Australian National University
Student Managed Fund

ANU Student Managed Fund

Socially Responsible Investment Policy

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Research School of Finance, Actuarial Studies and Statistics
College of Business and Economics
The Australian National University
Canberra ACT 2601 Australia
www.anu.edu.au
CRICOS Provider No. 00120C

Contents

Glossary

AAE – Active Australian Equities

AA – Asset Allocation

ANU – Australian National University

ASX – Australian Stock Exchange

CBE – College of Business and Economics

CGS – Charter and Governance Structure

CIO – Chief Investment Officer

CO_2 – Carbon Intensity

CRO – Chief Risk Officer

ESG – Environmental, Social and Governance

ETF – Exchange Traded Fund

IAC – Investment Advisory Committee

IPS – Investment Policy Statement

R&C – Risk & Compliance

RSFAS – Research School of Finance, Actuarial Studies and Statistics

SMF – Student Managed Fund

SRI – Socially Responsible Investing

Socially Responsible Investment Policy

1. Purpose of this Document

This document outlines the Australian National University (ANU) Student Managed Fund (SMF) Socially Responsible Investment (SRI) Policy. The SMF SRI Policy is detailed on pages 3 to 6. It aims to ensure that the SMF portfolio is invested in accordance with ANU SRI Policy (see Appendix A) and the SMF's beliefs regarding socially responsible investing. Appendices provide supporting information, including a description of how the SRI Policy is implemented.

2. Overview

The SMF SRI Policy has two aims. First is to support sustainable business practices that are beneficial for society, while discouraging those that may cause social injury. Second is to ensure that the potential implications for returns are taken into account when evaluating investments. The Policy has been developed to align with both the Fund's investment objectives and processes, and to accord with the University's SRI Policy (see Appendix A). The SMF commits to continuously reviewing its SRI Policy to enhance its search for opportunities that are both profitable and purposeful, and will prudently reflect their socially responsibility values in the portfolio.

3. Scope of Policy

At the time of formulating this version, the SRI Policy is being applied to the active stock positions held within the Active Australian Equities (AAE) component of the SMF portfolio. The SMF seeks to extend the scope of the Policy to the exchange-traded funds (ETFs) held by the Fund, including those within the Asset Allocation (AA) component of the portfolio. This requires suitable SRI-based ETFs to become available that accord with both the investment and learning objectives of the Fund and the SRI Policy, noting that the SMF is only permissioned to invest in ASX-listed investments.

4. SMF SRI Policy Statement

The SMF SRI Policy is arranged into three broad sections. The first section establishes the grounds on which the SMF will not invest, and appears under 'investment exclusions'. The second section addresses activities that the SMF supports and hence are considered to enhance the case for investing, appearing under the heading of 'investment preferences'. The third section sets out how the SRI Policy influences portfolio formation.

4.1. Investment Exclusions

i. Exclude companies that draw more than 20 per cent of revenues from:
   As designated by the ANU SRI Policy (see Appendix A):
   a. Adult entertainment[1]
   b. Coal
   c. Gambling
   d. Tobacco

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[1] The SMF has broadened the scope from the ANU SRI Policy from 'pornography' to 'adult entertainment'.

Additional exclusions, as determined by the SMF:

e. Alcohol
f. Armaments
g. Exploitative lending practices, such as pay-day lending

ii. Avoid investments that are likely to cause an unacceptable level of 'social injury'.

4.2. Investment Preferences

iii. Favour investments that create 'social benefit'.

iv. Preference companies engaged in specific sustainable business activities and practices as determined by the SMF team. The current focuses under each of the ESG categories are:

E. Climate change action
S. Equity, diversity and inclusion
G. Corporate trustworthiness, including transparency, compliance and accountability

4.3. Portfolio Formation

v. The carbon intensity of the active stock positions held within the AAE component of the SMF portfolio must be at least 30 per cent lower than that of the S&P/ASX200, as measured by the tonnes of CO_2 produced per A$1 million of revenue.

vi. ETFs used in the reference portfolio and by the Fund to be kept under review, with the intent of transitioning to ETFs that more closely reflect the Fund's SRI Policy while appropriately representing the underlying asset class, once they become available.

vii. ESG ratings to be monitored both at the total portfolio and individual stock level, with exposure to below-market ESG scores investigated to ensure that this does not indicate exposure to investments that may cause an unacceptable level of social injury.

5. Compliance Responsibilities

It is the joint responsibility of the Risk and Compliance (R&C), AAE and AA teams to ensure that the SMF complies with the SMF SRI Policy. In addition, the Fund Convenor is responsible for ensuring that the SMF portfolio complies with all University policies, specifically the ANU SRI Policy detailed in Appendix A. The sub-team responsibilities are summarised below, with further detail regarding the responsibilities presented in Appendices B, C and D.

5.1. Risk & Compliance Team

The R&C team is primarily responsible for:

a) monitoring compliance with the SRI Policy;
b) reporting possible breaches;
c) ensuring that appropriate measures are taken to achieve compliance by advising and working with the Fund Convenor, the AAE team and the AA team; and
d) the reviewing and reporting functions in regard to SRI Policy.

An R&C Analyst will be nominated at the beginning of each semester to implement the SRI Policy procedures. The Chief Risk Officer (CRO) is required to review the ANU SRI Policy at the beginning of each semester to ensure the SMF portfolio remains in accordance with University policy. See

Appendix B for further details.

