Annual Report And Financial Statements 2012

wellcome trust

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Sustained investment in research can bring real benefits

Summary of Chairman's Statement

- We committed £701 million in grant funding and direct charitable activities this year, mostly in grants to scientists working in medical research, and most of them in the UK.
- Central to much of the genetics research we fund is the Wellcome Trust Sanger Institute. We have invested more than £1 billion there over the last 18 years.
- The future of science really does depend on the quality of science education today.
- Our investment returns drive our ability to make charitable commitments. In 2011/12, we returned £1.6 billion, bringing our investment return over ten years to 145% and over twenty years to 411%.

The Wellcome Trust committed £701 million in grant funding and direct charitable activities this year, mostly in grants to scientists working in medical research, and most of them in the UK. I was thrilled this October when the UK's strength in basic biomedical research was recognised by the 2012 Nobel Prize in Physiology or Medicine which was shared by a former Governor of the Trust, Professor Sir John Gurdon. His work showed that mature cells had the potential to be reprogrammed into stem cells. Subsequent decades of investment in stem cell research have brought us ever closer to realising the promise of stem cell therapies.

We saw again this year how sustained investment in research can bring real benefits. Genetics has been one of the Trust's most focused areas of funding since the mid-1990s. First, we sought to decode the human genome; then we had to find ways to apply that knowledge. I think we are at a stage now when we can stop talking about genetics improving health in the future – it is improving health today. Looking forward, the Trust is funding a clinical trial of a gene therapy for choroideraemia, a rare genetic disorder that slowly causes people to lose their eyesight. The therapy uses a benign virus to deliver a healthy copy of the defective gene into patients' eyes. The trial began in October 2011 and, this time next year, we should know whether it has been successful in halting loss of sight in the first 12 patients.

Central to much of the genetics research we fund is the Wellcome Trust Sanger Institute. We have invested more than £1 billion there over the last 18 years. The Sanger Institute was at the heart of the Human Genome Project, providing one third of the sequence decoded over ten years; today, it continues to lead the world in this field. With data capacity currently at 16 million gigabytes and a staff of 850, collaborating with the European Bioinformatics Institute on the same site and with thousands of other scientists around the world, the Sanger Institute now sequences dozens of genomes every day. Their work is driving the first wave of stratified medicine, improving cancer therapy for patients by examining the genetics of individual tumours, and revealing the genetic basis of the way specific cancers respond to different drugs.

At the same time, ever-improving technology is giving us an advantage against infectious diseases. A study published this summer demonstrated how modern genome sequencing could track methicillin-resistant Staphylococcus aureus (MRSA). Retrospective analysis of samples from a real outbreak of MRSA in a hospital showed that the outbreak could have been identified and stopped sooner with the new technology. This approach could help to control outbreaks of hospital-acquired infections more effectively than existing laboratory techniques.

Changing world

Britain was the workshop of the world 150 years ago. Today, we have a new role as one of the leading 'knowledge shops' in the world. Through partnerships with other funders, universities, businesses, charities and government agencies, we can facilitate creative interactions between researchers in all sectors. The Wellcome Trust continues to invest substantially in the UK's universities, but we are also ensuring that their scientific discoveries can be used to improve healthcare.

For example, together with GlaxoSmithKline and the UK government, the Trust funds Stevenage Bioscience Catalyst, where academic and industry scientists work side by side in an ethos of 'open innovation'. The first tenants moved in this February. By working on the same site, researchers from different fields and sectors will be able to share expertise and exchange ideas. This should lead to new projects and the faster and more effective translation of research into patient benefit.

Investments

I am very pleased at the start made by Syncona, our new investment company set up this year specifically to invest in the health and biotechnology sectors. By investing in exciting opportunities in the translation of research into new treatments and patient care technologies, we expect it will make significant returns for the Trust in the longer term. Syncona has already made its first investment and looks set to be a valuable catalyst to create value through new healthcare companies at an early stage of development.

Our investment returns drive our ability to make charitable commitments. In 2011/12, we returned £1.6 billion, bringing our investment return over ten years to 145% and over twenty years to 411%. These returns exceeded those from public equities but were achieved with considerably lower reported volatility. Our net portfolio value is £14.5 billion. Charitable cash payments in the year of £643 million are twice the level at the turn of the century and are 35% higher than in the year 2006/07 before the global financial crisis; steady growth in each subsequent year has provided useful stability to UK medical research as other funding sources have come under pressure.

Our investment team, led by Danny Truell, has evolved our portfolio in a number of ways. The portfolio has been globalised such that net UK and other European assets now account for only 13% of the portfolio compared with 48% in 2006, providing some protection from European recession. 33% of our assets, as well as our market and currency overlays, are now managed in-house; turnover of these assets, direct holdings in public companies, private companies and property, is very low. Combined with illiquid investments in private equity and venture partnerships, including five multi-asset partnerships in Faster Growing Markets, 60% of the portfolio is now invested in long-term assets, designed to be held for many years or even decades. Over the past five years, the main illiquid investments have delivered returns about 25% higher than those from public equities.

Our macro-economic prognosis is not positive as fiscal austerity and debt deleveraging continues. However, we think that companies, focused on the opportunities created by ageing populations, the shift to disruptive knowledge-based industries, new Faster Growing Markets in Africa, Asia and Latin America and resource scarcity, with a global long-term horizon and patient investors, will be best placed in this environment.

A strong legacy

Sir Mark Walport will be stepping down as Director of the Wellcome Trust at the end of March 2013. I'm sure there will be many opportunities to thank him and wish him well in his new role as the UK's Chief Scientific Adviser. For now, I will just say that his contribution over the last ten years has been enormous. In the meantime, I would like to thank Peter Davies, Roderick Kent and Professor Chris Fairburn, who all stepped down from the Board of Governors this year, for their immeasurable contributions to the Trust's activities.

In their place, we welcomed three new Governors. Professor Mike Ferguson is a researcher in parasitology at the University of Dundee, with a particular interest in translational research; he is also the Dean of Research for the College of Life Sciences at Dundee. Alan Brown has enjoyed a career of nearly 40 years in investment management, most recently as Chief Investment Officer of Schroders. And Damon Buffini is a founding partner of one of Europe's most successful private equity groups, Permira, and a co-founder of the Social Business Trust, which uses the knowledge, skills and capital of UK businesses to support social enterprises.

As Governors, our responsibility is to use Sir Henry Wellcome's legacy to make a real difference to people's health around the world. While primarily supporting research towards achieving this goal, Henry's intention was always that science could also be understood and used by the public. We had a golden opportunity to bring science to the public as the London 2012 Olympic and Paralympic Games entertained and inspired the country. Our contribution to the Olympic spirit was In The Zone, providing over 30,000 UK schools with kits full of ideas for exciting classroom experiments focusing on the science of the body in motion. These will help teachers nurture a love of science in their students for years to come.

The popularity of science in schools continues to rise again, countering a decline in the numbers of students taking science and maths A Levels through most of the 1990s. The rise has coincided with the Wellcome Trust's support for the National Science Learning Centre in York, which provides continuing professional development training to teachers so that they can keep up with the latest developments in science and how best to teach it. Alongside this, in 2008 we launched Project ENTHUSE, a £27 million partnership between the Trust, the UK government and industry, to provide bursaries that enable teachers to cover the full costs of attending these courses. Our 7000th bursary was awarded this year and the government has renewed its commitment to the scheme for a further five years.

The future of science really does depend on the quality of science education today. By supporting science teachers, we are fostering the next generation of researchers and a society that will cherish and support their work. It is an integral part of our long-term vision of funding the brightest minds to achieve extraordinary improvements in health.

Bill Castell

Sir William Castell
Chairman of the Wellcome Trust

18 December 2012

Our Vision and Objects

We are dedicated to achieving extraordinary improvements in human and animal health

The objects of the Wellcome Trust (the "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; and

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 Mission

We support the brightest minds in biomedical research and medical humanities

Our three key focus areas for funding:

Outstanding researchers

We believe passionately that breakthroughs emerge when the most talented researchers are given the resources and freedom they need to pursue their goals.

Application of research

We are committed to maximising the application of research to improve health by focusing on new product development and the uptake of patient-oriented research advances into clinical practice.

Medicine in culture

We strive to embed biomedical science in the historical and cultural landscape, so that it is valued and there is mutual trust between researchers and the wider public.

The challenges

Our healthy investment portfolio enables us to fund a wide variety of charitable initiatives

Maximising the health benefits of genetics and genomics

We will maximise the power of genetics and genomics research to enhance global health.

Understanding the brain

We will support research to improve understanding of how the brain functions and to find improved approaches for treating brain and mental health disorders.

Combating infectious disease

We will promote an integrated approach to the study of infectious disease in human and animals.

Investigating development, ageing and chronic disease

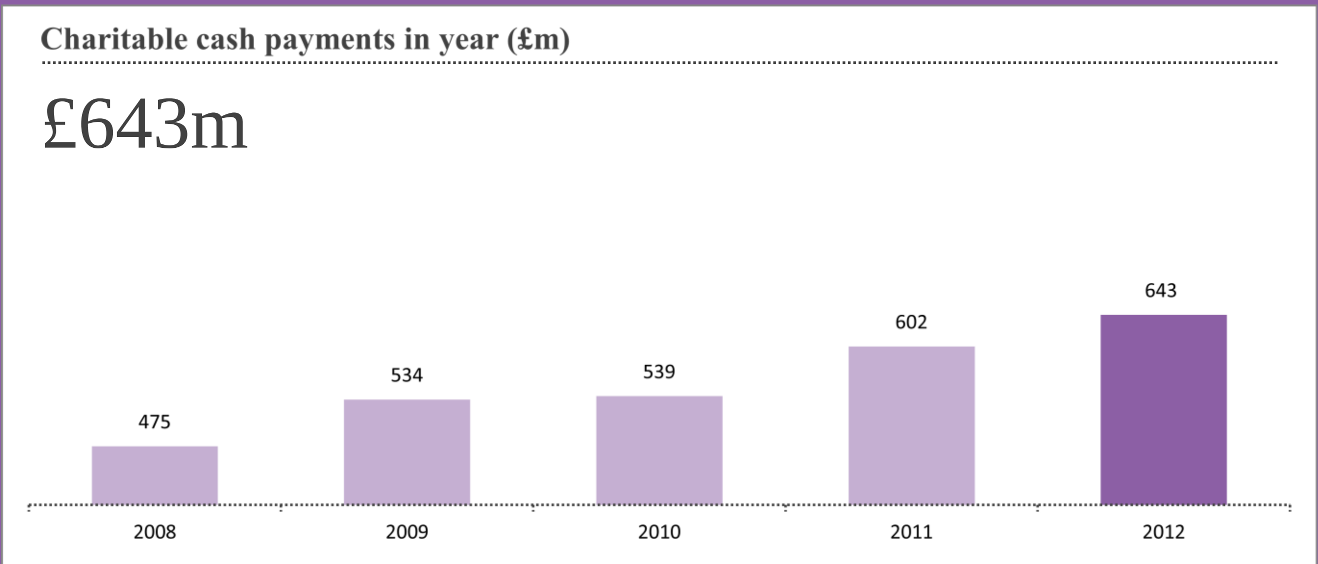
We will aim to develop an integrated understanding of how the body develops, functions and ages, and of the factors that contribute to the onset and development of chronic diseases.

Connecting environment, nutrition and health

Global health is under serious threat from the interlinked issues of access to nutrition, food security and climate change. We will foster multidisciplinary research to address these problems and to inform the global response.

£643 million charitable cash payments made during the year

Key financials at a glance:



Our focus is on:

Ensuring

Ensuring our long-term financial position is secure and our spending levels sustainable

Responding

Responding rapidly to new opportunities

Preserving

Preserving, at least, the real purchasing power to the investment base

Planning

Planning to sustain funding to deliver our mission

Reserves policy

Our reserves policy is to set spending at a level intended to sustain funding to deliver our charitable mission while preserving the investment base. This should provide for real increases in annual expenditure while preserving the capital base in real terms.

Investment policy

Our assets are invested in accordance with the wide investment powers set out in the Trust Constitution and within its Investment policy. The Investment policy is reviewed regularly 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.

Further details of the our Investment policy are available on the Trust's website (www.wellcome. ac.uk).

Expenditure policy

Our annual grant commitment budget is set by reference to a three-year weighted average of the values of the investment assets in order to smooth the effect of short-term volatility. Adjustments to this budget can be made in a controlled manner to reflect expected known events such as adverse economic or market events. This has enabled us to reduce the impact of the recent recession on our charitable funding.

Over the next five years we will again aim to commit over £3 billion funding for charitable activities; however, the actual amount will depend on our investment performance.

The Board of Governors regularly monitors market and economic conditions and has currently set the spending policy as committing 4.7% of the three year weighted average of investment assets. This results in an expected annual cash payout of 4.0% of the investment assets because the commitments are paid out over several years.

Financial position

The Trust's Reserves policy, Investment policy and Expenditure policy are set out within this Review. With this in mind and after considering the 2013 budget and longer-term plans, the cash flows and the highly liquid nature of a substantial portion of the Trust'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 Trust and the Group.

Charitable activities

We support high-quality research across the breadth of the biomedical sciences – from blue sky to clinical and applied research – and encourage the translation of research findings into medical benefits. Our funding in the medical humanities and public engagement seeks to raise awareness of the medical, ethical and social implications of research and to promote dialogue between scientists, the public and policy makers.

Although the majority of grants are awarded to recipients in the UK, 13% of grant funding this year was awarded directly to support research overseas. Grant funding is usually channeled through a university or similar institution in response to proposals submitted by individual academic researchers.

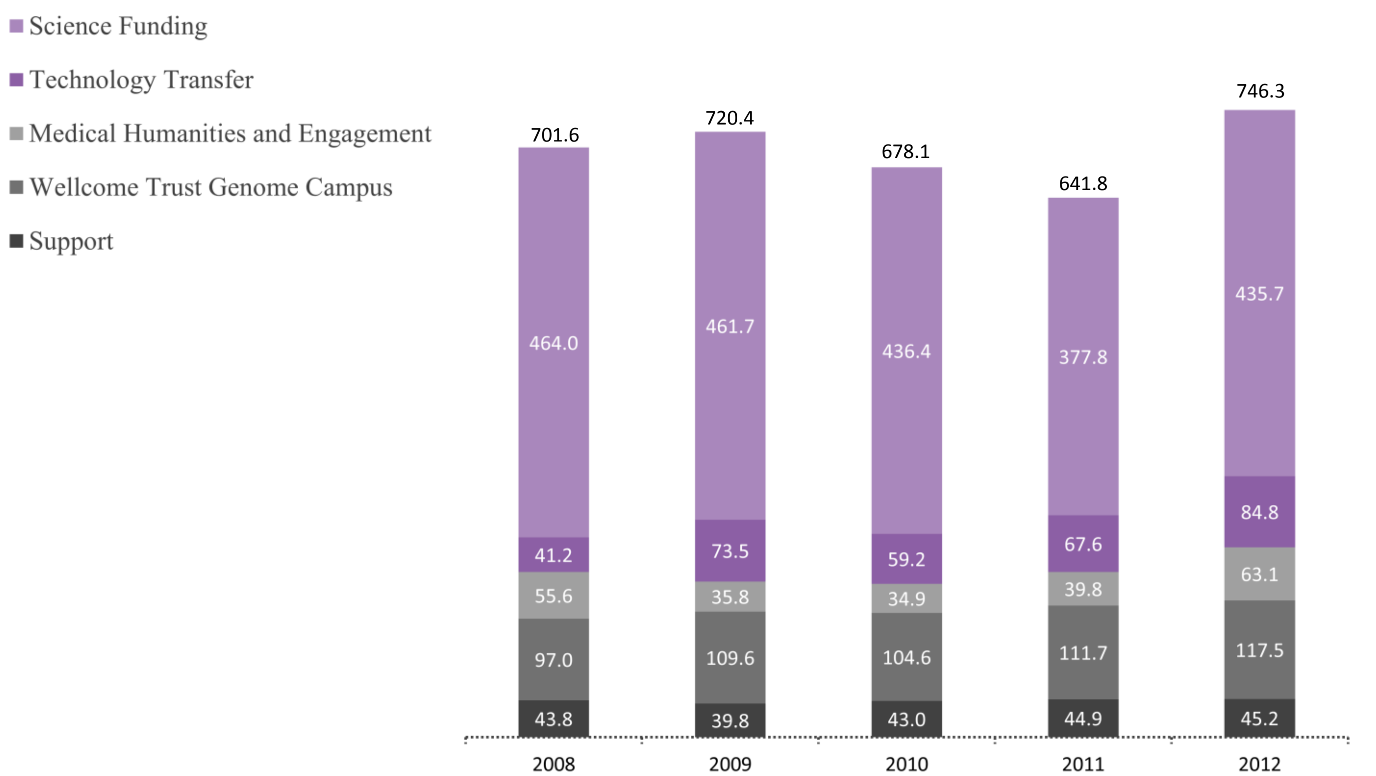
Applications are peer-reviewed, and expert committees typically make the funding decisions. Where initiatives fall outside of established review processes, decisions are made by the Strategic Awards Committee. Grant awards are typically made to the employer institution, which takes responsibility for grant administration. Only a limited number of small-scale awards are made directly to individuals.

We also fund our own research centre, the Wellcome Trust Sanger Institute, channelling support through a wholly-owned subsidiary, Genome Research Limited. Researchers use genome sequences to advance understanding of the biology of humans and pathogens in order to improve human health.

Charitable activities represent funding that we commit to in each year. Many of these commitments will be paid in cash in future years.

The total expenditure in the chart below includes commitments each year from our special dividend fund set aside in 2007 for initiatives of global importance, with exceptional vision and scale, and where there is the prospect of high impact outcomes. The increase in expenditure in 2012 relates to special dividend initiatives such as Insight: Research for Mental Health, Human Heredity and Health in Africa, and E-health Informatics Research Centres. The initiative also included renewals of Strategic awards to the Africa Centre for Health and Population Studies and the Wellcome Trust Centre for Stem Cell Research and an award to the new Wellcome Trust Centre for Mitochondrial Research.

Charitable activities by type (£m)



Charitable cash payments

The chart below details the payments that have been made each year.

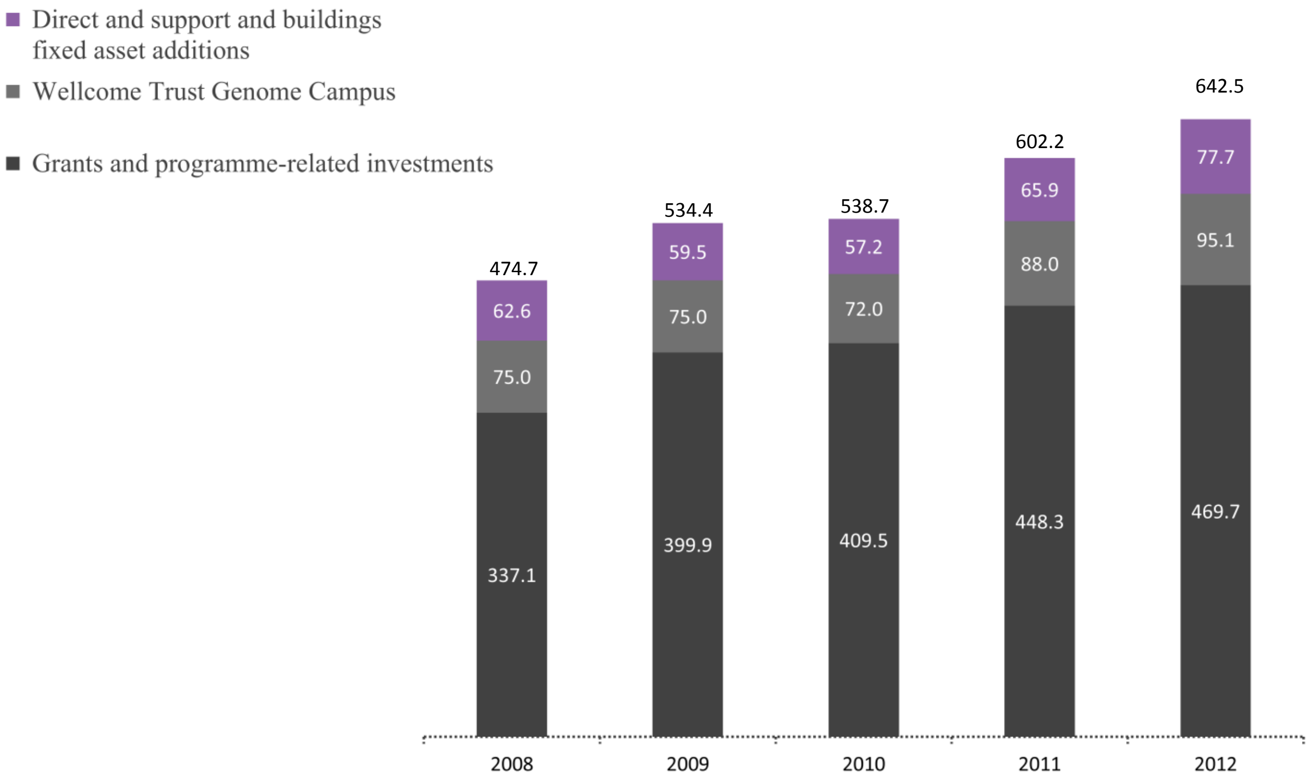
The total anticipated charitable expenditure over the life of a grant is recognised in the year in which the grant is awarded and included in the charitable activities in that year. However, payments made over the life of the grant are included in charitable cash payments in the year in which they are made and consequently charitable cash payments in any one year will include amounts relating to grants awarded in prior years. The increase in grants awarded over recent years is therefore also reflected in the recent increase in cash out flows which is expected to continue in 2013.

Incoming resources and matching of cash receipts with cash payments

The Board of Governors is kept informed, by the Trust's investment team, on the current and future cash flows, ensuring that there are always sufficient cash reserves to meet the required expenditure on charitable grants.

