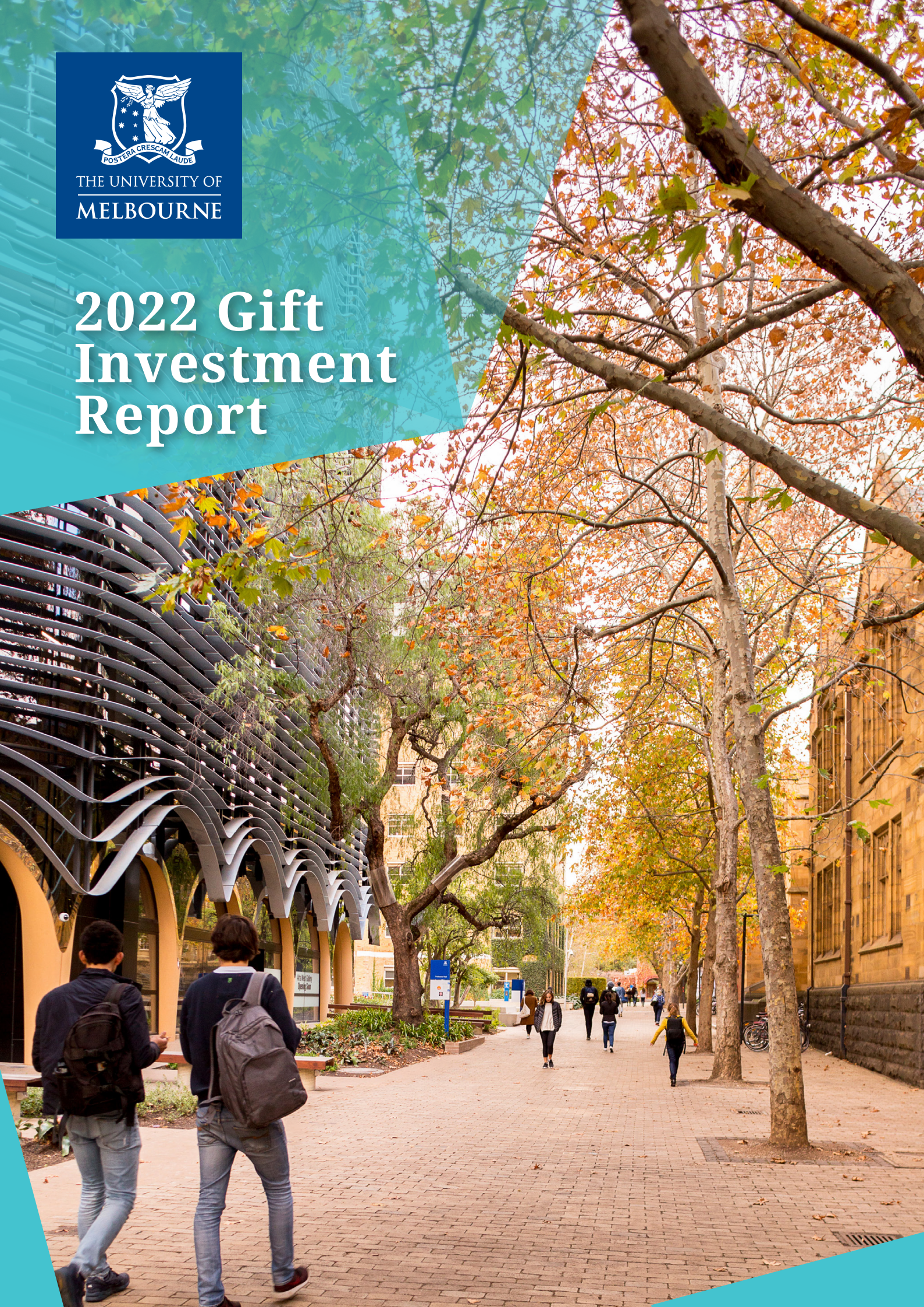




THE UNIVERSITY OF
MELBOURNE

2022 Gift Investment Report



1. Overview

Philanthropic giving is essential to fulfilling the University of Melbourne's purpose as articulated in **Advancing Melbourne**; "to benefit society through the transformative impact of education and research."

