



Australian
National
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ANU Student Managed Fund

Mid-semester report – Semester 2, 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 the Research School of Finance, Actuarial Studies and Statistics (RSFAS) and the Communications team of the ANU College of Business and Economics (CBE). Any enquiries, feedback or comments can be directed to 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
CLW – Charter Hall Long WALE REIT
CMT – Cash Management Trust
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 markets equities
IAC – Investment Advisory Committee
IE – International equities
ING – Inghams Group Limited
IPS – Investment Policy Statement
IOZ – iShares Core S&P/ASX 200 ETF
NAB – National Australia Bank Limited
PC – Portfolio construction
R&C – Risk and Compliance
REIT – Real Estate Investment Trust
RMD – ResMed
RSFAS – Research School of Finance, Actuarial Studies and Statistics
RT – Relationship Team
SMF – ANU Student Managed Fund
SRI – Socially responsible investment
SUN – Suncorp Group Limited
TLS – Telstra Corporation Limited
WALE – Weighted Average Lease Expiry
WBC – Westpac Banking Corporation

Chief Investment Officer (CIO) report

Financial markets have been subject to many macroeconomic factors during 2022, including policy tightening to address inflation and the prospect of weaker economic growth down the track. This has posed new challenges for the SMF, thus fostering a unique learning environment. So far in 2022, the portfolio has delivered a total return of -6.55% but outperformed its reference portfolio by 0.39%. The cumulative per annum return since inception remains strong at 7.68%, which is above the target return of 7.49%, while outperforming the reference portfolio by 0.37%. This performance reiterates the importance of the Fund's long-term value investing strategy.

As the University transitions out of its COVID-19 restrictions, the value of in-person meetings becomes more salient. A SMF welcome event allowed the new team to meet before the commencement of the academic semester, promoting the formation of close-knit relationships. The benefit of this new found rapport is evident in junior members quickly familiarising themselves with the Fund's key values, and readily engaging with their roles and responsibilities. Senior members have transitioned into their roles seamlessly, embodying their new leadership responsibilities through providing excellent guidance to our junior members.

An emphasis on cross-team collaboration this semester has seen the emergence of many unique initiatives. The Risk and Compliance (R&C) team is working closely with the Asset Allocation (AA) team to improve the efficiency of our cash holdings, by minimising the amount held in the Cash Management Trust (CMT) in lieu of the higher-yielding BetaShares Australian High Interest Cash exchange-traded fund (ETF). The Relationship Team (RT) has capitalised on the return of in-person events through a comprehensive marketing campaign. The Fund's recent 'Ask Me Anything' (AMA) workshop led to interaction with 21 prospective applicants, building on a successful day at the CBE Information Market Day. RT continues to promote the Fund through participation in the ANU Open Day as well as the CBE Student Holiday Program.

Further highlights of the semester include:

- The AA team is developing a strategy to address currency exposures and integrate more explicit one-to-three-year projections into its portfolio construction model.
- The Active Australian Equities (AAE) team has completed its thematic stock screening and candidate stock analysis (CSA) and is proceeding to in-depth analysis of Charter Hall Long WALE REIT (CLW) and ResMed (RMD). The AAE team was examining BHP Group Limited (BHP), but this work ceased after the company reported that over 20% of its revenue's derived from coal for FY2022, thus contravening the exclusionary requirements under the SMF's Socially Responsible Investing (SRI) policy.
- The R&C team has facilitated comprehensive SRI discussions at the Fund level, bringing to light various societal issues to debate. R&C is looking at making policy revisions in response, and to record the discussions as part of the legacy left for future cohorts.
- The RT has introduced 'SMF Update', a social media series aimed at improving the transparency of Fund activities and promoting more regular engagement.

The Fund has gratefully hosted two guest lecturers so far this semester. Albert Lake, UBS Investment Banking Analyst and SMF alumnus, shared his insights on real estate investment trusts (REITs) and the various ways they might be valued. This knowledge has proved invaluable as the AAE team progresses CLW to the in-depth stage, which is presenting a unique learning opportunity. The Fund also welcomed Nigel Wilkin-Smith – an experienced investor who was previously the Director of Portfolio Construction at the Future Fund – to talk about currency management and provide advice to the AA team on how to model currency. The Fund looks forward to welcoming Jonathon Razos from Talaria Capital in a few weeks to discuss the intricacies of fund management and customer engagement.

Hugo Heanly, CIO

Team updates

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

Asset Allocation (AA) team

The AA team welcomes Lachlan Simpson and Tong Wu as Analysts under the guidance of Senior Analysts Michael Salter and Callum McGarty, and Team Head Stephanie Trinh. The team has benefitted significantly from this increase in capacity, with the one-to-one junior analyst to senior analyst ratio proving very beneficial in executing the team's ambitious agenda for this semester. In the midst of a somewhat unique macroeconomic and market environment, the team is focusing on refining its portfolio construction (PC) model. To better capture the impact of short-to-medium-term macroeconomic pressures, explicit one to three year projections are being incorporated into the AA scenarios. Currency modelling is also being investigated.

