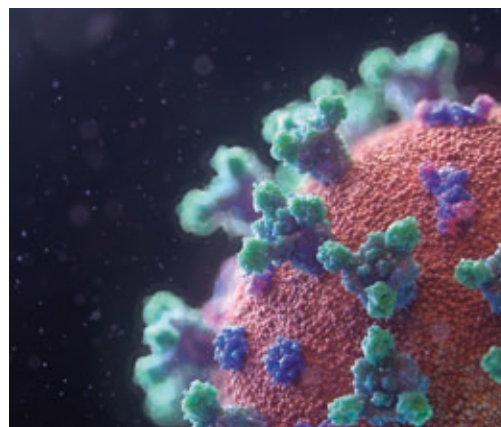


Advancing the future of medical innovation



Annual Report and Audited Accounts
For the period ended 31 December 2019



Our work transforms medical innovation into patient benefit

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Brand names appearing in italics throughout this report are trademarks owned and/or licensed to companies. *Keytruda* (pembrolizumab) is a trademark of Merck Sharp & Dohme. *Tysabri* (natalizumab) is a trademark of BIOGEN MA INC. *Idylla* is a trademark of Biocartis NV.

Operational highlights

3	New research businesses supported by Seed Fund investment Our investment is intended to help promising science start-ups scale up.
21	Individuals development supported with LifeArc placements Our fellowships and industrial placements offer university students and professionals training in translational skills and knowledge.
10	Rare disease research projects benefitting from investment Our Philanthropic fund is supporting projects to develop new therapies to address the needs of patients with rare diseases.
19	Charities supported with translational advice We offer advice on research portfolio assessment and translational investment.

Financial highlights

£971.2m	Keytruda monetisation The partial monetisation of LifeArc's <i>Keytruda</i> royalty stream for \$1.3bn in May 2019.
£32.8m	Gains on investments: Total Increase of £24.7m on prior year. Gains on investments include £24.8m unrealised gain on the Venture Capital Fund in nine month period to December 2019.
£27.6m	Total expenditure Decrease due to shortened period. Extrapolated to 12 months – total expenditure would be £36.8m, up £6.2m on prior year.
£8.2m	Investment in translational funds £4.1m Venture Fund, £3.5m Seed Fund, and £0.6m Philanthropic Fund in the nine months to December 2019.



Dr John Stageman, OBE
Chair – LifeArc
June 2020

I am proud to present our annual report and accounts for the nine months from April to December 2019. The short period of this report reflects a shift in our financial year, which in future will run from January to December.

During this period we completed the monetisation of a portion of our *Keytruda* royalty stream, purchased by CPPIB Credit Europe S.à r.l, a wholly owned subsidiary of Canada Pension Plan Investment Board (CPPIB), for \$1.3bn. This has made LifeArc the leading biomedical translational research charity in the UK by the size of its financial assets.

One of the principal challenges of 2019 was to ensure that we manage the investment of these funds wisely and they will be used optimally to achieve our charitable objectives. We have taken a fresh approach to ensure our investments service both our short-term goals and our longer-term strategic ambition.

Our transformed financial situation enables us to take a more long-term view of our unique role in the translation of biomedical innovations. During 2019 we carried out a review of key developments in our sector, identifying and clarifying our long-term ambition and the needs that we are best placed to address.

Our ambition is based on our three core offerings: translational funding, advice and science. Our funds, particularly the Philanthropic Fund and Seed Fund, represent new approaches for LifeArc, to address some of the considerable gaps in the funding of UK translational research.

Our charitable model allows us to invest in projects where commercial returns may be low, but the potential for patient benefit is significant. We are also increasingly sought after as a source of holistic translational advice. I am proud that we continue to work closely with the Medical Research Council, supporting their translation portfolio and another 19 different charitable and academic organisations which have benefitted from our advisory support over the reporting period.

We also continue to support the sector through our collaborative drug discovery and diagnostic research conducted in Stevenage and Edinburgh. Our project pipeline supports innovation in key disease areas such as oncology, infection and neuroscience; while in the wake of this year's Covid-19 pandemic we have taken immediate action to invest significantly in the search for re-purposed treatments.

These are unprecedented times for our sector and for our society. The need for innovation and its translation to improve patient care has never been more keenly felt. LifeArc is uniquely placed to help meet this need.

I must express my sincere gratitude to my fellow Trustees, our senior Executive Team and to all our professional and talented employees for a truly exceptional year and their flexibility and dedication in the manner in which they have responded to the current crisis.

Our purpose: to advance promising science into benefits for patients

What we do

Our specialisation is translation – progressing work from early lab-based findings through to a point where it can be further developed for use with patients. We play a key role in developing new treatments, medicines, diagnostics, technologies or information resources.

At LifeArc, we seek out innovation, primarily in academia, in order to help scientists progress their discoveries along the journey to becoming a medicine, diagnostic or intervention.

We help advance this innovation through our own lab-based research, the support and advice we provide to our partners, the funding we make available and by developing people with expertise in medical translation.

We consider that investing in projects with a high degree of risk or where commercial returns may be low is part of fulfilling our charitable objectives.



How we do it

We **collaborate** with a broad range of groups including medical research charities, research organisations, industry and academic scientists.

We **nurture talent**, developing expertise and skills in our people through accredited training and project experience while also helping to develop others through our fellowship and industrial placement schemes.

We develop data-driven **solutions** to navigate the path to the patient.

Outcomes



Advancing science

We create knowledge through our research and seek to share and disseminate the newly acquired knowledge through publications and meetings. We share our skills, our knowledge and our data with our partners and other groups to advance research.



New interventions for development

Our drug discovery and diagnostic development activity produces candidate molecules/packages or diagnostics that can be partnered with others for further development or manufacture.



New companies and collaborations

Through our funding and advisory activities, we support the creation and development of start-ups and help foster alliances that progress new therapies.



Creation and protection of intellectual property

Our translational advice and activity foster and protect intellectual property derived from research. This ensures it benefits both commercially and for patients.



Skilled people

Our development support helps people develop new skills and knowledge, ensuring the next generation of scientists can contribute to translation activities in the future.

Translational advice

Our expert teams support technology transfer by protecting and managing intellectual property; evaluating the translational potential of research portfolios and advising on funding, the development path and routes to market.

Translational science

Our own laboratories conduct research to advance innovation into potential new medicines and diagnostics.

Centre for Therapeutics Discovery

Advances research into early stage drug discovery – from validating drug targets to developing molecules. We have an expertise in antibody engineering and small molecules.

Centre for Diagnostics Development

Collaborates on assay design and development and clinical validation for diagnostics. We add industry-recognised credibility and reduce the time to bring these assays to the clinic.

Translational funding

We seek to use our capital responsibly to fund translational research, particularly addressing ‘the gaps’ in development. Our approach is to provide support throughout the life sciences funding cycle. The intention is that the funding will be used to advance and de-risk projects, that could then attract onward development investment from others, particularly commercial partners.

LifeArc funds innovation in a number of key disease areas, both through our own funds and in partnership with like-minded organisations.

Seed Fund

Making investments and providing expertise for early stage spin-out companies within the UK. The fund aims to bridge the gap and incubate small start ups to a point where they could attract venture funding.

Philanthropic Fund

Provides grants to researchers for advancing new treatments for rare diseases. By incubating and de-risking projects, we aim to make investment in therapeutics for rare diseases more attractive.

Venture capital fund

Providing capital to an independently managed life sciences fund, which invests in developing early stage companies and technologies.

Jointly-managed funds

The LifeArc/Crick Translational Fund supports Crick scientists in progressing promising innovation to the point where it can be considered for commercial development. LifeArc also initiated a call for grants during 2020 to support international efforts to identify effective diagnostics or treatments for the Covid-19 disease.

Our rapid response to the Covid-19 emergency

Progressing scientific discoveries from the laboratory to the patient, as fast as possible, is what we do. Never has this contribution felt more critical than during the Coronavirus pandemic.

In March 2020, LifeArc mobilised its expertise, resources and capital to tackle the virus.

Our teams rapidly contacted the UK’s BioIndustry Association (BIA) and the British In Vitro Diagnostic Association to see whether our labs could be re-opened to work on Covid-19 research. By June a small team in Stevenage were back at the labs developing antibodies that could be used as therapeutics.

Our capital contribution included a provision of £2m to the University of Edinburgh’s STOPCOVID project, which was rapidly re-deploying scientists from their Centre for Inflammation Research to work on testing existing and experimental drugs to find a treatment for COVID-19.

We also rapidly set up a £10 million research fund to identify and support clinical trials that offered the best chance of finding treatments for Covid-19. Time was of the essence, so the fund focused on medicines that are already approved or those in late-stage development for other indications that could be repurposed to treat or prevent the infection.

We promoted the call to academics, companies and researchers globally, asking for them to submit their proposals to our re-purposing fund. The response was tremendous. More than 130 in-scope applications came in during the two-and-a-half weeks the call was open.

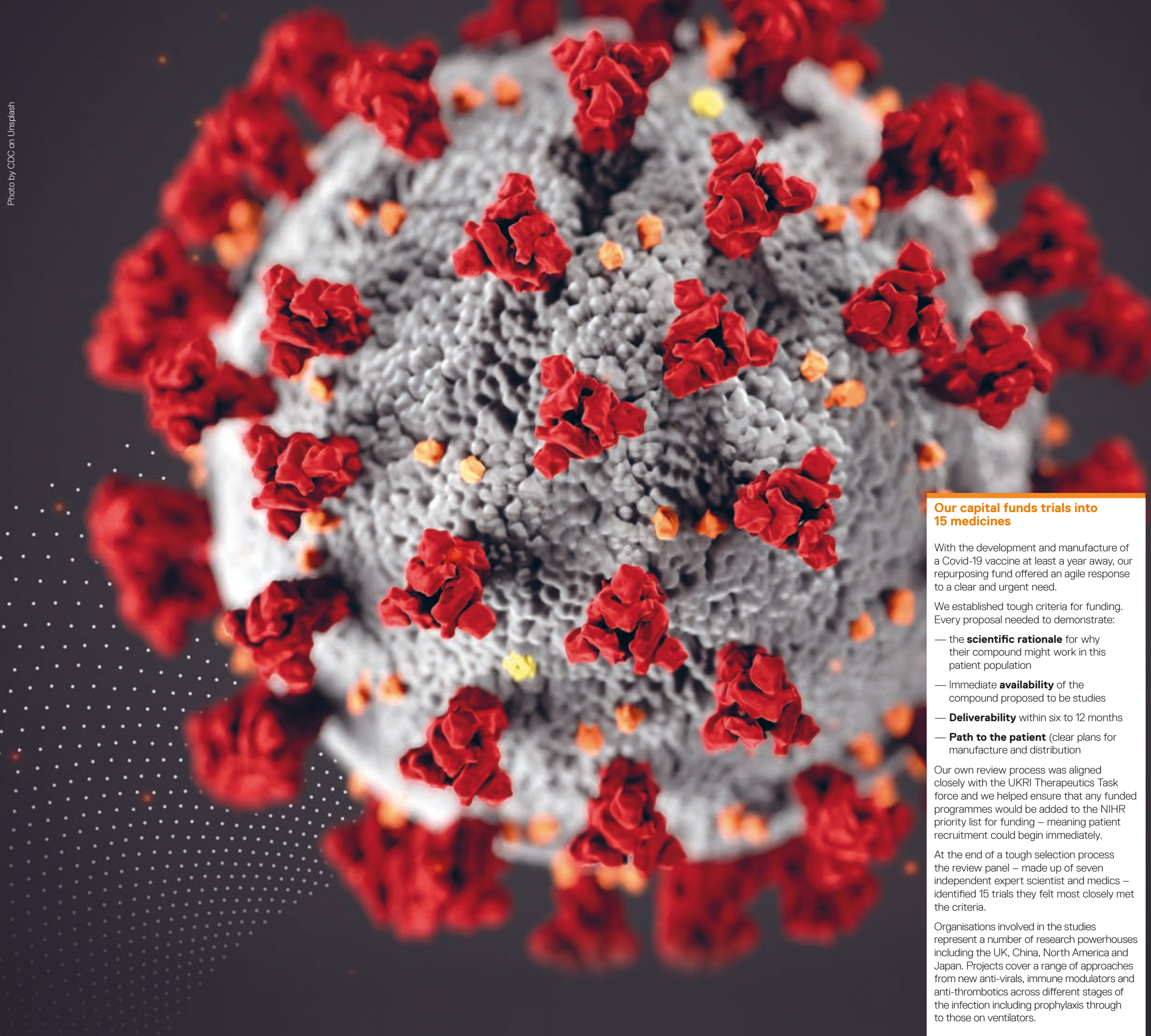
Based on agreed criteria (see box), our scientific diligence team evaluated those that offered the greatest chance of success. They came up with a shortlist of more than 40, which were scrutinised by an independent panel of experts. The panel ultimately identified 15 studies to fund and by the end of May, all grant arrangements had been finalised and studies were underway. (see box for more on these studies).

“

The panel specifically looked for novel trials which weren’t being researched elsewhere. We need to ensure that the patients are the priority and that any drug tested has a sound rationale for being able to offer an improvement.”

Professor Stephen Holgate
Chair of the independent review panel

Photo by CDC on Unsplash



Our capital funds trials into 15 medicines

With the development and manufacture of a Covid-19 vaccine at least a year away, our repurposing fund offered an agile response to a clear and urgent need.

We established tough criteria for funding. Every proposal needed to demonstrate:

- the **scientific rationale** for why their compound might work in this patient population
- Immediate **availability** of the compound proposed to be studies
- **Deliverability** within six to 12 months
- **Path to the patient** (clear plans for manufacture and distribution)

Our own review process was aligned closely with the UKRI Therapeutics Task force and we helped ensure that any funded programmes would be added to the NIHR priority list for funding – meaning patient recruitment could begin immediately.

At the end of a tough selection process the review panel – made up of seven independent expert scientist and medics – identified 15 trials they felt most closely met the criteria.

Organisations involved in the studies represent a number of research powerhouses including the UK, China, North America and Japan. Projects cover a range of approaches from new anti-virals, immune modulators and anti-thrombotics across different stages of the infection including prophylaxis through to those on ventilators.

The life sciences sector

Translational medicine is a complex and ever-changing ecosystem, where LifeArc plays a unique role.

The translation of medical research takes place in a complex ecosystem with many interdependencies and influences. How and what science is being translated into new interventions is being shaped by developments and trends in the sector.

We have identified a number of trends that will influence our work and our focus. Each of these is a key factor on its own, but some of the most significant therapeutic opportunities will arise from how these will interact.

Big data and machine learning

The medical research sector produces new data at an astonishing rate, beginning in the earliest stages of research through to monitoring and treatment of patients. The use of machine learning and artificial intelligence (AI) to interrogate big data sets is rapidly becoming the norm at all stages of translational research and associated business activity.

Big data of high quality is central to developing powerful AI tools and to using AI in discovery research. The algorithms to analyse drug discovery or diagnostic datasets are relatively mature; the main gaps are in the datasets themselves and in the talent available to analyse them.

Being able to harness that data and understand it is an essential capability in our sector. With an explosion of research in this field, UK academics are emerging as strong leaders. Many consortia involving academia, pharma and AI specialists have been created and accelerators to foster start-ups are being created privately and by publicly funded organisations.

The bespoke generation of data, along with its prospective collection and knowledgeable curation, will be essential. LifeArc is exploring ways of accessing or facilitating the creation of suitable datasets, primarily through external collaborations and funding.

As AI tools begin to permeate research, development and business activities, LifeArc will need to develop expertise to identify, acquire and properly implement these cutting-edge tools. A failure to do so will drastically affect our ability to compete and deliver.

New therapeutic approaches

New approaches to treating diseases are increasingly offering alternative ways to address diseases that the traditional ‘small white pill’ has not been able to address.

There are a number of targets that are potential opportunities for therapeutic interventions, but which currently remain untreatable through traditional small molecule therapeutic approaches. Areas such as protein/gene overexpression or errors in DNA and RNA, are potential pathways in disease development.

Today, advanced therapeutics, such as gene-editing based approaches and immune system modulation, hold great promise in addressing these DNA or RNA based diseases. Broadly these can be classified as ex vivo, including cell modification of natural killer cells, and in vivo, such as gene editing to modify translated proteins. Some have reached proof of concept or clinical stage including antisense DNA, antibody drug conjugates, RNA aptamers, RNAi and CAR-T cells. However, the number of licensed therapeutics remains low and the clinical pipeline, outside the CAR-T space is limited.

Advanced therapy medicinal products and immune system modification hold opportunities for significant impact but will require long-term resource commitment and access to extensive capabilities.

To date, the strong pipeline of projects and pull from the commercial sector contrasts with a lack of infrastructure to support translation into viable gene therapies. We see this as an opportunity to support and help academic researchers to develop their innovation into commercially viable patient treatments.

Diagnostics and devices

People are increasingly using wearable technology to make their own healthcare decisions; they are also willing to provide information to clinicians, enabling more personalised treatment, but have high expectations of the returns. The life sciences sector needs to be awake to the potential of wearable or implantable technology, as well as the importance of engaging patients in the research process, widening the discussion from how to treat a diagnosis towards a broader view that considers all aspects of living with a given condition.

“Addressing patient needs requires integrated strategies combining data, new therapeutic approaches, diagnostic devices and strategic partnerships.”

Meanwhile the development of ‘omics’ (the collective characterisation and quantification of pools of biological molecules to understand the structure, function, and dynamics of an organism or organisms) is increasingly enabling earlier diagnostics and detection. However, the need for affordable and reliable near-patient diagnostics remains, to enable better prevention and early diagnosis. The increasing availability of large datasets will greatly aid this work. There are particular opportunities for the development of both diagnostic and therapeutic technologies in the areas of genetics, proteins, metabolism and medical imaging.

Strategic partnerships

Life sciences innovation in the UK is driven by a network of academic centres, research institutions and commercial businesses. As pressure grows to find answers to global health issues, collaboration will become the norm – pooling expertise, technological platforms and datasets to speed up the development of innovative science into accessible patient treatment.

