



Australian  
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# ANU Student Managed Fund

## Mid-semester report – Semester 1, 2022

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### Notes:

All dollar amounts in this report are Australian dollars.

This report is written by the members of the Relationship Team of The Australian National University (ANU) Student Managed Fund (SMF), in conjunction with other SMF team members. It has been reviewed by the SMF Convenors, the Director of Research School of Finance, Actuarial Studies and Statistics (RSFAS) and the Communications team of the ANU College of Business and Economics (CBE). Any enquires, feedback or comments can be directed to [smf.rsfas@anu.edu.au](mailto:smf.rsfas@anu.edu.au).

Further information on the ANU SMF can be found at: <https://rsfas.anu.edu.au/study/student-managed-fund>.

### Disclaimer:

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## Glossary

**AA** – Asset Allocation

**AAE** – Active Australian Equities

**AC** – Australian cash and accruals

**AE** – Australian equities

**AFI** – Australian fixed income

**AMA** – ‘Ask Me Anything’

**ANU** – The Australian National University

**BBRMF** – Behavioural Bias Risk Management Framework

**BHP** – BHP Group Limited

**BXB** – Brambles Limited

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

**CIO** – Chief Investment Officer

**CPI** – Consumer Price Index

**CRO** – Chief Risk Officer

**CSA** – Candidate stock analysis

**DM,H** – Hedged developed market equities

**DM,U** – Unhedged developed market equities

**DOW** – Downer EDI Limited

**ESG** – Environmental, social and governance

**ETF** – Exchange-Traded Fund

**EM** – Emerging market equities

**IAC** – Investment Advisory Committee

**IE** – International equities

**ING** – Inghams Group Limited

**IPS** – Investment Policy Statement

**IOZ** – iShares Core S&P/ASX 200 ETF

**PC** – Portfolio construction

**R&C** – Risk and Compliance

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

**RT** – Relationship Team

**SHL** – Sonic Healthcare Limited

**SMF** – ANU Student Managed Fund

**SRI** – Socially responsible investment

**TLS** – Telstra Corporation Limited

**QBE** – QBE Insurance Group Limited

**WBC** – Westpac Banking Corporation

## Chief Investment Officer (CIO) report

Whilst the past six months have been turbulent for global financial markets, the SMF) has proved resilient and embraced the period as a valuable learning opportunity. For the period from 1 January to 8 April 2022, the portfolio value declined by -2.05%, underperforming its reference portfolio by -0.77%. However, the cumulative per annum return since inception remains strong at 9.77%, well above the target return of 7.27% while outperforming the reference portfolio by 0.15%. This demonstrates the success of the Fund's long-term value investing strategy.

The junior team members have been quick to familiarise themselves with the Fund's key values and grasp their individual roles and responsibilities. The senior members have concurrently demonstrated exceptional leadership, striking the right balance between directing high-quality discussion and encouraging the juniors to contribute.

A recurrent theme across all sub-teams is the commitment to continuous improvement. This is evidenced by multiple policy documents being in development. The Risk and Compliance (R&C) team has drafted a revised version of the Socially Responsible Investing (SRI) Policy to better delineate the policy and responsibilities of each team. An update of the Investment Policy Statement (IPS) is being planned to improve the efficacy of the rebalancing procedure. Finally, both the Active Australian Equities (AAE) and Asset Allocation (AA) teams are committed to refreshing their respective investment process documents.

Further highlights for each of the sub-teams so far this semester include those listed below.

- The AA team finalised a 10% position in emerging market equities (EM) while simultaneously rebalancing the broader portfolio. The transaction demonstrated AA's adoption of a holistic approach to portfolio management that is forward looking, opportunistic and well considered.
- The AAE team has continued with the thematic approach to stock selection introduced last semester. Stocks chosen to proceed to in-depth analysis are Downer EDI (DOW) and QBE Insurance (QBE). Analysis of BHP Group Limited (BHP) is pending further consideration of the approach to SRI for the stock and the resource sector overall.
- The R&C team have drafted a revision of the SRI Policy and begun to trial the new proposed processes. R&C are leading the in-depth SRI review of BHP, which will serve as an important legacy document for the resources sector beyond this semester.
- The Relationship Team (RT) have been actively involved in all SMF operations, working hard behind the scenes to assist other teams and publicise the Fund's activities. RT has introduced a new LinkedIn initiative to bolster engagement and attract future applicants.

The Fund welcomed guest speaker Michael O'Neil of Investors Mutual Limited to discuss the banking and insurance industries. Mike has been instrumental in helping AAE build their insurance valuation model and generously continues to support the team in their analysis of QBE.

