

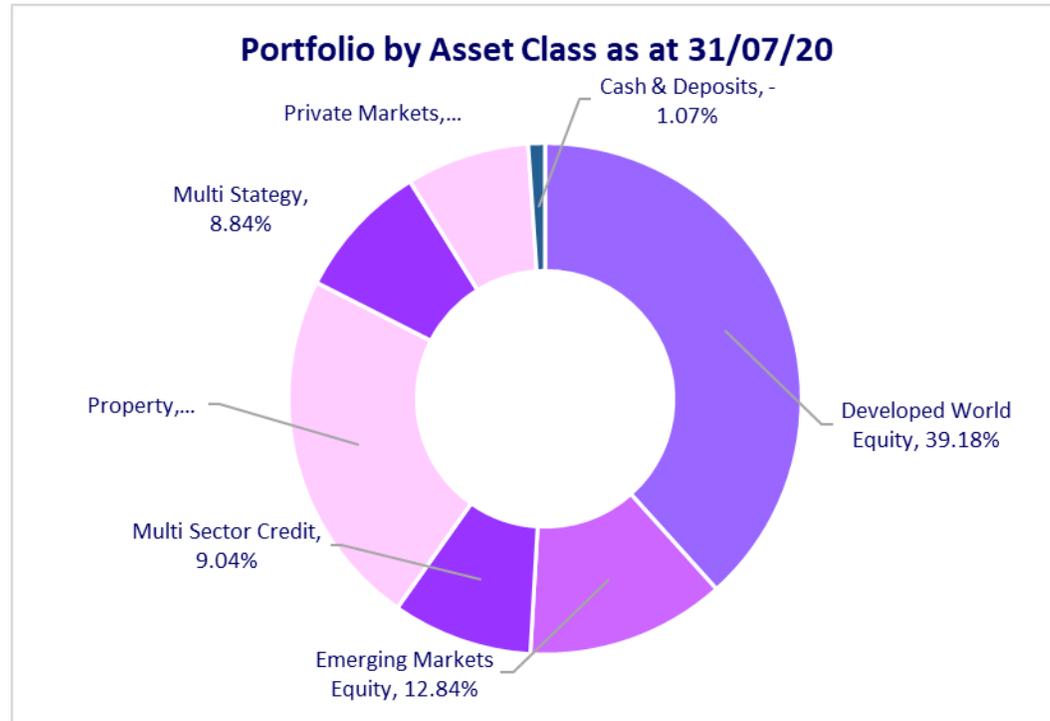


THE UNIVERSITY *of* EDINBURGH
Finance

Endowment Fund Report for the Year to 31 July 2020



01 The University of Edinburgh Endowment Fund Report 2020



£10.9m

The value of endowment expenditure in 2019-20

580

The number of endowments held in the fund

5.72%

The annual return on endowment investments in 2019-20

£9.4m

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	2015/16	2016/17	2017/18	2018/19	2019/20
Market Value	£343m	£392m	£424m	£459m	£488m
Return p.a.	10.00%	16.75%	10.13%	8.60%	5.72%
Number of endowments	642	623	628	593	580
Income yield	£9.2m	£8.5m	£8.7m	£9.2m	£9.4m
Annual expenditure	£7.5m	£9.8m	£9.0m	£8.8m	£10.6m

10.24%

Five-year average annual return from the fund

£145m

Growth of Endowment Fund between 2015-16 and 2019-20 (including new Endowments)

Key Performance indicators	2,019	2,020
Overall return for year (based on opening assets)	8.6%	5.7%
Yield	2.1%	2.0%
Total charges (capital & revenue)	1,962	2,291
Expenses ratio	0.43%	0.49%
Units at 31 July	10,039,667	10,008,733
Unit price	£44.95	£46.54
Income per unit (p)	92.01	93.53
Number of endowments	593	580



