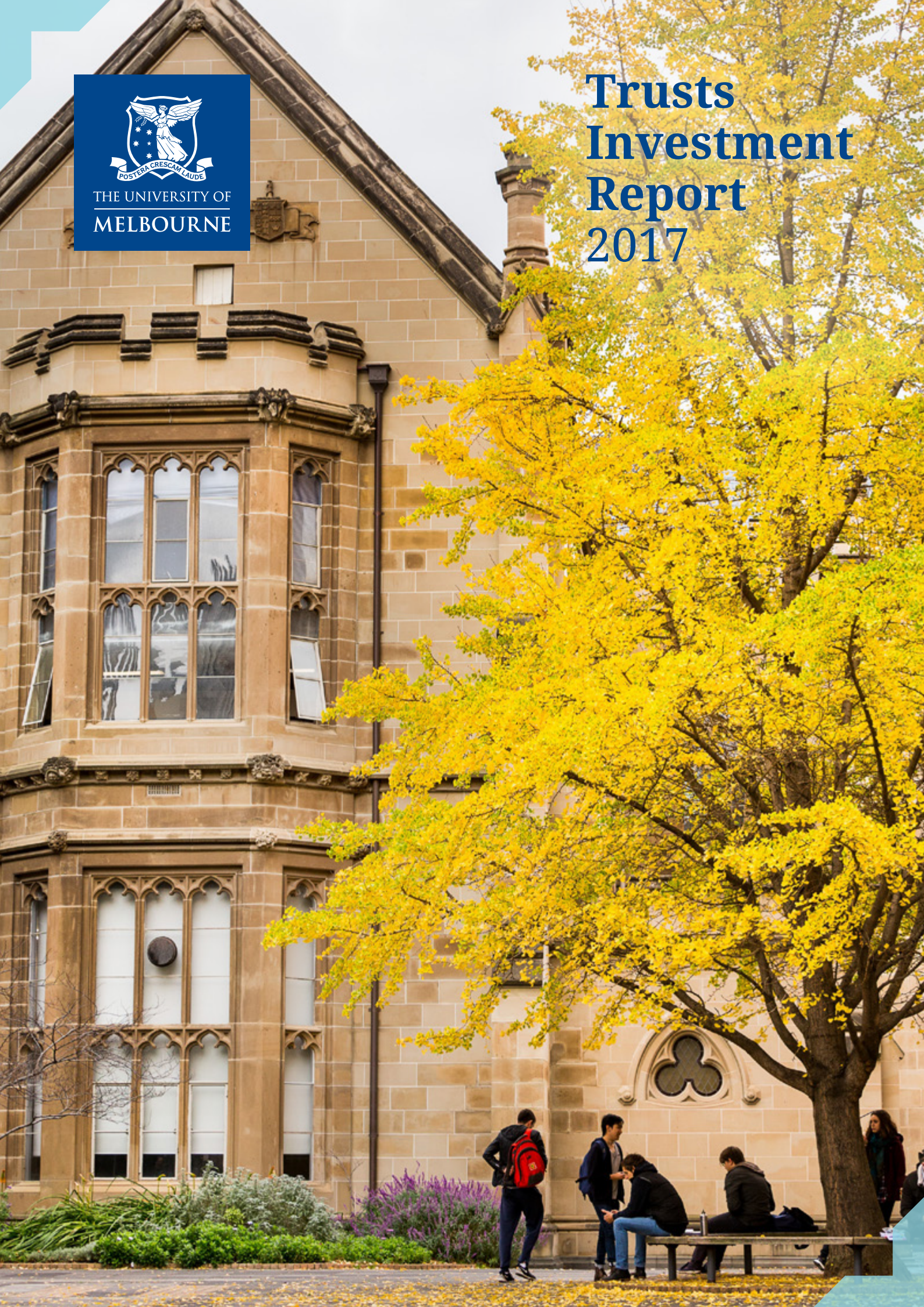




THE UNIVERSITY OF
MELBOURNE

Trusts Investment Report 2017



Trusts Investment Report 2017

Introduction

The University of Melbourne is one of the largest trustees of charitable trusts in Australia, with more than 1,000 charitable trusts established by gifts and bequests over the course of its 165 year history. With a total capital value of \$849.7 million, these trusts provide income for a wide range of University purposes and the financial foundation to support University students, staff, academic programs and activities in perpetuity.

All endowed gifts and bequests to the University are invested collectively as a single portfolio with a long-term investment strategy. By diversifying across a broad range of major asset classes, the University minimises investment risk and enhances investment performance.

