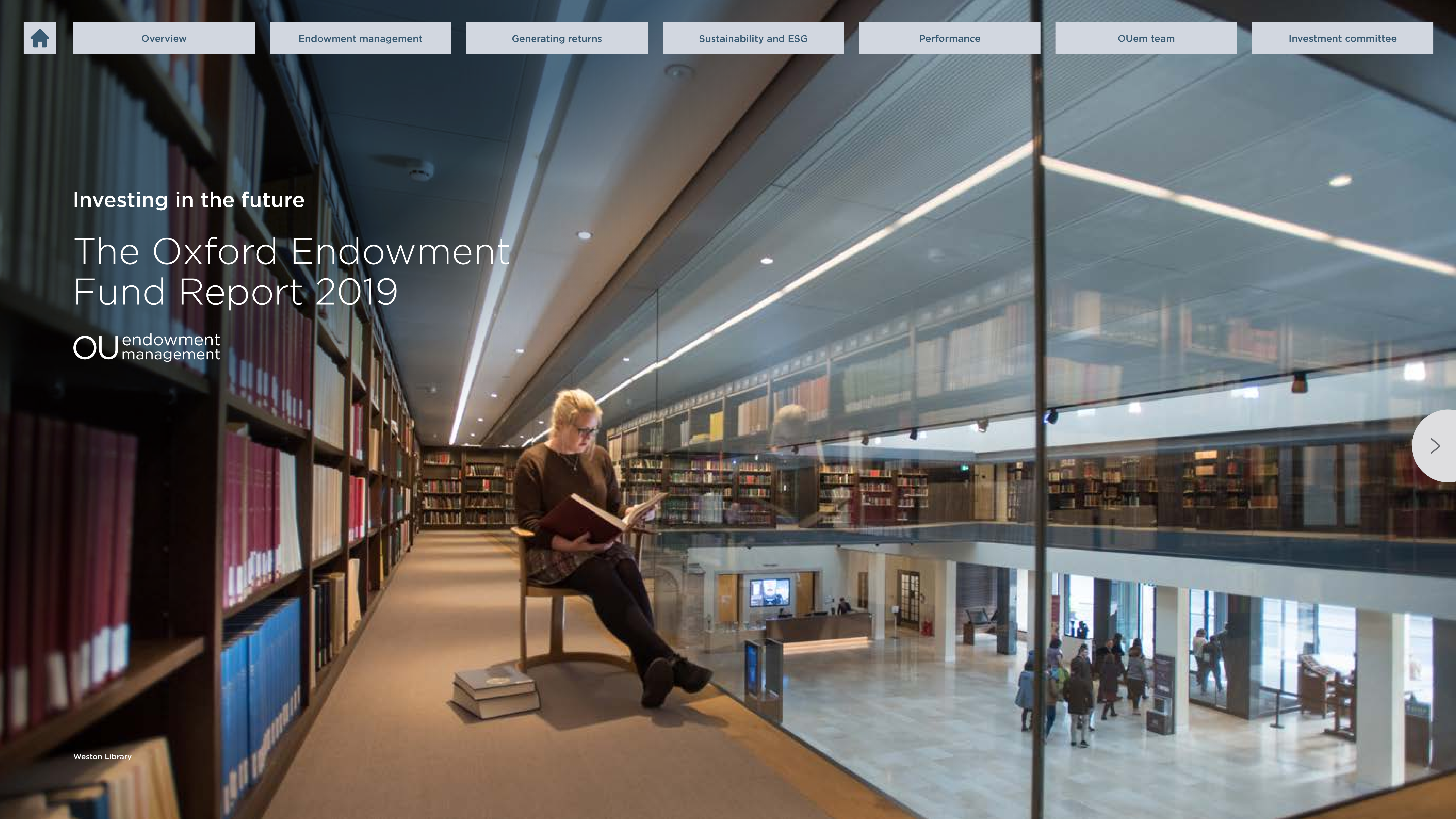
Investing in the future

The Oxford Endowment Fund Report 2019

OU endowment management



Weston Library

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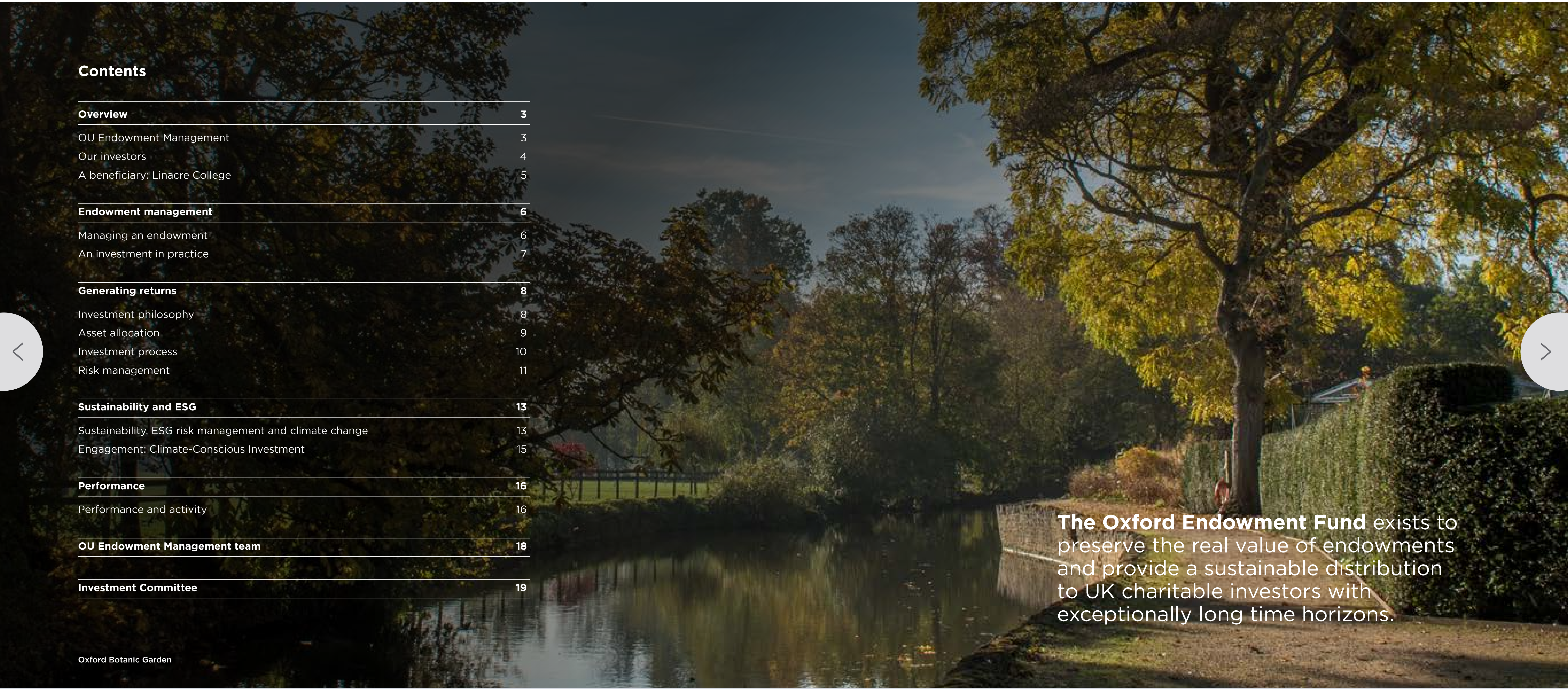
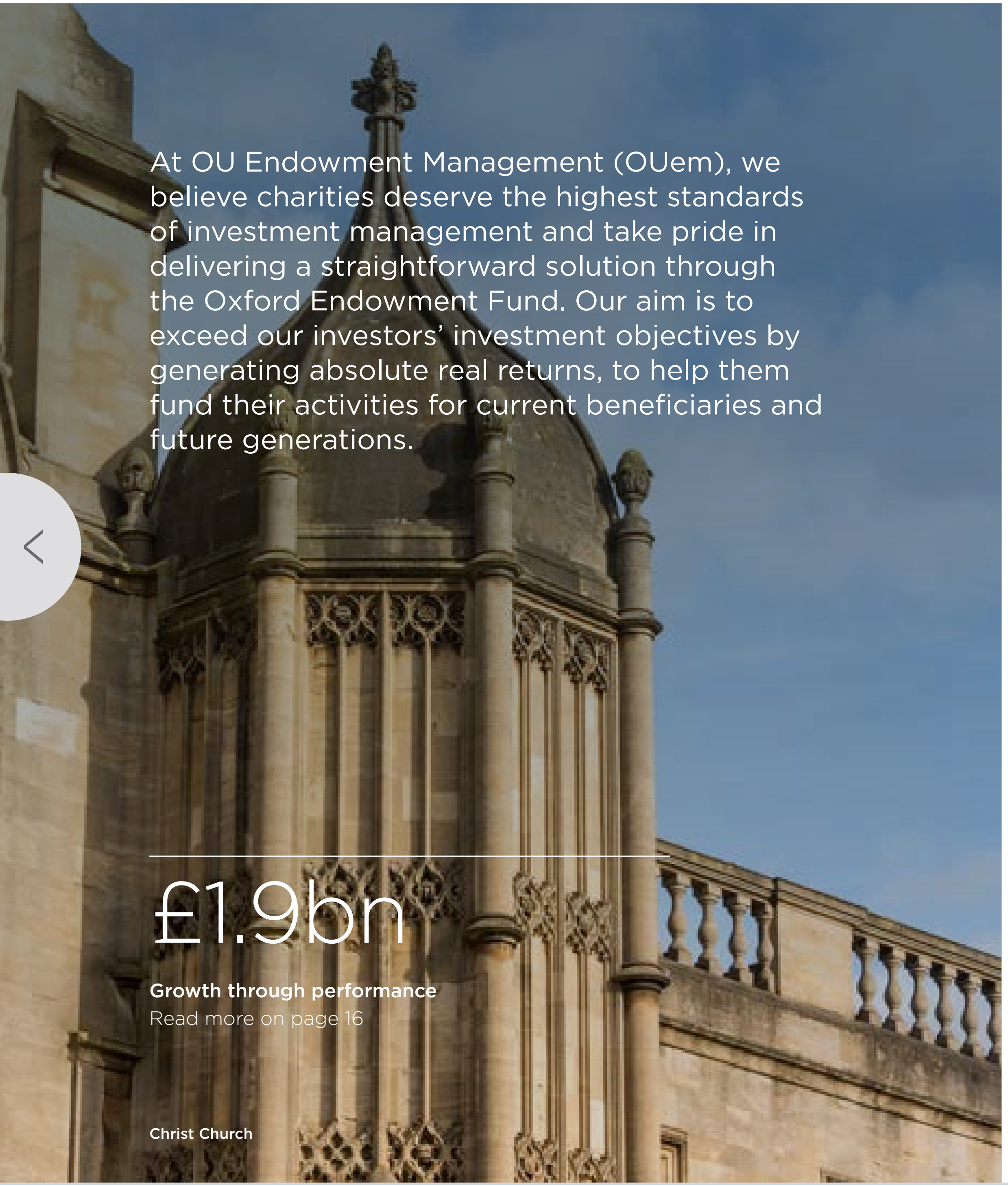


Oxford Botanic Garden

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.

OU Endowment Management



At OU Endowment Management (OUem), we believe charities 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 activities for current beneficiaries and future generations.

£1.9bn

Growth through performance

Read more on page 16

Christ Church

Today, OUem manages £4.1bn of assets for investors in the Oxford Endowment Fund (OEF or the Fund). Our investment strategy is to invest in a global and diversified portfolio of investments. 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 this way. We benefit from the expertise of a longstanding senior team with significant experience in managing permanent capital, and a highly motivated team of investment and financial professionals. We are guided by our investment philosophy, specifically developed to take advantage of our genuine multi-year time horizon, and we only invest in a small number of opportunities that we deem to be the best in the world.

The importance of managing charitable assets in a sustainable manner is deeply ingrained in OUem's investment philosophy and company culture. We have 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.

