

Section N

Cambridge University Endowment Fund Report and financial statements

30 June 2020

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Cambridge University Endowment Fund Governance report

30 June 2020

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 2020.

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, 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 depository 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. During the period CIML has also started employing staff and directors directly (2020 seven).

Cambridge University Endowment Fund Governance report

30 June 2020

Remuneration

Staff employed by CIML and 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:

	2020	2020	2019	2019
	£m	FTE	£m	FTE
Senior management	0.8	5	1.1	4
Other staff	0.8	12	0.7	11
Total remuneration	1.6	17	1.8	15

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. 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% (2019: RPI plus 5.25%), 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 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 in *the Cambridge University Reporter*.

**Cambridge University Endowment Fund
Governance report**

30 June 2020

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.

D Hughes
Director of Finance

11 December 2020

**Cambridge University Endowment Fund
Investment manager's report****30 June 2020**

Fund size

The opening net asset value of the Fund was £3,401.3m, and £42.5m was contributed during the year while £132.9m was withdrawn. The total return for the year (net revenue plus net capital gains) was £125.0m and distributions were £122.9m. As a result the net asset value of the Fund at the end of the year was £3,313.0m.

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 2019-2020 asset class allocations were amended to reflect evolving market conditions. Notably, exposure to global equities was reduced in favour of an increased allocation to cash and short-duration fixed interest. This change is intended as a placeholder for a longer-term increased allocation to the absolute return asset class, which is intended to provide protection against market volatility as well as a source of liquidity in a potential future downturn. The allocation of the portfolio to private equity continued to increase at a measured pace, in line with a longer-term intention to increase exposure to this asset class to around 25% of the overall portfolio.

Within each asset class, fund managers are selected by the Investment Office 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 the Investment Office'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 allocations to 4 new managers, and made exits from 8 managers who had served their purpose within the portfolio.

**Cambridge University Endowment Fund
Investment manager's report****30 June 2020**

Foreign currency exposures

During the year, the Investment Office introduced a new portfolio-level currency hedging policy, aimed at maximising the long-term Sterling purchasing power of the Fund, while minimising the burden of hedging settlement requirements on the portfolio. Going forwards, this new hedging policy will target a post-hedging estimated look through GBP exposure of 60%. To avoid needing to enter into frequent hedging transactions as a function of market movements, or whenever changes to the CUEF portfolio are made, currency exposures will be allowed to vary within a set defined ranges. The new policy was approved by the CIML Board and going forward the CIML and Investment Boards will receive regular and detailed reporting against the agreed limits.

Comments

The recent investment environment has been dominated by the consequences of the Covid-19 pandemic, which led to dramatic falls in risk asset prices in the first quarter of the calendar year 2020, followed by a dramatic rally very shortly thereafter. Central government responses to the pandemic broadly incorporated further cuts to already-low bond yields, and extraordinary economic stimulus measures across most major developed economies. Given ongoing subdued levels of underlying economic activity resulting from the pandemic and rising unemployment, further periods of volatility are likely during the coming financial year.

The marked variation in the performance of global stock markets continued over the past year as the United States continues to perform very well, largely driven by the technology sector, which exhibited a particularly marked rebound in valuation during the second calendar quarter of 2020. This rebound was in contrast to European markets, and particularly the UK, where valuations remain materially lower than they were at the end of the 2019 calendar year. The performance of the UK market has been particularly weak, given its high exposure to the energy and resources sector as well as ongoing uncertainty over the final outcome of Brexit negotiations.

Most major currencies apart from the Australian \$ appreciated against Sterling in the year to 30 June 2020. The Yen rose by 2.7%, and the US dollar by 2.9%, however the Euro appreciation was more muted at 1.5%.

The fund as a whole returned 3.8% over the year. Over the last ten years the fund has produced an annualised return of 10.3%, 2.4% in excess of its primary inflation-linked objective (CPI + 5%), and 0.7% above its annualised passive investment comparator, the 65:35 investment benchmark.

