

MRC PENSION SCHEME ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2020

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

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MRC PENSION SCHEME

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TRUSTEE AND ADVISERS

Trustee of the Scheme

M.R.C. Pension Trust Limited

Registered address

2nd Floor, David Phillips Building
Polaris House
North Star Avenue
Swindon, SN2 1FL

Correspondence address

3rd Floor
58 Victoria Embankment
London, EC4Y 0DS

Trustee Directors

John Preston (Chairman)
Professor Kelvin Cain PhD*
Geoff Der*
Hugh Dunlop
Rebecca Leigh (resigned 29 February 2020)
Louise McFarlane*
Kevin Moreton PhD
Peter Morgan PhD* (until 30 November 2020)
Ian Jackson* (from 1 December 2020)
Carole Walker

* Member Nominated Trustee

Investment Subcommittee

John Preston (Chairman)
Professor Kelvin Cain PhD
Professor Howard Cooke PhD#
Hugh Dunlop
Geoff Der
Peter Morgan PhD# (co-opted member from 1 December 2020)
Grant Ballantine#
#Co-opted member of the Subcommittee

Secretary to the Trustee

Jim Clerkin FPMI, FCII, Dip-IEB
M.R.C. Pension Trust Limited
3rd 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

Mercer Limited (formerly JLT Employee Benefits)
Leatherhead House
Station Road
Leatherhead
Surrey, KT22 7ET

Independent Auditors

PricewaterhouseCoopers LLP (resigned 23 November 2020)
1 Embankment Place
London WC2N 6RH

KPMG LLP (appointed 6 January 2021)
66 Queen Square
Bristol BS1 4BE

Legal Advisers

DLA Piper UK LLP
Walker House
Exchange Flags
Liverpool, L2 3YL

AVC Providers

Utmost Life and Pensions Services Limited
PO Box 177, Walton Street
Aylesbury
Bucks, HP21 7YH

Standard Life Assurance Limited
30 Lothian Road
Edinburgh, EH1 2DH

Bankers

Royal Bank of Scotland plc
62/63 Threadneedle Street
PO Box 412
London, EC2R 8LA

Custodians

State Street Bank and Trust Company
Quartermile 3, 10 Nightingale Way
Edinburgh, EH3 9EG

Internal Auditors

BDO LLP
150 Aldersgate Street
London, EC1A 4AB

Investment Consultants

Buck Consultants Limited
20 Wood Street
London, EC2V 7AF

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

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

Infracapital
10 Fenchurch Avenue
London, EC3M 5AG

Invesco Asset Management Limited
43-45 Portman Square
London W1H 6LY

Legal and General Assurance (Pensions Management)
Limited (closed February 2020)
1 Coleman Street
London, EC2R 5AA

Liontrust Investment Partners LLP
2 Savoy Court
London WC2R 0EZ

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

Nuveen LLC
201 Bishopsgate
London, EC2M 3AE

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

State Street Global Advisers Limited (appointed 2 February
2020)
20 Churchill Place
Canary Wharf
London E14 5HU

Warburg Pincus International LLC
Almack House
28 King Street
London SW1Y 6QW

Principal Employer

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

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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 Mercer (formerly 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 Medical Research Council (MRC) as principal sponsoring employer. There are nine Directors of M.R.C. Pension Trust Limited. The Trustee Directors are referred to as "The Trustee" in this report. Five Trustee Directors are appointed and can be removed by the principal sponsoring employer, including the Chairman. The other four Trustee Directors are nominated by the members of the Scheme and are known as Member Nominated Trustee Directors. The nomination and election process for these Trustee Directors 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.

The retirement benefits of the Scheme are generally an annual pension comprising $1/80^{\text{th}}$ 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 have been receiving pension benefits on career average pensionable salary and retirement age linked to State pension age. The annual accrual rate is $1/60^{\text{th}}$ 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. For members entitled to a career average pension, the equivalent contingent pension for an adult dependent is $1/160^{\text{th}}$ for each year of service, which is the same rate of accrual for members with service prior to 1 April 2018.

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 with the principal 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 Utmost Life and Pensions Services Limited (formerly Equitable Life) and Standard Life Assurance Limited. The option to buy additional years of service was withdrawn with effect from March 2014, however, members who selected the option prior to this date are able to continue to contribute. Since April 2006, members have the option to take some of or the entire AVC fund as a tax-free lump sum on retirement.

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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 the office of the Secretary to the Trustee as given on page 2, or on the member website at 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 Universities 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 M.R.C. Pension Trust Limited whose Directors are listed on page 2.

Dr Peter Morgan's term of office as MNT ended on 30 November 2020. As he had completed his maximum of three terms, he stood down, but agreed to continue to serve as a co-opted member of the Investment Subcommittee with effect from 1 December 2020. Ian Jackson was elected as an MNT by the members, with effect from 1 December 2020.

Miss Rebecca Leigh was re-appointed as Employer nominated Trustee for another 5 year term with effect from 1 September 2019. Miss Leigh resigned with effect from 29 February 2020 when she left employment with UKRI.

The Trustee Company

The Trustee met on 3 occasions during the year and the Investment Subcommittee met on 6 occasions during the year.

Scheme specific Trustee training took place in January 2020 and January 2021, covering legal, actuarial and investment activities.

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.

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TRUSTEE'S REPORT (CONTINUED)

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.

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 Trustee 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 2019. This was the fifth actuarial valuation that was the subject of the Scheme Specific Funding Requirements of the Pensions Act 2004.

The Trustee set up a Valuation Working Group in 2019 to consider the implications of Scheme maturation, future cashflow needs and funding guidance issued by the Pensions Regulator. On the basis of discussions held by the Valuation Working Group with the Actuary, the preferred approach to the Statutory Funding Objective was to adopt a new discount rate which assumes a reducing rate over time linked to CPI. This reducing margin is intended to reflect the lower return expectations as investments are reallocated to lower yield assets as the Scheme matures. Whilst the change to the net discount rate at the 2019 Valuation led to an increase in the technical provisions, the impact was partially offset by better than expected investment performance. An Alternative Funding Objective, linked to the yield curve for UK Gilts, has been set for the Principal Section of the Scheme, to form a benchmark against which to consider this section's progress as it matures.

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 UKRI as principal employer and approved by the MRC Council in December 2020.

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, an initial investment return of 4.8% pa was assumed for the Principal Section, reducing to 2% over time and 2% for the Universities Section. If consumer price inflation is expected to average around 2% 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 Trustee in November 2020 and showed that the Principal Section had a surplus of assets over liabilities of £331.7m and the Universities Section had a surplus of £90.7m. These surpluses corresponded to funding levels of 125% and 127% for the Principal and Universities Sections respectively.

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TRUSTEE'S REPORT (CONTINUED)

The value of the whole Scheme's assets as at 31 December 2019 was £1,762m (compared with the previous valuation as at 31 December 2016, which was £1,405.6m). This reflects the significant upturn in global investment markets during the period since the last valuation.

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

	31 December 2019			31 December 2016
	Principal Section £m	Universities Section £m	Scheme Total £m	Scheme Total £m
Liabilities	1,315.5	90.7	1,406.2	1,124.5
Assets	1,647.2	114.8	1,762.0	1,405.6
Total Scheme Surplus	331.7	24.1	355.8	281.1
Percentage	125%	127%	125%	125%

The Trustee recognises 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 2019, the actuary estimated the funding level for the Principal Section would have been 73% and the Universities Section 83%. Inclusion of this information does not imply that MRC (now 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 Trustee and MRC signed a Statement of Funding Principles in December 2020.

The results of the next triennial valuation due as at 31 December 2022 are expected to be published towards the end of 2023.

Actuarial Assumptions

The 2019 Actuarial Valuation was carried out by the Scheme Actuary (Mrs Sue Vivian of GAD) as at 31 December 2019. 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 2019	31 December 2016	31 December 2019	31 December 2016
	SFO ¹ % pa	SFO ¹ % pa	AFO ² % pa	% pa
Discount Rate*	4.2	4.8	2.0	2.6
Rate of pay increase (excluding promotional increases)	3.5	4.1	3.5	4.1
RPI	2.4	3.5	2.4	3.5
CPI	2.0	2.6	2.0	2.6
Rate of increases to pension in payment in excess of GMPs#	2.0	2.6	2.0	2.6
Rate of deferred pension increases (on benefits in excess of GMPs)	2.0	2.6	2.0	2.6
Post-retirement mortality	S3NXA – 18 x-1	S2NXA – 14 x-1	S3NXA – 18 x-1	S2NXA – 14 x-1

¹Statutory funding objective

²Additional funding objective

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TRUSTEE'S REPORT (CONTINUED)

*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;

S3NXA-18 are the mortality tables used in the valuation.

As the 2019 valuation did not disclose a shortfall between the Scheme's assets and liabilities, the Trustee has not needed to agree with the Employer a recovery plan for making good a shortfall.

