

Section N

Cambridge University Endowment Fund Report and financial statements

30 June 2021

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Cambridge University Endowment Fund Governance report

30 June 2021

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 2021.

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. The members of the Investment Board are independent of the University.

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 an external Chairperson, an external non-executive director, 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 management services are provided directly through CIML and the University Finance Division as disclosed below. During the period CIML and the University's Finance Division employed (on average) 20 members of staff and directors directly (2020 fifteen).

Cambridge University Endowment Fund Governance report

30 June 2021

Remuneration

Staff employed by CIML and the University who are engaged in investment management and administration functions for the Fund received aggregate remuneration as follows:

	2021				2020			
		£m		FTE		£m		FTE
	Total	Fixed	Variable		Total	Fixed	Variable	
Senior Management	1.9	1.1	0.8	9	1.1	0.7	0.4	6
Other Staff	0.6	0.5	0.1	11	0.4	0.4	0	9
Total remuneration	2.6	1.7	0.9	20	1.5	1.1	0.4	15

Variable remuneration includes the current year provision. A number of employees within CIML waived their right to an incentive payment in the prior year.

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 Consumer Price Inflation (CPI). 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 CPI plus 5%, such that after distributions are taken into account there will be annual growth in the fund unit value equal to CPI 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 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 in the *Cambridge University Reporter*.

**Cambridge University Endowment Fund
Governance report****30 June 2021**

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 and amended June 2017) 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 in accordance with FRS 102.

D. Hughes
Director of Finance

29 November 2021

**Cambridge University Endowment Fund
Investment manager's report****30 June 2021**

Fund size

The opening net asset value of the Fund was £3,313m, and £98.7m was contributed during the year while £218.1m was withdrawn. The total return for the year (net revenue plus net capital gains) was £771.3m and distributions were £125.3m. As a result, the net asset value of the Fund at the end of the year was £3,839.6m.

Asset allocation

The long-term asset allocation of the Fund envisages a continued reduction in the allocations to Public Equity and Credit Strategies in favour of Private Equity and Absolute Return. This rationale behind this evolution is twofold. Firstly, it is intended to drive improved absolute returns, derived from the higher return opportunity offered by certain Private Equity funds, relative to Public Equity. Secondly, the increased allocation to Absolute Return funds demonstrating a low level of correlation with equities is intended to reduce volatility and preserve the purchasing power of the CUEF through market downturns.

Within each asset class, fund managers are selected by CIML and carry out day-to-day security selection and investment execution. Passive investments (for example index funds and futures) may also be used from time to time to provide 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 CIML's time is dedicated to identifying fund managers who exhibit the characteristics it seeks (integrity, differentiated investment insight, strong process borne out by track record, stable establishment, and fair terms), making appropriate appointments and monitoring progress once appointments have been made. During the year under review the CUEF made new allocations to seventeen managers, four renewed commitments with existing Private Equity managers, and made exits from three managers.

Foreign currency exposures

The Fund targets an exposure to Sterling roughly equal to 60% (with a tolerance range between 50–70%) of the Net Asset Value (NAV) of the Fund. At this level, CIML believes the long-term Sterling purchasing power of the Fund remains protected, while the burden of hedging settlement requirements on the portfolio remains manageable. The CIML and Investment Boards receive regular and detailed reporting against the agreed limits, and at 30 June 2021, the Fund's exposure to Sterling was 60%, within the target range.

**Cambridge University Endowment Fund
Investment manager's report****30 June 2021**

Comments

During the Financial Year, good progress was made towards the CUEF's long-term target asset allocation. The private equity and absolute return asset classes increased from 16% to 20%, and from 8% to 11%, respectively, with public equities decreasing commensurately from 46% to 42%. Private equity fulfilled its function of driving the highest returns of any asset class during the year, while the absolute return portfolio demonstrated a low realised beta to equities, in line with the Fund's investment strategy. Cash balances remained relatively high, by comparison to long-term targets, however these are being held in part as a proxy for future deployments into the absolute return portfolio. The pipeline of opportunities remains strong and the build out of this portfolio is expected to be substantially complete by the end of the 2021–2022 Financial Year.

