

# MRC PENSION SCHEME ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2018

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### TABLE OF CONTENTS

|   |    |
|---|----|
| TRUSTEE AND ADVISERS  | 2  |
| TRUSTEE'S REPORT  | 4  |
| <b>Report On Actuarial Liabilities</b>                                | 6  |
| <b>Statement of Trustee's Responsibilities</b>                        | 15 |
| <b>Investment Report</b>  | 16 |
| SUMMARY OF CONTRIBUTIONS  | 22 |
| INDEPENDENT AUDITORS' STATEMENT ABOUT CONTRIBUTIONS                   | 23 |
| INDEPENDENT AUDITORS' REPORT TO THE TRUSTEE OF THE MRC PENSION SCHEME | 24 |
| FUND ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2018                      | 26 |
| STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AT 31 DECEMBER 2018  | 27 |
| NOTES TO THE FINANCIAL STATEMENTS                                     | 28 |
| ACTUARIAL CERTIFICATES  | 46 |

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### TRUSTEE AND ADVISERS

#### Trustee of the Scheme

MRC Pension Trust Limited

Registered address

2nd Floor

David Phillips Building

Polaris House

North Star Avenue

Swindon, SN2 1FL

Correspondence address

14th Floor

One Kemble Street

London, WC2B 4AN

#### Trustee Directors

William Rayner (Chairman)

Professor Howard Cooke PhD\*

Professor Kelvin Cain PhD\*

Geoff Der \*

Hugh Dunlop (appointed 1 March 2018)

Rebecca Leigh

Kevin Moreton PhD

Peter Morgan PhD\*

Carole Walker

\* Member Nominated Trustee

#### Investment Subcommittee

William Rayner (Chairman)

Professor Kelvin Cain PhD

Professor Howard Cooke PhD

Hugh Dunlop# (co-opted until 1 March 2018)

Geoff Der

Peter Morgan PhD

Grant Ballantine#

#Co-opted member of the Subcommittee

#### Secretary to the Trustee

Jim Clerkin FPMP, FCII, Dip IEB

MRC Pension Trust Ltd

3<sup>rd</sup> Floor

58 Victoria Embankment

London, EC4Y 0DS

#### Scheme Actuary

Sue Vivian FIA

The Government Actuary's Department

Finlaison House

15-17 Furnival Street

London, EC4A 1AB

#### Scheme Administrators

JLT Employee Benefits

Leatherhead House

Station Road

Leatherhead

Surrey, KT22 7ET

#### Independent Auditors

PricewaterhouseCoopers LLP

1 Embankment Place

London WC2N 6RH

#### Solicitors

DLA Piper UK LLP

Walker House

Exchange Flags

Liverpool, L2 3YL

#### AVC Providers

Equitable Life

PO Box 177, Walton Street

Aylesbury

Bucks, HP21 7YH

Standard Life Assurance Limited

30 Lothian Road

Edinburgh, EH1 2DH

#### Bankers

National Westminster Bank plc (closed 2 November 2018)

15 Bishopsgate

London, EC2P 2AP

Royal Bank of Scotland (appointed 11 August 2017)

62/63 Threadneedle Street

PO Box 412

London, EC2R 8LA

#### Custodians

State Street Bank and Trust Company

Quatermile 3, 10 Nightingale Way

Edinburgh, EH3 9EG

#### Internal Auditors

BDO LLP (formerly Moore Stephens LLP)

150 Aldersgate Street

London, EC1A 4AB

#### Investment Consultants

Buck Consultants (formerly Conduent HR Services)

160 Queen Street

London, EC4V 4AN

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### TRUSTEE AND ADVISERS (CONTINUED)

#### Investment Managers

Ares Management Limited  
10 New Burlington Street  
London, W1S 3BE

Aviva Investors Jersey Unit Trust Management Limited  
Lime Grove House  
Green Street  
St Helier  
Jersey, JE1 2ST

Baillie Gifford & Co  
Calton Square  
1 Greenside Row  
Edinburgh, EH1 3AN

BlackRock Investment Management (UK) Limited  
Murray House  
1 Royal Mint Court  
London, EC3N 4HH

First State Investment Management (UK) Limited  
23 St Andrew Square  
Edinburgh, EH2 1BB

GAM Fund Management Limited  
George's Court  
54-62 Townsend Street  
Dublin 2, Ireland

Hg Pooled Management Limited  
2 More London Riverside  
London, SE1 2AP

Infracapital  
10 Fenchurch Avenue  
London, EC3M 5AG

Invesco Asset Management Limited (appointed March 2018)  
43-45 Portman Square  
London W1H 6LY

Legal and General Assurance (Pensions Management) Limited  
1 Coleman Street  
London, EC2R 5AA

Liontrust Investment Partners LLP (appointed March 2018)  
2 Savoy Court  
London WC2R 0EZ

Mirabaud Asset Management Limited (closed March 2018)  
10 Bressenden Place  
London, SW1E 5DH

Montanaro Asset Management Limited (closed March 2018)  
53 Threadneedle Street  
London, EC2R 8AR

Morgan Stanley Investment Management Inc  
25 Cabot Square  
Canary Wharf  
London, E14 4QA

M&G (Guernsey) Limited  
PO Box 105  
Trafalgar Court, Admiral Park  
St Peter Port  
Guernsey, GY1 3EP

Partners Group Management IX Limited  
Tudor House, 2nd Floor  
St Peter Port  
Guernsey, GY1 1BT

Royal London Asset Management Limited  
55 Gracechurch Street  
London, EC3V 0UF

Nuveen (formerly TH Real Estate)  
201 Bishopsgate  
London, EC2M 3AE

#### Principal Employer (to 31 March 2018)

Medical Research Council (MRC)  
2nd Floor, David Phillips Building  
Polaris House  
North Star Avenue  
Swindon, SN2 1FL

#### Principal Employer (from 1 April 2018)

United Kingdom Research & Innovation (UKRI)  
2nd Floor, David Phillips Building  
Polaris House  
North Star Avenue  
Swindon, SN2 1FL

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### TRUSTEE'S REPORT

#### **A brief outline of the Scheme's status, administration and provisions**

MRC Pension Scheme ("the Scheme") is governed by Trust Deeds and Rules which establish it as a registered pension Scheme for the purposes of the Finance Act 2004. Up to 6 April 2016 the Scheme was contracted out of the earnings related part of the State Second Pension Scheme (S2P).

The Scheme is a defined benefit scheme and is administered by JLT Employee Benefits in accordance with the establishing document and rules, solely for the benefit of its members and other beneficiaries.

Each section has its own Pension Scheme Registration Number. The registration number of the Principal Section is 19017402 and of the Universities Section is 19017401.

With effect from 1 April 2018 United Kingdom Research and Innovation (UKRI) replaced MRC as principal sponsoring employer. There are nine Directors of MRC Pension Trust Limited. The Trustee Directors are referred to as "Trustees" in this report. Five of the Trustees are appointed and can be removed by the principal sponsoring employer, including the Chairman. The other four Trustees are nominated by the members of the Scheme and are known as Member Nominated Trustees. The selection process for these Trustees is subject to the regulations issued under the Pensions Act 2004 and the normal term of office is 4 years. The first election took place in 2007 and subsequently have occurred on a rolling basis at the end of each term of office.

Medical Research Foundation became a participating employer with effect from 1 December 2017. London School of Hygiene and Tropical Medicine became a participating employer in the University Section with effect from 1 February 2018.

The retirement benefits of the Scheme are generally an annual pension comprising 1/80th of pensionable salary for the last year of service multiplied by the years (including fractions) of service, and a lump sum retiring allowance of three times annual pension. From 6 April 2006, members have the option to exchange some of their pension for additional tax-free cash at retirement. From 1 April 2018 new members will receive pension benefits on career average pensionable salary and retirement age linked to State pension age. The annual accrual rate will be 1/60<sup>th</sup> for each year of service.

For the majority of married members, there is provision for a spouse's pension of one half the member's pension payable on death. From December 2005, registered civil partners became legally entitled to equivalent death benefits, but only in respect of service accrued since 6 April 1988. Following the merger of the supplementary section with the principal section, cover for registered civil partners was extended to include all current service and an adult dependant's pension was introduced from 1 April 2006 in respect of unmarried and unregistered active members with nominated long-term adult partners. Cover has also been extended in accordance with the Marriage (Same Sex Couples) Act 2013.

There are also provisions for benefits covering death in service and early retirement on grounds of ill-health. In most cases these are calculated as for normal retirement benefits but with enhanced service to normal retiring age. Following the merger of the supplementary section, a discretionary lump sum death benefit of four years' pensionable salary is payable in respect of members who die in service.

The Scheme contains provisions which permit additional contributions to be made to purchase additional pension from the Additional Voluntary Contributions (AVC) Schemes operated in conjunction with Equitable Life and Standard Life Assurance Limited. The option to buy additional years of service was withdrawn with effect from March 2014. Since April 2006, members have the option to take some of or the entire AVC fund as a tax-free lump sum.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### TRUSTEE'S REPORT (CONTINUED)

Annual pensions in payment (or preserved in the Scheme) are eligible for increases awarded by Pension Increases (Review) Orders which normally increase pensions in line with the index of retail prices. From April 2011, the Government has adopted the Consumer Price Index (CPI).

Office accommodation expenses and staff costs relating to the secretariat are fully reimbursed to MRC, as part of UKRI, by the Scheme; other running costs, investment management costs, and fees to professional advisers, including the administrator, are met directly by the Scheme.

More details of the provisions of the Scheme are given in the explanatory booklet issued to members, who may also examine the rules at 58 Victoria Embankment or on the member website at [www.mrcps.co.uk](http://www.mrcps.co.uk). A member booklet is made available to both new and active members of the Scheme.

A Deed of Sectionalisation and Amendment was completed in December 2013. This created a separate University Section within the Scheme with effect from January 2014, which is funded by participating universities and UKRI as principal sponsoring employer. In order to comply with the provisions in respect of workplace pensions and auto enrolment, the minimum entry age was changed to 16 and the maximum entry age is the prevailing State Pension Age.

A Deed of Participation and Substitution took effect from 1 April 2018, so that UKRI could replace MRC as principal sponsoring employer. A Deed of Amendment and Flexible Apportionment was effected from the same date and reflected the agreement reached following the cessation of MRC as a participating employer.

#### **Appointment and removal of Trustees/management of the Scheme**

During the year under review the Trustee of the Scheme has been MRC Pension Trust Limited whose Directors are listed on page 2.

On 1 March 2018 Hugh Dunlop was appointed as an employer nominated Trustee. Mr Dunlop is the Chief Operating and Finance Officer at MRC.

Professor Kelvin Cain's term of office as MNT ended in November 2018. He stood for re-election and was successfully re-elected in August 2018. His four year term of office started from 1 December 2018.

#### **The Trustee Company**

The Trustees met on 3 occasions during the year and the Investment Subcommittee met on 5 occasions during the year.

Scheme specific Trustee training took place in January 2018 and January 2019, covering legal, actuarial and investment activities. Trustees also received training on property management from Nuveen (formerly TH Real Estate).

#### **Amendments to the Rules and Changes to the Scheme**

The original Definitive Trust Deed and twenty three Deeds of Amendment implemented since 1978 were consolidated in the Second Definitive Trust Deed and Rules in December 2005.

A number of changes in response to the Pensions Act 2004, Finance Act 2004 and Civil Partnership Act 2004 were introduced under an interim Deed of Amendment in March 2006.

A further consolidation exercise commenced in 2009 and was completed in December 2011, with the agreement of the Department of Business, Innovations and Skills and HM Treasury Department.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### TRUSTEE'S REPORT (CONTINUED)

From 6 April 2016 the Scheme is no longer contracted out of the State Second Tier Pension as required by the Pensions Act 2014.

A Second Amending Deed was completed on 14 March 2018 to introduce retirement benefits on a career average basis for new members with effect from 1 April 2018.

#### **Report On Actuarial Liabilities**

As required by Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

Under section 222 of the Pensions Act 2004, every scheme (or section of a scheme) is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed at least every 3 years using assumptions agreed between the Trustees and the employer and set out in the Statement of Funding Principles, a copy of which is available to Scheme members on request.

The latest actuarial valuation of each section of the Scheme was carried out as at 31 December 2016. This was the fourth actuarial valuation that was the subject of the Scheme Specific Funding Requirements of the Pensions Act 2004.

On the basis of discussions held by the Trustees with the Actuary, the preferred approach to the Statutory Funding Objective was to adopt a similar general approach to that used at the preceding actuarial valuation of each section of the Scheme. In broad terms, the preferred approach for the Principal Section was to assume an on-going commitment from the employer to the Scheme, with allowance in the basis for expected higher returns from growth investments. For the Universities Section, the approach adopted continues to seek to avoid a Section 75 Debt arising at a time a participating employer ceases to participate in the Scheme. Such a debt may arise in accordance with Section 75 of the Pensions Act 1995 if the assets of a scheme or section of a scheme are insufficient to meet the costs of securing members' benefits with an insurer. These approaches were agreed with MRC as principal employer and approved by the MRC Council in December 2017.

Assumptions are needed about the financial and demographic aspects of the expected future experience, including mortality assumptions, as part of the valuation process. Taking a prudent approach, a nominal investment return of 4.8% pa was assumed for the Principal Section and 2.6% for the Universities Section. If consumer price inflation is expected to average around 2.6% over the average lifetime of the membership to retirement, this will be equivalent to a real rate of return of 2.2% pa or zero for the Principal and Universities Sections respectively. It has been assumed that general salary increases will exceed price inflation by 1.5% pa.

The results of the valuation were discussed and agreed by the Trustees in November 2017 and showed that the Principal Section had a surplus of assets over liabilities of £260.1m and the Universities Section had a surplus of £21.0m. These surpluses corresponded to funding levels of 124% and 146% for the Principal and Universities Sections respectively.