The Trustee monitors continuously the funding position of the Scheme with the help of the Scheme Actuary and their investment advisers and publishes an annual summary funding statement that is sent to all members each year. In addition, a summary of the results of the 2019 actuarial valuation were sent to all members in February 2021.

The Financial Statements set out on pages 34 to 54 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 63 and 64.

Funding update

The Actuary prepares an annual funding update. The latest annual update as at 31 December 2020 shows liabilities of £1,346m and a surplus of £374m compared to assets of £1,720m for the Principal Section. For the Universities Section, liabilities were £104m, resulting in a surplus of £41m compared to assets of £145m as at the same date.

Contributions

Employers' contributions

The Trustee 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 (now UKRI) to make employer contributions to the Principal Section at a rate of 16% of pensionable salary (increased from 15%) with effect from 1 April 2021. All other participating employers will contribute at a rate of 16.9% of pensionable salary.

Following the 2019 valuation, MRC (now UKRI) increased its contribution rate to the Universities Section from 23.6% of pensionable salary to 27.1% with effect from 1 April 2021.

UKRI made a payment of £1m in March 2020 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, UKRI has made additional quarterly payments amounting to £5.5m (2019: £6.2m) in total towards the funding of the Universities Section and in accordance with the Schedule of Contributions and £7m in March 2021 towards cash flow and in anticipation of a gradual increase in the employer contribution rate of the University Section.

Employees' contributions

Members' contributions from new entrants to the Scheme to both the Principal and Universities sections were unchanged during 2020 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%.

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TRUSTEE'S REPORT (CONTINUED)

Governance

The Trustee, through its Board of Trustee Directors, 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 Trustee maintains 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 Mercer.

The Trustee produces 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 with effect from 2001. MNPA changed its name for branding purposes to Ensign Pensions. Ensign Pensions Administration was subsequently purchased by JLT and JLT Employee Benefits became the 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 Employee Benefits became part of Mercer Limited, a MMC Company, and JLT rebranded as Mercer in February 2020.

The Trustee has 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 UKRI, 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, which is regularly monitored and reviewed by the Trustee. Members have the additional protection of the PPF should UKRI, as principal sponsoring employer, ever fall into financial difficulty.

Change of Auditor

The Trustee appointed KPMG LLP as Scheme Auditor with effect from 6 January 2021. Following the resignation of PWC LLP as the Scheme Auditor with effect from 23 November 2020, they reported that there were no circumstances connected with their resignation which in their opinion significantly affected the interests of the members or prospective members of, or beneficiaries under, the Scheme.

Internal Controls

The Trustee maintains a register of key risks and BDO 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 Trustee has 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 in March 2017 and is due to be reviewed again in 2021. The Trustee also maintains 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.

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TRUSTEE'S REPORT (CONTINUED)

Brexit

Following the outcome of the referendum on 23 June 2016 and the triggering of Article 50 of the Lisbon Treaty, coupled with the outcome of the UK General Election on 12 December 2019, the UK left the EU on 31 January 2020 and left the European single market at the end of 2020. The Trustee is not confined to investing in the UK or Europe, so invests globally and continues to take a long term view on asset allocation and investment strategy. The Trustee and the Investment Subcommittee work closely with their investment advisers in the monitoring of both tactical and strategic asset allocation.

Covid-19

The Covid-19 global pandemic significantly disrupted investment markets and made a global recession inevitable. The duration of the pandemic remains unpredictable, but economic stimulus and pent-up demand suggests a solid upswing in global markets, beginning in Asia, as the virus threat starts to clear. During this time of disruption and uncertainty, the Trustee will maintain their long-term approach to investment strategy and in the short-term, focus on cashflow management, in order to ensure that the Scheme has the liquidity to continue to pay pension benefits as and when they fall due.

The Trustee has discussed the strength of the employer covenant as part of the actuarial valuation process, which is viewed as strong. The view is that the strength of the covenant has not been negatively impacted as a result the pandemic outbreak, and it could be argued that the sponsorship of a public service employer which is being funded for medical research means that the covenant is considerably stronger, particularly when compared to other funded pension schemes in the private sector.

The Scheme continues to be administered by Mercer and managed effectively during lockdown, so that benefits can continue to be paid on time.

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 Trustee and certain professional advisers including the Government Actuary's Department and Mercer 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. Leaving the European Union has not affected GDPR in the UK. The Trustee and its 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.

MRC PENSION SCHEME

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TRUSTEE'S REPORT (CONTINUED)

The Trustee and MRC 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. The Trustee worked closely with UKRI, particularly in regard to the recent triennial actuarial valuation as at 31 December 2019.

MRC PENSION SCHEME

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TRUSTEE'S REPORT (CONTINUED)

Membership

Details of the membership of the Scheme as at 31 December 2020 are given below: -
Members can be included in both the Main Section and the Universities Section.

	Principal Section 2020	Universities Section 2020	Total 2020	Total 2019
ACTIVE MEMBERS				
Active members at the start of the year	1,331	545	1,876	2,234
Adjustments from prior year**	1	(12)	(11)	(86)
New entrants in the year*	155	-	155	203
Retirements	(11)	(17)	(28)	(36)
Death in service	(1)	(3)	(4)	(4)
Members leaving with preserved benefits	(73)	(42)	(115)	(198)
Leavers with benefits pending	(63)	-	(63)	(98)
Members leaving with a refund/set to no liability	(26)	-	(26)	(139)
ACTIVE MEMBERS AT THE END OF THE YEAR	1,313	471	1,784	1,876
PENSIONERS				
Pensioners at the start of the year	3,102	110	3,212	3,070
Adjustments from prior year**	20	1	21	65
Members retiring during the year	107	21	128	125
New spouse and dependent pensioners	44	-	44	36
Pensions ceased (including deaths)	(105)	-	(105)	(84)
PENSIONERS AT THE END OF THE YEAR	3,168	132	3,300	3,212
MEMBERS WITH PRESERVED AND DEFERRED BENEFITS				
Number at the start of the year	4,504	556	5,060	4,859
Adjustments from prior year**	(7)	12	5	113
Leavers during the year with preserved benefits	73	42	115	198
Pension sharing order	-	-	-	1
Deferred pensioners becoming pensioners	(95)	(4)	(99)	(89)
Transfers out during the year	(4)	(2)	(6)	(16)
Commutations	(5)	-	(5)	-
Deaths	(3)	-	(3)	(6)
MEMBERS WITH PRESERVED AND DEFERRED BENEFITS AT THE END OF THE YEAR	4,463	604	5,067	5,060
<i>Pending members* (as shown on the following page)</i>	216	16	232	216
TOTAL MEMBERSHIP AT THE END OF THE YEAR	9,160	1,223	10,383	10,364

Pensioner members include 446 (2019: 418) 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.

*New entrants to the Scheme are shown net of auto-enrolled members who opt out within three months of joining.

** Adjustments from prior year include members for whom the status relating to the prior year was changed after the membership data was extracted and cleansed.

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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 Mercer process all leavers who left between April and the date when the salary increase was agreed. The 2019 pay award was 1.4% and was implemented by MRC in July 2020. The 2020 pay award was implemented by UKRI in March 2021.

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

	Principal Section 2020	Universities Section 2020	Total 2020	Total 2019
PENDING MEMBERS*				
At the start of the year	200	16	216	156
Adjustments from prior period	-	1	1	8
New leavers with benefits pending	63	-	63	98
Leavers with refunds	(29)	(1)	(30)	(32)
Transfer out	(18)	-	(18)	(14)
Total	216	16	232	216

*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. UKRI undertook a statutory re-enrolment exercise in April 2021.

Financial development of the Scheme

The financial statements on pages 34 to 54 show that the value of the Scheme's assets increased by £123.0m to £1,887.8m as at 31 December 2020. The increase was comprised of net withdrawals from dealings with members of £22.4m and a net increase in investment returns of £145.6m. 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 2020

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 6 of the financial statements on page 39.

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 Trustee accepted the actuarial advice and adopted the new tables for Club transfers. The Trustee also adopted revised non-Club transfers.

In 2010, the Trustee 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.

Since 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 2020 was 2.4%, with the exception of the pre 1988 GMP element, which received no increase. There were no discretionary increases. The increase awarded in April 2021 was 0.5%.

Deferred pensions were increased in line with statutory requirements.

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 Trustee's behalf by Utmost Life and Pensions Services Limited and Standard Life Assurance Limited. Members' contributions to the money purchase AVC schemes are deducted from salary and paid direct to Utmost Life and Pensions 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 35 (2019: 34) members contributed to money purchase AVCs as at 31 December 2020; the total value of the accumulated AVC funds held by Utmost Life and Pensions and Standard Life at that date was £2.7million (2019: £2.6million).

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 Utmost Life and Pensions 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 Mercer.

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 2020

TRUSTEE'S REPORT (CONTINUED)

Scheme administration service provided by Mercer

During 2020, Mercer produced Benefit Statements for active members of the Scheme and these were distributed during July 2020. Pension Savings Statements covering the 2019/2020 tax year will be issued in July 2021. Copies of the summarised version of the 2019 Annual Report were circulated in September 2020. These are annual communication exercises facilitated by Mercer on behalf of the Trustee.

