



## Mid-Semester Report – Semester 1, 2021

### ANU Student Managed Fund

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Note: All dollar amounts quoted in this report are in Australian dollars, unless otherwise indicated.



## Glossary

**AA** – Asset Allocation  
**AAE** – Active Australian Equities  
**AC** – Australian Cash  
**ACCC** – Australian Competition and Consumer Commission  
**AE** – Australian Equities  
**AFI** – Australian Fixed Income  
**ANU** – The Australian National University  
**BIN** – Bingo Industries  
**CBE** – ANU College of Business and Economics  
**CIO** – Chief Investment Officer  
**CRO** – Chief Risk Officer  
**ESG** – Environmental, Social and Governance  
**ETF** – Exchange-Traded Fund  
**IE** – International Equities  
**ING** – Inghams Group Limited  
**IOZ** – iShares Core S&P/ASX 200 ETF  
**SHL** – Sonic Healthcare Limited  
**SMF** – ANU Student Managed Fund  
**SRI** – Socially Responsible Investment  
**R&C** – Risk and Compliance  
**RT** – Relationship Team  
**RSFAS** – Research School of Finance, Actuarial Studies and Statistics  
**TLS** – Telstra Corporation Limited  
**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 1, 2021. 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 feature has been some outstanding performance during 2021, which establishes the Fund as now exceeding all its objectives since inception.

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 to the SMF email address [smf.rsfas@anu.edu.au](mailto:smf.rsfas@anu.edu.au).

*Arnav Chopra, Seonghyun Yong and Petal Wang*  
*Relationship Team*



## Chief Investment Officer (CIO) Report

The SMF has made a very positive start in 2021, with outstanding performance so far placing the Fund in a position where it has well-exceeded its total return target, as well as outperformed the reference portfolio since inception on 10 April 2018. Over the period, the Fund has returned 33.95% cumulatively, exceeding the target return by +18.75% (equating to +4.15% per annum) and outperforming the reference benchmark by +2.13% (+0.71% per annum). Both asset allocation and active equities contributed to this outperformance. These results are very gratifying given that we have now been investing over a time frame that provides greater visibility of how the Fund is travelling from a long-term perspective.

Meanwhile, the SMF team is functioning extremely well. The senior members are excelling in their respective leadership positions, and mentoring junior members who have been eager to hit the ground running. The outstanding efforts of Fund members is encapsulated in the way all sub-teams have already strived to improve upon the high standards set by past cohorts. This is a reflection of their commitment to a culture of continual improvement and is key to all members maximising the learning opportunities that the Fund provides.

Highlights of this semester thus far include:

- The Active Australian Equities (AAE) team has updated the filtering process to increase their efficiency in identifying stocks that align with the Fund's key values and investment objectives. Analysts are currently conducting three in-depth valuations while carefully managing existing holdings. The AAE team continues to demonstrate their ability to effectively value equities based on long-term fundamentals and look past market volatility, which we trust has contributed to the improvement in performance over time.
- The Asset Allocation (AA) team has built on the efforts of last semester by conducting thorough macro analysis in order to account for significant changes in both the economic and equity market outlook. This analysis is feeding into a more rigorous modelling of the Equities portion of the portfolio. The AA team's recommendation last October to shift part of the portfolio's weight from Australian Fixed Income (AFI) to Australian Cash (AC) is now bearing fruit, and has added an estimated +0.35% to performance.
- The Risk and Compliance (R&C) team has worked to further improve risk management in the Fund by designing a framework to promote risk monitoring at the overall portfolio level, and therefore collaboration between sub-teams.
- The Relationship Team (RT) has designed and run an investment recommendation workshop for prospective applicants and developed new relationships with ANU societies such as the ANU Finance Society and ANU Consulting Society.

The prospective applicants workshop attracted over 20 participants, providing the Fund with a platform to effectively communicate the plethora of opportunities available as a member and answer queries on the application process. This initiative helped increase engagement with prospective applicants. The team is looking forward to continuing our efforts to raise the profile of the SMF.

