



Australian
National
University

2020 Annual Report

ANU Student Managed Fund





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Note:

All dollar amounts in this report are Australian dollars.



Glossary

AA – Asset Allocation

AAE – Active Australian Equities

AA IP – Asset Allocation Investment Process

AE – Australian Equities

APX – Appen Limited

ANU – The Australian National University

BBRMF – Behaviour Risk Management Framework

BIN – Bingo Industries Limited

CBE – ANU College of Business and Economics

CGS – Charter and Governance Structure

CIO – Chief Investment Officer

CRO – Chief Risk Officer

ESG – Environmental, Social and Governance

ETF – Exchanged-Traded Fund

IAC – Investment Advisory Committee

IE – International Equities

IP – Investment Process

ING – Inghams Group Limited

IPS – Investment Policy Statement

LLC – Leadlease Limited

OCL – Objective Corporation Limited

SCAPA – ANU Strategic Communications and Public Affairs

SMF – Student Managed Fund

SHL – Sonic Healthcare Limited

SRI – Socially Responsible Investment

R&C – Risk and Compliance

RIO – Rio Tinto Limited

RT – Relationship Team

RSFAS – Research School of Finance, Actuarial Studies and Statistics

TLS – Telstra Corporation Limited

WBC – Westpac Banking Corporation



Convenor Report

This has been a year like no other. After starting the new decade amid fire, smoke and then hail, the ANU Student Managed Fund (SMF) team had just a few weeks of relative normalcy before the COVID-19 pandemic changed the very nature of education and how it is delivered. The early weeks were particularly challenging, as we debated how best to maintain the authentic learning experience that the Fund provides. Key considerations included continuing to operate in a manner reflective of industry practices when those practices themselves were changing, preserving and enhancing the strong culture when working remotely, and understanding how the move online affected each specific role and sub-team within the Fund.

Far from inhibiting our practices of work-integrated learning, we soon realised that the disruption was sparking innovations across the Fund that have enhanced learning and provided new opportunities. Our students have shown they are not only intelligent but adaptable and curious. They have been tireless in pursuing the Fund's objectives in this new environment, and productivity actually climbed.

2020 marked the year when the SMF transitioned from a development mode to being fully operational. While the Active Australian Equities (AAE) team has been implementing its process for some semesters, all other teams finalised the main components of their processes and procedures during the year. Some highlights are described in the reports that follow. Of the many achievements, one we wish to say more about as Convenors is the Asset Allocation (AA) team completing its investment process and making its first active shift in asset class weights during October. This landmark achievement results from the hard work of seven cohorts of students since the Fund commenced in 2017.

AA teams since inception have found developing an investment process (IP) to be quite challenging, given that standard AA models taught in other courses are ill-suited for the Fund's long-term objectives and operations. For instance, traditional mean-variance methods do not work well under the SMF objective of sustaining and ideally increasing a real stream of income over the long run. Against this background, the AA team needed to create and execute a purpose-built IP from scratch. Each semester the AA IP was deepened, with a scenario-based model developed to capture nuanced economic and market concepts and then balance risk and reward over a long investment horizon. Despite the temptation to charge ahead and claim the first AA recommendation, every member prioritised the SMF legacy over their own personal achievements until the IP was fully tried and tested. Receiving endorsement from the Investment Advisory Committee (IAC) for a switch from fixed income to cash is a moment shared by all past and present AA team members, indeed all members of the Fund. We couldn't be prouder.

No Convenor report would be complete without acknowledging our IAC members for their invaluable contribution to the Fund and the learning of its students. During this year, Ross Blakers joined the IAC with Nicole McMillan as his alternate, taking over from Debbie Saunders and Risman Cornelius and thus continuing the fruitful relationship with Whitehelm Capital. They join Heath Behncke, Mary Fallon and Andre Morony who have been IAC members since inception, and whose positions were confirmed during the year; as well as Paul Bruncker who became an IAC member in 2019. Thanks so much to them all!

We commence 2021 with a record cohort of 21 members, versus current capacity of 24. Meanwhile, we now have sizable group of SMF alumni who have been enriched by their time in the Fund and have contributed a legacy by helping to get the SMF to where it is today. Seeing a growing SMF community is very gratifying to us both.

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 (CIO) Report

This year brought many unprecedented challenges, but also presented rare learning opportunities that motivated the Fund members to work diligently and collaboratively. The team remained focused on the Fund's objectives and key values, and completed a number of milestones that marked the culmination of many semesters of progress. Moreover, an eagerness to contribute to the SMF legacy led to the exploration of new ideas to improve operational efficiency, increase visibility and venture in new directions.

Key achievements by the Fund and its sub-teams include:

- Risk and Compliance (R&C) implemented the SMF Socially Responsible Investing (SRI) Policy and the Behavioural Biases Risk Management Framework (BBRMF). Both are leading-edge initiatives that support purposeful investing and informed decision-making, while demonstrating the innovation and professionalism of the SMF.
- The Relationship Team (RT) undertook numerous projects to grow the Fund's social media presence and increase engagement, both within the University and externally with alumni and industry. These include promotional videos, the introduction of SMF online information sessions and the SMF Alumni Corner.
- The strong efforts of past and present AA members came to fruition with the inaugural Asset Allocation Recommendation Report, which was unanimously approved by the Fund and endorsed by the IAC.
- The AAE team faced numerous challenges in their stock valuations, including limited availability of information on some candidate stocks, changes to accounting standards regarding leases, and incorporating the economic impacts of COVID-19. This led the team to explore unconventional approaches and revise their valuation models to become more robust and comprehensive.

As CIO, my main role has been to lead the student team and ensure that the Fund is operating effectively. One point of focus was to continue refining the SMF Team Decision Protocol so that it remains relevant in guiding the Fund to make decisions that are unbiased and accurately reflect the team's opinions.

The Fund's performance has been fluctuating throughout 2020 in volatile markets. Over the year, the Fund outperformed the reference portfolio by +0.76% but generated a total return that was -1.45% less than its target of inflation plus 4.5%. The outperformance versus the benchmark is mainly attributable to well-founded and prompt rebalancing decisions: the team completed four stock rebalancing reports and two asset allocation rebalancing reports, and largely chose the right actions at the time. Meanwhile, performance was held back by a few active stock positions that underperformed the ASX 200. The team has undertaken a process of re-evaluating the long-term fundamentals of these companies (as well as all stocks in the portfolio). We are confident that the investment case remains intact in the stocks we currently hold, noting that the long-term objective of the SMF allows the portfolio to weather short-term volatility within reasonable bounds. Since inception of the portfolio in April 2018, the Fund has returned +25.19% cumulative, exceeding the target return by 6.69% (2.41% per annum), but underperforming the reference portfolio by -1.25% cumulative (-0.46% per annum).

As the Fund legacy continues to expand and Fund members embrace the SMF culture of open and respectful contestability, I am confident that the SMF and its sub-teams will advance to new heights over the years to come.

Bernice Choi, Chief Investment Officer

Chief Investment Officers



*William Ransom-Smith
CIO Semester 1, 2020*



*Bernice Choi
CIO Semester 2, 2020*

Portfolio Holdings and Distribution

Figure 1 compares the asset class weights against the reference portfolio as of 31 December 2020. Target weights for the overall growth/defensive mix (80%/20%) and the equity asset classes are set in line with the reference portfolio, although modest deviations have arisen as a consequence of market movements. At year-end, Australian Equities (AE) was underweight by -1.16% and International Equities (IE) overweight by +0.89% (+0.12% unhedged, +0.77% hedged), with a net underweight equities position of -0.27%. More significant deviations are evident for Australian Fixed Income (AFI) of -8.01% and Australian Cash (AC) of +8.28%. These reflect the active AA decision made on 13 October 2020 to decrease the target weight of AFI from 15.0% to 7.5% and increase the target weight of AC from 5.0% to 12.5%.

