

The Nesta Trust

Annual Report and Financial Statements

Year ended 31 March 2022

Charity Commission registered number 1144683

The Nesta Trust
Annual Report and Financial Statements
For the year ended 31 March 2022

Charity Commission no. 1144683

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General Information

Trustee	Nesta Charity no. 1144091 Companies House no. 07706036 Scottish Charity Regulator no. SC042833
Protector	James Sinclair Taylor (<i>until 31 March 2022</i>)
Address	58 Victoria Embankment London EC4Y 0DS
Charity Commission registered number	1144683
Independent Auditor	BDO LLP 2 City Place Beehive Ring Road Gatwick West Sussex RH6 0PA
Internal Auditor	Grant Thornton UK LLP 30 Finsbury Square London EC2A 1AG
Principal bankers	Lloyds Bank 39 Threadneedle Street London EC2R 8AU

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Report of Trustee

Structure, Governance and Management

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

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

The Trust has a Protector appointed by the Secretary of State for Business, Energy & Industrial Strategy with a fiduciary duty to ensure the integrity of administration of the Trust and the propriety of its procedures. James Sinclair Taylor, an experienced charity lawyer, was appointed as the first Protector of the Trust by the Secretary of State on 1 April 2012. His term came to an end on 31 March 2022. The process to recruit his replacement is underway and is expected to take several months to conclude. In the interim period, it has been agreed with the Secretary of State for Business, Energy & Industrial Strategy that James Sinclair Taylor shall become a governance adviser of the Trust with the same responsibilities and powers as the Protector.

Nesta is a company limited by guarantee and a charity registered with the Charity Commission and the Office of the Scottish Charity Regulator (OSCR). Its Trustees are both directors and members of the company. Under company and charity law, the Board of Trustees retains overall responsibility for Nesta and its role as Trustee of the Nesta Trust. Sir John Gieve came to the end of his term as Chair of the Board at 31 March 2022. Ed Richards was appointed the new Chair of Trustees on 1 April 2022. The Board met six times in the year with members of the Executive Team also present. The Protector of the Trust is also entitled to attend all meetings.

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

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

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

Audit & Risk Committee which reviews the annual audit and statutory accounts, internal financial controls, risk management and compliance. The Committee met four times during the year.

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

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

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

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Report of Trustee (continued)

Structure, Governance and Management (continued)

The Nesta Trust's Board is committed to adopting the principles set out in the Charity Governance Code (the 'Code'). In accordance with good practice, external specialist consultants undertook a full governance and board effectiveness review of the Nesta Board and this also encompassed the role of that same board as the Nesta Trust Board. The report concluded that there is a "well functioning board that has led Nesta through significant change". The recommendations in the report aimed at further improving and refining the governance of Nesta and the Nesta Trust are being implemented and, in addition, the Nesta Trust's governance structures are regularly reviewed internally to ensure they continue to be best practice.

Charitable objects

The charitable objects of the Trust are detailed below:

For the public benefit:

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

The voluntary sector means charities and voluntary organisations.

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

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Report of Trustee (continued)

Activities and Achievements

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

Risk management policy

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

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

- an established organisational and governance structure and lines of reporting;
- detailed terms of reference for the Board and all Board Committees;
- comprehensive financial planning, budgeting and management reporting, and monitoring;
- formal written policies and hierarchical authorisation and approval levels; and
- internal audit services engagement with programmes selected for review which are informed by the risk register.

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

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

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

Investment policy

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

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

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Report of Trustee (continued)

Investment policy (continued)

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

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

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

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

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

Responsible Investing

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

- Some limited exclusion of stocks where Nesta objects on moral grounds to the activity of the company in question.
- An explicit programme to monitor fund managers' incorporation of environmental, social and governance (ESG) factors and their practice of active ownership.
- Adoption of the Hermes Equity Ownership Service for our index investments.

These policies have informed the Trustee's actions, oversight and asset allocation decisions and have informed the Trust's policy on Responsible Investment and Corporate Governance. This policy remains under constant review with the last version being approved by the Board in March 2021. As far as the Trustee is aware, the only potential area where the Trust does not fully accord with its policy is in relation to historical private equity holdings which are being run down over time.

Financial Review

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

Nesta Trust entered into an agreement on 16 July 2015 to purchase a long leasehold interest in a property located in London for £51 million. Practical completion took place on 26 September 2016, and the lease on the investment property will run until November 2162. The total amount shown in note 6 and below under investment properties is £81 million (2021: £78 million), which includes the investment property market valued at £61 million (2021: £61 million) and a £20 million property fund (2021: £17 million).

