
**Section N: Cambridge University Endowment Fund
Reports and financial statements****30 June 2018**

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Cambridge University Endowment Fund Governance report

30 June 2018

The University of Cambridge as Trustee of the Cambridge University Endowment Fund ('CUEF') presents the CUEF report and audited financial statements for the year ended 30 June 2018.

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 ('CIML'), a wholly-owned subsidiary company of the University, to operate the CUEF. CIML has been authorised by the Financial Conduct Authority since 6 August 2014 to manage the CUEF as an Alternative Investment Fund. The Board of CIML 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.

The Valuation Committee is responsible for determining the fair value of investments where these are not listed or infrequently traded and works closely with the Board of CIML.

The Trustee and CIML have appointed J.P. Morgan Europe Limited as depository and all three parties have appointed JPMorgan Chase Bank, N.A. as custodian.

Management

The services of CIML are provided by the University's Investment Office and Finance Division as disclosed below. CIML does not have any employees, therefore no remuneration is paid by the fund or by CIML.

Cambridge University Endowment Fund Governance report

30 June 2018

Remuneration

Staff employed by the University and engaged in investment management and administration functions for the Fund received aggregate remuneration as follows, including remuneration in respect of their other responsibilities in the wider University:

	2018	2017
	£m	£m
Senior management	1.7	1.4
Other staff	1.1	0.9
Total remuneration	2.8	2.3

Investment objective and distribution policy

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 on a total return basis 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 and the other investors. 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 over the longer term, 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*.

**Cambridge University Endowment Fund
Governance report****30 June 2018**

Financial statements

These financial statements have been prepared in accordance with Chapter 3 of the Investment Fund sourcebook and FRS 102 'The Financial Reporting Standards Applicable in the UK and Republic of Ireland' as issued by the Financial Reporting Council. In applying FRS 102 the Director of Finance has had regard to appendix D the Statement of Recommended Practice: Financial Statements of Authorised Funds (revised May 2014) published by the Investment Management Association.

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.

D Hughes
Director of Finance

19th November 2018

**Cambridge University Endowment Fund
Investment manager's report****30 June 2018**

Fund size

The opening net asset value of the Fund was £2,959m, and £121m was contributed during the year while £43m was withdrawn. The total return for the year (net income plus net capital gains) was £261m and distributions were £105m. As a result the net asset value of the Fund at the end of the year was £3,193m.

Asset allocation

The CUEF operates an evolving asset allocation. The asset allocations at the beginning and end of the year are shown in the Portfolio Statement.

Over the course of 2017-18 allocations to the broad asset classes did not change significantly. A small reduction in percentage terms was made to absolute return funds, while investment in private equity continued to increase at a measured pace. The allocation to fixed income was also raised marginally.

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, and fair fee basis), making appropriate appointments and monitoring progress once appointments have been made. During the year under review the CUEF made allocations to eight new managers, and made exits from four managers who 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 to hedge only a modest component of 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.

**Cambridge University Endowment Fund
Investment manager's report****30 June 2018**

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 generally been between 50% and 55%.

Comments

The US Federal Reserve began to reverse its Quantitative Easing programme from October 2017, and raised interest rates three times in the 12 months to 30 June 2018, to a level of 2% by the end of the period. These moves were well flagged, and indeed overall inflationary conditions in the US, and globally in developed markets, continued to be benign, as evidenced by a flattening of the US yield curve. However, there is incremental concern about cyclical pressures associated with very full employment conditions and a material loosening in the US fiscal stance after the passage of the tax cuts engineered by the Trump administration. Rising long-term interest rates in the US have led to some increased volatility in the calendar year 2018 to date compared to the extremely subdued market conditions in 2017.

There was little change in key foreign exchange rates over the year (sterling fell 0.7% against the euro, but rose 1.6% against the US dollar). The US was the strongest performing regional stock market, fuelled by significant advances in large cap technology stocks. The CUEF's public equity portfolio underperformed its market index benchmark, in part because of an underweight to the US market and technology as a sector, but also because of some idiosyncratic exposure to portfolio companies that emerged as "value traps", in the UK in particular. By contrast, the CUEF's holdings in private equity performed very well, as did its other alternative asset classes such as direct property, private credit and absolute return (driven by equity long short and equity market neutral allocations). The fund as a whole returned 8.8% over the year (2017: 18.8%).