The magnanimity of philanthropic giving has established scholarships and bursaries, empowering the University's students to realise their full potential, irrespective of their personal circumstances or background. Additionally, philanthropic gifts enable the University to attract distinguished academics who not only inspire as educators but also innovate as researchers, bringing forth transformative solutions to the most pressing issues confronting society today.

The University prudently manages and invests many of these gifts in its Long-Term Investment Portfolio, ensuring they are optimally utilised for maximum impact. 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 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 -1.9 per cent in 2022 as illustrated in **Table 1**. Information about the 2022 and historical investment performance can be found in **Section 5**.

Distributions from the portfolio of long-term gifts totalled \$53 million in 2022, 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 the establishment of more than 360 new gifts at the University, specifically intended for long-term investment. These gifts include charitable trusts and honour the legacy established by visionary benefactors who first supported the University.

The University judiciously manages these gifts in accordance with the donor's expressed wishes and applicable law. If a specific purpose is not stated, the gifts are directed to the institution's broader charitable purposes. Student awards, including scholarships, grants, bursaries and prizes, comprise the largest portion of these gifts as illustrated in **Figure 1**. Other gifts support academic positions, advance research, enrich libraries, fund capital projects and foster student development.

Figure 1: Areas supported by long-term gifts

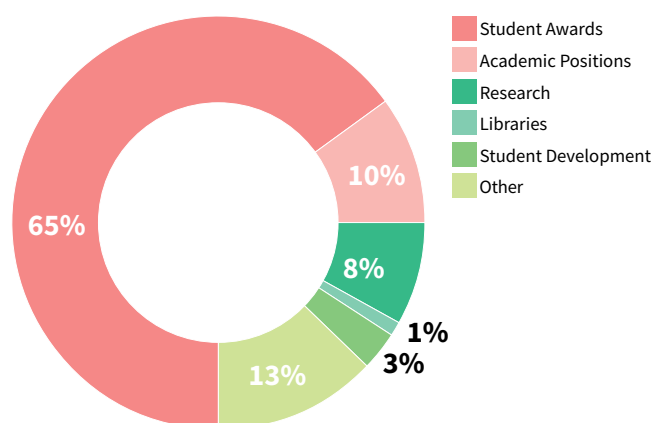


Table 1: Summary of Historical Annual Investment Returns & Distributions

	2017	2018	2019	2020	2021	2022
Year End Market Value (\$m)	857	909	1,025	1,134	1,316	1,258
Return (%)	10.5	1.6	12.3	5.3	17.4	-1.9
Distributions (\$m)	32	36	41	45	49	53

3. Investment Governance & Management Model

Governance

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

The Investment Management Committee is comprised of internal and external investment professionals. Membership of the Committee as of the end of 2022 is listed in **Table 2 (page 4)**.

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 advisers.

Investment Management Model

The University does not handle the day-to-day management of investments for philanthropic gifts directly, instead opting to outsource this to an Implemented Consultant.¹ However, the University holds responsibility for overall investment strategy and philosophy.

Given the significant scale of the University's investments, this arrangement allows it to concentrate on its primary mission of conducting research and teaching, while still ensuring that the investments are managed efficiently and effectively.

The University initiated a review of its investment management governance model and arrangements in 2019 to assess and identify any opportunities for improvement.

Following this review and after assessing several potential providers, the University appointed JANA Investment Advisers (JANA) in 2022 to replace the Victorian Funds Management Corporation (VFMC).

JANA has a long history in Australia of successfully providing consulting and implemented consulting services, characterised by a strong client-centric, consultative approach. This approach will be applied to delivering a tailored and integrated portfolio management service for the University's funds. Publicly disclosed JANA clients include Hostplus, Australian Retirement Trust, Woolworths Group and HCF.