Performance to 31 December 2019

The Oxford Endowment Fund has returned

9.2%

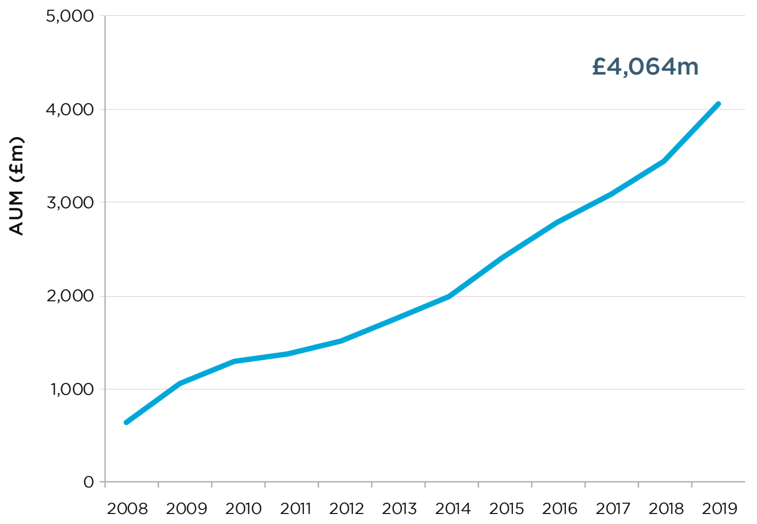
annualised over a ten year period

The Oxford Endowment Fund has returned

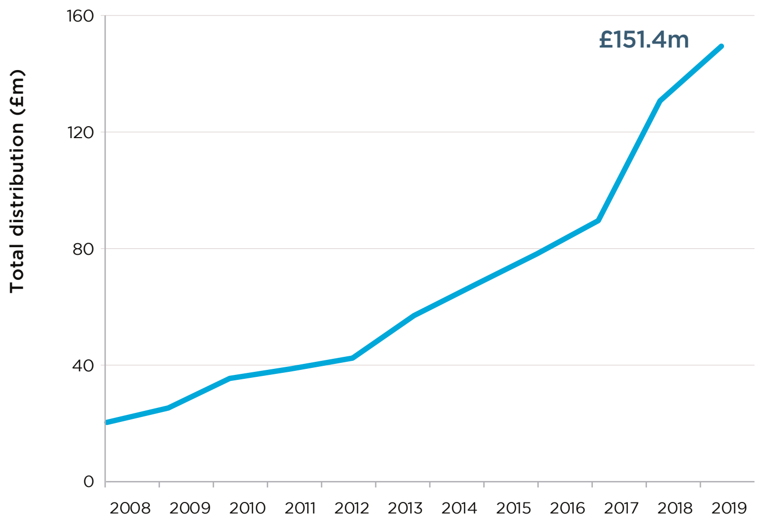
141.7%

cumulative over a ten year period

Assets under management



Annual distribution



Note: Returns and exposure data shown in this report are for The Oxford Funds: Endowment Master and calculated by OU Endowment Management to 31 December 2019, unless otherwise stated. Returns are time weighted returns, quoted in Sterling and net of all fund expenses, including custody, administration and OU Endowment Management fees.

Our investors

OU Endowment Management works on behalf of 40 charitable investors, with exceptionally long time horizons.

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

40

Investors

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

A Crankstart Scholar, an undergraduate scholarship programme

'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

'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, Weidenfeld-Hoffmann Scholar in Public Policy from Chile

'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

'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

'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

Oxford University Boat Club 2019 crew
Photo by: Naomi Baker

A beneficiary: Linacre College

‘Linacre’s endowment provides a valuable additional source of income to fund our hardship grants, college scholarships and junior research fellows, as well as supplementing unrestricted income. The return from our permanent endowment allows the college to support our students, and we rely on the income in our day to day operations.

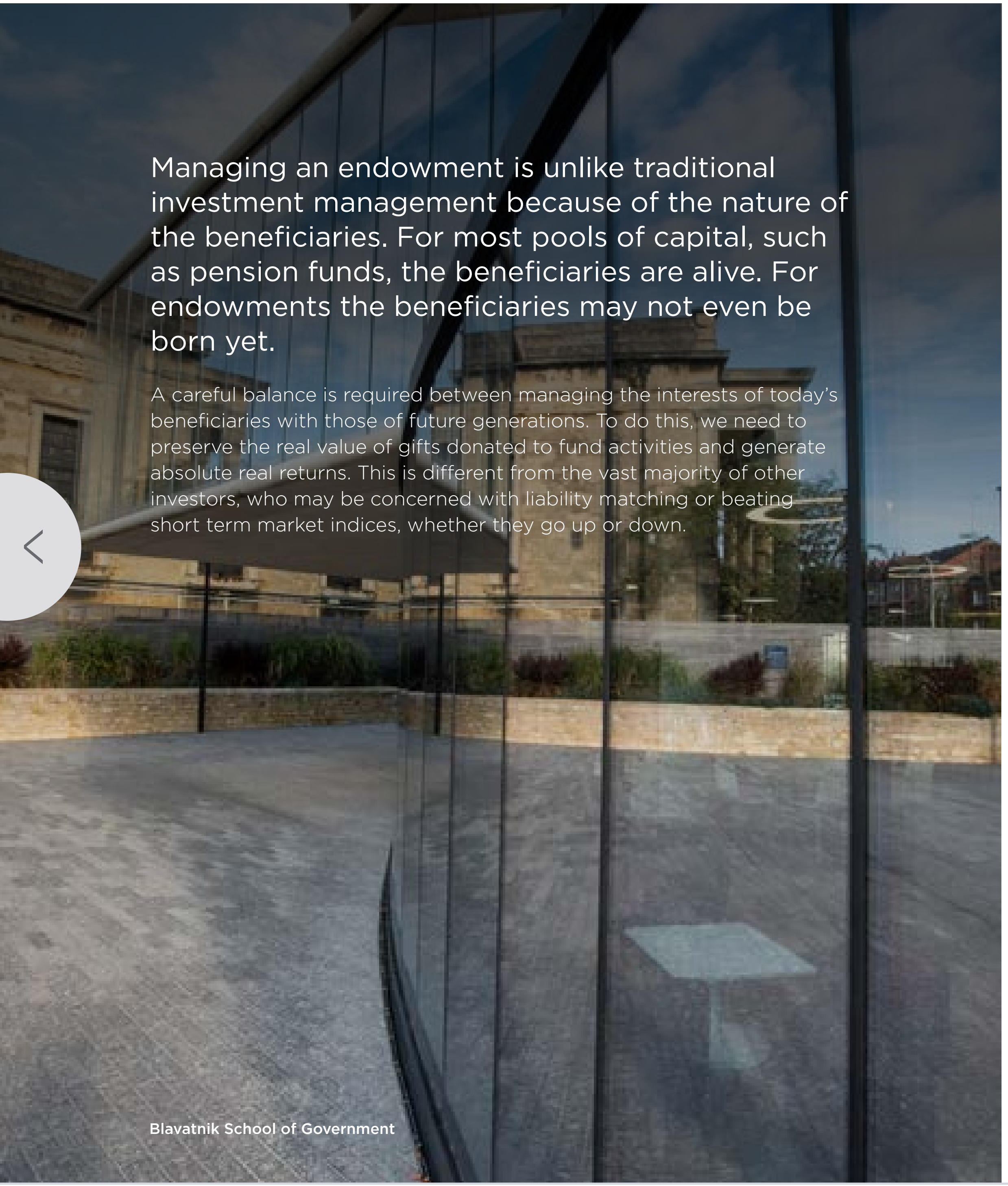
‘It is important for us to be invested with a manager who fully understands our needs in perpetuity, provides a reliable income (from the distribution) for planned spending and is aligned with our values. On this final point, our community is particularly focused on ensuring that the endowment is managed in a manner consistent with our approach to sustainability leadership. We take comfort in OUem’s approach to integrating environmental and social considerations into its investment process, their investments in climate change solutions and that the Fund is essentially divested from fossil fuels. As a result, we use OUem to manage virtually all of our £20m endowment, and we expect them to continue to do so.

‘As a college, we value OUem’s approachability, their willingness to engage with our Finance Committee and to share information freely throughout the year. They have created a diverse portfolio that would be far beyond our reach, as a relatively small investor, with any other provider or in house, allowing us to spread our risk as part of their significant funds. We also value being part of the Oxford Endowment Fund, where all investors share the same motivation, seeking long term returns. OUem’s investment groups, but also their whole team with whom we interact, are of high quality and this depth of talent through the whole organisation is valuable to us. In particular, writing this at a time of deep uncertainty and market turmoil, I have valued regular updates from OUem and I feel secure in the knowledge that, in our view, there is no better organisation to be the steward of our endowment portfolio.’

David Locke, Finance Bursar
Linacre College

Linacre 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.

Blavatnik School of Government

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.

Real returns

For an endowment, it is critical to think about returns in excess of inflation, which are described as real returns. 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.

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.

Over long time periods, investments in equities have proved one of the most effective ways of generating real returns. Long term studies of UK equities show that, from 1900 to 2019, equities have an average or 'annualised' return of 5.5% per year after inflation. If conversely, you had invested in bonds over the same time period, the annualised return would have been 1.9% (Source: Dimson, Marsh and Staunton, 2020).

Seemingly small differences in annualised returns can make substantial differences when compounded over the long term. For example, £1 invested in equities in 1900 would be worth £601 at the end of 2019, in real terms, whereas £1 invested in bonds would be worth just £9.48.

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.

A sustainable 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 idea of a dividend, which is when profits are returned to investors. 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. While market returns may vary greatly from year to year, our investors' spending requirements are more static. The distribution policy has therefore been developed to ensure that the absolute amount of money received by investors from their holdings is predicable on a year by year basis, regardless of the market backdrop.

An investment in practice

Investment objective
The Oxford Endowment Fund's investment objective is to produce an 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.

Distribution policy
The distribution policy of the Oxford Endowment Fund is to distribute 4.25% of the average of the past 20 quarters' NAV per unit, subject to a cap of 10% increase and a floor of the last year's distribution.

The chart shows the value increase and annual distributions of £100m invested on 1 January 2009.

