INVESTMENT POLICY

April 2017

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Contents

1. Overview

1.1 Our investment policy is to hold a diversified global portfolio of investments across a range of asset classes as permitted by Schedule C of Wellcome's Constitution (attached at Appendix A). The portfolio is managed by the Investment Executive, advised by the Investment Committee, under delegated authority from the Board of Governors. It is constructed to seek to maximise the risk-adjusted probability of attaining a level of return that at least preserves the long-term real value of its assets while providing funds to meet our spending requirements.

1.2 We seek to triangulate risk, return and spend so as to observe a proper balance between the need to meet present demands on our resources and the need to allow for future demands.

1.3 This policy is predicated upon the continuation of the current high levels of transparency about investment decisions taken and planned within the portfolio.

2. Investment Philosophy – Maximising Return

2.1 A number of investment beliefs drive asset allocation in the deliberate absence of any pre-determined strategic asset allocation benchmark:

2.1.1 We seek to maximise risk-adjusted return from global economic activity and to have a broadly diversified portfolio with no innate geographic bias.

2.1.2 We seek to use the advantages of our long-term investment horizon, our ability to tolerate short-term volatility, our AAA balance sheet and our proactive governance structure.

2.1.3 The best returns will be driven by combining aligned partnership with the strongest external managers with direct ownership of assets. However, we generally seek to minimise operational responsibility for these assets.

2.1.4 We are flexible as to the nature of the vehicles in which we invest. However, we will not invest in structures or assets which create potential unlimited financial liability or significant adverse operational, reputational or legal liability.

2.1.5 We run a single portfolio and a single investment culture and will judge and remunerate success or failure principally on the ability of the total portfolio to deliver real returns that deliver cash flows to fund the charitable mission. We may create or invest in structures which create stakeholder accountability to partners, bondholders or shareholders but will avoid the creation of direct client relationships.

3. Investment Philosophy – Mitigating Risks

3.1 Given Wellcome's desire to exist in perpetuity, the absence of new contributions and our complete dependence on the investment portfolio to fund our charitable mission, we recognise and seek to mitigate three key long-term threats:

3.1.1 Excessive concentration in a single asset poses a significant threat should the value of the asset be permanently impaired or destroyed. Hence, we will normally not invest more than 3% of the gross value of the total portfolio in a single asset or manager strategy (excluding cash and derivatives).

3.1.2 The forced disposal of assets at distressed prices in adverse financial markets to provide the liquidity required to fund committed charitable and operational spend can significantly impact long-term value. Hence, future cash flows are carefully forecast; the Investment Executive seeks to ensure that the forecast unencumbered cash balance remains positive.

3.1.3 Inflation can significantly impact real long-term purchasing power. Hence, the majority of the portfolio is invested in assets where cash flows are expected to exhibit some protection in real terms. These may include private or public corporate equity, real estate and infrastructure.

4. Investment Governance

Role of the Board of Governors on investment matters

4.1 The Board of Governors has resolved and may from time to time resolve that certain matters are reserved to the Board of Governors. Nothing in this Investment policy affects or alters the scope of such reserved matters. The Board of Governors also retains the power to decide that it wishes to consider any investment matter or to amend the authorities of those committees or individuals to whom it has delegated powers.

4.2 Subject to those powers, the role of the Board of Governors in relation to investment matters is:

4.2.1 To determine the overall spending and investment objectives for the investment portfolio.

4.2.2 To determine the broad investment policy.

4.2.3 To determine the overall investment return objective.

4.2.4 To determine the acceptable expected risk tolerances consistent with the overall return objective.

4.2.5 To determine the broad structure of asset management arrangements and to ensure adequate resources are deployed to manage and monitor the investment properly.

4.2.6 To determine appropriate arrangements for the safekeeping of all investment assets.

4.2.7 To review the performance of the investment portfolio.

4.2.8 To determine the broad ranges for asset allocation (attached at Appendix D) and any proposed changes to those ranges from time to time, including changes proposed under paragraph 4.4.2

4.2.9 To review those investment policies and strategies which fall outside agreed investment policy.

Role of the Investment Committee

4.3 The Standard Terms of Reference and Procedures for the Investment Committee are set out in Appendix B.

4.4 The Investment Committee's role is to act as an advisory body on investment matters. It may veto any proposed investment that it is asked to consider, but it is not empowered to authorise specific investment transactions. In particular its role is:

4.4.1 To review in detail the performance, risk profile and management of the investment portfolio and to provide appropriate recommendations to the Board of Governors and to the Investment Executive (defined in Section 6).

