

# MRC PENSION SCHEME ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2022

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### TABLE OF CONTENTS

TRUSTEE AND ADVISERS	2
TRUSTEE'S REPORT	4
<b>Report on Actuarial Liabilities</b>	6
<b>Statement of Trustee's Responsibilities</b>	16
<b>Investment Report</b>	17
SUMMARY OF CONTRIBUTIONS	28
INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS	29
INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE MRC PENSION SCHEME	30
FUND ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2022	34
STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AT 31 DECEMBER 2022	35
NOTES TO THE FINANCIAL STATEMENTS	36
IMPLEMENTATION STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2022 (forming part of the Trustee's Report)	54
ACTUARIAL CERTIFICATES	60

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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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 (Chair)  
Professor Kelvin Cain PhD\*  
Geoff Der\*  
Hugh Dunlop  
Louise McFarlane  
Kevin Moreton PhD  
Professor Ian Jackson PhD\*  
Carole Walker  
David Brittain\* (from 1 December 2022)

\* Member Nominated Trustee

#### Investment Subcommittee

John Preston (Chair)  
Professor Kelvin Cain PhD  
Professor Howard Cooke PhD#  
Hugh Dunlop  
Geoff Der  
Jayne Atkinson#  
Peter Morgan PhD#  
#Co-opted member of the Subcommittee

#### Secretary to the Trustee

Jim Clerkin FPMP, FCII, Dip-IEB  
M.R.C. Pension Trust Limited  
7th Floor, Caxton House  
Tothill Street  
London SW1H 9NA

#### Independent Auditors

KPMG LLP  
66 Queen Square  
Bristol BS1 4BE

#### Legal Advisers

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

#### Scheme Actuary

Sue Vivian FIA (resigned 27 January 2022)  
The Government Actuary's Department  
Finlaison House  
15-17 Furnival Street  
London, EC4A 1AB

John Coulthard (appointed 27 January 2022)  
Retirement Solutions  
Aon  
Parkside House  
Ashley Road  
Epsom KT18 5BS

#### Scheme Administrators

Mercer Limited  
The Square  
Randalls Way  
Leatherhead  
Surrey KT22 7TW

#### 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

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### TRUSTEE AND ADVISERS (CONTINUED)

#### Investment Consultants

Redington  
Floor 6 One Angel Court  
London EC2R 7HJ

#### 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  
23 St Andrew Square  
Edinburgh, EH2 1BB

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

ICG (from 14 March 2023)  
Procession House  
55 Ludgate Hill  
London, EC4M 7JW

Infracapital  
10 Fenchurch Avenue  
London, EC3M 5AG

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

Liontrust Investment Partners LLP (until 11 May 2023)  
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

Ninety One Fund Managers UK Limited (from 14 March 2023)  
PO Box 9042  
Chelmsford  
CM99 2XL

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  
80 Fenchurch Street  
London, EC3M 4BY

State Street Global Advisers Limited  
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



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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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 in accordance with the establishing document and rules, solely for the benefit of its members and other beneficiaries.

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 (although only 8 served during the year until the appointment of an additional director in December 2022), collectively referred to as "Trustee Directors", or "the Board". The Board is referred to as "The Trustee" in this report. Five Trustee Directors are appointed and can be removed by the principal sponsoring employer, including the Chair. Louise McFarlane resigned as an MNT and was reappointed during the year as an employer nominated Trustee Director. 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 Board will consider the guidance issued by The Pension Regulator on 28 March 2023 on improving Equality, Diversity and Inclusion (EDI) on the governing bodies of pension schemes, insofar as it can within the Scheme membership.

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.

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).

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### TRUSTEE'S REPORT (CONTINUED)

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](http://www.mrcps.co.uk). A member booklet is made available to both new and active members of the Scheme.

A Deed of Sectionalisation and Amendment was completed in December 2013. This created a separate 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.

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.

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.

#### **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 2022 and January 2023, 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.

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.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### TRUSTEE'S REPORT (CONTINUED)

#### Change of Scheme Actuary

Sue Vivian FIA, The Government Actuary's Department, the Scheme Actuary, resigned with effect from 27 January 2022 and John Coulthard of Aon has been appointed in her place with effect from 27 January 2022.

Following the resignation of Sue Vivian FIA, she reported that there were no circumstances connected with her resignation which, in her opinion, significantly affected the interests of the members or prospective members of, or beneficiaries under, the Scheme.

#### 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 and approved by the Trustee, 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 4.2% 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. These assumptions will be reviewed as part of the 2022 valuation.

The results of the 2019 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.

The value of the whole Scheme's assets as at 31 December 2019 was £1,762.0m (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.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### TRUSTEE'S REPORT (CONTINUED)

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

	31 December 2019		31 December 2016	
	Principal Section	Universities Section	Scheme Total	Scheme Total
	£m	£m	£m	£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 considers that it is 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. Work has already started on the 2022 valuation with the formation of a Valuation Working Group, which held its first meeting on 25 November 2022.

### Actuarial Assumptions

The 2019 Actuarial Valuation was carried out by the Scheme Actuary at the time (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 2019 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 <sup>1</sup> % pa	SFO <sup>1</sup> % pa	AFO <sup>2</sup> % 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

<sup>1</sup>Statutory funding objective

<sup>2</sup>Additional funding objective

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

# Guaranteed Minimum Pension; S3NXA-18 are the mortality tables used in the valuation.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### TRUSTEE'S REPORT (CONTINUED)

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 its 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 53 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 60 and 61.

#### **Funding update**

The Actuary prepares an interim funding update between valuations. The most recent annual update as at 31 December 2021 shows liabilities of £1,372m and a surplus of £585m compared to assets of £1,957m for the Principal Section. For the Universities Section, liabilities were £119m, resulting in a surplus of £49m compared to assets of £168m as at the same date. Each sets of figures are based on the Statutory Funding Objective agreed for each section at the 2019 valuation.

#### **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.

During the year, UKRI has made additional quarterly payments amounting to £5.0m (2021: £5.4m) in total towards the funding of the Universities Section and in accordance with the Schedule of Contributions and £4m in March 2022 and £2m in December 2022 towards cash flow and in anticipation of a gradual increase in the employer contribution rate of the University Section. UKRI made an additional payment of £3.5m in March 2023.

##### **Employees' contributions**

Members' contributions from new entrants to the Scheme to both the Principal and Universities sections were unchanged during 2022 at 6.5% of pensionable salary, including members under the new CARE section. For historical reasons, some members pay 6% and those formerly in the maintenance grades pay 5%. In addition, those in the former supplementary section with a pension age of 60 paid an additional 0.25% and those with a pension age of 65 paid an additional 0.50%.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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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 will seek to follow best practice in their approach to Scheme governance, subject to justifiable fees and costs.

In addition to undergoing Scheme specific Trustee training each year, the Trustee has undertaken a review of key advisers needed to administer the Scheme. Key meeting documents are also held electronically on a secure website which is hosted by Diligent.

The Trustee produces an annual business plan against which Scheme performance can be measured. The Chair 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 & MacLennan 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.

#### **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. The current Risk Register is scheduled for a further substantive review to take account of a continuously changing regulatory landscape by the end of 2023.

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

The Trustee has amended its 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 was reviewed again in June 2022. The Trustee also maintains a register of interests, which is reviewed by the Secretary each year. Trustee Directors are required to declare any conflicts arising from agenda items at the start of every Trustee Board and Investment Subcommittee meeting.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### TRUSTEE'S REPORT (CONTINUED)

#### **Covid-19**

The Covid-19 global pandemic significantly disrupted investment markets and made a global recession inevitable during 2020. The effects of the pandemic continue to hamper economic recovery. During this time of disruption and uncertainty, the Trustee maintained its long-term approach to investment strategy, focussing 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 of 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 was managed effectively during lockdown, so that benefits continued to be paid on time. Staff at Mercer have returned to the office, so that there is less reliance on working from home.