The SMF was also fortunate enough to host two guest lectures. Mary Fallon, the Director of the ANU Investment Office, shared insights into how her team implements the University's SRI policy across their portfolio, which the Fund hopes to leverage to further improve our processes. Additionally, Paul Brunker from Optar Capital joined the Fund to provide stock and sector specific insights, which will be of great value as the AAE team continues to conduct in-depth stock analysis.

*Joshua Campbell, CIO*

## Team Updates

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

### Asset Allocation (AA) Team

Although it is early days in the implementation of its investment process, the AA team is pleased to have contributed +1.76% to overall Fund performance since inception. While the major component was the timely rebalancing trade during the COVID-19 related market sell-off, we estimate that the decision to switch 7.5% from fixed income to cash in October 2020 has also added around +0.35%. The latter is particularly gratifying given that it arose directly out of the application of the AA investment process, which the team continues to refine.

Joining the AA team as Analysts are Michael Searle, Jean Ran, and Alice Wang, instructed by the Team Head, Alicia Sun. Working in the midst of a unique period for the finance industry and indeed the world, the AA team has shifted its focus towards the Equities component of the Fund's portfolio. Pursuant to this, the analysts are examining the effect of emerging technology companies on the overall return of International Equities (IE), including performing bottom-up analysis on their research and development expenditure and return on invested capital, as well as other metrics. In the coming weeks, the AA team will also conduct scenario analysis for both Australian Equities (AE) and IE. The findings of the bottom-up and scenario analyses should inform our decisions in the coming weeks and benefit future cohorts through deepening the AA investment process.

*Alicia Sun, Head of AA*

### Active Australian Equities (AAE) Team

The AAE portfolio has enjoyed some exceptional performance in 2021, outperforming the benchmark ASX200 ETF by +5.28% with every active stock position making a positive contribution year-to-date. This performance has been sufficient to turn around the cumulative AAE contribution to overall Fund performance since inception, from a cumulative -2.48% (-0.92% per annum) at the end of 2020 to a cumulative +0.26% (+0.09% per annum) at the current reporting date. While such large outperformance over a short period needs to be viewed with circumspection, it does provide the team with some confidence that the AAE's long-term investment process may be bearing fruit over the passage of time. We are currently conducting revaluations of existing holdings, some of which seemed stretched following their recent run. In particular, Bingo Industries (BIN) has been a high priority due to takeover activity potentially pushing the share price above our valuation. The team has decided to put forward a recommendation to the SMF Investment Advisory Committee to sell the BIN position.

The AAE team has been lucky to welcome four Analysts to the team – Felix Jones, Max Burrows, Ben Mai and Lachlan Scott. All have already made meaningful contributions to the Fund under the supervision of Senior Analysts Sida Li, Julie Zhu, Yao Xiong and Team Head, Albert Lake. The team has begun analysing a variety of prospective companies, of which Brambles Limited, Super Retail Group Limited and Cromwell Property Group have progressed to the in-depth stage. In light of the recent increase in Westpac Banking Corporation's (WBC) share price, Albert and Max have conducted a rebalancing review of the Fund's position in the stock to conclude that the Fund should rebalance if the stock reaches the +3% overweight threshold. In conjunction with the AA team, the AAE team has also analysed the validity of the Fund's discount rate assumptions and explored avenues to more closely harmonise those assumptions with the Fund's objectives. This has served to increase collaboration between AAE and AA, while improving each team's output.

In the coming weeks, AAE will perform in-depth analysis of the three aforementioned companies, with initial research indicating that they are free cash flow generative and reasonably simple businesses that may suit the Fund's objectives. The team will also perform a preliminary analysis on an Australian infrastructure company with the potential for increased diversification benefits and stable cash flows.