The value of the whole Scheme's assets as at 31 December 2016 was £1,405.6m (compared with the previous valuation as at 31 December 2013, which was £1,054.2m). This reflects the significant upturn in global investment markets during the period since the last valuation.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### TRUSTEE'S REPORT (CONTINUED)

The results of the valuation for each section are shown below:

|                      | 31 December 2016  |                      |              | 31 December 2013 |
|----------------------|-------------------|----------------------|--------------|------------------|
|                      | Principal Section | Universities Section | Scheme Total | Scheme Total     |
| Liabilities          | 1,078.6           | 45.9                 | 1,124.5      | 894.1            |
| Assets               | 1,338.7           | 66.9                 | 1,405.6      | 1,054.2          |
| Total Scheme Surplus | 260.1             | 21.0                 | 281.1        | 160.1            |
| Percentage           | 124%              | 146%                 | 125%         | 118%             |

The Trustees recognise the strength of the employer covenant and the commitment MRC has to the Scheme and consider that they are able to take a long-term view when reviewing funding levels and setting investment objectives.

If the Scheme was wound up on 31 December 2016, the actuary estimated the funding level for the Principal Section would have been 67% and the Universities Section 108%. Inclusion of this information does not imply that UKRI is planning to wind up the Scheme. The valuation method adopted is the Projected Unit method and the principal assumptions are set out in the table below.

The Trustees and MRC signed a Statement of Funding Principles in December 2017.

The results of the next triennial valuation due as at 31 December 2019 are expected to be published towards the end of 2020.

### Actuarial Assumptions

The actuarial method used in the valuation was the Projected Unit method.

The 2016 Actuarial Valuation was carried out by the Scheme Actuary (Mrs Sue Vivian of GAD) as at 31 December 2016. Statements of Funding Principles include details of the actuarial assumptions used to assess the Scheme's liabilities (known as the Technical Provisions). The Pensions Regulator has issued a Code of Practice for the scheme specific funding regime and reviews valuations against this Code. The key actuarial assumptions adopted for each section of the Scheme for the 2016 valuations and for the previous valuations of each section are summarised below.

|  | Principal Section     |                       | Universities Section  |                      |
|--|-----------------------|-----------------------|-----------------------|----------------------|
|  | 31 December 2016      | 31 December 2013      | 31 December 2016      | 31 December 2013     |
|  | SFO <sup>1</sup> % pa | SFO <sup>1</sup> % pa | AFO <sup>2</sup> % pa | % pa                 |
| Discount Rate*   | 4.8                   | 5.6                   | 2.6                   | 3.6                  |
| Rate of pay increase (excluding promotional increases)             | 4.1                   | 4.1                   | 4.1                   | 5.0                  |
| RPI  | 3.5                   | 3.5                   | 3.5                   | 3.5                  |
| CPI  | 2.6                   | 2.6                   | 2.6                   | 2.6                  |
| Rate of increases to pension in payment in excess of GMPs#         | 2.6                   | 2.6                   | 2.6                   | 3.5                  |
| Rate of deferred pension increases (on benefits in excess of GMPs) | 2.6                   | 2.6                   | 2.6                   | 3.5                  |
| Post-retirement mortality  | S2NXA – 14<br>x-1     | S1NXA –12<br>(U=2013) | S2NXA –14<br>x-1      | S1NXA-12<br>(U=2013) |

<sup>1</sup>Statutory funding objective

\*A discount rate is used to determine the current value of payments expected to be made in the future. In setting a discount rate it is reasonable to consider the rate of return expected to be earned on assets being held to meet the future payments.

# Guaranteed Minimum Pension;

S2NXA-14 are the mortality tables used in the valuation.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### TRUSTEE'S REPORT (CONTINUED)

As the 2016 valuation did not disclose a shortfall between the Scheme's assets and liabilities, the Trustees have not needed to agree with the Employer a recovery plan for making good a shortfall.

The Trustees monitor continuously the funding position of the Scheme with the help of the Scheme Actuary and their investment advisers and publish an annual summary funding statement that is sent to all members each year. In addition, a summary of the results of the 2016 actuarial valuation was sent to all members in January 2018.

The Financial Statements set out on pages 26 to 45 do not take into account the liabilities to provide pension benefits which fall due after the year end. In respect of each section of the Scheme, these liabilities are considered by the Scheme Actuary who carries out an actuarial valuation of such liabilities every three years. This valuation considers the funding position of each section of the Scheme and the level of contributions payable.

The formal actuarial certificates required by statute to be included in this Annual Report from the Scheme Actuary appear on pages 46 and 47.

#### **Funding update**

The Actuary prepares an annual funding update. The latest annual update as at 31 December 2018 shows liabilities of £1,151m and a surplus of £314m compared to assets of £1,465.0m for the Principal Section. For the Universities Section, liabilities were £73m, resulting in a surplus of £18.1m compared to assets of £91.1m as at the same date.

#### **Contributions**

##### **Employers' contributions**

The Trustees and MRC considered the valuation results very carefully, together with the advice given by the Actuary. They concluded that it would be appropriate for MRC to make employer contributions to the Principal Section at a rate of 15% of pensionable salary (increased from 14%) with effect from 1 April 2018. All other participating employers will contribute at a rate of 15.9% of pensionable salary.

Following the 2016 valuation, MRC increased its contribution rate to the Universities Section from 21.4% of pensionable salary to 23.6% with effect from 1 April 2018.

MRC made a payment of £6m in March 2018 and UKRI made a payment of £1.25m in March 2019 towards cash flow and in anticipation of a gradual increase in the employer contribution rate of the Principal Section of the Scheme.

During the year MRC and subsequently UKRI has made payments of £6.5m (2017: £5m) towards the funding of the Universities Section and in accordance with the schedule of contributions.

##### **Employees' Contributions**

Members' contributions from new entrants to the Scheme to both the Principal and Universities sections were unchanged during 2018 at 6.5% of pensionable salary, including members under the new CARE section. For historical reasons, some members pay 6% and those formerly in the maintenance grades pay 5%. In addition, those in the former supplementary section with a pension age of 60 paid an additional 0.25% and those with a pension age of 65 paid an additional 0.50%.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### TRUSTEE'S REPORT (CONTINUED)

#### **Governance**

The Trustees take the management of the Scheme very seriously and always seek to follow best practice in their approach to Scheme governance.

In addition to undergoing Scheme specific Trustee training each year, the Trustees maintain a governance manual which combines the important documents needed to administer the Scheme. Key Scheme documents are also held electronically on a secure website which is hosted by JLT.

The Trustees produce an annual business plan against which Scheme performance can be measured. The Chairman conducts regular one-to-one interviews to help individual Trustee Directors to assess their personal and collective contribution to the effective management of the Scheme. MNPA was the chosen professional partner to run the day to day administration of the Scheme since 2001. MNPA changed its name for branding purposes to Ensign Pensions

Administration and was subsequently purchased by JLT. JLT Employee Benefits is the current third party administrator for the Scheme. On 1 April 2019, Jardine Lloyd Thompson Group Plc (JLT) was acquired by Marsh & McLennan Companies (MMC). As a result, JLT's employee benefits operations has become part of Mercer UK Limited, a MMC Company.

The Trustees have accepted that the Scheme must contribute towards the cost of the Pension Protection Fund (PPF). HM Treasury made it clear that where a body in any part of the public service sector, including a non-departmental government body such as MRC, offers a funded, trust based pension scheme; the requirement is that the pension scheme will be subject to the same legislative and regulatory framework as an equivalent private sector pension scheme.

There has been no change to the funding basis of the Scheme and no weakening of the strength of the principal employer's covenant or commitment to the Scheme. Members now have the additional protection of the PPF should MRC, as principal sponsoring employer, ever fall into financial difficulty.

#### **Internal Controls**

The Trustees maintain a register of key risks and BDO LLP (formerly Moore Stephens LLP) act as internal auditor to monitor internal controls relating to the financial security and efficient running of the Scheme including the monitoring of the internal controls of each investment manager, with particular focus on the indirect property portfolio and private equity portfolio.

#### **Bribery Act 2011 and Conflicts of Interest**

The Trustees have amended their conflicts of interest policy in order to meet the requirements of the Bribery Act 2011 in relation to gifts and hospitality. The policy was reviewed by the Trustee Board in March 2017. The Trustees also maintain a register of interests, which is reviewed by the Secretary each year. Trustees are required to declare any conflicts arising from agenda items at the start of every Trustee and Investment Subcommittee meeting.

#### **Brexit**

Following the outcome of the referendum on 23 June 2016 and the triggering of Article 50 of the Lisbon Treaty, the Trustees acknowledge that the UK is expected to leave the EU. The Trustees are not confined to investing in the UK or Europe, but invest globally and continue to take a long term view on asset allocation and investment strategy. The Trustees and the Investment Subcommittee work closely with their investment advisers in the monitoring of both tactical and strategic asset allocation.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### TRUSTEE'S REPORT (CONTINUED)

#### **General Data Protection Regulations**

In order to manage the Scheme and pay correct benefits at the right time to members and their dependents, some personal data is required. This data includes name, address, date of birth and National Insurance number. Until recently the use of this data was regulated under the Data Protection Act 1998, which places certain responsibilities on those who exercise control over the data. Data controllers include MRC, UKRI, the Trustees and certain professional advisers including the Government Actuary's Department and JLT as scheme administrator.

In May 2018, a new European legal framework for the protection of personal data called the General Data Protection Regulations (GDPR) came into effect in the UK. The decision to leave the European Union has not affected the introduction of GDPR. The Trustees and their advisers have reviewed how the new requirements affect the way in which personal data is held and processed, and have produced a privacy statement and data protection policy document.

#### **UK Research and Innovation**

The Higher Education and Research Act 2017 paved the way for the creation of United Kingdom Research and Innovation (UKRI) with effect from 1 April 2018. As a result of the legislation, MRC forms part of this new consolidated research body, along with the other six research councils.

Although MRC continues to exist within UKRI with a significant degree of control over its funding, it has ceased to be an employing body and its Royal Charter has been revoked. UKRI has assumed MRC's role as Principal Sponsoring Employer of the MRC Pension Scheme. MRC worked closely with the Department for Business, Energy and Industrial Strategy (BEIS), its sponsoring government department, and HM Treasury to ensure that UKRI replaced MRC and to this end the legislation was amended during its passage through the House of Commons to enable UKRI to operate a number of staff pension schemes.

The Trustees and MRC have worked closely together regarding the 31 December 2016 actuarial valuation, the transition of Principal Sponsoring Employer from MRC to UKRI, and the introduction of benefits on a career average basis for new members with effect from 1 April 2018.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### TRUSTEE'S REPORT (CONTINUED)

#### Membership

Details of the membership of the Scheme as at 31 December 2018 are given below: -  
Members can be included in both the Main Section and also the Universities Section.

|  | Principal<br>Section<br>2018 | Universities<br>Section<br>2018 | Total<br>2018 | Total<br>2017 |
|--|------------------------------|---------------------------------|---------------|---------------|
| <b>ACTIVE MEMBERS</b>  |                              |                                 |               |               |
| Active members at the start of the year                                    | 1,795                        | 701                             | 2,496         | 2,544         |
| Adjustments from prior period  | (2)                          | 2                               | -             | -             |
| New entrants in the year   | 341                          | -                               | 341           | 344           |
| TUPE Transfers from UKSBS to Universities                                  | (126)                        | 126                             | -             | -             |
| Retirements  | (24)                         | (15)                            | (39)          | (53)          |
| Death in service   | -                            | -                               | -             | (1)           |
| Members leaving with preserved benefits                                    | (200)                        | (89)                            | (289)         | (208)         |
| Leavers with benefits pending  | (134)                        | (22)                            | (156)         | (90)          |
| Members leaving with a refund/set to no liability                          | (119)                        | -                               | (119)         | (40)          |
| <b>ACTIVE MEMBERS AT THE END OF THE YEAR</b>                               | <b>1,531</b>                 | <b>703</b>                      | <b>2,234</b>  | <b>2,496</b>  |
| <b>PENSIONERS</b>  |                              |                                 |               |               |
| Pensioners at the start of the year  | 2,937                        | 65                              | 3,002         | 2,920         |
| Members retiring during the year   | 120                          | 16                              | 136           | 138           |
| New spouse and dependent pensioners  | 48                           | -                               | 48            | 15            |
| Pensions ceased (including deaths)   | (116)                        | -                               | (116)         | (71)          |
| <b>PENSIONERS AT THE END OF THE YEAR</b>                                   | <b>2,989</b>                 | <b>81</b>                       | <b>3,070</b>  | <b>3,002</b>  |
| <b>MEMBERS WITH PRESERVED AND DEFERRED BENEFITS</b>                        |                              |                                 |               |               |
| Number at the start of the year  | 4,370                        | 325                             | 4,695         | 4,588         |
| Leavers during the year with preserved benefits                            | 200                          | 89                              | 289           | 208           |
| Deferred pensioners becoming pensioners                                    | (96)                         | (1)                             | (97)          | (85)          |
| Transfers out during the year  | (16)                         | (4)                             | (20)          | (12)          |
| Commutations   | (2)                          | -                               | (2)           | (1)           |
| Deaths   | (6)                          | -                               | (6)           | (3)           |
| <b>MEMBERS WITH PRESERVED AND DEFERRED BENEFITS AT THE END OF THE YEAR</b> | <b>4,450</b>                 | <b>409</b>                      | <b>4,859</b>  | <b>4,695</b>  |
| <i>Pending members* (as shown on the following page)</i>                   | <b>143</b>                   | <b>13</b>                       | <b>156</b>    | <b>109</b>    |
| <b>TOTAL MEMBERSHIP AT THE END OF THE YEAR</b>                             | <b>9,113</b>                 | <b>1,206</b>                    | <b>10,319</b> | <b>10,302</b> |

Pensioner members include 408 (2017: 378) beneficiaries and dependants who are receiving a pension.