The Oxford Endowment Fund has distributed

£781m

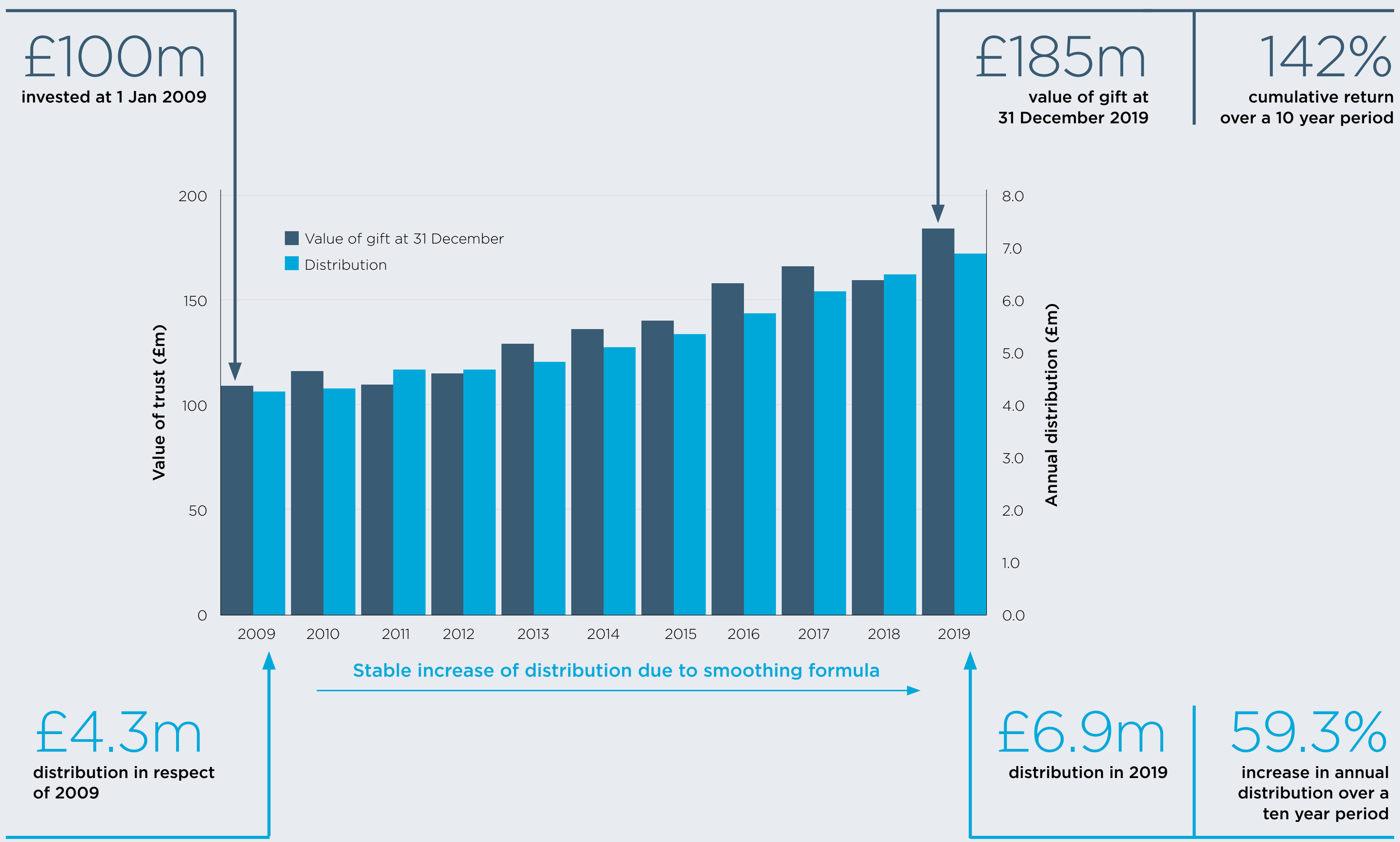
since 1 Jan 2009

The Oxford Endowment Fund has returned

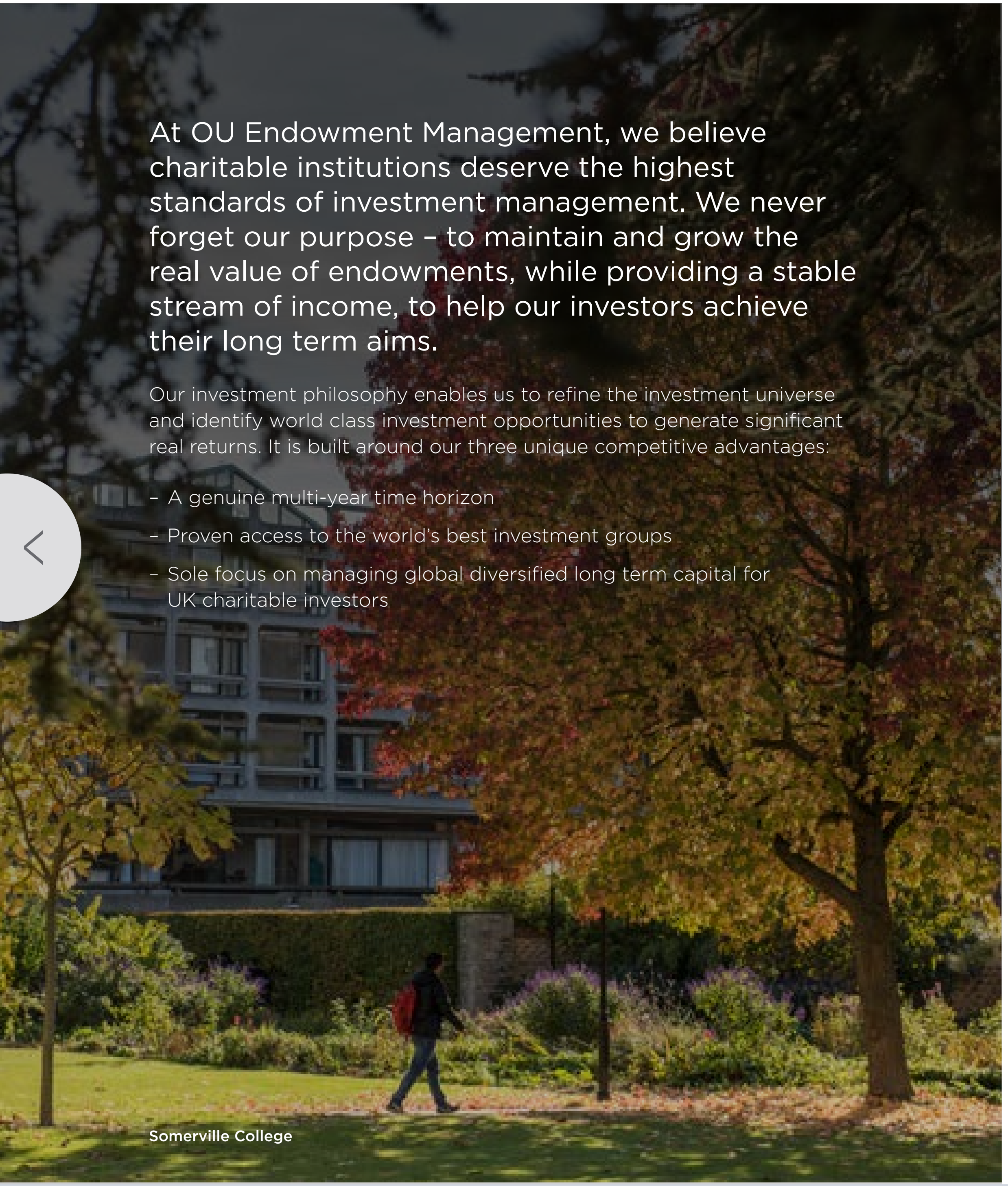
9.6%

annualised since 1 Jan 2009

Outcome of £100m gift invested on 1 January 2009



Investment philosophy

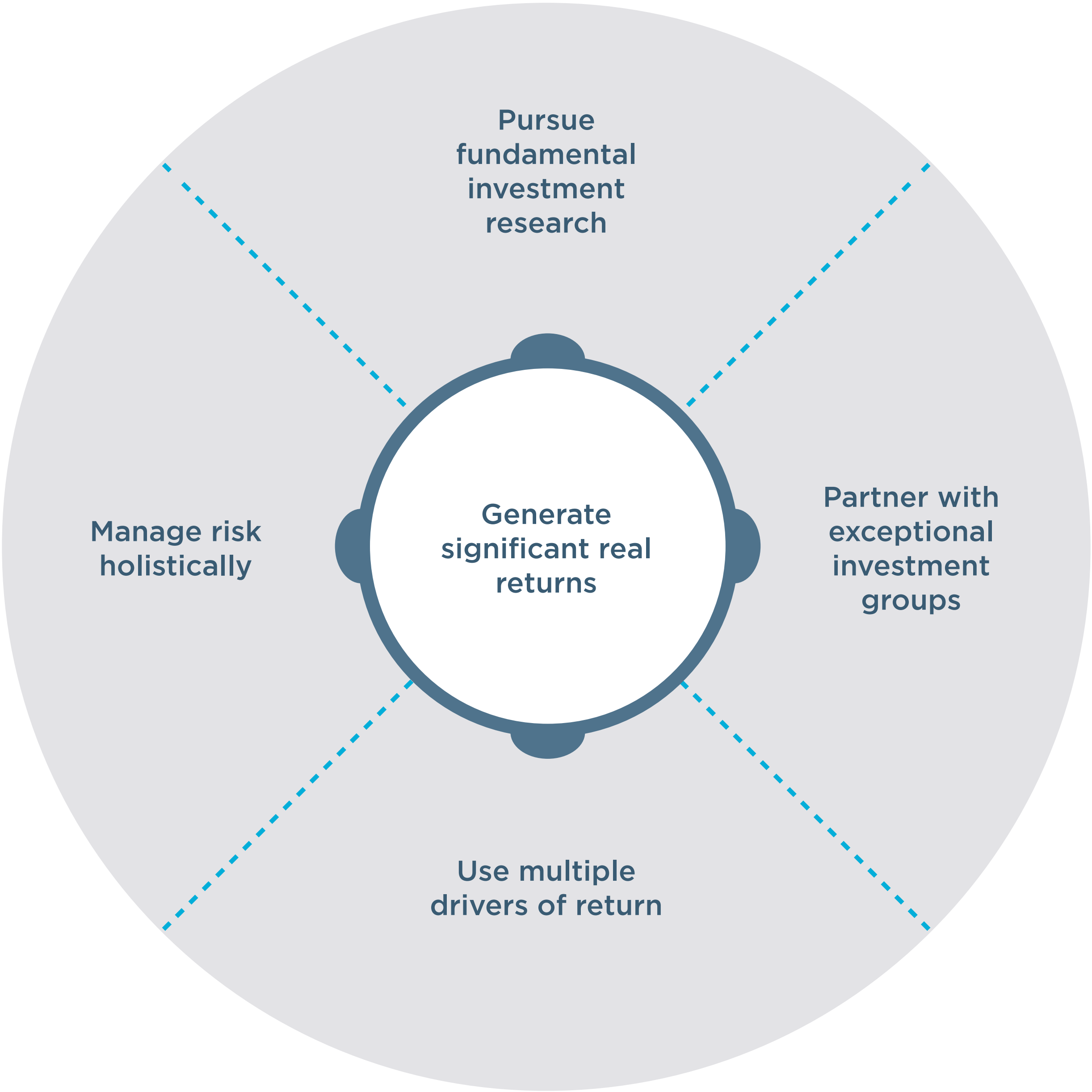


At OU Endowment Management, we believe charitable institutions deserve the highest standards of investment management. We never forget our purpose – to maintain and grow the real value of endowments, while providing a stable stream of income, to help our investors achieve their long term aims.

Our investment philosophy enables us to refine the investment universe and identify world class investment opportunities to generate significant real returns. It is built around our three unique competitive advantages:

- A genuine multi-year time horizon
- Proven access to the world's best investment groups
- Sole focus on managing global diversified long term capital for UK charitable investors

