages can be quantified which together can add up to significantly larger benefits than first considered.

VARIED RESEARCH TECHNIQUES

Depending on their strategy and investment process, managers apply a variety of research techniques within their business, usually combining a number of different methods to produce the desired result.

"The research techniques we use are chosen on a case-by-case basis. We are trying to make sure we understand a company and to see how our approach aligns with that of the company management," says Phillip Chapple, COO, Monterone Partners, a long-term, concentrated investor focused on Western European public equities.

Monterone Partners has made use of expert networks and expert transcript libraries in order to meet these goals. Combining expert transcript libraries with expert call services creates the most time-efficient, therefore the most valuable, primary research tool. **Stream offers not only an expert transcript library but also expert call services with access to pre-qualified experts, complete with cost-effective pricing, free transcriptions, and world-class compliance.**

STRONG INVESTMENT DUE DILIGENCE

The increasing complexity across the financial industry also means managers are looking for additional support on the research side. "There are manager-level risks that need to be appreciated, weighed and measured, and often those are independent of investment risk and are more operational in nature. Additionally, the skills one needs excel at operational due diligence are unique to those skills needed to excel at investment due diligence," RJ Smolenski, Managing Director of Investment Research at Pitcairn, a multi-family office, explains.

> We put significant emphasis on analysis in our research process, combining primary and secondary research," explains Rheinwald, at Waverton, "this includes information from sell-side research analysts, company meetings we conduct directly and third party sources including expert transcript libraries.
>
> **Stefan Rheinwald**
>
> Head of Equity Research, Waverton

Managers make broad use of expert networks and expert transcript libraries when making investment decisions, however access to these sources of information take on a greater significance when managers are faced with a sector in which they do not have specific or explicit expertise.

"As a team with expertise in investment due diligence, it would be foolish to do more than we actually can. There are experts who specialize in operational due diligence, and risk ensuing from that discipline could in turn create investment risk and/or corporate risk if we did not leverage that expertise," Smolenski adds.

For Rheinwald, expert networks and transcript libraries, constitute one piece of a much broader set of data that combines to draw a clear picture of the potential investment. "We look at it like a jigsaw puzzle. Any secondary research we are using, publicly available information, annual reports, sell side research, analyst access, etc., comes together with the primary research we conduct, which takes the form of company meetings across all industries." This combination of research methods is prevalent among managers and industry commentators explain how expert transcripts play a role at various points of an investment hypothesis. They can be used to gather broad information about a company or sector and provide a more high-level view. Alternatively, transcripts can also be brought into the process at a later stage, when a manager is honing in on their investment thesis and requires additional detail. Expert transcript libraries can form a critical part of managers' research process, providing unique insights and perspectives that are difficult to find elsewhere.

"Transcripts can be very useful when we're doing a deep-dive exercise into a new sector or a product," Chapple of Monterone Partners, outlines, "For example, if we were considering a position in a company which delivers canteen services, talking to people who have gone through a process of selecting them or one of their competitors, or even someone who used to be one of their customers is very useful."

Investment manager research methods came under the

> I like talking to people, there a couple of things that I enjoy depending on the depth of the conversation. If it's something that I know well, like malls, it's ideal to be able to talk to someone that lives and breathes that every day and ask questions like, 'Hey, what are you seeing? Where am I wrong? What do you think?'
>
> **Prem Nainani**
>
> Managing Partner, Aplomado Advisors

spotlight following regulatory changes related to the way managers paid for research. This compliance focus also caused managers to consider the risk they face when accessing company information. In fact, Chapple says using expert transcript libraries feels safer: "The providers of the libraries deliver compliance support which means we are less likely to fall foul of the law by getting insider information or any information we should not be getting." This is critical for Chapple and he says ensuring the firm is not brought in as an insider can be a challenge when accessing expert networks rather than transcript libraries.

