



Unveiling the Numbers Game: What is Systematic Investing?

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The range of Vinva global equity strategies presents investors with a new choice in systematic investing.

With rapid advancements in artificial intelligence and information technology, systematic investment strategies can represent one of the most innovative segments of investor portfolios.

To understand why systematic investing matters, let's first take a step back and explain the basics.

Systematic investing 101

Systematic investing, also known as quantitative investing, delves into the world of finance using a powerful toolset – mathematics, statistics, and computer science. Unlike traditional investment approaches that rely heavily on fundamental analysis (that often requires visiting companies, meeting management teams or researching competitive advantages), systematic investing uses the power of data and complex equations to uncover hidden patterns and potential opportunities in the market.

Imagine a vast ocean of financial information – share prices, trading volumes, economic indicators, just to name a few. Systematic investors, often called "quants," act like captains, navigating this sea with sophisticated models and algorithms to identify profitable trades.

Systematic is one of three main types of investing. The first category, Indexed can be described as a Passive approach as it aims to match the performance of a given benchmark index, such as S&P/ASX 300 Index. The remaining two approaches, Fundamental and Systematic are both Active, as they seek to outperform their benchmarks. The difference between these two is that Fundamental relies more on human-based research to make investment decisions, while Systematic uses mainly data and algorithms.

Passive	Active	
Indexed	Fundamental	Systematic
Index funds often aim to replicate the returns of an index, such as the S&P/ASX 300 Index. Many ETF's have an indexed approach.	Active investment strategies that aim to perform better than an index. This typically involves human research to find the best companies.	Active investment strategies that aim to perform better than an index. This typically involves data and models with efficient use of human input.

Here's a deeper dive into the world of systematic investing:

The engine room: models and algorithms

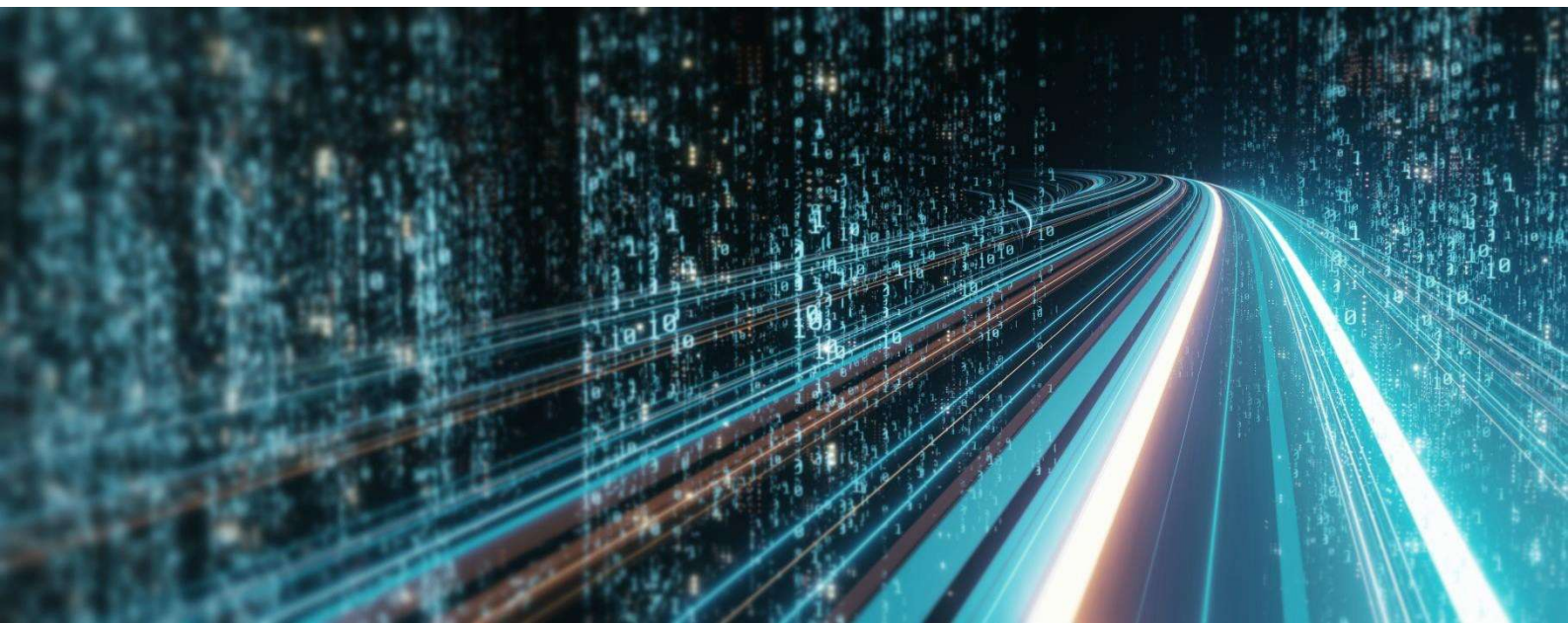
By crunching vast amounts of data, the models aim to identify statistical relationships and predict future price movements.

