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Boutique boss: AI meant we avoided Adani (and would have dodged Wirecard)

There was a time when Big Data was seen as the ultimate solution to all stock screening problems. The idea was that if you fed the intelligent machines with enough inputs, they would be able to forecast when a company was worth backing or – perhaps crucially – avoiding based on future expectations.

For Emmanuel Hauptmann, that dream has moved closer to reality, as his group RAM Active Investments – which handily shortens to RAM AI - has steadily bulked up its processing power and technological skill over the past seven years.

The Geneva-based fund management firm has adopted deep-learning return predictions across its investible universe, which has seen the number of high-alpha companies it had previously viewed favourably on value, low risk, momentum and agnostic factors reduced from 1,200 to 600.

'This results in improved stock selection, a more dynamic allocation to distinct styles, and significant savings on implementation costs - around half of the settlement costs, which are substantial in emerging markets,' Hauptmann told Citywire Selector.

It has also allowed Hauptmann's suite of funds, notably the RAM (Lux) Systematic Emerging Market Equities fund, to swerve some stocks before they became more problematic, with one very recent example jumping to the fore.

'The Adani group of companies already exhibited negative alpha signals concerning valuations, quality and leveraging dynamics,' Hauptmann explained. 'As a result, our return prediction models already assigned a negative value to the group's stocks.

'The negative news flow surrounding the report further deteriorated the return predictions. Wirecard serves as an example of a stock that could have been avoided using the pipeline – which was not yet implemented at the time.'

There are two main ways in which RAM AI is adapting to the use of more computer-led solutions. Having added NLP (neural language processing) techniques, Hauptmann and his team are better able to assess reams of unstructured data and apply meaningful alpha signals, which can cover fundamentals, analyst estimates, positioning and price dynamics, among others.

'Our goal is to include text-based inputs that offer distinct, more "qualitative" insights about the company, which may not be reflected in analyst estimates,' Hauptmann said. 'Incorporating news flow can also help us assimilate new information more rapidly, before the analysts covering the company take the time to write and publish their reports, which could sometimes take days.

'We have constructed an NLP pipeline that extracts data from news articles about companies and predicts their impact on stock returns. The advancements in large language models significantly aid us in further refining our estimations of news impact on stock returns.'

The second aspect relates to the aforementioned deep-learning approach. This has steadily increased and evolved since 2016, which can train a system to predict stock returns.

'Our deep learning-based return predictions rely on hundreds of proprietary signals, including fundamentals, sentiment, technical, liquidity, risk, ESG, and news flow, providing us with robust return forecasts for each stock,' Hauptmann said. 'These return predictions enable us to optimally scale all positions in our portfolio, allocating weight to the highest alpha stocks derived from our strategies.'

The RAM (Lux) Systematic Emerging Markets Equities fund, which has $472m in assets and Hauptmann co-runs with Valentin Betrix and Nicolas Jamet, is ranked 20 out of a 761-strong peer group over the three years to the end of March 2023.

It returned 57.5% in US dollar terms over this period while the average fund in the Equity – Global Emerging Markets sector returned just 25% over the same period.