Report for End of Semester 1, 2018

ANU Student Managed Fund

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# Glossary

**AA** – Asset Allocation

**AAE** – Active Australian Equities

**ANU** – The Australian National University

**CIO –** Chief Investment Officer

**CRO** – Chief Risk Officer

**ESG** – Environmental, Social and Governance

**ETF** – Exchanged-traded Fund

**IAC** – Investment Advisory Committee

**LTIP** – Long Term Investment Pool

**SMF –** Student Managed Fund

**SRI –** Socially Responsible Investment

**R&C** – Risk and Compliance

**RIO** – Rio Tinto Limited

**TLS** – Telstra Corporation Limited

**WBC** – Westpac Banking Corporation

# About this Report

Welcome to our inaugural report for the ANU Student Managed Fund! This is the first of regular reports on the activities and achievements of the SMF, comprising updates from the Convenors, the CIO and each team leader; as well as details on the SMF portfolio and any investment-related and other activities. We intend to generate four such reports every year, including mid-semester and end-semester versions.

We hope that you find these reports both informative and interesting. We would be glad to receive any feedback that would make them even better, which you could send either to myself or the SMF email address (smf.rsfas@anu.edu.au).

*Ruolin (Alex) Mai*

*Relationship Manager*

*u5900218@anu.edu.au*

# Convenor Report

As the Convenors, our primary aim is to ensure that the SMF is functioning well, and the students are learning. We are very pleased on both counts. It has been a joy to watch the students coming together to build the platform for the fund to operate. Till date, the AAE team has been most advanced in terms of work progress. They have made their first active stock investments towards the end of the semester. The AAE team benefited from the fact that stock analysis is a familiar territory, which students learn in the Corporate Valuation course. The AA and R&C teams have had to learn from scratch. This has slowed down the building of their processes, both of which should be substantially completed during the coming semester. The Relationship role was only introduced this last semester, and great strides have been made. We anticipate that the fund will have moved out of the building phase going into 2019.

A promising development is that the student numbers have continued to grow. After starting with 8 students last semester, we moved to 12 this semester, and have a team of 18 for the next. This entails a few 6-month students for the coming semester, whom we accepted as a one-off in order to buffer the numbers during the development phase. Initial applications have been lower than expected, and we are still working through aspects like degree paths to ensure that good students are able to apply. Capacity is 24 students under the current fund structure and activity scope, although we will not compromise quality to reach this target. We only accept smart and innovative students who are team players and can take charge of their assigned roles, as well as having a passion to learn about the science and art of investing.

In terms of the fund’s learning objectives, the unanimous feedback we are getting from the students is that they are learning a lot, with many saying that the SMF is the *BEST* course they have taken at ANU. Most gratifyingly, we are not only seeing students build a deep understanding of investing and related technical skills, but we are also watching them grow personally through taking on responsibility. The CBE motto is “we build leaders”. The SMF is proving powerful in this dimension.

We could not be prouder of what the SMF team is achieving. At the start of the semester, we threw up the challenge for the students to take ownership of the fund for themselves, and this is the way it is turning out. The leadership group comprising four carry-over members from second semester 2017 – Olaide Yinka-Kehinde, Vipul Nijhawan, Ben Rada-Martin and Sarah Zhu – all did a great job in guiding the new members and passing on knowledge. Each has made a meaningful contribution, and we will miss them as they move on. They are handing over to a group that is proving equally enthusiastic and capable. We are sure they will similarly impress in leading the SMF forward and building on the legacy.

As this is the first formal report, we would like to take the opportunity to thank those who have assisted in getting the SMF up and running. They are too numerous to name without blowing the word count, but include the donors who made it possible (Russell Clark as the initial seed donor, as well as the family of Andre Morony), the SMF Investment Advisory Committee members, and the University and numerous staff members who helped along the way. The list of acknowledgements in our 2018 Annual Report will be long.

*By Dr Anna von Reibnitz, Course Convenor*

*A/Prof. Geoff Warren, Fund Convenor*

# Chief Investment Officer Report

One of the primary themes in this quarter has been “progress”. This was coupled with the rise in headcount within the fund from eight students last semester to twelve students this semester. The main objective for this semester was to move from a start-up phase to a growth phase. This was evidenced by the group’s first investment recommendation and progression towards completion of work products. As CIO, I was tasked with the logistics and organisation of the group to make sure we reached all our goals by semester end. This involved the improvement of systematic tasks such as team meetings and development of more efficient communication methods within the group. The overall aim was to get the SMF team working efficiently, and taking on the management responsibilities rather than relying on the Convenors.

