Syntax

# The Best Story Wins, The Power of Presenting Data in New Ways

**Paul Kenney** January 28, 2025

In Morgan Housel's book "Same as Ever: A Guide to What Never Changes", he devotes a chapter to the power of storytelling. He notes

> "Charles Darwin was not the first to discover evolution; he just wrote the most compelling book about it." Similarly, when referring to Yuval Noah Harari and his best-selling book Sapiens (which sold over 28 million copies) the author said, "There is absolutely nothing there that is new. I'm not an archeologist. I am not a primatologist. I mean, I did zero new research... It was really reading the kind of common knowledge and just presenting it in a new way."

Presenting information in a new way is powerful. It can help asset managers improve their communication with investors and control the narrative of how their products are perceived. This applies across the spectrum of content that asset managers produce including product profiles, fact sheets, research reports, and pitchbooks.

In this paper we share how Syntax's Functional Information System (FIS™) industry classification system and Affinity® software can help managers tell their best story. We

highlight the unique benefits of our approach to company classification and provide examples of how our data enables managers to tell a better, more interesting story.

**A Simple Question, A Big Idea**

Investing is often viewed as a numbers game, which can downplay the importance of words in the investing process. Our belief in the impact of words is reflected in our name - Syntax Data. The definition of syntax in the Oxford English Dictionary is

> "the arrangement of words and phrases to create well-formed sentences in a language".

Companies use many words to describe what they do, so imposing standardized structure - syntax - on unstructured business descriptions can unlock new insights. That is, Syntax codifies business models to make them more precise.

The genesis of Syntax Data can be tied to our founder's quest to answer a seemingly simple question:

> "Why does finance lack the structure and precision found in science?"

Scientific data can be organized neatly in frameworks that facilitate the understanding of discrete systems. Choose a scientific system and there is a well-accepted model for it: for example, genomics has the human genome map, and chemistry has the periodic table of elements.

Shouldn't financial data function in the same way? The pursuit of an answer to this question led to a journey to map the activities and processes of economic systems that resulted ultimately in the invention of FIS™, a revolutionary industry classification system.

**Development of FIS™**

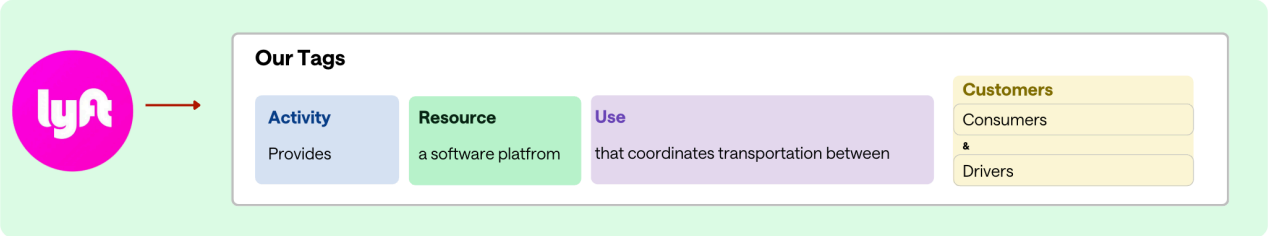
Key to the development of FIS™ was the realization that a new economic language needed to be developed to codify the interaction of companies and industries that comprise the global economy. This was required to standardize the activities of companies to make them comparable. To do this, there was a significant hurdle to

overcome: how companies describe and categorize their underlying businesses and product lines is largely a subjective exercise. Additionally, any language should also be able to move beyond company descriptions and provide insights into who their customers are, how they distribute their products, and how their products are used in the economy.

The breakthrough came with the development of a structured alphanumeric tagging system that uses 'nouns' and 'verbs' as building blocks to describe a company. For example, a company can "produce equipment." The word "produce" is a verb that represents the activity of the company, whereas "equipment" is the noun representing the company's resource or what it contributes to the economy. Of course, in practice, the tags used are far more granular. For example, tags for "equipment" differentiate between raw material equipment resources (iron ore), passive components (steel girders), active components (semiconductors), and finished equipment (automobiles).

