CHILDREN'S INVESTMENT FUND FOUNDATION

# ANNUAL REPORT 2015

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# EVERY CHILD DESERVES TO SURVIVE & THRIVE

THE CHILDREN'S INVESTMENT FUND FOUNDATION (UK) TRUSTEES' ANNUAL REPORT FOR THE YEAR ENDED 31 AUGUST 2015

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# ANNUAL REPORT 2015



# THE WORLD'S BIGGEST FOUNDATION FOR CHILDREN

The Children's Investment Fund Foundation (CIFF) is a British philanthropy co-founded by Chris Hohn and Jamie Cooper in 2004. Supported by an endowment of $4.4 billion, it is now the world's largest philanthropy that focuses specifically on improving children's lives.

We believe that every child deserves to survive and thrive, today and in the future. So we seek to play a catalytic role as a funder and influencer to deliver urgent and lasting change at scale. In 2015, our grant portfolio grew to $878 million of active multi-year investments. Working together with partners, we achieved significant progress over the past year to seemingly intractable challenges for children and their families.

In Nigeria, for example, thousands of children's lives are being saved by a transformative approach to treating severe acute malnutrition at local health facilities and at home. This life-threatening condition, also known as severe wasting, occurs when children are too thin for their age.

A CIFF-funded programme in northern Nigeria had an average cure rate in June 2015 of 88%, far higher than international standards; and at $160 per child treated, it is cost effective. We are also seeing exciting results from our investments to bring down the costs of ready to use therapeutic foods, used to treat wasting.

Other big wins for 2015 included India's significant commitment to expel parasitic worms from children's bodies. An estimated 89 million children were treated on India's National Deworming Day. CIFF is funding technical support at national and state levels.

In Bihar, repeated rounds of deworming reduced the rate of worms in children from 68% in 2011 to 35% in 2015. As a result, millions of children have been cured of worms and avoided re-infection.

Also in India, we have been working with partners in Rajasthan to reduce the high rates of deaths and injuries in maternity wards. A safe childbirth checklist has been introduced in 101 clinics in the state. This simple innovation has helped transform the performance of health workers by improving their skills and confidence to care for both mother and child. The checklist has contributed to a significant fall in newborn mortality at the health facilities where it has been introduced.

On climate change, it was an important year for the planet when governments, cities and businesses pledged to lower carbon emissions and phase out greenhouse gases to help secure a healthy future for children.

Working with partners around the world, we have funded expert advice to policy makers, mayors and the private sector in Europe, China and Latin America. We use a sound evidence base to show that ambitious climate action is politically feasible and affordable.

Data is at the core of all our programmes. We believe that without quality evidence, we will not understand what does and does not work to maximise the potential impact for children. We have strengthened our commitment to transparency with a new policy to share data and evidence on what we and our partners are learning. From 2016, all CIFF-funded evaluations will be publicly available so that we are contributing to the global knowledge bank.

During the 2015 financial year, the foundation approved 38 new grants with a multi-year value of $419 million. Disbursements for 2015 totalled $220 million, which was 80% higher than last year.

None of this would have been possible without the generosity, energy and vision of the foundation's co-founders; who along with the trustees, professional staff, grantees and partners are constantly seeking ways to champion children.

# A YEAR IN REVIEW – HIGHLIGHTS

*In Nigeria, 54,000 children's lives were saved after treatment for severe acute malnutrition*

*The Power of Nutrition, which aims to raise $1 billion to tackle child undernutrition, was launched*

*Preliminary data shows that newborn mortality in 101 health facilities in Rajasthan fell significantly with the introduction of a safe childbirth checklist*

*With a reduced price of $1 per unit for the self-injectable contraceptive Sayana Press, orders increased to three million units*

*The first six carbon trading pilots in China began in a number of cities and provinces*

*The world's largest group of mayors and city officials came together to reduce greenhouse gas emissions*

*In India, seven million children watched Galli Galli Sim Sim, a local version of the educational TV show Sesame Street, between February and September*

*A $2 million investment in 14 developing countries led to $43 million in new funding to support early learning and early childhood development*

*89 million children were dewormed in one day in schools across India*

*In Kenya, over six million children were dewormed, achieving national geographical coverage*

*19,484 patients were screened and 86 possible Ebola cases were referred in Sierra Leone*

*The model for triage and isolation of Ebola cases has been adopted as the national standard in Sierra Leone*

# NUTRITION

*The right nutrition at the right time unlocks the potential of every child.*

## MISSION

Investing in children's nutrition has the power to trigger big social and economic changes. Children with well-developed brains and bodies have better life chances: they live longer and healthier lives, they do better in school, and they grow into more productive adults.

We believe that tackling undernutrition is urgent, feasible and affordable. There are many proven interventions to break a seemingly intractable legacy. The right nutrients and care at the right time in the first 1,000 days from conception and through the early years of a child's life unlocks their potential.

In 2015, six million fewer children were chronically undernourished than the year before. That's a big achievement.

But with 159 million children chronically undernourished and 50 million acutely undernourished, we can do much better.

Ignoring undernutrition is wrecking children's lives. It is the underlying cause of 45% of child deaths. Every year, that's around 2.7 million deaths of children under the age of five.

In the worst-affected countries, four in ten children are stunted. Their bodies and brains have not grown or developed properly.

This long-neglected problem does not stop there. Undernourished girls grow into undernourished mothers who give birth to undernourished children. A vicious cycle holds back generation after generation.

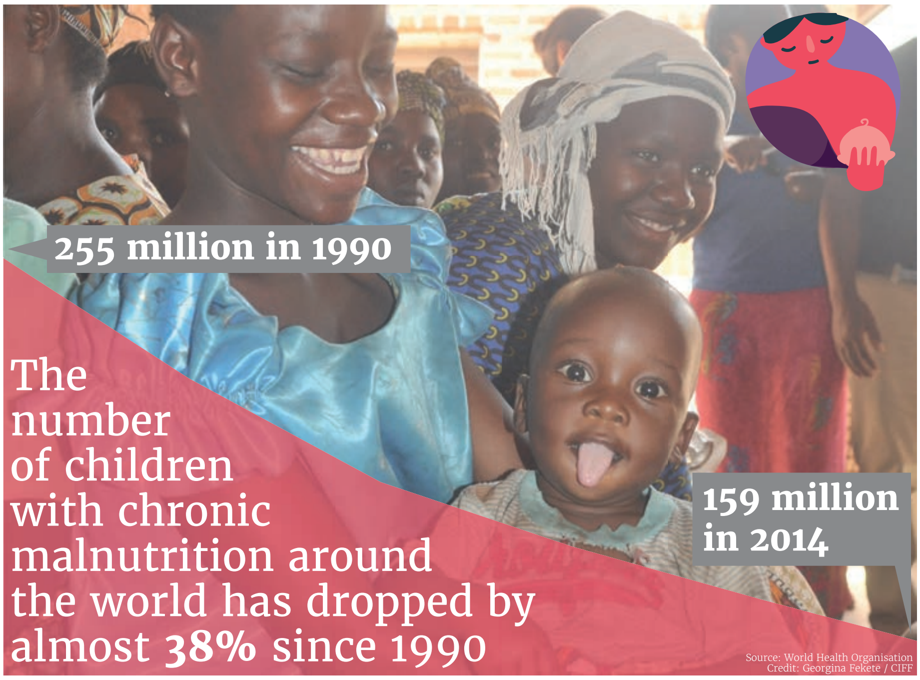
## APPROACH

We work with a wide-range of partners, including governments, to support large-scale nutrition programmes in Africa (Ethiopia, Tanzania, Nigeria, Malawi, Rwanda) and South Asia (Rajasthan in India and Bangladesh).

Our goals are to achieve big and significant reductions in the number of children who are stunted, and increase by at least one million the number of children successfully treated for severe acute malnutrition every year.

We are working to shift perceptions about nutrition and raise knowledge and resources for effective nutrition services. We collaborate with businesses, food scientists and innovators to develop new nutrition solutions. This includes bringing down the cost of treating malnutrition.

We are committed to collecting quality nutrition data and ensuring that knowledge and evidence is shared globally.




Source: World Health Organisation
Credit: Georgina Fekete / CIFF

## IMPACT

**Treating life-threatening malnutrition in Nigeria:** A partnership with UNICEF and the Government of Nigeria is treating children under five years of age suffering from severe acute malnutrition, also known as severe wasting.

Since July 2013, 570,000 children were admitted for treatment for severe wasting resulting in 54,000 children's lives saved. The average cure rate in June 2015 was 88%, exceeding the minimum international standard of 75%. At $160 per child treated, and $1,117 per life saved, independent analysis showed that this programme is extremely cost effective.

**The Power of Nutrition:** The Power of Nutrition was officially launched in April 2015, with $200m of financing arrangements in place, through funding commitments from CIFF, the UK's Department for International Development, and the UBS Optimus Foundation. Matching commitments come from the World Bank's International Development Association and UNICEF.

An independent UK charity, the Power of Nutrition aims to unlock one billion dollars of additional funding from private and public donors to tackle child undernutrition in some of the world's poorest countries.

**Low-cost recipes to treat life-threatening malnutrition:** A partnership with Washington University in St Louis to develop lower cost formulas of ready-to-use therapeutic food (RUTF) produced some exciting results. Four new recipes of this life-saving food were developed, each one designed to suit local tastes and use local ingredients of four countries: Ghana, Ethiopia, Pakistan and India. The standard RUTF formula is peanut based. The new formulas use alternatives such as oats, maize, lentils, soybeans, dairy protein and fats.

On average, the ingredients were 50% cheaper than the existing recipe. We estimate that the overall cost of the new formulas, including manufacturing costs, will be 30% cheaper.

**The Global Nutrition Report:** The first Global Nutrition Report launched in November 2014 and is now firmly established as the go-to source for data and accountability on nutrition. It also triggered actions which informed the 2015 Global Nutrition Report. For example, the number of governments reporting nutrition spending increased from three in the 2014 report to 30 in the 2015 report.

We expect the report to continue influencing action on nutrition policy and budgetary frameworks. It will track the number of countries which meet global nutrition targets, and share data and programme coverage.

## NEW INVESTMENTS

**Tackling children's stunting & wasting in Tanzania:** Our first investment in Tanzania aims to reduce stunting by up to 17% in two regions, Simiyu and Ruvuma, by 2019. It will deliver a targeted bundle of proven behaviour-changing nutrition and health interventions across the 1,000 days from pregnancy to a child's second birthday.

The programme aims to demonstrate, for the first time, that severe wasting and stunting can be tackled simultaneously through existing health systems. It will test a hypothesis that an integrated approach is cheaper and more impactful.

We hope to encourage the Tanzanian government to take this approach to scale, and to stimulate discussions globally on tackling wasting and stunting in an integrated way.

**Reinventing community management of malnutrition:** A grant with Action Against Hunger will test and introduce into nutrition programmes cost-effective ways of treating children who are severely malnourished and at risk of dying. The investment aims to reduce the cost of treatment by up to 20%.

Action Against Hunger leads a coalition of respected partners including the International Rescue Committee and the London School of Hygiene and Tropical Medicine, to test effective ways of reducing the cost of treatment. They will also pilot new ways to reach more mothers and their children.

**Commercial innovation of nutrition products in Ghana:** This investment aims to demonstrate, for the first time in low or lower-middle income countries, the commercial viability and importance of special fortified foods for soon-to-be and new mothers.

The aim is to reduce low birth weight and improve maternal nutrition. The project is co-funded with the German government.

We believe that the creation of a successful and innovative market will encourage other food manufacturers to follow. If so, that could have a transformative impact in the global nutrition and food processor community.

**Costing the global nutrition goals:** Nutrition funding is far too low. At around 1% of national budgets and Overseas Development Aid, the resources available will not deliver the global goals for malnutrition. Working with a range of partners, this grant will generate the first global estimates of the funding needed to achieve the 2025 World Health Assembly nutrition targets.

It will also estimate projected funding gaps and suggest alternative financing scenarios. This work will provide an important resource for donors, governments and advocates in the lead up to the Nutrition for Growth Summit in Brazil in August 2016.

# A YEAR IN REVIEW - HEALTH

## HEALTH

*Every pregnancy celebrated and every child born healthy to a life of freedom.*

### MISSION

We believe that big improvements in survival, health and well-being of children and their mothers are urgent, feasible and affordable.

In  recent years, there has been progress to reduce under-five mortality. Yet millions of children and mothers still die or are injured from preventable causes. A little under half of all deaths of children under five occur in the first month of life.

Our work aims to improve the outcomes of pregnancies. It focuses on providing high quality, prompt care to improve maternal and newborn survival. By measuring these outcomes, informed and swift decisions can happen before it is too late.

An important neglected group are adolescent girls, who account for only 11% of births but more than 20% of maternal deaths and disabilities. Pregnancy at an early age robs girls of life chances. It harms their health, education and future prospects.

Childbearing at a young age also affects the health and wellbeing of their children. They are more likely to grow up stunted, where their bodies and brains do not develop properly. A vicious cycle holds back generation after generation.

Another neglected issue is the large number of children who are trafficked into slavery and exploitation. We are working with partners to end child slavery and exploitation, and we support efforts by the global community to end child marriage.

We have made significant investments to close the big gap in HIV treatment rates between adults and children. Our aim is to end paediatric AIDS by preventing mother-to-child transmission of HIV and treating all infected children.

### APPROACH

We work with a wide range of partners to prioritise areas for children and adolescents that have been neglected within global health.

We seek to fund new evidence-based approaches. This includes innovations in product design and service delivery in Africa and South Asia.

We support global and multi-country efforts to advocate for increased resources and action such as Family Planning 2020, the Accelerating Children's HIV Treatment initiative, Every Woman Every Child and the Freedom Fund.

## IMPACT

**Safe childbirth checklist:** Despite the best efforts of maternity and medical staff, essential drugs and practices are often overlooked or forgotten in labour wards. A grant to Jhpeigo in India has introduced a basic, paper-based tool to support health workers perform essential practices and prevent avoidable deaths.

The World Health Organisations's Safe Childbirth Checklist has been introduced in 101 health facilities in Rajasthan. Preliminary data shows early perinatal mortality fell significantly compared to control areas. There was also an improvement in knowledge and confidence of nurses to act in the absence of a doctor. Finally, there was an improvement in 28 out of 29 essential practices, including increasing availability of life-saving drugs, and improving hygiene, cleanliness and accurate diagnosis when every second counts.

Inspired by the changes, the checklist has been incorporated into the Government of India's maternal newborn health tool kit, and is being rolled out to other states.

**Meeting unmet demand for contraceptive choice:** For many women, an injectable is their preferred choice of contraception. An investment to reduce prices and scale-up access to contraceptive injectables is delivering promising results.

The programme has significantly reduced the price of Pfizer's Sayana Press to $1 per unit and orders have increased to three million units, enabling more countries to offer this easy to use and innovative product.

We are supporting the integration of Sayana Press within national family planning programmes in Nigeria, Tanzania, Senegal and Uganda.

Sayana Press's simplicity offers the potential to increase the number of health providers that can offer the product.

We are also funding evidence based research on the feasibility and cost-effectiveness of home and self-injection.

## NEW INVESTMENTS

**The Freedom Fund:** Often thought of as something belonging to another age, slavery continues to affect the lives of millions of men, women and children.

There are an estimated 35.8 million people around the world who are trapped in a life of slavery. As many as one in four slaves are believed to be children.

Our grant to the Freedom Fund has been designed to bring a strategic focus and increased financial resources to the fight against slavery.

The organisation places a high importance on strengthening data and evidence on slavery.

It targets resources with local partners working in countries with high rates of people trafficking.

**Preventing unintended teen pregnancy in Kenya:** This programme will support the Government of Kenya's efforts to improve reproductive health outcomes among adolescent girls.

Working with Marie Stopes Kenya, Ipas and UNFPA, the programme is designed to test and learn what works best for girls and then scale up service delivery. This includes more information, more choice and better access to contraceptives and care.

We aim to prevent 61,000 unintended pregnancies over a three year period among adolescent girls in Kenya - saving lives and helping girls reach their potential.

**Accelerating Children's HIV Treatment in Africa:** Children living with HIV are one-quarter less likely to receive treatment compared to adults.

This new global partnership with the US President's Emergency Plan for AIDS Relief will enable 300,000 more children living with HIV to receive life-saving treatment.

The initiative will work in nine countries with the highest burden of paediatric HIV, the lowest access to paediatric treatment and the greatest disparity in treatment coverage for children compared to adults living with HIV. CIFF's funding will go to Kenya, Malawi, Tanzania and Zimbabwe.

**Empowering women in India:** Education is a powerful tool for empowerment, especially if learning is linked to action. This grant with the Indian charity Ekjut aims to introduce and scale up participatory women's groups in Jharkhand through the government health system.

It will empower women with the knowledge to adopt preventive and care seeking behaviours during pregnancy, delivery and after birth. The goal is a one third reduction in neonatal mortality in the state.

**Improving newborn data:** The moment of birth is still the riskiest time of life for too many mothers and children. Yet reliable data collection systems at this critical moment of life do not exist in many countries.

We are working with the London School of Hygiene and Tropical Medicine to tackle some of the most important data gaps in newborn health. Working in Tanzania and Bangladesh, the grant will establish valid and comparable indicators to measure the life-saving interventions prioritised in the Every Newborn Action Plan.

It will also identify methods to improve the quality of stillbirth data from household surveys.

# CLIMATE CHANGE

*A low carbon world will help secure a healthy and prosperous future for children.*

## MISSION

Climate change poses the single biggest threat to the future of today's children.

Providing a climate-safe future promises multiple benefits today such as cleaner air, energy security and sustainable jobs, along with smart stewardship of the planet's resources.

Science tells us that climate security requires the global economy to be largely free of carbon pollution by 2050.

To protect and secure a healthy and sustainable future for children, we support the urgent global transition to a low carbon economy.

To achieve this, we are working towards transformational change in energy systems, cities and land use, as well as the phasing out of man-made super-polluting greenhouse gases.

## APPROACH

We use data and evidence to show that ambitious climate action is affordable, politically feasible and desirable.

We are working in Europe, China and Mexico to prepare energy systems for much higher rates of renewable generation, while stopping the building of new coal capacity and introducing carbon pricing.

At the same time we are working globally with megacities – urban centres where over 10 million people live. In China and Brazil, we are supporting the adoption of climate-smart principles in urban planning, transportation and air quality management.

In Brazil, we are working to change the business of land management to incentivise sustainable agriculture combined with forest protection and restoration.

We are also working towards a global phase-down of hydrofluorocarbons (HFCs), man-made chemicals found in air-conditioning and refrigeration, which are the most potent greenhouse gases.

Finally, as part of the build up to the landmark global climate talks in Paris in December 2015, we worked to leverage all of our investments to secure commitments from governments and businesses that make the transition to a low carbon world inevitable.

**"Keep temperature rise well below 2C"**

## IMPACT

**European emissions reductions:** Funding to the European Climate Foundation (ECF) continues to support climate ambition in the European Union.

The orgnanisation was influential in securing several aspects of Europe's proposed 2030 commitments including the 40% emissions reduction target against 1990 levels.

In addition, ECF and their partners successfully advocated for the removal of two billion tonnes of surplus carbon permits from the EU trading system.

Europe's pledge provided the first 2030 commitment of a major emitter of greenhouse gases in the run up to the December 2015 Conference of Parties meeting in Paris.

**Carbon pricing in China:** China is the world's second largest economy and the biggest green house gas emitter.

A national commitment from China to pricing carbon would mark a big turning point in international action on climate change.

Our funding to the Enviromental Defense Fund (EDF) supported the implementation of the government's official carbon trading pilot programmes in a number of provinces and cities.

The EDF-supported pilot in Shenzhen was exemplary in policy design and roll out and was an important step in building confidence for a nation-wide carbon trading scheme.

**Phasing out greenhouse gases:** The Montreal Protocol is the world's most successful environmental agreement. It has a good track record of regulating ozone-depleting chemicals. There is growing government support for an amendment to the Montreal Protocol to phase down HFCs which are not currently in its remit.

Our support to the Institute for Governance and Sustainable Development and the Environmental Investigation Agency continues to deliver influential expert advice to policy makers regarding the control of HFCs.

**Climate Summit:** In September 2014, the UN Secretary General (UNSG) held a Climate Summit in New York, attended by 120 heads of state.

Our portfolio included support to the UNSG's office and to a number of the partnerships and coalitions that announced initiatives at the summit.

Our funding to C40 supported the launch of a new Compact of Mayors which is the world's largest collaborative effort of mayors and city officials to reduce greenhouse gas emissions, track progress and prepare for the impacts of climate change.

The summit was an important milestone in the build up to the 2015 Paris talks as it raised political attention towards climate change to senior levels within national governments.

## NEW INVESTMENTS

**Sustainable cities in China:** We are working with Chinese municipalities and partners, coordinated by the Energy Foundation China and World Resources Institute China, to help Chinese cities implement climate-smart designs.

The aim is to demonstrate how the national government can deliver a new model of sustainable urban development through incentives and regulation.

We expect this investment to deliver 318 million tonnes of carbon emissions reduction per year in 2030. This will be achieved by reducing car dependency and improving air quality. Given that approximately one billion people will be living in Chinese cities by 2030, with approximately 13 million new urban dwellers added every year, this is one of the most important levers globally for tackling climate change.

**Measuring and reporting climate action:** There is currently no system for cities to measure and report greenhouse gases. We are supporting the adoption of a new system for transparently measuring and reporting emissions from big urban areas. Working with C40, the investment focuses on working with megacities in the developing world to help them measure their emissions consistently and transparently and set ambitious reduction targets.

The Compact of Mayors will also enable city officials to be held accountable for their climate commitments.

**Monitoring and verifying climate impact:** This programme will establish a system of independent auditing of climate policies and actions undertaken by developing countries, It will help governments to build their own capacity for monitoring, reporting and verification of policies. The German government is co-founding the programme which is supported by a number of technical partners, governments, and the UN.

**Years of Living Dangerously:** This groundbreaking documentary series explores the human impact of climate change.

It combines the blockbuster storytelling styles of top Hollywood movie makers with the reporting expertise of respected journalists. Following the success of the first series, we are supporting series two of *Years of Living Dangerously*, which will cover international climate stories and be broadcast on the National Geographic TV channel.

**Quality reforestation in Brazil:** This grant aims to combine the business acumen of the commercial plantation industry with best practices in conservation. The World Resources Institute, in partnership with a coalition of forest companies, is working to ensure that the best regulatory and financial environments are in place to attract investment for high quality and large scale reforestation initiatives. The programme's ambition is to support implementation of the Brazilian Forest Code and also provide a replicable business model for large-scale reforestation worldwide.

# EARLY LEARNING

*Early childhood education is the education vaccine.
Its effects last forever.*

## MISSION

Early experiences determine the development of a child's brain.

Every child has roughly 80 billion brain cells, or neurons, when they are born. This is almost the maximum number of brain cells he or she will ever have.

At birth, these neurons are only partially connected. They fuse rapidly in the early years of a child's life, forming a unique brain architecture which is the foundation of an individual's learning, behaviour and health.

Between 700 and 1,000 new neural connections are formed every second in the developing brain. This peaks between the ages of three and five. For this reason, providing young children with quality learning experiences which stimulate healthy neural connections has a crucial role in developing cognitive skills.

Providing quality early education before primary school will transform a child's abilities and opportunities throughout their lives. This not only benefits children as they grow into productive and creative adults, but also their families, communities, economies and society at large.

More than 200 million children under five in the developing world are not receiving the kind of early education that encourages the healthy neural connections needed to help children read, write and solve problems effectively.

Our goal is to ensure that every young child is prepared mentally, emotionally and physically for primary school and later life.

## APPROACH

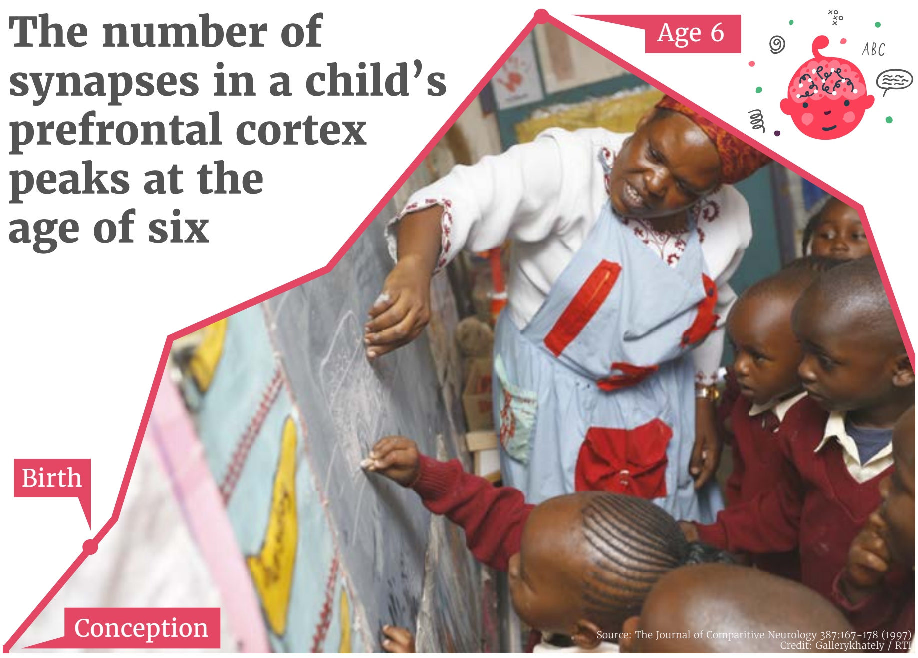
We work with a variety of partners in the public, private, and philanthropic sectors to raise the profile of early learning. We aim to increase resources and help providers improve the quality and beneficial impact of early learning services for children living in the world's poorest countries.

Part of our efforts involve the development of tools to measure the quality of early learning services and the skills that children develop before they start primary school.

Developing these measures will help build evidence and know-how on what works best to achieve impact in early learning.

We seek to transform the global education agenda through evidence and advocacy; to test and scale public sector delivery solutions; and to shape markets for early learning to harness private sector delivery for the poor.

**The number of synapses in a child's prefrontal cortex peaks at the age of six**




Source: The Journal of Comparitive Neurology 387:167-178 (1997)
Credit: Gallerykhately / RTI

## IMPACT

**Quality children's TV in India:** *Galli Galli Sim Sim* is the locally-produced version of Sesame Street, bringing early childhood education to television with engaging stories and music. Our investment is designed to develop content that is scientifically formulated to increase cognitive, social, health and hygiene skills. Children across India regularly watch and learn from this series with a parent or care-provider.

Season seven aired from February 2015 and is expected to reach 16 million children, nearly half from low income households.

Between February and September, audience figures showed that seven million children watched Galli Galli Sim Sim, mostly from poor households.

The programme is broadcast on national and regional television channels in seven languages – Hindi, Gujarati, Marathi, Tamil, Telugu, Kannada and Malayalam.

