



Australian
National
University

ANU Student Managed Fund

Mid-semester report – Semester 1, 2023

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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
ALX – Atlas Arteria
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
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
PPP – Purchasing power parity
R&C – Risk and Compliance
RSFAS – Research School of Finance, Actuarial Studies and Statistics
RT – Relationship Team
SHL – Sonic Healthcare Limited
SMF / the Fund – ANU Student Managed Fund; also
SRI – Socially responsible investment
SUN – Suncorp Group Limited
WBC – Westpac Banking Corporation
WOW – Woolworths Group Limited
YTD – Year-to-date

Chief Investment Officer (CIO) report

The interim period between the end of Semester 2, 2022 and Semester 1, 2023 represented a turbulent phase for the Fund. The team has responded quickly to address necessary changes to the portfolio in accordance with our long-term investment horizon. Over the period 31 December 2022 to 29 March 2023, the portfolio generated a return of 2.20%, but underperformed its reference portfolio by -0.47%. The cumulative per annum return since inception now stands at 7.65% per annum, which is 0.05% per annum above the target return but very marginally below the reference portfolio return by -0.01% per annum. The Fund's performance is indicative of headwinds faced by domestic and global financial markets over the past 12 months, with achieving a target real return of 4.5% becoming more demanding due to higher inflation. In any event, the environment further necessitates commitment to the Fund's long-term investing strategy. A significant contributor to the Fund's underperformance has been the Downer EDI (DOW) position within the Active Australian Equities (AAE) portfolio, which dropped sharply as disclosure of accounting irregularities and weaker operating performance led to downward earnings revisions. Meanwhile, our position in Brambles (BXB) is going well and providing some offset.

The Fund has welcomed thirteen new members to the team this semester, who have quickly adapted to their responsibilities and are actively engaging with the SMF operations. The emphasis on integrating junior members is a crucial aspect of perpetuating the SMF 'Key Values' across cohorts. Junior team members have articulated their understanding and actively exhibited the Key Values through their contributions to team meetings. Senior fund members have excelled at imparting the objectives of the Fund and effectively communicating the strategic direction for this semester and beyond. The leadership team has adapted to their roles seamlessly and found a good balance between offering their own perspective and encouraging juniors to contribute to Fund discussions.

The beginning of Semester 1, 2023 has been a busy period. The AAE team have completed revaluations of Inghams Group (ING), DOW and BXB. ING has underperformed since in 2019, and the AAE team has re-assessed the dynamics of the stock. They have recommended that the Fund consider selling its entire active position. The AAE team have worked together with the Risk and Compliance (R&C) team to evaluate the impact of DOW's accounting disclosures, and look at how that influences the Fund's view of the company. The outcome was a decision to rebalance the DOW position back up to the 10% target weight.

Additional points of emphasis for each sub-team are mentioned below.

- The Asset Allocation (AA) team are formulating a foreign currency model to assist in structuring the unhedged versus hedged holdings in international equities (IE).
- The AAE team increased the number of stocks considered through the candidate stock screening stage, and subsequently presented six stocks for further consideration. The Fund endorsed Atlas Arteria (ALX), Sonic Healthcare (SHL) and Woolworths Group (WOW) to proceed to in-depth analysis. The AAE team has updated their industrial company model template in-preparation for the in-depth analysis stage.
- The R&C team have completed the formalisation of a Mining and Resources Socially Responsible Investing (SRI) Framework following discussions related to the exclusion of BHP on SRI grounds, assessed the SRI issues surrounding DOW, and are updating the Behavioural Bias Risk Management Framework (BBRMF) to capture a wider range of relevant biases. The R&C team has also begun the red-teaming process in coordination with AAE.
- The Relationship Team (RT) have added two new initiatives this semester. Following the addition of the 'SMF Update' in Semester 2, 2022, RT have begun recording and analysing

data on the social media engagement with the Fund. RT members have also attended other sub-team meetings with the objective of producing a profile on each sub-team, creating new content and enhancing the integration of RT with other sub-teams.

The Fund was fortunate to welcome David McGregor from ATLAS Infrastructure as a guest speaker to discuss investing in listed infrastructure. David's advice is proving invaluable as the AAE team begins their initial analysis of ALX, and he has kindly offered to answer any follow up questions.

Moving the revaluations of three of the AAE portfolio companies to the beginning of the semester is a conscious decision to enable the possibility of analysing additional candidate stocks towards the end of semester. This provides more time to complete a thorough revaluation of each stock, and improves cohesion across semesters by enabling the AAE and R&C teams to implement lessons into the candidate stock analysis (CSA) stage during the following semester.

Ben Carlyon, CIO

Team updates

The following team updates introduce new members, detail activities that are underway, and outline upcoming priorities.

