

Quarterly Report – September 2022

19th January 2023

Fund and unit value

The net asset value of the Fund at 30th September 2022 was £3,798 million and the unit value was £66.64. The total net return for the quarter was -0.3%.

Figure 1: CUEF Asset Allocation.

	LAST QUARTER	“REPORT DATE” ALLOCATION		Long Term Target
	30 Jun 22	30 Sep 22		
	%	£	%	
Total Equity	66%	£2,436m	64%	
Public Equity	42%	£1,477m	39%	35-40%
Private Equity	24%	£959m	25%	25-30%
Real Assets	10%	£373m	10%	10%
Absolute Return & Credit	20%	£856m	22%	20%
Cash & Fixed Income	4%	£133m	4%	5%
TOTAL	100%	£3,798m	100%	100%

UCIM Organisation

UCIM moved to its new London office in King's Cross in October, which has substantially improved connectivity with our stakeholders and our Cambridge-based team.

On the personnel front, Anne Marie Fleurbaaij resigned following a decision to return to the United States for personal reasons. She will remain in post until mid-Q2 2023. While we will miss Anne Marie, her close partnership with fellow Managing Director Benoit Ramsay over the last three years will ensure a smooth transition in coverage. Benoit will step up to oversee both Absolute Return & Credit and Public Equity; UCIM has already commenced recruitment for a Senior Associate or Associate Director to support Benoit in this expanded role.

Alexis Zhou joined the UCIM team as an Investment Analyst in October. Alexis has already made a substantial contribution to the team's efforts. Two well-deserved Investment Team promotions recently became effective: Alex Sligo-Young and Akshay Patel were promoted from Investment Analyst to Senior Investment Analyst. Finally, Shiwen Bian, Senior Operations Analyst, started her maternity leave; we wish Shiwen all the very best for the coming months.

The quarterly Investor Call will be held on Friday 27th January at 2pm. Please register with Joel Beckman at Joel.Beckman@admin.cam.ac.uk and he will forward the joining details for the meeting. The second annual “Town Hall” meeting for students, faculty, and the wider University

will take place on Friday 3rd February at 12:30pm. This will be a “Teams Live” open invitation event and anyone that would like to attend can register here:

<https://www.eventbrite.co.uk/e/cambridge-university-endowment-fund-annual-town-hall-meeting-tickets-513007458117>

Chief Investment Officer Comments

Calendar Q3 2022 saw the continued downward re-pricing of most major traditional asset classes. Despite an impressive mid-summer rally, equities eventually closed the quarter considerably lower, as markets digested the impact of rising interest rates globally and began to price in a material increase in the probability of a global recession. Against this difficult global backdrop, the UK and Chinese markets stood out as particular underperformers as political turmoil and the ensuing LDI crisis precipitated a historic sell off in both UK government bonds and in Sterling, while in China, maintenance of the country’s strict “zero COVID” policy negatively impacted its onshore and offshore equity markets. Compounding these issues was a global diminution in financial liquidity, spurring a sharp rally in the US Dollar which gained a further +7.1% against a basket of major currencies.

Despite these challenges, the CUEF protected capital well, falling -0.3%, well ahead of its “New 65/35” Composite Benchmark (-2.9%), thanks to the Fund’s limited exposure to global and UK bonds and to positive returns in the CUEF’s Private Equity and Absolute Return & Credit portfolios, asset classes into which UCIM has been adding exposure since 2020.

The performance of the CUEF for the most recent quarter to 30th September 2022, the prior fiscal and calendar year, and the ten years ended 30th June 2022 is as follows:

Figure 2: CUEF Investment Performance vs Benchmarks

CUEF vs BENCHMARKS	Calendar Q3 2022	Financial Year 2021-22	Calendar Year 2022 To Date	Since 1 July 2020 *	Trailing 10 Years (Jul 12 – Jun 22)
	Cumulative	Cumulative	Cumulative	Annualised	Annualised
CUEF	-0.3%	-0.3%	-5.0%	+9.8%	+10.8%
UK CPI + 5%	+2.9%	+14.9%	+11.5%	+11.3%	+7.6%
“New 65/35” Benchmark**	-2.9%	-6.9%	-15.2%	+3.1%	+8.7%
“Old 65/35” Benchmark**	-1.2%	-4.7%	-11.9%	+4.0%	+9.4%
MSCI ACWI ex. fossil fuels	+1.2%	-5.3%	-11.2%	+8.7%	+12.0%
MSCI ACWI ex. fossil fuels (USD)	-7.0%	-16.7%	-26.8%	+3.6%	+9.0%
MSCI ACWI (USD)	-6.7%	-15.4%	-25.3%	+4.5%	+9.3%
FTSE All-Share	-3.4%	+1.6%	-7.9%	+8.1%	+6.9%
Barclays Global Agg. Bonds (GBP-Hedged)	-3.8%	-9.3%	-12.7%	-5.9%	+1.7%
FTSE British Govt Index-Linked Bonds	-9.3%	-16.3%	-29.3%	-13.1%	+3.9%
UK Quarterly Property	-4.2%	+19.1%	+3.3%	+9.1%	+8.6%

