OU endowment management

The Oxford Endowment Fund Report 2017

Investing in the future

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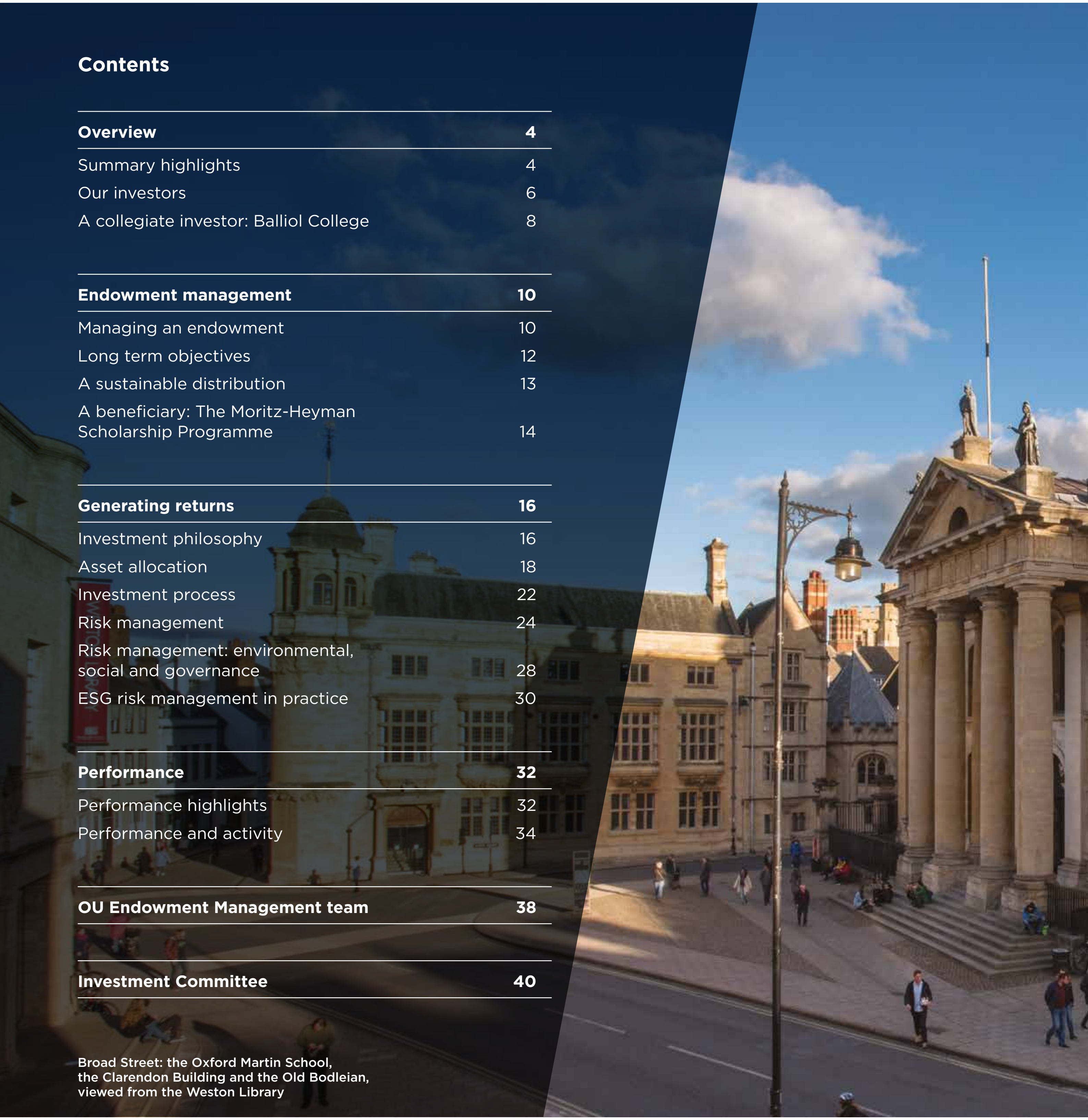
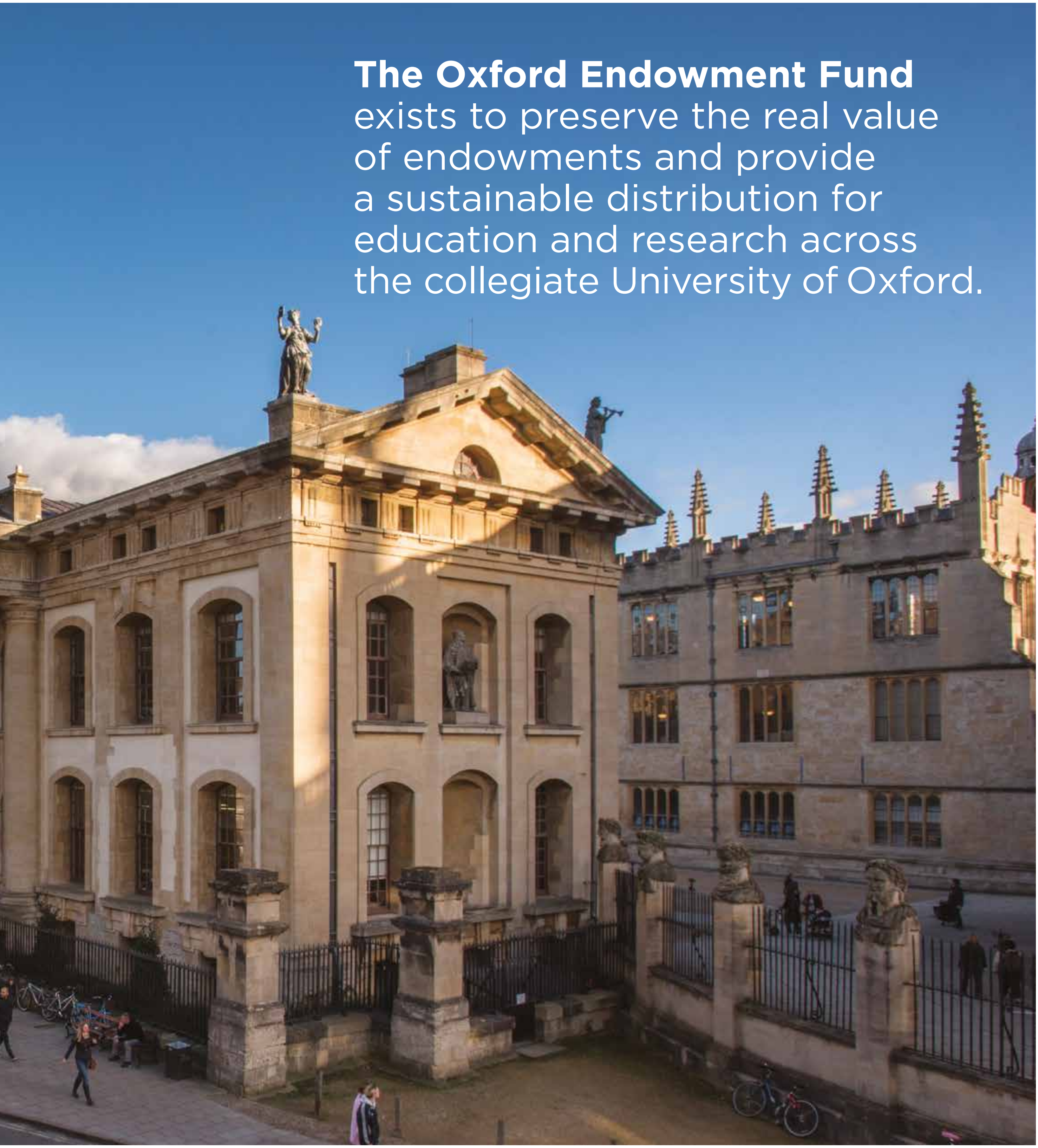


Broad Street: the Oxford Martin School, the Clarendon Building and the Old Bodleian, viewed from the Weston Library


The Oxford Endowment Fund
exists to preserve the real value
of endowments and provide
a sustainable distribution for
education and research across
the collegiate University of Oxford.

Summary highlights

OU Endowment Management

At OU Endowment Management, we believe charitable institutions deserve the highest standards of investment management and take pride in delivering a straightforward solution through the Oxford Endowment Fund. Our aim is to exceed our investors' investment objectives by generating absolute real returns to help them fund their charitable activities of education and research.

While endowment management is well known in the US, we are one of a small number of UK investors who focus on managing long term charitable endowments in a globally diversified investment pool. However, we benefit from the unique expertise of a senior team with significant experience in managing permanent capital. The deeper team of investment and financial professionals is highly motivated.

Our culture encourages a focus on excellence and innovation through intellectual curiosity, which we combine with experience and patience. As a regulated investment manager we uphold the highest standards of accountability, and we continue to be driven by the need to make a difference to those institutions that invest with us.

32

Investors
Read more on page 6

£496m

Distributed since inception
Read more on page 13

£1.2bn

Growth through performance
Read more on page 32

A beneficiary: The Moritz-Heyman Scholarship Programme

A programme that enables students with the academic potential, whatever their backgrounds, to benefit from a full Oxford experience.

Read more on page 14

Performance to 31 December 2017

The Oxford Endowment Fund has returned

11.0%

annualised over a three year period

The Oxford Endowment Fund has returned

11.7%

annualised over a five year period

The Oxford Endowment Fund has returned

10.0%

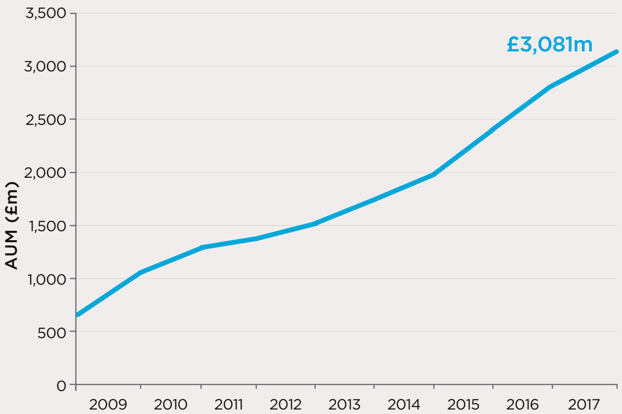
annualised since inception

The Oxford Endowment Fund has returned

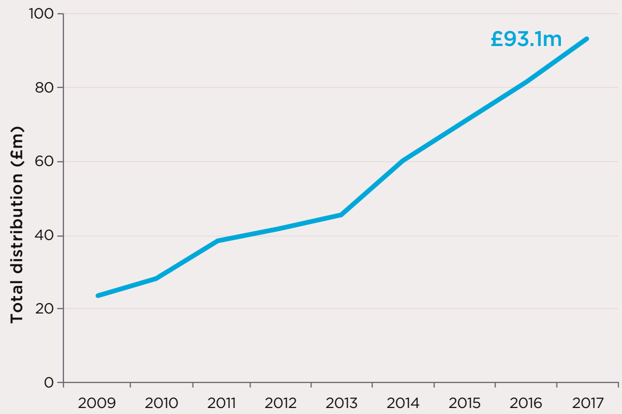
136.6%

cumulative since inception

Assets under management



Annual distribution



Note: All returns shown in this report are time weighted returns calculated by OU Endowment Management, unless otherwise stated. Returns are quoted net of all fund expenses, including custody, administration and OU Endowment Management fees. Inception is 1 January 2009.