The core of systematic investing lies in building mathematical models that can make sense of financial data. These models consider a multitude of factors, including historical share price movements, company financials, and market sentiment. By crunching vast amounts of data, the models aim to identify statistical relationships and predict future price movements.

So, for the ship-sailing captain, a simple example of a statistical relationship may be that wind speed and air pressure helps predict ocean swell a day later. If the captain can create a mathematical model that measures both factors (wind and pressure) on Monday, that model can be used to help predict the swell on Tuesday. Furthermore, over time that model's accuracy can be backtested and improved with more data and possibly new variables put into the model to increase its accuracy.

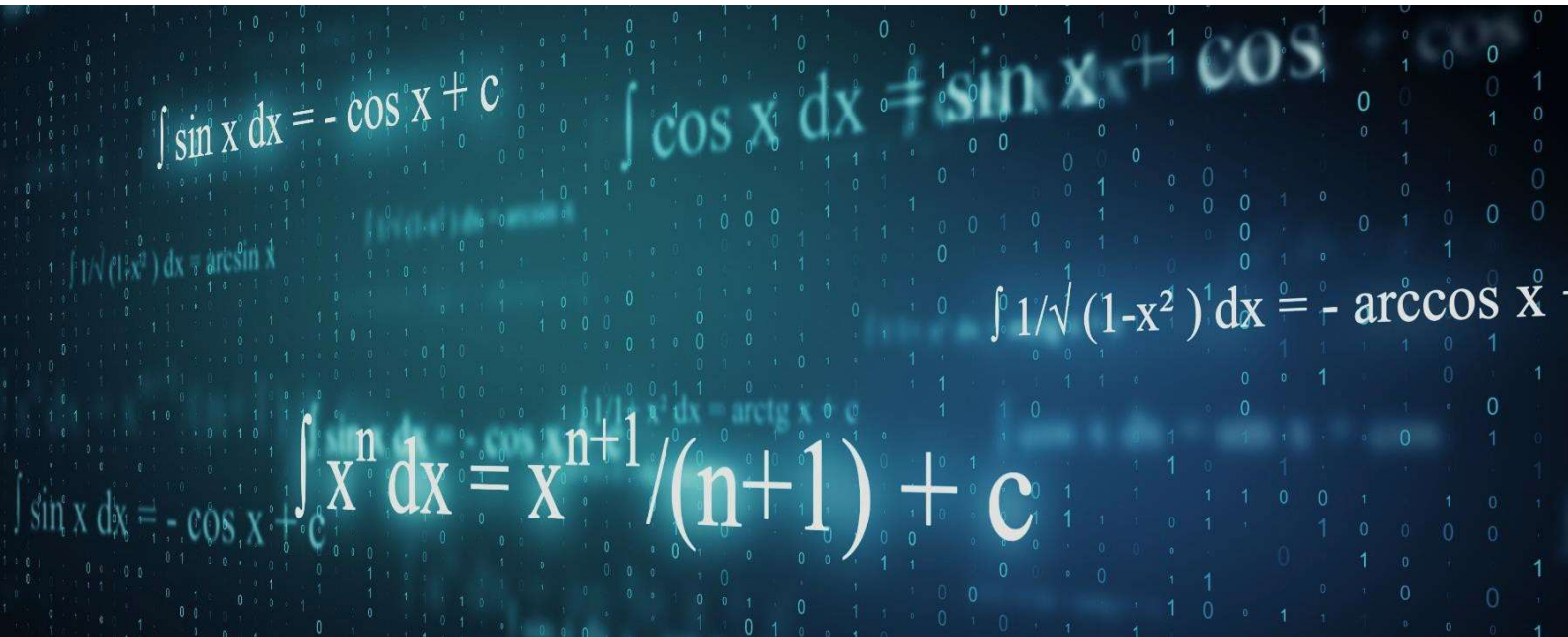
When it comes to systematic investing, the relationships between data and predictions act like buy or sell signals that can be used to help make portfolio decisions. Some signals may be positive on a stock, others may be negative. Stocks with overwhelmingly positive signals may have a strong case to be considered for inclusion in a portfolio.

Once a model is built, it's not deployed immediately. Quants generally test it with historical data (backtesting) to assess its effectiveness. This ensures the model isn't simply a product of chance but has the potential to generate consistent returns.



The toolbox: exploring different strategies

Systematic investing offers a diverse toolkit for investors. In the toolkit are different models that focus on specific sets of data – each has a role in explaining how an overall investment strategy may perform in future. The explanation power of each model (specific strategy) may fluctuate through time.



