

Endowment Fund Report
2012 - 2013



Fund Management

As at 31 July 2013

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.

Investment Committee Key Roles and Responsibilities

- 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 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 <http://www.ed.ac.uk/schools-departments/finance/about/sections/financial-accounting/investment>.

Investment Committee Members at 31 July 2013

Alan McFarlane (Convener)
Maxine Cuffe
Richard Davidson
Bill Hughes
Les Matheson
Stuart Monro
Nigel Paul

Fund Managers

Baillie Gifford
BlackRock
Hermes
Royal London Asset Management

Investment Adviser

Jagger & Associates

Custodian

BNY Mellon

Auditors

KPMG LLP

Market Highlights 12/13



The global economy has faced some significant challenges during the past 12 months. The European sovereign debt crisis held centre stage as policymakers struggled to address concerns that several heavily indebted countries would be forced to leave the euro.

The emerging economies have been the driving force of global growth, but there has been a significant slowdown in China where the authorities are attempting to rebalance the economy away from export-led towards domestic-led growth. Governments in the G7 countries have tried, to varying degrees, to reduce their budget deficits and implement austerity programmes while simultaneously leaving interest rates at historically low levels.

In the US, UK and Japan this has been accompanied by further asset purchases (quantitative easing) aimed at reviving growth. However, global economic indicators continue to depict subdued growth in many nations. The major concerns are the impacts of the slowdown in China, and the prolonged

austerity programmes in the euro zone.

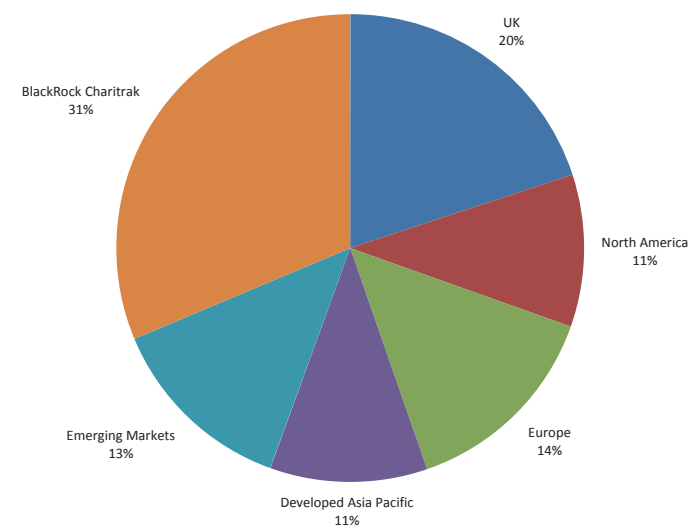
EQUITIES

Although equity markets have been volatile over the last 12 months, the majority of major markets recorded impressive gains as various central bank policy initiatives fostered optimism amongst investors that the global economic growth would recover, albeit modestly. European markets have performed particularly well, buoyed by relief that the European Central Bank is at last taking action to address the region's debt crisis.

In the UK, the more domestically focused mid cap stocks and smaller companies have outperformed the blue chip FTSE 100, which is heavily weighted towards mining stocks that have struggled on weaker commodity prices.

US equities were underpinned by robust corporate profitability, and high yielding stocks have performed particularly well as they compare favourably with US treasuries.

**Endowment Fund at July 2013
Equity Holdings**





Market Highlights 12/13

Japanese equities have rallied strongly in recent months on the election of a new government committed to growth-orientated policies, although returns for UK investors were diluted by the weakness of the yen. Emerging markets, on the other hand, have underperformed as the slowdown in China has undermined sentiment while a number of local currencies have weakened as international investors have withdrawn money.

BONDS

Over the last 12 months, returns from higher-rated government bonds such as US treasuries, UK gilts and German bunds have been modest in comparison with corporate bond markets. Yields have risen in recent months as the US Federal Reserve signalled its intention to begin scaling back quantitative easing. Previously distressed 'peripheral' European sovereign bond markets have rallied strongly, the catalyst being the ECB's announcement in late summer 2012 that it stood ready to sanction unlimited purchases of sovereign debt to avert a

disorderly break-up of the euro zone. However, an inconclusive outcome to the Italian elections in February and the subsequent bailout of Cyprus, highlighted residual contagion risk from the sovereign debt crisis, which is still to be resolved. Institutional investors have continued to purchase higher yielding corporate bonds, while the new issue market has been very active as companies have sought to capitalise on this interest and lock into lower borrowing costs. Similarly, the search for yield has led bond investors to emerging markets although these have become more volatile of late.

PROPERTY

With yields on government bonds in the UK, US and Germany exceptionally low, and the uncertain global economic outlook, international investors have continued to value the steady income stream that commercial property delivers. In particular, demand for high quality real estate in prime locations has remained robust.

