



**The Kennedy Trust for Rheumatology Research
Annual Report & Accounts for the Year Ended 30 September 2022**

**Registered Charity: No 260059
Company No 963832**

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Contents

Page:

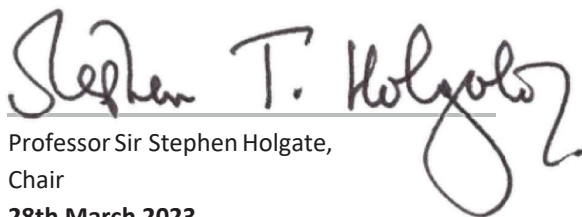
INTRODUCTION FROM THE CHAIR.....	3
TRUSTEES' REPORT	4
GOVERNANCE	4
STRATEGIC REPORT	7
IMPACT REPORT	12
FINANCIAL REPORT	14
REVIEW OF INVESTMENT ACTIVITIES.....	16
CHARITY INFORMATION	24
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE KENNEDY TRUST FOR RHEUMATOLOGY RESEARCH	27
ACCOUNTS	31

INTRODUCTION FROM THE CHAIR

Major global challenges continue to simultaneously threaten the rate of progress of medical research in the UK on the one hand and stimulate researchers towards new avenues of innovation and ground-breaking science on the other. To help meet both this year, the Kennedy Trust for Rheumatology Research has continued to strategically plan and prioritise its resources in ways that we believe best enable our ongoing sustainable support for world-class research while at the same time keeping our focus on encouraging translation of discovery science into practical benefits for patients with musculoskeletal and related diseases. For example, under Professor Dame Fiona Powrie's leadership as Director at the Kennedy Institute in Oxford, we have supported the growth in cutting-edge technology platforms and new senior leadership positions, including a new statutory chair, whose teams deliver science of the highest international quality and competitiveness. Equally, our crucial support for future research talent at Oxford and elsewhere in the UK is one of our hallmarks and includes the development of five unique funding hubs for MB PhD training in order to help grow clinical science as a rewarding career option in medicine. Despite setbacks to medical research resulting from the Covid-19 pandemic, we have continued to work with others over the year to help achieve our mission, maintaining strategic partnerships with UK funders and centres of research excellence in universities across the UK.

On a more personal level, I would like to thank our amazingly committed Trustees for their invaluable time and energy in helping us make a difference. We've seen a number of changes in the year - saying goodbye to long-serving Trustees and welcoming new members to our executive team and our committees. I would like to thank our outgoing Trustees who retired from the Board, Professor Hill Gaston, Mr. David Paterson, and Mrs. Jennifer Johnson, for their years of service and the extraordinary difference they have made to the Trust's work. Also, the Trust's outgoing Chief Executive, Mr. Pierre Espinasse who, over his 11-year tenure, has worked tirelessly with Trustees to help transform the Trust into the successful medical research charity it now has become. Pierre was instrumental in helping with the move of the Kennedy Institute from London to Oxford and enabling us to realise the value of the royalties from anti-TNF drug patents, which we continue to re-invest in research. With Pierre's departure, we are working with our new CEO Dr Stephen Simpson, who joined the Trust in the Spring. Stephen has had an amazing career in supporting science and joined us from our partner charity, Versus Arthritis where he was Director of Research.. Finally, I would like to share my appreciation of our excellent fiduciary managers at JP Morgan and the other organisations who support the Trust in maintaining excellence in all its legal and governance activities.

Research into rheumatological and related inflammatory disorders remains one of the most exciting, challenging and progressive areas of biomedical research of the day and I believe the Trust has the experience, and fortitude to ensure major advances in the coming years through the careful investment, management and deployment of its resources to make a difference.



Professor Sir Stephen Holgate,
Chair

28th March 2023

TRUSTEES' REPORT

GOVERNANCE

The Trust is governed by a Board of Trustees (shown on page 5) and has three sub-committees, as laid out below. Each has specific responsibilities (as set out in their Terms of Reference) and each report to the Board on a regular basis.

New Trustees are provided with an induction pack which includes their fiduciary responsibilities, as well as relevant information about the Trust. The continuing development of all Trustees is met by an annual scientific update and presentations (often by invited external speakers) on various relevant issues, along with governance and other updates.

The Trust has provided indemnity insurance for the Trustees during the year.

Trustees are recruited by the Board based upon their experience, professional qualifications, empathy and interest in the Trust's objectives and ability to further the Trust's performance and achievements. A recruitment committee is appointed that shortlists, interviews and puts forward final candidates to the Board of Trustees.

In preparing this report, Trustees have referred to the Charity Commission's general guidance on public benefit and are satisfied that the activities undertaken by the Trust meet the Commission's requirements.

Governing Document

The Trust is a charitable company limited by guarantee incorporated on 13 October 1969 and is governed under its Articles of Association. The Charity is registered with the Charity Commission of England and Wales.

Charitable Objectives

To provide financial and other support for basic and translational research into rheumatic and related musculoskeletal, immunological, and inflammatory diseases. In meeting its charitable objectives, the Trust supports both basic and translational research primarily through its support of the Kennedy Institute of Rheumatology.

The Board

- Professor Sir Stephen Holgate (Chair)
- Mr. Edmund Buckley
- Mr. Christopher Coombe
- Professor Andrew Cope
- Mr. Mark Dighero
- Mrs. Margaret Frost
- Professor Hill Gaston (resigned 22 June 2022)
- Professor Tracy Hussell (appointed 12 October 2021)
- Mrs. Jennifer Johnson (resigned 22 June 2022)
- Mr. David Paterson (resigned 12 October 2021)
- Professor Michael Patton
- Mr. Richard Punt
- Dr. Paul Satchell
- Ms. Victoria White

Finance and Investment Committee (FIC)

The purpose of the FIC is to formulate the Trust's financial and investment policies, agree these with the Board of Trustees, be responsible for overseeing the implementation of the agreed policies, and implement a risk management strategy for finance and investment matters.

The composition of the FIC during the year was as follows:

- Mrs. Margaret Frost (Chair)
- Mr. Edmund Buckley
- Mr. Christopher Coombe
- Mr. Mark Dighero
- Professor Sir Stephen Holgate
- Dr. Paul Satchell
- Mr. David Paterson (resigned 12 October 2021)

General Purposes Committee (GPC)

The purpose of the GPC is to ensure that all matters relating to the Trust are effectively managed by the appropriate Committee or the Board. Its responsibilities include the structure, governance, and reputation of the Trust.

The composition of the GPC during the year was as follows:

- Mr. Mark Dighero (Chair from 1 April 2022)
- Mrs. Jennifer Johnson (Chair until 1 April 2022, resigned 22 June 2022)
- Professor Sir Stephen Holgate
- Professor Michael Patton
- Mr. Richard Punt
- Ms. Victoria White

Research Committee (RC)

The Research Committee has responsibility for all matters requiring scientific expertise.

The composition of the RC during the year was as follows:

Trustees:

- Professor Andrew Cope (Chair)
- Professor Hill Gaston (resigned 22 June 2022)
- Professor Tracy Hussell (appointed as Trustee 12 October 2021)
- Mr. Richard Punt (appointed 20 September 2022 as a non-voting member)

Non-trustees (appointed to the RC for a three-year period):

- Professor Tracy Hussell (until 12 October 2021)
- Professor Carl Goodyear
- Professor Paul Lehner
- Professor Neil Sebire (resigned 16 May 2022)
- Professor Gitta Stockinger

Ex-Officio:

- Professor Sir Stephen Holgate

Ex Officio

Mr. Pierre Espinasse (until 30 June 2022), Dr. Stephen Simpson (CEO Designate 1 April to 30 June 2022, Chief Executive Officer from 30 June 2022), Mrs. Susan Johanson (Secretary until 28 March 2023) and Mrs. Hazel Middleton (Secretary from 28 March 2023) are Ex Officio non-voting members of all the Committees.

STRATEGIC REPORT

The Trustees are pleased to present their annual report together with the financial statements of the charity for the year ended 30 September 2022 which are also prepared to meet the requirements for a directors' report and accounts for the Companies Act purposes.

The financial statements comply with the Charities Act 2011, the Companies Act 2006, the Memorandum and Articles of Association, and 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).

KEY ACHIEVEMENTS

Trust Strategy and Operations

Strategic development

In meeting its charitable objectives, the Kennedy Trust continues to support basic science, as well as an increasing focus on the support of translational and clinical research to help accelerate benefit for people with the lived experience of different inflammatory disorders.

In 2021, key strategic principles were agreed by the Trustees to prioritise support for the Kennedy Institute of Rheumatology at Oxford ("the Institute") and to continue to make a difference with ambitious wider funding, with a strong focus on excellence and crucial support for younger scientists. To take this forward, the Research Committee held a series of strategic discussions this year, starting with a brainstorming session in the Spring to consider where the Trust should focus its funding beyond its substantial commitments for the Institute. Three principal concepts emerged for consideration: firstly, smaller-scale awards that would provide proof of concept and 'pump-prime' larger scale funding, secondly, awards with a focus on transitional stages of research careers towards independence and thirdly, larger scale team-science orientated funding. It has been agreed that the pump-priming awards will have the greatest immediate impact and are deliverable in the shorter-term. A pilot scheme for these awards is currently planned to be rolled out in 2023 and the Trust's Research Committee will continue to consider the other areas identified and will make recommendations to the Board to launch new schemes at suitable junctures depending on resources and strategic need.

Operations

Following the appointment of JP Morgan as Fiduciary Manager for the Trust's investment portfolio in 2021 and successful completion of the transition of the Trust's investments to a more strategic long-term asset allocation, the office has been able to settle to 'business as usual' with a strong and effective working relationship between the executive, the Finance and Investment Committee and the JP Morgan team (see Review of Investment Activities). Similarly, the executive continues to support the work of the General Purposes Committee and the Research Committee to ensure policies, new funding and research activities are put into practice.

The transition between outgoing and incoming Chief Executive Officer was completed successfully in June and a new Financial Controller has been recruited to start work with the Trust at the end of November 2022, with a transition planned with the outgoing Financial Controller until the Spring of 2023. Otherwise, the team has remained of equivalent size and has continued to be effective in delivering on the wide range of Trust business.

The Trust continues to carefully monitor grant performance through self-reporting by grant holders and through the quarterly report to the Board by the Institute Director.

A cycle of development and revision of key policies was undertaken by the Trust and managed by the executive team supporting review by the GPC. This has included, for example, development of a new policy for Grant Awarding.

Association of Medical Research Charities

This was our second year as member of the Association of Medical Research Charities (“AMRC”) and the Trust continues to benefit from the work that the AMRC undertakes as part of its representation of over 150 UK medical research charities and the research they support. The Trust has been involved in various areas of AMRC work and continues to engage wherever there is relevance and value to the Trust’s mission.

Supporting the Kennedy Institute for Rheumatology

Institute update

The Institute remains the Trust’s primary focus of support. The Institute is a key hub within the growing biomedical campus at Oxford, forging new strategic links with other Oxford institutes, including the Botnar Research Centre and the newly established Institute for Development & Regenerative Medicine, with which it has a formal partnership based around the new microscopy and imaging technology platform: the Zeiss Centre of Excellence for advanced imaging.