Finally, the Fund is excited to report that the first in-person meeting was held in March after over two years of COVID-19 restrictions. The energy of discussions highlighted the value of face-to-face interactions. The Fund looks forward to more of these opportunities in the term to come.

*Hannah Young, CIO*

## Team updates

The following updates introduce new members, detail recent activities and outline upcoming priorities for each sub-team.

### Asset Allocation (AA) team

The AA team welcomes Callum McGarty, Stephanie Trinh, and Michael Salter as Analysts this semester. Under the direction of Team Head Zachary Taylor, their individual talents and proficiency have allowed them to integrate quickly to become effective members of the team.

Following the Investment Advisory Committee (IAC) endorsement of a two-tranche addition of the EM asset class last semester, the AA team has now completed the second tranche and used the trades to move the portfolio closer to target weights. In doing so, the team identified an opportunity to avoid crystallising short-term downward movements in equities by funding a portion of the trades using the overweight Australian cash (AC) position. Further, the AA team has rebalanced the defensive portion of the portfolio by purchasing Australian Fixed Income (AFI), taking AC and AFI back to target weights. This realises some of the outperformance following a successful decision to switch 7.5% from AFI to AC in October 2020.

Moving forward, the AA team is seeking to expand the scope and detail of its investment process. The team is taking a deep dive into the exposure to currency, industry sectors and credit risk within the portfolio. It is exploring the incorporation of shorter-term (three-year) forecasts into the Portfolio Construction (PC) model. AA is also conducting research into potential new asset classes such as commodity exchange traded funds (ETFs) and listed property. The aim is to deepen understanding of the factors at play in the portfolio and widen the investible universe for future cohorts.

*Zachary Taylor, Head of AA*

### Active Australian Equities (AAE) team

The AAE team has benefitted from an increase in capacity this semester, with the team growing to seven members. This includes new Analysts Olivia Cameron, Jayden Pham, Janet Thudyan, Hugo Heanly and Hugo Klimt, who are working under the guidance of Senior Analyst Samuel Watson and Team Head Jonathan Boyd.

Analysts began the semester by conducting candidate stock analysis (CSA) on thirteen companies, identified using a thematic stock filtering process developed over the last year. The themes included capitalising on infrastructure spending, performance in a rising interest rate environment, and protection from inflation. Companies were also filtered with reference to quantitative valuation metrics and environmental, social and governance (ESG) qualities, before being selected for in-depth analysis. DOW emerged as a potential contender that provides exposure to a long-term pipeline of infrastructure, transport and utilities projects. The financial sector was adopted as a focus area, in part because it has historically performed well in rising interest rate environments. The AAE team is undertaking a deep dive into the Australian banking industry, with scrutiny on the risks associated with decentralised finance, residential mortgage exposure and government regulation. The team is also analysing QBE – the first time that the SMF has examined an insurance company. The resources sector is being considered, given a current underweight position that exposes the portfolio to commodity inflation. BHP is being analysed from both a valuation and ESG perspective to potentially gain exposure to the sector.

As part of the revaluation process of our current holdings, the AAE team decided to purchase shares of Inghams Group Limited (ING) to rebalance back to the target portfolio weighting of 10%. Our positions in Brambles Limited (BXB), Westpac Banking Corporation (WBC) and Telstra Corporation Limited (TLS) are yet to be reviewed.

*Jonathan Boyd, Head of AAE*

## Risk and Compliance (R&C) team

The R&C team is pleased to welcome the addition of two Analysts this semester – James Gray and Nimeth Dissanayake. Under the guidance of Senior Analysts Jie Qi Tay and Liying Xue, and Chief Risk Officer (CRO) Daniel Dwyer, Nimeth and James have made a meaningful impact already. Both juniors have presented on SRI and behavioural bias matters and are solid contributors to R&C and Fund-level discussions.

R&C continues to closely monitor both portfolio performance and compliance, with the latter critical in ensuring that the Fund remains compliant with the IPS and SRI policy. The team continues to successfully implement the Behavioural Bias Risk Management Framework (BBRMF) and has suggested strategies to mitigate ‘production blocking’ to ensure that sufficient opportunity is given to consider materials prior to Fund-level discussion. Moving forward, the R&C team will observe behavioural biases on an ongoing basis whilst collaborating with other sub-teams on group projects to provide a greater level of insight and feedback. Upcoming tasks include continuation of the red-teaming initiative with the AAE team on potential investments in DOW and QBE, and collaborative projects with the AA team and RT on portfolio-wide risk analysis and report writing strategies, respectively.

