

Mid-Semester Report – Semester 2, 2020

ANU Student Managed Fund

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Glossary

AA – Asset Allocation

AAE – Active Australian Equities

ANU – The Australian National University

APX – Appen Limited

BIN – Bingo Industries

BBRMF – Behavioural Biases Risk Management Framework

CBE – ANU College of Business and Economics

CIO – Chief Investment Officer

CRO – Chief Risk Officer

ESG – Environmental, Social and Governance

ETF – Exchange-Traded Fund

IAC – Investment Advisory Committee

ING – Inghams Group

IP – Investment Process

LLC – Lendlease Group

OCL – Objective Corporation Limited

SHL – Sonic Healthcare Limited

SMF – ANU Student Managed Fund

SRI – Socially Responsible Investment

R&C – Risk and Compliance

RT – Relationship Team

RIO – Rio Tinto Limited

RSFAS – Research School of Finance, Actuarial Studies and Statistics

TLS – Telstra Corporation Limited

VESG – Vanguard Ethically Conscious International Shares ETF

WBC – Westpac Banking Corporation

About this Report

The Australian National University (ANU) Student Managed Fund (SMF) is pleased to report its progress and achievements over the first term of Semester 2, 2020, especially in light of the ongoing circumstances created by COVID-19. As usual, this report presents an update from the Chief Investment Officer (CIO), an introduction to our new members and summary of team activities, updates on the SMF portfolio and performance, and a statement of the Fund's compliance with its Socially Responsible Investment (SRI) Policy. The spotlight this time is placed on the Behavioural Biases Risk Management Framework (BBRMF), which is a cutting-edge initiative aimed at improving team decision-making.

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

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.

Chenfan (Winnie) Wei, Arnav Chopra & Qifan (Cheryl) Yang
Relationship Team

Chief Investment Officer (CIO) Report

The Fund has continued to work remotely while closely following COVID-19 restrictions. All 19 SMF team members (eight seniors and 11 juniors) have hit the ground running with the senior cohort assuming leadership positions and guiding the juniors to become acquainted with the SMF's processes. The juniors have enthusiastically embraced new learning opportunities and brought their own insights into the Fund.

Despite the exclusively online operations, members have built a strong team rapport and team heads have been able to foster more cross-team collaboration. For instance, the Active Australian Equities (AAE) team worked closely with the Risk and Compliance (R&C) team to perform a comprehensive SRI Review on Rio Tinto (RIO). This led to the Fund's ultimate decision to sell our active holdings in RIO, with the company's decision to destroy Juukan Gorge (a culturally significant site) being determined by the team to be in breach of our SRI Policy.

Each sub-team has made considerable progress, working tirelessly on both new and existing projects. Highlights include:

- The AAE team successfully progressing three candidate stocks to in-depth analysis, as well as ongoing reviews of existing stock positions.
- The Asset Allocation (AA) team are implementing their AA Investment Process (IP). In the coming weeks, they will prepare their first Asset Allocation Recommendation Report.
- The R&C team have finalised the BBRMF, and started implementing it across the Fund and its sub-teams.
- The Relationship Team (RT) have prepared a new SMF promotional video and held the first-ever online Information Session aimed at attracting potential team members to the Fund. To bolster our social media presence, RT also plans to roll out a series of posts introducing the SMF sub-teams.

Since inception, the Fund has returned 16.37% cumulative, exceeding the target return by 6.11%, although performance has been volatile largely due to market movements. The Fund has underperformed the reference portfolio by -0.48% since inception, mainly attributable to stock selection. However, it has outperformed the benchmark by +1.54% year-to-date, with positive contributions from both asset allocation arising from effective rebalancing decisions as well as stock selection. The performance this year has been pleasing, and we hope it is a sign of the processes beginning to bear fruit. In the meantime, the Fund will continue to assess investments with a focus on our long-term objectives by separating the risk of permanent value loss and short-term volatility.

