



Australian
National
University

Report for End of Semester 2, 2019

ANU Student Managed Fund

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Contents

Glossary	2
About this Report	3
Convenor Report	4
Chief Investment Officer (CIO) Report	5
Team Updates	6
Active Australian Equities (AAE) Team	6
Asset Allocation (AA) Team	6
Risk & Compliance (R&C) Team	7
Relationship Team (RT)	7
Active Stock Positions	9
Stock Spotlight: Sonic Healthcare Limited (SHL)	9
Portfolio Overview	10
Portfolio Structure	10
Portfolio Performance	12
Attribution Analysis	12
Socially Responsible Investment (SRI) Report	14
APPENDIX	15
SMF Activities during Semester 2, 2019	15
SMF Team Membership	16
Members for Semester 2, 2019	16
New Team Members for Semester 1, 2020	16

Glossary

AA – Asset Allocation
AAE – Active Australian Equities
AA-IP – Asset Allocation Investment Process
ANU – The Australian National University
BFF – Behaviour Finance Framework
BIN – Bingo Industries
CBE – College of Business and Economics
CIO – Chief Investment Officer
CRO – Chief Risk Officer
ESG – Environmental, Social and Governance
ETF – Exchanged-Traded Fund
IAC – Investment Advisory Committee
IP – Investment Process
ING – Inghams Group
IPS – Investment Policy Statement
SMF – Student Managed Fund
SHL – Sonic Healthcare Limited
SRI – Socially Responsible Investment
R&C – Risk and Compliance
RIO – Rio Tinto Limited
RT – Relationship Team
RSFAS – Research School of Finance, Actuarial Studies and Statistics
TLS – Telstra Corporation Limited
WBC – Westpac Banking Corporation

About this Report

The ANU Student Managed Fund (SMF) is pleased to report on its developments and achievements over Semester 2, 2019. This report begins with the usual Convenor, Chief Investment Officer (CIO) and team specific updates. These are followed by an overview of the active stock positions, including a ‘spotlight’ on a newly added stock to the portfolio this semester – Sonic Healthcare Limited (SHL). We are pleased to report strong performances against the return target both this year and since inception, despite the slight underperformance of the Fund compared to the reference portfolio. This report also includes a detailed performance attribution analysis and a statement of compliance with the University’s Socially Responsible Investment (SRI) policy.

We hope that you find this report both informative and engaging. We welcome feedback and are open to further comments or enquiries, which can be directed to the SMF email address (smf.rsfas@anu.edu.au).

Yanfei (Victoria) Rao, Charya Kannangara & Sophie Lebang
Relationship Team

Convenor Report

Now halfway through its third year, the SMF has truly embodied its key values of *legacy, team, contribution, objectives* and *long-term*. These are not buzzwords to the members of the SMF, but rather fundamental principles that sit at the core of every discussion, meeting and action taken. These values have combined with a culture of contestability the students have fostered to deliver some exciting and at times unexpected developments, while demonstrating the Fund's growing maturity. We outline some of the recent key developments in this report.

Driven by a widespread belief in the importance of a sustainable future, one of the strongest themes to emerge has been the deeper focus on Socially Responsible Investing (SRI) and Environmental, Social and Governance (ESG) principles. Led by analysts in the Active Australian Equities (AAE) team, our students are challenging the status quo of quantitative targets in search of innovative ways to identify and pursue responsible investments. As a result, a new ESG analyst role will be introduced next semester, to take the lead in shaping these ideas into a holistic sustainability framework to guide the Fund in years to come.

Another area of development has been the focus of the Risk and Compliance (R&C) team on behavioural biases, with the view to limiting their influence on Fund dynamics and outcomes. This initiative grew from SMF members striving to understand the breadth of risks to successful investing. It has resulted in a deeper appreciation of the power of the human dimension in group decision making. The R&C team has already provided some suggestions to improve the Fund's protocol for voting on investment proposals, with the aim of limiting the potential for decisions to be driven by unhelpful group dynamics.

This semester has also seen a landmark achievement for the Asset Allocation (AA) team: the completion of their Investment Process (IP) document. It has not been an easy journey, nor a speedy one: mistakes were made, lessons were learnt, and new ideas were embraced. Through this process, however, the AA members have gained an invaluable understanding of not just the technical process of asset allocation, but also how determination, perseverance and teamwork can produce something truly noteworthy.

These and many other achievements are worthy of being brought to attention. To this end, the Relationship Team (RT) has now officially released the SMF website and Facebook page, which will enhance the Fund's profile and reach. We aim to use these platforms to showcase the unique and exciting learning opportunities the Fund offers. We have no doubt that their work is sparking the interest and curiosity of students who will one day join the SMF and add to its legacy.

At a broader level, we have watched with pride as Fund members form deeper bonds each semester. It is perhaps unsurprising that the intensity of the SMF experience leads to some powerful friendships. What is increasingly evident, however, is that these bonds are being carried through into the next stage of the students' lives as they graduate from ANU. They also reach across cohorts, with Fund alumni attending meetings to provide advice, choosing to spend weekends assisting the current cohort with stock analysis, and attending Fund get together to meet and mentor incoming members. Through the SMF, students have found their 'tribe', and are likely to take this with them in their lives beyond university.

We would like to take this opportunity to thank all the members of our Investment Advisory Committee (IAC). With sadness we farewell Risman Cornelius, who is leaving the Committee and whose valuable insights and contributions will be greatly missed. We would also like to welcome Paul Bruncker, a founding director and portfolio manager with Optar Capital, who joined the IAC during the semester and brings a wealth of experience in both Australian and overseas equities. The commitment of the IAC to challenge and shape bright young minds is one of the many features that make the SMF a shining example of Work Integrated Learning.