Our investors

OU Endowment Management manages charitable endowments on behalf of 32 investors including the University of Oxford, 25 colleges and six associated charitable trusts.

Our investors are all independent charitable bodies, with sound governance and experienced investment committees.

25

Investor colleges

6

Associated charitable trusts

1

The Central University

The Clarendon Building

Investor colleges

Balliol College
Brasenose College
Christ Church
Corpus Christi College
Green Templeton College
Harris Manchester College
Hertford College
Keble College
Kellogg College
Lady Margaret Hall
Linacre College
Mansfield College
Nuffield College
Oriel College
Pembroke College
Regent's Park College
Somerville College
St Anne's College
St Cross College
St Edmund Hall
St Hugh's College
St Peter's College
Wadham College
Wolfson College
Worcester College

The University of Oxford

UNIVERSITY OF OXFORD

Collegiate trusts

RHODES TRUST

Ashmolean Museum Endowment Trust
James Martin 21st Century Foundation
Nuffield Dominions Trust
OU Law Foundation
Vincent's Appeal Trust

A collegiate investor: Balliol College

‘Balliol depends on a combination of sources to generate its annual income, including academic, support from alumni, other diversified income, and distribution from its endowment. Of these, the endowment is the largest single contributor.

‘As academic income is growing at a rate lower than the growth in costs, Balliol increasingly relies on its endowment to support a range of critical objectives. These include scholarships and bursaries for students, funding of Fellowships, and meeting a range of ongoing capital commitments around the maintenance and upkeep of its physical assets at the College’s main site, its facilities at Jowett Walk and the graduate centre at Holywell Manor.

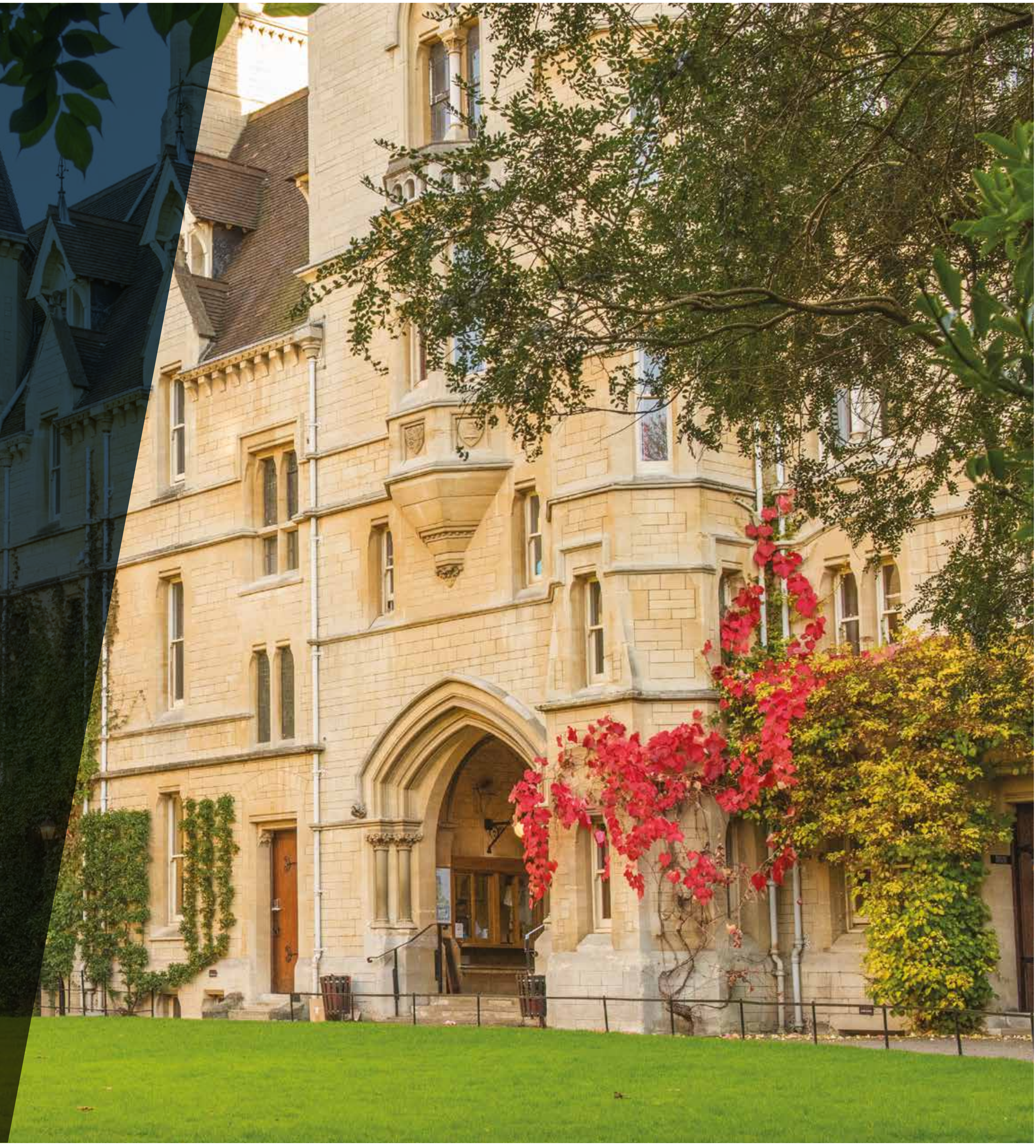
‘The importance of the Balliol endowment will increase in future, as other sources of income are projected to grow slowly, if at all, in real terms. Inflation of costs across our academic activities will undoubtedly provide future challenges. As a result, maintaining and growing the purchasing power of the endowment is the key to securing the long term future of the College, whilst at the same time providing a source of annual income to meet operating expenditure requirements.

‘In late 2013 Balliol commissioned an external review of its endowment strategy and portfolio. The objective was to secure investment performance within the College’s risk tolerances with third party managers who shared our long term investment horizon. OUem’s approach to investment provides a diversified exposure to a range of different markets and managers. Balliol’s Investment Committee regards the calibre of OUem’s research into underlying external managers as high and believes it will contribute to our investment returns over the long term. Its performance target, and income distribution policies, suit Oxford colleges well.

‘OUem has consistently exceeded its 5% real return objective since it was appointed by Balliol to manage a portion of its endowment in 2014.’

Richard Collier, Finance Bursar, Balliol College

Balliol College



Managing an endowment

Managing an endowment is unlike traditional investment management because of the nature of the beneficiaries. For most pools of capital, such as pension funds, the beneficiaries are alive. For endowments the beneficiaries may not even be born yet.

A careful balance is required between managing the interests of today's beneficiaries with those of future generations. To do this, we need to preserve the real value of gifts donated to fund activities in education and research and generate absolute real returns. This is different from the vast majority of other investors who may be concerned with liability matching or beating short term market indices, whether they go up or down.

Somerville College

Funding education and research

The University of Oxford is an institution which, since its very beginning, has relied on philanthropic support to advance its mission and to sustain academic freedom. The collegiate University receives gifts of all sizes and from all around the world. These are often endowment gifts – charitable funds held on trust to be retained for the benefit of the collegiate University.

Endowment gifts can be permanent, where the capital may not be spent, or expendable, where the capital may be spent if it is considered to be in the best interest of the trust. Gifts can be unrestricted or restricted to support specific activities or beneficiaries.

Over the centuries, many buildings and institutions, teaching posts, research posts and scholarships have been funded by the generosity of donors. Successful endowment management is designed to ensure these activities can be funded for current beneficiaries and future generations.

Setting an investment objective

An investment objective is the targeted average return of an investment over a long period of time. It is not a guaranteed return nor the return expected each year and, over short and medium time frames, the actual returns achieved will vary widely.

When establishing an investment objective the time period is key. Expendable endowment gifts designed to be spent in a short time horizon – say two to three years – are intolerant of wide fluctuations in value. In investment terms, we refer to this as volatility.

Permanent endowments have the ability to withstand higher levels of volatility because each year only a portion of the value is required to be spent by the trust. There is a clear trade off between the requirement for liquidity – the degree to which an asset or security can be quickly bought or sold in the market – volatility and investment return.

Real returns

A real return is a return that is in excess of inflation. Inflation measures the change in the value of goods and services in an economy versus the value of money. If inflation is generally positive, the relative value of goods and services versus money is rising, and goods appear more expensive.

Endowments need to generate positive real returns, so that their purchasing power rises over time rather than falls, and activities endowed today can continue in perpetuity.

Long term objectives

Compounding returns

Over long time periods, investments in equities have proved one of the most effective ways of generating investment returns. Long term studies of UK equities show that, from 1900 to 2017, equities returned an average of 5.5% per year after inflation, as shown in the chart below.

