

Cambridge University Endowment Fund

Reports and financial statements
30 June 2014

IMPORTANT NOTICE

The Cambridge University Endowment Fund ("CUEF") is an unauthorised unit trust scheme established pursuant to a trust deed dated 30 June 2010 ("Trust Deed") and the trustee of the CUEF ("Trustee") is The Chancellor, Masters, and Scholars of the University of Cambridge (the "University"). The Trustee has appointed Cambridge Investment Management Limited to act as investment manager and operator of the CUEF ("Investment Manager").

The information in this report should not be copied or distributed without the consent of Cambridge Investment Management Limited, which is authorised and regulated by the Financial Conduct Authority. This document is made available for information purposes of members of the Regent House of the University only and does not constitute an offer or invitation to acquire units in the CUEF, which are only available to entities that meet specific requirements and are accepted by the Trustee.

Neither the Trustee nor the Investment Manager nor any of their associates, directors, employees, partners or advisers make any express or implied representation or warranty as to the accuracy or completeness of this information, nor is any such person under any obligation to update the information or correct any inaccuracies or omissions in it which may exist or become apparent.

**Cambridge University Endowment Fund
Report and financial statements**

30 June 2014

Contents	Page
Governance report	59
Investment manager's report	61
Portfolio statement	64
Financial statements:	
Statement of total return	65
Statement of change in net assets	65
Balance sheet	66
Notes to the financial statements	67

Cambridge University Endowment Fund Governance report

30 June 2014

The University of Cambridge as Trustee of the Cambridge University Endowment Fund ('CUEF') presents the CUEF report and unaudited financial statements for the year ended 30 June 2014.

Constitution

The CUEF is constituted by a Trust Deed dated 30 June 2010 in which the University of Cambridge declared that it will hold the property of the CUEF on trust for the unitholders.

The CUEF is a continuation of the Amalgamated Fund: a pool of investments previously held and managed by the University.

Eligibility to invest in the CUEF

The CUEF is available to the University and also to UK charities connected with the University (such as Colleges and trusts) provided that they qualify as 'high net worth companies' or 'high value trusts' or elect to be treated as 'professional clients' for the purposes of the Financial Services and Markets Act 2000 and are accepted as investors by the Trustee.

Governance

The Investment Board of the University is established to advise the Council of the University, through its Finance Committee, on matters relating to the investments held in the University's capacity as Trustee of the CUEF. Except for the Vice-Chancellor and one other member, the members of the Investment Board are independent of the University. The Investment Board works closely with the University's Investment Office.

The Trustee has appointed Cambridge Investment Management Limited ('CIM'), a wholly-owned subsidiary company of the University, to operate the CUEF. CIM is authorised by the Financial Conduct Authority since 6 August 2014 to manage the CUEF as an Alternative Investment Fund (until 6 August 2014: to operate the CUEF as an unauthorised unit trust which is a collective investment scheme). The Board of CIM is comprised of the Vice-Chancellor and another member of the Investment Board of the University, the University's Director of Finance, and the Chief Investment Officer.

Management

The services of CIM are provided by the staff of the University's Investment Office and staff of its Finance Division.

Investment objective

The CUEF's objective is to be able to make distributions to be spent on the purposes of its charity investors in amounts which increase periodically, so as to represent constant purchasing power over the long term, and if possible to represent real growth in purchasing power. The amount distributed each year per unit in the CUEF is determined according to a formula based on the value of the investments and the rate of Retail Price Inflation. The CUEF's long run objective is accordingly to achieve or exceed an average annual rate of total return (i.e. income and net capital gains), net of all costs and before distributions are taken into account, equal to RPI plus 5.25%, such that after distributions are taken into account there will be annual growth in the fund unit value equal to RPI plus 1%.

A further objective is to manage judiciously the risk taken in order to meet the total return objective, by utilising diversification of investment strategies, of investment asset classes and of investment managers.

