



THE UNIVERSITY OF
SYDNEY

Investment and Capital Management

Investment Report 2024

We recognise and pay respect to the Elders and communities – past, present, and emerging – of the lands that the University of Sydney's campuses stand on. For thousands of years they have shared and exchanged knowledges across innumerable generations for the benefit of all.

Cover image: The image shows a close up of copper ores in a copper mine. Copper will be a critical metal in coming decades as the world transitions to a low carbon economy and increasing levels of electrification.

Investment and Capital Management

Investment Report 2024

Investment and Capital Management (ICM) invests the donations and bequests gifted to the University. Long term and medium term funds are invested on a bespoke basis to help meet intended academic and research outcomes.

The University of Sydney has been the beneficiary of generous donations and bequests since its founding in 1850. In recent decades the University has developed in-house expertise to manage portfolios designed specifically to meet the needs of the philanthropic gifts it receives.

ICM is responsible for managing the University of Sydney's endowment capital. The University's short-term operating and philanthropic financial assets are managed by the Financial Control and Treasury team.

Endowment funds are permanent, self-sustaining sources of funding. ICM invests these funds in financial assets to generate pre-defined annual cashflows to meet varying outcomes, while seeking to maintain the value of the capital invested in real terms (ie. after the impact of inflation).

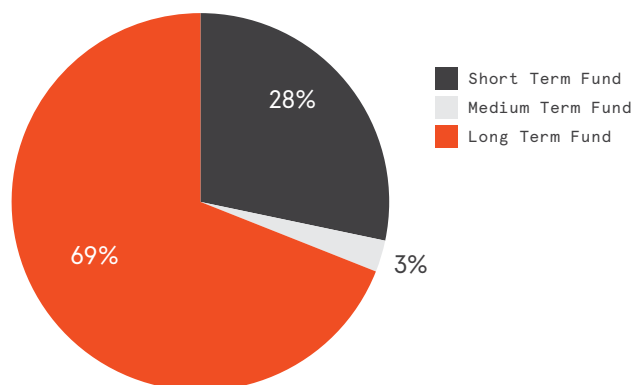
ICM employs a well-structured, long-term investment philosophy based on achieving three core objectives:

1. Releasing consistent and reliable annual cashflow to support the University's annual 'spend rule'
2. Generating long-term capital growth to preserve the capital in real terms
3. Defending the core cashflow and growth objectives in times of adverse financial conditions and crisis.

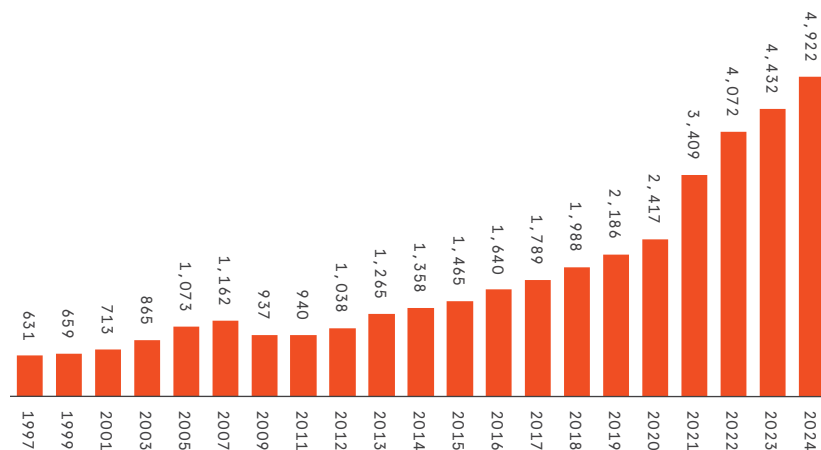
Composition of funds

The investment portfolio comprises three main funds: a Long Term Fund (LTF), a Medium Term Fund (MTF) and a Short Term Fund (STF).

Composition of the University's investment portfolio, as at end December 2024



Combined value of LTF, MTF and STF, 1997–2024 (A\$m)



Notes: Total funds under management include cash-at-bank figures and excludes the value of commercial property, rural property and student housing.