**Ready to learn in Kenya:** The Tayari grant was created to design and scale cost-effective models of quality pre-school learning for the public education system in Kenya.

Working with the Kenyan government and RTI International, classroom materials for the first year of pre-primary were created, teacher training materials developed and piloted, and metrics for quality early-learning assessments tested.

Implementation in the classroom was delayed by six months while the Kenya Institute of Curriculum Development reviewed the teaching materials.

The programme has been extended from three to four counties at the request of the government and the monitoring framework was broadened to track the impact on children for two years after their pre-primary education.

**Early childhood education metrics:** This investment developed actionable and open-source tests to assess children's development and learning achievement before they start primary school.

The learning materials are designed for children aged between four and six years. Partners included UNICEF, UNESCO, the World Bank and the Brookings Institution.

Working together, their experts created two toolkits: one to measure early child development and learning at the start of formal education; and one to measure the quality of pre-primary educational experiences with a focus on formal, pre-primary classrooms.

The toolkit for child development and learning was successfully piloted in a number of countries in Africa and Asia.

As a result, the Tanzanian government has plans to use both toolkits in a national survey that will inform its policy to scale up pre-school provision across the country.

## NEW INVESTMENTS

**Affordable early childhood education in India:** This investment aims to improve the quality of low-cost pre-primary schools and nurseries in the private sector across India. It is focused on children from low-income families living in urban areas. By 2022, we aim to reach at least 170,000 children with affordable early learning.

We will measure the quality of education so that children are ready for success in primary school. Working with partners in India, and the consulting firm FSG, the programme will develop a business model for low-cost private pre-schools which are financially viable for operators and provide effective education for children.

**The Education Partnership Group:** This non-profit and multi-donor partnership was established to help governments in developing countries provide quality education by creating partnerships with the private sector. The investment aims to improve and assess the learning outcomes of eight million children in government and private pre-primary and primary schools.

New Delhi's first privately managed government school was launched in July 2015. The school is already over-subscribed and the government plans to work with private providers to launch 20 more schools in 2016.

Other Early Childhood Centres are planned in 2016 for Nairobi and the Western Cape in South Africa.

**Early Learning Partnership:** This is phase two of a partnership with the World Bank to design and implement programmes, policies and research to enable high quality and cost effective early childhood education for children in Africa and South Asia. This will help children to develop the cognitive, linguistic, social and emotional capabilities needed to thrive in school and beyond.

CIFF's investment of $2m in 14 developing countries led to $43 million in new funding for early learning and early childhood development.

The programme works by providing direct funding for governments through a competitive process to help countries achieve their early learning goals.

It also supports research, capacity building and partnerships across the World Bank Group and with bilateral and multilateral partners to identify and share new approaches to promote early learning.

During the first year, country teams from Afghanistan, Bangladesh, Burkina Faso, India, Kenya, Lesotho, Madagascar, Mali, Malawi, Mauritania, Mozambique, Niger, Rwanda, Sri Lanka and Tanzania launched new early childhood development initiatives in education, social protection and health.

Building on this success, the UK's Department for International Development (DFID) joined the partnership with $7.5 million of funding in 2015.

# DEWORMING

*A world where every child is free from worms forever.*

## MISSION

Over 800 million children are at risk of infection from parasitic worms known as soil-transmitted helminths (STH) and schistosomes. These worms cause silent and widespread suffering.

There is a simple and effective solution.

Deworming children with medication – a single pill – has been shown to drastically reduce the number of worms in their bodies. This prevents the negative effects worms have on infected children's health, nutrition and cognitive abilities.

Enough pills have been donated to treat all children, helping make deworming cheap and cost-effective.

Our mission is to work with partners to fund and support evidence-based and sustainable children's deworming programmes at scale. This supports the World Health Organization's goals of reducing and preventing worm-related diseases by reaching 75% of school-age and pre-school-age children with regular deworming by 2020.

We aim to contribute to new evidence on deworming, looking especially at the possibility of breaking the transmission of worms.

Our long-term vision is a world where every child is free from worms forever.

## APPROACH

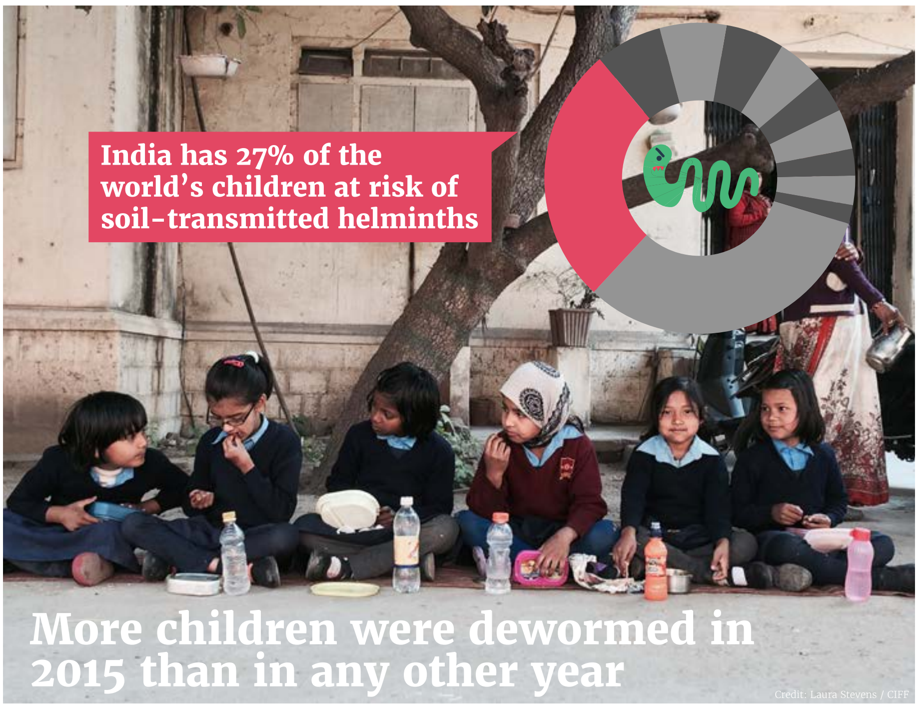
We are part of a global coalition to accelerate deworming efforts at scale.

We work with a range of partners to support governments in Kenya, India and Ethiopia to institutionalise national deworming programmes.

Each year, the number of children who are dewormed is rising as more countries adopt national programmes.

We estimate that more children were dewormed in 2015 than ever before.

In addition, we fund scientific and operational research, which includes testing the possibility of breaking transmission of worms through mass drug administration.



## IMPACT

**India deworms more children than ever before:** In India, deworming was always sporadic. This changed in February 2015 when 89 million children (64% of the targeted 140 million) were dewormed during the country's first ever National Deworming Day.

On that day, more than 18.7 million children were dewormed in Bihar State alone, where CIFF works with Evidence Action to provide technical support to the state's deworming programme.

In Bihar, repeated rounds of deworming have reduced the prevalence of worms from 68% in 2011 to 35% in 2015.

**Prevalence rates in Kenya plummet:** In Kenya, over 6 million children were dewormed, exceeding the national target and achieving national geographical coverage.

Over the past three years, the prevalence of soil transmitted helminths (STH) in Kenya has fallen from 33% to 16%.

Although there have been big falls of between 60% and 70% for all species of STH immediately following drug administration, there are high levels of reinfection for some worms.

Research from the programme's monitoring and evaluation activities continues to contribute to the evidence base on deworming.

**Ending Guinea worm:** The progress towards Guinea worm eradication has been swift and dramatic.

Only 15 Guinea worm cases were reported in the eight months to August 2015. This is an 80% fall compared to the same period in 2014.

This is incredible progress considering there were an estimated 3.5 million people suffering from the disease in 1986.

Chad and South Sudan remain the countries with the most Guinea worm cases.

Slowly but surely we are approaching elimination.

There is no cure, vaccine or surgical procedure to treat Guinea worm. The only way to halt the disease is by preventing people becoming infected in the first place.

We have spent and committed nearly $27m to Guinea worm eradication since 2011, working with partners including the Carter Center and the World Health Organization (WHO).

## NEW INVESTMENTS

**Deworming India:** We are supporting the Government of India's ambitious school-based deworming programme. Working with Evidence Action, we are funding an evidence- based, nationally-mandated deworming programme.

The government aims to reach at least 75% of children by 2020, in line with the World Health Organization's goals.

The grant provides national level and specific state support to ensure quality programming and smart use of evidence.

**Deworming Ethiopia:** We are supporting the Government of Ethiopia as it launches a national deworming programme for both soil-transmitted helminths and schistosomiasis. Ethiopia has almost 30 million children living in STH-endemic areas and is one of the WHO's five priority countries for deworming.

The government has adopted a National Action Plan on deworming and aims to treat 19.3 million children by 2019, with technical support from Schistosomiasis Control Initiative and Evidence Action.

The grant also includes work with the END Fund to raise more money directly for the national programme through a results-based financing mechanism.

**Deworming Kenya:** This is a two year randomised control trial building on the school-based deworming programme in Kenya.

It is looking at the technical feasibility of reaching epidemiological breakpoint and the operational feasibility – including effectiveness and costs – of different strategies to break transmission.

We are supporting the Kenya Medical Research Institute, the Ministry of Health and Ministry of Education, Science and Technology, the London School of Hygiene & Tropical Medicine, Deworm the World Initiative at Evidence Action and Imperial College London.

The study will generate empirical evidence relating to strategies to break transmission and validate and adjust ongoing modelling of STH transmission.

**Scientific research:** We are working with the Schistosomiasis Control Initiative to produce reliable data and use it to create and validate reliable quantitative models of schistosomiasis behaviour.

This work will help improve our understanding of how to effectively combat the disease.

Our modelling grant also supports the schistosomiasis work of the Neglected Tropical Disease Modelling Consortium, which aims to develop models of transmission for nine of the ten neglected tropical diseases.

The modelling efforts highlight the substantial achievements already made by the programmes, as well as the remaining challenges of achieving ultimate impact. They play an important role in generating robust scientific discussion and interest among stakeholders.

The data provided will help sustain momentum and focus on the treatment of schistosomiasis and contribute to the WHO guidelines.

# HUMANITARIAN

*Fast and flexible funding in times of exceptional crises.*

## MISSION

The foundation's overall mission is to support bold ideas to overcome seemingly intractable challenges for children.

Sometimes, a humanitarian crisis can threaten the very best ideas and long-term strategies.

In the past we have allocated up to 10% of annual grant funding to extraordinary events and humanitarian crises.

In October 2014, we committed $20 million as part of the global response to the Ebola outbreak in West Africa.

The Ebola outbreak not only posed a huge threat to children and their families in infected countries but more widely to public health systems and communities on the continent.

The funding was based on an assessment that the Ebola outbreak posed an unprecedented threat that could be stopped with quick, effective and coordinated action to break transmission of the disease.

It was the biggest single commitment that CIFF has ever made to a humanitarian crisis.

## APPROACH

The Ebola funding contributed to the global emergency response to train workers, diagnose and treat Ebola, and break the transmission of the disease.

Funding was rapidly released to organisations experienced in emergency responses and already working to combat the epidemic in West Africa.

We supported front line health workers and helped maintain primary and preventive health systems, particularly those needed to ensure that children are able to survive and thrive.

The way the funds were spent evolved as the epidemic shifted during 2014 and into 2015.

While investments began with a regional approach, we moved to a focus on Sierra Leone and eventually to Guinea, as the number of cases there overtook those in other countries.

In Sierra Leone, the CIFF-funded model for triage and isolation of suspected Ebola patients at health facilities, implemented by International Medical Corps, has been adopted as the national standard.

## IMPACT

As part of the global emergency response, we supported the crucial work carried out by the International Medical Corps, Médecins Sans Frontières, the British Red Cross, UNICEF, Save the Children, Restless Development and Action Aid. The tireless work of partners and staff helped break the transmission of Ebola in West Africa. Our funding helped to:

- Refurbish and staff six Satellite Response Units which screened 19,484 patients and referred 86 possible Ebola cases to an Ebola Treatment Centre. The CIFF funded model for triage and isolation at health facilities, implemented by International Medical Corps, has now been adopted as the national standard in Sierra Leone. All of these units have been handed over to Sierra Leone's Ministry of Health, which will continue to maintain Ebola surveillance and screening.
- Train 9,715 community health workers and 2,400 peripheral health units on revised guidelines for the appropriate management of childhood illnesses in the context of Ebola, including a 'no touch' policy.
- Identify and register 874 orphaned children, and help find and re-unite them with surving family members. Funding also provided counselling, food and non-food items to 1,079 children and trained 400 people in child protection case management.
- Provide essential and lifesaving non-Ebola related medicines for mothers and children to 1,185 public health units and 23 hospitals, targeting more than one million children aged under five, and 540,000 pregnant or breastfeeding mothers.
- Care for the dead. Levels of Ebola virus remain high after people have died. Bodies must be handled carefully by wearing appropriate personal protective equipment and must be buried immediately. During the West Africa outbreak many people contracted Ebola at funerals and while tending to those who had tragically lost their lives. To address this risk, we funded the difficult but vital work of providing safe and dignified burials for 7,237 victims of the disease.
- Raise awarenss about the disease. Information is the first line of defence during an outbreak.
- Raising awareness about the effects of the Ebola virus, how to guard against infection and what to do if someone suspected they or somebody else may be infected was key to moving towards transmission break. We supported the all-important public health response by providing information on the identification of Ebola cases and appropriate responses to Ebola cases. This reached more than 1.2 million people through community outreach activities in Liberia and more than 7 million people by SMS with information about Ebola prevention in Sierra Leone.

## NEW INVESTMENTS

Our funding of $20 million contributed to the global response to break transmission of the deadly disease by supporting the following five areas:

**Training and facilities to diagnose and treat Ebola:** Funding to International Medical Corps and Médecins Sans Frontiers focused on the medical treatment of the disease.

It supported Ebola Treatment Facilities directly by providing training of health and facility personnel and refurbishing and staffing referral units to screen patients and refer suspected Ebola cases.

**Raising awareness about Ebola and informing appropriate community response:** Reliable information was the first line of defence during the outbreak.

Raising awareness about the effects of the Ebola virus, how to guard against infection and what to do if someone suspected they or somebody else may be infected was essential to achieve a break in transmission of the virus.

CIFF supported outreach and communication to communities through grants to the British Red Cross, Action Aid, Restless Development and Save the Children.

**Safe and dignified burials:** A crucial part of the response to containing the disease and breaking transmission was the professional, safe and dignified burial of victims and suspected victims.

The British Red Cross and staff played an important role in this, one of the most difficult tasks during the emergency response.

**Reuniting families & protecting children:** Save the Children focused on registering children separated or orphaned by the outbreak. It trained staff on appropriate child protection approaches and helped provide tracking and reunification services for children and their families along with counselling, food and non-food items to children.

**Bringing attention to other diseases:** The collapse of public health systems due to the Ebola outbreak meant that many other illness and diseases were left untreated, with sometimes fatal consequences for the most vulnerable mothers and children.

CIFF provided funding to UNICEF to train community health workers in the appropriate management of childhood illnesses in the context of Ebola; and provided essential and lifesaving medicines for more than one million children under the age of five and 540,000 pregnant or breastfeeding mothers.

# FINANCIAL, INVESTMENT & GOVERNANCE REVIEW

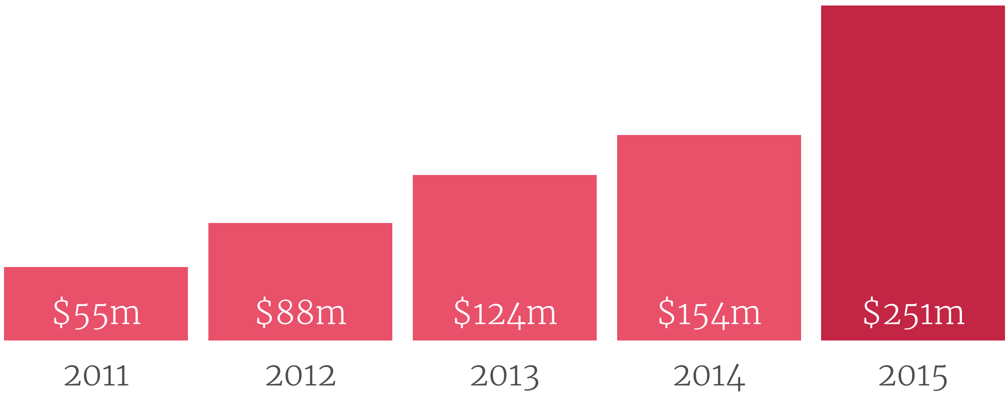
## (YEAR ENDED 31 AUGUST 2015)

# FINANCIAL REVIEW

## Key financials at a glance (year ended 31 August 2015)

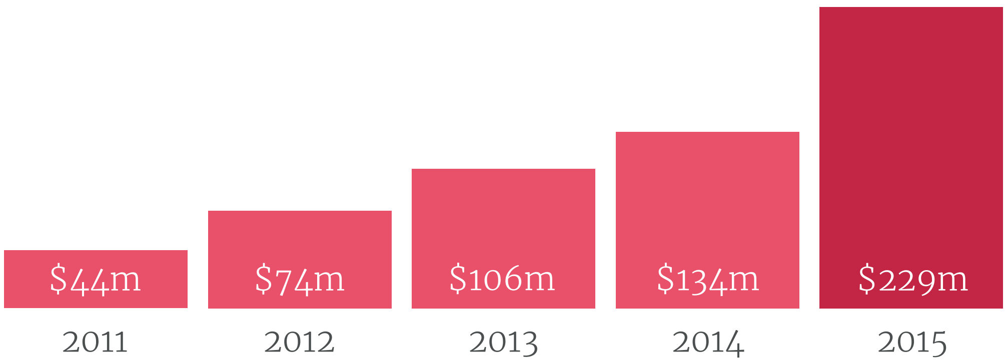
### Charitable activities in year to August (US$m)

**$251m**



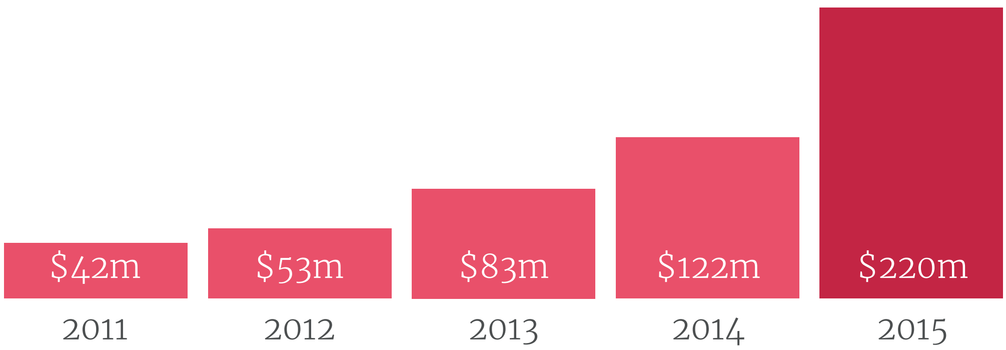

### Grant commitments in year to August (US$m)

**$229m**




### Grant disbursements in year to August (US$m)

**$220m**




Financial information for 2011–2012 has been converted from pounds sterling to US dollars using the average prevailing rate during the relevant period: 2011: 1.604; 2012: 1.574.

# FINANCIAL REVIEW

## Five-year financial summary (year ended 31 August 2015)

Table 1

**Summary of income and expenditure**

| Years ended 31 August | 2011 (US$m) | 2012 (US$m) | 2013 (US$m) | 2014 (US$m) | 2015 (US$m) |
|---|---|---|---|---|---|
| Incoming resources | 89.7 | 160.6 | 156.1 | 189.0 | 246.6 |
| Recognised gains/(losses) | 482.9 | (12.3) | 466.9 | 603.3 | 129.2 |
| **Total incoming resources including recognised gains and (losses)** | **572.6** | **148.3** | **623.0** | **792.3** | **375.8** |
| Investment management costs | 27.6 | 23.2 | 26.6 | 69.7 | 30.7 |
| Charitable activities | 55.1 | 87.8 | 123.8 | 153.8 | 251.2 |
| Governance costs | 2.2 | 3.8 | 3.0 | 5.5 | 6.2 |
| **Total resources expended** | **84.9** | **114.8** | **153.4** | **229.1** | **288.1** |
| **Net movement in funds** | **487.7** | **33.5** | **469.6** | **563.3** | **87.7** |

Table 2

**Summary of assets and liabilities**

| Years ended 31 August | 2011 (US$m) | 2012 (US$m) | 2013 (US$m) | 2014 (US$m) | 2015 (US$m) |
|---|---|---|---|---|---|
| Fixed assets | 3,940.8 | 3,164.8 | 3,471.8 | 3,545.7 | 4,328.1 |
| Current assets | 1,458.9 | 506.0 | 648.0 | 1,202.5 | 566.4 |
| Current liabilities | (2,014.0) | (319.1) | (264.7) | (370.9) | (441.0) |
| **Total assets less current liabilities** | **3,385.7** | **3,351.7** | **3,855.1** | **4,377.3** | **4,453.5** |
| Non-current liabilities | (18.8) | (30.8) | (64.5) | (23.4) | (11.9) |
| **Net assets** | **3,366.9** | **3,320.9** | **3,790.6** | **4,353.9** | **4,441.6** |

Table 3

**Summary of financial and operational information**

| Years ended 31 August | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Grant disbursements (US$m) | 42 | 53 | 83 | 122 | 220 |
| Grant disbursements as a % of net assets | 1.3% | 1.6% | 2.2% | 2.8% | 5.0% |
| 5-Year disbursement ratio | 1.1% | 1.3% | 1.8% | 2.2% | 3.1% |
| Number of new grants approved in year | 10 | 17 | 20 | 32 | 38 |
| Number of grants under contract | 15 | 32 | 37 | 53 | 81 |
| Average headcount (FTE) | 36 | 42 | 49 | 66 | 80 |
| Support costs as a % of charitable activities | 20.5% | 15.2% | 14.1% | 12.8% | 8.7% |
| Support costs as a % of disbursements | 26.8% | 25.1% | 21.1% | 16.1% | 9.9% |

The information above is prepared on a consolidated basis. Financial information relating to the statement of financial activities for 2011-2012 has been converted from pounds sterling to US dollars using the average prevailing rate during the relevant period: 2011: 1.604; 2012: 1.574. Financial information for 2011-2012 relating to the balance sheet has been converted from pounds sterling to US dollars using the closing prevailing rate at the balance sheet date of the relevant period: 2011: 1.625; 2012: 1.587.

The 5-year disbursement ratio is defined as the average spend divided by the average assets over a 5-year rolling period.

# FINANCIAL REVIEW

## Grant disbursements

The Foundation made US$220 million of grant disbursements in 2015, which was the first financial year that the Foundation had made grant payments greater than US$200m and represented a 80% increase on prior year (2014: US$122 million). The charts below show the grant payments made in 2015 by sector and geographic focus.

Figure 2
**Charitable grant payments by sector (US$m)**

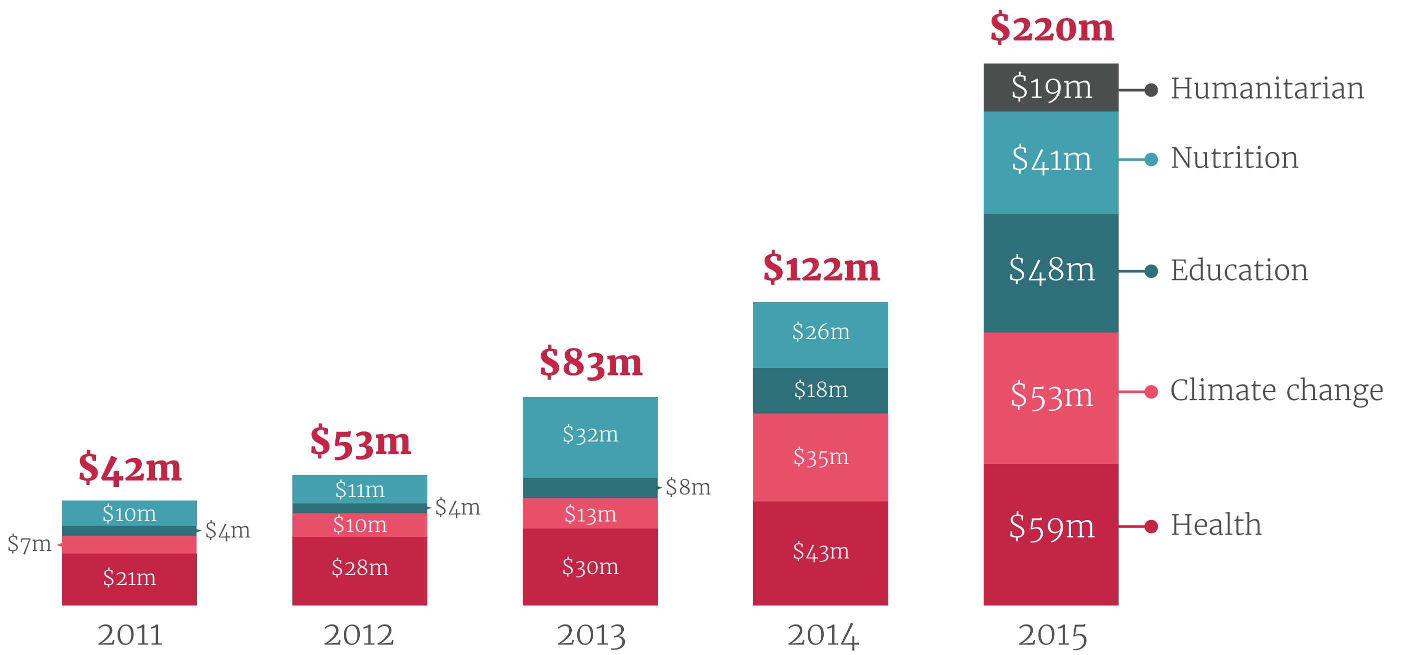
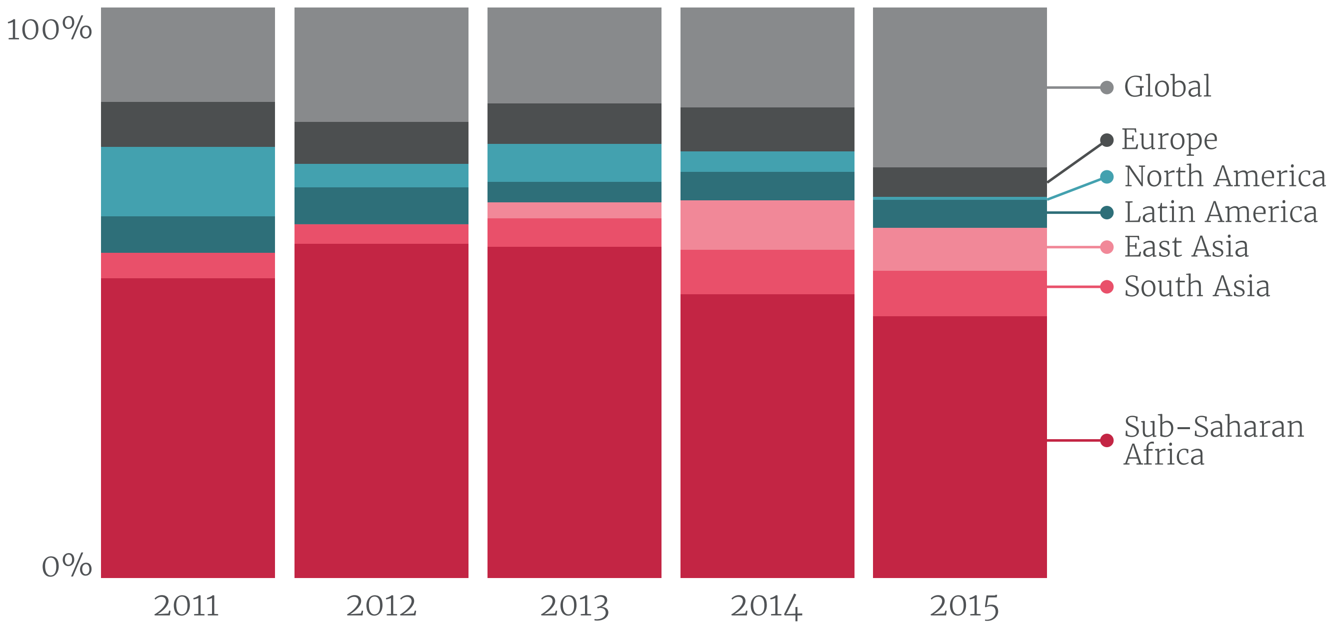



Figure 3
**Distribution of charitable grant payments by geographic focus**




Financial information relating to the statement of financial activities for 2011-2012 has been converted from pounds sterling to US dollars using the average prevailing rate during the relevant period: 2011: 1.604; 2012: 1.574.