This reality is brought to life vividly by the Covid-19 pandemic. The urgent scientific response, in which LifeArc is playing an active role, is seeing the vast array of scientific and medical sectors align to tackle the virus and the illness it causes. The race is on to develop new drugs and diagnostics of any modality. And the success of these efforts will be informed by data and devices, which are helping to track infections and understand and identify biological weaknesses that new medicines target.

LifeArc is committed to expanding its strategic partnerships, accessing external opportunities, expertise and technology to augment our own capabilities and speed up the pace of innovation.

Translational funding

As mentioned above, the majority of life sciences innovation comes from the academic world, from dedicated research institutes or from spin-off SMEs. Life science innovation, however, is lengthy, complex and requires significant up-front funding. This can deter investors, or at the very least limit their interest to lower-risk ventures with faster pay-back periods.

In 2018, the European Investment Bank reported that innovative life science companies continue to face a critical funding challenge, particularly in terms of ‘patient’ investors prepared to invest early and wait for a return. For many start-ups and small biotechnology companies this means having to make difficult choices around which projects to develop, while financial dependency makes long-term strategic planning difficult. This does not just limit the capacity of individual research teams but hinders innovation across the life sciences industry as a whole.

In recent years, the UK government has taken steps to improve the situation through its Life Sciences Industrial Strategy, committing to boost UK spending on research and development to 2.4% of GDP by 2027. Initiatives have been put in place to further increase public and private funding for innovative life sciences companies at all stages of their growth, including the

Small Business Research Initiative Healthcare; the Digital Health Technology Catalyst; and the SME MedTech Fund.

Further investment is essential – not simply at a national level but focused, collaborative investment to meet targeted patient needs. The long-term ability of the life sciences sector to develop new patient treatments – and to bring those treatments to market – depends on the funding gap being closed, particularly in higher-risk areas where commercial funding is harder to attract.

Hope for a better future

Medical science continues to make advances that would have been unthinkable in previous generations, but many significant patient needs are still to be met. Addressing these needs requires integrated strategies that combine the power of data, the potential of new therapeutic approaches, the growing availability of wearable diagnostic devices and the economic advantages of strategic partnership.

As the Covid-19 pandemic has demonstrated, the more effectively the sector can turn promising science into patient benefit, whether by development of new therapies, diagnostics and interventions or repurposing of known ones, the better the outcome for patients and communities.

A time of transformation

With our financial future in a strong position, this year we have turned our focus to what we can achieve for science and patients.



Dr Melanie Lee, CBE
CEO – LifeArc

The past nine months have initiated a major transformation for LifeArc.

In this short time, our resources have increased exponentially, and so have our responsibilities and our ambitions.

From the very start, I would like to thank all of our employees, my colleagues on the Executive Management Team and our Trustees, who have worked so diligently to build on our strengths in translation so that we can put our resources to the best use for the benefit of patients. Without my colleagues’ talents, the progress I am reporting here would not have been possible.

The monetisation of a portion of our royalties for *Keytruda* (pembrolizumab) in May 2019 brought in US\$1.3bn and overnight, LifeArc became one of the UK’s largest medical research charities by resources.

LifeArc secured the rights to these royalties more than a decade ago, as a result of our 2007 collaboration to humanise the monoclonal antibody that is now *Keytruda* for use in humans. This product is now marketed by MSD.

Our duty is to use this new wealth responsibly, in a way that significantly enhances our ability to advance the benefits of scientific research to meet the needs of patients. This means taking a clear leadership role in the field of translating

medical and life sciences research, while preparing our organisation to efficiently and effectively increase the impact of our work.

Understanding the environment

During 2019 we firstly took stock of the rapidly changing life sciences environment, identifying the most significant trends in our sector. This has shaped our strategic thinking. In brief, some of the key themes from the findings include:

- The central importance of big data and artificial intelligence (AI)
- The rapid advances in innovative therapeutic approaches and modalities made possible by the advances in genomics
- The rise of the empowered patient and the role of diagnostics, devices and therapies in providing personalised interventions.

£12m+ provided in funding to support clinical trials into therapies to address Covid-19.

These advances are interdependent, making an integrated approach essential for LifeArc. The ecosystem is highly connected, with academic institutions, research bodies, governments and commercial bodies all involved in progressing stages of innovation. In this environment we can maximise our resources and knowledge by working with and alongside these bodies.

Strategic collaboration

Monetisation has enabled LifeArc to play a greater role in this interconnected ecosystem. During 2019 we embarked on a number of exciting collaboration projects, including a strategic partnership with Kymab, a clinical-stage biopharmaceutical company developing antibody-based therapeutics.

This partnership gives us access to a state-of-the-art antibody platform, extending our existing antibody drug discovery capabilities and exploring new medicinal products. We have been working with Kymab to bring their technology platform into our working environment as well as identifying suitable projects for its application.

We also partnered with the Crick Institute to launch the LifeArc-Crick Translation Fund. The fund makes £5m available over five years to support Crick scientists in progressing promising early innovation to the point where it could attract larger scale investment and development.

This partnership is a prime example of the kind of external partnerships we are looking to build, giving us access to innovative science while extending our contribution to translational science.

Defining our long-term ambition

Over recent months, we have clarified our long-term ambition: to be the leading charity that transforms the way diseases are identified and treated. It is a bold ambition that will require creativity, expertise, the support of our partners, and a solid organisational foundation.

In last year’s report, I referred to LifeArc’s strategic principles regarding long-term sustainability, impact and reputational growth. These are best served by recognising and focusing on our core offerings: translational science, translational advice and translational funding.

Strategic opportunities

Our review of the sector led us to identify four strategic areas for expansion, which build on our core offerings while tapping into the most significant innovation themes in our sector. These strategic opportunities, which have become key areas of focus for 2020 onwards, are:

- **Diagnostics growth** – expanding our expertise, partly through our own growth and partly through innovative partnerships, to broaden the range of diagnostic approaches and applications we offer.
- **Advanced therapeutics** – expanding our capabilities in the newly-emerging approaches, such as gene editing, which are beginning to change the face of patient treatment.
- **Increased strategic partnerships** building our presence and our relationships, to augment our own expertise by accessing, assessing and collaborating on new science and innovative platforms.
- **Data and AI** – which underpins all of these areas. We are developing a strategy for organising and accessing data sets and using them for advanced analytics; to this end we are considering collaborative links with other research charities, to expand the pool of data and attract specialist data skills.

Furthermore, we have been developing the governance, communication and development tools we need to evolve and deliver against our long-term ambition.

Our people make it happen

Our corporate goals for 2019, based around the strategic principles of sustainability, impact and reputation, have been cascaded to all employees and these goals were used to frame their individual objectives.

An established rhythm of communications events and channels is now in place. Our quarterly ‘town halls’ keep colleagues up to speed with where we are going as an organisation, highlighting the part they play and offering an opportunity to ask questions of senior leadership. Our 2019 all employee event was an additional interactive, informally structured opportunity to learn and engage.

We have also initiated a bespoke leadership development programme, accredited by the Institute of Leadership and Management, to help our people become better leaders in a time of change.

“
Our bold ambition: to be the leading charity that transforms the way diseases are identified and treated.

There were some changes to the Executive Management Team last year. Firstly we brought in a new interim HR Director, Fiona French. As the organisation goes through change, the HR function will be critical to ensuring we can lead through change and create the frameworks and structure that will enable us to achieve our long-term ambition. In April 2020 Fiona became permanent as Executive Director, HR.

We also appointed Graham Duce as Executive Director and our new Chief Investment Officer at the end of 2019. Graham is responsible for managing our investment strategy, to ensure our funding enables us to deliver both immediate impact and long-term sustainability. Graham will be working alongside David Zahn, who was appointed last year as a new Trustee and Chair of the Investment Committee.

The year ahead

Going into 2020, we have been developing detailed plans to achieve our ambitions for the next decade. These include:

- Creating clear **strategies** around our core offerings
- Strengthening our **foundations** to make sure we can deliver change
- Rebalancing our **organisation** to focus on priority disease areas
- Defining and embedding **new ways** of working
- Developing our culture, **behaviours** and **mindset** to support the delivery of our strategy

Since developing these plans we have been impacted, as have nearly all organisations, by the Covid-19 pandemic. While this has significantly affected our ways of working – with laboratories forced to close and our people working from home for an extended period – it has also given us the opportunity to demonstrate leadership and strategic collaboration in a very practical way.

We have made our science, our advice and our funding available to help in the race to develop new therapeutics, diagnostics and other interventions to tackle the virus and the illness it causes. We have provided more than £2m in funding to support clinical trials of existing or late stage development therapies that could be rapidly investigated for their potential to address the Covid-19 illness.

We are also backing further projects Following a highly successful funding call, which attracted some 130 in-scope applications, we have invested just under £10m in 15 projects aimed at repurposing existing drugs to combat the effects of Covid-19.

These are interesting times, which challenge traditional ways of working and call for collaborative, innovative responses. We are very fortunate to have the resources, the plans and above all the people to bring the very best science to the patients who need it most, transforming treatments, improving and even saving lives.

Melanie Lee
Dr Melanie Lee, CBE
CEO – LifeArc
June 2020

Strategy and milestones

The life sciences sector is rapidly changing as new discoveries are shared. New trends and changing understanding of disease help to shape LifeArc’s direction and strategy.

Trends in innovation

Advances in genomics, gene editing and technology are enabling new ways of identifying and treating diseases.

Drugs

The medicines that will be in our pipeline of the future will be more targeted than the ‘small pills’ we typically associate with medicines. Advances in genomics and editing processes are enabling us to manipulate the processes involved in diseases at an early point or in transformational ways.

Diagnostics

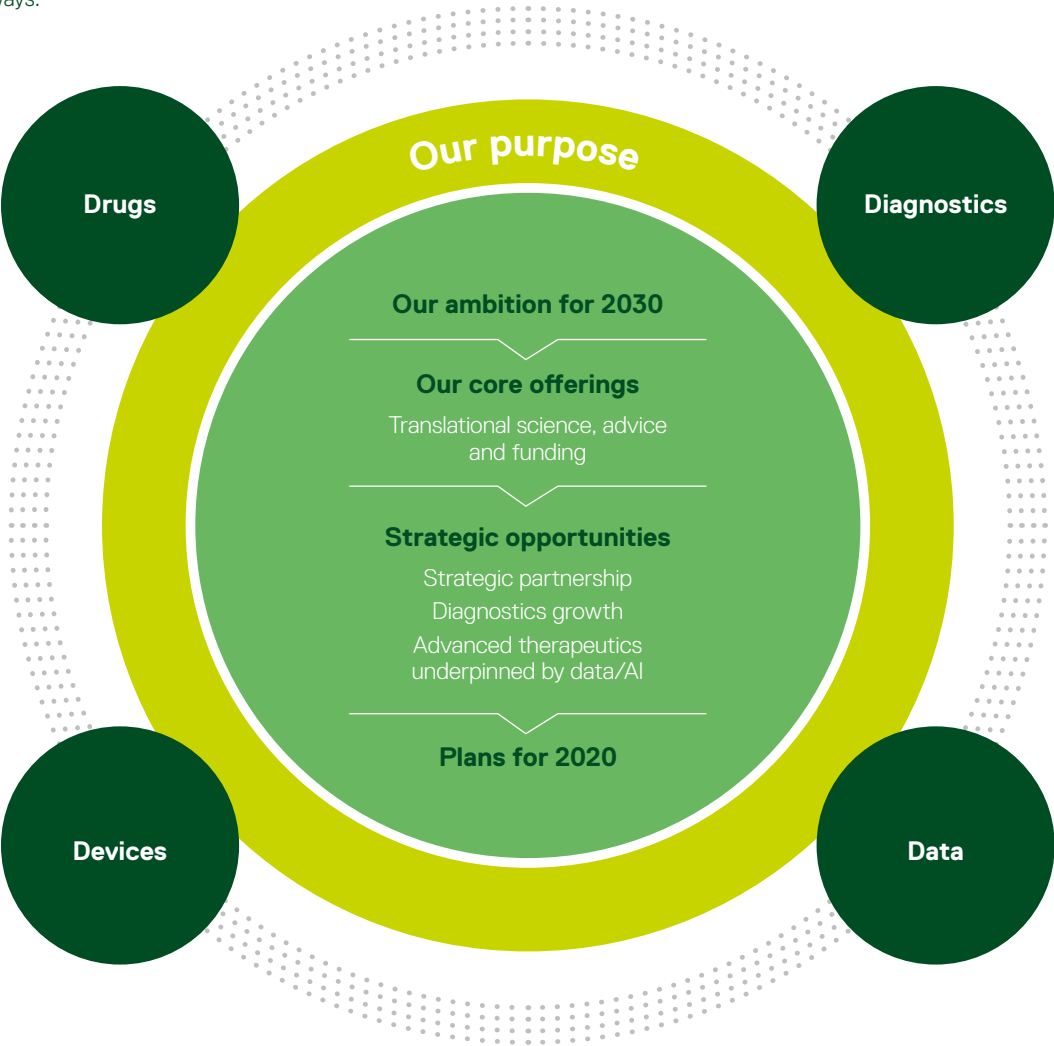
Increasingly, diagnostics will be able to identify people at greatest risk of developing a condition and potentially identify an opportunity for earlier intervention.

Devices

Devices are also advancing, and as people increasingly accept devices such as wearables into their lives, we will see informed consumers prepared to take control over their own health.

Digital

Data is a key source of innovation. Access to and analysis of disease data improves our ability to identify diseases, understand their impact and personalise treatments.



Our charitable purpose

Our purpose, as set out in our articles of association, is to ‘Promote public benefit by improving human health and medical research, in particular assisting the progress of scientific discoveries and new technologies. Collaborate with charities, academia and industry as well as conduct our own research, to accelerate the progress of discoveries and technologies to a point where they are capable of being made available or transferred/out licensed to a third party for further development.’

Our ambition

LifeArc has set itself the ambition of becoming:
“a major charity transforming the way diseases are identified and treated”
This will be reflected in the successful delivery of patient-centred products, the quality of our scientific choices and advice, the development of collaborative partnerships, the attraction and development of talent and the judicious investment of our reserves.

Strategic opportunities

Strategic partnerships

Building our presence through collaborative relationships

Diagnostic growth

Broadening the range of diagnostic approaches we offer

Advanced therapeutics

Expanding our capabilities in newly-emerging therapeutics

Data and AI

Developing strategies to mobilise Big Data for advanced analytics

How we set out to achieve our ambition

LifeArc has undergone significant transformation in the past couple of years; to achieve our long-term ambition we will continue to transform, and indeed deliver change to a new level.

As the graphic shows, our strategy is guided by our purpose and ambition and driven by our core offerings, but the key to long-term success is how we mobilise those core offerings to exploit our key strategic opportunities.

Strategic milestones
Our 2019 sector analysis (summarised in the market overview) identified four strategic opportunities we need to exploit, to achieve our long-term ambition. These are strategic partnerships; diagnostics activity; advanced therapeutics; and, underpinning everything, data and artificial intelligence. The table opposite sets out what we have set out to achieve in each of these strategic areas by the end of 2020.

Strategic opportunities	Milestones
Strategic partnerships	<div>— Integrated disease and partnership strategies ensuring consistent approach to collaboration</div> <div>— Targeted strategic partnerships in place, including Kymab partnership to support antibody-based research translation</div> <div>— Collaborative funding in place to support a roster of Covid-19 repurposing initiatives</div>
Diagnostics growth	<div>— Diagnostics capacity doubled by increasing personnel, teams and projects undertaken</div>
Advanced therapeutics	<div>— Gene therapy innovation hubs supported, to advance translational research in this area</div>
Data and AI	<div>— Data integration in place using advanced IT tools and data governance/best practice models</div> <div>— FAIR standards introduced to make current data sets more accessible and visible</div>

Transforming care for people living with TB

With LifeArc’s help a test that gives clinicians a real-time picture of treatment efficacy in tuberculosis (TB) is on course to address one of the world’s biggest healthcare challenges.

The Molecular Bacterial Load Assay, or TB-MBLA, was developed by scientists at the University of St Andrews. Since 2018 a team at LifeArc’s Centre for Diagnostics Development (CDD) in Edinburgh has been developing the technology to the stage where it can be used in some of the world’s poorest countries, rapidly and inexpensively, to identify TB infection.

Faster answers, better care

A sensitive and rapid point of care test to identify active TB organisms is desperately needed. Current tests take several weeks to produce a result and require expensive containment facilities and staff training, putting them beyond the reach of the healthcare systems in many countries where the disease is most common.

Rapid and effective testing would enable doctors to monitor the results of treatment and tailor the medicines to the patient’s needs. It would also help healthcarers identify where treatment is not working and move to a different therapeutic approach.

Targeting a biomarker present in each bacterial cell, the MBLA diagnostic is significantly more sensitive than current tests. LifeArc’s CDD scientists have improved it further, reducing the process from six hours to less than four hours and increasing the assay’s detection capability.

Data for approvals

LifeArc scientists visited the Gambia in September 2019 to observe the test at work in local conditions. This in-field testing was invaluable, enabling the team to see the challenges local carers face and to understand how a simple, reliable test could change the treatment of TB. As a result of their visit, the team returned and made some minor modifications to the test.

The team have since partnered with an industrial diagnostic manufacturer to develop ‘research use only’ kits. These are scheduled to be tested in three African clinical centres. The goal is to generate data that can be submitted to regulators and, ultimately, to the World Health Organization to support the validity of the test. This should make the diagnostic an attractive proposition for a commercial partner to in-license, put into production and release on to the market.

“
This could be a game-changer.”

Dr Paul Smith
Senior Scientist, Centre for Diagnostics Development

© Photo by Annie Spratt on Unsplash



People are critical to our success

LifeArc’s long-term ambition relies on the commitment and capabilities of our people. Our people strategy is designed to help us attract the right people with the right skills and capabilities and support them to achieve our goals.

Our 2019 employee survey reflected a positive culture; 84% of respondents felt engaged with LifeArc, particularly appreciating the interesting, challenging nature of their work, the encouraging environment and an organisational purpose to which they could relate strongly.

