ANU Student Managed Fund

Investment Policy Statement

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Contents

Glossary

AA – Asset allocation

AAE – Active Australian equities

ANU – The Australian National University

ASX – Australian Stock Exchange

CBE – ANU College of Business and Economics

ETF– Exchange traded fund

GICS – Global Industry Classification Standard

IAC – Investment Advisory Committee

IPS – Investment Policy Statement

R&C – Risk and compliance

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

SMF – ANU Student Managed Fund

SRI – Socially responsible investment

1. Introduction

- This Investment Policy Statement (IPS) sets out the policies under which the investments of the ANU Student Managed Fund (SMF) will be managed. The SMF invests a small slice of the assets of the University's endowment funds, in support of the RSFAS Student Managed Fund Equity Scholarship. The SMF is subject to all University governance arrangements, policies and procedures, unless expressly exempted.
- The SMF *Charter and Governance Structure* sets out the purpose, objectives and governance arrangements for the SMF, including the process by which changes to investments occur. Under the normal course of operations, this entails investment recommendations being proposed by students enrolled in the related courses *FINM3009/FINM6009 Student Managed Fund* and *FINM3010/FINM6010 Student Managed Fund – Extension* under the oversight and guidance of academic staff (SMF Convenors). In general, changes to the SMF portfolio are based on student recommendations if endorsed by the Investment Advisory Committee (IAC). There is additional provision for portfolio changes to be made to comply with policy; as a consequence of portfolio rebalancing; in response to cash flows; and where the Fund Convenor puts an investment recommendation to the IAC under exceptional circumstances. Portfolio changes are implemented by the Fund Convenor, who holds the delegated responsibility for the investments of the SMF, and a veto over proposed investments that contravene policy.
- The IPS is proposed by the Fund Convenor, endorsed by the IAC, and approved by the Director of the Research School of Finance, Actuarial Studies and Statistics (RSFAS).

2. Investment objective and risk – Focus on real long-term fund value

The investment objective and approach to investment risk are specified in the SMF *Charter and Governance Structure*, which provides overarching direction and guidance on how the funds are to be managed. The relevant sections are reproduced below.

Investment objective (Section 3B)

Maximise the long-term trade-off between the expected value of funds invested, against the risk of sustained reduction in the real value of those funds. This objective implies generating a return at least equal to the sum of distribution rate and the inflation rate.

Measured by: The 5-year change in real value of funds invested, adjusted for fund inflows.

Investment risk (Section 7(i))

- *Nature* – Failure to generate sufficient returns to maintain the real value of funds invested over the long run. This may result from suffering a permanent loss in value from investments that is uncompensated by returns generated elsewhere in the portfolio.
- *Significance* – Medium. Whereas generating sufficient returns is necessary to support the real value of distributions over the long term, the consequence of not doing so would be that the amount available to support philanthropic activities is diminished rather than nullified.
- *Tolerance* – High. The fact that the SMF is established with learning as well as investment objectives increases the tolerance for investment losses incurred during the learning process. Further, acceptance of investment risk is required to generate the possibility of higher returns. A long-term horizon affords the opportunity to recover from transitory losses.
- *Mitigation* – Risk monitoring and controls to be incorporated into investment policy and the investment process. The Chief Risk Officer is a member of the IAC to assist with risk monitoring.

Application notes

The investment objective and approach to investment risk as set out in the *Charter and Governance Structure* are to be interpreted as mutually reinforcing directives with the following intention:

- The SMF should be managed with the *aim of at least maintaining the real value of funds invested (the 'corpus') over the long term*, such that the value of the philanthropic activities being supported might be sustained in perpetuity, if not increased. This requires generating a return that at least approximates the distribution rate plus the inflation rate. For instance, a yearly distribution rate of 4.5% of the fund value and an expected inflation rate of 2.5% would imply a minimum nominal return target of around 7% per annum.
- The long-term nature of the investment objective implies that *investment risk relates to any permanent loss of value* that is never recouped. This means that investments should be evaluated by considering the expected long-term return against the probability of incurring losses that are sustained over the long-term. It also implies a *high tolerance for short-term volatility*, providing there is a reasonable likelihood that declines in value will be transitory.
- The *learning purpose of the SMF increases the tolerance for investment risk*. While losses incurred in the process of learning are to be avoided, they will be tolerated providing that the investments are based on sound research and prudent decision making.
- The *5-year measurement period* referred to in the *Charter and Governance Structure* is supplied primarily for guidance, and amounts to an indicative *review period* rather than a strict definition of horizon. A 5-year review period reflects the notion that SMF performance can only be reasonably evaluated over an extended period. It serves to help deflect attention away from short-term performance. In practice, a 5-year review period well-exceeds the 1-year enrolment of students in the related SMF courses, and will provide a retrospective on the success of the SMF only after an extended period of operation. The review period should be distinguished from both the horizon over which the fund will operate, which is in perpetuity; and the investment evaluation horizon, which is addressed in Section 3.

3. Investment evaluation horizon – View towards sustainable cash flow

In pursuit of the long-term investment objective, investments shall be evaluated based on an analysis horizon that extends until transitory influences have washed out, such that investments become analysed with reference to their long-term or sustainable cash flow potential. This implies conducting analysis at least over either a full market cycle, or until the completion of a growth phase, as appropriate for the investment under consideration.

Application notes

- Detailed analysis should be conducted over an investment evaluation horizon that results in any continuing value calculations being founded on long-term sustainable cash flows. The horizon over which detailed analysis is required is expected to vary with the nature of the investment being evaluated.
- Adoption of a long horizon recognises the need to moderate the number and rate of investment recommendations presented to an IAC that includes external members who are likely to face limits on the time they are able to commit.

4. Investment philosophy and beliefs – Long-term cash flow focus

The core *investment philosophy* is that the probability of achieving the investment objective of the SMF will be maximised under a fundamental approach that focuses on the potential of an investment to generate sufficient cash flows to at least satisfy required SMF distributions over the long-term given its current market price. This philosophy is founded on the concept that the value of an asset to a long-term investor relates to the cash flows that it generates. This value may be captured by either collecting the cash flows as they accrue, or by realising the value if it becomes fully recognised through price adjustment and consequent reduction in the long-term expected return. It is important to take into account the level of confidence in expected cash flows in considering the risk of any investment.

The *investment belief* that underpins the above investment philosophy is that an approach that directly addresses the SMF investment objective increases the likelihood of achieving that objective, without having to rely on identifying mispricing and/or anticipating near-term price adjustments. The concept is that investments that distribute sufficient cash to satisfy the required SMF distributions over the long-term will allow the SMF to achieve its purpose, without having to 'out-guess' other market participants who may better informed about short-medium term prices drivers. Such an approach leverages the SMF's long-term horizon and capacity for patience, and can be readily implemented by students.

Application notes

Applying the investment philosophy requires forecasting the cash flows an investment is expected to deliver over an extended horizon, accounting for any value generated from reinvestment or investment opportunities. It also requires gauging the level of confidence in those cash flows. The relative attractiveness of investments could be established through a number of methods, including: relating the cash expected to be distributed by the investment to the cash required to support SMF distributions; generating a valuation by discounting cash flows at a required return, or capitalisation of 'sustainable' cash flows; or alternatively estimating an implied expected return by comparing expected cash flows with the current asset price.

The investment philosophy implies the following:

- A focus on Information that is relevant for evaluating the potential for long-term cash-flow generation, or long-term expected returns. Other information is treated as 'noise'.
- A preference for investments with high and sustainable current distribution yields, to the extent that this implies generation of sufficient cash flow to meet the SMF's long-term investment objective with high confidence.
- Investment risk is closely related to confidence in expected cash flows. One consideration is the extent to which expected cash flows are weighted towards future growth or value created by new investments that is subject to greater uncertainty. Another consideration is indicators of 'quality' that could shed light on the reliability of forecast cash flows, such as: industry structure; evidence of a sustainable competitive advantage; management capability and alignment with investors; governance; matters of economic or social sustainability; and leverage. Measurements of investment risk are addressed in Section 5.
- For asset allocation purposes, the philosophy might be applied by analysing the distribution of projected wealth generated and/or long-term expected returns across asset classes.
- Ongoing evaluation of investments should occur, with the aim of ensuring that the portfolio remains exposed to attractive prospects at all times. The portfolio should be adjusted in response to any significant changes in the relative long-term attractiveness of investments, either due to changes in cash flow fundamentals or price adjustments. While the philosophy implies maintaining a long-term perspective, it *does not* necessarily imply buy-and-hold.
- Adjusting positions in anticipation of market or price fluctuations is inconsistent with the philosophy, which is founded on the principles of 'investing' rather than 'trading'. Nevertheless, near-term market prospects might be taken into account when implementing investment decisions or making rebalancing decisions (see Section 14).