T Franklin
Chief Investment Officer

December 2020

**Cambridge University Endowment Fund
Portfolio statement**
30 June 2020

	£m	2020	£m	2019
Public equity	1,530.8	46%	1,995.9	59%
Private investment	543.3	16%	423.2	12%
Absolute return	262.3	8%	282.9	8%
Credit strategies	152.0	5%	176.3	5%
Real assets	287.3	9%	306.5	9%
Fixed interest/cash	541.6	16%	214.0	7%
Total portfolio	3,317.3	100%	3,398.8	100%

The investment portfolio comprises the investments shown in the balance sheet plus £42.0m (2019: £165.5m) shown within cash equivalents.

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 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.

**Cambridge University Endowment Fund
Portfolio statement****30 June 2020**

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 2020 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 2020; the statement of total return, the statement of changes in net assets attributable to unitholders and the statement of cash flows for the year then ended; the accounting policies; and the notes to the financial statements.

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

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

- The Investment Managers’ 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 Fund’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 Fund’s ability to continue as a going concern.

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 [69], 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/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.

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
December 2020

Cambridge University Endowment Fund
**Statement of total return
For the year ended 30 June 2020**

	2020		2019	
	£m	£m	£m	£m
Income:				
Net capital gains (note 2)		113.3		142.9
Revenue				
Dividend income	19.1		23.5	
Interest income	1.5		2.6	
Rental income	8.8		8.8	
Other income	0.1		0.1	
Total revenue	29.5		35.0	
Expenses (note 3)	(17.8)		(17.8)	
Net revenue				
		11.7		17.2
Total return before distributions		125.0		160.1
Distributions		(122.9)		(118.0)
Change in net assets attributable to unitholders from investment activities		2.1		42.1

**Statement of changes in net assets attributable to unitholders
For the year ended 30 June 2020**

	2020	2019
	£m	£m
Opening net assets attributable to unitholders	3,401.3	3,192.9
Amounts receivable on issue of units	42.5	257.9
Amounts payable on cancellation of units	(132.9)	(91.6)
	3,310.9	3,359.2
Change in net assets attributable to unitholders from investment activities	2.1	42.1
Closing net assets attributable to unitholders	3,313.0	3,401.3

Cambridge University Endowment Fund
**Balance sheet
As at 30 June 2020**

	2020		2019	
	£m	£m	£m	£m
Assets				
Investments (note 10)		3,275.3		3,233.2
Receivables		9.6		5.4
Cash equivalents	42.0		165.5	
Cash	10.2		15.8	
Cash and cash equivalents		52.2		181.3
Total assets		3,337.1		3,419.9
Liabilities				
Payables		(24.1)		(18.6)
Net assets attributable to unitholders		3,313.0		3,401.3

The financial statements on pages 78 to 89 were approved by the Council on 11 December 2020 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 2020**

	2020		2019	
	£m	£m	£m	£m
Cash and cash equivalents at the start of the year		181.3		110.9
Operating activities				
Net cash inflow/(outflow) from Custodian	207.2		(39.5)	
Change in cash equivalents	(123.5)		74.8	
Funds from sale of land	3.4		5.0	
Rents from property managers	4.6		3.5	
Expenses paid	(8.2)		(8.5)	
Inflow from operating activities		83.5		35.3
Financing activities				
Distributions paid	(122.9)		(117.6)	
Received from investors for purchase of units	48.1		243.5	
Paid to investors for redemption of units	(137.8)		(90.8)	
(Outflow)/inflow from financing activities		(212.6)		35.1
Cash and cash equivalents at the end of the year				
Cash equivalents	42.0		165.5	
Cash	10.2		15.8	
		<u>52.2</u>		<u>181.3</u>

**Cambridge University Endowment Fund
Notes to the financial statements****30 June 2020**

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 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 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 2020**

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 loss during the period to be approximately £39.1m (2019: realised gain of £43.1m) out of a reported total net gain of £113.3m (2019: £142.9m).