5.2. Active Australian Equities

As the manager of the AAE portfolio, the AAE team holds primary responsibility for implementing the SMF SRI Policy as set out in Section 4 with respect to the active stock positions held within the AAE component of the SMF portfolio. The AAE team will implement the SRI Policy in accordance with the AAE Investment Process (IP),[2] while ensuring that:

a) the investable universe is restricted in accordance with the investment exclusions;
b) the potential for social injury and the SMF investment preferences are taken into account;
c) the recommended portfolio complies with the carbon intensity target; and
d) ESG factors and ratings are given due consideration during stock selection and valuation.

See Appendix C for further details.

5.3. Asset Allocation

The R&C team is responsible for undertaking a search at the beginning of each semester for new SRI-based ETFs that are listed on the ASX. If a potential ETF is identified, an ETF Review will be undertaken by the AA team and a recommendation made that the ETF being used by the Fund be changed if the alterative ETF is found to be more suitable. A suitable ETF is defined as one that is a better fit with the SMF SRI Policy and investment objectives, including adequately representing the underlying asset class and being available at a reasonable management fee while being listed on the ASX. See Appendix D for further details.

6. Breach Management

An R&C Analyst will be nominated at the beginning of each semester to monitor the SMF portfolio for potential breaches of the SMF SRI Policy. Once a possible breach is identified, R&C will conduct an analysis of the issue with the assistance of the relevant Team Head and the Chief Investment Officer (CIO). The CRO will put forward a recommendation to the Fund Convenor as to whether the issue should be treated as a clear breach, a potential breach or no breach. If a clear or potential breach is determined, the Fund Convenor will then advise the Investment Advisory Committee (IAC) and the Director of the Research School of Finance, Actuarial Studies and Statistics (RSFAS). The procedure for each breach type appears below.

6.1. Clear Breaches

A clear breach occurs if there is no ambiguity in regard to the SMF contravening the SRI Policy. In this instance, the Fund Convenor will either act to address the breach as soon as practical, or otherwise propose and seek endorsement for a transition plan from the IAC and the Director of RSFAS in accordance with Section 10 of the ANU SRI Policy (see Appendix A).

[2] Available on SMF SharePoint under AAE 'Guiding Documents'.

6.2. Potential Breaches

A potential breach occurs where there is ambiguity in regard to whether the Fund is in contravention of the SRI Policy. In this case, the Fund Convenor will advise the IAC and the Director of RSFAS that an SRI Review will be conducted to establish if a breach exists, and commission the SMF team to undertake the Review as soon as practical. Once completed, a report on the Review and its findings will be provided to the Fund Convenor, the IAC and the Director of RSFAS. If the Review finds that no breach has occurred, approval for the finding will be sought from the Fund Convenor, who will advise the IAC and the Director of RSFAS. If the Review confirms a breach, the Fund Convenor will then either act to address the breach as soon as practical, or otherwise propose and seek endorsement for a transition plan from the IAC and the Director of RSFAS in accordance with Section 10 of the ANU SRI Policy (see Appendix A).

6.3. No Breach

No breach will occur if a determination results that the Fund is clearly not in contravention of the SRI policy. In this case, it is not necessary for the Fund Convenor to notify IAC or the Director of RSFAS.

7. External Reporting

The R&C team is required to prepare an SRI Report attesting to compliance of the SMF portfolio in regard to the SRI Policy. The report will be included in the annual and quarterly (i.e. mid-semester and end-semester) reports, in accordance with Section 9 of the Charter and Governance Structure (CGS). Appendix B (Section B.6) provides further details in regard to the SMF reporting requirements.

8. Review

The SRI Policy, and the implementation processes presented in Appendices B through to E, will be reviewed by the SMF team on an ongoing basis to ensure ongoing compliance with the ANU SRI Policy and consistency with the SMF values and investment processes. Any changes in the ANU SRI Policy must be incorporated within the SMF SRI Policy. Other changes to elements of the Policy that extend beyond the ANU SRI Policy can be made by the SMF team in accordance with its voting protocols,[3] subject to approval from the CIO and the Fund Convenor. Following approval, the Fund Convener is required to distribute the updated SRI Policy to the IAC and the Director of the RSFAS.

[3] As per the "Super Majority" Voting Method from SMF team decision protocols (see the "ANU SMF - Team Decision Protocol" in the CIO sub-site on SharePoint), a 75 per cent majority is required.

Appendices

Appendix A: The ANU SRI Policy

A.1. Application

The SMF fully supports the University's SRI Policy and its objectives on sustainability issues. According to Section 11 of the SMF's Investment Policy Statement (IPS), the SMF is to undertake best endeavours to operate to the spirit and intent of the University's SRI Policy, while taking into consideration its investment objective. Effectively, the SMF's investment decisions must comply with the ANU SRI Policy.

Violation of ANU SRI Policy by the SMF may give rise to reputational risk, if adverse public opinions emerge on the University, the College of Business and Economics (CBE) or the SMF itself. Section 7 of the SMF's CGS states that the tolerance for reputational risk is low, reflecting the possibility of heavy consequences.