Total Return

University of Edinburgh Endowment Fund		
Year ended 31 July		
	2019	2020
	£'000	£'000
Incoming resources		
Increase in market value of investments	27,247	16,932
Investment income	9,237	9,361
Total investment return	36,484	26,293
New endowments	8,034	18,027
	44,518	44,320
Outgoing resources		
Expenditure	(6,791)	(8,563)
Fund management and custody charges (capital)	(964)	(1,333)
Fund management and custody charges (revenue)	(998)	(958)
	(8,753)	(10,854)
Net Movement for year	35,765	33,466
Opening Funds as at 1 August	424,104	459,869
Transfers		(5,554)
Closing Funds as at 31 July	459,869	487,781

	2019	2020
	£'000	£'000
Represented by:		
Equities	273,003	245,651
Multi asset	61,419	83,293
Fixed interest stocks	18,227	23,004
Property	90,596	108,279
Venture capital	5,170	9,162
Bank deposits held at fund managers	3,095	1,669
Bank deposits held by the University	2,388	-5,241
Non-current asset investments	453,898	465,817
Capital Debtor		19,372
Cash balance revenue	3,465	1,814
Current asset - working capital	2,506	778
Total endowment assets	459,869	487,781

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 2019

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

Fund Managers during 2019/20

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

Investment Committee Members as at 31 July 2020

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

Investment Adviser

Mercer

Custodian

BNY Mellon

Auditors

PricewaterhouseCoopers LLP

Investment Committee - Meetings in 2019-20:

19 August 2019	19 November 2019
18 February 2020	18 May 2020

Unit Price History

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

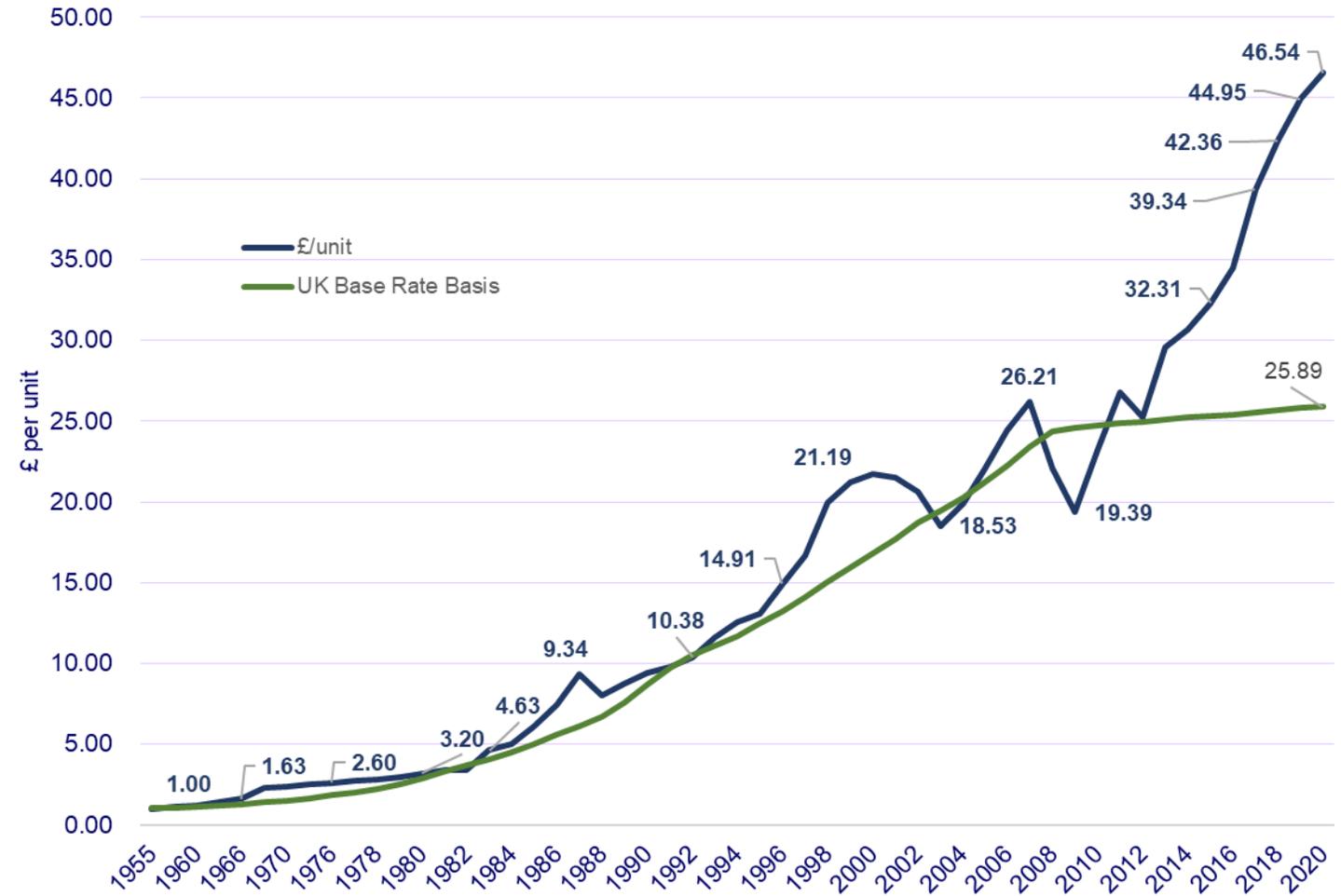
The investment of the University's individual endowments is pooled and the individual endowments participate by holding units in the fund and receiving an income distribution on the units held.

