Research in the time of COVID

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Our industry is in a very fortunate position in that even when the world feels like it is falling apart, equity markets continue to operate. Barring the odd technical fault (or hack), the market plumbing continues to whirr away through most crises – and our team has managed through more than we care to remember; if only we could invest in the term 'unprecedented'! While impacted like everyone, asset management firms are clearly in a much better place than many other industries. Our clients' long-term investment objectives remain, and their assets still need to be managed.

However, given the 'unprecedented' nature of this pandemic, including lockdowns, travel restrictions, distancing and the like, the one consistent question we get asked is, "How is the current crisis impacting your operations?". The answer, thankfully, is that it hasn't materially impacted the output of our business at all. It certainly has, however, impacted how we go about the input side.

Like most of our peers, operationally we haven't missed a beat: there has been no change in performance of systems, connectivity, back office administration, compliance, risk functions and client servicing. This is testament to the robust framework our industry works under in Australia driven by regulators, clients and asset consultants – any investment manager that has gone through the many hours of operational due diligence meetings can attest to the thoroughness of those sessions.

Technology is a wonderful thing and managing money can these days be done pretty much anywhere, anytime. Even working from home, I have all the information I need and am as fully connected as I am in the office, except for the occasional sounds of YouTube or TikTok from my teenagers! Like everyone else we have adapted to working from home and become proficient in communicating via apps like Zoom, Teams and many others.

However as important as they are, strong operations are a necessary but not sufficient basis to be a successful fund manager. The real engine room is your 'Process', and for us that means good old-fashioned equity research. We are an active equity manager, steeped in deep fundamental research undertaken by a team of highly experienced analysts, who work away so our clients will see better returns than the market. But when you're stuck at home and you can't travel and see people face to face, how does that affect our research effort and information gathering process? How can we still do our job?

Equity research at Alphinity involves a broad range of activities, but it is always focussed on one thing – finding quality, undervalued companies at the right point in their earnings cycle. To do this we very deliberately use the full spectrum of research and information available to us, from deep and broad fundamental analysis on one side, to very objective and insightful data science on the other, and everything in between. None of that has changed.

While the degree and type of impact of the current crisis has varied across that spectrum, I will say that research, in all its forms, is more important now than ever. When hit by the pandemic, understanding its impacts on companies (earnings, operations, people) became very important. And when no one really knows, including often the companies themselves at times, having experienced research focused on the right things matters even more.

The Quantitative research we compile around the momentum of companies as well as their quality characteristics is an enduring and comforting constant we can rely on as important inputs and insights into our research and portfolio management. How we think about those signals and inputs, and how we interpret them however does need to be considered during a crisis. Not changed or ignored, but not blindly accepted like a black box either. As we know, during material and sustained turning points in the market, quant factors can be a lagging indicator, it is after all largely backward looking. Things moved so quickly in this crisis, for example, that downgrades took months to catch up. Even the companies themselves struggled to understand where earnings were going for some time. So, seeing the quant signal, and then asking real world questions about what it is saying now, and how it may be changing going forward has become very important. This is not unusual for us. Our quant research has always been 'practical' quant. That is, quantitative research that is understandable and is aimed at informing our fundamental research effort. As such our quantitative inputs are always questioned and interpreted like every other part of our process.

Fundamental research, on the other hand, has clearly been impacted in the way it operates. By fundamental research I mean analysts with detailed knowledge of particular industries, seeking out first-hand information from companies, peers, competitors, suppliers, regulators and customers, and putting those pieces of information together as to how it will impact the published accounts. Using the analyst's knowledge and experience of the companies and industries they operate in, they are then tasked with coming to a view on future earnings and cashflow capacity of a company and, ultimately, the valuation of the equity.

While direct face to face meetings are now rare, 'meetings' overall have actually increased in number in the form of calls and web-based video apps. It is a sad but convenient fact that many of the people we want to speak to, from Chairs and CEOs to line management, are similarly stuck at home and have at times actually been more accessible than before. Many have been willing to talk more often and broadly as the market and world has changed rapidly and so keeping the market informed has been crucial, and they have also been wanting to hear what others are saying. In corporate Australia, there is certainly a sense of "we are all in this together".

We are seeing more virtual conferences here and offshore, as well as virtual analyst tours. If we can't get on a plane interstate or offshore, the same people and contacts are coming into our homes virtually via video. Efficiency has improved materially without time taken to travel, and we are often catching up with more people than we could have in the past, at more convenient times to them (although perhaps not when it is 10 o'clock at night here for us!). The use of groups that provide industry experts on niche issues or fields are flourishing. We have added to our analyst base to increase coverage and contact points. We have rarely had this much consistent contact – and we did a lot of it before the crisis. To put it in context, in the 6 months since 1 March 2020 our analyst team have had approximately 600 company or industry contact meetings.

Of course, many companies have a vast online presence or are moving even more online now in lockdown and so research by using the products online ourselves or assessing direct online product feedback is even more useful now.

For some industries this is better than others. Seeing in person and touching and feeling a company's new product or asset can be very helpful, and site tours do give you a strong sense about a company, its operations and its culture. You miss out on the casual conversations with contacts and companies at conferences. Relationships do matter, and cultivating these over Zoom isn't always the easiest. Thankfully given our long average tenure in the market as a team we already have those strong long-term industry relationships, but we are always looking for more. So, it is not all upside – just different. However, we are not lacking in opportunity – if anything the firehose of information feels even larger, but we still need to find the specific droplets of water we are after. This is where our consistent quant information comes in very handy, to focus our effort.

So, our research process rolls on largely unimpeded, if a little different. The quantitative side is unaffected and we continue to use it as we always have – I believe this gives us a very strong stable base in this environment that many others don't have. Our experienced analyst team remains and has in fact expanded through this period. Company accounts still need to be analysed, interpreted and forecast. Industry and company analysis is still going on by any means possible. I suspect the way fundamental research is conducted has in many respects permanently changed but many of the same processes will return when they can. However, the things we are looking for in our research remains the same and effective as ever. Now, do I join the virtual conference in Singapore or the one in New York today, or maybe both?

More information

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