

Quarterly Report – 31st December 2022

5 April 2023

Fund and unit value

The net asset value of the Fund at 31st December 2022 was £3,834 million.

The unit value was £66.66.

The total net return for the quarter was 1.0%.

Figure 1: CUEF Asset Allocation.

The CUEF's asset allocation at 31st December 2022 is shown below, along with the comparison against previous quarter and our long-term target.

	LAST QUARTER	“REPORT DATE” ALLOCATION		Long Term Target
	30 Sep 22	31 Dec 22		
	%	£	%	
Total Equity	64%	£2,460m	64%	65%
Public Equity	39%	£1,530m	40%	35-40%
Private Equity	25%	£930m	24%	25-30%
Real Assets	10%	£305m	8%	10%
Absolute Return & Credit	22%	£809m	21%	20%
Cash & Fixed Income	4%	£260m	7%	5%
TOTAL	100%	£3,834m	100%	100%

Chief Investment Officer's Quarterly Review

Market overview

Following a tumultuous calendar third quarter in 2022, in which almost every major liquid asset class suffered material losses, Calendar Q4 (Q2 of the CUEF's 2022/23 Financial Year) saw a marked recovery in global equity markets (+9.3% for the MSCI All-Country World Index ("ACWI") ex-fossil fuels, in US Dollars; +1.5% in Sterling). Calendar Q3's weakness had been driven primarily by stubbornly high inflation readings and accompanying interest rate rises; Q4's recovery was in turn driven by a moderation in the former and thus less panic about the latter.

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Global markets were also supported by the decision by Chinese policymakers to shelve the country's "zero COVID" policy, benefiting offshore Chinese shares, in particular, which rallied an impressive +35.8% from their late October trough. In the UK, meanwhile, a stabilisation of the political situation and an almost complete reversal of the Truss-era "growth budget" saw Sterling stage a significant comeback against the US Dollar (+8.2%).

Although occurring post the end of the period covered by this report, it is worth commenting on the volatility in the banking sector through March 2023. We were reassured to see the quick actions of the both the US and UK authorities to mitigate the implications of SVB's collapse; and similarly the Swiss response to Credit Suisse.

Some of the CUEF's private equity managers did have banking relationships with SVB. As the news of SVB's collapse broke, we were immediately in touch with all of these managers to determine the implications for them and the CUEF. The conversations were constructive and reassuring. In all cases, the level of exposure for them and the CUEF was not material.

In the short-to-medium term, we believe the principal impact for the CUEF is the provision of credit facilities, which may lead to the acceleration of some managers' capital calls. This issue is principally one of timing, however, as the CUEF would have ultimately been liable to meet these calls in any case.

While we expect some continued volatility in the value of banking sector stocks, we feel reassured that the situation has stabilized; we will of course continue to monitor the situation and report any material changes that affect the CUEF.

CUEF performance

The report below focuses on the fourth quarter of the calendar year 2022. We also provide figures for the full calendar year 2022, as well as for the first six months of the CUEF's 2022/23 Financial Year.

The total net return for the quarter ended 31st December 2022 was +1.0%, 50 basis points ahead of the "New 65/35" Composite Benchmark (0.5%). For the first six months of the Financial Year 2022/23, the CUEF returned +0.7%, materially ahead of the same benchmark (-2.4%). Looking at the full calendar year 2022, returns were -4.0% compared to -14.8% for the "New 65/35" Composite Benchmark; demonstrating strong stewardship of investors capital through a challenging period in the markets.

A full breakdown of CUEF performance is provided in Figure 2 below, followed by commentary by asset class.

Figure 2: CUEF Investment Performance vs Benchmarks

CUEF vs BENCHMARKS	Calendar Q4 2022	Financial Year to Date: Jul 22 – Dec 22	Calendar Year 2022	Since 1 July 2020 *	Trailing 10 Years: Jul 12 – Jun 22
	Cumulative	Cumulative	Cumulative	Annualised	Annualised
CUEF	+1.0%	+0.7%	-4.0%	+9.2%	+10.8%
UK CPI + 5%	+4.0%	+7.0%	+16.0%	+11.8%	+7.6%
“New 65/35” Benchmark**	+0.5%	-2.4%	-14.8%	+3.0%	+8.7%
“Old 65/35” Benchmark**	-0.8%	-1.9%	-12.6%	+3.3%	+9.4%
MSCI ACWI ex. fossil fuels	+1.5%	+2.6%	-9.9%	+8.4%	+12.0%
MSCI ACWI ex. fossil fuels (USD)	+9.3%	+1.7%	-20.0%	+6.9%	+9.0%
MSCI ACWI (USD)	+9.9%	+2.5%	-18.0%	+8.0%	+9.3%
FTSE All-Share	+8.9%	+5.1%	+0.3%	+11.0%	+6.9%
Barclays Global Agg. Bonds (GBP-Hedged)	+0.7%	-3.1%	-12.2%	-5.1%	+1.7%
FTSE British Govt Index-Linked Bonds	-6.0%	-14.8%	-33.6%	-14.0%	+3.9%
UK Quarterly Property	-11.9%	-15.5%	-8.9%	+2.8%	+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.

