Report for End of Semester 1, 2019

ANU Student Managed Fund

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# Glossary

**AA** – Asset Allocation

**AAE** – Active Australian Equities

**ANU** – The Australian National University

**BIN** – Bingo Industries

**CBE** – College of Business and Economics

**CIO –** Chief Investment Officer

**CPI –** Consumer Price Index

**CRO** – Chief Risk Officer

**DCF** – Discounted Cash Flow

**ESG** – Environmental, Social and Governance

**ETF** – Exchanged-Traded Fund

**IAC** – Investment Advisory Committee

**ING** – Inghams Group

**LTIP** – Long Term Investment Pool

**SMF –** Student Managed Fund

**SRI –** Socially Responsible Investment

**R&C** – Risk and Compliance

**RIO** – Rio Tinto Limited

**ROE** – Return on Equity

**RSFAS** – Research School of Finance, Actuarial Studies and Statistics

**TLS** – Telstra Corporation Limited

**WBC** – Westpac Banking Corporation

# About this Report

The ANU Student Managed Fund (SMF) is pleased to report on its progress and achievements over Semester 1, 2019. As well as the usual reports from the Convenors, the Chief Investment Officer (CIO) and each team, we present ‘spotlights’ on two stocks added to the portfolio during the semester – Inghams Group (ING) and Westpac Banking Corporation (WBC). We are also pleased to report that the Fund has solidly outperformed both its reference portfolio and the return target so far during 2019, after a more difficult 2018. This report also provides a statement of compliance with the University’s Socially Responsible Investment (SRI) policy.

We hope you will find this report both informative and interesting. We would welcome feedback and the opportunity to address any further enquiries, which can be directed to the SMF email address ([smf.rsfas@anu.edu.au](mailto:smf.rsfas@anu.edu.au)).

*Alisha Nath & Sophie Lebang*

*Relationship Officers*

# Convenor Report

Our past reports have highlighted how the SMF is proving a powerful learning and even transformational experience for students, particularly through developing softer skills around leadership, accepting responsibility, taking initiative, teamwork, and so on. This time we discuss how much effort the students put into the SMF, the career paths of SMF alumni, and the silver lining from the loss on Bingo Industries (BIN). We also give a shout-out to the SMF Investment Advisory Committee (IAC).

The commitment of the students to the SMF cannot be understated. The SMF is only one of four courses students take during a (short) semester of 14 weeks, which includes a two-week mid-semester break. Nevertheless, they consistently deliver their numerous and challenging tasks on time and with high quality. Students exhibit unprecedented commitment and put in considerable effort, for instance working through multiple report drafts with both ourselves and their team members until the report is the best it can be. The grades awarded in the SMF tend to be high in reflection (we don’t grade to a bell curve). But we do not think that grades are why they do it. Rather, the students seem to believe in the SMF and its purpose of funding the SMF Equity Scholarship, and are working for the team. We are very proud of the culture that has emerged within the Fund.

The SMF has now been operating long enough to get an early idea of how it can influence career prospects. A number of SMF alumni have secured great jobs with leading investment industry firms, including Dimensional Fund Advisors, Goldman Sachs, JP Morgan, Morgan Stanley, Queensland Investment Corporation and Texas Partners Group. Others are working in major advisory firms; and quite a few have progressed to undertake an honours year. We hear stories of how the SMF helps students in securing internships, and how it becomes a focus of conversation during interviews. While only the start of a long journey, the signs are promising. Our hope is that those involved in the SMF will have successful careers, and form an engaged network for both the Fund and the University over the years to come.

And Bingo… Those who have been reading the SMF reports would have noticed that the Fund purchased Bingo Industries last year in front of some adverse news, including an earnings downgrade, that saw the stock price fall about 60% before recovering. It is currently trading at 22% below the price we paid. While this is clearly undesirable in terms of the Fund’s investment objective, it has proved very valuable in terms of the learning objective. You learn the most from mistakes, and so it has proved with the Bingo experience. It has driven home the point that investing is far from easy and underlined the need to undertake stock analysis with a healthy degree of scepticism. It brought the students face-to-face with risk, the difficulty of decision making under uncertainty, and the dangers of paying up for a stock based on optimistic assumptions. The primary analyst involved has come a very long way and will probably get more out of their time with the SMF than anybody else in the team. On balance, the loss on Bingo looks more like a boon than a calamity.