Mercer 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, Mercer 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 Trustee, with the assistance of Mercer, has 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 tapering of the annual allowance, introduced in 2016 for high earners, was relaxed from April 2020.

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 LTA was index-linked from April 2018, but has been frozen at £1,073,100, the rate for the 2020/2021 tax year, until 2026.

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 and again in March 2018, which coincided with the change of principal employer from MRC to UKRI. UKRI carried out a re-enrolment exercise on 1 April 2021.

The Trustee has 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, had been the subject of legal challenge. In July 2020, the Government issued a consultation on the implications of the Public Sector Pension Schemes Act 2013. The MRC Scheme moved to career average for new entrant on and after 1 April 2018. There is no action required by the Trustee while further legislation is expected.

Internal Auditors

The Internal Auditor provided three updates to the Trustee during the Scheme year.

HMRC approval

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

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

TRUSTEE'S REPORT (CONTINUED)

Statement of Trustee's Responsibilities

Trustee's responsibilities in respect of the financial statements

The audited financial statements, which are required to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- (i) 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 the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- (ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is fair and impartial.

The Scheme's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Scheme's Trustee is also responsible for keeping records of contributions received in respect of any active member of the scheme and for procuring that contributions are made to the scheme in accordance with the schedule

The Trustee is responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

The Trustee is responsible for the maintenance and integrity of the Scheme and financial information included on the Scheme's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

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 was 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 investment policy will undergo review following the 2019 Valuation and the Pension Schemes Act 2021.

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. Greater consideration will be given to climate change and sustainable investment.

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 2020, less than 0.1% (2019: 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 State Street Global Advisers to currency hedged funds. The Trustee currently applies a 100% hedge of US Dollar denominated assets and 100% hedge of Euro denominated assets. 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 Trustee agreed to appoint Warburg Pincus as an additional private equity manager in June 2019 and to invest in new vintages with Ares and Hg in 2020. The Trustee also agreed to replace Legal & General with State Street Global Advisers Limited as passive equity manager during the course of 2019. The transfer of assets took place in February 2020.

Asset values suffered a sudden global downturn in March 2020 owing to the outbreak of the Covid-19 pandemic. Although equities recovered to a certain extent during 2020, some markets are lower than 2019 and subject to volatility.

The Scheme benefited from positive market conditions towards the end of the year. The annual return for 2020 was a return of 6.1%, net of fees, compared to the total Scheme benchmark return of 3.7%.

The Trustee continues to monitor the situation closely and liaise regularly with its investment consultant to consider any necessary actions to respond to emerging economic issues.

The total investment return for the three years to 31 December 2020 was 6.2% per annum net of fees, compared to the benchmark return of 4.5%.

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. 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. Both SIPs were updated in June 2019 to meet regulatory requirements around disclosure of Environmental, Social and Governance (ESG) consideration when making investment decisions.

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

TRUSTEE'S REPORT (CONTINUED)

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. The SIP was updated in June 2020 and will be updated in 2021 in order to meet new regulatory disclosure deadlines.

The comparative asset distribution of the Scheme as at 31 December 2020 and 31 December 2019 are noted in the table below (Principal Section only):

	31 Dec 2020	31 Dec 2019
	%	%
UK Corporate Bonds	7.7	4.6
Index linked securities	3.0	3.2
UK Equities	14.9	8.3
Overseas Equities	22.2	22.1
Property (Direct)	10.3	11.5
Pooled investment vehicles:		
UK Equity	-	9.0
Overseas Equity	14.4	15.1
Private Equity*	5.9	5.0
Private Debt	1.2	1.0
Infrastructure	3.1	3.9
Property	13.8	12.9
Bonds	0.3	0.2
Cash	1.4	0.9
AVC Funds	0.1	0.2
Cash deposits and other investment balances	1.7	2.1
	100.0	100.0

At the year end, the Universities Section was 80% (2019: 80%) invested in UK Pooled Investment bonds and 20% (2019: 20%) in equities.

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 12 of the Financial Statements.

Employer related investments

There were no employer related investments held at the year end (2019: nil).

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

TRUSTEE'S REPORT (CONTINUED)

Custodial arrangements

The Trustee has appointed State Street as custodian for RLAM, Baillie Gifford, First Sentier, Invesco, Liontrust and State Street Investments. For directly owned property, DLA Piper UK LLP is used for England and Wales and Brodies LLP 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 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 ESG and ethical investments

The Trustee attaches high importance to environmental, social and governance (ESG) 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.

The Pensions Schemes Act 2021 will require pension schemes with assets above £1bn to make additional disclosures about climate change and sustainable investment from 2023.

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.

The Trustee's policy in relation to the kinds of investments to be held

The Trustee has full regard to its investment powers as set out in the Trust Deed and Rules.

The Scheme may invest in quoted and unquoted securities of UK and overseas markets including:

- Equities.
- Fixed interest and index-linked bonds.
- Cash.
- Property.
- Infrastructure.
- Private equity.
- Hedge funds and pooled investment vehicles considered appropriate for tax-exempt registered occupational pension schemes.

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

TRUSTEE'S REPORT (CONTINUED)

The Trustee has considered the attributes of the various asset classes (including derivative instruments), these attributes being:

- Security (or quality) of the investment.
- Yield (expected long-term return).
- Spread (or volatility) of returns.
- Term (or duration) of the investment.
- Exchange rate risk.
- Marketability/liquidity (i.e. the tradability on regulated markets).
- Taxation.

The Trustee considers all of the stated classes of investment to be suitable to the circumstances of the Scheme. Given the size and nature of the Scheme, the Trustee has decided to invest through a combination of segregated mandates and pooled funds; any such investment is effected through a direct agreement with an investment manager and/or through an insurance contract.

The Trustee's policy in relation to the balance between different kinds of investments

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

The Trustee's policy in relation to the expected return on investments

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

The Trustee's policy in relation to the realisation of investments

In the event of an unexpected need to realise all or part of the assets of the portfolio, the Trustee requires the investment managers to be able to realise the Scheme's investments in a reasonable timescale by reference to the market conditions existing at the time the disposal is required and subject to the best interests of the Scheme. The majority of the assets are not expected to take an undue time to liquidate.

The Trustee's policy in relation to financially material considerations

The Trustee expects its investment managers, where appropriate, to have taken account of financially material considerations, including environmental, social and governance (ESG) factors as part of their investment analysis and decision-making process.

The Trustee reviews the investment managers' policy in respect of financially material considerations on an annual basis to satisfy themselves that it is consistent with the above approach.

The Trustee's policy in relation to the extent to which non-financial matters are taken into account

The Trustee's objective is that the financial interests of the Scheme members is its first priority when choosing investments. The Trustee will take members' preferences into account if it considers it appropriate to do so.

Non-financial matters may be taken into account if the Trustee has good reason to think that the members would share the concern; and that the decision does not involve a risk of significant detriment to members' financial interests.

If the Trustee appoints investment managers to manage a segregated portfolio of equities or bonds, the managers have been given specific instructions not to invest in the shares of those companies whose predominant business revenues

MRC PENSION SCHEME

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TRUSTEE'S REPORT (CONTINUED)

come from tobacco related products. Subject to that specific exclusion, the Trustee has delegated to the investment managers the selection of individual assets and the exercise of responsible ownership of the assets selected.

The Trustee reviews the investment managers' policy in respect of non-financially material considerations on an annual basis to satisfy themselves that it is consistent with the above approach.

Risk capacity and risk appetite

The Trustee, after seeking appropriate investment advice, has selected a strategic asset allocation benchmark for the Scheme including control ranges for each asset class and or geographic region.

Subject to their respective benchmarks and guidelines, the investment managers are given full discretion over the choice of securities and are expected to maintain a diversified portfolio.

The Trustee is satisfied that the investments selected are consistent with its investment objectives, particularly in relation to diversification, risk, expected return and liquidity.

The Trustee's policy in relation to risks

The Trustee considers the main risk to be that of the assets being insufficient to meet the Scheme's liabilities as they fall due. The Trustee has assessed the likelihood of undesirable financial outcomes arising in the future.

Investment policies are set with the aim of having sufficient and appropriate assets to cover the Scheme's Technical Provisions, and with the need to avoid undue contribution rate volatility.

In determining its investment strategy, the Trustee received advice from the investment consultant as to the likely range of funding levels for strategies with differing levels of investment risk relative to the Scheme's liability profile. Taking this into account, along with the expected returns underlying the most recent actuarial valuation, the strategy is then adopted.

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

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

The Trustee manages and measures these risks on a regular basis via actuarial and investment reviews, and in the setting of investment objectives and strategy.

The Trustee undertakes monitoring of the investment managers' performance against their targets and objectives on a regular basis.

