

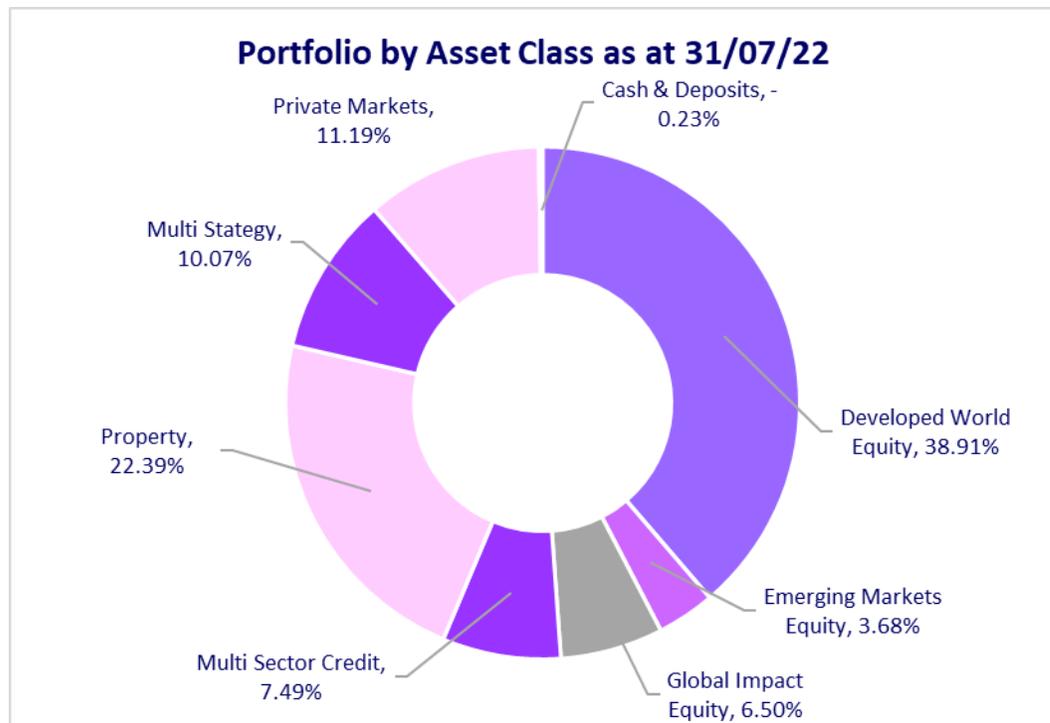


THE UNIVERSITY *of* EDINBURGH
Finance

Endowment Fund Report for the Year to 31 July 2022



01 The University of Edinburgh Endowment Fund Report 2022



£11.7m

The value of endowment expenditure in 2021-22

-4.86%

The annual return on endowment investments in 2021-22

589

The number of endowments held in the fund

£12.0m

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					
	2017/18	2018/19	2019/20	2020/21	2021/22
Market Value	£424m	£459m	£488m	£565m	£541m
Return p.a.	10.13%	8.60%	5.72%	17.78%	-4.86%
Number of endowments	628	593	580	583	589
Income yield	£8.7m	£9.2m	£9.4m	£9.8m	£12.0m
Annual expenditure	£9.0m	£8.8m	£10.9m	£10.8m	£11.7m

7.47%

Five-year average annual return from the fund

£117m

Growth of Endowment Fund between 2017-18 and 2021-22 (including new Endowments)

Key Performance indicators	2021	2022
Overall return for year (based on opening assets)	17.8%	-4.9%
Yield	1.9%	2.2%
Total charges (capital & revenue)	2,451	2,980
Expenses ratio	0.45%	0.58%
Units at 31 July	10,138,608	10,228,300
Unit price	£54.04	£50.09
Income per unit (p)	97.04	117.27
Number of endowments	583	589



Total Return

University of Edinburgh Endowment Fund		
Year ended 31 July		
	2021	2022
	£'000	£'000
Incoming resources		
Increase in market value of investments	76,900	(39,476)
Investment income	9,839	11,995
Total investment return	86,739	(27,481)
New endowments	1,497	15,335
	88,236	(12,146)
Outgoing resources		
Expenditure	(8,324)	(8,742)
Fund management and custody charges (capital)	(1,243)	(1,365)
Fund management and custody charges (revenue)	(1,208)	(1,615)
	(10,775)	(11,722)
Net Movement for year	77,461	(23,868)
Opening Funds as at 1 August	487,781	565,242
Transfers		(410)
Closing Funds as at 31 July	565,242	540,964