TOP 5 EQUITY HOLDINGS IN BAILLIE GIFFORD PORTFOLIO

Holding	Description	% of Portfolio
Svenska Handelsbanken	Swedish Bank	1.6
Total	French Oil Company	1.5
Investor	Swedish industrial holdings company	1.4
GBL	Belgian holding company (Energy, Media, Utilities)	1.3
Atlas Copco	Mining	1.3

Source : Baillie Gifford as at 30 September 2013

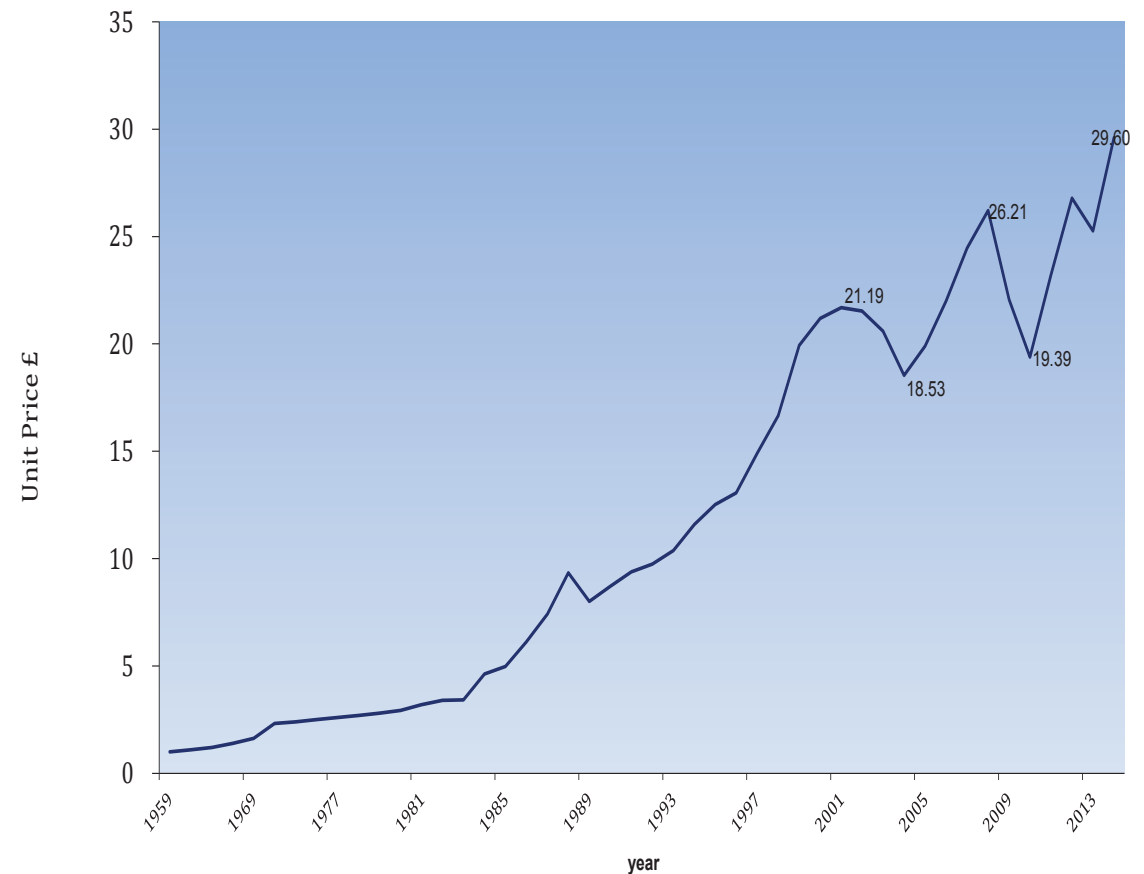
Endowment Fund History

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 endowment fund is measured by the calculation of the unit price and detailed records of this calculation are available and show the capital growth of the fund over 50 years.

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



Note : Unit price excludes income

Endowment Fund Highlights

Financial Year to 31 July 2013

- Added £2.5 million to 48 endowments
- 18 of which were from new donors
- Distributed £8.5 million to schools and colleges
- Fund return 21.0%

Financial Years 2009–2013

- Added 211 new bequests at a value of £27 million
- Distributed £35.5 million to schools and colleges
- 5-year return is 10.9% p.a.
- 10-year return is 9.3% p.a.

Five Year View

	2008-09	2009-10	2010-11	2011-12	2012-13
Market Value	£165m	£200m	£236m	£238m	£284m
Return	-4.3%	24.5%	15.1%	1.3%	21.0%
Number of Endowments	734	741	749	760	778
Annual Expenditure	£7m	£6m	£6m	£8m	£8.5m

Endowment Expenditure

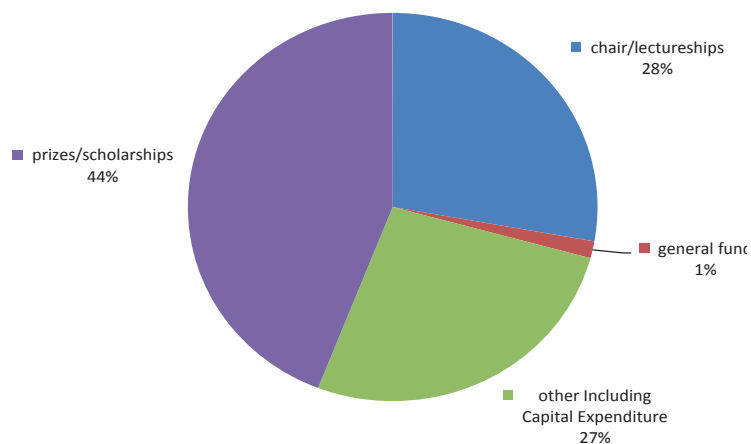
Endowments are primarily used to fund our generous scholarship and busaries' programme, academic chairs and professorships, and building works.

