Investment Fund Report

2024

UNIVERSITY of TASMANIA

Investment Fund Report 2024

As outlined in the University's refreshed Strategic Plan, the University aims to make a difference for Tasmania and a distinctive contribution from Tasmania. It works in partnership with community, industry and government to achieve bold changes in relation to education, health, productivity and climate which enhance life for Tasmanians and the world. Philanthropy plays a key role in helping the University achieve these goals in tangible ways and across generations.

Through the generosity of our benefactors the University now manages a significant portfolio of philanthropic funds, which continue to provide income that enables us to deliver this mission in tangible ways. This includes the funding to create a more equitable, healthier and creative Tasmania, save our threatened species and protect our planet for future generations.

To ensure that we continue to meet these challenges and that this work can be sustained, the key financial objective of the University's investment portfolio is to provide long-term capital growth, as well as stable annual income in perpetuity.

This annual report provides an overview of how philanthropic funds at the University are managed and a summary of their performance. Correspondence relating to individual funds is provided separately to donors, or their nominated representatives.

Funds governance and management

The University's philanthropic funds, including bequests and endowments, total approximately $138 million as of 31 December 2024. Philanthropic funds established for long-term investment are managed as part of the University's investment portfolio.

The investment portfolio is integral to the University's strategy to strengthen its long-term financial sustainability and to further its mission to make a difference for Tasmania and from Tasmania to the world.

An Investment Advisory Panel, comprising University staff and industry professionals, provides oversight and stewardship of the investment portfolio and advice on investment strategy and policy.

The members of the Investment Advisory Panel as of 31 December 2023 were:

Mr Daniel Minihan
Investment Advisory Panel Chair and Partner, SW Australia

Mr Rohan Boman
University of Tasmania Co-Chief Investment Officer

Mr Craig Barling
University of Tasmania Deputy Vice-Chancellor Student Services and Operations

Mr Ben Rose
University of Tasmania Chief Financial Officer

Ms Nadyne Russell
Secretary

The University Foundation Committee (UFC) oversees the University's philanthropic practices and policies. The Committee receives reports on the performance of the fund, providing feedback to the University Council through the Chair, Vice-Chancellor Professor Rufus Black.

Fund objective and purpose

The investment strategy has evolved over time towards a longer-term endowment-style model, with a focus on worldclass, goal-aligned fund managers and a deep commitment to the transformational energy transition required to achieve a zero-carbon future (in accordance with the Intergovernmental Panel on Climate Change target). The endowment model is used by some of the largest university endowments in the world to achieve returns over a long-term investment horizon with lower levels of volatility through diversification into non-traditional asset classes.

The University's investments are managed to realise the objectives of endowed funds, and to meet the annual spending requirements (including scholarships, prizes, and research).

The Treasury and Investment Policy frames the overall objectives for the University's long-term investment funds with investment decisions managed to achieve in aggregate:

- a return objective that is long-term and not a year-by-year measure
- a return, after fees, at least equal to the average increase in the headline consumer price index plus a margin recommended by the University's investment advisors and approved as part of the annual strategic planning process (headline consumer price index plus a margin of 5% as of 31 December 2024)
- a diversified portfolio that mitigates the risk of a permanent loss of capital
- returns with lower volatility than would be experienced by investing solely in the public equity market
- sufficient liquidity to mitigate existential risk
- an accelerated transition to a zero-carbon future through the application of:
  i. a negative screen for fossil fuel investments; and/or
  ii. a positive screen for investments driving the energy transition
- a positive screen for the University's environmental, social and governance commitments.

In consultation with advisers, the University has set a long-term 'stretch' target to maximise the likelihood of achieving excess risk-adjusted returns.

This guides investment decisions on strategic asset allocation and tactical opportunities, but there is no guarantee that this excess risk adjusted return will be achieved.

Environmental and social governance

The world around us is undergoing a period of transformation, driven by technology, demographics, political and environmental change. The University is committed to navigating this change and actively progressing sustainable outcomes.

Investment decisions are governed by policy to achieve a zero-carbon future and accelerate the transition to a zero-carbon economy through investment in the energy transition. With the significant capital investment required to reach net-zero carbon emissions (in accordance with the Intergovernmental Panel on Climate Change), this is considered by many as one of the next great transformations.

We continue to identify opportunities in public and private markets that align with our zero-carbon and energy transition policy objectives, whilst maintaining an over-riding focus on preserving and growing the real value of endowments. Given their longer-term horizon, transition strategies are well suited for illiquid private markets and aim to generate measurable social and environmental impact in addition to financial returns and provide greater diversification. Our investment in these markets, including impact investments, has increased in recent years.