Figure 1: Asset Allocation Weights as at 31 December 2020

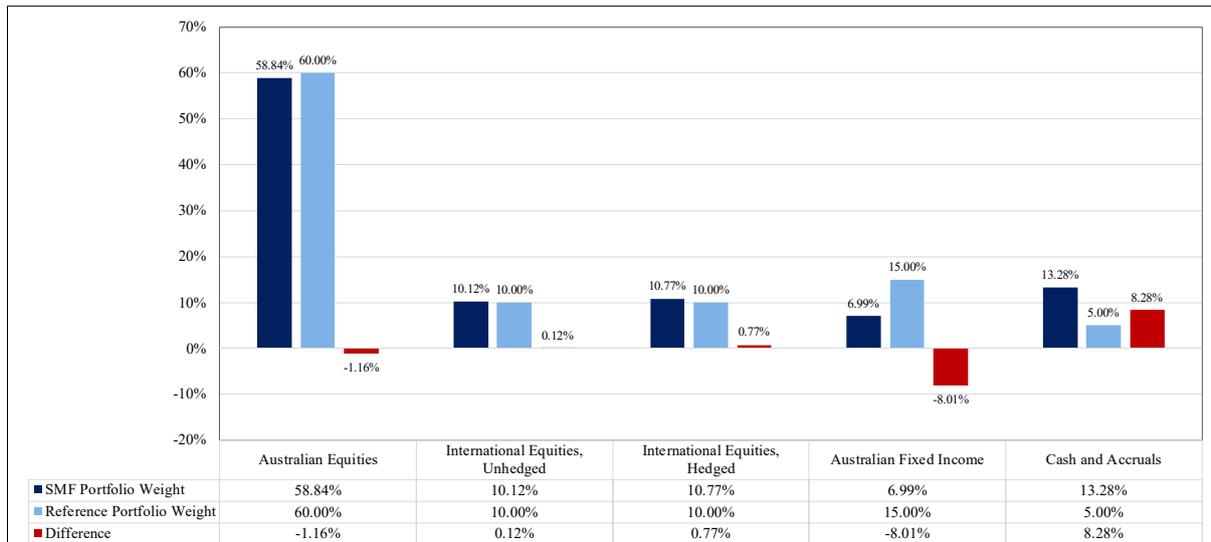


Figure 2 focuses on the weights within the AAE portfolio component, as compared to the target weights endorsed by the IAC. The Fund holds five active stock positions, which sum to 40.63% of the AAE portfolio and 20.91% of the overall SMF portfolio. This follows the exiting of Rio Tinto (RIO) subsequent to an SRI Policy breach (see SRI Report), with no new active stock positions added during 2020. The Fund aims to establish positions in 10-12 stocks across a spread of industries, but finding suitable candidates has proven challenging. Plans to improve the method of identifying candidate stocks to investigate are discussed in the AAE team report. Active stock positions currently leave the AAE portfolio with above-index exposures to healthcare via Sonic Healthcare (SHL), food via Inghams Group (ING), industrial services via Bingo Industries (BIN) and telecommunications via Telstra Corporation (TLS). The AAE portfolio is around market weight in the bank sector after combining the active position in Westpac Banking Corporation (WBC) and the bank holdings embedded within the iShares Core S&P/ASX 200 Exchange-Traded Fund (ETF) (IOZ). The Fund is implicitly underweight in other sectors.

Figure 2: AAE Portfolio Weights as at 31 December 2020

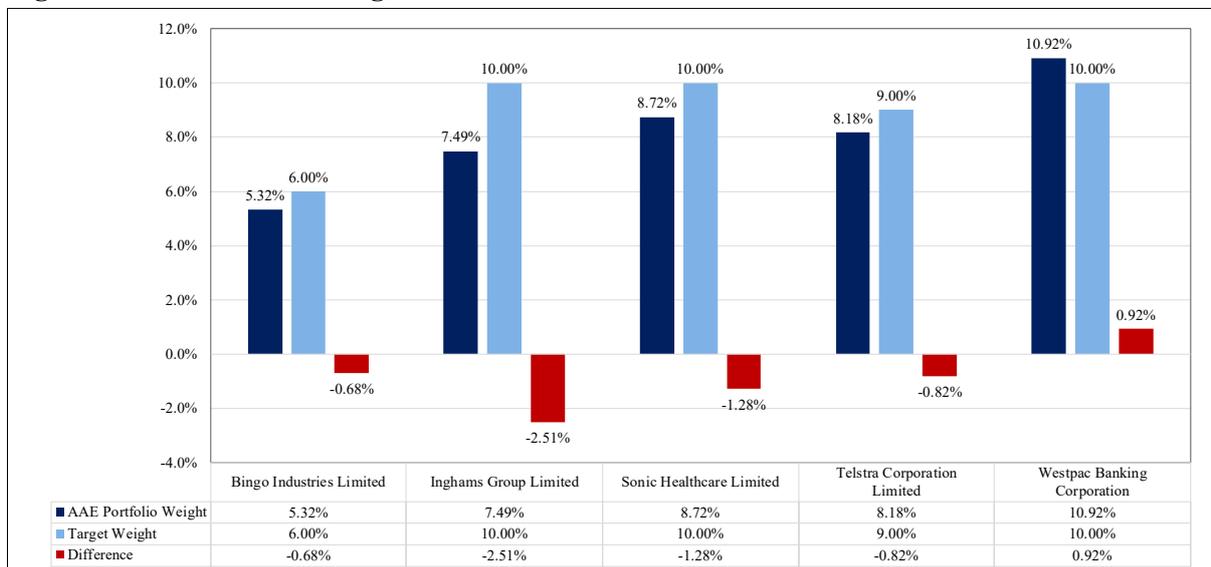




Figure 3 details the asset values and associated weights of each investment within the portfolio. The total SMF portfolio was valued at \$712,605 at the end of 2020, prior to the distribution of \$32,067.23 (calculated as 4.5% of the total end-year portfolio value). The distribution was made on 12 January 2021, and funded in part by selling holdings to realign the asset class weights with the target weights. Distributions are used to fund the Research School of Finance, Actuarial Studies and Statistics (RSFAS) Student Managed Fund Equity Scholarship, which supports economically disadvantaged students to study at the ANU College of Business and Economics (CBE). The scholarship is valued at \$10,000 per annum for up to four years, with one scholarship being offered each year.

Figure 3: Portfolio Structure as at 31 December 2020

| Portfolio Component | Benchmark ETF | Asset Values \$ | SMF Portfolio Weight % | Reference Portfolio Weight % | Over (Under) Weight % |
|--|---|--------------------|---------------------------|---------------------------------|--------------------------|
| Australian Equities | | | | | |
| <i>Active Australian Equities Portfolio:</i> | | | | | |
| iShares Core S&P/ASX 200 ETF | | 217,723 | 30.55 | | |
| Bingo Industries Limited | | 19,491 | 2.74 | | |
| Inghams Group Limited | | 27,456 | 3.85 | | |
| Sonic Healthcare Limited | | 31,989 | 4.49 | | |
| Telstra Corporation Limited | | 29,985 | 4.21 | | |
| Westpac Banking Corporation | | 40,057 | 5.62 | | |
| Total AAE Portfolio | iShares Core S&P/ASX 200 | 366,701 | 51.46 | 50 | 1.46 |
| <i>Australian Equities in AA Portfolio:</i> | | | | | |
| iShares Core S&P/ASX 200 | | 52,616 | 7.38 | 10 | -2.62 |
| Total Australian Equities | iShares Core S&P/ASX 200 | 419,318 | 58.84 | 60 | -1.16 |
| International Equities, Hedged | Vanguard International Shares Index, Hedged | 76,729 | 10.77 | 10 | 0.77 |
| International Equities, Unhedged | Vanguard International Shares Index | 72,091 | 10.12 | 10 | 0.12 |
| Total International Equities | | 148,820 | 20.88 | 20 | 0.88 |
| Total Equities | | 568,137 | 79.73 | 80 | -0.27 |
| Australian Fixed Income | Vanguard Australian Government Bond Index | 49,815 | 6.99 | 15 | -8.01 |
| <i>Australian Cash & Accruals:</i> | | | | | |
| BetaShares Australia High Interest Cash | | 68,359 | 9.59 | | |
| BT Cash Management Trust | | 18,472 | 2.59 | | |
| Accrued Interest & Dividends | | 0 | 0.00 | | |
| Accrued Franking Credits | | 7,831 | 1.10 | | |
| Total Cash & Accruals | BetaShares Australia High Interest Cash | 94,662 | 13.28 | 5 | 8.28 |
| Total Fixed Income & Cash | | 144,477 | 20.27 | 20 | 0.27 |
| Total Value of SMF Assets | | | | | |
| Portfolio Value Reported in BT Panorama | | 704,774 | | | |
| Accrued Franking Credits | | 7,831 | | | |
| Total Value of SMF Assets | | 712,605 | 100.00 | 100 | |
| Estimated Distribution with Respect to 2020 <i>(4.5% of assets at 31 December 2020, to be paid after year-end)</i> | | 32,067 | | | |



Portfolio Performance

Figure 4 presents performance since the inception of the portfolio on 10 April 2018, reporting returns earned during each year. The cumulative return since inception is 25.19% (8.61% per annum), which equates to outperformance of 6.69% (2.41% per annum) relative to the return target comprising the 4.5% distribution rate plus realised inflation. The Fund has thus attained its objective of maintaining the real value of the Fund while funding its 4.5% distribution since inception. This performance is largely attributable to strong equities markets over the period, especially during 2019, but is also supported by the market recovery following the COVID-19 sell-off earlier in 2020. As a consequence of this market recovery, the cumulative return is significantly greater than the +1.16% reported in the mid-semester report for Semester 1, and builds further on the +16.37% reported in the mid-semester report for Semester 2.

The SMF outperformed the reference portfolio during 2020, with the total return of 4.18% being +0.76% above the reference portfolio. However, the Fund has underperformed the reference portfolio by -1.25% (-0.46% per annum) since inception, consisting of relative returns of -1.10% in 2018, -0.90% in 2019 and +0.76% in 2020. Underperformance is largely associated with the AAE portfolio's performance against the benchmark S&P/ASX 200 ETF, and mirrors the similarly difficult time being encountered by active fund managers, especially those with a value style. Sources of performance relative to the reference portfolio are detailed in the performance attribution analysis section below. The total portfolio return for 2020 is -1.02% below the target, but represents a substantial improvement from the situation earlier in the year. The fluctuations in returns relative to target can be attributed to the extremely volatile markets.