Finally, we would like to thank the IAC, which is a group of industry professionals that freely give their time. The group comprises Heath Behncke, who is just starting up his own global tech fund; Risman Cornelius and Debbie Saunders from Whitehelm Capital; Mary Fallon from the ANU Investment Office; and Andre Morony, who has held many roles including CIO of BT Fund Management and Commonwealth Super Corporation. Knowing that investment recommendations need to pass muster with a group of experienced professionals is critical. It helps focus the mind, and motivates students to reach for excellence. They learn a lot from the wise counsel and lines of questioning in the pressure-cooker environment of IAC meetings. The interaction with the IAC is one of the many features that make the SMF experience unlike any other gained at university.

*Dr Anna von Reibnitz, Course Convenor*

*A/Prof. Geoff Warren, Fund Convenor*

# Chief Investment Officer (CIO) Report

On completion of another successful semester for the SMF, I am pleased to report on our progress towards each of our learning, investment and developmental objectives.

Our learning objective centres upon the SMF providing students practical experience in managing investments. The ‘hands on’ approach to learning is truly unique, and the responsibility that is entrusted to students is both empowering and enriching. As students, we feel responsible for the outcomes of the Fund. For what is a difficult objective to quantify progress toward, I can say that this course has been the most challenging yet rewarding experience of my educational life. Along with the technical expertise that we develop, the Fund provides an environment to grow interpersonal skills such as leadership, communication and teamwork. The Fund provides a medium from which students engage with experienced industry professionals, including those on the Investment Advisory Committee. This semester we also had Dr Don Hamson, Managing Director of Plato Investment Management, and John Hempton, Founder and CIO of Bronte Capital, deliver presentations to the Fund. The insights and learning derived from these experiences are invaluable. The constant and personal guidance offered by our Convenors adds to the unique environment created by the SMF and leads many students to conclude that the Fund is the ‘best course’ they have completed.

The Fund pursues an investment objective of maximising the long-term trade-off between the expected value of funds invested, against the risk of a sustained reduction in the real value of those funds. To maintain our philanthropic initiatives, the Fund aims to deliver a return equal to the distribution rate of 4.5% plus inflation, which amounts to a target return of 7% per annum at an expected inflation rate of 2.5%. As an endowment fund, the long-term nature of the investment objective is embedded in all aspects of the Fund’s operations and is embraced by the student cohort. This investment philosophy leads the team to believe an insufficient period has elapsed to provide meaningful judgement on the Fund’s progress to the investment objective. Nevertheless, it is gratifying that as of 21 June 2019, the Fund’s return since inception on 16 April 2018 of 15.85% has well-exceeded the target. The Fund moderately underperformed the reference portfolio over this period, which returned 16.32%. This is largely attributable to the underperformance of the active Australian equities (AAE) portfolio relative to the benchmark S&P/ASX200 ETF, which in turn can be traced to a contribution of -2.38% from Bingo. Meanwhile, it is encouraging that our two initial active stock positions of Rio Tinto and Telstra made positive contributions of +0.58% and +2.14% versus the S&P/ASX200 ETF, respectively. We are encouraged by our progress on many fronts yet recognise that the true measure of success regarding the investment objective will not be realised in the short-term.

A developmental objective is included to reflect the importance the Fund places on building relationships within and beyond the University. In supporting the RSFAS Student Managed Fund Equity Scholarship, our philanthropic commitments are indicative of our intention to give back to the ANU community. In order to raise awareness of the Fund and engage with potential applicants, the Fund twice participated in the College of Business and Economics (CBE) Student Information Market during the semester. The Fund also pitched to students in various finance courses. Throughout the semester we have been liaising with the University to create an official SMF Logo, design promotional material and develop a website. A draft SMF Website is currently being created under the ANU RSFAS layout. The successful launch of an SMF Facebook and a draft LinkedIn page will further enhance our ability to interact with external parties. Our developmental objective is also measured by the impact the course has on students and their inclination to remain involved with the ANU and SMF. This semester we have had Ben Rada Martin, who had previously functioned as the Head of AAE, return to provide guidance to the current cohort. Ben has accepted a graduate role at Goldman Sachs and his continued engagement with the Fund is indicative of the permanent value the SMF provides students. We are pleased with the progress we have made towards our developmental objectives and I believe this will continue in forthcoming semesters.

Overall, I am incredibly proud of the progress we have made this semester and I believe there is a solid foundation for future cohorts to build upon. The current junior cohort will be progressing to senior roles within the Fund next semester. I am in no doubt these students, with the addition of new members, will progress the Fund along its positive trajectory. On a personal note, I am grateful for my time in the Fund. I have learnt more about myself and funds management than I could have imagined. I look forward to staying engaged with the SMF and seeing the progress that continues next semester and beyond.

