

MRC Pension Scheme

Implementation Statement

31 December 2020

MRC Pension Scheme

Implementation Statement for the year ending 31 December 2020

Introduction

This implementation statement has been prepared by the Trustee of the MRC Pension Scheme (the Scheme). The Scheme provides benefits calculated on a defined benefit (DB) basis.

The statement:

- sets out how, and the extent to which, the policies set out in the Statement of Investment Principles (the SIP) have been followed during the year ending 31 December 2020 (the Scheme year) – separate SIPs for the MRC Section and the Universities Section, both dated June 2019, and one combined SIP, dated June 2020;
- describes any review of the SIP, including an explanation of any changes made; and
- describes the voting behaviour by, or on behalf of, the Trustee over the same period.

The Trustee's policies contained in the SIP are underpinned by its investor beliefs, which have been developed in consultation with its investment consultant.

Trustee's overall assessment

In the opinion of the Trustee, the policies as set out in the SIP dated June 2020 have been followed during the Scheme year.

Review of the SIP

The Trustee's policies have been developed over time by the Trustee in conjunction with its investment consultant and are reviewed and updated at least every three years.

The SIP was reviewed during the Scheme year as a result of changes in legislation effective from 1 October 2020. This review resulted in the Trustee's policy in relation to its arrangements with its investment managers being updated in June 2020. Other changes were incorporated at the same time in relation to the investment arrangements.

A copy of the SIP can be found here: <http://www.mrcps.co.uk/docs/scheme-documents/MRC-Pension-Scheme-combined-SIP-September-2020.pdf>

Policy in relation to the kinds of investments to be held

The Trustee has given full regard to its investment powers as set out in the Trust Deed and Rules and has considered the attributes of the various asset classes when deciding the kinds of investments to be held. The Scheme invests in a mixture of pooled funds and segregated mandates, other collective investment vehicles and cash, to manage costs, diversify investments and improve liquidity.

All investments made during the Scheme year have been in line with the Trustee's investment powers.

Investment strategy and objectives

Investment strategy

The investment strategy for the Scheme is based on an analysis of the Scheme's liability profile, the required investment return and the returns expected from the various asset classes over the long-term. The Trustee reviews this investment strategy and the asset allocation as part of each triennial actuarial valuation. The Trustee may also reconsider the asset allocation and the investment strategy outside the triennial valuation period where necessary.

A review of the investment strategy was carried out over the course of the Scheme year, following the 31 December 2019 actuarial valuation.

As part of this review exercise, the Trustee:

- Mapped out a long-term journey plan consistent with the latest funding approach from the 2019 actuarial valuation;
- Undertook regular cash flow analysis to explore how the expected cash flows of the Scheme can most efficiently be managed; and
- Explored different asset classes for possible inclusion within the investment strategy as the 'Journey Plan' progresses.
- Made no material changes to the Scheme's current strategic asset allocation.

As a result of that review, the Trustee continued to seek diversifying assets and modified the fixed income mandate to accommodate anticipated short- to medium-term cashflow requirements of the Scheme.

Policy in relation to the balance between various kinds of investments and the realisation of investments

The appointed investment managers hold a diversified mix of investments in line with their agreed benchmark and/or objectives and within their discretion to diverge from the benchmark. Within each major market each manager maintains a diversified portfolio of securities.

The Trustee requires the investment managers to be able to realise the Scheme's investment in a reasonable timescale by reference to the market conditions existing at the time the disposal is required, with the exception of core property and private market assets.

During the Scheme year, the Trustee received training on specific investment risks in relation to the life cycle of a pension scheme; stress testing and scenario testing as well as management and mitigation of risk factors. During the Scheme year, the Trustee also monitored the performance of the asset classes invested in and the attributes of the asset classes that contributed to that.

The Trustee has a flexible arrangement within its fixed income mandate to match the Scheme's cashflows. The purpose of this structure is to reduce the need to realise investments at inopportune times.

