Annual Report and Financial Statements 2016

wellcome

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Chair's Statement

The end of the 20th century was a turning point in the history of the Wellcome Trust. As we sold the shares in the pharmaceutical company that had previously provided our income, the value of our investment portfolio increased and it has continued to grow thanks to our investments team. We therefore spend a good deal more on our charitable work.

Ten years ago, our budget was around £500 million a year. Today, it is double that. Our investment portfolio added £3.5 billion in the year to September 2016, a return of 18.8 per cent. The 138 per cent cumulative return over the last ten years underpins our ambitious plans for charitable commitments of up to £5 billion over the coming five years. This doubling of scale brings additional levels of opportunity and responsibility.

Last year, we set out how we will use our increased resources in a new strategic framework. There is more detail on the first year of the framework in the Director's Statement – as Jeremy explains, funding people who come to us with great ideas will always account for the majority of our spending because we strongly believe that is the most effective way to improve health.

Without reducing our commitment to advancing ideas by funding excellent science, research and public engagement, the strategic framework included two additional approaches for supporting a number of priority areas. Through seizing opportunities and driving reform, we intend to use Wellcome's experience, authority and expertise to accelerate progress in specific areas where there are urgent needs or particular opportunities, or to bring about changes that help science and health research across the board.

Better connected

Wellcome played a central role in putting drug-resistant infections on the agenda of the UN General Assembly in September 2016. It was only the fourth time that the General Assembly has discussed a health issue, reflecting the gravity of the international challenge we face as our current antibiotics and other infection-fighting drugs begin to fail. The commitment UN member states have now made to take action to address the problem, which cuts across medicine, biotech, agriculture, sanitation and the environment, is an encouraging start.

At Wellcome, we have the networks and capacity to connect science and policy, and we intend to deepen this aspect of our work in the future. We have strong working relationships with many organisations which share our goal of improving health. For example, in September we announced the formation of the Coalition for Epidemic Preparedness Innovations, or CEPI, in partnership with the Bill and Melinda Gates Foundation, the World Economic Forum and the governments of Norway and India.

We have a number of initiatives with UK funders as well, including the Joint Global Health Trials scheme. A partnership between Wellcome, the Medical Research Council, the Department for International Development and the National Institute for Health Research, this scheme launched its seventh call for proposals in summer 2016.

One pressing issue for us all will be the impending withdrawal of the UK from the European Union. The UK is one of the best places to do research, and medical research in particular. It has first-rate universities, a thriving biotech industry and the National Health Service, which enables ambitious clinical research.

Chair's Statement

> **"We intend to accelerate progress in specific areas where there are urgent needs or particular opportunities, and to bring about changes that help science and health research across the board."**

British scientists contribute so much to international health research that any detrimental effects here would have consequences for science everywhere.

We expect that the life sciences will continue to be a significant priority in the British government's developing industrial strategy. Wellcome will maintain our long-standing commitment to support health research in the UK, but we will also use our influence, work with our partners, including scientists, and bring the right people together to ensure the best possible outcome for research from the changes and challenges that lie ahead.

Given the market reaction to Brexit, the key decision that our investments team had to get right this year was the level of exposure to Sterling. We benefited from our positioning, given the high level of unhedged overseas assets. However, the strong performance of the portfolio was not just about currency, with positive returns recorded in every asset class. The strong, diversified portfolio has enabled Wellcome to maintain our AAA/aaa credit rating, despite the downgrade of UK sovereign credit.

We cannot expect the double digit real returns of the last one, three and five years to be repeated indefinitely. Political uncertainty has made for a difficult and volatile market backdrop. However, we are confident that the portfolio will continue to generate strong positive cash flows that should insulate Wellcome against future market turbulence.

This year, Professor Peter Rigby stepped down from the Board of Governors after eight years, including three as Deputy Chairman. On behalf of everyone at Wellcome, I thank him for his valuable contributions. I'd also like to welcome Bill Burns to the Board: Bill's extensive experience within the pharmaceutical industry will be of considerable help as we continue to develop a deeper role in improving health throughout the world.

Eliza Manningham-Buller

Eliza Manningham-Buller

Chair, Wellcome Trust

12 December 2016

Director's Statement

At Wellcome, we believe in improving health through science, research and engagement with society. It's not always possible to predict where advances will come from, so we provide long-term funding to people, places and ideas across a broad range of disciplines.

Since 1989, for example, the KEMRI-Wellcome Research Programme has been finding ways to beat malaria and other problems affecting children in Kenya, including HIV and malnutrition. Scientists there led trials of insecticide-treated bednets, and have improved the diagnosis of malaria. I was delighted, therefore, when the Abdulrahman Al-Sumait Prize for African Development was awarded to Kevin Marsh in October 2016. Kevin was the director of the KEMRI-Wellcome Research Programme for 25 years, and the award was for his many formidable contributions to improving the health of children in Africa.

Also recognised this year was Sir Peter Ratcliffe, who shared the Albert Lasker Basic Medical Research Award for his Wellcome-funded work determining how our cells detect and adapt to changing oxygen levels. Kevin and Peter would both be quick to acknowledge the many people they have worked with who have contributed to their success.

There are many other people funded by Wellcome who have won awards this year. Such is the nature of awards, however, that there are more whose work will not be rewarded in this way but has nevertheless had a profound effect on people's lives. We are proud of everyone we support and the contribution they make to our goal of improving health.

You can read about some of the thousands of people we have funded this year from page 12 of this Report. They include both early-career researchers like Michelle Ma at King's College London, who received seed funding to explore new imaging techniques, and established researchers such as Magdalena Zernicka-Goetz, a Wellcome Senior Research Fellow, who is leading the way in studying embryonic development in her lab in Cambridge.

We were partners in establishing the Africa Health Research Institute in South Africa this year, and made funding available for research into the Zika virus as it spread in South America. In partnership with AstraZeneca, we funded researchers at Sussex University to identify new cancer drugs, and a project supported through the Health Innovation Challenge Fund, a partnership between Wellcome and the Department for Health, has resulted in new software that can analyse the genetics of a bacterial infection in less than three minutes. Research we've funded in the humanities and social sciences has informed policies on palliative care in Scotland, and we helped to develop a television series called "The Secret Life of 4, 5 and 6 Year Olds", exploring the psychology of young children as they take their first steps towards independence.

Director's Statement

> "For me, this is Wellcome at its best: funding people with great ideas but ready also to be more than a funder."

More than a funder

A few years ago, a Wellcome-funded team lead by Sir Doug Turnbull in Newcastle realised, after decades of basic research, that there was a way to prevent children being born with mitochondrial diseases. Working with Doug and families affected by these diseases Wellcome made a concerted effort not only to deliver the ground-breaking science behind new treatments, but also to raise consideration of the ethics as well as public engagement and policy support. All those elements were needed to get the legislation required to allow the new techniques to be used.

For me, this is Wellcome at its best: funding people with great ideas but ready also to be more than a funder. We can work in concert with our researchers and give them the resources they need, plus access to all of our authority and expertise across research, engagement and policy, to help bring about change.

We have done this well in the past but, while funding people will always account for most of our spending, we recognise that other aspects of our work are vital if we are going to improve health to the fullest extent.

So while advancing ideas remains at the heart of our strategic framework, launched a year ago, two complementary approaches – seizing opportunities and driving reform – affirm our commitment to intensive, direct action when appropriate to achieve change. Within these approaches, we have identified a number of priority areas that represent goals we have set ourselves, and we will work in partnership with our grant holders, the wider research community and other sectors of society to achieve them.

Focused work on some priority areas has started, with dedicated teams and resources already allocated. Our Planet, Our Health, for example, is gearing up to support major interdisciplinary research into global food systems and urbanisation. Other priorities, such as drug-resistant infections, vaccines and diversity and inclusion, are at an earlier stage of development, and I look forward to reporting more on their progress next year. We continue to look for new priority areas by listening to a broad range of people through our Frontiers meetings and other discussions.

In 2017, our Innovations division will launch a new strategy that will resonate across all of Wellcome's work, and we are improving the way we support public engagement. A number of new Wellcome centres will open following a competition to challenge and extend our portfolio of centres of excellence in the UK. Centres have been a highly successful model for Wellcome funding, and I am extremely pleased that we will now have centres across biomedical science, innovation and medical humanities. Our intention is to develop a deeper relationship with our centres and institutes, including the Francis Crick Institute, which officially opened this year, and our major overseas programmes such as the partnership with KEMRI in Kenya.

Across everything we do, we will keep working with others, drawing on the experience and expertise that lies outside the Wellcome Trust as well as the superb people and resources within it, to improve health for people all over the world.

Jeremy Farrar

Director, Wellcome Trust

12 December 2016

What we do

Our vision and objects

We are an independent global charitable foundation, dedicated to improving health.

The objects of the Wellcome Trust, as set out in its Constitution, are as follows:

To protect, preserve and advance all or any aspects of the health and welfare of humankind and to advance and promote knowledge and education by engaging in, encouraging and supporting:

- research into any of the biosciences; and
- the discovery, invention, improvement, development and application of treatments, cures, diagnostics, and other medicinal agents, methods and processes that may in any way relieve illness, disease, disability or disorders of whatever nature in human beings or animal or plant life;

To advance and promote knowledge and education by engaging in, encouraging and supporting:

- research into the history of any of the biosciences; and
- the study and understanding of any of the biosciences or the history of any of the biosciences.

Our philosophy

Good health makes life better. We want to improve health for everyone by helping great ideas to thrive.

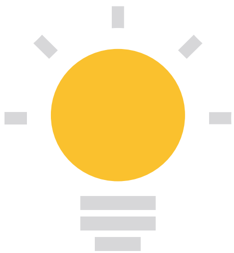
Science and research expand knowledge by testing and investigating ideas. This new understanding can be applied to health, and change medicine, behaviour and society. That's why we support thousands of curious, passionate people all over the world to explore great ideas, at every step of the way from discovery to impact.

Together, we can do more. We can drive reform to ensure that ideas can reach their full potential. And we can give focused, intensive support when we see real opportunities to transform lives. As an independent charitable foundation, we're willing to take risks. We combine the ability to act swiftly with long-term ambition.

That's how we make life better.

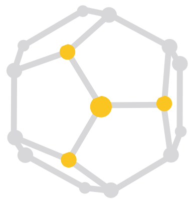
Our strategic framework

We plan to improve health through three complementary approaches across science, research and engagement with society. This framework allows us to adapt as new ideas and challenges arise, drawing on insights from 80 years of achievement and our broad network of experts.



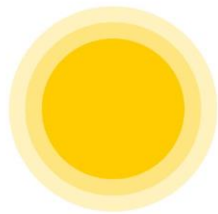
Advancing ideas

We support research addressing fundamental health challenges of our time, across discovery science, medical innovation, and the humanities and social sciences. Supporting ideas from people dedicated to discovery, creativity and innovation will always account for the majority of our funding. We are open to proposals and give grants through schemes run by our funding divisions: Science, Innovations, Culture and Society, and Strategy (the Strategy division was dissolved in October 2016).



Seizing opportunities

There are times when our concerted intervention can accelerate progress towards better health. We do this by providing focused, intensive support that creates a step change over five to ten years. We currently have four priorities in this approach: Vaccines, Drug-resistant infections, Strengthening research ecosystems in Africa and Asia, and Our Planet, Our Health.



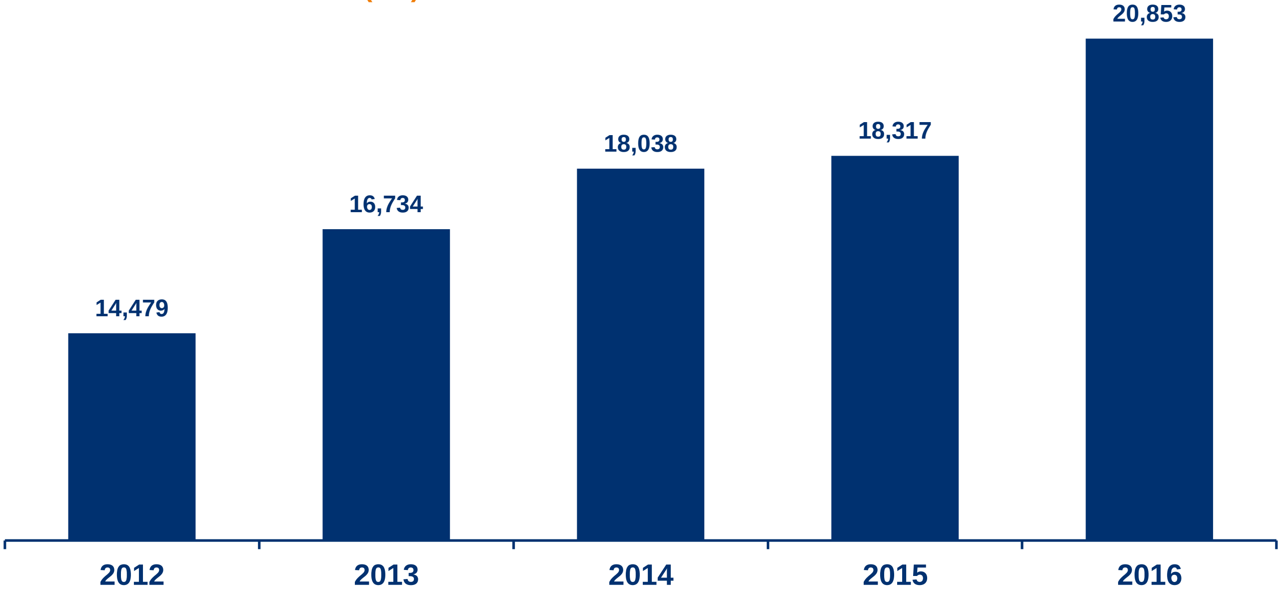
Driving reform

We recognise practices that enable ideas to reach their full potential, and also barriers that stand in their way. We promote change – leading by example, convening alliances, and campaigning for wider reform. We currently have two priorities in this approach: Improving science education and Diversity and inclusion.

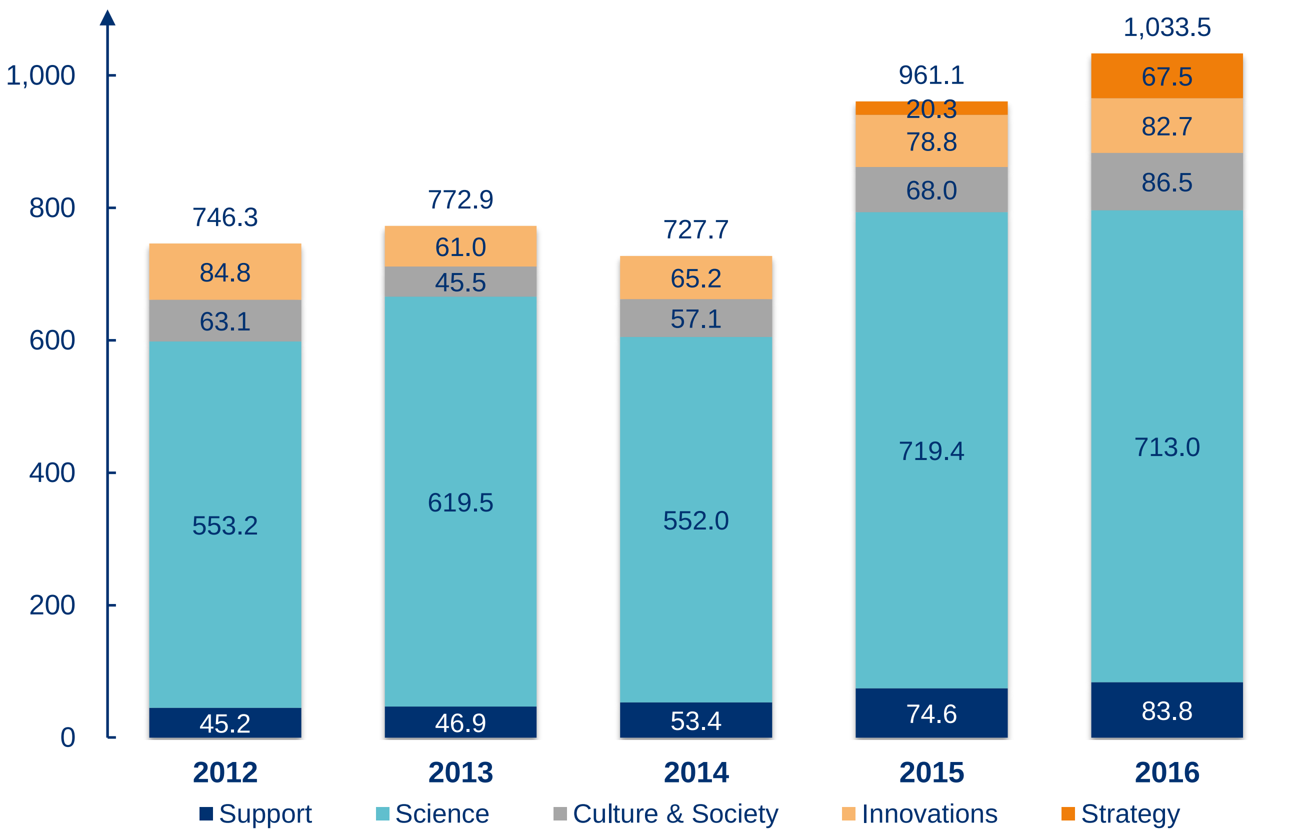
Strategic Report

The Strategic Report presented on pages 11 to 30 incorporates the Review of Past and Future Activities (Page 11), the Review of Investment Activities (Page 16); the Financial Review (Page 27) and Risk Management (Page 29).

Total net investment assets (£m)



Total Gross Spend on Charitable Activities (£m)



2015 and 2016 figures in the table above have been restated under FRS 102. The figures in 2015 and 2016 exclude the adjustment for the discounting of grants.

Strategic Report: Review of Past and Future Activities

Charitable activities at a glance:

Science
£750.8m

Our aim is to catalyse excellent science and maximise its health impacts. A major part of our work is engaging with the research community about their research ideas, many of whom will go through our funding schemes. (£37.8m in allocated support)

Culture and Society
£110.0m

Culture & Society explores biomedical science in its historical, ethical, social and cultural contexts. It does this in three main ways: funding others; working with others; and managing and delivering our own projects. (£23.5m in allocated support)

Innovations
£91.8m

We work with researchers and organisations across the world to transform great ideas, discoveries and inventions into treatments and products. Translational research turns early-stage ideas into deliverable health products. We want to encourage translation by making it easier for researchers to get involved. (£9.1m in allocated support)

Strategy
£80.9m

Strategy is responsible for refining and articulating the Trust's ambitious vision of improving health, embedding our new strategic approach, and helping us to track our progress. It nurtures and develops our external relationships and influence (in the UK and globally). (£13.4m in allocated support)

(The figures above include the allocated support costs shown separately in the chart on page 10.)

Strategic Report: Review of Past and Future Activities (cont.)

This review provides just a few examples of our funding, activities and accomplishments during the year ended 30 September 2016 as well as looking forward to some of our future activities.

In October 2015, we published a new strategic framework, enabling us to build on our existing work and do more with our intended charitable spend of up to £5 billion over the five years to 2020. The examples here are presented in terms of that framework, which comprises three complementary approaches - Advancing ideas, Seizing opportunities and Driving reform – that span the work of our funding divisions: Science, Innovations, Culture and Society, and Strategy (the Strategy division was dissolved in October 2016).

When we launched the framework, a number of priority areas were identified within Seizing opportunities and Driving reform. Putting the framework into practice over the past year, we recognised that while work was already underway in some of these areas, others required more development. We have introduced more robust processes to help identify, develop and guide priority areas. One of our priority areas focusing on intellectual property and translation has now been rationalised and incorporated into our Innovations division activity. A new priority area is being developed around open research, and we expect more areas to emerge in the year ahead.

Scientific research is inherently cumulative and progressive, opening up new knowledge, understanding and applications. The majority of our funding supports hypothesis based investigation; by definition, the outcome of such activity cannot be predicted with certainty, but we are confident that the People, Teams and Places we support will produce valuable information and insight in support of our overall mission. The funding of translation activity is structured through milestones, ensuring only successful activity is fully supported. Achievements reported here often reflect the results of many years of research from previous funding. More of our achievements can be seen on our website: www.wellcome.ac.uk

1. Advancing Ideas

Supporting ideas has always been central to our approach. We give grants to people and teams, and for places and resources, as well as providing seed funding. We also stimulate ideas and pursue many of our own.

People

We support researchers at the start of a career and at every stage that follows, as well as creative people, teachers and others who put health and science at the heart of everyday conversation.

Two Wellcome Senior Research Fellows published ground-breaking research this year. At University College London, Professor Greg Towers and his colleagues discovered an entirely new feature of HIV. They found channels in the protein shell that contains the virus's genetic material, and think this helps explain how HIV is able to copy its genome and replicate without being detected by the body. Drugs that block these channels or can pass through them could be developed to treat people living with HIV.

At Cambridge University, Professor Magdalena Zernicka-Goetz is leading the field in studying embryonic development in the lab. Her team published several papers this year, detailing how human embryos can organise themselves without instruction from the mother's body, and that mammalian embryos can repair abnormal cells associated with birth defects.

Wellcome has long supported clinical academic research careers, and this year we increased our funding and launched two new initiatives to offer more flexible support. Now, instead of offering individual PhD fellowships for clinicians, we fund PhD programmes at universities and university hospitals selected through open competition. And we have merged two schemes to create Clinical Research Career Development Fellowships.

Other highlights:

- Work by Wellcome Investigator Professor David Clark and the University of Glasgow End of Life Studies Group has been widely cited, and was used by the Scottish government to shape policies on palliative care.
- At Oxford University, a joint Principal Research Fellowship and Investigator Award to Professor Anke Ehlers and Professor David M Clark will enable them to develop internet-based access to psychological therapies.
- In Rio de Janeiro, Professor Ricardo Santos received an Investigator Award to study historical, sociocultural and political perspectives on the health of indigenous people in Brazil.

Resources

Research excellence often relies on specialist equipment, physical facilities or data resources such as longitudinal studies. For example, a fast-growing area in structural biology is cryo-electron microscopy, which allows scientists to investigate the structure of single cells. Together with the Medical Research Council and the Biotechnology and Biological Sciences Research Council, Wellcome funded the electron Bio-Imaging Centre at Diamond Light Source in Oxfordshire. This hosts two cryo-electron microscopes, training courses and expertise for researchers across the UK to draw on.

Strategic Report: Review of Past and Future Activities (cont.)

Libraries and archives can improve access to their collections through cataloguing, conservation and digitisation. This year, we funded the Churchill Archives Centre in Cambridge to catalogue the papers of Professor Sir Robert Edwards, who won a Nobel Prize for his pioneering work on in vitro fertilisation. The collection cannot be made available until the 120 boxes of archive material and thousands of slides and photographs have been sorted and catalogued.

Other highlights:

- Research published in April 2016 showed that a diet with more fresh fruit was associated with lower blood pressure and blood sugar levels, and lowered the risk of heart disease. This study used data from the Wellcome-funded China Kadoorie Biobank, which is following the health of around half a million people from 10 sites in China.
- We renewed our funding for Ensembl, a database of information about the genomes of humans and animals used in research. It is a joint project between the European Bioinformatics Institute and the Wellcome Trust Sanger Institute at the Genome Research Campus.

Teams

Collaboration is a key component of a vibrant research environment, and often drives the best work. It promotes new ideas and can bring different disciplines together to speed up discovery.

A group of neuroscientists in the US and at Oxford in the UK has mapped the cerebral cortex in unprecedented detail, identifying 180 distinct areas in each hemisphere. By combining neuroanatomy with magnetic resonance images from the Human Connectome Project, they were able to chart four properties – architecture, function, connectivity and topography – across hundreds of brains. More than half of the areas on their map had not been identified before.

A Wellcome Portfolio Award in collaboration with AstraZeneca will enable researchers at the University of Sussex to find new drugs that selectively damage the DNA of cancer cells, or stop such damage being repaired. This should trigger the cells to die without harming as many healthy cells as current chemotherapy drugs.

Analysing bacteria from an infection and predicting which antibiotics are likely to work can now be done on a laptop thanks to work at the Wellcome Trust Centre for Human Genetics. New software can analyse the bacterial genetic code in less than three minutes after a sample has been cultured and sequenced. Funded by the Health Innovation Challenge Fund, a partnership between Wellcome and the Department for Health, it is now being evaluated in three UK hospitals.

Other highlights:

- A five-year Collaborative Award to scientists at University College London will support research into Huntington's disease, as well as studies of how patients respond to a new 'gene-silencing' treatment currently in clinical trials.
- Two collaborations aiming to find new treatments for malaria and tuberculosis were funded by Wellcome as part of our partnership with the Global Health Innovative Technology Fund in Tokyo.
- Researchers at the Ethox Centre in Oxford received a Collaborative Award to work with women, children and families taking part in research in Thailand, Kenya and South Africa. The aim is to understand their perspectives and inform ethics guidance for responsible research in low-resource settings.
- Scientists funded by a Collaborative Award to work on a vaccine for dengue fever were awarded extra funding to investigate interactions between dengue and Zika, which are caused by similar viruses. Such interactions may help to explain the recent outbreak of Zika in South America.

Seeds

Modest sums can make a big difference. Seed Awards support the development of new ideas into bigger projects. Michelle Ma, a chemist at King's College London, wanted to explore the potential of new techniques for tracking cells inside the body using radioactive labels. Michelle was granted a Seed Award in 2016 to hire a postdoctoral researcher and to cover scanning costs. Such seed awards enable people to, for example, gather preliminary data, so they are better placed to apply for future funding.

Strategic Report: Review of Past and Future Activities (cont.)

MediSieve, a magnetic blood filter to treat severe malaria, was funded by a Wellcome Pathfinder Award in December 2015. Similar to dialysis, the patient's blood is circulated through an external loop and the device exploits the natural magnetic properties of infected blood cells to remove them, returning the rest of the patient's blood unaffected. Having developed prototypes and done preclinical testing, MediSieve is now raising funds for clinical trials.

Other highlights:

- Research funded by a Seeding Drug Discovery Award led to the identification this year of a new compound that can kill the parasites that cause Chagas disease, leishmaniasis and sleeping sickness. Existing treatments for these infections are expensive, have side-effects and are not very effective. Scientists at the Genomics Institute of the Novartis Research Foundation identified a chemical that cured all three diseases in mice, and are developing it for human trials.
- Television viewers in the UK enjoyed "The Secret Life of 4, 5 and 6 Year Olds" in autumn 2016, following the true-life dramas of children learning about friendship and taking their first steps towards independence. Wellcome's Broadcast team worked with the production company to help make science and scientists an integral part of the format from the start.

Places

We want researchers to work and train in world-class environments, and we provide long-term support for centres of excellence in the UK and in low- and middle-income countries.

In July this year, the Africa Centre for Population Health, funded by Wellcome for many years, merged with the KwaZulu-Natal Research Institute for TB-HIV, which was set up with support from the Howard Hughes Medical Institute and KwaZulu-Natal University. Together, and with University College London as an academic partner, they now form the Africa Health Research Institute. Combining their strengths in population health research, basic science, experimental medicine and world-class laboratory facilities, the new institute aims to make fundamental discoveries about tuberculosis and HIV, which are epidemic diseases in KwaZulu-Natal, South Africa.

Wellcome has funded many centres of excellence in the UK over the years. The Wellcome Trust Sanger Institute, part of Genome Research Limited, uses genome sequences to study human and pathogen biology, often working with international partners to improve health. One recent initiative is Open Targets, a joint endeavour between GlaxoSmithKline, Biogen, the European Bioinformatics Institute and the Sanger Institute, which aims to use genome variation to assess at an early stage whether a drug is likely to be an effective treatment. Launched at the end of 2015, Open Targets released its first open experimental datasets in April 2016.

In 2015, Wellcome announced a competition to invite applications for Wellcome Centre awards across any of the disciplines we fund. Much of the past year has been spent appraising applications and visiting existing and potential Centre sites. We announced decisions in December 2016 to support 14 Wellcome Centres for the next 5 year period including centres for Cell Biology, integrative neuroimaging, surgical and interventional sciences, and the cultures and environments of health. They join the Glasgow Centre for Molecular Parasitology to take the number of Wellcome Centre Awards from 8 to 15.

Other highlights:

- Research at the Wellcome Trust-MRC Stem Cell Institute in Cambridge established a reference map for early mouse development by analysing RNA in embryonic cells. This allowed the scientists to follow the expression of genes from different cell types as the embryo developed.
- Wellcome Collection explored States of Mind this year, starting with an installation that filled the gallery with coloured mist, disorienting visitors and focusing attention on perception. It was followed by an exhibition exploring what happens when our typical conscious experience is interrupted, damaged or undermined.
- In January 2016, Wellcome and the government created the Inspiring Science Capital Fund to breathe new life into science centres across the UK. Venues that bring ideas, research and inventions to life attract over 20 million visitors a year, and this fund to refresh exhibitions or infrastructure will help inspire even more.

Strategic Report: Review of Past and Future Activities (cont.)

2. Seizing opportunities

Strengthening research ecosystems in Africa and Asia

In September 2016, we passed responsibility for managing grants in two of our funding schemes to the Alliance for Accelerating Excellence in Science in Africa (AESA), which was set up last year to lead the development of African science strategies and research funding across the continent.

Our aim is to see more researchers we fund in Africa establishing internationally competitive research groups and winning funding, improvements in scientific outputs and productivity, co-investment from African governments, institutions and other funders, and to understand and apply a better understanding of what works in strengthening research ecosystems.

Our Planet, Our Health

Since 2013, Wellcome has supported 15 pilot projects investigating connections between environment and health. We will now start supporting major interdisciplinary programmes focused on global food systems and urbanisation. This year, we worked in partnership with the Stordalen Foundation and Stockholm Resilience Centre to launch the EAT Foundation, which aims to change the way we feed the world.

Vaccines

Too many lives are still lost to diseases that vaccines could prevent, mostly in low- and middle-income countries. Through active partnerships and leadership we will stimulate research, technology development and policy to address this critical unmet need. We have already played a central role in establishing the Coalition for Epidemic Preparedness Innovations, in which the governments of Norway and India, the World Economic Forum, the Bill and Melinda Gates Foundation and Wellcome can work together to develop new vaccines.

Drug-resistant infections

Growing resistance to antibiotics and other drugs threatens many of the benefits of modern medicine. Wellcome will work between different sectors of society to make real progress in research and global governance to address drug-resistant infections. Our aim is to improve the ways we use and protect the drugs we have and encourage the development of new ones.

3. Driving reform

Improving science education

Working with partners, we are supporting and motivating teachers to give students across the UK an inspiring and relevant science education. We aim to raise the status and quality of primary science education in the UK, advocating for professional development to become an integral part of science teachers' careers, and working on new ways to approach research into science education so that it has more impact.

Diversity and inclusion

Inspired thinking gains from the variety of perspectives that people with different backgrounds provide. Wellcome is well-placed to drive changes at individual, structural and systemic levels in science and society, and within the Wellcome Trust itself. We will broaden the diversity of the people we fund, engage with and employ, and create an inclusive environment where more great ideas can thrive.

