



THE UNIVERSITY OF
MELBOURNE

University of Melbourne 2021 Gift Investment Report

In April 1859, the first stone was laid for this building, designed by the architect, Richard Norman Shaw, and completed in 1864. It was the first building in the city to be built of stone. The building is a landmark in the history of the Melbourne movement.

1. Overview

Philanthropic giving is essential to the fulfilment of the University of Melbourne’s purpose as articulated in *Advancing Melbourne*, “to benefit society through the transformative impact of education and research.”

Generous gifts have established scholarships and bursaries, allowing the University’s talented students to achieve their potential, regardless of personal circumstances or background.

Philanthropic giving also enables the University to attract academics who inspire as teachers and, as researchers, make ground-breaking discoveries addressing some of the greatest problems facing society today. Many of these gifts are managed and invested by the University in its long-term portfolio. This annual report provides donors with an overview of management practices and historical investment performance through to the end of the calendar year.

Further information about the use of these long-term gifts can be found in **Section 2**.

Information about the University’s investment governance and management model for long-term investments including philanthropic gifts can be found in **Section 3**.

An overview of the investment strategy for the portfolio comprising philanthropic gifts to the University is provided in **Section 4**.

The portfolio comprising long-term gifts to the University achieved an investment return of 17.4 per cent in 2021 as illustrated in **Table 1 below**. Information about the 2021 and historical investment performance can be found in **Section 5**.

Distributions from the portfolio of long-term gifts totalled \$49 million in 2021, representing an enormous contribution to specific support and activities across the University.

The methodology used to calculate the distribution each year is described in **Section 6**.

2. Use of Long-Term Gifts

Since 2010, the generosity of donors has resulted in more than 350 new gifts being established at the University for long-term investment. These gifts include those established as charitable trusts, and together they extend the legacy established by those far-sighted donors who first supported the University.

The majority of the gifts managed by the University are applied for a specific purpose that honours a donor’s expressed wish or is in accordance with the trust terms at the time of making the gift. Student awards account for the greatest number of gifts and include scholarships, student grants, and prizes. Other gifts support academic positions, research, libraries, and student enrichment.

Table 1: Summary of Historical Annual Investment Returns & Distributions

	2017	2018	2019	2020	2021
Year End Market Value (\$m)	857	909	1,025	1,134	1,316
Return (%)	10.5	1.6	12.3	5.3	17.4
Distributions (\$m)	32	36	41	45	49

3. Investment Governance & Management Model

Governance

The University’s long-term investments, including long-term philanthropic gifts, are managed under the oversight of the Investment Management Committee, a sub-committee of the University Council Finance Committee.

The Investment Management Committee is comprised of internal and external investment professionals. Membership of the Committee as of the end of 2021 is listed in **Table 2 below**.

The Investment Management Committee meets on a quarterly basis to oversee investment strategy and performance; it also provides advice to the Finance Committee and Council on investment beliefs and policy and on the appointment of fund managers.

Investment Management Model

The University does not manage its long-term investments directly, a policy that reflects the fact that investment management is not a core function of the University and the scale of the University’s overall long-term portfolio is significant. Day-to-day management is undertaken by two portfolio managers, allowing the University to benefit from the greater scale of their funds under management whilst still maintaining responsibility for investment strategy and philosophy.

Since 2002, the majority of the University’s long-term investments have been managed by the Victorian Funds Management Corporation (VFMC), an authority established in 1994 through an Act of the Victorian Parliament. VFMC is an institutional investor, responsible for investing over \$74 billion of funds for 31 public authorities of the State of Victoria and related organisations, including the National Gallery of Victoria, State Library Victoria and WorkSafe Victoria. VFMC is an investment industry leader in addressing issues relating to climate change—an important element of the University’s values.

Sydney-based ROC Partners manages the University’s allocation to private equity investments, an asset class which is not covered by VFMC.