Beyond my tasks as the CIO, I also oversaw and supported the AAE team’s progress and completion of our first two investment recommendations. In addition, we saw the successful implementation of our SRI policy which ensures all our active equity recommendations adhere to ANU’s ESG and carbon intensity policies. The AAE team progressed further than the AA and R&C teams. The AA team overcame particular modelling and practical obstacles to further the AA IP, while playing a small part in the two AAE investment recommendations. The R&C team have also made significant progress by building R&C policies, frameworks and protocols to ensure the SMF remains compliant to its objective and risk levels.

This semester, we’ve introduced the Relationship Manager to the team. Alex was a one-person team, and excelled beyond all expectations after starting from nothing. She begun the initiation stage for numerous social platforms (i.e. Facebook, LinkedIn) and the creation of the SMF team website. More importantly, she worked on expanding the awareness and network of the SMF to our growing alumni base.

Beyond this semester, our new cohort (a mixture of this semester’s junior analysts and incoming analysts) will seek to push forward from an early growth phase to an advanced growth phase. The expectation is that the fund will complete the AA IP and produce investment recommendations from the AA team. Further, we expect to see accumulation of stocks away from the ASX200 Index and completion of R&C protocols and procedure by the year end. This is made possible by the ten recruited junior analysts to replace the four out-going senior members. With the expansion of head count, significant progress and capabilities will allow the group to achieve its objectives and aims.

*Olaide Yinka-Kehinde, CIO*

# Team Updates

### Active Australian Equities (AAE) Team

The AAE team undertakes research and makes investment recommendations on the purchase and sale of Australian shares. Their investment approach is based around long-term company fundamentals. The AAE team is responsible for managing half of the fund’s assets.

For the AAE team, this semester has been one of excellent progress. Having completed our IP at the end of last year, we were able to proceed with its implementation, and were successful in getting the SMF IAC to endorse our recommendations for investment in two stocks: Rio Tinto (RIO.ASX) and Telstra (TLS.ASX).

This semester began with the introduction of the incoming cohort to the key SMF values, and in particular, the transfer of knowledge around the AAE IP. Using this foundation, the team proceeded to create the Initialisation screen, which screens our stock universe through value, growth and dividend yield filters. Due to the capacity constraints of having a small team, the team referred the 20 stocks which passed this initialisation process to IAC member Heath Behncke for feedback. The list was narrowed to 9 stocks, which under our candidate stock analysis process, were analysed through basic ‘bare-bones’ valuations and 2-page stock reports.

As this was the first semester that our process was implemented, a key task was the development of the AAE Valuation Model. The model implemented the SENSCENARIO distribution framework devised in the IP and included franking credits (due to the zero-tax status of the ANU) amongst other changes. The model was built with future cohorts in mind, and a corresponding handbook was developed to allow accessibility.

With the model developed, three stocks (Westpac, as well as RIO and TLS) then proceeded to our In-Depth Valuation stage, where each stock was researched by an analyst using a DCF valuation framework. Within this process, the SMF group and Convenors provided extensive feedback on the AAE team’s modelling before the stocks progressed to the IAC approval. RIO and TLS advanced as investment recommendations to the IAC Meeting on the 21st of May. During this meeting, the initially proposed portfolio weightings were revised due to a concern around the market timing and firm risk of Telstra. The revised weightings (within the AAE portion of the portfolio) were a 3% investment in RIO and a 6% investment in TLS. We were extremely pleased with this outcome. At the conclusion of the semester the team reviewed the AAE IP, alongside the CIO, and the R&C and Relationship teams.

The team now welcomes 5 junior analysts next semester, with Zhan Zhang taking over the role as Head of Equities. I thoroughly look forward to the future legacy of both the AAE team and the SMF in future semesters.

*Ben Rada Martin, Head of AAE*

### Asset Allocation (AA) Team

The AA team undertakes research and makes investment recommendations regarding changes to asset allocation, which are implemented via the purchase and sale of ETFs. Overall asset allocation is managed through making changes to the other half of the portfolio that is not managed by the AAE team.