CIML does not manage the CUEF on a short-term basis, however, market conditions are continuously monitored and it appears that the outlook for liquid markets remains challenging for a number of reasons. Specifically, concerns about inflation are increasing, making central banks' very accommodative policies more difficult to sustain, while supply chain disruptions, particularly in energy, are putting the global growth recovery at risk. Furthermore, recent Chinese regulatory changes have taken many by surprise and could threaten near-term growth in the region. Finally, Public Equity valuations in the US remain close to twenty-year highs driven by technology and 'safe haven' status while valuations in other developed markets, such as the UK, Japan, and Europe, are more moderate but lack clear, near-term, catalysts. Collectively, these issues, with others, support our view that allocating more assets to Absolute Return and Private Equity strategies will produce superior investment returns over the long-term. Moreover, they underscore the value of identifying exceptional managers able to outperform the market on a long-term basis.

Following global equity markets' pronounced negative reaction to the outbreak of COVID-19 in February and March 2020, the broad-based market rally which began subsequently continued for the most part consistently throughout the Financial Year. As a result, the financial impact of COVID on the CUEF has been muted. A small proportion of rent receipts in the directly-owned real estate portfolio were delayed or waived, however receipts had recovered by the end of the Financial Year and the overall impact on the Fund was minimal. Despite being denominated in Sterling and having meaningful exposures to UK-listed equities, the proportion of the CUEF which is exposed directly to the UK economy represents a very small minority of the fund's economic exposure. This low level of exposure results from the highly international nature of UK-listed companies. As a result, the risk of future adverse economic impacts resulting from Brexit is manageable, whilst future Sterling weakness would in fact be accretive to returns, given that only approximately 60% of portfolio exposures are hedged to Sterling.

Most major currencies depreciated against Sterling in the year to 30 June 2021; The Yen fell by 13.1%, the US dollar by 10.6%, and the Euro by 5.6%.

**Cambridge University Endowment Fund
Investment manager's report****30 June 2021**

The Fund as a whole returned 24.1% over the year, calculated on a total return basis by finding the rate of return that produces a net present value of zero when applied to the opening and closing unit values and taking into account quarterly distributions. Over the last ten years the Fund has produced an annualised return of 11.0%, 4.2% in excess of its primary inflation-linked objective (CPI + 5%), and 1.3% above its annualised passive investment comparator, the 65:35 investment benchmark.

T. Franklin
Chief Investment Officer

November 2021

Cambridge University Endowment Fund Portfolio statement

30 June 2021

	£m	2021	£m	2020
Public equity	1,644.6	42%	1,530.8	46%
Private equity	765.1	20%	543.3	16%
Absolute return	416.7	11%	262.3	8%
Credit strategies	126.4	3%	152.0	5%
Real assets	372.7	10%	287.3	9%
Fixed interest/cash	533.2	14%	541.6	16%
Total portfolio	3,858.7	100%	3,317.3	100%

The investment portfolio comprises the investments shown in the balance sheet plus £371.4m (2020: £42.0m) shown within cash equivalents. During the year the Fund introduced an automated cash sweep programme investing in several cash and liquidity investments.

Notes on asset classification

Public equity includes all equity stocks traded on a liquid market, together with related non-publicly traded index funds (which invest in investments with similar characteristics) and derivatives (such as futures).

Private equity 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 equity 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.

**Cambridge University Endowment Fund
Portfolio statement****30 June 2021**

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 audit of the financial statements

Opinion

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

- give a true and fair view of the financial position of the Fund as at 30 June 2021 and of the net revenue and the net capital gains of its scheme property 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 2021; 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; 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 Fund 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Investment Manager's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Fund's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Investment Manager with respect to going concern are described in the relevant sections of this report.

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 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.

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, the Trustee 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 Trustee 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 Trustee is responsible for assessing the Fund'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 or Trustee either intends to liquidate the Fund or to cease operations, or has 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Fund, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as those governed by FRS 102 and the Investment Funds sourcebook. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or to increase the net asset value of the Fund and judgements and assumptions made by management in their significant account estimates. Audit procedures performed included:

- We performed inquiries of management as to whether the entity is in compliance with all relevant laws and regulations
- We inspected relevant meeting minutes, including those of the Valuation Committee and Trustee meetings;
- We performed procedures to ensure the financial statements are appropriately prepared and disclosed in line with UK GAAP FRS 102 and the Investment Funds sourcebook;
- We identified and tested journal entries, specifically any journals posted with unusual account combinations; and
- We have designed audit procedures to incorporate unpredictability around the nature, timing or extent of our testing; and
- We have challenged assumptions and judgements made by management in their significant accounting estimates, in particular in relation to investment properties and pooled investment vehicles.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 opinion, has been prepared for and only for the unitholders of the Fund 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 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.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
___/___/___

