



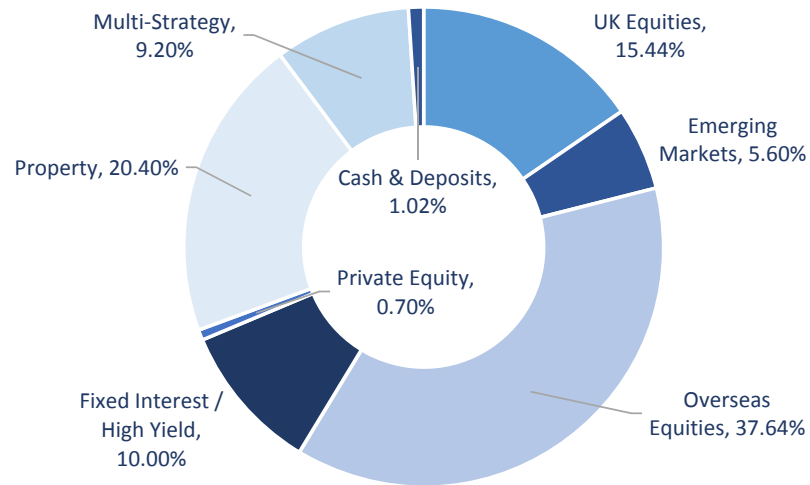
THE UNIVERSITY *of* EDINBURGH
Finance

Endowment Fund Report for the Year to 31 July 2016

www.ed.ac.uk



Portfolio by Asset Class as at 31/07/16



£7.0m

The value of endowment expenditure in 2015-16

642

The number of endowments held in the fund

10.00%

The annual return on endowment investments in 2015-16

£9.2m

Income generated by the fund for the University

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To view this report on line please visit:

<https://www.ed.ac.uk/finance/accounts/archive>

Performance and Key Performance Indicators

Five Year View					
	2011/12	2012/13	2013/14	2014/15	2015/16
Market Value	£238m	£284m	£298m	£313m	£343m
Return p.a.	1.30%	21.20%	7.60%	8.10%	10.00%
Number of endowments	760	778	781	790	642
Income yield	£7.7m	£8.3m	£10.4m	£10.5m	£9.2m
Annual expenditure	£8.0m	£8.5m	£7.9m	£9.0m	£7.5m

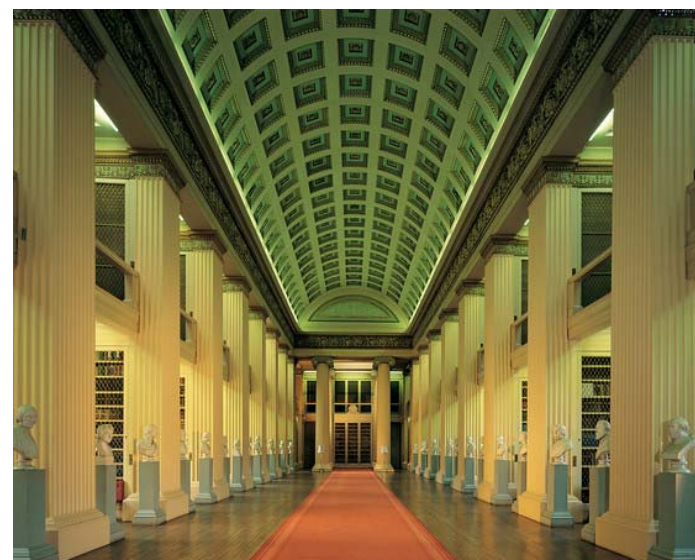
9.64%

Five-year average annual return from the fund

£105m

Growth of Endowment Fund between 2011-12 and 2015-16

	2016	2015
Key Performance indicators		
Overall return for year (based on opening assets)	9.9%	8.9%
Yield	2.79%	3.44%
Total charges (capital & revenue)	£1,482k	£1,597k
Expenses ratio	0.43%	0.51%
Units at 31 July	9,903,035	9,694,306
Unit price	£34.51	£32.30
Income per unit (p)	£92.49	£108.2
Number of endowments	642	782