Incoming resources in the Statement of Financial Activities include dividends, interest, rental earned and turnover from the trading subsidiaries. They do not take account of incoming cash receipts from the disposal of investments. Cash payments are funded by a combination of incoming resources, cash balances and sales of investment assets.

Charitable cash payments (£m)



This review provides examples of our funding, activities and accomplishments during the year ended 30 September 2012 as well as looking forward to some of our future activities

Charitable activities at a glance:

1 Science Funding

We support research into all aspects of biomedical science: from molecules and cells vital to life, through the spread of diseases or the vectors of disease across the globe, to clinical and public health research to improve the quality of healthcare.

2 Technology Transfer

We help to bridge the gap between fundamental research and commercial application by funding applied research and development projects to a stage where they are attractive to a follow-on funder, such as venture capital firms, industry and public-private partnerships.

3 Medical Humanities and Engagement

Our funding encourages bold and intellectually rigorous research applications that address the important questions at the interface of science, medicine and the wider humanities (including the social sciences and the arts). Funded research will further develop our understanding of the impact of medicine and medical sciences on human and animal health.

4 Wellcome Trust Genome Campus

Funding is provided to investigate the role of genes in health and disease, run an advanced courses programme, which provides practical training in the latest biomedical research techniques and bioinformatics tools, and promote public engagement in the activities.

Achievements reported here often reflect the results of many years of research from previous funding. The *Wellcome Trust Annual Review* for the period 1 October 2011 – 30 September 2012, which is published alongside this *Report*, is also available on the Trust's website (www.wellcome.ac.uk) and covers more of the year's scientific achievements.

The examples here are presented in terms of our Strategic Plan for 2010–20, again available on the Trust's website. Introduced in 2009/10, the Strategic Plan sets out how we work with others to achieve extraordinary improvements in human and animal health. In it we highlight the three focus areas of our funding which, to a large extent, overlap with the work of our three funding divisions: Science Funding, Technology Transfer and Medical Humanities and Engagement. Our focus areas help to ensure we provide the best environment and support for researchers to tackle important questions posed by the five major research challenges that we have identified for this decade.

Advances in science and healthcare can best be achieved by connecting outstanding researchers across sectors, disciplines and countries. In 2011/12, our funding has catalysed relationships that bring together world-leading expertise from industry and academia, across mathematics, physics, engineering, biology, chemistry, medicine and the humanities, around shared goals. The Wellcome Trust works in partnerships with other funders to support large, ambitious projects studying tens of thousands of volunteers, or vast numbers of genes, proteins or molecules. Biomedical science needs to operate in a society that understands and supports its processes and goals if it is to thrive and ultimately deliver health benefits back to that society. We continue to support research aimed at deepening our understanding of the complex relationships between science and society, past and present, and reach out to new audiences, inspiring as many people as possible to think and talk about science.

Focus area 1: Supporting outstanding researchers

We aim to give world-class researchers the resources and freedom they need to pursue their unique visions over the long term, through our Investigator Awards and fellowship schemes and by establishing and fostering multi-disciplinary centres of excellence. Research Centres capitalise on existing strengths, providing collaborative environments with state-of-the-art facilities where ideas can flow freely and expertise be shared across major research programmes.

In January 2012 we awarded £4.4 million to Newcastle University, which contributed a further £1.4 million, to establish the Wellcome Trust Centre for Mitochondrial Research. The centre will combine ground-breaking laboratory studies with clinical expertise in mitochondrial disease and reproductive health, and train the next generation of outstanding scientists in these areas.

Researchers at the Centre are uncovering the fundamental mechanisms of mitochondria, including how inherited mutations in mitochondrial genes lead to devastating diseases of the heart, brain and liver, and the role of mitochondrial failure in ageing and degenerative diseases such as Parkinson's disease. They have already developed techniques to prevent the transmission of mitochondrial diseases from mother to child by implanting nuclear DNA from the mother into donor eggs with healthy mitochondria. A public consultation currently being conducted by the Human Fertilisation and Embryology Authority will help the government determine whether to allow the techniques to proceed in patients.

In the second year of our Investigator Awards scheme, which supports exceptional researchers in established academic posts, 45 Senior Investigators and 10 New Investigators received funding. For researchers at an earlier stage of their career, we introduced a new fellowship scheme this year in partnership with the Royal Society. 10 outstanding researchers were successful in the inaugural round of Sir Henry Dale Fellowships, named after the 1936 Nobel Prize winner who was Chairman of the Wellcome Trust (1938 - 60) and President of the Royal Society (1940 - 45). The fellows receive resources that enable them to develop their skills, forge collaborations and become world-leaders in their fields.

Last year, the Trust formed a partnership with the Max Planck Society and the Howard Hughes Medical Institute to develop a new online, open-access research journal called eLife. Over the course of this year, the editorial team was announced, as well as the initial call for submissions. eLife began publishing research papers in late 2012, with the full journal website due to launch in December. Our aim is for eLife to set a new standard for modern scientific publishing, benefitting researchers and society.

Focus area 2: Accelerating the application of research

The translation of research findings into new therapies of proven benefit to patients takes place at the interfaces of industry and academia, and of basic and clinical research. To help bridge those interfaces, we teamed up with GlaxoSmithKline and the government, making a joint £38 million investment to establish the UK's first open-innovation bioscience campus.

Stevenage Bioscience Catalyst, on GlaxoSmithKline's Stevenage campus, aims to provide a collaborative environment to stimulate industry and academic partnerships, focusing on early-stage drug discovery and development. Industry will benefit from publicly funded researchers' knowledge of biological systems and ability to identify new biological targets and, in turn, will bring its own expertise in optimising drugs and clinical trial design to the mix. Researchers from Aptiv Solutions, a company providing drug and medical device development services, were the first to move in, followed by a team from the University of Cambridge who are establishing a new centre of innovation on the campus.

To support pilot research projects that are likely to deliver new therapies for rare and neglected diseases, we launched our new Pathfinder Award scheme in February. The scheme will help to overcome the lack of financial incentive for industry to invest heavily in these areas by funding academic industry partnerships. The first two awards were announced in September. One is supporting researchers at Lilly UK and University College London, who are developing a line of human stem cells to study a rare group of severe neurological disorders. The other went to a team at Pfizer who, in collaboration with scientists in the Structural Genomics Consortium at the University of Oxford, are studying the enzyme affected in a rare hereditary metabolic disorder.

Among individual translational projects making progress this year with Trust support was a project to develop a form of peptide immunotherapy for type 1 diabetes. Scientists at King's College London are identifying which peptides on the insulin-producing beta cells in our pancreas are wrongly targeted by the immune system in type 1 diabetes. They will then develop a therapy that teaches the immune system to tolerate these specific peptides, thereby stopping the immune system killing beta cells. The aim of the project is to develop the therapy so that it can be tested in early clinical trials in patients.

Separately, in our investment activities, we saw exciting opportunities to create long-term returns through investing in promising healthcare businesses and taking advantage of our deep connection with this field. We therefore committed £200 million to invest in promising healthcare businesses through Syncona, a new firm wholly owned by the Wellcome Trust and with its own specialist management team that will leverage our experience in biotechnology with investment expertise.

Focus area 3: Exploring medicine in historical and cultural contexts

Uniting the tensions and thrills inherent in both science and sport, our In the Zone initiative inspired people throughout the UK to take an active interest in the science behind the record-breaking performances at the London 2012 Olympic and Paralympic Games. In collaboration with Pearson Education we developed free experiment kits for students aged 4 to 18 to investigate the effects of exercise on their physiology, and delivered almost 31,000 kits to schools and colleges throughout the country. As part of In the Zone, a high-tech, immersive exhibition toured the UK, allowing visitors to test their physical abilities. The exhibition and accompanying live science shows engaged around 90,000 people at open-air community events, and the initiative was awarded the Inspire Mark by the London Organising Committee of the Olympic Games.

Exercise, energy and movement was the theme of our spring issue of Big Picture this year, offering further inspiration for biology lessons tying the Games to post-16 science curriculums across the UK. Big Picture is a free resource published twice a year by the Trust for teachers, exploring issues around biology and medicine. Our second issue this year focused on careers from biology, demonstrating that high-quality science education can help young people achieve ambitions in a wide range of careers, including environmental engineering and science communication as well as in healthcare and biomedical research.

Supporting teachers is at the heart of the Trust's education strategy, with our largest commitment to date being the National Science Learning Centre (NSLC) in York. This centre provides teachers and technicians with rich, residential professional development courses that keep them up to date with the latest scientific discoveries and best practice in science teaching. To help schools meet the full costs of sending teachers on this training, we founded Project ENTHUSE in 2008 with £27 million of funding from the government, industry and the Trust. This year, we awarded the 7000th ENTHUSE bursary, reflecting the appetite among science teachers to do the best they can for their students, and the success of the NSLC and Project ENTHUSE in enabling them to do so.

This year we extended Investigator Awards to medical history and the humanities, to allow world-class scholars in established academic posts to investigate how science and society interact. Among the first Senior Investigators are researchers examining the lives and practice of physicians in the UK from 1500 to 1715, and the global movement for primary health care in the late 20th century.

The Wellcome Library united its own genetics archives in digital form with those held in five other world-class libraries in the USA, Scotland and England. The online repository, 'Foundations of Modern Genetics', is the first phase of a major programme to digitise archives across the history of medicine and make them freely available online. The Library also welcomed its first Library Fellow, who will be researching Francis Crick's scientific career and the ways in which scientists work, collaborate and interact.

Highlights at Wellcome Collection this year included *Superhuman* and *Brains: The mind as matter*, our most popular exhibition. More than 490,000 people visited the venue this year, far more than the 100,000 annual target when it opened. Given this success, we will be expanding Wellcome Collection during 2013, opening up more gallery space, doubling capacity for public events and transforming the Wellcome Library's iconic Reading Room into a public space at the heart of the building.

Challenge 1: Maximising the health benefits of genetics and genomics

In October 2011, researchers at the University of Oxford and Imperial College London began a trial of a new form of gene therapy to treat choroideraemia, a genetic disease in which a mutation in the REP1 gene causes the cells in the retina to degenerate leading to incurable blindness. They injected a virus carrying a healthy version of the gene into the eyes of 12 human patients. The virus was engineered to infect the diseased retinal cells and insert the healthy gene into their genomes. The trial will run for two years, after which time the researchers will find out whether the treatment has stopped any further degeneration in sight.

Meanwhile, a team at the Wellcome Trust Sanger Institute and the University of Cambridge used stem cell technology to correct a gene containing a mutation that causes liver and lung diseases. They took stem cells containing the faulty gene from a patient and used 'molecular scissors' to cut the genome at precisely the right place and insert a healthy version. When the treated cells were converted into liver cells, the corrected gene worked normally.

A collaboration between scientists at the Sanger Institute and Cancer Research UK led to a paper in the New England Journal of Medicine describing the extraordinary genetic variability of cancer cells, even within a single tumour. That variability explains why patients with the same type of cancer respond differently to the same chemotherapy. To help clinicians identify the right drug for individual patients, the Cancer Cell Line Screening Project – a five-year transatlantic collaboration between the Sanger Institute's Cancer Genome Project and the Massachusetts General Hospital Cancer Centre – is cataloguing how more than 600 distinct cancer cell lines respond to 130 drugs.

As well as informing our understanding of development, health and disease, genetics tells us about evolutionary history. A Trust funded study comparing viral DNA in the genomes of 38 species of mammal, including humans, was published in the *Proceedings of the National Academy of Sciences* by researchers from the University of Oxford, the Aaron Diamond AIDS Research Centre in New York and the Rega Institute in Belgium. It showed that ancient viruses had adapted to survive by spreading throughout the host animal genome instead of being transmitted to other animals.

Challenge 2: Understanding the brain

Genetics and neuroscience come together in the work of Professor Karen Steel, who works on hearing loss. Based at the Wellcome Trust Sanger Institute since 2003, she identified the first mouse gene involved in deafness, *Myo7a*, in 1995 and continues to study mutations that contribute to loss of hearing. This year she was awarded half of the €1 million Brain Prize, which is awarded annually by the Grete Lundbeck European Brain Research Foundation.

In September 2012, a team at the Centre for Stem Cell Biology, University of Sheffield, published a paper in *Nature* describing how they had – for the first time ever - prompted stem cells to differentiate into progenitor nerve cells. They then transplanted the cells into gerbils with deafness caused by damaged nerves, improving their hearing within a few weeks. The work was co-funded by the Trust.

A technique for measuring the activity of thousands of individual brain cells simultaneously was also reported in *Nature* this year. The technique was developed by a Sir Henry Wellcome Postdoctoral Fellow and colleagues at the University of Cambridge and Harvard University. They used it to study the roles of different cells when a zebrafish adapts its movement in response to external stimuli. The findings offered an insight into how human brains might work when we adapt our movements to cope with a change in conditions, such as walking on a slippery surface.

Exploring the science of the brain in a very specific historical context, a new book called *The Pursuit of the Nazi Mind: Hitler, Hess and the Analysts*, written with Trust support, explored how the British and Americans made extensive use of psychoanalysis and psychiatry to probe the Nazi state of mind during World War II. In addition, an analysis of data from the Health Survey for England published in the *British Medical Journal*, linked mind and body to find a clear association between poor mental health and reduced life expectancy.

Challenge 3: Combating infectious diseases

Drug resistance is one of the deadliest challenges confronting researchers in infectious diseases. Researchers at the Wellcome Trust Sanger Institute, the University of Cambridge and biotechnology company Illumina have used whole-genome sequencing techniques to retrospectively analyse an outbreak of methicillin-resistant Staphylococcus aureus (MRSA) in a Cambridge hospital. The work, published this year, found that they could have identified the outbreak earlier than was possible with current laboratory techniques. They could also have identified genetic mutations conferring antibiotic resistance. This approach could be used to inform control measures and help clinicians select the most effective antibiotics during an outbreak.

Trust-funded research in Asia and Africa highlighted the need for coordinated global action by scientists, medics, public health organisations and policy makers to slow the spread of drug-resistant malaria. A study published in the *Lancet* by researchers at the Trust's Shoklo Malaria Research Unit indicated that resistance to artemisinin-based combination therapies - the frontline treatments for Plasmodium falciparum malaria – had spread across Thailand. In collaboration with scientists at the Texas Biomedical Research Institute, San Antonio, they published another paper showing that the development of resistance was due to genetic changes in a region on chromosome 13 of the malaria parasite's genome. Fuelling concerns that malaria may become untreatable with current therapies, another team of researchers reported that antimalarials on sale in Africa containing sub-optimal amounts of artemisinin were likely to promote resistance to the drug.

Trust funded research at University College London suggested a new approach to tackling drug resistance in HIV, showing that a protein on the virus acts as the 'key' that HIV uses to enter the nucleus of an infected cell. The protein binds to a component of the nuclear pore complex, opening a gateway and letting the virus in. HIV quickly develops resistance to drugs that target the virus itself, but therapies targeting the human nuclear pore complex in order to block the virus's entry into the cell nucleus might be harder for it to evade.

Challenge 4: Investigating development, ageing and chronic disease

In August 2012, the Wellcome Trust teamed up with the Medical Research Council to establish a new institute for stem cell research at the University of Cambridge. The £8 million centre will unite 25 world-class research teams working across the three main types of stem cell: embryonic, adult and induced pluripotent cells. Stem cell research is starting to generate practical therapies for certain diseases, but it also helps us understand their basic biology. In February, scientists at the Wellcome Trust / Cancer Research UK Gurdon Institute – named after Sir John Gurdon, who shared the 2012 Nobel Prize in Physiology or Medicine for his work 50 years ago that paved the way for stem cell research - reprogrammed skin cells to become stem cells and used them to generate large numbers of neurons, which are now being used to model the progression of Alzheimer's disease.

A partnership between the UK Department of Health, the Medical Research Council, the Scottish Government and the Wellcome Trust, UK Biobank opened to researchers on 30 March 2012. Scientists from the UK and overseas, from academia and industry, can now use the resource, which contains more than 1,000 separate pieces of health information and samples from each of 500,000 volunteers. The work they do will help to unravel genetic and environmental contributions to many diseases.

A £1 million award made jointly by the Trust and the Scottish Executive in 2003 came to fruition this year. The award was made to CardioDigital Ltd (which was subsequently acquired by Covidien plc) to develop software that could turn data from devices worn on the finger to measure a patient's pulse into accurate clinical information about respiration. Such a device would free clinicians from having to count patients' breaths, and allow them to detect and respond to dangerous respiratory events more quickly. In March, Covidien announced the technology had received European Economic Area (EEA) CE Mark approval as well as Food and Drug Administration clearance, meaning the new product line is available in the USA and throughout the EEA.

Exploring the personal and cultural side of chronic disease, poet Richard Tyrone Jones, who was diagnosed with heart failure aged 30, performed his Trust-funded solo show, *Richard Tyrone Jones's Big Heart* at the Edinburgh Fringe Festival, Liverpool's Dadafest and around the UK.

Challenge 5: Connecting environment, nutrition and health

In 2005, the Wellcome Trust funded Indian Migration Study began recruiting factory workers around India who had moved from the countryside to the city, leaving a brother or sister behind in their home village. Research comparing measures of health and lifestyle from each sibling pair showed that migration to cities was associated with increases in obesity. Further papers published this year showed that migrants quickly adopted the lower levels of physical activity prevalent in the urban population, and identified a number of specific dietary factors that predisposed migrants to obesity.

The Wellcome Trust helped fund a project in the USA to generate a model for researchers to test how changes in environment might affect species populations over the centuries. Researchers looked at how factors such as the depth of snow in winter or availability of prey impacted on the survival, reproduction and growth of wolves in Yellowstone National Park, Wyoming. Their results were published in *Science* in December 2011 but the framework for the model can be applied to any species - the researchers have since begun applying it to insect, plant and human populations.

In February, an art exhibition called *Dekha Undekha (Seen Unseen)* opened in Dharavi, one of the most disadvantaged areas of Mumbai, India. The exhibition was created by the residents themselves and funded by a Wellcome Trust international engagement award. A series of workshops helped participants develop skills in photography, ceramics and textile art, and then they worked with artists and health professionals to explore issues such as sanitation, personal hygiene, domestic violence, maternal health and superstitions.

Those themes fed into the exhibition, which featured a street play on safe sex and dreams moulded on ceramic slippers.

In Brazil, environmental changes are helping to drive leishmaniasis from rural areas to the cities. This potentially fatal parasitic infection is transmitted by female sand flies and this year, field trials of a new approach to controlling sand flies began in Brazil with the support of a Wellcome Trust Translation Award. The project uses a combination of a synthetic sand fly sex pheromone and a pesticide to lure and kill female sand flies, with the aim of reducing the transmission of leishmaniasis to people.

Figure 1a
Total portfolio net returns (£)
Period to 30 September 2012

	Annualised return in £ (%)		
	Nominal	UK CPI	Real
Trailing one year	11.6	3.3	8.3
Trailing three years	8.2	3.5	4.7
Trailing five years	3.4	3.2	0.2
Trailing ten years	9.4	2.5	6.9
Trailing twenty years	8.5	2.2	6.3
Since Oct 1985	13.7	3.0	10.7

	Cumulative return in £ (%)		
	Nominal	UK CPI	Real
Trailing one year	11.6	3.3	8.3
Trailing three years	26.7	10.8	15.9
Trailing five years	18.3	17.3	1.0
Trailing ten years	145.1	28.5	116.6
Trailing twenty years	410.9	53.3	357.6
Since Oct 1985	3,132.8	122.0	3,010.8

Figure 1b
Total portfolio net returns (blended £/$)
Period to 30 September 2012

	Annualised return in blended currency (%)		
	Nominal	UK/US CPI	Real
Trailing one year	13.8	2.9	10.9
Trailing two years	8.5	2.9	5.6

Note: With effect from 1 October 2009, a 50/50 UK/US blended CPI has been used as a comparator for real portfolio returns in blended currencies

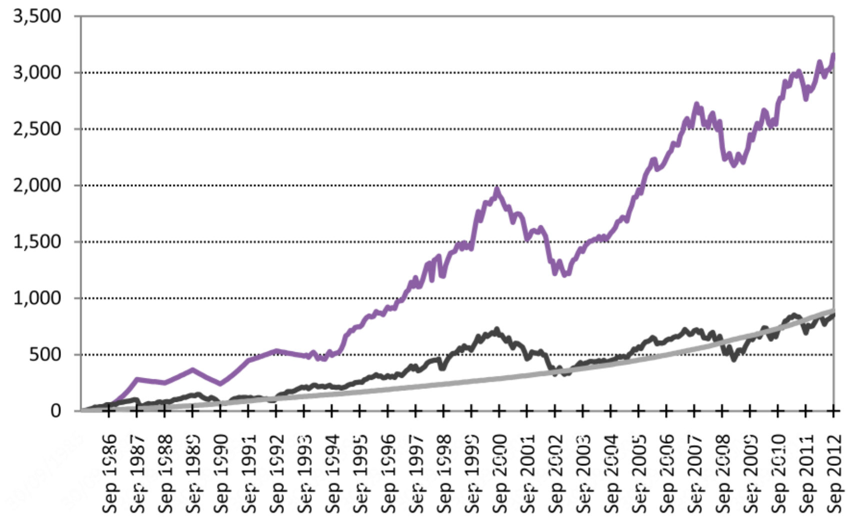
Over the past decade, our portfolio (in £) has returned 145%; over the past twenty years, it has returned 411%. In 2011/12, despite the sharp market sell-off in May, the actions of the US Federal Reserve and the European Central Bank to provide unlimited liquidity to the financial system allowed stock markets to recover strongly; our portfolio benefitted as a consequence, returning 12%. This represents a £1.6 billion gain over the year. After charitable cash payments of a record £643 million, the net value of the endowment rose to £14.5 billion. Our public equity market assets (+17%) outperformed private assets in 2011/12; over the five years since the start of the global financial crisis, however, we have enjoyed a premium return of about 25% above public world equity market returns from our illiquid assets in private equity, distressed debt, venture capital and directly-owned residential and commercial property.

