How to Remove Informational Barriers From Non-Transparent or Emerging Markets

Zoomlion is the world's sixth-largest and China's leading construction machinery enterprise. Considering the boom in the local construction sector and the increased demand and export of Chinese machinery over the past decades, the growing interest in Zoomlion's shares is no coincidence. The stock (1157:HKG) is a popular constituent of many emerging markets investors' portfolios, averaging a trading volume of anywhere between 5 and 45m per day.

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However, a few years back, the company's shares experienced an 11-month period which saw their price tumble 26.9%. The reason was a series of news stories claiming that the company was linked with losses of state assets, abnormal sales practices, and false financial reporting. The news was published in Chinese in the local Guangzhou newspaper, New Express.

A further investigation revealed that the reporter behind the stories had been accepting bribes from one of Zoomlion's direct competitors. However, the damage had already been done. The fabricated facts had led to significant losses for the construction giant and its investors.

Unfortunately, this isn't an isolated case as similar situations happen all the time. The only difference is the magnitude of their effect on investors' portfolios. Due to the scale of Zoomlion, although much later, the news spread, and the problem gained traction. However, when similar issues arise with smaller-scale companies that don't have similar publicity, the effect on investors' portfolios might be much more devastating.

This story is yet another proof of how important it is for emerging market investors to keep a close eye on the landscape around their investments to better protect their portfolios.

The question that remains, however, is how global investors are supposed to navigate situations where critical news is published in a local newspaper in a foreign language?

In cases like this, emerging market investors are left in the dark and, up until now, had to wait for days or even months until market-driving news was picked up by global media sources. That way, investors were missing the momentum and failing to project the news's effect on their portfolios.

Thanks to technology, this is no more an issue. Today, asset managers can not only navigate non-transparent and emerging markets safely and ensure complete management of risks but also identify high-profit potential opportunities and arising trends.

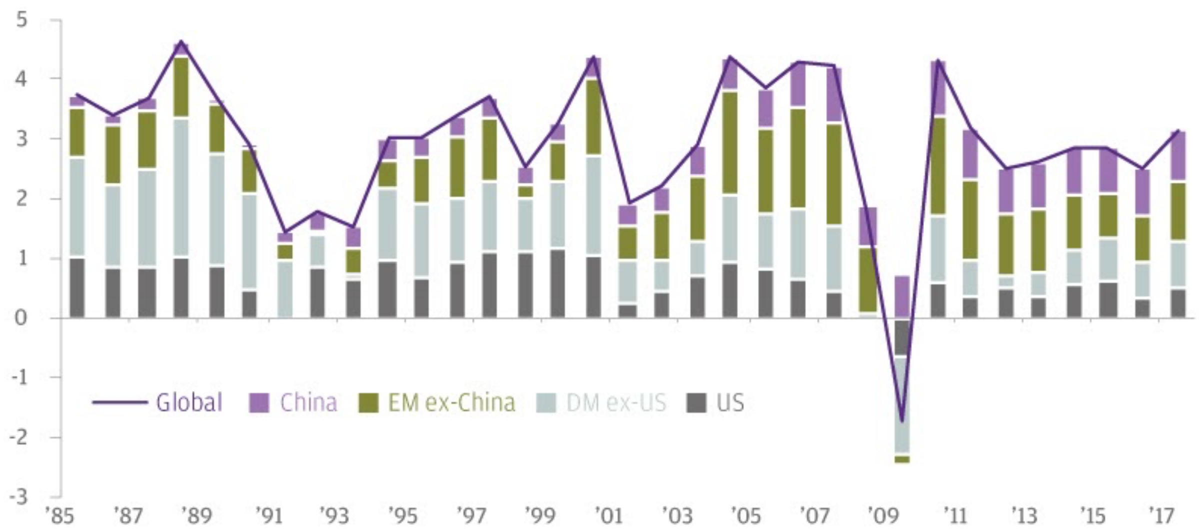
The purpose of this white paper is to provide investors with a practical solution on how to avoid similar situations, enhance their strategies to manage risks and better identify new investment opportunities. The document examines the most persistent challenges investors face when navigating the non-transparent and emerging market environments. It highlights the information barriers asset management firms have to overcome to ensure adequate control of the quality of their investments.