The Fund has increased engagement with SMF alumni through initiatives such as the Alumni Corner Series, in which RT summarise interviews with alumni, as well as inviting them to guest lectures. A number of alumni participated in a think tank in Week 4, where the team deliberated over whether the SMF should evolve to include active investments in international stocks. They shared their insights on the potential benefits, challenges and approaches. Their input informed the Fund's decision to start exploring the idea by analysing an overseas stock to gauge what is involved.

The SMF gratefully hosted two guest lectures during the first term. Phil Brown, the Executive Manager of Investments at MTAA Super, shared his insights into the superannuation industry and provided an overview of the MTAA Super Investment Program. SMF Investment Advisory Committee (IAC) members Nicole McMillan and Ross Blakers from Whitehelm Capital discussed asset consulting, and also provided some advice on investing in overseas equities. Certainly, team members have been engaged in some thought-provoking discussions that deepened their learning experience in the first half of the semester!

Bernice Choi, CIO

Team Updates

The following sections introduce new members, detail sub-team activities and outline upcoming priorities.

AA Team

Joining the AA team as an Analyst is Alicia Sun, instructed by both AA team head Nick Collings and Senior Analyst Eric Gittleman. Working in the midst of one of the most unique periods of time experienced by the finance industry, the AA team has continued to make strong progress in the implementation of the AA IP. So far this semester, the team have finalised all of their scenario state modelling across each asset class, and presented these 10-year asset class paths to the rest of the Fund. They also conducted a review of the Vanguard Ethically Conscious International Shares ETF (VESG) as a possible substitute for the existing international equities ETFs, concluding that the VESG ETF performance deviated too far historically from that of the world index, and was thus not a suitable alternative. In the coming weeks, the AA team plans to generate their inaugural Asset Allocation Recommendation Report, which will be presented to the Fund and potentially the IAC alongside any proposed changes in asset class weights. The AA team is excited to be moving through the final stages of their IP and preparing to deliver the first-ever asset allocation recommendation in the Fund's history!

AAE Team

The AAE team welcomes six Analysts – Yao Xiong, Sida Li, Shalini Arokiasamy Rajkumar, Julie Zhu, Josh Campbell and Albert Lake – who are mentored by AAE team head Michael Oates and Senior Analysts Angus Lloyd and Matthew Pham. With an additional three members as compared to last semester, the team efficiently completed the initial stage of the AAE Investment Process while simultaneously investigating an SRI breach by RIO, with the investigation leading to the Fund exiting its position in RIO. Upon completing the initial analysis of candidate stocks, the Fund has progressed Objective Corporation Limited (OCL), Appen Limited (APX) and Lendlease Group (LLC) to the in-depth analysis and valuation stage. All three stocks appear to have solid business models with demonstrated records of strong growth and consistently meeting strategic objectives. The team is looking forward to completing the analysis and potentially presenting at least one stock recommendation to the IAC for endorsement later in the semester.

R&C Team

The R&C team welcomes Isabel Gray and Sailendra Sanku as Analysts, working under the guidance of Chief Risk Officer (CRO) Ulrika Yui Ting Li. Sailendra has been assisting with the performance evaluation and portfolio analysis, including updating carbon intensity scores for the ASX200 companies and monitoring portfolio and market movements on a weekly basis. Isabel Gray has taken the role of the R&C SRI Analyst¹, and collaborated with Angus Lloyd from the AAE team to draft the SRI review into RIO. Their immense efforts provided an in-depth analysis and served as the basis for the Fund's decision to exit RIO. Working collectively, the team has finalised the BBRMF, which aims to improve the Fund's decision-making process by mitigating behavioural biases and enhancing the quality of meetings within the Fund. The BBRMF is the 'Spotlight' item in this report. In a time of market uncertainty, the R&C team will continue to closely monitor any deviations from target weights that may arise in the SMF portfolio, and alert the Fund of any need for rebalancing decisions or potential policy breaches. The team will also continue to undertake Risk Compliance and Register assessments, which incorporate the SRI Policy and the BBRMF into the risk monitoring processes.

¹ The primary role of the SRI Analyst is to implement the newly revised SMF SRI Policy, under the guidance of the CRO and liaising with the AAE team head.

