



Australian  
National  
University

# ANU Student Managed Fund

Mid-semester report – Semester 2, 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](mailto:smf.rsfas@anu.edu.au).

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

### ***Disclaimer:***

The sole purpose of this document is to report on the activities of the SMF and its related courses. It has been prepared by ANU staff and students who are not licensed to provide financial product advice under the Corporations Act 2001. The information provided on the investments does not constitute, and should not be relied upon as, financial product advice. For financial product advice that takes account of your particular objectives, financial situation and needs, readers should consider seeking that advice from an Australian Financial Services licensee.

## Glossary

**AA** – Asset Allocation  
**AAE** – Active Australian equities  
**AC** – Australian cash and accruals  
**ACCC** – Australian Competition and Consumer Commission  
**AE** – Australian equities  
**AFI** – Australian fixed income  
**ANU** – The Australian National University  
**ANZ** – Australia and New Zealand Banking Group  
**BBRMF** – Behavioural Bias Risk Management Framework  
**BXB** – Brambles Limited  
**CBE** – ANU College of Business and Economics  
**CHC** – Charter Hall Group  
**CIO** – Chief Investment Officer  
**CPI** – Consumer Price Index  
**CSL** – CSL Limited  
**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  
**FC** – Foreign Currency  
**IAC** – Investment Advisory Committee  
**IE** – International equities  
**IPS** – Investment Policy Statement  
**IOZ** – iShares Core S&P/ASX 200 ETF  
**PC** – Portfolio construction  
**PE** – Price/Earnings ratio  
**R&C** – Risk and Compliance  
**RBC** – Royal Bank of Canada  
**REIT** – Real Estate Investment Trust  
**ROE** – Return on Equity  
**RSFAS** – Research School of Finance, Actuarial Studies and Statistics  
**RT** – Relationship Team  
**RWC** – Reliance Worldwide Corporation  
**SMF** – ANU Student Managed Fund  
**SRI** – Socially responsible investment  
**SUN** – Suncorp Group Limited  
**WBC** – Westpac Banking Corporation

## Fund Convenor introduction

The SMF provides a teaching and learning experience unlike any other offered at the university level, and I feel privileged to be involved as the incoming Fund Convenor. Both the juniors and seniors have shown impressive development during the semester, with the juniors adapting quickly to the pace of the SMF. The Fund has performed well so far this year, despite inflationary pressure and monetary policy uncertainty, and has achieved the target return necessary to fund the SMF's philanthropic objectives. The Fund is currently working on investment recommendations to take to the Investment Advisory Committee (IAC) in the coming weeks, and together with Dr Hua Deng, the SMF Course Convenor, I look forward to providing guidance to the SMF students during this busy time.

*Dr Dean Katselas, Fund Convenor*

## Course Convenor introduction

It is my first semester as the course convenor of the Student Managed Fund. It's been a few weeks full of surprises and learning for myself. The most amazing thing I've discovered in the Fund is the strong sense of belonging and ownership that students take pride in, which are continuously nurtured by the key values of the Fund: Legacy, Team, Contribution, Objectives and Long-term. Thanks to the extremely enthusiastic and dedicated senior cohort led by the CIO and the team heads, the junior cohort has picked up their responsibilities at an astonishing speed. I look forward to the coming weeks to witness the consolidation of the immense efforts put together by everyone into the implementation of the new investment recommendations.

*Dr Hua Deng, Course Convenor*

## Chief Investment Officer (CIO) report

Inflationary pressures, and the continuation of a tightening monetary policy into 2023, provided a necessary consideration moving into Semester 2. As we approach a potential winding down of the interest rate hike cycle, the Fund awaits and anticipates its full impact on Australia's inflation, economic growth, and unemployment rates. While the SMF still remains focused on long-term value investing, this environment has presented a unique learning opportunity.

For the period from 1 January 2023 to 31 August 2023, the SMF's portfolio generated a robust return of 9.30%, over-performing the reference portfolio by 1.48%. Cumulatively since its inception, the Fund has achieved an annualised return of 8.25%, which marginally exceeded the target return by 0.43% per annum, and the reference portfolio by 0.24% per annum. Considering recent reporting season results, and the prevailing global inflation environment over the past 12 months, achieving the target real return of 4.5% has proven challenging. The Fund's performance has been significantly influenced by its position held in Brambles (BXB) and Suncorp (SUN) within the Active Australian Equity (AAE) portfolio, both of which have consistently demonstrated their long-term value-adding fundamentals. However, this positive performance has been counterbalanced by Downer's (DOW) continual underperformance, attributable to weaker than expected operating results.

The Fund is delighted to announce the addition of two new convenors, Dr Dean Katselas and Dr Hua Deng, along with ten new members this semester. All of these individuals have quickly adapted to their respective roles and the operational requirements of the SMF. In addition, the Fund's in-person meetings have fostered stronger relationships and communication.

Through a combination of effective teamwork and engaging in meaningful discussions, our junior members have adeptly embraced the substantial learning curve while exemplifying the SMF's five 'Key Values'. Simultaneously, our senior members have successfully transitioned into their leadership positions, assuming a pivotal role in guiding the juniors to preserve the fund's culture and processes during this transition phase. Further, the dedication of our leadership team has not only fostered diverse perspectives but also has driven improvements on our strong foundational processes.

