MERCHANT NAVY OFFICERS PENSION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2018

Registrar of Occupational and Personal Pension Schemes Registration Number 10005645

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TRUSTEE AND ADVISERS

Trustee
MNOPF Trustees Limited

Trustee Directors

Employer Directors

R Murphy (Chair)
D E Jones
M MacDonald
J McGurk (resigned 1 July 2017)
S Qureshi
L Stracey (resigned 1 July 2017)
P Winter

Officer Directors

M Jess (Vice-Chair)
C Boyle
R Cunningham
A M Dickinson
G Elliott (resigned 1 July 2017)
A Graveson (resigned 1 July 2017)
O Tunde

Committees of the Trustee
Management Committee
Deficit Contribution Sub-Committee (discontinued 8 March 2018)
Audit Committee

Executive support, registered office of the Trustee and address for employer enquiries
Ensign Pensions Limited
The Beehive
City Place, Gatwick Airport
West Sussex
RH6 0PA

Ensign Pensions Limited was appointed Scheme Secretary from 1 July 2016

MNOPF Executive
A G Waring (Chief Executive)
A Hardiman (Scheme Secretary)

Solicitors
Baker & McKenzie LLP

Independent Auditor
Grant Thornton UK LLP

Insurer
Legal & General Assurance Society Limited

Scheme Actuary
C P Burbidge, Willis Towers Watson Limited (to 14 August 2017)
K Farnum, Willis Towers Watson Limited (from 10 October 2017)

Scheme Administrators

Defined Benefit Section

JLT Employee Benefits Limited

Money Purchase Section

BlackRock Life Limited
In 2016, BlackRock's Defined Contribution business was sold to Scottish Equitable Plc (operating under the brand name of Aegon). The formal Part VII transfer was approved by the High Court on 21 June 2018.

Delegated Chief Investment Officer
Willis Towers Watson Limited

Independent Investment Adviser
Hymans Robertson LLP

Investment Managers

Defined Benefit Section

Willis Towers Watson Limited
BlackRock Advisers (UK) Limited
State Street Global Advisers Limited

Money Purchase Section

BlackRock Life Limited

Bankers
National Westminster Bank Plc

Custodian
The Bank of New York Mellon SA/NV
The Northern Trust Company

AVC providers
The Equitable Life Assurance Society
Standard Life Assurance Company

Address for member enquiries
myMNOPFpension
Leatherhead House
Station Road
Leatherhead
Surrey
KT22 7ETs

enquiries@myMNOPFpension.co.uk

CHAIR'S INTRODUCTION

Welcome to the Annual Report and Financial Statements for the year ended 31 March 2018. I am delighted to report that the Fund continues to go from strength to strength, with the funding level improving once again (the sixth year in succession) and the Journey Plan on track to reach its target in 2025. A full actuarial valuation is currently underway to assess the Fund as at 31 March 2018. Work is proceeding to schedule, and the results will be available for publication in spring 2019.

In 2017, I wrote to all members and participating employers with news of the MNOPF's plans for the future as we enter an important phase in the life of the Fund. The plans are based on a simple long-term goal: To secure all member benefits and ensure the long-term future of the Ensign Retirement Plan.

The last year has seen the Fund achieve a great deal in pursuit of this goal; The Journey Plan is on track to deliver its aim of being 103% funded (on a gilts basis) by 2025. This position has been helped by the fantastic progress made to collect the deficit amounts owed by employers – not only through the regular payments according to the agreed instalment plans, but through the success of our efforts to encourage employers to settle their outstanding amounts in full.

As the Journey Plan moves nearer its target date of 2025, so it becomes increasingly important to reduce levels of risk within the Fund. The Trustee continually seeks new opportunities to reduce risk and improve the security of members' pensions. In December 2017, one such opportunity arose and £490 million of members' benefits were secured through a 'buy-in' transaction with Legal & General. The Trustee will continue to look for similar opportunities to secure pension benefits in the future.

The MNOPF was instrumental in the establishment of the Defined Contribution maritime industry pension plan - the Ensign Retirement Plan - and is committed to continuing its support of this important initiative. In April 2018, the money purchase section of the MNOPF - the Ensign Retirement Plan (for the MNOPF) - was successfully consolidated with the Ensign Retirement Plan and all member benefits transferred from the MNOPF to the Ensign Retirement Plan. This is a move which will help secure the future of defined contribution pension provision for the maritime sector and allows members to access lower charges and new features and services.

Whilst these specific actions take the Fund ever nearer its goal, it is also important to ensure the Fund delivers efficiencies and reduces overall operating costs, whilst at the same time safeguarding the ongoing quality of Fund governance and performance. This year we have made changes to the governance structure (by reducing the number of Trustee Directors from 14 to 10), and the way the Trustee Board operates (by condensing the number of sub-committees and meetings), in addition to reducing our operating costs.

Rory Murphy

Chair, MNOPF Trustees Limited

10 October 2018

TRUSTEE'S REPORT

The Board of MNOPF Trustees Limited (referred to hereafter as "the Trustee") is pleased to present the 80th Annual Report of the Merchant Navy Officers Pension Fund (referred to hereafter as the "Fund" or "MNOPF"), for the year ended 31 March 2018. The Annual Report includes the Trustee's Report, Investment Report, Statement of Trustees Responsibilities, Financial Statements and Notes, the Independent Auditor's Report, the Report on Actuarial Liabilities and the Actuarial Certificates and the Member's Information.

The Annual Report sets out how the Fund is run, how the assets are invested, and the financial activity of the Fund in the year to 31 March 2018.

Constitution and changes to the Fund

The Fund was established by a Trust Deed dated 29 October 1937 and is currently regulated by the Trust Deed and Rules dated 25 June 1999, as amended by subsequent supplemental deeds ("the Rules"). The Trustee, which is a corporate trustee, manages the Fund with the aim of providing pension benefits for Officers in the British Merchant Navy, and their dependants.

The MNOPF was contracted-out of the State Second Pension under the provisions of the Occupational Pension Schemes (Contracting-Out) Regulations 1996 until 31 March 2016 when the Fund closed to future defined benefit accrual. The Fund currently provides defined benefits for over 25,000 members and their dependants. On 1 August 2015 the Fund introduced money purchase benefits and, on 1 April 2016, opened a Money Purchase Section. From 31 March 2018, the Money Purchase Section was closed to new contributions and, on 11 May 2018, all benefits in the Money Purchase Section designated to members were transferred, by bulk transfer without member consent, to the Trustee of the Ensign Retirement Plan. The Money Purchase Section will be formally wound up through the signing of a deed of termination.

The Annual Report and Financial Statements are available to members through the website www.mnopf.co.uk.

Management of the Fund

The Trustee is responsible for the strategy, management and decisions relating to financial, legal and administrative issues. There is provision on the Board of the Trustee for between four and fourteen Directors, split equally between Employer Directors and Officer Directors. Employers and members are represented by Employer Directors and Officer Directors respectively. A list of Board Directors is shown on page 1.

Trustee Directors are appointed and re-appointed in accordance with the Trustee's Articles of Association, the MNOPF's Trust Deed and Rules and an approved policy which was developed against the backdrop of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (the "Governance Regulations") that came into force on 6 April 2015. In accordance with this policy, Officer Directors are nominated by the officers' representatives on the Joint Officers' Pension Committee, and Employer Directors are nominated by the employers' representatives on the Joint Officers' Pension Committee. Trustee Directors are subsequently appointed in accordance with the Articles of Association. A Director may appoint an Alternate Director to attend meetings in his place. Trustee Directors are removed in accordance with the Trustee's Articles of Association.

The majority of trustee directors, including the Chair of the Trustee, are 'non-affiliated' for the purposes of the Governance Regulations.

Committees

The Trustee has established a number of committees, each having its own terms of reference. Membership of committees is split equally between employer directors and officer directors. Each of these committees is supported by Ensign Pensions Limited and professional advisers, as required. During the Fund year, the Trustee considered alternative terms of reference for the Trustee Board and its committees, each of which took effect from 1 April 2018.

The Management Committee

The Management Committee consists of a maximum of six members and its purpose is to oversee matters relating to the general management of the Fund, its benefits, contributions and implementation of the investment strategy, in the context of the Fund's overall objectives, and to make recommendations to the Board on strategy, governance and key decisions relating to the achievement of the Fund's strategic objectives. The Management Committee is empowered to make decisions related to its functions.

TRUSTEE'S REPORT (CONTINUED)

The Deficit Contribution Sub-Committee

The Deficit Contribution Sub-Committee reported to the Management Committee and was responsible for all matters connected with the collection of deficit contributions, statutory employer debts and debts arising under Rule 5.2A of the Rules. From 1 April 2018, all responsibilities previously delegated to the Deficit Contribution Sub-Committee have been passed to The Management Committee.

Audit Committee

The Audit Committee consists of four members and is responsible for meeting with the external auditors, overseeing internal audits and reviewing the Financial Statements and appropriateness of the accounting policies adopted.

Attendance at meetings

A summary of meetings held and Trustee Directors' attendance during the year ended 31 March 2018 is as follows:

	Board		**Management Committee**		**Deficit Collection Sub-Committee**		**Audit Committee**	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
R Murphy (Chair)	5*	4*	4*	4*	4*	4*		
M Jess (Vice-Chair)	5	5	4	4	4	4		
C Boyle	5	5					2	2
R Cunningham	5	5						
M Dickinson	5	4	4	4	4	4		
G Elliott	1	0						
A Graveson	1	1					1	1
D E Jones	5	5	4	4				
M MacDonald	5	5					2	2
J McGurk	1	1						
S Qureshi	5	4						
L Stracey	1	1					1*	1*
O Tunde	5	3					3*	3*
P Winter	5	4					2	2

*denotes committee chair

Conflicts of Interest

All the Directors have signed a Conflicts of Interest Protocol which, in summary, provides for the notification of potential conflicts of interest and the approach to the management of such conflicts. The Protocol also sets out the Directors' responsibilities in relation to confidentiality. This document is reviewed annually.

TRUSTEE'S REPORT (CONTINUED)

Risk Management

The Trustee has overall responsibility for risk management and internal controls. It is committed to identifying, evaluating and managing risk. The Trustee, supported by Ensign Pensions, implements and maintains control procedures to mitigate significant risks. A risk register is maintained to:

- highlight the risks to which the Fund is exposed;
- assess those risks in terms of likelihood and impact; and
- identify actions that are either currently being taken, or that the Trustee considers should be taken, in order to mitigate the identified risks.

The MNOPF risk register takes into account the strategic objectives identified by the Trustee, together with certain other matters, and seeks to address or mitigate the impact of such issues to the fullest extent possible.