Individual members can have more than one pension entitlement under the Scheme, due to separate periods of service, including being in receipt of a pension and accruing additional pensionable service.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### TRUSTEE'S REPORT (CONTINUED)

#### Membership Figures Adjustments

MRC membership movements are further influenced by the pay award process as pay awards are agreed a number of months after the annual pay review date of April; for leavers this is referred to as 'Pay After Date of Leaving' (PADL). The approved procedure is that deferred leavers are not processed until the pay award is agreed, so that information issued to members includes the benefit of the salary increase. Once the pay award is implemented JLT process all leavers who left between April and the date when the salary increase was agreed. The 2018 pay award was 1.4% and was implemented by MRC in March 2019.

The impact is dependent on the length of delay in settling the pay review.

|                                   | Principal<br>Section<br>2018 | Universities<br>Section<br>2018 | Total<br>2018 | Total<br>2017 |
|-----------------------------------|------------------------------|---------------------------------|---------------|---------------|
| <b>PENDING MEMBERS*</b>           |                              |                                 |               |               |
| At the start of the year          | 103                          | 6                               | 109           | 130           |
| New leavers with benefits pending | 134                          | 22                              | 156           | 90            |
| Leavers with refunds              | (72)                         | (11)                            | (83)          | (93)          |
| Transfer out                      | (22)                         | (4)                             | (26)          | (14)          |
| No liability                      | -                            | -                               | -             | (4)           |
| <b>Total</b>                      | <b>143</b>                   | <b>13</b>                       | <b>156</b>    | <b>109</b>    |

\*These are members who have, in the past, withdrawn from the Scheme with less than two years qualifying service. They have no entitlement to a preserved pension under the Scheme rules and have not yet decided upon either a refund of contributions or a transfer to another occupational pension scheme which are the only options available to such members.

MRC's staging date under auto-enrolment was 1 July 2013. Since that date, all new MRC staff have been enrolled in the Scheme automatically on appointment. Eligible staff not in the Scheme prior to 1 July 2013 could join the Scheme at any time, but were not auto-enrolled until 1 October 2017, in line with transitional arrangements. A re-enrolment exercise for staff that joined MRC after 1 July 2013, but chose to opt out of the Scheme, took place during May 2016. Eligible staff not in the Scheme were auto enrolled into the new CARE section by UKRI on 1 April 2018.

#### Financial development of the Scheme

The financial statements on pages 26 to 45 show that the value of the Scheme's assets decreased by £46.4m to £1,556.1m as at 31 December 2018. The decrease was comprised of net withdrawals from dealings with members of £10.7m and a net decrease in investment returns of £35.7m. The financial statements have been prepared and audited in accordance with the regulations made under Sections 41 (1) and (6) of the Pensions Act 1995.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### TRUSTEE'S REPORT (CONTINUED)

#### **Benefits paid**

The benefits paid during the year to retiring members and to relatives and dependants of deceased members are shown in note 5 of the financial statements on page 31.

#### **Transfer values**

Cash equivalents paid during the year with respect to transfers have been calculated and verified in the manner prescribed by the Pensions Schemes Act 1993 and do not include discretionary benefits.

New Public Sector Transfer Club tables came into effect from January 2011. Following discussions with the Scheme Actuary, the Trustees accepted the actuarial advice and adopted the new tables for Club transfers. The Trustees also adopted revised non-Club transfers.

In 2010, the Trustees introduced a one year rule that applies to all transfers into the Scheme. This brought all transfers into line with the one year rule that applies to transfers under the Public Sector Transfer Club. The new rule provided a consistent approach in the treatment of Club and Non-Club transfers and provide greater control in the management of Scheme liabilities.

From December 2012, the Scheme only accepts transfers from other schemes that participate in the Public Sector Transfer Club.

#### **Pension Increases**

The increase awarded in April 2018 was 3%, with the exception of the pre 1988 GMP element, which received no increase. There were no discretionary increases.

#### **Additional voluntary contributions**

Additional voluntary contributions (AVCs) shown in note 4 of the financial statements represent the combined total of contributions made to purchase additional service under the rules of the Scheme and those made to money purchase AVC facilities administered on the Trustees' behalf by Equitable Life and Standard Life Assurance Limited. Members' contributions to the money purchase AVC schemes are deducted from salary and paid direct to Equitable Life and Standard Life. The contributions are invested on behalf of the individuals concerned to provide additional pension benefits within the overall limits laid down by HMRC.

A total of 34 members contributed to money purchase AVCs as at 31 December 2018; the total value of the accumulated AVC funds held by Equitable Life and Standard Life at that date was £2.1 million.

From 6 April 2006, members are able to make additional contributions of up to 15% above their normal contributions to the Scheme. Members also have the option to take some of or their entire AVC fund with Equitable Life and Standard Life as a tax free lump sum on retirement.

It is the responsibility of members to ensure that AVCs are deducted from salary by submitting requests to JLT.

From April 2015 members have the right to transfer out their AVC pot prior to retirement and independently of main Scheme benefits.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### TRUSTEE'S REPORT (CONTINUED)

#### **Scheme administration service provided by JLT**

During 2018 JLT produced Benefit Statements for active members of the Scheme and these were distributed during June 2018. Pension Savings Statements covering the 2018/2019 tax year will be issued in July 2019. Copies of the summarised version of the 2017 Annual Report were circulated in September 2018. These are annual communication exercises undertaken by JLT on behalf of the Trustees.

JLT works closely with the staff at UKSBS, UKRI's payroll service provider, in Swindon to ensure the delivery of timely and accurate HR and payroll data for MRC staff in the Scheme. In addition, JLT also work closely with the Francis Crick Institute and the Universities payroll departments to ensure the delivery of timely and accurate data for benefit entitlements and administration.

#### **Legislation**

The Trustees, with the assistance of JLT, have taken the necessary steps to deal with the administration changes necessitated by the annual tax limit on pension contributions, which took effect from April 2011. Annual Benefit Statements have been revised to provide additional information to members. The Scheme has adopted a Pension Input Period (PIP) of 1 April to 31 March. The annual allowance of £50,000 was reduced to £40,000 with effect from April 2014.

The Lifetime Allowance (LTA) reduced from £1.8m to £1.5m with effect from 6 April 2012. The LTA was reduced to £1.25m with effect from April 2014 and was further reduced to £1m with effect from April 2016. The new LTA is index-linked from April 2018.

The Pensions Act 2008 requires employers to auto enrol eligible staff in a qualifying pension scheme, starting with the largest employers from October 2012. The Department for Work and Pensions (DWP) gave MRC a staging date of 1 July 2013. Other employers that participate in the MRC Scheme may have a different staging date. As the Scheme is considered by the DWP to be a qualifying final salary pension Scheme that is still open to new members, MRC followed transitional arrangements and delayed the introduction of auto enrolment of existing staff until September 2017. MRC carried out a re-enrolment exercise in June 2016 in respect of staff recruited after the staging date that had opted out in the previous three years.

The Trustees have taken appropriate steps to comply with workplace pensions and auto enrolment and the Marriage (Same Sex Couples) Act 2013.

#### **Hutton Commission**

The Hutton Commission, set up in 2010 to review public sector pension provision, issued its final recommendations in March 2011. The recommendations have been the basis of Government consultation with national Trade Unions. The proposed changes, in particular the proposed transitional arrangements, have been the subject of legal challenge. It is expected that changes to public sector pension provision will be introduced by April 2020, at the earliest.

#### **Internal Auditors**

The Internal Auditor provides three updates to the Trustees during the Scheme year.

#### **HMRC approval**

The Scheme is a 'registered pension scheme' for tax purposes.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### TRUSTEE'S REPORT (CONTINUED)

#### Statement of Trustee's Responsibilities

##### Trustee's responsibilities in respect of the financial statements

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging these responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Scheme will continue as a going concern.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee also has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

##### Trustee's responsibilities in respect of contributions

The Trustee is responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable to the Scheme by or on behalf of employers and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the Scheme in accordance with the schedule of contributions.

Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### TRUSTEE'S REPORT (CONTINUED)

#### Investment Report

##### Investment policy and management

The Trustee is not licensed to invest directly and therefore appoints investment managers to carry out this function.

All investment managers are appointed by or on behalf of the Trustee to manage the Scheme under section 34(4) of the Pensions Act 1995 and are appropriately authorised or exempt under the Financial Services and Markets Act 2000. The Trustee takes professional advice on making and reviewing the appointment of investment managers.

The Trustee's long-term objective is to achieve an investment return of at least 2.2% above the rate of consumer price inflation. The strategy adopted to achieve that objective is to invest predominantly in return seeking assets such as equities and property, but with diversification of risk through investment in bonds and alternative asset classes. The Trustee and UKRI, as principal sponsoring employer, accept that this strategy may result in some volatility of return in the short term.

The Trustee has continued to give careful consideration to the management and structure of the active and passive parts of the portfolio, the strategic asset allocation to UK and overseas equities, and diversification through alternative investments in order to reduce volatility, smooth investment returns and improve cash flow.

The mandates awarded to active managers exclude investment in tobacco. Investment managers that track an index or hold pooled funds will hold tobacco stocks from time to time and this exposure is monitored by Buck Consultants. At 31 December 2018, less than 0.1% of total assets were held in tobacco stocks.

On the advice of Buck, the Trustee has taken steps since June 2011 to manage currency risk by moving assets held with Legal & General to currency hedged funds. The Trustee currently applies a 100% hedge of US Dollar denominated assets (2017: 50%) and 100% hedge of Euro denominated assets (2017: 50%). Both positions reflect a medium term outlook and remain under regular review, as does the wider equity portfolio in respect of currency exposure.

The Investment Subcommittee ("ISC") (see page 2 for membership) usually meets five times a year to discuss and review investment performance.

Following advice from Buck, the Trustees agreed to rationalise the equity portfolio and replaced Mirabaud and Montanaro with Invesco and Liontrust, after a selection panel on 25 January 2018. Following discussions with MRC and advice from GAD and Buck, Baillie Gifford was appointed additionally as an equity fund manager under the University Section in March 2018. The transition of all these investments took place in March 2018.

The Scheme has suffered from negative market conditions towards the end of the year. The annual return for 2018 was a return of -1.8%, net of fees, compared to the total Scheme benchmark return of -2.8%. Equity markets recovered in early 2019 to offset much of these losses.

The total investment return for the three years to 31 December 2018 was 9.2% per annum net of fees, compared to the benchmark return of 7.9%.

The Statement of Investment Principles ("SIP") is required by Section 35 of the Pensions Act 1995 and a copy is available on request or from the member website at [www.mrcps.co.uk](http://www.mrcps.co.uk). The SIP for the Universities section, dated 26 November 2013, was updated in March 2018 to reflect the change in asset allocation. The SIP for the Principal Section was also updated in March 2018 to reflect the changes in equity managers.

The Trustee also follows a medium term asset allocation which gives the Investment Subcommittee flexibility to move outside of the strategic benchmark for tactical reasons. The ranges of tactical allocation for each asset class are included in the SIP and the asset distribution in the table below fell within the ranges of tactical allocation at the year end.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### TRUSTEE'S REPORT (CONTINUED)

The comparative asset distribution of the Scheme as at 31 December 2018 and 31 December 2017 are noted in the table below (Principal Section only):

|  | 31 Dec 2018  | 31 Dec 2017  |
|--|--------------|--------------|
|  | %            | %            |
| UK Corporate Bonds                             | 4.8          | 3.8          |
| Index linked securities                        | 3.5          | 3.6          |
| UK Equities                                    | 7.6          | 11.2         |
| Overseas Equities                              | 20.3         | 18.5         |
| Property (Direct)                              | 12.6         | 11.7         |
| Pooled investment vehicles:                    |              |              |
| UK Equity                                      | 8.8          | 9.5          |
| Overseas Equity                                | 17.2         | 20.6         |
| Private Equity*                                | 3.9          | 2.5          |
| Private Debt                                   | 0.3          | -            |
| Infrastructure                                 | 3.3          | 2.2          |
| Property                                       | 12.3         | 10.1         |
| Bonds  | 0.5          | 4.2          |
| Cash   | 2.3          | -            |
| AVC Funds                                      | 0.1          | 0.1          |
| Cash deposits and other investment<br>balances | 2.5          | 2.0          |
|  | <b>100.0</b> | <b>100.0</b> |

\* This includes Vesey Street holdings of £131k (0.1%) (2017: £124k, 0.1%)

At the year end the Universities Section was 80% invested in UK Pooled Investment Bonds and 20% in equities (2017: 100% UK Pooled Investment Bonds).

The Trustee has considered the nature, disposition and marketability of the Scheme's investments and considers them to be appropriate relative to the reasons for holding each class of investment. Details of the Investments are shown in note 11 of the Financial Statements.

### Employer related investments

There were no employer related investments made during the year or held at the year end.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### TRUSTEE'S REPORT (CONTINUED)

#### **Custodial arrangements**

The Trustee has appointed State Street as custodian for Mirabaud, Montanaro, RLAM, Baillie Gifford, First State, Invesco and Liontrust Investments. For directly owned property, DLA is used for England and Wales and Maclay, Murray & Spens for property owned in Scotland. A separate segregated portfolio with State Street was set up in March 2018, when Baillie Gifford was appointed as equity manager to the Universities Section.

The other fund managers have appointed their own custodians and these have not been appointed by the Trustee. BDO LLP (formerly Moore Stephens LLP) do an annual reconciliation of segregated assets held by State Street.

With regard to the other investment managers, the pooled investment managers make their own arrangements for custody of the underlying assets.

The custodians are responsible for the safekeeping of share certificates and other documents relating to the ownership of listed investments. Investments are held in the name of each custodian's nominee company, in line with common practice for pension scheme investments.