#### **Russia and Ukraine**

Whilst there are no significant specific concerns regarding the portfolio arising from the current military conflict between Russia and Ukraine, because of limited exposure to those countries, the wider impact on the portfolio is monitored with the help of Redington as investment adviser. Based on the Scheme's regional and manager exposures, the equity portfolio is expected to perform in line with global equity benchmarks. The Scheme's credit, property and infrastructure assets have had a more limited impact, although it will take longer to know the impact of recent market moves on less liquid assets. The diversification in the Scheme's overall portfolio is therefore considered to be delivering as intended.

#### **Inflation**

The Trustee is aware of the rising cost of living and the implication it has for the funding of the Scheme. The effects of rising inflation, however short term, will be given consideration as formal discussions about the 2022 Valuation are now underway, from both a funding and investment policy perspective.

#### **Liability Driven Investment**

Liability Driven Investment, known as LDI, is a popular strategy and involves the use of financial instruments, including the use of derivatives, to help match assets and liabilities in order to ensure there is sufficient cashflow to pay scheme pensions. Unlike the vast majority of funded defined benefit schemes, the MRC Pension Scheme is open to new entrants and future accrual for existing members. This means that it is able to take a broad approach to asset allocation and it is the well-diversified investment portfolio which has enabled it to withstand the worst of the recent impact felt by some other funded UK pension schemes during Q4 2022.

#### **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 May 2018 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, Aon 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, which was updated in November 2021.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### TRUSTEE'S REPORT (CONTINUED)

#### **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 at the time, and HM Treasury to ensure that UKRI replaced MRC and to this end the legislation was amended during its passage through the House of Commons to enable UKRI to operate a number of staff pension schemes.

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



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### TRUSTEE'S REPORT (CONTINUED)

#### Membership

Details of the membership of the Scheme as at 31 December 2022 are given below:

Members can be included in both the Main Section and the Universities Section.

	Principal Section 2022	Universities Section 2022	Total 2022	Total 2021
<b>ACTIVE MEMBERS</b>				
Active members at the start of the year	1,236	428	1,664	1,784
Adjustments from prior year**	12	5	17	(3)
New entrants in the year*	171	-	171	147
Retirements	(34)	(16)	(50)	(44)
Death in service	(4)	-	(4)	-
Members leaving with preserved benefits	(108)	(26)	(134)	(163)
Leavers with benefits pending	(30)	-	(30)	(49)
Members leaving with a refund/set to no liability	(21)	-	(21)	(8)
<b>ACTIVE MEMBERS AT THE END OF THE YEAR</b>	<b>1,222</b>	<b>391</b>	<b>1,613</b>	<b>1,664</b>
<b>PENSIONERS</b>				
Pensioners at the start of the year	3,214	152	3,366	3,300
Adjustments from prior year**	21	-	21	-
Members retiring during the year	109	23	132	146
New spouse and dependent pensioners	46	-	46	29
Pensions ceased (including deaths)	(115)	(4)	(119)	(109)
<b>PENSIONERS AT THE END OF THE YEAR</b>	<b>3,275</b>	<b>171</b>	<b>3,446</b>	<b>3,366</b>
<b>MEMBERS WITH PRESERVED AND DEFERRED BENEFITS</b>				
Number at the start of the year	4,488	623	5,111	5,067
Adjustments from prior year**	(9)	4	(5)	3
Leavers during the year with preserved benefits	108	26	134	163
Pension sharing order	-	-	-	1
Deferred pensioners becoming pensioners	(75)	(7)	(82)	(102)
Transfers out during the year	(8)	-	(8)	(14)
Commutations	(3)	(1)	(4)	(6)
Deaths	(3)	(1)	(4)	(1)
<b>MEMBERS WITH PRESERVED AND DEFERRED BENEFITS AT THE END OF THE YEAR</b>	<b>4,498</b>	<b>644</b>	<b>5,142</b>	<b>5,111</b>
<i>Pending members* (as shown on the following page)</i>	<b>252</b>	<b>15</b>	<b>267</b>	<b>253</b>
<b>TOTAL MEMBERSHIP AT THE END OF THE YEAR</b>	<b>9,247</b>	<b>1,221</b>	<b>10,468</b>	<b>10,394</b>

Pensioner members include 464 (2021: 446) 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.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### 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 1 July; 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 1 July and the date when the salary increase was agreed. The 2021 pay award was implemented by UKRI in November 2021. UKRI's 2022 pay award is under discussion with the new sponsoring department DSIT.

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

	Principal Section 2022	Universities Section 2022	Total 2022	Total 2021
<b>PENDING MEMBERS*</b>				
At the start of the year	237	16	253	232
Adjustments from prior period	-	(1)	(1)	(1)
New leavers with benefits pending	43	-	43	49
Leavers with refunds	(21)	-	(21)	(17)
Transfer out	(7)	-	(7)	(10)
<b>Total</b>	<b>252</b>	<b>15</b>	<b>267</b>	<b>253</b>

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

MRC's staging date under auto-enrolment was 1 July 2013. Since that date, all new MRC staff have been enrolled in the Scheme automatically on appointment. Eligible staff not in the Scheme prior to 1 July 2013 could join the Scheme at any time, but were not auto-enrolled until 1 October 2017, in line with transitional arrangements. A re-enrolment exercise for staff that joined MRC after 1 July 2013, but chose to opt out of the Scheme, took place during May 2016. Eligible staff not in the Scheme were auto enrolled into the new CARE section by UKRI on 1 April 2018. UKRI undertook a statutory re-enrolment exercise in April 2021.

#### Financial development of the Scheme

The financial statements on pages 34 to 53 show that the value of the Scheme's assets decreased during the year by £206.9m to £1,920.2m as at 31 December 2022. The decrease was comprised of net withdrawals from dealings with members of £22.2m and a net decrease in investment returns of £184.7m. The financial statements have been prepared and audited in accordance with the regulations made under Sections 41(1) and (6) of the Pensions Act 1995.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### TRUSTEE'S REPORT (CONTINUED)

#### Benefits paid

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

#### 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.

The Trustee and Mercer have signed up to the Pension Regulator's pledge to protect members from pension scams.

#### Pension Increases

The increase awarded in April 2022 was 3.1%, with the exception of the pre 1988 GMP element, which received no increase. There were no discretionary increases. The increase awarded in April 2023 was 10.1%.

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 37 (2021: 35) members contributed to money purchase AVCs as at 31 December 2022; the total value of the accumulated AVC funds held by Utmost Life and Pensions and Standard Life at that date was £2.4million (2021: £2.7million).

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 2022

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### TRUSTEE'S REPORT (CONTINUED)

#### **Scheme administration service provided by Mercer**

During 2022, Mercer produced Benefit Statements for active members of the Scheme and these were distributed during June 2022. Pension Savings Statements covering the 2021/2022 tax year were issued in July 2022. Copies of the summarised version of the 2021 Annual Report were circulated in September 2022. These are annual communication exercises undertaken by the Director of MRC Pensions and 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 works 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 Trustee will work with Mercer to ensure compliance with the tax changes, including abolition of the Lifetime Allowance (LTA) which came into effect from 6 April 2023, following the Spring Budget and Finance (No2) Bill 2023.

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 is taking appropriate advice and steps in order to comply with the Pension Schemes Act 2021.

#### **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 Pension Scheme moved to career average for new entrant on and after 1 April 2018. There is no action required by the Trustee while the implications of the Public Service Pensions and Judicial Offices Act 2022 is being considered by UKRI. There are no plans to close the Scheme to new entrants or future accrual.

#### **Internal Auditors**

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



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### TRUSTEE'S REPORT (CONTINUED)

#### HMRC approval

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

#### 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 has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It is 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 it either intends to wind up the Scheme, or has 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 it should ensure is fair and impartial.