The AA team had three members this semester. The prime focus was working on the investment process (AA IP). We built on last semester’s work, when the previous AA team specified the first of the four phases of the AA IP, and defined the overall structure of our models to forecast expected returns for the three main asset classes (Australian Equity, Australian Fixed Income and Cash). These models form the base of the second phase of the AA IP.

In this semester, the AA team further developed the second and third phase of the AA IP. For phase two, the AA team modified the models, researched the current market state to study the relationship between macro inputs, and further aligned the scenario analysis with the model inputs. The AA team is developing methods to forecast model inputs, which will be based around scenarios. For phase three, the AA team introduced a utility-based method to construct a portfolio using output from the asset modelling. Team review may lead to further changes before completion of both phases.

The AA team faced challenges over the semester as the team was required to both review the work that has been done from the past semester and make developments in new areas. The short-term goal for AA team is to complete the AA IP in the coming semester.

*Manling (Sarah) Zhu, Head of AA*

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

The R&C team was established for the purpose of risk management, ensuring that the Fund and its members comply with the SMF’s policies, and performing portfolio analysis. The R&C team had three members during Semester 1 of 2018, with myself leading the team as the CRO, and Lanyu Zhang and Zhongxi Zheng as Risk Analysts. They will take on senior roles in the coming semester.

Our team began in Semester 2 of 2017 facing the challenge of outlining the key procedures that the R&C team is responsible for. We faced numerous challenges along the way. For example, we had to learn a lot about risk management in the investment fund context, as not much is taught about this topic in the Finance courses we had taken. Our team took the initiative to implement innovative ideas, and to prepare documents and processes to ensure compliance with policy. We have taken the steps to ensure that all documentation prepared by our team is sufficiently detailed so future cohorts can easily understand their responsibilities and the procedures. We have developed a Risk Register, a Risk Management framework, and a Performance Attribution model. We are currently wrapping up the R&C Overview document which concisely outlines the R&C team’s responsibilities and the procedures we must follow.

The ANU is committed to participating in investment activities that consider any social harm or benefit that might arise from those activities. The SMF adheres to these values, and as such has implemented the ANU’s SRI policies within the AAE component of the portfolio. The R&C team is responsible for ensuring that the portfolio complies with the SRI policy: more information can be found in our SRI Report.

The R&C team also assists the Relationship team with preparation of mid-semester and end-semester reporting. Students are encouraged to suggest new ideas that will allow the SMF more efficiently. As such, the R&C Team have been active in contributing to the SMF Team in ways that otherwise fall outside of our responsibilities. For example, we implemented a communication platform and a file-sharing system for the whole SMF team to use.

Next semester, the R&C team will be focused on wrapping up the documentation of its processes, and moving towards active risk management and portfolio analysis. As other sub-teams start rolling out their IP and investment recommendations, we will make sure that all of our documents are perfectly aligned with those processes.

*Vipul Nijhawan, CRO and Head of R&C*

### Relationship Team

The Relationship team started from scratch at the beginning of Semester 1, 2018. Its purpose is to facilitate the external outreach of the SMF, to assist with reporting, and to develop the legacy and external awareness of the group. I was the only team member during the current semester, and as a new entrant, reported to the Head of R&C.

This semester started with building online platforms. After receiving advice from CBE Communications and Outreach Manager, Andrew Pearson, the platforms were developed for different audiences and purposes. With the help of the other SMF members, the draft website page and Facebook page have been established. After further modification, with the support of incoming team members, we aim to launch these platforms during the coming semester. I was also involved in significant engagements in encouraging student applications, and communicating with first-year students. I was also responsible for overseeing the production of this report, and taking minutes at the regular SMF Team meetings.

Next semester, the Relationship Team will welcome two new members (one shared with the R&C Team). These new members will spur on the development and maintenance of the online platform, and assist with the reporting and other outreach communications and activities.

*Ruolin (Alex) Mai, Relationship Manager*

# Portfolio Overview

Upon establishment of the administration account with the BT Panorama investment platform, the cash allocated to the SMF was transferred and subsequently invested into the SMF Reference Portfolio as per the SMF Investment Policy Statement. Investment in the Reference Portfolio is implemented via ETFs, and provides the baseline benchmark asset allocation to be held in the absence of any active recommendations. This process was completed on 16th April 2018, with the initial asset allocation illustrated in Figure 1. Subsequently, the SMF IAC approved recommendations for active investments in Telstra and Rio Tinto equivalent to 6% and 3% of the AAE component, respectively. These purchases were completed on 22nd May 2018, and were funded from the S&P/ASX200 ETF. The current portfolio weights, which include the investments in these two stocks, are illustrated in Figure 2.