Policy in relation to the expected return on investments

The investment strategy is believed to be capable of exceeding, in the long run, the overall required rate of return assumed in the Scheme Actuary's published actuarial valuation report in order to reach / maintain a fully funded status under the agreed assumptions.

During the Scheme year, the Trustee considered the return expected from its assets as part of its investment strategy review and compared this against the assumptions set out in the published valuation report.

Risk capacity and risk appetite

Policy in relation to risks

Although the Trustee acknowledges that the main risk is that the Scheme will have insufficient assets to meet its liabilities, the Trustee recognises other contributory risks, including the following. Namely the risk:

- Associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors.
- Of the Scheme having insufficient liquid assets to meet its immediate liabilities.
- Of the investment managers failing to achieve the required rate of return.
- Due to the lack of diversification of investments.
- Of failure of the Scheme's Sponsoring Employer to meet its obligations.

The key strategic risks were assessed during the Scheme year as part of the investment strategy review, in parallel to the actuarial valuation process, taking into account sensitivity to financial and demographic factors, diversification risk and covenant risk.

The liquidity and cashflow projections over the short, medium and long term were assessed in May 2020 and strategic actions identified. Actual cashflow requirements were monitored based on actual events at each ISC meeting.

The Trustee monitors manager risks through the quarterly performance monitoring reports and cost disclosure documents provided by and discussed with the investment consultant.

Four monitoring reports were received during the Scheme year and actions were agreed based on priority of impact.

Stewardship in relation to the Scheme assets

Policies in relation to investment manager arrangements

The majority of the Scheme's assets are invested in pooled funds or in segregated mandates based off pooled funds, which have their own policies and objectives and charge a fee, set by the investment manager, for their services. The Trustee has very limited to no influence over the objectives of these funds or the fees they charge although fee discounts are negotiated where possible.

There have been no major changes to the benchmark / objectives of funds in which the Scheme invests over the Scheme year. Changes included a clarification to the objective of the Baillie Gifford equity fund and an adjustment to the Royal London benchmark to reflect the new cash flow matching mandate.

The Trustee, in conjunction with its investment consultant, has introduced a process to obtain and review the investment holding turnover costs incurred on the pooled funds and segregated mandates used by the Scheme on an annual basis.

In addition, the Trustee receives information on any trading costs incurred as part of asset transfer work, as and when these occur. The exercise is only undertaken if the expected benefits outweigh the expected costs.

The investment managers have invested the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in their appointment documentation. In return the Trustee pays its investment managers a fee which is a fixed percentage of assets under management, or commitments in the case of certain private market funds, as well as performance related fees for a small proportion of the Scheme's assets.

The investment consultant has reviewed and evaluated the investment managers on behalf of the Trustee, including performance reviews, manager oversight meetings and operational due diligence reviews.

Investment manager monitoring and changes

During the Scheme year the Trustee received four reports from the investment consultant examining the performance of the pooled funds and segregated mandates used.

The following changes to the investment manager arrangements were made during the Scheme year for the following reason:

- The objectives of the Royal London segregated mandate were updated to reflect the Scheme's specific cashflow requirements.
- New vintages for the alternative investment programme have been added.

Appropriate written advice was provided by the investment consultant prior to these changes.

Stewardship of investments

The Trustee has a fiduciary duty to consider its approach to the stewardship of the investments, to maximise financial returns for the benefit of members and beneficiaries over the long term. The Trustee can promote an investment's long-term success through monitoring, engagement and/or voting, either directly or through its investment managers.

The Trustee, in conjunction with its investment consultant, appoints its investment managers to meet specific policies. The Trustee expects that its investment managers make decisions based on assessments about the financial and non-financial performance of underlying investments, and that they engage with issuers of debt or equity to improve their performance (and thereby the Scheme's performance) over an appropriate time horizon.

The Trustee also expects its investment managers to take non-financial matters into account as long as the decision does not involve a risk of significant detriment to members' financial interests.