*Albert Lake, Head of AAE*

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

This semester, R&C welcomed Analysts Inuja Aluwihare, Jonathan Lang and Ricky Yang, under the tutelage of Chief Risk Officer (CRO), Isabel Gray, and Senior Analyst, Sailendra Sanku. Inuja, Ricky and Sailendra have been responsible for performance evaluation and portfolio analysis, and have collaborated with AAE to review the presentation of the fortnightly portfolio updates. Jonathan has taken on the role of SRI Analyst and has presented on several SRI issues, such as ‘payday’ lending and unethical sales to Indigenous Australians. He also reviewed the VanEck International Sustainable Equity Exchange Traded Fund (ETF), which was ultimately determined to be unsuitable in light of Fund objectives, and has assisted the CRO in updating the Fund’s SRI policy. As the Behavioural Bias Risk Management Framework is now in its operational phase, R&C has attended numerous sub-team meetings to monitor behavioural biases. It has been encouraging to see juniors members contribute meaningfully to meetings, which helps to ensure that the Fund retains its culture of contestability. Finally, R&C has been investigating ways to manage risk on a portfolio level. Following the presentation of our preliminary findings to the Fund, we received encouraging feedback and are now looking forward to using our research to update the risk management process moving forward.

*Isabel Gray, CRO*

### **Relationship Team (RT)**

Joining the RT this semester as Relationship Officers are Petal Wang and Seonghyun Yong. Under the guidance of Relationship Manager Arnav Chopra, both have already made major contributions to the team’s underlying mission of enhancing the Fund’s presence on various platforms, widening our reach to potential students, donors and guest speakers, and increasing alumni engagement. The team has spearheaded two new initiatives of hosting an investment recommendation workshop and increasing partnerships with societies. The former has been designed to assist prospective students with their SMF applications, offering an opportunity to gain an inside look into the Fund. The latter will enable the Fund to leverage pre-existing audiences and communication channels of various ANU College of Business and Economics (CBE) societies to further increase our presence. The team has also furthered initiatives established by previous cohorts such as the SMF Alumni Corner Series, Guest Speaker Spotlights and a promotional video to support the call for SMF applications. In the coming weeks, we hope to continue the progress made through societal partnerships while exploring new ways to enhance our presence, such as a new strategic direction for social media platforms and increased promotions within CBE and other external sources.

*Arnav Chopra, Relationship Manager*



## SMF Team Photos and Roles<sup>1</sup>

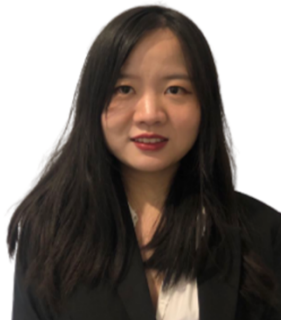
### *Asset Allocation (AA) Team*



***Team Head***  
Zhenyu (Alicia) Sun



***Analyst***  
Xinyi (Alice) Wang



***Analyst***  
Jing (Jean) Ran



***Analyst***  
Michael Searle

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



***Team Head***  
Albert Lake



***Senior Analyst***  
Qing (Julie) Zhu



***Senior Analyst***  
Sida Li



***Senior Analyst***  
Yao Xiong



***Analyst***  
Lachlan Scott



***Analyst***  
Max Burrows



***Analyst***  
Jingxin (Ben) Mai



***Analyst***  
Felix Jones

<sup>1</sup> As the outbreak of COVID-19 prevented a team photoshoot, the SMF does not have an official group photo for this semester.





