

THE HENRY SMITH CHARITY
Registered Charity 230102

**ANNUAL REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

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Chairman's Review

In 2013 the number of applications we received and the expenditure under our grants programmes remained at a similar level to 2012. However the need for the services of the organisations we support, which are often helping the most vulnerable in our society, continues to rise while availability of funding remains under serious pressure. As a result we have noticed that many of the organisations we support are spending down reserves in order to bridge the gap between the services they provide and the funds they receive. This must be a concerning trend in the longer term.

On a positive note our investments again performed well and the charity's assets grew by £69 million to a total value of £785 million after our grant spending, representing a significant real-terms increase. This is an encouraging result from the point of view of our future grant making especially in an environment where a long-term return of 4% over inflation is a demanding objective. In the light of this investment performance the trustees confirmed the same distribution formula of 4% of the five year rolling average value of the endowment for 2014. This represents over £100 million every four years.

I am also pleased to report that in 2013 we received approval from the Charity Commission to widen the eligibility to our grant making scheme to support kindred of Henry Smith to cover both adopted and illegitimate kindred. We have felt for a while that this is an important modernising step which avoids inequities which can occur, sometimes, even within families.

During the year we commissioned a book, involving new research into the life of Henry Smith and the development of the charity since its origin in his will of 1628. We hope the book will provide additional insight into how, over the long history of the charity, generations of trustees have striven to remain faithful to the wishes of our founder while also being ready to adapt to a contemporary context. We look forward to its publication which we expect to be at the end of 2014.

During the year the Trustees started a process of reviewing how we can make better use of the quantitative information we receive from those who apply to us to help to improve the rigour of our grant making decisions. We expect to start to see some of the benefit of this work in 2014.

We also decided in 2013, five years after our full governance review, that it was time to look again to make sure our committee structure, its terms of reference and the overall governance of the charity remained fully fit for purpose. I am pleased to report that with only a few very minor amendments to our governance handbook the Board confirmed this to be the case.

We continued to investigate the opportunity of more proactive 'strategic' grants to complement our generally reactive programme. During the year the trustees gave their support to two such grants: one in the area of combatting childhood sexual exploitation and the other to help more rigorous assessment of the effectiveness of interventions to support victims of domestic violence. Both these areas clearly fit with the charity's ethos of supporting the most vulnerable people.

The year saw the retirement of two trustees, Clare Euston and Peter Smallridge, who had been trustees for 21 and 13 years respectively. Both chaired one of our grant distribution committees during their tenure and contributed hugely to the development of the charity. My sincere thanks go to them. We also carried out a formal trustee recruitment process and I am pleased to welcome four new trustees to the board – Rev Paul Hackwood, Piers Feilden, Emir Feisal and Vivienne Dews. They have a wide range of experience between them and we much look forward to their contribution over the coming years.

The environment in which we operate continues to present severe and, in many cases, worsening prospects for those we help – the need for our support is as great as ever. I am happy to report that as an organisation we are well placed to continue to provide that assistance, having continued to make good progress in all areas of activity in 2013. We look forward to further progress in 2014. My thanks go to my fellow trustees, our volunteer assessment visitors, the Community Foundations with whom we work and to our staff all of whom have made their contribution to a successful year.

James Hambro,
Chairman

Reference and Administrative Information

Trustees

Mrs D Barran

Mrs B Biddell

Ms V Dews

(appointed 20 January 2014)

Clare, Countess of Euston

(retired 28th November 2013)

E Feisal

(appointed 20 January 2014)

P Feilden

(appointed 20 January 2014)

Miss M J Gallyer

M Giedroyc

Mrs C Godman Irvine

J D Hambro

P Hackwood

(appointed 20 January 2014)

J P Hordern

Mrs V Y Hunt

Ms M V Lowther

N G H Manns

P Maxwell

Mrs G M McGrath

Mrs A McNair Scott

T J Millington-Drake

M R Newton

P W Smallridge

(retired 28th November 2013)

Sir Richard Thompson

Registered Office

65 Leadenhall Street, London, EC3A 2AD

Website

www.henrysmithcharity.org.uk

Director

Nick Acland

Charity Registration

230102

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

Auditor

Crowe Clark Whitehill LLP, 10 Salisbury Square, London EC4Y 8EH

Investment Advisers

Cambridge Associates, 80 Victoria Street, London, SW1E5JL

Property Advisers

LaSalle Investment Mgt, 33 Cavendish Square, London, W1A 2NF

Smiths Gore, Stuart House, City Road, Peterborough, PE1 1QF

Report of the Trustees

The Trustees present their annual report and financial statements for the year ended 31 December 2013. The financial statements have been prepared in accordance with the accounting policies set out on page 15.

