Where Factor Investing Caught on

Stockholm (HedgeNordic) – This week we had a chance to catch up with Dr Klaus Teloeken, CIO of Allianz Global Investors' Systematic Equity strategies, at the end of his day in Stockholm, before he continued on to Copenhagen. Inspired by his Nordic trip, Teloeken gave us an insightful overview of the institutional investors' journey into factor investing.

"The Nordics have been very important for propelling factor investing," Teloeken starts. "The root of this investment methodology has been sitting in academia for a very long time. Researchers in finance have always tried to identify the common drivers behind the nearly-random variations of stock prices." Fama, French and Cahart had identified today's commonly used factor such as value and momentum. "At the time, this was called style investing," recalls Teloeken, who was one of the first to explore these models at a larger scale within institutional asset management. "Our track-record starts in 1999. It is one of the longest."

The Nordics did play a role in the worldwide trend in adopting factor-investing, but only ten years after Teloeken and his team started working with their models. "In 2009, the Norwegian Government Pension fund commissioned a study to investigate their returns during the financial crisis," Teloeken reminds us. Indeed, three professors, Andrew Ang (Columbia Business School), William Goetzmann (Yale University) and Stephen Schaefer (London Business School) were designated to examine why the active management of Norges Bank Investment Management (NBIM), who has the mandate to run the country's sovereign wealth fund, produced negative returns on top of the market's poor performance between 2007 and 2008. The study, as related by Professor Ang in this paper, "found that a major part of the fund's active returns before, during, and after the financial crisis could be explained by systematic factors." The professors recommended that these factor-related returns should take centre stage in an investment process.

"This study turned the trend around," Teloeken continues. "Factor-related returns were only considered a byproduct until then. The Norwegians rethought about how they structure their portfolios, and other Nordic countries followed. Then the Benelux, the rest of Europe, Asia and finally the US incorporated factor investing into their asset allocation. I have very sophisticated discussions with investors, every time I come here, but also in Copenhagen or Helsinki. We also have mandates here with some institutions, as we have done this type of investing for a very long time." Dr Teloeken started style-investing with a quant team when he arrived at Allianz Global Investors in 1996. "First, we implemented a value portfolio, then growth-momentum portfolio. Then we had multi-style portfolios, and now we developed multi-factor strategies."