Focus Towards Emerging Markets

Markets are evolving. Investors nowadays face challenges that are another order of magnitude. They have to deal with a myriad of external pressures and a diversified spectrum of risks, including low yields, stricter regulatory reforms and compliance burdens, increased competition, uncertain macroeconomic and geopolitical outlook, and many more. Combined, these factors lead to falling returns and rising costs.

The current low-interest environment requires institutional investors to continually look for ways to broaden the scope of their investments and adjust the asset mix in their portfolios in search of higher yields and better-performing investments. Conventional markets and instruments don't always satisfy investors' risk appetite, which is why they turn focus to more exotic assets and investment opportunities, often located in emerging markets.

Emerging markets' economies make up to 40% of the world's economic output and, according to official statistics, are projected to continue to outperform developed countries by a significant margin in the short-term. As a group, developing countries also have higher per-capita GDP growth, paving the way for better-performing investments. The reason behind the rise of these economies is rooted not only within the slowing population growth and declining productivity in the west but also the heavy lifting emerging markets have been doing in recent years to boost global growth.



Contribution to annual global real GDP growth. Source: JP Morgan

For investors, this is important because corporate revenues usually tend to grow faster when economic output is also on the rise. By recognizing this trend, asset managers and investment firms are starting to lean towards new, less-standardized assets and markets that combine higher profit opportunities but are, naturally, riskier as well. Notable examples include corporate bonds, credit instruments, and infrastructure investments in emerging markets.

Alternative assets and investment opportunities from non-transparent and emerging markets also serve as a tool to greatly diversify investors' portfolios as they tend to perform differently than developed markets when facing external risks. Those types of investments are projected to be among the hottest topics and key constituents of asset management firms' portfolios for the next two decades. To make sure investors are adequately prepared to take advantage of the projected growth, it is imperative that they also get familiar with the risks associated with investing in non-transparent and emerging markets.

Emerging markets' complexity and the barriers in front of asset managers and institutional investors

The higher growth potential of emerging markets goes hand-to-hand with the increased risks facing investors. The leading risk factors include political instabilities, internal and external conflicts, resulting in a challenging operating environment for companies; weak fiscal and monetary policies leading to higher inflation and weakened growth; destabilized currency and persistent price fluctuations, lowering the investments' return; a dynamic regulatory environment with constant compliance updates affecting corporate governance and accounting standards; higher volatility and lower liquidity on local markets, and more.

The risk factors are much similar to those typical for developed markets. Still, their severity is exacerbated by external triggers, with the main one being the informational asymmetry and lack of news transparency.

Market theory suggests that the effect of different risk factors can be mitigated if the investor is well-informed and equipped to take timely actions. Hence, to safely navigate emerging market investments, investors should seek ways to ensure they remain up-to-date with the latest developments and market dynamics. Alternatively – to have access to credible, timely, and actionable information.

Nowadays, markets are more accessible and complex yet more fragile than ever. A major reason for that is their reliance on news. While within developed markets, there is an abundance of information coming from regulators, official announcements, third-party analysis, and other top-tier sources, when it comes to emerging and non-transparent markets, investors often face an informational blind-spot.

The bottom line is that investors with global portfolio coverage struggle to get hold of credible and timely news for investments in non-transparent and emerging markets, as well as analyzing and monitoring these investments, due to the presence of several notable barriers.

Limited information and coverage by data vendors. The exotic instruments with yields that interest investors usually fly "under-the-radar" as they often are private, traded OTC, or non-listed on lit markets. Their financial information can be limited and structured data, news insights, and reports might be hard to come by. Even the leading market data providers often lack coverage for non-listed companies and assets from emerging markets, which translates to inefficient risk and portfolio management.

An equally critical issue for investors in private companies from non-transparent markets is that structured data often gets obsolete by the time material events occur. To overcome the problem with the lack of up-to-date information, investors should make sure they are keeping tabs not only on the leading local media but also on specialized and niche sources. The reason is that leading media might not find certain information "newsworthy" to fit their audience profile, which further complicates investors' access to it. The only way to remain informed is to dig within a spectrum of conventional and unconventional sources like blogs, specialized organs' publications, and industry journals.

Geo-restrictions. Investors interested in emerging markets investments often fear they won't be able to adequately monitor their portfolios due to the language barrier. These concerns are entirely reasonable as the majority of emerging markets' media deliver news in the native language, without any translation.

