

Kempen Outlook 2021

Beat the benchmark thanks to data

Data – both financial and non-financial – are playing an increasingly important role in investment decisions. Anyone who manages to combine the right data sources and draw the right conclusions from them much increases their chances of outperforming the benchmark. With this in mind, Kempen has made big investments in its data and analysis capabilities. As our chief analytics officer Guido van Aubel says, this means “We can compete with the best.”

DATA ANALYSIS IN ACTION

In 2015, American department store chain JC Penney surprised many investors by reporting significantly better second-quarter financial results than analysts had expected. As a result, its stock price jumped by 10%. And yet some investors had been expecting such strong results, and had already positioned themselves to take advantage.

These investors had been using data from research company RS Metrics. This company had collected satellite images of the car parks at JC Penney facilities, which showed that they had become more and more crowded since March that year. This suggested that more customers were visiting the company's stores, so it seemed a safe bet that its sales and profits would increase. And so they did.

QUANTAMENTAL APPROACH

This example shows the potential benefits of data and analysis to investors. And it has become an increasingly important component of our investment processes at Kempen as a complement to traditional fundamental analysis. Investment analysts call this a ‘quantamental’ approach – a contraction of the words quantitative and fundamental. “We have highly experienced, expert fundamental analysts”, says Guido van Aubel. “By adding data, we combine the best of both worlds.”

His official title is chief analytics officer, but Van Aubel prefers ‘chief analytics translator’: “Our team translates data and forms the bridge between data scientists and portfolio managers. The team members are close to the business and support our asset managers, our merchant bank, and our private bankers. They also join the multi-disciplinary teams of the various investment funds.”



MACHINE LEARNING

Kempen data scientist David Dogon obtained his PhD in mechanical engineering in the Dutch city of Eindhoven in 2016. He's a specialist in machine learning. Computer algorithms are used to learn autonomously, without guidance, using data and input. Computers don't have to be actively programmed to do so; they can change and improve their algorithms independently. Machine learning is used in many fields, such as in self-driving cars and checking e-mails for spam.

Dogon has been working at Kempen since July 2018 as a member of our Advanced Analytics Team. He created a roadmap to make advanced data analysis part of our investment process. "We set up projects to make better use of data so that our portfolio and fiduciary managers could make more informed decisions and achieve better returns for our clients."

TWENTY DASHBOARDS

The purpose of data analysis is to combine different data sources and seek to establish relationships between those data. In this way, it may be possible to more accurately predict investment returns. As Dogon says: "There's so much information out there that it's no longer useful without an algorithm. It's simply not possible to keep an eye on 20 dashboards and draw meaningful conclusions from them. We use models for that."

Kempen uses data from both internal and external sources. Internal sources include our own research, trading behaviour and risk models. And we use both financial and non-financial external data. As van Aubel says, "Non-financial information, such as data relating to ESG and the United Nations' Sustainable Development Goals, are becoming increasingly important. Institutional investors, especially pension funds, are setting the standards in this area, for example with respect to the water use and CO2 emissions of their investments. Our challenge is to beat the benchmark while meeting each client's specific criteria."

BOTTOM-UP

Kempen assesses investments according to a bottom-up approach. Before investing in a fund, we extensively analyse its underlying value. "We want to understand the portfolio, both in financial and non-financial terms", says Van Aubel. "If we have to make a choice for a client from two funds that are almost identical on paper, we want to know what the differences are. What region do they invest in? What about their environmental and sustainability credentials?"

"Our approach paints us a much more detailed picture of a fund than a Morningstar rating or a track record ever could. It also enables us to explain clearly to our clients why we have made or proposed certain choices. It also helps us to develop a customised strategy that meets the specific needs of each client while offering attractive return potential."

KEEPING UP WITH THE GIANTS

Kempen's unerring focus on data and analysis is resulting in economies of scale as well as deepening our portfolio managers' knowledge. "The information is available for all of our strategies", says Dogon. "That leads to synergies. We're breaking down the barriers between strategies, even though their managers



remain largely autonomous. Collecting and processing the data enables us – even as a relatively small firm – to keep up with the giants of the asset management world, and even outsmart them.”

In fact, data analysis is becoming increasingly common in the investment world. “If we can do this, others can too”, van Aubel admits. “In the niche we work in, we see various companies doing a similar thing. But I still think we’re doing very well. As long as we outperform the competition and manage to beat our benchmarks, we are on the right track. And we’ll continue to innovate and make further progress with our use of artificial intelligence and machine learning.”

KEEPING UP TO DATE

“We do everything we can to keep our knowledge at the highest level”, Dogon adds. “Half of our analysts hold a PhD. We keep up to date by following online training courses and seminars, we closely follow the latest financial and scientific developments, and we try new things. We get a lot of research opportunities at Kempen, as everyone in the organisation realises the importance of data-driven investments.”

In addition to aiding our investment decisions, we also use data analysis to better respond to what our clients and prospects are looking for. Kempen can infer from the data which strategies, branches or regions are popular. In addition, we’re in direct contact with clients. Together, all these data are used as input to help us design new investment strategies and solutions.

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