The Institute has continued to grow its research base and recruit excellent scientists and trainees at all levels. At the end of September 2022, the Institute had a total of 215 staff and students (excluding visiting academics), comprising 155 staff on payroll and 60 DPhil students. The post-pandemic period has continued to see recovery and output of world-class science, although recruitment in specialised areas such as bioinformatics and data science remain challenging and something the Institute is placing particular emphasis on solving.

The Institute’s Director, Professor Fiona Powrie was this year appointed Dame Commander of the Most Excellent Order of the British Empire (DBE), for services to Medical Science. Professor Dame Powrie has been transformational to our understanding of how the gut bacteria and the immune system interact. She continues to be an inspirational role model for young scientists, in particular for the many young women beginning careers in biomedical science. Professor Dame Powrie was appointed deputy chair of the Board of Governors of the Wellcome Trust this year and was able to attend the inauguration ceremony this year in Washington DC to recognise her election as an International Fellow of the National Academy of Sciences in 2020.

As at the end of September 2022, the total grant portfolio of the Institute exceeded £80 million with over one third coming from the Trust of which £4.1m was awarded in the current year. This represents relative growth in the value of grants supported by other funders and demonstrates the significant capacity of the Institute to attract competitive new funding based on the core support of the Trust, including a significant proportion of industry-based investment.

The Institute is organised around five key technology platforms that were originally set out in the Director's scientific vision. The last of these to be funded is the Tissue Biology Platform, which is jointly funded by the Kennedy Trust (£2.5m) and Versus Arthritis (£1m). An expert panel met over the summer of 2022 to evaluate the proposed funding for the platform and included independent scientists and patient partners. The platform funding was recommended based on the increased capability it gives for the Institute to deliver in the critical area of cartilage biology and the unmet need of osteoarthritis and its effective treatment.

Clinical pathology and the Arthritis Therapy Acceleration Programme ("A-TAP")

This pilot programme was originally funded by the Trust in 2017 to help enable the translation of basic research findings into innovative new approaches to treating diseases. A direct result has been the development of the newly established Clinical Pathology platform, which aims to accelerate delivery of new medicines through harnessing approaches and technologies for innovative clinical trials. The investment in A-TAP has stimulated strong interest from industry, with a number of partner companies now involved in the initiative and represents a powerful example of reinvestment of the Trust's funds derived from the anti-TNF royalties towards the development of new drugs and treatments.

Major appointments

The Institute's Deputy Director, Professor Michael Dustin has been elected to the position of Statutory Chair in Molecular Immunology. The Chair is a jointly funded post between the Trust and the University of Oxford through an award originally approved in 2021 and a new agreement that was ratified to begin in November 2022. This new statutory chair represents a major element of the Trust's relationship with the University that will help further strengthen the central role of the Institute as an integral part of the Oxford biomedical campus. Professor Dustin is recognised as a world leader in immune cell imaging and will anchor this important area of science within the Institute and Oxford. His recruitment was published in the University Gazette in September and an inaugural lecture for him is planned for 2023.

Associate Director posts in Tissue Biology and Data Science have also been awarded to Professors Tonia Vincent and Irena Udalova respectively, securing important positions to the senior team and recognising their leadership in these two pivotal areas of science at the Institute. Growth in Data Science is core to biomedical research and the Institute has further maintained its strength in the area through the appointment this year of Dr Yang Luo, a Principal Investigator from Harvard Medical School. Her lab will investigate how genetic variations contribute to diseases of the immune system.

Two of the Institute group leaders, Jelena Bezbradica and Audrey Gerard were made Associate Professors during the year.

Studentships and training

A hallmark of the Institute is its excellent training programme and graduate studies. Each year the Institute applies under the agreement with the Trust for the support for a cohort of new students to add to the 60 DPhil students already training at the Institute. The KTPSS DPhil programme advertises six projects annually and this year included the growing area of computational/data science..

Whole Institute retreat

The Institute has a focus on providing a supportive and interactive environment and provides many ways in which students, scientific staff and group leaders can work together, share ideas, and support one another. This was exemplified this year by the whole Institute retreat, held this Autumn, with a particular emphasis on scientific presentations of more junior scientists and students.

Independent scientific review of the Institute

The Trust carries out a full independent review of the Institute every 4 years, with a Trust Scientific Review Board comprising international and leading UK scientists. A review took place on 14/15 November running concurrently with the Institute's own Scientific Advisory Board review. This is an opportunity for the Trust to understand how well its investment is being utilised and where any concerns or challenges exist. We look forward to including the outputs of this review in the 2022/23 Annual Report and Accounts.

Other funding

Senior Research Fellowships

Two new Senior Research Fellows were supported this year, following a competitive process of application, peer review and panel interviews. Dr Elizabeth Rosser at UCL (awarded £2.2m) is investigating the impact of gut bacteria on the immune system in the autoimmune condition Lupus and Dr Sinisa Savic at Leeds (awarded £2.4m) is exploring how mutations in a particular type of immune cell affect the development of inflammatory disorders. The two new fellows join the three existing fellows and will be important in realising the Trust's mission to support younger research leaders across the UK.

MB PhD scheme

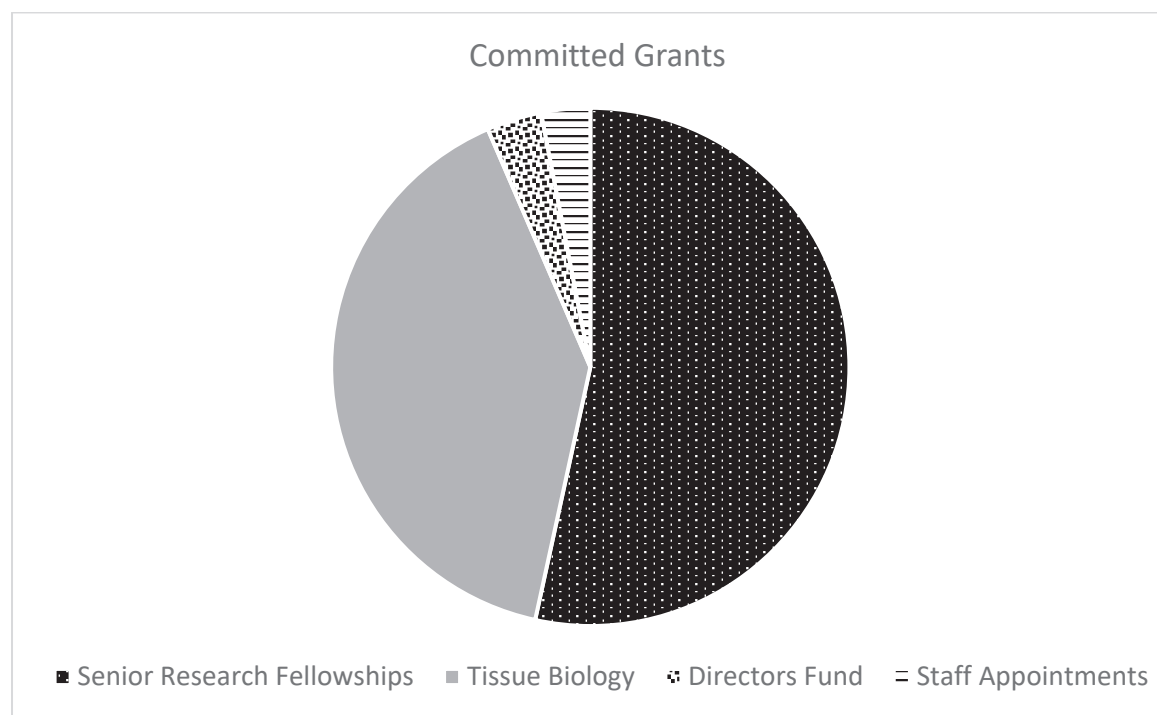
This scheme (Medical Bachelor MBChB, combined with a PhD degree) is supported by the Trust and designed to support the new research talent with clinical training, allowing the training for a PhD in combination with the completion of a medical degree. These types of scientists are vital to the translation of discovery to effective treatments. The scheme is in its second year, and each of the universities running the programme has continued to recruit, with a total of 17 students now enrolled since the start of the scheme across the sites.

Joint funding and partnerships

Following a joint workshop with funders and researchers in 2020 and after some delay, largely because of the pandemic, the Kennedy Trust and Versus Arthritis launched a new call for grants this year with a focus on the understanding and treatment of fatigue. Severe fatigue is a central, yet poorly understood part of life for many who suffer long-term inflammatory conditions and the work funded under this call will help better understand the evidence for new lines of investigation. An expert panel has been convened and will meet to review the applications early in 2023.

The Trust has continued its partnership with the Daphne Jackson Trust, which does important work to support the re-entry of researchers into the workplace after time away from research. Applicants are currently being evaluated and supported in their applications, and final interviews and decisions will happen in early 2023. We are delighted that the Medical Research Council have agreed to provide co-funding this year for this valuable initiative.

Grant Funding during the Year



	£'000	%
Senior Research Fellowships: Non-Institute	4,662	54%
Tissue Biology: The Institute	3,499	40%
Directors Fund: The Institute	300	3%
Staff Appointments: The Institute	266	3%
	<u>8,727</u>	<u>100%</u>

Two Senior Research Fellowships totalling £4,662,331 were awarded to Dr Sinisa Savic at the University of Leeds (£2,428,817) and Dr Elizabeth Rosser at University College London (£2,233,514).

During the year, the Trust issued four grants to the Kennedy Institute at the University of Oxford totalling £4,064,774 being:

- Tissue Biology Platform (£3,499,082) co-funded by the Kennedy Trust (£2,499,082) and Versus Arthritis (£1,000,000).
- Directors Fund (£300,000) being the annual Director of the Institute's discretionary spend award.
- Two staff appointments (£265,692) representing salary support for Associate Professors Jelena Bezbradica (£132,684) and Audrey Gerard (£133,008).

Maini Feldmann Prize

The ongoing development of the Maini Feldmann Prize is intended to recognise the breakthrough of Professor Sir Ravinder Maini and Professor Sir Marc Feldmann in developing treatments for people suffering rheumatoid arthritis and other chronic inflammatory disorders. It is hoped that progress will be made towards its launch in 2023/24.

Wellcome archiving work

In 2021, the Trust agreed that it should undertake the archiving of the documents and papers associated with the discovery of anti-TNF therapy by Professors Sir Marc Feldmann and Sir Ravinder Maini. This is based on the importance of the work to the history of the Trust and its importance to global health of millions benefiting from this form of therapeutic treatment. A professional archivist has been secured and is being hosted at the Wellcome Trust archiving department in London. The work is now well underway and is expected to be completed in mid-2023.

Kennedy Network

The Kennedy Network was established in 2021 to bring together past and present fellows and students supported by the Trust, for networking, sharing technologies and science, collaboration, and training. This has become especially important in light of the growth of non-Institute training and independent research supported by the Trust across the UK. The network steering group is now fully established and planning activities for 2023/24, including a network conference in Spring 2023. Its inaugural newsletter was distributed in December 2022.

IMPACT REPORT

Research impact

The Trust carried out its second annual Researchfish reporting period between March and April 2022. Data was submitted by grant recipients for 53 awards, with a total grant value of £50.6m.