Incorporating ESG principles through the Fund’s SRI policy remains a key focus. Separate SRI and reputational risk votes are being implemented at the CSA stage; with discussions during Fund-level meetings highlighting that BHP requires further consideration on these grounds. Given this, the R&C team will be conducting an in-depth investigation as to whether BHP presents an unacceptable level of social injury or reputational risk in the coming weeks. As part of this process, R&C will look closely at the Australian mining sector as a whole and determine BHP’s position in relation to peer. Climate transition will be a particular focus, which the SRI policy nominates as a key environmental focus area.

*Daniel Dwyer, CRO*

## Relationship Team (RT)

Joining the RT this semester as Relationship Officers are Anvi Ghiya and Bella White, operating under the supervision of Engagement Manager Liam Asmaro and Relationship Manager Julie Lin. Both juniors have shown strong enthusiasm and initiative, which has seen them make significant contributions to the RT’s perpetual goal of increasing the Fund’s presence.

RT continues to communicate the Fund’s activities to external parties through Facebook and LinkedIn, releasing regular social media posts to maintain engagement. The team has published highlights of recent investment recommendations, as well as a four-part series to introduce the SMF sub-teams. Upcoming content includes guest speaker spotlights for David McGregor of Atlas Infrastructure as well as Michael O’Neill, and interviews with both SMF alumni and the latest recipient of the RSFAS SMF Equity Scholarship. Additionally, the team hosted an ‘Ask me Anything’ (AMA) session on 26 March 2022 and an applications workshop on 9 April 2022. Both events served to spread awareness about the Fund and created opportunities for potential applicants to connect with current team members.

A major focus for RT has been streamlining the Fund’s editing and report writing process, especially with the advent of the new ANU style guide. Raising early awareness of the style guide allowed Fund members to focus on improving their substantive written work rather than formatting issues. Finally, after two years of COVID-19 restrictions, important opportunities for marketing have opened up once more. The team organised an in-person professional photoshoot for team images for reports such as this one, event advertising and a revamp of the SMF website. RT are also creating a new promotional video, with filming to occur over the upcoming weeks.

*Julie Lin, Relationship Manager*



## SMF team photos and roles

### Chief Investment Officer



*Hannah Young (CIO)*

### Convenors



*L-R: Dr Anna von Reibnitz (Course Convenor), Associate Professor Geoff Warren (Fund Convenor)*

## Team Heads



*L-R: Daniel Dwyer (CRO), Julie Lin (RT), Zachary Taylor (AA), Hannah Young (CIO), Jonathan Boyd (AAE)*

## Asset Allocation (AA) team



*L-R: Callum McGarty (Analyst), Zachary Taylor (Team Head), Stephanie Trinh (Analyst), Michael Salter (Analyst)*



## Relationship Team (RT)



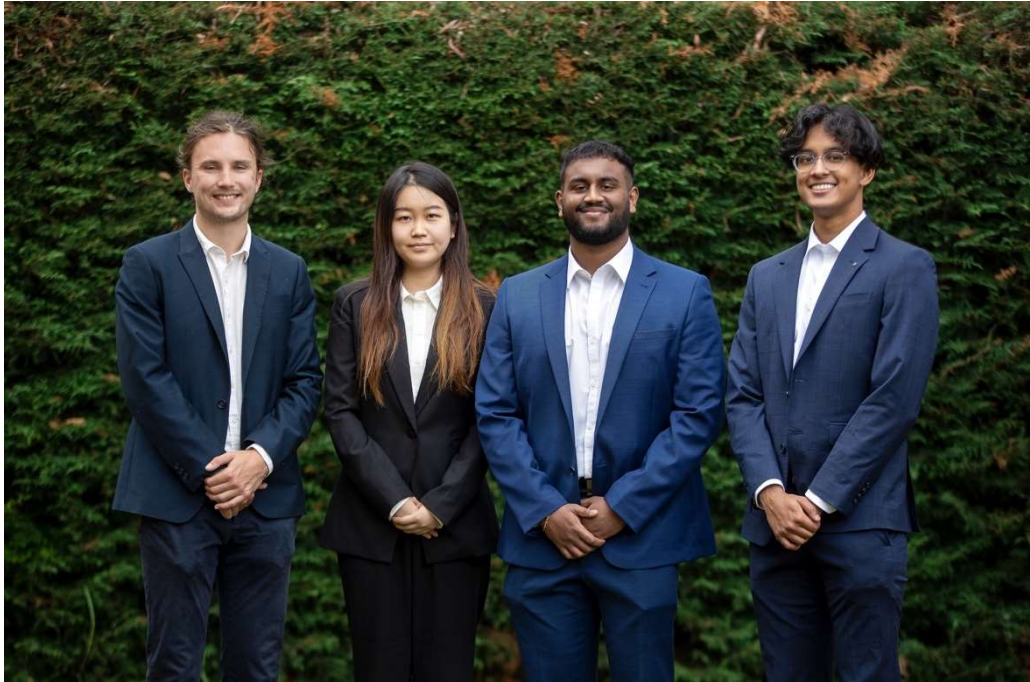
*L-R: Julie Lin (Team Head), Anvi Ghiya (Relationship Officer), Bella White (Relationship Officer)  
In absentia: Liam Asmaro (Engagement Manager)*

