Mid-Semester Report – Semester 2, 2019

ANU Student Managed Fund

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# Glossary

**AA** – Asset Allocation

**AAE** – Active Australian Equities

**ANU** – The Australian National University

**BIN** – Bingo Industries

**CBE** – ANU College of Business and Economics

**CCL** – Coca-Cola Amatil

**CIO** –Chief Investment Officer

**CPI** –Consumer Price Index

**CRO** – Chief Risk Officer

**DCF** – Discounted Cash Flow

**ESG** – Environmental, Social and Governance

**ETF** – Exchanged-Traded Fund

**IAC** – Investment Advisory Committee

**ING** – Inghams Group

**IP** – Investment Process

**LTIP** – Long Term Investment Pool

**SMF –** Student Managed Fund

**SRI –** Socially Responsible Investment

**R&C** – Risk and Compliance

**RIO** – Rio Tinto Limited

**ROE** – Return on Equity

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

**TLS** – Telstra Corporation Limited

**WBC** – Westpac Banking Corporation

# About this Report

We are delighted to provide an update on the performance and accomplishments of the ANU Student Managed Fund (SMF) over the first half of Semester 2, 2019. This report includes a Chief Investment Officer (CIO) report; an update on each SMF sub-team, including introduction of new team members; and insights into the stock selection process that is currently underway, including a spotlight on Coca-Cola Amatil as one stock considered where it was decided not to proceed. The portfolio report covers portfolio structure and performance, including an attribution analysis of Fund returns versus the benchmark. A Socially Responsible Investing (SRI) analysis and statement compliance is also provided.

The SMF team produces a brief report at mid-semester, with a more in-depth report provided at end-semester that includes commentary by all team leaders and the Course Convenors.

We would welcome any feedback and the opportunity to address further enquiries, which can be directed to the SMF email address ([smf.rsfas@anu.edu.au](mailto:smf.rsfas@anu.edu.au)).

*Sophie Lebang, Yanfei (Victoria) Rao & Charya Kannangara*

*Relationship Team*

# Chief Investment Officer Report

The SMF team currently consists of 19 members. The senior cohort has enjoyed the opportunity to welcome the new junior team members and share our knowledge, whilst watching the new members bring their own insights to the Fund.

All members of the Fund have embraced their new roles. The senior cohort has adapted to their leadership positions and the challenges arising from a new level of responsibility. The junior cohort has hit the ground running, making meaningful contributions to both their sub-team objectives and the Fund meetings. The social cohesion between all members is evident in Fund meetings and has contributed to a collegiate atmosphere and many a robust discussion. An exciting element as the Fund matures has been a stronger alumni presence, with past SMF members visiting Fund meetings and nurturing new and pre-existing connections within the current team. It has been a pleasure to see the team working together and embodying the values of the Fund.

A focus this semester has been further integrating our sub-teams, with the full benefits of understanding the role of each team being realised at an operational and educational level. The sub-teams have also been striving towards their individual goals and making considerable progress. The Active Australian Equities (AAE) team has successfully undertaken the stock candidate presentations to the SMF and are moving forward with exciting prospects to potentially add to the portfolio. The Asset Allocation (AA) team is in the final stages of preparing the AA Investment Process (AA IP) for presentation to the Investment Advisory Committee (IAC). This process has been an extensive and challenging task for the AA team, and it is exciting to see the culmination of many semesters work. The Risk and Compliance (R&C) team has been monitoring Fund operations, advancing performance attribution techniques and developing a behavioural risk assessment framework. The Relationship team has worked to deliver the official SMF website and bolster our growing social media presence, which will play a vital role in enhancing our communication with external parties.

I am pleased to report that the Fund has continued to achieve its return objectives. Since funds were invested into the SMF reference portfolio, we have generated a return of 16.03% against the target return of 8.64%. Positive contributions from Telstra (TLS) and Rio Tinto (RIO) have supported this result. Bingo Industries has experienced a recovery in performance after a rocky start but continues to experience volatility on a short-term basis.

The remainder of the semester holds many activities that will further the learning and performance objectives of the Fund. This includes industry guest speakers, the presentation of the AA IP to the IAC, and hopefully the recommendation of active stocks positions to be included in our portfolio.

