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<td>40</td>
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The Oxford Funds

The Oxford Funds is an investment vehicle unique to the University of Oxford, originally established in 1943 under an Act of Parliament. This Act enables the collegiate University to pool assets held on trust and invest them as one. OUem was set up in September 2007 to manage this pool and since then has been working hard to optimise the structure of The Oxford Funds, refine the investment objectives and distribution policies, and build an investment portfolio which reflects the extraordinary time horizon of the collegiate University.

At 31 December 2014, The Oxford Funds held £2.0bn of assets

Assets under management

Source: unless otherwise stated, data in this report is provided by OUem
Over a five year period, the Oxford Endowment Fund has returned 8.9% annualised

Over a five year period, the Oxford Capital Fund has returned 5.7% annualised

The Oxford Endowment Fund has distributed £276m since its inception
Our Investors

The Oxford Funds exists to preserve the real value of endowments and a sustainable spend for education and research across the collegiate University of Oxford.

Our investors are limited to the University of Oxford, the Colleges and associated charitable trusts. Our investors are all independent charitable bodies, with sound governance and experienced investment committees.
Investors in The Oxford Funds

Balliol College
Brasenose College
Corpus Christi College
Green Templeton College
Harris Manchester College
James Martin 21st Century Foundation
Keble College
Kellogg College
Lady Margaret Hall
Linacre College
Mansfield College
Nuffield Dominions Trust
Oriel College
OU Law Foundation
OU Rugby Football Club
Pembroke College
Regent's Park College
The Rhodes Trust
Somerville College
St Annes's College
St Cross College
St Edmund Hall
St Hugh's College
St Peter's College
University of Oxford
Wadham College
Worcester College
Christ Church

"C

hrist Church relies on its endowment to provide nearly half of its annual income. This dependency will almost certainly increase in future years as other sources of income are likely to grow slowly, if at all, in real terms. As a result, maintaining and increasing the purchasing power of the endowment whilst providing a significant annual cash income is a vital part of preserving Christ Church in perpetuity.

Some years ago, Christ Church realised that it did not have the budget to support an in-house investment capacity and sought to outsource this activity in cost efficient ways to third party managers, which shared our very long term investment horizon. The establishment of OUem provided a suitable vehicle for Christ Church to work in co-operation with the University and other colleges. About two-fifths of the endowment is now invested in the Oxford Endowment Fund.

Christ Church greatly values the ability to diversify into a range of alternative asset classes which the Oxford Endowment Fund offers, particularly into private equity and non directional investments. Identifying, obtaining access to and monitoring such investments requires infrastructure which is very difficult for Christ Church to acquire or maintain."
Endowment Stewardship

Charitable Gifts
The University of Oxford is an institution which, since its very beginning, has relied on philanthropic support to advance its mission and to sustain academic freedom. Over the centuries, many buildings and institutions, teaching posts, research posts and scholarships have been funded by the generosity of donors. Such gifts make Oxford the special place it is today.

The collegiate University receives gifts of all sizes and from all around the world. These are often endowment gifts – charitable funds held on trust to be retained for the benefit of the collegiate University. 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.

Held on Trust
Donors can make a variety of endowment gifts ranging from unrestricted, to gifts restricted to support specific activities such as endowed chairs or scholarships. Gifts can be in a variety of forms. Although usually money, other assets may be gifted such as land, buildings or shares. There may be some discussion around the terms of the gift, and once agreed, the assets will be transferred into a trust. At this stage, responsibility for the assets passes from the donor to the trustee, who becomes solely responsible for managing the trust in accordance with the agreed terms.

Financial Objective
The trustee is the steward and must always act in the best interest of the trust. The trustee is responsible for ensuring the existence of the gift in perpetuity (permanent endowments), or for the duration of the capital project (expendable endowment). This is often referred to as the financial objective of the trust.

Investment Objective
Once the trustee has determined the financial objective, they then need to decide how the monies will be invested to meet that objective. For The Oxford Funds, a key role of the Investment Committee is to advise its Trustee, University Council, on appropriate investment objectives for the permanent and expendable endowments. In determining appropriate investment objectives, the Investment Committee has to consider time horizon and liquidity requirements.

The period is key, as expendable trusts 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. Those trusts which are permanent 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, volatility and investment return.
Long Term Objectives

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.

Over short and medium time frames, the actual returns achieved will vary widely. Longer term studies of UK bonds and equities show that, between 1900 and 2013, bonds returned an average of 1.4% and equities 5.3% per year, after inflation. These are long term average numbers and mask the significant variance in year to year returns. Over this time period, volatility has been approximately 14% for bonds and 20% for equities.