## Active Australian Equities (AAE) team



*L-R: Hugo Heanly (Analyst), Samuel Watson (Senior Analyst), Jonathan Boyd (Team Head), Janet Thudyan (Analyst), Olivia Cameron (Analyst), Jayden Pham (Analyst), Hugo Klimt (Analyst)*

## Risk & Compliance (R&C) team



*L-R: Daniel Dwyer (CRO), Liying Xue (Senior Analyst), Nimeth Dissanayake (Analyst), James Gray (Analyst)  
In absentia: Jie Qi Tay (Senior Analyst)*

**Credit:** All photos by Crystal Li, CBE

## Portfolio overview

### Portfolio structure

Figure 1 details the asset values and associated weights for each investment within the portfolio. On 8 April 2022, the SMF portfolio was valued at \$756,822, with asset weights close to target after the portfolio rebalancing undertaken in conjunction with the second tranche purchase of EM on 4 April 2022. The growth/defensive weight stands at 79.52%/20.48%, near to the 80%/20% reference portfolio weights. The active AA positions being targeted by the Fund include overweighting in EM (by +10%) versus -5% each in AE and unhedged developed market equities (DM,U) within the growth component; and an underweighting in AFI (-7.5%) while overweighting AC (+7.5%) within the defensive component.

Figure 2 plots the portfolio weights as of 8 April 2022. The first chart compares current asset class weights against the reference portfolio. Deviations include: +9.86% for EM; -5.12% for AE; -5.01% for DM,U; -0.20% for hedged developed market equities (DM,H); -7.54% for AFI; and +8.01% for AC. The deviations within the growth portion are attributable to the addition of the EM asset class funded primarily through decreased weightings in AE and DM,U that was implemented in two tranches on 11 October 2021 and 4 April 2022. The deviations in the defensive asset classes are attributable to the 13 October 2020 decision to shift 7.5% from AFI to AC.