The following is a brief overview of each fund:

Long Term Fund

Value as at 31 December 2024:

\$3396 million

Cash flow objective:

4.5% per annum

Capital objective:

Consumer Price Index

(real terms capital preservation)

Total return objective:

Consumer Price Index + 4.5% after all fees and expenses

The LTF consists of bequests and donations that have been gifted to the University for a range of purposes since it was founded in 1850. The University's Future Fund is also a significant unitholder in the fund. The portfolio's objective is close to long-term expectations from global equity markets, which are historically between 5% and 6% per annum after inflation. The return objective and risk profile for the portfolio reflects the need to release sufficient cashflow to meet the University's 'spend- rule' of 4.5% every year.

The LTF's core objectives can only be met by allocating a substantial proportion of the portfolio to a diversified range of both income-producing and growth investments and strategies across listed and unlisted asset classes. A smaller, more defensive component of the portfolio is designed to provide sufficient liquidity and return uncorrelated with equity markets. This will meet the annual cashflow requirements and ensure continued opportunistic investment activity during adverse financial market conditions.

Medium Term Fund

Value as at 31 December 2024:

\$134 million

Total return objective:

Bloomberg AusBond Bank Bill + 1.5% after all fees and expenses

The MTF is designed to provide a return better than cash for capital earmarked for use over a one-to- four-year time horizon. Providing for a return higher than cash requires the portfolio to adopt some exposure to risk assets such as equities, which can be volatile. Compared with the LTF, the MTF has a greater allocation to defensive investments such as cash and conservative lending to governments and companies to ensure that any potential for capital loss is limited on a three-year view.

Short Term Fund

Value as at 31 December 2024:

\$1393 million

Total return objective:

Bloomberg AusBond Bank Bill after all fees and expenses

The STF represents the University's pool of financial liquidity, combining philanthropic capital due to be spent in the near term with the operating funds of the University. By amalgamating these short-term funds, the Financial Control and Treasury team gains buying power to obtain wholesale market rates of interest.

Given that these funds may be called at any time, they are invested in Australian dollar-denominated short- term debt securities, including bank bills and term deposits. The short-term funds are managed within a non-unitised investment pool framework.

Property assets

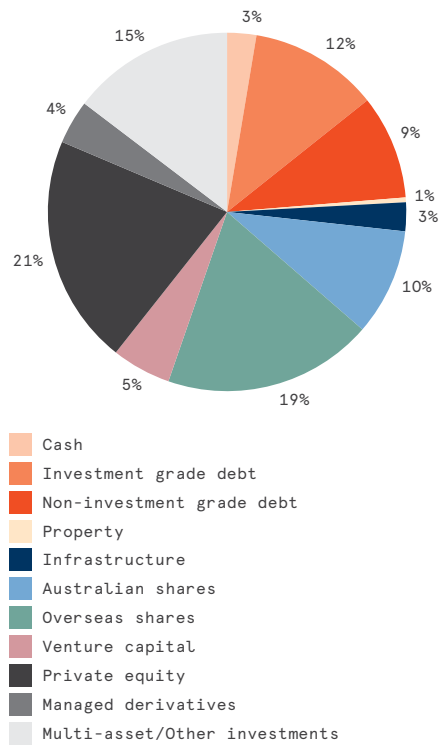
The University also holds a separate portfolio of buildings and farmland with redevelopment potential.

Commercial property, rural property and student housing investments (which are used to support the core teaching and learning function) are managed in conjunction with University Infrastructure and Central Operations Services and other relevant University departments.