4.4.2 To recommend asset class ranges for the Investment Portfolio to the Board of Governors, including changes in the ranges from time to time.

4.4.3 To veto specific investment transactions which are proposed from time to time by the Investment Executive.

4.4.4. To recommend to the Board of Governors investment initiatives which fall outside the agreed investment policy.

4.4.5 To make recommendations to the Board of Governors on those areas in which the Board retains responsibility for determining policy as well as providing expert advice on investment matters.

4.4.6 To provide expert advice on investment matters to the Investment Executive.

4.4.7 To supervise the implementation by the Investment Executive of appropriate arrangements for the safekeeping of all investment assets.

5. Investment Policy Implementation

Risk, returns and spend

5.1 As outlined in paragraph 1.1, our policy is to hold a diversified global portfolio which seeks to maximise the risk-adjusted probability of attaining a level of return that at least preserves the long-term real value of assets after expenditure. This aim is encapsulated in a target annual long-term return of at least 4.5% above the average of US and UK CPI inflation.

5.2 The Board of Governors sets the risk framework that maximises the probability of meeting the return target while providing liquidity to meet spending requirements. Wellcome's accounts are presented in £. However, the assessment of investment performance will be calculated using an average of US CPI (in $) and UK CPI (in £).

5.3 Our risk framework is not based on a risk limit but instead on the on-going monitoring and review of key risk factors, the determination of which will be presented to the Investment Committee and to the Board of Governors and amended as appropriate; see also Appendix E. These factors are reported monthly to the Investment Committee. Where any of the factors move outside pre-determined bands, these are highlighted to the Investment Committee.

5.3.1 Low point for base case forecast cash levels. A forecast level of unencumbered cash below 2% of gross assets at any point within the forecast 5-year period will be highlighted to the Investment Committee.

5.3.2 Currency. Net exposure to Sterling of <15% will be highlighted to the Investment Committee.

5.3.3. Estimated equity beta. An estimated equity beta for the whole portfolio outside the range of 0.4 to 0.8 will be highlighted to the Investment Committee.

5.3.4 Value at Risk (VAR). Using a proprietary model with provision of external risk analytics as a secondary source, one-year VAR levels of more than 20% (at the 95% degree of confidence) will be highlighted to the Investment Committee.

Other risks to be considered include counterparty risks, valuation risks, inflation and disaster scenarios.

The minutes of the Investment Committee will be circulated to the Board of Governors and they will be provided with regular risk reports.

5.4 Wellcome targets an annual commitment rate of 4.7% of the weighted average value of the portfolio over the previous three years. Historically this has resulted in an average annual cash disbursement of 4.3%. Annual commitments will be agreed by the Board of Governors incorporating a series of objective and subjective factors, including a forecast for the sources of cash.

5.5 Historically the Trust has, over the long term, achieved substantially better returns than have been targeted. The Board of Governors will periodically consider, in these circumstances, whether to spend further amounts.

Use of asset classes

5.6 The portfolio may be invested across a broad range of asset classes, as outlined in Schedule C of our Constitution, to maximise risk-adjusted returns and to achieve diversification to manage inherent investment risks.

5.7 The investment strategy is not constrained by:

5.7.1 Use of a strategic asset allocation benchmark. As outlined in paragraph 1.1, we hold a diversified global portfolio of investments across a range of asset classes, which are established in Appendix D. This strategy aligns investment portfolio allocation with investment requirements, provides a competitive framework in which to judge individual investments and ensures attention is paid both to asset class and to individual investment returns.

5.7.2 The nature of the anticipated return from the investment. We invest on a total cash flow return basis where cash flows for charitable expenditure are derived from asset sales, fund redemptions, private fund distributions and from income in the form of interest, dividends and rents.

5.7.3 Of itself, the fact that particular assets may be more volatile and illiquid in the short term, although these factors will be taken into account when choosing between investments.

5.7.4 The absence of an appropriate benchmark for an asset class.

5.7.5 Any particular geographic bias. The currency strategy is set out in paragraphs 5.16-5.17.

5.8 The following considerations and principles guide the choice of investment assets:

5.8.1 The Investment Committee and the Board of Governors set ranges for the capital allocated to broad asset classes. The Board of Governors determines these ranges to satisfy itself that sufficient attention has been paid to asset class and economic risk. The Investment Committee typically recommends the ranges and reviews the actual weightings within the ranges. The current asset class ranges are defined and described in Appendix D.

