



THE UNIVERSITY OF
MELBOURNE

Investment Report 2004 >



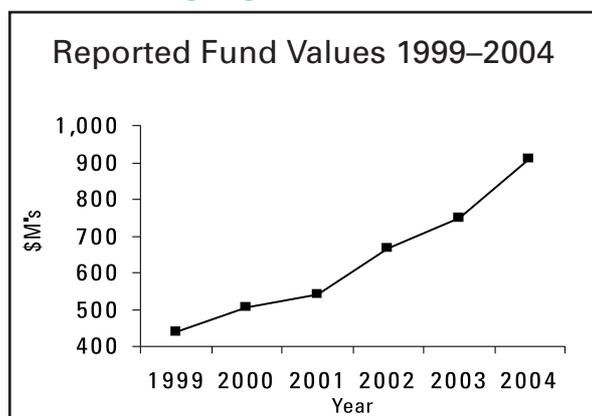
The Investment Fund Strategy & Aims

The fund is comprised of capital reserves from a significant number of trusts and endowments and accumulated university funds surplus to immediate operating requirements.

The fund aims to meet the intergenerational requirements of the University. This includes the ability to fund daily operations and enable trust funds to fulfil 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, despite short-medium term fluctuations, and to provide reliable income streams to fulfil current obligations.

On the 22nd of November, 2002 the University outsourced its long term investment fund to an external "Manager of Managers", Currently this manager is the Victorian Funds Management Corporation (VFMC). Cash has continued to be managed in-house via the short term portfolio.

Portfolio Highlights

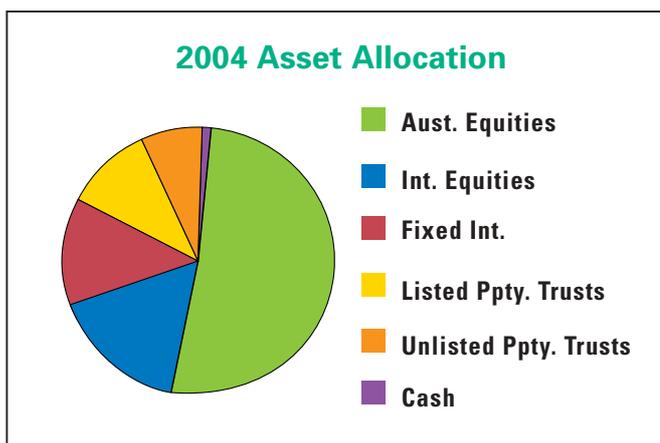


| \$m | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------------------|-------|-------|-------|-------|-------|-------|
| Long Term Portfolio* | 391.4 | 406.9 | 364.2 | 616.2 | 704.6 | 864.2 |
| Short Term | 47.8 | 99.5 | 177.9 | 50.0 | 43.3 | 44.0 |
| TOTAL | 439.2 | 506.4 | 542.1 | 666.2 | 747.9 | 908.2 |

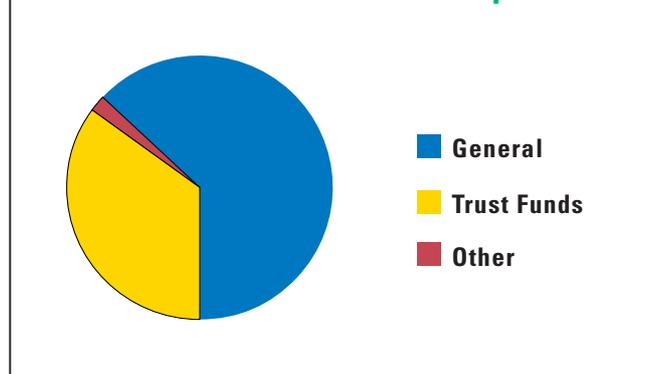
*Includes growth and additional contributions from Trust Funds and general university.

Asset Allocation - Long Term Portfolio

| | Aust. Equities % | Int. Equities % | Fixed Interest % | Listed Pty Trusts % | Unlisted Pty Trusts % | Cash % |
|------|------------------|-----------------|------------------|---------------------|-----------------------|--------|
| 2000 | 61.37 | 1.97 | 32.13 | 4.53 | 0 | 0 |
| 2001 | 64.94 | 2.39 | 28.37 | 4.3 | 0 | 0 |
| 2002 | 51.7 | 15.7 | 18.5 | 9 | 0 | 5.1 |
| 2003 | 46.36 | 16.33 | 14.76 | 14.13 | 2.47 | 5.95 |
| 2004 | 52.2 | 18.7 | 14.1 | 9.24 | 5.66 | 0.1 |



2004 Fund Ownership



2004 Long Term Fund Performance Review

The Long Term Fund Objectives given to VFMC were:

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

2004 Long Term Fund Performance Results

| Performance (after fees) | Year to 31/12/04 | Since Inception 22/11/02 to 31/12/04 |
|--------------------------|------------------|--------------------------------------|
| Benchmark | 21.15 | 13.84 |
| Actual | 21.84 | 15.26* |

*9.19% income, 6.06% growth

Asset Class Performance - 2004

| Asset Class | Actual % | Benchmark % |
|-------------------|----------|-------------|
| Aust. Equities | 29.52 | 27.56 |
| Int. Equities | 10.02 | 9.94 |
| Property - Listed | 32.00 | 32.18 |
| Property - Unlist | 10.50 | 11.91 |
| Fixed Interest | 7.29 | 6.96 |
| Short Term Fund | 5.63 | 5.62 |

The Short Term Fund

The Short Term Fund is managed directly by the University in the Department of Financial Operations.