Figure 4: Portfolio Performance - 10 April 2018 to 31 December 2020

| Year | 2018 | 2019 | 2020 | Since Inception | |
|---|---------------------|---------------------|---------------------|-------------------|------------------|
| Opening Date | 10 April 2018 | 1 January 2019 | 1 January 2020 | 10 April 2018 | |
| Closing Date | 31 December 2018 | 31 December 2019 | 31 December 2020 | 31 December 2020 | |
| PORTFOLIO VALUES | | | | | |
| Opening Portfolio Value in BT Panorama* | \$615,079.04 | \$608,598.58 | \$705,485.10 | | |
| - Distribution Related to Prior Period | \$0.00 | -\$27,746.21 | -\$32,186.49 | | |
| + Amount Held by CBE, Offset Against Distribution | \$0.00 | \$7,983.83 | \$0.00 | | |
| + Accrued Franking Credits | \$0.00 | \$3,235.76 | \$9,770.12 | | |
| Adjusted Opening Portfolio Value | \$615,079.04 | \$592,071.96 | \$683,068.73 | | |
| Closing Portfolio Value in BT Panorama | \$608,598.58 | \$705,485.10 | \$704,774.44 | | |
| + Accrued Franking Credits | \$3,235.76 | \$9,770.12 | \$7,830.63 | | |
| - Contributions | \$0.00 | \$0.00 | -\$1,000.00 | | |
| Adjusted Closing Total Portfolio Value | \$611,834.34 | \$715,255.22 | \$711,605.07 | | |
| RETURNS (%) | 2018 | 2019 | 2020 | Cumulative | Per Annum |
| SMF Portfolio Return (Based on Adjusted Portfolio Values) | -0.53% | 20.81% | 4.18% | 25.19% | 8.61% |
| Target Return (Estimated as CPI + 4.5%) | 4.56% | 6.16% | 5.63% | 17.25% | 6.01% |
| SMF Return vs. Target | -4.87% | 13.80% | -1.45% | 6.69% | 2.41% |
| Reference Portfolio Return | 0.58% | 21.91% | 3.42% | 26.81% | 9.10% |
| SMF Return vs. Reference Portfolio | -1.10% | -0.90% | 0.76% | -1.25% | -0.46% |
| Note: Administration Fees - BT Panorama | | 0.02% | 0.23% | 0.25% | 0.09% |

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



Attribution Analysis

The R&C team conducts performance attribution analysis to better understand the sources of performance versus the reference portfolio. Investment performance is decomposed into components attributable to stages of the investment decision process, specifically asset allocation and security selection. These components respectively measure the contribution from deviations in asset class weights versus the reference portfolio, and contributions to the performance of the AAE portfolio relative to its benchmark S&P/ASX 200 ETF (IOZ) that arise from active stock positions. We also report the difference between the total portfolio return estimated based on the change in adjusted portfolio value and the sum of the asset allocation and security selection contributions under the heading 'Aggregation, cash portfolio and other impacts'. This term mainly captures effects stemming from aggregating contributions over time, although there is also a small negative effect related to the cash portfolio not being invested entirely in its benchmark ETF under the presence of the cash management trust and accruals. The results of the attribution analysis are presented in Figure 5.

Figure 5: Performance Attribution - 10 April 2018 to 31 December 2020

| Period | Contributions to Performance vs. Reference Portfolio | | | | |
|---|--|------------------|------------------|------------------|---------------|
| | 2018 | 2019 | 2020 | Since Inception | |
| | % | % | % | Cumulative | Per Annum |
| Opening Date | 10 April 2018 | 1 January 2019 | 1 January 2020 | 10 April 2018 | |
| Closing Date | 31 December 2018 | 31 December 2019 | 31 December 2020 | 31 December 2020 | |
| SMF Portfolio vs. Reference Portfolio | | | | | |
| Asset Allocation | 0.17% | -0.28% | 1.55% | 1.43% | 0.52% |
| Security Selection - AAE Portfolio | -1.26% | -0.58% | -0.66% | -2.49% | -0.92% |
| Contribution from Positions Held | -1.09% | -0.87% | 0.89% | -1.08% | -0.40% |
| Aggregation, Cash Portfolio and Other Effects | -0.01% | -0.03% | -0.13% | -0.17% | -0.06% |
| Total Relative Performance | -1.10% | -0.90% | 0.76% | -1.25% | -0.46% |
| Asset Allocation Attribution | | | | | |
| Australian Equities | 0.01% | -0.04% | 0.44% | 0.41% | 0.15% |
| Australian Fixed Income | -0.02% | -0.11% | 1.24% | 1.11% | 0.40% |
| International Equities, Hedged | 0.01% | -0.01% | -0.02% | -0.02% | -0.01% |
| International Equities, Unhedged | 0.01% | 0.01% | 0.02% | 0.05% | 0.02% |
| Cash and Accruals | 0.16% | -0.15% | -0.14% | -0.12% | -0.04% |
| Time Aggregation Effect | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| AA Contribution to Total Portfolio | 0.17% | -0.28% | 1.55% | 1.43% | 0.52% |
| AAE Portfolio vs. S&P/ASX 200 ETF | | | | | |
| iShares Core S&P/ASX 200 ETF | -0.01% | -0.04% | -0.07% | -0.12% | -0.04% |
| Bingo Industries Limited | -3.21% | 1.89% | -0.75% | -2.12% | -0.78% |
| Inghams Group Limited | 0.00% | -2.43% | -0.17% | -2.60% | -0.96% |
| Rio Tinto Limited | -0.04% | 0.52% | 0.54% | 1.02% | 0.37% |
| Sonic Healthcare Limited | 0.00% | -0.11% | 1.85% | 1.74% | 0.63% |
| Telstra Corporation Limited | 0.62% | 0.53% | -1.06% | 0.08% | 0.03% |
| Westpac Banking Corporation | 0.00% | -1.49% | -1.49% | -2.96% | -1.10% |
| Time Aggregation Effect | -0.02% | -0.01% | -0.04% | -0.07% | -0.02% |
| Relative Performance vs. S&P/ASX 200 ETF* | -2.66% | -1.14% | -1.20% | -4.92% | -1.83% |
| Security Selection Contribution to Total Portfolio | -1.26% | -0.58% | -0.66% | -2.48% | -0.92% |

* The method used effectively assigns the interaction term between AA and security selection to the AAE contribution.



The total performance of the SMF portfolio against the reference portfolio of +0.76% during 2020 is largely attributable to a +1.55% AA contribution, with the stock selection contribution arising from the AAE portfolio estimated at -0.66%. The 'rounding' term of -0.13% mostly stems from aggregation effects, which were more significant than typically expected due to the volatile markets.

The AA attribution reports the most notable contributions as stemming from AFI (+1.11%), AE (+0.41%), and Cash and Accruals (-0.12%). However, these estimates obscure the underlying source of outperformance, which can be traced back to rebalancing of the portfolio on 23 March 2020. This rebalancing involved switching approximately 5% of the portfolio from FI and AC to AE on the day that the equity market bottomed, with the trades allowing the fund to capture the recovery that followed. The inaugural active AA position of underweighting fixed income and overweighting cash has made a slight positive contribution so far, with the Vanguard Australian Government Bond Index ETF (VGB) ending the year slightly lower than the price at which it was sold on 15 October 2020. However, it is far too early to evaluate the success of this position, which the attribution analysis will assist in identifying going forward.

The AAE portfolio underperformed the S&P/ASX 200 ETF benchmark by -0.66% over 2020 and -2.49% (-0.92% per annum) since inception. In 2020, positive contributions arose from SHL (1.85%) and RIO (0.54%), with negative contributions from ING (-0.17%), BIN (-0.75%), TLS (-1.06%) and WBC (-1.49%). The negative contribution of 0.07% from the S&P/ASX 200 ETF relates to transaction costs incurred, which are allocated to the holdings to which they relate. Since inception, the AAE portfolio has benefited from positive contributions from SHL (+1.74%), RIO +(1.02%), and TLS (+0.03%), but these have been offset by larger negative contributions from WBC (-2.96%), ING (-2.60%) and BIN (-2.12%). The calculations include any franking credits received, with the SMF returns and AAE contributions having benefitted from holding some stocks that pay relatively high fully franked dividends.



Transactions, Income and Fees

Figure 6 details the transaction activity within the BT Panorama account during 2020. The transactions undertaken span the following categories:

- funding of the distribution with respect to 2019 (early January)
- two AA rebalancing trades (23 March and 9 June)
- three stock rebalancing trades for WBC (27 April), SHL (15 October) and BIN (26 October)
- disinvestment of the Fund's position in RIO (7 August)
- active shift in the Fund's AA from AFI via the bond ETF (VGB) to AC via the cash ETF (AAA) (13 October).