Since the beginning of this year, the underlying drivers of inflation have been shifting. While the easing of supply-driven inflationary pressures are causing goods inflation to decline, the AA team sees the likelihood of services inflation taking over as a driver of persistent inflation, therefore, heightening the risk of a more delayed recovery than what is currently priced by markets. The AA team will be monitoring the effect of cost-of-living pressures on wage and price-setting behaviours within the key economies. The recent volatility of the post-pandemic market has highlighted the Fund's vulnerability to short-term macroeconomic pressures. The team has been working on incorporating three-year modelling adjustments to the asset class inputs within each of our long-term scenarios. The aim is to adopt a more dynamic asset allocation approach that considers not only 10-year returns, but also the path along which they might unfold.

In the coming weeks, the AA team will seek to leverage the refined PC model in re-evaluating the Fund's underweight position in Australian fixed income (AFI) and overweight position in Australian cash (AC) that was established in October 2020. Following completion of this analysis, AA intends to build on the work of the previous AA cohort by furthering the team's understanding and modelling of foreign currency exposure within its international equities (IE) holdings. The Fund was extremely fortunate to have hosted Nigel Wilkin-Smith as a guest speaker in August 2022, who gave us invaluable insights into how currency is addressed in managing portfolios and how the AA team can incorporate foreign exchange into its PC model. The enhancements to the PC model will be pivotal in the application of the AA investment process, and may culminate in the proposal of a new target portfolio later in this semester.

Stephanie Trinh, Head of AA

Active Australian Equities (AAE) team

The AAE team has grown to eight members this semester with Ben Carlyon, Ryan McCoy, Alexander Norman, and Conner Skidmore joining the team as Analysts, working under the guidance of Senior Analysts Jayden Pham, Janet Thudyan, Olivia Cameron, and Team Head Hugo Klimt. The even split between juniors and seniors has improved the ability of juniors to learn from the seniors from the onset.

Analysts began the semester by conducting CSA on eight companies identified using a thematic stock filtering process that was focused around potential industries of interest. The industries considered were healthcare, real estate, infrastructure, technology and consumer cyclicals. Companies were filtered with reference to quantitative valuation metrics and environmental, social and governance (ESG) qualities. Companies were then selected for in-depth analysis after presentations and feedback from the broader SMF team. RMD emerged as a potential contender due to its ability to achieve consistent revenues and high return on capital through customer lock-

ins, as well as competitive advantages through cloud-integrated products. The team is also analysing CLW, which is the first time the Fund has examined a REIT. Former AAE Team Head, Albert Lake, recently spoke to the Fund about REITs, giving the team helpful advice and insights. The team will also be completing revaluations of Inghams Group Limited (ING), Brambles Limited (BXB) and the recent investments of Suncorp Group Limited (SUN) and Downer EDI (DOW), as part of the ongoing process.

In addition, a team led by Olivia Cameron recently finished a deep dive into the Australian banking industry, in conjunction with a revaluation of Westpac Banking Corporation (WBC). The review focused on housing exposure, the impact of rising interest rates, and the possibility of replacing WBC with National Australia Bank (NAB). The AAE team recommended that the Fund continue to be exposed to the Australian banking industry through WBC, which is currently preferred over NAB due to pessimism being factored into WBC's share price versus upside potential being factored into NAB's. The team also continued its investigation of the resources sector, with Janet Thudyan and Jayden Pham completing an in-depth model of BHP over the semester break. However, the investigation was put on hold after BHP's annual report revealed that record high coal prices have driven the proportion of revenues derived from coal to 24%, which would breach the limit of 20% under the University's and SMF's SRI policies.

Hugo Klimt, Head of AAE

Risk and Compliance (R&C) team

The R&C team welcomes three new Analysts this semester – Muhammad Saad Bin Khalid, Shuang Liang and James Riordan – under the supervision of Senior Analyst James Gray and Chief Risk Officer (CRO) Nimeth Dissanayake. Thus far, James R, Shuang and Saad have displayed strong ability to identify relevant SRI/ESG concerns at the CSA stage, and make some keen observations about behavioural biases arising at the Fund and sub-team levels under the Behavioural Biases Risk Management Framework (BBRMF).