Here are some prominent strategies:

Factor Investing	This approach focuses on identifying and exploiting well-established market themes, or factors that have historically delivered excess returns. Common factors include value (buying undervalued stocks), momentum (investing in stocks with rising prices), and quality (companies with strong financials).
Statistical Arbitrage	This strategy seeks to take advantage of short-term price discrepancies between similar assets. Quants exploit these inefficiencies by simultaneously buying and selling the assets to capture the price difference. Think of it as finding a product on sale in one store and immediately reselling it for a higher price elsewhere.
High-Frequency Trading (HFT)	This strategy draws on sophisticated algorithms and high-powered computers to execute a large volume of trades at lightning speed, often measured in milliseconds. HFT quants exploit fleeting market inefficiencies arising from news announcements, order imbalances, or even typos.
Machine Learning and Artificial Intelligence (AI)	As technology advances, systematic investing is embracing machine learning and AI. These techniques allow models to learn from vast datasets and identify complex patterns beyond human capabilities.

The Benefits and Challenges

Systematic investing offers several advantages:

Objectivity	Models and algorithms are designed to be free from emotional biases that can plague human investors.
Discipline	Systematic strategies ensure consistent application of investment rules, reducing the risk of impulsive decisions.
Backtesting	The ability to test models with historical data allows for a more rigorous evaluation of potential performance.
Diversification	Systematic strategies can help build diversified portfolios that capture returns from various market factors.
Future-proofing	Systematic investments can make use of advances in technology and artificial intelligence to both extract data and use the data to develop signals.

However, systematic investing isn't without its challenges especially for those investors planning to try it on their own. The list below highlights some of the main challenges, and why it may be beneficial to rely on a professional fund manager that specialises in systematic investing:

- **Black Box Risk:** Complex models can be difficult for the average investor to interpret, making it challenging to understand why a strategy generates profits or losses.
- **Overfitting:** Models can become overly reliant on historical data, leading to poor performance in new market conditions. There needs to be a constant review of the model itself and that it remains fit for purpose, as well as the data it provides.
- **Data Dependence:** The quality of quantitative models hinges on the quality and completeness of data used. Both need to be considered as part of a successful investment strategy.
- **Technology Reliance:** Systematic investing requires significant computing power and expertise, putting it out of reach for some investors.

The Future of Systematic Investing

The future of systematic investing is likely to see increased adoption of machine learning and AI. As data becomes more abundant and computing power grows, these techniques will play a bigger role in uncovering hidden insights and developing even more sophisticated trading strategies. However, human oversight and sound risk management will remain crucial to mitigate potential pitfalls and ensure the long-term success of systematic investment approaches.

Vinva believe that systematic investing can play an important role in portfolios because other traditional investment approaches that rely on human decisions are prone to emotional bias, which can detract from performance in the long term.

Systematic investing put into practice

Now with an explanation of systematic investing behind us, how is it applied in an actual investment portfolio?

As an example, Vinva Investment Management (Vinva) is a leading global equity investment manager that was founded in Australia and with a genesis dating back over 20 years. It uses insight-driven models with over 50 proprietary signals covering a global universe of more than 1,500 stocks. From this universe the Vinva Global Systematic Equities Fund has active positions in around 500 stocks.

Vinva believe that systematic investing can play an important role in portfolios because other traditional investment approaches that rely on human decisions are prone to emotional bias, which can detract from performance in the long term. To overcome this challenge, Vinva adopts a highly disciplined systematic investment approach which they believe is an optimal approach to delivering long term consistent outperformance. The investment team at Vinva focus on developing proprietary models, based on strong investment insights, which are used to create buy and sell stock decisions. This helps navigate the Fund through various market environments and removes the emotion out of stock picking.

For over 20 years Vinva has implemented a culture of innovation and market leadership that has allowed their systematic investment process to evolve and benefit from advances in information technology and AI. With over 15 million data points captured annually, the Vinva team looks to exploit insights, trends and relative mispricing that other investors may overlook. This provides informed decision-making for thousands of potential global stocks, which results in a portfolio that has many hundreds of small active bets in it, rather than a more concentrated portfolio with larger (and riskier) stock positions.

Vinva is a pioneer and market leader of systematic investing with competitive advantages:

- An independent and privately-owned business which allows a strong alignment with clients.
- A stable and experienced investment team who have an average of over 20 years' experience.
- Proprietary dynamic construction and forward-looking trading systems providing distinctive advantages in portfolio construction and implementation.
- Leading-edge investment technology platform designed to manage vast quantities of information quickly and systematically.
- Continuous investment in research and innovation to ensure new market inefficiencies are identified.
- A market leader in language processing and machine learning.
- A proven, long and consistent track record of delivering performance that meets or exceeds client expectations.

Information empowers the Vinva investment process

15,000

Stocks covered in
48 countries

3+ million

News articles
analysed

160,000+

sell-side analyst
actions analysed

12+ million

Company linkages
(e.g. competitors)
identified

400+

ESG stock
metrics captured

Systematic investing can help diversify portfolio strategies

For investors, the key takeaway is that systematic investing uses significant amounts of data and complex models that can offer complementary portfolio characteristics to other investment strategies that rely on fundamental research, or passive strategies. This has the potential to help diversify sources of value add and make investment returns more robust over the longer term.



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