Long term cumulative real returns from 1900 to 2013

Real Return
A real return is a return that is in excess of inflation. 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. This is why endowments need to create positive real returns, so that their purchasing power rises over time rather than falls.
The Oxford Endowment Fund

The Oxford Endowment Fund (OEF) exists to preserve and grow the value of perpetuity capital of the collegiate University of Oxford, while providing a sustainable income stream.

Maximising our Competitive Advantages
Managing investments in perpetuity requires an investment approach unlike any other. This extraordinary timeframe enables us to invest not only across regions and strategies, but throughout the liquidity spectrum, investing in assets that are inaccessible to many other investors.

Total Return Investment
In order to achieve the financial objectives of our investors, we follow a total return approach to investment. This means that we manage investments within the Fund to maximise the investment return, irrespective of how this return is obtained – through dividend income, interest income or capital gains.

Investment Objective
Our investment objective is to produce an average (often referred to as 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. The MSCI World Index is a broad index of global equities and we use this as a guide.

Annual Distribution
We understand that many of our investors depend on a consistent income stream from their investment in the Oxford Endowment Fund and try to ensure that the annual distribution reflects this. However, we also have to ensure that the distribution is directly linked to the performance of the Fund, otherwise we could eat into the capital originally invested.

The specific distribution policy is to distribute 4.25% of the average of the last 20 quarters’ NAV subject to a cap of 10% increase and a floor of the last year’s dividend.
Maintaining Real Value

Every year part of the Oxford Endowment Fund 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.

In practice, a trust which invested a £10m gift into the OEF in 2009 would have received a total of £2,846,300 to fund education and research so far. This represents an increase in cash distributed of 20% against a 17% increase in CPI, so purchasing power has been maintained. The distribution policy has ensured a stable amount of money is received each year, linked to the underlying value of the trust.

The total annualised return has been 9.6% since 2009. After inflation, the return has been 6.9%, meaning that the value of the trust has grown in real terms.

<table>
<thead>
<tr>
<th>£10m gift invested on 1 Jan 2009</th>
<th>Value of trust at 31 Dec</th>
<th>Annual distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>2009</td>
<td>10,858,634</td>
<td>431,689</td>
</tr>
<tr>
<td>2010</td>
<td>11,636,622</td>
<td>445,920</td>
</tr>
<tr>
<td>2011</td>
<td>10,953,510</td>
<td>479,127</td>
</tr>
<tr>
<td>2012</td>
<td>11,978,178</td>
<td>479,127</td>
</tr>
<tr>
<td>2013</td>
<td>13,415,560</td>
<td>493,359</td>
</tr>
<tr>
<td>2014</td>
<td>14,089,184</td>
<td>517,078</td>
</tr>
</tbody>
</table>

The annual distribution has increased 20% since 2009
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.

No other university, anywhere in the world, hosts an interdisciplinary research organisation like the Oxford Martin School. Its community of over 200 researchers, drawn from multiple fields and of the highest academic calibre, work collaboratively with policy makers, practitioners and business leaders to address the most pressing global challenges and opportunities of the 21st century.

In recent times, the School has helped develop alternatives for tackling climate change beyond the Kyoto Protocol; provided advice to the World Health Organization on understanding and combating dangerous global pandemics; and contributed to new rules and insight for improving global financial stability. In the UK, academics from the School regularly provide expert testimony to parliamentary hearings and advise government on strategic science and technology policy issues.”
The Oxford Martin Programme on Vaccines is designing and developing new vaccines against infectious diseases of global health importance, focusing on five target diseases: pandemic influenza, malaria, tuberculosis, HIV / AIDS and meningitis.
Investment Review

The Oxford Endowment Fund

The Oxford Endowment Fund (OEF) exists to preserve and grow the value of perpetuity capital of the collegiate University of Oxford, while providing a sustainable income stream.

The specific investment objective of the OEF is to appreciate at 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. The Fund seeks to achieve its objectives by investing across a range of asset groups that give a diversified stream of returns and which can function in a variety of environments. At its heart is the aim of providing sustainable growth and a regular distribution to the collegiate University.

Long Term Performance

In global endowment terms, the OEF is young and has a short history. It has been open to investors and operating in its current form since 1 January 2009. Since then, it has returned 6.9% annualised in real terms, ie after inflation, and has distributed £249.3m in total.