Relationship Team

Joining the team as Relationship Officers are Qifan (Cheryl) Yang and Arnav Chopra, who are being led by the Relationship Manager Chenfan (Winnie) Wei. The team has increased its efforts to continue the progress established last semester and build on the foundations set by previous RT members. This includes the preparation and release of a new promotional video to support the call for SMF applications, two new instalments in the Alumni Corner Series, and summaries of the two presentations by guest speakers referred to in the CIO report. The team's primary objectives are to increase the visibility of the SMF on social media and its presence in the University, and to broaden alumni engagement. To support these objectives, the team hosted its first SMF Information Session over Zoom to increase awareness and respond to questions about the Fund from prospective candidates. The coming weeks will see RT members put in the groundwork for further initiatives such as social media posts detailing sub-team operations, partnerships with ANU societies, and the generation and distribution of SMF newsletters. These initiatives all have the goal of building recognition and attracting prospective students to the Fund, all the while cementing connections with alumni.

SMF Team Photos and Roles²

Chief Investment Officer



CIO
Bernice Choi

Asset Allocation (AA) Team



Team Head
Nick Collings



Senior Analyst
Eric Gittleman



Analyst
Zhenyu (Alicia) Sun

Active Australian Equities (AAE)



Team Head
Michael Oates



Senior Analyst
Matthew Pham



Senior Analyst
Angus Lloyd



Analyst
Albert Lake



Analyst
Josh Campbell



Analyst
Sida Li



Analyst
Qing (Julie) Zhu



Analyst
Shalini Arokiasamy Rajkumar



Analyst
Yao Xiong

² As the outbreak of COVID-19 prevented a team photoshoot, the SMF does not have an official group photo for this semester.

Risk and Compliance (R&C) Team



Chief Risk Officer (CRO)
Ulrika Yui Ting Li



Analyst (SRI-focused)
Isabel Gray



Analyst
Sailendra Sanku

Relationship Team (RT)



Relationship Manager
Chenfan (Winnie) Wei



Relationship Officer
Arnav Chopra



Relationship Officer
Qifan (Cheryl) Yang



Course Convenor
Dr Anna von Reibnitz



Fund Convenor
Associate Professor Geoff Warren

Spotlight: Behavioural Biases Risk Management Framework (BBRMF)

The BBRMF is a pioneering document directed at improving the decision-making processes of the SMF. It acknowledges the potential for behavioural biases, and facilitates the R&C team to identify the presence of biases and evaluate the associated impact on group decision-making and discussions. A risk management process is also detailed to help mitigate biases. The framework focuses on the following behavioural biases:

- Dominance effect – one individual dominates decision-making.
- Group Think – desire for group harmony leads to acceptance of the ‘team’ view without question.
- Information cascade – team members follow what others say without thinking about it.
- Production blocking – forming ideas may be difficult during brainstorming while listening.
- Confirmation bias – selectively focusing on information that confirms pre-existing beliefs.
- Overconfidence – an individual’s abilities or judgement may not be as good as they think.
- Social loafing – individuals rely on other group members to complete tasks.

The roles and responsibilities of individual members, sub-teams and the SMF as a whole are clearly defined to ensure that the framework is effectively implemented.

The behavioural risk management process is divided into three stages of initialisation, monitoring and reporting. The initialisation stage allows incoming SMF members to become conscious of both the presence and nature of behavioural biases as well as the mechanisms in place to mitigate these biased behaviours. Whilst it is the joint responsibility of the SMF Team to understand and actively apply the mitigation strategies, the R&C team have the primary responsibility for monitoring behavioural biases within the SMF and its sub-teams. This involves a behavioural analyst from R&C attending selected SMF meetings, on the basis that an independent observer may add value to the discussions and the decision-making processes. For example, R&C could act as a “Red Team”, bringing in an alternative perspective to discussions to mitigate Group Think behaviour. R&C will collate their general observations from the SMF and sub-team meetings and present them to the Fund twice throughout the semester.

While mitigating behavioural biases represents one way to improve decision making, several other factors may affect a team’s ability to make effective decisions. This includes diversity of opinion, effective information sharing and processing, independent judgements and efficiently combining individual opinions. The framework hence also proposes techniques that may be implemented during the pre-meeting, in-meeting and post-meeting stages to better achieve the aims of each meeting.