Premium returns from illiquid assets, market timing in asset allocation, active currency management, partner selection and the direct acquisition of public assets at distressed prices have combined to enable the portfolio to outperform world equity markets by 10% over the past decade. For much of that decade, the reported volatility of our returns has been about 60% of that of equity markets.

Our portfolio has become increasingly cash flow generative as public companies have raised dividends consistently, property cash flows have been strong and our increasingly mature private partnerships have delivered greater returns of capital. Without assumptions about reinvestment, based largely on our expectations of realisations from our private equity assets, we now expect to generate substantial free cash flows over the next five years after meeting charitable spend, operational and management expenses.

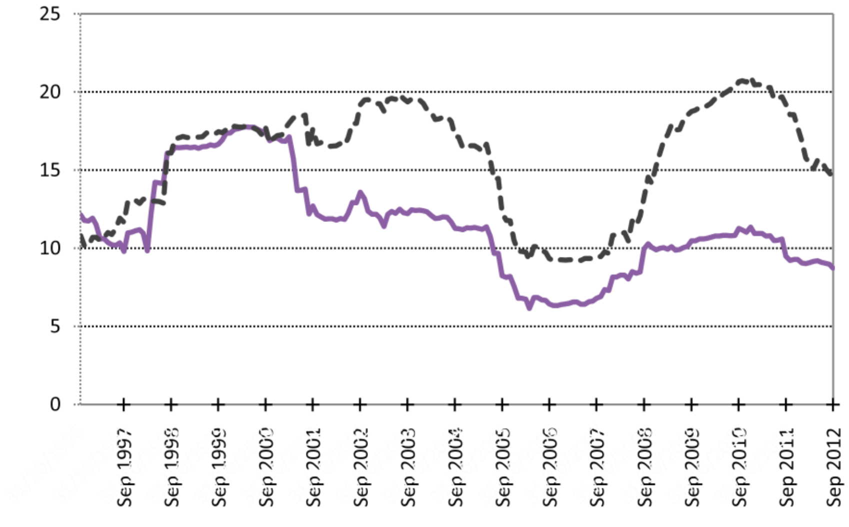
This has enabled us to increase our investment in assets which we aim and desire to hold for the long-term, over many years or even decades. Direct public equity holdings, multi-asset partnerships in faster growing markets in Asia, Africa and Latin America, illiquid private equity and venture capital interests and directly held property investments now make up almost 60% of our portfolio. If cash flows disappoint, we hold 25% of the portfolio in highly liquid externally managed public equities and cash; a further 15% is invested in hedge funds which can provide medium-term liquidity and act to dampen volatility.

Figure 2
Total portfolio cumulative net returns since 1986 (%)



£ from 1986 to 30 September 2009 (UK CPI)
Blended £/$ from 1 October 2009 (UK/US CPI)

Figure 3
Volatility (standard deviation) of returns (%)



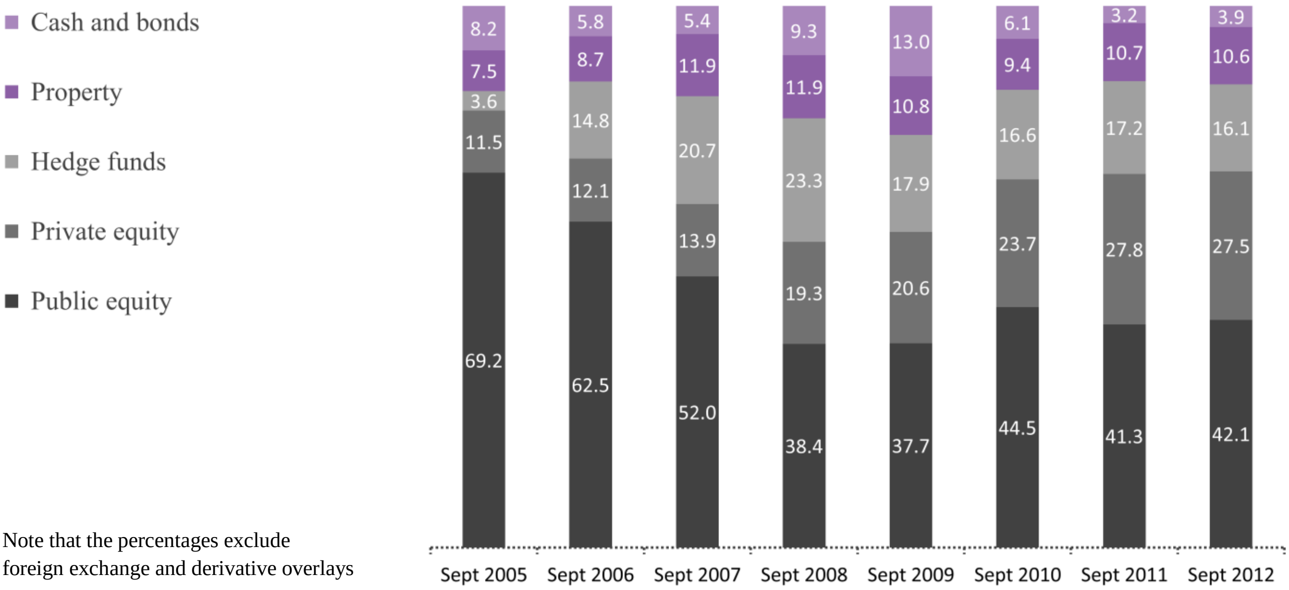
Rolling three years' volatility
£ from 1986 to 30 September 2009
Blended £/$ from 1 October 2009

We have also deliberately increased concentration so that individual assets and partnerships can create a greater impact on overall portfolio returns. We now have individual holdings whose average size exceeds £80 million ($130 million) in our 39 directly held public equities, our remaining 24 hedge fund managers, our ten largest private equity and ten largest venture capital partnerships, our five multi-asset partnerships in Faster Growing Markets and our four largest real estate assets. Our future performance will be principally driven from a combination of the alpha created by these hundred or so assets, our beta and currency overlay activities and the portfolio's overall estimated equity beta of 0.75. The latter is an inevitable consequence of owning real assets which provide some protection from inflation.

Although most market commentators remain focused on macroeconomic and political concerns, we increasingly feel that thematic trends may prove more important in generating long-term returns. The overall level of economic growth in developed markets will amplify or dampen these trends. During the long period of fiscal austerity and debt deleveraging that will be needed in Europe and the US, these trends are likely to be major forces in reshaping economies. Long-term themes will continue to inform our choice of investments, as they have for several years: the opportunities created by ageing populations around the developed world, the shift in Western economies from service-based to knowledge-based industries, the emergence of new, faster growing economies and resource scarcity.

Our activity in 2011/12 was deliberately subdued. As equity markets rallied, we held beta fairly constant by redeeming some monies from external equity managers and by using equity index derivatives to provide some protection. Public equity exposure was thus little changed, although the element invested in long-term Mega-Cap equities, helped by their strong performance, rose to 43% of public equity exposure. Total private equity exposure has broadly stabilized at 25-30% of the total portfolio; investments with growth, specialist sector and Faster Growing Market partners and direct private investments are likely to continue to grow at the expense of buyout and distressed fund investments. We trimmed $400 million (£250 million) from our hedge funds so as to increase concentration and maintain constant overall cash exposure. Overall, the proportion of the portfolio invested directly continues to rise gently.

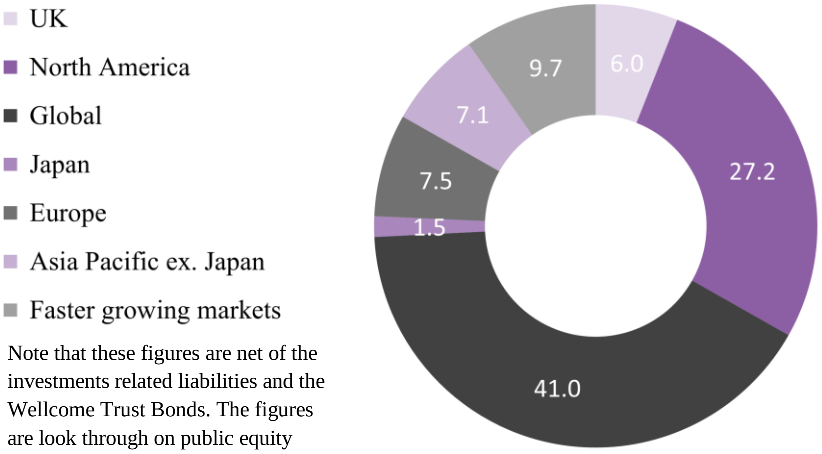
Figure 4a
Evolution of asset allocation (%)



Note that the percentages exclude foreign exchange and derivative overlays

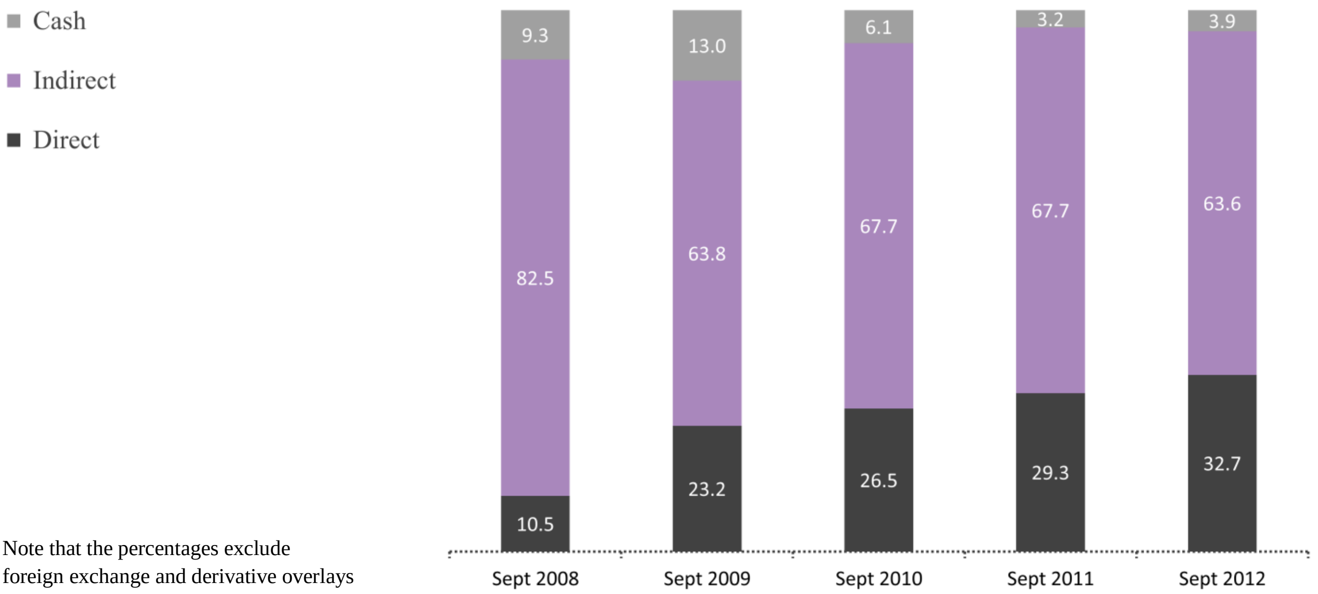
The progressive globalization of the portfolio's net assets has continued. As recently as 2006, the home-country bias to the UK was pronounced at 33% of the total; investment in European assets as a whole was 48%. By September 2009, these respective weightings had fallen to 13% and 22%. By September 2012, they were 6% and 13%. As a consequence, the portfolio has hardly suffered from the underperformance of European assets in the financial crisis. In contrast, direct exposure to Asian and other Faster Growing markets has risen from 10% in 2006 to 14% in 2009 and to 17% in 2012. The largest increase has been in exposure to explicitly global mandates, which has increased from 13% in 2006 to 36% in 2009 and to 41% in 2012.

Figure 5
Regional asset allocation (%)
As at 30 September 2012



Note that these figures are net of the investments related liabilities and the Wellcome Trust Bonds. The figures are look through on public equity funds but not on private funds.

Figure 4b
Evolution of asset allocation, directly and indirectly managed (%)



Note that the percentages exclude foreign exchange and derivative overlays

Figure 6
Investment asset allocation
As at 30 September

	2012 £m	2012 US$m	2012 %	2011 %	Change in allocation %
Public equities	**6,499.0**	**10,494.7**	**42.0**	**41.3**	**0.7**
Global markets	3,554.3	5,739.5	23.0	22.2	0.8
Faster growing markets	1,670.3	2,697.3	10.8	10.5	0.3
Developed	1,521.4	2,456.8	9.8	8.6	1.2
Futures and options	(247.0)	(398.9)	(1.6)	-	(1.6)
Long/short equity hedge funds	**1,104.6**	**1,783.6**	**7.1**	**7.4**	**(0.3)**
Cash and bonds	**599.4**	**967.9**	**3.9**	**3.2**	**0.7**
Cash and bonds	352.4	569.0	2.3	3.0	(0.7)
Futures and options offset	247.0	398.9	1.6	1.0	0.6
Absolute return & buy out	**2,702.4**	**4,363.9**	**17.6**	**18.9**	**(1.3)**
Large MBO funds	862.8	1,393.2	5.6	5.6	(0.0)
Mid MBO funds	317.4	512.5	2.1	2.3	(0.2)
Distressed debt PE funds	283.1	457.1	1.8	2.2	(0.4)
Secondary buyout PE funds	28.7	46.4	0.2	0.3	(0.1)
Multistrategy hedge funds	801.6	1,294.4	5.2	5.0	0.2
Distressed debt hedge funds	255.0	411.9	1.7	2.2	(0.5)
Managed futures hedge funds	153.8	248.4	1.0	1.3	(0.3)
Growth & venture	**2,922.4**	**4,719.0**	**18.9**	**18.6**	**0.3**
Venture funds	1,236.8	1,997.2	8.0	8.4	(0.4)
Faster growing markets	558.3	901.5	3.6	2.7	0.9
Sector PE funds	415.1	670.3	2.7	2.6	0.1
Growth PE funds	127.2	205.5	0.8	0.8	(0.0)
Direct - knowledge	404.3	652.8	2.6	2.0	0.6
Direct - healthcare	140.5	226.9	0.9	1.0	(0.1)
Direct - financials	40.2	64.8	0.3	1.1	(0.8)
Property & infrastructure	**1,634.3**	**2,639.1**	**10.6**	**10.8**	**(0.2)**
Residential property	1,449.0	2,339.9	9.4	9.3	0.1
Commercial property	185.3	299.2	1.2	1.5	(0.3)
Currency hedges	**(10.7)**	**(17.3)**	**(0.1)**	**(0.2)**	**0.1**
Total assets	**15,451.4**	**24,950.9**	**100.0**	**100.0**	**-**
Bond liability 4.625% 2036	**(639.3)**	**(1,032.3)**			
Bond liability 4.75% 2021	**(332.7)**	**(537.3)**			
Total assets inc bond liability	**14,479.4**	**23,381.3**			

Public equities

In 2011/12, the 42% of our portfolio (£6.5 billion, $10.5 billion) invested in public equities showed a positive return of 17% in £ terms. Our internally managed Mega-Cap Basket (43% of our public equity investments) delivered a return of 20%. Over the past three years, our equities have slightly underperformed against world markets because of our preference for equities in faster growing markets (26%).

We further reduced the number of external managers by two. Performance has been assisted by the outperformance, since the inception of their mandates, by 12 out of 14 of our remaining external managers, as well as by the outperformance of Mega-Cap and Optionality Baskets.

There are 31 holdings in our Mega-Cap Basket. Each company's market capitalization is in excess of $60 billion, each is quoted on a developed market and operates on a global basis. In line with our long-term investment philosophy, no shares have ever been sold since the inception of the basket, in 2008, in 30 of the existing holdings. No new holdings were initiated during the year. The basket, valued at £2.8 billion ($4.5 billion), has returned 39% against cost. The average holding size is £90 million ($145 million); 28 of the shares have delivered a positive return. Each company is covered by an internal analyst who actively engages with company management to promote long-term strategic thinking. As large companies have taken the lead in raising dividends, the basket's prospective 12 month forward yield is 3.3% and it is valued on a prospective consensus 2013 Price/Earnings Ratio of 12.0 times.

The directly managed Optionality Basket is valued at £262 million ($420 million), consisting of three companies whose operating performance and valuation appear to offer considerable upside potential

Figure 7

Public equity net returns (%)
Period to 30 September 2012

	Annualised return in £ (%)		
	Wellcome	MSCI World	Relative
One year	16.8	18.0	(1.2)
Three years	7.2	7.7	(0.5)
Five years	3.1	3.1	-
Ten years	9.4	8.3	1.1
Since January 1993	7.9	7.0	0.9

Figure 8

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

	2012 Value £m	2011 Value £m	2010 Value £m	2009 Value £m
Indirectly managed	**3,567**	3,584	4,211	4,205
Global	**375**	739	815	978
Developed markets	**1,522**	1,332	1,603	1,670
Faster growing markets	**1,670**	1,513	1,793	1,557
Directly managed	**3,179**	2,481	2,354	1,855
Mega cap basket	**2,771**	2,262	2,072	1,649
Optionality basket	**262**	219	282	206
Private to public	**146**	-	-	-
Futures, options & others	**(247)**	(89)	5	(817)
Total	**6,499**	5,976	6,570	5,243

given the underlying strength of their franchises. In 2011/12 we also created a Private to Public Basket, valued at £146 million ($235 million), which contains five companies where we have retained and/or added to privately-held positions in companies which have floated on the stock market. This is an area under development, where initial performance has been disappointing.

Hedge funds

Our hedge funds recorded their strongest annual performance since 2006/07 as equity long/short funds (45% of our hedge fund exposure) took advantage of the recovery in equity markets; four of our funds produced returns exceeding 30%. Distressed debt (10%) and multi-strategy funds (32%) also benefitted from the continued rally in credit markets. Managed futures' funds (6%), to which we first committed in 2011, continued to struggle during markets displaying short, choppy trends and we reduced our exposure.

Overall exposure to hedge funds has been held at around £2.5 billion ($4.0 billion) since 2009. The funds dampen volatility in the overall portfolio and provide liquidity (given the timeframe and predictability of our charitable grant-giving) while delivering real returns which are no longer available in most cash or bond markets. In 2011/12 we harvested £250 million ($400 million) by redeeming funds across seven managers.

This also enabled us to concentrate our hedge fund investments in fewer funds and we have reduced the number of remaining partners to 24. In September 2007, ahead of the financial crisis, we had invested £3.1 billion ($6.4 billion at prevailing exchange rates) in 56 funds. Some hedge fund monies were then recycled into public equities. The number of hedge fund partners has been halved. The average remaining manager exposure is now $130 million (£80 million); new hedge fund investments are rarely considered unless exposure of at least $100 million can be obtained.

Figure 9

Hedge fund net returns (%)
Period to 30 September 2012

	Annualised return in US$ (%)		
	1 year	3 years	5 years
Distressed debt	7.3	6.7	4.4
Multistrategy	6.7	7.2	2.4
Equity long/short	15.0	6.8	1.9
Faster growing markets	4.8	1.0	-
Managed futures	(1.3)	-	-
Total hedge funds	9.5	6.5	2.2

Figure 10

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

	2012 Value £m	2011 Value £m	2010 Value £m	2009 Value £m
Distressed debt	**255**	310	339	308
Multistrategy	**802**	725	647	722
Equity long/short	**1,105**	1,073	1,361	1,393
Faster growing markets	**165**	185	107	57
Managed futures	**154**	193	-	-
Total hedge funds	**2,481**	2,486	2,454	2,480

Private equity

Our private equity exposure, valued at £4.3 billion ($6.8 billion), has more than doubled over the past five years and now makes up 28% of our total portfolio. Given the strong year for public equities, returns from private equity were a little more subdued. However, over 5 years, the 63% return that we have enjoyed from distressed debt, 54% from venture and 44% from large buyout funds has significantly outperformed the 16% return from public equities, generating an annual illiquidity premium of around 5%. Given the extent of our holdings, this premium has been a major contributor to overall portfolio returns.

Finding the right partners is vital to success, especially in venture. Overall, the net performance of mature or maturing private funds (defined as those with a vintage of 2006 or earlier) has been quite consistent: 1.6 times from venture and from growth funds, 1.4 times from buyout funds and 1.3 times from distressed funds. Total net returns from these funds have been 1.5 times. 2007 and later vintage funds have started well: around 64% of commitments have been drawn and total net returns have already reached 1.24 times.

The shape of our private exposure continues to change: over the past three years, our investment in Growth, Sector and Faster Growing Market partnerships has almost doubled and our direct investments have more than doubled. Together with a steady exposure to Venture, these areas account for £2.8 billion ($4.4 billion); 65% of our total private investments excluding property. Our exposure to distressed assets (7%) continues to decline as partners take advantage of extended credit prices to return monies to us.

Figure 11

Private equity net IRRs (%)
Period to 30 September 2012

	Net internal rate of returns (since 1994) (%)	
	US$	£
Buyouts	10.5	10.3
Venture	63.0	64.7
Total private equity	14.3	14.6

Figure 12

Private equity fund net returns (%)
Period to 30 September 2012

	Annualised return in £ (%)		
	1 year	3 years	5 years
Large MBOs	7.1	13.3	7.6
Distressed PE funds	9.9	10.3	10.3
Venture	7.4	12.3	9.0
MSCI World Equities	18.0	7.7	3.1

Figure 13

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

	2012 £m	2011 £m	2010 £m	2009 £m
Buyouts	**1,209**	1,185	1,068	970
Growth, sector and faster growing markets	**935**	703	540	470
Distressed	**283**	325	361	310
Venture	**1,237**	1,211	1,010	829
Direct	**585**	594	515	260
Total	**4,249**	4,018	3,494	2,839

Recessionary economic conditions, scarce bank debt and an excess of available private funds which were raised ahead of the crisis have hardly created the ideal conditions for private returns in the past five years. Excellence in operational management and expertise in financial structuring have been key skills for private equity and distressed partners. Venture and growth partners have been innovative in developing disruptive new business models in areas as diverse as social networking, cloud computing, data management, new energies, healthcare insurance and financial services as well as extending their geographical reach.

