

THE HENRY SMITH CHARITY
Registered Charity 230102

**ANNUAL REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

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Chairman's Review

In 2012 our expenditure on grant-making was £27.1m compared to £28.8m in 2011. This reduction was expected as we balanced our duty as trustees to maintain the real value of the endowment with our desire to maximise our grant-making to the most needy in our society in these harsh economic times.

The bulk of our grant-making (£22.8m) was spent on the 301 grants we made under our main grant programme for which we received 1,496 eligible applications. This, somewhat surprisingly, represented a modest reduction in the number of applications from 1,601 in 2011. The average grant size under the main scheme also reduced and was £76,000 compared to £79,000 the previous year.

We have been expecting, but have not seen, an increase in applications as the economic situation becomes tougher and local authorities and governments reduce their funds going to charities which are supporting the most vulnerable in our society as this is where we also have our focus. While the number of applications has not increased we are generally seeing a marked reduction in the financial robustness of our applicants many of whom have dwindling reserves which is of concern for the future.

Paradoxically in the face of the harsh economic conditions our investments performed well with total funds rising from £677m at the start of the year to £716m at the end after grant-making and other costs. I am thus happy to report that for the first time in the last few years the endowment's inflation adjusted value did increase slightly.

During the year Anne Allen, who had been a trustee for many years, retired. Richard Hopgood also retired as the Director in September after ten years. As the Director he managed the affairs of the Charity with great skill and vision. Our thanks go to both of them for their great contribution to the charity. Nick Acland resigned as a trustee but remains with the charity having succeeded Richard as the Director.

With times continuing to look pretty bleak in the coming year it makes it ever more important that we honour the will of our founder by using our resources to help those organisations which are the most effective at helping the most disadvantaged in our society. We thus are always striving to improve our knowledge of the wide range of areas we support as a generalist grant maker. The objective rigour of the assessments we carry out on the projects applying to us for funding leads to improved knowledge of outcomes. This is a continuing challenge faced by our trustees, staff and volunteer visitors.

J.D. Hambro

Review of Grant-making

The Charity's Objects

The Henry Smith Charity (registered charity number 230102) originates from land given during the lifetime of Henry Smith, and a bequest upon his death in 1628 for the relief of his poor kindred and persons enslaved by Barbary pirates.

The Charity's objects (set out in full on page 25) have been widened to cover the relief of the poor kindred of Henry Smith; relief of poor, aged, sick or disabled people; medical research and medical assistance; promotion of moral welfare or social service; and relief of persons who have been enslaved.

The Charity aims to fulfil its objects by providing a sustainable and growing grant-making programme, supporting a wide variety of charitable projects and organisations across the UK, where there is evidence of effective work meeting a compelling need.

Strategies

Over 80% of grant-making expenditure is made through the Charity's main grants programme, which makes grants of £10,000 and above. The remainder of our grant-making is through other programmes as set out below.

Public benefit

A diverse range of public benefit is provided by the hundreds of charities we support each year, as they work to alleviate need and distress, and help people lead more fulfilling lives. Further direct benefit is provided to the poor kindred and clergy to whom we make grants to alleviate poverty and need.

The Trustees have had regard to the Charity Commission's general guidance on public benefit in planning future activities, setting grant-making policies and in making grants.

THE MAIN GRANTS PROGRAMME

The Charity's policy on grant-making is to be primarily reactive and pragmatic, with the aim of selecting the best projects from applications received that meet the broad guidelines set by the Trustees. Most grants are for staff costs or core funding.

Process

The Charity's grants staff assess grant applications, in consultation with the Trustees, taking into account key factors such as the extent of the need, evidence of effectiveness and capacity to deliver.

A limited number of applications are chosen for the second stage of the process, and are assessed by a volunteer or staff visitor. The visitor will meet key individuals from an applicant, to see the work in action and to explore any critical issues or risks.

Each Visitor compiles a report with a recommendation for the Distribution Committees, which meet quarterly to decide which applicants to fund.

OTHER GRANT-MAKING

Small Grants

The Charity maintains a small grants programme for one off grants of up to £10,000, or grants of up to £20,000 over two or three years. These grant awards are made for work in particular counties with which Henry Smith had historic links, and are administered by individual Trustees. The Charity's national small grants scheme for other areas of the UK was closed in Autumn 2012.

Review of Grant-making

Major Grants

From time to time, the Charity undertakes strategic initiatives through major grant funding programmes. These are targeted at particular regions or themes in order to maximise the impact of our funding and normally include independent evaluations to assess their impact. In 2012 we awarded funding of £250,000 as part of a joint project with the Esmée Fairbairn Foundation working in Northern Ireland.

Poor Kindred

Distributions are made to the poor kindred of Henry Smith for the relief of poverty and to fund training and education. Grants are based on assessment of individual need and awarded at the discretion of the Poor Kindred Committee.

Poor Clergy Fund

Grants to needy clergy of the Church of England are awarded via Diocesan Bishops. Many of the clergy assisted by our grants work in particularly tough and demanding parishes, and grants are awarded to fund emergency or exceptional costs which cannot be afforded from family incomes. The Trustees also award grants to organisations for the furtherance or promotion of knowledge and religion, at the discretion of the Poor Clergy Committee.

Estates Fund

Grants are made annually to specific parishes for which the fund was originally set up to relieve poverty and need. The grants are administered locally and are generally used to provide financial assistance to particularly needy individuals within the local community. The Distribution Committees set the grant-making policy and agree the level of grants for individual parishes.

Holiday Grants

Grants are awarded to organisations who provide holidays for disadvantaged and disabled children to the age of 13. Grants are awarded at the discretion of the Director.

Review of Grant-making

A SUMMARY OF 2012

The Trustees awarded grants of £26.6m, which was £1.7m lower than 2011. This was expected as the budget available for 2012 was lower than 2011. Administration costs remained at less than 4% of grants awarded.