Appendix 1 (pp 8-10) shows the breakdown of the Fund’s assets by foreign exchange, geographic region, and sector.

Public Equity

As noted above, following declines in each of the previous three quarters, global public equity markets recovered strongly in Calendar Q4 2022. Within this recovery, cyclical sectors with exposure to China, such as industrials and materials, performed particularly well. However, strong global markets were largely offset by the recovery in Sterling; consequently, the ACWI ex-fossil fuels index returned just +1.5% in Sterling.

Against this backdrop, the CUEF's public equity portfolio produced an encouraging quarter, rising +2.5% in Sterling terms, outperforming the ACWI ex-fossil fuels index by +1.0%. Behind this performance, the CUEF's Developed Markets portfolio performed well, returning +3.8% in Sterling (vs +1.4% for Developed Markets ex-fossil fuels); offset by the Emerging Markets portfolio, which fell -1.2% (vs +2.2%). For the calendar year 2022, the CUEF Public Equity portfolio returned -10.2%, broadly in line with the MSCI ACWI benchmark ex. fossil fuels of -9.9% for the same period.

The performance of CUEF's largest positions with managers in Developed Markets was especially pleasing, with strong outperformance from two managers in particular returning +10.8% and +8.4% in US Dollar terms respectively; comfortably beating their benchmarks. One manager returned +17.3% for the quarter, driven in part by selection of specific stocks, including those in the UK retail and consumer sectors rather than purely those in cyclical sectors that were the principal drivers of the global market rally in the quarter.

In Emerging Markets, while absolute returns were positive from all but one manager, two of our managers with exposure to China and Asia underperformed compared to their benchmark indices (+7.8% and +1.9% respectively) as their portfolios are less exposed to the cyclical stocks that led the "China reopening" rally.

In terms of allocations, we continued to evolve the public equity portfolio manager line-up in Q4. In particular, UCIM slightly raised the allocation to the biotechnology sector given attractive valuations. Separately, selected reductions in some less liquid investments allowed for marginal increases in liquidity across the public equity portfolio.

Absolute Return and Credit

The CUEF's absolute return and credit portfolio rose +3.1% in local currency terms (-1.9% in Sterling), ahead of its benchmark, which gained +2.1% in Q4 2022.

This completes a very positive calendar year 2022, in which the portfolio rose +3.0% in local currency (+10.6% in Sterling), underperforming its benchmark (+4.9%) but materially outperforming almost every liquid asset class: equity markets fell -20.0% (per MSCI ACWI ex fossil fuels, in US Dollars) during the year, bond markets dropped -12.2% (per Barclays Global Aggregate (GBP-Hedged)), and the HFRI Fund Weighted Composite, a broad gauge of hedge fund performance, declined -4.1%.

All eleven of the portfolio's core managers recorded positive returns in local currency during the quarter. Of particular note was the performance of a global distressed credit manager, which benefitted from its position in Argentinian sovereign bonds (+13.4% and +9.5% from two separate vehicles); and a financials-focused long-short equity fund that derived returns from brokerage, asset management and financial technology sub-sectors (+8.1%).

Calendar Q4 was a once again a busy quarter in terms of portfolio activity within absolute return and credit. We allocated funds to a new vehicle launched by an existing manager to take advantage of elevated European high yield spreads. Another manager made capital calls to take advantage of still dislocated credit markets at the start of the quarter. We also made significant trims across several managers in order to bring the portfolio's overall size back towards its 20% target.

Private Equity

During Calendar Q4, the private equity portfolio returned -4.4% in Sterling terms (+0.2% in local currency). For the calendar year 2022, the CUEF's Private Equity portfolio returned +1.8%.

