

**MRC Pension Scheme – University  
Section**

**Statement of Investment Principles**

***March 2018***

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# 1. Introduction

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## 1.1 Section Background

- This Statement of Investment Principles (the "Statement") details the principles governing investment decisions for the University Section (the "Section") of the MRC Pension Scheme (the "Scheme"). The Main Scheme has a separate Statement, the latest version of which is dated March 2018.
- The Section:
  - operates for the exclusive purpose of providing retirement and death benefits to eligible participants and beneficiaries;
  - provides benefits calculated on a defined benefit basis, and an additional voluntary contribution option is also available to Section members; and
  - closed to new entrants but remains open to future accrual for existing active members of the Section, effective 1 January 2014.
- Conduent HR Services (Conduent) is the investment consultant to the Trustee.

## 1.2 Statement Structure

This Statement is divided into two main sections as follows:

- **Statutory Section:** This section covers the requirements of and the Section's compliance with the provisions of the Pensions Act 1995 and 2004 as amended by the Occupational Pension Schemes (Investment) Regulations 2005.
- **Myners Section:** This section includes additional non-statutory information that is set out in the Myners Principles and now included in a strengthened Statement.

## 2. Statutory Information

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### 2.1 Introduction

- This section of the Statement covers the requirements of the Pensions Act 1995 and 2004 as amended by the Occupational Pension Schemes (Investment) Regulations 2005. In accordance with section 35 of the Pensions Act 1995, the Trustee has reviewed and considered written advice from the investment consultant prior to the preparation of this Statement and have consulted the sponsoring employer and the Scheme Actuary.
- The Trustee has full regard to its investment powers under the Trust Deed and Rules and the suitability of the various types of investments, the need to diversify, the custodianship of assets and any self-investment.
- The investment managers will prepare detailed quarterly reports on their activities and the Trustee will meet with them periodically.
- This Statement will be reviewed periodically or whenever changes to the investment strategy or investment managers are necessary. Any changes to this Statement will be undertaken following advice from the investment consultant, as will any removal or appointment of the investment managers.
- All of the Section's investment decisions are under the control of the Trustee, with no constraint by the sponsoring employer. All investment decisions are taken by the board as a whole. However, the Trustee has appointed an Investment Sub-Committee ("ISC") with responsibilities as outlined in the ISC's Terms of Reference. The Trustee will examine regularly whether additional investment training is desirable for any individual Trustee Director.

### 2.2 Statutory requirements

- This section of the Statement details the Trustee's policies in compliance with sections 35 and 36 of the Pensions Act 1995.

#### 2.2.1 Investment objectives and suitability of investments

- The Trustee's primary objective is to operate an investment strategy that provides appropriate security for all beneficiaries.
- The Trustee's agreed investment strategy is based on an analysis of the liability profile of the Section, the required investment return and the returns expected from the various asset classes over the long-term. Long-term returns from equities are expected to exceed the returns from bonds and cash, although equity returns and capital values may demonstrate higher volatility. The Trustee is prepared to accept some level of volatility in

order to aim to achieve the overall investment objectives, subject to the level of risks taken being supported by the strength of the sponsor's covenant.

- The Trustee has translated its objectives into a suitable strategic asset allocation benchmark for the Section, details of which are included in the appendices.
- In accordance with the Financial Services & Markets Act 2000, the Trustee is responsible for setting the general investment policy, but the responsibility for all day-to-day investment management decisions has been delegated to investment managers authorised under the Act. Details are included in the appendices.
- The Trustee considers its current strategic asset allocation to be consistent with the current financial position of the Section.

### **2.2.2 Diversification**

- The Trustee, after taking appropriate investment advice, has selected a strategic asset allocation benchmark as set out in Appendix 1.
- Subject to the respective benchmarks and guidelines, the investment manager is given full discretion over the choice of securities and is 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.
- Given the size and nature of the Section, the Trustee has decided to invest on a pooled fund basis; any such investment is effected through a direct agreement with an investment manager and/or through an insurance contract.
- The Trustee is satisfied that the range of pooled vehicles in which the Section's assets are invested provides adequate diversification.

