

# Cambridge University Endowment Fund

## Quarterly Investor Report

Quarter ended 30<sup>th</sup> September 2024  
(Q1 of CUEF Financial Year ending 30<sup>th</sup> June 2025)

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# Contents

Fund and Unit Value	3
Chief Investment Officer's Quarterly Review	3
Asset Class Review	5
Asset Allocation	7
Sustainability	7
UCIM Organisational Update	9
Key Dates	9
Leverage	10
Appendices	11
Important Information	17

## Fund and Unit Value

Figure 1 below provides the Net Asset and Unit Value for the Cambridge University Endowment Fund (“CUEF”) for the quarter ended 30<sup>th</sup> September 2024 (Q1 of the CUEF Financial Year), compared with the previous quarter (30<sup>th</sup> June 2024, the last CUEF financial year-end).

*Figure 1: CUEF Net Asset and Unit Value*

	Report quarter 30-Sep-2024	Previous quarter and FY ended 30-Jun-2024
Net Asset Value (NAV)	£4,317 m	£4,228 m
Unit value	£71.78	£70.89

## Chief Investment Officer's Quarterly Review

### Market Overview

The third quarter of 2024 (the first quarter of the CUEF's Financial Year) saw increased volatility in global markets compared to the first half of the year. The most notable scenario was the sudden unwinding in early August of the “Yen carry trade” (a commonly deployed trade whereby investors borrow yen, due to its low interest rates, using it to buy currencies with better yields). Although this event saw global market volatility spike to its highest level since early 2020, markets stabilised quickly, supported by a dramatic fall in bond yields, as the US Federal Reserve cut interest rates.

After a prolonged period of concentrated returns among large-cap technology companies, US equity markets were led by smaller companies in the quarter. The Russell 2000 index of small and medium size companies returned +9.3% (in USD terms) versus +2.8% for the technology-heavy NASDAQ. In emerging markets, the Chinese government announced a significant economic stimulus, resulting in a +17.9% local currency return. Sterling investors in global markets saw gains offset by a +6.1% appreciation of Sterling against the US Dollar.

### CUEF Performance Summary

Against this backdrop, the CUEF returned +2.3% net of fees for the reported quarter. The primary driver of returns in the quarter was the CUEF's public equity portfolio, which returned +3.5% in Sterling terms compared to the MSCI ACWI ex. fossil fuels' +0.8% Sterling return. The CUEF's private equity portfolio declined -1.2% in Sterling terms in the quarter, modestly outperforming the preliminary Cambridge Associates composite benchmark return of -2.8%. On a local currency basis, the private equity portfolio returned an estimated +3.3%.

The CUEF's absolute return and credit portfolio saw strong performance, rising +3.0% in local currency terms (-0.5% in Sterling terms), with nine of the portfolio's ten core managers recording positive returns. The CUEF's real assets portfolio returned -0.4% in Sterling terms, ahead of its benchmark, which declined -1.3%. Most of the decline in the real assets portfolio was attributable to a -15.6% Sterling markdown in legacy conventional energy holdings due to

weaker commodity prices. Performance among the CUEF's UK real estate managers was strong.

Looking at recent reporting periods, the CUEF achieved its objective of returns of CPI +5%. For the first three quarters of Calendar Year 2024, the CUEF returned +6.3%; and as reported in the annual Investment Management Report in October 2024, for the 12 months to 30<sup>th</sup> June 2024 (the last Financial Year), the CUEF returned 9.1%. As noted in previous reports, relative returns in these periods were impacted by the CUEF's underweight to the large-cap US technology companies and overweighting to emerging markets, especially China.

CUEF performance over relevant time periods is provided in Figure 2, below. Performance against a fuller set of benchmarks for comparison purposes is provided in Appendix 1. A summary of the Fund's assets by currency, geography, and sector for the quarter ended 30<sup>th</sup> September 2024 is provided in Appendix 2. A full review of CUEF performance by asset class is provided in the "Asset Class Review" section below.

