Report for End of Semester 2, 2018

ANU Student Managed Fund

****Creation Date: 13/11/2018 | Version Date: 23/11/2018 (Final)

Contents

[Glossary 2](#_Toc530654468)

[About this Report 3](#_Toc530654469)

[Convenor Report 3](#_Toc530654470)

[Chief Investment Officer (CIO) Report 4](#_Toc530654471)

[Team Updates 5](#_Toc530654472)

[Active Australian Equities (AAE) Team 5](#_Toc530654473)

Asset Allocation (AA) [Team 5](#_Toc530654473)

Risk & Compliance (R&C) Team 6

[Relationship Team 6](#_Toc530654473)

AAE Portfolio Changes 7

Bingo Industries  [7](#_Toc530654473)

Telstra [7](#_Toc530654473)

Portfolio Overview  [8](#_Toc530654472)

Portfolio Performance  [9](#_Toc530654473)

Attribution Analysis  [10](#_Toc530654473)

[Socially Responsible Investment (SRI) Report 11](#_Toc530654478)

APPENDIX [12](#_Toc530654472)

SMF Activities during Semester 2, 2018 [12](#_Toc530654473)

SMF Team Membership [12](#_Toc530654473)

# Glossary

**AA** – Asset Allocation

**AAE** – Active Australian Equities

**ANU** – The Australian National University

**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

**LTIP** – Long Term Investment Pool

**SCAPA** – Strategic Communications and Public Affairs

**SMF –** Student Managed Fund

**SMPS –** Social Media Policy Statement

**SRI –** Socially Responsible Investment

**R&C** – Risk and Compliance

**RIO** – Rio Tinto Limited

**TLS** – Telstra Corporation Limited

# About this Report

We welcome you to our report for end of Semester 2, 2018. Given this is the last report for year, we provide a comprehensive account of the Fund’s developments over the course of 2018. Inside you will find insights from the Student Managed Fund (SMF) Convenors and team leaders; and an outline of the structure, performance and SRI compliance of the SMF portfolio. We detail changes, progress and events. We also sketch the future of the SMF, with the arrival of a new junior cohort to continue the Fund’s progress in 2019.

We trust you find this report both informative and interesting. We welcome questions and suggestions, which can be sent to the SMF email address ([smf.rsfas@anu.edu.au](mailto:smf.rsfas@anu.edu.au)).

*Rory Roche & Saurav Patel, Relationship Officers*

# Convenor Report

It is with great pride that we have overseen the way in which the students have developed the SMF’s operations and culture, while growing as individuals. The SMF presents a sharp learning curve and an intense experience, which inspires students to develop insight, independence and maturity beyond their years. There is no doubt that the 2018 team members have risen to the challenge. The past year has seen a transformation at both the individual and team levels, which sets a great foundation for the future.

As SMF operations have expanded, so too have the number of students. From an initial eight students in Semester 2 of 2017, we moved to 12 in Semester 1 of 2018, and then 18 in Semester 2. We anticipate a team of 19 for Semester 1 of 2019, although two are contingent on acceptance into honours. While capacity is up to 24 students, we consider it far more important to only accept applicants who will make a strong contribution as part of the team than to maximise enrolment numbers.

We have been delighted with how the students have embraced the five key values of the fund – *legacy*, *team*, *contribution*, *objectives* and *long-term* – and have formed a culture around them. For example, this is clearly evident in the way they have built and documented their models and processes to be passed on to the students who come after them. It is also apparent in how senior members mentor the junior members with care, respect and diligence. The sense of purpose and the call to take responsibility makes the ANU SMF experience something much, much more than just learning how to invest. We also think it differentiates our student fund from those of other universities.

The achievements of the Fund would not have been possible without the generosity of professionals both within the University and outside of it. One of the most valuable sources of development for the students comes from engaging with members of the Investment Advisory Committee (IAC), who have challenged their thinking and provided unique insights into the workings of the industry. The students have also benefited from meetings with top industry practitioners, who have taken the time to share their experiences and provide advice. Within the University, leaders at the School, College and University levels have also provided valuable input and guidance. Most importantly, we would like to thank the generous donors who have enabled this unique opportunity, including Russell Clark, the family of Andre Morony, Kerry-Ann Hugo and the Research School of Finance, Actuarial Studies and Statistics (at this point Anna takes the reins to thank Geoff Warren for his donation as well!).