VFMC had been the primary manager of the University's investment funds since 2002, over which time it has been a valued partner and overseen healthy growth in the University's holdings.

As the University embarks upon this exciting new chapter with JANA as its Implemented Consultant, it acknowledges with gratitude the service of VFMC in working with the University over the past 20 years.

Sydney-based ROC Partners continues to manage the University's allocation to Private Equity investments. Both JANA and ROC Partners invest the University's funds with a range of investment managers.

Fund Structure

The University's investments have been restructured as three portfolios:

- Short-Term Portfolio (1 – 3 years);
- Medium-Term Portfolio (4 – 9 years); and
- Long-Term Portfolio (10+ years)

This structure allows for increased flexibility in accommodating funds with different time horizons.

There has been no significant impact of this change on long-term gifts (including those held on trust) as they are primarily held in the Long-Term Portfolio. The Long-Term Portfolio's asset allocation has not changed significantly and continues to enjoy the ability to invest in less liquid assets with higher potential returns.

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. 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.

¹ Also known as Outsourced Chief Investment Officer (OCIO)

Table 2: Investment Management Committee Membership

Member	Professional Affiliation	Expertise	Length of Service on the Committee (years)
Mr Andrew Sisson AO (Chair)	FAICD	Australian Equities	Joined 13/3/2020 (3 years)
Mr Paul Axup	Vice-President (Administration & Finance) and Chief Operating Officer, University of Melbourne	Commercial Finance	Joined 5/8/2022 (6 months)
Ms Liliana Colla	Investment Merger Lead Manager, CBUS	Implementation / Trading	Joined 6/8/2014 (8+ years)
Ms Amanda Fong	Investment Advisor/Partner, Escala Partners Ltd	Wealth Management	Joined 30/5/2007 (15+ years)
Mr Peter Scott AM	Vice-Chairman, Credit Suisse Australia	Investment Banking, Financing & Securities	Joined 9/10/2013 (9+ years)
Prof Paul Kofman	Dean, Faculty of Business and Economics, University of Melbourne	Finance / Academia	Joined 31/5/2006 (16+ years)
Ms Nadia Carlin²	Chief Risk Officer, PWC	Assurance / Risk	Joined 15/2/2023
Mr Mark Leibler AC²	Senior Partner, Arnold Bloch and Leibler	Law	31/07/2017 – 18/11/2022 (5 years)
Mr Allan Tait	Vice-President (Administration & Finance) and Chief Operating Officer, University of Melbourne (ex officio)	Commercial Finance	27/05/2009 – 29/6/2022 (13 years)

² Member, University Council

Investment Strategy (asset allocation)

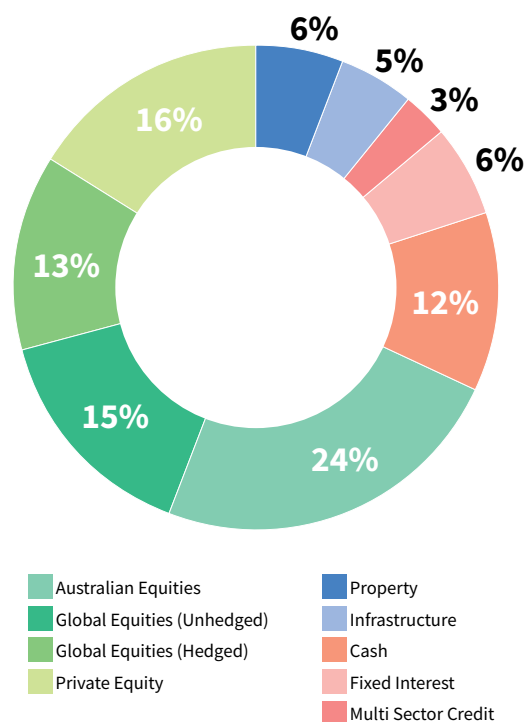
The definition and allocation of asset classes comprise one of the central activities in strategy development and is subject to review on an annual basis by University management, the Investment Management Committee and the University's Implemented Consultant. Adjustments to weightings and material departures 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 \$1,258 million as at 31 December 2022 and is diversified across multiple asset classes as shown in **Figure 2**.