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

- The SMF continued its integration efforts from previous semesters. The Asset Allocation (AA) and Risk and Compliance (R&C) teams are actively formulating an Exchange-traded fund (ETF) socially responsible investment (SRI) review process, which will occur every semester to ensure compliance with the Fund's policy.
- The AA team has recently concluded updates to the model inputs and is currently working on their asset allocation recommendation report.
- The Active Australian Equities (AAE) team has successfully completed its thematic stock screening and candidate stock analysis (CSA), moving forward with an in-depth analysis of ASX listed Charter Hall Group (CHC) and CSL Limited (CSL). The analysis of CHC builds upon our prior research of Charter Hall Long WALE REIT (CLW), conducted in 2022.
- The Relationship Team (RT) added two new initiatives this semester. The RT team are now providing periodic spotlight posts on each of the sub-teams as well as increasing lecture and tutorial engagement initiatives.

To enhance students' employability and analytics skills, the fund is privileged to welcome two guest speakers from the 'Royal Bank of Canada' (RBC), Isabella Capp and Natalie Vanstone, who will share insights on strategies to improve investment thesis' and standing out at networking events. Additionally, we have introduced a new tradition where an SMF alumni member will serve as a guest speaker each semester. This year, we are honoured to host Felix Jones from Macquarie Bank, who will discuss his transition from the Fund to working life.

*Lauren Vanstone, Chief Investment Officer*

## 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 is pleased to welcome two talented post-graduate students this semester. Alongside returning seniors Caitlin Tully, Will Brake, and Emerson Yang, newcomers Enkhbaatar Oyungerel and Siying Li have already proven themselves as an indispensable component of the AA team. Their strong economics backgrounds facilitated AA's provision of improved commentary and forecasting surrounding key macroeconomic value drivers.

Following an introductory period of acclimation and research, the AA team presented their Macro Outlook to the broader Fund in Week 4. The team examined the key factors that had the greatest likely impact on terminal values for each of the asset classes present in the Fund's portfolio, which includes domestic equities, developed markets equities, emerging markets equities, and the defensive component of cash and bonds. Corresponding macroeconomic factors include aggregate price-to-earnings (PE) and return on equity (ROE) ratios, economic growth, inflation, and central bank rates. These analyses formed the basis for the AA team's core Portfolio Construction (PC) Model inputs, including key forecasts at the three-year mark, ultimately culminating in the Model Update Presentation in Week 5. Each semester, the Model Update Presentation represents the blueprints from which each AA cohort justifies prospective changes to the Fund's target weights. Concurrently, the paring down process of the AA team's three-year modelling provided an additional opportunity for the AA juniors to improve their understanding of the overall modelling process.

Currently, the AA team is engaged in writing the Asset Allocation Recommendation Report. This will form the basis for their proposed changes to the Fund's target weights at the next IAC Meeting, scheduled to take place in Week 9. The report will cover the team's consensus opinion surrounding maintaining or changing target weights for each asset class, with particular emphasis on the difference between hedged and unhedged developed market equities ETFs (DM,H and DM,U, respectively). This hedging recommendation is only made possible after the full integration of last semester's Foreign Currency (FC) Model into the PC Model. This important extension of the current framework enables the AA team to forecast the wealth paths of DM,H and DM,U separately within the scenario probability set defined in the PC Model.

Looking forward, the AA team hopes to explore the viability of real estate investment trusts (REITs) as an additional asset class for the Fund, later in the semester. At a glance, the relative price and dividend stability of REITs provides an ostensibly reliable asset class that is in line with the Fund's investment objectives of returning 4.5% + CPI per annum. Furthermore, the AA team hopes that this exercise will serve to introduce the juniors to a more decision-centric role, setting the stage for a successful leadership transition for next semester, and carrying on the legacy of the Fund.

*Emerson Yang, Head of AA*

### Active Australian Equities (AAE) team

This semester, the AAE team welcomed four new Analysts, bringing our total membership to eight. Joining the team as Junior Analysts are Angus McCulloch, Francis Brown, Benji Klotz and Jordan Hawke, who will be working under the guidance of Senior Analysts, Ryan Phillips, Callum Vincent and Matthew De Bortoli, and Team Head, Liam Newport. With the notable departures of course convenors Associate Professor Geoff Warren and Dr Anna von Reibnitz, there has been a heightened emphasis on the senior members ensuring a seamless knowledge transfer to our junior members. This proactive approach is vital to maintain the integrity and continuity of the AAE methodologies that we have developed since the Fund's inception in 2017.

At the start of the semester, analysts conducted CSAs on nine diverse companies, which are both cyclical and defensive in nature. The cyclical stocks were pinpointed through a filtering process that firstly isolated underperforming stocks from the past year, which were potentially oversold,

while aiming for a blend of value and quality. A special emphasis was placed on including mining stocks in the CSA's, using the R&C team's recently developed framework to assess the specific SRI risks associated with investing in this sector. Despite mining being the predominant industry in the ASX200 index, it has been absent from our portfolio since the Fund's Rio Tinto divestment. This omission leaves the Fund vulnerable to missing out on potential gains from a rising commodities market. Defensive stocks were identified via a thematic stock filtering process, emphasising industries that could improve on our existing five-stock portfolio. Key industries considered were healthcare, industrials, and consumer staples. Companies were further screened using multiple based valuation techniques and, with guidance of the Head of R&C, Ricky Liu, for their environmental, social, and governance (ESG) attributes. After a presentation and feedback session with the broader SMF team, viable companies were chosen for an in-depth analysis.