# FINANCIAL REVIEW

## Charitable activities

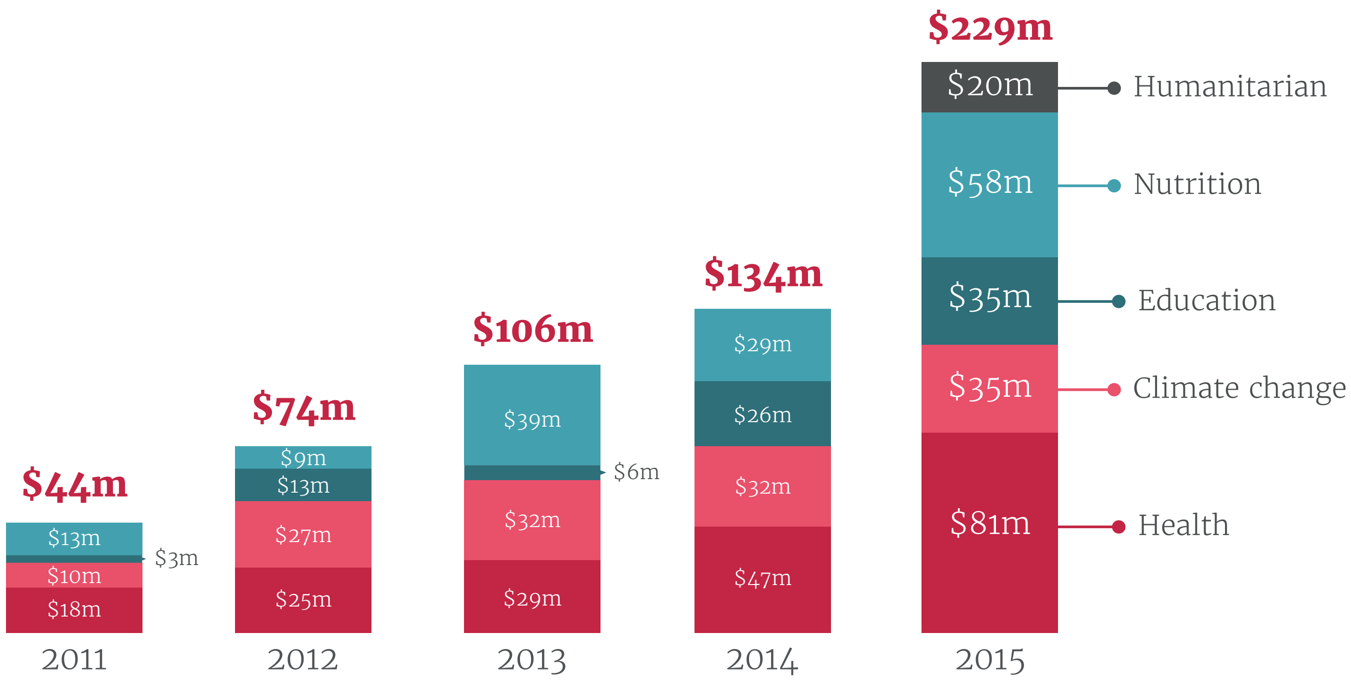
The Foundation committed US$251.2 million to charitable activities (2014: US$153.8 million), which consisted of US$228.8 million of charitable grant commitments (2014: US$134.2 million), US$0.6 million of activities undertaken directly (2014: US$0.5 million) and US$21.8 million of support costs (2014: US$19.2 million).

### Charitable grants

Total net programme grant commitments grew to US$228.8 million (after amendments to grant commitment contracts and the effects of foreign exchange) (2014: US$134.2 million), against a target for the year of $170m. The increase in commitments over the target was mainly due to the Foundations response to the Ebola outburst in Africa and a number of larger grants capitalising on strategic opportunities. The average value of new commitments in the year (excluding EME grants) was US$4.2 million (2014: US$3.8 million).

The chart below shows the breakdown of the grants made by sector (for further details on grant commitments see note 6).

Figure 4
**Grant commitments by sector (US$m)**




Financial information relating to the statement of financial activities for 2011-2012 has been converted from pounds sterling to US dollars using the average prevailing rate during the relevant period: 2011: 1.604; 2012: 1.574.

# FINANCIAL REVIEW

### Activities undertaken directly

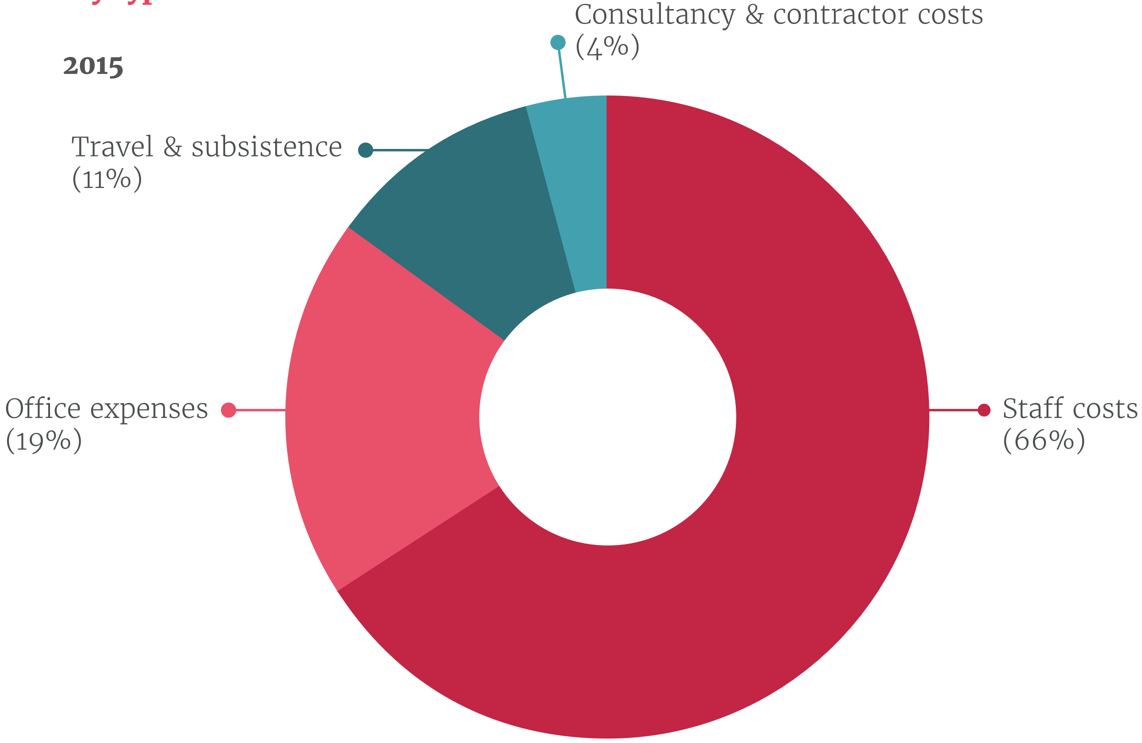
In addition, the Foundation undertook direct activities in relation to furthering the international agenda regarding global childhood malnutrition and school-based deworming, incurring direct costs of US$0.6 million (2014: US$0.5 million).

### Support costs

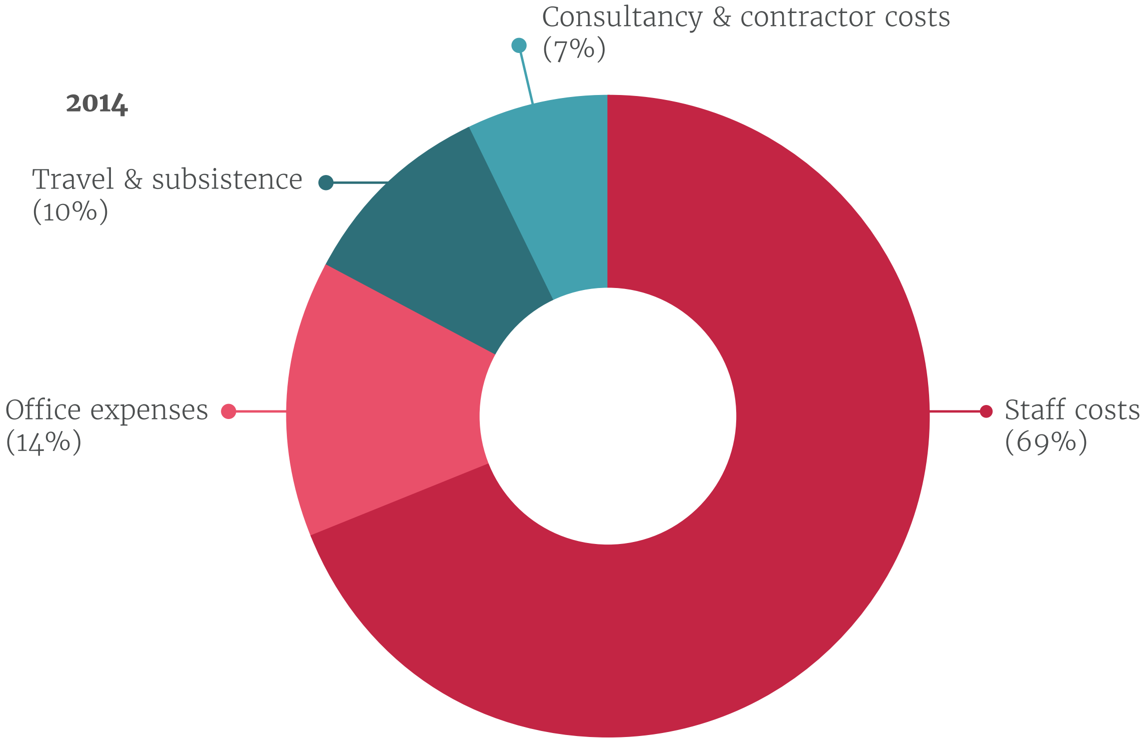
Support costs have increased (although at a much slower rate than granting) mainly due to the continued growth in CIFF's staffing with the average number of full time employees for 2015 being 80 (2014: 66). Costs relating to office expenses, the Group's second largest operating cost, have increased commensurate with the increase in staffing.

Figure 5
**Support costs by type**

**2015**




**2014**



# INVESTMENT REVIEW

## Investment strategy

The Trustees have developed an investment strategy which provides for investing in a diverse portfolio of financial investments with a long-term investment horizon. The Foundation's investment objective is to:

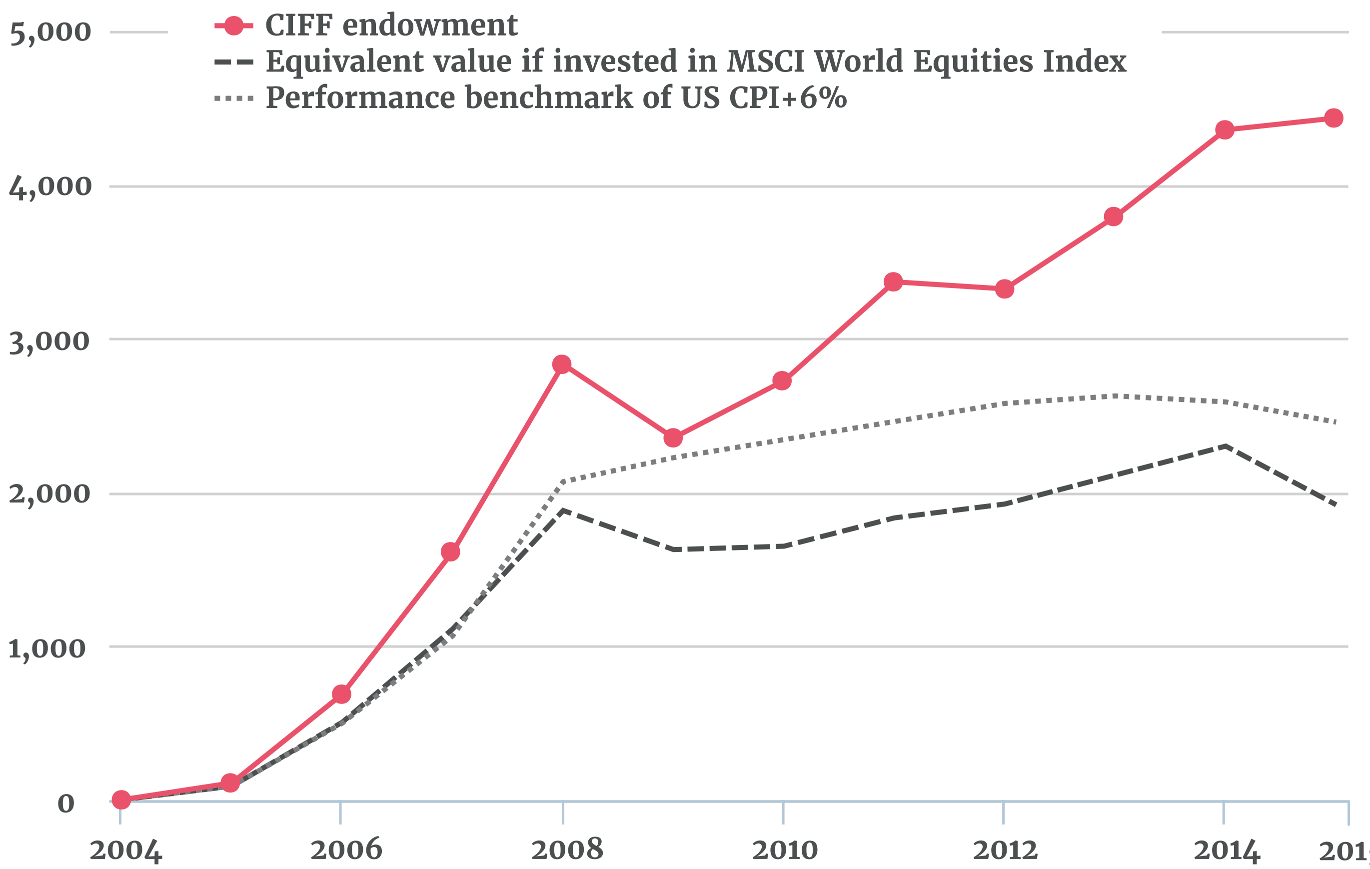
- seek an inflation-adjusted return of at least 6% per annum over a 10-year rolling period
- manage its investment portfolio to ensure appropriate liquidity and risk controls while also permitting illiquid investments with the potential for a high return
- diversify its investments across a range of asset classes and industry sectors.

The intention of the Trustees is to maintain and increase the value of the endowment fund to be able to sustain annual charitable disbursements of at least US$200 million in 2016 and grow overall spend in line with our spending target of distributing between 5% and 5.4% (upper limit) of average assets over a five year period.

## Asset growth

Since inception, the Foundation has received voluntary income, donations and donations-in-kind of over US$2.2 billion. Over the last 10 years, the Foundation's net assets have grown through investing to US$4.44 billion (2014: US$4.35 billion), after charitable activities, governance costs and investment management costs of over US$1.1 billion since inception. Figure 6 below shows the growth in the Group's net assets since 2004, benchmarked against the MSCI World Equities Index and CIFF UK's target return of 6% + US CPI.

Figure 6
**Total net asset growth since 2004 (US$m)**




Financial information for 2010-2012 relating to the Balance Sheet has been converted from pounds sterling to US dollars using the closing prevailing rate at the balance sheet date of the relevant period: 2010: 1.541; 2011: 1.625; 2012: 1.587. Please note that the above benchmarking analysis assumes compound growth on net assets in 2004 of US$3 million and includes voluntary income, donations and donations-in-kind received between 2005 and 2014.

# INVESTMENT REVIEW

## Investment returns

Total incoming resources increased to US$247.0 million (2014 US$156.1 million), consisting primarily of investment income for the year from dividends and interest received from the Group's equity and fixed income investment portfolio. Investment gains in the year were US$132.9 million (2014: US$466.3 million). The combined net investment return for the financial year ended 31 August 2015 was 7.6% (2014: 17.3%), reflecting a continuation of strong investment performance in recent years, with a cumulative performance of 175.9% since April 2009, equivalent to 17.1% per annum return (net of fees).

Table 4
**Investment net returns**

| | 2015 return | Return since 2009 | |
|---|---|---|---|
| | | Cumulative | Annualised |
| Nominal | 8% | 176% | 17% |
| Real | 7% | 166% | 16% |
| Inflation adjusted target | 6% | 67% | 8% |
| US CPI * | 0% | 20% | 2% |
| **Real** | **7%** | **166%** | **16%** |

*Current year US CPI was 0.2%. Return since 2009 values are shown over a 10 year rolling period

Cumulative investment performance is measured from April 2009, which is the inception date of Talos Capital Limited, CIFF's wholly owned subsidiary established for managing CIFF's investments.

## Investment management costs

Investment management costs in 2015 were US$30.7 million (2014: US$69.7 million), of which US$25.8 million related to investment management fees paid to the investment manager, The Children's Investment Fund Management (UK) LLP ("TCI") (2014: US$63.6 million) (see note 22 for further details of related party transactions). CIFF performs an annual review of TCI's fees, benchmarked against peers, and is comfortable that these fees are reasonable relative to the performance of the investment portfolio under the management of TCI.

# INVESTMENT REVIEW

## Asset allocation

TCI invests in different asset classes and sectors within the parameters set by CIFF's investment management restrictions adopted by the Trustees and set out in the investment management agreement between CIFF's investment subsidiary, Talos Capital Limited, and the Investment Manager (see Note 13 for full details of the investment restrictions).

The Foundation and its subsidiaries ("the CIFF Group") operate a diversified portfolio, invested in a number of different types of financial instruments across a wide range of sectors (with certain limitations – see investment policy on page 27). At the period ended 31 August 2015, 43% of the portfolio (excluding cash) was invested in loans (2014: 30%), with 38% of the portfolio in equities (2014: 32%).

Figure 7
**Percentage asset allocation by asset type (including cash)**

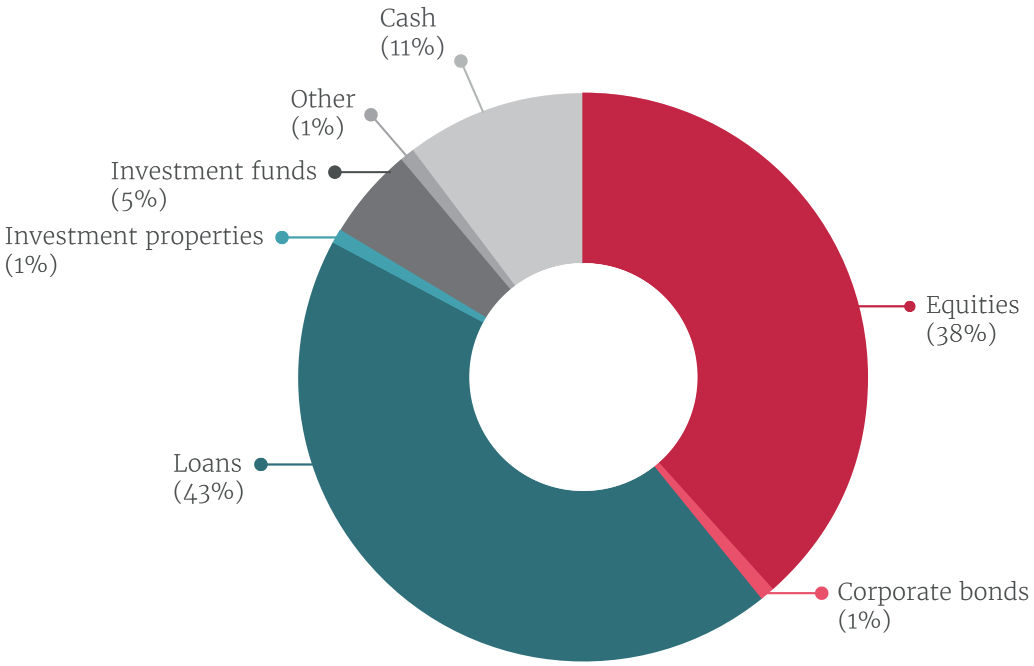
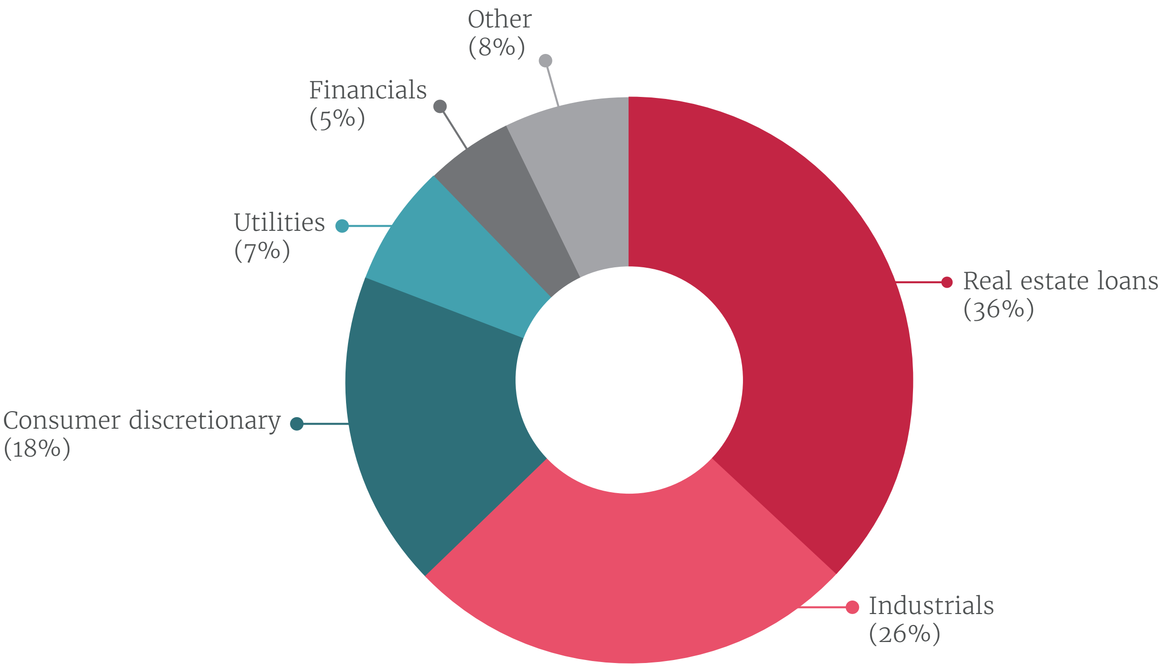



Figure 8
**Top five asset allocation by sector (% of investment assets)**



# RISK MANAGEMENT & KEY POLICIES

## Risk management

The Trustees are responsible for the management of the risks faced by the Foundation and have examined the major strategic, business and operational risks to which the Foundation is and may be exposed. The principal risks identified by the Trustees are reputational risk (e.g. programmes do not deliver the impact required by the CIFF board), strategic risk (e.g. relationships with partners are not managed appropriately leading to a negative impact on existing or potential programmes) and financial risks (e.g. fraud and investment risk). The Trustees are satisfied that sub-committees, systems, controls and policies are in place to mitigate and manage exposure to such major risks identified by the Trustees. They continue to review current processes recognising that systems can only provide reasonable, but not absolute, assurance that major risks have been adequately managed.

The management of major risks is documented through the regular maintenance of a risk register, in accordance with guidance by the Charity Commission. The following categories are considered when classifying risks: governance risks, strategic risks, operational risks, financial risks, external risks, compliance with law and regulation and reputational risks. Where major risks are identified, assurance is sought that adequate controls have been actioned so that the risk is within the Foundation's risk tolerance. On a day-to-day basis, risk is primarily managed through its reserves, granting and investment policy, details of which are provided below.

## Investment risk management

### Investment policy

The Foundation implements its Investment Policy in accordance with its charitable objects and investment powers, as set out in its Memorandum of Association and in accordance with applicable guidance from the Charity Commission (including Charity Commission guidance "Charities and Investment Matters" ("CC14")) through direct and indirect investments, including via investment subsidiaries such as Talos Capital Limited, Talos Properties Holdings Limited, Talos Properties Limited and CIFF (UK) LLP.

Notwithstanding the significant investment returns which the Foundation has recognised since its inception, the Trustees remain mindful of their duty to review and monitor regularly the management of the Foundation's investments. In keeping with its obligations, the Finance, Audit and Investments Committee (the "Finance Committee"), chaired by Mr Emmanuel Roman, acts as an advisory body to the board of Trustees (the "Board") on finance, audit and investment matters.

