BLENDED TO PERFORM

Allianz Best Styles Strategies

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Best Styles is a time-tested investment solution for delivering a core equity exposure with the potential for excess returns.

Dr. Eckhard Weidner, CIIA
Head of
Product Specialists
Systematic Equity

Q: Can you explain factor investing in simple terms?

Factor investing seeks to identify and target key drivers of excess returns. It analyses various characteristics or "factors" of a company, such as the price-to-book ratio, leverage ratio, stock price movement, and others. Our research suggests that specific factors carry risk premia that can be systematically harvested to generate excess returns. These include:

1. **Value:** stocks with attractive valuations
2. **Momentum:** stocks that have had strong recent performance
3. **Revisions:** companies whose earnings have been positively revised by analysts
4. **Growth:** stocks exhibiting stable growth
5. **Quality:** companies with strong balance sheet quality and high profitability.

Q: Why should investors consider the Best Styles franchise?

Best Styles is designed to generate excess returns by leveraging a well-balanced mix of the aforementioned factors. With a strong focus on rigorous risk management and a disciplined investment approach, Best Styles aims for stable and consistent performance over time.

Over the past 25 years, we have demonstrated that focusing on harvesting risk premia, with a keen eye on managing unwanted risks, can add value for investors. And the steadiness of the concept over time means that its success achieved in the past is very relevant for investors going forward.

Clients also appreciate the flexibility that Best Styles offers in addressing their individual needs. Increasingly popular examples include, of course, sustainable investment solutions like Best Styles SRI (Socially Responsible Investment), where in recent years we have been able to win new clients and to help existing ones meet their extended sets of goals. Our income oriented Global High Dividend strategy is another example where a client-specific solution grew into a successful global product offering.

Q: Can you tell us a bit more about the integration of sustainability aspects into the approach? How adaptable is the approach?

As Best Styles is a highly flexible and customisable approach, the integration of sustainability requirements into the strategy is seamless. Our broad investment universe enables us to identify numerous candidates with decent sustainability profiles, allowing us to achieve the desired factor exposure and harvest associated excess returns. With data at the core of Best Styles, the increased availability of sustainability-related data has made our approach uniquely adept at reliably and robustly incorporating sustainability considerations into our analytical framework.

Q: How exactly do you apply sustainability criteria in this strategy?

We take a three-step approach to sustainable investing: beyond activity- and norms-based exclusions commonly applied in sustainable strategies, we implement a "sustainability screening" process to further exclude companies with the weakest Environmental, Social and Governance (ESG) practices. Leveraging the proprietary sustainability rating devised by our Sustainability team, companies are compared within their sector and region peer group, and we exclude the 20% with the weakest rating and those without a rating, while also enforcing an absolute minimum rating.

For some of our SRI strategies, this shrinks the investable universe by up to 30%. While this may limit access to companies that are attractive from a factor perspective, we can identify substitutes with similar factor and risk profiles and implement the desired factor exposures. Finally, we target further sustainability targets such as tilting the portfolio towards sustainability leaders and attain a noteworthy decrease in the carbon footprint in comparison to the broad equity market.

Overall, our three-step approach allows us to offer a credible sustainability framework without sacrificing financial return potential.

Q: With the Best Styles Global strategy recently celebrating its 25th anniversary, what has been key to its enduring success?

Our success is built on the deep belief in our investment philosophy, understanding that risk premia provide a reliable source of excess returns. What sets us apart is our dedication to these principles, despite significant market turmoil from time to time, combined with sophisticated portfolio risk management and continuous investment in research to improve our methods. Furthermore, artificial intelligence (AI), machine learning and alternative data have played and will play an important part in keeping our edge as well.

Q: Where do you think factor investing is going, and what are its major challenges and opportunities?

In our view, the concept will remain just as relevant as it has been for the past 25 years. The basic idea that investors can choose to take on additional risks for additional returns will remain an essential long-term mechanism in capital markets and will therefore also be a viable strategy to reap excess returns in the future.

Looking at the next five to 10 years, we expect that there will be further developments on how to identify risk-premium-bearing companies, by incorporating more data into investment selection and risk management (that is, identifying where the highest premium can be achieved with the least additional risk). AI and its sister topic alternative data will likely play an even greater role here in the future than they do at present.

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