

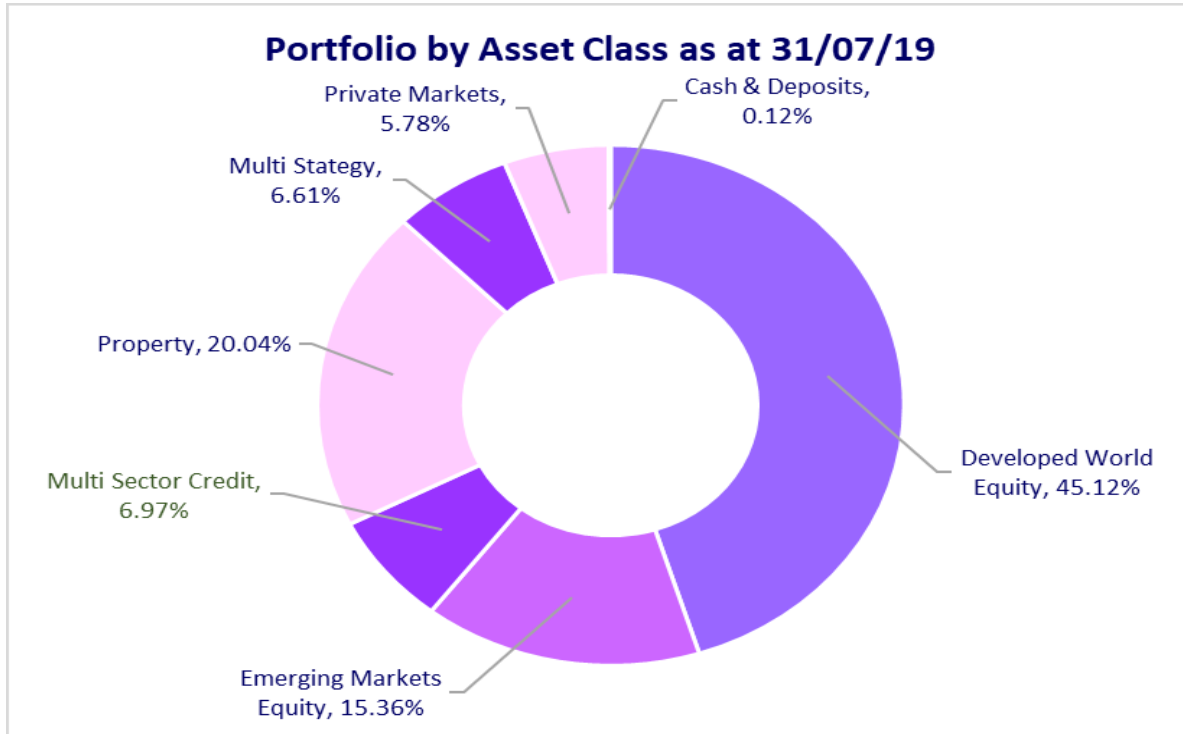


THE UNIVERSITY *of* EDINBURGH
Finance

Endowment Fund Report for the Year to 31 July 2019



01 The University of Edinburgh Endowment Fund Report 2019



£8.8m

The value of endowment expenditure in 2018-19

8.60%

The annual return on endowment investments in 2018-19

593

The number of endowments held in the fund

£9.2m

Income generated by the fund for the University

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To view this report on line please visit:

<https://www.ed.ac.uk/finance/accounts/archive>



Performance and Key Performance Indicators

Five Year View	2014/15	2015/16	2016/17	2017/18	2018/19
Market Value	£313m	£343m	£392m	£424m	£459m
Return p.a.	8.10%	10.00%	16.75%	10.13%	8.60%
Number of endowments	790	642	623	628	593
Income yield	£10.5m	£9.2m	£8.5m	£8.7m	£9.2m
Annual expenditure	£9.0m	£7.5m	£9.8m	£9.0m	£8.8m