Ensign Pensions Limited

Ensign Pensions Limited is a company wholly owned by the Trustee. Ensign Pensions provides executive services to the Trustee and other pension schemes and works with the Trustee on developing the Fund's strategy, implementing the Trustee's decisions and supervising the day-to-day running of the Fund. The Trustee has delegated certain authorities to Ensign Pensions.

Administration

The Defined Benefit Section of the Fund is administered by JLT Employee Benefits. The Money Purchase Section was administered by BlackRock Life Limited. Enquiries about the Fund generally or about an individual's entitlement to benefits should be sent to the address shown at the beginning of this report.

Contributions

Summary of Contributions

The amounts due under the Schedule of Contributions as recognised in the Financial Statements are:

Due under the Schedule of Contributions	**31 March 2018 £m**
Employers' normal money purchase contributions	6.3
Members' normal money purchase contributions	2.8
Members' Additional Voluntary Contributions	0.5
Employers' defined benefit deficit contributions	101.8
Total recognised in the Financial Statements	**111.4**

Normal contributions

Members' and employers' normal contributions are received in respect of active members in accordance with the Schedule of Contributions of the Fund and the Trust Deed and Rules. On 31 March 2016, the Fund closed to future defined benefit accrual and no normal contributions were therefore received for active members accruing benefits on a defined benefit basis during the year to 31 March 2018. Normal contributions in relation to money purchase benefits are paid at rates agreed between the members, the employers and the Trustee, subject to a minimum of 4% for member contributions and 6% for employer contributions.

Normal money purchase contributions and AVCs totalling £1,091,408 were not received by the due dates set out in the Schedule of Contributions. All late payments were queried with the employers and steps taken to avoid recurrence. These late payments, the majority of which were paid within 1 day after the deadline and at least within 36 days, were mainly the result of operational issues at the respective employers' payroll departments and the Trustee has ensured steps were taken by the employers to avoid recurrence. Employers have been made fully aware of the legal time limits for paying contributions, but no further regulatory action was taken by the Trustee.

TRUSTEE'S REPORT (CONTINUED)

Contributions (continued)

Additional Voluntary Contributions ("AVCs")

During the Fund year, the Trustee had AVC arrangements with Equitable Life and Standard Life, and members accruing benefits on a defined benefit basis were able to contribute AVCs until the Fund closed to future defined benefit accrual on 31 March 2016.

Members contributing to the Fund on a money purchase basis were able to make AVCs towards their personal retirement accounts and invest these in one or more of the investment funds available to money purchase members.

On retirement, members could elect to commute part of their pension for a Pension Commencement Lump Sum, and use the AVC fund value to fund part of the cash lump sum, transfer their AVC fund to an alternative pension arrangement or buy an annuity with a provider of their choice (this is known as the "open market option").

On 29 March 2018, the Trustee agreed to close the Money Purchase Section to new contributions, with effect from 31 March 2018, and subsequently, to make a bulk transfer of member's benefits, including those held in the AVC policies, to the Trustee of the Ensign Retirement Plan. The AVC policies were transferred to the Trustee of the Ensign Retirement Plan via two deeds of assignment each dated 11 May 2018. No AVCs can now therefore, be paid to the Fund. Authorisation to transfer the remainder of members' money purchase benefits was given in a letter dated 4 May 2018 and the bulk transfer was completed on 11 May 2018.

Deficit contributions and statutory employer debt

The MNOPF's Deficit Contributions Collection Policy sets out the process of how employers are expected to pay their share of the deficits identified in the triennial valuations.

The MNOPF has a robust process to ensure the efficient collection of the deficit contributions from more than 200 participating employers. The Trustee and its advisers have worked with Participating Employers to implement appropriate credit support arrangements where necessary. These arrangements include corporate guarantees and other forms of contingent assets (including bank guarantees and charges over tangible fixed assets), and have helped to secure the collection of deficit contributions from employers and enhance the protection of members' benefits.

The Section 75 debt legislation was introduced to ensure that if a Fund is not sufficiently well funded, a debt is paid by the employer on the occurrence of certain events (known as an "employment cessation event"). Included within deficit contributions are amounts that are due and expected to be received from employers where statutory debts have arisen following an employment cessation event. Prior to the closure of the Fund to future defined benefit accrual from 31 March 2016, an "employment cessation event" occurred in relation to the MNOPF when an employer who continued to employ active members after 6 April 2008, ceased to employ active members on either a defined benefit or a money purchase basis. Since 31 March 2016, an "employment cessation event" only occurs on the insolvency of a Participating Employer, the winding-up of the Defined Benefit Section or the Fund as a whole, or in the event that an employer elects to trigger its Section 75 debt.

The Trustee continues to monitor employers that are at risk of triggering a Section 75 debt.

Following the 2009 and 2012 valuations, the Scheme Actuary certified Schedules of Contributions which established recovery periods ending in September 2022 and September 2025 respectively. As at 31 March 2018, contributions totalling £4.13 million had not been received in relation to the deficit contribution instalments due within the scheme year for those valuations. All outstanding amounts were received by 13 April 2018. The Trustee has resolved to take all necessary action to pursue the outstanding deficit, totalling £68.3 million, from all Participating Employers by 2025.

Covenant Monitoring

The Trustee continues to monitor the employer covenant strength of employers, in particular when notification is received of corporate changes taking place. The Fund's overall covenant strength is being reviewed as part of the actuarial valuation due as at 31 March 2018.

TRUSTEE'S REPORT (CONTINUED)

Membership

Details of the membership of the Fund as at 31 March 2018 are given below:

ACTIVE MEMBERS	2018 DB Section	2018 MP Section	2018 Total	2017 DB Section	2017 MP Section	2017 Total
Opening balance – active members	-	819	819	-	-	-
Members previously reported separately[x]	-	-	-	-	367	367
New active members[#]	-	100	100	-	594	594
From deferred to active	-	5	5	-	-	-
Adjustments to active members*	-	(1)	(1)	-	-	-
Leavers (retaining an entitlement)	-	(894)	(894)	-	(106)	(106)
Retirements	-	(23)	(23)	-	(21)	(21)
Deaths	-	(2)	(2)	-	(2)	(2)
Other leavers	-	(4)	(4)	-	(13)	(13)
ACTIVE MEMBERS AT THE END OF THE YEAR	-	-	-	-	819	819
PENSIONERS						
Opening balance	17,229	-	17,229	16,942	-	16,942
Adjustments to pensioners*	76	-	76	60	-	60
New pensioners/dependants	721	-	721	779	-	779
Pension ceases	(590)	-	(590)	(552)	-	(552)
PENSIONERS AT THE END OF THE YEAR	17,436	-	17,436	17,229	-	17,229
MEMBERS WITH DEFERRED BENEFITS						
Opening balance	8,090	125	8,314	8,975	-	8,975
Members previously reported separately[x]	-	-	-	-	32	32
Adjustments to members with deferred benefits*	(81)	-	-	(122)	-	(122)
New pension credit members	5	-	5	5	-	5
New leavers before pensionable age	-	894	894	-	106	106
Members ceasing to be deferred (transfers out, deaths, retirement, re-joiners etc.)	(740)	(41)	(781)	(768)	(13)	(781)
MEMBERS WITH DEFERRED BENEFITS AT THE END OF THE YEAR	7,274	978	8,252	8,090	125	8,215
TOTAL MEMBERSHIP AT THE END OF THE YEAR	24,710	978	25,688	25,319	944	26,263

[x]On 30 June 2015 the Fund introduced money purchase benefits. The Trustee's Report as at 31 March 2016 reported 367 active members and 32 deferred members with money purchase benefits in the Fund. On 1 April 2016 the money purchase benefits were established within a separate section and are now included in the table above.

[#]New active members includes members who were previously in the Defined Benefit Section and joined the Money Purchase Section following closure to future defined benefit accrual. New active members are reported gross of any opt-outs.

*Adjustments are members whose status has been changed where the change relates to a previous year.

^Included within pensioners are 2,490 pensioners whose pensions are paid from the Legal & General annuity buy-in policy held in the name of the Trustee.

TRUSTEE'S REPORT (CONTINUED)

Overpaid Pensions

The Trustee must ensure that pensions are paid to the correct recipient. Pensions payable from the MNOPF cease on the death of the recipient or, in the case of dependent children, when they cease to meet the criteria for receiving a dependent child's pension. Under Rule 25A of the Trust Deed and Rules, the Trustee has the power to treat any instalments of pension paid after the death of a member as a pre-payment of any widow(er)'s pension.

All members and beneficiaries are asked to note that the Trustee will take action to recover benefits that have been overpaid. In cases where false representations have been made, the Trustee will usually report the incident to the police, which could lead to prosecution of the individuals involved.

Transfer Values

The transfer payments paid during the year were calculated in accordance with the regulations under the Pensions Schemes Act 1993 and the Pensions Act 1995 as appropriate. There is no allowance for discretionary pension in payment increases. Transfer payments represented the full "cash equivalent" value of the accrued benefits.

The Rules of the Fund allow transfers to other registered occupational pension schemes and personal pension plans. The Trustee receives a statutory discharge from any further liability once a transfer has been made to another pension arrangement.

The Trustee also accepts transfers in from other registered occupational pension schemes on a discretionary basis.

Discretionary Pension Increases

The Trustee is required to consider, at least annually, whether it can grant discretionary increases to pensions under Rule 6.6 of the Trust Deed and Rules, having taken the advice of the Scheme Actuary. After reviewing the Scheme Actuary's advice based on the funding levels at 31 March 2017, the Trustee did not consider it appropriate to grant a discretionary increase to pensions in April 2018 whilst maintaining a sufficient level of security for all members' benefits.

Statutory Pension Increases

Certain increases to pensions are required by legislation.

- Guaranteed Minimum Pensions in payment earned from 6 April 1988 to 5 April 1997 were increased in April 2018, as required, by 3.0% and pensions in payment relating to service from 1 April 1997 were increased in April 2018, as required, by 3.9%.
- Increases to deferred pensions are made in accordance with the Trust Deed and Rules and depend on the date of leaving pensionable service. During the year, there was no increase to deferred pensions for members who left service prior to 1 January 1986 as required by the Rules and, for those leaving after that date, by application of the statutory revaluation percentage to the whole of the deferred pension.

Full details of the pension increases that applied at April 2018 can be found on the website www.mnopf.co.uk

Data Review

The Trustee has continually reviewed member data. The approach to this work is consistent with the record-keeping guidance issued by the Pensions Regulator.

Forfeited Benefits

The Rules permit the Trustee to treat benefits as forfeited in certain circumstances if a member's whereabouts is unknown, although the Rules also give the Trustee discretion to reinstate forfeited benefits if the member's whereabouts becomes known at a later stage.