Investment responsibility

The CUEF is managed in accordance with the policies of the University. The primary fiduciary responsibility of the Council of the University in relation to the University's investment assets is to maximize the financial return on those resources, taking into account the amount of risk appropriate for the University investment policy. However there are circumstances when the University may balance against its primary responsibility considerations of the ethical nature of investments. The University's Statement of Investment Responsibility is published annually in the Cambridge University *Reporter*.

Financial statements

These financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice and having regard to the Statement of Recommended Practice: Financial Statements of Authorised Funds (revised October 2010) to give a true and fair view of the net income and the net gains and losses of the CUEF for the year, and of the financial position of the CUEF as at the end of the year.

In preparing these statements, the Trustee follows best practice; selects suitable accounting policies and then applies them consistently; makes judgements and estimates that are reasonable and prudent; states whether applicable accounting standards have been followed; and prepares the financial statements on the going concern basis.

The Trustee is responsible for ensuring that accounting records are kept which enable it to ascertain and to disclose with reasonable accuracy the financial position of the CUEF; and which enable it to ensure that the financial statements are properly prepared.

AM Reid
Director of Finance

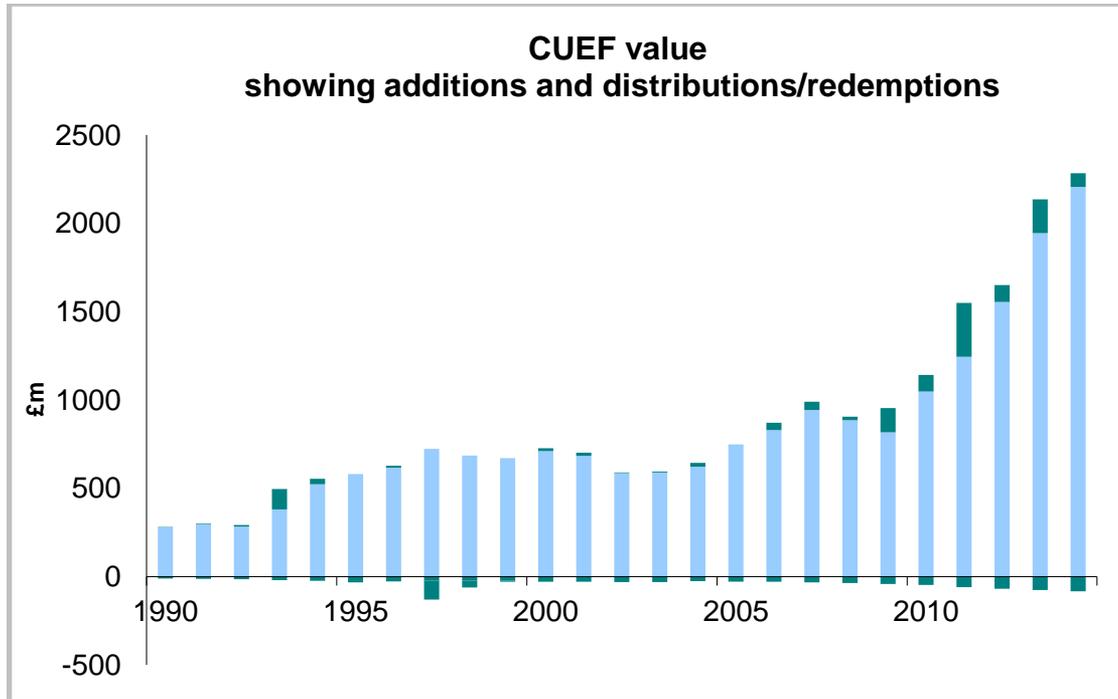
November 2014

**Cambridge University Endowment Fund
Investment manager's report**

30 June 2014

Fund size

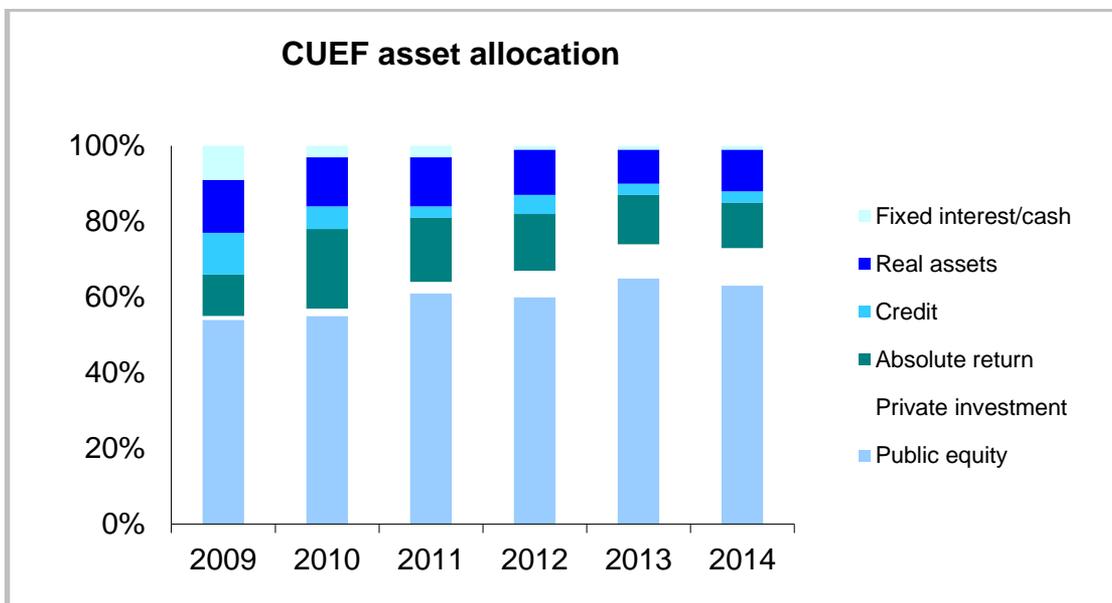
The development of the fund over the last 25 years ended July, the University accounting date, is shown in the following graph.



The CUEF changed its own accounting date to 30 June in 2007 in order to facilitate comparison with other collective investment funds.

Asset allocation

The CUEF operates an evolving asset allocation. The asset allocations at recent year ends are shown below. Detailed numbers are shown in the Portfolio Statement.



Over the course of 2013-14 allocations to these broad asset classes did not change significantly. Small decreases in public equity and absolute return were matched by increases in private investment and real assets.