Section A.2 reproduces verbatim the ANU SRI Policy as at the date of writing. Appendices B, C and D, which outline the procedures adopted by the respective sub-teams with respect to the SMF SRI Policy, may be read as the Fund's approach to implementing the ANU SRI Policy set out below. Section A.3 details how the ANU Investment Office applies the University's SRI Policy in its equity funds, as described in the *ANU Socially Responsible Investment Policy 2018 Report*.

A.2. The University SRI Policy Statement

1. The University directly manages a large investment portfolio. The aim of the portfolio is to deliver a balance of risk and return within parameters determined by the University. Investment returns from the University's investment portfolio support operational revenues, provide for payments on liabilities and underpin endowment mandates. In making these investment decisions, the University also considers its wider responsibilities as an investor.
2. To this end the University has developed a Socially Responsible Investment policy to provide guidance on what assets should be held in its investment portfolios. While the University has a fiduciary responsibility to maximise returns under its control, to diversify risk and to ensure the funds are efficiently managed, this policy also incorporates the need to assess and consider any social harm or benefit that might arise through these investment activities.
3. In making investment decisions, the University will aim to:
   - avoid investment opportunities considered to be likely to cause substantial social injury
   - positively promote investment in securities, companies, trusts and other entities that support socially beneficial outcomes
   - achieve a significant reduction in the overall carbon intensity of the investment portfolio relative to industry benchmarks
   - acknowledge the existence of competing social goods and choose to invest where the greatest return is achievable for the greatest social good
4. It is acknowledged that many large companies have diverse activities and that assessing a company's involvement in either 'avoid' or 'promote' activities requires the exercise of some professional analysis and judgement.

5. Market volatility and valuation may impact a company's 'avoid' or 'promote' activities and may be of short duration. Policy decisions should not be based on short duration issues.
6. It is acknowledged that divestment of assets can have negative unintended consequences for the long term returns achievable by the investment portfolio.

Compliance and Reporting

7. Finance Committee will monitor investments held in the University investment portfolio through reports provided by the Investment Office.
8. Each year, the Investment Office will report to Council through Finance Committee the University's compliance with this policy. This report will detail any deviation from the policy and actions taken to address non-compliance. This report will list any assets held which are in contradiction of this policy and the approved timeframe for reducing these investments.
9. While undertaking due diligence on new and existing assets held within the University investment portfolios, the Investment Office will ensure compliance with the principles provided for in this policy. Should there be any uncertainties regarding the compliance of specific investments, the Investment Director will discuss the matter with University Executive.

Transitional Arrangements

10. Where the University determines, pursuant to this policy, that an investment asset has become inconsistent with this policy, the University may implement a transition plan for the asset, as quickly as possible, but over a period of no more than three years. During this period, the asset held may return to conformity with the policy or the University may reduce its investment in the asset, timing any action to avoid any adverse impact on the University's overall investment position. The progress on the transition plan will be monitored and periodically reported to Finance Committee.

Source: https://policies.anu.edu.au/ppl/document/ANUP_005802

A.3. Application of the ANU SRI Policy to Equities by the Investment Office

Background

The Australian National University adopted a Socially Responsible Investment (SRI) Policy in July 2013. This policy contained clear Environmental, Social and Governance (ESG) benchmarks, becoming at the time one of only a handful of Universities worldwide to use responsible investment to advance its objectives on social and sustainability issues.

In October 2015, ANU Council approved the appointment of an external portfolio manager for its domestic equities portfolio. This step was undertaken to improve the management of its investments. The ANU makes no decision itself about individual stock selection. However, the external manager is required to meet the following conditions:

- Exclude companies that derive more than 20% of revenues from coal, gambling, tobacco or pornography;
- hold a portfolio with 25% less carbon intensity than the S&P/ASX 200; and
- ensure that the portfolio demonstrates a 10% improvement in the overall ESG rating relative to the benchmark.

In 2017, ANU took the added step of appointing three external mangers for the University's overseas equity investments. ANU appointed Antipodes Partners, Magellan Asset Management Ltd and the Royal Bank of Canada Global Asset Management from a field of 58 managers.

Under the arrangements, the ANU makes no decisions on individual selections of overseas stocks. The University, however, requires the external mangers to ensure the investments meet its SRI Policy.

Investments by the external managers must:

- Outperform the MSCI All Country World Index (ex-Australia) over a three-year time horizon;
- follow ESG-based sector exclusions, with no investment in companies which derive more than 20% of revenues from coal, gambling, tobacco or pornography;
- demonstrate the proactive incorporation of ESG concepts that are broadly in line with UN Sustainable Development Goals; and
- exhibit significantly lower carbon intensity than the benchmark.

Source: https://www.anu.edu.au/news/all-news/anu-socially-responsible-investment-policy-2018-report

Appendix B: Risk & Compliance - SRI Policy Procedures

B.1. Industry Exclusions

For existing holdings, the percentage of revenue each company derives from the investment exclusions list is reviewed at the beginning of each semester. If a company derives more than 15 per cent of revenues from the list, the SMF must be notified as part of the portfolio update in the next fund meeting. If a company exceeds the 20 per cent restriction, R&C is required to immediately notify the CIO, Head of AAE, and Fund Convener.

For potential holdings, the percentage of revenue a company derives from the investment exclusion list is calculated once AAE provides the candidate stock list. If the percentage of revenue exceeds 20 per cent, then the company is excluded from the candidate list.