Our survey also suggested areas where we could improve, including a clearer line of sight between individual work and the organisation’s objectives, improving career progression opportunities and enhancing communication within LifeArc. During 2019 we have taken a number of steps to address those issues, including a robust communications infrastructure; a performance culture supported by clear goals and behaviours; development opportunities including the development of line managers to bring the best out of their teams; and benchmarking and enhancement of the employee experience.

Communications

Effective communications is vital to an organisation going through significant change; it ensures employees feel connected, informed about where the organisation is going and engaged with the journey. During 2019 we established a solid communications infrastructure to help engage employees with our strategy and priorities. We provide regular updates on priorities and progress, while our quarterly ‘town halls’ offer an opportunity for everyone to get together to hear from and ask questions of the Executive Management Team. Our intranet gives all employees access to news, announcements, vacancies and key milestones, as well as practical information for carrying out their daily work. Our Summer Event in 2019 brought employees from all three sites together to network and have fun while providing new insight into the organisation and its future.

To help our people connect to our corporate goals we ensure individual objectives are related to these, using a cascade approach. We further ensure that our three strategic benchmarks of sustainability, impact and reputation are woven into our objectives, to keep them front of mind for all our people.

Another key communications channel is our Employee Forum. Established at the end of 2019, the Forum replaced our former Staff Consultative Group with a wider remit focused on reaching more people, representing our employee demographic and developing two-way communication.



“
To help our people connect to our corporate goals we ensure individual objectives are related to these, using a cascade approach. We further ensure that our three strategic benchmarks of sustainability, impact and reputation are woven into our objectives, to keep them front of mind for all our people.

Performance culture

As our organisation transitions, so does our culture; we recognise this as a key factor in our long-term success. The work on refreshing our behaviour framework has engaged around a quarter of our employees in updating behaviour definitions and ensuring they are future-proofed. This framework will guide many of our people activities and strategies over the coming year.

Work continues to develop a more focused performance culture by relating our ambitions to employees’ day-to-day activities, helping them understand the value they can add and how this contributes to our success.

Developing our people

A key element in building our performance culture is the continuing development of leadership skills. As indicated in our previous annual report, in September 2019 we launched the LifeArc Empowering Leaders programme, which is accredited by the Institute of Leadership & Management. The programme was launched with our senior leadership team, giving them a higher level of self-awareness and equipping them with the tools to help them coach their teams and engage in open and

honest conversations. By developing leadership capabilities, we are helping to improve the engagement of all employees with the organisation and its ambitions.

The focus for 2020 is to extend this development to our newly-appointed managers, to ensure that they feel fully equipped to lead and manage their teams.

We continue to attract outstanding talent, and are also focused on creating opportunities for our existing employees to develop their careers; during 2019 we promoted 11 people internally, in both our science teams and our support functions, while we recruited 30 new team members, many in newly created roles.

Employee experience

All LifeArc employees are focused on working to deliver better patient futures and it is only right that they should benefit from a stimulating work environment. Our London headquarters has been refurbished to encourage collaboration and innovation. Our Stevenage site was also refurbished and extended, bringing colleagues spread across two buildings into a single building.

Rewarding and recognising our people is a key factor in attracting and retaining key talent. During the reporting period we contributed to two reward benchmarking surveys. These confirmed that our benefits package compares well with other organisations in our sector, as well as highlighting other areas to consider in the coming year. We are keen to help our employees understand their rewards package and the benefits they offer. We are developing a financial education plan to address this need in the coming year.

Working with people beyond our organisation

In outlining LifeArc’s people strategies it is important to highlight the work we do with people outside the organisation. As a key player in an increasingly collaborative sector, we see it as a key part of our role to develop translation skills in others. Our LifeArc-AUTM Fellows programme continues to be over-subscribed, while in 2019 we welcomed our first Technology Transfer Fellows (a programme we launched in 2018 with Imperial Innovations, Queen Mary Innovation and UCL Business). These fellowships are designed to provide training and hands-on practical experience in four of London’s leading technology transfer environments.

Our industrial placement programmes continue to attract some of the best talent from universities, with 10 students engaged in 2018-19 and a further 10 starting with us for the academic year 2019-20. All but one of our 2018-19 students (and all but two of our fellowship students) are women, which we see as a positive step in encouraging more women to pursue careers in life sciences. We are also pleased to say that one of our 2018-19 students has since joined the organisation. From LifeArc’s point of view these individuals bring a wealth of skills and perspectives which we learn from, while from the student’s point of view they gain an unrivalled experience and understanding of the translation environment.

Engaging with our stakeholders

LifeArc maintains proactive relationships with a range of stakeholders, including:

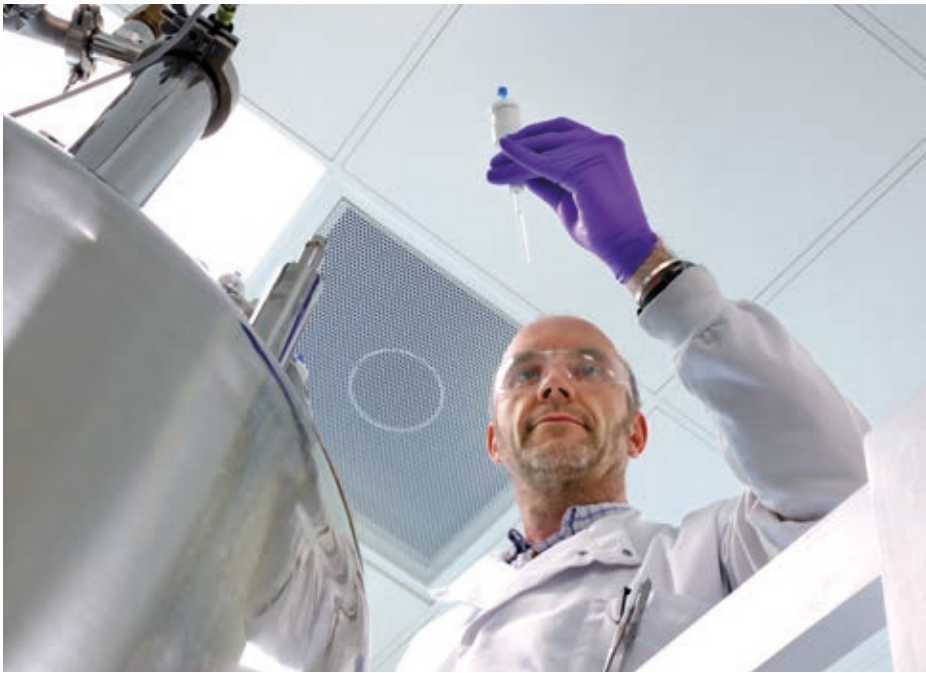
- Suppliers and contract research organisations, as part of our project ecosystem
- Academics and researchers, both via our translational support activities and our fellowship programmes
- Medical Research Council and technology transfer offices, particularly through our advisory teams
- Charities, through our advisory and funding activities
- Project partners, with whom we maintain regular dialogue on project aims and progress
- Sector peers (including the Crick Institute and Wellcome Foundation), both directly and through our active involvement in membership organisations such as BIA (the UK Bio-industry Association)

These relationships enrich LifeArc’s understanding of the challenges and opportunities influencing researchers, healthcare providers and patients, enabling us to play a proactive part in meeting them.

Tracking our progress

 Our own laboratories conduct research to advance innovation into potential new medicines and diagnostics.

Translational science



At our **Centre for Diagnostic Discovery (CDD)** in Edinburgh, we focus on developing diagnostics from a range of stages including initial concept through to a point of clinical validation.

Our work is designed to develop validated and reliable diagnostic tests to enable better or more rapid diagnosis. We do this through collaborations with academic scientists, diagnostic companies or others.

Working with some of the most advanced and comprehensive technologies available we add industry-recognised credibility to the research concepts developed by our partners. We will frequently start with the early prototype of a partner and adapt it or refine it to improve reliability and enhance its accuracy or accelerate the time taken to complete the test. In doing so, we develop an industry standard data and regulatory package ready for manufacture.

Our Edinburgh lab is certified for ISO13485:2016. This is a critical element in the team's ability to develop manufacturing-standard diagnostics.

- Translational science highlights**
 - Developed a virtual reality capability, which is helping scientists to take a fresh look (literally) at ways of designing potential drugs (small molecules and antibodies) and is also providing an exciting new way to visualise and interact with large data sets
 - Initiated partnership projects with the Medicines Discovery Catapult, Cancer Research UK and Ono Pharma
 - Invested in a technology transfer relationship with Kymab to build on our antibody capabilities
 - Completed five therapeutic projects in key disease areas including oncology, neuroscience and infection, with a further seven projects closed
- Progressed TB-MBLA test to the point of research testing in Africa
 - Completed feasibility on two diagnostic projects, one in oncology and the second in technology development, with a further two projects closed
 - Initiated software, linked to TB-MBLA project, enabling people to upload test data quickly and easily to the cloud, making it easier to share data between field scientists and research centres

At our **Centre for Therapeutic Discovery (CTD)** in Stevenage, scientists seek to advance research projects that have the potential to become new medicines.

With around 90 scientists working on site, our drug discovery teams access biology and chemistry expertise including assay development, screening, compound profiling and cellular pharmacology to develop new chemical substances.

The team has also developed significant skills in antibody research. Our partnership with Kymab is designed to build on these strengths; the partnership gives us access to a state-of-the-art transgenic mouse that delivers high-quality fully human antibodies and it has also enabled us to introduce an antibody platform that will enable LifeArc to explore new innovations in this area.

During the reporting period the CTD team signed an agreement with the Medicines Discovery Catapult to progress biomarker discovery, as well as two evaluation agreements in MNK1 and PAICS. We also delivered results against three commercial antibody agreements.

The team has also been building on its pre-existing relationship with Cancer Research UK; following the completion of a tripartite agreement in March with Ono Pharma, we have been collaborating to identify novel cancer immunotherapy medicines.

Between April and December 2019 the CTD team authored eight publications, delivered 25 conference podium presentations and a further 17 poster presentations. We have trained a further 10 placement students in drug discovery, bringing our total to 62 since 2011, while five of our funded PhD students completed their theses.





LifeArc’s heritage started with our technology transfer services. Based on the expertise we provide in protecting intellectual property and negotiating commercial opportunities from new research, we help scientists create value from their innovation.

Translational advice



Our technology transfer professionals are responsible for a wide range of translational advice and commercial support. Our expert teams help protect and manage intellectual property, evaluate the translational potential of research portfolios, and advise on funding, development pathways and routes to market.

We provide these commercialisation services to medical research charities and other research organisations.

Helping charities

As the basic science research that many charities fund begins to produce results, charities are faced with advancing these findings into translation. It is not an area that many are familiar with, which is why we provide our expertise.

We work with charities to assess their research portfolios and opportunities for partnering. We also advise where research investment might be most beneficially allocated, and how to connect with industry to move towards clinical trials while protecting their investment. We aim to ensure a charity’s investment creates as much patient impact as possible, as well as financial returns for the charities to fund future treatments.

Between April and December 2019, we provided services to 19 charities. This included our teams reviewing and amending grant terms and conditions, and evaluating patents.

Supporting the Medical Research Council

We also continue to work closely with the Medical Research Council (MRC), creating potential patient, income and research benefit for the MRC intellectual property (IP) portfolio.

In the nine months from April to December 2019, on behalf of MRC LifeArc managed a portfolio of 527 assets, 143 of those being patented. 70% of the patent portfolio is partnered. From the non-commercialised patented assets, 50% are actively being marketed and a further 25% have already attracted interest from commercial partners.

Key milestones for the year:

- Offered advisory services to 19 charities, advising and supporting them on contractual matters and revenue share; advising on investments in spin outs; and giving guidance on strategy development
- Transitioned to a new system, Sophia, for IP management; this enables us to manage a large IP and agreements portfolio and help generate the MRC report.



Through our funds, we make money available at the various stages of medical translation to help progress science along the pathway to becoming new products.

Translational funding

In keeping with our purpose to progress scientific discoveries, we determined in 2017 to put funds in place that could address the gaps in the translation sector. Taken together, our funds represent a new and integrated funding model for biomedical innovation in the UK and support our objective of progressing promising medical research.

Our charitable model allows us to invest in projects where commercial returns may be low or potentially non-existent. But our approach also has the potential to contribute to our long-term sustainability.

Philanthropic Fund

Through this fund, we set aside £5m to provide grants to translational research into rare diseases. Rare diseases affect approximately one in 20 people worldwide. They are often chronic, life-threatening and isolating for the sufferers and their families. Yet funds for research are scarce, as the opportunity for a return is low and therefore not attractive to industry.

Our aim is that by de-risking projects by supporting the researchers in translation, investment may become a more attractive opportunity.

The Philanthropic Fund is supported by a committee of independent experts who meet twice a year to review applications. During April to December 2019 the Fund awarded grants totalling £2.2m, with a further £0.9m committed to award further grants. Highlights included a joint grant with the Aplastic Anaemia Trust to researchers from King’s College London and King’s College Hospital, testing a personalised treatment approach in patients with aplastic anaemia who have not responded to existing therapies.

Seed Fund

The Seed Fund was established with an initial sum of £25m to be invested over four years into early-stage start-up companies and spin outs.

It aims to progress new therapeutics and also potentially provide LifeArc with a financial return from successful investments. The fund is primarily focused on UK opportunities, identifying those with strong IP positions and a proposition they deem deliverable to market. The Seed Fund will provide more than just financial support to those companies it invests in, offering advice and guidance for start-ups as well.

By the end of 2019 the Seed Fund had completed key investments of £4m spread across:

- Ducentis Biotherapeutics, developing small molecule modulators of CD200 to moderate the immune response
- Caldan Therapeutics, developing small molecule GPR120 agonists for NASH – non-alcoholic steatohepatitis
- Pheno Therapeutics, a company investigating novel treatments to reverse the effects of multiple sclerosis

The Fund also approved a further £2.5m investments in Ikarovec Limited, a start-up focusing on developing a gene therapy for diabetic macular oedema; GyreOx Limited,

a spinout of Oxford University developing a heterocycles chemistry platform; and PolyProx, a Cambridge University biopharmaceutical spin-off set up to progress a potentially new class of cancer drugs. These investments were completed during 2020.

Venture Capital Fund

LifeArc invested in a new life science fund managed by Bridge Valley Ventures, to invest in more advanced medical research companies.

LifeArc/Crick Translation Fund

LifeArc’s collaboration with the Francis Crick Institute fulfils our mission to advance translation of basic science into healthcare treatments or diagnostics to benefit patients, building on the world-class Crick infrastructure and renowned science. This funding, coupled with the translational experience that LifeArc offers, is intended to deliver new and more diverse opportunities for follow-on development.

Set up in 2019 the fund is making £5m available over the next five years to support Crick scientists in progressing promising innovation to the point where it can be considered for commercial development.



Project pipeline

LifeArc had 44 internal translational science projects active in 2019. These projects are carried out by our Centre for Therapeutics Discovery in Stevenage and our Centre for Diagnostics Development in Edinburgh.

LifeArc had 44 internal translational science projects active in 2019. These projects are carried out by our Centre for Therapeutics Discovery in Stevenage and our Centre for Diagnostics Development in Edinburgh.

The range of projects covered in this pipeline reflects our areas of research focus, such as oncology, neuroscience and infection. We work in other areas – for instance we are funding rare disease research through the Philanthropic Fund – but in such cases the assets are not our own, hence they are not reported here.

The projected time to completion for these projects – which is usually at the point where they are ready to be partnered for onward development with an external partner – will vary. Typically, therapeutic projects take

between one and four years for project completion whereas diagnostic projects are usually completed within two years.

Of the 44 projects, seven were successfully completed (five in therapeutics and two in diagnostics) and nine were closed in 2019.

Portfolio range

Of the 'currently active and recently completed' projects, five were antibody humanisations of which three were recently completed (targeting cancer, Alzheimer's Disease and diabetes indications) and two are new projects in the areas of ovarian cancer and neuroblastoma.

The 38 therapeutic and six diagnostic projects active during 2019 covered the following fields: small molecules; biologicals; medical devices; diagnostics; and technical development.

Disease area focus

Many of the 'active' and recently completed/ closed portfolio are within three therapeutic areas – 18 oncology, 11 neuroscience, seven infection (36 projects). In addition, there were six projects within other therapeutic areas plus three technical development projects. 43% of projects (excluding technology development) are within the oncology therapeutic area.

Potential value

As is appropriate for a charitable research organisation, our primary focus is not on profitability but on diseases and treatments that are high risk due largely to them being early stage and at times arising from new technology. We always look for a goal that addresses a significant medical need and offers high patient impact.

As a result, the majority of projects, particularly within therapeutic research, have a low probability of success, but with high breakthrough potential if they are successful. We estimate that there is revenue potential from 21 of the 31 successfully completed or active projects (representing 68% of the combined portfolio).

While not being dependant on these projects for our long-term sustainability, we have criteria in place to ensure we focus on good scientific rationale and resources well invested through clear project oversight and milestone tracking.

Project and Indication	2019				2020				2021				2022				2023				2024			
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4
Therapeutics – ONCOLOGY																								
Oncology				Completed																				
Cancer							Closed																	
Colorectal cancer							Closed																	
Metastatic cancer and/or primary tumour								Closed																
Ovarian cancer																								
Cancer																								
Multiple cancers, to overcome drug resistance																								
Neuroblastoma																								
Head and neck cancer																								
Cancer																								
Cancer																								
Cancer																								
Metastatic cancer and/or primary tumour																								
Colorectal cancer																								
Triple negative breast cancer																								
Therapeutics – NEUROSCIENCE																								
Alzheimer's Disease		Completed																						
Alzheimer's Disease			Closed																					
ALS			Closed																					
Neuropathic pain				Completed																				
Alzheimer's Disease							Closed																	
Neuropathic pain (NP)																								
Alzheimer's Disease																								
Prophylactic treatment of migraine																								
Chronic pain																								
Multiple Sclerosis																								
Neuropathic pain																								
Therapeutics – INFECTION																								
Tuberculosis		Closed																						
Antimicrobial targets			Completed																					
Urinary tract infection			Closed																					
Antimicrobial																								
Gram negative bacterial infections																								
Therapeutics – OTHER & TECH. DEVELOPMENT																								
Osteolytic bone disease		Closed																						
Glucocorticoid-resistant inflammatory disease				Closed																				
Osteoporosis				Closed																				
Diabetes				Completed																				
Technical development project																								
Technical development project																								
Technical development project																								
Diagnostics – ONCOLOGY																								
Cancer				Closed																				
Detection of circulating tumour DNA				Completed																				
Metastatic breast cancer																								
Diagnostics – INFECTION																								
Tuberculosis																								
Diagnostics – TECHNOLOGY DEVELOPMENT																								
Osteoarthritis		Completed																						
Inflammatory bowel disease				Closed																				

Sharing our expertise with fellow charities

Ovarian Cancer Action (OCA) is a small charity with a big ambition: to improve the survival rates through research into prevention, diagnosis and treatment.