The equity focus of the CUEF is a consequence of the long term return objective of the fund. Within each asset class, fund managers are selected by the Investment Office and carry out the day-to-day investment transactions. Passive investment (for example index funds and futures) is also used for flexibility and transitionally (such as while new managers are being sought or new funds are being allocated). Overall currency exposure is managed by the use of forward foreign exchange contracts.

Selection of fund managers

A large proportion of the Investment Office's time is dedicated to identifying fund managers who exhibit the characteristics it seeks (integrity, strong process borne out by track record, stable establishment, fair fee basis), making appropriate appointments and monitoring progress once appointments have been made. During the year under review the CUEF made allocations to ten new managers or funds, and made exits from two managers or funds which had served their purpose.

Foreign currency exposures

Foreign currency is not regarded as an asset in itself, capable of generating long term returns appropriate to the cost and risk involved. The policy of the fund is therefore in general not to hedge public equity positions back to sterling because movements between other currencies and sterling are expected to balance out in the long term when its managers have a global investment mandate and many of the companies they select have global trading activities, wherever they happen to be based.

However, fixed income, credit and hedge fund investments are either held in, or hedged back to, sterling, as additional currency exposure in these areas is not considered to be diversifying. A policy has been adopted of maintaining at least a minimum proportion of the fund in sterling exposures, irrespective of the investments held from time to time, in recognition of the periodic outflow of sterling distributions to which the fund is committed. During the year the fund's exposure to sterling has been around 51%.

Comments

The CUEF achieved a total return of 10.4% in the year to June 2014, a return in excess of both the fund's long-term objective and the global equity market index (MSCI All Country World Index: + 9.1% in GBP). The investment managers in the fund's two largest asset classes, public equity and absolute return, continued to outperform their market benchmarks, albeit modestly in the former case. Over the six years since 30 June 2008, the fund has an annualised return of 8.6%, which compares to 8.1% p.a. for the long-term RPI-linked objective.

