Global Investment Insights

with Angus McLeod, Lecturer, RMIT University & Swinburne University

GII is proud to partner with Angus McLeod who will Chair of our in-person investment forums and virtual roundtables throughout 2022 (and beyond).

He currently holds the position of Sessional Lecturer at RMIT University in the Master of Finance course. He also lectures at Swinburne University of Technology. Angus has 25 years' experience in financial markets, 12 of which he spent as an equity portfolio manager, most recently with Vanguard Australia, where he spent almost ten years of his career.

Angus shared his perspectives on developments in the university sector which has been deeply impacted by the COVID-19 pandemic. He also shared his views on investment markets and the key challenges and opportunities for investors, in this exclusive interview with GII.

COVID-19 impact on the university sector

The university sector is going through a tough time and has undergone some heavy external shocks in recent years. In the main, income pressures have been experienced as offshore students have been prevented from attending in person due to COVID-19 and it remains to be seen whether they will return in the same numbers when the borders reopen.

Coronavirus has prevented overseas student entry and shut the classroom door for much of the last two years. All classes are online which, from a student experience perspective, limits interaction with lecturers and other students and creates a difficult learning environment, thus adversely affecting our ability to provide high-quality, relevant education to our students.

Creating interesting and informative class content which is both engaging and relevant to the changing investment environment is a major challenge for universities, but one which is embraced widely.

Teachers must respond to this and create innovative ways to teach over the internet and encourage interaction in class. I try to relate the classroom material to real-world issues and to bring the financial markets into my presentations to give practical examples of the principles we are teaching.

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A key focus area for me is to bring some life into the sometimes-arcane world of finance. Undergraduate students have had limited exposure to many of the concept we teach in a finance major so employing contemporary events as illustrations is vital. Fortunately, there have been some recent high-profile happenings in markets — the rise and takeover of Afterpay, COVID, offshore boycotts of certain commodity exports, the spectre of rising inflation, superannuation amalgamations — which has allowed us to breathe life into the textbook and to give students a taste of the issues they may face when they graduate and transition to their working careers.

Student feedback has been exceptionally positive about the courses we have developed. We see it as our job to maintain this high standard and to ensure that our students become productive members of the financial community after their graduation.

Acceptance of ETFs and growing popularity of robo advice among regular investors

First let's clarify my definition of "investing". To me, it's long-term wealth aggregation with a focus on discipline, risk appetite, time horizon and asset allocation. Anything else is speculation. That is not to say that speculation is necessarily a bad thing as a small addition to a long-term portfolio.

The trend that I find most exciting for regular investors is the general acceptance of ETFs as a means of gaining asset-class exposure at a low cost. Investment costs are often underplayed by investors; the compounding nature of even small costs over long periods is a major detractor from investment performance which many small investors do not fully appreciate. Yet, ETFs allow investors to attain broad portfolio diversification with the ease of access that comes with a mobile phone trading app.

Emergent from the ETF trend is the growing significance of robo advice. As regulatory changes make full-service financial advice out of reach of many small investors, robo advisers initially found a niche which has become a mainstream channel for small investors to attain broad market exposure cheaply and easily. This and other innovations serve the interests of small investors in a market where, increasingly, higher cost money managers are failing to provide the investment returns to justify their price.

Internalisation of active management in superannuation

Institutional investors face the challenge of internalisation of active management at Australian superannuation funds. What was once a source of FUM and, as a result, prestige, is increasingly being withdrawn. Another, related, headwind is the increasing realisation that the outperformance promised by active management is often illusory or transient. Volumes of research on the inconsistency of active management (admittedly, the small caps asset class appears to be an exception) seems to be tipping the balance away from high-cost strategies. Regulatory pressures are also accelerating this trend.

> *Managers should build concentrated portfolios which truly reflect their researched convictions and provide true alpha well above their fees.*

Managers have often been accused of closet indexing. Managers should be attempting to build concentrated portfolios which truly reflect their researched convictions and provide true alpha well above their fees. Of course, this would lead to greater volatility in investment returns but, if their claims of superior stock selection ability are soundly based, then their putative skill would be rewarded.

> *The time appears right for allocations to emerging markets such as China & India.*

Broad-based portfolios should allocate on a market capitalisation basis and be reflective of an investor's long-term objectives and risk appetite. Accordingly, relatively large investments in developed markets equities are an essential part of a portfolio. That said, the time appears right for allocations to emerging markets such as China and India. As the two most populous nations — comprising over a third of the people on the planet — the investment opportunities in these two countries are immense. Admittedly there are sovereign governance issues in China but the authorities there are not blind to the needs of their citizens. India is increasingly urbanising and becoming wealthier, in a similar manner to China in the 1990s. These two emerging markets' equities, then, appear to be a valuable source of portfolio return, subject to a reasonable risk-weighting and effective due diligence.

Fixed interest investments get some bad press as interest rates rise but investors should remember that all bonds mature at par (unless they default) and increasing rates mean that the income and principal can be invested at higher rates of return. Don't overlook bonds in your portfolio.

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