Somerville College



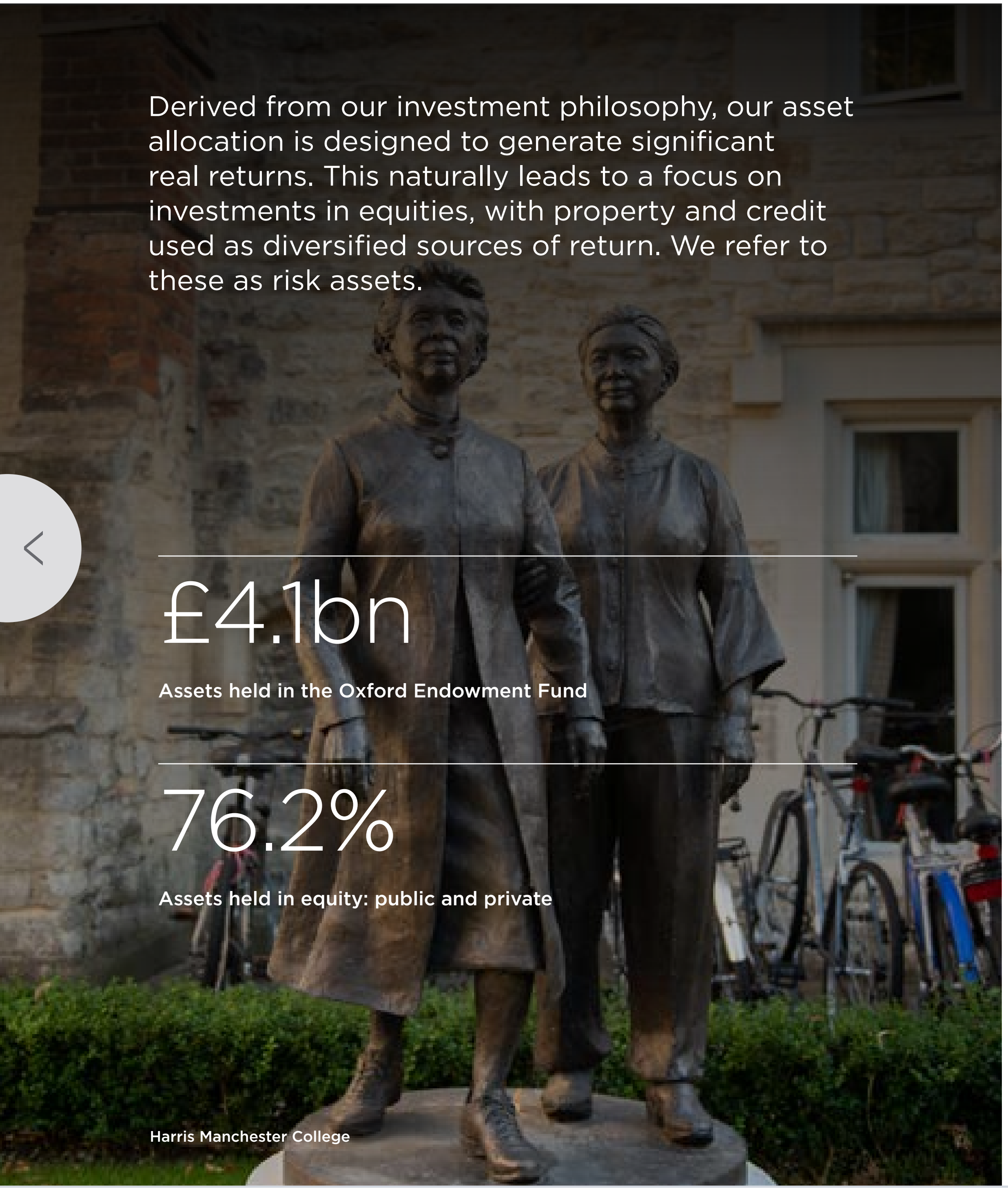
Pursue fundamental investment research
Managing perpetuity capital enables us to engage in research and investments that groups focused on short term benchmarking simply cannot. We pursue fundamental investment research across asset groups where we believe tensions, changes or inefficiencies in economies and markets provide investment opportunities. We then find the most appropriate way to pursue these in specific investments in the portfolio.

Partner with exceptional investment groups
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. We look for those 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. We expect our investment groups to behave like business owners, with deep fundamental research and understanding of a business and industry giving them credibility with the senior management teams of those companies.

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. This means that there are several independent routes to meeting our return target.

Manage risk holistically
Effective risk management is a mindset, ingrained in our company culture and investment philosophy. As part of this, we constantly evaluate a range of metrics and exposures to ensure that our fundamental views produce an optimal portfolio positioning. We question where we might be wrong, and how the portfolio might behave in a range of different circumstances through scenario modelling. This prevents us from carrying inadvertent risks in the portfolio and ensures we are ready to adapt to change.

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.

£4.1bn

Assets held in the Oxford Endowment Fund

76.2%

Assets held in equity: public and private

Harris Manchester 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 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 groups 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 in 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.

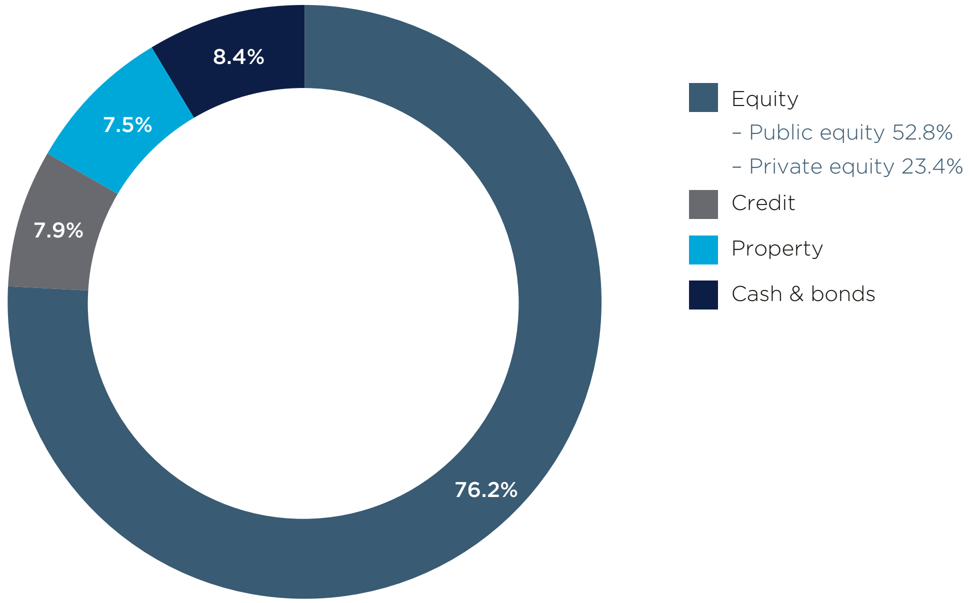
Credit

Our credit managers consist of specialist groups focused on complex situations across the credit spectrum – from bespoke 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 markets.

Property

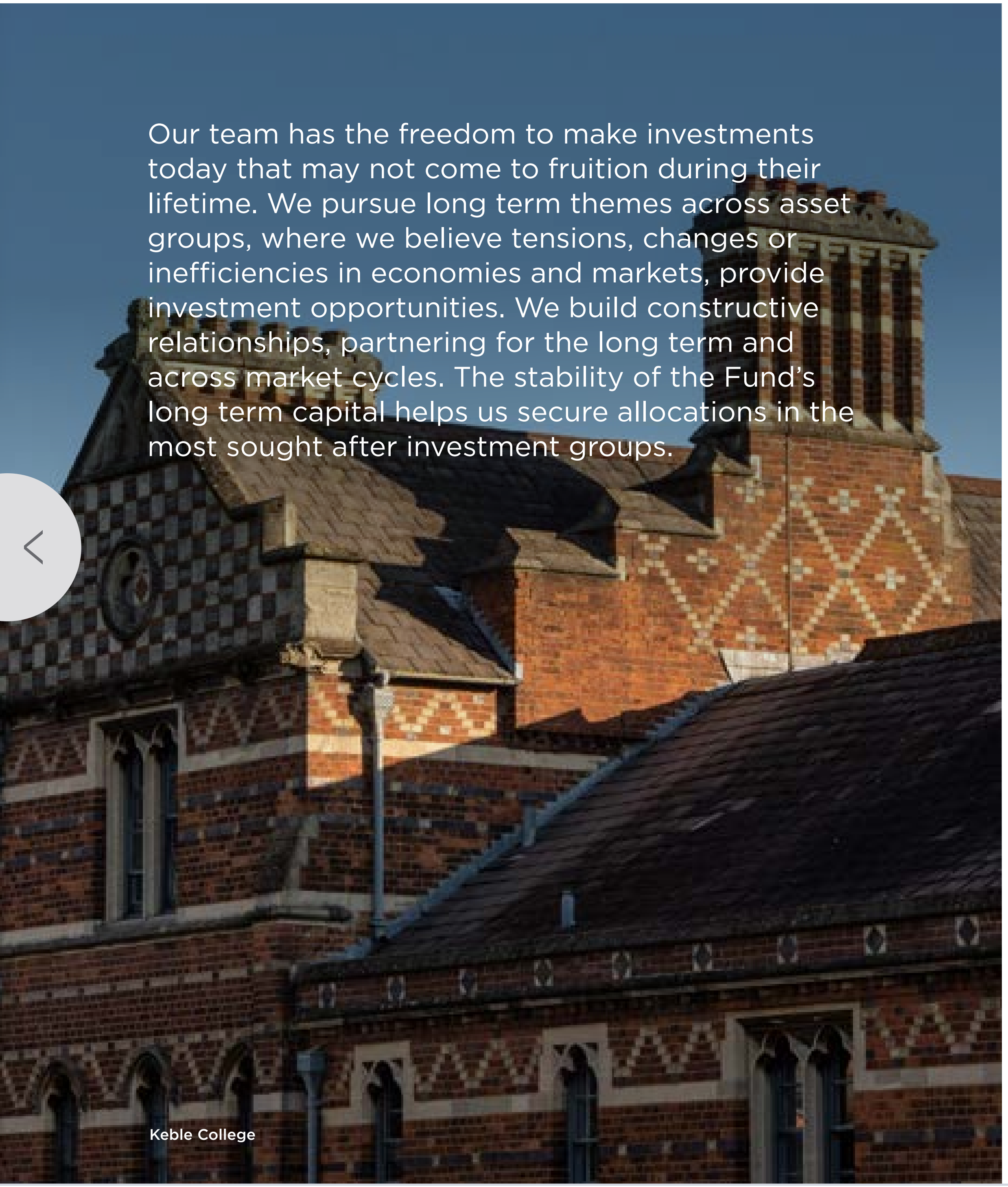
We manage the majority of our property portfolio directly. We have a range of properties across the UK which can be broadly categorised as rural, residential, commercial and strategic investments. Returns are achieved through a mix of income and capital growth – generated from active asset management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

Asset allocation at 31 December 2019



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.



Keble College

Idea generation

Managing long term capital enables us to identify long term investment themes, inefficient markets and other opportunities to make investment returns over longer durations that are not available to many other investors. Ideas are primarily generated from our own fundamental research projects, investigating geographies, sectors, themes and companies. They also come from our bespoke networks: existing managers, specialist intermediaries and like-minded investors.

Research

As an endowment with a dedicated investment team, we often invest in areas that require complex research prior to investment. This includes looking at emergent or contrarian strategies where standard data is unavailable. Overall, we focus our analysis on constructing an investment thesis: an investment's ability to contribute to the long term performance of the Oxford Endowment Fund, what this is driven by, and what risks it exposes the Fund to. Before any investment is made, we complete thorough quantitative and qualitative work across investment, operational, ESG (environmental, social and governance) and legal analysis, to ensure an opportunity is appropriate. Finally, we spend considerable time understanding the teams and individuals who will steward the assets.