Volatility

Since opening to collegiate investors in 2009, the volatility of the OEF has been 5.8%. The volatility of the MSCI World, a proxy for global equity markets, has been 13.4% over the same period.

<table>
<thead>
<tr>
<th>OEF annualised net returns to 31 Dec 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal %</td>
</tr>
<tr>
<td>1 year</td>
</tr>
<tr>
<td>3 years</td>
</tr>
<tr>
<td>5 years</td>
</tr>
<tr>
<td>Since 2009</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OEF cumulative net returns to 31 Dec 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal %</td>
</tr>
<tr>
<td>1 year</td>
</tr>
<tr>
<td>3 years</td>
</tr>
<tr>
<td>5 years</td>
</tr>
<tr>
<td>Since 2009</td>
</tr>
</tbody>
</table>

The OEF opened to collegiate investors on 1 January 2009.
Investment Approach
In accordance with generating long term, sustainable growth, the Oxford Endowment Fund invests in a range of different strategies designed to generate returns in a variety of investment climates. Equity investments are used as a principal driver of returns; investments in productive and growing companies are likely to give the highest probability of achieving our real return targets. Strategies uncorrelated to equity are also used to give payoffs in periods of equity weakness, and to lower the overall volatility of the Fund compared to a simple investment in listed equity.

The effect of a diversified approach is to have engines of return that function across environments, which lower volatility and sensitivity, or ‘Beta’, of the Fund’s return solely to equity markets. In practical terms, this has considerable value for our investors who rely on a predictable dividend stream to fund their operations.

We can manage our sensitivity to equity markets by altering both our overall equity exposure and the nature of our underlying equity investments. At the end of 2011, the measured Beta of the Fund to MSCI ACWI was 0.35, and in 2014 it was 0.48. This was a direct result of us managing and adjusting the equity exposures over time. The Fund has generated strong returns in years with robust equity market returns, despite operating at a Beta of less than 1. This means that gains are being generated by significant underlying manager skill as well as market exposure.

Performance
All returns shown in this report are Time Weighted Returns calculated by OUem, unless otherwise stated. Returns are quoted net of all fund expenses, including custody, administration and OUem fees.
Managing Risk
Alongside volatility and equity sensitivity, there are other facets of portfolio risk which 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 dividend in short term bonds. This gives effective certainty to our investors of receiving their predicted income. Furthermore, we do not borrow money, or use ‘leverage’, at the Fund level to enhance returns.

Currency and geographic exposures of the Fund are regularly assessed and, where appropriate, non-Sterling exposure is hedged to reduce currency risk. The Investment Committee has set a range of 50% to 70% of the Fund to be in Sterling or hedged back to Sterling at any point in time, with the neutral position being 50% of the Fund. Geographic exposure of the Oxford Endowment Fund is illustrated below.

Generating Returns
Our investors require tangible, real returns that they can use to help meet their operational requirements. Relative returns and benchmarks are not consumable, and we do not focus on them. We concentrate on the overall real return of the Fund and we invest its capital on an holistic basis, not as a collection of separate investments and discrete asset classes.

We direct our efforts by pursuing long term themes where we believe tensions, changes or inefficiencies in economies and markets provide investment opportunities for our capital. Within these, we can invest either passively or actively, but most frequently we partner with world class investment managers that have sustainable competitive edges in their markets. With active relationships we partner for the long term and across market cycles, and focus on getting the right alignment of interests between the Fund and the manager. In contrast, while we are very aware of world markets and evolving economic events on a daily basis, we spend little time on macro-economic or political forecasting.

Geographic distribution at 31 Dec 2014

![Geographic distribution chart]

- North America: 37%
- UK: 27%
- Emerging markets: 16%
- Europe: 11%
- Japan: 6%
- Other: 3%
- Cash: 5%
- Property: 3%
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 our capital. For example, in recent years we have identified investments which will give us exposure to the increased affluence and spending habits of the nascent middle class in emerging markets, such as Southeast Asia and Africa. Conversely, we have seen less opportunity for growth in more mature, capital intensive and heavily regulated sectors.

The chart below shows estimated look through sector exposure aggregated from all of our investments, and includes where a manager has assets held in cash.

