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National
University

ANU Student Managed Fund

Report for end of Semester 2, 2021

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Notes:

All dollar amounts in this report are Australian dollars.

This report is written by the members of the Relationship Team of The Australian National University (ANU) Student Managed Fund (SMF), in conjunction with other SMF team members. It has been reviewed by the SMF Convenors, the Director of the Research School of Finance, Actuarial Studies and Statistics (RSFAS) and the Communications team of the ANU College of Business and Economics (CBE). Any enquires, feedback or comments can be directed to smf.rsfas@anu.edu.au.

Further information on the ANU SMF is found at: <https://rsfas.anu.edu.au/study/student-managed-fund>.

Disclaimer:

The sole purpose of this document is to report on the activities of the SMF and its related courses. It has been prepared by ANU staff and students who are not licensed to provide financial product advice under the Corporations Act 2001. The information provided on the investments does not constitute, and should not be relied upon, as financial product advice. For financial product advice that takes account of your particular objectives, financial situation and needs, readers should consider seeking that advice from an Australian Financial Services licensee.

Glossary

AA – Asset Allocation
AAE – Active Australian Equities
AC – Australian cash and accruals
ACCC – Australian Competition and Consumer Commission
AE – Australian equities
AFI – Australian fixed income
AMA – 'Ask Me Anything'
ANU – The Australian National University
BBRMF – Behavioural Bias Risk Management Framework
BIN – Bingo Industries Limited
BXB – Brambles Limited
CBE – ANU College of Business and Economics
CCP – Credit Corp Group
CIO – Chief Investment Officer
CMW – Cromwell Property Group
CMT – Cash management trust
COL – Coles Group
CRO – Chief Risk Officer
DM – Developed market equities
EM – Emerging markets equities
ERR – Earnings recovery rate
ESG – Environmental, Social and Governance
IAC – Investment Advisory Committee
IEM – iShares MSCI Emerging Markets ETF
ING – Inghams Group
IOZ – iShares Core S&P/ASX 200 ETF
PBL – Project-based learning
PE – Price-to-earnings
R&C – Risk and Compliance
RIO – RIO Tinto Limited
ROE – Return on equity
RSFAS – Research School of Finance, Actuarial Studies and Statistics
RT – Relationship Team
SHL – Sonic Healthcare Limited
SMF – ANU Student Managed Fund
SRI – Socially Responsible Investment
SUL – Super Retail Group
TLS – Telstra Corporation Limited
VGAD – Vanguard MSCI Index International Unhedged ETF
VGS – Vanguard MSCI Index International Unhedged ETF
WBC – Westpac Banking Corporation
WPL – Woodside Petroleum

Convenor report

This has been a year of deepening reflection and collaboration within the SMF. We have watched with pride as Fund members have worked together across sub-teams to confront the challenges of long-term investing in the midst of pandemic-induced short-term volatility, inflated equity-market valuations and significant disruptions. One of the most productive areas of debate and discovery has been applying the Socially Responsible Investing (SRI) policy. Woodside Energy in particular triggered wide-ranging discussion on the presence of resource stocks in a portfolio focused on sustainability, with the question raised over whether the SMF should think about engagement rather than exclusion. Another has been the search for alternative asset classes that accord with the Fund's philosophy and portfolio positioning. The analysis (and ultimate addition) of emerging market equities (EM) provided the opportunity to discover more about developing economies, political uncertainty and the relation between investment objectives and risk. These developments and more are covered in the Chief Investment Officer (CIO) report and team highlights that follow.

We have spoken before about the transformative outcomes of the SMF experience, including the development of hard and soft skills, enhanced career prospects, and the forging of lasting bonds. In this report, we take a moment to reflect on the pedagogy sitting behind the SMF that enables students to thrive. The SMF is based on the principles of project-based learning (PBL), in which students interact to tackle complex challenges in a real world environment. It provides an immersive application of experiential, authentic learning practices in which students are co-creators of the educational experience. While PBL has many characterisations, our approach to the SMF aligns closely with the Buck Institute for Education's seven essential project design elements for gold standard PBL. These comprise: a *challenging problem*, *sustained inquiry*, *authenticity*, *student voice and choice*, *reflection*, *critique and revision* and, ultimately, *public product*.

Each of these design elements feature strongly within the SMF. We are set up like an 'asset owner' organisation, with students involved in every aspect of the *challenging problem* of managing the Fund to achieve its learning, investment and developmental objectives. Each semester, overlapping cohorts of students engage in real world activities. For instance, they undertake investment analysis and risk management, pitch recommendations, produce reports and communicate with external parties. This creates a process of *sustained inquiry* in an *authentic* setting. *Student voice and choice* play a core role, with the investment process and key policies such as the SRI policy being student-driven, and the weekly agenda being set by our CIO and sub-team heads. Team meetings involve members presenting their work for discussion, which they then *revise* based on constructive *critique* to produce output of a professional quality. This output is *publicly released*, including investment recommendations, performance attribution analysis, guest speaker spotlights, alumni profiles and reports such as the one you are now reading. Students engage in ongoing *self- and peer-reflection* that feeds into assessment tasks and deepens the learning experience. Rather than traditional lecturers, our role as Convenors is to act as mentors who offer guidance and advice.

Outside of the classroom, a number of people make this experience possible. First and foremost, we would like to thank our Investment Advisory Committee (IAC): Heath Behncke, Ross Blakers, Paul Bruncker, Mary Fallon, Nicole McMillan and Andre Morony. The ability to connect with, pitch to and learn from industry professionals with decades of experience in investment management is undoubtedly one of the most valuable sources of development for the students. In the words of one of our SMF alumni: *"My fondest (yet also terrifying) memories with the SMF were the IAC presentations. [The] committee were always ready to challenge our assumptions, dismantle our models and debate our investment proposals. This was truly incredible. Having industry professionals put your investment thesis under the microscope ensured we owned our work and were completely across the detail."*

We would also like to thank RSFAS Director Associate Professor Steve Sault and the CBE Communications team for providing valuable support, including feedback on reports such as these. Finally, we would like to thank the SMF donors (listed later in this report), including those who contributed to the Fund in 2021. The SMF members take very seriously their responsibility in managing this money to support the RSFAS Student Managed Fund Equity Scholarship. These donations are having a profound impact, both for scholarship recipients in accessing an ANU education and for the students of the SMF who are gaining hands on experience in investment management with a real purpose.

Dr Anna von Reibnitz, Course Convenor

Associate Professor Geoff Warren, Fund Convenor

Convenors



*Dr Anna von Reibnitz
Course Convenor*



*Associate Professor Geoff Warren
Fund Convenor*

Chief Investment Officer report

Despite maintaining a remote learning environment, Fund members worked collaboratively to attain many exciting achievements over the year. While the virtual environment presented challenges, the team was able to centralise their processes around the key values and objectives of the Fund. Furthermore, the team was able to implement various initiatives that greatly enhanced collaboration across sub-teams, serving to empower the legacy of the SMF for future cohorts. The Fund's key achievements over the year include those listed below.

- The Active Australian Equities (AAE) team enhancing its filtering process, and actively managing the portfolio through both adding and removing stocks. The team received endorsement from IAC to acquire a 10% weighting in Brambles Limited (BXB), and to sell its positions in Bingo Industries Limited (BIN) and Sonic Healthcare (SHL) as both stocks rose above the team's valuation.
- The Asset Allocation (AA) team built on the strong efforts of past and present cohorts, achieving the inaugural addition of a new asset class into the portfolio. The team received endorsement from IAC to acquire a 10% target weighting in EM by purchasing the iShares MSCI Emerging Markets ETF (IEM) in two tranches. The transaction is being funded through decreasing the weighting in Australian equities (AE) and developed market equities (DM) by 5% each.
- The Risk and Compliance (R&C) team deepened their ability to holistically manage risk within the portfolio, culminating in the implementation of the 'red-team' initiative. This initiative sees the R&C team working collaboratively with the AAE team to provide an independent assessment of downside risk to the investment thesis for stocks. The team also undertook a review of the SMF SRI policy, helping to shape the legacy of the Fund's processes.
- The Relationship Team (RT) undertook various initiatives and projects, serving to grow the Fund's presence both internally and externally. The team designed and facilitated two application workshops over the year, and introduced an 'Ask Me Anything' (AMA) session involving current team members. Such initiatives had a considerable impact, with the Fund receiving a record number of applications for the coming semester.

The Fund's performance has been strong throughout 2021, benefiting from the outperformance of equity markets. The Fund total return was +17.58% year-to-date, outperforming the reference portfolio by +3.56%. This outperformance was largely attributable to a +2.94% contribution from security selection, with all active stock holdings contributing, except for BXB, which has underperformed the ASX200 since purchase. Since inception of the portfolio in April 2018, the Fund has returned +47.18% cumulative, exceeding the target return by +19.37% (+5.14% per annum) and the reference portfolio by +2.27% (+0.63% per annum).

The Fund's presence continues to grow, while maintaining and deepening a strong culture of collaboration, which ultimately enables work-integrated learning. I look forward to observing the continued development of the Fund, as it builds on the foundations that have been created by each member over the past year and before.

