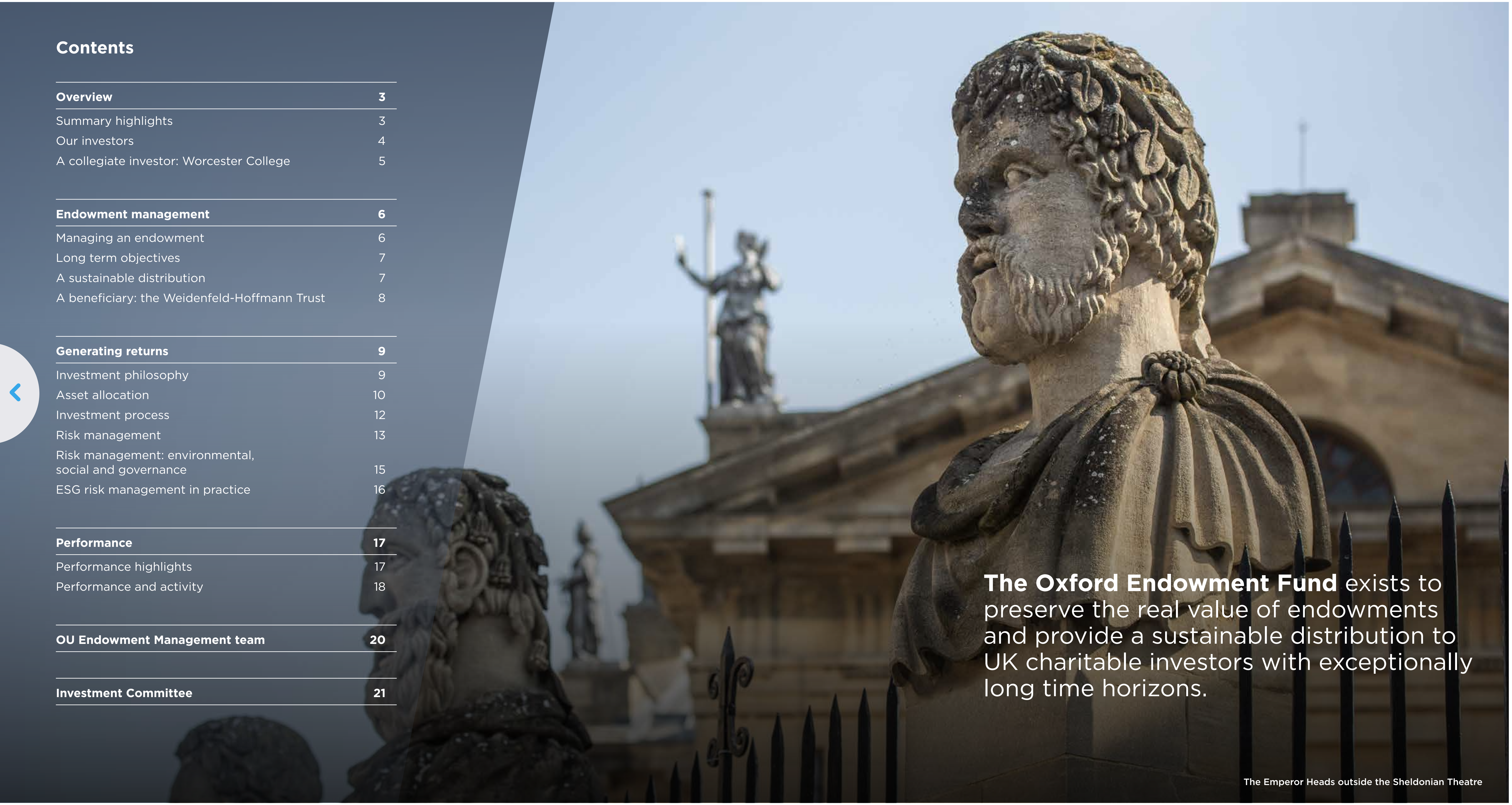
Investing in the future

# The Oxford Endowment Fund Report 2018

OU endowment management

Worcester College



## Contents



**The Oxford Endowment Fund** exists to preserve the real value of endowments and provide a sustainable distribution to UK charitable investors with exceptionally long time horizons.

The Emperor Heads outside the Sheldonian Theatre

# Summary highlights

## OU Endowment Management

At OU Endowment Management (OUem), 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.

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. 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.

£629m

**Distributed over a ten year period**

Read more on page 7

£1.3bn

**Growth through performance**

Read more on page 17

## Performance to 31 December 2018

**The Oxford Endowment Fund has returned**

8.3%

annualised over a three year period

**The Oxford Endowment Fund has returned**

8.3%

annualised over a five year period

**The Oxford Endowment Fund has returned**

9.0%

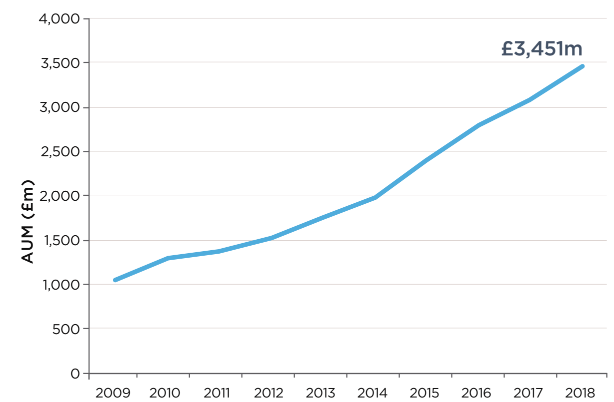
annualised over a ten year period

**The Oxford Endowment Fund has returned**

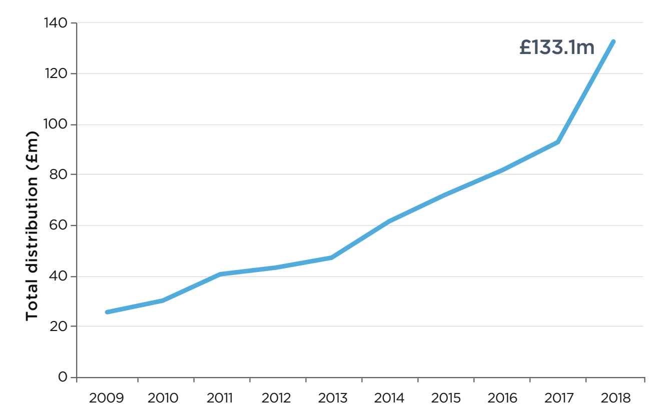
136.4%

cumulative over a ten year period

**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 in Sterling and net of all fund expenses, including custody, administration and OU Endowment Management fees.


**A beneficiary: the Weidenfeld-Hoffmann Trust**

Read more on page 8

# Our investors

OU Endowment Management manages endowments on behalf of 37 charitable investors, with exceptionally long time horizons.

Our investors are all independent UK charities, with sound governance and experienced investment committees.

37

**Investors**

The Weston Library

'OUem is the only manager where we don't have an issue explaining the endowment mindset. We are not a pension fund or a family office.'

**Christ Church**

Oxford University Boat Club 2019 crew
Photo by: Naomi Baker

'Named in honour of Daniel Topolski, who dedicated much of his life to Oxford rowing, the Topolski Fund is a permanent endowment fund that aims to provide the four Oxford University clubs with a foundation level of funding in the absence of sponsorship. Managed by OUem, the fund protects the amateur status of the races and ensures that Oxford students of any background can enjoy the unique experience of rowing for the University without significant financial burden.'

**Oxford University Boat Club**


'Being a Scholar has been a huge privilege; I am extremely grateful for the financial support and for the eye-opening volunteering opportunities.'

**A Moritz-Heyman Scholarship beneficiary; an undergraduate scholarship programme funded by the endowment**

'We benefit greatly from our access to the high quality people at OUem and we value and appreciate the transparency and honesty of their dealing with us.'

**Somerville College**

'Balliol's Investment Committee regards the calibre of OUem's research into underlying external managers as high and believes it will contribute to adding to 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.'