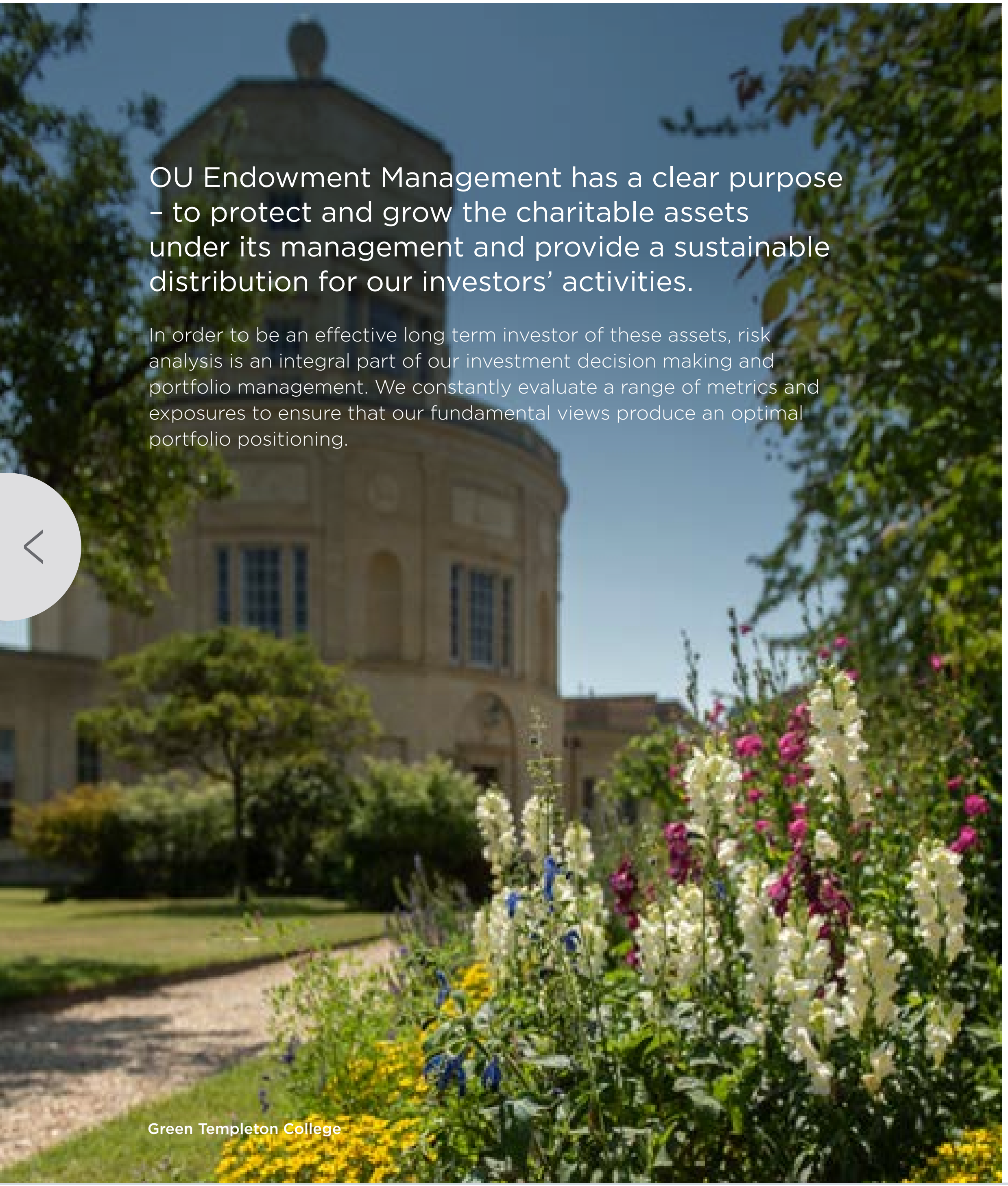
Evaluation

Our evaluation is designed to objectively review investments' progress against their original investment thesis. We predominantly invest in groups whose investment style is to hold a concentrated number of companies and who engage with their underlying management teams regularly. Ongoing evaluation includes analysis of underlying companies, return objectives, evolving risks, organisational health, and ESG or reputational concerns.

Decision making

Buy and sell decisions are fuelled by the fundamental research of the investment team, constant evaluation of the Fund's investments, and by ensuring the portfolio has the appropriate overall exposures from a risk perspective.

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.

Green Templeton 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.

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 technology which has been an effective way 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. The sector chart shows estimated look through sector exposure aggregated from all of our investments, and includes where a manager has assets held in cash.

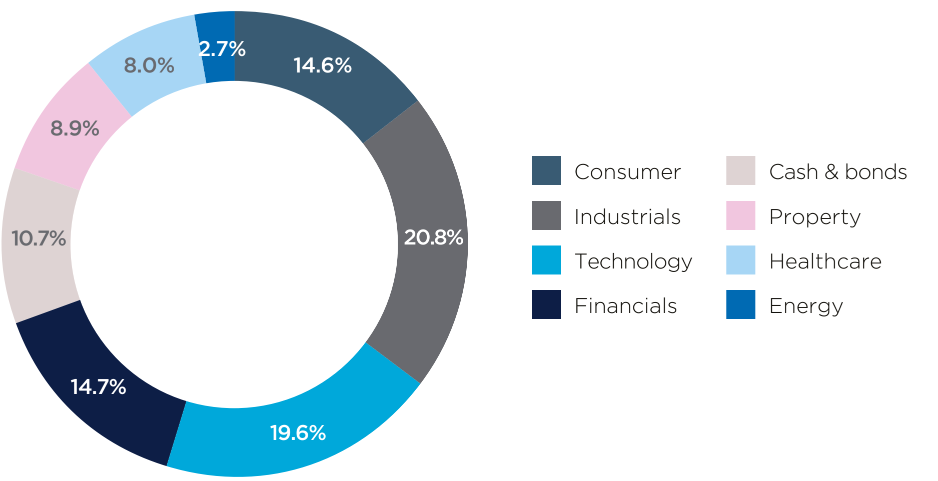
Liquidity management

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.

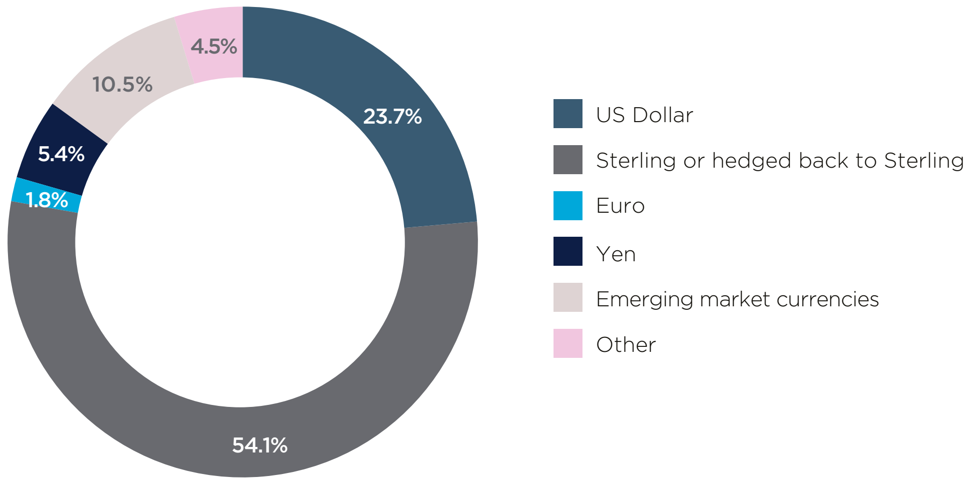
Currency exposure

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, 25% to 70% of the Fund will be in Sterling or hedged back to Sterling.

Sector exposure at 31 December 2019

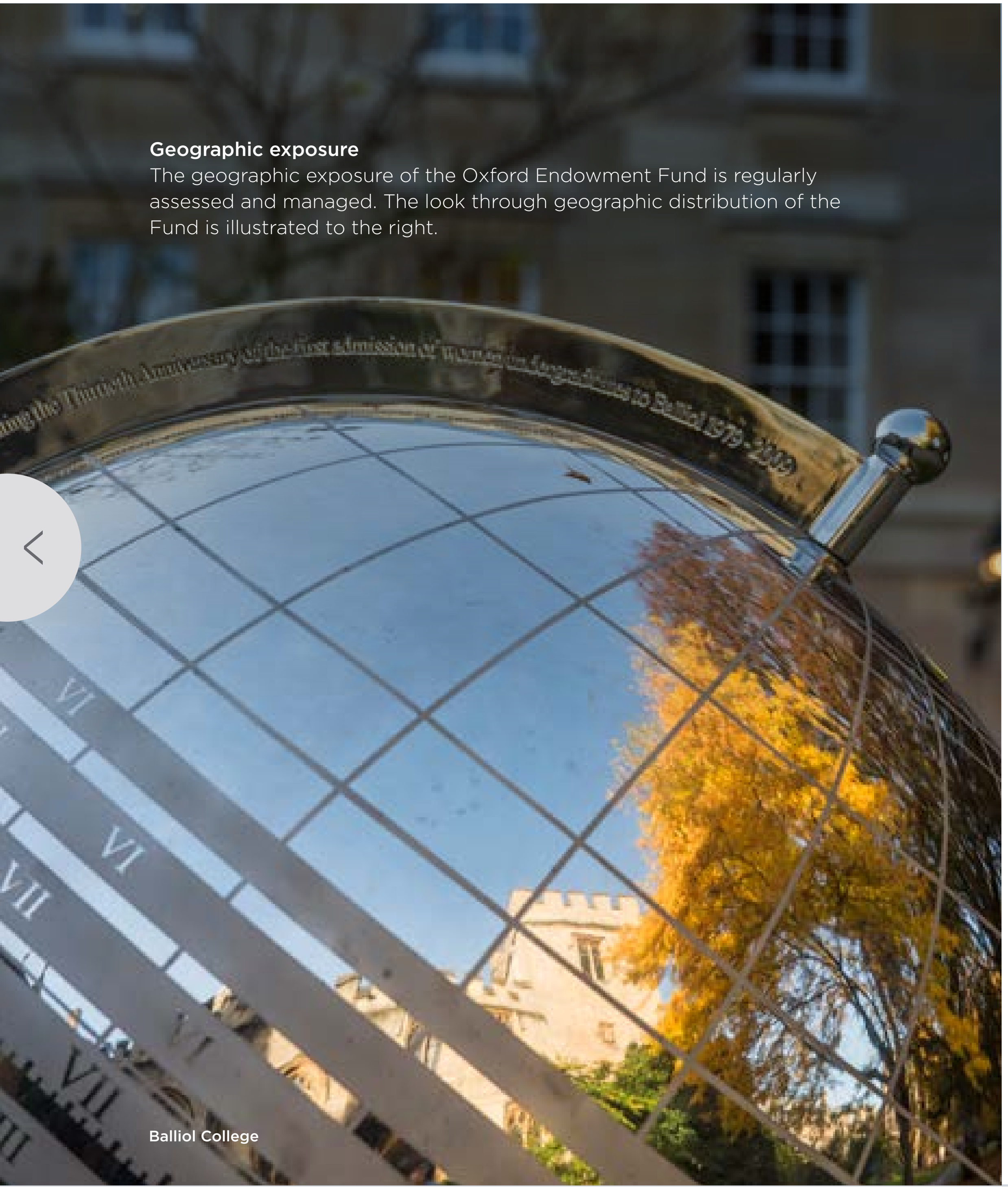


Currency exposure at 31 December 2019



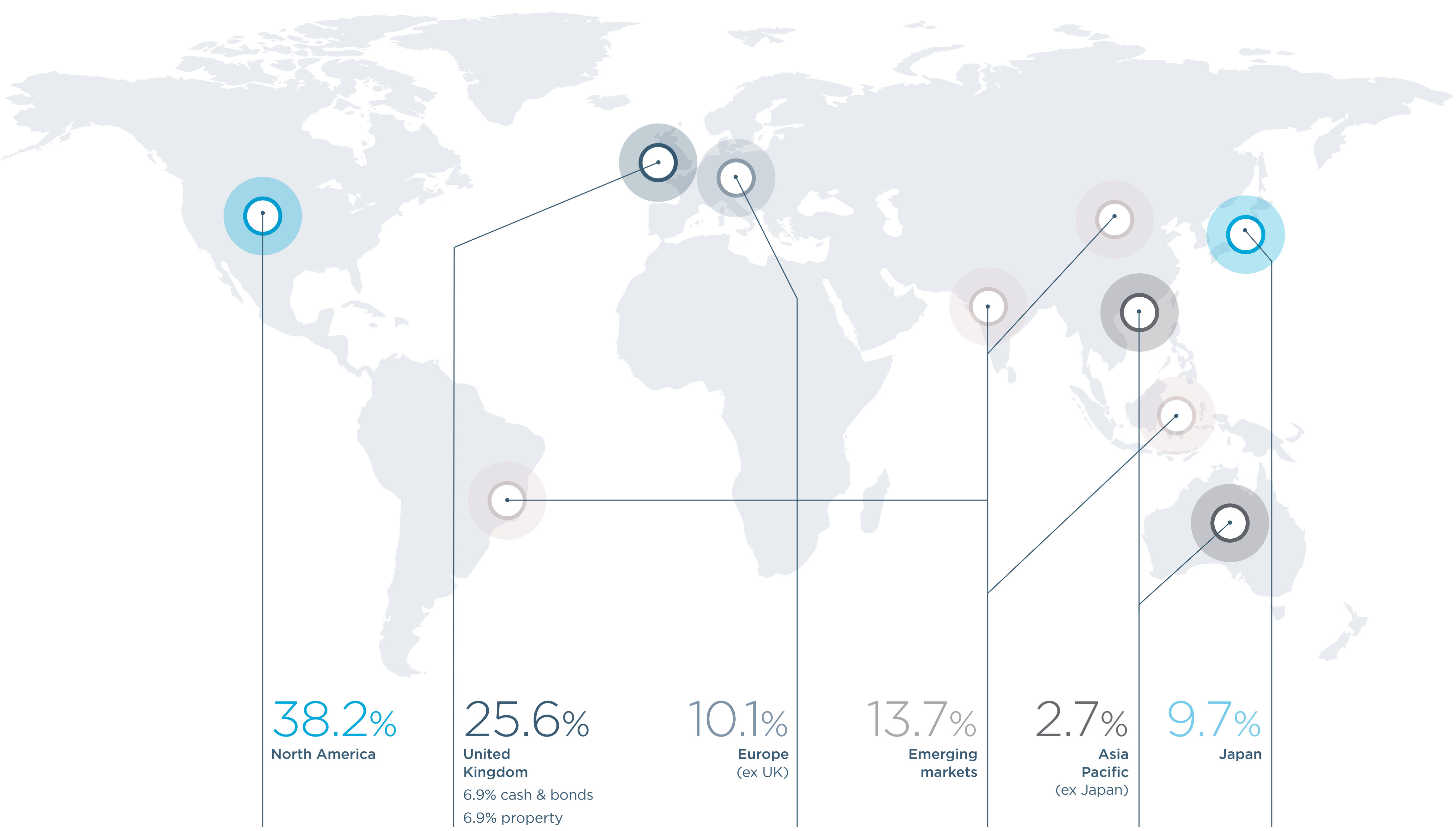
Risk management
(continued)

Geographic exposure
The geographic exposure of the Oxford Endowment Fund is regularly assessed and managed. The look through geographic distribution of the Fund is illustrated to the right.