The team has made an excellent start to the semester. I am excited to see how this foundation is going to develop into recommendations and enhanced processes in the remainder of the year, and hence create a lasting impact on the SMF.

*Alaina Warwick, CIO*

# Team Updates

The 19 team members for this semester include 11 senior members carrying over from the previous semester and 8 new members. Across the teams, we have seen senior students taking leadership roles and mentoring our junior members to ensure the sharing of knowledge and experience, and the passing down of key values of the Fund, which facilitates continuity in our operations. Although the learning curve for the Fund’s new members is steep, we are pleased to see fresh insights and new perspectives being contributed to the brainstorming process under the guidance of senior members. This section presents a brief introduction of the new team members, and an overview of each sub-team’s task allocation.

## AA Team

The AA team has been working hard to finalise the development of the AA IP, including the utility and asset class models. The team has now completed a draft of the AA IP, which will be presented and discussed at an IAC meeting on 23rd September. AA Team Leader Dalton Tham and Senior Analyst Jiaqi (Karen) Mao have guided this process, with Rocky Lagudi assisting as junior analyst after joining the team this semester. All members demonstrated their deepening understanding through presenting the core sections of the investment process to the entire SMF team, as well as contributing to the critical analysis and solving of problems identified during its development. Working towards finalising the AA IP has been a high growth opportunity for the AA team, requiring it to utilise skills and knowledge of both macroeconomics and quantitative analysis that are unique to the funds management industry.

## AAE Team

The AAE team has welcomed William Ranson-Smith, Todd O’Dea, Jia Jun Desmond Ng and Shengchang (Albert) Zhang as junior analysts. The new team members are being mentored by the retained team members, including AAE Team Leader Luke Farrar and Senior Analysts Sahibjeet Bains, Harrison McKenzie-McHarg, Khurshed Mehta and Lachlan Phillips. Over the first half of the semester, the AAE team has undertaken candidate stock analysis to identify stocks worthy of in-depth research, and presented them to the broader SMF team. Members have selected four stocks to be further evaluated in the second half of the semester – Bellamy’s (BAL), James Hardie (JHX), Kathmandu (KMD) and Sonic Healthcare (SHL). Re-valuation of the Fund’s existing holdings within the portfolio is also underway as a continuous portfolio monitoring process. The AAE team also intends to review and revise its stock filtering process, assisted by having gained access to FactSet during the semester.

## R&C Team

Ash White and Charya Kannangara (shared 50% with the Relationship team) have joined the R&C team as junior analysts, guided by Chief Risk Officer (CRO) Shawn Lin and Senior Analyst Alisha Nath. This semester, the team has been focusing on ensuring Fund SRI compliance by completing risk evaluations throughout both the AAE stock filtering process and the AA IP development. R&C has been increasing its collaboration and involvement with other teams, in part by attending their regular meetings. This includes commencing an initiative aimed at helping to identify and mitigate potential behavioural risks associated with the investment decision-making process. Additionally, Shawn and Ashley have been working on the advancement of the performance attribution model and enhancement of the Fund’s portfolio monitoring process.

## Relationship Team

The Relationship team has welcomed Yanfei (Victoria) Rao and Charya Kannangara (shared 50% with R&C), who operate under the guidance of the Fund’s inaugural Relationship Manager, Sophie Lebang. The team has been working hard on the establishment and expansion of the SMF’s external communications, including the launch of an official SMF website in addition to building social media presences via both LinkedIn and Facebook. (The links appear on page 12 – we welcome you to check them out.) These developments are a key contribution towards the legacy of the SMF, particularly in terms of building public awareness of the Fund both inside and outside of the University. In addition, the Relationship team continues to provide ongoing administrative support to the Fund through the preparation of minutes to the weekly meetings, portfolio updates and generating SMF reports.

