

The Australian National University
Investment Advisory Committee
Investment Performance Summary for Year Ended 31 December 2012

INTRODUCTION

The strategic goal of the ANU is to advance knowledge through excellence in research, education and community engagement. In pursuit of this goal the University seeks to protect and grow its financial assets, providing a sound financial platform from which to support the University over the long-term. The assets are managed by the ANU Investment Office under advice from the Investment Advisory Committee (IAC), a sub-committee of the Finance Committee. The IAC reports to Finance Committee and through it to University Council.

INVESTMENT OBJECTIVE

The University Investment Objective is to obtain the maximum possible long term return on the available capital, consistent with achieving a minimum return to the University of Consumer Price Index plus 4.0% over rolling 5 year periods and ensuring a negative annual real return occurs less frequently than once every 6 years on average. Over the shorter term, it is recognised that there will be periods when investment returns do not meet this objective. Accordingly the University also aims to achieve returns (after fees and tax) that are in excess of the median return of other funds with comparable risk and return profiles as measured by independent industry surveys over three year periods. The portfolio will contain sufficient liquid assets to pay the financial obligations of the Long Term Investment Pool (LTIP), including those relating to the Commonwealth Superannuation Scheme, as they fall due.

FUNDS UNDER MANAGEMENT

The University's realisable investment assets at 31 December 2012 were \$1,130.6 million. Of this total, \$777.0 million was invested through a balanced fund known as the Long Term Investment Pool (LTIP) with exposure to all major asset classes including local and overseas equities, property, fixed interest, alternative investments and cash. The major account holders within the LTIP include a reserve to provide for University liabilities relating to the Commonwealth Superannuation Scheme, and various Endowment reserves.

The LTIP is administered in a similar manner to a commercial unit trust with account holders buying and selling units in the Pool at market value. Distributions are made to unit holders on a quarterly

basis. The distribution rate for 2012 was 5.0%. The difference between the distribution rate and the actual return generated by the LTIP was reflected in the LTIP unit price.

In addition to the LTIP the University held \$353.6 million invested in cash and short term securities on behalf of account holders with shorter term investment horizons such as General Recurrent Funds and various Special Purpose Funds

MANAGEMENT OF FUNDS

The University maintains a professionally staffed Investment Office located within the Finance and Business Services Division. This Office is responsible for the day-to-day management of the funds and for preparing investment strategy recommendations, asset allocation and investment policy papers for consideration by the Investment Advisory Committee (IAC). It also provides investment reports directly to Finance Committee.

The IAC was established in 1968 to review the management operations and financial performance of the University's investment portfolios and to advise Finance Committee accordingly. In addition, the IAC provides advice on matters of investment policy and operational guidelines. The IAC conducted four meetings during 2012. At the IAC meetings the Committee reviews the investment strategy, asset allocation settings for the LTIP, the investment performance, governance, risk and policy issues.

The University's investment management model is strongly weighted to internal investment management with approximately 85% of the \$1,130.6 million held at 31 December being directly invested by the ANU Investment Office in publicly listed markets, direct property and fixed interest/cash securities. The remaining 15% is placed with external fund managers in areas that require specialist expertise or where the University seeks some additional diversification. This model has delivered superior returns over a long period of time via its low cost structure, better control of asset allocations and its capacity to act in a timely manner through a proactive decision making process. The University has a long history of adding value in its internally managed investments compared to industry benchmarks and commercial peer managers as verified by independent performance reviews.

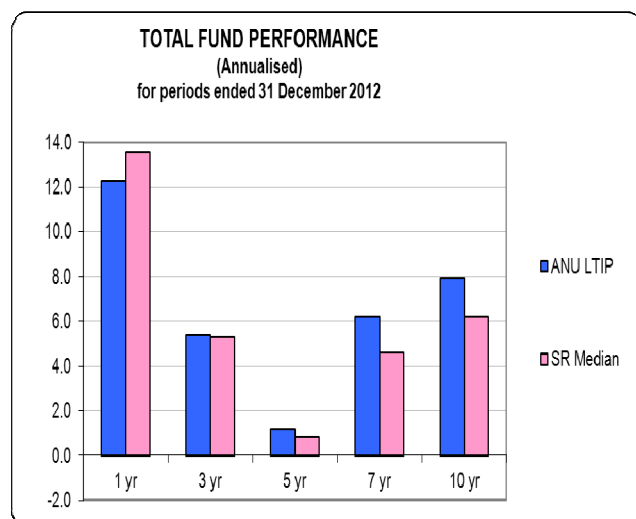
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At 31 December 2012 membership of the IAC comprised the Vice-Chancellor Professor Ian Young, the Chair of Finance Committee Mr Graeme Samuel, the Chief Finance Officer Mr David Sturgiss and six persons with expertise in finance and investments. The independent specialists in 2012 included Mr Tim Crommelin (Chair, Executive Chairman RBS Morgans), Emeritus Professor Allan Barton (former ANU Pro Vice-Chancellor and Treasurer, and former Dean Faculty of Economics and Commerce), Professor Warwick McKibbin (Chair in Public Policy and Public Policy Fellow), Mr Ottmar Weiss (various company director and committee roles), Ms Amy Auster (ANZ Bank executive), Mr Paul Powderly (Canberra Chief Executive of Colliers International) and Dr Geoff Warren (Senior Lecturer at the ANU School of Finance, Actuarial Studies and Applied Statistics).