TRUSTEE'S REPORT (CONTINUED)

Investment Management

The Trustee has overall responsibility for the investment of the Fund's assets in accordance with the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee has agreed a Statement of Investment Principles ("SIP"), in accordance with section 35 of the Pensions Act 1995, which sets out the investment strategy and policies for the MNOPF. Certain powers and responsibilities for the implementation of the Trustee's investment strategy have been delegated to the Delegated CIO, in relation to the Defined Benefit Section, and to BlackRock in relation to the Money Purchase Section. The SIP was reviewed during the 2016/17 Fund year, slightly amended in December 2017, and will be reviewed again following completion of the 2018 actuarial valuation. A copy of the latest SIP is available on the website www.mnopf.co.uk

The SIP sets out the Trustee's approach to socially responsible investment and corporate governance. In the context of socially responsible investment, the Trustee has considered how social, environmental and ethical factors should be taken into account in the investment process, and seeks to understand the extent to which steps are taken by the investment managers to incorporate these factors into their investment process. In the context of corporate governance, the Trustee encourages its investment managers to operate in accordance with the guidelines laid out in the Stewardship Code, which covers matters of both voting and engagement records, and report on their adherence to the Stewardship Code.

The Trustee regularly assesses the performance of the Fund's investments against its investment objectives. Day-to-day monitoring of the investment manager performance in the Defined Benefit Section is delegated to the Delegated CIO, and the Trustee receives reports on a quarterly basis on progress against the Fund's journey plan. The Trustee received reports from BlackRock on a quarterly basis showing the performance of each of the money purchase investment funds in which monies had been invested over the quarter. These were reviewed against appropriate benchmarks.

Performance of the Fund's investments over the year are detailed in the Investment Report (see page 11).

Custodian

All of the Fund's investments in the Defined Benefit Section are held under custody arrangements with Bank of New York Mellon, with the exception of the longevity hedge which is reflected under custody arrangements with Northern Trust. The pooled investment vehicle investment managers are responsible for putting in place their own custody arrangements. Money Purchase assets were held on a day-to-day basis under custody arrangements managed by BlackRock Life Limited, with the exception of the AVC arrangements held with Equitable Life and Standard Life.

Financial development of the Fund

The Financial Statements of the Fund for the year ended 31 March 2018, as set out on pages 18 to 40 have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995. A Summary of the Fund's Financial Statements is set out on the table below.

	2018
	£m
Net withdrawals from dealings with members	**(66.0)**
Net returns on investments	**36.0**
Net decrease in the fund during the year	**(30.0)**
Net assets of the fund at 1 April 2017	**3,340.1**
Net assets of the fund at 31 March 2018	**3,310.1**

TRUSTEE'S REPORT (CONTINUED)

Actuarial Review

The Financial Statements set out on pages 18 to 40 do not take into account the liabilities to provide pension benefits which fall due after the year end. In respect of the Fund, 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 the Fund and the level of contributions payable. The most recent triennial valuation was carried out at 31 March 2015. The next actuarial valuation is due as at 31 March 2018 and should be finalised by 30 June 2019.

The Scheme Actuary has prepared a report on the actuarial liabilities. This is included on page 41 and 42 of this report. The formal actuarial certificate from the Scheme Actuary required by statute is also included in this Annual Report and appears on page 43. These form part of the Trustee's report.

Change of actuary

During the year, C P Burbidge retired from Willis Towers Watson and resigned his position as Scheme Actuary. In his statement on leaving office, he noted no circumstances connected with his resignation, which, in his opinion, significantly affected the interests of the members or the prospective members of, or beneficiaries under, the Scheme. K Farnum was appointed as Scheme Actuary in his place.

Internal Disputes

The Trustee has an Internal Disputes Resolution Procedure ("IDRP") in place to deal with any complaints from members regarding the operation of the Fund. If the complaint cannot be resolved under the first stage of the Procedure, the Trustee will consider the complaint under stage two. Further details of the IDRP can be found on the MNOPF website.

Further Information

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

Any member with a complaint against the Fund or a query about their pension entitlement which they consider has not been satisfactorily addressed can use the "Internal Disputes Resolution Procedure". Members can also obtain free pension information and guidance from The Pensions Advisory Service ("TPAS"), who can be reached at 11 Belgrave Road, London SW1V 1RB. If a member requires assistance with dealing with a pension complaint, they can contact the dispute resolution team at the Pensions Ombudsman who can be reached at 10 South Colonnade, Canary Wharf, E14 4PU.

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

General Enquiries	Member Enquiries
Ensign Pensions Limited The Beehive City Place Gatwick Airport West Sussex RH6 0PA	myMNOPFpension Leatherhead House Station Road Leatherhead Surrey KT22 7ET

Email: enquiries@mymnopfpension.co.uk

Telephone: 01372 200200

This report, including the Investment Report, Statement of Trustee's Responsibilities, the Report on Actuarial Liabilities and the Members' Information, was approved by the Trustee on 10 October 2018 and signed on its behalf by:

R Murphy
Chair, MNOPF Trustees Limited

INVESTMENT REPORT

Investment returns

DB Section

Investment return relative to liabilities in conjunction with deficit contributions, leads to funding level progress.

The Fund's primary investment objective is to outperform its liabilities. The fund performed strongly over 2017 although gave back some of the gains in the first quarter of 2018 during the market turbulence in February. Over the year to 31 March 2018, The Fund outperformed its liabilities by 1.4%. The main contributors to this outperformance were the Fund's private markets (particularly an investment into Japanese solar assets) and equity allocations. This outperformance combined with the investment of new deficit contributions has led to a 5.4% increase in the gilt based funding level to 88.4% over the year to 31 March 2018.

Over the longer-term, the Fund has outperformed its liabilities by 1.2% pa over the past 3 years and 1.9% pa over the past 5 years. Over both time horizons this outperformance has been achieved with very low levels of funding level volatility. This outperformance has been achieved despite a significant increase in liabilities due to the Fund's liability hedging portfolio and the outperformance of the return-seeking asset classes. The return over the past 3 years has been slightly below the targeted level of outperformance as, despite the strong performance over 2016 and 2017, the Fund struggled during market conditions in the middle of 2015.

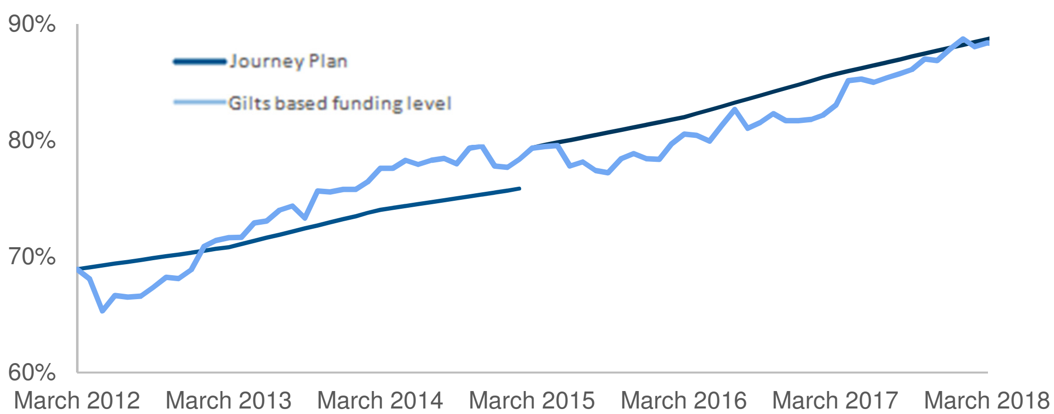
The table below shows the Fund's investment performance as measured by the independent performance measurer over one year and longer periods against the gilts-based liabilities.

To 31 March 2018	1 Year (%)	3 year (% pa)	5 year (%pa)
Fund Return	2.4	6.5	8.4
Gilts-based liabilities	1.0	5.3	6.5
Relative	1.4	1.2	1.9
Volatility (tracking error)	1.2	2.1	2.2

Fund performance is shown net of underlying manager fees, gross of Delegated CIO fees.

The chart below shows the Journey Plan progression from 31 March 2012. The Journey Plan was restated following the 31 March 2015 Actuarial Valuation. As the Fund has performed strongly since March 2012, the Journey Plan was revised upwards to reflect the actual gilts-based funding level position as at 31 March 2015. The return target was reduced at the beginning of 2016 to reflect concerns over a more challenging economic environment.

The gilt based funding positon has improved over the year to 31 March 2018, with the funding level now broadly in line with the journey plan. The funding level has been boosted by the early receipt of deficit contributions as well as the buy-in transaction, the combination of which has offset the lower than expected investment returns.



INVESTMENT REPORT (CONTINUED)

Investment returns (continued)

MP Section

Performance of the investments in the Money Purchase Section over the year are analysed in the table below.

Fund description	1 Apr 2017 to 31 Mar 2018	
	Fund (%)	Index (%)
BLK DC LifePath Flexi G	2.99	3.35
BLK DC LifePath Flexi 2016-18 G	3.00	3.46
BLK DC LifePath Flexi 2019-21 G	3.79	4.23
BLK DC LifePath Flexi 2022-24 G	4.10	4.57
BLK DC LifePath Flexi 2025-27 G	4.26	4.72
BLK DC LifePath Flexi 2028-30 G	4.40	4.87
BLK DC LifePath Flexi 2031-33 G	4.54	5.02
BLK DC LifePath Flexi 2034-36 G	4.68	5.18
BLK DC LifePath Flexi 2037-39 G	4.81	5.32
BLK DC LifePath Flexi 2040-42 G	4.96	5.47
BLK DC LifePath Flexi 2043-45 G	5.07	5.59
BLK DC LifePath Flexi 2046-48 G	5.15	5.68
BLK DC LifePath Flexi 2049-51 G	5.19	5.72
BLK DC LifePath Flexi 2052-54 G	5.19	5.72
BLK DC LifePath Flexi 2055-57 G	5.18	5.72
BLK DC LifePath Flexi 2058-60 G	5.18	5.72
BLK DC LifePath Flexi 2061-63 G	5.19	5.72
BLK DC LifePath Flexi 2064-66 G	5.28	5.72
BLK DC LifePath Flexi 2067-69 G	5.25	5.72
BLK DC LifePath Capital 2019-21 G	2.13	2.48
BLK DC LifePath Capital 2022-24 G	3.27	3.65
BLK DC LifePath Capital 2031-33 G	4.53	5.02
BLK DC LifePath Capital 2046-48 G	5.13	5.68
BLK DC LifePath Retirement 2019-21 G	2.71	3.04
BLK DC LifePath Retirement 2022-24 G	3.58	4.03
BLK DC Aquila All Stocks UK Index Linked Gilt Index Y	0.24	0.53
BLK DC Aquila Corporate Bond All Stocks Index Y	1.14	1.26
BLK DC Aquila Over 15 Year Gilt Index Y	1.73	2.21
BLK DC Aquila (30:70) Currency Hedged Global Equity Index Y	7.18	7.66
BLK DC Aquila Emerging Markets Equity Index Y	8.15	9.83
BLK DC Aquila UK Equity Index Y	1.05	1.25
BLK HSBC Islamic Global Equity Index G	1.85	2.44
BLK LGIM Ethical Global Equity Index Y	1.14	1.88
BLK Schroders DMAF I10	4.35	2.71
BLK DC Property T	7.33	10.02
BLK DC Cash D	0.04	0.20

The Trustee introduced money purchase benefits in the Fund in 2015, with the first contributions being made in August 2015. Three and five-year performance figures are not, therefore, currently available. Performance of the index shows the gross fund performance whilst Fund performance values are net of fees.

