GSCGI—30 JAN. 2024—GFG &MdotM—GENERATIVE AI: How does it work and why does it matter in Investment Decision-Making?

La conférence du 30 janvier 2024 a été organisée par le Groupement en collaboration avec GFG Groupe Financier de Gestion S.A., Membre du GSCGI, dans ce lieu historique qui est l'Hôtel Beau Rivage sur la rive droite du lac Leman à Genève.

Le thème suivant:

GENERATIVE AI

How does it work and why does it matter in Investment Decision-Making?

a été presenté par Dhia Abbas *(CIO of GFG Groupe Financier de Gestion S.A)* et Federico Invernizzi *(COO of MDOTM Ltd)*.

Nous vous proposons, ci-après, leur compte rendu de conférence en anglais…

Why AI is a win-win for portfolio managers

"AI has become non-negotiable for financial institutions. Its ability to complement investment professionals' expertise is an additional driver of Alpha that leads to growth and operational efficiency. Financial institutions that can successfully leverage AI will be more likely to grow their market share and enhance the results they deliver to final clients". Federico Invernizzi, COO of MDOTM Ltd.

The increasing reliability and explainability of machine learning models compounded with the latest breakthroughs in human-machine interaction have made the case for adopting AI in the investment process stronger than ever.

GFG Groupe Financier de Gestion S.A. is a Switzerland-based wealth management company, providing tailor-made portfolio construction and investment solutions to its clients, with the aim to preserve capital and deliver consistent performance.

On the other hand, MDOTM Ltd is a global provider of AI-driven investment solutions for Institutional Investors. Numerous financial institutions across the UK, Europe, and the US leverage MDOTM Ltd's advisory and AI platform – Sphere – to support their investment process.

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The Geneva event stems from MDOTM Ltd's partnership with GFG, focused on harnessing the power of AI to support investment decisions, leveraging a scientific approach that provides forward-looking investment inputs. GFG leverages MDOTM's advanced AI technology, capable of analyzing large datasets, interpreting historical data, and dynamically adapting to changes in financial markets. This collaboration empowers portfolio managers to make informed decisions, continuously monitor risks, and diversify effectively among different asset classes.

### Where does AI fit into an investment process?

The conversation delved into how the financial market landscape has transformed significantly over the past few decades. Rapid growth in data volume and complexity has reshaped the industry, making it increasingly challenging for investment professionals to identify meaningful insights. As technology evolved and data surged, financial markets grew more complex, posing substantial challenges to institutional investors. In this intricate environment, the ability to analyze vast and diverse datasets has become essential to making more informed investment decisions and gaining a competitive edge.

AI steps into this complexity as a valuable ally for portfolio managers. In various industries, AI has already demonstrated its effectiveness in data analysis. In healthcare, AI assists in the analysis of complex medical data, aiding in diagnosis and anticipating patient outcomes. In the automotive sector, AI processes vast amounts of data from sensors and connected cars, improving vehicle safety and optimizing performance.

The investment industry, in particular, stands to benefit significantly from AI adoption. Institutional investors need to analyze enormous volumes of

Integrating AI in the investment process
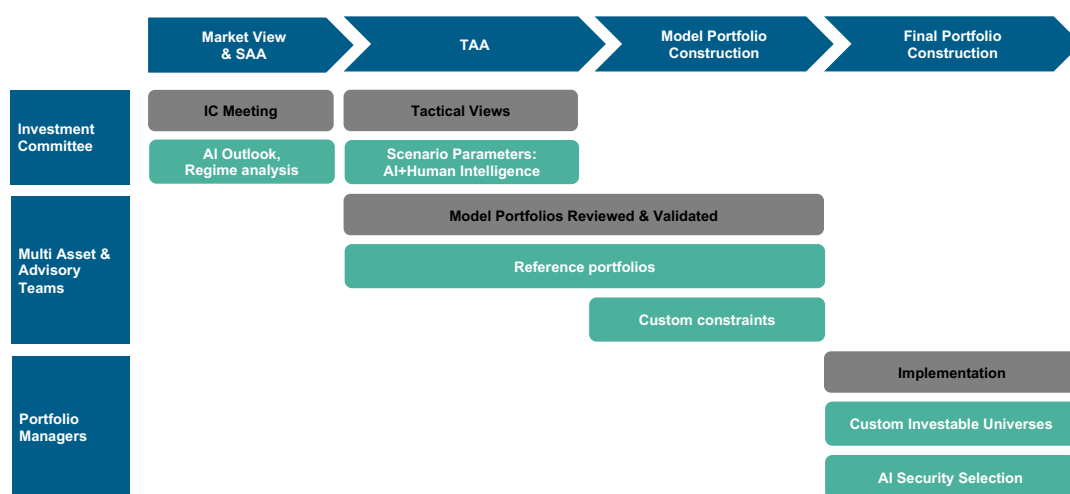
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data daily, and AI-based platforms offer a way to extract insights efficiently, providing forward-looking analysis and more accurate forecastings, from the strategic asset allocation to the final portfolio construction.