**Balliol College**

# A collegiate investor: Worcester College

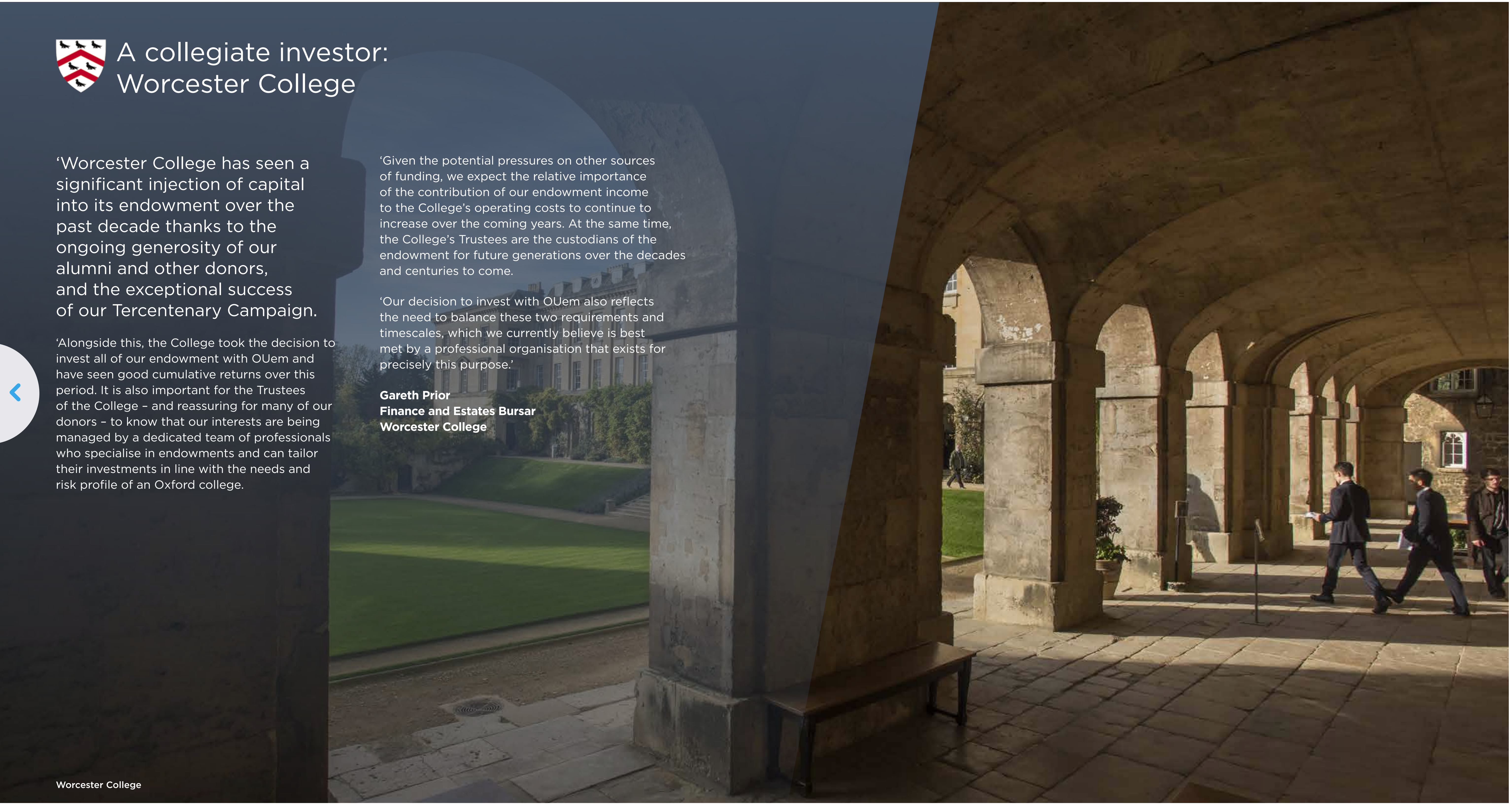
‘Worcester College has seen a significant injection of capital into its endowment over the past decade thanks to the ongoing generosity of our alumni and other donors, and the exceptional success of our Tercentenary Campaign.

‘Alongside this, the College took the decision to invest all of our endowment with OUem and have seen good cumulative returns over this period. It is also important for the Trustees of the College – and reassuring for many of our donors – to know that our interests are being managed by a dedicated team of professionals who specialise in endowments and can tailor their investments in line with the needs and risk profile of an Oxford college.

‘Given the potential pressures on other sources of funding, we expect the relative importance of the contribution of our endowment income to the College’s operating costs to continue to increase over the coming years. At the same time, the College’s Trustees are the custodians of the endowment for future generations over the decades and centuries to come.

‘Our decision to invest with OUem also reflects the need to balance these two requirements and timescales, which we currently believe is best met by a professional organisation that exists for precisely this purpose.’

**Gareth Prior**
**Finance and Estates Bursar**
**Worcester College**



Worcester 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 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.

Pembroke College

### Funding charitable activities

Charities depend on philanthropic support to sustain and advance their missions. Donations can often be in the form of endowment gifts – charitable funds held on trust to be retained for the benefit of the charity.

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.

Permanent endowment has often been built up over years to support and sustain the mission of the charity. 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.

# Long term objectives

**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.

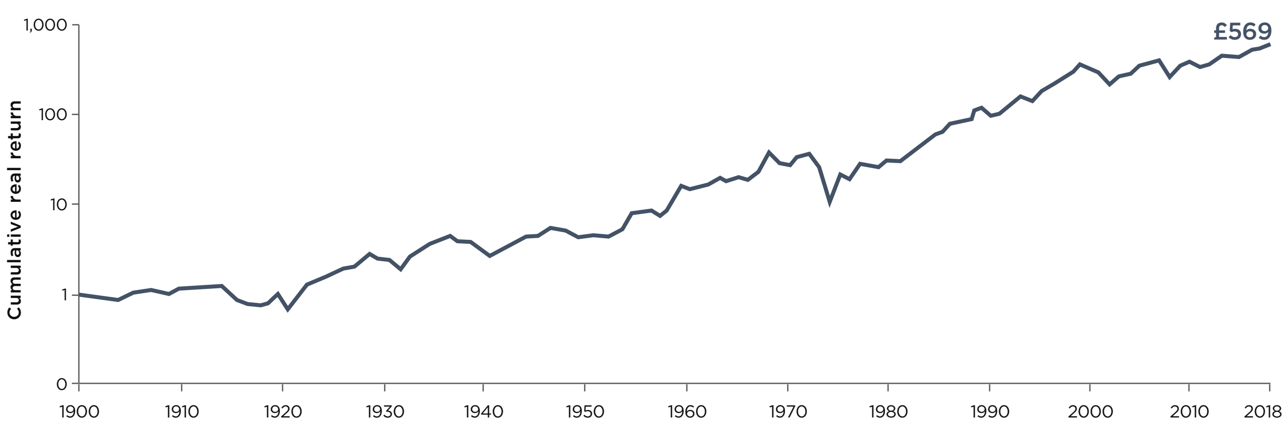
**Compounding returns**
Over long time periods, investments in equities have proved one of the most effective ways of generating investment returns. Long term studies of UK equities show that, from 1900 to 2018, equities returned an average of 5.5% per year after inflation, as shown in the chart below.

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 £569 at the end of 2018, 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 2018)**




**Source:** adapted from Dimson, Marsh, Staunton, Credit Suisse Global Investment Returns Sourcebook.

# 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 to our investors.

**The distribution in practice**
In practice, a trust that invested a £10m gift in 2009 would have received a total of £5.2m in distributions to fund education and research so far.

This represents an increase in money distributed annually of 50.5% since 2009 against a 25.3% 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 9.0% since 2009, and the gift would be worth £16.6m further to the 2018 distribution.