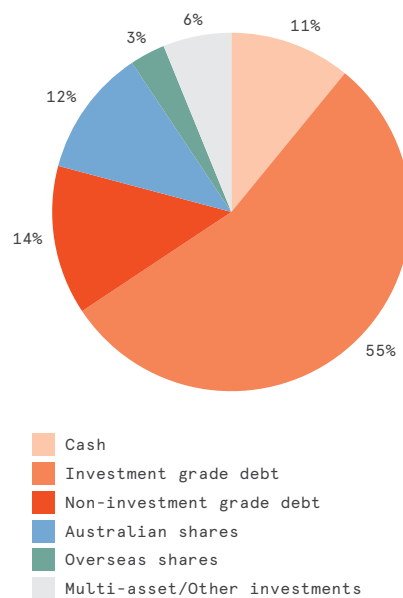
Asset allocation

As at 31 December 2024, the asset allocations for the LTF and MTF were as follows:

**Long Term Fund asset allocation
as at end December 2024**



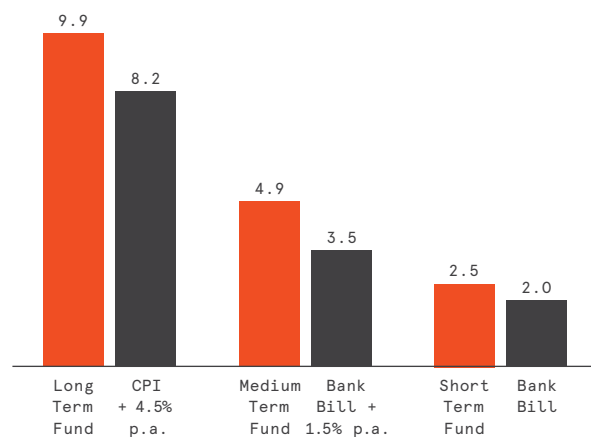
**Medium Term Fund asset allocation
as at end December 2024**



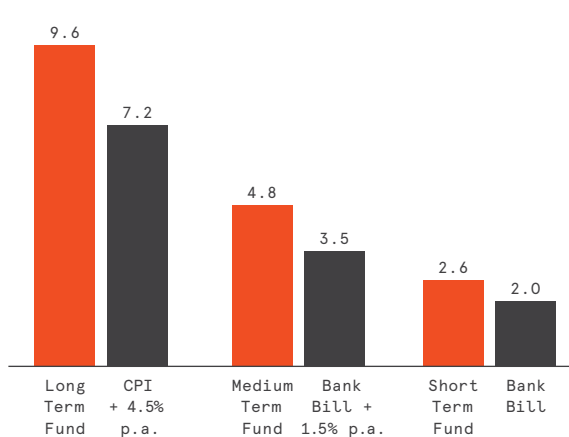
Note: Allocations are shown before the impact of currency hedging

Long term investment returns

**5 year performance p.a. (%) as at
31 December 2024**



**10 year performance p.a. (%) as at
31 December 2024**



Note: the University's returns are after underlying external manager fees and inclusive of franking credits

Risk management

Investment strategies and decisions are made within a closely monitored risk management framework to ensure the University delivers a suitable return across the investment portfolio over time. Risk management is focused on ensuring adequate short-term liquidity, maximising diversification and managing the potential for capital drawdown during times of adverse financial conditions, including crisis.

The concept of ‘volatility’, or the standard deviation of returns, is often used as a proxy for measuring portfolio risks. While ICM does monitor this measure, it is important to note that this represents only one way of viewing the risks being taken.

The five-year reward-to-volatility ratios shown in the chart to the right demonstrate that the University’s portfolio has earned a greater return than Australian and overseas shares when using volatility as a proxy for risk.