Combining these activity and resource tags—these nouns and verbs—allows you to create entire sentences that describe a company. And not only can these tags describe what the company does, they can also describe who the customer is, how its product is used, and dozens of other facets of the company's business model. Exhibit 1 provides an example using the ride sharing platform Lyft. A traditional classification system would treat a company like Lyft or Uber as an industrial company. Using the FIS™ tagging system, Lyft is a software company that provides services to the transportation industry. Each of these tags can be queried to answer a specific investment question. In this example, Lyft's tags associate it with both transportation-related queries and ones related to software.

**Exhibit 1: Tags Associated with Lyft**




Source: Syntax Data.

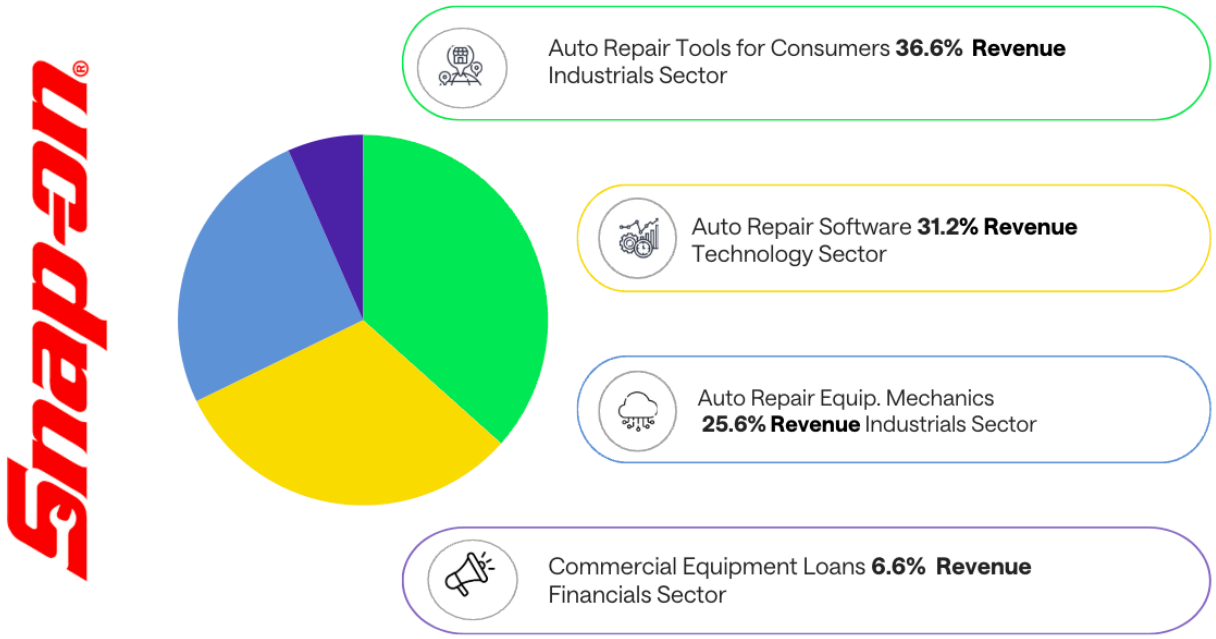
Critically, FIS™ tags can be applied not just to a company, but to each discrete product line it offers. By pairing the structure of FIS™ with product line level granularity, investors can leverage a differentiated information source that can support investment

processes including company research, portfolio construction, risk management, enhanced exposure reporting, and more. Most importantly, this information can help control a product's narrative. Below we provide a variety of examples of how having access to this unique source of data can enhance story telling.

### Redefining Concentration Risk

Investors often make assessments about concentration risk in a fund, index, or ETF by looking solely at the number of securities held. This can create a headwind for managers running concentrated portfolios as investors often associate the number of securities held with diversification, or lack thereof. Accessing FIS™ data through the Affinity software, a manager can shift the focus from the number of companies held to the number of business lines in the portfolio. The reality is that many companies have a collection of different product lines that, to varying degrees, provide exposure to different customers and business risks, providing more diversification than is implied by the number of holdings.  For example, Snap-On Inc. can appear to be a simple one product company that sells tools to auto mechanics, but examining the product line level detail, shown in Exhibit 2, tells a different and better story.

**Exhibit 2: Snap-On Product Line and Sector Exposure Profile**




Source: Syntax Data.