The 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 Trustee is also responsible for keeping records of contributions received in respect of any active member of the Scheme and for monitoring that contributions are made to the Scheme in accordance with the schedule.

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

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 2022

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### TRUSTEE'S REPORT (CONTINUED)

#### Investment Report

##### Investment policy and management

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

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

The Trustee's long-term objective is to achieve an investment return of at least 2.2% above the rate of consumer price inflation. The strategy adopted to achieve that objective 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 was reviewed following the 2019 Valuation and will undergo further review following the Pension Schemes Act 2021 and 2022 valuation.

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. Proper consideration is 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 Redington. At 31 December 2022, less than 0.1% (2021: less than 0.1%) of total assets were held in tobacco stocks.

On the advice of Buck (the former investment consultant), 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 six times a year to discuss and review investment performance.

Asset values suffered a sudden downturn in Quarter 4 2022 owing to the LDI crisis, triggered by the UK government's mini Budget in September 2022. Despite not being exposed directly to LDI, the Scheme was nonetheless impacted, but to a lesser extent than many other UK pension schemes. The annual return for 2022 was a negative return of 6.8%, net of fees, compared to the total Scheme benchmark return of 10.1%.

With the help of its new investment adviser, Redington, the Trustee continues to monitor investment risk closely and to prepare for compliance with new statutory requirements on sustainable investment and new disclosure framework using metrics relating to climate change and carbon emission data in respect of the investment portfolio. The Trustee's first Task Force on Climate-related Financial Disclosures (TCFD) statement can be found on the member website at [www.mrcps.co.uk](http://www.mrcps.co.uk).

The total investment return for the three years to 31 December 2022 was 4.1% per annum net of fees, compared to the benchmark return of 1.6%.

The Statement of Investment Principles ("SIP") is required by Section 35 of the Pensions Act 1995 and a copy is available on request or from the member website at [www.mrcps.co.uk](http://www.mrcps.co.uk). The SIP for the Universities section, dated 26 November 2013, was updated in March 2018 to reflect the change in asset allocation. The SIP for the Principal Section was also updated in March 2018 to reflect the changes in equity managers. Both SIPs were updated in June 2019 to meet regulatory requirements around disclosure of Environmental, Social and Governance (ESG) consideration when making investment decisions. A combined SIP was produced in June 2020 and was reviewed on an interim basis in 2022, pending a comprehensive review scheduled for 2023.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### 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 reviewed in 2022 on an interim basis.

The comparative asset distribution of the Scheme as at 31 December 2022 and 31 December 2021 are noted in the table below (Principal Section only):

	31 Dec 2022	31 Dec 2021
	%	%
UK Corporate Bonds	7.4	6.4
Index linked securities	2.7	2.5
UK Equities	14.5	15.4
Overseas Equities	17.9	21.5
Property (Direct)	10.5	10.8
Pooled investment vehicles:		
Overseas Equity	11.2	14.1
Private Equity	11.9	9.7
Private Debt	5.3	3.0
Infrastructure	4.5	3.3
Property	10.5	11.2
Bonds	0.3	0.3
Cash	1.3	0.3
AVC Funds	0.2	0.1
Cash deposits and other investment balances	1.8	1.4
	<b>100.0</b>	<b>100.0</b>

At the year end, the Universities Section was 72% (2021: 76%) invested in UK Pooled Investment bonds and 28% (2021: 24%) in UK Pooled Investment 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 11 of the Financial Statements.

#### Employer related investments

There were no employer related investments held at the year end (2021: nil).



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### 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 2022

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### 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

## YEAR ENDED 31 DECEMBER 2022

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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 is 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 is monitored by the Scheme's investment managers. Any deviation from the target asset allocation is discussed periodically with the investment consultant.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### 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 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 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 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.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### TRUSTEE'S REPORT (CONTINUED)

#### 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.

- **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.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### TRUSTEE'S REPORT (CONTINUED)

- **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.

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 2022

### TRUSTEE'S REPORT (CONTINUED)

The make-up of the Scheme's total investments of £1,897.7million as at 31 December 2022 across investment managers is as follows (£000's):

The table set out are General's total investments of £2,100.7 million, broken down by section. Excludes: £22.758 million in investment held in cash and cash equivalents (£22.758)													
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	Cash and accrued income	Total Assets
Legacy	£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
L&G							74		163	163			163
Hg							65,033			74			74
Ares							94,496			65,033			65,033
First Sentier					122,281				2,137	94,496			94,496
Invesco				12,531	66,292				1,122	124,418			124,418
Liontrust				107,431					5,136	79,945			79,945
Morgan Stanley							72,864			112,567			112,567
RLAM	47,937	131,714					5,303		4,197	72,864			72,864
Nuveen						187,090	13,510		9,215	189,151	85,802		274,953
State Street			1	131,936			126,819		696	209,815			209,815
Aviva							115,584		4,541	259,452	33,142		292,594
M&G							57,841		661	120,125			120,125
Partners Group							85,925			58,502			58,502
Baillie Gifford				6,076	129,780				3,660	85,925			85,925
Infracapital							80,467			139,516	22		139,538
RLAM - Cash							22,758			80,467			80,467
Warburg Pincus							61,083			22,758			22,758
Other								2,363		61,083			61,083
Total	47,937	131,714	1	257,974	318,353	187,090	801,757	2,363	31,528	1,778,717	118,944	22	1,897,683
Section only	2.7	7.4	0.0	14.5	17.9	10.5	45.1	0.1	1.8	100.0	99.9	0.1	100.0%
Total Assets	2.5	6.9	0.0	13.6	16.8	9.9	42.2	0.1	1.7	93.7	6.3	0.0	100.0%

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### TRUSTEE'S REPORT (CONTINUED)

#### Investment Performance

The Trustee adopts a Total Scheme Benchmark as the relevant measure of investment performance. The benchmark is derived by aggregating, and weighting accordingly, the strategic benchmarks for each portfolio manager.

The table below notes the investment returns achieved by the Scheme's investments, by asset category (excluding cash), for the year to 31 December 2022.

	Year ended 31 December 2022	
	Scheme Return	Total Scheme Benchmark
	%	%
UK Corporate Bonds	-19.7	-20.5
UK Index-Linked Gilts	-37.5	-19.5
Equities	-8.8	-5.9
Property	-8.8	-10.2
Infrastructure	19.4	-0.2
Direct Lending	2.8	-0.6
Private Equity	11.5	-19.5
<b>Total Scheme</b>	<b>-6.8</b>	<b>-10.1</b>
3 years ended 31 December 2021	4.5	1.6
5 years ended 31 December 2021	5.2	2.9
10 years ended 31 December 2021	8.5	6.8

As the table above shows, the overall return for the year was -6.8% after fees, which was above the Total Scheme Benchmark. The Scheme's performance is above the benchmark when measured over the last 3 years, 5 years and 10 years. The return on the fund for 2022 is below the Actuary's assumptions that the yield on investments would be 0.7% greater than the increase in earning and 2% greater than the increase in pensions.

For 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 outperformance achieved compared to the relevant MSCI benchmark. During 2022 Nuveen did outperform 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 2022.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### TRUSTEE'S REPORT (CONTINUED)

#### Further information

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

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

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

Any member who has a general request for information or guidance concerning pension arrangements can contact MoneyHelper or the Money & Pensions Service (MaPS) at 120 Holborn London EC1 2TD.

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](mailto:mrc_pensions@mercer.com)

#### Acknowledgements

The Trustee wishes to record its thanks to Mr Grant Ballantine and Mrs Sue Vivian for their service to the Scheme.

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

.....  
Chair



.....  
Date

29<sup>th</sup> JUNE 2023.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### SUMMARY OF CONTRIBUTIONS

#### Trustee's Summary of Contributions payable under the Schedules in respect of the year ended 31 December 2022

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 16 December 2020 for the Principal Section, and on 16 December 2020 for the Universities Section.