Dr Anna von Reibnitz, Course Convenor
A/Prof. Geoff Warren, Fund Convenor

Chief Investment Officer (CIO) Report

This has been a momentous year for the Fund with milestone developments. The SMF team has integrated three additional stocks into the active Australian equities portfolio, readied the processes for asset allocation implementation, and published the official Fund website. All teams have moved closer to a steady-state operational level. The learning objectives of the Fund are being fulfilled at a high level. SMF team members are gaining extensive knowledge from the Convenors, the Investment Advisory Committee (IAC) and guest speakers. I speak for every member of the team when I say that this is a course like no other, and that it has shaped the trajectories of our educational experiences in a deep way.

Each team has taken major steps in developing their processes, and delivered outputs toward achieving the Fund's investment objectives. This year, the AAE team introduced Westpac Banking Corporation (WBC), Inghams Group Limited (ING) and Sonic Healthcare Limited (SHL) into the active equities portfolio. These have been included after careful initial analysis of their long-term performance drivers, with subsequent follow-up through prudent revaluations on a semesterly basis by AAE team members. The AA team has completed the design of the Asset Allocation Investment Process (AA-IP) and asset class models, which sets the foundation for making and implementing asset allocation decisions over the next year. The AA-IP has been touched by many hands. Its finalisation completes the Fund's investment processes, and establishes a comprehensive asset allocation guide for future cohorts. The R&C team has made great headway in the mechanisation of the performance attribution analysis process, alongside a new focus on identifying and mitigating behavioural biases. The RT launched the SMF website, which improves SMF visibility and enhances our active engagement with external parties. As CIO, I am very proud of how the student team has collectively worked towards meeting the sub-team and Fund objectives with strong unity.

The annual portfolio performance is 19.29%, which is well above the Fund's target return of 4.95%. Although some short-term underperformance was delivered by a couple of active stock positions, after careful revaluations the Fund believes that the fundamental value drivers of these stocks are intact. The long-term investment objective of the SMF allows the portfolio to weather within-expectation short-term volatility. The highest performing active stock across the year was Rio Tinto Limited (RIO) with a 37.51% annualised return. The lowest performing stock in the active portfolio was Inghams Group Limited (ING) with a -23.91% annualised return. The active Australian equities portfolio posted an overall performance of 21.33%, although it is 2.50% below the benchmark S&P/ASX200 Exchange Traded Fund (ETF). The strong annual portfolio performance is gratifying given the efforts of the team and the erudite guidance of the Convenors and the IAC.

The Fund has been steadily developing in ways that make it better able to achieve its learning, investment and development objectives. Operations in the sub-teams have progressed closer to what was envisioned when the Fund was conceived, and have evolved to improve functionality through student-led ideas. The students involved throughout the year have contributed to a strong collegiate atmosphere, whilst individually working towards their sub-team objectives. The oversight and input from the Convenors has provided essential guidance to the student team on how to best contribute to the Fund's objectives, whilst improving their academic and personal skills to become more engaged learners and colleagues. The experience is shaping those students lucky enough to be involved in the SMF into talented candidates for the finance industry.

Alaina Warwick, CIO

Team Updates

Active Australian Equities (AAE) Team

The AAE team has achieved much this year. Through continuous implementation of the AAE investment process, 40 candidate stock reports and eight in-depth stock analyses have been completed after the initialisation screening (i.e. stock filtering) stage. Careful consideration and selection by the team resulted in one stock recommendation – Sonic Healthcare Limited (SHL) – being proposed and unanimously endorsed by the IAC during Semester 2. This follows the addition of Inghams Group (ING) and Westpac (WBC) during Semester 1.

As of 5 November 2019, the AAE portfolio comprised of 47.67% in six active stock positions, with the remainder invested in the benchmark ASX200 ETF. All stocks held have been reassessed to both ensure they justify their place in the portfolio and for potential rebalancing, as the AAE team continues to monitor its holdings on an ongoing basis. This semester was specifically difficult for the team due to some unfortunate timing in relation to market events affecting certain stocks being analysed at the in-depth stage, including takeover activity impacting two prospects. This resulted in only one stock being put forward for endorsement by the IAC. However, the detailed analysis undertaken by the AAE team and the processes it has gone through in considering other stocks still contribute to the legacy, with the findings recorded for future cohorts. We may revisit some of the companies considered if circumstances were to change.

One of the major themes for the AAE team this semester was identifying any mismatches between processes and desired outcomes, and looking for ways to improve. The main area identified for enhancement was the stock filtering under which stocks for further analysis are identified. Development of the filtering process should assist in the selection of more ideal stocks at the initial stage, which will increase research efficiency and accelerate the procedure of finding the best stocks to meet the Fund's objectives. The team has obtained access to the FactSet platform in an attempt to overhaul the current AAE filtering system towards one that is more complete and better aligned with objectives.

Another major area of discussion has been the implementation of the University's SRI policy. One particular focus is how to best utilise ESG scores, which are often absent or do a poor job of embodying the 'social injury' and 'social benefit' principles underpinning the ANU SRI policy. We are grappling with finding the right balance between using ESG scores to constrain our portfolio versus applying the SRI policy through in-depth analysis of the company. Deep and intense discussions were held at the Fund level over this matter. The way forward on this issue is expected to be a major and crucial topic over the next semester, to be addressed with assistance from an incoming SRI-focused AAE analyst.

