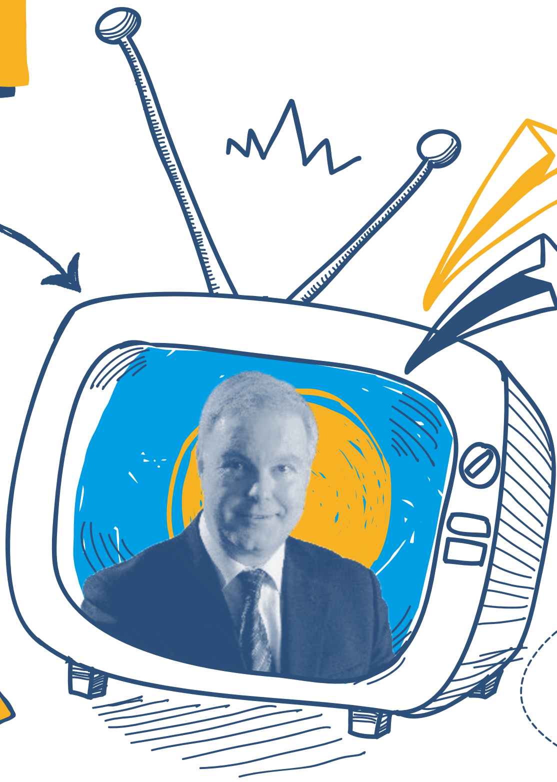
TALKING WITH

Colin McLean

Colin McLean, Managing Director & CIO of SVM talks markets, investing and travel with Richard Romer-Lee of Square Mile.



Managing Director and CIO of SVM.

HOW DID YOU GET INTO THE INDUSTRY?

I started in life assurance as an actuarial student and spent a couple of years doing actuarial things like valuing life policies. After that, when I got to the investment parts of the exams, I decided that looked much more interesting. My degree was in economics and statistics, so it made sense. It was an interesting time to enter the industry – the City was very different, and there was a lot of opportunity to be original in investment research.

WHAT IS THE BEST ADVICE YOU HAVE BEEN GIVEN?

I spent time in the late 1980s, travelling with Sir John Templeton and he was generous with his advice. He told me to focus on analysing company accounts, rather than being swayed too much by what CEOs said in meetings. His view was that company executives would always know more about their own business than analysts ever could, and so were easily able to impress with smart answers. The truth is usually in the numbers and the record.

WHAT ADVICE WOULD YOU GIVE TO SOMEONE STARTING THEIR CAREER TODAY?

I do think those entering the profession should aim for a professional qualification. I may be biased, but I believe that the Chartered Financial Analyst designation is a good option. There are also other good professional qualifications. I would also say that people should not rush into investing too quickly, but build up some broader experience that they can bring into their investment work later. Finding good mentors, and managing continuing self-improvement through ongoing education, are important for a long career.

WHAT MAKES A GOOD FUND MANAGER?

Good fund managers tend to be good investment analysts, too, and to have curiosity about what makes companies tick. But as investing involves mistakes and setbacks, it is important that managers have patience and resilience. It is not enough to be smart, they need to be able to handle ambiguity, too, and make pragmatic decisions.

WHAT IS THE MOST EXTRAORDINARY THING YOU HAVE SEEN IN MARKETS?

Markets deliver surprises quite regularly, which is why I think traditional market theories need to incorporate behavioural finance. The last few months of the great financial crisis in 2008 were astonishing, as central banks, politicians, regulators and many of the great and good appeared oblivious to the elephant in the room; ridiculous bank leverage. The eventual denouement was extraordinary.

WHAT'S YOUR VIEW ON THE RISE OF PASSIVE INVESTING? IS THERE ANYTHING INVESTORS SHOULD WORRY ABOUT AS A RESULT OF THIS?

For investors looking to reduce costs and who cannot find active managers to perform and manage risk, a passive component makes sense. But at times, index funds may be more liable to being sucked into bubbles. This century, we have seen dotcoms, banking and mining at various times all over-represented in indices. Indiscriminate investing by passive funds and those that closet index does leave alpha on the table for active managers, particularly in the larger mid-caps and FTSE 100.