5. Investment risk measurement – Shortfall

Risk will be measured by the potential *shortfall* over the evaluation horizon. Shortfall measures are deemed to be most relevant given the SMF's investment objective and its long-term horizon.

Application notes

Shortfall measures

While the specific measure of shortfall may vary depending on the investment and its purpose in the portfolio, it is envisaged that at least one of the following would be considered:

(a) *Probability of loss* – This captures the likelihood of an adverse outcome. It might be estimated as the probability of falling below a reference point.

(b) *Expected loss* – This reflects the magnitude of losses when they occur. It might be evaluated by reference to the magnitude and the probability of losses below a reference point.

Reference points

Various reference points may be used in defining loss, depending on the risk and the particular investment being evaluated. Possible reference points include:

- *Return required to maintain the real value of the Fund* – This directly links to the investment objective of the SMF, and can be approximated by the expected distribution rate plus inflation.

- *Projected cash flows, or their valuation* – This reference point accords with the notion that unanticipated reductions in cash flows relative to expectations can translate into permanent losses, and thus impair the ability of the SMF to meet its long-term purpose and investment objective. Cash flow risk can also be captured through using a valuation model that incorporates a range of scenarios with differing projected cash flows.

- *Wealth consistent with maintaining the real value of distributions and the Fund* – This reference point is formed by projecting the dollar values of distributions and the portfolio value that are consistent with the real value of both being unchanged over time.

Analysis and estimation methods

Analysis of shortfall risk, and its evaluation against upside potential may be undertaken using a variety of methods, including:

- Simulation or scenario analysis.

- Evaluation of the distribution of future cash flows, and potential market valuations placed on those cash flows, in order to form a distribution of income and prices and hence expected wealth or returns.

- Application of a utility function designed to penalise shortfall, while discounting gains.

6. Scope of investment activities

Investment functions:

(i) Active investment in Australian shares ('active Australian equities', or AAE)
(ii) Asset allocation (AA)

Permitted investments:

(a) Shares in companies and trusts listed on the Australian Stock Exchange (ASX)
(b) Exchange Traded Funds (ETFs) listed on the ASX

(c) Deposits with Australian banks
(d) Bank-accepted bills and certificates of deposits
(e) Securities issued or guaranteed by the Australian Commonwealth or a State government
(f) Deposits in cash management trusts

Note: The use of leverage and shorting of assets is prohibited.

Application notes

- The scope of investment functions undertaken by the SMF will be kept under review. Approval may be sought to have the scope expanded in due course, if there is sufficient justification.
- Permitted investments are intended to accommodate not only active investment in Australian shares, but also the management of asset allocation across a broad range of asset classes. Implementation using ETFs listed on the ASX provides access to all asset classes contained within the reference portfolio as set out in Section 7, i.e. Australian equites; both hedged and unhedged international equities; Australian fixed income; and Australian cash. There is also scope to manage the currency hedge ratio by varying the mix of hedged and unhedged global equity ETFs. The range of asset classes considered may be broadened over time, accommodated by the increasing variety of available ETFs. The requirement that investment policy and investment recommendations must be endorsed by the IAC helps guard against investment in ETFs that are inappropriate for the SMF.

7. Reference portfolio and its roles

Figure 1 sets out the current reference portfolio and benchmark ETFs for the SMF. The benchmark ETFs will be kept under review, with the intention of potentially changing to more suitable ETFs if they become available. In this regard, Section 11 addresses the relation between selection of the benchmark ETFs and the Socially Responsible Investing (SRI) Policy.