*Saurav Patel, CIO*

# Team Updates

### Active Australian Equities (AAE) Team

The AAE team is pleased to announce our achievements in the AAE portfolio throughout the semester. Through continuous implementation of the AAE Investment Process (IP), 20 candidate stock reports and six in-depth stock analyses have been completed after the initialisation screening (stock filter) stage. Two stock recommendations put forward by the AAE team have been endorsed by the IAC this semester: Inghams Group (ING) and Westpac Banking Corporation (WBC). As at 21 June 2019, there is a 40.1% active stock position in the AAE portfolio. All the stocks held have been reassessed and will be monitored on an ongoing basis.

This semester has been challenging for the team, especially in light of the underperformance of Bingo after purchase. The team reviewed Bingo and subsequently recommended a reduction in target weight based on detailed analysis and in-depth discussion within the Fund. It is a hard lesson to learn but also a golden opportunity to provide the team with more insights within the waste management industry. It reiterated the vital importance of thorough research in our recommendations. Through this experience, the team is now in a better position to take on any challenges in the future.

The team extends our sincere gratitude to all the industry practitioners who have provided us with valuable advice on improving our investment process. In addition to implementing clustering analysis, developing a qualitative stock filter and improving the existing quantitative stock filter, the team has created various valuation models for companies with unique characteristics and upgraded the standard Discounted Cash Flow (DCF) valuation model. We are passionate in our work to extensively improve valuation efficiency, which will ultimately benefit the Fund’s legacy. More supporting documents have been created and provided for the benefit of future cohorts as a result.

With the continued expansion of our team, we formed a new structure under which each analyst is assigned to a particular industry. In doing so, we aim to increase efficiency and develop more in-depth knowledge of industry dynamics. Over the semester we have also continued implementing the ‘buddy system’ to promote the Fund’s legacy, by pairing each junior analyst with a senior analyst to facilitate the transfer of knowledge and skills.

I would like to thank all members of the AAE team for their brilliant work and effort over the semester. Next semester the AAE team welcomes four new junior analysts: William Ranson-Smith, Todd O’Dea, Shengchang (Albert) Zhang and Jia Jun (Desmond) Ng who will continue the development of the AAE team and our ability to contribute to the Student Managed Fund.

*Chuxuan (Jessie) Jiang, Head of AAE*

### Asset Allocation (AA) Team

The AA team commenced with five members in Semester 1, 2019, expanding on the four members of Semester 2, 2018. Our key focus was towards completing the AA investment process (IP). Overall, the development of IP documents was quite extensive. The team finalised its approach to scenario analysis, with supporting documents set-up to ensure effective transition to future cohorts in line with the SMF core value of ‘legacy’. Adjustments were also made to asset class models and the utility function. The main work that remains is to combine all documents into a single IP. The AA team also worked collaboratively with the Risk & Compliance (R&C) team to build compliance processes into the IP for monitoring of procedural and investment risk.

A central theme this semester has been that of reflection. During the semester, AA encountered many challenges in building on the legacy of prior cohorts. In large part, these reflected the difficulty in improving on sections of the document without understanding the overarching principals behind the IP as a whole. The lessons, and development of the team to address these weaknesses revolved around two points: (1) in every mistake there is the opportunity to learn and begin again; and (2) quality is an act developed over time.

Overall, the personal development of AA members this semester is a worthy accomplishment. As a team, we identified and addressed our weaknesses and made significant progress. Key lessons will be passed on to new analysts, to ensure the legacy and continued development of the AA team within the SMF.

The AA team welcomes Rocky Lagudi as a junior analyst for next semester, with Dalton Tham taking over as Head of AA. Despite formally leaving the fund, Jak Carty and Hongyi Xu will also act as advisors, attending team meetings and contributing when asked. We look forward to seeing the team develop, and the completion of the AA IP.

*Jak Carty (Head of Asset Allocation) and Hongyi Xu (Research Manager)*

### Risk & Compliance (R&C) Team

The focus of the R&C team this semester has been making the team fully operational, after the creation of our keystone documents in 2018. The R&C team’s key focus this semester has been on increasing engagement with the AA and AAE teams, as well improving on the portfolio performance evaluation models which underpin our reports.

In regards to increasing engagement between the R&C and AAE teams, we completed a R&C Risk Register Assessment document this semester. This outlines the risk identification and compliance processes involved in the AAE IP, and assists the Fund to determine which stocks should proceed to the next stage of analysis by highlighting their exposure to certain risks. It was created as a practical tool to help balance risk and return in line with the SMF’s objectives. This process has allowed the R&C team to deepen their analysis of AAE’s investment proposals, with R&C reviews now specifically targeting the investment, cash flow and reputation risks associated with proposed stocks. The Risk Register Assessment document has helped to direct R&Cs research, and has further refined the roles and responsibilities of R&C analysts.

