The Scott Trust Endowment Ltd.
Performance Report 2023/24

Statement by the Chair of the Board of The Scott Trust Endowment

I am pleased to introduce The Scott Trust Endowment Ltd.'s (the Endowment) performance report for the 12-month period to 31 March 2024. This report presents the Endowment's financial performance, alongside an overview of how the Endowment generates positive environmental and social impact, furthering the mission of the Scott Trust.

The Endowment was established by the Scott Trust in mid-2008 with the core purpose of investing to provide financial returns to support the Guardian in perpetuity. Following a review of our governance in 2021, the Scott Trust created a new entity, The Scott Trust Endowment Ltd, to separate the management of the assets from the management of the Guardian Media Group.

We completed the transfer of assets to this new entity during this year, a significant milestone for the Endowment. The Board also focused on updating its governance, policies and processes to ensure the effective running of the Endowment.

During the year macroeconomic conditions continued to be challenging. For the year, the Endowment generated a return of 5.4%, which lagged the portfolio benchmark by 9.1%. Over a ten year period the Endowment marginally underperformed against its ten-year performance objective of CPI plus 5% (7.5% v 7.9%), but outperformed compared to its weighted benchmark (7.1%). The Endowment continues to be well positioned to meet its long term objective, and we are making good progress towards achieving our strategic asset allocation.

The Board also worked to better measure and deepen the Endowment's positive environmental and social impact. We do this through the investments we make, by engaging with investment fund managers and companies to drive better practices, and by working with other investors. This year we have looked in detail at the environmental performance of the Endowment, which we have included in this report. We continue to identify additional ways to be impactful and are now part of three investor alliances to support our approach.

The Endowment continues to be well positioned to achieve its purpose of supporting the Guardian in perpetuity. By focusing on making a lasting positive impact, we are also pursuing our purpose in a way that aligns with the Scott Trust's mission.

Tracy Corrigan
Chair of the Board, the Scott Trust Endowment*;*
and *Member of the Board,* the Scott Trust

Purpose of the Endowment

The Endowment aims to generate strong risk-adjusted returns over the long term to support the Scott Trust's mission of supporting the Guardian in perpetuity.

At 31 March 2024, the Endowment was valued at £1,276.9 million[1].

Note: During the year, the ownership of Mercuri's first fund (formerly known as GMG Ventures), which was previously reported as a separate asset, was transferred from the Scott Trust to the Endowment. See page 8 for further information on Mercuri.

Performance

The primary investment objective of the Endowment 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 Endowment 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.

Over ten years, the Endowment has generated a return of 7.5%, which is ahead of the portfolio benchmark (7.1%), but is marginally behind the CPI plus 5% target (7.9%).

For the twelve-month period to 31 March 2024, the Endowment generated a return of 5.4%, which lagged the portfolio benchmark by 9.1%. Over a three-year period, the Endowment has delivered an annualised return of 5.7%, marginally underperforming its portfolio benchmark by 0.5% per annum.

Governance of the Endowment

During the year, the Scott Trust Ltd completed the transfer of the Endowment's assets from the Guardian Media Group to a newly formed entity, The Scott Trust Endowment Ltd (STEL) and agreed a new Statement of Investment Principles, which outlines the purpose of the Endowment and the Scott Trust's beliefs.

The Scott Trust has delegated authority for most decisions relating to the management of the Endowment to the STEL Board, which meets regularly to review the performance and strategy of the Endowment.

The STEL Board currently comprises:

- Tracy Corrigan (Chair of the Board, The Scott Trust Endowment)
- Jonathan Evans (Chief Investment Officer)
- Stephen Godsell (Group General Counsel and Company Secretary)
- Chris Hitchen
- Gayle Schumacher
- Ole Jacob Sunde (Chair of the Board, The Scott Trust)

The STEL Board has appointed Cardano and Cambridge Associates as advisors. Cardano advises on strategic and tactical asset allocation, public-market investments and the management of day-to-day aspects of the Endowment. Cambridge Associates advises on private investments.

1 The valuation shown above is not identical to that presented in the Group's financial statements (£1,274.9 million). Primarily this is due to the source of the data used, with data in the financial statements provided by the custodian and data in this report provided by our investment advisors. In addition, one of the funds is deemed to be a subsidiary by virtue of control and as such a different valuation method has been used in the financial statements.