10.72%

Five-year average annual return from the fund

£146m

Growth of Endowment Fund between 2014-15 and 2018-19 (including new Endowments)

Key Performance indicators	2017/18	2018/19
Overall return for year (based on opening assets)	10.1%	8.6%
Yield	2.1%	2.1%
Total charges (capital & revenue)	1,874	1,962
Expenses ratio	0.45%	0.43%
Units at 31 July	9,862,900	10,039,667
Unit price	£42.38	£44.95
Income per unit (p)	88.71	92.01
Number of endowments	628	593



Total Return

University of Edinburgh Endowment Fund		
Year ended 31 July		
	2018-19	2017-18
	£'000	£'000
Incoming resources		
(Decrease)/Increase in market value of investments	27,247	30,870
Investment income	9,237	8,749
Total investment return	36,484	39,619
New endowments	8,034	1,394
	44,518	41,013
Outgoing resources		
Expenditure	(6,791)	(7,156)
Fund management and custody charges (capital)	(964)	(938)
Fund management and custody charges (revenue)	(998)	(936)
	(8,753)	(9,030)
Net Movement for year	35,765	31,983
Opening Funds as at 1 August	424,104	392,121
Transfers		
Closing Funds as at 31 July	459,869	424,104

Represented by:		
	2018-19	2017-18
	£'000	£'000
Non-current asset investments:		
Equities	273,003	248,510
Fixed interest stocks	18,227	18,079
Property	90,596	83,793
Multi asset	61,419	61,413
Venture capital	5,170	3,298
Debtor	1,846	73
Bank deposits held at fund managers	3,095	1,645
Bank deposits held by the University	542	1,183
Non-current asset investments	453,898	417,994
Capital debtor		
Cash balances held by the University	3465	4,994
Current asset - working capital	2506	1,116
Total endowment assets	459,869	424,104

Fund Management and History

Investment Committee

The Investment Committee of the University is responsible for the oversight and strategic direction of the endowment investments, including the Andrew Grant Bequest Charity. The University of Edinburgh Court appoints members to the Investment Committee drawn from both Court members and external investment professionals.

- Sets investment policy and strategy
- Determines asset allocation
- Identifies Fund Managers
- Monitors fund performance
- Advises University Court on its investment Programme

Since 2003, the University has had a Socially Responsible Investment (SRI) Policy which has endorsed an approach based on 'engagement' with companies on ethical issues. In January 2013 the University became the first in Europe to sign up to the United Nations Principles of Responsible Investment which provides a framework for the University to take environmental, social and corporate governance (ESG) considerations into its investment strategies.

Further information on the remit and role of the Investment Committee is at: <https://www.ed.ac.uk/finance/about/sections/financial-information-reporting-strategy-team/investments-and-endowments/investment-committee>

Investment Committee Members as at 1 August 2018

Richard Davidson (Convener)
Doreen Davidson
Mark Connolly
David Bentley
Carolyn Aitchison
Hugh Edmiston
Phil McNaul

Fund Managers during 2018/19

Baillie Gifford
Aviva
Hermes
Epidarex
Deaconess
Old College Capital
Northern Trust
M&G
Pentech
Savills
Stewarts
Wellington
Mercer

Investment Committee - Meetings in 2018-19:

21 August 2018	20 November 2018
19 February 2019	20 May 2019

Investment Committee Members as at 31 July 2019

Richard Davidson (Convener)
Mark Connolly
Dr Jim Roth
Henry Cobb
Doreen Davidson
Carolyn Aitchison
Hugh Edmiston
Lee Hamill

Investment Adviser

Mercer

Custodian

BNY Mellon

Auditors

PricewaterhouseCoopers LLP

Unit Price History

The Endowment Fund has detailed historical records which show the value of funds endowed, investment returns and areas of expenditure.