The R&C team has started to develop a foundation for monitoring the AA team’s investment processes. Formal documentation has not been completed at this stage, with the view to do so once the AA IP is complete. However, by starting early, we aim to have a clear understanding of the AA investment process, and ensure that R&C can create and follow a clear compliance checklist to monitor the implementation of the AA IP.

Last semester, the R&C team created a performance measurement and attribution model, which allowed the team to attribute portfolio returns into two key sources: the asset allocation decisions of the AA team and the stock selection decisions of the AAE team. This semester, the R&C team expanded on the model to make it more informative, as well established the basis for creating an attribution analysis based on the SMF’s target returns on different asset classes.

Next semester, the R&C team welcomes two junior analysts, Ashley White and Charya Kannangara (split 50% with the Relationship team). Chaoqi (Shawn) Lin will step into the role of Chief Risk Officer (CRO), with further guidance provided by Alisha Nath, who is transitioning from a split role between the R&C and Relationship teams to a senior analyst role exclusively within R&C. I have confidence that the team will be able to expand on the strong processes implemented this semester, and continue to build the legacy of R&C and of the Fund as a whole.

*Azmina Hossain, CRO and Head of R&C*

### Relationship Team

The Relationship team has strived to extend the external communication and awareness of the Fund through the introduction of a live Facebook page, a draft LinkedIn profile and a draft SMF website.

With regards to the website, the Relationship team has primarily focused on developing a medium that reflects the core values of the Fund and allows us to further engage with external parties. In doing so, the team chose to highlight the SMF’s long-term focus and its unique SRI policy, as well as an interview with the first scholarship recipient to demonstrate the positive real impact of the SMF’s work. The website was initially drafted under the Wix platform, with publication then delayed by the decision to transfer content to within the ANU RSFAS website. Positioning our website under the RSFAS banner has many benefits. By directly linking our online presence with the University, the SMF is able to portray a more professional and reputable image to outside parties. In order to ensure a high quality SMF website, the Relationship team will be meeting with CBE Web Coordinator Simon Petocz to assist in transferring the written content the team created this semester to the new website under the RSFAS layout and design. Additionally, next semester the team will be provided the valuable opportunity to undergo training to understand how to maintain, update and develop the website under the new RSFAS structure. Despite some roadblocks, the website development has been an invaluable learning task for the Relationship team.

The Relationship team has also published a SMF Facebook page with photos, information and contact details. The team posts weekly or fortnightly updates on the page. Both the draft website and Facebook page will increase awareness, engagement and interest in the Fund’s activities. In addition to our work to create an online presence, which also includes developing a draft LinkedIn Profile, the Relationship team has worked on weekly tasks such as portfolio updates, internal documents and generating external reports to ensure the smooth-running of the Fund.

Next semester, the Relationship team welcomes two new junior Relationship Officers, Yanfei (Victoria) Rao and Charya Kannangara (split 50% with R&C). We have confidence that the team will continue to work hard on publishing the SMF website and further expanding the exposure of the Fund to promote the positive reputation of the SMF.

*Alisha Nath & Sophie Lebang, Relationship Officers*

# Active Stock Positions

The AAE team has continued to research new stocks with potential to advance the Fund’s core investment objectives. The SMF is pleased that two of our active investments in Rio Tinto and Telstra have continued to perform well over the first half of this year. The contribution of Rio Tinto and Telstra to the AAE portfolio against the benchmark S&P/ASX200 Exchange Traded Fund (ETF) since the Fund’s inception has been 2.14% and 0.58%, respectively. While one of our active investments (Bingo) initially performed poorly, it has since experienced a substantial recovery. At the time of the mid-semester report, Bingo had detracted -4.43% from performance relative to the S&P/ASX200 ETF; whereas the negative contribution has reduced to -2.38% by 21June 2019. Over the second half of the semester, the AAE team has acquired two new active investments in Inghams Group and Westpac Banking Corporation. The AAE team provides further insight into these respective positions in our Stock Spotlight section below.

### Stock Spotlight: Inghams Group

The first investment recommendation of Semester 1, 2019 was Inghams Group. This presented an opportunity to purchase a company with solid cash flow growth and potential for long-run value creation at a price well below our valuation. The investment thesis was formed on the belief that Inghams will continue to benefit from the structure of the poultry industry and the steady rise in poultry consumption in Australia and New Zealand. In addition, Inghams continues to further their cost advantage over smaller regional competitors by improving production and labour efficiency through Project Accelerate, which is also helping to overcome input cost headwinds caused by the current drought conditions within Australia. Consistent with the Fund's SRI values, Inghams maintains a commitment to animal welfare and environmental sustainability in areas such as farming practices, water usage and energy management. Overall, we believe Inghams will be a valuable addition to the SMF portfolio, as it aligns with both the long-term value creation and SRI objectives of the Fund.