*Notes: CUEF returns are net of both manager and CUEF fees. All index returns in Pounds Sterling unless stated. * 1st July 2020 is the date at which various material changes to UCIM’s general portfolio approach (and risk limits) were formally incepted by the UCIM Board, and as such, when the new UCIM team’s “track record” is considered to have begun. ** The “New” 65:35 Composite Benchmark reflects slight alterations in the construction of this benchmark to better reflect the currency exposure of the CUEF itself. The “Old” 65:35 Composite Benchmark is presented for comparison. Past performance is not indicative of future returns.*

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Appendix 1 shows the breakdown of the Fund's assets by foreign exchange, geographic region, and sector.

Public Equity

Public markets in calendar Q3 were characterised by weak local currency performance, albeit this was offset at the CUEF level by Sterling weakness; the MSCI ACWI (ex-fossil fuels) lost -7.0% in US Dollar terms in the period, but gained +1.2% in Sterling. Markets lacked clear direction as they were buffeted by a number of crosscurrents, including, among other things, widespread signs of growing economic weakness manifesting in meaningful layoffs even at perceived "safe" companies like Amazon and Meta. Against this volatile backdrop, fundamental, long-only portfolio managers such as those in the CUEF's portfolio, struggled. Consequently, the CUEF's Public Equity portfolio continued to underperform, returning -0.6% in Sterling terms. The CUEF's Developed Markets portfolio (-0.3% in Sterling) performed slightly better than its Emerging Markets portfolio (-1.7%), albeit the former underperformed its index (+1.9%), while the latter outperformed (-4.4%).

Despite the difficult landscape, eight of the eighteen funds in the Public Equity portfolio outperformed their local currency benchmarks in the quarter. Specifically, CUEF's two largest US-focused long-only managers posted returns which beat the S&P 500 index. Meanwhile, CUEF's US-focused long-short fund posted good absolute returns of +2.4% in the quarter, strongly outperforming losses seen in US and global equity markets.

CUEF's investment in a global manager with a long-only fund dedicated to sustainable energy sources also performed relatively well, beating its benchmark by 70bps in the quarter.

Regrettably, one of the largest and highest conviction positions in the CUEF, a manager with a long-only portfolio of global, high-quality stocks, underperformed its MSCI World benchmark by 370bps, as even defensive stocks were hit by the uncertainty created by the market crosscurrents referenced above. Meanwhile, CUEF's biotechnology-focused manager meaningfully underperformed, as M&A hopes for its largest holding faded, although full calendar year-to-date relative performance remained positive.

In Emerging Markets, CUEF's China-focussed managers were the largest detractors to CUEF's absolute performance but UCIM was encouraged by strong relative performance against benchmarks, which were down roughly -20% in the quarter.

Absolute Return and Credit

During another difficult quarter for almost all major asset classes, the CUEF's Absolute Return & Credit portfolio rose +1.3% in local currency terms (or +7.1% in Sterling). The portfolio's moderate local currency gain during the quarter represents a strong result, given that most major equity indices experienced mid-single digit falls (in local currency), investment grade and high yield markets saw continued declines and, as discussed, government bonds saw further falls. Moreover, the HFRI Fund Weighted Composite, a broad gauge of hedge fund performance, fell -0.7%.

At the beginning of Calendar Q3 2022, the CUEF's Absolute Return & Credit book consisted of

eleven core manager positions. During the quarter, seven of these managers recorded positive returns in local currency. Of particular note were two low net long-short equity funds: the first, a financials-focused fund which returned +7.7% in local currency terms and the second, a fund specialising in the transition away from conventional energy and towards sustainable energy sources, which returned +5.2%.

Elsewhere, the CUEF's non-core legacy exposure to illiquid distressed opportunities continued to be accretive. In aggregate, these line items returned +10.5%, driven by a broad spectrum of underlying positions.