## SMF Team - Photo and Roles



*Bottom Row (L-R): Anna von Reibnitz (Course Convenor), Ash White, Rocky Lagudi, Luke Farrar, Alaina Warwick, Lachlan Phillips, Todd O’Dea, Yanfei (Victoria) Rao, Jiaqi (Karen) Mao, Jia Jun Desmond Ng.*

*Middle Row (L-R): Alisha Nath.*

*Top Row (L-R): William Ranson-Smith, Chaoqi (Shawn) Lin,* *Dalton Tham,* *Harrison McKenzie-McHarg,* *Khurshed Mehta, Sahibjeet Bain,* *Charya Kannangara, Sophie Lebang, Geoff Warren (Fund Convenor).*

**SMF Team and Roles – 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  Charya Kannangara Analyst (50%)  Ash White Analyst  ***Relationship Team***  Sophie LeBang Relationship Manager  Charya Kannangara Relationship Officer (50%)  Yanfei (Victoria) Rao Relationship Officer  ***Convenors***  Anna von Reibnitz Course Convenor  Geoff Warren Fund Convenor | ***Asset Allocation (AA) Team***  Dalton Than Team Leader  Jiaqi (Karen) Mao Senior Analyst  Rocky Lugadi Analyst  ***Active Australian Equities (AAE) Team***  Luke Farrar Team Leader  Sahibjeet Bains Senior Analyst  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 |

# Active Stock Positions

The AAE team continues to research new stocks with potential to advance the Fund’s core investment objectives. The SMF is pleased that two of our active investments in Rio Tinto and Telstra have extended their solid performance into the 3rd quarter of this year. Rio Tinto and Telstra have respectively contributed 0.37% and 1.75% to performance of the AAE portfolio against the benchmark S&P/ASX200 Exchange Traded Fund (ETF) since the Fund’s inception. On the other hand, Bingo Industries and Inghams Group have performed poorly, detracting 3.06% and 2.86% from performance within the AAE portfolio, respectively. While disappointing, the Fund has shown tolerance for short-term volatility if the team believes the underlying investment thesis remains intact. In both cases, we view the underperformance as related to short-term business issues (e.g. grain cost pressures related to the drought in Inghams’ case), and within the Fund’s tolerance.

There are no new acquisitions or disposals to report at this stage, although we anticipate presenting further stock recommendations to the IAC during the second half of the semester. For this report, we spotlight one of our candidate stocks that ultimately did not proceed to in-depth analysis – Coca-Cola Amatil. The aim is to provide an inside look into the Fund’s stock selection process, particularly highlighting the meaningful discussions held regarding potential investments.

## Stock Spotlight: Coca-Cola Amatil (CCL)

Coca-Cola Amatil is a locally owned public company profiting from the manufacturing, marketing and distribution of a range of beverage and food products. The company employs 13,000 people, operating in Australia, New Zealand, Fiji, Papua New Guinea and Indonesia, and administered from its head office in North Sydney. The role as the bottler of Coca Cola in Australia and Indonesia is a core component of the business.

The AAE team was attracted to the stock for its diversified product mix of food and beverages, which helps minimise the company’s exposure to risk associated with the declining high-sugar beverage market related to changing consumer habits. We also liked Coca-Cola Amatil’s strong national brand image, its renowned advertising prowess, the benefits from exposure to emerging markets such as Indonesia and increasing cost efficiencies in the manufacturing processes.

The presentation to the broader SMF team was followed by an interesting and lively discussion, particularly over the SRI merits of the stock and the longer-term drivers of its business. Many SMF team members held the opinion that Coca-Cola’s brand equity is actually overstated in today’s climate, due to the shift towards health-conscious consumer decisions. The point was raised that, although the company had been awarded a high ESG (Environment, Social and Governance) score, it might be considered as causing social harm by contributing to growing concerns surrounding obesity and other health complications. Other SMF team members disagreed, taking the view that the company’s other contributions to many socially beneficial initiatives offset their negative contributions, especially as their diversified product range includes water and kombucha among other products.

The other side of the discussion focused on the viability of Coca-Cola Amatil as a long-term investment, with some suggesting that the stock was vulnerable as a consequence of exposure to high-sugar products. Potential cannibalisation of revenues was identified as a key risk, as consumers switching away from Coca-Cola Amatil’s high-sugar products to the company’s healthier alternatives could limit the potential for customer and revenue growth over the long term. Other concerns raised included the company’s capability to correctly predict consumer trends and get their positioning right, which further exacerbates the risk of large-scale customer attrition and greater cannibalisation. As a result, it was argued that the best-case scenario is for the company to retain its current customer base through a different mix of products, making it hard to generate customer and revenue growth. Indonesia was seen as possibly having more potential on this front, but the company’s market presence was considered too uncertain and not large enough to offset any negative trends that might emerge in the Australian business.

