The Scott Trust
Endowment Fund
Performance Report
2022/23
Statement by the Chair of the Scott Trust Endowment Fund Investment Committee

We are pleased to publish the Scott Trust Endowment Fund’s (the Endowment) performance report for the 12-month period to 31 March 2023.

The core purpose of the Scott Trust is to secure the financial position and editorial independence of The Guardian in perpetuity. I joined the Trust in November 2022 and am delighted to chair the Investment Committee that oversees the Endowment.

Since the Endowment was set up in 2008, it has successfully generated an average return of 6.7% per annum. During the year the macroeconomic environment has continued to present challenges. However, the Endowment is positioned to weather current conditions in order to deliver on its long-term goals.

The values and principles of the Scott Trust run through all activities, including the management of the Endowment. We take a proactive stance on responsible investing, with a particular focus on climate change, diversity, equity and inclusion, and an emerging focus on nature. A newly appointed head of engagement is further strengthening our approach across our investment activities.

Overall, the Endowment remains well positioned to take advantage of growth opportunities and fulfil its purpose of supporting the Guardian now and far into the future.

Tracy Corrigan
Report on the Endowment

1. Structure of the Endowment

At 31 March 2023, the Endowment was valued at £1,244.7m. The components of the Endowment and their roles were:

<table>
<thead>
<tr>
<th>Endowment Asset</th>
<th>Balance</th>
<th>Role in the Endowment</th>
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<tbody>
<tr>
<td>Long-Term Investment Fund (LTIF)</td>
<td>£1,181.3m</td>
<td>The LTIF aims to generate strong risk-adjusted returns over the long-term to enable the Scott Trust’s mission of supporting the Guardian in perpetuity.</td>
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<tr>
<td>GMG Ventures</td>
<td>£63.4m</td>
<td>Venture capital investments at the intersection of media and technology.</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>£1,244.7m</strong></td>
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Note: During the year, the Endowment’s Operating Reserve, which was previously reported as a separate line item, has been incorporated into the LTIF.

2. Performance

The primary investment objective of the LTIF is to achieve an annual total return of inflation (CPI) plus 5% over the long-term, net of fees. The long-term is defined as a minimum of ten years. In addition to the investment objective, the LTIF is expected to generate returns in excess of the portfolio benchmark, measured over a minimum of a three-year period. This portfolio benchmark reflects our Strategic Asset Allocation (SAA), which should enable us to meet our investment objectives.

Since inception in mid-2008 to 31 March 2023, the LTIF has generated an annualised return of +6.7%, which is ahead of its investment objective (+6.1%) and of the portfolio benchmark (+5.0%).

For the twelve-month period to 31 March 2023, the LTIF generated a return of -2.4%, marginally behind the portfolio benchmark (-2.2%). However, over a three-year period, the LTIF outperformed its portfolio benchmark by 3.1% per annum and delivered an annualised return of 11.8%.

3. Governance of the Endowment

For practical purposes, the Scott Trust has delegated authority for most decisions relating to the management of the assets to the Scott Trust Investment Committee (“Investment Committee”). The Investment Committee meets regularly to review the performance and strategy of the Endowment.

The Investment Committee is comprised of both Scott Trust and Guardian Media Group plc board members, as well as two independent directors with investment expertise - the current membership is as follows:

- Tracy Corrigan (Chair)*
- Charles Gurassa
- Ole Jacob Sunde
- Coram Williams
- Chris Hitchen
- Gayle Schumacher

*The Investment Committee was chaired by Mary Ann Sieghart until November 2022, when Tracy Corrigan was appointed Chair.

Nils Pratley and Catherine Howarth were also members of the Investment Committee until June 2022 and September 2022 respectively.

The Scott Trust has appointed Cambridge Associates and Cardano as advisors to work with the Investment Committee and Executive Team. Cambridge Associates advises on private investments and Cardano advises on strategic and tactical asset allocation, public-market investments and management of day-to-day aspects of the Endowment.
4. Review of Investment Activities

Overview of LTIF Performance

The table above shows the performance of the LTIF since inception on both a calendar year and on an annualised since inception basis.