Structure, governance and management

The Henry Smith Charity was established from a gift of land given during the lifetime of Henry Smith, and a bequest upon his death in 1628. It is a registered charity, number 230102, governed by a Scheme of the Charity Commissioners dated 5 October 2000 which came into effect on 1 January 2001.

The Charity is required to have between ten and twenty Trustees. Since the governance review of 2008 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. Trustees are appointed on the nomination of the Archbishop of Canterbury, following a formal recruitment process culminating in a recommendation from the Trustees made in the light of the Charity's needs. Trustee induction includes meeting the office staff, being briefed on procedures, and addressing any training needs they may have.

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 the following committees:

- Several different Grants Committees are responsible for decisions in respect of the Charity's various grant programmes.
- The Governance and Nominations Committee is responsible for ensuring good governance. Current governance arrangements were established following a full-scale review in 2008, and were reviewed and updated in 2013.
- 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 planning, budgeting and performance monitoring, organisational policies, staff remuneration, audit and risk management.

The Charity's objects and activities for the public benefit

The Charity is constituted as two funds, the Main Fund and Estates Fund. The objects of the Main Fund of the Henry Smith Charity have been changed at various points over the years, while maintaining the spirit of Henry Smith's original bequest. The objects as currently stated 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;
- 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.

Report of the Trustees

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.

Grant-making policy

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.

The Charity's policy on grant-making is primarily reactive with the aim of selecting the best projects from applications received.

The charity aims to achieve the maximum possible beneficial social impact from its grant-making. We like to fund organisations which have real difficulty getting funding elsewhere who demonstrate evidence of effective work meeting a compelling need. For this reason many of the grants are to fund smaller organisations and those without public appeal.

We try not to over-burden applicants with requests for information but we have to balance this with the need to satisfy ourselves that a grant will be effectively used. We are willing to take risks and rely on backing good people and organisations. We regard ourselves as a 'light-touch', very broad, generalist and predominantly reactive grant maker. We typically fund for three years to give a degree of stability and continuity. We are happy to make grants towards general running costs as this is sometimes the most helpful type of funding to the applicant.

Grant-making objectives and achievements

We awarded grants totalling £27.1m in 2013. These grants were made across various grant programmes as follows:

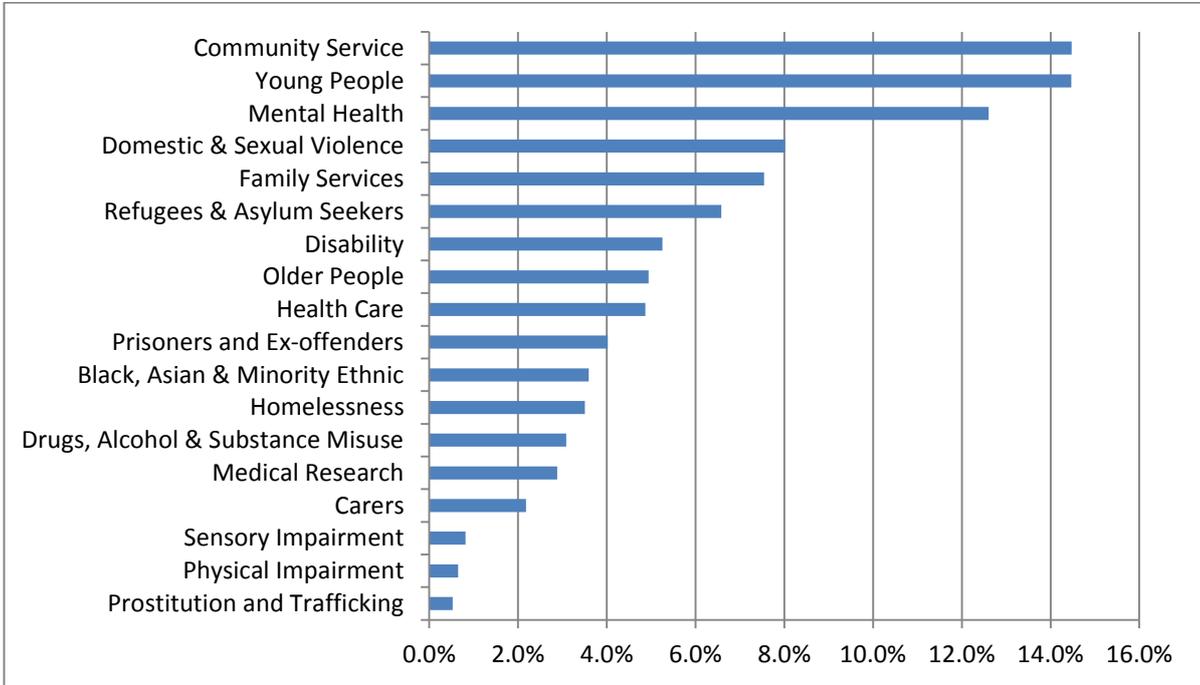
Main Grants - £23.8m

Over 80% of grant-making expenditure is made through the Charity's main grants programme, which makes grants of £10,000 and above. In 2013 £23.8m was spent under this scheme. We received about 1,600 applications in the year and awarded 308 grants with an average size of approximately £75k over 3 years.

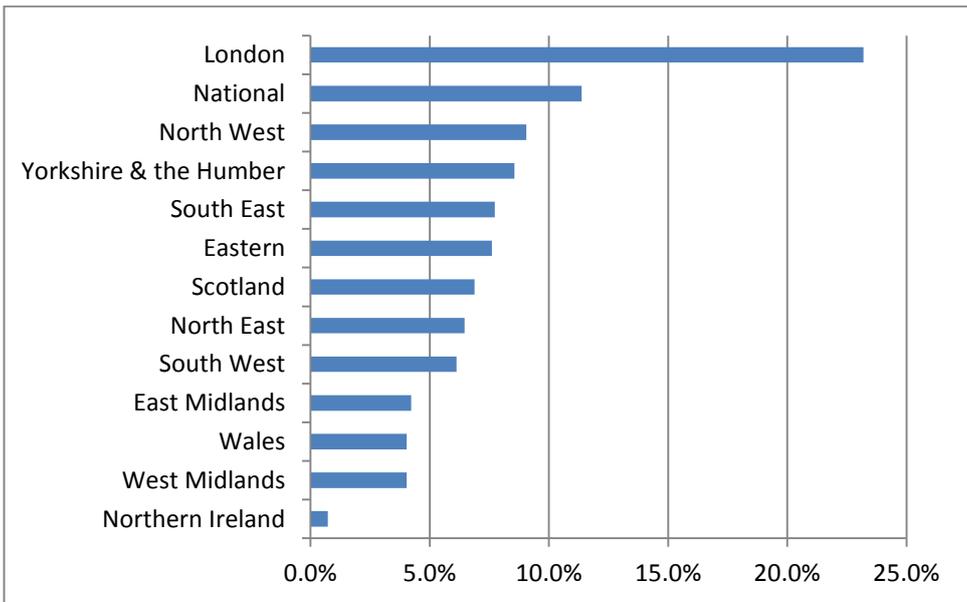
Within these figures the trustees also awarded two 'strategic' grants in the areas of combatting Childhood Sexual Exploitation and supporting victims of Domestic Violence. These grants are more proactively made, have specific learning objectives and seek to make some systemic change to the environment rather than funding the delivery of a specific service over a period of time.

Report of the Trustees

We funded a variety of grants across our programme areas, with the highest demand continuing to be for grants related to young people, mental health or community service activities.



We funded organisations across the UK, but continue to find that much of the work meeting the greatest need is within the most deprived, mainly urban areas of the UK



Report of the Trustees

Kindred - £649k

Support of the Kindred is the charity's primary object. In 2013 we made 177 grants to just under 130 kindred, all on a means-tested basis. In 2013 approval was received from the Charity Commission to widen the scheme to include adopted and illegitimate kindred. While this has resulted in a number of new registrations this has not resulted in a significant increase in grant spend.

Clergy - £778k

£481k was distributed to clergy (priority being given to clergy with dependants) through the Church of England dioceses. £21k was spent to fund bursaries for ordinands while the balance of £276k was spent to support various Christian projects giving particular priority to the spiritual needs of the elderly and cognitively impaired.

County Grants – £1,155k

The county scheme runs in Gloucestershire, Hampshire, Leicestershire, East Sussex, West Sussex, Surrey, Kent and Suffolk. Grant recommendations are made by County trustees who use their local knowledge to assess the merit of applications. The guidelines for the county grant scheme are the same as for the main grant scheme although there is a limit on size of the grant and size of the charity.