#### Contributions payable under the Schedules

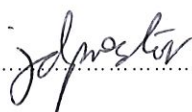
	Principal Section £000	Universities Section £000	Total £000
<b>Employer:</b>			
Normal contributions	7,680	14,090	21,770
<b>Employee:</b>			
Normal contributions	3,083	1,258	4,341
Contributions payable under the Schedules (as reported on by the Scheme auditor)	<u>10,763</u>	<u>15,348</u>	<u>26,111</u>

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

Contributions payable under the Schedules (as above)	10,763	15,348	26,111
Contributions payable in addition to those due under the Schedules (and not reported on by the Scheme auditor):			
<b>Employer:</b>			
Additional contribution	-	-	-
Augmentation contributions	887	-	887
<b>Employee:</b>			
Additional voluntary contributions	178	-	178
Added years contributions	77	42	119
<b>Total contributions reported in the financial statements</b>	<u>11,905</u>	<u>15,390</u>	<u>27,295</u>

Approved by the Trustee and signed on its behalf by:

Chair



Date

29<sup>th</sup> JUNE 2023



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### 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 2022 which is set out on page 28.

In our opinion contributions for the Scheme year ended 31 December 2022 as reported in the Summary of Contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the 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... *29 June 2023*

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### 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 2022 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 2022 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 3A 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.

#### 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 2022

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### 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 as to the Scheme's high-level policies and procedures to prevent and detect fraud as well as enquiring whether it has 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.
- Assessing whether the judgement made in making accounting estimates are indicative of a potential bias.

##### *Identifying and responding to risks of material misstatement related to 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 2022

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### 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, the TCFD report 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 2022

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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](http://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... 29 June 2023



MRC PENSION SCHEME  
YEAR ENDED 31 DECEMBER 2022

FUND ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Principal Section £000	Universities Section £000	Total 2022 £000	Principal Section £000	Universities Section £000	Total 2021 £000
<b>CONTRIBUTIONS AND BENEFITS</b>							
Contributions							
Employers	4	8,567	14,090	22,657	9,256	15,833	25,089
Employee	4	3,338	1,300	4,638	3,550	1,396	4,946
		11,905	15,390	27,295	12,806	17,229	30,035
Benefits	5	(45,553)	(1,133)	(46,686)	(43,933)	(739)	(44,672)
Transfers out	6	(459)	-	(459)	(202)	(14)	(216)
Payments to and on account of leavers	7	(69)	-	(69)	(47)	-	(47)
Administrative expenses	8	(2,229)	(56)	(2,285)	(2,285)	(40)	(2,325)
		(48,310)	(1,189)	(49,499)	(46,467)	(793)	(47,260)
<b>NET (WITHDRAWALS)/ADDITIONS FROM DEALINGS WITH MEMBERS</b>		(36,405)	14,201	(22,204)	(33,661)	16,436	(17,225)
<b>INVESTMENT RETURNS</b>							
Investment income	9	45,359	1,005	46,364	40,213	328	40,541
Change in market value of investments	11	(168,224)	(55,755)	(223,979)	217,132	6,412	223,544
Investment management expenses	10	(6,650)	(390)	(7,040)	(7,006)	(428)	(7,434)
Taxation		(98)	-	(98)	(25)	-	(25)
<b>NET RETURNS ON INVESTMENTS</b>		(129,613)	(55,140)	(184,753)	250,314	6,312	256,626
<b>NET (DECREASE)/INCREASE IN THE FUND DURING THE YEAR</b>		(166,018)	(40,939)	(206,957)	216,653	22,748	239,401
<b>NET ASSETS OF THE SCHEME AT 1 JANUARY</b>		1,959,332	167,818	2,127,150	1,742,679	145,070	1,887,749
<b>NET ASSETS OF THE SCHEME AT 31 DECEMBER</b>		1,793,314	126,879	1,920,193	1,959,332	167,818	2,127,150

The notes on pages 36 to 53 form an integral part of these financial statements.

MRC PENSION SCHEME  
YEAR ENDED 31 DECEMBER 2022

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS) AT 31  
DECEMBER 2022

	Note	Principal Section £000	Universities Section £000	Total 2022 £000	Principal Section £000	Universities Section £000	Total 2021 £000
<b>INVESTMENT ASSETS</b>							
Equities	11	576,326	-	576,326	715,667	39,001	754,668
Bonds	11	179,651	-	179,651	172,579	-	172,579
Pooled investment vehicles	11	801,758	118,944	920,702	807,531	126,067	933,598
Property	11	187,090	-	187,090	210,375	-	210,375
Derivatives	11	1	-	1	8	-	8
Other investment assets	11	14,126	23	14,149	9,279	26	9,305
AVC Investments	11	2,363	-	2,363	2,749	-	2,749
Cash	11	21,448	(1)	21,447	23,781	683	24,464
		<b>1,782,763</b>	<b>118,966</b>	<b>1,901,729</b>	<b>1,941,969</b>	<b>165,777</b>	<b>2,107,746</b>
<b>INVESTMENT LIABILITIES</b>							
Other investment liabilities	11	(4,046)	-	(4,046)	(4,299)	-	(4,299)
<b>TOTAL INVESTMENTS</b>		<b>1,778,717</b>	<b>118,966</b>	<b>1,897,683</b>	<b>1,937,670</b>	<b>165,777</b>	<b>2,103,447</b>
<b>CURRENT ASSETS</b>	13	<b>17,048</b>	<b>8,099</b>	<b>25,147</b>	<b>24,273</b>	<b>2,271</b>	<b>26,544</b>
<b>CURRENT LIABILITIES</b>	14	<b>(2,451)</b>	<b>(186)</b>	<b>(2,637)</b>	<b>(2,611)</b>	<b>(230)</b>	<b>(2,841)</b>
<b>TOTAL NET ASSETS AT 31 DECEMBER</b>		<b>1,793,314</b>	<b>126,879</b>	<b>1,920,193</b>	<b>1,959,332</b>	<b>167,818</b>	<b>2,127,150</b>

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

The notes on pages 36 to 53 form an integral part of these financial statements.

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

.....  
Chair

.....  
Date

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### 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 it believes 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 economic impact of the now receding COVID 19 pandemic, the invasion of Ukraine, and the LDI crisis of Q4 2022 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 2021 shows a surplus of £585m for the Principal Section and a surplus of £49m 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 for Science, Innovation and Technology (formerly BEIS). The Trustee has no reason to believe that future funding will not be forthcoming from DSIT.

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.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### 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 2022 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 2022

### 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 2022 £000	Universities Section 2022 £000	Total 2022 £000	Principal Section 2021 £000	Universities Section 2021 £000	Total 2021 £000
<b>Employers' Contributions</b>						
Normal contributions	7,680	14,090	21,770	8,030	15,833	23,863
Augmentations	887	-	887	1,226	-	1,226
	<u>8,567</u>	<u>14,090</u>	<u>22,657</u>	<u>9,256</u>	<u>15,833</u>	<u>25,089</u>
<b>Employees' Contributions</b>						
Normal contributions	3,083	1,258	4,341	3,283	1,335	4,618
Additional voluntary contributions	178	-	178	174	-	174
Added years contributions	77	42	119	93	61	154
	<u>3,338</u>	<u>1,300</u>	<u>4,638</u>	<u>3,550</u>	<u>1,396</u>	<u>4,946</u>
	<u>11,905</u>	<u>15,390</u>	<u>27,295</u>	<u>12,806</u>	<u>17,229</u>	<u>30,035</u>

MRC paid additional Employer contributions of £4.0m in March 2022 (2021: £7.0m) £2m in December 2022 and a further £3.5m in March 2023 (2021: £nil) towards the cashflow of the Universities Section. MRC also paid £5.03m (2021: £5.40m) to the Universities Section in 2022, and will continue to pay amounts quarterly, to meet the requirements of the Schedule of Contributions. These amounts are included within Employers' normal contributions.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 5 BENEFITS