We could talk for hours about the transformative experience the donations and other contributions have provided to our students, not only by facilitating an experience that is the epitome of authentic learning, but also through internships and graduate opportunities stemming directly from being part of the SMF. However. it is better captured by the words of one of our SMF members: “*Without doubt, the Student Managed Fund takes top spot as my most formative, enjoyable and enriching university experience. [It] has been one of immense personal growth and has seen the unlocking of opportunity which wouldn’t have been possible before my time in the SMF*”. One voice, but it describes a sentiment that is shared throughout the fund.

*Dr Anna von Reibnitz, Course Convenor*

*A/Prof. Geoff Warren, Fund Convenor*

# Chief Investment Officer (CIO) Report

During 2018 the SMF progressed significantly from a start-up phase to a more mature operational stage where the team is implementing the procedures which were created from the outset of the year. The SMF commenced the year with 12 students in Semester 1, 2018 with four carry-over and eight new members; and expanded to 18 students in Semester 2, 2018 with eight carry-overs and 10 new members. The contribution of these members has been the driving force behind the Fund’s significant progress. The logistics and organisation of the team have been strengthened, involving the improvement of internal team communication and management. Our members have also been taking responsibility and initiative in advancing the Fund’s progress towards its learning, developmental and investment objectives.

As CIO, I further improved the decision protocols in order to enhance the team’s efficiencies, while ensuring the Fund’s direction aligned with our objectives. At the sub-team level, the AAE team implemented its Investment Process (IP), which led to three investments being endorsed and implemented within the Fund’s portfolio. The AA team, faced with a learning hurdle not typically addressed in conventional courses, has made important progress towards the completion of their own IP. They made great efforts in tackling practical modelling issues. The R&C team developed a performance attribution model, established a risk management mitigation framework, and furthered the Fund’s progress relating to Socially Responsible Investing (SRI) policy. Indeed, implementation of the ANU’s SRI policy was a major focus during Semester 2, 2018. The Relationship team was formally established in Semester 2, 2018 and has contributed by taking responsibility for internal team communication, administration tasks and assisting with reporting. The team also published the Social Media Policy Statement (SMPS), which will underpin the Fund’s future external communication, and help establish relationships with students, alumni, and industry professionals.

We have laid a strong foundation during 2018, from which future cohorts can further the progress. Beyond this year, we expect further investment recommendations from the AAE team, as well as the AA team once they finalise their IP. R&C will continue to modify the compliance process and the Relationship team will look to establish our social media platforms (website and Facebook) as well as engaging with external parties on a regular basis.

This is my last semester with the Fund, and I have thoroughly enjoyed my time and learned more than I could have imagined. I look forward to hearing about future cohorts continuing the progress towards our objectives.

*Ruolin (Alex) Mai, CIO*

# Team Updates

**Active Australian Equities (AAE) Team**

The AAE team has been delighted by the substantial growth and development achieved throughout 2018. During the year, the team progressed towards implementing the AAE IP that was established last year. Over the last two semesters, this has resulted in a number of iterations of our Initialisation screen (stock filter), and the preparation of approximately 30 candidate stock reports and seven completed or ongoing in-depth research reports. This has culminated in three successful investment recommendations for Telstra (ASX:TLS), Rio Tinto (ASX:RIO), and Bingo Industries (ASX:BIN), which were endorsed by the IAC after some adjustments to our initial target weights, and subsequently implemented within our portfolio. The stocks continue to be reassessed on an ongoing basis, as part of our monitoring and review process. As a result of these outcomes, 22% of the AAE portfolio is now in active positions under our target weights – a result which we are exceptionally pleased with, noting that we aim to invest carefully with a long-term view.

As this was the inaugural application of the AAE IP, the team has also worked to construct a number of tools and models to support our process. As well as establishing the Initialisation screen, we have also upgraded our valuation model and created various supporting documents. These documents are highly relevant for the ongoing operations of the team and were created with a view to leaving a legacy for future cohorts.

