

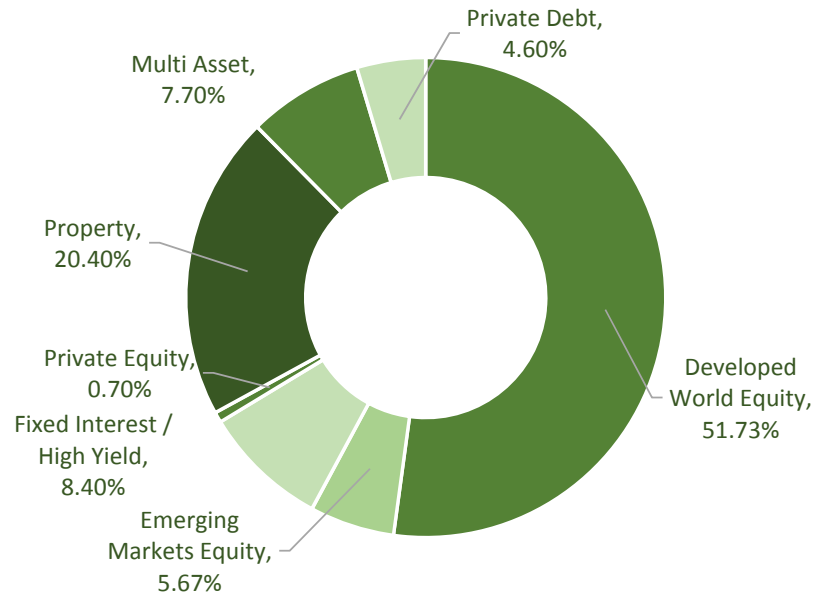


THE UNIVERSITY *of* EDINBURGH
Finance

Endowment Fund Report for the Year to 31 July 2017



Portfolio by Asset Class as at 31/07/17



£8.9m

The value of endowment expenditure in 2016-17

623

The number of endowments held in the fund

16.75%

The annual return on endowment investments in 2016-17

£8.5m

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					
	2012/13	2013/14	2014/15	2015/16	2016/17
Market Value	£284m	£298m	£313m	£343m	£392m
Return p.a.	21.20%	7.60%	8.10%	10.00%	16.75%
Number of endowments	778	781	790	642	623
Income yield	£8.3m	£10.4m	£10.5m	£9.2m	£8.5m
Annual expenditure	£8.5m	£7.9m	£9.0m	£7.5m	£9.8m

12.73%

Five-year average annual return from the fund

£108m

Growth of Endowment Fund between 2012-13 and 2016-17

Key Performance indicators		
	2016-17	2015-16
Overall return for year (based on opening assets)	16.7%	9.9%
Yield	2.31%	2.79%
Total charges (capital & revenue)	£1,780k	£1,482k
Expenses ratio	0.46%	0.43%
Units at 31 July	9,931,723	9,903,035
Unit price	£39.34	£34.51
Income per unit (p)	£85.47	£92.49
Number of endowments	623	642



Total Return

University of Edinburgh Endowment Fund				
Year ended 31 July				
			2017	2016
			£'000	£'000
Incoming resources				
Increase in market value of investments			48,925	22,097
Investment income			8,489	9,159
Total investment return			57,414	31,256
New endowments				
			1,714	4,427
			59,128	35,683
Outgoing resources				
Expenditure			(8,023)	(6,004)
Fund management and custody charges (capital)			(907)	(447)
Fund management and custody charges (revenue)			(873)	(1,035)
			(9,803)	(7,486)
Net Movement for year				
			49,325	28,197
Opening Funds as at 1 August				
			342,796	314,599
Closing Funds as at 31 July				
			392,121	342,796

		2017	2016
Represented by:		£'000	£'000
Equities		223,451	199,516
Multi asset		29,992	0
Fixed interest stocks		50,700	65,234
Property		79,942	69,445
Venture capital		2,605	2,297
Bank deposits held at fund managers		1,169	5,487
Bank deposits held by the University		2,834	(215)
Non-current asset investments		390,693	341,764
Cash balance revenue		(576)	(1,226)
Current asset - working capital		2,004	2,258
Total endowment assets		392,121	342,796

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.