Grant-Making Expenditure	2012 £'000	2011 £'000
Main Grant Programme (grants above £10k)	22,831	24,188
Small Grants (up to and including £10k)	1,630	1,598
Major Grant – Northern Ireland Pilot	250	417
Grants to Poor Kindred	736	944
Grants from the Poor Clergy Fund	825	926
Grants to Historic Parishes (Estates Fund distributions)	620	543
Holiday Grants	200	150
Total Grant Awards	27,092	28,766
Less: grants cancelled or returned	(463)	(435)
Add: provisions made against social investments	176	106
Add: grant administration costs	1,061	913
Total Grant-Making Expenditure	27,866	29,350

A REVIEW OF THE MAIN GRANTS PROGRAMME

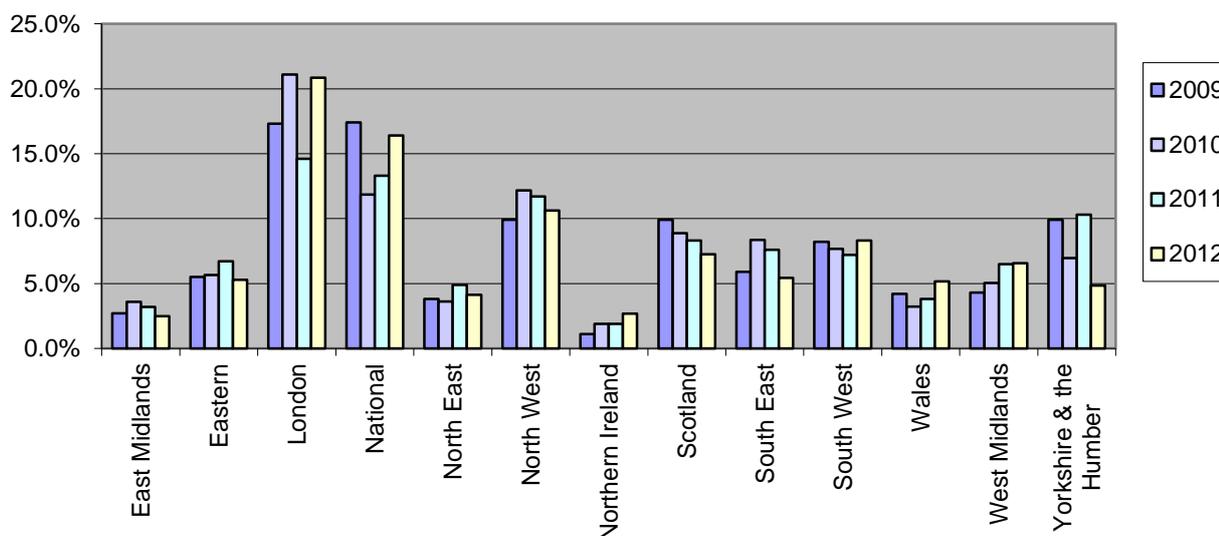
	2012	2011
Number of applications received that met guidelines	1,496	1,601
Number of grants awarded	301	306
Average size of grant awarded (total over grant term)	£76,000	£79,000

The number of applications to our main grants programme for 2012 was slightly less than 2011; as in previous years we awarded grants to around 1 in 5 main grant applicants, with a slightly lower average grant award.

Total grants awarded by region

Review of Grant-making

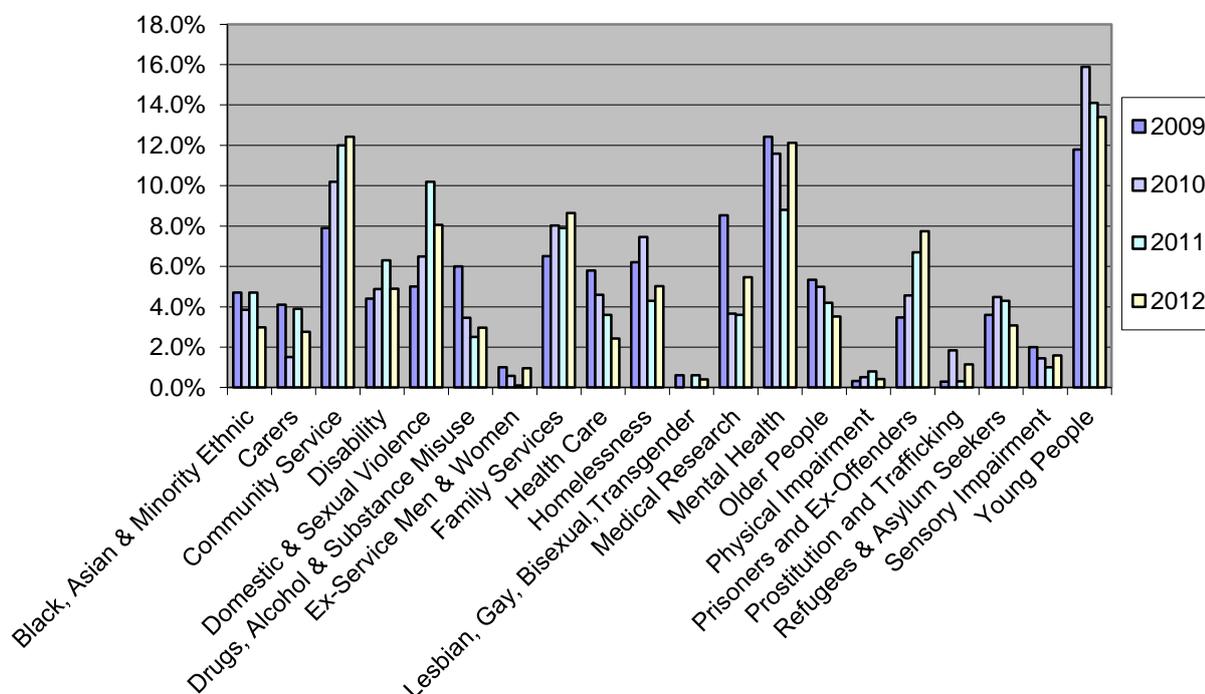
Grants awarded by region



Grants were awarded across all the UK regions. London continues to receive the highest level of funding, in line with its large population and areas of great need.