Investment Risk Management

As part of their investment processes, the University's Implemented Consultant identifies material risks and provides for 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 2: Asset Allocation as at 31 December 2022

Sustainability

Sustainability at Melbourne is governed by the University's **Sustainability Framework**, comprising three elements: the Sustainability Charter, Plan and Annual Report.

The **Sustainability Plan 2030**, released in 2022, is a roadmap for delivering on the Charter through targets and priorities aligned to the University's ten-year institutional strategy, Advancing Melbourne.

The two targets for responsible investment are:

1. Enhanced transparent reporting of the University's investment portfolio on sustainability metrics; and
2. Including the investment portfolio into the University's commitment to be climate positive by 2030 (i.e. measuring the emissions of the investment portfolio and managing them in line with the rest of the University's operations).

The University is also a signatory to the Principles of Responsible Investment (PRI), one of the world's leading proponents of responsible investment which many reputable institutions have signed up to.

Additionally, JANA is part of the Net Zero Investment Consultants Initiative, demonstrating its commitment to building climate aware portfolios and integrating Sustainable Development Goals into investment decisions.

The University assesses JANA's investment decisions against the University's Sustainable Investment Framework (SIF).

5. Investment Performance

The portfolio comprising long-term philanthropic gifts has performed well for many years despite volatile global financial conditions. **Table 3 (page 6)** shows the long-term gifts portfolio performance against its return target.

2022 Investment Market Context

The return target for the Long-Term Portfolio (into which long-term gifts are invested) remains at CPI + 4.5 per cent per annum. This target is expected to be achieved within a rolling period of 10 or more years.

In 2022, interest rates and inflation dominated, rising significantly. However, recent macroeconomic data now points to a moderation of global growth rates, with softer commodity prices and alleviating supply chain pressures contributing to an easing in headline inflation in many economies.

The USA saw unemployment remain very low at 3.5 per cent with early indications of a moderation in wage growth. Recent CPI data showed a further slowing in the rate of inflation, although annualised inflation remained near multi-decade highs at 7.1 per cent.

China signaled its intention to fully reopen the economy following an extended period of COVID-related lockdowns, leading to strong market responses and anticipating stronger economic activity over the course of 2023. Meanwhile, the Bank of Japan's announcement that it intended to widen the band in which it allowed 10-year bond yields to fluctuate resulted in a sharp rise in the value of the Japanese Yen, which strengthened against both the Australian and US dollars.

With inflation running at well above the 2 per cent to 3 per cent target band, the RBA raised rates multiple times in the year, bringing the target cash rate to 3.10 per cent. The RBA expects a moderation in both inflation and economic growth over the course of 2023, as household spending is impacted by higher interest rates.

With volatility and declines in almost every asset class throughout the year, investors had few places to hide in 2022. Given the outlook for slowing global growth, multi-year inflation highs, continued interest rate hikes and ongoing geopolitical uncertainties, volatility in financial markets is likely to persist.

This highlights the importance of building quality, diversified portfolios that are resilient to unexpected shocks over the long-term. **Figure 3 (page 6)** illustrates this visually, with most years being positive for the portfolio and minimal negative years or large losses.

The year saw weak performance from Global Equities and Fixed Interest. This was partially offset by positive performance from unlisted assets including infrastructure, property and private equity.

This resulted in the portfolio experiencing a slight loss for the year and with surging inflation it underperformed against its return target of CPI plus 4.5 per cent. However, the portfolio continues to perform well over the long-term.

The 2022 portfolio return is shown in **Table 3 (page 6)**. Performance by asset class is shown in **Table 4 (page 6)**.