For our in-depth analyses, the team selected both CSL Limited (CSL) and Charter Hall Group (CHC). The AAE team views CSL as a mature and defensive company with robust cash flows, currently trading at a five-year low. Given its present valuations, CSL seems to be under-priced, especially considering the company's recent acquisitions to broaden its business scope. The second stock under our lens, CHC, should not be mistaken for CLW, which the team conducted an in-depth analysis on in Semester 2, 2022. CHC functions as a property group with a multifaceted structure encompassing property management, development, and investment. In contrast, CLW operates as a REIT under CHC's management. With the possibility of a declining interest rate environment, CHC emerges as a promising investment due to its diverse engagement with both REITs and fund management. This offers the Fund consistent cash flows while maintaining a solid balance sheet, with debt levels below 10%. Our in-depth analysis of CHC is a distinctive project, as we are valuing the fund-management segment using a top-down, time-based simulated approach. Given the intricacy of this project, the senior members will concurrently value Reliance Worldwide Corporation (RWC) as an alternative company to present to IAC this semester. RWC stands out as a premier global plumbing company, demonstrating the capacity to transfer costs to its customers. Given the current unpredictable inflationary climate, the team perceives RWC's pricing as appealing, especially with its proven ability to offset costs to customers.

In the initial six weeks of the semester, the team successfully completed the revaluation of both BXB and DOW. We concluded that BXB's core fundamentals remained consistent since the last assessment, showcasing resilience against cyclical factors and positive shifts in structural outcomes. The DOW project marked the first exclusive undertaking for the junior members. They discovered that the short-term cost pressures DOW faced are anticipated to alleviate over the next 18 to 24 months, enhancing the company's operational efficiency and profit margins. Consequently, the analysts recommended a "hold" on both companies. The early revaluations this term marked a significant transition from the old industrial model. Analysts working on both revaluations adopted the new industrial model introduced last semester. In the coming six weeks, the team will undertake revaluations of Ansell (ANN), Westpac Banking Corporation (WBC), and Suncorp Group (SUN). Special attention will be directed towards Suncorp, given the ACCC's decision to block ANZ's acquisition of SUN's banking division. This move has halted the anticipated special dividend payout the Fund was expecting by the end of this year.

*Liam Newport, Head of AAE*

### **Risk and Compliance (R&C) team**

The R&C team welcomed three new Analysts this semester – Mayoouran Gnanasampanthan, Ethan Tay and Qingqing Yang. Under the guidance of Senior Analyst Guiming Miao and Chief Risk

Officer (CRO) Ricky Liu, the incoming analysts have already demonstrated their keen attitude towards learning, and have made meaningful contributions to the Fund. This has included identifying relevant SRI/ESG concerns at the CSA stage, observing behavioural biases under the Behavioural Bias Risk Management Framework (BBRMF) and presenting their findings at both the Fund and sub-team levels. The incoming juniors have now become an integral part of the team, actively participating in R&C team and Fund-level discussions as the team further pursues in the research of SRI and risk focused research for the stocks the fund is undertaking in-depth analysis.

The R&C team continues to carry out performance attribution analysis and monitoring of the portfolio to ensure that the Fund remains compliant with the SMF SRI Policy, and the Investment Policy Statement (IPS) with a declaration of compliance are presented later in the report. The team has also continued to successfully implement the BBRMF, and has introduced 'anchoring biases' as well as honing in on more team specific biases that apply to each sub-team within the Fund. 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.

The significant role for the R&C team however, is to conduct analysis of stocks, ensuring that the SMF's current investments and potential future investments do not breach the SMF's SRI policies. The CSA stage involved the Fund investigating a selection of nine stocks – including the possible reintroduction of mining stocks, with the R&C analysts focusing on the selected companies' ESG and reputational risk considerations. The R&C team has introduced a new mining framework which enables the fund to examine mining companies from an SRI perspective with a better understanding of the potential risks, social benefit and social harm these investments may create. The new framework will be used from this semester onwards if mining companies are to be selected for the in-depth analysis stage by the Fund. Other collaborative projects completed so far include the SRI updates for the two stocks selected for the in-depth process with the AAE team, ongoing initiative of the red-teaming initiative with the AAE team on the potential investments in CHC and CSL and collaborating with the AA team on portfolio-wide risk analysis.

*Ricky Liu, CRO*

### Relationship Team (RT)

In August, RT was excited to welcome Semele Haynes as Relationship Officer to the team, for what is shaping up to be a successful semester. Semele has shown a great eagerness to contribute to the fund, working closely with Team Head Joseph Bamber and Engagement Manager Sueyoon Kim towards the goals of the team.

RT has continued to promote the Fund, most notably with the creation of content and upkeep of the Fund's social media platforms. This has been achieved with a focus on showcasing the work of SMF students, with the introduction of 'team spotlight' posts, allowing members to speak directly about their experiences within the Fund's unique learning environment. The introduction of this new format of content follows a general revamp of the Fund's external marketing, focusing on catching the interest of the reader whilst also maintaining its professionalism. These new approaches are proving successful, with record levels of visitors and engagement on the Fund's website. This content also assisted the team in another of their main focuses, marketing for student applications for the next semester.