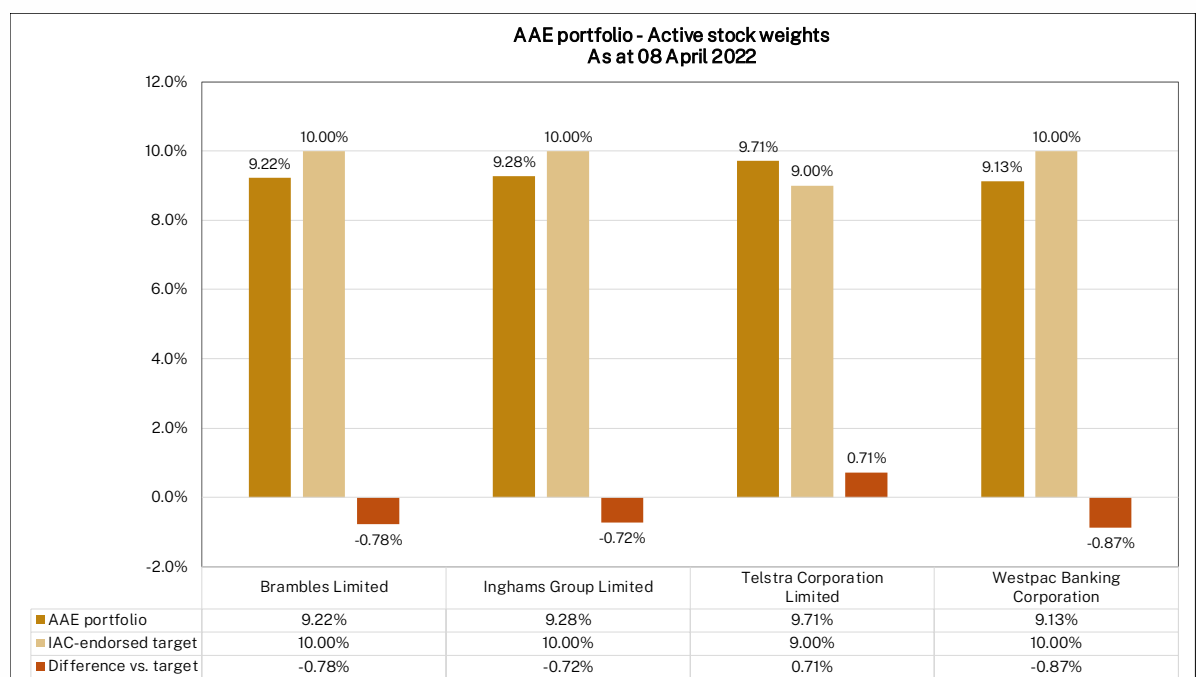
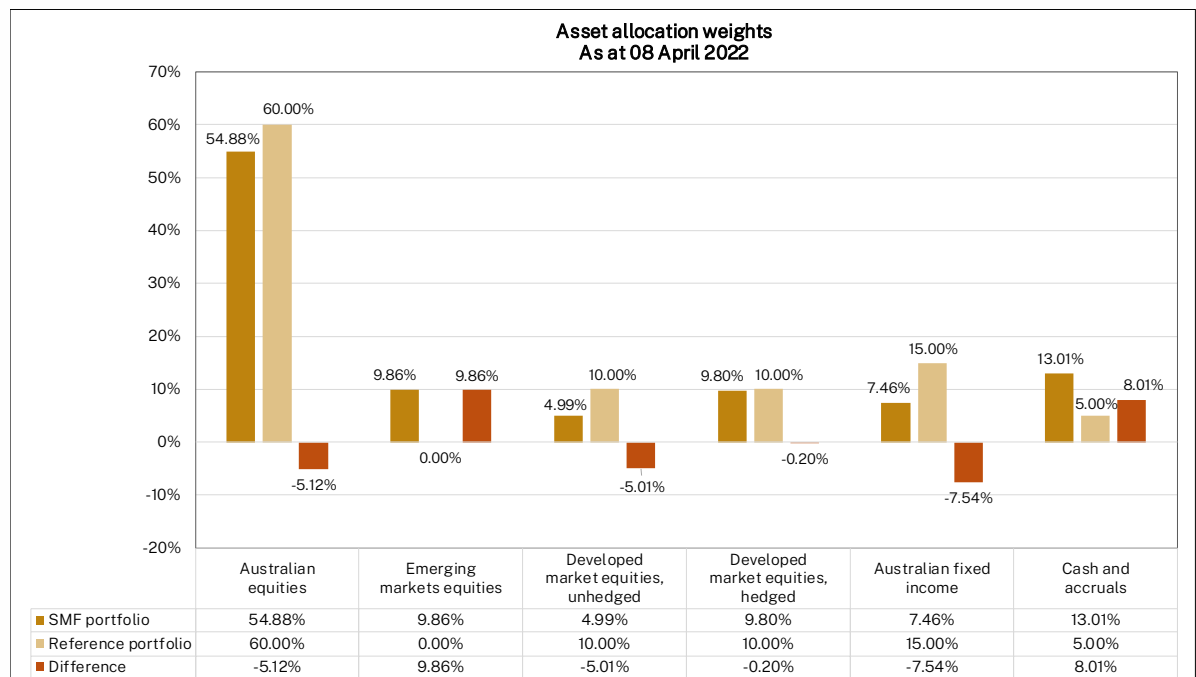
The second chart in Figure 2 shows the four active stock positions within the AAE portfolio, comparing them with their target weights as endorsed by the SMF IAC. All positions are within  $\pm 1\%$  of their target weights following rebalancing trades, including a purchase of ING on 16 December 2021 and adjustments to the AAE portfolio during the implementation of the second tranche purchase of EM.