Each year, OCA invests around £1 million in such research. When investing funds, the charity needs to ensure that its interests are safeguarded; that innovations and intellectual property arising from their funded research are adequately recorded and shared; and that sufficient revenues from the work will be shared with the charity, to enable them to reinvest funds in further scientific innovation. However, the organisation’s small team does not include any translational, in-house legal or intellectual property (IP) expertise that are vital in helping to protect its interests, while hiring outside counsel to support them is expensive for a small organisation.

Based on recommendations from other medical research charities, OCA approached LifeArc to see if we could provide a solution. Our charity team is set up to offer advice on setting up and managing contracts with academic research centres so that their needs are safeguarded. We used our holistic understanding of translational research and the kind of outputs it produces, to ensure that the charity receives regular updates on how their funds are being used; that IP revenues are shared to fund reinvestment; and that funded research outputs are disseminated to the wider research community.

Over the past eight years, our team have helped more than 100 medical research charities get the most out of their research spending. This might mean anything from acting in a purely advisory role to providing a comprehensive service, advising on the protection of intellectual property, negotiating contracts, monitoring scientific progress, accelerating technology transfer and maximising their return on investment.

As a charity ourselves, our focus on the translation of research outputs means we are uniquely placed to provide medical research charities with comprehensive advice, not limited to contractual matters. We help them monitor the impact of their investment from a strategic perspective, keep track of what is happening to those discoveries, and ensure that research is translated into the clinic.



© Danny Owens for Ovarian Cancer Action

“ We have been blown away by the level of support we have received... Through the whole process we felt that LifeArc were dedicated to helping us secure the best outcome. We felt significantly more confident negotiating with much bigger academic institutions, with LifeArc behind us.”

Cary Wakefield
CEO Ovarian Cancer Action

Financial review

In May 2019 LifeArc successfully completed the monetisation of a portion of its *Keytruda* royalty stream.

Overview

The exceptional financial performance in the period has been due to the successful completion of the monetisation of a portion of our royalties from *Keytruda* in May 2019 for \$1.3bn. While our income from *Keytruda* will now fall to £nil in 2020, LifeArc has retained the contractual right to receive a share of any future royalty upside, in the event *Keytruda* royalties exceed an agreed level. The monetisation proceeds have been placed in low-risk money market instruments aimed at preserving the capital value and generating a modest return through income until our new investment strategy is agreed.

Keytruda is an immunotherapy product which initially received US Food and Drug Administration (FDA) approval in 2014 for the treatment of advanced melanoma but has since received expanded approval to include a number of additional cancer indications and territories. Contract and royalty income also includes a share of royalties arising from the development of the multiple sclerosis treatment *Tysabri* (natalizumab).

\$1.3bn

Monetisation of *Keytruda* royalties

13.87%

Long-term investments net return on a 12-month rolling basis to December 2019

£32.8m

Net gains on investments

Total investment returns including unrealised gains have significantly improved on the prior year. Our long-term investments achieved a net return of 6.25% over the nine-month period which is above our target return of 4.63% (RPI + 3%) and in line with underlying market conditions.

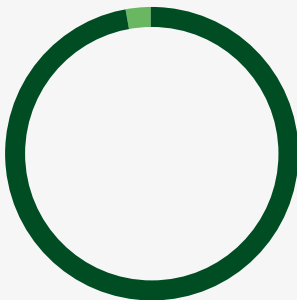
Our long-term investments achieved a net return of 13.87% on a 12-month rolling basis to December 2019 which is above our target return of 5.2% (RPI + 3%), and also above underlying market conditions.

Net gains on investments totalled £32.8m for the period including £24.8m gain on LifeArc's Venture Fund investment, £9m gain on our investments held with external fund managers on a balance of £133.7m, and a £1m loss on our Seed Fund investments.

The total incoming resources for the period were £992.2m, which is up substantially on the previous financial period of £55.2m. This includes the *Keytruda* monetisation of £971.3m.

Total incoming resources also includes £1.5m (31/03/2019 – £50.1m) of contract and royalty income, and £0.9m (31/03/2019 – £1.6m)

Key financial metrics



● Incoming resources
● Resources expended

	2019 £m	2018-19 £m
Total incoming resources	992.2	55.2
Total resources expended	27.6	30.6
Net gains on investments	32.8	8.1
Net movement in funds	997.5	32.7
Funds balance carried forward	1,204.7	207.1

The overall surplus for the period was £997.5m (2018 – surplus £32.7m).

received for intellectual property management and technology transfer services for the nine months to December 2019.

Substantially all (£1.4m) of LifeArc's contract and royalty income for the nine months to December 2019 comprises royalties from sales of natalizumab (*Tysabri*).

Substantially all (£46m) of LifeArc's contract and royalty income for the 12 months to March 2019 comprised royalties from sales of pembrolizumab (*Keytruda*).

Total resources expended during the period amounted to £27.6m (compared with £30.6m for the year to March 2019). These include activities that directly relate to our public benefit objective (research and technology transfer), the cost of generating funds, corporate and governance costs and general support costs that are not directly attributable to charitable activities. The underlying expenditure relating to delivering LifeArc's public benefit objectives has increased on last year (once extrapolated to 12 months) and includes significant spend associated with the monetisation of our *Keytruda* royalty stream. The increases in expenditure also primarily related to increased staff costs as we expanded the scope and scale of our activities, as well as an increased number of awards from our Philanthropic Fund.

Over the year LifeArc has continued to focus on strong cost control and robust financial governance.

Since period end LifeArc has made further translational fund investments including £2.5m in three new Seed Fund Investments (PolyProx Therapeutics, Ikarovec, and GyreOx Therapeutics). LifeArc has also committed £2m to fund the University of Edinburgh's STOPCOVID project and £10m to identify and support clinical trials offering the best chance to find treatments for Covid-19.

Covid-19 has caused a significant increase in market volatility since period end, with the value of investments held by LifeArc as of 16th June 2020 being £6m above the position on 31 December 2019 in line with expectations.

Reserves policy

LifeArc holds reserves to ensure that, as far as is reasonably possible, its future expenditure objectives can be met, given certain assumptions about future investment returns. All of LifeArc's reserves are held in pursuance of its charitable objective.

The level of free reserves held at 31 December 2019, defined as being those funds that are freely available for general purposes and excluding tangible and intangible fixed assets, was £1.176bn (March 2019 – £196.1m).

Of our total charity reserves of £1.205bn, £38.3m are currently held within designated funds: £24m for the Seed Fund, £9.4m for the Philanthropic Fund, and £4.9m for the Crick Translation Fund.

As a charity which is now primarily funded by investment returns, LifeArc necessarily holds significant reserves to generate enough cash to fund our operations and further our mission. We hope to generate future returns from our work in translational science and translational funding, but this work is extremely risky, subject to high attrition rates and runs over a lifecycle of around 10 years before commercial returns are realised.

The Board has determined that LifeArc should seek to continue to exist for the long term to support translational science in the UK and beyond and therefore our policy is to hold reserves which allow us to see a 20-year horizon in our long-term financial plan. This position is reviewed regularly by the Board.

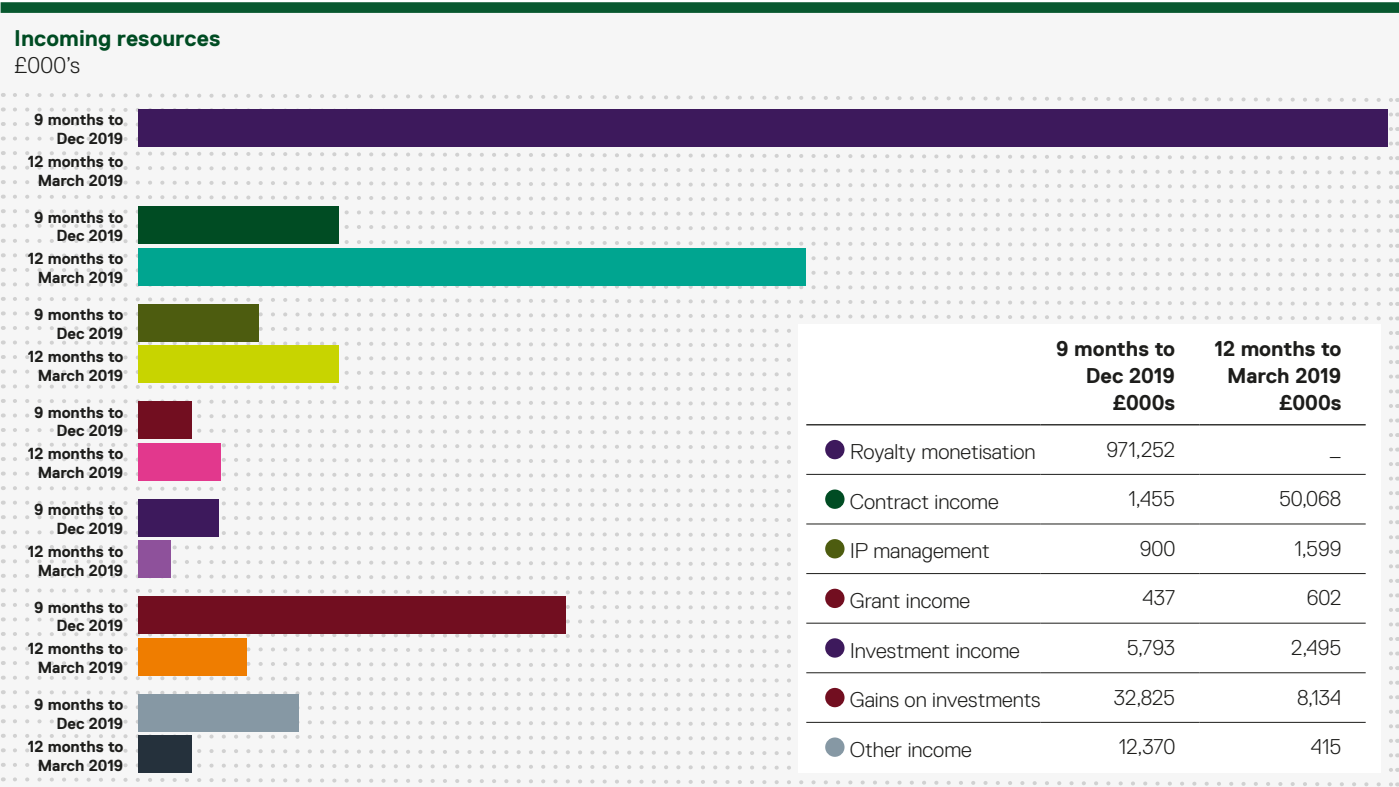
Auditors

PKF Littlejohn LLP has signified its willingness to continue in office as auditors.

Disclosure of information to auditors

So far as each Trustee is aware at the time of the approval of this Board report:

- there is no relevant audit information of which LifeArc's auditors are unaware
- the Trustees of the Board have taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.



How we identify and manage risk

Risk management at LifeArc forms a core pillar of the governance programme. It is designed to support informed decision making in relation to the risks that could impact our ability to implement our strategy.

This is particularly important as LifeArc embarks on a period of change. Risk management is one of the key foundations for our 2030 ambition.

Responsibility for overall management of risk lies with the Board of Trustees. The Board determines the general risk appetite of the Charity in key areas, in line with our strategic priorities, and ensures an appropriate risk management framework is in place to seek to manage, as far as practicable, risks within this defined appetite.

The Executive Management Team, under the leadership of the Chief Executive Officer, is responsible for ensuring that appropriate resources are allocated to implement the risk management strategy, culture, and processes on behalf of the Board. It is the responsibility of the individual Executive Directors to ensure that all employees and their line managers help the business to identify and manage risk within acceptable levels. LifeArc's risk management policy seeks to minimise, so far as practicable

and at an appropriate cost, the possibility that our corporate objectives are not delivered. The goal is to manage risk to a level that is acceptable to the Board rather than seek to eliminate all risks. It is understood that some aspects of the strategy carry inherent risk, for example, investment in unproven novel areas of science or progressing projects in difficult areas of unmet need.

Our aim is that risk management continues to become a more integral part of the ethos and day-to-day operations and culture of the organisation: that it is dynamic and is seen as something that positively contributes to achieving our objectives.

A good example of this approach is the mitigation of the risk associated with the management of our portfolio of activities across translational science, translational funds and translational advice. During the year, we implemented more rigorous governance systems to support the evolving portfolio.

A key element is the establishment of the Portfolio Review Board (PRB), comprising senior leaders of LifeArc, which has been introduced to ensure linkage between the 2030 LifeArc ambition and the active and planned portfolio across all divisions of LifeArc.

The PRB is designed to address the risk of our portfolio not being balanced across our risk areas in accordance with our strategy and objectives and also to ensure appropriate oversight and robust decision making on individual projects.

In addition to embedding risk management in all we do, we have increased our focus on the external environment in which we operate. We consider external risks that might adversely impact our work and seek to put in place mitigation plans. We also ensure that risks are considered in the development and evolution of our strategy.

On a quarterly basis the Audit and Risk Management Committee and the Board review the corporate risks in the form of a risk heat map. In addition, a watch list is maintained to support the oversight of emerging risks.

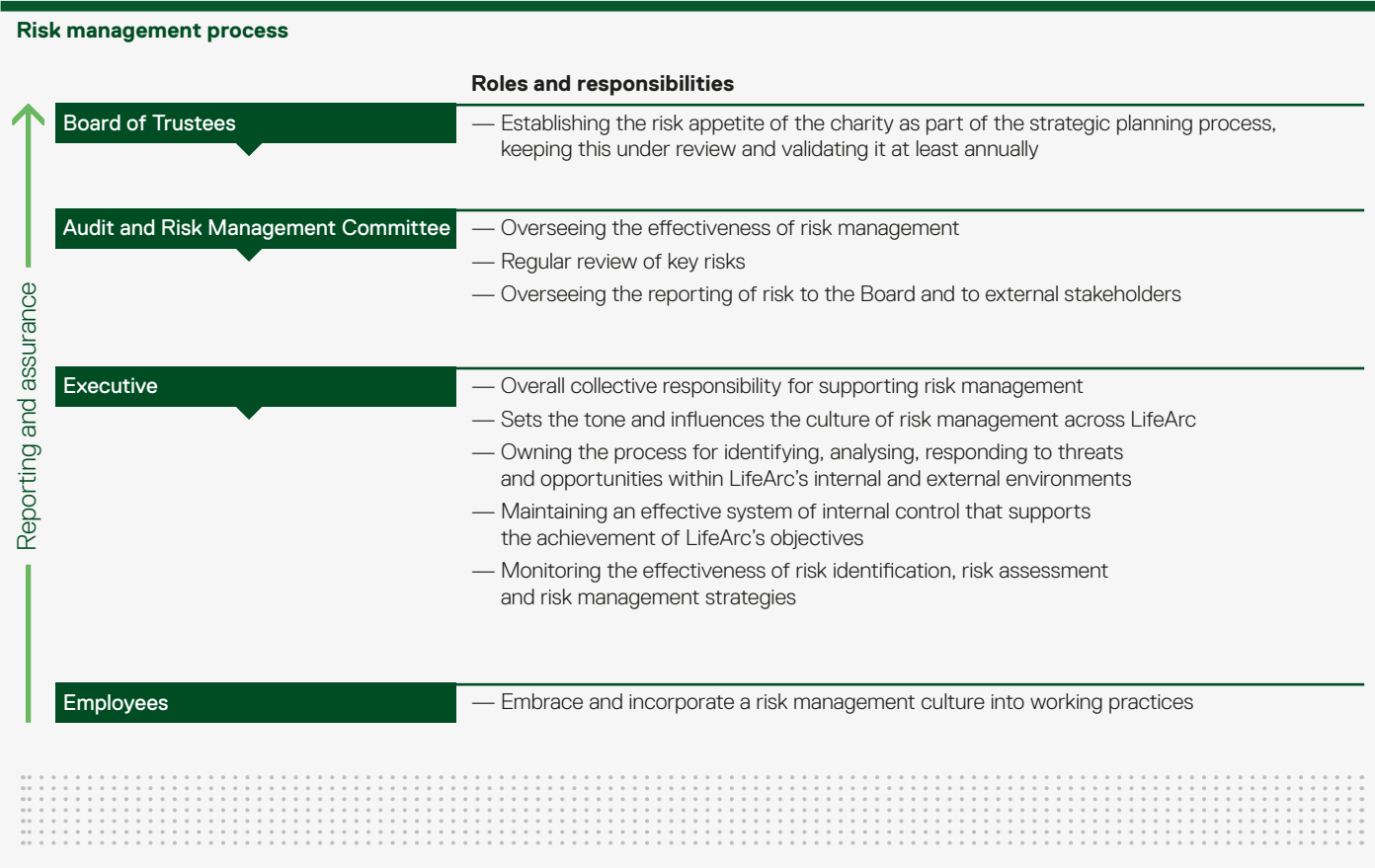
There is an active risk management process to ensure that management has suitable mitigation either in place or planned to control the Charity's principal risks to a level that the Board considers acceptable. We take an agile approach so that we can quickly adapt to changes in the external environment as well as changes in the organisation's activities and needs. An example of this in practice is our response to managing the risk profile of the process to transfer the antibody research platform technology from Kymab to LifeArc.