Reward-to-volatility, January 2020 – December 2024

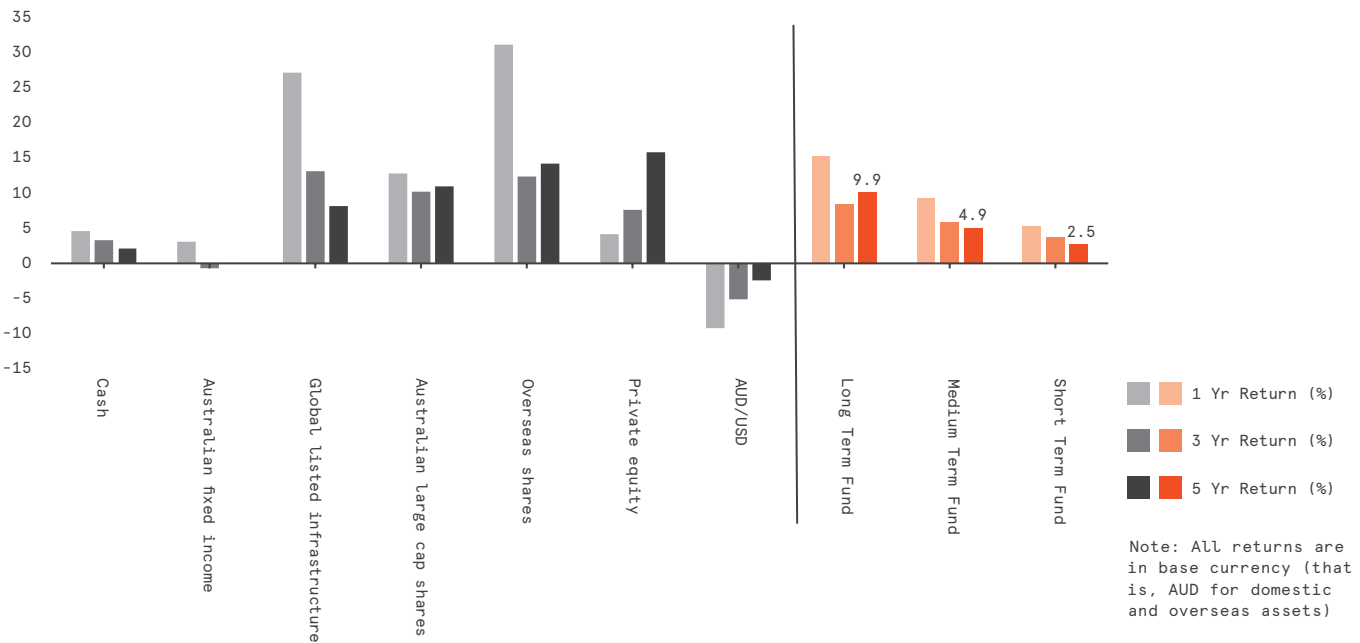


Market conditions in 2024

Calendar year 2024 saw an unusual repeat of 20% plus returns for the US stock market after posting similarly strong returns in 2023. A back-to-back result like this had not been seen for nearly thirty years. Conversely, private equity markets have been becalmed for some time, despite US-exposure also being dominant, with both capital calls and distributions at low ebb. Arguably private markets provided the better signal about the broad health of markets. Stripping out the very largest stocks in the US

revealed much lower returns, and stock markets outside of the US were relatively lacklustre measured in US dollar terms, registering absolute returns of less than 4%. The narrow Australian market produced a solid result over the year, but concentration is also problematic in the domestic market. While Australia’s banking oligopoly continues to churn out positive earnings, valuations look stretched and represent a potential source of market fragility .

1 year, 3 Year and 5 Year asset class returns v/s USYD performance (%) as at end December 2024



Long Term Fund

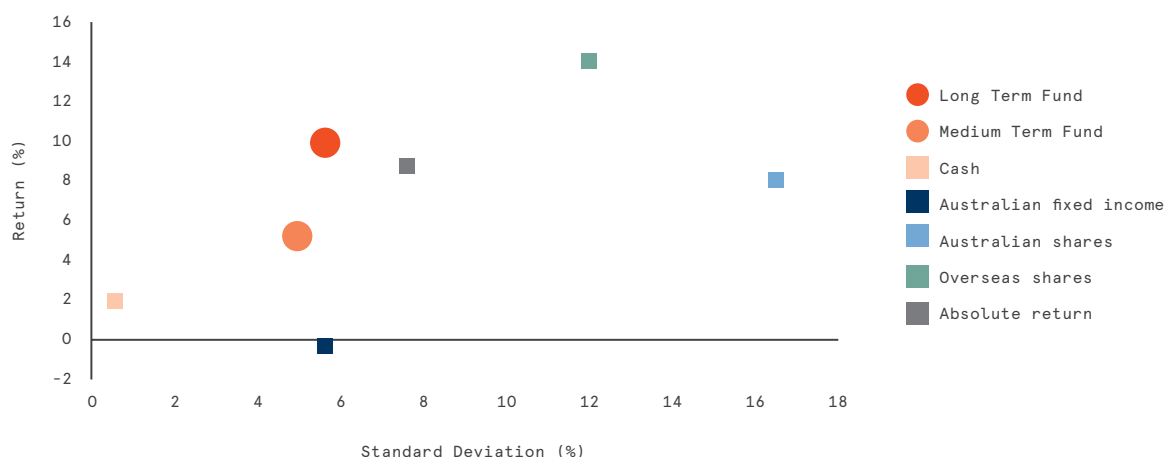
The University's Long Term Fund returned 15.1 percent in 2024, after taking into account external manager fees. Listed equities were a major driver of returns in the year, particularly offshore, but private equity and venture capital continued to be becalmed with depressed activity levels stifling valuation changes.