During the Scheme year, the Trustee received training from its investment consultant on the following topics:

- ESG issues, including stewardship and engagement
- Investment risk, management and mitigation
- Pension scheme journey planning
- Specific asset classes such as private markets

Stewardship - monitoring and engagement

The Trustee recognises that investment managers' ability to influence the companies in which they invest will depend on the nature of the investment.

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers and to encourage the managers to exercise those rights. The investment managers are expected to provide regular reports for the Trustee detailing their voting activity.

The Trustee also delegates responsibility for engaging and monitoring investee companies to the investment managers and it expects the investment managers to use their discretion to maximise financial returns for members and others over the long term.

For direct investments, the Trustee does not envisage being directly involved with peer to peer engagement in investee companies.

Investment manager engagement policies

The Scheme's investment managers are expected to have developed and publicly disclosed an engagement policy. This policy, amongst other things, provides the Trustee with information on how each investment manager engages in dialogue with the companies it invests in and how it exercises voting rights. It also provides details on the investment approach taken by the investment manager when considering relevant factors of the investee companies, such as strategy, financial and non-financial performance and risk, and applicable social, environmental and corporate governance aspects.

Links to each investment manager's engagement policy or suitable alternative is provided in the Appendix.

These policies are publicly available on each investment manager's websites.

Exercising rights and responsibilities

The Trustee recognises that different investment managers should not be expected to exercise stewardship in an identical way, or to the same intensity.

The investment managers are expected to disclose a general description of their voting behaviour for the period coinciding with the Scheme year, an explanation of the most significant votes cast and report on the use of proxy voting advisers.

The investment managers publish online the overall voting records of the firm on a regular basis.

Investment managers use proxy advisers for the purposes of providing research, advice or voting recommendations that relate to the exercise of voting rights.

The Trustee does not carry out a detailed review of the votes cast by or on behalf of its investment managers but relies on the requirement for its investment managers to provide a high-level analysis of their voting behaviour.

The Trustee considers the proportion of votes cast, and the proportion of votes against management and believes this to be an important (but not the only) consideration of investor behaviour.

The latest available information provided by the investment managers is contained in the Appendix.

Trustee's assessment

The Trustee has considered the environmental, social and governance rating for each fund/investment manager provided by the investment consultant, which includes consideration of voting and/or engagement activities. This also includes those funds that do not hold listed equities.

The Trustee may also consider reports provided by other external ratings providers.

The Trustee's investment consultant, on behalf of the Trustee, has reviewed each investment managers' policies relating to engagement and voting and how they have been implemented and have found them to be acceptable at the current time.

The Trustee recognises that engagement and voting policies, practices and reporting, will continue to evolve over time and is supportive of its investment managers being signatories to the United Nations' Principles for Responsible Investment and the Financial Reporting Council's UK Stewardship Code 2020.

Appendix

Summary of voting activity for the appointed Investment Managers:

Principal Section

Voting behaviour at fund level			
Holdings	Period	Proportion of votes cast	Proportion of votes against management
MSIM Offshore Emerging Markets	01/01/2020-31/12/2020	100.0%	11.0%
SSGA Europe ex UK Equity (100% GBP Hedged)	01/01/2020-31/12/2020	98.9%	11.4%
SSGA Japan Equity (100% GBP Hedged)	01/01/2020-31/12/2020	100.0%	8.8%
SSGA North America Equity (100% GBP Hedged)	01/01/2020-31/12/2020	100.0%	9.4%
SSGA FTSE All Share ex Tobacco	01/01/2020-31/12/2020	100.0%	8.4%
Liontrust Asset Management segregated account	01/01/2020-31/12/2020	100.0%	2.4%
Invesco Perpetual segregated account	01/01/2020-31/12/2020	100.0%	4.0%
First Sentier Investors segregated account	01/01/2020-31/12/2020	100.0%	3.1%
Baillie Gifford segregated account	01/01/2020-31/12/2020	93.9%	2.5%

All voting records above relate directly to the funds or mandates in which the MRC Section is invested.

For the MRC Section's investments in property, private markets or fixed income, voting records are not applicable.