The LTIF has outperformed its portfolio benchmark since inception (net of costs).

In the year to March 2023, geopolitical instability, supply chain disruptions and rising inflation were a challenge to markets and investors. The LTIF’s performance over the period was -2.4% compared to -5.5% for global equities1, demonstrating robust diversification in the LTIF’s portfolio construction.

The LTIF’s investments in private markets have performed particularly well. However, the weakening of the US dollar, that commenced in Autumn 2022, coupled with economic conditions, has negatively affected the sterling value of many of the LTIF’s US dollar denominated investments.

Inflation has risen dramatically in recent months. The LTIF invests in assets which respond positively to rising inflation (e.g. Inflation-Linked Bonds).

The LTIF remains well positioned to provide support to the operating business while remaining focused on the long-term returns that will help to fulfil its purpose.

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1 MSCI World Index Daily Net TR is USD
4. Review of Investment Activities (cont.)

Evolution of the LTIF’s Asset Allocation

The table above shows the evolution of the asset allocation of the LTIF from mid-2008 to 31 March 2023.

The focus of the strategy has been to generate long-term growth and this continues to be the case in the current market conditions.

The Endowment continues to increase its allocation to private markets. These assets have the potential to achieve higher returns compared with publicly traded liquid investments.

To offset the increased risk and higher management costs associated with private market investments, there are plans to further diversify and reduce the cost of the rest of the portfolio.

The transition to the new strategic asset allocation started at the beginning of 2022 and is now largely complete.

Note: Allocation is based on market value of assets at end of period. Values include discretionary cash held by managers. Actual allocation is shown as a percentage of Total Assets.
4. Review of Investment Activities (cont.)

Risk
The primary investment objective of the LTIF is to achieve strong long-term returns with acceptable level of risk.

The current portfolio is well positioned to deliver these returns when economic growth is strong. This is due to its sizable allocation to public and private equities.

However, the portfolio’s resilience in recessionary conditions or to periods of high inflation was previously identified as a risk. Allocations to government bonds and to inflation-sensitive assets were increased during the second half of 2022 in order to increase the portfolio’s resilience.

The portfolio continues to be monitored to ensure that it runs an appropriate level of risk to meet its return objective and that there will still be sufficient liquidity to support the growing private markets allocation.

Private Investments
2022 saw a reduction in returns relative to 2021, due to adverse market conditions. According to Cambridge Associates’ benchmark returns for private equity were +5.6% and -8.5% for venture capital. Against this context, the Endowment’s Private Equity and Venture Capital (PE & VC) portfolio returned +0.2%.

In 2022, markets cooled off after reaching historic highs, fuelled by pandemic tailwinds, in 2021. The outbreak of the war in Ukraine, and a poorer macroeconomic outlook (higher inflation and rising interest rates) contributed to a sharp decline in public markets. The lower valuations of public companies have slowly, but not yet fully, been reflected in the valuations of private companies which typically take longer to adjust. As such, further weakening of returns are expected in the second half of 2023 and 2024 as companies face the prospect of a recession and other headwinds. Today’s environment for selling companies is challenging, which has contributed to a lower pace of capital being returned to investors. That said, funds with meaningful capital reserves will benefit from investing at more attractive valuations that we expect to see going forward.

As at 31 December 2022, the Endowment’s PE & VC portfolio stood at £274m in net asset value (NAV) and generated a further £82m of distributions in 2022. Given a cost basis of £199m, this translates to a total net cash on cash return of 1.8 times cost, including a realised net return of 0.4 times cost.

From 31 March 2022 through to 2023 YTD, £12m in commitments have been completed across two funds, bringing the total to £74m in commitments across seven managers since inception. The portfolio has continued to grow, expanding its relationship with one manager through a follow-on fund, as well as increasing its diversification through the addition of its first focused credit manager:

- **Forbion** – An experienced European life sciences investor. This manager invests in biopharmaceutical companies that discover and develop therapeutic products that address substantial or serious unmet medical needs.

