

FINS3614

ASSET MANAGEMENT

Comprehensive Course Notes

Seminars 1 to 9 | All Topics and Readings

Investment Theory | Portfolio Management | Real Estate | Equities | Credit | Infrastructure | Private
Equity | ESG & Impact

SEMINAR 1: INVESTMENT THEORY AND PRACTICE

1.1 Course Overview and Structure

FINS3614 Asset Management is a practitioner-led course spanning the full spectrum of institutional investment management, taught by senior industry figures from organisations including Mercer, Australian Retirement Trust, EG Funds, AllianceBernstein, Bentham Asset Management, Morrison Infrastructure, Pacific Equity Partners, EVP, StepStone Group, and Pinnacle Investment Management. Seminars cover investment theory and practice, portfolio management, real estate, Australian and global equities, global credit, infrastructure, private equity, venture capital, ESG and impact investing, and industry dynamics.

The course builds around a progression of themes: from investment beliefs and policy design, through analysis of each major asset class, to portfolio construction, ESG integration, and industry dynamics. The oral assessment requires students to advise an investment committee of a new superannuation fund on the design of its investment management function and investment programme.

1.2 What Really Matters in Investment Management

Drawing on Howard Marks (Oaktree Capital, 2022), a foundational distinction separates what does and does not matter for long-term investment success.

What Does Not Matter

- Short-term macro forecasting: most forecasters cannot reliably predict near-term events (inflation, rate moves, recession timing). Even when events are correctly anticipated, the market's reaction is unpredictable because security prices reflect events AND investors' expectations of those events. If an anticipated event is already priced in, a correct forecast produces no profit.
- The trading mentality: treating securities as things to be traded rather than owned leads to inferior returns. The DALBAR Institute found investors earned approximately 3 percentage points less per year than the S&P 500 over 20 years (1992-2012), with an average holding period of only six months.
- The Greater Fool Theory: buying a security hoping to sell it to someone else at a higher price divorces price from underlying value and relies on market sentiment rather than fundamental analysis.

What Does Matter

- Second-level thinking: the key question is not whether an event is positive or negative in absolute terms, but whether it is better or worse than what investors already expect and have already priced into securities.
- Long-term intrinsic value: Warren Buffett's core principle is that stocks are ownership interests in businesses. Investors who focus on whether a business is likely to generate increasing value over years or decades consistently outperform those focused on near-term price moves.
- Cycle awareness and positioning: markets cycle between periods of overvaluation and undervaluation. Recognising where current prices sit in the cycle is more durable than attempting to forecast specific near-term events.

- Understanding and tolerating risk: the ability to hold through periods of underperformance is itself a competitive advantage. Investors with long time horizons and stable capital bases can pursue strategies others cannot sustain.
- Position sizing and patience: concentrated, high-conviction positions held patiently through inevitable periods of adverse performance are hallmarks of top-performing long-term managers.

1.3 Core Investment Beliefs

Investment beliefs are the foundational pillars guiding a fund's decision-making. They provide consistency across staff, market cycles, and portfolio construction decisions. Common investment beliefs in the Australian institutional context include:

Governance	Sound governance structures ensure that investment decisions are made by appropriately skilled people with clear accountability, independent oversight, and explicit decision-making authority.
Diversification	Genuine diversification across asset classes, geographies, managers, and styles reduces portfolio risk without proportionally reducing expected return. Correlation matters as much as individual asset characteristics.
Strategic asset allocation	The long-run allocation of capital across asset classes is the primary driver of a portfolio's risk-return profile, ahead of manager selection or tactical tilts.
Active management and asymmetry	Active management can add value in less efficient markets and specialised strategies, but requires identifying managers with genuine and durable skill. The distribution of active management outcomes is skewed; the median manager does not outperform.
Risk management	Risk is multi-dimensional and must be actively managed across multiple dimensions, not merely measured through a single metric.
Discipline and long-term focus	Rebalancing, patience, and adherence to stated investment beliefs through difficult periods are core to investment success. Short-term volatility should not drive long-term strategy changes.
Cost efficiency	Net-of-fee returns are what matter. Every dollar of cost must be justified by expected net alpha. Excessive costs, particularly in strategies where alpha is uncertain, destroy value.
Liquidity premium	Illiquid assets offer a return premium to investors who can tolerate locking up capital, but illiquidity is not a free lunch. The opportunity cost of illiquid commitments must be weighed against their expected premium.
Alternative investments	Alternative assets including real estate, infrastructure, private equity, private credit, and hedge funds offer diversification, illiquidity premia, and active management opportunities not available in public markets.
ESG and sustainability	Integrating environmental, social, and governance factors into investment decision-making manages risk, can contribute to better long-term risk-adjusted outcomes, and

	meets the obligations of institutional investors to their beneficiaries.
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1.4 Multi-Dimensional Risk in Portfolio Management

Risk in portfolio management is multi-faceted and inter-related. The dimensions of risk relevant to institutional investors include:

1. Risk of failing to meet investment objectives: the primary risk for a superannuation fund is failing to generate sufficient returns to allow members to retire comfortably.
2. Volatility and drawdown risk: the variability of returns and the maximum loss experienced from peak to trough during adverse market conditions.
3. Volatility relative to benchmark returns: tracking error at the sector and total fund level measures the degree of deviation from benchmark returns.
4. Market risk (systematic risk): market-wide movements that cannot be diversified away, including equity market risk, interest rate risk, and credit cycle risk.
5. Diversifiable risk (unsystematic, or idiosyncratic risk): the risk specific to individual securities or sectors that can be reduced through diversification across holdings.
6. Liquidity risk: the risk that assets cannot be sold without materially affecting their price, or that cash needs cannot be met when required by member redemptions or capital calls.
7. Style risk: the risk of underperformance due to adverse moves in factor exposures such as value, growth, quality, momentum, or volatility.
8. Reputational and competitive risk: the risk of actions that damage the institution's standing with members, regulators, or the broader public.
9. Operational risk and complexity: risks arising from failures of process, people, or systems, which are heightened as portfolios become more complex.
10. Regulatory risk: the risk of changes to the legal and compliance environment affecting investment strategy or operations.

