

THE LONG VIEW

BY
PETER GREENE

Alternative data in 2019: What to watch

The dizzying acceleration of hedge funds' data use over the past few years can be seen across the industry. But compelling evidence of the acceleration shows up when you dig into the entities who provide the data – the vendors.

Five years ago, many vendors couldn't finish deals with hedge funds because they lacked a basic understanding of the compliance and legal angles important to hedge funds, most notably, data provenance and privacy. Today, it is rarer, though certainly not unheard of, for these angles to stand in the way of a data deal between a fund and a vendor.

This all just goes to show that hedge funds, irrespective of AuM, are increasingly more committed to leveraging data, and vendors more committed to doing business with funds. Because hedge fund investment in and use of data appears poised to keep growing, all parties involved should keep an eye on some important trends and regulatory actions that could be just around the corner, or at least down the block.

Geolocation data in the crosshairs

There seem to be innumerable types of alternative data that are of interest to hedge funds: credit card panels, satellite imagery, app usage, social media, geolocation data, to name just a few.

But it's this last one, geolocation data, that might be the most discussed at the moment, be it in the mainstream media, at

Congressional hearings or in connection with the recent civil action filed by the city of Los Angeles against The Weather Channel.

The city sued the makers of The Weather Channel app in January for selling the data of its users to, among others, hedge funds. The case warrants a watchful eye. What app developers and others do with your geolocation data – ostensibly

data from websites through automation (for example bots). It's also the process by which some vendors collect data that is ultimately used by hedge funds.

One of the principal legal issues in an insider trading case is whether information is public or non-public. How that relates to scraped data and what it will mean for hedge funds may become a bit clearer when the US Court of Appeals for the Ninth Circuit rules on a lower court's decision in hiQ Labs v. LinkedIn.

In 2017, the lower court ruled for hiQ and granted a temporary injunction enjoining LinkedIn's efforts to block hiQ's scraping. The Ninth Circuit's decision in hiQ might clarify further what it means for data to be public on the internet.

Is regulatory clarity possible?

The industry also may get clarity from regulators when it comes to compliance and record-keeping of data. There have been some attempts at self-regulation from industry working groups, but these attempts likely will be nothing more than starting points, given the difficulty of one-size-fits-all approaches.

The Securities and Exchange Commission could provide guidance to its registered investment advisers; Congress could act, as issues surrounding data and privacy might be bipartisan enough to find traction.

Peter Greene is vice chair of Lowenstein Sandler's Investment Management Group

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collected to allow the app provider to better serve you – borders on the privacy questions that abound in the digital world.

But the issue of privacy, while important to hedge fund managers, ranks second on their list of concerns around data, behind that of insider trading.

As Galleon, Diamondback, Level Global and others reminded us, insider trading (or even its mere accusation) is an existential threat for fund managers. Although we have not yet seen an insider trading case squarely involving hedge funds and alternative data, we may be getting closer.

When it comes to insider trading, is the internet public?

Web scraping is not a new practice and is generally defined as the process of extracting large amounts of