A central theme this year has also been review and reflection. During our first year of undertaking active investment decisions, we have encountered many challenges and identified areas for improvement. Indeed, one of the great successes in the past year has been to build upon the legacy of previous cohorts and improve our processes and dynamics in various areas. Along with improving our models and stock filters, we have refined our SRI implementation by integrating the consideration of SRI credentials directly into our stock analysis. The team has also taken measures to improve the handover to future cohorts and mitigate personnel risk. This was reflected in the success of our “buddy system”, where a senior analyst would directly work with a junior analyst to facilitate the transfer of knowledge and skills.

Looking ahead to 2019, AAE welcomes five junior analysts who will be joining the team next semester. I look forward to seeing another year of strong progress from the AAE team in contributing to the great success and legacy of the Fund.

*Zhan Zhang, Head of AAE*

**Asset Allocation (AA) Team**

The AA team commenced with three members in Semester 1, 2018, and expanded to four members for Semester 2, 2018. Our key focus has been the drive towards completing the AA IP. The team now has a clear direction and an end in sight. AA was hoping to complete the IP and present to the IAC this semester, however, a few unforeseen challenges and directional changes have inhibited this from being achieved. The team will aim to present our IP to the IAC in the first half of 2019.

Development this year has been extensive. The team is working on a scenario analysis approach and optimising through a utility function. Preliminary testing looks promising. The utility function is set up, asset models are completed, we set out our approach to the ‘Qualitative Adjustment’ and the ‘Review and Monitor’ stages, and much of the surrounding documentation has been completed. The main work still to be finalised is validating the efficacy of key drivers for our scenarios. The latter will combine two approaches: a quantitative Markov chain analysis that draws on historical data, and a more qualitative approach under which the AA team builds a range of scenarios based on its own research.

A topic of discussion for the AA team this semester was SRI. The team investigated options to align the exchange-traded funds (ETFs) used to implement the AA component of the portfolio with the ANU’s SRI policy. This included surveying available ASX-listed ETFs, and a meeting with BetaShares representatives to assess new products (ASX:ETHI) and (ASX:FAIR). Unfortunately, no suitable product was found that could retain broad asset class exposure while promoting the Fund’s SRI targets. Monitoring will continue, with a view to switching if a suitable product becomes available.

The AA team welcomes three junior analysts next semester, with Jak Carty taking over as Head of AA. We have confidence that the team will be able to carry the momentum into 2019, complete the IP, and present it to the IAC. We look forward to seeing this come to fruition, thus laying down the foundation for the future legacy of the AA team.

*Harrison Papworth &Victor Munagala, Joint Heads of AA*

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

The academic year of 2018 has been fruitful for the R&C team as we work towards wrapping up our keystone documents in the areas of risk management, compliance monitoring and performance evaluation. Our team has put in remarkable effort in forming these documents, and progressing towards making the R&C team fully operational.

We completed an R&C Overview Document in Semester 1, 2018. This document outlines the duties and procedures for which our team is responsible during the day-to-day management of the SMF. From a risk monitoring perspective, we developed a Risk Management Process that outlines how the team will identify and manage risks efficiently, defining material risks as those that could impair the SMF from meeting its learning, developmental or investment objectives. In taking account of risks, we strive to achieve a balance between risk and return in a way that is aligned to the SMF’s objectives. In regard to the monitoring of compliance matters, we developed an SRI Compliance Process in Semester 2, 2018. Further details are found in the Socially Responsible Investment Report on page 13.

One of the key accomplishments this year is in the performance evaluation area. With due effort, our team has built a comprehensive performance measurement and attribution model which allows us to evaluate and report on the Fund’s investment performance. This model incorporates the value of imputation credits into the performance measurement, and reviews and attributes portfolio returns to two key sources: the asset allocation decisions of the AA team and the stock selection decisions of the AAE team.