Figure 6: Transactions in 2020

| Date | Details | Amount (\$) | |
|------------------|---|-------------------|------------|
| | | Transaction Value | CMT Change |
| 6-Jan-20 | Sale of overweight IE holdings to help fund distribution | | |
| | Sell 33 Vanguard International Shares Index, Hedged ETF @ \$75.04. Transaction fee \$12.50. | 2,463.79 | |
| | Sell 74 Vanguard International Shares Index ETF @ \$81.53. Transaction fee \$12.50. | 6,020.72 | 8,484.51 |
| 8-Jan-20 | 2019 distribution of \$32,186.49 less \$7,092.22 held by CBE on behalf of SMF | -25,094.27 | -25,094.27 |
| | Net impact on BT Cash Management Trust from funding the distribution | | -16,609.76 |
| 23-Mar-20 | Asset allocation rebalancing, increasing AE and reducing AFI and AC | | |
| | Buy 1,006 iShares Core S&P/ASX 200 ETF @ \$18.95. Transaction fee \$20.97. | -19,082.93 | |
| | Buy 1,281 Bingo Industries Limited @ \$1.61. Transaction fee \$12.50. | -2,068.51 | |
| | Buy 898 Inghams Group Limited @ \$3.10. Transaction fee \$12.50. | -2,796.30 | |
| | Buy 13 Rio Tinto Limited @ \$79.07. Transaction fee \$12.50. | -1,040.41 | |
| | Buy 133 Sonic Healthcare Limited @ \$21.70. Transaction fee \$12.50. | -2,898.60 | |
| | Buy 1,026 Telstra Corporation Limited @ \$3.04. Transaction fee \$12.50. | -3,131.54 | |
| | Buy 137 Westpac Banking Corporation @ \$14.38. Transaction fee \$12.50. | -1,982.56 | |
| | Sell 394 Vanguard Australian Government Bond Index @ \$53.28. Transaction fee \$23.09. | 20,969.23 | -12,031.62 |
| 27-Apr-20 | Rebalancing WBC to its target weight of 10% | | |
| | Buy 722 Westpac Banking Corporation @ \$14.70. Transaction fee \$12.50. | -10,625.87 | |
| | Sell 493 iShares Core S&P/ASX 200 ETF @ \$21.75. Transaction fee \$12.50. | 10,710.25 | 84.38 |
| 9-Jun-20 | Asset allocation rebalancing, reducing AE and IE and increasing AFI and AC | | |
| | Sell 912 iShares Core S&P/ASX 200 ETF @ \$25.18. Transaction fee \$25.26. | 22,938.90 | |
| | Sell 18 Vanguard International Shares Index, Hedged ETF @ \$72.25. Transaction fee \$12.50. | 1,288.00 | |
| | Sell 9 Vanguard International Shares Index ETF @ \$78.81. Transaction fee \$12.50. | 696.79 | |
| | Buy 397 Vanguard Australian Government Bond Index ETF @ \$53.40. Transaction fee \$23.32. | -21,223.12 | 3,700.57 |
| 7-Aug-20 | Disinvestment of the position in Rio Tinto Ltd | | |
| | Sell 127 Rio Tinto Limited @ \$102.59. Transaction fee \$14.33. | 13,014.60 | |
| | Buy 529 iShares Core S&P/ASX 200 ETF @ \$24.57. Transaction fee \$14.30. | -13,011.83 | 2.77 |
| 13-Oct-20 | Asset allocation shift, reducing AFI by -7.5% and increasing AC by +7.5% | | |
| | Sell 964 Vanguard Australian Government Bond Index ETF @ \$53.65. Transaction fee \$56.89. | 51,658.00 | |
| | Buy 1,032 BetaShares Australia High Interest Cash ETF @ \$50.08. Transaction fee \$56.85. | -51,739.41 | -81.41 |
| 15-Oct-20 | Rebalancing SHL to its target weight of 10% | | |
| | Sell 309 Sonic Healthcare Limited @ \$35.79. Transaction fee \$12.50. | 11,045.74 | |
| | Buy 434 iShares Core S&P/ASX 200 ETF @ \$25.42. Transaction fee \$12.50. | -11,044.78 | 0.96 |
| 26-Oct-20 | Rebalancing BIN to its target weight of 6% | | |
| | Sell BIN 4,569 Bingo Industries Limited @ \$2.65. Transaction fee \$13.32. | 12,096.33 | |
| | Buy IOZ 479 iShares Core S&P/ASX 200 ETF @ \$25.25. Transaction fee \$13.30. | -12,108.05 | -11.72 |

Key: AE = Australian Equities, IE = International Equities, AFI = Australian Fixed Income, AC = Australian Cash

Figure 7 details the income received and fees paid during 2020. Fees include brokerage associated with trades and administration fees on the BT Panorama account. The Fund generated income during the year including franking credits equivalent to 3.04%, an estimate of the average Fund value over the year. This is down from 4.79% reported for 2019, with the decline largely attributable to companies lowering dividends coupled with the effect of falling interest rates. Costs for the year were 0.29%, up from the 0.06% reported for 2019. The increase is primarily attributable to BT account fees, noting that BT stopped charging the SMF zero administration fees from 31 October 2019.

Figure 7: Income Received and Fees Paid in 2020

| | INCOME RECEIVED (\$) | | | | | FEES PAID (\$) | |
|---|----------------------|------------------|--------------|--------------------|--------------------|----------------|-----------------|
| | Dividends | Franking Credits | CMT Interest | Excluding Franking | Including Franking | Brokerage | BT Account Fees |
| Total SMF Portfolio | | | | | | | |
| Active Australian Equities Portfolio | 9,936.47 | 3,605.21 | 0.00 | 9,936.47 | 13,541.68 | 143.70 | |
| iShares Core S&P/ASX 200 ETF | 1,552.32 | 547.52 | 0.00 | 1,552.32 | 2,099.84 | 31.16 | |
| Vanguard Australian Bond ETF | 2,847.86 | 0.00 | 0.00 | 2,847.86 | 2,847.86 | 103.30 | |
| Vanguard International Shares Hedged ETF | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 25.00 | |
| Vanguard International Shares ETF | 1,657.51 | 0.00 | 0.00 | 1,657.51 | 1,657.51 | 25.00 | |
| Betashares Cash ETF | 185.36 | 0.00 | 0.00 | 185.36 | 185.36 | 56.85 | |
| BT Cash Management Trust | 0.00 | 0.00 | 7.46 | 7.46 | 7.46 | | |
| Accrued Interest at 31 Dec 2020 | 0.00 | 0.00 | 0.15 | 0.15 | 0.15 | | |
| Accrued Dividends at 31 Dec 2020 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | |
| Total Portfolio | 16,179.52 | 4,152.73 | 7.61 | 16,187.13 | 20,339.86 | 385.01 | 1,544.24 |
| <i>% of Average SMF Portfolio Value</i> | <i>2.42%</i> | <i>0.62%</i> | <i>0.00%</i> | <i>2.42%</i> | <i>3.04%</i> | <i>0.06%</i> | <i>0.23%</i> |
| Active Australian Equities Portfolio | | | | | | | |
| iShares Core S&P/ASX 200 ETF | 4,427.87 | 1,563.33 | 0.00 | 4,427.87 | 5,991.20 | 41.87 | |
| Bingo Industries Limited | 436.43 | 187.04 | 0.00 | 436.43 | 623.47 | 12.50 | |
| Inghams Group Limited | 1,166.45 | 499.91 | 0.00 | 1,166.45 | 1,666.36 | 12.50 | |
| Rio Tinto Limited | 673.62 | 288.69 | 0.00 | 673.62 | 962.31 | 26.83 | |
| Sonic Healthcare Limited | 1,063.18 | 136.70 | 0.00 | 1,063.18 | 1,199.88 | 12.50 | |
| Telstra Corporation Limited | 1,527.84 | 654.79 | 0.00 | 1,527.84 | 2,182.63 | 12.50 | |
| Westpac Banking Corporation | 641.08 | 274.75 | 0.00 | 641.08 | 915.83 | 25.00 | |
| Total AAE Portfolio | 9,936.47 | 3,605.21 | 0.00 | 9,936.47 | 13,541.68 | 143.70 | |
| <i>% of Average AAE Portfolio Value</i> | <i>2.93%</i> | <i>1.06%</i> | <i>0.00%</i> | <i>2.93%</i> | <i>3.99%</i> | <i>0.04%</i> | |

Team Highlights

In this section, each team discusses their highlights from 2020.

AA team finalises and implements its investment process

The inaugural AA recommendation delivered in October 2020 marked the first full implementation of the AA IP, and is the result of the cumulative efforts by AA team members since the SMF's inception. Having finalised the AA IP at the end of 2019, the AA team aimed to propose a change to the target asset weights by the end of 2020, working meticulously through each step of the process. This included finalising our 10 scenarios based on the key drivers of economic activity and inflation, translating these scenarios into 10 paths for asset model inputs, placing probabilities on the scenarios, and generating 10-year horizon return projections for analysis. The most striking signal arising from our model was the limited upside return potential facing AFI compared to AC over the long run. This can largely be attributed to the current financial market circumstances, which emerge partly as a result of the COVID-19 pandemic. Let us explain.

On the back of a decade-long gradual decline in bond yields, COVID-19 saw yields slump further as investors purchased bonds for capital safety and central banks cut interest rates in an attempt to shore up financial markets and boost economic growth. The result is historically low cash rates and bond yields, with the RBA currently targeting an official cash rate of 0.10% and acknowledging that a negative cash rate target is not out of the question in the future.