The revenue breakdown for a company is expected to be obtained from the company's most recent annual report. In the case that the required figures are not reported in the annual report, other financial data sources may be utilised, e.g. Bloomberg.

B.2. SRI Reviews of Potential Stock Investments

B.2.1 Filtered List

R&C will assist AAE in the filtering process by conducting an independent SRI analysis of stocks being considered for further analysis. R&C will consider the following factors:

(a) Potential impact on the carbon intensity of the AAE portfolio if the stock was added, as per the carbon intensity model.

(b) The industries that the revenues are derived from, with consideration for:
- whether more than 20% of revenue is derived from the industry exclusions list; and
- any concerns that the industry may not align with societal expectations.

B.2.2. Candidate Stocks

R&C undertakes preliminary research on the candidate stock list put forward by the AAE team. The purpose is to provide an initial indication of whether a prospective investment might create a 'social benefit' or cause an unacceptable level of 'social injury'. To assist this process, the SMF ESG Rating Matrix (outlined below) provides a structure to guide this initial qualitative research. An industry template may be used to identify the most relevant ESG exposures of the stock, where scores are not otherwise available. With a focus toward each ESG subset, each candidate stock receives a 'social benefit,' 'neutral' or 'social injury' rating.

R&C is expected to source relevant SRI data (identified by the CRO and Head of AAE), to both help form its own opinion, and to provide to the AAE team to assist with the integration of SRI within the investment process. Potential data sources include:

- ESG Ratings - Sustainalytics, Arabesque, MSCI, Eikon
- Carbon Disclosure Project (CDP) Integrated Performance Scores
- ISS Governance QualityScores

In some cases, R&C will be required to conduct in-depth SRI analysis on a candidate stock before AAE commence their analysis. This will be assigned by the AAE Team Head on an ad hoc basis.

B.2.2. In-depth Stock Research

R&C will conduct a more comprehensive analysis on the stocks selected to progress to the in-depth analysis stage. This will entail a more thorough completion of the SMF ESG Rating Matrix set out below, with the research focused toward those Environmental, Social and Governance factors that the SMF team has identified as material.

The R&C team also reviews the SRI analysis of the AAE team and undertakes further independent research focused toward a stock's potential 'social injury'. This provides greater assurance that a company that may cause unacceptable 'social injury' is not recommended to the IAC nor held within the AAE component of the SMF portfolio.

B.2.3. SMF ESG Rating Framework

The SMF ESG Rating Matrix, available in the Risk Management Folder on SharePoint, provides structure for the research that R&C undertakes, to be delivered to the AAE team. The Framework ensures the research focus is toward Environmental, Social and Governance factors that the SMF team has identified as material. The intention is to regularly review and update the Framework, ensuring that each subset and item are directed at focusing attention on relevant factors. At the beginning of each semester, the R&C team will liaise with the AAE team in this regard. This should be completed prior to stock related research.

Indicative SMF ESG Rating Matrix

	Subset	Item	Level of Impact	Notes
Environmental	Climate Change	Carbon Emissions Product Carbon Footprint Finacing Environmental Impact Climate Change Vulnerability		
	Natural Resources	Water Stress Biodiversity And Land Use Raw Material Sourcing		
	Pollution and Waste	Toxic Emissions And Waste Packaging Material and Waste Electronic Waste		
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Green Building Opportunities in Renewable Energy		
	Other			
Social	Human Capital	Labor Management Human Capital Development Health and Safety Supply Chain Labour Standards		
	Product Liability	Product Safety and Quality Chemical Safety Financial Product Safety Privacy and Data Security Responsible Investment Health and Demographic Risk		
	Stakeholder Opposition	Controversial Sourcing		
	Social Opportunities	Access to Communications Access to Finance Access to Healthcare Opportunities in Health And Nutrition		
	Other			
Governance	Corporate Governance	Board Diversity Executive Pay Ownership and Control Accounting		
	Corporate Behaviour	Business Ethics Anti Competitive Practices Tax Transparency Corruption and Instability Fianacial System Instablity		
	Other			

Source: MSCI ESG Ratinghttps://www.msci.com/esg-ratings

B.2.4. Sector ESG Research

The R&C Sector ESG Research, available in the Risk Management Folder on SharePoint, is designed to assist the AAE team to integrate ESG-related risks within their in-depth valuations. The R&C team reviews the sector research on a semi-annual basis, ensuring the content remains relevant and up to date. This is provided to the AAE team prior to the in-depth stock analysis stage.

B.2.5. ESG Peer Comparison

The R&C team will collate an ESG Peer Comparison for the stocks that are selected to proceed to the in-depth analysis stage. The R&C team is required to identify 'Material Issues' impacting the stock relative to its industry peers. The intention is to provide the AAE team with an understanding of a stock's ESG position to support the stock analysis, and potentially to be incorporated into the valuation process. The MSCI ESG Ratings can be used as a template for the comparison: an example appears below for Westpac.