I would like to thank every AAE member for their brilliant contributions and efforts over the semester. I am also pleased to see the AAE team welcoming four junior analysts – Michael Oates, Matthew Pham, Yao Xiong and Angus Lloyd (SRI focus) next semester. They will be led by the returning senior analysts Todd O'Dea and Shengchang (Albert) Zhang. I look forward to hearing how they have collectively continued the development of the AAE team and added to its legacy going forward.

Luke Farrar, Head of AAE

Asset Allocation (AA) Team

The AA team comprised of five members in Semester 1, 2019, and had three members working over Semester 2, 2019. The key focus over the year was striving to complete of the AA investment process (AA-IP). The AA team initially planned to finalise and present the AA-IP to the IAC in the first semester, with the assistance of having a team of five members. While it came close, difficulties associated with the need to make structural changes to the proposed AA-IP and other unforeseen circumstances inhibited the plan. I am delighted that the team pushed its way through to overcome the challenges, and presented a finished AA-IP to the IAC during Week 8 of this semester.

The team is extremely pleased with the extensive work and progress across the two semesters, especially the valuable learning and teamwork that occurred along the way. We built on the knowledge and resources from past cohorts of AA team members to develop a robust investment process that will become the very foundation for future asset allocation decision-making. We decided to do away with a Markov chain model to build scenarios with an emphasis on a qualitative approach, under which the AA team crafts a range of scenarios along with probabilities backed by extensive team research and the opinions of all Fund members incorporated. Additionally, we managed to finalise the parameterisation of the utility function that will be used to evaluate the outcomes from candidate asset allocations relative to our investment objective which is based around a return target. We have also undertaken preliminary testing of the models underpinning the asset allocation process. I am looking forward to seeing more results generated by the incoming AA members.

A recurring topic of discussion for the AA team over the last semester was the rebalancing policy. The team sought advice and feedback from the IAC members to develop a rebalancing procedure as a guideline for deciding whether to rebalance back to target weights, and to what extent the weights should be adjusted. The rebalancing procedure will be triggered once the portfolio deviates by 3% from target weights, with some rebalancing necessitated upon a 5% deviation. The Investment Policy Statement (IPS) has also been updated to include a 'leeway' for weights to exceed the permitted target range of each asset class before a rebalancing must occur.

The AA team welcomes 2 junior analysts next semester – Nicholas Collings and Eric Gittleman – with Rocky Lagudi taking over the leadership role. I am confident that the AA team will carry the momentum forward into 2020, and I look forward to seeing them present the first set of target AA weights. I hope and encourage future AA team members to continue the good work of building the future team legacy, and will be watching the progress with anticipation.

Dalton Tham, Head of AA

Risk & Compliance (R&C) Team

The focus and goal of the R&C team this year has been the finalisation of key R&C framework documents and making the team fully operational. A further key accomplishment this year is the enhancement of our risk management process through the introduction of behavioural risk management, which we hope will increase the efficiency in SMF team discussions and enhance the culture of contestability.

The Behaviour Finance Framework (BFF) was created to help mitigate any behavioural risk that might occur during the implementation of the Fund's decision-making processes. The BFF is currently in a developmental stage. The R&C team plans to complete it during 2020, and fully implement the system into its day-to-day operations. One advantage of this undertaking is that it increases engagement between the R&C team and other sub-teams, as the process includes deep interactions and integration with other teams. While the current framework is only targeted to the AAE team, R&C is looking forward to including the AA team in this growing framework in the coming semesters. The aim is to assist these teams and enable SMF to make better decisions.

The R&C team has finalised the majority of its key documentation and processes over the course of 2019. These include providing in-depth SRI analysis for candidate stocks, and risk matrix assessments for the stocks being proposed as recommendations. The aim of our analysis is to mitigate both potential reputational and investment risks. In addition, R&C has significantly improved the efficiency and accuracy of the performance attribution model through better addressing multi-period compounding effects and transforming the current model to a 'half-automatic' one. These enhancements should be very useful for future R&C members by making the model much easier to use and work with.

The R&C team is extremely pleased to welcome two junior risk analysts in Semester 1 2020, Bernice Choi and Yuiting Li. Ashley White will be stepping into the role of Chief Risk Officer (CRO), while Charya Kannangara is returning as a senior analyst. I am confident that Ash and Charya will offer great leadership and support to the incoming junior members, ensuring that R&C continues to make a significant contribution to the Fund. I look forward to seeing the new energy that this team brings to further developing the R&C processes and the overall performance of the SMF.

Chaoqi (Shawn) Lin, CRO and Head of R&C

Relationship Team (RT)

The RT has worked hard in 2019 to establish the external communications platforms and enhance awareness surrounding the Fund. Key milestones include the introduction of an SMF website, and development of a social media presence via establishing a Facebook page and a LinkedIn profile. This is supported by a Social Media Policy Statement that sets out the protocol for making and approving social media posts, which was developed with the assistance of the CBE Communications team during the Semester 1, 2019.