Total grants awarded by programme area

Grant awards by programme area



The mix of our funding continues to be diverse and varies year by year; Community Service, Mental Health and Young People continue to be the programme areas receiving the highest amount of funding.

Review of Grant-making

SOCIAL INVESTMENTS

The Charity has invested a small proportion of its assets in social investments, where there are particular opportunities to provide an effective alternative to grant funding.

An investment of £0.5m was made in Venturesome's Development Programme in 2010, to fund loans to charities over the next five years. This investment has enabled loan facilities totalling £0.4m to be made available to charities. Provisions of £100,000 have been made against doubtful recovery of some of these loans.

In 2010 a commitment of £0.5m was made to the Social Impact Partnership, set up by Social Finance to fund work with ex-offenders released from HMP Peterborough. The Partnership are happy with work carried out to date, though it will be several years before any success measures can be calculated.

Grant Highlights



Maytree (National)

More than 5,500 people kill themselves in the UK every year, 2,000 more than die on the roads.

From a small terraced house in London, Maytree offers residential support to guests for a maximum of five days/four nights to address the immediate crisis, regain the will to live and face the world. During the stay, guests receive daily counselling and the remainder of the time is spent with volunteers, cooking, private reflection and often writing. It is not a 'miracle cure' but

provides time out to gain strength. Maytree is open 24 hours per day, every day of the year and there is no charge to any guest who can arrive from anywhere in the UK.

Referrals come from a variety of sources including self-referrals. When searching the internet for ways to commit suicide, Maytree is a link from many of these sites. Guests can be anyone from the age of 18; some older guests have been in their 70s but the majority are aged 20 – 29. 70% had tried to kill themselves before, 17% had tried 3 or more times but nearly a quarter had never had any contact at all with mental health services.

A three year grant totalling £120,000 was made towards their core running costs.

Cyrenians (North East)

Established in 1970 as a soup kitchen in central Newcastle, the Cyrenians has now grown into a larger organisation, working to change lives by doing more than simply providing accommodation as a solution to homelessness. It supports approximately 2,000 individuals at any one time, and runs over 50 projects across North East England including a Day Centre, supported accommodation, independent living houses and a training and employment centre for construction skills. A grant of £90,000 over three years was made towards one of these projects - Girls Are Proud (GAP), a peer led support service for women who are vulnerable to sexual exploitation and/or involved in the sex industry in Newcastle and the wider north east region.

Lacking a visible red light district, these women are particularly concealed; many have been abused and there is also a high level of substance misuse. Some are migrant women often subject to homelessness and trafficking. The project was set up in 2005 and continues to grow and is very much peer led. All service users are encouraged, as part of their personal development, to take part in activities and to then in turn work in a voluntary capacity to support other women working in the sex industry.

Each beneficiary is assigned a Key Worker, who supports them on a journey through three phases: crisis intervention, stabilisation and progression (a model shared across the wider organisation). Activities run every day and include a general drop-in and a multi-agency health support group.

Grant Highlights

Music and Change (MAC-UK) (London)

MAC-UK was founded in 2008 in Camden as a result of the lack of success in reaching young people with mental health needs via conventional methods and to engage with the high level of young offenders with undiagnosed mental health problems. The main aims of the charity



are to reduce serious youth violence and offending; promote and treat the mental health needs of young people; engage young people in training, education and/or employment and act as a conduit for young people to access other services.

The resulting model of support, called Integrate, places the individual at its heart and supports young people through a four step programme covering activities, opportunities to develop self-esteem, support with the mental health needs and youth led training where young people deliver training in basic mental health awareness to relevant organisations and agencies alongside a MAC-UK employee. Project workers, initiate contact with local gangs via outreach work to engage other young people with complex needs in youth led activities. This is known as “street therapy” i.e. takes place wherever the young person is most at ease and able to engage.

The work has received acclaim and been cited as a model of good practice.

A three year grant totalling £90,900 was awarded towards a MAC-UK project using music as the activity around which the Integrate programme is based.

NESTAC (Rochdale)

NESTAC (The New Step for African Community) was formed in 2003 as a refugee community organisation. Based in Rochdale, an area of multiple deprivation, it is also a dispersal area for asylum seekers, predominantly those from sub-Saharan Africa. NESTAC’s aim is to improve access to education, cultural awareness and well-being across the entire community.

NESTAC has formed a strong partnership with FORWARD, the lead agency working to tackle Female Genital Mutilation (FGM) in the UK. In Somalia and Sudan 98% of women are affected by FGM but this cultural practice is a taboo subject that many African communities are reluctant to discuss.

In 2010 NESTAC piloted a FGM project in Rochdale to start a dialogue, consult and engage with the community regarding this taboo subject. This successfully engaged young people (male and female) including young mothers. The most pertinent outcome identified the need for specialised emotional support and understanding for victims. Although there is some counselling provision available, most providers are unfamiliar with FGM. NESTAC is the only organisation that provides this emotional support within the Greater Manchester area, working with GPs, health professionals and social services.

A grant of £70,200 was awarded to NESTAC to build on the FGM pilot supporting main stream health services and other organisations respond to these specific needs.

Review of Investments

INVESTMENT APPROACH

The Henry Smith Charity is a permanent endowment, with assets held in perpetuity. The Charity operates a total return approach to investment, with power to spend income and/or capital. The Charity has power under its Scheme to invest in stocks, shares, funds, securities and other property as the Trustees think fit.

The Trustees have appointed professional investment advisors, who in particular advise on investment policy and strategy, asset allocation and the performance of managers.

Investment policy

The investment portfolio has long term objectives of maximising sustainable spending from the portfolio in order to support grant-making, while maintaining the real value of the fund in perpetuity after spending. The Charity aims to spend 4% of the portfolio in grant-making, so the portfolio has a goal of returning an annual 4% real return over a business cycle.

