

INVESTMENT MANAGEMENT COMMITTEE

Membership of the Committee is comprised of:

A Chairperson nominated by Finance Committee

The Senior Vice-Principal

The Chief Financial Officer

A member of Council appointed by the Finance Committee

Up to four other members appointed by the Finance Committee, at least three of whom should have investment expertise and be external to the University.

The Committee has the power to co-opt.

Current Investment Committee

The Current Committee as at 31 December 2009 is as follows:

Mr Robert Johanson, Chairman
Director, Grant Samuel

Professor Bob Officer
Acorn Capital

Mr David White
Hawker Britton

Ms Justine Hickey
Lotus Capital Pty Ltd

Mr Ian Marshman
Senior Vice-Principal, University of Melbourne

Mr Allan Tait
Chief Financial Officer, University of Melbourne

Professor Paul Kofman
Head of Finance, Faculty of Business and Economics
University of Melbourne

Professor Rob Brown
Professor of Finance, Faculty of Business and Economics
University of Melbourne

Ms Amanda Fong
Director & Client Advisor, UBS Wealth Management

EXAMPLES OF TRUST FUNDS AT WORK

The University of Melbourne is the trustee of approximately 800 trusts established by donors since the University was established in 1853. The income from trusts assists students in the form of bursaries, prizes, scholarships and fellowships; supports research projects; and finances professorial positions.

The University acknowledges with gratitude the generosity of its many benefactors.

The James Cuming Prize

It has been more than 100 years since chemist James Cuming, founder of Australia's oldest chemical society, created a prize to encourage students in the field he was most passionate about.

Mr Cuming was one of Australia's foremost industrialists, founder of the Society of Chemical Industry in Victoria and General Manager of Cuming Smith and Co. – one of Australia's first fertilizer producers. He donated £1000 to the University of Melbourne in 1909 for the establishment of the James Cuming Prize within the Faculty of Agriculture, now the Melbourne School of Land and Environment. The prize is awarded annually to a student who receives top marks in Agricultural Chemistry.

Since Mr Cuming passed away in 1920, many generations of his family have maintained close ties with the University and observed how his donation has made a difference to students' lives.

In 2009 Mr Cuming's grandson, Robin Cuming (BArch1961), presented the James Cuming Prize at the Melbourne School of Land and Environment's Dean's Honours and Awards presentation.

Recipient Felix Kiat Seong Lim, now a third year Bachelor of Science student and the highest placed student in Agricultural Chemistry at the University in 2008, said he felt encouraged to receive the award last year.

"Realising that the effort I had put in was indeed paying off, the sense of satisfaction was most rewarding," Felix said.

Mr Cuming's memory – and the lasting impact of his gift – was also honoured with the establishment of a lecture theatre and research laboratory in his name in the School of Chemistry.

The University of Melbourne French Trust Fund

A University professor passionate about boosting research opportunities for French Studies students and promoting French-Australian relations established the University of Melbourne French Trust Fund in 2006.

Since creating the Fund, Prof. Colin Nettelbeck, Honorary Professorial Fellow in the University's School of Languages and Linguistics and University donor, has received support from a community of donors who recognise the important role it will play in expanding Melbourne's French Studies program into a globally recognised educational centre.

Their generous donations will go towards developing the French Studies program in a number of ways – such as providing support for staff and student research exchange opportunities, post-doctoral research fellowships in French related areas, and French related seminars and lectures.

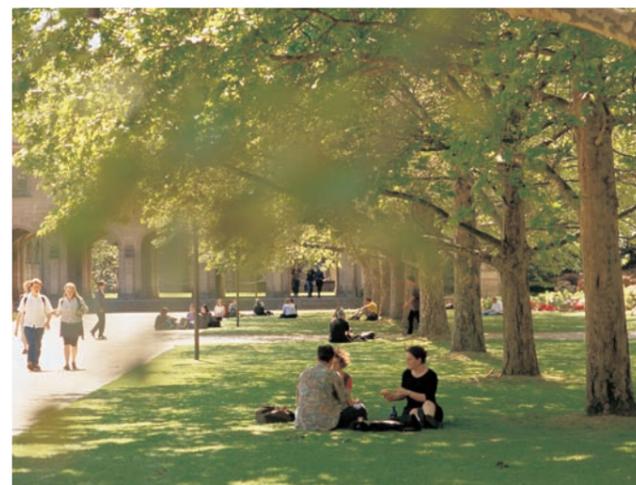
Although it's still early days, the French Trust Fund is already being used to help students achieve important research goals. In 2009, PhD research student Amie Sexton was awarded a travel grant to embark on a research project in Bordeaux. Amie is researching cultural differences in attitudes to wine in Australia and France, and spent three months as a visiting researcher at the interdisciplinary Institut des Sciences de la Vigne et du Vin (The Institute of Vine and Wine Sciences).