The website has been developed as a platform that conveys the core values of the Fund, by focusing on the SMF's culture of contestability and enabling external parties to engage with its truly unique features. In doing so, the team chose to highlight the SMF's long-term focus and its SRI policy, as well as the Fund's distinctive discussions with various distinguished guest speakers. The website was initially drafted under an independent platform during Semester 1, but has now been transferred to reside within the ANU RSFAS website making it subject to a series of the University's policies. Positioning our website under the RSFAS banner has many benefits. By directly linking our online presence to the University, the SMF is able to portray a professional and reputable image to external parties and build web traffic from ANU students. As one of the website creators, I am pleased to see the overwhelming success of the website launch, specifically its overall enhancement of the Fund's engagement with both students and the University. The team has been working hard with the assistance of the CBE Web Coordinator, Simon Petocz, to ensure a high-quality website that is

regularly reviewed and updated, while ensuring its compliance with the RSFAS structure. The website drafting process, launch and further developments have provided an invaluable learning experience for the RT members.

The RT has also placed a large focus on extending the scope and impact of the SMF Facebook page through posting weekly contents with team updates, photos, guest speaker summaries and other information of interest. Both the website and Facebook page aim to garner awareness, engagement and interest in the Fund's activities. In addition, the Fund has established a LinkedIn profile to showcase the opportunities for employment and career advancement that the SMF provides to students, in addition to its academic learning objectives.

All these online mediums collectively contribute towards attracting top-quality students to join the SMF, which has been at the forefront of RT activity to ensure that the SMF expands its legacy. Meanwhile, the RT has continued to work on ongoing tasks such as the team meeting minutes, portfolio updates, internal documents and generating external reports such as the one you are currently reading. We aim to support the smooth-running of the Fund.

The RT excitedly welcomes two new junior Relationship Officers – Abhay Madan and Chenfan (Winnie) Wei. Together with the next Relationship Manager Yanfei (Victoria) Rao, I have full confidence that the team will extend the SMF's media presence, further the exposure of the Fund, and continue to promote the SMF's positive reputation both inside and outside of the University.

Sophie Lebang, Relationship Manager

Active Stock Positions

The SMF is pleased that two of our best performing active investments – Rio Tinto (RIO) and Telstra (TLS) – have been contributing steady returns for the AAE portfolio. Over the course of 2019 to date, RIO contributed 0.42% and TLS 0.52% to performance against the benchmark S&P/ASX200 ETF, bringing the cumulative contribution since inception of these positions to 0.37% and 1.72% respectively. We are also delighted to see Bingo (BIN), one of our active investments that had posted a negative contribution of -2.81% versus the benchmark as at 31 December 2018, experiencing a recovery that has led it to contribute 0.38% so far in 2019. The largest source of underperformance was Inghams (ING), with a contribution of -2.86% to performance. Westpac (WBC) also contributed -0.99% to date. The AAE team continues to monitor these underperformers, and believes that the investment thesis on which the positions were established remains intact. We consider the underperformance as unfortunate, but within expectations allowing for market volatility.

With IAC approval, the AAE team has acquired one new active investment this semester – Sonic Healthcare Limited (SHL). Further details of our position are provided in the Spotlight below. Meanwhile, the AAE team will continue to work hard to identify and research new stocks with the potential to enhance achievement of the Fund's investment objectives. The AAE portfolio currently comprises 47.67% in active stock positions, with the remainder held in the benchmark ASX200 ETF. The aim is to ultimately replace the latter, building a portfolio comprising 10-12 stocks.

Stock Spotlight: Sonic Healthcare Limited (SHL)

The Fund's recommendation to take a 10% position in Sonic Healthcare received endorsement from the IAC on 8 October 2019. It marked the SMF's first explicit investment in Australia's growing healthcare sector, specifically in the field of diagnostic medicine. Venturing into the healthcare industry is expected to contribute valuable diversification benefits to the current AAE portfolio. Moreover, the research, valuation model and the stock report on Sonic Healthcare will also contribute to the legacy for future cohorts.

The Sonic Healthcare recommendation primarily revolved around the company's overseas growth strategy in the fragmented and inefficient pathology markets of Europe and the US. This growth strategy is being implemented through smaller, bolt-on acquisitions. The underlying thesis is that Sonic Healthcare can create value through these acquisition by the realisation of synergies, leading to a return on invested capital that is comfortably above its cost of capital. The potential for acquisitions to add value was confirmed through the modelling of representative acquisitions. The strategy is supported by Sonic Healthcare's medically focused culture that entails the prioritisation of quality service and client outcomes. This helps make Sonic the 'acquirer of choice' for potential sellers (who typically remain with the business), and has been identified as a distinct source of competitive advantage in its own right. Meanwhile, we considered the traditional Australian operations as providing a solid and reliable base, noting that Sonic Healthcare is the larger of two major diagnostic services providers that dominate the Australian industry.

We were also comforted by two other considerations. The first was a growing emphasis on the importance of early diagnosis, which we saw as not only a generator of social benefit, but also as a factor that helps underpin stable government funding for the industry over the long run. The second consideration related to the company's zero medical waste dumping policy, which is well-aligned with the Fund's SRI policy.

Taken together, these attributes led us to recommend Sonic Healthcare as a company that can generate reliable and sustainable cash flows from a distinct and well-structured growth strategy, supported by identifiable competitive advantages and SRI credentials. When combined with the diversification benefits it offers, the stock is a very suitable addition to the Fund's portfolio.