Indicative ESG Peer Comparison: Example for Westpac Banking Corporation

	Material Issue	Description*	Impact on Valuation**
Laggard	Financial Product Safety	Potential for unanticipated credit losses, litigation, or regulatory change related to financial products that lack transparency or are unsafe to the end-user.	Conduct scenario analysis where fines materialise or unsavoury financial products cease to operate.
	Financial System Instability	Risk oversight, governance, and commitments to ethical standards and the extent to which they may face enhanced regulatory scrutiny because of their contributions to systemic risk in financial markets.	Potential adjustment to discount rate if industry instability is deemed to be not already 'priced in'.
Average	Corporate Governance	Extent to which corporate governance practices may pose risks to investors.	No impact.
	Access to Finance	Potential for regulatory risks, cost increases or reputational damage from a data breach or controversial use of personal data.	No impact.
	Privacy and Data Security	Efforts to take advantage of opportunities for growth in finance products and services in developing countries and underserved markets (e.g. rural, small business).	No impact.
ESG Leader	Human Capital Development	Capacity to attract, retain and develop their human capital.	No impact.
	Financing Environmental Impact	Potential credit or reputational risks from indirect exposure to the environmental concerns facing borrowers.	No impact.

**Prepared by an R&C Analyst   **Prepared by an AAE Analyst*

Source: Adapted from MSCI ESG Ratings for Westpac, see https://www.msci.com/esg-ratings/issuer/westpac-banking%20corporation/IID0002125235

B.3. Analysis and Portfolio Construction

B.3.1. ESG Scores

For the purpose of Section 4.3(vii) of the Policy, the ESG scores for the AAE component of the SMF portfolio and the S&P/ASX200 are calculated quarterly. The ESG score for the AAE component of the SMF portfolio is calculated based on the holding-weights in the active stock positions. This is compared against the ESG score of the S&P/ASX200, calculated on both an equally weighted and capitalisation-weight basis for reference. In the case a company does not have a score, a score is determined based on an equally weighted score for its industry peers. The ESG scores are provided by Sustainalytics, and are sourced from the BT Panorama platform. The SMF selected Sustainalytics as the primary ESG provider on the basis that Sustainalytics provides greater coverage across stocks and 'ratings' that are more rounded than alternative agencies. As there is a range of shortcomings associated with ESG ratings, including inconsistencies across agencies, the SMF has opted to utilise a variety of agency ratings and independent research in addition to the Sustainalytics ratings.

B.3.2. Carbon Intensity

The carbon intensity of the AAE component of the SMF portfolio is calculated from the active stock positions using tonnes of CO_2 produced per A$1 million of revenue on a holding-weighted basis. This is compared with the carbon intensity of the S&P/ASX200 estimated on a market-capitalisation basis, to ensure that the carbon intensity of the AAE portfolio is at least 30 per cent lower than the S&P/ASX200.

Stock carbon intensities are sourced via Bloomberg. If no data is present, the CO_2 score is calculated from the company's most recent Annual Report or Sustainability Report. In the event that this is not possible, an average of industry peers is used.

The ANU Investment Office produces an Annual SRI Report related to its active investments, which is utilised as a source for the carbon intensity of the S&P/ASX200. The benchmark is updated by R&C following the release of the ANU SRI Report, which usually occurs around mid-year.

B.4. Monitoring

The R&C team is responsible for monitoring the SMF portfolio in regard to the SRI Policy. An R&C analyst, nominated at the beginning of each semester, is primarily responsible for the monitoring functions. These functions ensure that appropriate measures are taken to maintain compliance by advising and working alongside the Fund Convenor, the AAE team and the AA team. The Compliance Checklist, available in the Compliance Monitoring folder on SharePoint, is designed to assist with this process. The Checklist ensures that that each sub-team is taking appropriate measures to maintain compliance with the SRI Policy. This process is overseen by the CRO.

Compliance Checklist

Compliance Responsibilities	Review	Timeline	Analyst/Team Head Approval	CRO Approval
Student Managed Fund Team				
Sustainable Business Activity Preferences	Undertake review of the preferences	Annually		
Risk & Compliance Team				
ANU SRI Policy*	Ensure SMF SRI Policy is compliant with the ANU SRI Policy	Beg. Semester		
Investment exclusions (portfolio holdings)	Review the AAE portfolio in respect to the investment exlusions.	Beg. Semester		
Portfolio carbon intensity	Calculate the carbon intensity of the AAE portfolio and ASX200.	Beg. Semester		
AAE portfolio ESG rating	Calculate the ESG rating of the AAE portfolio and ASX200.	Beg. Semester		
ETF Review	Review whether any SRI ETFs have become ASX listed.	Beg. Semester		
Investment exclusions (prospective investments)	Undertake investment exclusion analysis on the candidate stock list	Candidate stocks		
Social injury (prospective investments)	Undertake preliminary research on the candidate stock list.	Candidate stocks		
Social injury (prospective investments)	Undertake in-depth research on the in-depth stocks.	In-depth stocks		
Reporting requirements	Attest to the reporting requirements.	Mid-sem Report		
Reporting requirements	Attest to the reporting requirements.	End-sem Report		
Australian Active Equities Team				
Transitional arrangements	Review the timeline of any current transitional arrangements.	Beg. Semester		
Investment exclusions (candidate stock list)	Review the candidate stock list to remove any clear exclusions.	Beg. Semester		
Social injury (portfolio holdings)	Review the current holdings in respect to 'social injury'	Beg. Semester		
Social injury (prospective investments)	Undertake research on the in-depth stocks.	In-depth stocks		
Asset Allocation Team				
ETF Review	Review available ETFs in respect to current holdings	Beg. Semester		
Chief Investment Officer				
Compliance approval	Ensure the compliance process is complete	End. Semester		

The analyst/team head is required to undertake the monitoring of the respective review. The Chief Risk Officer (CRO) oversees the process.