AA team

The AA team is pleased to welcome three fresh faces to the team. William Brake, Caitlin Tully and Emerson Yang have all had an immediate impact on the team and are excelling in their analyst positions. Along with Team Head Lachlan Simpson, the AA team has already set out to tackle the current challenging macroeconomic environment, and advance the processes and procedures of the AA team and the SMF.

The AA team presented their macro-outlook to the broader SMF team in Week 4. The team analysed everything from interest rates and inflation to bond yields and foreign currency. Four key trends for the Australian economy over the long run were examined – decarbonisation, de-globalisation, digitisation and national security. Ultimately, this informed the update of the team's portfolio construction (PC) model, which realigned the key inputs with current market conditions. The AA team also consolidated work from the previous semester by updating the three-year modelling inputs to reflect the current pace of interest rate hikes in Australia. This work culminated in a 'model update' presentation to the SMF team in Week 5. Updating and adjusting the PC model proved to be a great learning experience for the AA juniors.

The AA team has commenced the challenging task of modelling foreign currency. The SMF holds IE in both hedged and unhedged forms, and currently applies an arbitrary hedge ratio. From this semester, the AA team hopes to implement a more considered currency exposure using the ability to adjust hedged versus unhedged IE holdings. The team is currently working towards building a deeper understanding of the SMF's currency exposure, and developing a process to help manage the risk associated with foreign currency at the total portfolio level. Following an investigation of the key drivers of the Australian Dollar, the AA team plans to combine Purchasing Power Parity (PPP) as a valuation anchor with consideration of interest rate differentials, relative inflation and commodity prices as drivers of additional currency fluctuation over time. This approach appears to be the most effective method of modelling foreign currency in a way that accords with the SMF's long-term objectives. The AA team's currency findings should also be of significant value to the AAE team, who will be able to analyse companies with international revenue streams more effectively.

Lachlan Simpson, Head of AA

AAE team

The AAE team has taken in a strong group of six Analysts, growing the team to nine members this semester. Joining the team as Analysts are Gurisha Gupta, Matthew De Bortoli, Liam Newport, Ryan Phillips, Lauren Vanstone and Callum Vincent, who will be working under the guidance of Senior Analysts, Ryan McCoy and Conner Skidmore, and Team Head, Alexander Norman. The significant intake of juniors has heightened the importance of knowledge transfer from seniors to juniors, with Conner and Ryan involved across multiple projects.

Analysts began the semester by conducting a CSA on 11 companies that spanned a mix of cyclical and defensive elements. The cyclical stocks were identified in a filtering process that targeted stocks that had been poor performers over the past year and may have been oversold, while seeking a combination of value and quality. Earnings resilience was sought after considering the macroeconomic risk inherent in cyclicals. Defensive stocks were identified using a thematic stock filtering process focusing on potential industries of interest that could compliment the current portfolio. The industries considered were healthcare, infrastructure and consumer staples. 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 a presentation and feedback process involving the broader SMF team.

SHL emerged as a potential contender due to its ability to achieve consistent revenues and strong margins relative to competitors, while maintaining a solid balance sheet. The Fund previously held SHL and sold out in 2021 at a higher level, and it now appears more reasonably priced. The team is also analysing ALX, which was a CSA stock last semester but was rejected given a takeover attempt from IFM Investors that had it trading a premium. With these issues having subsided, ALX is being reconsidered as a source of infrastructure exposure with reliable long-term cash flows. ATLAS Infrastructure recently spoke to the Fund about infrastructure modelling and provided some valuable insights into the key issues associated with investing in companies such as ALX. The third stock being taken forward to in-depth analysis is WOW. The AAE team has a positive view of the company's long-term strategy in relation to online shopping and expansion into new product segments, although further valuation work is required to assess whether this upside is priced.

The AAE team began a revaluation of ING prior to the start of semester, after it was identified as a stock of concern during the previous semester due to significant margin volatility associated with cost pressures. The AAE team also completed a rebalancing review of DOW following a greater than 40% drop in its share price, resulting in rebalancing back to the 10% target weight. The analysts determined that concerns over management, recent cost issues caused by adverse weather conditions and a tight labour market are short-term in nature and likely to subside. BXB has recently crossed the threshold of +3% above its target weight, and as such the rebalancing procedure has been triggered with a report to be completed in coming weeks. Later in the semester, the team will be completing revaluations of Suncorp Group (SUN) and Westpac Banking Corporation (WBC) as part of the ongoing process.

Alexander Norman, Head of AAE

R&C team

The R&C team is pleased to welcome two new Analysts this semester – Ricky Liu and Guiming Miao. Under the guidance of Senior Analyst James Riordan and Chief Risk Officer (CRO) Shuang Liang, Ricky and Guiming have already made meaningful contributions. This includes identifying relevant SRI/ESG concerns at the CSA stage, observing behavioural biases under the BBRMF and

presenting the findings at both the Fund and sub-team levels, and actively participating in R&C team and Fund-level discussions.

