

Jack-of-all-Reads

A newsletter for multi-hat-wearing C-suite leaders and their key constituents.

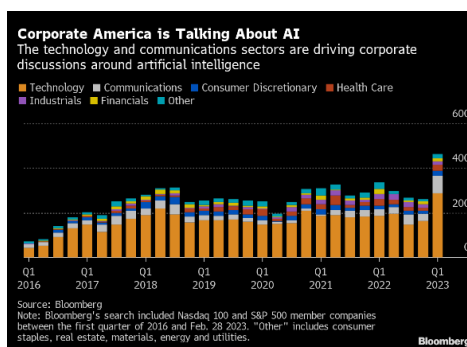


AI: Artificial Intelligence in Alternative Investments

Industry Insights:

- What Makes AI, Intelligent?** Artificial Intelligence is a branch of computer science dealing with the simulation of intelligent behavior in computers. With the rise of technology such as voice and image recognition as well as the increased popularity of chatbots such as ChatGPT (Generative Pre-Trained Transformer), many are asking how AI based technologies may be able to increase productivity and produce a competitive edge. The AI umbrella covers neural networks, machine learning, deep learning, natural language processing, predictive analysis, generative AI, and large language models. Below are two of the most prevalent in today's market:
 - Machine Learning.** ML is a trainable model that can extract hidden structures and relationships from the observed training data and make predications based on the inferred structures.
 - Large Language Models.** LLMs are created and trained based on large amounts of text and data. A transformer neural network can be trained to predict the next word in a sequence and then subsequently fine-tuned to specific downstream tasks.
 - One of the predominant LLMs is ChatGPT which is a natural language generation model based on the GPT (Generative Pre-trained Transformer) architecture. It is important to note that ChatGPT is operated under a closed model, meaning the data is trained through a certain date, whereas open models are updating constantly.

- Potential Use Cases.** Conversations around strategically leveraging AI have been increasing across several industries, including the financial sector. In our industry, there are a few early adopters who have formally implemented AI based technologies into their investment processes while many others are in the early stages of exploring how it can be best utilized at their organizations. Across the various use cases, increasing focus and productivity is the primary objective. See below for how managers are applying AI based strategies across the investment and non-investment sides of the business.
 - Investment Process.** Analysts can use ChatGPT to generate models, construct portfolios, and source investments. Additionally, this technology can be used to measure ESG ratings such as climate risk on various properties and other risk metrics. AI can provide employees with the ability to focus on non-automated parts of the investment process or be used as a baseline for the initial part of the idea generation process.
 - Business Development.** Some individuals on the marketing and IR side of the business have used applications such as ChatGPT to assist with content generation. This can include outreach templates or visuals for investor communications. Additionally, AI can generate transcripts from webinars or presentations and summarize the main points.
 - Cyber Security.** Some firms are leveraging AI to identify patterns in network breaches and other cyber related crimes.
 - Compliance.** AI can automate compliance related tasks including monitoring personal trading and providing regulatory updates. Additionally, documents relating to legal, or compliance efforts can be reviewed through AI based technology.
 - Talent.** AI can sort through resumes and talent pools to help find fits for open roles. Some groups are leveraging software that ensures job descriptions do not include biased language for their firms DEI efforts.



- AI Policies, Regulation, & Compliance.** Many firms, especially larger banks, are taking the approach to ban the use of ChatGPT due to security and privacy risks as well as the potential for inaccurate data. Firms are beginning to take a proactive approach and compliance providers have received inquiries from their clients around creating an in-house AI policy. ODD professionals are starting to ask managers if they are using AI, and if so, how and what type of controls and reviews they are adding to the process.
 - Country Specific.** The White House Blueprint for an AI Bill of Rights asks, "is the AI system, safe and Effective, Fair and Non-Discriminatory?". From a regulatory perspective, comprehensive Data Protection Laws have been enacted across multiple states, to protect sensitive information. Across the pond, the UK has already begun to propose their AI regulation allowing for sector specific regulations. Countries in the EU tend to take a more conservative approach in their policies.

ODD Spotlight

"It's only fitting to mention the exciting potential of generative AI, like ChatGPT, and its influence on ODD. LLMs, have the potential to transform the way we absorb and subjectively assess large amounts of written information. We're actively exploring the possibilities of this technology within our industry to harness its immense potential, but it requires careful assessment versus the risks models."

perFORM Due Diligence, May 2023 Bulletin

- Privacy Policies.** The data put into OpenAI can be used to provide, administer, maintain, improve and/or analyze, conduct research which may be published, and develop new programs and services. There has been concern around organizations protecting their privacy and safety of information on AI Platforms. ChatGPT has recently updated their privacy settings to allow for incognito use.
- Remaining Intelligent.** In an effort to get firms to stay proactive and protected here are some key topics to consider if your firm is considering leveraging AI.
 - Data Privacy.** There has been pushback with companies using ChatGPT due to concern of trade secrets being revealed. Once data is put into these systems, in it cannot be taken out. Consent would be required to upload potential sensitive information to platforms such as ChatGPT. Using Azure OpenAI Service tends to have more security controls.
 - Hallucinations.** Users can select the level of creativity they would like their AI to produce using hallucinations. To generate responses that are factually correct and credible, the models must be trained.
 - Public Interfaces.** There is some concern around public interfaces given the model can learn from data inputted. If used, it is suggested to break up the prompts and other inputs, so the model does not recognize it as a single piece of content. Passwords, client names, or employee names should not be fed into the system.
 - Private Interfaces.** Queries are not intermingled with competitors or the general public as these can only be trained on only the data inputted.

Please reach out to your Jefferies contact for more information on any of the topics above.

Spotlight on Content and Events:



Capital Playbook. Across the globe, allocators are reassessing and rebalancing their portfolios. Regardless of fund size, the desire to develop relationships and raise assets requires a renewed approach to branding, marketing, and investor relations. Hedge funds that can effectively express their value proposition in this new regime are likely to develop new partnerships and strengthen their pre-existing relationships. The [Capital Playbook 2023](#) provides key insights for marketing and investor relations strategy, talent, travel, and customized products – [READ HERE](#).

Interesting Service Provider Reads: Highlighting Topical Content from Industry Leaders

Seward and Kissel – [Established Manager Hedge Fund Study](#)

Agio – [AI Explained: Exploring ChatGPT, Google Bard, and the Future of Generative AI](#)

Abacus – [Large Language Model AI and its Implications on Investment Firms](#)

Akin Gump – [AI Risk Matrix for Private Funds](#)

Haynes Boone – [Moving Forward with AI – Today and the Next Five Years](#) and [Are Artificial Intelligence Technologies a Game Changer for Patents in Finance?](#)

Lowenstein – [Does My Company Need an Acceptable AI Use Policy?](#)

perFORM – [Due Diligence Matters – May 2023 Bulletin](#)

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