The above accomplishments have not come easily. We have spent time to learn and then apply risk management and performance evaluation techniques through the year, given not much is taught in conventional courses. Also, it goes without saying that these accomplishments would not have been possible without the hard work and rigour of the R&C members. I hope and urge future team members to continue this spirit and lead the SMF to greater heights in the years to come.

Zhongxi Zheng*, CRO and Head of R&C*

### Relationship Team

The Relationship role was first introduced in Semester 1, 2018 as a component of the R&C team, and became a separate group during Semester 2, 2018. Its establishment as a separate team reflects the value and importance the Fund places upon internal and external communication, as well as administrative support. The Relationship team has faced the significant challenge of how best to engage with external parties, and build strong relationships with students, alumni and industry professionals. In response, we have sought the advice of several professionals who have helped us build the foundations from which we hope to create meaningful and resourceful relationships.

The team has received advice from former CBE Communications and Outreach Manager, Andrew Pearson, who assisted us in understanding how different platforms can be used to reach our targeted audiences. The team was also aided greatly by the CBE Manager of Public Relations, Events and Communications, Tanya Ali, who provided advice relating to social media policies and procedures. Furthermore, the team participated in media training from the ANU Strategic Communications and Public Affairs, with Aaron Walker providing valuable knowledge relating to the practical use of digital, written and verbal media.

As a result of this advice and the efforts of Relationship team members, the SMF now possesses a Social Media Policy Statement (SMPS), which will underpin the external engagement of the Fund moving forward. The Fund also has a draft Facebook page and website, which will increase the awareness, engagement and transparency of the Fund when they go live in Semester 1, 2019. On an ongoing basis, the Relationship team has worked diligently to create external reports, as well as internal documents to ensure the smooth-running of the Fund.

The foundation the team has built during this year will continue the legacy of the SMF and allow future cohorts to productively engage with external parties. The Relationship team welcomes two new members in Semester 1, 2019 as Relationship Officers. The input of these new members will be invaluable in furthering the progress of the team.

*Rory Roche & Saurav Patel, Relationship Officers*

# AAE Portfolio Changes

The Active Australian Equities team was proud to add additional investments to the SMF Portfolio during Semester 2, 2018. These investments will advance our fund’s core investment objectives and improve the long-term risk-return trade-off of our portfolio. The Fund purchased Bingo Industries (ASX: BIN) and additional units in Telstra (ASX: TLS) which were funded by the partial reduction in the iShares Core S&P/ASX200 ETF.

Both investments were endorsed by the SMF team, Convenors and the IAC, and were subsequently implemented with a target weight of 10% for Bingo Industries and an additional 3% for Telstra, which brings its target weight to 9%. The weightings assigned to these investments were based on the attractiveness of their risk-return profiles, the SRI policy of the fund, and the advice provided by members of the IAC. These stocks, which are further elaborated on below, combine with Rio Tinto (ASX: RIO) to form the AAE component of the SMF portfolio.

**Bingo Industries**

The first investment recommendation of Semester 2, 2018 was Bingo Industries, which represented an investment with a high margin of safety and allowed the Fund to diversify into the waste management industry. The investment thesis was formed on the company’s operations and core values, which are consistent with our SRI policy and objectives. With experienced management and good internal control, Bingo Industries has outperformed its competitors in managing operating efficiency and growth, both organically and through effective acquisitions of similar businesses. In addition, with its highly successful tendering rate and limitations on market entry, we believe Bingo Industries will be a valuable addition to the SMF portfolio in the long run. This long-term focus is particularly important when assessing the significant fall in share price since our investment in the company, with several large institutional investors ceasing to be substantial shareholders. The SMF takes the position that the fundamental drivers of future cash flows have not changed, and thus we believe that its share price will return to its long-term intrinsic value in accordance with our investment thesis.