Cambridge University Endowment Fund
**Statement of total return
For the year ended 30 June 2021**

	2021 £m	£m	2020 £m	£m
Income:				
Net capital gains (note 2)		777.0		113.3
Revenue				
Dividend income	10.4		19.1	
Interest income	0.1		1.5	
Rental income	8.8		8.8	
Other income	0.1		0.1	
Total revenue	19.4		29.5	
Expenses (note 3)	(25.1)		(17.8)	
Net revenue		(5.7)		11.7
Total return before distributions		771.3		125.0
Distributions		(125.3)		(122.9)
Change in net assets attributable to unitholders from investment activities		646.0		2.1

**Statement of changes in net assets attributable to unitholders
For the year ended 30 June 2021**

	2021 £m	2020 £m
Opening net assets attributable to unitholders	3,313.0	3,401.3
Amounts receivable on issue of units	98.7	42.5
Amounts payable on cancellation of units	(218.1)	(132.9)
	3,193.6	3,310.9
Change in net assets attributable to unitholders from investment activities	646.0	2.1
Closing net assets attributable to unitholders	3,839.6	3,313.0

Cambridge University Endowment Fund
**Balance sheet
As at 30 June 2021**

	2021		2020	
	£m	£m	£m	£m
Assets				
Investments (note 10)		3,487.3		3,275.3
Receivables		3.3		9.6
Cash equivalents	371.4		42.0	
Cash	30.6		10.2	
Cash and cash equivalents		402		52.2
Total assets		3,892.6		3,337.1
Liabilities				
Payables		(53.0)		(24.1)
Net assets attributable to unitholders		3,839.6		3,313.0

The financial statements on pages 79 to 90 were approved by the Council on 29 November 2021 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 2021

	2021		2020	
	£m	£m	£m	£m
Cash and cash equivalents at the start of the year		52.2		181.3
Operating activities				
Cash inflow from Custodian	235.7		207.1	
Change in cash equivalents	329.4		(123.5)	
Funds from sale of land	2.6		3.4	
Rents from property managers	6.3		4.6	
Expenses paid	(10.5)		(8.3)	
Inflow from operating activities		563.5		83.5
Financing activities				
Distributions paid	(104.9)		(122.9)	
Received from investors for purchase of units	75.2		48.1	
Paid to investors for redemption of units	(184.0)		(137.8)	
(Outflow)/inflow from financing activities		(213.7)		(212.6)
Cash and cash equivalents at the end of the year				
Cash equivalents	371.4		42.0	
Cash	30.6		10.2	
		<u>402</u>		<u>52.2</u>

Cambridge University Endowment Fund
Notes to the financial statements**30 June 2021**

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 an unauthorised 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 Funds 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 and amended June 2017) published by the Investment Management 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.

Cambridge University Endowment Fund
Notes to the financial statements**30 June 2021**

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 £77m (2020: realised gain of £39.1m) out of a reported total net gain of £777m (2020: £113.3m).

Recognition of revenue

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. 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.

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 2021**

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 £434,547 (2020: £866,301) 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 the quoted market prices as at 30 June, or in the case of participations in pooled funds on the most recent fund administrator's statement available 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.

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

In January 2021 the CUEF distribution policy was amended from monthly to quarterly distribution. A quarterly 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% 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 2021

3. Expenses

	2021	2020
	£m	£m
Investment advisory or management fees	16.2	12.7
Other expenses	8.9	5.1
Total expenses	<u>25.1</u>	<u>17.8</u>

Investment management fees include incentive payments of £3.8m (2020: £0.8m). Other expenses include audit fees of £44,000 (2020: £33,000).

4. Investment properties

	2021	2020
	£m	£m
Investment property reconciliation		
Opening investment property value within 'Real assets'	164.2	171.7
Additions	2.5	0.2
Disposals	(0.8)	(3.4)
Net valuation adjustment	37.1	(4.3)
Closing investment property value within 'Real assets'	<u>203.0</u>	<u>164.2</u>

Management have satisfied themselves that the valuations are appropriate. The properties have been valued based on the information received with a single adjustment required to one property which has been recorded at the sale price in accordance with FRS 102 32 11 (c).