*Figure 2: CUEF Investment Performance*

	Financial Q1/ Calendar Q3 1-Jul-24 – 30-Sep-24	Calendar Year 1-Jan-24 – 30-Sep-24	Financial Year (12 months to 30-Jun-24)	Since 1-Jul-20*	Trailing 10 Years (1-Jul-13 – 30-Sep-23)
		Cumulative	Cumulative	Annualised	Annualised
<b>CUEF</b>	<b>+2.3%</b>	<b>+6.3%</b>	<b>+9.1%</b>	<b>+8.9%</b>	<b>+9.4%</b>
UK CPI + 5%	+1.3%	+5.3%	+7.1%	+10.3%	+8.1%
"65/35" Passive Portfolio**	+2.5%	+10.8%	+13.7%	+7.2%	+8.0%
MSCI ACWI ex. fossil fuels***	+0.8%	+13.7%	+20.9%	+11.9%	+12.1%

*Notes:*

- *Past performance is not indicative of future returns.*
- *CUEF returns calculated based on CUEF Net Asset Value and reported net of fees.*
- *Data sources: UCIM internal reporting, Bloomberg, CPI data from the Office for National Statistics (ONS).*
- *\*1<sup>st</sup> 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.*
- *\*\* The "65/35" Passive Portfolio is included to provide a measure, over the long-term, of the return that might be achieved were the CUEF to be managed on a passive basis. The composition of the "65/35" Passive Portfolio is provided in Appendix 1.*
- *\*\*\* MSCI ACWI data is provided excluding fossil fuels from 1<sup>st</sup> July 2020 onwards.*

# Asset Class Review

Figure 3: CUEF Asset Class Performance

	Financial Q1 / Calendar Q3 1-Jul-24 – 30-Sep-24	Calendar Year 1-Jan-24 – 30-Sep-24	Last Financial Year (12 months to 30-Jun-24)	Since 1-Jul-20*
		Cumulative	Cumulative	Annualised
<b>CUEF</b>	<b>+2.3%</b>	<b>+6.3%</b>	<b>+9.1%</b>	<b>+8.9%</b>
Public Equity	+3.5%	+9.3%	+14.8%	+9.3%
Developed Markets	+4.1%	+10.7%	+17.9%	+10.6%
Emerging Markets	+1.5%	+4.0%	+3.6%	+4.7%
Private Equity	-1.2%	+1.9%	+6.3%	+14.4%
Absolute Return and Credit**	+3.0%	+6.9%	+6.0%	+6.7%
Real Assets	-0.4%	-0.9%	+0.4%	+7.8%

Notes:

- Past performance is not indicative of future returns.
- CUEF asset class returns calculated based on CUEF Net Asset Value, reported net of fees and in £ Sterling, except for Absolute Return and Credit, which is reported in local currency. Some asset class returns are subject to change as various late illiquid asset valuations are received.
- Data source: UCIM internal reporting.
- \*1<sup>st</sup> 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.
- \*\* Local Currency

## Public Equity

The CUEF's public equity portfolio returned +3.5% in Sterling terms during the quarter, outperforming the MSCI ACWI ex. fossil fuels index's return of +0.8%. Outperformance was primarily driven by strong manager returns in developed markets (+4.1%, versus +0.5% for the index). Notable contributors included a UK-based, quality-focused fund manager, which returned +12.8% in the quarter; and the CUEF's US-based, biotechnology specialist fund manager, which returned +17.7%, due to share price rises following announcements of breakthroughs in the development of new cancer treatments by two portfolio companies.

In emerging markets, the portfolio's two China-focused fund managers both posted strong returns, albeit below the level of their respective index, which responded very positively to the government stimulus package noted above. In November, members of the UCIM team travelled to Hong Kong and mainland China to meet with managers, as well as other regional specialists. Conversations supported the continued belief that their portfolios currently represent attractive value for long-term investors.

## Private Equity

The private equity portfolio declined by -1.2% in Sterling terms for the reported quarter, modestly outperforming the preliminary Cambridge Associates composite benchmark return of -2.8%. Returns were impacted by currency effects. On a local currency basis, the private equity portfolio returned an estimated +3.3%. Given the specialist nature of the fund managers that make up this portfolio, there were no clear trends behind performance, with returns a function of fund-specific factors.

By sub-asset class, buyout managers were the most notable driver of returns, with robust operating performance in a number of funds' portfolio companies, including businesses within the manufacturing and financial services sectors. One of the CUEF's buyout firms returned +15.9% for the quarter, driven by its investment in a wealth management business which has achieved strong operating performance. One US buyout fund suffered negative returns, following the markdown of a struggling online retail business in its portfolio.

During the quarter, UCIM completed two commitments to existing venture capital managers. After quarter-end, a new commitment was made to a new North American buyout manager which specialises in consumer franchise businesses.