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



***Team Head***  
Isabel Gray



***Senior Analyst***  
Sailendra Sanku



***SRI Analyst***  
Jonathan Lang



***Analyst***  
Inuja Aluwihare

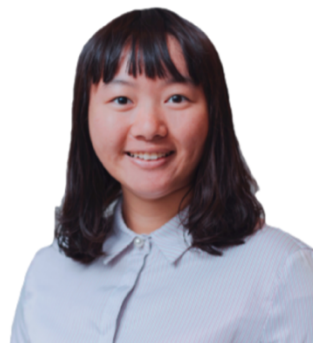


***Analyst***  
Yuchen (Ricky) Yang

***Relationship Team***



***Team Head***  
Arnav Chopra



***Relationship Officer***  
Petal (Minyue) Wang



***Relationship Officer***  
Seonghyun Yong



***CIO***

Joshua Campbell



***Course Convenor***

Dr Anna von Reibnitz



***Fund Convenor***

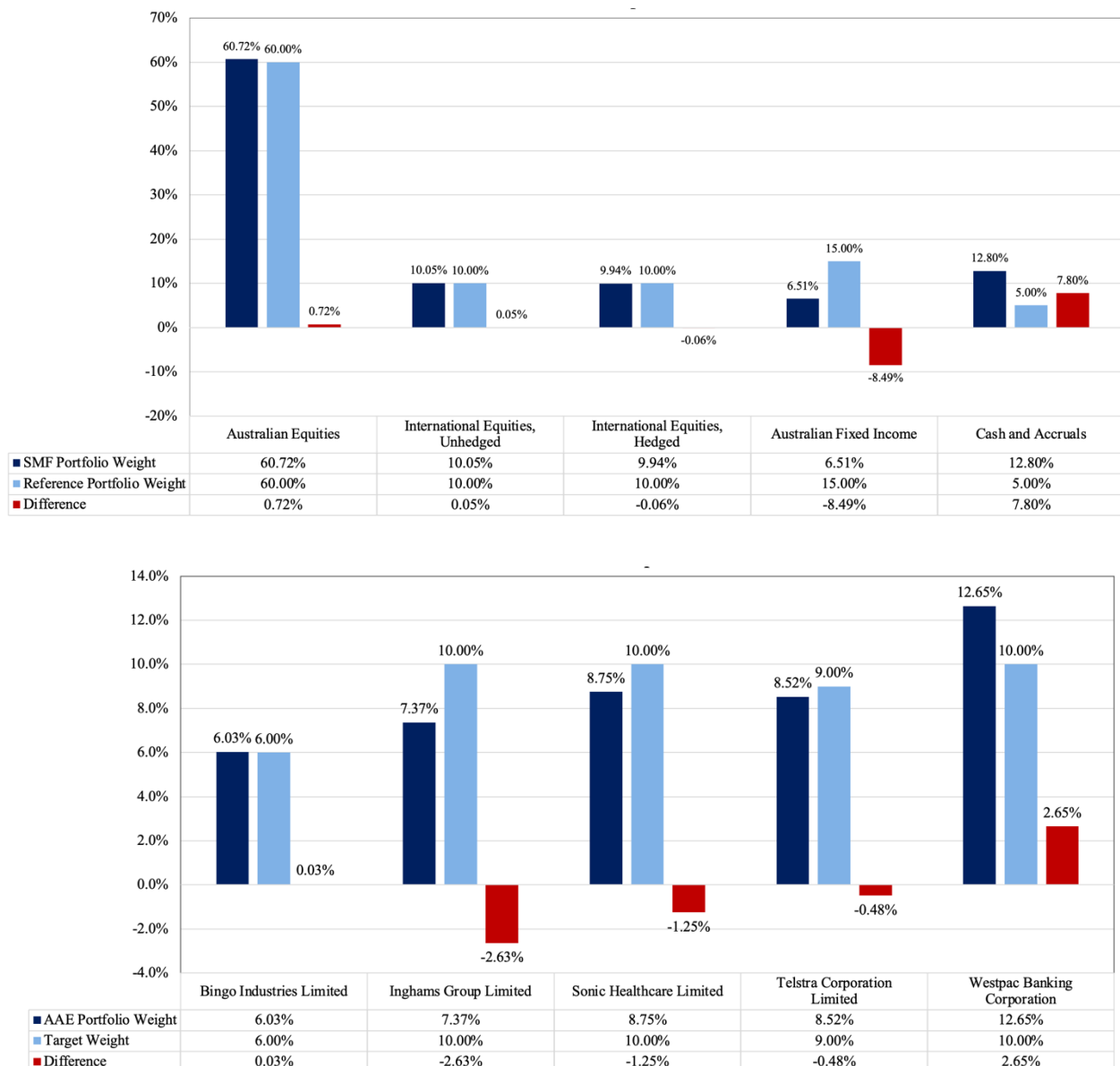
Associate Professor Geoff Warren

## Portfolio Overview

### Portfolio Structure

Portfolio weights as of 1 April 2021 are plotted in Figure 1, with the first chart comparing asset class weights to the reference portfolio and the second chart comparing the active stock positions to their target weights in the AAE portfolio. Figure 2 details the asset values and associated weights of each investment within the portfolio. The overall portfolio mirrors the reference weights of 80% and 20% for growth and defensive assets, respectively. The growth/defensive weight was reset on 8 January 2021, where the requirement to sell a portion of the Fund's holdings to fund the annual scholarship distribution was used as an opportunity to rebalance the portfolio back to its target weights. As at 1 April 2021, significant deviations from the reference portfolio can be observed for AFI (-8.49%) and AC (+7.80%), which reflect the decision made on 13 October 2020 to shift 7.5% of the portfolio from AFI to AC. Within the AAE portfolio, substantial deviations can be observed for Inghams Group Limited (ING) (-2.63%), Sonic Healthcare (SHL) (-1.25%) and Westpac Banking Corporation (WBC) (+2.65%). During the semester, an AAE revaluation review of WBC determined that, if a 3% deviation from the target weight occurs, WBC should be rebalanced to its target weight of 10%.

