

# Financial Review

## Financial review

During 2006, the Esmée Fairbairn Foundation committed £27.3 million in grants to 581 organisations (2005: £29.6 million). There was an 8 percent reduction in new grants approved in 2006, which reflected a 20 percent reduction in applications received by the Foundation during the year.

The support costs of the Foundation's grantmaking activities remained level at £1.8m (2005: £1.8m). Governance costs were down by 60% at £147,000 (2005: £374,000) mainly due to the amount of exceptional costs incurred in 2005.

The cost of generating funds comprised investment management, custody, advisory and other due diligence and administration cost. The total of these costs was £9.1 million for the year (2005: £8.7 million) and included management and performance fees charged against capital. This cost represented one percent of the value of investments under management at the end of the year.

The Foundation also had £1.1 million in programme related investments at the end of 2006 (2005: £0.9 million) in the form of loans to charitable organisations.

All of the Foundation's funds are unrestricted and in the Statement of Financial Activities a single unrestricted fund presentation has been adopted. In previous years capital and income were separated into an expendable endowment and income reserve.

### Risk Assessment

Trustees have examined the major strategic, operational and financial risks, which the Foundation faces and are satisfied that systems have been established to mitigate exposure to them.

### Reserves

The Foundation sets a charitable expenditure budget each year, after taking account of its aim to generate a sustainable level of income equivalent to four percent of the three-year rolling average market value of investments.

### Investment Review

Investments in the year achieved a total return of 14.8 percent (2005: 16.4 percent). The market value of investments rose to £936 million (2005: £846 million). The income yield for the year on investments was 4.3 percent (2005: 5.1 percent).

At 31 December 2006, the asset allocation of our investments comprised:

	2006 %	2005 %
Equities	64	57
Fixed Income	2	16
Private Equity/Venture Capital	2	1
Hedge funds	13	10
Property	11	11
Cash	8	5

Total market value of investments at the end of 2006 is detailed in note 9 to the accounts.

It consisted of £877.7 million fixed asset investments (2005: £791.6 million), £48.7 million current asset investments (2005: £44.1 million) and £6.6 million accrued investment income (2005: £10.6 million).

### Investment Policy

The Foundation's long-term aim is to maintain the real value of its investment capital whilst providing a stable and sustainable level of real income to support the Foundation's activities.

The Foundation's asset allocation policy is influenced by the objective of generating income of at least four percent of rolling market value. For some asset classes this may be in the form of a synthetic yield.

The Board has given the Investment Committee the task of guiding investment policy, overseeing policy implementation, managing asset allocation, monitoring performance and reporting regularly to Trustees. The Committee comprises four Trustees and one co-opted member, and is advised by Cambridge Associates Limited.

The Foundation's policy is that all investments are externally managed by investment managers appointed by the committee, with advice from Cambridge Associates. The Foundation's investments are under the safe custody of State Street Bank and Trust Company. Investment monitoring is achieved through custody reporting, independent quarterly performance reports and regular manager review meetings. Diversification is by asset class, investment manager and investment style. Currency hedging facilities are used as appropriate. The Foundation's segregated equity portfolios do not invest in companies that derive their main sources of revenue from tobacco related products.

# Governance

## Charitable Scheme

The operation of Esmée Fairbairn Foundation is governed by a Charity Commissioners' Scheme, dated 14 January 2002, which enables the assets to be applied by the Trustees at their discretion for general charitable purposes. The scheme supersedes the original Trust Deed made on 20 January 1961 and a Charity Commission order granted on 20 January 2000 giving Trustees investment delegating powers.

The Foundation is a charity registered in England and Wales, No. 200051.

The Foundation's Trustees are listed on the inside back cover of this report. The Trustee Board meets quarterly to take decisions on grant applications and agree overall strategy. A number of Trustee committees support the work of the Foundation. The current membership of each of these can be found on the inside back cover.

## Programme Groups

The Foundation operates four main grants programmes: Arts & Heritage, Education, Environment and Social Change: Enterprise and Independence. There is a Programme Group of Trustees for each of the four grantmaking programmes who take decisions on grants up to £100,000, with the board taking decisions above this level. Decisions on grants up to £20,000 are taken by staff committees and reported to Trustees.

## Audit Committee

The Audit Committee reviews and recommends systems of internal control on financial, governance and operational risks. It also reviews the draft annual report and accounts, meets with the Foundation's external auditors and reports to the board.

## Finance and Administration Committee

The Finance and Administration Committee reviews and recommends to the board annual budgets, annual accounts, staff remuneration and benefits, and human resources policies and procedures. It also oversees major property, IT, governance and other projects.

## Nominations Committee

An ad-hoc Nominations Committee meets to make recommendations to the board on the appointment of new Trustees.

## Investment Committee

The Investment Committee formulates investment policy, oversees its implementation, manages overall asset allocation, monitors investment performance and reports to the board.

## Trustees' responsibilities statement

Charity law requires the Trustees to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Foundation at the end of the financial year and of the incoming resources and application of resources of the Foundation for that period. In preparing those accounts, the Trustees are required to:

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

The Trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Foundation and to enable them to ensure that the accounts comply with the Charities Act 1993. They are also responsible for safeguarding the assets of the Foundation and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The annual report was approved by the Trustees on 22 March 2007 and signed on their behalf by:



**Tom Chandos**  
*Chairman*

**22 March 2007**

# Independent auditor's report to the trustees of the Esmée Fairbairn Foundation

We have audited the financial statements of Esmée Fairbairn Foundation for the year ended 31 December 2006 which comprise the Statement of Financial Activities, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the charity's trustees, as a body, in accordance with the regulations made under the Charities Act 1993. 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 described in the Statement of Trustees' Responsibilities the charity's trustees are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

We have been appointed as auditors under section 43 of the Charities Act 1993 and report in accordance with regulations made under section 44 of that Act. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Charities Act 1993. We also report to you if, in our opinion, the Trustees' Report is not consistent with the financial statements, if the charity has not kept proper accounting records, if we have not received all the information and explanations we require for our audit.

We read the Trustees' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charity's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements:

- > give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the charity's affairs as at 31 December 2006 and of its incoming resources and application of resources in the year then ended; and
- > have been properly prepared in accordance with the Charities Act 1993.



**haysmacintyre**  
*Registered Auditors*

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**22 March 2007**