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 2020



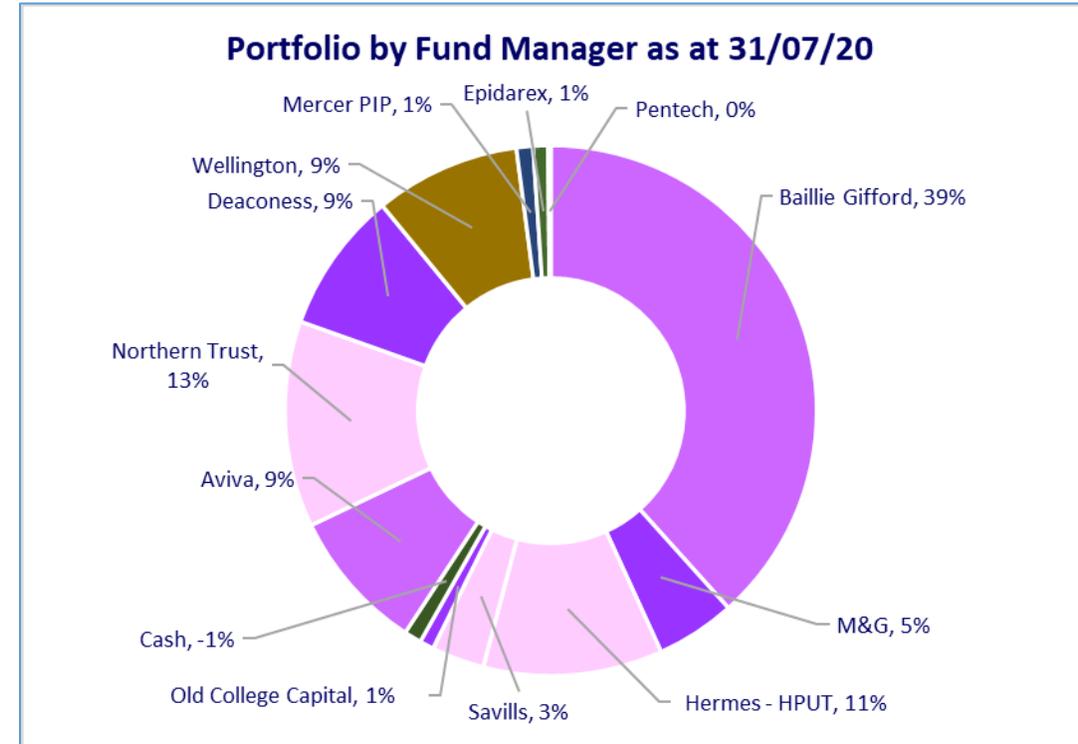
Investment Objective

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 31/07/20

Fund Manager	£m
Baillie Gifford	182.5
M&G	23.0
Hermes - HPUT	51.9
Savills	15.3
Old College Capital	4.1
Cash	-5.0
Aviva	41.2
Northern Trust	59.8
Deaconess	41.0
Wellington	42.1
Mercer PIP	4.8
Epidarex	4.3
Pentech	0.8
	465.8