There were a number of notable research success stories over the year, including:

- A collaboration between the Institute and Oxford Population Health's Health Economics Research Centre that found anti-TNF treatment (adalimumab) is likely to be a cost-effective treatment for people affected by early-stage Dupuytren's disease, which affects more than 5 million people in the UK and causes the fingers to irreversibly curl into the palm due to nodules of tissue forming cords under the skin, impairing hand function and quality of life.
- Advanced microscopy techniques developed by the laboratory of Professor Dustin have been used to uncover a new mechanism of immune-based attack on virally infected or cancer cells, with potential to also understand inflammatory pathways.
- Work arising jointly from the Osteoarthritis Centre of Excellence at the Institute led by Professor Tonia Vincent, has described a mechanism by which growth factors are released after cartilage mechanical injury to initiate regeneration of cartilage and why this fails in osteoarthritis. This is a potentially important new step in understanding the mechanical influences on the development of osteoarthritis.
- The success of the growing translational research at the Institute has been exemplified by the fact that several molecules identified by discovery research at the Institute are currently being investigated as targets with therapeutic potential in clinical trials.

A number of key highlights arose from this year's self-reporting from grants at the Institute and elsewhere:

364 unique publications were produced with over half published through an open access route:

- 88 examples of research dissemination, including newspaper, TV and radio interviews, podcast appearances and workshops.
- 5 research prizes were received, including the Iain T Boyle Award awarded to Dr Anjali Kusumbe for her significant progress and contribution to the field of bone and calcified tissue.
- 55% of awards reported at least one collaboration or partnership as a direct result of Kennedy Trust funding, illustrating the value and relevance of this funded research.
- Significant leverage of Trust investment was reported, with £59m of effective funding from other sources based on the Trust's awards. This included £9.4m from the Medical Research Council (MRC) and £6.9m from the European Commission.
- Three new patents were published.

Intellectual Property

The Trust owned a broad portfolio of patents, which included the key US, Canadian and European anti-TNF therapy patents which were licensed out and which together were responsible for generating the Trust's past royalty income. The Trust's remaining Supplementary Protection Certificates came to an end on 31 August 2022.

At the point of completion of the end of the Trust's patents this year, the estimated accumulated royalties returned to the Trust have been in excess of £230m over almost three decades. This has crucially enabled the Trust to continue to make major investments in research through the provision of substantial support for ground-breaking research at the Institute, as well as an extending range of funding across the UK. It has further brought about security for the Trust's future through our managed investment funds (see Financial Report section) allowing the Trust to plan sustainable research funding with relative confidence.

Towards the future

Although the impact of the Covid pandemic has reduced considerably with time, its residual effects along with significant world and economic events this year have presented a number of challenges. The Trust is currently developing a new strategic plan under which it will seek to continue to carefully build a sustainable approach in supporting its research investments. Trustees have reaffirmed the priority of enabling the Institute to continue on its successful trajectory as a world-class centre for research into rheumatological and inflammatory conditions. A priority will be to support deepening roots in Oxford and to secure funding from other sources, including government and industry.

The Trust will also continue to develop partnerships and relations with other institutions and funders in the UK biomedical ecosystem relevant to its mission and seek innovative and sustainable means of supporting new research talent and stimulating and supporting new bold research. For example, Trustees have supported plans for a new pilot scheme of pump-priming awards in 2023 – the *Research Ignition Awards* – which it is hoped will enable researchers to undertake higher-risk research and build new programmes in areas that might otherwise be more difficult. The Trust will seek to continue with an annual round of Senior Research Fellowships to help build the UK talent base of research leaders in inflammatory and rheumatological disease science. It will be confirmed

in 2023 when the next round will commence. The partnerships with the Daphne Jackson Trust and Versus Arthritis are important examples of maximising the impact of the Trust's investments. The Trust looks forward to seeing the outcomes of these partnerships and towards potential future endeavours together.

The value of the Kennedy Network is already demonstrating itself and the Trust will continue to support this initiative, as an independent network of world-class scientists.

The Trust is continuously looking for ways and means of understanding the impact of its investment in research. In addition to maximising the use of Researchfish, the Trust plans to engage specialists in the field of impact reporting to work with the Trust to build its approach.

FINANCIAL REPORT

The Trust had an inaugural full year of management under JP Morgan following their appointment in place of the Trust's previous fiduciary manager SEI in July 2021 as an outcome of a retendering process that commenced in 2020. The Trust continues to work towards an increased private market allocation as part of its long-term strategic asset allocation. Transition of the residual SEI private market assets was largely completed during the year with a minor SEI holding of £0.4m remaining at the year end.

The Trust's investments valued at £313.8m (2021: £341.7m) demonstrate the portfolio is resilient despite difficult market conditions including the war in Ukraine and rising inflation. Whilst challenging economic circumstances adversely affected the values of the Trust's investments, the Finance and Investment Committee is satisfied that its diversified investment strategy will protect the Trust's portfolio, and that there are adequate levels of reserves to support the Trust's long-term planned spend. The Trust's investments are detailed further in the "Review of Investment Activities".

Gross royalty income received during the year was £0.7m (2021: £0.7m). With the revocation of a European patent in November 2019, patent income has diminished in line with expectations until expiration of the remaining Supplementary Protection Certificates on 31 August 2022.

The Trust monetised part of its royalty share in 2012. In accordance with the terms of the monetisation agreement, it received 50% of the royalty due. These payments continued for the life of the patents with the Trust's residual Supplementary Protection Certificates ending on 31 August 2022.

Royalty income was received in US dollars and transferred to pounds sterling on or shortly after the date the funds were received.

Royalty sharing payments of £0.5m (2021: £0.5m) were made to Versus Arthritis and the inventors in respect of this income. These payments are made according to a formula for sharing royalties in line with current UK University practice.

The costs incurred in prosecuting the Trust's patent portfolio were £14k (2021: £36k). The current year decline reflects reduced patent protection activity. With the revocation of one of the Trust's European patents in November 2019, royalties have subsequently diminished.

Total support costs during the year amount to £554k (2021: £370k) and these costs are allocated over Trust activities in accordance with time spent, invoices directly allocated or another fair

method of allocation. Changes in key management personnel have driven the increase in support costs. The Trust completed a successful transition of Chief Executive Officer in June 2022, and a new Financial Controller has been recruited to assume the role in 2023 resulting in recruitment costs of £51k (2021: nil). The three month overlap of Chief Executive Officer, along with a contractual adjustment for the Financial Controller from an 0.6 to 0.8 full time equivalent has driven the increase in staff costs of £46k. Further information on key management personnel is detailed in Note 8 to the Accounts.

Governance costs are analysed in Note 7 to the Accounts. These totalled £50k in 2022 (2021: £37k) which represents less than 1% of funds expended. The Trust has returned to a greater proportion of in person meetings in line with government Covid-19 guidance resulting in increased Trustee meeting and travel costs of £9k. In addition, there has been a £5k increase in audit fees.

The committed grants in 2022 were £8.7m against £27.3m in 2021. The figure shown in the accounts is net of grant write backs and other adjustments of £1.2m (2021: £4.0m) comprising agreed cancellations of £0.8m (2021: £2.9m) and grant write backs £0.4m (2021: £0.7m). Two Senior Research Fellowships totalling £4.6m were awarded to Dr Sinisa Savic at the University of Leeds (£2.4m) and Dr Elizabeth Rosser at University College London (£2.2m). Institute Initiatives totalling £4.1m were awarded including a £3.5m Tissue Biology grant co-funded with Versus Arthritis, with the Trust contributing £2.5m and Versus Arthritis £1m. Grants awarded have reduced significantly as the MB PhD Programme (£8.2m) and several large Institute initiatives including support for a Statutory Chair in Molecular Immunology (£2.4m) were made in 2021.

The Trust assessed if the impact of discounting multi-year grant liabilities to present value is material, and due to the level of grant liabilities and rising inflation, for the second consecutive year, the impact is considered material. A review of the discount rate was carried out during the year in conjunction with the previous adoption of CPI plus 3% as representing the most appropriate rate as it relates to the Trust's opportunity cost of money reflecting time value of funds to the Trust. A further element of prudence was added this year, in response to the significant upward rise in CPI at both the headline (including food and energy) and core data sets which was to adopt core CPI as the inflation reference given the highly volatile nature of headline CPI following the spike on commodity and food priced after the Ukraine invasion and subsequent volatility in energy prices in particular. While over the long-term one would expect this divergence to narrow, the core CPI target should provide a more stable benchmark for discounting multi-year liabilities.

The non-current grant liabilities of £33.4m (2021: £34.7m) are discounted. Applying a discount rate of UK Core CPI + 3% equating to 9.5% (2021: 6.1%) results in a grant liabilities discount of £6.8m (2021: £4.9m) recognised as a reduction in charitable expenditure with a current year impact of £1.8m (2021: £4.9m).

The cash spend on grants by the Trust during the year reflects grants committed in earlier years so does not move in proportion to the grants committed. The cash spend in 2022 was £7.6m (2021: £8.0m).

The Trust considers salaries paid on an annual basis to ensure they are fair and appropriate for the positions and reflect any changes to the roles during the year. In addition, account is taken of changes in the cost of living.

The Finance and Investment Committee, with approval by the Board, reviews salaries of Key Management Personnel (KMP) on an annual basis as outlined above. Maintaining salaries in real terms is considered along with ensuring salaries are commensurate to roles and responsibilities.

The Trust appoints external recruitment agents to advise on KMP appointments. The Board or a delegated working group will determine the pay range for a vacancy prior to advertising, ensuring remuneration is in line with industry and market.

The Trust does not fundraise and does not deal with the public directly. A minimal amount of unsolicited donations of £184 were received in the year (2021: £160), therefore the Charity does not need to follow a fundraising standards scheme.

The Covid-19 outbreak, and the resultant global lockdowns initially adversely affected the values of the Trust's investments, however since the earliest impact in March 2020, the Trust has benefited from a material recovery.

REVIEW OF INVESTMENT ACTIVITIES

As a matter of good governance, the Trust retendered its fiduciary manager engagement in 2020 with JP Morgan appointed in place of SEI in July 2021. The Trust continues to move towards a greater allocation to private market investments in the longer term, and an increased focus on Environmental, Social and Governance (ESG) matters. Whilst the transition of liquid assets to JP Morgan was completed in 2021, private market assets continued to be transitioned during the year due to their illiquid nature.

The Trust reviewed its Investment Policy during the year. The Trustees concluded the Trust's principal objective for the long-term portfolio continues to be a total return on invested funds of UK CPI+3% pa over the longer term, through a balanced portfolio with sufficient liquidity to meet short term spending commitments and hence avoid the forced sale of long-term and less liquid assets.

The Trust aims for the portfolio to provide sufficient excess returns to cover its grant giving and to preserve the real value of the Trust's assets over the long-term.

As income from patents ended on 31 August 2022, the Trust has evolved to rely solely on portfolio income and capital for grant giving for the foreseeable future. The Trust carries out no fundraising activities.

The Trustees consider the strategic asset allocation determined as part of JP Morgan's appointment is appropriate being multi-asset and well-diversified with global exposure across a variety of asset classes and currencies.