Small Grants - £0k

Late in 2012 the small grants scheme was closed due to the large number of applications resulting in the budget being fully spent for the year. The Trustees decided to keep the scheme closed in 2013 due to concerns about the relatively low success rate, due to the high number of applications, resulting in a disproportionate amount of work, both internally and for applicants. The Trustees decided to reopen the scheme for 2014 but on a more targeted basis by allocating £150k to be distributed in the northeast through the Community Foundation Serving Tyne and Wear and Northumberland.

Parishes - £562k

The parish scheme is a separate fund within the endowment, representing just over 2% of our assets. Grants are made to local organisations in a number of parishes, based broadly on an allocation set out by the trustees of Henry Smith's will for the relief of poverty in particular parishes. Local organisations make grants within each parish and report back annually on how the funds have been spent.

Holiday Grants - £146k

The grants are awarded for recreational activities for groups of deprived children. The maximum payment is £2,500 and will typically be for a residential trip to an activity centre for inner city primary school children or a trip to the seaside.

Report of the Trustees

Grant Assessment and Evaluation

In order to ensure that we are achieving our charitable objectives we inform applicants via our website of the type of projects we like to fund and give guidelines of what applications should cover. We are then able to assess each application against specific criteria including:

- i.) Demonstration of clear need for the work
- ii.) Evidence of impact/social benefit from the work
- iii.) Capacity of the organisation to deliver the service in terms of expertise and sustainability

Once an application has passed the initial paper based assessment for main grants further information will be requested and an assessment visit will take place. The purpose of this process is to confirm that there is a need for the project, that the organisation's management and governance is fit for purpose, that the project is sustainable and the outcomes are both realistic and achievable.

Before releasing annual payments for multi-year grants we require progress reports demonstrating the achievement of satisfactory results against the original objectives.

For 'strategic' grants a more formal evaluation is required, often in the form of an independent review which is submitted to the Board of Trustees.

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 positive social impact anticipated from each grant is weighed up before an award is made and then monitored as described above. This process enables trustees to be confident that the charity has, through its wide range of grantees, achieved significant, and very diverse, public benefit for a number of vulnerable groups across the UK.

Risk Management

The Trustees formally review risk on an annual basis as well as when issues arise. The Trustees also meet the auditors during the year to discuss recommendations arising from their annual audit, which inform our approach.

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.

We also consider the sustainability of the organisations we fund and the risk of the projects to which we make grants both in terms of the likelihood of them achieving their objectives and the resulting impact.

Report of the Trustees

Investments

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.

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 the primary long term objective of maximising sustainable spending from the portfolio in order to support grant-making. The secondary long term objective is to maintain 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 (3-5 years).

It is recognized that in order to achieve the primary 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. Further details are given in note 8 to the accounts.

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 2013

Investment returns were around £110m, with sizeable gains on equity-type assets and property. Total portfolio performance was more than 5% ahead of the long term benchmark of RPI + 4%, and has matched this benchmark over the last 3 years.

Growth Assets	+15.7%
Inflation Hedges	+6.4%
Deflation Hedges	+0.7%
Total Portfolio	+12.3%
RPI + 4% benchmark	+6.7%

Report of the Trustees

Investment portfolio changes

We continued to build our private equity portfolio, with £21m of capital invested during the year. This portfolio is now providing significant levels of distributions, with £14m returned during the year.

During the year we separated our hedge funds into two distinct categories, and from 1 January 2014 are managing them as two separate portfolios. One portfolio will aim to produce returns similar to equity markets but with lower volatility, while the other portfolio will aim to produce returns uncorrelated with other assets.

Investment costs

£12.4m (2012: £10.5m) was spent on managing our investments as strong investment returns and increasing asset values led to increases in the absolute level of fees charged.

Over 50% of investment costs relate to investments in alternative assets. These are more expensive than traditional long-only investment, but we have enjoyed good investment returns with lower volatility, which has more than compensated for the additional fee costs.

We aim to maintain transparency over the total fees paid on our investments and to regularly review manager fees to ensure they continue to be matched by performance. Some of the manager changes made in 2013 were designed to reduce the overall fee burden.

The majority of investment fees are charged internally within the investment funds; fees paid in cash were much lower at £3.7m (2012: £3.1m). As we aim to get good value from our managers, all investment performance is monitored net of fees.