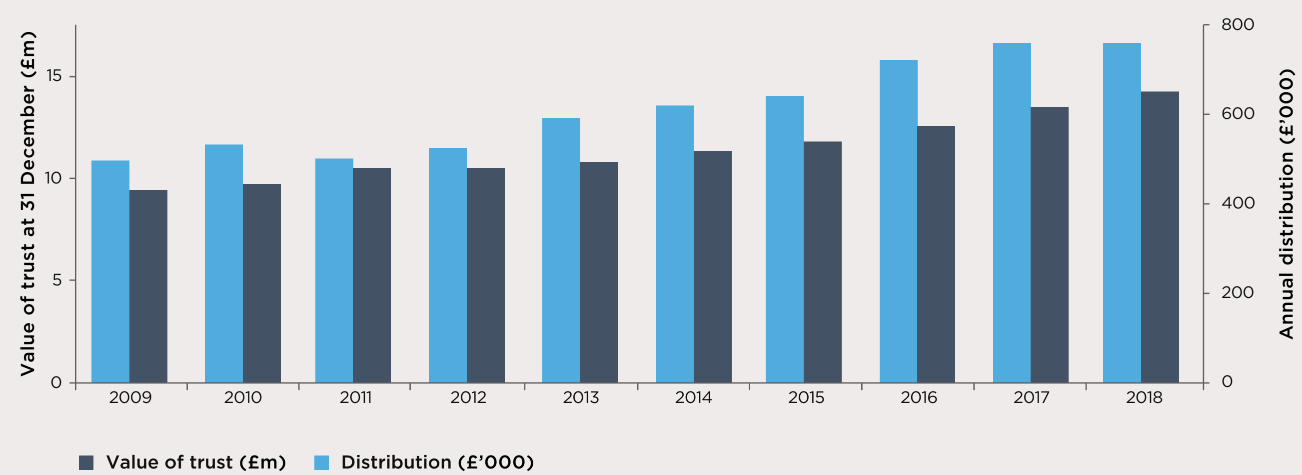
After inflation the return has been 6.7%, meaning that the value of the trust has grown substantially in real terms.

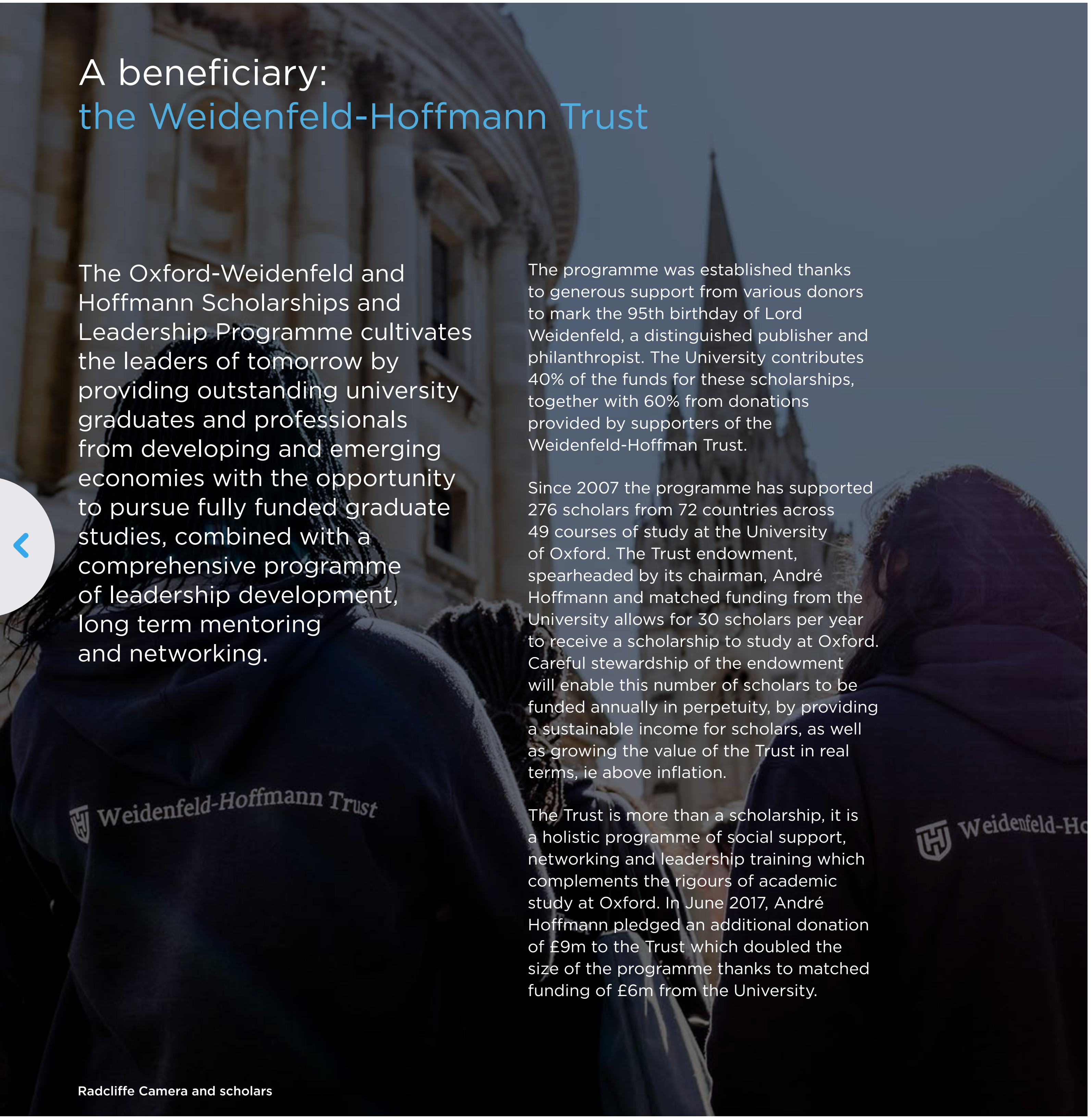
**The annual distribution has increased by**

50.5%

over a ten year period

**£10m gift invested on 1 January 2009**






# A beneficiary:
## the Weidenfeld-Hoffmann Trust

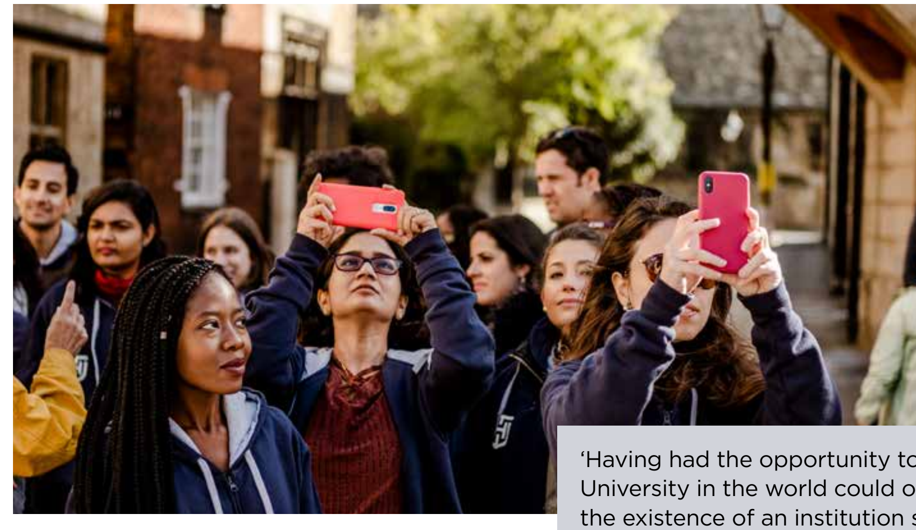
The Oxford-Weidenfeld and Hoffmann Scholarships and Leadership Programme cultivates the leaders of tomorrow by providing outstanding university graduates and professionals from developing and emerging economies with the opportunity to pursue fully funded graduate studies, combined with a comprehensive programme of leadership development, long term mentoring and networking.

The programme was established thanks to generous support from various donors to mark the 95th birthday of Lord Weidenfeld, a distinguished publisher and philanthropist. The University contributes 40% of the funds for these scholarships, together with 60% from donations provided by supporters of the Weidenfeld-Hoffman Trust.

Since 2007 the programme has supported 276 scholars from 72 countries across 49 courses of study at the University of Oxford. The Trust endowment, spearheaded by its chairman, André Hoffmann and matched funding from the University allows for 30 scholars per year to receive a scholarship to study at Oxford. Careful stewardship of the endowment will enable this number of scholars to be funded annually in perpetuity, by providing a sustainable income for scholars, as well as growing the value of the Trust in real terms, ie above inflation.