*Luke Farrer, AAE Analyst*

### Stock Spotlight: Westpac Banking Corporation

The second investment recommendation was Westpac Banking Corporation, a company with a sustainable competitive position that provides an opportunity for value creation over the long-term. Westpac also offers a high dividend yield, which is underpinned by its strong capital structure and is seen to be sustainable under our baseline return on equity (ROE) forecasts. In addition, it carries a high Environmental, Social and Governance (ESG) rating. Westpac has consistently been rated as one of the global leaders in sustainability, receiving positive recognition and awards in many global and domestic rankings. The company takes a clear and transparent approach to managing sustainability risks and opportunities, providing a range of governance and risk frameworks and resources to both internal and external stakeholders. Particular aspects that display elements of social benefits aligned with our SRI policy include: proactive policies on climate change, socially responsible lending frameworks to industries (e.g. non-lending practices for environmental or socially harmful sectors such as agribusiness, defence and tobacco), and shared value and social impact action plans. The company also enacts diversity and inclusion, indigenous, and human rights frameworks throughout all facets of its business. These attributes are advantageous for satisfying the Fund’s long-term return objectives and desired portfolio structure.

*Lachlan Phillips & Khurshed Mehta, AAE Analysts*

# Portfolio Overview

### Portfolio Structure

We report the portfolio weights as at 21 June 2019 in Figure 1. With regard to the AAE portfolio, active positions have been added in Inghams (9.44%) and Westpac (9.82%), with these trades endorsed by the IAC and executed during Semester 1, 2019.   All positions were funded from the partial disposal of the S&P/ASX200 ETF. The weighting in Bingo has reduced from its initial level of 10% to 7.72% as a consequence of underperformance. Figure 2 (see over) details the Fund’s portfolio structure, listing the values and weightings of the investments held within the portfolio.

**Figure 1: Asset Allocation as at 21/06/19**

**Figure 2: Portfolio Structure as at 21 June 2019**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Portfolio Component** | **Benchmark ETF** | **Asset Values** | **SMF Portfolio Weight** | **Reference Portfolio Weight** | **Over (Under) Weight** |
|  |  | **$** | **%** | **%** | **%** |
| **Active Australian Equities Portfolio** | |  |  |  |  |
| Bingo Industries Limited |  | 26,837 | 3.87 |  |  |
| Inghams Group Limited |  | 32,793 | 4.73 |  |  |
| iShares Core S&P/ASX 200 |  | 208,021 | 30.02 |  |  |
| Rio Tinto Limited |  | 11,576 | 1.67 |  |  |
| Telstra Corporation Limited |  | 34,156 | 4.93 |  |  |
| Westpac Banking Corporation |  | 34,130 | 4.92 |  |  |
| **Total AAE Portfolio** | iShares Core S&P/ASX 200 | **347,513** | **50.15** | **50** | **0.15** |
| **Asset Allocation Portfolio Holdings** | |  |  |  |  |
| Australian Equities |  | 70,473 | 10.17 | 10 | 0.17 |
| **Total Australian Equities** | iShares Core S&P/ASX 200 | **417,986** | **60.31** | **60** | **0.31** |
| International Equities,  Hedged | Vanguard International Shares Index, Hedged | 67,284 | 9.71 | 10 | -0.29 |
| International Equities, Unhedged | Vanguard International Shares Index | 71,910 | 10.38 | 10 | 0.38 |
| **Total International Equities** |  | **139,194** | **20.09** | **20** | **0.09** |
| **Total Equities** |  | **557,180** | **80.40** | **80** | **0.40** |
| **Australian Fixed Income** | Vanguard Australian Government Bond Index | **100,575** | **14.51** | **15** | **-0.49** |
| ***Australian Cash & Accruals:*** |  |  |  |  |  |
| BetaShares Australia High Interest Cash |  | 16,693 | 2.41 |  |  |
| BT Cash Management Trust |  | 16,577 | 2.39 |  |  |
| Accrued Interest & Dividends |  | 4.77 | 0.00 |  |  |
| Accrued Franking Credits |  | 1,980 | 0.28 |  |  |
| **Total Cash & Accruals** | BetaShares Australia High Interest Cash | **35,255** | **5.09** | **5** | **0.09** |
| **Total Fixed Income & Cash** |  | **135,830** | **19.60** | **20** | **-0.40** |
|  |  |  |  |  |  |
| **Total Value of SMF Assets** | | **693,010** | **693,010** | **100.0** | **100** |

### Portfolio Performance

Figure 3 reports the Fund’s portfolio performance during 2018, year-to-date during 2019, and cumulative since inception. It is extremely pleasing to see the Fund return of 15.85% since inception surpassing the return target of 6.86% over the period (comprising the 4.5% distribution rate plus realised inflation) by +8.43%. This result carries a long-term significance, and represents progress towards our objective of maintaining the real value of the Fund to support our philanthropic objectives.