5.8.2 We manage liquidity requirements through appropriate holdings in cash and very liquid assets and through the preparation and review of appropriate liquidity forecasts.

5.8.3 The use of some assets or asset classes may in practice be restricted by UK charity or trust law, or by UK or overseas tax legislation relating to charities and their investments.

5.8.4 We generally seek to minimise operational responsibility for assets. Where we have controlling stakes in operating businesses we will ensure that competent executive management teams are in place, and will exercise strategic control through board representation. These businesses are run commercially but we expect them to be conscious of Wellcome's values.

Asset management arrangements

5.9 The Board of Governors determines the broad structure of its asset management arrangements, with responsibility for implementation delegated to the Investment Executive and reviewed by the Investment Committee.

5.10 Many assets are managed by external managers. We are generally flexible as to the nature of the vehicles in which we invest. We have confidence that, in many areas of investment, active management (where managers make active decisions rather than manage passively against an index benchmark) can enhance returns after the payment of fees and select managers accordingly.

5.11 The Board of Governors has also agreed that, as opportunities arise, the directly-held element of the investment portfolio (excluding cash and foreign exchange hedging) may constitute up to 55% of the gross value of investment assets.

This can offer a range of potential advantages:

5.11.1 Reducing innate biases of the portfolio that arise as a result of the choices of our external managers.

5.11.2 Reducing turnover and investment costs.

5.11.3 Managing the portfolio's liquidity profile.

5.11.4 Taking advantage of particular opportunities that arise, especially those that exploit our long-term investment horizon or other advantages, and permit greater control over investment strategy.

Mega-cap equities are likely to be the major constituent of the directly-held public portfolio, but it may also include shares quoted on any recognised stock exchange (and associated derivatives) in both developed and emerging markets.

Private assets will include shares in private companies and wholly-owned properties, together with all other non-public directly held assets. Direct investments in private companies must only be made alongside a trusted partner unless a proposed exception has first been notified to the Investment Committee.

Monitoring of risk

5.12 At the overall portfolio level, risk is managed through a process whereby expectations about returns and correlations are combined to forecast the liquidity profile and the annual Value at Risk of the total portfolio. Scenario tests are used to examine the potential impact of extreme market conditions. On a quarterly basis, investment outcomes and risk levels and exposures will be reviewed by the Investment Committee in detail and by the Board of Governors.

Use of derivatives

5.13 We may use futures, options and other derivatives as part of our investment activities to enhance returns and to manage risks. We do not trade in derivatives. We only enter into shorting transactions for risk reduction purposes and only if (a) there is a high correlation between the underlying assets and the derivative, and/or (b) there is a matching/ancillary investment that limits the potential liability. Guideline limits on the use of derivatives are in Appendix E. Exceptions to these guideline limits will be highlighted to the Investment Committee.

5.14 Discretionary long-only managers who invest on our behalf may use derivatives only within the framework described in 5.13 and provided further that the assets managed on our behalf by the manager in question are sufficient to fully back the derivatives in cash or (as applicable) with the required assets.

5.15 Other managers, who manage money through fund structures, make use of short positions and derivatives as part of their own strategy. The nature of these structures limits our control of, and liability for, these activities.

Currency hedging

5.16 Performance is measured in our base currencies of Sterling, US Dollars and in a 50:50 blend. We will not generally have net exposure of less than 15% to Sterling, reflecting charitable liabilities. Exposures to other currencies will be created by a combination of underlying assets' currency denomination and currency forward and derivative positions. Limits on exposure will be reviewed regularly, with any changes recommended by the Investment Executive, notified to the Investment Committee and approved by the Board of Governors.

5.17 It is not always possible to identify the currency exposure of each underlying asset. For example, the value of HSBC's shares, although quoted in sterling and HK$, are influenced by the multi-currency nature of its revenues and by its dividends, which are determined in US dollars. Similarly a hedge fund, whose units are denominated in US dollars, may actually be most active in European markets. Accordingly, excessive attempts at precision may be misleading.

Borrowings

5.18 Discretionary long-only managers are not permitted to use borrowings to leverage returns. Leverage is permitted in other funds, partnerships and businesses in which we invest, although we are generally reluctant to invest in market strategies where leverage comprises a major component of returns.

