Trusts Investment Report 2016
### Introduction

The University of Melbourne is one of the largest trustees of charitable trusts in Australia, with approximately 1,000 charitable trusts established by gifts or bequests during its 164 year history.

A trust is established when the University accepts a gift upon terms specified by a donor at which point the University’s obligations as trustee commence. As trustee, the University has a responsibility to carry out the trust terms and to preserve the trust capital by prudent investment. 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.

With a total capital value of approximately $745 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 projects, books and publications, and faculty and graduate school facilities and equipment.

This annual Investment Report provides an overview of how the trust capital is invested and managed.

### Investment, Governance and Management of Trust Capital

The University manages its overall investment portfolio as two sub-portfolios, one for trust capital and one for the University’s accumulated reserves. This enables the differing objectives of each sub-portfolio to be appropriately managed. It also enables the trusts sub-portfolio to benefit from the economies of scale arising from the size and breadth of the University’s total investment portfolio. At 31 December 2016, the value of the overall investment portfolio was $2,074.1 million, with the trusts sub-portfolio valued at $744.8 million, representing 36%. The sub-portfolio approach was introduced in 2014, prior to which the investment portfolio was operated as a single portfolio.

An Investment Management Committee (IMC) comprised of University staff and industry professionals provides oversight, monitoring and evaluation of the performance of University investments. IMC provides advice on investment philosophy, strategy and policy, and oversees arrangements for investment managers and the custodial administrator.

### The IMC members during 2016 were as follows:

- **Mr Robert Johanson**, Director, Grant Samuel (Chairman during 2016 resigned 3 February 2017)
- **Mr Martyn Myer AO**, Chairman, The Myer Family Company Ltd (Committee member during 2016 and Chairman from 3 February 2017)
- **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 Emeritus Rob Brown**, Professor of Finance, University of Melbourne
- **Mr Peter Scott**, Deputy Chairman, Gresham Partners Limited

The IMC meets regularly throughout the year, including at least one meeting dedicated to reviewing investment strategy. IMC 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 operates as a “manager of managers” placing funds with a range of commercial fund managers.

During 2016, ROC Capital Pty Ltd (ROC) was engaged to specifically manage the University’s private capital asset allocation.

Leading global advisory asset consultant Willis Towers Watson is engaged to provide independent investment strategy and asset allocation advice.

The Vice-Principal Administration & Finance and CFO has management responsibility for the University’s investments, supported by the Chancellery Finance team (particularly the Executive Director Finance and Director Corporate Finance).

In addition, a team of advancement, legal, finance and compliance staff manage the expenditure of trust income according to the donor’s intentions. Donors are also provided with annual reports which include a financial statement and outcomes for beneficiaries supported by the income from the trust.
Investment Objectives, Strategy & Policy for the Trusts Sub-Portfolio

The University’s trusts aim to meet the needs of the University across generations and the investment objectives, strategy and policy are set to enable the trusts to achieve this while fulfilling the obligations as recorded in the individual trust deeds.

Given this aim, the sub-portfolio is structured to provide long-term capital growth, the ability to withstand short-term fluctuations, and reliable income streams. Given the inter-generational view of trusts, the objective of the trusts sub-portfolio may be different from those required by an individual investor or, for example, a superannuation fund.

The objectives and strategy of the trusts’ sub-portfolio are determined by the IMC and approved by Finance Committee.

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 both growth and perpetuity. Such diversification is undertaken within the level of risk tolerance set by the IMC.

Trusts Investment Structure & Income Distribution

The trusts sub-portfolio operates under a unitised fund structure (as does the University’s overall investment portfolio). 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 investments.

At the end of each year, units held by all unit holders are re-valued to the market value of the underlying fund 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 0.10% of the capital value of trust funds invested, and is well below the administrative fees charged by many other organisations who manage charitable trusts.

2016 Trusts Sub-Portfolio Performance

The trusts sub-portfolio has performed well for many years despite volatile global financial conditions. Since inception in 2002, the total return per annum has averaged 9.55%.

Performance is summarised in the table below.

In 2016, diversified fixed interest, liquid strategies and illiquid strategies outperformed the industry benchmark, while the remaining assets classes performed close to benchmarks.

<table>
<thead>
<tr>
<th>1 Year (2016)</th>
<th>3 Year*</th>
<th>5 Year*</th>
<th>10 Year*</th>
<th>Since Inception</th>
</tr>
</thead>
<tbody>
<tr>
<td>% p.a.</td>
<td>% p.a.</td>
<td>% p.a.</td>
<td>% p.a.</td>
<td>% p.a.*</td>
</tr>
<tr>
<td>Total Performance (After Fees)</td>
<td>7.69</td>
<td>7.93</td>
<td>11.23</td>
<td>6.11</td>
</tr>
</tbody>
</table>

*Note – Returns since inception in 2002 to 2013 represent the returns achieved under the former single portfolio approach.
Make a difference

From its foundation in 1853, the University of Melbourne is privileged to be the beneficiary of generous philanthropic support from alumni, staff, parents and friends.

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.

Contact us

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