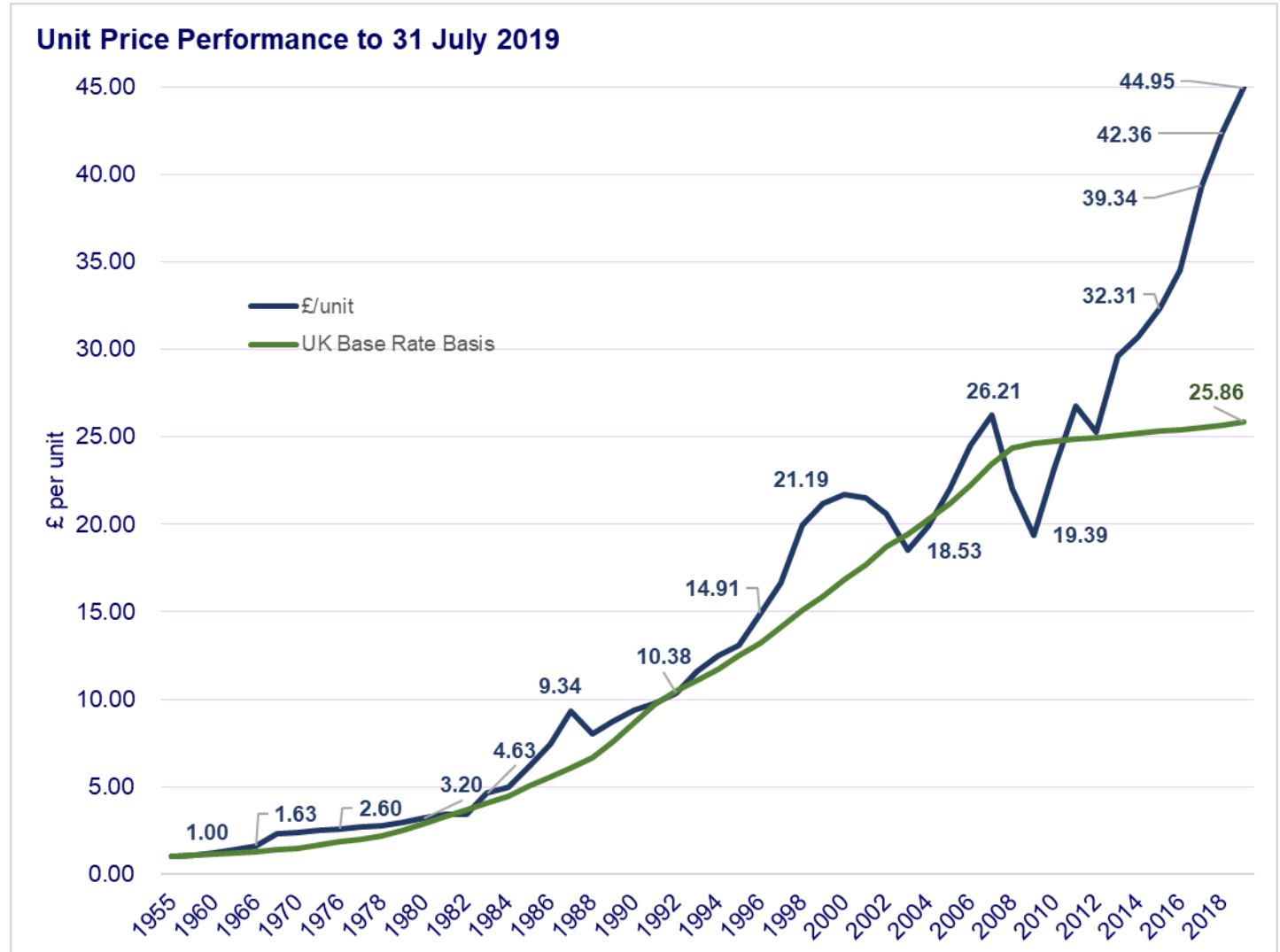
The investment of the University's individual endowments is pooled and the individual endowments participate by holding units in the fund and receiving an income distribution on the units held.

