James Marlay: Hello and welcome to another fund manager profile series. My name's James Marlay, I'm a director at Livewire Markets. And my guest today is Alva Devoy who's the Managing Director of Fidelity International here in Australia. For those who don't know, Fidelity International oversees $400 billion in assets globally. They have close to 400 investment staff across the world and are probably best known for their legendary and star stock picker Peter Lynch whose Magellan Fund delivered close to 29% per annum over 13 years.

My conversation today with Alva covers her introduction to investing and then gets to some of the big themes that she thinks are opportunities for investors over the next 5 to 10 years. We also talk about innovation and how a traditional active manager is having to think about new ways of approaching solutions for investors today. I hope you enjoy the interview and let's get started.

Alva Devoy: So, my route into investing is quite an 'around the houses' route. I didn't study business or finance at all. My background is as a Molecular Engineer or Genetic Engineer by training. So, how did I end up in finance and then running a financial services company?

I guess from ... I suppose a naïve stand point, I kind of thought I was going to be the next Marie Curie and then when I figured out that I definitely wasn't going to be, I was horrifically disappointed. But I was right in the middle of PhD research at that stage. And it just happened to be during the first Gulf War as well. Desert Storm was raging. So, I'm sitting inside a University with lots of brainy people and I'm really, really interested in this war that's happening overseas and all of the flow-on effects. Reading the Financial Times and not one person in my department is interested. So, it's like I am the fish out of water, right? You finally have to acknowledge it.

And my sister who's younger than I am was studying finance and I really liked her course and her reading materials. So, I made the decision while I was doing the PhD, that I wanted to move into finance. And I tootled off to ask investment banks on their marketing rounds through universities, like do you hire people who don't have a business background? Do you hire people with PhDs? Etc. And they do and one of the best entry points is to become a research analyst, come in and bring your intellectual property into a firm and we'll teach you the other stuff. So, that's exactly what I did, moved across to become a tech analyst just as the dot-com bubble was kicking off because I had ... I suppose a level of knowledge about technology and also pharmaceuticals as well.

So, I became an equity analyst for a broking firm and it's ... It was kind of a culmination, looking back on, there's the areas of interest that shifted from science to finance and the world and there's also for me, something that's really, really, important, what do you do with that information? Like information in itself for me and knowing things is not enough, I want to do something with it. And so investments is just absolutely perfect. So, that's how I moved into investment, the investment world, got into equity research and then moved from there into managing portfolios.

James Marlay: The initial experience during the heady days, analysing technology companies, what was that like? Can you remember a few of the stocks that you were looking at? They must've been going amazingly well for a period of time and then I imagine everything got tied up.

Alva Devoy: And that's exactly right. Just think about, a young analyst, you come in, it's the hot sector, everybody wants to know your views. You put buy ratings on stocks, everything's going up ... You look like a rockstar. So, there was the ... Which happened. I kind of believed my own hype for a period of time. "This is great, it's easy." And then it unwinds. And that is ... I think as somebody now, who's probably gone through three market cycles really all up, there's huge learnings with each cycle that you go through, which we can bring to benefit our clients. But, there were things like AOL - Time Warner, that massive big deal that happened. And a legitimate evaluation tool at that point was price-per-eyeballs. That actually was in a broker report, "On a price per eyeballs basis, we're going to pay this for AOL."

And think about Amazon, way back then, we were valuing it on pro-forma earnings, like what are they? They’re fictitious earnings. And now look at Amazon. So, it went through its downturn and then became a Phoenix company and rose up to be what it is today. So, yeah, really interesting times to be riding the wave up, and then riding it down on the other side. I was actually a portfolio manager through the worst of times at the other side of that bust. And when you got your hands on people's money, your stewardship of their money and their financial well-being, that's a humbling experience to go out during a market downturn and explain to them how you lost money for them, so I think huge learning experiences through there, but one of the biggest is humility. The stock market is a tough mistress and never lose sight of that.

James Marlay: You mentioned earlier that you've been through a bunch of different cycles and seeing trends and changes. You are now leading the Australian division or branch for Fidelity, which I said, dug up a few stats, over US$400 billion in assets. Huge investment themes around the world, 390 - 400 staff. Active management as a practice is coming under a lot of pressure and scrutiny and Fidelity is steeped in active management history. How do you sort of review that situation taking place and does Fidelity have to change the way it operates or revolves or does stock picking in that bottom-up approach that Fidelity has, does it stand the test of time?

