Background
Since its establishment in 1874 the University of Adelaide has been amongst Australia's leading universities. Its contribution to the wealth and wellbeing of South Australia and Australia as a whole - across all fields of endeavour - has been enormous.

Through the generosity of our benefactors and alumni, the University has established an endowment fund which is used to fund research projects, prizes and scholarships.

The key financial objective of the Fund is to provide medium term capital growth as well as a stable annual income stream in perpetuity. This is achieved by selecting professional fund managers for the portfolio.

Fund managers
In late 2002, a tender process was undertaken to select the most suitable fund manager for the composite fund. The tender process was undertaken and the final decision made under the review of the University’s Finance Committee. The tender process resulted in management of the composite fund being awarded to both Russell Investment Group and Barclays Global Investors, both highly regarded fund managers.

Each fund manager is independently responsible for half the current value of the fund. Russell is a multi-style, multi-manager investor that adds value through selecting the best fund managers for individual sectors of the overall investment. Barclays is an active risk-controlled investment manager that makes direct investments and uses tactical asset allocation to add value to the fund.

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

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

Asset allocations
Both of the fund managers use a balanced investment strategy with approximately 70% growth assets and 30% fixed interest investments. This strategy is consistent with the fund’s objective of providing both medium term capital growth and a current income stream through exposure to a diversified investment portfolio.

Returns
Actual returns over time will vary dependent 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.

Governance structure
The responsibility for monitoring the performance of the fund managers lies with the Chief Financial Officer and the University’s Finance Committee. Performance reports are provided on a regular basis to enable timely monitoring to occur.
Deposits
Investments are made into the composite fund on a monthly basis (from the first business day of the month following the date the investment is received). Prior to funds being invested in the composite fund, they are invested in the University’s cash management account and attract interest at prevailing money market rates.

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.

Capital Growth
The fund is re-valued as at 31 December each year. Actual investment earnings for the year (after deducting 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 interest and the remaining balance of the years earning will be reflected as capital growth. If the annual return is 2%, up to 5% will continue to be distributed as interest and the value of the underlying investments will be reduced. As set out above, the interest distribution may be re-invested back into the composite fund at the investor’s discretion.

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 fees are subtracted from the earnings of the fund by the fund managers. The University does not charge any additional fees to those charged by the fund managers.

Contacts
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