The R&C team continues to carry out performance attribution analysis, and monitor the portfolio to ensure that the Fund remains compliant with the SMF SRI Policy and Investment Policy Statement (IPS). The team also continues to successfully implement the BBRMF, and has suggested mitigation strategies against 'production blocking' and 'confirmation bias' to help improve the general efficiency of meeting discussions and investment decision making. The R&C team is monitoring for behavioural biases on an ongoing basis during the cross-team collaboration projects, with the aim of providing an even greater level of insight and feedback to help ensure that any observed biases are mitigated. Collaborative projects completed so far include the DOW rebalancing and SRI update with the AAE team. Upcoming projects include continuation of the red-teaming initiative with the AAE team on the potential investments in ALX, SHL and WOW, and collaborating with the AA team on portfolio-wide risk analysis, and the RT on report writing.

Incorporating ESG principles into the SMF SRI policy remains a key focus. Against the background of the Fund's previous investigation of BHP and Woodside Energy as potential investments, and the experience of having held Rio Tinto during its destruction of an Indigenous site at Juukan Gorge, the R&C team has created a Mining and Resources Sector SRI Framework. This framework aims to provide the Fund with a comprehensive methodology to assess SRI considerations for mining and resource companies, and enshrines the legacy from the debates by previous cohorts by building on past conversations and laying a solid foundation for SMF's future investment in the sector.

Shuang Liang, CRO

RT

Joining the RT this semester as Relationship Officers are Joseph Bamber and Sueyoon Kim, who are operating under the supervision of Team Head Jingwei Liao. The juniors have demonstrated profound eagerness to enhance external engagement and awareness of the Fund.

RT continues to communicate the Fund's activities to external parties through Facebook and LinkedIn, releasing regular social media posts to sustain engagement. To maintain transparency and further increase engagement, RT has been sharing an overview of the Fund's activities on social media platforms through the 'Fund update'. For RT members to better understand investment theses and construct more-informed posts about investment recommendations, RT has started a new initiative to attend other sub-team meetings to gain insights into portfolio construction, company valuation and risk management. To increase cross-team collaboration, RT has included relevant team heads in the approval process when preparing social media posts.

External engagement has been a major focus for RT. To assist in the recruitment of new applicants, the team hosted an 'Ask Me Anything' (AMA) session on Wednesday 29 March 2023. This event spread awareness about the Fund, with 21 potential applicants connecting with SMF team members during the session. Other engagement activities included involvement in the CBE Information Market Day on Thursday 23 February 2023, the ANU Open Day on Saturday 18 March 2023 and the CBE mid-semester event on Thursday 30 March 2023. RT will be conducting an Application Workshop on Sunday 23 April 2023 over Zoom to boost the quality of recruitment and to spread awareness about the Fund. RT also organized a photoshoot for team images for reports, our social media platforms and the SMF website. Upcoming content includes a guest speaker spotlight for ATLAS Infrastructure – a global fund manager that invests in listed infrastructure – following their talk to the Fund regarding ALX as it proceeds to in-depth analysis.

Jingwei Liao, Head of RT

SMF team photos and roles

Chief Investment Officer



Ben Carlyon (CIO)

Convenors



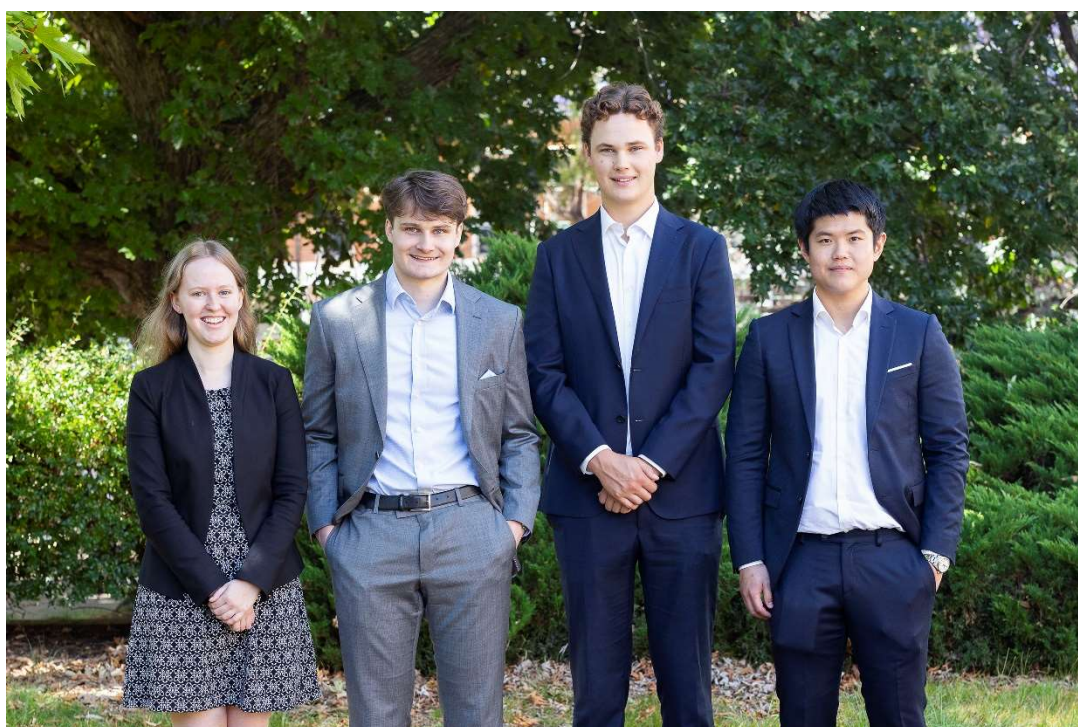
*L-R: Associate Professor Geoff Warren (Fund Convenor),
Dr Anna von Reibnitz (Course Convenor)*