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:

	2021	2020
	£m	£m
Public equity	24.1	28.5
Private investment	496.0	387.6
Real assets	<u>97.5</u>	<u>54.1</u>
Total commitments	<u>617.6</u>	<u>470.2</u>

Cambridge University Endowment Fund
Notes to the financial statements
30 June 2021

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 £5.2m during the year (2020: £3.6m)

The University and its subsidiary undertakings had holdings totalling £3,575.6m (2020: £3,040.4m) at the reporting date. Distributions to the University and its subsidiary undertakings in the year totalled £115.6m (2020: £111.6m).

8. Units in issue and distribution table

	Units in issue/ issued	Value £/unit	Distributed £/unit
30 June 2020	56,723,586	58.406	0.1805
1 July	108,989	58.406	
31 July			0.1805
31 August			0.1858
30 September		59.879	0.1858
1 October	(216,442)		
31 October			0.1858
30 November			0.1858
31 December 2020		63.081	0.1858
1 January 2021	(359,594)		
31 January			0.1858
28 February			0.1858
31 March		65.701	0.1858
1 April	(1,376,654)		
30 April			0.1858
31 May			0.1858
30 June 2021	<u>54,879,885</u>	69.964	0.1858

Cambridge University Endowment Fund Notes to the financial statements

30 June 2021

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 and the CIML team. 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 with the CIML team.

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 in accordance with a currency hedging policy reviewed by both the CIML and Investment Boards. 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:

	2021 £m	2020 £m
Pounds sterling	2,163.8	1,771.3
US dollar	1,480.1	1,307.1
Euro	72.9	45.5
Japanese yen	47.3	118.7
Taiwan dollar	32.8	23.8
Indian rupee	8.8	5.9
Hong Kong dollar	28.5	30.9
Canadian dollar	0	6.6
Other currencies	24.6	7.5
	<u>3,858.8</u>	<u>3,317.3</u>

If the currency exchange rates of the entity's investments varied by +/- 5%, the total investment portfolio for the period ended 30 June 2021 would change by + £80.77m/-£89.22m (30 June 2020: +£73.6m/-£81.4m).

Cambridge University Endowment Fund
Notes to the financial statements**30 June 2021**

9. Risk management policies and procedures (cont'd)**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 2021 would change by +/- £0k (30 June 2020: +/-£12k).

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 2021 would change by +/- £192.9m (30 June 2020: +/- £165.9m).

Liquidity risk

A significant proportion of the assets held by the CUEF are investments in quoted securities and in funds that are readily realisable. For those CUEF assets which are not readily realisable (typically requiring more than six months to realise) and where the CUEF has commitments to provide additional capital to private investments held within the portfolio on short notice there is risk mitigation in place. Limits are set for the extent of outstanding capital commitments in the CUEF and there is regular monitoring of the amounts of distributions and redemptions required and the extent of unpaid capital.

Cambridge University Endowment Fund
Notes to the financial statements
30 June 2021

9. Risk management policies and procedures (cont'd)
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	2021 £m	2020 £m
A1/P-1	30.6	10.2
Aaa-mf	221.4	42.0
Aaa/MR1+	150	
	<u>402</u>	<u>52.2</u>

Cambridge University Endowment Fund Notes to the financial statements

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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.

Valuation Technique	2021 £m		2020 £m	
	Assets	Liabilities	Assets	Liabilities
Level 1	1,606.3	-	2,097.4	-
Level 2	828.5	(8.9)	241.4	(17.1)
Level 3	1,061.4	-	953.6	-
Total Investments at fair value	3,496.2	(8.9)	3,292.4	(17.1)

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

	2021 £m	2020 £m
Opening Fair Value	953.6	0.1
Transfer to level 3	(154.8)	953.5
Additions	30.1	-
Gains	232.5	-
Closing Fair Value 30 June 2020	1,196.2	953.6

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 level assigned to the underlying assets as disclosed by the fund in their latest Financial Statements. Where multiple levels are split across the asset class, the fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant (15%) to the fair value measurement in its entirety. This categorisation policy, combined with the Fund strategy of moving away from more liquid (typically quoted investments) to more illiquid private investments, has resulted in a higher proportion of assets now under level 2.