While the trustees do not wish to restrict the endowment's investments to only those companies or sectors which reflect the foundation's values and charitable objectives, they recognise that some investments in companies or sectors may be harmful to the foundation's mission to transform the lives of poor and vulnerable children. Therefore, with effect from 22 September 2015, the Board revsolved that investments in the following companies or entities are prohibited:

- Tobacco manufacturing and marketing
- Food companies which do not commit to adopting the International Code of Marketing Breast Milk Substitutes
- Companies that derive more than 10 per cent of revenue from extracting fossil fuels, excluding natural gas
- Companies that derive more than 10 per cent of revenue from extracting natural gas, unless they have adopted a business strategy and plan to cut emissions to limit climate change to 2 degrees celsius

If a company in which the foundation is invested falls into one of these categories, the investment manager has 12 months to divest. However, there may be occasions when the trustees approve an investment in a prohibited category in order to encourage a company to change practices such as adopting the breast milk substitutes code or implementing a credible low carbon strategy.

Given the Finance Committee's own assessment, the Board are satisfied with the current investments and their allocation, although the Board will continue to monitor and review the investment strategy closely, through the Finance Committee and with the support of the Foundation's Chief Operating Officer, Hunada Nouss.

In 2012, the Trustees requested that the Finance Committee lead a review of the Foundation's investment policy and financial strategy. The results of this review led to a revised investment asset allocation and a change to the investment restrictions, which have been reviewed from time-to-time during this financial year. Further details of the investment management restrictions can be found in note 13.

The Trustees are aware of the potential conflict of interest which exists between CIFF and Sir Christopher Hohn as both a Trustee and his position as Managing Partner of TCI, the investment manager of the CIFF Group, and accordingly carefully and appropriately manage the relationship (see note 22).

The unconflicted members of the Finance Committee complete a full review of the Investment Policy at least annually, which includes a review of TCI, benchmarking its returns and management fees against its peers. Following the completion of the most recent review in October 2015, the unconflicted members of the Board endorsed TCI as the principal investment manager of the assets of the CIFF Group.

Further details of the investment portfolio can be seen in the notes to the consolidated financial statements.

# RISK MANAGEMENT & KEY POLICIES

### Cash management policy

The procedures relating to cash held by CIFF are governed by CIFF's Cash Management Policy, which was adopted by the Trustees on 11 March 2013. The Cash Management Policy is reviewed at least annually by the Finance Committee and the Trustees and, if necessary, amended.

The Cash Management Policy sets out how the Foundation's surplus cash will be held and/or deposited. Accordingly, the Cash Management Policy covers the management of all surplus cash held by the Foundation. In particular, the Cash Management Policy sets out:

- the principal objective of cash management at the Foundation, which is to ensure that the Foundation has sufficient cash available to meet its working capital requirements as they arise. The Foundation does not seek to maximise investment returns through its cash management activities
- the cash management activities that are permitted by the Foundation and the applicable limitations upon those activities
- who is required to authorise cash management activities.

The Foundation implements the Cash Management Policy in accordance with its charitable objects and investment powers, as set out in its Memorandum of Association and in accordance with applicable guidance from the Charity Commission (including CC14).

## Financial risk management

### Internal controls

CIFF's systems of internal controls are designed to provide assurance to the Board of Trustees that adequate procedures are in place and operating effectively to mitigate the risk of material misstatement or loss. The Foundation performs an internal review annually to review internal operational and financial controls and where appropriate recommend improvements.

CIFF's budgets are prepared annually alongside the Annual Business Plan. Charitable spend targets are a 5-year rolling disbursement ratio of 5% of average assets, with an upper limit of 5.4%. The Foundation's support and governance spend is set by reference to total planned charitable disbursements to ensure it remains reasonable and proportionate. On 22 September 2014, the Executive Team approved guidance for budget holders and staff to monitor and control support costs and governance-related expenditure.

### Granting policy

In February 2014, CIFF changed its approach to grant contracting for multi-year programmes from an annual basis to a "multi-year contracting" approach. The main reason for the change was to reduce administrative burden for CIFF and its grantees, as the revised approach will only require one contract for the life of the grant, whereas previously, CIFF required a separate contract for each year of the grant. The new multi-year contract permits, for example, a five-year programme to be contracted for the full five-year term of the programme, but subject to annual reviews and conditionality such that it remains consistent with SORP guidance, with expenditure being recognised annually in the Consolidated Statement of Financial Activities.

For each new grant programme, or "investment", a full programme budget and mapped work plan is developed by the grantee and the CIFF sector teams during the due diligence phase in order to obtain the necessary approval by the Board, the Climate Change Advisory Board ("CCAB") or, in the case of investments of a programme with a budget of US$1m or less, the CEO (see Foundation and Governance Structure on page 31 for further details of grant expenditure approval procedures).

Upon approval by the Board, CCAB, or CEO, the full programme budget is contracted for the full term of the programme, subject to an Annual Programme Review ("APR") which takes place during each year of the multi-year programme. During the APR, the relevant CIFF sector team reviews the progress of the grant and agrees the coming year's work-plan, budget, KPIs, milestones and deliverables.

The APR process is set out as a condition of the contract with the grantee, with release of funding being conditional upon agreement of the work-plan, budget, KPIs, milestones and deliverables by a specific date set out in the multi-year contract. The work-plans, budgets, KPIs, milestones and deliverables agreed under the APR process are recommended by the relevant sector team member and authorised by the relevant sector team Executive Director (ED) and the COO. Once agreed with the grantee and approved by CIFF, they are treated as forming part of the multi-year contract and new payment tranche dates are agreed with the Finance team for payment forecasting and cash flow management.

Failure to complete the APR process and agree the work-plans, budgets, KPIs, milestones and deliverables by the relevant date specified may result in cancellation of the contract under the terms of the CIFF grant contract with the grantee.

### Reserves policy

The Trustees are committed to applying CIFF's resources in a responsible manner for the purposes of yielding maximum benefit for children, their families and communities in the priority areas. CIFF's reserves policy sets spending at a level intended to sustain real increases in annual expenditure to deliver our mission, while preserving the investment base in real terms. The Trustees review reserves annually, and are satisfied that the Group is in a position to meet all its current and anticipated future commitments.

# RISK MANAGEMENT & KEY POLICIES

CIFF maintains three internal reserves to assist in achieving these financial objectives: a Restricted Fund, an Expendable Endowment Fund and Unrestricted Funds. The level of these Reserves, considered on a five-year time horizon, is the key determinant in the amount of capital which the Group is able to distribute each year to charitable activities.

**Unrestricted reserves**

*Designated funds*

Following the change of granting policy to multi-year contracting approach, the Board decided to earmark funds for the potential funding requirements in future years for the fulfilment of multi-year programmes approved by the Board of Trustees. As at 31 August 2015, the Trustees have earmarked US$507.6 million (2014: US$172.3) of reserves as designated funds in recognition of funds which may be called upon to fund multi-year programmes within the next 1 to 5 years.

*Operational reserves*

CIFF's unrestricted fund has also been used in 2015 and previous years as "Operational Reserves" to finance the Foundation's capital expenditure, support costs and governance costs and to provide a short term buffer for grant-making and other costs.

Cash flow projections for income and expenditure are reviewed to ensure that the level of disposable net assets is adequate and that the Foundation is in a position to meet all its grant-making and working capital commitments. In the event that the Foundation is unable to meet its commitments from reserves of unrestricted funds at their disposal, the Foundation will, as mentioned above, draw on the expendable endowment to meet those commitments as necessary.

In view of the high level of liquidity of the Foundation's assets, the Trustees do not consider that it is necessary or justifiable to carry unrestricted operational reserves and therefore working capital surpluses are transferred to the expendable endowment. The unrestricted operational reserves as at 31 August 2015 was US$nil (2014: US$nil).

**Restricted fund**

Restricted funds are generated when the donor stipulates how their donation may be spent. In most cases, there will be a time lag between when such funds are received and when they are expensed. The Trustees ensure that these funds are expensed in accordance with the terms under which they have been donated to the Group.

The Foundation co-operates and collaborates on various matters with The Children's Investment Fund Foundation, a not-for-profit organisation operating in the United States ("CIFF (US)"). CIFF receives restricted funds from CIFF (US) (see Relationships with other Charities page 33), which are disbursed by CIFF to section 501(c)3 registered US charitable entities on behalf of CIFF (US) under the agency agreement between CIFF and CIFF (US) signed 7 September 2011 and as amended 14 December 2012. During the year, the Group received US$5.1 million of restricted income from CIFF (US) (2014: US$3.9 million) which was disbursed to grantees in accordance with the agency agreement. On 1 July 2015, CIFF (UK) ended the agency agreement whereby it administered and managed grants on behalf of CIFF (US). As at 31 August 2015, the restricted fund was in a US$nil position (2014: US$nil).

**Expendable endowment**

The Group's endowment is expendable at the Trustees' discretion. The Trustees have the power to convert any required amount of this endowment from time-to-time into an income which can then be utilised by the Foundation to further its charitable objects in the future.

It is the Trustees' intention to monitor the value of the expendable endowment fund in real terms to ensure that the Group can maintain its existing level of annual charitable expenditure and increase in accordance with CIFF spend policy. At the year end, the value of the expendable endowment fund was US$3,934.0 million (2014: US$4,181.6 million).

# STRUCTURE & GOVERNANCE

## Foundation structure

CIFF is a company limited by guarantee, incorporated on 8 February 2002 and registered as a charity on 12 March 2002.

## Subsidiary companies

The Foundation had five wholly owned subsidiaries as at 31 August 2015 (2014: five). The Foundation has a wholly owned subsidiary, CIFF (UK) Trading Limited ("CIFF Trading") that during the financial year has been a member of both The Children's Investment Fund Management (UK) LLP ("TCI LLP") and TCI Fund Services LLP ("TCIFS LLP"). On 24 June 2015 CIFF Trading ceased to be a member of TCI LLP. On 18 December 2014 CIFF D Incorporated ("CIFF D") was established, of which 100% of the issued ordinary share capital is owned by CIFF Trading.

The Foundation has a second wholly owned subsidiary, CIFF (UK) Newco Limited ("CIFF Newco"), whose purpose is to hold an underlying investment in CIFF (UK) LLP in the form of partnership capital.

The Foundation has a third wholly owned subsidiary, Talos Capital Limited ("Talos") incorporated in Ireland, whose purpose is to hold an underlying investment portfolio that is managed to provide the Foundation with a regular return, therefore ensuring the ongoing achievement of the Foundation's objects.

The Foundation has a fourth wholly owned subsidiary, CIFF Nutrition (UK) Limited ("CIFF Nutrition (UK)"), whose principal activity is to promote the use of Ready-to-Use Therapeutic Foods ("RUTF") throughout developing countries.

The Foundation has a fifth wholly owned subsidiary, Talos Properties Holdings Limited ("TPHL"), whose principal activity is to act as the parent of a wholly owned subsidiary, Talos Properties Limited ("TPL"). The purpose of TPL is the acquisition and management of a UK investment property portfolio.

For the year ended 31 August 2015, the reported results for the year of the subsidiary undertakings of CIFF are disclosed in the attached financial statements, note 12. The results of the CIFF Group are consolidated and are presented in the attached consolidated financial statements.

## Foundation management

Under the leadership of the current Chief Executive Officer, Mr Michael Anderson CB, the organisation continued to focus on the key strategic programme areas of Nurtrition, Education, Health and Climate Change and the cross-cutting functions of Evidence Measurement and Evaluation, Strategy and Partnership and Finance and Operations.

# STRUCTURE & GOVERNANCE

## Foundation governance structure

### The Board of Trustees

The members of the Board of Trustees are set out below. For the purposes of company law the individuals listed are Directors of the Foundation and are appointed in accordance with the Foundation's constitution. The Board of Trustees meets to review and update the Foundation's strategy and areas of activity, including consideration of grant-making, investment, reserves and risk management policies and performance. The Trustees who were in office during the year and up to the date of signing the financial statements were:

Ms Jamie Cooper
Dr Mark Dybul
Mr Gerard Elias
Sir Christopher Hohn
Lord Mark Malloch-Brown
Ms Joy Phumaphi (resigned on 27 July 2015)
Dr Graeme Sweeney
Mr Ben Goldsmith (appointed on 18 November 2015)
Mr Masroor Siddiqui (appointed on 18 November 2015)

The Trustees are selected on the basis of their skills and expertise, in particular in the areas of business management and international development. The Trustees determine the strategy and policies of the Foundation and monitor implementation. The Trustees also serve as resources to the Foundation, sharing new and relevant research and projects, and directly supporting key aspects of operations.

All Trustees give their time freely and no Trustee remuneration was paid in the year. Details of Trustee expenses and related party transactions are disclosed in notes 9 and 22 to the financial statements. Trustees are required to disclose all relevant interests on an annual basis and register them with the Company Secretary and, in accordance with the Foundation's policy, withdraw from decisions where a conflict of interest arises.

The Foundation provides a formal induction programme for new Trustees and new committee members, comprising inter alia, the provision of the Foundation's key governance, policy and financial documents, relevant Charity Commission guidance notes and details of the organisational structure of the Foundation (including delegated authority levels).

Orientation sessions are also arranged to explain the legal obligations of Trustees and committee members and provide briefing from senior operational personnel and professional advisors. Governance training is carried out on an ongoing basis.

### Recent developments

During the year the Trustees encountered exceptional governance difficulties arising from differences between two Trustees, Sir Christopher Hohn and Ms Jamie Cooper. The Board had to seek extensive legal advice to ensure that its decisions complied with the law, Charity Commission requirements and practice, and were in the best interests of the Foundation. The cost of this advice in the year ended 31 August 2015 was US$2,050k (2014: US$87k).

### The Finance Committee

The Trustees are aware of the need to take expert advice in relation to investment matters. In May 2006, CIFF established a Finance, Audit and Investments Committee (the "Finance Committee") as a sub-committee of the board of Trustees for this purpose. Emmanuel Roman (CEO of Man Group) is the Chair of the Finance Committee and was appointed to the Finance Committee in February 2009.

The Finance Committee's role is to act as an advisory body to the Trustees on investment matters. The Finance Committee is not empowered to authorise specific investment transactions, which remains a matter for the Trustees. In particular, the Finance Committee's role is to:

- review in detail the performance, risk profile and management of the investment portfolio and to provide appropriate recommendations to the Trustees with regard to the investment portfolio from time-to-time as appropriate
- formally report at least once per year on the outcome of the Finance Committee's review of the investment portfolio
- recommend asset class ranges for the investment portfolio to the Trustees, including changes in the ranges from time to time
- recommend to the Trustees any investment initiatives which fall outside the agreed investment policy, but which the Finance Committee considers appropriate for consideration by the Trustees
- make recommendations to the Trustees on those areas in which the Trustees retain responsibility for determining policy, as well as providing expert advice on investment matters
- carry out certain reviews and checks and report, at least annually, to the Trustees upon the outcome of such reviews and checks, including with regard to the appointment, performance and remuneration of investment managers

The Finance Committee is also responsible for the appointment of external auditors, oversight of the audit process and safeguarding auditor independence.

### Climate Change Advisory Board

CCAB was established in August 2010 to take delegated responsibility on behalf of the Board for certain grant-making activities, relating to the Foundation's environmental objectives of advancing environmental protection or improvement, including preservation and conservation of the natural environment and the promotion of sustainable development to mitigate climate change. The CCAB considers grant applications of up to and including US$10 million which fall within the scope of the CCAB's delegated authority.

# STRUCTURE & GOVERNANCE

**CEO delegated authority**

On 11 February 2014, the Board delegated to the CEO responsibility for receiving, considering and making decisions upon certain grant proposals up to and including US$1 million. The CEO may receive, consider and make decisions on certain grant proposals of a value of up to and including US$1 million over the duration of the proposed project, subject to a majority of the Executive Team having also reviewed and approved any such grant proposals. This authority is subject to a maximum aggregate limit of US$10 million during any financial year. On 10 August 2015, the Board amended and increased the maximum aggregate limit to 7.5% of forecast disbursements (US$16m).

## Trustees' & Directors' responsibilities

The Trustees (who are also directors of The Children's Investment Fund Foundation (UK) for the purposes of company law) are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the Trustees to prepare financial statements for each financial year. Under that law they are required to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the Trustees must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and charitable company and of the group's excess of income over expenditure for that period. In preparing each of the group and charitable company financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charitable company will continue its activities.

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

The Trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charitable company's transactions and disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

## Relationship with other charities

As mentioned previously the Foundation co-operates and collaborates on various matters with CIFF (US). During the fiscal period, Ms Jamie Cooper, Ms Joy Phumaphi (resigned on 27 July 2015) and Dr Mark Dybul were trustees of both CIFF and CIFF (US). Under an agency agreement dated 7 September 2011 and as amended 14 December 2012, CIFF (US) transfers restricted funds to the Foundation so that the Foundation can make annual grants and manage active programmes on behalf of CIFF (US), primarily in the area of combating HIV/AIDs. On 1 July 2015, CIFF (UK) ended the agency agreement whereby it administered and managed grants on behalf of CIFF (US).

The Foundation is a co-funder and collaborator in a number of projects with a range of other UK and international donors, including, but not limited to, Foundations, government agencies and private individuals.

# STRUCTURE & GOVERNANCE

## Foundation objectives & public benefit

The Foundation's objects, as stated in its governing document, are "the general purposes of such charitable bodies or for such other purposes for the benefit of the community as shall be exclusively charitable as the Trustees may from time-to-time determine".

In setting the Foundation's objectives and planning its activities, the Foundation's Trustees have considered section 17 of the Charities Act 2011. In doing so they are satisfied that they have complied with their duty to have regard to the Public Benefit guidance published by the Charity Commission. The Foundation's activities and achievements are outlined throughout this Trustees' Report and we believe fully demonstrate that the Foundation is providing public benefit.

## Consolidated financial statements

The Trustees present here their report and audited consolidated financial statements for the year ended 31 August 2015. This Trustees' Report, required by the Charities Act 2011, is also the Directors' Report prepared in accordance with Section 234 of the Companies Act 2006. This Trustees' Report also includes the Strategic Report prepared in accordance with The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. The Company Information and Definitions and Abbreviations on pages 84 and 85 also forms part of this report.

## Independent auditors

The auditors, KPMG LLP, have expressed their willingness to remain in office for a further year.

In approving this Trustees' Annual Report, the trustees are also approving the Strategic Report in their capacity as company directors.

On behalf of the Board

Mark Malloch B

**Lord Mark Malloch-Brown**
Trustee and Interim Chair

Date: 18 January 2016

# EVERY CHILD DESERVES TO SURVIVE & THRIVE

CIFF
CHILDREN'S INVESTMENT FUND FOUNDATION

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS AND TRUSTEES OF THE CHILDREN'S INVESTMENT FUND FOUNDATION (UK)

We have audited the financial statements of the Children's Investment Fund Foundation (UK) for the year ended 31 August 2015, set out on pages 37 to 83. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the charitable company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and its members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of trustees and auditors**

As explained more fully in the Statement of Trustees' Responsibilities Statement set out on page 30 the Trustees (who are also the Directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at:

www.frc.org.uk/auditscopeukprivate

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the charitable company's affairs as at 31 August 2015 and of the group's incoming resources and application of resources, including its income and expenditure, for the year then ended;

- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and

- have been prepared in accordance with the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information in the Trustees' Annual Report, which constitutes the Strategic Report and the Directors' Report, for the financial year for which the financial statements are prepared is consistent with the financial statements.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS AND TRUSTEES OF THE CHILDREN'S INVESTMENT FUND FOUNDATION (UK)

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

We have nothing to report in respect of the following matters where the Companies Act 2006 require us to report to you if, in our opinion:

- the charitable company has not kept adequate accounting records or returns adequate for our audit have not been received from branches not visited by us; or
- the parent charitable company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of trustees' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Kevin Clark

Kevin Clark
**for and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants
15 Canada Square
London
Date: 20 JANUARY 2016

# THE CHILDREN'S INVESTMENT FUND FOUNDATION (UK)
# CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
# FOR THE YEAR ENDED 31 AUGUST 2015

| | Notes | Unrestricted Funds US$ '000 | Restricted Funds US$ '000 | Expendable Endowment US$ '000 | 2015 Total US$ '000 | 2014 Total US$ '000 |
|---|---|---|---|---|---|---|
| **Incoming Resources** | | | | | | |
| Incoming resources from Generated Funds | | | | | | |
| Voluntary income | | **881** | **-** | **-** | **881** | 918 |
| Investment income | **2** | **240,626** | **-** | **-** | **240,626** | 184,149 |
| Incoming resources from Charitable Activities | | **-** | **5,063** | **-** | **5,063** | 3,940 |
| **Total incoming resources** | | **241,507** | **5,063** | **-** | **246,570** | 189,007 |
| **Resources Expended** | | | | | | |
| Costs of generating funds | | | | | | |
| Investment Management Costs | **3** | **30,664** | - | **-** | **30,664** | 69,687 |
| Charitable activities | **4** | **246,129** | **5,063** | **-** | **251,192** | 153,831 |
| Governance costs | **8** | **6,205** | **-** | **-** | **6,205** | 5,540 |
| **Total resources expended** | | **282,998** | **5,063** | **-** | **288,061** | 229,058 |
| **Net incoming/(outgoing) resources before transfers** | | **(41,491)** | **-** | **-** | **(41,491)** | (40,051) |
| Transfers | **18** | **376,935** | **-** | **(376,935)** | **-** | - |
| **Net incoming/(outgoing) resources before other recognised gains and losses** | | **335,444** | **-** | **(376,935)** | **(41,491)** | (40,051) |
| Realised gains/(losses) on investment assets | **12** | **-** | **-** | **676,131** | **676,131** | 356,989 |
| Unrealised gains/(losses) on | | **-** | **-** | **(543,271)** | **(543,271)** | 243,359 |
| Foreign Exchange gains/(losses) | **12** | **(171)** | **-** | **1** | **(170)** | 10 |
| **Total recognised gains/(losses)** | | **(171)** | **-** | **132,861** | **132,690** | 600,358 |
| Exchange differences on translating foreign operations | | **-** | **-** | **(3,514)** | **(3,514)** | 2,960 |
| **Net movement in funds** | | **335,273** | **-** | **(247,588)** | **87,685** | 563,267 |
| | | **172,327** | **-** | **4,181,559** | **4,353,886** | 3,790,619 |
| **Fund balances carried forward at 31 August 2015** | | **507,600** | **-** | **3,933,971** | **4,441,571** | 4,353,886 |

The consolidated statement of financial activities ("SOFA") has been prepared on the basis that all activities are continuing.

All gains and losses recognised in the year are included in the Statement of Financial Activities. There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

**The accounting policies and the notes on pages 40 to 83 form part of the Consolidated Financial Statements**

## THE CHILDREN'S INVESTMENT FUND FOUNDATION (UK) (no. 4370006)
## CONSOLIDATED AND FOUNDATION BALANCE SHEETS
## AS AT 31 AUGUST 2015

| | Notes | Group 2015 US$ '000 | Group 2014 US$ '000 | Foundation 2015 US$ '000 | Foundation 2014 US$ '000 |
|---|---|---|---|---|---|
| **Fixed Assets** | | | | | |
| Tangible assets | 11 | **1,422** | 1,141 | **1,422** | 1,141 |
| Intangible Assets | | **324** | - | **324** | - |
| Investments | 12 | **4,326,316** | 3,544,548 | **4,423,213** | 4,328,303 |
| **Total fixed assets** | | **4,328,062** | 3,545,689 | **4,424,959** | 4,329,444 |
| **Current Assets** | | | | | |
| Debtors | 14 | **62,943** | 73,194 | **88,427** | 10,222 |
| Cash at bank and in hand | 15 | **503,773** | 1,129,342 | **46,054** | 132,282 |
| **Total current assets** | | **566,716** | 1,202,536 | **134,481** | 142,504 |
| **Creditors:** amounts falling due within one year | 16 | **(441,274)** | (370,904) | **(118,454)** | (109,757) |
| **Net Current Assets** | | **125,442** | 831,632 | **16,027** | 32,747 |
| **Total Assets less Current Liabilities** | | **4,453,504** | 4,377,321 | **4,440,986** | 4,362,191 |
| **Creditors:** amounts falling due after one year | 17 | (11,933) | (23,435) | (11,778) | (12,481) |
| **Net Assets** | 18 | **4,441,571** | 4,353,886 | **4,429,208** | 4,349,710 |
| **Total funds of the charity:** | | | | | |
| Endowment Fund | 18 | 3,933,971 | 4,181,559 | 3,921,608 | 4,177,383 |
| Restricted Income Funds | 18 | - | - | - | - |
| Unrestricted Funds: | | | | | |
| Income Funds | 18 | - | - | - | - |
| Designated Funds | 18 | 507,600 | 172,327 | 507,600 | 172,327 |
| **Total charity funds** | | **4,441,571** | 4,353,886 | **4,429,208** | 4,349,710 |

The financial statements on pages 37 to 83 were approved by the Trustees and authorised for issue on 18 January 2016, and signed on their behalf by:

Mark Malloch Brown

**Lord Mark Malloch-Brown**

Date: 18 January 2016

**The accounting policies and the notes on pages 40 to 83 form part of the Consolidated Financial Statements.**

# THE CHILDREN'S INVESTMENT FUND FOUNDATION (UK)
# CONSOLIDATED CASH FLOW STATEMENT
# FOR THE YEAR ENDED 31 AUGUST 2015

| | 2015 US$'000 | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| **Cash outflow from Incoming Resources (i)** | | **(296,549)** | (175,588) |
| **Returns on investments and servicing finance** | | | |
| Dividends received (unrestricted) | 98,220 | | 90,155 |
| Interest income (unrestricted and restricted) | 81,620 | | 53,545 |
| | | **179,840** | 143,700 |
| **Capital expenditure and financial investment** | | | |
| Payments to acquire fixed asset investments | (2,396,401) | | (2,324,267) |
| Payments to acquire tangible fixed assets | (906) | | (734) |
| Payments to acquire intangible assets | (324) | | |
| Disposal of tangible fixed assets | - | | - |
| Disposal of fixed asset investments | 1,863,383 | | 2,852,753 |
| Disposal of intangible fixed assets | | | |
| Net movement in cash flows attributable to endowment investments | 533,018 | | (528,486) |
| | | **(1,230)** | (734) |
| **Financing** | | | |
| Additions to endowment | - | | - |
| Cash into endowment | (533,018) | | 528,486 |
| Interest paid | (2,386) | | (3,542) |
| Draw down of loans | 11,723 | | 23,922 |
| Repayment of part of loans | 16,051 | | 13,814 |
| | | **(507,630)** | 562,680 |
| **Increase/(decrease) in cash in the year (ii)** | | **(625,569)** | 530,058 |

## NOTES TO THE CASH FLOW STATEMENT

| i. RECONCILIATION OF INCOMING RESOURCES TO NET CASH FLOWS | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Net incoming resources before investment gains and losses | **(41,491)** | (40,051) |
| Additions to endowment | **-** | - |
| Dividends received | **(90,697)** | (110,785) |
| Loss on disposal | **-** | - |
| Interest received on investments | **(146,158)** | (69,334) |
| Interest expense | **2,317** | 3,532 |
| Depreciation charges | **611** | 386 |
| (Increase) / decrease in debtors | **10,251** | (24,501) |
| Increase / (decrease) in creditors | **(31,382)** | 65,165 |
| | **(296,549)** | (175,588) |

### ii. ANALYSIS OF NET CHANGES IN NET FUNDS

| | At 1 September 2014 US$'000 | Cash flow 2015 US$'000 | Non-cash changes 2015 US$'000 | At 31 August 2015 US$'000 |
|---|---|---|---|---|
| Cash in hand and at bank | 1,129,342 | (625,569) | **-** | **503,773** |
| Debt due within 1 year | (183,678) | - | (94,932) | **(278,610)** |
| **Net cash** | 945,664 | (625,569) | (94,932) | **225,163** |

**The accounting policies and the notes on pages 40 to 83 form part of the Consolidated Financial Statements.**

## 1. ACCOUNTING POLICIES

### a) Basis of accounting

The Consolidated Financial Statements have been prepared on a going concern basis, under the historical cost convention as modified by the revaluation of investments, and have been prepared in accordance with the Statement of Recommended Practice ("SORP") 'Accounting and Reporting by Charities' (revised 2005), the Charities Act 2011, applicable accounting standards in the United Kingdom and the requirements of the Companies Act 2006. The principal accounting policies, which have been applied consistently, are set out below. The Foundation has adapted the Companies Act formats to reflect the Charities SORP and the special nature of the Foundation's activities.