## Absolute Return and Credit

The CUEF's absolute return and credit portfolio (a subset of the hedge fund universe) is intended to be uncorrelated to equities and provide liquidity to other areas of the portfolio as needed. As well as these diversification benefits, the CUEF's absolute return and credit portfolio has continued to deliver consistent returns. Since 1<sup>st</sup> July 2020, it has returned +6.7% on an annualised basis.

In the reported quarter, this portfolio returned +3.0% in local currency terms (-0.5% in Sterling), outperforming its benchmark.<sup>1</sup> Nine of the portfolio's ten core managers recorded positive returns in local currency, and performance was positive across all three months of the quarter.

The most notable contribution in the quarter came from a volatility focused hedge fund manager, which benefitted from the market uncertainty, especially the fall in bond yields. A US-based distressed credit manager continued to post strong returns, as several of its large holdings experienced good operating performance.

## Real Assets

The CUEF's real assets portfolio declined by -0.4% in Sterling terms in the quarter, outperforming the preliminary -1.3% decline of the real assets composite benchmark. The primary driver of performance was the CUEF's real estate portfolio, which returned +1.8%. Returns were led by two core and one legacy real estate manager, who saw strong rental growth in their portfolios. The CUEF's legacy conventional energy manager detracted from returns, following a mark-down of its assets, as weaker commodity prices had a negative impact on underlying company valuations. As noted in previous reports, the CUEF's position with this manager is in the process of being wound down, as the underlying assets are sold.

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<sup>1</sup> To more accurately reflect its role in the CUEF portfolio, in July 2024, the UCIM Board approved a change to the benchmark for the absolute return and credit portfolio, from "UK 0-1 Year Gilts + 400 basis points" to "20% MSCI World Gross Total Return ex. fossil fuels and 80% UK 0-1 Year Gilts".

## Asset Allocation

Figure 4 below shows the CUEF's asset allocation at the end of the previous quarter, ended 30<sup>th</sup> June 2024, the reported quarter ended 30<sup>th</sup> September 2024, as well as the CUEF's long-term asset allocation targets approved by the UCIM Board in April 2023.

There were no material changes to the CUEF's asset allocation in the quarter. Public equity exposure was slightly elevated at the reporting date of 30<sup>th</sup> September 2024, due to the timing of a redemption which took place just after the end of the period. Real assets exposure marginally increased following the investment in a London asset by one of the CUEF's real estate managers. Allocations to private equity and real assets are expected to increase modestly through the financial year as committed capital is called.

*Figure 4 – CUEF Asset Allocation Summary*

	Last Quarter 30-Jun-24	Current Quarter 30-Sep-24		Long-Term Target Allocation
	%	£	%	
<b>Total Equity</b>	64%	<b>£2,381m</b>	<b>65%</b>	<b>60-65%</b>
Public Equity	40%	£1,827m	42%	30-35%
Private Equity	24%	£1,004m	23%	30%
<b>Absolute Return &amp; Credit</b>	23%	<b>£926m</b>	<b>22%</b>	<b>20-22.5%</b>
<b>Real Assets</b>	8%	<b>£369m</b>	<b>9%</b>	<b>10-12.5%</b>
<b>Cash &amp; Fixed Income</b>	5%	<b>£191m</b>	<b>4%</b>	<b>5%</b>
<b>TOTAL</b>	100%	<b>£4,317m</b>	<b>100%</b>	<b>100%</b>

*Data source: UCIM internal reporting.*

## Sustainability

During the quarter, the following progress was made against the three pillars of UCIM's Sustainable Investment Strategy:

### **Investing to achieve a phased transition to “net zero”**

As of 30<sup>th</sup> September 2024, the CUEF's conventional energy exposure was 1.2%, meaningfully below the level of the MSCI ACWI (4.1%); and representing a decrease of approximately 0.4 percentage points since 30<sup>th</sup> June 2024.<sup>2</sup> The decrease was driven by weaker relative performance of the sector, as well as the continued reduction in exposure to the CUEF's legacy conventional energy manager.

<sup>2</sup> Exposure of the MSCI ACWI is proxied using holdings of the iShares MSCI ACWI ETF available via Bloomberg.

## Engaging to decarbonise the real economy

During the quarter, the investment team continued its ongoing programme of engagement with fund management partners to support the decarbonisation of their portfolios. In the three months to 30<sup>th</sup> September 2024, UCIM's investment team held 43 full-length update meetings with partners, two thirds of which included a specific discussion of those managers' efforts on sustainability.