It is recognised that in order to achieve the objective of sustaining a 4% spending rate over the long term, there will be periods of short term volatility of investment returns. The investment strategy seeks to build a diversified portfolio that minimises the impact of short term losses. Given the portfolio's strategic asset allocation and investment strategy it is understood that potential short term losses are possible (in the order of losses up to 10-15% within a year, during a normal market cycle).

The Charity also recognises that there are several other forms of risk beyond short term volatility that need to be managed as part of the ongoing oversight monitoring process of the portfolio. These risks include the careful management of liquidity, the level of exposure to non-Sterling denominated assets, the level of overall leverage in the portfolio and risks associated with investing alongside investors with different goals.

Asset allocation and strategy

70% of the investment portfolio is allocated to growth assets, to provide longer term returns, with the remaining allocation split into equal weightings of inflation and deflation protection assets. The Charity carries out a detailed review of asset allocation every three years, with an annual update.

Total Return approach to investing

The Charity operates a Total Return approach to investments, with freedom to invest the entire endowment with the aim of maximising total returns regardless of whether those returns accrue by way of income or capital growth.

Investment returns for 2012

Investment returns were around £75m, with gains on almost all asset classes. Including the currency hedging overlay, total portfolio performance for 2012 was more than 2.5% ahead of the long term benchmark of RPI + 4%. The portfolio performance lags this benchmark by around 1% on a 3 year basis. The value of total investments increased from £689m to £737m.

	2012 Returns*	Benchmark Returns*	Performance v Benchmark
Growth Assets	+8.1%	+8.2%	-0.1%
Inflation Hedges	+9.4%	+8.5%	+0.9%
Deflation Hedges	+6.2%	+4.2%	+2.0%
Total Portfolio	+8.1%	+6.9%	+1.2%

* - excluding the currency hedging overlay. All returns are shown net of fees.

Review of Investments

Investment changes

There were few investment transactions during the year, apart from our regular rebalancing.

We continued to build our private equity portfolio, with over £25m of capital invested during the year. This portfolio is now providing significant levels of distributions, with £10m returned during the year.

The investment portfolio breakdown by asset class at year end was as follows:

	31 December 2012	31 December 2011
Growth Assets		
Global Equities	27%	28%
Emerging Markets	10%	9%
Hedge Funds	17%	17%
Private Equity	7%	5%
Commercial Property	9%	9%
Inflation Hedges		
Agricultural Property	10%	10%
Inflation-Linked Bonds	3%	3%
Other Inflation Hedges	4%	4%
Deflation Hedges		
Global Fixed Income	11%	12%
Cash	2%	3%

Investment costs

£10.5m (2011: £8.5m) was spent on managing our investments. The majority of investment fees are deducted from the market value of the funds within which we invest; the direct cash expenditure was £3.1m (2011: £3.2m).

Investments in alternative assets are more expensive than traditional long-only investment, but we have enjoyed better investment returns which have substantially outweighed the additional fee costs. As we aim to get good value from our managers, all investment performance is monitored net of fees.

Financial Review

A REVIEW OF 2012

The movement in total funds was as follows: **£000**

Income	10,547
Investment gains less management costs	55,934
Charitable expenditure	(28,014)
Net movement in funds	38,467
Funds at beginning of year	677,248
Funds at end of year	715,715
<i>Movement in funds</i>	+6%

Total funds at the end of year comprised the following: **£000**

Endowment funds	706,635
Unrestricted and restricted funds	9,080
Total funds	715,715

“Core Endowment”

Under the Total Return approach, the Charity monitors the value of endowment funds compared to the Core Endowment. This is fixed at £276m, representing the value of the endowment as at 31 December 1991; for internal purposes the value of endowment funds is also compared to an inflation-adjusted measure of the Core Endowment.

At 31 December 2012, the endowment funds of £707m were substantially in excess of the Core Endowment.

Reserves

The Charity funds expenditure from investments, and has the freedom to spend both income and capital, provided the core endowment of the fund is maintained. The Charity holds cash balances to manage fluctuations in cash flow, and as a reserve against private equity capital calls and currency hedging settlements.

The Trustees review reserves annually, and are satisfied that the Charity is in a position to meet all its current and anticipated future commitments.

Risk Control

The Trustees have reviewed areas of potential risk for the Charity and concluded that there are sufficient controls in place across the organisation. One of the key risks identified is that of substantial investment losses; the Charity has a diversified investment portfolio and processes in place to monitor cash flow and spending, which should minimise the potential for long term losses. Another key risk is business continuity in the event of a disaster; a policy and action plan have been adopted to ensure adequate control of this risk.

The Trustees formally review risk on an annual basis as well as when issues arise. The Trustees met the auditors during the year to discuss recommendations arising from their audit, which were adopted.

Organisational Review

Trustees

The Charity's governing document is the Charity Commission Scheme of 2000. This requires the Charity to have between ten and twenty Trustees. Current Trustees are listed on page 26.

New Trustees are appointed on the nomination of the Archbishop of Canterbury, following a recommendation from the Trustees made in the light of the Charity's needs and following interview. Their induction includes meeting the office staff, being briefed on procedures, and addressing any training needs they may have.

New Trustees serve up to two terms of five years each, with provision in exceptional cases for a third term of up to five years.

Committee Structure

The Board is responsible for all major policy decisions and for approving strategy and objectives, meeting four times a year. Significant decision making authority is also delegated to a number of separate Committees, as set out on page 26.

Visitors

The Charity has a network of over thirty volunteer Visitors around the UK who visit, assess and report on charities and projects within their region. They give us the capacity to visit most charities being considered for awards under our main grants scheme.

Delegations

A schedule of delegations is in place setting out the terms under which decisions are made across the organisation; Trustees are responsible for approving all grants, with the exception of holiday grants, but day to day grants management is the responsibility of the staff team, led by the Director.