Max Burrows, CIO

Chief Investment Officers



*Josh Campbell
(Semester 1, 2021)*



*Max Burrows
(Semester 2, 2021)*

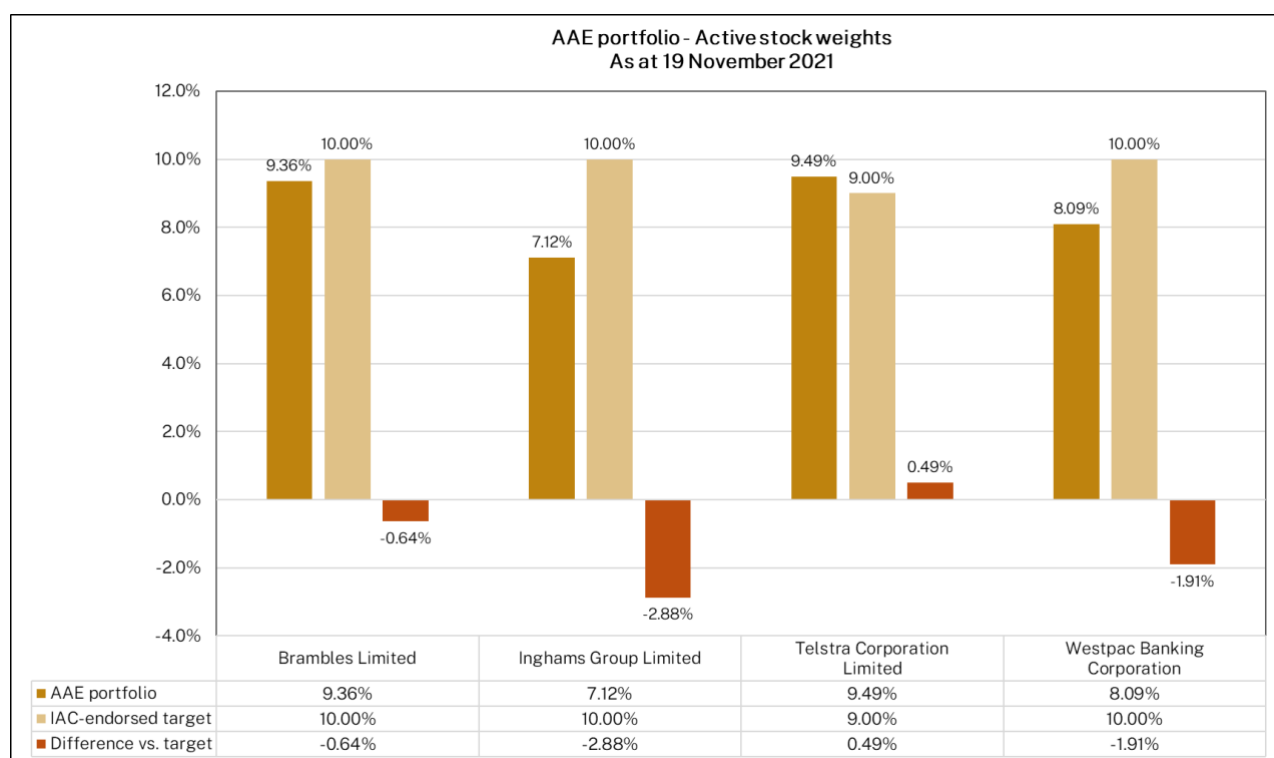
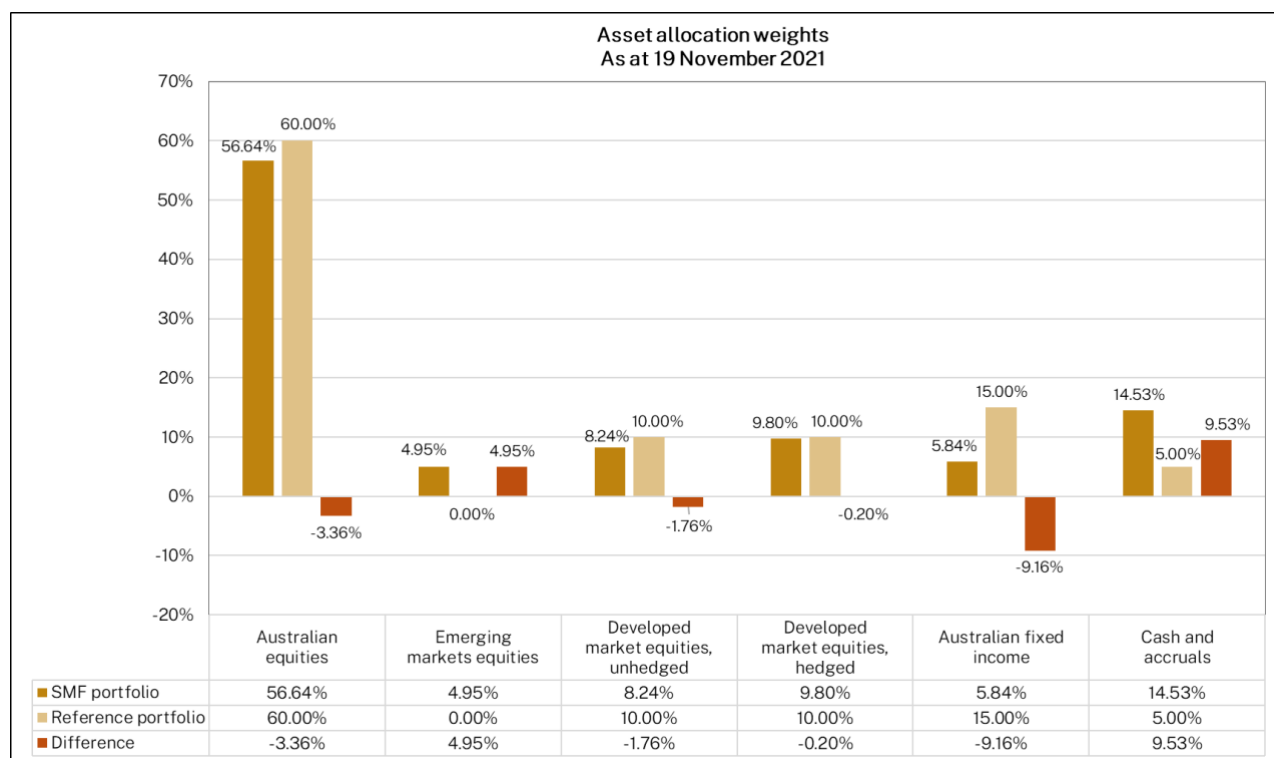
Portfolio overview

Portfolio structure

Portfolio weights as of 19 November 2021 are plotted in Figure 1, with the first chart comparing the asset class weights to the reference portfolio and the second chart comparing active stock positions to their target weights in the AAE portfolio.

The overall growth/defensive mix of 79.63%/20.37% is broadly in line with the 80%/20% reference portfolio weights. The composition of the growth portion deviates from the reference portfolio following the addition of EM, which is not a reference portfolio asset. IAC endorsed a 10% target weight funded by reducing AE and unhedged DM by 5% each. However, IAC requested that half the trades be delayed until 2022, in order to smooth the entry point, which is reflected in the target weights appearing in Figure 1. Otherwise, deviations from reference portfolio weights have arisen as a result of market movements. Within the growth component, AE is underweight by -0.86%, while DM is overweight by +0.54% (+0.74% unhedged, -0.20% hedged) and EM is underweight by -0.05%. Greater deviations are apparent in the defensive component, with Australian fixed income (AFI) underweight by -1.66% and Australian cash (AC) overweight by +2.03%. These deviations reflect not only the underperformance of AFI versus AC as bond markets have sold off, but also increases in cash held as income is received.

Figure 1: Asset allocation and active stock weights as at 19 November 2021



Changes to the AAE portfolio during 2021 included the sale of BIN and SHL, and acquisition of BXB. The Fund closes the year with four active stock positions summing to 34.06% of the AAE portfolio. These positions leave the AAE portfolio with above-index exposures to the food sector via Inghams Group (ING), commercial and professional services sector via BXB, and telecommunications sector via Telstra Corporation (TLS). The AAE portfolio is modestly overweight in the bank sector (estimated at +0.5%) if the active position in Westpac Banking Corporation (WBC) is combined with the bank holdings embedded within the iShares Core S&P/ASX 200 ETF (IOZ). The Fund is implicitly underweight other sectors.

Figure 2 details the asset values and associated weights of each investment within the portfolio. The total SMF portfolio was valued at \$801,542 on 19 November 2021. This is prior to the distribution to be made early in 2021, which will be calculated as 4.5% of the total year-end portfolio value (equal to about \$36,000 at the current Fund value). Distributions are used to fund the RSFAS SMF Equity Scholarship, which supports economically disadvantaged students to enable them to study at the CBE.