Property and infrastructure

The difference in performance between our directly owned property assets and our property funds grew even more extreme in 2011/12. Over 75% of our property assets are currently owned directly, dominated by our estate of 1,800 properties in Kensington, London, and other UK residential properties, predominantly in London and South-East England. Along with our interests in German residential property and in our UK student accommodation Joint Venture, these four assets make up over 90% of our property interests.

Figure 14

Property net returns (%)
Period to 30 September 2012

	Annualised return in £ (%)			
	1 year	3 years	5 years	10 years
Direct commercial	13.5	33.2	11.8	13.8
Direct residential	17.8	15.2	8.1	14.0
Commercial funds	(14.8)	(3.0)	(7.3)	2.8
Residential funds	(8.0)	(2.3)	(9.9)	-
Property & infrastructure	10.2	11.3	3.0	9.9

Figure 15

Property investments by strategy (£)
As at 30 September

	2012 Value £m	2011 Value £m	2010 Value £m	2009 Value £m
Residential property	**1,449**	1,340	1,199	1,101
Commercial property	**185**	214	194	399
Total	**1,634**	1,554	1,393	1,500

Our direct residential investments led the way, returning 18% in 2011/12; over 10 years, they have returned 274% while our direct commercial investments have returned 264%. Reflecting both a changing mix between directly managed property investments and property funds, and lower returns from property funds, the overall property return was 157%. In the fifteen years since the inception of our direct residential property ownership, returns have been 13 times (16.3% per annum).

We have not allocated to external property funds since 2008 and note that many of these funds have been impacted by challenging markets and management of leverage.

Across much of Europe, including the UK, excessive lending by banks to real estate and excessive borrowing by owners was the major cause of the financial crisis and remains largely unresolved.

Banks have become active in disposing of their non-domestic real estate interests but zero interest rates have enabled them to extend domestic loans even where the value of loans significantly exceeds asset values. Should the right opportunities appear, our strong cash flows and AAA balance sheet position us well as a prospective acquirer of property and/or infrastructure assets.

Investment philosophy

A number of investment beliefs drive our asset allocation in the deliberate absence of any pre-determined strategic guidelines.

1. Sufficient liquidity must be maintained to avoid the forced sale of assets at distressed prices. However, real assets offer the best long-term growth prospects and provide protection against inflationary pressures.

2. In order to maximise investment returns from global economic activity, the portfolio should be very broadly diversified with no innate geographical bias.

3. We seek to use the advantages of our long-term investment horizon, our ability to tolerate high levels of short-term volatility, our AAA balance sheet and our proactive governance structure.

4. The best returns will be driven by combining aligned partnership with the strongest external managers and building in-house resource to own selected assets directly.

5. We are flexible as to the nature of the vehicles in which we invest, whether public companies or private partnerships.

Investment risk management

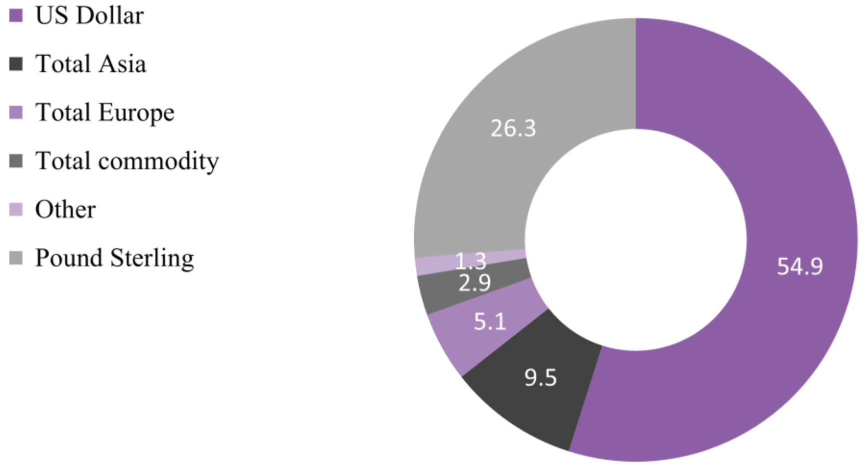
We manage our portfolio within the context of four key risk parameters:

1. Value at Risk (VAR). The estimated VAR of our portfolio at the end of September 2012 was 16.9% (2011:16.3%).

2. Equity beta. The performance of most investments contains an element of equity beta. In September 2012, overall estimated equity beta was 0.75 (2011:0.74), having troughed at 0.5 in December 2008.

Figure 16

Asset allocation by currency (net of currency forwards) (%) As at 30 September 2012



3. Base case cash forecasts. Our current expectation is that, before accounting for reinvestment, cash levels will increase steadily over the next five years.

4. Base currency exposure. Since October 2009, we have measured our returns in a 50/50 blend of Sterling and Dollars in order to recognise the global nature of our portfolio and the need to maintain global purchasing power.

Overlay capital management

Our in-house overlay capital management activities are used to manage risk and to seek to enhance returns, largely through the use of derivatives.

Over the course of the year, we used equity index futures and options to manage the overall equity beta of the portfolio between 0.7-0.75.

We also managed our foreign exchange positions actively to reflect our fundamental view on the economic outlook. Gains on our activities in 2011/12 exceeded £160 million ($265 million), principally because we hedged out most of our exposure to Euro and Yen and benefitted from investment in selected Asian, European and commodity currencies. We hold long-term positions in a number of stronger currencies to offset the impact of negative real interest rates in our core currencies of British Pounds and US Dollars. Outside these, at the end of the year, net positions exceeding £100 million were held in the Swiss Franc, Hong Kong Dollar, Korean Won, Taiwanese Dollar, Singapore Dollar, Euro, Polish Zloty, Canadian Dollar, Indian Rupee and Brazilian Real.

The Wellcome Trust is a 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 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, as detailed in note 20(a) to the Financial Statements.

The Trustee and the Board of Governors

The sole trustee (the "Trustee") of the Wellcome Trust is The Wellcome Trust Limited, 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 directors of the Trustee (known as Governors), the Company Secretary of the Trustee, the Executive Board and other administrative details are shown on pages 78 to 79.

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 that there are no 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.

The Chairman of the Board is Sir William Castell, a leading businessman who has other significant current appointments. He was previously a non-executive director of the General Electric Company of the USA. He served on the board of BP plc for six years and for the last two years, until April 2012, was the senior independent director. He is also a member of the board of Chichester Festival Theatre and Chairman of the High Street Fund.

Three Governors joined the Board during the financial year. Professor Michael Ferguson, Dean of Research for The College of Life Sciences, University of Dundee, joined the Board in January 2012. His research takes a multidisciplinary approach to understanding the biochemistry of protozoan parasites that cause tropical diseases. He is particularly interested in translational research and, together with his colleagues, established the Drug Discovery Unit at the University of Dundee.

Mr Alan Brown, Senior Adviser at Schroders, joined the Board in May 2012. He has worked in the investment management industry for almost 40 years.

Mr Damon Buffini joined the Board in September 2012. He is a founding partner of Permira, a European private equity firm with global reach.

The Board is responsible for ensuring that the Trust's charitable objects are being met. The Board sets strategy, decides priorities, establishes funding policies and allocates budgets. It develops and agrees the overall scientific strategy and policies related to biomedical science grant activities, and monitors and reviews progress and policies.

During 2011/12 the Board of Governors met nine times, including a two-day residential strategic review meeting and two private meetings without the Executive Board members (see table 1).

The Executive Board

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

In June it was announced that Sir Mark Walport, the current Director, will take up a post as the UK Government Chief Scientific Adviser in April 2013 and therefore will be leaving the Trust. The Board of Governors and the Nominations Committee are working with an independent external search consultancy to recruit a new Director.

The Nominations Committee

The Trust uses a mixture of independent external search consultancies and open advertising in its searches for new Governors and Executive Board members, based on an analysis in each case of the most effective way to make a particular appointment. The Nominations Committee evaluates the balance of skills, experience, independence and knowledge, and, in the light of this evaluation, prepares a description of the role and capabilities required for a particular appointment. The Nominations Committee conducts formal interviews with the short-listed candidates and makes recommendations to the Board or makes the appointment subject to specific delegated authority. The appointments are made on merit and in line with the Trust's policy on diversity. The Nominations Committee has been active during the year making a number of appointments.

The Trust undertakes a comprehensive induction programme for all new Governors, which includes a detailed induction notebook containing all the key background materials, and meetings with members of the Executive Board and senior management. In addition, training is available to all Governors.

Statement of Trustee's responsibilities

The Trustee is responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Trust and enable the Trustee to ensure that the Financial Statements comply in all material respects with the Charities Acts and applicable regulations. The Trustee is also responsible for safeguarding the assets of the Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Trustee prepares Financial Statements for each financial year to give a true and fair view of the state of affairs of the Trust and the Group at the end of the financial year, and of the incoming resources and application of resources, both of the Trust and of the Group, and the cash flow of the Group during the year.

The Trustee:

- selects suitable accounting policies and applies them consistently;
- makes judgements and estimates that are reasonable and prudent;
- states whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepares the Financial Statements on a going concern basis, unless it is inappropriate to do so.

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

Taken as a whole, the Trustee considers that the Annual Report and Financial Statements are fair, balanced and understandable and provide the information necessary to assess the Trust's performance and strategy.

Statement of disclosure of information to auditors

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

Committees of the Board of Governors

The Board of Governors is assisted in its duties by a number of committees that report directly to it, on which at least two Governors are members:

- The Strategic Awards Committee makes funding decisions on proposals or initiatives that fall outside of established review, decision-making or funding mechanisms and delegations, and that require strategic, scientific or academic appraisal. In addition, when a proposal falls within the remit of one of the five departments in Science Funding, the head of that department is a member of the Committee for consideration of that proposal. The Committee brings in external experts to discuss applications.
- Audit Committee: for matters of internal control, compliance with financial reporting requirements and liaison with and evaluation of the internal and external auditors;
- Investment Committee: for matters relating to the Trust's investments;
- Remuneration Committee: for remuneration issues; and
- Nominations Committee: for identifying potential candidates to fill Board and committee vacancies.

Table 1
Committee attendance

Board	Strategic Awards Committee	Investment Committee
Board of Governors	2/2 Sir William Castell	6/6 Sir William Castell
9/9 Sir William Castell	2/2 Professor Peter Rigby	3/6 Professor Peter Rigby
9/9 Professor Peter Rigby	0/0 Mr Alan Brown	3/3 Mr Alan Brown
3/3 Mr Alan Brown	0/0 Mr Damon Buffini	0/0 Mr Damon Buffini
1/1 Mr Damon Buffini	2/2 Professor Dame Kay Davies	6/6 Mr Peter Davies
9/9 Professor Dame Kay Davies	1/1 Professor Christopher Fairburn	2/2 Mr Roderick Kent
2/2 Mr Peter Davies	1/1 Professor Michael Ferguson	5/6 Mr Tim Church
1/2 Professor Christopher Fairburn	2/2 Professor Richard Hynes	6/6 Ms Sarah Fromson
5/5 Professor Michael Ferguson	2/2 Professor Anne Johnson	6/6 Mr Simon Jeffreys
9/9 Professor Richard Hynes	2/2 Mr Roderick Kent	4/6 Mr Naguib Kheraj
9/9 Professor Anne Johnson	2/2 Baroness Manningham-Buller	5/6 Mr David Mayhew
2/2 Mr Roderick Kent	2/2 Professor Peter Smith	6/6 Mr Nicholas Moakes
9/9 Baroness Manningham-Buller	2/2 Dr Ted Bianco	6/6 Mr Stewart Newton
9/9 Professor Peter Smith	1/2 Ms Clare Matterson	6/6 Mr Peter Pereira Gray
	2/2 Dr Kevin Moses	6/6 Mr Danny Truell
Executive Board	2/2 Sir Mark Walport	3/6 Sir Mark Walport
8/8 Sir Mark Walport		
7/8 Dr Ted Bianco		
5/8 Mr John Cooper		
8/8 Mr Simon Jeffreys		
8/8 Dr David Lynn		
8/8 Ms Clare Matterson		
7/8 Dr Kevin Moses		
2/2 Mr John Stewart		
6/8 Mr Danny Truell		

Audit Committee	Remuneration Committee	Nominations Committee
1/1 Mr Alan Brown	2/2 Sir William Castell	10/10 Sir William Castell
1/1 Mr Roderick Kent	1/2 Professor Peter Rigby	10/10 Professor Peter Rigby
3/3 Baroness Manningham-Buller	0/0 Professor Richard Hynes	10/10 Professor Richard Hynes
3/3 Mr Tim Clark	1/1 Mr Roderick Kent	10/10 Baroness Manningham-Buller
3/3 Mr Philip Johnson	2/2 Baroness Manningham-Buller	

Details of the membership of these committees are given on page 78. During the year, there were changes to the membership of the Audit Committee, the Investment Committee, the Remuneration Committee and the Strategic Awards Committee.

During the year, the Audit Committee met three times, the Investment Committee six times, the Remuneration Committee twice, the Strategic Awards Committee twice and the Nominations Committee ten times.

Details of the attendance by committee members are shown in Table 1.

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

Principles of governance

The UK Corporate Governance Code ("Corporate Code"), published in June 2010, contains principles of good governance and a code of best practice for companies whose shares are listed on the London Stock Exchange. This code was revised in September 2012 but, as this revised code applies to companies with accounting periods beginning on or after 1 October, references in this document are to the Corporate Code published in June 2010. The "Good Governance" code ("Voluntary Sector Code"), revised in October 2010, contains principles of good governance for the voluntary and community sector and has been endorsed by the Charity Commission as a framework for registered charities.

While there is no statutory or other requirement for the Trust to comply with either Code, the Board of Governors has conducted a review of compliance during 2011/12 with the Corporate Code and the Voluntary Sector Code and has concluded that the Trust complied during the year with the main provisions of the Codes relevant to it.

Performance

The performance of the Board and the Trust during the year was considered informally during the year. The Audit Committee and the Nominations Committee conducted a performance review during the year. The Investment Committee and Remuneration Committee did not conduct formal reviews, but a formal process for reviews will be implemented in 2012/13.

Wellcome Trust corporate ethics

'Corporate ethics' is the term used to cover all of the Trust's policies and procedures that address ethics and integrity. The Governors and all employees are expected to conduct themselves with integrity, impartiality and honesty at all times, and maintain high standards of propriety and professionalism. This includes avoiding situations where they could be open to suspicion of dishonesty, and not putting themselves in a position of conflict between their official duty and private interest.

Specifically this covers:

- Anti-fraud and corruption: the Trust adopts a zero tolerance policy to fraud and corruption.
- Whistleblowing: the Trust's whistleblowing policy provides a mechanism by which employees can voice their concerns in a responsible and effective manner.
- Gifts and hospitality: the Trust requires employees to consider the acceptance of gifts, benefits and hospitality and to decline any which may create conflicts of interest.
- Conflicts of interest: the Trust's Conflicts of Interest Policy sets out how the Trust expects individuals to deal with any actual or potential conflict of interest.

Internal control

While no system of internal control can provide absolute assurance against material misstatement or loss, the Trust'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;
- Reporting: the Board of Governors approves and reviews annual budgets and expenditure targets and monitors actual and forecast budgets and investment performance and risk reports on a regular basis;
- Risk management: a risk management policy is in place which states the Trust's approach to risk and documents the process of internal control. The Trust maintains a grants assurance framework to monitor the appropriate use of funds;
- Internal audit: an outsourced internal audit function reviews controls and the risk management process within the Trust; and
- Review: the Audit Committee, which comprises at least one Governor and two external members, oversees the outcomes of external and internal audits, reviews the Trust'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.

Risk management

The Trust manages risk in accordance with ISO31000 (an international risk management standard). There is a process in place for identifying, evaluating and managing significant risks faced by the Trust.

This process follows Charity Commission guidance. The following categories are considered when classifying risks: governance risks, operational risks, financial risks, external risks, compliance with law and regulation.

Risks are prioritised using the Trust's Corporate Risk Matrix. Risks are given a current risk ranking and a target risk ranking. The current risk ranking states the level of risk faced taking into account existing risk measures. The Target Risk ranking states the expected risk remaining after all the planned actions are completed, fully and effectively. Management has the responsibility to plan and carry out additional actions if the Target Risk is to be reduced further.

The significant risks to which the Trust is exposed, as identified by the Executive Board and the Board of Governors, are reviewed by the Executive Board each quarter and by the Board of Governors every six months. Each risk has an Executive Board sponsor who is accountable for ensuring that appropriate and effective controls are in place to mitigate these risks. A separate fraud and corruption risk register is updated quarterly and reviewed by the Executive Board annually.

The Risk Committee, which is a committee of the Executive Board, meets quarterly and is responsible for:

- reviewing the quality of the Trust's risk management and reporting;
- carrying out effective monitoring on a continuous basis of the Trust's system for risk management and internal control;
- reviewing the Trust's internal financial controls, including the Fraud and Corruption policy and "Whistleblowing" policy;
- reviewing all insurance arrangements; and
- reviewing all business continuity arrangements.

The Risk Committee formally reports to the Audit Committee twice a year.

Conflicts of interest

The Trust has a policy on conflicts of interest, which applies to Governors, employees and members of the Trust's corporate and decision-making committees.

When a Governor has a material interest in any grant, investment or other matter being considered by the Trust, that Governor does not participate in the Trust's decision on that grant or other matter. In particular, when a Governor is a member of a university to which a specific grant would be made, this is considered to be a matter of material interest. The same principle applies to staff and to members of corporate and decision-making committees.

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

Mr Peter Davies, who was a Governor until 31 December 2011 and who is a member of the Investment Committee is a senior partner at Lansdowne Partners, which acts as one of the fund managers on behalf of the Trust.

Professor Dame Kay Davies, who is a Governor, is a shareholder in Summit plc in which the Trust has a Programme Related Investment.

Further details are provided in note 12.

The Board of Governors appoints the Remuneration Committee, which is chaired by Sir William Castell. 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, the Trust in respect of the Wellcome Trust Pension Plan and the Genome Research Limited Pension Plan.
- Ensuring remuneration practices and policies facilitate the employment and retention of talented people.

Remuneration policy

The Trust aims to develop and maintain remuneration strategies and policies in line with the culture and objectives of the Trust, in order to attract, retain, motivate and effectively reward staff, recognising their contribution to the Trust's overall mission. Consistent with this approach, salary levels and benefits are benchmarked to ensure they remain competitive.

Salaries are usually reviewed once a year, with any changes taking effect from 1 April. The underlying principles of the annual salary review are performance, market orientation and flexibility. During the year, use was made of independent consultants.

Table 2

Current governors (in office during the year)
Year to 30 September

	2012 £	2011 £
Sir William Castell (Chairman)	**137,290**	137,290
Professor Peter Rigby (Deputy Chairman)	**102,968**	102,968
Professor Dame Kay Davies	**68,645**	68,645
Professor Richard Hynes	**68,645**	68,645
Professor Anne Johnson	**68,645**	51,484
Baroness Manningham-Buller	**68,645**	68,645
Professor Peter Smith	**68,645**	68,645
Professor Michael Ferguson (Appointed 1 January 2012)	**51,484**	-
Mr Alan Brown (Appointed 1 May 2012)	**28,602**	-
Mr Roderick Kent (Retired 31 January 2012)	**22,882**	68,645
Mr Peter Davies (Retired 31 December 2011)	**17,161**	68,645
Professor Christopher Fairburn (Retired 31 December 2011)	**17,161**	68,645
Mr Damon Buffini (Appointed 1 September 2012)	**5,720**	-
Total remuneration	**726,493**	772,257

The salary review policy is re-examined each year to ensure it is aligned with and supports the aims and objectives of the Trust recognising contributions and seeking to reward the highest performers effectively.

The Salary Review Committee, a sub-committee of the Executive Board, oversees the salary review process and overall remuneration policies, as agreed by the Remuneration Committee.

Long-term incentive plans

In order to ensure remuneration of the Investment division staff remains competitive and to encourage a long-term view, certain employees participate in a long-term incentive scheme. Awards to employees are made annually based on investment returns and individual performance over a measurement period, which generally spans three years. Plans are in place covering measurement periods; 2009 to 2012; 2010 to 2013 and 2011 to 2014. (A further plan for 2012 to 2015 is also being finalised) A portion of each award is deferred for two years following the end of the measurement period and the deferred amount is adjusted in line with the performance of the fund.

Staff remuneration

Details of the remuneration of staff and of the Director are set out in note 11 to the Financial Statements.

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. The recommended percentage increase for the 12 months beginning 1 April 2012 was 0% (2011: 0%). The levels of remuneration of the current Chairman and the current Deputy Chairman were set by Orders of the Charity Commission at 2 times the level of a Governor and 1.5 times the level of a Governor, respectively. Following approval by the Charity Commission of a Scheme in October 2011, the levels of remuneration of future Chairmen and Deputy Chairmen can be set by the Board of Governors up to the levels of 2 times and 1.5 times the level of a Governor respectively.

This remuneration is charged to the Wellcome Trust as in Table 2.

In addition to the above, the Chairman received estimated benefits-in-kind relating to travel costs of £32,766 (2011: £38,693). No other benefits or pension contributions are paid in respect of the other Governors.

During the year expenses in respect of travel, subsistence, telephone and other expenses in the course of their duties were incurred by the Governors amounting to £139,248 (2011: £123,605), of which £100,481 (2011: £58,715) was paid directly by the Trust and £38,767 (2011: £64,890) was paid by the Governors and directly reimbursed to them. The Governors were included in the Directors’ and Officers’ liability insurance in the year to 30 September 2012.

The membership of the Audit Committee (the Committee) is set out on page 78 and attendance at meetings is set out on page 28. Although not members of the Committee, the Chief Operating Officer, the Company Secretary, the Head of Financial Accounting, the Head of Risk Management and Performance and the lead audit partners from our external and internal auditors attend each meeting. The external and internal auditors are not present when their respective performance and/or remuneration is discussed.

