# Cambridge University Endowment Fund
# Report and financial statements

**30 June 2019**

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# Cambridge University Endowment Fund
# Governance report

**30 June 2019**

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 2019.

## 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 a 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 depositary 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.

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## 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:

| | 2019 | 2019 | 2018 | 2018 |
|---|---|---|---|---|
| | £m | FTE | £m | FTE |
| Senior management | 1.1 | 4 | 1.5 | 3 |
| Other staff | 0.7 | 11 | 0.7 | 10 |
| Total remuneration | 1.8 | 15 | 2.2 | 13 |

## 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 (this will be changed to the Consumer Price Index in FY2020). 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*.

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## Financial statements

These financial statements have been prepared in accordance with Chapter 3 of the Investment Fund sourcebook and FRS 102 'The Financial Reporting Standard 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

25 November 2019

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## Fund size

The opening net asset value of the Fund was £3,193m, and £257m was contributed during the year while £91m was withdrawn. The total return for the year (net income plus net capital gains) was £160m and distributions were £118m. As a result the net asset value of the Fund at the end of the year was £3,401m.

## 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 2018-19 allocations to the broad asset classes did not change significantly. Small reductions in percentage terms were made to absolute return funds, credit strategies and real assets, while investment in private equity continued to increase at a measured pace. At the year end a slightly increased amount was held in cash.

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 no new managers, and made exits from two 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.

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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 47% and 52%.

## Comments

The investment environment has been marked by falling bond yields, accommodative policy by most central banks and a reversal of interest rate policy by the Federal Reserve on the one hand and concerns over economic growth and the trade disputes on the other. The volatility associated with these negative issues was seen mainly in Q4 2018. Just below 40% of government bonds now have negative yields, mainly comprised of Japanese, German and French debt.

There has been marked difference in performance of global stock markets over the last year as the United States continues to perform very well, in contrast to Asian and European markets where earning performance has been weaker and there is more uncertainty over prospective economic growth. The UK has performed particularly badly, given the concerns over Brexit. Growth continued to perform well against value over the period.

Most major currencies apart from the Australian $ appreciated against Sterling in the year to 30$^{th}$ June 2019. The Yen rose by 5.2%, and the US dollar by 3.5%, however the Euro appreciation was more muted at 1.2%.

The fund as a whole returned 4.7% over the year. Over the last ten years the fund has produced an annualised return of 11.8%, 3.4% in excess of its primary inflation-linked objective (RPI + 5.25%), and 0.7% above its annualised passive investment comparator, the 65:35 investment benchmark.

N Shaw
Investment Director

November 2019

## Cambridge University Endowment Fund
## Portfolio statement

**30 June 2019**

| | | 2019 | | 2018 |
|---|---|---|---|---|
| | £m | | £m | |
| Public equity | 1,995.9 | 59% | 1,874.5 | 59% |
| Private investment | 423.2 | 12% | 286.2 | 9% |
| Absolute return | 282.9 | 8% | 306.6 | 10% |
| Credit strategies | 176.3 | 5% | 177.7 | 5% |
| Real assets | 306.5 | 9% | 352.3 | 11% |
| Fixed interest/cash | 214.0 | 7% | 191.8 | 6% |
| **Total portfolio** | **3,398.8** | **100%** | **3,189.1** | **100%** |

The investment portfolio comprises the investments shown in the balance sheet plus £165.5m (2018: £90.7m) shown within cash equivalents.

**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.

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.

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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.

Note 10 discloses categorisation of the fair value of the fund's investment assets and liabilities. The fair values of unquoted investments and derivative financial instruments held through pooled funds and partnerships are based on the custodian’s standard policy for all clients whereby the default classification for these assets is level 2. However, in practice pooled funds' underlying investments span across a range of asset classes, from public listed equity too difficult to value investments whose valuation is subjective and requires a lot of judgement.

# *Independent auditors' report to the Unitholders of Cambridge University Endowment Fund*

## Report on the audit of the financial statements

### Opinion

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

- give a true and fair view of the assets and liabilities of the Trust as at 30 June 2019 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law, the Investment Funds sourcebook and the Trust Deed.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 30 June 2019; the statement of total return, the statement of change in net assets attributable to unitholders and the statement of cash flows for the year then ended; the distribution tables; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We remained independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Investment Manager's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Investment Manager has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Trust's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Trust's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

### Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Investment Manager is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

### *Investment Manager's Report*

In our opinion, the information given in the Investment Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Responsibilities for the financial statements and the audit