The experience gave her the chance to access texts at the University of Bordeaux's libraries that are not available in Australia. Amie also used the time to learn all she could about the world of wine in Bordeaux from local winemakers, vigneron, sommeliers and other industry professionals.

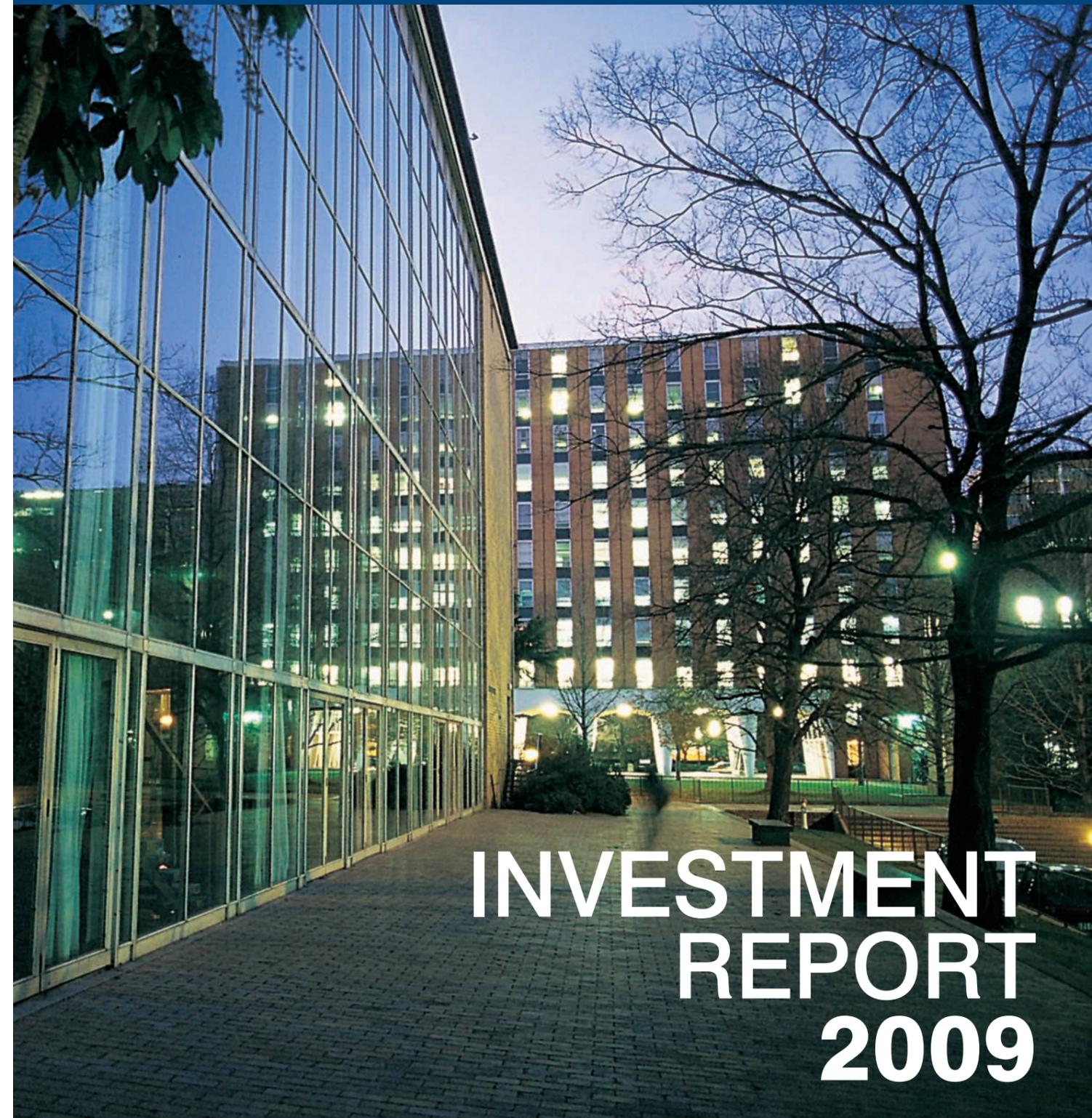
"I was able to complete essential reading, make contacts in the wine industry and establish collaborations with researchers at the University of Bordeaux – a great start to my PhD," she said.