The monetisation of a portion of the *Keytruda* revenue stream in May 2019 reduced the financial risk to LifeArc's financial stability, which we have referenced in previous reports. It also significantly increased the organisation's capacity to pursue strategic opportunities such as strategic partnerships, diagnostic growth, advanced therapies and data and AI. However, the monetisation also created new risks, both in terms of oversight of the investment of the resultant cash, as well as of the additional areas of investment such as direct and indirect investments in early stage life science companies via the Seed Fund, Philanthropic Fund and our investment in Bridge Valley Ventures. An investment strategy and risk appetite have been developed to ensure that the received monies are being invested effectively to provide returns which will help fund delivery of the LifeArc strategy.

In 2020 the Board will continue to focus on governance to mitigate the risk of ineffective or misaligned financial investment. Our governance approach is designed to ensure that we achieve the required investment performance over time (10-year horizon) and are able to deploy resources in a way that balances our charitable aims and future financial sustainability.

Our key aim for 2020 is to further embed risk management such that each member of the Executive Management Team will be able to identify, assess and articulate the risks for which they are accountable and demonstrate that these risks are being managed effectively in line with our agreed appetite.

The key risk areas which the Board of Trustees consider to be most relevant are shown on pages 28 and 29.



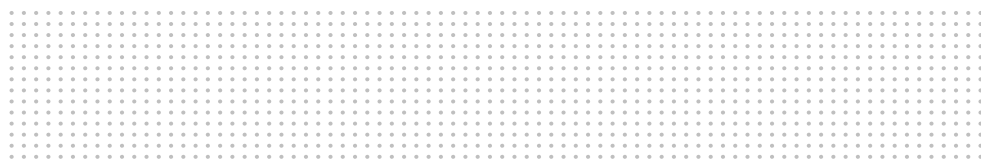
Our principal risks and how we mitigate them

The corporate risk register

Risk area	Strategic pillars	Description	Mitigation or in-progress actions	Change in risk profile vs prior year
1. Major health and safety incident	S R	Failure to maintain the health and safety of employees could harm our people, or have a significant reputational impact, or lead to disruption of our activities and also have serious legal consequences.	<ol style="list-style-type: none">Facilities managed in accordance with regulatory standards (COSHH), and NEBOSH qualified laboratory managerLifeArc Health and Safety Committee meets quarterly and considers appropriate responses to any incidents or near missesHealth and safety risk assessments (per activity)Health and safety update provided to monthly Executive Director meetings and quarterly to the Board	No change
2. Management of change	S I R	Failure to manage significant change and not realise the strategic opportunity post <i>Keytruda</i> monetisation.	<ol style="list-style-type: none">Define and embed our culture to enable 2020+ strategyDevelop change capability and frameworksOrganisational goals aligned to the three strategic pillars	Increased – Due to proximity to execution of change
3. People capability and capacity	S I R	As we look to increase our impact and invest in new areas, the risk increases that we are unable to recruit, develop, and retain capable and skilled employees and Trustees necessary to deliver the strategy.	<ol style="list-style-type: none">New Behaviours Framework being implemented to recognise and promote positive behaviours and foster appropriate cultureDefine and develop HR capabilities to support 2020 prioritiesEnhance skills, knowledge and capabilities in key areasDefine our talent strategy to support 2020+Strengthening of HR resources and capabilities in 2020Refresh reward and recognition strategy to differentiate high performanceBuild capability to deliver strong leadership up and down the organisation	No change
4. Operational resilience and cyber risk	S I R	Loss of data, for example due to unauthorised access of the IT systems or a cyber-attack, would damage our reputation and restrict our activities.	<ol style="list-style-type: none">Business continuity plans in place, tested annuallyData recovery systems in place and reviewed for resilienceNetwork controls in place with perimeter firewallsAnti-virus and anti-ransomware software in placeCompulsory cyber security awareness training for all employees and ongoing awareness activitiesTwo factor authentication for key systemsEngagement of specialists to assess the IT security control environment	No change

Key to strategic pillars

- S Long-term sustainability
- I Increasing our impact
- R A reputation for excellence



Risk area	Strategic pillars	Description	Mitigation or in-progress actions	Change in risk profile vs prior year
5. Project development and project portfolio management	S I R	Failure to progress a balanced portfolio (translational science, translational funds and translational advice) in accordance with the strategy and objectives.	<ol style="list-style-type: none">In-house 'Due Diligence' team analyses identified opportunities from a scientific/technical, IP and commercial perspective and operates a two-stage assessment system including both internal and external assessorsScience Committee, a subcommittee of the Board, provides oversight of translational science projectsProject management function oversees progress and timelines for translational science projectsNew Portfolio Review Board combining objective measurement of project health, progress and against plan and formalised decision-making being implementedInvestment Committee for Seed Fund chaired by an external rolePhilanthropic Fund Committee to govern the allocation of grants to support translational rare disease research projects	Slightly reduced. Further reduction anticipated once changes are embedded
6. Third parties	S I R	The development of successful strategic relationships will be critical to the delivery of our strategy. As we increase our engagement with, and reliance on, third party innovators and licensees, there is a risk that we do not optimally deliver and manage these partnerships leading to reduced impact, lower commercial returns and damage to reputation.	<ol style="list-style-type: none">New alliance management process being developed and embeddedOrganisation and systems to be realigned with new processRisk based authority levelsMonitoring of contracts to ensure partnering obligations have been met and appropriate progressRecruitment of Chief Business Officer role to lead the delivery of our strategic partnerships	New risk
7. Investment portfolio which supports LifeArc financial sustainability	S I	We do not achieve the required investment performance over time (10-year horizon) in order to fund the delivery of the LifeArc strategy.	<ol style="list-style-type: none">Establish investment infrastructure and governanceAppointment of custodianAppointment of investment consultantsCreation of investment policyInvestment Committee expanded with suitable skills background to manage a portfolio of this size supplemented by appointment of co-opted members to set strategy and monitor performance of the investment portfolioAgreed investment risk appetite from the BoardStrategic asset allocation has been definedEstablishing an investment office led by the Chief Investment OfficerDetailed risk analysis	New risk



Governance report

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Chair’s governance review



Dr John Stageman OBE
Chair – LifeArc

LifeArc’s purpose is to turn promising science into treatments and interventions that improve patients’ lives. We achieve this through collaboration with talented scientists and our partners in industry, academia and healthcare.

Our purpose – laid out in our Charitable Articles of Association – helps to guide and focus every Trustee. It is the primary motivator for us and all LifeArc employees. It is with great pride that we all play our part in this unique organisation.

In our last report, I referenced the fast-moving nature of both our external environment and our own evolution. Key developments last year were the preparations to monetise our royalty interests in the cancer treatment, *Keytruda* (pembrolizumab) and the appointment of Melanie Lee, our new CEO, contributing to a review of our strategy, our Board structure and decision-making processes.

The partial monetisation of our *Keytruda* royalties was completed in May 2019. This has significantly expanded our ability to meet our charitable aims and lead the way in UK life sciences.

We have spent time in this reporting period developing our strategy and structure to manage these funds effectively. This included the recruitment of a new Chief Investment Officer, Graham Duce, who began in January 2020. Graham’s role will be to oversee the management of our investments, and the development of an investment strategy, linked to our risk appetite. This is vital foundation if we are to fulfil our role as a leading charity within the biomedical translation ecosystem.

We also took significant steps to further strengthen both the composition and administration of our Board of Trustees, to engage in new ways with our colleagues and stakeholders. These initiatives are discussed in detail below.

Another significant event for LifeArc over this period was our strategic partnership with Kymab, a clinical-stage biopharmaceutical company developing antibody-based therapeutics. This partnership gives LifeArc access to Kymab’s proprietary IntelliSelect

technology platforms, which will enable us to enhance our human antibody drug discovery capabilities. We are working hard to implement this technology suite fully within LifeArc.

The role of governance

Good governance is fundamental to LifeArc’s success. The Board, in close cooperation with the Executive Management Team, aims to adopt best practice and demonstrate exemplary leadership and governance. We are guided by the principles of the 2017 Charity Governance Code and we make full use of the Charity Commission’s Guidance, as well as professional advice as appropriate.

In line with the guidance, the Trustees regularly review the charity’s public benefit obligations when evaluating potential strategic initiatives and investments. In so doing, we ensure LifeArc’s activities are in line with the charitable objectives set out in our Articles of Association.

In 2018 we reviewed our governance policies and procedures against the Charity Governance Code. This review confirmed LifeArc’s governance was operating to a good standard, but also identified some areas for improvement, including risk management, diversity policies, Board structure and decision-making processes.

As a Board we have responded proactively. In 2018-19 we enhanced our approach to risk management and reviewed our appetite for risk, as well as reviewing and approving key policies for data protection, safeguarding and whistleblowing. In this reporting period, we made further key changes in the areas of decision-making, Board effectiveness and Board diversity and development. We will be further developing our diversity strategy in 2020.

Decision-making

During 2019 we established a Portfolio Review Board to oversee our broad project portfolio and ensure it is aligned to our corporate ambition and strategies.

We also completed our comprehensive strategy review, which included a significant landscaping exercise to identify the key trends in our sector, facilitating the development of a strategy to further increase our impact.

In addition, in line with the Charity Code of Governance, we made changes to our Articles of Association to enhance flexibility in the way we can vote on decisions, updated the Scheme of Delegation to clarify Board and Executive

responsibilities and made changes to the term of appointment of our Trustees from four to three years (applicable to any new appointments or re-appointments).

Board effectiveness

In 2019, as part of our best practice review, the Board commissioned an independent review of its performance. The review considered the balance of skills, experience and knowledge, diversity (in terms of expertise and experience) of the Trustees, along with the quality of the Board’s meetings, decision-making and overall effectiveness.

The evaluation report found the Board operated effectively but made a number of recommendations for improvement, in response to which we made further enhancements.

One of these was the adoption of a unitary board structure, with a single Board comprising both executive and non-executive trustees/directors. This has improved the alignment between strategic oversight and day-to-day leadership, enhancing information flow and enabling us to make more responsive, informed decisions. In so doing we invited CEO Melanie Lee and CFO Andrew Mercieca to join the Board as executive directors. I am delighted to welcome them and I look forward to working even more closely with them as fellow Trustees.

Board diversity and development

A strong Board requires individuals with a mix of skills and experience. We are very fortunate to have Trustees from diverse backgrounds and with a range of skills to support our organisation. We believe there is scope to develop this further and in 2020, as part of our diversity plan we will be reviewing the balance of skills and experience on the Board.

In August 2019, the Board appointed David Zahn as a new Trustee to act as Chair of the Investment Committee. David brings with him more than 20 years of experience in the investment profession and he is a volunteer on several charitable boards. He is responsible for directing the investment of LifeArc’s reserves strategically, with a target to produce the yield and returns required to support our strategic objectives within a Board-agreed risk appetite.

David supported us in the recruitment of a Chief Investment Office (a new role within the Executive team) of Chief Investment Officer. The successful candidate, Graham Duce, joined us in January 2020.

Post year end we appointed a further Trustee, Lynne Robb. Lynne brings a wealth of finance and change leadership experience in both the charities and life science sectors and I look forward to working with her.

During the year we said goodbye to two Trustees: Declan Mulkeen and Jessica Mann. Declan and Jessica have been key members of the Board and their advice and expertise have helped us navigate our way through times of change. I would like to thank them for their service and wish them all the best for the future.

Communication, culture and purpose

LifeArc has sought to apply principle seven of the Charity Governance Code and improve both outreach and engagement with our stakeholders, informing them about the charity’s purpose, progress and achievements. Some of the key elements in our outreach strategy have been holding an annual reception for members of the medical research community and outreach activities carried out by our Trustees and the Executive Team. We are increasingly seeking ideas from our stakeholders and partners and identifying additional ways that collaboration with LifeArc could benefit UK life sciences.

We have been taking steps to build on this advantage, and to share our plans for using our financial stability to stimulate innovation in our sector. We are seeking to work more closely at a strategic level with those key partner organisations that invest in UK biomedical translation, including the Francis Crick Institute, with whom we have established the Crick Translational Fund, making £5m available to Crick scientists to assist in the translation of their world-leading science.

Responding to a changing environment

The last few years have been momentous for the UK and indeed the wider world, with ramifications for every organisation and every individual. During the reporting period covered by this report, the UK held an election which provided greater clarity around the UK’s plan to leave the European Union. At LifeArc, we remain determined to support our employees through Brexit, and also step up our efforts to foster translational research in the UK. It is only by expanding our talent pool and investing in people that we will be ready to face the challenges ahead.

A more recent challenge is that presented by the Covid-19 pandemic. I am delighted that LifeArc has been able to take a proactive role in making £12m available to identify potential drug repurposing opportunities for the treatment of Covid-19 symptoms and facilitate their development to the point where they are available for Covid-19 patients. To date we have committed £10m in funding to 14 international projects researching potential Covid-19 treatments; provided £2m to the University of Edinburgh’s STOPCOVID project; and partnered with BIA to help produce antibodies for use in the fight against the virus.

Conclusion

The nine months from April 2019 to December 2019 have been a period of rapid transformation for LifeArc. Our funds have given us the potential to become a much more influential player in the life sciences sector, while personnel and procedural changes to our Board of Trustees ensure we have the experienced, focused leadership and governance the charity requires to release this opportunity and make the greatest impact.

We have made significant progress in defining our long-term ambition and developing an underlying strategy, culture and infrastructure. As we enter 2020, we have found ourselves facing new global challenges, some of which are unprecedented in recent history.

I would like to take this opportunity to thank my fellow Trustees for their dedication and support throughout 2019. I would also like to thank the LifeArc Executive team for their hard work in mapping an exciting future for the organisation.

We are in excellent shape not only to strengthen our sustainability, impact and reputation but to build towards our long-term ambition as a major charity that transforms the way diseases are diagnosed and treated, leading to tangible gains in human health.

Dr John Stageman OBE
Chair – LifeArc
June 2020

Board of Trustees

Our Board is comprised of highly experienced individuals who offer expertise in biomedical sciences, the biotechnology and pharmaceutical industry, finance, charities and law.

By setting strategic direction, and overseeing risk management and governance, the Board supports the Chief Executive Officer and the Executive Management Team in achieving the charity’s purpose. At period end the following Trustees were in place:

Changes to the Board of Trustees:

David Zahn joined 15 August 2019

Jessica Mann served until 2 September 2019

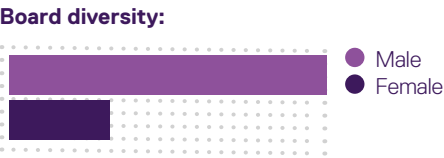
Dr Melanie Lee joined 14 November 2019

Andrew Mercieca joined 14 November 2019

Dr Declan Mulkeen served until 17 December 2019

Lynne Robb joined 8 June 2020

For more detailed Trustee biographies, please visit lifearc.org/governance



Dr John Stageman
Appointed: 29/09/14
Role: Chair Board of Trustees, Nominations and Remuneration Committees.
Skills: John has a wealth of experience in the pharmaceutical industry and biotechnology research and has held several international R&D senior management roles at AstraZeneca. In 2011 he was awarded an OBE for his services to the UK biotechnology industry.



Dr Paul Mussenden
Appointed: 19/06/14
Role: Chair AMRC, Deputy Chair Board of Trustees, member of Remuneration and Nominations Committees.
Skills: Paul has over 20 years’ experience advising companies in the healthcare industry at all stages of development from startup to pre-IPO to mature listed businesses.



Dr Les Hughes
Appointed: 01/03/16
Role: Chair Scientific Committee.
Skills: Les has over 30 years’ experience in a range of roles in the pharmaceutical industry and is now a consultant in portfolio management, strategy development and the successful delivery of drugs to the market.



Aisling Burnand
Appointed: 20/11/17
Role: Nominations Committee.
Skills: Aisling is Chief Executive of AMRC, and previously held a similar role at the BioIndustry Association, where she championed UK biosciences. She received an MBE in 2007 for services to science.



Dr Mike Romanos
Appointed: 01/03/16
Role: Scientific Committee.
Skills: Mike is an experienced biopharmaceutical industry leader with scientific breadth and extensive knowledge of translation. He is CEO of Microbiotica, previously CEO of Crescendo Biologics, global VP in GSK, Translator in Residence in Imperial College and Venture Partner in UK Innovation and Science Seed Fund.



Stephen Visscher
Appointed: 17/11/16
Skills: Stephen has experience of research strategy, funding, governance and building global public/private partnerships at governmental and institutional levels. He served as BBSRC Deputy CEO for many years and is now Deputy CEO/ COO with the Global Institute for Food Security in Canada. Stephen received a CBE in 2013 for services to the support of scientific research.



Dr Sally Burtles
Appointed: 14/11/13
Role: Scientific and Remuneration Committees.
Skills: Sally has 25 years’ experience in the charity, higher education and NHS sectors. She is a skilled facilitator of translational and experimental medicine research, preclinical development and early clinical trials. Sally is Director and Secretary of the Lister Institute of Preventative Medicine, a Research Fellow at the University of Sunderland and a trustee at Trozon X17.



Dan Morgan
Appointed: 20/11/17
Role: ARMC and Investment Committees.
Skills: Dan has over 20 years’ experience of private capital markets, including venture investment in life sciences. He is a Member of the Institute of Chartered Accountants in England and Wales.



Peter Keen
Appointed: 05/02/13
Role: Chair Investment Committee (until 15/08/19), member of Nominations, ARMC and Investment Committees.
Skills: Peter is a chartered accountant by training with over 35 years’ experience in the commercial exploitation of healthcare-related technologies in both private and public companies.



David Zahn
Appointed: 15/08/19
Role: Chair Investment Committee (effective 15/08/19).
Skills: David has more than 20 years’ experience in investment strategy and is currently Head of European Fixed Income at Franklin Templeton, a global investment management firm. He is a governor and chair of the investment committee at The Health Foundation and a Non Executive Director at the Health Data Research UK and CFA Society of the UK.