The R&C team continues to conduct performance attribution analysis and monitor for compliance with the SMF SRI Policy, and Investment Policy Statement (IPS). The team has successfully implemented the BBRMF this semester by identifying some biases, and suggesting mitigation strategies against 'production blocking' and 'information cascade' to help enhance meeting discussions and investment decisions. The R&C team will be emphasising cross-team collaboration over the remainder of the semester, in part to ensure that these previously observed biases have been reconciled. Collaborative projects so far this semester have included an SRI/ESG ETF review plus analysis of optimal CMT rebalancing procedures with the AA team, and BHP red-teaming with the AAE team. Collaboration with the AAE team will be extended further via the red-teaming initiative during the in-depth analysis of RMD and CLW.

Integrating the SMF SRI policy in conjunction with ESG principles is currently taking precedence in R&C's activities. Investment in BHP has been a controversial affair this year, where R&C has led the exploration into reputational risk and social injury considerations. Numerous high-quality Fund-level discussions were facilitated by R&C to amass the views and opinions of SMF team members. Despite these efforts, BHP was removed from the investable universe due to more than 20% of revenues in FY2022 being sourced from coal, as mentioned in the AAE team report above. Moving forward, R&C intends to firm up the Fund's stance on the mining sector (see SRI report on page 18). This could pave the way for potential investment in the sector, and possibly BHP if it is judged compliant with the SMF SRI policy at a future date.

Nimeth Dissanayake, CRO

Relationship Team (RT)

Joining the RT this semester as Relationship Officers are Alexander Aranega and Jingwei Liao, who are operating under the supervision of Engagement Manager Bella White and Team Head Anvi Ghiya. The juniors have shown immense enthusiasm and are brimming with novel and exciting ideas to enhance the Fund awareness at the corporate level.

RT continues to communicate the Fund's activities to external parties through Facebook and LinkedIn, and are releasing regular social media posts to maintain engagement. The team has commenced an 'SMF Update' on the social media platforms as a consistent overview of the Fund activities to maintain transparency and boost engagement. RT also conducted a 'Women in Finance' discussion with the two prior SMF CIOs, Elena Pleass and Alaina Warwick. The insightful discussion tapped into the gender aspect of working in finance for females. This session will be summarised and posted with the aim of attracting more female applicants to the Fund. It also helps tighten the connection between the SMF and its alumni. As a part of recruitment activities, the team hosted an AMA session on 30 August 2022. This event was conducted in-person for the first time since COVID-19, and served to spread awareness about the Fund, with 21 potential applicants connecting with SMF team members during the session.

External engagement has been a major focus for RT. In addition to the AMA event, other engagement activities included the CBE Information Market Day on 11 August 2022, and the ANU Open Day on 3 September 2022. The team will be spearheading the RSFAS contribution to the CBE Holiday Program for the year 11 high-schoolers on 27 September 2022, hoping to give them appreciation of how the SMF simulates the experience of working in a real Fund. RT has also organised a photoshoot for team images for reports, social media platforms and the SMF website.

Upcoming content includes guest speaker spotlights for Albert Lake, an SMF alumnus currently working as an Investment Banking Analyst at UBS, and Nigel Wilkin-Smith, previously Director of Portfolio Construction at the Future Fund. RT is working on strengthening the alumni network through the launch of the SMF Alumni LinkedIn group. The team will be conducting an Application Workshop on 17 September 2022 over Zoom to boost the quality of recruitment and to spread awareness about the Fund.

Anvi Ghiya, Head of RT

SMF team photos and roles

Chief Investment Officer



Hugo Heanly (CIO)

Convenors



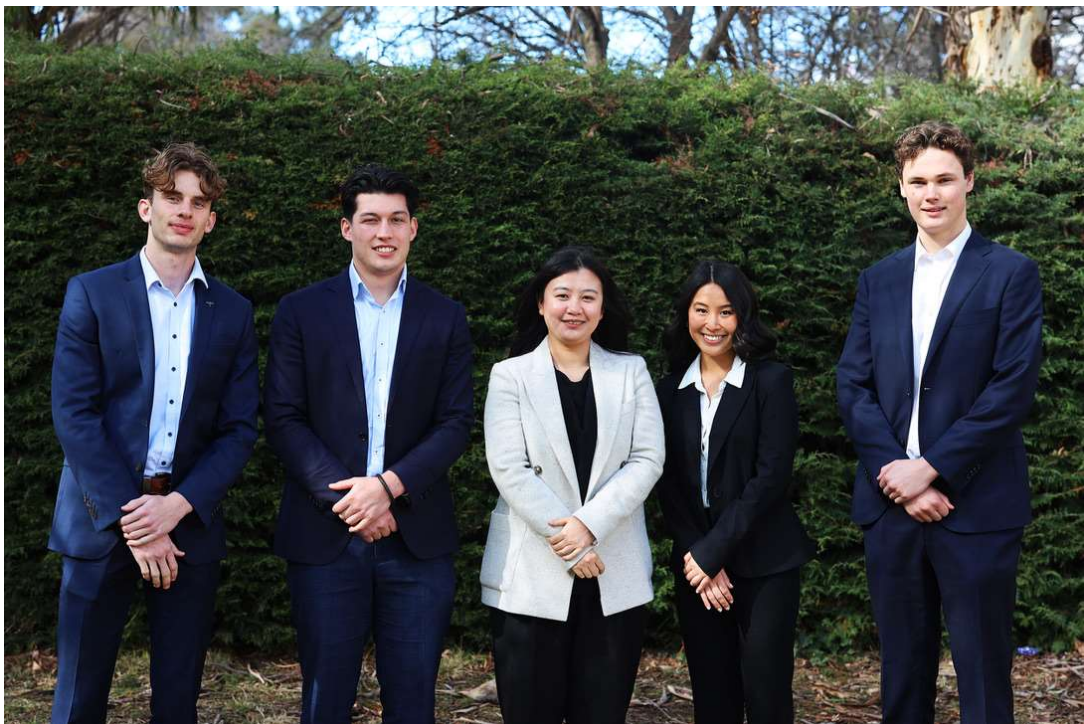
L-R: Dr Anna von Reibnitz (Course Convenor), Associate Professor Geoff Warren (Fund Convenor)