For information on making a gift to the University of Melbourne, please visit: www.unimelb.edu.au/alumni/giving/ or phone +61 3 8344 1751

For information on trusts, please visit: www.unimelb.edu.au/trusts/



THE UNIVERSITY OF
MELBOURNE



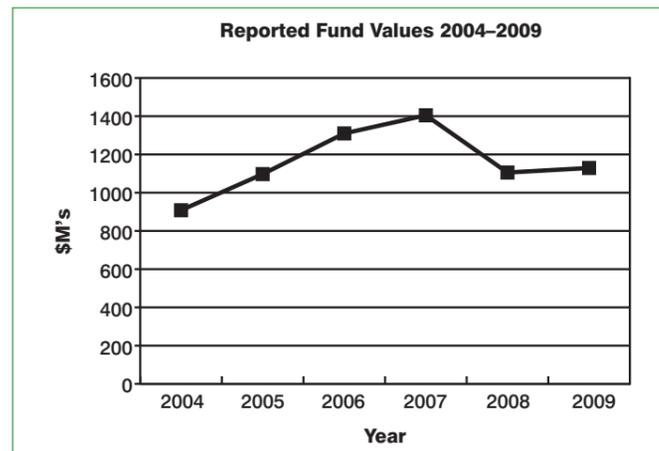
THE INVESTMENT FUND STRATEGY & AIMS

The fund is an accumulation of endowments from a significant number of trusts, and University funds surplus to immediate operating requirements.

The fund aims to meet the intergenerational requirements of the University. This includes providing funding for large capital projects or property acquisitions and to enable trust funds to fulfill obligations as per their trust deed, whilst at the same time ensuring the Fund's perpetuity. This is achieved by selecting a portfolio structure that provides long term capital growth, riding through short-medium term fluctuations, as well as reliable income streams to fulfill current obligations.

The University has outsourced its Long Term Fund management to the Victorian Funds Management Corporation (VFMC), an external "Manager of Managers".

PORTFOLIO HIGHLIGHTS

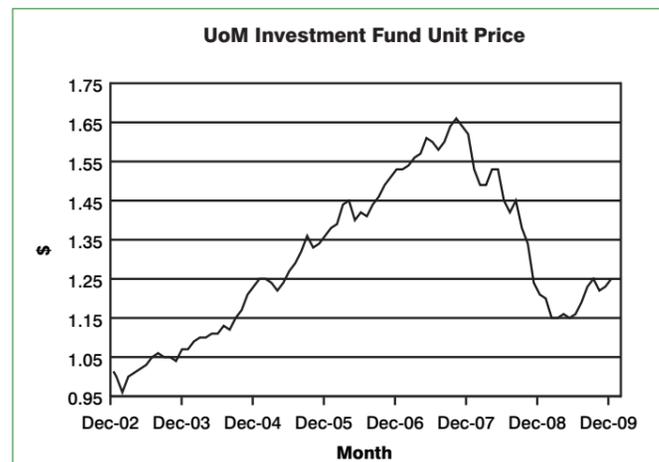


Reported Fund Values

\$m	2004	2005	2006	2007	2008	2009
Long Term Portfolio*	864.2	1094.7	1288.5	1362.15	1063.44	1128.73
Short Term	44.0	2.5	21.3	42.76	41.91	0.41
TOTAL	908.2	1097.2	1309.9	1404.9	1105.35	1129.14

*Includes growth and additional contributions from Trust Funds and general University.

