

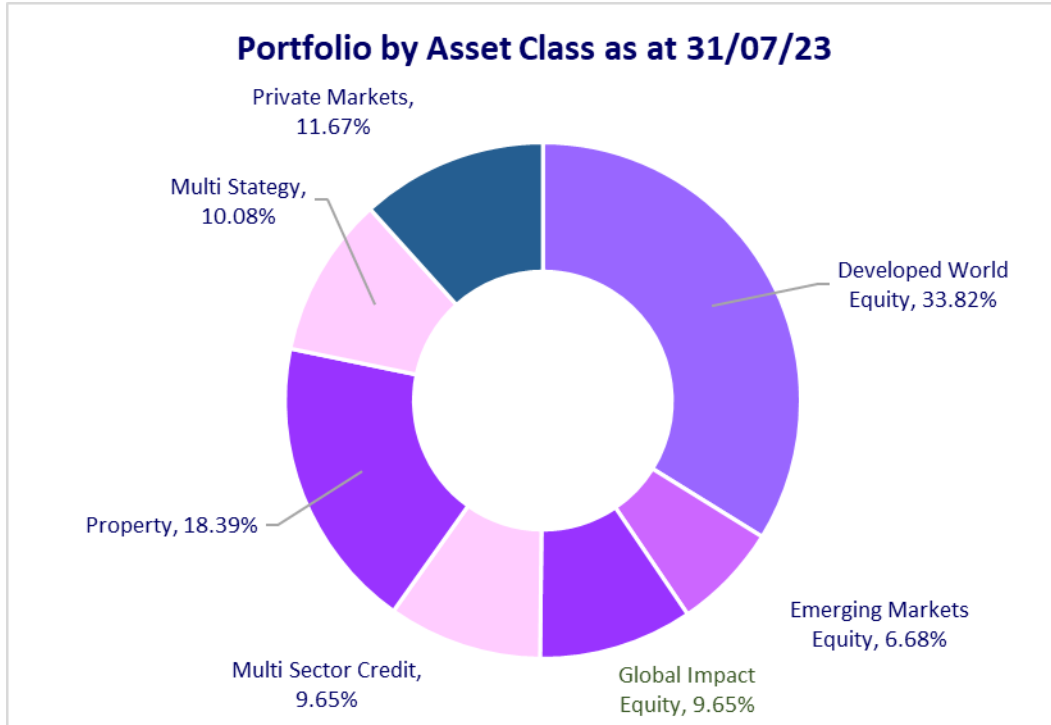


THE UNIVERSITY *of* EDINBURGH
Finance

Endowment Fund Report for the Year to 31 July 2023



01 The University of Edinburgh Endowment Fund Report 2023



£16.8m

The value of endowment expenditure in 2022-23

1.89%

The annual return on endowment investments in 2022-23

593

The number of endowments held in the fund

£16.6m

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	2018/19	2019/20	2020/21	2021/22	2022/23
Market Value	£459m	£488m	£565m	£541m	£498m
Return p.a.	8.60%	5.72%	17.78%	-4.86%	-1.89%
Number of endowments	593	580	583	589	593
Income yield	£9.2m	£9.4m	£9.8m	£12.0m	£16.6m
Annual expenditure	£8.8m	£10.9m	£10.8m	£11.7m	£16.8m

5.07%

Five-year average annual return from the fund

£39m

Growth of Endowment Fund between 2018-19 and 2022-23 (including new Endowments)

Key Performance indicators	2022	2023
Overall return for year (based on opening assets)	-4.9%	-1.9%
Yield	2.2%	3.0%
Total charges (capital & revenue)	2,980	2,483
Expenses ratio	0.58%	0.50%
Units at 31 July	10,228,300	10,415,713
Unit price	£50.09	£47.80
Income per unit (p)	117.27	159.37
Number of endowments	589	593



Total Return

University of Edinburgh Endowment Fund		
Year ended 31 July		
	2022	2023
	£'000	£'000
Incoming resources		
Increase in market value of investments	(39,476)	(26,800)
Investment income	11,995	16,600
Total investment return	(27,481)	(10,200)
New endowments	15,335	45,800
	(12,146)	35,600
Outgoing resources		
Expenditure	(8,742)	(14,317)
Fund management and custody charges (capital)	(1,365)	(1,059)
Fund management and custody charges (revenue)	(1,615)	(1,424)
	(11,722)	(16,800)
Net Movement for year	(23,868)	18,800
Opening Funds as at 1 August	565,242	541,000
	(410)	-
Closing Funds as at 31 July	540,964	559,800