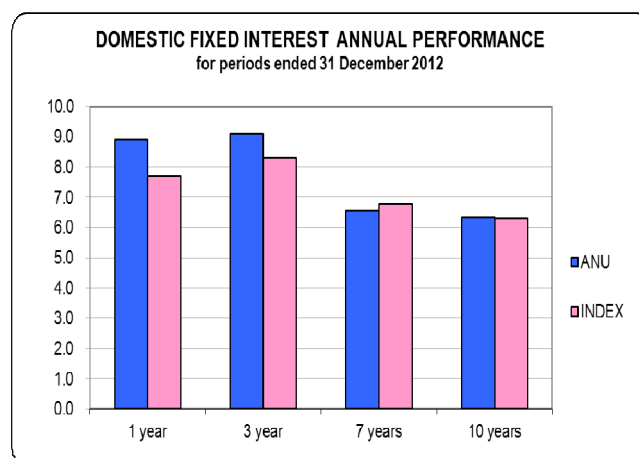
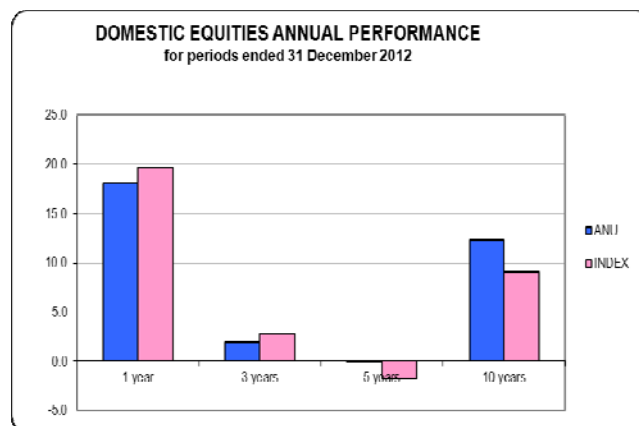
INVESTMENT FEATURES FOR 2012



- 2012 Return:** The investment return in 2012 was 12.3% (after the management expense ratio of 0.2%). The benchmark return, the median return of the SuperRatings (SR) Pension Fund Crediting Rate Survey (Balanced Option), was 13.6%. Strong contributions were made by domestic equities with 18.1% return for the year, overseas equities 14.4%, listed property trusts 34.4%, fixed interest 8.9% and cash 7.5%.
- Strong Long-term Relative Performance:** SuperRatings data confirmed ANU performed strongly against peers longer-term with the LTIP outperforming the median manager for all periods 3 years and greater. SuperRatings placed

the ANU LTIP 4th of 35 funds in its data base over 10 years.

- Strong Long-term Absolute Performance:** Over the 10 year period to 31 December 2012 the LTIP achieved a compound return of 8.2%. Investment returns for domestic equities were 12.3%, alternative investments 8.2% and fixed interest 6.4% over the same period.



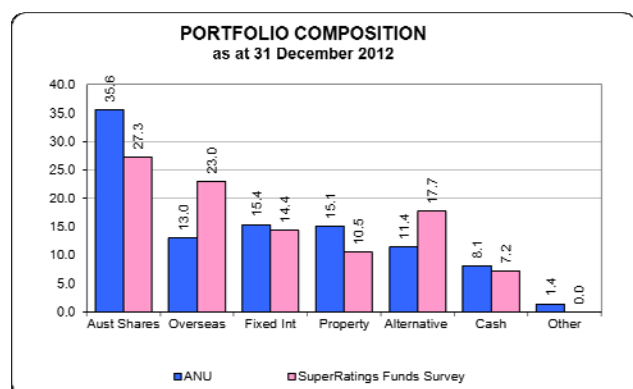
Asset Allocation and Investment Strategy

The year ended 31 December 2012 provided strong gains for Australian investors in domestic and overseas share markets as uncertainties surrounding financial markets following the global financial crisis (GFC) faded. Globally, central banks continued to support bond markets via ultra-low interest rates and outright purchases of debt. The European debt crisis continued to worry investors in the first half of 2012 but markets responded positively to statements by the European Central Bank that it would support peripheral European bond issuance via direct purchases and other mechanisms. Bond yields for Spain, Portugal and Italy fell significantly during the year, albeit with considerable volatility. The US,

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UK, Japanese and German stock markets provided good returns for investors, and in December the Chinese market also performed strongly.

The LTIP asset allocation strategy through 2012 was biased towards Australian equities relative to other managers. Valuations appeared favourable and dividend yields were good relative to cash and bond yields. This overweight position contributed to relative and absolute performance for the year.



The ANU LTIP was overweight Australian equities, direct property and cash relative to the average balanced manager and underweight overseas equities.

The asset allocation was constantly reviewed and vigorously debated through the year at the regular IAC meetings and within the Investment Office. The LTIP investment strategy was based on a long term perspective taking into account economic fundamentals, relative and absolute valuations for assets and an assessment of potential risks. These factors supported an ongoing commitment to the target asset weightings maintained through most of 2012 including a strong allocation to domestic equities, direct property, domestic fixed income and cash. The allocation to overseas equities was increased during the year as prospects for these markets improved.

Summary

The LTIP provided a strong investment return for the University in 2012 with a total after fees return of 12.3%. The LTIP investment performance was slightly below the peer comparator benchmark for the year, but long-term relative performance remained strong. The ANU investment model continued to provide efficient, effective and prudent stewardship of the ANU financial assets.