	Principal Section 2022 £000	Universities Section 2022 £000	Total 2022 £000	Principal Section 2021 £000	Universities Section 2021 £000	Total 2021 £000
Pension payments	38,065	504	38,569	37,164	387	37,551
Commutations and lump sum retirement benefits	6,418	629	7,047	6,552	317	6,869
Lump sums on death	679	-	679	70	35	105
Tax paid*	391	-	391	147	-	147
	<b>45,553</b>	<b>1,133</b>	<b>46,686</b>	<b>43,933</b>	<b>739</b>	<b>44,672</b>

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

#### 6 TRANSFERS OUT

	Principal Section 2022 £000	Universities Section 2022 £000	Total 2022 £000	Principal Section 2021 £000	Universities Section 2021 £000	Total 2021 £000
Individual transfers out to other schemes	459	-	459	202	14	216

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

	Principal Section 2022 £000	Universities Section 2022 £000	Total 2022 £000	Principal Section 2021 £000	Universities Section 2021 £000	Total 2021 £000
Refunds to members leaving service	69	-	69	47	-	47



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 8 ADMINISTRATIVE EXPENSES

	Principal Section 2022	Universities Section 2022	Total 2022	Principal Section 2021	Universities Section 2021	Total 2021
	£000	£000	£000	£000	£000	£000
Administration and processing	702	33	735	678	35	713
MRC head office recharge	142	-	142	142	-	142
Actuarial fees	146	20	166	193	-	193
External audit fee	74	-	74	72	-	72
Tax services	19	-	19	6	-	6
Legal fees	115	-	115	98	-	98
Regulatory fees	765	3	768	875	5	880
Trustee fees and expenses	126	-	126	95	-	95
Internal audit fees	50	-	50	49	-	49
Other professional	41	-	41	43	-	43
Communication costs	40	-	40	30	-	30
Other expenses	9	-	9	4	-	4
	<b>2,229</b>	<b>56</b>	<b>2,285</b>	<b>2,285</b>	<b>40</b>	<b>2,325</b>

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

#### 9 INVESTMENT INCOME

	Principal Section 2022	Universities Section 2022	Total 2022	Principal Section 2021	Universities Section 2021	Total 2021
	£000	£000	£000	£000	£000	£000
Dividends from equities	14,735	357	15,092	13,979	332	14,311
Income from bonds	5,017	-	5,017	5,082	-	5,082
Income from pooled investment vehicles	14,384	-	14,384	11,154	-	11,154
Rental income	10,320	-	10,320	10,065	-	10,065
Interest on cash deposits	36	2	38	-	-	-
Foreign currency (loss)	867	646	1,513	(67)	(4)	(71)
	<b>45,359</b>	<b>1,005</b>	<b>46,364</b>	<b>40,213</b>	<b>328</b>	<b>40,541</b>

Included within dividends from equities is overseas investment income which has been stated gross of withholding taxes totalling £98k (2021: £25k). This represents irrecoverable withholding taxes which have been reported under 'Taxation' within the Fund Account.

#### 10 INVESTMENT MANAGEMENT EXPENSES

	Principal Section 2022	Universities Section 2022	Total 2022	Principal Section 2021	Universities Section 2021	Total 2021
	£000	£000	£000	£000	£000	£000
Administration, management & custody	5,376	390	5,766	5,675	428	6,103
Out-performance fee	536	-	536	473	-	473
Non-recoverable property expenses	1,140	-	1,140	1,565	-	1,565
VAT recovered	(402)	-	(402)	(707)	-	(707)
	<b>6,650</b>	<b>390</b>	<b>7,040</b>	<b>7,006</b>	<b>428</b>	<b>7,434</b>

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11 INVESTMENTS

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

Reconciliation of investments held at beginning and end of year:

	Value at 01 January 2022	Purchases at Cost and Derivative payments	Sales Proceeds and Derivative receipts	Change in market value	Value at 31 December 2022
	£000	£000	£000	£000	£000
Equities	715,667	161,008	(218,610)	(81,739)	576,326
Bonds	172,579	94,515	(49,397)	(38,046)	179,651
Pooled investment vehicles	807,531	115,238	(98,886)	(22,125)	801,758
Property	210,375	2,714	-	(25,999)	187,090
Derivatives - net	8	684	(682)	(9)	1
AVC investments	2,749	177	(257)	(306)	2,363
	<u>1,908,909</u>	<u>374,336</u>	<u>(367,832)</u>	<u>(168,224)</u>	<u>1,747,189</u>
Cash deposits	23,781				21,448
Accrued Income	6,678				10,512
Property debtors	2,601				3,498
Other investment assets	-				116
Property creditors	(4,299)				(4,015)
Other investment liabilities	-				(31)
	<u>1,937,670</u>				<u>1,778,717</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. 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 increased its holdings of private infrastructure by investing in a new fund with Partners Group – Direct Infrastructure 2020 (USD). This was funded by disinvesting some of the passive equity funds held with State Street. At 31 December 2022, the Scheme held private equity and infrastructure investments with Partners Group of £85.925m (2021: £67.548m); private equity investments with Hg Capital of £65.032m (2021: £65.386m) and Warburg Pincus £61.083m (2021: £52.160m), private debt with Ares of £94.497m (2021: £57.358m) and infrastructure with Infracapital of £80.468m (2021: £64.770m). These holdings total 20.4% (2021: 14.6%) of the Scheme's net assets.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11.2 RECONCILIATION OF INVESTMENTS – UNIVERSITIES SECTION

	Value at 01 January 2022	Purchases at Cost	Sales Proceeds	Change in market value	Value at 31 December 2022
	£000	£000	£000	£000	£000
Equities	39,001	6,389	(36,648)	(8,742)	-
Pooled Investment Vehicles	126,067	39,890	-	(47,013)	118,944
	<u>165,068</u>	<u>46,279</u>	<u>(36,648)</u>	<u>(55,755)</u>	<u>118,944</u>
Cash	683				(1)
Accrued income	26				23
	<u>165,777</u>				<u>118,966</u>

#### 11.3 CONCENTRATION OF INVESTMENTS

The following asset, within the Principal Section, accounts for more than 5% of the Scheme's total net assets at 31 December 2022.

	2022	2022	2021	2021
	£000	%	£000	%
Aviva Lime Property Fund	115,584	5.9	130,068	6.1

#### 11.4 TRANSACTION COSTS

Included within the purchases and sales figures are direct transaction costs of £304,000 (2021: £974,000). Direct transaction costs incurred are analysed below:

	Fees	Commission	Stamp Duty	Total 2022	Total 2021
	£000	£000	£000	£000	£000
Equities	185	119	-	304	315
Property	-	-	-	-	659
	<u>185</u>	<u>119</u>	<u>-</u>	<u>304</u>	<u>974</u>

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



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### Details of investments held at year end

#### 11.5 PROPERTY

	2022 £000	2021 £000
UK freehold property	149,390	168,725
UK leasehold property	37,700	41,650
	<b>187,090</b>	<b>210,375</b>

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

#### 11.6 POOLED INVESTMENT VEHICLES

	Principal Section 2022 £000	Universities Section 2022 £000	Total 2022 £000	Principal Section 2021 £000	Universities Section 2021 £000	Total 2021 £000
Equities	199,758	33,142	232,900	271,516	-	271,516
Bonds	5,303	85,802	91,105	6,020	126,067	132,087
Private equity	212,040	-	212,040	185,095	-	185,095
Private debt	94,496	-	94,496	57,358	-	57,358
Infrastructure	80,467	-	80,467	62,859	-	62,859
Property	186,936	-	186,936	218,108	-	218,108
Cash	22,758	-	22,758	6,575	-	6,575
	<b>801,758</b>	<b>118,944</b>	<b>920,702</b>	<b>807,531</b>	<b>126,067</b>	<b>933,598</b>

