

# Building global leaders in healthcare...



### ...to deliver transformational treatments for patients

### **Syncona**

Syncona is a leading FTSE 250 company focused on investing in and building global leaders in life science. Our vision is to deliver transformational treatments to patients in truly innovative areas of healthcare while generating superior returns for shareholders.

Our current investment portfolio consists of seven high quality life science investments and a leading range of fund investments.



For more information visit our website: www.synconaltd.com

# Syncona essential read



### Our history

Formed when BACIT acquired Syncona Partners in December 2016, today we are a leading FTSE 250 company with the funding, expertise and long-term view required to succeed.

### Where we've come from

The Wellcome Trust establishes Syncona Partners LLP Seven life science businesses established The Wellcome Trust established Syncona Partners as an independent subsidiary with evergreen capital of £200 million, later expanded to £250 million, with a long-term vision of building sustainable life science businesses around highly innovative science. BACIT raises a further £200m in capital BACIT lists on the London Stock Exchange raising £206 million BACIT was also established in 2012

with the ultimate goal of helping to find a cure for cancer. It sought to achieve this through a 'fund of funds' investment portfolio targeting attractive returns for shareholders while investing in oncology research and donating a significant amount to charities each year, including 50 per cent to the Institute of Cancer Research.

### Where we're going



NightstaRx

**Autėlus** 







By December 2016 Syncona had invested in seven life science businesses, with a focus on gene therapy, cell therapy and advanced diagnostics.

> Syncona Partners and BACIT agree to combine their businesses

BACIT acquired Syncona Partners, combining their businesses to create a leading FTSE 250 healthcare company.

The Wellcome Trust and Cancer Research UK are significant shareholders in the new vehicle.

### Building global healthcare businesses

2017 onwards

Build a focused portfolio of up to 20 investments in the best life science opportunities.

**Build global leaders** in innovative areas of healthcare.

Deliver at least 3-5 successful, sustainable, marketed-product companies.

Deliver transformational treatments to patients.

Deliver superior returns to shareholders.

### At a glance

Our business as at 31 March 2017.

### **Funds portfolio**

Our funds portfolio seeks to deliver attractive risk-adjusted returns by investing in a range of leading long-only and alternative funds, across a variety of strategies and geographies.

This represents a productively deployed evergreen funding base ready to invest in life science when the right opportunities arise.

### £582m

- 11.8% total net return in 2017.
- 44.8% total net return since inception.



**Read more**Funds portfolio review

Net assets

£895m

NAV per share

£1.36

NAV total return<sup>1</sup> in 2017

12.5%

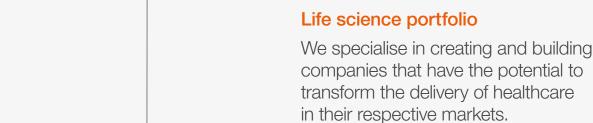
Cash and other assets

Donations to 20 charities since 2012

£18.1m

Per cent of NAV we donate to charity

0.3%



### £227m

- 12.4% total return since acquisition.
- 7 leading companies.

Company	Value £m	NAV %
■ Established		
Blue Earth Diagnostics	108.4	12.1
● Maturing		
NightstaRx	34.22	3.8
Autolus	31.2	3.5
■ Developing		
Freeline	18.0	2.0
Achilles	2.8	0.3
Gyroscope	5.0	0.6
CEGX	5.2	0.6
CRT Pioneer Fund	21.8	2.4

Life science

25%

### **Read more**

Life science portfolio review

p.20

<sup>1</sup> Including 2.2p dividend paid in August 2016.

<sup>2</sup> Following Nightstar's Series C financing in June, Syncona's holding in Nightstar is valued at £69.7m and its fully diluted ownership is 46%.

### Our life science portfolio

Since 2012 Syncona has built a focused, high quality portfolio of life science companies in gene therapy, cell therapy and advanced diagnostics; areas where we have developed deep specialisms.

### A high quality life science portfolio



Business values		
Company	Value £m	% of the life science portfolio
Blue Earth Diagnostics	108.4	47.9
<ul><li>NightstaRx</li></ul>	34.21	15.1
<ul><li>Autolus</li></ul>	31.2	13.8
Freeline	18.0	7.9
<ul><li>Achilles</li></ul>	2.8	1.2
<ul><li>Gyroscope</li></ul>	5.0	2.2
CEGX	5.2	2.3
CRT Pioneer Fund	21.8	9.6





Following Nightstar's Series C financing in June, Syncona's holding in Nightstar is valued at £69.7m and its fully diluted ownership is 46%.

### Our approach

We are focused on building successful, scalable businesses. We seek to maintain significant ownership interests from the point of investment all the way to on-market patient treatment, enabling us to build and capture value through the cycle.

### Three core principles are essential to our investment strategy



### Deep Syncona involvement

We take a hands-on approach in supporting our seven portfolios to grow and succeed.



6 out of 7 current portfolio companies founded by Syncona



10 board seats including 6 as chair



6 companies where we have held management and operational roles including 5 as CEO



7 companies where we have appointed leading management teams

### Our market opportunity

Changing dynamics in healthcare are driving growth in the life science industry and have the potential to disrupt established business models.



### Key periods of development

### **'First Wave'** 1950s

Small Molecule drugs; market dominated by large pharmaceutical companies.

### **'Second Wave'**

Large Molecules (antibody therapies and enzyme replacement therapies); market dominated by pharma and US biotech companies.

### The 'Third Wave'

### Today

Advanced Biologics and Diagnostics in areas such as gene therapy, cell therapy and DNA sequencing. Typically targeted to specific, well defined patient populations. Opportunity for market innovation and disruption.

Read more
Market overview

p.12

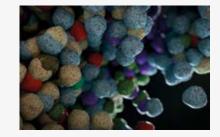
### The 'Third Wave' has significant value potential

\$760bn

The Global Biotechnology index is valued at almost \$760bn, 1.4% of global markets.

\$6.5bn

Global markets expect sales for 'Third Wave' cluster companies to go from \$1.0bn in 2017 to \$6.5bn in 2020.



3%

'Third Wave' clusters represent 3% of the biotech index today, and are worth around \$25bn.

2

The EU has already approved two gene therapy products.

Source: Thomson Reuters, Syncona Analysis.

### A thriving industry in the UK

500,000

Almost half a million jobs supported by the life science sector.

900+

Over 900 new companies formed across the life science industry between 2011 and 2016.





£14.5br

Activities of UK life science companies contributed £14.5bn directly to the economy in 2015, with an additional £15.9bn provided through the life science supply chain and employee spending.

Sources: PwC 'The economic contribution of the UK Life Science industry'. Gov.uk 'Strength and Opportunity 2016'.

# Syncona's investment proposition



### Long-term capital base

A productively deployed evergreen funding base, providing the ability to invest through the cycle, maximising our ability to capture value.



### **Focus**

Innovative areas of healthcare with scientific potential for dramatic efficacy. Specialists in gene therapy, cell therapy and advanced diagnostics.



### **Expertise**

Leading, multi-disciplinary investment team with a proven track record of creating value for stakeholders.



### Selective

Focused portfolio and high conviction investment strategy, supported by deep scientific and commercial diligence.



### Strong partnership approach

A hands-on approach to supporting our companies to grow and develop into successful and sustainable standalone businesses.



### Premium heritage and access

High quality global networks, and alignment with two premium charitable funders in science, the Wellcome Trust and Cancer Research UK.

### **Highlights**

Financial highlights<sup>1</sup> for the year ended 31 March 2017

**Net assets** 

£895.2m

**NAV** per share

NAV total return 2017<sup>2</sup>

£1.36

12.5%

### Operational highlights

Successful completion of the acquisition of Syncona Partners and its investment team in December 2016 to create a leading healthcare company focused on investing in and building global leaders in life science. BACIT renamed Syncona.

Strong performance in life science portfolio since acquisition, delivering a total return of 12.4 per cent.

Strong funds portfolio performance with total net return of 11.8 per cent, underpinning life science portfolio performance.

Significant momentum in the life science portfolio with a number of strategic milestones achieved, including a successful commercial launch of Blue Earth Diagnostics.

Highlights	1	
Chairman's statement	2	
Our business model	4	
Syncona's Group strategy	6	
How we invest in life science	8	
How we create value in life science	10	
Key performance indicators	11	
Market overview	12	
Report from the CEO	16	
Finance review	18	
Life science portfolio review	20	
Funds portfolio review	24	
Underlying investment portfolio	28	
The Syncona team	36	
Risk management	40	
Principal risks and uncertainties	41	
Corporate social responsibility	46	
Board of Directors	50	
Corporate governance statement	52	
Report of the Audit Committee	56	
Directors' remuneration report	59	
Directors' report	63	

Statement of Directors' responsibilities	67	
Independent Auditor's report	68	
Group portfolio statement	74	
Consolidated statement		
of comprehensive income	76	
Consolidated statement		
of financial position	77	
Consolidated statement of changes		
in net assets attributable to holders		
of ordinary shares	78	
Consolidated statement of cash flows	79	
Notes to the consolidated		
financial statements	80	
AIFMD Disclosures	101	
Report of the Depositary		
to the shareholders	102	
Company summary and		
e-communications for shareholders	103	
Advisers	104	

<sup>1</sup> Please refer to the full strategic report for further information on the Company's performance in the prior year.

İncrease in NAV during the period calculated on a per share basis including 2.2p dividend paid in August 2016.

### Chairman's statement

I am pleased to report on a year of strong performance and significant strategic progress. Over the 12 months NAV per share increased by 12.5 per cent<sup>1</sup> on a total return basis, and towards the end of the year we began the evolution of the Company's investment strategy to one focused on investing in and building global leaders in healthcare, underpinned and funded by our leading funds portfolio.



#### A transformative transaction

In December 2016, shareholders approved the expansion of the Company's investment policy and the acquisition from the Wellcome Trust of Syncona Partners, a portfolio of life science investments, together with its highly respected investment management team, led by Martin Murphy. As part of the transaction, the Company also acquired Cancer Research UK's interest in the CRT Pioneer Fund.

BACIT was created in 2012 to provide attractive returns for shareholders and a growing income stream for cancer research, through significant annual donations to The Institute of Cancer Research and other charities. In the same year, Wellcome set up Syncona Partners with long-term, expert capital to create and invest in sustainable life science businesses created from highly-innovative academic science.

The Company now has assets of £895.2 million (2016: £472.2 million). The combination of BACIT and Syncona's expertise and investment portfolios has created an innovative and efficient evergreen capital structure with a successful funds portfolio providing capital for compelling investment opportunities in life science.

#### **Performance**

The results for the year are the first milestone for our strategy, with NAV per share increasing to 136.0p from 122.8p. Performance has been driven by the continued progress in the funds portfolio and an increase in the valuation of Blue Earth Diagnostics, which commenced sales of Axumin in the United States during the year and more recently has received approval from the European Medicines Agency for the sale of Axumin in Europe.

Since the inception of BACIT in October 2012, the annualised NAV per share total return has been 8.9 per cent.

#### **Dividend and charitable donations**

We recognise that a reliable source of growing dividends is an important part of shareholder total return over both the short and the longer terms.

Accordingly, the Board has declared a final dividend of 2.3p per share, a 4.5 per cent increase on the previous year (2016: 2.2p). We are also pleased to be making significant charitable donations for the year of £4.75 million (2016: £4.75 million), taking the total since inception to £18.1 million.

"We have a very strong management team, a unique capital structure and a host of investment opportunities. The future is very exciting."

> Jeremy Tigue Chairman

#### **Board**

Nigel Keen and Ellen Strahlman joined the Board in December 2016. Both Nigel and Ellen bring extensive expertise in the life science sector and on behalf of the Board, I welcome them. At the same time, Arabella Cecil stepped down from the Board, although she remains the Chief Investment Officer of our funds portfolio team. In addition, Colin Maltby retired from the Board in July 2016 and Peter Hames, who has been a Board member since the Company listed in 2012, will step down as a Director at the forthcoming AGM.

I am very grateful to all my colleagues for their contribution and support, and in particular would like to thank those who have stepped down or will be stepping down from the Board this year for their invaluable contributions.

With the combination of the BACIT and Syncona businesses, the composition of the Board is evolving and we have engaged an executive search consultant to assist in the appointment of two new Directors to the Board in due course.

#### **Shareholders**

We are very grateful to all our shareholders for their continued support. In particular, I would like to welcome our new shareholders, including Wellcome and Cancer Research UK, whose vision and support made the new strategy possible.

#### The future

We expect there to be a number of milestones in our existing life science portfolio in the coming year and we have a good pipeline of investment opportunities. Our funds portfolio provides a deep pool of capital to fund these and future opportunities, while continuing to target attractive returns for shareholders.

We have a strong management team, a unique capital structure and a host of investment opportunities. The future is very exciting.

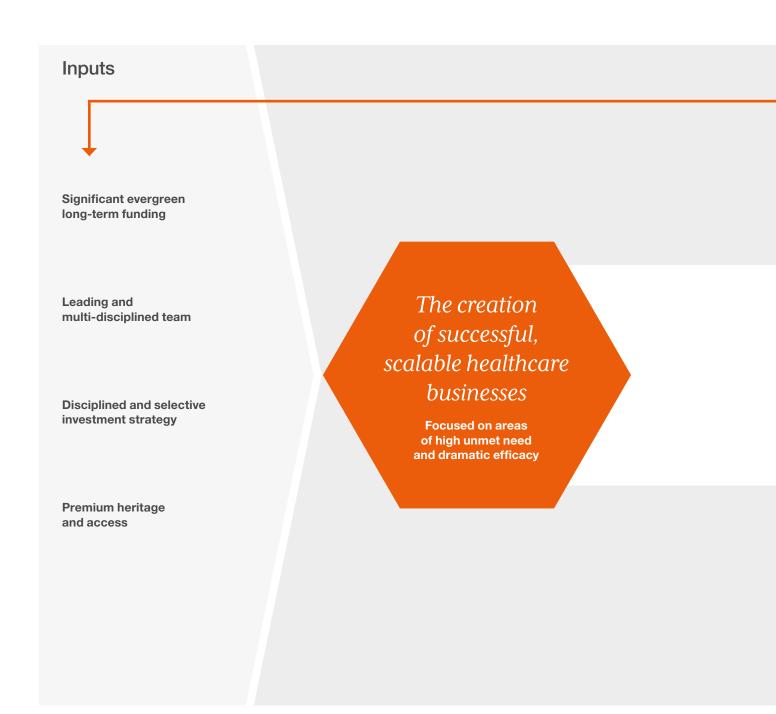
**Jeremy Tigue** Chairman

5 July 2017

Our vision is to deliver transformational treatments to patients in innovative areas of healthcare while generating superior returns for shareholders.

### Our business model

We are focused on maximising value at all points of the investment cycle to deliver superior shareholder returns and provide significant support to charitable organisations while improving treatments for patients.



"We launched Syncona with a long-term vision to offer backing to some of the best innovators in life sciences and to deliver impact to patients. Syncona has already achieved great things and now its new structure will allow it to spread its wings and expand its horizons further. We look forward to watching it, and the companies it supports, expand and prosper."

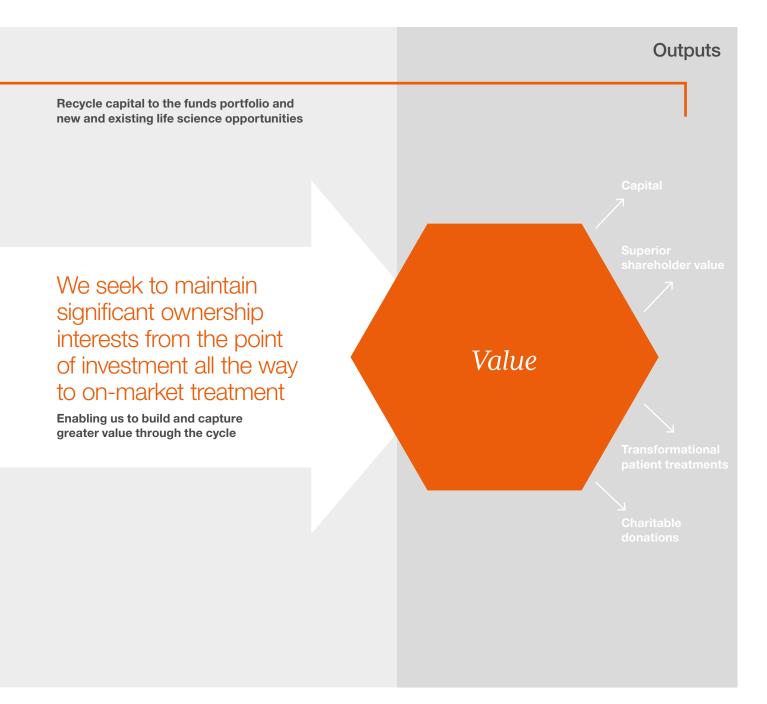
Dr. Jeremy Farrar
Director of the Wellcome Trust

Find out how our unique approach is already generating significant value for the businesses in our portfolio.

#### **Read more**

Life science portfolio review

p.20



### Syncona's Group strategy

Through our investment portfolio we seek to deliver superior shareholder returns by maximising the value available from the successful commercialisation of life science technology and the delivery of transformational treatments to patients.



Disciplined approach to capital allocation

Our unique structure provides us with an evergreen, long-term funding base. We seek to allocate capital efficiently and effectively with a clear focus on delivering superior returns for shareholders. Our market leading funds portfolio achieves this by investing in long-only and alternative investment funds. While being productively deployed, this capital base is available to invest in compelling life science investment opportunities, both new and follow-on investments, into our existing portfolio. This structure enables us to take a long-term view, which we believe will allow us to capture greater value for shareholders through the cycle and at the point of exit.



# Focused and selective investment strategy

3

# Building globally competitive healthcare businesses

Our leading, multi-disciplinary investment team has a proven track record of creating value for stakeholders through focused investment strategies. In life science, we take a high conviction approach to building a selective portfolio of high quality healthcare businesses in truly innovative areas of science with the potential to deliver dramatic efficacy for patients. Our investment strategy is underpinned by our funds portfolio, which seeks to capture over 70 per cent of the upswing and less than 40 per cent of the downside in equity markets through the cycle.

We seek to partner with the best, brightest and most ambitious minds in science to invest in and build globally competitive businesses capable of being successful long term. Building deep partnerships, we take a hands-on approach to supporting our investee companies to grow and succeed over the long term. We seek to maintain significant ownership stakes all the way to on-market patient treatment.

### How we invest in life science

We take a rigorous and disciplined approach to investing in the best life science opportunities. When we do so, we seek to take significant positions and form a strong partnership to build successful, sustainable and scalable businesses.

Three core principles are central to our investment strategy:



## These guide a disciplined life science investment approach...



### Source

Unconstrained, guided by the quality of the opportunity. Drawing on premium global networks and access including the Wellcome Trust, Cancer Research UK, academic institutions and industry.



#### Focus areas

Innovative life science technology with the potential for dramatic efficacy in areas of high unmet need. Specialists in gene therapy, cell therapy and advanced diagnostics.



### Deep diligence

Rigorous, hands-on approach to verify the scientific and commercial potential of the technology and the business.



### *Investment stage*

Flexible regarding point of entry in the development cycle, from pre-idea to later stage and public. Guided by the opportunity, the strategic fit and our ability to have a significant stake through to marketed product.



### Location

A core focus on the UK and Europe, with scope to capture compelling opportunities elsewhere when we have the expertise to do so and can build a globally competitive business.

...to capture superior value for shareholders.

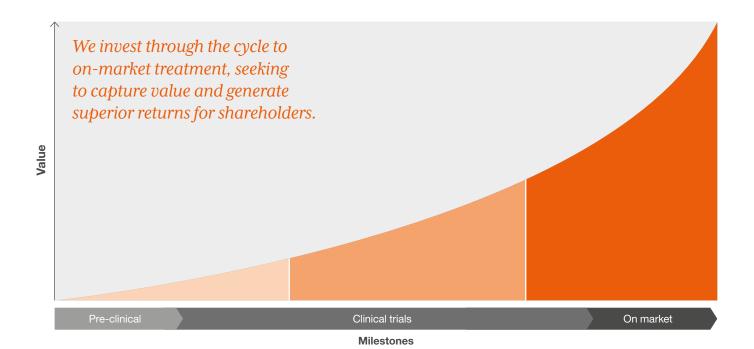
#### **Read more**

How we create value in life science

**p.10** 

### How we create value in life science

Our evergreen funding base enables us to take a flexible approach, providing choice and control over how we manage our life science portfolio to ensure maximum value is created for shareholders.



### An ability to invest and capture value long term

Our business building approach, combined with our unique funding structure, leaves us well placed to maximise value for shareholders. The significant stakes we take in our investee companies mean we are able to influence and drive their success, while our deep, evergreen capital pool means we are able to continue to support them.

This model provides us with choice and control over the management of our portfolio, including when and how to crystallise value or seek exit opportunities.

We have the flexibility to allocate our capital where we believe value can be best achieved. In some cases this will mean funding a business all the way to market on our own, in others it will mean bringing in strategic partners to invest alongside us, or pursuing wider ownership strategies such as public listings once our companies have sufficiently matured.

We are guided by what is best for the long-term sustainability of our portfolio companies and achieving the greatest value for shareholders.

### Not a forced seller

We are a long-term investor focused on maximising value through the cycle. As we consider partial value crystallisation or exit opportunities, whether opportunistic or proactively pursued, we will always balance these against the potential value we could capture for shareholders if we were to maintain or increase the exposure we have in the business long term, relative to other investment opportunities. This leaves us optimally positioned to deliver superior shareholder value over time.

#### **Read more**

Life science portfolio review

p.20

### **Key performance indicators**



### NAV Growth<sup>1</sup>

### FY2017

10.7%

growth in NAV per share (2016: -1.8%)

### Since 2012 listing

growth in NAV per share

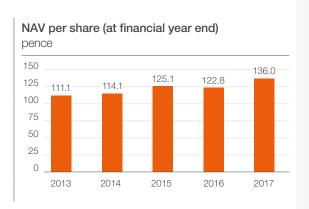
Excluding dividend.

#### Rationale

Includes all the components of the Company's performance.

The Company has continued to build on its strong performance with both its life science and funds portfolios contributing to growth.

Targeting 15% net IRR on the investment portfolio through the cycle.





### Total Shareholder Return

### FY2017

12.1%

Total Shareholder Return (2016: 10.2%)

### Since 2012 listing

Total Shareholder Return

Source: Bloomberg, including reinvested dividends.

### Rationale

Measures performance in the delivery of shareholder value.

### **Progress**

Share price increased from 131.5p to 145.0p, together with the final dividend of 2.2p, generating a Total Shareholder Return of 12.1%.





### 3 Charitable donations

### FY2017

£4,75m

(2016: £4.75m)

### Since 2012 listing

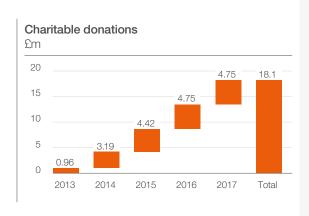
£18.1m

### Rationale

Reliable income stream for cancer research and other charities.

### **Progress**

Significant donations to The Institute of Cancer Research and The BACIT Foundation (for onward distribution to a range of charities).



### **Market overview**

Syncona seeks to invest in innovative areas of the life science sector. Today, changing dynamics and new medical technologies are creating opportunities to revolutionise healthcare and vastly improve treatments and outcomes for patients.

### On the verge of a healthcare revolution

Changing dynamics in healthcare are driving growth in the life science industry and have the potential to disrupt established business models.

### A changing landscape

From the post-war era until the early-2000s, the pharmaceutical industry went through a period of considerable expansion, fuelled by the discovery of numerous Small Molecule therapeutics, increasing internationalisation, and rapid population growth. This period was dominated by 'Big Pharma', using industrial synthetic chemistry processes to create the 'blockbuster' Small Molecule drugs (drugs with sales of \$1bn+) of the modern pharmaceutical industry.

By the mid-1990s, protein therapeutics entered the market as a new class of drugs. These Large Molecules play a wide range of natural biological roles, and are often engineered specifically to treat diseases.

Today, the pharmaceutical industry is once again poised on the edge of a new wave of therapies developed from Advanced Biologics and Diagnostics, comprising technology such as cell therapy, gene therapy and DNA sequencing. These approaches offer the potential to address areas of high unmet need, transform patient treatments and challenge the traditional operating models of the pharmaceutical sector. Syncona describes this as the 'Third Wave'. We have deep expertise in these innovative areas and are focused on capitalising on the changing dynamics in the sector.



Key periods of development

### **'First Wave'** 1950s

Small Molecule drugs, market dominated by large pharmaceutical companies.

### **'Second Wave'** 1990s

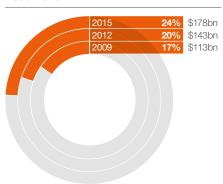
Large Molecules (antibody therapies and enzyme replacement therapies); market dominated by pharma and US biotech companies.



### The 'Third Wave' has significant value potential

The 'Second Wave' of drug development was highly valuable, with these medicines having grown rapidly to encompass almost 25 per cent of global pharmaceutical sales in 2015. Of the top 10 best selling drugs globally, eight are Large Molecules.

### Growth of 'Second Wave' sales 2009-2015



A similar wave of growth is being anticipated in 'Third Wave' technologies.

### \$760bn

The Global Biotechnology index is valued at almost \$760bn, 1.4% of global markets.

3%

'Third Wave' clusters represent 3% of the biotech index today, and are worth around \$25bn.

### \$6.5bn

Global markets are forecasting sales for 'Third Wave' cluster companies to grow from \$1.0bn in 2017 to \$6.5bn in 2020.

2

The EU has already approved two gene therapy products.

Source: EvaluatePharma.

Source: Thomson Reuters, Syncona Analysis.

### The 'Third Wave'

Today

Advanced Biologics and Diagnostics in areas such as gene therapy, cell therapy and DNA sequencing. Typically targeted to specific, well defined patient populations. Opportunity for market innovation and disruption.

### Favourable regulatory pathways encourage innovation and speed to market for 'Third Wave' therapies

Where diseases with small patient populations were historically underserved by the industry, regulators have sought to support innovation, utilising regulatory incentivisation, such as legislation governing the development of orphan drugs and the use of accelerated approvals, to encourage new treatments to market. This presents an alternative path to market for 'Third Wave' technologies.

63%

63% of novel drugs approved by FDA between 2011 and 2015 have utilised expedited pathways.

### Changing dynamics are driving the adoption of personalised healthcare

Personalised therapy is becoming an increasingly common treatment modality. Central to this approach is the identification of the molecular mechanisms underlying a patient's disease and any subsequent treatment will be based upon this knowledge. Many 'Third Wave' technologies will leverage this landscape to deliver targeted therapy on a patient specific basis, in contrast to the historic pharmaceutical company models that focused on population based treatments.

### Targeted therapies

Intelligent treatment pathways informed by personalised assessment of clinical effectiveness and adverse drug reactions.



### Early disease detection

Disease detected 2-8 years before onset and symptoms become obvious.

### Accelerated diagnosis

Diagnosis based on underlying cause and incidental findings – rather than just grouped symptoms.

### Targeted disease prevention

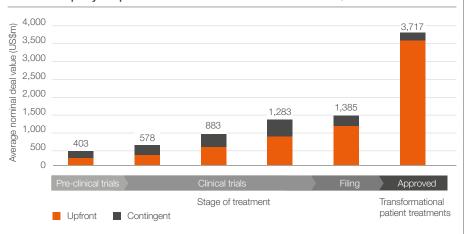
Identification of predisposition markers or underlying processes to predict future disease.

Source: NHS England 'Improving outcomes through personalised medicine'.

### Capturing value from commercialising life science

Capturing value from the development of new patient treatments in the life science sector requires a long-term view. Valuations increase as risk is reduced along the development pathway. As highlighted below, there is significant increase in the value of companies at the point of product approval.

#### Global company acquisitions of disclosed nominal value US\$100m+



Sources: Syncona analysis, Capital IQ, equity research, company filings and press releases.

#### A thriving industry in the UK

500,000

Almost half a million jobs supported by the life science sector.

### £14.5bn

Activities of UK life science companies contributed £14.5bn directly to the economy in 2015, with an additional £15.9bn provided through the life science supply chain and employee spending.

### 900+

Over 900 new companies formed across the life science industry between 2011 and 2016.

#### Sources:

PwC 'The economic contribution of the UK Life Sciences industry'.
Gov.uk 'Strength and Opportunity 2016'.



### **Report from the CEO**

### **Syncona Investment Management Limited**

Our objective is to deliver superior shareholder returns by maximising the value available from the delivery of transformational treatments to patients.



**Martin Murphy** Chief Executive Officer, Syncona Investment Management Limited

"We have a current portfolio of seven high quality life science businesses which have progressed positively this year and each has a clear path for development and value creation."

> **Martin Murphy** CEO, Syncona Investment Management Limited

This has been a transformative year for our business. Since being founded in 2012, Syncona has taken a long-term view, creating and working alongside innovative life science companies with the ambition of taking their products to market. In doing so we have sought to access the significant value creation achievable by backing our investments to the point of successful commercialisation.

In December 2016 the combination of Syncona Partners with BACIT Limited under a new structure represented a significant move, bringing together two market leaders within their respective fields. Together, the combination offered the prospect of delivering a step change in the achievement of both Syncona's and BACIT's original visions.

As a combined business our objective is to deliver superior shareholder returns by maximising the value available from the delivery of transformational treatments to patients, targeting a 15 per cent net IRR return through the cycle. We do this by employing a disciplined approach to capital allocation and executing a focused and selective investment strategy, enabling us to build global leaders in healthcare.

### A differentiated model

There are two key characteristics that we believe differentiate Syncona.

Firstly, we are focused on building businesses with the ambition of delivering products to market.

Furthermore, by aiming to maintain significant stakes in these

businesses all the way to market and by instilling a deep partnership approach from the outset, we can build globally competitive companies capable of long-term success.

We set our portfolio companies up to compete on a world stage, putting in place a long-term commercial strategy and leading management teams. We continue to take a hands-on role throughout their development, providing financial, operational, commercial and scientific input as they mature. As a result,

we aim to have a focused portfolio of very high quality businesses in areas where we can bring to bear our unique expertise. To date, this has driven our position of strength in gene therapy, cell therapy and advanced diagnostics. Our overriding aim is that each of our portfolio companies is provided with the best possible chance of long-term success because of Syncona's deep involvement. We believe this hands-on approach creates greater value, both at the point of delivering products to market and throughout the development cycle.

Secondly, we have a business model consistent with the achievement of our strategy.

Our combination with BACIT provides a deep pool of long-term capital which is productively deployed in a wide range of asset classes by our leading funds investment team, delivering attractive returns to shareholders on an ongoing basis.

This innovative structure means we are not a forced seller of any of our businesses as we have the depth of capital to support them over the long term. When we invest on day one, we know we have the ability, should we choose, to invest through the cycle and maximise the upside.

Importantly, we are under no pressure to invest capital. This enables us to wait for the right, highest quality opportunities from any source and at any stage, whether that is further investment in our existing portfolio or investment in new opportunities.

### An exceptional team

The vision we have set out requires a strong and expert team. Our life science team members have advanced scientific qualifications and an established track record of investing in and commercialising academic science. In our funds business, we have an excellent and highly experienced team who have strong relationships with some of the world's premier fund managers.

12.4%

Life science total return since acquisition.

### £226.6m

Life science portfolio value.

### A successful year for our life science companies

There was significant momentum in our life science portfolio companies this year as they achieved a number of milestones and progressed positively towards their commercialisation plans.

It was very exciting to see Blue Earth Diagnostics, a molecular imaging diagnostics business which we set up in 2014 as a spin out from GE Healthcare, become the first Syncona-founded company to reach 'on market' status, securing approval for its product Axumin in the United States. Blue Earth commenced sales of Axumin in August 2016. We are very pleased with how the initial launch period has progressed and optimistic about the opportunities for the business going forward. Blue Earth also secured a positive opinion from the Committee for Medicinal Products for Human Use recommending Axumin for approval in Europe in March. This was followed post year end with formal European Medicines Agency approval in May.

Nightstar, our gene therapy company for inherited retinal dystrophies, also made significant progress this year, progressing its Phase II clinical trials in its lead programme of late stage choroideremia and commencing a Phase I/II clinical trial for X-Linked Retinitis Pigmentosa.

We also saw very strong progression towards clinical studies in our portfolio companies Autolus and Freeline, and worked to assemble a team to launch our portfolio company Gyroscope.

#### A promising outlook

This is an exceptional time to be investing in and building innovative life science companies. The quality and ambition of the individuals and ideas we see exceed those witnessed historically. This is a positive sign for our industry and, more importantly, for patients seeking transformational new therapies and diagnostic approaches.

We have a current portfolio of seven high quality life science businesses which have progressed positively this year and each has a clear path for value creation. Next year we expect to see Blue Earth begin sales of Axumin in Europe and continue its positive commercial trajectory in the United States. We also expect Nightstar to commence a pivotal clinical trial in choroideremia, Autolus to enter clinical trials for three programmes, and to see our four developing portfolio companies deliver further progress.

We continue to see a strong pipeline of new investment opportunities and look forward to being able to add to our portfolio in due course. New investment activity will be driven by the quality of the opportunities and our current expectation is that we will invest between approximately £75 million – £150 million in new and existing life science investments this financial year.