Universities Section

Voting behaviour at fund level			
Holdings	Period	Proportion of votes cast	Proportion of votes against management
Baillie Gifford segregated account	01/01/2020-31/12/2020	93.8%	2.5%
Royal London Asset Management fixed income pooled funds*	N/A	N/A	N/A

All voting records above relate directly to the funds or mandates in which the Universities Section is invested.

For the Universities Section's investments in fixed income, voting records are not applicable.

Implementation Statement for the year ending 31 December 2020

Links to the engagement policies for the investment managers can be found here:

Investment manager	Engagement policy	Annual disclosure statement
Morgan Stanley Investment Management	https://www.morganstanley.com/im/publication/resources/engagement-and-stewardship-principals-us.pdf?1602008030417	https://www.morganstanley.com/im/en-us/institutional-investor/about-us/proxy-voting/vote-summary-report.html
Baillie Gifford	https://www.bailliegifford.com/en/uk/institutional-investor/literature-library/corporate-governance/governance-and-sustainability-principles-and-guidelines/	https://www.bailliegifford.com/en/uk/about-us/governance-sustainability/
First Sentier Investments	https://www.firststateinvestments.com/uk/en/institutional/about-us/responsible-investment/responsible-investment-reports-and-policies.html	https://www.firststateinvestments.com/uk/en/institutional/about-us/responsible-investment.html
Invesco Perpetual	https://www.invesco.com/corporate/dam/jcr:20d98e3d-a4d6-4c72-ae24-df35e59129d0/Proxy%20Policy%20February%202020.pdf	https://www.invesco.com/corporate/dam/jcr:5e1d4647-3c11-4142-8094-a7ef4a6fca8d/Investment-Stewardship-Annual-Report-2019.pdf
State Street Global Advisors	https://www.ssga.com/international/en/institutional/ic/capabilities/esg/asset-stewardship	https://www.ssga.com/library-content/products/esg/asset-stewardship-report-q2-2020.pdf
Liontrust Asset Management	https://www.liontrust.co.uk/handlers/DownloadDocumentsHandler.lion?itemids=339d5a28-b280-4b79-bd1e-af2f7113d1c4	https://www.liontrust.co.uk/handlers/DownloadDocumentHandler.lion?itemids=ccd6e8bf-9324-4bee-8c90-8da06ecc141f
Royal London Asset Management	https://www.rlam.co.uk/institutional-investors/our-solutions/responsible-investment/governance-and-voting/	https://www.rlam.co.uk/globalassets/media/literature/reports/69348-stewardship-and-responsible-investing-report-2020.pdf

Implementation Statement for the year ending 31 December 2020

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Links to alternative documents where an engagement policy / annual disclosure statement has not been provided, for example, where voting is not applicable to the assets held:

Investment manager	Document link
Ares Management Limited	https://www.aresmgmt.com/about-ares-management-corporation/esg
BlackRock Investment Management	https://www.blackrock.com/corporate/compliance/insights-terms-and-conditions?targetUrl=%2Fcorporate%2Fliterature%2Fpublication%2Four-commitment-to-sustainability-full-report.pdf
Hg Capital	https://hgcapital.com/responsibility/
Infracapital	https://www.infracapital.co.uk/dam/infracapital/shared/en/documents/Infracapital-Approach-to-Responsible-Investment.pdf
Partners Group	https://www.partnersgroup.com/en/sustainability/we-are-responsible-investors/our-policy-and-methodology/
Warburg Pincus	https://warburgpincus.com/responsibility/
Aviva	https://www.avivainvestors.com/content/dam/aviva-investors/main/assets/about/responsible-investment/our-approach-to-responsible-investment/downloads/ai-stewardship-statement-v2019.pdf
M&G	https://docs.mandg.com/docs/corporate/MandG-Shareholder-Rights-Directive-Engagement-Policy.pdf
Nuveen	https://www.nuveen.com/global/thinking/responsible-investing/why-engagement-matters