Melanie Lee
Appointed: 14/11/19
Role: Chief Executive Officer.
Skills: Melanie is Chief Executive Officer of LifeArc. She has 30 years’ leadership experience in healthcare R&D, the biopharmaceutical industry and the medical research charity sector. She was formerly Chief Scientific Officer at BTG. She has previously held Trustee appointments at Cancer Research Technology and Cancer Research UK and serves on the Board of Directors of Sanofi.



Andrew Mercieca
Appointed: 14/11/19
Role: Chief Financial Officer.
Skills: Andrew is Chief Financial Officer of LifeArc. He has over 25 years’ experience as a finance professional and has held senior finance roles across the pharmaceutical and technology sectors. He was EMEA CFO for a global mobile technology provider and has held senior positions at Astellas and Merck KGaAUK.

Governance, structure and management

Charitable objectives

The objectives of LifeArc, as set out in our Articles of Association, are:

- To promote the public benefit by improving human health and medical research, in particular by assisting the progress of the scientific discoveries and new technologies arising from research into therapeutic treatments, drugs, diagnostics, other technologies or information resources.
- To work with industry, charities, universities, the health service and other relevant bodies, as well as conducting our own research and development as needed to accelerate the progress of these discoveries and technologies to the stage at which they are
 - (i) capable of being made generally available to the medical profession and the public for practical application for the improvement of health and/or
 - (ii) are transferred or licensed to a third party to progress development of such discoveries or technologies towards such goals.

Structure, governance and management

LifeArc is a company limited by guarantee and a registered charity in England and Wales and Scotland. The charity’s governing document is the Articles of Association.

It is governed by a Board of Trustees. All Trustees of the Board, whether Executive or non Executive are appointed by the members and act in the capacity of directors of the company and as Trustees of the charity.

The Board is responsible for setting strategy, ensuring that there are the necessary financial, human and physical assets to meet the charity’s strategic aims; monitoring the performance of the charity; and overseeing risk management. It is also responsible for Trustee and executive management succession planning, setting the charity’s culture and upholding the charity’s values.

The day-to-day running of the charity is the responsibility of the Executive Directors.

Members

As a company limited by guarantee, LifeArc has no shareholders. Instead, it is required by company law to have members who act as nominal guarantors in the event that the company should ever be wound up.

Membership is an unpaid position. Members are entitled to vote at our annual general meeting, where accounts are approved and Trustees are elected.

Members have a constitutional role at the heart of the charity, as they decide on any changes to the LifeArc constitution and on the powers of the directors. All the functions of LifeArc within its constitution and achievement of its charitable objectives are governed and carried out by the Board of Directors acting as Trustees of LifeArc.

Trustees

Our Trustees are appointed by the members. LifeArc’s Board is comprised of 12 Trustees who are also members of the charity and directors of the charitable company. Two of the Trustees are Executive Directors. The Board is chaired by Dr John Stageman.

Trustees are recommended by the Nominations Committee. They have broad and varied backgrounds, bringing to LifeArc the diverse range of skills the charity requires, including biomedical sciences, investment fund management, charities, finance and law.

The Trustees are appointed for a renewable term of three years and are eligible to stand for re-election.

All Trustees are offered an induction programme meeting with the Executive Management Team to discuss all areas of the business. A Trustee Induction Pack is also given to all Trustees to familiarise them with the charity’s objects, with their duties, with key guidance from the Charity Commission and with their statutory obligations.

Committees of the Board

The Board of Trustees delegates oversight and assurance for key business functions to the five dedicated Board committees: Audit and Risk Management Committee, Investment Committee, Nominations Committee, Remuneration Committee and Scientific Committee. Most Trustees serve on one or more committees.

The committees can co-opt non-members to provide additional expertise. Non-Trustee members of committees are indicated on the committee reports, on pages 38 to 42.

Conflicts of interest

LifeArc’s policy on conflicts of interest applies to Trustees and employees alike. A register of Trustees’ and Executives’ interests is reviewed at each Board meeting and all employees complete a ‘conflicts disclosure form’ annually.

Completed forms are reviewed by the Company Secretary in order to identify and manage any areas of concern. The Board of Trustees has elected not to publish the registers of gifts, hospitality and interests owing to potential data privacy implications.

Executive Trustees are appointed by the members. They are not remunerated for their Board activities but are paid out-of-pocket expenses along with other expenses paid directly by the charity (see page 56).

Management Committee

Executive Management Team

The Executive Management Team is responsible for the day-to-day running of the charity under authority delegated by the Board of Trustees. The team, under the leadership of the CEO, proposes to the Board where the charity should invest its time, money and expertise. It reviews strategic changes to the organisation’s activities prior to submission to the Board or committees. It is also responsible for developing the financial and operational plans for Board approval and monitoring financial performance.

- Melanie Lee
CEO
- Edward Bliss
General Counsel & Company Secretary
- Justin Bryans
Executive Director, Drug Discovery
- Fiona French
Executive Director, Human Resources
- Michael Dalrymple
Executive Director, Diagnostics and Science Foresight
- Andrew Farquharson
Executive Director, Technology Transfer and Business Development
- Andrew Mercieca
Chief Financial Officer
- Graham Duce
Chief Investment Officer

Board and committee attendance

	Board of Trustees		ARMC	IC	Sci Comm	Nom Com	Rem Comm
	Scheduled	Short notice					
John Stageman	3 (3)	2 (2)			2 (2)	1 (1)	0 (1)
Paul Mussenden	3 (3)	1 (2)	3 (3)	1 (2)		1 (1)	1 (1)
Peter Keen	3 (3)	1 (2)	2 (3)	2 (2)		1 (1)	
Les Hughes	3 (3)	0 (2)			1 (2)		
Mike Romanos	2 (3)	0 (2)			1 (2)		
Steve Visscher	3 (3)	2 (2)					
Aisling Burnand	3 (3)	2 (2)				1 (1)	
Jessica Mann (resigned 2 September 2019)	0 (1)	1 (2)			0 (1)		
Daniel Morgan	2 (3)	0 (2)	2 (3)	0 (2)			
Declan Mulkeen (resigned 17 December 2019)	3 (3)	1 (2)					
Sally Burtles	3 (3)	2 (2)			2 (2)		1 (1)
David Zahn (appointed 15 August 2019)	1 (2)	N/A		1 (1)			
Andrew Mercieca (appointed 14 November 2019)	1 (1)	N/A					
Melanie Lee (appointed 14 November 2019)	1 (1)	N/A					
Co-opted members							
Simon Gibson				1 (2)			

First number indicates number of meetings attended.

Second number – in () – indicates total number of meetings where attendance was possible.

Of the five Board meetings listed, three were scheduled, quarterly Board meetings and two were short notice Board meetings for specific business.

Audit and Risk Management Committee Report

Paul Mussenden

Audit and Risk Management Committee Chair

Committee membership

Member	Meetings attended
Paul Mussenden	● ● ●
Peter Keen	● ○ ●
Dan Morgan	○ ● ●

What we did in the period

- Scrutinised the Financial Statements and recommended approval to the Board
- Approved the annual budget
- Evaluated the risk and assurance mapping exercise and Board risk appetite statements in line with the organisation’s short, medium and long-term goals
- Ensured the further evolution of the risk management framework
- Recommended Board approval of a revised Scheme of Delegation and Policy for the valuation of fixed asset investments
- Guided the strategic review and update of the Reserves Policy following monetisation in May 2019
- Received updates on the governance of LifeArc research portfolios
- Reviewed a number of internal audit reports including HR and payroll systems, IT and cyber security, and monitored agreed actions
- Updated the Committee’s Terms of Reference for approval by the Board

The key areas of focus for 2020:

- Ongoing review of research portfolio governance and reporting to the Board
- Updating the risk appetite statements for Board consideration and overseeing agreed activity to mitigate operational and strategic risks
- Continuing to embed the risk and assurance management framework and culture, to achieve the desired level of risk maturity
- Implementation of an enhanced internal control framework
- Continuing oversight of internal and external audit and the implementation of agreed improvements

Key: ● Attended ○ Not attended — Not applicable

As Chair of the Audit and Risk Management Committee, I am pleased to present our report for the nine-month period ended 31 December 2019.

The ARMC, which meets quarterly, provides assurance to the Board of Trustees on financial planning, reporting, risk management, governance, assurance and related matters. The Committee approves the appointment of internal and external auditors, oversees the budget process, scrutinises the annual accounts and approves the internal audit programme.

The ARMC continues to focus on the development of robust assurance frameworks to support the delivery of LifeArc’s strategy and ensure good governance is embedded in all we do. In addition, the Committee continues to review evolving best governance practice and develop LifeArc’s approach as the breadth and complexity of the activities undertaken by the charity continue to grow.

We regularly review auditors’ reports and advice on governance best practice and monitor the completion of resultant actions. The Committee regularly receives reports from the internal auditors on the level of assurance on both the design and the effectiveness of the controls and processes in place for each audited area

The CEO, the CFO, General Counsel and Company Secretary, and other individuals with oversight responsibility for risk and assurance, and representatives from the internal and external audit teams routinely attend the meetings.

During 2019 we recommended a revised Scheme of Delegation for the Board which reflected the growing complexity of the organisation. It sets out those matters that must be determined by the Board of Trustees and cannot be delegated to others.

In December 2019 we instituted a regular review of LifeArc’s risk heat map, identifying the organisation’s key risks, their likelihood and potential impact. This comprised an assessment of changes to existing risks as well as the identification of newly emergent risks.

In 2020 we will focus on enhancing portfolio visibility as well as building a risk culture to support future growth. This will include monitoring portfolio guidance and reporting back to the Board; and overseeing the organisation’s activity to mitigate key risks.

More broadly we will be working with the organisation to ensure it maintains and continues to develop an appropriate and robust internal control and assurance framework and achieves the desired level of risk management maturity. The goal is to ensure the Board is able to demonstrate that the risks are being managed effectively in accordance with the strategic pillars and the agreed risk appetite.

I would like to take this opportunity to thank all the ARMC members, and John Stageman, for their support and input throughout the period. I would also like to welcome Lynne Robb to the Committee and I look forward to working with her.

Paul Mussenden
Audit and Risk Management Committee Chair

Scientific Committee Report

Les Hughes

Scientific Committee Chair

Committee membership

Member	Meetings attended
Les Hughes	● ○
Sally Burtles	● ●
Mike Romanos	○ ●
John Stageman	● ●
Jessica Mann ¹	● —

What we did in the period

- Reviewed CTD portfolio progress and risk profile
- Defined CTD project Return on Investment (ROI)
- Proposal to review entire investment portfolio at Board level
- Reviewed CDD strategy audit findings and actions
- Governance process for therapeutic and diagnostic projects
- Monitored Kymab technology transfer/ integration
- Diagnostics expansion plans for 2020
- Update on TB-MBLA assay deployment
- Functional genomics proposal
- Cas9 Project proposal
- Discussed future ways of working for SciCom

The key areas of focus for 2020:

- Monitor Kymab technology transfer
- Fine tune portfolio review and governance structure
- Review major CTD and CDD projects
- Review Disease Area foci and plans
- Review changes to Project Management
- Review Philanthropic Fund projects and progress
- Debate proposal for KPIs on portfolio progress
- Discuss strategy-driven scientific proposals for Board presentation

Key: ● Attended ○ Not attended — Not applicable

As Chair of the Scientific Committee, I am pleased to report that it has been a successful nine months.

The Committee provides oversight and assurance to the Board of the development, implementation and effective delivery of the charity’s research activities. In particular, the Committee considers the quality, breadth and balance of the CTD and CDD portfolios.

During 2019 the Committee reviewed the progress and risk profile of the CTD portfolio and defined the Return on Investment (RoI) for CTD projects. The Committee also reviewed the CDD strategy audit and agreed a governance process for therapeutic and diagnostic projects.

Proposals were reviewed for functional genomics and Cas9 projects, and Committee members expressed an interest in hearing more about the science driving such projects.

A proposal was put forward to review the entire LifeArc investment portfolio at Board level.

The technology transfer and integration stages of the Kymab were a key focus, and will continue to be so in 2020. The Committee will also discuss plans for Diagnostics expansion and future ways of working.

Les Hughes
Scientific Committee Chair

Investment Committee Report

David Zahn
Investment Committee Chair

Committee membership

Member	Meetings attended
David Zahn ¹	— ●
Paul Mussenden	● ○
Peter Keen	● ●
Dan Morgan	○ ○

1.Appointed 15 August 2019

What we did in the period

—

Converted monetisation proceeds into sterling and placed in low risk investments until investment strategy is in place

—

Appointed a new Investment Committee Chair and Chief Investment Officer to establish and manage a >£1bn investment fund

—

Started to develop an investment strategy to manage a long-term endowment fund in excess of £1bn

The key areas of focus for 2020:

—

Establish the investment strategy and infrastructure to enable the effective management of the LifeArc portfolio to support our strategic ambitions

—

Appoint a suitable global custodian

—

Engage the services of an investment consultant

—

Begin to deploy monies into long-term investments

Key: ● Attended ○ Not attended — Not applicable

I am pleased to present our report for the period ended 31 December 2019. The report highlights not only the key activities during the financial period, but also the impact on our structure and activities in the future as a consequence of the monetisation of LifeArc’s *Keytruda* royalty stream which was completed in May 2019, generating \$1.3bn.

Principal activities of the Committee
During the financial period, the Committee met twice with the primary objective being to review the existing investment performance of our fund managers Rothschild and Cazenove as well as reviewing the initial placement of the monetisation proceeds.

At the start of the financial period the Investment Committee (IC) operated as a sub-committee of the Audit and Risk Management Committee. The Investment Committee is now established as a Committee of the Board of Trustees (“the Board”) in accordance with LifeArc’s Articles of Association. The Committee has responsibility for the appropriate and effective management of LifeArc’s investment portfolio.

The IC is responsible for recommending LifeArc’s overall investment policy to the Board for approval including:

- risk/return objectives
 - expenditure
 - constraints including ethical issues
- The IC also has responsibility to review the performance of our external investment managers against their performance benchmarks and the overall long-term investment target agreed with the Board of LifeArc.
- In addition, we review all financial investment activities of LifeArc and provide advice and guidance to the Board accordingly. This includes developing an appropriate investment policy to support the organisation in fulfilling its purpose and goals. The Committee meets quarterly.

- The Committee is authorised to:**
- determine strategic (long-term) asset allocation (“SAA”) across asset classes and markets, and set rebalancing methodology
 - approve and monitor the portfolio of fund managers (“the Portfolio”) with whom LifeArc can invest for an agreed asset class
 - in the case of alternative assets (hedge funds and private equity managers), the Committee delegates the sourcing of the manager names to LifeArc’s CIO. Before any new name is included in the asset management panel, the CIO will meet the proposed manager and make a recommendation
 - appoint/remove Investment Consultants and consider and approve their terms of engagement

Key activities in 2019
In May 2019, we received a significant inflow of \$1.3bn from the monetisation of LifeArc’s rights to the drug *Keytruda*. The Investment Committee (IC) agreed a cautious stance pending further review and placed the proceeds in low risk money market instruments aimed at preserving the capital value and generating a modest return through income with both Rothschild and Goldman Sachs until the new investment strategy is confirmed.

In August 2019 a new Chair was appointed as an additional member of the IC to start the development of the appropriate investment strategy to manage a long-term endowment fund in excess of £1bn in line with LifeArc’s strategic objectives.

The newly appointed Chief Investment Officer (CIO), namely Graham Duce, commenced in January 2020. Graham will look to establish the investment infrastructure to enable the effective management of the LifeArc portfolio to support our strategic ambitions.

The Investment Committee intends to engage the services of an investment consultant and a global custodian in the first half of 2020. Dependent on market conditions, the IC will begin to deploy monies into long-term investments in the second half of 2020. The IC also aims to be in a position to allocate monies to capital markets should a suitable investment opportunity present itself during the first half of the year.

Nominations Committee Report

John Stageman
Nominations Committee Chair

Committee membership

Member	Meetings attended
John Stageman	●
Peter Keen	●
Aisling Burnand	●
Paul Mussenden	●

What we did in the period

—

Oversaw the appointment of Graham Duce as Chief Investment Officer

—

Agreed the adoption of a Board evaluation programme

—

Moved the Board evaluation to late September

The key areas of focus for 2020:

—

Review of current Board skills and future requirements

—

Short and medium-term succession plan to be brought to the Board for approval

—

Appoint a new member of Audit and Risk Management Committee

—

Evaluation of how the Board operates and the effectiveness of decision-making

Key: ● Attended ○ Not attended — Not applicable

I am pleased to report on the progress of the Nominations Committee for the reporting year.

The Nominations Committee is responsible for developing and maintaining active succession planning for the Board and Executive. It is also responsible for the oversight of Board performance and evaluation.

The Committee met in October 2019 and agreed a Board evaluation programme including an external evaluation every three years. We moved the evaluation to September to align it with the October Nominations Committee meeting, enabling us to feed the results into succession planning.

The Committee also agreed to align the length of Trustee appointments with the Charity Code of Governance, amending the term from four to three years. Trustees may still stand for re-election at the end of their term. The amended term will apply only as Trustees are appointed or re-appointed.

The Committee oversaw the search and recruitment process that led to the appointment of Graham Duce as Chief Investment Officer. Graham took up his post in January 2020.

The Committee also made recommendations to improve the effectiveness and diversity of Board appointments; this involves the use of recruitment agents to broaden our potential talent pool and make the process more transparent.

In 2020 the Committee will oversee the appointment of a Trustee with recent and relevant financial experience, to serve on the Audit and Risk Management Committee. It will arrange skills self-assessments for each Board member in the first half of the year, followed by performance reviews with an externally-appointed professional in the second half. We will also develop a succession plan for Board approval.

