

The Nesta Trust

Annual Report and Financial Statements

Year ended 31 March 2019

Charity Commission registered number 1144683

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General Information

Trustee	Nesta Charity no. 1144091 Companies House no. 07706036 Scottish Charity Regulator no. SC042833
Protector	James Sinclair Taylor
Address	58 Victoria Embankment London EC4Y 0DS
Charity Commission registered number	1144683
Independent Auditor	BDO LLP 2 City Place Beehive Ring Road Gatwick West Sussex RH6 0PA
Internal Auditor	Grant Thornton UK LLP 30 Finsbury Square London EC2A 1AG
Principal bankers	Lloyds Bank 39 Threadneedle Street London EC2R 8AU

Report of Trustee

Structure, Governance and Management

Nesta and the Nesta Trust were established and registered as charities in 2011 to act as successor bodies to the National Endowment for Science, Technology and the Arts ("NESTA"). NESTA was a non-departmental public body established in 1998 with a statutory remit to promote talent, creativity and innovation in science, technology and the arts and with an endowment from the National Lottery. All NESTA activities, staff, assets and liabilities were transferred on 1 April 2012 to Nesta, registered charity no. 1144091 and to the Nesta Trust ("the Trust"). The Trust holds the expendable endowment and Nesta, its sole trustee, uses returns from the Trust to pursue the charitable objects of the Trust.

The Trust was established by a Trust Deed on 22 September 2011. The Trust Deed appointed Nesta as sole Trustee of the Trust. It was registered as a charity in England and Wales by the Charity Commission with charity number 1144683 on 16 November 2011.

The Trust has a Protector appointed by the Secretary of State for Business, Energy & Industrial Strategy with a fiduciary duty to ensure the integrity of administration of the Trust and the propriety of its procedures. James Sinclair Taylor, an experienced charity lawyer, was appointed as the first Protector of the Trust by the Secretary of State on 1 April 2012.

Nesta is a company limited by guarantee and a charity registered with the Charity Commission and the Office of the Scottish Charity Regulator (OSCR). Its Trustees are both directors and members of the company. Under company and charity law, the Board of Trustees retains overall responsibility for Nesta and its role as Trustee of the Nesta Trust. Sir John Gieve is Chair of the Board of Nesta, which met six times in the year with members of Nesta's Executive team also present. The Protector of the Trust is also entitled to attend all meetings.

The Board has delegated approval for decisions up to certain financial thresholds to the Chief Executive and other Executive Directors of Nesta, under a Scheme of Delegation. All decisions above this threshold must be approved by the Board or its Committees. The Board has also reserved for itself certain important decisions, such as changes to the Articles, appointment of the Chief Executive and approval of the long-term objectives and strategy.

The Board has established a number of Committees with delegated authority to oversee aspects of Nesta's activities. Each Board Committee has written Terms of Reference approved by the Board and reports to the Board at each Board meeting.

The main Board Committees which oversee the Trust are as follows:

Finance and Audit Committee which reviews management reporting and financial performance against budget and recommends to the Board the annual budget; as well as reviewing audit and financial reporting, internal financial controls, risk management and compliance. The Committee met four times during the year.

Trust Investment Committee whose key responsibilities are to draw up the policies and objectives governing the investment of the assets of the Trust, to approve the making of investments within ranges set by the Board, to oversee their implementation and to monitor financial performance of the Trust. The Committee met five times during the year.

Venture Investment Committee which manages the Trust's portfolio of interests in early-stage companies and funds transferred from NESTA and certain programme related and mixed motive investments. The Committee met ten times during the year.

The Trust's core purpose is to advance its charitable objects which it does through generating income to be applied by its Trustee, Nesta, to advance the Trust's charitable objects.

Report of Trustee

Charitable objects

The charitable objects of the Trust are detailed below:

For the public benefit:

1. To advance education, and in particular the study of innovation, by the promotion of research and the publication of the useful results thereof, in:
 - Science and technology
 - The arts
 - The efficiency of public services
 - The voluntary sector and social enterprise
 - Industry and commerce
2. To advance:
 - Science and technology
 - The arts
 - The efficiency of public services
 - The voluntary sector
 - Industry and commerce and social enterprise which
 - Relieves poverty
 - Relieves unemployment
 - Advances health
 - Advances environmental protection or improvement and sustainable development
 - Advances citizenship or community development through or by encouraging and supporting innovation.

The voluntary sector means charities and voluntary organisations.

- Charities are organisations, which are established for exclusively charitable purposes and registered with one of the charity commissions in the United Kingdom.
- Voluntary organisations are independent organisations, which are established for purposes that add value to the community, or a significant section of the community, and which are not permitted by their constitution to make a profit for private distribution. Voluntary organisations do not include local government or other statutory authorities.
- Sustainable development means “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.

