INTRODUCTION

The University of Melbourne is one of the largest trustees of charitable trusts in Australia, with more than 950 charitable trusts established by gifts or bequests during its 163 year history. With a total capital value of $665.6 million, these trusts provide income for a wide range of University purposes, including funding for scholarships, bursaries and prizes for students, staff fellowships, Professorial chair positions, research funding, books and publications, and faculty and graduate school facilities and equipment. As trustee, the University has a responsibility to carry out the trust terms and to preserve the trust capital by prudent investment.

This annual Investment Report provides an overview of how these trust funds are invested and managed.

TRUST FUNDS INVESTMENT, GOVERNANCE AND MANAGEMENT

Trust capital is invested and managed alongside the University’s overall accumulated reserves and therefore benefits from the economies of scale arising from the size and breadth of the University’s total investments. At 31 December 2015 accumulated endowments from trust funds represented approximately 39% of total investments with the remainder being the University’s accumulated reserves.

An Investment Management Committee comprised of both University staff and industry professionals provides supervision, monitoring and evaluation of the investment performance of University funds ensuring the objectives of the Trust Funds are being met. They provide advice on investment guidelines, policies and strategies, and oversee arrangements for the fund manager and custodial administrator.

The Committee Members as at 31 December 2015 were as follows:

- Mr Robert Johanson, (Chairman), Director, Grant Samuel
- Mr Martyn Myer AO, Chairman, The Myer Family Investments Pty Ltd
- Ms Liliana Colla, Portfolio Manager Fixed Interest, VicSuper
- Ms Amanda Fong, Investment Advisor/Partner, Escala Partners Ltd
- 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 Rob Brown, Professor of Finance, University of Melbourne
- Mr Peter Scott, Deputy Chairman, Gresham Partners Limited.

The Committee meets at least five times throughout the year with the second meeting of the year designated specifically to review investment strategy. The Committee reports through the University’s Finance Committee to Council.

The management of the University’s investments was outsourced to the Victorian Funds Management Corporation (VFMC) in 2002. VFMC operate as a “manager of managers” placing funds with a range of commercial fund managers.

In addition, independent asset consultants Willis Towers Watson are engaged to provide asset allocation advice.
TRUST FUNDS OBJECTIVES, STRATEGY AND POLICY

The Trust Funds aim to meet the requirements of the University across generations; this provides funding to enable trust funds to fulfill their obligations as recorded in their respective trust deeds. The aims are achieved by selecting a portfolio structure that provides long term capital growth, the ability to withstand short-medium term fluctuations, as well as reliable income streams. The aims of the portfolio, and the outcomes, are different from those normally seen or required by an individual investor or a superannuation fund. The University’s investment policy acknowledges that a negative return is expected to occur in a maximum of six out of every twenty years, and this is taken into consideration when determining the appropriate fund structure. The objectives and strategy of the Trust Funds are determined by the Investment Management Committee and approved by the Finance Committee.

The Trust Fund currently consists of eight main investment categories as follows:

- Cash
- Diversified Fixed Interest
- Liquid Strategies
- Australian Equities
- International Equities
- Property
- Private Equity
- Illiquid Strategies.

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 investments and to ensure the Trust Funds growth and perpetuity. The University is conscious of its responsibilities as a shareholder and actively asserts those responsibilities by voting at company meetings, via VFMC.

INVESTMENTS PORTFOLIO STRUCTURE AND INCOME DISTRIBUTION

The University manages the Trust and Reserve Funds as two sub-portfolios of the overall investment portfolio. This enables the differing objectives of each component to be appropriately managed.

Each fund operates under a unitised fund structure. Individual Trusts own Investment Pool Units in the Trust Fund. The value of the Trusts Investment Pool Units varies over time in accordance with the performance of the underlying Trust Funds investments.

The University applies an investment distribution policy that enables the distribution of investment earnings while balancing the objectives of providing a stable flow of income and maintaining the real value of investments over time.