Each fund or mandate in which the Trustee invests has a stated performance objective against which investment performance will be measured. Within each asset class, the investment managers are expected to maintain a portfolio of securities (or funds), which ensures that the risk being accepted in each market is broadly diversified.

The divergence of the actual distribution of the investments from the benchmark weighting will be monitored by the Scheme's investment managers. Any deviation from the target asset allocation will be discussed periodically with the investment consultant.

TRUSTEE'S REPORT (CONTINUED)

Stewardship in relation to the Scheme's assets

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

The Trustee's policy in relation to engagement and monitoring (including peer to peer engagement)

The Trustee's policy is to delegate responsibility for engaging and monitoring investee companies to the investment managers and expects the investment managers to use their discretion to maximise financial returns for members and others over the long term.

The Trustee does not envisage being directly involved with peer to peer engagement in investee companies. The Scheme's fund managers are expected to act as financial intermediaries with investee companies.

The Trustee's policy in relation to voting rights

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

Investment management monitoring

The Trustee will assess the performance, processes and cost effectiveness of the investment managers by means of regular, but not less than annual, reviews of the results and other information, in consultation with the investment consultant.

The overall performance of the investment managers is monitored by the Trustee with the assistance of the investment consultant.

The investment managers will provide the Trustee with quarterly statements of the assets held along with a quarterly performance report. The investment managers will also report verbally or provide additional presentations on request to the Trustee.

The investment managers will inform the Trustee of any changes in the internal performance objective and guidelines of any pooled funds or segregated mandates used by the Scheme as and when they occur.

The Trustee will assess the quality of the performance and processes of the investment managers by means of a review. The frequency of these reviews will depend on the Trustee's investment beliefs and overall objectives for investing in the specific funds or mandates at the outset.

The Trustee receives an independent investment performance monitoring report from the investment consultant on a quarterly basis.

Appropriate written advice will be taken from the investment consultant before the review, appointment or removal of the investment managers.

The Trustee's policy in relation to its investment managers

In detailing below the policies on the investment manager arrangements, the overriding approach of the Trustee is to select investment managers that meet the primary objectives of the Trustee. As part of the selection process and the ongoing review of the investment managers, the Trustee considers how well each investment manager meets the Trustee's policies and provides value for money over a suitable timeframe.

TRUSTEE'S REPORT (CONTINUED)

- **How the arrangement incentivises the investment manager to align its investment strategy and decisions with the Trustee's policies**

The Trustee has delegated the day to day management of the Scheme's assets to investment managers. Both the MRC and Universities Sections' assets are invested in a mixture of pooled funds and segregated mandates. Both pooled funds and segregated mandates have their own policies and objectives and charge a fee, agreed with the investment manager, for their services. Such fees incentivise the investment managers to adhere to their stated policies and objectives.

- **How the arrangement incentivises the investment manager to engage and take into account financial and non-financial matters over the medium to long-term**

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

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

If the Trustee appoints investment managers to manage a segregated portfolio of equities or bonds, the managers have been given specific instructions not to invest in the shares of those companies whose predominant business revenues come from tobacco related products. Subject to that specific exclusion, the Trustee has delegated to the investment managers the selection of individual assets and the exercise of responsible ownership of the assets selected.

- **How the method (and time horizon) of the evaluation of the investment manager's performance and the remuneration for asset management services are in line with the Trustees' investment policies**

The Trustee expects its investment managers to invest the assets within their portfolio in a manner that is consistent with the guidelines and constraints set out in its appointment documentation. The Trustee reviews the investment managers periodically. These reviews incorporate benchmarking of performance and fees. The time horizon for the Trustee when reviewing performance will depend on the Trustee's investment beliefs and overall objectives for investing in the specific funds or mandates when the initial investment decision was made.

If the Trustee determines that the investment manager is no longer managing the assets in line with the Trustee policies, it will make its concerns known to the investment manager and may ultimately disinvest.

The Trustee pays its investment managers a management fee which is a fixed percentage of assets under management. Some investment managers also receive a performance incentive fee.

Prior to agreeing a fee structure, the Trustee, in conjunction with its investment consultant, considers the appropriateness of this structure, both in terms of the fee level compared to that of other similar products and in terms of the degree to which it will incentivise the investment manager.

- **How the Trustee monitors portfolio turnover costs incurred by the investment manager, and how they define and monitor targeted portfolio turnover or turnover range**

The Trustee, in conjunction with its investment consultant, has processes in place to review investment turnover costs incurred by the Scheme on an annual basis. The Trustee receives a report which includes the turnover costs incurred by the investment managers used by the Scheme.

The Trustee expects turnover costs of the investment managers to be in line with their peers, taking into account the style adopted by the investment manager, the asset class invested in and prevailing market conditions.

The Trustee does not explicitly monitor turnover, set target turnover or turnover ranges. The Trustee believes that the investment managers should follow their stated approach with a focus on risk and net return, rather than on turnover.

TRUSTEE'S REPORT (CONTINUED)

In addition, the individual mandates are unique and bespoke in nature and there is the potential for markets to change significantly over a short period of time.

- **The duration of arrangements with investment managers**

The Trustee does not in general enter into fixed long-term agreements with its investment managers and instead retains the ability to change investment manager should the performance and processes of the investment manager deviate from the Trustee's policies. The Trustee may also change its investment manager if the original purpose of investing in a specific fund or mandate is no longer appropriate to meet the Trustee's overall strategic objectives.

However, the Trustee expects its manager appointments to have a relatively long duration, subject to the manager adhering to its stated policies, and the continued positive assessment of its ability to meet its performance objective.

MRC PENSION SCHEME
YEAR ENDED 31 DECEMBER 2020

TRUSTEE'S REPORT (CONTINUED)

The make-up of the Scheme's total investments of £1,875.8 million as at 31 December 2020 across investment managers is as follows (£000's):

Asset Class	PRINCIPAL SECTION									UNIVERSITIES SECTION				
	Index Linked	UK Corporate Bonds	FX /Futures	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	Total Assets
	£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
Legacy									160	160				160
L&G							100			100				100
Hg							44,869			44,869				44,869
Ares							22,956			22,956				22,956
First Sentier			1		123,993				2,667	126,661				126,661
Invesco				11,827	54,908				1,043	67,778				67,778
Liontrust				104,547					4,807	109,354				109,354
Morgan Stanley							81,486			81,486				81,486
RLAM	51,493	132,594					5,651		2,772	192,510	109,516			302,026
Nuveen						177,890	12,856		11,453	202,199				202,199
State Street			(5)	129,823			187,309		465	317,592				317,592
Aviva							119,306		1,115	120,421				120,421
M&G							68,364		635	68,999				68,999
Partners Group							44,573		2,248	46,821				46,821
Baillie Gifford				11,948	205,589				4,316	221,853		32,923	643	255,419
Infracapital							57,960			57,960				57,960
RLAM - Cash							26,549			26,549				26,549
Warburg Pincus							21,809			21,809				21,809
Other								2,676		2,676				2,676
Total	51,493	132,594	(4)	258,145	384,490	177,890	693,788	2,676	31,681	1,732,753	109,516	32,923	643	1,875,835
Section only	3.0	7.7	0.0	14.9	22.2	10.3	40.0	0.1	1.8	100.0	76.5	23.0	0.5	100.0
Total Assets	2.7	7.1	0.0	13.8	20.5	9.5	37.0	0.1	1.7	92.4	5.8	1.8	0.0	100.0

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

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 2020 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 2020.

	Year ended 31 December 2020	
	Scheme Return	Total Scheme Benchmark
	%	%
UK Corporate Bonds	7.3	7.8
UK Index-Linked Gilts	12.5	11.0
UK Equities	-6.9	-9.8
Overseas Equities	16.4	12.5
Property	0.8	-1.8
Infrastructure	21.9	1.2
Private Equity	11.1	-9.8
Total Scheme	6.1	3.7
3 years ended 31 December 2020	6.2	4.5
5 years ended 31 December 2020	9.7	8.1
10 years ended 31 December 2020	8.6	7.4

As the table above shows, the overall return for the year was 6.1% after fees, which 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 2020 is above the Actuary's assumptions that the yield on investments would be 0.7% greater than the increase in earnings and 2% greater than the increase in pensions.

The performance of the segregated property portfolio (excluding cash) managed by Nuveen (formerly known as TH Real Estate), as measured by Buck, showed a return of 0.8%. 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 -1.8%, which was below the MSCI Index of Pension Funds under £250m of -1% on a three-year annualised basis. The number of schemes within the benchmark universe was 39. The longer-term performance of property has been monitored by the ISC, together with the strategic asset allocation to property.

There were very few 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 2020

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 2020 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 Sentier (previously First State), based on performance from March 2010, which was triggered in each of the years 2014 to 2020.

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.

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.

General requests for information or guidance concerning pension arrangements can be made through The Pensions Advisory Service (TPAS) at 120 Holborn, London EC1N 2TD. www.pensionsadvisoryservice.org.uk.