The Board considers that the Committee's members have broad commercial knowledge and extensive business leadership experience, having held between them various roles in investments, legal, financial management, treasury and financial function supervision and that this constitutes a broad and suitable mix of business and financial experience. The Board has determined that Alan Brown and Philip Johnson have recent and relevant financial experience as required by the Corporate Governance Code.

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

External audit

At the December meeting each year, the Committee recommends the appointment and re-appointment of the external auditors and considers their resignation or dismissal, recommending to the Board appropriate action to appoint new auditors. It assesses the performance of the external auditors annually (with the last review being at the April 2012 meeting) by seeking views on their performance from key stakeholders across the group. The external auditors are required to rotate the lead partner every five years. The lead partner currently responsible for the Trust's audit is completing her second year. No contractual obligations exist that restrict the Group's choice of external audit firm. At the April meeting each year the Committee discusses with the auditors the scope of their audits before they commence. At both the September and December meetings each year, it reviews the results and considers the formal reports of the auditors and reports the results of those reviews to the Board.

Independence of the external auditor

As a result of regulatory or business requirements, it may be necessary to employ the external auditors for certain non-audit services. In order 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. These were reviewed at the September 2012 meeting and appropriately modified in the light of the Corporate Code and the Financial Reporting Council guidance. At the December meeting each year, the Committee reviews the auditors' report about independence of their staff, their policies for maintaining staff independence and monitoring compliance with relevant requirements and their safeguards in relation to the provision of non-audit services.

Internal audit and risk management

At each meeting, the Committee reviews the internal audit function including plans and performance, and its relationship with the external auditors. Additionally, 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, including risks relating to IT security, fraud and related matters, are properly identified and managed.

At the December meeting each year, the Committee reviews the rigour of the analysis supporting the use of the going concern assumption as well as the integrity of the disclosures in the financial statements. At each meeting the Committee also reviews the minutes of the Valuation Group meetings. (This group, which is chaired by the Chief Operating Officer, is responsible for valuation decisions).

Financial reporting

At the December meeting each year, the Committee reviews the Trust's draft *Annual Report and Financial Statements* and related announcements for statutory and regulatory compliance and reports its views to the Board to assist in the Board's approval of such documents. It also reviews any other published information containing financial information prior to release.

The main area that the Committee considered in relation to this Annual Report and Financial Statements was the valuation of the investment portfolio. Assurance was obtained from the Valuation Group, the Investment Committee and the Risk Committee together with discussion with the external auditors.

Effectiveness

The performance of the Committee is reviewed annually by inviting feedback from Committee members, key executives and the external auditors. The results of the last review in September 2012 showed that the Committee continues to be effective in terms of both behaviours and processes.

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. Our staff are employed solely on their merits and we help them to maximise their achievements. It is important to us all to create a culture that is open and respects others, where differences are valued and celebrated.

We measure and monitor diversity in many different ways to reflect the communities in which we operate. We produce a detailed Diversity Report annually which is reviewed by the Executive Board and Board of Governors. In addition to providing full diversity statistics, the report also summarises the actions we have taken each year to develop our inclusivity and equality as an employer.
Over the last year we have focussed on our recruitment processes to ensure an inclusive approach at all levels. Generational diversity has increased through the implementation of graduate and internship schemes. Female representation currently stands at 22% on our Executive Board and 33% on our Board of Governors.
Scientific progress thrives on diversity – of people, ideas and approaches – and the Wellcome Trust has a number of policies and initiatives that enable researchers to access our funding based on talent and potential irrelevant of age, race, religion, sexual orientation or gender.

We monitor the demographics of our research community, and make every effort to ensure we provide a fair and flexible funding system that allows excellent applicants to be successful.

For example, typically it has been challenging – particularly for women – to manage a research career with other responsibilities such as family commitments. In response, Wellcome Trust Research Career Re-entry Fellowships are available to postdoctoral researchers returning to research after a significant career break. There are currently nine women and four men with such fellowships, which provide funding for re-training, as well as salary and research expenses.

More information about flexible research careers is available at www.wellcome.ac.uk/Our-vision/Focus-areas/Supporting/Flexible-research-careers/

We provide excellent facilities in our modern and well-equipped offices, and we regularly review our employment policies and practices to ensure that we are well placed to deliver our objectives and to enhance the overall environment for our people. We are committed to employee wellbeing, offering a high-quality staff restaurant, on-site gym and in-house occupational health service, alongside an attractive benefit package for all our employees.

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, aiming to create a development culture where people are empowered to perform, with energy and confidence, to the best of their ability, where curiosity and creativity are encouraged and difference is valued.

Our managers/leaders play a crucial role in developing the organisation, its employees and its culture. During 2012 over two thirds of our managers/leaders participated in a Trust-wide leadership development programme 'Leading for the Future'. Further initiatives to develop and apply leadership and management skills are planned for 2013, alongside a range of broader open programmes and learning opportunities.

In addition, we are investing in our support systems, processes and resources to enable employees to more actively manage their personal development.

There is an active Trust Staff Forum to foster discussion and enable consultation on a wide range of issues of relevance to staff. We also conduct regular staff surveys in order to elicit feedback directly from our people and help us target areas for improvement, and continue to develop the organisation.

The Wellcome Trust Sanger Institute also has a Consultation Committee to facilitate communication at the Wellcome Trust Genome Campus.

Health and safety

In 2011, the Trust underwent a combined health and safety audit which included a wider scope of activities than in previous years. The audit score was improved by 2% - the excellent 5 star rating and the OSHAS 18001 accreditation were retained.

The Trust continues to have a strong proactive monitoring schedule and hazard identification plays a key role in maintaining an excellent safety performance.

The Trust has three health and safety organisational objectives:

- to train and inform all employees and contractors in their health and safety responsibilities
- to undertake a programme of departmental audits; and
- to implement the audit action plan.

These objectives are supported by targets assigned to key post holders throughout the Trust and are reviewed quarterly by the Executive Board.

Trustee’s Report (continued)
Social Responsibility

The reporting arrangements to the Boards of Directors of Genome Research Limited and Hinxton Hall Limited (“the Wellcome Trust Genome Campus”, a 55 acre estate south of Cambridge), and the Board of Management of the Wellcome Trust Sanger Institute remain unchanged. There is a cyclical programme of inspections covering the whole Genome Campus. A health and safety audit programme was established in 2010 running through to 2013 utilising a framework linking the OHSAS 18001 standard, the HSE publication HSG 65 *Successful health and safety management* and the relevant statutory duties, including fire safety. Guest external peer auditors are invited to participate in the programme to give an independent view. There is close liaison and co-operation between the Wellcome Trust Genome Campus Health and Safety Service and the Wellcome Trust Health & Safety Manager in London who has participated in some of the audits.

Environment

Following a review of the Trust’s main environmental impacts a new integrated vision and approach for the Trust’s environmental management has been endorsed by the Executive Board:

‘The Wellcome Trust supports research of the highest quality with the aim of improving human and animal health. Such research increasingly demonstrates that health is inextricably linked to the wider environment in which we live. Therefore the Trust aims to manage and reduce its impact on the environment, through leading by example, engaging with and involving our people, and fostering a culture of continual improvement.’

In order to support this vision an Environment Steering Group (ESG), chaired by the Chief Operating Officer, was formed in July 2012. The ESG will set a strategy for actions across core themes such as energy, waste, travel, biodiversity and people engagement and ensure a clearly defined road map to deliver these actions.

A review of the Trust’s carbon footprint has been completed and this will assist the ESG in measuring performance and setting targets for the future.

The Trust has also made a commitment to work to the ISO 14001 framework; a gap analysis has taken place which will assist the Trust in obtaining accreditation. Performance will be reviewed by the ESG every quarter and a full management review will take place annually.

With a stronger emphasis in this area, the Trust expects to reduce substantially its overall impact on the environment and will continue to seek responsible and sustainable ways of working, leading by example and ensuring continual improvement.

In 2009, The Wellcome Trust Genome Campus achieved ISO14001 accreditation and was recertified in 2012 for a further three years. The Campus has achieved a number of awards for various environmental initiatives. As part of a broader Environmental Plan at the Campus, the multi award winning Green Transport Plan has once again contributed highly to reducing the carbon footprint and CO_2 emissions on Campus.

Community activity

The Wellcome Trust considers it right both to support other local organisations helping to benefit the area in which it does business and to foster and maintain positive working relationships with others operating locally. To help achieve this, the Trust is committed to activity within the immediate area around its headquarters. This includes a community support fund to aid local organisations and projects, local schools initiatives, Trust staff volunteering in the local community, Wellcome Collection local stakeholder engagement, and participation in the annual Open House London event.

At the Wellcome Trust Genome Campus, teachers, students and members of the community can tour the Campus and some of its high-throughput facilities, participate in an increasing number of educational experiences including ethical debates and computer-based activities and meet scientific staff. These visits are free of charge. The adjoining parkland and Trust funded wetland sites have developed a diverse ecosystem and are open to the general public.

Auditors

The Trust’s auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. The Board of Governors accepted the recommendation of the Audit Committee and confirmed their re-appointment on 18 December 2012.

The *Annual Report* was approved by The Wellcome Trust Limited, as Trustee, on 18 December 2012 and signed on its behalf by

Sir William Castell
Chairman
18 December 2012

Independent Auditors' Report
To the Trustee of Wellcome Trust

We have audited the financial statements of the Wellcome Trust for the year ended 30 September 2012 which comprise the Consolidated and the Trust Statement of Financial Activities, the Consolidated and the Trust Balance Sheets, the Consolidated Cash Flow Statement and the related notes. 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).

Respective responsibilities of trustee and auditors

As explained more fully in the Statement of Trustee's responsibilities set out on page 27, the trustee is responsible for the preparation of financial statements which give a true and fair view.

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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for 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 (Regulation 30) of the Charities (Accounts and Reports) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 parent charity'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 and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the Trust's affairs as at 30 September 2012, and of the Group's and the Trust's incoming resources and application of resources and the Group's cash flows, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011 and Regulation 15 of The Charities (Accounts and Reports) Regulations 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Charities Act 2011 requires us to report to you if, in our opinion:

- the information given in the Trustee's Annual Report is inconsistent in any material respect with the financial statements; or
- sufficient accounting records have not been kept by the parent charity; or
- the parent charity 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 December 2012

PricewaterhouseCoopers LLP is eligible to act as an auditor in terms of Section 1212 of the Companies Act 2006.

The maintenance and integrity of the Wellcome Trust website is the responsibility of the Trustee; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Financial Activities
for the year ended 30 September 2012

	Note	2012 £m	2011 £m
Incoming resources			
Investment income			
Dividends and interest	2	**192.3**	205.8
Rental income	3	**25.2**	22.2
		217.5	228.0
Other incoming resources			
Grants receivable	4(a)	**14.7**	16.6
Other income	4(b)	**10.2**	9.8
Total incoming resources		**242.4**	254.4
Resources expended			
Costs of generating funds			
Management fees and other costs	5	**49.6**	45.0
Interest payable on bond liability		**39.0**	39.0
Charitable activities	6	**746.3**	641.8
Governance costs	10	**2.2**	2.3
Total resources expended		**837.1**	728.1
Net outgoing resources before net gains on investments		**(594.7)**	(473.7)
Net realised and unrealised gains on investments	15(e)	**1,484.7**	153.2
Actuarial gains on defined benefit pension schemes	11(d)(i)	**1.3**	18.4
Net movement in fund		**891.3**	(302.1)
Fund at start of year		**12,438.4**	12,740.5
Fund at end of year		**13,329.7**	12,438.4

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

The notes on pages 42 to 77 form part of the Financial Statements.

Consolidated Balance Sheet
As at 30 September 2012

	Note	2012	2011
		£m	£m
Tangible fixed assets	14(a)	**392.7**	400.4
Investment assets			
Quoted investments	15(a)	**6,494.6**	5,894.3
Unquoted investments	15(a)	**7,423.6**	7,283.0
Investment properties	15(a)	**922.1**	835.0
Derivative financial instruments	15(b)	**72.7**	65.9
Investment cash and certificates of deposit	15(c)	**412.4**	445.9
Other investment assets	15(c)	**279.1**	102.5
Programme related investments	15(d)	**1.1**	5.8
		15,605.6	14,632.4
Current assets			
Stock		**3.1**	3.6
Debtors	16	**22.6**	21.9
Cash at bank and in hand		**21.9**	34.1
		47.6	59.6
Creditors falling due within one year	17	**(881.6)**	(862.1)
Net current liabilities		**(834.0)**	(802.5)
Total assets less current liabilities		**15,164.3**	14,230.3
Creditors falling due after one year	17	**(1,716.2)**	(1,682.2)
Provision for liabilities and charges	18	**(20.0)**	(12.6)
Net assets representing unrestricted funds excluding pension deficit		**13,428.1**	12,535.5
Defined benefit pension schemes' deficit	11(d)(ii)	**(98.4)**	(97.1)
Net assets representing unrestricted funds including pension deficit		**13,329.7**	12,438.4

The Consolidated Financial Statements were approved by The Wellcome Trust Limited, as Trustee, on 18 December 2012 and signed on its behalf by

Sir William Castell
Chairman

Professor Peter Rigby
Deputy Chairman

The notes on pages 42 to 77 form part of the Financial Statements.

Statement of Financial Activities of the Trust
for the year ended 30 September 2012

	Note	2012 £m	2011 £m
Incoming resources			
Investment income			
Dividends and interest	2	**172.1**	183.0
Rental income	3	**22.9**	19.7
		195.0	202.7
Other incoming resources			
Other income	4(b)	**27.6**	34.1
Total incoming resources		**222.6**	236.8
Resources expended			
Costs of generating funds			
Management fees and other costs	5	**44.2**	38.9
Interest payable to group undertakings		**14.0**	13.9
Charitable activities	6	**721.2**	617.2
Governance costs	10	**2.0**	2.1
Total resources expended		**781.4**	672.1
Net outgoing resources before net gains on investments		**(558.8)**	(435.3)
Net realised and unrealised gains on investments	15(e)	**1,445.4**	121.2
Actuarial (losses)/gains on defined benefit pension scheme	11(d)(i)	**(0.1)**	10.5
Net movement in fund		**886.5**	(303.6)
Fund at start of year		**12,352.5**	12,656.1
Fund at end of year		**13,239.0**	12,352.5

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

The notes on pages 42 to 77 form part of the Financial Statements.

Balance Sheet of the Trust
As at 30 September 2012

	Note	2012 £m	2011 £m
Tangible fixed assets	14(a)	**257.4**	264.7
Investment assets			
Quoted investments	15(a)	**5,878.2**	5,307.4
Unquoted investments	15(a)	**6,239.3**	6,117.9
Investment properties	15(a)	**922.1**	789.9
Derivative financial instruments	15(b)	**72.7**	65.9
Investment cash and certificates of deposit	15(c)	**388.8**	389.1
Other investment assets	15(c)	**212.5**	82.7
Subsidiary and other undertakings		**1,543.0**	1,402.8
Programme related investments	15(d)	**1.1**	5.8
		15,257.7	14,161.5
Current assets			
Debtors	16	**22.1**	13.0
Cash at bank and in hand		**13.7**	21.2
		35.8	34.2
Creditors falling due within one year	17	**(1,335.1)**	(1,169.3)
Net current liabilities		**(1,299.3)**	(1,135.1)
Total assets less current liabilities		**14,215.8**	13,291.1
Creditors falling due after one year	17	**(899.5)**	(869.4)
Provision for liabilities and charges	18	**(20.0)**	(12.6)
Net assets representing unrestricted funds excluding pension deficit		**13,296.3**	12,409.1
Defined benefit pension scheme deficit	11(d)(ii)	**(57.3)**	(56.6)
Net assets representing unrestricted funds including pension deficit		**13,239.0**	12,352.5

The Trust Financial Statements were approved by The Wellcome Trust Limited, as Trustee, on 18 December 2012 and signed on its behalf by

Sir William Castell
Chairman

Professor Peter Rigby
Deputy Chairman

The notes on pages 42 to 77 form part of the Financial Statements.

Consolidated Cash Flow Statement
for the year ended 30 September 2012

	Note	2012 £m	2011 £m
Net cash outflow from operating activities	21(a)	**(627.7)**	(603.0)
Returns on investments and servicing of finance			
Investment income received	21(b)	**213.5**	226.9
Cash outflow for servicing of finance	21(c)	**(38.4)**	(38.6)
Net cash inflow from returns on investments and servicing of finance		**175.1**	188.3
Financial investment and capital expenditure			
Proceeds from sales of investment assets	21(d)	**3,275.3**	4,323.4
Purchase of investment assets	21(d)	**(2,930.1)**	(4,444.4)
Net cash inflow upon settlement of derivative financial instruments	21(d)	**85.1**	87.5
Sale of tangible fixed assets		**2.6**	3.0
Purchase of tangible fixed assets		**(18.7)**	(19.0)
Net cash inflow/(outflow) for financial investment and capital expenditure		**414.2**	(49.5)
Net cash outflow before use of liquid resources and financing		**(38.4)**	(464.2)
Management of liquid resources			
Decrease in investment cash and certificates of deposit		**33.5**	470.6
Decrease/(increase) in term deposits		**0.4**	(0.6)
Exchange (losses)/gains		**(7.7)**	1.5
Net cash inflow from management of liquid resources		**26.2**	471.5
Financing			
Issue of corporate bonds		**-**	-
Capital element of finance lease payments	17	**-**	-
Net cash inflow from financing		**-**	-
(Decrease)/increase in net cash		**(12.2)**	7.3

The notes on pages 42 to 77 form part of the Financial Statements.

1. Accounting policies

Basis of preparation and accounting convention

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). 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 2005 and updated in 2008 (the "SORP") in all material respects.

The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of investments.

Basis of consolidation

The consolidated financial statements include the financial statements of the Trust and all its subsidiary undertakings. The subsidiaries have been consolidated on a line by line basis in accordance with Financial Reporting Standards ("FRS") 2 "Accounting for subsidiary undertakings". Subsidiary undertakings are entities over which the Trust has control. The financial statements of subsidiaries are included from the date that control commences until the date that it ceases.

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

(iv) a non-charitable financing subsidiary undertaking formed to issue listed debt to finance Group activities.

Further detail on the Trust's significant subsidiary undertakings is provided in note 20.

The Trust applies the exemption contained in FRS 9 "Associates, joint ventures and joint undertakings" and where joint ventures and associates are held as part of the investment portfolio, they are included within investment assets.

Accounting policies

Accounting policies have been reviewed in accordance with FRS 18 "Accounting Policies".

Incoming resources

Incoming resources do not include proceeds on the sale of investments. Interest income and rental income are recognised on an accruals basis. Dividends including any recoverable tax are recognised from the ex-dividend date when they become receivable. Other incoming resources are recognised in the period in which the Trust and the Group are entitled to receipt, any conditions are met and where the amount can be quantified with reasonable certainty.

Resources expended

All resources expended are recognised on an accruals basis, with the exception of grants as noted below.

The costs of generating funds relate to the management of the investment portfolio and include the allocation of the Trust's support cost 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. Grants awarded to Group companies are recognised as and when the expenditure to which they relate is incurred, in accordance with the terms of the grant.

Charitable expenditure is analysed between grant funding and the cost of activities performed directly by the Trust and the Group together with the associated support cost. 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.

Governance costs include 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.

Research expenditure is written off in the Statement of Financial Activities in the year in which it is incurred.

1. Accounting policies (continued)

Fund accounting

All the funds of the Group are unrestricted funds with the exception of certain grants receivable that are not considered material to the Financial Statements of the Trust and the Group.

Tangible fixed assets

Tangible fixed assets, excluding land, held by the Group and the Trust are stated at cost less accumulated depreciation. Land is stated at cost.

Depreciation is calculated using the straight-line method to allocate the cost of each asset less its residual value over its estimated useful life. Depreciation commences from the date an asset is brought into service. No depreciation is charged during the year on assets in the course of construction.

The useful lives for depreciation purposes for the principal categories of assets are:

	Years
Buildings	50
Finance leased plant and equipment	10 to 30
Other plant and equipment, furniture, fixtures and fittings	3 to 15
Computer equipment and motor vehicles	3 to 5

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 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, other than significant acquisitions acquired after 1 October 2005 which are reported at cost where the asset is purchased or at the curator's best estimate of current value where the object is donated.

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.

Investment assets

Investment valuation policies and procedures are reviewed by the Valuation Group, chaired by the Chief Operating Officer, which is responsible for valuation decisions.

(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. The principal unquoted valuations are performed as follows:

Unquoted hedge funds

Unquoted hedge funds are valued by reference to the fair value of their underlying securities. These valuations are provided by the third party hedge fund administrators.

Private equity funds and property funds

The vast majority of private equity and property fund investments are held through funds managed by private equity and property groups. No readily identifiable market price is available for these unquoted funds. These funds are included at the most recent valuations from their respective managers. In addition, some early stage investments will be held at cost where the managers have yet to provide a valuation.

1. Accounting policies (continued)

Investment assets (continued)

(ii) Unquoted investments (continued)

Private equity funds and property funds (continued)

The majority of valuations are at the balance sheet date. In a very limited number of cases where information is not available as at 30 September, the most recent valuations from the manager are adjusted for cash flows and foreign exchange movements between the most recent valuation and the balance sheet date. In the unlikely event that a valuation is unavailable the investment will be held at cost less impairment. The total amount of investments held at cost less impairment is disclosed in the Financial Statements (note 15(a)).

Direct investments

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.

Earn-outs

These are valued at fair value by calculating a probability-weighted average of all possible future cash flows taking in to account specific risks and then calculating the present value at an appropriate discount rate. The probability weightings will reflect Trust management's assessment of the implicit/explicit probability weightings put forward by co-invest partners. If no co-invest partners' models are available, the Investment Division will develop a model that will take into account the risk associated with the cash flows in the probability ratings used. The Valuation Group may mandate the use of an external valuer where it considers this to be appropriate. The discount rate would be a risk-free rate appropriate to the currency and maturity of the expected earn-out plus an adjustment for systematic risk.

(iii) Investment properties

Investment properties are valued at fair value, which is usually equivalent to open market value. 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 fair value upon initial recognition, which management considers to be a reasonable estimate of fair value at the balance sheet date. Property transactions are recognised on the date of completion.