Total Return

University of Edinburgh Endowment Fund			
Year ended 31 July			
	2016	2015	
	£'000	£'000	
Incoming resources			
Increase in market value of investments	22,097	15,789	
Investment income	9,159	10,489	
Total investment return	31,256	26,278	
New endowments	4,427	2,008	
	35,683	28,286	
Outgoing resources			
Expenditure	(6,004)	(7,457)	
Fund management and custody charges (capital)	(447)	(511)	
Fund management and custody charges (revenue)	(1,035)	(1,086)	
	(7,486)	(9,054)	
Net Movement for year	28,197	19,232	
Opening Funds as at 1 August	314,599	295,367	
Closing Funds as at 31 July	342,796	314,599	

Represented by:	2016	2015
	£'000	£'000
Equities	199,516	195,379
Fixed interest stocks	65,234	41,881
Property	69,445	68,179
Venture capital	2,297	1,298
Bank deposits held at fund managers	5,487	6,490
Bank deposits held by the University	(215)	(54)
Non-current asset investments	341,764	313,173
Cash balance revenue	(1,226)	(865)
Current asset - working capital	2,004	2,291
Total endowment assets	342,542	314,599

Fund Management and History

Investment Committee

The Investment Committee of the University is responsible for the oversight and strategic direction of the endowment investments, including the Andrew Grant Bequest Charity. The University of Edinburgh Court appoints members to the Investment Committee drawn from both Court members and external investment professionals.

- Sets investment policy and strategy
- Determines asset allocation
- Identifies Fund Managers
- Monitors fund performance
- Advises University Court on its investment Programme

Since 2003, the University has had a Socially Responsible Investment (SRI) Policy which has endorsed an approach based on 'engagement' with companies on ethical issues. In January 2013 the University became the first in Europe to sign up to the United Nations Principles of Responsible Investment which provides a framework for the University to take environmental, social and corporate governance (ESG) considerations into its investment strategies.

This year the University launched a review of its SRI policy and is now working to redraft it.

Further information on the remit and role of the Investment Committee is at: <https://www.ed.ac.uk/finance/about/sections/financial-information-reporting-strategy-team/investments-and-endowments/investment-committee>

Investment Committee Members as at 1 August 2015

Richard Davidson (Convener)
Doreen Davidson
Mark Connolly
Dr Anne Richards
Carolyn Aitchison
Hugh Edmiston
Dr Chris Masters
Bill Hughes

Fund Managers

Baillie Gifford
Hermes
Kames Capital
Northern Trust
Aviva
Savills
Blackrock

Investment Committee Members as at 31 July 2016

Richard Davidson (Convener)
Doreen Davidson
Mark Connolly
David Bentley
Carolyn Aitchison
Hugh Edmiston
Dr Chris Masters
Phil McNaull

Investment Adviser

Mercer

Custodian

BNY Mellon

Auditors

PricewaterhouseCoopers LLP

Investment Committee - Meetings in 2015-16:

25 August 2015
23 February 2016

24 November 2015
24 May 2016

Unit Price History

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

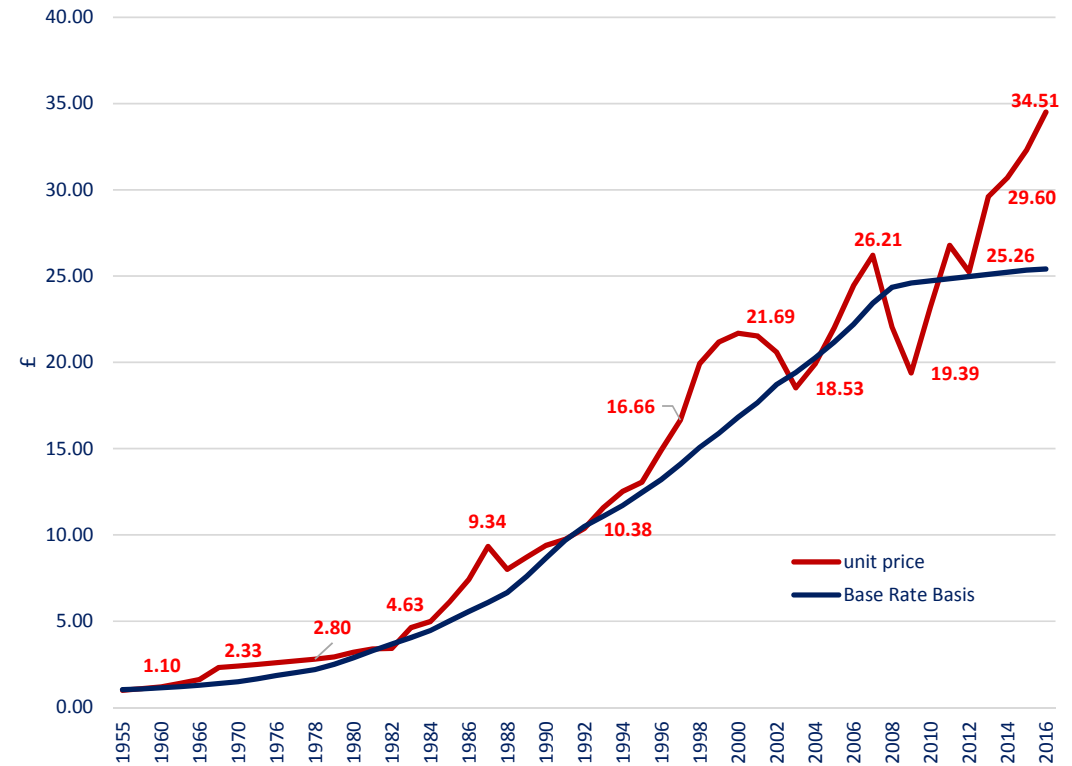
The investment of the University's individual endowments is pooled and the individual endowments participate by holding units in the fund and receiving an income distribution on the units held.

The capital value of the fund and the individual endowments is measured by reference to the unit price and detailed records are available which show the capital growth of the fund for over 60 years. In addition the fund yields an annual income return.

The fund has a long term relationship with Baillie Gifford Fund Managers who have been providing investment management advice since 1968.



Unit Price History for Endowment Fund
(1955 to 2016)



Investment Objective

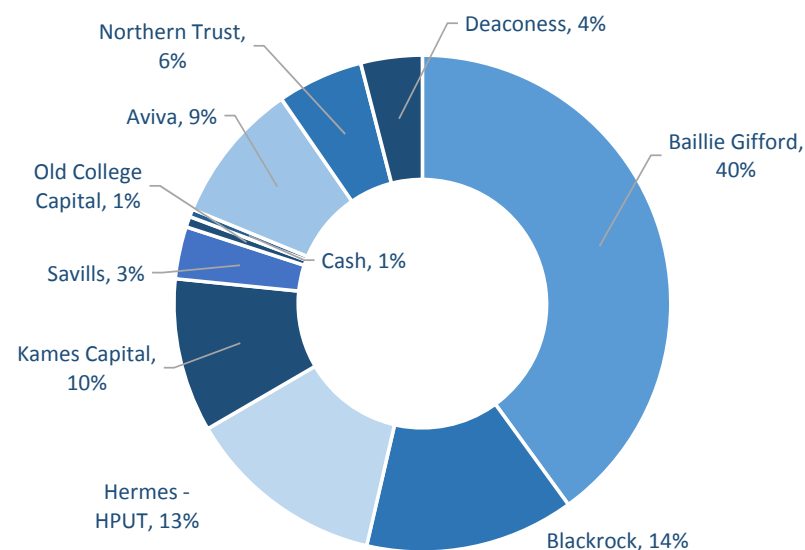
The investment objective of the Endowment and Investment Fund is to grow the value of the fund and maintain the capital in real terms over the long term whilst providing an annual income yield to support the activities of the numerous endowments.