A key part of UCIM's engagement is the provision of the bespoke executive education programme "Net Zero by 2038", run in partnership with Cambridge Institute for Sustainability Leadership "CISL". Following invitations in recent weeks, seven fund management partners have confirmed their participation in the fifth cohort of the programme, commencing in April 2024 and running over four months.

Following the recent update to UCIM's approach to shareholder engagement within public equities, which culminated in the [publication of a white paper](#) on this topic, Sarah Wood, Associate Director of Marketable Assets, commenced the roll-out of UCIM's updated approach to voting and engagement to CUEF's public equity fund managers in December. Engagement included providing an individual scorecard for each manager, based on UCIM's view of best practice and the criteria (set out in the paper), as well as practical suggestions for improvement. Initial discussions have been well received and are already leading to improvements. As a direct result of these conversations, one of the CUEF's specialist public equity managers amended its shareholder engagement policy in November 2024 to include an intention to communicate to their portfolio companies the rationale for any votes against company directors (where previously the manager had not formalised this communication, which could have the unintended consequence that the company directors are unable to interpret a dissenting vote). UCIM will continue to actively engage with its public equity fund managers on this important issue through 2025, and looks forward to sharing further progress with CUEF investors in due course.

## Reporting with transparency and accountability to our stakeholders

As part of the regular schedule of engagement with students, Joel Beckman, Communications Lead, and Toby Hill, Senior Investment Analyst, met with a group of College "Green Officers" and members of the Student Union in November, to provide an update on the CUEF and its sustainable investment strategy.

In December, Karen Whinney, COO; Joel Beckman, Communications Lead; Dave Sizer and David Cook (UCIM colleagues in University Finance), provided an update on the CUEF and its year-end performance for senior members of the Cambridge University Development and Alumni Relations ("CUDAR") team to support them to secure potential endowed donations.

On Thursday 13<sup>th</sup> February, UCIM will hold its annual "CUEF Town Hall", open to all students and staff across the University. Although no new information will be disclosed, CUEF investors are welcome to attend and encouraged to share the [registration link](#) with relevant colleagues, as appropriate.

# UCIM Organisational Update

In September 2024, the UCIM team completed its annual “Portfolio Review”. As well as matters relating to the CUEF portfolio, items discussed included further collaboration between the investment and operations teams, and continued efforts on sustainability through tailored asset class engagement plans.

During the quarter, UCIM successfully completed its external audit and implemented the majority of the recommendations from its first internal audit visit. UCIM also concluded its RfP process for a fully outsourced IT provision and awarded the contract to a specialist IT provider supporting FCA-regulated firms. The migration project will commence early in 2025 and will include UCIM obtaining the Cyber Essentials accreditation as a minimum standard.

In August, UCIM welcomed new team member Kate Pruden as a graduate Investment Analyst. Kate was a summer intern in the first cohort of the programme in 2021, during her Modern and Medieval Languages degree at Magdalene College, Cambridge. She has joined as an asset class generalist, also supporting UCIM’s sustainability initiatives. Akshay Patel, who joined UCIM as Investment Analyst in 2020, was promoted to Investment Associate, effective 1<sup>st</sup> January 2025.

The recruitment process for the next cohort of summer internships commenced in December 2024, with offers made to candidates from the 10,000 Interns Foundation and GAIN (Girls are INvestors). Recruitment for two sustainable investment interns from the University of Cambridge commences in February 2025.

## Key Dates

Date	Information
Tuesday 11 <sup>th</sup> February (11:00)	CUEF Q1 Investor Call Investors have been sent a calendar invitation by MS Teams
Thursday 13 <sup>th</sup> February (12:00 noon)	CUEF Town Hall <a href="#">Registration Link</a>
Tuesday 22 <sup>nd</sup> April	CUEF Q2 Report
Thursday 24 <sup>th</sup> April	CUEF Q2 Investor Call
Thursday 3 <sup>rd</sup> July	CUEF Q3 Report

*Financial reports are available on the private “Investor Portal” section of the UCIM website: <https://www.ucim.co.uk/log-in>. If you have yet to register, need support logging in, or for any other information, please email: Joel Beckman, Communications Lead [joel.beckman@ucim.co.uk](mailto:joel.beckman@ucim.co.uk).*

## Leverage

UCIM reports three leverage measures for the CUEF on a quarterly basis:

- i) the CUEF's own internal method,
- ii) the AIFMD 'Gross' method and,
- iii) the AIFMD 'Commitment' method.<sup>3</sup>

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 and 3.