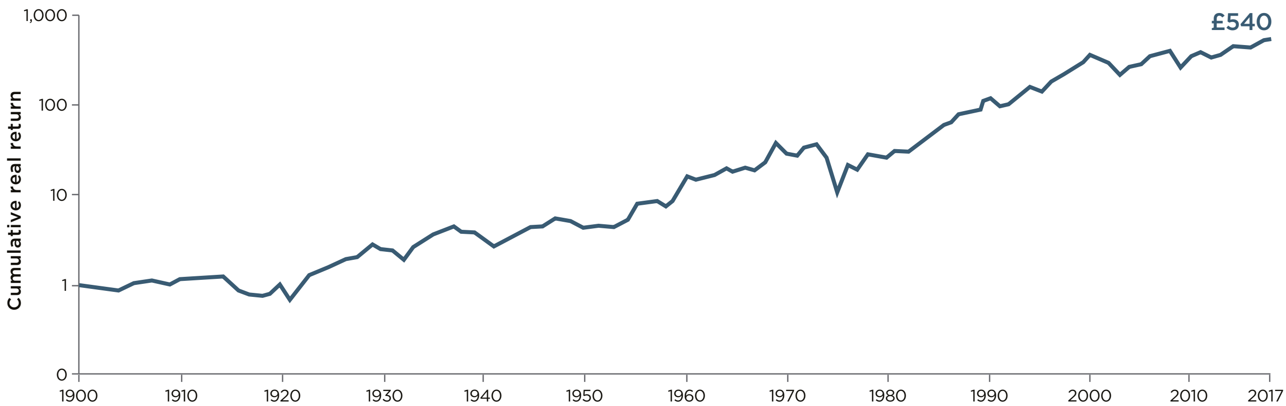
The effect of compounding returns over long time periods is also shown in the chart. For example, £1 invested in equities in 1900 would be worth £540 at the end of 2017, in real terms.

However, these long term average numbers mask significant volatility in year to year returns. This highlights the need to consider volatility, as well as return, when setting an investment objective for endowments that need to produce a sustainable annual distribution.

Investment objective

The Oxford Endowment Fund's investment objective is to produce an average (often referred to as annualised) real return of 5% in excess of the Consumer Price Index (CPI) over the long term. We aim to achieve an equity-like return while experiencing lower risk, as measured by volatility of returns, than would be associated with an investment in equities.

Cumulative real returns of equities (from 1900 to 2017)



Source: Dimson, Marsh, Staunton, Credit Suisse Global Investment Returns Sourcebook 2017.

A sustainable distribution

Distribution policy

Every year part of the Oxford Endowment Fund's total return is distributed to investors in order to help them meet their spending obligations. The balance is retained to protect the real purchasing power of the Fund for future generations. The distribution is similar to the concept of a dividend, which is when profits are returned to investors. However, we have to ensure that the distribution is directly linked to the performance of the Fund, otherwise we could eat into the capital originally invested.

Therefore, there is a specific distribution policy to distribute 4.25% of the average of the past 20 quarters' NAV, subject to a cap of 10% increase and a floor of the last year's distribution. This formula has the benefit of providing a more predictable stream of income.

The distribution in practice

In practice, a trust that invested a £10m gift in 2009 would have received a total of £4.6m in distributions to fund education and research so far.

This represents an increase in money distributed annually of 42.9% since 2009 against a 22.7% increase in CPI, so purchasing power has been maintained. The distribution policy has ensured a stable amount of money is received each year, linked to the underlying value of the trust.

The total annualised return has been 10.0% since 2009, and the gift would be worth £16.6m further to the 2017 distribution.

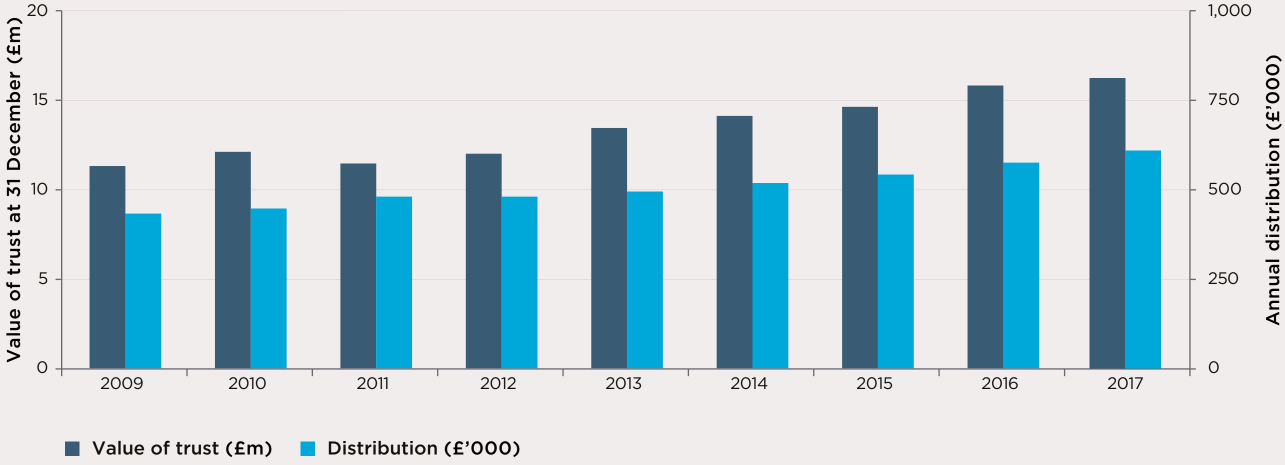
After inflation the return has been 7.7%, meaning that the value of the trust has grown substantially in real terms.

The annual distribution has increased by

42.9%

since inception

£10m gift invested on 1 January 2009



A beneficiary: The Moritz-Heyman Scholarship Programme

The Moritz-Heyman Scholarship Programme enables students with academic potential, whatever their backgrounds, to benefit from a full Oxford experience without financial constraints.

In 2012, Sir Michael Moritz and Ms Harriet Heyman pledged £75 million for a visionary programme to support undergraduate students at Oxford. At the time, it was the largest ever philanthropic gift for undergraduate financial support in Europe.

With matching from the University, and a challenge to raise an additional £150 million, an unprecedented £300 million will be available. The University's matched funds are invested in the Oxford Endowment Fund through the central University's shareholding. Successful endowment management is designed to grow this money over the generations, so that the scholars of tomorrow will experience the same financial assistance, after inflation, as those today.

Since 2012 the Moritz-Heyman Scholarships have benefitted 775 full-time undergraduate students at Oxford from households with incomes below £16,000. In the last year, Moritz-Heyman Scholars represented roughly 5% of all UK and EU undergraduates at Oxford. The programme is open to all academic disciplines with a preference to students studying subjects in Science, Technology, Engineering and Mathematics. The Moritz-Heyman Scholars receive one of the University's most generous packages of financial support which includes a tuition fee reduction of £3,000 and a bursary to be used towards living costs.

Alongside financial support, the scholars have access to exclusive internship opportunities as well as an additional internship bursary to enable them to undertake work experience in both the public and private sectors during their degree. In the academic year 2016-17, nearly a third of Moritz-Heyman Scholars took advantage of a range of internship schemes offered by the Internship Office. Volunteering is another key component of the programme and Moritz-Heyman Scholars are expected to complete 25 hours of outreach work to encourage school and college leavers to apply to university, or community volunteering. During the academic year 2016-17, the Moritz-Heyman Scholars contributed 15,608 volunteering hours.

Moritz-Heyman Scholarship reception

Lottie, Medicine
I feel lucky and very privileged to be a Moritz-Heyman Scholar. It has made my time in Oxford far less stressful than it otherwise would have been, which is something I am extremely grateful for. I have been able to not only concentrate on my degree but also participate in two sports (gymnastics and cheerleading) which I love doing.

Emily, Chemistry
My year as a Moritz-Heyman Scholar has been very enjoyable – from the extra money the scheme provides which has allowed me to feel comfortable in the Oxford atmosphere, to giving me the freedom this summer to have more time to study. In addition, the volunteering I have done as a result of Moritz-Heyman has been rewarding and grounding.

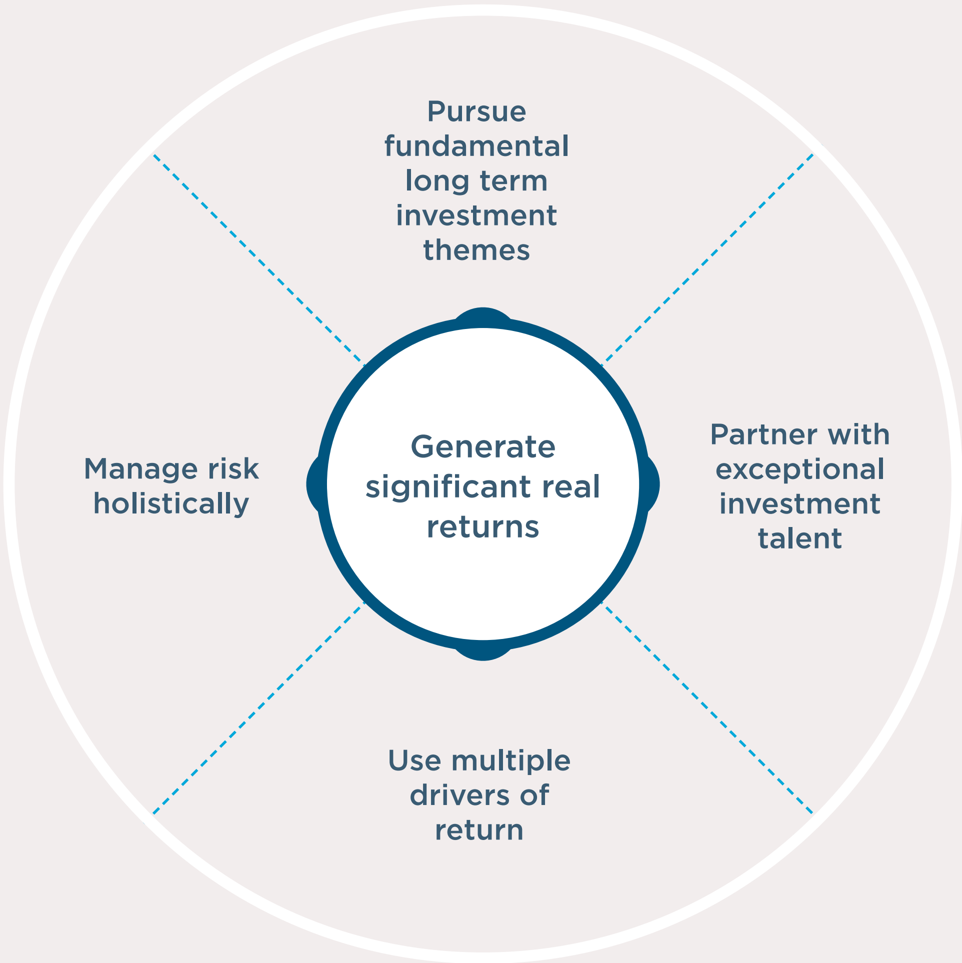
Reilly, Computer Science
This year was my third year at Oxford and I was proud to achieve a 2:1 grade. Additionally I gained a Blue in Rugby League with the support of the Moritz-Heyman Scholarship. The bursary helped cover the costs associated with playing university sport, such as the preseason training camp, team kit and equipment.