The fund's primary aim is to meet the short term and cyclical cash requirements of the University.

The fund invests in money market instruments such as bank bills and commercial paper, along with term deposits and other short term instruments out to 365 days duration. All investments must meet the minimum Standard & Poor's credit rating as stipulated in the Investment policy.

For the year ending December, 2004 the Short Term Fund returned 5.63% outperforming the benchmark of 5.62%*.

*VFMC December 2004 Performance report.

Investment Policy

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. Currently it meets six times throughout the calendar year. The Investment Committee reports to the University's Finance Committee and is established under Standing Resolution of Council 2.1.2.

Broad objectives of the fund are to:

- provide liquidity to meet cyclic payments to beneficiaries of trusts and the operational expenses 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.

Fund Structure

The structure of the Investment fund is on a unitised basis whereby investors purchase units in the fund at market value. Entry and exit to/from the fund is undertaken at the beginning of each month.

Investing in Various Asset Classes

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

- Access to and size of markets
- Ability to generate income
- Capital growth over the medium – long term.
- Degree of liquidity

The funds' long term nature and tax-free status may also influence asset class decisions.

Investment activity embraces investment in physical financial securities and instruments.

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.

Asset weightings as specified in the investment policy:

| Class of Security | Asset Allocation Range |
|---------------------------|------------------------|
| Equities | 45% to 55% |
| Fixed Interest Securities | 10% to 20% |
| Listed Property Trusts | 10% to 20% |
| International Equities | 15% to 25% |

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 6.0% per annum. Income earned in excess of 6.0% is reflected in the capital holdings of the fund.

Management Model

The investment fund is run using a "manager of managers" approach. The fund management contract is bound by specific performance criteria and reviewed regularly. Performance of the manager is reviewed annually at the first Investment Committee meeting each year.

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 asset allocation of the investment fund is reviewed annually and is supported by advice from external asset consultants.

Investment Management Committee

Membership of the Committee is comprised of:

A Chairperson nominated by Finance Committee

The Senior Vice-Principal

The Vice Principal & Chief Financial Officer

A member of Council appointed by the Finance Committee

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

Current Investment Committee

The Current Committee is as follows:

Mr Robert Johanson, Chairman
Director, Grant Samuel

Professor Bob Officer
Capital Research

Mr Andrew Swan
Portfolio Manager, Paradise Cooper

Mr David White
Hawker Briton

Mr Ian Marshman
*Senior Vice-Principal
University of Melbourne*

Mr David Percival
*Vice Principal and Chief Financial Officer
University of Melbourne*

Professor Rob Brown
*Head of Finance, Economics and Commerce
University of Melbourne*

Examples of Trust Funds at Work

The Macgeorge Bequest

In 1952 Norman Macgeorge bequeathed his private residence "Ballangeich", situated on the banks of the Yarra in Ivanhoe, Victoria, along with some capital to the University.

The bequest stipulates that the residence be used for the benefit of students of the faculty of Arts with particular emphasis on those studying Fine Arts, Literature and History of Philosophy. The Macgeorge Fellowship provides the successful incumbent with an uninterrupted period of research, writing or artistic endeavour at "Ballangeich", including full use of the house and extensive river-front gardens. The Fellowship is usually for a period of between 4-8 weeks and includes airfares to Melbourne and a generous contribution towards living expenses for the duration of the stay.

During the Fellowship the incumbent will deliver a public lecture, performance, seminar or workshop on a topic of interest to the University community.

The 'Miegunyah' Fund

An industrial chemist by training, Sir Russell Grimwade was a man of many interests, including forestry, native timbers and printing, and was the author of two books. He is often remembered as the man who brought Captain Cook's Cottage to Australia in 1934.

'Miegunyah', in Orrong Road Toorak, was the Grimwade's home from 1911 to 1955. 'Miegunyah' is an Aboriginal word meaning 'my house'. The house and the extensive collection of cultural material which it housed were bequeathed to the University in 1972.

The Grimwade Collection, numbering some 1000 volumes, mainly comprises works of history, voyages, exploration, anthropology and natural history relating to Australia and includes significant late 18th to early 19th century editions of fine early plate books. In 1987 the property was sold by the University and the Grimwade collection was assigned to three University Departments – the Museum of Art, the University Library and the University Archives.

Proceeds from the sale of Miegunyah enabled the establishment of the Sir Russell and Lady Grimwade Fund which resources numerous activities throughout the University, in accordance with the donor's interests. This includes the publication of educational books by Melbourne University Press and the financing of a research fellow in Biochemistry.