The Fund underperformed the reference portfolio by -0.47% since inception, comprising of relative returns of -1.11% during 2018 and +0.83% in 2019 year-to-date. With asset allocation set in line with the reference portfolio weights, the underperformance is largely attributable to the performance of AAE portfolio relative to the benchmark S&P/ASX200 ETF. The sources of this relative performance are revealed in the attribution analysis below, although can largely be traced to Bingo Industries.

The Fund paid its first distribution of $27,746.21 on 14th January 2019, comprising $19,762.38 paid out from the Fund itself with the balance met by interest received on cash held by CBE prior to transfer of the funds to the SMF.

**Figure 3: Portfolio Performance: 10 April 2018 to 21 June 2019**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **2018** | **2019** | **Performance Since Inception** |
| ***Period Covered*** | ***Since inception on 10/4/2018*** | ***Period to 21/6/2019*** |
| **PORTFOLIO VALUES** |  |  |  |
| Opening Portfolio Value in BT Panorama | $618,225 | $609,898 |  |
| Distribution Related to Prior Period | - | -$19,762 |  |
| Adjusted Opening Portfolio Value | $618,225 | $590,136 |  |
| Closing Portfolio Value in BT Panorama | $608,599 | $691,029 |  |
| Franking Credits Accrued | $1,300 | $1,981 |  |
| **Total Portfolio Value** | **$609,898** | **$693,010** |  |
| **RETURNS** |  |  |  |
| **Total Portfolio Return** | **-1.35%** | **17.43%** | **15.85%** |
| Target Return (CPI + 4.5%) | 4.56% | 2.20% | 6.86% |
| ***SMF Return vs. Target*** | ***-5.91%*** | ***15.23%*** | ***8.43%*** |
| Reference Portfolio Return | -0.24% | 16.60% | 16.32% |
| ***SMF Return vs. Reference Portfolio*** | ***-1.11%*** | ***0.83%*** | ***-0.47%*** |

# Attribution Analysis

In order to better understand the key drivers of performance versus the reference portfolio, the R&C team has conducted the performance attribution analysis displayed in Figure 4 (see over). This analysis decomposes performance relative to the reference portfolio into contributions from asset allocation, security selection and other effects. The second section of Figure 4 displays the contributions of each stock held in the AAE portfolio relative to the benchmark S&P/ASX200 ETF. Since inception, positive contributions have been made by Telstra (+2.14%) and Rio Tinto (+0.58%). Inghams Group (-0.72%) and Westpac (-0.27%) provided mildly negative contributions, with Bingo delivering a more significant negative performance with a -2.38% contribution. While Bingo’s negative contribution is disappointing, it should be noted that this is an improvement since our previous report when the negative contribution was -4.43%. The calculations include any franking credits received, with the SMF returns and AAE contributions having benefitted from holding stocks that pay relatively high fully franked dividends (notably Rio Tinto, Telstra and in future Westpac).

The last section of Figure 4 details the various contributions from the cash portfolio relative to the benchmark cash ETF. This section reveals that a relatively small negative contribution arose from the cash portfolio as a result of holding liquidity within the BT Cash Management Trust, which offers a lower return than that achieved by the benchmark Betashares ETF. This applies to only a small portion of the total portfolio, with the overall cash contributions amounting to -0.03% at the total portfolio level since inception.

As active asset allocation decisions are yet to be made, currently the targeted asset weights remain mostly in line with the reference portfolio weights. As such, the asset allocation contribution of -0.07% is reflective of the interaction between market movements and the impact of the Fund’s distribution in early 2019, instead of active strategic decisions made by the Fund. Therefore, in this analysis specific asset contributions have been excluded. Looking towards the future, the expected completion of the AA IP may support more deliberate changes to the asset allocation in coming semesters, in which event we will commence reporting asset allocation contributions in detail.