INVESTMENT REPORT (CONTINUED)

Investment returns (continued)

MP Section (continued)

Fund returns are based on the special closing prices calculated at the close of business on the last working day of each valuation year, to allow comparisons with the appropriate indices. Performance is reported net of fees. Benchmark returns at the underlying funds level are not client-account specific and are reported only on a monthly basis. Past performance is not a reliable indicator of future results.

Market Review to 31 March 2018

Summary

In November 2017, the Bank of England (BoE) raised policy rates by 25bps to 0.5%. This was in line with market expectations. In March 2018, the UK defined a 21-month Brexit transition accord with the EU. With 12 months to go until the UK's exit from the EU, the transition deal allows much of the status-quo to continue for an additional 21 months, albeit with the UK losing its input to the EU's decision making process.

Elsewhere in Europe, Emmanuel Macron, an independent centrist, won the French general election, defeating the right-wing, anti-EU candidate Marine Le Pen. Angela Merkel won the general election in Germany, and eventually formed a coalition with the Social Democratic Party. The political impasse while these negotiations were ongoing has lent itself to increased uncertainty in Eurozone's largest economy and has created impediments to ongoing needs for structural reform in the Eurozone.

In the US, there was a 25bps rise in the Fed's policy rate at its meeting in June 2017. In March 2018, in its first meeting under the new chair Jay Powell, the US Federal Reserve raised its benchmark interest rate by 0.25% from 1.5% to 1.75% and indicated a moderate increase in expected rate rises over 2019 and 2020, forecasting healthy growth in the US economy and a slight overshoot in inflation above the 2% target.

Over the 12 months to 31 March 2018 sterling has appreciated by 12.2% against the US dollar, depreciated by 2.4% against the euro and appreciated by 7.1% against the yen.

Equity markets

Equity market returns have been positive over the 12 month period, with the FTSE World Index returning 2.6% in sterling terms. Japanese equities were the best performing developed region, returning 7.5% in sterling terms. Emerging market equities outperformed developed, with the FTSE All-World All Emerging index performing 8.8% in sterling terms.

Bond markets

UK government bond yields (which move inversely to bond prices) have fallen slightly over the 12 month period. Long maturity UK gilts have returned 2.2% over the period (as measured by FTSE-A Gilts Over 15 Years Index), whilst inflation-linked gilts have fared broadly the same with the FTSE-A Index-Linked Gilts Over 15 Years Index returning 1.1%. Over the past year, both local and hard emerging market debt had positive absolute performance returning 0.7% and 3.0% respectively (as measured by JPMorgan).

Alternative investment markets

Crude oil returned 28.3% (West Texas Intermediate Crude Oil) in dollar terms over the year to 31 March 2018. Crude oil futures rose to levels not seen since 2014 over the first quarter of 2018. Geopolitical tensions surrounding the US and Russia's relationship over Syria, the potential trade war between the US and China, and the possible termination of Iran's nuclear deal have added to the deal struck to limit production which had contributed to price rises in the latter half of 2017.

The UK property market remains subdued with Brexit fears impacting the outlook for rental growth in London offices. That said, capital values have remained robust as sterling's weakness has attracted overseas buyers to flagship London office assets.

INVESTMENT REPORT (CONTINUED)

Investment returns (continued)

Active ownership

The Delegated CIO has implemented mandates ensuring that the rights attaching to the Fund's investments are acted upon. This includes active voting participation and a requirement to consider social, ethical and environmental issues when implementing the Fund's investment strategy.

Willis Towers Watson

29 June 2018

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

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

- Show a true and fair view of the financial transactions of the Fund during the Fund year and of the amount and disposition at the end of the Fund year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and

- Contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Fund will not be wound up.

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

The Trustee also 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 Fund and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time revising a schedule of contributions showing the rates of contributions payable towards the Fund by or on behalf of the employer and the active members of the Fund and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Fund and for adopting risk-based processes to monitor whether contributions are made to the Fund by the employer in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

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

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE MERCHANT NAVY OFFICERS PENSION FUND

Opinion

We have audited the financial statements of The Merchant Navy Officers Pension Fund (the 'Fund') for the year ended 31 March 2018, which comprise the fund account, the statement of net assets (available for benefits) and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2018, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulations 3 and 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 under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the 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 Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Other information

The Trustee is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE MERCHANT NAVY OFFICERS PENSION FUND (CONTINUED)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Trustee for the financial statements

As explained more fully in the Trustee's responsibilities statement set out on page 15, the Trustee is responsible for the preparation of financial statements which show a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Grant Thornton UK LLP
Statutory Auditor
Chartered Accountants
London

Date: 10 October 2018

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 DB section £m	2018 MP section £m	2018 Total £m	2017 Total £m
CONTRIBUTIONS AND BENEFITS					
Contributions receivable					
- Employer		101.8	6.3	108.1	130.5
- Employee		-	3.3	3.3	3.6
Total contributions	4	101.8	9.6	111.4	134.1
Transfers in and other income	5	-	0.4	0.4	0.9
		101.8	10.0	111.8	135.0
Benefits paid or payable	6	(131.9)	(1.4)	(133.3)	(133.3)
Payments to and on account of leavers	7	(37.5)	(1.2)	(38.7)	(17.6)
Administrative expenses	8	(5.6)	(0.2)	(5.8)	(6.1)
		(175.0)	(2.8)	(177.8)	(157.0)
NET (WITHDRAWALS)/ADDITIONS FROM DEALINGS WITH MEMBERS		(73.2)	7.2	(66.0)	(22.0)
RETURNS ON INVESTMENTS					
Investment income	9	63.4	-	63.4	53.6
Investment management expenses	10	(12.4)	-	(12.4)	(9.8)
Change in market value of investments	11.1	(15.9)	0.9	(15.0)	348.6
NET RETURNS ON INVESTMENTS		35.1	0.9	36.0	392.4
NET (DECREASE) / INCREASE IN THE FUND DURING THE YEAR		(38.1)	8.1	(30.0)	370.4
NET ASSETS OF THE FUND AT 1 APRIL		3,316.0	24.1	3,340.1	2,969.7
NET ASSETS OF THE FUND AT 31 MARCH		3,277.9	32.2	3,310.1	3,340.1

The notes on pages 20 to 40 form an integral part of these financial statements.

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AT 31 MARCH 2018

	Note	2018 DB section £m	2018 MP section £m	2018 Total £m	Restated* 2017 Total £m
INVESTMENT ASSETS					
Equities	11.1	0.4	-	0.4	0.4
Bonds	11.1	1,114.6	-	1,114.6	1,976.7
Pooled investment vehicles	11.4	1,526.8	30.0	1,556.8	1,594.4
Derivatives	11.5	166.4		166.4	138.5
AVC Investments	11.7	-	1.1	1.1	1.4
Insurance policies	11.8	473.5	-	473.5	-
Cash and other investment assets	11.9	13.5	-	13.5	34.6
		3,295.2	31.1	3,326.3	3,746.0
INVESTMENT LIABILITIES					
Derivatives	11.5	(44.7)	-	(44.7)	(28.0)
Other investment liabilities	11.9	-	-	-	(463.2)
TOTAL INVESTMENTS	11.1	3,250.5	31.1	3,281.6	3,254.8
CURRENT ASSETS	13	42.8	1.1	43.9	99.5
CURRENT LIABILITIES	14	(15.4)	-	(15.4)	(14.2)
TOTAL NET ASSETS AT 31 MARCH		3,277.9	32.2	3,310.1	3,340.1

The financial statements summarise the transactions of the Fund 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 Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities included on pages 41 and 42 and these Financial Statements should be read in conjunction with that Report.

The notes on pages 20 to 40 form an integral part of these financial statements.

These financial statements were approved by the Trustee on 10 October 2018 and were signed on its behalf by:

R Murphy

Chair, MNOPF Trustees Limited

M Jess

Vice-Chair, MNOPF Trustees Limited

NOTES TO THE FINANCIAL STATEMENTS

1 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 102 - the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council, and the guidance set out in the Statement of Recommended Practice (2015) ("the Revised SORP").

2 CONSOLIDATION

Subsidiaries are all entities over which the Fund has the power to govern the financial and operational policies. The Fund has not prepared consolidated accounts on the grounds of immateriality and has accounted for subsidiaries using the equity method of accounting based on values derived from audited financial statements or other reliable financial information as at 31 March 2018 which represent the Trustee's estimate of fair value.

Investments in subsidiaries are recognised as equity holdings. Details of the subsidiaries are included in note 15.

3 ACCOUNTING POLICIES

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

3.1 Accruals concept

The financial statements have been prepared on an accruals basis.

3.2 Contributions

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

Employee contributions, including AVCs and where the member has been auto-enrolled, are accounted for when deducted from member's pay. Employer normal contributions are accounted for on the same basis as employee contributions.

A salary sacrifice arrangement is in place at certain employers whereby employees may opt to forego part of their salary in exchange for the employer paying enhanced pension contributions. Where this option is in place, the employees pay no member contributions, and both the employer contributions and salary-sacrificed contributions are accounted for as employer contributions.

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.

Payment profiles for deficit funding contributions are established with employers in line with the requirements of the Schedule of Contributions. Accordingly, employers' deficit funding contributions are recognised at the earlier of the date on which cash is received and the date the invoice is raised. An accounting adjustment is made for amounts falling due, but unpaid, if amounts are assessed as irrecoverable from a specific employer following all reasonable attempts to recover the amount due.