Activities and Achievements

The Trust’s core purpose is to advance its charitable objects which it does through generating income to be applied by its Trustee, Nesta, to advance the Trust’s charitable objects. Nesta carried out a variety of activities during the year to advance the charitable objects of the Trust; to bring great ideas to life, supporting individuals, charities, social enterprises, businesses and public organisations with financial and practical support. These activities and also its achievements, performance and future plans, are described in the Annual Report & Accounts of Nesta, available from 58 Victoria Embankment, London, EC4Y 0DS.

Report of Trustee

Risk management policy

The Trustee is responsible for the oversight of the risks faced by the Nesta group of entities, including the Trust.

The monitoring and implementation of the risk management framework and consideration of organisational risk is delegated to the Finance and Audit Committee. The top-level organisational risk register is presented regularly to the Finance and Audit Committee and reviewed by the Board annually. Broader strategic risks including reputational risks are considered by the Executive Team collectively when they meet each quarter to review the top-level risk register for the organisation as a whole. Risks are assessed and controls established throughout the year. The key controls in place include:

- An established organisational and governance structure and lines of reporting;
- Detailed terms of reference for the Board and all Board Committees;
- Comprehensive financial planning, budgeting and management reporting, and monitoring;
- Formal written policies and hierarchical authorisation and approval levels; and
- Internal audit services engagement with programmes selected for review which are informed by the risk register

During the year the major risks for the Trust as assessed by management and reported to the Finance and Audit Committee and Board for review and comment, were as follows:

- Risk of failure to manage Trust investment assets within the constraints imposed by the Trust Deed, mitigated by implementing an investment strategy focused on ensuring the conditions of the Trust Deed are met.
- Risk that poor Trust investment returns put pressure on income to fund the activities of Nesta, mitigated by the implementation of an investment strategy with a diversification of asset classes, asset managers, investment strategies, and geographies; supported by on-going monitoring of investment managers and performance.

The Trustee is satisfied that the major risks identified through the risk management process are being adequately managed where necessary while recognising that any framework can provide reasonable but not absolute assurance. There were no control weaknesses identified by the Trustee or management during the year.

Investment policy

As the sole Trustee of the Trust, Nesta is responsible for the Trust's investment policy. The investment strategy is delegated to the Trust Investment Committee which is responsible for strategic and tactical asset allocation, rebalancing, styles and weighting within asset classes, as well as monitoring manager, consultancy and custodial arrangements.

The Trustee holds the investment assets of the Trust without distinction between capital and income, applying them in furtherance of the Trust's objects. These investment assets are held as an expendable endowment.

Trust assets are invested in accordance with the wide investment powers set out in the Trust Deed, which places specific conditions on the Trustee's power to invest:

"The Trustee must set the investment and spending policy for the Trust with a view to preventing the value of the Trust assets and any returns generated by the Trust assets falling below £260 million."

Report of Trustee

The Trustee's investment objective is to balance the current and future needs of the Trust by:

- Producing a consistent and sustainable level of income to support the work of Nesta in advancing the charitable objects of the Trust;
- Ensuring sufficient liquidity to avoid the forced sale of Trust assets at distressed prices, while ensuring that the majority of the assets are invested in higher returning investment instruments;
- Maintaining if possible the value of investments in real terms; and
- Delivering these objectives within acceptable levels of risk.

To meet these objectives the Trustee invests globally and maintains diversification across a range of asset classes including mixed motive investments to produce an appropriate balance between risk and return, believing that diversification limits the impact of any single risk.

The cash policy is to allocate cash holdings across United Kingdom banking institutions to manage counter-party risk.

Responsible Investing

Nesta believes that responsible investment can enhance long-term portfolio performance. The process of incorporating a more responsible approach to investment involves;

- Some limited exclusion of stocks where Nesta objects on moral grounds to the activity of the company in question.
- An explicit programme to monitor fund managers' incorporation of environmental, social and governance (ESG) factors and their practice of active ownership.
- Adoption of the Hermes Equity Ownership Service for our index investments.
- Continuing support for impact and venture capital investments.
- Research and advocacy to ensure company managers are rewarded for promoting positive innovation.

These policies have informed the Trustee's actions, oversight and asset allocation decisions. However, it should be noted that such initiatives take time to fully implement. So, for example, it is possible that Nesta has private equity holdings that do not fully accord with its responsible investment policies. These will be run down over time. The Responsible Investment Policy remains under constant review.

Financial Review

The assets of the Trust provide income and capital to be applied by Nesta as sole Trustee to further the objects of the Nesta Trust. The investment strategy balances the desire to maintain the real value of the endowment and its ability to generate the income which Nesta will require, while at the same time maximising total return to fund activities to advance the charitable objectives of the Nesta Trust. The strategy aims to balance risk, return and capital preservation.