Strategic Report: Review of Investment Activities

Figure 1a

Total portfolio net returns (blended £/$)
Period to 30 September 2016

	Annualised return in blended currency (%)		
	Nominal	UK/US CPI	Real
Trailing one year	10.2	0.7	9.6
Trailing three years	9.3	0.9	8.5
Trailing five years	12.0	1.5	10.5
Trailing ten years	8.0	2.2	5.9
Trailing twenty years	8.3	1.8	6.5
Since Oct 1985	13.5	2.7	10.8

	Cumulative return in blended currency (%)		
	Nominal	UK/US CPI	Real
Trailing three years	31	3	28
Trailing five years	76	8	69
Trailing ten years	116	24	92
Trailing twenty years	395	44	351
Since Oct 1985	4,954	129	4,825

£ used to 30 September 2009. Blended £/$ from 1 October 2009

Net returns include impact of all external management fees/expenses and custodial costs

Figure 1b

Total portfolio net returns (£)
Period to 30 September 2016

	Annualised return in £ (%)		
	Nominal	UK CPI	Real
Trailing one year	18.8	0.4	18.5
Trailing three years	13.3	0.8	12.5
Trailing five years	14.0	1.7	12.3
Trailing ten years	9.1	2.4	6.7
Trailing twenty years	8.9	1.9	6.9
Since Oct 1985	13.8	2.8	11.1

	Cumulative return in £ (%)		
	Nominal	UK CPI	Real
Trailing three years	46	2	43
Trailing five years	92	9	84
Trailing ten years	138	26	112
Trailing twenty years	446	47	399
Since Oct 1985	5,471	134	5,337

Net returns include impact of all external management fees/expenses and custodial costs

Summary

For a UK-based investor in particular, the key event in 2015/16 was the vote in the referendum in June in the UK to leave the EU. We were not prescient in predicting the surprise result of the vote. However, structurally, we have diversified our portfolio globally over the past decade to reduce significantly any home country bias. Tactically, we viewed the risk to Sterling from the referendum to be asymmetric and reduced our Sterling exposure (including hedges) to an all-time low ahead of the vote. Sterling's subsequent depreciation and, generally steady performance in underlying assets enabled us to record a Sterling return in the year of 19%, or £3.5 billion, increasing the underlying net value of our endowment to £20.9 billion.

The portfolio's Sterling return of 84% in real terms (14.0% a year in nominal terms) over the past five years and strong prospective future cash flows, predominantly denominated in US Dollars, underpin our continued aspiration to commit £5 billion to our charitable mission over the next five years.

Overview

Calling Sterling correctly was key in 2015/16, as it has been for almost a decade since it peaked at $2.11 in November 2007.

We have retained our substantial weighting to equities (whether public or private), having rebuilt positions after the Lehman crisis. We have therefore benefitted from the 190% total return (in US Dollars) of the MSCI World Equity Index since its nadir in March 2009.

Key to this performance has been our investment in our internally managed Mega Cap Basket, which, at £5.2 billion, now accounts for 45% of our public equity exposure. In Sterling, since its inception in September 2008, its IRR has been 14.2%; of the 27 stocks in the basket (treating ABI/ SAB Miller as a single entity), 25 were first acquired at its inception. Over half of the stocks have returned more than 100% on cost. The 34% return in 2015/16 in Sterling

Strategic Report: Review of Investment Activities (cont.)

terms was comfortably ahead of global equity markets.

In contrast, the performance of our outsourced public equity strategies in 2015/16 was poor. Of our 11 external equity managers, with £4.2 billion of our investments, eight underperformed against their reference benchmarks, in each case by at least 5%. Although nine of the 11 are still ahead of their benchmarks over five years, warning bells are sounding.

Similarly disappointing was the performance of our hedge fund managers, with £2.5 billion of our investments, who failed in 2015/16 to make us money (in US Dollar terms) despite the 13% return for the world equity index. Their three and five year returns are also uninspiring.

Our private equity interests, totalling £5.1 billion, have continued to provide a premium return after costs and fees for illiquidity. In 2015/16, large buyout funds led the way with a 16% return in US Dollars. Venture realisations slowed markedly after a couple of spectacular years. However, with our ten largest venture exposures being held in our portfolio at a substantial discount to the valuations implied by their latest round of capital raising, there would appear to be plenty of latent value.

Our property interests of £2.4 billion, which are overwhelmingly UK-based, had a stable year as the impact of the referendum vote is being assessed.

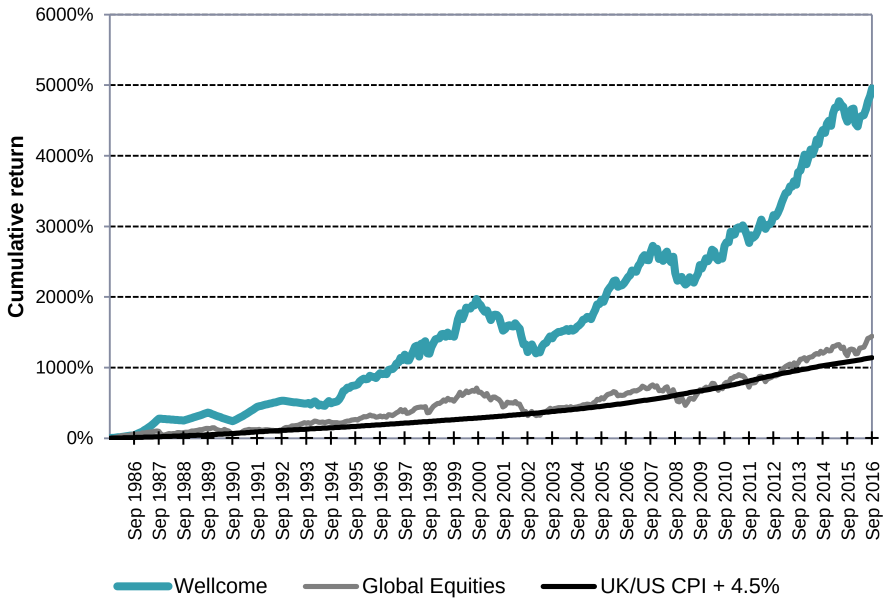
Outlook

Political surprises in the US (Donald Trump's Presidential victory was achieved after our year-end) and UK may precede further administration changes in Eurozone countries over the next year.

Both the new US and UK administrations have signalled clear shifts from relying on easy monetary policy to using policies that are aimed to stimulate demand and to incentivise investment.

Figure 2

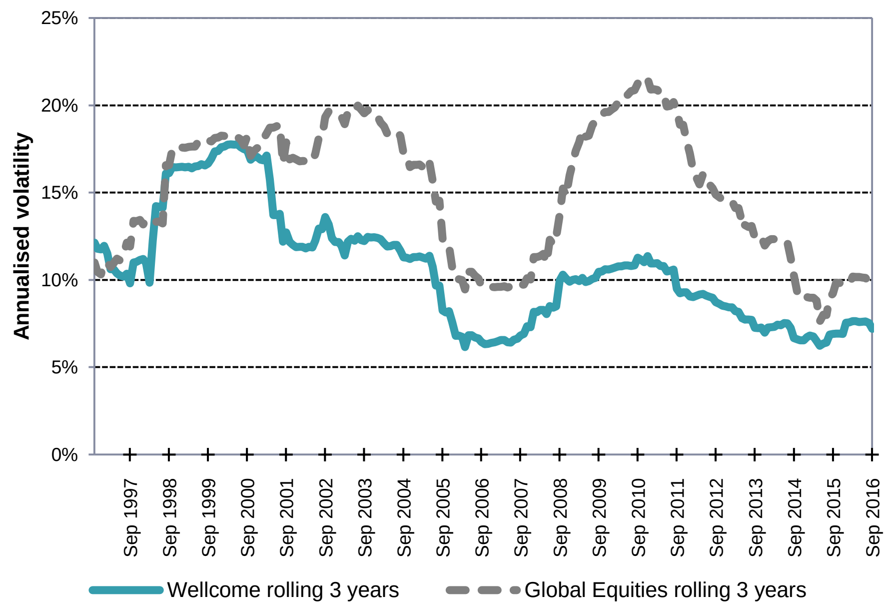
Total portfolio cumulative net returns since 1986 (%)



£ used to 30 September 2009. Blended £/US$ from 1 October 2009

Figure 3

Volatility (standard deviation) of returns (%)



£ used to 30 September 2009. Blended £/US$ from 1 October 2009

Strategic Report: Review of Investment Activities (cont.)

This reflects confidence that financial system stability has been restored, and increasing evidence that zero or near zero interest rates are becoming counterproductive in encouraging lending and investment.

However, there is also recognition that stagnant productivity in developed economies over the past decade has been a major cause of falling living standards for many and a root cause of popular discontent with the 'Establishment'.

We have benefitted in the core of our portfolio from the active management by the corporate sector of the tailwinds provided by low borrowing rates, low wage growth and the margin gains provided by technological innovation and globalisation. These may be reversing, but, if they are replaced by stronger top line growth, updated tax regimes (especially in the US) and an interest rate environment which favours productive investment, the outlook could remain positive. Asset prices, especially those of bonds, supported by QE, are not intrinsically stable.

If we are indeed entering a world of rising bond yields and rising inflation, these pose their own risks, not least for asset prices. Overall, after eight years of positive returns, we would expect mark-to-market returns for mainstream assets to be lower going forward. However, more importantly, cash flows may actually become more robust.

For that part of our portfolio which is invested in higher-risk assets, notably venture funds, direct private investments and multi-asset partnerships in selected emerging economies, there is no indication that there is going to be an abatement to the disruptive forces which are providing tailwinds, such as the shift to e-commerce and the 'sharing economy' and to the power of social networking.

Figure 4

Evolution of asset allocation (%)

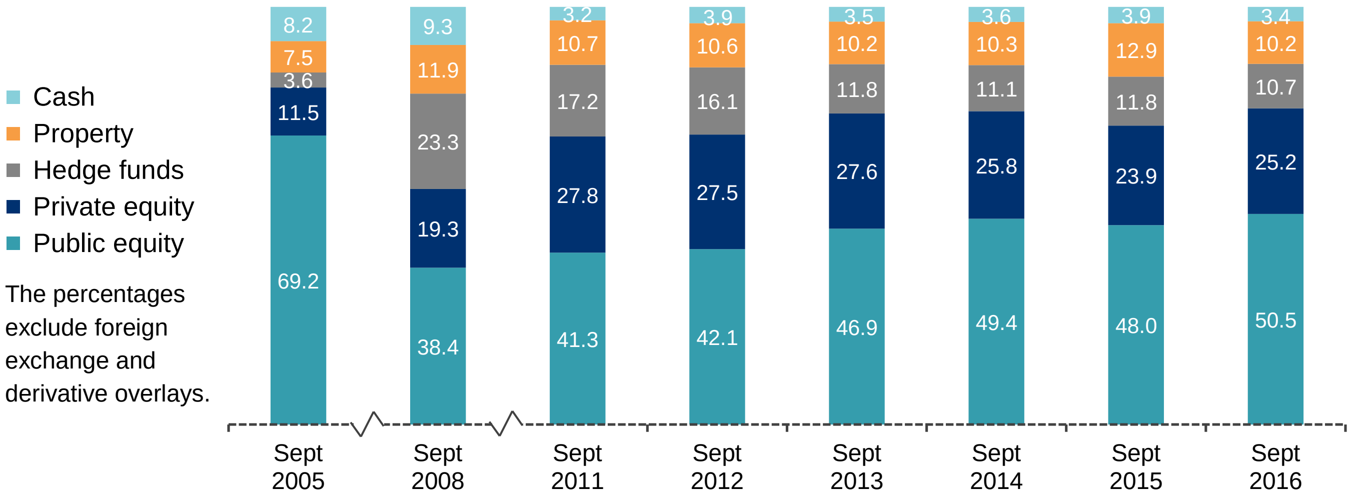
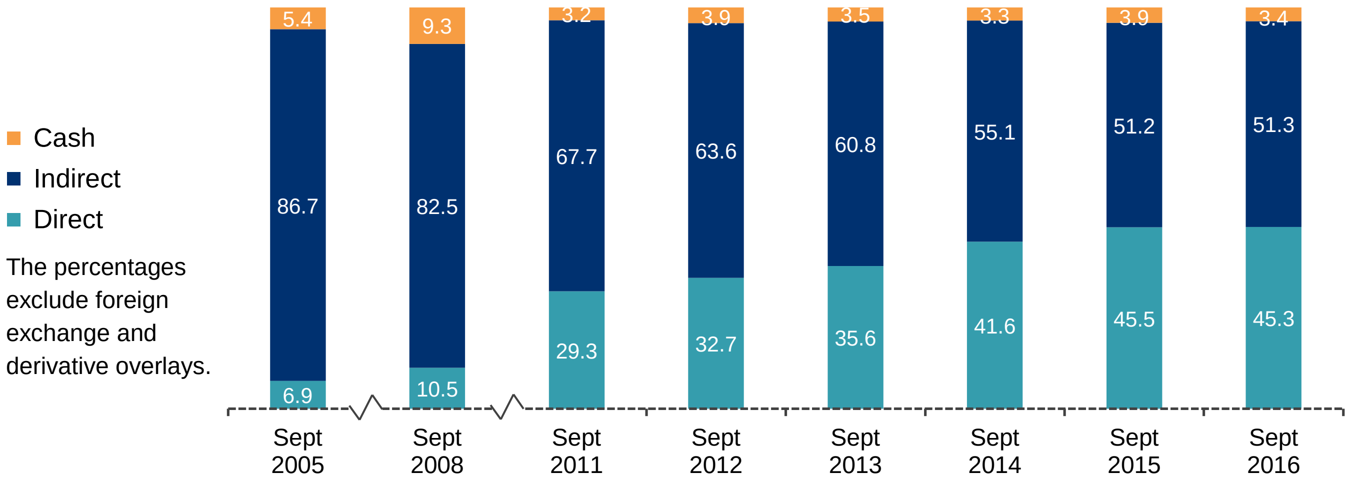


Figure 5

Evolution of asset allocation, directly and indirectly managed (%)



Strategic Report: Review of Investment Activities (cont.)

Figure 6

Investment asset allocation as at 30 September

	2016 £m	2016 US$m	2016 %	2015 %	2014 %	Change in allocation Sept 2015 to Sept 2016 %
Total public equities	**11,662**	**15,149**	**50.5**	**48.0**	**49.4**	**2.5**
Global	8,354	10,852	36.2	34.6	30.5	1.6
Developed World	1,139	1,479	4.9	5.1	9.8	(0.2)
Growth Markets	2,169	2,818	9.4	8.3	9.1	1.1
Hedge Funds	**2,463**	**3,199**	**10.7**	**11.8**	**11.1**	**(1.1)**
Equity Long/Short	1,495	1,942	6.5	6.2	5.5	0.3
Directional Hedge Funds	435	565	1.9	2.4	2.7	(0.5)
Non Directional Hedge Funds	533	692	2.3	3.2	2.9	(0.9)
Cash	**797**	**1,035**	**3.4**	**3.9**	**3.3**	**(0.5)**
Private Equity	**5,831**	**7,575**	**25.2**	**23.9**	**25.8**	**1.3**
Buyout funds	1,176	1,527	5.1	5.5	6.6	(0.4)
Specialist funds	1,187	1,542	5.1	3.9	3.7	1.2
Multi Asset Partnerships	709	922	3.1	2.9	3.1	0.2
Venture funds	2,043	2,654	8.8	8.9	8.7	(0.1)
Directs	716	930	3.1	2.7	3.7	0.4
Property & infrastructure	**2,355**	**3,059**	**10.2**	**12.9**	**10.3**	**(2.7)**
Net overlay assets	**(8)**	**(10)**	**(0.0)**	**(0.6)**	**0.1**	**0.6**
Total assets	**23,100**	**30,007**	**-**	**-**	**-**	-
Bond liabilities	(2,247)	(2,919)	-	-	-	-
Total assets net of bond liability	**20,853**	**27,088**	**-**	**-**	**-**	**-**

Public equity

In 2015/16, global public equity markets returned 31% in Sterling and 13% in US Dollars. Asia Pacific ex Japan(+38%) and Emerging Market Equities (+36%) led the way, as they rebounded from a disappointing period, led by currencies and markets driven by commodity prices. In developed markets, the US (+35%) and Japan (+32%) performed well ahead of Europe (+21%) and UK (+17%), notwithstanding the dominance of global companies in the latter (all market returns in Sterling).

Energy and mining stocks led the way in most developed markets, with many large consumer staple and selected large technology companies also providing powerful support.

There was a remarkable level of dispersion in the performance of our three internally-managed public equity strategies and our 11 externally-managed strategies. The former represent 64% of our public equity assets.

It appears somewhat counterintuitive that, in firm markets, our Mega Cap Basket (MCB), with its constituents of solid, very large companies, should perform more strongly than our external managers (and most active managers in the market) with their bias towards smaller, higher beta companies.

Offsetting this intuition, the MCB clearly has some intrinsic advantages: it has no management fees, it has an above-market dividend yield, and it enables us to use long-term market timing (in 2015, for example, we added consistently to unpopular resource stocks).

Strategic Report: Review of Investment Activities (cont.)

However, after eight years since its inception, its 14.2% annual IRR provides a meaningful record which reflects the benefits of very patient capital. 25 of its 27 stocks were first bought in late 2008; we have only rarely sold shares in any of these. We have sold out of ten companies completely; we have added three new ones; one of which (Facebook) we had held since it was private. We have ten-year absolute return targets for each company and no focus on market or sector comparisons. Each member of our investment team covers no more than four MCB companies and we have regular and constructive engagement on long-term themes with senior management. Hence, we buy and sell businesses, not share prices.

Our concern about active public equity managers is that, especially in US and Europe, they are confronting three powerful and correlated headwinds: a long-term structural bias against mega-cap companies, performance measurement periods which engender pro-cyclical behaviour and the accelerating shift from active to passive index management which reinforces the first two impacts. Over the past decade, we have reduced our external active management in global and developed market mandates from 85% to around 20% of our total public market exposure. We hope that our confidence in our remaining six managers can be maintained.

In Emerging Market equities, all five of our external managers have beaten their benchmark since inception. The 42% return in 2015/16 from our internally-managed nine-stock £430 million Growth Basket (GB) now makes it our largest single strategy in this area, accounting for 20% of our exposure. As with the other baskets, we aspire to achieve long-term absolute returns by investing in strong franchises with growing cash flows; the GB's value is about evenly divided between retailers and banks.

Figure 7

Public equity net returns (%)
Period to 30 September 2016

	Annualised return in £ (%)		
	1 year	3 years	5 years
Global	28.6	13.1	15.4
Developed World	24.6	14.3	18.7
Growth Markets	29.9	10.0	10.1
MSCI AC World	31.3	13.8	15.3

Figure 8

Direct public equities IRR by strategy (£) (%)
Inception to 30 September

	2016 Value £m	IRR (%)
Mega cap basket (inception Sept 2008)	5,213	14.2
Optionality basket (inception July 2008)*	1,799	13.1

**Returns adjusted for private purchases.*

Figure 9

Public equity allocations by strategy (£)
As at 30 September

	2016 Value £m	2015 Value £m	2014 Value £m	2013 Value £m	2012 Value £m
Indirectly managed	**4,220**	3,540	4,073	4,044	3,567
Global	1,342	1,106	645	531	375
Developed markets	1,139	1,025	1,866	1,953	1,522
Growth markets	1,739	1,409	1,562	1,560	1,670
Directly managed	**7,442**	6,123	5,473	4,045	3,179
Mega cap basket	5,213	4,055	3,883	3,352	2,771
Optionality basket	1,799	1,789	1,379	612	262
Growth basket	430	279	211	81	-
Other	-	-	-	-	146
Total	**11,662**	**9,664**	**9,546**	**8,089**	**6,746**

Strategic Report: Review of Investment Activities (cont.)

At year end, as shown in Figure 10, our holdings in all 27 of the MCB and in seven of the Optionality Basket (OB) companies each exceeded $150 million. We continue to avoid excessive diversification. Each of the positions is showing a positive financial return since acquisition; nearly half the positions have returned more than 100%.

Our largest holding remains the almost 3% stake in the German residential real estate company, Vonovia, which continues to roll out a robust business strategy and to be an active consolidator of its domestic market. German-headquartered engineering and manufacturing company, Siemens, also appears among the ten largest holdings for the first time as we added to our position. Each has a growing dividend yield, already over 3%, representing an attractive premium to German Government bond yields.

Royal Dutch Shell is the single UK holding amongst the top ten. Its acquisition of BG and strong financial discipline position make it well placed as a shareholder-friendly diversified energy company.

The remaining seven of the top ten holdings are listed in the US. Alibaba's principal activities are in China, where it continues to grow its e-commerce and other online activities rapidly; we owned both Alibaba and Vonovia as direct private holdings before they listed on public markets. This is an advantage from having a single portfolio which is generally indifferent as to whether companies are private or public.

Some of our strongest returns have been delivered by the four large US technology-based companies, Apple, Microsoft, Facebook and Alphabet in which our combined investments are now valued in excess of £1 billion.

Figure 10

Direct public equity holdings > US$150m
As at 30 September 2016

Rank 2016	Rank 2015		Total value £m	Total value US$m	Return on Cost GBP (Inception dates differ)
1	1	Vonovia*	394	512	140%
2	2	Apple	305	396	518%
3	5	Microsoft	289	375	195%
4	25	Alibaba*	265	345	298%
5	4	Royal Dutch Shell	258	336	45%
6	6	Bank Of America	241	313	55%
7	7	JPMorgan Chase	241	313	125%
8	17	Facebook	233	303	193%
9	28	Siemens	227	295	76%
10	8	Nestle	222	288	108%
11	14	Alphabet	215	280	119%
12	9	Morgan Stanley	209	271	67%
13	19	Anheuser-Busch/SAB Miller**	208	270	N/A
14	18	HSBC	197	256	35%
15	16	Berkshire Hathaway	192	249	105%
16	12	Toyota	188	245	95%
17	23	BP	187	243	28%
18	11	Merlin	185	240	22%
19	3	Marks & Spencer	182	237	83%
20	10	JD.com*	181	235	70%
21	21	Pepsico	176	229	146%
22	36	Procter & Gamble	173	225	84%
23	13	General Electric	171	222	132%
24	29	Cisco Systems	166	216	117%
25	27	Unilever	162	210	147%
26	30	Rio Tinto	160	207	31%
27	15	Sumitomo Mitsui FG	159	207	9%
28	22	Vodafone Group	157	205	57%
29	31	Johnson & Johnson	155	201	159%
30	33	BHP Billiton	144	187	14%
31	20	Roche	143	186	117%
32	26	Novartis	133	173	106%
33	37	Banco Santander	130	169	1%
34	35	Schlumberger	127	165	68%

**Return on cost has been adjusted for when the asset was held directly as a private company.*
***These companies merged in October 2016 and are reported as one holding.*

Strategic Report: Review of Investment Activities (cont.)

Each has stepped up their commitment to return cash to shareholders; Apple and Microsoft have become major dividend payers, while all four have significant share buyback programmes underway.

Rising dividends and share buybacks have also supported the two US banks, Bank of America and JP Morgan, which complete the make-up of the top ten holdings. As higher US rates push up bank interest margins, their ability to return cash will improve further.

Hedge Funds

As shown in Figure 11, our £2.5 billion investment in hedge funds had a poor year; performance over three and five years is now underwhelming.

As a proportion of our overall portfolio, our exposure to hedge funds has been more than halved from 23% in 2008 to less than 11% in 2016. We have both used funds as a source of funds for equity investment and reduced the number of funds in which we are invested.

Among the multi-strategy funds, it is evident that a number of firms, if not all, simply grew their assets too far and too fast. Among the equity long/short funds, even those with the discipline to remain hard closed to new monies, as virtually all of ours do, many are facing the same problem of being caught in ‘crowded trades’ as many long-only managers. For them, after strong performance in 2014/15, it was a particular disappointing year.

Hedge funds should be benefitting from the fact that reinvestment risk elsewhere is rising as prospective future returns from equities and, notably, from bonds diminish and make long/short funds more competitive. However, the headwinds appear strong. Very careful attention to bottom-up selection will remain key.

Figure 11

Hedge fund net returns (%)
Period to 30 September 2016

	Annualised return in US$ (%)			
	1 year	3 years	5 years	10 years
Directional	0.8	1.4	5.4	4.5
Non Directional	(0.4)	0.7	2.9	4.6
Equity Long/Short	(1.3)	5.2	9.1	6.0
Total Hedge Funds	(0.7)	3.2	6.7	5.2
MSCI AC World	12.6	5.7	11.2	4.9

Figure 12

Hedge fund investments by strategy (£)
As at 30 September

	2016 Value £m	2015 Value £m	2014 Value £m	2013 Value £m	2012 Value £m
Directional	435	492	534	605	670
Non Directional	533	633	558	506	386
Equity Long/Short	1,495	1,251	1,073	929	1,105
Others	-	-	-	-	319
Total Hedge Funds	**2,463**	**2,376**	**2,165**	**2,040**	**2,480**

Figure 13

Private equity fund net returns (multiples)
Inception to 30 September 2016

	Drawn (£m)	Realised (£m)	Net Asset Value (£m)	Total Value to Drawn
Buyouts	3,838	4,585	1,176	1.50x
Specialist	2,351	2,147	1,187	1.42x
Venture	1,827	2,155	1,612	2.06x
Healthcare and Healthcare/Venture	1,414	1,709	431	1.51x
All Funds <=2009	7,691	10,266	2,112	1.61x
All Funds >=2010	1,739	330	2,294	1.51x
All Funds Total	**9,430**	**10,596**	**4,406**	**1.59x**

Strategic Report: Review of Investment Activities (cont.)

Private Equity

The value of our investments in private equity funds, direct private companies and in multi-asset partnerships rose to £5.8 billion, equivalent to 25% of our total portfolio. Their heavy US Dollar bias helped; Sterling returns were 23% in 2015/16 and have been 45% over two years. However, they have consistently performed well. As shown in Figures 14a and 14b, net excess returns over the past ten years for our illiquid private assets over those earned in public equity markets have been almost 5% a year for our large buyout funds and almost 7% a year for our venture funds.

Large buyout funds led the way in 2015/16. Unlike in 2007/08, as valuations have risen, partners have been much more disciplined in achieving realisations and in being cautious about making acquisitions despite having substantial levels of available capital. Buyout funds overall have created for us since inception our targeted Multiple on Invested Capital (MOIC) of 1.5 times. Our Specialist Private Equity returns are catching up fast; this component of the portfolio has grown rapidly over the past year.

After a couple of spectacular years for realisations, our venture funds had a quieter year in 2015/16 as many of their larger investee companies chose to raise further rounds of follow-on capital as private rather than public companies. In most cases, our venture partners, who had invested at a much earlier stage, chose not to make significant changes to the valuation at which they hold their investment. Hence, returns in US Dollars were almost flat. However, the discount between their holding value (used to value our interests) and that used for the latest round of fundraisings has widened. For our ten largest indirect holdings, this has now reached almost 60%, representing potential latent value of around $1 billion. The MOIC achieved by our venture funds exceeds our target of 2.0 times.

Figure 14a

Private equity fund net returns (%)
Period to 30 September 2016

	Annualised return in US$ (%)			
	1 year	3 years	5 years	10 years
Large Buyouts	15.6	11.4	12.5	9.6
Mid Buyouts	7.8	8.9	10.5	N/A
Specialist	7.1	6.4	8.7	N/A
Venture	0.7	21.7	18.9	11.8
MSCI AC World	12.6	5.7	11.2	4.9

Figure 14b

Private equity fund net returns (%)
Period to 30 September 2016

	Annualised return in £ (%)			
	1 year	3 years	5 years	10 years
Large Buyouts	34.9	19.9	16.6	13.6
Mid Buyouts	25.7	17.2	14.6	N/A
Specialist	24.9	14.6	12.7	N/A
Venture	17.4	31.0	23.3	15.9
MSCI AC World	31.3	13.8	15.3	8.8

Figure 15

Private equity investment by strategy (£)
As at 30 September

	2016 Value £m	2015 Value £m	2014 Value £m	2013 Value £m	2012 Value £m
Buyouts	1,176	1,115	1,283	1,226	1,209
Specialist	1,187	775	717	895	1,218
Venture	2,043	1,791	1,683	1,352	1,237
Direct	716	535	733	786	585
Total	**5,122**	**4,216**	**4,416**	**4,259**	**4,249**

Figure 16

Multi-Asset Partnerships (MAPs)
Period to 30 September 2016

	Annualised Return		**Value £m**
	£ (%)	US$ (%)	
MAPs (inception Jan 2013)	11.1	4.6	**709**

Strategic Report: Review of Investment Activities (cont.)

Property

Uncertainty induced by the impact of Brexit and downward pressure on London super prime residential activity created by higher taxes, caused headwinds for our predominantly UK property interests. Active management enabled us to record modest positive returns.

During the year, we merged our UK student accommodation interests with those owned by Goldman Sachs to create a company, Vero, in which we own an equity stake of 28%. Vero, as one of the largest owners and operators of UK student halls, now has critical mass in a sector that continues both to grow and to consolidate.

In our other non-residential property businesses, opportunities were taken to grow incrementally. In our marina business, Premier Marinas, we acquired a ninth marina, in Dartmouth, which will bring our total ownership to 5,350 berths on the English South Coast. In our 50% joint venture budget hotel owner and operator, Tune Hotels, further developments have increased the planned footprint to more than 1,000 rooms. In Farmcare, our agricultural business, we have made a number of bolt-on acquisitions of small farms and have taken key steps to improve the operating efficiency of the business.

In each case, we remain confident that we shall be favoured by market leadership, our long-planning horizon and the strength of our AAA (stable) balance sheet in sectors where revenues are cyclical, ownership is fragmented and capital is frequently sparse.

We have owned the bulk of our residential property portfolio, more than 2,000 units of which are in prime Central London, for more than 20 years.

Over half of that value is in market let units, increasing our indifference to short term market values. Current market uncertainty however is enabling us to make selective incremental purchases. We are also repositioning our substantial portfolio of premium London serviced apartments.

Uncertainty about Brexit may well create further attractive opportunities for our patient long term capital.

Figure 17

Property net returns (%)
Period to 30 September 2016

	Annualised return in £ (%)			
	1 year	3 years	5 years	10 years
Non-Residential Property	0.5	6.0	1.3	0.9
Residential Property	3.6	11.2	13.4	12.3
Property & Infrastructure	3.2	8.7	10.6	7.3

Figure 18

Property investments by strategy (£)
As at 30 September

	2016 Value £m	2015 Value £m	2014 Value £m	2013 Value £m	2012 Value £m
Non-Residential Property	1,076	1,319	795	655	540
Residential Property	1,279	1,272	1,216	1,101	1,091
Total	**2,355**	**2,591**	**2,011**	**1,756**	**1,631**

Strategic Report: Review of Investment Activities (cont.)

Currency, Regional & Sectoral Overview

As in 2008/09, our global diversification enabled us take advantage in of the sharp depreciation of Sterling over the year.

It also provided the rating agencies with the confidence to maintain our coveted AAA/Aaa (stable) credit rating, even as they were downgrading that of the UK Government. We issued no further debt over the year and maintain our commitment to our rating. Our Sterling exposure was reduced to a record low, concentrated in our direct holdings in UK-based multinationals and in our UK property interests.

It will be interesting to see whether the new US administration drives a major shift to stimulating demand through fiscal policy, thereby creating an environment for higher US interest rates. Europe has a number of important elections in 2017 which carry potentially significant economic impact. At present, we would not anticipate major changes in our FX or regional biases. As events change, we may change our minds.