After strategic consultation with the course convenors, the Fund modified its existing student application workflow, deciding to market for applications earlier to generate greater interest. Additionally, the leadership team attended many relevant tutorials and lectures, explaining the Fund's core mission and its valuable contribution to career development. This included a number of first-year finance classes. A key takeaway from the previous semester was to engage with students as early as possible in their university studies, to promote awareness of the Fund and to enable early planning on their part, should the SMF be of interest. We are confident that doing so will prove to be a valuable investment in the fund's future success.

Looking forward to the second half of the semester, RT hopes to see a continuation of increased engagement in the Fund's social media content and fund applications. This will be facilitated through the Fund's application workshop, where RT and the leadership team will assist students with their stock pitches as well as answer any questions prior to the application deadline. This will be followed by the ANU CBE school holiday program, where the Fund will run a seminar aimed at introducing business-minded year 11 and 12 students to the core concepts underpinning finance and the Fund.

RT is committed to improving and growing with the Fund, both with respect to our coverage and reach, as well as the personal development of our skills. RT's goals are aligned with the Fund's five key values which exist alongside the fund-wide duties required by each of its members.

*Joseph Bamber, Head of RT*

## SMF team photos and roles

### Chief Investment Officer



*Lauren Vanstone (CIO)*

### Convenors



*Dr Dean Katselas (Fund Convenor)*



*Dr Hua Deng (Course Convenor)*

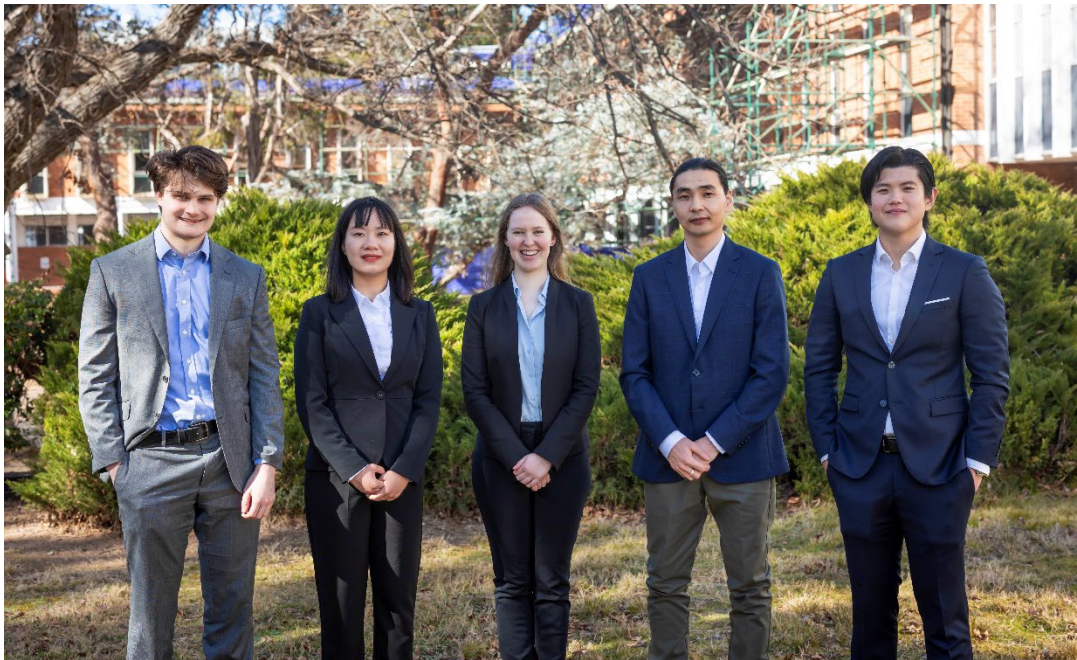
## Team Heads



*L-R: Ricky Liu (CRO), Joseph Bamber (RT), Lauren Vanstone (CIO), Emerson Yang (AA), Liam Newport (AAE)*