The Diversifiers portfolio is comprised of investments that should have less correlated sources of risk and therefore returns to equities, providing resilience and stability to the portfolio through economic cycles. As at 31 December 2022 the Diversifiers portfolio had an unrealised value of £24m, and had generated a further £26m in distributions. Given a cost basis of £41m, this translates to a total net cash on cash return of 1.2 times cost, including a realised net return of 0.6 times cost.

Costs
The Investment Committee seeks to manage the portfolio in the most cost-effective manner.

We continue to look to reduce investment management fees while preserving the level of diversification.
5. GMG Ventures

GMG Ventures is an independent, early-stage venture capital fund whose first fund has one limited partner, The Scott Trust. GMG Ventures specialises in early stage MediaTech, investing in cutting-edge technologies that typically use technology to disrupt traditional media business models. In addition to its sector expertise, the fund’s strategy is characterised by its focus on leading and pricing early-stage rounds and bringing a hands-on approach to investing, looking to build partnerships with founders and help them grow.

GMG Ventures has built a responsible data and AI framework to screen companies pre-investment and ensure that investee companies act responsibly. In 2020, GMG Ventures co-founded VentureESG, a not-for-profit coalition committed to driving the adoption of environmental, social and governance (ESG) principles within the venture capital world, which has attracted 650 investors as participants to date. In December 2022 GMG Ventures became a certified B-Corp in recognition of its commitment to benefit people, communities, and the planet. GMG Ventures was one of the first UK venture capital firms to achieve this status.

Since inception, GMG Ventures has made 28 direct investments in start-ups and a global incubator and accelerator programme.

GMG Ventures, which is five years into its ten year investment period, stands at £57.6 million in net asset value (NAV). Given a cost basis of £37.1 million, this translates to a total net return of 1.6 times cost.

6. Responsible Investment

As members of the United Nations Principles for Responsible Investment (PRI) since 2015, the Scott Trust has integrated the six core principles for incorporating environment, social and governance (ESG) issues into its investment analysis and decision-making processes. The Scott Trust actively engages with its fund managers to ensure they comply with these principles and created a new Head of Engagement role this year to strengthen this engagement, ensuring its assets are being stewarded according to the Scott Trust’s values. The Scott Trust is particularly focused on engagement to address climate change and on improving diversity, equity and inclusion both in the investment industry and in underlying investments, and additionally has an emerging focus on the impact of investments on nature.

The Scott Trust believes climate change and environmental challenges are part of material systemic risks to the portfolio and the financial system and is monitoring the impact of its investments, building on its disinvestment from fossil fuels in 2015. Additionally, the Scott Trust has been a member of the Institutional Investors Group on Climate Change since 2016, supporting investor collaboration on climate change, and has deepened its involvement this year.

Across the portfolio, the Scott Trust has partnered with fund managers who are contributing to addressing the world’s biggest challenges and have a strong commitment to social justice. Examples of these investments include:

- **Verdane** – a sustainable growth buyouts firm investing in tech-enabled high growth businesses across Northern Europe. They seek opportunities for technology to deliver transformational and impactful solutions for the energy transition, sustainable consumption, and resilient communities.

- **Frazier Healthcare Partners** – a healthcare-focused private equity investor in the US. Frazier were highlighted by the PRI this year as creating global best practice for their work on a Diversity, Equity, Inclusion, and Advancement (DEIA) scorecard to measure and improve outcomes in their portfolio companies, with a particular focus on creating opportunities for female and ethnically diverse talent.

- **Stewart Investors** – a public markets global manager. Since 2016 they have been developing an initiative with consumer goods companies in India to tackle plastic waste, bringing together a wide range of stakeholders including the leading climate action NGO WRAP. Their work has resulted in the launch of an Indian Plastic Pact, which enables companies to collaborate on achieving ambitious plastic pollution reduction goals and on engaging consumers in the reuse, recycling and reduction of plastics.

7. Conclusion

This has been a good year for the Endowment, given the context of challenging markets. It has performed well in both absolute and relative terms, helping to fulfil its responsibility to secure the Guardian’s financial future in perpetuity. At the same time, it has not lost sight of the principles of the Scott Trust. Its investments are ever more responsible, sustainable and impactful. We hope to sustain this progress in future years.