The Absolute Return & Credit portfolio's overall return was dampened by just one out-sized detractor (-8.2%) during the quarter, an exposure to US real rates via one of the Fund's volatility strategies.

We expect there to be limited "new manager" activity within the Absolute Return & Credit portfolio during the next six to nine months. However, we shortly expect to commit a small amount of additional capital to an existing manager, a European distressed credit and liquidations specialist, which is seeing particularly attractive opportunities at present.

Private Equity

During the calendar Q3, the Private Equity portfolio returned +4.9% in Sterling terms, underperforming the (preliminary) Cambridge Associates composite benchmark return of +6.0%. The strong absolute numbers for both the Private Equity portfolio and benchmark are primarily due to their Sterling reporting currency, given material Sterling weakness in the quarter. In local currency, the Private Equity portfolio returned an estimated -1.2%. Underperformance was primarily driven by the portfolio's underweight to North American buyouts and our overweight to the UK.

Individual fund performance during the quarter was mixed, with no clear trends, as performance was generally driven by idiosyncratic events across managers' portfolios. The main positive contributors during the quarter were two North American buyout managers, one of which is a small-cap consumer specialist and the other a global large-cap retail and consumer specialist, which returned +12.4% and +8.6% respectively. On the less positive side, CUEF's Chinese Private Equity and UK Venture Capital specialists returned -6.5% and -4.9% respectively.

Activity levels on both the acquisition and distribution front continue to be relatively muted, as market uncertainty has led to a widening gulf between buyer and seller expectations. Distributions were £27 million during the quarter. Capital calls in the quarter were £39 million, broadly in line with the last quarter. However, most of these capital calls were used to pay down fund credit facilities rather than representing a continuation of the investment pace we have seen over the last couple of years.

During the quarter, two new commitments were finalised: a commitment to a Japanese buyout manager and a commitment to an early-stage venture capital manager. Post quarter end, three fund commitments and a co-investment were completed. The three commitments were to a North American Industrials buyout specialist, a European buyout manager, and a European Software manager. With these commitments, total 2022 commitments made rose to £215 million across twelve investments, in line with our target commitment level.

Real Assets

The Real Assets portfolio returned a modest +0.6% in Sterling terms in Calendar Q3 2022, albeit ahead of its benchmark, at -1.9%. Third quarter performance was primarily driven by strong results from CUEF's European renewable energy manager which offset valuation declines in the CUEF's Real Estate portfolio. Specifically, CUEF's renewable energy manager sold a portfolio of operational assets generating a 1.7x gross multiple on invested capital, resulting in an 8.4% return for the overall position during the quarter.

The valuation of the UK industrial properties held in one of CUEF's Real Estate vehicles declined -5.8% over the quarter (or -7.5% once the vehicle's leverage is taken into account) as rising interest rates fed through to the capitalisation rates used to estimate market values. Generally speaking, the UK's property investment market has slowed dramatically as the availability of debt financing has reduced, while lenders wait to see if a recession materialises. Fortunately, this particular vehicle is mostly unaffected by this dynamic, as its properties remain well-let to a diversified set of tenants at rents that remain below levels currently offered by the market. Furthermore, the vehicle's leverage is low and benefits from a low fixed interest rate, insulating the portfolio from near-term rate volatility.

Sustainability Update

Against the three pillars of our Sustainable Investment Strategy, the following progress has been made since the last quarterly report:

Investing to achieve a phased transition to “net zero”

As of 30th September 2022, the CUEF's conventional energy exposure was 3.4%, meaningfully below the MSCI ACWI 5.2% and representing a reduction of 40 basis points since 30th June 2022.

Engaging to decarbonise the real economy

Dates have been finalised and registration links sent for the third cohort of the “Net Zero by 2038” programme delivered in partnership with the Cambridge Institute for Sustainability Leadership (CISL). The target cohort is our partners based on the West Coast of the US and the first leg of the programme will take place in San Francisco in March 2023, concluding in Cambridge in May. Six firms have indicated attendance.

Reporting with transparency and accountability to our stakeholders

The Annual Review was published on the UCIM website at the start of December and shared with partners and other stakeholders, receiving very positive feedback. Meanwhile CUEF's hosted four interns over the summer, including two students from the University and two “external” internships (through our partnerships with GAIN and 10,000 Black Interns). Looking forward to summer 2023, UCIM intends to host a further four interns, with two again coming from the University and one each from GAIN and 10,000 Black Interns.