Energy Sector Exposure
During 2014, there was significant interest in the Oxford Endowment Fund’s investments in the ‘energy sector’. There are no direct investments in this sector in the OEF – direct investments make up approximately 21% of the Fund. Looking through all our pooled funds, the OEF has an estimated 3% exposure to the broader energy sector in equity and credit investments in both public and private markets. This is further broken down as: 1.7% in exploration and extraction; 0.2% in refining and marketing; 0.4% in storage and transportation; and 0.7% in equipment and services. To add context to these numbers, if the OEF was invested on a passive basis in the MSCI ACWI, a proxy for global equity markets, at 31 December 2014 exposure would be 8%, and if invested in the FTSE-100, a proxy for UK markets, the exposure would be 15%.
The Oxford Endowment Fund has grown from £497m in 2008 to £1.7bn at the end of 2014, a rise driven by both strong performance and new inflows into the Fund. As well as investing considerable inflows, we actively manage our asset allocation in a number of ways.

While investing holistically we organise our thinking around four main asset groups: Global Equities, Private Equity, Non Directional and Real Assets. Each has a particular role to play in meeting our return and risk objectives.

In Global Equities, we have continued to grow our exposure across a period that has seen recovery from the global financial crisis. In particular, we have made substantial, successful, long only investments in both growing developed markets and targeted investments in emerging economies.

The Private Equity asset group is now close to policy target as relationships continue to draw down our committed capital. The allocation has moved from being 1.9% of the portfolio at inception to 17.7% at 31 December 2014. The asset group remains young with the average age of invested capital being less than two years.

Whilst the OEF is a predominantly equity focused fund, Non Directional and Real Assets are designed to provide drivers of return less correlated to the equity markets.

During the year we reviewed our allocation to Real Assets and from 1 January 2015 the group has been split into Property and Inflation Hedges. This more accurately reflects the wholly different opportunities of each asset group. The target allocation of Property has increased to 9%, and includes the Fund’s property interests and rural estates. Today, there is an increased focus on our commercial property strategy, but the target allocation may take some time to reach whilst we build out the portfolio in a disciplined manner.

Inflation Hedges include index linked bonds, resource equities and commodity investments, which are assets that provide some protection from unexpected spikes in inflation.

Asset Allocation

<table>
<thead>
<tr>
<th></th>
<th>31 Dec 2014</th>
<th>Investment Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equities</td>
<td>52</td>
<td>45</td>
</tr>
<tr>
<td>Private Equity</td>
<td>18</td>
<td>20</td>
</tr>
<tr>
<td>Non Directional</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>Real Assets</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Cash &amp; Short Term Bonds</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
Investment Policy
The investment policy represents the mix of assets that the Investment Committee believes gives the best chance of achieving the long term investment objectives.
Global Equities
The Fund has substantial investments in public equity which is a critical driver of long term real returns. We invest in equity opportunities with at least a 3-5 year view, where we can see significant value available for our capital.

We recognise the futility of predicting the short term direction of equity markets, but we are sensitive to valuations and closely evaluate conditions across geographies and sectors for contrarian ideas. For example, over the past three years we have spent considerable time identifying small, under the radar groups which successfully invest in frontier markets such as Africa and certain parts of Asia, including Bangladesh and the Philippines. In developed markets, we have continued to add incrementally to Japan given the positive economic and structural changes occurring in the country. We also consider the Japanese market to be more attractively valued than other developed markets.

We believe that in most circumstances active management, with the right partner, leads to superior returns. We look to partner with managers who have demonstrable edges in their underlying market or sector based on insights, skills and experience. We prefer individuals and groups who have significant proportions of their own personal wealth invested alongside ours, and where gathering assets is not a priority. Often we will invest in country specialists where a local presence, coupled with a stable underlying capital base, allows them to take long term views. We do not value time spent on the assessment of benchmarks, and concentrate on managers who are empowered to focus capital in the best opportunities they can find, wherever they might be.

Global Equities annualised net returns to 31 Dec 2014

<table>
<thead>
<tr>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>7.7</td>
</tr>
<tr>
<td>3 years</td>
<td>14.8</td>
</tr>
<tr>
<td>5 years</td>
<td>10.8</td>
</tr>
<tr>
<td>Since 2009</td>
<td>11.9</td>
</tr>
</tbody>
</table>

The OEF opened to collegiate investors on 1 January 2009
**Private Equity**

In the OEF, Private Equity is simply another method of investing in corporate equity, but where the companies involved are normally outside of the scope of the public markets for either a situational or strategic reason. Examples are small, high growth businesses not yet ready for public listing, misunderstood businesses with specific capital requirements or companies which are in need of long term restructuring. Some sector specialisms also lend themselves to a private equity approach. For example, the Fund has investments in technology, retail, media and transport specialists, each of whom are at the apex of information flows in their sectors. 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.