5.19 We periodically issue unsecured debt. Each debt issue is specifically approved by the Board of Governors or by a Bond Issuance Committee of the Board of Governors established for this purpose.

5.20 The total size of issuance is limited by our intention to maintain our AAA/Aaa credit rating. We are willing to issue fixed interest, floating rate or limited price indexation bonds and to use physical, forward and option instruments to modify exposure. Proceeds from bond issues may be hypothecated to specific purposes as determined at the time.

5.21 In order to maintain a AAA/Aaa credit rating, the level of borrowing is currently limited to 8% of the gross value of investment assets.

Corporate Governance

5.22 Broad corporate governance, engagement and social responsibility policies are determined by the Board of Governors and implemented by the Investment Executive. General policy and individual issues are discussed with companies and managers as appropriate. It is currently our policy not to allow investment in companies that derive material turnover or profit from tobacco or tobacco related products.

5.23 It is our normal policy to vote at company meetings and to engage actively with senior management in companies in which we have direct holdings to ensure that long-term investment, sustainability, risk and governance issues are appropriately highlighted. We do not subscribe to a view of rule-based governance. While good governance includes a focus on risk, engagement is designed to assist management in building long-term franchises so as to enhance returns.

Creation of new entities

5.24 When the implementation of investment decisions requires the creation of a subsidiary, the decision to create that entity needs to be approved by a Managing Partner of the Investment Division, Wellcome's Director and the Chief Finance Officer. This authority was delegated under the exception to the Schedule of Matters Reserved to the Board of Governors.

6. Role of the Investment Executive

Role of the Investment Executive

6.1 The Board of Governors has given a broad delegation of operational responsibility for the investment portfolio to the Investment Executive, whilst retaining overall responsibility for its strategic direction. The Investment Executive is comprised of the Managing Partners of the Investment Division as specified in the delegation of powers from the Board of Governors. The Managing Partners have joint and several accountability for Wellcome's investments. It is understood that, whilst broad investment powers have been delegated to the Managing Partners, the investment process also relies upon the supporting work by the Investment Division as a whole.

6.2 Without limiting that general authority, the following specific matters form part of the role of the Managing Partners who have delegated authority from the Board of Governors to be conducted in accordance with the terms of this policy:

6.2.1 to facilitate the provision of proper expert advice to the Board of Governors.

6.2.2 to make asset allocations within the asset class ranges approved by the Board of Governors.

6.2.3 to allocate funds between individual managers, fund groups or assets.

6.2.4 to appoint new investment managers, brokers, managing agents and investment funds.

6.2.5 to terminate the contracts of existing managers, brokers, managing agents and investment funds.

6.2.6 to negotiate and agree investment manager, broker and managing agent terms and conditions, including fees, and to monitor, review and control relationships with investment managers, brokers and managing agents.

6.2.7 to negotiate and agree custodian and third party service providers specific to the investment portfolio, including but not limited to consultants' and lawyers' terms and conditions, including fees, and to monitor, review and control these relationships.

6.2.8 to purchase and sell investment assets.

6.2.9 to recommend the level of resources that should be deployed to manage and monitor the investments properly.

6.2.10 to ensure the investments meet the cash flow requirements of Wellcome's spending.

6.2.11 to take decisions on individual investment transactions and all other operational matters.

6.3 The Board of Governors has approved a delegation of authority to the Managing Partners, as set out in the Investment Division Delegated Authority (see Appendix C).

Organisation of Investment Division

6.4 The internal management structure of the Investment Division currently consists of a portfolio management team and an investment services team. An independent Risk and Performance team reports to Wellcome's Chief Finance Officer.

Portfolio Management Team

6.5 The portfolio management team is responsible for monitoring existing investments within their remit, making proposals regarding the purchase or disposal of investments, executing transactions, ensuring best practice in relation to external advice, due diligence and reporting and providing information regarding market developments.

6.6 Each member of the portfolio management team will typically have a number of remits, reflecting industry or theme specialisations as well as asset classes. From time to time, the formal organisational structure and the nature and nomenclature of these teams may be amended to reflect different priorities.

Investment Services Team

6.7 A separate team is responsible for operations, including the safe custody of our assets and the smooth operation of administrative, banking and portfolio management functions. The team liaises with the portfolio management team, with our Finance, Tax and Legal groups, and with external groups, including custodians and managers.