The fixed income ETF in which SMF invests (i.e. VGB) holds government bonds with an average maturity of seven years. This effectively 'locks in' nominal returns over a considerable period given the current extremely low yields. With the balance of probabilities skewed towards inflation returning to higher levels than currently priced into the yield structure, AA projects that AFI will suffer negative 10-year real returns across 60% of our scenarios. Further, any associated increases in yields do not benefit AFI until after year seven under our model. In contrast, AC better hedges against inflation because short-term rates can adjust if inflation happens to increase. AC thus outperforms AFI across most scenarios due to its relative flexibility to adapt to rising inflation and yields, with our models indicating near-dominance over AFI for a 10-year horizon. As a result, the AA team elected to propose an increase in the target weighting of AC from 5% to 12.5% and a decrease in the AFI target weighting from 15% to 7.5%. This recommendation was endorsed by the SMF and IAC, and was implemented on 13 October 2020.

The AA team also made substantial inroads into analysis of the growth-defensive asset mix this semester. However, we feel that more work is required to build the confidence needed to make a recommendation. Whilst the AA team has effectively incorporated insights from historical data into its modelling of equities, there is currently considerable uncertainty regarding the 'correct levels' to set target PEs, which clouds our understanding of growth assets. The need to do further analysis, combined with the effects of the COVID-19 pandemic and the strange semi-crisis state of record low yields and bullish markets, prompts us to defer a decision on the growth/defensive mix to future semesters.

The AA team is extremely proud to have reached this milestone, especially in the face of the challenges that 2020 brought. This inaugural AA recommendation is just the beginning. We hope that we have provided a valuable platform for future cohorts to continue to make active decisions regarding the Fund's asset allocation.

Asset Allocation Team



*Rocky Lagudi
(Semester 1)*



*Nicholas Collings
(Semester 1&2)*



*Eric Gittleman
(Semester 1&2)*



*Zhenyu (Alicia) Sun
(Semester 2)*

AAE team journeys into the unknown: stock analysis in turbulent financial markets

Through the past year of uncertainties, the AAE team set out to explore opportunities in new sectors during the second semester, namely, information technology and real estate. We also started investigating the feasibility of investing in overseas stocks in due course. After completing five candidate stock presentations, in-depth analysis was conducted on Appen (APX), Objective Corporation (OCL) and Lendlease (LLC). Unfortunately, none received endorsement to proceed after SMF team discussions. This followed failing to receive IAC endorsement for the recommendation to purchase Kathmandu Holdings (KMD) during Semester 1, and thus no stocks were added to the portfolio during 2020.

Although we would have liked to have added a new stock to the portfolio, we do not view this result as a failure. We are determined only to add stocks where we have high conviction, and will not add a position for the sake of doing so. Further, the analysis undertaken only adds to team knowledge and the Fund legacy. In this regard, a highlight was the lessons learnt from analysing APX and OCL. The AAE team faced several challenges, including limited information and incorporating COVID-19 considerations into the models. However, this presented an even greater learning opportunity, which the team embraced through hard work and collaboration.

For APX, the team was challenged with limited disclosure and access to quality industry data. Through collaborative research and discussion with professionals, a simple growth model was constructed to forecast revenue. COVID-19 considerations included the potential growth in revenues as a result of increasing demand from businesses and individuals shifting work to online. While valuing the company at a 3% discount to its share price, due to uncertainties surrounding their competitive advantage, the Fund decided that it is not a viable investment for now. As the first step into the industry, the team learnt greatly from the incipient research, which it will carry forward into future semesters.

For OCL, we faced similar challenges. The team attempted to overcome these by developing a ‘factor’ model that facilitated integration of various qualitative considerations – such as pricing power and customer acquisition – into the revenue forecast. Overall, we concluded that OCL was not a viable investment due to a lack of confidence in the valuation, which in turn was below the share price. Nevertheless, we gained a greater appreciation for the importance of thinking more broadly about the competitive position of the business, and the value of flexibility and imagination when undertaking analysis.

2020 has also highlighted areas in which we can improve our process, namely the identification of potential stock candidates to research. In particular, the AAE team intends to focus on enhancing its stock filtering process going into 2021. We also benefited during 2020 from assistance given by IAC members in choosing stocks from a shortlist to focus on. We hope to make even more use of the experience of IAC members going forward in identifying interesting candidates to research.

In addition, the team completed their first candidate stock analysis of an overseas stock – Brookfield Infrastructure Partners – in what is the first stage of a process towards potentially investing in international markets. A work plan has been devised to pursue this initiative, which may take some time to bring to fruition and will require seeking the appropriate approvals.

All stocks held have undergone revaluation to ensure they continue to justify their place in the portfolio, along with ongoing monitoring for potential rebalancing. With regard to the latter, the recent recovery in the share market resulted in both SHL and BIN deviating by more than 3% from their target weights. The revaluation of SHL suggested that it was trading at a premium to our most recent valuation, and therefore the team intends to review the Fund’s position next semester. The revaluation of BIN suggested that the stock continues to trade at a discount to its valuation. WBC was also subject to a rebalancing review during the first semester as it fell to 3% below its target weight. In all three cases, the stocks were rebalanced back to their target weights. The Fund exited RIO early in the second semester following an SRI review and revaluation. The active position in RIO contributed +1.03% to the performance of the AAE portfolio (about +0.5% to total Fund performance) over the period that the position was held.



Active Australian Equities Team



*Todd O'Dea
(Semester 1)*



*Shengchang (Albert) Zhang
(Semester 1)*



*Bernice Choi
(Semester 1)*



*Angus David Lloyd
(Semester 1&2)*



*Michael Oates
(Semester 1&2)*



*Matthew Pham
(Semester 1&2)*



*Josh Campbell
(Semester 2)*



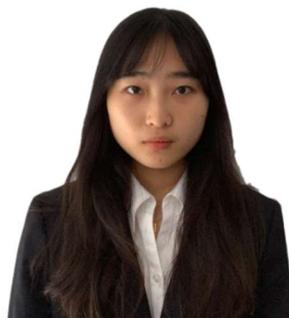
*Albert Lake
(Semester 2)*



*Sida Li
(Semester 2)*



*Shalini Arokiasamy Rajkumar
(Semester 2)*



*Yao Xiong
(Semester 2)*



*Qing (Julie) Zhu
(Semester 2)*



R&C internal circle: The Behavioural Biases Risk Management Framework (BBRMF)

A highlight of 2020 for the R&C team was BBRMF, which was put into practice in Semester 2 after being unanimously supported by SMF members. This framework aims to reduce the negative impact of behavioural biases on SMF decisions. R&C attends SMF team meetings to monitor behaviour with the aim of gauging if discussions and resulting decisions might be impacted by behavioural biases, such as dominance effects, Group Think, confirmation bias, overconfidence, and others. The presence of R&C in the sub-team meetings occurs with agreement from Team Heads, with the intent of improving how the team functions.

Some of the key outcomes from initially applying BBRMF are outlined below.

- Encouragingly, no significant behavioural biases were observed.
- Contestability from junior as well as senior analysts was observed in group discussions, suggesting that members are thinking independently and feel comfortable in voicing their opinions. This was particularly apparent during in-depth presentations of candidate stock investments, with multiple scenarios being considered.
- No hint of ‘social loafing’ was observed, with all members engaging with the available information and subsequent debates. Most were evidently willing to contribute their views both inside and outside of their own sub-teams.
- A SMF member poll indicated that BBRMF was seen as facilitating discussion and enhancing communications between sub-teams, rather than having a ‘policing’ effect that restricts the willingness to offer thoughts.

BBRMF also offers strategies for managing biases. Observations made under the framework are provided to the CIO and the Team Heads by the nominated R&C analyst who has attended the respective meetings. Both the CIO and the Team Heads will be encouraged to implement Behavioural Biases Mitigation Strategies if a behavioural bias is observed. The BBRMF also provides advice for improving the decision-making process before, during and after team meetings. Techniques used this semester include: prioritising agenda items to focus on the most important matters; uploading presentation materials in advance to facilitate preparation and independent thought; encouraging juniors to speak first; and providing multiple communication avenues – such as ‘raise hands’ during meetings, parallel discussion via the Slack messaging service, running polls, and collecting comments post-meetings. These techniques increase the opportunities for views to be aired, and maximise the quality of member inputs when discussing issues.

Given that BBRMF is designed to evolve over time, R&C has proposed some ideas on how to improve online meetings for next semester. These include introducing breakout rooms on Zoom following controversial presentations, so that discussion can occur in smaller groups, and further encouraging all members to voice their opinions, for example through applying the raise-hand function more uniformly. An eventual return to on-campus meetings will result in different group dynamics, and R&C will respond by tailoring their suggested bias mitigation strategies accordingly.

Risk & Compliance Team



*Charya Kannangara
(Semester 1)*



*Ashley White
(Semester 1)*



*Ulrika Yui Ting Li
(Semester 1&2)*



*Isabel Gray
(Semester 2)*



*Sailendra Sanku
(Semester 2)*



RT takes external and alumni engagement to new levels

The past year has seen the RT make considerable progress in expanding the SMF's public presence despite the challenges of social distancing and the move to online learning. In line with our goal of helping the Fund to grow through attracting outstanding candidates, we have shared an increasing variety of content on social media via multiple channels. The engagement rate through LinkedIn has increased by 80%, with our new follower rate increasing by approximately 50% over the second semester.

RT undertook a number of activities to connect with potential students and market the Fund. These included organising the first online information session, creating two promotional videos, and answering questions on the SMF from interested students in a CBE Coffee Catch-up webinar. In addition, RT designed the first SMF t-shirts, which help us present a unified front when undertaking marketing activities while assisting with team bonding amidst the challenges of remote learning.