The Trust is more than a scholarship, it is a holistic programme of social support, networking and leadership training which complements the rigours of academic study at Oxford. In June 2017, André Hoffmann pledged an additional donation of £9m to the Trust which doubled the size of the programme thanks to matched funding of £6m from the University.

Radcliffe Camera and scholars



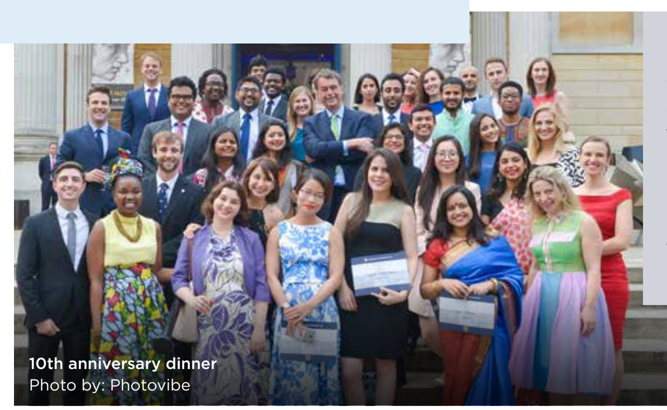
‘Having had the opportunity to study at the best University in the world could only be better, thanks to the existence of an institution such as the Leadership Programme. Having a group of people and professionals during one of the exciting challenges of our lives was the best way to experience Oxford and face this year. This was the best year of my life, and without the WHT it would not have been so amazing.’

**Alex, Chile, Master of Public Policy, 2018**

‘Because I’ve been a recipient of failed policies and have a deeper understanding of its impact, I decided to enrol at the Blavatnik School of Government to learn how sound policies could be formulated and effectively implemented to make my country and the world a better place. Through the support of WHT I settled in well. The programme not only focuses on moral philosophy, economics and politics but most importantly on developing a strong character as a leader and how that affects other people. I have been so inspired by the professors, colleague scholars and particularly the wonderful and supportive staff.’

**Peter, Sierra Leone, Master of Public Policy, 2018**

Scholars 2018-19
Photo by: Martin Phelps



10th anniversary dinner
Photo by: Photovibe

‘The wide range of activities provided the space to engage with a diverse array of scholars and professionals and led me to challenge my own notions of change, leadership and impact, and inspired me to think bigger and aim higher.’

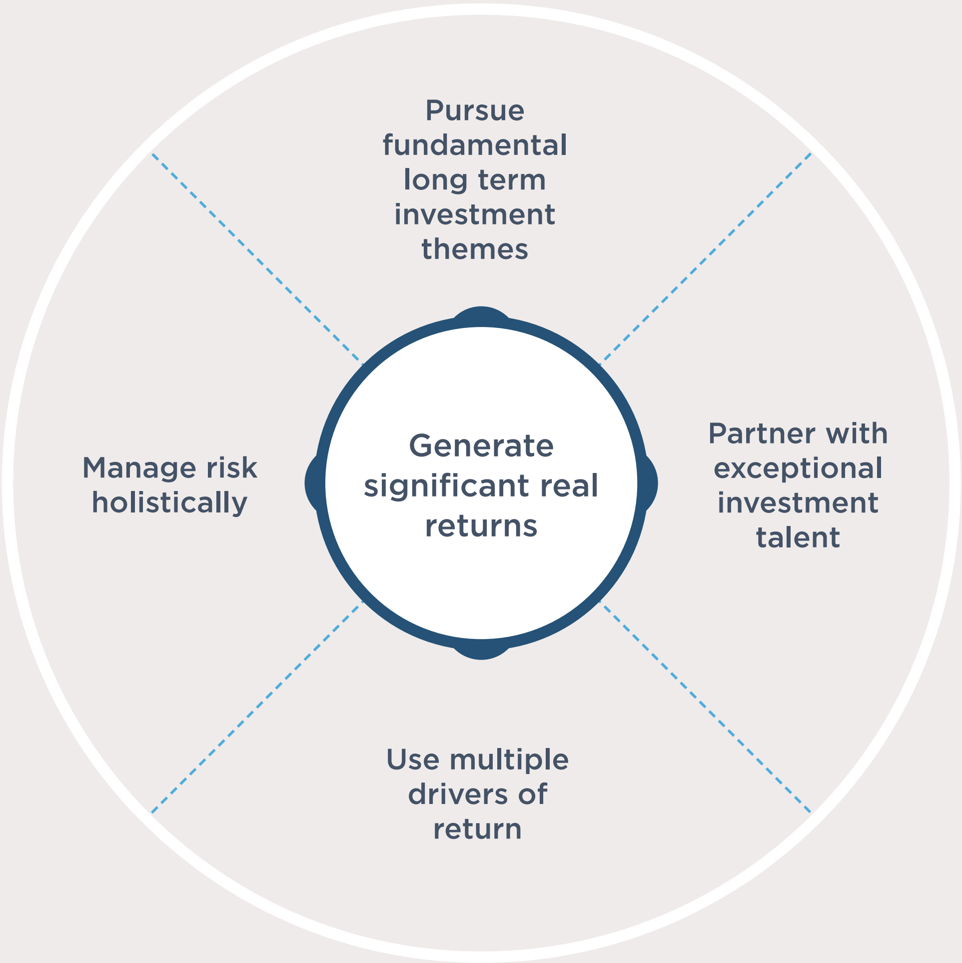
**Aban, Pakistan, MPhil International Development 2017**

# 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 Anne's College




**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.

Green Templeton 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**

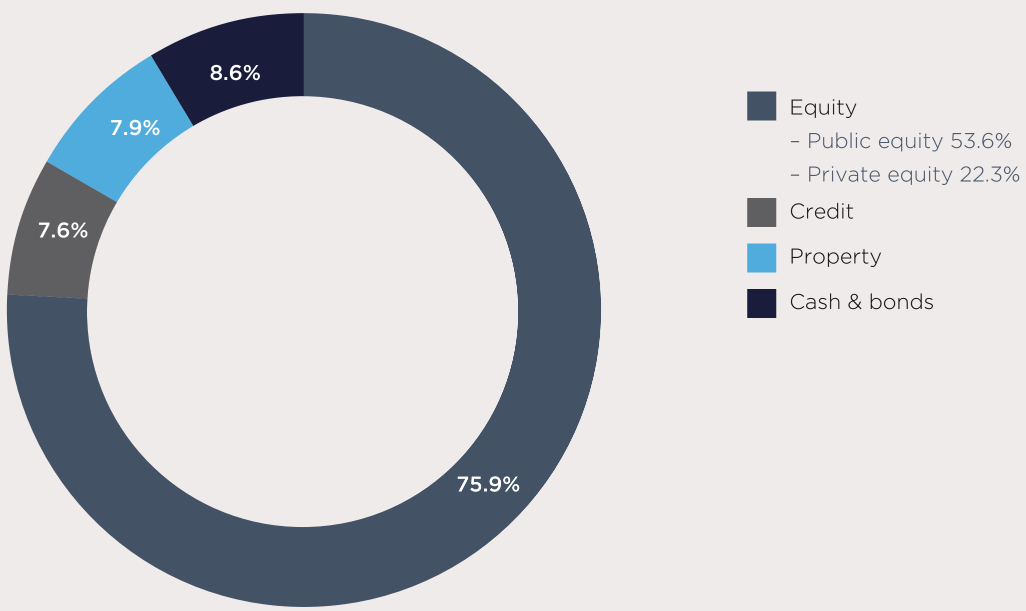
Our genuine multi-year time horizon enables us to invest in private equity. In this area, we focus on groups accessing corporate equity which is not available on the public market. As a result, underlying companies tend to be small, high growth businesses not yet ready for public listing, misunderstood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