	2022	2023
	£'000	£'000
Represented by:		
Equities	261,558	212,600
Multi asset	89,961	145,500
Fixed interest stocks	25,018	21,700
Property	114,713	91,000
Venture capital	20,863	23,200
Bank deposits held at fund managers	1,468	800
Bank deposits held by the University	-1,215	3,100
Non-current asset investments	512,366	497,900
Fixed term deposit	0	35,600
Capital Debtor	28,787	29,800
Cash balance revenue	(1,925)	5,000
Current asset - working capital	1,736	-8,500
Total endowment assets	540,964	559,800

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 2022

Richard Davidson (Convener)
Mark Connolly
Dr Jim Roth
Henry Cobb
Doreen Davidson
Carolyn Aitchison
Jock Millican
Lee Hamill
Catherine Martin

Investment Committee Members as at 31 July 2023

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Fund Managers during 2022/23

Baillie Gifford
Hermes
Epidarex
Deaconess
Old College Capital
Northern Trust
M&G
Pentech
Wellington
Mercer
BlackRock
Nordea

Investment Adviser Mercer

Custodian BNY Mellon

Auditors PricewaterhouseCoopers LLP

Investment Committee - Meetings in 2022-23:
16 August 2022 15 November 2022
21 February 2023 16 May 2023

Unit Price History

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

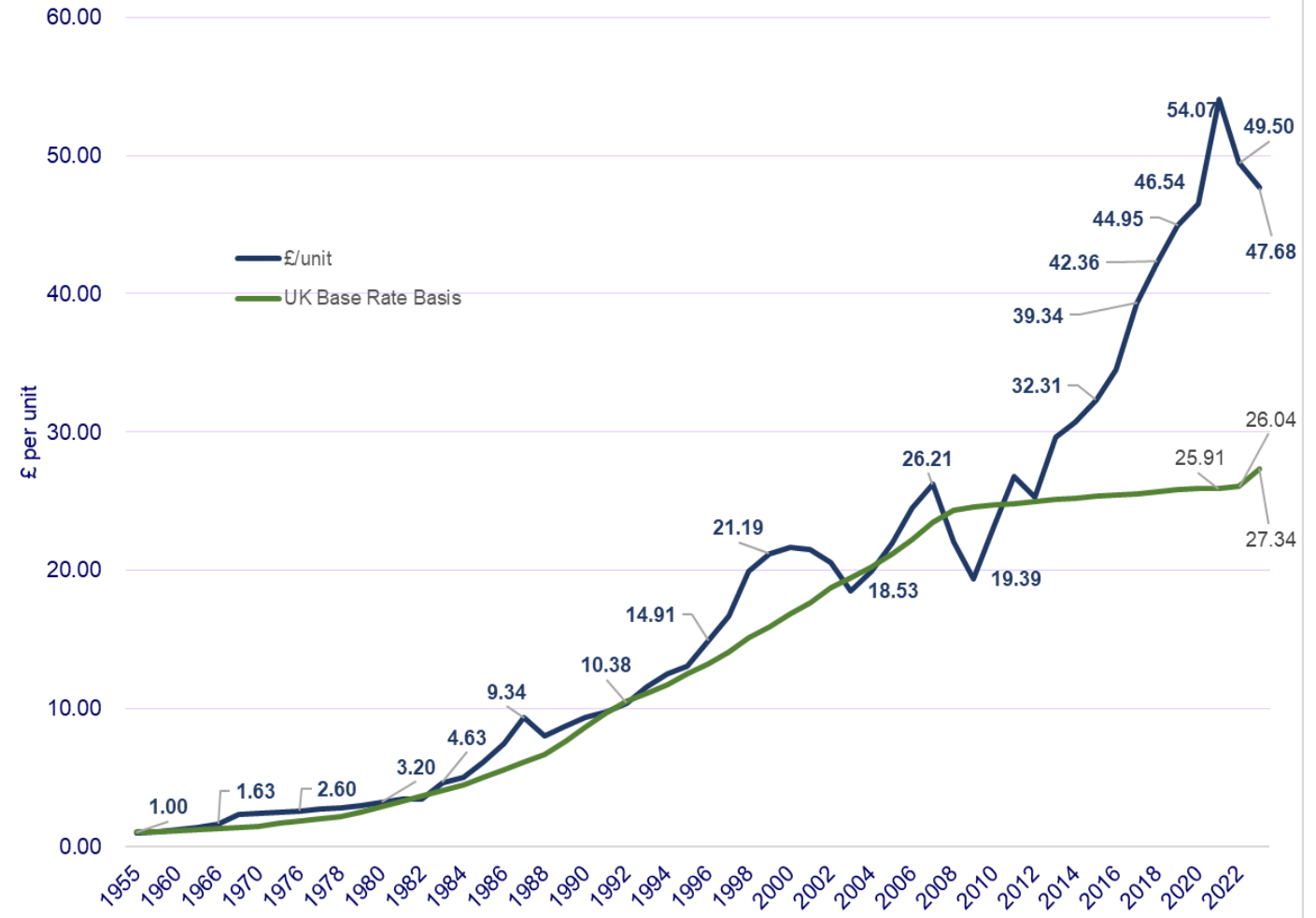
The investment of the University's individual endowments is pooled and the individual endowments participate by holding units in the fund and receiving an income distribution on the units held.