**The monitoring is undertaken by the CRO, and overseen by the Fund Convener.*

B.5. Handling of Possible Policy Breaches

The nominated R&C Analyst will alert the CRO if a possible breach of the SRI Policy is identified. The CRO will then decide if a confirmed or potential beach has occurred, and accordingly advise the relevant Team Head, the CIO and the Fund Convenor. The procedure for managing possible breaches is set out in Section 6 of the SRI Policy.

B.6. Reporting

B.6.1. External Reporting

The R&C team is required to prepare an SRI Report attesting to the compliance of the SMF in regard to the SRI Policy. If a breach has occurred during the semester, the report must detail the breach and the subsequent actions taken. If a transitional arrangement is in place, an update on its progress is required. The R&C team is further required to report the carbon intensity of the AAE component of the SMF portfolio in respect to the S&P/ASX200. The SRI Report will be included in the annual and quarterly (i.e. mid-semester and end-semester) reports, in accordance with Section 9 of the CGS.

While the Sustainable Business Activity Preferences are largely an internal matter (see Section B.6.2), the SMF team may decide to provide an overview within external reports such as the Annual Report. This would be student led. If prepared, the purpose would be to detail specific changes to the preferences, and how these may impact the stock selection process.

B.6.2. Internal Reporting

The R&C team provides semi-annual updates to the overall SMF team on the implementation of the SRI Policy, identifying any issues that need to be addressed. Moreover, on an annual basis, R&C also provides an update to the SMF team on the whether the sustainable business activities as detailed in Appendix E have been effective and whether their scope is appropriate.

Appendix C: Active Australian Equities - SRI Policy Procedures

C.1. Implementation of the SRI Policy

It is the AAE team's responsibility to ensure that the SMF SRI Policy is implemented with respect to the active stock positions held within the AAE portfolio component. This includes:

a. Only considering stocks that are not precluded by the industry exclusion policy (i.e. 20 per cent revenue limit on adult entertainment, alcohol, armaments, coal, gambling and tobacco).

b. Maintain compliance with the requirement for a 30 per cent reduction in carbon intensity, to be implemented in the portfolio construction stage.

c. Ensuring that stocks are not recommended or held that are likely to cause unacceptable social injury.

d. Evaluating the potential for generation of social benefit, taking into account the SMF's preferences for sustainable business activities and practices.

Points c and d will be achieved through the analysis of the company and its industry with support from the R&C team. SRI considerations are to be taken into account within the candidate stock analysis, with additional research occurring at the in-depth analysis stage. ESG scores will be considered as signposts to items requiring further investigation. In addition to meeting the criteria set out under the SRI Policy, the AAE team aims to integrate SRI analysis into the stock selection process by considering the relevance of Environment, Social and Governance (ESG) factors for risk, return and valuations. Further detail on items that will be considered appears below.

C.2. Evaluation of Social Injury and Social Benefit

While it is the joint responsibility of R&C and AAE to analyse a company on the basis of social benefit and social harm, the AAE team is ultimately responsible for deciding to pursue an investment and is therefore responsible for the decision making based on the combined research. This analysis is designed to be directly in-line with the objectives set out in the SRI Policy and aims to reflect positively on companies that provide 'social benefit', while penalising those associated with 'social injury.'

C.2.1. Social Injury

Potential for a company to cause substantial 'social injury' will be explicitly analysed and considered. If this potential is deemed too high, then the stock will not be considered for recommendation in accordance with the SRI Policy. Reputational risk is a major consideration for both the Fund and the University, and if there is a significant chance that a prospective investment may bring either into disrepute then it is to be avoided.

C.2.2. Social Benefit

The AAE team will adopt a preference for holding stocks that support socially beneficial outcomes. For instance, if two stocks are of approximately equally attractiveness on a valuation basis, the stock that provides greater social benefit will proceed. The AAE team further preference companies engaged in the SMF sustainable business practices (Appendix E).

The evaluation of ‘social injury’ and ‘social benefit’ may depend on dimensions other than current severity or magnitude. In particular, the efforts of a company to reduce or mitigate socially damaging activities may be considered in the evaluation. In this sense, the analysis is aimed to be more forward looking, with focus on the likelihood of a company of creating ‘social injury’ in the future.

The structured research provided by the R&C team should not be the full extent of ESG related research conducted. The AAE team is expected to perform its own research beyond the information provided by R&C.

C.3. Use of ESG Scores

ESG scores will be provided by R&C for consideration at the individual stock level, and for monitoring the overall ESG score of the AAE portfolio relative to the S&P/ASX200 average.

ESG scores are to be used to help identify the important ESG considerations for a particular company. It is expected that ESG scores are not the extent of the ESG research conducted, but are instead used to direct efforts towards specific areas that require additional investigation. Score breakdowns are more important than the overall score itself, and should be used as a ‘red flag’ for pertinent ESG areas to examine further.

If the ESG score for a company is lower than the S&P/ASX200 average, the onus is on the AAE team to understand the reasons behind the discrepancy and justify the continued consideration of the company. There is recognition that ESG scores can be negatively impacted by external factors such as insufficient disclosure in specific areas, and that companies which may not be creating any particular social injury and are even generating socially beneficial outcomes could potentially be assigned low ESG scores. However, the Fund recognises the value in considering ESG scores, and does not aim to disregard this information but instead to better understand the score itself.