Team Heads



*L-R: Ben Carlyon (CIO), Jingwei Liao (RT), Lachlan Simpson (AA),
Shuang Liang (CRO), Alexander Norman (AAE)*

Asset Allocation (AA) team



*L-R: Caitlin Tully (Analyst), William Brake (Analyst),
Lachlan Simpson (Team Head), Emerson Yang (Analyst)*

Relationship Team (RT)



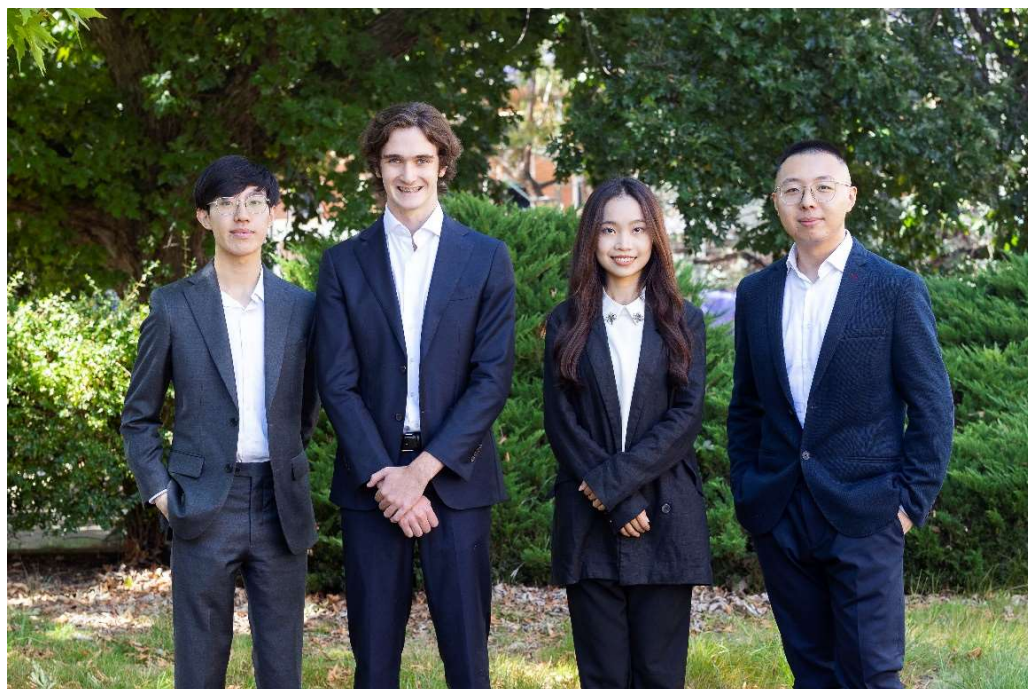
L-R: Jingwei Liao (Team Head), Joseph Bamber (Relationship Officer), Sueyoon Kim (Relationship Officer)

Active Australian Equities (AAE) team



L-R: Ryan McCoy (Senior Analyst), Lauren Vanstone (Analyst), Ryan Phillips (Analyst), Matthew de Bortoli (Analyst), Liam Newport (Analyst), Conner Skidmore (Senior Analyst), Alexander Norman (Team Head), Callum Vincent (Analyst), Gurisha Gupta (Analyst)

Risk & Compliance (R&C) team



***L-R: Ricky Liu (Analyst), James Riordan (Senior Analyst),
Shuang Liang (Team Head), Guiming Miao (Analyst)***

Photography by Tram Pham and Simon Petocz, CBE

Portfolio overview

Portfolio structure

Figure 1 depicts asset values and associated weights of investments within the SMF portfolio; while Figure 2 plots the AA weights versus the reference portfolio and the active stock weights versus those endorsed by the SMF Investment Advisory Committee (IAC). As of 29 March 2023, the total value of the SMF is \$741,171. The SMF portfolio is currently split in line with the reference weights of 20% in defensive assets, including Australian cash (AC) and Australian fixed income (AFI), and 80% in growth assets, including Australian equities (AE), international equities (IE) and emerging market equities (EM).