(iv) Derivative financial instruments

Derivative financial instruments are used as part of the Trust's portfolio risk management and as part of the Trust's portfolio management and investment return strategy. The Trust's use of derivative financial instruments includes index-linked futures, stock options, warrants and currency forwards.

The Trust'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 Trust's warrants are held at the fair value determined by management. These will generally reflect the valuations used by the Trust'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 material 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.

(v) Programme related investments

Programme related investments are made directly by the charitable divisions in pursuit of the Trust's charitable aims and although they may generate a financial return, the primary motivation is to further the objects of the charity. They are held at cost less any impairment.

(vi) 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.

(vii) 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. Investments in all other subsidiary undertakings are held at cost less any impairment.

1. Accounting policies (continued)

Stock

Stock consists of raw materials, 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.

Bond liabilities

The Bond liabilities ("the Bonds") are the corporate bonds, listed on the London Stock Exchange, issued by Wellcome Trust Finance plc, a subsidiary of the Trust. The 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.

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 Sheet. The cash collateral and the obligation to return the cash collateral to the lender are recognised in the Group's and Trust's Balance Sheet.

Provisions

Provisions are recognised when the Group and the Trust have 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.

Foreign currencies

Transactions denominated in foreign currencies are translated into Sterling at the exchange rates ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into 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.

Retirement benefits

The Trust and its subsidiary undertaking Genome Research Limited each operate a defined benefit pension scheme with benefits based on final pensionable pay. The assets of the schemes are held in funds separate from those of the Group and administered by their own trustees.

The schemes' liabilities are measured at discounted present value and the schemes' equity assets are stated at bid price. Any deficit identified is recognised as a liability on the Balance Sheet. Any surplus is recognised as an asset, though only to the extent that it can be used to reduce future contributions to the scheme. The operating and financing costs of such schemes are charged to Resources Expended on the Statement of Financial Activities based on the activity to which the staff relate.

The operating cost represents both the current and past service costs and is allocated over the service lives of employees. The net financing costs are recognised in the period in which they arise. The costs of individual events such as past service benefit enhancements, settlements, curtailments, and variations from expected costs, arising from the experience of the schemes or changes in actuarial assumptions resulting in actuarial gains and losses are recognised in the Statement of Financial Activities in the period in which they arise.

Taxation

The Trust, Genome Research Limited and Hinxton Hall Limited are all charities registered under the Charities Act 1993 (as amended by the Charities Act 2011). Their income and gains are applied for charitable purposes and are mainly exempt from direct UK tax.

The income of Wellcome Trust Investment Limited Partnership and Wellcome Trust Scottish Limited Partnership is treated for UK tax purposes as the income or gains of the partners, the Trust and Wellcome Trust GP Limited, in the proportions specified in the partnership agreement.

Wellcome Trust GP Limited and the Trust's remaining subsidiary undertakings are non-charitable subsidiaries and are subject to UK corporation tax, but as a result of Gift Aid donations to the Trust, no corporation tax arises.

Irrecoverable Value Added Tax ("VAT") is included in the Statement of Financial Activities within the expenditure to which it relates.

2. Dividends and interest

	Group		Trust	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Dividends from quoted UK equities	**56.2**	47.6	**55.0**	46.5
Dividends from quoted overseas equities	**105.5**	114.1	**95.8**	106.5
Interest from UK fixed interest securities	**0.4**	1.4	**0.4**	1.4
Interest from overseas fixed interest securities	**0.3**	2.8	**0.3**	2.8
Income from unquoted investments	**26.6**	37.7	**17.7**	24.4
Interest on cash and cash deposits	**0.2**	0.5	**-**	0.3
Securities lending income	**3.1**	1.7	**2.9**	1.1
	192.3	205.8	**172.1**	183.0

3. Rental income

All rental income is derived from investment properties in the United Kingdom.

4. Other incoming resources

(a) Grants receivable

Grants receivable represents awards to the Trust's subsidiary undertaking Genome Research Limited by other funders, notably the European Union, the US National Institutes of Health and the UK Medical Research Council. These are subject to specific conditions imposed by the donors and, therefore, are restricted in their use.

	Group		Trust	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
	14.7	16.6	**-**	-

(b) Other income

	Group		Trust	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
	10.2	9.8	**27.6**	34.1

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 £23.0 million (2011: £30.9 million).

	2012	2011
	£m	£m
W.T. Construction Limited	**-**	-
Wellcome Trust Trading Limited	**0.9**	0.8
Wellcome Trust Finance plc	**6.4**	6.5
Wellcome Trust GP Limited	**-**	-
Wellcome Trust Investments 1 Unlimited	**-**	-
Wellcome Trust Investments 2 Unlimited	**7.6**	15.8
Wellcome Trust Investments 3 Unlimited	**-**	-
Wellcome Trust Residential 1 Unlimited	**8.0**	7.7
Wellcome Trust Residential 2 Unlimited	**0.1**	0.1
	23.0	30.9

5. Management fees and other costs

Management fees and other investment costs represent costs directly incurred, both internally and externally, in managing the Trust's investment portfolio.

	Group		Trust	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
External investment management fees	**24.8**	32.4	**24.3**	30.0
Internal investment administration costs	**20.5**	8.6	**15.6**	4.9
Investment support cost allocation	**4.3**	4.0	**4.3**	4.0
	49.6	45.0	**44.2**	38.9

6. Charitable activities

Group

	Grant funding £m	Direct £m	Allocated support £m	Total 2012 £m	Total 2011 £m
Science Funding	**412.6**	**23.1**	**15.5**	**451.2**	392.6
Technology Transfer	**62.8**	**22.0**	**7.6**	**92.4**	74.7
Medical Humanities and Engagement	**35.7**	**27.4**	**19.2**	**82.3**	57.2
Wellcome Trust Genome Campus	**-**	**117.5**	**2.9**	**120.4**	117.3
	511.1	**190.0**	**45.2**	**746.3**	641.8

Trust

	Grant funding £m	Direct £m	Allocated support £m	Total 2012 £m	Total 2011 £m
Science Funding	**412.6**	**23.1**	**15.5**	**451.2**	392.6
Technology Transfer	**62.8**	**22.0**	**7.6**	**92.4**	74.7
Medical Humanities and Engagement	**35.7**	**26.7**	**19.2**	**81.6**	57.0
Wellcome Trust Genome Campus	**88.4**	**5.4**	**2.2**	**96.0**	92.9
	599.5	**77.2**	**44.5**	**721.2**	617.2

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 included within Grants to other organisations for 2012 totalled less than £3.0 million (2011: £3.0 million) in value for each organisation.

7. Grants awarded (continued)

Group	Science Funding £m	Technology Transfer £m	Medical Humanities and Engagement £m	Total 2012 £m	Total 2011 £m
University of Oxford	**53.3**	**2.2**	**0.5**	**56.0**	62.3
University of Cambridge	**47.2**	**4.4**	**1.2**	**52.8**	64.5
University College London	**39.2**	**7.8**	**0.1**	**47.1**	42.9
University of Dundee	**31.3**	**3.6**	**-**	**34.9**	11.9
Imperial College London	**28.6**	**1.9**	**0.4**	**30.9**	26.6
Insight: Research for Mental Health	**20.7**	**-**	**-**	**20.7**	-
King's College London	**14.8**	**2.8**	**1.8**	**19.4**	14.6
London School of Hygiene & Tropical Medicine	**15.8**	**-**	**0.2**	**16.0**	17.3
University of Kwazulu Natal, South Africa	**15.7**	**-**	**0.1**	**15.8**	-
University of Edinburgh	**14.3**	**-**	**1.0**	**15.3**	24.5
Newcastle University	**12.6**	**-**	**-**	**12.6**	6.0
Myscience.Co Ltd	**-**	**-**	**10.0**	**10.0**	-
University of York	**7.5**	**-**	**1.1**	**8.6**	1.2
University of Glasgow	**7.2**	**-**	**0.3**	**7.5**	7.8
University of Birmingham	**7.2**	**-**	**0.1**	**7.3**	4.2
Wellcome Trust / Dept of Biotechnology India Alliance, India	**7.3**	**-**	**-**	**7.3**	6.3
Cardiff University	**6.3**	**0.6**	**-**	**6.9**	4.7
Queen Mary, University of London	**3.3**	**-**	**2.6**	**5.9**	2.7
University of Aberdeen	**5.8**	**-**	**-**	**5.8**	3.0
University of Bristol	**5.2**	**-**	**0.2**	**5.4**	5.0
Institute of Cancer Research	**5.2**	**0.2**	**-**	**5.4**	9.8
Medical Research Council	**5.3**	**-**	**-**	**5.3**	4.8
Diamond Light Source Ltd	**5.2**	**-**	**-**	**5.2**	5.3
Cadila Pharmaceuticals Limited, India	**-**	**5.0**	**-**	**5.0**	-
Liverpool School of Tropical Medicine	**3.4**	**1.0**	**0.5**	**4.9**	4.1
Birkbeck University of London	**3.8**	**-**	**1.0**	**4.8**	0.2
University of Cape Town, South Africa	**4.8**	**-**	**-**	**4.8**	0.5
University of Liverpool	**2.8**	**1.9**	**-**	**4.7**	2.6
University of Exeter	**3.6**	**-**	**1.0**	**4.6**	0.3
GlaxoSmithKline, UK	**-**	**4.5**	**-**	**4.5**	-
University of Manchester	**4.2**	**-**	**0.2**	**4.4**	9.5
Summit Corporation Plc	**-**	**4.1**	**-**	**4.1**	-
UK Biobank Ltd	**4.0**	**-**	**-**	**4.0**	-
University of Leeds	**3.9**	**-**	**-**	**3.9**	4.5
Academy of Medical Sciences	**3.8**	**-**	**-**	**3.8**	-
University of Ghana, Ghana	**3.4**	**-**	**-**	**3.4**	-
University of St Andrews	**3.3**	**-**	**-**	**3.3**	2.3
Grants to other organisations	**17.7**	**24.3**	**13.4**	**55.4**	93.1
Total grants (excluding supplementations and grants no longer required)	**417.7**	**64.3**	**35.7**	**517.7**	442.5
Grant supplementations	**3.9**	**-**	**-**	**3.9**	4.2
Less: grants awarded in previous years no longer required	**(9.0)**	**(1.5)**	**-**	**(10.5)**	(10.1)
Grants awarded by the Group of which;	**412.6**	**62.8**	**35.7**	**511.1**	436.6
United Kingdom	**372.5**	**37.4**	**35.3**	**445.2**	385.4
Directly funded international	**40.1**	**25.4**	**0.4**	**65.9**	51.2
Grants awarded by the Group	**412.6**	**62.8**	**35.7**	**511.1**	436.6

7. Grants awarded (continued)

Trust	Science Funding £m	Technology Transfer	Medical Humanities and Engagement	Wellcome Trust Genome Campus £m	Total 2012 £m	Total 2011 £m
Grants awarded by the Group	**412.6**	**62.8**	**35.7**	-	**511.1**	436.6
Plus: grants awarded to subsidiary undertakings	-	-	-	**88.4**	**88.4**	84.9
Grants awarded by the Trust	**412.6**	**62.8**	**35.7**	**88.4**	**599.5**	521.5

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
Mr Peter Davies - University of Oxford
Professor Christopher Fairburn - University of Oxford
Professor Michael Ferguson - University of Dundee
Professor Richard Hynes - Massachusetts Institute of Technology
Professor Anne Johnson - University College London
Baroness Manningham-Buller - Imperial College London
Professor Peter Rigby - The Institute of Cancer Research
Professor Peter Smith - London School of Hygiene and Tropical Medicine, World Health Organisation

8. Grants awarded but not yet paid

	Group		Trust	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Liability at 1 October	**1,508.0**	1,493.0	**1,505.0**	1,490.0
Grants awarded during the year	**511.1**	436.6	**599.5**	521.5
Grants paid during the year	**(436.0)**	(421.6)	**(523.3)**	(506.5)
Liability as at 30 September	**1,583.1**	1,508.0	**1,581.2**	1,505.0
Of which:				
- falling due within one year (note 17)	**683.2**	654.7	**683.2**	653.6
- falling due after one year (note 17)	**899.9**	853.3	**898.0**	851.4
Liability as at 30 September	**1,583.1**	1,508.0	**1,581.2**	1,505.0

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.

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

9. Support costs (continued)

Group	Costs of generating funds £m	Science Funding £m	Technology Transfer £m	Medical Humanities and Engagement £m	Wellcome Trust Genome Campus £m	**Total 2012 £m**	Total 2011 £m	Allocation method
Funding administration	-	7.0	3.6	4.1	-	**14.7**	13.9	Directly attributed
Support of scientific research	-	-	-	-	1.1	**1.1**	3.5	Directly attributed
Operations	4.1	6.0	3.4	14.7	1.2	**29.4**	28.1	Headcount / building usage
Other	0.2	2.5	0.6	0.4	0.6	**4.3**	3.4	Expenditure
	4.3	15.5	7.6	19.2	2.9	**49.5**	48.9	

Trust	Costs of generating funds £m	Science Funding £m	Technology Transfer £m	Medical Humanities and Engagement £m	Wellcome Trust Genome Campus £m	**Total 2012 £m**	Total 2011 £m	Allocation method
Funding administration	-	7.0	3.6	4.1	-	**14.7**	13.9	Directly attributed
Operations	4.1	6.0	3.4	14.7	1.6	**29.8**	28.1	Headcount / building usage
Other	0.2	2.5	0.6	0.4	0.6	**4.3**	3.4	Expenditure
	4.3	15.5	7.6	19.2	2.2	**48.8**	45.4	

10. Governance costs

	Group		Trust	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Trustee fees and expenses	**0.8**	0.9	**0.8**	0.9
Auditors' remuneration				
- parent company and consolidation	**0.2**	0.2	**0.2**	0.2
- audits of subsidiary undertakings	**0.1**	0.1	**-**	-
Internal audit	**0.4**	0.5	**0.4**	0.4
Other costs	**0.7**	0.6	**0.6**	0.6
	2.2	2.3	**2.0**	2.1

In addition to the auditors' remuneration above, in 2012 total fees of £0.7 million (2011: £0.5 million) excluding VAT were payable to the Group's auditors PricewaterhouseCoopers LLP or associated firms (£0.5 million in respect of taxation compliance services and £0.2 million in respect of non-audit services for the operation of the Major Overseas Programmes). In addition, there were fees payable to PricewaterhouseCoopers LLP in respect of the audit of the Wellcome Trust Pension Plan of £12,300 (2011: £11,800), excluding VAT, which were borne by the Plan and fees payable to PricewaterhouseCoopers LLP in respect of the audit of the Genome Research Limited Pension Plan of £6,250 (2011: £6,000), excluding VAT, which were borne by Genome Research Limited.

The internal audit services are provided by Deloitte LLP.

11. Employee information

(a) Staff costs

	Group		Trust	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Salaries and benefits in kind	**66.0**	55.3	**35.9**	25.0
Social Security costs	**5.3**	5.0	**3.0**	2.7
Pensions costs and other benefits	**17.2**	17.0	**9.2**	9.0
	88.5	77.3	**48.1**	36.7

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

	Average	
	2012	2011
Trust	**543**	515
Subsidiary undertakings	**870**	839
Total for the Group	**1,413**	1,354
Analysed by		
Investments	**32**	30
Direct activities	**998**	956
Support	**382**	367
Governance	**1**	1
Total for the Group	**1,413**	1,354
Analysed by		
Investments	**32**	30
Direct activities	**159**	148
Support	**351**	336
Governance	**1**	1
Total for the Trust	**543**	515

11. Employee information (continued)

(c) Emoluments of employees

The number of employees of the Trust and its subsidiary undertakings whose emoluments (salaries, benefits in kind, bonuses and compensation for loss of office, but excluding pension contributions and amounts awarded under the Long Term Incentive Plans) fell within the following bands were:

	Group	
	2012	2011
£60,000-£69,999	**36**	37
£70,000-£79,999	**21**	24
£80,000-£89,999	**20**	22
£90,000-£99,999	**12**	15
£100,000-£109,999	**6**	4
£110,000-£119,999	**7**	5
£120,000-£129,999	**2**	8
£130,000-£139,999	**8**	2
£140,000-£149,999	**2**	5
£150,000-£159,999	**3**	1
£170,000-£179,999	**1**	4
£180,000-£189,999	**-**	1
£190,000-£199,999	**-**	1
£200,000-£209,999	**4**	3
£210,000-£219,999	**2**	-
£220,000-£229,999	**-**	2
£230,000-£239,999	**1**	-
£250,000-£259,999	**1**	1
£260,000-£269,999	**1**	-
£290,000-£299,999	**-**	1
£310,000-£319,999	**1**	-
£320,000-£329,999	**1**	-
£390,000-£399,999	**-**	1
£400,000-£409,999	**1**	1
£420,000-£429,999	**1**	-
£580,000-£589,999	**-**	1
£600,000-£609,999	**1**	-

The remuneration of the Director included in the table above totalled £406,755 (2011: £403,279).

Pension benefits have been accruing under the defined benefit schemes for all but one of the Group's employees included in the above bandings.

Further information in respect of employees' and Governors' remuneration is included within the Remuneration Report on pages 31 to 32. The table of Governors' remuneration on page 31 forms part of the audited Financial Statements.

11. Employee information (continued)

(d) Retirement benefits

The Group sponsors two funded defined benefit schemes, the Wellcome Trust Pension Plan and the Genome Research Limited Pension Plan.

The Trust has committed to pay lump sum contributions of £2.3 million for the Wellcome Trust Pension Plan and £1.0 million for the Genome Research Limited Pension Plan in 2012 and a further £2.3 million for the Wellcome Trust Pension Plan in each of 2013 and 2014 in order to fund the pension deficits identified at the last actuarial valuations.

The FRS 17 "Retirement benefits" actuarial valuation of the Wellcome Trust and Genome Research Limited Pension Plans at 30 September 2012, showed a combined deficit of £98.4 million (2011: £97.1 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 including interest and inflation rates, which change annually.

The contributions made by the employer over the financial year into the Wellcome Trust Pension Plan were £7.4 million (2011: £7.2 million). Contributions made by the employer into the Genome Research Limited Pension Plan were £5.4 million (2011: £5.2 million).

The assets of the schemes are stated at bid price. The liabilities and the provision for other retirement benefits have been calculated using the following actuarial assumptions:

	2012	2011	2010
	% per annum	% per annum	% per annum
Inflation	**2.80%**	3.40%	3.40%
Salary increases	**3.55%**	4.15%	4.90%
Rate of discount	**4.50%**	5.10%	5.00%
Allowance for pension in payment increase of RPI or 5% p.a. if less	**2.70%**	3.30%	3.30%
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	**2.80%**	3.40%	3.40%
Allowance for commutation of pension for cash at retirement	**90% of Post A-Day**	90% of Post A-Day	None
Rate of increase of healthcare costs	**6.00%**	6.00%	6.00%

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

	2012	2011
Male retiring at age 60 in 2012	**28.7**	28.6
Female retiring at age 60 in 2012	**29.8**	29.7
Male retiring at age 60 in 2032	**30.7**	30.6
Female retiring at age 60 in 2032	**31.8**	31.7

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 S1PxA_Light together with an allowance for mortality improvement in line with CMI 2009 projections and a 1.25% per annum minimum long-term rate of improvement.

11. Employee information (continued)

(d) Retirement benefits (continued)

(i) Charge to the Statement of Financial Activities

	Group		Trust	
	Pension and other retirement benefits		Pension and other retirement benefits	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Current service cost	**14.6**	14.5	**8.2**	7.8
Past service cost	**-**	-	**-**	-
	14.6	14.5	**8.2**	7.8
Other finance income				
Expected return on pension schemes' assets	**(10.7)**	(11.6)	**(6.9)**	(7.5)
Interest on pension schemes' liabilities	**13.0**	13.6	**8.2**	8.6
	2.3	2.0	**1.3**	1.1
Actuarial (gains)/losses	**(1.3)**	(18.4)	**0.1**	(10.5)
Total charge/(credit) to the Statement of Financial Activities	**15.6**	(1.9)	**9.6**	(1.6)

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

	Assets		Liabilities		Deficit	
	2012	2011	**2012**	2011	**2012**	2011
	£m	£m	**£m**	£m	**£m**	£m
Wellcome Trust Pension Plan	**112.0**	92.4	**(169.3)**	(149.0)	**(57.3)**	(56.6)
Genome Research Limited Pension Plan	**64.0**	49.9	**(105.1)**	(90.4)	**(41.1)**	(40.5)
Total pension funds	**176.0**	142.3	**(274.4)**	(239.4)	**(98.4)**	(97.1)

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

	Group		Trust	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Schemes' liabilities at start of period	**239.4**	257.1	**149.0**	160.7
Current service cost	**13.9**	13.6	**7.5**	6.9
Interest cost	**12.5**	13.2	**7.7**	8.2
Contributions by schemes' participants	**1.0**	0.9	**0.5**	0.4
Actuarial losses/(gains)	**11.2**	(42.6)	**7.6**	(24.9)
Benefits paid and death-in-service insurance premiums	**(3.6)**	(2.8)	**(3.0)**	(2.3)
Total pension funds	**274.4**	239.4	**169.3**	149.0

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

11. Employee information (continued)

(d) Retirement benefits (continued)

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 14.3%
Rate of inflation	Increase/decrease of 0.5% p.a.	Increase/decrease by 8.4%
Rate of salary growth	Increase/decrease of 0.5% p.a.	Increase/decrease by 2.0%
Probability of death in any year after retirement	Increase/decrease of 10%	Increase/decrease by 2.2%
Long-term rate of mortality improvement	Increase/decrease of 0.25% p.a.	Increase/decrease by 1.5%

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

	Group		Trust	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Fair value of scheme assets at start of period	**142.3**	144.3	**92.4**	94.1
Expected return on scheme assets	**10.7**	11.6	**6.9**	7.5
Actuarial gains	**12.8**	(24.2)	**7.8**	(14.4)
Contributions by the Group	**12.8**	12.5	**7.4**	7.2
Contributions by scheme participants	**1.0**	0.9	**0.5**	0.4
Benefits paid and death-in-service insurance premiums	**(3.6)**	(2.8)	**(3.0)**	(2.4)
Total pension funds	**176.0**	142.3	**112.0**	92.4

The actual return on the Group assets for the year ended 30 September 2012 was a gain of £23.5 million (2011: loss of £10.4 million).