Although the fund has maintained a dominant core allocation to public equity markets, diversification has been achieved through investment in other asset classes such as property, private debt and absolute return, each of which contributed meaningfully to the overall return in the year. The fund also benefited from its negligible exposure to sovereign and other investment grade bond markets, which underperformed riskier markets.

The volatility of the fund unit value is measured over rolling three year periods based on the quarterly fund valuations; over the three years to June 2014 it was 8.9% (by comparison: the volatility of the MSCI All Country World Index (in GBP) was 14.3%). The fund has been achieving through diversification a consistent and significant reduction from the variability of the equity markets.

The fund's broad asset allocation did not change markedly over the year. Small reductions were made to the public equity and absolute return allocations, while further commitments were made to private investments. The increase in real assets reflects in part a very strong capital return to UK commercial property in the year.

N Cavalla
Chief Investment Officer

November 2014

**Cambridge University Endowment Fund
Portfolio statement**

30 June 2014

	£m	2014 %	£m	2013 %
Public equity	1,451.0	63%	1,340.4	65%
Private investment	223.7	10%	181.7	9%
Absolute return	264.8	12%	261.6	13%
Credit	73.2	3%	65.8	3%
Real assets	241.1	11%	193.4	9%
Fixed interest/cash	38.2	1%	30.0	1%
Total portfolio	2,292.0	100%	2,072.9	100%

Notes on asset classification

Public equity includes all equity stocks traded on a liquid market, together with related index funds and derivatives (such as futures).

Private investment includes investments where initial capital commitments are drawn down over a period, and the proceeds of the investments once disposed of are returned over the life of each fund. The underlying investments include both unlisted equities and corporate credits (such as bonds, loans and other claims).

Absolute return includes investments in trading strategies which are in some degree independent of overall equity market movements. Funds where different equities are simultaneously held (long) and sold (short) are included in this category.

Credit includes corporate securities (such as bonds and loans) traded on a liquid public market.

Real assets includes investments which are expected in some degree to increase in nominal value to match inflation. This category includes property and securities which reflect the level of commodity values. However inflation-linked government securities are included in the fixed interest category below.

Fixed interest/cash includes cash at bank and on deposit, government securities, the net value of foreign currency contracts and any amounts receivable in general; less amounts payable, including those arising from holding derivative contracts.

**Cambridge University Endowment Fund
Statement of total return**

For the year ended 30 June 2014

	£m	2014 £m	£m	2013 £m
Income				
Net capital gains (losses)	202.7		322.1	
Dividends	16.6		14.3	
Rent	7.1		5.0	
Interest	2.1		2.0	
Total income		228.5		343.4
Expenses				
Fees of fund managers	7.6		4.9	
Fees of property managers	0.7		0.6	
Property costs	0.5		0.4	
Other expenses	2.9		2.6	
Total expenses		11.7		8.5
Total return				
Change in net assets from investment activities		216.8		334.9

**Cambridge University Endowment Fund
Statement of changes in net assets**

For the year ended 30 June 2014

	£m	2014 £m	£m	2013 £m
Opening net assets		2,072.1		1,606.4
Amounts receivable on issue of units		85.2		205.1
Amounts payable on redemption of units		0.0		0.0
Change in net assets from investment activities		216.8		334.9
Amounts payable as distributions		(82.9)		(74.3)
Closing net assets		2,291.2		2,072.1

Cambridge University Endowment Fund
Balance sheet

30 June 2014

	£m	2014 £m	£m	2013 £m
Assets				
Investment assets	2,292.0		2,072.9	
Cash	7.0		6.9	
Debtors	1.7		0.9	
Total assets		2,300.7		2,080.7
Liabilities				
Creditors		9.6		8.6
Net assets		2,291.2		2,072.1

**Cambridge University Endowment Fund
Notes to the financial statements**

30 June 2014

General information

Nature of the fund

The Cambridge University Endowment Fund ('CUEF' or 'the fund') has been established by the University of Cambridge for the management of long term investments. The fund is a collective investment scheme in the form of a unit trust. The fund is managed by Cambridge Investment Management Limited, a wholly owned subsidiary of the University which is authorised by the Financial Conduct Authority. These financial statements have been prepared by the Director of Finance of the University.