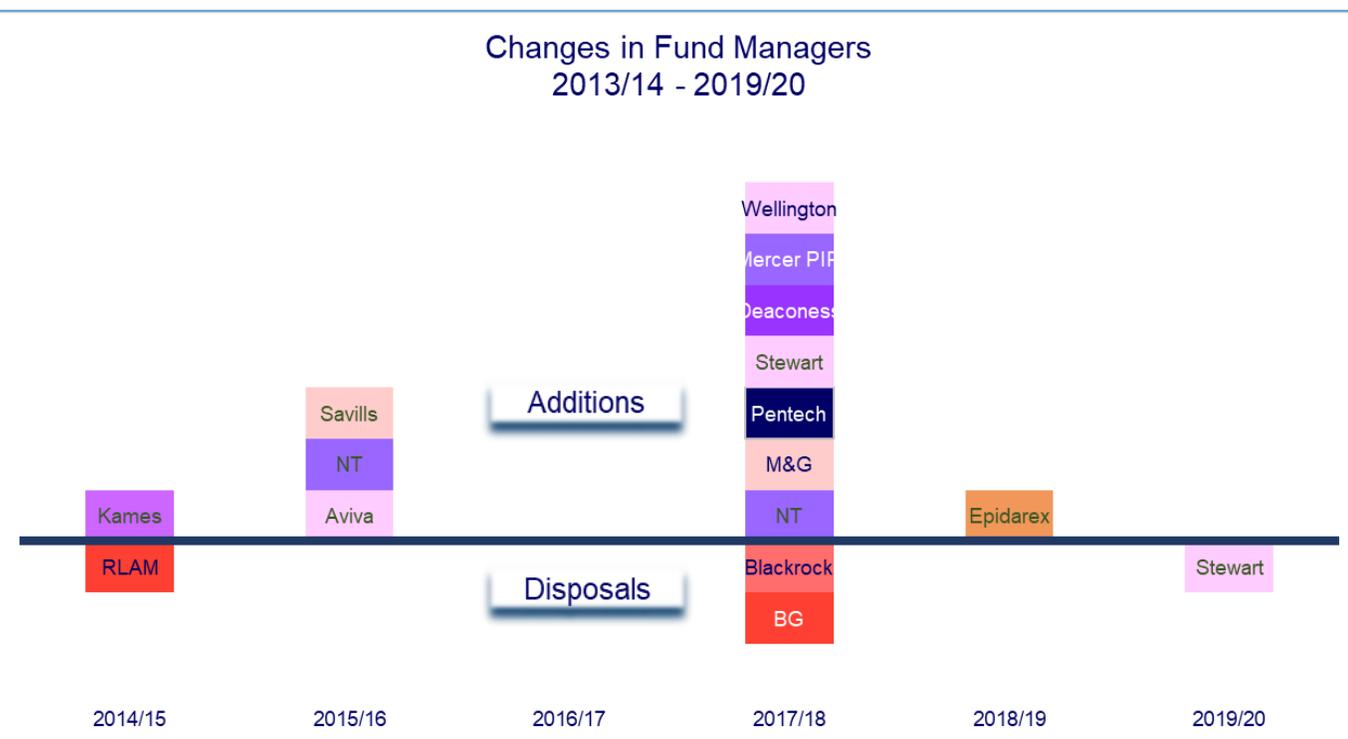
Fund Structure

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	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.
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	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.
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-16	31-Jul-17	31-Jul-18	31-Jul-19	31-Jul-20
Baillie Gifford	46.5%	41.2%	36.6%	37.4%	39.2%
Blackrock	18.0%	0.0%	0.0%	0.0%	0.0%
Hermes - HPUT	16.5%	11.2%	11.3%	10.6%	11.1%
Deaconess	5.1%	6.3%	5.9%	6.7%	8.8%
Kames Capital	13.4%	8.3%	0.0%	0.0%	0.0%
Aviva	0.0%	7.7%	7.2%	6.6%	8.8%
Northern Trust	0.0%	16.2%	15.3%	15.3%	12.8%
Savills	0.0%	2.9%	2.9%	2.7%	3.3%
M&G	0.0%	4.6%	4.3%	4.0%	4.9%
Cash	0.1%	0.9%	0.3%	0.5%	-1.1%
Wellington	0.0%	0.0%	7.5%	7.0%	9.0%
Stewarts	0.0%	0.0%	7.4%	7.5%	0.0%
VC / Private Equity	0.4%	0.7%	1.3%	1.7%	3.0%
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