“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 2013, the endowment funds of £777m 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 liquidity quarterly and reserves annually, and are satisfied that the Charity is in a position to meet all its current and anticipated future commitments.

Report of the Trustees

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 22 May 2014

James Hambro

Chairman

Independent Auditor's 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 2013 which comprise the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and the related notes numbered 1 to 16.

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).

This report is made solely to the charity's trustees, as a body, in accordance with section 154 of the Charities Act 2011. Our audit work has been undertaken so that we might state to the charity's trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

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.

We have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with regulations made under section 154 of that Act.

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.

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 non-financial information in the Report of the Trustees and Chairman's Review to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013, and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011.

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 Report of the Trustees 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 Auditor
London

Date: 22 May 2014

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 2013

	Main Unrestricted Fund £'000	Estates Restricted Fund £'000	Main Endowment Fund £'000	Estates Endowment Fund £'000	2013 Total £'000	2012 Total £'000
INCOMING RESOURCES						
Investment income (note 2)	-	-	10,083	232	10,315	10,227
Deposit interest	77	2	-	-	79	98
Other income	-	-	222	5	227	222
Investment Return allocated as income (note 6)	26,290	610	(26,290)	(610)	-	-
TOTAL INCOMING RESOURCES	26,367	612	(15,985)	(373)	10,621	10,547
RESOURCES EXPENDED (note 3)						
Costs of generating funds	-	-	12,066	246	12,312	10,516
Charitable Activities						
Grant-making	27,598	562	-	-	28,160	27,866
Total Charitable Activities	27,598	562	-	-	28,160	27,866
Governance costs	149	-	-	-	149	148
TOTAL RESOURCES EXPENDED	27,747	562	12,066	246	40,621	38,530
NET (OUTGOING)/INCOMING RESOURCES FOR THE YEAR BEFORE OTHER RECOGNISED GAINS & LOSSES						
	(1,380)	50	(28,051)	(619)	(30,000)	(27,983)
Gain on investment and currency assets (note 8)	-	-	97,094	2,235	99,329	66,450
NET MOVEMENT IN FUNDS	(1,380)	50	69,043	1,616	69,329	38,467
TOTAL FUNDS BROUGHT FORWARD AT 1 JANUARY 2013						
	8,899	181	690,781	15,854	715,715	677,248
TOTAL FUNDS AT 31 DECEMBER 2013	7,519	231	759,824	17,470	785,044	715,715

The notes on pages 15 to 21 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 2013

	Note	2013 £'000	2012 £'000
FIXED ASSETS			
Tangible Fixed Assets	7	82	102
Investments	8	808,814	738,911
Programme Related Investments	9	350	415
Total Fixed Assets		809,246	739,428
CURRENT ASSETS			
Debtors	10	1,202	2,106
Cash at Bank		3,244	2,879
		4,446	4,985
CREDITORS			
Amounts falling due within one year	11	(21,203)	(19,243)
NET CURRENT LIABILITIES		(16,757)	(14,258)
TOTAL ASSETS LESS CURRENT LIABILITIES			
		792,489	725,170
CREDITORS			
Amounts falling due after one year	12	(7,445)	(9,455)
NET ASSETS		785,044	715,715
FUNDS			
Main Endowment Fund		759,824	690,781
Estates Endowment Fund		17,470	15,854
Main Unrestricted Fund		7,519	8,899
Estates Restricted Fund		231	181
		785,044	715,715
Total Funds	14	785,044	715,715

Approved by the Trustees on 22 May 2014 and signed on their behalf by:

James Hambro
Chairman

Patrick Maxwell
Trustee

The notes on pages 15 to 21 form part of these accounts.