In addition to promoting the Fund directly, RT has created new content to showcase our activities and support engagement. RT has worked hard to help other sub-teams to broadcast their work and, in doing so, convey the key values of the Fund. For instance, in publicising the BBRMF on social media, we highlighted the efforts of the R&C team and broader SMF to optimise decision-making and strengthen our core values of Teamwork and Contribution. We have shared the learnings from industry professionals through summarising presentations by guest speakers. The Fund has been honoured in having these professionals accept the invitation to share their experience and knowledge, and deepen our understanding of a wide range of interesting facets of the finance industry, such as asset consulting and quantitative finance.

During the year, RT initiated an Alumnus Interview Project, which gives past SMF members an opportunity to reflect on their SMF experiences. This project has the dual purpose of creating additional content and strengthening the bonds with our prior team members. Through the interviews, our alumni emphasised how their SMF experience strengthened their transferrable skills and supported them in pursuing job opportunities.

Looking forward, RT plans to build our relationships with the Australian National University (ANU) student societies to expand the Fund's network. We also anticipate benefitting from the fresh ideas and unique skill sets of the incoming RT juniors, who we trust will continue to help further raise public awareness of the Fund.

Relationship Team



*Abhay Madan
(Semester 1)*



*Yanfei (Victoria) Rao
(Semester 1)*



*Chenfan (Winnie) Wei
(Semester 1&2)*



*Arnav Chopra
(Semester 2)*



*Qifan (Cheryl) Yang
(Semester 2)*



Socially Responsible Investment (SRI) Report

This section outlines how the SMF has invested in accordance with the SMF SRI Policy. The Policy is an extension on the University’s SRI Policy. It was reviewed and revised in Semester 1 2020, and endorsed by the IAC on 4 May 2020. The SMF SRI Policy comprises the following five conditions:

1. *Company exclusions*: Exclude companies that derive more than 20% of revenues from adult entertainment, alcohol, armaments, coal, gambling or tobacco.
2. *Carbon intensity*: Hold an active equity portfolio with 30% less carbon intensity than the S&P/ASX 200.
3. *Avoid social injury*: Avoid investments that are likely to cause an unacceptable level of ‘social injury’.
4. *Support social benefit*: Favour investments that create ‘social benefit’.
5. *Team Preferences*: Preference to invest in companies engaged in sustainable business activities and practices as determined by members. Current preferences under each Environment, Social and Governance (ESG) category are:
 - E: climate change action
 - S: equity, diversity and inclusion
 - G: corporate trustworthiness, including transparency, compliance and accountability.

Condition 1 - Exclusions

All active stock positions are in compliance with this condition. Management of this condition occurs throughout the year via the filtering process, which has led to stocks such as BHP and Treasury Wine Estates being excluded from consideration as they derive more than 20% of revenue from coal and alcohol, respectively.

Condition 2 – Carbon Intensity

Figure 8 reports that the carbon intensity of the active stock positions within the AAE portfolio as of 31 December 2020 amounts to 57.5% below the S&P/ASX 200, hence well exceeding the -30% target. The carbon intensity was reduced by the sale of RIO on 7 August 2020. The carbon intensity score is calculated based on the volume of Scope 1 and 2 emissions (in tonnes) per A\$1 million of revenue earned. The carbon intensity for the S&P/ASX ETF is sourced from the ANU 2020 SRI Policy Report.

Figure 8: Carbon Intensity of Active Stock Positions as at 31 December 2020

| | ASX 200 | BIN | ING | SHL | TLS | WBC | Total Active Stock Positions | Active Stock Positions vs. ASX 200 | Target Improvement | Margin |
|----------------------------|---------|-------|-------|-------|-------|--------|------------------------------|------------------------------------|--------------------|--------|
| Weighting in AAE Portfolio | 59.37% | 5.32% | 7.49% | 8.72% | 8.18% | 10.92% | 40.63% | | | |
| Carbon Intensity | 222.0 | 213.9 | 284.6 | 10.8 | 50.6 | 5.0 | 94.3 | -57.5% | -30.0% | 27.5% |

Conditions 3, 4 and 5 – Social Injury, Social Benefit and Team Preferences

These three conditions are managed as part of the investment analysis, under which both active positions and candidate stocks are continuously evaluated. This process is exemplified through decisions not to pursue a number of prospective stocks when it was concluded that a company is likely to cause an unacceptable level of ‘social injury’ while producing minimal ‘social benefit’.

The most notable developments under these conditions during 2020 were the SRI reviews into WBC and RIO. Both reviews concerned Condition 3, with Fund members considering whether the two companies were likely to cause an unacceptable level of ‘social injury’ in the future. The investment case at the time was also considered in making the final decisions, albeit being subsidiary to evaluations of potential for social injury.

WBC SRI Review: The WBC review was triggered on 20 November 2019, when the Australian Transaction Reports and Analysis Centre (AUSTRAC) alleged that WBC breached Australia’s anti-money laundering and countering terrorist financing laws on approximately 23 million separate occasions, involving nearly \$12 billion in transactions. The Fund discussed the potential risks arising from this incident, deciding to retain the position based on the following reasons:

- the SMF team considered this a discrete episode related to failure of process, which did not necessarily point to significant risk of ongoing social injury going forward.



- WBC's response appeared sufficient to address the issue, and partly negated the effects of the scandal on its public image and therefore the reputational risk to the SMF.
- exiting the position may have set a precedent for managing future SRI decisions (i.e., becoming a (re)activist investor), that could impact total returns for the SMF in the long run.
- the team did not see an investment case for selling WBC, and exiting the position would have significantly underweighted the SMF's exposure to the Australian banking sector.

The Fund thus concluded that there was sufficient confidence in WBC's management to negotiate the remediation process and limit the probability of similar SRI breaches occurring in the future. As such, no action was taken. The IAC and Director of RSFAS were informed of this decision on 8 March 2020.

RIO SRI Review: The RIO review was initiated as a result of the destruction of a sacred Indigenous site in the Pilbara region (Juukan Gorge) in late-May 2020. Due to the timing of the incident, the review was postponed to the start of Semester 2 in order to allow for a more informed decision. The decision was made to liquidate the position based on the following reasons, with a key consideration being signs of an adverse pattern of behaviour:

- RIO's actions contradicted their own company policies, which is indicative of a lack of corporate trustworthiness (Condition 5), and suggested a potential attitudinal change in management relative to past years when it was a leader in Indigenous affairs.
- RIO is involved in a number of projects that pose future SRI risks (Arizona Copper Mine, Oyu Tolgoi).
- the SMF has a low tolerance for reputational risk, and continuing to hold a company with a deeply tarnished public image would threaten the SMF's reputation.
- RIO's share price had moved above the AAE team's valuation, which reflected a deterioration in the investment case and provided no reason to continue to hold the stock.

The active position in RIO was sold on 7 August 2020. The IAC and Director of RSFAS were advised that a breach of the SMF SRI Policy had been declared and that the holding in RIO was sold, with the proceeds being invested in the iShares Core S&P/ASX 200 ETF (IOZ).

Summary

The SMF SRI Policy has been implemented effectively during the year, assisting the Fund to achieve its goals of supporting sustainable business practices while pursuing long-term returns. The Fund declares that it has complied with the SRI Policy throughout 2020.



APPENDIX

List of SMF Activities

SMF activities during Semester 1, 2020

SMF Student Team Make-up

- The SMF had 16 members during the semester, comprising seven seniors continuing from Semester 2, 2019 and nine juniors joining the Fund.

SMF Meetings

- Eleven weekly meetings were held throughout the semester on Mondays, 9am–12pm. The meetings were held on campus for four weeks, before being moved to Zoom after COVID-19 lockdowns came into effect.
- The SMF celebrated its achievements and welcomed new members with an online end-of-semester get-together on 24 July 2020 via Zoom.

SMF IAC Meeting and Subsequent Transactions

Two IAC meetings occurred during the semester:

- The first IAC meeting was held on Monday 4 May 2020, with the primary aim of discussing and seeking endorsement for a revised SMF SRI Policy. The revisions were partly prompted by a breach with regard to the ESG ratings target under the previous policy that occurred as a consequence of Sustainalytics changing its calculation methods. It also provided an opportunity to integrate SRI analysis into the investment process. All IAC members supported the new SMF SRI Policy, which was endorsed on 7 May 2020 and then subsequently approved by the Director of RSFAS.
- The second IAC meeting was held on Wednesday 3 June 2020. Two key matters were on the agenda. First, Kathmandu Holdings Ltd (KMD) was presented as a recommended stock for the AAE portfolio with 10% target weight, but was not endorsed. Second, the AAE team had planned to propose an increase in target weight of RIO from 3% to 10% within the AAE portfolio (at a specified entry price), funded via a reduction in IOZ. However, due to the emergence of an SRI issue related to the destruction of an Indigenous historical site, the SMF team decided to put the proposal on hold and placed the company under SRI review to be undertaken once the second semester commenced.
- Ross Blakers was appointed as an IAC member during May 2020, with Nicole McMillan as his alternate. Both represent Whitehelm Capital, and respectively replace Debbie Saunders (resigned during April 2020) and Risman Cornelius (resigned during December 2019) from the same organisation.