Team Heads



L-R: Hugo Heanly (CIO), Anvi Ghiya (RT), Stephanie Trinh (AA), Nimeth Dissanayake (CRO), Hugo Klimt (AAE)

Asset Allocation (AA) team



L-R: Callum McGarty (Senior Analyst), Michael Salter (Senior Analyst), Tong Wu (Analyst), Stephanie Trinh (Team Head), Lachlan Simpson (Analyst)

Relationship Team (RT)



L-R: Alexander Aranega (Relationship Officer), Anvi Ghiya (Team Head), Jingwei Liao (Relationship Officer), Bella White (Engagement Manager)

Active Australian Equities (AAE) team



*L-R: Ryan McCoy (Analyst), Hugo Klimt (Team Head), Janet Thudyan (Senior Analyst), Tran Thai Son (Jayden) Pham (Senior Analyst), Olivia Cameron (Senior Analyst), Conner Skidmore (Analyst), Ben Carlyon (Analyst)
In absentia: Alexander Norman (Analyst)*

Risk & Compliance (R&C) team



L-R: James Riordan (Analyst), Muhammad Saad Bin Khalid (Analyst), Shuang Liang (Analyst), Nimeth Dissanayake (Team Head), James Gray (Senior Analyst)

Photography by Tram Pham and Simon Petocz, CBE

Portfolio overview

Portfolio structure

Figure 1 details the asset values and associated weights of investments within the SMF portfolio. On 1 September 2022, the portfolio was valued at \$722,219. Although asset class weights were rebalanced back to target in conjunction with the second tranche purchase of emerging market equities (EM) on 4 April 2022, subsequent equity market turbulence has driven a deviation in growth/defensive weight versus the 80/20 target of $\pm 2.69\%$. From this position, it would take only a modest further fall in equity markets to reach the $\pm 3\%$ threshold to trigger a rebalancing review. Active AA positions being targeted by the Fund within the growth component include overweighting in EM by +10% matched against -5% underweightings versus reference weights in both Australian equities (AE) and unhedged developed market equities (DM,U). Within the defensive component, the target active positions involve underweighting in AFI by -7.5% and overweighting AC by +7.5%. No changes have been made to the target asset weights during the current semester, although the AA team is examining unwinding the underweighting in AFI and overweighting in AC as mentioned in the AA report (see page 5).