Khurshed K. Mehta, Senior Analyst of AAE & William Ranson-Smith, Analyst of AAE

Portfolio Overview

Portfolio Structure

Figure 1 presents Fund portfolio weights as of 5 November 2019 prior to accruals. Asset values and total portfolio weights including accruals appear over the page in Figure 2. The first chart appearing in Figure 1 shows portfolio weights at the asset class level, comparing them to the reference portfolio weights. The differences are relatively minor, assisted by the fact that no active asset allocation decisions have yet been made. The portfolio is underweight by 1.14% in Australian equities and 0.76% in Australian fixed income, matched by overweights of 1.32% in cash and 0.58% in total international equities. These deviations reflect a combination of relative asset class movements and the accrual of cash as income is received. Figure 2 reveals that the cash weight increases to 7.64% once accruals such as franking credits are included, which the Fund will receive as cash in due course. The second chart shows the active stock weights within the AAE portfolio, comparing to their target weights as endorsed by the IAC. (Note: The SMF does not have access to S&P/ASX200 index weights.) The deviation from target weights for AAE portfolio largely reflect the relative price performance of the stocks held versus the benchmark ASX200 ETF since the target weight was established, although dividend payments also have an impact. The major deviations from target relate to Inghams (-2.63%), which has underperformed since it was purchased on 6 May 2019, and Bingo (+1.96%) which has outperformed since the target weight was reset at 6% during an IAC meeting on 3 May 2019. The remainder of the AAE portfolio is invested in the S&P/ASX200 ETF, which had a weight of 52.33% at 5 November 2019.