Nesta Trust entered into an agreement on 16 July 2015 to purchase a long leasehold interest in a property located in London for £50.95 million. Practical completion took place on 26 September 2016, and the lease on the investment property will run until November 2162. The total amount shown in note 6 and below under investment properties is £68 million, which includes the investment property market valued at £60m and an £8m property fund.

The Trust provided funding to Nesta of £16.5 million (2018: £9.1 million) to carry out the Trust's charitable objectives, which was significantly higher than in 2018 because of high unrestricted cash balances held at the beginning of that year. Of this, £16 million (2018: £7 million) was applied to charitable operating activities and £0.5 million (2018: £2.1 million) against Nesta's commitment to the Impact Investment Fund and other programme-related investments. In total, £7 million has been committed to the Impact Investment Fund.

Report of Trustee

At 31 March 2019 the value of Trust investments and cash increased by £13.6 million to £434.2 million (2018: £420.6 million), after annual transfers to Nesta to carry out the objectives of the Trust in line with the Trust Deed. A portfolio restructure during the year resulted in the removal of an investment manager and bringing on two new investment managers, including a property fund, resulted in an overall increase of £13.6 million. £9 million cash awaiting investment at the year end has now been invested in an investment property fund. Further breakdown of the total £13.6 million increase can be seen in the table below:

Asset Class	Market Value of Investment assets	Proportion of total endowment assets	Market value of investment assets	Proportion of total endowment assets
	31 March 2019	31 March 2019	31 March 2018	31 March 2018
	£'000	%	£'000	%
<i>Current assets:</i>				
Cash	7,676	2	6,507	2
<i>Fixed asset investments:</i>				
Private equity funds	8,510	2	9,699	2
Global equities	237,893	55	228,405	54
High yield bonds (fixed income)	83,989	19	99,672	24
Early-stage venture portfolio*	19,130	4	19,866	5
Investment property	68,000	16	56,500	13
Cash awaiting investment	9,000	2	-	-
Total	434,198	100	420,649	100

*Mixed motive investments – see Note 6 of the accounts for further breakdown

Actions taken during the year included the following:

Strategic review.

During the year, Nesta's Trustees continued to review the investment portfolio including the asset allocation policy. A risk register is used in order to proactively manage key risks.

Global equities performance.

Strategic allocation to global equities increased to 55 per cent (2018: 54 per cent) during the year which, together with market conditions, resulted in an increase in year end valuation to £238 million as at 31 March 2019 (£228 million as at 31 March 2018). Trustees continue to monitor investments in all asset classes in line with the tactical allocation policy agreed in March 2019.

Managing holdings of alternative asset classes

There were capital returns received amounting to £2.9 million (2018: £5.6 million) from Trust's two private equity secondary funds and no drawdowns against the commitments to these funds (2018: £0.2 million additions). A £5.9 million financial commitment outstanding for this asset class is disclosed in Note 10 to these Financial Statements.

Maximising value from our self-managed venture portfolio.

The early-stage venture portfolio includes equity and loan investments in nineteen (2018: nineteen) early-stage companies, and commitments to five (2018: five) early-stage investment funds. The Trust's investment strategy is to maximise the returns from the current portfolio but not to invest in any new early-stage companies or funds in the near future. A net realised gain of £0.5 million (2018: £0.2 million) was recognised in the year, due to a combination of distributions, drawdowns and sales, including full disposal of one investment in the fund of funds portfolio. A net unrealised loss of £0.6 million (2018: £2.5 million) was also recognised, applying the valuation methodology which remains unchanged from previous years and is detailed in Note 1e to these Accounts.

Report of Trustee

Direct costs, reported by external fund managers, of the Trust's investment assets totalled £1.3 million (2018: £1.4 million) across the Trust and include external fund manager fees and custodian fees. In addition, there are other indirect costs associated with fund management activities. Where fund manager fees are offset against the relevant fund's value, these are grossed up and shown as fund manager fee expenditure, in the Statement of Financial Activities in accordance with normal practice, along with those fund manager fees that are invoiced and paid for in cash. The full cost of investment goes beyond the fees we are charged by managers and include, for example, transaction costs, advisory costs and staff costs. We estimate that the full costs were about 0.6 per cent of the average asset value over the year.

Reserves policy

Under the Trust Deed, the reserves policy is to provide sustainable funding to advance the charitable aims of the Trust, whilst holding reserves at sufficient levels with a view to maintaining the underlying assets above a market value of £260 million. At 31 March 2019 total investments were £426 million (2018: £414 million) and reserves were £439 million (2018: £424 million).

Future plans

Nesta's Trustees agreed an 'in-principle' funding rule covering the three years to 31 March 2020, allowing Nesta to draw down up to £42-45 million for operating expenditure (adjusted in part for inflation) in support of its strategic plan.