I would like to acknowledge the BACIT team who have embraced our team and business this year. We are looking forward to working with them in the years to come. I would also like to thank the Wellcome Trust and Cancer Research UK, our partners in the December transaction, shareholders in the new vehicle and two of the premium funders in the life science research space. Syncona would not exist without their vision and ongoing support.

Finally, I would like to thank the Syncona shareholders for their support this year as we begin the evolution of our business.

### Looking forward

Build a focused portfolio of up to 20 investments in the best life science opportunities.

Build global leaders in innovative areas of healthcare.

Deliver at least 3-5 successful, sustainable, marketed-product companies.

Deliver transformational treatments to patients.

Deliver superior returns to shareholders.

We are looking forward to the first full year as a combined business. We believe that our track record, expertise, scale, capital and long-term view leave us well positioned to achieve our ambition: to build global leaders in life science and deliver transformational treatments to patients.

16-17

Martin Murphy

Chief Executive Officer, Syncona Investment Management Limited

5 July 2017

### **Finance review**

The Company's core focus is to invest in and build global leaders in life science, with its investment programme funded and underpinned by its funds portfolio.

In December 2016, the Company expanded its investment policy to allow it to make life science investments alongside its existing commitment to the CRT Pioneer Fund and portfolio of fund investments.

As part of this expansion, the Company acquired a portfolio of life science investments from the Wellcome Trust for £176.9 million, together with Cancer Research UK's interest in the CRT Pioneer Fund for £10.6 million. At the same time, the Company raised an additional £169.6 million of capital from new and existing investors, including a further £142.4 million from Wellcome and £16.8 million from Cancer Research UK. In total, £357.1 million of new ordinary shares were issued at a price of 131.15p, a 1.35 per cent premium to NAV per share at the time.

The Company's core focus is to invest in and build global leaders in life science, with its investment programme funded and underpinned by its funds portfolio. At the

John Bradshaw Chief Financial Officer, Syncona Investment Management Limited

year end, 65 per cent (£582.4 million) of the Company's investment portfolio was invested in its funds portfolio, with the life science investments valued at £226.6 million (25 per cent of the investment portfolio) and the remainder held in other assets, of which cash is £86.3 million.

As the investment portfolio evolves, we would expect the weighting of the funds portfolio to reduce, in line with new and follow-on investments made in life science companies.

#### **Performance**

At the year end, the Company had net assets of £895.2 million, or 136.0p per share (2016: £472.2 million – 122.8p per share), reporting a total return of 12.5 per cent¹ over the 12 months with performance driven by both the funds and the life science portfolios, with the latter benefiting from the £24.9 million write up of Blue Earth Diagnostics.

#### Valuation policy

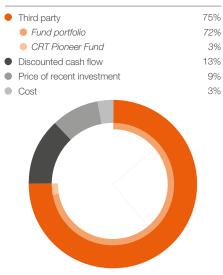
The Company maintains a prudent valuation approach to all investments. The funds portfolio is valued by reference to third-party pricing. For the life science portfolio, the valuation of investments is conducted in accordance with the International Private Equity and Venture Capital Valuation Guidelines. Further details on the Company's valuation policy can be found in note 2 on page 80.

#### Cash flows and liquidity

At 31 March 2017, the Company had available cash resources of £86.3 million<sup>2</sup>. During the 12 months, net investment into new and existing funds portfolio investments was £58.0 million and a follow-on investment of £4.0 million in Blue Earth Diagnostics.

Syncona has a strong capital base with significant cash balances and liquidity in the funds portfolio. Whilst the absolute level of drawdowns from our cash and liquidity resources will be dependent on our investment pipeline, our current expectation is that the Company will invest between  $\mathfrak{L}75$  million and  $\mathfrak{L}150$  million in new and existing life science investments over the next 12 months.

#### Valuation basis



#### Liquidity profile



#### **Expenses**

Our ongoing charges ratio for the year was 0.72 per cent (2016: 0.28 per cent)<sup>3</sup>. The ongoing charges ratio includes charges paid to the Investment Manager and the Investment Advisor, including a charge of £0.1 million (2016: Nil) associated with the Syncona Long Term Incentive Plan, which was approved by shareholders in December 2016.

#### **Charitable donations**

Total charitable donations of  $\mathfrak{L}4.75$  million were made in the year (2016:  $\mathfrak{L}4.75$  million), split equally between The Institute of Cancer Research and The BACIT Foundation (for onward distribution to the nominated charities). Including these donations, since launch the Company has made charitable donations of more than  $\mathfrak{L}18.1$  million.

As part of the transaction in December 2016, the Company committed to maintain the level of charitable donations at a minimum of £4.75 million for the financial years to March 2017 and 2018. Further details of the Company's charitable donations can be found in the Corporate Social Responsibility Statement in the Annual Report and Accounts.

#### Dividend

The Company has declared a dividend of 2.3p for the 12 months to 31 March 2017. This compares to a dividend of 2.2p for the previous year, a 4.5 per cent increase. The dividend will be paid on 23 August 2017 and will be paid as a scrip dividend, unless shareholders elect to receive the dividend in cash. The ex-dividend date will be 20 July 2017 and the record date 21 July 2017.

### **Uncalled commitments**

Uncalled commitments stood at £108.0 million at the year end, of which £50.1 million relate to milestone payments associated with the life science portfolio. These payments are linked to the relevant investee company achieving key strategic and development goals over the next 24 months.

	commitment
Life science portfolio	
Milestone payments	
to portfolio companies	£50.1m
CRT Pioneer Fund	£30.3m

Uncalled

Funds portfolio	£27.6m
Total	£108.0m

#### Foreign exchange

At the year end, none of the Company's foreign exchange exposure in its life science portfolio was hedged. Within the funds portfolio, £322.3 million of the funds portfolio was denominated in US Dollars, of which 62.5 per cent was hedged and £79.9 million was denominated in Euros of which 94.4 per cent was hedged. At the year end, the unrealised gain on the associated forward contracts was £0.4 million.

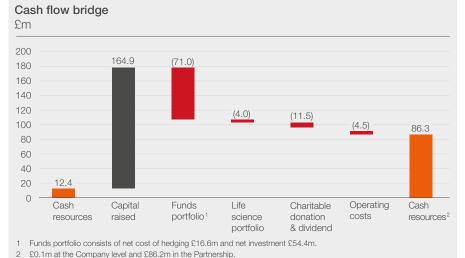
#### Post balance sheet events

Since the year end, Syncona has invested \$12.5 million (£9.8 million) in the \$45.0 million Nightstar Series C investment round and written up its holding in Nightstar to £69.7 million<sup>4</sup>, a £20.3 million<sup>4</sup> or 3.1p per share uplift to the proforma valuation<sup>5</sup> of the company at 31 March 2017. Including this follow-on investment in Nightstar, Syncona has invested £26.2 million in four follow-on investments in its life science portfolio<sup>6</sup> since the year end.

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John Bradshaw Chief Financial Officer, Syncona Investment Management Limited

5 July 2017



- Including 2.2p dividend paid in August 2016.
- 2~ £0.1m at the Company level and £86.2m in the Partnership.
- The ongoing charges ratio includes expenses from all wholly owned Group companies in addition to the expenses in the Group's consolidated statement of comprehensive income divided by average NAV for the year.
- 4 Based on third party funding round and at 27 June 2017 foreign exchange rates.
- 5 Comprising 31 March 2017 valuation of £34.2m, completion of Series B funding of £5.4m and Series C financing investment of US\$12.5m (£9.8m), based on third party funding round and at 27 June 2017 foreign exchange rates.
- 6 As at 30 June 2017.

### Life science portfolio review

### **Investment Advisor's report**

Our portfolio is concentrated around the core expertise Syncona has built in the emerging next generation of life science technologies, such as engineered cell therapy and gene therapy.



Chris Hollowood
Chief Investment Officer,
Syncona Investment
Management Limited

At 31 March 2017, the Syncona life science portfolio consisted of seven companies and was valued at £226.6 million. These span therapeutics and diagnostics and are concentrated around the core expertise Syncona has built in the emerging next generation of life science technologies, such as engineered cell therapy and gene therapy, where Syncona is now an established leader. These technologies have the potential to deliver dramatic efficacy and are expected to underpin the healthcare products of the future, significantly improving the lives of patients suffering from devastating conditions such as cancer and blindness.

#### Portfolio performance

The portfolio generated a 12.4 per cent total return in the period since acquisition in December 2016. The increase was driven by a write up in the Company's investment in Blue Earth Diagnostics from £83.5 million to £108.4 million. This was the result of strong progress in the United States and a positive opinion by the Committee for Medicinal Products for Human Use ('CHMP') on Blue Earth's product, Axumin, recommending it be approved for sale and marketing in Europe.

### A snapshot of our portfolio at year end

Value of investments and percentage holdings of Syncona's life science portfolio.

	Developing	Maturing
Diagnostics	£5.2m CEGX Syncona share 12%	
Gene therapy	£18.0m Freeline Therapeutics Syncona share 74%  Gyroscope Therapeutics Syncona share 78%	£34.2m  NightstaRx¹ Syncona share 55%
Cell therapy	£2.8m  Achilles Therapeutics Syncona share 66%	£31.2m  Autolus Syncona share 37%

Following Nightstar's Series C financing in June, Syncona's holding in Nightstar is valued at £69.7m and its fully diluted ownership is 46%.

The companies in our investment portfolio are categorised in three stages. Established companies are those that are marketing their products, Maturing companies are those which have made significant development progress towards market approval for their products and Emerging companies are those that are earlier stage, focused on establishing their business platforms, management teams and capabilities to progress their products through the full regulatory approval path.



### Key achievements (12 months to 31 March 2017)

First Syncona product on market as Blue Earth secured FDA approval and pricing reimbursement for Axumin in the United States.

A positive CHMP opinion recommending for Axumin to be approved in Europe.

A valuation uplift in Blue Earth from £83.5 million to £108.4 million, adding £24.9 million to Syncona's NAV.

Significant progress in Nightstar's clinical trials for its lead programme choroideremia.

The commencement of clinical trials in Nightstar's second programme, X-Linked Retinitis Pigmentosa.

Significant positive progression towards clinical studies in Autolus and Freeline.

Achilles formally founded with seed financing from Syncona.



### Post year end achievements

EMA approval secured for Blue Earth to commence sales of Axumin in Europe.

Completion of a US\$45m Series C financing round in Nightstar, with Syncona investing \$12.5m (£9.8m).

Syncona investment in Nightstar written up by £20.3m to £69.7m.



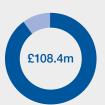
### Target milestones (next financial year)

Blue Earth Diagnostics to commence roll-out of Axumin in the EU and continue its positive commercial trajectory in the United States.

Autolus to enter three programmes into clinical trials in multiple myeloma, Non-Hodgkin's lymphoma and T Cell lymphoma.

Nightstar to initiate pivotal Phase III clinical trial in choroideremia and progress Phase I/II trials for X-Linked Retinitis Pigmentosa.

#### **Established**



Blue Earth Diagnostics Syncona share 90%

### **Established companies**

#### **Blue Earth Diagnostics**

Blue Earth was established by Syncona in 2014 when Axumin, then in clinical development, was licensed from GE Healthcare. The management team at the time joined the new venture to build a world leading imaging company, developing molecular imaging technologies to reliably inform diagnosis and treatment decisions. Axumin is a positron emission tomography ('PET') imaging agent with the potential to significantly improve diagnosis in a number of different cancer settings. Its first indication is for PET imaging in men with suspected prostate cancer recurrence based on elevated blood prostate specific antigen ('PSA') levels following prior treatment. Over time, Blue Earth is seeking to expand Axumin's approved indications to other areas such as glioma and breast cancer.

This year was transformative for Blue Earth as it became Syncona's first company to deliver a product to market when Axumin received regulatory approval in the United States, a significant achievement at a relatively early point in Syncona's existence. This was achieved just two years after Blue Earth was formed and 18 months ahead of plan, illustrating the benefits of our focused

investment strategy which often targets opportunities that can benefit from an expedited route to market. During the year, Blue Earth achieved pricing reimbursement across the US from The Centers for Medicare and Medicaid Services at a price of \$3.950. The reimbursement decisions came in significantly ahead of plan and mean that healthcare providers in the US can now use Axumin with confidence of payment. The company also signed an agreement with Siemens PETNET to be the manufacturer, distributor and sales partner in the United States, where they are the leading manufacturer and distributor of PET imaging agents. Working in partnership with Siemens, Blue Earth delivered a prompt and successful commercial launch in the United States initiating in August 2016.

Early sales data has been very encouraging and the commercial launch is on plan, with approximately 200 units of Axumin sold during an initial soft launch in the fourth quarter of 2016. This increased significantly to over 800 units in the first quarter of 2017. While cautious on the interpretation of early sales data, these figures give us grounds for optimism for the continued growth of Axumin in the United States.

During the year Blue Earth also received a positive opinion from the CHMP recommending that the European Medical Authority grant Axumin marketing authorisation in the European Union. This, combined with the positive progress delivered in the United States, resulted in Syncona's investment in Blue Earth being written up from £83.5 million to £108.4 million.

Subsequent to year end, in May 2017, Blue Earth secured formal approval from the European Medicines Agency, allowing it to be sold in the European Union as well as in Iceland, Liechtenstein and Norway. In anticipation of a commercial roll-out in Europe in 2018, Blue Earth also entered into a marketing and distribution agreement with Advanced Accelerator Applications (Nasdaq: AAAP), an international specialist in Molecular Nuclear Medicine, to supply and distribute Axumin in France, Germany, Spain, Italy and Portugal.

Over the next year Blue Earth will seek to further increase United States manufacturing sites, weekly production and its commercial team, which is expected to increase its coverage of the US market from the current 50 per cent. Blue Earth expects to begin a roll-out of European sales in 2018 and to continue its positive commercial trajectory in the United States.

"Looking forward, we will continue to seek to optimise returns through our hands-on approach to driving the success of our investee companies."

Chris Hollowood CIO, Syncona Investment Management Limited

#### Read more

Life science portfolio

p.28

### **Maturing companies**

#### Nightstar

Nightstar utilises gene therapy to develop products for inherited forms of blindness and is pursuing a pipeline of products. Its lead product is for choroideremia, a progressive blinding condition for which there are no alternative therapies. During the year Nightstar significantly progressed its Phase II trials for choroideremia and held a successful end of Phase II meeting with the Food and Drug Administration in the United States. A pivotal trial in this programme is expected to commence within 12 months.

In March 2017 Nightstar also commenced clinical testing of a second product to treat X-linked Retinitis Pigmentosa, another progressive blinding condition for which there are no available therapies.

Subsequent to year end in June, Nightstar completed a US\$45 million Series C financing round in which Syncona committed US\$12.5 million. The funding round attracted leading international investors and resulted in a write up of Syncona's investment in Nightstar to £69.7 million<sup>1</sup>, a £20.3 million<sup>1</sup> (3.1p per share) uplift to Syncona's proforma valuation of £49.4 million<sup>2</sup>.

Nightstar also continued to build out its management team with the appointments of Greg Robinson as Chief Scientific Officer and, subsequent to the year end, Senthil Sundaram as Chief Financial Officer.

#### **Autolus**

Autolus develops precision T cell therapies, leveraging industry leading intellectual property in cell programming that is being deployed to create advanced T cell products for a range of haematological (blood) and other cancers. Technologies in the space have recently been shown to have curative potential in haematological cancers. Autolus has a pipeline of Chimeric Antigen Receptor ('CAR') T cell therapies in development, and is moving to commence clinical trials in multiple myeloma, Non-Hodgkin's Lymphoma and T Cell Lymphoma.

Autolus is establishing a leading position in the manufacturing and delivery of these products to patients, securing a manufacturing suite at the Cell and Gene Therapy Catapult manufacturing centre in Stevenage. The site is in part funded by the UK Government and is dedicated to supporting the growth of the cell and gene therapy industry.

Autolus has built up a strong management team led by CEO Dr Christian Itin, with Dr Vijay Peddareddigari serving as Chief Medical Officer.

### **Developing companies**

Freeline, Gyroscope, Achilles and Cambridge Epigenetix ('CEGX') are our developing companies. The businesses are focused on establishing and embedding the management, commercial and technical capabilities to develop their products through the full regulatory and development path. These companies span oncology, severe orphan disease disorders and blinding conditions and are largely built on the advanced therapeutic technologies in which Syncona has built a leadership position.

#### **CRT Pioneer Fund**

The CRT Pioneer Fund is managed by Sixth Element Capital and invests in oncology focused assets. The fund has a pipeline agreement with Cancer Research UK under which it has a right of first review to certain Cancer Research UK funded drug discovery projects. At the year end, Syncona's investment in the fund was valued at  $\Sigma$ 21.8 million, comprising a portfolio of 11 investments in early stage drug discovery opportunities.

#### Outlook

Looking forward, we will continue to seek to optimise returns through our hands-on approach to driving the success of our investee companies. We have a clear set of performance criteria for our existing portfolio, with further funding for follow-on investment contingent on the achievement of the development and strategic milestones we have set.

We look forward to continuing to benefit from our strong relationships with the Wellcome Trust and Cancer Research UK to launch exciting new life science companies with the capability and ambition of taking ground-breaking products to patients. We will also continue to review new opportunities at all stages of the development cycle in the United Kingdom, Europe, and beyond where our capabilities make us the natural partner and investor. We will seek to add new investee companies to our portfolio where they meet our strategic goals and are as compelling as our current group.

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**Chris Hollowood** 

Chief Investment Officer, Syncona Investment Management Limited

5 July 2017

<sup>1</sup> Based on third party funding round and at 27 June 2017 foreign exchange rates.

<sup>2</sup> Comprising 31 March 2017 valuation of £34.2m, completion of Series B funding of £5.4m and Series C financing investment of US\$12.5m (£9.8m), based on third party funding round and at 27 June 2017 foreign exchange rates.

### **Funds portfolio review**

### **Investment Manager's report**

The funds portfolio continued to build on its strong performance to date, generating a net total return of 11.8 per cent over the 12 months. Since inception, the portfolio has delivered a net total return of 44.8 per cent, with annualised returns of 8.8 per cent, and low annualised volatility of 5.7 per cent.



### 1. Thomas Henderson Co-founder and Chief Executive Officer, BACIT (UK)

### 2. Arabella Cecil Co-founder and Chief Investment Officer

Chief Investment Officer, BACIT (UK)

#### 3. John McDonald

Co-founder and Investment Professional, BACIT (UK) Our portfolio seeks to deliver attractive risk-adjusted returns and aims to capture 70 per cent of the upswing of the FTSE All Share (Total Return), whilst limiting the downside to 40 per cent of the fall of the index through the cycle, with significantly less volatility. It has successfully delivered on this approach since inception, having captured 82.9 per cent of the index's performance and in the 10 worst months in the period when the index fell a total of 34.2 per cent, the portfolio declined by only 8.0 per cent.

At 31 March 2017, the funds portfolio was valued at £582.4 million and was invested in 37 funds across 25 underlying managers. The net total return of 11.8 per cent was driven by a broad cross section of underlying funds. In particular the portfolio benefited from its exposure to equities, as the majority of the underlying managers in these strategies successfully navigated through the significant volatility and market disruptions triggered by a rapid revaluation of miners and resource companies early in the year, the EU referendum in the UK in June and the elections in the US in November 2016.

### Portfolio construction – a focus on risk adjusted returns

We seek to invest with 'best in class' managers across a broad selection of strategies. Portfolio construction is driven by managers' skill sets, and the degree to which these deliver performance that has a low correlation to equity markets, rather than top-down weightings determined by economic or financial market measures. Our overriding objective is to build a portfolio that generates absolute returns through macro-economic and financial market cycles and to date the portfolio has delivered this.

The expansion of the Company's investment policy during the year changed the parameters within which the funds portfolio operates. Our overriding objective and focus on generating attractive riskadjusted returns through the cycle remain unchanged. However, now that capital may be called and generated by the life science portfolio, investments will typically be more liquid and have a less volatile profile. We have begun the process of transitioning the portfolio to reflect these changed parameters and recent investments have predominantly been in hedged listed equities. In the short term, this transition has resulted in the number of investments in the portfolio increasing but, over the next five years, we will be transitioning the portfolio to concentrate on 15-20 leading managers across a more focused range of strategies and geographies.

### **Fund strategy**

We aim to limit the portfolio's sensitivity to market dislocations, and to that end at 31 March 2017 60.1 per cent of assets were allocated to hedge funds. These funds have modest historical correlation to equity markets, but at any given time may adjust exposure to the markets, depending on outlook and sentiment. The remainder of the portfolio is weighted towards assets with a long only bias, predominantly in asset classes and geographies where hedging is either not practical or not economic.

### Foreign exchange

The Company is exposed to currencies within the underlying funds, but continues to hedge out substantially all exposure to Euro denominated share classes.

However, unhedged US Dollar exposure acquired by investing in US Dollar denominated share classes has been a part of portfolio construction since inception: the US Dollar's inverse relationship to risk assets in times of market stress has, to date, dampened the volatility of returns, and historically when equities sell off around the world, the US Dollar tends to strengthen. Exposure to US Dollar denominated share classes peaked at almost 60 per cent in early 2015. Since March 2016 we have reduced the portfolio's exposure to the US Dollar in a series of risk reduction exercises, so that at 31 March 2017, 20.7 per cent of the value of the funds portfolio was invested in unhedged US Dollar denominated share classes. As we report in Sterling, this had a positive influence on performance at the year end.

### **Geographical focus**

Europe remains the portfolio's largest exposure, accounting for 33.7% of assets, with Global funds the next largest weighting.

### **Exposure to equity markets**

To date we have elected not to use macro overlays on the portfolio, but have instead relied on the underlying managers to risk-adjust their exposures according to the environment. Hedge fund managers have more levers at their disposal than long-biased managers, and we expect them to generate results which are substantially protected from market cycles.

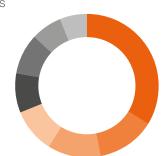
During the year, our underlying managers' outlook and relative confidence in equities improved, and as a result, the portfolio ended the year 57.0 per cent<sup>1</sup> net long in equity equivalents. This is at the top of the 37.0 to 57.0 per cent range since inception and compares to 48.0 per cent at 31 March 2016.

11.8%

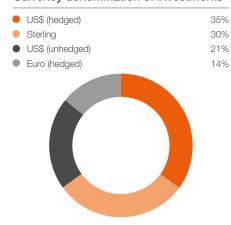
Total return

### Geographic focus





### Currency denomination of investments



To estimate the Portfolio's sensitivity to equity markets underlying funds' positions are converted into 'equity equivalents' and then aggregated.

### **Portfolio strategies**

Strategy	£m value	% of the funds portfolio	of NAV
Equity hedge funds	222.2	38.2	24.8
Equity funds	140.4	24.1	15.7
Fixed income and credit funds	87.9	15.1	9.8
Global macro funds	76.8	13.2	8.6
Other strategies	34.5	5.9	3.8
Commodity funds	20.6	3.5	2.3

### **Equity hedge funds**

The portfolio's exposure to equity hedge funds is geographically broadly spread. As mentioned above, the underlying managers in this strategy seek to protect their funds from market and global macro events over which they have no control. Accordingly, while our view on the underlying asset class plays an important part in any investment decision, the underlying managers' skill set in generating uncorrelated returns is a core focus.

In aggregate, investments in this strategy continued to contribute to positive performance, reporting an aggregate gross total return of 14.0 per cent in the year, as managers successfully pre-empted numerous challenges triggered by a number of geopolitical, currency and sector specific dislocations, including the rapid rerating of the mining sector in early

2016, the EU referendum in the UK in June 2016 and the elections in the US towards the end of the year.

### **Equity funds**

Equity fund managers have few places to hide in a crisis. We expect our underlying equity managers to outperform their respective benchmarks; nonetheless, we recognise the volatility that those benchmarks bring to the portfolio. We seek to mitigate this through manager selection and the sizing of positions.

Against a backdrop of rising equity markets, the underlying funds in this strategy reported a gross total return of 31.9 per cent and as a group outperformed their respective benchmarks, most of them significantly. Japanese and UK equities account for the bulk of investments under this strategy. Japanese investments are

held in share classes where the currency is hedged into Sterling or US Dollars. Ongoing corporate governance reforms in Japan continued to drive the unwinding of cross shareholdings, and an increase in dividend pay-outs and share buybacks. These dynamics, combined with continued buying under the Bank of Japan's Quantitative Easing programme, and the Government Pension Investment Plan, have resulted in equities moving closer to fair value. Notwithstanding that, we share the underlying managers' views that Japanese equities remain undervalued. In the UK, markets continued to report strong returns, as equities benefited from the depreciation of Sterling against all major currencies and short term concerns around the EU referendum receded as the year progressed. The balance of funds in this strategy is invested in Russian and Global equities.

### Fixed income and credit funds

Overall spreads generally tightened during the year, providing a tailwind for the long-biased elements of this strategy. However, there was considerable volatility in European credit markets, particularly following the UK's decision to leave the EU. Despite this, all five funds in this group made a positive contribution to progress during the year. Four of the funds are ungeared, one of which is a fixed term fund that will return capital to investors in the next 12 months. The fund that does use gearing posted the fourth consecutive year of above benchmark returns.

"The funds portfolio continued to build on its strong performance to date, generating a total return of 11.8 per cent over the 12 months."

**Read more**Funds portfolio

p.28

### Global macro funds

The underlying managers in this strategy invest long-short in equities, fixed income and forex. They endeavour to capture major market mispricing and have a history of exploiting pricing bubbles. An active backdrop comprising the maturing of the economic cycle and Quantitative Easing, rising inflation, and mercurial political climates dominated during the year. While this might have been expected to provide plenty of opportunity, the environment proved challenging to monetise for macro managers. In this context, the underlying portfolio managers successfully preserved capital and ended the year ahead in actual and relative terms against their index.

### Other strategies

5.9 per cent of the portfolio is invested in Other Strategies, which includes private equity and credit, and infrastructure. The commitments to our infrastructure and private equity funds were made in 2013 and 2014, and to private credit in 2016. Our infrastructure and private equity funds are now substantially invested and starting to generate strong returns driven by positive performance from underlying investments and realisations.

### **Commodity funds**

The portfolio has a small allocation to globally-traded soft and industrial commodities, as well as energy, and all investments made are long-short. Following three years of strong and uncorrelated returns, this was a challenging year for managers in the space as historically dependable indicators proved unreliable.

# Commentary on markets after the year end

Since the year end, asset prices have continued to rise with many capital markets reaching all-time highs, despite the backdrop of record debt levels, continued political uncertainty and a decline in US leading indicators.

Looking across the markets that our underlying managers invest in, we are encouraged by the beginnings of a genuine recovery in parts of Europe. However, we are now eight years into the second-longest bull market of recent times and as we look forward, the balance of probabilities is that progress from here will be harder. At the year end, the portfolio had a 60 per cent weighting to hedge funds, and this exposure is expected to increase as we continue to allocate to managers who have long track records of generating returns that are uncorrelated to equity markets.

### Outlook

The portfolio is now in its fifth year and continues to deliver attractive risk-adjusted returns and we are confident in our underlying managers' ability to continue to generate attractive returns through the cycle.

The portfolio is evolving into a more focused and liquid pool of assets, with an even greater emphasis on containing volatility. This reflects the changed parameters of our investment mandate and liquidity requirements. We look forward to working alongside our new Syncona team members to deliver superior returns for shareholders in the years to come.

### **Thanks**

The majority of the portfolio's underlying managers provide the Company with access to their funds gross of any management and performance fees. This has, in turn, allowed the Company to make significant charitable donations to The Institute of Cancer Research and The BACIT Foundation¹ over the last four years which, as the Chairman has described, continue. We remain deeply grateful for the continued support and generosity of our underlying managers, without whom none of this would have been possible.

Thomas Herser.

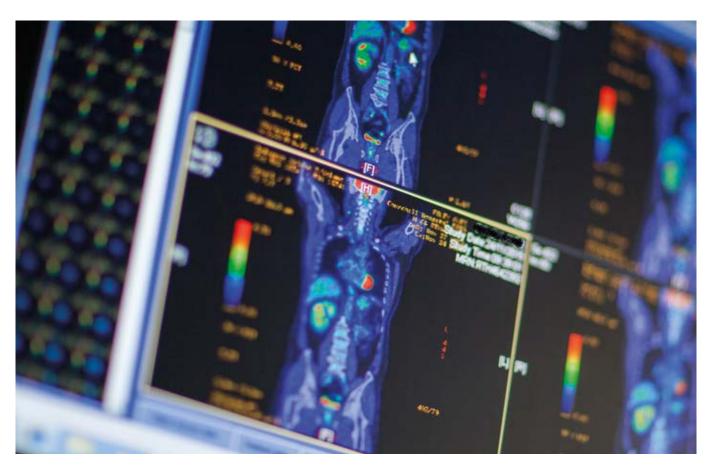
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BACIT (UK) Ltd

5 July 2017

# **Underlying investment portfolio**

### Life science portfolio





Established

### **Description**

PET imaging agent for prostate cancer.

Fully diluted ownership	90%
Value	£108.4m
% of NAV	12.1%
Focus areas	Diagnostics
Valuation basis	Risk adjusted Discounted Cash Flow
% of life science portfoli	o 47.9%

blueearthdiagnostics.com

# Blue Earth Diagnostics

Blue Earth Diagnostics was founded in March 2014 to develop and commercialise molecular imaging agents addressing areas of high unmet medical need.

The company's first product, Axumin, has been developed and proven clinically to target and image prostate cancer cells. Prostate cancer is a leading cause of cancer death in men and a growing cost burden to healthcare systems worldwide; in Europe and the USA over 450,000 new cases are diagnosed each year. While most primary prostate cancer can be successfully treated, the disease recurs in up to one third of patients. In some patients, recurrent disease is detectable only by a rise in prostate specific antigen levels, but often the location of the recurrence cannot consistently be located by conventional imaging, limiting treatment guidance. Axumin was developed to target the increased amino acid transport that occurs in many cancers, including prostate cancer. It is labelled with the radioisotope F-18, enabling it to be visualised in the body with position emission tomography imaging.

Axumin was reviewed by the US Food and Drug Administration and was granted US regulatory approval in Q2 2016. Marketing authorisation in Europe was granted by the European Medicines Agency in Q2 2017. Blue Earth Diagnostics is investigating the utility of Axumin in the imaging of other cancers such as breast cancer and glioma.

"Syncona has enabled us to take an undervalued asset out of a major healthcare company, and turn it into an exceptional business opportunity. I have found Syncona to be genuinely interested in our business, rather than just the financials. They have provided major commercial and marketing insights, and helped us to build a better business."

Jonathan Allis
CEO, Blue Earth Diagnostics



# Delivering transformational treatments for patients

Axumin® (fluciclovine F-18), Blue Earth Diagnostics' lead product, is an imaging agent used to detect the site of biochemical recurrence in prostate cancer patients, a significant unmet need.

Prostate cancer is the most common cancer in men in the United States, with around 160,000 new cases each year. Most patients will be considered cured after initial surgery or radiotherapy, however one third of these patients will experience a recurrence.

The first indication of recurrence is rising levels of a marker called a Prostate Specific Antigen ('PSA') in the patient's blood. At this point, the doctor and the patient will know that the cancer has returned, but they will not know where. This is crucial information for determining the best management option for the patient and may provide another opportunity for a potential cure.

Conventional imaging has low effectiveness at this point, only finding the recurrence approximately 10 per cent of the time. For the remaining 90 per cent of cases, patients and their doctors have no choice but to wait for the site of the cancer to be evident or to select a treatment based on the most likely site for the recurrence.

Axumin allows the effective detection of recurrent tumours by using a synthetic amino acid which is injected into the patient and actively transported into the cancer cells to effectively 'light up' the site(s) of recurrence. Patients then undergo a sensitive PET (positron emission tomography) scan which can visualise Axumin within the cancer cells, enabling the tumour to be located. Axumin is able to identify the location of the recurrent prostate cancer 40-85 per cent of the time, a significant improvement over the current conventional 'standard of care' imaging. This information from the Axumin scan allows the doctor to select the most appropriate treatment for each individual patient, offering them the best chance of a successful response to that treatment.

# Axumin in practice: patient case study

Following successful initial surgical treatment of his prostate cancer, a 69-year-old man was found to have an increasing PSA level, meaning it was very likely that his prostate cancer had returned. Conventional imaging showed a negative result when seeking to locate this cancer. However, when screened with an Axumin PET scan, a recurrence of the patient's prostate cancer was identified in a lymph node in the pelvis. Rather than select radiotherapy treatment for only the prostate bed, the patient's doctor was able to use the results of the Axumin scan to target the treatment to also focus on this lymph node. In this case, Axumin helped to ensure all the recurrent cancer was treated in the most appropriate way.





### Maturing

### **Description**

Gene therapy for inherited retinal dystrophies.

Fully diluted ownership	55%1
Value	£34.2m <sup>1</sup>
% of NAV	3.8%
Focus areas	Gene therapy
Valuation basis	Price of Recent Investment
% of life science portfolio	

nightstarx.com

# NightstaRx

NightstaRx ('Nightstar') is a biopharmaceutical company focused on the development and commercialisation of therapies for retinal dystrophies.