### **2.2.3 Balance between different kinds of investments**

- The appointed investment managers will hold a diversified mix of investments in line with their agreed benchmarks. Within each major market the manager will maintain a diversified portfolio of stocks.

### **2.2.4 Risk**

- The Trustee considers the main risk to be that of the assets being insufficient to meet the Section's liabilities as they fall due. The Trustee has assessed the likelihood of undesirable financial outcomes arising in the future.
- The investment strategy has been determined with the objective of achieving a value of the assets to match the value placed on the liabilities of the Section over time, and of the

need to avoid undue volatility of contribution rates. In determining the Section's investment strategy, the Trustee received advice from its investment consultant regarding its suitability relative to the Section's liability profile. Taking this advice into account, along with the expected returns required to meet the Trustee's return requirements, resulted in the strategy outlined in Appendix 1 being agreed.

- Although the Trustee acknowledges that the main risk is that the Section will have insufficient assets to meet its liabilities, the Trustee recognises other contributory risks, including the following. The risk:
  - associated with the differences in the sensitivity of asset and liability values to changes in financial and demographic factors;
  - of the Section having insufficient liquid assets to meet its immediate liabilities;
  - of the investment managers' failing to achieve the required rate of return;
  - associated with the lack of diversification of investments; and
  - the failure of the Section's Principal Employer to meet its obligations.
- The Trustee manages and measures these risks on a regular basis with actuarial and investment reviews, and in the setting of investment objectives and strategy.
- The Trustee undertakes monitoring of the investment managers' performance against its target and objectives on a regular basis.
- The Trustee provides a practical constraint against Section investments deviating greatly from the Trustee's intended approach by adopting a specific asset allocation benchmark to which the Scheme's asset allocation is rebalanced, if necessary. This is shown in Appendix 1.
- The Trustee has signed a legal agreement with its investment manager, which details the specific performance targets; these are shown in Appendix 1. Within each asset class, the investment manager is expected to maintain a portfolio of securities that 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 Section's investment consultant. Any deviation from the target asset allocation will be discussed periodically with the investment consultant.

### **2.2.5 Expected return on investments**

- The investment strategy is believed to be capable of meeting, in the long-run, the overall required rate of return as set out in the Scheme Actuary's published actuarial valuation report.

### **2.2.6 Kind of investments to be held**

- The Section may invest in quoted and unquoted securities of UK and overseas markets including, for example, equities, property, fixed interest and index linked bonds, cash etc, via pooled investment vehicles that are considered to be appropriate for tax-exempt registered occupational pension schemes. The Trustee has considered the attributes of the various asset classes, 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); and
  - taxation.

### **2.2.7 Realisation of investments**

- In the event of an unexpected need to realise all or part of the assets within the portfolio, the Trustee requires the investment manager to be able to realise the Section's investments within 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 Section. The majority of the assets are not expected to take an undue time to liquidate.

### **2.2.8 Social, environmental and ethical Issues**

- The Trustee's objective is to ensure that the investment managers have the financial interests of the Section members as their first priority when choosing investments. The Trustee also attaches high importance to social, environmental and ethical considerations in relation to the selection of appropriate assets, and gives significant weight to these considerations both in determining investment policy and in selecting suitable investment managers. The investment managers appointed have been instructed to work proactively (using both formal and informal approaches) to promote the highest standards of:

- socially responsible corporate behaviour;
  - environmentally responsible corporate behaviour;
  - corporate ethics; and
  - corporate governance.
- If the Trustee appoints managers to manage a segregated portfolio of equities on an active basis, 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.

### 2.2.9 Voting rights attaching to investments

- The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments and to encourage the investment managers to exercise those rights.
- All the managers have discussed their practice in relation to corporate governance with the Trustee, and this practice is reviewed from time to time in discussion with the managers. The managers are expected to exercise voting rights with the general objective of enhancing shareholder value in the longer term.