#### 11.7 DERIVATIVES

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

	2022 Assets £000	2022 Liabilities £000	2021 Assets £000	2021 Liabilities £000
Equity futures	1	-	8	-

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11.8 DERIVATIVE CONTRACTS OUTSTANDING

##### Futures contract

Within the State Street Segregated Equity Portfolio there are futures contracts as follows:

Contracts	Expiration	Underlying Investment	Notional Value	2022 Asset Value £000	2022 Liability Value £000
Future x 7	Less than 1 year	FTSE 100 IDX	GBP522,620	1	-

Contracts	Expiration	Underlying Investment	Notional Value	2021 Asset Value £000	2021 Liability Value £000
Future x 8	Less than 1 year	FTSE 100 IDX	GBP585,920	8	-

#### 11.9 AVC INVESTMENTS

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

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

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

	2022 £000	2021 £000
Utmost		
– unit trusts	290	347
Standard Life		
– with profits	54	52
– unit trusts	2,019	2,350
	<u>2,363</u>	<u>2,749</u>

#### 11.10 CASH DEPOSITS

	2022 £000	2021 £000
UK Cash	19,411	23,049
Overseas Cash	2,036	732
	<u>21,447</u>	<u>23,781</u>

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11.11 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 11.5.

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 2022
	£000	£000	£000	£000
Equities	576,326	-	-	576,326
Bonds	-	179,651	-	179,651
Pooled investment vehicles	-	227,820	573,938	801,758
Property	-	-	187,090	187,090
Derivatives – net	-	1	-	1
AVC investments	-	2,309	54	2,363
Cash	21,448	-	-	21,448
Other investment balances - net	10,080	-	-	10,080
	<b>607,854</b>	<b>409,781</b>	<b>761,082</b>	<b>1,778,717</b>

Universities Section	Level 1	Level 2	Level 3	Total 2022
	£000	£000	£000	£000
Pooled investment vehicles	-	118,944	-	118,944
Cash and accrued income	22	-	-	22
	<b>22</b>	<b>118,944</b>	<b>-</b>	<b>118,966</b>



MRC PENSION SCHEME  
YEAR ENDED 31 DECEMBER 2022

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Principal Section	Level 1	Level 2	Level 3	Total 2021
	£000	£000	£000	£000
Equities	715,667	-	-	715,667
Bonds	-	172,579	-	172,579
Pooled investment vehicles	-	284,111	523,420	807,531
Property	-	-	210,375	210,375
Derivatives – net	-	8	-	8
AVC investments	-	2,697	52	2,749
Cash	23,781	-	-	23,781
Other investment balances - net	4,980	-	-	4,980
	<u>744,428</u>	<u>459,395</u>	<u>733,847</u>	<u>1,937,670</u>

Universities Section	Level 1	Level 2	Level 3	Total 2021
	£000	£000	£000	£000
Equities	39,001	-	-	39,001
Pooled investment vehicles	-	126,067	-	126,067
Cash and accrued income	709	-	-	709
	<u>39,710</u>	<u>126,067</u>	<u>-</u>	<u>165,777</u>

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11.12 INVESTMENT RISKS

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

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

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

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

The 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 11.1 and 11.2. 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 2022	Universities Section 2022	Total 2022	Principal Section 2021	Universities Section 2021	Total 2021
	£000	£000	£000	£000	£000	£000
Unit linked insurance policies	126,893	33,142	160,035	185,881	-	185,881
Property unit trusts	186,935	-	186,935	218,107	-	218,107
Limited partnerships	387,005	-	387,005	305,313	-	305,313
Open ended funds	28,061	85,802	113,863	12,595	126,067	138,662
Cayman exempted fund	72,864	-	72,864	85,635	-	85,635
	<b>801,758</b>	<b>118,944</b>	<b>920,702</b>	<b>807,531</b>	<b>126,067</b>	<b>933,598</b>

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### 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	%
<b>2022</b>								
RLAM Main Section Segregated Bond Portfolio	167,434	93.2	3,773	2.1	8,444	4.7	179,651	100.0
Source of credit risk	Investment Grade		Non-Investment Grade		Unrated		Total	
	£'000	%	£'000	%	£'000	%	£'000	%
<b>2021</b>								
RLAM Main Section Segregated Bond Portfolio	166,710	96.6	4,488	2.6	1,381	0.8	172,579	100.0

**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)	123,912	131,714	7.3
RLAM Index-Linked Gilts (direct, segregated)	48,667	47,937	2.7
RLAM Sterling Extra Yield Bonds (indirect, pooled)	6,020	5,303	0.3
RLCM Cash Plus Fund (indirect, pooled)	6,575	22,758	1.3

#### 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)	35,958	25,841	20.4
RLAM Index Linked Bonds (indirect, pooled)	90,109	59,961	47.3

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

## YEAR ENDED 31 DECEMBER 2022

### 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.

#### (iii) 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 2022 (£'000)	Total non-sterling exposure at 2021 (£'000)
Segregated equities	42,481	12,152	12,099	121,984	188,716	416,412
Segregated credit	189	19	-	57	265	-
<b>Total</b>					<b>188,981</b>	<b>416,412</b>

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 2022 (£'000)	Total non-sterling exposure at 2021 (£'000)
Pooled equities	10,429	1,778	-	59,565	71,772	85,635
Pooled private equity/debt/infrastructure	65,421	91,746	-	71,173	228,340	150,905
<b>Total</b>					<b>300,112</b>	<b>236,540</b>

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### Universities Section

Source of currency risk	USD exposure (£'000)	EUR exposure (£'000)	JPY exposure (£'000)	Other exposure (£'000)	Total non-sterling exposure at 2022 (£'000)	Total non-sterling exposure at 2021 (£'000)
Segregated equities	-	-	-	-	-	36,589
Pooled equities	20,570	2,851	2,227	7,548	33,196	-
Pooled credit	-	25	-	-	25	-
<b>Total</b>					<b>33,221</b>	<b>36,589</b>

#### (iv) 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 Corporate Bonds (segregated)	123,912	131,714	7.3
RLAM Index-Linked Gilts (segregated)	48,667	47,937	2.7
RLAM Sterling Extra Yield Bonds (pooled)	6,020	5,303	0.3
RLCM Cash Plus Fund (pooled)	6,575	22,758	1.3

#### Universities Section

Source of interest rate risk	Exposure at start of year (£'000)	Exposure at end of year (£'000)	% of section's net assets at year end
RLAM Index Linked Bonds (pooled)	35,958	25,841	20.4
RLAM UK Corporate Bonds (pooled)	90,109	59,961	47.3

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### (v) 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	715,667	576,326	32.1
Equity pooled fund investments	271,516	199,757	11.1
Property segregated investments	210,375	187,090	10.4
Property pooled fund investments	218,108	186,935	10.4
Infrastructure pooled fund investments	62,859	80,468	4.5
Private equity pooled fund investments	185,095	212,040	11.8
Private debt pooled fund investments (indirect)	57,358	94,497	5.3

The Universities Section is invested in UK government and corporate bonds and global equities via pooled investment vehicles therefore there is indirect other price risk with respect to the global equities of £33.1m (2021: £39.0m).

#### 12 TAX

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



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 13 CURRENT ASSETS

	Principal Section 2022 £000	Universities Section 2022 £000	Total 2022 £000	Principal Section 2021 £000	Universities Section 2021 £000	Total 2021 £000
Cash balance	13,224	6,555	19,779	19,988	538	20,526
Contributions due						
- from employers	637	1,452	2,089	603	1,631	2,234
- in respect of employees	262	92	354	247	102	349
Pensions paid in advance	2,694	-	2,694	3,110	-	3,110
Other debtors	231	-	231	325	-	325
	<b>17,048</b>	<b>8,099</b>	<b>25,147</b>	<b>24,273</b>	<b>2,271</b>	<b>26,544</b>

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

#### 14 CURRENT LIABILITIES

	Principal Section 2022 £000	Universities Section 2022 £000	Total 2022 £000	Principal Section 2021 £000	Universities Section 2021 £000	Total 2021 £000
Unpaid benefits	414	-	414	170	-	170
Accrued expenses	1,935	117	2,052	2,243	121	2,364
VAT payable	70	-	70	177	-	177
Other creditors*	32	69	101	21	109	130
	<b>2,451</b>	<b>186</b>	<b>2,637</b>	<b>2,611</b>	<b>230</b>	<b>2,841</b>

\* 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.