This year marks the tenth anniversary of the date on which the Investment Office became fully responsible for the investment of the CUEF, having migrated the underlying assets from the oversight of its previous fund manager. Over this period the fund has produced an annualised return of 10.0%, 2.1% in excess of its primary inflation-linked objective (RPI + 5.25%), and also an annualised 1.1% above its secondary, market-based, 65:35 investment benchmark.

N Cavalla
Chief Investment Officer

November 2018

**Cambridge University Endowment Fund
Portfolio statement**
30 June 2018

		2018		2017
	£m		£m	
Public equity	1,874.5	59%	1,734.6	59%
Private investment	286.2	9%	196.0	6%
Absolute return	306.6	10%	353.5	12%
Credit strategies	177.7	5%	200.1	7%
Real assets	352.3	11%	333.1	11%
Fixed interest/cash	191.8	6%	138.1	5%
Total portfolio	3,189.1	100%	2,955.4	100%

The investment portfolio comprises the investments shown in the balance sheet plus £90.7m (2017: £43.9m) shown within cash equivalents less £20.1m (2017: £25.2m) received from investors in advance for new units and shown within payables.

Notes on asset classification

Public equity includes all equity stocks traded on a liquid market, together with related non-publically traded index funds (which invest in investments with similar characteristics) 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).

For reporting purposes, private investments have historically been grouped into a single asset class, regardless of whether their broad classification was debt or equity in nature. However, it is considered that it is more informative to report private equity as a distinct class, and to combine private debt investments with other liquid credit investments into a single category to be known as credit strategies.

The 2017 figures for private investments and credit strategies have been reclassified in order to ensure comparatives are consistent with this treatment.

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

**Cambridge University Endowment Fund
Portfolio statement****30 June 2018**

Real assets include 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.

Independent auditors' report to the unitholders of Cambridge University Endowment Fund

Report on the financial statements

Our opinion

In our opinion, the Cambridge University Endowment Fund's financial statements (the "financial statements"):

- give a true and fair view of the financial position of the Fund as at 30 June 2018 and of the net revenue and the net capital gains of the scheme property of the Fund for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Trust Deed.

What we have audited

The financial statements, included within the Reports and financial statements (the "Annual Report"), comprise:

- the balance sheet as at 30 June 2018;
- the statement of total return for the year then ended;
- the statement of changes in net assets attributable to unitholders for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information, and the distribution table.

The financial reporting framework that has been applied in their preparation is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law (United Kingdom Generally Accepted Accounting Practice), the Trust Deed and the Investment Funds Sourcebook.

In applying the financial reporting framework, the Trustee has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Trustee

As explained more fully in the Governance Report set out on page 3, the Trustee is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK) ("ISAs (UK)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the unitholders of the Fund as a body in accordance with the Trust Deed and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Trustee; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Trustee's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Governance Report, the Investment Manager's Report and the Portfolio statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

PricewaterhouseCoopers LLP
Chartered Accountants
Cambridge
19 November 2018

Cambridge University Endowment Fund
**Statement of total return
For the year ended 30 June 2018**

	2018		2017	
	£m	£m	£m	£m
Income:				
Net capital gains		245.2		472.9
Revenue				
Dividend income	19.9		19.3	
Interest income	0.9		0.5	
Rental income	9.7		8.7	
Other income	0.1		0.2	
Total revenue	30.6		28.7	
Expenses	(15.4)		(15.4)	
Net revenue		15.2		13.3
Total return before distributions		260.4		486.1
Distributions		(104.9)		(96.8)
Change in net assets attributable to unitholders from investment activities		155.5		389.3

**Statement of changes in net assets attributable to unitholders
For the year ended 30 June 2018**

	2018	2017
	£m	£m
Opening net assets attributable to unitholders	2,959.4	2,655.9
Amounts receivable on issue of units	78.0	–
Amounts payable on cancellation of units	–	(85.8)
	3,037.4	2,570.1
Change in net assets attributable to unitholders from investment activities	155.5	389.3
Closing net assets attributable to unitholders	3,192.9	2,959.4

Cambridge University Endowment Fund
**Balance sheet
As at 30 June 2018**

	2018		2017	
	£m	£m	£m	£m
Assets				
Investments		3,107.1		2,913.2
Receivables		7.1		8.6
Cash equivalents	90.7		43.9	
Cash	20.2		8.0	
Cash and cash equivalents		110.9		51.9
Total assets		3,225.1		2,973.7
Liabilities				
Payables		(32.2)		(14.3)
Net assets attributable to unitholders		3,192.9		2,959.4