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 2023



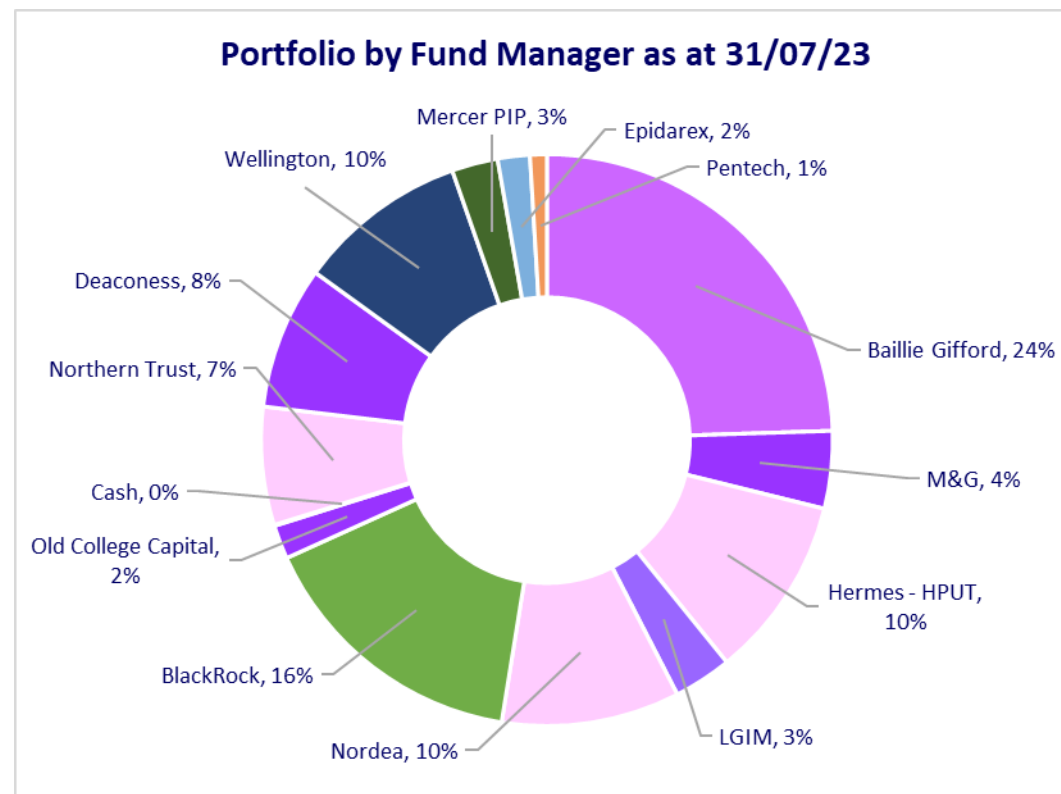
Investment Objective

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 eleven 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 31/07/23

Fund Manager	£m
Baillie Gifford	121.2
M&G	21.7
Hermes - HPUT	51.0
LGIM	16.3
Nordea	49.9
BlackRock	77.7
Old College Capital	9.5
Cash	0.3
Northern Trust	33.1
Deaconess	40.0
Wellington	47.8
Mercer PIP	12.9
Epidarex	9.0
Pentech	4.7
	495.1