Over the final months of 2019, the global economy continued its expansion, led by the US, with Japan, the UK and continental Europe seeing more measured growth. In the UK, the outcome of the December 2019 election was well received by markets, though uncertainty over how Brexit proceedings will unfold still remains. Over the first few months of 2020, however, the global economy entered into the most severe downturn since the Great Depression due to lockdowns imposed amid the COVID-19 pandemic, while oil prices collapsed as a price war between Russia and Saudi Arabia escalated as global demand collapsed simultaneously. Unprecedented monetary easing and fiscal programmes not seen since World War II cushioned the blow somewhat. From the lows of March 2020, a sharp rebound ensued with economic activity indicators for most countries increasing at an unprecedented pace following their equally unprecedented collapse in the preceding months.

Equity Markets

At a global level, developed markets as measured by the FTSE World index, returned 0.2%. Meanwhile, a return of -1.1% was recorded by the FTSE All World Emerging Markets index. At a regional level, European markets returned -2.8% 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 -17.8%. The FTSE USA index returned 5.4% while the FTSE Japan index returned -5.3%. The considerable underperformance of UK equities is attributed to the index's high exposure to oil, gas and basic materials and low exposure to technology. Equity market total return figures are in Sterling terms over the 12-month period to 31 July 2020.

Bonds

UK Government Bonds as measured by the FTSE Gilts All Stocks Index returned 9.4%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of 16.6% over the year due to the greater duration impact for the latter. The yield for the FTSE Gilts All Stocks index fell over the year from 1.1% to 0.5% while the Over 15 Year index yield fell from 1.3% to 0.6%. The FTSE All Stocks Index -Linked Gilts index returned 7.5% with the corresponding over 15-year index exhibiting a return of 11.1%. Falling inflation expectations over the year offset falling nominal yields to an extent, cushioning the fall of real yields somewhat which explains the underperformance of index-linked gilts relative to nominal gilts.

Corporate debt as measured by the Bank of America Merrill Lynch Sterling Non-Gilts index returned 6.0%.

Bond market total return figures are in Sterling terms over the 12-month period to 31 July 2020.

Market Highlights

Property

Over 12-month period to 31 July 2020, the MSCI UK All Property Index returned -2.8% in Sterling terms. Real estate valuations turned negative in Q2 2020 as a result of economic uncertainty surrounding the Covid-19 crisis and the direct impact of social distancing measures imposed by the government, which disproportionately affected the retail and leisure sectors.

