



Trustees' annual report 2017

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Welcome to the

I am pleased to be able to send you this summarised report for 2017, which sets out the salient details on the Scheme's position for the year ending on 31st December, 2016.

The role of the Trustees is one of stewardship, focused on making sure that the Scheme runs well, with support from a range of outside advisers and providers of outsourced services. The role carries significant responsibility on behalf of the scheme members and requires care, prudence and diligence for the discharge of the duties. I have been impressed by – and grateful for – the time, energy and commitment given by those serving on, and supporting, the Trustee Board, as well as by their determination to get to grips with subject matter, often unrelated to their daily work. Those serving on the Trustee Board and the Investment Sub-committee are listed on page 12 of this report.

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In its simplest terms, the Board of Trustees sees its role as making sure that the right benefit is paid to the right person at the right time. While that might, at first sight, seem a straightforward task, the simplification pays scant regard for the full extent of the breadth, depth and technical complexity of the work and expertise required to achieve that simple aim, not least the financial management.

Two key parts of the financial management are the investment of the Scheme's assets and the future funding of the Scheme by the employer. The Scheme continues to have a wide spread of investments, in UK and globally, and recognising the long-term nature of the Scheme's obligations to pay benefits, the investment strategy and allocation of assets takes a correspondingly long term view. In relation to funding, an actuarial valuation is at present underway, the results of which will provide the Trustees and MRC

with an update of how the current measure of the Scheme's benefit obligations compares with the assets currently held, along with an update of the cost of benefits accruing from future service. At the time of writing, the results of the valuation are not yet finalised.

It is expected that the creation of UK Research and Innovation (UKRI) will result in UKRI assuming MRC'S role as Principal Sponsoring Employer. A further update regarding the timing of that change will be issued as soon as is practicable.

The full set of audited accounts can be found along with other key documents at www.mrcps.co.uk using access code 672785.

William Rayner
Chairman of Board of Trustees

Financial highlights

This page gives a summary of the financial information contained in the full Report & Accounts, which have been audited by our independent auditor, PriceWaterhouseCoopers LLP. The audit opinion on the accounts was unqualified – which means that the auditor believes the accounts give a true and fair reflection of the Scheme’s financial status and activity.

You can see the latest full Report & Accounts on the website at www.mrcps.co.uk using scheme identification code 672785 – or you can request a copy from JLT Employee Benefits.

The Scheme had more than 10,000 members and assets of over £1.408 billion as at 31 December 2016

MONEY IN	£'000
Contributions	32,697
Transfers in	119
Other Income	0
Income from investments	40,484
Total	73,300

MONEY OUT	
Payment of benefits	38,713
Refunds and Transfers out	1,295
Administration costs	1,017
Investment Management Fees	7,031
Total	48,056

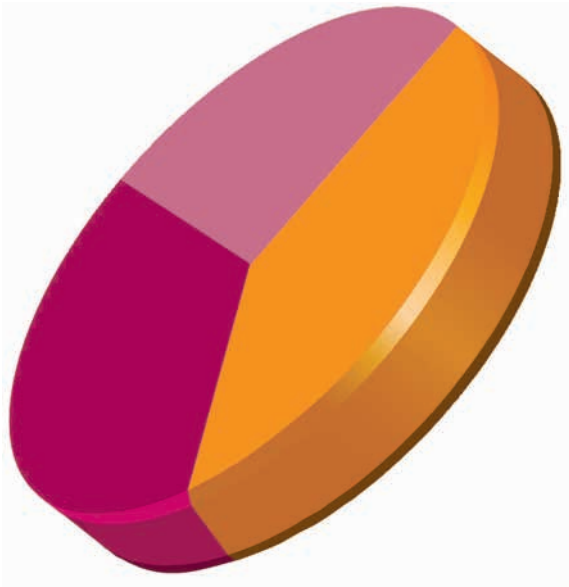
Fund Value at 31 December 2015	1,234,088
Money in less money out	25,244
Change in value of investments	148,693
Fund Value at 31 December 2016	1,408,025

Who is in the Scheme?

2,920 Pensioner members

4,718 Deferred members

2,544 Active members



Pension increases

The government uses the Consumer Prices Index (CPI) in place of the Retail Prices Index (RPI) as the inflation reference for calculating statutory increases to pension schemes. The increase awarded to pensioners this year was 1%.

Investment update

The Trustee Board is responsible for setting and managing the Scheme's investment strategy. An Investment Subcommittee and specialist advisers help the Trustees in this complex area.

The Scheme's assets are split across a wide variety of different fund managers and investment types, including company shares, property, government bonds and company bonds. Although the value of these investments can be affected by instability in the financial markets, having this spread of investments does help to smooth out some of the volatility in returns.