Figure 1: SMF reference portfolio

Portfolio component	Weight	Benchmark ETF (ASX code)
Active Australian equities component	*50%*	iShares Core S&P/ASX 200 ETF (IOZ)
Asset allocation component		
Australian equities	10%	iShares Core S&P/ASX 200 ETF (IOZ)
International equities, unhedged	10%	Vanguard International Shares Index (VGS)
International equities, hedged	10%	Vanguard International Shares Index, Hedged (VGAD)
Australian fixed income	15%	Vanguard Australian Government Bond Index (VGB)
Australian cash	5%	BetaShares Australian High Interest Cash (AAA)
Total asset allocation	*50%*	
TOTAL	100%	
Total growth assets (equities)	80%	

Application notes

The reference portfolio plays *four roles* in the management of the SMF:

(i) *Policy portfolio* – The reference portfolio forms a policy portfolio that accommodates both the investment and teaching purposes of the SMF. The 80% weighting to growth assets reflects the long-term nature of the portfolio and its objective. The structure of the reference portfolio also reflects the SMF activities that are being undertaken in support of its learning objectives, in particular the high weighting to Australian equities which accommodates learning about stock selection.

(ii) *Point of comparison, against which investments may be evaluated.* The aim is for the SMF to make investments that increase the likelihood of achieving its investment objective, relative to the investing in the reference portfolio. This should occur in the following manner:

- *Asset allocation (AA) component* – Recommendations for changes in asset allocation should be evaluated against the reference asset allocation across the total portfolio, taking into account the existence of the active Australian equities component. This means that AA adjustments are to be made with a view across the total portfolio, even though any adjustments may be implemented only through changing the mix within the AA component. The aim is to move the total portfolio towards a 'better' AA than the reference portfolio.
- *Active Australian equities (AAE) component* – Active Australian share investments may be evaluated against the benchmark ETF, i.e. the iShares Core S&P/ASX 200 ETF.

(iii) *Default portfolio* – The reference portfolio provides the default to be held by the SMF in the absence of pursuing active investments that are expected to improve the likelihood of achieving the investment objective.

(iv) *Analysis baseline* – The majority of benchmark ETFs have been selected to support analysis by students, taking into account the availability of historical data series. The equity ETFs reflect indices for which data is readily available, e.g. S&P/ASX200, and the MSCI World Index. The Australian fixed income ETF captures government bonds for which interest rate data is available. The ETF reflecting Australian cash invests in bank deposits.

8. Portfolio constraints

Figure 2 sets out the constraints on portfolio structure. The permitted target range are the limits for the target weights that can be recommended and endorsed by the IAC. 'Leeway' represents the deviations outside of the permitted target range that is allowed before rebalancing *must* occur.

Figure 2: Constraints on SMF portfolio structure

Portfolio component	*Reference weight*	*Permitted target range (leeway)*	*Other constraints*
Active Australian equities (AAE)	*50%*	*40%-60% (±5%)*	• Number of active investments not to exceed 12 stocks and/or trusts (excluding the benchmark ETF) • The target weight in a single stock or trust must not exceed more than 15% of the AAE component, with leeway of +2%, i.e. up to 17% of AAE portfolio • No more than two active investments in each GICS Industry Group (i.e. GICS level 2 categories), preferably from different GICS Industries (level 3) • Market capitalisation of any stock held to be no less than the smallest stock in the S&P/ASX200 Index, unless otherwise exempted by the IAC • Investments must be listed on ASX
Asset allocation (AA)			
Australian equities	10%	0%-25% *(+5%)*	
International equities	20%	0%-60% *(+5%)*	
Australian fixed income	15%	0%-60% *(+5%)*	
International fixed income	0%	0%-60% *(+5%)*	
Australian cash	5%	0%-60% *(+5%)*	
Other asset classes	0%	0%-25% *(+5%)*	
Total asset allocation	*50%*	*40%-60% (±5%)*	Implemented via ETFs listed on ASX
TOTAL	100%	100%	Leverage and shorting are prohibited
Total growth assets	***80%***	***40%-100% (±5%)***	