As at 30<sup>th</sup> September 2024 the Fund had no leverage under the CUEF's own internal method, and capital commitments outstanding of 17 %. The AIFMD leverage ratios were as follows: 'Gross' method 122%, 'Commitment' method 109% excluding capital commitments. To aid investor understanding a breakdown of the main contributors to the 'Gross' and 'Commitment' leverage levels is provided in Appendix 3.

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<sup>3</sup> Leverage measures as set out in the Alternative Investment Fund Managers Directive ("AIFMD") 2011/61/EU and the Delegated Regulation 231/2013.

# Appendices

## Appendix 1 – CUEF Performance against Benchmarks

	Financial Q1/ Calendar Q3 1-Jul-24 – 30-Sep-24	Calendar Year 1-Jan-24 – 30-Sep-24	Last Financial Year (12 months to 30-Jun-24)	Since 1-Jul-20*	Trailing 10 Years (1-Jul-13 – 30-Sep-24)
		Cumulative	Cumulative	Annualised	Annualised
<b>CUEF</b>	<b>+2.3%</b>	<b>+6.3%</b>	<b>+9.1%</b>	<b>+8.9%</b>	<b>+9.4%</b>
UK CPI + 5%	+1.3%	+5.3%	+7.1%	+10.3%	+8.1%
"65/35" Passive Portfolio**	+2.5%	+10.8%	+13.7%	+7.2%	+8.0%
MSCI ACWI ex. fossil fuels***	+0.8%	+13.7%	+20.9%	+11.9%	+12.1%
MSCI ACWI ex. fossil fuels (USD)	+7.0%	+19.6%	+20.2%	+14.1%	+8.8%
MSCI ACWI (USD)	+6.7%	+19.1%	+19.9%	+14.4%	+9.0%
FTSE All-Share	+2.3%	+9.9%	+13.0%	+10.7%	+5.9%
Bloomberg Global Agg. Bonds (GBP-Hedged)	+4.1%	+4.1%	+3.7%	-0.7%	+1.3%
FTSE British Govt Index-Linked Bonds	+1.4%	-2.5%	-0.4%	-8.9%	+1.3%
MSCI UK Quarterly Property	+1.4%	+3.2%	+0.0%	+2.0%	+4.6%

### Notes:

- Past performance is not indicative of future returns.
- CUEF returns calculated based on CUEF Net Asset Value and reported net of fees.
- Data sources: UCIM internal reporting, Bloomberg, CPI data: Office for National Statistics (ONS).
- \*1<sup>st</sup> 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.
- \*\*65/35" Passive Portfolio consists of:
  - o 33% MSCI World Index (GBP-Unhedged) – ex. fossil fuels after 1<sup>st</sup> July 2020
  - o 24% MSCI World Index (GBP-Hedged) – ex. fossil fuels after 1<sup>st</sup> July 2020
  - o 8% MSCI Emerging Markets Index (GBP-Unhedged) – ex. fossil fuels after 1<sup>st</sup> July 2020
  - o 15% Bloomberg Global Aggregate Bond Index (GBP-Hedged)
  - o 10% FTSE British Government Index-Linked All Stocks (GBP)
  - o 10% UK MSCI Quarterly Property Index (GBP).
- \*\*\*MSCI ACWI data is provided excluding fossil fuels from 1<sup>st</sup> July 2020 onwards.

## Appendix 2 – Portfolio Composition

### Foreign Exchange Exposure – Total CUEF

	CUEF post FX hedge		
	Quarter End	Financial Year End	Calendar Year End
	30-Sep-24	30-Jun-24	31-Dec-23
<b>GBP</b>	<b>58.7%</b>	<b>59.5%</b>	<b>58.2%</b>
<b>USD</b>	<b>21.8%</b>	<b>21.3%</b>	<b>21.4%</b>
<b>Other Developed Market FX</b>	<b>9.6%</b>	<b>9.2%</b>	<b>8.8%</b>
of which EUR	1.4%	1.4%	1.8%
of which JPY	3.3%	2.9%	3.0%
of which CAD	0.7%	0.7%	0.6%
of which CHF	1.0%	0.9%	0.7%
of which Other	3.2%	3.3%	2.7%
<b>Emerging Market FX</b>	<b>9.9%</b>	<b>10.0%</b>	<b>11.6%</b>