Alva Devoy: Yeah. I believe it does stand the test of time, but to name the elephant in the room and talk about active and passive. And we talk about them together as part of an ecosystem, and in all ecosystems, survival is about balance and when you skewed towards too much one way, you cause instability in a system and same if you go the other way. So, I think it becomes about active plus passive, more and more. And the active space probably now is the time for a resurgence.

So, if we take a look at the stats, we've seen the growth in passive since 1993, 161 times. The flows have been huge and the vast majority of that two trillion in the last five years. Active management has only seen seven times growth in that period of time. So, while I believe passive plus active is good for the client, passive keeps an active manager honest, it's represented a low fee way to access investments, which can only be good.

I think what it also has done is really, really surface the good active managers. And what you're going to get is the cream rising to the top, truly active stands the test of time, owns its space in the ecosystem, delivers excess return for clients, which is ... The need is always going to be there. And I think the ‘me too’, those in the middle falls away. So, we're getting through that at this stage where you will come to a point where we have a really healthy truly active manager cohort plus passive here.

I think as well, the flows that we've seen through to passive and that combined with the lack of market breadth, especially in the US and we've talked a lot about the FAANG stocks, them owning a huge percentage of the outperformance of the US. And that in part being driven by the flows into passive. So, the stats are currently 605 passive ETFs, who have the FANGs as their top 15% holdings. So, you can just see the imbalances that are being set up.

And then we look at July this year where Facebook took a tumble on July 26 and we knocked a US$ 120 billion off the value of that stock alone. So, you can see where imbalances can cause a negative experience now for clients because passive has to be fully invested and how active has the opportunity when we hit volatility in markets or those speed bumps, an active manager can make a decision not to own those stocks, not to be fully invested. Nevermind choosing the good stocks to own as well, we got three different decision-making capabilities on the active side.

James Marlay: Let's jump into, see if we can get some ideas out of this massive resource that you're sitting on. Over the next 5 or 10 years, so take a long-term view, based on that horsepower that you've got under the hood at Fidelity, what do you think are some of the really great investment opportunities or powerful themes that investors can take advantage of over the next 5 to 10 years.

Alva Devoy: Yep. And I bet you're expecting me to say the sexy stuff like artificial intelligence and robotics.

James Marlay: Well sexy to us is if it makes money for the people that are watching it, so ... But yeah, very interesting to hear it.

Alva Devoy: Let's go a different direction and talk about the boring basics like **food and water**. Very, very interesting at the moment where if you look at demographics as a science, it's one of the most predictable areas in the hole of financial markets. And we know with a huge level of conviction, how the world is going to grow. The amount of growth that we're going to have, at the moment, we're forecasting 9.1 billion by 2050. We're on track for that, even though populations are ageing.

We know how many women versus men will be alive. We know the cohorts because it's a long-term trend that emerges slowly but very stably over time, barring a huge event, Malthusian economic style event, where we run out of food and water in a particular area. So, you can kind of back yourself up against the demographic forecasts and then look at what's going to be actually needed. So, we're in a country now that's experiencing drought already. And you think about water, water rights, the necessity for water.

So, we go to the 9.1 billion by 2050, I should say. We're going to need more than 50% more clean water in the world. And we're already experiencing difficulties. We're going to need 70% more food production. And a lot of that is actually in developed economies. We are going to need 80% more energy. And given the pollution that we've already experienced, that is going to be clean energy.

So, I think there is huge value in examining the companies like Mosaic, Monsanto, etc., who are increasing the productivity of the land that we do have, and precision agriculture, companies that have great ways of cleaning, reusing water, eco labs. On through, into the technology that's actually going to allow seeds to be more productive as well, so the kind of biotech industries as well.

So, that's where we're all talking about artificial intelligence and robotics, We don't have the companies outright to invest in. Really, we don't know the winners as yet. But there are companies already in the food and water space that are ... Could be in a client's portfolio for the long term.

Now, pharmaceuticals and health care, if we're talking about ageing populations, their requirement for health care grows and grows. You know it here, health care costs in this country, and the pressure on our healthcare system. But, technology comes in to solve these problems, just like the need for robotics is absolutely mandatory because of the ageing workforce. So, we're going to need the machines to do the heavy lifting for us. Science and biotech has to come in and help with healthcare and personalised medicine, in particular, is going to be a huge area of growth.

So, I'll take your bloods, I'll run your DNA, check your genome map and be able to predict what diseases you would be prone to - or 'malfunctions in your machine', your body. And then prophylactically treat into the future, so Illumina is one of the stocks that we've owned in that space and they are just at the beginning of personalised medicine, specifically in cancer care.