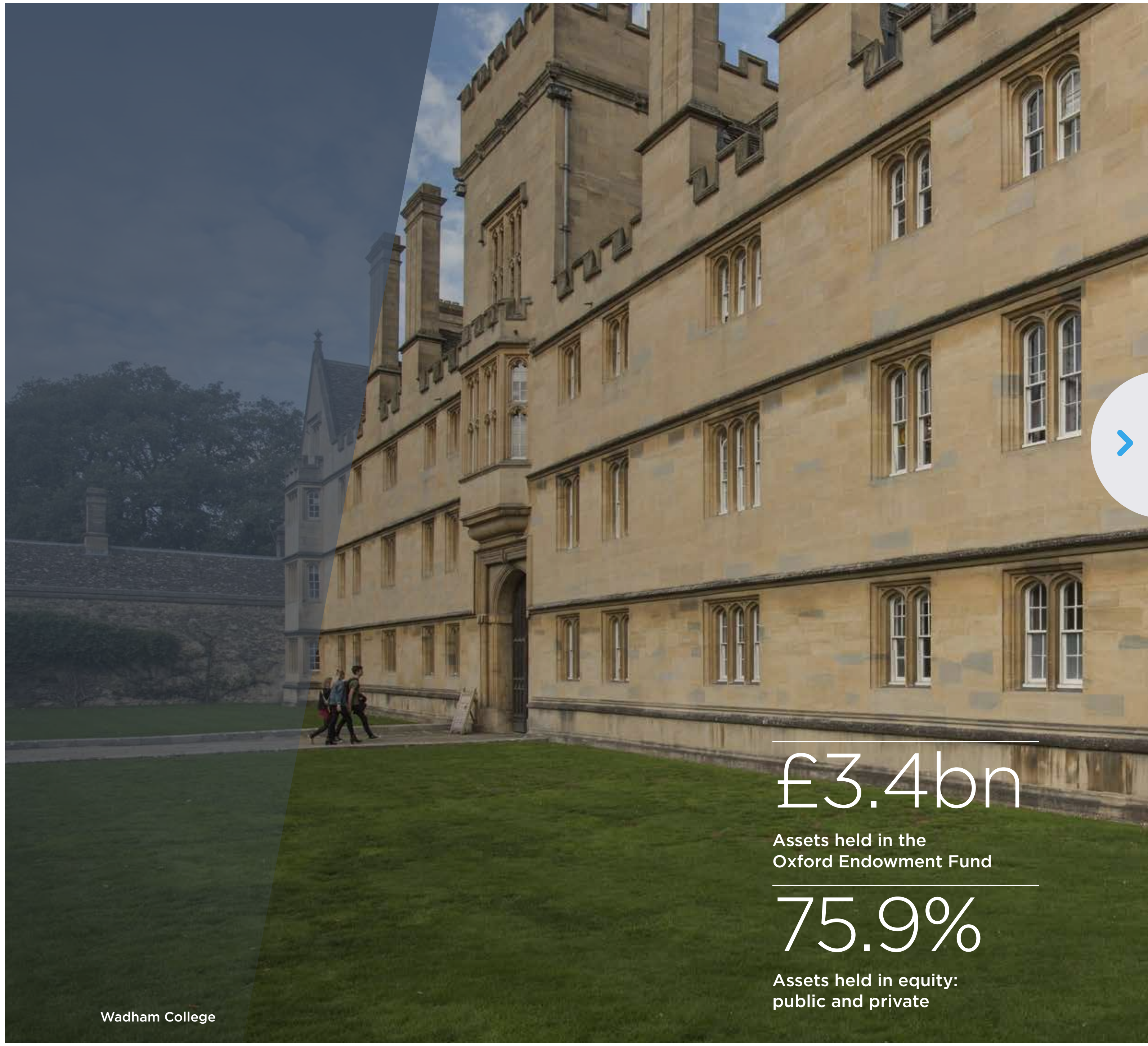
# Asset allocation
(continued)

**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 2018**



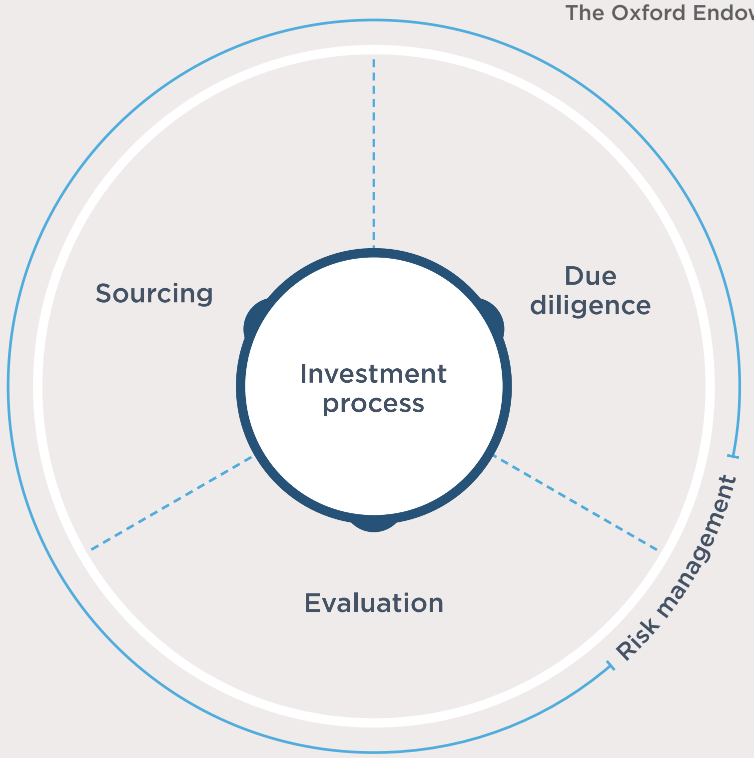




Wadham College

# 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.

Nuffield College




**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 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 and provide a sustainable distribution for our investors' activities.

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.

Mansfield 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.

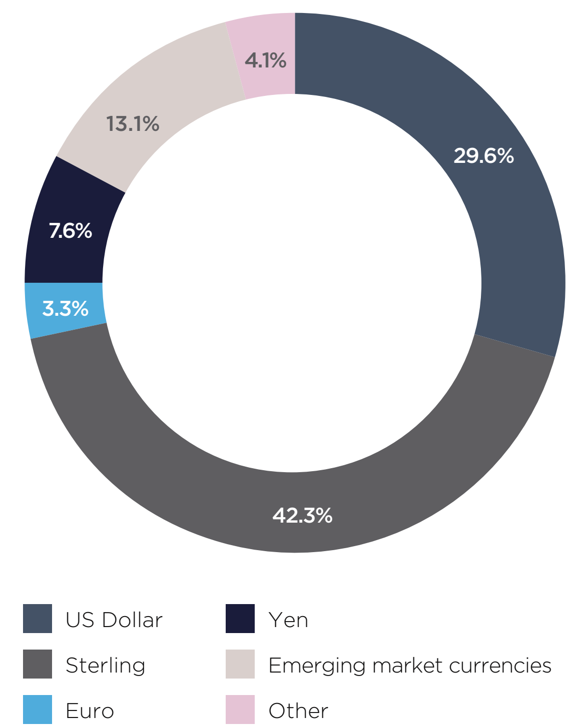
Alongside this, through regular engagement with our underlying investment groups, we can make more qualitative judgements on valuations and market participants' behaviours. We never seek to forecast macro events but we look to position the Fund on the basis of these variations in sentiment.

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.