Investment philosophy

At OU Endowment Management, we believe charitable institutions deserve the highest standards of investment management. We never forget our purpose – to maintain and grow the real value of endowments, while providing a stable stream of income, to help our investors achieve their long term aims.

Our investment philosophy consists of four pillars that shape our decision making. It enables us to refine the investment universe and identify world class investment opportunities whilst maintaining capital in order to generate significant real returns.

St Edmund Hall



Pursue fundamental long term investment themes
One of our core competitive advantages is managing perpetuity capital. We pursue long term themes across asset groups, where we believe tensions, changes or inefficiencies in economies and markets provide investment opportunities.

Use multiple drivers of return
We believe that owning equity in productive businesses is the best way for us to achieve our investment objective. However, we recognise the cyclical nature of markets and we also invest in assets where returns are not dependent on the broader equity market cycle, such as property and credit. Alongside this, we diversify the fund across strategy, geography and sector.

Partner with exceptional investment talent
We believe that, in most circumstances, active management with the right investment group leads to superior returns. We build constructive relationships and interact regularly with managers, partnering for the long term and across market cycles.

Manage risk holistically
Effective risk management is a mindset, ingrained in the company culture and investment philosophy, not the activity of one department or division. As part of this, we constantly evaluate a range of metrics and exposures to ensure that our fundamental views produce an optimal portfolio positioning.

Asset allocation

Derived from our investment philosophy, our asset allocation is designed to generate significant real returns. This naturally leads to a focus on investments in equities, with property and credit used as diversified sources of return. We refer to these as risk assets.

Worcester College

It is our belief that there are essentially two main drivers of investment returns across all risk assets: growth or buying at less than intrinsic value. This is true in broad terms for all risk assets: equity (public or private), credit and property, and we analyse all investments on this fundamental basis. This is regardless of whether it is a public equity strategy, a private equity fund or directly owned property.

In most circumstances, we believe that active management, with the right investment group, leads to superior returns. When working with investment partners, we prefer individuals and groups who have significant proportions of their own personal wealth invested alongside our investors, and where gathering assets is not a priority. We look for groups with deep expertise in their chosen market or strategy, coupled with a stable underlying capital base, allowing them to take long term views. We do not value time spent on the over assessment of benchmarks, and concentrate on managers who are empowered to focus capital in the best opportunities they can find, wherever they might be.

In addition to our risk assets, we have an allocation to cash and bonds which enables us to balance the overall liquidity profile of the Fund, ensuring we can meet all our short and medium term liabilities, and have the appropriate flexibility to act on opportunities as we see them. Managing risk holistically, we can tilt the portfolio to areas we assess to be more attractive at a particular point in time, depending on our investment views.

Equity

Equity investments are used as the principal driver of return for the Oxford Endowment Fund. Opportunities in public equity are viewed on at least a three to five year basis where there are significant returns available from investing in productive, growing or otherwise valuable corporations globally. We see private equity as a further reflection of this, but where the companies involved are normally outside the scope of public markets for either a situational or strategic reason. In every case we follow the same principles in choosing our investment partners: groups who have their own capital at risk on the same terms as us, seek capital gains and not growth in assets under management, and constrain their focus to areas where they have world class expertise.

Public equity

We seek to invest the Fund's capital in productive corporations quoted in the public markets, either by partnering with world class, active investment groups, owning shares directly or using broader indices to gain passive and highly liquid exposure. In the majority of cases, we have found that with the right structure in place, the most effective approach is partnering with exceptional investment talent in specific strategies and markets.

Private equity

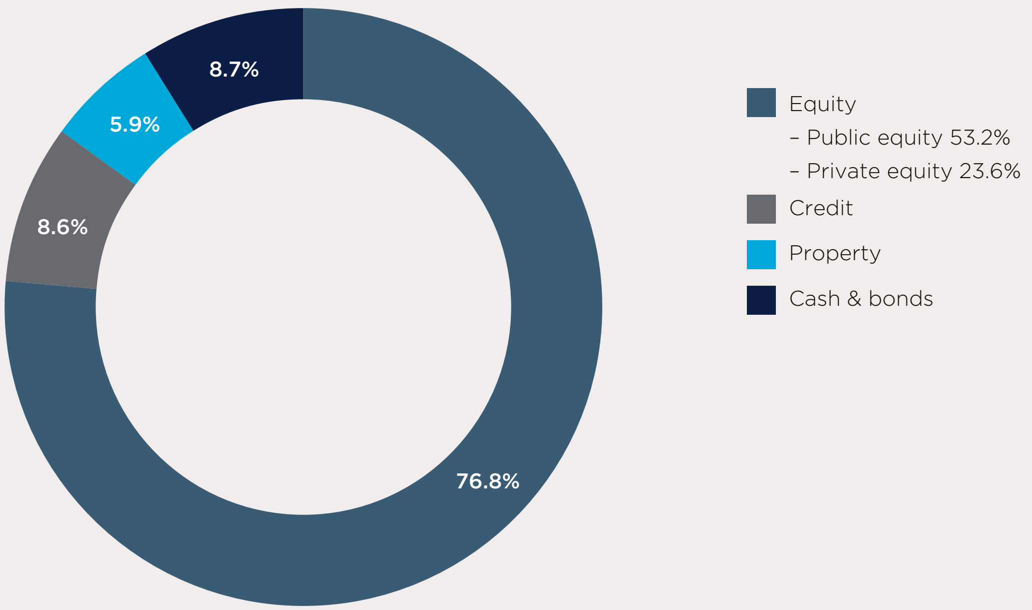
Our genuine multi-year time horizon enables us to invest in private equity. In this area, we focus on groups accessing corporate equity which is not available on the public market. As a result, underlying businesses tend to be small, high growth businesses not yet ready for public listing, misunderstood businesses with specific capital requirements or companies that are in need of long term restructuring. Some sector specialisms also lend themselves to a private equity approach.

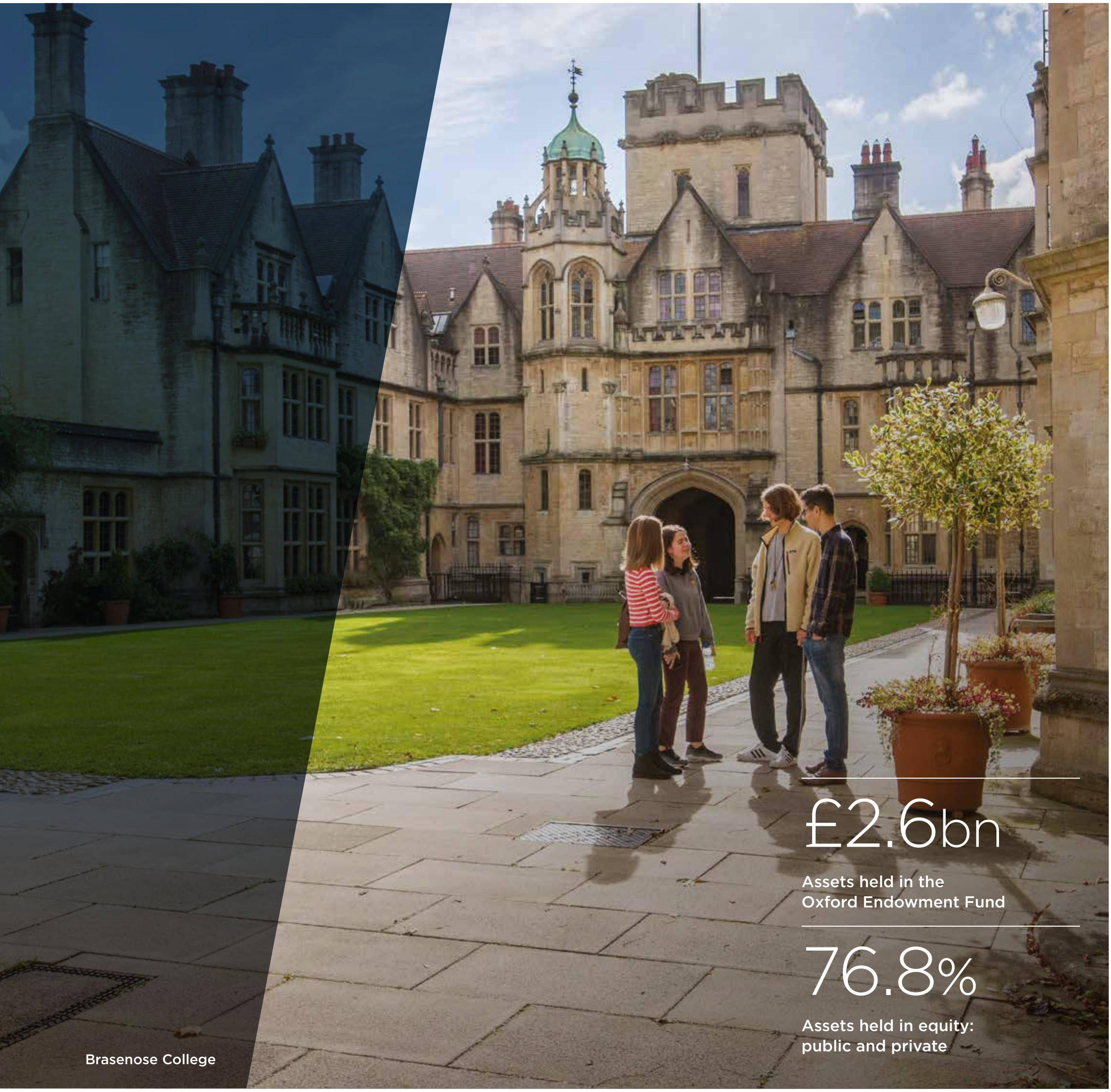
Asset allocation
(continued)

Credit
Our credit managers consist of specialist groups focused on complex, specialist situations working across the credit spectrum – from direct lending to the restructuring of corporates. The aim of these investments is to give us access to both regular, performing loans that accrete value to the Fund regardless of broad economic conditions, and larger pay-offs from specific events in more complex or stressed credit structures, with less correlation to equity market returns. This helps diversify the return drivers of the Fund and lower overall volatility.

