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DAVY GLOBAL FUND MANAGEMENT

Quantamental investing

The best of both worlds?

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Executive Summary

- Quantamental investing blends quantitative and fundamental techniques to provide clients with the best of both investing worlds.
- Combining the bias-free objectivity of quantitative modelling with the creativity of fundamental investing allows the strengths of each approach to shine.
- Adopting a quantamental approach ensures insights that might otherwise be missed are captured from an ever-growing range of data sources.

Introduction

The world is facing an unprecedented explosion of information. On any one day, 2.5 quintillion (1 quintillion = 1 billion billion) bytes of data are produced, with a staggering 90% of all data available in the world having being generated in just the last two years[1].

This makes it important that any investment approach incorporates both quantitative and fundamental inputs to capture and process an ever-growing influx of data and thereby gain insights that might otherwise be missed.

[1] - https://techjury.net/blog/how-much-data-is-created-every-day/#gref

What is quantamental investing?

'Quantamental' is a modern approach to investment management that blends quantitative and fundamental techniques to provide clients with the best of both investing worlds.

It draws on aspects of quantitative finance, data science and deep fundamental analysis by combining:

- **The disciplined and bias-free objectivity of quantitative modelling analysis, and**
- **The creativity, experience and freedom of judgement of fundamental investing**

Blending findings from the two distinct investing styles, quantamental investing can produce more meaningful investment insights that can be applied consistently, efficiently and at scale.

Why is quantamental investing important?

We see two primary benefits of adopting a quantamental process:

- **Enhanced insights that can be executed objectively**
- **Ability to deal with multiple data sources simultaneously**

Quantitative and fundamental investing both seek ultimately to generate excess returns for investors. However, both styles suffer from embedded uncertainties and biases; each has its strengths and weaknesses. By combining the best of quantitative and fundamental techniques the biases inherent in each investment approach are minimised to generate more meaningful investment insights and outcomes.

Quantitative	+	Fundamental
✓ Applies to an entire investment universe		✗ Focuses on a single security or subset
✓ Easily tested and adjusted		✗ Takes time to develop and update
✓ Objective		✗ Subjective
✗ Broad insights on many securities may miss details		✓ In-depth knowledge of individual securities
✗ Reliant on historical data		✓ Uses proprietary forecasts
✗ Uses averages		✓ Can determine exceptions/inflection points

Quantitative investing

Quantitative investing uses advanced mathematical modelling techniques and computer systems to trawl through a vast number of potentially complex data sources. There are thousands of different data sets available from government, finance firms, economic organisations, social media and environmental, social and governance ('ESG') bodies. Combining these financial and alternative data streams requires a variety of analytical and visualisation techniques to identify consistent patterns and deviations of securities from historical trends.

The model-based nature of quantitative investing enables it to make consistent decisions free of behavioural bias. At a practical level, it allows an investment team to swiftly and effectively home in on relevant securities for further analysis.

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Fundamental investing

Fundamental investing is a comprehensive approach based on applying in-depth knowledge of securities and their relevant industry dynamics. The objective is to determine a stock's intrinsic value by forecasting its cash flows and applying an appropriate discount rate. These cash flow forecasts are made using assumptions which include a firm's competitive position, the degree of industry concentration, pricing power and its business strategy.

The information used to make these judgements is sometimes harder to systemise due to its subjective nature, availability and the methods used to collect it. This is especially true for ESG metrics where management engagement is required.

Greater than the sum of its parts

Machines are integral to processing the vast array of information that investors face today. Human skill and insights are equally vital to make sense of the data. Otherwise, we risk ending up with “black box” solutions containing little economic rationale.

We need to build practical systems that combine quantitative and fundamental insights; a quantamental approach to investing. This gives us a better chance of identifying stock-specific alpha than investing using quantitative or fundamental techniques alone.