The current investment managers are listed on page 13. Each manager is set a performance target or benchmark, against which his or her performance is measured. This helps in monitoring their performance and identifying those who are doing a good job and those doing less well.

Investment strategy

The Trustee's long-term objective is to achieve an investment return of at least 3% above the rate of price inflation. In order to achieve this, the strategy is to invest mainly in return seeking assets such as equities and property, but also spreading some of the risk through investment in bonds and alternative asset classes, including infrastructure and private equity.

How did the investments perform?

The following chart shows the overall performance of the Scheme's assets against the total Scheme benchmark over the one, three, five and ten year periods to 31 December 2016.

	1 year	3 years (pa)	5 years (pa)	10 years (pa)
Fund	14.9%	10.0%	11.0%	6.3%
Benchmark	14.5%	9.4%	10.2%	6.4%

Where are the Scheme's assets invested?

The total value of the Scheme's assets on 31 December 2016 was over £1.408 billion. The chart below shows how the assets were invested:

Asset class holding	(%)
UK Fixed Interest	4.4
Index Linked Securities	3.9
UK Equities	11.1
Overseas Equities	17.0
Property (Direct)	12.9
Cash and other	1.5
Pooled investment vehicles	(%)
UK Equity	9.9
Overseas Equity	19.5
UK Fixed Interest	2.1
Private Equity	3.2
Property	11.0
Infrastructure	3.5

Members' Open Forum

If you would like to meet the Scheme's Trustees, there will be an open forum at MRC's offices in the David Phillips Building, Polaris House in Swindon at 2:00pm on Tuesday, 17 October 2017.

If you do not work on-site but would like to attend this meeting, please contact Amiee Jones (amiee.jones@headoffice.mrc.ac.uk) in advance to reserve a seat as places will be limited in number.



Tax limits & UKRI update

Annual Allowance

From April 2016, the annual allowance of £40,000 will be tapered for members who have a threshold income in excess of £110,000 and an adjusted income in excess of £150,000.

For every £2 that a member's adjusted income exceeds £150,000 the annual allowance will be reduced by £1 to a minimum of £10,000.

JLT sends out pensions savings statements each June, which are based on data held in respect of the MRC Pension Scheme.

If you receive taxable income other than from MRC or contribute to pension arrangements outside of the Scheme, you may be affected by this change and should seek independent financial advice before the end of this tax year.

Lifetime Allowance (LTA)

The LTA, which applies to the total amount of all pension entitlements (except State pensions), reduced from £1.25m to £1m with effect from April 2016, although it will be increased annually in line with changes in the Consumer Prices Index (CPI) from April 2018 onwards.

Those who applied for and were granted primary or enhanced protection prior to April 2009 will continue to receive those protections provided the conditions attaching to the protection are still being met.

Those with pension pots in excess of £1.25m as at 5 April 2014 had until 5 April 2017 to apply for individual protection 2014. Further information is available from the HMRC website at www.hmrc.gov.uk.

If you think the £1m limit will affect you, please seek independent financial advice without delay. An independent financial adviser (IFA) can be found in your local area by visiting www.unbiased.co.uk.

UK Research and Innovation

The Higher Education and Research Act 2017 will pave the way for the creation of UK Research and Innovation (UKRI), with effect from April 2018.

MRC will form part of this new consolidated research body, along with the other six research councils, HEFCE and Innovate UK.

Although MRC will continue to exist within UKRI with a significant degree of control over its funding, it will cease to be an employing body once its Royal Charter is revoked.

It is intended that UKRI will assume MRC's role as Principal Sponsoring Employer of the MRC Pension Scheme and that new entrants will continue to join the Scheme.

MRC is working closely with the Department for Business, Energy and Industrial Strategy (BEIS), its sponsoring government department, to ensure that UKRI replaces MRC and to this end the legislation was amended during its passage through the House of Commons to enable UKRI to operate existing staff pension schemes.

The Trustees and MRC are in dialogue regarding the transition of Principal Sponsoring Employer from MRC to UKRI and further updates will follow in the run up to April 2018.

Summary Funding Statement – August 2017

The Trustees provide regular updates on the financial position of the Scheme to help you understand more about how your pension is paid for and to explain the state of the Scheme's finances. This is your 2017 Summary Funding Statement.

A further Funding Statement will be issued following the completion of the actuarial valuation as at 31 December 2016, which is currently underway. Initial indications suggest that the valuation will show a favourable funding position.

There is no need for you to do anything as a result of receiving this Statement. The details it provides are for your information only and should help you to keep track of the financial health of the Scheme from year to year.

The Scheme's financial position

The estimated cost of providing the benefits that you and other members have built up in the Scheme is known as the Scheme's liabilities. To meet these liabilities members and the employers pay

contributions into the Scheme. All contributions are invested in a communal fund, not in separate funds for each individual, and make up the Scheme's assets.