The capital value of the fund and the individual endowments is measured by reference to the unit price and detailed records are available which show the capital growth of the fund for more than 60 years. In addition the fund yields an annual income return.

The fund has a long term relationship with Baillie Gifford Fund Managers who have been providing investment management advice since 1968.



Unit Price Performance to 31 July 2019

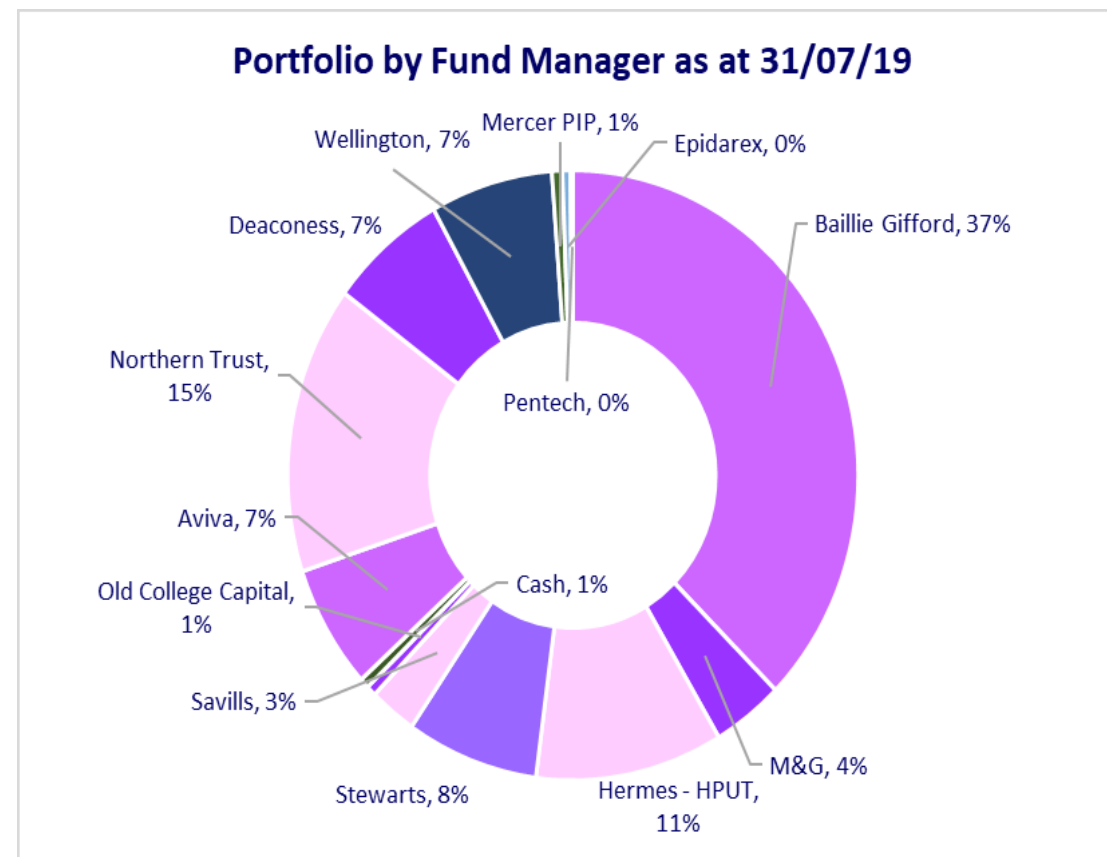


Investment Objective

The investment objective of the Endowment and Investment Fund is to grow the value of the fund and maintain the capital in real terms over the long term whilst providing an annual income yield to support the activities of the numerous endowments.

The Fund's assets are managed by ten external fund managers. There is a commitment to invest further in private equity via Old College Capital which is the venture investment arm of the University of Edinburgh providing growth and development finance into early- and mid-stage spin-out and start-up companies as part of syndicated venture capital rounds. The largest portion of the Fund's assets continue to be invested in equities given their potential for delivering good long term real returns.