Figure 2: Portfolio structure as at 19 November 2021

| Portfolio component | Benchmark ETF | Asset values \$ | SMF portfolio weight % | Reference portfolio weight % | Over (under) weight % |
|--|--|--------------------|---------------------------------|---------------------------------------|--------------------------------|
| Australian equities | | | | | |
| <i>AAE portfolio:</i> | | | | | |
| iShares Core S&P/ASX 200 ETF | | 283,745 | 35.40 | | |
| Brambles Limited | | 40,287 | 5.03 | | |
| Inghams Group Limited | | 30,624 | 3.82 | | |
| Telstra Corporation Limited | | 40,852 | 5.10 | | |
| Westpac Banking Corporation | | 34,826 | 4.34 | | |
| Total AAE portfolio | iShares Core S&P/ASX 200 | 430,333 | 53.69 | 50 | 3.69 |
| <i>Held within AA portfolio:</i> | | | | | |
| iShares Core S&P/ASX 200 ETF | | 23,650 | 2.95 | 7.5 | -4.55 |
| Total Australian equities | iShares Core S&P/ASX 200 | 453,984 | 56.64 | 57.5 | -0.86 |
| Developed markets, hedged | Vanguard International Shares Index, Hedged | 78,549 | 9.80 | 10 | -0.20 |
| Developed markets, unhedged | Vanguard International Shares Index | 66,053 | 8.24 | 7.5 | 0.74 |
| Emerging market equities | iShares MSCI Emerging Market | 39,684 | 4.95 | 5 | -0.05 |
| Total international equities | | 184,287 | 22.99 | 22.5 | 0.49 |
| Total equities | | 638,271 | 79.63 | 80 | -0.37 |
| Australian fixed income | Vanguard Australian Government Bond Index | 46,805 | 5.84 | 7.5 | -1.66 |
| <i>Australian cash and accruals:</i> | | | | | |
| BetaShares Australia High Interest Cash ETF | | 68,346 | 8.53 | | |
| BT Cash Management Trust | | 39,332 | 4.91 | | |
| Accrued interest and dividends | | 944 | 0.12 | | |
| Accrued franking credits | | 7,844 | 0.98 | | |
| Total cash and accruals | BetaShares Australia High Interest Cash | 116,466 | 14.53 | 12.5 | 2.03 |
| Total fixed income and cash | | 163,271 | 20.37 | 20 | 0.37 |
| Total value of SMF assets | | 801,542 | | | |
| Total portfolio value as reported in BT Panorama | | 793,698 | | | |
| Accrued franking credits | | 7,844 | | | |
| Total value of SMF assets | | 801,542 | 100 | 100 | |

Portfolio performance

Figure 3 presents performance both year-by-year and cumulative since the Fund's inception on 10 April 2018. The cumulative return since inception is +47.42% (+11.38% per annum). This equates to outperformance of +19.07% (+4.97% per annum) relative to the return target, which reflects the distribution rate of 4.5% per annum plus realised inflation. The Fund has thus successfully achieved its objective of maintaining its real value while funding a 4.5% distribution since inception. This performance is largely attributable to strong equity markets over the period, especially during 2019 and 2021. The Fund also outperformed the reference portfolio by +1.57% (+0.43% per annum) since inception, consisting of relative returns of -1.10% in 2018, -0.90% in 2019, +0.76% in 2020 and +2.85% in 2021 (year-to-date). The significant outperformance during 2021 is largely sourced from the AAE portfolio as it recovered some previous underperformance; while outperformance since inception is mainly attributable to asset allocation. The sources of performance are detailed further in the attribution analysis section. All return calculations include franking credits.

Figure 3: Portfolio performance since inception as at 19 November 2021

| Year | 2018 | 2019 | 2020 | 2021 | Since inception | |
|--|---------------------|---------------------|---------------------|---------------------|-------------------|------------------|
| Opening date | 10 April 2018 | 1 January 2019 | 1 January 2020 | 1 January 2021 | 10 April 2018 | |
| Closing date | 31 December 2018 | 31 December 2019 | 31 December 2020 | 19 November 2021 | 19 November 2021 | |
| PORTFOLIO VALUES | | | | | | |
| Opening portfolio value in BT Panorama* | \$615,079.04 | \$608,598.58 | \$705,485.10 | \$704,774.44 | | |
| - Distribution related to prior period | \$0.00 | -\$27,746.21 | -\$32,186.49 | -\$32,067.23 | | |
| + Amount held by CBE, offset against distribution | \$0.00 | \$7,983.83 | \$0.00 | \$0.00 | | |
| + Accrued franking credits | \$0.00 | \$3,235.76 | \$9,770.12 | \$7,757.36 | | |
| Adjusted opening portfolio value | \$615,079.04 | \$592,071.96 | \$683,068.73 | \$680,464.57 | | |
| Closing portfolio value in BT Panorama | \$608,598.58 | \$705,485.10 | \$704,774.44 | \$793,697.89 | | |
| + Accrued franking credits | \$3,235.76 | \$9,770.12 | \$7,757.36 | \$7,843.90 | | |
| - Contributions | \$0.00 | \$0.00 | -\$1,000.00 | -\$150.00 | | |
| Adjusted closing total portfolio value | \$611,834.34 | \$715,255.22 | \$711,531.80 | \$801,391.79 | | |
| RETURNS (%) | 2018 | 2019 | 2020 | 2021 | Cumulative | Per annum |
| SMF portfolio return (based on adjusted portfolio values) | -0.53% | 20.81% | 4.17% | 17.77% | 47.42% | 11.38% |
| Target return (estimated as CPI + 4.5%)** | 4.56% | 6.16% | 5.36% | 6.46% | 24.50% | 6.26% |
| SMF return vs. target | -4.87% | 13.80% | -1.19% | 11.31% | 19.07% | 4.97% |
| Reference portfolio return | 0.58% | 21.91% | 3.40% | 14.92% | 45.70% | 10.99% |
| SMF return vs. reference portfolio | -1.10% | -0.90% | 0.76% | 2.85% | 1.57% | 0.43% |
| Note: Administration fees - BT Panorama | | 0.02% | 0.23% | 0.19% | 0.44% | 0.12% |

* Portfolio value for 10 April 2018 is estimated as at time of portfolio inception trades.

** Preliminary estimate based on assumed +0.6% CPI for December quarter 2021.

Attribution analysis

Figure 4 attributes the portfolio performance compared to the reference portfolio into the components of the investment process, specifically asset allocation and security selection. The asset-allocation component measures performance attributable to deviations in asset class weights versus the reference portfolio, whereas the security selection component measures the contributions of the AAE portfolio relative to the S&P/ASX200 ETF benchmark, i.e. IOZ. Any residual effects resulting from interactions between the two segments over time is reported under the heading 'Aggregation, cash portfolio and other impacts.' This category also captures the effects of the 'cash' portfolio not being invested entirely in the benchmark ETF, with the SMF holding amounts in the cash management trust (CMT) and in the form of accruals.

The total performance of the SMF portfolio against the reference portfolio of +2.85% in 2021 is mainly attributable to a +2.45% contribution from security selection within the AAE portfolio. The AA contribution was -0.04%. The 'rounding' term of +0.43% mostly stems from aggregation effects related to accumulating the performance over sub-periods, and is more significant than typically expected due to the volatile markets during 2021.

The AA attribution reveals that the negative contribution of -0.04% during 2021 comprises +1.33% from AFI, -1.08% from AC and modest negative contributions from the equity asset classes. A positive driver was the underweight position in AFI versus AC, with the +0.25% difference in contribution (i.e. +1.33%-1.08%) between these two assets providing a broad guide to the magnitude of net impact. Offsetting this is fact the EM have languished since a 5% initial position was added on 11 October 2021. The effect appears in the form of negative contribution from both EM (-0.10%) and DM unhedged (-0.16%), noting that the latter was moved underweight to fund the EM position. The positive cumulative contribution from AA since inception of +1.39% (+0.38% per annum) reflects the benefit from underweighting AFI versus AC and value-accretive rebalancing trades during 2020, with the SMF reweighting equities into the COVID-related sell-off.

The +2.85% contribution from security selection during 2021 reflects the AAE portfolio outperforming its IOZ benchmark by +4.55%. Positive contributions during 2021 arose from TLS (+1.85%), BIN (+1.50%), WBC (+1.12%), SHL (+0.75%) and ING (+0.13%), while there was a negative contribution from BXB (-0.76%). The negative contribution of -0.05% from the S&P/ASX 200 ETF relates to transaction costs incurred in trading IOZ to facilitate other positions. Noting that some of the positive stock contributions during 2021 reflect a clawback of negative contributions in prior years, and therefore the since inception estimates may provide a better guide. Here the Fund's relative performance versus IOZ was -0.58% cumulative (-0.16% per annum), reflecting the net of positive contributions from SHL (+2.50%), TLS (+1.94%) and Rio Tinto Limited (RIO) (+1.02%); and negative contributions from BIN (-0.65%), BXB (-0.76%), WBC (-1.87%) and ING (-2.47%). The SMF returns and AAE contributions have benefitted from holding some stocks that pay relatively high fully franked dividends.