On a sectoral basis, we maintain high exposure to technology based companies and financials, especially in the US, for which prospects are robust. Our Consumer Discretionary interests are broad, but have a clear tilt towards China, India and other developing markets. Our increased investment in 2015 both in energy and mining companies and in long commodity financial instruments has been well rewarded in 2016, as commodity prices have rebounded.

Overall, we are comfortable, but certainly not complacent about both the shape of our portfolio and its component parts. The forecast strength of cash flow generation over the next five years should underpin, but not guarantee, our aspiration to commit £5 billion to our charitable mission over the period.

Figure 19

Currency allocation (net of currency forwards) (%)
As of 30 September 2016

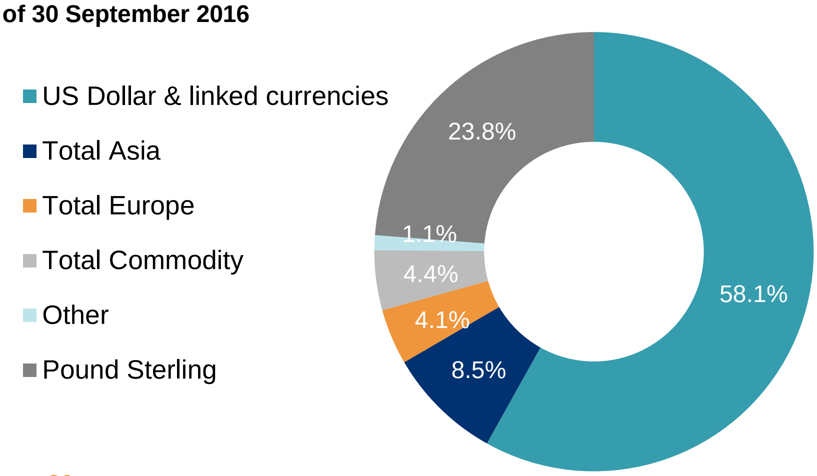


Figure 20

Public and Private Equity Regional Exposure (%)
As of 30 September 2016

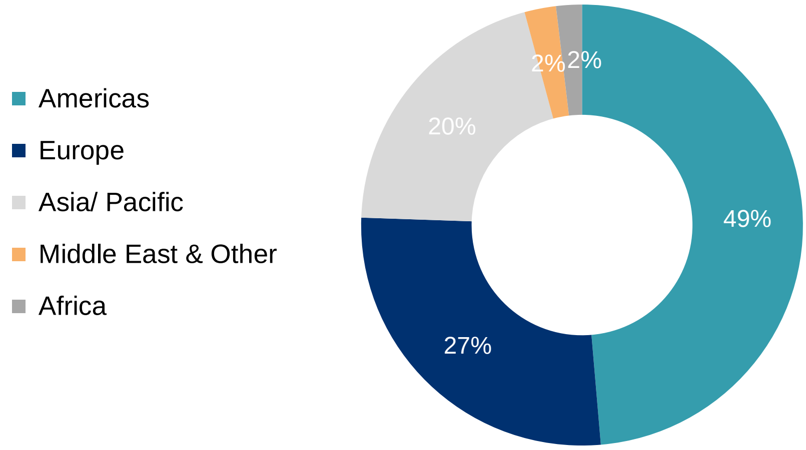
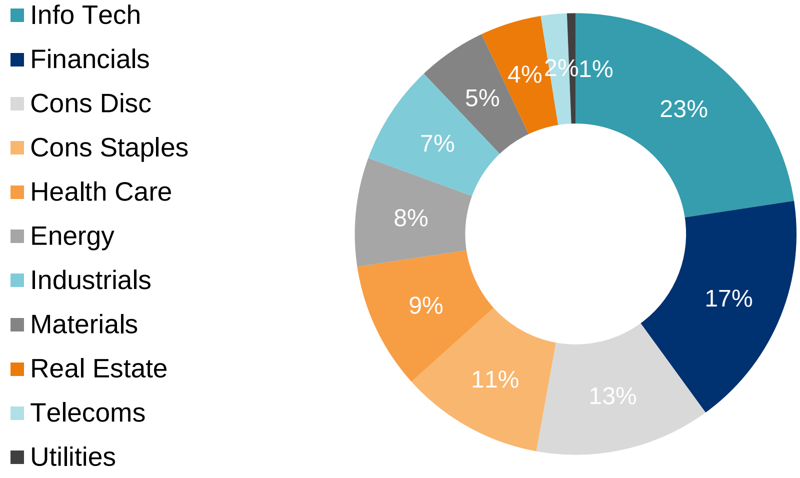


Figure 21

Public and Private Equity Sectoral Exposure (%)
As of 30 September 2016



Strategic Report: Review of Investment Activities - Syncona

Syncona is an evergreen investment entity, identifying and developing as well as financially supporting technologies with the potential to transform the delivery of future healthcare. Syncona is considered to be a mixed motive investment of Wellcome Trust as it both supports the charitable aims as laid out on page 8 as well as realising a return as an investment transaction. To date, Wellcome Trust has committed £250 million to this activity, of which £96.6 million has been invested.

The Syncona Group works in partnership with the best people (academics, inventors, entrepreneurs) in the industry, providing them with the commercial capability, resources and capital needed to develop their ideas and products. Syncona believes that innovation takes time to get right, but that ultimately it can deliver the best outcomes for patients and the best returns for investors. An evergreen structure allows it to support its companies over the timeframes required to bring innovative healthcare products to market. Its goal is to create sustainable businesses that will thrive in the healthcare market of the future and, over time, it aims to hold investments in a small number of significant, profitable businesses that have transformed their respective healthcare markets.

Syncona founds and invests in companies with ambition to become standalone global leaders within their sector. To date, Syncona has focussed its activities in three areas - Gene Therapy, Targeted Cell Therapy and Advanced Diagnostics - although it will review technologies and opportunities from all domains.

Syncona has made investments in the following companies:

- Cambridge Epigenetix Limited - a research tools and diagnostic company focused on epigenetics.
- NightstaRx Limited – a gene therapy company focused on retinal dystrophies.
- Blue Earth Diagnostics Limited – a diagnostic company developing FACBC, a PET-imaging agent for the diagnosis of biochemically recurrent prostate cancer.
- Autolus Limited – a company focused on developing and commercializing next-generation engineered "CAR" (chimeric antigen receptor) T-cell therapies for cancer.
- Freeline Therapeutics Limited – a company focussed on gene therapy.
- Gyroscope Therapeutics Limited – a gene therapy company focussing on the treatment of ophthalmic disorders.
- Achilles Therapeutics Limited – a neo-antigen company developing next generation therapies for cancer.

During the year, Syncona disposed of its investment in 14M Genomics Limited realising a loss of £4.8 million. The investments in Gyroscope Therapeutics Limited and Achilles Therapeutics Limited were new investments in 2016.

These companies, with the exception of Cambridge Epigenetix Limited which is an investment, are considered to be subsidiaries. The minority interests are shown in the Consolidated Balance Sheet of the Wellcome Trust where appropriate.

On 7 November 2016 Wellcome Trust announced that it has agreed, subject to certain events taking place, to sell its interest in Syncona to BACIT Limited for a consideration of £166 million. After the transaction Syncona will be a wholly owned subsidiary of BACIT Limited, which will be renamed Syncona Limited. Wellcome Trust also intends to invest £319 million in BACIT Limited which together with other funds being raised will give BACIT a net asset value of a maximum of £1 billion. This will result in Wellcome's interest being in the range of 30-35%.

Strategic Report: Financial Review

Reserves policy

Our reserves policy is directly linked to our expenditure policy which is detailed below. Rather than setting a target absolute minimum or maximum level of unrestricted reserves, the policy is to set spending at a level intended to deliver our charitable mission today while preserving the investment base to provide sustainable increases in annual expenditure into the future. The reserve balance at 30 September 2016 was £19,564.4 million (2015: £16,976.5 million). Our expenditure policy, detailed below, is intended to ensure that the level of reserves is maintained. These reserves are released as appropriate as part of our investment management process.

The reserves are mainly unrestricted but certain awards made to the Wellcome Trust's subsidiary undertaking, Genome Research Limited, by other funders are subject to specific conditions imposed by the donors and are therefore restricted in their use. These amounted to £1.8 million at the end of 2016 (2015: £1.4 million).

Investment policy and performance

Our assets are invested in accordance with the wide investment powers set out in the Wellcome Trust's Constitution and within its investment policy. The investment policy is reviewed periodically by the Board of Governors.

We invest globally and across a very broad range of assets and strategies. It is our policy not to invest in companies that derive material turnover or profit from tobacco or tobacco-related products.

The performance of the investments is discussed in the Review of Investment Activities on pages 16 to 26.

The Programme related investments are managed separately by the Innovations team whose activities are described on page 11.

Our response to the FRC UK Stewardship Code together with further details of our investment policy are available on Wellcome's website (www.wellcome.ac.uk). We support the investment industry's continued efforts to strengthen the role played by institutional investors in corporate governance and we review our statement and our investment policy regularly and update them where necessary.

Expenditure policy

Our objective when setting the annual grant commitment budget is to preserve the value of Wellcome's investment portfolio so that the purchasing power of our charitable expenditure is maintained over time, while minimising short-term volatility in commitments caused by changes in asset values. We also aim to ensure that we fund only the best research and that this is achieved in an efficient manner.

We plan on a 5 year basis using our current policy to commit 4.7% of the three-year weighted average of investment asset values. This plan is used to create an annual budget which is monitored against unexpected economic or market events.

Our grant making policy is detailed on page 32.

Defined benefit pension schemes

The combined accounting deficit for both Group pension schemes at 30 September 2016 amounted to £378.8 million (2015: £218.0 million). The deficit has increased due to higher liabilities, which are impacted by a significant fall in the discount rate assumptions, which reflect the sharp fall in corporate bond yields.

The pension schemes are required to have triennial actuarial valuations, which are then updated in an interim valuation each year at the balance sheet date. The total deficit of both schemes using actuarial valuation assumptions was circa £93 million as at 30 September 2016. A rolling deficit recovery plan to address the actuarial deficit over a period of five years is in place for both schemes.

More detail on the pension schemes is given in note 11(e) Retirement benefits.

Financial position

In view of the policies discussed above, and after considering the 2016/17 budget and longer-term plans, the cash flows and the highly liquid nature of a substantial portion of Wellcome's investment assets, the Trustee is satisfied that it is appropriate to adopt the going concern basis in preparing the Financial Statements of both the Wellcome Trust and the Group. The activity and performance of the significant subsidiaries is disclosed in note 23.

The Board of Governors have assessed the viability of Wellcome Trust and its subsidiaries over the five years to September 2021. They consider the affordability of the financial plan as part of their review and have concluded that that there is a reasonable expectation that there are adequate resources, including the strength to operate and meet the liabilities of the Group as they fall due over the period of their assessment and for the foreseeable future. This assessment has been in line with the Expenditure policy described above and after considering the significant risks laid out in the Risk Management section in the Trustee's Report as well as the significant accounting estimates and judgements in note 2.

The Financial Plan principles are to:

- preserve the value of the investment portfolio so that the purchasing power of Wellcome's charitable funding can be maintained over time;
- ensure minimal volatility in charitable expenditure while still accommodating market changes;
- align charitable cash spend strategy and investment portfolio management strategy;
- have a firm charitable commitment budget and cashflow forecast for the next financial year and

Strategic Report: Financial Review (cont.)

- indicative forecasts for a further four years; and
- use a methodology which is objective, understandable and conceptually robust.

Charitable activities

We support research that addresses fundamental health challenges of our time, across discovery science, medical innovation, and the humanities and social sciences. We develop leaders, advocate policy change and help to engage the public with research. We also identify strategic priorities with clear targets for how to make a difference.

Grant funding is usually channelled through universities or similar institutions which take responsibility for grant administration for individual academic researchers with only a limited number of small-scale awards being made directly to individuals.

We also fund work on the Wellcome Genome Campus where our own research centre, the Wellcome Trust Sanger Institute, is based, channelling support through a wholly-owned subsidiary, Genome Research Limited ("GRL"). Researchers use genome sequences to advance understanding of the biology of humans and pathogens in order to improve human health. The decision was made to renew funding at £517 million for the next five years (2017 - 2021).

Charitable expenditure of £992.3 million in 2015/16 included funding of:

- People: including Investigator Awards of £112m and Fellowships and studentships of £198m;
- Teams: including collaborative awards of £171m; and
- Places: including £45 million for the renewal of the Kenya Major Overseas Programme (funded through the University of Oxford), £35 million for the African Health Research Institute (funded through UCL), £20 million to fund imaging enhancement at UK Biobank and £45m for the Institutional Strategic Support Fund which enables universities in the UK and Ireland to invest in areas that are of mutual strategic importance to Wellcome and the individual institutions.

It also included funding of the Wellcome Trust Sanger Institute of £103m (via the wholly-owned subsidiary GRL).

We intend to commit up to £5 billion over the next five years to improve health. The actual amount will depend on our future investment performance.

Charitable cash payments

Charitable activities represent funding that we commit to, which is recognised in the year in which the grant is awarded. However, payment in cash of many of these commitments will be made over a number of years and charitable cash payments in any one year will include amounts relating to grants awarded in prior years. Consequently, our annual cash payments lag commitments and, with our investment base growing, represent on average 4.3% of investment asset values.

Incoming resources and matching of cash receipts with cash payments

The predominant source of our charitable expenditure is the investment portfolio. The Board of Governors is kept informed by Wellcome's investment team on current and future cash flows, ensuring that there are always sufficient cash reserves to meet charitable expenditure requirements.

Incoming resources in the Statement of Financial Activities include dividends, interest, rental earned and turnover from trading subsidiaries. Wellcome also receives cash proceeds from the disposal of investments. Cash payments are funded by a combination of existing cash balances, incoming resources and sales of investment assets.

Strategic Report: Risk Management

Wellcome's risk management policy sets out our risk management objectives and principles and attitude to risk. This policy summarises the responsibilities of key roles for risk management, including the role of the Board of Governors, the Executive Board and the Audit Committee.

Wellcome is risk averse with respect to liquidity risk and to health and safety risk, receptive (taking risk within accepted limits) with respect to investment portfolio risk and certain charitable activities, such as supporting milestone driven grants within the UK scientific and research community. It is bold with respect to other charitable activities, for example, where Wellcome supports research and research capacity development in volatile and/or fragile lower and middle income countries.

Wellcome's statement as required by the Modern Slavery Act 2015 is available on our website.

The Corporate Risk Register contains the key corporate risks owned and managed by the Executive Board and the Board of Governors. It is updated and reviewed on a regular basis by the Chief Financial Officer and then by the Executive Board. It also is reviewed by the Board of Governors annually and by the Audit Committee every six months.

The Corporate Risk Register includes:

- Wellcome's Corporate Risk Matrix, against which the risks are scored; and
- a description of each corporate risk and treatment plan.

For each of the risks included, the Corporate Risk Register gives:

- a description of the risk;
- the owner of the risk, as designated by the Executive Board;
- the controls currently in place to manage the risk;
- the current risk assessment score;
- any further actions proposed with delivery deadline;
- the owner of each proposed action; and
- the target risk assessment score.

The current risk assessment ranking estimates the level of risk that is currently faced taking into account the effectiveness of existing preventative and mitigating actions. The target risk assessment ranking estimates the level of risk that will be faced once all planned actions are completed. The target risk ranking does not estimate the desired level of risk – just the level of risk that will be faced once the planned actions are completed. The target risk ranking is often used to determine whether sufficient actions are being implemented for significant risks.

The risk categories are:

- delay or non-delivery of Wellcome's objectives e.g. skill shortages, key partner or supplier failure, delay in delivery of a strategic objective;
- financial loss e.g. impact causes monetary loss, fraud;
- investment loss e.g. volatile investment markets, negative real returns;
- reputation and licence to operate e.g. criticism by stakeholders; unethical behaviour by Wellcome impacting a key stakeholder group;
- regulatory, legal, accounting or tax compliance issues e.g. inquiry by a regulator, potential prosecution;
- health & safety e.g. injury, fatality.

An Operational Risk Group was created in 2015 to review, consider and make recommendations in respect of risks associated with Wellcome Trust Group operations, including:

- health and safety;
- environment;
- physical and IT security;
- business resilience and recovery; and
- operational insurance.

The Directors of GRL have implemented a formal risk management process to assess financial and business risk and implement risk management strategies for the Sanger site. They have identified the main risks GRL faces, prioritised them in terms of potential impact and likelihood of occurrence, and have identified means of mitigating the risks. The Audit and Risk Committee reviews the risk management policy, risk processes and the Institute Risk Register annually.

Strategic Report: Risk Management (cont.)

The specific risks which the Board of Governors considers as the most serious are:

	Nature of risk	Management and oversight of risk
Investment risks	Failure to support Wellcome's ability to maintain the real level of charity spend in the future, due to one or more of; catastrophic loss of one or more assets within the portfolio, inadequate liquidity, and/or lack of protection against the impact of inflation.	The Investment Executive manage this risk by; global diversification across assets and asset classes, to limit the potential for catastrophic loss within the portfolio; diversification of cash flow sources and regular review of forecast cash flows to manage the portfolio's liquidity profile; and regular consideration of inflation protection within the portfolio and a focus on equities and property. The cash flow forecasts consider base and bear case scenarios and the Executive aim to ensure that forecast cash low remains above 2% of the current portfolio value. Strategic review is provided by the Investment Committee and oversight is provided by the Executive Board and the Board of Governors. The separate risks associated with the management of directly-owned, property-backed operational businesses are being managed by the development and appropriate incentivisation of executive teams within these businesses and the evolving governance and oversight by the Board of each company and by the Investment division.
Policy and research environment	There is a risk that the research funding and regulatory environment does not remain scientifically or financially attractive. The UK government may – in the future – react to a difficult economic environment by reducing funding to the scientific community, although the 2015 Spending Review highlighted support for science spending.	Management continues to monitor the environment and has active engagement with UK government departments and opposition parties on science funding and the regulatory framework. Wellcome has an on-going dialogue with other relevant charities and universities on these issues. The Executive Board contributes actively to the UK Comprehensive Spending Review.
EU Referendum	The key risks to Wellcome with respect to the UK's referendum vote to leave the EU are that the UK Science ecosystem is seen as a less attractive arena for Wellcome to support, given a difficulty in retaining and attracting non-UK scientists, a potential impact on the relative science salaries in the UK given Sterling weakness; and a period of uncertainty in respect of UK science regulation and policies. There is also a risk that current grant recipients are impacted by Sterling weakness and volatility and are thus unable to complete projects with the allocated funding. There is an operational risk that Wellcome is unable to hire and retain the best employees given a perception that the UK working environment is less welcoming to international and EU nationals.	A working group has been established to consider the impact of the EU referendum and monitor the situation as it develops. The group provides information to the Executive Board to support its decision-making.
International initiatives	Failure to achieve the strategic research capacity building aims of the initiatives. Risks potentially arise from the local political, economic or physical environment; from failure of governance or management; and from operational issues.	Management continues to focus on governance structures and leadership development at the initiatives. Security reviews have taken place to enhance preparedness and resilience.

Whilst not listed in the table above, Wellcome is very cognisant of cybercrime risks and continues to invest in security infrastructure and services (intrusion prevention systems, threat assessment systems and external security and risk intelligence services) as well as in training and staff awareness. We recognise that it is important to continue to evolve technology, partnerships and processes in this area and to ensure that cyber threat responses are built into business resilience and disaster recovery plans.

Structure and Governance

The Wellcome Trust is an independent global charitable trust created in 1936 by the will of Sir Henry Wellcome and is now governed by its Constitution, which was established in February 2001 by a scheme of the Charity Commission and has been subsequently amended.

The Wellcome Trust ("the "Trust") is a charity registered in England and Wales (registration number 210183) under the Charities Act 2011.

The Wellcome Trust "Group" comprises the Trust and its subsidiary undertakings.

The Trustee and the Board of Governors

The sole Trustee of the Wellcome Trust is The Wellcome Trust Limited (the "Trustee"), a company limited by guarantee (registration number 2711000), whose registered office is Gibbs Building, 215 Euston Road, London NW1 2BE. The Trustee is governed by its memorandum and articles of association. The Trustee's directors (known as Governors), the Company Secretary of the Trustee, the Executive Board and other administrative details are shown on pages 109 to 112.

The members of the Board of Governors are distinguished in the fields of medicine, science, business and policy. The Board considers each of the Governors to be independent in character and judgement and manages any relationships or circumstances that are likely to affect, or could appear to affect, the Governors' judgement. Governors are appointed for terms of four years, with an extension of three years on mutual agreement, and a further three-year term on mutual agreement in exceptional circumstances. Wellcome undertakes a comprehensive induction programme for all new Governors and training is available as required.

The Chair of the Board is Eliza Manningham-Buller. She joined Wellcome Trust as a governor in 2008 and was appointed Chair in 2015.

She was appointed an independent, crossbench peer in the House of Lords in 2008. She is also President of Chatham House.

Mr William Burns joined the Board on 1 April 2016. He has over 40 years' experience in the pharmaceutical and life sciences industry.

Professor Peter Rigby stepped down in June 2016 after serving as both Governor and Deputy Chairman during his eight year term.

The Board sets strategy, decides priorities, maintains a framework for accountability, allocates budgets, makes strategic funding decisions and monitors progress.

During 2015/16, the Board of Governors met six times, including a two-day residential strategic review meeting, and had one private meeting without the Executive Board members.

The Executive Board

The Executive Board, chaired by Wellcome's Director, reports directly to the Board of Governors. It is responsible for the day-to-day management of Wellcome's operations and provides advice to both the Governors and the Director with regard to strategic, planning, operational or policy matters, the delivery of objectives and issues arising from the specific functional areas for which its members are responsible. It provides leadership across the organisation in support of the overall leadership given by the Director and ensures that the vision and strategic objectives of Wellcome, which have been agreed with the Governors, are disseminated, and all necessary actions taken to uphold the vision and deliver the objectives.

In April 2016, Mike Turner was appointed Acting Director of Science, to succeed Kevin Moses who left in August 2016 after five years.

Susan Wallcraft, General Counsel and Company Secretary, left Wellcome in July 2016 after four years.

Chris Bird was appointed Company Secretary on 29 April 2016 and as Head of Legal in October 2016.

Clare Matterson, Director of Strategy, left Wellcome on 31 October 2016 after 18 years.

The Executive Leadership Team

An expanded Executive Leadership Team replaced the Executive Board from 1 October 2016. This team will concentrate on ensuring that the strategic framework introduced in October 2015 is taken forward and that Wellcome is focused on the right issues and objectives.

Statement of Trustee's responsibilities

The Trustee is responsible for preparing the Trustee's Annual Report and the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". The law applicable to charities in England and Wales requires the Trustee to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of Wellcome and the Group and of the incoming resources and application of resources of Wellcome and the Group for that period.

In preparing these Financial Statements, the Trustee is required to:

- select suitable accounting policies and then apply them consistently;

Structure and Governance (cont.)

- observe the methods and principles in the Charities Statement of Recommended Practice "Accounting Reporting by Charities";
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that Wellcome will continue in business.

The Trustee is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of Wellcome and enable them to ensure that the Financial Statements comply with the Charities Act 2011 and the Charity (Accounts and Reports) Regulations 2008. The Financial Statements have been prepared to give a 'true and fair' view and have departed from the Charities (Accounts and Reports) Regulations 2008 only to the extent required to provide a 'true and fair view'. This departure has involved following Accounting and Reporting by Charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued on 16 July 2014 rather than the Accounting and Reporting by Charities: Statement of Recommended Practice effective from 1 April 2005 which has since been withdrawn.

The Trustee is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the maintenance and integrity of the charity and financial information included on Wellcome's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Trustee has reviewed and considered the work and the recommendations of the Audit Committee as detailed in the Audit Committee Report on page 38 and considers that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary to assess the Trust and Group's performance and strategy.

Grant making policy

Wellcome has established its grant making policy to achieve its objects, as laid out on page 8, for the public benefit.

We consider and fund a large number of grants and awards through our wide portfolio of funding schemes. The scheme categories are; Biomedical science research, Population health research, Product development and applied research, Humanities and social science, and Public engagement and creative industries.

All applications are reviewed to ensure that they will be supported by adequate and appropriate resources and are used only for grant activities. Grants are generally subject to requirements to submit progress reports during the grant period and an end of grant report within 3 months of the end of the grant period.

Details of how to apply for grants, together with the relevant forms, are available on Wellcome's website.

Public benefit statement

The Trustee confirms that it has referred to the guidance contained in the Charity Commission's general guidance on public benefit when reviewing Wellcome's aims and objectives and in planning future activities and setting the grant-making policy for the year.

Statement of disclosure of information to auditors

So far as the Trustee is aware, there is no relevant audit information of which Wellcome's auditors are unaware. The Trustee has taken all the steps that it believes it ought to have taken as a Trustee in order to make itself aware of any relevant audit information and to establish that Wellcome's auditors are aware of that information.

Committees of the Board of Governors

The Board of Governors is supported by its principal committees, on which at least one Governor is a member:

- Investment Committee;
- Remuneration Committee;
- Nominations Committee; and
- Audit Committee.

The terms of reference of these key Committees can be found at [http://www.wellcome.ac.uk/About-us/Organisation/Governance/Committee-structure/index.htm]

In its grant-funding and direct charitable activities, the Board of Governors is also supported by a number of advisory committees, on which some of the Governors also attend as decision makers or observers. The advisory committees assess, review and advise which grant applications to fund and also advise on policy issues in various fields.

Principles of governance

Wellcome has adopted a framework to ensure it is well governed taking into account its charitable status, nature of its activities and risk profile having regard to the principles of good governance and best practice such as those set out in the UK Corporate Governance Code and the "Good Governance" code.

Performance

The Board of Governors conducted an informal review of its performance during the year.

Structure and Governance (cont.)

Internal control

While no system of internal control can provide absolute assurance against material misstatement or loss, Wellcome's systems are designed to provide the Board of Governors with reasonable assurance that there are proper procedures in place and that the procedures are operating effectively. The Executive Board reviews key internal operational and financial controls annually and confirms the operating effectiveness of those controls to the Board of Governors, which in turn also reviews key controls.

The key elements of the system of internal control are:

- Delegation: there is a clear organisational structure, with documented lines of authority and responsibility for control and documented procedures for reporting decisions, actions and issues;
- Policies: there is a suite of policies covering all major activities and risk areas. Wellcome has adopted a values-based approach to internal policies which places greater emphasis on personal judgement and responsibility. The Governors and all employees are expected to conduct themselves with integrity, impartiality and be open, fair and unbiased when making decisions on behalf of Wellcome and act in its best interests;
- Reporting: the Board of Governors approves and reviews annual budgets and expenditure targets and monitors actual and forecast budgets and performance and risk reports on a regular basis;
- Risk management: a risk management policy is in place which states Wellcome's approach to risk and documents the process of internal control. Wellcome maintains a grants assurance framework to monitor the appropriate use of funds;
- Internal audit: reviews controls and the risk management process within Wellcome; and
- Review: the Audit Committee, which comprises at least one Governor and two external members, oversees the outcomes of external and internal audits, reviews Wellcome's processes of internal control and risk management, considers its compliance with relevant statutory and finance regulations, and advises the Board of Governors of any relevant matters.

Conflicts of interest

Wellcome's policy on conflicts of interest, which applies to Governors, employees and committee members, sets out principles for identifying and managing actual and potential conflicts of interest to ensure decisions are free from any undue external influence. Where a potential conflict is identified it will be managed according to its materiality with actions ranging from not participating at all, to being involved in discussions but not voting, through to being fully involved where the conflict is immaterial.

Governors who have paid appointments with institutions that are in receipt of grants from Wellcome are detailed in note 7 to the Financial Statements.

Professor Dame Kay Davies, who is Deputy Chair of the Board of Governors, is a consultant of Summit Therapeutics plc, in which the Wellcome Trust has a Programme Related Investment.

Independent Auditor

The external audit for the financial year ending 30 September 2016 was tendered during 2015. Following the recommendation of the Group Audit Committee, the Board of Governors appointed Deloitte LLP with effect from 21 June 2016.

The *Annual Report* was approved by The Wellcome Trust Limited, as Trustee, on 12 December 2016 and signed on its behalf by

Eliza Manningham-Buller

Eliza Manningham-Buller

Chair

12 December 2016

Remuneration Report

The Board of Governors appoints the Remuneration Committee, chaired by Eliza Manningham-Buller.

The members are all Governors.

Responsibilities of the Remuneration Committee:

- Approving the reward strategy and policies for the remuneration of staff, including incentive and benefit plans;
- Determining individual remuneration packages and terms and conditions of employment for the members of the Executive Board and other senior staff;
- Exercising any powers of, and approving any decisions required by Wellcome in respect of the Wellcome Trust Pension Plan, the Genome Research Limited Pension Plan and any other pension arrangements; and
- Ensuring remuneration practices and policies facilitate the employment and retention of talented people.

Table 1

Elements of remuneration

Element	Principle
Base salary	Salaries are reviewed annually taking account of responsibilities and development in role. They are benchmarked against the market periodically using appropriate independent consultants or specialist surveys.
Benefits	A competitive benefits package is available to all employees including private medical insurance, medical assessments, permanent disability insurance, on-site gym, enhanced maternity and paternity pay and season ticket loans.
Bonuses	A bonus scheme is open to all staff and is based on the individual and collective impact generated. The investment team also has a separate bonus element included in their remuneration. All other recognition awards are awarded on an ad hoc basis.
Long-term incentive plan	In order to ensure that the remuneration of the Investment Division staff remains competitive and to encourage a long-term view, certain employees participate in a long-term incentive plan. Awards to employees are made annually based on investment returns and individual performance over a measurement period, which spans three to five years.
Pension	The Group sponsors two approved funded defined benefit schemes, the Wellcome Trust Pension Plan and the Genome Research Limited Pension Plan. Pensions payable are related to length of service, salary and level of personal contribution. The Group also provides a defined contribution Group Personal Pension plan into which both employee and employer contributions are paid. Certain senior employees are entitled to benefits under an unapproved unfunded retirement benefit scheme.
Governors' remuneration	The Governors are the directors of The Wellcome Trust Limited, the Trustee of the Wellcome Trust. In accordance with the Will of Sir Henry Wellcome, they are entitled to receive remuneration from the Trustee. Under the Constitution of the Trust, the Governors are entitled to receive remuneration from the Trustee at the rate of £57,100 per annum from 1 April 2000, adjusted with effect from 1 April each year by an amount equal to the percentage increase recommended by the Review Body on Senior Salaries in respect of the salary pay bands of the Senior Civil Service. Following approval by the Charity Commission of a Scheme in October 2011, the levels of remuneration of Chairs and Deputy Chairs appointed subsequent to this approval can be set by the Board of Governors at up to the levels of 2 times and 1.5 times the level of a Governor respectively.

Remuneration Report (cont.)

The principles of the remuneration policy

Wellcome aims to develop and maintain remuneration strategies and policies in line with the strategy, culture and objectives of the organisation, in order to attract, retain, motivate and effectively reward our people, recognising their contribution to Wellcome's overall mission. Key principles are that remuneration is:

Competitive

Salaries are bench-marked periodically using external market data.

Performance linked

Exceptional personal performance, giving due consideration to each role, is taken account of in the annual salary review.

Simple and transparent

The remuneration structure is clear and openly communicated to employees. This supports our aim of engendering fairness and teamwork across the organisation.