Visitors and Guest Speakers

- Rod Chisholm, Founding Partner of ATLAS Infrastructure, Monday 2 March 2020.
- David Maywald, Australian Sustainable Finance Initiative, Thursday 9 April 2020.
- Heath Behncke, IAC member/Managing Director of Holon Global Investments, Monday 25 May 2020.

Major Reports and Actions

- *Bingo Rebalancing Report* was finalised on 22 March 2020, in response to the weight moving to more than +3% above target. The decision was made to rebalance back to the 6% target weight.
- An *Asset Allocation Rebalancing Report* dated 23 March was prepared in response to the total Australian equity weight moving to more than 3% and then subsequently 5% below target. The decision was made to rebalance back to target weights through the following trades completed on 23 March 2020:
 - increasing Australian equities, via purchasing both IOZ and individual stocks in proportion to existing holdings
 - reducing Australian fixed income, via selling holdings in VGB
 - reducing cash, by decreasing the amount held in the BT Cash Management Trust.
- A *Westpac Rebalancing Report* was finalised on 27 April 2020, in response to the weight moving to more than 3% below target. The decision was made to rebalance back to the 10% target weight. The trade occurred on 27 April 2020, funded by the sale of IOZ.
- The SMF SRI Policy was reviewed, and the related document titled *Socially Responsible Investment Policy v2.0* was endorsed by the IAC on Monday 4 May 2020.



- An *Asset Allocation Rebalancing Report* dated 9 June 2020 was prepared in response to the total weight in equities moving to more than 3% above target, matched by an underweighting in fixed income and cash. The decision was made to rebalance back to target weights. The trades occurred on 9 June 2020, and included:
 - reducing Australian equities, via selling some of the IOZ holdings within the AA component, thus leaving the AAE portfolio intact
 - reducing international equities, by selling both the Vanguard MSCI Index International Shares ETF (VGS) and the Vanguard MSCI Index International Shares (Hedged) ETF (VGAD)
 - increasing Australian fixed income, by purchasing the VGB
 - increasing cash, with balancing amount after the above transactions applied to the BT Cash Management Trust.
- Investment recommendation reports on KMD and RIO were created in support of investment recommendations for presentation at the IAC meeting on Wednesday 3 June 2020.

Other Notable Items

- A distribution of \$32,186.49 was made on 8 January 2020. The distribution was funded out of cash and the sale of a portion of the holdings in the Vanguard MSCI Index International Shares ETFs (hedged and unhedged) on 6 January 2020, with the latter acting to reduce an overweight position in international equities versus target.
- A transfer of \$7092.22 was made from the University to the SMF BT Panorama account on 6 March 2020, comprising the following:
 - Franking credit rebates received from the Australian Tax Office of \$6,092.22;
 - Donations totalling \$1,000 that were being held by CBE (comprising three separate donations received during 2018 and 2019).
- Access to the SMF courses was made available to masters students for the first time, under the names FINM6009 Student Managed Fund and FINM6010 Student Managed Fund – Extension.

SMF activities during Semester 2, 2020

SMF Student Team Make-up

- The SMF had 19 members during the semester, comprising eight seniors continuing from Semester 1, 2020 and 11 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 a Thursday as a consequence of official holidays.
- The SMF celebrated its achievements and welcomed new members with an online end-of-semester get-together on 29 October 2020 via Zoom.

SMF Investment Advisory Committee (IAC) Meeting and Subsequent Transactions

- One IAC meeting was held on Tuesday 13 October 2020. Two major topics were covered. First, the IAC was updated on the review of a potential SRI-focused ETF (the Vanguard Ethically Conscious International Shares Index ETF), which was ultimately determined not to be an appropriate replacement for the Fund's existing international equity ETFs. Second, the inaugural AA investment proposal was presented, entailing a switch of 7.5% of the portfolio from Australian fixed income to Australian cash. The recommendation received unanimous endorsement from IAC members. The resulting transactions were completed on 13 October 2020, and included sales of VGB and purchases of the BetaShares High Interest Cash ETF (AAA).
- One planned IAC meeting was cancelled, with potential for rescheduling soon after the commencement of Semester 1, 2021. The meeting was earmarked for a potential investment proposal for a new stock to be added to the AAE portfolio, with the team determining that more time was needed to deepen the analysis of a potential candidate for investment (LLC).

Visitors and Guest Speakers

- Phil Brown, Executive Manager of Investments at MTAA Super, Monday 10 August 2020.
- Ross Blakers, Strategic Advisor at Whitehelm Capital, and Nicole McMillan, Senior Advisor at Whitehelm Capital, Monday 31 August 2020.
- Olivia Engel, State Street Global Advisors, Thursday 29 October 2020.



Major Reports Finalised Related to Fund Governance and Decisions

- The three-year review was undertaken of the *Charter and Governance Structure (CGS)* by the Fund Convenor. A number of relatively minor changes were proposed that recognise differences in how the SMF operates relative to what was originally envisaged when the CGS was prepared in 2017. The Director of RSFAS, Associate Professor Stephen Sault, approved the preparation of an “Internal Version” of the CGS to capture the changes in SMF operational procedures since inception. These changes reflect the operational realities of the SMF; and all substantial changes to the governance of the SMF have received the required approvals. The main revisions related to the matters listed below.
 - Monitoring of the financial activities of the SMF is being jointly conducted by ANU Finance and Business Services and CBE Finance. This process was cemented following a review of the SMF management procedures by Ernst and Young, and replaces the requirement for the SMF accounts to be audited.
 - A formal rebalancing procedure has been introduced that permits students to make some limited decisions around rebalancing without seeking direct endorsement for the trades from the SMF Investment Advisory Committee (IAC). The rebalancing procedures have been written into the SMF Investment Policy Statement (IPS), which has been endorsed by the IAC and approved by the Director of RSFAS.
 - External communications are being monitored and approved by CBE Communications and Outreach, instead of ANU Strategic Communications and Public Affairs (SCAPA) as initially envisaged.
 - A Social Media Policy has been formulated to govern external communications on the SMF social media platforms. This Policy has been approved by SCAPA, CBE Communications, and the Director of RSFAS.
 - Use of the distributions is being determined by the Director of RSFAS rather than the RSFAS Director of Education as initially envisaged. The distributions are used to support the RSFAS Student Managed Fund Scholarship.
 - The extension of the SMF courses to post-graduate students has added two new course codes.
- The *Rio Tinto Social Responsibility Investing Review*, prepared in response to a potential breach of the SMF SRI policy, was finalised on 7 August 2020. The decision was made to exit RIO after a team discussion and poll, with endorsement for the trade sought and provided by the IAC and the Director of RSFAS. The RIO sell trade was completed on 7 August 2020, with the proceeds invested in IOZ.
- The *BBRMF* was finalised on 8 September 2020, receiving unanimous approval in a poll of Fund members.
- An *Asset Allocation Recommendation Report* was finalised on 6 October 2020, proposing a change to the target asset weights comprising a decrease of 7.5% in Australian fixed income and an increase of 7.5% in Australian cash.
- A *Sonic Healthcare Rebalancing Report* was finalised on 7 October 2020. The decision was made to rebalance SHL back to the target weight of 10%. The SHL sell trade was completed on 15 October 2020, with the proceeds invested in the benchmark S&P/ASX 200 ETF (IOZ).
- A *Bingo Rebalancing Report* was finalised on 25 October 2020, in response to the weight moving to more than 3% above target. The decision was made to rebalance the Bingo target weight back to the 6% target. The BIN sell trade was completed on 26 October 2020, with the proceeds invested in IOZ.

Other Notable Items

- A second promotional video was created to attract potential candidates and disseminate the SMF values.
- A WhatsApp group was created to deepen bonding among SMF alumni. This group is being managed by SMF alumni independently of the University.
- A CBE Coffee Catch-up webinar featuring the SMF was held on 14 October 2020, in which SMF members provided information and answered questions about the Fund for interested students.
- *RSFAS Student Managed Fund Equity Scholarship* – No award was made under the scholarship during 2020 due to the lack of a suitable applicant. At the end of 2020, the only recipient was Maliha Hoque, who was awarded the scholarship during 2019.



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

Norman Bradshaw

Stephen J. Duckett

Kerry-Ann Hugo

Jennifer Rowland

Undeclared donor

- All donations made prior to 2020 were kindly matched by RSFAS.
- A number of small donations were received later in 2020 that are still being processed.
- Excluding these recent donations, the total amount donated to date sums to \$295,600, bringing the total contribution to \$591,100 including RSFAS matching. The latter occurred on donations made prior to 2020.

Investment Advisory Committee Members During 2020

External members

| | |
|-----------------|---|
| Heath Behncke | Holon Global Investments |
| Ross Blakers | Whitehelm Capital (appointed May 2020) |
| Paul Brunker | Optar Capital |
| Mary Fallon | ANU Investment Office |
| Andre Morony | Independent |
| Debbie Saunders | Whitehelm Capital (resigned April 2020) |

Alternate external members

| | |
|--------------------------------------|--|
| Nicole McMillan (to Ross Blakers) | Whitehelm Capital (appointed May 2020) |
|--------------------------------------|--|

Note: Heath Behncke, Mary Fallon and Andre Morony were reappointed as IAC members in July 2020, following a three-year review.