**Figure 1: Asset Allocation and AAE Portfolio Weights as of 1 April 2021**



**Figure 2: Portfolio Structure as of 1 April 2021**

Portfolio Component	Benchmark ETF	Asset Values \$	SMF Portfolio Weight %	Reference Portfolio Weight %	Over (Under) Weight %
<b><i>Australian Equities</i></b>					
<b><i>Active Australian Equities Portfolio:</i></b>					
iShares Core S&P/ASX 200 ETF		227,452	31.24		
Bingo Industries Limited		24,204	3.32		
Inghams Group Limited		29,568	4.06		
Sonic Healthcare Limited		35,124	4.82		
Telstra Corporation Limited		34,211	4.70		
Westpac Banking Corporation		50,749	6.97		
Total Active Australian Equities Portfolio	iShares Core S&P/ASX 200	401,306	55.11	50	5.11
<b><i>Australian Equities in Asset Allocation Portfolio:</i></b>					
iShares Core S&P/ASX 200		40,822	5.61	10	-4.39
<b>Total Australian Equities</b>	iShares Core S&P/ASX 200	<b>442,129</b>	<b>60.72</b>	<b>60</b>	<b>0.72</b>
International Equities, Hedged	Vanguard International Shares Index, Hedged	72,352	9.94	10	-0.06
International Equities, Unhedged	Vanguard International Shares Index	73,146	10.05	10	0.05
<b>Total International Equities</b>		<b>145,497</b>	<b>19.98</b>	<b>20</b>	<b>-0.02</b>
<b>Total Equities</b>		<b>587,626</b>	<b>80.70</b>	<b>80</b>	<b>0.70</b>
<b>Australian Fixed Income</b>	Vanguard Australian Government Bond Index	<b>47,374</b>	<b>6.51</b>	<b>15</b>	<b>-8.49</b>
<b><i>Australian Cash &amp; Accruals:</i></b>					
BetaShares Australia High Interest Cash		68,346	9.39		
BT Cash Management Trust		14,912	2.05		
Accrued Interest & Dividends		1,122	0.15		
Accrued Franking Credits		8,793	1.21		
<b>Total Cash &amp; Accruals</b>	BetaShares Australia High Interest Cash	<b>93,173</b>	<b>12.80</b>	<b>5</b>	<b>7.80</b>
<b>Total Fixed Income &amp; Cash</b>		<b>140,547</b>	<b>19.30</b>	<b>20</b>	<b>-0.70</b>
<b>Total Value of SMF Assets</b>					
Total Portfolio Value as Reported in BT Panorama		719,380			
Accrued Franking Credits		8,793			
<b>Total Value of SMF Assets</b>		<b>728,173</b>	<b>100</b>	<b>100</b>	
<b>Estimated Distribution with Respect to 2021</b>		32,768			
<i>(4.5% of assets at 31 December, to be paid after year-end)</i>					