Fund Manager Split as at 31/07/19	
Fund Manager	£m
Baillie Gifford	228.1
M&G	24.5
Hermes - HPUT	64.7
Stewarts	45.7
Savills	16.2
Old College Capital	3.4
Cash	3.2
Aviva	40.1
Northern Trust	93.2
Deaconess	40.7
Wellington	42.3
Mercer PIP	3.6
Epidarex	2.8
Pentech	0.8
Total	609.3



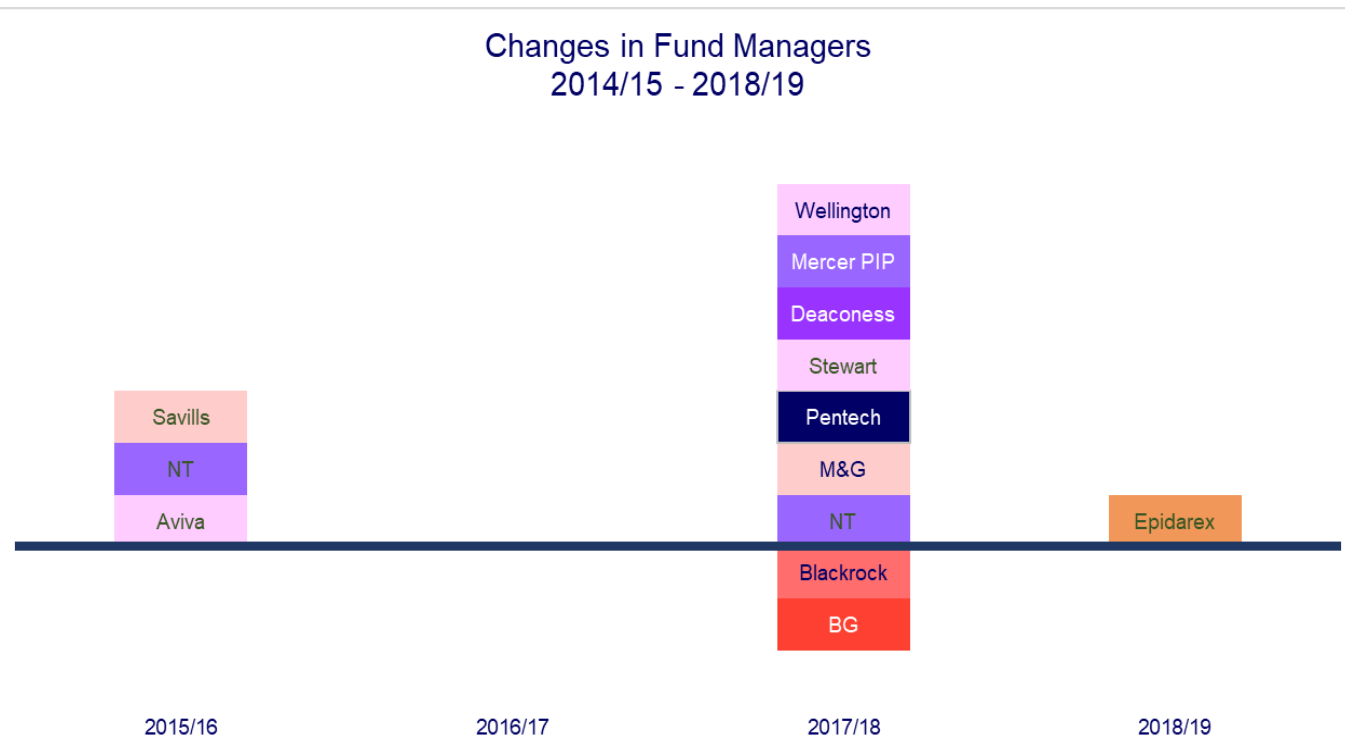
Fund Structure

Baillie Gifford	Global Equity	Edinburgh based independent investment manager. UoE Endowment Fund.
M&G	Private Debt	Wholly owned by Prudential plc. Manager of fixed income, equity and real estate on behalf of Prudential.
Hermes - HPUT	Property	Owned by BT Pension Scheme. Hermes Property Unit Trust.
Wellington	Multi Sector Credit	Independent employee-owned investment firm with >150 active partners. Independent research team incorporating higher level of ESG factors into investment analysis.
Stewart	Global Equity	Trading name for First State Investments, parent company is the Commonwealth Bank of Australia. Sustainability strategies with thematic focus on environmental and social development issues.
Mercer PM	Private Markets	Expects to benefit from the global shift towards a lower carbon economy and the need to address resource scarcity issues. Investments include those in renewable and resource management, water infrastructure and energy efficiency.
Savills	Property	Savills Investment Management formed in Dec. 2003 as Cordea Savills. Charities Property Fund.
Old College Capital	Venture Capital	100% University of Edinburgh subsidiary managing venture fund for exploitation of UoE IP.
Epidarex II		Epidarex Fund II is invested through Old College Capital (Strategic Investments). Epidarex invests in early-stage, high growth life science and health technology companies in under-ventured markets within the UK and US