Funding made available by Nesta Trust does not constitute a commitment until a drawdown request is made. A further £12 million may be drawn down for Nesta programme related investments for the three years to 31 March 2020.

The financial statements have been prepared on the going concern basis because the Trustee is reasonably assured from the performance of the investment portfolio that the Trust's resources will be sufficient to fund activities for the foreseeable future.

Public Benefit Statement

The Trustee confirms that, in exercising its powers and duties in relation to the Trust, it has had due regard to the Charity Commission's statutory guidance on public benefit. The Annual Report and Accounts of the Trustee give more detail of the activities undertaken by the Trustee to further the charitable purposes of the Trust for public benefit.

Fundraising statement

Section 162a of the Charities Act 2011 requires us to make a statement regarding fundraising activities. The Trust does not undertake any fundraising activities and does not use any professional fundraisers or 'commercial participators' or any third parties to solicit donations. We are therefore not subject to any regulatory scheme or relevant codes of practice. We have not received any complaints in relation to fundraising activities nor do we consider it necessary to design specific procedures to monitor such activities.

Report of Trustee

Statement of Trustee Responsibilities

The Trustee is responsible for preparing the Trustee's Report and the financial statements in accordance with applicable law and regulations.

Charity law requires the Trustee to prepare financial statements for each financial year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under charity law, the Trustee must not approve the financial statements unless it is satisfied that they give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources, including the income and expenditure, of the charity for that period. In preparing these financial statements, the Trustee is required to:

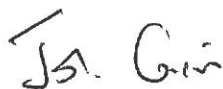
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The Trustee is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable it to ensure that the financial statements comply with the Charities Act 2011 and the provisions of the Trust Deed. It is also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the Trustees are aware, as at the date of this report, they have taken all the steps they ought to have taken to make themselves aware of any relevant audit information of which the company auditor is unaware.

Approved by the Board of Trustees of Nesta in their capacity as Trustee of the Nesta Trust and authorised for issue

on 17 SEPTEMBER 2019, and signed on its behalf by Sir John Gieve, Chair of the Board of Trustees.



Sir John Gieve
Chairman, on behalf of the Board of Trustees

Independent Auditor's Report to Trustees of The Nesta Trust

Opinion

We have audited the financial statements of The Nesta Trust ("the Charity") for the year ended 31 March 2019 which comprise the statement of financial activities, the balance sheet, the cash flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Charity's affairs as at 31 March 2019 and of its incoming resources and application of resources 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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Charity in accordance with the ethical requirements relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions related to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Charity's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The other information comprises: Report of the Trustee. The Trustees are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent Auditor's Report to Trustees of The Nesta Trust

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Charities Act 2011 require us to report to you if, in our opinion;

- the information contained in the financial statements is inconsistent in any material respect with the Trustees' Annual Report; or
- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Trustees

As explained more fully in the Trustees' responsibilities statement, the Trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustees determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustees are responsible for assessing the Charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Charity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with the Act and relevant regulations made or having effect thereunder.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's ("FRC's") website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Independent Auditor's Report to Trustees of The Nesta Trust

Use of our report

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

BDO LLP

Fiona Condron (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Gatwick, United Kingdom

Date *19 September 2019*

BDO LLP is eligible for appointment as auditor of the charity by virtue of its eligibility for appointment as auditor of a company under section 1212 of the Companies Act 2006.

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Statement of Financial Activity
For the year ended 31 March 2019

	Note	Expendable Endowment funds 2019 £'000	Expendable Endowment funds 2018 £'000
Income and endowments from:			
Investment income	2	8,893	5,169
Total income		8,893	5,169
Expenditure on:			
Raising funds			
Investment management costs	3	1,258	1,403
Total cost of raising funds		1,258	1,403
Charitable activities			
Charitable activities	4	16,643	10,019
Total Charitable activities		16,643	10,019
Total Expenditure		17,901	11,422
Net gain on investments	6	23,832	12,068
Net income		14,824	5,815
Net movements in funds		14,824	5,815
Reconciliation of funds			
Total funds brought forward		424,143	418,328
Total funds carried forward		438,967	424,143

The Trust has no recognised gains or losses other than those passing through the Statement of Financial Activities.
All of the Trust's activities are derived from continuing operations.
The accompanying notes on pages 16 to 24 form an integral part of these financial statements.