	2021	2022
	£'000	£'000
Represented by:		
Equities	304,791	261,558
Multi asset	98,943	89,961
Fixed interest stocks	24,427	25,018
Property	103,181	114,713
Venture capital	12,682	20,863
Bank deposits held at fund managers	2,422	1,468
Bank deposits held by the University	1,484	-1,215
Non-current asset investments	547,930	512,366
Capital Debtor	17,486	28,787
Cash balance revenue	(1,300)	(1,925)
Current asset - working capital	1,126	1,736
Total endowment assets	565,242	540,964

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 2021

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

Fund Managers during 2021/22

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

Investment Committee Members as at 31 July 2022

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

Investment Adviser

Mercer

Custodian

BNY Mellon

Auditors

PricewaterhouseCoopers LLP

Investment Committee - Meetings in 2018-19:

17 August 2021	16 November 2021
15 February 2022	May 2022

Unit Price History

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

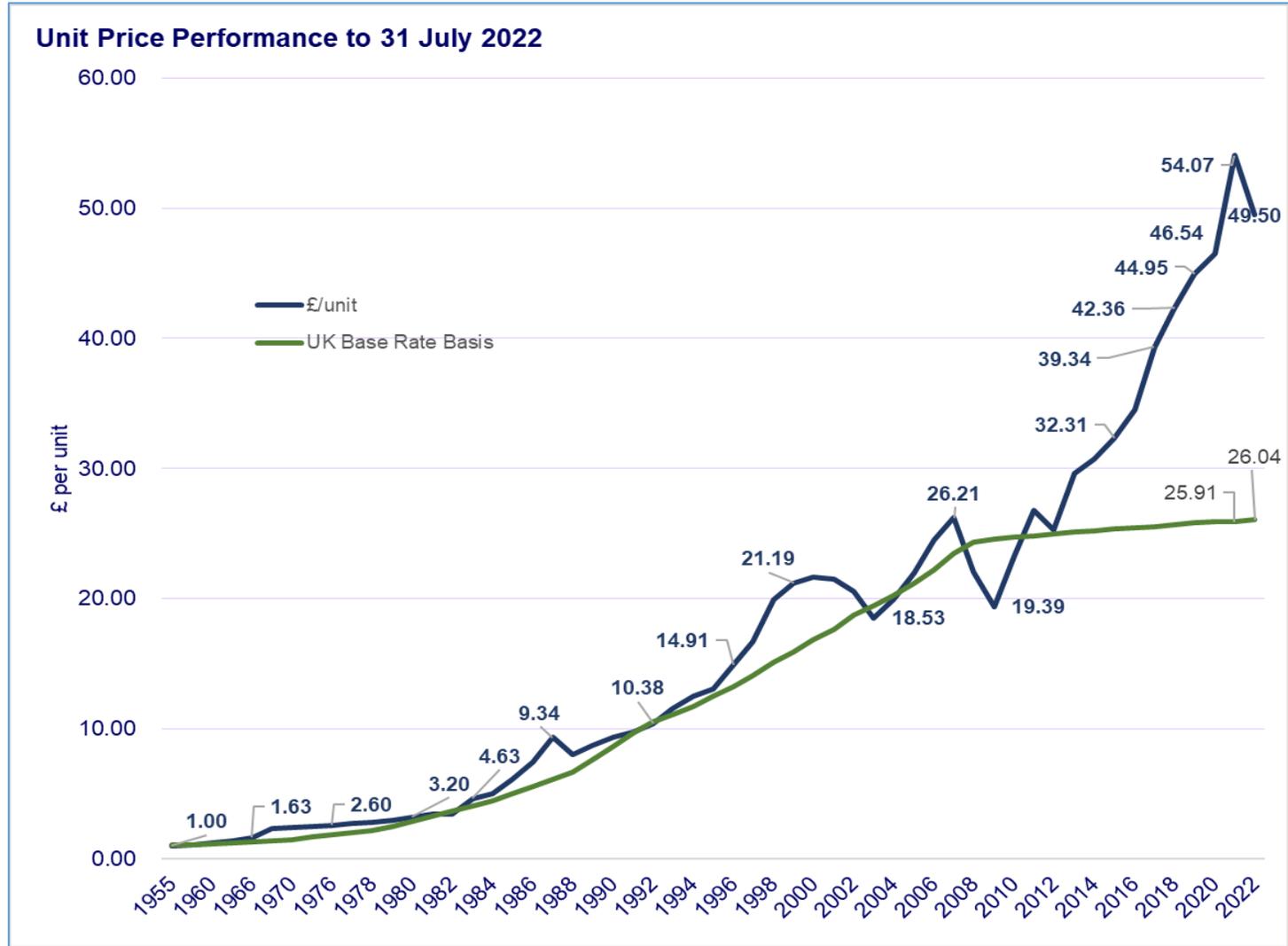
The investment of the University's individual endowments is pooled and the individual endowments participate by holding units in the fund and receiving an income distribution on the units held.