We are proud to finalise the initial BBRMF during September 2020, an important milestone for the R&C team and the SMF as a whole. The framework is designed to evolve over time, with R&C continually reviewing the scope of the biases covered and existing strategies to ensure that they continue to be appropriate for SMF operations. The next phase includes prescribing a clear process to monitor behavioural biases within the R&C team itself, and developing tailored behavioural bias mitigation strategies for each sub-team that account for differing team dynamics. Lastly, we would like to thank Ash White (CRO in Semester 1, 2020) and Charya Kannangara (R&C Senior Analyst in Semester 1, 2020) for their significant contributions in the initial drafting of the BBRMF.

Risk and Compliance Team

Portfolio Overview

Portfolio Structure

Portfolio weights as at 4 September 2020 are plotted in Figure 1, with the first chart comparing asset class weights with the reference portfolio weights and the second chart showing active stock weights and target weights within the AAE portfolio. Figure 2 (see over) reports total portfolio asset values and weights. The overall portfolio is -1.99% underweight in Australian equities, further down from the -0.98% underweight position in the last report. This is due to the Fund's decision on 9 June 2020 to sell the iShares Core S&P/ASX200 ETF contained within the asset allocation component of the SMF portfolio in order to buy Australian fixed income to return the weighting to the 15% target, and to allocate the balance of net cash raised to the BT Cash Management Trust. This approach in selling the AA component of the Australian equities was chosen because the AAE portfolio and IOZ holdings within the AA component are viewed as substitutes from an AA perspective. This results in the SMF portfolio's current underweighting of -2.85% in the AA component of Australian equities and an overweighting of +0.85% in the AAE component, implying a net underweight of -1.99% (rounding difference) in Australian equities. The underweight in Australian equities is balanced with overweights of 0.40% and 0.58% in unhedged and hedged international equities, and 0.33% and 0.69% in Australian fixed income and cash & accruals, respectively. Market volatility has lessened since the rebalancing, hence the SMF has not yet experienced any further substantial deviations which would require an active rebalancing decision.

The most substantial deviations from target weights within the AAE component of our portfolio include Sonic Healthcare (SHL, +2.58%), Bingo Industries (BIN, +2.27%) and Inghams Group (ING, -1.41%).