Upon outsourcing of the Long Term Fund, the University's investment pool moved to a unitised Fund structure. On changeover date, 22nd November 2002, the units were allocated to fund holders on a one unit for each dollar invested basis. As can be seen in the graph below, the growth in the unit value of the fund has been quite steady for several years, however much of the growth was lost during 2008, reflecting Global Investment markets at the time. In the past 12 months the unit price has begun to recover from the lows of early 2009 with the value as at 31 December 2009 increasing to \$1.25.

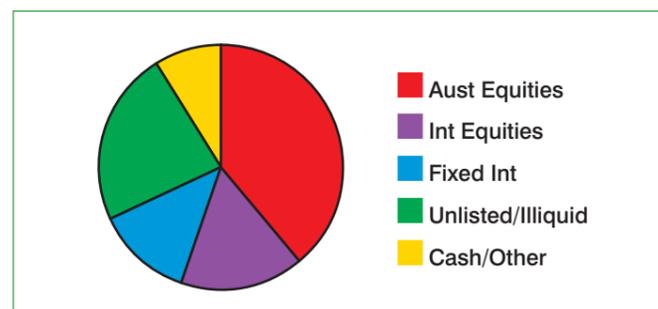


The portfolio has been a vital source of income for the University. In 2009 the Fund generated interest and dividend income of approximately \$50.4m, all of which was distributed to unit holders (in line with the distribution cap of 5.50% for 2009). Income from the fund is key to ongoing capital works projects and the future continued support from alumni and friends is crucial.

ASSET ALLOCATION-LONG TERM PORTFOLIO

	Australian Equities	International Equities	Fixed Interest	Unlisted/Illiquid Assets	Cash/Other
	%	%	%	%	%
2004	52.20	18.70	14.10	14.90	0.10
2005	51.90	20.80	13.90	13.29	0.10
2006	55.50	19.50	10.70	11.30	2.90
2007	45.30	20.80	9.30	24.40	0.20
2008	35.80	17.90	13.10	32.80	0.50
2009	39.00	16.40	12.80	23.10	8.70

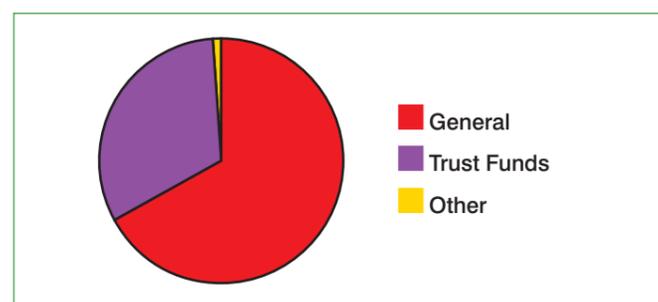
2009 ASSET ALLOCATION



As highlighted in the graph and table above, on the advice of the portfolio managers the university has continued to reduce its exposure to Australian Equities. The target allocation for this asset class has moved to 30%.

In line with diversification principles applicable to large investment funds, the University has continued to expand the asset classes in which it is prepared to invest. This strategy is designed to take advantage of the long term nature of the Fund and to ensure the Fund's growth and perpetuity. The result is a more balanced allocation in line with the new target weightings recommended by the advisors and set by the committee.

2009 FUND OWNERSHIP



LONG TERM FUND PERFORMANCE REVIEW

During 2009 the Long Term Fund objectives given to VFMC were:

- Outperform benchmark return by 1% p.a over a rolling 3 year period; and
- Achieve long term income yields of at least 4% p.a and growth of at least 4% p.a.

LONG TERM FUND PERFORMANCE RESULTS

Year	2004	2005	2006	2007	2008	2009
Performance (after fees) % p.a	21.84	18.23	18.03	12.16	-22.09	8.19

As can be seen in the table above, the Fund has performed exceptionally well for many years. After the significant impact of the global financial crisis in 2008, the Long Term Fund has recovered in 2009, achieving a return of 8.19% (after fees).

Since inception the fund has returned an average of 8.45% of which 1.22% is capital growth and 7.22% income yield. This average still exceeds the long term objectives of the fund.