Figure 1: Asset Allocation as at 16/4/2018

Figure 2: Asset Allocation as at 9/6/2018

Figure 3 details the investments and their performance. The fund achieved an overall return of 2.71% since the date when the cash was invested into the benchmark portfolio. We aim to provide a detailed attribution of performance in future reports. The deviations from reference weights have arisen as a consequence of equity markets outperforming since the investments were made. A policy is in place to ensure that the portfolio will be rebalanced if it deviates significantly from approved weights.

Figure 3: Portfolio Structure at 9th June 2018, and Performance since 16/04/2018

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Portfolio Component** | **Benchmark ETF** | **Opening Balance (16/4/2018)** | **Closing Balance (9/6/2018)** | **Reference Weights** | **Portfolio Weights (9/6/2018)** | **Return** |
|  |  | **$** | **$** | **%** | **%** | **%** |
| ***Australian Equities*** |  |  |  |  |  |  |
| iShares Core S&P/ASX 200 |  | 373,811.48 | 357,420.96 |  | 56.0 | 3.38 |
| Telstra | - | - | 19,359.53 |  | 3.0 | 0.43 |
| Rio Tinto | - | - | 9,872.40 |  | 1.6 | 1.99 |
| ***Total Australian Equities*** | iShares Core S&P/ASX 200 |  |  | ***60*** | ***60.6*** |  |
|  |  |  |  |  |  |  |
| ***International Equities*** |  |  |  |  |  |  |
| International Equities, Unhedged | Vanguard International Shares Index | 62,669.80 | 64,653.20 | 10 | 10.1 | 3.16 |
| International Equities, Hedged | Vanguard International Shares Index, Hedged | 63,368.44 | 64,839.18 | 10 | 10.2 | 2.32 |
| ***Total International Equities*** |  |  |  | ***20*** | ***20.3*** |  |
| **Total Equities** |  |  |  | **80** | **80.9** |  |
|  |  |  |  |  |  |  |
| Australian Fixed Income | Vanguard Australian Government Bond Index | 91,659.06 | 92,094.45 | 15 | 14.4 | 0.48 |
| ***Australian Cash*** |  |  |  |  |  |  |
| BetaShares Australia High Interest Cash |  | 16,693.29 | 16,679.97 |  | 2.6 | 0.27 |
| BT Cash Management Trust  | - | 13,067.31 | 13,142.82 |  | 2.1 | 0.08 |
| ***Total Australian Cash*** | BetaShares Australia High Interest Cash |  |  | ***5*** | ***4.7*** |  |
| **Total Fixed Income & Cash**  |  |  |  | **20** | **19.1** |  |
|  |  |  |  |  |  |  |
| **TOTAL PORTFOLIO** |  | **621,269.38** | **638,062.51** | **100** | **100** | **2.71** |

# Socially Responsible Investment (SRI) Report

The SMF portfolio must comply with the ANU’s SRI policy; and will follow the policy in accordance with how it is applied within the ANU’s Long-Term Investment Portfolio (LTIP). This entails ensuring that the active stock selection component of the AAE portfolio fulfils three main conditions:

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 ESG rating relative to the benchmark.

Figure 4 shows the investments within the AAE component as at 9th of June 2018, and the associated carbon intensity and ESG scores for the S&P/ASX200 benchmark and our active stock holdings. The carbon intensity scores are retrieved from Bloomberg. They are calculated based on the annual carbon emission (in tonnes) per $1 million of revenue earned. The ESG scores are based on analysis performed by Sustainalytics.

Figure 4: Current Position of the AAE Component in regard to SRI Compliance

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **ASX200 ETF** | **Telstra (TLS)** | **Rio Tinto (RIO)** | **Total Active Stock Positions** | **Active Stock Positions vs. S&P/ASX200 (Benchmark)** |
| Weighting in AAE portfolio | 90.8% | 6.1% | 3.1% | 9.2% | - |
| Carbon intensity | 314.2 | 50.2 | 573.3 | 226.5 | -27.9% |
| ESG score | 63.8 | 74.0 | 68.0 | 72.0 | +12.8% |

The SMF portfolio is currently in compliance with the SRI policy with respect to its active stock positions, with some margin to spare. The entire AAE portfolio will progress towards full compliance with the SRI policy as more active stock positions are added, and the weighting in the S&P/ASX200 ETF is reduced.