Figure 1: Asset Allocation as at 4 September 2020

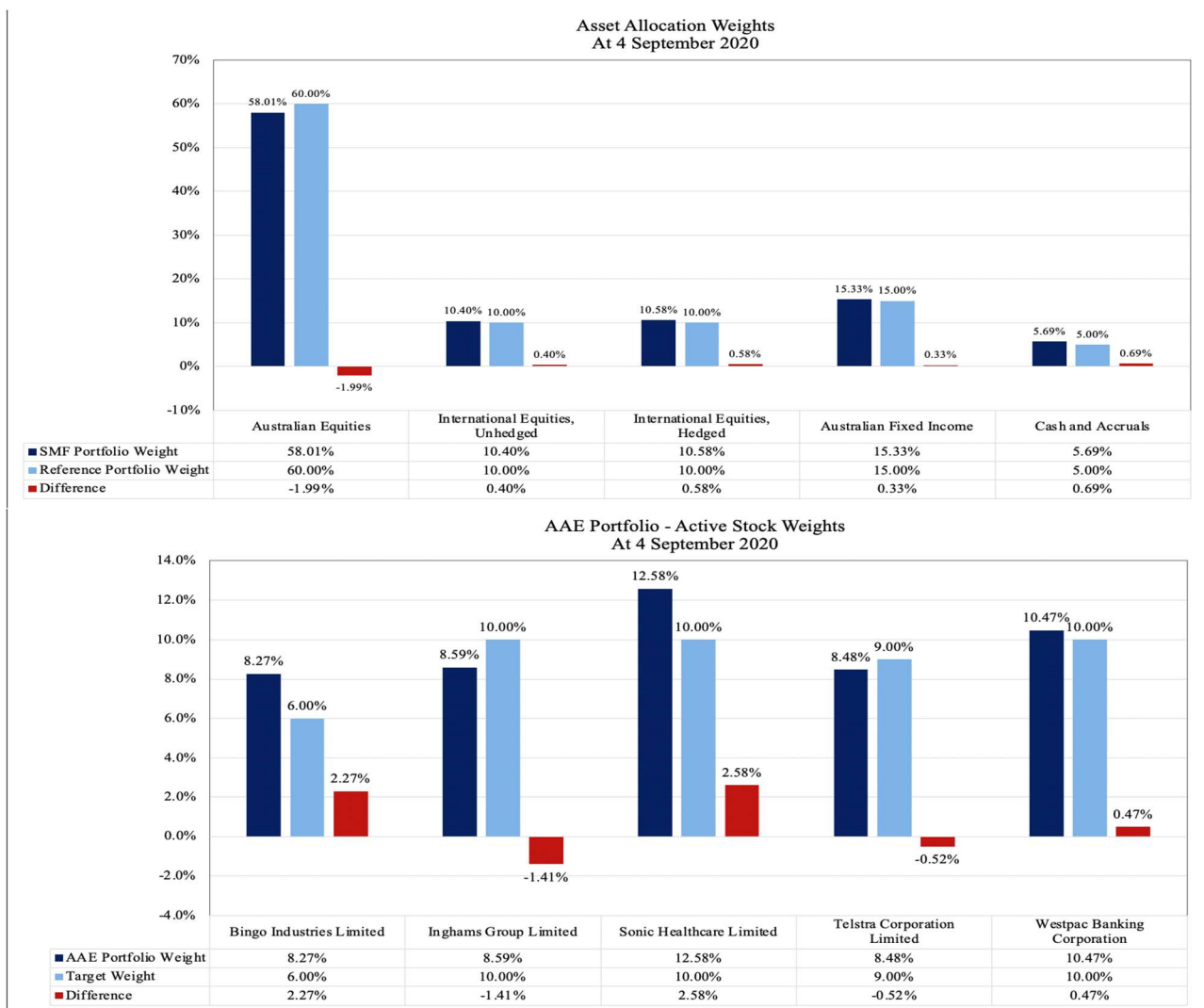


Figure 2: Portfolio Structure as at 4 September 2020

| Portfolio Component | Benchmark ETF | Asset Values A\$ | SMF Portfolio Weight % | Reference Portfolio Weight % | Over (Under) Weight % |
|--|---|---------------------|---------------------------|---------------------------------|--------------------------|
| Australian Equities | | | | | |
| <i>Active Australian Equities Portfolio:</i> | | | | | |
| iShares Core S&P/ASX 200 ETF | | 173,828 | 26.24 | | |
| Bingo Industries Limited | | 27,877 | 4.21 | | |
| Inghams Group Limited | | 28,952 | 4.37 | | |
| Sonic Healthcare Limited | | 42,393 | 6.40 | | |
| Telstra Corporation Limited | | 28,576 | 4.31 | | |
| Westpac Banking Corporation | | 35,280 | 5.33 | | |
| Total AAE Portfolio | iShares Core S&P/ASX200 | 336,905 | 50.85 | 50 | 0.85 |
| <i>Australian Equities in AA Portfolio:</i> | | | | | |
| iShares Core S&P/ASX 200 | | 47,390 | 7.15 | 10 | -2.85 |
| Total Australian Equities | iShares Core S&P/ASX200 | 384,295 | 58.01 | 60 | -1.99 |
| International Equities, Hedged | Vanguard International Shares Index, Hedged | 70,083 | 10.58 | 10 | 0.58 |
| International Equities, Unhedged | Vanguard International Shares Index | 68,869 | 10.40 | 10 | 0.40 |
| Total International Equities | | 138,952 | 20.97 | 20 | 0.97 |
| Total Equities | | 523,247 | 78.98 | 80 | -1.02 |
| Australian Fixed Income | Vanguard Australian Government Bond Index | 101,531 | 15.33 | 15 | 0.33 |
| <i>Australian Cash & Accruals:</i> | | | | | |
| BetaShares Australia High Interest Cash | | 16,673 | 2.52 | | |
| BT Cash Management Trust | | 13,241 | 2.00 | | |
| Accrued Interest & Dividends | | 1,277 | 0.19 | | |
| Accrued Franking Credits | | 6,513 | 0.98 | | |
| Total Cash & Accruals | BetaShares Australia High Interest Cash | 37,705 | 5.69 | 5 | 0.69 |
| Total Fixed Income & Cash | | 139,236 | 21.02 | 20 | 1.02 |
| Total Value of SMF Assets | | | | | |
| Total Portfolio Value as Reported in BT Panorama | | 655,969 | | | |
| Accrued Franking Credits | | 6,513 | | | |
| Total Value of SMF Assets | | 662,483 | 100 | 100 | |