The accounting adjustment is recognised in administrative expenses. The subsequent treatment of the accounting adjustment for deficit funding collection purposes is considered by the Trustee in the context of the Deficit Collection Policy and the Guidelines for Defaulting Employers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3.2 Contributions (continued)

Contributions arising from statutory employer debt and which are due under section 75 of the Pensions Act 1995 are recognised when invoiced. The value recognised is the amount the Trustee assesses as being likely to be recovered when the invoice is raised.

3.3 Benefits

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

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

The fund operates a longevity swap arrangement, whereby the fund pays a fixed series of payments, representing the expected benefits payable under the pension scheme, in return for the swap provider paying the benefits that in fact fall due. The difference between these amounts is the longevity hedge settlement.

Where the Trustee agrees or 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.

3.4 Transfers to and from other schemes

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 Fund and are accounted for on a cash basis.

Group transfers are accounted for in accordance with the terms of the transfer agreement.

3.5 Valuation of investments

Investments are valued at fair value.

Quoted equity and fixed income securities, for which there are active markets, are recorded at bid market prices or last traded prices (depending upon market convention) at the year-end date as sourced from pricing vendors who are independent of the appointed fund managers.

Unquoted securities are included at prices provided by third party pricing vendors where there is a traded market and at the Trustee's estimate of fair value where there is not a traded market. The Trustee's estimate is based on the valuation provided by the fund managers.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3.5 Valuation of investments (continued)

Derivatives are stated at fair value:

- Exchange traded derivatives are stated at fair value determined by using market quoted prices;
- Swaps are valued taking the current value of future cashflows arising from the swap determined using discounted cashflow models and market date at the reporting date;
- Over the counter ("OTC") derivatives are stated at fair value using pricing models and relevant market date at the year-end;
- Futures contacts are exchange traded and fair value is determined using the exchange price for closing out the contract at the year-end;
- Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the year-end 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;
- Receipts and payments arising from derivative instruments are reported as sale proceeds or investment purchases.

Repurchase agreements ("repo") - the Fund continues to recognise and value the securities that are delivered out as collateral, and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount;

The scheme buy-in, shown under insurance policies has been valued on a buy-out basis. The valuation was conducted by the L&G pricing team based on the value of the members future benefits in force at the year end.

Longevity hedges are valued based on the expected future cash flows (excluding fees) arising under the swap discounted using market interest rates and taking into account the risk premium in the contract.

3.6 Investment income

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

Interest income from bonds is taken into account on an accruals basis and includes interest bought and sold on investment purchases and sales.

Where investment income arising from the underlying investments of the pooled investment vehicles is rolled up and reinvested within the pooled investment vehicles, it is reflected in the unit price and reported within change in market value of investments. On other pooled investment vehicles, income is recognised when notified by the manager of the pooled investment.

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.

Income arising from insurance policies is accounted for on an accruals basis.

3.7 Currency

The Fund'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 of investments are included in changes in market value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 CONTRIBUTIONS

	2018 DB section £m	2018 MP section £m	2018 Total £m	2017 DB section £m	2017 MP section £m	2017 Total £m
Employers' Contributions						
Normal contributions	-	6.3	6.3	0.1	6.9	7.0
Deficit funding contributions	101.8	-	101.8	123.5	-	123.5
Members' Contributions						
Normal contributions	-	2.8	2.8	-	3.2	3.2
Additional voluntary contributions	-	0.5	0.5	-	0.4	0.4
	101.8	9.6	111.4	123.6	10.5	134.1

Employer deficit funding contributions of £528 million are due under the Recovery Plans agreed following the 2009 and 2012 valuations. At 31 March 2018, a capital balance of £60.2 million is still payable over the period to September 2025.

5 TRANSFERS IN AND OTHER INCOME

	2018 DB section £m	2018 MP section £m	2018 Total £m	2017 DB section £m	2017 MP section £m	2017 Total £m
Individual transfers in	-	0.2	0.2	-	0.6	0.6
Other income	-	0.2	0.2	-	0.3	0.3
	-	0.4	0.4	-	0.9	0.9

Other income includes the joining and annual employer fees on the MP section.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 BENEFITS PAID OR PAYABLE

	2018 DB section £m	2018 MP section £m	2018 Total £m	2017 DB section £m	2017 MP section £m	2017 Total £m
Pension payments	117.5	-	117.5	114.6	-	114.6
Commutations and lump sum retirement benefits	13.8	1.2	15.0	18.0	0.4	18.4
Lump sums on death	0.5	0.1	0.6	0.3	-	0.3
Taxation where lifetime or annual allowance exceeded	0.1	0.1	0.2	-	-	-
	131.9	1.4	133.3	132.9	0.4	133.3

Taxation arising on benefits paid or payable is 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 Fund settling their tax liability.

7 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2018 DB section £m	2018 MP section £m	2018 Total £m	2017 DB section £m	2017 MP section £m	2017 Total £m
Individual transfers out to other schemes	37.5	1.2	38.7	17.1	0.5	17.6

8 ADMINISTRATIVE EXPENSES

	2018 DB section £m	2018 MP section £m	2018 Total £m	2017 DB section £m	2017 MP section £m	2017 Total £m
Administration, processing and data management	3.2	0.1	3.3	4.8	0.2	5.0
Actuarial fees	0.2	-	0.2	0.1	-	0.1
Legal, other professional fees and deficit collection fees	2.4	0.1	2.5	1.0	-	1.0
Accounting adjustment to employer deficit contributions receivable	(0.2)	-	(0.2)	-	-	-
	5.6	0.2	5.8	5.9	0.2	6.1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 INVESTMENT INCOME

	2018 DB section £m	2018 MP section £m	2018 Total £m	2017 DB section £m	2017 MP section £m	2017 Total £m
Dividends from equities	-	-	-	0.1	-	0.1
Income from bonds	48.2	-	48.2	40.8	-	40.8
Income from pooled investment vehicles	12.4	-	12.4	10.5	-	10.5
Income allocated to Old Section Reserve	(0.1)	-	(0.1)	(0.4)		(0.4)
Foreign exchange (losses) / gains	(1.6)	-	(1.6)	2.9	-	2.9
Insurance policy income	4.9	-	4.9	-	-	-
Longevity hedge settlements	(0.5)	-	(0.5)	(0.6)	-	(0.6)
Other investment income	0.3	-	0.3	0.5	-	0.5
	63.6	-	63.6	53.8	-	53.8
Irrecoverable taxation	(0.2)	-	(0.2)	(0.2)	-	(0.2)
	63.4	-	63.4	53.6	-	53.6

10 INVESTMENT MANAGEMENT EXPENSES

	2018 DB section £m	2018 MP section £m	2018 Total £m	2017 DB section £m	2017 MP section £m	2017 Total £m
Administration, management & custody	8.4	-	8.4	6.0	-	6.0
Longevity insurance fees and administrative costs	4.0	-	4.0	3.8	-	3.8
	12.4	-	12.4	9.8	-	9.8

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 INVESTMENTS

11.1 Reconciliation of investments

Reconciliation of investments held at beginning and end of year:

DB Section

	Note	Restated value at 1 April 2017	Purchases at Cost and Derivative payments	Sales Proceeds and Derivative receipts	Change in market value	Value at 31 March 2018
		£m	£m	£m	£m	£m
Equities		0.4	-	-	-	0.4
Bonds		1,976.7	358.6	(1,189.3)	(31.4)	1,114.6
Pooled investment vehicles	11.4	1,572.7	1,106.0	(1,121.0)	(30.9)	1,526.8
Derivatives	11.5	110.5	54.0	(108.5)	65.7	121.7
Insurance policies	11.8	-	492.8	-	(19.3)	473.5
		3,660.3	2,011.4	(2,418.8)	(15.9)	3,237.0
Cash deposits and other investment assets	11.9	34.6				13.5
Other investment liabilities	11.9	(463.2)				-
		3,231.7				3,250.5

MP Section

	Note	Value at 1 April 2017	Purchases at Cost	Sales Proceeds	Change in market value	Value at 31 March 2018
		£m	£m	£m	£m	£m
Pooled investment vehicles	11.4	21.7	12.5	(5.1)	0.9	30.0
AVC investments	11.7	1.4	-	(0.3)	-	1.1
		23.1	12.5	(5.4)	0.9	31.1

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.

11.2 Transaction costs

Included within the purchases and sales figures are direct transaction costs of £0.6m (2017: £1.3m). Direct transaction costs incurred are analysed below:

	Fees	Total
	£m	£m
2018	0.6	0.6
2017	1.3	1.3

There are no direct transaction costs relating to MP Section investments. Indirect costs are also borne by the Fund in relation to transactions in pooled investment vehicles. These are accounted within the bid/offer spread of units and details are not made available to the Trustee.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.3 Restatement of comparatives

The figures for the prior year included treasury funds, which had been classified under cash deposits and other investment assets and liabilities. These have been reclassified as pooled investment vehicles to be consistent with current interpretation of the Revised SORP. There has been no impact on increase or decrease in the fund or statement of net assets (available for benefits).

11.4 Pooled investment vehicles

DB SECTION

	2018	Restated 2017
	£m	£m
Equities	292.8	282.6
Bonds	307.2	314.0
Hedge funds	268.9	297.4
Private equity	72.4	101.1
Property	14.7	48.7
Absolute return funds	350.9	435.7
Cash	219.9	93.2
	1,526.8	1,572.7

MP SECTION

	2018	2017
	£m	£m
Equities	0.6	0.5
Bonds	0.2	0.2
Multi Assets	29.1	20.9
Cash	0.1	0.1
	30.0	21.7

The investments in the pooled investment vehicles in the MP section are fully allocated to members.

The MP section includes an element of AVCs. It is not possible to quantify the value of the AVCs within the total investment.

11.5 Derivatives

The Trustee has authorised the use of derivatives as part of their investment strategy for the Fund. The derivatives held were:

	2018 Assets	2018 Liabilities	2017 Assets	2017 Liabilities
	£m	£m	£m	£m
Swaps	154.7	(12.5)	131.9	(7.4)
Forward foreign exchange	9.6	(0.1)	4.0	(0.3)
Futures	2.1	-	2.6	-
Longevity hedge	-	(32.1)	-	(20.3)
	166.4	(44.7)	138.5	(28.0)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.6 Derivative contracts outstanding

Swaps

The Fund enters into swap contracts to hedge interest rate and inflation rate movements.