Review of Investment Activities

Overview of the Endowment’s Performance

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	10 year performance	Annualised since inception
Scott Trust Endowment	13.5%	-4%	20.7%	3.7%	6%	-3.4%	25%	14.9%	-2.4%	5.4%	7.5%	6.6%
Weighted Benchmark (Hedged)	11.7%	-1.6%	18.7%	3.0%	5.7%	-4.0%	21.7%	7.1%	-2.4%	14.5%	7.1%	5.5%
Out-performance	1.8%	-2.4%	2.0%	0.7%	0.3%	0.6%	3.3%	7.8%	0%	-9.1%	0.4%	1.1%

The table above shows the performance of the Endowment over the last ten years and on an annualised basis since inception in mid-2008. The Endowment has outperformed its portfolio benchmark for both its ten-year performance measure and annualised since inception (net of costs).

The year to March 2024 was a period of sustained inflation. Global central banks were firm in their commitment to bring inflation under control, implying rates would stay higher for longer. This caused volatility in global equity and bond markets, which proved highly sensitive to market data and central bank commentary across the year. Towards the end of the reporting period, inflation fell much closer to central banks’ targets and investors priced in rate cuts for late 2024. In this period, the Endowment was still able to generate a positive return despite this market volatility.

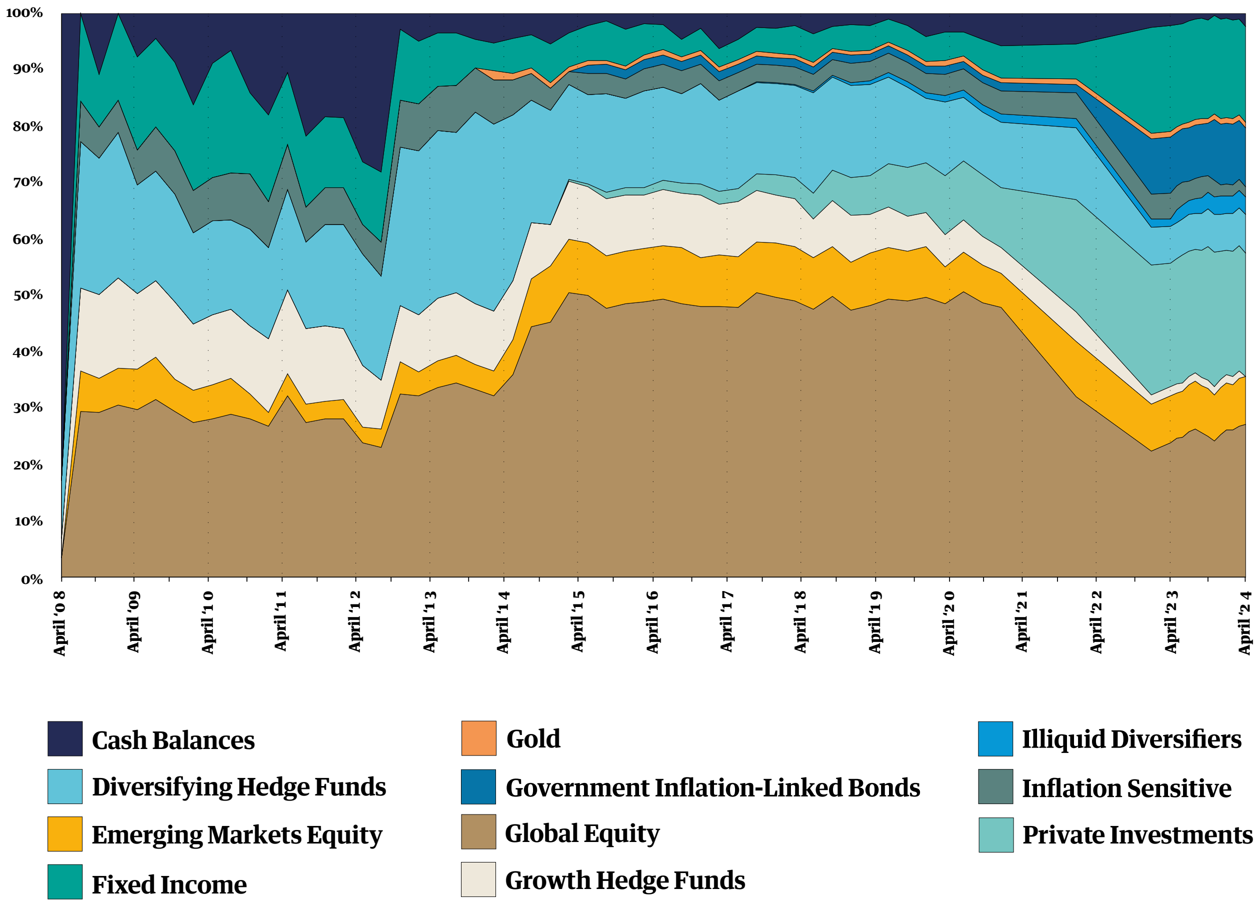
The Endowment’s private markets assets were the largest detractors from performance over the year. This was to be expected in a rising rate environment that puts downward pressure valuations. The negative contributions from private market investments were also exacerbated by the weakening of the US dollar, in which they are denominated.