Portfolio Performance

Figure 3 reports performance during 2018, 2019 and year-to-date 2020, as well as cumulative performance since portfolio inception. It is pleasing to see the Fund has experienced an accumulated return since inception of 16.37%, a significant increase from the first 2020 mid-semester report back in April where an accumulated return of 1.16% was recorded. This equates to an outperformance of +6.11% in terms of compound returns against the 9.69% target return (comprising the 4.5% distribution rate plus realised inflation estimated using the CPI). The Fund has underperformed the reference portfolio by -0.48% since inception, consisting of relative returns of -1.10% during 2018, -0.90% in 2019 and 1.54% in 2020 year-to-date. The largest contribution to the swings in performance arises from the AAE portfolio. However, it must also be noted that the market volatility in the first half of the year has led to two executions of AA rebalancing trades resulting in positive asset allocation contributions. All return calculations include franking credits and the sources of performance are discussed below in the attribution analysis section.

Figure 3: Portfolio Performance Since Inception

| Year | 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 | 4 September 2020 | 4 September 2020 |
| PORTFOLIO VALUES (A\$) | | | | |
| 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 | \$655,969.20 | |
| + Accrued Franking Credits | \$3,235.76 | \$9,770.12 | \$6,513.30 | |
| - Contributions | \$0.00 | \$0.00 | -\$1,000.00 | |
| Closing Total Portfolio Value | \$611,834.34 | \$715,255.22 | \$661,482.50 | |
| RETURNS | | | | |
| SMF Portfolio Return (Based on Change in Value) | -0.53% | 20.81% | -3.16% | 16.37% |
| Target Return (Estimated as CPI + 4.5%)** | 4.56% | 6.16% | -1.18% | 9.69% |
| SMF Return vs. Target | -4.87% | 13.80% | -1.98% | 6.11% |
| Reference Portfolio Return | 0.58% | 21.91% | -4.70% | 16.85% |
| SMF Return vs. Reference Portfolio | -1.10% | -0.90% | 1.54% | -0.48% |

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

** A change in the CPI of -1.89% is assumed for the September quarter of 2020

*** Estimated as: $(1 + \text{SMF Return}) / (1 + \text{Benchmark Return}) - 1$

Attribution Analysis

The R&C team conducts performance attribution analysis by decomposing investment performance into components attributable to specific stages of the investment decision process. The two primary stages are asset allocation and security selection. Further estimates of the 'Interaction, Aggregation and Cash Portfolio Impacts' are made to complete the attribution of portfolio performance, which capture effects from interactions between the segments, aggregation of contributions over time, and the impact of accruals on the cash portfolio (which are included as an asset but generate zero return). Performance Attribution analysis helps to better understand the key drivers of performance for the Fund versus

the reference portfolio, and is presented in Figure 4. Total relative performance of the SMF portfolio versus the reference portfolio is +1.54% year-to-date, with a -0.16% contribution by the 'Interaction, Aggregation and Cash Portfolio Impacts'. The asset allocation contribution since 1 January 2020 is +1.44%. The attribution analysis identifies that notable positive contributions arise from Australian equities (+0.42%), Australian fixed income (+0.78%) and cash (+0.25%). Two asset allocation rebalancing trades took place this year to date. The main source of the AA contribution was the first trade undertaken on 23 March 2020 when the market bottomed, in which defensive assets were sold and the gain was used to purchase Australian equities after it had fallen in excess of -5% versus the target weight. The second trade realised the gains from the equity market upward rally from the first trade, in which the SMF sold Australian equities and international equities when the weighting of the total growth assets (i.e. equities) exceeded the 80% target weight by +3.33%. The proceeds were mainly invested in Australian fixed income, which was nearly 3% underweight and the residual going into cash.