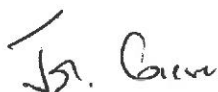
Statement of Financial Position
As at 31 March 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Investments	6	426,522	414,142
		<hr/> 426,522	<hr/> 414,142
Current assets			
Debtors	7	5,838	3,697
Cash at bank and in hand		7,676	6,507
		<hr/> 13,514	<hr/> 10,204
Current liabilities			
Creditors: amounts falling due within one year	8	(1,069)	(203)
		<hr/> 12,445	<hr/> 10,001
Net current assets			
		<hr/> 438,967	<hr/> 424,143
Total assets less current liabilities			
		<hr/> 438,967	<hr/> 424,143
Net assets			
		<hr/> 438,967	<hr/> 424,143
Charitable funds			
Endowment funds		438,967	424,143
		<hr/> 438,967	<hr/> 424,143
Total funds	9	<hr/> 438,967	<hr/> 424,143

The accompanying notes on pages 16 to 24 form an integral part of these financial statements.

Approved by the Board of Trustees of Nesta in their capacity as Trustee of The Nesta Trust and authorised for issue on

17 SEPTEMBER 2019 and signed on its behalf by Sir John Gieve, Chairman of the Board of Trustees.



Sir John Gieve
Chairman, on behalf of the Board of Trustees

Cash Flow Statement
For the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities:			
Net cash (used in) operating activities	a	(17,647)	(11,469)
Cash flows from investing activities			
Net cash provided by investing activities	b	7,635	3,766
Cash flows from financing activities:			
Net cash provided by financing activities	c	11,181	2,079
Change in cash and cash equivalents in the accounting period		1,169	(5,624)
Cash and cash equivalents at 1 April		6,508	12,132
Cash and cash equivalents at 31 March		7,677	6,508
Cash flow statement notes:			
a) Reconciliation of net surplus to net cash (inflow) from operating activities			
Net income		14,824	5,815
Gains on investments		(23,832)	(12,068)
Grossed up investment costs (non-cash)		271	1,046
Interest, dividends and rent received		(8,893)	(5,169)
Investment fees		1,258	1,403
(Increase) in debtors		(2,141)	(2,517)
Increase in creditors		866	21
		<u>(17,647)</u>	<u>(11,469)</u>
b) Cash flows from investing activities			
Interest and dividends received		8,893	5,169
Investment fees		(1,258)	(1,403)
		<u>7,635</u>	<u>3,766</u>
c) Cash flows from financing activities			
Payments to acquire quoted investments		(228,816)	(14,924)
Proceeds from sale of maturity of quoted investments		253,581	9,200
Payments to acquire unquoted investments		(8,210)	(1,321)
Proceeds from sale or maturity of unquoted investments		3,626	9,124
Cash awaiting investment		(9,000)	
		<u>11,181</u>	<u>2,079</u>

Notes to the Accounts
For the year ended 31 March 2019

1. Accounting policies

a) Basis of preparation

The financial statements are prepared under the historical cost convention, modified by the revaluation of quoted and unquoted investments and property revaluations. They have been prepared on a going concern basis and in compliance with Accounting and Reporting by Charities: Statement of Recommended Practice (SORP 2015) applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) issued by the Charity Commission, applicable UK accounting standards (FRS 102) and the Charities Act 2011.

b) Fund accounting

The funds of the Trust are held without distinction as to capital and income and can be applied in furtherance of the objects. As a result these are held as an expendable endowment. The Trust makes an annual transfer to Nesta to deliver its charitable aims as detailed in the reserves policy.

c) Income

All income is accounted for when the Charity is entitled to the income, the amount can be quantified with reasonable accuracy and the probability of receipt of the income is more likely than not.

Investment income includes interest, dividends and rental income from investment assets and deposits, with any associated tax credits or recoverable taxation, and included in the Statement of Financial Activities on an accruals basis.

d) Expenditure

Expenditure is accounted for on an accruals basis.

Support costs are comprised of Governance costs which include direct expenditure attributable to maintaining the public accountability of the Trust and compliance with regulation and good practice.

Investment management costs include investment fund manager fees which are grossed up where they are offset against the fund's value rather than payable in cash, dilution levies, investment consultancy and custodian fees.

Irrecoverable VAT incurred is allocated to the expenditure category to which it relates.

e) Fixed assets - quoted and unquoted investments and investment property

Investment assets include quoted, unquoted investments, and an investment property.

The Trustee holds the investment assets of the Trust on trust without distinction between capital and income, applying them in furtherance of the objects of the Trust. These assets are classed as an expendable endowment.

The Investment property is held at fair value with gains being recognised in the Statement of Financial Activities. The property is valued annually by an independent qualified property valuation organisation.

Cash, short-term deposits and investments to be disposed of within 12 months of the balance sheet date are presented in the Balance Sheet as current assets. All other financial assets are presented as fixed assets. Deferred investments and loans represent the portion of unpaid commitments for which drawdown has been requested at the balance sheet date. The corresponding commitment is recognised under current liabilities.

Loans are recognised as financial assets when repayment of the loan or the option to convert to equity has not expired by the balance sheet date. The loans are included in fixed assets except where repayment is expected within 12 months of the balance sheet date, when they are included as current assets.