Figure 4: Performance attribution since inception as of 19 November 2021

| Period | Contributions to performance vs. reference portfolio | | | | | |
|--|--|---------------|---------------|---------------|-----------------|---------------|
| | 2018 | 2019 | 2020 | 2021 | Since inception | |
| | % | % | % | % | Cumulative | Per Annum |
| <i>Opening date</i> | 10/4/18 | 1/1/19 | 1/1/20 | 1/1/21 | 10/4/18 | |
| <i>Closing date</i> | 31/12/18 | 31/12/19 | 31/12/20 | 19/11/21 | 19/11/21 | |
| SMF portfolio vs. reference portfolio | | | | | | |
| Asset allocation | 0.17% | -0.28% | 1.55% | -0.04% | 1.39% | 0.38% |
| Security selection - AAE portfolio | -1.26% | -0.58% | -0.66% | 2.45% | -0.09% | -0.02% |
| Contribution from positions held (prior BT fees) | -1.09% | -0.87% | 0.89% | 2.41% | 1.31% | 0.36% |
| Aggregation, cash portfolio and other effects | -0.01% | -0.03% | -0.13% | 0.43% | 0.27% | 0.07% |
| Total relative performance | -1.10% | -0.90% | 0.76% | 2.85% | 1.57% | 0.43% |
| Asset allocation attribution | | | | | | |
| Australian equities | 0.01% | -0.04% | 0.44% | 0.03% | 0.44% | 0.12% |
| Australian fixed income | -0.02% | -0.11% | 1.24% | 1.33% | 2.45% | 0.67% |
| Emerging market equities | | | | -0.10% | -0.10% | -0.03% |
| Developed market equities, hedged | 0.01% | -0.01% | -0.02% | -0.04% | -0.06% | -0.02% |
| Developed market equities, unhedged | 0.01% | 0.01% | 0.02% | -0.16% | -0.11% | -0.03% |
| Cash and accruals | 0.16% | -0.15% | -0.14% | -1.08% | -1.20% | -0.33% |
| Time aggregation effect | 0.00% | 0.00% | 0.00% | -0.01% | -0.01% | 0.00% |
| AA contribution to total portfolio performance | 0.17% | -0.28% | 1.55% | -0.04% | 1.39% | 0.38% |
| AAE Portfolio vs. S&P/ASX200 ETF | | | | | | |
| iShares Core S&P/ASX 200 ETF | -0.01% | -0.04% | -0.07% | -0.05% | -0.17% | -0.05% |
| Bingo Industries Limited | -3.21% | 1.89% | -0.75% | 1.50% | -0.65% | -0.18% |
| Brambles Limited | | | | -0.76% | -0.76% | -0.21% |
| Inghams Group Limited | | -2.43% | -0.17% | 0.13% | -2.47% | -0.69% |
| Rio Tinto Limited | -0.04% | 0.52% | 0.54% | | 1.02% | 0.28% |
| Sonic Healthcare Limited | | -0.11% | 1.85% | 0.75% | 2.50% | 0.69% |
| Telstra Corporation Limited | 0.62% | 0.53% | -1.05% | 1.85% | 1.94% | 0.53% |
| Westpac Banking Corporation | | -1.49% | -1.49% | 1.12% | -1.87% | -0.52% |
| Time aggregation effect | -0.02% | -0.01% | -0.04% | 0.01% | -0.06% | -0.02% |
| Relative performance vs. S&P/ASX200 ETF | -2.66% | -1.14% | -1.18% | 4.55% | -0.58% | -0.16% |
| Average AAE portfolio weight in SMF portfolio | 47.37% | 50.88% | 55.49% | 53.85% | | |
| AAE contribution to total portfolio performance | -1.26% | -0.58% | -0.66% | 2.45% | -0.09% | -0.02% |

Transactions, income and fees

Figure 5 details the transaction activity within the BT Panorama account during 2021. The transactions undertaken span the categories below.

- Distribution and associated AA rebalancing, with the payment of the distribution with respect to 2020 being preceded by trades to raise cash to fund the distribution while simultaneously rebalancing the portfolio back towards target weights (8 January).
- Rebalancing trades for WBC (27 May).
- Investment of positions in BXB (27 May) and IEM (11 October).
- Disinvestment of the positions in BIN (27 May) and SHL (25 October).
- Deposit comprising franking credits received from the Australian Tax Office, plus a \$150 contribution (28 May).

Figure 5: Transactions in 2021

| Date | Details | Amount (\$) | |
|------------------|---|-------------------|------------|
| | | Transaction Value | CMT Change |
| 8-Jan-21 | Rebalancing AA portfolio | | |
| | Sell 500 IOZ @ \$27.59. Transaction fee \$15.17. | 13,779.83 | |
| | Sell 74 VGAD @ \$81.84. Transaction fee \$12.50. | 6,043.66 | |
| | Sell 39 VGS @ \$84.75. Transaction fee \$12.50. | 3,292.75 | 23,116.24 |
| 8-Jan-21 | Distribution for 2019 of \$32,067.23 by SMF for 2021 | -32,067.23 | -32,067.23 |
| 27-May-21 | Buying Brambles Limited | | |
| | Sell 7988 BIN @ \$3.42. Transaction fee \$30.05. | 27,288.91 | |
| | Sell 495 WBC @ \$26.29. Transaction fee \$14.31. | 12,999.24 | |
| | Buy 3870 BXB @ \$10.68. Transaction fee \$45.46. | -41,377.06 | -1,088.91 |
| 28-May-21 | Deposit | | |
| | Receipt of franking credits from Australian Tax Office | 5,780.54 | |
| | Donations received | 150.00 | 5,930.54 |
| 11-Oct-21 | Buying Emerging Market ETF | | |
| | Sell 664 IOZ @ \$29.79. Transaction fee \$21.76. | 19,758.80 | |
| | Sell 199 VGS @ \$99.27. Transaction fee \$21.73. | 19,733.00 | |
| | Buy 567 IEM @ \$69.57. Transaction fee \$43.39. | -39,490.79 | 1.01 |
| 25-Oct-21 | Selling Sonic Healthcare Limited | | |
| | Sell 995 SHL @ \$40.01. Transaction fee \$43.79. | 39,762.53 | |
| | Buy 1306 IOZ @ \$30.56. Transaction fee \$43.90. | -39,955.26 | -192.73 |

Figure 6 details the income received and fees paid during 2021. Fees include brokerage associated with trades and administration fees on the BT Panorama account. Inclusive of franking credits, the Fund generated income during the year equivalent to 4.41% of the estimated average portfolio value over the year. This is significantly up from 3.04% in 2020 when many companies cut dividends amidst COVID-19 uncertainty. The AAE portion of the portfolio also saw a large increase in its income as a percentage of its portfolio year-on-year. Inclusive of franking credits, income increased from 3.99% in 2020 to 4.91% in 2021, as firms increased their dividend payouts in response to more favourable economic conditions.

Figure 6: Income received and fees paid in 2021 (to 19 November)

| | INCOME RECEIVED (\$) | | | | | FEES PAID (\$) | |
|--|----------------------|------------------|--------------|------------------|------------------|----------------|-----------------|
| | Dividends | Franking credits | CMT interest | Total income | | Brokerage | BT account fees |
| | | | | Ex. franking | Inc. franking | | |
| Total SMF portfolio | | | | | | | |
| AAE portfolio | 14,939.11 | 5,351.43 | 0.00 | 14,939.11 | 20,290.54 | 177.51 | |
| iShares Core S&P/ASX 200 ETF | 1,506.13 | 515.65 | 0.00 | 1,506.13 | 2,021.78 | 36.93 | |
| iShares MSCI Emerging Market ETF | | | | | | 43.39 | |
| Vanguard Australian Bond ETF | 992.37 | | | 992.37 | 992.37 | | |
| Vanguard International Shares Hedged ETF | 8,341.49 | | | 8,341.49 | 8,341.49 | 12.50 | |
| Vanguard International Shares ETF | 1,549.13 | | | 1,549.13 | 1,549.13 | 34.23 | |
| Betashares Cash ETF | 222.66 | | | 222.66 | 222.66 | | |
| BT Cash Management Trust | | | 1.92 | 1.92 | 1.92 | | |
| Accrued interest at end-period | | | | | | | |
| Accrued dividends at end-period | | | 0.20 | 0.20 | 0.20 | | |
| Total portfolio | 27,550.89 | 5,867.08 | 2.12 | 27,553.01 | 33,420.09 | 304.56 | 1,447.37 |
| <i>% of average SMF portfolio value</i> | <i>3.64%</i> | <i>0.77%</i> | <i>0.00%</i> | <i>3.64%</i> | <i>4.41%</i> | <i>0.04%</i> | <i>0.19%</i> |
| AAE portfolio | | | | | | | |
| iShares Core S&P/ASX 200 ETF | 8,157.59 | 2,799.95 | | 8,157.59 | 10,957.54 | 43.90 | |
| Bingo Industries Limited | 119.82 | 51.35 | | 119.82 | 171.17 | 30.05 | |
| Brambles Limited | 551.09 | 70.85 | | 551.09 | 621.94 | 45.46 | |
| Inghams Group Limited | 1,452.00 | 622.29 | | 1,452.00 | 2,074.29 | | |
| Sonic Healthcare Limited | 905.45 | 198.50 | | 905.45 | 1,103.95 | 43.79 | |
| Telstra Corporation Limited | 1,609.92 | 689.96 | | 1,609.92 | 2,299.88 | | |
| Westpac Banking Corporation | 2,143.24 | 918.53 | | 2,143.24 | 3,061.77 | 14.31 | |
| Total AAE portfolio | 14,939.11 | 5,351.43 | 0.00 | 14,939.11 | 20,290.54 | 177.51 | |
| <i>% of average AAE portfolio value</i> | <i>3.62%</i> | <i>1.30%</i> | <i>0.00%</i> | <i>3.62%</i> | <i>4.91%</i> | <i>0.04%</i> | |

Team highlights

In this section, each team discusses their highlights from 2021.

AAE team outperforms the benchmark

2021 has been a strong year for equity markets and the AAE portfolio. The AAE benchmark ASX 200 ETF has delivered a return of 17.3% year-to-date without a meaningful correction, while the AAE portfolio returned 22.7%. Whilst it is pleasing to see current holdings perform strongly, high valuations across the market have posed a challenge for the team in seeking additional holdings. During the first semester, BXB, Super Retail Group (SUL) and Cromwell Property Group (CMW) were the in-depth candidates. In Semester 2, the team researched Woodside Petroleum (WPL) and Coles Group (COL). BXB was the only active-stock position added during the year. Active positions in BIN and SHL were sold.