The transition of private market assets to JP Morgan continued with proceeds of £31.5m achieved from the sale of SEI illiquid holdings with full redemption of Global Real Assets (£19.5m) and partial sale of the Structured Credit Fund (£12.0m). Proceeds from the sales were invested in the Trust's portfolio by JP Morgan and resulted in realised gains on investments of £1.4m. As part of the transition, JP Morgan managed private market vehicles HPS Corporate Lending Funding (£21.0m), PGIM Global Select Real Estate Securities Fund (£4.1m) and PEG Global Private Equity X S.A (£0.6m) were entered during the year. The residual illiquid investment held with SEI, the Structured Credit Fund (£0.4m) will be transitioned to JP Morgan.

The Trust's holdings in the three UK property funds: The Charities Property Fund (Savills), COIF Charities Property Fund (CCLA) and Property Income Trust for Charities (Mayfair) are being retained for an interim period under review, being considered efficient charity specific vehicles, and providing appropriate exposure to the sector. These funds represent 11.4% (2021: 9.6%) in value of the portfolio.

The Trust's private market holdings, Glouston Private Equity Opportunities of £6.3m (2021: £7.5m) and Tennenbaum Special Situations of £4.4m (2021: £5.4m) are being held through to run off.

The M&G Charifund holding of £1.4m (2021: £1.6m) represents the Trust's permanent endowment and is being retained for an interim period.

Return on Investments

The return on investments for the year to 30 September 2022 was -6.57% (2021: 15%), below the Trust's long-term target return on investments being a total return in excess of inflation, defined as CPI + 3%. Whilst difficult market conditions including the war in Ukraine and rising inflation have adversely impacted returns, the Trustees believe the investment strategy of a well-diversified balanced portfolio across assets classes and regions will deliver the longer-term return it is seeking.

The Finance and Investment Committee is responsible, in consultation with its investment advisers, for the development of the investment strategy for the Trust and monitors investment performance at its quarterly meetings. The investment managers submit quarterly reports to the Committee. JP Morgan make quarterly presentations to the Finance and Investment Committee and an annual presentation to the Board covering reviews of performance, strategy, and future plans both in the short to longer term. JP Morgan, a substantial global investment manager, is responsible for managing 84.7% of the Trust's assets.

The investments overseen by JP Morgan are in collective schemes. These funds include public equities, bonds, alternatives, and private markets. The portfolio managed by JP Morgan is moving towards a higher allocation of private market vehicles including private credit, infrastructure (holding entered October 2022) and further private market investments. JP Morgan selects a wide range of managers within the funds, to diversify manager risk.

A firm of independent consultants, Lane Clark & Peacock LLP (LCP), has been retained to provide annual updates on the property funds and in the prior year, advised on the retendering of the Trust's fiduciary manager. LCP commenced consulting for the Trust in 2017 when the Trust commissioned LCP to complete a review of its investment policy.

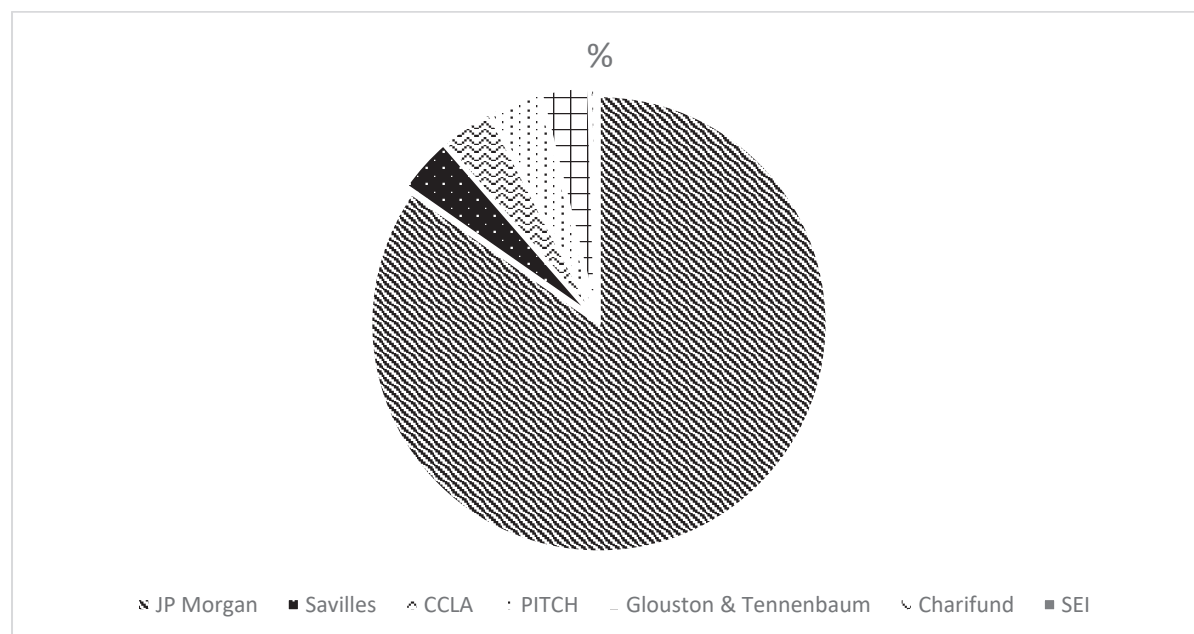
Environmental, Social and Governance

The Trust's approach to responsible investment is intended to be consistent with its duty to secure satisfactory long-term returns from the investment of its charitable funds. The Trustees expect their fund managers to consider the Environmental, Social and Governance (ESG) policies of companies alongside other factors that will affect their long-term investment prospects.

ESG factors are sources of risk and opportunities to the Trust's investments, some of which could be financially material, over both the short and longer term. These include risks relating to systemic factors, such as climate change and pandemics, and other business specific factors such as cyber-security, pollution, employee welfare, unsustainable business practices and more generally unsound corporate governance. The Trustees seek to appoint investment managers who will manage these risks appropriately on their behalf and from time to time, review how these risks are being managed in practice.

Investment managers are asked to make regular reports on the application of their ESG policies. These are reviewed at the manager meetings. Given the Trust's objectives, the Trustees have a particular interest in and concern about tobacco investments and give extra focus to monitoring these as part of its ESG activities.

Investment Portfolio Split by Manager



30 September 2022

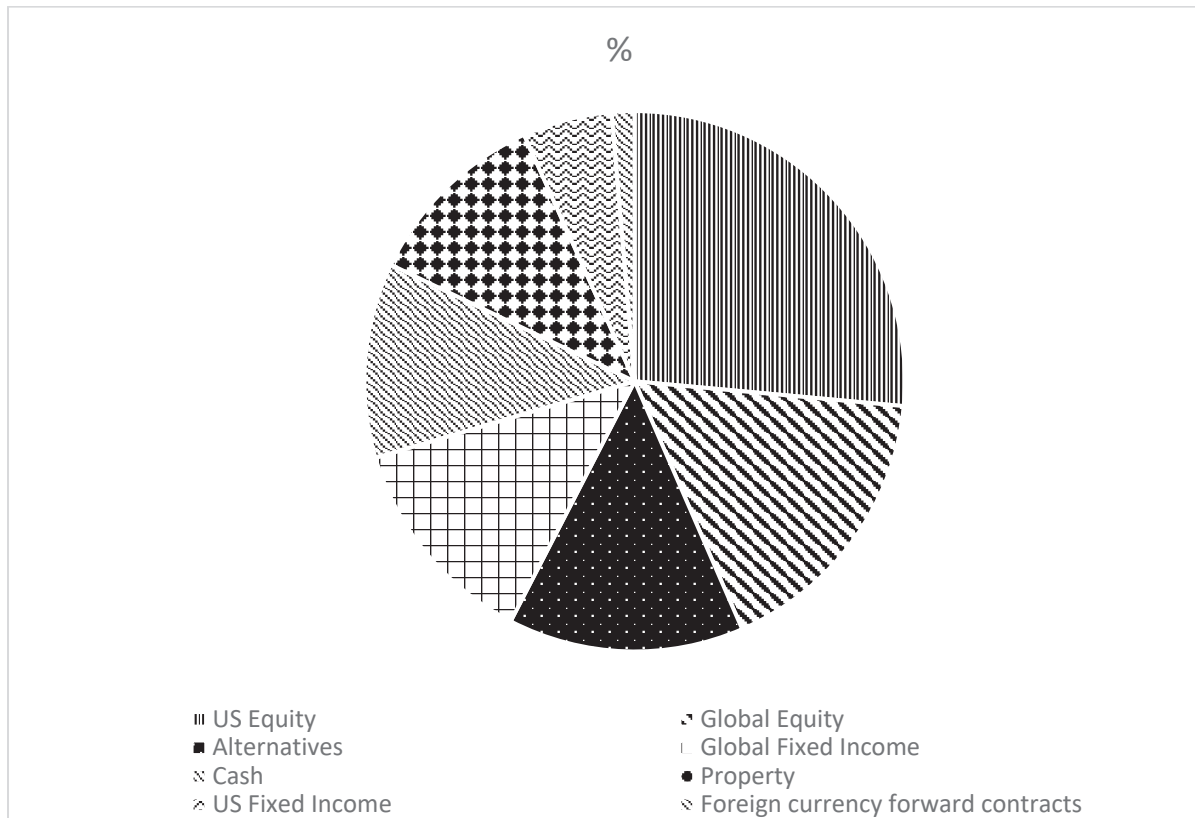
	£'000	%
JP Morgan	265,304	84.7%
Savilles	12,318	3.9%
CCLA	12,036	3.8%
PITCH	11,636	3.7%
Glouston & Tennenbaum	10,680	3.4%
Charifund	1,406	0.4%
SEI	379	0.1%
TOTAL	313,759	100.0%

JP Morgan holdings comprise liquid investments of £243.7m along with £21.6m of private market investments being private credit (£21.0m) and an initial holding in JPM Private Equity Group (£0.6m).

Glouston Private Equity Opportunities of £6.3m (2021: £7.5m) and Tennenbaum Special Situations of £4.4m (2021: £5.4m), a private credit vehicle, both entered during the previous SEI management are being held through to run off.

The residual SEI investment (£0.4m) represents the Trust's holding in the Structured Credit Fund which will be transitioned to JP Morgan.

Investment Portfolio Split by Type



	30 September 2022	
	£'000	%
US Equity	85,477	27.2%
Global Equity	54,857	17.5%
Alternatives	45,697	14.5%
Global Fixed Income	41,302	13.2%
Cash	37,680	12.0%
Property	35,990	11.5%
US Fixed Income	17,236	5.5%
Foreign currency forward contracts	(4,480)	(1.4%)
Total	313,759	100.0%

PRINCIPAL RISKS

A formal risk register is maintained and reviewed annually at Board level. The purpose of the review is to look at key risks and the effectiveness of procedures in place to mitigate them.

Risks can have a short term and/or a long-term impact on the Trust's ability to meet its objectives. Those monitoring each risk advise the Board on actions that should be taken to manage risk, and report periodically on the effectiveness of their oversight.

The Trust has identified the following principal risks and steps to mitigate the risk.

Reduction in expected returns from investments due to impact of financial markets' declines – the Trust has engaged an external fiduciary manager JP Morgan, and pursues an asset allocation policy to diversify risk and conserve capital in real terms. There are regular reviews of investment strategy and policy (in light of the Trust's financial plans) by the Finance and Investment Committee and the Trust's fiduciary manager. These are tabled at Board meetings for discussion and approval. The Trust considers that it is unlikely to be impacted by short-term market volatility given the portfolio is well-diversified and there are sufficient liquid assets to meet its spending requirements.

