2012 Investment Report

Introduction

The University of Adelaide was established in 1874 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 fulfill future research and teaching aspirations. It faces resource challenges with imagination and the University looks 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 are designed to provide long term capital growth as well as a stable annual income stream through exposure to a diversified investment portfolio.

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 enable timely monitoring to occur.

In 2012, the strong governance structure was further strengthened by the formation of an Investment Management Working Group incorporating industry professionals. The objective of the working group is 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 2012 were as follows:

- Mr David Hill, National Managing Partner, Deloitte Private;
- Ms Carolyn Hewson AO, Non-Executive Director, BHP Billiton Ltd and BT Investment Management Ltd;
- Mr Rob Patterson, Non-Executive Director, Argo Investments Ltd;
- Mr Paul Duldig, Vice-President (Services and Resources), University of Adelaide;
- Professor Ralf Zurbruegg, Chair of Finance, Business School, University of Adelaide;
- Mr Paul Duldig, Vice-President (Services and Resources), University of Adelaide; and
- Mr Tony Mitchell, Chief Financial Officer, University of Adelaide.

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

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 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 offset 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.

Fund highlights

As at 31 December 2012 the Fund consisted of 443 individual projects totaling $180.7M and pooled together to form the Fund.

In 2012 the Fund generated growth of $20.7M (+16.55%) and distributed $4.2M to 159 individual research, prize and scholarship projects throughout the University.

The Fund performance for the past 6 years is outlined in the table below.

<table>
<thead>
<tr>
<th>Performance (after fees) % p.a.</th>
<th>2007</th>
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<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tbody>
<tr>
<td>Long term fund performance results</td>
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<td>-26.72</td>
<td>22.64</td>
<td>3.60</td>
<td>-5.39</td>
<td>16.55</td>
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Over the previous 10 years the Fund has returned an average of 7.58% p.a.

Our current fund managers were appointed in March 2009 and since that time have provided annual investment returns of 12.6% (Mercer) and 10.7% (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.

<table>
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<th>2012 asset allocation (%M)</th>
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<tbody>
<tr>
<td>Australian Equities</td>
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<tr>
<td>Cash</td>
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<tr>
<td>International Equities</td>
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<td>Fixed Interest</td>
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The weighted average fee paid to the fund managers is 0.7% p.a. The University does not charge any additional fees to those charged by the fund managers.

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.