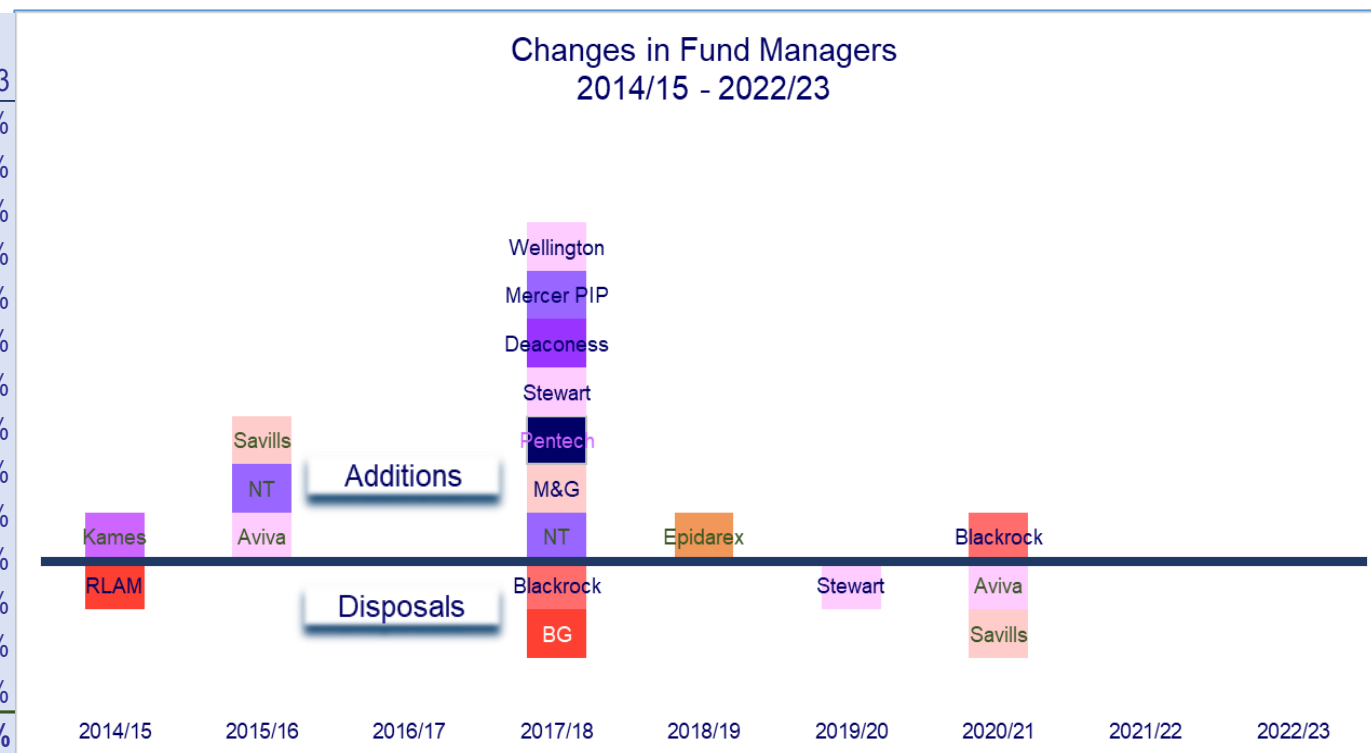
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Baillie Gifford	Global Equity	Edinburgh based independent investment manager. UoE Endowment Fund.
M&G	Private Debt	Wholly owned by Prudential plc. Manager of fixed income, equity and real estate on behalf of Prudential.
Hermes - HPUT	Property	Owned 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.
Nordea	Multi-Strategy	Nordea Investment Management, founded in 1990 as Unibank Investment Management, is a subsidiary of Nordea AB, a publicly traded holding company.
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.
BlackRock	Global Impact Equity World Equity Value Factor ESG	BlackRock was founded in 1988 and has acquired a number of firms, including Merrill Lynch Investment Managers in 2006 and Barclays Global Investors in 2009. The firm has been publically-traded since 1999. It is headquartered in New York and has investment management offices throughout the world.
Old College Capital	Venture Capital	100% University of Edinburgh subsidiary managing venture fund for exploitation of UoE IP.
Epidarex	Venture Capital	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.
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.
Northern Trust	Emerging Mkts Equity	Norther 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.
LGIM (via Mercer)	Passive Sustainable Equity	Legal & General Investment Management (LGIM) is one of Europe's largest institutional asset managers and a major global investor. The firm has managed pension fund assets since the 1930's. The index fund product range was established in 1985.