### b) Functional currency and presentational currency

The financial statements of the Group are prepared in US dollars. This is because the currency of the primary economic environment for the Group, as defined in SSAP 20, is US dollars, reflecting the currency of both the grants awarded and the on-going costs incurred.

### c) Basis of consolidation

The Consolidated Statement of Financial Activities and Balance Sheets incorporate the results of The Children's Investment Fund Foundation (UK) (the "Foundation") and its subsidiary undertakings, CIFF (UK) Trading Limited ("CIFF Trading"), CIFF (UK) Newco Limited ("CIFF Newco"), CIFF (UK) LLP ("CIFF LLP"), CIFF D Incorporated ("CIFF D"), Talos Capital Limited ("Talos"), Talos Property Limited ("TPL"), Talos Property Holdings Limited ("TPHL"), and CIFF Nutrition (UK) Limited ("CIFF Nutrition (UK)"). The consolidated entity is hereafter referred to as the "Group". No separate Statement of Financial Activities has been presented for the Foundation alone as permitted by Section 408 of the Companies Act 2006 and paragraph 397 of the 2005 SORP. Intra-group balances are eliminated fully on consolidation. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

### d) Accounting policies

Accounting policies have been reviewed in accordance with Financial Reporting Standards ('FRS') 18 'Accounting policies'. The Foundation and the Group have adopted FRS 29 'Financial Instruments: Disclosures' (see notes 12 and 13). The Foundation and Group also apply FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Recognition and Measurement'.

### e) Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported valuations of assets and liabilities within the financial year. Actual results may differ from those estimates. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key assumptions are explained in the respective accounting policy notes below and in notes 12 and 13 for investments.

**1. ACCOUNTING POLICIES (continued)**

**f) Incoming resources**

All incoming resources are included in the respective line items of the Consolidated Statement of Financial Activities when the Group is legally entitled to the income and the amount can be quantified with reasonable certainty.

Interest income and expense are recognised in the Consolidated Statement of Financial Activities on an effective interest rate basis. Dividend income and expenses, when the underlying security is held directly by the Group, is recognised in the Consolidated Statement of Financial Activities on an ex-dividend basis, gross of foreign withholding taxes when receivable. Withholding tax is recorded on an accruals basis. For those securities held via an intermediary, non-subsidiary entity, the dividends are recognised when notified.

Endowment and investment income is credited to the Income and Expenditure Account on a receivable basis. Any realised gains and losses from dealing in the related assets are retained within the endowment in the Consolidated Group Balance Sheet.

Donations and Gifts in kind, represented by donated services, are recognised in the Consolidated Statement of Financial Activities in voluntary income when the Group is legally entitled to the income and the amount can be quantified with reasonable accuracy.

The Group received donations during the year amounting to US$864k (2014: US$918k) from TCI LLP.

**g) Resources expended**

Resources expended are accounted for on an accruals basis. Expenditure is allocated to either the sectoral teams or cost categories. For expenditure incurred across the sectors, amounts are attributed to each area based on the granting activities undertaken during the financial year. Constructive obligations (including grants payable) are accounted for as liabilities where it is probable that there will be a transfer of economic benefits and the amount of the obligation can be reliably estimated and communicated to the recipient. Multi-year grants are subject to annual reviews and conditionality such that the liability is recognised annually, when the crtieria for recognising the liability are met.

Support costs, other than each sectoral teams costs and excluding any restricted expenditure, are re-allocated to each of the activities on the following basis, which is an estimate based on annual grant commitments levels:

| | **2015** | 2014 |
|---|---|---|
| Nutrition | **27.9%** | 21.5% |
| Health | **38.4%** | 35.2% |
| Education | **16.9%** | 19.4% |
| Climate change | **16.7%** | 23.8% |
| Foundation Approved Programs | **0.1%** | 0.1% |

Activities undertaken directly relate to expenditure incurred by the Foundation through direct service provision or work undertaken by the Foundation that contributes directly to the Foundation's objectives.

Expenditure incurred in relation to the Foundation's restricted activities are costs specifically identifiable and relevant to the restriction assigned to the fund and therefore can be allocated to the restricted funds.

**1. ACCOUNTING POLICIES (continued)**

**h) Governance Costs**

Governance costs are those costs incurred in compliance with constitutional and statutory requirements, including related professional fees, and are accounted for on an accruals basis.

**i) Financial assets and liabilities held for trading**

*Classification*
The Group classifies its investments in debt securities (other than those classified as loans and receivables), equity securities, derivatives and its obligations under the delayed drawdown variable rate notes, as financial assets or financial liabilities at fair value through the Consolidated Statement of Financial Activities ("SOFA"). These financial assets and financial liabilities are classified as held for trading. Financial assets or liabilities held for trading are acquired or incurred principally for the purpose of selling or repurchasing in the short term. Derivatives are also categorised as financial assets or financial liabilities held for trading as the Group does not designate any derivatives as hedges in a hedging relationship. The obligations under the Notes were designated at fair value through the Consolidated SOFA at inception.

*Recognition/de-recognition*
Purchases and sales of investments are recognised on their trade date, which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value and transaction costs for such investments are expensed as incurred. Investments are de-recognised when the rights to receive cash flows from the investments have expired or the Group has transferred substantially all the risks and rewards of ownership.

*Measurement*
Subsequent to initial recognition, these financial assets and financial liabilities are measured at fair value through the Consolidated SOFA. Gains and losses arising from changes in the fair value of the "financial assets or financial liabilities at fair value through the SOFA" category are included in the Consolidated SOFA in the year in which they arise and are based on the First In First Out ("FIFO") method. Interest income from financial assets at fair value through the Consolidated SOFA is recognised in the Consolidated SOFA. Dividend income from financial assets at fair value through the Consolidated SOFA is recognised in the Consolidated SOFA when the Group's right to receive payment is established.

**j) Investments**

*Listed and unlisted securities*
Securities listed or quoted on any securities exchange and regularly traded thereon are valued at fair value. The fair value of an investment is based on its quoted market price.

Unlisted securities or listed securities not regularly traded, or in respect of which no prices as described above are available, other than loans and receivables, will be valued at their fair value based on information provided by the Investment Manager's portfolio management team such as using indicative broker prices for corporate bonds and the latest available redemption price for investment funds.

At 31 August 2015 US$340,004k (7.41%) (2014: US$403,800k (8.98%)) of net assets excluding obligations under the senior delayed drawdown variable rate notes ("Adjusted Assets") were held in positions which were not regularly traded or had pricing inputs in markets that were not considered to be active. Of this amount, US$66,729k (2014: US$92,290k) was fair valued by reference to multiple indicative broker quotes. The remaining US$220,334k (2014: US$266,705k) was fair valued based on information provided by the Investment Manager's portfolio valuations team and as further explained in the "Investment Fund" and "Private Placement" accounting policies and US$52,941k (2014: US$44,805k) was held at fair value as explained in the Investment Properties accounting policy.

**1. ACCOUNTING POLICIES (continued)**

**j) Investments (continued)**

*Listed and unlisted securities (Continued)*
Because of their inherent uncertainty, estimated fair values may differ significantly from the values that would have been used had a ready market for the securities existed and differences could be material.

*Investments at amortised cost*
Due to the lack of liquidity and esoteric nature of some of the Group's loans, these investments are designated as 'Loans and Receivables'. These loans are measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees, transaction costs and other amounts paid between parties to the contract which constitute an integral part of the instrument. Not all loans are drawn down fully on closing. Any loan amount to which the Group is committed, but which are undrawn at the year end are disclosed in the notes to the financial statements as contingent liabilities.

Loans or loan equivalents should be classified as impaired (non-accrual) when, at any time, there is a deterioration in credit quality to the extent that there is no longer reasonable assurance of timely collection of the full amount of principal and interest. When an event occuring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss, but only to the extent that the impairment loss previously recognised has been reversed. Refer to note 13 for further details of impairment.

Origination fees relating to the Group's loans may be deferred and recognised as a liability on the consolidated balance sheet, and are amortised over the expected life of a loan to the consolidated statement of financial activities only once the loan is drawn down.

At 31 August 2015 the book value of the loans held was US$2,056,937k (2014: US$1,407,930k), all of which has been designated as loans and receivables by the Group.

*Unfunded commitments*
The Group may invest in loans and securities which incorporate a commitment that it will be obliged to pay at a future date if called upon by the counterparty. The timing and amounts of settlement of these potential obligations are uncertain at the consolidated balance sheet date.

Due to these uncertainties the Group does not recognise these amounts as liabilities on its consolidated balance sheet, however these amounts are disclosed as contingent liabilities in Note 20 to the financial statements. The total uncertain commitments as at 31 August 2015 was estimated as US$1,171,232k (2014: US$1,236,628k).

**1. ACCOUNTING POLICIES (continued)**

**j) Investments (continued)**

*Embedded derivatives*

Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of financial activities unless the Group chooses to designate the hybrid contracts at fair value through profit or loss. Included within 'Investments at amortised cost' are loans which include options for the borrower to extend the loans beyond their original maturity date. As at 31 August 2015, the value of these embedded derivatives was US$nil (2014: US$nil).

*Derivative contracts*

Derivative contracts ("derivatives") are recognised at fair value on the date on which the derivative is entered into and are subsequently re-measured at their fair value on an ongoing basis. Fair values are obtained from quoted market prices in active markets, including recent market transactions. Where quoted prices are not available the investments are valued using information provided by brokers.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The best evidence of fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Subsequent changes in the fair value of any derivative instrument are recognised immediately in the Consolidated Statement of Financial Activities.

*Contracts for difference ("CFDs")*

A CFD is a derivative contract over an asset that bases its value on the price of the reference asset, without investing in the underlying physical asset. As such, the Group has no rights or obligations relating to the underlying asset. The CFD is a contract between two parties to exchange, at the close of the contract, the difference between the reset value or initial value of the reference asset and the closing value of the reference asset. The realised gain or loss depends upon the prices at which the underlying reference asset of the CFD is valued at the CFD's settlement date and is included in the Consolidated Statement of Financial Activities.

Unrealised gains or losses are fair valued based on the difference between the close of business value of the reference asset on the date of determination and the reset or initial value. The reset value is determined periodically on payment dates in accordance with the terms of the contracts and the resulting movement in the unrealised gain or loss is recorded in the Consolidated Statement of Financial Activities. As at 31 August 2015 the Group held CFDs with a net aggregate fair value of (US$128,969k) (2014: US$147,349k).

*Forward foreign exchange contracts*

The Group enters into forward foreign exchange contracts. Forward foreign exchange contracts are fair valued on a daily basis using the forward contracted rate derived from readily available market data. When the contract is closed, the Group records a realised gain/loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. Forward foreign exchange contracts are fair valued using the forward contracted rate derived from readily available market data. At 31 August 2015 the Group held forward foreign exchange contracts with an aggregate fair value of US$51,904k (2014: (US$1,769k)).

**1. ACCOUNTING POLICIES (continued)**

**j) Investments (continued)**

*Options*
The Group uses options as part of its investment strategy. An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during the set period, a specified amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price. Over the counter options that are held by the Group are fair valued using quotes from counterparties. As at 31 August 2015, the Group did not hold any option contracts (2014: nil), excluding embedded derivatives as referenced on page 44.

*Cash pledged as collateral*
As at 31 August 2015, the Group had US$148,383k (2014: US$177,235k) cash pledged as collateral in relation to its forward foreign exchange contracts and CFDs.

*Private placement*
Private placement securities are not registered for public sale and are carried at an estimated fair value at each valuation point, as determined by the Group, in consultation with the Investment Manager's portfolio management team, with reference to recent funding rounds and performance updates provided by the investment's management team. At 31 August 2015, the Group held one private placement position, which has been fair valued at US$nil (2014: one private placement position with a fair value of US$nil).

*Investment fund*
The Group invests in investment funds ("Investee Funds") which are subject to the terms and conditions of the Investee Funds' offering documentation. The investment in the Investee Funds are primarily valued based on the latest available redemption price of such units for the Investee Fund, as determined by the administrator of the Investee Fund. Where a readily ascertainable market valuation is not available, the Investee Fund is valued at cost (see note 12). When a share/unit is sold the Group recognises the realised gain/(loss). Other changes in fair value of the Investee Funds are recorded as unrealised gains/(losses). At 31 August 2015, the Group held investment fund positions of US$242,210k (2014: US$299,242k).

*Investment properties*
The Group has invested in a portfolio of investment properties (via its subsidiary company, TPL), comprising wholly of UK-based freehold land and buildings leased to third parties. The Group's policy is to include the investment properties in the consolidated balance sheet within investments at their fair value, which is usually equivalent to the open market value. Changes in the investment properties fair value is included under unrealised gains/(losses). Property transactions are recognised on the date of completion. Investment properties included in the Consolidated Balance Sheet as at 31 August 2015 was US$52,941k (2014: US$44,805k).

*Leased assets*
The annual rentals for operating leases are charged to the Consolidated Statement of Financial Activities on a straight-line basis over the lease term.

*Investments in subsidiaries*
Investments in subsidiaries are held at cost, less impairment.

*Offsetting financial instruments*
Financial assets and liabilities are offset and the net amount reported in the Consolidated Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**1. ACCOUNTING POLICIES (continued)**

**j) Investments (continued)**

*Foreign Currency Translations*

Assets and liabilities denominated in foreign currencies are translated into US dollars at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the Consolidated Statement of Financial Activities within the gains and losses on investments. See note 13 for disclosure of the exchange rates applied.

The year end rate prevailing on the balance sheet date was US$1 : £0.65 (2014: US$1 : £0.60). For consolidation purposes, balance sheets of subsidiaries reported in non-US dollar currencies have been converted into US dollar at the foreign exchange rate as at 31 August 2015. For all non-US dollar reported profit and loss accounts of subsidiaries, the average foreign exchange rate for the relevant period has been applied (USD rate $1 : £0.64).

**k) Tangible Fixed Assets and Depreciation**

Tangible fixed assets are capitalised at cost.

Depreciation is calculated on a straight line basis so as to write off the cost of an asset over the estimated useful economic life. All assets are depreciated on a straight line basis: IT equipment over 3 years, office equipment over 5 years and fixtures and fittings over 5 years.

On the basis of materiality, tangible fixed assets are not reviewed annually for impairment.

**l) Intangible Assets and Amortisation**

Other intangible assets that are acquired and developed by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment loss.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the Statement of Financial Activities as incurred.

**m) Cash and cash equivalents**

Cash and cash equivalents include amounts due from the Group's counterparties and on demand and interest bearing deposits with original maturities of less than 3 months. For each separate account at each prime broker, cash can only be withdrawn so long as there is a sufficient collateral excess within the account.

**n) Cash pledged as collateral**

Cash pledged as collateral includes collateral balances held at year end with the Group's prime brokers and other counterparties. The use of these amounts is restricted based upon the Group's contractual margin requirements with each broker at the year-end date.

**o) Amounts due from/to brokers**

Amounts due from brokers include cash from trades sold but which have not yet settled and cash for forward foreign exchange contracts closed but awaiting settlement. Amounts due to brokers includes cash from trades purchased which have not yet settled and cash for forward foreign exchange contracts closed but awaiting settlement.

## 1. ACCOUNTING POLICIES (continued)

### p) Funds

Unrestricted Funds comprise those funds which the Trustees are free to use in accordance with the charitable objectives of the Foundation. Designated Funds are a portion of the unrestricted funds that has been set aside for a particular purpose by the Trustees.

Restricted Funds comprise those funds that can only be used for particular restricted purposes within the objectives of the Foundation. Restricted Funds arise when the funds are specified as such by the donor(s) or when funds are raised for particular restricted purposes.

The Expendable Endowment Fund represents those assets held by the Trustees principally in investments. Surplus unrestricted income is transferred to the Expendable Endowment Fund. If the Foundation is unable to meet its commitments from reserves of Unrestricted Funds, there would be a release of the Expendable Endowment to Unrestricted Funds to meet those commitments.

### q) Delayed drawdown variable rate notes

The Notes are designated as financial liabilities at fair value through the Consolidated Statement of Financial Activities. A liability may be designated at fair value when it eliminates or significantly reduces a measurement or recognition inconsistency, "an accounting mismatch" that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on a different basis. Where an accounting mismatch would otherwise exist, financial liabilities are measured at fair value through the Consolidated Statement of Financial Activities. The Trustees consider that such approach to fair value liabilities is required to give a true and fair view of the financial performance of the Group. Where there is no accounting mismatch financial liabilities are measured at amortised cost.

The Notes can be redeemed at the option of the note holder on any date in whole or in part upon giving ten business days notice to the issuer. Save to the extent previously redeemed, the Notes will be redeemed on the maturity date at their principal amount outstanding.

## 2. INVESTMENT INCOME

The investment income arises from interest received on cash deposits, fixed income securities and rental income within the investment portfolio held by the Group. Interest income and expense are recognised in the consolidated statement of financial activities on an effective interest rate basis. Interest income earned on corporate and convertible bond positions is classified within 'Other net changes in fair value on financial assets and financial liabilities'. Interest income on loans and receivables is recorded in interest income. Dividend income is from equity securities within the portfolio held by the Group and is recorded in the Consolidated Statement of Financial Activities on an ex-dividend date, gross of foreign withholding taxes. Withholding tax is recorded on an accruals basis. All rental income is derived from investment properties in the United Kingdom.

| | **Group 2015 US$ '000** | Group 2014 US$ '000 |
|---|---|---|
| Dividends from overseas equities | 90,697 | 110,785 |
| Interest on fixed interest securities | 146,064 | 69,231 |
| Interest on cash and cash deposits | 94 | 103 |
| Rental income | 3,771 | 4,030 |
| | **240,626** | 184,149 |

## 3. COSTS OF GENERATING FUNDS

The administration fees incurred as costs of generating funds relate to the management fees paid to the investment managers who manage the private equity investments and Global Health Investment Fund ("GHIF") as well as the portfolio held by Talos. Outstanding capital commitments related to the private equity investments have been included in note 20.

## 4. CHARITABLE ACTIVITIES

| | Grant funding of activities 2015 US$ '000 | Activities Undertaken Directly 2015 US$ '000 | Support Costs 2015 US$ '000 | Total Charitable Activities 2015 US$ '000 |
|---|---|---|---|---|
| Nutrition | 58,197 | 471 | 6,104 | **64,772** |
| Health | 80,330 | 56 | 7,452 | **87,838** |
| Education | 35,174 | - | 3,837 | **39,011** |
| Climate Change | 35,023 | 54 | 4,354 | **39,431** |
| Humanitarian Aid | 19,886 | - | - | **19,886** |
| Foundation Approved Programmes | 204 | 39 | 11 | **254** |
| | **228,814** | **620** | **21,758** | **251,192** |

| | Grant funding of activities 2014 US$ '000 | Activities Undertaken Directly 2014 US$ '000 | Support Costs 2014 US$ '000 | Total Charitable Activities 2014 US$ '000 |
|---|---|---|---|---|
| Nutrition | 28,787 | 265 | 4,124 | **33,176** |
| Health | 47,242 | 156 | 6,768 | **54,166** |
| Education | 26,006 | 32 | 3,725 | **29,763** |
| Climate Change | 31,994 | - | 4,583 | **36,577** |
| Foundation Approved Programmes | 130 | - | 19 | **149** |
| | **134,159** | **453** | **19,219** | **153,831** |

## 5. ACTIVITIES UNDERTAKEN DIRECTLY

Activities undertaken directly expenditure of US$786k (2014: US$453k) was mainly incurred in relation to furthering the international agenda regarding global childhood malnutrition (US$471k), school-based deworming (US$56k) and climate change (US$54k).

## 6. GRANT FUNDING OF ACTIVITIES

| Group and Foundation 2015 | Nutrition | Health | Education | Climate Change | Humanitarian Aid | FAPs | Total |
|---|---|---|---|---|---|---|---|
| **Charitable Grants** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** |
| UNICEF | 22,856 | - | - | - | 2,500 | - | **25,356** |
| Elizabeth Glaser Pediatric AIDS Foundation | - | 15,952 | - | - | - | - | **15,952** |
| The Carter Center | - | - | 15,000 | - | - | - | **15,000** |
| PoN - Power of Nutrition | 15,000 | - | - | - | - | - | **15,000** |
| World Bank | - | (30) | 8,468 | 200 | - | - | **8,638** |
| World Resources Institute | - | - | - | 8,161 | - | - | **8,161** |
| Red Cross | - | - | - | - | 7,186 | - | **7,186** |
| PM&E grants | 409 | 3,342 | 1,694 | 1,455 | - | - | **6,900** |
| Crown Agents | - | 5,500 | - | - | - | - | **5,500** |
| IMC - International Medical Corps | - | - | - | - | 5,355 | - | **5,355** |
| Global Alliance for Improved Nutrition | 4,628 | - | - | - | - | - | **4,628** |
| PATH | - | 4,587 | - | - | - | - | **4,587** |
| Living Goods | - | 4,195 | - | - | - | - | **4,195** |
| RTI International | - | - | 4,148 | - | - | - | **4,148** |
| Baylor College of Medicine Children's Foundation | - | 4,025 | - | - | - | - | **4,025** |
| Pfizer | - | 3,500 | - | - | - | - | **3,500** |
| The Trustees of Columbia University in the City of New York | - | 3,467 | - | - | - | - | **3,467** |
| Save the Children Federation | 1,698 | - | - | - | 1,744 | - | **3,442** |
| LSHTM - London School of Hygiene and Tropical Medicine | 339 | 3,074 | 21 | - | - | - | **3,434** |
| Natural Resources Defense Council | - | - | - | 3,273 | - | - | **3,273** |
| Marie Stopes International | - | 3,136 | - | - | - | - | **3,136** |
| Management Sciences for Health | - | 2,989 | - | - | - | - | **2,989** |
| University of California, San Francisco | - | 2,884 | - | - | - | - | **2,884** |
| C40 Cities Climate Leadership Leadership Group | - | - | - | 2,736 | - | - | **2,736** |
| SinoCarbon Innovation and Investment Co | - | - | - | 2,511 | - | - | **2,511** |
| Energy Foundation | - | - | - | 2,489 | - | - | **2,489** |
| IGSD | - | - | - | 2,306 | - | - | **2,306** |
| CUAMM | 2,279 | - | - | - | - | - | **2,279** |
| Environmental Defense Fund | - | - | - | 2,251 | - | - | **2,251** |
| Jhpiego (an affiliate of John Hopkins University) | - | 2,238 | - | - | - | - | **2,238** |
| CDP Worldwide | - | - | - | 2,136 | - | - | **2,136** |

## 6. GRANT FUNDING OF ACTIVITIES

| Group and Foundation 2015 (continued) | Nutrition | Health | Education | Climate Change | Humanitarian Aid | FAPs | Total |
|---|---|---|---|---|---|---|---|
| **Charitable Grants** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** |
| Henry M. Jackson Foundation for the Advancement of Military Medicine | - | 2,050 | - | - | - | - | **2,050** |
| Deutsche Gesellschaft fur Internationale Zusammenarbeit | 2,018 | - | - | - | - | - | **2,018** |
| The Freedom Fund | - | 2,000 | - | - | - | - | **2,000** |
| Medecins Sans Frontieres | - | - | - | - | 1,983 | - | **1,983** |
| IPAS | - | 1,679 | - | - | - | - | **1,679** |
| Kenya Conference of Catholic Bishops | - | 1,640 | - | - | - | - | **1,640** |
| Sesame Workshop (GGSS) | - | - | 1,557 | - | - | - | **1,557** |
| Washington University | 1,523 | - | - | - | - | - | **1,523** |
| Tides Foundation | - | - | - | 1,500 | - | - | **1,500** |
| DKT International | - | 1,500 | - | - | - | - | **1,500** |
| Alliance for Sustainable Energy | - | - | - | 1,389 | - | - | **1,389** |
| Action Against Hunger (UK) | 1,325 | - | - | - | - | - | **1,325** |
| Client Earth | - | - | - | 1,254 | - | - | **1,254** |
| Harvard School of Public Health | - | 1,249 | - | - | - | - | **1,249** |
| BRAC | 1,200 | - | - | - | - | - | **1,200** |
| BBC Media Action | 1,196 | - | - | - | - | - | **1,196** |
| IPA | - | 719 | 440 | - | - | - | **1,159** |
| EKJUT | - | 1,096 | - | - | - | - | **1,096** |
| Justice & Care | - | 1,072 | - | - | - | - | **1,072** |
| Other grantees | 4,767 | 2,764 | 2,097 | 6,590 | 1,109 | - | **17,327** |
| Federal Ministry of Health (Ethiopia) | 37 | 5,861 | 2,277 | - | - | - | **8,175** |
| Foundation Approved Programmes ("FAPs") | - | - | - | - | - | 204 | **204** |
| (1) Institute Development Studies (GBP & USD) | (83) | - | - | - | - | - | **(83)** |
| (1) Imperial College of Science, Technology and Medicine | - | - | (122) | - | - | - | **(122)** |
| (1) SAMBA DRW - Diagnostics for the Real World Ltd | - | (152) | - | - | - | - | **(152)** |
| (1) Energy Research Institute | - | - | - | (343) | - | - | **(343)** |
| (1) UWEZO - Taweza East Africa | - | - | (352) | - | - | - | **(352)** |
| (1) MI - Micronutrient Initiative | (416) | - | - | - | - | - | **(416)** |
| (1) UNILEVER - Bhavishya Alliance Child Nutrition Initiatives | (504) | - | - | - | - | - | **(504)** |
| (1) Institute for Transport and Development Policy | - | - | - | (1,450) | - | - | **(1,450)** |
| (2) Foreign exchange losses on grants | (75) | (7) | (54) | (1,435) | 9 | - | **(1,562)** |
| **Total charitable grants** | **58,197** | **80,330** | **35,174** | **35,023** | **19,886** | **204** | **228,814** |

(1) Grant commitments originally recognised in a previous financial year, cancelled during this financial year and written back.