Internal members

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

The SMF CIO and Chief Risk Officer (CRO) both sit on the IAC as non-voting members.



SMF Team Membership

Semester 1, 2020

Semester 2, 2020

Chief Investment Officers

William Ranson-Smith

Bernice Choi

Risk and Compliance Team

| | | | |
|----------------------|--------------------|----------------------|---------------------|
| Ashley White | Chief Risk Officer | Yui Li (Ulrika) Ting | Chief Risk Officer |
| Charya Kannangara | Senior Analyst | Isabel Gray | Analyst (SRI focus) |
| Yui Li (Ulrika) Ting | Analyst | Sailendra Sanku | Analyst |

Asset Allocation Team

| | | | |
|-------------------|-----------|---------------------|----------------|
| Rocky Lagudi | Team Head | Nicholas Collings | Team Head |
| Eric Gittleman | Analyst | Eric Gittleman | Senior Analyst |
| Nicholas Collings | Analyst | Zhenyu (Alicia) Sun | Analyst |

Active Australian Equities Team

| | | | |
|---------------------------|----------------|-----------------------------|----------------|
| Todd O'Dea | Team Head | Michael Oates | Team Head |
| Shengchang (Albert) Zhang | Senior Analyst | Angus Lloyd | Senior Analyst |
| Angus Lloyd | Analyst | Matthew Pham | Senior Analyst |
| Bernice Choi | Analyst | Joshua Campbell | Analyst |
| Michael Oates | Analyst | Albert Lake | Analyst |
| Matthew Pham | Analyst | Sida Li | Analyst |
| | | Shalini Arokiasamy Rajkumar | Analyst |
| | | Yao Xiong | Analyst |
| | | Qing (Julie) Zhu | Analyst |

Relationship Team

| | | | |
|-----------------------|----------------------|----------------------|----------------------|
| Yanfei (Victoria) Rao | Relationship Manager | Chenfan (Winnie) Wei | Relationship Manager |
| Abhay Madan | Relationship Officer | Arnav Chopra | Relationship Officer |
| Chenfan (Winnie) Wei | Relationship Officer | Qifan (Cheryl) Yang | Relationship Officer |

Convenors

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

Accepted for Semester 1, 2021

Risk and Compliance Team

| | |
|---------------------|---------------------|
| Inuja Aluwihare | Analyst |
| Johnathan Lang | Analyst (SRI focus) |
| Yuchen (Ricky) Yang | Analyst |

Asset Allocation Team

| | |
|----------------|---------|
| Jing Ran | Analyst |
| Michael Searle | Analyst |
| Xinyi Wang | Analyst |

Active Australian Equities Team

| | |
|-------------------|---------|
| Max Burrows | Analyst |
| Felix Jones | Analyst |
| Jingxin (Ben) Mai | Analyst |
| Lachlan Scott | Analyst |

Relationship Team

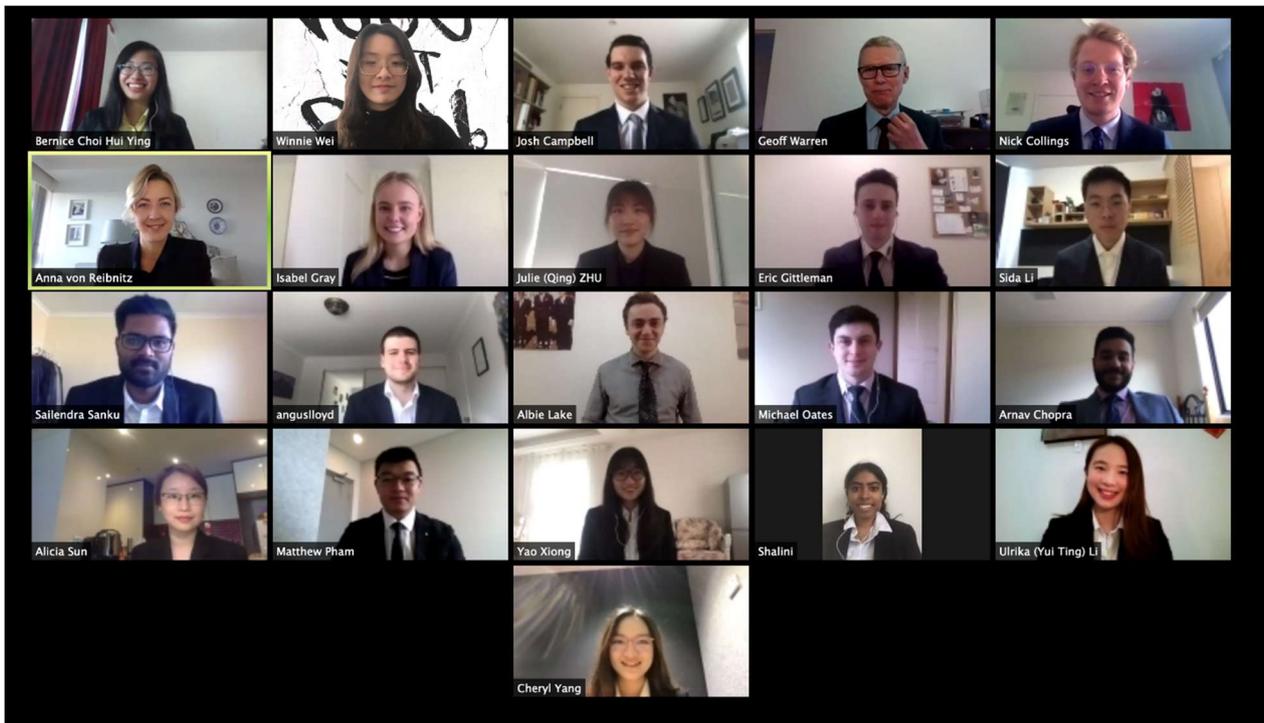
| | |
|----------------|----------------------|
| Petal Wang | Relationship Officer |
| Seonghyun Yong | Relationship Officer |

SMF Team – Semester 1, 2020



Left-Right, Top-Bottom: Dr Anna von Reibnitz, Yanfei (Victoria) Rao, William Ransom-Smith, Charya Kannangara, Associate Professor Geoff Warren, Eric Gittleman, Abhay Madan, Bernice Choi, Matthew Pham, Michael Oates, Rocky Lagudi, Todd O’Dea, Angus Lloyd, Ulrika Yui Ting Li, Nicholas Collings, Chenfan (Winnie) Wei, Ashley White, Shengchang (Albert) Zhang

SMF Team – Semester 2, 2020



Left-Right, Top-Bottom: Bernice Choi, Chenfan (Winnie) Wei, Josh Campbell, Associate Professor Geoff Warren, Nicholas Collings, Dr Anna von Reibnitz, Isabel Gray, Qing (Julie) Zhu, Eric Gittleman, Sida Li, Sailendra Sanku, Angus Lloyd, Albert Lake, Michael Oates, Arnav Chopra, Zhenyu (Alicia) Sun, Matthew Pham, Yao Xiong, Shalini Arokiasamy Rajkumar, Ulrika Yui Ting Li, Qifan (Cheryl) Yang

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

* Fund member for one semester only

Team composition by semester

| Team / Position | Chief Investment Officer | Asset Allocation | Active Australian Equities | Risk and Compliance | Relationship | 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(E) | 1 | 4 | 8 | 5 | 3 | 21 |

Photo Credits

| Name of Person: | Photo on Page: | Photo Credited to: |
|---------------------------|----------------|---|
| Abhay Madan | 17 | Abhay Madan |
| Albert Lake | 15 | Angus Padley |
| Albert Zhang | 15 | Albert Zhang |
| Alicia Sun | 13 | Alicia Sun |
| Dr Anna von Reibnitz | 4 | Anna von Reibnitz |
| Angus Lloyd | 15 | Angus Lloyd |
| Arnav Chopra | 17 | Arnav Chopra |
| Ash White | 16 | Ruby White |
| Bernice Choi | 5 | Michelle Lee |
| Charya Kannagara | 16 | Rohit Alok |
| Cheryl Yang | 17 | Cheryl Yang |
| Eric Gittleman | 13 | Eric Gittleman |
| Assoc. Prof. Geoff Warren | 4 | Centre for International Finance and Regulation |
| Isabel Gray | 16 | Abigail Cox |
| Joshua Campbell | 15 | Joshua Campbell |
| Julie Zhu | 15 | Julie Zhu |
| Matthew Pham | 15 | Matthew Pham |
| Michael Oates | 15 | Michael Oates |
| Nicholas Collings | 13 | Nicholas Collings |
| Rocky Lagudi | 13 | Eden Lim |
| Sailendra Sanku | 16 | Keshav Dhananjaya |
| Shalini Rajkumar | 15 | Shalini Rajkumar |
| Sida Li | 15 | Sida Li |
| Todd O'Dea | 15 | Todd O'Dea |
| Ulrika Li | 16 | Tom Lau |
| Victoria Rao | 17 | Victoria Rao |
| William Ranson-Smith | 5 | William Ranson-Smith |
| Winnie Wei | 17 | Winnie Wei |
| Yao Xiong | 15 | Yao Xiong |

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 Facebook Page: <https://www.facebook.com/smfANU/>

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