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 2022



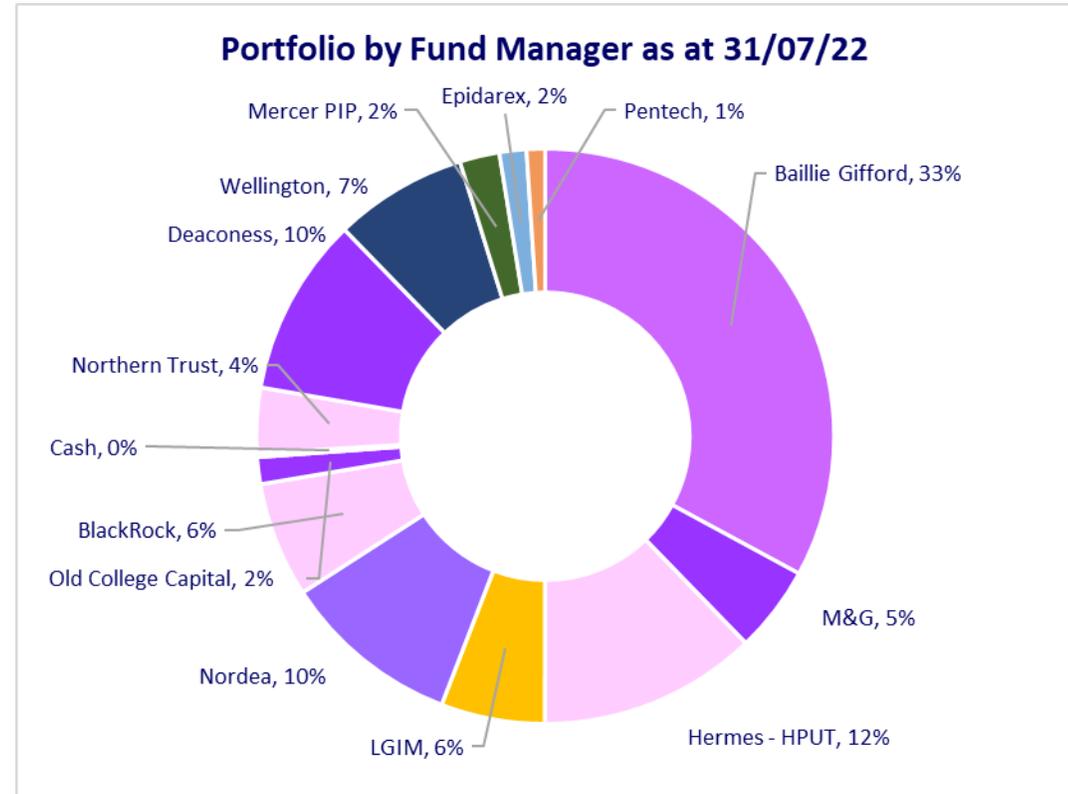
Investment Objective

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 31/07/22

Baillie Gifford	169.5
M&G	25.0
Hermes - HPUT	63.0
Blackrock	33.3
LGIM	29.9
Nordea	51.6
Northern Trust	18.8
Wellington	38.4
Mercer PIP	11.5
Pentech	5.3
Epidarex	7.8
Deaconess	51.7
Old College Capital	7.7
Cash	-
Total	512.4