1.5 Investment Policy Statement

A board's investment decisions are codified in an Investment Policy Statement (IPS). The IPS is the foundational governance document for an institutional investor and typically covers: governing legislation and regulatory requirements; available investment options; investment objectives; investment strategy; strategic asset allocation (SAA) and SAA ranges; performance benchmarks and outperformance targets; liquidity policy; investment guidelines and restrictions; active risk budget and tracking error limits; hedging strategies; impact and ESG considerations; and governance, decision-making, and monitoring procedures.

Return objectives	Income, capital gains, or total return; return target or margin above CPI; investment time horizon; emphasis on pre- or post-tax returns; competitive positioning versus peer funds.
Risk tolerance	Acceptance of return variability; desire for stability of capital; tolerance of drawdowns; confidence of achieving target returns; regulatory constraints and reputational considerations.

Investor preferences	Investment beliefs and principles; sophistication and competency of internal teams; willingness to manage complexity.
Purpose of invested capital	Whether capital is perpetual (endowment); in accumulation phase (working members); in retirement/pension phase (retired members); or matching assets against specific future liabilities.

1.6 Vanguard's Four Principles for Investing Success

The Vanguard (2020) reading distils decades of investment evidence into four timeless principles applicable to individual and institutional investors:

11. Set clear, appropriate investment goals: objectives must be specific, measurable, and achievable within a defined time horizon. Clarity of purpose prevents reactive decision-making driven by short-term market noise.
12. Develop a suitable asset allocation using broadly diversified funds: diversification across asset classes, geographies, and securities reduces risk without proportionally reducing expected return. Asset allocation is the primary driver of long-run portfolio outcomes.
13. Minimise investment costs: investment returns are uncertain; costs are certain. Minimising management fees, performance fees, transaction costs, and taxes is one of the most reliable ways to improve net long-term outcomes.
14. Maintain perspective and long-term discipline: short-term market volatility is normal. Investors who react to short-term noise by adjusting their portfolios typically underperform those who maintain disciplined adherence to their long-term strategy.

1.7 Active versus Passive Management

The active/passive debate is central to portfolio construction. Key considerations include:

- The case for passive management: lower cost; market-cap weighted exposure to the investable universe; avoidance of benchmark-relative risk from active bets; high transparency; no key-person risk.
- The case for active management: potential to outperform in less efficient markets; ability to express views on individual securities, sectors, or risk factors; integration of ESG criteria; potential downside protection through concentrated portfolios.
- The reality: identifying active managers who can deliver consistent net-of-fee outperformance is challenging. The distribution of active management outcomes is highly dispersed; identifying top-quartile managers requires significant resources, relationships, and judgment.

Special opportunities for active management exist in: less efficient markets (small and mid-cap equities, emerging markets, private markets); strategies requiring significant expertise or access (distressed credit, co-investments, direct infrastructure and real estate); and systematic factor-based approaches exploiting style premia.

SEMINAR 2: PORTFOLIO MANAGEMENT AND THE AUSTRALIAN SUPERANNUATION SYSTEM

2.1 The Australian Superannuation System

Australia's compulsory superannuation system is one of the largest institutional investment pools in the world, holding approximately \$3.5 trillion in assets as at 2022, making it the fourth largest pension pool globally. The Superannuation Guarantee (SG) requires employers to contribute a percentage of ordinary time earnings into eligible superannuation funds. The SG rate increased progressively to 11% from 1 July 2023 and is scheduled to reach 12% from 1 July 2025.

APRA-regulated funds	Industry funds (member-owned, not-for-profit, historically industry-linked: AustralianSuper, ART, HESTA, Hostplus); retail funds (operated by financial services companies for profit: Colonial First State, MLC, BT); corporate funds (single-employer); public sector funds.
SMSFs	Funds with up to six members who are also trustees, regulated by the ATO. Offer flexibility and control but require significant expertise and time commitment from members.
Scale benefits	Larger funds benefit from economies of scale: lower cost ratios, access to exclusive private market opportunities, ability to internalise investment management, and more sophisticated governance and risk management capabilities.
Regulatory framework	SIS Act (1993), APRA prudential standards (SPS 530 Investment Governance, SPS 114, SPS 220), ASIC consumer protection oversight, MySuper regime, Your Future Your Super (YFYS) performance benchmarking.

Scale and Fund Size: Lawrence and Warren (2023)

Key findings from the Lawrence and Warren (2023) research on whether fund size benefits super members:

- Scale economies: large funds lower costs including through internal management of investment programmes.
- Private market access: larger funds can access exclusive private market investments unavailable to smaller funds due to minimum investment sizes and relationship requirements.
- Challenges of scale: very large funds struggle with asset sourcing (insufficient quality assets to deploy capital efficiently), complexity of managing diverse investment programmes, and regulatory compliance burden.
- Pockets of market where smaller funds can win: certain specialised strategies (small cap equities, niche credit, early-stage venture) remain accessible to smaller funds and are not available to the largest funds due to capacity constraints.

2.2 Portfolio Construction: Asset Class Building Blocks