Property
We manage the majority of our property portfolio directly. We have a range of properties across the UK which can be broadly categorised as rural, residential, commercial and strategic investments. Returns are achieved through a mix of income and capital growth – generated from active asset management and long term strategic investment.

Asset allocation at 31 December 2017





Brasenose College

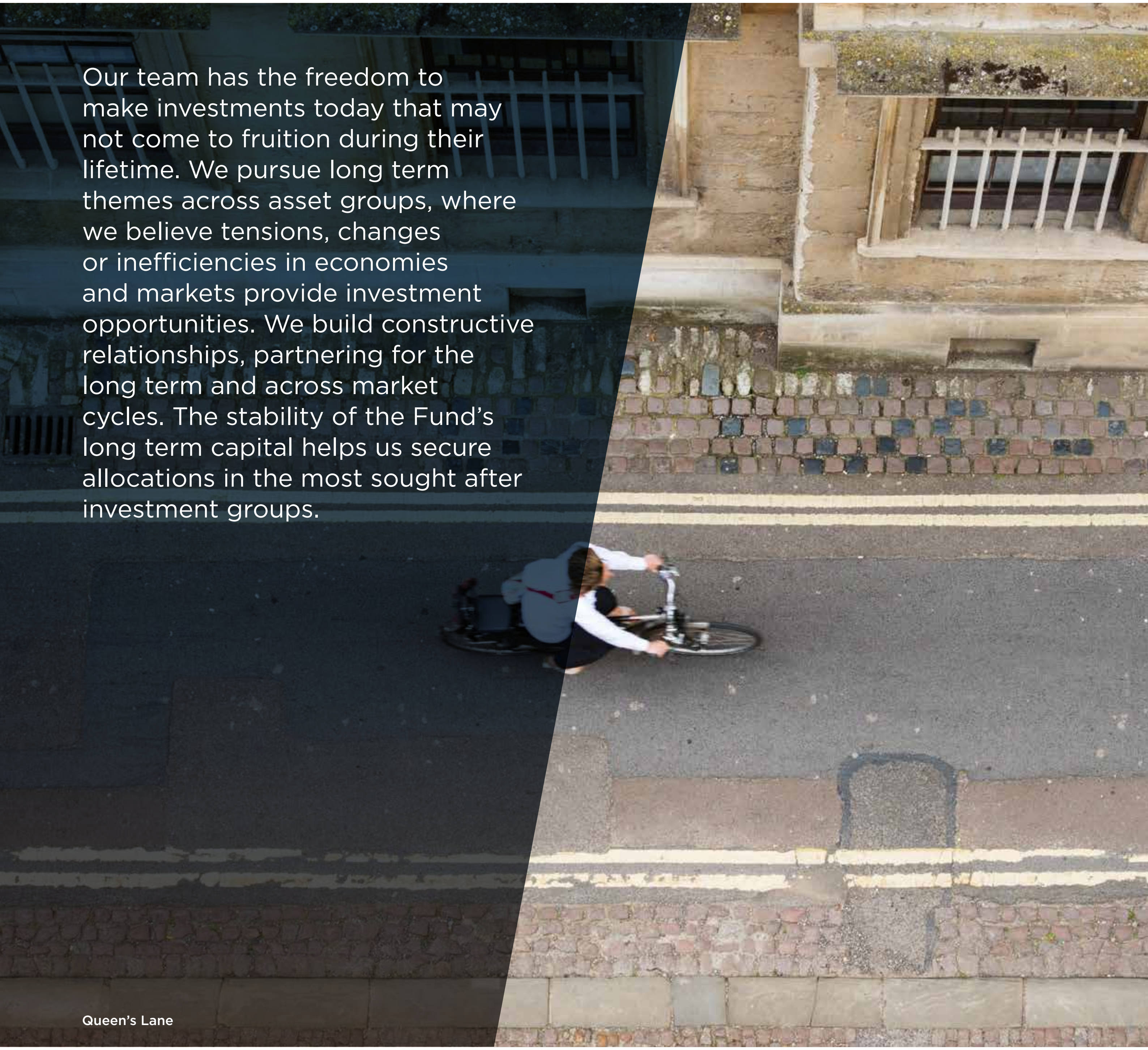
£2.6bn

Assets held in the Oxford Endowment Fund

76.8%

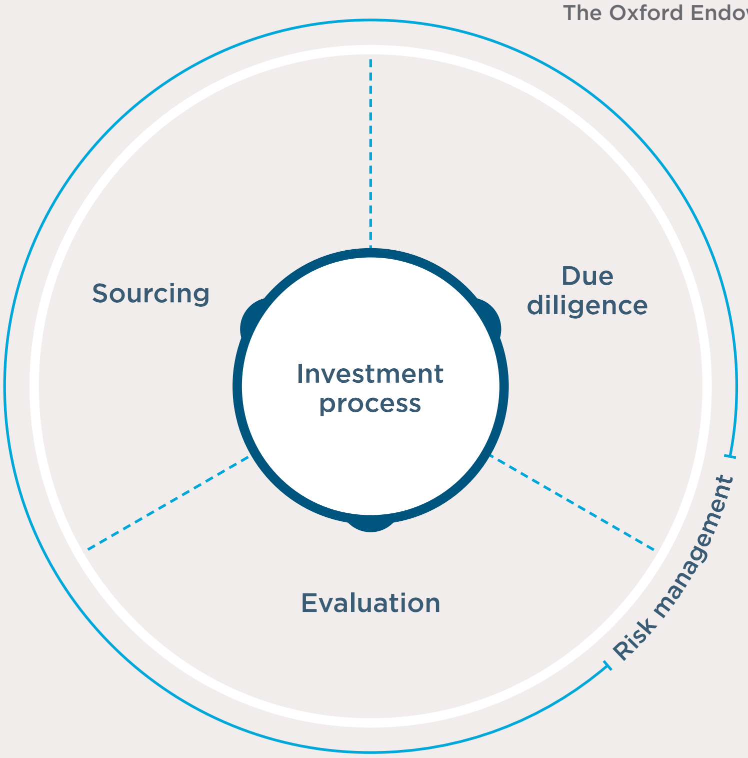
Assets held in equity: public and private

Investment process



Our team has the freedom to make investments today that may not come to fruition during their lifetime. We pursue long term themes across asset groups, where we believe tensions, changes or inefficiencies in economies and markets provide investment opportunities. We build constructive relationships, partnering for the long term and across market cycles. The stability of the Fund's long term capital helps us secure allocations in the most sought after investment groups.

Queen's Lane



Sourcing

In a world focused on short term results, many investors choose to invest in markets rather than businesses. Investment talent is difficult to find and can be hard to access, so investors have increasingly defaulted to simply owning every company in an index, regardless of the quality of the management team or the long term viability of the business. Our investment philosophy is designed to refine our potential investor universe. We look for investment groups that have: aligned interests with their investors; deep expertise in their chosen markets; a small number of holdings; exceptional understanding of their investments and constructive relationships with OU Endowment Management.

During sourcing, we will screen ideas on a variety of factors including market structure, experience of team and return potential; as well as assessing risk factors of a strategy such as social, environmental, political and reputational.

Due diligence

Before any investment is made, we complete a detailed due diligence process to ensure an idea matches our expectations. As an endowment with a dedicated investment team we can often invest in new areas that require more complex diligence. This involves significant analysis of the investment thesis and its ability to contribute to the long term performance of the Oxford Endowment Fund, alongside extensive operational due diligence to ensure robust infrastructure and controls. We spend considerable time understanding the teams and individuals who will steward the assets.

Evaluation

We have an ongoing dialogue with our investment managers to ensure a full understanding of progress against the stated strategy, assets held and potential risks within the Fund. We prefer groups whose investment style is to hold a concentrated number of companies and engage with their management teams regularly.

We are disciplined with the number of investments made, and our ongoing evaluation includes analysis of: underlying companies, return objective, organisational changes and social, environmental, governance or reputational concerns.

Risk management

OU Endowment Management has a clear purpose – to protect and grow the charitable assets under its management to fund education and research.

In order to be an effective long term investor of these assets, risk analysis is an integral part of our investment decision making and portfolio management. We constantly evaluate a range of metrics and exposures to ensure that our fundamental views produce an optimal portfolio positioning.

Linacre College

Performance and risk analysis

We have a disciplined approach to the number of active relationships with investment groups in the portfolio and an exceptionally high information flow from these groups. We have developed our own in-house performance and risk system that gives us the ability to quantitatively review performance, understand the risks and evaluate investments on a real time basis.

Alongside this, through regular engagement with our underlying investment groups, we can make more qualitative judgements on valuations and market participants' behaviours. We never seek to forecast macro events but we look to position the Fund on the basis of these variations in sentiment.

The effect of a diversified approach is to have engines of return that function across environments. We can manage the sensitivity of the Fund to equity markets by altering both overall equity exposure and the nature of its underlying equity investments.

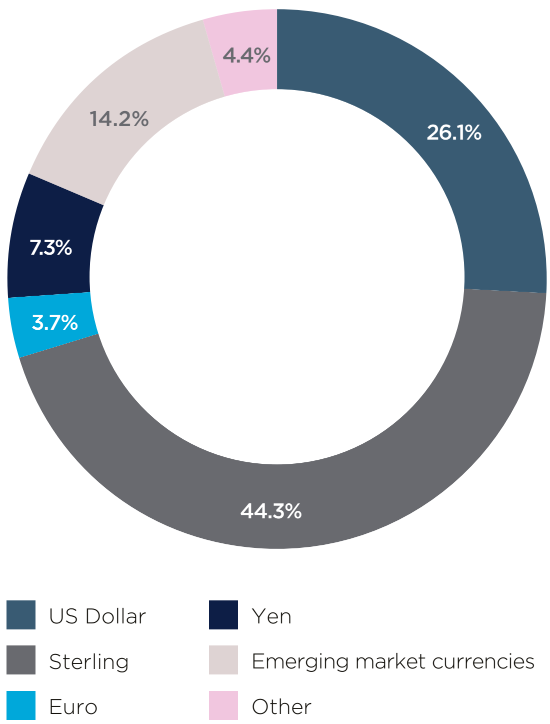
Liquidity management

There are other facets of portfolio risk that are important to manage. The liquidity of the Fund is carefully monitored and each year we retain at least the expected value of next year's distribution in Sterling denominated short term bonds, giving effective certainty to our investors of receiving their annual distribution.