The initial screening process was challenging, with limited suitable investment candidates aligning with the Fund's long-term philosophy. The team found that forecasts of top and bottom-line growth frequently appeared too optimistic, and that the growth needed to justify valuations near current share prices often seemed a stretch. The AAE portfolio is effectively a long-short fund sitting within the overall SMF portfolio, and hence needs to account for the level of market-wide valuations. Given this, during this year the team adjusted its baseline cost of equity from 7.25% to 5.68% to align with the AE return expectations of the AA team. This allowed the AAE team to improve the relevance of its valuations by making them relative to existing market prices.

For BXB, the key drivers of the AAE team valuation were operating margins and capital intensity. The management had begun pursuing a new strategy, demerging non-core businesses and automating processes to improve margins. With the benefits starting to materialise in the US segment, the team is confident in the rollout of the strategy over the next two years. The crucial risks to the outlook are seen as the uptake of plastic pallets, currently being trialed with Costco, and market entry from an e-commerce company such as Amazon. The AAE team saw the downside represented by these scenarios as relatively low in probability and magnitude. IAC ultimately endorsed the recommendation to invest.

WPL emerged as very attractive on valuation grounds, with the main issues related to SRI given its status as a hydrocarbon company. The AAE analysts focused their in-depth research on what differing energy transition scenarios would mean for supply and demand for both oil and natural gas, coming to the view that an inevitable decline in non-OPEC supply would support oil prices for some time to come. The WPL recommendation received 65% support from the SMF team, short of the 75% required to present to IAC. Ultimately, the decision not to proceed hinged on SRI considerations including the reputational risk posed by investing in oil and gas, as opposed to the investment thesis in its own right.

COL was the subject of in-depth analysis against a background where it had underperformed Woolworths in recent years, with its store network being more exposed to COVID-19 and the company suffering from underinvestment while owned by Wesfarmers. The team focused its research on the company's online shopping strategy, and whether the declines in market share could be stemmed. The team concluded that, even if this were to occur, margins were likely to face continued downside risk. With this risk not being reflected in the share price, it was decided not to pursue the stock.

This year saw three notable developments in the AAE process, as listed below.

- *Analysis of valuation risk* – The approach to gauging valuation risk was altered from the formation of a valuation distribution through quantitative simulations ('SENSCENARIO' analysis) to a more targeted scenario approach. For instance, the BXB analysts built upside and downside scenarios around discrete company-specific events. For WPL, three oil price forecasts reflected different routes the world may take in reducing carbon emissions. This approach better reflects the team's understanding of risk as permanent loss of capital, and creates natural guideposts for future revaluations by focusing on potential developments that would be of high relevance.
- *Red-teaming initiative* – The second semester saw the initial implementation of the red-teaming initiative in collaboration with the R&C team. This involves R&C analysts being assigned to each in-depth stock analysis to focus on how the AAE team's thesis might be wrong.
- *Thematic filtering* – The stock screening process was rebuilt around initial thematic filtering, informed by both a desire to diversify the portfolio and to incorporate the outlook of the AA team. This replaced what was a largely quantitative filter that had often proven ineffective at identifying suitable candidate stocks. In Semester 2, the team focused on the implications of higher inflation and interest rate risk for equity markets. This led to the selection of both WPL and toll-road company Atlas Arteria (ALX) for preliminary analysis and informed the team's revaluations of existing holdings.

Stock revaluations were a core part of the workload over the year, culminating in the decision to sell BIN and SHL. Both decisions reflected increased levels of M&A activity in the Australian market, with BIN sold after receiving a takeover offer from Macquarie Infrastructure and Real Assets. Similarly, the team's decision to sell SHL rested on an increasingly competitive M&A environment, with rising acquisition multiples threatening a crucial source of value creation for the company under its 'roll-up' strategy. The team remained confident in current holdings ING and TLS after further analysis of the company's leases and post-T22 strategy, respectively. On WBC, the team decided to retain the current position, conditional on further research into risk related to housing exposure and possible technology-driven disruption.

Felix Jones, Head of AAE

Active Australian Equities (AAE) team



*Albert Lake
(Semester 1)*



*Sida Li
(Semester 1)*



*Qing (Julie) Zhu
(Semester 1)*



*Yao Xiong
(Semester 1)*



*Max Burrows
(Semester 1)*



*Felix Jones
(Semester 1 & 2)*



*Jingxin (Ben) Mai
(Semester 1 & 2)*



*Lachlan Scott
(Semester 1 & 2)*



*Hannah Young
(Semester 2)*



*Jonathan Boyd
(Semester 2)*



*Sam Watson
(Semester 2)*

AA team expands their investible universe

The AA team started the year by revising some of the key inputs into its process amidst the uncertain and influential nature of the pandemic on markets, including the long-term outlook for both inflation and economic activity, and the modelling of the underlying earnings baselines for equity markets. The addition of EM as a new asset class was a highlight during Semester 2.

The AA team adopted the view that inflation was likely to continue exceeding central bank targets, and that high inflation was unlikely to be transitory. This outlook was based on record amounts of global fiscal stimulus, global supply chain issues and a movement towards inflation targets that are averaged over time, which increases the probability of inflation attaining higher levels. Two changes were made to the AA model in response to the inflation outlook. First, the probabilities on high inflation scenarios were increased, and probabilities of low inflation scenarios decreased. Second, a stagflation scenario was added based on the economic crisis of the 1970s.

While domestic lockdowns in 2021 stunted Australia's economic recovery, the AA team's long-term outlook for economic activity remained relatively unchanged. However, the pandemic was resulting in significant short-term equity earnings fluctuations, raising issues over the appropriate baseline for forecasting. An earnings recovery rate (ERR) was incorporated into our model that normalised earnings in year one of the forecasts, and set the price-to-earnings (PE) and return on equity (ROE) baselines for the subsequent projections over years two to 10 of our forecast horizon.

The AA team also investigated the impact a growing technology sector was having on international equity market indices, given their large market capitalisations. This research resulted in the forecast PE and ROE of international equities being increased to reflect an expectation of persistent higher levels that would be sustained due to the ongoing influence from large capitalisation technology companies.

The most significant achievement of the AA team this year was the inaugural addition of EM to the Fund's investible universe. In October, IAC endorsed a weighting of 10% in EM, funded through the sale of 5% in each of AE and DM. Half the position was established immediately, with the remainder to be completed in 2022, in order to spread the entry point. The investment thesis was based around EM's higher forecast expected return versus AE and DM, which is driven by EM's lower PE. The AAE team established that this relatively lower PE is not a result of high leverage or weaker ability to generate value. Rather, it appears to reflect risk premia related to greater short-term volatility, illiquidity, Environmental, Social and Governance (ESG) considerations and political risk. The SMF's position as a long-term investor makes the Fund better able to bear some of these risks than the broader market, providing an opportunity to prudently capture higher returns.

The AA team hope that the introduction of EM will act as a catalyst for future cohorts to continue expanding the investible universe, particularly as new ETFs continue to be listed on the ASX. For example, real asset classes may be interesting candidates to investigate as potential inflation hedges given the AA team's inflation outlook.

Michael Searle, Head of AA

Asset Allocation (AA) team



*Zhenyu (Alicia) Sun
(Semester 1)*



*Michael Searle
(Semester 1 & 2)*



*Jing (Jean) Ran
(Semester 1 & 2)*



*Xinyi (Alice) Wang
(Semester 1 & 2)*



*Zachary Taylor
(Semester 2)*

R&C team: how could we be wrong?

Highlights for R&C during 2021 included the introduction of the 'red-team' initiative and enhanced integration of the SRI policy into stock evaluations. R&C also continued to support the broader SMF through applying the Behavioural Biases Risk Management Framework (BBRMF) and undertaking portfolio analysis and monitoring.

The red-team initiative was implemented at the beginning of Semester 2 to encourage greater consideration of downside risk. This initiative provides the opportunity for R&C analysts to critically analyse the key assumptions underpinning the central investment thesis for stocks being considered by the AAE team. WPL and COL were the initial subjects. Overall, the process proved effective in strengthening the 'bear case' scenario analysis completed by the AAE team during the in-depth phase, and hence fostered greater contestability at a Fund level. The key findings were as follows.

- *WPL* – The R&C team investigated the extent to which WPL was exposed to a 'policy shock' in the short, medium, and long term, against the backdrop of growing domestic and international climate activism. Furthermore, given the Fund's strong stance with respect to ESG considerations, the team investigated the extent to which holding a hydrocarbon stock might contravene our SRI policy, and/or pose an unacceptable level of reputational risk.
- *COL* – The R&C team examined whether COL's revenue projections were reasonable, given the structural uncertainty born from COVID-19 and increased market competition. The likelihood of increased capital expenditure translating into medium-term efficiency improvements and hence improved EBITDA margins was also considered.