The AAE portfolio is estimated to have outperformed the ASX200 ETF benchmark by 0.62% year-to-date, although it has underperformed by -3.17% since inception. Positive since-inception contributions arise from SHL (+2.56%), RIO (+1.03%) and Telstra Corporation (TLS, +0.65%), with negative contributions from Westpac (WBC, -3.31%), BIN (-2.40%) and ING (-1.54%). The negative contribution of 0.11% from the iShares Core S&P/ASX 200 ETF (IOZ) relates to transaction costs incurred. A significant factor behind the AAE contributions was franking credits received by AAE, especially through holding stocks like RIO and TLS that paid relatively high fully-franked-dividends.

Figure 4: Performance Attribution: 10 April 2018 to 4 September 2020

| Period | Contributions to Performance vs. Reference Portfolio | | | |
|--|--|------------------|------------------|------------------|
| | 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 | 4 September 2020 | 4 September 2020 |
| SMF Portfolio vs. Reference Portfolio | | | | |
| Asset Allocation | 0.17% | -0.28% | 1.44% | 1.32% |
| Security Selection - AAE Portfolio | -1.26% | -0.58% | 0.26% | -1.58% |
| Contribution from Positions Held | -0.77% | -0.87% | 1.70% | 0.05% |
| Administration Fee – BT Panorama | | -0.02% | 0.17% | |
| Interaction, Aggregation and Cash Portfolio Impacts | 0.16% | -0.23% | -0.16% | -0.23% |
| Total Relative Performance | -1.10% | -0.90% | 1.54% | -0.48% |
| Asset Allocation Attribution | | | | |
| Australian Equities | 0.01% | -0.04% | 0.42% | 0.39% |
| Australian Fixed Income | -0.02% | -0.11% | 0.78% | 0.65% |
| International Equities, Hedged | 0.01% | -0.01% | -0.02% | -0.02% |
| International Equities, Unhedged | 0.01% | 0.01% | 0.01% | 0.04% |
| Cash and Accruals | 0.16% | -0.15% | 0.25% | 0.27% |
| Time Aggregation Effect | 0.00% | 0.00% | 0.00% | 0.00% |
| AA Contribution to Total Portfolio Performance | 0.17% | -0.28% | 1.44% | 1.32% |
| AAE Portfolio vs. S&P/ASX200 ETF | | | | |
| iShares Core S&P/ASX 200 ETF | -0.01% | -0.04% | -0.06% | -0.11% |
| Bingo Industries Limited | -3.21% | 1.89% | -1.04% | -2.40% |
| Inghams Group Limited | 0.00% | -2.43% | 0.92% | -1.54% |
| Rio Tinto Limited | -0.04% | 0.52% | 0.54% | 1.03% |
| Sonic Healthcare Limited | 0.00% | -0.11% | 2.68% | 2.56% |
| Telstra Corporation Limited | 0.62% | 0.53% | -0.49% | 0.65% |
| Westpac Banking Corporation | 0.00% | -1.49% | -1.84% | -3.31% |
| Time Aggregation Effect | -0.02% | -0.01% | -0.07% | -0.10% |
| Relative Performance vs. S&P/ASX200 ETF | -2.66% | -1.14% | 0.62% | -3.17% |
| AAE Contribution to Total Portfolio Performance | -1.26% | -0.58% | 0.26% | -1.58% |

Socially Responsible Investment (SRI) Report

This section outlines how the SMF invests in accordance with SMF SRI Policy, which is an extension on the University's SRI Policy. The SMF SRI Policy can be summarised as comprising of five conditions:

- Exclude companies that derive more than 20% of revenues from adult entertainment, alcohol, armaments, coal, gambling and tobacco.
- Hold an active equity portfolio with 30% less carbon intensity than the S&P/ASX 200.
- Avoid investments that are likely to cause an unacceptable level of 'social injury'.
- Favour investments that create 'social benefit'.
- Preference companies engaged in specific sustainable business activities and practices as determined by the Fund³.