Figure 1: Portfolio Weights at 5 November 2019

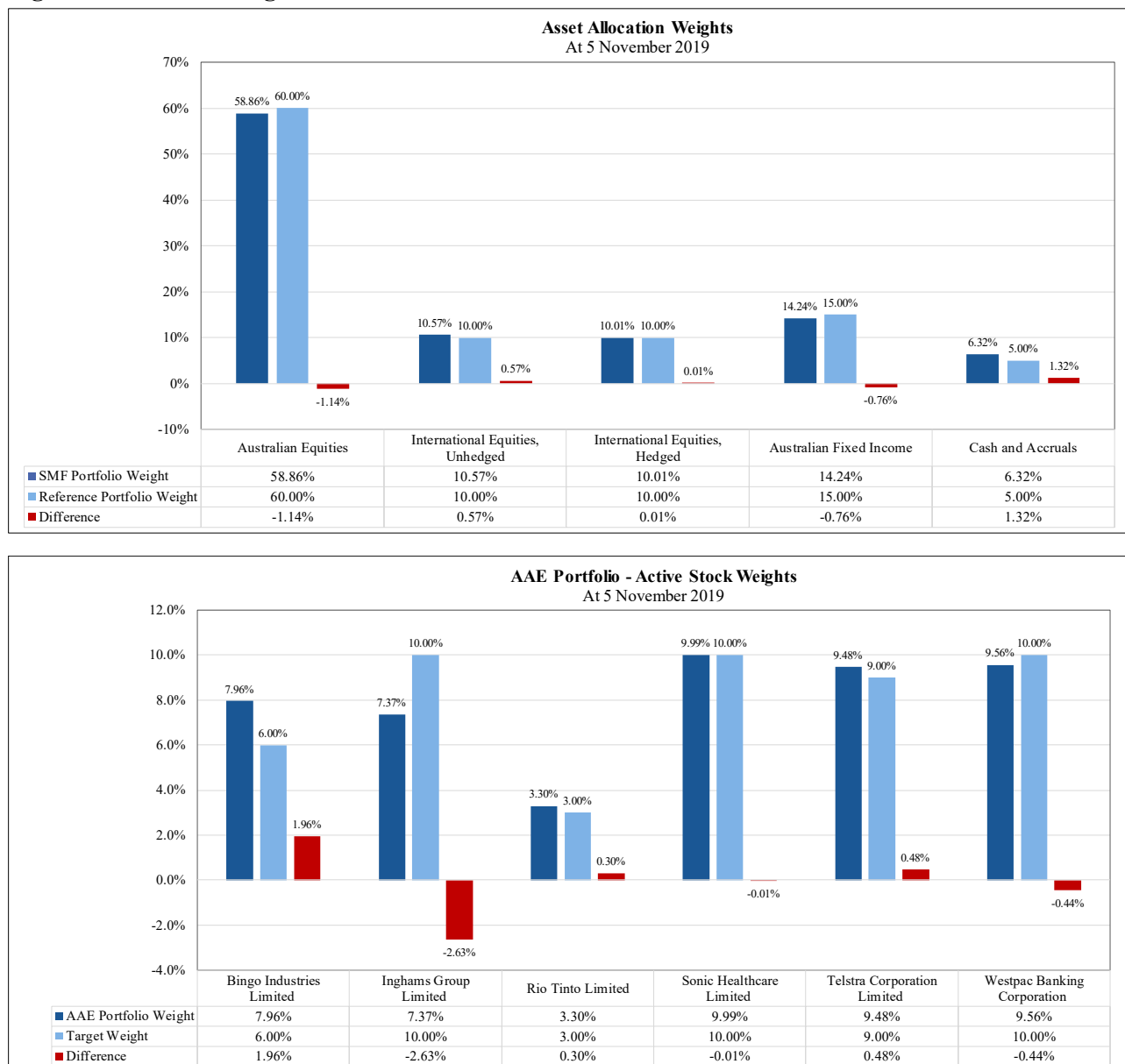


Figure 2: Portfolio Structure as at 5 November 2019

Portfolio Component	Benchmark ETF	Asset Values \$	SMF Portfolio Weight %	Reference Portfolio Weight %	Over (Under) Weight %
<u>Active Australian Equities Portfolio</u>					
Bingo Industries Limited		27,175	3.85		
Inghams Group Limited		24,970	3.54		
iShares Core S&P/ASX 200		173,974	24.65		
Rio Tinto Limited		10,812	1.53		
Sonic Healthcare Limited		34,310	4.86		
Telstra Corporation Limited		31,626	4.48		
Westpac Banking Corporation		32,849	4.66		
Total AAE Portfolio	iShares Core S&P/ASX 200	335,716	47.58	50	-2.42
<u>Asset Allocation Portfolio Holdings</u>					
iShares Core S&P/ASX 200		70,267	9.96	10	-0.04
Total Australian Equities	iShares Core S&P/ASX 200	405,983	57.53	60	-2.47
International Equities, Hedged	Vanguard International Shares Index, Hedged	70,625	10.01	10	0.01
International Equities, Unhedged	Vanguard International Shares Index	74,598	10.57	10	0.57
Total International Equities		145,223	20.58	20	0.58
Total Equities		551,206	78.11	80	-1.89
Australian Fixed Income	Vanguard Australian Government Bond Index	100,499	14.24	15	-0.76
<i>Australian Cash & Accruals:</i>					
BetaShares Australia High Interest Cash		16,673	2.36		
BT Cash Management Trust		27,892	3.95		
Accrued Interest & Dividends		19	0.00		
Accrued Franking Credits		9,356	1.33		
Total Cash & Accruals	BetaShares Australia High Interest Cash	53,940	7.64	5	2.64
Total Fixed Income & Cash		154,440	21.89	20	1.89
Total Value of SMF Assets		705,646	100.0	100	
Total Portfolio Value as Reported in BT Panorama		696,290			
Accrued Franking Credits		9,356			
Total Value of SMF Assets		705,646			

Portfolio Performance

Figure 3 reports the Fund's portfolio performance during 2018, year-to-date during 2019, and performance since inception. The latter is estimated by accumulating the 2018 and 2019 returns. It is very pleasing to see a Fund return of 18.05% since inception, which equates to a remarkable outperformance of 7.94% versus the 9.73% target return (comprising the 4.5% distribution rate plus realised inflation). Of this outperformance, 14.34% has been accrued during 2019. The achievement of a return surplus is an important milestone for the Fund, as it not only exceeds the objective of maintaining the real value of the Fund, but also enhances the progress towards our philanthropic goals by providing a larger endowment to help fund the RSFAS SMF Equity Scholarship.

The Fund has underperformed the reference portfolio by -2.69% since inception, comprising of relative returns of -1.11% in year 2018 and a -1.36% in 2019 year-to-date. Given that active strategic asset allocation decisions are yet to be implemented, the underperformance is largely associated with the performance of the AAE portfolio against the benchmark S&P/ASX200 ETF. The sources of this relative performance were discussed on page 9 under the heading 'Active Stock Positions' and are detailed in the performance attribution analysis appearing below. The lower-than-benchmark performance can be mainly attributed to the negative influence of Bingo Industries and Inghams, although Westpac was also a negative contributor. It is worth noting that, with regard to Westpac, the portfolio holding is close to a market-weight exposure to the banking sector overall.

Figure 3: Portfolio Performance: 10th April 2018 to 5 November 2019

Year <i>Period Covered</i>	2018 <i>Since inception on 10 April 2018</i>	2019 <i>Through to 5 November 2019</i>	Performance Since Inception
<u>PORTFOLIO VALUES</u>			
Opening Portfolio Value in BT Panorama	\$618,225.41	\$608,598.58	
- Less distribution related to prior period		\$19,762.38	
Adjusted Opening Portfolio Value	\$618,225.41	\$588,836.20	
Closing Portfolio Value in BT Panorama	\$608,598.58	\$696,290.07	
+ Franking Credits Accrued	\$3,235.76	\$6,119.85	
- Contributions made to the Fund	\$0.00	\$0.00	
Total Portfolio Value	\$611,834.34	\$702,409.92	
<u>RETURNS</u>			
Total Portfolio Return	-1.03%	19.29%	18.05%
Target Return (Estimated CPI + 4.5%)	4.56%	4.95%	9.73%
SMF Return vs. Target	-5.59%	14.34%	7.94%
Reference Portfolio Return	0.08%	20.65%	20.75%
SMF Return vs. Reference Portfolio	-1.11%	-1.36%	-2.69%

Attribution Analysis

To better understand the key drivers of performance versus the reference portfolio, the R&C team conducts performance attribution analysis. The results are displayed in Figure 4 (see over). Performance relative to the reference portfolio has been decomposed into contributions from asset allocation, security selection and other effects. The second section of Figure 4 displays the contributions of each stock held in the AAE portfolio relative to the benchmark S&P/ASX200 ETF. Since inception, positive contributions have been made by Telstra Corporation Limited (+1.29%), Rio Tinto Limited (+0.37%) and the latest addition to the portfolio, Sonic Healthcare Limited (+0.03%). On the other hand, Bingo Industries Limited and Inghams Group Limited delivered significant negative performances with contributions of -2.44% and -2.86% respectively. Westpac Banking Corporation also provided a negative contribution of -0.99%. Despite these negative contributions, the SMF believes that the long-term fundamentals remain intact for Bingo, Inghams and Westpac. The calculations include any franking credits received, with the SMF returns and AAE contributions having benefitted from holding stocks that pay relatively high fully-franked-dividends (notably Rio Tinto, Telstra and Westpac).

The last section of Figure 4 details the various contributions from the cash portfolio relative to the benchmark cash ETF. This section reveals a negative contribution arose from the cash portfolio as a result of holding liquidity within the BT

Cash Management Trust, which offers a lower return than that achieved by the Betashares ETF as benchmarked. However, the negative return versus the cash benchmark applies only to a small portion of the total portfolio, with the overall contribution of the cash portfolio amounting to just -0.04% at the total portfolio level since inception.