"That's really the value of some of these expert libraries," adds Nitin Sacheti, Founder and Portfolio Manager, Papyrus Capital, "When a transcript hits the library, it's effectively in the public domain. That eliminates some of the issues around the compliance burdens of expert calls."

A BETTER BLEND OF QUAL AND QUANT

The aforementioned combination of research methods is crucial to providing managers with that competitive edge they are all looking for. In Smolenski's case, he describes the way his firm blends qualitative and quantitative techniques to

> "At one point in time we had a position in a toll road company and during lockdown the price of the stock dropped dramatically. However, satellite data showed there were more trucks and lorries using the road, due to people ordering more online, and these users pay more than regular cars. So in reality, the quality of the company did not degrade as much as the financial data alone suggested."

Phillip Chapple

COO, Monterone Partners

better research the managers Pitcairn selects.

"Quantitative work leads us to a group of managers we want to explore more deeply, but it's the qualitative work which enables you to make the investment selection and final choice," Smolenski says. This more subjective kind of inquiry allows the investor to ask more exploratory questions, especially during times of stress when companies may need to adapt to new environments.

"It's a bit of a cliché but you need to have both quant and qual. We don't believe quantitative data can make a decision for you. It can get you to a certain point, but ultimately, it's the qualitative information that gets you across that finish line," he adds.

Blending qualitative insight with quantitative data can give managers the ability to identify trends, patterns and issues which may not be immediately apparent.

One of the key benefits of combining qualitative and quantitative data is the ability to identify trends and patterns that may not be immediately apparent, thus strengthening the manager's choice whether they decide to invest or not. For instance, financial data can show strong revenue growth for a particular company, but accompanying customer feedback could then indicate there are underlying issues which can surface later and potentially impact that company's long-term performance.

Chapple gives an example of how combining various data sources provided a clearer picture of the health of a particular company and allow a manager to determine what is happening in the market at a particular point in time, rather than waiting for public data which all other managers have access to.

Accessing an interview guide such as this can also support managers and guide them to asking the questions which will provide them with the highest quality and most relevant output.

Including a variety of data sources in a research process also helps reduce bias. Rheinwald comments: "When using tools such as expert transcript libraries you need to be aware of your own biases. Sometimes you are trying to confirm something you already know rather than looking out for something you don't want to hear. So this is a genuine issue one needs to be aware of when using this information to confirm an investment thesis."

Also, quantitative data is generally historical while qualitative data has the capacity to be more forward-looking.

KEEPING PACE: CONSTANT REVIEW OF NEW TOOLS AND SOLUTIONS IS NECESSARY FOR EVOLUTION

Managers are clear on the benefits gained from using expert transcript libraries but some challenges remain. Managers have collectively agreed that the primary challenge is keeping abreast of the changing tools and solutions available to help augment their research practice. "There are many providers and mechanisms in the market and understanding what works for your firm is critical," Chapple underscores.

When accessing reams of data, managers also need to be very organized and well prepared to make the best use of the data they're collecting. "You need to identify what information you want to extract ahead of time; to understand how this will fit into your larger jigsaw puzzle. Doing this then allows for more effective follow-up and more in-depth inquiry," says Rheinwald, adding that cross-checking findings is also critical to providing the full picture.

One quick way to prepare for calls: learn what questions other analysts are asking by reading a few published transcripts. With Stream, managers don't even have to scroll through the full transcript, as all questions are listed and hyperlinked at the top of each transcript.

According to managers, the next stage of development in the use of expert transcript libraries will be related to the analysis of data. Ensuring research is meeting the organization's needs is a constant evolution and managers are keenly aware of this need to progress and adapt. ■

> "Anybody who reviews a Stream transcript or talks to a customer or a competitor is very quickly going to ascertain there's great product market fit and there's a great growth runway. Then it just becomes a question of how much is that worth?
>
> You need to peel the onion back a couple layers to understand the unit economics of this business."

Raj Shah

Co-Founder, Stoic Point Capital Management