Figure 1: Portfolio structure as of 8 April 2022

Portfolio component	Benchmark ETF	Asset values \$	SMF portfolio weight %	Reference portfolio weight %	Over (under) weight %
<b>Australian equities</b>					
<i><b>AAE portfolio:</b></i>					
iShares Core S&P/ASX 200 ETF		260,258	34.39		
Brambles Limited		38,274	5.06		
Inghams Group Limited		38,541	5.09		
Telstra Corporation Limited		40,349	5.33		
Westpac Banking Corporation		37,909	5.01		
Total AAE portfolio	iShares Core S&P/ASX 200	415,332	54.88	50	4.88
<i><b>Held within AA portfolio:</b></i>					
iShares Core S&P/ASX 200 ETF		0	0.00	10	-10.00
<b>Total Australian Equities</b>	iShares Core S&P/ASX 200	<b>415,332</b>	<b>54.88</b>	<b>60</b>	<b>-5.12</b>
Developed markets, hedged	Vanguard International Shares Index, Hedged	74,160	9.80	10	-0.20
Developed markets, unhedged	Vanguard International Shares Index	37,773	4.99	10	-5.01
Emerging market equities	iShares MSCI Emerging Markets Index	74,592	9.86	0	9.86
<b>Total international equities</b>		<b>186,526</b>	<b>24.65</b>	<b>20</b>	<b>4.65</b>
<b>Total equities</b>		<b>601,857</b>	<b>79.52</b>	<b>80</b>	<b>-0.48</b>
<b>Australian fixed income</b>	Vanguard Australian Government Bond Index	<b>56,490</b>	<b>7.46</b>	<b>15</b>	<b>-7.54</b>
<i><b>Australian cash and accruals:</b></i>					
BetaShares Australia High Interest Cash ETF		68,346	9.03		
BT Cash Management Trust		17,027	2.25		
Accrued interest and dividends		4,136	0.55		
Accrued franking credits		8,965	1.18		
<b>Total cash and accruals</b>	BetaShares Australia High Interest Cash	<b>98,474</b>	<b>13.01</b>	<b>5</b>	<b>8.01</b>
<b>Total fixed income and cash</b>		<b>154,964</b>	<b>20.48</b>	<b>20</b>	<b>0.48</b>
<b>Total value of SMF assets</b>		<b>756,822</b>			
Total portfolio value as reported in BT Panorama		747,857			
Accrued franking credits		8,965			



Figure 2: Asset allocation and active stock weights as of 8 April 2022





## Portfolio performance<sup>1</sup>

Since inception, the Fund has delivered cumulative returns of +44.96%, or +9.77% per annum as reported in Figure 3. This amounts to outperformance of +0.61% cumulative (+0.15% per annum) relative to the reference portfolio.<sup>2</sup> Performance so far in 2022 has been weak at -2.05%, which reflects the challenging financial conditions year-to-date. This return amounts to -0.77% underperformance versus the reference portfolio return of -1.27%.

More importantly, return since inception has well exceeded the target return of +32.37% (+7.27% per annum) by +9.82% (+2.38% per annum). The target return is estimated as the sum of the realised CPI over the period and the distribution rate of 4.5% per annum. The Fund can therefore proudly report that performance exceeds the target required to maintain the real value of the Fund after distributions made in support of the RSFAS SMF Equity Scholarship, which is the primary investment objective as set out in the SMF IPS. The contribution of the different components of the portfolio to performance is explained in further detail in the attribution analysis section below.

## Attribution analysis

Figure 4 attributes the portfolio performance relative to the reference portfolio into components of the investment process, specifically asset allocation and security selection. The AA component measures performance attributable to deviations in asset class weights versus the reference portfolio. The security selection component measures the contributions of the AAE portfolio relative to its benchmark, the iShares Core S&P/ASX 200 ETF (IOZ). Any residual effects not captured in these two components is treated as a residual and reported under the heading 'Aggregation, cash portfolio and other effects.' As well as effects arising from the approximate nature of attribution analysis, this category also captures the impact of the 'cash' portfolio not being invested entirely in the benchmark ETF, with the SMF holding amounts in the cash management trust (CMT) and in the form of accruals that generate lower and zero returns, respectively.

The +0.15% per annum outperformance of the SMF portfolio against the reference portfolio since inception is predominately attributable to a +0.33% per annum contribution from asset allocation, whilst security selection has contributed -0.24% per annum. There was an additional +0.07% attributable to aggregation effects.

Within the AAE portfolio, ING has had the largest negative contribution (-0.95% per annum) to the portfolio's cumulative performance against the benchmark since inception. WBC (-0.36% per annum) and BXB (-0.33% per annum) have also produced negative contributions. SHL had the largest positive contribution to cumulative performance since inception (+0.62% per annum), reflecting the period until its sale on 25 October 2021. TLS has contributed the greatest out of the portfolio's current holdings (+0.46% per annum).

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<sup>1</sup> All return calculations include franking credits.

<sup>2</sup> Reference portfolio weights and associated ETFs for the AAE and AA components are outlined in Figure 1.