Statement of Trustees' Responsibilities

The Trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

The law applicable to charities in England and Wales requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Charity and of the incoming resources and application of resources of the Charity 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 SORP;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Charity will continue in business.

The Trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Charity and enable them to ensure that the financial statements comply with the Charities Act 2011, the Charity (Accounts and Reports) Regulations 2008 and the provisions of the trust deed. They are also responsible for safeguarding the assets of the Charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Trustees on 23 May 2013

J. D. Hambro

Chairman

Independent Auditors' Report to the Trustees of The Henry Smith Charity

We have audited the financial statements of The Henry Smith Charity for the year ended 31 December 2012 which the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of trustees and auditors

As explained more fully in the Trustees' Responsibilities Statement, the Trustees are responsible for the preparation of financial statements which give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Charity's Trustees as a body in accordance with section 144 of the Charities Act 2011 and regulations made under section 154 of that Act (Regulation 24 of The Charities (Accounts and Reports) Regulations 2008) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustees; and the overall presentation of the financial statements. In addition, we read all the financial and nonfinancial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Charity's affairs as at 31 December 2012, and of its incoming resources and application of resources and cash flows, for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011 and Regulation 8 of The Charities (Accounts and Reports) Regulations 2008.

Matters on which we are required to report by exception

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

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

Crowe Clark Whitehill LLP
Chartered Accountants and Statutory Auditors
London
23 May 2013

Crowe Clark Whitehill is eligible to act, and has been appointed, as auditor under section 144(2) of the Charities Act 2011

Statement of Financial Activities for the Year Ended 31 December 2012

	Main Unrestricted Fund £'000	Estates Restricted Fund £'000	Main Endowment Fund £'000	Estates Endowment Fund £'000	2012 Total £'000	Restated 2011 Total £'000
INCOMING RESOURCES						
Investment income (note 2)	-	-	9,997	230	10,227	12,297
Deposit interest	96	2	-	-	98	133
Other income	-	-	217	5	222	188
TOTAL INCOMING RESOURCES	96	2	10,214	235	10,547	12,618
RESOURCES EXPENDED (note 3)						
Costs of generating funds	-	-	10,285	231	10,516	8,528
Charitable Activities						
Grant-making	27,246	620	-	-	27,866	29,350
Total Charitable Activities	27,246	620	-	-	27,866	29,350
Governance costs	148	-	-	-	148	230
TOTAL RESOURCES EXPENDED	27,394	620	10,285	231	38,530	38,108
NET INCOMING/(OUTGOING) RESOURCES FOR THE YEAR BEFORE TRANSFERS	(27,298)	(618)	(71)	4	(27,983)	(25,490)
Transfers between funds (note 6)	26,690	610	(26,690)	(610)	-	-
NET OUTGOING RESOURCES FOR THE YEAR BEFORE OTHER RECOGNISED GAINS & LOSSES	(608)	(8)	(26,761)	(606)	(27,983)	(25,490)
Gain/(losses) on investment assets (note 8)	-	-	64,955	1,495	66,450	(3,051)
NET MOVEMENT IN FUNDS	(608)	(8)	38,194	889	38,467	(28,541)
TOTAL FUNDS BROUGHT FORWARD AT 1 JANUARY 2012	4,465	189	652,587	14,965	672,206	701,474
Prior Year Adjustment (note 17)	5,042	-	-	-	5,042	4,315
TOTAL FUNDS BROUGHT FORWARD AT 1 JANUARY 2012 AS ADJUSTED	9,507	189	652,587	14,965	677,248	705,789
TOTAL FUNDS AT 31 DECEMBER 2012	8,899	181	690,781	15,854	715,715	677,248

The notes on pages 18 to 24 form part of these accounts.

All incoming resources and resources expended derive from continuing activities. The statement of financial activities includes all gains and losses recognised during the year and there is no difference between the results for the year stated above and their historical cost equivalents.

Balance Sheet as at 31 December 2012

	Note	2012 £'000	Restated 2011 £'000
FIXED ASSETS			
Tangible Fixed Assets	7	102	127
Investments	8	737,637	689,360
Programme Related Investments	9	415	527
Total Fixed Assets		738,154	690,014
CURRENT ASSETS			
Debtors	10	2,600	5,527
Cash at Bank		2,879	8,922
		5,479	14,449
CREDITORS			
Amounts falling due within one year	11	(18,463)	(18,556)
NET CURRENT LIABILITIES		(12,984)	(4,107)
TOTAL ASSETS LESS CURRENT LIABILITIES			
		725,170	685,907
CREDITORS			
Amounts falling due after one year	12	(9,455)	(8,659)
NET ASSETS		715,715	677,248
FUNDS			
Main Endowment Fund		690,781	652,587
Estates Endowment Fund		15,854	14,965
Main Unrestricted Fund		8,899	9,507
Estates Restricted Fund		181	189
		715,715	677,248
Total Funds	14	715,715	677,248

Approved by the Trustees on 23 May 2013 and signed on their behalf by:

J.D. Hambro
Chairman

M. J. Gallyer
Trustee

The notes on pages 18 to 24 form part of these accounts.