Trust funds incur an internal administration fee of 2.5% of the distributed income. This amounts to less than 0.12% of the capital value of trust funds invested, and is well below the charges of other trustees.

At the end of each year, units held by all unit holders are re-valued to the market value of the underlying fund investments.

2015 TRUST FUNDS PORTFOLIO HIGHLIGHTS

The Trust Funds have performed well for many years despite volatile global financial conditions. Since inception in 2002, the Trust Funds have returned an average of 9.69%. In 2015, all asset classes outperformed the industry benchmark, except for cash and property which both performed close to set benchmarks.

The Trust Funds performance for the past 10 years is outlined in the table below.

<table>
<thead>
<tr>
<th></th>
<th>1 Year (2015)</th>
<th>3 Year*</th>
<th>5 Year*</th>
<th>10 Year*</th>
<th>Since Inception Annualised*</th>
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<tbody>
<tr>
<td>Capital Growth % p.a.</td>
<td>1.56</td>
<td>6.17</td>
<td>3.87</td>
<td>0.94</td>
<td>2.06</td>
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<tr>
<td>Income % p.a.</td>
<td>5.62</td>
<td>5.44</td>
<td>5.72</td>
<td>6.38</td>
<td>7.63</td>
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<tr>
<td>TOTAL PERFORMANCE (AFTER FEES) % p.a.</td>
<td>7.18</td>
<td>11.61</td>
<td>9.58</td>
<td>7.32</td>
<td>9.69</td>
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* Note – Returns since inception in 2002 to 2013 represent the returns achieved by the former combined (trusts and reserves) Long Term Fund. In order to calculate the 2014 Trust Funds returns, the University of Melbourne used the historical returns of the former combined Long Term Fund until 31 May 2014, and the returns of the new Trusts Fund from 1 June through to 31 December 2014.

At 31 December 2015, the value of the overall investment portfolio was $1,689.1 million, with the trust fund sub-portfolio valued at $665.6 million. A breakdown of the value of each asset class is included in the chart below.

Trust Funds Allocation at 31 Dec 2015 ($m)

<table>
<thead>
<tr>
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<th>2015 Value</th>
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<tr>
<td>Cash</td>
<td>107.6</td>
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<tr>
<td>Liquid Strategies</td>
<td>35.6</td>
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<tr>
<td>Diversified Fixed Interest</td>
<td>105.6</td>
</tr>
<tr>
<td>Private Equity</td>
<td>107.6</td>
</tr>
<tr>
<td>Property</td>
<td>63.6</td>
</tr>
<tr>
<td>Australian Equities</td>
<td>63.6</td>
</tr>
<tr>
<td>International Equities</td>
<td>37.6</td>
</tr>
<tr>
<td>Illiquid Strategies</td>
<td>95.8</td>
</tr>
</tbody>
</table>
TRUSTS AND THE UNIVERSITY

Many gifts to the University provide immediate support for University and faculty and graduate school projects and initiatives. Other gifts establish a perpetual trust which provides funding for research, scholarships, prizes, bursaries, fellowships and other purposes of the University.

When is a Trust established?
A trust is established when the University accepts a gift upon terms specified by a donor; at that point the University’s obligations as trustee commence. In the case of a perpetual trust where the donor specifies that only income is to be used for a specified purpose, the University must apply that income for the stated purpose once income is generated from the invested trust capital.

How is a Trust managed?
Since establishment in 1853, the University has benefited from the generosity of alumni and the wider community. There are over 950 charitable trusts established by gifts or bequests during its 163 year history. The University takes very seriously its responsibilities as trustee.

A team of advancement, legal, finance and compliance staff work to review how endowments and expendable donations are spent to ensure that they meet the donor’s original intentions and have maximum impact on advancing the institution and the people within it. A regular and expanding reporting cycle is in place to advise donors and their families on an annual basis.

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 – please contact
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