Cash Flow Statement for the Year Ended 31 December 2013

	2013 £'000	2012 £'000
Net outgoing resources	(30,000)	(27,983)
Adjustments to exclude investment income and non-cash items (a)	(415)	1,128
Net cash outflow from operating activities	(30,415)	(26,855)
Investment income received	10,684	10,826
Net cash inflow from investment income	10,684	10,826
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(12)	(8)
Purchase of fixed asset investments	(143,982)	(68,388)
Proceeds from sale of fixed asset investments	188,182	69,824
Net write-down of social investments	65	112
Net cash inflow from capital expenditure and financial investment	44,253	1,540
Management of liquid resources		
(Increase)/decrease in cash and short term deposits (investment assets)	(24,157)	8,446
Net cash (outflow)/inflow from liquid resources	(24,157)	8,446
Increase/(decrease) in cash (b)	365	(6,043)
(a) Adjustments to exclude investment income and non-cash items		
Investment income and deposit interest	(10,394)	(10,325)
Depreciation	32	33
Decrease in debtors	614	3,700
Increase in creditors	(50)	703
Investment fees deducted through units	9,082	7,377
Currency gains/(losses)	301	(360)
Total adjustments to exclude investment income and non cash-items	415	1,128
(b) Decrease in cash and short-term deposits		
Cash and short-term deposits at 1 Jan 2013	2,879	8,922
Increase/(decrease) in cash	365	(6,043)
Cash and short-term deposits at 31 December 2013	3,244	2,879

The notes on pages 15 to 21 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. Minor changes have been made to the allocations within some of the comparative amounts to bring these in line with the current year.

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). Cash held for investment purposes is included within investments. 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

	2013 £'000	2012 £'000
Equities	4,814	4,161
Fixed Income	797	1,062
Property	4,704	5,004
	<u>10,315</u>	<u>10,227</u>

3. EXPENDITURE

	Costs of Generating Funds £'000	Grant- making £'000	Governance £'000	Total 2013 £'000	Total 2012 £'000
Grants awarded (note 4)	-	27,001	-	27,001	26,629
Programme-related-investments costs	-	140	-	140	176
Direct costs					
Investment management	11,866	-	-	11,866	10,062
Investment advice	143	-	-	143	183
Staff costs (note 5)	205	474	37	716	723
Auditors' remuneration	-	-	31	31	31
Other costs	-	103	57	160	147
	<u>12,214</u>	<u>27,718</u>	<u>125</u>	<u>40,057</u>	<u>37,951</u>
Support costs					
Staff costs (note 5)	18	195	11	224	223
Premises and office services	80	247	13	340	356
	<u>98</u>	<u>442</u>	<u>24</u>	<u>564</u>	<u>579</u>
Total expenditure	<u>12,312</u>	<u>28,160</u>	<u>149</u>	<u>40,621</u>	<u>38,530</u>

Notes to the Accounts

4. GRANTS AWARDED

	2013 £'000	2012 £'000
Grants to organisations	25,939	25,871
Grants to individuals	1,130	1,221
Grants returned or cancelled	(68)	(463)
Total Grants Awarded	27,001	26,629

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

	2013 £'000	2012 £'000
Wages and salaries costs	741	734
Social Security costs	79	85
Pension costs	84	78
Other benefits	36	49
	940	946

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

Generating Funds	4.0	4.5
Grant-making	12.0	11.5
Governance	0.5	0.5
Total	16.5	16.5

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

£100,000-£110,000	1	-
£80,000-£90,000	1	-
£70,000-£80,000	1	2
£60,000-£70,000	-	1

Pension contributions for employees with emoluments greater than £60,000 amounted to £30,254 (2012: £22,747). 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 2013 the Charity transferred £26.9 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 2013 was as follows:

	2013 £'000
Unapplied total return at 1 January 2013	430,635
Add: Income received	10,542
Less: Costs of generating funds	(12,312)
Add: Investment gains	<u>99,329</u>
Unapplied total return before transfer to income	528,194
Less: transfer to income	(26,900)
	<hr/>
Unapplied total return at 31 December 2013	501,294
Add: core endowment	276,000
	<hr/>
Endowment assets at 31 December 2013	777,294

Total funds at the end of year comprised the following:

	£000
Endowment funds	777,294
Unrestricted and restricted funds	7,750
	<hr/>
Total funds	785,044

7. TANGIBLE FIXED ASSETS

	Fixtures, Fittings & Equipment £'000	Leasehold Improvements £'000	Total £'000
Cost at 1 January 2013	86	216	302
Additions	12	-	12
Disposals	(13)	-	(13)
	<hr/>	<hr/>	<hr/>
Cost at 31 December 2013	85	216	301
	<hr/>	<hr/>	<hr/>
Accumulated depreciation at 1 January 2013	71	129	200
Depreciation charged in the year	9	23	32
Depreciation released on disposals	(13)	-	(13)
	<hr/>	<hr/>	<hr/>
Accumulated depreciation at 31 December 2013	67	152	219
	<hr/>	<hr/>	<hr/>
Net Book Value at 31 December 2013	18	64	82
	<hr/>	<hr/>	<hr/>
Net Book Value at 31 December 2012	15	87	102
	<hr/>	<hr/>	<hr/>

