

# Mid-Semester Report – Semester 1, 2020

## ANU Student Managed Fund

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## Glossary

**AA** – Asset Allocation

**AAE** – Active Australian Equities

**ACCC** – Australian Competition and Consumer Commission

**ANU** – The Australian National University

**BIN** – Bingo Industries

**CBE** – ANU College of Business and Economics

**CIO** – Chief Investment Officer

**CRO** – Chief Risk Officer

**DADI** – Dial-A-Dump Industries

**DCF** – Discounted Cash Flow

**ESG** – Environmental, Social and Governance

**ETF** – Exchanged-Traded Fund

**IAC** – Investment Advisory Committee

**ING** – Inghams Group

**JBH** – JB Hi-Fi

**LTIP** – Long Term Investment Pool

**NSW** – New South Wales

**SVW** – Seven Group Holdings

**SMF** – ANU Student Managed Fund

**SRI** – Socially Responsible Investment

**R&C** – Risk and Compliance

**RT** – Relationship Team

**RIO** – Rio Tinto Limited

**ROE** – Return on Equity

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

**TLS** – Telstra Corporation Limited

**VIC** – Victoria

**WBC** – Westpac Banking Corporation

## About this Report

The ANU Student Managed Fund (SMF) is pleased to report its progress and achievements over the first half of Semester 1, 2020, especially in light of the unique circumstances created by the COVID-19 pandemic. This report presents a Chief Investment Officer (CIO) update, an introduction to the new SMF members and summary of team activities, as well as an update on the Fund's portfolio and performance. We provide a stock spotlight on Bingo Industries (BIN), an attribution analysis of returns versus the reference portfolio, and a statement of the Fund's compliance with its Socially Responsible Investing (SRI) policy.

The SMF team produces a shorter report at mid-semester, with a more in-depth report provided at the end of the semester that includes commentary by all the team leaders, the Course Convenors and a detailed summary of important SMF activities.

We would appreciate feedback and look forward to addressing any enquiries, which can be sent via the SMF email address [smf.rsfas@anu.edu.au](mailto:smf.rsfas@anu.edu.au).

*Yanfei (Victoria) Rao, Chenfan (Winnie) Wei & Abhay Madan  
Relationship Team*

## Chief Investment Officer (CIO) Report

The SMF is currently operating under unusual circumstances. The economic slowdown that many expected to unfold over 2020 has erupted into a global economic crisis on the back of the COVID-19 pandemic. As a result, all 16 SMF team members (eight seniors and eight juniors) have been well and truly put through their paces. The senior cohort has enthusiastically and prudently embraced their additional roles and responsibilities in leading the junior cohort, who have in turn swiftly become acquainted with the Fund's processes. They have made many meaningful and thought-provoking contributions to Fund discussions.

From my perspective as the CIO, I have observed the Fund working cohesively to meet its obligations, some of which would not normally occur during the normal course of business. The main activities have included those listed below.

- Identification of new candidate stocks, as well as the ongoing review of existing active Australian stock positions.
- The upward rebalancing of the Australian-equities component of the portfolio, following a -5% deviation from its target weight as a consequence of equity-market weakness.
- A rebalancing review of Bingo Industries (BIN) following a +3% deviation from its target weight, resulting in a decision not to rebalance.
- The commencement of a rebalancing review and revaluation of Westpac Banking Corporation (WBC), which has been fluctuating around a -3% deviation from its target weight.
- A review is underway of the SRI policy, partially triggered by a change in the way in which Sustainalytics calculates its Environmental, Social and Governance (ESG) scores.
- The initiation of daily portfolio performance updates from the Risk and Compliance (R&C) team, to monitor the portfolio more closely given the current high market volatility.

From both operational and educational perspectives, closure of the ANU campus has presented not just challenges but also opportunities to innovate. Fund and sub-team meetings have responded to the situation by seamlessly transitioning to the Zoom videoconferencing platform.

The sub-teams have also continued working tirelessly on new and existing projects.

- The Active Australian Equities (AAE) team successfully progressed two candidate stocks to in-depth analysis.
- The Asset Allocation (AA) team are finalising the macroeconomic inputs for their AA model, which they will test in the coming weeks.
- The Risk and Compliance (R&C) team continue to formalise the Behavioural Biases Risk Management Framework for integration across the Fund and its sub-teams, as well as being involved in the review of the SRI policy.
- Finally, our Relationship Team (RT), have proposed designs for SMF t-shirts and have been adapting promotional materials for strictly online dissemination.