Contract	Expiration	Notional Currency Principal	2018 Asset £m	2018 Liability £m
Interest rate swaps	0-5 years	£178.9m	9.1	(1.0)
Interest rate swaps	6-10 years	£183.1m	15.6	(1.8)
Interest rate swaps	11-20 years	£386.8m	52.6	-
Interest rate swaps	21-30 years	£100.0m	4.8	-
Interest rate swaps	31-40 years	£41.6m	49.8	-
Interest rate swaps	41-50 years	£7.6m	12.0	-
Inflation swaps	0-5 years	£184.0m	1.2	-
Inflation swaps	6-10 years	£115.9m	0.7	(0.1)
Inflation swaps	11-20 years	£75.2m	0.5	(5.1)
Inflation swaps	21-30 years	£45.5m	-	(3.2)
Inflation swaps	31-40 years	£1.9m	-	(0.9)
Inflation swaps	41-50 years	£2.8m	-	-
Total return swaps	0-5 years	£309.2m	8.4	(0.4)
			154.7	(12.5)

Contract	Expiration	Notional Currency Principal	2017 Asset £m	2017 Liability £m
Interest rate swaps	0-5 years	£111.3m	5.7	-
Interest rate swaps	6-10 years	£69.3m	13.5	-
Interest rate swaps	11-20 years	£191.9m	44.3	-
Interest rate swaps	21-30 years	£45.1m	10.8	-
Interest rate swaps	31-40 years	£33.8m	34.0	-
Interest rate swaps	41-50 years	£15.4m	21.1	-
Inflation swaps	0-5 years	£120.0m	1.2	-
Inflation swaps	6-10 years	£62.0m	0.6	-
Inflation swaps	11-20 years	£41.1m	0.7	(2.5)
Inflation swaps	21-30 years	£23.9m	-	(2.5)
Inflation swaps	31-40 years	£9.0m	-	(2.4)
			131.9	(7.4)

At 31 March 2018, the counterparties of the interest and inflation swaps were five banks with credit ratings ranging from AA- to A.

At 31 March 2018, the Fund held collateral in the form of gilts with a value of £137.9m (2017: £122.5m). Collateral is held and pledged on a net basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.6 Derivative contracts outstanding (continued)

Forward Foreign Exchange Contracts

The fund enters into Forward Foreign Exchange contracts to hedge currency fluctuations as some investment holdings are denominated in foreign currencies.

Contract	Settlement Date	Currency Bought	Currency Sold	2018 Asset £m	2018 Liability £m
Forward (OTC)	1-3 months	EUR14m	GBP12.4m	0.1	-
Forward (OTC)	1-3 months	JPY1,393.8m	GBP9.3m	-	(0.1)
Forward (OTC)	1-3 months	USD851.3m	GBP615.3m	9.5	-
				9.6	(0.1)

Contract	Settlement Date	Currency Bought	Currency Sold	2017 Asset £m	2017 Liability £m
Forward (OTC)	1-3 months	GBP3.0m	EUR3.5m	-	-
Forward (OTC)	1-3 months	GBP17.2m	USD21.4m	-	(0.2)
Forward (OTC)	1-3 months	GBP1.0m	JPY145.1m	-	-
Forward (OTC)	1-3 months	EUR16.0m	GBP13.6m	-	-
Forward (OTC)	1-3 months	JPY1,369.2m	GBP9.7m	-	(0.1)
Forward (OTC)	1-3 months	USD874.3m	GBP702.6m	4.0	-
				4.0	(0.3)

Futures

Exchange traded futures outstanding at 2018 year-end were as follows:

Nature	Expiration	Notional Currency Principal	2018 Asset £m	2018 Liability £m
US 10 Year Bonds	June 2018	£3m	2.0	-
US 5 Year Bonds	June 2018	£1m	0.1	-
			2.1	-

Exchange traded futures outstanding at 2017 year-end were as follows:

Nature	Expiration	Notional Currency Principal	2017 Asset £m	2017 Liability £m
US 10 Year Bonds	June 2017	£3m	2.5	-
US 5 Year Bonds	June 2017	£1m	0.1	-
			2.6	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.6 Derivative contracts outstanding (continued)

Longevity Hedge

The longevity hedge is to mitigate the funding risk arising from members living longer. It was entered into with MNOPF IC Limited who re-insured the liability with Pacific Life Re. The liabilities covered by the arrangement total £1.5 billion.

At 31 March 2018, the Fund had pledged collateral in the form of gilts with a value of £96.8m (2017: £96.2m). The collateral is in respect of the value of the hedge and the future commitment to pay insurance fees.

11.7 AVC investments

Members AVCs are invested separately from the main fund on a money purchase basis with Equitable Life. These assets are in the form of cash deposits and insurance policies securing additional benefits on a money purchase basis for those members electing to pay AVCs. Members participating in these arrangements receive and individual annual statement made up to 31 March each year, confirming the amounts held in their account and the movements in the year.

The aggregate amount of AVC investments are as follows:

	2018	**2017**
	£m	£m
Equitable Life Assurance Society	1.1	1.4

AVC investments held with Standard Life Assurance Company are below the accounting denomination.

11.8 Insurance policies

The Scheme held insurance policies at the year-end as follows:

	2018	**2017**
	£m	£m
L&G Buy-in	473.5	-

11.9 Cash deposits and other investment assets and liabilities

	2018	**Restated 2017**
	£m	**£m**
Assets		
Cash	9.2	25.6
Outstanding dividends, interest and other assets	4.3	9.0
	13.5	34.6
Liabilities		
Amount due under sale and repurchase contracts	-	(463.2)
	13.5	(428.6)

At 31 March 2018, the Fund held no collateral for the repurchase agreements in the form of gilts (2017: £10.2m). At 31 March 2018, no gilts were sold which are subject to repurchase contracts (2017: £477.4m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.10 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

For the purposes of this, analysis daily priced funds, weekly priced funds, monthly net asset values for Absolute Return funds and swap contracts have been included in Level 2. The longevity hedge, insurance policies and monthly net asset values for Private Equity funds are included in Level 3. The repurchase contracts have been included in Level 2.

The fair value of the Fund's investment assets and liabilities has been determined using the above hierarchy categories as follows:

DB Section

	Level 1	Level 2	Level 3	Total
2018	**£m**	**£m**	**£m**	**£m**
Equities	-	-	0.4	0.4
Bonds	1,114.6	-	-	1,114.6
Pooled investment vehicles	-	835.5	691.3	1,526.8
Derivatives	2.1	151.7	(32.1)	121.7
Insurance policies	-	-	473.5	473.5
Other investment balances	13.5	-	-	13.5
	1,130.2	987.2	1,133.1	3,250.5
Restated 2017	**£m**	**£m**	**£m**	**£m**
Equities	-	-	0.4	0.4
Bonds	1,976.7	-	-	1,976.7
Pooled investment vehicles	-	731.9	840.8	1,572.7
Derivatives	2.6	128.2	(20.3)	110.5
Other investment balances	34.6	(463.2)	-	(428.6)
	2,013.9	396.9	820.9	3,231.7

MP Section

	Level 1	Level 2	Level 3	Total
2018	**£m**	**£m**	**£m**	**£m**
Pooled investment vehicles	-	30.0	-	30.0
AVC Investments	-	1.1	-	1.1
	-	31.1	-	31.1
2017	**£m**	**£m**	**£m**	**£m**
Pooled investment vehicles	-	21.7	-	21.7
AVC Investments	-	1.4	-	1.4
	-	23.1	-	23.1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.11 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.

DB Section

The Fund has exposure to these risks because of the investments it makes to implement its investment strategy. The Trustee's primary investment objectives are to acquire suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions, the cost of benefits which the MNOPF provides; and to limit the risk of the MNOPF's assets failing to meet the MNOPF's liabilities over the long term.

The Trustee has formulated a Journey Plan which shall be taken as the agreed combination of contributions and investment return that is expected to target assets equal to 103% of the gilts based value of liabilities over the period to 30 June 2025 or such other period as may be agreed from time to time. This objective implies an initial return target of Gilts+1.8% pa from 2015-2020, followed by linear de-risking to a Gilts+0.5% pa return target by 2025.

The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Fund's strategic investment objectives. The Trustee's risk management policy is documented in the Statement of Investment Principles. These investment objectives are implemented through the Fiduciary Management Agreement in place with the Delegated CIO (Towers Watson Ltd) and the investment management agreements in place with the investment managers. The Fund's performance versus its investment objectives is monitored by the Trustee on a regular basis.

There have been no changes to the Fund's Journey Plan objectives over the year and the Delegated CIO's outlook remains broadly similar. As a result there have been no significant changes to the investment risk exposures. An insurance contract which provides a bulk annuity policy "buy-in" across a portion of the pensioner members was transacted over the year. This would be subject to both credit risk (from the insurer defaulting) and interest risk (impacting the discounted value of the annuity payments). This was predominately funded with UK government bonds and so has not significantly impacted the risk exposures of the overall portfolio.

The table on the following page summarises the extent to which the various classes of investments are affected by financial risks:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.11 Investment risks (continued)

DB Section

	Credit Risk	Market Risk: Currency	Market Risk: Interest Rate	Market Risk: Other Price	2018 Value (£m)	Restated 2017 Value (£m)
Equities	○	◐	○	●	0.4	0.4
Bonds	◐	○	●	●	1,114.6	1,976.7
Pooled investment vehicles	◐	◐	◐	●	1,526.8	1,572.7
Derivatives	●	◐	●	●	153.8	130.8
Cash	◐	◐	○	○	13.5	34.6
Other investments	●	○	●	○	-	(463.2)
Longevity swaps	●	○	●	○	(32.1)	(20.3)
Insurance policies	●	○	●	○	473.5	-
Total investments					3,250.5	3,231.7

In the above table, the risk noted affects the asset class [●] significantly, [◐] partially or [○] hardly/not at all.

Further information on the Trustee's approach to risk management and the Fund's exposures to credit and market risks are set out overleaf.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.11 Investment risks (continued)

(i) Credit risk

The Fund is subject to credit risk as the Fund invests in bonds, OTC derivatives, exchange traded derivatives, has cash balances, enters into repurchase agreements, has the potential to undertake stock lending activities, and has transacted a buy-in (which is exposed to the credit risk of the insurer). The Fund also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles. The main pooled investment arrangements used by the Fund comprise Irish QIAIFs, Limited Partnerships, UCITS, and a Common Contractual Fund.

Credit risk arising on bonds is mitigated by investing in government bonds where the credit risk is minimal.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or OTC. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Fund is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements and through diversification of counterparties. The collateral posted to the Fund is in the form of UK government bonds and cash. Credit risk arises on the longevity swap contract which was transacted with one counterparty; collateral arrangements reduce the credit risk for this contract. Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts but all counterparties are required to have an investment grade credit rating at the point of trade execution.

Cash is held within financial institutions which are at least investment grade credit rated.