Notes to the Accounts

8. INVESTMENTS

	2013 £'000	2012 £'000
Equities (L)	280,027	263,417
Private Equity	89,149	66,270
Hedge Funds	129,254	124,207
Property	154,545	141,300
Inflation Hedges (L)	59,517	51,752
Fixed Interest (L)	60,544	80,344
Cash and other balances	35,778	11,621
Total Investments	808,814	738,911

The movement in market value of investments was as follows:

	2013 £'000	2012 £'000
Market Value at 1 January 2013	738,911	689,360
Investment gains	99,028	66,810
Net disinvestments from the portfolio	(29,125)	(17,259)
Market Value at 31 December 2013	808,814	738,911

	2013 £'000	2012 £'000
Total gains were made up as follows:		
Gains on investment assets (see above)	99,028	66,810
Other currency gains/(losses)	301	(360)
Investment and currency gains	99,329	66,450

The market value of listed investments (L) at the year end was £400m (2012: £394m). None of these were UK-only investments (2012: nil). The historical cost of listed investments was £304m (2012: £338m).

At 31 December 2013 the charity had nine foreign exchange forward contracts open in eight currencies, with a notional sterling value of £10.7 million. These contracts were entered into to mitigate the currency risk of being a UK based charity while holding global equity and hedge fund assets in local currencies. These foreign exchange forward contracts have all been revalued at the applicable year-end rates and the resulting unrealised gains are included within the overall value of the investments above. The settlement date for the contracts ranged from 31 January 2014 to 30 June 2014.

The Charity's direct holdings in property were valued at 31 December by currently Registered RICS Valuers employed by the Charity's property advisers, and in accordance with the RICS Valuation – Professional Standards (January 2014) published by the Royal Institution of Chartered Surveyors.

The Charity has committed to fund up to a further £80m of capital calls from private equity funds. These calls will be funded from sale of liquid assets across the investment portfolio.

Notes to the Accounts

9. PROGRAMME RELATED INVESTMENTS

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

	2013 £'000	2012 £'000
Venturesome Development Programme	336	400
Social Impact Partnership (Peterborough prison)	14	15
	<u>350</u>	<u>415</u>

The movement in value for the year was as follows: £'000

Value at 1 January 2013	415
Add: additions	75
Less: provisions made	(140)
	<u>350</u>
Value at 31 December 2013	350

10. DEBTORS

	2013 £'000	2012 £'000
Dividends receivable	286	336
Rents receivable	367	607
Other debtors	450	888
Prepayments	99	275
	<u>1,202</u>	<u>2,106</u>

11. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013 £'000	2012 £'000
Grants payable	20,398	18,304
Accruals and deferred income	805	939
	<u>21,203</u>	<u>19,243</u>

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

	2013 £'000	2012 £'000
Grants payable	7,410	9,455
Accruals and deferred income	35	-
	<u>7,445</u>	<u>9,455</u>

Notes to the Accounts

13. MATURITY OF FINANCIAL LIABILITIES

	2013 £'000	2012 £'000
In one year or less, or on demand	21,203	19,243
In more than one year, but not more than two years	7,192	7,521
In more than two years, but not more than five years	253	1,934
	<u>28,648</u>	<u>28,698</u>

14. ANALYSIS OF FUNDS

	Fixed Assets £'000	Investments £'000	Net Current Liabilities £'000	Creditors > 1 year £'000	Total £'000
Main Endowment Fund	-	759,800	24	-	759,824
Estates Endowment Fund	-	17,470	-	-	17,470
Main Unrestricted Fund	82	25,894	(11,012)	(7,445)	7,519
Estates Restricted Fund	-	-	231	-	231
	<u>82</u>	<u>803,164</u>	<u>(10,757)</u>	<u>(7,445)</u>	<u>785,044</u>

15. RELATED PARTY TRANSACTIONS

Expenses of £321 (2012: £5,689) were reimbursed to two Trustees during the year (2012: 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 £60,000 was made during the year to CAADA, of which Mrs D Barran, a Trustee of The Henry Smith Charity, is Chief Executive.

A payment of £50,000 was made during the year to Chance UK (Islington), of which Mrs G M McGrath, a Trustee of The Henry Smith Charity, is Chief Executive.

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.