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 2016

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

Fund Managers

Baillie Gifford
Hermes
Kames Capital
Northern Trust
Aviva
Savills
M&G
Pentech

Investment Committee Members as at 31 July 2017

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

Investment Adviser

Mercer

Custodian

BNY Mellon

Auditors

PricewaterhouseCoopers LLP

Investment Committee - Meetings in 2016-17:

23 August 2016
21 February 2017

22 November 2016
23 May 2017

Unit Price History

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

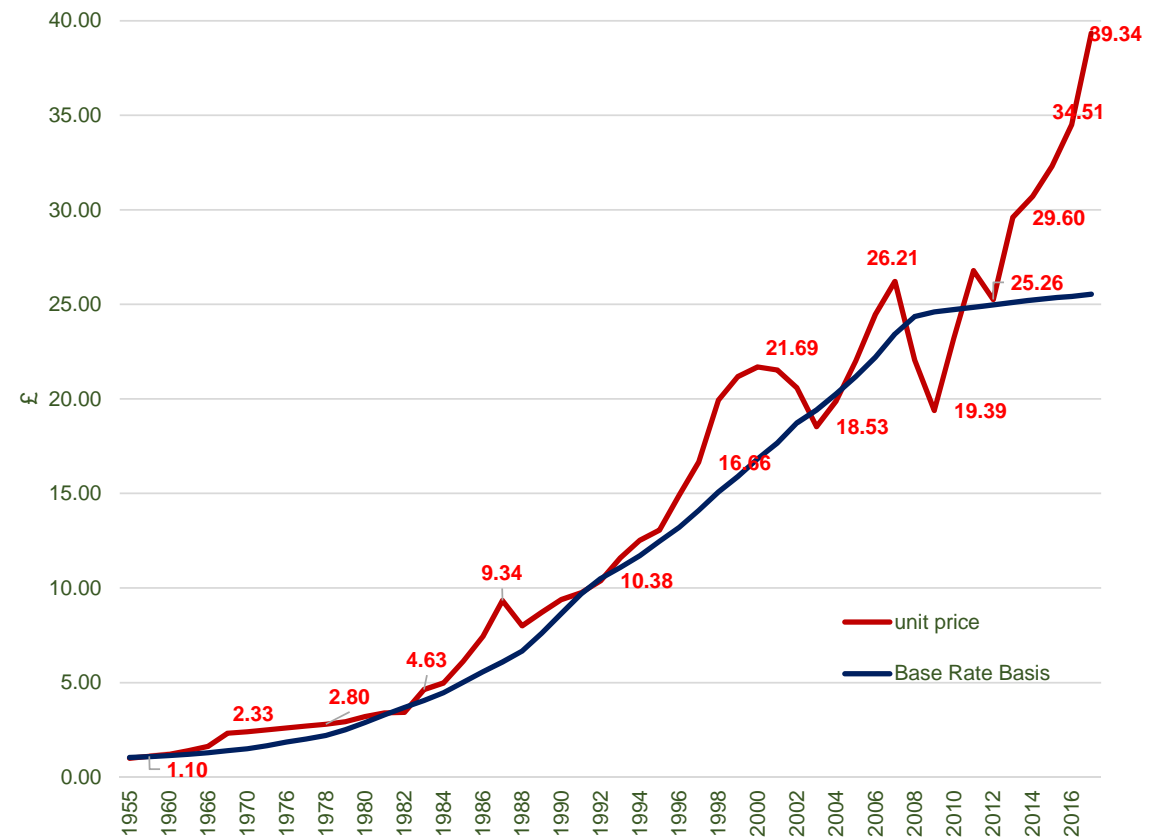
The investment of the University's individual endowments is pooled and the individual endowments participate by holding units in the fund and receiving an income distribution on the units held.