The Endowment is well positioned to provide support to the Guardian Media Group while remaining focused on the long-term returns that will help to fulfil its purpose.

1 MSCI World Index Daily Net TR is USD

Review of Investment Activities

Evolution of the Endowment's Asset Allocation



The table above shows the evolution of the asset allocation of the Endowment since inception in mid 2008 to 31 March 2024.

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

We continue to increase our allocation to private markets in line with our target strategic asset allocation. These assets have the potential to achieve higher returns compared with publicly traded liquid investments over time.

Review of Investment Activities (cont.)

Risk

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

The current portfolio is well positioned to deliver these returns when economic growth is strong, due to its sizable allocation to public and private equities. The portfolio should also be resilient when markets are volatile due to diversification.

We continue to monitor the portfolio 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 its obligations.

Costs

The Board 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.

Private Investments

In 2023, private markets continued to reflect the ongoing market correction that began in 2022, accelerated by a weaker macroeconomic outlook (higher inflation and rising interest rates) and geopolitical unrest. This followed over a decade of the market reaching historic highs. Against the backdrop of higher interest rates, private equity valuations began to plateau in 2023. At the same time, venture capital valuations continued a downward trend and portfolio companies sought to conserve cash on their balance sheets by cutting costs. The current reset in private markets is expected to happen over a multi-year period.

Distributions to investors remained low in 2023, with the persistence of a challenging exit environment. According to Cambridge Associates' benchmark, returns in 2023 were 2.5% for private equity and -9.1% for venture capital in GBP terms (as at 31 December 2023). Against this context, the Endowment's Private Equity and Venture Capital (PE & VC) portfolio returned -7.6% in GBP terms; this was impacted by foreign exchange movements as the return of the portfolio in US dollars was -2.1%. Since the inception of the PE & VC portfolio in March 2015, the Endowment's PE & VC portfolio returned 16.6% and 15.7% in GBP and US dollar terms, respectively.

As at 31 December 2023, the Endowment's PE & VC portfolio stood at £261 million in net asset value (NAV) and has generated £97 million of distributions since inception. Given a cost basis of £226 million, this translates to a total net cash on cash return of 1.6 times cost, including a realised net return of 0.4 times cost.

During the year the PE & VC portfolio completed £11 million in commitments across two funds, bringing the total to £310 million in commitments across 27 managers since inception. A recent example of a commitment is:

- **KPS –** A US-based manager specialising in transforming manufacturing businesses. KPS focuses on companies that need substantial operational improvements.

The private markets Diversifiers portfolio comprises investments that should be less correlated to equities, providing resilience and stability to the portfolio through economic cycles. As at 31 December 2023, the Diversifiers portfolio had an unrealised NAV of £32 million, and had generated £31 million in distributions since the inception of this part of the portfolio in March 2017. Given a cost basis of £55 million, 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.

From 1 April 2023 through to 31 March 2024, £31 million in commitments have been completed across four funds in the Diversifiers portfolio, bringing the total to £105 million in commitments across nine managers since inception. The portfolio has continued to grow, with three recommitments, as well as increasing its diversification through one new manager relationship:

- **Copenhagen Infrastructure Partners (CIP) –** Founded in 2012, CIP is the world's largest dedicated fund manager within greenfield renewable energy investments and a global leader in offshore wind. The funds managed by CIP focus on investments in offshore and onshore wind, solar, biomass and energy-from-waste, transmission and distribution, reserve capacity, storage, advanced bioenergy, and Power-to-X (electricity conversion, energy storage, and reconversion from surplus renewable energy).

Responsible Investment

Investing responsibly is at the heart of the Endowment's approach. This year we established the governance and strategy to achieve positive environmental and social impact alongside financial returns. We place a particular focus on contributing to tackling climate change, protecting nature and biodiversity, and advancing diversity, equity and inclusion in the investment industry. We also work with our investment fund managers on any issues that we consider to be material risks.

We use our levers of investing, engaging and collaborating with stakeholders to maximise opportunities for positive impact and are proud to work with some exceptional investment fund managers who share our values and are making significant environmental and social impact through their investments, and through their leadership of initiatives within the industry.

Environmental performance
A core area of work has been to understand the environmental impact of the Endowment and develop an investment strategy that contributes to the Paris Agreement's goal of limiting global warming to 1.5 degrees Celsius (1.5°C).