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Report of Trustee (continued)

Financial Review (continued)

During the year ended 31 March 2022, the value of Trust investments and cash decreased by £2 million to £466 million (2021: £468 million) after annual transfers to Nesta to carry out the objectives of the Trust in line with the Trust Deed. A further breakdown of the £2 million decrease can be seen in the table below:

Asset Class	Market Value of Investment assets	Proportion of total endowment assets	Market value of investment assets	Proportion of total endowment assets
	31 March 2022	31 March 2022	31 March 2021	31 March 2021
	£'000	%	£'000	%
<i>Current assets:</i>				
Cash	5,385	1	9,842	2
<i>Fixed asset investments:</i>				
Private equity funds	5,075	1	5,618	1
Equities – UK	37,412	8	39,100	8
Equities – Overseas	240,443	52	232,377	50
Bonds and Fixed Income	79,611	17	84,972	18
Early-stage venture portfolio*	16,718	4	18,338	4
Investment properties	81,073	17	77,655	17
<i>Total Fixed asset investments</i>	<i>460,332</i>	<i>99</i>	<i>458,060</i>	<i>98</i>
Total Cash plus Fixed asset investment	465,717	100	467,902	100
*Mixed motive investments – see Note 6 of the accounts for further breakdown				

Actions taken during the year included the following:

Strategic review

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

Equities performance

Strategic allocation to equities increased to 60 per cent (2021: 58 per cent) during the year which, together with market conditions, resulted in an increase in the valuation to £278 million as at 31 March 2022 (2021: £271 million). During the year £17 million of equities were sold (2021: £24m), of which £nil (2021: £6 million) was reinvested in other alternative asset classes in order to rebalance the portfolio, with the remainder being used to ensure the Trust had sufficient cash to fund day to day activities.

Managing holdings of alternative asset classes

A £3 million financial commitment remains outstanding for alternative asset classes as disclosed in Note 10 to these Financial Statements (2021: £6 million).

Maximising value from our self-managed early-stage venture portfolio

The early-stage venture portfolio includes equity investments in 7 (2021: 12) early-stage companies, and 3 (2021: 3) early-stage investment funds. The Trust's investment strategy is to maximise the returns from the current portfolio but not to invest in any new early-stage companies or funds in the near future due to these investments being slow to generate income and being typically higher risk than other asset classes. There were net gains of £2 million (2021: £2 million) recognised in the year applying the valuation methodology which remains unchanged from previous years and is detailed in Note 1e to these Accounts.

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Report of Trustee (continued)

Financial Review (continued)

Direct costs, reported by external fund managers, of the Trust's investment assets totalled £0.75m (2021: £0.83m) across the Trust and include external fund manager fees and custodian fees. In addition, there are other indirect costs associated with fund management activities. Where fund manager fees are offset against the relevant fund's value, these are grossed up and shown as fund manager fee expenditure, in the Statement of Financial Activities in accordance with normal practice, along with those fund manager fees that are invoiced and paid for in cash. The full cost of investment goes beyond the fees we are charged by managers and include, for example, transaction costs, advisory costs and staff costs. We estimate that the full costs were about 0.5% of the average asset value over the year (2021: 0.5%).

Reserves policy

Under the Trust Deed, the reserves policy is to provide sustainable funding to advance the charitable aims of the Trust, whilst holding reserves at sufficient levels with a view to maintaining the underlying assets above a market value of £260 million. At 31 March 2022 total fixed asset investments were £460 million (2021: £458 million) and reserves were £469 million (2021: £472 million).

Future plans

Nesta's Trustees agreed an 'in-principle' funding rule covering the year to 31 March 2023, allowing Nesta to draw down up to £20 million for operating expenditure in support of its strategic plan. Funding made available by Nesta Trust does not constitute a commitment until a drawdown request is made. A further £27 million may be drawn down for Nesta investments for the period covering to 31 March 2026.

Going Concern

The financial statements have been prepared on the going concern basis because the Trustee has not identified any material uncertainties. The Trustee has undertaken an assessment of the crisis in Ukraine and has not identified any additional risks. This included performing an assessment of the potential exposure to investments held directly or indirectly in entities which might be impacted by the crisis. The Trustee is reasonably assured from the performance of the investment portfolio that the Trust's resources will be sufficient to fund activities for a period of at least twelve months from when the financial statements are authorised for issue.