We are also fortunate to have had two excellent guest speakers, Rod Chisholm and David Maywald. Mr Chisholm is a founding partner of ATLAS Infrastructure, who in week 3 discussed infrastructure and provided some modelling pointers. Mr. Maywald, who was previously the Chair of RARE Infrastructure's investment board, addressed SRI issues over Zoom during the mid-semester break.

Due to the deepening impact of the COVID-19 pandemic across global markets, the SMF return of 1.16% since inception is now below the target return of 12.96%. The team has been assessing our investments continuously, focusing on disaggregating the risk of permanent loss of value over the long-term from short-term volatility.

Overall, I am immensely proud of the professionalism displayed in this challenging period of heightened market volatility and uncertainty. I look forward to providing an update on our progress towards the end of the semester.

*William Ranson-Smith, CIO*

## Team Updates

This section provides more details on sub-team activities, including a concise introduction of the new team members and an overview of each sub-team's task allocation.

### AA Team

Joining the AA team as junior analysts are Eric Gittleman and Nicolas Collings, instructed by AA team leader Rocky Lagudi. The AA team has been displaying tremendous progress as the Fund undergoes the first-ever implementation of the AA investment process (IP), fuelled by tireless effort from all AA members. The considerable downswing in the S&P/ASX 200 also required the AA team to prepare the SMF's first rebalancing report. This deepened our understanding of the factors influencing the markets and contributed to the development of a robust process to guide decision-making in periods of great uncertainty that will be a legacy for the Fund. So far, the team have finalised their portfolio construction model, with a presentation on the macroeconomic outlook being made for the Fund. In the coming weeks, the AA team is expecting to present the economic scenarios and asset class forecasts, and work towards finalising their preferred AA weights. If this indicates that AA weights should be changed, a recommendation will be presented to the Investment Advisory Committee (IAC) for endorsement.

### AAE Team

The AAE team welcomed Bernice Choi, Michael Oates and Matthew Pham as junior analysts, and Angus Lloyd in the position of SRI analyst<sup>1</sup>, mentored by both AAE team leader Todd O'Dea and senior analyst Shengchang (Albert) Zhang, and have taken primary responsibility for candidate stock analysis to identify stocks worthy of in-depth research. This process led to two stocks being identified as worthy of proceeding to the in-depth analysis and valuation stage – Seven Group Holdings (SVW) and JB-Hi-Fi (JBH). Both stocks ranked highly in the AAE dividend and value screens, respectively. In addition, the AAE team is well underway with the re-evaluation of our existing stock holdings. Despite a smaller headcount, the AAE team got through the initial stages of their investment process whilst completing additional tasks related to potential SRI breaches (WBC), stocks reaching their rebalancing ranges (BIN and WBC), and updates to the AAE stock filtering process and model templates. The effectiveness in completing these tasks is attributable to the determination and hard work from all AAE members. The AAE team is looking forward to completing the analysis on SVW and JBH, and potentially presenting recommendations to the IAC for endorsement.

### R&C Team

Ulrika Yui Ting Li joined the R&C team as a junior analyst, assisting with portfolio analysis, performance evaluation and risk monitoring under the guidance of Chief Risk Officer (CRO) Ash White and senior analyst Charya Kannangara. The R&C team has been focusing on finalising and implementing the Behavioural Biases Risk Management Framework, which aims to improve the Fund's decision-making and enhance its culture of contestability. The R&C team has been increasing its collaboration and involvement with other sub-teams by attending their regular meetings, especially with the AAE team to develop alignment between the AA investment process and the SRI policy. The R&C team has also been involved in refining the SMF SRI policy, with Ash White working closely with the AAE team's SRI analyst, Angus Lloyd. A revised SRI policy will be presented to the IAC for endorsement in the coming weeks, following the team's approval. Due to high volatility in the market, the R&C team has also been proving daily portfolio performance snapshots as well as a regular portfolio update, to keep a closer watch on proximity to rebalancing ranges.