As sustainable investing evolves, it has become a more fundamental theme affecting risk and returns. However, when evaluating returns, macroeconomic variables can affect the performance of sustainable investments leading to divergence from broader market indices. For example, the exclusion of energy companies is likely to lead to outperformance against market indices in an environment of falling oil prices, but potential underperformance when oil prices are rising. Furthermore, interest rates and inflation can also influence the relative performance of clean energy investments. Megatrends such as the transition to a lower carbon economy have the ability to reshape markets and have the potential to provide long-term growth, although this also creates investment risk and uncertainty, which needs to be carefully managed.

We continue to consider opportunities to enhance the investment portfolio. Ongoing dialogue with our fund managers is key to ensuring we understand and manage investments for potential risks, including environmental and social, and to adapt to a complex and changing landscape.

Fund and market highlights

The long-term portfolio produced a strong return of 12.2% p.a. and 13.7% p.a. (excluding cash) for the year ended 31 December 2024.

Despite ongoing adjustments to structurally higher inflation, interest rates and a shifting political landscape, the global economy displayed resilience throughout 2024. The outlook for 2025 is still impacted by uncertainties, including historically high valuations, concentration in U.S. markets and the stocks within it, and changes in U.S. policy. Although inflation is moderating, it remains a structural concern, and we remain alert to various risks, including geopolitical instability, the rapid growth of artificial technology and divergence of monetary policies.

In recent years, market volatility has been impacted by the global pandemic, increasing geopolitical tension and substantially higher inflation than we have had in the past 25 years. Notwithstanding this high inflation in recent years and the impact of COVID-19, over a 5-year period, the long-term portfolio delivered a return of 5.8% p.a. and 6.7% p.a. (excluding cash) against a stretch target return designed for the long-term of 8.7% p.a.

The long-term portfolio is diversified across asset classes, public and private markets, to dampen volatility in difficult economic and financial conditions. It is aligned with the policy objective to achieve lower volatility than would be experienced by investing solely in the public equity markets. A key focus is on partnering for the longer term with highly regarded investment managers with deep expertise in their chosen market or strategy and across market cycles. Combined with our zero-carbon future objective and an overriding focus on maintaining and growing real value, the long-term portfolio and its approach are customised for the University and may not align with market indices and peers.

Equities

Australian shares performed well in 2024, with the market benefiting from falling inflation and an easing of interest rate expectations. Global equity markets delivered strong gains for a second consecutive year but continued to be dominated by a handful of technology companies known as the Magnificent Seven (Microsoft, Apple, Alphabet, Amazon, Nvidia, Meta, and Tesla). Continued optimism surrounding artificial intelligence and technology contributed to equity market performance in 2024.

Public equity holdings generated strong returns for the long-term portfolio again this year. The overall allocation to public equities has remained consistent at around 40% and includes exposure to both domestic and global markets.

As at 31 December 2024, 36% of the long-term portfolio was invested in public equities with 10% in Australian Equities and 26% in Global Equities.

While maintaining a long-term investment focus, monitoring of fund-manager performance is ongoing and decisions to rebalance our portfolio are influenced by a range of factors and considerations.

Private Equity

Private Equity is well suited to a long-term endowment strategy, providing diversification and exposure to return drivers not available in public markets. Since 2018 this asset class has generated strong returns despite a majority of funds still in the investment stage where capital is being deployed. In 2024, the long-term portfolio's private market investments, including Private Equity, Venture Capital and Infrastructure, were a significant contributor to performance.

The University has been active in managing its allocation to private equity to benefit from market conditions and attractive investment opportunities. We continue to partner with world-class managers with significant expertise and resources and targeted pools of capital to invest in opportunities across a range of themes aligned with our zero-carbon future objective.

Infrastructure

Unlisted infrastructure, being less sensitive to short-term share market volatility, also provides a hedge against inflation and has delivered consistent returns. Repositioning of our infrastructure investments since 2021 has seen longer term investment in global fund managers that are closely aligned with our zero-carbon future objective.

Significant opportunities exist for investment in infrastructure to respond to the transformational energy transition required to achieve a zero-carbon future, with funds dedicated to the energy transition and environmental infrastructure having grown significantly in recent years.

Private Credit

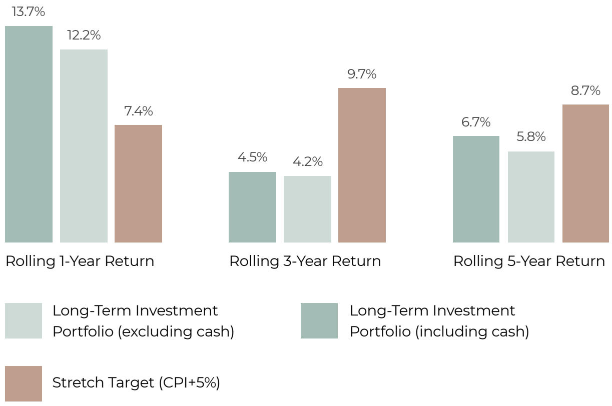
Our shift from fixed income strategies to senior secured credit investments, as an alternative defensive asset, was a strategic response to various macroeconomic factors. The long-term portfolio is mainly invested in international floating rate instruments with short duration and high-quality asset cover and has continued to deliver stable returns, offers a low correlation to broader equity markets and provides liquidity to the long-term portfolio.