Investment, Governance and Management of Trust Capital

The University manages its overall investment portfolio as two separate sub-portfolios, one for trust capital and one for the University's accumulated reserves. This enables the differing objectives of each sub-portfolio to be appropriately managed. It also enables the trusts sub-portfolio to benefit from the economies of scale arising from the size and breadth of the University's total investment portfolio. The trusts sub-portfolio was valued at \$850 million as of 31 December 2017, representing 37 per cent of the overall University investment portfolio.

An Investment Management Committee (IMC), comprised of industry professionals, Council members and senior executives, oversees the strategy for and performance of University investments. The IMC provides advice on investment beliefs, philosophy and policy, and oversees arrangements for investment managers and custodial administration. The IMC meets regularly throughout the year, including at least one meeting dedicated to reviewing investment strategy. The IMC reports to the University Council through the Finance Committee.

The IMC members during 2017 were as follows:

Mr Martyn Myer AO
Chairman, The Myer Family Company Ltd
(Chair)

Ms Liliana Colla
Portfolio Manager Fixed Interest, VicSuper

Ms Amanda Fong
Investment Advisor/Partner,
Escala Partners Ltd

Mr Peter Scott
Deputy Chairman,
Gresham Partners Limited

Mr Mark Leibler AC
Senior Partner, Arnold Bloch & Leibler

Mr Allan Tait
Vice-Principal Administration & Finance and
Chief Financial Officer,
University of Melbourne

Professor Paul Kofman
Dean, Faculty of Business & Economics,
University of Melbourne

Professor Emeritus Rob Brown
Professor of Finance,
University of Melbourne

The University's investment portfolio is managed through two fund managers, the Victorian Funds Management Corporation (VFMC) and ROC Capital. VFMC is the University's main investment manager, handling investments in all asset classes except private capital, which is managed by ROC Capital. Both fund managers operate as "managers of managers" and invest funds with a range of commercial fund managers. Leading global advisory asset consultant, Willis Towers Watson is engaged to provide independent investment strategy and asset allocation advice.

The Vice-Principal Administration & Finance and Chief Financial Officer has management responsibility for the University's investments, supported by the Chancellery Finance team. In addition, a team of advancement, legal, finance and compliance staff manage the expenditure of trust income according to the donor's intentions.

Investment Objectives and Strategy for the Trusts Sub-Portfolio

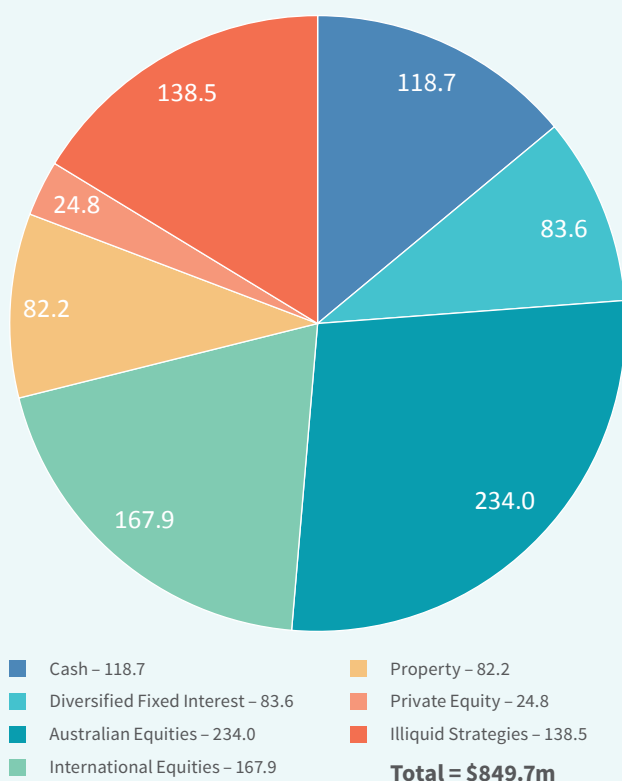
The aim of the University's trusts is to meet the needs of the University across generations. The objectives and strategy of the trusts sub-portfolio are designed to achieve this while also fulfilling individual trust obligations. These objectives and strategies are developed by the IMC with approval by the Finance Committee.

The trusts sub-portfolio is structured to provide long-term capital growth, reliable income streams and the ability to withstand short-term fluctuations. As always, the University's focus continues to be on managing the trusts so that their impact is meaningful and transformative for many years to come.

In line with best practice diversification principles, the University invests across multiple asset classes. This strategy is designed to take advantage of the long-term nature of the investments and to ensure both growth and continuity. Such diversification is undertaken within the level of risk tolerance set by the IMC.

Trust Sub-Portfolio Asset Allocation at 31 Dec 2017 (\$m)

At 31 December 2017 the trusts sub-portfolio consisted of eight main investment categories as shown in the following chart:



Trusts Sub-Portfolio Structure, Income Distribution and Fees

The trusts sub-portfolio operates as a separate unitised fund structure, in-line with the University's overall investment approach. Individual trusts own investment pool units and the value of the units vary over time in accordance with the performance of the underlying investments. Units are re-valued to the market value of the underlying fund investments each month-end.