### Relationship Team

The team delightedly welcomed two Relationship Officers, Abhay Madan and Chenfan (Winnie) Wei, guided by the Relationship Manager, Yanfei (Victoria) Rao. The RT has been working hard to broaden the scope of the SMF's external communications, including designing a SMF t-shirt and continuous exploration and development of the SMF's social media presence. With the website and Facebook page now established, attention has turned to developing our LinkedIn strategy. Although many plans were not actioned due to the isolation directions associated with COVID-19, the RT has been able to work on a SMF alumni and member profiling series for publication, as well as producing the first promotional video to support the call for SMF applications as a response to the closure of the ANU campus. The RT continues to provide ongoing support to the Fund including the preparation of minutes to the weekly meetings, generation of SMF reports (such as this one), coverage of guest-speaker sessions, and preparation of other marketing collateral such as thank-you e-cards. This was achieved with significant effort from all RT members, including substantial help from the juniors.

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<sup>1</sup> The primary role of the SRI analyst is to develop a holistic framework for implementing the ANU SRI policy within the SMF portfolio, under the guidance of the AAE team leader and liaising with the Chief Risk Officer (CRO).

## SMF Team Photos and Roles<sup>2</sup>

### *Chief Investment Officer*



**CIO**  
William Ranson-Smith

### *Asset Allocation (AA) Team*



**Team Leader**  
Rocky Lagudi



**Analyst**  
Eric Gittleman



**Analyst**  
Nicolas Collings

### *Active Australian Equities (AAE) Team*



**Team Leader**  
Todd O'Dea



**Senior Analyst**  
Shengchang (Albert) Zhang



**Analyst**  
Bernice Choi



**Analyst**  
Michael Oates



**Analyst**  
Matthew Pham



**Analyst (SRI-focused)**  
Angus Lloyd

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



**Chief Risk Officer (CRO)**  
Ashley White



**Senior Analyst**  
Charya Kannangara



**Analyst**  
Ulrika Yui Ting Li

### *Relationship Team (RT)*



**Relationship Manager**  
Yanfei (Victoria) Rao



**Relationship Officer**  
Chenfan (Winnie) Wei



**Relationship Officer**  
Abhay Madan

### *Convenors*



**Course Convenor**  
Anna von Reibnitz



**Fund Convenor**  
Geoff Warren

<sup>2</sup> As the outbreak of COVID-19 prevented the planned photoshoot activity, the SMF does not have an official group photo for this semester.



### SMF Transition to Online Activities

The below screenshot was taken during the trial of Zoom videoconferencing on 23 March 2020. Subsequently all fund meetings transitioned to Zoom.





## Active Stock Positions

With the AAE portfolio not yet fully deployed into active stock positions, the AAE team has continued its research for new stock candidates with the potential to enhance the Fund's core investment objectives. Two stocks, SVW and JBH, are currently going through in-depth analysis. It is pleasing to see the AAE portfolio recover a good portion of the underperformance since inception relative to the S&P/ASX200 Exchange Traded Fund (ETF) during the current difficult economic and market environment, with outperformance of +2.15% so far in 2020 (to 3 April 2020). Major contributions to this outperformance include Inghams (ING) at +2.10% and Telstra (TLS) at +1.29%, with Rio Tinto (RIO) and Sonic Healthcare (SHL) also making modest contributions. Negative contributions were made by BIN and WBC of -0.78% and -1.31%, respectively. Nevertheless, the SMF operates with a long-term perspective, and the main concern is whether the Fund believes the underlying investment thesis remains intact for the stocks it holds, and whether the risk of permanent loss may have changed. In this regard, we recently confirmed our holding of BIN following a rebalancing review, while both RIO and WBC are currently under close examination under the SMF's 'revaluation' process.

There are no new acquisitions or disposals to report at this stage, as any stock recommendations will be presented to the IAC during the second half of the semester. In this report, we present a spotlight on BIN: a stock that has been particularly volatile since it was added to the portfolio. The stock spotlight section aims to provide an inside look into the Fund's stock selection and analysis process, particularly highlighting the meaningful discussions held regarding potential investments.

### Stock Spotlight: Bingo Industries (BIN)

BIN is a relatively young company in the waste management industry, focusing on the collection, recycling and disposal of building and demolition waste in New South Wales (NSW) and Victoria (VIC) while also providing commercial and industrial waste services. The Fund established its position with an investment thesis based around the company's experienced management, superior operating efficiency, and a successful tendering rate and growth achieved through acquisitions of similar businesses. We saw these factors combining for a promising and valuable long-term investment.