Cash and cash equivalents

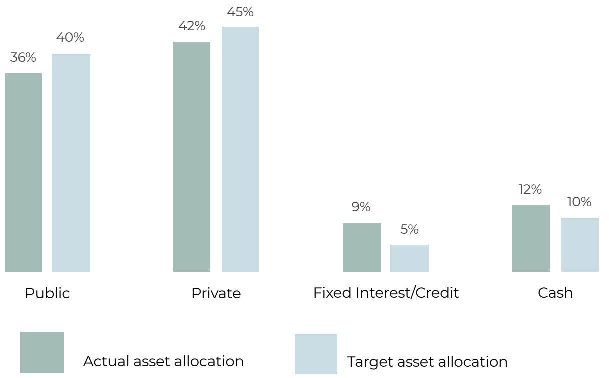
This asset class continued to generate steady returns for the fund during 2024 with stable interest rates. A tactical overweight allocation to cash as at 31 December 2024 considers existing private market investment commitments and associated capital that is expected to be deployed in the short-term.

As outlined in the table below, over a 5-year period, the fund has returned 5.8% p.a. and 6.7% p.a. (excluding cash) against the portfolio's long-term stretch target of 8.7% p.a. in a high inflation environment.

Fund performance 1, 3 and 5 years



Asset Allocation as of 31 December 2024



Building student aspiration in perpetuity through generous giving

The generosity of Jocelyn Watson OAM and John Watson AM shows how giving can positively impact the lives and journeys of current and future students pursuing careers that support Tasmania's communities.

Last year, the pair made an endowed gift to recognise student academic success – a gesture now etched in perpetuity as the Jocelyn Watson OAM FPS Community Pharmacy Prize and John O W Watson AM Business Tax Prize.

Entrusting these funds into the University's care and management will see the legacy of Jocelyn and John endure as the prizes established in their honour continue being awarded for generations.

"The University of Tasmania is close to our hearts, as John studied there, as well as our four children. We deeply value education to provide opportunities in life, hence our gift to the University to support and encourage students," Jocelyn and John said.

"University study is a huge commitment, and a degree opens up so many opportunities. Encouraging excellence and supporting students to do their best is always worthwhile."

Since marrying and making a home together in Tasmania, John and Jocelyn have devoted a life of service to their community.

John worked as a qualified accountant, also teaching tax and helping establish guidelines for superannuation before becoming a Senator for Tasmania and later, a member of the West Tamar Council.

Jocelyn worked as a locum Community Pharmacist in Launceston, and as the Director and Chairperson of the United Friendly Society Pharmacy among other roles, in addition to mentoring fellow pharmacists.

"We trust that these prizes will inspire and support others in the same careers which have brought us much satisfaction and continue our legacy in each of these disciplines."

For the inaugural prize recipients, final-year pharmacy student Sarah Reay, and recent business graduate Daniel Hughes, the donations of Jocelyn and John mean so much.

35-year-old Sarah is on her way to becoming a Community Pharmacist in Launceston with plans to intern at her current workplace where she hopes to also become a partner one day.

Jocelyn and John Watson

"I love being part of a community pharmacy, particularly the relationships with patients, the accessibility that allows the community to seek health advice, and the daily chaos and uncertainty that come with it, as you never know who or what will walk through the door," Sarah said.

"University study is a huge commitment, and a degree opens up so many opportunities. Encouraging excellence and supporting students to do their best is always worthwhile."

"Jocelyn has been incredibly generous in establishing this prize to support pharmacy students, following her remarkable career in community pharmacy and as an educator. I am blessed to have access to amazing mentors, lecturers, and tutors, as well as a fantastic cohort of fellow students who not only want to be part of the pharmacy profession but also to enhance it."

Hobart-based Daniel, 22, is ready to embark on a career in business, currently applying for opportunities that can challenge him while imparting new and valuable skills.

"I've always been interested in business and dreamt of one day running my own business. Studying a Bachelor of Business allowed me to develop skills in accounting and marketing—two areas that complement each other well as a business owner," Daniel said.

"It's an honour to receive this award, and I'm incredibly grateful to John and Jocelyn Watson for their generosity. Uni can be tough sometimes so it really is a great encouragement to see hard work recognised and I think this prize will really encourage future recipients."

The University is very grateful for these important endowed gifts which will contribute towards the goal of building a healthier and more equitableTasmania, two of the pillars of the University's $50 million, five-year fundraising campaign, Sustain.

For more information about Philanthropy at the University of Tasmania, contact us:

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