Investment Objective

% Holdings by Fund Manager					
	31-Jul-19	31-Jul-20	31-Jul-21	31-Jul-22	31-Jul-23
Baillie Gifford	37.4%	39.2%	38.4%	33.1%	24.5%
Blackrock	0.0%	0.0%	7.2%	6.5%	15.7%
Hermes - HPUT	10.6%	11.1%	9.9%	12.3%	10.3%
Deaconess	6.7%	8.8%	8.9%	10.1%	8.1%
LGIM	0.0%	0.0%	5.4%	5.8%	3.3%
Nordea	0.0%	0.0%	9.6%	10.1%	10.1%
Aviva	6.6%	8.8%	0.0%	0.0%	0.0%
Northern Trust	15.3%	12.8%	3.9%	3.7%	6.7%
Savills	2.7%	3.3%	0.0%	0.0%	0.0%
M&G	4.0%	4.9%	4.5%	4.9%	4.4%
Cash	0.5%	-1.1%	0.3%	-0.2%	0.1%
Wellington	7.0%	9.0%	8.5%	7.5%	9.7%
Stewarts	7.5%	0.0%	0.0%	0.0%	0.0%
VC / Private Equity	1.7%	3.0%	3.6%	6.3%	7.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%



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

Market Highlights

(provided by Mercer, Investment Advisors)

Investment Markets

The 12-month period to 31 July 2023, saw the peak in headline inflation rates in most regions. Developed market central banks began to pause after the fastest rate of interest rate hikes in years. Although there were some signs of higher rates having an impact on the real economy, most notably among US regional banks, major developed economies remained surprisingly resilient. Growth also held up in emerging markets except for China where the hoped for rebound after the end of Covid restrictions was underwhelming. Overall, investors became more optimistic which was reflected in strong equity returns, albeit partly driven by a small number of US stocks and weaker performance for defensive assets.

Inflation and central bank policy drove markets at the beginning of the period. Inflation readings in most major regions remained high and rising. Central banks therefore continued to tighten monetary policy and maintained a hawkish outlook, resulting in elevated market volatility. Significant continued weakening in sterling mitigated the drawdown for unhedged UK investors. The conflict in Ukraine added to negative sentiment as Russia stepped up its anti-west rhetoric and further restricted natural gas supplies to Europe which exacerbated pressure on energy prices.

Towards the end of 2022, developed market central banks continued tightening monetary policy but at a slowing pace. Inflation remained on a downward trend from high levels. In China, an end to all Covid-related restrictions boosted sentiment as investors priced in an economic rebound. The narrative of peaking inflation and resilient economic growth drove positive equity returns during October and November, but hawkish messaging from central banks in December led to a premature end of the “Santa rally”.

2023 started with optimism over declining inflation and a hope of an end to monetary tightening. The demise of Silicon Valley Bank (SVB), the second largest US bank failure in history, and UBS’s shotgun takeover of Credit Suisse in March were the major events of the quarter that briefly rattled markets until calm returned towards quarter end.

As the year progressed, developed market central bank actions were mixed, with some deciding to pause hiking interest rates, and others continuing to increase the policy rate, but rhetoric remained hawkish. Headline inflation continued to slow and core inflation fell in most regions apart from the UK. Inflation expectations also continued to decline over the quarter.

Equity Markets¹

At a global level, developed markets as measured by the FTSE World index, returned 8.0%. Meanwhile, a return of 2.6% was recorded by the FTSE All World Emerging Markets index.

At a regional level, European markets returned 16.1% 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 6.1%. The FTSE USA index returned 7.0% while the FTSE Japan index returned 9.0%.

Equity market total return figures are in Sterling terms over the 12-month period to 31 July 2023.

Market Highlights

Bonds¹

UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned -16.0%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of -27.7% over the year. The yield for the FTSE Gilts All Stocks index rose over the year from 2.2% to 4.4% while the Over 15 Year index yield rose from 2.4% to 4.4%.

The FTSE All Stocks Index-Linked Gilts index returned -21.6% with the FTSE UK Index Linked Gilts Over 15 year index returned -32.8%.

Corporate debt as measured by the ICE Bank of America Merrill Lynch Sterling Non-Gilts index returned -7.7%.

Bond market total return figures are in Sterling terms over the 12-month period to 31 July 2023.

Property²

Over 12-month period to 31 July 2023, the MSCI UK All Property Index returned -16.5% in Sterling terms

Currencies¹

Over the 12-month period to 31 July 2023, Sterling appreciated by 5.7% against the US Dollar from \$1.22 to \$1.29. Sterling appreciated by 12.4% against the Yen from ¥162.64 to ¥182.81. Sterling depreciated against the Euro by -2.2% from €1.19 to €1.17 per the same period.