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

11. Employee information (continued)

(d) Retirement benefits (continued)

(v) Split of assets and expected returns

	2012		2011		2010	
	£m	Expected return (%)	£m	Expected return (%)	£m	Expected return (%)
Wellcome Trust Pension Plan						
Equity	**111.5**	**6.6%**	92.0	7.3%	93.8	7.8%
Other	**0.5**	**0.5%**	0.4	0.5%	0.3	0.5%
Total assets	**112.0**	**6.6%**	92.4	7.3%	94.1	7.8%
Genome Research Limited Pension Plan						
Equity	63.6	6.6%	49.9	7.3%	50.2	7.8%
Other	**0.4**	**0.5%**	-	-	-	-
Total assets	**64.0**	**6.6%**	49.9	7.3%	50.2	7.8%

The long-term expected rate of return on cash is determined by reference to bank base rates at the balance sheet dates. The long-term expected rate of return on equities is based on the rate of return on bonds with an allowance for the equity risk premium.

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.

(vi) Amounts for the current and previous four periods as at 30 September

Group	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of schemes' assets	**176.0**	142.3	144.3	120.8	101.0
Present value of schemes' liabilities	**(274.4)**	(239.4)	(257.1)	(216.0)	(169.2)
Deficit in schemes	**(98.4)**	(97.1)	(112.8)	(95.2)	(68.2)
Experience adjustment on schemes' assets	**12.8**	(24.2)	4.8	5.6	(36.1)
Experience adjustment on schemes' liabilities	**(1.0)**	4.6	11.4	0.9	2.2
Effects of changes in the demographic and financial assumptions underlying the present value of the schemes' liabilities	**(10.2)**	38.0	(30.6)	(29.7)	8.0

Trust	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of scheme's assets	**112.0**	92.4	94.1	79.1	65.9
Present value of scheme's liabilities	**(169.3)**	(149.0)	(160.7)	(134.1)	(114.6)
Deficit in scheme	**(57.3)**	(56.6)	(66.6)	(55.0)	(48.7)
Experience adjustment on scheme's assets	**7.8**	(14.4)	3.5	5.4	(22.1)
Experience adjustment on scheme's liabilities	**(0.5)**	4.9	2.1	0.1	3.4
Effects of changes in the demographic and financial assumptions underlying the present value of the schemes' liabilities	**(7.1)**	19.9	(17.5)	(17.7)	2.0

(vii) 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 2012 is £7.4 million. This includes the additional contributions required to make good the shortfall in funding identified in the valuations of 1 January 2011. The best estimate of contributions to be paid by the employer to the Genome Research Limited scheme for the period beginning after 30 September 2012 is £5.4 million. This includes the additional contributions required to make good the shortfall in funding identified in the valuations of 1 January 2010.

12. Remuneration of Governors and related party transactions

Information on Governors' remuneration is included in the Remuneration Report on pages 31 to 32. In addition:

- Mr Peter Davies, who was a Governor until 31 December 2011 and is a member of the Investment Committee, is a senior partner at Lansdowne Partners, which acts as one of the fund managers on behalf of the Trust. Lansdowne Partners received management fees of £1.1 million in 2012 (2011: £1.2 million), and is also entitled to a performance fee of 20% of the appreciation of the net asset value of the fund during each period of 12 months ending 31 December. The amount payable in respect of performance fees for the year ended 30 September 2012 was £nil (2011: £1.7 million).
- Professor Dame Kay Davies, who is a Governor, is a shareholder in Summit Corporation plc. The Trust has made payments to Summit Corporation plc in 2012 of £0.1 million (2011: £1.5 million) in respect of a Seeding Drug Discovery award and £4.1 million in grant funding.
- Details of the Governors who had appointments during the year with organisations which were in receipt of grants are disclosed in note 7.

Other related party transactions

The Francis Crick Institute Limited (formerly UKCMRI Limited)

The programme related investment loans are unsecured, interest free and have no repayment date. They have been provided to finance The Francis Crick Institute Limited's activities (note 15(d)).

The Group incurred costs of £0.3 million (2011: £0.3 million) on behalf of The Francis Crick Institute Limited, which it has recharged, including the cost of secondment staff. No amounts were outstanding from The Francis Crick Institute Limited at 30 September (2011: £0.4 million).

UKCMRI Construction Limited

The Francis Crick Institute Limited is the controlling party and immediate parent of UKCMRI Construction Limited. The Group incurred costs of £1.1 million (2011: £1.0 million) on behalf of UKCMRI Construction Limited, which it has recharged including the cost of secondment staff and rental charges. The premises are currently made available at below market rent. The amount due from UKCMRI Construction Limited at year end was £0.1 million (2011: £0.1 million).

Kymab Limited

The Trust holds an investment in the unquoted equity of Kymab Limited. The Group incurred costs of £nil (2011: £0.2 million) on behalf of Kymab Ltd which it has recharged on an arm's length basis. The amount due from Kymab Ltd at 30 September was £nil (2011: £0.1 million).

13. Taxation

The estimated cost of irrecoverable Value Added Tax suffered by the Group in the year was £11.8 million (2011: £11.7 million). The Trust claims exemption from income and capital gains taxes.

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 2011	347.9	1.5	21.0	64.0	155.5	4.9	594.8
Additions	2.4	-	-	-	9.3	7.0	18.7
Transfers	0.7	-	-	-	2.3	(3.0)	-
Disposals	-	-	(0.2)	-	(5.3)	-	(5.5)
Cost as at 30 September 2012	**351.0**	**1.5**	**20.8**	**64.0**	**161.8**	**8.9**	**608.0**
Depreciation as at 1 October 2011	64.5	1.5	2.8	21.1	104.5	-	194.4
Charge for the year	6.5	-	0.4	3.1	15.0	-	25.0
Disposals	-	-	-	-	(4.1)	-	(4.1)
Depreciation as at 30 September 2012	**71.0**	**1.5**	**3.2**	**24.2**	**115.4**	**-**	**215.3**
Net Book Value as at 30 September 2012	**280.0**	**-**	**17.6**	**39.8**	**46.4**	**8.9**	**392.7**
Net Book Value as at 30 September 2011	283.4	-	18.2	42.9	51.0	4.9	400.4

(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	Total £m
Cost as at 1 October 2011	212.8	1.5	20.8	64.0	47.7	346.8
Additions	0.1	-	-	-	2.5	2.6
Cost as at 30 September 2012	**212.9**	**1.5**	**20.8**	**64.0**	**50.2**	**349.4**
Depreciation as at 1 October 2011	34.3	1.5	2.8	21.1	22.4	82.1
Charge for the year	3.3	-	0.4	3.1	3.1	9.9
Depreciation as at 30 September 2012	**37.6**	**1.5**	**3.2**	**24.2**	**25.5**	**92.0**
Net Book Value as at 30 September 2012	**175.3**	**-**	**17.6**	**39.8**	**24.7**	**257.4**
Net Book Value as at 30 September 2011	178.5	-	18.0	42.9	25.3	264.7

14. Tangible fixed assets (continued)

Heritage assets

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

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(e) 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 full Premium Membership contract with Document SOS 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. Investments
(a) Investment assets

Group	Fair value 1 October 2011 £m	Purchases £m	Sales proceeds £m	Total gains/ (losses) £m	Fair value 30 September 2012 £m
UK	**1,113.0**	210.8	(204.4)	126.8	**1,246.2**
Overseas	**4,781.3**	1,835.3	(2,091.8)	723.6	**5,248.4**
Total quoted	**5,894.3**	2,046.1	(2,296.2)	850.4	**6,494.6**
UK	**202.1**	10.0	(17.0)	3.0	**198.1**
Overseas	**7,080.9**	816.2	(1,024.3)	352.7	**7,225.5**
Total unquoted	**7,283.0**	826.2	(1,041.3)	355.7	**7,423.6**
UK	**835.0**	6.3	(54.1)	134.9	**922.1**
Total property	**835.0**	6.3	(54.1)	134.9	**922.1**
Total	**14,012.3**	2,878.6	(3,391.6)	1,341.0	**14,840.3**

Trust	Fair value 1 October 2011 £m	Purchases £m	Sales proceeds £m	Total gains/ (losses) £m	Fair value 30 September 2012 £m
UK	**1,064.8**	214.4	(156.0)	123.0	**1,246.2**
Overseas	**4,242.6**	1,336.1	(1,672.9)	726.2	**4,632.0**
Total quoted	**5,307.4**	1,550.5	(1,828.9)	849.2	**5,878.2**
UK	**202.0**	19.3	(17.1)	(6.2)	**198.0**
Overseas	**5,915.9**	682.7	(869.2)	311.9	**6,041.3**
Total unquoted	**6,117.9**	702.0	(886.3)	305.7	**6,239.3**
UK	**789.9**	51.4	(54.1)	134.9	**922.1**
Total property	**789.9**	51.4	(54.1)	134.9	**922.1**
Total	**12,215.2**	2,303.9	(2,769.3)	1,289.8	**13,039.6**

The investment assets at fair value in the Group and the Trust include securities on loan at year end with fair value of £41.1 million (2011: £44.6 million); the Group and the Trust held cash collateral of £43.7 million (2011: £47.5 million) in respect of these securities. The Trust recognises the cash collateral held asset and a liability to return the cash collateral to the borrowers as disclosed in note 15(c) and note 17. During the year, the maximum aggregate fair value of securities on loan was £246.6 million (2011: £273.7 million) and the Trust held £262.5 million (2011: £289.4 million) as collateral in respect of these securities. The income receivable due to securities lending activities is disclosed in note 2. No loaned securities were recalled but not obtained during the year and therefore no collateral was retained.

The unquoted valuation in the Group and the Trust above includes direct investments of £nil (2011: £nil) and other investments of £59.2 million (2011: £115.7 million) for which the valuation used is equal to cost less any impairment. For these investments, the fair value cannot be reliably measured and therefore they are held at cost less any impairment.

Investment properties in the Group and the Trust have been valued at market value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The valuations were carried out by Gerald Eve, Savills (L and P) Limited and CB Richard Ellis.

15. Investments (continued)

(b) Derivative financial instruments

	Group		Trust	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Derivative financial instrument asset positions	**72.7**	65.9	**72.7**	65.9

Derivative financial instrument liabilities for the Group and Trust are included within creditors, disclosed in note 17.

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 Sterling and as part of the investment strategy to have a globally diversified currency exposure. As at 30 September 2012, the notional value of open forward contracts amounted to £2,786.9 million (2011: £2,955.4 million). As at 30 September 2012, the Trust held cash collateral relating to its forward currency contracts of £41.3 million (2011: £3.2 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 2012, there were no long equity index futures positions (2011: nil) and the notional value of open sold futures positions amounted to £249.0 million (2011: £nil). Sold futures are covered by quoted equity positions as reflected in note 15(a).

As at 30 September 2012, the notional value of long options positions amounted to £9.0 million (2011: £64.8 million) and the notional value of short options positions amounted to £5.8 million (2011: £28.9 million). Sold call options are covered by quoted equities positions as reflected in note 15(a). Sold put options are covered by cash as reflected in note 15(c).

As at 30 September 2012, 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 £8.2 million (2011: £8.3 million).

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

	Group		Trust	
	2012	2011	**2012**	2011
	£m	£m	**£m**	£m
Investment cash and certificates of deposit	**412.4**	445.9	**388.8**	389.1
Cash collateral held	**85.0**	50.8	**68.0**	39.0
Accrued income from investments	**13.0**	11.1	**11.4**	9.5
Income receivable	**11.2**	8.7	**11.2**	8.6
Proceeds receivable on sale of investments	**144.2**	27.9	**115.4**	21.9
Prepayment of investment purchases	**18.6**	-	**-**	-
Other investment debtors	**7.1**	4.0	**6.5**	3.7
Other investments assets	**279.1**	102.5	**212.5**	82.7

15. Investments (continued)

(d) Programme related investments

	Fair value 1 October 2011 £m	Purchases £m	Write-downs £m	Fair value 30 September 2012 £m
Loans – other	4.2	11.4	(15.5)	**0.1**
Loans	4.2	11.4	(15.5)	**0.1**
Equity Funding – The Francis Crick Institute	-	17.3	(17.3)	**-**
Equities – Diamond	-	3.1	(3.1)	**-**
Equities – Hilleman Laboratories	-	1.8	(1.8)	**-**
Equities - Other	1.6	1.0	(1.6)	**1.0**
Equities and Equity Funding	1.6	23.2	(23.8)	**1.0**
Total	5.8	34.6	(39.3)	**1.1**

The Francis Crick Institute Limited

The Trust continued to work with the Medical Research Council, Cancer Research UK and University College London (the "Original Founders"), and two academic funders, Imperial College London and King's College London, to develop The Francis Crick Institute Limited (formerly known as the UK Centre for Medical Research and Innovation (UKCMRI Limited)), a world class multidisciplinary biomedical research institute to be based in London. The academic funders became Founders in October 2011.

The programme related equity funding is the Trust's share of the funding of this project for programme management costs and the construction costs of the Crick building. In return for the funding, The Francis Crick Institute Limited, the legal name for the institute, issues shares to the Trust. At the balance sheet date, £2.4 million, had yet to be issued to the Trust in shares. 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 Funding direct expenditure.

Diamond Light Source Limited

Equities also include a 14% equity interest in Diamond Light Source Limited, a company established to construct and operate a synchotron 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 Funding 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 Technology Transfer direct expenditure.

Other

As part of its Technology Transfer activities, the Trust has provided funding to 45 (2011: 45) 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. The £17.1 million write-down (2011: £9.1 million) is to reflect the Trust's policy of writing 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. During 2012 the impairment reversed was £1.1 million (2011: £nil). Any income received or gains realised are included in other income and amounted to £2.3 million (2011: £0.4 million).

15. Investments (continued)

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

		Group		Trust	
		2012	2011	**2012**	2011
	Note	**£m**	£m	**£m**	£m
Quoted investments	15(a)	**850.4**	(497.4)	**849.2**	(419.3)
Unquoted investments	15(a)	**355.7**	453.9	**305.7**	441.7
Investment properties	15(a)	**134.9**	128.1	**134.9**	114.1
Derivative financial instruments					
Currency overlay		**164.5**	11.5	**164.5**	11.5
Other derivative financial instruments		**(13.4)**	56.4	**(13.1)**	58.9
Short term investments		**-**	(0.8)	**-**	(0.8)
Shares in subsidiary undertakings		**-**	-	**13.9**	(86.2)
Foreign exchange		**(7.4)**	1.5	**(9.7)**	1.3
		1,484.7	153.2	**1,445.4**	121.2

Gains relating to derivative financial instruments include £164.5 million (2011: £11.5 million) relating to the currency overlay, which comprises forward currency contracts to hedge the Group and Trust's exposure to foreign currency assets. The remaining losses of £13.4 million (2011: gains of £56.4 million) relate to other forward currency contracts, financial futures, options and warrants. 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 are therefore offsetting foreign exchange gains and losses on the foreign currency assets within quoted and unquoted investments.

(f) Reconciliation to Trustee's Report

The presentation of investment balances in note 15 and 17 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: equity; hedge funds; private equity; and property and infrastructure.

This note reconciles the 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:

		2012	2011
	Note	**£m**	£m
Quoted and unquoted investments and investment property	15(a)	**14,840.3**	14,012.3
Derivative financial instrument asset positions	15(b)	**72.7**	65.9
Investment cash and certificates of deposit	15(c)	**412.4**	445.9
Other investment assets	15(c)	**279.1**	102.5
Derivative financial instrument liabilities	17	**(26.5)**	(85.7)
Other investment liabilities	17	**(126.1)**	(90.1)
Bond liabilities at amortised cost	17	**(820.7)**	(820.1)
Adjusted for			
Restatement of bond liabilities to fair value		**(151.3)**	(65.6)
Subsidiary held as direct investment in table above		**-**	11.0
Syncona investment not in asset allocation		**(0.5)**	-
Total assets net of Bond liabilities per figure 6		**14,479.4**	13,576.1

15. Investments (continued)

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

	Note	2012 £m	2011 £m
Total assets net of Bond liabilities per figure 6		**14,479.4**	13,576.1
Add back investment liabilities			
Derivative financial instrument liabilities	17	**26.5**	85.7
Other investment liabilities	17	**126.1**	90.1
Bond liabilities at amortised cost	17	**820.7**	820.1
Programme related investments	15(d)	**1.1**	5.8
Adjusted for			
Restatement of bond liabilities to fair value		**151.3**	65.6
Subsidiary held as direct investment in table above		**-**	(11.0)
Syncona investment not in asset allocation		**0.5**	-
Investment assets as presented in the Consolidated Balance Sheet		**15,605.6**	14,632.4

16. Debtors

	Group		Trust	
	2012 £m	2011 £m	2012 £m	2011 £m
Amounts owed by subsidiary undertakings	**-**	-	**10.1**	3.9
Other debtors	**15.5**	13.7	**9.3**	6.6
Prepayments	**7.1**	8.2	**2.7**	2.5
	22.6	21.9	**22.1**	13.0

Other debtors in the Group include £nil (2011: £0.4 million) due from UKCMRI Construction Limited and £4.8 million (2011: £12.1 million) due under third-party grant awards.

17. Creditors

		Group		Trust	
		2012	2011	**2012**	2011
	Note	**£m**	£m	**£m**	£m
Falling due within one year					
Amounts owed to subsidiary undertakings		**-**	-	**502.0**	360.2
Grant liabilities	8	**683.2**	654.7	**683.2**	653.6
Bond liabilities		**9.2**	9.2	**-**	-
Finance lease creditor		**0.1**	-	**0.1**	-
Amount payable on acquisition of investments		**17.8**	18.6	**14.3**	15.5
Cash collateral creditor		**85.0**	50.8	**68.0**	39.0
Deferred income from investments		**4.2**	3.8	**4.2**	3.4
Derivative financial instrument liabilities		**26.5**	70.3	**26.5**	70.3
Other investment liabilities		**19.0**	16.9	**18.4**	16.3
Trade creditors		**7.8**	10.1	**3.8**	1.9
Other creditors		**14.2**	10.8	**9.7**	4.9
Accruals and deferred income		**14.6**	16.9	**4.9**	4.2
Total falling due within one year		**881.6**	862.1	**1,335.1**	1,169.3
Falling due between one and five years					
Grant liabilities	8	**855.3**	813.3	**853.4**	811.4
Finance lease creditor		**3.4**	0.1	**-**	0.1
Other creditors		**1.4**	1.8	**1.5**	1.8
		860.1	815.2	**854.9**	813.3
Falling due after five years					
Grant liabilities	8	**44.6**	40.0	**44.6**	40.0
Bond liabilities		**811.5**	810.9	**-**	-
Other creditors		**-**	0.7	**-**	16.1
Derivative financial instrument liabilities		**-**	15.4	**-**	-
		856.1	867.0	**44.6**	56.1
Total falling due after one year		**1,716.2**	1,682.2	**899.5**	869.4

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

18. Provisions for liabilities and charges

	Employment related provisions £m	Other provisions £m	Total £m
Group and Trust			
As at 1 October 2011	10.8	1.8	12.6
Charge for the year	7.6	0.1	7.7
Utilised in year	(0.3)	-	(0.3)
As at 30 September 2012	**18.1**	**1.9**	**20.0**

The employment related provisions relate primarily to the incentive schemes discussed in the Remuneration Report on pages 31 and 32. The calculations are the best estimates of the amounts payable based on the known performance of the portfolio to date and the proportion of the measurement period that has passed. The other provisions relate to decommissioning costs for Diamond Light Source Limited (note 15(d)).

19. 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 £1,711.2 million (2011: £1,574.0 million). The Trust models its expected cash flows based on the year of the original commitment and historic trends. The Trust expects to invest £467.6 million (27%) of its outstanding commitments in one year, £777.7 million (46%) in between one and five years and £465.9 million (27%) after five years.

(b) Programme related investments

At 30 September 2012, the Trust's outstanding commitment to The Francis Crick Institute Limited was £79.6 million (2011: £96.9 million).

Programme related convertible loans have been made over a series of years, of which £5.5 million (2011: £24.0 million) remains yet to be drawn down and is contingent upon specific milestones being achieved.

During the previous year, the Trust committed to fund 14% of the third construction phase of the Diamond Light Source Limited synchotron project. The outstanding commitment as at 30 September 2012 was £11.0 million (2011: £12.8 million). The Trust also has an outstanding commitment of £0.4 million as part of the second construction phase (2011: £1.4 million).

During the year, the Trust incurred £1.8 million (2011: £3.8 million) in expenditure relating to an entity in India, MSD-Wellcome Trust Hilleman Laboratories. The Trust will contribute up to £39.0 million over the next five years.

(c) Grant funding activities

During the current and prior years, the Technology Transfer division has made Seeding Drug Discovery awards of £116.2 million, of which £95.3 million has been included in expenditure in current and prior financial years. The remaining £20.9 million is contingent upon specific funding-related milestones being met and has therefore not been included within grant liabilities.

During the year, the Trust incurred £7.3 million in expenditure relating to Wellcome Trust-DBT India Alliance. Subject to Trustee approval, the Trust will contribute up to £16.0 million over the next two years. Additional funding of £40.2 million for a further five year period is conditional on the successful completion of activities identified in the mid-term review of the initiative.

During the year, 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 £4.0 million over the next year.

During the current and prior years, the Trust has incurred £26.8 million in expenditure relating to the Health Innovation Challenge Fund, a partnership with the UK Department of Health. Subject to review and approval of appropriate applications, the Trust will contribute up to £23.2 million over the next two years.

During the year, the Trust incurred £1.6 million in expenditure relating to eLife Sciences Publications Limited. Subject to further review of activities, the Trust will contribute up to £5.9 million over the next four years.