The exhibit highlights that Snap-On has four product lines, three of which are each over 25% of revenue. Interestingly, the largest product line is auto repair tools to consumers (36.6%) and, perhaps surprisingly, their second largest source of revenue is software sold to the auto repair market (31.2%). The business for which they are most well-known, auto repair equipment for mechanics, is their third-largest product line (25.6% of revenue). In addition, they have a finance arm that provides commercial equipment loans (6.6%). These four product lines are classified in three different sectors (Industrials, Technology, and Financials) that serve both consumers and businesses.

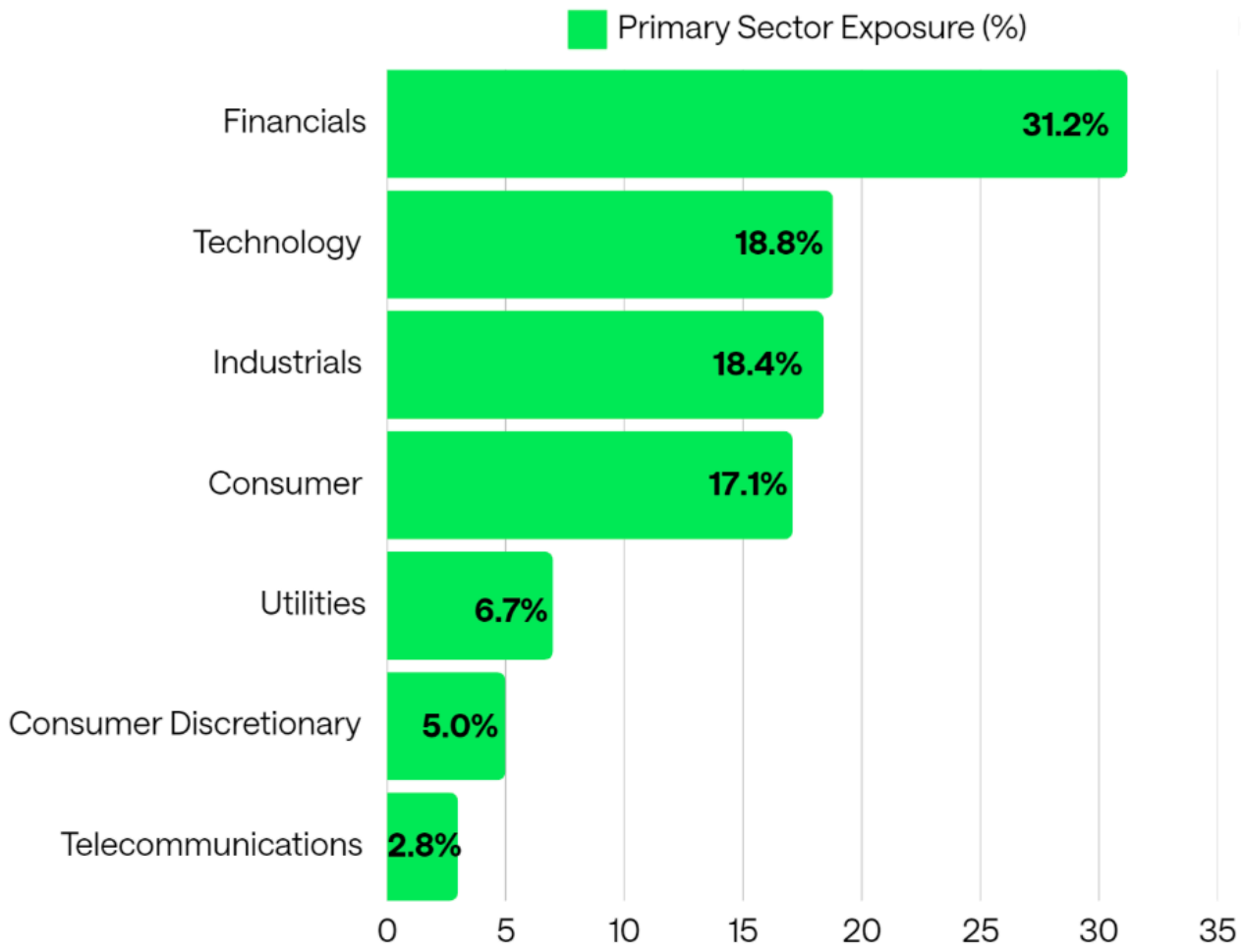
So, when assessing a portfolio's exposure to themes like consumer spending or software, Snap-On's weight cannot be ignored, whereas traditional classifications would likely overlook it. This level of knowledge also conveys a manager's domain expertise to investors and financial advisors.