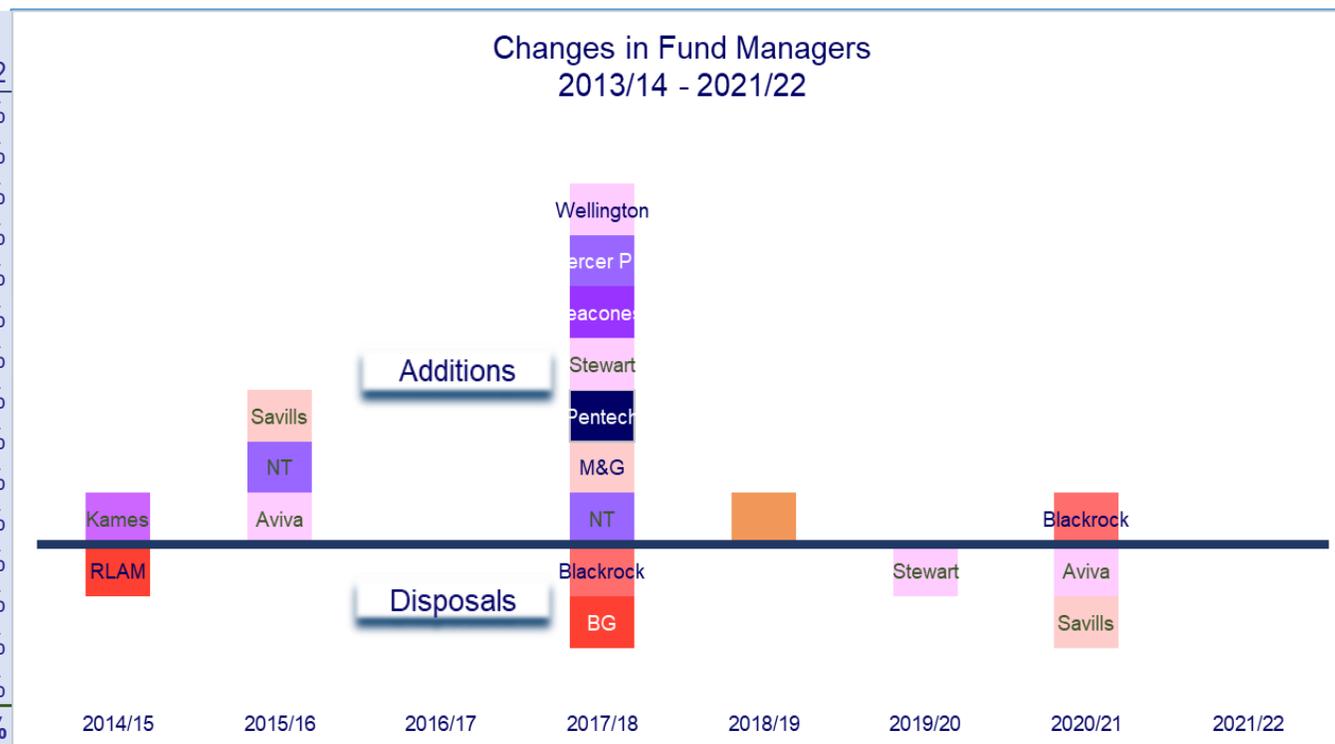
Fund Structure

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.
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	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.



Investment Objective

% Holdings by Fund Manager					
	31-Jul-18	31-Jul-19	31-Jul-20	31-Jul-21	31-Jul-22
Baillie Gifford	36.6%	37.4%	39.2%	38.4%	33.1%
Blackrock	0.0%	0.0%	0.0%	7.2%	6.5%
Hermes - HPUT	11.3%	10.6%	11.1%	9.9%	12.3%
Deaconess	5.9%	6.7%	8.8%	8.9%	10.1%
Kames Capital	0.0%	0.0%	0.0%	0.0%	0.0%
LGIM	0.0%	0.0%	0.0%	5.4%	5.8%
Nordea	0.0%	0.0%	0.0%	9.6%	10.1%
Aviva	7.2%	6.6%	8.8%	0.0%	0.0%
Northern Trust	15.3%	15.3%	12.8%	3.9%	3.7%
Savills	2.9%	2.7%	3.3%	0.0%	0.0%
M&G	4.3%	4.0%	4.9%	4.5%	4.9%
Cash	0.3%	0.5%	-1.1%	0.3%	-0.2%
Wellington	7.5%	7.0%	9.0%	8.5%	7.5%
Stewarts	7.4%	7.5%	0.0%	0.0%	0.0%
VC / Private Equity	1.3%	1.7%	3.0%	3.6%	6.3%
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 pandemic reopening rebound in July and August 2021 in developed countries drove risk-on sentiment initially. However, some emerging economies re-imposed restrictions, which added to already existing supply chain pressures. The supply impact was felt with increasing intensity in September with bottlenecks in a large number of areas. One major event was a run on UK petrol stations at the end of September after rumours of fuel shortages became a self-fulfilling prophecy. Soaring energy futures prices in the UK and continental Europe led to a further deterioration in sentiment.