ASSET CLASS PERFORMANCE – 2009

Asset Class	Actual %	Benchmark %
Australian Equities	34.83	37.59
International Equities	5.67	8.35
Fixed Interest	3.62	1.73
Unlisted/Illiquid Assets		
Property	-11.13	-9.21
Private Equity	-10.07	37.59
Infrastructure	3.89	37.59
Illiquid Strategies	-21.89	3.47
Cash/Other	3.47	3.47

THE SHORT TERM FUND

VFMC invests the University's surplus cash in two cash-enhanced funds (Global and Australian). Allocations to the funds are at the University's discretion. A small portion of cash is managed in-house via an 11am facility.

The funds primary aim is to meet the short term and cyclical cash requirements of the University. Ownership of this fund is on a dollar for dollar basis.

GOVERNANCE AND INVESTMENT POLICY

The Investment Fund is run using a "manager of managers" approach. The fund management contract is bound by specific performance criteria and subject to review every three years.

An Investment Management Committee exists to supervise, monitor and evaluate the investment performance of the University's funds. It ensures the stated objectives of the Fund are being met. The Committee is comprised of both University staff and industry professionals. In addition, independent asset consultants Watson Wyatt are engaged to provide asset allocation advice. The Committee meets six times throughout the calendar year with the second meeting of the year designed specifically to review the asset allocation strategies.

Broad objectives of the fund are to:

- provide liquidity to meet cyclic payments to beneficiaries of trusts and the possible capital expenditure requirements of the University; and
- achieve long-term growth and stability of trust and endowment funds and general funds.

These objectives are to be achieved without exposure to undue risk, including those stemming from the occurrence of a single event or the failure of any single investment.

MONITORING AND REVIEW PROCEDURES

The Investment Management Committee provides advice on investment guidelines, policies and strategies. They supervise the fund manager and custodial administrator and monitor the performance of the portfolio. The Investment Management Committee reports through the University's Finance Committee to Council. The committee approved a Statement of Investment Objectives and Policy Document which sits alongside the University Investment Policy.

ACKNOWLEDGEMENT OF INVESTMENT RISK

The University Investment Policy sets specific objectives for volatility levels.

As part of these objectives it is acknowledged that a negative return is likely in one in every four years. Such short term fluctuations form part of the consideration of appropriate fund structure and the long term asset allocation.

INVESTMENT AND MANAGEMENT COSTS

The members of the Investment Management Committee generously donate their time and expertise in overseeing the fund.

The Long Term Fund has investment management costs of less than 0.30%. The investment returns quoted in this report are all net of fees. Endowment funds, where the university is the trustee, incur an administration fee of 2.5% of the distributed income. This amounts to less than 0.15% of the capital value of trust funds under investment. The administration fee covers a dedicated trusts office, with a full time lawyer and legal, administration and finance support staff, and a subsidy to relevant faculties and non-academic departments. The fee assists with the effective management of approximately 800 trust funds where the University is the trustee.

INVESTING IN VARIOUS ASSET CLASSES

In determining the appropriate asset classes in which to invest to achieve the Fund's objectives, the following criteria are considered:

Access to and size of markets;

Ability to generate income;

Capital growth over the medium-long term; and

Degree of liquidity.

The long term nature of the Fund and tax-free status of the University may also influence asset class decisions.

Investment activity embraces investment in physical financial securities and instruments.

The University is conscious of its responsibilities as a shareholder and actively asserts those responsibilities by voting at company meetings. Investment in physical securities must comply with the criteria set forth for each asset class. For example, the University does not wish to invest in companies involved in the production or manufacture of tobacco or tobacco related products.

Target Asset Weightings:

Class of Security	Target Allocation Range
Australian Equities	10% to 40%
Global Equities	0% to 30%
Emerging Markets	0% to 15%
Other Liquid Assets	15% to 50%
Illiquid Assets	10% to 30%

INVESTMENT INCOME RECORDING AND DISTRIBUTION

Distribution is proportionate to the unit holdings in the Fund. Income is distributed monthly subject to the maximum earnings threshold of 5.5% per annum. Income earned in excess of 5.5% is reflected in the capital holdings of the fund.

The University's Finance Committee has set a distribution cap of 5.5% in any year. This cap acts to reduce major variations in income available to trusts year to year, with any "excessive" returns in income reflected in the unit value and increasing the potential for higher income in future years. The rate of the cap is set to ensure that the annual results do not widely vary from the long term expected returns of the fund.