## Portfolio Performance

As reported in Figure 3, the Fund has seen a cumulative return of +33.95% (10.32% per annum) since inception. This amounts to an outperformance of +12.82% against the target return, which comprises the 4.5% distribution rate, plus realised inflation (estimated using the CPI). On a per annum basis, the outperformance of +4.15% relative to the target is far greater than that observed in April 2020 and December 2020 of -10.33% and +2.57% respectively. This rebound in performance can be attributed to the surge in equity markets as the world recovers from COVID-19 and rolls out vaccination programs, as well as the impact of aggressive moves to stimulate economies. Due to the portfolio's significant exposure to AE, the rally in the Australian equity market has been particularly beneficial to the Fund. Relative to the reference portfolio, the Fund has outperformed by +2.13% (+0.71% per annum) since inception, consisting of relative returns of -1.10% in 2018, -0.90% in 2019, +0.75% in 2020 and +3.42% in 2021 year to date. All return calculations include franking credits, and the sources of performance are discussed in the attribution analysis section below.

## Attribution Analysis

The R&C team conducts performance attribution analysis to better understand the sources of the Fund's performance when compared to the reference portfolio (see Figure 4). Performance is decomposed into components of the investment decision process, specifically asset allocation and security selection. The asset allocation component measures performance attributable to deviations in asset class weights versus the reference portfolio whereas the security selection component measures the contributions of the AAE portfolio relative to the benchmark S&P/ASX200 ETF (IOZ). Any residual effects resulting from interactions between the two segments over time is reported under the heading 'Aggregation, Cash Portfolio and Other Impacts.' This heading also captures the effects of the cash portfolio not being invested entirely in the benchmark ETF as the SMF portfolio holds a small amount of cash and accruals.

The performance of the SMF portfolio since inception against the reference portfolio is +0.71% per annum, comprising +0.09% from security selection within the AAE portfolio, +0.59% from asset allocation positions within the AA portfolio and an additional +0.04% from aggregation effects. Within the AAE portfolio, SHL has contributed the greatest portion of cumulative outperformance since inception (+0.75% per annum), offsetting ING's negative performance since inception (-0.73% per annum). The sources of performance in the AA and AAE portfolios are outlined in the Team Updates section above.