Recognising ESG investing as an important paradigmatic shift within the financial industry, another significant highlight for the R&C team this year was the more deliberate integration of the SRI policy into stock evaluations. This manifested in multiple ways:

- A partial review of TLS was completed during semester 1 after a \$50 million penalty was imposed following TLS's decision to sell post-paid mobile services to Indigenous customers who could neither understand the contracts nor afford them.
- A comprehensive SRI review of WBC was undertaken following the Australian Securities and Investments Commission decision to sue WBC for alleged insider trading, unconscionable conduct and breaching its financial service obligations. The accusations related to company's role in executing a \$12 billion interest rate swap transaction with a consortium comprising AustralianSuper and a group of IFM entities in 2016.
- After significant consideration, it was determined that both TLS and WBC were not in violation of the SRI policy.
- The Fund's commitment to excluding companies that are likely to cause an unacceptable level of 'social injury' and 'reputational risk' was typified by two developments. First was the decision not to advance Credit Corp Group (CCP) through to in-depth analysis in semester 1 due to concerns over lending practices that were potentially exploitative. Second was the decision not to advance WPL to IAC in Semester 2, with ESG concerns and the link to reputational risk proving influential. These decisions underlined the importance of the policy in governing the Fund's decision making.
- The team reinforced its commitment to ongoing process improvement through undertaking a partial and then comprehensive review of the SMF SRI policy in Semester 1 and 2, respectively. In doing so, the team aims to codify a framework from which more tailored and deliberate ESG analysis can be undertaken in pursuit of the Fund's investment objectives.

The R&C team completed its first full-year analysis of the BBRMF, following its operationalisation in late 2020. The process has helped to identify any thematic biases and other structural issues present within the Fund's processes and decision-making mechanisms. It was pleasing to observe the improvements that occurred between Semester 1 and 2, most significantly the reduction in opinion convergences on contestable issues.

Overall, the R&C team is pleased with the significant contributions that it has made to the Fund throughout the year. Looking forward, it plans to integrate more comprehensive portfolio-level risk analysis during 2022.

Jonathan Lang, Chief Risk Officer (CRO)

Risk & Compliance (R&C) team



Isabel Gray
(Semester 1)



Sailendra Sanku
(Semester 1)



Jonathan Lang
(Semester 1 & 2)



Inuja (Jay) Aluwihare
(Semester 1 & 2)



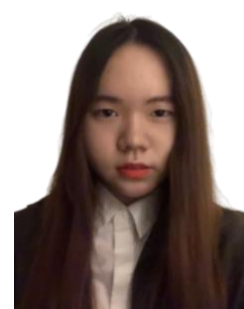
Yuchen (Ricky) Yang
(Semester 1 & 2)



Daniel Dwyer
(Semester 2)



Liying Xue
(Semester 2)



Jie Qi Tay
(Semester 2)

RT systemises the Fund's external engagement

A key priority for the RT over the year was to strengthen the SMF's internal and external presence. Significant achievements included the initiation of the first SMF AMA session and application workshops, which were aimed at boosting both the quality and quantity of applications to join the SMF. The RT also expanded the SMF's external engagement with prospective students, student societies, SMF alumni, donors and industry professionals.

The AMA session provided prospective students with a glance at the SMF operations and its value to students; while the application workshops offered guidance on putting together a SMF application, including creating an investment recommendation. The events were successfully held online in collaboration with the AAE, AA and R&C teams. An average of 25 prospective students attended each event, with the team receiving positive feedback from all attendees. These events were complemented by an improved application procedure document, posts on SMF social media pages, Wattle posts in pre-requisite courses, and an 'expression of interest' link. The benefits were reflected in improvement in both the quality and quantity of applications, with the number of applications for Semester 1, 2022 being the largest yet.

Another focus this year was to strengthen the Fund's external engagement. The team built on the 'alumni interview' series, a project that reaches out to past SMF members to provide them an opportunity to reflect on and share their SMF experiences. 'Guest speaker spotlights' were prepared to share key takeaways from guest presenters, providing valuable insights into the investment industry while showcasing an element of the Fund's day-to-day operations. RT also expanded the Fund's reach through improved relationships with ANU student societies such as the Finance Society, now known as the Financial Management Association of Australia (FMAA). This led to opportunities for cross-promotion to raise awareness of the Fund within the University's finance student community. Finally, the team assisted the CBE Advancement team for the ANU Giving Day, where current cohorts shared their SMF experience to thank SMF donors.

The RT used existing communication platforms to extend both the scale and the scope of the SMF's external communications. Many of the Facebook and LinkedIn posts were liked and shared among SMF alumni and industry professionals, which supports our purpose to increase SMF's awareness externally. The RT also conducted website user experience testing, finding that users often struggle to find information regarding the application process and donations. The SMF website has been updated accordingly.

Aside from the efforts to improve external engagement, the RT continues to provide ongoing support to the Fund. The team prepared minutes of the Fund's weekly meetings, drafted SMF reports, edited headshots and group photos, and updated the report templates in compliance with the new ANU Identity Guide. The latter helps to increase the efficiency of other teams when writing reports.

Next semester, the team plans to expand the SMF's external engagement with industry professionals and other student-managed funds in Australia. It also intends to develop a more comprehensive marketing strategy that incorporates feedback received from the prospective students, and to further refine the SMF promotional video.

Seonghyun Yong, Relationship Manager

Relationship Team (RT)



*Arnav Chopra
(Semester 1)*



*Seonghyun Yong
(Semester 1 & 2)*



*Petal Wang
(Semester 1 & 2)*



*Julie Lin
(Semester 2)*



*Liam Asmaro
(Semester 2)*

Socially responsible investment (SRI) report

This section outlines how the Fund invests in accordance with the SMF SRI policy, which operates as an extension on the University's SRI policy and can be summarised by the five conditions listed below.

- i. Exclude companies that derive more than 20% of revenues from adult entertainment, alcohol, armaments, coal, gambling, tobacco or exploitative lending practices.
- ii. Hold an active equity portfolio with 30% less carbon intensity than the S&P/ASX 200.
- iii. Avoid investments that are likely to cause an unacceptable level of 'social injury'.
- iv. Favour investments that create 'social benefit'.
- v. Preference companies engaged in the following sustainable business activities and practices related to ESG categories, as determined by the Fund:
 - E. climate change action
 - S. equity, diversity and inclusion
 - G. corporate trustworthiness, including transparency, compliance and accountability

All active stock positions are currently in compliance with the industry exclusions limit (condition i). This condition has proved important in narrowing down the list of candidate stocks, with many stocks being excluded from consideration as a result.

Figure 7 reports on SRI compliance regarding carbon intensity as of 19 November 2021 (condition ii). Sourced from the ANU Investment Office, carbon intensity is calculated based on the volume of scope 1 and scope 2 emissions measured in tonnes per \$1 million of revenue earned. The Fund is pleased to report carbon intensity that is -78.9% below the S&P/ASX200 Index, exceeding the -30% target with a margin of 48.9%.

Figure 7: Carbon intensity of the AAE component as of 19 November 2021

| | ASX200 | BXB | ING | TLS | WBC | Total active stock positions | Active stock positions vs. ASX200 | Target improvement | Margin |
|-------------------------|--------|-------|-------|-------|-------|------------------------------|-----------------------------------|--------------------|--------|
| Weight in AAE Portfolio | 65.94% | 9.36% | 7.12% | 9.49% | 8.09% | 34.06% | | | |
| Carbon Intensity | 201.00 | 13.2 | 86.8 | 70.0 | 4.8 | 42.4 | -78.9% | -30.0% | 48.9% |

Conditions iii-v of the SRI policy are evaluated on an ongoing basis with respect to existing holdings and throughout the stock analysis process. The Fund's active commitment to avoid investments that cause an unacceptable level of 'social injury' was reflected by three decisions throughout the course of the year with respect to TLS, WBC and WPL. These are discussed below.

TLS

In February 2021, the Fund considered an SRI issue relating to TLS after the Australian Competition and Consumer Commission (ACCC) instituted Federal Court proceedings for unconscionable conduct in the sales of post-paid mobile services to Indigenous customers in November 2020. After discussions within the Fund, it was determined that TLS was not in contravention of the SMF SRI Policy. This decision was based upon two main points of consideration.

- The unconscionable conduct was not an indication of systemic behaviour.
- The response of TLS executives was strong, particularly their facilitation of the ACCC's investigation and their commitment to rectify wrongdoings.

WBC

Secondly, in July 2021, the Fund declared a 'potential breach' for WBC after the company was sued by the Australian Securities and Investments Commission for alleged insider trading, unconscionable conduct, and breaching its financial service obligation. The allegations related to WBC's role in executing a \$12 billion interest rate swap transaction with a consortium comprising AustralianSuper and a group of IFM entities in 2016. After extensive consultation with the Fund, a formal review was completed by the R&C team in July 2021. It was determined that WBC was not in contravention of the SMF SRI policy. This decision was based on three considerations:

- The reputational risk posed to the Fund appeared limited. While headlines surfaced across multiple media outlets at the time, there has been no enduring backlash or widespread commentary condemning WBC's behaviour.
- The alleged insider trading occurred back in 2016. This is before the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, which subsequently imposed stricter requirements on financial service firms.
- Whilst insider trading represents a material issue, from a legalistic perspective, innocence must be assumed until WBC is proven to be guilty in a court of law. Given the court proceedings are not set to commence until mid-2023, the Fund would therefore be liquidating WBC on the presumption of guilt.

WPL

Finally, given the Fund's strong stance with respect to ESG considerations, the team investigated the extent to which it was appropriate to pursue WPL as an active position. After extensive consideration, it was ultimately determined that WPL was incongruous with the Fund's stance with respect to ESG considerations. Underpinning this decision was two main ideas.