Table 2

Governors' Remuneration

Year to 30 September

	2016 **£**	2015 £
Baroness Manningham-Buller (Chair)	**141,677**	70,388
Professor Dame Kay Davies (Deputy Chair)	**106,258**	105,582
Professor Tobias Bonhoeffer	**70,839**	70,388
Mr Alan Brown	**70,839**	70,388
Sir Damon Buffini	**70,839**	70,388
Mr Bill Burns	**35,527**	-
Sir William Castell	**-**	140,776
Professor Michael Ferguson	**70,839**	70,388
Professor Bryan Grenfell	**70,839**	70,388
Professor Richard Hynes	**70,839**	70,388
Professor Dame Anne Johnson	**70,839**	70,388
Professor Peter Rigby	**53,075**	70,388
Total remuneration	**832,410**	879,850

Mr William Burns was appointed on 1 April 2016 and Professor Peter Rigby retired on 30 June 2016. Eliza Manningham-Buller took over from Sir William Castell as Chair from 1 October 2015.

Expenses in respect of travel, subsistence, telephone and sundries incurred by the Governors in the course of their duties amounted to £180,775 (2015: £160,928), of which £121,185 (2015: £125,956) was paid directly by the Trust and £59,590 (2015: £34,972) was paid by the Governors and directly reimbursed to them. No pension contributions were paid in respect of the Governors.

The Governors were included in the Directors' and Officers' liability insurance in the year to 30 September 2016.

Remuneration Report (cont.)

Table 3

Consideration of Key Management Personnel

Year to 30 September

	2016 £	2015 £
Governors' Remuneration	**832,406**	879,850
Director of Wellcome Trust	**480,534**	426,894
Executive Board (excluding Investment Executives)	**2,326,103**	1,590,400
Investment Executive	**6,680,131**	4,287,259
Employer Pension Contributions (for relevant staff)	**194,459**	241,995
Employer National Insurance Contributions (for relevant staff)	**1,154,371**	1,439,368
Total Consideration	**11,668,004**	8,865,766

Key Management Personnel

The Key Management Personnel of the Wellcome Trust Group and Trust have been defined as:

- The Board of Governors;
- The Executive Board, consisting of the Director of the Trust and eight functional senior executives, who are responsible for the day to day running of the organisation; and
- The Investment Executive, who are responsible for the decision making in respect of the investment portfolio.

The total consideration given to Key Management Personnel are summarised in Table 3. Consideration includes Governors' remuneration, salaries, benefits in kind, bonuses, amounts accrued under Long Term Incentive Plans, termination payments and employer pension contributions.

Investment team

Wellcome has made the decision to manage the investment portfolio, which underpins the charitable activity of the organisation, through an internal investment team that manages a large proportion of the investments directly rather than through external fund managers. This decision has been taken on the basis that, due to the size, breadth and long term nature of its portfolio, Wellcome can attract and retain a highly skilled group of investment professionals. With the right leadership and approach this group can generate superior returns and incur lower costs than would be the case if this activity were outsourced to a traditional asset management organisation. The performance of the portfolio supports this approach.

The investment team are remunerated in line with normal practice in the asset management sector: their base salaries are supported by significant variable elements which are based directly on the performance of the portfolio - either in the form of annual bonus or, more significantly, Long Term Incentive Plans (LTIPs) as detailed in Table 1 above. The structure and quantum of remuneration is benchmarked on an ongoing basis using external consultants.

Details of the number of employees working on the investment activities of the Group whose total benefits (excluding employer pension contributions) fall within specific £10,000 bandings, where benefits exceed £60,000, are shown within the Financial Statements under Note 5.

Details of the number of employees working on the charitable activities of the Group whose total benefits (excluding employer pension contributions) fall within specific £10,000 bandings, where benefits exceed £60,000, are shown within the Financial Statements under Note 11(d).

Social Responsibility

Employment and diversity

As a global charitable foundation that works with a variety of people across different countries and cultures, we are committed to inclusion and equality. We recruit and promote on merit and we help our employees to maximise their achievements through a programme of personal development. It is important to us all to create a culture that is open and respects others, where differences are valued and celebrated.

Diversity and Inclusion was made a priority area for focus by Wellcome in late 2015 with a team formed to review diversity, equality and inclusion not just within our employees but within the groups that we fund and influence. The team reported to the Board of Governors in November 2016 and made a series of recommendations related to all aspects of inclusion.

We promote diversity, through internal and external media channels and we post all external vacancies on recruitment job boards that advertise to minority groups. We have continued to develop our apprentice, intern and graduate programmes to increase generational diversity in our organisation.

Scientific progress thrives on diversity – of people, ideas and approaches. We have a number of initiatives that improve the opportunity for researchers to access our funding based on talent and potential irrespective of age, race, religion, sexual orientation, physical impairment or gender. As a consequence of the initial work of our diversity and inclusion project team, we are also working towards greater social inclusion in the future as well.

At our Sanger site an active ‘Sex in Science’ (SiS) programme is examining gender balance amongst Sanger staff and changes have been made to the recruitment process and the support for women scientists.

We provide excellent facilities in our offices. During the year we have launched Trustnet, our accessible and searchable intranet. We are committed to employee wellbeing, offering high-quality staff restaurants which have introduced a range of new healthy options and focussed on reducing food waste plus an on-site gym.

In 2016 we have employed a specialist to review the inclusivity of our head office for people with impairments and disabilities, and a number of improvements have been made as a consequence.

During the year both Wellcome and our Sanger site undertook the “Great Place to Work Survey” which has provided an excellent baseline from which the success or otherwise of our improvement programmes can be judged.

We continue to be inspired by the curiosity of Henry Wellcome and his voracious appetite to expand his own knowledge and expertise. Today we remain true to his spirit, fostering a development culture where people are empowered to develop themselves, taking part in the regular MyCareer workshops, where curiosity and creativity are encouraged and difference is valued.

Volunteering

Wellcome works to provide mutually beneficial volunteering opportunities that meet the local community’s needs and enable Wellcome staff to easily get involved. As well as partnering with around 15 local schemes that draw on regular volunteers in the areas of education and community social support, this year we piloted a hugely successful Community Action Week that enabled 150 people to give up to a day to 16 local projects.

Health, safety and environment

Wellcome continues to progress with objectives aimed at achieving continual improvement, promoting the wellbeing of our employees and having a positive impact on the wider environment.

The Health and Safety and Environment (HSE) policy and management systems have been aligned with Wellcome’s values based approach. The feedback from staff regarding the new policy has been excellent.

Wellcome undertook a second Health, Safety and Environment audit, conducted by the British Safety Council, in August 2016 and we were again awarded the 5 star (excellent) rating.

The Wellbeing and Environment group continues to support and promote HSE objectives and are actively involved in decision making in relation to relevant initiatives and changes.

During the year under review, Genome Research Limited was awarded a Royal Society for the Prevention of Accidents (RoSPA) Gold Health and Safety Achievement Award, based upon a portfolio of evidence submitted on the various elements of the Genome Research Campus health and safety management system. They have also retained the ISO 14001 environmental management system excellence accreditation.

Investments

Wellcome continues to seriously consider the implications of its investments approach. As discussed in the Financial Review on page 27, our response to the FRC UK Stewardship Code together with further details of our investment policy are available on Wellcome’s website.

Audit Committee Report

In my capacity as Chairman of the Audit Committee, I am pleased to present the Audit Committee report for the year ended 30 September 2016. Our work during the year was carried out as laid out in our terms of reference.

In addition to the formal Audit Committee ("the Committee") meetings and in line with the previous year, we met several times during the year to enhance our understanding of Wellcome, to allow for greater consideration of operational processes in place and provide time for horizon-scanning. Topics covered included an update on the review of the format of the risk register and a discussion of the findings from the interim work on FRS 102 and the transition to Deloitte as external auditors. There was also a meeting with the new Chief Technology Officer to discuss the IT strategy.

The membership of the Committee is set out on page 109.

Although not members of the Committee, the Chief Financial Officer, the Head of Legal, the Head of Financial Accounting, the Head of Risk Management and Performance, the audit partner from our external auditors and the Head of Internal Audit attend each meeting.

The Board of Governors considers that the Committee's members have broad commercial and scientific knowledge and extensive business leadership experience, having held between them various roles in investments, legal, financial management, treasury and medical research. The Board has determined that Alan Brown, Philip Johnson, William Burns, Adèle Anderson and Chris Jones have recent and relevant financial experience in line with the UK Corporate Governance Code.

As well as regular business reviews, reviewing external and internal audit and Risk Management, key areas considered by the Committee during the year were:

- The monitoring of governance of the property-backed operational businesses;
- The impact of the changes at Executive Board level;
- The immediate and future impact of Brexit on the investment portfolio; and
- The implementation of a quality review of management information.

After each Committee meeting, the Chairman of the Committee reports to the Board on the main issues that the Committee discussed.

External audit

Appointment

As discussed in the 2015 Annual Report, PricewaterhouseCoopers LLP resigned as auditors following completion of the 2015 audit and Deloitte LLP were appointed.

Scope of work

At the April meeting each year, the Committee discusses with the auditors the scope of their audits and the proposed audit fee and makes recommendations to the Board before the audit commences. A more detailed scoping exercise was performed by Deloitte at the start of the interim audit in July. The results of this process meant that three significant risks were removed. The remaining significant risks are:

- The valuation of unquoted investments
- Revenue recognition on investments
- Management override of controls (which is a risk in any organisation)

At the September and December meetings respectively, the Committee reviews the results of the interim and final audit work and considers the formal reports of the auditors and reports the results of those reviews to the Board.

Independence

The Committee seeks to ensure the continued independence and objectivity of Wellcome's external auditors.

In order to meet regulatory or business requirements, the external auditors may be employed for certain non-audit services. To safeguard the independence and objectivity of the external auditors, the Committee has determined policies as to the approval process related to non-audit services. In view of the issue by the FRC of "Guidance on Audit Committees" in April 2016 and a "Revised Ethical Standard" in June 2016, which implement the changes required by the relevant EU Regulations and Directives, the Audit Committee reviewed the approval process at the December Audit Committee meeting. These legislative changes are effective for financial years beginning on or after 17 June 2016.

At both the April and the December meeting each year, the Committee reviews the auditors' report about independence of its staff, its policies for maintaining staff independence and monitoring compliance with relevant requirements and its safeguards in relation to the provision of non-audit services.

Financial reporting

At the December meeting each year, the Committee reviews the Trust and Consolidated Annual Report and Financial Statements and related announcements for statutory and regulatory compliance. It reviews any adjusted and unadjusted items identified by the external auditors during the course of their audit and satisfies itself that any adjustments are made as appropriate. The Committee is satisfied that all such items have been appropriately addressed this year. The Committee also reviews the rigour of the analysis supporting the use of the going concern assumption including the key principles of the Reserves and Expenditure policies as detailed in the Financial Review on page 27. It also reviews the integrity of the disclosures in the Financial Statements and it considers the minutes of the Valuation Group meetings. It reports its views to the Board to assist in its approval of such documents.

The main areas of risk considered at the December 2016 meeting were the valuation of investments in private equity, real estate, hedge funds and derivatives. The valuation of the classes of investment listed above involves a level of complexity and judgement and the results of the detailed work of the Valuation Group were considered alongside the work of the external auditors. The Committee challenged and understood the Valuation Group's determination of fair values.

Other matters covered in 2016 were:

- How the investment portfolio was being managed against an environment of continued global quantitative easing, low/negative interest rates and some signs of economic growth in the US; noting the events of Brexit and the upcoming US election.
- How the transition to FRS102 and the SORP has been addressed by management.
- A general discussion with the Chair and the Director on the current state of Wellcome and the environment in which it is operating.

On the basis of the work done, the Committee recommended to the Board of Governors that the Annual Report taken as a whole is fair, balanced and understandable. In justifying this statement, the Audit Committee has considered the robust process in place which includes the following:

- Clear guidance is given to all contributors;
- Revisions to regulatory requirements are monitored on an ongoing basis and are discussed at the Audit Committee meetings during the year;
- Finance staff meet with the auditors throughout the year to discuss developments within the business and any impact on the financial reporting; and
- A thorough process of review, evaluation and verification is undertaken by senior management and finance staff.

Internal audit

Appointment

As noted in the 2015 Annual Report, an in-house internal audit function has been established to replace the services provided by Deloitte until October 2015 with use being made of external expertise as appropriate. The internal audit plan for 2015/16 was reviewed and endorsed by the Committee during the April Audit Committee meeting and the plan for 2016/17 was approved at the September Audit Committee meeting.

Scope of work

At each meeting, the Committee reviews internal audit activities, including plans and performance, and the relationship with the external auditors. It also reviews the report from the internal audit team on the steps taken by management to follow up the outstanding actions resulting from the audit work. The 2016 internal audit plan covered a range of areas across Wellcome based on risk and key functions, as well as elements of overseas funding and visits to selected U.K. institutions.

The internal audit work is complemented by the work done by the external auditors on the Investment Controls Assurance framework.

Risk management

At each meeting, the Committee monitors and reviews risk management processes and the standards of risk management and internal control, including the processes and procedures for ensuring that material business risks are properly identified and managed. The Committee has monitored the areas listed on pages 29 and 30, which are reviewed and considered by the Head of Investment Risk and Performance alongside senior management.

Effectiveness

The performance of the Committee is reviewed on a regular basis with input from the Committee members and key executives. However, given the changes to Audit Committee membership during 2016, the Audit Committee Chair has approved for the evaluation to be done in the new financial year, led by the new committee members, with the results reported to the Audit Committee in April. This will allow the independent perspectives of the new members to be fully considered.

William Burns will be taking over as Chair following the approval of the 2016 Annual Report and Financial Statements.

Alan Brown

Alan Brown

Chairman of the Audit Committee

12 December 2016

Opinion on Financial Statements of the Wellcome Trust

In our opinion the Financial Statements:

- give a true and fair view of the state of the Group's and of the Trust's affairs as at 30 September 2016 and of the Group's and of the Trust's incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Charities Act 2011.

The Financial Statements that we have audited comprise:

- the Group and the Trust Statement of Financial Activities;
- the Group and the Trust Balance Sheets;
- the Group Cash Flow Statement; and
- the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: • Valuation of Unquoted investments relating to unquoted direct investments and private equity funds • Valuation of Unquoted investments relating to joint ventures and controlled, unconsolidated investments (Premier Marinas, Farmcare and Vero)
Materiality	The Group materiality that we used in the current year was £119m which was determined on the basis of 0.5% of total assets.
Scoping	Our Group audit scope included the audit of all significant subsidiaries which accounted for 99% of net assets and these were subject to a full scope audit for the year ended 30 September 2016.
Significant changes in our approach	The key changes in the risks of material misstatement disclosed were as follows: • the risk in relation to the valuation of private equity funds, property funds, hedge funds, unquoted direct investments, investment properties and derivatives identified by the previous auditor has been refined and split into two separate risks that focused on (1) joint ventures and controlled, unconsolidated investments and (2) unquoted direct investments and private equity funds; • the risk related to the valuation of assets and liabilities in relation to the Premier Marinas acquisition was no longer relevant as that transaction occurred in the prior period; and • the risk in relation to unrealised gains and losses was considered as part of the risks of valuation of unquoted investments discussed above rather than as a separate risk.

Going concern

We have reviewed the Trustee's Report regarding the appropriateness of the going concern basis of accounting contained within note 1(a) to the Financial Statements and the directors' statement on the longer-term viability of the group contained with the strategic report on page 27. We are required to state whether we have anything material to add or draw attention to in relation to: • the Trustee's confirmation on page 27 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures on pages 29-30 that describe those risks and explain how they are being managed or mitigated; • the Trustee's statement on pages 31-32 of the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements; and • the Trustee's explanation on page 27 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We confirm that we have nothing material to add or draw attention to in respect of these matters. We agreed with the Trustee's adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.	We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Valuation of unquoted investments relating to joint ventures and controlled, unconsolidated investments (Premier Marinas, Farmcare and Vero)

Risk description

The valuation of Premier Marinas, Farmcare and Vero involves significant judgement when determining the valuation approach and the use of key judgemental inputs and assumptions. The primary input to each of these valuations is the fair value of alternative real estate assets including marina assets, student accommodation and farmland. There are few comparable transactions for such real estate assets and therefore this increases judgement in determining the fair valuation of those assets. There is a risk that the application of an inappropriate valuation methodology and/or the use of inappropriate assumptions could result in the valuation of unquoted investments being materially misstated.

The valuation of Premier Marina's, Farmcare and Vero amount to £0.86bn which is 9% of the Group's unquoted investments, and 4% of the group's net assets.

The Audit Committee Report on pages 38-39 identifies the valuation of real estate assets as a main area of risk. The significant accounting judgements with respect to the Group's fair value measurement and valuation policies are described in notes 2 and 16.

How the scope of our audit responded to the risk

In responding to the risk of material misstatement arising when determining the fair value of Premier Marinas, Farmcare and Vero we performed the following procedures:

Premier Marinas & Farmcare

- We obtained and reviewed 30 September 2015 and 30 September 2016 external valuation reports Management instructed and determined that the valuation approach for each was in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards. We assessed the competence, qualifications, capabilities and independence of the third party valuers. We compared 2015 and 2016 reports to assess any changes in methodology or approach year on year;
- We involved real estate specialists as part of our core audit team to review the third party valuation reports. We challenged the appropriateness of the fair value methodologies used for the various real estate assets, the market assumptions used as part of their valuations (e.g. rents, yields, discounts for tenancies and discount rates) and their valuation conclusions. As part of this process we held a meeting with the third party valuers used where we challenged the key judgements made in their valuation against our expectations, our own market intelligence and external information, where such data was available;
- Specifically for Premier Marinas: we reviewed the work of our Deloitte audit team who perform the Premier Marinas audit to determine whether cash flow data used in the discounted cash flows valuation was complete and accurate; and
- Specifically for Farmcare, for a sample of assets we obtained relevant third party data to support acreage, rent and other inputs that drive the valuation as relevant.

Vero

- We obtained and reviewed the external valuation certificate and noted that the valuation was in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards;

	• We involved real estate specialists as part of our core audit team to review information provided by management, including asset listings and yields. We assessed the appropriateness of the key assumptions driving the valuation including rental assumptions, occupancy rates, operating cost assumptions and yield assumptions. We challenged these assumptions based on our own market intelligence and external information.
Key observations	We found no material exceptions as a result of our procedures.
Valuation of unquoted investments relating to unquoted direct investments and private equity funds	
Risk description	The valuation of Private equity funds' and unquoted direct investments' require significant judgement as the values are derived from unobservable inputs. Unobservable inputs include premium or discount rates applied to unquoted direct investments and the selection of an appropriate valuation methodology. As valuations are sensitive to these inputs, there is a risk that the application of an inappropriate valuation methodology and/or the use of inappropriate assumptions could result in the valuation of unquoted investments being materially misstated. The valuation of the Group's investments in Private equity funds and unquoted direct investments amount to £5.8bn which is 62% of the Group's unquoted investments, and 29% of the group's net assets. The Audit Committee Report on pages 38-39 identifies the valuation of private equity funds assets as a main area of risk. The significant accounting judgements with respect to the Group's fair value measurement and valuation policies are described in notes 2 and 16.
How the scope of our audit responded to the risk	We assessed management's valuation methodology and considered whether it was in accordance with the accounting policies of the Trust, applicable accounting standards and industry practice. We assessed the controls applied by management and tested these controls where we placed reliance on them. **Controls Assessment** We assessed the design and implementation of key controls identified in relation to the valuations throughout our planning and interim stage. This included gaining an understanding of the procedures related to the ongoing monitoring of fund managers and the processes by which valuation approaches are continually re-assessed by the valuation group. We performed testing of the following valuation controls: • We tested the controls and procedures performed by management during the year, including reviewing minutes of the calls/meetings held with the external fund managers to monitor these investments; • We reperformed the reconciliation of valuations to management's records for a sample of fund investments; • For unquoted direct investments we reperformed management's review for a sample of investment assets by inspecting documentation to determine whether valuations were challenged based on recent knowledge of the investments, as gained through quarterly calls with key management personnel of the investment companies; and

Valuation of unquoted investments relating to unquoted direct investments and private equity funds

- We inspected documentation to verify that the investments team communicated the status of the valuation of the unquoted investments to the Valuation Group on a semi-annual basis, and that the values of sample assets were reflected appropriately within management's internal records.

Private equity funds

To verify the year-end valuation for private equity investments we independently obtained and reviewed the valuation statements for a sample of funds.

For our selected samples we obtained and reviewed the latest audited Financial Statements and we assessed whether the auditor standing, auditor location, audit opinion, basis of preparation, going concern and subsequent events indicated any areas of concern. As part of this review we critically assessed whether the underlying investments held by the fund were being measured at fair value and whether the methodologies and unobservable inputs disclosed demonstrated appropriate fair value treatment.

Unquoted direct investments

For selected samples, we independently obtained and reviewed the unquoted direct investments valuation statements to determine whether the value recorded by the Group was appropriate. We challenged management's assessment of the valuation assumptions and appropriateness of valuation methodologies used by the third party to determine the fair value.

Where the valuation is determined by the Group we obtained and reviewed the valuation derivation and assessed the reasonableness of any significant judgemental inputs and assumptions. As part of this process we sought independent evidence to challenge the appropriateness of the judgemental assumptions.

Key observations	We found no material exceptions as a result of our procedures.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 38-39.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

Group materiality	£119m
Basis for determining materiality	0.5% of total assets
Rationale for the benchmark applied	The Wellcome Trust is an asset based organisation where making returns on their investment portfolio underpins the funding of their charitable activities. We have therefore determined that total assets is an appropriate benchmark when determining materiality.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2.3m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

In 2015 the previous auditors set materiality at £106m, which represented 0.5% of total assets and reported all audit differences in excess of £2m.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Our Group audit scope included the audit of all significant subsidiaries except for the subsidiaries included as part of the Group’s investment portfolio under FRS 102. These significant subsidiaries were subject to a full scope audit for the year ended 30 September 2016. Audits were performed for local statutory purposes at a local materiality level calculated by reference to the scale of the business concerned. The materiality’s for these significant subsidiaries ranged from £5k to £11m. The vast majority of the audit work is at the Trust itself.

Non-significant subsidiaries within the Group contributed to less than 1% of net assets. Analytical procedures were performed at Group level for these non-significant subsidiaries.

At the group level we also tested the consolidation process.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Charities Act 2011 we are required to report to you if, in our opinion: • the information given in the Trustee's Report is inconsistent in any material respect with the Financial Statements; or • sufficient accounting records have not been kept; or • the Financial Statements are not in agreement with the accounting records and returns; or • we have not received all the information and explanations we require for our audit	We have nothing to report in respect of these matters.
Consistency of the Trustees' Report with the Financial Statements Under the Charities Act 2011 we are required to report to you if, in our opinion the information given in the Trustee's Report is inconsistent in any material respect with the Financial Statements.	We have nothing to report arising from our review.
Our duty to read other information in the Annual Report Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is: • materially inconsistent with the information in the audited Financial Statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or • otherwise misleading. In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Trustee's Report that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.	We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of trustee and auditor

As explained more fully in the Trustee’s Responsibilities Statement, the Trustee is responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. We have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with regulations made under section 154 of that Act. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Charity’s Trustee, as a body, in accordance with section 144 of the Charities Act 2011 and regulations made under section 154 of that Act and for no other purpose. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Charity and the Charity’s Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group’s and Trust’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustee; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Statutory Auditor
London
12 December 2016

Deloitte LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006 and consequently to act as the auditor of a registered charity.

Consolidated Statement of Financial Activities
for the year ended 30 September 2016

	Note	Restricted funds	Unrestricted funds	2016	Restated for FRS 102 2015
		£m	£m	**£m**	£m
Income from investments					
Dividends and interest	3	-	308.3	**308.3**	274.9
Rental income		-	44.2	**44.2**	45.3
Other income		-	1.6	**1.6**	0.2
		-	354.1	**354.1**	320.4
Charitable Income					
Grants receivable	4(a)	17.0	0.8	**17.8**	17.9
Other charitable income	4(b)	5.8	12.6	**18.4**	33.8
Total Income		22.8	367.5	**390.3**	372.1
Expenditure on Raising Funds					
Management fees and other investment costs	5	-	(118.8)	**(118.8)**	(101.6)
Interest payable on bond liability		-	(59.3)	**(59.3)**	(57.7)
Expenditure on Charitable Activities	6	(22.4)	(969.9)	**(992.3)**	(950.1)
Total Expenditure		(22.4)	(1,148.0)	**(1,170.4)**	(1,109.4)
Net realised and unrealised gains on investments	16(e)	-	3,469.4	**3,469.4**	950.7
Net income before taxation		0.4	2,688.9	**2,689.3**	213.4
Taxation	13	-	36.9	**36.9**	(16.3)
Net income after taxation		0.4	2,725.8	**2,726.2**	197.1
Actuarial losses on defined benefit pension schemes	11(e)(i)	-	(161.2)	**(161.2)**	(35.6)
Net movement in funds		0.4	2,564.6	**2,565.0**	161.5
Fund at start of year	21	1.4	16,976.8	**16,978.2**	16,812.0
Minority interest		-	18.4	**18.4**	4.7
Fund at end of year	21	1.8	19,559.8	**19,561.6**	16,978.2

There are no gains or losses apart from those recognised above. All income is derived from continuing activities.

The details of the FRS102 restatement are provided in Note 28.

Consolidated Balance Sheet
As at 30 September 2016

	Note	2016 £m	Restated for FRS 102 2015 £m
Fixed Assets			
Tangible fixed assets	14(a)	**448.2**	447.2
Intangible fixed assets	15	**10.5**	15.6
Investment assets			
Quoted investments	16(a)	**11,347.6**	9,399.0
Unquoted investments	16(a)	**9,339.9**	8,446.5
Investment properties	16(a)	**1,408.0**	1,463.8
Derivative financial instruments	16(b)	**148.0**	159.8
Investment cash and certificates of deposit	16(c)	**916.9**	875.1
Other investment assets	16(c)	**494.8**	311.2
Programme related investments	16(d)	**5.9**	3.5
		23,661.1	20,658.9
Current assets			
Stock		**2.2**	2.7
Debtors	17	**22.3**	45.1
Cash at bank and in hand		**56.1**	36.6
		80.6	84.4
Creditors falling due within one year	18	**(1,118.3)**	(1,184.7)
Net current liabilities		**(1,037.7)**	(1,100.3)
Total assets less current liabilities		**23,082.1**	20,021.4
Creditors falling due after one year	18	**(3,047.6)**	(2,729.2)
Provision for liabilities and charges	19	**(80.0)**	(86.2)
Minority interest		**(14.1)**	(9.8)
Net assets representing unrestricted funds excluding pension deficit		**19,940.4**	17,196.2
Defined benefit pension schemes' deficit	11(e)(ii)	**(378.8)**	(218.0)
Net assets representing unrestricted funds including pension deficit		**19,561.6**	16,978.2

The details of the FRS102 restatement are provided in Note 28.

The Financial Statements on pages 48 to 108 were approved and authorised for issue by The Wellcome Trust Limited, as Trustee, on 12 December 2016 and signed on its behalf by:

Eliza Manningham-Buller

Baroness Manningham-Buller

Chair

Kay E. Davies

Professor Dame Kay Davies

Deputy Chair

Statement of Financial Activities of the Trust
for the year ended 30 September 2016

	Note	2016 £m	Restated for FRS 102 2015 £m
Income from Investments			
Dividends and interest	3	**309.2**	270.0
Rental income		**37.2**	38.0
		346.4	308.0
Charitable income			
Grants receivable	4(a)	**0.8**	1.3
Other charitable income	4(b)	**119.2**	85.6
Total Income		**466.4**	394.9
Expenditure on Raising Funds			
Management fees and other investment costs	5	**(66.5)**	(74.5)
Interest payable to group undertakings		**(24.7)**	(29.1)
Interest payable on bond liability		**(20.0)**	(18.6)
Expenditure on Charitable Activities	6	**(958.5)**	(932.2)
Total Expenditure		**(1,069.7)**	(1,054.4)
Net outgoing resources before net gains on investments		**(603.3)**	(659.5)
Net realised and unrealised gains on investments	16(e)	**3,365.0**	866.5
Actuarial losses on defined benefit pension schemes	11(e)(i)	**(63.3)**	(20.2)
Net movement in funds		**2,698.4**	186.8
Fund at start of year		**16,907.7**	16,720.9
Fund at end of year		**19,606.1**	16,907.7

There are no gains or losses apart from those recognised above. All income is derived from continuing activities. All material funds are unrestricted.

The details of the FRS102 restatement are provided in Note 28.

Balance Sheet of the Trust
As at 30 September 2016

	Note	2016	Restated for FRS 102 2015
		£m	£m
Tangible fixed assets	14(b)	**239.8**	247.3
Investment assets			
Quoted investments	16(a)	**10,726.1**	8,885.2
Unquoted investments	16(a)	**8,229.0**	7,036.2
Investment properties	16(a)	**1,241.1**	1,304.9
Derivative financial instruments	16(b)	**148.0**	159.8
Investment cash and certificates of deposit	16(c)	**904.6**	862.1
Other investment assets	16(c)	**441.8**	286.0
Subsidiary and other undertakings		**1,981.8**	1,730.5
Programme related investments	16(d)	**5.9**	3.5
		23,678.3	20,268.2
Current assets			
Debtors	17	**19.0**	260.6
Cash at bank and in hand		**5.4**	7.6
		24.4	268.2
Creditors falling due within one year	18	**(1,899.3)**	(1,825.9)
Net current liabilities		**(1,874.9)**	(1,557.7)
Total assets less current liabilities		**22,043.2**	18,957.8
Creditors falling due after one year	18	**(2,215.5)**	(1,898.0)
Provision for liabilities and charges	19	**(45.8)**	(36.3)
Net assets representing unrestricted funds excluding pension deficit		**19,781.9**	17,023.5
Defined benefit pension scheme deficit	11(e)(ii)	**(175.8)**	(115.8)
Net assets representing unrestricted funds including pension deficit		**19,606.1**	16,907.7

The details of the FRS102 restatement are provided in Note 28.

The Financial Statements on pages 48 to 108 were approved and authorised for issue by The Wellcome Trust Limited, as Trustee, on 12 December 2016 and signed on its behalf by:

Eliza Manningham-Buller

Baroness Manningham-Buller

Chair

Kay E. Davies

Professor Dame Kay Davies

Deputy Chair

Consolidated Cash Flow Statement
for the year ended 30 September 2015

	Note	2016	Restated for FRS 102 2015
		£m	£m
Net cash flows from operating activities	24(a)	**(815.2)**	(718.3)
Cash flows from investing activities:			
Investment income received	24(b)	**349.4**	317.9
Proceeds from sales of investment assets	24(d)	**5,362.8**	5,520.4
Purchase of investment assets	24(d)	**(4,488.7)**	(5,356.8)
Purchase of tangible fixed assets		**(27.5)**	(49.0)
Net cash (outflow)/inflow upon settlement of derivative financial instruments	24(d)	**(330.7)**	220.7
Net cash flows from investing activities		**865.3**	653.2
Cash flows from financing activities:			
Issue of corporate bonds		**-**	300.9
Cash outflow for servicing of finance	24(c)	**(58.0)**	(54.9)
Net cash flows from financing activities		**(58.0)**	246.0
Change in cash equivalents during the year		**(7.9)**	180.9
Cash and cash equivalents at the beginning of the year		**911.7**	727.2
Change in cash equivalents due to exchange rate movements		**69.2**	3.6
Cash and cash equivalents at the end of the year		**973.0**	911.7

The details of the FRS102 restatement are provided in Note 28.