All active stock positions are currently in compliance with the industry exclusions limit (i.e. condition i). This condition proved important in narrowing down the list of candidate stocks this semester, with BHP being excluded from consideration as it currently derives more than 20% of revenue from coal.

Figure 5 reports on SRI compliance regarding carbon intensity (i.e. condition ii) as of 4 September 2020. Carbon intensity is calculated based on the volume of Scope 1 and 2 emissions (in tonnes) per A\$1 million of revenue earned, based on Greenhouse Gas Protocol. The carbon intensity for the S&P/ASX200 ETF is sourced from the 2020 ANU SRI Policy Report. It is pleasing for the SMF Portfolio to report a -55% reduction in carbon intensity relative to the S&P/ASX200 Index. This improvement well exceeds the -30% target, assisted by the sale of RIO on 7 August 2020.

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

| | ASX200 | BIN | ING | SHL | TLS | WBC | Total Active Stock Positions | Active Stock Positions vs. ASX200 | Target Improvement | Margin |
|----------------------------|--------|-------|-------|--------|-------|--------|------------------------------|-----------------------------------|--------------------|--------|
| Weighting in AAE Portfolio | 51.60% | 8.27% | 8.59% | 12.58% | 8.48% | 10.47% | 48.40% | | | |
| Carbon Intensity | 222.04 | 213.9 | 284.6 | 10.8 | 50.6 | 5.0 | 99.8 | -55.0% | -30.0% | 25.0% |

Conditions iii-v of the SRI Policy are continuously evaluated by the Fund with respect to existing investments and throughout the candidate stock investment analysis. This can be exemplified through the Fund's decision to not pursue prospective stocks when the SMF team concludes that a company is likely to cause an unacceptable level of 'social injury' while producing minimal 'social benefit'.

During this semester, an in-depth review of RIO was conducted by the SMF team to determine if it was in breach of the SMF SRI Policy. The review was triggered by RIO destroying a sacred indigenous site in the Pilbara region in late-May 2020. Due to the timing of the incident, and to give an opportunity for further information to come to light, it was decided that it was best to postpone the review until Semester 2, 2020 so that a more informed decision could be made. The IAC and the Director of Research School of Finance, Actuarial Studies and Statistics (RSFAS), Stephen Sault, were advised of a potential breach, and endorsed the proposal to conduct a review after Semester 2, 2020 commenced.

The relevant concern that was considered under the in-depth SRI review was whether RIO was likely to cause an unacceptable level of 'social injury' in the future, and thus was in breach of Condition iii. After examining the evidence and a subsequent nuanced discussion by the SMF, it was decided that the best course of action was for the Fund to sell its active position in RIO. The decision was based on the following considerations:

- RIO's actions contradicted their own company policies, which raised questions over corporate trustworthiness (Condition v) and a potential attitudinal change in management.

³ The current preferences under each of the ESG categories are: E: climate change action; S: equity, diversity and inclusion; G: corporate trustworthiness, including transparency, compliance and accountability.

- RIO is involved in a number of projects that could pose future SRI risks, including the Arizona Copper Mine and Oyu Tolgoi projects.
- The SMF has a low tolerance for reputational risk, and holding a company with a tarnished image might lead to questions being raised that could threaten the SMF's reputation.
- RIO's share price had moved above the AAE team's valuation, which amounted to a deterioration in the investment case hence diminishing the reasons for continuing to hold the stock.

On 7 August 2020, the IAC and the Director of RSFAS were advised that a breach of the SMF SRI Policy had occurred and the entire holding in RIO was sold, with the proceeds being invested in the iShares CoreS&P/ASX200 ETF (IOZ).

Overall, the application of the newly revised SMF SRI Policy during this semester has proven effective for both the stock filtering and RIO review processes. This is a testament to the value of the important changes that were made to the Policy during Semester 1, 2020 and is promising for future compliance with the principles of socially responsible investing.

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