Nightstar's most advanced programme, NSR AAV2-REP1, is in clinical trials for the treatment of choroideremia, a rare disease which causes permanent loss of eyesight and for which there is no other treatment. The gene therapy is delivered by injection into the retina, providing a working copy of the disease-causing faulty gene locally in the eye. The disease-modifying technology has the potential to maintain and restore sight in patients, from a single administration.

There are multiple inherited forms of blindness that are addressable with Nightstar's gene therapy technology. Nightstar is building a pipeline of products based on its manufacturing, gene therapy and retinal surgery capability. "Syncona's deep understanding of the gene therapy space coupled with their relationships in academic research programmes provided a strong foundation for Nightstar. The Syncona team continues to provide not only strategic guidance, but practical problem-solving skills that are essential in the start-up environment."

Dave Fellows CEO, Nightstar

<sup>1</sup> Following Nightstar's Series C financing in June, Syncona's holding in Nightstar is valued at £69.7m and its fully diluted ownership is 46%.





Maturing

### **Description**

A next generation engineered T-cell therapy company.

Fully diluted ownership	37%
Value	£31.2m
% of NAV	3.5%
Focus areas	Cell therapy
Valuation basis	Price of Recent Investment
% of life science portfo	lio 13.8%

autolus.com

### **Autolus**

Autolus is a biopharmaceutical company, focused on the treatment of cancer patients with precise, controlled and highly active engineered T-cell therapies.

The company was founded on advanced cell programming technology pioneered by Dr Martin Pule and was spun-out and established as an independent company by Syncona, from University College London in 2014.

Utilising its advanced cell programming and manufacturing technologies, Autolus has a pipeline of Chimeric Antigen Receptor ('CAR') T-cell therapies in development. Working in partnership with physicians and other healthcare providers, Autolus modifies the patient's own T-cells to equip them to recognise and fight the patient's cancer.

"Autolus is at the forefront of a revolution in cancer treatment that aims at improving the survival of cancer patients. Syncona has supported the formation of the company, has committed an investment of £30m to date and is the company's major investor. Syncona shares our vision of creating a sustainable, integrated business that brings real benefits to cancer patients."

Christian Itin CEO, Autolus



### **Freeline Therapeutics**

Developing

### **Description**

Liver-directed gene therapy.

Fully diluted ownership	74%
Value	£18.0m
% of NAV	2.0%
Focus areas	Gene therapy
Valuation basis	Cost
% of life science portfoli	o 7.9%

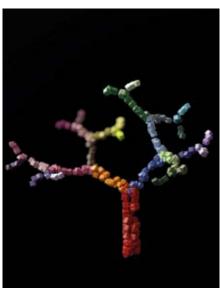
freelinetx.com

Freeline Therapeutics is a biopharmaceutical company focused on the development of liver-directed gene therapies, based on the pioneering work of Professor Amit Nathwani at the University College London Royal Free Hospital.

The company's most advanced programme is a treatment for haemophilia B, a rare disorder associated with deficiency in a blood clotting factor, that causes painful, crippling bleeding in patients' joints. Patients currently require lifelong treatment with concentrates of clotting factor administered intravenously on an on-demand or prophylactic basis.

Freeline's world-class technology could replace the need for chronic enzyme treatment in genetic diseases such as haemophilia B with a single injection, providing the possibility of long-term disease modification.





Developing

### **Description**

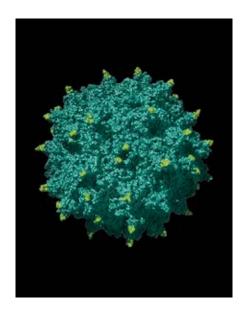
Immunotherapy for late-stage cancer.

Fully diluted ownership	66%
Value	£2.8m
% of NAV	0.3%
Focus areas	Cell therapy
Valuation basis	Cost
% of life science portfolio	1.2%

achillestx.com

Achilles' technology combines recent advances from two of the fastest developing fields in healthcare today, DNA sequencing technology and cancer immunotherapy ('immuno-oncology'), initially focussing on non-small cell lung cancer to create a personalised medicine with the potential to cure patients.

Lung cancer accounts for 1.5 million deaths per year globally. In the US alone, more than 200,000 patients are diagnosed with lung cancer every year, for which the five-year survival rate is less than 20 per cent.



### **Gyroscope Therapeutics**

Developing

### **Description**

Therapeutics.

Fully diluted ownership	78%
Value	£5.0m
% of NAV	0.6%
Focus areas	Gene therapy
Valuation basis	Cost
% of life science portfoli	o 2.2%

gyroscopetx.com

Gyroscope was founded to exploit the convergence of break-through scientific advances in genetics, gene therapy and in the understanding of the role of the complement system as a driver of retinal disease.

Syncona co-ordinated contributions from a number of different UK universities to found the company. The synthesis of these contributions represents a novel approach to the diseases targeted by the company. Currently based in London, the company is recruiting its initial team. A formal company launch will follow later this year.

# Cambridge Epigenetix ('CEGX')



Developing

### **Description**

Research tools.

Fully diluted ownership	12%
Value	£5.2m
% of NAV	0.6%
Focus areas	Diagnostics
Valuation basis	Price of Recent Investment
% of life science portfolio 2.	

cambridge-epigenetix.com

CEGX, a pioneer in the field of epigenetics, utilises its expertise and proprietary technology in partnership with leading biopharma companies to develop improved diagnostic tools for a number of important diseases, including cancer.

CEGX was formed out of the work of Professor Sir Shankar Balasubramanian, the co-inventor of the market leading Solexa sequencing platform now commercialised by Illumina Inc.

### Funds portfolio

### Top 10 fund investments



# Polygon European Equity Opportunity Fund

### Manager

Polygon Global Partners LLP

Value	£41.8m
% of the funds portfolio	7.2%
% of NAV	4.7%
Strategy	Hedge
Geographic focus	Europe
Asset class	Equity

The Polygon European Equity Opportunity Fund pursues a relatively diversified event driven strategy that seeks to build a catalyst-driven portfolio. The fund seeks to profit from revaluations to portfolio companies stemming from M&A, corporate restructurings and from fundamental, technical and regulatory developments.

# Polar Capital Japan Alpha Fund

### Manager

Polar Capital LLP

Value	£36.6m
% of the funds portfolio	6.3%
% of NAV	4.1%
Strategy	Long bias
Geographic focus	Japan
Asset class	Equity

The Japan Alpha Fund aims to generate long-term capital growth by investing in the shares of Japanese companies, or companies that generate a significant amount of their revenues in Japan. The fund applies a 'value' based stock picking approach, investing in a concentrated portfolio of large, medium and small capitalisation strategies.

# Parity Value Fund

### Manager

Parity Asset Management Ltd

Value	£34.7m
% of the funds portfolio	6.0%
% of NAV	3.9%
Strategy	Hedge
Geographic focus	Global
Asset class	Macro

The objective of the Parity Value Fund is to produce long-term capital growth by investing in traded securities and instruments, whilst applying a value based investment philosophy. The fund pursues investment opportunities in all asset classes on a fully global basis. In addition to standard cash equities and fixed income instruments, the fund may take equity, fixed income, currency, commodity and other future and derivative positions.

# The SFP Value Realization Fund

### Manager

Symphony Financial Partners (Singapore) Pte. Ltd

Value	£33.0m
% of the funds portfolio	5.7%
% of NAV	3.7%
Strategy	Long bias
Geographic focus	Japan
Asset class	Equity

The SFP Value Realization Fund pursues a deep value investment strategy in smaller capitalisation Japanese equities in conjunction with proactive engagement with portfolio company management. On average the fund holds 8-12 core long positions accounting for 80-90 per cent of assets under management. The fund has the ability to short individual stocks and index futures (generally Nikkei).

# Majedie UK **Equity Fund**

### Manager

Majedie Asset Management Ltd

Value	£32.2m
% of the funds portfolio	5.5%
% of NAV	3.6%
Strategy	Long bias
Geographic focus	UK
Asset class	Equity

The Majedie UK Equity Fund aims to produce a return in excess of the FTSE All-Share Index over the long term through investment in a diversified portfolio of predominantly UK equities. The UK Equity Fund is Majedie's flagship fund and has the flexibility to invest up to 20 per cent of the net asset value in shares listed outside the UK. Additionally, it has a dedicated allocation to UK smaller companies.

# Maga Smaller Companies The S.W. Mitchell **UCITS Fund**

### Manager

Otus Capital Management Ltd

Value	£29.1m
% of the funds portfolio	5.0%
% of NAV	3.3%
Strategy	Hedge
Geographic focus	Europe
Asset class	Equity

The objective of the Maga Smaller Companies UCITS fund is to seek to provide investors with positive absolute returns over the long term primarily through investing in and gaining exposure to equities of smaller companies incorporated in, or whose principal operations are in, the EEA or Switzerland.

# **European Fund**

### Manager

S.W. Mitchell Capital LLP

Value	£27.2m
% of the funds portfolio	4.7%
% of NAV	3.0%
Strategy	Hedge
Geographic focus	Europe
Asset class	Equity

The S.W. Mitchell European Fund's investment objective is to generate absolute returns for investors, primarily by investing both long and short in European equities.

### Sinfonietta Fund

### Manager

Symphony Financial Partners (Singapore) Pte. Ltd

Value	£26.0m
% of the funds portfolio	4.5%
% of NAV	2.9%
Strategy	Hedge
Geographic focus	Asia Pacific
Asset class	Macro

The Sinfonietta Fund seeks to generate superior returns by investing in equity, credit and currency instruments in the Asian market including Japan.

### **Tower Master Fund**

### Manager

Ten Five Capital Management, Ltd

Value	£24.5m
% of the funds port	folio 4.2%
% of NAV	2.7%
Strategy	Hedge
Geographic focus	Emerging Markets
Asset class	Equity

The Tower Master Fund pursues investment opportunities in South Africa and sub-Saharan equities. The fund runs a concentrated portfolio with the top five investments averaging 50 per cent of their exposure. The fund's core competence is in the mid-market.

# Polygon Convertible **Opportunity Fund**

### Manager

Polygon Global Partners LLP

Value	£22.6m
% of the funds portfolio	3.9%
% of NAV	2.5%
Strategy	Hedge
Geographic focus	US & Europe
Asset class	Credit

The objective of the Polygon Convertible Opportunity Fund is to seek superior risk adjusted returns through investments (directly or indirectly) in, or relating to, convertible securities. Investments are made pursuant to various investment strategies and on the basis of fundamental, quantitative, technical and other corporate, event or company specific research.

# The Syncona team

Our people are vital to our success.



### **Martin Murphy**

Martin is Chief Executive Officer of Syncona Investment Management Ltd and was co-founder of Syncona Partners. Previously, he was a partner at MVM Life Science Partners LLP, a venture capital company focused on life science and healthcare, where he led their European operations and was closely involved in investments including PregLem SA, Momenta Pharmaceuticals, Inc, Healthcare Brands International and Heptares Therapeutics Ltd. Martin has held roles with 3i Group plc and McKinsey & Company. He has a PhD in Biochemistry from Cambridge University.



### **Thomas Henderson**

Tom is Chief Executive Officer of BACIT UK and co-founder of BACIT Ltd. Tom has over 25 years' experience working in the financial markets, investing in the UK, Europe, emerging markets and the United States. He is the founder and investment manager of New Generation Haldane Fund Management Limited (previously Eden Capital). Previously, Tom was a portfolio manager for Moore Capital and prior to that worked with Cazenove & Co. in London and New York.



### **Chris Hollowood**

Chris is the Chief Investment Officer and a Managing Partner of Syncona Investment Management Ltd. Previously, he was a partner of Apposite Capital LLP, a venture and growth capital healthcare investment company.

Before Apposite, Chris had roles with Bioscience Managers Ltd, Neptune Investment Management Ltd and in the pharmaceutical industry. Chris holds a degree in Natural Sciences and a PhD in Organic Chemistry, both from Cambridge University.



### **Arabella Cecil**

Arabella is Chief Investment Officer of BACIT UK and co-founder of BACIT Ltd. Arabella trained at Finbancaria (corporate finance, Milan) in 1987, Banque Hottinguer (Paris), and Credit Lyonnais Laing (London) where she headed food manufacturing research. Between 1998 and 2008 she owned and ran Gravity Pictures, specialising in IMAX®. Most recently she was an investment manager and a member of the investment and risk committees of Culross Global Management.



### Iraj Ali

Iraj is a Managing Partner of Syncona Investment Management Ltd. Previously, he was an associate-principal at McKinsey & Company where he specialised in product launch. He has been involved in several major pharmaceutical launches across developed and emerging markets. Prior to joining McKinsey, Iraj held roles in scientific research: EMBO Research Scholar (UCSC), Drug Discovery Scientist (RiboTargets, Cambridge). Iraj has a PhD in Biochemistry from the University of Cambridge.



### **Toby Sykes**

Toby is a Managing Partner of Syncona Investment Management Ltd. Previously he was a Managing Director at Essex Woodlands, a healthcare venture capital and growth equity company. Whilst at Essex Woodlands, Toby led the firm's pharmaceuticals practice, and was responsible for investments in Europe and Latin America. He was involved in a number of investments, including EUSA Pharma (sold to Jazz Pharma), Molecular Partners (SWX:MOLN) and Healthcare Brands International (sold to Meda). Previously, Toby was a Director of Business Development at Cephalon. He has a PhD in Development Biology from King's College London.



### John Bradshaw

John Bradshaw is the Chief Financial Officer of Syncona Investment Management Ltd. He has worked extensively with companies in the life science sector as a part time and interim CFO. He was previously CFO of Gyrus Group PLC and qualified as a chartered accountant with Arthur Andersen. John has a degree in Law from the University of Liverpool.



### **Fenella Dernie**

Fenella is Chief Financial Officer of BACIT UK. She qualified as a chartered accountant with Spicer and Pegler (a predecessor firm of Deloitte LLP), beginning her career in the specialised audit of companies in the financial and securities industries and latterly spending eight years in Deloitte & Touche's corporate finance department, including two years seconded to the London Stock Exchange listings team. Fenella has a degree in Mathematics from the University of Bristol.



### John McDonald

John is an investment professional at BACIT UK and a co-founder of BACIT Ltd. He has 30 years' experience working in the financial markets and is a director of, and investment consultant for, Alternative Research Limited. Previously John was head of sales and marketing at Impax Asset Management, head of alternative investment sales at New Star Asset Management, investment director at Eden Capital and co-founder of Fortune Asset Management.



### **Edward Hodgkin**

Edward Hodgkin is a Partner of Syncona Investment Management Ltd. He is a Director of Syncona's portfolio company, Autolus, having served as its first Chief Executive Officer. Prior to Syncona, he was Chief Executive Officer of Biotica Technology (Cambridge, UK), President & Chief Business Officer of BrainCells (San Diego, CA) and Vice President, Business Development & Marketing at Tripos (St. Louis, MO). Ed holds an MA and DPhil in Chemistry from Oxford University.



### **Elisa Petris**

Elisa is a Partner of Syncona Investment
Management Ltd. Previously she was a Senior
Associate at Michel Dyens & Co. working on
transactions covering the healthcare space,
and a member of the Life Science team at L.E.K.
Consulting based in London. While at L.E.K.
she worked on projects for biotech, pharma
and private equity clients. Elisa has a PhD in
Molecular Biology from Imperial College and
an MBA from London Business School.



### **Chris Ashton**

Chris is CEO of Achilles and a Partner of Syncona Investment Management Ltd. He has over 30 years' experience in biotech, having served as CEO of Argenta Discovery Ltd and its successor company, Pulmagen Therapeutics Limited, transitioning it from early stage drug discovery to mid-stage clinical development. Chris also has considerable international transactional expertise in listed and private companies. He has a PhD from the University of Manchester and completed post-doctoral research at the Massachusetts Institute of Technology.



### **Dominic Schmidt**

Dominic is a Partner of Syncona Investment Management Ltd. Prior to joining Syncona, he worked for strategy consultancy L.E.K. Consulting. Dominic received his PhD from the Department of Oncology at the University of Cambridge, where he was a Cancer Research UK scholar. He also holds a German Diploma Degree in Biochemistry and his research has been honoured with national and international prizes and published in Cell, Nature and Science.



### Nikki Padden

Nikki is Head of Finance at Syncona Investment Management Ltd. She is a chartered accountant with experience in practice and commerce. Previous roles include business operations at GlaxoSmithKline and project management for AEA Technology and its biopharmaceutical contract manufacturing spin-out. Prior to this she worked in research at King's College, London and the University of Reading. Nikki has a PhD in Biotechnology from King's College and an MBA from Warwick Business School.



### **Hitesh Thakrar**

Hitesh is a Partner of Syncona Investment Management Ltd. He has 24 years' experience of global public equities. He managed Innovation funds for several asset management companies including Aviva and ADIA where he was a top-rated portfolio manager. He has an interest in the convergence of life science with other innovation led sectors such as data sciences and the application of industrial technology in medical diagnostics. He has a degree in Chemistry from King's College London and is a CFA.



### **Alex Hamilton**

Alex is a Partner of Syncona Investment
Management Ltd. Previously, he was a member
of the Healthcare Investment Banking team
at Jefferies, where he worked on a range
of financings and mergers and acquisitions
across the biotechnology, pharmaceutical
and healthcare sectors. Alex has a PhD
in Immunology from Cambridge University.



### Magdalena Jonikas

Magdalena is a Partner of Syncona Investment Management Ltd. Previously, she was an Associate Partner at McKinsey & Company where she specialised in pharmaceuticals Research & Development, portfolio management and Business Development and Licensing. Magdalena holds a PhD in Bioengineering from Stanford University and was a postdoctoral fellow in Harvard Medical School's Computational Health Informatics Programme.



### **Philip Bassett**

Philip oversees Syncona's Investor Relations and Communications programme, having been closely involved in the combination of Syncona LLP and BACIT. Previously, Philip worked for over 20 years at Permira, a Private Equity firm focused on transactions across a number of sectors where he was the partner in charge of the investor side of the business and led fundraising activities. Philip has a degree in Classics from Oxford University and is a chartered accountant.



### **Siobhan Weaver**

Siobhan Weaver is Head of Investor Relations and Communications at Syncona Investment Management Ltd. Previously, she worked at Tulchan Communications, a financial communications agency, where she was a Director providing advice to a range of clients across a wide range sectors, projects and transactions. Siobhan has spent seven years in financial communications, having previously worked for one of the leading consultancies in Australia. She has degrees in Law and Media Communications from the University of Melbourne.

# **Risk management**

Following the expansion of the Company's investment policy, the acquisition of Syncona Partners LLP and recruitment of the Syncona Partners' investment management team, the Company's risk management framework has been reviewed to reflect the changes to the investment strategy.

As part of this process, the Board reviewed the effectiveness of the Company's risk management and internal control systems, including an assessment of all of the material controls, including financial, operational and compliance controls. In particular, the Board has carried out a robust assessment of the principal risks facing the Company including those that would threaten its business model, future performance or liquidity.

Risk management and its governance is the responsibility of the Board, with the Investment Manager, Investment Advisor and Administrator given the task of ensuring an effective and transparent process and that risks are identified, documented, assessed and, where appropriate, mitigated.

The Board is responsible for determining the overall risk appetite. The Audit Committee assesses and monitors the risk management framework and specifically reviews the controls and assurance programmes in place. To achieve this, a process has been established which seeks to:

- Review the risks faced by the Company and the controls in place to address those risks;
- Maintain a risk register;
- Identify and report changes in the risk environment;
- Identify and report changes in the operational controls;
- Identify and report on the effectiveness of controls and errors arising; and
- Ensure no override of controls by its service providers, the Investment Manager, Investment Advisor or the Administrator.

The output from this process, together with reports arising from the external audit, provides input to the Board on the status of the risk management framework. The day to day operation and oversight of the risk management framework has been delegated to the Company's Investment Manager, Investment Advisor and Administrator.

The Board accepts a level of investment risk to achieve its targeted returns. In particular the Company is exposed to risks associated with investment in early-stage companies, and the Board is therefore

mindful of the risk/return profile of these investments. There is very low tolerance for financing risk with the aim to ensure that even under the most severe stress scenario, the Company is likely to meet its funding requirements and financial obligations. Similarly, there is low risk tolerance with respect to legal, taxation and regulatory risk, but the Company accepts a certain degree of operational risk, for example in areas such as staff retention.

### Risk management structure

# Board of Directors Risk management leadership Audit Committee Review and monitor the risk management process Investment Manager Risk reporting and running the controls assurance programme Investment Manager, Investment Advisor and Administrator Risk management is integral to the investment process and financial management Life science portfolio company management teams Risk identification and mitigation

# **Principal risks and uncertainties**

The execution of the Company's investment strategy is subject to risks and uncertainties. During the year, the Company expanded its investment policy to include investment in early-stage life science companies. Accordingly, the principal risks and uncertainties have been updated to reflect new risks associated with the financing of and investment in early-stage companies.

The principal risks that the Board has identified are set out in the table below, along with the consequences and mitigation of each risk. Further information on risk factors is set out in note 22 to the consolidated financial statements.

**Impact** 

# Life science portfolio

developing early-stage life science businesses.

Mitigation

New for 2017



Unchanged

### ★ Investment risk

**Description** 

The Company sources life science businesses for investment. Such early-stage businesses typically have limited products in development and, consequently, any problems encountered in one product may have a particularly damaging effect on the prospects of that portfolio company.

Early-stage life science businesses will spend a considerable proportion of their resources on research and development into unproven technology, which may be unsuccessful or may be commercially unproductive and may require the injection of further capital by the Company to fully exploit the results of that research.

The value of the portfolio company depends on the performance of its future products and the Company may not realise its original cost or any value from its investment.

It may take time and significant resources for the Company to realise its investment and the portfolio company may not be successful or may not grow rapidly and the Company may not realise its original cost or any value from its investment.

The Company's Investment Advisor employs highly experienced personnel who have considerable experience of building and

Before making any investment, the Investment Advisor performs extensive due diligence covering all the major business risks. Once the investment is made, the Investment Advisor's personnel work closely with portfolio companies, taking non-executive and at times executive roles on portfolio company boards, monitoring progress and ensuring familiarity with issues and risks.

Within the Investment Advisor's investment process, there is a robust and disciplined financing and capital allocation framework, focused on the achievement of key strategic and development milestones ahead of any further investment. Initial investments may involve seed funding to identify and mitigate early risks before proceeding with more substantial investments.

The Company ensures that it has sufficient liquidity to fund its early-stage investment programme and the Investment Manager and Investment Advisor maintain detailed financing and capital allocation models on an ongoing basis and forecasts are produced for the Board that contain appropriate stress testing.

### General, commercial, technological and clinical risks

The Company's life science investments are exposed to a wide range of general, commercial, technological and clinical risks. In particular:

- Negative results from clinical trials
- Intellectual property may fail to be granted or may be infringed or copied
- Failure of a technology platform in an early-stage company
- Failure to obtain regulatory approval for new products developed
- Failure to sell products profitably or in sufficient volumes
- Changes in pharmaceutical pricing practices
- Launch of competing products
- Reputational damage
- Targeted public campaigns
- Latent product defects resulting in claims

All of these risks could potentially lead to a decline in the value of a portfolio company, or in extreme cases lead to the portfolio company failing.

The Company's Investment Advisor employs highly experienced personnel who have considerable experience of building and developing early-stage life science businesses. The Investment Advisor's personnel work closely with portfolio companies, taking both executive and non-executive roles on portfolio company boards, monitoring progress and ensuring familiarity with issues and risks.

In addition, the Investment Advisor's team can assist the management teams of the portfolio companies with arranging specialist advice, for example, communication advice to support them dealing with issues or any likely issues.

### Life science portfolio continued

### **Description Impact** Mitigation

Within its life science portfolio, the Company is seeking to build a focused portfolio of up to 20 leading life science companies. Accordingly, a large proportion of the overall value of the

life science portfolio may, at any time, be accounted for by one, or a few, portfolio companies.

The Company's life science portfolio may also be focused on a small number of sub-sectors within the life science sector. Accordingly, a material proportion of the overall value of the life science investment portfolio may, at any time, be invested in a specific sub-sector.

If a portfolio company experiences financial or operational difficulties, fails to achieve anticipated results or, where relevant, suffers from poor stock market conditions and if, as a result, its value were to be adversely affected, this could have an adverse impact on the overall value of the life science investment portfolio.

Similarly, if the technology or technologies utilised in a specific sub-sector prove to be commercially unproductive or unsuccessful, then the value of the Company's investments in the respective sub-sector(s) could be negatively impacted.

The Board considers the performance of its largest portfolio companies and the portfolio's concentration on specific sub-sectors on a quarterly basis.

The Company's Investment Advisor employs highly experienced personnel who have considerable experience of building and developing early-stage life science businesses. The Investment Advisor's personnel work closely with portfolio companies, taking non-executive and at times executive roles on portfolio companies' boards, monitoring progress and ensuring familiarity with issues and risks.

At 31 March 2017, the Company's three largest investments in its life science portfolio represented 19.4 per cent of the net asset value of the Company.

### Market risk – realising investment portfolio companies

Instability in equity and debt markets and/or the market's appetite for investment in life science companies could result in an inability to access capital markets or realise value in portfolio companies through sales to financial or strategic acquirers.

It may take longer to realise value from investments in portfolio companies.

The Investment Advisor, alongside the portfolio company management team, is focused on ensuring that portfolio company business models appeal to both strategic acquirers as well as public markets.

In addition, the Company seeks to ensure that it has sufficient liquidity to fund its portfolio companies through the cycle and should not therefore be dependent on third-party funding or realisations from its life science portfolio to fund further investments into a portfolio company. The Investment Manager and Investment Advisor maintain detailed financing and capital allocation models on an ongoing basis and forecasts are produced for the Board that contain appropriate stress testing. To further mitigate this risk, the Investment Advisor maintains strong relationships with potential strategic acquirers and other leading investors in the sector.



Unchanged

**Description Impact** Mitigation

Market risk – political and economic uncertainty may negatively impact the Company's ability to achieve its strategic objectives

Political and economic uncertainty, including impacts from the EU referendum or similar scenarios, could have several potential impacts, including changes to the labour market available to the Investment Advisor and underlying portfolio companies, or regulatory environment in which the Company and its investment portfolio companies operate.

There could be potential risks to research funding and to attracting and retaining talent.

The Company's Investment Manager and Investment Advisor monitor these developments, with the help of professional advisers, as appropriate, to ensure it is prepared for any potential impacts.

The UK government recognises these challenges and we believe will seek to address them as part of its industrial strategy.

### Funds portfolio

### **Description Impact** Mitigation

Investment risk

The funds portfolio is exposed to the risk that its portfolio fails to perform in line with its objectives if it is inappropriately invested or markets move adversely.

The funds portfolio has significant indirect exposure to risks through the underlying portfolios of the investment entities. Due to the lack of transparency in many of the underlying assets, it is not possible to quantify or hedge the impact of these risks on the portfolio as each investment entity may have complex and changing risk dynamics that are not observable or predictable. These risks will include extensive interest, foreign exchange and other market risks which are magnified by significant gearing in many cases, resulting in increased liquidity and return risk.

Any underperformance of the funds portfolio will have an impact on net asset value of the Company and the longer-term liquidity for life science investments.

The Company's Investment Manager employs highly experienced personnel who have considerable experience in investing in capital markets. The Investment Manager performs due diligence on potential new investments, including an assessment of investment risk and, after the investment is made, post investment monitoring of their performance. The Board reviews reports from the Investment Manager at each quarterly Board meeting, paying particular attention to the constitution of the portfolio, the performance and volatility of underlying investments and the liquidity forecast prepared by the Investment Manager and Investment Advisor.

### **Operational**

### Description Impact Mitigation

The expertise, due diligence, risk management skills and integrity of the staff at the Company's Investment Manager and Investment Advisor are key to the success of the Company.

The industries in which the Investment Manager and Investment Advisor operate are specialised and require highly qualified and experienced management and personnel.

Given the relatively small size of the team, the execution of the Company's investment strategy is dependent on a small number of key individuals. There is a risk that employees could be approached by other organisations or could otherwise choose to leave the Investment Manager or Investment Advisor.

If the Investment Manager and/or Investment Advisor do not succeed in retaining skilled personnel or are unable to continue to attract all personnel necessary for the development and operation of their business, they may not be able to execute the Company's investment strategy successfully.

The Investment Advisor carries out regular market comparisons for staff and executive remuneration. Senior executives are shareholders in the Company and executives of the Investment Advisor participate in the Syncona Long Term Incentive Plan. In addition the Investment Advisor encourages staff development and inclusion through coaching and mentoring and carries out regular objective setting and appraisals.

The Investment Manager's personnel are shareholders in the Company and they are incentivised by the BACIT UK Agreement, details of which are on page 65.

### ★ Financing risk

The financial risks, including market, credit and liquidity risk, faced by the Company, where relevant, are set out in note 22 on pages 93 to 97. These risks and the controls in place to mitigate them are reviewed at each quarterly Board meeting.

Financing risk and the inability to match funding to the timing of investments by the Investment Advisor, including delayed distributions from the funds portfolio, or holdings in the funds portfolio not being sold, or being sold for less than expected.

Lack of funding may restrict the ability of a portfolio company in the Company's life science portfolio to fund ongoing research and development and commercialisation programmes and the ability of the Company to invest in new, attractive investment opportunities.

This could, in some cases, result in the Investment Advisor having to seek funding from third-party investors, thereby diluting the Company's ownership of the portfolio company. In extreme cases, it may result in the portfolio company being forced to sell off its assets or cease its development, thereby impacting the value of the investment.

The Company has a strong liquidity position and ensures that it has sufficient liquidity to fund its early-stage investment programme. The Investment Manager and Investment Advisor maintain detailed financing and capital allocation models on an ongoing basis and forecasts are produced for each Board meeting that contain appropriate stress testing.



Unchanged

Description	Impact	Mitigation
Systems and controls		
The potential loss of operation of core systems or sensitive data leading to damage and disruption to the Investment Manager and/or Investment Advisor or Administrator's business.	Disruption of the business of the Investment Manager and/or Investment Advisor or Administrator.	Systems and control procedures are developed and reviewed regularly and the Board receives reports annually from the Investment Manager, Investment Advisor and Administrator on their internal controls.

# Legal and regulatory

### **Description Impact** Mitigation Changes in law and regulations may adversely affect the Company The Company is subject to laws and Any material changes to laws or The Company, its Investment Manager and Investment Advisor regulations of national and local regulations could adversely affect utilise professional advisers, as appropriate, to support its governments. In particular, the Company the Company, its Investment monitoring of, and response to, changes in law and regulation, is subject to, and is required to comply Manager and Investment Advisor, including any changes in tax or other legislation. with, regulation of the UKLA and certain in the ability to operate in accordance with any such regulatory requirements that are applicable to registered closed-ended changed requirements. This could collective investment schemes which

In addition, changes in legislation and government policy may occur that could adversely impact the ability of the Investment Manager and Investment Advisor to execute the investment strategy of the Company. Changes to tax laws may impact the Company's returns or the returns that shareholders may receive from the Company.

are domiciled in Guernsey.

in turn adversely affect the returns that shareholders may receive from the Company.

# **Corporate social responsibility**

Syncona aims to be a socially responsible organisation which operates fairly and transparently.

We aim, at all times, to conduct our business activities ethically and in line with best practice, having consideration of our stakeholders who include, but are not limited to, patients, shareholders, our team, charities (such as the Wellcome Trust and Cancer Research UK) and the businesses in which we invest.

We are committed to growing our business in line with our guiding principles:

- Transparency
- Integrity
- Delivering material benefit for patients through new product innovation and development
- Ensuring a safe environment for employees and minimising our impact on the environment.

By building a strong business, we maximise the income we can provide to those charities we support through our annual donation.

### **Charitable contributions**

A principal reason for the establishment of BACIT in 2012 was to make a substantial annual donation to charity. To date we have donated a total of  $\mathfrak{L}18.1$  million. The Company will be making further charitable donations of  $\mathfrak{L}4.75$ m in the 2018 financial year. Much of this charitable contribution supports the healthcare space in recognition of our vision to deliver transformational treatments to patients.

Looking forward, we will continue to donate 0.3 per cent of our Net Asset Value each year to a range of charities, thereby ensuring that our contribution to these worthy causes mirrors the success of our business.

Half of our annual donation goes to The Institute of Cancer Research, an organisation which we are delighted to support as it pursues its mission of making the discoveries that defeat cancer. The remaining 50 per cent of the donation is made to The BACIT Foundation, which distributes the funds to a range of charities.



# Charitable objectives of The BACIT Foundation

- To support the prevention, treatment, cure and ultimately the eradication of cancer in all of its forms and any allied diseases.
- To promote and assist:
- the study of and research into the nature, causes, diagnosis and pathology of cancer and any allied diseases;
- the development and provision of all forms of preventive, curative, management and palliative treatment of cancer and any allied diseases; and
- education and training in subjects relevant to the study of cancer and any allied diseases.
- To co-operate with, and promote and assist the work of, The Institute of Cancer Research and, or alternatively, such other charitable organisations whose objects include any of those above as The BACIT Foundation may determine in addition to or in substitution for The Institute of Cancer Research.
- To promote and assist such other charitable objects and charitable organisations as The BACIT Foundation may from time to time consider desirable.