1. Accounting policies

(a) Statement of compliance

The Financial Statements of the Wellcome Trust (the "Trust") and the consolidated Financial Statements of the Trust and its subsidiary undertakings (the "Group") have been prepared on a going concern basis and in accordance with applicable UK accounting standards (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"). In particular, they comply with the Charities Act 2011, the Charities (Accounts and Reports) Regulations 2008 and the Statement of Recommended Practice 'Accounting and Reporting by Charities' published in 2015 (the "SORP") in all material respects.

Wellcome Trust meets the definition of a public benefit entity under FRS 102. The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of investments and, other than as the changes required under FRS 102, on a basis consistent with prior years.

The functional currency of the Trust is considered to be Pounds Sterling because that is the currency of the primary economic environment in which the Trust operates. The consolidated Financial Statements are also presented in Pounds Sterling.

Wellcome Trust meets the definition of a qualifying entity under the SORP and has therefore taken advantage of the disclosure exemptions available to it in respect of its separate Financial Statements, which are presented alongside the consolidated Financial Statements. Exemptions have been taken in relation to financial instruments and the presentation of a Cash Flow Statement.

(b) Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. Details of the transition to FRS 102 are disclosed in Note 28.

Basis of preparation

The preparation of Financial Statements in conformity with FRS 102 requires the use of certain significant accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 2.

Basis of consolidation

The consolidated Financial Statements include the Financial Statements of the Trust and its subsidiary undertakings together with the Group's share of the results of associates made up to 30 September. Subsidiary undertakings are entities over which the Trust has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. When the Group owns less than 50% of the voting powers of an entity, but controls the entity by virtue of an agreement with other investors that gives it control of the financial and operating policies, it accounts for these as subsidiaries. The Financial Statements of subsidiaries are included from the date that control commences until the date that it ceases.

Where a subsidiary has different accounting policies to the Group, adjustments are made to those subsidiary Financial Statements to apply the Group's accounting policies when preparing the consolidated Financial Statements.

The Trust consolidates four types of subsidiary undertakings:

(i) charitable subsidiary undertakings formed to pursue charitable objects closely allied to those of the Trust;

(ii) non-charitable operating subsidiary undertakings to conduct non-primary purpose trading;

(iii) a non-charitable financing subsidiary undertaking formed to issue listed debt to finance Group activities; and

(iv) non-charitable investment subsidiary undertakings formed to hold investments and freehold property on behalf of the Trust.

A subsidiary is excluded from consolidation where it has not previously been consolidated in the consolidated Financial Statements under FRS 102, and where the interest in the subsidiary is held as part of the investment portfolio and its value to the Group is through fair value rather than as the medium through which the Group carries out business. These subsidiaries are included at fair value within investments in accordance with 9.9B(a) of FRS 102.

1. Accounting policies (continued)

Further detail on the Trust's significant subsidiary undertakings is provided in Note 23.

A joint venture is a contractual arrangement whereby the Group and one or more parties undertake an economic activity that is subject to joint control. The Group considers that it has joint control where there is contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). The results of the joint ventures are accounted for using the equity method of accounting.

An associate is an entity, being neither a subsidiary nor a joint venture, in which the Group holds a long-term interest and has significant influence. The Group considers it has significant interest where it has the power to participate in the financial and operating decisions of the associate. The results of the associate are accounted for using the equity method of accounting.

Where an associate or joint venture is held as part of the investment portfolio and its value to the Group is through fair value rather than as medium through which the Group carries out business, the associate or joint venture is measured at fair value with changes in fair value recognised in profit or loss in the consolidated Financial Statements in accordance with 9.9B(a) or 14.4B of FRS 102.

All intra-group transactions, balances, income and expenses are eliminated on consolidation of subsidiaries. Adjustments are made to eliminate the profit or loss arising on transactions with joint ventures or associates to the extent of the Group's interest in the entity. Where subsidiaries, joint ventures and associates are held as part of the investment portfolio and measured at fair value, no elimination of intra-group items is undertaken.

Incoming resources

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed and value added taxes.

The Group recognises revenue when the significant risks and rewards of ownership have been transferred, the amount of revenue can be measured reliably, it is probable that future economic benefits will flow to the Group and when the specific criteria relating to the each of Group's revenue channels have been met, as described below:

Dividend income including any recoverable tax is recognised from the ex-dividend date when it becomes receivable.

Rental income is recognised on an accruals basis, and is recognised on a straight line basis unless there is compelling evidence that benefits do not accrue evenly over the period of the lease.

Interest income is recognised using the effective rate of interest.

Other investment income is recognised when the significant risks and rewards of ownership have been transferred and the amounts can be reliably estimated.

Charitable incoming resources, including government grants, are recognised in the period in which the receipt of income is probable, any conditions are met and where the amount can be quantified with reasonable certainty.

Resources expended

Liabilities are recognised as expenditure as soon as there is a legal or constructive obligation committing the Group to that expenditure, it is probable that settlement will be required and the amount of the obligation can be measured reliably. All resources expended are recognised on an accruals basis, with the exception of grants as noted below.

Expenditure on raising funds relate to the management of the investment portfolio and include the allocation of support costs relating to this activity.

Grants awarded to institutions outside the Group are recognised as expenditure in the year in which the grant is formally approved by the Trust and has been communicated in writing to the recipient, except to the extent that it is subject to conditions that enable the Trust to revoke the award.

The provision for multi-year grants is recognised at its present value where settlement is due over more than one year from the date of the award, there are no unfulfilled performance conditions under the control of the Trust that would permit it to avoid making the future payments, settlement is probable and the effect of the discounting is material. The discount rate used is

1. Accounting policies (continued)

regarded by Board of Governors as the most current available estimate of the opportunity cost of money reflecting the time value of money to the Trust.

Expenditure on charitable activities is analysed between grant funding and the cost of activities performed directly by the Trust and the Group together with the associated support costs, including governance costs. Governance costs are the costs of governance arrangements that relate to the general running of the Group as opposed to those costs associated with investments or charitable activities. These costs include such items as internal and external audit, legal advice for Governors and costs associated with constitutional and statutory requirements.

Where possible, expenditure incurred that relates to more than one activity is apportioned. The method of apportionment uses the most appropriate basis for each cost type.

Research expenditure is written off in the Statement of Financial Activities in the year in which it is incurred and is included in Expenditure on Charitable Activities.

Employee benefits

The Group provides a range of benefits to employees, including annual bonus arrangements, Long-term incentive plans, paid holiday arrangements and defined benefit and defined contribution pension plans.

Short term benefits

Short term benefits, including holiday pay, private medical insurance, medical assessments, permanent disability insurance and life insurance are recognised as an expense in the period in which the service is received.

Defined contribution pension plans

The Group operates defined contribution plans for certain employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Group in independently administered funds.

Defined benefit pension plan

The Group operates defined benefit plans for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration.

The liability recognised in the balance sheet in respect of a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting date less the fair value of plan assets at the reporting date. The defined benefit obligation is calculated using the projected unit credit method. Annually the Group engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using corporate bond yields that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Group's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to "Actuarial gains and losses on defined benefit pension schemes" in the Statement of Financial Activities.

The cost of the defined benefit plans, recognised in charitable expenditure as employee costs comprises:

(a) the increase in pension benefit liability arising from employee service during the period; and

(b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of defined benefit obligation and the fair value of plan assets.

1. Accounting policies (continued)

Annual bonus plan

The Group operates an annual bonus plan for all employees. An expense is recognised in the Statement of Financial Activities when the Group has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

Long-term incentive plans

Awards to employees are made annually based on investment returns and individual performance over a measurement period, which generally spans three years. The cost is recognised in the Statement of Financial Activities over the period of service. Where amounts are left in the plan after vesting date, any adjustment in value between the date of vesting and the date of payment are recognised in the Statement of Financial Activities.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either (i) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or (ii) providing termination benefits as a result of an offer of voluntary redundancy.

Fund accounting

The charitable Group's funds consist of both restricted funds and unrestricted funds. Restricted funds are subject to specific conditions imposed by the donors.

Intangible assets

Intellectual Property

Intellectual property includes amounts spent by the Group acquiring rights to patents, technology and know-how that will be used to generate value within the Group.

The useful life over which intangible assets are amortised depends on management's estimate of the period over which economic benefit will be derived from the asset. This ranges from 3 years to 20 years.

Tangible fixed assets

Tangible fixed assets, excluding land and investment properties, held by the Group and the Trust are stated at cost less accumulated depreciation and any accumulated impairment losses. Land is stated at cost less any accumulated impairment losses. Cost includes the original purchase price and costs directly attributable to bringing the asset to its working condition for its intended use. Fixed assets are subject to review for impairment when there is an indication of a reduction in their carrying value. They are reviewed annually and any impairment is recognised in the year in which it occurs.

Assets in the course of construction are stated at cost and are not depreciated until available for use.

Depreciation is calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful life. Residual value represents the estimated amount which would currently be obtained from disposal of an asset, after deducting estimated costs of disposal if the asset were already of the age and in the condition expected at the end of its useful life. Depreciation commences from the date an asset is brought into service. The useful lives for depreciation purposes for the principal categories of assets are:

	Years
Buildings	50
Leasehold Land and Buildings	Over the term of the lease
Other Plant and Equipment. Fixtures and fittings	3 to 15
Computer Equipment	3 to 5

1. Accounting policies (continued)

Heritage assets

The Trustee does not consider that reliable cost or valuation information can be obtained for the vast majority of heritage assets held by the Trust. This is because of the diverse and specialist nature of the assets held, the number of assets held and the lack of comparable market values. The cost of valuing the entire collection would be onerous compared with the benefit derived by users of the Financial Statements in assessing the Trustee's stewardship of the assets. The Trust does not therefore recognise these assets on the Balance Sheet. Further details are provided in note 14.

Leased assets

Where assets are financed by leasing agreements that give rights to the lessee approximating to ownership, the assets are treated as if they had been purchased outright by the lessee. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding lease commitments are shown as obligations to the lessor. Interest is charged over the duration of the lease in proportion to the balance outstanding. Depreciation on the relevant assets and interest on the lease are charged to the Statement of Financial Activities. The annual rentals for operating leases are charged to the Statement of Financial Activities on a straight-line basis over the lease term.

Financial assets and liabilities

The Group has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments. Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets which qualify as basic financial instruments as laid out in FRS 102 paragraph 11.8, including trade and other receivables and cash and bank balances, are subsequently valued at amortised cost and assessed for impairment at the end of each reporting period.

Other financial assets, including investments, are subsequently valued at fair value.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the Balance Sheet when, and only when, there exists a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when and only when (a) the contractual rights to the cash flows from the financial asset expire or are settled, (b) the Group transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or (c) the Group, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Investment valuation policies and procedures are reviewed by the Valuation Group which is responsible for valuation decisions. Specific policies are detailed below and details of the application of these policies is disclosed in the relevant note to the account where appropriate.

(i) Quoted investments

Quoted investments comprise publicly quoted, listed securities including shares, bonds and units. Quoted investments are stated at fair value at the balance sheet date. The basis of fair value for quoted investments is equivalent to the market value, using the bid-price. Asset sales and purchases are recognised at the date of trade.

(ii) Unquoted investments

Unquoted investments are valued at management's best estimate of fair value. Further details are provided in note 2 (Significant accounting judgements and key sources of estimation uncertainty).

1. Accounting policies (continued)

(iii) Derivative financial instruments

Derivative financial instruments are used as part of the Group's portfolio risk management and as part of the Group's portfolio management and investment return seeking strategy. The Group's use of derivative financial instruments includes equity index-linked futures and options, commodities futures and options, options on individual equities, warrants, interest rate swaps, interest rate caps and currency forwards.

The Group's exchange traded options are stated at fair value, equivalent to the market value, using the bid price, on the relevant exchange. Long-term linked currency forwards are stated at management's estimate of fair value, using the market value of a transaction with equivalent cash flows.

The Group's warrants are held at the fair value determined by management. These will generally reflect the valuations used by the Group's co-invest partners where these exist and where there is confidence in their approach. Valuations will generally be intrinsic value, as the best estimate of fair value, but for some warrant holdings the use of a Black-Scholes valuation methodology will be used by management.

The fair value of contract positions is recognised in the Balance Sheet and gains and losses on the contracts are recognised in the Statement of Financial Activities.

(iv) Investment cash and certificates of deposit, other investment assets and other investment liabilities

Investment cash and certificates of deposit, and debtors and creditors arising as part of the investment portfolio are stated at their fair value.

(v) Bond liabilities

Bonds are initially measured at the proceeds of issue less all transaction costs directly attributable to the issue. After initial recognition, the Bonds are measured at amortised cost using the effective interest rate method. The fair value of the Bonds disclosed within the notes to the Financial Statements is the market value of the Bonds at the year end date. The Group is not required to, and therefore does not, recognise any adjustment to fair value in the Balance Sheet and the Statement of Financial Activities.

Mixed motive investments

Mixed motive investments are a type of social investment where neither the investment return nor the contribution to the charitable purpose is sufficient on its own to justify the investment decision. The investment is not justified wholly by either the financial return or by the contribution it makes to the charitable aims but by the combination of the two. These are held at cost less impairment and are separately disclosed under Investment Assets in the balance sheet. Where the investments are in the form of subsidiaries, they are consolidated in the Group accounts.

Programme related investments

Programme related investments are a type of social investment and are made directly in pursuit of our charitable purposes. The primary motivation for making a programme related investment is not for financial gain but to further our objects. Programme related investments can generate some financial return, and the funding may or may not be provided on commercial terms. These are held at cost less impairment and are disclosed under Investment Assets in the balance sheet. Where the investments are in the form of subsidiaries, they are consolidated in the Group accounts.

Investment properties

Investment properties for which fair value can be measured reliably without undue cost or effort on an ongoing basis are measured at fair value annually with any change recognised in the Statement of Financial Activities. The valuations are estimated by third party professional valuers; however, where properties are acquired close to the balance sheet date, valuations are not obtained because the acquired properties are recorded at open market value upon initial recognition, which management considers to be a reasonable estimate of open market value at the balance sheet date. Property transactions are recognised on the date of completion.

1. Accounting policies (continued)

Investments in subsidiaries

Subsidiary undertakings formed to hold investments are included in the Trust's Balance Sheet at their net asset value, which represents the fair value of their underlying net assets.

Securities lending programme

The Group undertakes securities lending arrangements whereby securities are loaned to external counterparties for a set period of time ("the loan period"). The Group receives cash collateral of greater value than the securities loaned from each counterparty for the duration of the loan period and receives a share of the interest earned on the cash collateral held. Under the terms of the securities lending agreements, the Group retains substantially all the risks and rewards of ownership of the loaned securities, and the contractual rights to any cash flows relating to the securities. The loaned securities are not derecognised on the Group's and Trust's Balance Sheets. The cash collateral and the obligation to return the cash collateral to the lender are recognised in the Group's and Trust's Balance Sheets.

Stock

Stock consists of consumables and goods for sale and is stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis. Where necessary, provision is made for obsolete, slow moving and defective stock.

Provisions and contingencies

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are discounted to present value where the effect is material.

Contingencies

Contingent liabilities are potential future cash outflows, where the likelihood of payment is considered more than remote, but is not considered probable or cannot be measured reliably. These are not recognised but are disclosed in the Financial Statements.

Contingent assets are not recognised. Contingent assets are potential future inflows of economic benefits where the likelihood of receipt is considered more than remote, but is not considered probable or cannot be measured reliably. These are not recognised but are disclosed in the Financial Statements.

Foreign currencies

Transactions denominated in foreign currencies are translated into Pounds Sterling at the exchange rates ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Pounds Sterling at the rate ruling at the balance sheet date. All foreign exchange gains and losses, realised and unrealised, are recognised in the Statement of Financial Activities.

Taxation

The charitable members of the Group are exempt from taxation on their income and gains falling within Part 11 of the Corporation Tax Act 2010 or section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that they are applied to their charitable purposes.

The non-charitable subsidiaries although subject to taxation, do not pay UK Corporation Tax because their policy is to donate taxable profits as Gift Aid to the Wellcome Trust. Foreign tax incurred by subsidiaries operating overseas is charged as it is incurred.

In common with many other charities, the charitable members of the Group are unable to recover the majority of Value Added Tax ("VAT") incurred on expenditure. The amount of VAT that cannot be recovered is included within the underlying cost to which it relates.

1. Accounting policies (continued)

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Timing differences are differences between the taxable profits and results as stated in the Financial Statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is recognised on fair market value adjustments of investment subsidiaries even though the subsidiaries will be able to donate the profits from the future realisation of the underlying assets so that no current tax charge will arise.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference.

2. Significant accounting judgements and key sources of estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant judgements in applying the Group's accounting policies

The following are the significant judgements, apart from those involving estimations (which are dealt with separately below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in Financial Statements:

(i) Fair value measurement and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The Group applies judgement is selecting the appropriate valuation techniques for calculating the fair value for reporting purposes.

Private equity funds

A large proportion of the private equity funds are valued externally by fund managers and the controls operating at the underlying funds are carefully considered. Unquoted private investments are in some cases internally valued, and management is required to make certain judgemental assumptions. The assumptions used are highly judgemental. Where there is a co-investor, reference is made to valuations performed by the lead investor.

Investment subsidiaries

As noted in the Basis of Consolidation on page 53, certain subsidiaries are excluded from consolidation where the interest in the subsidiary is held as part of the investment portfolio and its value to the Group is through fair value rather than as the medium through which the Group carries out business. These subsidiaries are included at fair value within investments. Significant judgement is applied by management in choosing an appropriate valuation methodology according to the circumstances of the businesses or portfolios, and in selecting the underlying assumptions.

Significant accounting estimates and assumptions

The Group makes estimates and assumptions to produce the Financial Statements. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Fair value measurement and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The Valuation Group, which is headed up by Wellcome's Chief Financial Officer, is responsible for valuation decisions, which include determining the appropriate valuation techniques and inputs for fair value measurements.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in the Financial assets and liabilities accounting policies on pages 57-58 and in note 16.

2. Significant accounting judgements and key sources of estimation uncertainty (continued)

Significant accounting estimates and assumptions (continued)

(ii) Defined benefit pension scheme

The Group has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 11(e) for the disclosures relating to the defined benefit pension scheme.

(iii) Discount rate on grant liabilities

The rate applied to discount the grant liabilities payable within more than twelve months requires an estimate of the opportunity cost of income from investments foregone by the Group, as well as an estimate of when the liability will be called down as a claim to be paid.

The 2015 comparatives in notes 3 to 27 have been restated to reflect the impact of the transition to FRS 102 as detailed in note 28.

3. Dividends and interest

	Group		Trust	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Dividends from UK equities	**75.1**	78.1	**75.1**	78.1
Dividends and interest from subsidiaries	-	-	**17.7**	30.9
Dividends from overseas equities	**175.4**	141.9	**164.2**	132.9
Income from unquoted investments	**54.8**	52.8	**50.4**	26.9
Interest on cash and cash deposits	**0.4**	0.2	**0.3**	0.1
Securities lending income	**2.6**	1.9	**1.5**	1.1
	308.3	274.9	**309.2**	270.0

4. Other incoming resources

(a) Grants receivable

Grants receivable mainly represents awards to the Trust's subsidiary undertaking Genome Research Limited by other funders, notably government grants of £6.3 million (2015: £9.0 million).

	Group		Trust	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
	17.8	17.9	**0.8**	1.3

(b) Other charitable income

	Group		Trust	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
	18.4	33.8	**119.2**	85.6

Included in 2015 other charitable income is a claim for research and development expenditure credits ("RDEC") for the period from 1 October 2012 to 31 July 2015 made by the Trust's subsidiary undertaking, Genome Research Limited. The amount of RDEC claimed in the 2015 figure above is £14.5 million with a corporation tax charge on this amount of £3.2 million.

Included in other income above for the Trust are Gift Aid donations, which are equal to the estimated taxable profit of each subsidiary undertaking listed below, totalling £111.8 million (2015: £76.5 million).

	2016	2015
	£m	£m
Wellcome Trust Trading Limited	**1.2**	-
Wellcome Trust Finance plc	**3.5**	2.5
Wellcome Trust Investments 1 Unlimited	**59.2**	0.9
Wellcome Trust Investments 2 Unlimited	**(23.8)**	57.0
Wellcome Trust Investments 3 Unlimited	**(0.2)**	3.1
Wellcome Trust Residential 1 Limited	**5.1**	5.4
Wellcome Trust Residential 2 Limited	**1.0**	7.6
Gower Place Investments Limited	**65.8**	-
	111.8	76.5

The write backs of previously provided gift aid for Wellcome Trust Investments 2 Unlimited and Wellcome Trust Investments 3 Unlimited are due to additional information in relation to the underlying taxable gains and losses of their investments received after the reporting date.

5. Management fees and other investment costs

(a) Total investment costs

	Group		Trust	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
External investment management fees	**41.0**	51.1	**38.2**	47.3
Internal investment administration	**22.3**	21.1	**22.3**	21.1
Investment support cost allocation	**6.5**	6.2	**6.0**	6.1
Syncona Investment				
Administration	**27.3**	9.2	**-**	-
Operating Costs	**21.7**	14.0	**-**	-
	118.8	101.6	**66.5**	74.5

The amount accrued for Long Term Incentive Plans included in the internal investments administration costs above was £7.4 million (2015: £9.0 million). Senior staff in the Investments team receive performance-based remuneration, as noted on page 36, which can give rise to variations in the amount charged to internal investment administration year on year.

In 2012, the Trust set up the Syncona Group as an independent investment focused on the health and biotechnology sectors (see page 29). It is managed separately to the rest of the Trust's investment portfolio and its administration costs and the operating costs of the underlying Syncona subsidiaries are shown separately above. The Syncona Group is referred to in note 22 (Events after the end of the reporting period).

The methodology behind the support cost allocation is detailed in note 9.

The bandings tables in notes 5(b) and 5(c) show employees working on the investment activities of the Group and distinguish between those of the Trust and of the Syncona Group (see page 36).

5. Management fees and other investment costs (continued)

(b) Investment team salary bandings

The number of employees working within the investment team whose total benefits (excluding employer pension contributions and employer National Insurance Contributions) fell within the following bands is shown in the table below.

	2016	2015
£60,000-£69,999	5	4
£80,000-£89,999	1	3
£90,000-£99,999	1	2
£100,000-£109,999	2	1
£110,000-£119,999	1	1
£120,000-£129,999	4	4
£130,000-£139,999	1	-
£140,000-£149,999	1	-
£150,000-£159,999	-	2
£170,000-£179,999	1	2
£180,000-£189,999	-	1
£210,000-£219,999	1	2
£220,000-£229,999	1	-
£240,000-£249,999	1	-
£250,000-£259,999	1	-
£260,000-£269,999	1	-
£270,000-£279,999	2	-
£280,000-£289,999	-	1
£290,000-£299,999	1	-
£380,000-£389,999	-	1
£420,000-£429,999	-	2
£500,000-£509,999	-	1
£520,000-£529,999	-	1
£580,000-£589,999	1	-
£680,000-£689,999	1	-
£700,000-£709,999	1	-
£810,000-£819,999	1	-
£1,130,000-£1,139,999	-	1
£1,200,000-£1,209,999	-	1
£1,760,000-£1,769,999	1	-
£1,860,000-£1,869,999	1	-
£1,940,000-£1,949,999	-	1
£3,050,000-£3,059,999	1	-
	32	31

5. Management fees and other investment costs (continued)

(c) Syncona team salary bandings

The number of employees working within the Syncona Group whose total benefits (excluding employer pension contributions and employer National Insurance Contributions) fell within the following bands is shown in the table below.

	2016	2015
£60,000-£69,999	**10**	5
£70,000-£79,999	**5**	3
£80,000-£89,999	**7**	4
£90,000-£99,999	**6**	2
£100,000-£109,999	**2**	2
£110,000-£119,999	**4**	-
£120,000-£129,999	**6**	-
£130,000-£139,999	**5**	3
£140,000-£149,999	**2**	1
£150,000-£159,999	**5**	1
£160,000-£169,999	**1**	-
£170,000-£179,999	**2**	1
£180,000-£189,999	**1**	1
£190,000-£199,999	**2**	-
£210,000-£219,999	**1**	-
£220,000-£229,999	**1**	-
£230,000-£239,999	**-**	1
£240,000-£249,999	**1**	1
£250,000-£259,999	**1**	-
£260,000-£269,999	**1**	-
£280,000-£289,999	**1**	-
£310,000-£319,999	**1**	-
£330,000-£339,999	**1**	-
	66	25

6. Charitable activities

Group

	Grant funding £m	Direct £m	Allocated support £m	**Total 2016 £m**	Total 2015 £m
Science	573.2	139.8	37.8	**750.8**	754.6
Culture & Society	50.1	36.4	23.5	**110.0**	87.4
Innovations	68.0	14.7	9.1	**91.8**	87.4
Strategy	61.6	5.9	13.4	**80.9**	31.7
	752.9	**196.8**	**83.8**	**1,033.5**	961.1
Present value adjustment for discounting of grant liability	(41.2)	-	-	**(41.2)**	(11.0)
Total	**711.7**	**196.8**	**83.8**	**992.3**	950.1

Grant funding and direct charitable activities totalled £949.7 million (2015: £886.4 million).

Trust

	Grant funding £m	Direct £m	Allocated support £m	**Total 2016 £m**	Total 2015 £m
Science	676.3	17.7	23.7	**717.7**	737.4
Culture & Society	50.1	35.7	23.5	**109.3**	86.7
Innovations	68.0	14.7	9.1	**91.8**	87.4
Strategy	61.6	5.9	13.4	**80.9**	31.7
	856.0	74.0	69.7	**999.7**	943.2
Present value adjustment for discounting of grant liability	(41.2)	-	-	**(41.2)**	(11.0)
Total	**814.8**	**74.0**	**69.7**	**958.5**	932.2

Grant funding and direct charitable activities totalled £930.0 million (2015: £881.1 million).

7. Grants awarded

Grants are generally awarded to a particular individual, although the actual award is made to the host institution. Small grants may be awarded directly to individuals for the purpose of travel and for public engagement with science.

Grants awarded during the year are analysed by organisation in the table below. The grants awarded to UCL in 2016 were higher than in 2015 as they included funding for the Africa Health Research Institute and Science Collaborative.

The grants included within 'Grants to other organisations' for 2016 totalled less than £5.0 million (2015: £5.0 million) in value for each organisation. In the prior year, awards totalling £120.8 million were made to 15 organisations that received funding of less than £5.0 million in 2016 and do not therefore appear in the table. The Francis Crick Institute was awarded £20.6 million; two Innovations awards were made to Stevenage Bioscience (£11.0 million) and Novartis Institute for Tropical Diseases (£7.5 million); Newcastle University (£9.6 million), Queen Mary University of London (£8.4 million) and University of Liverpool (£7.1 million) received general grant awards; seven organisations in Africa were granted DELTAS funding (£44.4 million); the Academy of Medical Sciences was awarded £7.0 million for starter grants; and the World Health Organisation was awarded £5.2 million relating to Ebola research.

7. Grants awarded (continued)

Group	Science £m	Culture & Society £m	Innovations £m	Strategy £m	**Total 2016 £m**	Total 2015 £m
University of Oxford	122.4	5.0	1.7	5.4	**134.5**	161.6
University College London	91.3	1.6	4.9	4.6	**102.4**	47.7
University of Cambridge	48.6	2.0	4.4	4.5	**59.5**	59.4
Imperial College London	21.5	0.1	9.1	3.7	**34.4**	31.3
University of Edinburgh	27.1	0.5	0.4	3.1	**31.1**	38.0
King's College London	17.5	5.6	1.3	3.2	**27.6**	13.1
UK Biobank Ltd	20.6	-	-	-	**20.6**	-
University of Manchester	13.6	0.7	2.2	1.8	**18.3**	12.6
Diamond Light Source Ltd	16.1	-	-	-	**16.1**	7.1
University of Glasgow	12.4	0.4	-	2.5	**15.3**	9.3
University of Sussex	4.0	0.2	8.6	0.9	**13.7**	1.7
EMBL At Hinxton	12.4	-	-	-	**12.4**	4.8
London School of Hygiene & Tropical Medicine	8.8	1.2	-	2.3	**12.3**	16.7
University of Dundee	9.1	-	0.6	2.5	**12.2**	9.8
University of Bristol	7.2	-	0.1	2.4	**9.7**	11.0
eLife Sciences Publications Limited	9.5	-	-	-	**9.5**	-
Science Museum	-	9.5	-	-	**9.5**	0.5
African Academy of Sciences	9.0	-	-	-	**9.0**	1.6
Institute of Cancer Research	8.5	-	0.3	0.1	**8.9**	0.2
University of York	5.1	1.3	-	1.6	**8.0**	3.8
University of Leeds	5.5	0.1	1.6	0.8	**8.0**	3.9
University of Birmingham	4.3	0.3	1.3	1.7	**7.6**	4.5
Cardiff University	4.6	0.4	-	2.3	**7.3**	5.4
Medical Research Council	7.2	-	-	-	**7.2**	2.8
Queen's University Belfast	1.8	-	4.7	0.4	**6.9**	1.0
Liverpool School of Tropical Medicine	5.7	-	-	0.7	**6.4**	4.4
Wellcome Trust/DBT India Alliance, India	5.6	-	-	-	**5.6**	6.4
Grants to other organisations	77.9	22.0	25.6	12.2	**137.7**	226.4
Total grants (excluding supplementations and grants no longer required)	**577.3**	**50.9**	**66.8**	**56.7**	**751.7**	**685.0**
Grant supplementations	6.0	1.0	6.4	5.3	**18.7**	4.8
Less: grants awarded in previous years no longer required	(10.1)	(1.8)	(5.2)	(0.4)	**(17.5)**	(16.7)
	573.2	50.1	68.0	61.6	**752.9**	673.1

7. Grants awarded (continued)

	Science £m	Culture & Society £m	Innovations £m	Strategy £m	**Total 2016 £m**	Total 2015 £m
Grants awarded by the Group of which:						
United Kingdom	546.3	45.6	51.7	57.0	**700.6**	561.5
Directly funded international	26.9	4.5	16.3	4.6	**52.3**	111.6
Grants awarded by the Group	**573.2**	**50.1**	**68.0**	**61.6**	**752.9**	673.1

Trust	Science £m	Culture & Society £m	Innovations £m	Strategy £m	**Total 2016 £m**	Total 2015 £m
Grants awarded by the Group	573.2	50.1	68.0	61.6	**752.9**	673.1
Plus: grants awarded to subsidiary undertakings	103.1	-	-	-	**103.1**	118.3
Grants awarded by the Trust	**676.3**	**50.1**	**68.0**	**61.6**	**856.0**	791.4

Further details of grants awarded by the Trust are published on the Trust's website, at the address given on the back cover.

