Investment Advisory Committee

Investment Performance Summary for Year ended 31 December 2009

ASSET ALLOCATION

The asset allocation at 31 December 2009 compared to the average exposure in the SuperRatings Funds Survey is provided in the chart below. The University maintained a higher exposure to domestic equities, fixed interest and cash than the average SR balanced manager. ANU had less exposure to overseas equities and alternative investments. The overall exposure to risk assets was lower than the average balanced manager.

MARKETS & STRATEGY IN 2009

Most major equity markets showed strong positive gains in 2009. For the year ended 31 December the US S&P 500 gained 23 per cent, the London FT 100 gained 23 per cent, the German Dax was up 24 per cent and the Japanese Nikkei increased 19 per cent. The Australian share market was one of the best performing of the developed markets in 2009 with the ASX/S&P200 Index increasing by 33 per cent. Investors in corporate bonds also did well as credit spreads narrowed. Sovereign bond investors experienced low investment returns as rising yields and declining capital values offset coupon flows. Investors in unlisted vehicles with exposure to property, private equity and infrastructure generally experienced negative returns.

Large fiscal and monetary policy stimulus programs resulted in most economic regions returning positive growth in the final quarter of 2009 but at the cost of very large increases in public debt. Much of the private debt held in the world’s financial systems was effectively transferred to the public sector with consequent implications for future tax burdens in those countries. Australia had the benefit of starting from a low base in terms of net public debt providing it with a comparative advantage in terms of being able to weather the economic downturn in 2009 and providing more policy flexibility in future years.

The Reserve Bank of Australia (RBA) was the first G-20 central bank to tighten monetary policy when it increased the cash rate by 0.25 per cent in early October and followed up with 0.25 per cent increases in November and December. By contrast there was little or no prospect that the US Federal Reserve, the Bank of England, the Bank of Japan or the European Central Bank would consider increasing rates at the end of 2009. This divergence of policy by the RBA reflected a genuine difference in economic circumstances pertaining in Australia relative to most other developed economies.

Australia was the only significant developed economy to avoid a recession in 2009. Unemployment peaked at less than 6 per cent, much lower than Treasury forecasts presented in the May Budget and consensus forecasts by market economists. The US, UK and the European Union economies experienced unemployment rates close to or above 10 per cent. Commodity prices rebounded in 2009 as demand from China and India recovered. Export volumes remained strong putting upward pressure on the Australian dollar. House prices actually increased in Australia during the year compared to the US where they continued to fall. Some European countries experienced sharply lower house prices further dampening consumer confidence. A respectable rebound in US GDP growth numbers in the second half of the year was largely attributable to inventory rebuilding and special government programs such as housing incentives and a cash-for-clunkers auto stimulus program.

In this environment the University maintained a relatively defensive investment strategy and asset allocation stance with a strong bias to Australian assets in 2009. The lower risk settings did not stop ANU from outperforming its benchmarks with very good relative and absolute returns across most of the asset classes.

OVERSEAS EQUITY PERFORMANCE

For periods ended 31 December 2009

<table>
<thead>
<tr>
<th></th>
<th>ANU</th>
<th>MSCI World Index (ex Australia) Unhedged</th>
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</thead>
<tbody>
<tr>
<td>1 year</td>
<td>1.0</td>
<td>6.0</td>
</tr>
<tr>
<td>5 years</td>
<td>11.0</td>
<td>16.0</td>
</tr>
<tr>
<td>10 years</td>
<td>35.5</td>
<td>30.5</td>
</tr>
</tbody>
</table>

OVERSEAS EQUITY PERFORMANCE

(Annualised)

<table>
<thead>
<tr>
<th></th>
<th>ANU</th>
<th>SuperRatings Funds Survey</th>
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</thead>
<tbody>
<tr>
<td>1 year</td>
<td>-4.0</td>
<td>35.5</td>
</tr>
<tr>
<td>5 years</td>
<td>1.0</td>
<td>19.9</td>
</tr>
<tr>
<td>10 years</td>
<td>11.0</td>
<td>15.5</td>
</tr>
</tbody>
</table>

Equity (Domestic) | Equity (Overseas) | Fixed Interest | Property | Alternative Investments | Cash