Figure 3: Portfolio performance since inception as of 8 April 2022

Year	2018	2019	2020	2021	2022	Since inception	
Opening date	10 April 2018	1 January 2019	1 January 2020	1 January 2021	1 January 2022	10 April 2018	
Closing date	31 December 2018	31 December 2019	31 December 2020	31 December 2021	8 April 2022	8 April 2022	
PORTFOLIO VALUES							
Opening portfolio value in BT Panorama*	\$615,079.04	\$608,598.58	\$705,485.10	\$704,774.44	\$796,753.31		
- Distribution related to prior period	\$0.00	-\$27,746.21	-\$32,186.49	-\$32,067.23	-\$36,205.19		
+ Amount held by CBE, offset against distribution	\$0.00	\$7,983.83	\$0.00	\$0.00	\$0.00		
+ Accrued franking credits	\$0.00	\$3,235.76	\$9,732.74	\$7,719.98	\$7,806.53		
Adjusted opening portfolio value	\$615,079.04	\$592,071.96	\$683,068.73	\$680,427.19	\$768,354.65		
Closing portfolio value in BT Panorama	\$608,598.58	\$705,485.10	\$704,774.44	\$796,753.31	\$747,856.62		
+ Accrued franking credits	\$3,235.76	\$9,732.74	\$7,719.98	\$7,806.53	\$8,964.98		
- Contributions	\$0.00	\$0.00	-\$1,000.00	-\$150.00	-\$4,188.00		
Adjusted closing total portfolio value	\$611,834.34	\$715,255.22	\$711,531.80	\$804,409.84	\$752,633.60		
RETURNS (%)	2018	2019	2020	2021	2022	Cumulative	Per annum
SMF portfolio return (based on adjusted portfolio values)	-0.53%	20.81%	4.17%	18.22%	-2.05%	44.96%	9.77%
Target return (estimated as CPI + 4.5%)	4.56%	6.16%	5.36%	8.00%	4.80%	32.37%	7.27%
SMF return vs. target	-4.87%	13.80%	-1.19%	10.22%	-6.85%	9.82%	2.38%
Reference portfolio return	0.58%	21.91%	3.40%	15.55%	-1.27%	44.63%	9.68%
SMF return vs. reference portfolio	-1.10%	-0.90%	0.76%	2.67%	-0.77%	0.61%	0.15%
Note: administration fees - BT Panorama		0.02%	0.23%	0.21%	0.07%	0.53%	0.13%

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

Figure 4: Performance attribution since inception as of 8 April 2022

Period	Contributions to performance vs. reference portfolio						Since inception Cumulative Per Annum
	2018 %	2019 %	2020 %	2021 %	2022 %		
Opening date	10 April 2018	1 January 2019	1 January 2020	1 January 2021	1 January 2022	10 April 2018	
Closing date	31 December 2018	31 December 2019	31 December 2020	31 December 2021	8 April 2022	8 April 2022	
<b>SMF portfolio vs. reference portfolio</b>							
Asset allocation	0.17%	-0.28%	1.55%	-0.24%	0.12%	1.30%	0.33%
Security selection - AAE portfolio	-1.26%	-0.58%	-0.66%	2.50%	-0.93%	-0.97%	-0.24%
Contribution from positions held (prior BT fees)	-1.09%	-0.87%	0.89%	2.26%	-0.81%	0.34%	0.08%
Aggregation, cash portfolio and other effects	-0.01%	-0.03%	-0.13%	0.41%	0.04%	0.28%	0.07%
<b>Total relative performance</b>	<b>-1.10%</b>	<b>-0.90%</b>	<b>0.76%</b>	<b>2.67%</b>	<b>-0.77%</b>	<b>0.61%</b>	<b>0.15%</b>
<b>Asset allocation attribution</b>							
Australian equities	0.01%	-0.04%	0.44%	0.02%	-0.14%	0.30%	0.07%
Australian fixed income	-0.02%	-0.11%	1.24%	1.31%	0.53%	2.98%	0.74%
Emerging market equities				-0.24%	-0.57%	-0.81%	-0.20%
Developed market equities, hedged	0.01%	-0.01%	-0.02%	-0.03%	0.00%	-0.05%	-0.01%
Developed market equities, unhedged	0.01%	0.01%	0.02%	-0.15%	0.20%	0.10%	0.02%
Cash and accruals	0.16%	-0.15%	-0.14%	-1.13%	0.10%	-1.15%	-0.29%
Time aggregation effect	0.00%	0.00%	0.00%	-0.03%	0.00%	-0.02%	-0.01%
<b>AA contribution to total portfolio performance</b>	<b>0.17%</b>	<b>-0.28%</b>	<b>1.55%</b>	<b>-0.24%</b>	<b>0.12%</b>	<b>1.30%</b>	<b>0.33%</b>
<b>AAE portfolio vs. S&amp;P/ASX200 ETF</b>							
iShares Core S&P/ASX 200 ETF	-0.01%	-0.04%	-0.07%	-0.06%	0.00%	-0.18%	-0.05%
Bingo Industries Limited	-3.21%	1.89%	-0.75%	1.50%		-0.65%	-0.16%
Brambles Limited				-0.63%	-0.69%	-1.32%	-0.33%
Inghams Group Limited		-2.43%	-0.17%	0.23%	-1.40%	-3.74%	-0.95%
Rio Tinto Limited	-0.04%	0.52%	0.54%			1.02%	0.26%
Sonic Healthcare Limited		-0.11%	1.85%	0.75%		2.50%	0.62%
Telstra Corporation Limited	0.62%	0.53%	-1.05%	2.06%	-0.32%	1.83%	0.46%
Westpac Banking Corporation		-1.49%	-1.49%	0.77%	0.82%	-1.41%	-0.36%
Time aggregation effect	-0.02%	-0.01%	-0.04%	0.01%	-0.01%	-0.07%	-0.02%
<b>Relative performance vs. S&amp;P/ASX200 ETF</b>	<b>-2.66%</b>	<b>-1.14%</b>	<b>-1.18%</b>	<b>4.64%</b>	<b>-1.61%</b>	<b>-2.09%</b>	<b>-0.53%</b>
Average AAE portfolio weight in SMF portfolio	47.37%	50.88%	55.49%	53.83%	57.63%		
<b>AAE contribution to total portfolio performance</b>	<b>-1.26%</b>	<b>-0.58%</b>	<b>-0.66%</b>	<b>2.50%</b>	<b>-0.93%</b>	<b>-0.97%</b>	<b>-0.24%</b>