The following Governors during the year had appointments with organisations which were in receipt of grants:

Professor Dame Kay Davies - University of Oxford

Professor Richard Hynes - Massachusetts Institute of Technology

Professor Dame Anne Johnson - University College London

Baroness Manningham-Buller - Imperial College London (until October 2015)

Professor Peter Rigby - The Institute of Cancer Research, Babraham Institute

Professor Michael Ferguson - University of Dundee

Professor Bryan Grenfell - Princeton University

8. Grants awarded but not yet paid

	Group		Trust	
	2016 £m	2015 £m	**2016 £m**	2015 £m
Liability at 1 October	**1,754.3**	1,569.3	**1,754.3**	1,569.3
Grants awarded during the year	**752.9**	673.1	**856.0**	801.5
Grants paid during the year	**(502.6)**	(477.1)	**(601.4)**	(605.5)
Discounting of liability	**(41.2)**	(11.0)	**(41.2)**	(11.0)
Liability as at 30 September	**1,963.4**	1,754.3	**1,967.7**	1,754.3
Of which:				
- falling due within one year (note 18)	**483.8**	541.3	**488.1**	541.3
- falling due after one year (note 18)	**1,479.6**	1,213.0	**1,479.6**	1,213.0
Liability as at 30 September	**1,963.4**	1,754.3	**1,967.7**	1,754.3

9. Support costs

Support costs are those costs that, while necessary to deliver an activity, do not themselves produce or constitute the output of the charitable activity. Support costs have been apportioned using the allocation methods indicated and include governance costs.

Operations comprise building costs, costs associated with the Human Resources Department, the Finance Department, the Legal Department and the Information Technology Department.

Group	Costs of generating funds £m	Science £m	Culture & Society £m	Innovations £m	Strategy £m	**Total 2016 £m**	Total 2015 £m	Allocation method
Funding administration	-	10.8	2.3	4.9	8.7	**26.7**	22.0	Directly attributed
Support of scientific research	-	14.3	-	-	-	**14.3**	12.4	Directly attributed
Operations	5.8	8.9	20.7	3.7	4.2	**43.3**	40.8	Headcount/building usage
Other	0.4	2.2	0.3	0.3	0.3	**3.5**	2.8	Expenditure
Governance Costs	0.3	1.6	0.2	0.2	0.2	**2.5**	2.8	Expenditure/Directly attributed
	6.5	**37.8**	**23.5**	**9.1**	**13.4**	**90.3**	80.8	

Trust	Costs of generating funds £m	Science £m	Culture & Society £m	Innovations £m	Strategy £m	**Total 2016 £m**	Total 2015 £m	Allocation method
Funding administration	-	10.8	2.3	4.9	8.7	**26.7**	22.0	Directly attributed
Operations	5.5	9.1	20.7	3.7	4.2	**43.3**	40.8	Headcount/building usage
Other	0.2	2.4	0.3	0.3	0.3	**3.5**	2.8	Expenditure
Governance Costs	0.3	1.4	0.2	0.2	0.2	**2.3**	2.6	Expenditure/Directly attributed
	6.0	**23.7**	**23.5**	**9.1**	**13.4**	**75.7**	68.2	

10. Governance costs

	Group		Trust	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Governors' fees and expenses	**0.9**	1.0	**0.9**	1.0
Auditors' remuneration				
- parent company and consolidation	**0.3**	0.2	**0.3**	0.2
- audits of subsidiary undertakings	**0.4**	0.2	**-**	-
Internal audit	**0.5**	0.6	**0.5**	0.6
Other costs	**0.4**	0.8	**0.6**	0.8
	2.5	2.8	**2.3**	2.6

In addition to the auditors' remuneration above, in 2016 total fees of £0.9 million (2015: PwC £0.2 million) excluding VAT were payable to the Group's auditors Deloitte LLP or associated firms.

The internal audit services of £0.5 million are those provided by the in-house internal audit team, including specialist services provided by PricewaterhouseCoopers LLP. Fees of £0.6 million in 2015 services were paid to Deloitte LLP as internal auditors, prior to their appointment as external auditors.

	Group	
	2016	2015
Non-audit services split	**£m**	£m
Tax	**0.4**	0.1
Due diligence	**0.4**	-
Bond issue	**-**	0.1
Leadership development programmes	**0.1**	-
	0.9	0.2

11. Employee information

(a) Employee Benefits

	Group		Trust	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Remuneration and salary benefits	**93.0**	84.0	**45.8**	45.5
Social Security costs	**9.8**	7.5	**5.5**	4.5
Pension costs and other benefits	**35.6**	31.9	**19.3**	16.9
	138.4	123.4	**70.6**	66.9

(b) Termination Payments

	2016	2015
	£m	£m
Redundancy	**1.7**	0.4
Other compensation	**1.1**	0.2
	2.8	0.6

(c) Average numbers of employees who served during the year

The prior year comparatives have been restated in accordance with FRS 102 and exclude employees of the investment subsidiaries held as part of the investment portfolio (note 28 (d)(i)).

	Average	
	2016	2015
Trust	**691**	621
Subsidiary undertakings	**1,141**	1,026
Total for the Group	**1,832**	1,647
Analysed by		
Investments	**42**	41
Non-charitable subsidiaries	**127**	40
Direct activities	**1,091**	1,002
Support	**572**	563
Governance	**-**	1
Total for the Group	**1,832**	1,647
Analysed by		
Investments	**42**	41
Direct activities	**201**	176
Support	**448**	403
Governance	**-**	1
Total for the Trust	**691**	621

11. Employee information (continued)

(d) Emoluments of employees

The number of employees working on charitable activities of the Trust and its subsidiary undertakings whose emoluments (salaries, benefits in kind, bonuses and termination payments, but excluding employer pension contributions and employer National Insurance Contributions), fell within the following bands is shown in the table below. The emoluments of the Director included in the table below totalled £480,534 (2015: £426,894). In the current year there was an individual whose total emoluments exceeded those of the Director due to the inclusion of termination benefits.

As noted in the Remuneration Report on page 36, information relating to the Investment team staff and the staff of the Syncona subsidiary businesses is not included in this table but are shown separately in note 5(b) and 5(c).

	2016	2015
£60,000-£69,999	**51**	46
£70,000-£79,999	**46**	33
£80,000-£89,999	**33**	25
£90,000-£99,999	**10**	15
£100,000-£109,999	**22**	15
£110,000-£119,999	**10**	9
£120,000-£129,999	**6**	3
£130,000-£139,999	**3**	3
£140,000-£149,999	**4**	3
£150,000-£159,999	**4**	6
£160,000-£169,999	**1**	1
£170,000-£179,999	**1**	-
£180,000-£189,999	**1**	1
£190,000-£199,999	**-**	2
£200,000-£209,999	**-**	2
£220,000-£229,999	**1**	1
£230,000-£239,999	**-**	1
£240,000-£249,999	**2**	-
£250,000-£259,999	**-**	2
£270,000-£279,999	**1**	-
£280,000-£289,999	**1**	-
£290,000-£299,999	**-**	1
£300,000-£309,999	**1**	-
£310,000-£319,999	**1**	-
£380,000-£389,999	**1**	-
£420,000-£429,999	**-**	1
£480,000-£489,999	**1**	-
£650,000-£659,999	**1**	-
	202	170

11. Employee information (continued)

(d) Emoluments of employees (continued)

Further information in respect of employees' and Governors' remuneration is included within the Remuneration Report on pages 34 to 36.

Table 2 of the Remuneration Report on page 35, together with its accompanying notes, forms part of the audited Financial Statements.

(e) Retirement benefits

The Group sponsors two approved funded defined benefit schemes, the Wellcome Trust Pension Plan and the Genome Research Limited Pension Plan. In addition certain Wellcome Trust senior employees are members of an Unfunded Unapproved Retirement Benefit scheme ("UURBs").

The FRS102 "Retirement benefits" actuarial valuation of the Wellcome Trust and Genome Research Limited Pension Plans at 30 September 2016 showed a combined deficit of £378.8 million (2015: £218.0 million). This deficit represents the difference between an assessment of the liabilities of the pension funds and the current value of their underlying assets. The amount of the deficit is subject to considerable variability because it depends on a valuation of assets at the year-end date and a range of actuarial assumptions impacting the liabilities.

In 2016 there has been a significant fall in the discount rate assumptions reflecting the sharp fall in yields.

FRS102 requires discount rates to be based on corporate bond yields of an appropriate duration, regardless of actual investment strategy and actual investment returns expected. This leads to a difference between the accounting deficit and the funding position under the triennial valuations.

A full actuarial triennial valuation of the Wellcome Trust Pension Plan was last carried out as at 31 December 2013, which showed a very small surplus. An updated intermediate valuation was performed at 30 September 2016. This valuation showed that the plan was in the region of 83% funded with a deficit of around £41 million.

A full triennial valuation of the Genome Research Limited Pension Plan was carried out as at 31 December 2015. This valuation showed that the plan was 82% funded with a deficit of £25 million. A roll forward estimated valuation was performed as at 30 September 2016; the valuation showed the plan was in the region of 74% funded with a deficit of around £52 million.

In addition to deficit funding contributions identified in triennial valuations, a rolling deficit recovery plan is in place for both pension schemes, which aims to remove the deficit in the annual intermediate valuations over a period of five years. Deficit funding contributions of £8.1 million were made into the Genome Research Limited Pension Plan and £9.6 million into the Wellcome Trust Pension Plan during the year.

The liability values within the UURBs are calculated at individual member level. The cost of accrual contributes to the Charge to the Statement of Financial Activities within the "Other Retirement Benefits", along with the post-retirement medical benefits. As these benefits are unfunded, there is no corresponding asset value. The UURBS liability values represent the present value of providing top-ups to the benefits accrued to date within the approved Wellcome Trust Pension Plan, without restrictions imposed by the approved Plan rules. The assumptions used to value the benefits are as per those stated within the FRS102 disclosures.

	2016 **% per annum**	2015 % per annum	2014 % per annum
Inflation	**3.40%**	3.40%	3.50%
Salary increases	**4.15%**	4.15%	4.25%
Rate of discount	**2.35%**	3.85%	4.05%
Allowance for pension in payment increase of RPI or 5% p.a. if less	**3.30%**	3.30%	3.40%
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	**3.40%**	3.40%	3.50%
Allowance for commutation of pension for cash at retirement	**90% of Post A-Day**	90% of Post A-Day	90% of Post A-Day
Rate of increase of healthcare costs	**6.00%**	6.00%	6.00%

11. Employee information (continued)

(e) Retirement benefits (continued)

The mortality assumptions adopted at 30 September 2016 imply the following life expectancies in years:

	2016	2015
Male retiring at age 60 in 2016	**27.8**	28.0
Female retiring at age 60 in 2016	**28.9**	29.1
Male retiring at age 60 in 2036	**29.2**	29.3
Female retiring at age 60 in 2036	**30.5**	30.7

The mortality assumptions used in the valuation of the defined benefit pension liabilities of both schemes and the provision for other retirement benefits are based on the base mortality table of S2 PMA_L together with an allowance for mortality improvement in line with CMI 2015 projections and a 1.00% per annum minimum long-term rate of improvement.

(i) Charge to the Statement of Financial Activities - Pension and other retirement benefits

	Trust						**Group**	
	Pension Fund		Other		Total		Total	
	2016 £m	2015 £m	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Current service cost	13.0	11.1	0.5	1.0	**13.5**	12.1	**26.8**	23.1
Interest on pension schemes' liabilities	4.4	3.6	0.6	0.7	**5.0**	4.3	**9.0**	7.6
Actuarial losses	59.2	20.3	4.1	(0.1)	**63.3**	20.2	**161.2**	35.6
Total charge to the Statement of Financial Activities	76.6	35.0	5.2	1.6	**81.8**	36.6	**197.0**	66.3

Other retirement benefits includes the UURBs scheme and Post-Retirement Medical Benefits.

(ii) Present values of pension schemes' liabilities, fair value of assets and deficit

	Assets		Liabilities		Deficit	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Wellcome Trust Pension Plan	**208.8**	146.7	**(384.6)**	(262.5)	**(175.8)**	(115.8)
Genome Research Limited Pension Plan	**152.4**	103.3	**(355.4)**	(205.5)	**(203.0)**	(102.2)
Total pension funds	**361.2**	250.0	**(740.0)**	(468.0)	**(378.8)**	(218.0)
Unfunded, Unapproved scheme liabilities	-	-	**(18.2)**	(13.4)	**(18.2)**	(13.4)
Post-retirement medical benefits	**-**	-	**(1.3)**	(1.3)	**(1.3)**	(1.3)
Total other retirement benefits	**-**	-	**(19.5)**	(14.7)	**(19.5)**	(14.7)
Total pension schemes	**361.2**	250.0	**(759.5)**	(482.7)	**(398.3)**	(232.7)

11. Employee information (continued)

(e) Retirement benefits (continued)

(iii) Reconciliation of opening and closing balances of the present value of the pension schemes' liabilities as at 30 September

	Group		Trust	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Schemes' liabilities at start of year	**468.0**	418.5	**262.5**	238.4
Current service cost	**26.3**	22.8	**13.0**	11.4
Interest cost	**18.5**	17.3	**10.3**	9.8
Contributions by schemes' participants	**0.1**	0.9	**0.1**	0.1
Actuarial losses	**232.9**	12.3	**103.3**	5.9
Benefits paid and death-in-service insurance premiums	**(5.8)**	(3.8)	**(4.6)**	(3.1)
Schemes' liabilities at end of year	**740.0**	468.0	**384.6**	262.5

Analysis of the sensitivity to the principal assumptions of the value of the schemes' liabilities.

Assumption	Change in assumption	Impact on liabilities
Discount rate	Increase/decrease of 0.5% p.a.	Decrease/increase by £104.3m (14.1%)
Rate of inflation	Increase/decrease of 0.5% p.a.	Increase/decrease by £61.1m (8.3%)
Rate of salary growth	Increase/decrease of 0.5% p.a.	Increase/decrease by £17.3m (2.3%)
Probability of death in any year after retirement	Increase/decrease of 10.0% p.a.	Increase/decrease by £21.9m (3.0%)
Long-term rate of mortality improvement	Increase/decrease of 0.25% p.a.	Increase/decrease by £15.5m (2.1%)

(iv) Reconciliation of opening and closing balances of the fair value of the schemes' assets as at 30 September

	Group		Trust	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Fair value of scheme assets at start of year	**250.0**	248.8	**146.7**	149.2
Expected return on scheme assets	**10.1**	17.9	**5.9**	10.6
Actuarial (losses)/gains	**75.8**	(30.9)	**44.0**	(18.8)
Contributions by the Group	**31.0**	17.1	**16.7**	8.7
Contributions by scheme participants	**0.1**	0.9	**0.1**	0.1
Benefits paid and death-in-service insurance premiums	**(5.8)**	(3.8)	**(4.6)**	(3.1)
Fair value of scheme assets at end of year	**361.2**	250.0	**208.8**	146.7

11. Employee information (continued)

(e) Retirement benefits (continued)

(iv) Reconciliation of opening and closing balances of the fair value of the schemes' assets as at 30 September (continued)

These figures are for the pension schemes and exclude the other retirement benefits which are included in table 11(e)(i) above.

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by, the Group.

(v) Amounts for the current and previous four years as at 30 September

Group	**2016 £m**	2015 £m	2014 £m	2013 £m	2012 £m
Fair value of schemes' assets	**361.2**	250.0	248.8	216.1	176.0
Present value of schemes' liabilities	**(740.0)**	(468.0)	(418.5)	(333.8)	(274.4)
Deficit in schemes	**(378.8)**	(218.0)	(169.7)	(117.7)	(98.4)
Experience adjustment on schemes' assets	**75.8**	(23.2)	2.8	16.6	12.8
Experience adjustment on schemes' liabilities	**(6.8)**	1.5	(2.6)	(0.1)	(1.0)
Effects of changes in the demographic and financial assumptions underlying the present value of the schemes' liabilities	**(226.1)**	(13.8)	(52.7)	(34.5)	(10.2)

Trust	**2016 £m**	2015 £m	2014 £m	2013 £m	2012 £m
Fair value of scheme's assets	**208.8**	146.7	149.2	133.8	112.0
Present value of scheme's liabilities	**(384.6)**	(262.5)	(238.4)	(195.4)	(169.3)
Deficit in scheme	**(175.8)**	(115.8)	(89.2)	(61.6)	(57.3)
Experience adjustment on scheme's assets	**44.0**	(14.2)	(0.2)	10.6	7.8
Experience adjustment on scheme's liabilities	**1.5**	1.0	(0.7)	(0.1)	(0.5)
Effects of changes in the demographic and financial assumptions underlying the present value of the schemes' liabilities	**(104.8)**	(6.9)	(27.7)	(16.5)	(7.1)

(vi) Estimate of contributions to be paid to scheme

The best estimate of contributions to be paid by the employer to the Wellcome Trust scheme for the period beginning after 30 September 2016 is £7.0 million, with an additional £6.4 million of deficit funding. The best estimate of the contributions to be paid by the employer to the Genome Research Limited scheme for the period beginning after 30 September 2016 is £9.5 million, with an additional £6.2 million of deficit funding.

12. Remuneration of Governors

Information on Governors' remuneration is included in the Remuneration Report on pages 34 to 36. Details of the Governors who had appointments during the year with organisations which were in receipt of grants are disclosed in note 7.

In addition, Professor Dame Kay Davies, who is a Governor, is a shareholder in Summit Corporation plc. The Trust has made payments of £0.1 million to Summit Corporation plc (2015: £nil) in respect of programme related investments.

13. Taxation

Group	2016 £m	2015 £m
(a) Current Tax		
UK Corporation Tax on profits for the year	**12.8**	30.5
Effect of Gift Aid distribution	**(13.5)**	(17.8)
Reversal of prior year charge	**(14.0)**	-
Research and Development (refund)/charge	**(3.6)**	0.8
Total current tax	**(18.3)**	13.5
(b) Deferred Tax		
Origination and reversal of timing differences	**(17.4)**	6.0
Effect of change in UK tax rate	**(1.2)**	(3.2)
Total deferred tax	**(18.6)**	2.8
Taxation	**(36.9)**	16.3

Group	2016 £m	2015 £m
(c) Reconciliation of Tax Charge		
Profit/(loss) on ordinary activities before taxation on subsidiaries subject to taxation	**(50.0)**	38.0
Profit/(loss) before tax multiplied by average rate of corporation tax of 20% (2015: 20.5%)	**(10.0)**	3.2
Effects of:		
Prior year adjustments	**(0.7)**	-
Gains arising in subsidiary attributed to parent	**-**	13.2
Expenses not deductible for tax purposes	**0.3**	0.3
Research and development tax refund	**-**	3.2
Temporary differences:		
Difference in timing of recognition of gains and income	**(20.3)**	(2.9)
Difference in timing of recognition of gains and income (revaluation reserve movement)	**1.1**	(0.3)
Difference in timing of recognition of taxable profit from underlying investments	**18.0**	5.6
Unused tax losses carried forward	**3.2**	1.7
Utilisation of tax losses brought forward	**2.1**	1.1
Unrealised gain on fair value movement	**(1.3)**	-
Indexation relief	**-**	(0.1)
Depreciation greater/(less) than capital allowances	**(0.1)**	-
Current year Gift Aid	**(13.5)**	(6.9)
Gift Aid payment unable to be provided in prior year	**(13.2)**	-
Gift Aid over/under provision	**0.3**	(0.2)
R&D Tax Credit	**(2.8)**	(1.6)
Taxation	**(36.9)**	16.3

With the exception of the North London Venture group of companies and the Gower Place Investment Limited group of companies, the subsidiaries make charitable donations under a deed of covenant with the Trust equal to taxable profits and therefore no tax liability arises. Where there is no deed of covenant, a tax provision is made and shown as a reversal in the following year if and when a Gift Aid payment is made.

13. Taxation (continued)

For the purposes of reporting under FRS102 the investment subsidiaries must provide for deferred tax on temporary timing differences as we are not allowed to assume the deed will be effective when these reverse.

The estimated cost of irrecoverable Value added tax suffered by the Group in the year was £17.4 million (£14.1 million).

14. Tangible fixed assets

(a) Group

	Freehold land and buildings £m	Long leasehold land and buildings £m	Finance leased buildings £m	Finance leased plant and equipment £m	Other plant, equipment, fixtures and fittings £m	Assets in course of construction £m	**Total £m**
Cost as at 1 October 2015	427.7	1.5	20.7	64.0	196.5	5.0	715.4
Additions	2.0	-	-	-	12.5	12.7	27.2
Transfers	15.1	-	-	-	0.5	(15.6)	-
Disposals	-	-	-	-	(18.0)	-	(18.0)
Cost as at 30 September 2016	**444.9**	**1.5**	**20.7**	**64.0**	**191.5**	**2.1**	**724.7**
Accumulated depreciation as at 1 October 2015	90.5	1.5	4.5	33.2	138.5	-	268.2
Charge for the year	7.9	-	0.4	3.1	14.2	-	25.6
Disposals	-	-	-	-	(17.4)	-	(17.4)
Accumulated depreciation as at 30 September 2016	**98.4**	**1.5**	**4.9**	**36.3**	**135.3**	**-**	**276.4**
Net Book Value as at 30 September 2016	**346.5**	**0.0**	**15.8**	**27.7**	**56.2**	**2.1**	**448.2**
Net Book Value as at 30 September 2015	337.2	0.0	16.2	30.8	58.0	5.0	447.2

14. Tangible fixed assets (continued)

(b) Trust

	Freehold land and buildings £m	Long leasehold land and buildings £m	Finance leased buildings £m	Finance leased plant and equipment £m	Other plant, equipment, fixtures and fittings £m	Assets in course of construction £m	**Total £m**
Cost as at 1 October 2015	212.7	1.5	20.8	64.0	66.6	-	365.6
Additions	-	-	-	-	3.3	0.8	4.1
Disposals	-	-	-	-	(13.3)	-	(13.3)
Cost as at 30 September 2016	**212.7**	**1.5**	**20.8**	**64.0**	**56.6**	**0.8**	**356.4**
Accumulated depreciation as at 1 October 2015	47.8	1.5	4.5	33.2	31.3	-	118.3
Charge for the year	3.3	-	0.4	3.1	4.4	-	11.2
Disposals	-	-	-	-	(12.9)	-	(12.9)
Accumulated depreciation as at 30 September 2016	**51.1**	**1.5**	**4.9**	**36.3**	**22.8**	-	**116.6**
Net Book Value as at 30 September 2016	**161.6**	-	**15.9**	**27.7**	**33.8**	**0.8**	**239.8**
Net Book Value as at 30 September 2015	164.9	-	16.3	30.8	35.3	-	247.3

Heritage assets

No assets have been capitalised in the current financial year and the Trust did not capitalise any assets in previous years.

Nature of the assets

The Trust has several collections of heritage assets comprising substantial collections of books, artefacts of scientific and historical interest and other museum pieces held in support of one of the Trust's main objectives of advancing and promoting knowledge and education. The vast majority of the collection is held at the premises in Euston Road but there are also off-site storage facilities situated in Cheshire with state-of-the-art technology and security.

Policy for acquisition

Materials selected for acquisition must be representative of the history of medicine or closely allied subjects; must be of demonstrable research value; must normally be in a reasonable state of completeness and in good condition; must not pose a health and safety risk or serious conservation threat to other items in the collection; and should not require significant additional resources for conservation and/or storage.

14. Tangible fixed assets (continued)

Preservation and conservation

The Trust adheres to the principles for the preservation and conservation of the library materials of the National Preservation Office (NPO) and International Federation of Library Associations (IFLA). The Trust continually develops repository and management systems for digital materials and monitors the digital environment for risk factors such as software or hardware obsolescence and the impact of new technologies. The Trust is committed to providing high quality storage for all its collections and aims to comply with the appropriate British Standards.

Disposal

The vast majority of materials in the library collections are retained in perpetuity. However, materials will normally be removed from the collections if they are duplicated (unless they are of particular monetary value or significant provenance), superseded, no longer relevant, have deteriorated beyond repair and have no historic value or they are considered to be a health risk. Certain items are sometimes donated to peer institutions.

Security and insurance

In order to assure security and safety of the collections, various procedures are in place including: registration of users; request of proof of identity prior to access; explanation of handling of materials; video surveillance; limits to amounts of closed access material in reading room; checking of returned material and security tagging; material risk assessments for fire, flood and theft; compliance with appropriate British Standards; fire precaution, fire detection and extinguishing systems; flood warning and egress of water systems; intruder alarms; locking up and opening procedures; monitoring of storage areas; maintenance checklist; and procedures for evacuation of premises. As part of the Trust's Business Continuity Plan, the Library has a disaster and salvage plan in place. The Library also has a contract with Harwell which provides support for the majority of the disaster and salvage issues that may arise. The Library materials are insured against damage or loss due to fire, flood, or terrorist activity at named locations, unnamed locations and while in transit. The collections are not insured for full replacement value as it is not possible to quantify this and the nature of the items held means that they are often irreplaceable.

15. Intangible fixed assets

Group

	Total Intellectual property £m
Cost as at 1 October 2015	16.3
Additions	1.0
Cost as at 30 September 2016	**17.3**
Accumulated amortisation as at 1 October 2015	0.7
Charge for the year	6.1
Accumulated amortisation as at 30 September 2016	**6.8**
Net Book Value as at 30 September 2016	**10.5**
Net Book Value as at 30 September 2015	15.6

16. Investments

(a) Investment assets

Group	Fair value 1 October 2015 £m	Purchases £m	Sales proceeds £m	Total gains/ (losses) £m	**Fair value 30 September 2016 £m**
UK	1,857.8	457.8	(585.7)	174.0	**1,903.9**
Overseas	7,541.2	2,324.4	(2,662.6)	2,240.7	**9,443.7**
Total quoted	9,399.0	2,782.2	(3,248.3)	2,414.7	**11,347.6**
UK	1,287.6	621.5	(695.8)	(7.3)	**1,206.0**
Overseas	7,158.9	1,010.2	(1,418.7)	1,383.5	**8,133.9**
Total unquoted	8,446.5	1,631.7	(2,114.5)	1,376.2	**9,339.9**
UK	1,463.8	4.2	(71.5)	11.5	**1,408.0**
Total property	1,463.8	4.2	(71.5)	11.5	**1,408.0**
Total	19,309.3	4,418.1	(5,434.3)	3,802.4	**22,095.5**

Trust	Fair value 1 October 2015 £m	Purchases £m	Sales proceeds £m	Total gains/ (losses) £m	**Fair value 30 September 2016 £m**
UK	1,857.9	457.8	(585.7)	174.0	**1,904.0**
Overseas	7,027.3	1,760.3	(2,049.4)	2,083.9	**8,822.1**
Total quoted	8,885.2	2,218.1	(2,635.1)	2,257.9	**10,726.1**
UK	260.8	237.0	(129.8)	16.7	**384.7**
Overseas	6,775.4	1,009.5	(1,290.7)	1,350.1	**7,844.3**
Total unquoted	7,036.2	1,246.5	(1,420.5)	1,366.8	**8,229.0**
UK	1,304.9	3.8	(73.5)	5.9	**1,241.1**
Total property	1,304.9	3.8	(73.5)	5.9	**1,241.1**
Total	17,226.3	3,468.4	(4,129.1)	3,630.6	**20,196.2**

During the year, the maximum aggregate fair value of securities on loan was £244.4 million (2015: £348.6 million) and the Group held £283.5 million (2015: £334.9 million) as collateral in respect of these securities. The income receivable due to securities lending activities is disclosed in note 3. No loaned securities were recalled but not obtained during the year and therefore no collateral was retained.

Investment properties in the Group and the Trust have been valued at market value generally in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The valuations were carried out by Gerald Eve, Jones Lang Lasalle, Brown & Co and CB Richard Ellis.

Included in the amounts above are the following transactions with entities where Wellcome has significant interest purchases in the form of equity and debt of £8.8 million and sales proceeds of £182.6 million.

16. Investments (continued)

(b) Derivative financial instruments

	Group		Trust	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Derivative financial instrument asset positions	**148.0**	159.8	**148.0**	159.8

Derivative financial instrument liabilities for the Group and Trust are included within creditors, disclosed in note 18.

The Group's use of derivative financial instruments comprises:

Forward currency contracts

Forward currency contracts are used to hedge investment assets denominated in foreign currency into Pound Sterling and as part of the investment strategy to have a globally diversified currency exposure. As at 30 September 2016, the notional value of open forward contracts amounted to £2,457.7 million (2015: £2,438.5 million). As at 30 September 2016, the Group and Trust held cash collateral relating to its forward currency contracts of £4.1 million (2015: £93.5 million).

Financial futures, options and warrants

The use of futures, options and warrants constitutes part of the Trust's portfolio management including: a substitution for investing in physical assets, a part of the Trust's long-term investment return strategy entered into with the expectation of realising gains, and adjusting asset exposures within the parameters set in the Trust's investment policy.

As at 30 September 2016, the notional value of purchased commodity future positions was £226.7 million (2015: £291.3 million).

As at 30 September 2016, the notional value of purchased equity option positions amounted to £184.9 million (2015: £181.3 million) and the notional value of sold equity option positions amounted to £181.4 million (2015: £472.3 million). As at 30 September 2016, the notional value of purchased commodity option positions amounted to £28.5 million (2015: £38.3 million). Sold call equity options are covered by quoted equity positions as reflected in note 16(a). Sold put options are covered by cash as reflected in note 16(c).

As at 30 September 2016, the Group held long warrants positions relating to unquoted equity holdings which allow the Group to purchase additional equities at an agreed strike price. The notional value of these warrants amounted to £0.8 million (2015: £4.7 million).

(c) Investment cash and certificates of deposit and other investment assets

	Group		Trust	
	2016	2015	**2016**	2015
	£m	£m	**£m**	£m
Investment cash and certificates of deposit	**916.9**	875.1	**904.6**	862.1
Cash collateral held	**287.7**	241.0	**253.9**	217.5
Accrued income from investments	**18.2**	17.8	**15.6**	28.6
Income receivable	**15.6**	12.4	**14.1**	11.5
Proceeds receivable on sale of investments	**108.4**	31.8	**103.0**	26.5
Other investment debtors	**64.9**	8.2	**55.2**	1.9
Other investments assets	**494.8**	311.2	**441.8**	286.0

16. Investments (continued)

(d) Programme related investments

	Book value 1 October 2015 £m	Purchases £m	Disposals £m	Net write-downs £m	**Book value 30 September 2016 £m**
Loans – other	0.6	8.2	(0.6)	(8.2)	**-**
Loans	0.6	8.2	(0.6)	(8.2)	**-**
Equities – The Francis Crick Institute	-	1.4	-	(1.4)	**-**
Equities – Diamond	-	5.8	-	(5.8)	**-**
Equities – Hilleman Laboratories	-	1.5	-	(1.5)	**-**
Equities – Other	2.9	1.6	-	1.4	**5.9**
Equities	2.9	10.3	-	(7.3)	**5.9**
Revenue share - other	-	7.7	-	(7.7)	**-**
Revenue share	-	7.7	-	(7.7)	**-**
Total	3.5	26.2	(0.6)	(23.2)	**5.9**

The Francis Crick Institute Limited

Equities include equity interest for the Trust's share of the funding of this project for programme management costs and the construction costs of the Crick building. Under the terms of the legal agreement, the Trust and the Original Founders will lease the land and building for 55 years to The Francis Crick Institute Limited at nil rental, and upon expiry of the lease the Trust and the other Original Founders would expect to agree to renew this lease on the same terms. On this basis, the Trust does not expect to receive any financial return from these programme related investments and they have been fully written down and included within Science direct expenditure.

The Francis Crick Institute Limited is the controlling party and immediate parent of UKCMRI Construction Limited. The Group incurred costs of £0.2 million (2015: £0.3 million) on behalf of UKCMRI Construction Limited, which it has recharged including the cost of secondment staff and rental charges. An area of the Wellcome Trust premises at 215 Euston Road was made available to UKCMRI Construction Limited at below market rent during 2016. The amount due from UKCMRI Construction Limited at the end of 2016 was £nil (2015: £0.1 million).