Figure 3: Annual Performance of Long-Term Portfolio (at 31 December 2022)

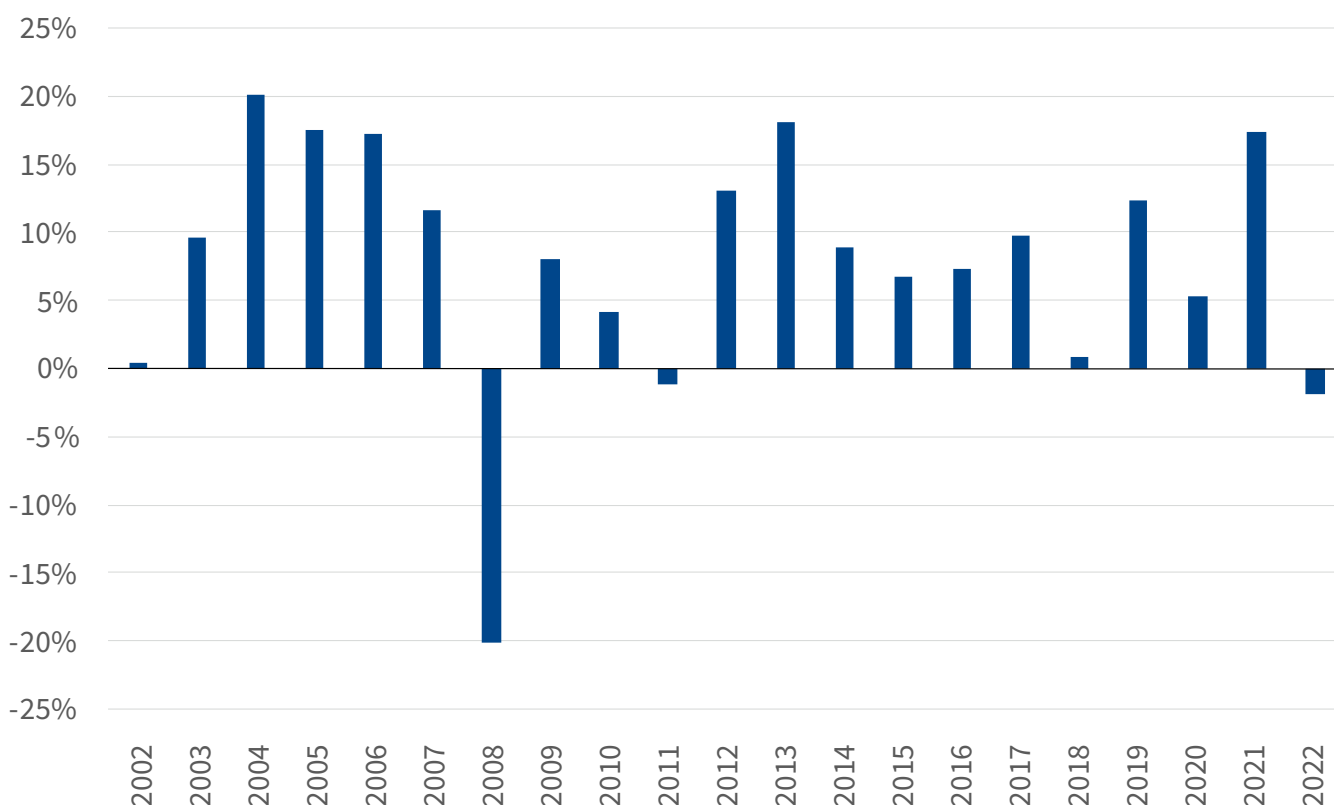


Table 3: Long-Term Portfolio Performance Over Time (at 31 December 2022)

per cent return per annum	1 Year	3 Year	5 Year	10 Year	Since Inception
Portfolio Performance	-1.9	6.6	6.6	8.3	7.8
Return Target	12.3	8.3	7.3	7.6	7.8

Table 4: 2022 Performance by Asset Class

Asset Class	Return %	Asset Class	Return %
Australian Equities	-4.0	Multi-Sector Credit	5.0
Global Equities (Unhedged)	-11.9	Fixed Interest	-10.5
Infrastructure	12.9	Cash	2.8
Property	8.1	Private Equity	11.5
Total Long-Term Portfolio Return -1.9%			