Application notes

While the portfolio constraints appearing in Figure 2 are relatively straightforward, they embed certain implications and intentions:

- Rebalancing must occur if the leeway around the permitted target weight range, or other any other portfolio constraint, is breached due to market movements.
- The long-term intention is for the AAE component to be fully invested in around 10 active investments at approximately equally-weight. The upper limit of a 15% target weight and 12 holdings implies between 7 and 12 stocks and/or trusts if comprised entirely of active investments. A lesser number of active investments may occur in combination with holdings in the benchmark ETF, e.g. during the inception phase. The expectation is that a ‘standard’ unit for an active investment would be 10% of the AAE component.
- The structure of the AAE component implies a concentrated, benchmark-unaware portfolio with high tracking error. Nevertheless, it is expected that 7-12 stocks combined with the industry exposure constraints should suffice to ensure adequate diversification, while limiting the exposure to idiosyncratic stock risk to acceptable levels (noting that the AAE component amounts to around half the total portfolio). More refined AAE portfolio risk controls may be developed in due course.

- Currency exposure may be set as part of the AA process through adjusting the allocation of hedged and unhedged international equities ETFs. A 50/50 allocation should be applied in accordance with the reference portfolio, in the absence of a reason to do otherwise.
- Whereas provision is made to include other asset classes for which ETFs are available, it is envisaged that the SMF would initially focus on the asset classes as explicitly identified in Figure 2 before broadening the scope of its investments.

9. Format for investment recommendations

All investment recommendations presented to the IAC for endorsement must include:

(a) target weighting for the investment in the portfolio
(b) a recommended funding transaction
(c) supporting reasons and analysis.

Application notes

- The target weighting should be expressed as a percentage of the total portfolio for AA recommendations, and as a percentage of the AAE component for individual Australian shares.
- The funding transaction requirement implies that all recommendations presented to the IAC include both a buy and a sell side, along with justifications.
- In instances where the investment recommendation entails unwinding an existing investment and no replacement investment is apparent, the recommended funding transaction should involve a transfer to the reference portfolio.

10. Ongoing review of investments

Existing investments are to be kept under ongoing review to ensure that their place in the portfolio remains justified on the basis that they enhance the likelihood of the SMF meeting its investment objective relative to the reference portfolio. In instances where this is deemed not to be the case, a recommendation should be made that the investment is unwound.

Application notes

- The term ‘unwound’ refers to the sale of an active stock investment in the context of the AAE component, and the removal of either an overweight or underweight position relative to the reference portfolio in the case of the AA component.
- All investments held by the SMF should be reviewed on a regular basis, or in response to developments that could have a significant impact on the potential long-term cash flows or returns arising from a particular investment.
- Under Section 6 of the *Charter and Governance Structure*, the Fund Convenor may generate a recommendation for changes to the portfolio if circumstances emerge where the long-term real value of the Fund is placed at significant risk. Any such recommendation is to be presented to the IAC for consideration and potential endorsement. It is envisaged that this would occur only under exceptional circumstances, and where the students responsible for proposing and reviewing the investment are unable to react in a timely manner (e.g. over the end-year break).

11. Socially responsible investing

The SMF should maintain its own socially responsible investment (SRI) policy, subject to the requirement that the policy must be consistent with the University's SRI policy. In accordance with Clause 3 of the University's SRI policy, in making investment decisions the SMF 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

The SMF's compliance with the University's SRI policy will be reported via the SMF Annual Report and Semester Reports, as described in Section 9 of the *Charter and Governance Structure*. This facilitates the requirement for the Investment Office to report to the University Council through Finance Committee on the University's compliance with the SRI policy.