The financial statements on pages 12 to 22 were approved by the Council on 19th November 2018 and signed on its behalf by:

Professor Stephen Toope
Vice Chancellor

Cambridge University Endowment Fund
**Statement of cash flows
For the year ended 30 June 2018**

	2018		2017	
	£m	£m	£m	£m
Cash and cash equivalents at the start of the year		51.9		30.0
Operating activities				
Net cash inflow from investment managers	75.8		222.0	
Expenses paid	<u>(9.2)</u>		<u>(8.2)</u>	
Inflow from operating activities		66.6		213.8
Financing activities				
Distributions paid	(104.0)		(96.6)	
Received from investors for purchase of units	96.4		–	
Paid to investors for redemption of units	<u>–</u>		<u>(95.3)</u>	
Outflow from financing activities		(7.6)		(191.9)
Cash and cash equivalents at the end of the year				
Cash equivalents	90.7		43.9	
Cash	<u>20.2</u>		<u>8.0</u>	
		<u>110.9</u>		<u>51.9</u>

**Cambridge University Endowment Fund
Notes to the financial statements****30 June 2018**

1. General information

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.

2. Summary of significant accounting policies**Basis of preparation**

The financial statements have been prepared on a going concern basis in accordance with Chapter 3 of the Investment Management Sourcebook and FRS 102 (Financial Reporting Standard 102) 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' as issued by the Financial Reporting Council. The principal accounting policies applied in the preparation of these financial statements are set out below. In applying FRS 102 the Director of Finance has had regard to appendix D of the Statement of Recommended Practice ('SORP') for the financial statements of authorised funds (revised May 2014) published by the Investment Association.

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 above 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 Valuation Committee'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.

**Cambridge University Endowment Fund
Notes to the financial statements****30 June 2018**

2. Summary of significant accounting policies (cont'd)**Net capital gains/losses**

The CUEF accounts for the total return from its investments, in accordance with its investment objective as set out in the Governance Report, and its distributions are not calculated based on net income and gains. For this reason no distinction is made between realised and unrealised gains/losses. Management however, estimate the net realised gain during the period to be approximately £46.2m (2017: 70.2m) out of a reported total net gain of £245.2m (2017: £472.9m).

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 is accrued on a time basis and interest income is recognised using the effective interest rate method. Lease incentives and rent free periods are treated as a reduction to rent and are amortised on a straight-line basis over the period of the lease. Expenses payable are accrued on a time basis. 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.

Cash and cash equivalents

The CUEF holds an operating cash balance in an A1/P-1 Moody's rated bank as detailed in note 9. The balance held is for operational cash flow purposes.

Cash equivalents are short-term (typically with less than three months' notice required) highly liquid investments which are readily convertible into cash and include deposits and other instruments held as part of the fund's treasury management activities.

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.

**Cambridge University Endowment Fund
Notes to the financial statements****30 June 2018**

2. Summary of significant accounting policies (cont'd)**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. During the period the fund suffered withholding tax of £1,302,374 (2017: £1,011,131) on income from overseas investments.

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.

Directly held property is valued by Knight Frank LLP in accordance with the standards of the Royal Institute of Chartered Surveyors.

Derivatives

All derivatives are stated at fair value. Where there is a legal right and intention to settle the contract on an offset basis, the fair value of the derivative is netted against the corresponding equity investment within investments.

Capital contributions

Amounts received from investors for subscriptions are accounted for within payables until the relevant dealing date which is normally the first business day of a calendar quarter.

Withdrawals

Investors give six months' notice in writing in advance on all redemption requests. The dealing date is the first business day of the relevant calendar quarter.

Distributions

A monthly distribution is made in respect of each unit in issue. The amount is set annually with effect from August according to a formula giving a 30% weighting to 4.25% of the average net asset value of the fund over three years and a 70% weighting to the previous year's distribution amount as increased for inflation. In the long term this formula is intended to increase or decrease the distribution in line with investment performance, while mitigating against major annual increases or decreases.

Cambridge University Endowment Fund
Notes to the financial statements

30 June 2018

3. Expenses

	2018	2017
	£m	£m
Investment advisory or management fees	9.9	8.9
Other expenses	5.5	6.5
Total expenses	<u>15.4</u>	<u>15.4</u>

Other expenses include audit fees of £18,164 (2017: £17,721)

4. Investment properties

Investment property reconciliation

	£m
Opening investment property value within 'Real assets'	177.6
Additions	3.7
Disposals	(2.4)
Net valuation adjustment	18.5
Closing investment property value within 'Real assets'	<u>197.4</u>

5. 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.