The SMF purchased BIN on 8 October 2018 at A\$2.90. In hindsight it appears that the SMF may have paid a price premium to its subsequent valuation. The stock has seen a lot of volatility, crashing to A\$1.31 on 22 February 2019 following a downward earnings surprise for December half 2018 and investor doubts over BIN's growth-by-acquisition strategy. The latter was a result of the Australian Competition and Consumer Commission (ACCC) expressing concern over BIN's acquisition of Dial-A-Dump Industries (DADI). The share price subsequently climbed back to A\$3.20 on 21 February 2020 as market confidence built again in the company, backed by strong results for the half-year to 31 December 2019 reflecting improved margins, successful synergy realisation and robust long-term value drivers.

Due to BIN's strong performance over the past year relative to other AAE stocks, its position in the AAE portfolio deviated more than 3% from its target weight of 6% as at 1 March 2020, triggering the SMF's rebalancing procedure<sup>3</sup>. As a result, the AAE team conducted a thorough review of BIN and decided to maintain its position in the AAE portfolio. There were two main reasons for this decision: Firstly, with the market down 30% from its peak on 20 February 2020 due to the anticipated economic impacts of COVID-19, BIN's share price of A\$1.92 as at 20 March 2020 stood at a significant discount to our valuation of A\$2.44 excluding franking credits. This left BIN well-positioned to deliver the returns required to meet the SMF's investment objectives. Secondly, while it seemed highly probable that COVID-19 will create headwinds for BIN, the SMF believes that the impacts will be shorter-term in nature, and remains confident in the investment thesis that BIN has the ability to generate strong cash flows and create value over the long term once economic and industry conditions become more favourable.

The BIN rebalancing review was the first conducted by the AAE team under the rebalancing procedures put in place during 2019. It was thus a unique experience for both the AAE team and the Fund as a whole, which no doubt will enhance our understanding of portfolio management and should become a valuable legacy.

*Todd O'Dea, Head of AAE*

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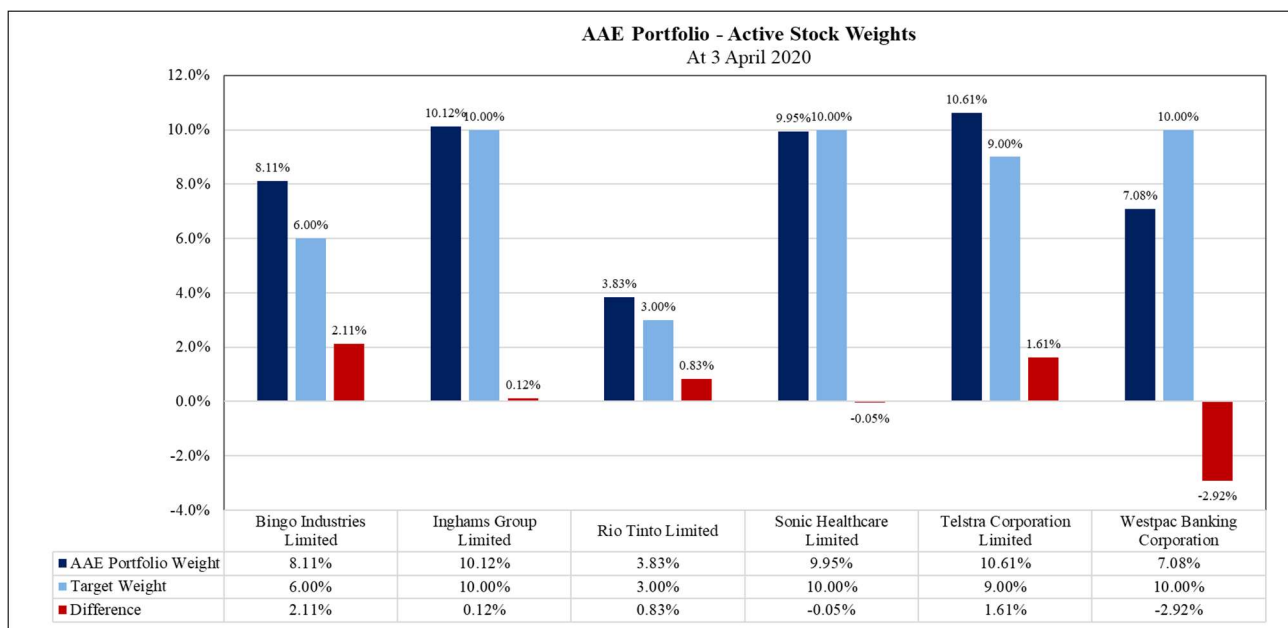
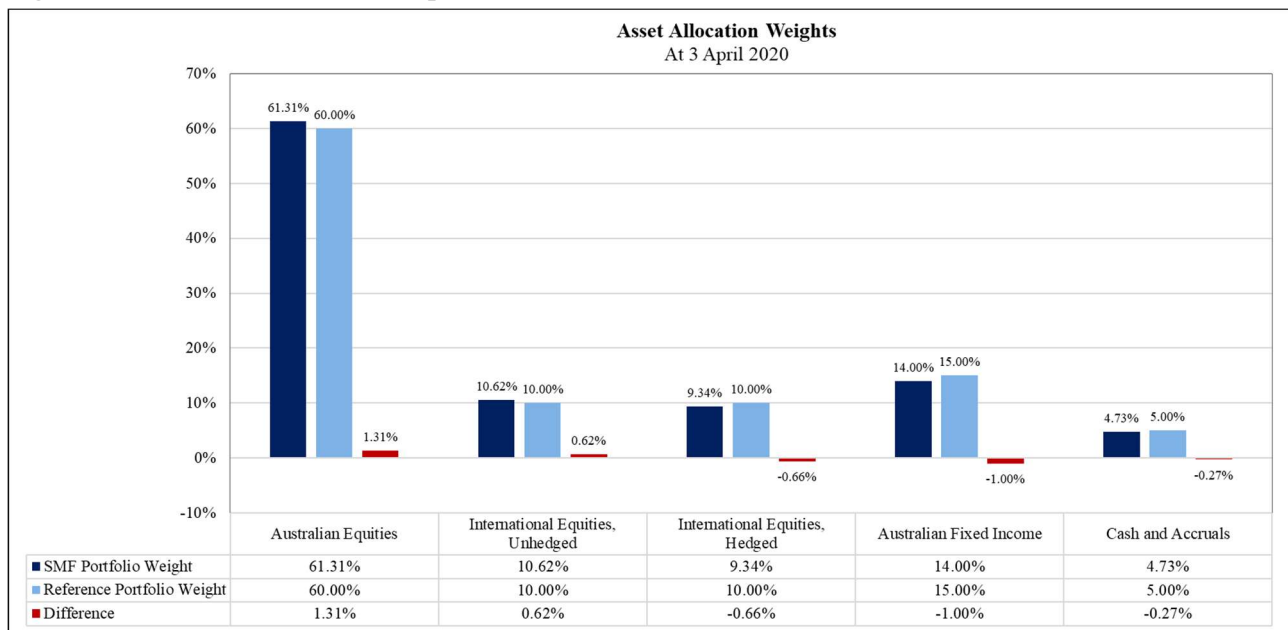
<sup>3</sup> Section 14 of the SMF's Investment Policy Statement states that when the portfolio weight in an asset deviates by more than 3% but less than 5% from the endorsed target weight, a decision must be made on whether to retain the current position or rebalance back to the target weight.