**Telstra**

The weighting of Telstra in the AAE portfolio was increased in Semester 2 to reflect our strengthened confidence in the company’s direction, and our updated projections highlighting reduced downside risk. The initial recommendation in Semester 1, 2018 was formed on the belief that Telstra had been too heavily discounted after a battering of bad press at the time, and that the company’s new reinvestment strategy (moving towards technology and cybersecurity fields) was not priced into the market. In the subsequent period since the initial investment, developments such as the release of the 2018 financial results further increased our confidence in Telstra, as we saw the company’s turnaround strategy begin to materialise. Market perceptions are also becoming more optimistic on the company and are more closely aligning with the Fund’s views, although we believe the company continues to be undervalued overall. Furthermore, due to Telstra’s high SRI values, the additional investment allows greater flexibility in meeting the SRI targets in the AAE portfolio when introducing new stocks.

# Portfolio Overview

We report portfolio weights at 13 November 2018 (see Figure 2), comparing with those at 10 April 2018 when the SMF funds were initially invested in the reference portfolio (see Figure 1). Changes over this period reflect the combination of active stock investments in the AAE portfolio, and changes in weights due to market movements. With regard to the AAE portfolio, after adding target positions of 6% in Telstra and 3% in Rio Tinto during Semester 1, a 10% position in Bingo Industries and an increase in the Telstra weighting to 9% were endorsed by the IAC during Semester 2 and executed on 8 October 2018. All positions were funded from the partial disposal of the S&P/ASX200 ETF. In addition, the recent volatility of equity markets has contributed to minor deviations in asset weightings, which are continually monitored to ensure compliance with the Charter and Governance Structure (CGS).

Figure 1: Asset Allocation as at 10/4/2018

Figure 2: Asset Allocation as at 13/11/2018

Figure 3 presents the Fund’s investments and their performance from 10 April 2018 to 13 November 2018. Over this period, the SMF portfolio return was 2.24%, as estimated by the change in the value of the portfolio adjusted for accrued franking credits. (Note: There were no cash inflows or outflows over the period.) This was about 1.4% less than the SMF return target of around 3.6% (6.3% p.a.) over the period, calculated as the sum of the distribution rate of 4.5% p.a. and realised inflation of about 1.8% p.a. The recent volatility in equity markets and the SMF’s high level of exposure to equities (about 80%) negatively impacted on the portfolio over the period. The SMF portfolio also underperformed the reference portfolio by -0.41%, which is discussed further over the page. The reference portfolio return is also adjusted for franking credits available from the benchmark ETFs. As a long-term investor driven by an objective of maintaining the real value of the portfolio to provide philanthropic funding in perpetuity, these results are assessed with a long-term mindset. Despite the lower than expected returns, we remain confident our portfolio is positioned to achieve our long-term objectives.

Figure 3: Portfolio Structure and Performance: 10 April 2018 to 13 November 2018

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Portfolio Component** | **Benchmark ETF** | **Opening Balance (10/4/2018)** | **Closing Balance (13/11/2018)** | **Reference Portfolio** | **SMF Portfolio (13/11/2018)** |
|  |  | **$** | **$** | **%** | **%** |
| **ASSET VALUES AND WEIGHTS** | |  |  |  |  |
| ***Australian Equities*** |  |  |  |  |  |
| iShares Core S&P/ASX 200 |  | 372,114 | 306,335 |  | 48.5 |
| Telstra | - | - | 27,379 |  | 4.3 |
| Rio Tinto | - | - | 9,178 |  | 1.5 |
| Bingo Industries | - | - | 25,597 |  | 4.1 |
| ***Total Australian Equities*** | iShares Core S&P/ASX 200 |  |  | ***60*** | ***58.4*** |
|  |  |  |  |  |  |
| ***International Equities*** |  |  |  |  |  |
| International Equities, Unhedged | Vanguard International Shares Index | 61,974 | 64,390 | 10 | 10.2 |
| International Equities, Hedged | Vanguard International Shares Index, Hedged | 62,190 | 62,696 | 10 | 9.9 |
| ***Total International Equities*** |  |  |  | ***20*** | ***20.1*** |
| **Total Equities** |  |  |  | **80** | **78.5** |
|  |  |  |  |  |  |
| Australian Fixed Income | Vanguard Australian Government Bond Index | 92,227 | 92,681 | 15 | 14.7 |
| ***Australian Cash*** |  |  |  |  |  |
| BetaShares Australia High Interest Cash |  | 16,690 | 16,683 |  | 2.6 |
| BT Cash Management Trust | - | 12,832 | 25,794 |  | 4.1 |
| Accrued Interest & Dividends | - | 177 | 35 | 0 | 0 |
| Accrued Franking Credits | - | - | 1,300 |  | 0.2 |
| ***Total Australian Cash*** | BetaShares Australia High Interest Cash |  |  | ***5*** | ***5.5*** |
| **Total Fixed Income & Cash** |  |  |  | **20** | **21.6** |
|  |  |  |  |  |  |
| **TOTAL PORTFOLIO** |  | **618,204** | **632,068** | **100** | **100** |
|  |  |  |  |  |  |
| **RETURNS** |  |  |  |  |  |
| **Portfolio** |  |  |  | **2.65%** | **2.24%** |
| **SMF vs Reference Portfolio** |  |  |  | **-.** | **-0.41%** |

