THE UNIVERSITY *of* ADELAIDE

2013 Investment Report

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seek LIGHT

International career made possible through a bequest to Elder Conservatorium

Opera singer Sky Ingram's successful international career has been made possible, in part, through a bequest left to the University of Adelaide's Elder Conservatorium of Music.

Sky, who graduated with an Honours degree in Music from the University of Adelaide in 2006, was one of the first three recipients of the George Boland Scholarship, given to Elder Conservatorium of Music graduates to further their studies internationally.

The scholarship is derived from a bequest left to the University and subsequently invested into the Endowment Fund. The bequest was given by George Boland's widow Josephine, to commemorate his name. Both George and Josephine were lovers of opera.

Sky says that the bequest has made a big difference in her life as a young musician.

> The George Boland Scholarship allowed me not only to live in London during my first year at the Guildhall School of Music and Drama, but allowed me to attend and partake in the world-class music culture of the city.

Further enquiries

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SOUTH AUSTRALIA

2013 Investment Report

Professor Warren Bebbington
Vice-Chancellor and President

The University of Adelaide was established in 1874 from a bequest by W.W. Hughes with distinctive features: a student body of democratic breadth, a staff of international distinction, a spirit of freedom to investigate new fields, a sense of importance to the community and a goal to prepare educated leaders.

Since its establishment the University of Adelaide has been amongst Australia's leading universities contributing to the wealth and wellbeing of South Australia and Australia as a whole across many fields of endeavour.

Through the generosity of its benefactors and alumni, the University has established an Endowment Fund (the Fund) which provides income for a wide range of University purposes including the funding of research projects, prizes to students and scholarships.

In 2012, the University developed its strategic plan for the next decade. *The Beacon of Enlightenment* outlines the University's goals and intentions in a rapidly changing environment. The University draws strength from its founding values to fulfil future research and teaching aspirations. It faces resourcing challenges with imagination and the University aspires to win major support from alumni and philanthropic supporters in delivering its vision.

In order to assist with reaching the University's goals and intentions the key financial objective established for the Fund is designed to provide long term capital growth as well as a stable annual income stream in perpetuity.

This report provides an overview of how the Fund is managed and a summary of its performance.

Fund governance and management

The responsibility for monitoring the Fund lies with the Chief Financial Officer, the University's Finance Committee and Council. Performance reports are provided monthly by fund managers and reports are provided to each Finance Committee meeting to ensure timely monitoring.

In 2012, the strong governance structure was further strengthened by the formation of an Investment Management Working Group incorporating experienced industry professionals. The objectives of the working group are to review the objectives, management and governance structure of the University's investments, and to provide recommendations to the Vice-Chancellor and President and the Finance Committee in relation to the overall management of the Fund.

The Working Group members as at 31 December 2013 were as follows:

> Mr David Hill, National Managing Partner, Deloitte;

> Mr Rob Patterson, Non-Executive Director, Argo Investments Ltd;

> Mr Con Michalakis, Head of Investments, Statewide Super;

> Mr Paul Duldig, Vice-President (Services and Resources), University of Adelaide;

> Mr Tony Mitchell, Chief Financial Officer, University of Adelaide; and

> Professor Ralf Zurbruegg, Chair of Finance, Business School, University of Adelaide.

Independent asset consultants Towers Watson have also been engaged to provide asset allocation and governance advice.

Late in 2013 the Working Group, in conjunction with Towers Watson, concluded its initial review. The recommendations presented to the Vice-Chancellor and President and the Finance Committee highlighted that the objectives and strategy of the Fund are sound and that the governance can be further strengthened with some minor enhancements.

Fund objectives and strategy

The Fund has been established with a target of an average annual return (after fund manager fees) of 5% p.a. plus CPI.

A growth biased investment strategy has been adopted with approximately 80% growth assets and 20% defensive assets. This strategy is consistent with the Fund's objective of providing both long term capital growth and a current income stream through exposure to a diversified investment portfolio.

Actual returns over time will vary depending upon movements in the Australian and international share markets as well as changes in property, bond and cash returns. It is possible at times that returns may be lower than the quoted expected rate range, or for returns to be negative. Due to the long term nature of the investment any negative returns are generally off-set by gains over time.

The funds are professionally managed with the current investment managers being Mercer Investments (Mercer) and Macquarie Private Portfolio Management (Macquarie), both highly regarded fund managers.

Mercer is a multi-manager investor that adds value through selecting the best fund managers for individual investment sectors. Macquarie is an active risk-controlled investment manager that makes direct investments on behalf of the University in Australian equities and fixed interest investments.

This strategy of appointing separate fund managers has delivered strong returns to the University.

The differing strengths of each investment strategy have also provided the Fund with reduced financial risk through diversification of investments.

Capital growth and distributions

Distributions of up to 5% are calculated as at 31 December of each year. This distribution may be taken as income to fund research projects, prizes and scholarships or re-invested back into the Fund. The income distribution at 5% was advised by the fund managers as being the maximum amount that could be provided as income without the risk of eroding the capital base over the longer term.

Actual investment earnings for the year (after deducting fund manager fees and any interest distribution) are reflected in the capital value of the investment as capital growth. For example, if the annual return of the Fund is 12%, up to 5% will be distributed as income and the remaining balance of the year's earning will be reflected as capital growth. If the annual return is 2%, up to 5% will continue to be distributed as income and the value of the underlying investments will be reduced. As set out above, the income distribution may be re-invested back into the Fund if not required immediately.

Investment and management costs

Fees are payable to the fund managers as a percentage of funds under management. Both managers also have entry and exit spreads. The fee structure is at a significant discount to what would ordinarily be charged for smaller investments. The weighted average fee paid to the fund managers is 0.7% p.a. of capital funds invested. The University does not levy any additional fees to those charged by the fund managers.

Fund highlights

As at 31 December 2013, the Fund consisted of 457 individual projects totalling $216.4M. These monies are pooled together to form the Fund.

In 2013, the Fund generated growth of $38.1M (+22.16%) and distributed $6.8M to 294 individual research, prize and scholarship projects throughout the University.

The Fund performance for the past 5 years is outlined in the table below.

Long term fund performance results

Year	2009	2010	2011	2012	2013
Performance (after fees) % p.a.	22.64	3.60	-5.39	16.55	22.16

Over the previous 5 and 10 years the Fund has returned an average of 11.91% p.a. and 8.80% p.a. respectively.

Our current fund managers were appointed in March 2009 and since that time they have provided investment returns of 14.6% (Mercer) and 12.8% (Macquarie) post-tax (including franking credits). This compares to the Fund annual investment return target of 7.5% since the appointment of the fund managers.

2013 asset allocation ($M)