Ultimately, a combination of doubts over Coca-Cola Amatil’s SRI credentials and concerns over the risks related to revenue cannibalisation and limited upside potential over the long term led to a final decision not to proceed to the in-depth analysis stage where it would be seriously examined as a potential investment.

*Luke Farrar, Head of AAE*

# Portfolio Overview

### Portfolio Structure

Asset allocation data as at 12th September, 2019 is charted in Figure 1 and detailed in Figure 2 (see over). The latter reports the values and weightings of investments held within the overall SMF portfolio, including deviations from the reference portfolio. The weight in Australian equities stands at 58.82%, comprised of 48.65% in the AAE portfolio (versus 50% reference weight) and 10.17% in the S&P/ASX200 ETF held within the asset allocation component of the portfolio. The deviations from the reference weights are a consequence of relative asset class performance, plus receipt of income which acts to boost the cash weighting. Within the AAE component of the portfolio, the weight of the S&P/ASX200 ETF stands at 61.69%, with active stock positions summing 38.31%.

*Figure 1: Asset Allocation* as at 12th September, 2019



**Figure 2: Portfolio Structure as at 12th September, 2019**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Portfolio Component** | **Benchmark ETF** | **Asset Values** | **SMF Portfolio Weight** | **Reference Portfolio Weight** | **Over (Under) Weight** |
|  |  | **$** | **%** | **%** | **%** |
| **Active Australian Equities Portfolio** | |  |  |  |  |
| Bingo Industries Limited |  | 24,582 | 3.54 |  |  |
| Inghams Group Limited |  | 25,919 | 3.73 |  |  |
| iShares Core S&P/ASX 200 |  | 208,324 | 30.01 |  |  |
| Rio Tinto Limited |  | 10,566 | 1.52 |  |  |
| Telstra Corporation Limited |  | 32,439 | 4.67 |  |  |
| Westpac Banking Corporation |  | 35,859 | 5.17 |  |  |
| **Total AAE Portfolio** | iShares Core S&P/ASX 200 | **337,688** | **48.65** | **50** | **-1.35** |
| **Asset Allocation Portfolio Holdings** | |  |  |  |  |
| Australian Equities |  | 70,576 | 10.17 | 10 | 0.17 |
| **Total Australian Equities** | iShares Core S&P/ASX 200 | **408,264** | **58.82** | **60** | **-1.18** |
| International Equities, Hedged | Vanguard International Shares Index, Hedged | 68,657 | 9.89 | 10 | -0.11 |
| International Equities, Unhedged | Vanguard International Shares Index | 72,775 | 10.49 | 10 | 0.49 |
| **Total International Equities** |  | **141,432** | **20.38** | **20** | **0.38** |
| **Total Equities** |  | **549,696** | **79.20** | **80** | **-0.80** |
| **Australian Fixed Income** | Vanguard Australian Government Bond Index | **101,048** | **14.56** | **15** | **-0.44** |
| ***Australian Cash & Accruals:*** |  |  |  |  |  |
| BetaShares Australia  High Interest Cash |  | 16,680 | 2.40 |  |  |
| BT Cash Management Trust |  | 21,631 | 3.12 |  |  |
| Accrued Interest & Dividends |  | 1,323 | 0.19 |  |  |
| Accrued Franking Credits |  | 3,693 | 0.53 |  |  |
| **Total Cash & Accruals** | BetaShares Australia  High Interest Cash | **43,327** | **6.24** | **5** | **1.24** |
| **Total Fixed Income & Cash** |  | **144,376** | **20.80** | **20** | **0.80** |
|  |  |  |  |  |  |
| **Total Value of SMF Assets** | | **688,670** | **694,072** | **100.0** | **100** |
| **Total Portfolio Value as Reported in BT Panorama** | | **684,977** | **690,378** |  |  |
| Accrued Franking Credits |  | 3,693 | 0.53 |  |  |
| **Total Value of SMF Assets** | | **688,670** | **694,072** |  |  |

### 

### Portfolio Performance

Figure 3 reports the Fund’s performance during 2018 and year-to-date 2019, as well as performance since inception as an accumulation of returns from each year. The Fund has experienced a strong return of 16.03% since inception. This is +7.39% above the return target of 8.64% over the period: the target comprises the 4.5% distribution rate plus realised inflation. Such a solid result exceeds the investment objective of maintaining the Fund’s long-term real value, and provides support for our philanthropic activities related to the RSFAS Student Managed Fund Equity Scholarship.