James Marlay: And these are ... Some of these names you're talking about, are they being accessed mostly through international companies. They sound like they're really advanced, not the sort of companies we're finding in Australia

Alva Devoy: Some, some are small. Some are small. And they're ... That kind of lends if you like, and honeypot of growth, will mean we'll get innovation on the ground through here. Just think about A2 milk. It's been a massive contributor to performance here in Australia, and then those equity funds, purely around ... Who knew infant formula could be such a growth area, but they're ... China has picked it up and the growth has been phenomenal. So, you can see ... You take those thematics where we can read across into the Australian market.

James Marlay: I'm going to switch tack a little bit here. We got some market views there, as putting the CEO hat ...

Alva Devoy: Hat on.

James Marlay: ... on now, what are you doing that you think is innovative, how are you thinking of innovating the investment solutions that Fidelity can deliver to people looking to invest? What are some of the things that you're doing that you think are evolutionary and rethinking the options you are providing to investors?

Alva Devoy: Sure. I think from an investment standpoint, investors are going to become more and more objectives focused, especially in this country that has a lot more move towards retirement. There will be that "how much money do I need each year?" objective. Over and above inflation, what returns do I need my portfolio to be achieving rather than just the ... I want you to be outperforming benchmarks, etc. So, I think we are moving towards that, and at Fidelity in Australia, we are building out our retirement offering for our clients.

So, we've actually hired Richard Dinham, who's Ex CIO from StatePlus. So, he has managed a super fund here in Australia over a seven year period and he's come in to do a number of things, to bring that lens of a super fund, which was delivering into the retirement space to our business and help us source fantastic intellectual property in retirement businesses that we have in Europe and in Japan. And then make that appropriate for the Australian client base.

Because we actually have growth problems. We have different problems to offshore and I think it's ... Sometimes when you come from the outside, I'm Irish, I've come into this country into superannuation, which has just been phenomenal, from Europe where we've had defined benefit schemes which are unfunded now because we just can't meet the liabilities on the other side for pensioners. So, there's a whole host of problems that we've had to solve for in Europe and in Japan where there's just not enough cash and money for people to live off.

So, we can take learnings from there and bring it across to a country that actually has a lot of growth in accumulation and look to build out an appropriate suite for clients here.

The other thing that we're doing is if we go back to the engine of intellectual property at Fidelity, that investment engine. We have to continue to focus on being the absolute best through there because clients requirements for excess returns, that's never going to change.

How we achieve that will probably change over time and we’ve got to use every single tool at our disposal to do that, whether that is big data or artificial intelligence, etc. But how a client wants to access our strategies and those returns, as a business we should be completely agnostic to that. So, do they want to access us on platforms or would they like to access us on exchange? So, exactly as they buy their stocks and shares, would they like to buy units in funds, active funds, such as Fidelity produces. So, we will be launching a number of actively managed portfolios through an active ETF channel.

So, exactly like you buy your CBA, your Commonwealth bank share, today, you'll ring up your broker and you'll say, "I want to buy 10 units in Fidelity's Australian equity fund." So, that is where Australia is out in front in terms of innovation. The ASX and ASIC have made it possible for us to list our strategies on exchange and make it easy for clients to buy and sell on exchange. So, that's a huge piece of work for us at the moment, which will be launched later this year.

James Marlay: Final question for you. Peter Lynch.

Alva Devoy: Yeah. The Magellan Fund.

James Marlay: The Magellan Fund, stellar returns. How is that sort of legacy viewed internally at Fidelity? Is he still idolised as a fund manager or is it ... What's the involvement, what's the touch point that people in Fidelity have with Peter Lynch?

Alva Devoy: The Magellan Fund is still there. It hit ... I think it was $140 billion at its height. And interestingly, one of the quotes Peter Lynch will come out ... And he managed that fund between 1977 and 1990. He said, "The stock I would most avoid is the hottest stock in the sector today." So, think about what I said about FANGs and that massive amount of growth that we've seen through those stocks in the US. If he was sitting in front of you today, he would be counselling: "Avoid, avoid, avoid". So, it's just his legacy for everybody ... I think for most people who have been in investment markets whether you're Fidelity or you're not Fidelity, you've read Peter Lynch's books. You have kept an eye on the sage, the wisdom that has come through from him and it's equally relevant today. Possibly more relevant today than it has been for the last 10 years to be honest.

James Marlay: Great. Lovely to meet you. Thank you very much for coming in and telling us about your investment background and also about how Fidelity as a business is thinking about growing in Australia.

Alva Devoy: Thanks for having me.