The portfolio's flat local currency performance was the result of modest compression in valuation multiples across the portfolio, offset by strong idiosyncratic performance from several of the portfolio's middle market buyout managers. For example, one of our European buyout managers returned +27.7% during the quarter as it successfully agreed to sell two portfolio companies.

During the quarter, capital calls totalled £35.5 million, with distributions of £23.2 million. The majority of these calls were to fund the pay-down of credit facilities; there was limited investment activity during the quarter as potential sellers digested the implications of reduced valuation multiples among public market comparables.

During the quarter, three fund commitments and a co-investment were completed, increasing the total for 2022 to £215 million across twelve investments, in line with our target for allocations to this asset class.

Real Assets

The CUEF's real assets portfolio returned -7.3% in Sterling terms in Calendar Q4 2022, compared to -10.1% for its (still provisional) benchmark. For the calendar year 2022, the real assets portfolio returned +3.9% compared to its provisional benchmark of -2.2%.

Fourth quarter performance was negatively impacted by the continued downward adjustment of the value of UK industrial properties in one of the CUEF's Real Estate vehicles. As higher interest rates over the course of 2022 fed through to the yields used by valuers, the value of its underlying properties declined by 14% over the quarter.

Operationally, this portfolio continues to perform well, however, with vacancy under 5% and new leases and lease renewals being signed at significant uplifts to current levels. While there might be continued downward pressure on values through the first half of 2023 as the market adjusts to higher base rates, the robust fundamentals of the portfolio remain intact, and we believe it is well positioned for future growth once the investment market stabilises.

UCIM Organisational Update

We are pleased to report that Joel Beckman joined the UCIM team on a permanent basis in March 2023 as UCIM Communications Lead, following a successful temporary maternity cover position for Honor Fell (Associate Director and Sustainable Investment Officer). Since joining, Joel has contributed to the production of the UCIM Annual Report, as well as the planning of UCIM's "Net Zero by 2038" Executive Education programme and the recent UCIM Annual Town Hall event. Joel has also made substantial contributions to the team's efforts elsewhere and is currently focussed on the rebranding of the UCIM materials and completion of the new website. Joel joins on a part-time basis, working three days per week, and will act as the principal point of contact for investors in the fund going forward.

In January, Ceema Chhatralia (Executive Assistant) started her maternity leave; we wish her well with her new family. We expect to welcome Honor back in April. In the meantime, we were delighted to welcome Deborah Matthews to the team to cover Ceema's leave.

Lastly, Tom Barclay achieved a well-deserved promotion from Operations Analyst to Senior Operations Analyst following completion of his IOC certificate and a successful six month "acting up" period within the team.

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 31st December 2022, the CUEF's conventional energy exposure was 3.1%, meaningfully below the MSCI ACWI benchmark (5.6%) and representing a reduction of 70 basis points since the end of the last financial year, 30th June 2022.

Engaging to decarbonise the real economy

The third cohort of the "Net Zero by 2038" Executive Education programme, delivered in partnership with the Cambridge Institute for Sustainability Leadership (CISL), is underway. Seven partner firms based on the West Coast of the US are participating in the three-month programme, representing a combined total of \$48.5bn AUM. The first workshop took place in San Francisco on 23rd March, with a very positive response from the delegates, constructive dialogue in the room and interesting perspectives given the diversity of asset classes and investment strategies of the participating firms.

From UCIM, Sarah Fromson, Vincent Rustill, Michael Mumford and Joel Beckman are participating in this cohort, as part of our internal objective for all team members to complete the programme over the coming years.

Reporting with transparency and accountability to our stakeholders

The annual “Town Hall” meeting for students and staff took place on Friday 3rd February, with approximately 30 attendees. Going forward, we will review the effectiveness of the Town Hall as a single “mass” event, compared to selectively meeting with more engaged and informed groups of student “Green” officers.

In February, Tilly Franklin and Joel Beckman also met with two representatives from the Student Union to explain and discuss our Sustainable Investment strategy.

Over 30 applications were received for the two University Sustainable Investment Internships, with the initial first round of selection completed. Interviews are scheduled to take place at the end of March.