**Providing Insights into What Investors Own**

As a matter of practice, asset managers publish fact sheets and produce presentations that show their exposure to sectors, typically using GICS, ICB, or other traditional classification systems. The challenge is these sector exposures are too generic to draw meaningful conclusions about how the portfolio is invested. Two portfolios with identical sector allocations may have substantially different risks under the hood. This presents both a risk and opportunity for investment managers. The risk is advisors, consultants, or investors may try to draw conclusions from the data that do not align with your messaging about the product. The opportunity is to use better data to help you to write your story.

Exhibit 3 shows the sector allocations for a sample mid cap portfolio. The large allocation to Financials and overall sector holdings could lead an investor to surmise this is a value-oriented portfolio with meaningful allocations to banks and insurers.

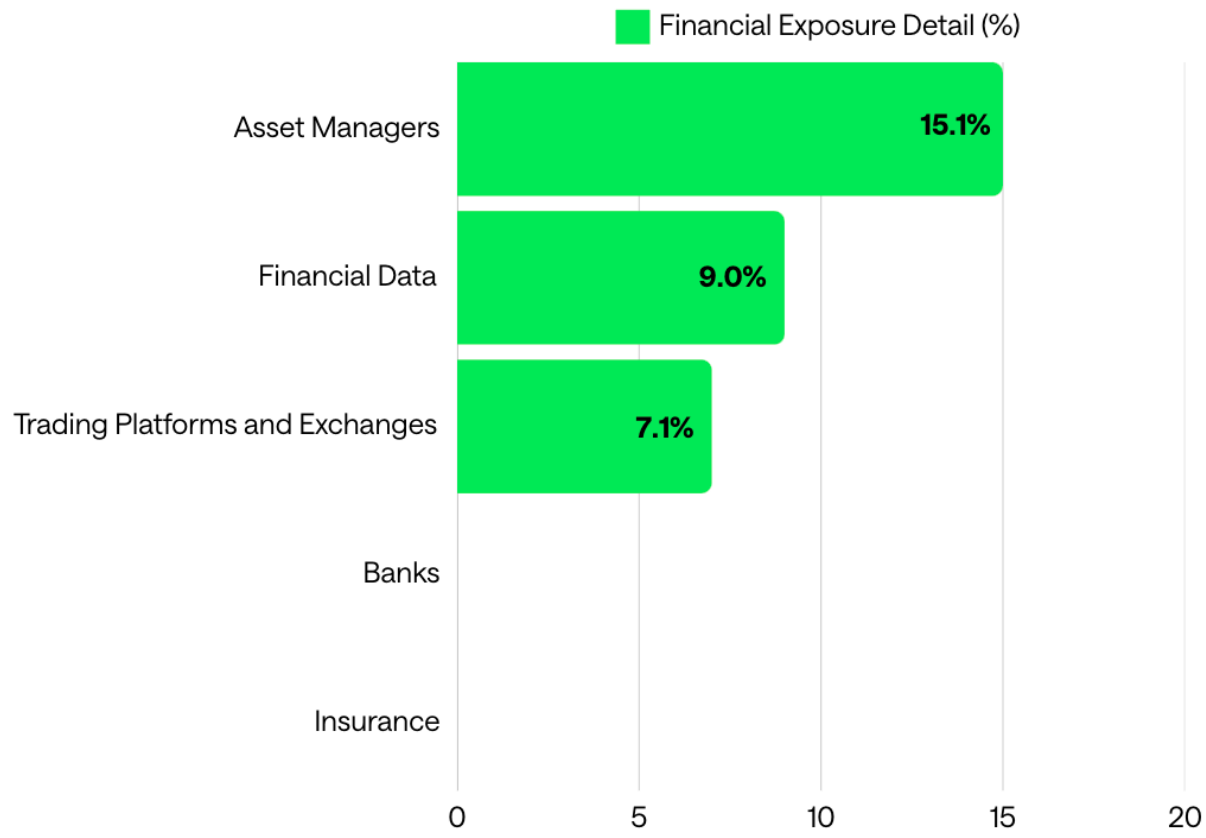
**Exhibit 3: Sample Mid Cap Manager Sector Weights**




Hypothetical portfolio allocation for a mid cap manager.

However, moving beyond the primary sector exposure tells a different story. Exhibit 4 shows the composition of the holdings within the Financials sector.