Cash Flow Statement for the Year Ended 31 December 2012

	Note	2012 £'000	2011 £'000
Net outgoing resources		(27,983)	(26,217)
Adjustments to exclude investment income and non-cash items (a)		105	(1,431)
Net cash outflow from operating activities		(27,878)	(27,648)
Investment income received		10,575	12,962
Net cash inflow from investment income		10,575	12,962
Capital expenditure and financial investment			
Purchase of tangible fixed assets	7	(8)	(8)
Purchase of fixed asset investments	8	(66,641)	(79,051)
Proceeds from sale of fixed asset investments	8	69,824	86,080
Net write-down of social investments	9	112	45
Net cash inflow from capital expenditure and financial investment		3,287	7,066
Management of liquid resources			
Increase/(decrease) in cash and short term deposits (investment assets)		7,973	14,751
Net cash inflow/(outflow) from liquid resources		7,973	14,751
(Decrease)/increase in cash(b)		(6,043)	7,131
(a) Adjustments to exclude investment income and non-cash items			
Investment income and deposit interest		(10,325)	(12,422)
Depreciation	7	33	31
Decrease/(increase) in debtors	10	2,677	(3,710)
Increase in creditors	11&12	703	10,229
Investment fees deducted through units	8	7,377	5,327
Investment losses realised as cash		(360)	(886)
Total adjustments to exclude investment income and non cash-items		105	(1,431)
(b) Decrease in cash and short-term deposits			
Cash and short-term deposits at 1 Jan 2012		8,922	1,791
(Decrease)/increase in cash		(6,043)	7,131
Cash and short-term deposits at 31 December 2012		2,879	8,922

The notes on pages 18 to 24 form part of these accounts.

Notes to the Accounts

1. ACCOUNTING POLICIES

Basis of Preparation

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of certain fixed asset investments, and in accordance with applicable accounting standards, the Statement of Recommended Practice: Accounting and Reporting by Charities, revised 2005 and the Charities Act 2011. The accounting policies have been consistently applied.

Funds

The Charity's Funds include two permanent endowments. The Main Endowment Fund may be used to support all the Charity's objects. The Estates Endowment Fund may only be used to support charitable activities in specified, historic parishes in England. The assets of both funds are pooled and managed as a single investment portfolio; investment returns are allocated in proportion to the Funds' asset values.

Incoming resources

Incoming resources are recognised when the Charity has entitlement to the resources, it is certain that the resources will be received and the monetary value of the incoming resources can be measured with sufficient reliability. Dividends are recognised as receivable when a security is listed as ex-dividend. Other income includes fees for administration services provided to the Trusthouse Charitable Foundation and Equitable Charitable Trust.

Resources expended

Liabilities are recognised as resources expended when there is a legal or constructive obligation committing the Charity to the expenditure. Grants, both single and multi-year, are recognised in the accounts as liabilities after they have been approved by the Trustees, the recipients have been notified and there are no further terms and conditions to be fulfilled within the control of the Charity. In these circumstances there is a valid expectation by the recipients that they will receive the grant.

Cost of generating funds

The cost of generating funds includes the direct costs paid to service providers for managing the investment assets, the direct costs of generating funds including staff salaries and other expenditure, and an allocation of related support costs.

Charitable activities

The cost of charitable activities consists of grants awarded, the direct costs of grant making activities including staff salaries and other expenditure, and an allocation of related support costs.

Governance costs

The cost of governance consists of statutory audit and legal fees, Trustees' expenses and costs relating to the public accountability of the Charity and its compliance with regulation and good practice, the direct costs of governance including staff salaries and other expenditure, and an allocation of related support costs.

Investments

Marketable investment assets are included in the financial statements at market value, either at closing market prices (listed investments) or through independent valuation (unlisted direct property) or from valuations provided by the investment manager (unlisted hedge funds, private equity and indirect property). The Charity enters into forward currency contracts to reduce currency exposure in its investment portfolio. The basis of fair value of these forward exchange contracts is estimated by using the gain or loss that would arise from closing the contract at the balance sheet date. All investment and currency gains and losses are recognised as incurred.

Pensions

The Charity operates a defined contribution scheme on an accruals basis.

Irrecoverable VAT

Irrecoverable VAT is included in the Statement of Financial Activities or Fixed Assets within the expenditure to which it relates.

Notes to the Accounts

Fixed assets

Leasehold improvements are included at cost and depreciated on a straight-line basis over the remaining term of occupation of the Charity's premises. Fixtures, fittings and equipment are included at cost and depreciated on a straight-line basis over 4 years. Assets below £1,000 in cost are not capitalised. The cost of assets includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Operating leases

Costs of operating leases are charged to the SOFA on a straight-line basis over the lease term.

2. INVESTMENT INCOME

	2012 £'000	2011 £'000
Equities	4,161	5,692
Fixed Income	1,062	1,382
Property	5,004	5,223
	<u>10,227</u>	<u>12,297</u>

3. EXPENDITURE

	Costs of Generating Funds £'000	Grant- making £'000	Governance £'000	Total 2012 £'000	Total 2011 £'000
Grants awarded (note 4)	-	26,629	-	26,629	28,331
Programme-related-investments costs	-	176	-	176	106
Direct costs					
Investment management	10,062	-	-	10,062	8,041
Investment advice	183	-	-	183	177
Staff costs (note 5)	210	441	32	683	649
Auditors' remuneration	-	-	31	31	33
Other costs	-	100	47	147	219
	<u>10,455</u>	<u>27,346</u>	<u>110</u>	<u>37,911</u>	<u>37,556</u>
Support costs					
Staff costs (note 5)	22	187	14	223	224
Premises and office services	39	333	24	396	328
	<u>61</u>	<u>520</u>	<u>38</u>	<u>619</u>	<u>552</u>
Total expenditure	<u>10,516</u>	<u>27,866</u>	<u>148</u>	<u>38,530</u>	<u>38,108</u>

Notes to the Accounts

4. GRANTS AWARDED

	2012 £'000	2011 £'000
Grants to organisations	25,871	27,300
Grants to individuals	1,221	1,466
Grants returned or cancelled	(463)	(435)
Total Grants Awarded	26,629	28,331

Further analysis of our main grant awards is given in the Trustees' Report and a full grants listing is available on our website. This information has not been audited.

5. STAFF COSTS

	2012 £'000	2011 £'000
Wages and salaries costs	734	701
Social Security costs	85	79
Pension costs	78	80
Other benefits	9	13
	906	860

The average number of employees calculated on a full-time basis

Generating Funds	4.5	4.5
Grant-making	11.5	12.5
Governance	0.5	0.5
Total	16.5	17.5

The number of employees with emoluments greater than £60,000

£80,000-£90,000	-	1
£70,000-£80,000	2	2
£60,000-£70,000	1	-

Pension contributions for employees with emoluments greater than £60,000 amounted to £22,747 (2011: £24,272). No pension contributions were outstanding at the year end.