WHAT SUSTAINS YOUR DRIVE FOR INVESTING?

Every day in financial markets brings new information and new challenges. It is a privileged profession that offers access to many interesting people; CEOs and clients. The pace of technological development seems to have accelerated in recent years, giving a window into many interesting start-ups - some of which will undoubtedly become stars tomorrow. And, there are always new techniques and skills to learn. No-one can rely simply on experience and what worked a few years ago.

YOU HAVE TALKED IN THE PAST ABOUT SYSTEMIC RISKS BUILDING IN MARKETS. WHAT ARE YOUR CURRENT CONCERNS?

The financial crisis showed how long risky behaviours can persist without widespread recognition, never mind regulatory or political intervention. Since then, the financial system has become more tightly-coupled. By that, I mean there is less slack in the form of risk-absorbing capital, for example in market making. Regulation has encouraged some herding behaviours that concentrate portfolios into similar strategies, and created larger and systemically more important institutions, such as the major fund administrators. Monetary policy has encouraged this, in addition to raising global leverage. I believe that the scale of debt in many western nations and China can only be resolved by inflation or write-downs.

WHAT CHALLENGES DOES THE INDUSTRY FACE?

I think the industry needs to focus less on short term relative performance and more on delivering client goals, such as long term financial planning, asset stewardship and ethical investment. Investment professionals need to see their role in terms of society's needs, which includes efficient allocation of capital to productive firms and supporting healthy, efficient markets in stocks and bonds. Much of this is a public good. To continue to earn client fees, investment managers need to extend the service clients get.

WHAT IS THE BIGGEST CHALLENGE FACING INVESTORS?

The challenge for investors will always be their own personality; trying to control the biases they bring to their investing, and structuring their portfolios to deal with that. Understanding the enormous long term potential of compounding and how much damage can be done by emotionally-driven trading, is crucial. Making decisions is just half the battle – sticking with them for the long haul is essential. Whether picking funds or companies, investors need patience: they should understand the length of time that can be involved in periods of under-performance by even the best managers.

SHOULD INVESTORS BE CONCERNED ABOUT THE BREXIT PROCESS?

I believe that Brexit creates opportunity for the UK, as well as some risks. A devaluation was inevitable given the trade gap, and there needs to be some choking-off of consumer imports as well as household borrowing if the UK economy is to get a sustainable level of activity. I believe the EU will come to an accommodation with the UK, which could involve a new treaty. But, if exit negotiations are mishandled, it could re-open questions about UK break-up. To date, I think the Prime Minister has handled this well.

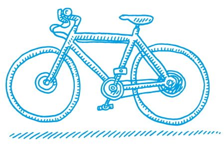
WHAT WAS THE SEMINAL MOMENT OF YOUR CAREER?

Joining Templeton in 1988 to run its European businesses, I was suddenly dropped into a very global operation. That might seem less surprising to investors today, accustomed to international investing. But, Templeton was a pioneering organisation, and it pushed my career in a new direction. It gave me a rapid introduction to the potential for global investing, and allowed me to work alongside some great investors such as Sir John Templeton and Mark Mobius.

IN YOUR CAPACITY AS VICE CHAIRMAN OF THE CFA INSTITUTE BOARD OF GOVERNORS, WHAT DO YOU SEE AS THE MAIN EFFECTS OF THE HIGHER PROFESSIONAL STANDARDS ON THE MARKET?

I think that qualified professionals are better placed to deliver rigorous and consistent investment analysis and client service. This can reduce the risks of blow-ups in the market that cause great damage to trust from clients and society. But, CFA Institute has also developed a suite of codes and standards that support an ethical framework for the industry. The Asset Manager Code, Global Investment Performance Standards and other professional codes are steadily being adopted by investment firms and attested to by CFA Institute's growing membership. The organisation also works closely with a number of other professional bodies. I think all of this makes the financial sector a more ethical and safer place for clients.

HOW DO YOU RELAX?



At the moment my role as Vice Chair of CFA Institute takes up a lot of spare time. But, I enjoy travelling and this offers me the opportunity to meet investment professionals around the world. When I do get time at home, I enjoy cycling and photography, as well as spending too much time on social media.