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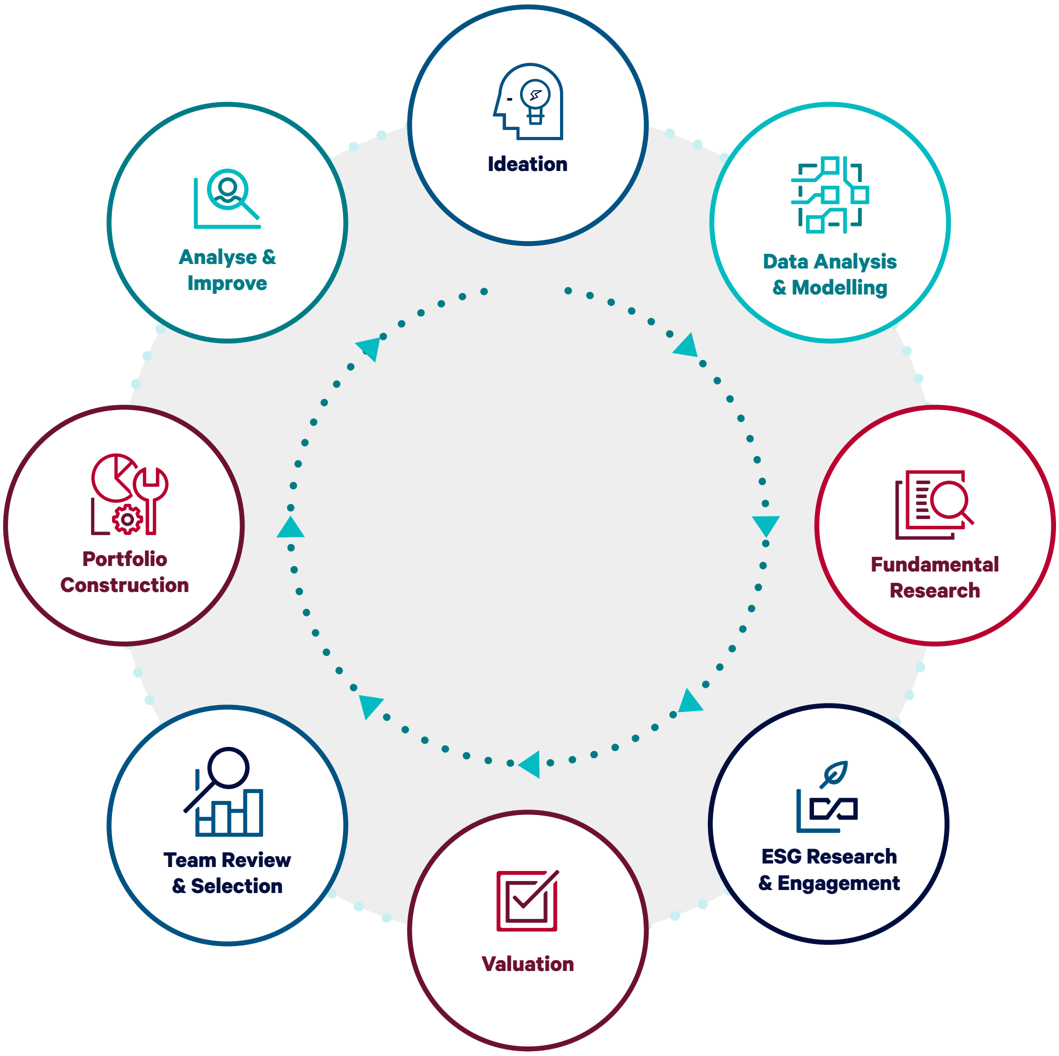
How quantamental investing works in practice

Similar to the concept of quality[2], there is no definitive approach to quantamental investing. Nonetheless, what is commonly seen is a virtuous circle whereby one component of either quantitative or fundamental research informs the other and vice versa, creating a continuous feedback loop.



We have created our own methodology to execute quantamental investing. This incorporates our philosophy of focusing on the highest-quality companies with the most attractive ESG prospects. Our quantamental process draws on many data sources and analyses millions of data points that impact our investment universe of over 15,000 stocks.

Combining the data in a quantitative manner provides signals that allow us to carry out greater in-depth fundamental analysis on companies of potential interest to adequately understand their business models, risks and opportunities. The in-depth study of company fundamentals yields deeper insights that we then feed back into our quantitative models, thus fuelling the virtuous circle that is the essence of quantamental investing.

[2] - Please see: Quality Investing - How to outperform growth and value long term

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