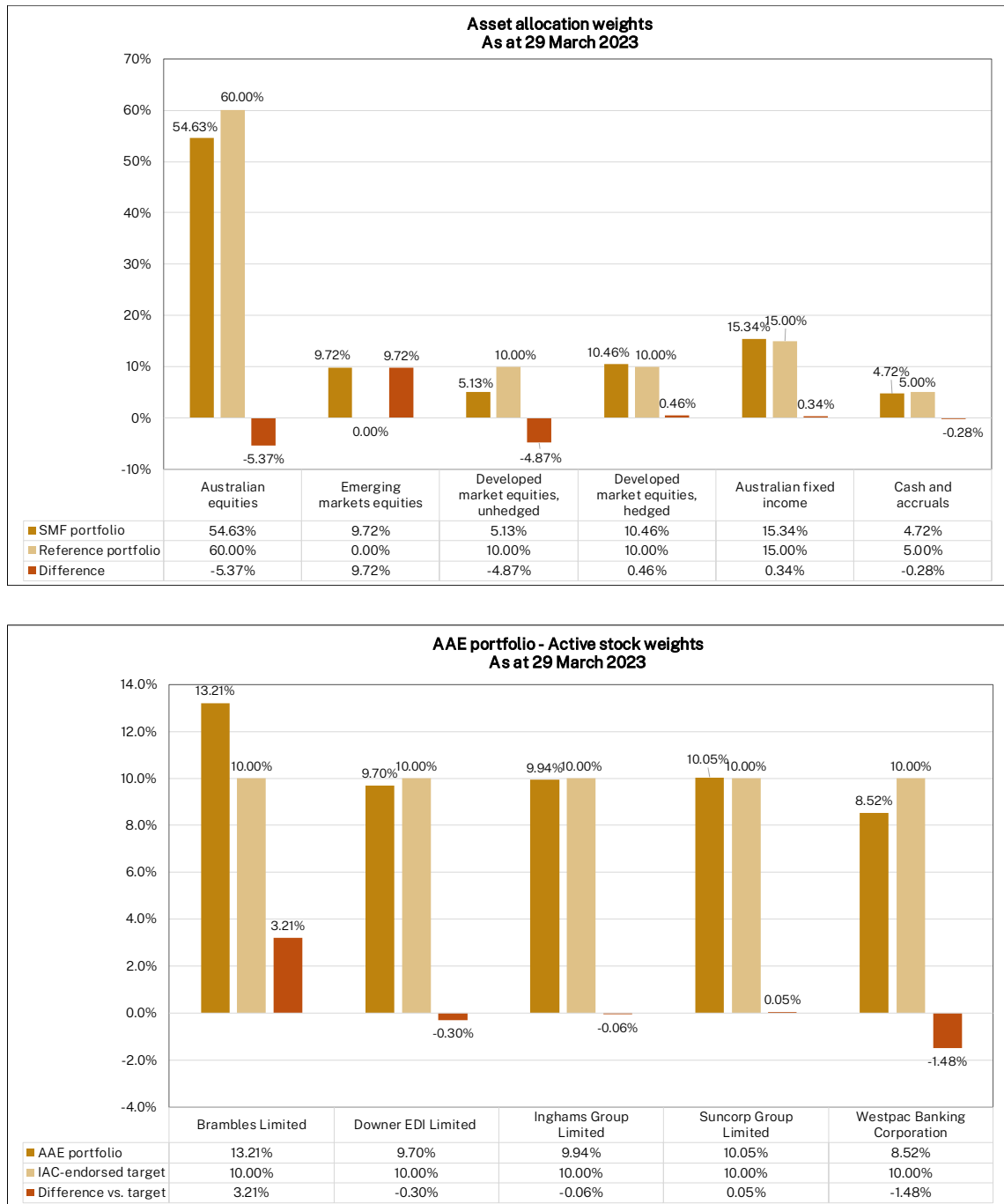
After having unwound the overweighting in AC and underweighting in AFI in Semester 2, 2022, there remains no active positions within the AA's defensive portion of the portfolio, where the target weights sit in line with the reference portfolio. The main active AA position sits within the growth portion of the portfolio, involving a 10% target exposure to EM offset by a -5% weight in AE and -5% weight in unhedged developed market equities (DM,U) versus the reference portfolio. There have been no alterations to target weights in the SMF portfolio this semester. The AA team is currently accessing foreign currency risk in the portfolio, and this could conceivably result in a recommendation concerning the makeup of the SMF's IE sub-portfolio. All individual asset classes are currently subject to only minor deviations from their target weights.