The BACIT Foundation charity beneficiaries for the year ended 31 March 2017 are set out below:

# Alzheimer's Research UK alzheimersresearchuk.org

Alzheimer's Research UK is the UK's leading dementia research charity specialising in finding preventions, causes, treatments and a cure for dementia by funding world-class, pioneering research at leading universities.

# The Alzheimer's Society alzheimers.org.uk

The Alzheimer's Society is the UK's leading dementia charity. They provide information and support, improve care, fund research and create lasting change for people affected by dementia.

# **Beating Bowel Cancer** beatingbowelcancer.org

Beating Bowel Cancer is here to raise the alarm for a disease that takes more than people's health – it takes their dignity. Founded in 1999, they do all it takes to fight for life. They provide a lifeline of emotional and practical support, from the fear of first diagnosis to the trials of treatment. They work with individuals, local communities, medical professionals, and government, helping raise public awareness and improve early diagnosis of the disease. They are determined to push our society beyond the discomfort and awkwardness of bowel cancer, into a new era of open progress.

# **Butterfly Thyroid Cancer Trust** butterfly.org.uk

Founded in 2003, Butterfly Thyroid Cancer Trust is the first registered charity in the UK dedicated solely to supporting people affected by thyroid cancer. Working alongside an expert medical multi-disciplinary team and Cancer Research UK, they can ensure access to the very best support for their members.

### **Cancer Research UK**

### cancerresearchuk.org

Cancer Research UK is the world's leading cancer charity dedicated to saving lives through research and whose vision is to bring forward the day when all cancers are cured. In 2015/16, CRUK committed a total of  $\mathfrak L432$  million to cancer research projects and it is the world's largest independent supporter of cancer research.

### **Child Bereavement UK**

### childbereavement.org.uk

Child Bereavement UK supports families and educates professionals when a baby or child of any age dies or is dying, or when a child is facing bereavement. They provide face-to-face bereavement support for children and families at a growing number of locations across the country; they provide specialised training, resources and information for schools; and every year they train more than 8,000 professionals to help them better meet the needs of grieving families.

### **Cure Leukaemia**

### cureleukaemia.co.uk

Cure Leukaemia helps connect blood cancer patients with pioneering drug and transplant treatments. The charity helps finance the internationally renowned Centre for Clinical Haematology at Queen Elizabeth Hospital in Birmingham, to fund life-saving clinical trials to treat patients that have exhausted standard treatment options.

Cure Leukaemia recently launched a £1 million appeal to fund a transformational expansion of the Centre, which will double its capacity for patients, world first clinical trials and specialist research nurse positions. Not only will the expanded Centre help save more lives it will also hasten global progress towards finding effective treatments for all blood cancers within 25 years.

### **Downside Up**

### downsideup.org

Downside Up is a Russian non-profit organisation that provides support and advice for families raising children with Down's Syndrome, develops innovative children's training and parents' support methods, disseminates knowledge and experience among Russian professionals and society, and works towards raising public awareness about Down's Syndrome with the aim of changing attitudes.

### **The Egmont Trust**

### egmonttrust.org

The Egmont Trust works to improve the lives of children and families living with HIV and AIDS in sub-Saharan Africa by supporting local, dedicated organisations driving local, cost-effective solutions.

### **Fight for Sight**

### fightforsight.org.uk

Fight for Sight is the UK's leading charity dedicated to stopping sight loss by funding pioneering eye research. With programmes at leading universities and hospitals the charity aims to prevent, treat and reverse the sight loss caused by a wide range of different diseases and conditions.

# The Institute of Cancer Research icr.ac.uk

The Institute of Cancer Research, London, is one of the world's most influential cancer research institutes, with an outstanding record of achievement dating back more than 100 years. Today, the ICR is ranked as the UK's leading academic research centre, and leads the world in isolating cancer-related genes and discovering new targeted drugs for personalised cancer treatment.

The ICR employs leading scientists from over 50 countries around the world and since 2005 alone, 20 drug development candidates have been discovered based on ICR research, nine of which have progressed into Phase 1 clinical trials or beyond, one of which was approved by NICE in 2012 to treat advanced prostate cancer.

The ICR has charitable status and relies on support from partner organisations, charities and donors to fund its research and innovation.

# The James Wentworth-Stanley Memorial Fund

### jwsmf.org

The James Wentworth-Stanley Memorial Fund was set up by James's parents to help raise awareness of anxiety, depression and suicide among young people and to tackle the terrible and shocking statistic that suicide is the greatest cause of death amongst young men in the UK.

### JDRF

### jdrf.org.uk

JDRF (formerly known as the Juvenile Diabetes Research Foundation) is a charitable organisation committed to eradicating type 1 diabetes. JDRF funds world-class research to cure, treat and prevent the chronic condition while giving support and a voice to those affected including children, adults and their families.

# The Louis Dundas Centre for Children's Palliative Care

### gosh.org/louis-dundas-centre

The Louis Dundas Centre for Children's Palliative Care is intended to be a world-class centre of research, teaching and practice in palliative care for children and young people.

# Maggie's maggiescentres.org

Maggie's is about empowering people to live with, through and beyond cancer by bringing together professional help, communities of support and building design to create exceptional centres for cancer care. Maggie's runs centres where people are welcome at any time, from having just being diagnosed, or undergoing treatment, to post-treatment, recurrence, end of life or in bereavement.

### **Marie Curie**

### mariecurie.org.uk

Marie Curie is for people living with any terminal illness, and their families. They offer expert care, guidance and support to help them get the most from the time they have left. Their nurses work night and day, in people's homes across the UK, providing hands-on care and vital emotional support. Their hospices offer specialist round-the-clock care. Marie Curie also support people throughout their illness by giving practical information, support from trained volunteers and being there when someone wants to talk.

### **NSPCC**

### nspcc.org.uk

The NSPCC are the leading children's charity fighting to end child abuse in the UK. They help children who have been abused to rebuild their lives, protect those at risk and find the best ways of preventing abuse from ever happening.

# The Rwanda Hope Foundation prismthegiftfund.co.uk

The Rwanda Hope Foundation ('RHF') represents a new approach to fighting poverty. Through enterprise education programmes and a revolving debt/equity fund, RHF helps local Rwandan entrepreneurs and social entrepreneurs to grow their SMEs. Donations to RHF (www.rwandahopefoundation.co.uk) are made to Prism the Gift Fund for onward transmission by it to RHF.

### Scope

### scope.org.uk

Scope exists to make this country a place where disabled people have the same opportunities as everyone else. Until then, they'll be here. They provide support, information and advice to more than a quarter of a million disabled people and their families every year. They raise awareness of the issues that matter. And with your support, they'll keep driving change across society until this country is great for everyone.

### **SSAFA**

### ssafa.org.uk

SSAFA is one of the UK's leading armed forces charities. It provides practical, financial and emotional support to anyone who is currently serving or has served in the Army, Navy or RAF, and their families, and has been running for over 125 years.

### **Supporting Wounded Veterans**

supportingwoundedveterans.com

Supporting Wounded Veterans' aim is autonomy and independence, employment and meaningful occupation, for wounded, mainly ex Iraq and Afghanistan, campaign veterans, via skihabilitation, mentoring, a specific pain management programme in partnership with King Edward VII hospital in London, and with support into employment.

# Women for Women International womenforwomen.org.uk

Women for Women International helps women in countries affected by conflict and war to move from crisis and poverty to stability and economic self-sufficiency. Since 1993, it has supported more than 450,000 women across eight countries earn and save money, improve health and well-being, influence decisions in their home and community, and connect to networks for support.



### Helping Maggie's

Maggie's Centres is a provider of free practical, emotional and social support to people with cancer and their family and friends, following the ideas about cancer care originally laid out by Maggie Keswick Jencks.

"The world of cancer is changing. With advances in medicine and earlier diagnosis, the chances of surviving cancer long term are double that of 40 years ago. But as the number of people living with cancer increases, so does the need to find expert support to cope with the complex challenges that living with and beyond cancer brings. That's what Maggie's does and the generosity of Syncona and The BACIT Foundation is making that possible.

The Foundation's generous donations to Maggie's allow us to plan ahead to ensure we are meeting the changing and emerging emotional, practical and social needs of people with cancer and their families and friends across our 18 UK Centres. We are incredibly grateful for the long-term financial support which underpins our ambition to reach and support even more people affected by cancer that need our help."

### Laura Lee

Chief Executive, Maggie's Centres

### **Bioethics**

Syncona believes that medical technology can provide significant benefits to life, however we recognise that these technologies carry with them responsibilities. We place high priority on the safety and efficacy of the products developed by our life science companies and expect that any decision to commercialise a product or therapy should involve careful consideration of the risks and the benefits of the technology in light of the information available.

### **Animal welfare**

Syncona is committed to high standards of ethical care across all aspects of our business, and research activity. Acknowledging that, at this time, research involving animals remains an essential tool to increase our understanding of how human bodies work, our approach is based on support for the use of animals in research if the potential health benefits are compelling, appropriate welfare standards are met and alternatives cannot be found. We expect our investee companies to meet all legal and regulatory requirements which set a high standard on this important issue, and to adopt the widely used '3 R's' approach to ensuring high quality scientific research:

- **1. Replacement:** promoting the use of other methods.
- **2. Reduction:** reducing the number of animals used.
- 3. Refinement: minimising pain, suffering, distress or lasting harm, as well as improving the welfare of the animals used.

### **Health and safety**

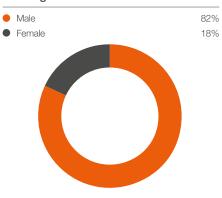
We are committed to ensuring we provide a safe environment for employees, seeking to ensure that high standards of health, safety and welfare provisions are achieved and maintained in our business and we expect our life science portfolio companies to seek the same standards. Syncona's Investment Manager and Investment Advisor's team had no reported health or safety incidents in the year to 31 March 2017.

### **Diversity**

We are committed to promoting a diverse workforce. Our position is one of equal opportunity in the selection, training, career development and promotion within Syncona's Investment Manager and Investment Advisor team, regardless of age, gender, sexual orientation, ethnic origin, religion and whether disabled or otherwise.

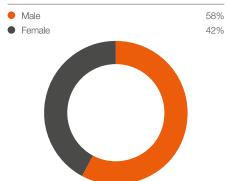
A breakdown by gender of Syncona Limited's Board as an average over the 12 month period to 31 March 2017 is as follows:

### Board gender breakdown



In Syncona's Investment Manager and Investment Advisor team, a breakdown by gender as an average over the 12 month period to 31 March 2017 is as follows:

### Team gender breakdown



### **Environment**

Syncona is committed to operating its business in an environmentally responsible and sustainable manner.

Syncona believes its direct environmental impact to be relatively low, with the investment team largely based at Syncona Investment Management Limited's head office in London. To demonstrate the Group's commitment to operating in an environmentally responsible way, Syncona intends to set out a detailed environmental policy and reporting structure within the next 12 months which will include information on Greenhouse Gas Emissions.

The Company's Strategic report is set out on pages 1 to 49. Approved by the Board on 5 July 2017 and signed on its behalf by:

Jeremy Tigue

Chairman

5 July 2017

# **Board of Directors**





An experienced and dedicated Board.



### **Jeremy Tigue** Chairman

### **Biography**

Jeremy Tigue has been Chairman of the Board since BACIT inception in 2012. He has over 30 years' experience of global investing and was the fund manager of Foreign & Colonial Investment Trust, one of the largest investment companies, from 1997 to 2014. He is also Chairman of ICG Enterprise Trust plc, Senior Independent Director of Standard Life Equity Income Trust PLC, a Director and Chairman of the Audit Committee of The Monks Investment Trust PLC and a Director of The Mercantile Investment Trust plc. He was a Director of the Association of Investment Companies from 2003 to 2013 and Deputy Chairman between 2006 and 2010. Jeremy was also Chairman of the Institutional shareholder Committee from 2006 to 2008. He was an Investment Advisor to the BP and British Steel Pension Funds from 1998 to 2014 and 1999 to 2014 respectively.

### **Experience**

Jeremy brings extensive experience of investments, private equity, investor relations and governance. He has broad and deep knowledge of all aspects of investment company management, governance and regulation.

**Ellen Strahlman**Non-Executive Director

### **Biography**

Ellen has been the Executive Vice President, Research & Development and Chief Medical Officer for BD (Becton, Dickinson and Company), a leading global medical technology company, since 2013. She served as the Senior Vice President and Chief Medical Officer ('CMO') at GlaxoSmithKline, as well as senior executive leadership roles in leading pharmaceutical and medical technology companies including Pfizer, Novartis, Bausch & Lomb and Merck.

### **Experience**

Ellen has over 25 years of experience in global product development and commercialisation in a wide range of areas such as biopharmaceuticals, medical devices, vaccines, consumer products and international health.

She is a graduate of Harvard University (Biochemical Sciences); obtained her medical degree from the Johns Hopkins School of Medicine; and earned a Master's Degree in Health Sciences from the Johns Hopkins Bloomberg School of Public Health as a Carnegie-Mellon Physician Public Health Fellow. She has medical qualifications in general surgery (Johns Hopkins) and ophthalmology (the Wilmer Institute, Johns Hopkins).

Nicholas Moss
Non-Executive Director

### **Biography**

Nicholas Moss was appointed to the Board of BACIT Limited in 2012. He is an English qualified chartered accountant (FCA) and has nearly 30 years' experience in the financial services sector, focused primarily on the structuring, advising and administration of the overall wealth of ultra high net worth private clients. Nicholas was a founder of the Virtus Trust, an international fiduciary business which he sold to Equiom group in 2017. Prior to Virtus Nicholas was a Managing Director within NM Rothschild's private wealth group.

### Experience

Nicholas has extensive experience as an independent director and audit committee member of listed closed ended investment companies including Brevan Howard and Blackstone managed entities. He is a highly experienced fiduciary and investment practitioner, advising family offices and private clients in many jurisdictions. Nicholas is Chairman of the Audit Committee of the Company and is resident in Guernsey.

### **Date of appointment**

14 August 2012

### Committee membership

- Nominations Committee

### Date of appointment

19 December 2016

Date of appointment 17 August 2012 Committee membership

- Audit Committee (Chair)





**Nigel Keen**Non-Executive Director

### **Biography**

Nigel is the Chairman of Syncona Investment Management Limited and a co-founder of Syncona Partners. He is also Chairman of Oxford University Innovation, the technology transfer group for Oxford University, and Chairman of the Oxford Academic Health Science Network, a new entity established by the National Health Service in England to align the interests of patients in its region with academia, industry and the healthcare system. Nigel is also the Chairman of the AIM listed medical device company Deltex Medical Group plc and was previously Chairman of Laird plc for 14 years and Oxford Instruments plc for 16 years. He has a degree in engineering from Cambridge University, is a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Institute of Engineering and Technology.

### **Experience**

Nigel brings extensive experience in healthcare and commerce. His career has encompassed venture capital, industry and banking, and he has been involved in the formation and development of high technology businesses for more than 30 years.

Peter Hames
Non-Executive Director

### **Biography**

Peter Hames is a Non-Executive Director of Polar Capital Technology Trust PLC and MMIP Investment Management Limited. He is an independent member of The Operating Committee of Genesis Asset Managers LLP as well as serving on a number of Genesis fund boards. Peter started his investment career working for The Iveagh Trustees Limited, a family office which handled the financial affairs of various members of the Guinness family. In 1990 he joined Aberdeen Asset Management PLC, relocating to Singapore in 1992 where he co-founded Aberdeen Asset Management Asia Limited.

### **Experience**

Peter brings over 25 years of experience investing in equity markets. As Director of Asian Equities at Aberdeen Asset Management Asia Limited in particular, he oversaw regional fund management teams responsible for running a number of top-rated and award-winning funds. He also played an important role in the development of Aberdeen's Global Emerging Market products.



Thomas Henderson Non-Executive Director

### **Biography**

Tom Henderson founded BACIT Ltd in 2012 and is Chief Executive of BACIT UK. Previously, Tom founded New Generation Haldane Fund Management (formerly Eden Capital Ltd) in 1998 where he was CEO and senior portfolio manager for the Eden Capital Fund, a fund which had a mandate to invest in listed equity and private equity investments, primarily in Europe. Prior to this, in 1994 Tom joined Moore Capital Management as a portfolio manager where he invested in European and emerging market equities. In 1991 Tom worked for Cazenove Inc in New York and headed the European Equity sales team, where he was responsible for selling European equities to US institutions. He started his career in 1990 at Cazenove and Co in London.

### **Experience**

Tom brings extensive experience of managing capital in listed equities and in building private equity investments which have gone on to list in the US capital markets. He has a broad and deep network of relationships and a strong track record in the fund management industry. Tom also sits on the investment committee at The Institute of Cancer Research.

### **Date of appointment**

19 December 2016

### **Date of appointment**

14 August 2012

### **Committee membership**

- Audit Committee
- Nominations Committee

### Date of appointment

14 August 2012

### **Committee membership**

- Nominations Committee

# **Corporate governance statement**

The Board is committed to high standards of corporate governance and has implemented a framework for corporate governance which it considers to be appropriate for the Company. This framework is reviewed on an annual basis as part of the Board evaluation process and will be reviewed again in the current financial year in light of the expansion of the Company's investment policy, acquisition of Syncona Partners LLP and recruitment of the Syncona Partners' investment management team.

To comply with the UK Listing Regime, the Company must comply with the requirements of the UK Corporate Governance Code (September 2014) (the 'UK Code') issued by the Financial Reporting Council or explain any departures therefrom. The Company is also required to comply with the Code of Corporate Governance issued by the Guernsey Financial Services Commission (the 'GFSC Code').

The Company is also subject to the Alternative Investment Fund Managers Directive ('AIFMD') and has a management agreement with BACIT (UK) Limited dated 28 November 2016. Northern Trust (Guernsey) Limited acts as its depositary, in accordance with the requirements of the AIFMD.

### **Compliance statement**

The Board considers that reporting against the principles and recommendations of the UK Code provides appropriate information to shareholders. Companies reporting against the UK Code are deemed to comply with the GFSC Code.

The Company has complied with the relevant provisions of the UK Code, except for the following:

- Senior Independent Director;
- the role of the Chief Executive;
- Executive Directors' remuneration;
- the need for an internal audit function;
- whistle-blowing policy; and
- Remuneration Committee.

The Company's Senior Independent Director, Colin Maltby, stepped down from the Board in July 2016. As further described in the Chairman's statement on page 2, the Company expects to appoint two new Non-Executive Directors to the Board in due course. The Board will nominate a new Senior Independent Director as part of that process.

The Company has no executive directors, employees or internal operations. For the reasons set out in the UK Code, the Board considers the remaining provisions above not relevant to the position of the Company. The Company does not have an internal audit function. All of the Company's management functions are delegated to the Investment Manager, Investment Advisor, Administrator and Company Secretary and Registrar which have their own internal audit and risk assessment functions, as applicable. The Company's key service providers all have whistle-blowing policies in place and the Board is satisfied that any issues can be properly considered by the Board. The Company has therefore not reported further in respect of these provisions.

The Company will be establishing a Remuneration Committee in the current financial year, further details of which are described below.

Due to the Company's premium listing on the London Stock Exchange, the Company is required to disclose its Environmental Policy. Further information on the Company's social, environment and bioethics policies can be found in the Corporate Social Responsibility section on pages 46 to 49. The Company seeks to express its social concerns principally through its charitable donations and its support of The Institute of Cancer Research.

Details of compliance are noted in the succeeding pages. There have been no other instances of non-compliance.

### **Internal control**

The Company's system of internal control aims to ensure that assets of the Company are safeguarded, proper accounting records are maintained and the financial information for publication is reliable, including financial operational, compliance and risk management. It is prepared and maintained by the Audit Committee, which considers the relevant risks facing the Company and then collectively assesses the likelihood of each risk, the impact of those risks and the strength of the controls operating over each risk. The controls are implemented on an ongoing basis by the Company's Investment Manager, Investment Advisor and Administrator and reviewed by the Audit Committee on a regular basis. The Company's system of internal control is designed to manage rather than to eliminate the risk of failure to achieve the objectives set out above and by its nature can only provide reasonable and not absolute assurance against misstatement and loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, further details of which are set out on pages 41 to 45.

The UK Code requires the Board to conduct at least annually a review of the Company's system of internal control, covering all controls, including financial, operational, compliance and risk management. The Board has evaluated the systems of internal control of the Company. In particular, it has prepared a process for identifying and evaluating the significant risks affecting the Company and the policies by which these risks are managed.

The Board has delegated the execution of the Company's investment policy, the administration, corporate secretarial and registrar functions including the independent calculation of the Company's net asset value and the production of the Annual Report and Financial Statements, to the Investment Manager, Investment Advisor and Administrator. The Annual Report and Financial Statements are independently audited. Whilst the Board delegates these functions, it remains responsible for the functions it delegates and for the systems of internal control. Formal contractual agreements have been put in place between the Company and providers of these services. Board reports are provided at each quarterly Board meeting from the Investment Manager, Investment Advisor, Administrator and Company Secretary and Registrar. During the year, the Audit Committee met with several of the Company's service providers to review systems and controls.

A report is tabled and discussed at each Audit Committee meeting, and reviewed once a year by the Board, setting out the Company's risk exposure and the effectiveness of its risk management and internal control systems. The Board believes that the Company has adequate and effective systems in place to identify, mitigate and manage the risks to which it is exposed.

Further reports are received from the Administrator in respect of compliance, London Stock Exchange continuing obligations and other matters. The reports have been reviewed by the Board. No material adverse findings were identified in these reports.

### **Role of the Board**

The Board determines and monitors the Company's investment objectives and policy and considers the future strategic direction of the Company. The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Board is responsible for presenting fair, balanced and understandable information necessary for shareholders to assess the Company's performance, business model and strategy in annual and half-yearly reports and other forms of public reporting. The Board is responsible for the appointment of all service providers to the Company. In addition, the Board monitors the shareholder base of the Company, and reviews shareholder engagement and communication strategies, and evaluates the performance of all service providers, with input from its Committees where appropriate.

The business of the Company is managed by the Board, which may exercise all the powers of the Company including those powers relating to the issuing or buying back of shares. Further details of the authorities to be sought at the Annual General Meeting with respect to issuing or buying back shares can be found in the Notice of Annual General Meeting sent to shareholders separately. A procedure for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company has been agreed.

### **Composition and independence**

The Board currently consists of six Non-Executive Directors, four of whom are independent.

The Chairman of the Board is Jeremy Tigue. In considering the independence of the Chairman, the Board has taken note of the provisions of the UK Code relating to the independence of Directors and has determined that Mr Tigue is an Independent Director.

Under the UK Code, Mr Henderson is not considered to be independent because of his significant shareholding and his role within the Investment Manager. In addition, Nigel Keen is Chairman of the Investment Advisor, and therefore is also not considered independent under the UK Code.

Colin Maltby resigned as a Director on 31 July 2016. On 19 December 2016, Arabella Cecil resigned as a Director and Nigel Keen and Ellen Strahlman were appointed as Directors on that date.

Peter Hames will be stepping down as a Director of the Company at the forthcoming Annual General Meeting.

Profiles of each of the Directors, including length of service, may be found on pages 50 and 51.

A review of Board composition and balance, including succession planning for appointments to the Board, is included as part of the annual performance evaluation of the Board, details of which may be found below.

### **Company Secretary**

The Directors have access to the advice and services of a Company Secretary, Northern Trust International Fund Administration Services (Guernsey) Limited, who are responsible to the Board, inter alia, for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

### **Tenure**

The Board does not believe that length of service, by itself, impacts on independence. The independence of Non-Executive Directors will continue to be assessed on a case-by-case basis.

At each Annual General Meeting of the Company, all the Directors at the date of the notice convening the Annual General Meeting shall retire from office and each Director may offer himself or herself for election or re-election by the shareholders. In accordance with the Articles, no person shall be or become incapable of being appointed a Director, and no Director shall be required to vacate that office, by reason only of the fact that such Director has attained the age of 70 years or any other age.

### Performance evaluation, induction and training

The Board, Audit Committee and Nominations Committee undertake an evaluation of their own performance and that of individual Directors on an annual basis. This includes succession planning and a formal process of self-appraisal together with the Chairman reviewing each member's performance, contribution and commitment to the Company. The Chairman also has responsibility for assessing the individual Board members' induction and training requirements.

The Board is satisfied that it has a good balance of skills and experience, and that no individual or group of individuals is or has been in a position to dominate decision-making.

As further described in the Chairman's statement, with the expansion of the Company's investment policy, the composition and the balance of skills and experience required on the Board is evolving. The Board has engaged the executive search consultant Odgers Berndtson to assist in the appointment of two new Directors, with appropriate life science and financial expertise, to the Board in due course. Further details of the Company's recruitment principles can be found on page 61.

### **Information flows**

The Board receives written reports from its advisers on at least a quarterly basis and as appropriate on specific matters. The Chairman ensures that Directors are provided, on a regular basis, with key information on the Company's policies, regulatory requirements, and the Company's risk management and control results. The Board receives and considers reports regularly from its advisers and ad hoc reports and information are supplied to the Board as required.

### **Insurance and indemnities**

During the year, the Company maintained cover for its Directors and Officers under a directors' and officers' liability insurance policy.

### **Conflicts of interest**

The Directors are required to disclose all actual and potential conflicts of interest to the Board as they arise for consideration and approval.

These are considered carefully, taking into account the circumstances around them, and if considered appropriate, are approved. The Board may impose restrictions or refuse to authorise such conflicts if deemed appropriate.

### Committees

The Board has delegated certain responsibilities and functions to the Audit Committee and Nominations Committee. Details of membership of the Committees at 31 March 2017 may be found on pages 50 and 51 and information regarding attendance at Committee meetings during the year under review may be found below.

### **Audit Committee**

The Company's Audit Committee conducts formal meetings at least three times a year. With the expansion of the Company's investment policy and associated transactions, the frequency of the Audit Committee meetings is expected to increase to five per annum. Full details of its structure, duties and assessments during the year are presented in the Report of the Audit Committee on pages 56 to 58.

### **Nominations Committee**

The Company has established a Nominations Committee with the primary purpose of filling vacancies on the Board. The Nominations Committee reviews the Board structure, size and composition, to make recommendations to the Board concerning any matters relating to the continuation in office of any Director at any time, including the suspension or termination of service of that Director, and to make a statement in the Annual Report about its activities. The Nominations Committee chairman reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and reviews its own performance at least once a year, reviews composition and terms of reference and recommends any changes it considers necessary to the Board for approval. The Nominations Committee generally meets at least once a year and otherwise as required. The Nominations Committee is appointed by the Board and is made up of at least three members.

### **Management Committee**

The Board has not deemed it necessary to appoint a management committee as a result of being comprised wholly of Non-Executive Directors. The Independent members of the Board are responsible for the review of the performance of the Investment Manager and Investment Advisor in relation to the performance of the investment portfolio.

### **Remuneration Committee**

With the expansion of the Company's investment policy and associated transactions, the Company will be establishing a Remuneration Committee to, inter alia, decide on the level of fees paid to Non-Executive Directors and review the operation of and approve awards made under the Syncona Long Term Incentive Plan.

Non-Executive Directors' remuneration is considered on an annual basis. The Board's collective fees shall not exceed £500,000 in any financial year. The Board may grant reasonable additional remuneration to any Director who performs any special or extra services to, or at the request of, the Company. Further, the Directors shall be paid all reasonable travelling, hotel and other expenses properly incurred by them in and about the performance of their duties. Further information can be found in the Directors' Remuneration Report on page 59.

### Meetings

The Board holds quarterly Board meetings whilst the Audit Committee and Nominations Committee generally meet at least three times a year and once a year, respectively. In addition, during the year there were 10 ad hoc meetings to discuss and agree the terms of the expansion of the Company's investment policy and associated transactions.

Attendance at the Board and Committee meetings during the year was as follows:

	Ad hoc meetings	Scheduled Board meetings	Audit Committee meetings	Nominations Committee meetings
Number of meetings held	10	3	3	_
Jeremy Tigue (Chairman)	10	3	_	_
Arabella Cecil 1	7	3	_	_
Peter Hames	10	3	3	_
Thomas Henderson	8	3	_	_
Nigel Keen <sup>2</sup>	2	_	_	_
Nicholas Moss	9	3	3	_
Ellen Strahlman <sup>2</sup>	1	_	-	_
Colin Maltby <sup>3</sup>	_	1	1	_

- 1 Resigned from the Board on 19 December 2016.
- 2 Appointed to the Board on 19 December 2016.
- 3 Resigned from the Board on 31 July 2016.

The appointments of Nigel Keen and Ellen Strahlman in December 2016 were discussed and agreed by the Board as a whole. Accordingly, the Nominations Committee did not meet separately during the year ended 31 March 2017.

At the Board meetings the Directors review the management of the Company's assets and all other significant matters so as to ensure that the Directors maintain overall control and supervision of the Company's affairs.

The Board is satisfied that each of the Chairman and the other Non-Executive Directors commit sufficient time to the affairs of the Company to fulfil their duties as Directors. In the event that a Director does not attend a Board meeting, the Chairman will contact him or her prior to and following the meeting to keep him or her apprised and seek views on the matters discussed or to be discussed.

### **Anti-bribery and Corruption Policy**

The Board has adopted a formal Anti-bribery and Corruption Policy. The policy applies to the Company and to each of its Directors. Furthermore, the policy is shared with each of the Company's main service providers.

### **Relations with shareholders**

The Net Asset Value figures are published monthly via a regulatory news service and are also available on the Company's website, www.synconaltd.com. The Directors receive regular feedback, with assistance from the Company's brokers, from shareholders, which is reported to the Board and the Chairman. Shareholders who wish to communicate with the Board should contact the Administrator in the first instance, whose contact details can be found on page 104. In addition, Board members will be available to respond to shareholders' questions at the Annual General Meeting.

### **Viability statement**

In accordance with provision C2.2 of the UK Code, the Directors have assessed the prospects of the Company, considering its ability to continue in operation and meet its liabilities as they fall due over the period to 31 March 2020. The period selected was considered appropriate as it covers a period over which a majority of current uncalled commitments are expected to be called.

In considering the viability of the Company over the three year period, the Directors have assessed the principal risks and the procedures adopted to mitigate those risks. These are more fully described on pages 41 to 45.

The Company's investment performance depends upon the performance of the underlying investments in its funds and life science portfolios, details of which can be found on pages 74 to 75. The Directors, in assessing the viability of the Company, paid particular attention to the risks facing the Investment Manager and Investment Advisor. Both the Investment Manager and Investment Advisor operate a risk management framework which is intended to identify, measure, monitor, report and, where appropriate, mitigate key risks identified in respect of the Company's investments.

The Company's assets exceed its liabilities by a considerable margin where total assets and total liabilities, including uncalled commitments to underlying investments and funds, amounted to £901.3 million and £114.1 million respectively. The Company maintains detailed financial and capital allocation models which stem from reasonable expectations around liquidity management and the investment pipeline. The review considers the relevant principal risks faced by the Company, which are described in greater detail on pages 41 to 45 and in note 22 to the consolidated financial statements, and the analysis allows for a delay in the timing of redemptions from the funds portfolio, plus a diminution in the value of the Company's investment portfolio. Based on the results of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its obligations as they fall due over the three year period of assessment.

### Going concern

The Company has an indefinite life. The Company's assets currently consist mainly of securities and cash amounting to  $\mathfrak L895.2$  million (31 March 2016:  $\mathfrak L472.8$  million) of which 43.1 per cent (31 March 2016: 37.3 per cent) are readily realisable in three months in normal market conditions and the Company has liabilities including uncalled commitments to underlying investments and funds amounting to  $\mathfrak L114.1$  million (31 March 2016:  $\mathfrak L47.9$  million). Accordingly, the Company has adequate financial resources to continue in operational existence for 12 months following the approval of the financial statements. Hence the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the Consolidated Financial Statements.

# **Report of the Audit Committee**

We present below the Audit Committee's (the "Committee") Report for the year, setting out the Committee's structure, duties and evaluations during the year. As in the previous year, the Committee has reviewed the Company's financial reporting, the independence of the Independent Auditor and effectiveness of the audit process and the internal control and risk management systems of the service providers.

### **Structure of the Committee**

The Committee's members are Nicholas Moss (Chairman) and Peter Hames. Both Committee members are independent Directors.

The Committee must comprise at least two members, who are appointed by the Board. Appointments to the Committee shall be for a period of up to three full years, extendable for two further three year periods. The Chairman and the members of the Committee are serving their third year of the first three year term. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee. Further details on the experience and qualifications of members of the Committee can be found on pages 50 and 51. The Board is satisfied that the Committee has recent and relevant financial experience.

The Committee conducts formal meetings at least three times a year. The table on page 54 sets out the number of meetings held during the year and the number of meetings attended by each of the members. Other Directors who are not members of the Committee may also be invited to the meetings. The Independent Auditor is invited to attend those meetings at which the annual and interim reports as well as the planning report are considered. The Independent Auditor and the Committee also meet together without representatives of either the Administrator, Investment Manager or Investment Advisor being present if either considers this to be necessary.

With the expansion of the Company's investment policy and associated transactions, the frequency of the Audit Committee meetings is expected to increase to five.