**Attribution Analysis**

During Semester 2, the Fund developed a performance attribution model to analyse the sources of performance relative to the benchmark portfolio, broken down into contributions from asset allocation and security selection decisions. This analysis has been further enhanced since being first presented in the Mid-Semester Report, and is updated in Figure 4 with respect to the period 10 April 2018 to 13 November 2018. This analysis identifies the components of the underperformance relative to the reference portfolio of -0.41% that was reported in Table 3.

Figure 4 reveals that a -0.35% contribution from security selection in the AAE portfolio was the key source of underperformance at the total portfolio level. The AAE portfolio underperformed the S&P/ASX200 ETF by -0.74%, the primary source of which being a negative contribution of -1.65% from Bingo Industries. The decline in Bingo appears to reflect downward pressure on the company’s share price as institutional investors have sold the stock. However, the SMF sees no reason to change its view of the company’s cash flow fundamentals, and hence retains confidence in the long-term attractiveness of this investment. Telstra, having weathered similar conditions, provided the largest positive contribution of 0.96% to AAE portfolio performance as the market becomes less wary of downside risk and perceptions are aligning more closely with our investment thesis. The asset allocation contribution of 0.03% is reflective of the interaction between market movements and asset weights, rather than strategic positions, as no decision has yet been made to actively vary from the reference asset allocation. With the expected completion of the AA IP in 2019, the SMF will be able to make deliberate changes to its asset allocation in the future. A small negative contribution arose from the cash portfolio as a consequence of holding liquidity within the cash management trust, which offers a lower yield than the benchmark cash ETF.

**Figure 4: Performance Attribution: 10 April 2018 to 13 November 2018**

|  |  |
| --- | --- |
| **Contributions to Performance of Portfolio vs. Benchmark** | |
|  |  |
| **SMF Portfolio vs. Reference Portfolio** |  |
| Asset Allocation | 0.03% |
| Security Selection - AAE Portfolio | -0.35% |
| Security Selection – Cash Portfolio | -0.01% |
| Sum of Above Contributions | -0.34% |
| Difference (Interaction term, time aggregation effects, etc) | -0.07% |
| **Total Relative Performance** | **-0.41%** |
|  |  |
| **AAE Portfolio vs. S&P/ASX 200 ETF** |  |
| iShares Core S&P/ASX 200 ETF | 0.00% |
| Rio Tinto | -0.04% |
| Telstra | 0.96% |
| Bingo Industries | -1.65% |
| Difference (Time aggregation effects, etc) | 0.01% |
| **AAE Relative Performance** | **-0.74%** |
|  |  |
| **Cash Portfolio vs. BetaShares Cash ETF** |  |
| BetaShares High Interest Cash ETF | 0.00% |
| Cash Management Account | -0.27% |
| Accrued Income | 0.00% |
| Difference (Time aggregation effects, etc) | 0.00% |
| **Cash Relative Performance** | -0.27% |

# Socially Responsible Investment (SRI) Report

During Semester 2 of 2018, the SMF conducted a major review into the implementation of the ANU’s SRI policy within the Fund. The review led to the application of the SRI policy within the AAE component being progressed; and also included a re-examination of the benchmark ETFs used by the Fund. The SRI review and outcomes were settled after consultation with the IAC at a meeting on 17 September 2018, and with input from the ANU Investment Office. We would like to thank both the IAC and ANU Investment Office for their assistance throughout this process.