- Given the growing backdrop of climate activism, it was determined that the reputational risk posed from holding WPL was high. As per the SMF Charter and Governance Structure, this operates as principle point of concern.
- Given the Fund's identification of climate change as its core environmental focus, concerns were raised over the extent to which holding a hydrocarbon stock might contravene our SRI policy.

Ultimately, all three instances illuminated the importance of the SRI policy in governing the Fund's decision making.

SRI policy review

Spurred by a desire to more effectively integrate ESG principles, the Fund undertook a partial and then comprehensive review of the SMF SRI policy in Semester 1 and 2, respectively. The team recently codified a framework under which more tailored and deliberate ESG analysis may be undertaken in pursuit of the Fund's investment objectives. The revisions will be finalised and voted on by the SMF team over the coming weeks. The primary proposed policy changes are as follows.

- *Social injury* – The analysis completed by R&C will primarily concentrate on social injury, with the recognition that social benefit is already implicitly considered when identifying candidate investments under the AAE process. This will focus the SRI analysis completed by R&C on the risk end of the SRI continuum.
- *Candidate stock analysis (CSA) stage* – SRI analysis will be frontloaded in the CSA stage and presented separately to the investment case, with both ESG and reputational risks considered. The Fund will consider the investment case and SRI risks separately and vote as such, with only stocks that pass both votes progressing to the in-depth analysis stage. This allows the focus of the R&C in-depth stage to be placed on key investment risks and reputational risk mitigation, whilst completing a final review of prior SRI analysis.
- *Reputational risk* – The SRI policy will explicitly state that SRI is a key source of reputational risk, and that reputational risk sits above other SRI considerations and the investment case. Adverse public opinion can directly impact a company's ongoing viability, whilst simultaneously bringing the reputation of the SMF and broader University into disrepute. As such, an explicit exclusion of companies deemed as high reputational risk is a proposed addition to the SRI policy. For companies posing medium reputational risk, a reputational risk mitigation strategy is to be implemented jointly by R&C and AAE during the in-depth analysis stage.

Declaration

The Fund declares that it has complied with the University's SRI policy while effectively implementing the SMF SRI policy throughout 2021. The Fund remains committed to consistently reviewing and refining its SRI policy to support sustainable business practices while pursuing long-term returns.

APPENDIX

List of SMF activities

SMF activities during Semester 1, 2021

SMF student team make-up

The Australian National University

- The SMF had 21 members during the semester, comprising nine seniors continuing from Semester 2, 2020 and 12 juniors joining the Fund.

SMF meetings

- 12 weekly meetings were held throughout the semester, usually on Mondays from 9am–12pm via Zoom. Two meetings were held on Friday in Week 3 and Week 10, because of official holidays.

SMF IAC meeting and subsequent transactions

- An IAC meeting was held on 24 May 2021, addressing two key matters. First, BXB was recommended for an active position in the AAE portfolio at a 10% target weight, to be funded via reduction of the iShares Core S&P/ASX200 ETF. The BXB recommendation received majority endorsement from IAC. Second, the AAE team outlined the recommendation to exit the active position in BIN in the AAE portfolio, to be sold on-market at a price of \$3.42 or greater with the proceeds to be invested in the iShares Core S&P/ASX200 ETF. The recommendation received unanimous endorsement from IAC members.

Visitors and guest speakers

- Mary Fallon, IAC member/Director, Saksham Malhotra, Investment Analyst, and Justin Chan, Investment Analyst of the ANU Investment Office, 1 March 2021.
- Paul Bruncker, IAC member/Principle of Optar Capital, 19 April 2021.
- Tim Davies, Director of Holon Global Investments, 27 May 2021.

Major reports and actions

- The SMF SRI policy was updated to incorporate exploitative lending practices within the exclusionary list.
- *Investment Recommendation Reports* on BIN and BXB were created in support of investment recommendations for presentation at the IAC meeting on 24 May 2021.
- *Westpac Rebalancing Report* was finalised on 24 May 2021, in response to the weight moving to more than 3% above target. The decision was made to rebalance back to the 10% target weight.
- *Inghams Rebalancing Report* was finalised on 24 May 2021, in response to the weight moving more than 3% below target. The decision was made not to rebalance back to the 10% target weight.
- *Asset Allocation Portfolio Update Report* was finalised on 8 June 2021, summarising the developments in AA investment process and the rationale for maintaining the current portfolio weights.

Other notable items

- A distribution of \$32,067.23 was paid on 12 January 2021. The distribution was partly funded by sales on 8 January 2021 of holdings in the AE and IE ETFs, which facilitated rebalancing toward target asset weights.
- The first SMF application workshop was held on 14 April 2021.
- An alumni interview was conducted with Isabella Mortimore as part of the alumni profile series, published on the SMF website and Facebook page.
- RSFAS Student Managed Fund Equity Scholarship was awarded to Jack Bavinton.
- The SMF end-of-semester celebration was held on 19 June 2021 at Badger & Co.

SMF activities during Semester 2, 2021

SMF student team make-up

- The SMF had 21 members during the semester, comprising 12 seniors continuing from Semester 1, 2021 and nine juniors joining the Fund.

SMF meetings

- Twelve weekly meetings were held throughout the semester, usually on Mondays 9am–12pm via Zoom, with one meeting held on Friday during Week 4 because of official holidays.
- The SMF had an additional farewell and reflection meeting and welcomed new members on 29 October 2021 via Zoom.

SMF IAC meetings and subsequent transactions

- Two IAC meetings occurred during the semester.
- The first IAC meeting was held on 11 October 2021, and addressed two key matters:
 - Request to endorse some minor revisions made to the Investment Policy Statement (IPS), including recognition of expansion of the course to Masters students, the existence of a separate SMF SRI policy document, and other procedural matters
 - Consider an AA recommendation to introduce a 10% portfolio weight in IEM, funded by a 5% reduction in the IOZ and a 5% reduction in the Vanguard MSCI Index International Unhedged ETF (VGS). The recommendation received majority endorsement from IAC; with all members voting to execute the investment in two tranches to spread the entry point, with the second tranche to occur in Semester 1, 2022.
- The second IAC meeting was held on 25 October 2021. The AAE team recommended exiting the active position in SHL within the AAE portfolio at a price above \$38.00, with proceeds invested into IOZ. The SHL recommendation received majority endorsement from IAC.

Visitors and guest speakers

- Dave McGregor, Partner at ATLAS Infrastructure, 23 September 2021.
- Heath Behncke, IAC member/Managing Director of Holon Global Investments, 20 September 2021.
- Habib Subjally, Team Head and Portfolio Manager at RBC Global Asset Management (UK), 28 September 2021.

Major reports and actions

- An *SRI review and recommendation report* on WBC was prepared on 22 August 2021 in response to a potential breach of the SMF SRI policy. It was determined that WBC was not in contravention of the SMF SRI policy.
- An *investment recommendation report* on EM was created in support of the investment recommendation, for presentation at the IAC meeting on 11 October 2021.
- A *divestment recommendation report* on SHL was created in support of the divestment recommendation, for presentation at the IAC meeting on 25 October 2021.

Other notable Items

- Donations were received of \$1,375 during 2021. This amount will be paid into the Fund through reducing the amount of distribution paid with respect of 2021 as of early-2022.
- The first SMF AMA session was held on 4 September 2021.
- Alumni interviews were conducted with Khurshed Mehta and Frederick Olaide Yinka-Kehinde, to be published as part of the alumni profile series in 2022.
- SMF student access to Thomson Reuters - Eikon was discontinued at the end of September 2021, leaving Factset as the primary database source directly available to students.
- The SMF end-of-semester celebration was held on 14 November 2021 at Grease Monkey.

Note: Transactions during 2021, including trades undertaken, are listed in Figure 5 (see page 14).

SMF donors

Over \$200,000

Russell Clark (seed donor)

\$10,000 – \$50,000

Family of Andre Morony
Associate Professor Geoff Warren

\$1,000 or less

Prior to 2021

Norman Bradshaw
Stephen J. Duckett
Kerry-Ann Hugo
Jennifer Rowland
Undeclared donor

During 2021

Andaleeb Akhand
Benjamin Archer
Xinyi Bao
Chris Smith
Ron Waldon
Natasha Walton
Minyue Wang
Shuxin Yang
Thida Zaw

The total amount donated to date is \$297,025, with \$1,375 of donations received during 2021. This brings the total contributions to \$592,523 including RSFAS matching all donations made prior to 2020.

Investment Advisory Committee members during 2021

External members

| | |
|---------------|--------------------------|
| Heath Behncke | Holon Global Investments |
| Ross Blakers | Whitehelm Capital |
| Paul Bruner | Optar Capital |
| Mary Fallon | ANU Investment Office |
| Andre Morony | Independent |

Alternate external members

| | |
|--|-------------------|
| Nicole McMillan (Alternate to Ross Blakers) | Whitehelm Capital |
|--|-------------------|

Internal members

| | |
|---|-----------------|
| Associate Professor Geoff Warren (Chair) | Fund Convenor |
| Dr Anna von Reibnitz | Course Convenor |

The SMF CIO and CRO both sit on the IAC as non-voting members.