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 more than 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 2017)



Investment Objective

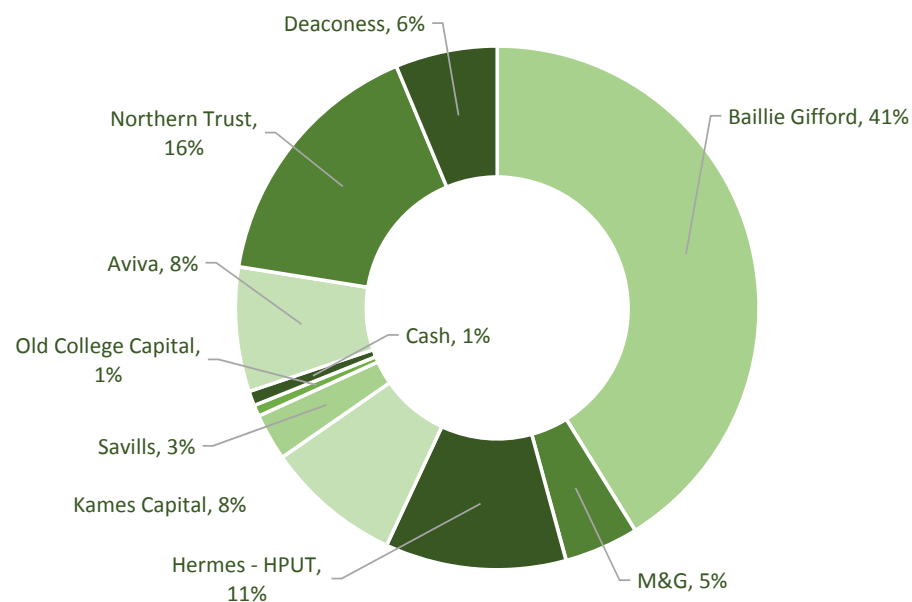
The investment objective of the Endowment and Investment Fund is to grow the value of the fund and maintain the capital in real terms over the long term whilst providing an annual income yield to support the activities of the numerous endowments.

The Fund's assets are managed by eight 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 continue to be invested in equities given their potential for delivering good long term real returns.

Portfolio by Fund Manager as at 31/07/17

Investments Held at 31/07/17	£m
Baillie Gifford	217.5
M&G	24.2
Hermes - HPUT	59.3
Kames Capital	44.1
Savills	15.2
Old College Capital & Pentech	3.5
Cash	4.5
Aviva	40.5
Northern Trust	85.5
Deaconess	33.3
Total	527.6

Portfolio by Fund Manager as at 31/07/17



Fund Structure

Baillie Gifford	Global Equity	Edinburgh based independent investment manager. UoE Endowment Fund.
M&G	Private Debt	Wholly owned by Prudential plc. Manager of fixed income, equity and real estate on behalf of Prudential.
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.
Pentech	Venture Capital	Pentech Ventures Fund II specialises in seed, start-up, and early venture investments in UK and Ireland. It seeks to invest in businesses with global potential in enterprise software, telecommunications software, internet, mobile, and tech media sectors.