The end of 2021 did not bring much better news for investors. Persistently high inflation in both developed and emerging countries prompted central banks to become more hawkish. Tightening in emerging markets that had already started reacting earlier in the year continued. The Federal Reserve began to taper asset purchases, setting the stage for interest rate rises in 2022. The Bank of England increased rates by 15bps to 0.25% in December. Only the European Central Bank and Bank of Japan remained on the fence. There was a further Covid-19 variant scare from late November onwards but with a more limited impact this time. International travel restrictions were somewhat tightened and only few countries in continental Europe re-imposed meaningful domestic restrictions.

At first, 2022 started on a positive note. The continued absence of far-reaching Covid restrictions in developed countries supported demand. Although inflation came in at elevated levels, a combination of improving supply chains and moderate monetary tightening was expected to bring it under control. The invasion of Ukraine and subsequent spike in commodity markets completely changed this narrative, however. Central banks were forced to accelerate the pace of tightening even as growth expectations were dialed down. The recovery in supply chains was nipped in the bud both due to the conflict, sanctions on Russia and China locking down large swaths of its economy.

As the year progressed, there was a continuation of the broad macro trends seen since the beginning of 2022. Surging commodity prices, to a large degree the result of the ongoing conflict in Ukraine and associated sanctions against Russia, and the aftermath of the enormous monetary and fiscal stimulus of the last two years led to new multi-decade inflation records. Central banks in many major regions doubled down on monetary tightening as a consequence, resulting in elevated market volatility and a sell-off in pretty much all asset classes except commodities. Growth expectations were dialed down drastically, with a growing number of investors seeing a recession as an increasingly plausible scenario.

Equity Markets¹

At a global level, developed markets as measured by the FTSE World index, returned 3.5%. Meanwhile, a return of -4.4% was recorded by the FTSE All World Emerging Markets index.

At a regional level, European markets returned -7.0% 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 5.5%. The FTSE USA index returned 6.5% 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 2022.

Market Highlights

Bonds¹

UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned -13.7%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of -24.0% over the year. The yield for the FTSE Gilts All Stocks index rose over the year from 0.8% to 2.2% while the Over 15 Year index yield rose from 0.9% to 2.4%.

The FTSE All Stocks Index-Linked Gilts index returned -17.1% with the corresponding over 15-year index exhibiting a return of -26.9%.

Corporate debt as measured by the ICE Bank of America Merrill Lynch Sterling Non-Gilts index returned -11.8%.

Bond market total return figures are in Sterling terms over the 12-month period to 31 July 2022.

Property²

Over 12-month period to 31 July 2022, the MSCI UK All Property Index returned 21.5% in Sterling terms..

Currencies¹

Over the 12-month period to 31 July 2022, Sterling depreciated by 12.5% against the US Dollar from \$1.39 to \$1.22. Sterling appreciated by 6.6% against the Yen from ¥152.59 to ¥162.64. Sterling appreciated against the Euro by 1.8% from € 1.17 to €1.19 over the same period.