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

The Trustee of MRC Pension Scheme (the 'Scheme') care of Mercer Limited, Leatherhead House, Station Road, Leatherhead, Surrey, KT22 7ET.

mrc_pensions@mercer.com

Acknowledgements

This report was approved by the Trustee and signed on its behalf by:

.....
Chairman 

.....
Date 22nd June 2021

MRC PENSION SCHEME
YEAR ENDED 31 DECEMBER 2020

SUMMARY OF CONTRIBUTIONS

Trustee's Summary of Contributions payable under the Schedules in respect of the year ended 31 December 2020

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 employee contributions payable to the Scheme under the Schedules of Contributions certified by the actuary on 30 November 2017 and 16 December 2020 for the Principal Section, and on 30 November 2017 and 16 December 2020 for the Universities Section.

Contributions payable under the Schedules

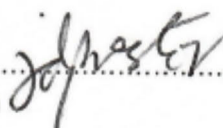
	Principal Section £000	Universities Section £000	Total £000
Employer:			
Normal contributions	7,823	9,276	17,099
Employee:			
Normal contributions	<u>3,350</u>	<u>1,523</u>	<u>4,873</u>
Contributions payable under the Schedules (as reported on by the Scheme auditor on the following page)	<u>11,173</u>	<u>10,799</u>	<u>21,972</u>

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

Contributions payable under the Schedules (as above)	11,173	10,799	21,972
Contributions payable in addition to those due under the Schedules (and not reported on by the Scheme auditor on the following page):			
Employer:			
Additional contribution	1,000	-	1,000
Augmentation contributions	553	-	553
Employee:			
Additional voluntary contributions	206	-	206
Added years contributions	<u>122</u>	<u>75</u>	<u>197</u>
Total contributions reported in the financial statements	<u>13,054</u>	<u>10,874</u>	<u>23,928</u>

Approved by the Trustee and signed on its behalf by:

.....
Chairman



.....
Date

22nd June 2021

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE MRC PENSION SCHEME

Statement about contributions

We have examined the Summary of Contributions payable under the Schedules of contributions to MRC Pension Scheme in respect of the Scheme year ended 31 December 2020 which is set out on page 28.

In our opinion contributions for the Scheme year ended 31 December 2020 as reported in the Summary of Contributions and payable under the Schedules of Contributions have in all material respects been paid from 1 January 2020 to 15 December 2020 at least in accordance with 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, and subsequently at least in accordance with the Schedules of Contributions certified by the Scheme Actuary on 16 December 2020 for the Principal section and on 16 December 2020 for the Universities section.

Scope of work

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 at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedules of Contributions.

Respective responsibilities of Trustee and auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 16, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised Schedules of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedules of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedules of Contributions to the Scheme and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Scheme's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee, for our work, for this statement, or for the opinions we have formed.



Gemma Broom
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
66 Queen Square
Bristol
BS1 4BE

Date..... 23 June 2021

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE MRC PENSION SCHEME

Opinion

We have audited the financial statements of MRC Pension Scheme ("the Scheme") for the year ended 31 December 2020 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 December 2020 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 Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Conclusions relating to going concern

The Trustee has prepared the financial statements on the going concern basis as it does not intend to wind up the Scheme, and as it has concluded that the Scheme's financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Trustee's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Scheme will continue in operation.

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE MRC PENSION SCHEME (CONTINUED)

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Trustee and inspection of policy documentation, as to the Scheme's high-level policies and procedures to prevent and detect fraud, including the internal audit function, as well as enquiring whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Trustee and Investment sub-committee meeting minutes.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that the Trustee (or its delegates including the Scheme administrator) may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of property assets and level 3 pooled investment vehicles. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue in a pension scheme relates to contributions receivable as paid under an agreed Schedule or pre-determined by the Trustee; there are no subjective issues or judgements required.

We did not identify any additional fraud risks.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted after the first draft of the financial statements have been prepared.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Trustee and its delegates (as required by auditing standards), and discussed with the Trustee and its delegates the policies and procedures regarding compliance with laws and regulations.

As the Scheme is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Scheme's procedures for complying with regulatory requirements and reading the minutes of Trustee meetings.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Scheme is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related pensions legislation), and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE MRC PENSION SCHEME (CONTINUED)

Secondly, the Scheme is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation, or the loss of the Scheme's registration. We identified the following areas as those most likely to have such an effect: pensions legislation and data protection legislation, recognising the financial and regulated nature of the Scheme's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustee and its delegates and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We have reported separately on contributions payable under the Schedules of Contributions in our statement about contributions on page 29 of the annual report.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities, Implementation Statement and the summary of contributions) and the actuarial certification of the Schedules of Contributions. 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 conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in their statement set out on page 16, the Scheme Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; 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; 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 it either intends to wind up the Scheme, or has no realistic alternative but to do so.

MRC PENSION SCHEME
YEAR ENDED 31 DECEMBER 2020

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE MRC
PENSION SCHEME (CONTINUED)

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Scheme Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme Trustee, for our audit work, for this report, or for the opinions we have formed.



Gemma Broom

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

66 Queen Square

Bristol

BS1 4BE

Date.....23 June 2021.....

MRC PENSION SCHEME
YEAR ENDED 31 DECEMBER 2020

FUND ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Principal Section £000	Universities Section £000	Total 2020 £000	Principal Section £000	Universities Section £000	Total 2019 £000
CONTRIBUTIONS AND BENEFITS							
Contributions							
Employers	4	9,376	9,276	18,652	10,369	10,306	20,675
Employee	4	3,678	1,598	5,276	3,696	1,776	5,472
Other income	5	-	-	-	35	-	35
		13,054	10,874	23,928	14,100	12,082	26,182
Benefits	6	(42,858)	(923)	(43,781)	(42,480)	(506)	(42,986)
Transfers out	7	(165)	(18)	(183)	(600)	(36)	(636)
Payments to and on account of leavers	8	(40)	-	(40)	(109)	-	(109)
Administrative expenses	9	(2,245)	(40)	(2,285)	(2,081)	(38)	(2,119)
		(45,308)	(981)	(46,289)	(45,270)	(580)	(45,850)
NET (WITHDRAWALS)/ADDITIONS FROM DEALINGS WITH MEMBERS							
		(32,254)	9,893	(22,361)	(31,170)	11,502	(19,668)
INVESTMENT RETURNS							
Investment income	10	33,280	249	33,529	34,964	480	35,444
Change in market value of investments	12	99,458	20,499	119,957	188,165	11,938	200,103
Investment management expenses	11	(7,526)	(340)	(7,866)	(6,942)	(250)	(7,192)
Taxation		(28)	-	(28)	(305)	(2)	(307)
NET RETURNS ON INVESTMENTS		125,184	20,408	145,592	215,882	12,166	228,048
NET INCREASE IN THE FUND DURING THE YEAR		92,930	30,301	123,231	184,712	23,668	208,380
NET ASSETS OF THE SCHEME AT 1 JANUARY		1,649,749	114,769	1,764,518	1,465,037	91,101	1,556,138
NET ASSETS OF THE SCHEME AT 31 DECEMBER		1,742,679	145,070	1,887,749	1,649,749	114,769	1,764,518

The notes on pages 36 to 54 form an integral part of these financial statements.

MRC PENSION SCHEME
YEAR ENDED 31 DECEMBER 2020

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AT 31
DECEMBER 2020

	Note	Principal Section £000	Universities Section £000	Total 2020 £000	Principal Section £000	Universities Section £000	Total 2019 £000
INVESTMENT ASSETS							
Equities	12	642,635	32,923	675,558	500,787	22,937	523,724
Bonds	12	184,087	-	184,087	128,962	-	128,962
Property	12	177,890	-	177,890	188,822	-	188,822
Pooled investment vehicles	12	693,788	109,516	803,304	791,500	89,166	880,666
Derivatives	12	1	-	1	-	-	-
Other investment assets	12	12,008	22	12,030	8,501	20	8,521
AVC Investments	12	2,676	-	2,676	2,553	-	2,553
Cash	12	24,214	621	24,835	30,548	410	30,958
		1,737,299	143,082	1,880,381	1,651,673	112,533	1,764,206
INVESTMENT LIABILITIES							
Derivatives	12	(5)	-	(5)	-	-	-
Other investment liabilities	12	(4,541)	-	(4,541)	(4,770)	-	(4,770)
		1,732,753	143,082	1,875,835	1,646,903	112,533	1,759,436
TOTAL INVESTMENTS							
CURRENT ASSETS	14	18,671	2,189	20,860	13,209	2,433	15,642
CURRENT LIABILITIES	15	(8,745)	(201)	(8,946)	(10,363)	(197)	(10,560)
TOTAL NET ASSETS AT 31 DECEMBER		1,742,679	145,070	1,887,749	1,649,749	114,769	1,764,518

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 of the Trustee's Report and these Financial Statements should be read in conjunction with that Report.

The notes on pages 36 to 54 form an integral part of these financial statements.