Investment Objective

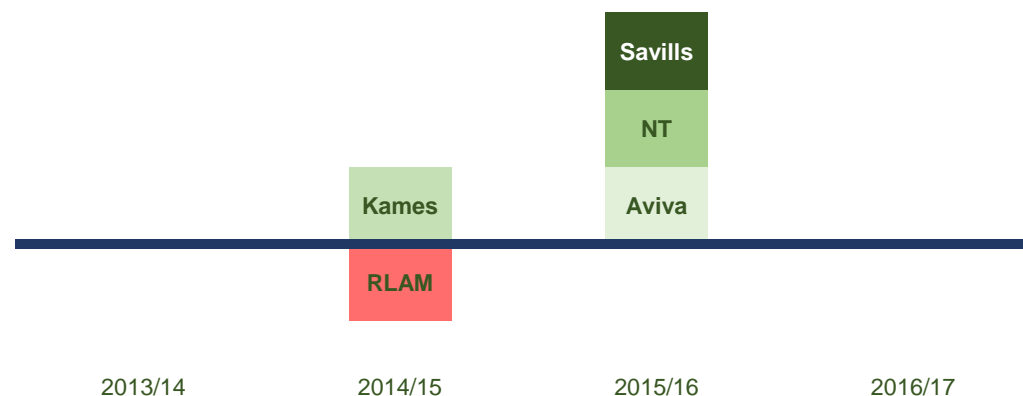
% Holdings by Fund Manager					
	31-Jul-13	31-Jul-14	31-Jul-15	31-Jul-16	31-Jul-17
Baillie Gifford	45.6%	44.4%	46.5%	46.5%	41.2%
Blackrock	27.0%	19.9%	18.0%	18.0%	0.0%
RLAM	13.9%	20.6%	0.0%	0.0%	0.0%
Hermes - HPUT	9.2%	9.9%	16.5%	16.5%	11.2%
Deaconess	2.2%	4.5%	5.1%	5.1%	6.3%
Kames Capital	0.0%	0.0%	13.4%	13.4%	8.3%
Aviva	0.0%	0.0%	0.0%	0.0%	7.7%
Northern Trust	0.0%	0.0%	0.0%	0.0%	16.2%
Savills	0.0%	0.0%	0.0%	0.0%	2.9%
Old College Capital	0.0%	0.0%	0.4%	0.4%	0.7%
M&G	0.0%	0.0%	0.0%	0.0%	4.6%
Cash	2.1%	0.7%	0.1%	0.1%	0.9%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Investing University Treasury Cash in the Endowment and Investment Fund

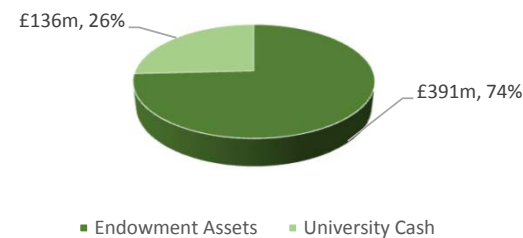
The University invests medium term University cash balances alongside Endowment assets, in order to achieve greater returns than those possible using products defined within the University's Treasury Management Policy.

As at 31 July 2017 25.85% of the unitised fund related to University cash balances, the remainder relates to Endowments.

Changes in Fund Managers
2013/14 - 2016/17



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 2017, growth assets posted strong returns with equity markets in particular continuing to surge on the back of generally positive economic data and the largely accommodative monetary policies of the world's major central banks. Defensive assets did not experience the same level of positive returns across the board, with yield rises in some regions leading to negative returns for some bond assets. A number of key political events including the aftermath of the UK referendum result, the unexpected victory for Donald Trump in the US Presidential Election in November 2016 and the UK General Election in June 2017 led to some market volatility during the period, though this was generally contained. Overall the year has seen very low levels of market volatility.

In the UK, despite the triggering of Article 50 in March 2017 by Prime Minister Theresa May there remains significant political and economic uncertainty surrounding the nature of the UK's exit from the European Union. The General Election in June 2017, which resulted in a hung parliament, served to further bolster these uncertainties.

Financial markets continue to be sensitive to the actions of the world's major central banks. In the US, the Federal Reserve Bank (the "Fed") increased its target rate by 0.25% at each of its December, March and June meetings and noted plans for reducing the size of its balance sheet going forward. Elsewhere, in Europe economic sentiment continued to strengthen, suggesting the economic recovery is gathering momentum. Following the European Central Bank's ("ECB") announcement in December 2016 that its extended Quantitative Easing Programme would continue until December 2017 at the earliest, albeit at a slightly reduced pace of asset purchases, it announced in March 2017 that further stimulus to this is unlikely to be needed in the near term. In the UK, subdued growth expectations culminated in further loosening of monetary policy by the Bank of England in August 2016, which led to a downward shift in government bond yields though this was reversed towards the end of the period. The Bank of Japan announced an explicit shift to yield curve targeting in September 2016, whilst market sentiment and investor confidence appears to be growing. Emerging markets benefitted from positive economic and corporate momentum and saw capital inflows over the year.

Investment Markets

Equity Markets

At a global level, developed markets, as measured by the FTSE World index, returned 18.2%. Meanwhile, a return of 22.4% was recorded by the FTSE All World Emerging Markets index. At a regional level, European markets returned 24.6% as indicated by the FTSE World Europe ex UK index. At a country level, UK stocks as measured by the FTSE All Share index returned 14.9%. The FTSE USA index returned 17.08% while the FTSE Japan index returned 16.1%.