Table 5: Market Value and Distributions 2020-2022 (\$ in millions)

	2020	2021	2022
Year-End Market Value (M.V.)	1,133	1,316	1,257
80% of Actual Prior Year Distribution (+CPI)	34	37	41
Adjusted Value @ Budgeting	955	1,072	1,181
20% of Target Rate (5%) * Adjusted Value @ Budgeting ³	11	12	12
Calculated Distribution	45	49	53

³ E.g. the "Market Value @ Budgeting" in 2022 is as at 31 December 2020, as the budget is created in 2021, adjusted for CPI.

6. Distributions

Each year, distributions from the portfolio of long-term philanthropic gifts are based primarily 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 provides greater predictability of the distribution amount without risking impairment of the invested capital.

Calculated distributions are equal to the sum of:

- 80 per cent of the previous year’s distribution dollar amount; and
- 20 per cent of the target distribution rate (currently 5 per cent) of the long-term gift portfolio.

To ensure that actual distributions are closely aligned to the target rate, constraints are applied. These constraints are a floor of 4.5 per cent and ceiling of 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. Given this is prior to year-end, the distribution estimate is based on the balance at year-end two years prior to the distribution year. For example, the October 2021 budget for the 2022 year was based on the market value of the portfolio as at 31 December 2020. To adjust for this timing difference, the market value of the portfolio is adjusted for inflation (two years of inflation, to bring the 2020 market value into 2022 dollars for distribution). This amount is then constrained to the 4.5 per cent floor or 5.5 per cent ceiling (if applicable).

2022 Distribution Calculation

The actual market value and distribution figures over the past three years for the long-term gift portfolio are shown in **Table 5 (page 6)**. Calculation of the distribution can be illustrated using the blue figures for the 2022 distribution (calculated in October 2022):

- 80 per cent: the actual prior year (2021) distribution of \$49m, adjusted for one year inflation. This equals \$41m; plus
- 20 per cent: the target distribution rate of 5 per cent using the most recent year-end market value (2020 year-end, being \$1,133m in 2020 adjusted for inflation to \$1,181m at 2022. This equals \$12m;
- The sum of these calculations equals the total distribution value of \$53m (\$41m plus \$12m).

7. Administration

The Vice-President (Administration & Finance) and Chief Operating Officer has management responsibility for the University’s investments, which are overseen by the Chief Financial Officer Group. The expenditure of long-term gift distributions is managed by a team comprising Advancement, Legal & Risk, Finance Operations and the relevant faculty, school or department. This team ensures that the distributions are allocated in accordance with the donor’s expressed wishes or trust terms.

The University’s Gift Committee is a sub-committee of Council that represents donors’ interests and assists University Council in overseeing and administering philanthropic gifts from donors and partners to any part of the University. The Committee ensures that gifts to the University are accepted and used appropriately and effectively. Additionally, the Committee is responsible for overseeing the University’s stewardship of all gifts, including those that are held by the University in trust.

Fees

At the University, we apply an internal administration fee that amounts to 2.5 per cent of the distribution value, which is equivalent to approximately 0.1 per cent of the market value of long-term gifts. Our commitment to our donors is based on operating with transparency, integrity and respect, and we believe in maintaining reasonable and justifiable administrative fees. Typically, our fees are lower than those charged by other charitable trustees, thus maximising the impact of philanthropic gifts

8. Make a difference

Since its foundation in 1853, the University of Melbourne has been the grateful recipient of generous philanthropic support from its community of alumni, staff, students, parents and friends. We deeply appreciate this remarkable support and welcome the opportunity to engage in meaningful conversations with individuals who share our vision of advancing society through the transformative impact of education and research. We believe that philanthropy has the power to transform lives, and we are committed to ensuring that every gift is thoughtfully directed toward creating meaningful impact.

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

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