Ping An unit prepares factor investing foray

Insurance giant's asset management arm turns to alternative risk premia as fundamental returns in emerging markets begin to shrink

Ping An Bank is part of the Ping An Group, whose primary business is insurance

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The asset management unit of China's largest insurer Ping An is close to launching an alternative risk premia strategy for clients as it seeks to exploit local interest in quantitative investing and reduce its reliance on fundamental approaches. The firm is also developing an artificial intelligence platform to select the portfolio, but these plans are less advanced.

The alternative risk premia, or ARP, strategy aims to weigh factors such as carry, momentum and volatility over price, across asset classes. The portfolio will not be limited to China stocks, but can include global assets.

“Markets are getting more globalised and efficient,” says Chi Kit Chai, chief investment officer of Ping An of China Asset Management (Hong Kong), who joined the firm in July 2017 after 21 years at US pension fund, Teachers Retirement System of Texas. “With the technology we have, the world is becoming quantitative and rule based, which means the process can be repeated with precision and accuracy. That is something the fundamental managers can’t do.”

The move comes as the alpha – the excess return over the benchmark – in emerging markets diminishes.

“In the past, there wasn’t a pressing need to rely on such products here, as the fundamental strategies by themselves were generating alpha,” Chai says. “In the US, alpha is very scarce, forcing people to use alternatives.”

Quant quest

The firm is not alone. Chinese banks, insurance companies, securities houses and trust companies are all warming up to this form of investing, which attempts to isolate the factors responsible for outperformance and feed them into an algorithm that selects which assets to buy or sell.

Banks estimate ARP strategies account for about $2 billion of assets under management in China. That compares to about $50 billion in Asia-Pacific - largely in Japan and Australia - and $300 billion globally. It is also a drop in the ocean when compared to China’s nearly $3 trillion of assets under management, but growth is forecast.

“The investment world is going in the direction of risk premia, where it is going to be more systematic, quant-driven and scientific,” Chai says.

Often, asset managers rely on investment banks to design and then create risk premia strategies, but Ping An China Asset has built its own research team. In the last six months, it has added a professor from Hong Kong University of Science and Technology to build models for risk premia and run artificial intelligence-driven strategies. The firm also has several quant analysts. In the past year, it recruited a quant with a PhD in physics and applied maths from Cambridge University and another with a master's degree in statistical science from the University of Chicago. Both had previously worked for hedge funds. It continues to hire for the team and this month recruited another PhD in artificial intelligence and robotics.

Ping An Insurance HQ in Shenzhen, China

"Institutions are allocating significant resources to understand risk premia and discover to what extent they can benefit their portfolios," says Bilal Al-Ali, head of structured sales at UBS. "Increasingly, sophisticated managers and institutions in China are risk-weighting their risk premia strategies to achieve targeted investment outcomes. When building the portfolio, the capacity for risk can be adjusted to make the portfolio more neutral, risk-on, or defensive."

UBS is one of the index suppliers for Ping An China Asset's risk premia strategy, Chai says. Ping An China Asset is based in Hong Kong and is responsible for Ping An Group's overseas investment management business. It invests on behalf of private and institutional investors, including other subsidiaries of the Ping An Group as well as external clients.

"Alternative risk premia has been on the radar of large investors in China for a few years now, and they have been closely monitoring the evolution of the market in other countries," says Yajur Arora, director in quantitative investment strategies at BNP Paribas in Hong Kong. "Recently we have seen a heightened sense of urgency driven by the desire to diversify in the face of growing doubts about further appreciation in traditional assets."

Investment banks such as BNP Paribas, UBS and JP Morgan either supply indexes for the strategy or provide access to the entire strategy itself including commodity curve carry, cross-asset trend following, event arbitrage and credit momentum.

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During his time at Teachers Retirement System, where his last position was senior managing director, Chai at various stages oversaw fundamental, quantitative and a hybrid version of investing which incorporated both models.

"A pure fundamental platform is for a concentrated portfolio, maybe only 30 stocks. How can you cover a universe of 300 stocks with a team of just five or six people?" he asks. "When we run diversified portfolios, we have to be '**quantamental**' or pure quantitative. We need such tools to beat the market."

Ping An of China Asset launched a pilot ARP strategy using its own funds in March. It targets 10% volatility and has performed as expected, Chai says.

The firm has developed a portable alpha strategy with the alternative risk premia and is awaiting compliance approval to launch it. The strategy uses the ARP as an absolute-return alpha producer which will be overlaid on top of any benchmark the client chooses. The idea is to outperform the benchmark by 200 basis points. The whole structure can be wrapped, depending on the client, in a fund, a structured note or a structured deposit, Chai says.

AI on the future

The money manager is also developing an **artificial intelligence**-based platform designed to optimise the fund's portfolio. Inspired by Google's AlphaGo artificial intelligence program, Chai and his team are working on deep-reinforcement learning platform to fine-tune its investment strategy. The AI uses computationally intensive statistical procedures to integrate information from different areas, such as natural language news, price movement information, macroeconomic inputs and company-specific accounting information.

Chai is hoping to debut the platform at some point over the next 12 months.

Factors such as value, momentum and carry are not new. What Ping An China Asset aims to do is combine multiple risk premia strategies in a portfolio across asset classes that will boost returns even if a few strategies in the portfolio fail.

> **The investment world is going in the direction of risk premia**
> **Chi Kit Chai, Ping An of China Asset**

While traditional risk premia strategies provide long exposure to these factors in single asset classes, alternative risk premia describes more sophisticated strategies that are long/short, multi-asset and leveraged.

For long/short, Chai's team is using the ARP indexes constructed by investment banks. The long/short positions are already embedded in those indexes. In the future, though, the firm intends to construct its own indexes. Fund managers will then go long the top quintile and short the bottom quintile of each factor.

"When you run a diversified portfolio, you need quantitative tools. Earlier our portfolio was fundamental driven but with some quant tools to help," Chai says. "Now we have front-end quantitative screening, fundamental analysis and then a portfolio optimisation process based on risk and factors we want exposure to. We can also neutralise the factors we never intended in our portfolio by using quantitative tools."

Editing by Alex Krohn