#### **Trustee's policy on social and ethical investments**

The Trustee attaches high importance to social, environmental and ethical considerations in relation to the selection of appropriate assets, and gives significant weight to these considerations both in determining investment policy and in selecting suitable investment managers. The investment managers appointed have been instructed to work proactively (using both formal and informal approaches) to promote the highest standards of:

- Socially responsible corporate behaviour;
- Environmentally responsible corporate behaviour;
- Corporate ethics; and
- Corporate governance.

#### **Rights attached to investments**

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attached to investments to the investment manager, subject to any specific instructions by the Trustee.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### TRUSTEE'S REPORT (CONTINUED)

The make-up of the Scheme's total investments of £1,555.951 million as at 31 December 2018 across investment managers is as follows (£000's):

| Asset Class     | PRINCIPAL SECTION |                    |                |             |                   |          |                            | UNIVERSITIES SECTION |   |                                |                            |                 | Total Assets |                         |
|-----------------|-------------------|--------------------|----------------|-------------|-------------------|----------|----------------------------|----------------------|---|--------------------------------|----------------------------|-----------------|--------------|-------------------------|
|                 | Index Linked      | UK Corporate Bonds | UK Derivatives | UK Equities | Overseas Equities | Property | Pooled Investment Vehicles | AVCs                 | Cash, accrued income and outstanding trades | Total Assets-Principal Section | Pooled Investment Vehicles | Global Equities |              | Cash and accrued income |
|                 | £000's            | £000's             | £000's         | £000's      | £000's            | £000's   | £000's                     | £000's               | £000's                                      | £000's                         | £000's                     | £000's          | £000's       | £000's                  |
| BlackRock       |                   |                    |                |             |                   |          |                            |                      |   |                                |                            |                 |              |                         |
| Hg              |                   |                    |                |             |                   |          |                            | 132                  | 93  | 225                            |                            |                 |              | 225                     |
| Ares            |                   |                    |                |             |                   |          |                            | 23,794               |   | 23,794                         |                            |                 |              | 23,794                  |
| Mirabaud        |                   |                    |                |             |                   |          |                            | 5,063                |   | 5,063                          |                            |                 |              | 5,063                   |
| First State     |                   |                    | 1              |             | 91,479            |          |                            |                      | 67  | 67                             |                            |                 |              | 67                      |
| Invesco         |                   |                    |                | 10,620      | 47,989            |          |                            |                      | 3,713                                       | 95,193                         |                            |                 |              | 95,193                  |
| Liontrust       |                   |                    |                | 93,896      |                   |          |                            |                      | 1,198                                       | 59,807                         |                            |                 |              | 59,807                  |
| Morgan Stanley  |                   |                    |                |             |                   |          |                            |                      | 3,485                                       | 97,381                         |                            |                 |              | 97,381                  |
| RLAM            | 51,875            | 70,155             | (62)           |             |                   |          | 81,107                     |                      |   | 81,107                         |                            |                 |              | 81,107                  |
| Nuveen          |                   |                    |                |             |                   | 185,475  | 3,612                      | 26,249               | 2,283                                       | 127,863                        | 72,437                     |                 |              | 200,300                 |
| L&G             |                   |                    |                |             |                   |          | 300,479                    |                      | 23,030                                      | 234,754                        |                            |                 |              | 234,754                 |
| Aviva           |                   |                    |                |             |                   |          | 85,744                     |                      | 459   | 300,938                        |                            |                 |              | 300,938                 |
| M&G             |                   |                    |                |             |                   |          | 68,768                     |                      | 930   | 86,674                         |                            |                 |              | 86,674                  |
| Partners Group  |                   |                    |                |             |                   |          | 28,722                     |                      | 652   | 69,420                         |                            |                 |              | 69,420                  |
| Baillie Gifford |                   |                    |                | 7,571       | 157,925           |          |                            |                      | 154   | 28,876                         |                            |                 |              | 28,876                  |
| GAM             |                   |                    |                |             |                   |          |                            |                      | 2,698                                       | 168,194                        |                            | 15,974          | 246          | 184,414                 |
| Infracapital    |                   |                    |                |             |                   |          | 3,652                      |                      |   | 3,652                          |                            |                 |              | 3,652                   |
| RLAM - Cash     |                   |                    |                |             |                   |          | 48,151                     |                      |   | 48,151                         |                            |                 |              | 48,151                  |
| Other           |                   |                    |                |             |                   |          | 34,002                     |                      |   | 34,002                         |                            |                 |              | 34,002                  |
|                 |                   |                    |                |             |                   |          |                            | 2,126                | 7   | 2,133                          |                            |                 |              | 2,133                   |
| Total           | 51,875            | 70,155             | (61)           | 112,087     | 297,393           | 185,475  | 709,475                    | 2,126                | 38,769                                      | 1,467,294                      | 72,437                     | 15,974          | 246          | 1,555,951               |
| Section only    | 3.5               | 4.8                | 0.0            | 7.6         | 20.3              | 12.6     | 48.5                       | 0.1                  | 2.6   | 100.0                          | 81.7                       | 18.0            | 0.3          | 100.0                   |
| Total Assets    | 3.3               | 4.5                | 0.0            | 7.2         | 19.1              | 11.9     | 45.7                       | 0.1                  | 2.5   | 94.3                           | 4.7                        | 1.0             | 0.0          | 100.0                   |



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### TRUSTEE'S REPORT (CONTINUED)

#### Investment Performance

The Trustee adopted a Total Scheme Benchmark with effect from January 2008 as a more relevant measure of investment performance. The new benchmark is derived by aggregating, and weighting accordingly, the strategic benchmarks for each portfolio manager.

The Scheme's investment fund's performance for 2018 was measured by Buck Consultants. The table below notes the investment returns achieved by the Scheme's investments, by asset category (excluding cash and insurance policies), for the year to 31 December 2018.

|                                 | Year ended 31 December 2018 |                        |
|---------------------------------|-----------------------------|------------------------|
|                                 | Scheme Return               | Total Scheme Benchmark |
|                                 | %                           | %                      |
| UK Corporate Bonds              | -1.0                        | -1.5                   |
| UK Index-Linked Gilts           | -0.1                        | -0.3                   |
| UK Equities                     | -7.6                        | -9.1                   |
| Overseas Equities               | -6.6                        | -6.9                   |
| Property                        | 7.5                         | 7.1                    |
| Infrastructure                  | 5.8                         | 6.4                    |
| Private Equity                  | 12.4                        | -9.5                   |
| <b>Total Scheme</b>             | <b>-1.8</b>                 | <b>-2.8</b>            |
| 3 years ended 31 December 2018  | 9.2                         | 7.9                    |
| 5 years ended 31 December 2018  | 8.6                         | 7.5                    |
| 10 years ended 31 December 2018 | 9.6                         | 9.1                    |

As the table above shows, the overall return for the year was -1.8% after fees, which, although negative, was above the Total Scheme Benchmark. The Scheme's performance is above the benchmark when measured over the last 3 years and 5 years and 10 years. The return on the fund for 2018 is below the Actuary's assumptions that the yield on investments would be 0.7% greater than the increase in earnings and 2.2% greater than the increase in pensions.

The performance of the segregated direct property portfolio (excluding cash) managed by Nuveen (formerly known as TH Real Estate), as measured by Buck, showed a return of 9.6%. Portfolio performance was also measured by MSCI (formerly known as IPD) who measures the performance of more than 60% of all institutionally held property. According to MSCI, the Nuveen portfolio return was 8.2%, which was above the MSCI Index of Pension Funds under £250m of 7.6% on a three year annualised basis. The number of schemes within the benchmark universe was 34. The longer term performance of property has been monitored by the ISC, together with the strategic asset allocation to property.

There were several property transactions during the period of the report, which reflected market conditions in favour of selective activity. There was no change in holdings in the Scheme's indirect property investments in the Henderson Central London Office Fund and the Henderson UK Retail Warehouse Fund. The Scheme participates in indirect funds to gain exposure to large size property, offices and retail outlets. The Trustee also invests in property income funds with Aviva and M&G.

Investment fees due to Aviva, First State, Legal & General, M&G, Invesco, Liontrust, Morgan Stanley, Baillie Gifford and RLAM are paid quarterly in arrears and are based on annual percentage rates (agreed between the Trustee and the managers) applied to the market value of the respective portfolios at the quarter end.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### TRUSTEE'S REPORT (CONTINUED)

In the case of Nuveen, the investment management fees are also paid quarterly and are based on an agreed percentage of the market value of the property at the previous 31 December, plus an additional element related to the out-performance achieved compared to the relevant MSCI benchmark. However, during 2018 Nuveen did not manage to out-perform the relevant MSCI benchmark sufficiently to trigger a performance fee. An additional performance fee has been agreed with First State, based on performance from March 2010, which was triggered during 2014, 2015, 2016, 2017 and 2018.

#### Further information

Members are entitled to inspect copies of documents giving information about the Scheme. In some circumstances copies of documents can be provided, but a charge may be made for hard copies of the trust documents (Deed and Rules) and of the Actuary's report.

All members are encouraged to use the website at [www.mrcps.co.uk](http://www.mrcps.co.uk).

Any member with a dispute about their pension entitlement, or a complaint, can use the "Internal Disputes Resolution Procedure" or, alternatively, they can obtain free advice or ask for a ruling from The Pensions Ombudsman who can be reached at 10 South Colonnade, Canary Wharf, London E14 4PU; [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk).

General requests for information or guidance concerning pension arrangements can be made through The Pensions Advisory Service (TPAS) at 11 Belgrave Road, London SW1V 1RB. [www.pensionsadvisoryservice.org.uk](http://www.pensionsadvisoryservice.org.uk).

Any query about the Scheme, including requests from individuals for information about their benefits, should be addressed to:


The Trustees of MRC Pension Scheme (the 'Scheme') care of JLT Employee Benefits, Leatherhead House, Station Road, Leatherhead, Surrey, KT22 7ET.

[mrc\\_pensions@jltgroup.com](mailto:mrc_pensions@jltgroup.com)

#### Acknowledgements

The Trustee board was saddened to learn of the death of Mr Nick Winterton OBE, who died after a short illness on 29 September 2018. Nick was Chief Operating Officer at MRC before he retired in 2009 and served as both a Trustee and Chair of the Investment Subcommittee in a long and distinguished career.

This report was approved by the Trustees on 27 June 2019 and signed on its behalf by:

  
Trustee Director

  
Trustee Director

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### SUMMARY OF CONTRIBUTIONS

#### Trustee's Summary of Contributions payable under the Schedules in respect of the year ended 31 December 2018

This Summary of Contributions has been prepared by, or on behalf of, and is the responsibility of the Trustee. It sets out the employer and member contributions payable to the Scheme under the Schedules of Contributions certified by the actuary on 30 November 2017 for the Principal Section, and on 30 November 2017 for the Universities Section.

#### Contributions payable under the Schedules

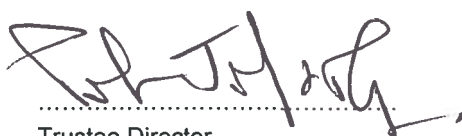
|   | Principal<br>Section<br>£000 | Universities<br>Section<br>£000 | Total<br>£000 |
|---|------------------------------|---------------------------------|---------------|
| <b>Employer:</b>  |                              |                                 |               |
| Normal contributions  | 8,285                        | 11,164                          | 19,449        |
| <b>Employee:</b>  |                              |                                 |               |
| Normal contributions  | 3,591                        | 1,915                           | 5,506         |
| Contributions payable under the Schedules (as reported on by the Scheme auditors on the following page) | 11,876                       | 13,079                          | 24,955        |

#### Reconciliation of Contributions Payable under the Schedules of Contributions to Total Contributions reported in the Financial Statements

|  |               |               |               |
|--|---------------|---------------|---------------|
| Contributions payable under the Schedules (as above)   | 11,876        | 13,079        | 24,955        |
| Contributions payable in addition to those due under the Schedules (and not reported on by the Scheme auditors on the following page): |               |               |               |
| Additional Employer contribution   | 6,000         | -             | 6,000         |
| Augmentation contributions   | 296           | -             | 296           |
| Member additional voluntary contributions  | 137           | -             | 137           |
| Member added years   | 195           | 111           | 306           |
| <b>Total contributions reported in the financial statements</b>  | <b>18,504</b> | <b>13,190</b> | <b>31,694</b> |

Approved by the Trustee on 27 June 2019 and signed on its behalf by:

  
Trustee Director

  
Trustee Director

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### INDEPENDENT AUDITORS' STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE MRC PENSION SCHEME

#### Statement about contributions

##### Opinion

In our opinion, the contributions payable under the Schedules for the Scheme year ended 31 December 2018 as reported in MRC Pension Scheme's summary of contributions have, in all material respects, been paid in accordance with the Schedules of contributions certified by the Scheme Actuary on 30 November 2017 for the Principal Section, and on 30 November 2017 for the Universities Section.

We have examined MRC Pension Scheme's summary of contributions for the Scheme year ended 31 December 2018 which is set out on the previous page.

##### Basis for opinion

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have, in all material respects, been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme under the schedules of contributions and the timing of those payments.

#### Responsibilities for the statement about contributions

##### *Responsibilities of the Trustee in respect of contributions*

As explained more fully in the statement of Trustee's responsibilities, the Scheme's Trustee is responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Scheme by employers in accordance with relevant requirements.

##### *Auditors' responsibilities in respect of the statement about contributions*

It is our responsibility to provide a statement about contributions and to report our opinion to you.

##### *Use of this report*

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

*PricewaterhouseCoopers LLP*

#### **PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors  
London

Date: ~~27 June~~ 2019

*4 July*

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### INDEPENDENT AUDITORS' REPORT TO THE TRUSTEE OF THE MRC PENSION SCHEME

#### Report on the audit of the financial statements

##### Opinion

In our opinion, MRC Pension Scheme's financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2018, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

We have audited the financial statements, included in the Annual Report and Financial Statements, which comprise: the statement of net assets (available for benefits) as at 31 December 2018; the fund account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

##### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Independence

We remained independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our responsibilities in accordance with these requirements.

##### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Scheme's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Scheme's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Scheme, its operations and other organisations on which it depends, and the wider economy.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### INDEPENDENT AUDITORS' REPORT TO THE TRUSTEE OF THE MRC PENSION SCHEME (CONTINUED)

#### Reporting on other information

The other information comprises all the information in the Annual Report and Financial Statements other than the financial statements, our auditors' report thereon and our auditors' statement about contributions. The Trustee is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

#### Responsibilities for the financial statements and the audit

##### *Responsibilities of the Trustee for the financial statements*

As explained more fully in the statement of Trustee's responsibilities, the Trustee is responsible for ensuring that the financial statements are prepared and for being satisfied that they show a true and fair view. The Trustee is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of the financial statements, the Trustee is responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Scheme, or has no realistic alternative but to do so.

##### *Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### *Use of this report*

This report, including the opinion, has been prepared for and only for the Trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



**PricewaterhouseCoopers LLP**  
Chartered Accountants and Statutory Auditors  
London

Date: ~~27 June~~ 2019

4 July



**MRC PENSION SCHEME**  
**YEAR ENDED 31 DECEMBER 2018**

**FUND ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2018**

|   | Note | Principal<br>Section<br>£000 | Universities<br>Section<br>£000 | Total 2018<br>£000 | Principal<br>Section<br>£000 | Universities<br>Section<br>£000 | Total 2017<br>£000 |
|---|------|------------------------------|---------------------------------|--------------------|------------------------------|---------------------------------|--------------------|
| <b>CONTRIBUTIONS AND BENEFITS</b>                             |      |                              |                                 |                    |                              |                                 |                    |
| <b>Contributions</b>  |      |                              |                                 |                    |                              |                                 |                    |
| Employer  | 4    | 14,581                       | 11,164                          | 25,745             | 15,934                       | 8,999                           | 24,933             |
| Employee  | 4    | 3,923                        | 2,026                           | 5,949              | 4,599                        | 1,881                           | 6,480              |
|   |      | <u>18,504</u>                | <u>13,190</u>                   | <u>31,694</u>      | <u>20,533</u>                | <u>10,880</u>                   | <u>31,413</u>      |
| Benefits  | 5    | (39,145)                     | (468)                           | (39,613)           | (39,274)                     | (154)                           | (39,428)           |
| Transfers out   | 6    | (649)                        | (19)                            | (668)              | (560)                        | -                               | (560)              |
| Payments to and on account of leavers                         | 7    | (127)                        | -                               | (127)              | (178)                        | -                               | (178)              |
| Administrative expenses                                       | 8    | (1,998)                      | (37)                            | (2,035)            | (2,022)                      | (35)                            | (2,057)            |
|   |      | <u>(41,919)</u>              | <u>(524)</u>                    | <u>(42,443)</u>    | <u>(42,034)</u>              | <u>(189)</u>                    | <u>(42,223)</u>    |
| <b>NET (WITHDRAWALS)/ADDITIONS FROM DEALINGS WITH MEMBERS</b> |      | <u>(23,415)</u>              | <u>12,666</u>                   | <u>(10,749)</u>    | <u>(21,501)</u>              | <u>10,691</u>                   | <u>(10,810)</u>    |
| <b>INVESTMENT RETURNS</b>                                     |      |                              |                                 |                    |                              |                                 |                    |
| Investment income   | 9    | 43,573                       | 424                             | 43,997             | 43,696                       | 183                             | 43,879             |
| Change in market value of investments                         | 11   | (70,228)                     | (2,587)                         | (72,815)           | 165,121                      | 3,230                           | 168,351            |
| Investment management expenses                                | 10   | (6,514)                      | (244)                           | (6,758)            | (6,667)                      | (156)                           | (6,823)            |
| Taxation  |      | (110)                        | -                               | (110)              | (49)                         | -                               | (49)               |
| <b>NET RETURNS ON INVESTMENTS</b>                             |      | <u>(33,279)</u>              | <u>(2,407)</u>                  | <u>(35,686)</u>    | <u>202,101</u>               | <u>3,257</u>                    | <u>205,358</u>     |
| <b>NET (DECREASE)/INCREASE IN THE FUND DURING THE YEAR</b>    |      | <u>(56,694)</u>              | <u>10,259</u>                   | <u>(46,435)</u>    | <u>180,600</u>               | <u>13,948</u>                   | <u>194,548</u>     |
| <b>NET ASSETS OF THE SCHEME AT 1 JANUARY</b>                  |      | <u>1,521,731</u>             | <u>80,842</u>                   | <u>1,602,573</u>   | <u>1,341,131</u>             | <u>66,894</u>                   | <u>1,408,025</u>   |
| <b>NET ASSETS OF THE SCHEME AT 31 DECEMBER</b>                |      | <u>1,465,037</u>             | <u>91,101</u>                   | <u>1,556,138</u>   | <u>1,521,731</u>             | <u>80,842</u>                   | <u>1,602,573</u>   |

The notes on pages 28 to 45 form an integral part of these financial statements.

**MRC PENSION SCHEME**  
**YEAR ENDED 31 DECEMBER 2018**

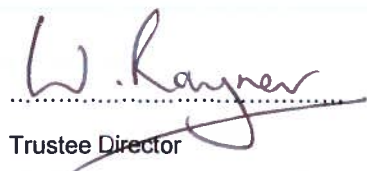
**STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AT 31 DECEMBER 2018**

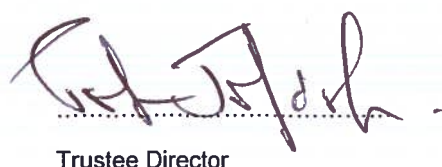
|  | Note | Principal<br>Section<br>£000 | Universities<br>Section<br>£000 | Total 2018<br>£000 | Principal<br>Section<br>£000 | Universities<br>Section<br>£000 | Total 2017<br>£000 |
|--|------|------------------------------|---------------------------------|--------------------|------------------------------|---------------------------------|--------------------|
| <b>INVESTMENT ASSETS</b>               |      |                              |                                 |                    |                              |                                 |                    |
| Equities                               | 11   | 409,480                      | 15,974                          | 425,454            | 451,304                      | -                               | 451,304            |
| Bonds                                  | 11   | 122,030                      | -                               | 122,030            | 114,408                      | -                               | 114,408            |
| Property                               | 11   | 185,475                      | -                               | 185,475            | 177,555                      | -                               | 177,555            |
| Pooled investment vehicles             | 11   | 709,475                      | 72,437                          | 781,912            | 747,184                      | 79,953                          | 827,137            |
| Derivatives                            | 11   | 1                            | -                               | 1                  | 18                           | -                               | 18                 |
| Other investment assets                | 11   | 8,745                        | 15                              | 8,760              | 7,305                        | -                               | 7,305              |
| AVC Investments                        | 11   | 2,126                        | -                               | 2,126              | 2,226                        | -                               | 2,226              |
| Cash                                   | 11   | 34,546                       | 231                             | 34,777             | 28,506                       | -                               | 28,506             |
|  |      | <b>1,471,878</b>             | <b>88,657</b>                   | <b>1,560,535</b>   | <b>1,528,506</b>             | <b>79,953</b>                   | <b>1,608,459</b>   |
| <b>INVESTMENT LIABILITIES</b>          |      |                              |                                 |                    |                              |                                 |                    |
| Derivatives                            | 11   | (62)                         | -                               | (62)               | -                            | -                               | -                  |
| Other investment liabilities           | 11   | (4,522)                      | -                               | (4,522)            | (5,540)                      | -                               | (5,540)            |
| <b>TOTAL INVESTMENTS</b>               |      | <b>1,467,294</b>             | <b>88,657</b>                   | <b>1,555,951</b>   | <b>1,522,966</b>             | <b>79,953</b>                   | <b>1,602,919</b>   |
| <b>CURRENT ASSETS</b>                  | 13   | <b>5,680</b>                 | <b>2,632</b>                    | <b>8,312</b>       | <b>6,857</b>                 | <b>967</b>                      | <b>7,824</b>       |
| <b>CURRENT LIABILITIES</b>             | 14   | <b>(7,937)</b>               | <b>(188)</b>                    | <b>(8,125)</b>     | <b>(8,092)</b>               | <b>(78)</b>                     | <b>(8,170)</b>     |
| <b>TOTAL NET ASSETS AT 31 DECEMBER</b> |      | <b>1,465,037</b>             | <b>91,101</b>                   | <b>1,556,138</b>   | <b>1,521,731</b>             | <b>80,842</b>                   | <b>1,602,573</b>   |

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities included on page 6 and these Financial Statements should be read in conjunction with that Report.

The notes on pages 28 to 45 form an integral part of these financial statements.

These financial statements were approved by the Trustee on 27 June 2019 and were signed on its behalf by:

  
Trustee Director

  
Trustee Director

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### NOTES TO THE FINANCIAL STATEMENTS

#### 1 GENERAL INFORMATION

The MRC Pension Scheme is a defined benefit pension scheme. The Scheme comprises two sections. The Universities Section was set up on 1 January 2014 and is funded alongside the Principal Section. The Scheme is registered in UK at 2nd Floor, David Phillips Building, Polaris House, North Star Avenue, Swindon, SN2 1FL.

#### 2 BASIS OF PREPARATION

The individual financial statements of MRC Pension Scheme have been prepared, on a going concern basis, in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised November 2014) ("the SORP").

In June 2018, a revised SORP was issued which is applicable to accounting periods commencing on or after 1 January 2019. The Trustee does not anticipate that the adoption of the revised SORP will have a material impact on the financial statements, however it will require certain additions to or amendments of disclosures in the financial statements.

#### 3 ACCOUNTING POLICIES

The following principal accounting policies have been adopted and consistently applied in the preparation of the financial statements.

##### 3.1 Accruals concept

The financial statements have been prepared on an accruals basis.

##### 3.2 Currency

The Scheme's functional currency and presentational currency is pounds sterling (GBP).

Foreign currency transactions are translated into sterling at the rate prevailing on the date of the transaction.

The market value of investments and other assets held and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the year end.

Differences arising on the translation or conversion of investments are included in changes in market value. Difference arising on the translation or conversion of cash are included in the investment income.

##### 3.3 Contributions

Contributions are accounted for in the period in which they fall due.

Employee contributions, including AVCs and added years' contributions, are accounted for when deducted from member's pay, with the exception of contributions deducted from auto-enrolled members during the opt-out period, which are accounted for on the earlier of receipt or the expiry of the opt-out period. Employer normal contributions are accounted for on the same basis as employee contributions, save where contributions are paid in advance, in which case they are accounted for on a receipts basis.

Augmentations relate to the cost of augmenting benefits of certain retiring members, as advised by the Actuary, and are accounted for in accordance with the agreement under which they are paid.

Employer additional contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, on a cash basis.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 3.4 Benefits

Benefits are accounted for in the period in which they fall due.

Where a member has a choice about the form of their benefit, the benefit is accounted for when the member notifies the Trustee of what form of benefit they will take. Where a member has no choice about the form of benefit, the benefit is accounted for in the period of when the liability arises.

Opt-outs are accounted for when the Scheme is notified of the opt-out.

Where the Trustee is required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the Scheme, any taxation due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within benefits.

Pensions in payment are accounted for in the period to which they relate.

#### 3.5 Transfers to and from other schemes

Transfer values have been included in the financial statements when received and paid. They do not take account of members who have notified the Scheme of their intention to transfer.

Individual transfer values to and from other pension arrangements represents the amounts received and paid during the year for members who either joined or left the Scheme and are accounted for when a member exercises their option to transfer their benefit.

#### 3.6 Valuation of investments

Investments are valued at fair value.

The majority of listed investments are stated at the bid price at the date of the Statement of Net Assets.

Listed investments are stated at bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the statement of net assets.

Fixed interest and index linked securities are stated at their clean prices. Accrued income is accounted for separately within investments.

Pooled Investment Vehicles are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads, as provided by the investment manager.

Unquoted private equity unit trust investments have been valued at the closing value as at the accounting date, as advised by the investment managers.

AVC investments are held in insurance policies and are valued at the closing surrender value of the policies as at the accounting date, as advised by the AVC providers.

Properties are recorded at the cost of the property at the time of purchase, including any capitalised stamp duty paid. Purchases also include subsequent capitalised improvement costs. Properties are subsequently revalued every year on an open market value basis. The properties were valued in compliance with RICS on 31 December 2018 by CB Richard Ellis Valuation Advisors who are members of The Institute of Chartered Surveyors. Their registered address is St Martins Court, 10 Paternoster Row, London, EC4M 7HP.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.

The Trustee does not hold annuity policies in the name of the Trustee within the Scheme.

Each investment manager has a separate fee agreement. These fees are accounted for on an accruals basis.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 3.7 Investment income

Investment income is recognised as follows:

Dividend income from equity shares is recognised when the Scheme becomes entitled to the dividend. In the case of UK quoted shares this will be from the ex-dividend date.

Income from Bonds is accounted for on an accruals basis. Interest purchased and sold on investment transactions is recognised as income in the Fund account.

Rents are earned in accordance with the terms of the lease.

Income from cash deposits is accrued on a daily basis.

Investment income is reported net of attributable tax credits, but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.

Investment Income arising from the underlying investments of the pooled investment vehicles is rolled up and either reinvested within the pooled investment vehicles and therefore is reflected in the unit price and reported within change in market value of investments, or, as agreed by the Investment Committee and on the advice of Buck, is paid into the Scheme bank account for cashflow purposes and accounted for on an accruals basis when declared.

#### 3.8 Expenses

Administrative expenses, insurance premiums and investment expenses are accounted for on an accruals basis.