### **Duties of the Committee**

The role of the Committee includes, but is not limited to:

- monitoring the integrity of the Consolidated Financial Statements and interim reports;
- reviewing the valuation methodology and any significant issues and judgements made in the preparation of the Consolidated Financial Statements and other financial information and reporting them to the Board;
- monitoring changes in accounting practices;
- responsibility for and oversight of the Company's risk management framework and monitoring and reviewing the relevant internal control and risk management systems;
- monitoring and reviewing the quality and effectiveness of the Independent Auditor, their independence and audit process; and
- considering and making recommendations to the Board on the appointment, reappointment, replacement and remuneration of the Company's Independent Auditor.

The Committee also reviews, considers and, if thought appropriate, recommends for the purposes of the Company's Consolidated Financial Statements valuations prepared by the Investment Manager. These valuations are the most critical element in the Company's Consolidated Financial Statements and the Audit Committee questions them carefully. Within the funds portfolio, most valuations are based directly on the statements received from the underlying funds' independent administrators. The Committee

reviews these but also pays particular attention to any valuations which are based on the Investment Manager's own valuation. Within the life science portfolio, the Committee reviews the valuation basis and methodology for the Company's underlying investments and pays particular attention to the valuations of the most significant interests.

Details of the Committee's formal duties and responsibilities are set out in the Committee's terms of reference which can be obtained from the Company's Administrator.

### **Independent Auditor**

The independence and objectivity of the Independent Auditor is reviewed by the Committee which also reviews the terms under which the Independent Auditor is appointed to perform non-audit services. The outsourcing of any non-audit services to the Independent Auditor will require prior Committee approval where fees for the services are in excess of £25,000.

As a general policy, the Company does not utilise the Independent Auditor for internal audit purposes, secondments or valuation advice. Services which are in the nature of audit such as tax compliance, tax structuring, accounting advice, quarterly reviews and disclosure advice are normally permitted but should be pre-approved where fees in a year are likely to be above £25,000.

The audit and non-audit fees proposed by the Independent Auditor each year are reviewed by the Committee taking into account the Company's structure, operations and other requirements during the year and, having considered these proposals, the Committee makes recommendations to the Board.

The recent revisions to the UK Corporate Governance Code introduced a recommendation that the independent audit of FTSE 350 companies be put out to tender every 10 years. The Audit Committee has noted this recommendation and will develop a plan for tendering at the appropriate time.

Deloitte LLP ("Deloitte") has been the Independent Auditor from the date of the initial listing on the LSE. David Becker is the lead audit partner and opinion signatory, and has been the lead audit partner for four financial years. At the Group's Annual General Meeting on 6 September 2016, Deloitte was re-appointed as Independent Auditor for the ensuing year.

### Key evaluations during the year

As a result of the adoption of IFRS 10: Investment Entities Amendment the Group has two investments, both of which are valued at respective Net Asset Values.

The Company makes its funds investments through Syncona Investments LP Incorporated (the "Partnership"), in which the Company is the sole limited partner. The general partner of the Partnership is Syncona GP Limited (the "General Partner"), a wholly-owned subsidiary of the Company. The Partnership also invests in Syncona Discovery Limited, a wholly-owned subsidiary of the Partnership.

The Company makes its life science investments through Syncona Holdings Limited (the "Holding Company") (incorporated 24 November 2016) and Syncona Portfolio Limited (incorporated 24 November 2016). Syncona Portfolio Limited is a wholly-owned subsidiary of the Holding Company.

The following significant matters considered during the year by the Audit Committee form a key part of the valuation of the Company's investments.

### 1. Significant Financial Statement matters

a. IFRS 10 Investment Entity Exception to Consolidation In the year, the Group expanded its investment policy, acquired

In the year, the Group expanded its investment policy, acquire Syncona Partners LLP and recruited Syncona Partners' investment team.

Given the expansion of the investment policy and associated transactions, there was a requirement to re-assess the status of Syncona Limited as an investment entity as defined under IFRS 10 – Consolidated Financial Statements ("IFRS 10"), and the requirement to consolidate underlying subsidiaries.

The accounting policies related to this risk can be found in note 1 of the financial statements.

There is a key judgement as to whether the Group has an exit strategy and therefore meets the definition of an investment entity under IFRS 10. Where a company meets the definition of an investment entity, this standard requires investments in subsidiaries themselves meeting these criteria to be held at fair value rather than consolidated.

The Audit Committee has considered the requirements of IFRS 10 as they apply to the Company as set out in note 3 of the financial statements and conclude that IFRS 10 is appropriate accounting for the Group.

### b. Valuation of life science portfolio

In the year the Group acquired a sizeable portfolio of life science investments and increased its limited partner interest in the CRT Pioneer Fund. In total the Group holds a life science portfolio with a fair value of £204.8 million through Syncona Holdings Limited ("the HoldCo") and its subsidiary, and £21.8 million through Syncona Discovery Limited.

These investments are valued at fair value through profit and loss in accordance with IFRS 13 'Fair Value Measurement' ("IFRS 13") and International Private Equity and Venture Capital ("IPEVC") guidelines. In accordance with the accounting policy in note 2, investments are generally valued either at cost, Price of Recent Investment (PRI) or through Discounted Cash Flow (DCF) models.

Details of the life science portfolio balance are disclosed in notes 8, 14, and 23 and the accounting policies relating to them are disclosed in note 2.

The Group fair values its interests in Syncona Holdings Limited and Syncona Discovery Limited which are themselves based on the fair value of underlying investments and other assets and liabilities. The risk exists that the pricing methodology applied to the underlying investments in the life science portfolio does not reflect an exit price in accordance with IFRS 13 and IPEVC guidelines.

The Audit Committee considers the valuation of these investments to be reasonable from discussions with the Investment Manager, Investment Advisor and independent valuation expert. The valuation of the life science portfolio is undertaken in accordance with the accounting policies disclosed in note 2 and is reviewed regularly by the Investment Manager, Investment Advisor and the Board.

### c. Valuation of the funds portfolio

The most significant financial asset at fair value through profit or loss recognised by the Group at the year end is represented by a controlling capital interest in Syncona Investments LP Incorporated ("the LP"), which is valued at £690.7 million (2016: £472.3 million) in the Consolidated Statement of Financial Position.

The LP acts as the investment vehicle through which the Group holds its portfolio of fund investments. As described in note 3 to the financial statements, the LP meets the definition of an investment entity under IFRS 10, and as such is held at fair value through profit or loss rather than being consolidated.

The fair value of the investment portfolio of the LP at year end is £604.2 million (2016: £460.4 million) and represents 87.5 per cent (2016: 97.5 per cent) of the fair value of the Group's investment in the LP with the remainder held in cash.

Details of the investments' balances are disclosed in notes 8, 14, and 23 and the accounting policies relating to them are disclosed in note 2.

The risk exists that the pricing methodology applied by the LP does not reflect the actual exit price of those investments at the year-end in accordance with IFRS 13 'Fair Value Measurement' ("IFRS 13") and International Private Equity and Venture Capital ("IPEVC") valuation guidelines. The Audit Committee considered the valuation of these investments to be reasonable from discussions with the Investment Manager, Administrator and Custodian. The valuation of the funds portfolio is undertaken in accordance with the accounting policies disclosed in note 2 and is reviewed regularly by the Investment Manager and the Board.

### 2. Effectiveness of the external audit

The Committee held formal and informal meetings with Deloitte during the course of the year: 1) before the start of the annual audit to discuss formal planning, discuss any potential issues and to agree the scope that would be covered; 2) after the annual audit work was concluded to discuss any significant issues; and 3) to consider and discuss the interim condensed consolidated financial statements. The Committee performed the following in relation to its review of the effectiveness and independence of the Independent Auditor.

- Reviewed the audit plan presented to the Committee before the start of the audit;
- Reviewed the audit findings report;
- Monitored changes to audit personnel;
- Discussed with the Investment Manager, Investment Advisor and the Administrator any feedback on the audit process;
- Reviewed and approved the terms of engagement during the year, including review of the scope and related fees; and
- Reviewed and discussed Deloitte's own internal procedures and conclusion on its independence.

Further to the above, the Committee performs a specific evaluation of the performance of the Independent Auditor. This is supported by the results of questionnaires completed by the Committee covering areas such as the quality of the audit team, business understanding, audit approach and management.

There were no significant adverse findings from the evaluation this year and the Committee is satisfied that the audit process is effective.

### 3. Audit fees and safeguards of non-audit services

The table below summarises the remuneration paid by the Group to Deloitte for audit and non-audit services provided:

	31 March 2017 £'000	31 March 2016 £'000
Audit services		
Audit services	87	30
Audit fee for wholly owned Group companies	30	24
Reporting Accountant Services <sup>1</sup>	105	-
Non-audit services		
Interim review	14	14
Tax Services	7	5
UK Corporate tax return for Syncona		
Discovery Limited	-	2

1 Accounting services in connection with the December 2016 transaction.

The annual budget for both the audit and non-audit related services was presented to the Committee for consideration and recommendation to the Board.

The Committee does not consider that the provision of these non-audit services is a threat to the objectivity and independence of the audit. Where non-audit services were performed, the fees were insignificant to the Group as a whole and when required a separate team was utilised. Further, the Committee has obtained Deloitte's confirmation that the other services provided do not prejudice its independence.

### 4. Internal control

The Committee has examined the need for an internal audit function. The Committee considered that the systems and procedures employed by the Investment Manager, Investment Advisor and the Administrator, including any internal audit functions, provided sufficient assurance that a sound system of internal control, which safeguards the Company's assets, has been maintained. An internal audit function specific to the Company is therefore considered unnecessary.

The Committee received an externally prepared assessment of the control environment in place at the Administrator who provided a Service Organisation Control ("SOC1") report. In addition, the Committee and the Board have received presentations from the Investment Manager and Investment Advisor regarding their operations and controls. With the expansion of the Company's investment policy during the year, the parameters within which the funds portfolio operates have changed. Accordingly, the investment processes for the funds portfolio were reviewed and updated to reflect the changed parameters, where necessary.

### 5. Risk management

The Audit Committee continued to consider the process for managing the risk of the Group and its service providers. Risk management procedures for the Group, as detailed in the Group's risk assessment matrix, were reviewed and approved by the Audit Committee. During the year, the Company expanded its investment policy to include investment in early-stage life science companies. Accordingly, the principal risks and uncertainties have been updated to reflect new risks associated with the financing of and investment in early-stage companies. Further details can be found on pages 41 to 45.

### **Conclusion and recommendation**

After reviewing various reports such as performance reports from the Investment Manager and Investment Advisor, compliance reports from the Administrator, engaging where necessary with Deloitte, and assessing the significant Financial Statement matters listed on page 57, the Committee is satisfied that the Consolidated Financial Statements appropriately address the critical judgements and key estimates in respect to the amounts reported and the disclosures. The Committee is also satisfied that the significant assumptions used for determining the value of assets and liabilities have been appropriately scrutinised, challenged and are sufficiently robust. The Committee further concludes that the Consolidated Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

The Independent Auditor reported to the Committee that no material misstatements were found in the course of its work. Furthermore, the Investment Manager, Investment Advisor and the Administrator confirmed to the Committee that they were not aware of any material misstatements including matters relating to the presentation of the Consolidated Financial Statements. The Committee confirms that it is satisfied that the Independent Auditor has fulfilled its responsibilities with diligence and has acted independently on the work undertaken on behalf of the Group. The Committee has further recommended that Deloitte be reappointed for the next financial year.

A member of the Committee attends each Annual General Meeting to respond to any questions on matters not addressed in the foregoing.

Nicholas Moss

Audit Committee Chairman

5 July 2017

# **Directors' remuneration report**

### Statement from the Chairman of the Board

I am pleased to introduce the Remuneration Report for the financial year from 1 April 2016 to 31 March 2017.

### **Developments during the year**

As further described in the Chairman's statement on page 2, during the year:

- Shareholders approved the expansion of the Company's investment policy to permit it to make life science investments in addition to its existing commitment to the CRT Pioneer Fund.
- As part of this transaction, the Company acquired Syncona Partners LLP ('SPLLP') from the Wellcome Trust and increased its partnership interest in the CRT Pioneer Fund to 64.1 per cent by acquiring Cancer Research Technology's limited partnership interest and issued £357.1 million of shares to new and existing shareholders.
- At the same time, the investment management team of SPLLP moved to become employees of Syncona Investment Management Limited ('SIML'), a company indirectly wholly owned by the Company.
- At the Extraordinary General Meeting in December 2016, shareholders approved the terms of the Syncona Long Term Incentive Plan for employees of SIML.

With the expansion of the Company's investment policy, the acquisition of SPLLP and creation of SIML, the Company will be establishing a Remuneration Committee to, inter alia, decide on the level of fees paid to Non-Executive Directors and review the operation of and approve awards made under the Syncona Long Term Incentive Plan. Until such time as a Remuneration Committee is established, the Board as a whole is responsible for deciding the level of fees paid to the Non-Executive Directors and Chairman and the operation of the Syncona Long Term Incentive Plan.

### **Remuneration Policy for Non-Executive Directors**

The Company has no employees. A resolution to approve the Company's Remuneration Policy for Non-Executive Directors will be proposed at the Annual General Meeting of the Company to be held on 8 September 2017.

The policy takes into consideration the principles of the UK Code and is materially unchanged from the policy that the Company has adopted since it listed in 2012. No shareholder views were sought in setting the Remuneration Policy, although any comments received from shareholders will be considered on an ongoing basis. Details of the Remuneration Policy can be found on page 62.

### Report on remuneration implementation

Although the Company is not subject to the laws of England and Wales, this report is prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The Directors have chosen not to include a chart of Total Shareholder Return, which is required by paragraph 18 of Schedule 8, as they are voluntarily adopting the Regulations.

### **Directors' emoluments**

For the year ended 31 March 2017, each of the Directors is entitled to receive a fee of £25,000 per annum, except for the Chairman who is entitled to receive a fee of £40,000 per annum and the Chairman of the Audit Committee who is entitled to a fee of £30,000 per annum. Mr Henderson continues to waive his right to receive such fees.

Nigel Keen is Chairman of SIML and receives a fee of £125,000 per annum, payable by SIML, in respect of his services to SIML. None of the Directors has any entitlement to taxable benefits, pensions or pension related benefits, medical or life insurance schemes, share options, long-term incentive plan, or performance related payments. No Director is entitled to any other monetary payment or assets of the Company except in their capacity (where applicable) as shareholders of the Company. Accordingly the table overleaf does not include columns for these items or their monetary equivalents.

Directors' and Officers' insurance is maintained and paid for by the Company on behalf of the Directors.

In line with market practice the Company has undertaken, subject to the Companies Law and certain limitations, to indemnify each Director out of the assets and profits of the Company against certain charges, losses, damages, expenses and liabilities arising out of any claims made against him in connection with the performance of his or her duties as a Director of the Company. The indemnities would also provide financial support from the Company should the level of cover provided by the Directors' and Officers' insurance maintained by the Company be exhausted.

The Directors' interests in contractual arrangements with the Company are as shown in the Directors' remuneration report. Except as noted in the Directors' Report, no Director was interested in any contracts with the Company during the period or subsequently.

### Single total figure table (audited information)

For the year to 31 March 2017, the fees for Directors were as follows:

	31 March 2017 £'000	31 March 2016 £'000
Jeremy Tigue (Chairman) <sup>1</sup>	10	_
Arabella Cecil <sup>2</sup>	_	_
Colin Maltby <sup>3</sup>	8	20
Ellen Strahlman <sup>4</sup>	7	_
Jon Moulton <sup>5</sup>	_	9
Martin Thomas <sup>6</sup>	_	19
Nicholas Moss <sup>7</sup>	30	20
Nigel Keen <sup>4,8</sup>	7	_
Peter Hames	25	20
Thomas Henderson	-	_
Total	87	88

- Jeremy Tigue waived his right to Directors' fees until 31 December 2016.
  Arabella Cecil was appointed to the Board on 9 September 2015
- and resigned on 19 December 2016.

  3 Colin Maltby resigned from the Board on 31 July 2016.
- 4 Nigel Keen and Ellen Strahlman were appointed to the Board on 19 December 2016.
- Jon Moulton resigned from the Board on 9 September 2015.
- Martin Thomas resigned from the Board on 18 March 2016.
- 7 Fees were paid to Virtus Management Limited, a company formerly controlled by Nicholas Moss.
- 8 Fees were paid to Imperialise Limited, a company controlled by Nigel Keen.

No payments to Directors for loss of office have been made in the year.

No payments to past Directors have been made in the year.

### Relative importance of spend on pay

The table below shows the proportion of the Company's Directors fees relative to returns to shareholders. For the years ended 31 March 2017 and 31 March 2016 this table includes Directors only as the Company did not have any other staff.

	For the year ended 31 March 2017 £'000	For the year ended 31 March 2016 £'000	Difference
Total Directors' pay <sup>1</sup>	87	88	(1)
Dividends	8,463	8,040	423
Directors' pay as a % of distributions to shareholders	1.0	1.1	(0.1)

<sup>1</sup> Including Directors' fees.

### Results of the voting at the 2016 AGM

At the 2016 AGM shareholders approved the remuneration report that was published in the 2016 Annual Report and Accounts.

The results for this vote are shown below:

Resolution	Votes for	Votes against	Abstain	Discretion
Approval of the Directors' remuneration report at the 2016 AGM	116,498,207	_	3,390	9,176

An ordinary resolution for the approval of the annual remuneration report will be put to the shareholders at the Annual General Meeting to be held on 8 September 2017.

# Statement of Directors' shareholding and share interests (audited information)

Neither the Company's Articles of Association nor the Directors' Letters of Appointment require a Director to own shares in the Company. The interests of the Directors and their connected persons in the equity securities of the Company at 31 March 2017 are shown in the table below.

	Ordinary shares	
	31 March 2017	31 March 2016
Jeremy Tigue (Chairman)	467,307	348,871
Peter Hames	93,459	69,773
Thomas Henderson <sup>1</sup>	12,042,400	11,742,400
Nigel Keen	-	_
Nicholas Moss	20,092	15,000
Ellen Strahlman	-	_

1 Shares held by Farla Limited, a company controlled by Thomas Henderson.

There have been no changes in the interests of the Directors and their connected persons in the equity securities of the Company since 31 March 2017.

In addition to Thomas Henderson, members of the team of the Investment Manager and Investment Advisor hold 1,811,673 shares in the Company.

### **Service contracts**

None of the Directors has a service contract with the Company. Non-Executive Directors are engaged under Letters of Appointment.

Copies of the Directors' Letters of Appointment are available for inspection at the Company's Registered Office.

### Loss of office

Directors' Letters of Appointment expressly prohibit any entitlement to payment on loss of office.

# Statement of consideration of conditions elsewhere in the Company

As the Company has no employees, the process of consulting with employees on the setting of the Remuneration Policy is not relevant.

#### **Recruitment remuneration principles**

- The remuneration package for any new Chairman or Non-Executive Director will be the same as the prevailing rates determined on the bases set out in the Remuneration Policy. The fees and entitlement to reclaim reasonable expenses will be set out in Directors' Letters of Appointment.
- 2. The Board will not pay any introductory fee or incentive to any person to encourage them to become a Director, but may pay the fees of search and selection specialists in connection with the appointment of any new Non-Executive Director.
- 3. The Company intends to appoint only Non-Executive Directors for the foreseeable future.
- 4. The maximum aggregate fees currently payable to all Non-Executive Directors are £500,000.

## Statement of consideration of employment conditions within SIML

The remuneration approach within SIML ensures that there is alignment with business strategy and shareholder returns. When conducting the annual salary review for all employees, account is taken of the external market and individual performance.

The policy and components of current remuneration in respect of SIML are as follows:

#### Base salary

Base salaries are based on market data provided by the Company's independent advisers. Base salaries are reviewed annually on 1 April.

#### Pension

SIML makes contributions for eligible employees into a SIML personal pension plan to a maximum of 10 per cent of base salary.

#### **Annual bonus**

A discretionary annual bonus may be awarded to recognise individual performance. An award will take into account three factors: the underlying performance of the Company, the underlying life science portfolio return and the individual's performance. Bonus payments are not pensionable.

#### **Long Term Incentive Plan**

The Company operates the Syncona Long Term Incentive Plan for employees of SIML. Employees of SIML are awarded Management Equity Shares ('MES') in Syncona Holdings Limited ('SHL') at nil par value. The MES entitle holders to share in the growth of the Net Asset Value of the life science portfolio as further described in note 17 of the Consolidated Financial Statements and vest on a straight line basis over a four year period. Holders are able to realise 25 per cent of their vested MES annually after the publication of the Company's annual report provided that the Net Asset Value of the life science portfolio, excluding the interest in the CRT Pioneer Fund, has grown by at least 15 per cent from the date of issue of the MES concerned. MES are realised 50 per cent in cash and 50 per cent in the shares of Syncona Limited which must normally be held for at least 12 months. The first anniversary of the vesting of the MES awards is in December 2017.

#### **Share dilution limits**

The aggregate number of new Ordinary Shares which may be issued on the realisation of MES under the Syncona Long Term Incentive Plan in any 10 year period may not exceed 10 per cent of the number of Ordinary Shares in issue from time to time. At 31 March 2017 and assuming the satisfaction of all performance conditions, the total number of the Company's shares issuable under awards made under the Syncona Long Term Incentive Plan would have been 1,087,495, or 0.2 per cent of the number of Ordinary Shares in issue at that date.

#### Other benefits

These include private medical insurance, income protection and life cover.

#### Share interests

Members of the SIML team are encouraged to build up an interest in the Company's shares, but are not subject to a formal shareholding guideline.

#### **Remuneration Policy**

This Policy provides details of the Remuneration Policy for the Non-Executive Directors of the Company. All Directors are appointed under the terms of Letters of Appointment, and none has a service contract. The Company has no employees.

A resolution to approve the Company's Remuneration Policy will be proposed at the Annual General Meeting of the Company to be held on 8 September 2017. If the resolution is passed, the Remuneration Policy provisions set out below will apply from the date of approval until they are next put to shareholders for renewal of that approval, which must be at intervals of not more than three years, or if it is proposed to vary the Remuneration Policy, in which event shareholder approval for the new Remuneration Policy will be sought.

The Board has the power at any time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. There shall be no maximum number of Directors unless otherwise determined by the Company by Ordinary Resolution. Any Director so appointed shall hold office only until the next following Annual General Meeting and shall then be eligible for re-election.

The Directors are non-executive and their fees are set within the limits of the Company's Articles of Association. The level of cap

may be increased by shareholder resolution from time to time. The Board currently has no intention to appoint any executive directors who will be paid by the Company.

#### **Non-Executive Directors' Remuneration Policy**

The Non-Executive Directors of the Company are entitled to such rates of annual fees as the Board at its discretion shall from time to time determine (subject to the aggregate annual fees not exceeding £500,000) and reimbursement of reasonable fees and expenses incurred by them in the performance of their duties. Non-Executive Directors have no entitlement to pensions or pension-related benefits, medical or life insurance schemes, share options, long-term incentive plans or performance-related payments. Where expenses are recognised as a taxable benefit, a Non-Executive Director may receive the grossed-up costs of that expense as a benefit.

In line with the majority of investment companies, no component of any Director's remuneration is subject to performance factors.

There are no provisions in Directors' Letters of Appointment for recovery or withholding of fees or expenses. Annual fees are pro-rated where a change takes place during a financial year.

#### Table of Directors' remuneration components (Non-Executive Directors)

Element	Purpose and link to strategy	Operation	Maximum
Board Chairman fee	To attract and retain a high-calibre Board Chairman by offering a market competitive fee level.	The Board Chairman is paid a single fee for all his responsibilities. The level of the fee is reviewed periodically by the Remuneration Committee <sup>1</sup> , with reference to workload, time commitment and market levels in comparably sized investment companies, and a recommendation is then made to the Board (without the Chairman being present).	The fees paid to the Chairman are subject to change periodically by the Remuneration Committee under this policy. There is no maximum fee level.
Non-Executive Director fees	To attract and retain high-calibre Non-Executive Directors by offering a market competitive fee level.	The Non-Executives are paid a basic fee. The fee levels are reviewed periodically by the Chairman and the Remuneration Committee', with reference to workload, time commitment and market levels in comparably sized investment companies and a recommendation is then made to the Board. Additional fees may be paid for Non-Executive roles with further Board responsibilities such as Audit Committee Chairman.	These fee levels are subject to change periodically under this policy. There is no maximum fee level.

<sup>1</sup> The Company will be establishing a Remuneration Committee during the course of 2017.

#### **Notes**

- The Board only exercises its discretion in setting rates of fees after an analysis of fees paid to Directors of other companies having similar profiles to that of the Company, and consultation with third-party advisers.
- The Company has no employees. Accordingly, there are no differences in policy on the remuneration of Directors and the remuneration of employees.
- No Director is entitled to receive any remuneration from the Company which is performance-related. As a result there are no performance conditions
  in relation to any elements of the Directors' remuneration in existence to set out in this Remuneration Policy.

#### **Review of the Remuneration Policy**

The Remuneration Policy for Directors is consistent with the policy adopted by the Company since its inception.

The Board has agreed that there would be a formal review before any material change to Remuneration Policy; and at least once a year the Remuneration Policy would be reviewed to ensure that it remained appropriate.

#### **Approval**

This remuneration report has been approved by the Board of Directors.

On behalf of the Board by:

Jeen Tig.

**Jeremy Tigue** Chairman

5 July 2017

## **Directors' report**

The Directors present their Annual Report and Audited Consolidated Financial Statements for the year ended 31 March 2017 which have been properly prepared in accordance with The Companies (Guernsey) Law, 2008.

#### **Principal activity**

The Company is a Guernsey authorised closed ended investment company listed on the Premium Segment of the London Stock Exchange.

The Company is governed by an independent Board of directors and has no employees. Its investment activities are outsourced to BACIT (UK) Limited and its company secretarial and administrative functions are outsourced to Northern Trust (Guernsey) Limited. Further details on the Company's investment activities, Investment Manager and Investment Advisor are described in more detail below.

#### **Investment Objective and Policy**

At the Extraordinary General Meeting ("EGM") held on 14 December 2016, shareholders of the Company approved the expansion of the Company's investment objective and policy.

The Company's investment objective is to achieve superior long-term capital appreciation from its investments.

The Company may invest in:

- life science businesses (including private and quoted companies) and single asset projects ('Life Science Investments'); and
- leading long-only and alternative investment funds and managed accounts across multiple asset classes ('Fund Investments').

The Company will target an annualised return per share across its investment portfolio of 15 per cent. per annum over the long term.

The Company is not required to allocate a specific percentage of its assets to Life Science Investments or Fund Investments although, over time, it is intended that the Company should invest the significant majority of its assets in Life Science Investments. The Company anticipates that it will, in general, invest available cash in Fund Investments and realise those investments as and when finance is required for its Life Science Investments.

#### **Life Science Investments**

Life Science Investments will principally be privately owned businesses or single asset opportunities, together with the Company's investment in the Pioneer Fund.

The Company anticipates that its Life Science Investment businesses will primarily be headquartered in the United Kingdom and, to a lesser extent, continental Europe, although some may have operations elsewhere in the world and may market and commercialise their products on a global basis.

The Company anticipates that, over time, its Life Science Investments portfolio will consist of around 20 life science opportunities, of which three to five are likely to become significant core holdings. The Company will invest further in its existing portfolio of Life Science Investments and will seek to create further opportunities by founding new businesses to commercialise academic science.

The Company will seek to create and invest in new or existing Life Science Investment businesses or opportunities with a view to long-term ownership, to support the building of companies that are capable of taking their products to market on an independent basis and therefore to build sustainable, revenue-generating businesses. However, the Company may selectively divest companies in part or in full where such divestment delivers a financial return beyond the value that the Company could create alone.

The Company will commit at least 25 per cent. of the assets that it commits to Life Science Investments to oncology projects or Life Science Investment businesses with a sole or dominant focus on oncology.

The Life Science Investment portfolio is subject to the following diversification requirements, measured at the time of investment:

- no more than 25 per cent. of the Company's gross assets may be invested in any single Life Science Investment; and
- no more than 15 per cent. of the Company's gross assets may be invested in quoted companies, disregarding for these purposes any investments which have become quoted companies during their ownership by the Company.

#### **Fund Investments**

The Company may make Fund Investments in long-only funds, hedge funds, private equity funds, infrastructure funds, credit and fixed income and real estate funds. The Company may make Fund Investments on a global basis, including in funds that invest in emerging markets. The Company may also make short-term investments in short-term deposits or investments that are readily realisable pending investment in longer-term opportunities.

The composition of the Fund Investments portfolio will vary over time, depending on the aggregate amount of the Company's gross assets that are allocated to it, but for the foreseeable future, the Company intends to hold at least 15 Fund Investments.

The Fund Investments portfolio is subject to the following diversification requirements, measured at the time of investment:

- no more than 20 per cent. of the Company's gross assets may be invested in any single fund or managed account;
- no more than 30 per cent. of the Company's gross assets may be invested with a single investment manager;
- no more than 50 per cent. of the Company's gross assets may be invested in funds or managed accounts pursuing any single investment strategy (defined for these purposes as event-driven, merger arbitrage, convertible arbitrage, emerging markets, fixed income, credit, distressed, macro, multi-strategy, relative value and systematic strategies); and
- no more than 80 per cent. of the Company's gross assets may be invested in any single asset class (defined for these purposes as long-only equity funds, long-only fixed income and credit funds, hedge funds, private equity funds and real estate funds, infrastructure funds and other asset classes not included in any of the foregoing).

Fund Investments may follow a wide range of investment policies and strategies and may be permitted to borrow and invest in long and short positions in quoted and unquoted equities, fixed income securities, options, warrants, futures, commodities, currency forwards, over the counter derivative instruments (such as swaps), securities that lack active public markets, private securities, repurchase agreements, preferred stocks, convertible bonds and other financial instruments or real estate as well as cash and cash equivalents.

Where feasible, the Company will endeavour (but is not required) to make Fund Investments in cases where the relevant investment manager provides investment capacity on a "gross return" basis, meaning that the Company does not bear the impact of management or performance fees on the relevant investment. This may be achieved by the relevant manager or fund agreeing with the Company not to charge management or performance fees, by rebating or donating back to the Company any management or performance fees charged or otherwise arranging for the Company to be directly or indirectly compensated so as effectively to increase its investment return on the relevant investment by the amount of any such fees. Depending on their specific terms, arrangements under which the Company receives a rebate, donation or other retrocession, compensation or payment in respect of fees payable in relation to an investment may mean that the investment returns actually received by the Company are not identical to those that would have been received had no fees been charged. However, any such differences are not expected to be material.

#### **Investment restrictions**

The Company will not make any direct investment in any tobacco company and has agreed with (a) The Institute of Cancer Research (the 'ICR') not knowingly to make any investment which contravenes the tobacco restriction contained in the investment policy of the ICR and (b) Cancer Research UK not knowingly to make or continue to hold any investments in the Fund Investment portfolio which would result in exposure to tobacco companies exceeding one per cent. of the aggregate value of the Fund Investment portfolio from time to time.

#### **Annual charitable donation**

The Company is required to make a charitable donation, in arrears, equal to one-twelfth of 0.3 per cent. of its total net asset value at each month-end during the relevant financial year. Half is donated to the ICR and half donated to The BACIT Foundation for onward distribution among other charities in proportions which are determined each year by shareholders.

The Company will bring forward charitable donations for future years with the effect of maintaining the amount of charitable donations for 2016 to 2017 and 2017 to 2018 at a level equal to the amount donated in 2015 to 2016. Any excess amount paid by the Company in those two years will be recovered from the charitable donations for future years which will be equal to the lower of (i) 0.3 per cent of its net asset value and (ii) the actual amount donated in 2015 to 2016, until such time as any excess amounts have been recovered in full.

Further details of the Company's charitable donations can be found in the Company's Corporate Social Responsibility report on page 46.

#### Indebtedness and other investment limitations

The Group may incur indebtedness for the purpose of financing share repurchases or redemptions, satisfying working capital requirements or to assist in payment of the annual charitable donation, up to a maximum of 20 per cent. of the Company's net asset value at the time of incurrence.

Any decision to incur indebtedness for the purpose of servicing any awards under the Group's long term incentive plan must be approved by the Board. Any other decision to incur indebtedness may be taken by the Management Team within such parameters as are approved by the Board from time to time. There are no limitations on indebtedness being incurred at the level of the Company's underlying investments.

The Company does not propose to enter into any securities or derivative hedging or other derivative arrangements other than those that may from time to time be considered appropriate for the purposes of efficient portfolio management and will not enter into such arrangements for investment purposes, although there are no limitations on such arrangements being entered into at the level of the Company's underlying investments.

#### **Results and dividends**

The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 76. During the year ended 31 March 2017, the Company declared a dividend of £8.5 million (31 March 2016: £8.0 million) relating to the year ended 31 March 2016. The dividend was comprised of £6.7 million (31 March 2016: £5.8 million) cash and a scrip dividend of £1.8 million (31 March 2016; £2.2 million). Further details can be found in note 6 of the Consolidated Financial Statements.

#### Share Buyback Facility

The Company has the authority, subject to various terms as set out in its Articles and in accordance with The Companies (Guernsey) Law, 2008, to acquire up to 14.99 per cent. of the shares in issue. The Company intends to renew this authority annually. The Directors have no current intention to utilise this authority.