Public Benefit Statement

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

Fundraising statement

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

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Report of Trustee (continued)

Statement of Trustee Responsibilities

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

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

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

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

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

Approved by the Board of Trustees of Nesta in their capacity as Trustee of the Nesta Trust and authorised for issue on 7 December 2022 and signed on its behalf by Ed Richards, Chair of the Board of Trustees.

DocuSigned by:

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Ed Richards
Chairman, on behalf of the Board of Trustees
13 December 2022 | 3:09 PM GMT

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Independent Auditor's Report to Trustees of The Nesta Trust (continued)

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Charity's affairs as at 31 March 2022 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011.

We have audited the financial statements of The Nesta Trust ("the Charity") for the year ended 31 March 2022 which comprise the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Charity in accordance with the ethical requirements relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions related to going concern

In auditing the financial statements, we have concluded that the Trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Charity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Trustees with respect to going concern are described in the relevant sections of this report.

Other information

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

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Independent Auditor's Report to Trustees of The Nesta Trust (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Charities (Accounts and Reports) Regulations 2008 requires us to report to you if, in our opinion;

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

Responsibilities of Trustees

As explained more fully in the Statement of Trustees' Responsibilities, the Trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustees 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 Charity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustees either intend to liquidate the Charity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Charity and the sector in which it operates, we identified the principal laws and regulations that directly affect the financial statements to be the Charities Act 2011. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

In addition, the Charity is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustees and other management and inspection of regulatory and legal correspondence if any.

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Independent Auditor's Report to Trustees of The Nesta Trust (continued)

Auditor's responsibilities for the audit of the financial statements

Extent to which the audit was capable of detecting irregularities, including fraud (continued)

Audit procedures performed included:

- discussions with management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC or the Charity Commission for England and Wales to identify any actual or potential frauds or any potential weaknesses in internal control which could result in fraud susceptibility;
- assessing the design and implementation of the control environment to identify any areas of material weakness to focus the design of our testing;
- verification of a sample of grant expenditure to ensure that the awards are consistent with the Charity's objectives and any grants to related parties are appropriately disclosed in the financial statements;
- challenging assumptions made by management in their significant accounting estimates, in particular in relation to the valuation of unlisted investments and investment property; and
- in addressing the risk of fraud through management override of controls; testing the appropriateness of journal entries and other adjustments, in particular any journals posted by senior management or with unusual accounts combinations.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

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

DocuSigned by:

 BG8C15A41E97446
 BDO LLP, Statutory Auditor
 Gatwick, UK

Date 13 December 2022

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

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

The Nesta Trust
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Statement of Financial Activities

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For the year ended 31 March 2022

		Expendable Endowment funds 2022 £'000	Expendable Endowment funds 2021 £'000
	Note		
Income and endowments from:			
Investment income	2	9,537	10,203
Total income		9,537	10,203
Expenditure on:			
Raising funds			
Investment management costs	3	749	833
Total cost of raising funds		749	833
Charitable activities	4	37,722	28,484
Total Charitable activities		37,722	28,484
Total Expenditure		38,471	29,317
Net gain on investments	6	26,008	88,671
Net (expenditure) / income and net movement in funds		(2,926)	69,557
Reconciliation of funds			
Total funds brought forward		471,490	401,933
Total funds carried forward		468,564	471,490

The Trust has no recognised gains or losses other than those passing through the Statement of Financial Activities.

All of the Trust's activities are derived from continuing operations.

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

The Nesta Trust
Annual Report and Financial Statements
Balance Sheet

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As at 31 March 2022

	Note	2022 £'000	2021 £'000
Fixed assets			
Investments	6	460,332	458,060
Current assets			
Debtors	7	3,840	4,624
Cash at bank and in hand		5,385	9,842
		<u>9,225</u>	<u>14,466</u>
Current liabilities			
Creditors: amounts falling due within one year	8	(993)	(1,036)
Net current assets		<u>8,232</u>	<u>13,430</u>
Total assets less current liabilities		<u>468,564</u>	<u>471,490</u>
Net assets		<u>468,564</u>	<u>471,490</u>
Charitable funds			
Endowment funds		468,564	471,490
Total funds	9	<u>468,564</u>	<u>471,490</u>

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

Approved by the Board of Trustees of Nesta in their capacity as Trustee of The Nesta Trust and authorised for issue on 7 December 2022 and signed on its behalf by Ed Richards, Chairman of the Board of Trustees.