## Portfolio Overview

### Portfolio Structure

Portfolio weights as at 3 April 2020 are plotted in Figure 1, with total portfolio asset values and weights reported in Figure 2. The first chart in Figure 1 shows the portfolio asset class weights compared to the reference portfolio weights. The second chart presents the active stock weights versus target within the AAE portfolio. The overall portfolio is 1.31% overweight in Australian equities on 3 April 2020, largely due to the market rallying after rebalancing back to target on 23 March 2020 (which happened to represent the recent market low). This is largely matched by underweights of -1.00% in Australian fixed income and -0.27% in Cash and Accruals, with international equities being close to target overall. The unprecedented market volatility has given rise to some substantial deviations from the target weights within the AAE portfolio, with the largest being WBC (-2.92%), BIN (+2.11%) and TLS (+1.61%).

**Figure 1: Asset Allocation as at 3 April 2020**



**Figure 2: Portfolio Structure as at 3 April 2020**

Portfolio Component	Benchmark ETF	Asset Values A\$	SMF Portfolio Weight %	Reference Portfolio Weight %	Over (Under) Weight %
<b>Australian Equities</b>					
<b>Active Australian Equities Portfolio:</b>					
iShares Core S&P/ASX 200 ETF		148,344	25.65		
Bingo Industries Limited		23,921	4.14		
Inghams Group Limited		29,832	5.16		
Rio Tinto Limited		11,294	1.95		
Sonic Healthcare Limited		29,327	5.07		
Telstra Corporation Limited		31,293	5.41		
Westpac Banking Corporation		20,876	3.61		
Total AAE Portfolio	iShares Core S&P/ASX 200	294,887	50.98	50	0.98
<b>Australian Equities in AA Portfolio:</b>					
iShares Core S&P/ASX 200		59,727	10.33	10	0.33
<b>Total Australian Equities</b>	iShares Core S&P/ASX 200	<b>354,614</b>	<b>61.31</b>	<b>60</b>	<b>1.31</b>
International Equities, Hedged	Vanguard International Shares Index, Hedged	54,051	9.34	10	-0.66
International Equities, Unhedged	Vanguard International Shares	61,443	10.62	10	0.62
<b>Total International Equities</b>		<b>115,494</b>	<b>19.97</b>	<b>20</b>	<b>-0.03</b>
<b>Total Equities</b>		<b>470,108</b>	<b>81.28</b>	<b>80</b>	<b>1.28</b>
<b>Australian Fixed Income</b>	Vanguard Australian Government Bond	<b>80,976</b>	<b>14.00</b>	<b>15</b>	<b>-1.00</b>
<b>Australian Cash &amp; Accruals:</b>					
BetaShares Australia High Interest Cash		16,673	2.88		
BT Cash Management Trust		3,833	0.66		
Accrued Interest & Dividends		1,852	0.32		
Accrued Franking Credits		4,973	0.86		
<b>Total Cash &amp; Accruals</b>	BetaShares Australia High Interest Cash	<b>27,331</b>	<b>4.73</b>	<b>5</b>	<b>-0.27</b>
<b>Total Fixed Income &amp; Cash</b>		<b>108,307</b>	<b>18.72</b>	<b>20</b>	<b>-1.28</b>
<b>Total Value of SMF Assets</b>					
Total Portfolio Value as Reported in BT Panorama		573,442			
Accrued Franking Credits		4,973			
<b>Total Value of SMF Assets</b>		<b>578,414</b>	<b>100</b>	<b>100</b>	

## Portfolio Performance

Figure 3 reports performance during 2018, 2019 and year-to-date 2020, as well as performance since its inception. The Fund has experienced an accumulated return since inception of 1.16% relative to a target return of 12.96%, equating to an underperformance of -10.33%. The deficit is largely associated with the market correction stemming from the COVID-19 pandemic. The Fund has underperformed the reference portfolio by -0.50% since inception, comprising of relative returns of -1.11% during 2018, -0.89% in 2019 and 1.52% in 2020 year-to-date. The largest contribution to the swings in performance arises from the AAE portfolio, given that no active AA positions have been taken so far. The sources of performance are discussed below in the attribution analysis section. All return calculations include franking credits, with the SMF benefiting from holding stocks that pay relatively high franked dividends as a consequence of being a zero taxpayer.

**Figure 3: Portfolio Performance Since Inception**

Year	2018	2019	2020	Performance
<i>Period Covered</i>	<i>10 April 2018 - 31 December 2018</i>	<i>1 January 2019 - 31 December 2019</i>	<i>1 January 2020 - 3 April 2020</i>	<i>Since Inception</i>
<b>PORTFOLIO VALUES (A\$)</b>				
Opening Portfolio Value in BT Panorama	618,225.41	608,598.58	705,485.10	
- Distribution Related to Prior Period		(27,746.21)	(32,186.49)	
+ Amount Held by CBE		7,983.83	0.00	
+ Accrued Franking Credits		3,235.76	9,770.17	
<b>Adjusted Opening Portfolio Value</b>	<b>618,225.41</b>	<b>592,071.96</b>	<b>683,068.78</b>	
Closing Portfolio Value in BT Panorama	608,598.58	705,485.10	573,441.62	
+ Accrued Franking Credits	3,235.76	9,770.17	4,972.68	
- Contributions	0.00	0.00	1,000.00	
<b>Closing Total Portfolio Value</b>	<b>611,834.34</b>	<b>712,019.51</b>	<b>577,414.30</b>	
<b>RETURNS</b>				
<b>SMF Portfolio Return</b> (Based on Change in Value)	<b>-1.03%</b>	<b>20.92%</b>	<b>-15.47%</b>	<b>1.16%</b>
Target Return (Estimated as CPI + 4.5%)	4.56%	6.16%	1.77%	12.96%
<b>SMF Return vs. Target</b>	<b>-5.59%</b>	<b>14.76%</b>	<b>-17.24%</b>	<b>-10.33%</b>
Reference Portfolio Return	0.08%	21.81%	-16.99%	1.19%
<b>SMF Return vs. Reference Portfolio</b>	<b>-1.11%</b>	<b>-0.89%</b>	<b>1.52%</b>	<b>-0.50%</b>