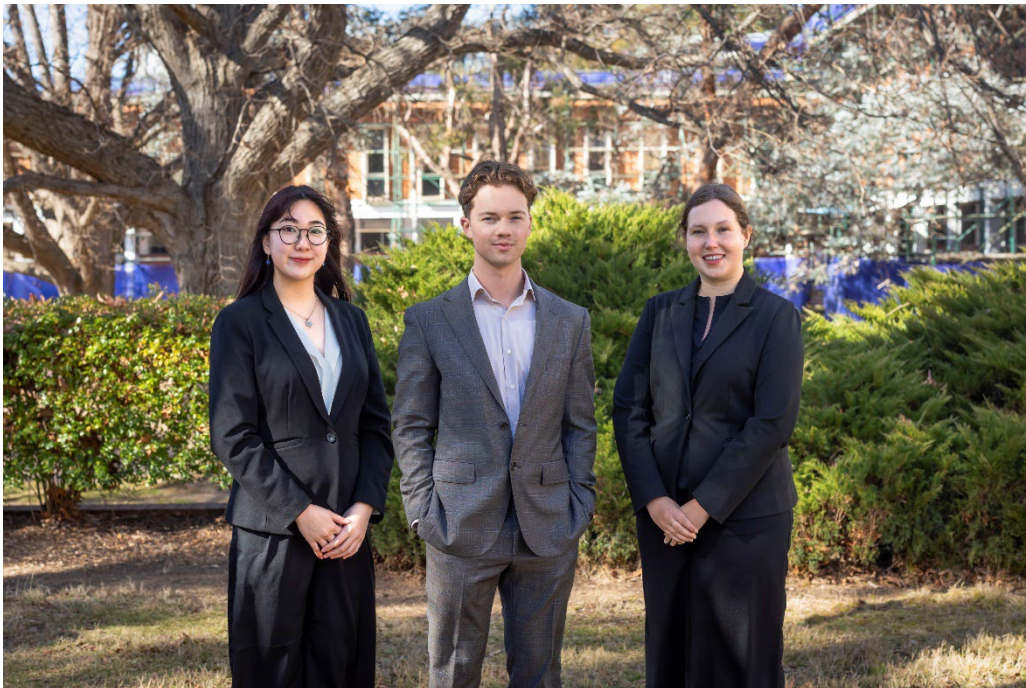


## Asset Allocation (AA) team



*L-R: William Brake (Senior Analyst), Siying Li (Analyst), Caitlin Tully (Senior Analyst), Enkhbaatar Oyungerel (Analyst), Emerson Yang (Team Head)*

## Relationship Team (RT)



*L-R: Sueyoon Kim (Engagement Manager), Joseph Bamber (Team Head), Semele Haynes (Relationship Officer)*



### Active Australian Equities (AAE) team



*L-R: Matthew De Bortoli (Senior Analyst), Ryan Philips (Senior Analyst), Benji Klotz (Analyst), Angus McCulloch (Analyst), Callum Vincent (Senior Analyst), Liam Newport (Team Head), Francis Brown (Analyst)*

### Risk & Compliance (R&C) team



*L-R: Mayoouran Gnanasampanthan (Analyst), Guiming Miao (Senior Analyst), Qingqing Yang (Analyst), Ricky Liu (Team Head), Ethan Tay (Analyst)*

Photography by Tram Pham, CBE

## Portfolio overview

### Portfolio structure

Figure 1 details the asset values and associated weights of investments within the SMF portfolio. On 31 August 2023, the portfolio was valued at \$787,983. The SMF portfolio remains split in line with the reference weights of 20% in defensive assets, including Australian fixed income (AFI) and Australian cash (AC), and 80% in growth assets, including Australian equities (AE), developed markets equities, both hedged (DM,H) and unhedged (DM,U), and emerging market equities (EM).

Following the unwinding of the AA team's overweight cash position back to reference defensive portfolio weights in Semester 2 of 2022, there has been no further active positions taken within AA's defensive portion of the portfolio. The main active AA position remains within the growth section of the portfolio, where the current AA team has maintained a 10% active exposure to EM, offset by a -5% weight in AE and -5% weight in DM,U, versus the reference portfolio. There have been no alterations to target weights in the SMF portfolio this semester. However, the AA team is currently in the process of preparing an Asset Allocation Recommendation Report to the IAC, which may result in changes to the SMF portfolio's target weights. Additionally, all individual asset classes are currently sitting well within their target band, with no individual assets approaching the 3% deviation required to trigger a rebalancing review.

Figure 2 plots the portfolio weights as of 31 August 2023. The first chart compares current asset class weights against the reference portfolio. Deviations include: +9.56% for EM; -5.88% for AE; -4.52% for DM,U; 0.96% for DM,H; -1.02% for AFI; and 0.89% 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 IAC. All positions are within  $\pm 2\%$  of their target weights.

Figure 1: Portfolio structure as of 31 August 2023

Portfolio component	Benchmark ETF	Asset values \$	SMF portfolio weight %	Reference portfolio weight %	Over (under) weight %
<b>Australian equities</b>					
<b>AAE portfolio:</b>					
iShares Core S&P/ASX 200 ETF		209,733	26.62		
Ansell Limited		34,719	4.41		
Brambles Limited		42,081	5.34		
Downer EDI Limited		49,314	6.26		
Suncorp Group Limited		45,224	5.74		
Westpac Banking Corporation		34,527	4.38		
Total AAE portfolio	iShares Core S&P/ASX 200	415,598	52.74	50	2.74
<b>Held within AA portfolio:</b>					
iShares Core S&P/ASX 200 ETF		12,078	1.63	10	-8.37
<b>Total Australian equities</b>	iShares Core S&P/ASX 200	426,476	54.12	60	-5.88
Developed markets, hedged	Vanguard International Shares Index, Hedged	86,337	10.96	10	0.96
Developed markets, unhedged	Vanguard International Shares Index	43,214	5.48	10	-4.52
Emerging market equities	iShares MSCI Emerging Markets Index	75,326	9.56	0	9.56
<b>Total international equities</b>		204,877	26.00	20	6.00
<b>Total equities</b>		<b>631,353</b>	<b>80.12</b>	<b>80</b>	<b>0.12</b>
<b>Australian fixed income</b>	Vanguard Australian Government Bond Index	<b>110,192</b>	<b>13.98</b>	<b>15</b>	<b>-1.02</b>
<b>Australian cash &amp; accruals:</b>					
BetaShares Australia High Interest Cash		15,072	1.91		
BT Cash Management Trust		22,093	2.80		
Accrued Interest & Dividends		2,424	0.31		
Accrued Franking Credits		6,849	0.87		
<b>Total cash &amp; accruals</b>	BetaShares Australia High Interest Cash	46,437	5.89	5	0.89
<b>Total fixed income &amp; cash</b>		<b>156,630</b>	<b>19.88</b>	<b>20</b>	<b>-0.12</b>
<b>Total value of SMF assets</b>		<b>787,983</b>			
Total portfolio value as reported in BT Panorama		781,134			
Accrued franking credits		6,849			