Leverage

UCIM reports quarterly three actual leverage measures for the CUEF: the CUEF's own internal

method, the AIFMD 'Gross' method and the AIFMD 'Commitment' method.¹ The primary difference between the CUEF's own internal method and that employed by both AIFMD methods is that the latter set incorporates the entire notional value of some of the CUEF's investments; additionally, in the case of the AIFMD 'Gross' method, any hedging is disregarded. Further detail regarding the calculation of these measures is included in Appendix 2.

As at 30th September 2022 the Fund had no leverage under the CUEF's own method and capital commitments outstanding of 18%. The AIFMD leverage ratios were as follows: 'Gross' method 160%, 'Commitment' method 95%. To aid investor understanding a breakdown of the main contributors to the actual 'Gross' and 'Commitment' leverage levels is provided in Appendix 3.

¹ Leverage measures as set out in the Alternative Investment Fund Managers Directive ("AIFMD") 2011/61/EU and the Delegated Regulation 231/2013.

Appendix 1: Portfolio Composition

Foreign Exchange Exposure – Total CUEF

	CUEF post FX hedge		
	Quarter End	Financial Year End	Calendar Year End
	30-Sep-22	30-Jun-22	31-Dec-21
GBP	65.4%	60.3%	56.1%
USD	13.9%	17.2%	22.5%
Other Developed Market FX	7.7%	10.0%	10.9%
<i>of which EUR</i>	1.9%	4.5%	4.6%
<i>of which JPY</i>	1.6%	1.6%	2.0%
<i>of which CAD</i>	0.4%	0.5%	0.7%
<i>of which CHF</i>	0.8%	0.8%	1.0%
<i>of which Other</i>	3.0%	2.6%	2.6%
Emerging Market FX	13.0%	12.5%	10.5%
<i>of which RMB</i>	7.5%	7.4%	6.1%
<i>of which Other</i>	5.5%	5.1%	4.4%

Geographic Region Exposure – Total CUEF

	CUEF		
	Quarter End	Financial Year End	Calendar Year End
	30-Sep-22	30-Jun-22	31-Dec-21
Developed Markets	72.0%	73.9%	74.2%
<i>of which United States</i>	35.0%	34.9%	33.0%
<i>of which United Kingdom</i>	20.5%	22.4%	24.1%
<i>of which Europe ex-UK</i>	10.9%	10.1%	9.9%
<i>of which Japan</i>	2.7%	3.6%	3.9%
<i>of which Canada</i>	0.6%	0.6%	0.9%
<i>of which Other DM</i>	2.3%	2.3%	2.4%
Emerging Markets	12.8%	12.5%	11.5%
Balance²	15.2%	13.6%	14.3%

² The Balance is predominantly non-directional exposure from the Absolute Return portfolio, a degree of leverage in Equities portfolio, Cash held at both a CUEF level and underlying managers, and a small portion of investments where a lack of data meant it could not be categorised.

Sector Exposure – Total CUEF

	CUEF		
	Quarter End	Financial Year End	Calendar Year End
	30-Sep-22	30-Jun-22	31-Dec-21
Information Technology	21.1%	20.0%	19.0%
Consumer Discretionary	11.3%	11.3%	11.6%
Real Estate	10.0%	10.2%	10.6%
Healthcare	9.0%	9.7%	9.8%
Industrials	7.7%	8.6%	8.9%
Financials	5.8%	5.9%	6.3%
Consumer Staples	4.6%	4.8%	4.6%
Communication Services	4.2%	4.5%	4.9%
Energy	3.4%	3.5%	2.4%
Utilities	2.6%	2.5%	2.3%
Materials	2.0%	1.9%	2.1%
Balance³	18.3%	17.1%	17.5%

³ The Balance is predominantly non-directional exposure from the Absolute Return portfolio, a degree of leverage in Equities portfolio, Cash held at both a CUEF level and underlying managers, and a small portion of investments where a lack of data meant it could not be categorised.

Appendix 2: UCIM leverage calculation methods

Since the introduction in 2014 of the Alternative Investment Fund Managers Directive 2011/61/EU (“AIFMD”) and the Delegated Regulation 231/2013, we have been reporting three leverage measures in the Investor Quarterly Report, these being calculated leverage in accordance with the ‘Gross’ and Commitment methods per AIFMD and in addition, calculated leverage using CUEF’s own internal method.

Calculated leverage using the CUEF’s own internal method:

The CUEF’s own internal method calculates the amount of leverage employed via cash borrowing or negative cash. Having grossed up derivative positions, this leverage is measured by comparing the net asset value of all investments except those in the Fixed Interest/Cash asset class with the total net asset value of the portfolio. So long as the Fixed Interest/Cash class is a positive percentage of the portfolio, there is no leverage in the portfolio using this method.