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

.....
Chairman

.....
Date

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS

1 IDENTIFICATION OF FINANCIAL STATEMENTS

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 established in UK under English Law and the registered address of the Trustee is 2nd Floor, David Phillips Building, Polaris House, North Star Avenue, Swindon, SN2 1FL.

2 BASIS OF PREPARATION

The financial statements have been prepared 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 Scheme" (revised June 2018) ("the SORP")

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as they believe that the Scheme has adequate resources to realise its assets and meet pension payments in the normal course of affairs (continue to operate) for at least the next twelve months. In reaching this conclusion, the Trustee considered the impact of the COVID 19 outbreak on the Scheme and the ability of the Sponsoring and Participating employers to continue to make contributions as they fall due.

The actuary prepares an annual funding update. The latest annual update as at 31 December 2020 shows a surplus of £374m for the Principal Section and a surplus of £41m for the Universities Section. Due to the funding levels no deficit contributions are due to the Scheme. The Trustee regularly monitors the strength of the employer covenant which it views as strong. The sponsoring employer UKRI is dependent on funding from the Department of Business, Energy and Industrial Strategy (BEIS). The Trustee has no reason to believe that future funding will not be forthcoming from BEIS.

This assessment, together with income and capital growth from its assets gives the Trustee confidence to prepare the financial statements on a going concern basis.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Employer 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.

3.4 Benefits

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

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

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.

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 (bonds) 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 2020 by CBRE Ltd, Valuation Advisors who are members of The Institute of Chartered Surveyors. Their registered address is St Martins Court, 10 Paternoster Row, London, EC4M 7HP.

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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 the investment consultant, 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 management expenses are accounted for on an accruals basis.

4 CONTRIBUTIONS

	Principal Section 2020	Universities Section 2020	Total 2020	Principal Section 2019	Universities Section 2019	Total 2019
	£000	£000	£000	£000	£000	£000
Employers' Contributions						
Normal contributions	7,823	9,276	17,099	7,956	10,306	18,262
Augmentations	553	-	553	1,163	-	1,163
Additional contributions	1,000	-	1,000	1,250	-	1,250
	<u>9,376</u>	<u>9,276</u>	<u>18,652</u>	<u>10,369</u>	<u>10,306</u>	<u>20,675</u>
Employees' Contributions						
Normal contributions	3,350	1,523	4,873	3,380	1,689	5,069
Additional voluntary contributions	206	-	206	180	-	180
Added years contributions	122	75	197	136	87	223
	<u>3,678</u>	<u>1,598</u>	<u>5,276</u>	<u>3,696</u>	<u>1,776</u>	<u>5,472</u>
	<u>13,054</u>	<u>10,874</u>	<u>23,928</u>	<u>14,065</u>	<u>12,082</u>	<u>26,147</u>

MRC paid additional Employer contributions of £1.0m in March 2020 (2019: £1.25m) to the Principal Section and post year-end £7.0m in March 2021 towards the cashflow of the Universities Section. MRC paid £5.54m (2019: £6.16m) to the Universities Section, and will continue to pay amounts quarterly, to meet the requirements of the Schedule of Contributions. These amounts are included within Employers' normal contributions.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 OTHER INCOME

	Principal Section 2020 £000	Universities Section 2020 £000	Total 2020 £000	Principal Section 2019 £000	Universities Section 2019 £000	Total 2019 £000
HMRC rebate	-	-	-	35	-	35

6 BENEFITS

	Principal Section 2020 £000	Universities Section 2020 £000	Total 2020 £000	Principal Section 2019 £000	Universities Section 2019 £000	Total 2019 £000
Pension payments	36,821	282	37,103	35,520	198	35,718
Commutations and lump sum retirement benefits	5,212	369	5,581	5,713	256	5,969
Lump sums on death	403	272	675	867	52	919
Tax paid*	422	-	422	380	-	380
	42,858	923	43,781	42,480	506	42,986

*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.

7 TRANSFERS OUT

	Principal Section 2020 £000	Universities Section 2020 £000	Total 2020 £000	Principal Section 2019 £000	Universities Section 2019 £000	Total 2019 £000
Individual transfers out to other schemes	165	18	183	600	36	636

8 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	Principal Section 2020 £000	Universities Section 2020 £000	Total 2020 £000	Principal Section 2019 £000	Universities Section 2019 £000	Total 2019 £000
State scheme payments	-	-	-	1	-	1
Refunds to members leaving service	40	-	40	108	-	108
	40	-	40	109	-	109

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 ADMINISTRATIVE EXPENSES

	Principal Section 2020	Universities Section 2020	Total 2020	Principal Section 2019	Universities Section 2019	Total 2019
	£000	£000	£000	£000	£000	£000
Administration and processing	634	34	668	735	34	769
MRC head office recharge	134	-	134	134	-	134
Actuarial fees	318	-	318	58	-	58
External audit fee	75	-	75	63	-	63
Tax services	8	-	8	-	-	-
Legal fees	71	-	71	70	-	70
Regulatory fees	895	6	901	789	4	793
Trustee fees and expenses	51	-	51	82	-	82
Internal audit fees	29	-	29	71	-	71
Communication costs	26	-	26	47	-	47
Other expenses	4	-	4	32	-	32
	2,245	40	2,285	2,081	38	2,119

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

10 INVESTMENT INCOME

	Principal Section 2020	Universities Section 2020	Total 2020	Principal Section 2019	Universities Section 2019	Total 2019
	£000	£000	£000	£000	£000	£000
Dividends from equities	10,204	245	10,449	10,552	294	10,846
Income from bonds	3,219	-	3,219	3,411	-	3,411
Income from pooled investment vehicles	9,775	9	9,784	10,464	182	10,646
Rental income	10,146	-	10,146	11,021	-	11,021
Interest on cash deposits	82	-	82	287	-	287
Foreign currency (loss)/gain	(146)	(5)	(151)	(771)	4	(767)
	33,280	249	33,529	34,964	480	35,444

Included within dividends from equities is overseas investment income which has been stated gross of withholding taxes totalling £28k (2019: £307k). This represents irrecoverable withholding taxes which have been reported under 'Taxation' within the Fund Account.

11 INVESTMENT MANAGEMENT EXPENSES

	Principal Section 2020	Universities Section 2020	Total 2020	Principal Section 2019	Universities Section 2019	Total 2019
	£000	£000	£000	£000	£000	£000
Administration, management & custody	4,737	340	5,077	5,179	250	5,429
Out-performance fee	638	-	638	973	-	973
Non-recoverable property expenses	3,293	-	3,293	1,353	-	1,353
VAT recovered	(1,142)	-	(1,142)	(563)	-	(563)
	7,526	340	7,866	6,942	250	7,192

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 INVESTMENTS

12.1 RECONCILIATION OF INVESTMENTS – PRINCIPAL SECTION

Reconciliation of investments held at beginning and end of year:

	Value at 01 January 2020	Purchases at Cost and Derivative payments	Sales Proceeds and Derivative receipts	Change in market value	Value at 31 December 2020
	£000	£000	£000	£000	£000
Equities	500,787	299,177	(225,591)	68,262	642,635
Bonds	128,962	89,742	(43,649)	9,032	184,087
Pooled investment vehicles	791,500	287,988	(416,958)	31,258	693,788
Property	188,822	1,270	(2,952)	(9,250)	177,890
Derivatives - net	-	1,414	(1,415)	(3)	(4)
AVC investments	2,553	206	(242)	159	2,676
	<u>1,612,624</u>	<u>679,797</u>	<u>(690,807)</u>	<u>99,458</u>	<u>1,701,072</u>
Cash deposits	30,548				24,214
Accrued Income	6,442				6,276
Property debtors	2,042				3,377
Other investment assets	17				2,355
Property creditors	(4,770)				(4,018)
Other investment liabilities	-				(523)
	<u>1,646,903</u>				<u>1,732,753</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 and, during the year, has suffered short term disruption from Covid-19. 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. At 31 December 2020, the Scheme held private equity and infrastructure investments with Partners Group of £44.573m (2019: £40.429m); private equity investments with Hg Capital of £44.869m (2019: £35.321m) and Warburg Pincus £21.809m (2019: £7.053m), private debt with Ares of £22.956m (2019: £16.650m) and infrastructure with Infracapital of £57.960m (2019: £63.807m). These holdings total 10.1% (2019: 9.3%) of the Scheme's net assets.

During the year the passive equity pooled fund holdings in LGIM of £325m were transferred into a global equity portfolio with State Street in specie and via cash. This is a mixture of segregated global equities and passive hedged global equity pooled funds.