(2) Foreign exchange losses on grants: foreign exchange losses incurred on commitments made that were outstanding during the financial year ended 31 August 2015.

## 6. GRANT FUNDING OF ACTIVITIES

| **Group and Foundation 2014** | **Nutrition** | **Health** | **Education** | **Climate Change** | **Humanitarian Aid** | **FAPs** | **Total** |
|---|---|---|---|---|---|---|---|
| **Charitable Grants** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** |
| GAVI | - | 25,306 | - | - | - | - | **25,306** |
| UNICEF | 16,598 | - | - | - | - | - | **16,598** |
| Ethiopian Federal Ministry of Health | 9,263 | - | - | - | - | - | **9,263** |
| The World Bank | - | 478 | 8,338 | - | - | - | **8,816** |
| EGPAF | - | 7,686 | - | - | - | - | **7,686** |
| Sesame Workshop | - | - | 6,153 | - | - | - | **6,153** |
| Evidence Action | - | - | 5,958 | - | - | - | **5,958** |
| RTI | - | - | 4,132 | - | - | - | **4,132** |
| European Climate Foundation | - | - | - | 3,961 | - | - | **3,961** |
| ALMA | - | 3,224 | - | - | - | - | **3,224** |
| Justice and Care | - | 2,963 | - | - | - | - | **2,963** |
| NRDC | - | - | - | 2,838 | - | - | **2,838** |
| World Resources Institute | - | - | - | 2,660 | - | - | **2,660** |
| Climate Policy Initiative | - | - | - | 2,500 | - | - | **2,500** |
| CDP Worldwide | - | - | - | 2,411 | - | - | **2,411** |
| The Energy Foundation | - | - | - | 2,346 | - | - | **2,346** |
| SouthSouthNorth Trust | - | - | - | 2,215 | - | - | **2,215** |
| Client Earth | - | - | - | 2,138 | - | - | **2,138** |
| Harvard School of Public Health | - | 1,979 | - | - | - | - | **1,979** |
| China National Renewable Energy Centre | - | - | - | 1,900 | - | - | **1,900** |
| Jhpeigo | - | 1,615 | - | - | - | - | **1,615** |
| Rwanda Ministry of Health | 1,340 | - | - | - | - | - | **1,340** |
| ACCESS Health International | - | 1,324 | - | - | - | - | **1,324** |

## 6. GRANT FUNDING OF ACTIVITIES

| Group and Foundation 2014 (continued) | Nutrition | Health | Education | Climate Change | Humanitarian Aid | FAPs | Total |
|---|---|---|---|---|---|---|---|
| **Charitable Grants** | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 |
| Alliance for Sustainable Energy | - | - | - | 1,246 | - | - | **1,246** |
| Institute of Transport and Development Policy | - | - | - | 1,100 | - | - | **1,100** |
| Climate Analytics | - | - | - | 1,071 | - | - | **1,071** |
| IGSD | - | - | - | 960 | - | - | **960** |
| IDDRI | - | - | - | 873 | - | - | **873** |
| Environmental Investigation Agency | - | - | - | 804 | - | - | **804** |
| National Renewable Energy Laboratory | - | - | - | 800 | - | - | **800** |
| MANA | 750 | - | - | - | - | - | **750** |
| Results for Development | 682 | - | - | - | - | - | **682** |
| UNESCO | - | - | 657 | - | - | - | **657** |
| CHAI | 726 | (245) | - | - | - | - | **481** |
| PM&E grants | 449 | 2,243 | 719 | 95 | - | - | **3,506** |
| Other grantees | 1,454 | 671 | 905 | 2,093 | - | - | **5,123** |
| Foundation Approved Programmes ("FAPs") | - | - | - | - | - | 130 | **130** |
| [1] Milken Institute | (88) | - | - | - | - | - | **(88)** |
| [1] C40 Cities Climate Leadership Group Inc. | - | - | - | (200) | - | - | **(200)** |
| [1] Institute of Development Studies | (752) | - | - | - | - | - | **(752)** |
| [1] Innovations for Poverty Action | - | - | (971) | - | - | - | **(971)** |
| [1] World Food Programme | (1,738) | - | - | - | - | - | **(1,738)** |
| [2] Foreign exchange losses on grants | 103 | (2) | 115 | 183 | - | - | **399** |
| | | | | | - | | |
| **Total charitable grants** | **28,787** | **47,242** | **26,006** | **31,994** | **-** | **130** | **134,159** |

[1] Grant commitments originally recognised in a previous financial year, cancelled during this financial year and written back.

[2] Foreign exchange losses on grants: foreign exchange losses incurred on prior commitments made that were outstanding during the financial year ended 31 August 2014.

## 7. ALLOCATION OF SUPPORT COSTS

| | Nutrition 2015 US$ '000 | Health 2015 US$ '000 | Education 2015 US$ '000 | Climate Change 2015 US$ '000 | FAPs 2015 US$ '000 | Total 2015 US$ '000 |
|---|---|---|---|---|---|---|
| **Support costs** | | | | | | |
| Staff costs | 4,230 | 4,673 | 2,558 | 2,902 | 6 | **14,369** |
| Office expenses | 1,154 | 1,571 | 693 | 720 | 4 | **4,142** |
| Travel and subsistence | 642 | 729 | 409 | 583 | 1 | **2,364** |
| Consultancy and contractor costs | 78 | 479 | 177 | 149 | - | **883** |
| **Total support costs allocated to charitable activities** | **6,104** | **7,452** | **3,837** | **4,354** | **11** | **21,758** |

| | Nutrition 2014 US$ '000 | Health 2014 US$ '000 | Education 2014 US$ '000 | Climate Change 2014 US$ '000 | FAPs 2014 US$ '000 | Total 2014 US$ '000 |
|---|---|---|---|---|---|---|
| **Support costs** | | | | | | |
| Staff costs | 2,857 | 4,688 | 2,581 | 3,175 | 13 | **13,314** |
| Office expenses | 587 | 966 | 532 | 654 | 3 | **2,742** |
| Travel and subsistence | 383 | 629 | 346 | 427 | 2 | **1,787** |
| Consultancy and contractor costs | 295 | 485 | 267 | 328 | 1 | **1,376** |
| **Total support costs allocated to charitable activities** | **4,122** | **6,768** | **3,726** | **4,584** | **19** | **19,219** |

## 8. GOVERNANCE COSTS

| | **Group 2015 US$ '000** | Group 2014 US$ '000 |
|---|---|---|
| Auditors' remuneration | **221** | 209 |
| Legal fees | **2,367** | 2,342 |
| Professional fees | **3,179** | 2,659 |
| Other | **438** | 330 |
| | **6,205** | 5,540 |

The auditors' remuneration, for the year ended 31 August 2015 is split between the following external audit firms: KPMG LLP US$215k (US$143k to KPMG LLP, London and US$72k to KPMG, Dublin) (2014: KPMG LLP US$200k (US$129k to KPMG LLP, London and US$72k to KPMG LLP, Dublin)) and S.P. Nagrath (India liaison office auditors) US$6k (2014: US$8k). In 2015, non-audit fees paid to KPMG LLP were US$6k in relation to tax advice (2014: US$ 2k to KPMG LLP) .

## 9. STAFF COSTS

| | **Group and Foundation 2015 US$ '000** | Group and Foundation 2014 US$ '000 |
|---|---|---|
| Wages and salaries | **11,328** | 10,874 |
| Social security costs | **1,218** | 1,238 |
| Other pension costs | **309** | 229 |
| | **12,855** | 12,341 |
| Recruitment and other staff costs | **969** | 973 |
| **Total staff costs** | **13,824** | 13,314 |

The average monthly number of FTE employees who were employed during the year totalled: 80 (2014: 66). The staff numbers were split between direct activities: 58 (2014: 52) and support: 22 (2014: 14). The numbers of employees of the Foundation whose remuneration paid in the financial year fell within the following bands were:

| | **Group and Foundation 2015** | Group and Foundation 2014 |
|---|---|---|
| $93k - $109k | **7** | 6 |
| $109k - $125k | **7** | 4 |
| $125k - $140k | **2** | 3 |
| $140K - $156k | **-** | 4 |
| $156K - $171k | **2** | 4 |
| $171K - $187k | **5** | 3 |
| $187K - $203k | **1** | 2 |
| $203K - $218k | **5** | 2 |
| $218k - $234k | **3** | 4 |
| $234K - $249k | **4** | 1 |
| $249K - $265k | **1** | 1 |
| $265K - $280k | **1** | 1 |
| $280K - $296k | **-** | 1 |
| $296K - $311k | **1** | 1 |
| $311K - $327k | **2** | - |
| $358K - $374k | **-** | 1 |
| $374K - $389k | **-** | - |
| $389K - $404k | **1** | 1 |
| $451K - $467k | **-** | - |
| $528K - $545k | **1** | 1 |

The above salaries were paid mainly in GBP and include benefits in kind and have been translated at the average rate of US$1:£0.64.

The contributions in the year for the provision of a defined contribution scheme to employees of the Foundation whose emoluments were above US$93k were US$259k (2014: US$190k). The number of staff whose emoluments were above US$93k and received contributions in the year for the provision of a defined contribution scheme were 39 (2014: 32).

The Trustees did not receive any remuneration for their services during the year (2014: US$nil). The Trustees' expenses reimbursed amounted to US$40k for travel and subsistence during the year (2014: US$100k). In 2015, the reimbursed expenses related to four trustees (2014: five).

## 10. TAXATION

As a registered charity, the Foundation is exempt from taxation on income and gains to the extent that these are applied in furtherance of its charitable objectives. No tax charge has arisen in the year for the Foundation.

The Foundation is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the Foundation is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The subsidiary company, Talos Properties Limited, has made Gift Aid payments to the Foundation, which eliminates its tax liability. The subsidiaries, CIFF (UK) Newco, CIFF (UK) Trading Limited, CIFF Nutrition (UK) Limited, CIFF (UK) LLP and Talos Properties Holdings Limited, did not realise any taxable profit in this financial year and, therefore have no tax liability. The subsidiary company, Talos Capital Limited, incurred a tax charge of US$1k (2014: US$1k) under Irish taxation, arising on a profit of US$5k. During the year, Talos Capital Limited incurred US$3.9 million of withholding tax (2014: US$4.5 million).

## 11. TANGIBLE FIXED ASSETS

**Group and Foundation 2015**

| | IT Equipment US$' 000 | Office Equipment US$' 000 | Fixtures and Fittings US$' 000 | Total US$' 000 |
|---|---|---|---|---|
| Cost brought forward | 718 | 217 | 1,059 | **1,994** |
| Additions during the year | 251 | 94 | 561 | **906** |
| Disposals during the year | (80) | (8) | - | **(88)** |
| **At 31 August 2015** | **889** | **303** | **1,620** | **2,812** |
| Depreciation brought forward | 207 | 102 | 544 | **853** |
| Charge for the year | 255 | 57 | 299 | **611** |
| Reversal on disposals | (66) | (8) | - | **(74)** |
| **At 31 August 2015** | **396** | **151** | **843** | **1,390** |
| **Net book value** | | | | |
| **At 31 August 2015** | **493** | **152** | **777** | **1,422** |
| At 31 August 2014 | 511 | 115 | 515 | 1,141 |

## 12. INVESTMENTS

### Group

| | Fair value At 31/08/14 US$ '000 | Additions US$ '000 | Disposals US$ '000 | Investment gains/(losses) US$ '000 | Fair value At 31/08/15 US$ '000 | Cost At 31/08/15 US$ '000 |
|---|---|---|---|---|---|---|
| UK | 263,576 | 9,358 | (14,786) | 9,947 | 268,095 | 65,645 |
| Overseas | 1,445,902 | 1,379,866 | (718,364) | (73,407) | 2,033,997 | 1,521,972 |
| **Total unquoted** | **1,709,478** | **1,389,224** | **(733,150)** | **(63,460)** | **2,302,092** | **1,587,617** |
| UK | 173,896 | 27 | - | (3,557) | 170,366 | 248,066 |
| Overseas | 1,616,369 | 1,007,150 | (1,130,233) | 307,631 | 1,800,917 | 1,095,099 |
| **Total quoted** | **1,790,265** | **1,007,177** | **(1,130,233)** | **304,074** | **1,971,283** | **1,343,165** |
| UK | **44,805** | - | **-** | **8,136** (2) | 52,941 | 41,846 |
| **Total property** | **44,805** | **-** | **-** | **8,136** | **52,941** | **41,846** |
| **Total** | **3,544,548** | **2,396,401** | **(1,863,383)** | **248,750** (1) | **4,326,316** | **2,972,628** |

(1) The difference between total gains above (US$248,750k) and the SOFA (gain of US$132,690k) is due to the unrealised loss on short swaps and forwards (US$91,082k), which are classified under creditors and foreign exchange movements on the cash balances held by the Group throughout the year as well as gains and losses incurred through the foreign exchange overlay. Cash balances have been disclosed separately in the balance sheet.

(2) The total gains above (US$8,136k) including exchange differences on translating foreign operations.

### Foundation

| | Fair value At 31/08/14 US$ '000 | Additions US$ '000 | Disposals US$ '000 | Investment gains/(losses) US$ '000 | Fair value At 31/08/15 US$ '000 | Cost At 31/08/15 US$ '000 |
|---|---|---|---|---|---|---|
| UK | 36 | - | - | - | 36 | 22 |
| Overseas | 4,286,421 | 640 | (230,991) | 325,261 | 4,381,331 | 3,976,461 |
| **Total unquoted** | **4,286,457** | **640** | **(230,991)** | **325,261** | **4,381,367** | **3,976,483** |
| UK | **41,846** | - | **-** | **-** | 41,846 | 41,860 |
| **Total property** | **41,846** | **-** | **-** | **-** | **41,846** | **41,860** |
| **Total** | **4,328,303** | **640** | **(230,991)** | **325,261** | **4,423,213** | **4,018,343** |

The trustees consider that the carrying value of the investments is supported by their underlying net assets.

**12. INVESTMENTS (continued)**

| **Group**<br>**Financial assets** | **2015**<br>**US$ '000** | 2014<br>US$ '000 |
|---|---|---|
| *Held for trading* | | |
| Equities - Overseas | 1,722,243 | 1,380,406 |
| Equities - UK | 129,352 | 133,047 |
| Convertibles - UK | - | - |
| Corporate bonds - Overseas | 66,100 | 29,123 |
| Corporate bonds - UK | 629 | 40,848 |
| Investment Properties | 52,941 | 44,805 |
| Investment Funds | 242,210 | 299,242 |
| Bank debt | - | 22,319 |
| Programme related investment | 2,946 | 2,306 |
| | 2,216,421 | 1,952,096 |
| Contracts for difference | 399 | 151,876 |
| Forward currency contracts | 52,559 | 32,646 |
| | 52,958 | 184,522 |
| *Amortised cost* | | |
| Loans - Overseas | 2,056,937 | 1,407,930 |
| **Total Financial Assets** | **4,326,316** | **3,544,548** |

| **Financial Liabilities** | **Notes** | **2015**<br>**US$ '000** | 2014<br>US$ '000 |
|---|---|---|---|
| *Held for trading* | | | |
| Senior delayed drawdown variable rate notes | **16** | 148,587 | 144,736 |
| Option contracts | | - | - |
| Contract for difference | | 129,368 | 4,527 |
| Forward currency contracts | **16** | 655 | 34,415 |
| **Total Financial Liabilities** | | **278,610** | **183,678** |

| **Gains recognised in relation to financial assets and liabilities at fair value through the SOFA** | **2015**<br>**US$ '000** | 2014<br>US$ '000 |
|---|---|---|
| Realised gains on financial assets and liabilities | 676,131 | 356,989 |
| Unrealised gains on financial assets and liabilities | (543,271) | 243,359 |
| Foreign Exchange gains on financial assets and liabilities | (170) | 10 |
| | **132,690** | 600,358 |

**12. INVESTMENTS (continued)**

**Foundation**

| | Investment in subsidiaries US$ '000 | Programme related investments US$ '000 | Variable Rate Notes US$ '000 | Unquoted Investments US$ '000 | Total US$ '000 |
|---|---|---|---|---|---|
| As at 31 August 2014 | 41,882 | 2,306 | 4,032,624 | 251,491 | 4,328,303 |
| Additions | - | 640 | - | - | 640 |
| Disposals | - | - | (188,440) | (42,550) | (230,990) |
| Investment gains | - | - | 329,882 | (4,622) | 325,260 |
| **As at 31 August 2015** | **41,882** | **2,946** | **4,174,066** | **204,319** | **4,423,213** |
| **Cost as at 31 August 2015** | **41,882** | **2,946** | **3,844,166** | **132,295** | **4,021,289** |

**Investments in subsidiaries**

The Foundation owns 100% of the issued ordinary share capital of CIFF Trading (incorporated in England and Wales), CIFF Newco (incorporated in England and Wales), Talos (incorporated in Ireland), CIFF Nutrition (UK) (incorporated in England and Wales) and Talos Properties Holdings Limited ("TPHL", incorporated in England and Wales). CIFF Trading and CIFF Newco are the designated members of CIFF (UK) LLP (incorporated in England and Wales), TPHL owns 100% of the issued ordinary share capital of Talos Properties Limited ("TPL", incorporated in England and Wales) and CIFF Trading owns 100% of the issued ordinary share capital of CIFF D Incorporated ("CIFF D", incorporated in USA). CIFF D was incorporated on 18 December 2014.

The purpose of each of the subsidiaries is as follows: CIFF Trading is one of the designated members of CIFF (UK) LLP and in addition holds an investment in TCI Fund Services LLP.CIFF Trading is also acting as the parent company of CIFF D. CIFF D is a consultancy company providing services to CIFF UK. CIFF Newco is also a designated member of CIFF (UK) LLP and holds the majority of its partnership capital. CIFF (UK) LLP holds an underlying investment through an agreement with a third party investment manager. Talos holds an underlying investment portfolio that is to be managed and provide the Foundation with a regular return. CIFF Nutrition (UK) supporting and promoting Ready to Use Therapeutic Foods ("RUTF") throughout developing countries. TPHL's principal activity is to act as the parent of a wholly owned subsidiary TPL. The purpose of TPL, is the acquisition and management of a UK investment property portfolio. TPL made a charitable gift aid donation to the Foundation in 2015 and 2014.

For the year ended 31 August 2015, CIFF Trading reported a loss of US$133k (2014: loss of US$41k), CIFF Newco Ltd reported a loss of US$151k (2014: loss of US$5k), CIFF (UK) LLP reported a loss of US$196k (2014: profit of US$563k), Talos reported a profit of US$4k (2014: profit of US$4k), CIFF Nutrition (UK) reported a profit of US$k (2014: profit of US$8k), CIFF D reported a profit of US$9k (2014: US$nil), TPHL reported a profit of US$20k (2014: loss of US$12k) and TPL reported a profit of US$6,532k (2014: loss of US$296k).

Variable rate notes related to one Senior Delayed Drawdown Variable Rate Note ('Notes'). The Notes are admitted to the Global Exchange Market of the Irish Stock Exchange Limited and to trading on its unregulated market. The Notes pay a variable return based on the return of the underlying investments of Talos Capital Limited, plus any income received, less expenses incurred. The terms of the Notes are such that any positive interest is determined as a further drawdown, whereas any negative interest is determined as a reduction in the principal of the Notes outstanding. Such movements are shown in the table above in investment gains. The Foundation has committed to funding the Notes up to the aggregate principal amount of US$4.5 billion.

**12. INVESTMENTS (continued)**

**Unquoted Investments**

As at 31 August 2015, unquoted investments of US$204.3 million (2014: US$251.5 million) included US$145.2 million (2014: US$168.1 million) of investments in an investment fund investing in development properties in India. The investment properties are being constructed for sale.

Where the underlying assets are under construction, the fair value of the investment cannot be reliably determined and so the investment fund is held at the lower of cost and net realisable value. Where sufficient progress has been made such that a readily ascertainable market value can be obtained for the underlying assets, the investment fund is valued at fair value using third party valuations prepared by independent experts CBRE South Asia Pvt. Ltd. Fair value is determined using a combination of valuation methodologies, including comparable precedent transactions and discounted cash flows. Key sensitivities include timing of future cash flows and the discount rate used to determine the net present value of future cash flows. The Finance Committee have conducted an impairment review and are satisfied that the investment is not materially impaired.

The Foundation invested US$2,946k in the Global Health Investment Fund ("GHIF"). GHIF intends to provide funding to support the development of drugs, vaccines and other technologies that address global health challenges that disproportinately impact developing countries, while also generating a financial return consistent with its charitable objectives. GHIF's structure includes a partial loss protection to investors. The Foundation classified the investment as a Programme Related Investment ("PRI"), as the primary motivation for making the investment is not financial, but to further the objects of the Foundation. In 2014, the Foundation committed $20m to GHIF, of which $16.3m remains in 2015 (see note 20).

Unquoted investments also comprised US$59.1 million (2014: US$83.4 million) of investments in underlying assets held with an unquoted investment fund. The investments are held at market value, based on the valuation report supplied by the investment fund as at 31 August 2015, with any gains and losses being taken to the Statement of Financial Activities.

**13. FINANCIAL RISK MANAGEMENT**

**Principles of Risk Management**

The Group's investment programme seeks to maximise the returns derived for the level of risk to which the Group is exposed and seeks to minimise potential adverse effects on the Group's financial performance (the "Investment Programme").

The Group has appointed the Investment Manager to provide investment management services in relation to the portfolio of investments it holds. These services, as part of the investment management agreement, include monitoring and managing the risks associated with holding such investments through the application of the Investment Programme as agreed with the Group's Trustees.

The Group's Investment Programme seeks to diversify its investments across a range of asset classes, industry sectors, and counterparties, and also to limit the use of leverage and off balance sheet commitments. Further details of the Investment Programme that relate to the management of certain risks are provided below.

**13. FINANCIAL RISK MANAGEMENT (continued)**

**Principles of Risk Management (continued)**

All investments present a risk of loss of capital. The maximum loss of capital on purchased options, long equity and debt securities is limited to the fair value of those positions. The maximum loss of capital on investments carried at amortised cost is the carrying value of those investments as well as any associated accrued interest receivable. On written call options, short positions on equity and debt sold short the maximum loss of capital can be unlimited. The maximum loss of capital on written put options, equity swaps and forward foreign exchange contracts is limited to the notional contract values of those positions. For loans and securities which incorporate a future commitment there is a risk of loss of capital in excess of the carrying amount of those positions on the consolidated Group balance sheet. The Group may be obliged to settle these commitments at a time when the investment is impaired and therefore the maximum additional loss is the total amount of commitments as disclosed in note 13, uncertain liabilities.

The Group is exposed to operational risks such as settlement and custody risk. Custody risk is the risk of loss of financial assets and liabilities held in custody occasioned by the insolvency or negligence of the custodian. Settlement risk is the risk that a counterparty does not deliver a security or its value in cash as agreed when the security was traded after the Group has already delivered security or cash as per the trade agreement. Although an appropriate legal framework is in place that reduces the risk of loss of value of the financial assets and liabilities held by the custodian or counterparty, in the event of its failure, any cash balances held by the Group are at risk of being lost and the ability of the Group to transfer securities might be temporarily impaired.

With respect to the privately placed loan agreements the Group is exposed to a wide variety of operational risks specific to such investments. These risks are mitigated by the engagement of industry experts, legal advisors and independent loan servicing agents during the pre-commitment due diligence process and throughout the life of the deal.

The Group invests in readily tradable equity securities and their derivatives, corporate bonds and foreign exchange derivates. These investments are generally traded in active secondary markets and the time taken to exit a position and the value received would depend upon factors including the size of the position relative to the total issue size, the daily average traded volume and the prevailing market trends of the period in which the trade is executed. The Group also invests in privately traded equity securities, bank debt and loans. The market for these types of investments is illiquid and secondary market transactions are infrequent. It is more difficult to predict the time and exit price of these type of investments.

The Group's activities expose it to a variety of financial risks: market risk (including other price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk. In accordance with the Investment Programme, the Investment Manager uses different methods to measure and manage the various types of risk to which the Group's investments are exposed; these methods are explained below.

**Market Risk**

(a) Other price risk

The Group is exposed to securities price risk and derivative price risk. This arises from investments held by the Group for which prices in the future are uncertain. Where non-monetary financial instruments for example, equity securities are denominated in currencies other than the US dollar, the price initially expressed in foreign currency and then converted into US dollar will also fluctuate because of changes in foreign exchange rates.

Price risk is managed through diversification and selection of securities and other financial instruments within specified limits set in the Investment Programme. The fair value of financial assets and liabilities exposed to price risk at year end is presented on page 61.

The Investment Programme contains restrictions on overall market exposure (the "Exposure Policy").

**13. FINANCIAL RISK MANAGEMENT (continued)**

**Market Risk (continued)**

(a) Other price risk (continued)

The use of the term "Reference NAV" within the risk management policies refers to the value of the net assets of the Group, excluding any obligations under the Delayed Drawdown Variable Rate Notes. With effect from 1 January 2013 the Exposure Policy regarding overall exposure was amended to state that market exposure shall not exceed 100% of the Reference NAV. The Investment Programme seeks to manage the Group's exposure to price risk by analysing the investment portfolio by industrial sector. The top five exposures by sector at 31 August 2015 were:

| | % of Adjusted Assets | |
|---|---|---|
| **Sector** | **2015** | 2014 |
| Real estate loans | 34.3% | 19.7% |
| Industrials | 24.0% | 15.3% |
| Consumer discretionary | 17.2% | 8.8% |
| Utilities | 6.5% | 26.4% |
| Financials | 5.0% | 7.6% |
| | 87.1% | 77.8% |

The paragraph below summarises the sensitivity of the Group's equity and CFD positions (the "Equity Investments") to equity price movements, against the daily returns of the MSCI World Equity Index including net dividends reinvested, and including the effect of movements in foreign currency exchange rates on equity prices, as at 31 August 2015.

At 31 August 2015, the exposure of the Group to Equity Investments was US$2,023,155k (2014: US$1,995,370k).

The impact below arises an estimation of a reasonable possible change in the fair value of the Group's Equity Investments over the period of one year, based on the Board's best estimate of a reasonable possible shift in the index over one year.

| | **2015 US$ '000** | **2014 US$ '000** |
|---|---|---|
| Predicted effect on the Group's Equity Investments of an increase in the index | 48,632 | 46,165 |
| Predicted effect on the Group's Equity Investments of a decrease in the index | -48,632 | (46,165) |

The MSCI World Equity Index has been used as the reference point in determining the effect of price risk only. The Investment Manager does not manage the Group's investment strategy to track this index or any other index or external benchmark. The sensitivity analysis presented is based upon the Equity Investments composition as at 31 August 2015 and the historical correlation of the returns from the securities comprising the Equity Investments to the MSCI World Equity Index returns. The composition of the Group's Equity Investments, and the correlation thereof to the MSCI World Equity Index, is expected to change over time. The sensitivity analysis prepared as of 31 August 2015 is not necessarily indicative of the effect on the Group's investments of future movements in the level of the MSCI World Equity Index.