Calculated leverage using the AIFMD ‘Gross’ method

The AIFMD ‘Gross’ method considers the gross investment exposure of the Fund and in this scenario all hedging to protect the portfolio from possible losses is disregarded. In addition, only base currency Fixed Interest/Cash amounts are deducted from the gross investment exposure. In the case of a global fund such as CUEF, where derivative instruments are used to hedge the portfolio, the ‘Gross’ method is particularly sensitive to the following:

- (1) Foreign Currency Hedges - The Fund holds investments in any currency without restriction and achieves the hedges as necessary by maintaining forward foreign currency contracts. In the case of a forward foreign currency contract, both the Sterling asset and the foreign currency liability are accounted for within Fixed Interest/Cash. Hence entering into such a contract could not increase leverage. However, leverage under the ‘Gross’ method ignores this hedging and grosses up the position. For instance, in a hypothetical example, if all investments in a fund were denominated in foreign currencies and all foreign currency exposure in the fund was hedged, the gross exposure would be 200%.
- (2) Asset Class Hedges – The Fund may from time to time hold futures contracts based on, for example, equity indices. In this case, the value of the exposure gained is shown gross within the appropriate asset class (for example, Public Equity or Real Assets) whilst the value of the liability to pay for the exposure is shown within Fixed Interest / Cash. The leverage calculation using the ‘Gross’ method grosses up these future positions and counts them as exposure that increases the leverage ratio.
- (3) Macro Hedges - The inclusion of notional contract sizes in the valuation methodology for interest rate derivatives leads to what can be considered an “overvaluation” of positions and overstatement of leverage. For the purposes of the gross investment exposure valuation such positions are calculated as follows: ‘Gross’ exposure valuation = number of contracts x notional contract size x market value of underlying asset x delta as per the conversion methodologies under AIFMD Delegated Regulations 231/2013, Annex II.

Calculated leverage using the AIFMD ‘Commitment’ method leverage:

This method considers the gross investment exposure of the Fund as covered above in the ‘Gross’ method but allows reductions for hedging and netting strategies.

Appendix 3: Leverage calculations as of 30th September 2022

Below is a breakdown of the contributors of the actual gross and commitment leverage levels to aid Investor understanding:

CUEF % Leverage - CUEF own internal method	
	£m
CUEF Net Asset Value	3,798.5
Exclude: Fixed Interest / Cash Investments	(95.4)
Total Exclusions: CUEF own internal method	3,703.1
CUEF Total Investment Exposure - 'CUEF own' method	3,703.1
CUEF Net Asset Value	3,798.5
CUEF Leverage % - CUEF own internal method	97%
CUEF Leverage Limit % - CUEF own internal method	110%

CUEF % Leverage - 'Gross' method	
	£m
CUEF Net Asset Value	3,798.5
Plus: Adjusted Derivative Positions	
- Plain Vanilla Options on Futures Contracts	0.0
- Futures	28.6
- Currency Contracts	1,722.3
Total CUEF Investment Position - 'Gross' method	5,549.4
Exclude cash and cash equivalents	(173.8)
Total Exclusions - 'Gross' method	(173.8)
CUEF Total Exposure excluding capital commitments- 'Gross Method'	5,375.6
CUEF Net Asset Value	3,798.5
CUEF Leverage % - 'Gross' method excluding capital commitments	142%
CUEF Capital Commitments (Private Equity)	717.2
CUEF Total Exposure excluding capital commitments- 'Gross Method'	6,092.8
CUEF Net Asset Value	3,798.5
CUEF Leverage % - 'Gross' method including capital commitments	160%
CUEF Leverage Limit % - 'Gross' method	5,000%

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CUEF % Leverage - 'Commitment' method	
CUEF Net Asset Value	£m 3,798.5
Plus: Adjusted Derivative Positions	
- Plain Vanilla Options on Futures Contracts	0.0
- Futures	28.6
- Currency Contracts	1,722.3
Total CUEF Investment Position - 'Commitment' method	5,549.4
Exclude: Hedging positions	(1,750.9)
Exclude cash and cash equivalents	(173.8)
Total Exclusions - 'Commitment' method	(1,924.7)
CUEF Total Exposure excluding capital commitments- 'Commitment' method	3,624.7
CUEF Net Asset Value	3,798.5
CUEF Leverage % - 'Commitment' method	95%
CUEF Leverage Limit % - 'Commitment' method	5,000%

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