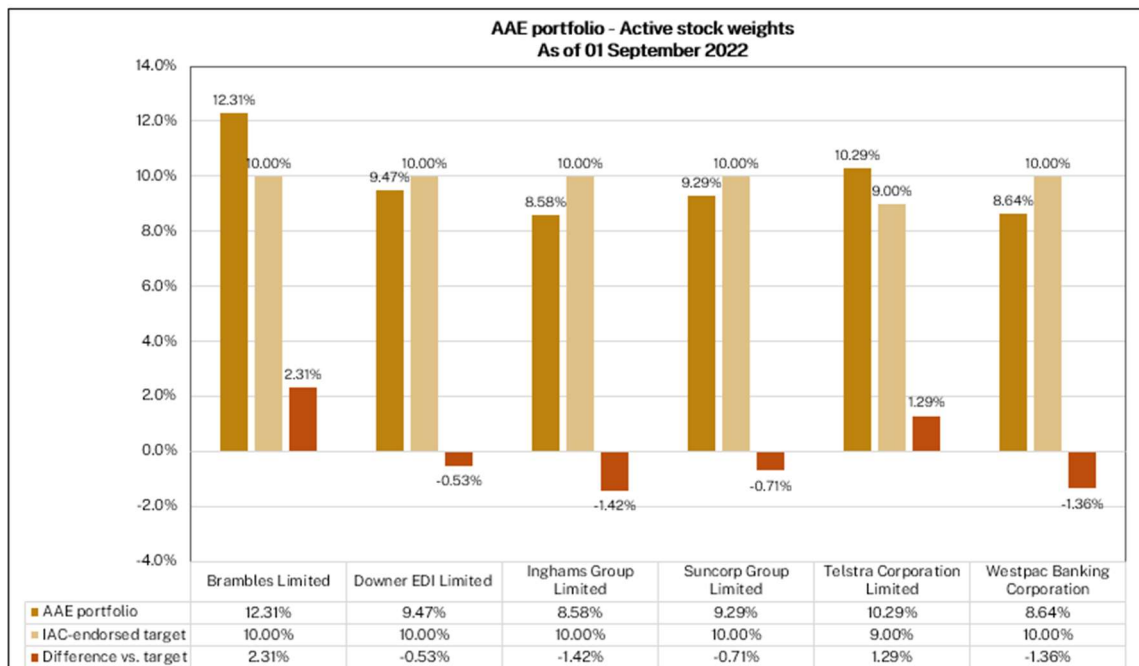
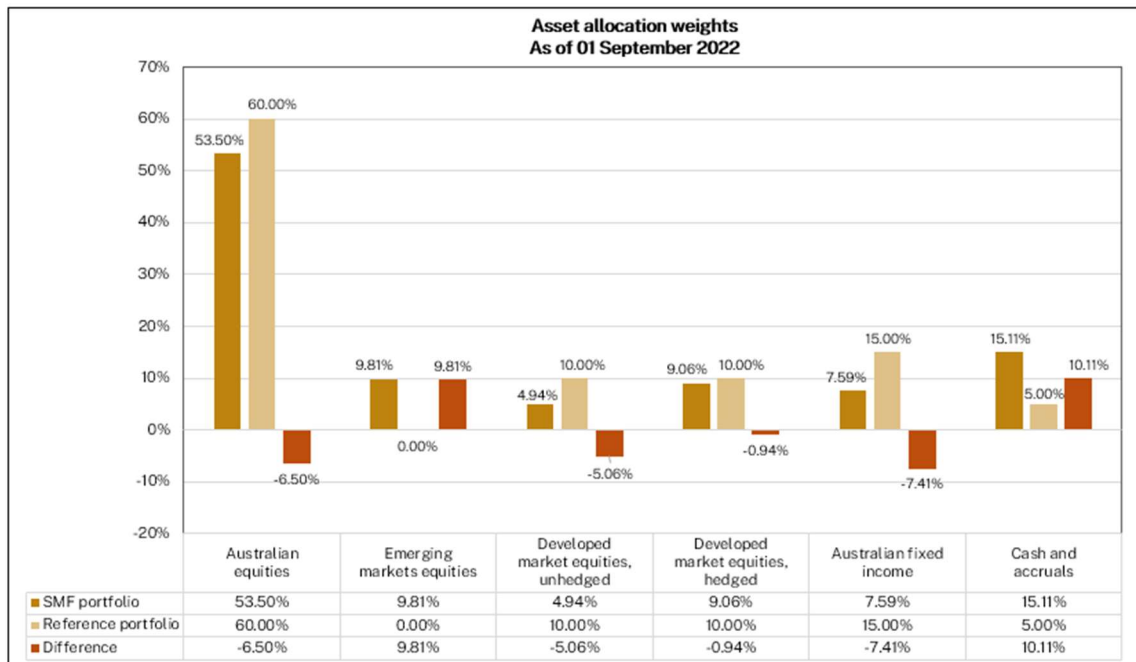
Figure 2 plots the portfolio weights as of 1 September 2022. The first chart compares current asset class weights against the reference portfolio. Deviations include: +9.81% for EM; -6.50% for AE; -5.06% for DM,U; -0.94% for hedged developed market equities (DM,H); -7.41% for AFI; and +10.11% for AC. The deviations reflect a combination of the target weights as described above, the impact of market movements, and the net receipt of cash as income is paid to the Fund.

The second chart in Figure 2 shows the six active stock positions within the AAE portfolio, comparing them with their target weights as endorsed by the SMF Investment Advisory Committee (IAC). All positions are within $\pm 2\%$ of their target weights, except for BXB at +2.31%.