The Fund does not lend any of its segregated assets other than through repurchase agreements. However pooled funds held by the Fund do have the ability to lend certain fixed interest and equity securities at their discretion. At 31 March 2018, some of the pooled fund managers were engaged in stock lending representing a minimal amount (less than 0.1% at a total portfolio level).

Credit risk on repurchase agreements is mitigated through collateral arrangements and diversification of counterparties.

The Fund's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. Some of the Fund's pooled investment managers have the ability to invest in non-investment grade investments; this risk is managed through diversification. The Delegated CIO carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the regulatory and operating environment of the pooled manager.

Credit risk arises on the buy-in which was transacted with one provider. This provider had an investment grade credit rating at the point of trade execution and credit risk is mitigated through the regulatory capital requirements placed on insurance providers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.11 Investment risks (continued)

(ii) Currency risk

The Fund is subject to currency risk because some of the Fund's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee limits overseas currency exposure through a currency hedging policy. As at 31 March 2018 the Fund's net unhedged overseas currency exposure was estimated as 10% of total asset value (2017: 11%).

(iii) Interest rate risk

The Fund is subject to interest rate risk on its liability driven investments (LDI) comprising bonds, repurchase agreements and interest rate swaps held either as segregated investments or through pooled vehicles and cash. The purpose of the Fund's LDI investments is to match the interest rate and inflation sensitivities of the Fund's liabilities. Therefore when considering the Fund's liabilities these investments are risk reducing. Similarly, the buy-in is subject to interest rate risk but again, this investment is risk reducing. The Fund is also subject to US interest rate risk on its protection strategies, comprising US Treasury futures and US CPI swaps. The purpose of this strategy is that it is expected to provide a positive return when mainstream markets (equity and credit) perform badly and is therefore risk reducing at an overall Fund level.

(iv) Other price risk

Other price risk arises principally in relation to the Fund's return seeking portfolio which includes pooled investment in equities, hedge funds, private equity, and other alternative investments.

The Fund manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

The other price risk for the Fund's bonds and derivatives, reflect that some of these instruments are inflation linked in nature and therefore the price of these instruments moves in line with inflation expectations.

MP Section

The Trustee's objective is to make available a suitable default option that will meet the needs of most members, as well as a range of investment options that, whilst not being too complicated, should help members in achieving the following objectives:

a) Increasing the value of their retirement pot from the contributions invested.
b) Protecting the value of their retirement pot in the years approaching retirement against market falls.
c) Protecting the value of their pot when converted into usable benefits.
d) Tailoring their investments to meet their own needs.

The range of investment options available to members, their investment objectives and risk tolerances, are outlined in the Statement of Investment Principles. The Trustee has however, selected the BlackRock LifePath Flexi Fund as the default investment fund for members to be invested in and is the focus of the Trustee's considerations of risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.11 Investment risks (continued)

The BlackRock LifePath Flexi Fund provides a series of target date funds, each with an asset allocation which transition members' investments from higher risk investments to lower risk investments as the members approach their target retirement date. As a result, the risk rating of each target date fund will vary over time to achieve the ultimate aim of realising a positive real return over the long term and keeping members invested in appropriate assets as their approach retirement.

The day to day management of the underlying investments of the funds is the responsibility of BlackRock, including the direct management of credit and market risks. The Trustee monitors the underlying risks by quarterly investment reports from BlackRock.

(i) 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.

The Plan is indirectly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles which are part of a long term insurance policy between the Trustee and BlackRock. Direct credit risk is mitigated by the underlying assets of the long term insurance policy being ring-fenced from BlackRock's corporate assets. In the event of BlackRock defaulting, the long term insurance policy is protected by the Financial Services Compensation Scheme.

BlackRock has discretion to invest member assets in a range of asset classes, including UK and Overseas Corporate and Government Bonds, thereby indirectly exposing the Plan to credit risk. Some of these instruments are held in funds managed by a third party insurer ("reinsurer"), exposing the Plan to credit risk if the reinsurer fails to pay the full value of the investment, for example if the reinsurer became insolvent. All reinsurers are carefully selected by BlackRock, authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority. In order to mitigate this credit risk, BlackRock normally takes security over the assets of the reinsurers such that the claim made by BlackRock would rank equally to any of the reinsurer's direct policyholders.

(ii) 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.

(iii) 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.

(iv) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.11 Investment risks (continued)

(iv) Other price risk (continued)

The Plan is subject to indirect foreign exchange, interest rate and other price risk arising from the underlying financial instruments held in the funds managed by BlackRock. BlackRock uses specific instruments with the aim of hedging out the majority of the foreign currency exposures, and diversification to manage market risk, gaining exposure to global equities, fixed income instruments, property and commodities, as well as other assets.

The Trustee acknowledges that the Plan is subject to interest rate risk in relation to the financial instruments held in the pooled investment vehicles and the Trustee is satisfied that the return objective of the BlackRock LifePath Flexi Fund mitigates this risk sufficiently.

The Trustee has considered the direct and indirect risks to the Plan's assets in the context of the investment strategy described above, and is satisfied the funds offered to members are in line with the objectives of the Plan, particularly in relation to diversification, risk, expected return and liquidity.

11.12 Concentration of investments

The investments (other than UK Government Securities) at the year-end which are more than 5% of the total value of the net assets of the Fund comprise:

	2018 £m	2017 £m
L&G buy-in	473.5	-
HAF Equity Fund	268.8	297.4

12 TAX

The Fund is a registered pension scheme for tax purposes under the Finance Act 2004. The Fund 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 CURRENT ASSETS

	2018 DB section £m	2018 MP section £m	2018 Total £m	2017 DB section £m	2017 MP section £m	2017 Total £m
Cash balance	34.0	0.6	34.6	14.7	0.4	15.1
Contributions due						
- normal from employer	-	0.3	0.3	-	0.4	0.4
- normal from employee	-	0.2	0.2	-	0.2	0.2
- deficit from employer	22.7	-	22.7	98.4	-	98.4
Accounting adjustment to employer deficit contributions due	(15.3)	-	(15.3)	(15.5)	-	(15.5)
Other debtors	1.4	-	1.4	0.9	-	0.9
	42.8	1.1	43.9	98.5	1.0	99.5

14 CURRENT LIABILITIES

	2018 DB section £m	2018 MP section £m	2018 Total £m	2017 DB section £m	2017 MP section £m	2017 Total £m
Unpaid benefits	6.3	-	6.3	5.7	-	5.7
Other creditors and accrued expenses	9.1	-	9.1	8.5	-	8.5
	15.4	-	15.4	14.2	-	14.2

Included in “Other creditors and accruals” is a reserve established at 31 March 2014 with funds from the former Old Section. This reserve will settle all future costs arising in relation to the former Old Section following the completion of its buy-out in July 2014. These include the costs of operating myMNOPFpension, which consolidates the benefits payable to former Old Section members into a single payment. myMNOPFpension also provides a single point of contact for all members of MNOPF and the reserve will settle a proportion of the cost of this service. The costs of myMNOPFpension will be settled over many years as the service is delivered.

The reserve was established on an arm’s length basis and at 31 March 2018 the balance was £2,935,488 (2017: £3,110,354).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 RELATED PARTY TRANSACTIONS

The Trustee is deemed to be a related party of the Fund. Included in administrative expenses are payments of £132,572 (2017: £117,046) made to certain Trustee Directors for fees relating to the exercise of their duties during the year. Trustee directors are also reimbursed expenses. Trustee Directors who are pensioner members of the Fund are members on the same basis as all other pensioner members.

During the year, the Fund had interests in the following companies which are related parties:

Entity	Activity	Equity Holding	Value of holding £m	Transactions in year and balances at the year end
Ensign Pensions Limited	Pension fund executive services	100%	-	Fees paid by the Fund of £1.8m (2017 £2.5m) Outstanding balance at 31 March 2018 amounted to £73,782 (2017: £293,168) in receivables and £57,456 (2017: £166,800) in payables.
MNOPF IC Limited	Insurance Cell Company incorporated in Guernsey	100%	0.4	£4.0m (2017 £3.8m) paid by the Fund as insurance fees and administrative costs. £0.5m (2017 £0.6m) paid as settlement as required under the longevity hedge.
MNOPF Trustees Limited	Trustee Company for the Fund	100%	-	Loan provided to fund the investment in Ensign Pension Limited of £0.4m.

16 COMMITMENTS

As at 31 March 2018, the Fund was committed to providing additional funding to certain managers investing in unquoted securities. These commitments amounted to £54.1m (2017: £84.4m). The £54.1m (2017: £84.4m) comprises pooled investment vehicles. This includes £54.1m (2017: £67.6m) private equity and £nil (2017: £16.8m) alternative credit.

As at 31 March 2018, a final premium/repayment is due under the buy-in policy. The final premium/repayment cannot be determined until data cleansing has been finalised and the Trustee has signed the final benefit specification indicating that the benefit specification (including the data) includes the correct beneficiaries and the benefits have been correctly specified.

Should further changes be notified after the final premium has been calculated, additional charges may be incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 EMPLOYER-RELATED INVESTMENTS

At the year end the maximum market values of direct investments held by the Fund in companies known to be, or which have subsidiary interests that are known to be, Participating Employers was calculated as 0.5% (2017: 0.8%) of the net assets of the Fund. The investments were as follows:

	2018		2017	
	Total	Total	Total	Total
	£m	%	£m	%
James Fisher & Sons PLC	-	-	-	*
Smiths Group PLC	-	-	-	*
Pooled Funds	14.7	0.5	24.3	0.8
Total exposure	14.7	0.5	24.3	0.8

* less than 0.05% – these amounts are included in the overall percentage calculation, but excluded from the totals in the table.

Employer-related investment did not exceed 5% at any time during the year.

There were however late defined benefit contributions which totalled £4.13 million and late money purchase contributions which totalled £1,091,408.

For all participating employers that are listed or which have listed parent companies, there is potential that employer-related investments have been made via pooled vehicles. The total exposure to employer-related investments in pooled vehicles, which include hedge funds, is shown in the table and is determined using assumptions. The assumptions are deliberately conservative and are likely to result in an overstatement of the actual value.

18 SUBSEQUENT EVENTS

On the 29 March 2018, the Trustee agreed to close the MP section to further contributions with effect from 31 March 2018 and to transfer members' existing benefits in the MP Section to the Ensign Retirement Plan. The AVC policies were transferred to the Trustee of the Ensign Retirement Plan via two deeds of assignment each dated 11 May 2018. Authorisation to transfer the remainder of members' money purchase benefits was given in a letter dated 4 May 2018 and the bulk transfer was completed on 11 May 2018. Following the completion of the transfer, a deed of termination to wind up the MP Section is expected to be executed on 10 October 2018.