**Figure 4: Performance Attribution: 10 April 2018 to 21 June 2019**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Contributions to Performance vs. Reference Portfolio by Sub-Period** | | **Cumulative Return** |
| ***Period Start*** | 10/4/18 | 31/12/18 | 10/4/18 |
| ***Period End*** | 31/12/18 | 21/6/19 | 21/6/19 |
|  |  |  |  |
| **SMF Portfolio vs. Reference Portfolio** |  |  |  |
| Asset Allocation | 0.01% | -0.08% | -0.07% |
| Security Selection - AAE Portfolio | -1.00% | 0.70% | -0.30% |
| Security Selection - Cash Portfolio | -0.01% | -0.01% | -0.03% |
| Contribution from Positions Held | -1.00% | 0.61% | -0.39% |
| Interaction, aggregation, trading effects | -0.11% | 0.28% | -0.08% |
| **Total Relative Performance** | -1.11% | 0.83% | -0.47% |
|  |  |  |  |
| **AAE Portfolio vs. S&P/ASX200 ETF** |  |  |  |
| Bingo Industries Limited | -2.81% | 0.44% | -2.38% |
| Inghams Group Limited | 0.00% | -0.72% | -0.72% |
| iShares Core S&P/ASX 200 ETF | 0.00% | 0.00% | 0.00% |
| Rio Tinto Limited | -0.03% | 0.61% | 0.58% |
| Telstra Corporation Limited | 0.79% | 1.34% | 2.14% |
| Westpac Banking Corporation | 0.00% | -0.27% | -0.27% |
| Time Aggregation Effect | -0.02% | -0.03% | -0.02% |
| **Total Relative Performance** | **-2.07%** | **1.43%** | **-0.67%** |
| *Opening AAE Weight in Total Portfolio* | 50.16% | 48.07% |  |
|  |  |  |  |
| **Cash Portfolio vs. Betashares Cash ETF** |  |  |  |
| Accruals | 0.00% | 0.00% | 0.00% |
| Betashares Cash ETF | 0.00% | 0.00% | 0.00% |
| BT Cash Management Trust | -0.25% | -0.22% | -0.48% |
| Time Aggregation Effect | 0.00% | 0.00% | 0.00% |
| **Total Relative Performance** | **-0.25%** | **-0.22%** | **-0.48%** |
| *Adjusted\* Opening Cash Weight in Portfolio* | 4.81% | 7.00% |  |

\* Adjusted for the distribution made in early-2019

# Socially Responsible Investment (SRI) Report

The SMF portfolio must comply with the ANU SRI policy. The SMF’s implementation of the policy builds upon the criteria used within the Australian equity portfolio of the ANU Long Term Investment Pool (LTIP), which entails conditions one through three below. The SMF extends the criteria through the addition of conditions four and five, which directly consider the ‘social injury’ and ‘social benefit’ elements of the University’s official SRI policy. These two elements are addressed within the process of analysing and selecting stocks for inclusion in the AAE portfolio.

1. Exclude companies that derive more than 20% of revenues from coal, gambling, tobacco or pornography.
2. Hold a portfolio with 25% less carbon intensity than the S&P/ASX 200.
3. Ensure that the portfolio demonstrates a 10 % improvement in the overall Environmental, Social and Governance (ESG) rating relative to the benchmark.
4. Evaluate whether a prospective investment causes an unacceptable level of ‘social injury’.
5. Take into consideration whether a prospective investment creates ‘social benefit’.

Figure 5 reports on the SRI compliance as at 21 June 2019 with regard to the carbon intensity and ESG scores, which are applied to the active stock investments within the AAE portfolio. The carbon intensity scores for Bingo, Inghams, Rio Tinto, Telstra and Westpac are sourced from Bloomberg. These scores are calculated based on the annual carbon emission (in tonnes) per $1 million of revenue earned. The Inghams ESG score is calculated using an industry average, while the remaining ESG scores are based on analysis performed by Sustainalytics. The latter has been updated since the previous report. The ASX200 score provided is based on the equally weighted average ESG score, with a market capitalisation weighted average also shown in brackets for reference.

**Figure 5: Current Position of the AAE Component in regard to SRI Compliance**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **ASX200** | **BIN** | **ING** | **RIO** | **TLS** | **WBC** | **Total Active Stock Positions** | **Active Stock Positions vs. S&P/ASX200** | **Target Improvement** | **Margin** |
| Weighting in AAE portfolio | 59.9% | 7.7% | 9.4% | 3.3% | 9.8% | 9.8% | **40.1%** | - | - | **-** |
| Carbon intensity | 288.2 | 40.6 | 81.3 | 526. 9 | 48.4 | 3.4 | **83.0** | -71.1% | -25% | **46.1%** |
| ESG score | 58.9 | 69.0 | 48.0 | 68.0 | 72.0 | 81.0 | **67.6** | +14.9% | 10% | **4.9%** |
| (S&P/ASX200, cap-weighted) | (63.70) |  |  |  |  |  |  | (+6.2%) |  |  |

The SMF portfolio is in full compliance with the SMF SRI policy regarding holdings in the active investments in Bingo, Inghams, Rio Tinto, Telstra and Westpac. This is demonstrated by a -71.1% reduction in carbon intensity against the required -25%, and a 14.9% improvement in ESG score against a required 10%.