To check the Scheme's financial position the Trustee asks the Scheme Actuary to compare the value of the Scheme's liabilities with its assets:

- if the value of the Scheme's assets is less than the value of the liabilities, it is said to have a shortfall.
- if the value of the Scheme's assets is more than the value of the Scheme's liabilities there is said to be a surplus.

The Trustee commissions an in-depth review of the Scheme's financial position (known as an actuarial valuation) at least once every three years. The last completed actuarial valuation was carried out as at 31 December 2013. An actuarial valuation as at 31 December 2016 is currently under discussion with MRC.

The financial position is also reviewed annually between valuations and the most recent annual review was carried out as at 31 December 2015. The main results of the 2013 actuarial valuation, the 2014 annual funding review and the 2015 annual funding review are given below.

	Review 31/12/15	Review 31/12/14	Valuation 31/12/13
Assets	£1,232m	£1,160m	£1,054m
Liabilities	£1,050m	£1,051m	£894m
Surplus	£182m	£109m	£160m
Ongoing Funding Level	117%	110%	118%

As noted in the previous Summary Funding Statement liabilities associated with university employments are now provided from a separate section created within the Scheme on 1 January 2014. The benefits provided to members are unaffected by the internal arrangement. The assets and liabilities shown above are for the whole scheme. The university employment section comprised around 3% of the total assets and liabilities as at 31 December 2015.

Legal disclosures

As part of this Summary Funding Statement we are required to say the following:

- The actuary estimated that as at the 2013 valuation date the Scheme's assets would have been sufficient to meet approximately 68% of the full cost of securing members benefits with an insurance company. There is no intention to close the Scheme, but we are required to let you know the financial position as at the last valuation date if this were to happen.
- There have not been any payments to any employer out of Scheme funds in the previous twelve months.
- The Scheme has not been modified under section 231(2)(a) of the Pensions Act 2004, or subjected to a direction under section 231(2)(b) of that Act, or bound by a schedule of contributions imposed under section 231(2)(c) of that Act.
- The key Scheme documents, including the latest audited set of accounts, can be found at www.mrcps.co.uk using scheme identification code 672785.

Trustees

There are nine Trustee Directors ('Trustees') of MRC Pension Trust Ltd. Five of the Trustees are appointed by the Medical Research Council (MRC) as principal sponsoring employer, including the Chairman. The other four Trustees are nominated by the members of the Scheme and are known as Member Nominated Trustees (MNTs).

There will be an opportunity to stand as an Member Nominated Trustee in 2018.

Mrs Carole Walker, Professor James Leiper and Dr Kevin Moreton have recently been appointed as Management Trustees.

Hugh Dunlop and Grant Ballantine serve as co-opted members of the Investment Subcommittee.

The Trustees and all those connected with the Scheme were saddened by the death of Mrs Sally-Louise Smith, HR Director at MRC and former Trustee. Our sincere condolences go to her husband Malcolm and her family.

TRUSTEE DIRECTORS

William Rayner[†] (Chairman, appointed 1 October 2016)

Professor Kelvin Cain PhD^{†*}

Professor Howard Cooke PhD^{†*}

Geoff Der^{†*}

Rebecca Leigh

James Leiper PhD (appointed 1 October 2016)

Peter Morgan PhD^{†*}

Kevin Moreton PhD (appointed 1 March 2017)

Carole Walker (appointed 1 September 2016)

* Member Nominated Trustee

† Member of Investment Subcommittee

SECRETARY TO THE TRUSTEE

Jim Clerkin FPMI, FCII, Dip IEB

Advisers

We appoint professional advisers to help in the day-to-day running of the Scheme:

Actuary	Sue Vivian FIA, Government Actuary's Department
Administrator	JLT Employee Benefits
Auditors	PriceWaterhouseCoopers LLP
Investment Consultant	Conduent HR Services (formerly known as Buck Consultants)
Investment Managers	
	Aviva Investors Jersey
	Baillie Gifford
	BlackRock
	First State
	GAM Fund Management
	HgCapital
	Infracapital
	Legal & General
	M&G Guernsey
	Mirabaud
	Montanaro
	Morgan Stanley
	Partners Group
	Royal London
	TH Real Estate
Bankers	Royal Bank of Scotland
Custodians	State Street Bank & Trust Company
Solicitors	DLA Piper UK LLP



Contacts

If you have any questions about the contents of this report, or would like more information, please contact us.

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

MRC Pension Scheme
JLT Employee Benefits
Leatherhead House
Station Road
Leatherhead
Surrey KT22 7ET
Phone: 01372 200275
Email: mrc_pensions@jltgroup.com

MRC Pension Trust Limited
One Kemble Street
London WC2B 4AN
Phone: 020 7395 2289
Email: james.clerkin@headoffice.mrc.ac.uk
Website: www.mrcps.co.uk (access code 672785)