Failure of the Trust to earn an appropriate return from its assets – the Trust has engaged a fiduciary manager JP Morgan, who provides quarterly update presentations to the Finance and Investment Committee along with quarterly performance reports and annual presentations to the Board. Regular reviews of long-term expected returns compared with expected spending are performed.

Risk of loss of Chairman and other Trustees – the Trust has a policy of reviewing the number, skills and diversity of Trustees and seeks new ones as necessary.

Risk of loss of key management personnel – Trustees aim to keep apprised of staff plans.

Risk of cybercrime – the Trust uses cloud-based secure storage and maintains protection software. The Trust employs external IT consultants to ensure data security and prevention of data loss. This is regularly reviewed to ensure compliance with GDPR. Cyber Essentials Certification was attained in 2021 and is to be maintained on an ongoing basis. Employees and Trustees (from April 2022) are offered on-demand online training in cyber security.

RESERVES

The Trust has only a small endowment. However, it has used the royalty income received to build up reserves so that it is able to fund its charitable activities as royalties ceased in August 2022. The Trustees maintain funds with the objective of generating a sufficient return to fund current and future charitable activities. The Trust wishes to have adequate sums to continue to support the Institute for the foreseeable future.

It is the aim of the Trustees to maintain the value of reserves in real terms over a reasonable time horizon, fulfilling the charitable objectives of the Trust by using both income and capital growth to meet expenditure.

The level of reserves is monitored on a quarterly basis by means of management accounts and cash flow forecasts.

The Trust holds unrestricted reserves in the form of designated funds that are earmarked to meet the funding due to the Institute under the agreement (the Oxford Research Grant Fund 2021) and fund future legal expenses (the Legal Expense Fund):

- **Oxford Research Grant Fund 2021** – The Trust signed an agreement with the University of Oxford on 18 October 2018 in anticipation of the ending of the initial agreement, under which it restated its intention to support the Institute. Under the agreement, the Trust has a commitment to fund £4m a year (adjusted for inflation) from 1 August 2021 through to 31 July 2026. A designated fund of £22.1m was set up in the 2019 financial year to reflect these funding requirements and £4.1m of the grants issued to Oxford during the year (2021: £0.7m) have been set against this fund.

Trustees consider that it is more correct to show this commitment by means of a designated fund rather than as a grant creditor because the Trust has the right to refuse payment if no suitable projects are put forward.

The initial funding agreement with the University of Oxford covered a period that ended on 31 July 2021. The Trust had a commitment to fund the Institute at a level of at least £3m per annum (adjusted for inflation). The first Oxford Research Grant designated fund was closed following the end of the contract in the previous year with the residual balance of £2.958m released to the Unrestricted General Funds in 2021.

- **Legal Expense Fund** – the purpose of the Legal Expense Fund is to provide the means to enforce and protect patent rights and licence terms, by arbitration or litigation, and to meet the costs of current and future disputes concerning either the validity of the Trust's patents or royalties payable to the Trust.

A decision was taken during 2017 to reduce the level of this fund by £5m and in April 2019 it was reduced by a further £5m. This reflects the fact that as the royalties cease the risk of becoming involved in litigation diminishes.

The balance as at 30 September 2022 was £1.058m (2021: £1.067m).

As at 30 September 2022 the monies held in designated funds amounted to £18.461m (2021: £22.503m) distributed across the following funds:

	£ '000
Legal Expense Fund	1,058
Oxford Research Grant Fund 2021	<u>17,403</u>
	<u>18,461</u>

When the Trustees deem it appropriate, the Trust will draw from its reserves, as well as income, to fund its activities. Based on the accounts as at 30 September 2022, total reserves are £279.118m (2021: £306.428m). Excluding restricted funds (£1.405m) and designated funds (£18.461m) leaves £259.252m in the general fund that could be utilised, if required.

Whilst these could be considered 'free reserves', the Trustees do not believe that this is an appropriate measure for the Trust. The accumulation of reserves in general funds, arising from royalty income and investment returns is in line with the power conferred on the Trust to hold income in reserve and to be used to generate investment income to apply on charitable activities. The Trust's policy had been discussed with the Charity Commission. The Trustees consider the current level of reserves to be appropriate in light of its ambition to provide long-term support to scientists working in the fields of fundamental and translational research into musculoskeletal and related diseases.

As at 30 September 2022, total Trust funds stood at £279.118m (2021: £306.428m) held in the following types of fund:

	£ '000
Endowment Funds	1,405
General Fund	259,252
Designated Funds	<u>18,461</u>
	<u>279,118</u>

CHARITY INFORMATION

Registered Office

Boundary House
91 Charterhouse Street
London EC1M 6HR

Registered Charity No: 260059
Registered Company No: 963832

Business Address

One Lyric Square
London W6 0NB

Telephone: 020 8049 8136

President

Professor Sir Ravinder Maini

Vice Presidents*

Dr. Colin Barnes
Mrs. Bella Sunley

*Vice-Presidents hold an honorary position and are not trustees

Board of Trustees

Professor Sir Stephen Holgate (Chair)
Mr. Edmund Buckley
Mr. Christopher Coombe
Professor Andrew Cope
Mr. Mark Dighero
Mrs. Margaret Frost
Professor Hill Gaston (resigned 22 June 2022)
Professor Tracy Hussell (appointed 12 October 2021)
Mrs. Jennifer Johnson (resigned 22 June 2022)
Mr. David Paterson (resigned 12 October 2021)
Professor Michael Patton
Mr. Richard Punt
Dr. Paul Satchell
Ms. Victoria White

Officers

Dr. Stephen Simpson (appointed CEO Designate 1 April to 30 June 2022, Chief Executive Officer from 30 June 2022)

Mr. Pierre Espinasse (Chief Executive Officer until 30 June 2022)

Mrs. Susan Johanson (Secretary until 28 March 2023)

Mrs. Hazel Middleton (Secretary from 28 March 2023)

Independent Auditors

MHA MacIntyre Hudson
6th Floor
2 London Wall Place
London EC2Y 5AU

Bankers

Lloyds TSB Bank PLC
25 King Street
Hammersmith
London W6 9HW

Investment Advisers

J.P. Morgan SE (previously J.P. Morgan Bank Luxembourg S.A., London branch until 22nd January 2022)

60 Victoria Embankment
London EC4Y 0JP

Legal Advisers

Amster Rothstein & Ebenstein LLP
(previously Cooper & Dunham LLP)
845 Third Avenue, 6th Floor
New York, NY 10022

Stone King LLP
Boundary House
91 Charterhouse Street
London EC1M 6HR

STATEMENT OF TRUSTEES' RESPONSIBILITIES

The Trustees (who are also directors of the Trust for the purposes 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 Accounting Practice).

Company law requires Trustees to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the charitable company and of the incoming resources and application of resources, including the income and expenditure, of the charitable company for that 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;
- 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 the going concern basis unless it is inappropriate to presume that the charitable company will continue in business.

The Trustees are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the charitable company and hence for taking reasonable steps for the prevention and detection of fraud and other regularities.

The Trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charity's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

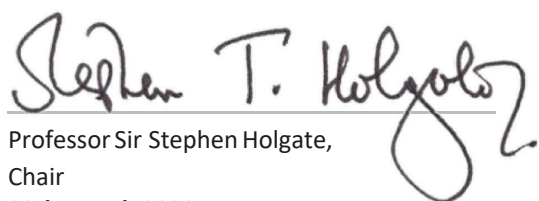
In so far as the Trustees are aware:

- there is no relevant audit information of which the charitable company's auditor is unaware; and
- the Trustees have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.
- The Trustees' Annual Report is approved by the Trustees of the charity. The Strategic Report, which forms part of the Annual Report, is approved by the Trustees in their capacity as directors in company law of the charity.

Auditors

The auditors, MHA MacIntyre Hudson were appointed auditors during the year and are deemed to be reappointed under section 487(2) of the Companies Act 2006.

By order of the Board of Trustees.



Professor Sir Stephen Holgate,
Chair

28th March 2023



Margaret Frost,
Chair of the Finance and Investment Committee

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE KENNEDY TRUST FOR RHEUMATOLOGY RESEARCH

Opinion

We have audited the financial statements of The Kennedy Trust for Rheumatology Research (the 'charitable company') for the year ended 30 September 2022 which comprise the Statement of Financial Activities, the Balance Sheet, the Statement of Cash Flows and the 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 charitable company's affairs as at 30 September 2022, and of its incoming resources and application of resources, including its income and expenditure, 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 Companies Act 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

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. Our evaluation of the Trustees' assessment of the entity's ability to continue to adopt the going concern basis of accounting included critical reviews of budgets and forecasts provided.

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 charitable company'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, 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.

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' report (incorporating the Strategic Report and the Directors' report) for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- 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 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 requires us to report to you if, in our opinion:

- adequate 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 set out on page 26, 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

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.

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 specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

- Obtaining an understanding of the legal and regulatory frameworks that the entity operates in, focusing on those laws and regulations that had a direct effect on the financial statements;
- Enquiry of management and those charged with governance to identify any instances of known or suspected instances of fraud;
- Enquiry of management and those charged with governance around actual and potential litigation and claims;
- Enquiry of management about any instances of non-compliance with laws and regulations;
- Reviewing the control systems in place and testing the effectiveness of the controls;
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness;
- Evaluating the business rationale of significant transactions outside the normal course of business;
- Reviewing accounting estimates for bias;
- Reviewing minutes of meetings of those charged with governance; and
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

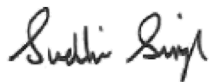
Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-

compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <https://www.frc.org.uk/Our-Work/Audit/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx>. This description forms part of our auditor's report.

Use of this 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. Our audit work has been undertaken so that we might state to the charitable company's members 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 and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Sudhir Singh FCA (Senior Statutory Auditor)

For and behalf of

MHA MacIntyre Hudson

Statutory Auditor

London, United Kingdom

Date: 4 April 2023

ACCOUNTS

Statement of Financial Activities for the Year Ended 30 September 2022 (incorporating Income and Expenditure Account)

	Note	Unrestricted Funds 2022 £'000	Endowment Funds 2022 £'000	Total Funds 2022 £'000	Total Funds 2021 £'000
Income from other Trading Activities					
- Royalty Income		684	-	684	735
- Reimbursement of Patent Costs		-	-	-	13
Investment Income	10b	8,015	-	8,015	10,042
Other Income					
- Exchange gain		19	-	19	11
Total Income		8,718	-	8,718	10,801
Expenditure on Charitable Activities					
- Research Funding	4	6,144	-	6,144	18,680
Costs of Raising Funds					
- Intellectual Property Protection	4, 5	14	-	14	36
- Royalty Sharing Payments	4, 5	474	-	474	514
- Investment Advice	4, 5	1,073	-	1,073	1,579
Total Expenditure		7,705	-	7,705	20,809
Net Income/(Loss) before Investment Gains/(Losses)		1,013	-	1,013	(10,008)
Net (Losses)/Gains on Investments					
Realised (Loss)/Gain	10a	(11,646)	-	(11,646)	32,244
Unrealised Investment (Loss)/Gain	10a	(16,507)	(170)	(16,677)	7,915
		(28,153)	(170)	(28,323)	40,159
Net (Expenditure)/Income		(27,140)	(170)	(27,310)	30,151
Total Funds brought forward		304,853	1,575	306,428	276,277
Total Funds carried forward	15	277,713	1,405	279,118	306,428

The detailed 2021 comparative Statement of Financial Activities is reported in note 2.