### 4 CONTRIBUTIONS

|                                    | Principal<br>Section 2018<br>£000 | Universities<br>Section 2018<br>£000 | Total 2018<br>£000 | Principal<br>Section 2017<br>£000 | Universities<br>Section 2017<br>£000 | Total 2017<br>£000 |
|------------------------------------|-----------------------------------|--------------------------------------|--------------------|-----------------------------------|--------------------------------------|--------------------|
| <b>Employers' Contributions</b>    |                                   |                                      |                    |                                   |                                      |                    |
| Normal contributions               | 8,285                             | 11,164                               | 19,449             | 9,243                             | 8,999                                | 18,242             |
| Augmentations                      | 296                               | -                                    | 296                | 1,691                             | -                                    | 1,691              |
| Additional contributions           | 6,000                             | -                                    | 6,000              | 5,000                             | -                                    | 5,000              |
| <b>Members' Contributions</b>      |                                   |                                      |                    |                                   |                                      |                    |
| Normal contributions               | 3,591                             | 1,915                                | 5,506              | 4,215                             | 1,738                                | 5,953              |
| Additional voluntary contributions | 137                               | -                                    | 137                | 148                               | -                                    | 148                |
| Added years                        | 195                               | 111                                  | 306                | 236                               | 143                                  | 379                |
|                                    | <b>18,504</b>                     | <b>13,190</b>                        | <b>31,694</b>      | <b>20,533</b>                     | <b>10,880</b>                        | <b>31,413</b>      |

MRC paid additional Employer contributions of £6m in March 2018 and £1.25m in March 2019 towards the cashflow of the Principal Section. MRC paid £1.25m to the Universities Section in March 2018, £1.87m in July 2018, £1.83m in October 2018, £1.58m in January 2019 and £1.5m in April 2019, and will continue to pay amounts quarterly, to meet the requirements of the Schedule of Contributions. These amounts are included within Employers' normal contributions.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 5 BENEFITS

|  | Principal<br>Section 2018<br>£000 | Universities<br>Section 2018<br>£000 | Total 2018<br>£000 | Principal<br>Section 2017<br>£000 | Universities<br>Section 2017<br>£000 | Total 2017<br>£000 |
|--|-----------------------------------|--------------------------------------|--------------------|-----------------------------------|--------------------------------------|--------------------|
| Pension payments                                 | 34,066                            | 136                                  | 34,202             | 32,929                            | 81                                   | 33,010             |
| Commutations and lump sum<br>retirement benefits | 4,942                             | 332                                  | 5,274              | 5,666                             | 73                                   | 5,739              |
| Lump sums on death                               | 24                                | -                                    | 24                 | 629                               | -                                    | 629                |
| Tax paid*  | 113                               | -                                    | 113                | 50                                | -                                    | 50                 |
|  | <b>39,145</b>                     | <b>468</b>                           | <b>39,613</b>      | <b>39,274</b>                     | <b>154</b>                           | <b>39,428</b>      |

\*Taxation may arise on benefits paid or payable in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

#### 6 TRANSFERS OUT

|  | Principal<br>Section 2018<br>£000 | Universities<br>Section 2018<br>£000 | Total 2018<br>£000 | Principal<br>Section 2017<br>£000 | Universities<br>Section 2017<br>£000 | Total 2017<br>£000 |
|--|-----------------------------------|--------------------------------------|--------------------|-----------------------------------|--------------------------------------|--------------------|
| Individual transfers out to other<br>schemes | 649                               | 19                                   | 668                | 560                               | -                                    | 560                |

#### 7 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

|                                       | Principal<br>Section 2018<br>£000 | Universities<br>Section 2018<br>£000 | Total 2018<br>£000 | Principal<br>Section 2017<br>£000 | Universities<br>Section 2017<br>£000 | Total 2017<br>£000 |
|---------------------------------------|-----------------------------------|--------------------------------------|--------------------|-----------------------------------|--------------------------------------|--------------------|
| State scheme payments                 | 2                                 | -                                    | 2                  | 25                                | -                                    | 25                 |
| Refunds to members leaving<br>service | 125                               | -                                    | 125                | 153                               | -                                    | 153                |
|                                       | <b>127</b>                        | <b>-</b>                             | <b>127</b>         | <b>178</b>                        | <b>-</b>                             | <b>178</b>         |



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 8 ADMINISTRATIVE EXPENSES

|                               | Principal<br>Section 2018<br>£000 | Universities<br>Section 2018<br>£000 | Total 2018<br>£000 | Principal<br>Section 2017<br>£000 | Universities<br>Section 2017<br>£000 | Total 2017<br>£000 |
|-------------------------------|-----------------------------------|--------------------------------------|--------------------|-----------------------------------|--------------------------------------|--------------------|
| Administration and processing | 749                               | 33                                   | 782                | 768                               | 33                                   | 801                |
| MRC head office recharge      | 108                               | -                                    | 108                | 92                                | -                                    | 92                 |
| Actuarial fees                | 43                                | -                                    | 43                 | 142                               | -                                    | 142                |
| External audit fee            | 60                                | -                                    | 60                 | 59                                | -                                    | 59                 |
| Tax services                  | 5                                 | -                                    | 5                  | 4                                 | -                                    | 4                  |
| Legal fees                    | 90                                | -                                    | 90                 | 99                                | -                                    | 99                 |
| Regulatory fees               | 743                               | 4                                    | 747                | 737                               | 2                                    | 739                |
| Trustee fees and expenses     | 79                                | -                                    | 79                 | 55                                | -                                    | 55                 |
| Internal audit fees           | 64                                | -                                    | 64                 | 45                                | -                                    | 45                 |
| Communication costs           | 51                                | -                                    | 51                 | 16                                | -                                    | 16                 |
| Other expenses                | 6                                 | -                                    | 6                  | 5                                 | -                                    | 5                  |
|                               | <b>1,998</b>                      | <b>37</b>                            | <b>2,035</b>       | <b>2,022</b>                      | <b>35</b>                            | <b>2,057</b>       |

Administrative expenses are only recognised in the Universities Section where these expenses are specifically invoiced to that section.

#### 9 INVESTMENT INCOME

|  | Principal<br>Section 2018<br>£000 | Universities<br>Section 2018<br>£000 | Total 2018<br>£000 | Principal<br>Section 2017<br>£000 | Universities<br>Section 2017<br>£000 | Total 2017<br>£000 |
|--|-----------------------------------|--------------------------------------|--------------------|-----------------------------------|--------------------------------------|--------------------|
| Dividends from equities                | 9,656                             | 188                                  | 9,844              | 8,310                             | -                                    | 8,310              |
| Income from bonds                      | 3,212                             | -                                    | 3,212              | 3,039                             | -                                    | 3,039              |
| Income from pooled investment vehicles | 19,693                            | 216                                  | 19,909             | 21,979                            | 183                                  | 22,162             |
| Rental income                          | 11,211                            | -                                    | 11,211             | 10,488                            | -                                    | 10,488             |
| Interest on cash deposits              | 111                               | 20                                   | 131                | 18                                | -                                    | 18                 |
| Foreign currency (loss)/gain           | (310)                             | -                                    | (310)              | (138)                             | -                                    | (138)              |
|  | <b>43,573</b>                     | <b>424</b>                           | <b>43,997</b>      | <b>43,696</b>                     | <b>183</b>                           | <b>43,879</b>      |

Included within dividends from equities is overseas investment income which has been stated gross of withholding taxes totalling £110k (2017: £49k). This represents irrecoverable withholding taxes which have been reported under 'Taxation' within the Fund Account.

#### 10 INVESTMENT MANAGEMENT EXPENSES

|                                      | Principal<br>Section 2018<br>£000 | Universities<br>Section 2018<br>£000 | Total 2018<br>£000 | Principal<br>Section 2017<br>£000 | Universities<br>Section 2017<br>£000 | Total 2017<br>£000 |
|--------------------------------------|-----------------------------------|--------------------------------------|--------------------|-----------------------------------|--------------------------------------|--------------------|
| Administration, management & custody | 5,011                             | 244                                  | 5,255              | 4,643                             | 156                                  | 4,799              |
| Performance measurement              | 251                               | -                                    | 251                | 125                               | -                                    | 125                |
| Non-recoverable property expenses    | 1,567                             | -                                    | 1,567              | 2,266                             | -                                    | 2,266              |
| VAT recovered                        | (315)                             | -                                    | (315)              | (367)                             | -                                    | (367)              |
|                                      | <b>6,514</b>                      | <b>244</b>                           | <b>6,758</b>       | <b>6,667</b>                      | <b>156</b>                           | <b>6,823</b>       |

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11 INVESTMENTS

##### 11.1 RECONCILIATION OF INVESTMENTS – PRINCIPAL SECTION

Reconciliation of investments held at beginning and end of year:

|                              | Value at<br>01 January<br>2018 | Purchases at<br>Cost and<br>Derivative<br>payments | Sales<br>Proceeds and<br>Derivative<br>receipts | Change in<br>market value | Value at<br>31 December<br>2018 |
|------------------------------|--------------------------------|--|---|---------------------------|---------------------------------|
|                              | £000                           | £000   | £000  | £000                      | £000                            |
| Equities                     | 451,304                        | 366,779  | (381,539)                                       | (27,064)                  | 409,480                         |
| Bonds                        | 114,408                        | 60,084   | (48,542)  | (3,920)                   | 122,030                         |
| Pooled investment vehicles   | 747,184                        | 167,629  | (158,275)                                       | (47,063)                  | 709,475                         |
| Property                     | 177,555                        | 20,944   | (20,958)  | 7,934                     | 185,475                         |
| Derivatives - net            | 18                             | 16,079   | (16,191)  | 33                        | (61)                            |
| AVC investments              | 2,226                          | 137  | (89)  | (148)                     | 2,126                           |
|                              | <u>1,492,695</u>               | <u>631,652</u>                                     | <u>(625,594)</u>                                | <u>(70,228)</u>           | <u>1,428,525</u>                |
| Cash deposits                | 28,506                         |  |   |                           | 34,546                          |
| Accrued Income               | 4,557                          |  |   |                           | 6,615                           |
| Property debtors             | 1,900                          |  |   |                           | 1,999                           |
| Other investment assets      | 848                            |  |   |                           | 131                             |
| Property creditors           | (3,302)                        |  |   |                           | (4,522)                         |
| Other investment liabilities | (2,238)                        |  |   |                           | -                               |
|                              | <u>1,522,966</u>               |  |   |                           | <u>1,467,294</u>                |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The liquidity of the underlying investments of the Scheme varies across asset classes and according to market conditions. For example, the property portfolio is, by its nature, less liquid than the equity holdings. Where the investments are held in pooled vehicles, contract terms can also restrict realisation. The exceptions are investments held in the alternatives portfolio, where some specialist investment managers have an initial lock up on money of up to three years, with liquidity thereafter occurring only on specific monthly, quarterly or annual dates.

During the year the Scheme maintained its holdings of private equity and infrastructure. By 31 December 2018, the Scheme held private equity and infrastructure investments with Partners Group of £28,722k (2017: £16,638k); private equity investments with BlackRock of £132k (2017: £125k), Hg Capital of £23,794k (2017: £29,234k), private debt with Ares of £5,063k (2017: £nil) and infrastructure with Infracapital of £48,151k (2017: £26,021k). These holdings total 6.8% (2017: 4.5%) of the Scheme's net assets.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11.2 RECONCILIATION OF INVESTMENTS – UNIVERSITIES SECTION

|                            | Value at<br>01 January<br>2018 | Purchases at<br>Cost and<br>Derivative<br>payments | Sales<br>Proceeds and<br>Derivative<br>receipts | Change in<br>market value | Value at<br>31 December<br>2018 |
|----------------------------|--------------------------------|--|---|---------------------------|---------------------------------|
|                            | £000                           | £000   | £000  | £000                      | £000                            |
| Equities                   | -                              | 19,548   | (2,254)   | (1,320)                   | 15,974                          |
| Pooled Investment Vehicles | 79,953                         | 9,351  | (15,600)  | (1,267)                   | 72,437                          |
|                            | <b>79,953</b>                  | <b>28,899</b>                                      | <b>(17,854)</b>                                 | <b>(2,587)</b>            | <b>88,411</b>                   |
| Cash                       | -                              |  |   |                           | 231                             |
| Accrued income             | -                              |  |   |                           | 15                              |
|                            | <b>79,953</b>                  |  |   |                           | <b>88,657</b>                   |

#### 11.3 CONCENTRATION OF INVESTMENTS

The following assets account for more than 5% of the Scheme's net assets at 31 December 2018

|                                    | 2018<br>£000 | 2018<br>% | 2017<br>£000 | 2017<br>% |
|------------------------------------|--------------|-----------|--------------|-----------|
| L&G FTSE All-Share ex Tob Equ Ind  | 129,215      | 8.3       | 145,029      | 9.0       |
| Aviva Lime Property Fund           | 85,744       | 5.5       | 60,037       | 3.7       |
| L&G Europe (Ex-UK) Index – Hedged  | 72,323       | 4.6       | 98,147       | 6.1       |
| Morgan Stanley Global Equity index | 81,107       | 5.2       | 91,686       | 5.7       |

#### 11.4 TRANSACTION COSTS

Included within the purchases and sales figures are direct transaction costs of £2,043,000 (2017: £2,116,000). Direct transaction costs incurred are analysed below:

|          | Fees       | Commission | Stamp Duty | Total<br>2018 | Total<br>2017 |
|----------|------------|------------|------------|---------------|---------------|
|          | £000       | £000       | £000       | £000          | £000          |
| Equities | 379        | 206        | 15         | 600           | 614           |
| Property | 478        | -          | 965        | 1,443         | 1,502         |
|          | <b>857</b> | <b>206</b> | <b>980</b> | <b>2,043</b>  | <b>2,116</b>  |

There are no direct transaction costs associated with Bonds trading in either section as these are accounted for by a price adjustment. Costs are also borne by the Scheme in relation to transactions in pooled investment vehicles. These are accounted for by an adjustment of the bid/offer spread of units. It has not been possible for the Trustee to quantify such indirect transaction costs.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### Details of investments held at year end

#### 11.5 PROPERTY

|                       | 2018<br>£000   | 2017<br>£000   |
|-----------------------|----------------|----------------|
| UK freehold property  | 147,680        | 162,030        |
| UK leasehold property | 37,795         | 15,525         |
|                       | <b>185,475</b> | <b>177,555</b> |

During the year the Scheme purchased industrial warehouses in Bedford for £7,150,000, Monkton for £6,450,000 and Witney for £5,900,000 and sold a retail unit in Norwich for £1,750,930, and office buildings in Glasgow for £12,850,000 and Dalston for £6,000,000.