The chart below shows the 5 year returns of the LTF and MTF alongside various key asset classes. The returns are cross-referenced with the standard deviation of those returns, which is a measure of volatility and used as a proxy for the risk taken.

Medium Term Fund

The return on the University's Medium Term Fund (after external manager fees) for calendar year 2024 was 9.1 percent. The portfolio increased on the back of solid gains from credit and asset backed security positions, which were mainly floating interest rate.

Long Term Fund, Medium Term Fund and a selection of core asset classes 5 years to 31 December 2024



Note: All returns are in base currency (that is, AUD for domestic and overseas assets)

The University's investment advantages

The University has a series of key investment advantages that the ICM team seeks to exploit in its management of the portfolios. They include the following attributes:

- sought-after investment partner, representing long-term patient capital and a strong institutional reputation
- stable team
- preferred investor status with many managers who are offering capacity-constrained strategies
- tax-free status, including the ability to reclaim franking credits
- sophisticated investment committee
- ability to invest in opportunities on a bottom-up basis and depart significantly from benchmark positions if it makes sense to do so on a return-for-risk basis
- flexibility to construct portfolios that are counter-cyclical and contrarian
- sufficient scale to meaningfully access niche asset classes and high-performance strategies
- after-fee return focus.

Management of the investment portfolio

The ICM team possesses a considerable breadth of experience, with key members each having spent more than 20 years analysing and selecting professional fund managers and building diversified portfolios for a range of different client types. Funds invested are externally managed by professional security analysts and portfolio managers. This ensures the University has a broad-based and robust team of highly skilled experts working to achieve the stated objectives.

The University's external custodian plays an important role in the compliance-monitoring function. Furthermore, a global consultant is employed to provide an annual actuarial review of the portfolio to assist the Investment Sub-Committee of the Finance Committee (FC IS) with its fiduciary oversight of the portfolio. The same consultant provided analysis and advice to assist the University in meeting its Environmental, Social and Governance (ESG) policy objectives.

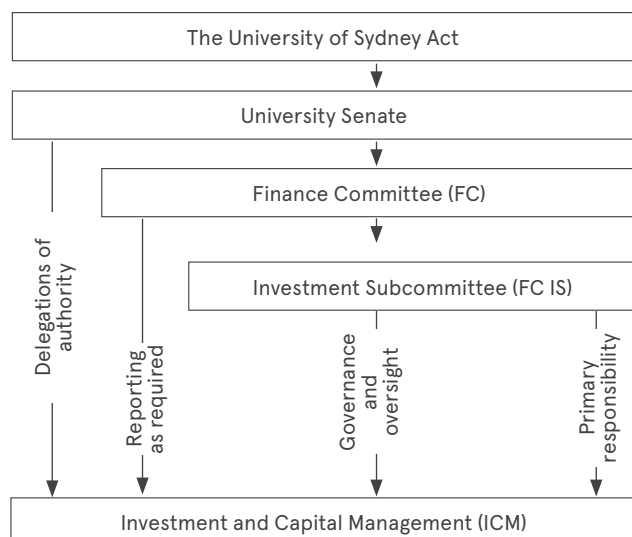
Governance

ICM is overseen by the Investment Subcommittee of the Senate Finance Committee. Its terms of reference extend to the management of the University's investment portfolios and approval for capital projects funded from the University's Future Fund.