Prior to the review, the SMF aimed to meet the criteria used by ANU’s Long Term Investment Pool (LTIP) within its Australian equity portfolio, which requires its (enhanced index) equity manager to comply with three main conditions related to company exclusions, carbon intensity and Environment, Social and Governance (ESG) ratings (see points one through three below). Following the review, the SMF added conditions four and five:

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.
4. Evaluate whether a prospective investment causes an unacceptable level of ‘social injury’.
5. Take into consideration whether a prospective investment creates ‘social benefit’.

These additional conditions are addressed during candidate stock analysis, with the intention of taking them into account in determining active stock investments. Adding these conditions reflects the importance that the SMF places upon SRI considerations, and moves the SMF towards embracing the intent of the ANU SRI policy. The SRI implementation process is further supported by policy documents and procedures that have been put in place by the R&C and AAE teams.

The SRI review also involved an assessment of the benchmark ETFs used by the Fund from an SRI perspective. The outcome was a decision to retain the current benchmark ETFs at this stage, but to keep the matter under review. The Fund will continually search for suitable alternatives which better balance the requirements of the ANU SRI policy as well as its investment and learning objectives. The current SRI-based ETFs listed on the ASX are deemed inferior in this regard, and unsuitable on balance. In particular, they poorly represent the underlying asset class due to their narrow focus, which both hampers their effectiveness as an investment while making it quite difficult for the AA team to analyse their characteristics. They also possess higher fees then the ETFs currently used by the Fund.

The current formal SRI compliance reporting is based around conditions one to three above, which relate to ensuring that the active stock positions within the AAE portfolio are compliant with the readily measurable components of policy. Figure 6 displays the carbon intensity and ESG scores of the AAE portfolio holdings as at 13 November 2018. The carbon intensity data for the holdings in Telstra, Rio Tinto, and Bingo Industries are sourced from Bloomberg. The scores are calculated on the annual carbon emission (in tonnes) per $1 million of revenue earned. The carbon intensity data of the S&P/ASX200 ETF is retrieved from the ANU Socially Responsible Investment Policy 2017 Report. As this is the most recently available report, the score has not changed since the SMF’s report from the end of Semester 1, 2018. The ESG data is retrieved from Sustainalytics, and has been updated to reflect current ESG scores of companies and changes in market capitalisation. (The Bingo score is based on an industry average). The ASX200 score provided is based on the equally weighted average ESG score, with a market capitalisation weighted average also shown in brackets for reference.

On this basis, the SMF is in compliance with ANU SRI policy. This compliance is demonstrated by 61.1% reduction in carbon intensity against a 25% requirement; and 13.4% improvement in ESG score against a 10% required improvement.

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **ASX200 ETF** | **Telstra (TLS)** | **Rio Tinto (RIO)** | **Bingo Industries (BIN)** | **Total Active Stock Positions** | **Active Stock Positions vs. S&P/ASX200** |
| Weighting in AAE portfolio | 79.7% | 8.9% | 3.0% | 8.4% | 20.3% | - |
| Carbon intensity | 314.1 | 50.2 | 565.3 | 40.6 | 122.3 | -61.1% |
| ESG score | 58.8  (+65.8) | 74.0 | 68.0 | 58.3 | 66.6 | +13.4%  (+1.2%) |

# APPENDIX

## SMF Activities during Semester 2, 2018

* *SMF student team make-up*
  + The SMF had 18 members during the semester, comprising eight seniors continuing from Semester 1 and 10 juniors joining the Fund.
  + The Fund will expand to 19 members in Semester 1 2019. This will include eight senior students and the introduction of 11 juniors.
  + Team compositions in 2018/2019:

|  |  |  |
| --- | --- | --- |
| *Team / Position* | *Semester 2, 2018* | *Semester 1, 2019* |
| Chief Investment Officer | 1 | 1 |
| Asset Allocation | 4 | 5 |
| Active Australian Equities | 8 | 8 |
| Risk and Compliance | 3.5 | 2.5 |
| Relationship | 1.5 | 2.5 |
| *Total* | *18* | *19* |