Lack of timely data. Emerging markets investors also have to deal with the scarcity of official reliable and timely information. In most cases, the data they can rely on is retroactive, coming from quarterly due diligence analysis and reports. However, quarterly reports are, literally, old news. This prevents investors from finding relevant information and forward-looking insights to forecast upcoming market developments.

Informational asymmetry and data relevancy. Even if the needed data is present, investors should keep in mind the current market dynamics and the constantly changing environment that affects its relevance. The effect from the pace at which force majeures or local political instabilities on the investment landscape shouldn't be underestimated. Besides, due to their immaturity, often, emerging market assets respond differently to market dynamics than those from mature markets, which puts investors in a totally unfamiliar environment.

Excessive noise and information interpretation. Nowadays, the amount of news generated daily is bigger than ever. Although this creates opportunities, more often than not, it accounts for excessive market noise. Investors struggle to adequately source and navigate through the informational tsunami, which directly affects the quality of their investment decisions. Even if they manage to ensure the continuous inflow of reliable data, the key is to make sure they can extract the noise, connect the dots, and derive conclusions from the relevant information. Otherwise, they might struggle to ensure adequate sentiment analysis and the correct interpretation of the collected data.

This issue is even more glaring within small organizations or boutique investment firms where small teams are responsible for monitoring large portfolios. Without automation, portfolio and risk managers are tasked with navigating the ocean of information instead of focusing solely on making strategic investment decisions. This significantly decreases the team's efficiency and poses the risk of failing to recognize potential risks or arising opportunities within target industries.

For asset managers with global coverage of their portfolio and focus on emerging markets, the inability to overcome these barriers results in inefficient risk management and failure to capitalize on existing opportunities.

Embracing technology to overcome the barriers and ensure the quality of investments in non-transparent and emerging markets

Navigating the highly-fruitful investment soil of emerging markets and overcoming the barriers requires investors to be able, at any point, to maintain close contact with the local market. This includes gathering news, researching trends, deriving the right insights, accessing in-depth intelligence reports, anticipating future developments, projecting risks and potential red-flags, all of which contribute to a broader and more resilient look over investors' portfolios. However, due to the increased competition, harder-to-generate ROI, and the emerging market dynamics, gaining a competitive edge is possible only if investors rethink the way of finding, qualifying, monitoring, and reviewing information. The bottom line is that to bring down the barriers to better performing portfolios, investors need to adopt a progressive approach based on technology.

The financial industry has long been referred to as that old-school behemoth with conservative views and resistant to change the way it conducted its operations. However, the years after the Global Financial Crisis had reshaped that understanding as the industry started looking towards technology adoption to optimize organizations' core functions. Thanks to technology, news gathering and information analysis are no more what it used to be. Things today are done quicker, more cost-efficient, and most importantly – with a much higher degree of accuracy.

Owlin at glance

Owlin's integrated solution powers the news and text-analysis needs of top-tier asset managers and investment firms to ensure efficient monitoring of their global portfolios. By embracing the power of AI, the platform brings down all barriers in front of investors and grants them access to actionable intelligence for a comprehensive view of market environments.

With Owlin by their side, investors can take advantage of leading indicators and early-warning signal detection features to timely detect upcoming events, capitalize on arising opportunities, better manage developing crises and mitigate their effect on portfolio performance. All of this is ensured by the platform's capabilities to bring down the most challenging barriers emerging market investors face.

Owlin's solution overcomes the barrier of **limited information and coverage by data vendors** that faces investors in emerging markets by digging into over 3m publicly available global sources. The platform goes beyond the well-known leading news providers and media by gathering information from a plethora of sources, including analyst and expert reports, exchange, corporate, and regulators' websites; NGO's websites, government publications, local and regional news sites, industry newsletters, specialized news sources, forums, blogs, and more. In addition, it also offers the opportunity to draw information from a diversified set of additional data points, such as credit ratings, pricing data, CDS spreads, research insights, and more. That way, investors can detect the unknown knowns and not only overcome the barrier of the lack of information but even collect data from unconventional and hard-to-access sources, and combine this is in their workflow with market and research data

Natural-Language Processing *(NLP) - a subfield of linguistics, computer science, and AI related to the way computers analyze and interpret human language data.*

News and data on related facts or entities are analyzed via advanced Natural Language Processing and Machine Learning algorithms. Thanks to the Machine Learning models in place, Owlin's solution can translate and cluster relevant information to derive meaningful insights from unstructured data with high accuracy.