Both of these portfolio managers invest funds directly with a range of fund managers. Leading global advisory asset consultant Willis Towers Watson provides the University independent advice on investment strategy.

Fund Structure

The University’s long-term investments are structured as two separate portfolios: long-term gifts (including those held on trust), and long-term assets (including unutilised borrowings, income received in advance, unrestricted free reserves, and other assets).

Table 2: Investment Management Committee Membership

Member	Professional Affiliation
Mr Andrew Sisson AO (Chair)	Founder, Balanced Equity Management
Ms Liliana Colla	Implementation Specialist, Equisuper
Ms Amanda Fong	Investment Advisor/Partner, Escala Partners Ltd
Professor Paul Kofman	Dean, Faculty of Business and Economics, University of Melbourne
Mr Mark Leibler AC¹	Senior Partner, Arnold Bloch and Leibler
Mr Peter Scott	Deputy Chairman, Gresham Partners Limited
Mr Allan Tait	Vice-President (Administration & Finance) and Chief Operating Officer, University of Melbourne (ex officio)

¹ Member, University Council.

This structure allows for the development of a distinct strategy for each portfolio reflecting its liquidity profile and therefore return expectations. The longer time horizon of the portfolio comprising long-term gifts allows for investment in less liquid assets which have higher investment returns. At the same time, assets within the portfolios benefit from economies of scale in management fees and access to investment opportunities.

The portfolios operate as separate unitised fund structures. Once received, gifts intended as long-term holdings are valued and exchanged for units that represent a portion of the total portfolio.

The value of the units varies over time in accordance with the performance of the underlying investments. Units are re-valued based on the value of underlying fund investments at each month-end.

4. Investment Objectives & Strategy

The portfolio comprising long-term gifts to the University provides predictable support for the scholarship, academic, and research activities of the University. To achieve this broad objective, the portfolio is structured to provide sufficient liquidity to meet the annual payments to beneficiaries of the various underlying funds, and maintain the real value of the assets into the future.

Investment Strategy (asset allocation)

The definition and allocation of asset classes comprises one of the central activities in strategy development and is subject to review on an annual basis by University management, Investment Management Committee, fund managers, and advisors. Adjustments to weightings and material departures from asset allocation targets or ranges are part of monthly reporting received by the University.

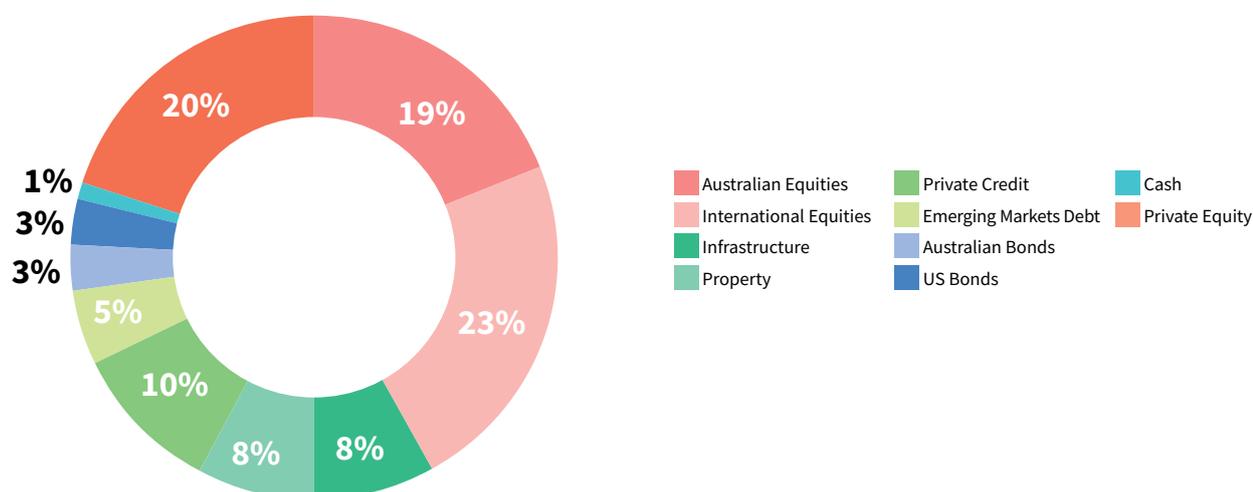
The portfolio comprising long-term philanthropic gifts was valued at \$1,316 million as of 31 December 2021 and is diversified across multiple asset classes as shown in **Figure 1 below**.