Notes to the Accounts (continued)
For the year ended 31 March 2019

The carrying value of all quoted and unquoted investments is at market value and unrealised changes between accounting periods are credited or charged to net gains or losses on investments in the Statement of Financial Activities. For financial assets for which there is no quoted market, market value is established by using valuation guidelines as detailed below.

I. Valuation - quoted investments:

The market values of quoted investments are based on externally reported bid prices at the balance sheet date.

Equity investments, high yield bonds, and property trusts are held in pooled funds and are stated at market value, being the market value of the underlying investments held. These valuations are provided by the relevant fund managers.

II. Valuation - unquoted investments:

Private equity investments are held through funds managed by private equity managers. As there is no identifiable market price for private equity funds, these funds are included at the most recent valuations provided by the private equity managers.

Where a valuation is not available at the balance sheet date, the most recent valuation from the private equity manager is used, adjusted for cash flows between the most recent valuation and the balance sheet date. Where a private equity manager does not provide a market value that complies with the above, the Trust is unable to obtain a reliable market value and therefore these investments are held at cost.

An estimated value of unquoted investments in early-stage companies is established by using valuation guidelines produced by the British Venture Capital Association (BVCA).

- BVCA guidelines provide for investments to be carried at cost unless there is information indicating an impairment or sufficiently clear evidence to support an increase in valuation.
- Where the price of a recent funding round (within previous 12 months) is not available, investments are valued using standard valuation methodologies, as appropriate and in the following order:
 - i. Earnings multiple
 - ii. Net asset value
 - iii. Discounted cash flow
 - iv. Applying BVCA valuation benchmarks
- At the balance sheet date, management assesses whether there is objective evidence that a financial asset or a group of financial assets should be revalued. The approach, which is within the principles of the BVCA guidelines, is to review and give a 'health' status:
 - Healthy: value held at cost unless sufficiently clear evidence to support an increase in valuation; company is performing to plan, unlikely to run out of cash within 12 months.
 - Sick: value down according to the seriousness of a number of events considered by management; company is performing off-plan, may or may not be recoverable.
 - Terminal: value down, company is performing off-plan, likely to run out of cash within six months, recovery not foreseen, no intervention planned.

Valuation of companies at this early stage of development is an inherently volatile and uncertain process. The valuation guidelines used are considered to be the best estimate of market value at the balance sheet date.

Loans to early-stage companies have the same valuation methodology applied as for investments in early-stage companies.

Notes to the Accounts (continued)
For the year ended 31 March 2019

An estimated value of investments in early-stage funds is calculated as the Trust's share of partnership net asset value as stated in the last audited financial statements of each investment fund. Contributions made by the Trust in any period between the date of a fund's balance sheet date and the Trust's own for which there is no audited valuation, are valued at cost unless there is information to determine otherwise.

Transaction costs incurred by the Trust or management support costs are not included in valuations and are charged to expenditure in the period in which they are incurred.

III. Treatment - Unquoted investments

Investments, loans or contributions to funds to date are recognised in full in the Balance Sheet. Undrawn commitments are disclosed by way of note.

Unrealised changes in value between accounting periods are reflected in other recognised gains/(losses) in the Statement of Financial Activities.

Investments are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred with all risks and rewards of ownership.

f) Significant estimates

The preparation of financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent liabilities at the balance sheet date. Actual outcomes could differ from those estimates. This is especially the case of the valuation of the Trust's investment in early-stage companies which is an inherently volatile and uncertain process. However, the valuation guidelines applied are considered to be the best estimate of market value.

g) Debtors

Debtors are recognised at fair value less any provision for bad debt. A provision for bad debt is established when there is objective evidence that the debt will not be collected according to the original terms.

h) Creditors

Creditors are recognised when the Trust has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

i) Related party transactions

Transactions with related parties, where material, are disclosed in the notes to the accounts.

j) Taxation

The Trust is a charity within the meaning of Para 1 Schedule 6 Finance Act 2010. Accordingly the Trust is potentially exempt from taxation in respect of income or capital gains within categories covered by Chapter 3 of Part 11 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

No tax charge arose in the year.

k) Exchange gains and losses

The financial statements are presented in pounds sterling, the functional and presentational currency. Foreign currency transactions are translated using the exchange rates prevailing at the date of settlement. Realised and unrealised exchange gains and losses are recognised in the Statement of Financial Activities.