### Geographic Region Exposure – Total CUEF

	CUEF		
	Quarter End	Financial Year End	Calendar Year End
	30-Sep-24	30-Jun-24	31-Dec-23
<b>Developed Markets</b>	<b>73.6%</b>	<b>72.2%</b>	<b>70.6%</b>
of which United States	33.8%	33.6%	32.6%
of which UK	20.6%	20.5%	19.3%
of which Europe ex-UK	11.8%	11.4%	11.6%
of which Japan	4.6%	3.9%	4.5%
of which Canada	1.2%	1.3%	1.0%
of which Other DM	1.6%	1.5%	1.6%
<b>Emerging Markets</b>	<b>11.8%</b>	<b>12.0%</b>	<b>11.4%</b>
<b>Balance<sup>4</sup></b>	<b>14.6%</b>	<b>15.8%</b>	<b>18.0%</b>

<sup>4</sup> The Balance is predominantly non-directional exposure from the Absolute Return portfolio, a degree of leverage in the 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 (continued) – Portfolio Composition

### *Sector Exposure – Total CUEF*

	CUEF		
	Quarter End	Financial Year End	Calendar Year End
	30-Sep-24	30-Jun-24	31-Dec-23
Information Technology	17.3%	17.9%	17.9%
Consumer Discretionary	10.2%	9.8%	10.4%
Industrials	12.9%	12.5%	11.9%
Healthcare	8.3%	8.1%	8.8%
Real Estate	9.2%	9.3%	8.0%
Financials	8.1%	6.8%	6.6%
Consumer Staples	4.8%	4.9%	4.7%
Communication Services	5.1%	5.0%	4.3%
Materials	2.2%	2.2%	2.6%
Utilities	3.4%	3.4%	3.4%
Energy	1.2%	1.6%	1.5%
Balance <sup>5</sup>	17.3%	18.5%	19.9%

<sup>5</sup> The Balance is predominantly non-directional exposure from the Absolute Return portfolio, a degree of leverage in the 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 3: 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 reported 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 the 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 the 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 30<sup>th</sup> September 2024

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

CUEF Leverage - CUEF own internal method	
	£m
<b>CUEF Net Asset Value</b>	<b>£4,317m</b>
Exclude: Operational CUEF Net Current Assets	£42m
Exclude: Fixed Interest / Cash Investments	-£140m
<b>Total Exclusions: CUEF own internal method</b>	<b>-£98m</b>
CUEF Total Investment Exposure - 'CUEF own' method	£4,219m
CUEF Net Asset Value	£4,317m
CUEF Leverage % - CUEF own internal method	98%
CUEF Leverage Limit % - CUEF own internal method	110%

CUEF Leverage - 'Gross' method	
	£m
<b>CUEF Net Asset Value</b>	<b>£4,317m</b>
Plus: Adjusted Derivative Positions	
- Currency Options	£71m
- Currency Contracts	£905m
- Futures	£246m
<b>Total CUEF Investment Position - 'Gross' method</b>	<b>£5,539m</b>
Exclude: Operational CUEF Net Current Assets	£42m
Exclude: Cash and Cash Equivalents	-£300m
<b>Total Exclusions - 'Gross' method</b>	<b>-£258m</b>
CUEF Total Exposure excluding capital commitments- 'Gross Method'	£5,281m
CUEF Net Asset Value	£4,317m
CUEF Leverage % - 'Gross' method excluding capital commitments	122%
CUEF Capital Commitments (Private Equity)	£728 m
CUEF Total Exposure excluding capital commitments- 'Gross Method'	£6,009m
CUEF Net Asset Value	£4,317m
CUEF Leverage % - 'Gross' method including capital commitments	139%
CUEF Leverage Limit % - 'Gross' method	5,000%

CUEF % Leverage - 'Commitment' method	
	<b>£m</b>
<b>CUEF Net Asset Value</b>	<b>£4,317m</b>
Plus: Adjusted Derivative Positions	
- Currency Options	£71m
- Currency Contracts	£905m
- Futures	£246m
<b>Total CUEF Investment Position - 'Commitment' method</b>	<b>£5,539m</b>
Exclude: Operational CUEF Net Current Assets	£42m
Exclude: Hedging positions	-£871m
<b>Total Exclusions - 'Commitment' method</b>	<b>-£829m</b>
CUEF Total Exposure excluding capital commitments- 'Commitment' method	£4,711m
CUEF Net Asset Value	£4,317m
CUEF Leverage % - 'Commitment' method	109%
CUEF Leverage Limit % - 'Commitment' method	5,000%

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