The AAE portfolio holds active positions in five stocks comprising BXB, DOW, ING, SUN and WBC, each with target weights of 10%. The main deviations from these target weights include an overweighting of +3.21% in BXB and an underweighting of -1.48% in WBC. BXB is currently undergoing review and analysis for potential rebalancing. The AAE team currently has three stocks under in-depth analysis to consider taking an active position, being ALX, SHL and WOW.

Figure 1: Portfolio structure as of 29 March 2023

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		191,629	25.85		
Brambles Limited		52,090	7.03		
Downer EDI Limited		38,253	5.16		
Inghams Group Limited		39,183	5.29		
Suncorp Group Limited		39,617	5.35		
Westpac Banking Corporation		33,615	4.54		
Total AAE portfolio	iShares Core S&P/ASX 200	394,388	53.21	50	3.21
Held within AA portfolio:					
iShares Core S&P/ASX 200 ETF		10,544	1.42	10	-8.58
Total Australian equities	iShares Core S&P/ASX 200	404,932	54.63	60	-5.37
Developed markets, hedged	Vanguard International Shares Index, Hedged	77,499	10.46	10	0.46
Developed markets, unhedged	Vanguard International Shares Index	38,012	5.13	10	-4.87
Emerging market equities	iShares MSCI Emerging Markets Index	72,069	9.72	0	9.72
Total international equities		187,581	25.31	20	5.31
Total equities		592,512	79.94	80	-0.06
Australian fixed income	Vanguard Australian Government Bond Index	113,707	15.34	15	0.34
Australian cash and accruals:					
BetaShares Australia High Interest Cash		15,066	2.03		
BT Cash Management Trust		12,568	1.70		
Accrued Interest & Dividends		2,750	0.37		
Accrued Franking Credits		4,567	0.62		
Total cash and accruals	BetaShares Australia High Interest Cash	34,952	4.72	5	-0.28
Total fixed income and cash		148,658	20.06	20	0.06
Total value of SMF assets		741,171			
Total portfolio value as reported in BT Panorama		736,603			
Accrued franking credits		4,567			

Figure 2: Asset allocation and active stock weights as of 29 March 2023



Portfolio performance¹

Figure 3 reports performance for the total SMF portfolio to 29 March 2023. Since inception, the Fund has delivered cumulative returns of +44.04% or +7.65% per annum. This amounts to an outperformance versus the target return by 0.18% or 0.05% per annum, but a narrow cumulative underperformance of -0.01% per annum relative to the reference portfolio. The portfolio has fared well so far in 2023 due to a moderate improvement in equity markets, recording a 2.20% year-to-date (YTD) return. This return amounts to -0.47% underperformance versus the reference

¹ All return calculations include franking credits.

portfolio return of 2.67%. Return since inception has been challenged by higher inflation levels. Higher inflation not only pushes up the target return, which is estimated as the sum of the realised CPI over the period and the distribution rate of 4.5% per annum, but has also led to increased interest rates that have put downward pressure on both equity and fixed income markets. The Fund aims to deliver returns in excess of the target 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 set out in the IPS. Contributions to performance versus the reference portfolio are discussed in the attribution analysis section below.

Attribution analysis

Figure 4 attributes 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 contribution from the AAE portfolio relative to its benchmark, the iShares Core S&P/ASX 200 ETF (IOZ). After accounting for administration fees, a residual difference versus the total portfolio return as reported in Figure 3 is estimated and reported under 'Aggregation, cash portfolio and other effects.' This item reflects the approximate nature of attribution analysis.² The -0.01% per annum underperformance of the SMF portfolio against the reference portfolio since inception comprises of per annum contributions of +0.31% from asset allocation, -0.20% from security selection, -0.15% from fees deducted and +0.02% from aggregation, cash portfolio and other effects.

The positive AA contribution stems from strong AA performance in 2020 and 2022. The source is difficult to disentangle from the individual asset contributions, but can be attributed in large part to rebalancing activities during the COVID-19 related sell-off earlier in 2020 and the success of the position where AFI was held underweight and AC overweight during the period that bond markets sold off. The latter is the main contributor to the difference between the AFI and AC contributions, which stands at +0.69% per annum. Meanwhile, the position in EM has detracted from performance. Nonetheless, the AA team remains confident that EMs can deliver relatively high returns over the long run.

The AAE portfolio cumulative performance since inception against its IOZ benchmark of -0.20% per annum reflects a mix of contributions. BXB is the strongest performer of the stocks currently held with a +0.47% per annum return contribution. Negative per annum contributions arise from DOW (-0.84%), ING (-0.70%) and WBC (-0.37%), while SUN contributed +0.01% per annum. Of the past stock holdings that have since been sold, positive per annum contributions are made by SHL (+0.50%), Telstra Corporation (+0.48%) and Rio Tinto (+0.21%); while Bingo Industries detracted (-0.13%). DOW and WBC have been the AAE portfolio's weakest performers YTD, reflecting management and earnings issues at DOW and broader global banking concerns for WBC. DOW was recently rebalanced to its target weight of 10% of the AAE portfolio, having fallen below its target weight by more than -3%. Both BXB and ING are currently under review for potential rebalancing and sale, respectively.