Aviva	Multi-Strategy	Created following merger of Commercial Union and General Accident and subsequently with Norwich Union. Multi Strategy Target Return Fund (AIMS)
Northern Trust	Emerging Mkts Equity	Northern Trust Corporation, founded in 1889. NT Emerging Markets Custom ESG Equity Index Fund
Deaconess House	Property	University of Edinburgh Investment Property based at Deaconess House, providing UG Accommodation exclusively to UoE.
Pentech	Venture Capital	Pentech Ventures Fund II specialises in seed, start-up, and early venture investments in UK and Ireland. It seeks to invest in businesses with global potential in enterprise software, telecommunications software, internet, mobile, and tech media sectors.



Investment Objective

% Holdings by Fund Manager					
	31-Jul-15	31-Jul-16	31-Jul-17	31-Jul-18	31-Jul-19
Baillie Gifford	46.5%	46.5%	41.2%	36.6%	37.4%
Blackrock	18.0%	18.0%	0.0%	0.0%	0.0%
Hermes - HPUT	16.5%	16.5%	11.2%	11.3%	10.6%
Deaconess	5.1%	5.1%	6.3%	5.9%	6.7%
Kames Capital	13.4%	13.4%	8.3%	0.0%	0.0%
Aviva	0.0%	0.0%	7.7%	7.2%	6.6%
Northern Trust	0.0%	0.0%	16.2%	15.3%	15.3%
Savills	0.0%	0.0%	2.9%	2.9%	2.7%
M&G	0.0%	0.0%	4.6%	4.3%	4.0%
Cash	0.1%	0.1%	0.9%	0.3%	0.5%
Wellington	0.0%	0.0%	0.0%	7.5%	6.9%
Stewarts	0.0%	0.0%	0.0%	7.4%	7.5%
VC / Private Equity	0.4%	0.4%	0.7%	1.3%	1.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%



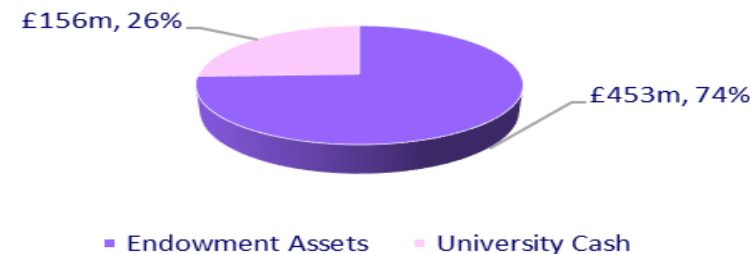
VC / Private Equity includes: Pentech, Old College Capital, Epidarex, Mercer PIP

Investing University Treasury Cash in the Endowment and Investment Fund

The University invests medium term University cash balances alongside Endowment assets, in order to achieve greater returns than those possible using products defined within the University's Treasury Management Policy.