#### **Annual General Meeting**

The AGM will be held at Trafalgar Court, Les Banques, St Peter Port, Guernsey on 8 September 2017 at 10:30am. Details of the resolutions to be proposed at the AGM, together with explanations, appear in the Notice of Annual General Meeting sent to shareholders separately.

#### **Directors**

In accordance with the Company's Articles of Association and the Company's policy on tenure outlined on page 53, Jeremy Tigue, Thomas Henderson, Nicholas Moss, Nigel Keen and Ellen Strahlman will offer themselves for re-election at the forthcoming Annual General Meeting. Peter Hames will be stepping down from the Board at the Annual General Meeting.

The Board recommends that shareholders support the re-election of these Directors who continue to demonstrate commitment to their roles and provide valuable contributions to the deliberations of the Board and its Committees.

Information on the independence of the Directors is contained on page 53.

Biographical details of all current Directors may be found on pages 50 and 51.

#### **Investment Manager**

The investment portfolio is managed by BACIT (UK) Limited (the 'Investment Manager' or 'BACIT UK'), which is independent of the Company and regulated by the Financial Conduct Authority.

As part of the expansion of the Company's investment policy and the acquisition of Syncona Partners LLP in December 2016, the Company has reconfigured its investment management arrangements by the recruitment of the investment management team of Syncona Partners. These investment management personnel are now employed by Syncona Investment Management Limited ('SIML'), which is indirectly wholly owned by the Company. BACIT UK will remain as the Company's Alternative Investment Fund Manager ('AIFM') until SIML receives regulatory authorisation from the FCA to act as the Company's AIFM. An application by SIML to the FCA has been made. In the meantime, the Company's investment management arrangements have been structured so that BACIT UK has investment discretion over the Company's entire investment portfolio. Once SIML is authorised as the Company's AIFM, BACIT UK will become a sub-adviser to SIML in respect of the Company's Fund Investment portfolio and keep discretion as to the allocation of that portfolio to specific Fund Investments. BACIT UK will not, however, from that point have any role regarding the life science portfolio nor will it decide what proportion of the Company's assets are allocated to Life Science Investments or Fund Investments.

In order to provide a longer-term incentive for the investment management team of the Investment Manager (especially following the appointment of SIML as the Company's AIFM) and to ensure continuity for the underlying managers who provide the Company with "fee free" access to their funds, the investment management agreement with BACIT UK ('BACIT UK Agreement') was amended on 28 November 2016 and following shareholders' approval on 14 December 2016, the amended agreement was made effective with the following terms:

- the BACIT UK Agreement will have an initial fixed term of five years from the date which is the last day of the month during which the Implementation Date occurs (the 'Start Date') (the 'First Period'); and
- at the expiry of the First Period, the BACIT UK Agreement will continue for a further five years and terminate on the date that is 10 years from the Start Date (the 'Second Period') provided that, over the First Period, the Fund Investment portfolio has achieved a time weighted return equal to (a) at least 70 per cent of the upside return or (b) no worse than 40 per cent of the downside return generated by the FTSE All-Share Index over the First Period (assuming reinvestment of all dividends).

The BACIT UK Agreement will not automatically renew at the end of the Second Period. Otherwise, the BACIT UK Agreement will not be terminable by the Company during the First Period or Second Period other than for certain cause events or with the agreement of BACIT UK.

The fees payable to BACIT UK under the revised Agreement are as follows:

- 0.19 per cent of the Company's NAV per annum for the first period; and
- 0.15 per cent of the Company's NAV per annum for the second period.

The Company will pay SIML an annual fee of up to one per cent per annum of the Company's NAV.

Full details were set out in the Circular dated 28 November 2016 which is available on the Company's website.

#### International tax reporting

For the purposes of the US Foreign Account Tax Compliance Act ('FATCA'), the Company registered with the US Internal Revenue Services ('IRS') as a Guernsey reporting Foreign Financial Institution ('FFI'), received a Global Intermediary Identification Number (WPC4ID.99999.SL.831) and can be found on the IRS FFI list.

The Common Reporting Standard ('CRS') is a global standard for the automatic exchange of financial account information developed by the Organisation for Economic Co-operation and Development ('OECD'), which has been adopted by Guernsey and which came into effect on 1 January 2016. The CRS replaced the intergovernmental agreement between the UK and Guernsey to improve international tax compliance that had previously applied in respect of 2014 and 2015.

The Board has taken the necessary action to ensure that the Company is compliant with Guernsey regulations and guidance in this regard.

#### **BACIT Foundation**

As discussed in the Company's investment objectives and policy, one-twelfth of 0.3 per cent of the total NAV of the Company at each month-end during the year is donated annually by the Company to charity, with half donated to the ICR and half donated to The BACIT Foundation for onward distribution among other charities in proportions which are determined each year by the shareholders. There is a formal process allowing the Board to scrutinise the list, and this has been duly conducted.

The BACIT Foundation's trustees consider carefully which charities to include on the list and ensure that the Company's shareholders, when given their opportunity to allocate the donation among charities, have an appropriate range to choose from.

Thomas Henderson is a Trustee of The BACIT Foundation.

The charitable objects of The BACIT Foundation relate to the prevention, treatment, cure and ultimately eradication of cancer, but also cover diseases allied to cancer, and such other charitable objects and organisations as the Foundation may from time to time consider desirable. The trustees have considered a number of requests for funding that have been received. These applications have been predominantly received from charities associated with cancer in all of its forms, and that, too, has operated to inform the trustees' decision-making.

#### **Auditor**

The Company is required to appoint auditors for each financial year of the Company, to hold office until the conclusion of the next general meeting at which accounts are presented. Our Independent Auditor, Deloitte LLP, has indicated their willingness to remain in office and resolutions to reappoint them and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

#### **Provision of information to auditors**

As far as the Directors are aware, there is no relevant audit information of which the auditor is unaware and they have taken all steps they should have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

#### **Share capital**

As at 31 March 2017, the Company had 658,387,407 nil paid shares in issue. No shares were held in treasury. The total number of voting rights at 31 March 2017 was 658,387,407.

During the year, 272,248,622 shares were issued in connection with the expansion of the Company's investment policy and capital raising, as further described in the Chairman's statement on pages 2 and 3.

#### **Substantial share interests**

As at 30 June 2017, the Company has been notified of the following significant (5 per cent or more) direct or indirect holdings of securities in the Company:

Shareholder	Number of shares held	% of issued share capital held
The Wellcome Trust	243,461,685	37.0%

#### Rights attaching to shares

The Company has one class of shares, namely ordinary shares, with standard rights as to voting, dividends and payment on winding up and no special rights and obligations attaching to them. There are no material restrictions on transfers of shares.

Other than as disclosed above, the Company is not aware of any person who has a significant direct or indirect holding of securities in the Company. There are no restrictions on voting rights. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

The Board considers that all the resolutions to be put to the Annual General Meeting are in the best interests of the Company and its shareholders as a whole. Those Directors who are shareholders will be voting in favour of them and the Board unanimously recommends that you do so as well.

Signed on behalf of the Board

Jeremy Tigue

Chairman

**Nicholas Moss** 

Non-Executive Director

5 July 2017

## **Statement of Directors' responsibilities**

#### In respect of the Annual Report and audited Consolidated Financial Statements

The Directors are responsible for preparing the Annual Report and the Consolidated Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union.

Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with The Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Guernsey and the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### **Responsibility statement**

We confirm that to the best of our knowledge:

- the Financial Statements have been prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as a whole;
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy; and
- these financial statements include information and details in the Chairman's Statement, the Strategic Report, the Corporate Governance Statements, the Directors' Report and the notes to the Financial Statements, which provide a fair review of the information required by:
  - (a) DTR 4.1.8 of the Disclosure and Transparency Rules, being a fair review of the Company business and a description of the principal risks and uncertainties facing the Company; and
  - (b) DTR 4.1.11 of the Disclosure and Transparency Rules, being an indication of important events that have occurred since the end of the financial year and the likely future development of the Company.

**Jeremy Tigue** Chairman

5 July 2017

Nicholas Moss Non-Executive Director

## **Independent Auditor's report** to the members of Syncona Limited

#### Opinion on financial statements of Syncona Limited

In our opinion the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

The financial statements that we have audited comprise:

- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Changes in Net Assets Attributable to Holders of Ordinary Shares;
- the Consolidated Statement of Cash Flows; and
- the related notes 1 to 26.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

#### Summary of our audit approach

Key audit risks	The key risks that we identified in the current year were:  - IFRS 10 Investment Entity Exemption to Consolidation  - Valuation of Life Science Investments  - Valuation of Fund Investments	Within this report, any new risks are identified with and any risks which are the same as the prior year identified with .
Materiality	The materiality that we used in the current year was £17.2m (2016: £9.4m) which was determined on the basis of 2% of	Total net assets attributable to holders of Ordinary Shares ("NAV") (2016: 2% of NAV).
Scoping	As part of our audit planning we considered ISA 600 – Audits of Group Financial Statements, which covers the audit of components. We assessed each component based on qualitative and quantitative factors to pinpoint account balances, classes of transaction or disclosures that would require audit for the Group Financial Statements.	The Group engagement team carried out audit work on each of the underlying subsidiaries executed at levels of materiality applicable to each subsidiary, which in all instances was lower than Group materiality.
	Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level, encompassing all subsidiaries.	
Significant changes in our approach	In the year, the Group expanded its investment policy to permit it to make Life Science investments, in addition to its existing commitment to the CRT Pioneer Fund, which led to the acquisition of Syncona Partners LLP from the Wellcome Trust and the increase in the Group's investment in the CRT Pioneer Fund ('the December 2016 Transaction').	As a result of the December 2016 Transaction, the valuation of Life Science investments has been included as a new key audit risk. This is considered to be a risk due to these being early-stage life science businesses having limited products in development and therefore the risk exists that the fair value recorded may materially differ from the amount which could be realised.

#### Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within the Directors' statement on the longer-term viability of the Group contained within the Directors' Report on page 55.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 40 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity:
- the disclosures on pages 40 to 45 that describe those risks and explain how they are being managed
- the Directors' statement on page 55 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation on page 55 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

#### Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

#### Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

The Risk of Fraud in Revenue Recognition has been removed as a key risk within our audit report given the level of revenue earned in the current year was not material.

#### IFRS 10 Investment Entity Exemption to Consolidation



#### **Risk description**

Given the expansion of the investment policy as a result of the December 2016 Transaction, there was a requirement to re-assess the status of Syncona Limited as an investment entity as defined under IFRS 10 - Consolidated Financial Statements ("IFRS 10"), and the requirement to consolidate underlying subsidiaries.

The accounting policies related to this risk can be found in note 2 of the financial statements and Audit Committee Report on page 57.

There are a number of criteria to be satisfied in determining whether the Group meets the definition of an investment entity under IFRS 10, including whether the Group measures investments on a fair value basis and has a documented exit strategy. Where a company meets the definition of an investment entity, this standard requires investments in subsidiaries also meeting these criteria to be held at fair value rather than consolidated.

The risk is that the Group and its subsidiaries do not satisfy the required criteria and hence has applied the exemption inappropriately.

#### IFRS 10 Investment Entity Exemption to Consolidation continued

#### How the scope of our audit responded to the risk

In order to test the appropriate application of IFRS 10 we:

- Critically assessed the design and implementation of controls relating to the appropriateness of the application of IFRS 10:
- Challenged the Directors' assessment that the Group meets the definition of an investment entity against the criteria set out in the amendments to IFRS 10 by considering the evidence in support of this view

including reviewing supporting documentation that assessed whether the Group measures investments on a fair value basis and has a clear exit strategy for the underlying investments and other evidence set out in note 3 to the Financial Statements; and

- Considered the adequacy of the disclosures within the Financial Statements required by IFRS 10.

#### **Key observations**

We have concluded that the approach adopted by the Directors is consistent with the requirements of IFRS 10.

#### Valuation of Life Science Portfolio



#### Risk description

In the year the Group acquired a portfolio of Life Science investments and increased its Limited Partner interest in the CRT Pioneer Fund. In total the Group holds Life Science investments with a fair value of £204.8m through Syncona Holdings Limited ("the HoldCo"), and £21.8m through Syncona Discovery Limited held by Syncona Investments LP Incorporated ('Life Science Portfolio').

The Group fair values its interests in Syncona Holdings Limited and Syncona Investments LP Incorporated which are themselves based on the fair value of underlying investments and other assets and liabilities. The underlying investments are recorded at fair value through profit and loss in accordance with IFRS 13 'Fair Value Measurement' ("IFRS 13") and International Private Equity and Venture Capital ("IPEVC") guidelines.

The risk exists that the pricing methodology applied to the underlying Life Science investments does not reflect an exit price in accordance with IFRS 13 and IPEVC guidelines.

In accordance with the accounting policy on page 81, investments are generally valued either at cost, price of recent investment (PRI) or through other valuation techniques:

- Cost (£25.8m) - Where a Life Science investment has been made recently it is valued on a cost basis unless there is objective evidence there has been a movement in fair value since the investment was made.

- PRI (£70.6m) Fair value estimates, which are based entirely on observable market data, are of greater reliability than those based on assumptions and, accordingly, where there has been a recent investment by a third party, the price of that investment generally provides a basis of the valuation, unless there is objective evidence there has been a movement in fair value since the investment was made.
- Other valuation techniques (£108.4m) Where it is not appropriate to value an investment on a cost or PRI basis, or there is objective evidence that a movement in fair value has occurred since a relevant transaction, then the Directors employ one of the alternative methodologies set out in the IPEVC Valuation Guidelines such as a discounted cash flow ("DCF") approach or an earning based valuation based on comparable multiples.

As the valuation was prepared by the Investment Advisor, Syncona Investment Management Limited ("SIML") and adopted by BACIT (UK) Limited, the Board also commissioned an independent expert to opine on the reasonableness of the valuation.

Details of the Life Sciences Portfolio balance are disclosed in notes 8, 14, and 23 and the accounting policies relating to them are disclosed in note 2 and Audit Committee Report on page 57.

#### How the scope of our audit responded to the risk

In order to test the underlying Life Science investments as at 31 March 2017 we performed the following procedures:

- Critically assessed the design and implementation of controls relating to the valuation process applied by BACIT (UK) Limited and the monitoring and review by the board;
- Evaluated the Directors' methodology, against the requirements of IFRS 13 and IPEVC guidelines;
- Concluded on the experience of the Directors' valuation expert, as well as the scope of their work; and
- Reviewed the valuation performed by the Directors' valuation expert, and challenged the Directors where their valuation point falls materially outside of the range provided by the Directors' valuation expert.

For investments where cost or PRI are determined to be the best approximation of fair value in accordance with IFRS 13 we performed the following procedures:

 Obtained supporting documentation for amounts invested, to assess whether the cost recorded is accurate and to understand whether use of cost is a reasonable valuation basis:

- Reviewed agreements in place for the funding of the investments, in order to understand whether use of a PRI is a reasonable valuation basis:
- Inspected the latest financial information, board meeting minutes, investor reports, and other external information sources to assess whether cost or PRI remains the most representative valuation for that investment.

For investments where other valuation techniques are determined to be the best approximate of fair value in accordance with IFRS 13 we performed the following procedures:

- Challenged the Directors to understand the rationale where DCF modelling is used, in order to assess whether this is a reasonable valuation basis.
- Inspected the valuation model used, and challenged the key inputs used in the model using our Valuations Expert. This included benchmarking against broader market practice and sensitivity analysis on the inputs to the model.

#### Valuation of Life Science Investments continued

#### **Kev observations**

We concluded that the valuations were within a reasonable range and the methodology applied was appropriate in all material respects.

#### Valuation of Fund Investments -

#### **Risk description**

The most significant financial asset at fair value through profit or loss recognised by the Group at the year-end is represented by a controlling capital interest in Syncona Investments LP Incorporated ("the LP"), which is valued at £690.7m (2016: £472.3m) in the Consolidated Statement of Financial Position.

The LP acts as the investment vehicle through which the Group holds its portfolio of Fund investments. As described in note 2 to the financial statements, the LP meets the definition of an Investment Entity under IFRS 10, and as such is held at fair value through profit or loss rather than being consolidated.

The fair value of the fund investment portfolio of the LP at year end is £582.4m (2016: £460.4m) and represents 87.4% (2016: 97.5%) of the fair value of the Group's investment in

Details of the Fund investments balance are disclosed in notes 8, 14, and 23 and the accounting policies relating to them are disclosed in note 2 and Audit Committee Report on page 57.

The risk exists that the pricing methodology applied by the LP does not reflect the actual exit price of those investments at the year-end in accordance with IFRS 13 and IPEVC guidelines. The most significant judgements are made in the pricing methodology applied in valuing the level 3 investments held within these Funds.

#### How the scope of our audit responded to the risk

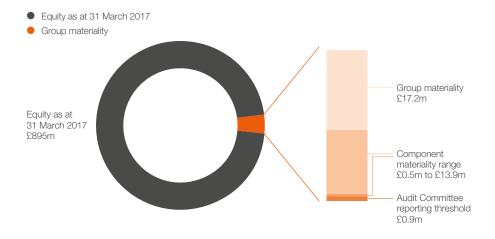
In order to test the valuation of the Fund investments as at 31 March 2017, we:

- Assessed the design and implementation of controls relating to the valuation of the Fund investments. This included reviewing the report prepared by the independent service auditor of the controls adopted by the LP's Administrator, Northern Trust International Fund Administration Services (Guernsey) Limited;
- Recalculated the year end fair value of 100% of the investment portfolio using independent pricing information. For unquoted investments, prices for the purpose of subscriptions and redemptions from the funds were sought from the Administrators of the underlying investee funds;
- Reviewed the valuation methodology applied to those investments classified as Level 3 within the fair value hierarchy under IFRS 13, and challenged the Directors as to whether the assumptions used in valuing the underlying funds were a relevant and reasonable basis for calculating the fair value of those investments at year end;
  - Inspected the due diligence processes performed by the Investment Manager, BACIT (UK) Limited, for a sample of investments:
- Inspected the latest available audited financial statements for each investment, where available, to determine whether prices reported by the investee funds' administrators were reconciled to prices reported on the date of these audited financial statements; and
- Recalculated the unrealised gains and losses on investments, based on original cost and year end fair value.

#### Key observations

We found that the pricing methodology applied was appropriate in all material respects.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



#### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£17.2m (2016: £9.4m)	
Basis for determining materiality	2% of NAV as at 31 March 2017 (2016: 2% of NAV)	
Rationale for the benchmark applied	The Group's investment objective is to achieve superior long-term capital appreciation from its investments.  We therefore considered the value of the Group's NAV to be a key performance indicator for shareholders.	The reason for the significant increase in materiality is due to the NAV of the Group increasing to £895.2m as at 31 March 2017 (2016: £472.2m) as a direct result of the December 2016 Transaction.

We agreed with the Audit Committee that we would report all audit differences in excess of  $\mathfrak{L}861$ k (2016:  $\mathfrak{L}188$ k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

#### An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level, encompassing all subsidiaries.

We carried out audit work on each of the underlying subsidiaries executed at levels of materiality applicable to each subsidiary, which in all instances was lower than Group materiality.

#### Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under The Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:	We have nothing to report in respect of these matters.
<ul> <li>we have not received all the information and explanations we require for our audit; or</li> <li>proper accounting records have not been kept by the parent company; or</li> <li>the financial statements are not in agreement with the accounting records.</li> </ul>	
Corporate Governance Statement Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.	We have nothing to report arising from our review.
Our duty to read other information in the Annual Report Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:	We confirm that we have not identified any such inconsistencies or misleading statements.
<ul> <li>materially inconsistent with the information in the audited financial statements; or</li> <li>apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or</li> <li>otherwise misleading.</li> </ul>	
In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.	

#### Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they 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). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Group's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### 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 Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report 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.

**David Becker (Senior statutory auditor)** 

for and on behalf of Deloitte LLP Recognised Auditor St Peter Port, Guernsey

5 July 2017

## **Group portfolio statement**

As at 31 March 2017

	Fair value	% of Group NAV
	£'000	2017
Life science portfolio		
Life science companies		
Blue Earth Diagnostics Limited	108,415	12.1
NightstaRx Limited	34,167	3.8
Autolus Limited	31,200	3.5
Freeline Therapeutics Limited	18,000	2.0
Underlying companies of less than 1% of NAV	12,948	1.5
Total life science companies <sup>1</sup>	204,730	22.9
CRT Pioneer Fund <sup>2</sup>	21,824	2.4
Total life science portfolio <sup>3</sup>	226,554	25.3
Funds portfolio		
Equity hedge funds		
Polygon European Equity Opportunity		
European event-driven equities (Long/Short)	41,765	4.7
Maga Smaller Companies UCITS	41,700	
European equities (Long/Short)	29,145	3.3
The S.W. Mitchell European Fund	20,140	0.0
European equities (Long/Short)	27,210	3.0
Tower Master Fund	21,210	0.0
South African listed equities (Long/Short)	24,457	2.7
Portland Hill	24,401	2.1
Event-driven equity investments (Long/Short)	21,646	2.4
Sagil Latin American Opportunities	21,040	2.7
Latin American equities (Long/Short)	11,700	1.3
Man GLG Pan-European Growth	11,700	1.0
European high growth equities (mandate permits short)	10,640	1.2
Doric Asia Pacific	10,040	1.2
Asia ex-Japan small caps (China, India, SE Asia, Korea) (Long/Short)	10,606	1.2
Polar UK Absolute Equity	10,000	1.2
UK equities	10,324	1.2
AKO Global UCITS	10,024	1.2
Fundamental equities (Long/Short)	9,420	1.1
Underlying funds of less than 1% of NAV	25,303	2.8
onderlying funds oness than 170 of two	222,216	24.8
Equity funds		
Polar Capital Japan Alpha		
Japanese large and mid-cap equities	36,648	4.1
The SFP Value Realization		
Small and mid-cap Japanese equities (mandate permits short)	32,968	3.7
Majedie UK Equity		
UK equities	32,172	3.6
Russian Prosperity		
Russian equities	16,161	1.8
Majedie UK Focus		
UK equities	10,734	1.2
Underlying funds of less than 1% of NAV	11,754	1.3
	140,437	15.7

	Fair value £'000	% of Group NAV 2017
Fixed income and credit funds		
Polygon Convertible Opportunity		
US and European convertible arbitrage	22,565	2.5
CG Portfolio Dollar		
US TIPs (inflation linked government bonds)	18,331	2.1
WyeTree European Recovery		
European residential mortgage-backed securities	17,133	1.9
WyeTree RRETRO		
US and EU subprime mortgage-backed securities	17,095	1.9
Underlying funds of less than 1% of NAV	12,747	1.4
	87,871	9.8
Global macro funds		
Parity Value		
Discretionary global macro (Long/Short)	34,683	3.9
Sinfonietta	04,000	0.0
Equities, rates, FX and commodities, with an Asian focus (Long/Short)	26,013	2.9
Seia Global Macro	20,010	
Discretionary global macro (Long/Short)	16,094	1.8
	76,790	8.6
Other strategies		
Permira V		
Private equity, mid to large cap European buyouts	19,948	2.2
Infracapital Partners II		
Private investments in European infrastructure	12,195	1.4
Underlying funds of less than 1% of NAV	2,287	0.3
	34,430	3.9
Commodity funds		
Cumulus	10.710	4.0
European, Australasian and US power; oil, natural gas, coal (Long/Short)	10,746	1.2
The AlphaGen Long Short Agriculture	0.001	1.1
Global exchange traded agricultural commodities (Long/Short)	9,881	2.3
Total funds portfolio <sup>2</sup>	582,371	65.1
Investment in subsidiaries <sup>1</sup>	586	0.1
Total investment in subsidiaries	586	0.1
Total investment in substalianes	300	0.1
Other net assets		
Cash and cash equivalents <sup>4</sup>	86,309	9.6
Distribution payable	(4,755)	(0.5)
Other assets and liabilities	4,173	0.4
Total other net assets	85,727	9.5
Total Net Asset Value of the Group	895,238	100.0

The fair value of Syncona Holdings Limited amounting to £205,316,388 is comprised of investments in life science companies of £204,730,449 and investment in subsidiaries of £585,939.

The fair value of the investment in Syncona Investments LP Incorporated amounting to £604,195,511 is comprised of the investment in the funds portfolio of £582,371,973 and the investment in the CRT Pioneer Fund of £21,823,538. The CRT Pioneer Fund is 64.1 per cent owned by the Group; however the Group has no control over the fund.

The life science portfolio of £226,553,987 consists of life science investments totalling £204,730,449 held by Syncona Holdings Limited and the CRT Pioneer Fund of £21,823,538 held by Syncona Investments LP Incorporated.

Cash is held by Syncona Investments LP Incorporated and therefore is not shown in Syncona Limited's Consolidated Statement of Financial Position.

## Consolidated statement of comprehensive income

For the year ended 31 March 2017

			2017			2016	
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Investment income							
Other income	7	14,561	-	14,561	11,880	_	11,880
Total investment income		14,561	-	14,561	11,880	-	11,880
Net gains/(losses) on financial assets at fair value through profit or loss	8	_	71,375	71,375	_	(6,857)	(6,857)
Total gains/(losses)		-	71,375	71,375	_	(6,857)	(6,857)
Expenses							
Charitable donation	10	4,752	-	4,752	4,752	-	4,752
Management fees	12	2,774	-	2,774	226	-	226
General expenses	13	1,119	-	1,119	1,045	-	1,045
Total expenses		8,645	-	8,645	6,023	_	6,023
Profit/(loss) for the year		5,916	71,375	77,291	5,857	(6,857)	(1,000)
Earnings/(losses) per Ordinary Share	18	1.28p	15.44p	16.72p	1.53p	(1.79)p	(0.26)p

The total columns of this statement represent the Group's Consolidated Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpretations adopted by the International Accounting Standards Board. Whilst the Company is not a member of the Association of Investment Companies (the "AIC"), the supplementary revenue and capital columns are both prepared under guidance published by the AIC.

The profit/(loss) for the year is equivalent to the "total comprehensive income" as defined by IAS 1 Presentation of Financial Statements ('IAS 1'). There is no other comprehensive income as defined by IFRS.

All the items in the above statement derive from continuing operations.

## Consolidated statement of financial position

As at 31 March 2017

	Notes	2017 £'000	2016 £'000
ASSETS			
Non-current assets			
Financial assets at fair value through profit or loss	14	896,469	472,294
Current assets			
Bank and cash deposits		105	41
Trade and other receivables	15	4,772	4,795
Total assets		901,346	477,130
LIABILITIES AND EQUITY			
Non-current liabilities			
Share based payment	17	46	_
Current liabilities			
Payables	16	6,062	4,885
Total liabilities		6,108	4,885
EQUITY			
Share capital account	18	760,327	406,208
Distributable capital reserves	10	134,911	66,037
Total equity		895,238	472,245
Total liabilities and equity		901,346	477,130
Total net assets attributable to holders of Ordinary Shares		895,238	472,245
Number of Ordinary Shares in issue	18	658,387,407	384,665,158
Net assets attributable to holders of Ordinary Shares (per share)	18	£1.36	£1.23

The audited Consolidated Financial Statements on pages 76 to 100 were approved on 5 July 2017 and signed on behalf of the Board of Directors by:

**Jeremy Tigue** 

Chairman

**Nicholas Moss** 

Non-Executive Director

# Consolidated statement of changes in net assets attributable to holders of ordinary shares

For the year ended 31 March 2017	Notes	Share capital account £'000	Capital reserves £'000	Revenue reserves £'000	Total £'000
Balance at the beginning of the year		406,208	66,037	_	472,245
Total comprehensive income for the year		-	71,375	5,916	77,291
Transactions with shareholders:					
Distributions	19	_	(2,501)	(5,962)	(8,463)
Issuance of shares	18	357,054	_	_	357,054
Scrip dividend issued during the year	18	1,801	-	-	1,801
Share issue costs	18	(4,736)	_	_	(4,736)
Share based payment	17	_	_	46	46
Balance at the end of the year		760,327	134,911	_	895,238

For the year ended 31 March 2016	Notes	Share capital account £'000	Capital reserves £'000	Revenue reserves £'000	Total £'000
Balance at the beginning of the year		403,987	75,077	_	479,064
Total comprehensive (loss)/income for the year		_	(6,857)	5,857	(1,000)
Transactions with shareholders:					
Distributions	19	_	(2,183)	(5,857)	(8,040)
Scrip dividend issued during the year	18	2,221	_	_	2,221
Balance at the end of the year		406,208	66,037	_	472,245

## **Consolidated statement of cash flows**

For the year ended 31 March 2017

	Notes	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit/(loss) for the year		77,291	(1,000)
Adjusted for:			
(Gains)/losses on financial assets at fair value through profit or loss		(71,375)	6,857
Operating cash flows before movements in working capital		5,916	5,857
Decrease/(increase) in other receivables		23	(357)
Increase in other payables		1,177	337
Net cash generated from operating activities		7,116	5,837
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss		(169,235)	-
Return of capital contribution		4,000	-
Net cash used in investing activities		(165,235)	-
Cash flows from financing activities			
Issuance of shares	18	169,581	-
Share issue costs	18	(4,736)	-
Distributions	19	(6,662)	(5,819)
Net cash generated from/(used in) financing activities		158,183	(5,819)
Net increase in cash and cash equivalents		64	18
Cash and cash equivalents at beginning of year		41	23
Cash and cash equivalents at end of year		105	41
Supplemental disclosure of non-cash investing and financing activities:			
Investments purchased by issue of shares	14	(187,473)	_
Scrip dividend issued during the year	18	(1,801)	(2,221)
Issue of shares	18	189,274	2,221
Net non-cash investing and financing activities		_	_

### Notes to the consolidated financial statements

For the year ended 31 March 2017

#### 1. General information

Syncona Limited (formerly BACIT Limited) (the "Company") is incorporated in Guernsey as a registered closed-ended investment company. The Company's Ordinary Shares were listed on the premium segment of the London Stock Exchange ("LSE") on 26 October 2012 when it commenced its business.

In December 2016, shareholders approved the expansion of the Company's investment policy and the acquisition from the Wellcome Trust of Syncona Partners LLP, a portfolio of life science investments, together with its investment management team ("the December 2016 transaction"). As part of the transaction, the Company also acquired Cancer Research UK's interest in the Cancer Research Technologies Pioneer Fund LP ("CRT Pioneer Fund").

The Company makes its funds investments through Syncona Investments LP Incorporated (the "Partnership"), in which the Company is the sole limited partner. The general partner of the Partnership is Syncona GP Limited (the "General Partner"), a wholly-owned subsidiary of the Company. It also invests in Syncona Discovery Limited, a wholly-owned subsidiary of the Partnership.

The Company makes its life science investments through Syncona Holdings Limited (the "Holding Company") (incorporated 24 November 2016) and Syncona Portfolio Limited (incorporated 24 November 2016). Syncona Portfolio Limited is a wholly-owned subsidiary of the Holding Company.

In addition, the Company has reconfigured its investment management arrangements by the recruitment of the Syncona Partner LLP's life science investment management team. The life science investment management team is employed by Syncona Investment Management Limited ("SIML"), an indirect UK subsidiary of the Company.

Syncona Limited and Syncona GP Limited are collectively referred to as the "Group".

The investment objective and policy are set out in the Directors' Report on pages 63 to 64.

#### 2. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered to be material in relation to the Group's financial statements:

#### Statement of compliance

The Consolidated Financial Statements give a true and fair view, are prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the European Union, which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and are in compliance with The Companies (Guernsey) Law, 2008.

#### **Basis of preparation**

The Consolidated Financial Statements have been prepared under the historical cost basis, except for investments and derivatives held at fair value through profit or loss, which have been measured at fair value.

#### **Going Concern**

The Company has an indefinite life. The Company's assets currently consist of securities and cash amounting to £895.2 million (31 March 2016: £472.8 million) of which 43.1 per cent (31 March 2016: 37.3 per cent) are readily realisable in three months in normal market conditions and the Company has liabilities including uncalled commitments to underlying investments and funds amounting to £114.1 million (31 March 2016: £47.9 million). Accordingly, the Company has adequate financial resources to continue in operational existence for 12 months following the approval of the financial statements. Hence the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the consolidated financial statements.

#### **Basis of consolidation**

Syncona GP Limited (the "General Partner") is consolidated in full from the date of acquisition, being the date on which the Company obtained control and will continue to be consolidated until such control ceases. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of the General Partner during the year are included in the Consolidated Statement of Comprehensive Income from the effective date of incorporation. The financial statements of the General Partner are prepared in accordance with United Kingdom Accounting Standards. Where necessary, adjustments are made to the financial statements of the General Partner to bring the accounting policies used into line with those used by the Group. During the year, no such adjustments have been made.

All intra-group transactions, balances and expenses are eliminated on consolidation. Entities that meet the definition of an Investment Entity under IFRS 10 Consolidated Financial Statements are held at fair value through profit or loss in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Syncona Investments LP Incorporated and Syncona Holdings Limited both meet the definition of Investment Entities as described in note 3.

#### **Financial instruments**

Financial assets and derivatives are recognised in the Group's Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are classified into the following categories: financial assets at fair value through profit or loss, and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases

or sales are purchases or sales of financial assets that require delivery of assets within the timeframe established by regulation or convention in the marketplace.