¹ Statistics sourced from Thomson Reuters Datastream unless otherwise specified.

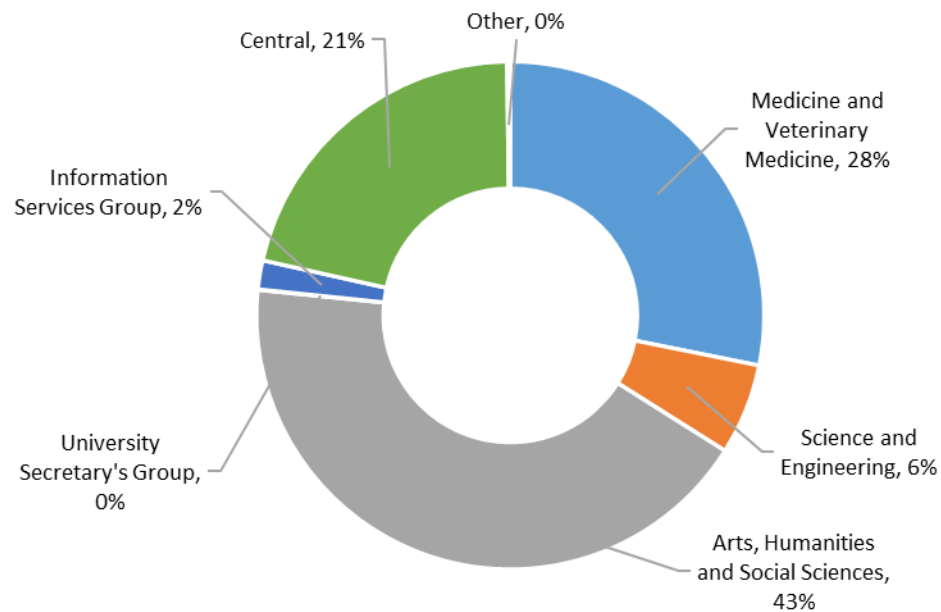
² Statistics sourced from MSCI Investment Property Database.

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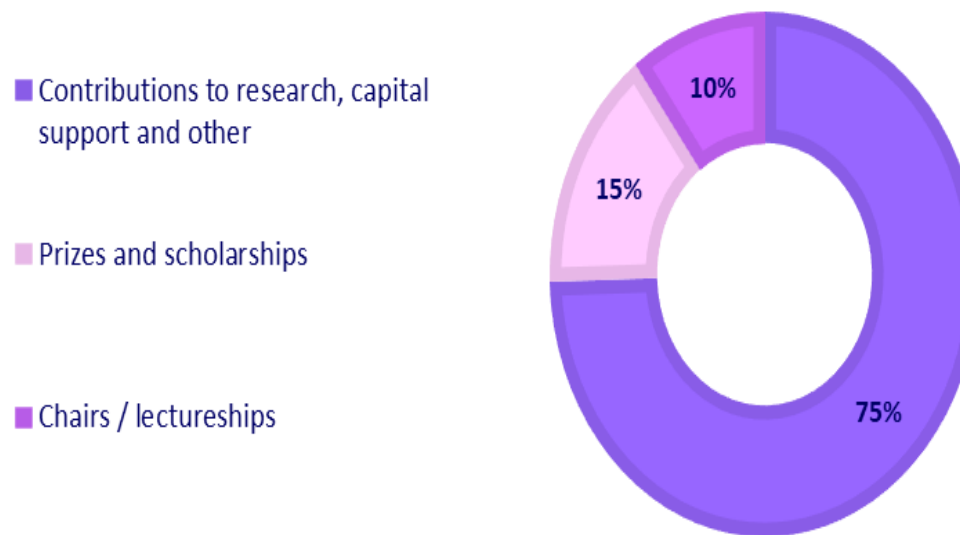
This does not contain investment advice relation to your particular circumstances. No investment decision should be made based on this information without first obtaining appropriate professional advice and considering your circumstances.

Fund Activity

Spend by College / Support Group 2022/23



SPEND BY PURPOSE



Total spend by College / Support Group

	£m
Medicine and Veterinary Medicine	4.7
Science and Engineering	1.0
Arts, Humanities and Social Sciences	7.2
University Secretary's Group	0.0
Information Services Group	0.3
Central	3.6
Other	0.0
Total	16.8

Spend by Purpose

	£m
Contributions to research, capital support and other	12.5
Prizes and scholarships	2.6
Chairs / lectureships	1.7
Total	16.8

Notes