#### 15 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 2022 five active members and three pensioner members served as Trustee Directors.

During the year, the Scheme paid £4,033 (2021: £2,364) of Trustee Director expenses for replacement equipment and travelling to meetings. This amount is included within Trustee fees and expenses in Note 8, 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 £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.

At the year end there were £nil (2021: £2,250) Trustee fees outstanding.

These amounts are included within the Trustee fees and expenses in Note 8, on page 40.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 16 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.

#### 17 CAPITAL COMMITMENTS

The Scheme had the following capital commitments at 31 December 2022:

Fund	CCY	Total Commitment	Outstanding Commitment 2022	Outstanding Commitment 2021
		'000	'000	'000
Hg Capital 8 C LP private equity	GBP	14,933	882	5,120
Hg Capital 9 C LP private equity	EUR	17,800	6,527	8,946
Hg Capital Mercury 2 A LP private equity	GBP	7,500	630	1,683
Hg Capital Mercury 3 A LP private equity	EUR	17,800	10,711	16,098
Hg Saturn A LP private equity	GBP	10,000	2,072	2,143
Infracapital Fund II infrastructure	GBP	60,000	2,950	4,517
Infracapital Greenfields	GBP	30,000	4,338	8,792
Infracapital Fund III infrastructure	GBP	25,000	4,570	4,628
Partners Group Value 2011 private equity	EUR	12,000	1,677	1,677
Partners Group Infra 2015 infrastructure	USD	31,000	6,204	6,824
Partners Group Value 2017 private equity	EUR	56,600	15,591	27,760
Partners Group Direct Infrastructure III	USD	30,000	20,839	-
Ares Capital Europe IV (G) Levered	GBP	30,000	6,117	5,009
Ares Capital Europe V (G) Levered	GBP	90,000	25,988	61,968
Warburg Pincus Global Growth E	USD	63,200	7,616	9,354

During 2022 the commitment to Hg Capital 8 LC private equity was reduced by the manager from £15.0m to £14.933m. During 2022 the Trustee invested in a new fund Partners Group Direct Infrastructure III (USD) with a commitment to invest \$30m.

#### 18 SUBSEQUENT EVENTS

UKRI paid £4.7m in March 2023 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.

#### 19 CONTINGENT ASSETS/LIABILITIES

##### GMP equalisation

In October 2018, the High Court determined that benefits provided to members who had contracted out of their pension scheme must be recalculated to reflect the equalisation of state pension ages between May 1990 and April 1997 for both men and women. 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 2022

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### IMPLEMENTATION STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2022 (forming part of the Trustee's Report)

#### Introduction

Under regulatory requirements covering occupational pension schemes, M.R.C. Pension Trust Limited (the 'Trustee'), on behalf of the MRC Pension Scheme (the 'Scheme'), is required to publish an annual Implementation Statement stating how the policy covered in the Statement of Investment Principles (the 'SIP') regarding the exercise of the rights (including voting rights) attaching to the investments and the undertaking of engagement activities in respect of the investment has been followed.

From 1 October 2022, further Department of Work and Pensions ('DWP') guidance on the reporting of stewardship activities through Implementation Statements came into effect. Although it was not possible in the short time before the end of the reporting period for any potential changes to be made, the Trustee is currently considering how best to meet the DWP's updated stewardship guidance. Any such changes to the Trustee's approach will be reflected in next year's Implementation Statement.

This statement, prepared by the Trustee on behalf of the Scheme, covers the period from 1 January 2022 to 31 December 2022.

#### Summary of Statement of Investment Principles updates over the period

The SIP was updated in November 2022 to reference the 2022 actuarial valuation and the change in the Scheme's investment consultant.

The Trustee has made informed strategic investment decisions in accordance with its rights and responsibilities to enable the achievement of the Trustee's long-term investment objectives as set out in the SIP.

The Scheme's SIP can be found [here](#).

#### The Trustee's Stewardship Policy

The Scheme's current stewardship policy within the SIP states:

*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 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.*

Being cognisant of the DWP's updated guidance emphasising the need for asset owners to be more "active" in their approach to stewardship, the Trustee has begun reviewing the above policy with a view to bringing it into line with the new guidance.

The Trustee intends to review this policy in 2023 and will reflect an updated stewardship policy in the next Implementation Statement.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### IMPLEMENTATION STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2022 (forming part of the Trustee's Report) (CONTINUED)

#### **Significance of stewardship in appointment and monitoring of investment managers**

When selecting and monitoring the Scheme's investment managers, the Trustee considers a manager's ESG and Stewardship capabilities. This information is provided by the Scheme's investment consultant. Over the year, the Trustee agreed to allocate to two new funds, both of which have "ESG and Stewardship" advantages as assessed by the investment consultant.

Where the Trustee has appointed managers to manage segregated portfolios of equities or bonds, the Trustee has instructed managers not to invest in the shares of those companies whose predominant business revenues come from tobacco-related products.

To help in its monitoring, the Trustee also receives annual ESG analysis on its managers, such as carbon emission reporting. Through this reporting, the Trustee is able to track the carbon emission changes of each manager mandate and assess whether this is in-line with the Trustee's expectations. Where it is not, the Trustee may consider engaging with the relevant manager directly, or via the Scheme's investment consultant.

#### **Engagement**

The Trustee delegates responsibility for engaging with individual issuers to the Scheme's investment managers. The Trustee understands that engagements carried out by investment managers are likely to vary in nature by asset class. With that in mind, three examples across different asset classes are given in Appendix A.

As part of moving towards the new DWP stewardship expectations, the Trustee plans to consider both how best to assess the engagement activities of the Scheme's managers and how best to then engage with the managers where necessary. The Trustee may also set new expectations for the Scheme's managers' engagement activities to ensure they are of sufficient quality.

#### **Voting**

The Trustee delegates responsibility for the exercising of rights (including voting rights) attaching to investments to the Scheme's investment managers. The Trustee is not aware of any material departures from the managers' stated voting policies. Given the nature of these mandates and the fact that voting activities appear to be undertaken in line with the managers' voting policies, the Trustee is comfortable that the voting policies for the Scheme have been adequately followed over the period.

In a similar way to engagement, in future, the Trustee plans to consider how best to assess the voting activity of the Scheme's managers and how best to then engage with the managers where necessary. The Trustee also plans to consider whether to establish its own definition of what it considers to be a significant vote in which case that definition would be used in the next Implementation Statement. In the interim, the Trustee has asked its voting managers to provide significant votes which took place at one of the fund's 25 largest holdings (proxying where the Scheme itself has most exposure) and which the managers themselves deem to be significant.

Voting statistics for each of the Scheme's relevant managers, as well as a selection of significant votes cast on behalf of the Scheme over the period are shown in Appendix B.

#### **Looking ahead**

It is the Trustee's belief that the policies set out in the SIP regarding the exercise of rights attaching to investments and the undertaking of engagement activities in respect of the investments has been followed over 2022.

During 2023, as previously indicated, the Trustee plans to consider how best to meet the DWP's updated expectations on stewardship and to take more ownership of stewardship, as the new guidance expects. Changes to the Trustee's approach will be taken with regard to the Scheme's governance constraints and fiduciary obligations.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### IMPLEMENTATION STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2022 (forming part of the Trustee's Report) (CONTINUED)

#### Appendix A

The Trustee expects the nature of engagement to vary between asset classes. The Trustee also believes engagement can take place across the Scheme's investments, and is not restricted to equity investments. With this in mind, below are three examples of engagement within the fixed interest, infrastructure and property asset classes.