### *Responsibilities of the Investment Manager for the financial statements*

As explained more fully in the Governance Report set out on page 3, the Investment Manager is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Investment Manager is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Investment Manager is responsible for assessing the Trust's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Investment Manager either intend to wind up or terminate the Trust, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

### *Use of this report*

This report, including the opinions, has been prepared for and only for the Trust's unitholders as a body in accordance with paragraph 3.3.6 of the Investment Funds sourcebook and for no other purpose. We do not, in giving these opinions, 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.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
25 November 2019

## Cambridge University Endowment Fund

### Statement of total return
### For the year ended 30 June 2019

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Income: | | | | |
| Net capital gains (note 2) | | 142.9 | | 245.2 |
| Revenue | | | | |
| Dividend income | 23.5 | | 19.9 | |
| Interest income | 2.6 | | 0.9 | |
| Rental income | 8.8 | | 9.7 | |
| Other income | 0.1 | | 0.1 | |
| Total revenue | 35.0 | | 30.6 | |
| Expenses | (17.8) | | (15.4) | |
| Net revenue | | 17.2 | | 15.2 |
| **Total return before distributions** | | **160.1** | | **260.4** |
| Distributions | | (118.0) | | (104.9) |
| **Change in net assets attributable to unitholders from investment activities** | | **42.1** | | **155.5** |

### Statement of changes in net assets attributable to unitholders
### For the year ended 30 June 2019

| | 2019 | 2018 |
|---|---|---|
| | £m | £m |
| Opening net assets attributable to unitholders | 3,192.9 | 2,959.4 |
| Amounts receivable on issue of units | 257.9 | 190.2 |
| Amounts payable on cancellation of units | -91.6 | -112.2 |
| | 3,359.2 | 3,037.4 |
| Change in net assets attributable to unitholders from investment activities | 42.1 | 155.5 |
| **Closing net assets attributable to unitholders** | **3,401.3** | **3,192.9** |

## Cambridge University Endowment Fund

## Balance sheet
## As at 30 June 2019

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Assets** | | | | |
| Investments (note 10) | | 3,233.2 | | 3,107.1 |
| Receivables | | 5.4 | | 7.1 |
| Cash equivalents | 165.5 | | 90.7 | |
| Cash | 15.8 | | 20.2 | |
| Cash and cash equivalents | | 181.3 | | 110.9 |
| Total assets | | 3,419.9 | | 3,225.1 |
| **Liabilities** | | | | |
| Payables | | (18.6) | | (32.2) |
| **Net assets attributable to unitholders** | | **3,401.3** | | **3,192.9** |

The financial statements on pages 83 to 94 were approved by the Council on 25th November 2019 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 2019

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **Cash and cash equivalents at the start of the year** | | 110.9 | | 51.9 |
| **Operating activities** | | | | |
| Net cash inflow from investment managers | 43.8 | | 75.8 | |
| Expenses paid | (8.5) | | (9.2) | |
| Inflow from operating activities | | 35.3 | | 66.6 |
| **Financing activities** | | | | |
| Distributions paid | (117.6) | | (104.0) | |
| Received from investors for purchase of units | 243.5 | | 96.4 | |
| Paid to investors for redemption of units | (90.8) | | - | |
| Outflow from financing activities | | 35.1 | | (7.6) |
| **Cash and cash equivalents at the end of the year** | | | | |
| Cash equivalents | 165.5 | | 90.7 | |
| Cash | 15.8 | | 20.2 | |
| | | 181.3 | | 110.9 |

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

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## 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.

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## 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 £43.1m (2018: 46.2m) out of a reported total net gain of £142.9m (2018: £245.2m).

| Investment Type | **2019** **£m** | **2018** **£m** |
|---|---|---|
| Absolute return | 23.8 | 13.9 |
| Credit strategies | 13.7 | 68.2 |
| Fixed Interest/Cash | -102.9 | 41.5 |
| Private Investments | 69.3 | -18.5 |
| Public equity | 134.9 | 111.8 |
| Real assets | 4.1 | 28.3 |
| | **142.9** | **245.2** |

### 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 income 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.

### Expenses

Expenses include fees and commissions paid to agents, advisers, fund managers and the management company and are recognised on an accruals basis.

**Cambridge University Endowment Fund**
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### 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.

### 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 £1,206,798 (2018: £1,302,374) 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.

Properties held for investment purposes are revalued annually by accredited valuers typically on the basis of estimated open market values on an existing use basis. Such valuations are based on assumptions and judgements which are impacted by a variety of factors including changes in market and other economic conditions.