Conditions four and five as listed above are continuously evaluated by the Fund regarding both current active investments, and throughout the analysis of candidate stock investments. This can be exemplified through the Fund’s decision to not pursue some prospective stocks on the basis that both the AAE and R&C teams concluded that the companies may be causing social injury while producing minimal social benefit. Once the AAE portfolio is fully invested in active stock positions, as against its current partial exposure to the S&P/ASX200 ETF, the AAE portfolio will progress towards complete compliance with the elements of the SMF SRI policy.

# APPENDIX

### SMF Activities during Semester 1, 2019

*SMF student team make-up*

* The SMF had 18 members during the semester, comprising seven seniors continuing from Semester 2 and twelve juniors joining the Fund.
* The Fund will expand to 19 members in Semester 2 2019. This will comprise eleven senior students and the introduction of eight juniors.
* Team compositions in 2019:

|  |  |  |
| --- | --- | --- |
| *Team / Position* | *Semester 1, 2019* | *Semester 2, 2019* |
| Chief Investment Officer | 1 | 1 |
| Asset Allocation | 5 | 3 |
| Active Australian Equities | 8 | 9 |
| Risk and Compliance | 2.5 | 3.5 |
| Relationship | 1.5 | 2.5 |
| *Total* | *18* | *19* |

*SMF meetings*

* Nine weekly meetings were held throughout the semester on Mondays, 10 am - 1 pm, ARNDT TR1.
* The SMF celebrated its achievements and welcomed new members at an end-of-semester get-together on 3 June 2019.

*SMF Investment Advisory Committee (IAC) meetings and subsequent transactions*

* Two IAC meetings occurred during the semester.
* The first IAC meeting was held on 3 May 2019. The AAE team proposed the addition of Inghams Group at a 10% target weight within the AAE portfolio funded via a reduction of the iShares Core S&P/ASX200 ETF, and a reduced target weight in Bingo from 10% to 6%. The IAC endorsed both proposals. The related transactions were completed on 6 May 2019; with the Inghams position implemented at a 6% weight due to SRI constraints.
* The second IAC meeting was held on 4June 2019. The AAE team proposed the addition of Westpac Banking Corporation at a 10% target weight within the AAE portfolio funded via a reduction of the iShares Core S&P/ASX200 ETF. The IAC endorsed the proposal. The subsequent transaction was completed on 5 June 2019. The inclusion of Westpac in the portfolio permitted the Inghams Group holding to be increased to its target weight of 10%, with the associated transaction also completed on 5 June 2019.

*Guest speakers*

* Dr Don Hamson, Plato Investment Management, Monday 29April 2019
* John Hempton, Bronte Capital, Monday 13 May 2019

*Reports finalised*

* Reports on Inghams Group, Bingo Industries (an update) and Westpac Banking Corporation were created in support of the investment recommendations.

*Other notable items*

* Significant progress was made across the SMF to ensure documents and processes have appropriate user guides and manuals to ensure the legacy of the Fund.
* The first RSFAS Student Managed Fund Equity Scholarship was awarded, with the recipient being Maliha Hoque.

# SMF Team Membership

### Members for Semester 1, 2019

*Chief Investment Officer*

Saurav Patel

*Risk and Compliance Team*

Azmina Hossain Risk Officer

Chaoqi (Shawn) Lin Analyst

Alisha Nath Analyst (50%)

*Asset Allocation Team*

Jak Carty Team Leader

Hongyi Xu Research Manager

Dalton Tham Analyst

Jiaqi (Karen) Mao Analyst

Alaina Warwick Analyst

*Active Australian Equities Team*

Chuxuan (Jessie) Jiang Team Leader

Chengxuan (Charles) Zhang Portfolio Manager

Aiyun (Stephanie) Li Senior Analyst

Sahibjeet Bains Analyst

Luke Farrar Analyst

Harrison McKenzie-McHarg Analyst

Khurshed Mehta Analyst

Lachlan Phillips Analyst

*Relationship Team*

Alisha Nath Relationship Officer (50%)

Sophie Lebang Relationship Officer

*Convenors*

Anna von Reibnitz Course Convenor

Geoff Warren Fund Convenor

### New Team Members for Semester 2, 2019

William Ranson-Smith AAE Team

Todd O’Dea AAE Team

Shengchang (Albert) Zhang AAE Team

Jia Jun (Desmond) Ng AAE Team

Rocky Lagudi AA Team

Ashley White R&C Team

Charya Kannangara Relationship (50%) and R&C (50%) Teams

Yanfei (Victoria) Rao Relationship Team