Currency exposure

Currency exposure of the Fund is regularly assessed and, where appropriate, non-Sterling exposure is hedged to reduce currency risk. At any one point in time, 40% to 70% of the Fund will be in Sterling or hedged back to Sterling.

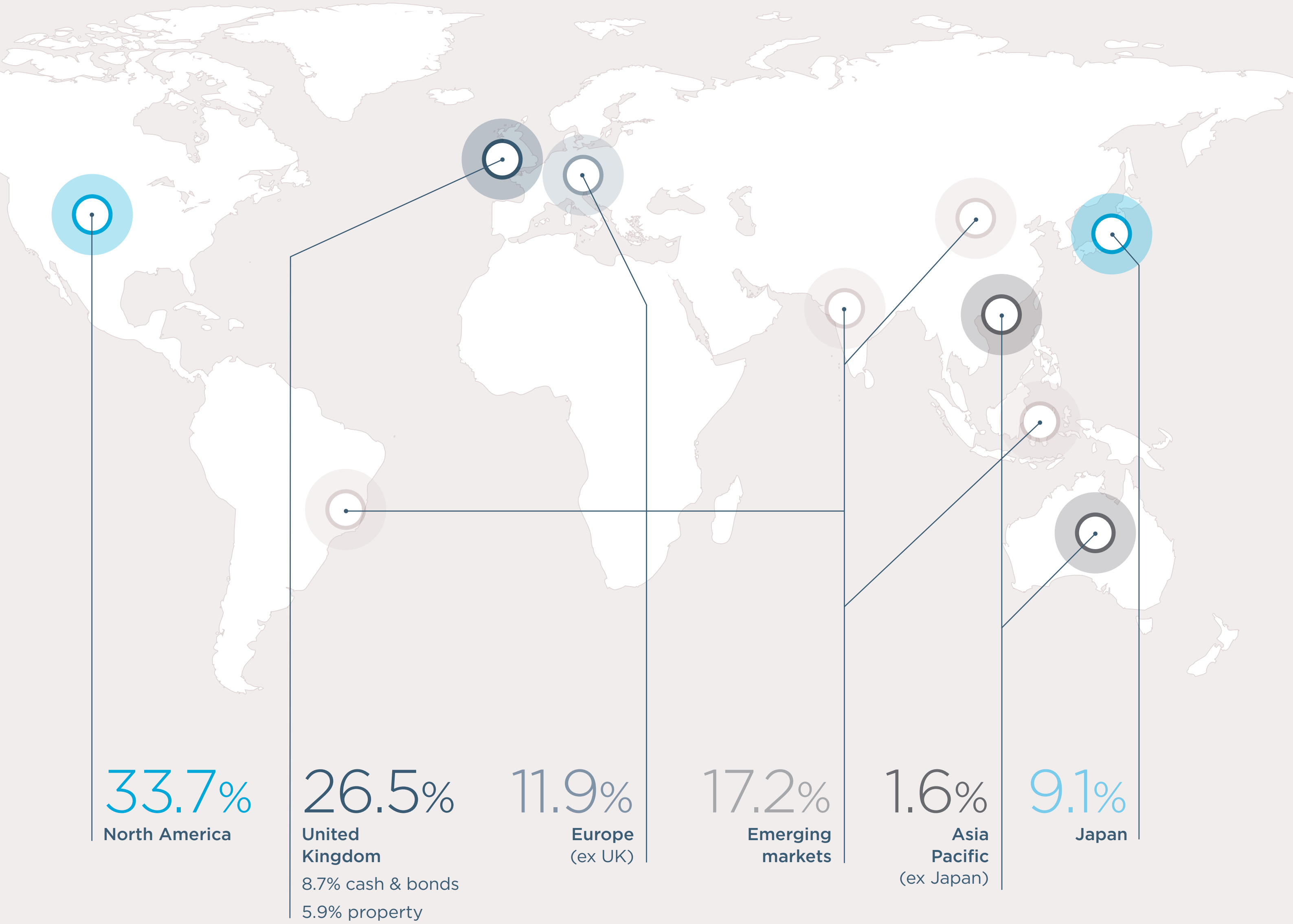
Currency exposure at 31 December 2017



Risk management
(continued)

Geographic exposure at 31 December 2017

The geographic exposure of the Oxford Endowment Fund is regularly assessed and managed. The geographic distribution of the Fund is illustrated below.



Sector exposure

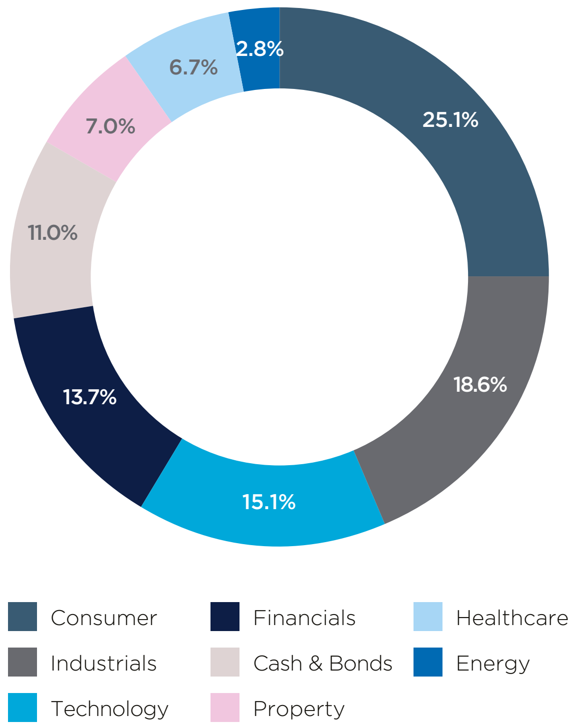
The pursuit of key themes means that whilst the Fund is broadly diversified, there is a bias towards certain sectors where we see the highest potential returns for the capital. For example, this has led to considerable investment in consumer franchises which have been effective ways for us to harness growth in both developed and developing markets.

Conversely, we have seen less opportunity for growth in more mature, capital intensive and heavily regulated sectors such as energy. At 31 December 2017, there was 1.4% exposure to energy exploration and extraction in the Fund. Additionally, there was 0.9% exposure to energy equipment and services, and 0.4% in storage and transportation. This includes equity and credit investments in both private and public markets.

This is significantly lower than energy's natural weighting in equity markets. To add context to these numbers, if the Fund were invested on a passive basis in the MSCI World Index, a proxy for global equity markets, at 31 December 2017 exposure would be 6.3%, and if invested in the FTSE 100 Index, a proxy for UK markets, the exposure would be 15.4%.

The following chart shows estimated look through sector exposure aggregated from all of our investments, and includes where a manager has assets held in cash.

Sector exposure at 31 December 2017



25.1%

Exposure to consumer sector

15.1%

Exposure to technology sector

Risk management

Environmental, social and governance

We believe that to be a successful long term investor, analysis of environmental, social and governance risks should be integrated into holistic risk management. We have robust mechanisms in place to ensure that these risks are fully considered in all investment decisions.

Green Templeton College

Screening

We screen ideas on a variety of factors including market structure, experience of team and return potential; as well as assessing social, environmental, political and reputational risks. We immediately reject investment ideas where there is poor governance and / or high potential for detrimental social or environmental outcomes regardless of the sector.

Due diligence

Before any investment is made we undertake a detailed due diligence process to ensure an idea matches our expectations with regards to environmental, social and governance risks. We use the United Nations Global Compact's principles focused on: human rights, labour practices, environment and anti-corruption, to guide our questioning to ensure that managers are building these areas into their own due diligence. If we are not happy with the outcome of the due diligence process, we will not invest in the idea.

Engagement

Our ongoing evaluation of the groups we invest in involves frequent contact and dialogue on a range of topics including social and environmental concerns. We prefer investment managers that have a concentrated number of holdings and engage with the management teams of underlying companies regularly. These groups focus on environmental and social issues as part of being a great business owner.

Collaboration

OU Endowment Management has forged a wide reaching professional network, which spans all levels of our team. All team members are encouraged to engage with peers to constantly evaluate our processes. We take best practice from a variety of frameworks, including the United Nations-supported Principles for Responsible Investment (PRI) and the United Nations Global Compact, and we will join organisations that we feel are appropriate to further enhance our processes. We are members of the Institutional Investors Group on Climate Change.

ESG risk management in practice

The outcome of our integrated approach to ESG risk management is seen across our portfolio. For further examples, please visit www.ouem.co.uk

The Radcliffe Camera

Energy related investments and fossil fuels

The charitable endowment held in the Oxford Endowment Fund supports one of the collegiate University's founding objectives, to sustain academic freedom. The large majority of scholarships and many research posts are funded in full or partially from the endowment. A diversified pool of assets gives the endowment the best chance of achieving an investment return to provide an income for both beneficiaries today, and for future generations.

- In 2015, the University of Oxford's Council carried out an extensive review of energy related investments. This involved a wide consultation across the University. Council concluded that 'OUem already has in place robust mechanisms for ensuring that environmental and social factors are fully and properly taken into account in OUem's investment decision'.
- Part of this review requested that OUem avoid direct investments in coal and oil sands, and this restriction is incorporated into our investment process.
- The Oxford Endowment Fund has low exposure to the wider energy sector, particularly when compared to energy's natural weighting in equity markets. There is just 1.4% exposure to extractive industries, with a full sector breakdown of the Fund found on page 27.
- We have also backed an investment group which is actively focused on analysing the resource efficiency of companies and their use of energy, water and waste; under the thesis that the most efficient companies should outperform their peers over the long term. OUem backed the team in 2010, helping to found the business. This followed significant research into the issue of carbon emissions, the inevitable reduction on the dependence of fossil fuels, and how this could be implemented to generate returns for the Fund.
- OUem is a member of the Institutional Investors Group on Climate Change (IIGCC), a group of institutional investors focused on climate change.

Voting

In some instances, the Fund will hold public equity directly and we retain the voting rights of those shares. In 2017, further to careful consideration, we voted on 665 resolutions for listed companies. The vast majority of votes relate to reappointment of board directors or auditors, remuneration or share allocations.

Restrictions

We incorporate some specific restrictions into the investment process. The Oxford Endowment Fund does not hold direct investments in tobacco companies, manufacturers of weapons illegal under UK law, or companies whose main business is the extraction of coal and oil sands.

Performance highlights

The Oxford Endowment Fund aims to preserve and grow the value of perpetuity capital across the collegiate University of Oxford, while providing a sustainable income stream.