6. FUND TRANSFERS FOR GRANT-MAKING

The Charity's current policy is to transfer each year into unrestricted and restricted funds, 4% of the total value of the endowment as averaged over the previous 5 years (referred to as the "Distribution Rate"); these funds are then available for grant making and operations. These transfers are funded over time by the total investment returns achieved by the Charity's endowment. The Trustees review the Distribution Rate from time to time and adjust as necessary to take account of prevailing rates of investment return. In 2012 the Charity transferred £27.3 million into unrestricted and restricted funds, calculated at the current 4% Distribution Rate.

Under the Total Return approach, the Charity must ensure that the value of total endowment funds does not fall below the Core Endowment. The Core Endowment is fixed at £276m, representing the value of the endowment as at 31 December 1991. Endowment funds in excess of the Core Endowment are known as the Unapplied Total Return; these are the accumulated returns from which the Charity may make funds available for grant-making.

Notes to the Accounts

The overall movement in unapplied total return in 2012 was as follows:

	2012 £'000
Unapplied total return at 1 January 2012	391,552
Add: Income received	10,449
Less: Costs of generating funds	(10,516)
Add: Investment gains	<u>66,450</u>
Unapplied total return before transfer to income	457,935
Less: transfer to income	(27,300)
Unapplied total return at 31 December 2012	430,635
Add: core endowment	276,000
Endowment assets at 31 December 2012	706,635

Total funds at the end of year comprised the following:

	£000
Endowment funds	706,635
Unrestricted and restricted funds	9,080
Total funds	715,715

7. TANGIBLE FIXED ASSETS

	Fixtures, Fittings & Equipment £'000	Leasehold Improvements £'000	Total £'000
Cost at 1 January 2012	78	216	294
Additions	8	-	8
Cost at 31 December 2012	<u>86</u>	<u>216</u>	<u>302</u>
Accumulated depreciation at 1 January 2012	60	107	167
Depreciation charged in the year	11	22	33
Accumulated depreciation at 31 December 2012	<u>71</u>	<u>129</u>	<u>200</u>
Net Book Value at 31 December 2012	15	87	102
Net Book Value at 31 December 2011	<u>18</u>	<u>109</u>	<u>127</u>

Notes to the Accounts

8. INVESTMENTS

	Market Value 1.1.12 £'000	Acquisitions at cost £'000	Disposals at proceeds £'000	Investment gains £'000	Fees deducted* £'000	Market Value 31.12.12 £'000
Equities (L)	245,072	20,874	(31,648)	27,730	(359)	261,669
Private Equity (U)	45,527	25,086	(10,084)	8,123	(2,381)	66,271
Hedge Funds (U)	108,301	13,543	(7,990)	14,153	(3,800)	124,207
Property (U)	133,856	3,738	(4,602)	8,308	-	141,300
Inflation Hedges (L)	53,378	-	(4,500)	3,258	(384)	51,752
Fixed Interest (L)	83,159	3,400	(11,000)	5,238	(453)	80,344
	<u>669,293</u>	<u>66,641</u>	<u>(69,824)</u>	<u>66,810</u>	<u>(7,377)</u>	<u>725,543</u>
Cash and other balances	20,067					12,094
Total investments	<u>689,360</u>					<u>737,637</u>

Total investment gains were made up as follows:	2012 £'000	2011 £'000
Gains/(losses) on investment assets (see above)	66,810	(2,167)
Other currency losses	(360)	(884)
Investment gains/(losses)	<u>66,450</u>	<u>(3,051)</u>

* - relates only to fees deducted from the market value of the investments, not fees paid from cash.

The market value of listed investments at the year end was £394m (2011: £381m). None of these were UK-only investments (2011: nil). The historical cost of listed investments was £338m (2011: £340m). NB: (L) – listed investments, (U) – unlisted investments. The Charity's direct holdings in agricultural and commercial property were valued at 31 December by the Charity's property advisers.

The Charity has committed to fund up to a further £80m of capital calls from private equity funds. These calls will be funded primarily from the Charity's equity investments.

It has been identified that cash and creditor balances recorded at 31 December 2011 more correctly formed part of the investment balances at that date. The comparative balances at 31 December 2011 have been restated from the previous year's accounts, with the effect of reducing cash at bank by £15.4 million, reducing creditors payable less than one year by £9.0 million and increasing total investments by £6.4 million.

9. PROGRAMME RELATED INVESTMENTS

The Charity had programme related investments valued at 31 December as follows:

	2012 £'000	2011 £'000
Venturesome Development Programme	400	500
Social Impact Partnership (Peterborough prison)	15	27
	<u>415</u>	<u>527</u>

Notes to the Accounts

The movement in value in 2012 was as follows: £'000

Value at 1 January 2012 **527**

Add: additions 64

Less: provisions made (176)

Value at 31 December 2012 **415**

10. DEBTORS

	2012 £'000	2011 £'000
Dividends receivable	587	916
Rents receivable	607	528
Other debtors	1,131	3,763
Prepayments	275	320
	2,600	5,527

11. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £'000	2011 £'000
Grants payable	17,524	17,693
Accruals and deferred income	939	863
	18,463	18,556

12. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2012 £'000	2011 £'000
Grants payable	9,455	8,659

13. MATURITY OF FINANCIAL LIABILITIES

	2012 £'000	2011 £'000
In one year or less, or on demand	18,463	18,556
In more than one year, but not more than two years	7,521	7,809
In more than two years, but not more than five years	1,934	850
	27,918	27,215

14. ANALYSIS OF FUNDS

	Fixed Assets £'000	Investments £'000	Net Current Liabilities £'000	Creditors > 1 year £'000	Total £'000
Main Endowment Fund	-	689,175	1,606	-	690,781
Estates Endowment Fund	-	15,854	-	-	15,854
Main Unrestricted Fund	102	33,023	(14,771)	(9,455)	8,899
Estates Restricted Fund	-	-	181	-	181
	102	738,052	(12,984)	(9,455)	715,715

Notes to the Accounts

15. RELATED PARTY TRANSACTIONS

Expenses of £5,689 (2011: £8,344) were reimbursed to four Trustees during the year (2011: four) to cover travel and other related costs incurred by them in fulfilment of their duties. The Trustees received no remuneration during the year or in the previous year.