As active asset allocation decisions are yet to be made, the asset weights currently remain close to the reference portfolio weights (see Figure 1 and Figure 2). Nevertheless, small deviations from reference portfolio weights have interacted with market movements and the impact of the Fund's distribution in early 2019, to generate an asset allocation contribution of -0.10%. As this contribution is not reflective of active asset allocation decisions made by the Fund, specific asset contributions are not reported in this attribution analysis. Looking towards the future, the completion of the AA-IP will support more deliberate changes to the asset allocation starting from next semester, in which event we will commence reporting asset allocation contributions in further detail.

Figure 4: Performance Attribution: 10 April 2018 to 5 November 2019

	Contributions to Performance vs. Reference Portfolio by Sub-Period		Cumulative Return
Period Start	10 April 2018	31 December 2018	10 April 2018
Period End	31 December 2018	5 November 2019	5 November 2019
SMF Portfolio vs. Reference Portfolio			
Asset Allocation	0.01%	-0.11%	-0.10%
Security Selection - AAE Portfolio	-1.02%	-1.26%	-2.26%
Security Selection - Cash Portfolio	-0.02%	-0.02%	-0.04%
Contribution from Positions Held	-1.03%	-1.39%	-2.41%
Interaction, aggregation, trading effects	-0.08%	0.03%	-0.05%
Total Relative Performance	-1.11%	-1.36%	-2.46%
AAE Portfolio vs. S&P/ASX200 ETF			
Bingo Industries Limited	-2.81%	0.38%	-2.44%
Inghams Group Limited		-2.86%	-2.86%
iShares Core S&P/ASX 200 ETF	0.00%	0.00%	0.00%
Rio Tinto Limited	-0.05%	0.42%	0.37%
Sonic Healthcare Limited		0.03%	0.03%
Telstra Corporation Limited	0.76%	0.52%	1.29%
Westpac Banking Corporation		-0.99%	-0.99%
Time Aggregation Effect	-0.02%	0.00%	0.04%
Total Relative Performance	-2.12%	-2.50%	-4.57%
<i>Opening AAE Weight in Total Portfolio</i>	50.16%	48.07%	
Cash Portfolio vs. Betashares Cash ETF			
Accruals	-0.07%	-0.09%	-0.16%
Betashares Cash ETF	0.00%	0.00%	0.00%
BT Cash Management Trust	-0.25%	-0.39%	-0.64%
Time Aggregation Effect	0.00%	0.00%	0.00%
Total Relative Performance	-0.32%	-0.49%	-0.81%
<i>Adjusted* Opening Cash Weight in Portfolio</i>	4.81%	7.00%	

* Adjusted for the distribution made in early-2019

Socially Responsible Investment (SRI) Report

The SMF portfolio must comply with the ANU SRI policy. The SMF's implementation of the policy builds upon the criteria used within the Australian equity portfolio of the ANU Long Term Investment Pool (LTIP), which entails conditions one through three below. The SMF extends the criteria through the addition of conditions four and five, which directly consider the 'social injury' and 'social benefit' elements of the University's official SRI policy. These two elements are addressed within the process of analysing and selecting stocks for inclusion in the AAE portfolio.

1. Exclude companies that derive more than 20% of revenues from coal, gambling, tobacco or pornography.
2. Hold a portfolio with 25% less carbon intensity than the S&P/ASX 200.
3. Ensure that the portfolio demonstrates a 10 % improvement in the overall Environmental, Social and Governance (ESG) rating relative to the benchmark.
4. Evaluate whether a prospective investment causes an unacceptable level of 'social injury'.
5. Take into consideration whether a prospective investment creates 'social benefit'.

Figure 5 reports on the SRI compliance as of 5 November 2019 with regard to the carbon intensity and ESG scores, which are applied to the active stock investments within the AAE portfolio. The carbon intensity scores for Bingo, Inghams, Rio Tinto, Sonic Healthcare, Telstra and Westpac are obtained from Bloomberg. These scores are calculated based on the annual carbon emission (in tonnes) per \$1 million of revenue earned. Carbon intensity for the S&P/ASX200 ETF is sourced from the ANU Socially Responsible Investment Policy 2018 Report, which is the most recent data we have available. The ESG scores are based on analysis performed by Sustainalytics. The ESG score for the ASX200 uses an equally weighted average, consistent with the SMF investment process targeting about 10-12 broadly equally weighted positions. The market capitalisation-weighted average is shown for reference.

Figure 5: Current Position of the AAE Component in regard to SRI Compliance

	ASX200	BIN	ING	RIO	SHL	TLS	WBC	Total Active Stock Positions	Active Stock Positions vs. S&P/ASX200	Target Improvement	Margin
Weighting in AAE portfolio	51.8%	8.1%	7.4%	3.2%	10.2%	9.4%	9.8%	48.2%	-	-	-
Carbon intensity	289.9	40.6	81.3	526.9	12.0	48.7	3.4	67.3	-76.8%	-25%	51.8%
ESG score	59.1	69.0	48.0	68.0	62	72.0	82.0	67.4	+14.1%	10%	4.1%
(S&P/ASX200, cap-weighted)	(66.57)								(+1.3%)		

The SMF portfolio is in full compliance with the SMF SRI policy regarding to its active stock investments. This is demonstrated by a -76.8% reduction in carbon intensity against the required -25%, and a 14.1% improvement in ESG score against the required 10%.