Leverage

UCIM reports quarterly three actual leverage measures for the CUEF:

- i) the CUEF’s own internal method,
- ii) the AIFMD ‘Gross’ method and,
- iii) 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 31st December 2022 the Fund had no leverage under the CUEF’s own method and capital commitments outstanding of 20%. The AIFMD leverage ratios were as follows: ‘Gross’ method 221%, ‘Commitment’ method 97%. 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	Prior Year End
	31-Dec-22	30-Jun-22	31-Dec-21
GBP	57.6%	60.5%	56.0%
USD	20.5%	17.2%	22.5%
Other Developed Market FX	9.0%	9.9%	10.9%
of which EUR	2.6%	4.5%	4.7%
of which JPY	2.0%	1.5%	2.0%
of which CAD	0.5%	0.5%	0.7%
of which CHF	0.9%	0.8%	1.0%
of which Other	3.0%	2.6%	2.5%
Emerging Market FX	12.9%	12.4%	10.6%

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Appendix 1 (continued): Portfolio Composition

Geographic Region Exposure – Total CUEF

	CUEF		
	Quarter End	Financial Year End	Prior Year End
	31-Dec-22	30-Jun-22	31-Dec-21
Developed Markets	71.2%	74.0%	74.3%
<i>of which United States</i>	32.9%	34.9%	33.1%
<i>of which United Kingdom</i>	19.3%	22.4%	24.1%
<i>of which Europe ex-UK</i>	12.2%	10.2%	9.9%
<i>of which Japan</i>	3.7%	3.6%	3.9%
<i>of which Canada</i>	0.7%	0.6%	0.9%
<i>of which Other DM</i>	2.4%	2.3%	2.4%
Emerging Markets	12.6%	12.5%	11.5%
Balance²	16.2%	13.5%	14.2%

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.

Appendix 1 (continued): Portfolio Composition

Sector Exposure – Total CUEF

	CUEF		
	Quarter End	Financial Year End	Calendar Year End
	31-Dec-22	30-Jun-22	31-Dec-21
Information Technology	20.3%	20.0%	19.0%
Consumer Discretionary	11.6%	11.3%	11.6%
Industrials	9.0%	8.6%	8.9%
Healthcare	8.4%	9.7%	9.8%
Real Estate	8.2%	10.2%	10.6%
Financials	6.3%	5.9%	6.3%
Consumer Staples	4.7%	4.9%	4.6%
Communication Services	4.2%	4.5%	4.9%
Energy	3.1%	3.5%	2.4%
Utilities	2.7%	2.5%	2.3%
Materials	2.6%	1.9%	2.1%
Balance³	18.9%	17.0%	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 31st December 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	3,834.3
Exclude: Fixed Interest / Cash Investments	(46.6)
Total Exclusions: CUEF own internal method	3,787.7
CUEF Total Investment Exposure - 'CUEF own' method	3,787.7
CUEF Net Asset Value	3,834.3
CUEF Leverage % - CUEF own internal method	99%
CUEF Leverage Limit % - CUEF own internal method	110%

CUEF Leverage - 'Gross' method	
	£m
CUEF Net Asset Value	3,834.3
Plus: Adjusted Derivative Positions	
- Plain Vanilla Options on Futures Contracts	0.0
- Futures	143.4
- Currency Contracts	3,849.0
Total CUEF Investment Position - 'Gross' method	7,826.7
Exclude cash and cash equivalents	(104.3)
Total Exclusions - 'Gross' method	(104.3)
CUEF Total Exposure excluding capital commitments- 'Gross Method'	7,722.4
CUEF Net Asset Value	3,834.3
CUEF Leverage % - 'Gross' method excluding capital commitments	201%
CUEF Capital Commitments (Private Equity)	735.0
CUEF Total Exposure excluding capital commitments- 'Gross Method'	8,457.4
CUEF Net Asset Value	3,834.3
CUEF Leverage % - 'Gross' method including capital commitments	221%
CUEF Leverage Limit % - 'Gross' method	5,000%

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CUEF % Leverage - 'Commitment' method	
CUEF Net Asset Value	£m
	3,834.3
Plus: Adjusted Derivative Positions	
- Plain Vanilla Options on Futures Contracts	0.0
- Futures	143.4
- Currency Contracts	3,849.0
Total CUEF Investment Position - 'Commitment' method	7,826.7
Exclude: Hedging positions	(3,992.4)
Exclude cash and cash equivalents	(104.3)
Total Exclusions - 'Commitment' method	(4,096.7)
CUEF Total Exposure excluding capital commitments- 'Commitment' method	3,730.0
CUEF Net Asset Value	3,834.3
CUEF Leverage % - 'Commitment' method	97%
CUEF Leverage Limit % - 'Commitment' method	5,000%

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