Diamond Light Source Limited

Equities also include a 14% equity interest in Diamond Light Source Limited, a company established to construct and operate a synchrotron in Oxfordshire. Under the shareholding agreement, there is no intrinsic value in the equity and the cost has therefore been fully written down and included within Science direct expenditure.

MSD-Wellcome Trust Hilleman Laboratories

Equities include a 50% equity interest in SCS Pharma Research and Development Private Limited (known as MSD-Wellcome Trust Hilleman Laboratories), a company established in India to develop affordable vaccines to prevent diseases that commonly affect low and middle-income countries. Under the shareholding agreement, there is no intrinsic value in the equity and the cost has therefore been fully written down and reflected within Innovations direct expenditure.

Other

As part of its Innovations activities, the Trust has provided funding to 72 (2015: 68) early-stage companies to carry out biomedical research projects with potential to deliver health benefits. Together, these programme related investments form a portfolio managed separately from the Trust's other investments. These investments are held primarily to further the charitable aims of the Trust rather than to provide a financial return. Consequently they are, as permitted by the SORP, held at cost less provision for impairment.

16. Investments (continued)

(d) Programme related investments

The Trust's policy is to write off the cost of the investment in these early-stage companies as it is not anticipated that this cost will be recovered. At each year end, a review of the programme related investment portfolio is performed, whereby the impairment on individual assets with known value is reversed and included within charitable activities. The net write back in 2016 relates to two investments that are no longer considered to be impaired. Any income received or gains realised are included in other income and amounted to £2.7 million (2015: £2.2 million).

Included in the amounts above are additional investments made in entities where we have significant influence of £1.3 million.

(e) Realised and unrealised gains/(losses) on investments

		Group		Trust	
		2016	2015	**2016**	2015
	Note	**£m**	£m	**£m**	£m
Quoted investments	16(a)	**2,414.7**	(215.6)	**2,257.9**	(238.1)
Unquoted investments	16(a)	**1,376.2**	974.1	**1,366.8**	952.1
Investment properties	16(a)	**11.5**	140.8	**5.9**	134.2
Derivative financial instruments					
Currency overlay		**(122.0)**	30.9	**(122.0)**	30.9
Other derivative financial instruments		**(229.4)**	5.6	**(229.2)**	5.6
Shares in subsidiary undertakings		**-**	-	**66.0**	(35.9)
Foreign exchange gains on monetary assets		**69.2**	3.6	**70.4**	6.4
Foreign exchange (losses)/gains on bond liabilities		**(50.8)**	11.3	**(50.8)**	11.3
		3,469.4	950.7	**3,365.0**	866.5

16. Investments (continued)

(f) Reconciliation to Trustee's Report

The presentation of investment balances in notes 16 and 18 is in accordance with the statutory asset and liability classifications. However, the investment portfolio is reported by investment strategy for management purposes and for the Trustee's Report. The distinct classes of assets used and reported on within the Trustee's Report are: public equity; private equity; hedge funds; property and infrastructure; and cash.

This note reconciles the net investment asset fair value at the balance sheet date as presented within the Trustee's Report to the presentation within the Financial Statements. The market value of each asset class presented in the Trustee's Report is equal to the net investment assets and liabilities, held within portfolios with that applicable investment strategy.

The assets and liabilities presented in the Consolidated Balance Sheet and notes reconcile to Figure 6 in the Trustee's Report as follows:

	Note	**2016** £m	2015 £m
Quoted and unquoted investments and investment property	16(a)	**22,095.5**	19,309.3
Derivative financial instrument asset positions	16(b)	**148.0**	159.8
Investment cash and certificates of deposit	16(c)	**916.9**	875.1
Other investment assets	16(c)	**494.8**	311.2
Derivative financial instrument liabilities	18	**(199.3)**	(190.6)
Investment liabilities - other	18	**(347.9)**	(342.5)
Bond liabilities at amortised cost	18	**(1,568.1)**	(1,516.0)
Adjusted for			
Restatement of bond liabilities to fair value		**(679.5)**	(277.3)
Syncona assets not in investment asset allocation		**(6.5)**	(11.1)
Other investments not in asset allocation		**(0.9)**	(0.9)
Total assets net of Bond liabilities per Figure 6		**20,853.0**	18,317.0

16. Investments (continued)

(f) Reconciliation to Trustee's Report (continued)

	Note	**2016** £m	2015 £m
Total assets net of Bond liabilities per figure 6		**20,853.0**	18,317.0
Add back investment liabilities			
Derivative financial instrument liabilities	18	**199.3**	190.6
Investment liabilities - other	18	**347.9**	342.5
Bond liabilities at amortised cost	18	**1,568.1**	1,516.0
Programme related investments	16(d)	**5.9**	3.5
Adjusted for			
Restatement of bond liabilities to fair value		**679.5**	277.3
Syncona assets not in investment asset allocation		**6.5**	11.1
Other investments not in asset allocation		**0.9**	0.9
Investment assets as presented in the Consolidated Balance Sheet		**23,661.1**	20,658.9

The Syncona Group is a wholly owned investment entity set up specifically to invest in the health and biotechnology sectors with a focus on investing in the translation of research into new treatments and patient care technologies. It is managed separately to the rest of the investment portfolio and is discussed in a separate section of the Review of Investment Activities on page 26.

17. Debtors

	Group		Trust	
	2016 £m	2015 £m	**2016** £m	2015 £m
Amounts owed by subsidiary undertakings	**-**	-	**6.7**	21.5
Other debtors	**14.3**	36.6	**8.4**	235.2
Prepayments	**8.0**	8.5	**3.9**	3.9
	22.3	45.1	**19.0**	260.6

The 2015 numbers have been restated under FRS 102. Other debtors in 2015 now includes dividends receivable from investment operating subsidiaries, which were previously included as Amounts owed by subsidiary undertakings (see note 28 (d)(i)).

18. Creditors

		Group		Trust	
		2016	2015	**2016**	2015
	Note	**£m**	£m	**£m**	£m
Falling due within one year					
Amounts owed to subsidiary undertakings		**-**	-	**865.6**	726.5
Grant liabilities	8	**483.8**	541.3	**488.1**	541.3
Bond liabilities		**18.2**	17.8	**9.0**	8.6
Amount payable on acquisition of investments		**21.0**	65.4	**16.2**	59.9
Cash collateral creditor		**287.7**	241.0	**253.9**	217.5
Deferred income from investments		**3.1**	4.2	**3.0**	4.2
Derivative financial instrument liabilities		**199.3**	190.6	**199.3**	190.6
Other investment liabilities		**36.1**	31.9	**16.5**	23.9
Trade creditors		**10.2**	13.6	**3.2**	10.0
Other creditors		**36.5**	39.0	**34.3**	36.2
Accruals and deferred income		**21.7**	23.5	**10.2**	7.2
Corporation tax		**0.7**	16.4	**-**	-
Total falling due within one year		**1,118.3**	1,184.7	**1,899.3**	1,825.9
Falling due between one and five years					
Grant liabilities	8	**1,258.0**	1,080.9	**1,258.0**	1,081.0
Lease premium creditor		**2.4**	1.8	**-**	-
Bond liabilities		**272.9**	-	**-**	-
		1,533.3	1,082.7	**1,258.0**	1,081.0
Falling due after five years					
Grant liabilities	8	**221.6**	132.0	**221.6**	132.0
Lease premium creditor		**15.7**	16.3	**-**	-
Bond liabilities		**1,277.0**	1,498.2	**735.9**	685.0
		1,514.3	1,646.5	**957.5**	817.0
Total falling due after one year		**3,047.6**	2,729.2	**2,215.5**	1,898.0

Grant commitments are split pro rata according to the terms of the grant at the point of award. All liabilities are unsecured.

19. Provisions for liabilities and charges

Group	Deferred Tax £m	Employment related provisions £m	Other provisions £m	**Total £m**
As at 1 October 2015	49.9	34.7	1.6	86.2
Charge for the year	(18.5)	11.6	2.9	(4.0)
Utilised in year	-	(5.0)	-	(5.0)
Foreign exchange revaluations	2.8	-	-	2.8
As at 30 September 2016	**34.2**	**41.3**	**4.5**	**80.0**

Trust	Employment related provisions £m	Other provisions £m	**Total £m**
As at 1 October 2015	34.7	1.6	36.3
Charge for the year	11.6	2.9	14.5
Utilised in year	(5.0)	-	(5.0)
As at 30 September 2016	**41.3**	**4.5**	**45.8**

The employment-related provisions relate primarily to long-term incentive plans for certain employees in the Investment Division (see note 5(a)).

20. Commitments and contingent liabilities

(a) Investments

The Trust has entered into commitments to invest in private equity and property funds. At the balance sheet date, outstanding commitments amounted to £2,078.7 million (2015: £1,578.1 million). The Trust models its expected cash flows based on the year of the original commitment and historic trends. The Trust expects to invest £539.4 million (28%) of its outstanding commitments in one year, £936.0 million (48%) in between one and five years and £603.3 million (24%) after five years.

(b) Programme related investments

At 30 September 2016, the Trust's outstanding commitment to The Francis Crick Institute Limited was £0.1 million (2015: £8.5 million).

Programme related convertible loans and equity funding have been made over a series of years, of which £33.0 million (2015: £31.4 million) remains yet to be drawn down and is contingent upon specific milestones being achieved.

The Trust has committed to fund 14% of the third construction phase of the Diamond Light Source Limited synchrotron project. The outstanding commitment as at 30 September 2016 was £1.7 million (2015: £6.7 million).

During the year, the Trust incurred £1.6 million (2015: £3.3 million) in expenditure relating to an entity in India, MSD-Wellcome Trust Hilleman Laboratories. The outstanding commitment as at 30 September 2016 was £29.9 million (2015: £31.5 million).

(c) Grant funding activities

The Innovations division has made Seeding Drug Discovery grants of £161.3 million, of which £143.3 million has been included in grant expenditure in current and prior financial years. The remaining £18.0 million is contingent upon specific funding-related milestones being met and has therefore not been included within grant liabilities.

The Trust has incurred £41.6 million for expenditure relating to Wellcome Trust-DBT India Alliance. Subject to Trustee approval, the Trust will contribute up to £38.4 million over the next four years.

The Trust incurred £4.0 million in expenditure relating to a partnership between the Trust, the UK Medical Research Council and the UK Department for International Development to fund clinical trials in low and middle-income countries. Subject to review and approval of appropriate applications, the Trust will contribute up to £5.0 million next year.

The Trust has incurred £1.5 million in expenditure relating to a joint initiative between the Trust, the UK Department for International Development, the Economic and Social Research Council and the UK Medical Research Council to fund health systems research in low and middle-income countries. Subject to review and approval of appropriate applications, the Trust will contribute up to £2 million next year.

During the year, the Trust entered into a partnership with the Department for Business, Energy & Industrial Strategy (formerly BIS) creating the Inspiring Science Fund to support science centres across the UK. Subject to review and approval of appropriate applications, the Trust will contribute up to £10.0 million over the next 3 years.

During the year, the Trust incurred £30.6 million in expenditure relating to PhD programmes. Subject to review and approval of appropriate applications, the Trust will contribute up to £66.8 million over the next four years.

During the year, the Trust incurred £44.1 million in expenditure relating to three years of Institutional Strategic Support Funding. Subject to review and approval of progress, the Trust may contribute up to £29.4 million for years 4 and 5 of these awards in future years.

(d) Capital commitments

At 30 September 2016, Genome Research Limited had capital commitments contracted for but not provided of nil (2015: £13 million) relating to purchases of equipment and buildings. W.T. Construction Limited had capital commitments contracted for but not provided of £nil (2015: £2.4 million) relating to building projects.

21. Movement in Charity Funds

Group	Balance as at 1 October 2015	Income	Expenditure	Net investment gains	**Balance as at 30 September 2016**
	£m	£m	£m	£m	**£m**
Restricted Funds	1.4	22.8	(22.4)	-	**1.8**
Unrestricted Funds	16,976.8	367.5	(1,253.9)	3,469.4	**19,559.8**
Total Charity Funds	**16,978.2**	**390.3**	**(1,276.3)**	**3,469.4**	**19,561.6**

Restricted funds are subject to the conditions of the individual grants awarded by the donor.

Expenditure includes the tax credit, the movement on the pension schemes' liabilities and the minority interest.

22. Events after the end of the reporting period

On 7 November 2016 Wellcome Trust announced that it has agreed, subject to certain events taking place, to sell its interest in Syncona to BACIT Limited for a consideration of £166 million. After the transaction Syncona will be a wholly owned subsidiary of BACIT Limited, which will be renamed Syncona Limited. Wellcome Trust also intends to invest £319 million in BACIT Limited which together with other funds being raised will give BACIT a net asset value of a maximum of £1 billion. This will result in Wellcome's interest being in the range of 30-35%.

23. Group undertakings

(a) Summary of activities of significant subsidiary undertakings

Company	Country of incorporation	Activities	Legal relationship
Genome Research Limited	England	Medical research, primarily in the field of genomics	The Wellcome Trust Limited and Wellcome Trust Nominees Limited are equal members
Wellcome Trust Finance plc	England	To issue and invest in financial instruments	The Wellcome Trust Limited is the sole shareholder
Wellcome Trust Investments 1 Unlimited	England	Investment holding company	The Wellcome Trust Limited is the sole shareholder
Wellcome Trust Investments 2 Unlimited	England	Investment holding company	The Wellcome Trust Limited is the sole shareholder
Wellcome Trust Investment Limited Partnership	England	Investment holding partnership	The Wellcome Trust Limited is the limited partner and Wellcome Trust GP Limited is the general partner

The Trust has taken advantage of the exemption from audit available under 479A to 479C of the Companies Act 2006 for the following subsidiaries which are all registered in England:

Wellcome Trust Investments 1 Unlimited
Wellcome Trust Investments 2 Unlimited
Wellcome Trust Investments 3 Unlimited

The Wellcome Trust Limited has provided the appropriate guarantee for all liabilities of these entities.

The Trust has taken advantage of the exemption from audit available under Regulation 7 of the Partnership (Accounts) Regulations 2008 for the following partnerships:

Wellcome Trust Investment Limited Partnership – registered in England.
Wellcome Trust Scottish Limited Partnership – registered in Scotland.

23. Group undertakings (continued)

(a) Summary of activities of significant subsidiary undertakings

These significant subsidiaries are considered to be:

- charitable subsidiary undertakings formed to pursue charitable objects closely allied to those of the Trust;
- non-charitable operating subsidiary undertakings to conduct non-primary purpose trading;
- a non-charitable financing subsidiary undertaking formed to issue listed debt to finance Group activities; and
- non-charitable investment subsidiary undertakings formed to hold investments and freehold property on behalf of the Trust where the net asset value is in excess of £200 million.

(b) Summary financial information

The expenditure figures below include the impact of gift aid distributions and tax.

(i) Non-charitable investment subsidiary undertakings

	Wellcome Trust Investment Limited Partnership		Wellcome Trust Investments 1 Unlimited		Wellcome Trust Investments 2 Unlimited	
	2016 £m	2015 £m	**2016 £m**	2015 £m	**2016 £m**	2015 £m
Turnover	**12.1**	9.7	**4.6**	25.2	**-**	1.1
Expenditure	**(13.0)**	(12.9)	**(53.1)**	(16.1)	**32.2**	(57.2)
Gains/(losses) on investments	**158.6**	22.4	**(6.5)**	45.9	**22.5**	11.0
	157.7	19.2	**(55.0)**	55.0	**54.7**	(45.1)
Investment assets	**621.7**	514.0	**296.6**	273.4	**243.6**	344.7
Current assets	**114.9**	35.4	**130.6**	17.3	**142.9**	-
Total assets	**736.6**	549.4	**427.2**	290.7	**386.5**	344.7
Liabilities	**(286.6)**	(257.1)	**(219.1)**	(163.6)	**(21.6)**	(7.5)
Net assets	**450.0**	292.3	**208.1**	127.1	**364.9**	337.2

The functional currency of Wellcome Trust Investments 2 Unlimited is the US Dollar because the majority of the Company's transactions are denominated in US Dollars.

(ii) Non-charitable investment financing subsidiary undertaking

	Wellcome Trust Finance plc	
	2016 £m	2015 £m
Turnover	**42.8**	41.6
Expenditure	**(42.8)**	(41.6)
Total profit	**-**	-
Assets	**963.7**	960.1
Liabilities	**(826.2)**	(822.6)
Net assets	**137.5**	137.5

23. Group undertakings (continued)

(b) Summary financial information (continued)

(iii) Charitable subsidiary undertaking

	Genome Research Limited	
	2016	Restated 2015
	£m	£m
Incoming resources	**125.1**	145.7
Resources expended	**(130.4)**	(126.6)
Actuarial losses on defined benefit pension scheme	**(97.8)**	(15.4)
Net movements in funds	**(103.1)**	3.7
Assets	**203.6**	212.3
Liabilities	**(43.4)**	(49.8)
Defined benefit pension scheme deficit	**(203.0)**	(102.2)
Net assets	**(42.8)**	60.3

24. Consolidated cash flow

(a) Reconciliation of Statement of Financial Activities to cash flow from operating activities

	2016 £m	2015 £m
Incoming resources	**390.3**	372.1
Less: Dividends and interest	**(308.3)**	(274.9)
Less: Rental income	**(44.2)**	(45.3)
Less: Other income	**(1.6)**	(0.2)
Less: Gain on sale of Programme Related Investments	**(2.7)**	(2.2)
Decrease/(increase) in debtors	**20.9**	(18.1)
Income received	**54.4**	31.4
Grants awarded	**(752.9)**	(673.1)
Increase in commitments	**250.2**	185.1
Grants paid	**(502.7)**	(488.0)
Other expenditure	**(505.3)**	(412.6)
Increase in creditors and provisions	**139.6**	75.0
(Increase)/decrease in other investment debtors	**(56.7)**	4.9
Increase in provision for Programme Related Investments	**23.1**	47.4
Loss/(Gain) on disposal of fixed assets	**0.1**	(0.2)
Depreciation & Amortisation	**31.6**	24.2
Decrease/(increase) in stock	**0.7**	(0.4)
Other operating costs	**(366.9)**	(261.7)
Net cash outflow from operating activities	**(815.2)**	(718.3)

(b) Investment income received

	2016 £m	2015 £m
Dividends and interest	**308.3**	274.9
Rental income	**44.2**	45.3
Other income	**1.6**	0.2
(Increase)/decrease in income receivable from investments	**(3.2)**	0.8
Increase in accrued income from investments	**(0.4)**	(2.9)
Increase in deferred income from investments	**(1.1)**	(0.4)
Investment income received	**349.4**	317.9

(c) Servicing of finance

	2016 £m	2015 £m
Interest payable	**(59.3)**	(57.7)
Foreign exchange (losses)/gains on revaluation of interest bearing liabilities	**(50.8)**	11.3
Increase/(decrease) in interest bearing liabilities	**52.1**	(8.5)
Cash outflow for servicing of finance	**(58.0)**	(54.9)

24. Consolidated cash flow (continued)

(d) Reconciliation of investment sales and purchases

	2016 £m	2015 £m
Proceeds on sale of quoted investments	**3,248.4**	3,708.4
Proceeds on sale of unquoted investments	**2,114.5**	1,671.2
Proceeds on sale of investment property	**71.5**	124.6
(Increase)/decrease in proceeds receivable on sale of investments	**(76.6)**	13.1
Proceeds on sale of Programme Related Investments	**5.0**	3.1
Proceeds from sales of investments	**5,362.8**	5,520.4
Purchases of quoted investments	**2,782.2**	4,115.9
Purchases of unquoted investments	**1,631.7**	1,210.3
Purchases of investment property	**4.2**	31.9
Decrease/(increase) in amounts payable on acquisition of investments	**44.4**	(53.1)
Purchase of Programme Related Investments	**26.2**	51.8
Purchases of investments	**4,488.7**	5,356.8
(Loss)/Gain on derivative financial instruments	**(351.2)**	36.8
Decrease in derivative financial asset positions	**11.8**	26.1
Increase in derivative financial liabilities	**8.7**	157.8
Net cash inflow upon settlement of derivative financial instruments	**(330.7)**	220.7

25. Major non-cash transactions

There were no major non-cash transactions during 2016 or 2015.

26. Financial risk management

In the ordinary course of its activities, the Group actively manages a variety of financial risks including credit risk, liquidity risk and market risk. The Group identifies measures and monitors risk through various control mechanisms as detailed in the following sections, including maximum approved counterparty exposure and diversifying exposures and activities across a variety of instruments, markets and counterparties.

(a) Credit risk

Credit risk is the risk that the Group would incur a financial loss if a counterparty failed to discharge its obligations to the Group.

Credit risk exposure

The Group is subject to credit risk from its financial assets held by various counterparties and the risk is particularly concentrated on its investment cash balances and certificates of deposit due to the significant value of these balances. The following table details the Group's maximum exposure to credit risk as at 30 September:

	2016 £m	2015 £m
Derivative financial instruments assets positions	**148.0**	159.8
Investment cash balances and certificates of deposit	**916.9**	875.1
Cash collateral held	**287.7**	241.0
Accrued income from investments	**18.2**	17.8
Proceeds receivable on sale of investments	**108.4**	31.8
Other investment debtor balances	**64.9**	8.2
Programme related investment loans	**-**	0.6
Other debtors	**14.3**	36.6
Term deposits and cash	**56.1**	36.6
	1,614.5	1,407.5

None of the Group's financial assets subject to credit risk (other than the Programme related investments which are discussed in note 16(d)) are past their due date or were impaired during the year.

Risk management policies and procedures

The objective of managing credit risk is to minimise counterparty default on the Group's financial assets causing financial loss to the Group. The Group aims to mitigate its counterparty credit risk exposure by monitoring the size of its credit exposure to and the creditworthiness of counterparties, including setting appropriate exposure limits and maturities. Counterparties are selected based on their financial ratings, regulatory environments and specific circumstances.

The following details the risk management policies applied to the financial assets exposed to credit risk:

- for interest-bearing securities the credit rating of the issuer is taken into account to minimise the risk to the Group of default. Investments are made across a variety of issuers to reduce concentrations of credit risk;
- transactions involving derivative financial instruments are entered into only with reputable banks, the credit ratings of which are taken into account to minimise credit risk. Derivative financial instrument asset positions exposed to credit risk comprise the Group's forward currency contracts;
- direct cash management mandate is limited to the use of deposits with selected banks (the credit ratings of which are taken into account to minimise credit risk), the purchase of short-dated UK Government securities and the controlled use of AAA rated money market funds; and
- sale and purchases of investments are carried out with a small number of brokers, whose credit quality forms part of the initial and on-going reviews by the investment managers.

26. Financial risk management (continued)

Risk management policies and procedures (continued)

These policies and procedures were applied and reviewed during the year. At the balance sheet date, in addition to the securities on loan discussed in note 16(a), forward currency contract assets which are secured by cash collateral are discussed in note 16(b). There were no other credit enhancements.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties raising cash to meet its obligations when they fall due.

Liquidity risk exposure

This is a risk to the Group, given the value of the Group's commitments to charitable and investment activities.

Risk management policies and procedures

The Group monitors its exposure to liquidity risk by regularly monitoring the liquidity of its investment portfolio and holding appropriate levels of liquid assets. The Group held very liquid assets which amounted to £760.9 million as at 30 September 2016 (2015: £554.8 million), which comprises cash and cash equivalent assets. The level of very liquid assets held is regularly reviewed by senior management. Liquidity forecasts are reviewed by the Investment Committee and Board of Governors on a quarterly basis.

Liquidity and cash flow measures are provided by aggregating the expected dividends from publicly held securities and the net cash flows from private funds and private assets, directly held property rentals/income, an assessment of investment costs and net interest costs, plus investment/divestment decisions. Forecasts are reviewed at least monthly by the Investment Executive on both a three month and a five year horizon. Forecast cash lows as at the end of September 2016 were £830 million (2015: £570 million) and are highlighted at levels below 2% of investment assets. This compares with investment cash levels of £797 million at 30 September 2016 (3.4%), compared to £784 million at 30 September 2015 (3.9%). An assessment is also made of the extent to which assets could be sold to cash within a month, without a distressed sale; 55% in September 2016 (2015: 52%). Short term operational cash flow forecasts are produced weekly.

26. Financial risk management (continued)

(b) Liquidity risk (continued)

The following table details the maturity of the Group's undiscounted contractual payments and grant liabilities as at 30 September:

	2016				2015			
Group	Three months or less £m	No more than one year £m	More than one year £m	**Total £m**	Three months or less £m	No more than one year £m	More than one year £m	**Total £m**
Payments falling due within one year								
Bond liabilities	-	58.4	-	**58.4**	-	57.8	-	57.8
Derivative financial instruments liabilities	199.3	-	-	**199.3**	190.6	-	-	190.6
Collateral liability	287.7	-	-	**287.7**	241.0	-	-	241.0
Amount payable on acquisition of investments	21.0	-	-	**21.0**	65.4	-	-	65.4
Other investment liabilities	36.1	-	-	**36.1**	31.9	-	-	31.9
Trade creditors	10.2	-	-	**10.2**	13.6	-	-	13.6
Other creditors	36.5	-	-	**36.5**	39.0	-	-	39.0
Accruals and deferred income	21.7	-	-	**21.7**	23.5	-	-	23.5
Corporation Tax	-	0.7	-	**0.7**	-	16.4	-	16.4
Contractual payments	612.5	59.1	-	**671.6**	605.0	74.2	-	679.2
Grant liability	120.9	362.9	-	**483.8**	116.2	425.1	-	541.3
	733.4	422.0	-	**1,155.4**	721.2	499.3	-	1,220.5
Payments falling due between one and five years								
Bond liabilities	-	-	508.6	**508.6**	**-**	**-**	231.3	231.3
Other creditors	-	-	-	**-**	**-**	**-**	-	-
Contractual payments	-	-	508.6	**508.6**	-	-	231.3	231.3
Grant liability	-	-	1,369.8	**1,369.8**	**-**	**-**	1,176.3	1,176.3
	-	-	1,878.4	**1,878.4**	**-**	**-**	1,407.6	1,407.6
Payments falling due after five years								**-**
Bond liabilities	-	-	2,309.0	**2,309.0**	**-**	**-**	2,587.0	2,587.0
Contractual payments	-	-	2,309.0	**2,309.0**	**-**	**-**	2,587.0	2,587.0
Grant liability	-	-	282.2	**282.2**	**-**	**-**	167.1	167.1
	-	-	2,591.2	**2,591.2**	-	-	2,754.1	2,754.1
Total	**733.4**	**422.0**	**4,469.6**	**5,625.0**	721.2	499.3	4,161.7	5,382.2

The grant liability is non-contractual.

26. Financial risk management (continued)

(c) Market risk – price, currency and interest rate risks

Market risk is the risk of potential loss the Group may incur as a result of adverse changes to the fair value of the Group's financial instruments. Market risk comprises three types of risks: price risk, currency risk and interest rate risk.

The Group measures returns and monitors portfolio risks in a 50/50 blend of Sterling and US Dollars and monitored Sterling and US Dollar currency exposures. This reflects the globally diversified nature of the Group's assets, liabilities and commitments.

The Group uses a number of investment risk metrics, of which the following are key; the expected ability of the portfolio to generate cash flows growing in real terms; currency exposures; expected likelihood of catastrophic failures of one or more assets held within the portfolio; and the assessed level of inflation protection within the portfolio.

Monitoring Sterling and US Dollar currency exposure, after the impact of currency hedges, provides an understanding of the degree to which the portfolio is exposed to currencies other than the benchmark of 50/50 blend of Sterling and US Dollar. The likelihood of catastrophic failures to individual assets is managed by broad and global diversification across assets and asset classes, with a limit of 3% on any individual asset or strategy managed by an external manager. As at 30 September 2016, this limit was adhered to, with the exception of £923 million (3.9% of investment assets) in the South Kensington/Ennismore estate of 1,700 units, an exception which has been agreed by the Board of Governors (2015: £922 million, 5.3%).

The assessed level of inflation protection within the portfolio is reviewed by considering the sum of all types of equity and property exposure across the portfolio (86% as at September 2016, 2015: 84%) since these are considered to be assets which will provide a material degree of inflation protection in the medium to long term in most circumstances, plus the cumulative issuance of £1,570 million nominal fixed coupon bonds by the Trust.

(i) Price risk

Price risk is the risk that the value of an asset or liability will fluctuate due to changes in market price, caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. This is a risk for the Group because its ability to fund research over the long term is dependent on maintaining the purchasing power of the asset base. The Group's expenditure is predominantly discretionary and the Board of Governors monitor cash expenditure, commitments and the endowment performance throughout the year to manage the balance between funding charitable activities and maintaining the purchasing power of the asset base.

Price risk exposure

The maximum asset and liability value exposed to other price risk at 30 September is the value of the traded investment assets and liabilities as detailed in the following table:

	2016 **£m**	2015 £m
Quoted investments	**11,347.6**	9,399.0
Unquoted investments	**9,339.9**	8,446.5
Investments properties	**1,408.0**	1,463.8
Derivative financial instruments assets positions	**148.0**	159.8
Assets exposed to risk	**22,243.5**	19,469.1
Derivative financial instruments liability positions	**199.3**	190.6
Liabilities exposed to risk	**199.3**	190.6

26. Financial risk management (continued)

(c) Market risk – price, currency and interest rate risks (continued)

Concentration of exposure to other price risk

The majority of the investment value is in overseas companies in both quoted and unquoted investments. There is a high level of diversification by market including emerging markets within the long-only equity portfolio as it is the Group's policy to have no constraint on non-UK equity exposure. It is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country. Derivative financial instruments exposed to price risk comprises the Group's options, warrants and futures.

The Investment Committee monitors the price risk inherent in the investment portfolios. The Board of Governors reviews the price risk quarterly. The Board and the Investment Committee meet regularly and at each meeting review investment performance. The Board takes overall responsibility for investment strategy.

(ii) Currency risk

Currency risk is the risk that the value of an asset or liability will fluctuate due to changes to foreign currency exchange rates. The currency of the majority of the Group's expenditure and the functional currency of the Group is Sterling. However, the Group has investment assets denominated in currencies other than Sterling and is impacted by fluctuations in foreign currency exchange rates.

The financial liabilities of the Group denominated in currencies other than Sterling are shown in the table below.

Currency risk exposure

The Trust adopts a policy of hedging a part of its non-base currency exposures using a currency overlay although the actual percentage hedged varies from time to time. The gains and losses relating to the currency overlay therefore offset foreign exchange gains and losses on the foreign currency assets within quoted and unquoted investments in note 16(e).

As at 30 September 2016, 76.2% (2015: 71.7%) of the Group's investment assets were non-Sterling denominated, after including the impact of the currency overlay.