Critical accounting estimates and judgements

The preparation of the financial statements requires the exercise of judgement both in the application of the accounting policies which are set out below and in the selection of the assumptions used in the calculation of estimates. These judgements and estimates are continually reviewed and evaluated based on historical experience and other factors, however actual results may differ from estimates. The component of the financial statements most significantly affected by the exercise of judgement is as follows:

Investments which are not listed or which are not frequently traded are stated at the Chief Investment Officer's best estimate of fair value. With respect to investments held through pooled funds or partnerships, reliance is placed on unaudited valuations of the underlying listed and unlisted investments as supplied to the CUEF custodian by the administrators of those funds or partnerships. The principles applied by the administrators to those valuations are reviewed to ensure they are in compliance with CUEF policies. With respect to other investments, recognized valuation techniques are used, that may take account of any recent arm's length transactions in the same or similar investment instruments. Where however no reliable fair value can be estimated, investments are stated at cost less any provision for impairment.

Summary of significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with UK financial reporting standards on the historical cost basis, except that investments are stated at fair value. The principal accounting policies adopted are set out below. The Director of Finance has reviewed the Statement of Recommended Practice ('SORP') for the financial statements of authorised funds published by the Investment Management Association and has noted below where the statements prepared for the CUEF (which is not an authorised fund) differ from the recommendations in the SORP. The most significant difference is that the CUEF accounts for the total return from its investments before distributions, in accordance with its investment objective as set out in the Trustee's Report; distributions are therefore disclosed as an element of the change in net assets rather than as a cost component of total return.

Recognition of total return

Dividend income receivable is recognised when the shareholders' rights to receive payment have been established, normally on the ex-dividend date, net of any withholding tax. Rental and interest income are accrued on a time basis. Expenses payable are accrued on a time basis. Differences from the SORP: all other elements of total return, including dividends received in the form of shares, and expenses incurred within pooled funds and partnerships, are included within net capital gains/(losses). No separate disclosure is made of items related to derivative investments such as futures, which are held instead of conventional securities if it is more efficient to obtain exposure to certain markets thereby.

Foreign currencies

Transactions in currencies other than sterling are recorded at the rates of exchange applicable to the dates of the transactions. Balance sheet items denominated in foreign currencies are translated at the rates prevailing at the reporting date. The unrealised net gain or loss on open forward foreign currency contracts is included within 'fixed interest/cash' in the portfolio statement.

Taxation

The University and the other investors are conditionally exempt from taxes on income and capital gains in the UK and in many other jurisdictions. UK value added tax borne by the fund is treated as an expense.

Investments

Investments are recognised at the time of the relevant transaction and shown in the balance sheet at fair value. Fair value is based on mid-market prices, or in the case of participations in pooled funds on the most recent fund administrator's statement available at the monthly cut-off date, or otherwise on the Chief Investment Officer's valuation as set out above. Directly held property is valued quarterly by Knight Frank LLP in accordance with the standards of the Royal Institute of Chartered Surveyors. In the portfolio statement investments are grouped by category. Difference from SORP: it is the University's policy not to disclose the identity of its fund managers or of individual investments.

Derivatives

All derivatives are stated at fair value. Difference from SORP: where the fund holds derivatives at the balance sheet date they are included in the portfolio statement in the same category as other comparable investments in order to disclose the investment allocation accurately. For example, the gross market value of equity futures is included within the 'public equity' category whereas the liability to settle the futures contract is included as 'cash' (notwithstanding the right and intention to settle the contract on an offset basis).

Borrowing

There is no direct borrowing within the fund and all derivative investments are fully covered by cash. There is indirect borrowing through participation in pooled funds and partnerships some of which employ leverage techniques.