An overview of management and governance of the University's investment activities is contained in the Investment Policy statement, available by searching online at www.sydney.edu.au, or by following this link:

sydney.edu.au/policies/

Governance structure



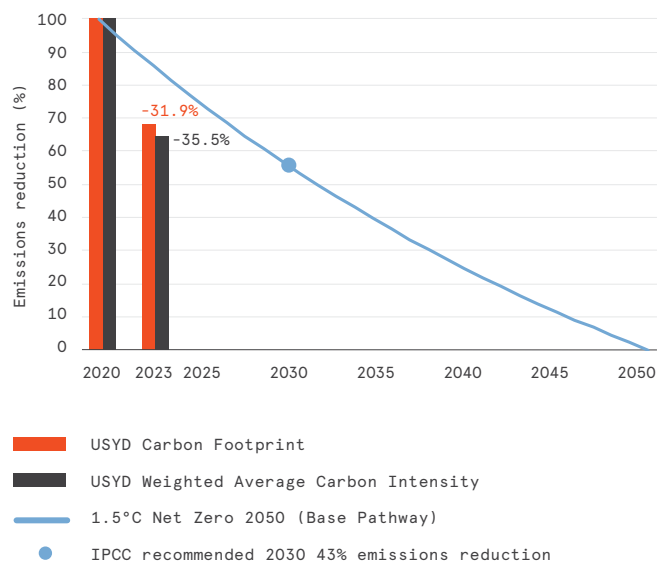
Sustainability

The University undertook extensive work with a global consultant during 2021 to expand its existing integrated Environmental, Social and Governance (ESG) framework to dovetail with the University's Sustainability Strategy.

Since 2014 the University's listed equity portfolio has been routinely measured in the last quarter of every calendar year to assess its carbon footprint in comparison with both domestic and international benchmarks. In 2022 a first attempt was made to measure the carbon emissions associated with the whole portfolio, excluding government bonds. Due to the lack of accurate data availability in unlisted markets this exercise required the use of listed data proxies. The measure was backdated to 2010 to offer the University some perspective on how its investment portfolio has tracked against the Paris Agreement, as well as to assess progress towards its 2050 net zero commitment. In 2023 the University was advised to rebase these measures to align with the latest Intergovernmental Panel on Climate Change (IPCC) report which came out in 2022. This report sets out the international consensus on what is required in terms of decarbonisation in order to limit warming to 1.5°C by the end of the century and has a base emissions year of 2019. The charts below represent Mercer's assessment of these measures, showing a best efforts perspective from 2010 to 2020, and a more recent re-baselined chart from December 2019 aligning with the IPCC's recommendation.

ICM has been asked to exclude direct holdings in fossil fuel companies which do not meet stringent management and carbon emissions scores and divested of those companies before the end of 2021. During 2023 ICM focused on pooled vehicles to extend the exclusions process, moving positions in pooled portfolios to mandates where possible, while working with managers to incorporate the exclusions methodology into fund terms in other cases. ICM is working with its manager cohort to identify those corporate actors around the world most keenly focused on transitioning to a low carbon economy, as well as engaging on a range of ESG issues. An annual survey tracks managers' views and activity relating to climate, diversity in business and on Boards, voting and modern slavery.