£1.2bn

Growth through performance since inception

Corpus Christi College

Investment objective

The specific investment objective of the Oxford Endowment Fund is to grow our investors' capital by an average of 5% per annum in real terms, and to achieve this at a lower volatility than would be experienced by investing solely in the public equity markets. This investment objective is long term and not a year by year measure.

Volatility

Since opening to collegiate investors, the annualised volatility of the Oxford Endowment Fund has been 5.7%. The volatility of the MSCI World Index, a proxy for global equity markets, has been 12.2% over the same period.

136.6%

Cumulative return since inception

10.0%

Annualised return since inception

OEF annualised net returns

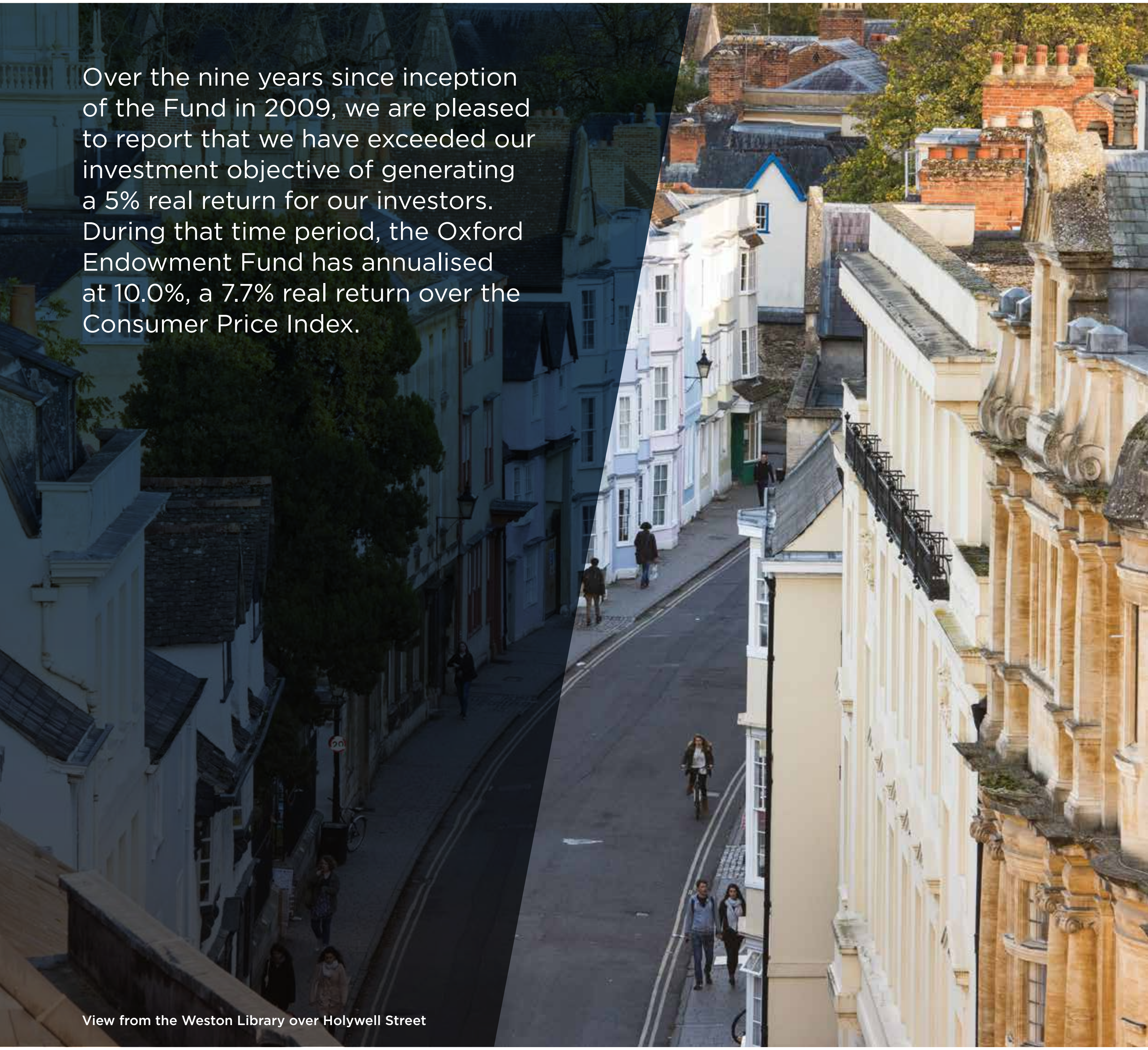
	Nominal %	CPI %	Real %
3 years	11.0	1.6	9.4
5 years	11.7	1.5	10.2
Since inception	10.0	2.3	7.7

OEF cumulative net returns

	Nominal %	CPI %	Real %
3 years	36.7	4.8	31.9
5 years	74.0	7.5	66.5
Since inception	136.6	22.7	113.9

Note: All returns shown in this report are time weighted returns calculated by OU Endowment Management, unless otherwise stated.
Returns are quoted net of all fund expenses, including custody, administration and OU Endowment Management fees.
Inception is 1 January 2009.

Performance and activity



Over the nine years since inception of the Fund in 2009, we are pleased to report that we have exceeded our investment objective of generating a 5% real return for our investors. During that time period, the Oxford Endowment Fund has annualised at 10.0%, a 7.7% real return over the Consumer Price Index.

View from the Weston Library over Holywell Street

Managing endowment capital gives us a genuine multi-year time horizon and investments are made for the very long term. While short term performance over fixed periods therefore provides little informational value, the Fund returned 9.2% in 2017.

Although the asset allocation of the Fund has evolved over time, it has always been heavily focused on risk assets: equity (public and private), credit and property.

> Our fundamental, long term investment themes guide our exposures and positioning.

Our long term themes are expressed throughout equity, credit and property investments and also reflected in geographic and sector exposures (shown on pages 26 and 27). As examples, we have significant exposure to innovation across a range of sectors such as technology, consumer products and pharmaceutical research in both public and private equity. Our interest in the theme of domestic growth drivers in emerging markets appears in publicly quoted companies but also in exciting niche private strategies. In credit strategies, a significant amount of capital is being used to fund growth and structural change in markets such as India and China.

The Fund remains predominantly invested in equity, both public and private, and in 2017 the most significant change to the Fund was the increase in exposure to public equity at the expense of cash. We invested an additional 6.3% into our public equity managers in early 2017, finishing the year with this asset group accounting for 53.2% of the total Fund.

We continued to commit to private equity and many of our existing managers came back to the market during the year. We also backed some new groups raising their first funds in the US, UK and China. In private equity we remain focused on growth equity, niche sector strategies and venture investments.

Our headline property exposure changed little over the year but this number masks a significant change in the composition of our underlying assets. We continue to build a portfolio of UK commercial and residential properties to complement our holdings in strategic land and rural estates. The market is challenging but we have been successful in building a solid commercial portfolio. We are able to access a wide variety of strategies and our in-house team has the experience and expertise to take on assets with complexity, duration and asset management opportunities.

Since the Fund's inception in 2009, global equity markets have enjoyed an extended period of strong performance. Against this backdrop, our public equity managers have returned 12.5% annualised since inception, and 14.5% annualised over the last five years – returns well in excess of our investment objective. During this period, simply investing passively will have also produced attractive returns; however, we are firm believers that, over the long term and in a variety of different market environments, active management with the right partner is the most effective form of stewardship for the endowment. Partnering with outstanding groups, whose interests are aligned with ours, who carry out extensive research and take meaningful ownership of businesses over the long term, means we are invested in the most attractive businesses globally with detailed knowledge of the risks involved. This is very different to being invested in every company listed in the largest public indices and weighted solely by market capitalisation. Given the possibility that the environment for global equity may change, active management will be even more valuable to ensure we have exposure to well managed businesses during conditions that could be quite different to those over the last nine years.

Performance and activity
(continued)

Private equity continues to make a significant impact. The net IRR since inception is 16.3%, which is pleasing given the Fund has grown substantially and a large portion of capital has been invested for less than five years. In 2017, we saw significant distributions from our older funds (vintage years 2009-2012) generated by a range of trade sales and initial public offerings of underlying companies.

Credit over the last five years has been a strong contributor to the Fund returning 10.9%. We have evolved our credit exposure over time and will continue to do so as opportunities arise. Today we own investments in direct lending and complex special situation strategies in the US, Europe and Asia; all of which have a range of different return drivers to equity investments.

