



AIGGIG's Brainpools: Why Global Research Creates Alpha

by Stacy Steimel

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Anyone who has worked in a global organization knows how difficult communication between the disparate parts can be. Simply having a physical footprint across multiple countries does not make an organization global. The key is to find ways to facilitate seamless information flow between distinct geographical regions. At AIGGIG, we take this challenge very seriously, since our comparative advantage lies in our extensive on-the-ground network and access to local information. Therefore, we created the concept of "brainpools," or global research groups, in order to allow us to build a global knowledge base constructed from local insights. Brainpools allow analysts and portfolio managers in all asset classes (from high grade and high yield fixed income to private and listed equities) around the world to understand important issues that may affect future investment decisions.

Today, AIGGIG has four global brainpools: Energy, Healthcare, Natural Resources, and Telecommunications and Technology. The subject matter discussed in the brainpools is forward-looking, allowing us to anticipate, analyze and prepare for future trends. The groups' size averages 20 members, evenly distributed by asset class and geographical location. Ideas can be generated by anyone in the organization. To avoid time zone and location issues, AIGGIG uses a common technology platform that allows for internal real-time messaging and document sharing. Not only does this allow us to improve our global sector coverage, but it also enhances the development of in-house expertise.

The lone analyst or portfolio manager often does not have time in his or her busy schedule to ponder a think piece on next year's trends in telecommunications. Therefore, it is very useful for our analysts and portfolio managers to have an additional tool to rely on – they can utilize a particular brain-

pool by suggesting topics for further research that can help them to position their portfolios or take advantage of future trends. In-house research also enhances AIGGIG's emphasis on independent rather than sell-side research generated by the investment banks, which is available to all of their clients.

Creating Alpha

To illustrate how these brainpools create alpha, consider the case of iron ore. Over the past year, the Natural Resources brainpool has been inordinately busy. That is understandable given the stage of the commodity cycle and the on-going debate about whether or not rapid Chinese development has lengthened the commodity cycle via demand for basic materials. The Natural Resources brainpool circulated a sell-side document estimating the capacity expansion expected in response to several years of rising iron ore prices. Members of the group contacted each company and confirmed individual investment pipelines for the next five years, and posted the results on a spreadsheet. The brainpool concluded that 2005 was likely to see further iron ore price increases as industry capacity would not jump dramatically until 2007. In February 2005, our conclusions were borne out as the iron ore industry raised prices by an historic 71%. Due to the efforts of the Natural Resources brainpool, different portfolio managers were well positioned for the historic price increase and had additional confidence in their position.

In sum, the brainpools are an effective way to communicate specific sector knowledge between the far reaches of the globe. After several years' work honing the mechanism, it works well and has produced some significant results. Further, it is raising the level of experience and knowledge of fund managers and analysts across asset classes.

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