Early 2021 will see the platform further enhance its capabilities by adding a Knowledge Graph that extracts entities from data and structures them by persons, locations, or organizations associated. In addition, a Theme detection engine, that is currently under development, will ensure timely detection of trending topics within portfolios. That way, finance professionals will be able to monitor the players and trends that are current leaders within a particular industry or domain or the ones that are suddenly gaining increased attention automatically.

Due to the integrated support for 12 languages, the platform brings down the **geo-restrictions** barrier and ensures adequate coverage for over 80% of the global news world. That way, asset managers are guaranteed access to all relevant information that might affect their portfolio performance and the efficiency of their emerging and non-transparent markets investments. The gathered insights are automatically translated into English and directly served to clients.
Supported languages: English, Chinese, Russian, Spanish,, Portuguese, German, French, Italian, Dutch, Danish, Swedish, Polish.

Often, the most representative information regarding investments in emerging markets and exotic assets comes from local news sources that are, otherwise, hard-to-access. With Owlin by their side, asset managers can bring the **informational asymmetry and data relevancy** barrier down and take advantage of factual news gathered directly from local sources. There are no following reporting or translations by third-parties, which retains the authenticity of the original information. The portfolio manager gets access to unedited news delivered directly from the primary source. Thanks to the highly-accurate machine translation, investors can capitalize on information that has long been inaccessible.

Informational asymmetry *– when one side of a transaction has access to more or better information than the other. The imbalance favors the more informed side by allowing it to make more accurate decisions. In the context of Economics, the presence of asymmetric information is considered a prerequisite for distortion of the law of supply and demand, resulting in market failures such as skewed prices.*

There is a saying that not all news is equal. From the asset manager's standpoint, this means no matter how representative the gathered information is, the factor that affects the quality of investments the most is the way it is interpreted. Making sense of the data and deriving the core sentiment within the numbers can be the make-it-or-break-it point for portfolio managers. Owlin's powerful technology helps asset management clients overcome the **excessive noise and information interpretation** barrier with ease.

The adopted NLP and news analysis models equip the platform with the ability to source unstructured data and generate actionable insights and trustworthy signals that help close informational asymmetry. This allows investors to level the playing field between the information quality and the circumstances surrounding their investment decisions in emerging and non-transparent markets and traditional, developed markets. That way, they can feel confident about the quality of their investments, no matter whether it is about blue-chip instruments or exotic assets from OTC markets.

With Owlin, asset managers don't have to try to fit retroactive data within the context of nowadays markets. Instead, they can rely on trends and news signals, delivered in near real-time. The relevant information is visualized in an intuitive interface, API, or widget integration to make its comprehension easier and quicker. This brings down the crucial barrier of the **lack of timely data**, paving the way for better management and improved efficiency of investments in emerging and non-transparent markets.

Overcoming all these barriers naturally leads to more efficient control of risks and improved ability to identify high-potential opportunities or early-warning signals. However, Owlin goes beyond that to further boost emerging market investors and power their next move.

The platform supports a comprehensive set of customizable risk indicators and ready-to-go risk models, offered in a menu-based structure, allowing for real-time event classification within the news mining pipeline. On their dashboard, finance professionals can see current events classified in several categories, including ESG risk, credit risk, strategic events, as well as custom categories.

These advanced features bring users an early-warning system and allow them to act proactively to protect their portfolios. Generated alerts are easily configurable and timely delivered through a SaaS web-based dashboard, mobile app, email , or API.

Owlin

Looking ahead

In a perfect world, every market participant would have equal access to information. Even when everybody is looking at the same news at the same time, however, the best performers would be those who are capable of deriving the most accurate insights.

For better or worse, this perfect world doesn't exist, and investors have to deal with informational asymmetry all the time. What they can do, however, is make sure they have the edge when it comes to contextualizing information and deriving actionable intelligence. To navigate the space safely and efficiently, investors need trusted partners. Ones to shape a better-informed world.