#### RLAM – Direct Engagement

**Company:** HSBC

**Focus of the engagement:** Just Transition - Net zero commitment and climate transition plans.

**Details of the engagement:** RLAM provided detailed feedback on HSBC's energy policy which prevents HSBC from financing new oil and gas exploration activities and any activity in the most polluting and sensitive types of oil and gas, including oil sands, heavy crudes, deep water, Arctic and Amazon.

**Outcome of the engagement:** Following feedback, HSBC improved its definitions for 'existing' and 'new' oil fields and clarified wording of the commitment. The notion of Just Transition is incorporated as one of HSBC's three policy objectives: 'support a just and affordable transition, recognising the local realities in all the communities we serve'. Just Transition was also included as a factor when assessing oil & gas clients climate plans. RLAM asked the bank to change the wording from 'consideration' of Just Transition principles to 'integration' or 'application' of Just Transition principles, which RLAM understands has not yet been done.

#### Infracapital – Direct Engagement

**Company:** Neos Networks

**Focus of the engagement:** Commitment to Net Zero by 2030.

**Details of the engagement:** Infracapital engaged third party advisers to assist in the implementation of Greenhouse Gas Emissions Reporting and associated net-zero roadmaps for their portfolio companies, including Neo Networks, a major owner, operator and aggregator of UK telecoms infrastructure, including a nationwide fibre network.

**Outcome of the engagement:** A Carbon Reduction Plan has been implemented, supported by the executive board. To date the business has implemented EV charging points in office car parks, implemented energy efficient Light Emitting Diode controls in its main offices and has completed the renewal of IT requirement to the highest energy efficiency rating. Neos has educated its employees on doing their bit to assist in the company's aspirations. Going forward, the business aims to challenge suppliers, improve emissions reporting and decarbonise its vehicle fleet by 2030.

#### Nuveen – Collaborative Engagement

**Topic:** TCFD alignment and specific net zero carbon goals across operational activities and investments

**Details of the engagement:** Nuveen is engaging with peers, industry groups and financial regulators globally to comply with rules set out to promote consistent disclosure of ESG strategy and performance and mitigate risk presented by climate change. Furthermore, Nuveen seeks to engage with its tenants around areas of shared interest and promoting sustainable practices to efficiently manage the operating costs.

As part of this ongoing engagement, Nuveen has requested investment companies to produce reporting that aligns with the Task Force on Climate-related Financial Disclosures (TCFD), the industry recognised standard, and to strengthen board and management oversight and accountability for climate risks. In addition, Nuveen is encouraging the companies to adopt science-based reduction targets that align with the Paris Climate Agreement.

**Outcome of the engagement:** Nuveen seeks to share lessons learned to advance sustainable building practices across the real estate industry to support consistency in the adoption of ESG and climate-related financial disclosures.



# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

### IMPLEMENTATION STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2022 (forming part of the Trustee's Report) (CONTINUED)

#### Appendix B

#### Summary of voting over the period

The managers in the below table provided details of their voting behaviour and significant votes over the period, in line with the Pensions and Lifetime Savings Association's Vote Reporting Template. Their responses are summarised in the table below. The information is sourced directly from the managers unless otherwise stated.

Holding	Number of resolutions eligible to vote	% of resolutions voted	% of resolutions voted against management	Proxy adviser*	% of resolutions voted contrary to the recommendation of the proxy adviser
Baillie Gifford Global Alpha Growth	1,126	98.2%	2.4%	N/A – Baillie Gifford do not follow a proxy adviser	N/A – Baillie Gifford do not follow a proxy adviser
First Sentier Asia Pacific Select Strategy	569	100.0%	3.5%	Glass Lewis	7.9%
Invesco Global Equity Income Strategy	748	99.5%	6.9%	ISS	5.4%
Liontrust UK Equity	968	100%	2.3%	ISS	0.3%
Morgan Stanley Offshore Emerging Markets Equity Fund	1,159	100.0%	9.0%	ISS	4.7%
State Street FTSE All Share Ex Tobacco	10,277	100.0%	6.9%	ISS	6.5%
State Street North America (100% Hedged) ESG Screened Index Equity Sub-Fund	8,138	99.4%	9.8%	ISS	11.3%
State Street Japan (100% Hedged) ESG Screened Index Equity Sub-Fund	6,155	100.0%	7.2%	ISS	6.4%
State Street Europe ex UK (100% Hedged) ESG Screened Index Equity Sub-Fund	8,864	99.1%	10.9%	ISS	6.0%

\*Managers often employ proxy advisers to recommend ways in which to vote on particular resolutions.



## MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2022

### IMPLEMENTATION STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2022 (forming part of the Trustee's Report) (CONTINUED)

#### Significant votes

The following tables provide a significant vote example for each relevant manager. In practice, the managers vote on a wider range of topics than the examples listed below. It should be noted that these examples are provided by the respective managers based on that manager's own interpretation of significance rather than explicitly defined by the Trustee. However, the Trustee has asked the managers to provide examples that relate to one of the 25 largest holdings within the fund. The Trustee is considering whether to establish its own definition of what constitutes a significant vote.

	Baillie Gifford	First Sentier	Invesco
Company name	Tesla, Inc.	Hindustan Unilever Ltd.	The Home Depot, Inc.
Date of vote	04/08/2022	06/01/2022	18/05/2022
Summary of the resolution	Shareholder Resolution - Environmental	Elect Ashu Suyash	Report on Efforts to Eliminate Deforestation in Supply Chain
Manager's vote	Against	For	For
Outcome of the vote	Did not pass	Pass	Pass
Rationale for the voting decision	Opposed the resolution requesting a report on the company's water risk exposure. The company already provides detailed disclosure and has stated its intention to continue to increase the level of disclosure in future Impact Reports.	A good addition to the board, with experience as CEO and at a rating agency and part of S&P Global's operating committee.	Shareholders would benefit from additional information on the company's strategy to manage its supply chain's impact on deforestation.

## MRC PENSION SCHEME

YEAR ENDED 31 DECEMBER 2022

### IMPLEMENTATION STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2022 (forming part of the Trustee's Report) (CONTINUED)

	Liontrust	Morgan Stanley	State Street
Company name	Shell Plc	Samsung Electronics Co., Ltd	BP Plc
Date of vote	24/05/2022	16/03/2022	12/05/2022
Summary of the resolution	Request Shell to Set and Publish Targets for Greenhouse Gas (GHG) Emissions	Election of the director	Approve shareholder resolution on climate change targets
Manager's vote	Against	Against	Against
Outcome of the vote	Did not pass	Pass	Did not pass
Rationale for the voting decision	Shell's Energy Transition Plan, and the report on progress against it, already provides the information sought by the requisitionists. The Company's progress will continue to be kept under review.	Recommend against the re-appointment of the incumbent independent directors as they collectively failed to remove criminally convicted directors from the board. This matter is being kept under review.	This proposal does not merit support as the company's disclosure and/or practices related to GHG emissions are reasonable.

# MRC PENSION SCHEME

## YEAR ENDED 31 DECEMBER 2022

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### 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 Furnival Street  
London,  
EC4A 1AB



MRC PENSION SCHEME  
YEAR ENDED 31 DECEMBER 2022

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ACTUARIAL CERTIFICATES (CONTINUED)

Universities Section

Name of Scheme: MRC Pension Scheme : University section

**Adequacy of rates of contributions**

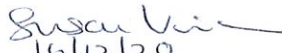
1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective can be expected to continue to be met for the period for which the schedule is to be in force.

**Adherence to statement of funding principles**

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

Sue Vivian  
Fellow of the Institute of Actuaries

Name of Employer:  
Address:

Government Actuary's Department  
Finlaison House  
15-17 Furnival Street  
London,  
EC4A 1AB