USYD Net Zero Progress Tracker – Rebased to 2020

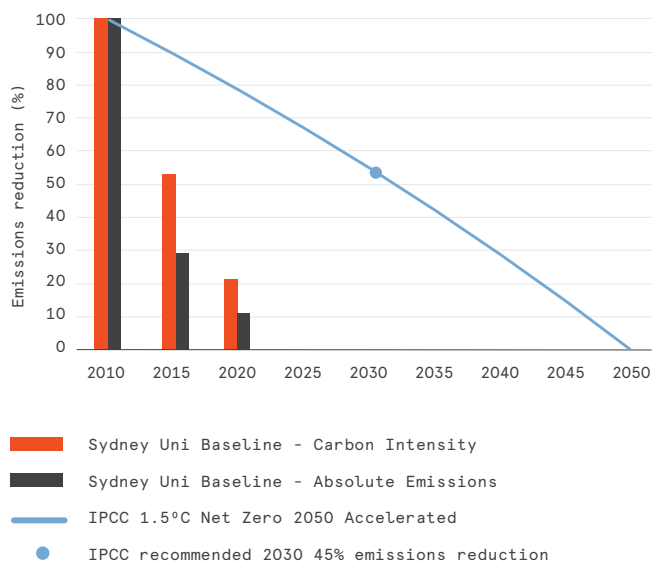


Footnote: Due to material increases in data availability and quality, and in line with best practice guidance, the University has been advised to re-measure emissions associated with the portfolio from a baseline year of 2020. This is in line with the latest IPCC report which can be found at https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_LongerReport.pdf. The carbon footprint and carbon intensity measures were calculated using listed equity data as of 30 June 2024 and private equity data as of 31 December 2023 to manage the lag in data availability between public and private markets.

Source: Mercer

Methodology notes: Absolute Emissions are measured as tCO₂e (tonnes [t] of carbon dioxide [CO₂] equivalent [e]). For the earlier measures in the right-hand chart Absolute Emissions were adjusted by corporate revenues to calculate Carbon Intensity (tCO₂e/US\$m revenue). The updated methodology in the left-hand chart calculates Carbon Footprint by adjusting Absolute Emissions by the investor's share of asset ownership (tCO₂e/\$m invested). Weighted Average Carbon Intensity is an alternative measure relating emissions to sales (tCO₂e/\$m Sales). Where data is unavailable proxies are used utilising GICS sector data. Sovereign bonds are excluded.

Sydney Uni Net Zero Progress Tracker – Baseline



Footnote: The chart to the right illustrates progress in reducing portfolio carbon emissions from 2010 to 2020. It should be noted that data availability and quality has improved and methodologies have been refined in the intervening period. Caution should be exercised when attempting to extrapolate progress from 2010 to 2024 using the two charts in combination. Please note that the right hand chart was produced based on the prior IPCC report, which advocated for a 45% reduction by 2030 from a 2010 baseline. The new IPCC report requires a 43% reduction from a 2019 emissions baseline.

Management of bequests and endowments

ICM works closely with the University's Development Office and Trusts Office to ensure proper administration of the endowment and bequest portfolio.

For managing the Medium Term and Long Term Funds an annual administration fee of 0.4 percent of funds under management is charged.

For more information on the University's Investment Policy (incorporating ESG considerations), please search for Investment Policy at www.sydney.edu.au, or follow this link: sydney.edu.au/policies/

Investment beliefs

The investment portfolio provides essential funding support for University operations, particularly the teaching and research portfolio.

This support is needed continuously, so it is essential to preserve the portfolio's purchasing power for the benefit of future generations. Aspiring to achieve a performance that exceeds the rate of inflation by a margin is therefore a core investment return objective.

It is equally important to adhere to core investment beliefs that, in essence, define the investment philosophy and underlying risk appetite of the portfolio.

The following 10 investment beliefs underpin the University's approach to investment and risk.