### 2.2.10 Additional assets

- The Trustee makes available investment options with Standard Life, for Section members' Additional Voluntary Contributions ("AVCs").

AVC Provider	Investment Options
Standard Life	<p>A variety of individual low, medium and high risk fund options, of which a maximum of ten can be chosen from cash, bonds, equity and property.</p> <p>Lifestyle options with varying terms.</p>

- The Trustee will monitor the performance of the AVC providers periodically.
- Members are directed to seek independent financial advice when considering their AVC arrangements.



## 3. Myners Principles

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The Myners review of "Institutional Investing in the UK" was published in March 2001. It included a set of 10 Principles that pension scheme trustees were recommended to use when considering their investment strategy for defined benefit pension schemes and 11 Principles for defined contribution pension schemes. The Government endorsed the report with some minor modifications in 2 October 2001. Pension scheme trustees were asked to comply with the Principles on a voluntary basis. The Myners Principles recommend that certain issues are included in the Statement.

The Myners Principles were subsequently reviewed in October 2008. The explicit requirement to include certain items in a strengthened Statement was removed and replaced with a requirement for Trustee to act in a transparent and responsible manner. In making the following statements the Trustee believes that they are complying with the spirit of these Principles.

### 3.1 Responsible ownership

Details of the responsibility for the exercising of rights (including voting rights) attaching to the Section's investments are included in section 2.2.9.

### 3.2 Transparency & reporting

The Trustee has discretion over the form of reporting it wishes to undertake. This Statement provides the following details of the Trustee's investment approach:

- Who is taking which decisions and why has the structure been selected?

Details of the Trustee's decision making structure are included in section 2.1.

- What is the Trustee's investment objective?

Details of the Trustee's investment objective are included in section 2.2.1, with the appointed investment managers' specific objectives set out in appendix 1.

- What is the Trustee's asset allocation strategy, including projected investment returns in each asset class, and how the strategy has been selected?

Details of the Trustee's asset allocation strategy are included in appendix 1. The strategy was determined after taking advice from the investment consultant and consultation with the sponsoring employer and the Scheme Actuary.

- What are the mandates given to all advisers and investment managers?

The responsibilities of the Trustee, the investment consultant and the investment managers are outlined in section 3.3, while the investment managers' mandates are specified in appendices 1 and 2.

- What is the nature of the fee structures in place for all advisers and managers; and why this set of structures has been selected?

Details of the fees charged by the investment managers and the investment consultant are included in appendix 2. The Trustee has discussed and agreed these fees following consultation with its advisers, where appropriate, and believes it is reasonable for the services it receives.

## **3.3 Appointments & responsibilities**

### **3.3.1 Trustee**

The Trustee's primary responsibilities regarding investments include:

- Preparation of the Statement and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the Principal Employer and the investment consultant, at least every three years. The Statement will also be reviewed following a significant change to investment strategy and/or the investment managers.
- Appointing investment consultants and investment managers as necessary for the good stewardship of the Section's assets.
- Reviewing the investment strategy following the results of each triennial actuarial valuation, and/or asset liability modelling exercise, and/or significant changes to the Section's liabilities, taking advice from the investment consultant and the Scheme Actuary.
- Assessing the processes (and therefore the performance) of the investment managers by means of regular, but not less than annual, reviews of information obtained (including investment performance).
- Monitoring compliance of the investment arrangements with this Statement on a regular basis.
- Monitoring risk and the way in which the investment managers have cast votes on behalf of the Trustees in respect of the Section's equity holdings.

### **3.3.2 Investment consultant**

The main responsibilities of the investment consultant include:

- Assisting the Trustee in the preparation and periodic review of this Statement in consultation with the Principal Employer.
- Undertaking project work including reviews of the investment strategy, investment manager structure and the performance of the investment managers as required by the Trustee.
- Advising the Trustee on the selection and review of investment managers.
- Monitoring and advising upon where contributions should be invested or disinvested on a periodic basis.