Figure 2 (a): Asset allocation and active stock weights as of 31 August 2023

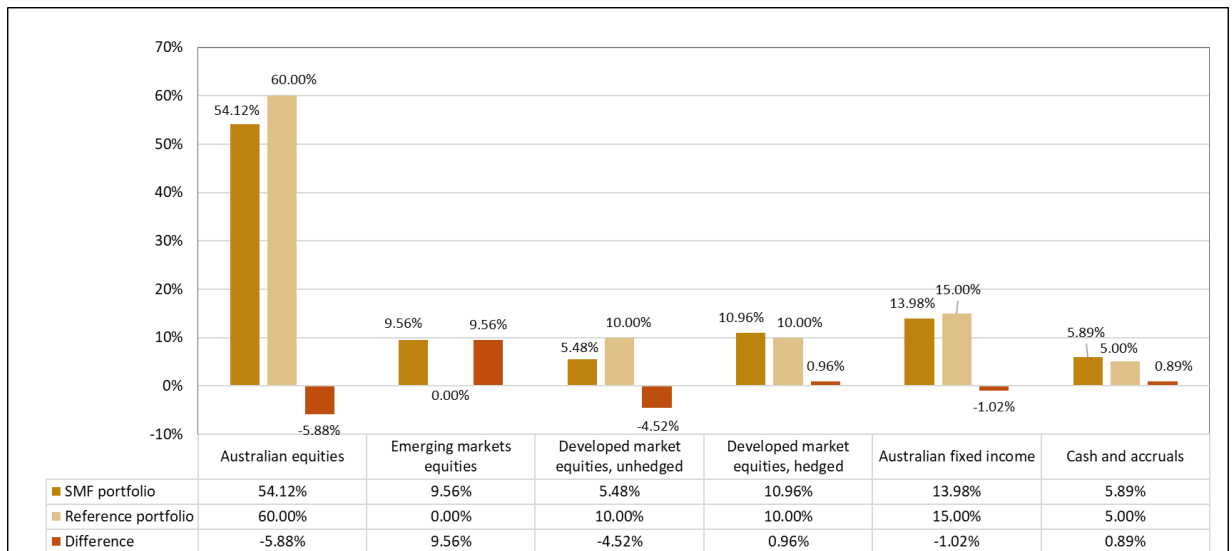
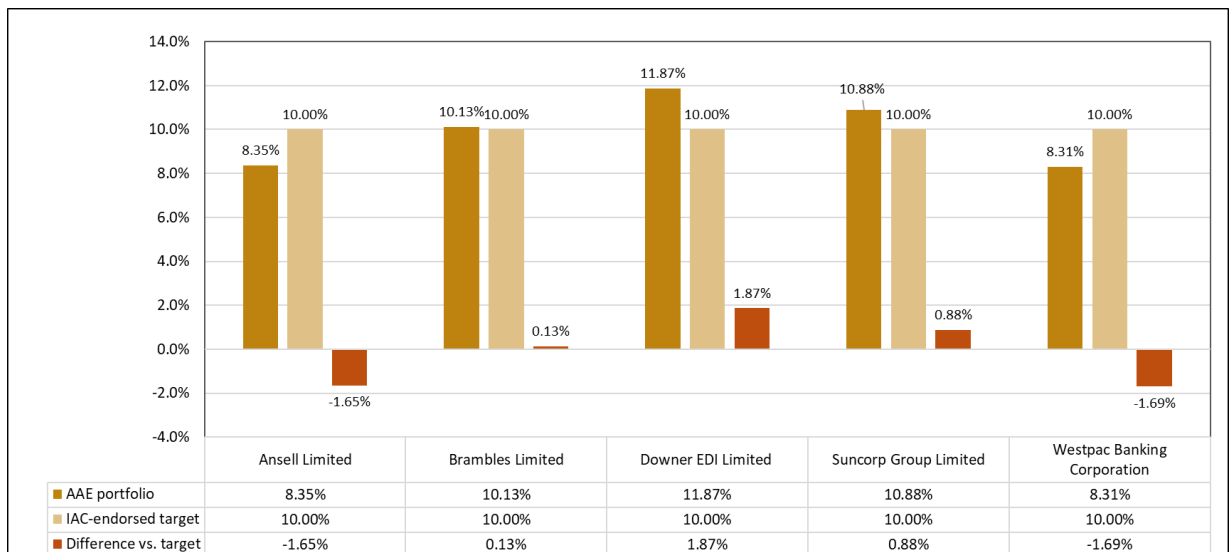


