

Cambridge University Endowment Fund

Portfolio Stress Test

Published alongside CUEF Q3 Report

3rd July 2025

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Background and Objectives

UCIM performs an annual "Stress Test" exercise to understand how the CUEF will continue to meet its obligations under a range of economic scenarios. A previous outcome of this exercise was shared with investors in July 2023. In light of the market volatility experienced in April 2025, UCIM is sharing a summary of the core scenario tested in the most recent exercise, undertaken in the first quarter of 2025. The objective is to support investors' understanding of the measures in place to ensure the CUEF's resilience in the event of a prolonged market downturn and elevated levels of inflation.

Key Assumptions for the Core "Stressed Scenario"

The following assumptions were used in the model for the core "Stressed Scenario" over a three-year timeline:

- A 45% decline in global public equity markets, phased over the three years, comparable to the 45% decline in the S&P 500 during the "dotcom" crash and the 51% reduction in the S&P 500 from 2007 to 2009, through the Global Financial Crisis ("GFC")
- Inflation re-accelerates to 10% and declines slowly to 8.0% and 6.0% over the three-year period (in contrast to 2023, when the core scenario assumed that already elevated inflation would decline more slowly)
- There is no asset class outperformance based on manager selection or diversification, with conservative assumptions for relative performance of private assets, real assets, fixed income and absolute return and credit
- Investors redeem 50% of their maximum allowable capital under current terms in year one
- Distributions to investors continue to be calculated and paid in line with the current distribution model.

Outcomes

Under this scenario, the analysis concluded that the CUEF would continue to be able to pay scheduled distributions and meet redemption requests throughout the period, without having to sell equities at depressed prices. Liquidity provided by the CUEF's absolute return and credit portfolio was key to this outcome, with redemption notice periods bridged by using the CUEF's revolving credit facility.

The impact of a prolonged economic and market downturn would, of course, be negative in absolute terms. However, the CUEF would be able to withstand such a scenario. Further, UCIM would avoid the need to sell equities at depressed prices, and could instead opportunistically buy into equity market weakness, even under a conservative assumption of substantial investor redemptions.

Summary

The annual "Stress Test" is an important and valuable exercise for UCIM, supported by continued improvements in internal cash flow modelling system. UCIM hopes that it also reassures investors of its approach, ability to safely steward investors' capital, and the reliability of CUEF's distributions in a range of potentially adverse market conditions. UCIM will continue to run the stress test exercise annually, with results and recommended actions reported to the UCIM and Investment Boards. UCIM will also continue to update investors in the event of material changes to market conditions.