Notes to the Accounts (continued)
For the year ended 31 March 2019

2. Investment income	2019 £'000	2018* £'000
Quoted investments		
Interest and dividends receivable	6,248	2,484
Total income from quoted investments	6,248	2,484
Unquoted investments		
Rental income	2,506	2,506
Interest and dividends receivable	63	120
Total income from unquoted investments	2,569	2,626
Bank interest	76	59
Total investment income	8,893	5,169

Previously, dividends retained within funds to be reinvested have been included within unrealised gains. This year they have been separately disclosed as dividends receivable, and 2018 figures have been amended to reflect this. This has resulted in £2.5m dividend income for 2018 being shown as an increase in quoted investment income (Note 2), increase in quoted investment additions (Note 6) and decrease in unrealised gains on quoted investments (Note 6 and SOFA).

3. Investment management costs	2019 £'000	2018 £'000
Investment manager fees	1,193	1,314
Custodian fees	65	89
	1,258	1,403

Investment manager fees include those paid for in cash and those offset against the relevant fund's value as shown in Note 6.

4. Charitable activities	2019 £'000	2018 £'000
Nesta Drawdown - operational	16,000	7,000
Nesta Drawdown - investments	480	2,090
Consultancy and professional	228	194
Protector fees	10	9
Other	(75)	726
	16,643	10,019

In accordance with the Trust Deed, the Trust's core business is to advance its charitable objects which it does through generating income to be applied by its Trustee, Nesta, to advance the Trust's charitable objects. The Board of Trustees of Nesta has agreed a total maximum operational drawdown of £42 million for the three years to March 2020 to deliver the charitable aims of the Trust as well as a specific amount to be applied against Nesta's commitment to the Impact Investment Fund and other programme-related investments which are held on Nesta's Balance Sheet.

The net auditor's remuneration for the year was £11,150 (2018: £10,600).

**Included in other is a foreign exchange difference gain of £126,000 (2018: loss £624,000).

Notes to the Accounts (continued)
For the year ended 31 March 2019

5. **Staff costs**

There were no employees in 2019 and 2018.

None of the Trustees, or any person connected with them received any remuneration during the year nor were any reimbursed for any expenses.

6. **Investments**

	Market/ fair value at 1 April 2018 £'000	Additions at cost £'000	Maturities, proceeds & disposals at market value £'000	Charges £'000	Realised gain/ (loss) £'000	Unrealised gain/(loss) £'000	Total market/ fair value at 31 March 2019 £'000
Quoted investments							
Global equities	228,405	220,506	(230,448)	(180)	(2,346)	21,956	237,893
Fixed income	40,692	61	-	(91)	-	(287)	40,375
Bonds	58,980	8,249	(23,133)	-	(29)	(453)	43,614
Total quoted investments	328,077	228,816	(253,581)	(271)	(2,375)	21,216	321,882
Unquoted investments							
Managed funds							
Private equity funds	9,699	-	(2,936)	-	2,067	(320)	8,510
Mixed motive investments							
Investment in early-stage companies	15,989	90	(630)	-	408	(184)	15,673
Investment in early-stage funds	3,877	14	(60)	-	60	(434)	3,457
Total unquoted investments	29,565	104	(3,626)	-	2,535	(938)	27,640
Investment properties	56,500	8,106	-	-	-	3,394	68,000
Cash awaiting investment	-	9,000	-	-	-	-	9,000
Total fixed asset investments	414,142	246,026	(257,207)	(271)	160	23,672	426,522

Quoted investments are held at market value, unquoted investments and the investment property are held at fair value.

As at 31 March 2019, total cash and investment assets held by Nesta Trust totalled £434 million (2018: £421 million). Refer also to the Investment Review on pages 6 to 7 of this report.

Charges reflect investment management fees grossed up where offset against the value of a fund.

Deferred investments represent the portion of commitments which remain undrawn but for which draw down has been requested at the balance sheet date. The corresponding liability is recognised under current liabilities.

The investment property 58 Victoria Embankment was revalued at the year end by independent qualified property consultants, Allsop LLP. Investment properties above also includes a fund with a market value of £8 million at the year end.

Notes to the Accounts (continued)
For the year ended 31 March 2019

6. Investments (continued)							
	Market/ fair value at 1 April 2017 £'000	Additions at cost £'000	Maturities, proceeds & disposals at market value £'000	Charges £'000	Realised gain/ (loss) £'000	Unrealised gain/(loss) £'000	Total market/ fair value at 31 March 2018 £'000
Quoted investments							
Global equities	226,073	2,044	(9,200)	(856)	856	9,488	228,405
Fixed income	39,358	-	-	(190)	190	1,334	40,692
Bonds	46,205	12,878	-	-	-	(103)	58,980
Total quoted investments	311,636	14,922	(9,200)	(1,046)	1,046	10,719	328,077
Investment property	54,103	318	-	-	-	2,079	56,500
Unquoted investments							
Managed funds							
Private equity funds	14,485	187	(5,570)	-	797	(200)	9,699
Mixed motive investments							
Investment in early-stage companies	16,464	379	(1,705)	-	312	539	15,989
Investment in early-stage funds	8,508	100	(1,508)	-	(157)	(3,066)	3,877
Deferred investment early-stage companies	2	337	(339)	-	-	-	-
Total unquoted investments	39,459	1,003	(9,122)	-	952	(2,727)	29,565
Total fixed asset investments	405,198	16,243	(18,322)	(1,046)	1,998	10,071	414,142