Figure 2 (b): AAE portfolio – active stock weights as of 31 August 2023





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

Figure 3 reports the total SMF portfolio performance to 31 August 2023. Since inception, the Fund has delivered cumulative returns of +53.17%, or +8.25% per annum. This amounts to an outperformance versus the target return by 3.1% over the life of the Fund, or 0.43% per annum, and exceeded the reference portfolio by 1.68% and 0.24%, respectively. The portfolio has fared well so far in 2023, largely due to a moderate improvement in equity markets and inflation adjustments, recording a 9.30% year-to-date (YTD) return. This amounts to a 1.48% return above the reference portfolio return of 7.82%. Inflationary pressure poses a challenge to the Fund in achieving the target return. In addition to pushing 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, higher inflation also prompted an increase in rates, putting 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 Investment Policy Statement (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, namely 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 returns as reported in Figure 3 is estimated and reported under 'Aggregation, cash portfolio and other effects' (Figure 4). This item reflects the approximate nature of attribution analysis. The 0.24% per annum outperformance of the SMF portfolio against the reference portfolio since inception comprises per annum contributions of +0.21% from asset allocation, -0.01% from security selection, -0.15% from fees deducted and +0.19% from aggregation, cash portfolio and other effects.

The positive AA contribution stems from strong AA performance in 2020 and 2022. The source 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 when bond markets were sold off. The latter is the main contributor to the difference between the AFI and AC contributions, which stands at +0.63% per annum. Meanwhile, the position in DM,H and 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 0.24% per annum reflects a mix of contributions. BXB is the strongest performer of the stocks currently held with a +0.55% per annum return contribution, followed by SUN with per annum contribution of +0.17%. Negative per annum contributions arise from DOW (-0.36%) and WBC (-0.31%). The Fund's newly acquired stock ANN has seen a cumulative performance of -0.21%. Of the past stock holdings that have since been sold, positive per annum contributions are made by SHL (+0.46%), Telstra Corporation (+0.44%) and Rio Tinto (+0.19%); while Bingo Industries contributed (-0.12%).

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

BXB and DOW have been the AAE portfolio's strongest performers for the YTD, as BXB continue to deliver strong results through its high pricing power and DOW having recovered from the negativity surrounding 'accounting irregularities' under new management. Throughout the semester, stocks under the AAE portfolio have hovered close to target weightings and rebalancing has not been required. However, ANN, SUN and WBC are currently under review for potential rebalancing and/or sale later in the semester. In particular, SUN will give the fund plenty of food for thought given the recent blocking of ANZ's acquisition of the SUN's banking sector.

Figure 3: Portfolio performance since inception as of 31 August 2023

Year	2018	2019	2020	2021	2022	2023	Since inception	
Opening date	10 April 2018	1 January 2019	1 January 2020	1 January 2021	1 January 2022	1 January 2023	10 April 2018	
Closing date	31 December 2018	31 December 2019	31 December 2020	31 December 2021	31 December 2022	31 August 2023	31 August 2023	
PORTFOLIO VALUES								
Opening portfolio value in BT Panorama*	\$615,079.04	\$608,598.58	\$705,485.10	\$704,774.44	\$796,753.31	\$722,051.16		
- Distribution related to prior period	\$0.00	-\$27,746.21	-\$32,186.49	-\$32,067.23	-\$36,205.19	-\$33,127.65		
+ Amount held by CBE, offset against distribution	\$0.00	\$7,983.83	\$0.00	\$0.00	\$0.00	\$4,189.31		
+ Accrued franking credits	\$0.00	\$3,235.76	\$9,732.74	\$7,719.98	\$7,806.53	\$9,938.76		
Adjusted opening portfolio value	\$615,079.04	\$592,071.96	\$683,068.73	\$680,427.19	\$768,354.65	\$703,051.58		
Closing Portfolio Value in BT Panorama	\$608,598.58	\$705,485.10	\$704,774.44	\$796,753.31	\$722,051.16	\$781,133.71		
+ Accrued Franking Credits	\$3,235.76	\$9,732.74	\$7,719.98	\$7,806.53	\$14,128.07	\$6,849.21		
- Contributions	\$0.00	\$0.00	-\$1,000.00	-\$150.00	-\$4,188.00	-\$18,190.00		
Adjusted closing total portfolio value	\$611,834.34	\$715,255.22	\$711,531.80	\$804,409.84	\$718,031.06	\$769,792.92		
RETURNS (%)							Cumulative	Per annum
SMF portfolio return (Based on adjusted portfolio values)	-0.53%	20.81%	4.17%	18.22%	-5.25%	9.30%	53.17%	8.25%
Target return (estimated as CPI + 4.5%)**	4.56%	6.16%	5.36%	8.00%	12.41%	5.70%	50.07%	7.82%
SMF return less target return	-5.09%	14.65%	-1.19%	10.22%	-17.66%	3.60%	3.10%	0.43%
Reference portfolio return	0.58%	21.91%	3.40%	15.55%	-4.09%	7.82%	51.49%	8.01%
SMF return less reference portfolio return	-1.11%	-1.10%	0.76%	2.67%	-1.15%	1.48%	1.68%	0.24%
Note: Administration fees - BT Panorama		0.02%	0.23%	0.21%	0.23%	0.15%	0.84%	0.15%

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

\*\* Based on realised CPI to June quarter 2023, and an assumed +0.49% change in CPI from June quarter 2023 to 31 August 2022.