**Exhibit 4: Financials Exposure Detail**




Hypothetical portfolio allocation for a mid cap manager.

This portfolio has no exposure to banks or insurers, which one might incorrectly assume based on the primary sector breakdown depicted in Exhibit 3. Rather the Financials exposure is tied to companies focused on data and services. Below is an example of how a manager could use FIS™ to control the product's narrative and demonstrate how moving beyond primary sectors expands the language available to tell your story.

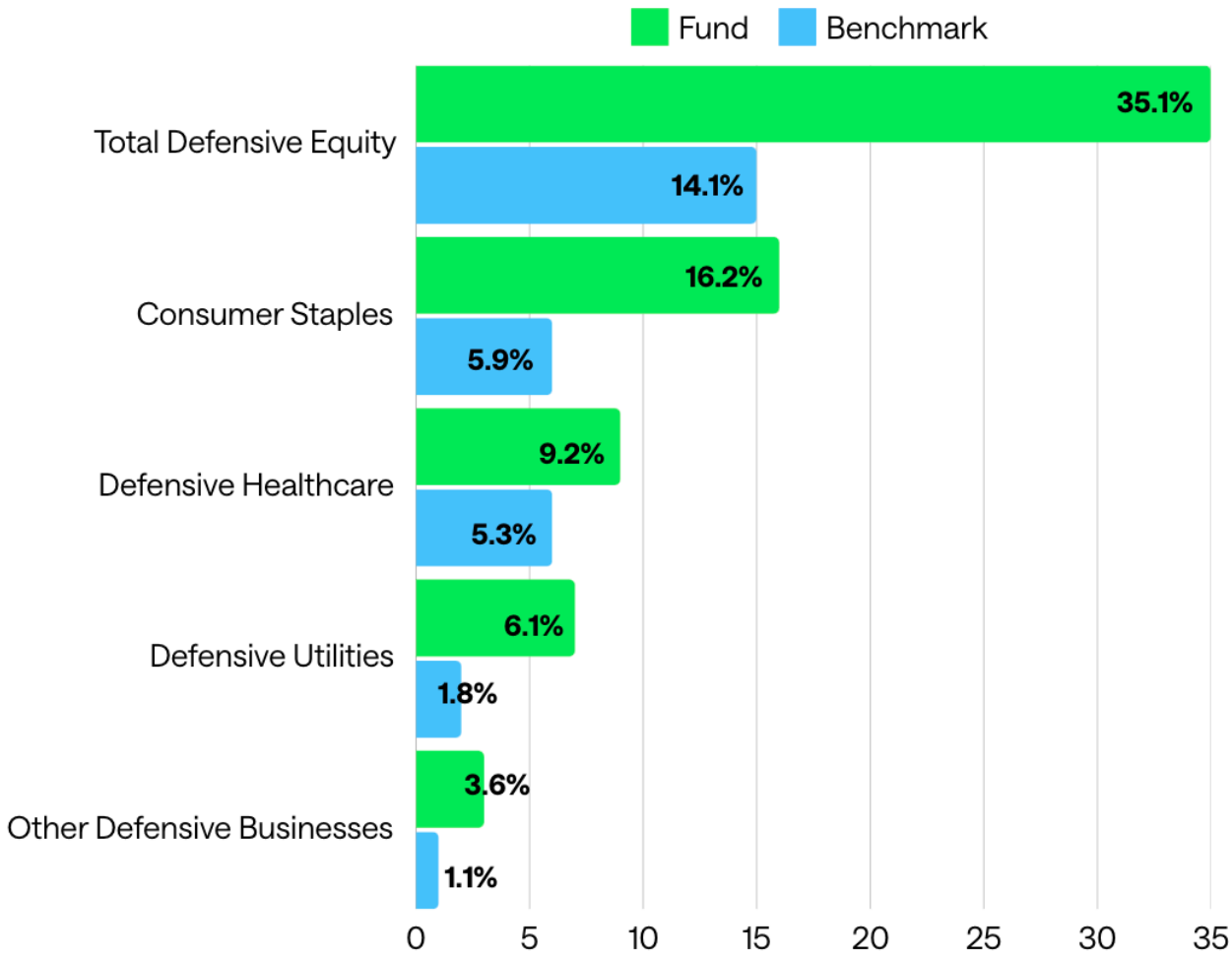
The largest sector weight in the portfolio is to Financials at 31%. This sector is often associated with banks and insurers, which often have relatively high leverage ratios and are typically interest rate sensitive. Our holdings in this sector are focused on companies involved in asset management, data & information services, and transaction processing. These information and data driven firms are attractive based on their recurring revenue streams, higher margins, and reduced reliance on leverage to generate returns.