1. The principal objective of endowment portfolio management is to maintain the purchasing power of the capital in real terms (that is, after taking inflation into account), while delivering sufficient income to meet spending requirements.
2. A key determinant of investment performance is asset allocation. This describes the relative allocation of the portfolio to different investment asset classes, securities and strategies.
3. All investments are a mixture of opportunity, risk and uncertainty. Taking too little risk makes it hard to meet challenging long-term investment objectives but taking higher risk does not necessarily lead to higher returns. Risk is multi-faceted, its profile changes over time and it needs to be managed dynamically. One technique employed to manage risk is portfolio diversification. Funds are invested across many asset sectors: private equity and venture capital, listed equities, infrastructure, property and fixed income, among others. Some of these assets are by nature illiquid and therefore become long-term holdings.
4. Active specialist managers are capable of generating strong performance. However, this style of management can also lead to short-term underperformance. Passive management can complement active management, particularly in circumstances where there is a broad-based value opportunity in an asset class.
5. Environmental, social and governance opportunities and risks can have a substantial impact on portfolio performance. The most efficient approach is obtained through an integration of these factors into the overall portfolio construction and management.
6. To import extra thinking, it is useful to form strategic partnerships with external managers and advisers, such that they become an extension of the internal team. This also helps to foster best practice in the portfolio's management.
7. It is best practice to hold the portfolio's assets in safe custody with a master custodian.
8. Good governance is critical in terms of resourcing, accountability and portfolio outcomes. This involves the production of regular, detailed and informative reporting on the portfolio, side by side with constant monitoring of the portfolio and its managers.
9. Best practice portfolio management encourages learning and questioning of the status quo.
10. The level of fees paid to external parties, such as managers, should be judged by the resulting performance. In this context, performance-based fees are sometimes useful in incentivising managers to achieve desired performance outcomes.

Key contacts

Miles Collins

Chief Investment Officer
miles.collins@sydney.edu.au

Andrew Batsakis

Senior Investor
Private Equity and Venture Capital
andrew.batsakis@sydney.edu.au

Catherine Bussier

Head of Investment Operations
catherine.bussier@sydney.edu.au

Julian Robertson

Senior Investor
Traditional Assets
julian.robertson@sydney.edu.au

Timothy Peters

Senior Investor
Diversifying Strategies
timothy.peters@sydney.edu.au

General Enquiries

+61 2 8627 6152

Investment Subcommittee of the Finance Committee (FC IS)

Dr Lisa McIntyre

Chair, FC IS, The University of Sydney
Non-Executive Director
and Controlling Investor,
Studiosity Pty Ltd
Member, LBW Trust / Women
for Change Committee
Non-Executive Director,
Board of Nanosonics Ltd
Non-Executive Director,
Fisher & Paykel Healthcare Board
Investor Director, Baymatob Pty Ltd

Richard Freudenstein

Deputy Chancellor,
The University of Sydney
Director, Cricket Australia
Director, REA Group Ltd
Director, Coles Group Ltd
Non-Executive Director and
Chair, Appen Ltd Board
Controlling Shareholder and
Director, Brurern Pty Ltd
Controlling Shareholder and
Director, Eco Cars Pty Ltd
Controlling Shareholder and
Director, Chippendale Farm Pty Ltd

Professor Mark Scott AO,

Vice-Chancellor and President,
The University of Sydney
Chair, The Conversation Media Group

Chancellor David Thodey AO

Chair, Xero Corporation
Chair, Tyro
Non-Executive Director,
Ramsay Health Care
Co-Chair, Climate Leaders Coalition
Co-Chair, Great Barrier
Reef Foundation
Chair, Tech Central Advisory Board
Director, Committee for Sydney
Member, Bank of America
Advisory Board
Member, ASIC Corporate
Governance Consultative Panel
Member, Nature Finance Council
Lead Reviewer, Capability
Review of Services Australia
Member, Governance Board Reserve
Bank of Australia from 1 March 2025

Karen Moses

Chair of the Finance Committee,
The University of Sydney
Fellow of Senate,
The University of Sydney
Non-Executive Director, Orica Ltd
Non-Executive Director,
Charter Hall Group Ltd
Non-Executive Director, Snowy Hydro
Family trust in KRN Family
Discretionary Trust
Non-Executive Director,
The Belvoir Street Theatre
Executive Director,
Company B Limited

John Livanas

External Member,
Investment Subcommittee,
The University of Sydney
CEO, State Super
Director, ACSI Board

Nerida Hall

External Member,
Investment Subcommittee,
The University of Sydney
Private Equity Consultant,
Aware Super
External Board Member of
the Investment Committee,
Sentient Impact Group
Non-Executive Director,
Blackwattle Investment Partners

Investment and Capital Management
Level 5, Margaret Telfer Building (K07)
71–79 Arundel Street
The University of Sydney NSW 2006
+61 2 8627 6152
sydney.edu.au/invest_capital_mgmt/