**Figure 3: Portfolio Performance Since Inception as of 1 April 2021**

Year	2018	2019	2020	2021	Since Inception	
Opening Date	10 April 2018	1 January 2019	1 January 2020	1 January 2021	10 April 2018	
Closing Date	31 December 2018	31 December 2019	31 December 2020	1 April 2021	1 April 2021	
PORTFOLIO VALUES						
Opening Portfolio Value in BT Panorama*	\$615,079.04	\$608,598.58	\$705,485.10	\$704,774.44		
- Distribution Related to Prior Period	\$0.00	-\$27,746.21	-\$32,186.49	-\$32,067.23		
+ Amount Held by CBE, Offset Against Distribution	\$0.00	\$7,983.83	\$0.00	\$0.00		
+ Accrued Franking Credits	\$0.00	\$3,235.76	\$9,770.12	\$7,830.63		
Adjusted Opening Portfolio Value	\$615,079.04	\$592,071.96	\$683,068.73	\$680,537.84		
Closing Portfolio Value in BT Panorama	\$608,598.58	\$705,485.10	\$704,774.44	\$719,379.88		
+ Accrued Franking Credits	\$3,235.76	\$9,770.12	\$7,830.63	\$8,793.08		
- Contributions	\$0.00	\$0.00	-\$1,000.00	\$0.00		
Adjusted Closing Total Portfolio Value	\$611,834.34	\$715,255.22	\$711,614.39	\$728,172.96		
RETURNS (%)	2018	2019	2020	2021	Cumulative	Per annum
SMF Portfolio Return (Based on Adjusted Portfolio Values)	-0.53%	20.81%	4.18%	7.00%	33.95%	10.35%
Target Return (Estimated as CPI + 4.5%)**	4.56%	6.16%	5.36%	1.54%	18.75%	5.94%
SMF Return vs. Target	-4.87%	13.80%	-1.18%	5.46%	12.82%	4.15%
						0.00%
Reference Portfolio Return	0.58%	21.91%	3.42%	3.58%	31.35%	9.60%
SMF Return vs. Reference Portfolio	-1.10%	-0.90%	0.75%	3.42%	2.13%	0.71%
Note: Administration Fees - BT Panorama		0.02%	0.23%	0.05%	0.31%	0.10%

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

\*\* Preliminary estimate based on +0.7% CPI for December quarter 2020 (equates to +0.7% on December quarter 2019).

**Figure 4: Performance Attribution Since Inception as of 1 April 2021**

Period	Contributions to Performance vs. Reference Portfolio					
	2018	2019	2020	2021	Since Inception	
	%	%	%	%	Cumulative	Per annum
Opening Date	10 April 2018	1 January 2019	1 January 2020	1 January 2021	10 April 2018	
Closing Date	31 December 2018	31 December 2019	31 December 2020	1 April 2021	1 April 2021	
SMF Portfolio vs. Reference Portfolio						
Asset Allocation	0.17%	-0.28%	1.54%	0.33%	1.76%	0.59%
Security Selection – Active Australian Equities Portfolio	-1.26%	-0.58%	-0.66%	2.81%	0.26%	0.09%
Contribution from Positions Held (Prior to BT Fees)	-1.09%	-0.87%	0.88%	3.14%	2.02%	0.67%
Aggregation, Cash Portfolio and Other Effects	-0.01%	-0.03%	-0.13%	0.28%	0.11%	0.04%
Total Relative Performance	-1.10%	-0.90%	0.75%	3.42%	2.13%	0.71%
Asset Allocation Attribution						
Australian Equities	0.01%	-0.04%	0.44%	0.00%	0.42%	0.14%
Australian Fixed Income	-0.02%	-0.11%	1.24%	0.58%	1.70%	0.57%
International Equities, Hedged	0.01%	-0.01%	-0.02%	0.00%	-0.02%	-0.01%
International Equities, Unhedged	0.01%	0.01%	0.02%	-0.01%	0.04%	0.01%
Cash and Accruals	0.16%	-0.15%	-0.14%	-0.25%	-0.37%	-0.13%
Time Aggregation Effect	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Asset Allocation Contribution to Total Portfolio Performance	0.17%	-0.28%	1.54%	0.33%	1.76%	0.59%
Active Australian Equities Portfolio vs. S&P/ASX200 ETF						
iShares Core S&P/ASX 200 ETF	-0.01%	-0.04%	-0.07%	0.00%	-0.12%	-0.04%
Bingo Industries Limited	-3.21%	1.89%	-0.75%	1.02%	-1.12%	-0.38%
Inghams Group Limited	0.00%	-2.43%	-0.17%	0.44%	-2.17%	-0.73%
Rio Tinto Limited	-0.04%	0.52%	0.54%	0.00%	1.02%	0.34%
Sonic Healthcare Limited	0.00%	-0.11%	1.85%	0.51%	2.26%	0.75%
Telstra Corporation Limited	0.62%	0.53%	-1.06%	1.01%	1.09%	0.37%
Westpac Banking Corporation	0.00%	-1.49%	-1.49%	2.26%	-0.77%	-0.26%
Time Aggregation Effect	-0.02%	-0.01%	-0.04%	0.04%	-0.02%	-0.01%
Relative Performance vs. S&P/ASX200 ETF	-2.66%	-1.14%	-1.20%	5.28%	0.10%	0.03%
Active Australian Equities Contribution to Total Portfolio Performance	-1.26%	-0.58%	-0.66%	2.81%	0.26%	0.09%