Investment Risk Management

As part of their investment processes, the University's fund managers identify material risks and provide for the mitigation of these risks in investment decision-making.

One of the less well understood risks confronting all investors is presented by the accelerated change in climate conditions produced by industrial, agricultural, and other gaseous emissions. The difficulties associated with anticipating the rate and degree of change, economic impacts, and policy responses continue to create a high degree of uncertainty for investors.

Figure 1: Asset Allocation at end December 2021



The University's awareness of and concern about the increased risk created by climate change, informed a commitment in its 2017-2020 Sustainability Plan to develop a specific framework for assessing that risk and whether its fund managers were adequately factoring it into their decision-making.

The resulting Sustainable Investment Framework can be found via [this link](#).

The University is currently developing a **new Sustainability Plan** which will shape how the University leads and acts on critical global sustainability challenges for the next five years and beyond.

The University's primary fund manager VFMC has been proactive in its approach to understanding climate change risk and has made steady progress over recent years in its investment stewardship, which takes these risks into consideration.

The University receives an independent assessment each year of the consistency of VFMC's investment decision-making with the University's Sustainable Investment Framework (SIF), and in each year since it was published in 2017, VFMC's investments on the University's behalf have been judged to be consistent with the SIF.

5. Investment Performance

The portfolio comprising long-term philanthropic gifts has performed well for many years despite volatile global financial conditions. **Table 3 below** shows the long-term gifts portfolio outperforming its return target over time.

2021 Investment Market Context

The equity market rebound from the 2020 pandemic lows continued in 2021. The year also saw a spike in inflation which drove many central banks into 'hawkish' pivots on policy. A new, highly transmissible virus variant emerged in late 2021, however high vaccination rates left the economic outlook largely intact.

The portfolio's positive return was driven by the strong returns across most asset classes. This more than offset the slight declines in bonds and helped the portfolio to strongly outperform the target return. The 2021 performance by asset class is shown in **Table 4**.

The University increased the long-term target return to CPI + 4.5 per cent per annum for 2021 onwards (from CPI + 4 per cent) due to the opportunities provided by the pandemic to increase positions in higher returning asset classes.

Table 3: Long-term Gifts Portfolio Performance Over Time (at end December 2021)

per cent return per annum	1 Year	3 Year	5 Year	10 Year	Since Inception
Portfolio Performance	17.4	11.6	9.0	11.7	8.3
Target Return	7.7	6.1	6.0	7.1	7.6

Table 4: 2021 Performance by Asset Class

Asset Class	Return %	Asset Class	Return %
Australian Equities	19.2	Emerging Markets Debt	-3.4
International Equities	24.5	Australian Bonds	-3.3
Infrastructure	16.0	US Bonds	-2.5
Property	13.7	Cash	0.1
Private Credit	18.3	Insurance	5.2
		Private Equity	47.1
Total Gift Funds Return 17.4%			

6. Distributions

Distributions for use each year from the portfolio of long-term philanthropic gifts are based on a notional rate of 5 per cent of total assets in the portfolio. To determine the exact distribution amount, the University uses a formula that gradually adjusts for fluctuations in annual investment performance. This “smoothing” formula ensures the predictability of the distribution amount without risking impairment of the portfolio corpus by, for example, requiring a fixed distribution in a year of poor performance.