### 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.

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## 2. Summary of significant accounting policies (cont'd)

### 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.

## 3. Expenses

| | 2019 | 2018 |
|---|---|---|
| | £m | £m |
| Investment advisory or management fees | 12.7 | 9.9 |
| Other expenses | 5.1 | 5.5 |
| Total expenses | 17.8 | 15.4 |

Other expenses include audit fees of £18,600 (2018: £18,164)

## 4. Investment properties

Investment property reconciliation

| | £m |
|---|---|
| Opening investment property value within 'Real assets' | 197.4 |
| Additions | 0.1 |
| Disposals | (21.6) |
| Net valuation adjustment | (4.2) |
| Closing investment property value within 'Real assets' | 171.7 |

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## 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:

| | 2019 £m | 2018 £m |
|---|---|---|
| Public equity | 16.4 | 15.8 |
| Private investment | 376.6 | 416.8 |
| Real assets | 63.7 | 81.2 |
| Total commitments | 456.7 | 513.8 |

## 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 and totalled £3m during the year (2018:£3.7m)

The University and its subsidiary undertakings had holdings totalling £3,020m (2018: £2,785.8m) at the reporting date. Distributions to the University and its subsidiary undertakings in the year totalled £103.8m (2018: £92.7m).

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## 8. Units in issue and distribution table

| | Units in issue/ issued | Value £/unit | Distributed £/unit |
|---|---|---|---|
| 30 June 2018 | 55,313,567 | | |
| 1 July | 138,104 | 57.7245 | |
| 31 July | | | 0.1605 |
| 31 August | | | 0.1731 |
| 30 September | | | 0.1731 |
| 1 October | 1,840,817 | 58.9649 | |
| 31 October | | | 0.1731 |
| 30 November | | | 0.1731 |
| 31 December 2018 | | | 0.1731 |
| 1 January 2019 | 384,844 | 54.1139 | |
| 31 January | | | 0.1731 |
| 28 February | | | 0.1731 |
| 31 March | | | 0.1731 |
| 1 April | 505,982 | 57.1498 | |
| 30 April | | | 0.1731 |
| 31 May | | | 0.1731 |
| 30 June 2019 | 58,183,314 | 58.459 | 0.1731 |

## 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.

### 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.

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

### 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:

| | 2019 £m | 2018 £m |
|---|---|---|
| Pounds sterling | 1,530.2 | 1,577.2 |
| US dollar | 1,560.5 | 1,281.1 |
| Euro | 64.0 | 49.7 |
| Japanese yen | 102.8 | 117.0 |
| Taiwan dollar | 19.1 | 27.7 |
| Indian rupee | 40.7 | 38.9 |
| Hong Kong dollar | 31.4 | 34.8 |
| Canadian dollar | 8.5 | 15.7 |
| Other currencies | 41.6 | 47.0 |
| | 3,398.8 | 3,189.1 |

If the currency exchange rates of the entity's investments varied by +/- 5%, the total investment portfolio for the period ended 30 June 2019 would change by + £98.4m/-£89m (30 June 2018: +£84.8m/-£76.8m)

### 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.

If the interest rates of the entity's cash investments varied by +/- 5%, the total interest return for the period ended 30 June 2019 would change by +/- £84k (30 June 2018: +/-£56k.

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## 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 2019 would change by +/- £169.9m (30 June 2018: +/- £159.5m).

### 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 polices 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 | **2019 £m** | **2018 £m** |
|---|---|---|
| A1/P-1 | 15.8 | 20.2 |
| A2/P-1 | - | – |
| Aaa-mf | 165.5 | 90.7 |
| | 181.3 | 110.9 |

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## 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.

| | 2019 £m | | 2018 £m | |
|---|---|---|---|---|
| Valuation Technique | Assets | Liabilities | Assets | Liabilities |
| Level 1 | 814.8 | (20.7) | 1,108.7 | (35.4) |
| Level 2 | 2,439.1 | – | 2,029.6 | – |
| Level 3 | 0.1 | – | 4.2 | – |
| **Total Investments at fair value** | **3,254** | **(20.7)** | **3,142.5** | **(35.4)** |

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 2018 | 4.2 |
| Transfer out of level 3 | (4.1) |
| Fair value 30 June 2019 | 0.1 |

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 the custodian's standard policy for all clients whereby the default classification for these assets is level 2. However, in practice pooled funds' underlying investments span across a range of asset classes, from public listed equity too difficult to value investments whose valuation is subjective and requires a lot of judgement. During the financial year 2019/20, the fund will undertake a review of the fair value hierarchy classifications of individual investments to ensure more precise categorisation. 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.