As at 31 July 2019 25.65% of the unitised fund related to University cash balances, the remainder relates to Endowments.

Endowment Assets and University Cash within the fund as at 31/07/19



Market Highlights

(provided by Mercer, Investment Advisors)

Investment Markets¹

During the closing months of 2018, equity markets experienced the largest sell-off since 2008, driven by the softening outlook for global growth, combined with trade uncertainty and investor concerns over monetary tightening by the Federal Reserve. Following the Federal Reserve softening their tone on monetary policy and the prospect of a trade settlement between the US and China in mid-2019, as well as slower but still solid economic data from the US, investors re-evaluated their initial reaction and a strong rebound in equity markets ensued in the opening months of 2019. Volatility returned in the middle of 2019 as economic data remained soft and the expected resolution of the trade dispute between the US and China did not materialise. Hints by the Federal Reserve that short-dated interest rates might be cut later in the year lifted market sentiment once again and global equity markets ended the 12-month period to 31 July 2019 on a positive note.

Equity Markets²

At a global level, developed markets as measured by the FTSE World index, returned 11.0%. Meanwhile, a return of 7.7% was recorded by the FTSE All World Emerging Markets index.

At a regional level, European markets returned 4.7% as indicated by the FTSE World Europe ex UK index. At a country level, UK stocks as measured by the FTSE All Share index returned 1.3%. The FTSE USA index returned 15.7% while the FTSE Japan index returned 1.8%.

Equity market total return figures are in Sterling terms over the 12-month period to 31 July 2019.

Bonds

Returns on UK Government Bonds as measured by the FTSE Gilts All Stocks Index, were 7.4%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of 11.2% over the year. The yield for the FTSE Gilts All Stocks index fell over the year from 1.6% to 1.1%.

The FTSE All Stocks Index Linked Gilts index returned 12.0% with the corresponding over 15-year index exhibiting a return of 13.5%.

Corporate debt as measured by the Bank of America Merrill Lynch Sterling Non-Gilts index returned 8.0%.

Bond market total return figures are in Sterling terms over the 12-month period to 31 July 2019.

Market Highlights

Property³

UK property investors continued to benefit from the improving property market. Over 12-month period to 31 July 2019, the MSCI UK All Property Index returned 3.6% in Sterling terms.

Currencies

Over the 12-month period to 31 July 2019, Sterling depreciated by 6.7% against the US Dollar from \$1.31 to \$1.22. Sterling depreciated by 9.5% against the Yen from ¥146.84 to ¥132.94. Sterling depreciated against the Euro by 1.9% from €1.12 to €1.10 over the same period.

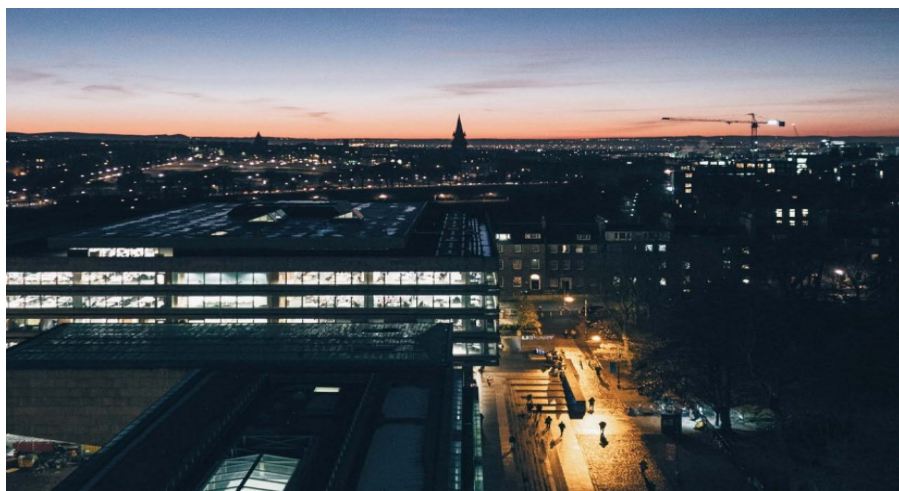
¹ GDP figures from Consensus Economics as at 10 June 2019.