## Socially responsible investment (SRI) report

This report details how the ANU SMF portfolio is invested in accordance with the SMF SRI Policy, which has been developed to align with the SMF objectives and to accord with the University's SRI Policy. The key points of the SMF SRI Policy can be summarised as outlined below.

- i. Exclude companies that draw more than 20% of revenues from adult entertainment, coal, gambling, tobacco, alcohol, armaments, alcohol, armaments, and exploitative lending practices.
- ii. Hold an active equity portfolio with 30% less carbon intensity than the S&P/ASX 200.
- iii. Avoid investments that are likely to cause an unacceptable level of 'social injury'.
- iv. Favour investments with 'social benefit'.
- v. Preference companies that actively pursue sustainable business activities, with a current focus on the following sustainable business activities and practices related to ESG categories, as determined by the Fund:
  - E. climate change action
  - S. equity, diversity and inclusion
  - G. corporate trustworthiness, including transparency, compliance and accountability.

All active stock positions in the SMF currently comply with the industry exclusion list outlined in condition i. The industry exclusion list is applied through a narrowing down of the list of candidate stocks that are considered as part of the stock filtering process.

Figure 5 reports on compliance on carbon intensity (condition ii) with respect to the active stock positions with the AAE portfolio as of 8 April 2022. Sourced from the ANU Investment Office, the carbon intensity scores are calculated based on annual tonnes of Scope 1 and Scope 2 emissions produced per \$1 million of revenue. The SMF portfolio is in full compliance with condition ii, with the portfolio currently standing at an 81.0% reduction in carbon intensity as compared to the required 30% target — a 51.0% margin allowance.

**Figure 5: Carbon intensity of the AAE component as of 8 April 2022**

	ASX200	BXB	ING	TLS	WBC	Active stock positions vs. ASX200	Improvement	Margin vs. -30% Target
Weighting in AAE portfolio	62.66%	9.22%	9.28%	9.71%	9.13%	37.34%		
Carbon intensity	236.08	17.0	83.5	72.3	4.9	45.0	-81.0%	-51.0%

The Fund is currently reviewing the SRI policy after some ambiguities were identified. Consideration is being given to four matters: (a) formally recognising reputational risk within the SRI Policy; (b) adjusting the voting procedure to ensure crucial SRI decisions are made as early as possible; (c) expanding the policy to incorporate all active investments and, (d) increasing the clarity around the respective roles of the R&C and AAE teams. With regard to the latter, while the Fund will retain the importance placed on both social benefit and social injury in line with the ANU SRI Policy, in practice the respective teams may focus their research on the element of the policy most pertinent to upcoming decisions. The SMF team is currently trialling the new processes, and aims to formally revise the SRI policy in the latter half of the semester.

### Declaration

The Fund declares that it has complied with the University's SRI policy while effectively implementing the SMF SRI policy throughout 2022 to date.

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