* *SMF meetings* 
  + - * 11 weekly meetings were held throughout the semester on Mondays, 9 am-12 noon, MORAN G007.
      * The SMF celebrated its achievements and welcomed new members at an End-of-semester get-together on 26 October 2018.
* *SMF Investment Advisory Committee (IAC) meetings*
  + - * Two IAC meetings occurred during the semester as the SMF progressed with policy creation and implementation, as well as investment recommendations.
      * The first IAC meeting was held on 17 September 2018 to discuss the R&C SRI compliance process as well as its proposed implementation within the AAE IP. The IAC members accepted both documents and the commitment to implementing SRI policies across the Fund when suitable ETFs become available.
      * The second IAC meeting on 5October 2018 was used by the AAE team to propose the additions of Bingo Industries and a further investment in Telstra, funded via a reduction of the iShares Core S&P/ASX200 ETF. The IAC endorsed both proposals, with weightings of 10% in Bingo Industries and an additional 3% in Telstra to the 6% target weight endorsed by the IAC on 21May 2018. The subsequent transactions were completed on 8 October 2018.
* *Guest speakers*
  + David Nolan, Point72, Monday 6August 2018
  + Risman Cornelius, Whitehelm Capital, Monday 20 August 2018
  + Russell Clark, Horseman Capital Management, Wednesday 19 September 2018
  + Heath Behncke, Holon Global Investments, Monday 15 October 2018
* *Reports finalised*
  + - * Reports on Bingo Industries and Telstra were created in support of the investment recommendations.
  + The Relationship team finalised the Social Media Policy Statement, which has been endorsed by the Director of RSFAS and will be implemented in Semester 1, 2019.
* *Other notable items*
  + Significant progress was made across the SMF to ensure documents and processes have appropriate user guides and manuals to ensure the legacy of the Fund.
  + The SMF received an increased number of applications as a result of several engagement activities. The Fund was promoted to eligible students in finance classes, represented at the CBE welcome day and included in a forthcoming publication by Universities Australia showcasing Work Integrated Learning activities in Australia as an excellent real-world learning experience.

## SMF Team Membership

***Members for Semester 2, 2018***

*Chief Investment Officer*

Ruolin (Alex) Mai

*Risk and Compliance Team*

Zhongxi Zheng Chief Risk Officer

Lanyu Zhang Compliance & Reporting Manager

Azmina Hossain Analyst

Saurav Patel Analyst (50%)

*Asset Allocation Team*

Harrison Papworth Joint Team Leader

Victor Munagala Joint Team Leader

Jak Carty Analyst

Hongyi (Leo) Xu Analyst

*Active Australian Equities Team*

Zhan Zhang Team Leader

Isabella Mortimore Portfolio Manager

Wayne Wang Research Manager

Ruixin (Chasel) Chi Analyst

Chuxuan (Jessie) Jiang Analyst

Aiyun Li Analyst

Jiaqi (Leon) Liu Analyst

Chengxuan (Charles) Zhang Analyst

*Relationship Team*

Saurav Patel Relationship Officer (50%)

Rory Roche Relationship Officer

*Convenors*

Anna von Reibnitz Course Convenor

Geoff Warren Fund Convenor

***New Team Members for Semester 1, 2019***

Sahibjeet Bains AAE Team

Luke Farrar AAE Team

Harrison McKenzie-McHarg AAE Team

Khurshed Mehta AAE Team

Lachlan Phillips AAE Team

Jiaqi Mao AA Team

Dalton Tham AA Team

Alaina Warwick AA Team

Chaoqi Lin R&C Team

Alisha Nath Relationship and R&C Teams

Sophie Lebang Relationship Team

ANU SMF / RSFAS / College of Business and Economics

+61 2 6125 4626

SMF email: smf.rsfas@anu.edu.au

The Australian National University

Canberra ACT 2601 Australia

[**www.anu.edu.au**](http://www.anu.edu.au)

CRICOS Provider No. 00120C