Figure 1: Portfolio structure as of 1 September 2022

Portfolio component	Benchmark ETF	Asset values \$	SMF portfolio weight %	Reference portfolio weight %	Over (under) weight %
Australian equities					
AAE portfolio:					
iShares Core S&P/ASX 200 ETF		160,040	22.16		
Brambles Limited		47,562	6.59		
Downer EDI Limited		36,578	5.06		
Inghams Group Limited		33,145	4.59		
Suncorp Group Limited		35,901	4.97		
Telstra Corporation Limited		39,745	5.50		
Westpac Banking Corporation		33,395	4.62		
Total AAE portfolio	iShares Core S&P/ASX 200	386,366	53.50	50	3.50
Held within AA portfolio:					
iShares Core S&P/ASX 200 ETF		0	0.00	10	-10.00
Total Australian equities	iShares Core S&P/ASX 200	386,366	53.50	60	-6.50
Developed markets, hedged	Vanguard International Shares Index, Hedged	65,415	9.06	10	-0.94
Developed markets, unhedged	Vanguard International Shares Index	35,672	4.94	10	-5.06
Emerging market equities	iShares MSCI Emerging Markets Index	70,863	9.81	0	9.81
Total international equities		171,951	23.81	20	3.81
Total equities		558,317	77.31	80	-2.69
Australian fixed income	Vanguard Australian Government Bond Index	54,803	7.59	15	-7.41
Australian cash & accruals:					
BetaShares Australia High Interest Cash		68,359	9.47		
BT Cash Management Trust		26,079	3.61		
Accrued Interest & Dividends		2,421	0.34		
Accrued Franking Credits		12,239	1.69		
Total cash & accruals	BetaShares Australia High Interest Cash	109,090	15.11	5	10.11
Total fixed income & cash		163,902	22.69	20	2.69
Total value of SMF assets		722,219			
Total portfolio value as reported in BT Panorama		709,980			
Accrued franking credits		12,239			

Figure 2: Asset allocation and active stock weights as of 1 September 2022



Portfolio performance¹

Figure 3 reports total portfolio performance. Since inception, the Fund has delivered cumulative returns of +38.29% or +7.68% per annum. This amounts to outperformance of +1.95% cumulative (+0.37% per annum) relative to the reference portfolio. Total portfolio performance so far in 2022 has been weak at -6.55%, which mainly reflects year-to-date declines in equity markets. However, this return amounts to +0.39% outperformance versus the reference portfolio return of -6.94%.

Return since inception is still above the target return of +37.33% (+7.49% per annum) by +0.96% (+0.19% 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 aims to deliver performance in excess of the target to maintain the real value of the Fund after distributions that are made in support of the RSFAS SMF Equity Scholarship, which is the primary investment objective as set out in the SMF IPS. Delivery of this objective is a function of what happens in equity markets to a large extent, thus performance versus the reference portfolio provides a better guide to the value being added by the SMF investment process and SMF team. Contributions to performance versus the reference portfolio are discussed 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). After accounting for administration fees, the residual unexplained difference versus the total portfolio return reported in Table 3 is estimated and reported under the heading 'Aggregation, cash portfolio and other effects.' As well as effects arising from the approximate nature of attribution analysis,² this category captures the impact of the 'cash' portfolio not being invested entirely in the benchmark ETF, with amounts held in the cash management trust (CMT) and in the form of accruals that generate lower and zero returns, respectively.

The +0.37% per annum outperformance of the SMF portfolio against the reference portfolio since inception is predominately attributable to a +0.43% per annum contribution from asset allocation, whilst security selection has contributed -0.05% per annum. Fees deducted -0.14% from cumulative per annum returns, with residual aggregation and other effects estimated at +0.13%.

The source of the positive AA contribution largely stems from the successful decision to underweight AFI versus AC as well as rebalancing activities. The gap between the cumulative per annum contributions of +0.67% from AFI and -0.15% from AC of about +0.8% provides a rough guide to the contribution from the AFI/AC position. Active positions within the growth portfolio have made a negative contribution, in part due to EM lagging other equity markets. The AA team remains confident that EMs can deliver relatively high returns in the long run.

The AAE portfolio cumulative performance since inception against its IOZ benchmark of -0.15% per annum reflects a mix of contributions. Of the stocks currently held, positive per annum contributions arise from TLS (+0.63%) and BXB (+0.39%); while negative per annum contributions arise from ING (-1.11%), WBC (-0.40%), SUN (-0.16%) and DOW (-0.12%). Of the past holdings that have since been sold, positive per annum contributions are made by Sonic Healthcare (+0.60%) and Rio Tinto (+0.25%); while Bingo Industries is negative (-0.16% per annum).

¹ All return calculations include franking credits.

² The difference between the two methods in a large part relates to using asset weighted returns in Table 3 and the attribution analysis being based on time-weighted returns, and impacts arising from accumulating sub-period returns over time.