Public equity annualised net returns

to 31 December 2017	%
3 years	14.5
5 years	14.5
Annualised since inception	12.5

Private equity annualised net returns

to 31 December 2017	%
3 years	16.1
5 years	18.6
Annualised since inception	13.5

Credit annualised net returns

to 31 December 2017	%
3 years	11.2
5 years	10.9
Annualised since inception	10.7

Property annualised net returns

to 31 December 2017	%
3 years	6.0
5 years	8.0
Annualised since inception	8.7

Note: All returns shown in this report are time weighted returns calculated by OU Endowment Management, unless otherwise stated.
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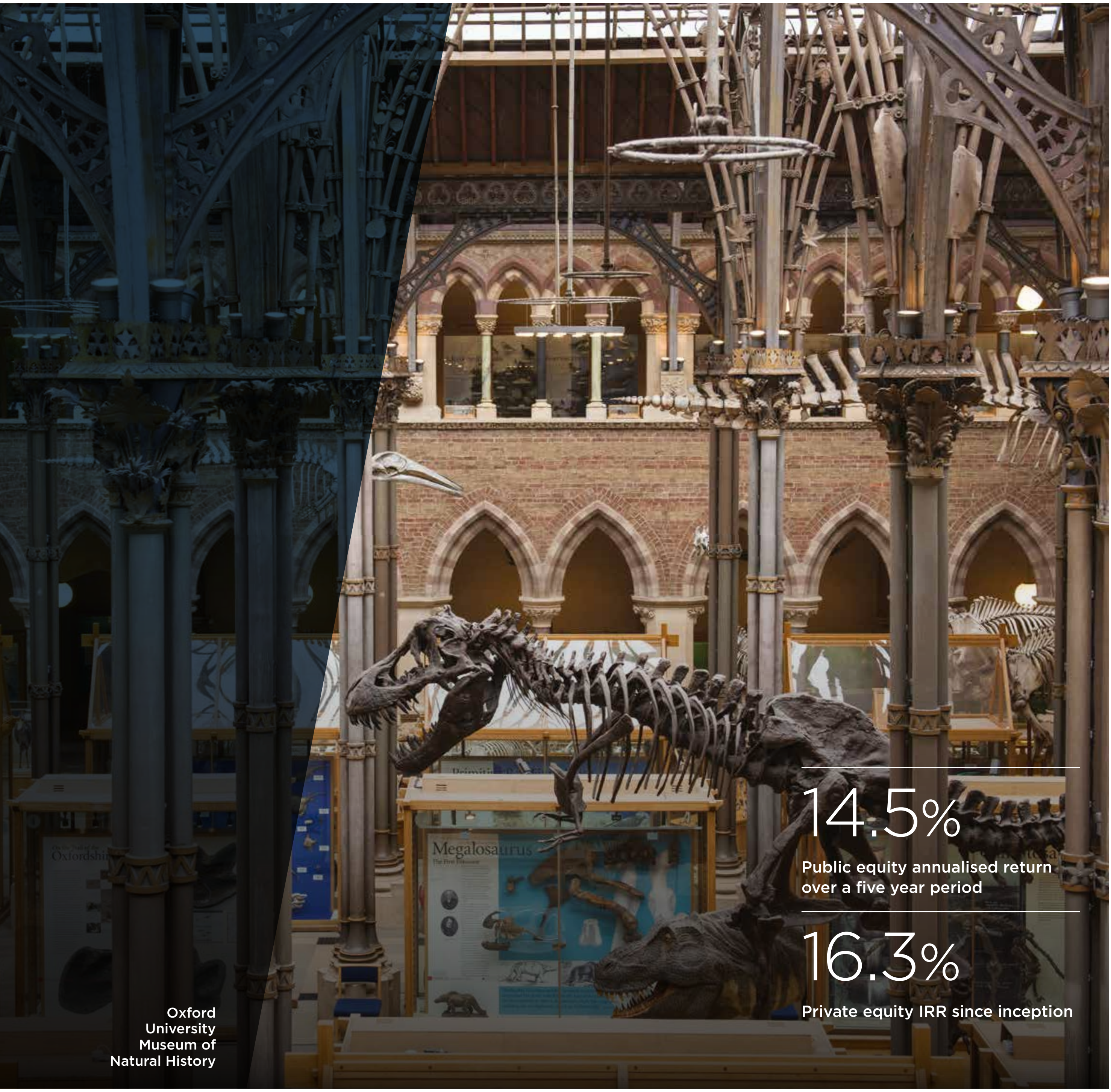
Inception is 1 January 2009.



Oxford University Museum of Natural History

14.5%

Public equity annualised return over a five year period

16.3%

Private equity IRR since inception

OU Endowment Management team

OU Endowment Management is a regulated investment manager and has full delegated authority for investment decisions. There are 21 team members, based in Oxford alongside our investors.

OUR SENIOR TEAM

Sandra Robertson
Chief Investment Officer
and Chief Executive Officer

Leads investment decisions and is responsible for overall strategy of the business and ensuring the success of the company. Sits on the OU Endowment Management board of directors.

Joined OU Endowment Management at its inception in 2007 having previously spent 14 years at the Wellcome Trust, most recently as Co-Head of Portfolio Management, sitting on its investment committee from 1997 to 2007.

Sandra is a Trustee of The Queen's Trust.

Fay Ashwell
Chief Operating Officer

Leads investment operations and the day to day running of OU Endowment Management, managing a team of professionals focused on performance measurement and reporting, company risk management, audits and controls. Sits on the OU Endowment Management board of directors.

Joined OU Endowment Management in November 2007 having previously spent eight years at the Wellcome Trust, most recently as Head of Investment Operations.

Fay is a graduate of the University of Kent (BSc Hons) and qualified as a Chartered Accountant with Arthur Andersen in 1999.

Jack Edmondson
Deputy Chief Investment Officer

Responsible for oversight and evaluation of investments across all areas, as well as resource management of the investment team.

Joined OU Endowment Management in 2009 from Exponent Private Equity, having worked at McKinsey & Company and Merrill Lynch Investment Managers.

Jack is a CFA Charterholder, an Associate Fellow at the Saïd Business School, and a member of the Associated Faculty at the Blavatnik School of Government. Jack has an MBA with distinction from the University of Oxford, and he is a graduate of Durham University.

Robert Godfrey
Investment Director

Responsible for oversight and evaluation of all property investments across commercial, residential and agricultural sectors.

Joined OU Endowment Management in 2014 having previously been a Director of Savills UK where he worked for 11 years in its national investment team, having worked at Cluttons in its commercial and residential divisions.

Robert has been a qualified member of the Royal Institution of Chartered Surveyors since 1996 (MRICS). Robert is a graduate of Birmingham City University and a member of the Investment Property Forum.

INVESTOR RELATIONS

Antonia Coad
Head of Investor Relations and External Affairs

Manages investor reporting and provides a single point of contact for all investor enquiries. Ensures there is a consistent approach to integrating environmental, social and governance risk management across the portfolio.

Joined OU Endowment Management in 2014 from a financial reporting agency.

Antonia is a graduate of the University of Oxford (Worcester College).

INVESTMENT TEAM

A broad based investment team focused on:

- Sourcing and due diligence of new ideas
- Evaluation and engagement with investment portfolio
- Risk management and macro analysis
- Portfolio management

OPERATIONS TEAM

A dedicated operations team responsible for:

- Robust operations and controls
- Extensive operational due diligence
- Performance and analysis systems
- Information systems, technology and cyber security
- Data integrity
- Compliance and regulatory reporting
- Business support and administration

Investment Committee

The Investment Committee acts in an advisory capacity. It is comprised of experienced investors from across financial services, who bring a wealth of investment expertise and knowledge of managing significant endowments and foundations.

Sir Paul Ruddock

is the Chairman of the Investment Committee. He is the former commissioner of the National Infrastructure Commission, a trustee of the British Museum, a trustee of the Metropolitan Museum of Art, New York where he is also Co-Chair of the International Council, Chairman of the Expert Panel of the First World War Centenary Cathedral Repairs Fund, a member of The Bard Graduate Center Executive Planning Committee, a member of the J Paul Getty Trust President's International Council, a Fellow of the Society of Antiquaries, Bancroft Fellow of Mansfield College, Oxford University, Chevalier of the Ordre des Arts et des Lettres and an Ambassador for AfriKids. Sir Paul is an Honorary Senior Research Fellow and was the former Chairman of the Victoria and Albert Museum. He is a Trustee of the V&A Foundation and was the co-founder and former CEO of Lansdowne Partners.

Professor Louise Richardson FRSE

is Vice-Chancellor of the University of Oxford. A political scientist by training, she previously served as the Principal and Vice-Chancellor of the University of St Andrews, and spent 20 years on the faculty of Harvard University, latterly as Executive Dean of the Radcliffe Institute for Advanced Study.

Mr Peter Davies

joined Lansdowne Partners in June 2001, he is a member of the Management Committee and is head of the Developed Markets Strategy. Prior to joining Lansdowne, Peter was a Director at Merrill Lynch Investment Managers (MLIM, previously Mercury Asset Management). Peter joined MLIM in 1993. Peter is non-executive chairman of Oxford Sciences Innovation plc, a company that invests in, develops and advises spin-out companies established to exploit and commercialise intellectual property developed by Oxford University. Peter is also a trustee of Foundation for Future London. Peter has a first class honours degree in Philosophy, Politics and Economics from Oxford University.

Mr Jeremy Bennett

was formerly Chief Executive Officer at Nomura International plc. He was Vice-Chairman at the Disasters Emergency Committee. He has been a regulator, a banker, a charity worker and, among other things, designed the successful asset protection scheme for HM Treasury that bailed out the banks in 2008. Jeremy is a Fellow of Pembroke College, Oxford.

Mr Chris Gradel

is the co-founder and CIO of PAG, one of Asia's leading alternative investment managers with over US$20 billion of assets under management. With over 18 years of investment experience across Asia, Chris leads PAG's Absolute Returns business. Prior to founding PAG, Chris led several investments for the Marmon Group in China and was an engagement manager for McKinsey & Company based in Hong Kong. Chris is a member of the board of trustees of the Standards Board for Alternative Investments (SBAI), the hedge fund industry's global standard-setting body, and a Wykeham Fellow of New College, Oxford. He has a master's degree in engineering, economics and management from Oxford University.

Mr Ian Kennedy

was formerly Director of Research at Cambridge Associates. He has served as primary consultant to a number of major endowment funds, foundations, pension funds and international organisations. Ian is Chairman of both the Howard Hughes Medical Institute's Investment Advisory Committee and the finance committee of the Academy of American Poets.

Mr Michael McCaffery

is Chairman of Makena Capital Management that has over US$18 billion assets under management, and he was formerly President and Chief Executive Officer of Stanford Management Company. He is currently a Trustee of the Rhodes Trust and Chair of the Rhodes Trust Finance and Investment Committee.

Dr Andre Stern

is Founder and Principal of OxFORD Asset Management, a global quantitative multi-strategy investment firm. He has been an absolute return investor since 1988. He holds a DPhil in Mathematical Sciences from the University of Oxford. He serves on several boards at both the Massachusetts Institute of Technology and the University of Oxford.

Mr Jason Klein

is Senior Vice President and Chief Investment Officer of Memorial Sloan Kettering Cancer Center in New York, where he is responsible for long term investment assets of US$5 billion; he was previously the Chief Investment Officer for The Museum of Modern Art in New York, and a principal in private equity. Jason is a member of the Global Capital Markets Advisory Council of the Milken Institute, The Council on Foreign Relations, The Economic Club of New York and a Fellow of the Foreign Policy Association. Jason earned a JD from The University of Pennsylvania, an MBA from Wharton, and a BA from Wesleyan University.

Dr Dambisa Moyo

is a global economist and author who analyses the macroeconomy and international affairs. She currently serves on a number of boards including Barclays, the financial services group. She was previously an economist at Goldman Sachs and worked at the World Bank in Washington, DC. She completed a PhD in economics at Oxford University and holds a master's degree from Harvard University. She completed an undergraduate degree in chemistry and an MBA in finance at American University in Washington, DC.

Notes

All photos: John Cairns Photography

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Front cover
Balliol College

Back cover
Edward Burne-Jones and William Morris stained glass windows in the Harris Manchester College Chapel

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