Conditions 4 and 5 as listed above are continuously evaluated by the Fund regarding both current active investments and throughout the candidate stock investment analyses. This can be exemplified through the Fund's decision to not pursue some prospective stocks when both the AAE and R&C teams, as well as the entire Fund concluded that the companies may be causing social injury while producing minimal social benefit. Once the AAE portfolio is fully invested in active stock positions, as against its current partial exposure to the S&P/ASX200 ETF, the AAE portfolio will progress towards complete compliance with the elements of the SMF SRI policy.

APPENDIX

SMF Activities during Semester 2, 2019

SMF Student Team Make-up

- The SMF had 19 members during the semester, comprising 11 seniors continuing from Semester 2, 2019 and 8 juniors joining the Fund.
- The Fund will comprise of 17 members in Semester 1, 2020. This will comprise seven senior members and the introduction of 10 junior members.
- Team compositions in 2019 and projected for semester 1, 2020:

<i>Team / Position</i>	<i>Semester 1, 2019</i>	<i>Semester 2, 2019</i>	<i>Semester 1, 2020</i>
Chief Investment Officer	1	1	1
Asset Allocation	5	3	3
Active Australian Equities	8	9	6
Risk and Compliance	2.5	3.5	4
Relationship	1.5	2.5	3
<i>Total</i>	<i>18</i>	<i>19</i>	<i>17</i>

SMF Meetings

- Eleven weekly meetings were held throughout the semester on Mondays, 11 am - 2 pm, Marie Reay Teaching Centre, Room 5.03.
- The SMF celebrated its achievements and welcomed new members at an end-of-semester get-together on the 25th October 2019.

SMF Investment Advisory Committee (IAC) Meetings and Subsequent Transactions

- Two IAC meetings occurred during the semester.
- The first IAC meeting was held on 23rd September 2019, with the aim of giving feedback to the AA team on their proposed AA Investment Process. Discussion focused on whether to address the shorter-term tactical outlook in setting asset allocation strategy and the rebalancing procedure. Most of the IAC members agreed the Fund should primarily focus on the long-term objective, and advised against taking tactical AA positions. The IAC members requested that the rebalancing procedure be formalised within the IPS, and asked for confirmation from The Director of RSFAS around risk tolerance. The latter occurred in a meeting between The Director of RSFAS and the SMF Convenors held on 30th September 2019, which was detailed in a memo.
- The second IAC meeting was held on 8th October 2019. Two matters were covered. First, a revised IPS was presented, and was endorsed subject to some minor adjustments. Second, the AAE team proposed the addition of Sonic Healthcare Limited (SHL) at a 10% target weight within the AAE portfolio, funded via a reduction of the iShares Core S&P/ASX200 ETF. The IAC endorsed the proposal. The subsequent transaction was completed on 8th October 2019.

Visitors and Guest Speakers

- Prof. Grady Venville (Interim Deputy Vice-Chancellor (Academic)) and Dr Bronwen Whiting CBE's Associate Dean (Education), ANU, Monday 19 August 2019.
- James Bailey (Executive Director) and Jarrad Collins (Director), Dixon Advisory, Monday 16 September 2019.
- André Morony, IAC member, Monday 23 September 2019.
- David Bell, ex-CIO of Mine Super, 9 October 2019.

Major Reports Finalised that Relate to Decisions and Processes

- The inaugural Asset Allocation Investment Process (AA-IP) was finalised.
- The SMF Investment Policy Statement (IPS) was revised. The major changes related to rebalancing procedures and policy breach reporting. A few other minor changes were made to better align the IPS with current practices.
- A report on SHL was created in support of the investment recommendation.

Other Notable Items

- The SMF website and Facebook and LinkedIn pages were officially launched and are now being regularly updated.
- Significant progress was made across the SMF to ensure documents and processes have appropriate user guides and manuals, with a collective effort to consolidate the documents on SharePoint.

SMF Team Membership

Members for Semester 2, 2019

Chief Investment Officer (CIO)

Alaina Warwick

Risk and Compliance (R&C) Team

Chaoqi (Shawn) Lin	Chief Risk Officer
Alisha Nath	Senior Analyst
Ashley White	Analyst
Charya Kannangara	Analyst (50%)

Asset Allocation (AA) Team

Dalton Tham	Team Leader
Jiaqi (Karen) Mao	Senior Analyst
Rocky Lagudi	Analyst

Active Australian Equities (AAE) Team

Luke Farrar	Team Leader
Sahibjeet Bains	Senior Manager
Harrison McKenzie-McHarg	Senior Analyst
Khurshed Mehta	Senior Analyst
Lachlan Phillips	Senior Analyst
Jia Jun Desmond Ng	Analyst
Todd O'Dea	Analyst
William Ranson-Smith	Analyst
Shengchang (Albert) Zhang	Analyst

Relationship Team (RT)

Sophie Lebang	Relationship Manager
Yanfei (Victoria) Rao	Relationship Officer
Charya Kannangara	Relationship Officer (50%)

Convenors

Anna von Reibnitz	Course Convenor
Geoff Warren	Fund Convenor

New Team Members for Semester 1, 2020

Michael Oates	AAE Team
Matthew Pham	AAE Team
Yao Xiong	AAE Team
Angus Lloyd	AAE Team (SRI Analyst)
Nicholas Collings	AA Team
Eric Gittleman	AA Team
Bernice Choi	R&C Team
Yui Ting Li	R&C Team
Abhay Madan	Relationship Team
Chenfan (Winnie) Wei	Relationship Team

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