However, the Fund has underperformed its reference portfolio by -2.19% since inception, comprising of relative returns of -1.11% during 2018 and -0.89% in 2019 year-to-date. With the asset allocation set broadly in accordance with the reference portfolio weights, the underperformance is largely attributable to the performance of the AAE portfolio relative to the benchmark S&P/ASX200 ETF. The sources of the associated performance are detailed in the attribution analysis below, and can be largely traced to Bingo Industries and Inghams Group.

**Figure 3: Portfolio Performance Since Inception**

|  |  |  |  |
| --- | --- | --- | --- |
| **Year** | **2018** | **2019** | **Performance Since Inception** |
| ***Period Covered*** | ***Since inception on 10/4/2018*** | ***Ends 12/9/2019*** |
| **POTFOLIO VALUES** |  |  |  |
| Opening Portfolio Value in BT Panorama | $618,225.41 | $609,898.45 |  |
| - Less distribution related to prior period |  | $19,762.38 |  |
| Adjusted Opening Portfolio Value | $618,225.41 | $590,136.07 |  |
| Closing Portfolio Value in BT Panorama | $608,598.58 | $684,976.62 |  |
| + Franking Credits Accrued | $1,299.87 | $3,693.42 |  |
| - Contributions | $0.00 | $0.00 |  |
| **Total Portfolio Value** | **$609,898.45** | **$688,670.04** |  |
| **RETURNS** |  |  |  |
| **Total Portfolio Return** | **-1.35%** | **17.61%** | **16.03%** |
| Target Return (Estimated CPI + 4.5%) | 4.56% | 3.90% | **8.64%** |
| ***SMF Return vs. Target*** | ***-5.91%*** | ***13.71%*** | **7.39%** |
| Reference Portfolio Return | -0.24% | 18.51% | 18.22% |
| ***SMF Return vs. Reference Portfolio*** | ***-1.11%*** | ***-0.89%*** | ***-2.19%*** |

# Attribution Analysis

The performance attribution analysis is presented in Figure 4 (see over). This analysis is conducted by the R&C team with the aim of gaining a better understanding of the key drivers of performance versus the reference portfolio. 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 presents 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 (+1.75%) and Rio Tinto Limited (+0.37%). Bingo Industries and Inghams Group delivered negative performances with contributions of -3.06% and -2.86% respectively; with Westpac Banking Corporation also contributing -0.34% to performance versus the S&P/ASX200 ETF. Despite the negative contributions of Bingo Industries and Inghams Group, the Fund’s views on the long-term cash flows of these stocks are unchanged. Given the long-term nature of the Fund, we have greater tolerance for market volatility than most investors. 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 and Telstra, and Westpac looking forward).

The final section of Figure 4 details the various contributions from the cash portfolio relative to the benchmark cash ETF. This section reveals that a relatively small 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 benchmark Betashares Cash ETF. This applies to only a small portion of the total portfolio, with the overall cash contributions amounting to -0.03% at the total portfolio level since inception.