DocuSigned by:

Ed Richards

3B5EA773123646B

Ed Richards

Chairman, on behalf of the Board of Trustees

13 December 2022 | 3:09 PM GMT

The Nesta Trust
Annual Report and Financial Statements
Cash Flow Statement

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For the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Cash flows from operating activities:			
Net cash used in operating activities	a	(36,981)	(27,729)
Cash flows from investing activities			
Net cash provided by investing activities	b	32,524	33,428
Change in cash and cash equivalents		<u>(4,457)</u>	<u>5,699</u>
Cash and cash equivalents at 1 April		<u>9,842</u>	<u>4,143</u>
Cash and cash equivalents at 31 March		<u>5,385</u>	<u>9,842</u>
Cash flow statement notes:			
a) Reconciliation of net (expenditure) / income to net cash flow from operating activities			
Net (expenditure) / income		(2,926)	69,557
Net gain on investments		(26,008)	(88,671)
Interest, dividends and rent received		(9,537)	(10,203)
Investment fees		749	833
Decrease in debtors		784	816
Decrease in creditors		(43)	(61)
		<u>(36,981)</u>	<u>(27,729)</u>
b) Cash flows from investing activities			
Interest and dividends received		9,537	10,203
Investment fees		(749)	(833)
Payments to acquire quoted investments		(43,264)	(75,402)
Proceeds from sale of maturity of quoted investments		60,139	95,545
Payments to acquire unquoted investments		(492)	(2,584)
Proceeds from sale or maturity of unquoted investments		7,353	6,499
		<u>32,524</u>	<u>33,428</u>

The Nesta Trust
Annual Report and Financial Statements
Notes to the Accounts

Charity Commission no. 1144683

For the year ended 31 March 2022

1. Accounting policies

a) Basis of preparation

The financial statements are prepared under the historical cost convention, modified by the revaluation of quoted and unquoted investments and property revaluations. They have been prepared on a going concern basis and in compliance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) 'Charities SORP (FRS 102) (second edition - October 2019)' issued by the Charity Commission, applicable UK accounting standards (FRS 102) and the Charities Act 2011.

Going Concern

The financial statements have been prepared on the going concern basis because the Trustee has not identified any material uncertainties. The Trustee has undertaken an assessment of the crisis in Ukraine and has not identified any additional risks. This included performing an assessment of the potential exposure to investments held directly or indirectly in entities which might be impacted by the crisis. The Trustee is reasonably assured from the performance of the investment portfolio that the Trust's resources will be sufficient to fund activities for a period of at least twelve months from when the financial statements are authorised for issue.

b) Fund accounting

The funds of the Trust are held without distinction as to capital and income and can be applied in furtherance of the objects. As a result these are held as an expendable endowment.

c) Income

All income is accounted for when the Charity is entitled to the income, the amount can be quantified with reasonable accuracy and the receipt of the income is probable. Investment income includes interest, dividends and rental income from investment assets and deposits, with any associated tax credits or recoverable taxation, and included in the Statement of Financial Activities on an accruals basis.

d) Expenditure

Expenditure is accounted for on an accruals basis. Support costs are comprised of Governance costs which include direct expenditure attributable to maintaining the public accountability of the Trust and compliance with regulation and good practice. Investment management costs include investment fund manager fees which are grossed up where they are offset against the fund's value rather than payable in cash, dilution levies, investment consultancy and custodian fees. Irrecoverable VAT incurred is allocated to the expenditure category to which it relates.

e) Fixed assets - investments

Financial investment assets include quoted, unquoted investments, and investment property (both sole ownership of a physical building and partial ownership of an investment in a property fund). Mixed motive investment assets are unquoted investments.

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

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

Cash, short-term deposits and investments to be disposed of within 12 months of the Balance Sheet date are presented in the Balance Sheet as current assets. All other financial assets are presented as fixed assets.