The properties are stated at open market value determined by CBRE Ltd, a member of the Royal Institute of Chartered Surveyors, which is independent of the Trustee and Employer, and who have experience in the areas in which the properties are located. Valuations are performed as at 31 December each year. The principal assumptions on which the valuations are based are rental income from the current tenants, the remaining term of current leases and market rents by area for the locations in which the properties are based.

#### 11.6 POOLED INVESTMENT VEHICLES

|                | Principal<br>Section 2018<br>£000 | Universities<br>Section 2018<br>£000 | Total 2018<br>£000 | Principal<br>Section 2017<br>£000 | Universities<br>Section 2017<br>£000 | Total 2017<br>£000 |
|----------------|-----------------------------------|--------------------------------------|--------------------|-----------------------------------|--------------------------------------|--------------------|
| Equity         | 381,585                           | -                                    | 381,585            | 457,567                           | -                                    | 457,567            |
| Bonds          | 7,264                             | 72,437                               | 79,701             | 63,784                            | 79,953                               | 143,737            |
| Private equity | 52,648                            | -                                    | 52,648             | 45,997                            | -                                    | 45,997             |
| Private debt   | 5,063                             | -                                    | 5,063              | -                                 | -                                    | -                  |
| Infrastructure | 48,151                            | -                                    | 48,151             | 26,021                            | -                                    | 26,021             |
| Property       | 180,762                           | -                                    | 180,762            | 153,815                           | -                                    | 153,815            |
| Cash fund      | 34,002                            | -                                    | 34,002             | -                                 | -                                    | -                  |
|                | <b>709,475</b>                    | <b>72,437</b>                        | <b>781,912</b>     | <b>747,184</b>                    | <b>79,953</b>                        | <b>827,137</b>     |

#### 11.7 DERIVATIVES

The Trustee has authorised the use of derivatives by their investment managers as part of their investment strategy for the Scheme.

|                          | 2018<br>Assets<br>£000 | 2018<br>Liabilities<br>£000 | 2017<br>Assets<br>£000 | 2017<br>Liabilities<br>£000 |
|--------------------------|------------------------|-----------------------------|------------------------|-----------------------------|
| Forward foreign exchange | 1                      | (62)                        | 18                     | -                           |

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11.8 DERIVATIVE CONTRACTS OUTSTANDING

##### Forward Foreign Exchange Contracts

The Scheme enters into Forward Foreign Exchange contracts to hedge against future currency fluctuations with regard to the holdings in foreign currencies.

| Contract      | Settlement Date | Currency Bought<br>'000 | Currency Sold<br>'000 | 2018<br>Asset<br>£000 | 2018<br>Liability<br>£000 |
|---------------|-----------------|-------------------------|-----------------------|-----------------------|---------------------------|
| Forward (OTC) | 1 March 2019    | GBP1,807                | JPY 166,755           | -                     | (55)                      |
| Forward (OTC) | 1 March 2019    | GBP 2,064               | USD 2,635             | -                     | (7)                       |
| Forward (OTC) | 2 Jan 2019      | GBP 125                 | HKD 1,238             | 1                     | -                         |
|               |                 |                         |                       | <u>1</u>              | <u>(62)</u>               |

| Contract      | Settlement Date | Currency Bought<br>'000 | Currency Sold<br>'000 | 2017<br>Asset<br>£000 | 2017<br>Liability<br>£000 |
|---------------|-----------------|-------------------------|-----------------------|-----------------------|---------------------------|
| Forward (OTC) | 8 March 2018    | GBP1,691                | JPY 257,359           | 14                    | -                         |
| Forward (OTC) | 8 March 2018    | GBP 876                 | USD 1,188             | 4                     | -                         |
|               |                 |                         |                       | <u>18</u>             | <u>-</u>                  |

#### 11.9 AVC INVESTMENTS

The Trustee holds assets which are separately invested from the main fund to secure additional benefits on a money purchase basis for those members who have elected to pay Additional Voluntary Contributions.

Members participating in this arrangement receive an annual statement made up to 31 December each year, confirming the amounts held to their account and movements during the year.

The amount of AVC investments held at the year-end are as follows:

|                | 2018<br>£000 | 2017<br>£000 |
|----------------|--------------|--------------|
| Equitable Life |              |              |
| – with profits | 146          | 140          |
| – unit trusts  | 328          | 351          |
| Standard Life  |              |              |
| – with profits | 64           | 62           |
| – unit trusts  | 1,588        | 1,673        |
|                | <u>2,126</u> | <u>2,226</u> |

#### 11.10 CASH DEPOSITS

|               | 2018<br>£000  | 2017<br>£000  |
|---------------|---------------|---------------|
| UK Cash       | 33,347        | 27,663        |
| Overseas Cash | 1,199         | 843           |
|               | <u>34,546</u> | <u>28,506</u> |

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11.11 FAIR VALUE HIERARCHY

In March 2016, an amendment was made to FRS 102 revising the fair value disclosure requirements for retirement benefit schemes. This amendment applies for accounting periods commencing 1 January 2017 as set out below:

|         |   |
|---------|---|
| Level 1 | The unadjusted quoted price for an identical asset in an active market  |
| Level 2 | Inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly |
| Level 3 | Inputs are unobservable for the asset or liability  |

For the purposes of this analysis daily priced funds have been included in Level 1, weekly priced funds in Level 2, and monthly net asset values for Private Equity funds in Level 3.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

| Principal Section               | Level 1        | Level 2        | Level 3        | Total<br>2018    |
|---------------------------------|----------------|----------------|----------------|------------------|
|                                 | £000           | £000           | £000           | £000             |
| Bonds                           | 122,030        | -              | -              | 122,030          |
| Equities                        | 409,480        | -              | -              | 409,480          |
| Pooled investment vehicles      | -              | 422,851        | 286,624        | 709,475          |
| Property                        | -              | -              | 185,475        | 185,475          |
| Derivatives – net               | -              | (61)           | -              | (61)             |
| AVC investments                 | -              | 1,916          | 210            | 2,126            |
| Cash                            | 34,546         | -              | -              | 34,546           |
| Other investment balances - net | 4,223          | -              | -              | 4,223            |
|                                 | <b>570,279</b> | <b>424,706</b> | <b>472,309</b> | <b>1,467,294</b> |

The SORP also requires analysis of direct property by category in paragraph 11.27 of FRS102. Direct property included above is included at a fair value determined by a valuation technique (category c) as explained in note 11.5.

| Universities Section       | Level 1       | Level 2       | Level 3  | Total<br>2018 |
|----------------------------|---------------|---------------|----------|---------------|
|                            | £000          | £000          | £000     | £000          |
| Equities                   | 15,974        | -             | -        | 15,974        |
| Pooled investment vehicles | -             | 72,437        | -        | 72,437        |
| Cash and accrued income    | 246           | -             | -        | 246           |
|                            | <b>16,220</b> | <b>72,437</b> | <b>-</b> | <b>88,657</b> |

| Principal Section               | Level 1        | Level 2        | Level 3        | Total<br>2017    |
|---------------------------------|----------------|----------------|----------------|------------------|
|                                 | £000           | £000           | £000           | £000             |
| Bonds                           | 114,054        | 354            | -              | 114,408          |
| Equities                        | 451,304        | -              | -              | 451,304          |
| Pooled investment vehicles      | -              | 521,350        | 225,834        | 747,184          |
| Property                        | -              | -              | 177,555        | 177,555          |
| Derivatives – net               | -              | 18             | -              | 18               |
| AVC investments                 | -              | 2,226          | -              | 2,226            |
| Cash                            | 28,506         | -              | -              | 28,506           |
| Other investment balances - net | 1,765          | -              | -              | 1,765            |
|                                 | <b>595,629</b> | <b>523,948</b> | <b>403,389</b> | <b>1,522,966</b> |



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

| Universities Section       | Level 1 | Level 2 | Level 3 | Total<br>2017 |
|----------------------------|---------|---------|---------|---------------|
|                            | £000    | £000    | £000    | £000          |
| Pooled investment vehicles | -       | 79,953  | -       | 79,953        |

#### 11.12 INVESTMENT RISKS

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

**Credit risk:** this 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.

**Market risk:** this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustee's Report. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment manager agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolios.

Further information on the Trustee's approach to risk management and the Scheme's exposure to credit and market risks is set out below. This does not include AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### (i) Credit Risk

The Scheme is subject to credit risk because of the direct investments in bonds and has cash balances through its segregated mandates. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in respect of the pooled fund units held and indirectly exposed to credit risks from the underlying assets held within the pooled funds.

**Direct credit risk** is mitigated either by the underlying assets of the pooled arrangements being ring-fenced from the assets of the investment manager or, in the case of insurance policies, by capital requirements and the Prudential Regulatory Authority's regulatory oversight. The table below sets out the types of pooled fund and segregated mandates used within the Scheme.

#### Principal Section:

| Investment Manager | Fund/Portfolio name                                    | Fund type                               |
|--------------------|--|---|
| LGIM               | UK Equity (ex-Tobacco) Index Fund                      | Unit-Linked Insurance Policy            |
|                    | North America Equity Index Fund – GBP Hedged           | Unit-Linked Insurance Policy            |
|                    | Europe (ex UK) Equity Index Fund – GBP Hedged          | Unit-Linked Insurance Policy            |
|                    | Japan Equity Index Fund – GBP Hedged                   | Unit-Linked Insurance Policy            |
| Invesco            | Global Equity Income Segregated Portfolio              | Segregated Portfolio                    |
| Liontrust          | UK Equity Segregated Portfolio                         | Segregated Portfolio                    |
| Baillie Gifford    | Global Alpha Equity Segregated Portfolio               | Segregated Portfolio                    |
| Nuveen Real Estate | Segregated Property Portfolio (and Pooled Investments) | Segregated Portfolio                    |
| Morgan Stanley     | Emerging Markets Offshore Fund                         | Open-Ended Fund Structure               |
| RLAM               | Segregated Bond Portfolio                              | Segregated Portfolio                    |
| BlackRock          | Private Equity (Vesey Street)                          | Closed-Ended LP structure               |
| First State        | Segregated Asia Pacific Equity Portfolio               | Segregated Portfolio                    |
| Hg                 | Hg5, Hg6, Hg7, Hg8, Saturn, Mercury 1 and Mercury 2    | Limited Partnership                     |
| Partners Group     | Global Value 2011                                      | Closed-Ended LP structure               |
|                    | Direct Infrastructure 2015                             | Closed-Ended LP structure               |
|                    | Global Value 2017                                      | Closed-Ended LP structure               |
| Aviva              | Lime Property Fund Unit Trust                          | Jersey Property Unit Trust              |
| M&G                | M&G Secured Property Income Fund                       | Open Ended Collective Investment Scheme |
| GAM                | Absolute Return Bond Defender Fund                     | Open Ended Investment Company ("OEIC")  |
|                    | Absolute Return Bond Fund                              | Open Ended Investment Company ("OEIC")  |
| Infracapital       | Partners II  | English Limited Partnership (AIF)       |
|                    | Greenfield Partners I                                  | English Limited Partnership (AIF)       |
|                    | Partners III   | English Limited Partnership (AIF)       |
| Ares               | Ares Capital Europe IV                                 | Limited Partnership                     |

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### Universities Section

| Investment Manager | Fund name                                | Fund type                      |
|--------------------|--|--------------------------------|
| RLAM               | Index Linked                             | Unit-Linked Insurance Contract |
|                    | UK Long Corporate Bond                   | Unit-Linked Insurance Contract |
| Baillie Gifford    | Global Alpha Equity Segregated Portfolio | Segregated Portfolio           |

In addition, investments are made only with suitably regulated investment managers. The Trustee carries out due diligence checks when appointing new investment managers to ensure the credit risk to which the Scheme will be exposed through the appointment is appropriate. The auditor is also authorised to carry out any checks required on this as part of the audit process.

**Indirect credit risk** arises primarily through the bond assets held and is mitigated by the use of suitably diversified segregated mandates and pooled funds, and by some of these investments being held in investment-grade bonds.

The key sources of credit risk at year-end are set out below – all of these funds are treated as being 100% exposed to indirect credit risk:

#### Principal Section

| Source of credit risk                              | Exposure at start of year (£'000) | Exposure at end of year (£'000) | % of section's net assets at year end |
|--|-----------------------------------|---------------------------------|---------------------------------------|
| RLAM Corporate Bonds (direct, segregated)          | 58,852                            | 70,155                          | 4.8                                   |
| RLAM Index-Linked Gilts (direct, segregated)       | 55,555                            | 51,875                          | 3.5                                   |
| RLAM Sterling Extra Yield Bonds (indirect, pooled) | 3,558                             | 3,612                           | 0.2                                   |
| GAM Absolute Return Bonds (indirect, pooled)       | 60,226                            | 3,652                           | 0.2                                   |

#### Universities Section

| Source of credit risk                      | Exposure at start of year (£'000) | Exposure at end of year (£'000) | % of section's net assets at year end |
|--|-----------------------------------|---------------------------------|---------------------------------------|
| RLAM UK Corporate Bonds (indirect, pooled) | 19,582                            | 21,134                          | 23.2                                  |
| RLAM Index Linked Bonds (indirect, pooled) | 60,371                            | 51,303                          | 56.3                                  |

The corporate bond allocations in the Principal Section and University Section listed above invest predominantly in investment grade assets, whilst the RLAM Sterling Extra Yield Bond Fund (an allocation within RLAM's Segregated Bond Portfolio) invests mainly in sub-investment grade or unrated bonds and GAM's Absolute Return Bond Funds invest in a wide range of corporate and government bonds, and derivative instruments.