We have steadily increased the Private Equity exposure of the Fund since inception, with 17.7% of the Fund invested in the asset group at the end of 2014. Within the allocation, we have taken advantage of our long time horizon to invest in a small number of venture capital approaches, often supporting the identification of the start-up businesses of today, which will become the most innovative and successful businesses of the future. Funding innovation can lead to high payoffs; however, returns are often experienced over a longer time period than can be tolerated by a conventional investor. Examples recently have included making co-investments in two Californian based food technology companies, one building software to enable farmers to better serve their local communities and the other focused on identifying plants that can be used to make food healthier, sustainable and more affordable.

The net IRR of this asset group continues to grow strongly since inception and stands at 18.2% at the end of 2014. This includes all cash flows from inception to the end of 2014, and therefore includes cash invested in many strategies that are too early to show meaningful returns.

**Private Equity annualised net returns to 31 Dec 2014**

<table>
<thead>
<tr>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>25.4</td>
</tr>
<tr>
<td>3 years</td>
<td>20.7</td>
</tr>
<tr>
<td>5 years</td>
<td>17.7</td>
</tr>
<tr>
<td>Since 2009</td>
<td>13.6</td>
</tr>
</tbody>
</table>

The OEF opened to collegiate investors on 1 January 2009
Non Directional
The Fund’s Non Directional investments seek to make gains that have a low correlation to the broader equity cycle. This helps diversify the return drivers of the Fund and lowers overall volatility. Over the last five years this asset group has returned 6.8% annualised, with a Beta to equity markets of 0.16.

Emerging from the global financial crisis, significant investments were made in contrarian debt strategies which sought to profit from dislocations occurring across markets and geographies. In 2012, this included increasing exposure to small business specialist lending in the wake of banks retrenching from many aspects of commercial lending. More recently, money has been allocated to opportunities arising in geographies which have experienced economic stress including Spain, Italy and Asia. This area continues to be a significant driver of returns to the Fund.

We continue to invest in a number of opportunistic strategies that look to generate returns from complex corporate and sovereign events which are typically uncorrelated to overall market movements. 2014 returns in this area were underwhelming but long term results have been acceptable. We continue to search for liquid, niche opportunities where returns are not correlated to simply owning standard equity or debt instruments. Truly non directional strategies can be difficult to find, and we remain focused on this area at the present time.

| Non Directional annualised net returns to 31 Dec 2014 |
|-------|-----|
| 1 year | 1.2 |
| 3 years | 7.5 |
| 5 years | 6.8 |
| Since 2009 | 8.0 |

The OEF opened to collegiate investors on 1 January 2009
Real Assets
Real Assets are investments in hard assets that have a tangible value in times of financial stress, and which can include some sensitivity to inflation inputs. Following a review of the OEF investment policy in late 2014, from 1 January 2015 the Real Assets group has been split into Property and Inflation Hedges to more accurately reflect how we invest in this area.

Property
The rural estates have been a significant driver of performance. Since 2009, these have returned 13.8% on an annualised basis driven by strong uplifts in rural UK land valuations and specific value enhancements in the individual estates.

In 2014, we began the implementation of a direct commercial property strategy. Our patience has been tested due to high valuations; however, we remain disciplined in our investment approach in order to generate real returns, and continue to target areas of the UK market where we have a competitive advantage.

Inflation Hedges
This component of the portfolio includes investments in index linked bonds, natural resource equities and commodity related investments. This asset group is designed to provide some protection from unexpected spikes in inflation, although there is no one to one hedge.

Given the inherent volatility of these assets, due to their sensitivity to macro-events, we maintain exposure by investing passively and regularly rebalancing.

Real Assets annualised net returns to 31 Dec 2014

<table>
<thead>
<tr>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>9.0</td>
</tr>
<tr>
<td>3 years</td>
<td>4.8</td>
</tr>
<tr>
<td>5 years</td>
<td>4.2</td>
</tr>
<tr>
<td>Since 2009</td>
<td>5.3</td>
</tr>
</tbody>
</table>

The OEF opened to collegiate investors on 1 January 2009
The Oxford Capital Fund

The Oxford Capital Fund (OCF) exists to invest expendable capital over a medium term time horizon. Typically this capital is for building projects which have a known liability at a fixed point in the future.

Investment Objective
During 2014 it was recognised that the time horizon of the money in the OCF had reduced, as more projects requiring funding came on stream across the University. As a result, the investment objective of the OCF was adjusted to prioritise capital preservation and liquidity.