Financial liabilities are classified as other financial liabilities.

#### Financial assets at fair value through profit or loss ("investments")

Investments purchased are initially recorded at fair value, being the consideration given and excluding transaction or other dealing costs associated with the investment. Gains and losses on investments sold are recognised in the Statement of Comprehensive Income in the period in which they arise. The appropriate classification of the investments is determined at the time of the purchase and is re-evaluated on a regular basis.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The carrying amounts, being the cost, shown in the Consolidated Statement of Financial Position approximate the fair values due to the short-term nature of these loans and receivables. The Group did not hold any loans throughout the year.

#### **Forward currency contracts**

Forward foreign currency contracts are derivative contracts and as such are recognised at fair value on the date on which they are entered into and subsequently remeasured at their fair value. Fair value is determined by rates in active currency markets. Whilst the Group holds no forward currency contracts, similar contracts are held by the Partnership.

#### Other financial liabilities

Other financial liabilities include all other financial liabilities other than those designated as financial liabilities at fair value through profit or loss. The Group's other financial liabilities include payables. The carrying amounts shown in the Consolidated Statement of Financial Position approximate the fair values due to the short-term nature of these other financial liabilities.

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise assets and settle the liabilities simultaneously.

#### Fair value - funds portfolio

Investments in underlying funds – The Group's investments in underlying funds are ordinarily valued using the values (whether final or estimated) as advised to BACIT (UK) Limited by the managers, general partners or administrators of the relevant underlying fund. The Group or BACIT (UK) Limited may depart from this policy where it is considered such valuation is inappropriate and may, at its discretion, permit any other method of valuation to be used if it considers that such method of valuation better reflects value generally or in particular markets or market conditions and is in accordance with good accounting practice. In the event that a price or valuation estimate accepted by the Group or by BACIT (UK) Limited in relation to an underlying fund subsequently proves to be incorrect or varies from the final published price by an immaterial amount, no retrospective adjustment to any previously announced Net Asset Value or Net Asset Value per Share will be made.

Marketable quoted securities – Any investments which are marketable securities quoted on an investment exchange are valued at the relevant bid price at the close of business on the relevant date.

#### Fair value - life science portfolio

The Group's investments in life science companies are, in the case of quoted companies, valued based on bid prices in an active market as at the reporting date.

In the case of the Group's investments in unlisted companies, the fair value is determined in accordance with the International Private Equity and Venture Capital ("IPEVC") Valuation Guidelines. These include the use of recent arm's length transactions, Discounted Cash Flow ("DCF") analysis and earnings multiples. Wherever possible, the Group uses valuation techniques which make maximum use of market-based inputs. Accordingly, the valuation methodology used most commonly by the Group is the Price of Recent Investment ("PRI"). The following considerations are used when calculating the fair value of unlisted life science companies:

- Cost Where the investment has been made recently it is valued on a cost basis unless there is objective evidence that a change in fair value has occurred since the investment was made, such as observable data suggesting a change of the financial, technical, or commercial performance of the underlying investment or, where the Group considers that cost is no longer relevant, the Group carries out an enhanced assessment based on comparable companies or transactions or milestone analysis.
- PRI The Group considers that fair value estimates, which are based entirely on observable market data, are of greater reliability than those based on assumptions and, accordingly, where there has been any recent investment by third parties, the price of that investment generally provides a basis of the valuation. The length of period for which it remains appropriate to use the price of recent investment depends on the specific circumstances of the investment and the stability of the external environment.
- Other valuation techniques Where the life science investment management team is unable to value an investment on a cost or PRI basis, or there is objective evidence that a change in fair value has occurred since a relevant transaction, then it employs one of the alternative methodologies set out in the IPEVC Valuation Guidelines such as DCF or price-earnings multiples. DCF involves estimating the fair value of an investment by calculating the present value of expected future cash flows, based on the most recent forecasts in respect of the underlying business. Given the difficulty involved with producing reliable cash flow forecasts for seed, start-up and early-stage companies, as described above, the DCF methodology will generally be used in the event that a life science company is in the final stages of clinical testing prior to regulatory approval or has filed for regulatory approval where other metrics are considered less reliable.

#### 2. Accounting policies (continued)

#### **Derecognition of financial instruments**

A financial asset is derecognised when: (a) the rights to receive cash flows from the financial asset have expired, (b) the Group retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through arrangement"; or (c) the Group has transferred substantially all the risks and rewards of the financial asset, or has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the financial asset.

A financial liability is derecognised when the contractual obligation under the liability is discharged, cancelled or expired.

#### Commitments

Through its investment in the Partnership and the Holding Company, the Group has outstanding commitments to investments that are not recognised in the Consolidated Financial Statements. Refer to note 24 for further details.

#### **Share-based payments**

Certain employees of SIML participate in equity incentive arrangements under which they receive awards of Management Equity Shares ("MES") in Syncona Holdings Limited above a hurdle value set out at the date of award. The MES are not entitled to dividends but any dividends or capital value realised by the Group in relation to the Holding Company are taken into account in determining the value of the MES. If an individual remains in employment for the applicable vesting period, they then have the right to sell 25 per cent of their vested MES to the Company each year. The price is determined using a formula stipulated in the Articles of Association of Syncona Holdings Limited ("Articles").

The Group's policy is to settle half of the proceeds (net of expected taxes) in Company shares which must normally be held for at least 12 months, with the balance paid in cash. Consequently, the arrangements are deemed to be partly an equity-settled share-based payment scheme and partly a cash-settled share-based payment scheme under IFRS 2 in the Consolidated Financial Statements of the Group.

The fair value of the MES at the time of the initial subscription is determined by an independent third-party valuer in accordance with IFRS 2 'Share-based payments' and taking into account the particular rights attached to the MES as described in the Articles. The external valuer is supplied with detailed financial information relating to the relevant businesses. Using this information, the fair value is measured using a probability-weighted expected returns methodology, which is an appropriate future-orientated approach when considering the fair value of shares that have no intrinsic value at the time of issue. The approach replicates that of a binomial option pricing model. In this case, the expected future payout to the MES was made by reference to the expected evolution of the Holding Company's value for the companies as a whole, as provided by management, including expected dividends and other realisations, which is then compared to the hurdle value. This is then discounted into present value terms adopting an appropriate discount rate. The "capital asset pricing methodology" was used when considering an appropriate discount rate to apply to the payout expected to accrue to the MES on realisation.

When MES are granted, a share-based payment charge is recognised in the Consolidated Statement of Comprehensive Income equal to the fair value at that date, spread over the vesting period, with an amount credited to the share-based payment reserve in respect of the equity-settled proportion and to non-current liabilities in respect of the cash-settled proportion (see below). In its own financial statements, the Company records a capital contribution to the Holding Company equal to the aggregate amount.

When the Company issues new shares to acquire the MES, the fair value of the MES is credited to the Share Capital Account.

To the extent that the Company expects to pay cash to acquire the MES, the fair value of the MES is recognised as a non-current liability in the Company. The fair value is established at each balance sheet date and recognised in the Consolidated Statement of Comprehensive Income throughout the vesting period, based on the proportion vested at each Statement of Financial Position date and adjusted to reflect subsequent movements in fair value up to the date of acquisition of the MES by the Company.

The fair value paid to acquire MES (whether in shares in the Company or cash) will result in an increase in the carrying value of the Holding Company by the Company.

#### Income

All income is accounted for on an accruals basis and is recognised in the Consolidated Statement of Comprehensive Income.

The Partnership receives fee rebates and donations from its investments. Please refer to note 9 for details.

#### **Expenses**

Expenses are accounted for on an accruals basis. Expenses incurred on the acquisition of investments at fair value through profit or loss are charged to the Consolidated Statement of Comprehensive Income in capital. All other expenses are charged to the Statement of Comprehensive Income in revenue. Charitable donations are accounted for on an accruals basis and are recognised in the Consolidated Statement of Comprehensive Income. Expenses directly attributable to the issuance of shares are charged against capital and recognised in the Consolidated Statement of Changes in Net Assets Attributable to Holders of Ordinary Shares.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to insignificant changes in value.

#### **Translation of foreign currency**

Items included in the Group's Consolidated Financial Statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). The Consolidated Financial Statements are presented in Sterling (£), which is the Group's functional and presentational currency.

Transactions in currencies other than Sterling are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the date of the Consolidated Statement of Financial Position are translated into Sterling at the rate of exchange ruling at that date.

Foreign exchange differences arising on retranslation are recognised in the Consolidated Statement of Comprehensive Income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the rate of exchange at the date of the transaction.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated into Sterling at foreign exchange rates ruling at the date the fair value was determined.

#### Standards, amendments and interpretations adopted by the Group

The following amendments were applicable for the first time this year but had no material impact on the financial position or performance of the Group.

IFRS 10 (Amendments) - Consolidated Financial Statements (effective 1 January 2016)

IFRS 12 (Amendments) - Disclosure of Interests in Other Entities (effective 1 January 2016)

IAS 1 (Amendments) - Disclosure Initiative (effective 1 January 2016)

IAS 7 (Amendments) - Statement of Cash Flows (effective 1 January 2016)

IAS 27 (Amendments) - Separate Financial Statements (effective 1 January 2016)

IAS 28 (Amendments) - Investments in Associates and Joint Ventures (effective 1 January 2016)

#### Standards, amendments and interpretations not yet effective

At the date of approval of these Consolidated Financial Statements, the following standards and interpretations, which have not been applied in these Consolidated Financial Statements, were in issue but not yet effective:

IFRS 9 - Financial instruments: Classification and Measurement (effective 1 January 2018)

IFRS 15 - Revenue from Contracts with Customers (effective 1 January 2018)

IFRS 16 - Leases (effective 1 January 2019)

The Group is currently in the process of evaluating the potential effect of these standards. The standards are not expected to have a significant impact on the financial statements of the Group.

#### **Presentation of the Statement of Comprehensive Income**

In order to better reflect the activities of an investment company and in accordance with guidance issued by the Association of Investment Companies, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income.

#### 3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's Consolidated Financial Statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities at the reporting date. However, uncertainties about these assumptions and estimates, in particular relating to the Partnership's private equity investments, the investment in the CRT Pioneer Fund and the Holding Company's life science investments, could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected in future periods.

#### **Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the Financial Statements:

#### **Functional currency**

As disclosed in note 2, the Group's functional currency is Sterling. Sterling is the currency in which the Group measures its performance and reports its results, as well as the currency in which it receives subscriptions from its investors. Dividends are paid to its investors in Sterling. The Directors believe that Sterling best represents the functional currency, although it has a significant exposure to other currencies as described in note 22.

#### Assessment as investment entity

Entities that meet the definition of an investment entity within IFRS 10 are required to measure their subsidiaries, other than those that provide investment services to the Group, at fair value through profit or loss rather than consolidate them. The criteria which define an investment entity are as follows:

- An entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- An entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Company meets the criteria as follows:

The Company is a closed-ended investment company and has a number of investors who pool their funds to gain access to the Company's investment services and investment opportunities to which they might not have had access individually. The Company, being listed on the London Stock Exchange, obtains funding from a diverse group of external shareholders. The key judgement relates to whether the business purpose of the Company is consistent with that of an investment company.

The Company's objective is consistent with that of an investment entity. The Company has the intention to realise the constituents of each of its investment classes. Some investments are held long term, but for each investment there is an intention to exit the investment at a price and timing that is deemed suitable to the Group.

The Partnership and the Holding Company both measure and evaluate the performance of substantially all of their investments on a fair value basis. The fair value method is used to represent the Company's performance in its communication to the market, including investor presentations. In addition, the Company reports fair value information internally to the Board of Directors, who use fair value as a significant measurement attribute to evaluate the performance of its investments.

The IFRS 10 Investment Entity Exemption requires investment entities to fair value all subsidiaries that are themselves investment entities. As the Partnership and Holding Company meet the criteria of investment entities, they and their underlying subsidiaries have not been consolidated by the Group.

#### **Estimates and assumptions**

The Group's investments consist of its investments in the Partnership and the Holding Company, both of which are classified as fair value through profit or loss and are valued accordingly, as disclosed in note 2. The key source of estimation uncertainty is related to the valuation of the Partnership's private equity investments, the investment in the CRT Pioneer Fund and the Holding Company's life science investments.

As at the year end, none of the Partnership's underlying investments have imposed restrictions on redemptions. However, underlying managers often have the right to impose such restrictions. The Directors believe it remains appropriate to estimate their fair values based on NAV as reported by the administrators of the relevant investments.

Except for listed investments, the Directors believe that such NAV represents fair value because subscriptions and redemptions in the underlying investments occur at these prices at the Consolidated Statement of Financial Position date, where permitted.

The life science portfolio is very illiquid. All the companies are currently in early-stage investments and privately owned. Accordingly, a market value can be difficult to determine. The accounting policy for the life science portfolio is described in note 2 and the sensitivity of the carrying amount to the assumptions and estimates underlying the valuation including reasons for the sensitivity are described in note 23.

#### 4. Operating segments

In December 2016 Syncona Limited (formerly BACIT Limited) acquired Syncona Partners LLP. The resulting Group is made up of two main components, the 'life science portfolio' and 'funds portfolio'. The Board has considered the requirements of IFRS 8 'Operating Segments', and is of the view that the Group's activities form two segments under the standard, the 'life science portfolio' and the 'funds portfolio'. The funds portfolio and life science portfolio are managed on a global basis and accordingly, no geographical disclosures are provided.

The Board, as a whole, has been determined as constituting the chief decision maker of the Group. The key measure of performance used by the Board to assess the Group's performance and to allocate resources is the total return based on the NAV per share, as calculated under IFRS.

#### Life science portfolio

The substantial majority of the assets in the life science portfolio was acquired during the December 2016 transaction. The underlying investments in this segment are those whose activities focus on actively developing products to deliver transformational treatments for patients.

Details of the underlying assets are shown in the Portfolio Statement on page 74.

#### **Funds portfolio**

The underlying assets in this segment are investments in a diversified portfolio of hedge, equity and long-term alternative investment funds across multiple asset classes.

Details of the underlying assets are shown in the Portfolio Statement on pages 74 and 75.

#### Information about reporting segments

The following provides detailed information for the Group's two reportable segments for the year ended 31 March 2017:

2017	Life science portfolio £'000	Funds portfolio £'000	Unallocated¹ £'000	Total £'000
Revenue	-	-	14,561	14,561
Capital growth	24,801	46,574	_	71,375
Expenses	_	-	(8,645)	(8,645)
Net assets	226,554	582,371	86,313	895,238
	Life science	Funds	Unallocatedi	Total

2016	portfolio £'000	portfolio £'000	Unallocated¹ £'000	Total £'000
Revenue	-	_	11,880	11,880
Capital growth	4,761	(11,618)	_	(6,857)
Expenses	_	_	(6,023)	(6,023)
Net assets	9,606	450,812	11,876	472,294

<sup>1 &#</sup>x27;Unallocated' includes the dividends, donations and expenses for the year, which are not feasible to split by segment. The revenue is unrelated to either segment's performance.

The net assets of each segment can be agreed to the Portfolio Statement on pages 74 to 75. The capital growth can be agreed to the Statement of Comprehensive Income on 76.

In the prior year the Group's activities formed a single segment, namely the funds portfolio. Following the December 2016 transaction, the reporting segments have changed so the 2016 segments have been restated. The difference in the restatement relates to the CRT Pioneer Fund which was previously treated as a Fund Investment and deemed immaterial for disclosure. For the year ended 31 March 2017, the CRT Pioneer Fund is included in the life science portfolio as the underlying assets are developing products to deliver transformational treatments for patients.

#### 5. Investment in subsidiaries and associates

The Company meets the definition of an Investment Entity in accordance with IFRS 10. Therefore, with the exception of the General Partner, the Company does not consolidate its subsidiaries and indirect associates, but rather recognises them as financial assets at fair value through profit or loss.

#### **Directly owned subsidiaries**

Subsidiary	Country of incorporation	Principal activity	% interest <sup>1</sup>
Syncona GP Limited (formerly BACIT GP Limited)	Guernsey	General Partner	100%
Syncona Investments LP Incorporated (formerly BACIT Investments LP Incorporated)	Guernsey	Portfolio management	100%
Syncona Holdings Limited	Guernsey	Portfolio management	100%

There are no significant restrictions on the ability of subsidiaries to transfer funds to the Company.

#### Indirect interests in subsidiaries

Indirect subsidiaries	Country of incorporation	Immediate parent	Principal activity	% interest <sup>1</sup>
Syncona Discovery Limited	UK	Syncona Investments LP Inc.	Portfolio management	100%
Syncona Portfolio Limited	Guernsey	Syncona Holdings Limited	Portfolio management	100%
Syncona IP Holdco Limited	UK	Syncona Portfolio Limited	Portfolio management	100%
Syncona Investment Management Limited	UK	Syncona Holdings Limited	Portfolio management	100%
Syncona Partners LLP	UK	Syncona Holdings Limited	Portfolio management	100%
Syncona Management LLP	UK	Syncona Holdings Limited	Portfolio management	100%
Syncona LLP	UK	Syncona Holdings Limited	Portfolio management	100%
Syncona Management Services Limited	UK	Syncona Management LLP	Portfolio management	100%
Blue Earth Diagnostics Limited	UK	Syncona Holdings Limited	Medical imaging	90%
Gyroscope Therapeutics Limited	UK	Syncona Holdings Limited	Gene therapy	78%
Freeline Therapeutics Limited	UK	Syncona Holdings Limited	Gene therapy	74%
NightstaRx Limited	UK	Syncona Holdings Limited	Gene therapy	60%

Indirect associates	Country of incorporation	Immediate parent	Principal activity	% interest <sup>1</sup>
Autolus Limited	UK	Syncona Holdings Limited	T-Cell Therapies	45%
Achilles Therapeutics Limited	UK	Syncona Holdings Limited	Immunotherapy	41%
Cambridge Epigenetics Limited	UK	Syncona Holdings Limited	Research tools	14%

<sup>1</sup> Based on undiluted issued share capital.

#### 6. Taxation

The Company and the General Partner are exempt from taxation in Guernsey under the provisions of The Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 and have both paid an annual exemption fee of £1,200 (31 March 2016: £1,200).

The General Partner is incorporated and tax resident in Guernsey, its corporate affairs being managed solely in Guernsey. Having regard to the non-UK tax residence of the General Partner and the Company, and on the basis that the Partnership is treated as transparent for UK and Guernsey tax purposes and that the Partnership's business is an investment business and not a trade, no UK tax will be payable on either the General Partner's or the Company's shares of Partnership profit (save to the extent of any UK withholding tax on certain types of UK income such as interest).

Some of the Group's underlying investments may be liable to tax, although the tax impact is not expected to be material to the Group.

#### 7. Income

Income consists of investment income received from the Partnership.

During the year, income received from the Partnership amounted to £14,561,043 (31 March 2016: £11,879,674) of which £4,755,378 (31 March 2016: £4,776,031) remained receivable at 31 March 2017.

#### 8. Net gains/(losses) on financial assets at fair value through profit or loss

The net gains/(losses) on financial assets at fair value through profit or loss arising from the Group's holdings in the Partnership and Holding Company.

		2017 £'000	2016 £'000
Net gains/(losses) from:			
Syncona Investments LP Incorporated	8.a	46,574	(6,857)
Syncona Holdings Limited	8.b	24,801	_
		71,375	(6,857)

#### 8.a Movements in Syncona Investments LP Incorporated:

	2017 £'000	2016 £'000
Investment income	1,333	1,302
Rebates and donations	2,035	3,244
Expenses	(303)	(206)
Distributions	(14,561)	(11,880)
Realised gains on financial assets at fair value through profit or loss	11,135	6,724
Realised losses on financial assets at fair value through profit or loss	(3,811)	(3,178)
Movement in unrealised gains on financial assets at fair value through profit or loss	91,051	29,966
Movement in unrealised losses on financial assets at fair value through profit or loss	(18,908)	(33,250)
Gains on forward currency contracts	6,814	8,374
Losses on forward currency contracts	(30,182)	(8,440)
Gains on foreign currency	3,452	2,919
Losses on foreign currency	(1,481)	(2,432)
Net gains/(losses) on financial assets at fair value through profit or loss	46,574	(6,857)

8.b Movements in Syncona Holdings Limited for the period from 24 November 2016 (date of incorporation) to 31 March 2017:

	2017 £'000
Expenses	(36)
Movement in unrealised gains on life science investments at fair value through profit or loss	24,940
Movement in unrealised losses on wholly owned Group companies at fair value through profit or loss	(103)
Net gains on financial assets at fair value through profit or loss	24,801

#### 9. Rebates and donations

Prior to the December 2016 transaction all fund investments made by the Partnership were either not subject to any management or performance fees or were made on the basis that the Group was effectively reimbursed the amount of any such fees by rebate, donation back to the Group or other arrangements. After the December 2016 transaction the restriction of investing in only fee-free funds investments was removed.

At the year end the uncrystallised performance fee rebates included as receivables within the Partnership's financial assets at fair value through profit or loss amounted to £153,107 (31 March 2016: £108).

During the year, rebates and donations earned by the Partnership amounted to £2,034,818 (31 March 2016: £3,244,287), of which £406,005 (31 March 2016: £281,016) remained receivable at 31 March 2017.

#### 10. Charitable donations

In accordance with the Amended and Restated Framework Agreement dated 6 December 2016 and following shareholders' approval of the expansion of the Company's investment policy, the Group has an obligation to make a donation to charity, paid in arrears, of 0.3 per cent of the total NAV of the Company during the financial year. For the years ended 31 March 2017 and 31 March 2018 the Company has agreed that the charitable donations will not be less than £4,751,608. Any amount paid in excess of 0.3 per cent of the total NAV of the Company will be recovered by reducing the charitable donations in subsequent years. Half is donated to The Institute of Cancer Research ("ICR") and the other half to The BACIT Foundation. The BACIT Foundation grants those funds to charities proposed annually by The BACIT Foundation, in proportions determined each year by shareholders of the Company.

During the year, charitable donations amounted to £4,751,608 (31 March 2016: £4,751,608). As at 31 March 2017, £4,751,608 (31 March 2016: £4,751,608) remained payable.

#### 11. Administration fee

The Group's administrator is Northern Trust International Fund Administration Services (Guernsey) Limited (the "Administrator"). The Administrator is entitled to receive an annual fee of up to 6 basis points of the NAV of the Company, calculated monthly in arrears, subject to a minimum fee of £120,000 per annum.

Fees are reviewed on an annual basis. In addition, the Administrator and any of its delegates are also entitled to reimbursement of certain expenses incurred by them in connection with their duties.

No administration fees are charged to the General Partner.

During the year ended 31 March 2017, administration fees of £191,790 (31 March 2016: £165,375) were charged to the Group and £73,505 (31 March 2016: £27,803) remained payable at the year end.

#### 12. Management expense contribution

The Group's investment manager is BACIT (UK) Limited (the "Investment Manager"). Following the EGM held on 14 December 2016, shareholders of the Company approved the revised investment management agreement dated 28 November 2016. The Management Expense Contribution payable by the Group to the Investment Manager is calculated as 0.19 per cent of NAV per annum, for the next five years. Subsequently, the Management Expense Contribution payable by the Group to the Investment Manager will be reduced to 0.15 per cent of NAV per annum, calculated by reference to the most recent month-end NAV.

The Group also directly bears certain expenses ("Sundry Expense Contribution") of the Investment Manager.

During the year ended 31 March 2017, fees of  $\mathfrak{L}1,093,533$  (31 March 2016:  $\mathfrak{L}225,556$ ) were charged by the Investment Manager to the Group and  $\mathfrak{L}488,010$  (31 March 2016: nil) remained payable at the year end.

The Company has reconfigured its investment management arrangements by the recruitment of a life science investment management team. These investment management personnel are employed by Syncona Investment Management Limited ("SIML"). BACIT (UK) Limited will remain as the Group's Investment Manager until SIML receives regulatory authorisation. In the meantime, the Group's investment management arrangements are structured so that BACIT (UK) Limited has investment discretion over the Group's entire investment portfolio.

The Company pays SIML an annual fee of up to 1 per cent of NAV per annum. During the year ended 31 March 2017, fees of £1,679,624 were charged by SIML to the Group and £464,061 remained payable at the year end.

#### 13. General expenses

	2017 £'000	2016 £'000
Other expenses	920	901
Directors' fees	87	88
Depositary fees	49	_
Auditor's remuneration	63	56
	1,119	1,045

Auditor's remuneration includes audit fees in relation to the Group of £62,600 (31 March 2016: £56,100). Total fees paid by the Group and its wholly owned subsidiaries for the year ended 31 March 2017 totalled £261,400 (31 March 2016: £77,000), of which £125,650 (31 March 2016: £20,400) relates to non audit fees.

#### 14. Financial assets at fair value through profit or loss

		2017 £'000	2016 £'000
Syncona Investments LP Incorporated	14.a	690,682	472,294
Syncona Holdings Limited	14.b	205,787	_
		896,469	472,294

The financial assets at fair value through profit or loss represent the movement in the Group's underlying investments during the year.

During the year ended 31 March 2017, the Company issued 142,944,993 shares for the purchase of life science investments, the consideration for which amounted to £187,472,358.

#### **14.a** The net assets of the Partnership.

The below table reconciles the net assets of the Partnership which are held as financial assets at fair value through profit or loss in the Consolidated Statement of Financial Position.

	2017 £'000	2016 £'000
Cost of the Partnership's investments at the start of the year	388,412	380,977
Purchases during the year	136,197	63,450
Sales during the year	(60,804)	(58,986)
Return of capital	(11,083)	(575)
Net realised gains on disposals during the year	7,324	3,546
Cost of the Partnership's investments at the end of the year	460,046	388,412
Net unrealised gains on investments at the end of the year	144,149	72,006
Fair value of the Partnership's investments at the end of the year	604,195	460,418
Cash and cash equivalents	86,204	12,358
Other net current assets/(liabilities)	283	(482)
Net assets of the Partnership	690,682	472,294

#### 14.b The net assets of the Holding Company.

The below table reconciles the net assets of the Holding Company which are held as financial assets at fair value through profit or loss in the Consolidated Statement of Financial Position.

	2017 £'000
Cost of the Holding Company's investments at the start of the year	_
Purchases during the year	180,479
Cost of the Holding Company's investments at the end of the year	180,479
Net unrealised gains on investments at the end of the year	24,837
Fair value of the Holding Company's investments at the end of the year	205,316
Other net current assets	471
Net assets of the Holding Company	205,787

#### 15. Trade and other receivables

	2017 £'000	2016 £'000
Investment income receivable	4,755	4,776
Prepayments	17	19
	4,772	4,795

### 16. Payables

	2017 £'000	2016 £'000
Charitable donations payable	4,752	4,752
Management fees payable	952	_
Other payables	358	133
	6,062	4,885

#### 17. Long Term Incentive Plan

	2017	2016
	£'000	2016 £'000
Share-based payments	46	_

Share-based payments represent a liability associated with awards of Management Equity Shares ("MES") in the Holding Company, relevant details of which are set out in note 2. There were no share-based payments for the Company's shares during the year ending 31 March 2017 (31 March 2016: nil).

When a participant elects to realise vested MES by sale of the MES to the Company, half of the proceeds (net of anticipated taxes) will be settled in shares of the Company, with the balance settled in cash. In the year ending 31 March 2017 the charge to the Consolidated Statement of Comprehensive Income was £92,000 of which £46,000 is expected to be settled in shares and £46,000 is expected to be settled in cash.

The fair value of the MES is established via external valuation as set out in note 2. For the awards of MES made in the year ended 31 March 2017, the applicable hurdle value was 15 per cent growth in the value of the Holding Company above the value at the date of award. No further performance targets apply to the MES awards. Each MES is entitled to share equally in value attributable to the Holding Company above the applicable hurdle value.

The fair value of awards made in the year ended 31 March 2017 was £648,000. An external valuation at 31 March 2017 confirmed that the fair value had not increased since the award date and therefore no adjustment is required to the fair value to reflect movements in the estimated cash-settled proportion.

MES awards vest 25 per cent per annum on the anniversary of grant. Participants are entitled to sell 25 per cent of vested MES to the Company each year (taking account of MES already sold). For the awards made in December 2016, accelerated vesting applies on cessation of employment in respect of one-third of the unvested awards, with any balance lapsing on cessation. Otherwise, unvested MES awards are forfeited on cessation of employment in the vesting period. Certain malus and clawback provisions apply to MES awards.

The following MES were held by participants:

Date of grant	MES awarded	MES vested at 31 March 2017	Holding Company hurdle	Vesting period
December 2016	26,304,603	-	£203.4 million	December 2016 – December 2020
March 2017	1,480,721	-	£203.4 million	March 2017 - March 2021

Number of ordinary shares in the Holding Company in issue at 31 March 2017: 176,986,208.

Value of the Holding Company at 31 March 2017 adjusted for MES purposes: £200.1 million.

At 31 March 2017, if all MES were realised the number of shares issued would increase by 1,087,495.

#### 18. Share capital account

#### A. Authorised Share Capital

The Company is authorised to issue an unlimited number of shares, which may have a par value or no par value. The shares can be issued as Ordinary Shares, C Shares or other such classes and in any currency at the discretion of the Board.

The Company is a closed-ended investment company with an unlimited life. The Ordinary Shares are not puttable instruments because redemption is conditional upon certain market conditions and/or Board approval. As such they are not required to be classified as debt under IAS 32 – "Financial Instruments: Disclosure and Presentation".

As the Company's Shares have no par value, the share price consists solely of share premium and the amounts received for issued shares are recorded in the Share Capital Account in accordance with The Companies (Guernsey) Law, 2008.

The Company also has the authority, subject to various terms as set out in its Articles and in accordance with The Companies (Guernsey) Law, 2008, to acquire up to 14.99 per cent of the Shares in issue. The Company intends to renew this authority annually.

Ordinary Shares carry the right to receive all income of the Group attributable to the Ordinary Shares of such class and to participate in any distribution of such income made by the Group, pro-rata to the relative calculated NAV of each of the classes of Ordinary Shares and within each such class income shall be divided pari passu among the holders of Ordinary Shares of that class in proportion to the number of Ordinary Shares of such class held by them.

The Founder Share issued at the date of incorporation was redesignated, by special resolution dated 28 September 2012, as a Deferred Share and transferred to The BACIT Foundation. This non-participating non-redeemable Deferred Share has no other rights to assets or dividends, except to payment of  $\mathfrak{L}1$  on the liquidation of the Company, and carries a right to vote only if there are no other classes of voting share of the Company in issue.

	Ordinary Shares 2017 £'000	Ordinary Shares 2016 £'000
Deferred Share (1 Share issued at £1)	-	_
Ordinary Share Capital		
Balance at the start of the year	406,208	403,987
Issued during the year	357,054	_
Scrip dividends issued during the year	1,801	2,221
Share issue costs	(4,736)	_
Balance at the end of the year	760,327	406,208

	Ordinary Shares 2017 Shares	Ordinary Shares 2016 Shares
Ordinary Share Capital		
Balance at the start of the year	384,665,158	382,867,127
Issued during the year	272,248,622	_
Scrip dividends issued during the year	1,473,627	1,798,031
Balance at the end of the year	658,387,407	384,665,158

In December 2016, the Company expanded its investment policy to allow it to make life science investments alongside its existing commitment to the CRT Pioneer Fund and portfolio of fund investments.

As part of this expansion, the Company acquired a portfolio of life science investments from the Wellcome Trust for £176,899,998 (134,883,720 Ordinary Shares), together with Cancer Research UK's interest in the CRT Pioneer Fund for £10,572,360 (8,061,273 Ordinary Shares). At the same time, the Company raised an additional £169,581,708 (129,303,629 Ordinary Shares) in new capital from new and existing investors, including a further £142,400,001 (108,577,966 Ordinary Shares) from the Wellcome Trust and £16,802,227 (12,811,458 Ordinary Shares) from Cancer Research UK. In total, £357,054,066 (272,248,622 Ordinary Shares) in new Ordinary Shares were issued at price of 131.15p, a 1.35 per cent premium to NAV per share at the time.

#### **B.** Capital reserves

Gains and losses recorded on the realisation of investments, realised exchange differences, unrealised gains and losses recorded on the revaluation of investments held at the year end and unrealised exchange differences of a capital nature are transferred to Capital Reserves.

#### C. Basic earnings per share

The calculations for the basic earnings per share attributable to the Ordinary Shares of the Group are based on the following data:

	2017	2016
Earnings for the purposes of earnings per share	£77,291,393	(£999,950)
Weighted average number of shares	462,399,882	383,977,387
Revenue basic earnings/(loss) per share	1.28p	1.53p
Capital basic earnings/(loss) per share	15.44p	(1.79)p
Basic earnings/(loss) per share	16.72p	(0.26)p

#### D. NAV per share

	2017	2016
Net assets for the purposes of NAV per share	£895,238,499	£472,245,264
Ordinary shares in issue	658,387,407	384,665,158
NAV per share	135.97p	122.77p

#### 19. Distribution to shareholders

The Company may pay a dividend at the discretion of the Board. Following the EGM in October 2013, each dividend paid by the Company will be in the form of scrip as a default, with a cash dividend alternative, under which shareholders may elect to receive cash in place of new Shares. Ordinary Shares issued pursuant to a scrip dividend will be issued at the applicable NAV per share. See note 26 for details of the 2017 dividend.