### **3.3.3 Investment managers**

The investment managers' main responsibilities include:

- Investing assets in a manner that is consistent with the objectives set.
- Ensuring that investment of the Section's assets is in compliance with prevailing legislation and the constraints detailed in this Statement.
- Providing the Trustee with quarterly reports including any changes to their investment process and a review of the investment performance.
- Attending meetings with the Trustee as and when required.
- Informing the Trustee of any changes in the fee structure, internal performance objectives and guidelines of any pooled fund used by the Section as and when they occur.
- Exercising voting rights on shareholdings in accordance with their general policy.

### **3.3.4 Custodian**

- The custodianship arrangements are those operated by the investment managers for all clients investing in their pooled funds.

### **3.3.5 Administrators**

- The Section's administration is carried out by JLT Employee Benefits.

### **3.3.6 Scheme Actuary**

The Scheme Actuary's main responsibilities in respect of investment policy include:

- Commenting on the suitability of the Section's investment strategy given the financial characteristics of the Section.

- Performing the triennial (or more frequently as required) actuarial valuation and advising on the Section's funding level and therefore the appropriate level of contributions in order to aid the Trustee in balancing short-term and long-term investment objectives.

### 3.4 Performance monitoring

- Each of the vehicles in which the Section invests has a stated performance objective against which the performance is measured.
- The investment managers are expected to provide written reports to the Trustee on a quarterly basis.
- The ISC, on behalf of the Trustee will review the performance of the appointed investment managers from time to time, along with reasons for this performance.
- The Trustee receives an independent investment performance monitoring report from their investment consultant on a quarterly basis.

**Signed on behalf of the Trustee of the MRC Pension Scheme**

Name	Signature	Date
W. RAYNER		14 March 2018

Name	Signature	Date
GEOFF DIER		14.3.18

## Appendix 1 – Strategic Benchmark & Objectives

### Section's target asset allocation

The Section's target asset allocation is tabulated below:

Asset Class	Investment Style	Target Allocation (%)	Control Range (%)
UK Corporate Bonds	Active	25.0	20.0 – 30.0
Index Linked Gilts	Active	55.0	50.0 – 60.0
Global Equities	Active	20.0	10.0 – 30.0
<b>Total Section</b>		<b>100.0</b>	

### Benchmarks & performance objectives

The Section has two appointed investment managers at present: Royal London Asset Management ("RLAM") and Baillie Gifford

Benchmark indices and relative performance objectives for each of the funds in which the Section is invested are outlined below. All performance targets are gross of fees, and over rolling three year periods, unless otherwise stated.

Investment Manager	Fund	Benchmark	Performance Target (gross of fees) (% p.a.)
RLAM	UK Long Corporate Bond Fund	iBoxx Sterling Non-Gilt Over 15 Years Index	0.80
	Index Linked Fund	FTSE Actuaries Index Linked Gilt All Stocks Index	0.75
Baillie Gifford	Global Equities	MSCI AC World Index(ex-tobacco)	2.0 – 3.0

## Appendix 2 – Fees

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### Investment manager fees

Investment Manager	Fund	Investment Style	Management Fee (% p.a.)
RLAM	UK Long Corporate Bond Fund	Active	0.23% p.a. on first £25m; 0.21% p.a. on next £25m;
	Index Linked Fund	Active	0.19% p.a. on next £50m; and 0.18% p.a. on over £100m
Baillie Gifford	Global Equities	Active	0.65% p.a. on first £30m; 0.50% p.a. for next £30m; 0.35% p.a. thereafter

*Note: The management fee leverages off the economies of scale provided by the Main Section, which also has fixed income investments with RLAM and global equities with Baillie Gifford.*

### Investment consultancy fees

The investment consultant provides agreed services on a time cost basis subject to agreement in advance. The basis of remuneration is kept under review.