² The difference largely arises from the total portfolio returns in Figure 3 being asset-weighted returns and the attribution analysis in Figure 4 being based on time-weighted returns. This item also 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 generating lower and zero returns, respectively. The cash portfolio effect is relatively minor, i.e. a few basis points.

Figure 3: Portfolio performance since inception as of 29 March 2023

Year	2019	2020	2021	2022	2023	Since inception	
Opening date	1 January 2019	1 January 2020	1 January 2021	1 January 2022	1 January 2023	10 April 2018	
Closing date	31 December 2019	31 December 2020	31 December 2021	31 December 2022	29 March 2023	29 March 2023	
PORTFOLIO VALUES							
Opening portfolio value in BT Panorama*	\$608,598.58	\$705,485.10	\$704,774.44	\$796,753.31	\$722,051.16		
+ Accrued franking credits	\$3,235.76	\$9,732.74	\$7,719.98	\$7,806.53	\$14,118.76		
Opening portfolio value	\$611,834.34	\$715,217.84	\$712,494.42	\$804,559.84	\$736,169.92		
Closing portfolio value in BT Panorama	\$705,485.10	\$704,774.44	\$796,753.31	\$722,051.16	\$736,603.37		
+ Accrued franking credits	\$9,732.74	\$7,719.98	\$7,806.53	\$14,118.76	\$4,567.26		
Closing portfolio value	\$715,217.84	\$712,494.42	\$804,559.84	\$736,169.92	\$741,170.63		
Change in portfolio value	16.90%	-0.38%	12.92%	-8.50%	0.68%		
CASH FLOWS							
- Distribution related to prior period	-\$27,746.21	-\$32,186.49	-\$32,067.23	-\$36,205.19	-\$33,127.65		
+ Amount held by CBE, offset against distribution	\$7,983.83	\$0.00	\$0.00	\$0.00	\$4,189.31		
- Contributions	\$0.00	\$1,000.00	\$150.00	\$4,188.00	\$18,190.00		
Total cash flows	-\$19,762.38	-\$31,186.49	-\$31,917.23	-\$32,017.19	-\$10,748.34		
RETURNS (%)						Cumulative	Per annum
SMF portfolio return (based on adjusted portfolio values)	20.77%	4.16%	18.20%	-4.71%	2.20%	44.04%	7.65%
Target return (estimated as CPI + 4.5%)**	6.16%	5.36%	8.00%	12.41%	1.32%	43.86%	7.60%
SMF return less target return	14.61%	-1.20%	10.20%	-17.12%	0.88%	0.18%	0.05%
Reference portfolio return	21.91%	3.40%	15.55%	-4.09%	2.67%	44.25%	7.66%
SMF return less reference portfolio return	-1.13%	0.76%	2.65%	-0.61%	-0.47%	-0.21%	-0.01%
Note: Administration fees - BT Panorama	0.02%	0.23%	0.21%	0.23%	0.05%	0.75%	0.15%

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

** The modified Dietz method makes an adjustment for the portion of the year that cash flows are available to earn returns.