Accordingly, the investment objective adjusted from 3% in excess of CPI to 1.5% in excess of CPI. Target volatility of the OCF reduced to a 5-8% range, rather than the former volatility objective of 50% of the MSCI World Index.

The time horizon over which the OCF seeks to meet this objective was reduced from three to five years to two to three years.

Investment Policy Transition
To reflect the new objective, illiquid holdings in Non Directional and Real Assets were reduced, and instead the investment policy is focused on the three core areas of equity, sovereign bonds and cash related investments.

Investment policy at 1 Jan 2015

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equities</td>
<td>30</td>
</tr>
<tr>
<td>Global Bonds</td>
<td>10</td>
</tr>
<tr>
<td>Index Linked Bonds</td>
<td>10</td>
</tr>
<tr>
<td>Cash &amp; Short Term Bonds</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>
**OCF Performance**

At 31 December 2014, the OCF has achieved its prior investment objective returning 3.1% annualised in real terms since opening to collegiate investors on 1 January 2010.

**OCF annualised net returns to 31 Dec 2014**

<table>
<thead>
<tr>
<th></th>
<th>Nominal %</th>
<th>CPI %</th>
<th>Real %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>5.9</td>
<td>0.6</td>
<td>5.3</td>
</tr>
<tr>
<td>3 years</td>
<td>6.6</td>
<td>1.8</td>
<td>4.8</td>
</tr>
<tr>
<td>5 years</td>
<td>5.7</td>
<td>2.6</td>
<td>3.1</td>
</tr>
</tbody>
</table>

**OCF cumulative net returns to 31 Dec 2014**

<table>
<thead>
<tr>
<th></th>
<th>Nominal %</th>
<th>CPI %</th>
<th>Real %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>5.9</td>
<td>0.6</td>
<td>5.3</td>
</tr>
<tr>
<td>3 years</td>
<td>21.1</td>
<td>5.4</td>
<td>15.7</td>
</tr>
<tr>
<td>5 years</td>
<td>31.9</td>
<td>13.8</td>
<td>18.1</td>
</tr>
</tbody>
</table>

**Volatility**

The annualised volatility of the OCF over a three year period is 3.9%.
Governance

What is governance?

Governance outlines how we make decisions and how those decisions are implemented. Governance is a mind-set and culture which overlays our investment process. It goes beyond any one issue, to ensure we are appropriate stewards of the assets within The Oxford Funds.

Clarity of Purpose and Structure
Good governance has both clarity of purpose and structure. The Oxford Funds exists to invest gifts donated to the collegiate University for the purposes of education and research. In order to steward this capital effectively, The Oxford Funds has a system of oversight and implementation, with clear roles and responsibilities.

Our investors must have purposes connected to the collegiate University, and currently include: 22 colleges, 5 collegiate charities and the central University. Our investors have their own experienced investment committees, and can invest their endowments with any investment manager of their choosing. We are delighted that so many have chosen to invest in The Oxford Funds.

OU Endowment Management provides investment management services to The Oxford Funds and is regulated by the Financial Conduct Authority.
The Trustee of The Oxford Funds is University Council. In this capacity, Council acts on behalf of all investors in the Fund. The Trustee sets the investment objectives and distribution policy of The Oxford Funds.

The Investment Committee is responsible to the Trustee for the strategic oversight of The Oxford Funds. Their role is to guide the Trustee in setting investment objectives and determine an investment policy best suited to achieving those objectives.

We believe that appropriate governance is fundamental to investment success.
Managing an endowment – why is it different?

Managing an endowment is different 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. Managing an endowment requires a careful balance between managing the interests of today’s beneficiaries with those of future generations. Endowment management is focused on at least preserving the real value of gifts donated to fund activities in education and research and generating 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.

At OUem we believe in investing globally and across a range of assets. We have chosen not to build a large team in Oxford, who would have to cover a wide range of investments, but predominantly to find and partner with exceptional investment talent externally.

To ensure we are appropriate stewards of the endowments entrusted to us, we have developed a Governance Policy with four principles, which the team uses to overlay the investment process and guide decisions.

Our approach to governance is measured and discreet
Governance
Policy

Maximise Our Competitive Advantages

Screening & Diligence

Engagement

Collaboration
Maximise Our Competitive Advantages

Purpose

The majority of the monies in The Oxford Funds have been donated to fund permanent endowments for education and research. OUem invests to take full advantage of the University’s perpetuity capital, finding areas which have duration beyond the tolerance of many other investors. Our team have the freedom to make investments today which may not come to fruition during their lifetimes.