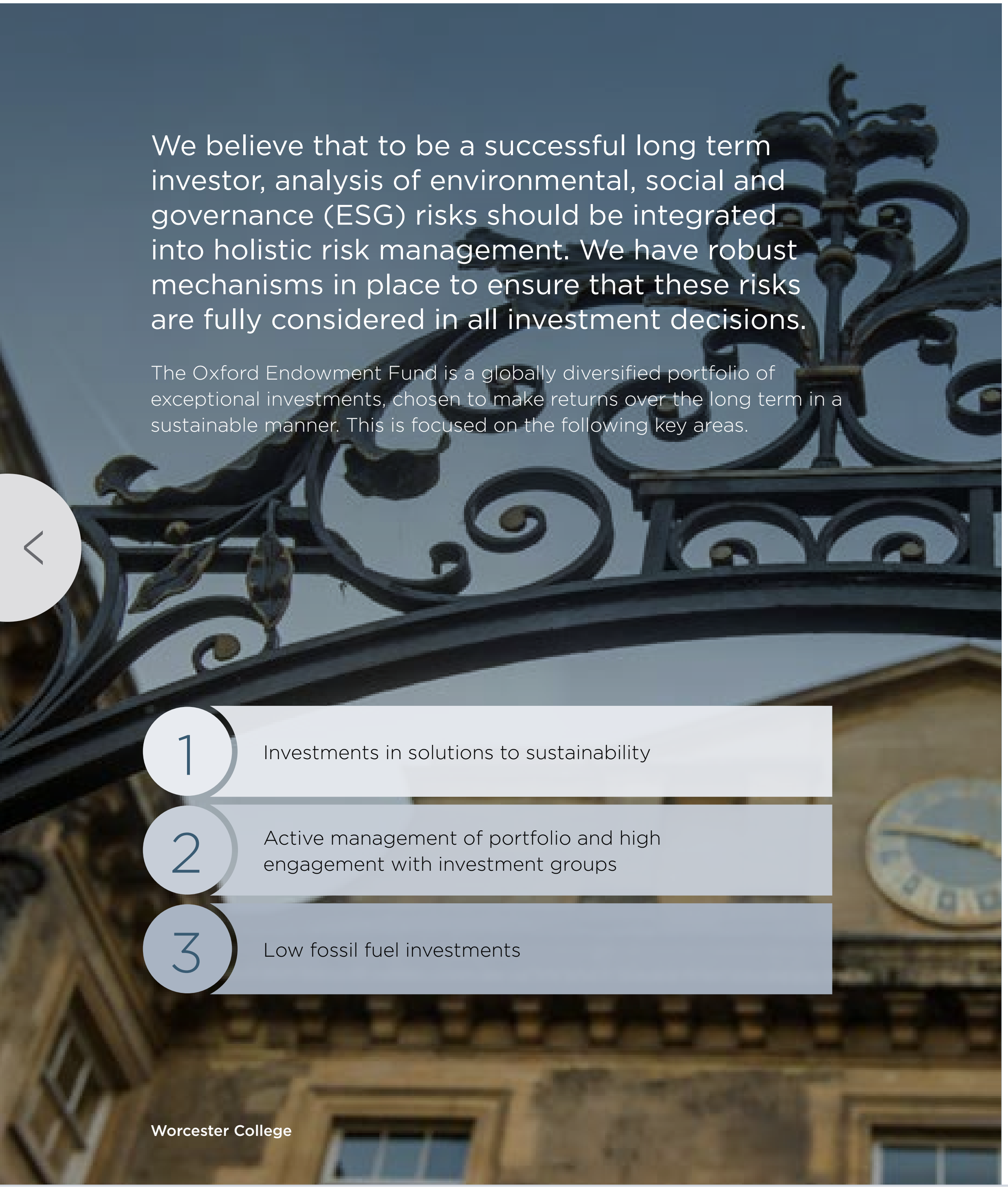
Balliol College

Geographic exposure at 31 December 2019



Risk management

Sustainability, ESG risk management and climate change



We believe that to be a successful long term investor, analysis of environmental, social and governance (ESG) 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.

The Oxford Endowment Fund is a globally diversified portfolio of exceptional investments, chosen to make returns over the long term in a sustainable manner. This is focused on the following key areas.

1. Investments in solutions to sustainability
2. Active management of portfolio and high engagement with investment groups
3. Low fossil fuel investments

Worcester College

1 Investments in solutions to sustainability

The necessity to live more sustainable lives is one the most pressing challenges facing society today. Managing perpetuity capital gives us a unique perspective and competitive advantage in this area. It enables us to look out into the future and assess risks and opportunities in a way that is simply not possible for shorter term investors purely trying to outperform market indices. In particular, for over 10 years, OUem has being working to deal with the threats and opportunities arising from climate change.

> We have been actively managing the Oxford Endowment Fund over the past decade to ensure that, as an investor, we are part of the solution to sustainability

Resource efficiency investments

In 2010, we invested in the fund of a group focused on companies' resource metrics on the basis that those which minimise their water, waste and energy use will outperform less prudent peers. We were their first institutional backer and, in 2011, we invested in the management company at the early stages of their journey. This group now manages over £1bn for institutional investors globally, including groups which are the most vocal proponents of ESG. We backed the company's next phase of growth in 2019, and were subsequently followed by a leading sustainable investor, eight years after our initial investment.

"OUem has performed considerable work in attempting to find an investment strategy that profits from environmental problem solving. Our thesis has been that companies will be rewarded if they find cost effective solutions to the pressing resource problems that the world faces, and that media and governmental concentration on this will encourage these solutions to happen."

OUem original investment memo in 2010

Innovation

The returns when funding innovation can be over a longer period than tolerated by a conventional investor. With our long term capital, we can support the identification of the start-up businesses of today, which will become the most innovative and successful businesses of the future.

Currently, just under 10% of the portfolio is invested in venture capital across sectors including environmental technology, healthcare technology and information technology.

Sustainable consumption

In 2013, we were the first institutional investors to back a venture fund focused on sustainable consumption. The group has a track record of success in marrying social purpose with financial gain, and this comes through in the following themes: sustainable foods, the sharing economy, and aligning business owners with social good. This includes companies focused on reducing intensity of farming methods through driving technological efficiencies; vehicle sharing; those reducing food miles; and others developing protein alternatives to reduce the need for meat in diets. We have also made several co-investments with this manager: 2014 in a plant substitute for eggs, and 2015 in an organic food marketplace.

One of the main sources of carbon emissions is the production of food and, after several years of researching this theme, we have recently backed a new investment group looking to invest in companies finding sustainability solutions in this area.

Natural capital

In early 2019, we initiated substantial research into natural capital projects across the property and land portfolio.

2 Active management of portfolio and high engagement with investment groups

In practice, our analysis of ESG risks is focused around four areas of activity: screening, due diligence, engagement and collaboration.

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 potential for detrimental social or environmental outcomes regardless of the sector.

We are not passive investors and we do not simply buy markets or indices of companies. We carefully select investment groups who in turn carefully select the companies they invest in.

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 responsible 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 CDP, Investor Forum and Institutional Investors Group on Climate Change.

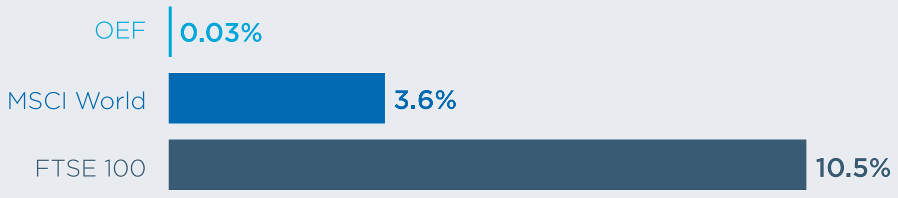
Investment restrictions

The University of Oxford is the largest unitholder in the Oxford Endowment Fund, and we work within the oversight framework to incorporate its investment restrictions into our investment process. Further detail of current restrictions can be found on www.ox.ac.uk.

3 Low fossil fuel investments

The outcome of our investment philosophy and active investment approach is that the OEF has few fossil fuel investments compared to other investment portfolios. At 31 December 2019, just 0.03% of the portfolio was held in fossil fuel public equities. This is significantly lower than fossil fuels' natural weighting in public equity markets, as shown in this chart. There is an additional 0.5% held in private strategies.