**13. FINANCIAL RISK MANAGEMENT (continued)**

**Market risk (continued)**

(b) Foreign currency risk

The Group operates internationally and holds both monetary and non-monetary assets denominated in currencies other than its functional currency, the US dollar. Foreign currency risk as defined, arises as the value of future transactions, recognised monetary assets and monetary liabilities denominated in other currencies fluctuate due to changes in foreign exchange rates. The table below shows the concentration of assets and liabilities denominated in currencies other than the US dollar at 31 August 2015 and 31 August 2014 and has been analysed between monetary and non-monetary.

| Currency | 2015 Monetary US$ '000 | 2015 Non-Monetary US$ '000 | 2015 Currency forward US$ '000 | 2015 Net exposure US$ '000 |
|---|---|---|---|---|
| Australian Dollar | 9,267 | 418,626 | (421,760) | 6,133 |
| Brazilian Real | 19,056 | 101,681 | - | 120,737 |
| Canadian Dollar | 160 | 7,091 | - | 7,251 |
| Chinese Renminbi | - | - | (105,282) | (105,282) |
| Euro | 370,247 | 635,158 | (920,281) | 85,124 |
| Indian Rupee | 4 | - | - | 4 |
| Pound Sterling | 274,329 | 182,293 | (450,435) | 6,187 |

| Currency | 2014 Monetary US$ '000 | 2014 Non-Monetary US$ '000 | 2014 Currency forward US$ '000 | 2014 Net exposure US$ '000 |
|---|---|---|---|---|
| Australian Dollar | 6,424 | 534,232 | (530,869) | 9,787 |
| Brazilian Real | 28,498 | 471,240 | (217,592) | 282,146 |
| Canadian Dollar | 343 | 49,214 | - | 49,557 |
| Euro | 666,271 | 555,695 | (1,081,040) | 140,926 |
| Indian Rupee | 62 | 3,402 | - | 3,464 |
| Pound Sterling | 271,756 | 177,853 | (490,508) | (40,899) |
| Japanese Yen | - | - | (3,802) | (3,802) |

The US dollar exchange rates used at 31 August were as follows:

| | Exchange rates at 31 August | |
|---|---|---|
| | **2015** | 2014 |
| Australian Dollar | **1.406** | 1.071 |
| Brazilian Real | **3.620** | 2.236 |
| Canadian Dollar | **1.314** | 1.088 |
| Chinese Renminbi | **6.442** | 6.143 |
| Euro | **0.892** | 0.761 |
| Indian Rupee | **66.412** | 60.520 |
| Japanese Yen | **121.230** | 104.080 |
| Pound Sterling | **0.651** | 0.602 |

**13. FINANCIAL RISK MANAGEMENT (continued)**

**Market risk (continued)**

(b) Foreign currency risk (continued)

The following table summarises the amount of the increase or decrease in net assets arising from an increase/ decrease of the exchange rate in line with the historical volatility rates, with all other variables held constant. The analysis below presents the changes in net assets for each currency in their absolute values.

| **Change in net assets** | **2015**<br>**US$ '000** | 2014<br>US$ '000 |
|---|---|---|
| Australian Dollar | **697** | 781 |
| Brazilian Real | **21,346** | 32,701 |
| Canadian Dollar | **657** | 2,726 |
| Chinese Renminbi | **4,285** | - |
| Euro | **9,942** | 7,187 |
| Indian Rupee | **-** | 331 |
| Pound Sterling | **7,617** | 7,933 |
| Japanese Yen | **-** | 260 |

Currencies are managed by the Investment Manager within set limits. The investment process focuses on fundamental and systematic factors. The Investment Manager monitors the currency risk on an ongoing basis and reports to the Noteholders and management on at least a quarterly basis.

(c) Interest rate risk

The Group holds liquid, interest-bearing assets and liabilities such as cash and brokerage accounts, where changes in interest rates would change the amount of interest received or paid in relation to these balances. These assets and liabilities are presented in the table below.

The Group invests in corporate and convertible bonds which can impact its interest rate sensitivity. The Investment Manager's rationale for investing in the corporate and convertible bonds is based upon the relative value of the bonds held and future capital gains expected due to changes in the perceived credit quality of the underlying businesses, as such, the interest rate sensitivity of the positions is not actively managed. Changes in interest rates do affect the value of these positions as the fundamental driver of their value is the present value of their future cash flows. The bank debt, corporate and convertible bonds and their predicted change to interest rate sensitivity are presented in the table overleaf.

**13. FINANCIAL RISK MANAGEMENT (continued)**

**Market risk (continued)**

(c) Interest rate risk (continued)

The Group also invests in privately placed loans and uses the amortised cost method to account for the carrying value and income recognised for these positions. Using this method the Group recognises income at a rate based upon the effective interest rate of all expected cash flows over the life of the loan. The calculations of carrying value and income are insensitive to reasonably possible changes in interest rates. Therefore, given a reasonably possible change in interest rates of 1%, the interest rate sensitivity of the privately placed loans is assessed to be negligible and are presented within the "Investments at amortised cost" category overleaf. An extreme change in the interest rates reflecting broader economic issues may impact the borrower's ability to repay the loans and impede the market for the assets securing the loan. This change was not considered to be reasonably possible at year end.

The table below summarises the Group's exposure and sensitivity to interest rates. It includes the Group's investment assets and liabilities at fair value, categorised by the earlier of contractual re-pricing and maturity dates. The sensitivity analysis presented is based upon the composition of the Group's assets and liabilities at 31 August 2015 and is not necessarily indicative of the effect on the Group's assets and liabilities of the future movements in interest rates.

| 2015 | < 3 months US$ '000 | 3 months - 1 year US$ '000 | > 1 year US$ '000 | Non-interest rate sensitive US$ '000 | Total US$ '000 |
|---|---|---|---|---|---|
| Investment assets/ (liabilities) at fair value | - | 52,644 | 14,085 | 4,259,587 | **4,326,316** |
| Pro rata effect of a +/-1% | 0% | 0.255% | 3.800% | 0% | |
| **Interest sensitivity** | **-** | **134** | **535** | **-** | **669** |

| 2014 | < 3 months US$ '000 | 3 months - 1 year US$ '000 | > 1 year US$ '000 | Non-interest rate sensitive US$ '000 | Total US$ '000 |
|---|---|---|---|---|---|
| Investment assets/ (liabilities) at fair value | - | 63,167 | 29,123 | 3,452,258 | **3,544,548** |
| Pro rata effect of a +/-1% | 0% | 0.288% | 2.600% | 0% | |
| **Interest sensitivity** | **-** | **182** | **757** | **-** | **939** |

(1) These percentages are calculated by multiplying 1% by the average length of the period as a proportion of one year. This calculation time apportions the effect of a linear increase in interest rates of 1% over the course of the whole year. 1% is deemed to be a reasonable possible shift in interest rates over the period of one year.

## 13. FINANCIAL RISK MANAGEMENT (continued)

### Credit risk

The Group is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. The Group's credit risks arise principally through exposures to corporate debt investments, loans, bank deposits, and derivative counterparties.

Corporate debt investments may retain some value in the event of a default of the underlying business through claims against any residual value or assets held at the time of default. The Group would expect to realise a loss of the majority of the face value of the investment in the event of a default. Any recovery would be governed by bankruptcy law in the relevant jurisdiction and would be likely to take several years to realise.

All of the loan investments held by the Group are secured against physical assets including real estate and property. The value of the security relating to a loan investment may become equal to or less than the value of the loan that it secures. Accordingly, in the event of a default the Group may incur a loss after all costs relating to obtaining and selling secured assets have been taken into account. Although the Group monitors the value of the secured assets on a periodic basis (see "Credit Enhancements" on page 66), as there is no active market for the positions, their risk is managed on an exposure basis, with not more than 50% of the Reference NAV to be drawn under loans classified as Real Estate Debt (as outlined in the Investment Management Agreement). Due to the illiquid nature of such loans and the variety of risks attached including property development and concentration risk, significant losses could arise.

| Financial instrument | 2015 | 2015 | 2015 |
|---|---|---|---|
| | B+ to B | Not rated | Total |
| | US$ '000 | US$ '000 | US$ '000 |
| Bonds | 66,729 | - | 66,729 |
| Loans | - | 2,056,937 | 2,056,937 |
| | **66,729** | **2,056,937** | **2,123,666** |

| Financial instrument | 2014 | 2014 | 2014 |
|---|---|---|---|
| | BBB+ to BBB- | Not rated | Total |
| | US$ '000 | US$ '000 | US$ '000 |
| Bonds | 69,971 | - | 69,971 |
| Bank debt | | 22,319 | 22,319 |
| Loans | - | 1,407,254 | 1,407,254 |
| | **69,971** | **1,429,573** | **1,499,544** |

**13. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk (continued)**

**Credit Enhancements**

At 31 August 2015, the Group held investments in privately placed loans valued at US$2,056,937k (2014: US1,407,254k). The key risk relating to each of these loans is the possibility that the borrower will not repay the interest and principal relating to the loan in full. To protect the Group against this possibility of default, security is sought from the borrower over assets worth more than the value of the loan outstanding. This security normally takes the form of prime real estate assets in developed markets. The Group monitors the value of the assets pledged as security by engaging independent experts to provide valuations on the assets on a periodic basis and considers metrics such as loan-to-value or loan-to-commitment ratio.

Through the assets against which the loans are secured, the Group has an indirect exposure to reductions in asset valuations as a result of a market crash or other tail events. This may result in the amount lent under a loan being greater than the value of the secured assets and increase the probability of the loans becoming impaired or going into default.

Two of the debt investments held by the Group were considered to be impaired at the year end. One of these positions was impaired due to the devaluation of the asset pledged as collateral, which resulted in an impairment charge of US$39,872k during the year. The other position was considered to be impaired due to a deterioration in the ability of the guarantor company to obtain financing to meet its obligations, which resulted in an impairment charge of US$ 11,686 during the year.

The Group is also protected by covenants built into its loan agreements which require immediate repayment in the event that the borrower breaches certain covenants. These are agreed on a loan-by-loan basis at the origination of each deal and may include metrics such as loan-to-value ratio, interest cover and other performance based metrics. At the year-end, one of the loans were in breach of their loan covenants (2014: none), and the Group had initiated enforcement proceedings to recover the amount of its investment plus accrued interest under the loan documents. On 23 November 2015 the Group received an amount from the borrower to repay the loan in full, all accrued interest and certain costs relating to the econforcement process. As a result of this payment no amounts were remaining to be paid to the Group under this loan agreement.

**Counterparty Credit Risk**

The Group is also exposed to counterparty credit risk through the trading of derivative products, cash and cash equivalents, cash pledged as collateral, amounts due from brokers and other receivable balances.

One element of counterparty credit risk is the monitoring of the credit ratings of parties where all amounts due from brokers, cash and short-term deposits are held by parties with a credit rating A1/A or higher with the exception of Citco Bank Nederland NV which is not rated.

The analysis below summarises the Group's exposure by counterparty credit rating at 31 August 2015:

| Counterparty | Credit rating at 31 August 2015 (Moody's) | (S&P) | Credit exposure 31 August 2015 US$ '000 | % of Assets |
|---|---|---|---|---|
| HSBC Bank Plc | Aa2 | AA- | 452,014 | 9.85% |
| UBS AG | A2 | A | 5,192 | 0.11% |
| JP Morgan Chase | Aa2 | A+ | 19,300 | 0.42% |
| Wells Fargo | Aa2 | A+ | 3 | - |
| Barclays Bank | A2 | A- | 27,399 | 0.60% |
| Standard Bank | Aa2 | AA- | 18 | - |
| Citco Bank Nederland NV | n/a | n/a | 103 | - |
| | | | **504,029** | 10.98% |

## 13. FINANCIAL RISK MANAGEMENT (continued)

### Credit risk (continued)

The analysis below summarises the Group's exposure by counterparty credit rating at 31 August 2014:

| Counterparty | Credit rating at 31 August 2014 (Moody's) | (S&P) | Credit exposure 31 August 2014 US$ '000 | % of Assets |
|---|---|---|---|---|
| HSBC Bank Plc | Aa3 | AA- | 450,283 | 8.90% |
| UBS AG | A2 | A | 3,752 | 0.07% |
| JP Morgan Chase | Aa3 | A+ | 610,562 | 12.06% |
| Deutsche Bank | Aa3 | AA- | 5 | 0.00% |
| Credit Suisse | A1 | A | 23,440 | 0.46% |
| Barclays Bank | A2 | A | 25,910 | 0.51% |
| Standard Bank | Baa2 | n/a | 20 | - |
| Citco Bank Nederland NV | n/a | n/a | 38 | - |
| | | | **1,114,010** | 22.01% |

Credit risk is also managed by a policy contained in the Investment Programme to maintain exposures to any one counterparty to less than 15% of its Reference NAV.

In the event of any breach of the above restrictions not remedied within 3 business days of the date of such breach, the Foundation management shall in their sole discretion determine the action and will seek to achieve, where practicable, a rectification of the breach within a reasonable timeframe and/or a commercial economic advantage.

In addition, the Group also restricts its exposure to credit losses on the trading derivative instruments it holds by including netting agreements with counterparties (approved brokers) with whom it undertakes a significant volume of transactions. These netting provisions do not result in an offset on the Consolidated Balance Sheet, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by netting to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

The Group's overall exposure to credit risk on derivative instruments subject to a netting arrangement can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the counterparty has received payment. Payment is made on a purchase once the securities have been received by the Group. The trade will fail if either party fails to meet its obligation.

**13. FINANCIAL RISK MANAGEMENT (continued)**

**Credit risk (continued)**

The Group has appointed HSBC Bank plc ("HSBC") as custodian and prime broker and provider of other services (including financing) under the terms of the HSBC Prime Custody Agreement (the "HSBC Prime Custody Agreement"). HSBC will act as banker, custodian and prime broker of the cash and securities delivered to HSBC and will be responsible for receipt and disbursement of cash on behalf of the Group, for the receipt and safe custody and registration of securities of the Group and for the transfer of securities for the Group. The Group has both a custody and collateral account with HSBC. HSBC will also provide financing and securities lending to the Group pursuant to the HSBC Prime Custody Agreement. The collateral required to support any financing, securities lending or other exposure of HSBC to the Group will be held in the collateral account with HSBC in the name of the Group. HSBC is a member of the London Stock Exchange and at 31 August 2015 had a Standard & Poor's Credit Rating of AA- (2014: AA-). At 31 August 2015, 87% of cash and cash pledged as collateral; and investments were placed in custody with HSBC (2014: 75%).

The prime brokerage agreement with UBS AG states that the counterparty has the right to utilise, re-hypothecate or otherwise appropriate the Group's assets subject to a limit equal to 100% of the indebtedness of the Group to the counterparty. The agreement also includes a net settlement provision in the event of an end to the prime brokerage agreement.

The prime brokerage agreement with JP Morgan Chase Bank N.A. states that, to the extent permitted under the laws, rules and regulations of the United States Securities and Exchange Commission and other exchanges and dealer associations by which certain of the JP Morgan Chase entities are regulated (collectively, the "US Rules"), the Group's assets that are not required to be segregated by US Rules, may be borrowed, lent or otherwise used by such JP Morgan Chase entities who may hold such assets for their own purposes subject to a limit equal to 140% of the indebtedness of the Group to the counterparty. Certain JP Morgan Chase entities may not be subject to the US Rules and assets held by such entities may be borrowed, lent or otherwise used by such entities without the limitations imposed under the US Rules. The credit exposure with JP Morgan Chase at 31 August 2015, relates primarily to cash and cash equivalents.

The Group has entered into ISDA master agreements with Barclays Bank plc, Goldman Sachs International, HSBC Bank plc, UBS AG, Deutsche Bank AG London, Credit Suisse Securities (Europe) Limited and JP Morgan CHase, for the purpose of trading over the counter derivative instruments. The ISDA master agreements ensure that the Group has the ability to call cash to cover any unrealised mark to market gains prior to settlement, and is therefore able to limit credit exposure to the initial margin posted on any particular trade.

**Liquidity risk**

Liquidity risk is the risk that the Group may be unable to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous. The Group is exposed to the daily settlement of margin calls on derivatives, settlement of funding requests on loans with an unfunded commitment (see note 1(j) accounting policy on "Unfunded Commitments" for further details), Note repayment requests and the annual payment of interest due to the Noteholders.

The Investment Manager monitors the Group's liquidity position on a daily basis, and in accordance with agreed risk framework reports to the Group on a monthly basis. The liquidity report has been designed to confirm that the Group has sufficient resources to cover projected outflows in a stress scenario given preset liquidity haircuts for each asset class.

**13. FINANCIAL RISK MANAGEMENT (continued)**

**Liquidity risk (continued)**

As part of the management of liquidity risk, the Investment Programme prescribes a limit to the amount of unfunded commitments as a certain percentage of its Reference NAV. Prior to 1 December 2013, the exposure to undrawn commitments is limited by reference to the drawn amounts of loans secured by real estate assets as follows:

> With effect from 1 December 2013 the Group amended its investment restriction policies. The changes agreed were as follows (all percentages given below refer to the exposure of such asset type as a percentage of the Reference NAV).
>
> Removal of the two thirds adjustment ratio between the drawn amounts under loans secured by real estate assets and undrawn commitments with the undrawn commitments limit, for all assets types, to be fixed at 35%.
>
> Introduction of a combined limit of 75%, incorporating all unlisted instruments (Real Estate Equity + Real Estate Debt + Private Equity + Unlisted Corporate Debt) and all unfunded commitments.
>
> Introduction of a combined limit incorporating Equity + Drawn Private Equity + Drawn Real Estate Equity of 61.5%.
>
> Introduction of a combined limit incorporating Drawn Real Estate Debt and Drawn Real Estate Equity of 50%.
>
> Increase in the combined Drawn and Undrawn Private Equity limit from 6.5% to 20%.
>
> Introduction of a combined Drawn and Undrawn Real Estate Equity limit of 20%.

On 21 October 2014, an Investment Programme waiver was approved to allow the total unlisted instruments and undrawn commitments exposure to exceed 75% of the Groups Reference NAV for the purpose of, and to the percentage required for, proceeding with a certain loan deal. The waiver is specific to this loan deal and as part of the agreement, the investment manager cannot increase such exposure further until it is back below the 75% limit following the signing of the loan deal specified in the waiver request.

The Group's main sources of liquidity are listed equity securities, actively traded corporate debt and cash deposits. The asset class investment restrictions ensure a proportion of the Group's assets are invested in these types of assets, which can be readily disposed. The Group also has the ability to meet Note repayments obligations by an in specie delivery of a Noteholder's pro rata share of the investments in the portfolio at the redemption date.

The Group may also invest in derivative contracts that are traded over-the-counter, debt securities and unlisted equity investments that are not traded in an active market. As a result, the Group may not be able to quickly liquidate these investments at an amount close to their fair value to meet its liquidity requirements, or be able to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

**13. FINANCIAL RISK MANAGEMENT (continued)**

**Liquidity risk (continued)**

The below tables analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the maturity date.

| **Group** | **Less than 1 month** | **1 to 3 months** | **3 months to 1 year** | **1 to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **31 August 2015** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** |
| Creditors: amounts falling due within one year | 320,233 | 36,511 | 84,530 | - | - | 441,274 |
| Creditors: amounts falling due in more than one year | - | - | - | 11,933 | - | 11,933 |
| **Total liabilities** | **320,233** | **36,511** | **84,530** | **11,933** | **-** | **453,207** |

| **Group** | **Less than 1 month** | **1 to 3 months** | **3 months to 1 year** | **1 to 5 years** | **More than 5 years** | **Total** |
|---|---|---|---|---|---|---|
| **31 August 2014** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** | **US$ '000** |
| Creditors: amounts falling due within one year | 234,075 | 29,887 | 106,942 | - | - | 370,904 |
| Creditors: amounts falling due in more than one year | - | - | - | 23,435 | - | 23,435 |
| **Total liabilities** | **234,075** | **29,887** | **106,942** | **23,435** | **-** | **394,339** |

Uncertain liabilities, as discussed in more detail in page 74, which are not recognised on the statement of financial position are not included in the table above for the purpose of analysing the Company's liquidity risk.

**Delayed drawdown variable rate notes analysis**

On 10 July 2009, the Group issued Delayed Drawdown Variable Rate Notes to The Children's Investment Fund Foundation ("CIFF US") with an aggregate commitment balance of US$92,643k which will mature on 10 July 2019. The Second Issue Notes are asset backed notes, and have been issued in definitive fully registered form, without principal receipts attached. The Issue Notes are listed on the Irish Stock Exchange Alternative Securities Market.

## 13. FINANCIAL RISK MANAGEMENT (continued)

### Liquidity risk (continued)

On 11 December 2009, by deed of amendment, the aggregate commitment balance of the Second Issue Notes was increased from US$92,643k to US$178,665k.

On 25 July 2015, The Foundation signed a purchase agreement to purchase the Second Issue Notes from CIFF US.The purchase will be over 20 quarterly installments commencing on the 15th working day of September 2015. The purchase amount will be determined according to the principle amount outstanding of the seller notes on the valuation date, being the last business day of the month preceding the purchase instalment. As at 31 August 2015 the capital commitment is US$148,609k. On 21 September 2015, The Foundation purchased 5% of the outstanding notes for US$7,430k.

As at 31 August 2015, the aggregate commitment balance of the Issue Notes to CIFF US was US$161,563k (2014: US$161,563k), of which US$136,864k (2014: US$120,813k) had been drawn down. Following the purchase of the Second Issue Notes, the aggregate commitment balance of the Issue Notes to CIFF US was reduced to US$151,561k.

The below tables analyse the valuation of the  Issue Notes drawn down at the year end:

| | **2015**<br>**US$ '000** | 2014<br>US$ '000 |
|---|---|---|
| **Balance drawn down at beginning of year** | 120,813 | 106,999 |
| Drawdowns of notes | 22,054 | 16,398 |
| Prepayment of notes | (4,852) | - |
| Redemptions notes | (1,151) | (2,584) |
| **Balance drawn down at end of year** | 136,864 | 120,813 |

Interest will accrue on the Notes and will be payable annually, in arrears, on 20 January (the "determination date") in respect of each annual accounting year. The amount of interest will be calculated as the product of:

(a) the fraction which is equal to the principal amount outstanding of such note over the aggregate principal amount outstanding for all notes issued by the Group on the relevant determination date; and

(b) the excess, if any, of all cumulative positive net income, profits and gains of the issuer (if any) less the issuer retained amount (US$5,000), for such interest period, taking into account any interest expense incurred (for the avoidance of doubt, including interest paid and interest accrued but not yet paid) on any senior indebtedness and all other expenses.

At 31 August 2015, interest accrued on the Notes was US$11,745k (2014: US$23,923k). In the event of a deficit prior to the calculation of the interest expense, the profit participating note agreement provides that the principle value of the profit participating notes are written down by an amount equal to the value of that deficit.

## 13. FINANCIAL RISK MANAGEMENT (continued)

### Fair value measurement

Fair value measurement establishes a hierarchical disclosure framework which prioritises and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgement used in measuring fair value.

Investments measured and reported at fair value are classified in one of the following categories:

Level 1 - Quoted prices that are available in active markets for identical investments as of the reporting date. The type of investments included in level 1 include listed equities.

Level 2 - Pricing inputs are observable for the investment (the underlying information used to calculate the price) and can include inputs in markets that are not considered to be active. Investments which are included in this category include convertible bonds, corporate bonds, contracts for difference, option contracts and forward foreign exchange contracts.

Level 3 - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant judgement or estimation. Investments that are included in this category include a private placement investment, investment funds, investment properties and embedded derivatives.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement, and considers factors specific to the investment. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities.

Level 3 investments not listed or quoted on any securities exchange or similar electronic system or if, being so listed or quoted, is not regularly traded thereon, will be valued at its fair value as determined in good faith having regard to its cost price, the price at which any recent transaction in the security may have been affected and any other such factors which are deemed relevant in considering a positive or negative adjustment to the valuation of the investment.

Any OTC derivatives that have low liquidity or for which inputs are unobservable are classified within level 3. While the valuations of these less liquid OTC derivatives may utilise some level 1 and/or level 2 inputs, they also include other unobservable inputs which are considered significant to the fair value determination. At each measurement date, the Investment Manager updates the level 1 and level 2 inputs to reflect observable inputs, though the resulting gains and losses are reflected within level 3 due to the significance of the unobservable inputs.

**13. FINANCIAL RISK MANAGEMENT (continued)**

**Fair value measurement**

The following table summarises the valuation of the Group's financial assets and liabilities by the above fair value hierarchy levels as of 31 August 2015:

| | 2015 Level 1 US$ '000 | 2015 Level 2 US$ '000 | 2015 Level 3 US$ '000 | 2015 Total US$ '000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Debt securities at fair value | - | 66,729 | - | 66,729 |
| Investment funds at fair value | - | - | 245,156 | 245,156 |
| Investment property at fair value | - | - | 52,941 | 52,941 |
| Equity securities at fair value | 1,851,595 | - | - | 1,851,595 |
| Derivatives at fair value | - | 52,958 | - | 52,958 |
| **Total** | **1,851,595** | **119,687** | **298,097** | **2,269,379** |
| **Liabilities** | | | | |
| Debt securities at fair value | - | - | 148,587 | 148,587 |
| Derivatives at fair value | - | 130,023 | - | 130,023 |
| **Total** | **-** | **130,023** | **148,587** | **278,610** |

The following table summarises the valuation of the Group's financial assets and liabilities by the above fair value hierarchy levels as of 31 August 2014:

| | 2014 Level 1 US$ '000 | 2014 Level 2 US$ '000 | 2014 Level 3 US$ '000 | 2014 Total US$ '000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Debt securities at fair value | - | 92,290 | - | 92,290 |
| Investment funds at fair value | - | - | 301,548 | 301,548 |
| Investment property at fair value | - | - | 44,805 | 44,805 |
| Equity securities at fair value | 1,513,453 | - | - | 1,513,453 |
| Derivatives at fair value | - | 184,522 | - | 184,522 |
| **Total** | **1,513,453** | **276,812** | **346,353** | **2,136,618** |
| **Liabilities** | | | | |
| Debt securities at fair value | - | - | 144,736 | 144,736 |
| Derivatives at fair value | - | 38,942 | - | 38,942 |
| **Total** | **-** | **38,942** | **144,736** | **183,678** |

There were no significant movements between level 1 and level 2 investments during the year or prior year. For level 3 valuations, excluding the Notes, held at the year-end, it has been determined that the possible change in valuation of these positions would be immaterial to the Group if reasonably possible alternative inputs and assumptions had been used in the valuation process. The total value of level 3 investments, excluding the Notes, as at 31 August 2015 was US$298,097k (2014: US$346,353k).