The Nesta Trust
Annual Report and Financial Statements
Notes to the Accounts (continued)

Charity Commission no. 1144683

For the year ended 31 March 2022

1. Accounting policies (continued)

e) Fixed assets - investments (continued)

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

I. Valuation - quoted investments:

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

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

II. Valuation - unquoted investments:

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

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

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

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

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

The Nesta Trust
Annual Report and Financial Statements
Notes to the Accounts (continued)

Charity Commission no. 1144683

For the year ended 31 March 2022

1. Accounting policies (continued)

e) Fixed assets - investments (continued)

II. Valuation - unquoted investments: (continued)

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

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

III. Treatment - Unquoted investments:

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

Unrealised changes in value between accounting periods are reflected in other recognised gains/(losses) in the

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

f) Significant estimates

The preparation of financial statements requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent liabilities at the Balance Sheet date. Actual outcomes could differ from those estimates. This is especially the case of the valuation of the Trust's investment in early-stage companies which is an inherently volatile and uncertain process. However, the valuation guidelines applied are considered to be the best estimate of market value and this investment type represents only 3% (2021: 3%).

g) Debtors

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

h) Creditors

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

i) Related party transactions

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

j) Taxation

The Trust is a charity within the meaning of Para 1 Schedule 6 Finance Act 2010. Accordingly the Trust is potentially exempt from taxation in respect of income or capital gains within categories covered by Chapter 3 of Part 11 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. No tax charge arose in the year.

k) Exchange gains and losses

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

The Nesta Trust
Annual Report and Financial Statements
Notes to the Accounts (continued)

Charity Commission no. 1144683

For the year ended 31 March 2022

2. Investment income	2022	2021
	£'000	£'000
Quoted investments		
Interest and dividends receivable	6,964	7,664
Unquoted investments		
Rental income	2,506	2,506
Interest and dividends receivable	67	28
Total income from unquoted investments	2,573	2,534
Bank interest	-	5
Total investment income	9,537	10,203
3. Investment management costs	2022	2021
	£'000	£'000
Investment manager fees	684	768
Custodian fees	65	65
	749	833

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

4. Charitable activities	2022	2021
	£'000	£'000
Nesta Drawdown - operational	19,800	23,625
Nesta Drawdown - investments	19,141	4,511
Nesta Drawdown - investment repayment	(1,536)	(70)
Consultancy and professional	126	151
Protector fees	11	10
Other	180	257
	37,722	28,484

In accordance with the Trust Deed, the Trust's core activity is to advance its charitable objects which it does through generating income to be applied by its Trustee, Nesta, to advance the Trust's charitable objects. The Board of Trustees of Nesta has agreed a total maximum operational drawdown of £20 million for the year ended 31 March 2022 to deliver the charitable aims of the Trust as well as a specific amount to be applied against Nesta's commitment to the Impact Investment Fund and other investments which are held on Nesta's Balance Sheet. If Nesta disposes of an investment which was funded via a drawdown from the Trust, the funds are returned to the Trust and disclosed in the note above as 'Nesta Drawdown - investment repayment'.

The auditor's remuneration for the year was £15,250 (2021: £11,900).

Included in other is a foreign exchange difference gain of £122,587 (2021: loss £55,000).

5. Staff costs

There were no employees during the year or the previous year. All staff are employed by Nesta. None of the Trustees, or any person connected with them received any remuneration during the year nor were any reimbursed for any expenses.

The Nesta Trust
Annual Report and Financial Statements
Notes to the Accounts (continued)

Charity Commission no. 1144683

For the year ended 31 March 2022

6. Investments

	Market/ fair value at 1 April 2021 £'000	Additions at cost £'000	Maturities, proceeds & disposals at market value £'000	Net gains and (losses) £'000	Total market/ fair value at 31 March 2022 £'000
Quoted investments					
Equities	271,477	38,810	(55,800)	23,165	277,652
Fixed income	42,860	129	-	(2,622)	40,367
Bonds	42,112	4,325	(4,339)	(2,854)	39,244
Total quoted investments	356,449	43,264	(60,139)	17,689	357,263
Unquoted investments					
Managed funds					
Private equity funds	5,618	308	(3,575)	2,724	5,075
Mixed motive investments					
Investment in early- stage companies	13,824	245	(1,133)	1,237	14,173
Investment in early- stage funds	4,514	-	(2,645)	879	2,748
Total unquoted investments	23,956	553	(7,353)	4,840	21,996
Investment properties	77,655	(61)	-	3,479	81,073
Total fixed asset investments	458,060	43,756	(67,492)	26,008	460,332

The valuation of the investment property (58 Victoria Embankment) remains unchanged at £60.5m. The valuation is reviewed at each year end by an independent qualified property valuer. Investment properties above also includes a fund with a market value of £20.6 million at the year end (2021: £17.2 million).

