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BOOK REVIEW

Mark Kritzman, Senior Editor

ASSET MANAGEMENT: A SYSTEMATIC APPROACH TO FACTOR INVESTING

Andrew Ang
Oxford University Press, 2014
(*Reviewed by*
Bruce Grantier for Journal of Investment Management[1])

Andrew Ang, PhD, is the Ann F. Kaplan Professor of Business and Chair of the Finance and Economics Division at Columbia Business School. He is a financial economist whose work centres on understanding the nature of risk and return in asset prices. His work spans bond markets, equities, asset management and portfolio allocation, and alternative investments. Andrew has received grants from various government and major industry organizations and has served as associate editor for several leading journals. He has consulted for several financial institutions, most regularly the Norwegian sovereign wealth fund (SWF). He received a BEcon with First Class Honours from Macquarie University, Sydney, a MSTAT and a PhD in Finance from Stanford University.

Andrew Ang's book gets accolades from an impressive list of noted economists including John Cochrane, Elroy Dimson, Darell Duffle, William Goetzmann, Campbell Harvey and Stephen Ross. Comments include: "splendid, thoughtful, accessible, influential, likely to become a standard finance text, fills a void, and a must read—especially on the subject of factor analysis." Andrew Ang presented his book to our CFA Society Toronto recently and I got a friend of mine, Don Raymond, to moderate the session. Don Raymond knows Andrew Ang well from the Canada Pension Plan Investment Board (CPPIB) who actually used factor investing before meeting Andrew. Don Raymond, who co-teaches a course at University of Toronto's Rotman Business School with Professor Peter Christoffersen, told me they will now be using Professor Ang's new book as their core text-book and in fact, have been using draft material from the book for several years now. Just by way of interest, "Asset Management" refers at several times throughout the book to the work Andrew Ang has done for the CPPIB in documenting factors. Under guidance of Andrew Ang and Don Raymond, Columbia Business School wrote a case study on CPPIB last year and I was fortunate to be able to attend the presentation of this at Columbia this spring—presented by non-other than Don Raymond. I believe copies of this case study are available if anyone is interested.[2] Just a final comment on the impressive academic content of this book; it contains over 42 pages of academic citations under *References* plus twelve pages of authors in its *Author Index.*

The main feature of this book is Professor Ang's work on "factor investing" in the design and construction of portfolios. Factor investing is the act of looking through a benchmark portfolio to consider each asset class in terms of their underlying factors—macroeconomic and tradable investments. An example of this in the book is the significant presence of two investment factors—"small cap" and "value"—in the field of private equity. Mentioned above was the interest of CPPIB in the factor investing field. In addition to this though, Andrew Ang is also an advisor on factor investing to the Norway's Government Pension Fund—Global, at over $700 Billion, the world's largest sovereign wealth fund. Throughout the book reference is made to both CPPIB and Norway's SWF, in particular the excellent Chapter 14 mainly devoted to Professor Ang's work with these two organizations.

The book has three parts which consist of: (1) Introductory comments on asset owners (sovereign wealth, pensions, foundations and endowments, and individuals), the conventional math in mean variance, risk parity, risk preference, and long term—life cycle investing, (2) The main content of the book—a broad discussion of factor theory, the factors themselves (macroeconomic and tradable investments), their existence and premiums in the various asset classes including real assets, concluding (as mentioned) with a very good discussion on factor investing at Norway's SWF and the CPPIB, and (3) Delegated investments and their factor exposure in a number of alternative investment asset classes including hedge funds and private equity.

Without going into great detail, to illustrate the book's many valuable learning outcomes, some of these include:

- Asset classes should be looked through to ascertain their underlying factors—a practise not often done but very valuable.
- The premiums that different assets earn are a function of the underlying factor risks to which they are exposed. The factors fall in two categories—macroeconomic and investment. The theory behind factors includes both economic and behavioural arguments.
- Alpha actually depends more on factors than the skill involved in generating it and these underlying factors can change over time.
- Interestingly, examination of factors finds many so-called "real assets" have actually little inflation protection.
- Illiquid asset classes, after taking into account infrequent trading and selection biases don't necessarily earn higher risk-adjusted returns. However there are significant illiquidity premiums earned within their asset class.
- There are many factor strategies; one key to selecting which to use is how the particular investor can withstand the inevitable periods of underperformance of their specific set of factor exposures.

Overall, *"Asset Management*" is a valuable contribution to our current understanding of the highly important asset mix decision and within that the factors which are really behind performance. The book is well-researched and well-written, in addition to being very enjoyable to read. "*Asset Management*" is recommended for anyone interested in this very important and rapidly growing area of finance.

Notes

1 *Bruce Grantier, CFA is Founder of InvestorLit.com*

2 Much can be found online; this case study, several chapters of the book itself, plus related topics of Andrew Ang's work such as "illiquid asset investing".