### 13. FINANCIAL RISK MANAGEMENT (continued)

#### Fair value measurement

The changes in investments measured at fair value for which level 3 inputs have been used to determine fair value are as follows:

| | Assets Investment Properties US$ '000 | Assets Investment Funds US$ '000 | Assets Private Placement US$ '000 | Liabilities Debt US$ '000 |
|---|---|---|---|---|
| **Balance at 31 August 2014** | 44,805 | 301,548 | - | 144,736 |
| Purchases | - | 640 | - | - |
| Sales | - | (52,418) | - | (3,299) |
| Realised gains | - | 53 | - | 694 |
| Change in unrealised gains/(losses) | - | (4,667) | - | - |
| Exchange differences on translating Foreign operations | - 3,502 | - | - | - |
| **Balance at 31 August 2015** | **41,303** | **245,156** | **-** | **142,131** |
| Total gains/(losses) for the year included in the Statement of Finance Activities at the end of the year | - | (4,614) | - | 694 |

| | Assets Corporate Bonds US$ '000 | Assets Investment Funds US$ '000 | Assets Private Placement US$ '000 | Liabilities Debt US$ '000 |
|---|---|---|---|---|
| **Balance at 31 August 2013** | 41,846 | 286,835 | - | 125,546 |
| Purchases | - | 2,933 | 899 | - |
| Sales | - | (35,157) | - | (4,732) |
| Realised gains | - | - | - | 23,922 |
| Change in unrealised gains/(losses) | - | 46,937 | (899) | - |
| Exchange differences on translating Foreign operations | 2,959 | - | - | - |
| **Balance at 31 August 2014** | **44,805** | **301,548** | **-** | **144,736** |
| Total gains/(losses) for the year included in the Statement of Finance Activities at the end of the year | - | 29,265 | (899) | 23,922 |

All net realised and unrealised gains in the tables above are reflected in the accompanying Consolidated Statement of Financial Activities. Net unrealised appreciation relates to those financial instruments held by the Group at 31 August 2015.

#### Uncertain liabilities

As disclosed in note 12, the Group has invested in loans and securities which incorporate an uncertain commitment that it may be obliged to pay at a future date. The likelihood that these commitments are paid by the Group is unknown at the balance sheet date. The total uncertain commitments as at 31 August 2015 have been estimated as US$1,171,232k (2014: US$1,236,628k).

## 14. DEBTORS

| | **Group 2015 US$ '000** | Group 2014 US$ '000 | **Foundation 2015 US$ '000** | Foundation 2014 US$ '000 |
|---|---|---|---|---|
| Interest receivable | 24,817 | 31,426 | - | - |
| TCI LLP [1] | 363 | 614 | 363 | 614 |
| Dividends receivable | 28,986 | 36,539 | - | - |
| Amounts due from brokers | 6,436 | 749 | - | - |
| Other Debtors [4] | 2,131 | 3,503 | 85,170 | 699 |
| VAT recoverable | - 168 | - | - | - |
| CIFF (UK) Newco Ltd due in <1yr [2] | - | - | 607 | 4,234 |
| Talos Properties Ltd [3] | - | - | 1,913 | 4,310 |
| CIFF Nutrition (UK) Ltd | - | - | - | 1 |
| Prepayments | 378 | 363 | 374 | 364 |
| | **62,943** | **73,194** | **88,427** | **10,222** |

(1) US$194k was repaid to the Group on 2 September 2015.

(2) The outstanding loan between CIFF (UK) and CIFF (UK) Newco Limited of US$607k has been included in debtors as receivable within one year of the balance sheet date as it is repayable on demand by CIFF (UK). On 24 February 2015, CIFF (UK) Newco Limited repaid US$2,500k of the loan. The loan between CIFF (UK) and CIFF (UK) Newco Limited is secured by way of a floating charge over the assets of CIFF Newco (UK) Limited and is interest bearing at a rate of 7% per annum.

(3) The outstanding amount between CIFF (UK) and Talos Properties Limited ("TPL") of US$1,913k is due to a charitable donation made by TPL. On 6 October 2014, CIFF (UK) received a Gift Aid payment of US$3,193K from TPL. A further payment of US$910k was received on 11 February 2015

(4) The oustanding amount between CIFF (UK) and Talos relates to unpaid redemptions of US$84,350k. This amount was repaid on 1 September 2015.

## 15. CASH AT BANK AND IN HAND

Bank and cash include amounts due from the Group's custodian and other counterparties, on demand and interest bearing deposits with original maturities of less than 3 months.

Cash pledged as collateral includes collateral balances held at year end with the Group's custodian and prime broker and other counterparties. The use of these amounts is restricted based upon the Group's contractual margin exposures at the year-end date.

The total of bank and cash and cash pledged as collateral is shown on the face of the balance sheet and included within the cash flow statement.

Amounts due from brokers (note 14) include cash from forward foreign exchange contracts closed but awaiting settlement and cash from trades sold but which have not yet settled and interest receivable.

Amounts due to brokers (note 16) include cash from trades purchased which have not yet settled and cash for forward foreign exchange contracts closed but awaiting settlement.

See note 13 Financial Risk Management for details on assets subject to a security interest for the discharge of any obligations and re-hypothecation.

## 15. CASH AT BANK AND IN HAND (continued)

The following table shows the breakdown of the amounts with custodians and other counterparties at 31 August 2015:

| Group | Cash and cash equivalents 2015 US$ '000 | Cash pledged as collateral 2015 US$ '000 | **Cash at bank and in hand 2015 US$ '000** | Amounts due from brokers 2015 US$ '000 | Amounts due to brokers 2015 US$ '000 | **Net counterparty position 2015 US$'000** |
|---|---|---|---|---|---|---|
| **Custodian** | | | | | | |
| HSBC Bank Plc | 325,890 | 125,868 | **451,758** | 6,436 | (6,180) | **452,014** [1] |
| **Other counterparties** | | | | | | |
| JP Morgan Chase | 19,300 | - | **19,300** | - | - | **19,300** |
| UBS AG | 5,192 | - | **5,192** | - | - | **5,192** |
| Credit Suisse | - | | **-** | - | - | **-** |
| Barclays Bank plc | 4,884 | 22,515 | **27,399** | - | - | **27,399** |
| Standard Bank | 18 | - | **18** | - | - | **18** |
| Wells Fargo | 3 | - | **3** | - | - | **3** |
| Citco Bank Nederland NV | 103 | - | **103** | - | - | **103** |
| **Total** | 355,390 | 148,383 | **503,773** | 6,436 | (6,180) | **504,029** |

[1] Of this amount, US$256k was due to amounts due on forwards pending settlement at the year end date.

The following table shows the breakdown of the amounts with custodians and other counterparties at 31 August 2014:

| Group | Cash and cash equivalents 2014 US$ '000 | Cash pledged as collateral 2014 US$ '000 | **Cash at bank and in hand 2014 US$ '000** | Amounts due from brokers 2014 US$ '000 | Amounts due to brokers 2014 US$ '000 | **Net counterparty position 2014 US$'000** |
|---|---|---|---|---|---|---|
| **Custodian** | | | | | | |
| HSBC Bank Plc | 313,498 | 152,117 | **465,615** | 749 | (16,081) | **450,283** [1] |
| **Other counterparties** | | | | | | |
| JP Morgan Chase | 610,562 | - | **610,562** | - | - | **610,562** |
| UBS AG | 3,752 | - | **3,752** | - | - | **3,752** |
| Credit Suisse | 10,924 | 12,516 | **23,440** | - | - | **23,440** |
| Deutsche Bank | 13,308 | 12,602 | **25,910** | - | - | **25,910** |
| Citco Bank Nederland NV | 20 | - | **20** | - | - | **20** |
| Barclays Bank plc | 5 | - | **5** | - | - | **5** |
| Standard Bank | 38 | - | **38** | - | - | **38** |
| **Total** | 952,107 | 177,235 | **1,129,342** | 749 | (16,081) | **1,114,010** |

[1] Of this amount, (US$15,332k) was due to amounts due on forwards pending settlement at the year end date.

## 15. CASH AT BANK AND IN HAND (continued)

The following table shows the breakdown of the cash and cash equivalents of the Foundation held with counterparties as at 31 August:

| **Foundation** | **Cash and cash equivalents 2015 US$ '000** | Cash and cash equivalents 2014 US$ '000 |
|---|---|---|
| HSBC Bank plc | 25,376 | 119,980 |
| JP Morgan Chase | 19,000 | 10,049 |
| Barclays Bank plc | 1,660 | 2,233 |
| Standard Bank | 18 | 20 |
| | **46,054** | 132,282 |

## 16. CREDITORS: amounts falling due within one year

| | **Group 2015 US$ '000** | Group 2014 US$ '000 | **Foundation 2015 US$ '000** | Foundation 2014 US$ '000 |
|---|---|---|---|---|
| Amounts due to brokers [2] | 6,180 | 16,081 | - | - |
| Financial liabilities [1,2] | 148,432 | 138,309 | - | - |
| Grants | 116,035 | 106,679 | 116,036 | 106,680 |
| Creditors | 38,079 | 73,154 | 1,308 | 1,526 |
| Derivative financial instrument liabilities [2] | 130,023 | 34,415 | - | - |
| Accruals and deferred income | 2,418 | 1,625 | 1,110 | 1,212 |
| Interest payable | 52 | 121 | - | - |
| Taxes and social security costs | 55 | 520 | - | 339 |
| CIFF (UK) Newco Ltd | - | - | - | - |
| | **441,274** | 370,904 | **118,454** | 109,757 |

(1) Financial liabilities of US$136,864k (2014: US$120,813k) due on senior delayed drawdown variable rate note owned by CIFF (US) and US$23,941k (2014: US$23,941k) due to accrued interest on this note (see note 12).

(2) See note 13 for details of interest and maturity.

## 17. CREDITORS: amounts falling due after one year

| | **Group 2015 US$ '000** | Group 2014 US$ '000 | **Foundation 2015 US$ '000** | Foundation 2014 US$ '000 |
|---|---|---|---|---|
| Creditors payable between 1 and 2 years | 11,797 | 23,361 | 11,642 | 12,407 |
| Creditors payable between 2 and 5 years | 136 | 74 | 136 | 74 |
| Creditors payable after 5 years | - | - | - | - |
| | **11,933** | 23,435 | **11,778** | 12,481 |

## 18. MOVEMENT IN FUNDS

Funds were transferred from the Expendable Endowment Fund to the Designated Funds at the year end.

| Group | 2014 US$ '000 | Incoming Resources US$ '000 | Resources Expended US$ '000 | Investment gains/ (losses) US$ '000 | FX gains/ (losses) US$ '000 | Exchange difference reserve US$ '000 | Transfer between funds US$ '000 | 2015 US$ '000 |
|---|---|---|---|---|---|---|---|---|
| Unrestricted: [1] | | | | | | | | |
| Income funds | - | 241,507 | (282,998) | - | (171) | - | 41,662 | **-** |
| Designated funds | 172,327 | - | - | - | - | - | 335,273 | **507,600** |
| Restricted | - | 5,063 | (5,063) | - | - | - | - | **-** |
| Expendable Endowment Fund | 4,181,559 | - | - | 132,860 | 1 | (3,514) | (376,935) | **3,933,971** |
| **Total funds** | **4,353,886** | **246,570** | **(288,061)** | **132,860** | **(170)** | **(3,514)** | **-** | **4,441,571** |

| Group | 2013 US$ '000 | Incoming Resources US$ '000 | Resources Expended US$ '000 | Investment gains/ (losses) US$ '000 | FX gains/ (losses) US$ '000 | Exchange difference reserve US$ '000 | Transfer between funds US$ '000 | 2014 US$ '000 |
|---|---|---|---|---|---|---|---|---|
| Unrestricted: [1] | | | | | | | | |
| Income funds | - | 185,067 | (225,118) | - | 11 | - | 40,040 | **-** |
| Designated funds | - | - | - | - | - | - | 172,327 | **172,327** |
| Restricted | - | 3,940 | (3,940) | - | - | - | - | **-** |
| Expendable Endowment Fund | 3,790,619 | - | - | 600,348 | (1) | 2,960 | (212,367) | **4,181,559** |
| **Total funds** | **3,790,619** | **189,007** | **(229,058)** | **600,348** | **10** | **2,960** | **-** | **4,353,886** |

(1) Reserves retained by subsidiary undertakings and general unrestricted funds are disclosed in total in the tables above and total US$85,198k (2014: US$90,987k).

## 18. MOVEMENT IN FUNDS (continued)

| Foundation | 2014 | Incoming Resources | Resources Expended | Investment gains/ (losses) | FX gains/ (losses) | Transfer between funds | 2015 |
|---|---|---|---|---|---|---|---|
| | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 |
| Unrestricted | | | | | | | |
| Income funds | - | 3,316 | (251,381) | - | (147) | 248,212 | **-** |
| Designated funds | 172,327 | - | - | - | - | 335,273 | **507,600** |
| Restricted | - | 5,063 | (5,063) | - | - | - | **-** |
| Expendable Endowment Fund | 4,177,383 | - | - | 327,710 | - | (583,485) | **3,921,608** |
| **Total funds** | **4,349,710** | **8,379** | **(256,444)** | **327,710** | **(147)** | **-** | **4,429,208** |

| Foundation | 2013 | Incoming Resources | Resources Expended | Investment gains/ (losses) | FX gains/ (losses) | Transfer between funds | 2014 |
|---|---|---|---|---|---|---|---|
| | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 | US$ '000 |
| Unrestricted | | | | | | | |
| Income funds | - | 6,994 | (152,942) | - | (12) | 145,960 | **-** |
| Designated funds | - | - | - | - | - | 172,327 | **172,327** |
| Restricted | - | 3,940 | (3,940) | - | - | - | **-** |
| Expendable Endowment Fund | 3,789,027 | - | - | 706,643 | - | (318,287) | **4,177,383** |
| **Total funds** | **3,789,027** | **10,934** | **(156,882)** | **706,643** | **(12)** | **-** | **4,349,710** |

Following the change of granting policy to multi-year contracting approach, the Board decided to earmark funds for the potential funding requirements in future years for the fulfilment of multi-year programmes approved by the Board of Trustees. As at 31 August 2015, the Trustees have earmarked US$507,600 (2014: US$172,327) of reserves as designated funds in recognition of funds which may be called upon to be disbursed to multi-year programmes.

## 19. ANALYSIS OF NET ASSETS BETWEEN FUNDS

| | **Expendable Endowment US$ '000** | **Unrestricted Funds- designated US$ '000** | **Restricted Funds US$ '000** | **Total 2015 US$ '000** | Total 2014 US$ '000 |
|---|---|---|---|---|---|
| Tangible fixed assets | 1,422 | - | - | **1,422** | 1,141 |
| Intangible Assets | 324 | - | - | **324** | - |
| Investments | 3,818,716 | 507,600 | - | **4,326,316** | 3,544,548 |
| Current assets | 566,716 | - | - | **566,716** | 1,202,536 |
| Current liabilities | (441,274) | - | - | **(441,274)** | (370,904) |
| Long term liabilities | (11,933) | - | - | **(11,933)** | (23,435) |
| | **3,933,971** | **507,600** | **-** | **4,441,571** | 4,353,886 |

## 20. COMMITMENTS

At 31 August 2015, the Group had outstanding commitments amounting to US$165,898k (2014: US$18,694k), £148,609 is related to the purchase note agreement, and £17,289k is in relation to the unquoted investments held within the investment portfolio.

The Group has invested in loans and securities which incorporate an uncertain commitment that it may be obliged to pay at a future date. The likelihood that these commitments are paid by the Group is unknown at the balance sheet date. The total uncertain commitments as at 31 August 2015 have been estimated as US$1,171,232k (2014: US$1,236,628k).

## 21. OPERATING LEASES

The total rent charged as an expense in the Consolidated Statement of Financial Activities, is disclosed below:

| | **Group 2015 US$ '000** | Group 2014 US$ '000 | **Foundation 2015 US$ '000** | Foundation 2014 US$ '000 |
|---|---|---|---|---|
| Rent | **1,478** | 1176 | **1,478** | 1176 |

Commitments under leases to pay rentals during the year following the year of these accounts are given in the table below, analysed to the period in which each lease expires.

| | **Group 2015 US$ '000** | Group 2014 US$ '000 | **Foundation 2015 US$ '000** | Foundation 2014 US$ '000 |
|---|---|---|---|---|
| Land and Building | | | | |
| Expiring within 1 year | **-** | - | **-** | - |
| Expiring within 2 to 5 years [(1)] | **1,035** | 1,091 | **1,035** | 1,091 |
| Expiring after 5 years | **525** | 54 | **525** | 54 |
| | **1,560** | 1,145 | **1,560** | 1,145 |

[(1)] Includes a commitment under an operating lease with TCI LLP to pay rentals during the year following the year of these accounts of US$774k.

The Group is a lessor of UK investment properties. The total non-cancellable future minimum lease payments expected to be received are:

| | **Group 2015 US$ '000** | Group **2014** US$ '000 | **Foundation 2015 US$ '000** | Foundation **2014** US$ '000 |
|---|---|---|---|---|
| After five years | **3,725** | 4,027 | **3,725** | 4,027 |
| | **3,725** | 4,027 | **3,725** | 4,027 |

## 22. RELATED PARTIES

CIFF Trading held an investment in TCI LLP. TCI LLP did not distribute any profit share to CIFF Trading during 2015 and 2014. TCI LLP, whose managing partner is Sir Christopher Hohn, a member and Trustee of the Foundation, is the investment manager for the majority of the investments of the Group. The Foundation ceased to hold an investment in TCI Fund Management LLP on 24 June 2015. The Foundation, through its subsidiary CIFF Trading, holds an investment in TCI Fund Services LLP.

The Group received donations during the year amounting to US$881k (2014: US$918k) from TCI LLP that was used to pay TCI LLP for services received including items such as rent, information technology support and telecommunications. Payments made to TCI LLP during the year were US$992k (2014: US$889k).

Talos and Talos Properties Limited (wholly owned subsidiaries of the Foundation) paid US$24,523k and US$1,251k respectively to TCI UK LLP in respect of management fees for the investment management of the portfolio (2014: US$63,577k). The TCI UK LLP investment management fees have been agreed on an arm's length basis.

During the year, Directors' fees of US$34k (2014: US$34k) for Jackie Gilroy were charged to Talos. John Donohoe and Edward Collier were not entitled to receive a fee. Edward Collier was an employee of the parent company, CIFF UK, throughout the financial year. There were no transactions between Edward Collier (resigned 9 December 2015) and Talos during the year (2014: none).

In the normal course of charitable granting, there are instances where the Foundation grants to charities with common trustees as CIFF (UK). The Foundation does not disclose grants to these charities as related party transactions, as the trustees as part of a collective of non-related trustees are not considered to be in a significant position of influence. The Trustees are satisfied that appropriate procedures are in place to ensure that any potential conflicts of interest are appropriately managed and avoided.

The Foundation co-operates and collaborates on various matters with CIFF (US), a not for profit organisation operating in the United States and registered as a 501(c)3 organisation. Whilst Ms Jamie Cooper, Dr Mark Dybul and Ms Joy Phumaphi were Trustees of the Foundation during the financial year as well as Trustees of CIFF (US), they are run as separate organisations. Neither charity has any duty to report to the other. During the year to 31 August 2015, CIFF US donated funds of US$5,063k (2014: US$3,940k) to be distributed under the agency agreement with the Foundation. All of the funds were disbursed as at 31 August 2015. On 1 July 2015, CIFF (UK) ended the agency agreement whereby it administered and managed grants on behalf of CIFF (US).

The Foundation has taken advantage of the exemption contained in Financial Reporting Standard 8 'Related Party Transactions' to not disclose other transactions with group companies as all are wholly owned subsidiaries of the Foundation and the consolidated financial statements are publicly available. Copies can be requested from the Foundation's registered office.

## 23. SERVICE PROVIDERS

**Administrator**
The Group has entered into an administration agreement with the Administrator, Citco Fund Services (Ireland) Limited. The Administrator receives from the Group a monthly administration fee which is calculated as a percentage of Talos' and Talos Properties Limited's Adjusted Assets on a sliding scale.

**Custodian and Prime Broker**
The Group has a custody agreement with HSBC. The Group retains beneficial ownership of assets held by HSBC. Cash and securities deposited with HSBC are repayable on demand. In addition, the Group's cash held with HSBC will be segregated from HSBC's own cash. HSBC is not permitted to utilise, re-hypothecate or otherwise appropriate the assets of the Group, however HSBC will acquire a security interest in any assets that are provided as collateral to HSBC by the Group.

Custodian and prime broker fees to HSBC for the year totalled US$313k (2014: US$340k) of which US$26k (2014: US$27k) was payable at the year end.

**Investment Manager Fees**
The Children's Investment Fund Management (UK) LLP ("TCI LLP") is the appointed Investment Manager to the Group. Prior to 2012, the investment management fee payable to TCI had three main fee components: base, annual and liquidity management fees. In 2012 and 2013 the Group simplified the management fee structure with the investment manager. The new fee agreement has been intentionally structured so that it is more performance-based, with no base or liquidity management fees, which in the previous fee arrangement were not performance-based. In the Trustees' opinion the new management fee structure better correlates investment manager fees with performance and consequently reduces the financial risk to the Group.

During this financial year, TCI LLP received investment management fees from the Group comprising the following fees:

*(a) Non-Real Estate Performance Fee*
With effect from 1 May 2013, the Group will pay the Investment Manager a performance fee above a specified hurdle rate equal to 10% of the net realised and unrealised appreciation of the Adjusted Net Asset Value of the Group's investments in Talos Capital Limited during the Hurdle Rate Period. The total non-real estate performance fee for the year was US$10,465k (2014: US$55,297k), of which US$10,465k (2014: US$55,297k) was payable at year end.

*(b) Real Estate Performance Fee*
It was agreed that with effect from 1 May 2012, the Group would pay to the Investment Manager a performance fee in relation to the realised profits on Real Estate Loans above an annual internal rate of return of 9.67% per annum. The total Real Estate Performance Fee for the year was US$13,727k (2014: US$7,249k), of which US$20,795k (2014: US$11,453k) was payable at year end.

**23. SERVICE PROVIDERS (continued)**

*(c) Real Estate Management Fee*
On 30 January 2013, it was agreed that the Group will pay to the Investment Manager, monthly in arrears, a Real Estate Management Fee for managing a portfolio of Real Estate Loans managed by the Investment Manager. The total Real Estate Management Fee for the year was US$1,581k (2014: US$1,013k), of which US$163k (2014: US$81k) was payable at year end.

**Other counterparties**
The Group has amounts due from other counterparties as detailed in note 13.

**24. POST BALANCE SHEET EVENTS**

Subsequent to the year end the amounts payable to the Noteholders of US$3,003k were paid in full on 1 September 2015.

Subsequent to the year end, on 1 December 2015 the Group prepaid US$2,049k of accrued interest on the loan notes with CIFF US.

On 25 November 2015, the Group further impaired one of its privately placed loan positions by US$92,000k reflecting a further deterioration in the ability of the guarantor company to obtain financing to meet its obligations.

**25. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

The ultimate parent undertaking and controlling party is The Children's Investment Fund Foundation (UK), a company incorporated in England and Wales. The Children's Investment Fund Foundation (UK) (the "charitable company"), is a company limited by guarantee and does not have share capital. Pursuant to article 7 of the charitable company's Articles of Association, every member promises that if the charitable company is dissolved while he, she or it remains a member or within 12 months afterwards, to pay up to one pound sterling towards the costs of dissolution and the liabilities incurred by the charitable company while the contributor was a member.

The Children's Investment Fund Foundation (UK) is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 August 2015. The consolidated financial statements of Children's Investment Fund Foundation (UK) is available from 7 Clifford Street, London, W1S 2FT.

**List of Definitions and Abbreviations**

| | |
|---|---|
| CIFF | The Children's Investment Fund Foundation (UK) |
| Foundation | The Children's Investment Fund Foundation (UK) |
| CIFF (US) | The Children's Investment Fund Foundation, a US-based s501(c)3 charitable private foundation |
| EME | Evidence, Measurement and Evaluation |
| FY14 | The financial year ended 31 August 2014 |
| FY15 | The financial year ended 31 August 2015 |
| HFCs | Hydrofluorocarbons |
| TCI | The Children's Investment Fund Management (UK) LLP |
| Charitable Activities | As defined in SORP 188, charitable activities are all the resources expended by the charity including its programme and project work. Such costs include the direct costs of the charitable activities together with those support costs incurred that enable these activities to be undertaken. |
| Designated Funds | As defined in SORP AP3.1, designated funds are unrestricted funds that have been earmarked for a particular project and to be applied at the discretion of the trustees. |
| Investment Management Costs | As defined in SORP GL38, investment management costs include the costs of portfolio management of financial investments, obtaining investment advice, administration of the investments, and rent collection, property repairs and maintenance charges. |
| Support Costs | As defined in SORP GL54, support costs are those that, whilst necessary to deliver an activity, do not themselves produce or constitute the output of the charitable activity. |
| Governance Costs | As defined in SORP GL28, these are the costs associated with the governance arrangements of the charity which relate to the general running of the charity. The costs will normally include internal and external audit, legal advice for trustees and costs associated with constitutional and statutory requirements. |

# THE CHILDREN'S INVESTMENT FUND FOUNDATION (UK) (no. 4370006)
# COMPANY INFORMATION
# FOR THE YEAR ENDED 31 AUGUST 2015

| | |
|---|---|
| **CONSTITUTION** | A Company limited by guarantee and a registered charity governed by its Memorandum and Articles of Association |
| **COMPANY NUMBER** | 4370006 |
| **REGISTERED CHARITY NUMBER** | 1091043 |
| **TRUSTEES** | Ms Jamie Cooper<br>Dr Mark Dybul<br>Mr Gerard Elias<br>Sir Christoper Hohn<br>Lord Mark Malloch-Brown (Interim Chair)<br>Ms Joy Phumaphi (resigned on 27 July 2015)<br>Dr Graeme Sweeney<br>Mr Ben Goldsmith (appointed on 18 November 2015)<br>Mr Masroor Siddiqui (appointed on 18 November 2015) |
| **COMPANY SECRETARY** | Mr Edward Collier |
| **REGISTERED OFFICE** | 7 Clifford Street<br>London<br>W1S 2FT |
| **BANKERS** | HSBC Bank plc<br>Level 18<br>8 Canada Square<br>London<br>E14 2HQ |
| **SOLICITORS** | Bircham Dyson Bell<br>50 Broadway<br>London<br>SW1H 0BL |
| **INDEPENDENT AUDITORS** | KPMG LLP<br>15 Canada Square<br>London<br>E14 5GL |