MRC PENSION SCHEME
YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12.2 RECONCILIATION OF INVESTMENTS – UNIVERSITIES SECTION

	Value at 01 January 2020	Purchases at Cost	Sales Proceeds	Change in market value	Value at 31 December 2020
	£000	£000	£000	£000	£000
Equities	22,937	7,109	(5,121)	7,998	32,923
Pooled Investment Vehicles	89,166	7,849	-	12,501	109,516
	112,103	14,958	(5,121)	20,499	142,439
Cash	410				621
Accrued income	20				22
	112,533				143,082

12.3 CONCENTRATION OF INVESTMENTS

The following assets, all within the Principal Section, account for more than 5% of the Scheme's total net assets at 31 December 2020

	2020 £000	2020 %	2019 £000	2019 %
L&G FTSE All-Share ex Tobacco Equity Index	-	-	147,577	8.4
Aviva Lime Property Fund	119,306	6.3	117,326	6.6
L&G Europe (Ex-UK) Index – Hedged	-	-	92,378	5.2

12.4 TRANSACTION COSTS

Included within the purchases and sales figures are direct transaction costs of £1,850,000 (2019: £995,000). Direct transaction costs incurred are analysed below:

	Fees	Commission	Stamp Duty	Total 2020	Total 2019
	£000	£000	£000	£000	£000
Equities	201	163	3	367	196
Property	1,483	-	-	1,483	799
	1,684	163	3	1,850	995

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Details of investments held at year end

12.5 PROPERTY

	2020 £000	2019 £000
UK freehold property	142,940	145,180
UK leasehold property	34,950	43,642
	<u>177,890</u>	<u>188,822</u>

During the year the Scheme sold a retail property in Halifax for £3,000,000 and 329.85 units held in the Central London Office Fund for £8,461,424.

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.

12.6 POOLED INVESTMENT VEHICLES

	Principal Section 2020 £000	Universities Section 2020 £000	Total 2020 £000	Principal Section 2019 £000	Universities Section 2019 £000	Total 2019 £000
Equities	268,894	-	268,894	397,044	-	397,044
Bonds	5,651	109,516	115,167	3,947	89,166	93,113
Private equity	111,251	-	111,251	82,803	-	82,803
Private debt	22,957	-	22,957	16,650	-	16,650
Infrastructure	57,960	-	57,960	63,807	-	63,807
Property	200,526	-	200,526	212,039	-	212,039
Cash	26,549	-	26,549	15,210	-	15,210
	<u>693,788</u>	<u>109,516</u>	<u>803,304</u>	<u>791,500</u>	<u>89,166</u>	<u>880,666</u>

12.7 DERIVATIVES

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

	2020 Assets £000	2020 Liabilities £000	2019 Assets £000	2019 Liabilities £000
Forward foreign exchange	1	-	-	-
Equity futures	-	(5)	-	-
	<u>1</u>	<u>(5)</u>	<u>-</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12.8 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.

There were no outstanding contracts at the end of 2019, however the Scheme continues to enter into such contracts on an on-going basis.

Contract	Settlement Date	Currency Bought '000	Currency Sold '000	2020 Asset £000	2020 Liability £000
Forward (OTC)	2 Jan 2020	GBP 99	HKD 1,036	1	-

Futures contract

Within the State Street Segregated Equity Portfolio there is one futures contract as follows:

Contracts	Expiration	Underlying Investment	Notional Value	2020 Asset Value £000	2020 Liability Value £000
Future x 5	Less than 1 year	FTSE 100 IDX	GBP321,000	-	(5)

12.9 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:

	2020 £000	2019 £000
Utmost		
– with profits	-	154
– unit trusts	458	300
Standard Life		
– with profits	52	41
– unit trusts	2,166	2,058
	2,676	2,553

12.10 CASH DEPOSITS

	2020 £000	2019 £000
UK Cash	23,607	29,134
Overseas Cash	607	1,414
	24,214	30,548

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12.11 FAIR VALUE HIERARCHY

The fair value of financial instruments has been determined using the following fair value hierarchy:

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

Assumptions used to value the assets and liabilities are as follows:

Properties, including property pooled funds, and Limited Partnership type funds, as well as with-profits AVCs, have been included in level 3 having no equivalent asset available in an open market and therefore requiring specialised valuation techniques. Directly held properties are valued as stated in note 3.6 on page 37 and using the assumptions stated in note 12.5.

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 2020
	£000	£000	£000	£000
Equities	642,635	-	-	642,635
Bonds	-	184,087	-	184,087
Pooled investment vehicles	-	301,095	392,693	693,788
Property	-	-	177,890	177,890
Derivatives – net	-	(4)	-	(4)
AVC investments	-	2,624	52	2,676
Cash	24,214	-	-	24,214
Other investment balances - net	7,467	-	-	7,467
	674,316	487,802	570,635	1,732,753

Universities Section	Level 1	Level 2	Level 3	Total 2020
	£000	£000	£000	£000
Equities	32,923	-	-	32,923
Pooled investment vehicles	-	109,516	-	109,516
Cash and accrued income	643	-	-	643
	33,566	109,516	-	143,082

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Principal Section	Level 1	Level 2	Level 3	Total 2019
	£000	£000	£000	£000
Equities	500,787	-	-	500,787
Bonds	-	128,962	-	128,962
Pooled investment vehicles	-	416,202	375,298	791,500
Property	-	-	188,822	188,822
Derivatives – net	-	-	-	-
AVC investments	-	2,358	195	2,553
Cash	30,548	-	-	30,548
Other investment balances - net	3,731	-	-	3,731
	<u>535,066</u>	<u>547,522</u>	<u>564,315</u>	<u>1,646,903</u>
Universities Section	Level 1	Level 2	Level 3	Total 2019
	£000	£000	£000	£000
Equities	22,937	-	-	22,937
Pooled investment vehicles	-	89,166	-	89,166
Cash and accrued income	430	-	-	430
	<u>23,367</u>	<u>89,166</u>	<u>-</u>	<u>112,533</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12.12 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 SORP recommends these risk disclosures are made for all investments.

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.

(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 total value exposed to this risk is shown in the table in notes 12.1 and 12.2. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk with the investment managers listed on page 3 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.

A summary of pooled investment vehicle by type of arrangement is shown in the table below.

POOLED INVESTMENT VEHICLES BY TYPE

	Principal Section 2020 £000	Universities Section 2020 £000	Total 2020 £000	Principal Section 2019 £000	Universities Section 2019 £000	Total 2019 £000
Unit linked insurance policies	187,409	-	187,409	324,466	-	324,466
Property unit trusts	200,526	-	200,526	212,039	-	212,039
Limited partnerships	192,167	-	192,167	163,259	-	163,259
Open ended funds	32,200	109,516	141,716	19,157	89,166	108,323
Cayman exempted fund	81,486	-	81,486	72,579	-	72,579
	693,788	109,516	803,304	791,500	89,166	880,666

MRC PENSION SCHEME

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

Direct 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 these investments being predominantly held in investment-grade bonds.

The Trustee considers financial instruments to be investment grade if rated BBB or higher, using RLAM composite rating determined by taking the S&P rating first and, if unavailable, the Moody's rating; otherwise the Fitch rating is used.

The credit ratings of the segregated bond funds are as follows:

Source of credit risk	Investment Grade		Non-Investment Grade		Unrated		Total	
	£'000	%	£'000	%	£'000	%	£'000	%
2020								
RLAM Main Section Segregated Bond Portfolio	173,042	94.0	3,866	2.1	7,179	3.9	184,087	100.0

Source of credit risk	Investment Grade		Non-Investment Grade		Unrated		Total	
	£'000	%	£'000	%	£'000	%	£'000	%
2019								
RLAM Main Section Segregated Bond Portfolio	119,290	92.5	2,708	2.1	6,964	5.4	128,962	100.0

There is also direct credit risk resulting from the derivative holdings. These are all unrated.

Indirect credit risk arises through the bond and cash pooled investment vehicles. The pooled investment vehicles and cash held are all unrated.

The key sources of credit risk at year-end are set out below – all of these funds are treated as being 100% exposed to direct or 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)	76,027	132,594	7.6
RLAM Index-Linked Gilts (direct, segregated)	52,936	51,493	3.0
RLAM Sterling Extra Yield Bonds (indirect, pooled)	3,947	5,651	0.3
RLCM Cash Plus Fund (indirect, pooled)	15,210	26,549	1.4

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)	27,234	33,432	23.0
RLAM Index Linked Bonds (indirect, pooled)	61,932	76,084	52.4

The corporate bond allocations in the Principal Section and Universities 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.

MRC PENSION SCHEME

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In the past, UK government bonds were assumed to be risk-free. However, since the credit worthiness was downgraded to AA from AAA, this is included 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.

(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. Some equity, private equity, debt and infrastructure funds are unhedged and therefore indirect currency risk occurs as a result of the underlying assets of the fund.

The segregated funds net unhedged exposed to currency risk (after allowing for this hedging and including uncommitted cash) are as follows:

Principal Section

Source of currency risk	USD exposure (£'000)	EUR exposure (£'000)	JPY exposure (£'000)	Other exposure (£'000)	Total non-sterling exposure at 2020 (£'000)	Total non-sterling exposure at 2019 (£'000)
Segregated equities	167,820	20,249	34,313	162,116	384,498	362,714

The above disclosure includes £607k of uncommitted cash held in currencies other than GBP.