Capital contributions

Amounts received in respect of capital contributions are not recognised until the relevant 'dealing date' which is normally the first business day of a calendar quarter.

Cash flows

No statement of cash flows has been prepared. The reason for this is that cash is regarded as one of the investment assets within the portfolio and appears within the portfolio statement. Internal cash flows arising within the fund when allocations between fund managers change and as a consequence of fund manager decisions within each investment account or vehicle are not significant for an understanding of the fund. Cash flows into and out of the fund in the form of capital movements and distributions are shown in the statement of changes in net assets.

Commitments

At the reporting date the fund had the following commitments to make investments:

	£m
Private investment	159.6
Real assets	<u>41.1</u>
Total commitments	200.7

Related parties

All investment management and administration functions are carried out by Cambridge Investment Management Limited, a wholly owned subsidiary of the University utilising resources in the Investment Office and Finance Division of the University, the costs of which are borne by the fund.

Certain investments are held through Cambridge Investment Limited, a wholly owned subsidiary of the University.

Risk management policies and procedures

As a collective investment scheme the fund invests in various categories of assets for the long term in order to achieve the investment objectives set. In order to pursue these objectives the fund seeks exposure to a variety of risks that could however result in a reduction in the fund's net assets. The principal risks and the investment manager's approach to managing them are set out below under the following headings: market risk (comprising currency risk, interest rate risk, and other price risk), liquidity risk, and credit risk.

Market risk

Market risk embodies the potential for both losses and gains and includes currency risk, interest rate risk and other price risk. Market risk in total is managed on a regular basis by the Chief Investment Officer. The University's Investment Board meets at least four times a year to discuss with the Chief Investment Officer asset allocation strategies and market risk.

Currency risk

Some of the fund's assets, liabilities and transactions are denominated in currencies other than its base currency of sterling. Consequently the fund is exposed to the risk of movements in exchange rates. The fund's currency positions are reviewed regularly by the Chief Investment Officer and the currency exposure is managed within the asset allocation strategy. The currency exposure for overseas investments is based on the quotation or reporting currency of each holding, while the currency exposure for net monetary assets is based on the currency in which each asset or liability is denominated. At the reporting date the fund had the following principal net exposures:

Pounds sterling	52%
US dollar	30%
Euro	5%
Japanese yen	5%
Other currency	8%

Interest rate risk

Movements in interest rates affect the fair value of investments in fixed interest rate securities and the income receivable on cash deposits. The possible effects on fair value and cash flows as a result of an interest rate change are taken into account when making investment decisions.

Other price risk

Other price risk is the risk that the value of a security will fluctuate as a result of changes in market prices (other than those arising from currency risk or interest rate risk), whether caused by factors specific to an individual investment or its issuer or by factors affecting all securities traded in that market. As the majority of the fund's investments are carried at fair value with fair value changes recognised in the statement of total return, all changes in market conditions will directly affect reported investment income and net assets. The fund's asset allocation at the reporting date is shown in the portfolio statement.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the fund. This risk is managed in a combination of ways. Primarily, the fund managers appointed for the fund have responsibility for choosing reliable counterparties when instructing transactions on behalf of the fund. Where investments in the fund are managed directly, investment transactions are carried out with well established, approved brokers. All investment transactions are done on a cash against receipt or cash against delivery basis.

The fund also minimises credit risk through banking policies which involve placing deposits only with highly regarded financial institutions. The value of cash, as shown on the portfolio statement, best represents the credit risk exposure at the reporting date.

Liquidity risk

Liquidity risk is the risk that the fund might encounter difficulty in meeting its obligations associated with financial liabilities and withdrawals of capital. This is not currently a significant risk as the majority of the assets are investments in quoted securities and in funds that are readily realisable.

Gearing risk

This is the risk that the movement in the fair value of the assets of the fund is amplified by any borrowing that the fund may have. The fund has no direct borrowing. The effect of any indirect borrowing through participation in pooled funds and partnerships which employ leverage techniques is kept under review by the Chief Investment Officer.