Calculated distributions are thus equal to the sum of (i) 80 per cent of the previous year’s distribution amount, and (ii) 20 per cent of the target distribution rate of 5 per cent of the market value of the long-term gift portfolio. To ensure that actual distributions are closely aligned to the target rate, a constraint is applied, ensuring that actual distributions cannot be lower than 4.5 per cent or higher than 5.5 per cent of the market value of the portfolio.

This calculation occurs as part of the University’s annual budgeting cycle in October each year. This means that the distribution estimate is based on the balance at the end of the year two years prior to the distribution year. For example, the October 2020 budget for the 2021 year was based on the market value of the portfolio as of the end of 2019. To adjust for this timing difference, the market value of the portfolio is adjusted

for inflation (two years of inflation, to bring the 2019 market value into 2021 dollars for distribution). Similarly, the 4.5 - 5.5 per cent range is applied to the (inflation-adjusted) year-end market value from two years prior to the distribution year.

The actual market value and distribution figures over the past three years for the long-term gift portfolio are shown in **Table 5 below**. Calculation of the distribution can be illustrated using the blue figures for the 2021 distribution (calculated in October 2021):

- 80 per cent: the actual prior year (2020) distribution of \$45m, subject to one year of inflation, equalling \$37m; plus
- 20 per cent: the target distribution rate of 5 per cent using the most recent year-end market value (2019 year-end, being \$1,025m in 2019 and \$1,072m in 2021 dollars, i.e. adjusted for two years of inflation) equalling \$11m;
- This provides the calculated distribution value of \$48m (\$37m plus \$11m).

The actual distribution amount in 2021 (\$49m) slightly exceeded \$48m due to distributions on donations received and contributed during the year.

Table 5: Market Value and Distributions 2019-2021 (\$ in millions)

	2019	2020	2021
Year-End Market Value (M.V.)	1,025	1,133	1,316
80% of Actual Prior Year Distribution (+CPI)	29	34	37
Market Value @ Budgeting	900	955	1,072
20% of 5% Target Rate * Market Value @ Budgeting²	9	10	11
Distribution	41	45	49

² E.g. the “Market Value @ Budgeting” in 2021 is as of 31 December 2019, as the budget is created in 2020, adjusted for CPI.

7. Administration

The Vice-President (Administration & Finance) and Chief Operating Officer has management responsibility for the University's investments through the Chief Financial Officer Group. In addition, a team of Advancement, Legal & Risk, Finance Operations and beneficiary division based staff manage the expenditure of Long-term Gift distributions according to the donor's expressed wishes or trust terms.

The University's Gift Committee, a sub-committee of Council, is charged with representing donors' interests and assists University Council in overseeing and administering philanthropic gifts from donors and partners to any part of the University. The Gift Committee ensures the appropriate and effective acceptance and use of gifts to the University. The Committee also oversees the University's stewardship of all gifts to the University, including those that are held by the University on trust.

Fees

The University calculates an internal administration fee of 2.5 per cent based on distributions; this equates to roughly 0.1 per cent of the market value of the gifts invested long-term. This is below the administrative fees charged by other charitable trustees.

Make a difference

From its foundation in 1853, the University of Melbourne has been the fortunate beneficiary of generous philanthropic support from alumni, staff, students, parents and friends. The University welcomes the opportunity to discuss individual giving interests.

Gifts are accepted and administered in accordance with the University's **Gift Policy**, including adhering to the commitments set out in the **Donor Charter** and valuing the ongoing involvement of, and relationships with donors to the University guided by the University's **Donations Framework**.

Contact us

Jonathan Cosgrove

Director of Development

jonathan.cosgrove@unimelb.edu.au

+61 3 8344 2401

Copyright

© Copyright University of Melbourne March 2022. 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-President (Administration & Finance) and Chief Operating Officer

Published by: Chief Financial Officer (CFO) Group

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 the *University of Melbourne Act 2009 (Vic)*.

RFQ06002



THE UNIVERSITY OF
MELBOURNE