Application notes

- The University's SRI policy observes a "fiduciary responsibility to maximize returns under its control" (Clause 2). It also acknowledges that "many large companies have diverse activities and that assessing a company's involvement in either 'avoid' or 'promote' activities requires some judgement of the degree of involvement". The University's policy thus recognises the need to balance SRI and investment objectives, and to exercise discretion. The SMF will manage the SRI policy in a similar vein. It will make best endeavours to operate to the spirit and intent of the University's SRI policy, while taking its other objectives into consideration, including its investment and learning objectives. In practice, this implies avoiding making investments that contravene the SRI policy in the first instance; but then taking into account these other objectives when an adjustment to the portfolio is indicated.
- The SRI policy will be applied at this stage to any stock positions held within the AAE component of the portfolio. The SMF should seek to eventually extend the SRI policy to the benchmark ETFs used by the Fund. This should be done once suitable SRI-based ETFs become available that accord with both the University's SRI policy and the investment and learning objectives of the Fund. A suitable ETF should be consistent with the SRI policy, reflect the underlying asset class being analysed, and be available at an acceptable fee.
- Consistency with the SRI policy must be considered in evaluating investments, and addressed in the presentation of investment recommendations to the IAC.
- The SMF SRI Policy is set out in a separate document titled "Socially Responsible Investment Policy". This document covers: policy scope; investment exclusions; investment preferences; portfolio formation, including carbon intensity constraints; compliance responsibilities; procedure for handling clear and potential breaches, reporting; and policy review.

12. Taxation

Imputation credits are to be taken into account in the analysis of investments and fund returns.

Application notes

- As a tax-free investor, the University receives full benefit from imputation credits, but does not incur any income or capital gains taxation.
- The manner in which imputation credits are incorporated into the evaluation of investments may vary depending on the analysis being conducted:

- Imputation credits may be included as a component of the expected cash flow stream
- Capitalised value of imputation credits may be added to a valuation
- Per annum value of imputation credits may be included in expected returns

- The value of imputation credits received are to be estimated and taken into account in calculating SMF returns. As these credits will be captured by the University outside of the SMF structure, the value of imputation credits should be estimated and recouped by the SMF.

13. Portfolio monitoring and control

Monitoring and policy breaches – The Fund Convenor is responsible for compliance with investment policy and the policies of the University, with the assistance of monitoring conducted by the Risk and Compliance (R&C) Team and the advice of the IAC. If a breach of policy is detected, the Fund Convenor must take action to correct the breach as soon as practically feasible, taking into account the potential for significant impact on fund value. Any policy breach that occurs must be reported to the IAC, the College of Business and Economics (CBE) Finance Manager and the Director of RSFAS.

Rebalancing policy – Portfolio weights should be monitored, and the rebalancing procedure triggered once the weight in an investment either deviates by 3% from the target weights as endorsed by the IAC, or exceeds the permitted maximum weights appearing in Figure 2. The rebalancing procedure is set out below in Section 14.

Liquidity management – The Fund Convenor is to ensure that sufficient cash is available to satisfy distributions as they fall due, with the assistance of analysis conducted by the R&C Team. If insufficient cash is available, the Fund Convenor will liquidate some investments to ensure that the cash becomes available. This should be done by selling holdings that are overweight versus target.

Application notes

- The Chief Risk Officer and R&C Team will undertake portfolio analysis for the purpose of monitoring compliance with policy. Their findings will be reported to the Fund Convenor; and the IAC and the enrolled student group kept informed as appropriate. Compliance monitoring should be undertaken at least monthly if feasible (recognising there may be difficulties over the end-of-year break); with interim checks undertaken in response to significant developments such as major market fluctuations.
- A high tolerance for liquidity risk is acknowledged in Section 7 of the *Charter and Governance Structure*. Liquidity management is lessened in importance for the SMF by the permanent nature of the funds, its long-term investment horizon, and the fact that the SMF invests only in listed securities. The main concern is satisfying distributions when due. In many situations, distributions may be largely accommodated by the accrual of income over the course of a year.

14. Rebalancing procedure

The rebalancing procedure encompasses a general procedure covering all active positions, and a specific procedure that applies to the cash component of the SMF portfolio.