### Incorporating New Dimensions

While being able to access data down to the individual product line is empowering, the ability to change perspectives by applying "lenses" creates a new dimension altogether. Sectors provide a useful perspective, but they represent just one view into an investment product. Syntax's tagging system allows the creation of lenses aligned with targeted thematic exposures (e.g., cloud computing, real assets, cryptocurrency and blockchain). Each lens is a custom hierarchy that groups together businesses that share commonalities, regardless of traditional sector allocations.

This is particularly helpful for seeing themes that cut across sectors, like cryptocurrency, which includes, among others, both hardware companies and asset managers. These lenses can enhance how your story is being told. For example, if your product demonstrates strong downside protection, you can profile the holdings through our Defensive Equity Lens to show its positioning relative to a benchmark, as shown below.

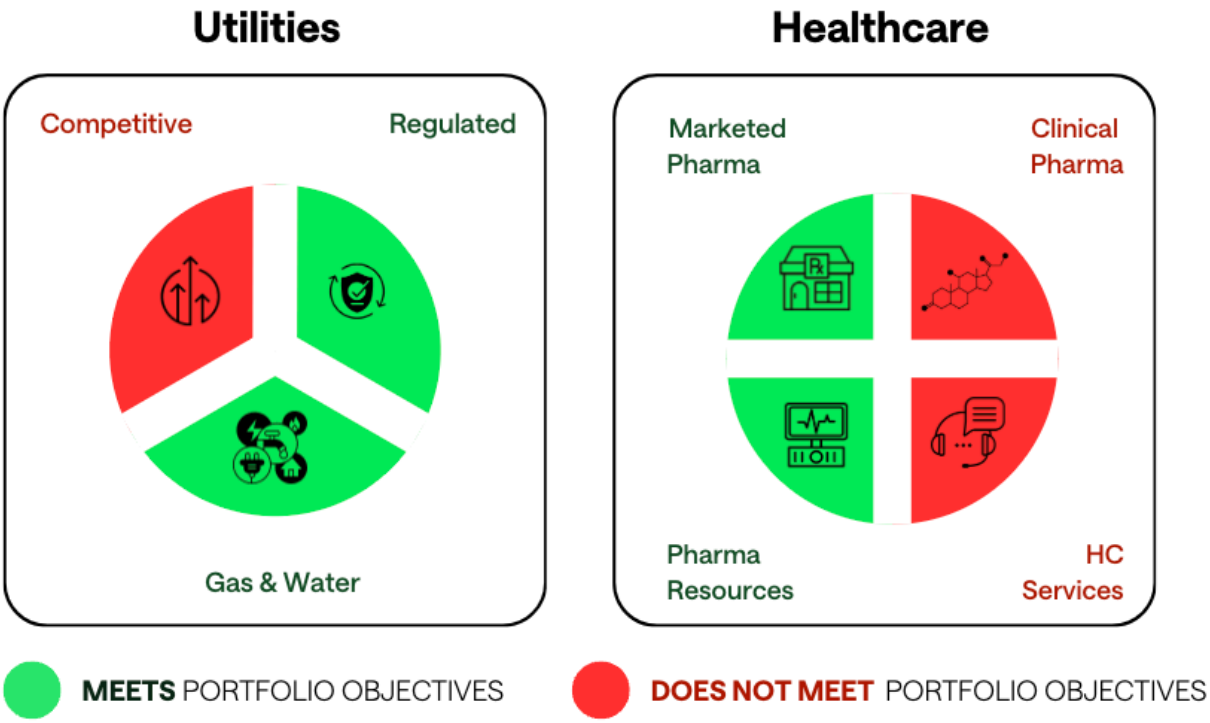
**Exhibit 5: Defensive Equity Lens Holdings Relative to Benchmark**




Hypothetical portfolio and benchmark allocations to Defensive groups.

The lens includes Consumer Staples, which is broadly considered a defensive sector; however, we parse the Healthcare and Utilities sectors to only include stocks within those sectors we view as defensive based on our research as shown in Exhibit 6.