The notes on pages 34 to 55 form part of these financial statements.


Balance Sheet as at 30 September 2022

	Note	30 September 2022 £'000	30 September 2021 £'000
Fixed Assets			
Tangible Fixed Assets	16	4	-
Investments	10a	313,759	341,670
		313,763	341,670
Current Assets			
Debtors	11	579	667
Cash at Bank and in hand		1,797	3,095
		2,376	3,762
Creditors (amounts falling due within one year):			
Sundry Creditors and Accruals	12	(194)	(371)
Grant Payments due within One Year		(10,161)	(8,909)
		(10,355)	(9,280)
Net Current Assets		(7,979)	(5,518)
Total Assets less Current Liabilities		305,784	336,152
Creditors (Amounts falling due after more than One Year)	13	(26,666)	(29,724)
Net Assets	14	279,118	306,428
Funds			
Unrestricted - Designated		18,461	22,503
Unrestricted - General		259,252	282,350
Unrestricted - Total		277,713	304,853
Endowment		1,405	1,575
Total Funds	15	279,118	306,428

Company Registration Number: 963832

These Accounts were approved by the Trustees and authorised for issue on 28th March 2023.


Professor Sir Stephen Holgate
Chairman of the Board of Trustees


Margaret Frost
Chair of the Finance and Investment Committee

The notes on pages 34 to 55 form part of these financial statements.

Statement of Cash Flows for the Year Ended 30 September 2022

	Year Ended 30 September 2022 £'000	Year Ended 30 September 2021 £'000
Net Cash used in Operating Activities (Note a)	(8,072)	(9,387)
Cashflow from Investing Activities (Note b)	6,774	10,576
Change in cash and cash equivalents in the year	(1,298)	1,189
Cash and Cash Equivalents at 1 October	3,095	1,906
Cash and Cash Equivalents at 30 September	1,797	3,095

a. Net Cash used in Operating Activities

	2022 £'000	2021 £'000
Net (expenditure)/income for the year	(27,310)	30,151
Investment income	(8,015)	(10,042)
Losses/(gains) on investments	28,323	(40,159)
Add back investment management costs	824	248
Add back depreciation of tangible assets	1	-
(Increase)/decrease in creditors	(1,983)	10,279
Decrease in debtors	88	136
Net Cash Flow from Operating Activities	(8,072)	(9,387)

b. Cash Flow from Investing Activities (Note b)

	2022 £'000	2021 £'000
Payments to acquire investments	(144,667)	(272,872)
Receipts from sales of investments	143,431	273,406
Investment income	8,015	10,042
Purchase of tangible fixed assets	(5)	-
Net Cash Flow from Investing Activities	6,774	10,576

c. Analysis of Changes in Cash and Cash Equivalents

	30 September 2021 £'000	Cash Flows £'000	30 September 2022 £'000
Cash at Bank and in hand	3,095	(1,298)	1,797

As the Trust does not have any debt, an analysis of net debt has not been produced.

Notes to the Accounts

1. Summary of Significant Accounting Policies

(A) GENERAL INFORMATION AND BASIS OF PREPARATION

The Kennedy Trust for Rheumatology Research is a company limited by guarantee registered in England. 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 in the charity information on page 24 of these financial statements.

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 applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102), the Charities Act 2011 and the Companies Act 2006.

The financial statements are prepared on a going concern basis under the historical cost convention, modified to include certain items at fair value. The financial statements are presented 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.

(B) FUNDS

Unrestricted funds are available for use at the discretion of the Trustees in furtherance of the general objectives of the charity and which have not been designated for other purposes.

Designated funds comprise unrestricted funds that have been set aside by the Trustees for particular purposes. The aim and use of each designated fund is set out in the notes to the financial statements.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by donors or which have been raised by the charity for particular purposes. The cost of raising and administering such funds are charged against the specific fund. The aim and use of each restricted fund is set out in the notes to the financial statements.

Endowment funds represent those assets which must be held permanently by the charity, principally the Maynard Jenour Fund and the Kennedy Endowment Fund. Income arising on the endowment funds can be used in accordance with the objects of the charity and is included as unrestricted income. Any capital gains or losses arising on the investments form part of the fund. Investment management charges and legal advice relating to the fund are charged against the fund.

(C) INCOME RECOGNITION

All incoming resources are included in the Statement of Financial Activities (SoFA) when the charity is legally entitled to the income after any performance conditions have been met, the amount can be measured reliably, and it is probable that the income will be received.

Donations are recognised on receipt. If there are conditions attached to the donation and this requires a level of performance before entitlement can be obtained, then income is deferred until those conditions are fully met or the fulfilment of those conditions is within the control of the charity and it is probable that they will be fulfilled.

Investment income is earned through holding assets for investment purposes such as shares and property. It includes dividends and interest. Where it is not practicable to identify investment management costs incurred within a scheme with reasonable accuracy, the investment income is reported net of these costs. It is included within cost of raising funds when the amount can be measured reliably. Interest income is recognised using the effective interest method and dividend income is recognised as the charity's right to receive payment is established.

Income from royalty and licence agreements is recognised throughout the year when there is reasonable assurance of receipt. Royalty and licence income are recognised gross of the related revenue share obligations to the inventors and other parties which are payable on recognition of the royalty income. Licence agreements also provide for the reimbursement of patent protection costs in certain cases.

(D) EXPENDITURE RECOGNITION

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category. Expenditure is recognised where there is a legal or constructive obligation to make payments to third parties, it is probable that the settlement will be required, and the amount of the obligation can be measured reliably. It is categorised under the following headings:

- Costs of raising funds includes royalty sharing payments, intellectual property protection & investment advice;
- Expenditure on charitable activities includes research science funding and research infrastructure funding.

The Trust was registered for VAT until 7 May 2019 at which time it deregistered. Whilst the Trust was registered for VAT, the recoverable aspect of VAT was removed from the expense and against the activity for which expenditure arose. Subsequent to deregistration, VAT is recorded against the expense and activity for which expenditure arose.

Grants payable to the Institute and to other third parties are within the charitable objectives. Where unconditional grants are offered, this is accrued as soon as the recipient is notified of the grant, as this gives rise to a reasonable expectation that the recipient will receive the grants. Where grants are conditional relating to performance then the grant is only accrued when any unfulfilled conditions are outside of the control of the charity.

The provision for a multi-year grant is recognised at its present value where settlement is due over more than one year from the date of the award, there are no unfulfilled performance conditions under the control of the Trust that would permit the Trust to avoid making the future payment(s), settlement is probable and the effect of discounting is material. A review of the discount rate was carried out during the year in conjunction with the previous adoption of CPI plus 3% as representing the most appropriate rate as it relates to the Trust's opportunity cost of money reflecting time value of funds to the Trust as detailed in the Financial Report on page 15. A further element of prudence was added this year, in response to the significant upward rise in CPI at both the headline (including

food and energy) and core data sets, which was to adopt core CPI as the inflation reference given the highly volatile nature of headline CPI following the Ukraine invasion and subsequent volatility in energy and food prices in particular. The effect of the discount rate of UK Core CPI + 3% applied has been quantified in the Financial Report on page 15 and notes 4 and 13.

Royalty sharing payments are calculated by applying a formula for the distribution of royalty income agreed by the Trustees and Versus Arthritis, which reflects current UK university practice. Such payments are accrued in line with the corresponding royalty income.

Investment advice reflects the costs incurred by the Trust in managing its investment portfolios. The cost includes both internal costs and external consultancy and management costs. Cost is recognised in line with the accruals basis above.

(E) SUPPORT COSTS ALLOCATION

Support costs are those that assist the work of the charity but do not directly represent charitable activities and include office costs, governance costs and administrative payroll costs. They are incurred directly in support of expenditure on the objects of the charity and include grant management carried out by the Trust's employees. Where support costs cannot be directly attributed to particular headings they have been allocated to cost of raising funds and expenditure on charitable activities on a basis consistent with use of the resources. Premises overheads and other overheads have been allocated either on time spent or on another basis as appropriate.

The analysis of these costs is included in note 6.

(F) TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost (or deemed cost) or valuation less accumulated depreciation and accumulated impairment losses. Cost includes costs directly attributable to making the asset capable of operating as intended. The agreed capitalisation limit of tangible assets has been increased and agreed at £1,000.

Depreciation is calculated to write-off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Computer equipment	3 years
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(G) INVESTMENTS

Investments are recognised initially at fair value which is normally the transaction price excluding transaction costs. Subsequently, they are measured at fair value with changes recognised in 'net gains / (losses) on investments' in the Statement of Financial Activities if the shares are publicly traded or their fair value can otherwise be measured reliably. The Trustees have deemed that the fair value of unlisted open ended investment companies (OEIC's) and illiquid property fund investments, equates to the charity's share of the Net Asset Value (NAV) of the assets held, based on the market prices as at the valuation date. Investment gains and losses are shown split between realised and unrealised.

(H) DEBTORS AND CREDITORS RECEIVABLE / PAYABLE WITHIN ONE YEAR

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in expenditure.

(I) PROVISIONS

Provisions are recognised when the charity has an obligation at the balance sheet date as a result of a past event, it is probable that an outflow of economic benefits will be required in settlement and the amount can be reliably estimated.

(J) LEASES

Rentals payable and receivable under operating leases are charged to the Statement of Financial Activities on a straight-line basis over the period of the lease.

(K) FOREIGN CURRENCY

Foreign currency transactions are initially recognised by applying to the foreign currency amount the best available exchange rate between the functional currency and the foreign currency at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency at the balance sheet date are translated using the closing rate. Gains and losses on exchange are allocated to the appropriate resource.

Forward exchange contracts are used solely to manage the exposure to foreign exchange rate risks in respect of the Trust's investment portfolio.

(L) 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.

The charity contributes to the personal pension schemes of the employees and all costs are charged to the Statement of Financial Activities in the year to which they relate.

(M) TAX

The charity is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. It therefore does not suffer tax on income or gains applied for charitable purposes.

(N) GOING CONCERN

The financial statements have been prepared on a going concern basis as the Trustees believe that no material uncertainties exist. The Trustees have considered the level of funds held and the expected level of income and expenditure for 12 months from authorising these financial statements and the impact of Covid-19. The budgeted income and expenditure are sufficient with the level of reserves for the charity to be able to continue as a going concern.

In arriving at this conclusion, the Trust's investment portfolio has been stress tested with the assistance of its fiduciary manager JP Morgan. The Trustees concluded that even in the worst case scenarios, funds available are considered to be comfortably adequate to ensure the solvency, resilience, and liquidity of the Trust.

(O) FINANCIAL INSTRUMENTS

The charity holds both basic and complex Financial Instruments. The Trust has elected to apply the provisions of Section 11 and Section 12 of FRS 102 in full in respect of financial instruments. The financial assets and financial liabilities of the Charity are as follows:

Debtors – trade and other debtors (including accrued royalty income) are basic financial instruments measured at amortised cost.

