“We use large-scale technology and sophisticated analytics to research investment skill.

“This gives us the opportunity to see what a manager is really good at and what their sources of alpha are, as well as their weaknesses.

“Now we are extending this approach to portfolios’ environmental, social and governance characteristics, helping identify ESG exposure and its contribution to performance.”

– RICK DI MASCIO, CEO, INALYTICS
Benchmarking investment skill

Inalytics helps institutional investors to identify and benchmark investment skill by focusing on portfolio managers’ decisions, not their performance track records.

The firm’s clients are the world’s largest institutional investors, both asset owners and asset managers: pension funds, sovereign wealth funds, endowments, foundations, multi managers, family offices, as well as fund and portfolio managers.

Inalytics advises clients with US$2.7trn of client assets under management across 12 countries.

Getting behind track records with data analytics

Past performance is not a reliable guide to future investment success. However, data analytics can help identify the skills and decision making that produced asset managers’ track records. As well as identifying skills, analytics can help spotlight managers’ areas of strength and potential weakness.

Inalytics uses four key criteria in assessing investment skill:

- **Research process:** a skillful asset manager will demonstrate a successful research process that investigates ideas and adds the best of them to a portfolio.
- **Sizing:** a skillful manager will back these ideas with conviction, so they have a real impact on performance and alpha.
- **Rebalancing:** a skillful manager will have the self-discipline not to allow alpha to be diluted by poor selling decisions.
- **Investment horizon:** a skillful manager will have a process in place to ensure long-term positions continue to add value and don’t suffer from alpha decay.

When conducting its analysis, Inalytics reviews more than 34 million annual holdings and transactions by portfolio managers.

By connecting the portfolio analytics to the investment process, Inalytics is able to see the effectiveness of different aspects of that process and to identify potential behavioral biases.

In this way, asset owners can judge the specific skills of an asset manager. In the manager selection process, asset owners can screen out managers that don’t have skillful decision making and complementary skillsets to their existing managers. And after a manager is appointed, data analytics help asset owners get behind the results and ask the key questions to deepen their due diligence.

Extending the approach to ESG

FTSE Russell’s environmental, social and governance (“ESG”) ratings and data are built from over 300 individual indicator assessments. The ratings cover 7,200 securities in 47 developed and emerging markets.

Each company is given an overall ESG rating, which breaks down into underlying pillar (“E”, “S” and “G”) and theme exposures and scores.
Inalytics is now incorporating FTSE Russell’s ESG ratings into its data analytics service, helping asset owners to monitor their ESG equity portfolio in two ways:

- **ESG exposure**: how the equity portfolio is exposed to each of the E, S and G pillars and to the overall ESG rating. As exposures to individual E, S and G pillars may not be correlated, asset owners and managers increasingly wish to monitor these exposures both separately and in combination.

- **ESG contribution to alpha**: how much of the portfolio’s alpha is coming from these ESG exposures. There’s growing interest in how ESG exposures influence portfolio performance, both for individual pillars and in aggregate.

**Simplifying the due diligence process**

When selecting an asset manager to run an ESG equity portfolio on their behalf, asset owners may consider tens or even hundreds of candidates. A focus on past performance or managers’ own claims about their sustainable investment approach are not enough by themselves to ensure a successful search.

Data analytics help institutional investors dig down into transaction histories, helping identify areas of skill and weakness. By focusing on the investment process, sizing, rebalancing and time horizon of managers, investors can identify true skill. Now, these techniques are being extended to ESG exposures and their contribution to performance.

FTSE Russell’s ESG ratings and data allow investors to understand a company’s exposure to, and management of, ESG issues in multiple dimensions. The model is designed for customization by the user, enabling data to be ‘sliced and diced’ to meet each user’s needs. ESG data analytics can make the due diligence process more efficient, less arduous and highly productive.

Data science now plays a central role in all our lives. Meanwhile, there’s a growing focus on ESG performance at all levels of asset management. Making full use of the latest technologies should help policymakers to simplify sustainable investing and stay one step ahead of the crowd.

**Additional information**

For more information about Inalytics’ approach to identifying investment skill, visit Inalytics.com

For more information about FTSE Russell’s ESG ratings and data, visit https://www.ftserussell.com/data/sustainability-and-esg-data/esg-ratings
About FTSE Russell

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To learn more, visit ftserussell.com; email info@ftserussell.com; or call your regional Client Service Team office

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