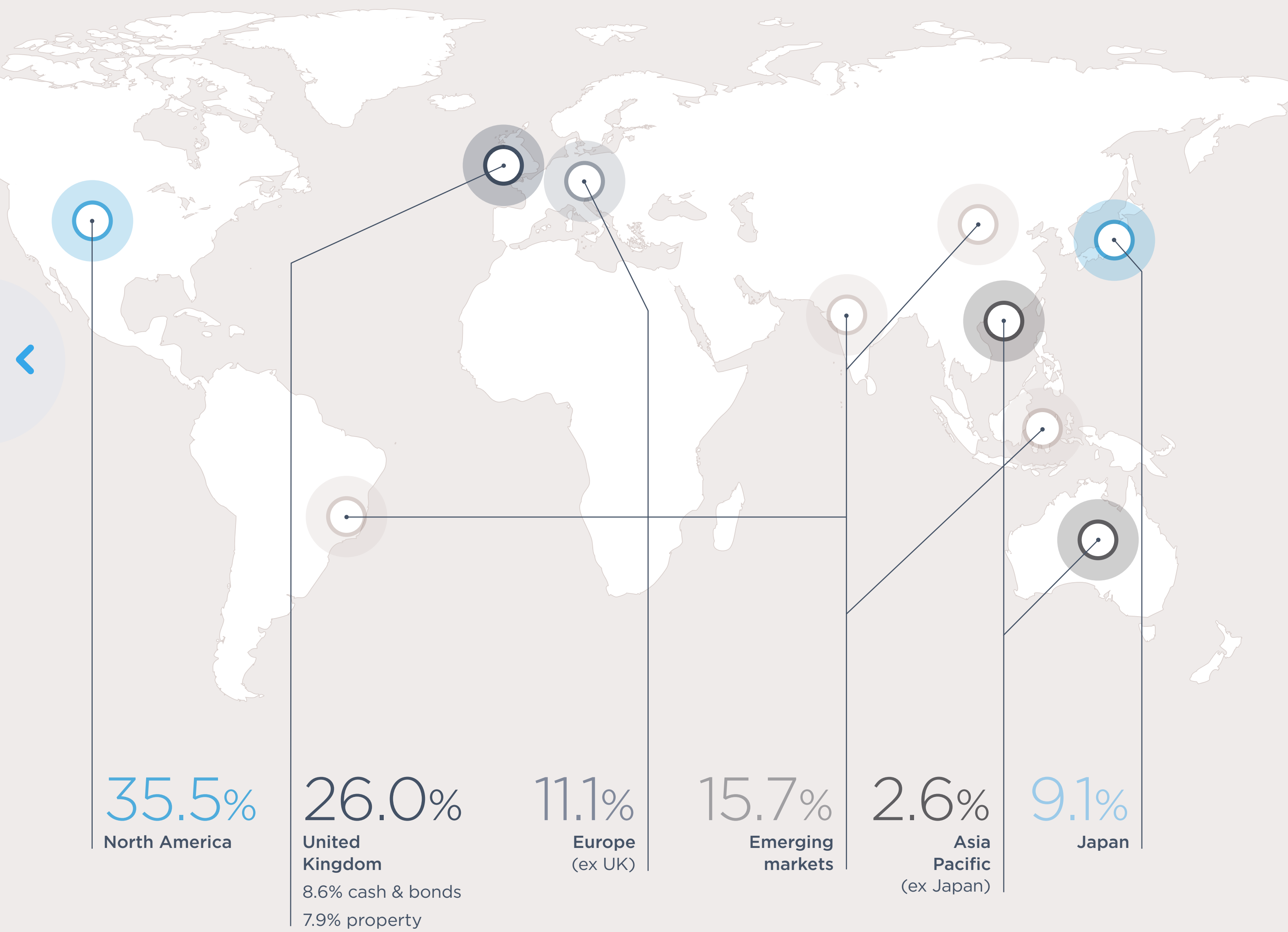
**Currency exposure at 31 December 2018**



# Risk management
(continued)

**Geographic exposure at 31 December 2018**

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 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.

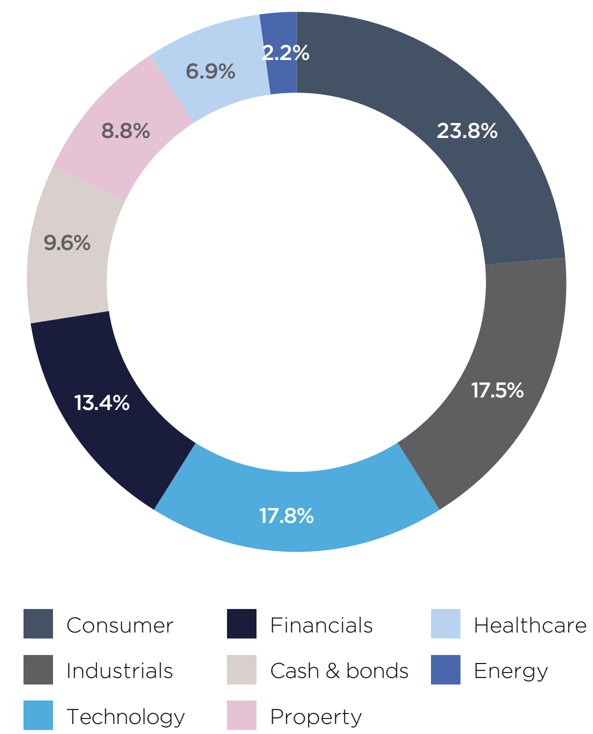
Conversely, we have seen less opportunity for growth in more mature, capital intensive and heavily regulated sectors such as energy. At 31 December 2018, there was 0.9% exposure to energy exploration and extraction in the Fund. Additionally, there was 1.2% exposure to energy equipment and services, and 0.1% in storage and transportation. This includes equity and credit investments in both private and public markets.

Broken down by asset group, of the 2.2% invested in the energy sector, 0.5% is invested in public equity, 1.1% is in private equity and 0.6% is in credit.

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 2018 exposure would be 6.5%, and if invested in the FTSE 100 Index, a proxy for UK markets, the exposure would be 17.2%.

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 2018**




23.8%
**Exposure to consumer sector**

17.8%
**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.

Hertford 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 reject investment ideas where there is poor governance and 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, during which we 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 Investor Forum and Institutional Investors Group on Climate Change.

# ESG risk management in practice


St Catherine's College

**Energy related investments and fossil fuels**
The University of Oxford undertook a significant review of energy investments in 2015. The outcomes of this review are integrated into OUem's investment process. 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 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 avoids 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 0.9% exposure to extractive industries, with a full sector breakdown of the Fund found on page 14.
- 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.

**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


Harris Manchester 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 5.8%. The volatility of the MSCI World Index, a proxy for global equity markets, has been 12.3% over the same period.