The Fund's assets are managed by seven external fund managers. There is a commitment to invest further in private equity via Old College Capital which is the venture investment arm of the University of Edinburgh providing growth and development finance into early- and mid-stage spin-out and start-up companies as part of syndicated venture capital rounds. The largest portion of the Fund's assets are invested in equities given their potential for delivering good long term real returns.

Portfolio by Fund Manager as at 31/07/16

Investments Held at 31/07/16	
Baillie Gifford	173.2
Blackrock	58.8
Hermes - HPUT	56.3
Kames Capital	43.2
Savills	14.9
Old College Capital	2.9
Cash	2.5
Aviva	39.9
Northern Trust	24.1
Deaconess	17.3
Total	433.1

Portfolio by Fund Manager as at 31/07/16



Investment Objective - Fund Structure

Baillie Gifford	Global Equity	Edinburgh based independent investment manager. UoE Endowment Fund.
Blackrock	UK Equity	New York headquartered institution, founded in 1988, 25% owned by PNC Financial Services Group Inc.
Hermes - HPUT	Property	Owned by BT Pension Scheme. Hermes Property Unit Trust.
Kames Capital	High Yield Bonds	Formed in 2011, 100% subsidiary of AEGON group. Kames High Yield Global Bond Fund.
Savills	Property	Savills Investment Management formed in Dec. 2003 as Cordea Savills. Charities Property Fund.
Old College Capital	Venture Capital	100% University of Edinburgh subsidiary managing venture fund for exploitation of UoE IP.
Aviva	Multi-Strategy	Created following merger of Commercial Union and General Accident and subsequently with Norwich Union. Multi Strategy Target Return Fund (AIMS)
Northern Trust	Emerging Mkts Equity	Norther Trust Corporation, founded in 1889. NT Emerging Markets Custom ESG Equity Index Fund
Deaconess House	Property	University of Edinburgh Investment Property based at Deaconess House, providing UG Accommodation exclusively to UoE.



Investment Objective – Fund Activity

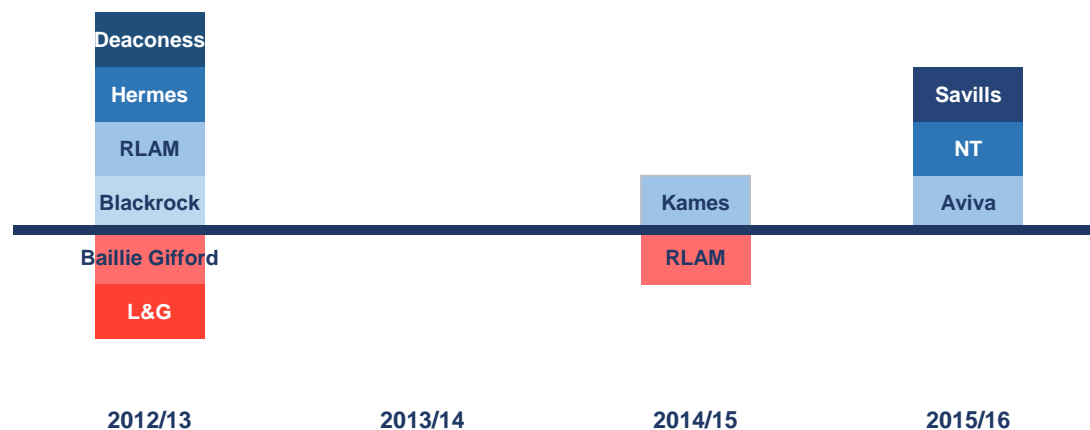
% Holdings by Fund Manager					
	31-Jul-12	31-Jul-13	31-Jul-14	31-Jul-15	31-Jul-16
Baillie Gifford	87.3%	45.6%	44.4%	46.5%	40.0%
Legal & General	7.9%	0.0%	0.0%	0.0%	0.0%
Blackrock	0.0%	27.0%	19.9%	18.0%	13.6%
RLAM	0.0%	13.9%	20.6%	0.0%	0.0%
Hermes - HPUT	0.0%	9.2%	9.9%	16.5%	13.0%
Deaconess	0.0%	2.2%	4.5%	5.1%	4.0%
Kames Capital	0.0%	0.0%	0.0%	13.4%	10.0%
Aviva	0.0%	0.0%	0.0%	0.0%	9.2%
Northern Trust	0.0%	0.0%	0.0%	0.0%	5.6%
Savills	0.0%	0.0%	0.0%	0.0%	3.4%
Old College Capital	0.0%	0.0%	0.0%	0.4%	0.7%
Cash	4.8%	2.1%	0.7%	0.1%	0.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Investing University Treasury Cash in the Endowment and Investment Fund