Cash at bank – is classified as a basic financial instrument and is measured at face value.

Liabilities – trade creditors, accruals and other creditors will be classified as financial instruments, and are measured at amortised cost as detailed in notes 12 and 13. Taxation and social security are not included in the financial instruments disclosure. Deferred income is not deemed to be a financial liability, as the cash settlement has already taken place and there is simply an obligation to deliver charitable services rather than cash or another financial instrument.

Investments – a number of investments held at the year-end are classified as complex financial instruments as they are unlisted open ended investment companies (OEIC's). Under Section 11.24 of FRS 102 SORP 2019 the subsequent measurement of complex financial instruments should be at fair value and all changes in the fair value should be recognised in the Statements of Financial Activities. The Trustees have deemed that the fair value of these investments equates to the charity's share of the Net Asset Value (NAV) of the assets held, based on the market prices as at the valuation date. The Trust deems its derivative instruments as complex financial instruments and the Trust's policy is explained below. All other investments are classified as basic financial instruments and held at their market value.

Derivative instruments – The Trust uses Forward foreign currency contracts to reduce exposure to foreign exchange rates solely in respect of its investment portfolio. Derivative financial instruments are initially measured at fair value on the date the derivative contract is entered into and are subsequently re-measured to fair value at each reporting date. Fair value gains and losses are recognised in the SoFA.

(P) JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The following judgements (apart from those involving estimates) have been made in the process of applying the above accounting policies that have had the most significant effect on amounts recognised in the financial statements:

- Allocation of support costs are made in line with the use of the resource
- Fund allocation
- Discounting of the provisions for multi-year grants liabilities to present value. Internal estimation is required in calculating the appropriate discount rate and determining when the liability will fall due
- Fair value of investments
- Foreign currency exchange rates.

There are no other key assumptions concerning the future or key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

2. Detailed Comparatives for the Statement of Financial Activities

	Unrestricted Funds 2021 £'000	Endowment Funds 2021 £'000	Total Funds 2021 £'000
Incoming from Charitable Activities			
- Donations and Legacies	-	-	-
Incoming from other trading activities			
- Royalty Income	735	-	735
- Reimbursement of Patent Costs	13	-	13
Investment Income	10,042	-	10,042
Other Income			
- Exchange gain	11	-	11
Total Income	10,801		10,801
Expenditure on Charitable Activities			
- Research Funding	18,680	-	18,680
Costs of Raising Funds			
- Intellectual Property Protection	36	-	36
- Royalty Sharing Payments	514	-	514
- Investment Advice	1,579	-	1,579
Total Expenditure	20,809	-	20,809
Net (Expenditure) before Investment Gains/(Losses)	(10,008)	-	(10,008)
Net Gains on Investments			
Unrealised Investment Gain	32,244	-	32,244
Realised Gain	7,573	342	7,915
	39,817	342	40,159
Net Income	29,809	342	30,151
Total Funds brought forward	275,044	1,233	276,277
Total Funds carried forward	304,853	1,575	306,428

3. Net Income for the Year

Net income for the year is arrived at after charging the following:

	Year Ended 30 September 2022 £'000	Year Ended 30 September 2021 £'000
Auditors Remuneration (for audit services only)	32	27
Exchange Rate Gain	19	11
Lease expense	80	80

4. Analysis of Expenditure

	Direct Costs £'000	Support Costs £'000	Discounting of grant liabilities £'000	Total Year Ended 30 Sept 2022 £'000	Total Year Ended 30 Sept 2021 £'000
Royalty Sharing Payments	432	42	-	474	514
Investment Advice	960	113	-	1,073	1,579
Intellectual Property Protection	1	13	-	14	36
Research Science Funding	7,570	386	(1,812)	6,144	18,680
Total Resources Expended	8,963	554	(1,812)	7,705	20,809

The total awards granted was £8.727m (2021: £27.337m).

The £7.570m Research Science Funding shown above (2021: £23.385m) is net of grant write backs and other adjustments of £1.157m (2021: £3.952m) including agreed cancellations £0.750m (£2.948m) and grant write backs £0.407m (£0.673m).

The Trust monitors the effect of discounting of multi-year grant liabilities to present value and it considers the current year movement of £1.812m (2021: £4.946m) to be material. A review of the discount rate was carried out during the year in conjunction with the previous adoption of CPI plus 3% as detailed in the Financial Report on page 15. A further element of prudence was added this year, in response to the significant upward rise in CPI at both the headline (including food and energy) and core data sets, which was to adopt core CPI as the inflation reference given the highly volatile nature of headline CPI in 2022. The discount rate applied of UK Core CPI + 3% is taken to be a total rate of 9.5% (2021: 6.1%).

Details of grants awarded during the year are shown on page 11 in the Trustees' Report.

4. Analysis of Expenditure – continued

Investment Advice of £0.960m includes JP Morgan management fees of £0.642m being fees deducted from cash holdings in the investment portfolio of £0.685m net of a reduction in accruals of £0.043m, SEI fees on residual private market holdings of £0.171m and £0.139m of JP Morgan forward contract premiums deducted from cash holdings in the investment portfolio. Fees have reduced on previous years as £0.233m of anti-dilution levies were incurred upon sale of SEI and Newton holdings as part of the 2021 fiduciary manager transition to JP Morgan.

2021 Comparatives

	Direct Costs £'000	Support Costs £'000	Discounting of grant liabilities £'000	Total Year Ended 30 Sept 2021 £'000
Royalty Sharing Payments	470	44	-	514
Investment Advice	1,509	70	-	1,579
Intellectual Property Protection	21	15	-	36
Research Science Funding	23,385	241	(4,946)	18,680
Total Resources Expended	25,385	370	(4,946)	20,809

5. Support Costs

The total support costs incurred by the Trust amount to £0.554m (2021: £0.370m). An analysis of the main categories of expenditure included within support costs and the apportionment of these costs to the key activities undertaken by the Trust is set out in the table following.

6. Analysis of Support Costs

	Research £'000	Intellectual Property £'000	Royalties £'000	Investment £'000	2022 Total £'000
Staff Costs	156	9	16	63	244
Office and General Costs	190	4	21	45	260
Governance Costs	40	0	5	5	50
Total	386	13	42	113	554

Staff costs are apportioned according to time spent on various activities. Where support costs cannot be directly attributed to particular headings, they have been allocated on a basis consistent with use of the resources.

2021 Comparatives

	Research £'000	Intellectual Property £'000	Royalties £'000	Investment £'000	2021 Total £'000
Staff Costs	126	10	14	49	199
Office and General Costs	90	4	22	18	134
Governance Costs	25	1	8	3	37
Total	241	15	44	70	370

7. Analysis of Governance Costs

	Year Ended 30 Sept 2022 £'000	Year Ended 30 Sept 2021 £'000
Audit & Accountancy	32	27
Office Costs	6	5
Legal & Professional	-	1
Other	12	4
	50	37

Other Costs of £12k (2021: £4k) includes Trustee meeting costs and travel expenses.

8. Payments to Trustees and Staff Costs

The members of the Board of Trustees receive no emoluments for their service in that capacity.

Expenses in respect of travel, subsistence, and sundries incurred by 12 Trustees in the course of their duties amounted to £3,154 (2021: nil) of which all was paid directly by the Trust.

During the year, 4 Trustees (2021: 1) have been reimbursed for travel and subsistence expenses directly incurred in carrying out their activities as Trustees at a cost of £2,760 (2021: £102).

Trustee expenses increased during the year given the Trust returned to an increased proportion of in person meetings as the impact of the COVID-19 pandemic subsided.

Total staff costs are set out in the table below.

Staff and Consultancy Costs

	Year Ended 30 September 2022 £'000	Year Ended 30 September 2021 £'000
Staff Salaries	204	168
National Insurance	20	15
Employer contributions to pensions	20	16
Total Staff Costs	244	199

Average staff numbers during the year comprise 3 part-time (2.2 full time equivalent) members of staff (2021: 3 part-time - 2 full time equivalent).

The Chief Executive Officer and the Secretary to the Board form the Trust's Key Management Personnel. The Trust completed a successful transition of Chief Executive Officer in June 2022 with a three month cross over driving the increase in staff costs.

Total remuneration paid to key management personnel:

	Year Ended 30 September 2022 £'000	Year Ended 30 September 2021 £'000
Staff Salaries	185	146
National Insurance	19	14
Employer contributions to pensions	18	15
Total Staff Costs	222	175

The table below summarises the number of employees who received £60,000 or more in the year:

	2022	2021
Employees paid between £80,000 and £90,000	1	-
Employees paid between £90,000 and £100,000	-	-
Employees paid between £100,000 and £110,000	-	1

9. Related Party Transactions

Royalty income from Janssen has been included in incoming resources. Following Charity Commission approval, the Trustees have apportioned part of the royalty payments to the inventors and Versus Arthritis, according to a formula in line with current UK university practice.

Professor Sir Ravinder Maini was an employee of the Institute, responsible with Professor Sir Marc Feldmann for the invention which subsequently led to the generation of royalty income. Under a royalty distribution arrangement agreed with Versus Arthritis, and in line with current UK university practice, he and Professor Feldmann are entitled to an equal share of royalty income.

Following Professor Maini's appointment as a Trustee of the Trust, Charity Commission approval was obtained for the continuing payment of his share of the royalty income.

In 2022, £115,046 (2021: £125,058) was receivable by Professor Maini. The balance outstanding at the year end was £17,824 (2021: £59,745). Professor Maini ceased to be a Trustee on 11 December 2018, but remains the Trust's President.

10. Investments

(a) Investments held with Investment Managers

	30 September 2022 £'000	30 September 2021 £'000
Movement on Investments:		
Market Value brought forward	341,670	302,293
Net Additions at Cost	144,667	272,872
Disposals at Market Value	(143,431)	(273,406)
Investment Management Costs	(824)	(248)
Realised (Loss)/Gain	(11,646)	32,244
Unrealised Investment (Loss)/Gain	(16,677)	7,915
Market Value carried forward	313,759	341,670
Historic Costs of Investments	327,101	335,703
Cumulative Unrealised (Loss)/Gain	(13,342)	5,967
	313,759	341,670

During the year, the Trust continued to transition residual illiquid holdings in SEI managed vehicles with the net proceeds of £31.526m invested by the Trust's fiduciary manager JP Morgan.

The Statement of Financial Activities included net losses on investments of £28,323m (2021: gains of £40.159m) which includes unrealised losses of £16.677m (2021: gains of £7.915m) driven by the challenging market conditions.

The Investment Management Costs of £0.824m (2021: £0.248m) are JP Morgan fees with £0.685m (2021: £15k) being management fees deducted from cash holdings in the investment portfolio, and £0.139m of forward contract premiums. The 2021 costs of £0.248m include £0.233m of anti-dilution levies were incurred upon sale of SEI and Newton holdings as part of the fiduciary manager transition to JP Morgan.

As in previous years private market distributions are allocated to Investment Income.