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. 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 2020**

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 £866,301 (2019: £1,206,798) 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 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

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% 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 2020

3. Expenses

	2020	2019
	£m	£m
Investment advisory or management fees	12.7	12.7
Other expenses	5.1	5.1
Total expenses	<u>17.8</u>	<u>17.8</u>

Other expenses include audit fees of £33,000 (2019: £18,600)

4. Investment properties

Investment property reconciliation

	£m
Opening investment property value within 'Real assets'	171.7
Additions	0.2
Disposals	(3.4)
Net valuation adjustment	(4.3)
Closing investment property value within 'Real assets'	<u>164.2</u>

At the 30 June 2020 the CUEF's real assets included various properties with an overall value of £56m (representing 19% of the CUEF's real assets; and 1.7% of the total value of the fund) where the external valuer had included material valuation uncertainty clauses. Management have satisfied themselves that the valuations are appropriate and the valuers best estimates at the balance sheet date. Accordingly, the properties have been valued based on the information received with no adjustments made.

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:

	2020	2019
	£m	£m
Public equity	28.5	16.4
Private investment	387.6	376.6
Real assets	<u>54.1</u>	<u>63.7</u>
Total commitments	<u>470.2</u>	<u>456.7</u>

Cambridge University Endowment Fund Notes to the financial statements

30 June 2020

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 £3.6m during the year (2019: £3.0m)

The University and its subsidiary undertakings had holdings totalling £3,040.4m (2019: £3,020.0m) at the reporting date. Distributions to the University and its subsidiary undertakings in the year totalled £111.6m (2019: £103.8m).

8. Units in issue and distribution table

	Units in issue/ issued	Value £/unit	Distributed £/unit
30 June 2019	58,183,314		
1 July	(664,381)	58.459	
31 July			0.1731
31 August			0.1805
30 September		59.573	0.1805
1 October	(178,206)		
31 October			0.1805
30 November			0.1805
31 December 2019		60.607	0.1805
1 January 2020	(1,031,361)		
31 January			0.1805
28 February			0.1805
31 March		53.314	0.1805
1 April	414,220		
30 April			0.1805
31 May			0.1805
30 June 2020	<u>56,723,586</u>	58.406	0.1805

Cambridge University Endowment Fund Notes to the financial statements

30 June 2020

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.

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:

	2020	2019
	£m	£m
Pounds sterling	1,771.3	1,530.2
US dollar	1,307.1	1,560.5
Euro	45.5	64.0
Japanese yen	118.7	102.8
Taiwan dollar	23.8	19.1
Indian rupee	5.9	40.7
Hong Kong dollar	30.9	31.4
Canadian dollar	6.6	8.5
Other currencies	<u>7.5</u>	<u>41.6</u>
	<u>3,317.3</u>	<u>3,398.8</u>

If the currency exchange rates of the entity's investments varied by +/- 5%, the total investment portfolio for the period ended 30 June 2020 would change by + £73.6m/-£81.4m (30 June 2019: +£98.4m/-£89m).

**Cambridge University Endowment Fund
Notes to the financial statements****30 June 2020**

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 2020 would change by +/- £12k (30 June 2019: +/-£84k).

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 2020 would change by +/- £165.9m (30 June 2019: +/- £169.9m).

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.

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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	2020 £m	2019 £m
A1/P-1	10.2	15.8
Aaa-mf	42.0	165.5
	<u>52.2</u>	<u>181.3</u>

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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	2020 £m		2019 £m	
	Assets	Liabilities	Assets	Liabilities
Level 1	2,097.4	–	814.8	(20.7)
Level 2	241.4	(17.1)	2,439.1	–
Level 3	953.6	–	0.1	–
Total Investments at fair value	3,292.4	(17.1)	3,254.0	(20.7)

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 2019	0.1
Transfer into level 3	953.5
Fair value 30 June 2020	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, as opposed to a default classification provided by the custodian for prior year (attributable to the significant increase in level 3 assets in FY20). 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.

During 2019-20 the fair value hierarchy classifications of individual investments was reviewed in detail. Previously, the fair values of these unquoted investments held through pooled funds and partnerships was based on the custodian's standard policy whereby the default classification was Level 2. As a result of the more detailed review, a substantial number of these investments were re-categorised to Level 3 hence resulting in the large transfer movement during the year.