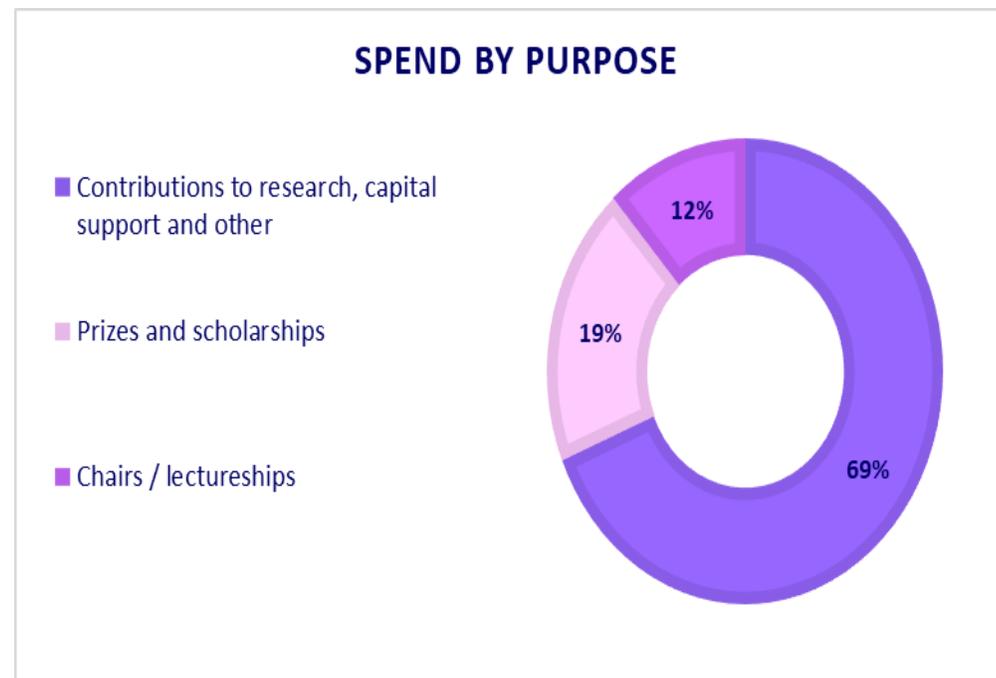
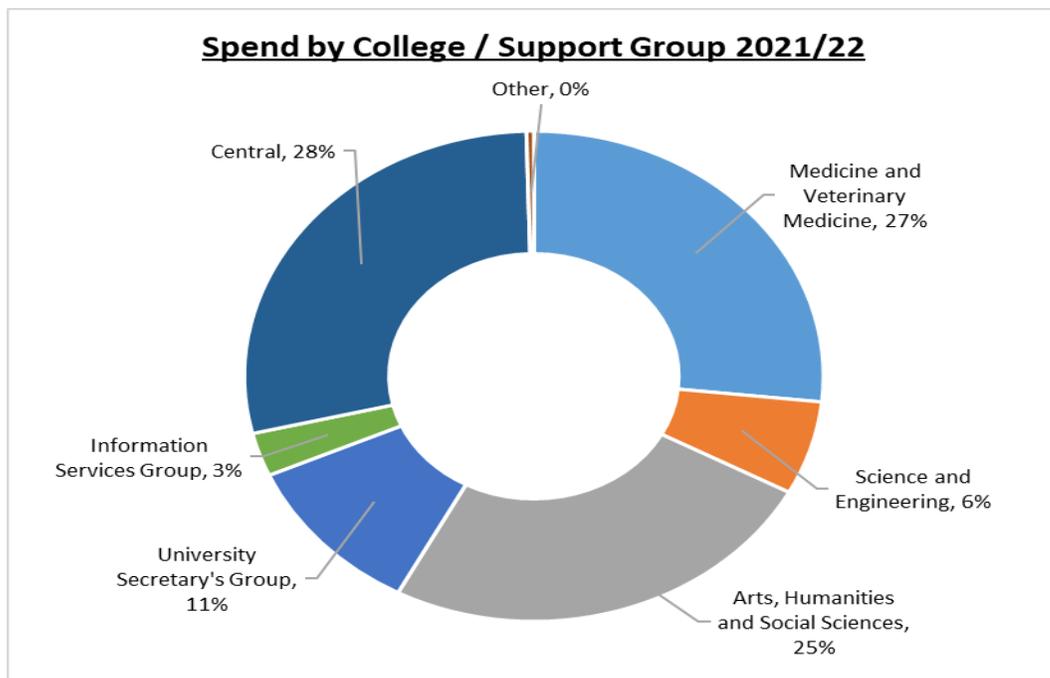
¹ Statistics sourced from Thomson Reuters Datastream unless otherwise specified.

² 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



Total spend by College / Support Group	£m
Medicine and Veterinary Medicine	2.8
Science and Engineering	0.7
Arts, Humanities and Social Sciences	2.7
University Secretary's Group	1.1
Information Services Group	0.3
Central	3.0
Other	0.0
Total	10.7

Spend by Purpose	£m
Contributions to research, capital support and other	7.3
Prizes and scholarships	2.1
Chairs / lectureships	1.2
Total	10.7

Notes