Universities Section

Source of currency risk	USD exposure (£'000)	EUR exposure (£'000)	JPY exposure (£'000)	Other exposure (£'000)	Total non-sterling exposure at 2020 (£'000)	Total non-sterling exposure at 2019 (£'000)
Segregated equities	20,719	2,474	3,051	4,771	31,015	21,515

The above disclosure includes £19k of uncommitted cash held in currencies other than GBP.

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The pooled investment funds exposed to direct currency risk (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 exposure (£'000)	Total non-sterling exposure at 2020 (£'000)	Total non-sterling exposure at 2019 (£'000)
Pooled equities	17,242	399	-	62,687	80,328	72,208
Pooled private equity/debt/infrastructure	32,291	49,237	-	16,953	98,482	76,581
Total					178,810	148,789

1. Figures may not sum exactly due to rounding.
2. The Pooled Private Equity figures are non-statutory and may be subject to change.
3. Warburg Pincus currency exposure is calculated on a cost-split basis.

- **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 within the pooled funds.

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 (direct, segregated)	52,936	51,493	3.0
RLAM Corporate Bonds (direct, segregated)	76,027	132,594	7.6
RLAM Sterling Extra Yield Bonds (indirect, pooled)	3,947	5,651	0.3
RLCM Cash Plus Fund (indirect, pooled)	15,210	26,549	1.4

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 (indirect, pooled)	27,234	33,432	23.0
RLAM UK Corporate Bonds (indirect, pooled)	61,932	76,084	52.4

MRC PENSION SCHEME

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

- **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.

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 (direct)	500,787	642,630	30.9
Equity pooled fund investments (indirect)	397,044	268,894	15.5
Property segregated investments (direct)	188,822	177,890	10.2
Property pooled fund investments (indirect)	212,039	200,526	11.5
Infrastructure pooled fund investments (indirect)	63,807	57,960	3.3
Private equity pooled fund investments (indirect)	82,803	111,251	6.3
Private debt pooled fund investments (indirect)	16,650	22,957	1.3

The Universities 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 £31,139m (2019: £22.937k).

13 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.

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 CURRENT ASSETS

	Principal Section 2020 £000	Universities Section 2020 £000	Total 2020 £000	Principal Section 2019 £000	Universities Section 2019 £000	Total 2019 £000
Cash balance	13,545	491	14,036	8,064	482	8,546
Contributions due						
- from employers	1,208	1,590	2,798	1,195	1,816	3,011
- in respect of employees	535	108	643	528	135	663
Pensions paid in advance	3,077	-	3,077	3,103	-	3,103
Other debtors	306	-	306	319	-	319
	18,671	2,189	20,860	13,209	2,433	15,642

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.

15 CURRENT LIABILITIES

	Principal Section 2020 £000	Universities Section 2020 £000	Total 2020 £000	Principal Section 2019 £000	Universities Section 2019 £000	Total 2019 £000
Unpaid benefits	114	-	114	950	-	950
Due to employer*	6,176	-	6,176	6,090	-	6,090
Accrued expenses	2,313	110	2,423	2,769	85	2,854
VAT payable	142	-	142	399	-	399
Other creditors**	-	91	91	155	112	267
	8,745	201	8,946	10,363	197	10,560

* Amounts due to the employer are in respect of pensions payroll for November and December 2020.

** Other creditors in the Universities Section are amounts due to the Principal Section in relation to benefits paid by the Principal Section to or on behalf of members who were accruing benefits in both sections.

16 RELATED PARTY TRANSACTIONS

Key Management Personnel

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 2020 five active members and four pensioner members served as Trustee Directors. During the year one active member Trustee Director retired, to become a pensioner, and one active Trustee Director member became a deferred pensioner.

During the year, the Scheme paid £3,319 (2019: £11,893) 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 9, on page 40.

In addition, each pensioner Trustee Director is paid an allowance per meeting attended of £750 per meeting by the Scheme. Furthermore, the Scheme pays an attendance allowance of £5,000 per annum for Mr Ballantine and £750 per meeting attended to Mr Cooke and Mr Morgan as co-opted members of the Investment Subcommittee. The Chairman receives remuneration from UKRI which is reimbursed by the Scheme on receipt of a quarterly invoice.

These amounts are included within the Trustee fees and expenses in Note 9, on page 40.

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Other related parties - Employer

MRC, as part of UKRI, have re-charged the Scheme for administration and processing fees of £134,526 (2019: £135,017). These amounts are included within the administration expenses in Note 9, on page 40.

Other than as disclosed elsewhere in these financial statements there were no other related party transactions during the year ended 31 December 2019 and 2020.

There were no employer-related investments held at the year end (2019: none).

17 TRANSFERS BETWEEN SECTIONS

During the year cash was transferred from the Universities Section to the Main Section in relation to benefits which were paid in total from the Main Section but derived in part in the Universities Section.

18 CAPITAL COMMITMENTS

The Scheme had the following capital commitments at 31 December 2020:

Fund	CCY	Total Commitment ‘000	Outstanding Commitment 2020 ‘000	Outstanding Commitment 2019 ‘000
HgCapital 5 LP private equity	GBP	4,714	-	-
HgCapital 6 LP private equity	GBP	9,452	-	-
Hg Capital 7 E LP private equity*	GBP	13,194	-	4,206
Hg Capital 8 C LP private equity	GBP	15,000	6,228	10,406
HgCapital Mercury 1 C LP private equity**	GBP	4,620	-	-
HgCapital Mercury 2 A LP private equity	GBP	7,500	3,040	5,929
Hg Saturn A LP private equity	GBP	10,000	2,965	4,698
Infracapital Fund II infrastructure	GBP	60,000	5,710	7,685
Infracapital Greenfields	GBP	30,000	12,421	15,345
Infracapital Fund III infrastructure	GBP	25,000	7,597	14,074
Partners Group Value 2011 private equity	EUR	12,000	1,677	1,677
Partners Group Infra 2015 infrastructure	USD	31,000	12,279	14,817
Partners Group Value 2017 private equity	EUR	56,600	35,002	38,206
Ares Capital Europe IV (G) Levered	GBP	30,000	8,395	14,263
Ares Capital Europe V (G) Levered	GBP	90,000	90,000	-
Warburg Pincus Global Growth E	USD	63,200	34,634	53,056

*HgCapital 7 has repaid some recallable funds and also reduced the partners' commitment in 2020 from £15m to £13.2m.

**HgCapital Mercury 1 fund has also repaid some recallable funds and also reduced the partners' commitment in 2019 from £5.0m to £4.6m.

19 SUBSEQUENT EVENTS

UKRI paid £7.0m in March 2021 to the Universities Section and will continue to pay amounts quarterly, to meet the requirement of the Schedule of Contributions certified by the Actuary on 16 December 2020.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 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. Following a further High Court ruling on 20 November 2020 further clarification was provided in respect of transfer value payments. The Trustee is reviewing, with their advisers, the implication of these rulings 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. This review is ongoing. As soon as the review is finalised and any liability quantified, members affected will be contacted. The Scheme Actuary has advised that cost implications will not be material and has included a contingency of £5m in the 2019 actuarial valuation.

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

IMPLEMENTATION STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2020 (forming part of the Trustee's Report)

Introduction

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

The statement:

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

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

Trustee's overall assessment

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

Review of the SIP

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

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

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

Policy in relation to the kinds of investments to be held

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

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

Investment strategy and objectives

Investment strategy

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

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

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As part of this review exercise, the Trustee:

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

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

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

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

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

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

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

Policy in relation to the expected return on investments

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

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

Risk capacity and risk appetite

Policy in relation to risks

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

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

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

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

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

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

Stewardship in relation to the Scheme assets

Policies in relation to investment manager arrangements

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

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

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

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

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

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

Investment manager monitoring and changes

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

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

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

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

Stewardship of investments

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

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

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

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

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

Stewardship - monitoring and engagement

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

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

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

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

Investment manager engagement policies

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

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

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

Exercising rights and responsibilities

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

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

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

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

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

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

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

Trustee's assessment

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

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

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

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

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YEAR ENDED 31 DECEMBER 2020

Appendix

Summary of voting activity for the appointed Investment Managers:

Principal Section

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

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

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

Universities Section

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

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

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

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

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

MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2020

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

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

ACTUARIAL CERTIFICATES

Principal Section

Name of Scheme: MRC Pension Scheme : MRC section

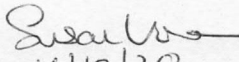
Adequacy of rates of contributions

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 19 November 2020.

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: 16/12/20
Name: Sue Vivian
Qualification: Fellow of the Institute of Actuaries
Name of Employer: Government Actuary's Department
Address: Finlaison House
15-17 Fumival Street
London,
EC4A 1AB

MRC PENSION SCHEME
YEAR ENDED 31 DECEMBER 2020

ACTUARIAL CERTIFICATES

Universities Section

Name of Scheme: MRC Pension Scheme : University section

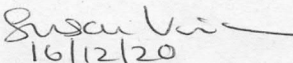
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