John Stageman
Nominations Committee Chair

Remuneration Committee Report

Sally Burtles

Remuneration Committee Chair

Committee membership

Member	Meetings attended
John Stageman	○
Paul Mussenden	●
Sally Burtles	●

What we did in the period

- Reviewed LifeArc reward strategy and benefits against relevant charitable organisations to ensure we are competitive
- Agreed measures to improve interaction between performance, culture and reward across the organisation
- Agreed increased bonus provision to enable more appropriate recognition of outstanding performance

The key areas of focus for 2020:

- Revision of a key contractual term of employment to bring into line with sector best practice
- Plan to improve colleague understanding of their reward and benefits through financial education and improved transparency of remuneration package
- Consider recognition programme to develop more explicit link between valued behaviours and employee reward
- Continue to develop our reward strategies to remain both competitive and aligned to our organisational behaviours and ambitions

Key: ● Attended ○ Not attended — Not applicable

I am pleased to report on the progress of the Remuneration Committee for the financial year.

Remuneration is a key element in attracting, retaining and motivating employees, ensuring that LifeArc has the people it needs to deliver its strategy and that they feel valued and recognised. Our reward strategy aligns to our people strategy, culture and corporate ambition.

We benchmark our remuneration strategies and benefits against sector-relevant market data, using both Willis Towers Watson and OBN. Our 2019 benchmarking exercise indicated that we are competitive, particularly in terms of the variety and choice of benefits available to all employees.

We have also partnered with Verditer Reward to add depth and expertise to our reward thinking.

During 2019 we focused on the links between reward and individual performance, both in terms of outputs and how they deliver these. We also agreed to increase the bonus opportunity to reward outstanding performance.

In 2020 we will focus on creating more transparency to increase employee understanding and valuation of reward and benefits. A financial education programme will help employees make the most of their benefit choices. We are also considering a recognition programme linked to our values and behaviours.

Finally we will continue to align our terms and conditions with the norm for our sector. We will do so in consultation with employees via the Employee Forum which replaced the Staff Consultative Group in 2019.

Dr John Stageman OBE
Remuneration Committee Chair

Responsibilities of the Trustees statement

Trustees' Annual Report 31 December 2019

Statement of Trustees' responsibilities

The Trustees (who are the directors for the purpose of company law) are responsible for preparing the Trustees' report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Practice).

Company law requires Trustees to prepare financial statements, for each financial year, which give a true and fair view of the state of affairs of the charitable company and of its incoming resources and application of those resources, including its income and expenditure for the period.

- In preparing these financial statements the Trustees are required to:
- Select suitable accounting policies and then apply them consistently.
 - Observe the methods and principles in the Charities' Statement of Recommended Practice (SORP).
 - Make judgements and estimates that are reasonable and prudent.
 - State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
 - Prepare the financial statements on a going concern basis unless it is inappropriate to presume that LifeArc will continue in operation.

The members of the Board are responsible for keeping proper accounting records that are sufficient to show and to explain the charitable company's transactions and to disclose, with reasonable accuracy, at any time, the financial position of the charitable company and to ensure that the financial statements comply with the Companies Act 2006.

The Trustees are also responsible for safeguarding the assets of LifeArc and for taking reasonable steps for the prevention and detection of fraud or other irregularities. The Board met five times during the reporting period (07 May 2019, 23 May 2019, 28 June 2019, 26 September 2019, 17 December 2019) and also at the AGM on 14 November 2019.

This Annual Report was approved by the LifeArc Board on 25 June 2020 and signed on its behalf by

Dr John Stageman OBE
Chairman



Financial statements — 2019

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Independent auditor’s report to the members of LifeArc

Opinion

We have audited the financial statements of LifeArc (the 'Charitable Company') for the period ended 31 December 2019 which comprise the Consolidated Statement of Financial Activities, the Consolidated and Charitable Company Balance Sheets, the Consolidated Statement of Cash Flows 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 Group and Charitable Company's affairs as at 31 December 2019, and of its incoming resources and application of resources, including its income and expenditure, for the period 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 Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006.

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 charitable company in accordance with the ethical requirements that are 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 relating 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 charitable company'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 Trustees' Annual Report (incorporating the Strategic Report), other than the financial statements and our auditor's report thereon. 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. 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Trustees' Annual Report (incorporating the strategic report and the directors' report) for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Trustees' Annual Report (incorporating the strategic report and the directors' report) has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of our knowledge and understanding of the charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the Trustees' Annual Report (incorporating the strategic report and the directors' report).

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 and the Charities Accounts (Scotland) Regulations 2006 require us to report to you if, in our opinion:

- adequate and proper accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; 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 (who are also the directors of the charitable company for the purposes of company law) 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 determine 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 charitable company'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 charitable company 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 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with regulations made under those Acts.

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 on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, and to the charitable company's trustees, as a body, in accordance with Regulation 10 of the Charities Accounts (Scotland) Regulations 2006. Our audit work has been undertaken so that we might state to the charitable company's members and 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 charitable company, the charitable company's members as a body and the charitable company's trustees as a body, for our audit work, for this report, or for the opinions we have formed.



Alastair Duke (Senior Statutory Auditor)

For and on behalf of PKF Littlejohn LLP
Statutory Auditor
15 Westferry Circus
Canary Wharf
London E14 4HD

Date: 26 June 2020

PKF Littlejohn 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

Consolidated statement of financial activities

For the 9 months ended 31 December 2019

	Notes	Unrestricted funds £000s	Restricted £000s	Total funds 9 months to December 2019 £000s	Total funds Year to March 2019 £000s
Income and endowments from:					
Charitable activities	1	973,597	437	974,034	52,269
Trading activities	2	7	–	7	52
Investments	3	5,793	–	5,793	2,495
Other income	4	12,370	–	12,370	363
Total income and endowments		991,767	437	992,204	55,179
Expenditure on:					
Raising funds	5	976	–	976	558
Charitable activities	6	26,409	437	26,846	30,006
Provisions	20	(250)	–	(250)	57
Total expenditure		27,135	437	27,572	30,621
Net gains on investments	15/16	32,825	–	32,825	8,134
Net income		997,457	–	997,457	32,692
Net movement in funds	22	997,457	–	997,457	32,692
Reconciliation of funds:					
Total funds brought forward	22	207,193	–	207,193	174,501
Cash flow hedge reserve	22	–	–	–	(93)
Total funds carried forward	22	1,204,650	–	1,204,650	207,100

All income and expenditure derives from continuing activities.

The statement of financial activities includes all gains and losses recognised during the year.

Full comparative figures are presented in note 32.

The accounting policies and notes on pages 51 to 66 form part of the financial statements.

Balance sheets

As at 31 December 2019
Company number: 2698321

	Note	Consolidated Dec 2019 £000s	Consolidated March 2019 £000s	LifeArc Dec 2019 £000s	LifeArc March 2019 £000s
FIXED ASSETS					
Tangible fixed assets	13	12,405	10,952	12,405	10,952
Intangible assets	14	15,946	–	15,946	–
Investments	15	197,269	148,677	197,279	148,687
		225,620	159,629	225,630	159,639
CURRENT ASSETS					
Investments	16	968,294	5,697	968,294	5,697
Debtors	17	21,849	28,602	21,857	28,592
Cash at bank and in hand		2,527	19,120	2,509	19,110
		992,670	53,419	992,660	53,399
Creditors: amounts falling due within one year	18	(12,905)	(5,313)	(12,905)	(5,303)
Net current assets		979,765	48,106	979,755	48,096
Total assets less current liabilities		1,205,385	207,735	1,205,385	207,735
Provision for liabilities	20	(735)	(635)	(735)	(635)
Net assets		1,204,650	207,100	1,204,650	207,100
CHARITY FUNDS					
Unrestricted funds	22	1,166,381	177,100	1,166,381	177,100
Designated funds	22	38,269	30,000	38,269	30,000
Total charity funds		1,204,650	207,100	1,204,650	207,100

The accounting policies and notes on pages 51 to 66 form part of the financial statements.

The financial statements were approved and authorised for issue by the Board on 25 June 2020.

Signed on behalf of the Board of Trustees.

Dr John Stageman OBE
Chairman

Consolidated statement of cash flows

9 month period ended 31 December 2019

	Note	9 months to Dec 2019 £000s	12 months to March 2019 £000s
Cash flow from operating activities	24	975,818	15,080
Net cash flow provided by / (used in) operating activities		975,818	15,080
Cash flow from investing activities			
Payments to acquire tangible fixed assets		(3,368)	(2,356)
Payments to acquire intangible assets		(15,946)	–
Receipts from sale of fixed assets		–	3
Payments to acquire investments		(36,669)	(36,981)
Receipts from sale of investments		18,810	24,084
Dividends, interest and rents received from investments		5,793	2,495
Forward contract currency hedge		–	59
(Increase) / decrease in current asset investments		(962,597)	15,992
Decrease / (increase) in cash held for investment		1,566	(2,308)
Net cash flow (used in) / provided by investing activities		(992,411)	988
Change in cash and cash equivalents in the year		(16,593)	16,068
Cash and cash equivalents at 1 April		19,120	3,052
Cash and cash equivalents at 31 December		2,527	19,120
Cash and cash equivalents consist of:			
Cash at bank and in hand		2,527	19,120
Short-term deposits		–	–
Cash and cash equivalents at 31 December		2,527	19,120

The accounting policies and notes on pages 51 to 66 form part of the financial statements.

Accounting policies

For the period ended 31 December 2019

General information and basis of preparation

LifeArc is a charitable company limited by guarantee in the United Kingdom. In the event of the charity being wound up, the liability in respect of the guarantee is limited to £1 per member of the charity. The address of the registered office is given on the back cover of these financial statements. The nature of the charity’s operations and principal activities are progressing early stage science from academic research towards clinical benefit, working with industry and academia to accelerate the delivery of diagnostic tests to patients and providing intellectual property (IP) management and commercialisation services to medical research charities and organisations.

The charity constitutes a public benefit entity as defined by FRS 102. The financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice (SORP) applicable to charities preparing their accounts in accordance with the financial reporting standard applicable in the United Kingdom and Republic of Ireland (FRS 102), the Charities Act 2011, the Companies Act 2006 and UK generally accepted practice as it applies from 1 January 2019.

The financial statements are prepared on a going concern basis under the historical cost convention. The financial statements are prepared in sterling, which is the functional currency of the charity, and rounded to the nearest £000.

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

Going concern

The Trustees consider that the use of the going concern basis is appropriate because there are no material uncertainties relating to events or conditions that may cast significant doubt about the ability of the charity to continue as a going concern, and there is reasonable expectation that the charity has adequate reserves to continue in operational existence for the foreseeable future.

Incoming resources

Incoming resources from charitable activities comprise the following:

- Research contract and development income recognised according to the terms of the contract upon completion of agreed milestones, royalty income recognised on an accruals basis.
- Technology transfer services fees receivable from the Medical Research Council (MRC) which are invoiced in line with the service level agreement.
- Grant income recognised when LifeArc has the right to receive the money. Grants received which are restricted by the donor for performance in future accounting periods are deferred.
- Rental income from researchers occupying LifeArc facilities. Income recognised represents amounts invoiced in the year.

Incoming resources from trading activities consist of:

- The provision of accounting, human resource, legal and meeting room services.

Incoming resources from investments comprise the following:

- Investment income together with recoverable tax, recognised on an accruals basis.

Resources expended

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category. Where costs cannot be directly attributed to particular headings, they have been allocated to activities on a basis consistent with the use of resources.

- Costs of raising funds are the costs of managing investments for both income generation and capital maintenance and include investment manager fees relating to the costs of the external management of investments of LifeArc.
- Charitable activities comprise expenditure on the direct charitable activities of LifeArc.
- Provisions comprise estimated movement in obligations as at the balance sheet date as a result of a past event.

Fund accounting

The unrestricted fund is a general unrestricted fund which is available for use at the discretion of the Trustees in furtherance of the general objectives of LifeArc and which has not been designated for other purposes.

Designated funds are amounts set aside by the Trustees for specific purposes.

The restricted funds are grants received in the year which are subject to specific restrictions imposed by the donor.

Accounting policies

continued

Support cost allocation

Support costs are those that assist the work of the charity but do not directly represent charitable activities and constitute corporate resource and governance costs. They are incurred directly in support of expenditure on the activities of the charity. Corporate resource and governance costs have been allocated to activities on an employee headcount basis.

Accounting for tangible fixed assets

Fixed assets with a cost in excess of £5,000 are recognised at cost and depreciated according to the disclosed policy.

Depreciation of tangible fixed assets

Depreciation is provided on a straight-line basis so as to write off the cost or valuation of tangible fixed assets less estimated residual value over their estimated useful economic lives, which are as follows:

- long leasehold land and buildings – over the period of the lease or useful economic life, whichever is the shorter;
- plant and machinery – 10 years;
- laboratory equipment – 5-10 years;
- furniture, fixtures and fittings and office equipment – 5 years;
- computers – 3-5 years;
- leasehold improvements – 10 years; and
- IT infrastructure – 10 years

Accounting for intangible fixed assets

Intangible assets are recognised at cost. Amortisation will be defined when assets are brought into use.

Fixed asset investments

Investments are recorded at cost and are stated at fair value at the balance sheet date. The unrealised gains and losses arising as a result are included in the Statement of Financial Activities (SOFA) together with any realised gains and losses on any investments disposed of in the year.

Financial assets, including investments in equity instruments which are not subsidiaries, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried, where possible, at fair value and the changes in value are recognised in the Statement of Financial Activities. Assets are considered for indications of impairment, with any impairment then recognised in the Statement of Financial Activities.

Current asset investments

Investments are stated at market value at the balance sheet date. The unrealised gains and losses arising as a result are included in the SOFA together with any realised gains and losses on any disposals in the year.

Operating leases

Rentals paid under operating leases are charged to the statement of financial activities on a straight-line basis over the terms of the lease. Where there is a rent-free period the total cost of the lease is recognised over the term on a straight-line basis.

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date.

Transactions which have been concluded prior to the balance sheet date are translated into sterling at the monthly rate of exchange ruling at the date of the transaction. Exchange gains and losses arising in the normal course of operations are included in the SOFA.

Financial instruments and hedging activities

LifeArc uses forward foreign currency contracts to manage its exposure to fluctuations in foreign exchange rates. These instruments are initially recognised at fair value on the trade date and are subsequently remeasured at their fair value at the end of the reporting date.

All hedging instruments will be recognised on the balance sheet at fair value, and all changes in value of the hedging instrument will be recognised in the cash flow hedge reserve.

Gains and losses are released to the SOFA once the hedge is realised.

Employee benefits

When employees have rendered service to the charity, short-term employee benefits to which the employees are entitled are recognised at the undiscounted amount expected to be paid in exchange for that service.

Pension costs

The charitable company operates a defined contributions pension scheme which is open to all employees. The funds of the scheme are administered by a third party and are separate from the charitable company. The pension charge represents contributions payable by the charitable company for the year. The charitable company's liability is limited to the amount of the contributions.

Impairment reviews

A review of the impairment of fixed asset investments is carried out if events or changes in circumstances indicate that the carrying amount not be recoverable.

Material items

Material items are items which derive from events or transactions that fall within the ordinary activities of the charitable company and which individually need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view. The separate reporting of material items helps to provide a better indication of the charitable company's underlying business performance.

Taxation

LifeArc is a registered charity and is generally exempt from corporation tax but not from value added tax (VAT). Irrecoverable VAT is included with the cost of those items to which it relates.

Provisions

A provision is made for a liability in the financial statements where LifeArc has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the liability and a reliable estimate can be made of the obligation.

Basis of consolidation

The consolidated financial statements incorporate the results of LifeArc ('the charity') and its subsidiary undertaking LifeArc Innovations Limited. The consolidated entity is referred to as the 'group'. No separate SOFA or Cash flow Statement has been prepared for the charity as permitted by section 408 of the Companies Act 2006 and FRS 102 respectively.

Notes to the financial statements

For the 9 months ended 31 December 2019

1 Income from charitable activities – Group and ultimate parent

	9 months to Dec 2019 £000s	12 months to March 2019 £000s
Keytruda monetisation	971,252	–
Research contracts and royalty income	1,445	50,068
IP management and technology transfer services	900	1,599
Grants	437	602
	974,034	52,269

The Keytruda monetisation of £995.2m (\$1,297m) included accrued income of £23.9m for the 3 months January to March 2019, and recognised in the year ended 31 March 2019.

2 Trading activities

LifeArc Innovations Limited

The principal activity of this company is non-charitable trading for the charity. The company pays all of its post-tax income to the charity as a qualifying donation under gift aid arrangements.

Its trading results, extracted from its audited financial statements, which are included in the Unrestricted funds column in the SOFA, were:

	9 months to Dec 2019 £000s	15 months to March 2019 £000s
Turnover	7	52
Gross profit	7	52
Administration expenses	–	–
Operating profit	7	52
Profits on ordinary activities before taxation	7	52
Qualifying donation to the charity	(7)	(52)
Profit for the financial year	–	–
Total recognised gains and losses relating to the period	–	–

Amounts not reflected in trading income and trading expenses are included within the relevant unrestricted categories in the SOFA.

The net assets of the company at the period end were £10,000.