SMF team members

Semester 1, 2021

| | |
|-------------------|----------------|
| Joshua Campbell | |
| Albert Lake | Team Head |
| Yao Xiong | Senior Analyst |
| Sida Li | Senior Analyst |
| Qing (Julie) Zhu | Senior Analyst |
| Felix Jones | Analyst |
| Max Burrows | Analyst |
| Lachlan Scott | Analyst |
| Jingxin (Ben) Mai | Analyst |

Semester 2, 2021

Chief Investment Officers

Max Burrows

Active Australian Equities Team

| | |
|-------------------|----------------|
| Felix Jones | Team Head |
| Lachlan Scott | Senior Analyst |
| Jingxin (Ben) Mai | Senior Analyst |
| Jonathon Boyd | Analyst |
| Samuel Watson | Analyst |
| Hannah Young | Analyst |

Asset Allocation Team

| | |
|--------------------|----------------|
| Michael Searle | Team Head |
| Jing (Jean) Ran | Senior Analyst |
| Xinyi (Alice) Wang | Senior Analyst |
| Zachary Taylor | Analyst |

Risk and Compliance Team

| | |
|---------------------|--------------------|
| Jonathan Lang | Chief Risk Officer |
| Jay Aluwihare | Senior Analyst |
| Yuchen (Ricky) Yang | Senior Analyst |
| Daniel Dwyer | Analyst |
| Liyong Xue | Analyst |
| Jie Qi Tay | SRI Analyst |

Relationship Team

| | |
|----------------|----------------------|
| Seonghyun Yong | Team head |
| Petal Wang | Engagement Manager |
| Liam Asmaro | Relationship Officer |
| Julie Lin | Relationship Officer |

Convenors

| | |
|------------------------------|-----------------|
| Dr Anna von Reibnitz | Course Convenor |
| Assoc Professor Geoff Warren | Fund Convenor |

Accepted Semester 1, 2022

Hannah Young

| | |
|----------------|----------------|
| Jonathon Boyd | Team Head |
| Samuel Watson | Senior Analyst |
| Hugo Klimt | Analyst |
| Olivia Cameron | Analyst |
| Hugo Heanly | Analyst |
| Jayden Pham | Analyst |
| Janet Thudyan | Analyst |

| | |
|-----------------|-----------|
| Zachary Taylor | Team Head |
| Michael Slater | Analyst |
| Stephanie Trinh | Analyst |
| Callum McGarty | Analyst |

| | |
|--------------------|--------------------|
| Daniel Dwyer | Chief Risk Officer |
| Liyong Xue | Senior Analyst |
| Jie Qi Tay | Senior Analyst |
| Nimeth Dissanayake | Analyst |
| James Gray | SRI Analyst |

| | |
|------------------------|----------------------|
| Julie Lin | Team head |
| Liam Asmaro | Engagement Manager |
| Anvi Ghiya | Relationship Officer |
| Isabella (Bella) White | Relationship Officer |

Team photo

Semester 1, 2021



L-R: Albert Lake, Jingxin (Ben) Mai, Yuchen (Ricky) Yang, Qing (Julie) Zhu, Joshua Campbell, Seonghyun Yong, Jonathan Lang, Lachlan Scott, Petal Wang, Jay Aluwihare, Jing (Jean) Ran, Max Burrows, Yao Xiong, Geoff Warren, Isabel Gray, Zhenyu (Alicia) Sun, Arnav Chopra, Sida Li, Felix Jones, Anna von Reibnitz, Michael Searle, Xinyi (Alice) Wang.

Semester 2, 2021



L-R: Geoff Warren, Sam Watson, Liying Xue, Lachlan Scott, Julie Lin, Michael Searle, Zachary Taylor, Jie Qi Tay, Jay Aluwihare, Max Burrows, Jing (Jean) Ran, Seonghyun Yong, Liam Asmaro, Yuchen (Ricky) Yang, Jonathan Lang, Xinyi (Alice) Wang, Felix Jones, Jingxin (Ben) Mai, Daniel Dwyer, Hannah Young, Jonathon Boyd, Anna von Reibnitz, Petal Wang.

SMF honour role

Semester 2, 2017

Haoyan (Howie) Chen*
Mia Dekovic*
Wenlin Lin*
Elena Pleass*

Semester 1, 2018

Vipul Nijhawan
Ben Rada-Martin
Olaide Yinka-Kehinde
Manling (Sarah) Zhu

Semester 2, 2018

Ruolin (Alex) Mai
Isabella Mortimore
Victor Munagala
Harrison Papworth
Rory Roche*
Wayne Wang
Lanyu Zhang
Zhan Zhang
Zhongxi Zheng

Semester 1, 2019

Jak Carty
Azmina Hossain
Chuxuan (Jessie) Jiang
Aiyun (Stephanie) Li
Saurav Patel
Hongyi Xu
Chengxuan (Charles) Zhang

Semester 2, 2019

Sahibjeet Bains
Luke Farrar
Sophie Lebang
Chaoqi (Shawn) Lin
Harrison McKenzie-McHarg
Khurshed Mehta
Alisha Nath
Jia Jun Desmond Ng
Jiaqi (Karen) Mao
Lachlan Phillips
Dalton Tham
Alaina Warwick

Semester 1, 2020

Charya Kannangara
Rocky Lagudi
Abhay Madan*
Todd O'Dea
William Ranson-Smith
Yanfei (Victoria) Rao
Ashley White
Shengchang (Albert) Zhang

Semester 2, 2020

Bernice Choi
Nicholas Collings
Eric Gittleman
Angus Lloyd
Michael Oates
Matthew Pham
Shalini Rajkumar*
Ulrika Yui Ting Li
Chenfan (Winnie) Wei
Qifan (Cheryl) Yang*

Semester 1, 2021

Joshua Campbell
Zhenyu (Alicia) Sun
Albert Lake
Sida Li
Qing (Julie) Zhu
Sailendra Sanku
Isabel Gray
Arnav Chopra
Yao Xiong

Semester 2, 2021

Max Burrows
Felix Jones
Lachlan Scott
Jingxin (Ben) Mai
Michael Searle
Jing (Jean) Ran
Xinyi (Alice) Wang
Jonathan Lang
Yuchen (Ricky) Yang
Inuja (Jay) Aluwihare
Seonghyun Yong
Petal Wang

* Fund member for one semester only.

Team composition by semester

| Team / Position | CIO | AA | AAE | R&C | RT | TOTAL |
|-------------------|-----|----|-----|-----|-----|-------|
| Semester 2, 2017 | 0.5 | 2 | 3.5 | 2 | - | 8 |
| Semester 1, 2018 | 1 | 3 | 4 | 3 | 1 | 12 |
| Semester 2, 2018 | 1 | 4 | 8 | 3.5 | 1.5 | 18 |
| Semester 1, 2019 | 1 | 5 | 8 | 2.5 | 1.5 | 18 |
| Semester 2, 2019 | 1 | 3 | 9 | 3.5 | 2.5 | 19 |
| Semester 1, 2020 | 1 | 3 | 6 | 3 | 3 | 16 |
| Semester 2, 2020 | 1 | 3 | 9 | 3 | 3 | 19 |
| Semester 1, 2021 | 1 | 4 | 8 | 5 | 3 | 21 |
| Semester 2, 2021 | 1 | 4 | 6 | 6 | 4 | 21 |
| Semester 1, 2022* | 1 | 4 | 7 | 5 | 4 | 21 |

* Expected figures for semester 1, 2022.

Photo credits

| Name of the person | Photo on page | Photo credits |
|----------------------------------|---------------|---|
| Albert Lake | 17 | Angus Padley |
| Arnav Chopra | 21 | Arnav Chopra |
| Dr Anna von Reibnitz | 6 | Dr Anna von Reibnitz |
| Daniel Dwyer | 20 | Luke Kenton |
| Felix Jones | 17 | Felix Jones |
| Associate Professor Geoff Warren | 6 | Centre for International Finance and Regulation |
| Hannah Young | 17 | Andrew Sikorski |
| Inuja (Jay) Aluwihare | 20 | Inuja (Jay) Aluwihare |
| Isabel Gray | 20 | Abi Cox |
| Jie Qi Tay | 20 | Jie Qi Tay |
| Jing (Jean) Ran | 18 | Yiyi Han |
| Jingxin (Ben) Mai | 17 | Yun Long Xie |
| Jonathan Boyd | 17 | Tom Rasmussen |
| Jonathan Lang | 20 | Jocelyn Abbott |
| Joshua Campbell | 7 | Joshua Campbell |
| Julie Lin | 21 | Michelle Thomes |
| Lachlan Scott | 17 | Lachlan Scott |
| Liam Asmaro | 21 | Hrithik Chaubal-Menon |
| Liyong Xue | 20 | Liyong Xue |
| Max Burrows | 7 | Luca Autore |
| Michael Searle | 18 | Michael Searle |
| Petal Wang | 21 | David Beach |
| Qing (Julie) Zhu | 17 | Qing (Julie) Zhu |
| Sailendra Sanku | 20 | Keshav Dhananjaya |
| Sam Watson | 17 | Rachel Lendon |
| Seonghyun Yong | 21 | Michael Tietge |
| Sida Li | 17 | Sida Li |
| Xinyi (Alice) Wang | 18 | Xinyi (Alice) Wang |
| Yao Xiong | 17 | Yao Xiong |
| Yuchen (Ricky) Yang | 20 | Yuchen (Ricky) Yang |
| Zachary Taylor | 18 | Samantha Holt |
| Zhenyu (Alicia) Sun | 18 | Zhenyu (Alicia) Sun |

Note: All persons appearing in photos have given permission for that photo to be used in this report.

Contact details

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SMF LinkedIn page: <https://www.linkedin.com/company/anu-smf>

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