In the past, UK government bonds were assumed to be risk-free. However, since the credit worthiness was downgraded to AA from AAA, we have now included this in the tables above, even though it is widely accepted that UK government bonds are still deemed to be broadly risk-free.

The return expected from all of the above assets is believed to be sufficient to compensate for the level of credit risk involved.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### (ii) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

#### Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Scheme is subject to currency risk as a number of the underlying investments held through its segregated mandates and pooled fund arrangements are held in non-Sterling denominated securities. Currency hedging is applied at the total pooled fund level for some of the Scheme's holdings. The Trustee actively hedges some of the currency exposure within its passive regional equity funds; however no overall currency overlay applies.

The net unhedged exposures (after allowing for this hedging) at the year-end are:

#### Principal Section

| Source of currency risk | USD exposure (£'000) | EUR exposure (£'000) | JPY exposure (£'000) | Other exposures (£'000) | Total non-sterling exposure at 2018 (£'000) | Total non-sterling exposure at 2017 (£'000) |
|-------------------------|----------------------|----------------------|----------------------|-------------------------|---|---|
| Segregated equities     | 104,163              | 32,218               | 21,383               | 119,355                 | 277,119                                     | 278,595                                     |
| Pooled equities         | 81,107               | -                    | -                    | -                       | 81,107                                      | 144,699                                     |
| Pooled private equity   | 8,404                | 18,458               | -                    | 5,272                   | 32,134                                      | 23,434                                      |
| Pooled private debt     | -                    | 960                  | -                    | -                       | 960   | -   |
| Pooled infrastructure   | 9,912                | 1,076                | -                    | 340                     | 11,328                                      | 7,241                                       |
| <b>Total Scheme</b>     | <b>203,586</b>       | <b>52,712</b>        | <b>21,383</b>        | <b>124,967</b>          | <b>402,648</b>                              | <b>453,969</b>                              |

#### University Section

| Source of currency risk | USD exposure (£'000) | EUR exposure (£'000) | JPY exposure (£'000) | Other exposures (£'000) | Total non-sterling exposure at 2018 (£'000) | Total non-sterling exposure at 2017 (£'000) |
|-------------------------|----------------------|----------------------|----------------------|-------------------------|---|---|
| Segregated equities     | 9,429                | 1,421                | 1,195                | 3,102                   | 15,147                                      | -   |
| <b>Total Scheme</b>     | <b>9,429</b>         | <b>1,421</b>         | <b>1,195</b>         | <b>3,102</b>            | <b>15,147</b>                               | <b>-</b>                                    |

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### (iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Scheme is primarily subject to interest rate risk from the bond assets which it holds through its segregated mandate and pooled fund arrangements. This includes the use of gilts, corporate bonds and swaps to obtain interest rate exposure. The Scheme may also have some interest rate risk through its GAM Absolute Return Bond pooled fund investments. This has not been included below due to the nature of the vehicle and the varying degree of interest rate exposure at any one point in time (i.e. typically these funds are duration neutral).

The assets which are exposed to interest rate risk are primarily being held in order to offset the interest rate risks to which the Scheme would otherwise be exposed through its liabilities, as well as acting as a diversified asset class to equities. As such, these assets are viewed as risk-reducing for the Scheme overall.

The key sources of interest rate risk are set out below:

#### Principal Section

| Source of interest rate risk             | Exposure at start of year (£'000) | Exposure at end of year (£'000) | % of section's net assets at year end |
|--|-----------------------------------|---------------------------------|---------------------------------------|
| RLAM Index-Linked Gilts (segregated)     | 55,555                            | 51,875                          | 3.5                                   |
| RLAM Corporate Bonds (segregated)        | 58,852                            | 70,155                          | 4.8                                   |
| RLAM Sterling Extra Yield Bonds (pooled) | 3,558                             | 3,612                           | 0.2                                   |

#### Universities Section

| Source of interest rate risk     | Exposure at start of year (£'000) | Exposure at end of year (£'000) | % of section's net assets at year end |
|----------------------------------|-----------------------------------|---------------------------------|---------------------------------------|
| RLAM Index Linked Bonds (pooled) | 60,371                            | 51,303                          | 56.3                                  |
| RLAM UK Corporate Bonds (pooled) | 19,582                            | 21,134                          | 23.2                                  |

#### (iv) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk, whether those changes are caused by factors specific to the financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme is subject to other price risks (directly and indirectly) in relation to the equities and other assets held through its segregated mandates and pooled funds arrangements. This risk is managed through the Scheme's chosen investment strategy, by giving appropriate consideration to the size of the allocations to make to these types of investments. It is also managed through using segregated and pooled funds which invest in a suitably diversified manner, or which, when combined into the overall portfolio, provide this suitable level of diversification.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The key sources of other price risk are listed below.

#### Principal Section

| Source of other price risk             | Exposure at start of year (£'000) | Exposure at end of year (£'000) | % of section's net assets at year end |
|--|-----------------------------------|---------------------------------|---------------------------------------|
| Equity segregated investments          | 451,304                           | 409,480                         | 27.9                                  |
| Equity pooled fund investments         | 457,567                           | 381,585                         | 26.0                                  |
| Property segregated investments        | 177,555                           | 185,475                         | 12.7                                  |
| Property pooled fund investments       | 153,815                           | 180,762                         | 12.3                                  |
| Infrastructure pooled fund investments | 26,021                            | 48,151                          | 3.3                                   |
| Private equity pooled fund investments | 45,997                            | 52,648                          | 3.6                                   |
| Private debt pooled fund investments   | -                                 | 5,063                           | 0.3                                   |

The University Section is invested in UK government and corporate bonds via pooled investment vehicles and global equities therefore there is other price risk with respect to the global equities of £15,974 (2016: £nil).

#### 12 TAX

The MRC Pension Scheme is a registered pension scheme for tax purposes under the Finance Act 2004. The Scheme is therefore exempt from income tax and capital gains tax except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income to which they relate.

#### 13 CURRENT ASSETS

|                           | Principal Section 2018<br>£000 | Universities Section 2018<br>£000 | Total 2018<br>£000 | Principal Section 2017<br>£000 | Universities Section 2017<br>£000 | Total 2017<br>£000 |
|---------------------------|--------------------------------|-----------------------------------|--------------------|--------------------------------|-----------------------------------|--------------------|
| Cash balance              | 702                            | 534                               | 1,236              | 1,813                          | 461                               | 2,274              |
| Contributions due         |                                |                                   |                    |                                |                                   |                    |
| - from employer           | 1,255                          | 1,942                             | 3,197              | 1,360                          | 344                               | 1,704              |
| - in respect of employees | 559                            | 155                               | 714                | 654                            | 162                               | 816                |
| Pensions paid in advance  | 2,980                          | -                                 | 2,980              | 2,765                          | -                                 | 2,765              |
| VAT receivable            | -                              | -                                 | -                  | 46                             | -                                 | 46                 |
| Other debtors             | 184                            | 1                                 | 185                | 219                            | -                                 | 219                |
|                           | <b>5,680</b>                   | <b>2,632</b>                      | <b>8,312</b>       | <b>6,857</b>                   | <b>967</b>                        | <b>7,824</b>       |

All contributions due at the year-end have been paid to the Scheme subsequent to the year end in accordance with the Schedules of Contributions.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 14 CURRENT LIABILITIES

|                  | Principal<br>Section 2018<br>£000 | Universities<br>Section 2018<br>£000 | Total 2018<br>£000 | Principal<br>Section 2017<br>£000 | Universities<br>Section 2017<br>£000 | Total 2017<br>£000 |
|------------------|-----------------------------------|--------------------------------------|--------------------|-----------------------------------|--------------------------------------|--------------------|
| Unpaid benefits  | 268                               | 79                                   | 347                | 662                               | 7                                    | 669                |
| Due to employer* | 5,734                             | -                                    | 5,734              | 5,534                             | -                                    | 5,534              |
| Accrued expenses | 1,735                             | 109                                  | 1,844              | 1,893                             | 45                                   | 1,938              |
| VAT payable      | 197                               | -                                    | 197                | -                                 | -                                    | -                  |
| Other creditors  | 3                                 | -                                    | 3                  | 3                                 | 26                                   | 29                 |
|                  | <b>7,937</b>                      | <b>188</b>                           | <b>8,125</b>       | <b>8,092</b>                      | <b>78</b>                            | <b>8,170</b>       |

\* Amounts due to the employer are in respect of pensions payroll for November and December 2018.

#### 15 RELATED PARTY TRANSACTIONS

Under Financial Reporting Standard 102 the Trustee is deemed to be a "related party" of the Scheme. With the exception of the Chairman, the other Directors of the Trustee Company have an interest as either a pensioner or active member of the Scheme due to their service as an employee with the employer.

During the year ended 31 December 2018, payments totalling £40,252 (2017: £30,000) were paid by MRC, as part of UKRI, to the Chair of the Trustee and Investment Subcommittee and then re-charged to the Scheme. This amount is included within Trustee fees and expenses in Note 8, on page 32.

The Scheme also pays an allowance of £3,000 per annum, payable quarterly in arrears, for three pensioner Trustee Directors regarding their attendances at both the Trustee and Investment Subcommittee meetings. Furthermore, the Scheme pays an attendance allowance of £5,000 per annum for Mr Ballantine as a co-opted member of the Investment Subcommittee. These amounts are included within the Trustee fees and expenses in Note 8, on page 32.

During the year, the Scheme also paid £9,611 (2017: £11,275) of Trustee Director expenses for attendances at both the Trustee and Investment Subcommittee meetings. This amount is included within Trustee fees and expenses in Note 8, on page 32.

MRC, as part of UKRI, have re-charged the Scheme for administration and processing fees of £123,859 (2017: £122,210). These amounts are included within the administration expenses in Note 8, on page 32.

Other than as disclosed elsewhere in these financial statements there were no other related party transactions during the year ended 31 December 2018.

There were no employer-related investments made during the year, or held at the year end.

#### 16 TRANSFERS BETWEEN SECTIONS

There were no transfers between sections during the year.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2018

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 17 CAPITAL COMMITMENTS

The Scheme had the following capital commitments at 31 December 2018

| Fund                                    | CCY | Commitment<br>'000 | Drawn down<br>2018<br>'000 | Drawn down<br>2017<br>'000 |
|---|-----|--------------------|----------------------------|----------------------------|
| HgCapital 5 LP private equity           | GBP | 4,714              | 4,651                      | 4,651                      |
| HgCapital 6 LP private equity           | GBP | 9,505              | 9,373                      | 9,373                      |
| Hg Capital 7 E LP private equity        | GBP | 15,000             | 13,883                     | 14,122                     |
| Hg Capital 8 C LP private equity        | GBP | 15,000             | 452                        | -                          |
| HgCapital Mercury 1 C LP private equity | GBP | 4,620              | 4,351                      | 4,485                      |
| HgCapital Mercury 2 A LP private equity | GBP | 7,500              | 997                        | -                          |
| Hg Saturn A LP private equity           | GBP | 10,000             | 2,069                      | -                          |
| Infracapital infrastructure             | GBP | 60,000             | 51,255                     | 38,933                     |
| Infracapital greenfields                | GBP | 30,000             | 10,685                     | 2,517                      |
| Infracapital infrastructure             | GBP | 25,000             | 1,455                      | -                          |
| Partners Group private equity           | EUR | 12,000             | 10,323                     | 9,302                      |
| Partners Group infrastructure           | USD | 31,000             | 14,080                     | 9,032                      |
| Partners Group private equity           | EUR | 56,600             | 9,804                      | -                          |
| Ares Capital Europe IV (G) Levered      | GBP | 30,000             | 4,854                      | -                          |

#### 18 SUBSEQUENT EVENTS

UKRI paid £1.25m in 2019 to the Principal Section towards cash flow and in anticipation of a gradual increase in the employer contribution rate of the Scheme. UKRI also paid £1.5m in April 2019 to the Universities Section and will continue to pay amounts quarterly, to meet the requirement of the Schedule of Contributions.

#### 19 CONTINGENT ASSETS/LIABILITIES

##### GMP equalisation

In October 2018, the High Court determined that benefits provided to members who had contracted out of their pension scheme must be recalculated to reflect the equalisation of state pension ages between May 1990 and April 1997 for both men and women. The Trustee is now reviewing, with their advisers, the implication of this ruling on the Scheme and the equalisation of guaranteed minimum pensions between men and women; in the context of the rules of the Scheme and the value of any liability. As soon as this review is finalised and any liability quantified, then members will be communicated with.

## ACTUARIAL CERTIFICATES

### Principal Section

Name of Scheme: MRC Pension Scheme : MRC section

#### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to continue to be met for the period for which the schedule is to be in force.

#### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles agreed by the trustees on 30 November 2017.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.



Signature:

Date: 30 November 2017

Name: Sue Vivian

Qualification: Fellow of the Institute of Actuaries

Name of Employer: Government Actuary's Department

Address: Finlaison House  
15-17 Furnival Street  
London,  
EC4A 1AB

MRC PENSION SCHEME  
YEAR ENDED 31 DECEMBER 2018

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ACTUARIAL CERTIFICATES

Universities Section

Name of Scheme: MRC Pension Scheme : University section

**Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to continue to be met for the period for which the schedule is to be in force.

**Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles agreed by the trustees on 30 November 2017.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.



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