**Exhibit 6: Healthcare and Utilities Sector Analysis**




Within Utilities, both Regulated and Gas & Water Utilities display defensive characteristics, whereas Competitive Utilities do not. Within Healthcare, Marketed Pharmaceutical and Pharma Resources pass the test, but unproven early-stage pharmaceuticals, healthcare related tech and service companies do not. If a manager has a unique way of looking at the world, lenses can be customized to their specifications.

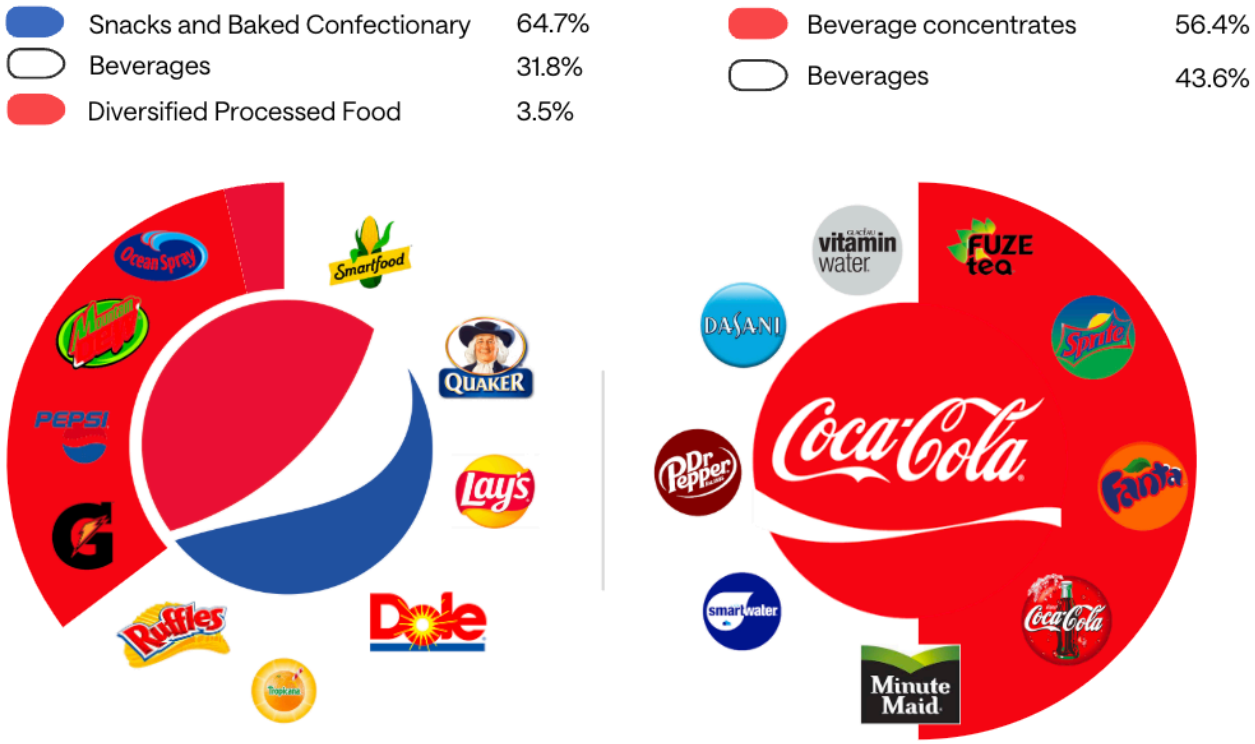
### Enhanced Responses to Client Requests

Investment managers receive both formal requests, like due diligence questionnaires, and ad hoc ones, like questions on exposures or individual holdings. The quality and the timeliness of responses can impact relationships with clients and prospects. How quickly could you provide answers to the following questions:

- How much exposure does the portfolio have to AI, and how does this compare to the benchmark?
- How much of the revenues from portfolio holdings are from the US? China?
- How much exposure does the portfolio have to companies with government contracts?
- What is the portfolio's exposure to clean energy?

Once a portfolio is uploaded into the Affinity platform, answers to these questions can be generated in a matter of seconds. Exhibit 7 demonstrates how product line details can be used in research and marketing pieces to showcase your domain expertise. In the exhibit below, we use FIS™ data to create an infographic comparing the product lines of Pepsi and Coke—the two companies are synonymous with each other, but Pepsi has just a 32% business line overlap with Coke.