Distribution Policy

The University distributes funds from the trusts in accordance with a distribution model. This model aims to minimise the variability of income across years while still providing for the long-term growth of endowed trusts. This allows for a reliable estimate of income for future years, to enable forecast expenditure of trust proceeds. The model applies a long-term distribution rate target (which is linked to the investment return target), combined with a smoothing rule. This smoothing rule puts both a floor (currently 4.50%) and a cap (currently 5.50%) on the distributions, minimising distribution variability. These floors and caps are linked to the investment portfolio's target return. Any investment income over and above the distribution is capitalised.

If you would like more information relating to the distribution model, please contact the University using the details under 'Contact Us'.

Fees

There is an internal administration fee of 2.5 per cent of the distributed income. This amounts to approximately 0.1 per cent of the capital value of trust funds invested, and is well below the administrative fees charged by many other charitable trustees.

Environment, Social & Governance

The University regards Environmental, Social, and Governance (ESG) factors as essential considerations in investment decision-making, as entities which effectively manage their ESG responsibilities should deliver better risk-adjusted returns over the long term. For example, the University believes that companies which effectively manage climate change-related risks will be better positioned to manage the transition to a low-carbon economy and the physical impacts of climate change than entities which do not. This recognition is predicated on ESG factors' potential impacts on investment outcomes, as well as a desire to contribute positively towards the quality of corporate governance and social responsibility in public markets.

The University evaluates the ESG policies and practices of its investment managers to ensure that they are aligned with the University's beliefs and values. VFMC, the University's primary investment manager, has adopted a well-defined ESG policy on climate change which can be found here: www.vfmc.vic.gov.au/investments/investment-approach/esg/.

Ultimately, the University must remain true to its mission of delivering world class education and research programs. Funds have been donated to and invested for the advancement of this core mission and it is incumbent upon the University to optimise the return on these funds. The University believes this is best done through an appropriate ESG framework.

The University's Sustainable Investment Framework can be found at: ourcampus.unimelb.edu.au/sustainability-commitment/sustainable-investment-framework

2017 Trusts Sub-Portfolio Performance

The trusts sub-portfolio has performed well for many years despite periodic volatile global financial conditions. Since inception in 2002, the total return per annum has averaged 8.97 per cent.

Performance is summarised in the table below.

Trust Fund Performance Results	1 Year (2017) % p.a.	3 Year % p.a.	5 Year % p.a.	10 Year % p.a.	Since Inception Annualised
Total Performance % p.a.	10.50	8.31	10.52	5.76	8.97

Trusts Performance	2017	
	Actual %	Bmk %
Australian Equities	14.66	13.53
International Equities	18.32	14.75
Infrastructure	10.25	7.01
Property	13.42	12.83
Diversified Fixed Interest	3.76	3.66
Non-Traditional Strategies	5.73	4.80
Cash	2.11	1.75
Private Capital	7.93	
Total Trusts Funds	10.50	6.16¹

The 10.50% return outperformed its target rate of return of 6.16%, due mainly to Non-Traditional Strategies (5.73% vs. 4.80%), International Equities (18.32% vs. 14.75%), Infrastructure (10.25% vs. 7.01%) and Australian Equities (14.66% vs. 13.53%). In 2016 the return on the portfolio was 7.26% against a target rate of 5.84%¹.

¹ The investment portfolio target return is currently CPI + 4%

Make a difference

From its foundation in 1853, the University of Melbourne is privileged to be the beneficiary of generous philanthropic support from alumni, staff, parents and friends. A donor's wish to create a perpetual trust demonstrates far-sighted commitment to the University and its vision. The University welcomes the opportunity to discuss individual giving interests.

Contact us

Alex Furman

Director of Development
alexander.furman@unimelb.edu.au
+61 3 8344 1188



THE UNIVERSITY OF
MELBOURNE

Copyright

© Copyright University of Melbourne
May 2018.

Copyright in this publication is owned by the University and no part of it may be reproduced without the permission of the University.
CRICOS PROVIDER CODE: 00116K

Authorised by:
Vice-Principal Administration & Finance and
Chief Financial Officer

Published by: Chancellery Finance

Disclaimer

The University has used its best endeavours to ensure that material contained in this publication was correct at the time of printing. The University gives no warranty and accepts no responsibility for the accuracy or completeness of information and the University reserves the right to make changes without notice at any time in its absolute discretion. The University reserves the right to make changes to the programs advertised as appropriate.

Intellectual property

For further information refer to:
www.unimelb.edu.au/governance/statutes