10. Investments

(a) Investments held with Investment Managers – continued

Investments held with Investment Managers represented by:

		30 September 2022 £'000	30 September 2021 £'000
Investments not designated to funds:			
Overseas Listed Securities	Dublin	176,592	222,919
	Luxembourg	33,934	42,768
Overseas Unlisted Securities	Delaware	20,977	-
	Dublin	-	18,371
	Other	11,660	25,064
UK Unlisted Securities		35,991	32,713
Foreign currency forward contracts		(4,480)	(1,886)
Cash		37,680	146
Assets representing the Maynard Jenour Fund:			
UK Authorised Unit Trusts		95	106
Assets representing the Kennedy Endowment Fund:			
UK Authorised Unit Trusts		1,310	1,469
		313,759	341,670

Overseas Listed Securities

Overseas Listed Securities include Société d'Investissement à Capital Variable (SICAV), or investment company with variable capital (also known as an 'open-ended investment company') and which issues shares. With SICAVs, the fund itself is a stock corporation and thus a legal entity. The company's capital depends on the amounts paid in by investors. Shares in a SICAV are bought and sold on the basis of the value of the fund's assets, or net asset value. In accordance with applicable law and regulations, a SICAV can either appoint a separate management company or can be self-managed. SICAVs are structured much like a mutual fund in the US and are very common investment vehicles in Luxembourg.

Open-end investment company (OEIC) or investment company with variable capital (ICVC) are types of open end collective investments formed as corporations in Ireland or the UK. The terms are used interchangeably and most funds in Ireland establish a formal legal structure of "open end investment company with variable capital", as listed in their Prospectus. These funds are typically set up under the UCITS regulation and are similar to umbrella mutual funds. The investment company will have segregated liability between its underlying sub-funds. Similar to SICAVs, since the

investment company is open-ended, investors buy and sell shares based on the net asset value of a fund's assets.

iShares Physical Gold – this is an exchange traded commodity that is incorporated as a public company with limited liability under the laws of Ireland. The ETC seeks to track the day-to-day movement of the price of gold by holding gold bullion. The gold bullion backs the securities issued and is valued daily at the London PM fix price. The gold bullion is held as allocated gold bars with the custodian.

Overseas Unlisted Securities

The Dublin based Overseas Unlisted Securities are made up of Dublin domiciled open-ended investment companies under the UCITS directive. In addition, it includes a property fund which is an Irish domiciled Common Contractual Fund supervised by the Irish Central Bank.

The underlying holdings in these funds are to a very large extent made up of shares in companies listed on recognised stock exchanges worldwide.

Overseas Unlisted Securities are closed end investment partnerships and a segregated portfolio company based in the Cayman Islands.

The Delaware statutory trust (DST) is a legally recognised trust that is set up for the purpose of business, but not necessarily in the U.S. state of Delaware. It may also be referred to as an Unincorporated Business Trust or UBO. DSTs have been increasingly used as a form of tax deferral and asset protection for real estate, securitisation, mezzanine financing, real estate investment trusts and mutual funds. In this regard, the trust is a closed-end management investment company that is regulated as a business development company.

(b) Investment Income

	30 September 2022 £'000	30 September 2021 £'000
Listed and Unlisted Investments	8,015	10,042
Total Investment Income	8,015	10,042

All income generated from investments held within endowments are recognised in the Statement of Financial Activities as unrestricted investment income.

As in previous years, private market distributions are allocated to Investment Income.

11. Debtors

	30 September 2022 £'000	30 September 2021 £'000
Royalty Accrued Income	108	239
Other Accrued Income	453	345
Sundry Debtors	18	83
Total Debtors	579	667

12. Sundry Creditors and Accruals

	30 September 2022 £'000	30 September 2021 £'000
Royalties Payable	67	225
Other Creditors and Accruals	121	140
Taxation and Social Security	6	6
Total Creditors	194	371

13. Creditors falling due after more than One Year

The balance of grants payable is as follows:

	30 September 2022 £'000	30 September 2021 £'000
Grant Payments due between one and five years	30,022	30,128
Grant Payments due after five years	3,403	4,542
Discounting of grant liabilities	(6,759)	(4,946)
Commitments and Provisions due after One Year	26,666	29,724

The Trust monitors the effect of discounting multi-year grant liabilities to present value, and it considers the current year reserve at £6.759m (2021: £4.946m) with an increase to the provision of £1.812m (2021: £4.946m), to be material. A review of the discount rate was carried out during the year in conjunction with the previous adoption of CPI plus 3% as detailed in the Financial Report on page 15. A further element of prudence was added this year, in response to the significant upward rise in CPI at both the headline (including food and energy) and core data sets, which was to adopt core CPI as the inflation reference given the highly volatile nature of headline CPI in 2022. Applying a discount rate of UK Core CPI +3%, considered to be a total rate of 9.5% (2021: 6.1%), the total value of the grant liabilities discount for the year ended 30 September 2022 is £6.759m (2021: £4.946m).

The current year impact of £1.812m (2021: £4.946m) is recorded as a reduction in charitable expenditure.

14. Analysis of Net Assets as at

	30 September 2022			30 September 2021		
	Unrestricted Funds £'000	Endowment Funds £'000	Total £'000	Unrestricted Funds £'000	Endowment Funds £'000	Total £'000
Fixed Assets:						
Tangible Fixed Assets	4	-	4	-	-	-
Investments	312,354	1,405	313,759	340,095	1,575	341,670
Current Assets:						
Debtors	579	-	579	667	-	667
Cash at Bank and In Hand	1,797	-	1,797	3,095	-	3,095
	314,734	1,405	316,139	343,857	1,575	345,432
Current Liabilities	10,355	-	10,355	9,280	-	9,280
Long Term Liabilities	26,666	-	26,666	29,724	-	29,724
	277,713	1,405	279,118	304,853	1,575	306,428

15. Funds

	30 September 2021 £'000	Income/ (Expenditure) £'000	Expenditure from Designated Funds £'000	Transfers £'000	Investment (Losses) £'000	30 September 2022 £'000
Endowment Funds						
Maynard Jenour Fund	105				(10)	95
Kennedy Endowment Fund	1,470				(160)	1,310
Total Endowment Funds	1,575	-	-	-	(170)	1,405
Unrestricted Funds						
General Fund	282,350	1,013	9	4,033	(28,153)	259,252
Designated Funds						
Legal Expense Fund	1,067		(9)			1,058
Oxford Research Grant Fund 2021	21,436			(4,033)		17,403
Total Designated Funds	22,503	-	(9)	(4,033)	-	18,461
Total Unrestricted Funds	304,853	1,013	-	-	(28,153)	277,713
Total Funds	306,428	1,013	-	-	(28,323)	279,118

The income from the Maynard Jenour and Kennedy Endowment Funds is unrestricted and is applied to fund grants to support clinical research. These funds represent permanent endowments held by the Trust.

The designated funds represent unrestricted amounts which the Trustees have allocated for specific purposes. The Trustees can reallocate these funds as required.

The Oxford Research Grant Fund 2021 represents the intention of the Trust to the funding of the Institute since the ending of the initial Oxford Research Grant fund on 31 July 2021. This second agreement with the University of Oxford was signed in October 2018. The designated fund represents funding of £4m per annum (adjusted for inflation) over the period incurred from 1 August-2021 until 31 July 2026 in line with the period of the contract. £4.033m (2021: £0.667m) was released from the Oxford Research Grant Fund 2021 to General Funds constituting funding of this obligation for the year. No grant creditor has been shown as the Trust has the right to refuse payment if no suitable projects are put forward.

The initial funding agreement with the University of Oxford covered a ten year period that ended on 31 July 2021. The Trust had a commitment to fund the Institute at a level of at least £3m pa (adjusted for inflation). The Oxford Research Grant Fund was closed following the end of the contract in the previous year with the residual balance of £2.958m released to the Unrestricted General Funds in 2021.

In previous years the Trustees set aside a significant amount of royalty income in a Legal Expense Fund (10% of gross royalty income), which is utilised to ensure compliance with licence agreements and in the event of possible litigation to defend the Trust's patent rights world-wide.

A decision was taken in 2011 that the Legal Expense Fund had reached an adequate level so payments into the fund are currently suspended.

Any balance remaining on the Legal Expense Fund at the end of the relevant patent period will be distributed pro rata to the beneficiaries' percentage of royalty income.

During 2017 the decision was taken to release £5m of the Legal Expense Fund and a further £5m was released in 2019. Of this £2.35m was paid to the inventors and Versus Arthritis. The remaining £2.65m due to the Trust was released to unrestricted reserves.

15. Funds – continued

2021 Comparatives

	30 September 2020 £'000	Income/ (Expenditure) £'000	Expenditure from Designated Funds £'000	Transfers £'000	Investment Profits £'000	30 September 2021 £'000
Endowment Funds						
Maynard Jenour Fund	82				23	105
Kennedy Endowment Fund	1,151				319	1,470
Total Endowment Funds	1,233	-	-	-	342	1,575
Unrestricted Funds						
General Fund	245,847	(10,008)	18	6,676	39,817	282,350
Designated Funds						
Legal Expense Fund	1,085		(18)			1,067
Oxford Research Grant Fund	6,009			(6,009)		0
Oxford Research Grant Fund 2021	22,103			(667)		21,436
Total Designated Funds	29,197	-	(18)	(6,676)	-	22,503
Total Unrestricted Funds	275,044	(10,008)	-	-	39,817	304,853
Total Funds	276,277	(10,008)	-	-	40,159	306,428

16. Tangible Fixed Assets

	30 September 2022	30 September 2021
	Computer Equipment	Total
	£'000	£'000
Cost		
Cost as at the beginning of the year	-	-
Additions	5	5
Cost at the end of the year	5	5
Depreciation		
Accumulated depreciation at the beginning of the year	-	-
Depreciation	1	1
Accumulated depreciation at the end of the year	1	1
Net book value at beginning of the year	-	-
Net book value at end of the year	4	4

17. Financial Commitments and Contingent Liabilities

The Trustees are committed to funding, at least in part, the Kennedy Institute of Rheumatology at Oxford.

Resources are being set aside in designated funds. Refer to note 15 for details of designated funds.

As explained in the Designated Funds note any balance outstanding on the Legal Expense Fund at the end of the relevant patent period will be distributed pro rata to the beneficiaries' percentage of royalty income. This potential liability (should it crystallise) will not exceed £0.498m as at 30 September 2022 (2021: £0.502m).

The Trust's local currency is pounds sterling, but it holds some US Dollar investments and a US Dollar bank account.

The Trust has a lease on its current offices which can be terminated at three months' notice from the end of the minimum contract term on 31 March 2023.

These non-cancellable lease commitments and their period of expiry are:

		30 September 2022 £'000	30 September 2021 £'000
Expire	<1 year	40	17
	2-5 years	-	-
	>5 years	-	-
		<u>40</u>	<u>17</u>

18. Financial derivatives

Following the appointment of JP Morgan in July 2021, forward exchange contracts are used to solely manage exposure to currency exchange risk in the investment portfolio.

Forward contracts with contracted values of US\$279.68m and EUR51m, were entered into during the year (2021: US\$74.4m and EUR14.4m). Forward contracts totalling US\$294.4m and EUR53.4m matured during the year (2021: nil). As at 30 September 2022 there were open forward contracts totalling US\$59.680m and EUR12m which matured in October 2022. Marking the open contracts to fair value at 30 September 2022 resulted in a loss of £4.480m (2021: loss of £1.886m).