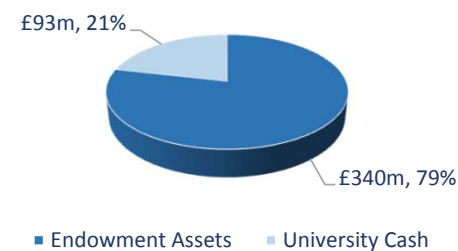
The University invests medium term University cash balances alongside Endowment assets, in order to achieve greater returns than those possible using products defined within the University's Treasury Management Policy.

As at 31 July 2016 21.55% of the unitised fund related to University cash balances, the remainder relates to Endowments.

Changes in Fund Managers 2012/13 - 2015/16



Endowment Assets and University Cash within the fund as at 31/07/17



Market Highlights

Economic Overview

(provided by Mercer, Investment Advisors)

Over the 12 month period to 31 July 2016, previously dominant investment themes such as Chinese financial market volatility, ongoing commodity price weakness and sluggish global economic growth were amplified by the unexpected result from the UK's referendum in June 2016 whereby the electorate voted to leave the European Union. The Brexit vote set off a wave of political change in the UK, including the resignation of David Cameron as prime minister (subsequently replaced by Theresa May), increasing speculation over the possibility of a second independence referendum for Scotland and a deepening political crisis within both the ruling and opposition parties. Sterling bore the brunt of the ensuing volatility, falling by 8% to \$1.36 against the US dollar on the day of the result, the lowest level in more than 30 years. The vote also augmented significant falls in high quality sovereign bond yields and a rally in gold prices seen in the weeks leading up to the vote. The depreciation of sterling coupled with a decrease in bond yields led to both risk and defensive asset classes posting strong positive returns in sterling terms over the corresponding period.

Actions from the world's major central banks continued to drive financial markets over the year. In December 2015, the Federal Reserve Bank's (the "Fed") first rate hike in nearly a decade was followed by increased market volatility and a sharp selloff in risk asset classes in early 2016. Investor risk appetite subsequently recovered as expectations for a second rate hike was further delayed on the back of dovish rhetoric from Fed officials after mixed macroeconomic data in the United States and more recently, concerns over the Brexit referendum outcome. The European Central Bank ("ECB") expanded its monthly asset purchase programme in March 2016 whilst the Bank of England ("BoE") held rates at historic lows.

Investment Markets

Equity Markets

At a global level, developed equity markets, as measured by the FTSE World Index, returned 18.0%. At a regional level, the FTSE USA Index returned 23.4% whilst the FTSE Japan Index returned 14.1% (despite a significant loss in local currency terms). European markets returned 7.1% as indicated by the FTSE World Europe (ex-UK) Index. Meanwhile, a return of 16.8% was recorded by the FTSE All World Emerging Markets Index.

UK stocks as measured by the FTSE All-Share Index returned 3.8%. However, there was significant dispersion of returns with the UK equity market as large exporters benefited from the depreciation of Sterling whereas domestically focussed firms suffered due to reduced UK growth expectations following the EU referendum result.

Equity market total return figures are in Sterling terms over the 12 month period to 31 July 2016.