136.4%

**Cumulative return over a ten year period**

9.0%

**Annualised return over a ten year period**

**OEF annualised net returns**

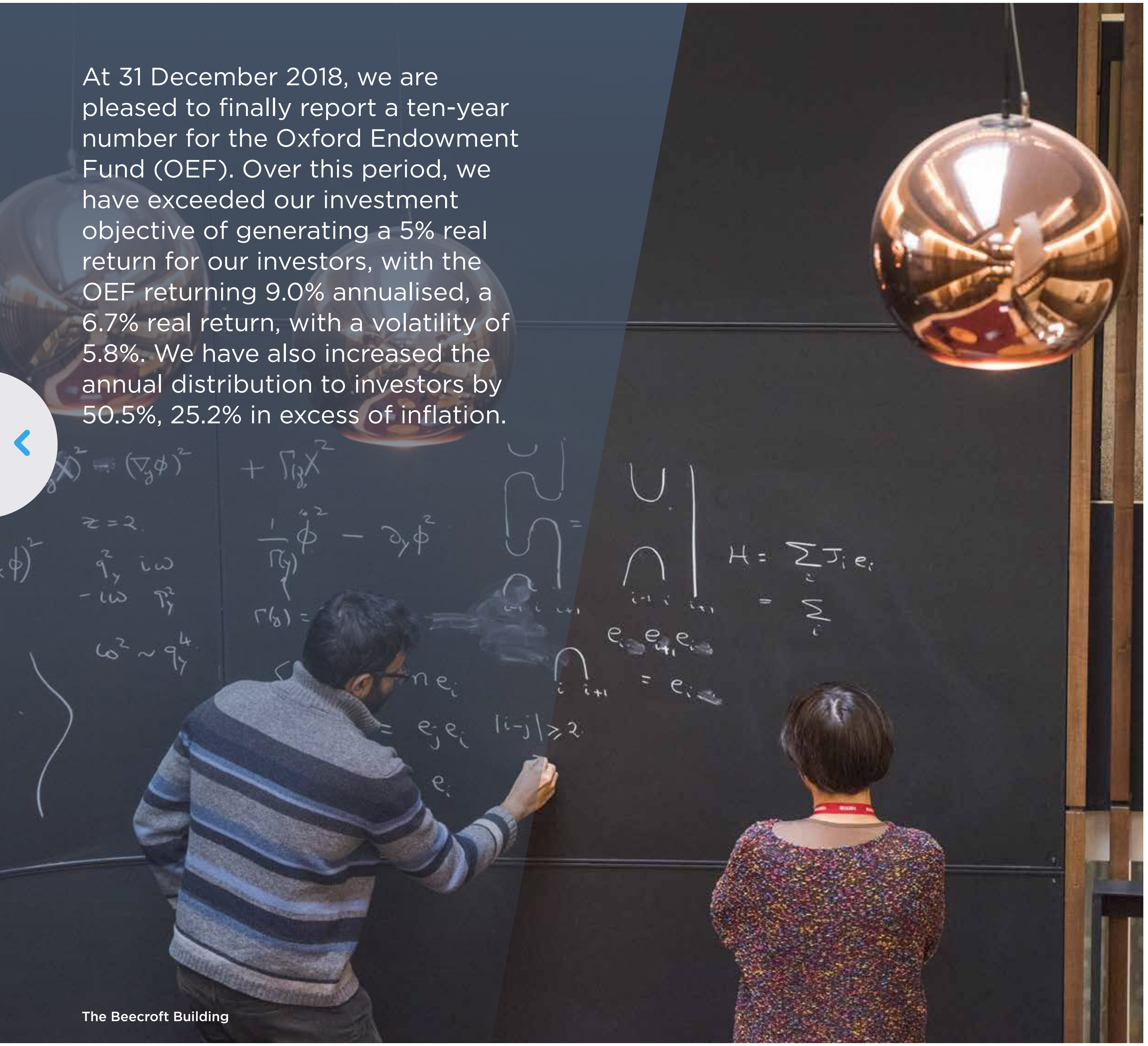
| | Nominal % | CPI % | Real % |
|---|---|---|---|
| 3 years | 8.3 | 2.2 | 6.1 |
| 5 years | 8.3 | 1.5 | 6.8 |
| 10 years | 9.0 | 2.3 | 6.7 |

**OEF cumulative net returns**

| | Nominal % | CPI % | Real % |
|---|---|---|---|
| 3 years | 27.0 | 6.8 | 20.2 |
| 5 years | 49.0 | 7.6 | 41.4 |
| 10 years | 136.4 | 25.3 | 111.0 |

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

# Performance and activity



At 31 December 2018, we are pleased to finally report a ten-year number for the Oxford Endowment Fund (OEF). Over this period, we have exceeded our investment objective of generating a 5% real return for our investors, with the OEF returning 9.0% annualised, a 6.7% real return, with a volatility of 5.8%. We have also increased the annual distribution to investors by 50.5%, 25.2% in excess of inflation.

The Beecroft Building

Managing endowment capital gives us a genuine multi-year time horizon and investments are made for the long term. While short term performance over fixed periods provides little informational value, we can report that the Fund was flat in 2018, over what was a volatile and challenging year for all financial assets.

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

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 long term themes are expressed throughout these asset groups and reflected in geographic and sector exposures (shown on page 14). 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 globally.

The Fund remains predominantly invested in equity, both public and private. There were no significant changes to the asset allocation during the year, aside from allowing some increases in cash holdings as valuations in public and private equity markets continued to rise. Within public equity, the team has worked hard to ensure sufficient capacity across our target groups, to retain a relatively concentrated portfolio of managers and positions. In private equity we remain focused on growth equity, niche sector strategies and venture investments. Over the year, we remained highly selective when committing to the new funds of longstanding relationships and took on only a handful of new relationships. With each opportunity, we are backing experienced investors, raising oversubscribed funds in high demand. This provides the OEF with access to differentiated equity investment opportunities which simply could not be accessed on the public markets.

In property, we have continued to build a portfolio of UK commercial and residential properties to complement our holdings in strategic land and rural estates. The market is challenging as many investors have lower return hurdles than us, 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.

Broadly 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 10.6% annualised over 10 years, with a focused group of global approaches, supplemented by regional and sector specialists. It would be remiss not to mention that 2018 itself saw periods of negative equity returns and elevated volatility. The Fund's equity exposure is significant and not immune to such volatility. While we do not attempt to predict short term market movements, it is clear that certain markets and sectors (such as the US and technology) have had long periods of outperformance and have attracted significant investment. However, we regularly adjust our investments to reflect risks and opportunities, and look to identify the best investment talent to take advantage of these. Overall, the competitive advantage of long term capital allows us to focus on finding the most productive equity investments for the next 10 years and longer, rather than being distracted by shorter term noise.

Over the past few years, simply investing passively will have also produced attractive returns. It is quite possible that for the next few years this approach will be considerably challenged. We are firm believers that, over the long term and in a variety of

# Performance and activity

(continued)

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 of greater equity market volatility, active management will be even more valuable to ensure we have exposure to well managed businesses operating under potentially challenging market conditions.

Private equity continues to make a significant impact. The net IRR since inception is 16.4%, which is pleasing given the Fund has grown substantially and a large portion of capital has been invested for less than five years. 2018 saw a record year for distributions, led by our growth equity specialists. Nearly a third of distributions came from the venture portfolio, including a mix of IPOs and trade sales.

Credit has been a strong contributor to the Fund returning 10.0% annualised over 10 years. We have evolved our credit exposure over time and will continue to do so as opportunities arise. In 2009-2011, we had significant stressed credit investments in the US, whereas today we own investments in complex special situation strategies which target a range of geographies including Europe and Asia. All of these have a range of return drivers different to those of our equity investments.

### Public equity annualised net returns

| to 31 December 2018 | % |
|---|---|
| **3 years** | 10.0 |
| **5 years** | 9.1 |
| **10 years** | 10.6 |

### Private equity annualised net returns

| to 31 December 2018 | % |
|---|---|
| **3 years** | 14.5 |
| **5 years** | 17.6 |
| **10 years** | 13.9 |