Endowments which are restricted in the purpose to which they may be used comprise 98% of the fund and 36% of the endowments require the initial capital donation to be permanently preserved.

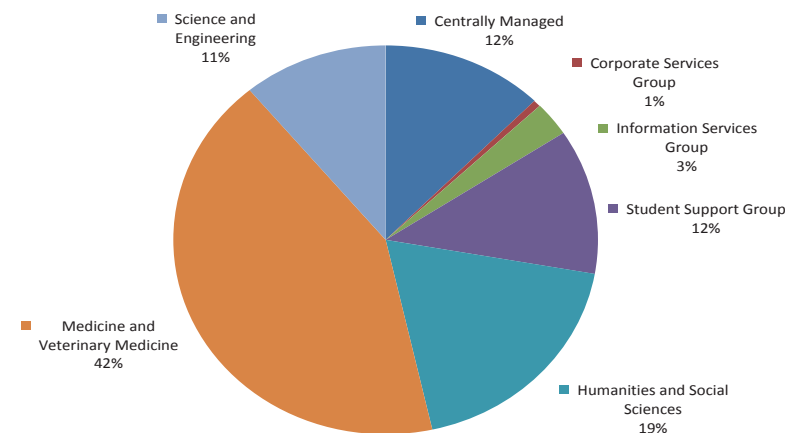
Many unique and interesting activities are supported by the Endowment Funds and these provide the University with one of the most generous endowment packages in the UK.

Endowment Funds have contributed £35.5 million over the last 5 years impacting on all aspect of University life.

Endowment Spend by Purpose



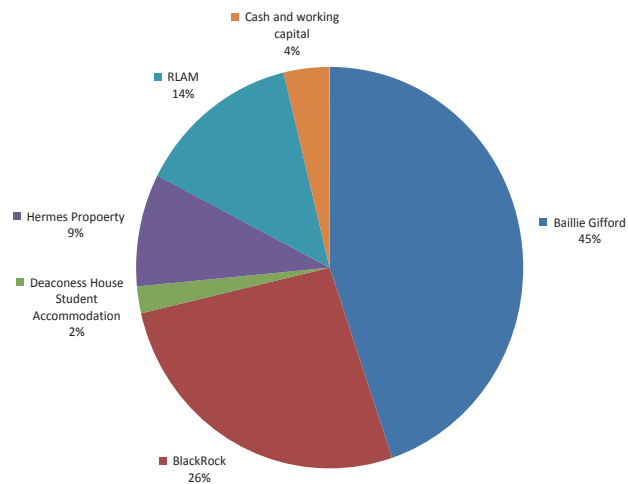
Endowment Spend by College 2012 - 2013



Investment strategy and performance



**Endowment Fund
Fund Manager Allocations as at July 2013**



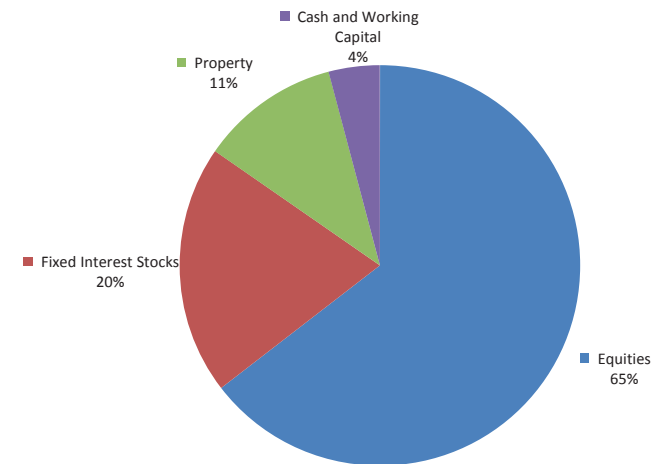
The investment objective of the Endowment Fund is to grow the capital value of the assets over the long term whilst providing income to support the activities of the numerous endowments.

During 2012-13 the Investment Committee undertook a review of the Fund's investment strategy with the aim of broader manager and asset diversification. As a result the Endowment

Fund's assets are now managed by four external fund managers and there are new investments in property (Hermes Property Unit Trust and Deaconess Student Accommodation) and the asset allocation was revised as a result of these changes..

Going forward, the Endowment Fund has committed to invest in private equity via Old

**Endowment Fund
Asset Allocation as at 31 July 2013**



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.