Furthermore, the AAE team should monitor the portfolio’s average ESG rating calculated by R&C as an additional step of accountability, and to help ensure that the AAE portfolio is maintaining a comprehensive SRI focus. If the portfolio’s overall ESG score is lower than the S&P/ASX200, the onus is on the AAE team to explain why this is appropriate in light of the SRI Policy, in particular that it does not indicate exposure to potential for social injury.

C.4. Incorporating ESG Factors into Stock Valuations

Three main mechanisms for incorporating ESG factors into the company model and hence valuation are set out below. Where possible, analysts should aim to translate ESG factors into future cash flows either directly (method a) or through scenario analysis (method b), as this will provide greater insights and clarity as well as an increased accuracy in quantifying impact. Adjusting the discount rate (method c) may be used to capture general effects where the impact is not directly identifiable.

a. Incorporating into cash flow forecasts

Where research indicates that ESG factors are likely to lead to identifiable cash flow effects, then this should be incorporated directly into the DCF Model, in the same way as other information is incorporated. These cash flow effects may relate to growth opportunities, costs or capital spending requirements. ESG factors may also impact on the company’s general competitive position. In this case, they may be incorporated through adjusting the value drivers such as sales growth, margins or return on capital.

b. Conducting scenario analysis

Scenario analysis may be appropriate in cases where ESG effects are in the nature of a potential outcome, and are quantifiable in terms of the effects on future cash flows. This scenario analysis would aim to capture the impact on valuation if the potential outcome materialised. Examples include potential fines, loss of customers due to irresponsible corporate behaviour and exposure to climate change vulnerability.

c. Adjusting the discount rate

There may be additional ESG factors that are not easily addressed through the above mechanisms, as they are inherently difficult to translate into identifiable cash flow effects. An example would be poor governance. An adjustment to the discount rate may be appropriate in these circumstances to capture the altered confidence in future cash flows. This adjustment effectively alters the return required to invest in the stock in recognition of ESG-related risk. It is envisioned that the discount rate will be predominantly used to incorporate adverse effects, though the scope is open to positive impacts as well.

C.5. Incorporating SRI into Stock Recommendations

There are two dominant SRI considerations that underpin stock recommendations:

a. Does this stock conflict with SMF policy?

A stock should not be considered any further if it breaches the exclusion policy, disrupts the Fund's compliance with the carbon intensity benchmark, or the potential for a company to cause substantial social injury is deemed too high.

b. How have the ESG factors impacted the valuation?

After considering ESG factors when valuing a company, the AAE team needs to decide if the investment is still desirable. If an investment is no longer attractive after considering ESG factors, it might be worth assessing how the ESG factors were integrated into the valuation for confirmation that the analysis has been done appropriately before discarding it from further consideration. If the stock does not proceed to a recommendation, the research along with a summary of reasons for not proceeding should be placed on record for the benefit for future SMF cohorts.

C.6. Presentation of SRI Analysis in Stock Reports

ESG considerations are to be explicitly addressed in the Stock Recommendation Reports presented to the IAC under the 'ESG Commentary' section. The commentary should identify the two to four most material ESG risks or opportunities facing each company and the rationale behind the assessment. Any serious ESG controversies the company has faced recently should be identified. This section also provides the opportunity to explain how ESG issues have impacted on the valuation. The overall aim of this section is to promote greater transparency and clarity surrounding our integration of ESG related analysis.

Appendix D: Asset Allocation - SRI Application

D.1. Background

The Policy requires the R&C team to undertake a search at the beginning of each semester for new SRI-based ETFs. If a potential ETF is identified, an ETF Review is to be undertaken by the AA team, given that it is responsible for managing the AA of the Fund through ETFs. The ETFs are intended to represent the broad asset classes in which the Fund invests, to facilitate efficiency of analysis and ensure that the AA team is not managing a form of active strategy. However, the ETFs that form the SMF reference portfolio and are held by the Fund may not strictly adhere to the SRI Policy, to the extent that some index constituents may contravene the exclusion policies and there is no improvement in carbon intensity relative to the market. The Fund is also permitted to invest only in ASX-listed securities (with exception of some cash-based instruments such as the term deposits and the cash management trust), which has to date constrained the ETFs that are available to the Fund.

Against this background, the SMF seeks to extend the scope of the Policy to the broader SMF portfolio, with the preference to invest in ETFs that better reflect the SRI Policy. Although, this is given that the ETFs provide an adequate representation of the underlying asset class and are listed on the ASX.

D.2. ETF Review Procedure

At the beginning of each semester, the AA team will evaluate whether any new ETFs identified by R&C are more suitable for the SMF than the current ETF holdings. A suitable ETF must not only provide a better fit for the SRI Policy, but must do so in a way that does not meaningfully inhibit the ability of the SMF to achieve its investment objectives and does not contravene any Fund policies. The key characteristics include:

a. The extent to which the ETF represents the asset class (rather than embedding an active strategy);

b. The ETF must be ASX-listed;

c. Whether the index on which the ETF is based reflects the principles underpinning the SMF SRI policy, in particular those related to carbon intensity and industry exclusions;

d. The ETF should be available at an acceptable cost, e.g. a reasonable management fee.