Practice

OU Endowment Management can take an exceptionally long term view, when investing on behalf of our investors. We spend time thinking about the challenges of the world that we live and invest in, and we seek out groups who are investing in inefficiencies where we believe our money can make returns over the long term.

The stability of our long term capital helps us secure allocations in the most sought after investment groups.

We invest to fund beneficiaries across generations - not beat short term benchmarks
Resource Efficiency

The use of fossil fuels by society and the impact on the environment is one of the most pressing, multifaceted issues of our time. Solutions need to be found to help reduce demand for fossil fuels by business and consumers, but this will take time and happen through a mix of government policies, research and innovation. It is important that the endowment is invested in such a way that it can continue to be part of the University’s overall approach to this issue – engagement and collaboration are key tenets of our Governance Policy.

In addition, as we look for ways to address the reliance on fossil fuels, we use our permanent capital and appetite for innovation to back investment strategies focused on solutions.

As far back as 2010, the team allocated resource to researching the issue of carbon emissions, the inevitable reduction on the dependence of fossil fuels and how this could be implemented to make returns for The Oxford Funds. The team reviewed clean technology venture funds, funds excluding fossil fuel extractors and funds focused on renewable energy, but they did not meet our demanding investment and governance hurdles. We found and backed a team with an innovative approach focused on analysing the resource efficiency of quoted companies and their use of energy, water and waste; under the thesis that the most efficient companies should outperform their peers over the long term.
Screening & Diligence

Purpose

A key role of the team at OUem is to find investment ideas. These come from many sources: research, active networking, referrals from other investors, our managers, or through incoming approaches. Our screening process is robust and few ideas make it through to the rigorous due diligence stage.

Practice

We screen ideas on a variety of factors: market structure, experience of team, return potential; as well as assessing risk factors of a strategy such as social, environmental, political and reputational risks.

Before any investment is made we undergo a lengthy due diligence process to ensure an idea matches our governance expectations.

As an endowment with a dedicated investment team we can often invest in new areas that require more complex diligence. We spend considerable time understanding the teams and individuals who will steward the assets.

If we are not happy with the outcome of the due diligence process, we will not invest in the idea.

OUem analyses hundreds of investment ideas annually and only a very small proportion make it into the portfolio.
Investing in Africa

O

Uem has challenging investment objectives set by the Investment Committee, and therefore looks for investment ideas globally. We recognise that Africa is a rapidly developing region; however, there are risks involved from financial to environmental and social. Further to extensive research the team decided to carry out due diligence on a group working in a variety of emerging economies in the region. Extensive analysis of governance processes was undertaken to get comfortable with investing in pioneering companies exposed to environmental and social risk, in sectors including mining minerals. The group showed a commitment to strong governance across its portfolio which was codified in the Shareholders’ Agreement, including an obligation to report on environmental and social performance. The Oxford Funds is one of the largest shareholders in the group, alongside a Dutch development fund with equally strenuous governance requirements.
Engagement

Purpose

Our investment process does not stop after we have invested. We have an ongoing dialogue with our managers to ensure we have the best possible understanding of the assets held within The Oxford Funds, and the potential risks within the portfolio.

Practice

We prefer groups whose investment style is to hold a concentrated number of companies and engage with their management teams regularly, as these investors have the best understanding of governance risks across their portfolio.

Our ongoing evaluation of the managers involves frequent contact and dialogues on a range of topics including: their underlying companies, organisational changes, progress against stated strategy, and social, environmental or reputational concerns.

This engagement may take the form of meetings and phone calls, site visits of underlying investments, attendance at group meetings and, where appropriate, taking seats on advisory boards. In some instances, the Funds will have a separate account with a manager rather than invest through a pooled vehicle, and therefore, the Funds own shares directly and OUem retains the voting rights of those shares. Where this is the case, before voting, we consult closely with the managers who carry out deep fundamental research, involving engagement with management teams.

Our investment process is designed to result in a bias to well-managed companies to deliver sustainable shareholder returns.
In our experience, the most appropriate stewards of our assets are those with small teams but high engagement with their underlying holdings.

Global Equities

Like us, our investment managers will spend considerable time on diligence before they invest. They will take time to understand the company’s business, its competitors as well as spending time with the management teams. They will often be the largest investor in their companies. As a result they may be called upon to work with boards on matters such as senior management incentivisation or have an active dialogue on matters such as capital structure or strategy drift.