## 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, tobacco and exploitative lending practices.<sup>2</sup>
- 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 Fund.<sup>3</sup>

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 many stocks being excluded from consideration as a result.

Figure 5 reports on SRI compliance regarding carbon intensity (i.e. condition ii) as of 1 April 2021. Carbon intensity is calculated based on the volume of Scope 1 and 2 emissions (in tonnes) per \$1 million of revenue earned. The carbon intensity for the S&P/ASX200 ETF is sourced from the ANU Investment Office. The Fund is pleased to report a -62.1% reduction in carbon intensity relative to the S&P/ASX200 Index. This improvement exceeds the -30% target, with a preserved margin of 32.1%. Since September 2020, the Fund has observed material changes in the carbon intensity scores of specific holdings. Most significantly, the carbon intensity of BIN increased by approximately 45%, a situation that the Fund will continue to monitor closely moving forward.

**Figure 5: Current Position of the AAE Component in regard to SRI Compliance as of 1 April 2021**

	ASX200	BIN	ING	SHL	TLS	WBC	Total Active Stock Positions	Active Stock Positions vs. ASX200	Target Improvement	Margin
Weighting in AAE Portfolio	56.68%	6.03%	7.37%	8.75%	8.52%	12.65%	43.32%			
Carbon Intensity	201.0	309.8	86.8	15.5	70.0	4.8	76.2	-62.1%	-30.0%	32.1%

Conditions iii-v of the SRI Policy are evaluated on an ongoing basis by the Fund with respect to existing holdings and throughout the candidate stock analysis process. The Fund's commitment to excluding companies that are likely to cause an unacceptable level of 'social injury' was typified by the decision to not advance Credit Corp Group Limited through to the in-depth stage, after concerns were raised about the company's payday lending arm. Specifically, concerns were raised about the opaque nature of company's lending practices and the potential for payday lending to create spirals of debt. This decision also prompted a revision of the SRI Policy, which has been updated to incorporate exploitative lending practices under the exclusions list, in addition to some clarifying adjustments around the procedures and processes.

During the semester, the Fund considered an SRI issue relating to Telstra (TLS) after the Australian Competition and Consumer Commission (ACCC) instituted Federal Court proceedings for unconscionable conduct in the sales of post-paid mobile services to Indigenous customers. The incident occurred in November 2020 and an appraisal was completed by R&C in January 2021. It was determined that TLS was not in contravention of the SMF SRI Policy.

<sup>2</sup> 'Exploitative lending practices' was added to the exclusions list this semester, after a proposal to do so by the CRO was approved by the CIO and Fund Convenor.

<sup>3</sup> 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.

This decision was based upon two main points of consideration.

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

It was therefore determined that the likelihood of TLS causing an unacceptable level of 'social injury' in the future was low, and thus the company was not in contravention of Condition iii. Nevertheless, the incident highlighted why it is necessary to continuously monitor existing holdings and reinforced the importance of the SRI Policy in governing the Fund's operations.

Overall, the Fund continues to recognise the importance of adopting socially responsible investment practices. The policy will continue to be monitored in the future and updated as considered appropriate.

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