Figure 3: Portfolio performance since inception as of 1 September 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	5 April 2022	5 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	\$709,980.00		
+ Accrued Franking Credits	\$3,235.76	\$9,732.74	\$7,719.98	\$7,806.53	\$12,239.06		
- 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	\$718,031.06		
RETURNS (%)						Cumulative	Per annum
SMF portfolio return (Based on adjusted portfolio values)	-0.53%	20.81%	4.17%	18.22%	-6.55%	38.29%	7.68%
Target return (estimated as CPI + 4.5%)**	4.56%	6.16%	5.36%	8.00%	8.73%	37.33%	7.49%
SMF return less target return	-5.09%	14.65%	-1.19%	10.22%	-15.28%	0.96%	0.19%
Reference portfolio return	0.58%	21.91%	3.40%	15.55%	-6.94%	36.34%	7.31%
SMF return less reference portfolio return	-1.11%	-1.10%	0.76%	2.67%	0.39%	1.95%	0.37%
Note: Administration fees - BT Panorama		0.02%	0.23%	0.21%	0.15%	0.61%	0.14%

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

** Based on realised CPI to June quarter 2022, and an assumed +1.4% change in CPI from June quarter 2022 to 1 September 2022.

Figure 4: Performance attribution since inception as of 1 September 2022

Period	Contributions to performance vs. reference portfolio						Since inception Cumulative Per Annum
	2018 %	2019 %	2020 %	2021 %	2022 %		
Opening date	10/4/18	1/1/19	1/1/20	1/1/21	1/1/22	10/4/18	
Closing date	31/12/18	31/12/19	31/12/20	31/12/21	1/9/22	1/9/22	
SMF portfolio vs. reference portfolio							
Asset allocation	0.17%	-0.28%	1.55%	-0.24%	0.59%	1.79%	0.43%
Security selection - AAE portfolio	-1.26%	-0.58%	-0.66%	2.50%	-0.17%	-0.21%	-0.05%
Contribution from positions held (prior BT fees)	-1.09%	-0.87%	0.89%	2.26%	0.42%	1.58%	0.38%
Administration fees – BT Panorama	0.00%	-0.02%	-0.23%	-0.21%	-0.15%	-0.61%	-0.14%
Aggregation, cash portfolio and other effects	-0.02%	-0.21%	0.10%	0.62%	0.11%	0.98%	0.13%
Total relative performance	-1.11%	-1.10%	0.76%	2.67%	0.39%	1.95%	0.37%
Asset allocation attribution							
Australian equities	0.01%	-0.04%	0.44%	0.02%	-0.09%	0.35%	0.09%
Australian fixed income	-0.02%	-0.11%	1.24%	1.31%	0.34%	2.79%	0.67%
Emerging market equities				-0.24%	0.41%	-0.65%	-0.16%
Developed market equities, hedged	0.01%	-0.01%	-0.02%	-0.03%	-0.02%	-0.07%	-0.02%
Developed market equities, unhedged	0.01%	0.01%	0.02%	-0.15%	0.17%	0.07%	0.02%
Cash and accruals	0.16%	-0.15%	-0.14%	-1.13%	0.63%	-0.62%	-0.15%
Time aggregation effect	0.00%	0.00%	0.00%	-0.03%	-0.03%	-0.06%	-0.01%
AA contribution to total portfolio performance	0.17%	-0.28%	1.55%	-0.24%	0.59%	1.79%	0.43%
AAE portfolio vs. S&P/ASX200 ETF							
iShares Core S&P/ASX 200 ETF	-0.01%	-0.04%	-0.07%	-0.06%	-0.01%	-0.19%	-0.05%
Bingo Industries Limited	-3.21%	1.89%	-0.75%	1.50%		-0.65%	-0.16%
Brambles Limited				-0.63%	2.25%	1.61%	0.39%
Downer EDI Limited					-0.51%	-0.51%	-0.12%
Inghams Group Limited		-2.43%	-0.17%	0.23%	-2.19%	-4.51%	-1.11%
Rio Tinto Limited	-0.04%	0.52%	0.54%			1.02%	0.25%
Sonic Healthcare Limited		-0.11%	1.85%	0.75%		2.50%	0.60%
Suncorp Group Limited					-0.66%	-0.66%	-0.16%
Telstra Corporation Limited	0.62%	0.53%	-1.05%	2.06%	0.45%	2.61%	0.63%
Westpac Banking Corporation		-1.49%	-1.49%	0.77%	0.58%	-1.64%	-0.40%
Time aggregation effect	-0.02%	-0.01%	-0.04%	0.01%	-0.05%	-0.10%	-0.02%
Relative performance vs. S&P/ASX200 ETF	-2.66%	-1.14%	-1.18%	4.64%	-0.14%	-0.63%	-0.15%
Average AAE portfolio weight in SMF portfolio	47.37%	50.88%	55.49%	53.83%	55.60%		
AAE contribution to total portfolio performance	-1.26%	-0.58%	-0.66%	2.50%	-0.17%	-0.21%	-0.05%

Socially responsible investment (SRI) report

The SMF portfolio is invested in line with the Fund's SRI policy, which is directly derived from the University's SRI policy. The policy aims to support sustainable business practices that are beneficial for society, whilst discouraging those that may cause social injury. Potential implications for investment returns are also taken into consideration. Vital points of the ANU SMF SRI policy are captured below.