The investment strategy is focused on supporting real world decarbonisation and eliminating our exposure to commodity-driven deforestation alongside the broader protection of nature and biodiversity. The STEL Board appointed the investment adviser Redington to support this work. This builds on work we started in 2015 to divest the Endowment from fossil fuels, aligned to the Guardian's "keep it in the ground" campaign, when we became one of the largest Endowments to divest from fossil fuels at the time.

We use the metric implied temperature rise (ITR) to assess the Endowment's environmental performance. ITR gauges what degree of warming the world might experience if every company were as efficient or inefficient, in emissions terms, as a portfolio of holdings, where efficiency is measured relative to a carbon budget specific to that portfolio.

Analysis conducted for our baseline at 31 March 2023 shows the implied temperature rise of the Endowment was 2.4°C, compared to the MSCI ACWI benchmark of 2.6°C. The Endowment's carbon footprint was also more efficient at 36 tCO2e/£1 million invested, compared to a benchmark of 70 tCO2e/£1 million invested; and the Endowment's total carbon emissions were 17,664 tCO2e.

We are pleased that our environmental performance to 31 March 2024 has improved. The temperature alignment of the Endowment has now decreased to 2.2°C, the carbon footprint is now more efficient at 31 tCO2e / £1 million, and the total carbon emissions has now decreased to 16,336 tCO2e.

Given the vital role that forests play as carbon sinks, we continue to analyse our exposure to commodity-driven deforestation and are working proactively with our investment fund managers on policies and processes to contribute to bringing an end to this practice.

Investing in solutions
One of the most impactful levers the Endowment has is to invest in solutions that address the climate crisis and protection of the natural world.

Across the Endowment, we have invested £82.6 million in environmental solutions, equivalent to 7% of our assets, including investments in companies that are innovating and scaling solutions for electrifying transport, decarbonising the grid, fixing food systems, protecting nature, decarbonising industry, and removing carbon. Some examples are a company that has developed vertical indoor farms for food production, and one that develops systems for fighting fires with dry ice.

We also engage directly with both our investment fund managers and companies we are invested in to drive change on environmental protection. This year the Endowment joined Nature Action 100, a global investor engagement initiative. Through Nature Action 100, we work with other investors to engage companies directly on driving greater corporate ambition and action to reduce nature and biodiversity loss.

Diversity, equity and inclusion
The Endowment attaches high importance to building a fairer and more inclusive investment industry given the current under-representation of diverse groups, and because of the evidence that greater diversity in the investment industry leads to improved outcomes in society.

We do this by incorporating an assessment of DE&I of fund management firms we work with, both at the investment stage and in ongoing monitoring, where we expect to see progress, and through investing in funds that allocate capital to diverse founders We also collaborate with industry initiatives that seek to improve DE&I in the sector.

An example is our role on the working group of the Asset Owner Diversity Charter (AODC), a UK-based initiative led by asset owners. The AODC works with investment fund managers to improve voluntary disclosures on DE&I and to improve practices within firms.

Investor alliances
We also collaborate with our peers to drive more responsible practices in the investment industry. Following a review of investor alliances, the Endowment joined the UK Sustainable Investment and Finance Association (UKSIF), and the Institutional Limited Partners Association (ILPA), in addition to continuing our membership of the Institutional Investors Group on Climate Change (IIGCC) which we joined in 2016. We play an active role within these alliances, contributing to the development of tools that support the sustainable finance industry and influencing policy to strengthen the industry.

Mercuri (formerly known as GMG Ventures)

Mercuri is an early-stage venture capital fund that leads pre-seed and seed funding rounds for UK companies at the intersection of media, entertainment and technology. The firm is dedicated to backing outstanding entrepreneurs who are at the forefront of developing tech-driven products designed for digital enterprises and consumers.

Mercuri's first fund, launched under its former name GMG Ventures, has The Scott Trust as its sole investor, with a commitment of £42 million. The fund, which is six years into its ten-year term, has distributed £3.2 million to the Scott Trust to date (9% of its paid in capital). At 31 March, the remaining investment in the fund was valued at £58.2m resulting in a total value to paid in capital ("TVPI") ratio of 1.6x.

In May 2023, The Scott Trust continued its support of Mercuri by committing £4 million to Mercuri II LP, a £50 million fund backed by institutional investors including a cornerstone investment from the British Business Bank through its Enterprise Capital Funds ("ECF") programme.

Mercuri is a certified B Corp and co-founder of VentureESG, a non-profit initiative to improve environmental, social and governance ("ESG") best practice in the venture capital industry, with 650 members. Mercuri is focused on partnering with founders who align with these values and who work to build and scale their companies in a responsible way, including through the responsible design and use of technologies. Mercuri has a climate pledge and a comprehensive ESG strategy.