The Nesta Trust
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Notes to the Accounts (continued)

Charity Commission no. 1144683

For the year ended 31 March 2022

6. Investments (continued)					
	Market/ fair value at 1 April 2020 £'000	Additions at cost £'000	Maturities, proceeds & disposals at market value £'000	Net gains and (losses) £'000	Total market/ fair value at 31 March 2021 £'000
Quoted investments					
Equities	214,344	67,853	(91,976)	81,256	271,477
Fixed income	35,054	2,118	-	5,688	42,860
Bonds	39,180	5,431	(3,569)	1,070	42,112
Total quoted investments	288,578	75,402	(95,545)	88,014	356,449
Unquoted investments					
Managed funds					
Private equity funds	7,693	217	(1,624)	(668)	5,618
Mixed motive investments					
Investment in early- stage companies	17,106	369	(3,001)	(650)	13,824
Investment in early- stage funds	3,430	-	(1,874)	2,958	4,514
Total unquoted investments	28,229	586	(6,499)	1,640	23,956
Investment properties	76,640	1,998	-	(983)	77,655
Total fixed asset investments	393,447	77,986	(102,044)	88,671	458,060

The portfolio consists of the following investments:

	Market/fair value at 31 March 2022 £'000	Percentage of 2022 portfolio %	Market/fair value at 31 March 2021 £'000	Percentage of 2021 portfolio %
UK quoted - Equities	37,412	8%	39,100	9%
UK quoted - Fixed Income & Bonds	39,244	8%	42,112	9%
Overseas quoted - Equities	240,443	52%	232,377	51%
Overseas quoted - Fixed Income & Bonds	40,367	9%	42,860	9%
UK unquoted	16,718	4%	18,338	4%
Overseas unquoted	5,075	1%	5,618	1%
UK Investment property	81,073	18%	77,655	17%
	460,332	100%	458,060	100%

The Nesta Trust
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Charity Commission no. 1144683

For the year ended 31 March 2022

7. Debtors	2022	2021
	£'000	£'000
Accrued income	3,788	4,174
Other debtors	52	450
	<u>3,840</u>	<u>4,624</u>

Accrued income of £3.8 million (2021: £4.2 million) relates to accrued rental income due from the Trust's parent Nesta for 58 Victoria Embankment.

8. Creditors: amounts falling due within one year	2022	2021
	£'000	£'000
Accruals	128	118
Deferred income	723	723
VAT payable	127	137
Trade creditors	15	58
	<u>993</u>	<u>1,036</u>

9. Funds	2022	2021
	£'000	£'000
Expendable endowment fund		
As at 1 April	471,490	401,933
Net expenditure	(28,934)	(19,114)
Net gain on investments	26,008	88,671
Balance at 31 March	<u>468,564</u>	<u>471,490</u>

The Nesta Trust
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Charity Commission no. 1144683

For the year ended 31 March 2022

10. Commitments

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

	At 1 April 2021 £'000	Additions £'000	Decommitted £'000	Drawn down £'000	At 31 March 2022 £'000
Private equity funds	5,789	-	(2,738)	(308)	2,743
Investment in early-stage funds	9	-	(5)	(4)	-
Nesta-programme related investments	5,000	25,512	-	(4,005)	26,507
	10,798	25,512	(2,743)	(4,317)	29,250

	At 1 April 2020 £'000	Additions £'000	Decommitted £'000	Drawn down £'000	At 31 March 2021 £'000
Private equity funds	6,420	-	-	(631)	5,789
Investment in early-stage funds	125	-	-	(116)	9
Nesta-programme related investments	10,000	-	-	(5,000)	5,000
	16,545	-	-	(5,747)	10,798

11. Operating lease commitments

At 31 March 2022 the Trust continued the agreement with Nesta to lease part of 58 Victoria Embankment. The rental payments due from the Nesta in respect of leases which expire within specific time frames are:

	Expire within one year £'000	Expire within two to five years £'000	Expire in more than five years £'000
Rental of 58 Victoria Embankment	2,891	11,564	13,548
	2,891	11,564	13,548

The Nesta Trust
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For the year ended 31 March 2022

12. Related party transactions

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

13. Control

The Trust is controlled by Nesta (Charity no. 1144091; Companies House no. 07706036; Scottish Charity Regulator no. SC042833), which is the ultimate parent company by virtue of being Sole Trustee. Nesta is the parent undertaking of the smallest and largest group for which accounts are drawn up, and which the Company is a member. The accounts are available to the public from 58 Victoria Embankment, London, EC4Y 0DS.

14. Events after the end of the reporting period

There were no events after the end of the reporting period which require disclosure.