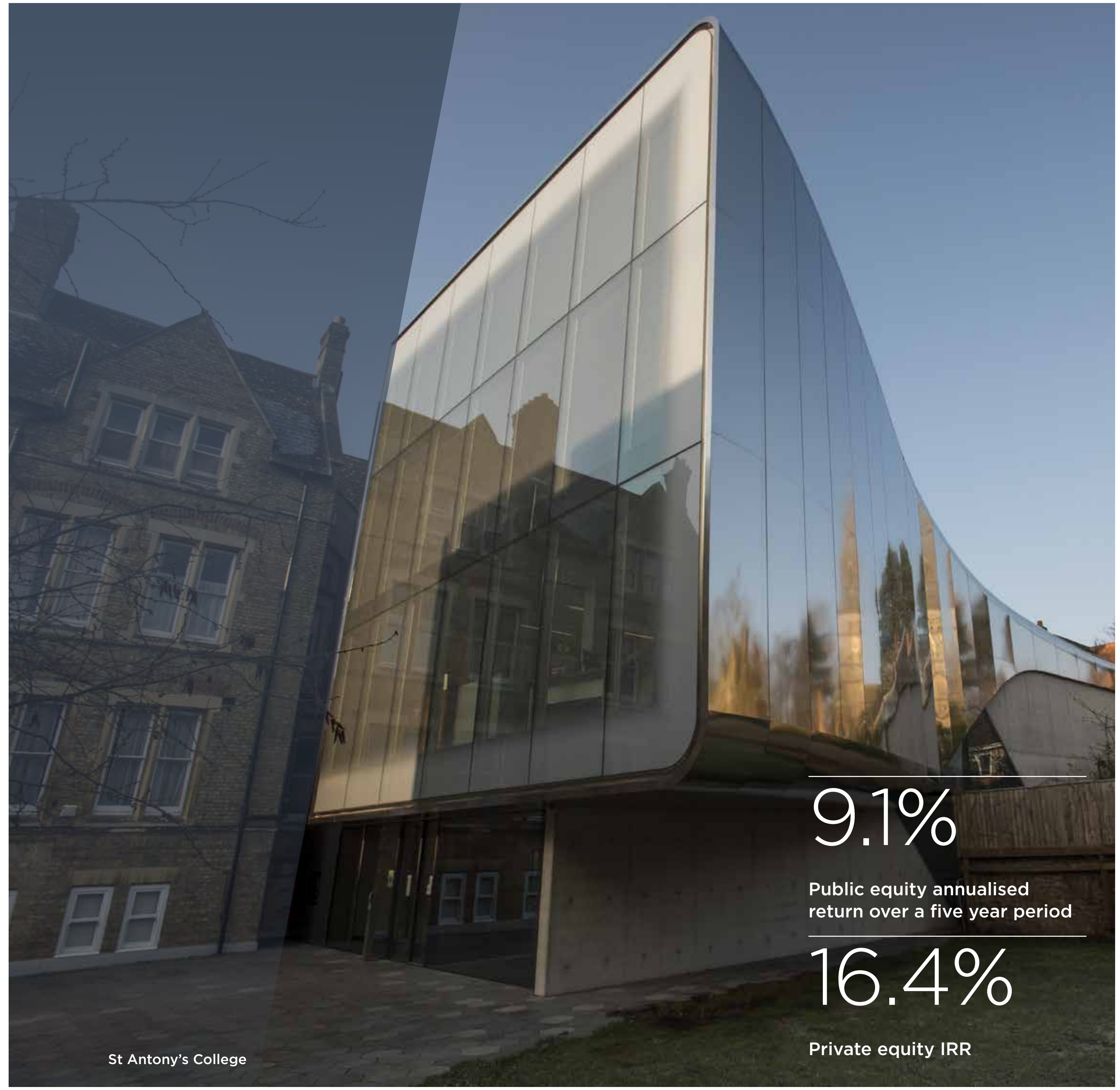
### Credit annualised net returns

| to 31 December 2018 | % |
|---|---|
| **3 years** | 9.8 |
| **5 years** | 9.5 |
| **10 years** | 10.0 |

### Property annualised net returns

| to 31 December 2018 | % |
|---|---|
| **3 years** | 5.7 |
| **5 years** | 8.0 |
| **10 years** | 8.6 |

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



St Antony's College

# OU Endowment Management team

OU Endowment Management is a regulated investment manager and has full delegated authority for investment decisions. There are 23 team members, based in Oxford.

**Kylla Abrigo**
Operations Analyst

**Fay Ashwell**
Chief Operating Officer

**Monica Bullen**
Personal Assistant

**Antonia Coad**
Head of Corporate Affairs

**Tom Critchley**
Investment Analyst

**Jack Edmondson**
Deputy Chief Investment Officer

**Robert Godfrey**
Head of Property

**Ed Gough**
Operations Analyst

**David Harling**
Investment Director

**Paul Hayday**
Information Systems Manager

**Sarah Hollitzer**
Business Support Manager

**Anne Horkley**
Investor Services Manager

**Will Lawrie**
Investment Director

**Katie Lewis**
Executive Assistant

**Lauren Madden**
Head of Investment Operations

**Ilze Malan**
Operations Manager

**Neamul Mohsin**
Investment Director

**Rachel Norris Cervetto**
Head of Finance

**Shivani Oberoi**
Investment Analyst

**Sandra Robertson**
Chief Investment Officer
and Chief Executive Officer

**Matt Talbot**
Head of Compliance

**Chloe Taysom**
Investment Director

**Will Tomsett**
Investment Analyst

# 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 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, a Trustee of the V&A Foundation and was the former Chairman of the Victoria and Albert Museum. Sir Paul is a former commissioner of the National Infrastructure Commission and was the co-founder and former CEO of Lansdowne Partners.

### Professor Louise Richardson

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 and is currently senior partner and joint 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$30 billion of assets under management. With over 20 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 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 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.

### 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.

### Mr Andrew Banks

is one of the two Founders of the Boston-based private equity firm ABRY Partners, which acquires and builds media and entertainment, communications and information businesses. Prior to launching ABRY Partners, he was a Partner at the international management consulting firm of Bain & Company. He received a BA from the University of Florida and was a Rhodes Scholar, graduating with an MA from Oxford University. He currently serves as a Trustee of the Rhodes Trust and as a Trustee of Johns Hopkins Medicine.

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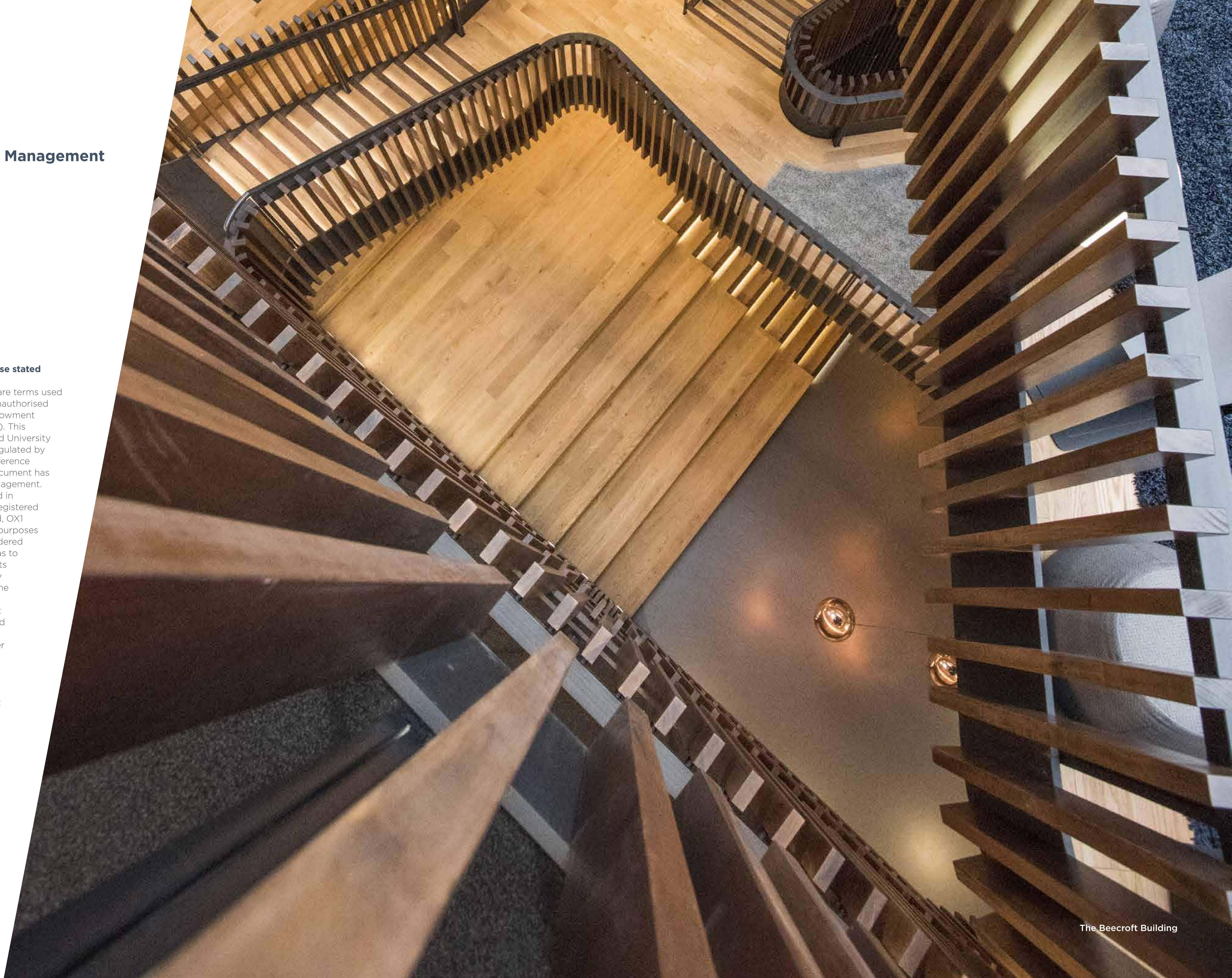
**All photos: John Cairns Photography unless otherwise stated**







The Beecroft Building