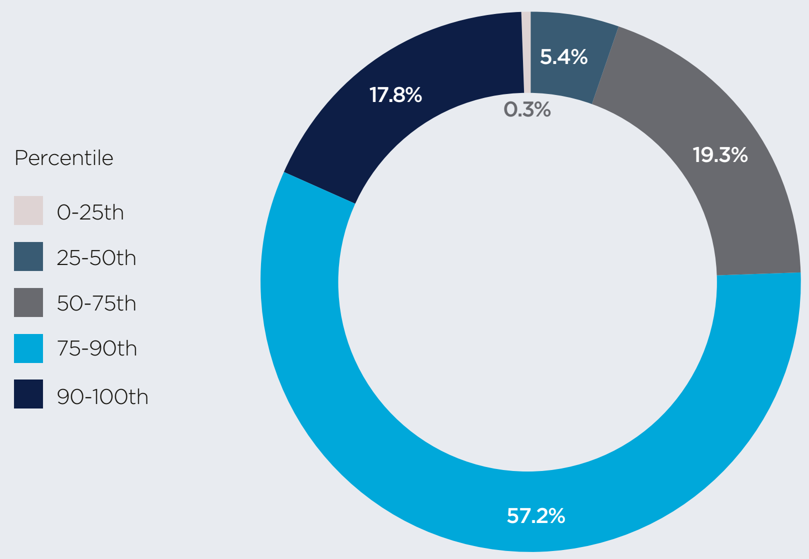
Public equity fossil fuel investments



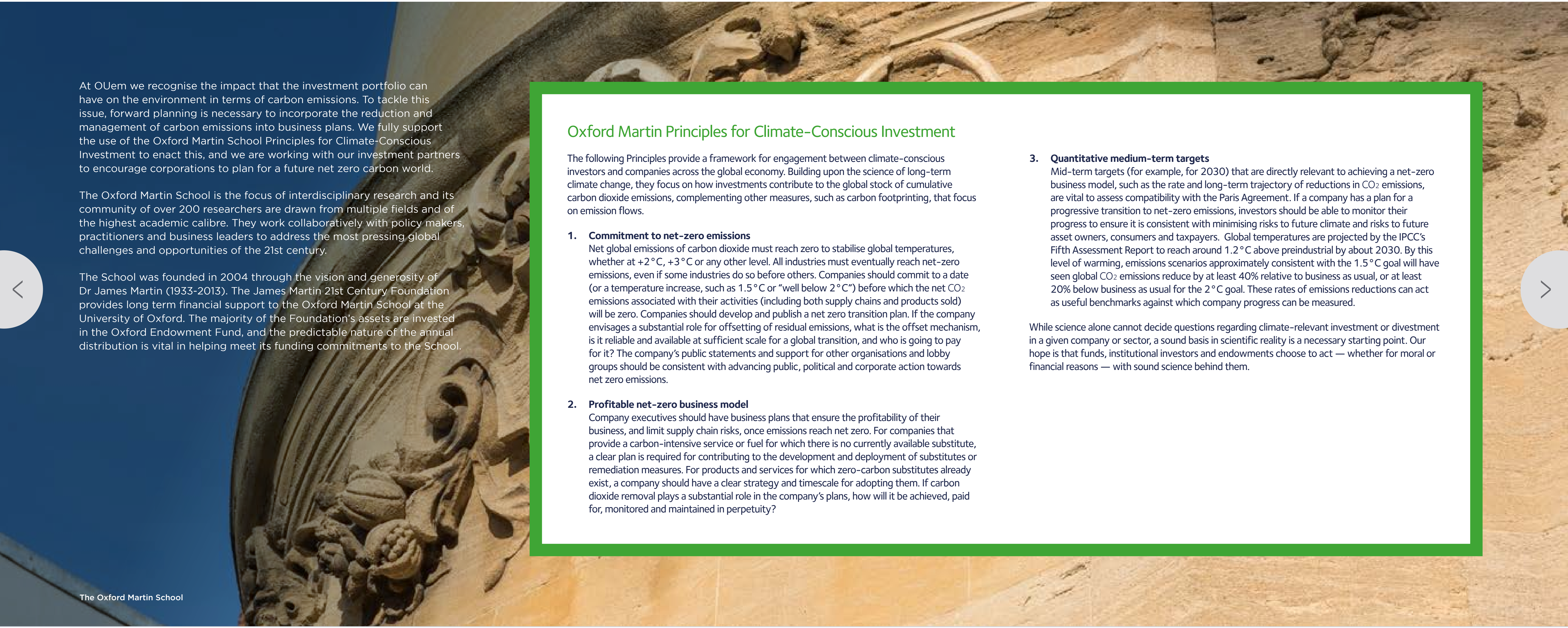
Source: OUem, Bloomberg, World Bank (WGI data). Estimated at 31 December 2019.

World Governance Indicators

The OEF invests in countries all over the world, and the geographic distribution is outlined on page 12. The World Bank scores countries across a range of World Governance Indicators (WGI), and a composite of these indicators is used to understand how the Fund's investments score under WGI rankings, in terms of their geographic location. This is included below and whilst this is modelled data, the chart shows that 75% of the areas in which the Fund holds investments are in the top 75th percentile of the WGI, meaning that the Fund predominantly holds investments in areas where there are strong legislative and regulatory environments. Regardless of where investments are held, we integrate analysis of how governance risks are managed, both prior to investment and during ongoing engagement with groups.



Engagement with the Oxford Martin School Principles for Climate-Conscious Investment



At OUem we recognise the impact that the investment portfolio can have on the environment in terms of carbon emissions. To tackle this issue, forward planning is necessary to incorporate the reduction and management of carbon emissions into business plans. We fully support the use of the Oxford Martin School Principles for Climate-Conscious Investment to enact this, and we are working with our investment partners to encourage corporations to plan for a future net zero carbon world.

The Oxford Martin School is the focus of interdisciplinary research and its community of over 200 researchers are drawn from multiple fields and of the highest academic calibre. They work collaboratively with policy makers, practitioners and business leaders to address the most pressing global challenges and opportunities of the 21st century.

The School was founded in 2004 through the vision and generosity of Dr James Martin (1933-2013). The James Martin 21st Century Foundation provides long term financial support to the Oxford Martin School at the University of Oxford. The majority of the Foundation's assets are invested in the Oxford Endowment Fund, and the predictable nature of the annual distribution is vital in helping meet its funding commitments to the School.

The Oxford Martin School

Oxford Martin Principles for Climate-Conscious Investment

The following Principles provide a framework for engagement between climate-conscious investors and companies across the global economy. Building upon the science of long-term climate change, they focus on how investments contribute to the global stock of cumulative carbon dioxide emissions, complementing other measures, such as carbon footprinting, that focus on emission flows.

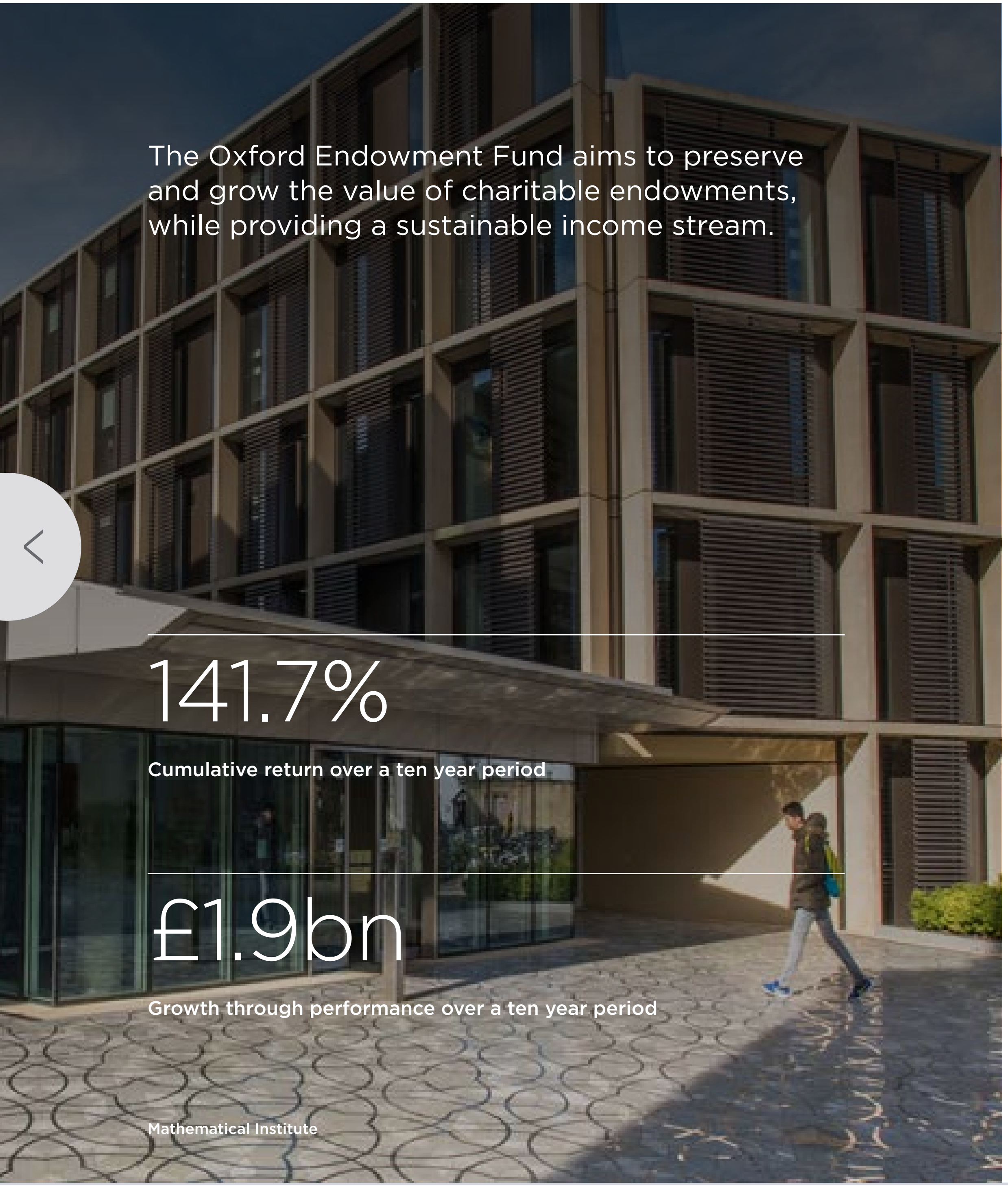
1. **Commitment to net-zero emissions**
   Net global emissions of carbon dioxide must reach zero to stabilise global temperatures, whether at +2 °C, +3 °C or any other level. All industries must eventually reach net-zero emissions, even if some industries do so before others. Companies should commit to a date (or a temperature increase, such as 1.5 °C or "well below 2 °C") before which the net CO_2 emissions associated with their activities (including both supply chains and products sold) will be zero. Companies should develop and publish a net zero transition plan. If the company envisages a substantial role for offsetting of residual emissions, what is the offset mechanism, is it reliable and available at sufficient scale for a global transition, and who is going to pay for it? The company's public statements and support for other organisations and lobby groups should be consistent with advancing public, political and corporate action towards net zero emissions.

2. **Profitable net-zero business model**
   Company executives should have business plans that ensure the profitability of their business, and limit supply chain risks, once emissions reach net zero. For companies that provide a carbon-intensive service or fuel for which there is no currently available substitute, a clear plan is required for contributing to the development and deployment of substitutes or remediation measures. For products and services for which zero-carbon substitutes already exist, a company should have a clear strategy and timescale for adopting them. If carbon dioxide removal plays a substantial role in the company's plans, how will it be achieved, paid for, monitored and maintained in perpetuity?

3. **Quantitative medium-term targets**
   Mid-term targets (for example, for 2030) that are directly relevant to achieving a net-zero business model, such as the rate and long-term trajectory of reductions in CO_2 emissions, are vital to assess compatibility with the Paris Agreement. If a company has a plan for a progressive transition to net-zero emissions, investors should be able to monitor their progress to ensure it is consistent with minimising risks to future climate and risks to future asset owners, consumers and taxpayers. Global temperatures are projected by the IPCC's Fifth Assessment Report to reach around 1.2 °C above preindustrial by about 2030. By this level of warming, emissions scenarios approximately consistent with the 1.5 °C goal will have seen global CO_2 emissions reduce by at least 40% relative to business as usual, or at least 20% below business as usual for the 2 °C goal. These rates of emissions reductions can act as useful benchmarks against which company progress can be measured.

While science alone cannot decide questions regarding climate-relevant investment or divestment in a given company or sector, a sound basis in scientific reality is a necessary starting point. Our hope is that funds, institutional investors and endowments choose to act — whether for moral or financial reasons — with sound science behind them.

Performance and activity



The Oxford Endowment Fund aims to preserve and grow the value of charitable endowments, while providing a sustainable income stream.

141.7%

Cumulative return over a ten year period

£1.9bn

Growth through performance over a ten year period

Mathematical Institute

Investment objective

The specific investment objective of the Oxford Endowment Fund (OEF or the 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.

OEF annualised net returns to 31 December 2019

	Nominal %	CPI %	Real %
3 years	8.1	2.1	5.9
5 years	9.6	1.6	8.0
10 years	9.2	2.1	7.1

OEF cumulative net returns to 31 December 2019

	Nominal %	CPI %	Real %
3 years	26.2	6.5	19.6
5 years	58.0	8.4	49.6
10 years	141.7	23.4	118.3

Note: Returns and exposure data shown in this report are for The Oxford Funds: Endowment Master and calculated by OU Endowment Management to 31 December 2019, unless otherwise stated. Returns are time weighted returns, quoted in Sterling and net of all fund expenses, including custody, administration and OU Endowment Management fees.

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 12.1% over the same period.

Performance and activity

At the end of 2019, we are pleased to report that the OEF has significantly exceeded its long term investment objective of generating a 5% real return for our investors, with the Fund returning an annualised 9.6% (8.0% real) over five years, and 9.2% (7.1% real) over ten years. Since opening on 1 January 2009, the Fund has distributed £781m to investors for their charitable purposes, and the distribution per unit has increased by 59.3%, 32.4% in excess of inflation.