During the year ended 31 March 2017, the Company paid a dividend relating to the year ended 31 March 2016 of £8,462,633 (31 March 2016: £8,040,210). The dividend was comprised of £6,662,132 cash (31 March 2016: £5,819,108) and a scrip dividend of £1,800,501 (31 March 2016: £2,221,102).

#### 20. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

The Directors are responsible for the determination of the investment policy of the Group and have overall responsibility for the Group's activities. The Group's investment portfolio is managed by the Investment Manager, BACIT (UK) Limited.

The Company has six Non-Executive Directors. The Directors of the Company with the exception of Mr Keen and Ms Strahlman also serve as Directors of the General Partner. Mr Henderson is also a director of BACIT (UK) Limited.

For the year ended 31 March 2017, each Director is entitled to a fee of £25,000 (31 March 2016: £20,000) per annum, except for the Chairman who is entitled to receive a fee of £40,000 (31 March 2016: £30,000) per annum and the Chairman of the Audit Committee who is entitled to a fee of £30,000 (31 March 2016: £20,000) per annum. Until 31 December 2016, Mr Tigue had agreed to waive his right to receive his fee. Mr Henderson has agreed to continue waiving his fee. For further details please refer to the remuneration report on page 59.

Directors' fees for the year to 31 March 2017, including outstanding Directors' fees at the end of the year, are set out below.

	2017 £'000	2016 £'000
Directors' fees for the year	87	88
Payable at end of year	38	19

The Group may have underlying investments which, from time to time, include investments associated with members of the Board. In no case does the member have any direct ability to influence the investment policy of the Group's portfolio investments to make, hold or dispose of such investments.

In accordance with the Company's Articles of Incorporation, 50 per cent of the charitable donations are made to The BACIT Foundation. The BACIT Foundation was incorporated in England and Wales on 17 May 2012 as a private company limited by guarantee, with exclusively charitable purposes and holds the Deferred Share in the Company. The amount paid to The BACIT Foundation during the year ended 31 March 2017, in respect of the year to 31 March 2016, was £2,209,639).

BACIT (UK) Limited is the Company's Investment Manager. BACIT (UK) Limited is a wholly owned subsidiary of The BACIT Foundation. The operating expenses of the Investment Manager are covered by a Management Expense Contribution, payable by the Company to the Investment Manager, equal to 0.19 per cent of NAV per annum. The Group also directly bears certain expenses ("Sundry Expense Contribution") of the Investment Manager. During the year, £96,333 (31 March 2016: £47,515) of Sundry Expense Contribution was borne by the Company on behalf of BACIT (UK) Limited and £1,248 (31 March 2016: £2,448) remained payable as at 31 March 2017. Following the EGM held on 14 December 2016 and subject to receipt of the appropriate regulatory authorisations, SIML will become the Investment Manager of the Company. The Company pays SIML an annual fee of up to 1 per cent of NAV per annum.

#### 21. Financial instruments

In accordance with its investment objectives and policies, the Group holds financial instruments which at any one time may comprise the following:

- securities and investments held in accordance with the investment objectives and policies;
- cash and short-term receivables and payables arising directly from operations; and
- derivative instruments including forward foreign currency contracts.

The financial instruments held by the Group are comprised principally of the investments in the Partnership and the Holding Company.

Details of the Group's significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of its financial assets and liabilities are disclosed in note 2.

	2017 £'000	2016 £'000
Financial assets designated at fair value through profit or loss		
Syncona Investments LP Incorporated	690,682	472,294
Syncona Holdings Limited	205,787	_
Total financial assets designated at fair value through profit or loss	896,469	472,294
Financial assets designated at amortised cost		
Bank and cash deposits	105	41
Other financial assets	4,755	4,776
Total financial assets designated at amortised cost	4,860	4,817
Financial liabilities designated at amortised cost		
Share based payments	(46)	_
Other financial liabilities	(6,062)	(4,885)
Net financial assets	895,221	472,226

The financial instruments held by the Group's underlying investments are comprised principally of hedge, equity, long-term alternative investment funds, life science investments and cash.

The table below analyses the carrying amounts of the financial assets and liabilities held by the Partnership by category as defined in IAS 39 – "Financial Instruments: Recognition and Measurement".

	2017 £'000	2016 £'000
Financial assets designated at fair value through profit or loss		
Listed investments	161,590	109,310
Unlisted investments	442,605	351,108
Unrealised gains on open forward foreign currency contracts	-	4,049
Total financial assets designated at fair value through profit or loss	604,195	464,467
Financial assets designated at amortised cost		
Other financial assets	90,873	12,639
Financial liabilities designated at fair value through profit or loss		
Unrealised loss on open forward foreign currency contracts	437	_
Financial liabilities designated at amortised cost		
Other financial liabilities	(4,823)	(4,812)
Net financial assets of the Partnership	690,682	472,294

The table below analyses the carrying amounts of the financial assets and liabilities held by the Holding Company by category as defined in IAS 39 – "Financial Instruments: Recognition and Measurement".

	2017 £'000
Financial assets designated at fair value through profit or loss	
Life science investments	204,730
Investment in subsidiaries	586
Investment sold receivable	505
Total financial assets designated at fair value through profit or loss	205,821
Financial liabilities designated at amortised cost	
Other financial liabilities	(34)
Net financials assets of the Holding Company	205,787

#### 22. Financial risk management and associated risks

#### Capital risk management

The Group's objectives when managing capital include the safeguard of the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group does not have externally-imposed capital requirements.

The Group may incur indebtedness for the purpose of financing share repurchases or redemptions, making investments (including as bridge finance for investment obligations), satisfying working capital requirements or to assist in payment of the Charitable Donation, up to a maximum of 20 per cent of the NAV at the time of incurrence. The Group may utilise gearing if, at the time of incurrence, it considers it prudent and desirable to do so in light of prevailing market conditions. There is no limitation on indebtedness being incurred at the level of the Partnership's underlying investments.

#### Financial risk management

The Group is exposed to a variety of financial risks as a result of its activities. These risks include market risk (including market price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. These risks have existed throughout the year and the Group's policies for managing them are summarised below.

The risks below do not reflect the risks of the underlying investment portfolios of the financial assets at fair value through profit or loss. The Group has very significant indirect exposure to a number of risks through the underlying portfolios of the investment entities. This is the intention of the Group in order to achieve capital gains. There is no sensible mechanism to "control" these risks without considerably prejudicing return objectives.

Due to the lack of transparency in many of the underlying assets it is not possible to quantify or hedge the impact of these risks on the portfolio as each investment entity may have complex and changing risk dynamics that are not easily observable or predictable. These risks will include extensive interest, foreign exchange and other market risks which are magnified by significant gearing in many cases, resulting in increased liquidity and return risk.

#### 22. Financial risk management and associated risks (continued)

#### Syncona Limited

Syncona Limited is exposed to financial risks through its investments in the Partnership and the Holding Company. The risks and policies for managing them are set out in the sections below.

#### **Partnership**

#### Market price risk

The overall market price risk management of each of the holdings of the Partnership is primarily driven by their respective investment objectives. The Investment Manager assesses the risk in the Partnership's portfolio by monitoring exposures, liquidity, and concentrations of the underlying funds' investments, in the context of the historic and current volatility of their asset classes, and the Investment Manager's risk appetite.

The maximum risk resulting from financial instruments is generally determined by the fair value of underlying funds. The overall market exposure as at 31 March 2017 is shown in the Consolidated Statement of Financial Position.

The financial instruments are sensitive to market price risk; any increase or decrease in market price will have an equivalent movement in market value of the financial instruments.

#### Foreign currency risk

Foreign currency risk represents the potential loss or gain the Partnership may suffer through holding foreign currency assets in the face of foreign exchange movements. The Partnership's treatment of currency transactions is set out in note 2 to the Consolidated Financial Statements under "Translation of foreign currency" and "Forward currency contracts". Currency risk exists in the underlying investments, the analysis of which is not feasible.

The investments of the Partnership are denominated in US Dollars, Euros, Swedish Krona and Sterling. The Partnership's functional and presentation currency is Sterling; hence the Consolidated Statement of Financial Position may be significantly affected by movements in the exchange rates between the foreign currencies previously mentioned. The Investment Manager may manage exposure to Euro and US Dollar movements by using forward foreign currency contracts to hedge exposure to investments in Euro and US Dollar denominated share classes.

As at 31 March 2017, the Partnership had three open forward foreign currency contracts (31 March 2016: two).

	Sell 000	Buy £'000	Mark to market equivalent £'000	2017 Unrealised (loss)/gain £'000
Sterling/Euro forward currency contract, settlement date 25 May 2017	€ 88,200	75,058	75,519	(461)
Sterling/USD forward currency contract, settlement date 14 September 2017	\$7,000	5,600	5,575	25
Sterling/USD forward currency contract, settlement date 14 September 2017	\$245,000	196,005	195,132	873
Total unrealised gains as at 31 March 2017				437

	Sell 000	Buy £'000	Mark to market equivalent £'000	2016 Unrealised (loss)/gain £'000
Sterling/Euro forward currency contract, settlement date 30 June 2016	€ 85,000	67,507	67,507	(40)
Sterling/USD forward currency contract, settlement date 2 March 2017	\$175,000	125,543	121,454	4,089
Total unrealised gains as at 31 March 2016				4,049

The following tables present the Partnership's assets and liabilities in their respective currencies, converted into the Group's functional currency:

	USD £'000	EUR £'000	GBP £'000	SEK £'000	2017 Total £'000
Financial assets at fair value through profit or loss	322,325	79,977	199,606	2,287	604,195
Bank and cash deposits	2,745	1,798	81,579	82	86,204
Trade and other receivables	340	13	4,316	-	4,669
Unrealised (losses)/gains on forward currency contracts	(200,707)	(75,519)	276,663	-	437
Trade and other payables	_	_	(68)	-	(68)
Distribution payable		_	(4,755)	-	(4,755)
	124,703	6,269	557,341	2,369	690,682

	USD £'000	EUR £'000	GBP £'000	SEK £'000	2016 Total £'000
Financial assets at fair value through profit or loss	234,612	65,112	156,766	3,928	460,418
Bank and cash deposits	3,241	1,363	7,754	_	12,358
Trade and other receivables	229	11	41	_	281
Unrealised (losses)/gains on forward currency contracts	(121,454)	(67,547)	193,050	_	4,049
Payables	_	_	(36)	_	(36)
Distribution payable	_	_	(4,776)	_	(4,776)
	116,628	(1,061)	352,799	3,928	472,294

#### Foreign currency sensitivity analysis

The table below details the sensitivity of the Partnership's fair value to a 10 per cent change in the Sterling exchange rate against the US Dollar, Euro and Swedish Krona currencies with all other variables held constant. The resulting impact on the NAV of the Partnership is detailed in the table below. The sensitivity analysis percentage represents the Investment Manager's assessment, based on the foreign exchange rate movements over the relevant period and of a reasonably possible change in foreign exchange rates.

The table below includes the effect of the Group's hedging strategy.

	2017 USD £'000	2017 EUR £'000	2017 SEK £'000	2016 USD £'000	2016 EUR £'000	2016 SEK £'000
10% increase	(11,337)	(515)	(215)	(10,603)	97	(357)
10% decrease	13,856	628	263	12,958	(118)	436

#### Interest rate risk

Interest receivable on bank deposits or payable on bank overdrafts are affected by fluctuations in interest rates, however as interest rates are low the effect is not expected to be material. All cash balances are at variable rates. Interest rate risk may exist in the Partnership's underlying investments, the analysis of which has not been possible.

#### Credit risk

Credit risk in relation to securities transactions awaiting settlement is managed through the rules and procedures of the relevant stock exchanges. In particular settlements for transactions in listed securities are effected by the Custodian on a delivery against payment or receipt against payment basis. Transactions in unlisted securities are effected against binding subscription agreements. Credit risk may exist in the Partnership's underlying investments, the analysis of which has not been possible.

The principal credit risks for the Partnership are in relation to deposits with banks. Northern Trust (Guernsey) Limited ("NTGL") acts as the principal banker to the Partnership, and as custodian of its assets. The securities held by NTGL as Custodian are held in trust and are registered in the name of Syncona Investments LP Incorporated. NTGL is a wholly owned subsidiary of The Northern Trust Corporation ("TNTC"). TNTC is publicly traded and a constituent of the S&P 500. As at 31 March 2017, TNTC has a credit rating of A+ (31 March 2016: A+) from Standard & Poor's and A2 (31 March 2016: A2) from Moody's. The credit risk associated with debtors is limited to any unrealised gains on open forward foreign currency contracts, as detailed above, and other receivables.

#### Liquidity risk

The Partnership is exposed to the possibility that it may be unable to liquidate its assets as it otherwise deems advisable as the Partnership's underlying funds or their managers may require minimum holding periods and restrictions on redemptions. Further, there may be suspension or delays in payment of redemption proceeds by underlying funds or holdbacks of redemption proceeds otherwise payable to the Partnership until after the applicable underlying fund's financial records have been audited. Therefore, the Partnership may hold receivables that may not be paid to the Partnership for a significant period of time, may not accrue any interest and ultimately may not be paid to the Partnership. As at 31 March 2017, no suspension from redemptions existed in any of the Partnership's underlying investments (31 March 2016: nil).

#### 22. Financial risk management and associated risks (continued)

The table below details the Partnership's liquidity analysis for its financial assets and liabilities. The table has been drawn up based on the undiscounted net cash flows on the financial assets and liabilities that settle on a net basis and the undiscounted gross cash flows on those financial assets and liabilities that require gross settlement.

	Within 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	Greater than 12 months £'000	2017¹ Total £'000
Financial assets at fair value through profit or loss	161,664	137,494	237,344	67,693	604,195
Cash and cash equivalents	86,204	_	_	_	86,204
Trade and other receivables	4,669	_	_	_	4,669
Unrealised (loss)/gains on forward currency contracts	-	(461)	898	_	437
Payables	(68)	_		_	(68)
Distribution payable	_	_	(4,755)	_	(4,755)
Total	252,469	137,033	233,487	67,693	690,682
Percentage	36.6%	19.8%	33.8%	9.8%	100.0%

	Within 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	Greater than 12 months £'000	2016¹ Total £'000
Financial assets at fair value through profit or loss	110,500	36,833	230,209	82,876	460,418
Cash and cash equivalents	12,358	_	_	-	12,358
Trade and other receivables	281	_	_	-	281
Unrealised gains on forward currency contracts	_	4,049	_	_	4,049
Payables	(36)	_		_	(36)
Distribution payable	-	_	(4,776)	_	(4,776)
Total	123,103	40,882	225,433	82,876	472,294
Percentage	26.1%	8.7%	47.7%	17.5%	100.0%

<sup>1</sup> The liquidity tables above reflect the anticipated cash flows assuming notice was given to all underlying investments as at 31 March 2017 (31 March 2016). They include a provision for "audit hold back" which most hedge funds apply to full redemptions and any other known restrictions the managers of the underlying funds may have placed on redemptions. Where there is currently no firm indication from the underlying manager on the expected timing of the receipt of redemption proceeds, the relevant amount is included in the "greater than 12 months" category. The cash flow projections are therefore conservative estimates.

#### **Holding Company**

#### Market price risk

The Company invests in early stage life science companies that typically have limited products in development; any problems encountered in a product may have a damaging effect on that company's business and the value of the investment.

This is mitigated by the employment of highly experienced personnel and the performance of extensive due diligence prior to investment.

#### Foreign currency risk

Foreign currency risk represents the potential loss or gain on the valuation of life science investments, calculated using a discounted cashflow model, as a result of the impact that a change in foreign currency exchange rates would have on future cash flows of the investee companies. All investments are made in Sterling and all investments report in Sterling. The below analysis is calculated from movements in the USD exchange rate affecting the life science investments.

	2017 £'000
10% increase	11,437
10% decrease	(13,980)

#### Interest rate risk

Interest rate risk is negligible in the Holding Company as no cash or debt is held.

#### Credit risk

The Holding Company has no receivables. The equity investments in life science companies are highly illiquid and cannot be recovered from the investee. The investments are held for the long term and will typically be realised through sale or Initial Public Offering of the companies concerned.

#### Liquidity risk

Liquidity risk is that the commitments held by the Holding Company are not able to be met. The Holding Company holds no cash and has no access to debt and instead relies on liquidity from the Partnership. The liquidity risk associated with the Partnership is set out in the Partnership section above.

The table below details the Holding Company's liquidity analysis for its financial assets and liabilities. The table has been drawn up based on the undiscounted net cash flows on the financial assets and liabilities that settle on a net basis and the undiscounted gross cash flows on those financial assets and liabilities that require gross settlement.

	Within 1 month £'000	1 to 3 months £'000	3 to 12 months £'000	Greater than 12 months £'000	2017 Total £'000
Financial assets at fair value through profit or loss	-	_	-	205,316	205,316
Receivables	-	108	_	397	505
Payables	(34)	_	_	-	(34)
Total	(34)	108	_	205,713	205,787
Percentage	_	_	_	100.0%	100.0%

#### 23. Fair value measurement

IFRS 13 requires the Group to establish a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under IFRS 13 are set as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices) or other market corroborated inputs; and

Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Company. The Group considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, and provided by independent sources that are actively involved in the relevant market.

The following table presents the Group's financial assets and liabilities by level within the valuation hierarchy as of 31 March 2017 and 31 March 2016:

Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	2017 Total £'000
Financial assets at fair value through profit or loss:				
Syncona Investments LP Incorporated	_	690,682	-	690,682
Syncona Holdings Limited		_	205,787	205,787
Total assets	_	690,682	205,787	896,469
Assets	Level 1 £'000	Level 2 £'000	Level 3 £'000	2016 Total £'000
Financial assets at fair value through profit or loss:				
Syncona Investments LP Incorporated	-	472,294	_	472,294
Total assets	_	472,294	_	472,294

#### 23. Fair value measurement (continued)

As noted below, 9.9 per cent (31 March 2016: 8.0 per cent) of the Partnership's fair value measurements consist of positions residing in Level 3 of the fair value hierarchy ("the Level 3 investments"). IFRS 13 requires the fair value measurement of the Partnership to be classified in the same level of the fair value hierarchy as the lowest level input that is significant to the overall valuation of the Partnership. Given their quantum, the Directors do not consider the Level 3 investments to be significant to the overall fair value of the investment. As such, and in accordance with IFRS 13, the Partnership investment has been disclosed within Level 2 in the fair value hierarchy. The Directors have provided additional information in respect of the assets and liabilities of the Partnership below.

Syncona Holdings Limited (the "Holding Company") is an addition to the Group as a result of the December 2016 transaction.

All the assets in the Holding Company are Level 3 and accordingly there is a large increase in Level 3 assets compared to prior year.

The following table presents the Partnership's financial assets and liabilities by level within the valuation hierarchy as of 31 March 2017:

Reasonable Change in

Asset type	Level	2017 £'000	2016 £'000	Valuation technique	Unobserved inputs	Key input	Reasonable possible shift +/-	Change ir valuation £'000	Relationship of inputs to value
Listed investments	1	157,332	104,359	Publicly available share price at balance sheet date	-	-	_	_	_
Listed investments	2	4,258	4,951	Publicly available share price at balance sheet date		ken using pul			ments are not regularly es. The main unobservable
					Different fair value from date of last trade and the year end	n/a	_	_	The greater the value of latest trade, the greater the fair value
Forward contracts	2	437	4,049	Publicly available exchange rates at balance sheet date	Unobservable inputs in institutions. IFRS 13 spusing publicly available unobservable input rel	pecifically def e exchange ra	fines forward o ates and calcu	contracts a ulating the a	s Level 2. Valuation is taken asset value. The main
					Different exchange rates at year end	n/a	_	-	The greater the GBP exchange rate, the greater the fair value
Unlisted fund investments	2	381,745	313,859	Valuation produced by fund administrator. Inputs into fund	of the underlying funds	s. Valuation is servable inpu	s taken from fu uts of underlyir	und admini ng assets.	ent of the performance strator who has based the The main unobservable nance:
				components are from observable inputs	Valuation model produced by asset administrator	n/a	10%	38,175	The greater the manager's valuation, the greater the fair value
Long-term unlisted investments	3	39,036	27,643	Valuation produced by fund administrator	of the underlying funds by quarterly statement	s and calcula ts from each ations of futu	tions of any in administrator. Ire cash flows	npairment. The valuat from unde	ion is based on the rlying assets. The main
					Valuation model produced by asset administrator	n/a	10%	3,904	The greater the expectation for future profits, the greater the fair value
CRT Pioneer Fund	3	21,824	9,606	Valuation produced by fund administrator	of the investee compa by quarterly statement	nies and cald ts from the ad atest round o dministrator i in note 2. The	culations of an dministrator. T of investments s updated to d e main unobso	y impairme he valuatio and discou comply with	unted future cash flows. n Syncona accounting
					Valuation model produced by asset administrator	n/a	10%	2,182	The greater the expectation for future profits, the greater the fair value
		604,632	464,467						

The Partnership values investments in accordance with the International Private Equity and Venture Capital ("IPEVC") valuation guidelines. In line with the investment methodology outlined in the IPEVC guidance, new investments are valued equivalent to the cost of the investments. The Group does not have transparency over the inputs of this valuation.

Assets classified as Level 2 investments are underlying funds fair-valued using the latest available NAV of each fund as reported by each fund's administrator, which are redeemable by the Group subject to necessary notice being given. Included within the Level 2 investments above are investments where the redemption notice period is greater than 90 days. Such investments have been classified as Level 2 because their value is based on observable inputs. The Group's liquidity analysis is detailed in note 22.

Assets classified as Level 3 investments are underlying Limited Partnerships which are not traded or available for redemption. The fair value of these assets is derived from quarterly statements provided by each limited partnership's administrator.

There were no transfers between levels during the year (31 March 2016: nil).

The following table presents the movements in Level 3 investments of the Partnership for the year ended 31 March 2017:

	CRT Pioneer Fund £'000	Funds portfolio £'000	2017 Total £'000	2016 Total £'000
Opening balance	9,606	27,643	37,249	14,785
Purchases	12,218	12,796	25,014	14,163
Return of capital	-	(11,083)	(11,083)	(575)
Gain on financial assets at fair value through profit or loss	-	9,680	9,680	8,876
Closing balance	21,824	39,036	60,860	37,249

The net gain for the year included in the Statement of Comprehensive Income in respect of Level 3 investments of the Partnership held at the year end amounted to £9,680,448 (31 March 2016: £8,875,385 gain).

The following table presents the Holding Company's financial assets and liabilities by level within the valuation hierarchy as of 31 March 2017:

Asset type	Level	2017 £'000	Valuation technique	Unobserved inputs	Key input	Reasonable possible shift +/-	Change in valuation £'000	Relationship of inputs to value
Wholly owned Syncona group companies	3	586	Net assets of wholly owned Syncona group companies	Wholly owned Synco	ipanies, char ona group co	nges in fair valu Impanies are v	ue and calcu valued at net	the wholly owned lations of any impairment. assets with any necessary tes to the adjustments in
				Adjusted for fair value	n/a	_	-	The greater the assessment of impairment, the lower the fair value
Receivables	2	505	Adjustment for fair value	Unobservable inputs include management's assessment of any changes in fair value. Receivable is valued at cost with any adjustments made to reflect the fair value. The main unobservable input relates to the assessment of changes in fair value:				
				Adjusted for fair value	n/a	_	-	The greater the assessment of impairment, the lower the fair value
Price of latest funding round (investment made more than 12	3	96,315	Price of latest funding round	Unobservable inputs include management's assessment of the performance of the investee company and changes in fair value. For further information on valuation methodology, see note 2. The main unobservable input relates to the adjustments in fair value:				
months ago)				Adjusted for fair value	n/a	_	-	The greater the assessment of impairment, the lower the fair value
Investments valued on discounted cash flow forecasts	3	3 108,415	Future earnings potential, discount for lack of marketability and time value of money	Unobservable inputs include management's assessment of the performance of the investee company and calculations of any impairment. For further information on valuation methodology, see note 2. The main unobservable input relates to assessment of the future performance of the investee:				
				Assessment of the future performance	Discount rate	2%	10,966	The greater the assessment of performance, the higher
				of the investee	USD exchange rate	10%	13,980	the fair value
		205,821						

#### 23. Fair value measurement (continued)

The following table presents the movements in Level 3 investments of the Holding Company for the year ended 31 March 2017:

	Life science investments £'000	Wholly owned Group companies £'000	2017 Total £'000
Purchases	179,790	1,160	180,950
Gain/(loss) on financial assets at fair value through profit or loss	24,940	(103)	24,837
Closing balance	204,730	1,057	205,787

The net gain for the year included in the Consolidated Statement of Comprehensive Income in respect of Level 3 investments in the Holding Company held at the period end amounted to £24,837,281.

#### 24. Commitments

The Group had the following commitments as at 31 March 2017:

2017	Uncalled commitment £'000
Life science portfolio:	
Milestone payments to life science companies	50,115
CRT Pioneer Fund	30,312
Funds portfolio	27,548
Total	107,975

There were no contingent liabilities as at 31 March 2017.

#### 25. Reconciliation of published NAV to accounting NAV prepared under IFRS

	2017 NAV £'000	2017 NAV per share £
Net assets reported to the London Stock Exchange	894,673	1.36
Adjustment in value of financial assets at fair value through profit and loss:		
Increase in valuation of a late reporting fund investment	614	_
Adjustment to accrued expenses	(49)	_
Net assets per Financial Statements	895,238	1.36

#### 26. Subsequent events

These Consolidated Financial Statements were approved for issuance by the Board on 5 July 2017. Subsequent events have been evaluated until this date.

Since the year end, Syncona has invested \$12.5 million (£9.8 million) in the \$45.0 million Nightstar Series C investment round and written up its holding in Nightstar to £69.7 million, a £20.3 million or 3.1p per share uplift to the proforma valuation of the company at 31 March 2017.

Including this follow-on investment in Nightstar, Syncona has invested £26.2 million in three follow-on investments in its life science portfolio since 31 March 2017.

A scrip dividend for the year ended 31 March 2017 of 2.3 pence per Ordinary Share will be paid on 23 August 2017 to those shareholders on the register of members of the Company as at 21 July 2017.

## AIFMD Disclosures (unaudited)

#### Report on remuneration and quantitative remuneration disclosure

The Alternative Investment Fund Managers' Directive (AIFMD) requires certain disclosures to be made with regard to remuneration by the Company's Alternative Investment Fund Manager (AIFM) to its staff. This information is available upon request, by writing to the Company Secretary at Northern Trust Fund International Fund Administration Services (Guernsey) Limited, Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3QL.

#### Leverage

The Group may employ leverage and borrow cash, up to a maximum of 20 per cent of the NAV at the time of incurrence, in accordance with its stated investment policy. The use of borrowings and leverage has attendant risks and can, in certain circumstances, substantially increase the adverse impact to which the Group's investment portfolio may be subject.

For the purposes of this disclosure, leverage is any method by which the Group's exposure is increased, whether through borrowing of cash or securities, or leverage embedded in foreign exchange forward contracts or by any other means. The AIFMD requires that each leverage ratio be expressed as the ratio between a Group's exposure and its net asset value, and prescribes two required methodologies, the gross methodology and the commitment methodology (as set out in AIFMD Level 2 Implementation Guidance), for calculating such exposure.

Using the methodologies prescribed under the AIFMD, the leverage of the Group is detailed in the table below:

	Commitment leverage as at 31 March 2017	Gross leverage as 31 March 2017
Leverage ratio	100%	100%

#### Other risk disclosures

The risk disclosures relating to risk framework and risk profile of the Group are set out in note 22 to the Financial Statements on pages 93 to 97 and the Principal risks and uncertainties on pages 41 to 45.

#### **Pre investment disclosures**

The AIFMD requires certain information to be made available to investors in an Alternative Investment Fund (AIF) before they invest and requires that material changes to this information be disclosed in the annual report of the AIF. An investor report relating to AIFMD Article 23 Supplemental Disclosures, setting out information on the Group's investment strategy and policies, leverage, risk, liquidity, administration, management, fees, conflicts of interest and other shareholder information, is included on page 176 of the Prospectus dated 28 November 2016, which is available on the Group's website at **www.synconaltd.com**. There have been no material changes to this information requiring disclosure.

## Report of the Depositary to the shareholders

Northern Trust (Guernsey) Limited has been appointed as Depositary to Syncona Limited (the "Company") in accordance with the requirements of Article 36 and Articles 21(7), (8) and (9) of the Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (the "AIFM Directive").

We have enquired into the conduct of BACIT UK Limited (the "AIFM") for the period 19 December 2016 to 31 March 2017, in our capacity as Depositary to the Company.

This report including the review provided below has been prepared for and solely for the shareholders in the Company. We do not, in giving this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown.

Our obligations as Depositary are stipulated in the relevant provisions of the AIFM Directive and the relevant sections of Commission Delegated Regulation (EU) No 231/2013 (collectively the "AIFMD legislation").

Amongst these obligations is the requirement to enquire into the conduct of the AIFM and the Company and their delegates in each annual accounting period.

Our report shall state whether, in our view, the Company has been managed in that period in accordance with the AIFMD legislation. It is the overall responsibility of the AIFM to comply with these provisions. If the AIFM or their delegates have not so complied, we as the Depositary will state why this is the case and outline the steps which we have taken to rectify the situation.

The Depositary and its affiliates are or may be involved in other financial and professional activities which may on occasion cause a conflict of interest with its roles with respect to the Company. The Depositary will take reasonable care to ensure that the performance of its duties will not be impaired by any such involvement and that any conflicts which may arise will be resolved fairly and any transactions between the Depositary and its affiliates and the Company shall be carried out as if effected on normal commercial terms negotiated at arm's length and in the best interests of shareholders.

#### **Basis of Depositary Review**

The Depositary conducts such reviews as it, in its reasonable discretion, considers necessary in order to comply with its obligations and to ensure that, in all material respects, the Company has been managed (i) in accordance with the limitations imposed on its investment and borrowing powers by the provisions of its constitutional documentation and the appropriate regulations and (ii) otherwise in accordance with the constitutional documentation and the appropriate regulations. Such reviews vary based on the type of Fund, the assets in which a Fund invests and the processes used, or experts required, in order to value such assets.

#### Review

In our view, the Company has been managed during the period, in all material respects:

- in accordance with the limitations imposed on the investment and borrowing powers of the Company by the constitutional document; and by the AIFMD legislation; and
- (ii) otherwise in accordance with the provisions of the constitutional document and the AIFMD legislation.

For and on behalf of Northern Trust (Guernsey) Limited

## Company summary and e-communications for shareholders

#### **The Company**

Syncona Limited is a leading FTSE 250 company focused on investing in and building global leaders in life science.

The Company is a Guernsey authorised closed ended investment company listed on the Premium Segment of the London Stock Exchange.

#### Information for shareholders

The stock exchange code for the shares is SYNC.

The net asset value is published monthly via the regulatory news service and is also available on the Company's website. The Company publishes updates with a full investment portfolio review as at 30 September and 31 March each year.

A factsheet containing information on the Company's investments portfolio is published monthly and is available on the website and also by request from the Administrator.

#### Registrar services and e-communications for shareholders

Communications with shareholders are mailed to the address held on the share register. Any notifications and enquiries relating to registered share holdings, including a change of address or other amendment, should be directed to Capita Asset Services.

#### By phone:

UK: 0871 664 0300 calls cost 12p per minute plus your phone company's access charge.

From overseas: +44 371 664 0300 calls outside the United Kingdom will be charged at the applicable international rate. We are open between 9.00am – 5.30pm, Monday to Friday excluding public holidays in England and Wales.

#### By email:

shareholderenquiries@capita.co.uk

#### By post

Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, BR3 4TU.

Syncona Limited would like to encourage shareholders to receive shareholder documents electronically, via our website or by email notification instead of hard copy format. This is a faster and more environmentally friendly way of receiving shareholder documents. The online Signal Shares service from our registrar, Capita, provides all the information required regarding your shares.

Its features include:

- the option to receive shareholder communications electronically instead of by post.
- direct access to data held for you on the share register including recent share movements and dividend details.
- the ability to change your address or dividend payment instructions online.

To receive shareholder communications electronically in future, including all reports and notices of meetings, you just need the 'shareholder reference' printed on your proxy form or dividend notices, and knowledge of your registered address. Please register your details free on: www.signalshares.com

Should you require further information, please visit: www.synconaltd.com

Email: contact@synconaltd.com

### **Advisers**

#### Secretary, Administrator and registered office

Northern Trust International Fund Administration Services (Guernsey) Limited PO Box 255 Trafalgar Court Les Banques St Peter Port Guernsey GY1 3QL

#### **Alternative Investment Fund Manager**

BACIT (UK) Limited 91 Gower Street London WC1E 6AB

#### **Investment Advisor (to AIFM)**

Syncona Investment Management Limited 215 Euston Road London NW1 2BE

#### **Depositary and Custodian**

Northern Trust (Guernsey) Limited Trafalgar Court Les Banques St Peter Port Guernsey GY1 3DA

#### **Bankers**

Northern Trust (Guernsey) Limited Trafalgar Court Les Banques St Peter Port Guernsey GY1 3DA

#### **Auditors**

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#### **Solicitors**

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#### **Brokers**

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