Market Highlights

Bonds

UK Government Bonds, as measured by the FTSE Gilts All Stocks Index, returned 14.0% as bond yields continued their downward trend over the year. This was especially pronounced for long dated issues; for example the Over 15 Year Gilt Index returned 24.6% over the year. Similarly, the FTSE Index Linked Gilts All Stocks Index returned 13.5% with the corresponding Over 15 Year index returning 17.4%.

Corporate bonds, as measured by the Bank of America Merrill Lynch Sterling Non-Gilts Index, returned 11.9%.

Bond market total return figures are in sterling terms over the 12 month period to 31 July 2016.

Property²

Over the 12 month period to 31 July 2016, the IPD UK Monthly All Property Index returned 5.5%. The three main sectors of the UK Property market each recorded positive returns over the period (retail: 3.2%; office: 5.8%; and industrial 2.8%).

Currencies

Over the year to 31 July 2016, sterling fell by 14.9% against the US dollar from \$1.56 to \$1.33 and by 29.6% against the Japanese yen from ¥193.34 to ¥136.07. Sterling also depreciated against the euro by 15.9% from €1.41 to €1.19 over the same period. Statistics sourced from Investment Property Databank

¹ *Statistics sourced from Thomson Reuters Datastream unless otherwise specified*

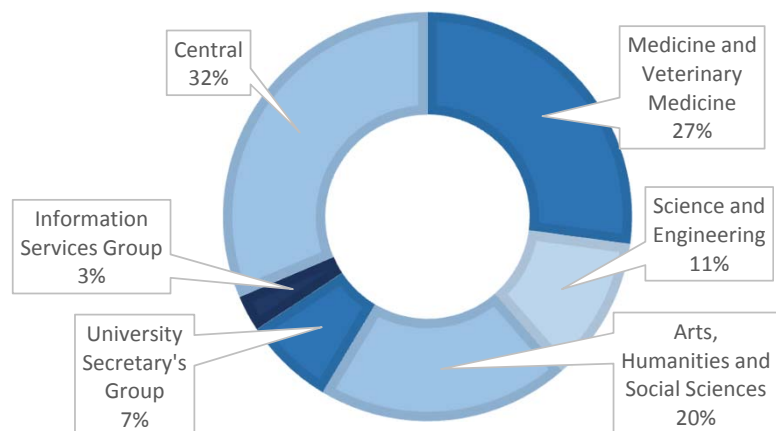
² *Statistics sourced from MSCI Investment Property Database*

Disclaimer

This does not contain investment advice relation to your particular circumstances. No investment decision should be made based on this information without first obtaining appropriate professional advice and considering your circumstances.

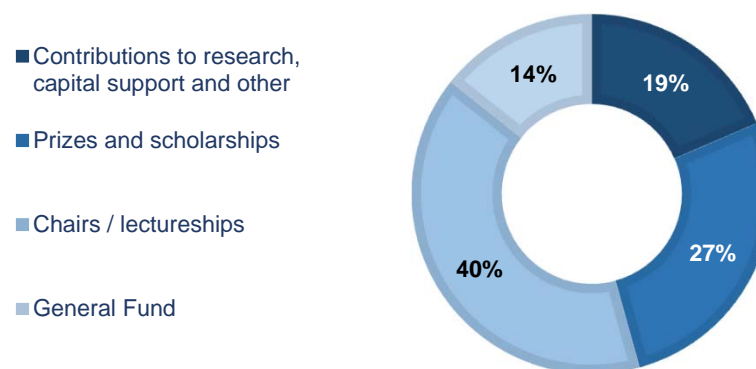
Fund Expenditure

SPEND BY COLLEGE / SUPPORT GROUP



Total spend by College / Support Group	
	£m
Medicine and Veterinary Medicine	1.9
Science and Engineering	0.8
Arts, Humanities and Social Sciences	1.4
University Secretary's Group	0.5
Information Services Group	0.2
Central	2.2
Total	7.0

SPEND BY PURPOSE



Spend by Purpose	
	£m
Contributions to research, capital support and other	1.3
Prizes and scholarships	1.9
Chairs / lectureships	2.8
General Fund	1.0
Total	7.0

Notes