(d) Capital commitments

At 30 September 2012, Genome Research Limited had capital commitments contracted for but not provided of £1.3 million (2011: £1.7 million) relating to purchases of scientific equipment. Hinxton Hall Limited had capital commitments contracted for but not provided of £8.0 million (2011: £0.3 million) relating to capital projects at the Wellcome Trust Genome Campus. W.T. Construction Limited had capital commitments contracted for but not provided of £20.1 million (2011: £0.2 million) relating to building projects.

20. 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 (Sterling investments)	The Wellcome Trust Limited is the sole shareholder
Wellcome Trust Investments 2 Unlimited	England	Investment holding company (US Dollar investments)	The Wellcome Trust Limited is the sole shareholder
Wellcome Trust Investments 3 Unlimited	England	Investment holding company (Euro investments)	The Wellcome Trust Limited is the sole shareholder
Wellcome Trust Residential 1 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

20. Group undertakings (continued)

(b) Summary financial information

(i) Non-charitable investment subsidiary undertaking

	Wellcome Trust Investment Limited Partnership		Wellcome Trust Investments 1 Unlimited		Wellcome Trust Investments 2 Unlimited		Wellcome Trust Investments 3 Unlimited		Wellcome Trust Residential 1 Unlimited	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Turnover	**12.8**	10.5	**-**	0.1	**-**	0.3	**-**	0.1	**7.8**	12.2
Expenditure	**(32.0)**	(34.3)	**0.1**	(0.1)	**5.1**	(16.0)	**-**	-	**(8.1)**	(7.8)
Gains/(losses) on investments	**22.0**	(51.0)	**(0.5)**	(0.2)	**(2.2)**	(21.7)	**11.6**	3.6	**17.1**	14.6
	2.8	(74.8)	**(0.4)**	(0.2)	**2.9**	(37.4)	**11.6**	3.7	**16.8**	19.0
Investment assets	**715.5**	769.0	**0.2**	0.7	**667.8**	642.0	**106.8**	66.9	**307.3**	299.1
Current assets	**46.5**	77.1	**1.2**	19.0	**144.4**	42.1	**1.6**	1.5	**22.3**	13.1
Total assets	**762.0**	846.1	**1.4**	19.7	**812.2**	684.1	**108.4**	68.4	**329.6**	312.2
Liabilities	**(613.0)**	(699.9)	**0.0**	-	**(15.0)**	-	**-**	-	**(8.3)**	(7.7)
Net assets	**149.0**	146.2	**1.4**	19.7	**797.2**	684.1	**108.4**	68.4	**321.3**	304.5

(ii) Non-charitable financing subsidiary undertaking

	Wellcome Trust Finance plc	
	2012 £m	2011 £m
Turnover	**45.6**	45.6
Expenditure	**(45.6)**	(45.6)
	-	-
Current assets	**958.7**	958.2
Total assets	**958.7**	958.2
Liabilities	**(821.2)**	(820.7)
Net assets	**137.5**	137.5

(iii) Charitable subsidiary undertaking

	Genome Research Limited	
	2012 £m	2011 £m
Incoming resources	**101.5**	100.8
Resources expended	**(107.6)**	(104.1)
Actuarial gains on defined benefit pension scheme	**1.4**	8.0
Net movements in funds	**(4.7)**	4.7
Assets	**127.6**	133.6
Liabilities	**(21.8)**	(23.7)
Defined benefit pension scheme deficit	**(41.1)**	(40.5)
Net assets	**64.7**	69.4

21. Consolidated cash flow

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

	2012 £m	2011 £m
Incoming resources	**242.4**	254.4
Less: Dividends and interest	**(192.3)**	(205.8)
Less: Rental income	**(25.2)**	(22.2)
Increase in debtors	**-**	(2.0)
Income received	**24.9**	24.4
Grants awarded	**(511.1)**	(436.6)
Increase in commitments	**75.1**	15.0
Increase in partnership recoverables	**(1.1)**	(4.3)
Grants paid	**(437.1)**	(425.9)
Other resources expended	**(285.7)**	(234.1)
Increase/(decrease) in creditors and provisions	**9.7**	(15.7)
(Increase)/decrease in other investment debtors	**(3.1)**	0.9
Increase in provision for Programme related investments	**39.3**	25.2
Gain on disposal of fixed assets	**(0.7)**	(2.6)
Depreciation	**25.0**	24.8
Other operating costs	**(215.5)**	(201.5)
Net cash outflow from operating activities	**(627.7)**	(603.0)

(b) Investment income received

	2012 £m	2011 £m
Dividends and interest	**192.3**	205.8
Rental income	**25.2**	22.2
Decrease in income receivable from investments	**(2.5)**	(1.7)
(Increase)/decrease in accrued income from investments	**(1.9)**	0.5
Increase in deferred income from investments	**0.4**	0.1
Investment income received	**213.5**	226.9

(c) Serving of finance

	2012 £m	2011 £m
Interest payable	**(39.0)**	(39.0)
Increase in interest creditors	**0.6**	0.4
Cash outflow for servicing of finance	**(38.4)**	(38.6)

21. Consolidated cash flow (continued)

(d) Reconciliation of investment sales and purchases

	2012 £m	2011 £m
Proceeds on sale of quoted investments	**2,296.2**	2,934.9
Proceeds on sale of unquoted investments	**1,041.3**	1,288.7
Proceeds on sale of investment property	**54.1**	59.3
(Decrease)/increase in proceeds receivable on sale of investments	**(116.3)**	40.5
Proceeds from sales of investments	**3,275.3**	4,323.4
Purchases of quoted investments	**2,046.1**	3,019.8
Purchases of unquoted investments	**826.2**	1,371.6
Purchases of investment property	**6.3**	27.4
Decrease in amounts payable on acquisition of investments	**0.8**	11.4
Increase/(decrease) in prepayment for investment purchases	**18.6**	(11.7)
Purchase of programme related investments	**32.1**	25.9
Purchases of investments	**2,930.1**	4,444.4
Gain on derivative financial instruments	**151.1**	67.9
Increase in derivative financial asset positions	**(6.8)**	(5.4)
(Decrease)/increase in derivative financial liabilities	**(59.2)**	25.0
Net cash inflow upon settlement of derivative financial instruments	**85.1**	87.5

(e) Issue of corporate bonds

In July 2006, Wellcome Trust Finance plc issued £550 million 4.625%, Guaranteed Bonds due 2036 and in May 2009 Wellcome Trust Finance plc issued £275 million 4.75%, Guaranteed Bonds due 2021. During the year, Wellcome Trust Finance plc paid interest on the Bonds amounting to £39.0 million (2011: £39.0 million).

(f) Analysis of net debt

	At 1 October 2011 £m	Cash flow £m	Non-cash changes: effective interest £m	At 30 September 2012 £m
Cash in hand and at bank	34.1	(12.2)	-	**21.9**
Debt due after one year				
- bond liabilities	(810.9)	-	(0.6)	**(811.5)**
Debt due within one year				
- bond liabilities	(9.2)	38.4	(38.4)	**(9.2)**
Finance leases due after one year	(0.1)	-	-	**(0.1)**
Liquid resources:				
- investment cash and certificates of deposit	445.9	(33.5)	-	**412.4**
Net debt	(340.2)	(7.3)	(39.0)	**(386.5)**

22. Major non-cash transactions

There were no major non-cash transactions during the current or prior year.

23. 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:

	2012 £m	2011 £m
Interest-bearing securities	**-**	31.0
Derivative financial instruments assets positions	**51.1**	48.5
Investment cash balances and certificates of deposit	**412.4**	445.9
Cash collateral held	**85.0**	50.8
Accrued income from investments	**13.0**	11.1
Proceeds receivable on sale of investments	**144.2**	27.9
Other investment debtor balances	**36.9**	12.7
Programme related investment loans	**0.1**	4.2
Other debtors	**15.5**	13.7
Term deposits and cash	**21.9**	34.1
	780.1	679.9

None of the Group's financial assets subject to credit risk (other than the Programme related investments which are discussed in note 15(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 industry sectors and 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.

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 15(a), forward currency contract assets of value £41.3 million (2011: £3.2 million) were secured by cash collateral. 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.

23. Financial risk management (continued)

(b) Liquidity risk (continued)

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 holds very liquid assets amounting to £305.1 million as at 30 September 2012 (2011: £354.9 million), which comprises cash and cash equivalent assets. The level of very liquid assets held is regularly reviewed by senior management. Liquidity and cash forecasts are reviewed by the Investment Committee and Board of Governors on a quarterly basis. Short term operational cash flow forecasts are produced weekly.

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

Group	2012 Three months or less £m	2012 No more than one year £m	2012 More than one year £m	2012 Total £m	2011 Three months or less £m	2011 No more than one year £m	2011 More than one year £m	2011 Total £m
Contractual payments falling due within one year								
Bond liabilities	-	38.5		38.5	-	38.5		38.5
Finance lease creditor	-	0.1		0.1	-	-		-
Derivative financial instruments liabilities	26.5	-		26.5	70.3	-		70.3
Collateral liability	85.0	-		85.0	50.8	-		50.8
Amount payable on acquisition of investments	17.8	-		17.8	18.6	-		18.6
Other investment liabilities	19.0	-		19.0	16.9	-		16.9
Trade creditors	7.8	-		7.8	10.1	-		10.1
Other creditors	14.2	-		14.2	10.8	-		10.8
Accruals and deferred income	14.6	-		14.6	16.9	-		16.9
Contractual payments	184.9	38.6		223.5	194.4	38.5		232.9
Grant liability	266.8	416.4		683.2	236.3	418.4		654.7
	451.7	**455.0**		**906.7**	**430.7**	**456.9**		**887.6**
Contractual payments falling due between one and five years								
Bond liabilities			154.0	154.0			154.0	154.0
Finance lease creditor			-	-			0.1	0.1
Other creditors			1.4	1.4			1.8	1.8
Contractual payments			155.4	155.4			155.9	155.9
Grant liability			855.3	855.3			813.3	813.3
			1,010.7	**1,010.7**			**969.2**	**969.2**
Contractual payments falling due after five years								
Bond liabilities			1,360.6	1,360.6			1,399.1	1,399.1
Derivative financial instruments liabilities			-	-			15.4	15.4
Other creditors			-	-			0.7	0.7
Contractual payments			1,360.6	1,360.6			1,415.2	1,415.2
Grant liability			44.6	44.6			40.0	40.0
			1,405.2	**1,405.2**			**1,455.2**	**1,455.2**

The grant liability is non-contractual and the expected maturity of this liability is based on historic payment profiles payable.

23. 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 monitored 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 risk metrics to monitor exposure to market risk. These include forecast value at risk (VAR), equity market beta and Sterling and US Dollar currency exposure. The VAR measures the worst expected loss under normal market conditions over a specific time interval at a given confidence level. The one year 95% VAR was 16.9% as at 30 September 2012 (2011: 16.3%). Equity market beta provides an estimation of how returns from the portfolio are expected to move in relation to returns from global equity markets. In September 2012, overall equity beta was 0.75 (2011: 0.74).

Monitoring Sterling and US Dollar currency exposure, after the inclusion of 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.

VAR levels above a desired threshold and/or equity market betas outside a desired range and/or Sterling and US Dollar currency exposure below a desired minimum are highlighted for discussion and review to the Investment Committee and the Board of Governors on a timely basis.

(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 key 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 Governors and senior management 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:

	2012 £m	2011 £m
Quoted investments	**6,494.6**	5,894.3
Unquoted investments	**7,423.6**	7,283.0
Investments properties	**922.1**	835.0
Derivative financial instruments assets positions	**31.9**	17.4
Assets exposed to risk	**14,872.2**	14,029.7
Derivative financial instruments liability positions	**3.7**	5.0
Liabilities exposed to risk	**3.7**	5.0

Concentration of exposure to other price risk

An analysis of the Group's investment portfolio is shown in note 15(a). This shows that 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 by ensuring full and timely access to relevant information from the investment managers. 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 and asset allocation, particularly across regions and asset classes.

23. Financial risk management (continued)

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

(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 Group has no significant financial liabilities denominated in currencies other than Sterling. However, the Group has outstanding commitments for private equity funds and property funds of $2,134.1 million and €457.0 million as at 30 September 2012 (2011: $1,871.9 million and €384.6 million).

Currency risk exposure

As at 30 September 2012, 73.7% (2011: 69.8%) 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 2012 (currency, m)**	**Value as at 30 September 2012 £m**	Value as at 30 September 2011 (currency, m)	Value as at 30 September 2011 £m
Traded investments assets				
US Dollar	**$13,723.7**	**8,498.7**	$12,369.4	7,940.3
Euro	**€1,812.5**	**1,444.0**	€1,690.5	1,456.1
Other		**2,148.9**		2,098.8
Other investment debtors balances				
US Dollar	**$573.5**	**355.2**	$231.1	148.4
Euro	**€31.8**	**25.3**	€45.0	38.8
Other		**144.3**		136.3
Other investment creditors balances				
US Dollar	**($16.7)**	**(10.4)**	($9.2)	(5.9)
Euro	**(€1.2)**	**(0.9)**	(€1.1)	(1.0)
Other		**(46.9)**		(16.8)
Forward currency contracts				
US Dollar	**($1,499.6)**	**(928.7)**	($1,280.8)	(822.3)
Euro	**(€1,546.7)**	**(1,233.1)**	(€1,629.8)	(1,404.0)
Other		**265.6**		210.3
Total exposed to currency risk		**10,662.0**		9,779.0

	Impact on gain/(loss) for the financial year 2012 £m	Impact on gain/(loss) for the financial year 2011 £m
10% US Dollar appreciation	**791.5**	726.0
10% Euro appreciation	**23.5**	9.0

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

23. Financial risk management (continued)

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

(ii) Currency risk (continued)

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 managers monitor the Group's exposure to foreign currencies on a daily basis and report to the Investment Committee on at least a quarterly basis. The Risk Manager measures the risk to the Group of the foreign currency exposure by considering the effect on the Group's net asset value of a movement in the key rates of exchange to which the Group's assets and income are exposed.

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. The Board of Governors have agreed that a currency hedging overlay can be used for the Group's exposure to assets in any currency in which forwards and futures contracts are available for use, given an assessment of costs and liquidity.

(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 following table details the values of interest-bearing securities and liabilities exposed to interest rate risk as at 30 September:

	2012		2011	
Interest-bearing financial assets and liabilities	**Weighted average interests rate**	**Value as at 30 September £m**	Weighted average interests rate	Value as at 30 September £m
Interest-bearing assets				
Maturing within one year				
Fixed rate	**n/a**	**-**	n/a	-
Floating rate	**n/a**	**-**	n/a	31.0
Maturing between two and five years				
Fixed rate	**n/a**	**-**	n/a	-
Floating rate	**n/a**	**-**	n/a	-
Maturing after five years				
Fixed rate	**n/a**	**-**	n/a	-
Floating rate	**n/a**	**-**	n/a	-
Total interest-bearing assets		**-**		31.0
Interest-bearing liabilities				
Maturing after five years				
Fixed rate	**4.667%**	**(820.7)**	4.667%	(820.1)
Floating rate	**n/a**	**(0.1)**	n/a	(0.1)
Total interest-bearing liabilities		**(820.8)**		(820.2)

In addition to the interest bearing securities detailed in the table above, the Group holds investment cash and certificates of deposit of £412.4 million (2011: £445.9 million) and term deposits and cash of £21.9 million (2011: £34.1 million). These assets are interest bearing and the future cash flows from these assets will fluctuate with changes in market interest rates. However, due to the nature of the investment assets, the fair value of the investment assets would not fluctuate significantly in line with changes in market interest rates.

The interest bearing liabilities are the Bond liabilities which are fixed rate and held at amortised cost. The Bond liabilities value detailed in the table above is the book value; the fair value of this liability is detailed in note 24.

23. 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.

24. 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 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 2012

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Quoted investments	**6,494.6**	**-**	**-**	**6,494.6**
Unquoted investments	**-**	**2,575.8**	**4,847.8**	**7,423.6**
Derivative financial instruments assets positions	**5.7**	**51.2**	**15.8**	**72.7**
Programme related investments	**-**	**-**	**1.1**	**1.1**
	6,500.3	**2,627.0**	**4,864.7**	**13,992.0**

Assets at fair value as at 30 September 2011

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Quoted investments	5,894.3	-	-	5,894.3
Unquoted investments	-	2,504.5	4,778.5	7,283.0
Derivative financial instruments assets positions	4.7	48.5	12.7	65.9
Programme related investments	-	-	5.8	5.8
	5,899.0	2,553.0	4,797.0	13,249.0

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

Liabilities at fair value as at 30 September 2012

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Derivative financial instruments liabilities	**3.7**	**22.8**	**-**	**26.5**
	3.7	**22.8**	**-**	**26.5**

Liabilities at fair value as at 30 September 2011

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Derivative financial instruments liabilities	5.0	80.8	-	85.8
	5.0	80.8	-	85.8

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 2011 £m	Purchases/ (sales proceeds) £m	Total gains/ (losses) £m	Transfers into Level 3 £m	Transfers out of Level 3 £m	Fair value 30 September 2012 £m
Level 3 assets	4,797.0	**182.0**	**193.5**	**184.2**	**492.0**	**4,864.7**

Unquoted investments include investments in hedge funds, private equity funds and property funds. The Group categorises these fund investments based on the fair values obtained for the underlying assets and liabilities of these funds. Transfers in/out of Level 3 occur when the classification of the underlying assets and liabilities of these funds changes during the reporting period.

Derivative financial instruments comprise:

- equity 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.

The Group values its private equity and property funds at the most recent valuation from the fund manager, which is usually the net asset value of the fund. The private equity and property funds do not apply standard valuation assumptions and therefore there are no assumptions supporting the Level 3 fair values, which, if changed to a reasonably possible alternative assumption, would significantly impact the fair value of Level 3 assets.

Reference and Administrative Details
for the year ended 30 September 2012

Board of Governors
Sir William Castell, LVO, FCA (Chairman)
Professor Peter Rigby, PhD, FRS, FMedSci (Deputy Chairman)
Mr Alan Brown, FSIP (from 1 May 2012)
Mr Damon Buffini, MBA (from 1 September 2012)
Professor Dame Kay Davies, CBE, FRS, FMedSci
Mr Peter Davies (to 31 December 2011)
Professor Christopher Fairburn, DM, FRCPsych, FMedSci (to 31 December 2011)
Professor Michael Ferguson, CBE, FRS, FRSE, FMedSci (from 1 January 2012)
Professor Richard Hynes, PhD, FRS
Professor Anne Johnson, MD, FRCP, FFPH, FRCGP, FMedSci
Mr Roderick Kent, MA, MBA (to 31 January 2012)
Baroness Manningham-Buller, DCB
Professor Peter Smith, CBE, DSc, HonMFPH, FMedSci

Company Secretary
Ms Susan Wallcraft (from 17 September 2012)
Mr Andrew Cossar (from 1 February 2012 to 16 September 2012)
Mr John Stewart (to 31 January 2012)

Executive Board
Sir Mark Walport, PhD, FRCP,FRS, FMedSci (Director)
Dr Ted Bianco, PhD (Director of Technology Transfer)
Mr John Cooper (Chief Operating Officer, The Francis Crick Institute)
Mr Simon Jeffreys (Chief Operating Officer)
Dr David Lynn, PhD (Director of Strategic Planning and Policy)
Ms Clare Matterson (Director of Medical Humanities and Engagement)
Dr Kevin Moses, MA, PhD (Director of Science Funding)
Mr John Stewart (Head of Legal to 31 January 2012)
Mr Danny Truell (Chief Investment Officer)
Ms Susan Wallcraft (General Counsel from 30 July 2012)

Audit Committee
Mr Alan Brown
(Chairman from 1 May 2012)
Mr Roderick Kent
(Chairman to 31 January 2012)
Mr Tim Clark
Mr Philip Johnson
Baroness Manningham-Buller

Remuneration Committee
Sir William Castell (Chairman)
Professor Richard Hynes
(remuneration of the Chairman and the Deputy Chairman only)
Mr Roderick Kent (to 31 January 2012)
Baroness Manningham-Buller
Professor Peter Rigby

Investment Committee
Sir William Castell (Chairman)
Mr Alan Brown (from 1 May 2012)
Mr Damon Buffini (from 17 September 2012)
Mr Tim Church
Mr Peter Davies
Mrs Sarah Fromson
Mr Simon Jeffreys
Mr Roderick Kent (to 31 January 2012)
Mr Naguib Kheraj
Mr David Mayhew
Mr Nicholas Moakes
Mr Stewart Newton
Mr Peter Pereira Gray
Professor Peter Rigby
Mr Danny Truell
Sir Mark Walport

Nominations Committee
Sir William Castell (Chairman)
Professor Richard Hynes
Baroness Manningham-Buller
Professor Peter Rigby

Strategic Awards Committee
Professor Peter Rigby (Chairman)
Mr Alan Brown (from 1 May 2012)
Mr Damon Buffini (from 1 September 2012)
Sir William Castell
Professor Dame Kay Davies
Professor Christopher Fairburn (to 31 December 2011)
Professor Michael Ferguson
(from 1 January 2012)
Professor Richard Hynes
Professor Anne Johnson
Mr Roderick Kent (to 31 January 2012)
Baroness Manningham-Buller
Professor Peter Smith
Sir Mark Walport
Dr Ted Bianco
Ms Clare Matterson
Dr Kevin Moses

Reference and Administrative Details
for the year ended 30 September 2012

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Further copies of this *Annual Report and Financial Statements 2012* are available from the Trust's website or upon request though emailing contact@wellcome.ac.uk

Wellcome Trust

We are a global charitable foundation dedicated to achieving extraordinary improvements in human and animal health. We support the brightest minds in biomedical research and the medical humanities. Our breadth of support includes public engagement, education and the application of research to improve health.

We are independent of both political and commercial interests.

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The Wellcome Trust is a charity registered in England and Wales, no. 210183. Its sole trustee is The Wellcome Trust Limited, a company registered in England and Wales, no. 2711000 (whose registered office is at 215 Euston Road, London NW1 2BE, UK).