General procedure

The rebalancing procedure is triggered once the weight of an investment relative to the target endorsed by the IAC breaches either of two thresholds, including a lower threshold of 3%, and an upper threshold of the lesser of 5% and the weighting constraints appearing in Figure 2. Once the rebalancing procedure is triggered, the SMF team may make a decision on the extent of rebalancing in accordance with the rules below. The 3% and 5% rebalancing thresholds apply to broad asset class weights within the AA component, and stock weights within the AAE component. The rebalancing procedure is as follows:

- Once portfolio weights deviate by more than 3% from target, the SMF team may then decide to take one of two courses of action:
  a. Do nothing, thus allowing the deviation to stand; or,
  b. Rebalance back to target weights.
- Once portfolio weights deviate by 5% or more from target, or exceed the permitted range including leeway as outlined in Table 2, the SMF team must then decide within 10 working days to take one of two courses of action:
  c. Rebalance back to either a 3% deviation from target weights, or to the maximum permitted under the target range, whichever is lesser;
  d. Rebalance back to target weights.
- The investments used for 'funding' rebalancing trades may be purposefully chosen, subject to the requirement that no trades have the effect of moving the portfolio weights further away from target weights. The exception to this rule is that rebalancing trades involving a change in the total value of the AAE portfolio may move active stock weights away from their target weights, providing that change is less than 0.5%.
- After the SMF team makes a rebalancing decision, they should advise the Fund Convenor of the required rebalancing trades, which the Fund Convenor will implement.
- Once the rebalancing procedure is triggered, a report documenting the reasons for any decision to either rebalance or not to rebalance will be prepared by the SMF team and distributed to the Fund Convenor, who will then forward it onto the IAC, Finance and Business Services, the CBE Finance Manager and the Director of RSFAS.
- The Fund Convenor will monitor the portfolio weights if the SMF team is unavailable or unable to make rebalancing decisions (e.g. between semesters). If the portfolio weights deviate by more than 5% from target, or exceed the permitted range including leeway, the Fund Convenor must rebalance either back to a 3% deviation from target weights, or to the maximum permitted under the target range, whichever is lesser.
- The Fund Convenor will inform the IAC, Finance and Business Services, the CBE Finance Manager and the Director of RSFAS of any rebalancing trades once they occur.

Cash portfolio

The SMF team may decide to transfer funds from the cash management trust to the benchmark cash ETF once the weight in the cash management trust exceeds 2%, after taking into account the impact on Fund expected returns including transaction costs.

Application notes

- If a 3% deviation from target weights occurs and the decision is made not to rebalance immediately, the asset weights should then be monitored closely on an ongoing basis by the SMF team (i.e. either the AA or AAE team, in conjunction with R&C).
- The rebalancing policy will have the consequence of some trades occurring without explicit prior endorsement by the IAC, noting that the IAC is responsible for endorsing the target weights in the initial instance. The Fund Convenor will ensure that any rebalancing trades occur in accordance with policy, and that the IAC and those monitoring the SMF are advised of the trades.

15. Distributions

The distribution policy is specified in Section 8 of the *Charter and Governance Structure*, which states: "the distributable amount will be based on the same annual distribution rate for the University's ANU general endowment funds at that time".

Application notes

- The distribution rate for University's general endowment funds currently stands at 4.50%.
- *Transition arrangements*: A pro-rata distribution rate may be applied with respect to donations received during the course of a year.

16. Reporting

Reports to be produced are detailed in Section 9 of the *Charter and Governance Structure*, including their frequency, authorship, approval, distribution and content.

Application notes

- External communications include an Annual Report, Semester Reports, and postings on social media. The formal reporting of investment matters appears in the Annual Report and Mid- and End-Semester Reports. Included in these reports will be: a review of performance against objectives; an overview of the portfolio and its investments at period end; SRI policy compliance; portfolio changes; investment decisions; and investment activities such as research reports produced.
- It is expected that performance reporting will include an attribution of performance against the reference portfolio.

17. IPS review and revisions

The Fund Convenor is responsible for ensuring that the IPS is kept under ongoing review, and in the absence of changes, attesting its suitability to the IAC and Director of RSFAS at least once per year. Any revisions to the IPS are proposed by the Fund Convenor, endorsed by the IAC, and approved by the Director of RSFAS. Before any revisions are put forward for approval, the advice of the Course Convenor should be sought.

Prepared: Geoff Warren, SMF Fund Convenor, 27 April, 2022

Endorsed: Investment Advisory Committee Meeting, 24 May, 2022

Approved: Stephen Sault, Director of RSFAS, 24 May 2022