6.8 To ensure the safekeeping of our assets, we have placed all our quoted securities in custody with a global custodian bank or with a national securities depository. The global custodian is responsible for custody, settlement and safekeeping. The global custodian also provides unified reporting on the quoted securities portfolio to meet statutory reporting requirements. The relationship with the global custodian is governed by a legal agreement and the service provided is kept under constant review, with regular formal meetings. The custody contract will be reviewed every three years from 1 March 2015 to ensure we are receiving the best in class service at market rates.

6.9 The custody of hedge funds follows the same process and is reviewed every three years with effect from 1 March 2015.

Risk Management and Performance Team

6.10 The importance of risk management for our assets has been recognised in the creation of an independent team, led by the Head of Investment Risk and Performance, who reports to Wellcome's Chief Finance Officer. She and her team are responsible for creating, maintaining and monitoring risk and performance reports and play a proactive role in the management of risk in all or part of the investment portfolio with both internal and external parties. The performance of the portfolio as a whole and of the underlying portfolios is calculated by an independent, third party specialist service provider. The Head of Investment Risk and Performance and the Chief Finance Officer also report to the Audit Committee to ensure oversight and proper review of investment and operational processes. Further oversight is provided by internal audit.

Tax and Legal

6.11 The Investment Division is supported by members of the Finance and Legal teams. These individuals liaise closely with the relevant members of the Investment Division responsible for each investment transaction to help them to optimise tax treatment, comply with legal requirements and generally mitigate tax and legal risk without adversely impacting returns.

Investment Decisions

6.12 Each investment decision is approved by a Managing Partner and/or a member of the Investment Division under delegated powers. This provides the ability to make rapid decisions where this is necessary and appropriate.

6.13 Investment decisions relating to the formulation of investment strategies for publicly traded assets, fund or manager commitments or redemptions and the purchase of direct private assets are generally discussed at length at a regular meeting of the portfolio management team, chaired by one of the Managing Partners. This process helps to create a deeper investment culture across the team, promotes understanding and ownership of the whole portfolio and provides a forum for constructive discussion and challenge. Investment ideas are forced to compete in the context of the whole portfolio based on return, risk, liquidity and control characteristics, and portfolio risk can be managed more effectively.

6.14 Other decisions are typically made outside the regular investment meeting by a Managing Partner or other member of the Investment Division with delegated powers and will be communicated as appropriate. These may include but are not limited to decisions to implement an approved strategy (such as decisions to buy and sell individual stocks or options), decisions relating to foreign exchange (FX) or cash positions or individual contracts relating to real estate or infrastructure.

6.15 Under our Constitution, there is a need to take proper investment advice before making any investment and it is the responsibility of the Investment Executive to ensure proper investment advice is taken. Proper advice is the advice of a person or institution that is reasonably believed to be qualified by his, her or its expertise of the relevant matter, and may be given by one of Wellcome's employees.

Managing and monitoring of investments

6.16 Thorough due diligence is undertaken before the appointment of any manager and managers' performance, strategy and organisation are closely monitored once they have been awarded a mandate. The relationship with each of the external managers appointed by the Investment Division is governed by an investment management or limited partnership agreement. Each agreement sets out the return objectives for the mandate, sets out any constraints on the mandate, outlines the investment powers, sets out the manager's responsibilities in every area of portfolio management and documents fee arrangements.

6.17 The performance of the individual managers and the risk characteristics of their portfolios are reviewed regularly by the Investment Division and any appropriate actions taken. The portfolio management team receives monthly or quarterly formal reports from each external manager and holds regular meetings with them.

6.18 Responsibility for coverage of each direct public or private investment is allocated to an individual as part of their asset, industry sector or theme responsibilities. The individual is responsible for the coverage of the asset, the analysis of its operations and valuation, recommendations regarding the size of our exposure, risks and return targets. These direct investments are reviewed regularly by the Investment Executive and performance is reported to the Investment Committee.

6.19 Compliance and regulatory reporting functions are performed in conjunction with Legal and Tax.

Management fees

6.20 We incur considerable management fees, and the Investment Executive actively seeks to ensure that any fees paid to third parties create added value.

7. Administration of the policy

Dissemination of the policy

7.1 This policy (without the Appendices) will be available on our web-site.

Review

7.2 Our Constitution requires that we review our investment policy at regular intervals. This policy will be reviewed by the Executive Board, the Investment Committee and the Board of Governors at least every 3 years.