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BlackRock betting big data can help revive its active equity funds

Jessica Toonkel

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Laurence Fink, Chairman and CEO of BlackRock Inc., gestures at the session 'The Global Economic Outlook' in the Swiss mountain resort of Davos January 24, 2015. REUTERS/Ruben Sprich

NEW YORK (Reuters) - BlackRock Inc ([BLK.N](#)) CEO Larry Fink is betting that a trillion points of data can help revive his firm's ailing stock-picking business.

Even though BlackRock replaced many of its fundamental active equity managers over the past few years, a number of the firm's stock-picking funds are underperforming. Investors have pulled \$7.5 billion from the funds over the past year, according to Morningstar.

To address this, the world's largest asset manager is taking the secret data sauce of its team of quantitative managers, academics and data engineers and feeding it to all of its portfolio managers, including its fundamental active equity team.

The goal: to arm its portfolio managers with data to give them an analytical advantage. The information ranges from satellite images of cars in retailer parking lots to shipping trends to word search analytics in company earnings calls.

While big data has long been the domain of quants and hedge fund managers, it is unusual for fundamental stock-pickers - who tend to use analyst reports, earnings figures and their own research - to rely on such wide ranging data.

If BlackRock succeeds, it could enable its stock-pickers to see market opportunities ahead of the competition. The challenge will be in getting these managers to understand what all the data means, said Ken Kam, CEO and founder of Marketocracy, a data-dependent online investment advisor.

"It will be a steep learning curve for them," Kam said. "That is not to say there isn't an opportunity, but it's a whole other ball game."

Fink, for one, is optimistic.

"We believe that if we can get insight through data, it will give us a differentiated advantage," Fink told Reuters in an interview in July.

While performance has improved over the past year, only 22 percent of the group's fundamental active equity mutual funds returned among the top quartile of their peers for the 12 months, up from 8 percent for the past five years, according to Morningstar.

By its own account, BlackRock stock-picking funds have already started to turn around.

Seventy-eight percent of its portfolios, including institutional accounts, have outperformed their peers or benchmarks over the past year, while 61 percent have over the past five years, according to the firm. Institutional performance isn't publicly reported.

The push to share big data with these managers is intended to give these funds an additional boost, a spokesman said.

To be sure, BlackRock could flood its managers with data and still not win assets in an era when investors increasingly choose the indexed investing that BlackRock is most known for. Nor is there a guarantee that more data will boost performance, said Jason Kephart, an analyst at Morningstar.

For example, BlackRock's own Emerging Markets Long Short Equity Fund ([BLSAX.O](#)), run by the scientific active equity team, struggled in the first half of 2014 partially because it had short positions in Brazilian stocks when the country's market rallied after the presidential elections.

The fund underperformed its benchmark, the Bank of America Merrill Lynch U.S Treasury Bill 3 Month Index, by 1.2 percent, in the first half of 2014, according to Morningstar.

Still, with fixed income investments likely to lose favor with investors in coming months if the Federal Reserve, as expected, raises interest rates, it is increasingly important for bond-heavy BlackRock's active equity funds to shine, analysts say.

That's particularly true because the firm's active equity business has the potential to generate bigger profits for the firm. Currently, it makes up about 6 percent of the firm's assets under management, but it delivered 15 percent of its revenue in the second quarter.

Last quarter, the average fee BlackRock charged institutional clients for its active equity strategies is 0.60 percent, compared to 0.05 percent for the passive strategies for which it is better known, according to Mac Sykes, an analyst at Gabelli.

For analysts, the fundamental active equity performance is the only thing holding back BlackRock's stock from going even higher. The stock trades at about \$335 a share.

"For me the next big leg up in their stock is if they can improve active equity," said Luke Montgomery, a Sanford Bernstein analyst. "They have industry leading flows, but the story so far has been about their ETFs and fixed income business."

NOWCASTING

One goal within the next 12 months for BlackRock is “nowcasting” - using data and satellite imagery that could show how real-time forces are affecting portfolios, such as how many cars are in the parking lots of Wal-Mart Stores ([WMT.N](#)) across the country.

While a quant manager might look at that piece of data to determine how much U.S. consumers are spending, a stock-picker could use it to grill Wal-Mart executives about sales, said Ken Kroner, head of multi-asset strategies and head and chief investment officer of the scientific active equity group.

The difficulty is determining what data is relevant and what is noise, Kam said. “It’s going to be a little like drinking water out of a fire hose,” he said.

ACTIVE 2.0

BlackRock has assembled a working group of portfolio managers drawn from its quantitative scientific active group, its fundamental stock-pickers and its fixed income managers, to figure out how “big data” can help managers across the firm, Kroner said.

Its first project is an internal Web site where BlackRock’s portfolio managers can search a word, company name or phrase and receive thousands of data bits, including earnings calls; analyst reports; word search analytics, video and audio clips.

For instance, by combing through BlackRock’s data hub, managers discovered that the number of times that executives mentioned the word “Greece” in their earnings calls last quarter was the lowest since 2012.

That data allowed BlackRock managers to discount the potential risk of Greece leaving the European Union while other investors were selling shares on daily worries about a possible “Grexit,” Kroner said.

Data like this adds another layer to traditional stockpicking, creating an approach that some say could be “Active 2.0.”

Kroner knows the push into big data is not a panacea for active equity.

“Active management will always be at its core about the understanding of fundamentals, earnings growth rates and the like,” Kroner said. “But big data does sure give us an edge over our competitors