Additional considerations that may be used to evaluate whether an available ETF is a suitable SRI-based alternative are listed below:

- Investment objective (i.e. passive, SRI principles being applied)
- Exclusion policy
- Construction (i.e. index benchmark, number of holdings, reported holding structure)
- Trading information (i.e. liquidity)
- Correlation or tracking error versus the existing SMF ETF or other relevant market benchmark
- Availability of index characteristics such as P/E ratio, ROE, yield, duration, as these data are used as inputs into the AA models

The results of any SRI ETF reviews should be documented on the Sharepoint document named 'ANU SMF – RC SRI ETF Screen'.

D.3. Procedure for Changing ETFs

D.3.1. Recommendation to SMF

If the AA team identify an ETF as a more suitable alternative, an investment recommendation is presented to the SMF team. A proposal is distributed to the SMF team through the Suitable ETF Analysis Report, available in the ETF Review folder on SharePoint. This is followed by a formal presentation, which includes a comprehensive overview of the report's content. The decision to put a recommendation to the IAC for endorsement will follow an anonymous poll.[4]

D.3.2. Recommendation to IAC

Following SMF team approval, the CIO proposes that a recommendation be presented to the IAC subject to approval by the Course Convenor. The recommendation will be presented to the IAC by the Head of AA, along with any other analyst instrumental to the recommendation.

D.3.3. Implementation

Once endorsed by the IAC, the Fund Convenor is responsible for implementing the associated trades.

D.3.4. Monitor and Review

The ETF will remain included within the ETF Review Procedure (Section D.2). This ensures an appropriate evaluation is conducted to identify whether new ETFs have become available that may again be more suitable for the SMF.

[4] As per the "Super Majority" Voting Method from SMF team decision protocols (see the "ANU SMF - Team Decision Protocol" in the CIO sub-site on SharePoint), a 75 per cent majority is required. Given quorum is reached, the Convenors and the CIO possess veto status.

Appendix E: Sustainable Business Activity Preferences

Collectively, the SMF team has identified three Sustainable Business Activity Preferences within the Environment, Social and Governance fields that it wishes to support, and hence will favour when constructing the SMF Portfolio. The preferred activities have been selected on the basis that each aligns closely with beliefs that have been expressed by the SMF team members or the University investment beliefs, while according with the SMF SRI Policy in regard to social benefit. These preferences are categorised under E, S and G to ensure that each is addressed when analysing stocks and constructing the AAE portfolio. Narrowing the focus in this way provides structure when identifying 'social benefits'.

The preferences are reviewed on an annual basis, to allow for emerging ESG issues and ensure ongoing consistency with the beliefs and values and the SMF team members and the University. Alternative preferences may be proposed by any SMF team member. If approved for consideration,[5] a team of students will be selected to undertake research on the proposal. This process will be overseen by the R&C team to ensure the selected preferences align with the SRI Policy. Any proposal to change the Sustainable Business Activity Preferences will be presented to the Fund, and a poll is conducted.[6] If the proposal is approved, the selected team will prepare a report, which is then distributed to the IAC and the Director of the RSFAS. A change in preferences does not require IAC endorsement, but can be vetoed by the Fund Convenor if it contravenes University policy.

E.1. Selected Preferences

E.1.1. Environment: Climate change action

The SMF team has identified climate change as its core Environmental focus. Climate change presents a major threat to the planet, and is a prominent systematic risk to domestic and global financial markets. Moreover, a focus on climate change aligns with the SMF carbon intensity reduction target, and the University's pledge to become carbon-negative "as fast as possible." As cited by Vice-Chancellor, Brian Schmidt, the impact of climate change is "an almost universal concern across our campus." [7]

E.1.2. Social: Equity, diversity and inclusion

The Fund has selected equity, diversity and inclusion as its central Social focus. Evidence suggests that equity, diversity and inclusion does not negatively impact financial performance and may even create superior performance, along with a host of societal benefits. The focus aligns closely with the SMF selection committee's gender equity aspirations, as well as the broader University commitment toward equity and diversity in "actively building a more inclusive culture" with the recognition that "there is more to be done."[8]

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[5] As per the "Super Majority" Voting Method from SMF team decision protocols (see the "ANU SMF - Team Decision Protocol" in the CIO sub-site on SharePoint), a 75 per cent majority is required. Given quorum is reached, the Convenors and the CIO possess veto status.
[6] As per the prior footnote the Super Majority Voting Method is used.
[7] Australian National University, State of the University Address, 2020.
[8] Australian National University, Gender Equity & Inclusion, see https://www.anu.edu.au/about/strategic-planning/gender-equity-inclusion.

E.1.3. Governance: Corporate trustworthiness – transparency, compliance and accountability

Corporate trustworthiness has been selected due to its increasing importance to the Fund's implementation of ESG considerations throughout its investment process. We view corporate trustworthiness as encapsulating a company's focus on transparency, compliance with regulatory bodies and accountability in non-financial as well as financial areas. The SMF believes that companies which exhibit dedication to these key areas are less exposed to value destruction and more likely to provide social benefits. Greater transparency assists the Fund to make informed investment decisions by supporting better identification of ESG factors, as well as helping to mitigate exposure to potential reputational risk. The SMF further believes that management teams that are capable of self-regulation provide less exposure to regulatory scrutiny and tend to be more proactive towards social responsibility.