## Attribution Analysis

The R&C team conducts performance attribution analysis with the aim of to better understanding the key drivers of performance for the Fund versus the reference portfolio (see Figure 4). Performance relative to the reference portfolio has been decomposed into separate contributions from asset allocation, stock selection and an 'other' category. The 'other' category includes effects from interactions between the segments; aggregation of contributions over time; the impact of accruals (which are included as an asset but generate zero return); and gains or losses from trades. The latter arise because the attribution analysis is conducted on daily closing prices, which does not capture gains and losses incurred as a consequence of stocks closing at a different price to that at which trades occurred during the day. It is estimated that +0.29% out of the +0.32% contribution from the other category year-to-date relates to trade effects associated with the rebalancing on 23 March 2020, which was implemented prior to a rally in the market later in the day.

The asset allocation contribution of +0.17% has arisen despite the targeted asset class weights remaining in line with their reference portfolio weights. This can be attributed to the Fund entering the recent equity market decline in an underweight equity position (as a result of prior market movements), and then subsequently rebalancing back to the target reference portfolio weights near the recent low. This rebalancing decision responded to the Australian equities asset class reaching the -5% rebalancing threshold, matched by overweight positions in both the Vanguard Australian Government Bond ETF, and Cash and Accruals. The result was that the Fund's in-place asset allocation outperformed the reference portfolio as the Australian equity markets declined, then subsequently benefitted from topping up holdings in Australian equities as the recent rally commenced. The expected completion and broader application of the AA IP may allow for

more active management of asset allocation in coming semesters, in which case we will commence reporting a more detailed breakdown of the asset allocation contribution.

The second section of Figure 4 displays the contributions of the active stock positions within the AAE portfolio to its performance relative to the benchmark ASX200 ETF. Since inception, the AAE portfolio has underperformed its benchmark by -1.36%, though outperformed by +2.15% year-to-date. Since inception, positive contributions have arisen from TLS (+2.64%), RIO (+1.06%) and SHL (+0.16%). Negative contributions have been delivered by WBC (-2.99%), BIN (-1.85%) and ING (-0.40%). In any portfolio, a range of positive and negative performances is to be expected. The SMF monitors these shifts and responds to any changes through ongoing revaluations of the stocks held within the portfolio with a view of establishing if the investment case remains intact. Our focus is towards the long-term value creation characteristics and cash flows of these stocks, which support updating our DCF valuations and comparing them to market prices. Given the long-term investment horizon of the Fund, short-term falls in values do not present an immediate concern, unless a permanent loss of value is indicated.

**Figure 4: Performance Attribution: 10 April 2018 to 3 April 2020**

Contributions to Performance vs. Reference Portfolio				
Period	2018	2019	2020	Cumulative
Opening Date	10 April 2018	1 January 2019	1 January 2020	10 April 2018
Closing Date	31 December 2018	31 December 2019	3 April 2020	3 April 2020
<b>SMF Portfolio vs. Reference Portfolio</b>				
Asset Allocation	0.01%	-0.09%	0.17%	0.09%
Security Selection - AAE Portfolio	-1.02%	-0.69%	1.03%	-0.69%
Contribution from Positions Held	-1.03%	-0.81%	1.21%	-0.65%
Other: Interaction, Aggregation, Accruals & Trade-Related Effects	-0.08%	-0.08%	0.32%	0.16%
<b>Total Relative Performance</b>	<b>-1.11%</b>	<b>-0.89%</b>	<b>1.52%</b>	<b>-0.49%</b>
<b>AAE Portfolio vs. S&amp;P/ASX200 ETF</b>				
iShares Core S&P/ASX 200 ETF	0.00%	0.00%	0.00%	0.00%
Bingo Industries Limited	-2.81%	1.78%	-0.78%	-1.85%
Inghams Group Limited	0.00%	-2.45%	2.10%	-0.40%
Rio Tinto Limited	-0.05%	0.59%	0.52%	1.06%
Sonic Healthcare Limited	0.00%	-0.21%	0.37%	0.16%
Telstra Corporation Limited	0.76%	0.57%	1.29%	2.64%
Westpac Banking Corporation	0.00%	-1.70%	-1.31%	-2.99%
Time Aggregation Effect	-0.02%	-0.03%	-0.04%	0.02%
<b>Total Relative Performance</b>	<b>-2.12%</b>	<b>-1.34%</b>	<b>2.15%</b>	<b>-1.36%</b>
<i>AAE Weight in Total Portfolio</i>	<i>50.16%</i>	<i>48.07%</i>	<i>47.49%</i>	