# APPENDIX

## SMF Activities during Semester 1, 2018

* *SMF student team make-up*
	+ The SMF had 12 members during the semester, which includes 4 seniors carrying over and 8 new juniors.
	+ The SMF is expected to have 18 members next semester, including 8 seniors carrying over and 10 new juniors.
	+ Team compositions in 2018:

|  |  |  |
| --- | --- | --- |
| *Team / Position* | *Semester 1, 2018* | *Semester 2, 2018* |
| Chief Investment Officer | 1 | 1 |
| Asset Allocation | 3 | 4 |
| Active Australian Equities | 4 | 8 |
| Risk and Compliance | 3 | 3.5 |
| Relationship | 1 | 1.5 |
| *Total* | *12* | *18* |

* *Establishment of administration platform and investments* – An account was established with the BT Panorama Investment Platform on 3rd April, 2018. The funds were previously invested in a cash account in ANU. A transfer from the BT cash management trust into the reference portfolio was finalised on 16th April, 2018.
* *SMF meetings*
	+ - * 11 regular team meetings were held during the semester on Mondays, 9 am-12 noon, ARNDT TR1.
			* End-of semester get-together and welcoming gathering of new team members was held on 25th May, 2018.
* *SMF Investment Advisory Committee (IAC) meetings*
	+ - * An IAC meeting was held on Monday 21st May, 2018 to discuss recommendations to add Rio Tinto and Telstra to the Active Australian Equities portfolio, funded out of the iShare Core S&P/ASX200 ETF. Endorsement was received for positions of 3% in Rio and 6% in Telstra, representing the inaugural active positions taken by the fund. The transactions were completed on 22nd May, 2018.
* *Guest speakers*
	+ Debbie Saunders, Whitehelm Capital, Monday 7th May, 2018
	+ Grant Wilson, Civic Capital, Wednesday 30th May, 2018
* *Reports finalised*
	+ - * Reports on Rio Tinto and Telstra were prepared in support of the investment recommendations.
* *Other notable items*
	+ Substantial progress was made on developing and documenting the Asset Allocation and Risk and Compliance processes. Major components of both are due for completion during Semester 2 of 2018.
	+ Website and a Facebook page are being developed, and should go on live in the next couple of months.
	+ Outreach activities conducted by SMF student team members include: running a booth at the CBE welcome day; presentations to Year 11 students and ANU students; and cross-promotion at an ANU public lecture.

## SMF Contributors

*Over $200,000*

Russell Clark (seed donor)

*$10,000-$50,000*

Family of Andre Morony

Geoff Warren

*$1,000 or less*

Kerry-Ann Hugo

All contributions were kindly matched by the ANU Research School of Finance, Actuarial Studies and Statistics.

## SMF Team Membership

***Members for Semester 1, 2018***

*Chief Investment Officer*

Olaide Yinka-Kehinde

*Risk and Compliance Team*

Vipul Nijhawan Chief Risk Officer

Ruolin (Alex) Mai Relationship Manager

Lanyu Zhang Analyst

Zhongxi Zheng Analyst

*Asset Allocation Team*

Sarah Zhu Team Leader

Victor Munagala Analyst

Harrison Papworth Analyst

*Active Australian Equities Team*

Ben Rada-Martin Team Leader

Isabella Mortimore Analyst

Wayne Wang Analyst

Zhan Zhang Analyst

*Convenors*

Anna von Reibnitz Course Convenor

Geoff Warren Fund Convenor

***New Team Members for Semester 2, 2018***

Ruixin (Chasel) Chi AAE Team

Jak Carty AA Team

Azmina Hossain R&C Team

Chuxuan (Jessie) Jiang AAE Team

Aiyun Li AAE Team

Jiaqi Liu AAE Team

Saurav Patel Relationship and R&C Teams

Rory Roche Relationship Team

Hongyi (Leo) Xu AA Team

Chengxuan (Charles) Zhang AAE Team

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