The portfolio consists of the following:

	Market/fair value at 31 March 2019 £'000	Percentage of 2019 portfolio %	Market/fair value at 31 March 2018 £'000	Percentage of 2018 portfolio %
UK quoted investments	43,614	10%	58,980	14%
Overseas quoted investments	278,269	65%	269,097	65%
UK unquoted investments	19,128	5%	19,627	5%
Overseas unquoted investments	8,511	2%	9,938	2%
Investment property	77,000	18%	56,500	14%
	426,522	100%	414,142	100%

Notes to the Accounts (continued)
For the year ended 31 March 2019

6. Investments (continued)

Total gains and (losses) on investment assets above impacting the Statement of Financial Activities are summarised as follows:

	Realised gain/(loss) 2019 £'000	Unrealised gain/(loss) 2019 £'000	Total gain/(loss) 2019 £'000	Realised gain/(loss) 2018 £'000	Unrealised gain/(loss) 2018 £'000	Total gain/(loss) 2018 £'000
Quoted investments	(2,375)	21,216	18,841	1,046	10,719	11,765
Unquoted investments	2,535	(938)	1,597	952	(2,727)	(1,775)
Investment property	-	3,394	3,394	-	2,079	2,079
	160	23,672	23,832	1,998	10,071	12,069

7. Debtors

	2019 £'000	2018 £'000
Accrued income	4,897	3,312
Prepayments	16	33
Tax receivable	-	14
Amounts due by related parties	867	-
Other debtors	58	338
	5,838	3,697

Included in accrued income at 31 March 2019 is £4.9 million (2018 : £3.3 million) relating to accrued rental income for 58 Victoria Embankment; rental payments began in December 2018.

8. Creditors: amounts falling due within on year

	2019 £'000	2018 £'000
Accruals	64	60
Deferred income	675	-
Tax payable	141	-
Trade creditors	184	143
Amounts due to related parties	5	-
	1,069	203

Deferred investments represent the portion of commitments which remain undrawn but for which draw down has been requested at the balance sheet date.

Notes to the Accounts (continued)
For the year ended 31 March 2019

9. Funds

	2019 £'000	As restated 2018 £'000
Endowment fund		
As at 1 April 2018	424,143	418,328
Net (expenditure)	(9,008)	(6,253)
Income & other gains	23,832	12,068
Balance at 31 March 2019	438,967	424,143

10. Commitments

Investments, loans or contributions to funds that have been contracted but not yet drawn down are shown in the commitments below:

	At 1 April 2018 £'000	Additions £'000	Drawn down £'000	At 31 March 2019 £'000
Private equity funds	5,923	-	-	5,923
Investment in early-stage funds	75	-	(14)	61
Nesta-programme related investments	9,910	-	(570)	9,340
	15,908	-	(584)	15,324

	At 1 April 2017 £'000	Additions £'000	Drawn down £'000	At 31 March 2018 £'000
Private equity funds	5,225	698	-	5,923
Investments in early-stage funds	173	3	(101)	75
Investments or loans in early-stage companies	2	337	(339)	-
Nesta - programme related investments	12,000	-	(2,090)	9,910
	17,400	1,038	(2,530)	15,908

11. Operating lease commitments

At 31 March 2019, the charitable company continued the agreement with its parent charity to lease part of 58 Victoria Embankment. The rental payments due from the charitable company are:

	Expire within one year £'000	Expire within two to five years £'000	Expire in more than five years £'000
Rental of 58 Victoria Embankment	2,891	8,673	22,221
	2,891	8,673	22,221

Notes to the Accounts (continued)
For the year ended 31 March 2019

12. Related party transactions

The Trust holds the investment assets previously held by NESTA which was abolished on 1 April 2012. The Trust is a registered charitable trust which is classified by the Office of National Statistics as within the public sector boundary. The Trust has transferred sums to its Trustee Nesta in furtherance of its charitable objects during the year of £16 million (2018: £7 million). Nesta has had transactions with Government Departments and bodies during the year as part of its ordinary course of business. As the Trust is not involved in the operational decisions of Nesta, any transactions between Government Departments/bodies and Nesta are not considered to be related party transactions.

13. Control

The Company is controlled by Nesta, which is the ultimate parent company. Nesta is the parent undertaking of the smallest and largest group for which accounts are drawn up, and which the Company is a member. The accounts are available to the public from 58 Victoria Embankment, London, EC4Y 0DS.