**Figure 4: Attribution Analysis**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Contributions to Performance vs. Reference Portfolio by Sub-Period** | | **Cumulative Return** |
| ***Period Start*** | 10-Apr-18 | 1-Jan-19 | 10-Apr-18 |
| ***Period End*** | 31-Dec-18 | 12-Sep-19 | 12-Sep-19 |
|  |  |  |  |
| **SMF Portfolio vs. Reference Portfolio** |  |  |  |
| Asset Allocation | 0.01% | -0.07% | -0.06% |
| Security Selection - AAE Portfolio | -1.00% | -0.88% | -1.87% |
| Security Selection - Cash Portfolio | -0.01% | -0.02% | -0.03% |
| Contribution from Positions Held | -1.00% | -0.97% | -1.96% |
| Interaction, aggregation, trading effects | -0.11% | 0.07% | -0.23% |
| **Total Relative Performance** | -1.11% | -0.89% | -2.19% |
|  |  |  |  |
| **AAE Portfolio vs. S&P/ASX200 ETF** |  |  |  |
| Bingo Industries Limited | -2.81% | -0.26% | -3.06% |
| Inghams Group Limited | 0.00% | -2.86% | -2.86% |
| iShares Core S&P/ASX 200 ETF | 0.00% | 0.00% | 0.00% |
| Rio Tinto Limited | -0.03% | 0.40% | 0.37% |
| Telstra Corporation Limited | 0.79% | 0.95% | 1.75% |
| Westpac Banking Corporation | 0.00% | 0.04% | 0.04% |
| Time Aggregation Effect | -0.02% | -0.02% | -0.02% |
| **Total Relative Performance** | **-2.07%** | **-1.74%** | **-3.78%** |
| *Opening AAE Weight in Total Portfolio* | 50.16% | 48.07% |  |
|  |  |  |  |
| **Cash Portfolio vs. Betashares Cash ETF** |  |  |  |
| Accruals | 0.00% | 0.00% | 0.00% |
| Betashares Cash ETF | 0.00% | 0.00% | 0.00% |
| BT Cash Management Trust | -0.25% | -0.22% | -0.57% |
| Time Aggregation Effect | 0.00% | 0.09% | 0.00% |
| **Total Relative Performance** | **-0.25%** | **-0.31%** | **-0.57%** |
| *Adjusted Opening Cash Weight in Portfolio* | 4.81% | 7.00% |  |

At present, the targeted asset class weights remain broadly in line with the reference portfolio weights, as active asset allocation decisions are yet to be made. As such, the asset allocation contribution of -0.06% does not reflect any active strategic decisions made by the Fund. Rather, it is reflective of interactions with market movements and effects related to cash flows, such as the Fund’s distribution in early 2019 and income received. Therefore, specific asset contributions have been excluded in this analysis. Looking forward, the expected completion of the AA IP may facilitate more deliberate changes to the asset allocation in coming semesters. In this event, we will commence reporting asset allocation contributions in detail.

# Socially Responsible Investment (SRI) Report

The Fund’s SRI policy applies five criteria as listed below. Criteria one through three reflect those used by the University in its enhanced index fund within the Australian equity component of the ANU Long Term Investment Pool (LTIP). The SMF has added criteria four and five, which reflect the first and second dot points appearing under Section 3 of the University’s SRI Policy Statement (see: <https://policies.anu.edu.au/ppl/document/ANUP_005802>).

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. Avoid investments that cause 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 at 12th September 2019 with regards to carbon intensity and ESG scores, which are applied to the active stock investments within the AAE portfolio. The carbon intensity scores for Bingo, Rio Tinto, Telstra, Inghams Group and Westpac Banking Corporation are retrieved from Bloomberg. They 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 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 ETF** | **RIO** | **TLS** | **BIN** | **ING** | **WBC** | **Total Active Stock Positions** | **Active Stock  Positions vs. S&P/ASX200** | **Target Improvement** | **Margin** |
| **Weight in AAE Portfolio** | 61.69% | 3.13% | 9.61% | 7.28% | 7.68% | 10.62% | **38.31%** |  |  |  |
| **Carbon Intensity** | 289.9 | 526.94 | 48.72 | 40.57 | 81.27 | 3.36 | **80** | -72.3% | -25% | **47.3%** |
| **ESG Score / ASX200 average** | 59.0 | 68.0 | 72.0 | 69 | 48 | 81 | **68.79** | 16.6% | 10% | **6.6%** |
| **ASX200,  cap-weighted** | 66.70 |  |  |  |  |  |  | 3.1% |  |  |

The SMF portfolio is in full compliance with the SMF SRI policy related to criteria one through three with regard to the active holdings in the active investments of Bingo Industries, Rio Tinto Limited, Telstra Corporation Limited, Inghams Group and Westpac Banking Corporation. This is demonstrated by a -72.3% reduction in carbon intensity against the required -25%, and a 16.6% improvement in ESG score against a required 10%.

Criteria four and five are evaluated on an ongoing basis by the Fund with respect to our existing investments, and throughout the analysis of prospective stock investments. To this effect, the SMF decided not to pursue some candidate stocks during the current semester based on the conclusion that they may have been causing social injury. This conclusion was based on the combined view of the AAE and R&C teams, and discussions at the broader SMF level. 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 be in complete compliance with all elements of the ANU SRI policy.

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