² Statistics sourced from Thomson Reuters Datastream unless otherwise specified.

³ Statistics sourced from MSCI Investment Property Database.

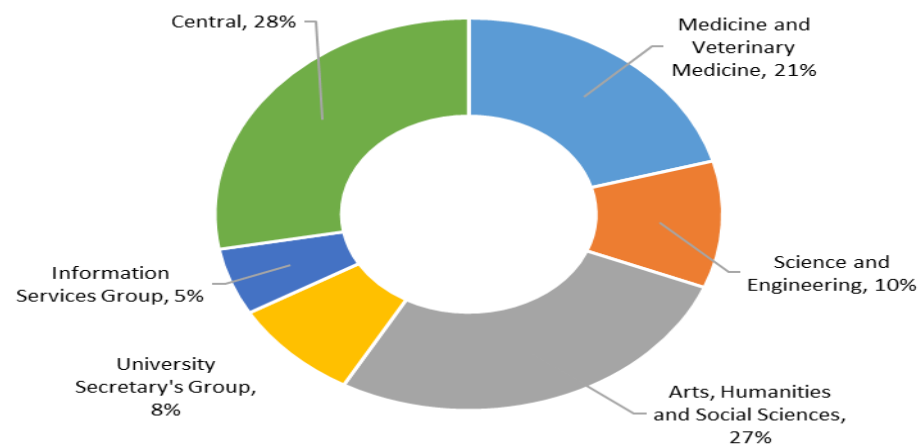
Disclaimer

This does not contain investment advice relation to your particular circumstances. No investment decision should be made based on this information without first obtaining appropriate professional advice and considering your circumstances.



Fund Activity

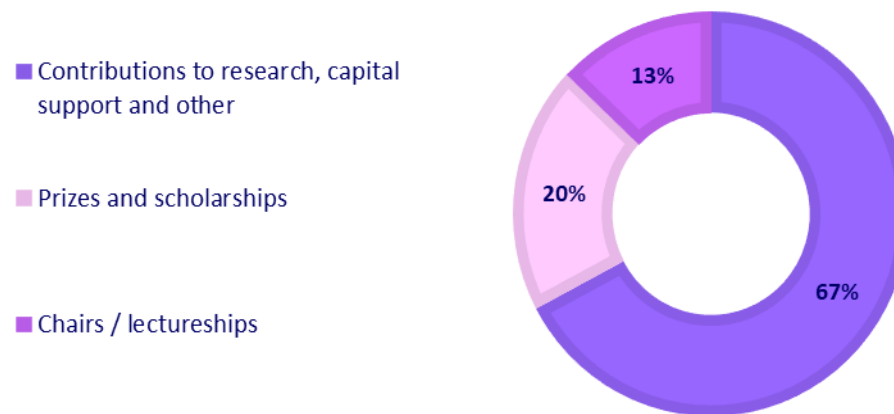
Spend by College / Support Group 2018/19



Total spend by College / Support Group

	£m
Medicine and Veterinary Medicine	1.6
Science and Engineering	0.8
Arts, Humanities and Social Sciences	2.1
University Secretary's Group	0.7
Information Services Group	0.4
Central	2.2
Other	0.0
Total	7.8

SPEND BY PURPOSE



Spend by Purpose

	£m
Contributions to research, capital support and other	5.2
Prizes and scholarships	1.5
Chairs / lectureships	1.0
Total	7.8

Notes