Currencies

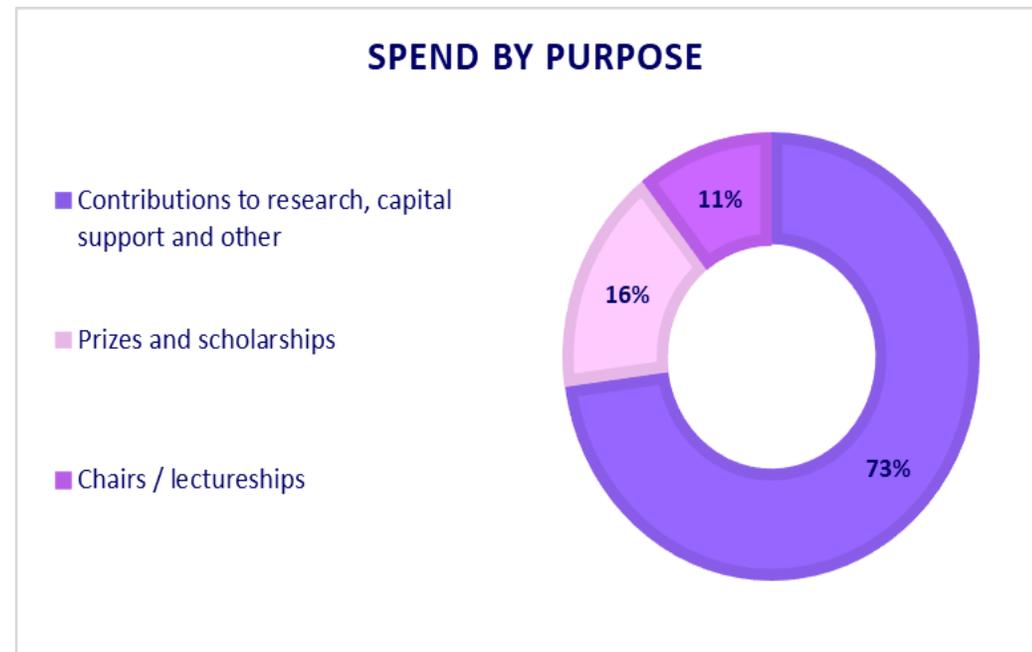
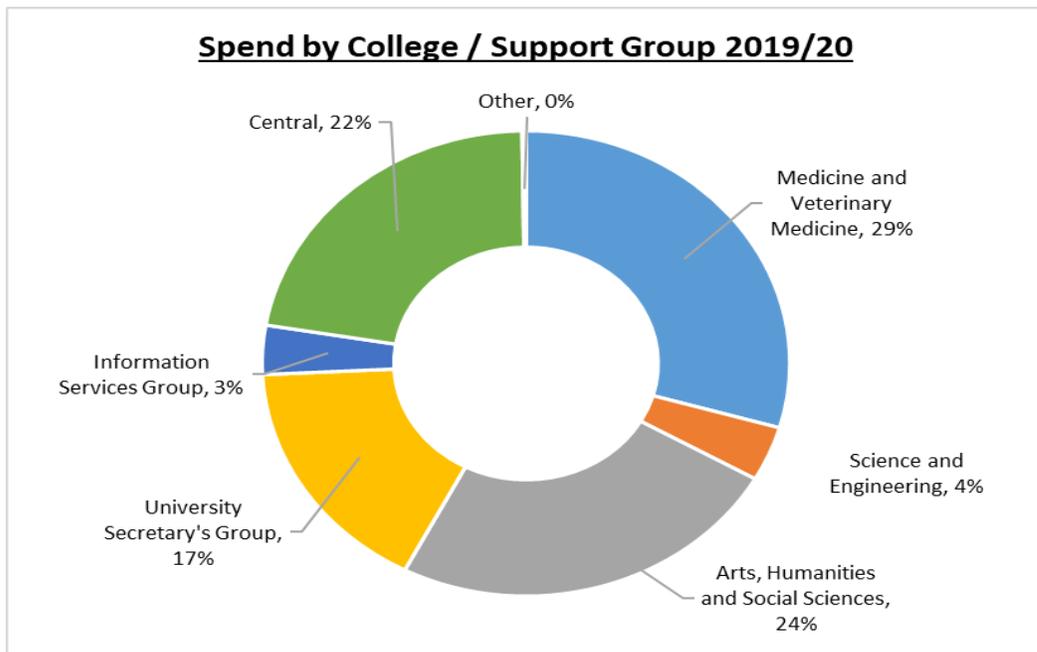
Over the 12-month period to 31 July 2020, Sterling appreciated by 7.2% against the US Dollar from \$1.22 to \$1.31. Sterling appreciated by 4.4% against the Yen from ¥132.94 to ¥138.77. Sterling appreciated against the Euro by 0.9% from €1.10 to €1.11 over the same period.

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



Total spend by College / Support Group	
	£m
Medicine and Veterinary Medicine	2.8
Science and Engineering	0.4
Arts, Humanities and Social Sciences	2.3
University Secretary's Group	1.6
Information Services Group	0.3
Central	2.1
Other	0.0
Total	9.5

Spend by Purpose	
Contributions to research, capital support and other	6.9
Prizes and scholarships	1.6
Chairs / lectureships	1.0
Total	9.5

Notes