6. Commitments

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

	2018	2017
	£m	£m
Public equity	15.8	14.1
Private investment	416.8	323.5
Real assets	<u>81.2</u>	<u>62.8</u>
Total commitments	<u>513.8</u>	<u>400.4</u>

Cambridge University Endowment Fund Notes to the financial statements

30 June 2018

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.

The University and its subsidiary undertakings had holdings totalling £2,785.8m (2017: £2,690.5m) at the reporting date. Distributions to the University and its subsidiary undertakings in the year totalled £92.7m (2017: £89.2m).

8. Units in issue and distribution table

	Units in issue/ issued	Value £/unit	Distributed £/unit
30 June 2017	53,918,602		
1 July	31,051	54.8856	
31 July			0.1486
31 August			0.1605
30 September			0.1605
1 October	847,474	55.8188	
31 October			0.1605
30 November			0.1605
31 December 2017			0.1605
1 January 2018	379,804	56.5468	
31 January			0.1605
28 February			0.1605
31 March			0.1605
1 April	136,636	55.0254	
30 April			0.1605
31 May			0.1605
30 June 2018	<u>55,313,567</u>	57.7245	0.1605

9. 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.

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

30 June 2018

9. Risk management policies and procedures (cont'd)

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. The fund had the following principal net exposures:

	2018	2017
	£m	£m
Pounds sterling	1,577.2	1,486.0
US dollar	1,281.1	1,185.4
Euro	49.7	16.1
Japanese yen	117.0	116.7
Taiwan dollar	27.7	27.7
Indian rupee	38.9	22.0
Hong Kong dollar	34.8	27.4
Canadian dollar	15.7	15.8
Other currencies	<u>47.0</u>	<u>58.3</u>
	<u>3,189.1</u>	<u>2,955.4</u>

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.

Cambridge University Endowment Fund Notes to the financial statements

30 June 2018

9. Risk management policies and procedures (cont'd)

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 total return and net assets. The fund's asset allocation at the reporting date is shown in the portfolio statement. If the fair value of the entity's investments varied by +/- 5%, the total return before distributions for the period ended 30 June 2018 would change by +/- £159.5m (30 June 2017: +/- £147.8m).

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's credit exposure to debt instruments is managed by investing in marketable securities and with counterparties that have acceptable credit quality of at least investment grade BBB- or higher.

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.

The credit ratings of counterparties with which cash and cash equivalents were deposited were as follows:

Moody's rating	2018 £m	2017 £m
A1/P-1	20.2	8.0
A2/P-1	-	-
Aaa-mf	90.7	43.9
	<u>110.9</u>	<u>51.9</u>

Cambridge University Endowment Fund Notes to the financial statements

30 June 2018

10. Fair Value

The following table categorises the fair value of the fund's investment assets and liabilities based on the inputs to the valuation. Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1: Valued using quoted prices in active markets for identical assets.

Level 2: Valued by reference to valuation techniques using observable inputs other than quoted prices included in Level 1.

Level 3: Valued by reference to valuation techniques using inputs that are not based on observable market data.

Valuation Technique	2018 £m		2017 £m	
	Assets	Liabilities	Assets	Liabilities
Level 1	1,108.7	(35.4)	981.9	(21.8)
Level 2	2,029.6	–	1,948.6	–
Level 3	4.2	–	4.5	–
Total Investments at fair value	3,142.5	(35.4)	2,935.0	(21.8)

A reconciliation of the opening and closing balances for Level 3 assets measured at fair value is detailed in the table below:

	£m
Fair value 1 July 2017	4.5
Purchases less sale proceeds	(0.4)
Total gains	0.1
Fair value 30 June 2018	4.2

Unquoted investments include investments in hedge funds, private equity funds and property funds. The fair values of unquoted investments and derivative financial instruments held through pooled funds and partnerships are based on valuations of the underlying investments as supplied to the University's custodian by the administrators of those funds or partnerships. The Council considers that no reasonably foreseeable change to key assumptions in the Level 3 valuations would result in a significant change to fair value. Transfers into and out of Level 3 occur when the classification of the underlying assets and liabilities of these funds changes.

The Level 3 investments have been reclassified to reflect the standing in the University of Cambridge financial statements. Comparative figures have also been reclassified to ensure consistent treatment.