3 Income from investments

	9 months to Dec 2019 £000s	12 months to March 2019 £000s
Dividends – equities	2,179	1,973
Interest – fixed interest securities	3,267	461
Interest – deposits	347	61
	5,793	2,495

Notes to the financial statements

continued

4 Other income

	9 months to Dec 2019 £000s	12 months to March 2019 £000s
Miscellaneous	12,370	363
	12,370	363

5 Raising funds

	9 months to Dec 2019 £000s	12 months to March 2019 £000s
Investment manager fees	976	558
	976	558

6 Analysis of expenditure on charitable activities

	Activities undertaken directly £000s	Support costs £000s	9 months to Dec 2019 £000s	12 months to March 2019 £000s
Early-stage drug discovery	10,647	4,283	14,930	17,408
Diagnostics development	1,661	884	2,545	2,954
IP, licensing and business development	4,925	2,659	7,584	8,110
Venture, Seed and Philanthropic Funds	1,555	232	1,787	1,534
	18,788	8,058	26,846	30,006

7 Allocation of support costs

	Governance £000s	Corporate resources £000s	9 months to Dec 2019 £000s	12 months to March 2019 £000s
Early-stage drug discovery	124	4,158	4,282	3,026
Diagnostics discovery	26	858	884	726
IP, licensing and business development	444	2,215	2,659	1,704
Venture, Seed and Philanthropic Funds	7	226	233	172
	601	7,457	8,058	5,628

8 Governance costs

	9 months to Dec 2019 £000s	12 months to March 2019 £000s
Staff costs	257	194
Direct costs		
Other legal and professional charges	74	51
Audit fees	36	26
Other fees	47	40
Bank charges	7	6
Insurance	109	114
Other governance costs	71	36
	601	467

9 Net income for the year – group and ultimate parent

Net income is stated after charging / (crediting):

	9 months to Dec 2019 £000s	12 months to March 2019 £000s
Depreciation of tangible fixed assets	1,906	2,283
Operating leases – property	848	1,112
Auditor’s remuneration	36	26
Fees payable to internal auditor	47	49
Net (gains) on foreign exchange	(4,245)	(672)

10 Auditor’s remuneration – group and ultimate parent

	9 months to Dec 2019 £000s	12 months to March 2019 £000s
Fees payable to the charity’s auditor for the audit of the charity’s annual accounts	33	25
Fees payable to the charity’s auditor for other services:		
Other services	3	1
	36	26

Notes to the financial statements

continued

11 Trustees’ and key management personnel remuneration and expenses – group and ultimate parent

Having obtained approval from the Charity Commission, on 14 November 2019 Melanie Lee (Chief Executive Officer) and Andrew Mercieca (Chief Financial Officer) were appointed as Trustees of the Charity. From 14 November 2019 to 31 December 2019, remuneration and benefits were paid to these two individuals for their roles as employees of the Charity, not for their positions as Trustees. The aggregate amounts paid, including employer’s NI, was £72k to Melanie Lee and £38k to Andrew Mercieca.

All other Trustees neither received nor waived any remuneration during the period (12 months to March 2019: £Nil).

In respect of acting as a Director for SpringWorks Therapeutics on behalf of LifeArc, during the period Peter Keen invoiced LifeArc £10k for consultancy services (12 months to March 2019 – £13k).

The total amount of employee benefits received by key management personnel during the period was £1,515k (12 months to March 2019 – £1,438k). The Trustees consider its key management personnel to comprise the Chief Executive Officer and Executive Management Team.

The following Trustees’ expenses were reimbursed or paid directly on their behalf during the period:

	Dec 2019 No. Trustees	March 2019 No. Trustees	Dec 2019 £000s	March 2019 £000s
Travel and subsistence	7	7	15	11
	7	7	15	11

Included above is £Nil (12 months to March 2019 – £Nil) which has been paid directly to third parties.

12 Staff costs and employee benefits – group and ultimate parent

The average number of employees, analysed by function, was:

	Dec 2019	March 2019
Management	7	7
Research	103	94
Technology transfer	41	36
Administration	46	43
Agency / contract staff	4	4
	201	184

The total staff costs and employee benefits were as follows:

	Dec 2019 £000s	March 2019 £000s
Wages and salaries	9,693	10,188
Social security	1,088	1,104
Defined contribution pension costs	738	870
Agency / contract staff	160	286
	11,679	12,448

The number of employees who received total employee benefits (excluding employer pension costs) of more than £60,000 is as follows:

	9 months to Dec 2019	12 months to March 2019
£60,001 – £70,000	14	12
£70,001 – £80,000	9	12
£80,001 – £90,000	3	8
£90,001 – £100,000	8	6
£100,001 – £110,000	2	6
£110,001 – £120,000	1	–
£120,001 – £130,000	1	–
£130,001 – £140,000	–	1
£140,001 – £150,000	–	1
£160,001 – £170,000	3	1
£170,001 – £180,000	1	2
£180,001 – £190,000	1	1
£190,001 – £200,000	–	1
£350,001 – £360,000	1	–
	44	51

The pension contributions to the defined contribution scheme payable on behalf of 44 (12 months to March 2019 – 51) members of staff amounted to £287,594 (12 months to March 2019 – £409,940).

13 Tangible fixed assets – group and ultimate parent

	Assets under construction £000s	Leasehold improvements £000s	Laboratory equipment and plant £000s	Fixtures, fittings and computers £000s	Total £000s
COST					
At 1 April 2019	45	8,716	9,094	2,778	20,633
Additions	134	1,605	1,251	378	3,368
Disposals	–	(771)	(549)	(148)	(1,468)
Reclassification	(143)	104	–	39	–
At 31 December 2019	36	9,654	9,796	3,047	22,533
ACCUMULATED DEPRECIATION					
At 1 April 2019	–	2,720	5,428	1,533	9,681
Charge for year	–	634	902	370	1,906
Disposals	–	(771)	(542)	(146)	(1,459)
Reclassification	–	–	–	–	–
At 31 December 2019	–	2,583	5,788	1,757	10,128
NET BOOK VALUE					
At 31 December 2019	36	7,071	4,008	1,290	12,405
At 31 March 2019	45	5,996	3,666	1,245	10,952

LifeArc had capital commitments of £130k at 31 December 2019 (March 2019 – £Nil).

Notes to the financial statements

continued

14 Intangible assets – group and ultimate parent

	Assets under construction £000s	Total £000s
COST		
At 1 April 2019	–	–
Additions	15,946	15,946
Disposals	–	–
Reclassification	–	–
At 31 December 2019	15,946	15,946
ACCUMULATED DEPRECIATION		
At 1 April 2019	–	–
Charge for year	–	–
Disposals	–	–
Reclassification	–	–
At 31 December 2019	–	–
NET BOOK VALUE		
At 31 December 2019	15,946	15,946
At 31 March 2019	–	–

15 Fixed asset investments

	Consolidated Dec 2019 £000s	Consolidated March 2019 £000s	LifeArc Dec 2019 £000s	LifeArc March 2019 £000s
Investment at cost	44	44	54	54
Unlisted investments held at fair value	55,171	14,913	55,171	14,913
Listed investments	142,054	133,720	142,054	133,720
	197,269	148,677	197,279	148,687

Included within investments at cost is £10k in relation to 100% of the shares in LifeArc Innovations Limited.

Unlisted investments held at fair value

	Venture Fund £000s	Seed Fund £000s	SpringWorks, Eliem Therapeutics, and Other £000s	Total £000s
Fair value at 1 April 2019	–	1,000	13,913	14,913
Investments in the period	4,092	3,500	7,584	15,176
Transfers in the period	15,183	–	(15,183)	–
Unrealised gains / (losses) during the period	24,812	(1,000)	–	23,812
Foreign exchange gains	–	–	1,270	1,270
Fair value at 31 December 2019	44,087	3,500	7,584	55,171

Listed investments – group and ultimate parent

	Dec 2019 £000s	March 2019 £000s
Market value at 1 April	128,999	122,543
Acquisitions	21,493	23,362
Sale proceeds	(18,810)	(24,084)
Forward contract currency hedge	–	(59)
Unrealised (loss) / gain	6,482	6,186
Realised (loss) / gain	736	1,065
Revaluation	(1)	(14)
Market value at 31 December / March	138,899	128,999
Historical cost at 31 December / March	122,667	119,389

Portfolio analysis

		Dec 2019 £000s	March 2019 £000s
Equities	within the UK	18,032	16,647
	overseas	76,365	68,521
Fixed interest securities	within the UK	18,180	18,422
	overseas	2,239	2,189
Alternative investment		24,083	23,220
		138,899	128,999
Cash		3,155	4,721
		142,054	133,720

Notes to the financial statements

continued

16 Current asset investments – group and ultimate parent

	Dec 2019 £000s	March 2019 £000s
At 1 April	5,615	21,551
Net investment / (withdrawals)	955,160	(477)
Acquisitions	786,512	39,436
Sale proceeds	(786,122)	(55,223)
Realised gains / (losses)	736	(103)
Unrealised gains / (losses)	1,059	(27)
Interest received	2,278	481
Foreign exchange gain	3,283	–
Management fees	(270)	(23)
As at 31 December / March	968,252	5,615

Historical cost at 31 December / March	965,879	5,679
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Portfolio analysis

	Dec 2019 £000s	March 2019 £000s
Fixed interest securities within the UK	868,262	3,115
Alternative investment	99,990	2,500
	968,252	5,615
Cash	42	82
	968,294	5,697

The fair value of listed investments is determined by reference to the quoted price for identical assets in an active market at the balance sheet date.

No short-term deposits were held at 31 December 2019 or at 31 March 2019.

17 Debtors

	Group Dec 2019 £000s	Group March 2019 £000s	LifeArc Dec 2019 £000s	LifeArc March 2019 £000s
Trade debtors	148	788	148	725
Interest receivable	60	36	60	36
Prepayments and accrued income	2,464	26,720	2,464	26,721
Tax debtor – VAT	935	714	935	714
Other debtors	18,242	437	18,250	489
Hedge (liability)	–	(93)	–	(93)
	21,849	28,602	21,857	28,592

18 Creditors: amounts falling due within one year

	Group Dec 2019 £000s	Group March 2019 £000s	LifeArc Dec 2019 £000s	LifeArc March 2019 £000s
Trade creditors	1,327	1,626	1,327	1,626
Accruals and deferred income	4,750	2,774	4,750	2,774
Other creditor	6,355	466	6,355	466
PAYE & NI creditor	473	437	473	437
Tax creditor – VAT	–	10	–	–
	12,905	5,313	12,905	5,303

19 Leases – group and ultimate parent

	Dec 2019 £000s	March 2019 £000s
Operating leases – lessee		
Total future minimum lease payments under non-cancellable operating leases are as follows:		
Not later than one year	1,398	1,319
Later than one and not later than five years	4,286	4,711
Later than five years	422	1,045
	6,106	7,075

Notes to the financial statements

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20 Provisions for liabilities and charges – group and ultimate parent

	Contractual payments £000s	Total £000s
At 1 April 2019	635	635
Additions during the year	350	350
Amounts charged against the provision	–	–
Unused amounts reversed	(250)	(250)
At 31 December 2019	735	735

The contractual payments provision relates to dilapidations for the Edinburgh site, the Lynton House site, and the Stevenage site.

Income on the SOFA resulting from the release of provisions during the year amounted to £250k, being £250k release of the Lynton House dilapidation provision (March 2019 – £Nil) of which £Nil was attributable to restricted funds.

21 Grant commitments

At 31 December 2019 LifeArc had made multi-year funding commitments from the Philanthropic Fund to Kings College London (KCL) £0.8m, University College London (UCL) £0.5m, University of Sheffield £0.5m, University of Birmingham £0.4m, and University of Oxford £0.3m.

It is expected that £1.1m (UCL £0.4m, University of Birmingham £0.3m, University of Sheffield £0.2m, and University of Oxford £0.2m) will be paid within one year, with the remaining balance £1.4m to be paid after more than one year.

22 Fund reconciliation – group and ultimate parent

	Balance at 1 April 2019 £000s	Income £000s	Expenditure £000s	Cash flow hedge reserve £000s	Transfers £000s	Gains / (losses) £000s	Balance at 31 Dec 2019 £000s
Unrestricted	177,100	991,767	(26,404)	93	(10,000)	33,825	1,166,381
Restricted	–	437	(437)	–	–	–	–
Seed Fund	25,000	–	–	–	–	(1,000)	24,000
Philanthropic Fund	5,000	–	(606)	–	5,000	–	9,394
Crick Fund	–	–	(125)	–	5,000	–	4,875
	207,100	992,204	(27,572)	93	–	32,825	1,204,650

	Balance at 1 April 2018	Income	Expenditure	Cash flow hedge reserve	Transfers	Gains / (losses)	Balance at 31 March 2019
Unrestricted	145,259	54,577	(30,019)	(851)	–	8,134	177,100
Restricted	–	602	(602)	–	–	–	–
Designated	30,000	–	–	–	–	–	30,000
	175,259	55,179	(30,621)	(851)	–	8,134	207,100

Forward foreign exchange contracts were entered into in 2017/18. During the period there was a gain of £93k (12 months to March 2019 – £851k loss) relating to the movements of sterling against US dollar as a result of the remaining forward foreign exchange contracts which is taken to the cash flow hedge reserves.

Fund descriptions

a) Unrestricted funds

The unrestricted fund is a general unrestricted fund which is available for use at the discretion of the Trustees in furtherance of the general objectives of LifeArc and which has not been designated for other purposes.

b) Restricted funds

The restricted funds are grants received in the year which are subject to specific restrictions imposed by the donor.

Grant income includes £437k (12 months to March 2019 – £602k) from Alzheimer’s Research UK (ARUK), GSK Services, and the European Commission Horizon 2020 programme.

c) Designated funds

The designated funds are specifically allocated for the Seed Fund (£25m), Philanthropic Fund (£10m), and Crick Fund (£5m).

23 Analysis of net assets between funds

	Unrestricted funds £000s	Designated funds £000s	Total Dec 2019 £000s	Total March 2019 £000s
Fixed assets	187,351	38,269	225,620	159,629
Cash and current investments	970,821	–	970,821	24,817
Other current assets / liabilities	8,944	–	8,944	23,289
Provisions	(735)	–	(735)	(635)
	1,166,381	38,269	1,204,650	207,100

The designated fund includes £25m for the Seed Fund, £10m for the Philanthropic Fund, and £5m for the Crick Fund.

	Unrestricted funds £000s	Designated funds £000s	Total March 2019 £000s	Total March 2018 £000s
Fixed assets	129,629	30,000	159,629	136,229
Cash and current investments	24,817	–	24,817	24,741
Other current assets / liabilities	23,289	–	23,289	15,388
Provisions	(635)	–	(635)	(1,099)
	177,100	30,000	207,100	175,259

Notes to the financial statements

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24 Financial instruments – foreign currency risk

Transactional foreign currency exposure arises from royalty income streams received from overseas. LifeArc hedges this exposure principally using forward foreign exchange contracts covering up to 50% out to 24 months. LifeArc is exposed to foreign exchange risk in relation to sterling against movements against the US dollar.

As at the balance sheet date the gross notional value in sterling terms of forward foreign exchange sell contracts amounted to £Nil (March 2019 – £5,332,176).

There were no gains and losses in equity on forward exchange contracts at 31 December 2019 to be released to the statement of financial activities (March 2019 – over the following two months) from the balance sheet date.

During the year a £102,672 loss (12 months to March 2019 – £100,136 gain) was taken to the SOFA as a result of a forward exchange contract in May 2019. There were no existing hedges at 31 December 2019.

25 Reconciliation of net (expenditure) / income to net cash flow from operating activities

	Group Dec 2019 £000s	Group March 2019 £000s
Net income for period/year	997,457	32,692
Dividends, interest and rents from investments	(5,793)	(2,495)
Investment disposal levies and third party fees	1	15
Revaluation loss / (gain) on investments	1	(997)
Depreciation and impairment of tangible fixed assets	1,906	2,283
(Gains) on investments	(32,301)	(7,251)
Loss on write off of tangible fixed assets	9	47
Loss on write off of investments	–	1
Decrease / (Increase) in debtors	6,753	(9,192)
Increase in creditors	7,692	828
Increase / (Decrease) in hedge reserve	93	(851)
Net cash flow from operating activities	975,818	15,080

26 Pensions and other post-retirement benefits

Defined contribution pension plans

The charity operates a defined contribution pension plan for its employees.

The amount of contributions recognised as an expense during the period was £738k (12 months to March 2019 – £870k).

27 Related party transactions

Information about related party transactions and outstanding balances is outlined below:

	Income £000s	Expenditure £000s	Debtor £000s	Creditor £000s	Commitments £000s
Medical Research Council (MRC) associated					
At end date December 2019	1,160	–	–	5,776	–
At end date March 2019	1,853	202	210	181	–
Bridge Valley Ventures					
At end date December 2019	7	333	94	–	–
At end date March 2019	53	825	228	–	–
SpringWorks					
At end date December 2019	3	–	–	–	–
At end date March 2019	23	–	6	–	–

The members of the Board received no remuneration from LifeArc for their services as Trustees during the period. However, reimbursements for travel expenses with an aggregate value of £14,508 (12 months to March 2019 – £11,209) were made to seven members (12 months to March 2019 – seven members). These transactions were carried out on normal commercial terms.

Trustee indemnity insurance was purchased in the period at a cost of £7,516 including insurance premium tax (2019 – £9,934).

28 Limited liability

LifeArc is a company limited by guarantee and thus has no share capital.

In the event of LifeArc being wound up, every member of LifeArc undertakes to contribute no more than £1 to the assets of LifeArc while they are a member, or within one year after they cease to be a member, for the debts and liabilities of LifeArc contracted before they cease to be a member. The number of members at 31 December 2019 was 22 (31 March 2019 – 20).

29 Charitable status

LifeArc is a charity registered with the Charity Commissioners for England and Wales, number 1015243 and a charity registered in Scotland (number SC037861) with the Office of the Scottish Charity Regulator.

30 Ultimate controlling party

The charitable company is controlled by its members.

31 Post balance sheet events

Covid-19 has caused a significant increase in market volatility since period end, with the value of investments held by LifeArc as of 16th June 2020 being £6m above the position on 31 December 2019.

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32 Comparative statement of financial activities

	Unrestricted funds £000s	Restricted funds £000s	Total 2019 funds £000s
Income and endowments from:			
Charitable activities	51,667	602	52,269
Trading activities	52	–	52
Investments	2,495	–	2,495
Other income	363	–	363
Total income and endowments	54,577	602	55,179
Expenditure on:			
Raising funds	558	–	558
Charitable activities	29,404	602	30,006
Provisions	57	–	57
Total expenditure	30,019	602	30,621
Net gains investments	8,134	–	8,134
Net income / (expenditure)	32,692	–	32,692
Net movement in funds	32,692	–	32,692
Reconciliation of funds:			
Total funds brought forward	174,501	–	174,501
Cash flow hedge reserve	(93)	–	(93)
Total funds carried forward	207,100	–	207,100

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Company number

LifeArc is a company limited by guarantee no.
2698321 incorporated in England and Wales.

Charity numbers

LifeArc is a charity registered with the Charity
Commission for England and Wales no. 1015243
and a charity registered in Scotland with the Office
of the Scottish Charity Regulator no. SC037861.