## Exhibit 7: Pepsi and Coke Product Line Revenue Comparison




Source: Syntax Data

### Raising the Bar

Investment managers allocate significant resources producing monthly fact sheets and quarterly performance summaries. Unfortunately, this data is often at such a high level that the information provided is more anecdotal than insightful. We believe there is an opportunity for managers to distinguish themselves from their peers by enhancing their reporting capabilities. Earlier we showed the benefits of drilling down from the sector to sub-sector level to provide clarity on the exposure to Financials in a portfolio. The same idea is applied to performance in Exhibit 8, which ranks subsector returns in Q2 2024 from highest to lowest for the Stratified LargeCap (SYLC) Index relative to the S&P 500. This quarter was a good example given the broad range in returns across sub-

sectors and within technology.

**Exhibit 8: Stratified LargeCap (SYLC) Index Subsector Performance vs. S&P 500 (Q2 2024)**

| Sub-Sector | Sector | SYLC | S&P 500 | Difference |
|---|---|---|---|---|
| Integrated Circuits | Information Tools | 9.8% | 21.9% | -12.1% |
| IT Hardware | Information Tools | 7.0% | 19.1% | -12.2% |
| Internet Services and Websites | Information | -1.5% | 9.8% | -11.2% |
| Consumer Transportation | Consumer | -6.2% | 4.5% | -10.7% |
| Utilities | Energy | 3.6% | 4.5% | -0.9% |
| Food Sales | Food | -1.1% | 4.2% | -5.3% |
| Software | Information Tools | -2.4% | 4.1% | -6.5% |
| Pharmaceuticals | Healthcare | 1.7% | 2.5% | -0.8% |
| Banking | Financials | 0.4% | 1.9% | -1.5% |
| Industrial Components | Industrial | -0.9% | 1.9% | -2.8% |
| Consumer Healthcare | Healthcare | -12.8% | 0.7% | -13.5% |
| Household and Personal Care | Consumer | -6.5% | -0.4% | -6.1% |
| Food Production | Food | -4.2% | -0.9% | -3.3% |
| Industrial Equipment | Industrial | -2.7% | -1.8% | -0.9% |
| Real Estate | Financials | -2.1% | -2.5% | 0.5% |
| Oil and Gas | Energy | -3.1% | -2.6% | -0.5% |
| Insurance | Financials | -4.9% | -3.0% | -1.9% |
| Media and Telecommunications | Information | 0.4% | -4.7% | 5.1% |
| Commercial Information Services | Information | -5.3% | -4.7% | -0.6% |
| Industrial Materials | Industrial | -5.8% | -4.9% | -0.9% |
| Healthcare Industry | Healthcare | -9.8% | -5.3% | -4.5% |
| Industrial Services | Industrial | -4.5% | -6.2% | 1.7% |
| Apparel and Accessories | Consumer | -4.8% | -6.5% | 1.7% |
| Consumer Equipment and Services | Consumer | -12.0% | -12.1% | 0.1% |

Total Return by sub-sector, 4.1.2024- 6.30.2024, Syntax Stratified LargeCap Index and S&P 500 Index. Source: Syntax, S&P Dow Jones Indices.

Referring to the data in the exhibit, we noted in our commentary:

> "While the S&P 500 returned 4.3% for the quarter, 13 of 24 sub-sectors had negative results, and the index's positive return was driven predominantly by three tech focused subsectors: Integrated Circuits (+21.9%), IT Hardware (+19.1%), and

> Internet Services and Websites (+9.8%).”

From the table, you can also identify within the Information Tools sector Software trailed Integrated Circuits and IT Hardware by a wide margin. This is an example of how a little more detail can provide a lot more information than the otherwise generic comments such as “technology stocks led the market higher”.

**Closing Comments**

One of the takeaways from Morgan Housel’s book is his following observation:

> “Great ideas explained poorly can go nowhere, while old or wrong ideas told compellingly can ignite a revolution. Morgan Freeman can narrate a grocery list and bring people to tears, while an inarticulate scientist might cure a disease and go unnoticed.... a good story is always more powerful and persuasive than ice-cold statistics.”

In the ultra-competitive world of investments, we believe the best story often wins. Syntax has the tools for you to develop your best story on your own, or we can work together. To learn more about how we can help you control your products narrative, please contact us at sgrieco@syntaxindices.com.

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