Equity market total return figures are in sterling terms over the 12 month period to 31 July 2017.

Market Highlights

Bonds

Returns on UK Government Bonds as measured by the FTSE Gilts All Stocks Index, returned -2.5%, while long dated issues as measured by the corresponding Over 15 Year Index had a return of -5.0% over the year. The yield for the FTSE Gilts All Stocks index rose over the year from 1.2% to 1.6%.

The FTSE All Stocks Index Linked Gilts index returned 3.9% with the corresponding over 15 year index exhibiting a return of 4.5%. Corporate debt as measured by the Bank of America Merrill Lynch Sterling Non-Gilts index returned 1.9%.

Bond market total return figures are in sterling terms over the 12 month period to 31 July 2017.

Property²

UK property investors continued to benefit from the improving property market. Over the 12 month period to 31 July 2017, the IPD UK All Property Index returned 8.4% in sterling terms. The three main sectors of the UK Property market each recorded positive returns over the period (retail: 6.1%; office: 6.3%; and industrial 15.7%).

Currencies

Over the 12 month period to 31 July 2017, sterling fell 0.7% against the US dollar from \$1.328 to \$1.318 and depreciated by 5.8% against the Euro, from €1.19 to €1.12. Over the same period sterling appreciated 7.1% against the yen, from ¥136.07 to ¥145.67.

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

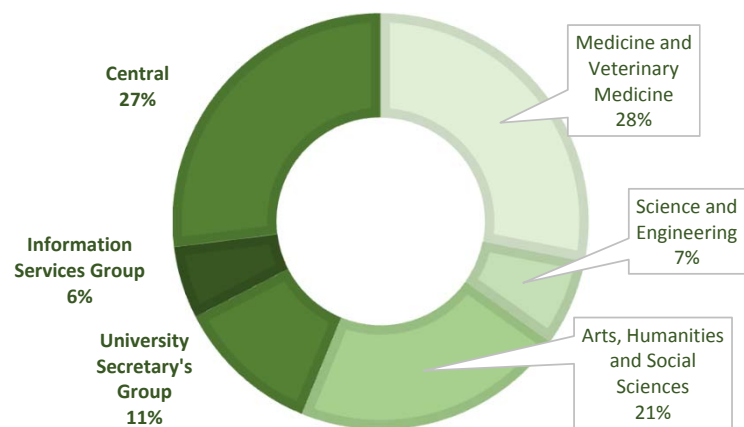
² *Statistics sourced from MSCI Investment Property Database*

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 Activity

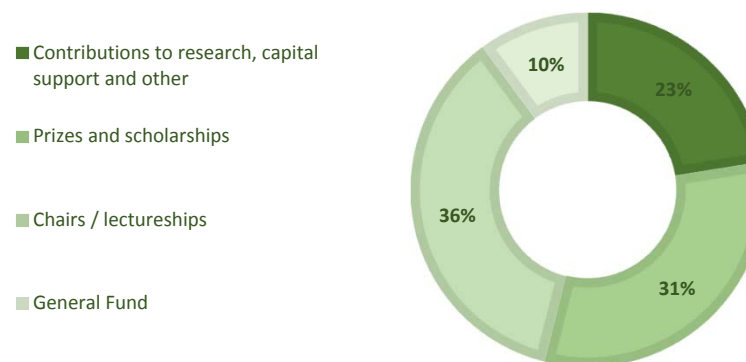
SPEND BY COLLEGE / SUPPORT GROUP



Total spend by College / Support Group

	£m
Medicine and Veterinary Medicine	2.5
Science and Engineering	0.6
Arts, Humanities and Social Sciences	1.9
University Secretary's Group	1.0
Information Services Group	0.5
Central	2.4
Total	8.9

SPEND BY PURPOSE



Spend by Purpose

	£m
Contributions to research, capital support and other	2.0
Prizes and scholarships	2.8
Chairs / lectureships	3.2
General Fund	0.9
Total	8.9

Notes