A payment of £20,000 was made during the year to Action on Addiction, of which Mr T Millington-Drake, a Trustee of The Henry Smith Charity, is Principal Consultant.

16. OPERATING LEASE COMMITMENTS

At year-end the Charity held a lease for its premises expiring in November 2016. Rental payments amount to £116,000 per year.

17. PRIOR YEAR ADJUSTMENT

During the year, the Trustees determined that a constructive liability should not be recognised for payments to Elderly Kindred expected in future years, beyond the annual grant awards made in December each year. The result of the change in accounting policy is to increase total funds at 1 January 2011 by £4,315,000, to decrease resources expended and increase net movement in funds for the year ending 31 December 2011 by £727,000 and to increase total funds at 31 December 2011 by £5,042,000.

Administrative details (continued)

Registered Office

65 Leadenhall Street, London, EC3A 2AD

Telephone

020 7264 4970

Website

www.henrysmithcharity.org.uk

Director

Nick Acland

Charity Registration

230102

Constitution

The Henry Smith Charity originated under the Will of Henry Smith who died in 1628. The constitution which governs the Charity is contained in a Scheme of the Charity Commissioners dated 5 October 2000 which came into effect on 1 January 2001.

Objects

The objects of the Main Fund of the Henry Smith Charity are as follows:-

- For the relief of the poor kindred of Henry Smith;
- For hospitals, hospices and other forms of residential care or provision of health care for those who are sick or in need and for other institutions providing medical assistance for those in financial need, provided that no part of the income shall be applied directly in relief of rates, taxes or other public funds, but may be applied in supplementing relief or assistance provided out of public funds;
- For the relief of poor, aged or sick persons and their spouses, widows, widowers and dependants;
- For the relief of poor, aged or sick members of the clergy and their spouses, widows, widowers and dependants;
- For the relief, rehabilitation and training of disabled persons including disabled ex-Servicemen and war widows;
- For any medical research;
- For the promotion of moral welfare or social service; and
- For the relief and rehabilitation of those persons who are or have been slaves or serfs and their dependants who are in need or distress or for preventing their seizure.

The objects of the Estates Fund of the Henry Smith Charity are as follows:-

- For the relief of poor, aged or infirm in specified, historic parishes;
- For the relief of poor, aged or infirm elsewhere in England and Wales;
- For the benefit of hospitals or convalescent homes in the specified, historic parishes; and
- For the benefit of hospitals or convalescent homes elsewhere in England and Wales.

Administrative details (continued)

Trustees

N A B Acland (resigned March 2012)	Mrs C Godman Law	Mrs G M McGrath (appointed May 2012)
Mrs A E Allen (resigned Nov 2012)	J D Hambro	Mrs A McNair Scott
Mrs D Barran	J P Hordern (appointed May 2012)	T J Millington-Drake
Mrs B Biddell	Mrs V Y Hunt	M R Newton
Clare, Countess of Euston	Ms M V Lowther	P W Smallridge
Miss M J Gallyer	N G H Manns	Sir Richard Thompson
M Giedroyc	P Maxwell	

The Trustees meet as a Board four times a year, and operate through a number of Committees each of which is concerned with a different sphere of activity, as follows:

Two Distribution Committees are responsible for taking decisions in respect of the main grants programme, for overseeing decisions in respect of the small grants programme and for setting the budget for distributions from the Estates Fund.

The Poor Kindred Committee oversees policy and administration of grants to poor kindred.

The Poor Clergy Committee oversees policy and administration of grants to needy clergy and the award of other grants for Christian projects.

The Governance and Nominations Committee is responsible for ensuring that governance arrangements comply with requirements, are fit for purpose and in line with good practice.

The Remuneration Committee is responsible for determining the Director's and Senior Managers' remuneration.

The Investment Committee is responsible for investment policy, asset allocation and performance monitoring.

The Finance and General Purposes Committee is responsible for organisational planning, budgeting and performance monitoring, organisational policies, staff remuneration, audit and risk management.

Bankers	Bank of Scotland, 8 Lochside Avenue, Edinburgh, EH12 9DJ
Solicitors	SNR Denton LLP, One Fleet Place, London, EC4M 7WS Berwin Leighton Paisner, London Bridge, London, EC4R 9HA
Auditors	Crowe Clark Whitehill LLP, 10 Salisbury Square, London EC4Y 8EH
Investment Advisers	Cambridge Associates, 80 Victoria Street, London, SW1E 5JL
Property Advisers	LaSalle Investment Mgt, 33 Cavendish Square, London, W1A 2NF R H & R W Clutton, 92 High Street, East Grinstead, RH19 3DF
Investment Managers	Capital International, 40 Grosvenor Place, London, SW1X 7GG City of London Investment Mgmt Ltd, 10 Eastcheap, London, EC3M 1LX Colchester Global Investors, 20 Savile Row, London, W1S 3PR Legg Mason Investments, 75 King William St, London, EC4N 7BE Payden & Rygel Global Ltd, 10 King William St, London, EC4N 7TW Northern Trust Global Investments Ltd, 50 Bank St, London, E14 5NT Record Currency Management, Morgan House, Windsor, SL4 1EP State Street Global Advisors, 20 Churchill Place, London, E14 5HJ Wellington Management Intl Ltd, 80 Victoria St, London, SW1E 5JL

We also have a number of Hedge Fund and Private Equity managers within our dedicated portfolios.