The following table details the asset value exposed to currency risk as at 30 September:

Currency	**Value as at 30 September 2016 (currency, m)**	**Value as at 30 September 2016 £m**	Value as at 30 September 2015 (currency, m)	Value as at 30 September 2015 £m
Traded investments assets				
US $	$14,018.5	**10,791.8**	$16,228.8	10,713.9
Euro	€1,791.6	**1,550.0**	€1,772.4	1,306.1
Other		**4,197.0**		2,316.0
Other investment debtors balances				
US $	$674.9	**519.6**	$827.8	546.5
Euro	€143.5	**124.2**	€71.4	52.6
Other		**41.1**		45.2
Other investment creditors balances				
US $	($5.5)	**(4.2)**	($22.0)	(14.6)
Euro	(€3.7)	**(3.2)**	(€3.3)	(2.5)
Other		**(8.6)**		(104.7)
Forward currency contracts				
US $	$552.0	**421.4**	$164.3	108.1
Euro	(€1,292.8)	**(1,139.3)**	(€1,475.7)	(1,093.1)
Other		**(229.2)**		(558.5)
Total exposed to currency risk		**16,260.6**		**13,315.0**

26. Financial risk management (continued)

c) Market risk – price, currency and interest rate risks (continued)

	Impact on gain/(loss) for the financial year 2016 £m	Impact on gain/(loss) for the financial year 2015 £m
10% US Dollar appreciation	**1,172.9**	1,135.4
10% Euro appreciation	**53.2**	26.3

A 10% depreciation in currencies would have an equal but opposite impact.

Risk management policies and procedures

The Group measures returns and monitored portfolio risks in a 50/50 blend of Sterling and US Dollars. This reflects the globally diversified nature of the Group's assets, liabilities and commitments.

The investment team monitor the Group's exposure to foreign currencies on a daily basis and report to the Investment Committee on at least a quarterly basis. Sterling and US dollar exposures below a desired minimum level of 25% each are highlighted. In February 2016 the 25% minimum Sterling limit was removed ahead of the planned EU referendum, this decision is reviewed by Investment Committee and Board of Governors quarterly.

Foreign currency contracts are used to limit the Group's exposure to future changes in exchange rates which might otherwise adversely affect the value of the portfolio of investments. Where appropriate, they are also used to achieve the portfolio characteristics that assist the Group in meeting its investment objectives.

(iii) Interest rate risk

Interest rate risk arises from the risk that the value of an asset or liability will fluctuate due to changes in interest rates (i.e. for fixed interest rate assets or liabilities) or that future cash flows will fluctuate due to changes in interest rates (i.e. for variable rate assets or liabilities).

Interest rate exposure and sensitivity

The Group holds investment cash and certificates of deposit of £916.9 million (2015: £875.1 million) and overnight term deposits and cash of £56.1 million (2015: £36.6 million). These are floating rate interest bearing assets, at an estimated average interest rate of 0.1% during the year (2015: 0.3%). The future cash flows from these assets will fluctuate with changes in market interest rates. However, as these are liquid assets with no fixed maturity dates, the fair value would not fluctuate significantly with changes in market interest rates.

The interest bearing liabilities shown below are the bond liabilities which are fixed rate and the variable rate liabilities which are both held at amortised cost. The bond and variable rate liabilities value detailed in the table below is the book value.

	2016		2015	
Interest-bearing financial liabilities	**Weighted average interest rate**	**Value as at 30 September £m**	Weighted average interest rate	Value as at 30 September £m
Maturing between one and five years				
Fixed rate - bond liabilities	**0.83%**	**277.4**	-	-
Maturing after five years				
Fixed rate - bond liabilities	**2.89%**	**1,290.8**	3.80%	1,516.0
Total interest-bearing liabilities		**1,568.2**		1,516.0

26. Financial risk management (continued)

(c) Market risk - price, currency and interest rate risks (continued)

(iii) Interest rate risk (continued)

Risk management policies and procedures

The Group takes into account the possible effects of a change in interest rates on the fair value and cash flows of the interest-bearing financial assets and liabilities when making investment decisions. The Investment Committee monitors the Group's exposure to interest-bearing assets, the bond liability and the related finance costs regularly.

27. Fair value of financial assets and liabilities

The fair values and book values of the Group's financial assets and liabilities shown on the Balance Sheet are the same with the exception of the bond liabilities which are measured at amortised cost.

The value of the bond liabilities presented in the Trustee's Report Figure 6 on page 19 (£2,247.7 million, 2015: £1,793 million) is the sum of the fair value of the bond liabilities and the accrued interest on these liabilities.

The following table categorises the fair values of the Group's financial assets and liabilities based on the inputs to the fair value. Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

- Level 1 -– valued using quoted prices in active markets for identical assets.
- Level 2 -– valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1.
- Level 3 -– valued by reference to valuation techniques using inputs that are not based on observable market data.

Fair value measurements using the FRS 29 fair value hierarchies

Assets at fair value as at 30 September 2016

	Level 1 £m	Level 2 £m	Level 3 £m	**Total** **£m**
Quoted investments	11,228.7	118.9	-	**11,347.6**
Unquoted investments	-	3,277.7	6,062.2	**9,339.9**
Derivative financial instruments asset positions	56.3	91.7	-	**148.0**
Programme related investments	-	-	5.9	**5.9**
	11,285.0	3,488.3	6,068.1	**20,841.4**

Assets at fair value as at 30 September 2015

	Level 1 £m	Level 2 £m	Level 3 £m	**Total** **£m**
Quoted investments	9,399.0	-	-	**9,399.0**
Unquoted investments	-	3,403.3	5,043.2	**8,446.5**
Derivative financial instrument assets positions	40.5	119.3	-	**159.8**
Programme related investments	-	-	3.5	**3.5**
	9,439.5	3,552.6	5,046.7	**18,008.8**

27. Fair value of financial assets and liabilities (continued)

Liabilities at fair value as at 30 September 2016

	Level 1 £m	Level 2 £m	Level 3 £m	**Total** **£m**
Derivative financial instruments liabilities	46.5	152.8	-	**199.3**

Liabilities at fair value as at 30 September 2015

	Level 1 £m	Level 2 £m	Level 3 £m	**Total** **£m**
Derivative financial instruments liabilities	124.4	66.2	-	**190.6**

A reconciliation of the opening and closing balances for Level 3 assets measured at fair value is detailed in the table below:

	Fair value 1 October 2015 £m	Purchases/ (sales proceeds) £m	Total gains/ (losses) £m	Transfers into Level 3 £m	Transfers out of Level 3 £m	**Fair value 30 September 2016 £m**
Level 3 assets	4,076.2	(160.3)	2,064.9	214.1	(126.8)	**6,068.1**

Unquoted investments include investments in hedge funds, private equity funds, property funds, direct investments and investment operating subsidiaries. For the funds the Group categorises the investments based on the fair value classification of the underlying assets and liabilities of the funds. Transfers in/out of Level 3 occur when the fair value classification of the underlying assets and liabilities of the funds changes during the reporting period.

Derivative financial instruments comprise:

- equity and commodities index futures and option positions which are exchange traded and valued at current price meet the criteria of Level 1;
- forward currency contracts assets and liabilities which are over the counter derivatives which derive their value from market exchange rates and therefore meet the criteria of Level 2; and
- long options and warrants asset positions which are valued with reference to the underlying, which are unquoted securities, and therefore meet the criteria of Level 3.

For Level 3 investments:

- private equity and property funds are valued at the most recent valuation from the fund manager, which is usually the net asset value of the fund; and
- unquoted direct investments are held at the valuation determined by management, with valuations, when provided by a third party investment manager as a key input subject to appropriate review by management.

Further details are provided in note 2 (Significant accounting judgements and key sources of estimation uncertainty).

28. Restatement

a) Transition to FRS 102 and the SORP

These accounts for the year ended 30 September 2016 are the first accounts of the Group that comply with FRS Financial Reporting Standard 102 " The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102 and the Statement of Recommended Practice 'Accounting and Reporting by Charities' published in 2015 (the "SORP"). The following disclosures are required in the year of transition. The last Financial Statements under previous UK GAAP were for the year ended 30 September 2015 and the date of transition to FRS 102 was therefore 1 October 2014.

b) Reconciliation of Net Movement in Funds and Net Assets for the Trust

Consolidated Statement of Financial Activities for the year ended 30 September 2015

	Previously reported £m	(i) £m	(ii) £m	(iii) £m	(iv) £m	(vi) £m	**As restated £m**
Income from Investments							
Dividends and interest	245.3	29.6	-	-	-	-	274.9
Rental income	95.6	(50.3)	-	-	-	-	45.3
Other income	47.8	(47.6)	-	-	-	-	0.2
	388.7	**(68.3)**	**-**	**-**	**-**	**-**	**320.4**
Charitable Income							
Grants receivable	17.9	-	-	-	-	-	17.9
Other charitable income	32.1	2.3	-	(0.6)	-	-	33.8
Total Income	**438.7**	**(66.0)**	**-**	**(0.6)**	**-**	**-**	**372.1**
Expenditure on Raising Funds							
Management fees and other investment costs	172.2	(74.7)	-	0.2	0.9	3.0	101.6
Interest payable on bond liability	57.7	-	-	-	-	-	57.7
Interest payable on variable rate debt	8.5	(8.5)	-	-	-	-	-
Expenditure on Charitable Activities	951.9	-	(11.0)	2.6	6.6	-	950.1
Governance costs	3.0	(0.2)	-	(2.8)	-	-	-
Total Resources Expended	**1,193.3**	**(83.4)**	**(11.0)**	**-**	**7.5**	**3.0**	**1,109.4**
Net realised and unrealised gains on investments*	979.8	(26.7)	-	-	-	(2.4)	950.7
Taxation	(16.4)	(0.1)	-	-	-	0.2	(16.3)
Net income after taxation	**208.8**	**(9.4)**	**11.0**	**(0.6)**	**(7.5)**	**(5.2)**	**197.1**
Actuarial losses on defined benefit pension schemes	(43.1)	-	-	-	7.5	-	(35.6)
Net movement in funds	**165.7**	**(9.4)**	**11.0**	**(0.6)**	**-**	**(5.2)**	**161.5**
Fund at start of year	**16,736.9**	**-**	**119.4**	**0.4**	**-**	**(44.7)**	**16,812.0**
Minority interest	4.7	-	-	-	-	-	4.7
Fund at end of year	**16,907.3**	**(9.4)**	**130.4**	**(0.2)**	**-**	**(49.9)**	**16,978.2**

Adjustments (i) to (vi) are explained on page 108.
* Previously shown below net outgoing resources before net gains on investments.

The above restatement for 30 September 2015 includes £35.7 million of restricted income and £36.3 million of restricted expenses. The movement in opening and closing restricted funds is shown in the tables below.

28. Restatement (continued)

b) Reconciliation of Net Movement in Funds and Net Assets for the Group (continued)

Consolidated Balance Sheet as at 1 October 2014

	Previously reported £m	(i) £m	(ii) £m	(iii) £m	(vi) £m	**As restated £m**
Tangible fixed assets	440.7	(15.6)	-	-	-	425.1
Intangible fixed assets	1.0	-	-	-	-	1.0
Quoted investments	9,207.1	-	-	-	-	9,207.1
Unquoted investments	7,454.9	478.3	-	-	-	7,933.2
Investment properties	2,071.2	(655.6)	-	-	-	1,415.6
Derivative financial instruments	705.4	(1.0)	-	-	-	704.4
Investment cash and certificates of deposit	186.9	(1.4)	-	-	-	185.5
Other investment assets	282.8	(14.0)	-	-	-	268.8
Stock	14.0	(11.6)	-	-	-	2.4
Debtors	30.3	(5.2)	-	1.9	-	27.0
Cash at bank and in hand	53.1	(30.0)	-	-	-	23.1
Creditors falling due within one year	(855.0)	31.9	-	(1.5)	-	(824.6)
Creditors falling due after one year	(2,651.9)	224.2	119.4	-	-	(2,308.3)
Provision for liabilities and charges	(33.5)	-	-	-	(44.7)	(78.2)
Minority interest	(0.4)	-	-	-	-	(0.4)
Defined benefit pension schemes' deficit	(169.7)	-	-	-	-	(169.7)
Net Assets	**16,736.9**	**-**	**119.4**	**0.4**	**(44.7)**	**16,812.0**
Restricted Funds	-	-	-	2.0	-	2.0
Unrestricted Funds	16,736.9	-	119.4	(1.6)	(44.7)	16,810.0
Total Charity Funds	**16,736.9**	**-**	**119.4**	**0.4**	**(44.7)**	**16,812.0**

Adjustments (i) to (vi) are explained on page 108.

28. Restatement (continued)

b) Reconciliation of Net Movement in Funds and Net Assets for the Group (continued)

Consolidated Balance Sheet as at 30 September 2015	Previously reported £m	(i) £m	(ii) £m	(iii) £m	(vi) £m	**As restated £m**
Tangible fixed assets	461.1	(13.9)	-	-	-	**447.2**
Intangible fixed assets	43.2	(27.6)	-	-	-	**15.6**
Quoted investments	9,399.0	-	-	-	-	**9,399.0**
Unquoted investments	7,476.1	970.4	-	-	-	**8,446.5**
Investment properties	2,392.6	(928.8)	-	-	-	**1,463.8**
Derivative financial instruments	159.8	-	-	-	-	**159.8**
Investment cash and certificates of deposit	875.1	-	-	-	-	**875.1**
Other investment assets	325.7	(14.5)	-	-	-	**311.2**
Programme related investments	3.5	-	-	-	-	**3.5**
Stock	13.8	(11.1)	-	-	-	**2.7**
Debtors	51.7	(7.9)	-	1.3	-	**45.1**
Cash at bank and in hand	59.8	(23.2)	-	-	-	**36.6**
Creditors falling due within one year	(1,230.0)	46.8	-	(1.5)	-	**(1,184.7)**
Creditors falling due after one year	(2,859.7)	0.1	130.4	-	-	**(2,729.2)**
Provision for liabilities and charges	(36.3)	-	-	-	(49.9)	**(86.2)**
Minority interest	(10.1)	0.3	-	-	-	**(9.8)**
Defined benefit pension schemes' deficit	(218.0)	-	-	-	-	**(218.0)**
Net Assets	**16,907.3**	**(9.4)**	**130.4**	**(0.2)**	**(49.9)**	**16,978.2**
Restricted Funds	-	-	-	1.4	-	**1.4**
Unrestricted Funds	16,907.3	(9.4)	130.4	(1.6)	(49.9)	**16,976.8**
Total Charity Funds	**16,907.3**	**(9.4)**	**130.4**	**(0.2)**	**(49.9)**	**16,978.2**

Adjustments (i) to (vi) are explained on page 108.

28. Restatement (continued)

c) Reconciliation of Movement in Funds and Net Assets for the Trust

Trust Statement of Financial Activities for the year ended 30 September 2015

	Previously reported £m	(ii) £m	(iii) £m	(iv) £m	(v) £m	(vi) £m	**As restated £m**
Total Income	394.9	**-**	**-**	**-**	**-**	**-**	**394.9**
Expenditure on Raising Funds							
Management fees and other investment costs	73.3	0.2	0.1	0.9	-	-	74.5
Interest payable on bond liability	29.1	-	-	-	-	-	29.1
Interest payable on variable rate debt	18.6	-	-	-	-	-	18.6
Expenditure on Charitable Activities	947.4	(8.6)	-	3.5	(10.1)	-	932.2
Governance costs	2.6	(2.6)	-	-	-	-	-
Total Resources Expended	**1,071.0**	**(11.0)**	**0.1**	**4.4**	**(10.1)**	**-**	**1,054.4**
Net realised and unrealised gains on investments*	871.7	-	-	-	-	(5.2)	866.5
Net income after taxation	**195.6**	**11.0**	**(0.1)**	**(4.4)**	**10.1**	**(5.2)**	**207.0**
Actuarial losses on defined benefit pension schemes	(24.6)	-	-	4.4	-	-	(20.2)
Net movement in funds	**171.0**	**11.0**	**(0.1)**	**-**	**10.1**	**(5.2)**	**186.8**
Fund at start of year	**16,672.4**	**119.4**	**(0.3)**	**-**	**(25.9)**	**(44.7)**	**16,720.9**
Fund at end of year	**16,843.4**	**130.4**	**(0.4)**	**-**	**(15.8)**	**(49.9)**	**16,907.7**

Adjustments (i) to (vi) are explained on page 108.

28. Restatement (continued)

c) Reconciliation of Movement in Funds and Net Assets for the Trust (continued)

Trust Balance Sheet as at 1 October 2014	Previously reported £m	(ii) £m	(iii) £m	(v) £m	(vi) £m	**As restated £m**
Tangible fixed assets	256.0	-	-	-	-	256.0
Investment Assets	20,009.7	-	-	-	(44.7)	19,965.0
Current Assets	185.4	-	-	-	-	185.4
Creditors falling due within one year	(2,059.4)	-	(0.3)	(25.9)	-	(2,085.6)
Creditors falling due after one year	(1,596.6)	119.4	-	-	-	(1,477.2)
Provision for liabilities and charges	(33.5)	-	-	-	-	(33.5)
Defined benefit pension schemes' deficit	(89.2)	-	-	-	-	(89.2)
Net Assets	**16,672.4**	**119.4**	**(0.3)**	**(25.9)**	**(44.7)**	**16,720.9**
Total Charity Funds	**16,672.4**	**119.4**	**(0.3)**	**(25.9)**	**(44.7)**	**16,720.9**

Trust Balance Sheet as at 30 September 2015	Previously reported £m	(ii) £m	(iii) £m	(v) £m	(vi) £m	**As restated £m**
Tangible fixed assets	247.3	-	-	-	-	247.3
Investment Assets	20,318.1	-	-	-	(49.9)	20,268.2
Current Assets	268.2	-	-	-	-	268.2
Creditors falling due within one year	(1,809.7)	-	(0.4)	(15.8)	-	(1,825.9)
Creditors falling due after one year	(2,028.4)	130.4	-	-	-	(1,898.0)
Provision for liabilities and charges	(36.3)	-	-	-	-	(36.3)
Defined benefit pension schemes' deficit	(115.8)	-	-	-	-	(115.8)
Net Assets	**16,843.4**	**130.4**	**(0.4)**	**(15.8)**	**(49.9)**	**16,907.7**
Total Charity Funds	**16,843.4**	**130.4**	**(0.4)**	**(15.8)**	**(49.9)**	**16,907.7**

Adjustments (i) to (vi) are explained on page 108.

28. Restatement (continued)

d) Nature of Adjustments

(i) Investment Subsidiaries

Under FRS 102, a subsidiary which is held as part of an investment portfolio where its value to the investor is through fair value as part of a directly or indirectly held basket of investments rather than as medium through which the investor carries out business should be excluded from consolidation and measured at fair value. Under previous GAAP, such subsidiaries were consolidated on a line by line basis.

Accordingly, the net assets of three subsidiaries iQ Unit Trust and iQ (Shareholder GP) Limited, Farmcare Trading Limited and Premier Marinas Group have been deconsolidated and a corresponding increase has been recognised in unquoted investments as at 1 October 2014.

(ii) Remeasurements

FRS 102 requires that provisions for liabilities must be measured at the best estimate of their settlement amount. The FRS 102 SORP requires that the provision be discounted back to its present value at the reporting date wherever the settlement date of a provision is likely to be more than 12 months from the reporting date and the time value of money is material to the amount.

On transition to FRS 102 the Group and Trust grant liabilities has been discounted using a discount rate that reflects the opportunity cost of income from investments forgone.

(iii) Reclassifications

Under the FRS 102 SORP governance costs previously shown on the SOFA are now included as a support cost and allocated as such. Accordingly governance costs have been allocated using a direct and expenditure allocation methodology against activities in the SOFA.

FRS 102 requires short term employee benefits to be charged to the profit and loss account as the employee service is received. Previously holiday pay accruals were not recognised and were charged to the statement of financial activities as they were paid.

(iv) Pensions

Under the previous UK GAAP the Group recognised an expected return on defined benefit plan assets in the SOFA. Under FRS 102 a net interest expense, based on the net defined benefit liability, is recognised in the SOFA. There has been no change in the defined liability at either 1 October 2014 or 30 September 2015.

(v) Grant Recognition

Under the previous SORP grants made to operating subsidiaries were recognised as an expense when they were payable. Under the new SORP we have applied the general rules of expenditure recognition which means grant expenditure should be recognised at the point the award is made and communicated as this is when constructive obligation arises.

(vi) Deferred Tax

Under previous UK GAAP, current and deferred tax was not provided on fair value adjustments for financial assets as it is anticipated that any taxable profits would be paid by gift aid to Wellcome Trust. Under FRS 102 29.7 deferred tax should be provided on all timing differences.

Under previous UK GAAP, gains and losses on certain financial instruments held at fair value were shown in the Statement of comprehensive Income. Under FRS 102 11.14 (d) all gains and losses should be shown through the profit and loss account.

Reference and Administrative Details

for the year ended 30 September 2016

Board of Governors

Baroness Manningham-Buller, LG, DCB (Chair)

Professor Dame Kay Davies, CBE, FRS, FMedSci (Deputy Chair)

Professor Tobias Bonhoeffer, PhD

Mr Alan Brown, FSIP

Sir Damon Buffini, MBA

Mr William Burns (from 1 April 2016)

Professor Michael Ferguson, CBE, FRS, FRSE, FMedSci

Professor Bryan Grenfell, OBE, FRS

Professor Richard Hynes, PhD, FRS

Professor Dame Anne Johnson, MD, FRCP, FFPH, FRCGP, FMedSci

Professor Peter Rigby, PhD, FRS, FMedSci (to 30 June 2016)

Brief biographies are included on pages 110 and 111.

Company Secretary

Ms Susan Wallcraft (to 29 April 2016)

Mr Chris Bird (from 29 April 2016)

Executive Board

Dr Jeremy Farrar, FRS, FMedSci, OBE (Director)

Dr Stephen Caddick (Director of Innovations)

Mr Simon Chaplin (Director of Culture and Society)

Mr Tim Livett (Chief Financial Officer)

Ms Clare Matterson (Director of Strategy) (to 31 October 2016)

Dr Kevin Moses, MA, PhD (Director of Science) (to 26 April 2016)

Mr Ted Smith (Director of People and Facilities)

Mr Danny Truell (Chief Investment Officer)

Dr Mike Turner (Acting Director of Science) (from 26 April 2016)

Ms Susan Wallcraft (General Counsel) (to 29 April 2016)

Audit Committee

Mr Alan Brown (Chair)

Mr William Burns

Ms Adèle Anderson (from 1 September 2016)

Mr Tim Clark

Professor Dame Anne Johnson

Mr Philip Johnson

Mr Chris Jones (from 1 September 2016)

Remuneration Committee

Baroness Manningham-Buller (Chair)

Mr Alan Brown

Professor Dame Kay Davies

Professor Richard Hynes (remuneration of the Chair and the Deputy Chair only)

Nominations Committee

Baroness Manningham-Buller

Sir Damon Buffini

Professor Dame Kay Davies

Professor Richard Hynes

Investment Committee

Mr Alan Brown (Chair)

Sir Damon Buffini

Mr Tim Church (to 31 October 2015)

Professor Dame Kay Davies

Mr Stefan Dunatov (from 1 March 2016)

Dr Jeremy Farrar

Mrs Sarah Fromson

Mr Naguib Kheraj

Mr Tim Livett

Baroness Manningham-Buller

Mr David Mayhew

Mr Nicholas Moakes

Sir Michael Moritz (from 1 March 2016)

Mr Peter Pereira Gray

Mr Danny Truell

Biographies of the Governors

Baroness Manningham-Buller, LG, DCB (Chair)

Eliza Manningham-Buller was educated at Benenden School and Lady Margaret Hall, Oxford. She taught for three years before joining MI5 in 1974. After a career which included a posting to the British Embassy in Washington, Eliza became Deputy Director General, with responsibility for operations, before leading MI5 as Director General from 2002 to 2007.

She was appointed an independent, crossbench peer in the House of Lords in 2008. She has been a member of the Conduct Committee, the Joint Committee on the National Security Strategy, and the Science and Technology Committee.

Eliza joined Wellcome as a governor in 2008 and the Council of Imperial College in 2009. She was the Chair of Council from 2011 to 2015.

She has honorary degrees from the universities of Oxford, St Andrews, Leeds, Cranfield, Buckingham and the Open University, and has received honorary fellowships from Northampton and Cardiff, City and Guilds and Lady Margaret Hall.

In 2011, Eliza gave the Reith lectures with Aung San Suu Kyi on Securing Freedom.

Professor Dame Kay Davies, CBE, FRS, FMedSci (Deputy Chair)

Kay Davies is Dr Lee's Professor of Anatomy and Associate Head, Development, Impact and Equality, Medical Sciences Division, University of Oxford, and Honorary Director of the MRC Functional Genomics Unit.

Her research interests cover the molecular analysis of neuromuscular and neurological disease, particularly Duchenne muscular dystrophy. She has considerable experience of biotechnology companies as a conduit for translating the results of experimental science into new therapeutics and diagnostics.

Kay is a founding editor of 'Human Molecular Genetics' and a founding fellow of the Academy of Medical Sciences. She has an active interest in the ethical implications of genetics research and the public understanding of science.

Kay is a Fellow of the Royal Society and a Member of the European Molecular Biology Organization.

Professor Tobias Bonhoeffer, PhD

Tobias Bonhoeffer is Director at the Max Planck Institute of Neurobiology and Professor at the Ludwig Maximilians University in Munich. He is one of the world’s foremost researchers in systems neuroscience. He studies synaptic plasticity in the brain focusing on learning, memory and how the brain adapts to its environment.

Tobias served for more than 15 years as department head at the Max Planck Institute of Neurobiology and later also as Chair of the Biomedical Section of the Max Planck Society. He has been a member of the scientific advisory boards of numerous leading Institutions, including ETH Zurich, the Janelia Farm Research Campus of the Howard Hughes Medical Institute and the Chinese Academy of Sciences.

Tobias is a member of the German National Academy of Sciences, Leopoldina, the Academia Europaea and the European Molecular Biology Organization. He has been awarded the Ernst-Jung Prize for Medicine.

Mr Alan Brown, FSIP

Alan Brown read natural sciences at the University of Cambridge before starting a career in the investment management industry, where he worked for almost 40 years. He has held positions as a chief investment officer for the past 23 years, most recently as an Executive Director at Schroders.

Alan's other responsibilities include Chair of the Board of the Carbon Disclosure Project, and Chair of the Board of the Westway Trust. He is a non-executive director of Pool Reinsurance Company, a scheme established to provide cover for losses arising from terrorism. Previously he was a Director of the Investment Management Association and an alternate member of the Takeover Panel.

Sir Damon Buffini, MBA

Damon Buffini was educated at St John's College, University of Cambridge, where he read law, and at Harvard Business School, where he gained an MBA. He was a founding partner of Permira, a European private equity firm with global reach. He was managing partner from 1999 to 2007 and Chair from 2007 to 2010.

Under his leadership, Permira's funds under management grew from €1.9 billion to over €20 billion and the firm expanded its international network of offices from four to 12. Over the same period, Permira helped to grow and build numerous successful businesses across Europe, including Homebase, Inmarsat and global aviation services group Jet Aviation.

Damon is Chair of the Board at the National Theatre, Chair of the Royal Anniversary Trust, which administers The Queen's Anniversary Prizes for Higher and Further Education, and Senior Independent Director of the European Golf Tour. He is also co-founder of Social Business Trust, an initiative to grow social enterprises by using the knowledge, skills and capital of UK businesses.

In June 2016 Damon was knighted for his voluntary and charitable services.

Mr William Burns

William Burns is an independent non-executive director of Shire Pharmaceuticals and Mesoblast, Vice-Chair of Vestergaard-Frandsen and Chair of Biotie Therapeutics. He also serves as a trustee of the Institute of Cancer Research.

William has over 40 years' experience in the pharmaceutical and life sciences industry. He was CEO of the global pharmaceuticals division of Roche Holdings from 2001 to 2009.

Since 2010, he has chaired the funding committee of the Health Innovation Challenge Fund, a partnership between Wellcome and the Department of Health.

Professor Michael Ferguson, CBE, FRS, FRSE, FMedSci

Mike Ferguson is Regius Professor of Life Sciences and Associate Dean for Research Strategy in the College of Life Sciences at the University of Dundee. His personal research takes a multidisciplinary approach to understanding the biochemistry of protozoan parasites that cause tropical diseases. He believes in the fundamental importance of working across the biology-chemistry interface and in interdisciplinary research in general.

He is particularly interested in translational research and, together with his colleagues, established the Drug Discovery Unit at the University of Dundee and led the construction of the Discovery Centre (for Translational and Interdisciplinary Research).

He also directs a proteomics facility that supports much of the work of the college and clinical biomarker discovery projects with colleagues at the medical school.

Professor Bryan Grenfell, OBE, FRS

Bryan Grenfell is the Kathryn Briger and Sarah Fenton Professor of Ecology, Evolution and Public Affairs at Princeton University. He is jointly appointed at the Woodrow Wilson School and Department of Ecology and Evolutionary Biology.

With over 30 years' experience researching the population dynamics of infectious diseases, his research focuses on the epidemiology, evolution and vaccination control of infections such as measles and influenza. He has advised the UK government and the World Health Organization on the mathematical modelling and control of a variety of infectious diseases.

He is a Fellow of the Royal Society, the American Academy of Arts and Sciences, and the American Association for the Advancement of Science. He has also been awarded the T H Huxley Medal from Imperial College and the Scientific Medal of the Zoological Society of London.

Professor Richard Hynes, PhD, FRS

Richard Hynes is Daniel K Ludwig Professor for Cancer Research at the Koch Institute for Integrative Cancer Research at the Massachusetts Institute of Technology (MIT) and a Howard Hughes Medical Institute Investigator. He previously served as Head of the Biology Department and Director of the Center for Cancer Research (CCR) at MIT.

His research is concerned with understanding the molecular basis of cell adhesion and its involvement in cell behaviour, including contributions to human disease.

Richard received a BA and MA in biochemistry from the University of Cambridge and a PhD in biology from MIT in 1971. After doing postdoctoral work at the Imperial Cancer Research Fund Laboratories in London, he returned to MIT as a faculty member of the CCR.

He is a Fellow of the Royal Society and a member of the American Academy of Arts and Sciences, the National Academy of Sciences and the Institute of Medicine. Awards include the Gairdner Foundation International Award, the Pasarow Medical Research Award, a Guggenheim Fellowship and a Research Career Development Award from the National Institutes of Health.

Professor Dame Anne Johnson, MD, FRCP, FFPH, FRCGP, FMedSci

Anne Johnson is Professor of Infectious Disease Epidemiology, Chair of the Population Health Domain, and Vice Dean for external and international relations in the Faculty of Population Health at University College London. She was formerly Director of the university's Division of Population Health.

After training in medicine at the University of Cambridge and Newcastle University, she specialised in epidemiology and public health and has a clinical research career spanning over 30 years.

Her research interests focus on the epidemiology and prevention of HIV and sexually transmitted infections. This includes sexual lifestyle studies, international HIV cohort studies, behavioural intervention studies, and the epidemiological and immunological determinants of seasonal and pandemic influenza transmission.

Anne is a Fellow of the Academy of Medical Sciences and was made Dame Commander of the British Empire in 2013.

Professor Peter Rigby, PhD, FRS, FMedSci

Peter Rigby trained as a molecular biologist at Cambridge and Stanford, California, and has since worked at Imperial College, the MRC National Institute for Medical Research and the Institute of Cancer Research (ICR), all in London.

From 1999 to 2011, he was Chief Executive of the ICR, where he remains as Professor Emeritus of Developmental Biology, working on the regulation of gene expression during the development of the embryo.

Peter serves as Chair of the Board of Trustee Directors of the Babraham Institute and as a member of the Council of Marie Curie. He is a Fellow of the Royal Society and of the Academy of Medical Sciences, and a Member of the European Molecular Biology Organisation.

Peter was Deputy Chairman of the Board of Governors from October 2010 to September 2013.

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Reference and Administrative Details

for the year ended 30 September 2016

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Banker

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