Figure 4: Performance attribution since inception as of 31 August 2023

Contributions to performance vs. reference portfolio								
Period	2018	2019	2020	2021	2022	2023	Since inception	
	%	%	%	%	%	%	Cumulative	Per Annum
Opening date	10/4/18	1/1/19	1/1/20	1/1/21	1/1/22	1/1/23	10/4/18	
Closing date	31/12/18	31/12/19	31/12/20	31/12/21	31/12/22	31/8/23	31/8/23	
SMF portfolio vs. reference portfolio								
Asset allocation	0.17%	-0.28%	1.55%	-0.24%	0.59%	-0.53%	1.15%	0.21%
Security selection - AAE portfolio	-1.26%	-0.58%	-0.66%	2.50%	-0.17%	1.15%	-0.03%	-0.01%
Contribution from positions held (prior BT fees)	-1.09%	-0.87%	0.89%	2.26%	0.42%	0.62%	1.12%	0.21%
Administration fees – BT Panorama	0.00%	-0.02%	-0.23%	-0.21%	-0.15%	-0.15%	-0.84%	-0.15%
Aggregation, cash portfolio and other effects	-0.02%	-0.21%	0.10%	0.62%	0.11%	1.00%	1.40%	0.19%
Total relative performance	-1.11%	-1.10%	0.76%	2.67%	0.39%	1.48%	1.68%	0.24%
Asset allocation attribution								
Australian equities	0.01%	-0.04%	0.44%	0.02%	-0.23%	0.07%	0.28%	0.05%
Developed market equities, hedged	0.01%	-0.01%	-0.02%	-0.03%	0.00%	0.03%	-0.02%	0.00%
Developed market equities, unhedged	0.01%	0.01%	0.02%	-0.15%	0.24%	-0.58%	-0.44%	-0.08%
Emerging market equities				-0.24%	-0.68%	-0.07%	-0.98%	-0.18%
Australian fixed income	-0.02%	-0.11%	1.24%	1.31%	0.47%	-0.01%	2.91%	0.53%
Cash and accruals	0.16%	-0.15%	-0.14%	-1.13%	0.71%	0.02%	-0.52%	-0.10%
Time aggregation effect	0.00%	0.00%	0.00%	-0.03%	-0.03%	0.00%	-0.05%	-0.01%
AA contribution to total portfolio performance	0.17%	-0.28%	1.55%	-0.24%	0.59%	-0.53%	1.15%	0.21%
AAE portfolio vs. S&P/ASX200 ETF								
iShares Core S&P/ASX 200 ETF	-0.01%	-0.04%	-0.07%	-0.06%	-0.01%	-0.17%	-0.35%	-0.07%
Ansell Limited						-1.12%	-1.12%	-0.21%
Bingo Industries Limited	-3.21%	1.89%	-0.75%	1.50%			-0.65%	-0.12%
Brambles Limited				-0.63%	2.25%	2.01%	3.01%	0.55%
Downer EDI Limited					-0.51%	1.43%	-1.92%	-0.36%
Inghams Group Limited		-2.43%	-0.17%	0.23%	-2.19%	-0.28%	-4.28%	-0.81%
Rio Tinto Limited	-0.04%	0.52%	0.54%				1.02%	0.19%
Sonic Healthcare Limited		-0.11%	1.85%	0.75%			2.50%	0.46%
Suncorp Group Limited					-0.66%	1.04%	0.945%	0.17%
Telstra Corporation Limited	0.62%	0.53%	-1.05%	2.06%	0.45%		2.38%	0.44%
Westpac Banking Corporation		-1.49%	-1.49%	0.77%	0.58%	-0.76%	-1.64%	-0.31%
Time aggregation effect	-0.02%	-0.01%	-0.04%	0.01%	-0.05%	-0.01%	-0.11%	-0.02%
Relative performance vs. S&P/ASX200 ETF	-2.66%	-1.14%	-1.18%	4.64%	-0.14%	2.13%	-0.33%	-0.06%
Average AAE portfolio weight in SMF portfolio	47.37%	50.88%	55.49%	53.83%	55.60%	53.68%		
AAE contribution to total portfolio performance	-1.26%	-0.58%	-0.66%	2.50%	-0.17%	1.15%	-0.03%	-0.01%

## 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 based on the University's SRI Policy and the SMF objectives. The key points of the 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 in the SMF portfolio are currently complying with the industry exclusion list outlined in condition (i). The industry exclusion list is applied to reviews of the SMF portfolio through a narrowing down of the list of candidate stocks at the CSA stage that are considered as part of the stock filtering process.

Figure 5 reports on compliance on carbon intensity (condition ii) with respect to the active stock positions with the AAE portfolio as of 31 August 2023. 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 CO<sub>2</sub> 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 -83.55% below the S&P/ASX200 index, which exceeds the 30% threshold target with a margin of +53.55%.

**Figure 5: Carbon intensity of the AAE component as of 31<sup>st</sup> August 2023**

	S&P/ ASX200	ANN	BXB	DOW	SUN	WBC	Active stock positions vs. S&P/ASX200	Target improvement	Margin
Weighting in AAE portfolio	50.06%	8.75%	10.13%	11.87%	10.88%	8.31%			
Carbon intensity	232.63	112.80	16.70	58.50	1.80	4.90	-83.55%	-30.00%	53.55%

### *Declaration*

The Fund declares that it has complied with the University's SRI policy while effectively implementing the SMF SRI policy throughout 2023. 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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