## Socially Responsible Investment (SRI) Report

This SRI report is framed in the context of the SMF SRI Policy as it currently stands, noting that the SRI policy is currently under review with a revised policy to be presented to the IAC for endorsement in the weeks ahead. The current SMF Policy is built on the University's SRI criteria that is being applied in the Australian equity component of the ANU Long Term Investment Pool (LTIP), which is managed as an enhanced index fund. These criteria encompass conditions i through to iii as listed below. The SMF extends the conditions applied by the LTIP by directly considering the 'social injury' and 'social benefit' created by a prospective investment, which make up conditions iv and v.

- i. Exclude companies that draw more than 20 per cent of revenues from coal, gambling, tobacco or pornography.
- ii. Weight the portfolio to reduce carbon intensity (tonnes of CO<sub>2</sub> produced per AUD 1 million of revenue) to ensure that it is at least 25 per cent lower than the ASX 200.
- iii. Ensure that the portfolio demonstrates a 10 per cent improvement in the overall Environment, Social, Governance (ESG) rating relative to the ASX 200 benchmark.
- iv. Evaluate whether a prospective investment causes an unacceptable level of 'social injury.'
- v. Take into consideration whether a prospective investment creates 'social benefit.'

Figure 5 reports on SRI compliance as of 3 April 2020, with regard to carbon intensity and ESG scores, which are applied to the active stock investments within the AAE portfolio. The carbon intensity scores for the active positions are sourced from Bloomberg. The calculations are based on annual carbon intensity (tonnes of CO<sub>2</sub> produced per A\$1 million of revenue). The ESG scores are based on analysis performed by Sustainalytics. The ASX200 ESG score is calculated as an equally weighted average. The market capitalisation-weighted average is shown for reference. SRI compliance is evaluated with regard to active investments within the AAE portfolio, with the intent of progressing towards complete compliance once the AAE portfolio is fully invested in active stock positions (as against its current partial exposure to the S&P/ASX200 ETF).

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

	ASX200	BIN	ING	RIO	SHL	TLS	WBC	Total Active Stock Positions	Active Stock Positions vs. ASX200	Target Improvement	Margin
Weighting in AAE portfolio	50.31%	8.11%	10.12%	3.83%	9.95%	10.61%	7.08%	49.69%			
Carbon intensity	289.9	40.6	81.3	526.9	12.0	48.7	3.4	77.1	-73.4%	-25.0%	48.4%
ESG score	26.6	20.0	42.0	29.0	18.0	20.0	28.0	25.9	2.8%	10.0%	-7.2%
(S&P/ASX200, cap-weighted)	24.7								5.0%		

The SMF portfolio is currently in full compliance with conditions i and ii of the SMF SRI guidelines, including a 73.4% reduction in carbon intensity against the required 25% reduction. Condition iii is currently not being fulfilled, with the ESG improvement of current active stock positions of +2.8% being below the target of +10%. This lack of compliance can be attributed to a lag between the updating of the ESG scores and their use in investment decisions. Sustainalytics recently changed their calculation and rating methods for ESG scores, which resulted in the breach of the ESG improvement condition that was previously satisfied as of 31 December 2019. The IAC and the Director of RSFAS were informed of the breach, and then endorsed a plan of taking no action until the current review of the Fund's SRI policy has been completed. SRI Analyst Angus Lloyd and CRO Ash White have been working to complete the review so that a revised policy can be presented to the IAC and the Director of RSFAS by the end of the current semester. One possibility is that the requirement to adhere with a specific ESG score target may be supplanted by an improved process for establishing the SRI credentials of candidate investment through in-depth sustainability analysis. We look forward to providing further details on this initiative in the end of semester report.

Conditions iv and v are monitored on an ongoing basis by the Fund with respect to existing investments, as well as with regard to any candidate stocks. During recent semesters, the SMF has opted to not pursue several candidate stocks due to objectionable positions regarding net 'social injury' or 'benefit'. In addition, there was an SRI review of WBC following allegations that it may have breached the Anti-Money Laundering and Counter-Terrorism Financing Act. Following an in-depth discussion, which covered multiple perspectives, the team concluded that it remained comfortable retaining the WBC position. The IAC and the Director of RSFAS were informed of this decision on 8 March 2020. The review 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."



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