Figure 4: Performance attribution since inception as of 29 March 2023

	Contributions to performance vs. reference portfolio						
Period	2019	2020	2021	2022	2023	Since inception	
	%	%	%	%	%	Cumulative	Per annum
Opening date	1/1/19	1/1/20	1/1/21	1/1/22	1/1/23	10/4/18	
Closing date	31/12/19	31/12/20	31/12/21	31/12/22	29/3/23	29/3/23	
SMF portfolio vs. reference portfolio							
Asset allocation	-0.28%	1.55%	-0.24%	0.50%	-0.13%	1.56%	0.31%
Security selection - AAE portfolio	-0.58%	-0.66%	2.50%	-1.13%	0.20%	-0.97%	-0.20%
Contribution from positions held (prior BT fees)	-0.87%	0.89%	2.26%	-0.63%	0.08%	0.59%	0.12%
Administration fees - BT Panorama	-0.02%	-0.23%	-0.21%	-0.23%	-0.05%	-0.75%	-0.15%
Aggregation, cash portfolio and other effects	-0.24%	0.09%	0.60%	0.25%	-0.50%	-0.06%	0.02%
Total relative performance	-1.13%	0.76%	2.65%	-0.61%	-0.47%	-0.21%	-0.01%
Asset allocation attribution							
Australian equities	-0.04%	0.44%	0.02%	-0.23%	0.05%	0.26%	0.05%
Developed market equities, hedged	-0.01%	-0.02%	-0.03%	0.00%	0.00%	-0.05%	-0.01%
Developed market equities, unhedged	0.01%	0.02%	-0.15%	0.24%	-0.15%	-0.01%	0.00%
Emerging market equities			-0.24%	-0.68%	-0.02%	-0.93%	-0.19%
Australian fixed income	-0.11%	1.24%	1.31%	0.47%	0.00%	2.92%	0.58%
Cash and accruals	-0.15%	-0.14%	-1.13%	0.71%	-0.01%	-0.56%	-0.11%
Time aggregation effect	0.00%	0.00%	-0.03%	-0.03%	0.00%	-0.05%	-0.01%
AA contribution to total portfolio	-0.28%	1.55%	-0.24%	0.50%	-0.13%	1.56%	0.31%
AAE portfolio vs. iShares Core S&P/ASX200 ETF (IOZ)							
iShares Core S&P/ASX 200 ETF	-0.04%	-0.07%	-0.06%	0.00%	-0.01%	-0.19%	-0.04%
Bingo Industries Limited	1.89%	-0.75%	1.50%			-0.65%	-0.13%
Brambles Limited			-0.63%	1.62%	1.38%	2.38%	0.47%
Downer EDI Limited				-3.30%	-0.82%	-4.09%	-0.84%
Inghams Group Limited	-2.43%	-0.17%	0.23%	-1.68%	0.62%	-3.42%	-0.70%
Rio Tinto Limited	0.52%	0.54%				1.02%	0.21%
Sonic Healthcare Limited	-0.11%	1.85%	0.75%			2.50%	0.50%
Suncorp Group Limited				-0.10%	0.14%	0.04%	0.01%
Telstra Corporation Limited	0.53%	-1.05%	2.06%	0.23%		2.38%	0.48%
Westpac Banking Corporation	-1.49%	-1.49%	0.77%	1.36%	-0.96%	-1.83%	-0.37%
Time aggregation effect	-0.01%	-0.04%	0.01%	-0.05%	0.00%	-0.11%	-0.02%
Relative performance vs. IOZ	-1.14%	-1.18%	4.64%	-1.92%	0.35%	-2.06%	-0.42%
Average AAE portfolio weight in SMF	50.88%	55.49%	53.83%	55.60%	53.21%		
AAE contribution to total portfolio	-0.58%	-0.66%	2.50%	-1.13%	0.20%	-0.97%	-0.20%

Socially responsible investment (SRI) report

This report details how the ANU SMF portfolio is invested in line with the SMF SRI Policy, which was developed by the SMF team based on the University's SRI Policy with reference to SMF objectives. The key conditions set out in the SMF SRI Policy are listed 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. The current focus is the following activities and practices as related to the three ESG categories.
 - E. Climate change action.
 - S. Equity, diversity and inclusion.
 - G. Corporate trustworthiness, including transparency, compliance and accountability.

All active stock positions in the SMF portfolio currently comply with the industry exclusions outlined in condition (i). The industry exclusion list is considered during SMF portfolio reviews, in generating a list of candidate stocks under the stock-filtering process, and at the CSA stage.

Figure 5 reports on compliance on carbon intensity (condition ii) with respect to the active stock positions with the AAE portfolio as of 29 March 2023. Sourced via 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 weighted basis. The Fund is pleased to report carbon intensity that is -86.4% below the S&P/ASX200 index, which exceeds the 30% threshold target by a large margin of +56.4%.

Figure 5: Carbon intensity of the AAE component as of 29 March 2023

	S&P/ ASX200	BXB	DOW	ING	SUN	WBC	Total active stock positions	Active stock positions vs. ASX200	Target improvement	Margin
Weighting in AAE portfolio	48.59%	13.21%	9.70%	9.94%	10.05%	8.52%	51.41%			
Carbon intensity	236.08	17.0	54.3	83.5	2.8	4.9	32.1	-86.4%	-30%	56.4%

The Fund's commitment to avoiding investments that cause an unacceptable level of social injury or reputational risk is demonstrated in recent discussions over DOW. Matters considered included the accounting irregularities and the investigation by the NSW Independent Commission Against Corruption into Downer employees over contracting practices. The accounting irregularities led to the overstatement of pre-tax earnings by \$30-\$40 million between 2019 and 2022, and related to a maintenance project that had errors within its billing system, leading to revenue being recorded without the work being performed. It was determined that DOW has taken sufficient action to reduce the likelihood of further such events occurring, including various cultural, management and governance adjustments. Nevertheless, the R&C team concluded that scrutiny should be maintained over governance at DOW and whether more effective risk-management processes have been put in place.

Declaration

The Fund declares that it is complying with the University's SRI policy while effectively implementing the SMF SRI policy. 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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