- (i) Exclude companies that draw more than 20% of revenues from adult entertainment, coal, gambling, tobacco, 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 as determined by the Fund, with a current focus on the following activities and practices related to ESG categories:
 - E. Climate change action.
 - S. Equity, diversity and inclusion.
 - G. Corporate trustworthiness, including transparency, compliance and accountability.

All active stock positions currently held by the ANU SMF strictly adhere to the industry exclusions as listed in point (i). This industry exclusions list is applied to reviews of the SMF portfolio conducted at the beginning of each semester, and in narrowing down stocks that have been proposed via the CSA filtering process.

Figure 5 reports SRI compliance regarding carbon intensity as of 1 September 2022 (point (ii)). Directly sourced from the ANU Investment Office, the carbon intensity of the AAE component of the SMF portfolio is calculated from active stock positions using tonnes of CO₂ produced per \$1 million of revenue on a holdings-weighted basis. This is then compared with the carbon intensity of the S&P/ASX200 estimated on a market-capitalisation basis. The Fund is pleased to report carbon intensity that is -83.7% below the S&P/ASX200 index, which exceeds the 30% threshold target with a margin of +53.7%.

Figure 5: Carbon intensity of the AAE component as of 1 September 2022

	S&P/ ASX200	BXB	DOW	ING	SUN	TLS	WBC	Active stock positions vs. S&P/ASX200	Target improvement	Margin
Weighting in AAE portfolio	41.42%	12.31%	9.47%	8.58%	9.29%	10.29%	8.64%			
Carbon intensity	236.08	17.0	54.3	83.5	2.8	72.3	4.9	-83.70%	-30.00%	53.70%

The Fund's commitment to avoiding investments that cause an unacceptable level of social injury has been reflected in recent discussions over BHP, which was initially investigated as a candidate stock last semester. Assessments regarding the potential for social injury and reputational risk stemming from the 2015 Brazilian tailings dam collapse delayed investment in the first instance. Following further discussion and analysis, the mining sector was generally accepted on SRI and reputational risk grounds. The Fund recognised that, although there are some environmental risks, mining companies provide social benefit through providing raw materials that fuel economic and social prosperity. As such, it was considered as naïve to preclude investment from the sector entirely. In-depth analysis of BHP recommenced this semester, but was unexpectedly

brought to a standstill upon harrowing reports of more than 100 sexual harassment cases across BHP offices, mine sites and accommodation villages over the past 12 months alone. After multiple roundtable discussions at the Fund-level and in-depth research into BHP mitigation strategies and industry-wide outlooks, a poll was taken of Fund members. The result of the poll was:

- regarding the reputational risk from an investment in BHP, 53% deemed it acceptable, 42% as unacceptable and 5% abstained the vote;
- of the 42% that deemed an unacceptable level of reputational risk, 78% voted to delay investment in BHP and 22% voted to not invest in BHP at all.

Subsequent to this vote, BHP was excluded from the ANU SMF's investable universe in accordance with the ANU SRI policy due to reporting that 24% of revenues were derived from coal during the year ended 30 June 2022, thus exceeding the 20% industry exclusions threshold.

Following the BHP discussions, and the rejection of a potential investment in Woodside Energy Limited in 2021 on SRI grounds, R&C plans to form a critical view surrounding the holistic 'culture of mining' and implement a resources sector SRI framework. This framework will encourage a mining industry-wide screening process prior to investment in light of evident systemic cultural flaws. Sexual harassment of women in fly-in fly-out mining operations is one key matter of concern, where we wish to better understand the significant push for stronger action to support female workers and its potential to lead to meaningful change. Other matters for consideration include the potential for environmental damage, and the high carbon intensity of the industry and its plans for climate transition.

After the review of the mining sector is concluded, BHP may again become a potential option for future investment in light of the inconclusive ANU SMF poll outcome referred to above. However, a decline in coal exposure below 20% of revenues is a prerequisite. In addition, the Fund will want to gain confidence that the sexual harassment cases are being successfully addressed.

Declaration

The Fund declares that it has complied with the University's SRI policy while effectively implementing the SMF SRI policy throughout 2022. The Fund remains committed to consistently reviewing and refining its SRI policy to support sustainable business practices while pursuing long-term returns.

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