Analytical & Generative AI, the new drivers of Alpha

Achieving success in integrating a new technology primarily involves clarifying its role within the investment process. In the context of AI, we can distinguish two main branches: Analytical AI & Generative AI.

During the conference, MDOTM's COO focused on clarifying the difference between the two: Analytical AI excels at sifting through vast datasets, historical market data and economic indicators to identify trends and correlations that humans might traditionally overlook. It provides investment professionals with data-driven insights, risk assessments, and portfolio optimisation strategies.

By automating complex data analysis, it frees up human experts to focus on higher-level strategic decisions.

Generative AI, on the other hand, plays an important role in ensuring AI explainability in investments. It accomplishes this by generating comprehensive and clear explanations for the analytical output of AI. When investment professionals or clients receive AI recommendations, Generative AI can provide detailed reports that break down the rationale behind each recommendation. These explanations shed light on why certain investment choices are made, helping to understand the technology's reasoning, and ensuring AI explainability.

The value of AI is already widespread across the industry, with PwC, reporting that such technology, specifically Generative AI, has made financial institutions 30% to 40% more productive, and with regards to the investment management industry, nearly 90% of institutional investors believe the use of disruptive technological tools including AI

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will lead to better outcomes and returns from their portfolios.

How does Generative AI decode complex investment insights?

The synergy between these two forms of AI is most evident with regards to AI explainability. Investment professionals often seek to understand the rationale behind AI-generated investment inputs. While Analytical AI can pinpoint trends and suggest portfolio adjustments, Generative AI steps in to provide comprehensive explanations. When an investment decision is made based on Analytical AI's insights, Generative AI can create detailed reports that explain the reasoning behind each recommendation. These reports serve as a critical link between the intricate analyses performed by analytical AI and the decision-makers involved. They break down complex data into understandable narratives, allowing investment professionals and clients to grasp why particular investment insights have been provided.

"Adopting AI Analytical and Generative tools to support the investment process is a fundamental step towards improving investment decisions and creating personalized portfolios at scale" Invernizzi commented.

For instance, if Analytical AI recommends a shift in portfolio allocation, Generative AI can produce an explanation outlining the underlying factors, such as recent market developments, economic indicators, or company performance metrics. This interpretation empowers investment professionals to make informed decisions and communicate the rationale behind their choices effectively.

The nexus between Generative and Analytical AI is really reshaping the modern approach towards investment management. Together, they empower investment professionals with a data-driven precision and human-centric understanding.

2024, the year AI becomes a business priority

This event really touched upon how AI integration leads to a future where AI-driven investment management is not just a choice, but a necessity to have a competitive edge in the financial industry. This approach empowers investors to make informed decisions, optimize portfolios, and thrive in an ever-evolving landscape. As the financial industry continues to evolve, the partnership between generative and analytical AI will play a pivotal role in ensuring AI's maturity, explainability, and effectiveness in investment management.

Therefore, these emerging trends represent transformative shifts in how asset managers operate and provide services, promising a more agile, responsive, and effective future for the industry.

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Après la session Q&A, le GSCGI remercient vivement les orateurs d'avoir partagé leur connaissance et expérience sur ce thème si innovateur en termes de gestion de fortune, ainsi que les participants de leur intérêt et contribution active à la discussion par leurs questions. Ce compte-rendu a été redigé par Federico Invernizzi de MDOTM, Dhia Abbas de GFG SA et Cosima F. Barone du GSCGI.