In the Oxford Endowment Fund report, we outline the progress of the Fund against its long term objectives to the calendar year end at 31 December. 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 returned 15.7% in 2019, driven by strong performance across our equity portfolio.

At the time of writing, the world is facing a health and economic crisis brought on by COVID-19, and the market environment is quite different. A competitive advantage of managing permanent capital is to withstand volatility, in order to hold investments that will pay off meaningfully over the long term. However, while we avoid the temptation to be distracted by short term volatility, we are not blind to movements in markets nor complacent of risks. Given our assessment of full valuations in global markets, we have been cautiously positioned for some time, and below we will expand on our broader approach to risk management, before analysing the drivers of performance over the last 10 years.

> Our fundamental investment research guides our exposures and positioning

Firstly, it is important to reiterate that we always deal with risk on a micro level, both prior to investment and in our ongoing evaluation, through deep interaction with investment groups. Secondly, we ensure that we have a broadly diversified portfolio with different risk profiles. Diversification is key to our risk management, with holdings from large cap public equity to rural land behaving differently in a variety of market environments. Finally, we spend substantial time scenario planning, where we seek to establish how the portfolio would behave under varying conditions. We run stress tests regularly, pushing the portfolio through significant and prolonged periods of difficulty, and we do this regardless of the environment at the time.

Performance and activity

(continued)

The Fund seeks to make an annualised 5% real return over the long term and, as such, while the asset allocation has evolved over time, it has always been heavily focused on risk assets: equity (public and private), credit and property. Our fundamental research drives investment in these asset groups and is also reflected in the Fund's sector and geographic exposures (shown on pages 11 and 12). 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 targeted private strategies. In credit strategies, a significant amount of capital is being used to finance repair and structural change in many sectors globally.

A significant long term theme has been in the area of resource efficiency, where research was first initiated a decade ago in 2010. Managing perpetuity capital gives us a unique perspective and competitive advantage in this area, leading to significant investments in solutions to climate change and more broadly sustainability. We have supported strategies focused on resource efficient companies; strategies backing businesses reducing consumption patterns and those developing new businesses to reduce the environmental impact of agriculture. We are also leading the way in sustainable practices with our directly held property. Conversely, we have seen less opportunity for investments in traditional areas of energy production. At the end of 2019 just 0.03% is invested in public companies whose focus is on fossil fuel extraction.

> Owning equity in productive businesses is the best way to achieve our investment objective

During the year, there were no significant changes to the Fund's asset allocation. The Fund remains predominantly invested in equity, both public and private, and we have grown our cash holdings as valuations in markets continued to rise.

Over 10 years to the reporting date of 31 December 2019, global equity markets enjoyed an extended period of strong performance, although not without volatility: the Euro crisis, the Arab Spring, Brexit and US / China trade wars; to name just a few significant destabilising geo-political events, and there are many more. Against this backdrop, our public equity managers returned 11.3% annualised over 10 years, with a focused group of global approaches, supplemented by regional and sector specialists. During 2019, within public equity, the team focused on maintaining a concentrated portfolio of managers and positions, and we reviewed and moved on from several relationships.

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 groups. With each opportunity, we have backed experienced investors, with targeted pools of capital to invest in specific opportunities. This provides the OEF with access to differentiated equity investment ideas which simply could not be accessed in the public markets. The net IRR of the private equity portfolio since inception is 15.9%, even though the Fund has grown substantially during this time and a large portion of capital has been invested for less than five years.

Credit has been a strong contributor to the Fund returning 8.2% 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 special situation strategies which target a range of geographies including Europe and Asia. All of these have return drivers different to those of our equity investments. Having credit strategies available at times of economic stress is particularly beneficial for the Fund.

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 has been challenging as many investors have lower return hurdles than us, but we have been successful in building a solid commercial portfolio. Our in-house team has the experience and expertise to take on assets with complexity, duration and asset management opportunities.

Over the past few years, simply investing passively will have produced positive real returns. It is quite possible however 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 different market environments, active management with the right partner is the most effective form of stewardship for the Fund. 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 greater equity market volatility, active management will be even more valuable to ensure we have exposure to well managed businesses operating under challenging market conditions.

Public equity annualised net returns

to 31 December 2019	%
3 years	11.5
5 years	12.3
10 years	11.3

Private equity annualised net returns

to 31 December 2019	%
3 years	10.3
5 years	15.6
10 years	16.1

Credit annualised net returns

to 31 December 2019	%
3 years	0.8
5 years	7.6
10 years	8.2

Property annualised net returns

to 31 December 2019	%
3 years	5.3
5 years	5.6
10 years	7.2

15.9%

Private equity IRR

OU Endowment Management team

OU Endowment Management is a regulated investment manager and has full delegated authority for investment decisions. There are 22 team members, based in Oxford.

Kylla Abrigo
Operations Analyst

Fay Ashwell
Chief Operating Officer

Monica Bullen
Personal Assistant

Antonia Coad
Head of Sustainability and 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
HR and Business Administration

Lauren Madden
Head of Investment Operations

Ilze Malan
Operations Manager

Neamul Mohsin
Investment Director

Rachel Norris Cervetto
Head of Finance

Shivani Oberoi
Investment Manager

Sandra Robertson
Chief Investment Officer and CEO

Chloe Taysom
Investment Director

Will Tomsett
Investment Manager

Investment Committee

The University of Oxford's 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; the Chair of the Expert Panel of the First World War Centenary Cathedral Repairs Fund; a member of The Bard Graduate Center Executive Board; a member of the J Paul Getty Trust President's International Council; a Fellow of the Society of Antiquaries; a Bancroft Fellow of Mansfield College, Oxford University; a Chevalier of the Ordre des Arts et des Lettres and an Ambassador for AfriKids. Sir Paul is an Honorary Senior Research Fellow of the Victoria and Albert Museum, a Trustee of the V&A Foundation and was the former Chairman of the Victoria and Albert Museum. Sir Paul is also a former commissioner of the National Infrastructure Commission and was the co-founder in 1998 and former CEO (1998-2013) of Lansdowne Partners. He is a graduate of Oxford University (1980, 1st class honours in Jurisprudence) and holds honorary doctorates from Bowdoin College, USA and Birmingham University, UK.

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.

Jeremy Bennett

was formerly CEO 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.

Zeina Bain

is a Managing Director in ICG's European Subordinated Debt & Equity team. She joined ICG in 2019 from the Carlyle Group where she worked for 18 years, most recently as a Managing Director in the European Buyout team. Prior to Carlyle, Zeina worked in venture capital from 2000 at European Digital Partners having started her career at Merrill Lynch investment banking. Zeina has held a number of Board positions across aerospace, chemicals, healthcare, services and consumer product businesses. She's a graduate of Oxford 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 the board of the 3M Company and Chevron. 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 a master's degree at Harvard University. She completed an undergraduate degree in chemistry and an MBA in finance at American University in Washington, DC.

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.

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.

Jason Klein

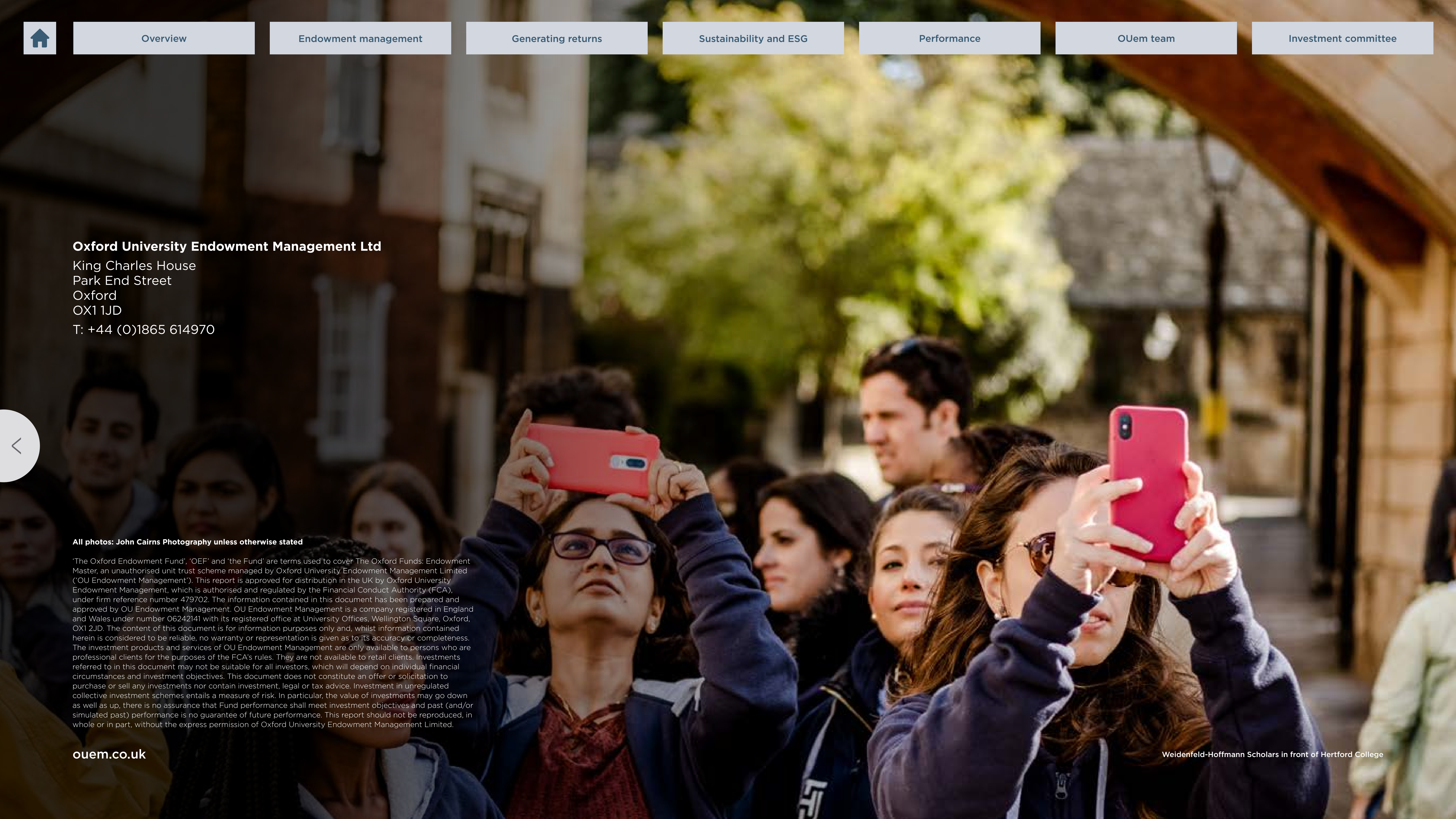
is Senior Vice President and Chief Investment Officer of Memorial Sloan Kettering Cancer Center in New York, where he is responsible for long term investment assets of US$5 billion. He was previously the Chief Investment Officer for The Museum of Modern Art in New York, and a principal in private equity.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

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.

Huw van Steenis

is Senior Adviser to the CEO of UBS and Chair of its Sustainable Finance Steering Committee. Prior to this, Huw was Senior Advisor to Mark Carney at the Bank of England, leading a review on the future of finance, focusing on the transition to a lower-carbon economy, catalysing climate change stress tests. Huw worked at Morgan Stanley for 14 years spending much of his time as Global Head of Banks and Diversified Financials research. From 2016-2018 he served as Global Head of Strategy at Schroders. He has served as a member and then co-chair of the World Economic Forum's Global Future Council on Financial and Monetary Systems, Taskforce on Scaling Voluntary Carbon Markets, IIF (2020-) and the ECB's Advisory Group on Macro-Prudential Policies and Financial Stability (2015-2017). Huw is a Trustee of English National Opera.



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ouem.co.uk

Weidenfeld-Hoffmann Scholars in front of Hertford College