Each year public companies will have an AGM at which proposals are put forward for Shareholders to vote on. The vast majority of these proposals relate to reappointment of board directors, reappointment of auditors, remuneration or share allocations. At 31 December 2014, approximately 8% of the total value of the Funds was held in directly owned shares, and in any given year, we can vote in over 250 resolutions.
## Collaboration

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>We constantly seek to improve our investment process and we are in a privileged position to be able to share skills and practices with some of the most sophisticated global investors working on behalf of endowments and foundations.</td>
<td>OUem has forged a wide reaching professional network, which spans all levels of our team. Senior team members are encouraged to engage with peers to constantly evaluate what we do and how we do this.</td>
</tr>
</tbody>
</table>

A culture of best practice across environmental, social and governance concerns contributes to effective stewardship of assets.
Sharing Skills and Practices

The team has broad reaching networks in endowment management. For example, our Chief Operating Officer (COO) is a member of an informal ‘network of COOs’ from endowments globally, where information and best practice can be shared. Our Chief Investment Officer meets regularly with peers within global endowments and sits on the investment committee of three other foundations.

OUem is a member of the Institutional Investors Group on Climate Change (IIGCC).

We review our principles against the UNPRI and we will join organisations which we feel are appropriate to further our governance processes.
The Investment Committee 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 Chairman of both the Victoria & Albert Museum and the Gilbert Trust for The Arts, a trustee of the Metropolitan Museum of Art, New York, a Fellow of the Society of Antiquaries, Bancroft Fellow of Mansfield College, Oxford University, a member of the International Advisory Board of The Walters Art Museum and an Ambassador for AfriKids. Sir Paul was co-founder and former CEO of Lansdowne Partners.

**Professor Andrew Hamilton** has been Vice-Chancellor of the University of Oxford since October 2009. Prior to his appointment he was Provost of Yale University where he combined a wide-range of administrative duties with teaching and research. He is a Professor of Chemistry at Oxford.

**Mr Jeremy Bennett** was formerly Chief Executive Officer at Nomura International Plc. He is Vice Chairman at the Disasters Emergency Committee. He has been a regulator, a banker, a charity worker and amongst other things designed the successful asset protection scheme for HM Treasury which bailed out the banks in 2008.

**Mr 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. He is a member of the Howard Hughes Medical Institute’s Investment Advisory Committee and chairs the finance committee of the Academy of American Poets.

**Mr 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 $4 billion; he was previously the Chief Investment Officer for The Museum of Modern Art in New York and a principal in private equity.

**Mr Michael McCaffery** is Chairman of Makena Capital Management which has over $18 billion assets under management, and he was formerly President and CEO of Stanford Management Company. He is currently a trustee of the Rhodes Trust and Chair of the Rhodes Trust Finance and Investment Committee.

**Mr Nick Ritblat** was an Executive Director of British Land for 19 years and President of the British Property Federation in 2005. In 2006, he started a business consultancy and two capital markets hedge funds. Nick now sits on the investment and property committees of two endowments and the Masterplanning Committee of the Courtauld Institute. He also chairs the Residential Property Forum of The Bank of England.

**Mr George Robinson** is a partner of Sloane Robinson LLP, an investment management business specialising in global equities, which he co-founded in 1993. He is also an active investor in early stage technology and biotech companies and co-founded
Technikos, a private equity partnership which invests in spin-out companies from the Oxford University Institute of Biomedical Engineering.

**Mr Thomas Seaman** is the Estates Bursar of All Souls College and Chair of The Oxford Funds’ Property Advisory Group. He is a trustee and chairs the investment committee of the International Institute for Strategic Studies. He was formerly a Managing Director of Merrill Lynch where he headed Asia Pacific investment banking.

**Ms Anne West** was formerly Chief Investment Officer of Cazenove Capital Management and, until the end of 2012, a Director of the Private Wealth Management division. During her career she specialised in Asia and emerging markets, as well as working as Head of Global Equities. Anne also sits on the Valuation Committee.

**Mr Giles Kerr** – Director of Finance of the University – and **Ms Sandra Robertson** – Chief Investment Officer and Chief Executive Officer of OU Endowment Management – both attend Investment Committee meetings.

**OUem Ltd**
The Directors of the company are Sandra Robertson, Fay Ashwell – COO of OU Endowment Management – Giles Kerr, Professor Andrew Hamilton, Jeremy Bennett and the Chairman is Sir Paul Ruddock.

The Company’s Remuneration Committee members are Sir Paul Ruddock (Chair), Giles Kerr, Professor Andrew Hamilton, Jeremy Bennett and Bernard Taylor. Their role is to set and review the remuneration policies for OUem.