The lower exposure to risk assets was reflected in the SR measures of risk which showed that ANU had a below average monthly Standard Deviation of returns in 2009 and a very strong Information Ratio over one, three and five years.
INTRODUCTION
The strategic goal of The Australian National University (ANU) is to advance knowledge through excellence in research, education and community engagement. In the pursuit of this goal the University seeks to protect and grow its financial assets to provide a sound financial platform to ensure its capacity to deliver over the long haul. 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 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 per cent over rolling five year periods and ensuring a negative annual real return occurs less frequently than once every six 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 years periods. The portfolio will contain sufficient liquid assets to pay the financial obligations of the LTIF, including those relating to the Commonwealth Superannuation Scheme, as they fall due.

FUNDS UNDER MANAGEMENT
The University’s realisable investment assets at 31 December 2009 were $1,102.3 million. Of this total $756.9 million was invested through a balanced fund known as the Long Term Investment Pool (LTIF) with exposure to all the major asset classes including local and overseas equities, property, fixed interest, alternative investments and cash. The balance was made up of $54.9 million held in a Commonwealth Capital Grant account, $16.4 million earmarked for capital improvements, $19.2 held in a Teaching and Learning Fund, $9.3 million for Better Universities Renewal Fund and $245.7 million of General University funds held in cash and liquid securities.

Unit holders in the LTIF include the ANU Superannuation Reserve Account, ANU Endowment Funds and other reserve accounts such as the Long Service Leave Fund. The LTIF is administered in the same manner as a commercial unit trust with unit holders buying and selling units in the Pool at market value and distributions to unit holders on a quarterly basis. The University charges a central administration levy on funds under management, except for the Endowment Funds. The distribution rate for 2009 was 5 per cent. The difference between the distribution rate and the actual returns generated by the LTIF was reflected in the LTIF unit price.

MANAGEMENT OF FUNDS
The University maintains a professionally staffed Investment Office. 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 IAC.

The IAC was established in 1968 to review the management and financial performance of the University’s investment operations 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 2009.

A major review of the asset allocation policy was completed in May. The main outcome was a shift in the strategic target allocations away from risk assets to more defensive assets. It was also decided to increase the bias towards domestic assets at the expense of overseas exposure and to continue to favour internally managed investments over external management. The University has a long history of adding value to its internally managed investments.

Membership of the IAC comprises the Vice-Chancellor, the Chair of the Finance Committee, the Chief Finance Officer and six persons with expertise in finance and investments. The six specialists in 2009 were Mr Tim Cramolin (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 Tim Braitsford (Executive Dean, Business, Economics and Law at University of Queensland), Mr Jim Service (Managing Director JG Service Pty Ltd), Mr Robert Ferguson (various senior executive roles) and Mr Otmar Weiss (various company director and committee roles).

INVESTMENT HIGHLIGHTS FOR 2009

- **2009 Return**: The investment return in 2009 was 19.0 per cent (after the management expense ratio of 0.2 per cent). The benchmark return, the median return of the SuperRatings (SR) Pension Fund Crediting Rate Survey (Balanced Option), was 16.1 per cent. This ranked the University in twenty-third place in the SuperRatings Survey of 103 funds for the 2009 year.

- **Strong Long-term Performance**: SuperRatings data indicates strong longer-term performance by ANU for the total fund (14/62 for three years, 2/79 for five years and 2/35 for seven years), the domestic equities portfolio (2/62 for three years, 1/46 for five years and 1/16 for seven years) and the overseas equities (7/58 for three years, 4/36 for five years and 1/17 for seven years).

- **Strong Individual Sector Performance 2009**: The ANU domestic equities portfolio provided an excellent absolute performance of 45.6 per cent in 2009, ranking ANU 5/73 in the SR Survey. The overseas equities portfolio delivered a strong return of 16.3 per cent for the year compared to its benchmark return of minus 0.3 per cent and the SR median of 10.9 per cent. The fixed interest portfolio returned 10.9 per cent compared to the benchmark 1.7 per cent and the SR median of 8.3 per cent. The cash portfolio also performed well with an investment return of 11.0 per cent, well above the benchmark return of 3.5 per cent and the SR median return of 3.4 per cent.