On the 11 May 2018 a bulk transfer of members' assets was made to the Ensign Retirement Plan for a value of £31,253,183.

AVC investments held with Equitable Life Assurance Society and Standard Life Assurance Company were transferred to the Ensign Retirement Plan on the 11 May 2018. Valuations for these investments are carried out annually on the 31 March and therefore no valuation was available at the date of the transfer.

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

The most recent triennial actuarial valuation of the Scheme effective as at 31 March 2015 showed that the accumulated assets of the Scheme of £2,898m represented 90% of the Fund’s technical provisions in respect of past service benefits; this corresponds to a deficit of £329m at the valuation date.

The value of technical provisions is based on Pensionable Service to the valuation date and assumptions about various factors that will influence the scheme in the future, such as the levels of investment returns and pay increases, when members will retire and how long members will live. The method and significant actuarial assumptions used in the calculations as at 31 March 2015 are as follows:

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Discount interest rate: The assumption adopted as at 31 March 2015 is 4.75% per annum pre-retirement and 2.6% per annum post-retirement.

Future Retail Price inflation: having regard to the yield curve reflecting Retail Price Inflation expectations implicit in UK Government bond prices as published by the Bank of England, and the weighted average duration of the Fund’s accrued liabilities, the assumption adopted is 3.1% per annum as at 31 March 2015.

Future Consumer Price inflation: set based on the expected future difference between assumed retail price inflation and consumer price inflation. The assumption adopted is 2.1% per annum as at 31 March 2015.

Pension increases: where the Fund’s rules provide for inflation-linking, assumptions derived from the underlying inflation assumptions, allowing for the caps and floors on pension increases.

Revaluation in service: this assumption has been set at 4.1% pa.

Mortality: standard SAPS tables S2NMA_H and S2NFA_H amounts tables projected to 2015 with CMI 2014 core projections with a long term rate of future improvements of 1.8% pa. Multipliers of 85% for normal members and male spouses, 105% for ill-health pensioners and 110% for female spouses are applied.

REPORT ON ACTUARIAL LIABILITIES (CONTINUED)

Funding update

The actuary's last review of the funding position was as at 31 March 2017. At that date, the position had improved since the full Actuarial Valuation in 2015 with a lower level of deficit being reported.

Over the period from 31 March 2016 to 31 March 2017, the funding position improved from a gross deficit of £266 million to £129 million. This was mainly due to the payment of deficit contributions over the year. At 31 March 2017, the future deficit contributions were expected to eliminate the shortfall by 30 September 2025, allowing for the expected asset outperformance.

The funding position at 31 March 2017 is summarised below:

	£m
Market value of assets	3,316
Value of past service liabilities	(3,445)
Gross Deficit	(129)
Cover of assets over liabilities	96%

The assumptions used to estimate the value of the past service liabilities for the 2017 update were chosen by the actuary following the method agreed by the Trustee for the 2015 Actuarial Valuation.

Recovery plan

The arrangements to eliminate the funding shortfall were formalised in a Schedule of Contributions which the Fund Actuary certified on 22 March 2016. A copy of his certificate is included on page 43 of this report.

Next actuarial valuation

The next actuarial valuation is to be performed as at 31 March 2018, and should be finalised by 30 June 2019.

ACTUARY'S CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Adequacy of rates of contributions

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 as at 31 March 2015 to be met by the end of the period for which the Schedule is to be in force.

Adherence to statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated March 2016.

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 Fund's liabilities by the purchase of annuities, if the Fund were to be wound up.

C P Burbidge
Scheme Actuary
Fellow of the Institute and Faculty of Actuaries

Towers Watson Limited
71 High Holborn
London WC1V 6TP

22 March 2016

MEMBERS' INFORMATION

The Trustee is required to provide certain information about the Scheme to the Registrar of Pension Schemes. This has been forwarded to:

The Registrar of Pension Schemes
PO Box 1NN
Newcastle Upon Tyne
NE99 1NN

The Pensions Ombudsman

The Pensions Ombudsman may investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme and will assist members and beneficiaries of Schemes in connection with difficulties which they have failed to resolve with the Trustee or Administrators of the Scheme. Enquiries should be addressed to:

The Pensions Ombudsman
10 South Colonnade
Canary Wharf
E14 4PU

Telephone: 0800 917 4487
Email: enquiries@pensions-ombudsman.org.uk
Website: www.pensions-ombudsman.org.uk

The Pensions Regulator

The Pensions Regulator ("TPR") can intervene if it considers that a Scheme's Trustee, advisers or the employer are not carrying out their duties correctly. The address for TPR is:

Napier House
Trafalgar Place
Brighton
East Sussex
BN1 4DW

Telephone: 0345 600 1011

The Pension Tracing Service

The Pension Tracing Service provides a tracing service for members (and their dependents) of previous employers' schemes, who have lost touch with earlier employers and Trustees. To trace a benefit entitlement under a former employer's scheme, enquiries should be addressed to:

Pension Tracing Service
The Pension Tracing Service 9
Mail Handling Site A
Wolverhampton
WV98 1LU

Telephone: 0800 731 0193
Website: www.gov.uk/find-pension-contact-contact-details

The Pensions Compensation Scheme

The Pensions Compensation Scheme was introduced to protect members' interests in certain circumstances, i.e. to provide compensation where an employer has become insolvent and the scheme assets have been reduced due to fraud, theft, or misappropriation. It does not cover losses resulting from adverse investment returns.

The Compensation Scheme is funded by a retrospective levy on occupational pension schemes.

MEMBERS' INFORMATION (CONTINUED)

The Trust Deed and rules, the scheme details, and a copy of the Schedule of Contribution and Statement of Investment Principles are available for inspection free of charge by visiting the Trustee's website www.mnopf.co.uk or by contacting the Trustee at the address on page 10. Any information relating to the members' own pension position, including estimates of transfer values, should also be requested from the administrators of the scheme, JLT Employee Benefits, at the address on page 10.

APPENDIX: CHAIR'S ANNUAL DC GOVERNANCE STATEMENT

MERCHANT NAVY OFFICERS PENSION FUND

CHAIR’S ANNUAL DC GOVERNANCE STATEMENT

YEAR ENDED 31 MARCH 2018

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CHAIR'S OPENING STATEMENT

I am pleased to welcome you to the annual governance statement for the year ended 31 March 2018. This statement, which fulfils my legal duties as set out in the Occupational Pension Schemes (Charges and Governance) Regulations 2015, demonstrates how MNOPF Trustees Limited, the corporate trustee of the Merchant Navy Officers Pension Fund (the "MNOPF", the "Fund"), has assessed and met certain governance standards relating to the Fund's money purchase benefits.

As at 31 March 2018, the Fund was comprised of a Defined Benefit Section, now closed to new members and to future accrual, and a Money Purchase Section, including all money purchase benefits provided through the Ensign Retirement Plan (for the MNOPF) and Additional Voluntary Contributions made prior to 31 March 2016 (the "AVC policies"). With effect from 1 April 2018 the Trustee agreed to transfer to the Ensign Retirement Plan ("Ensign""), an occupational pension scheme established and regulated by a trust deed dated 21 May 2015, the assets and liabilities of the Money Purchase Section by way of a bulk transfer without consent (the "Transfer"), in accordance with Regulation 12 of the Occupational Pension Schemes (Preservation of Benefit) Regulations 1991. The trustee of Ensign has agreed to accept all of the assets and assume all of the liabilities of the Money Purchase Section. Following the Transfer, the Trustee intends to wind-up the Money Purchase Section and de-sectionalise the Scheme.

In accordance with the regulations described above, this statement only applies to the money purchase benefits held within the Money Purchase Section as at 31 March 2018, including those held within the AVC policies.

The Trustee Board's aim is to ensure the Fund is run in the best interests of the members and helps deliver better outcomes for members at retirement. As a Trustee Board, we recognise that good scheme governance is central to achieving this. This statement focuses on a number of specific areas of scheme governance required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, however, further information about the Fund and the governance standards we adopt in other areas of scheme management, can be found on the scheme website, www.mnopf.co.uk.

On behalf of the Trustee Board of the MNOPF and based on a review of the systems and controls in place, I believe that the MNOPF met the new requirements on governance standards and helps to deliver better outcomes for members at retirement.

Rory Murphy

Chair, MNOPF Trustees Limited

10 October 2018

GOVERNANCE

Fund Structure

The MNOPF is a multi-employer scheme that provides pension benefits for Officers, their dependants, and others connected with the British Merchant Navy. The Fund was established by a Trust Deed dated 29 October 1937 and is currently regulated by the Trust Deed and Rules dated 25 June 1999, as amended by subsequent supplemental deeds ("the Rules"). The MNOPF was contracted-out of the State Second Pension under the provisions of the Occupational Pension Schemes (Contracting-Out) Regulations 1996 until 31 March 2016 when the Fund closed to future defined benefit accrual.

On 1 August 2015, the Fund introduced money purchase benefits and, on 1 April 2016, opened a Money Purchase Section. Money purchase benefits were provided through long established AVC policies, now closed to new contributions, and the Ensign Retirement Plan (for the MNOPF). On 29 March 2018, the Trustee resolved to wind up the Money Purchase Section and make a bulk transfer of all members' benefits to the Ensign Retirement Plan. The bulk transfer was concluded on 11 May 2018 and the winding up of the Money Purchase Section is due to conclude on 10 October 2018.

The Board and Directors

Ultimate responsibility for the governance of the MNOPF rests with the Trustee Board of MNOPF Trustees Limited, which governs the Fund in accordance with the Rules and relevant legislation. There is provision on the Board of the Trustee for between four and fourteen Directors, split equally between Employer Directors and Officer Directors. During the year to 31 March 2018, the Trustee comprises ten Directors. Half of the Trustee Board are nominated by Nautilus International, a recognised trade union that, in the opinion of the Trustee, adequately represents the members in the Fund. The other half of the Trustee Board are nominated by a body that represents the employers participating in the Fund. This is to ensure that members, or their representatives, and the employers can make their views on matters relating to the Fund known to the Trustee.

The MNOPF is a "relevant multi-employer scheme" and must, therefore, comply with additional requirements relating to governance.

The Trustee's policy for appointing member-nominated and employer-nominated Directors has been developed against the backdrop of applicable pensions legislation concerning the appointment of member-nominated trustees (Sections 241 - 243 Pensions Act 2004 and the Occupational Pension Schemes (Member-nominated Trustee and Director) Regulations 2006) and the DC governance regulations (Occupational Pension Schemes (Charges and Governance) Regulations 2015).

In accordance with the Trustee's policy, the majority of Directors, including myself as the Chair of Trustees, were appointed through an open and transparent process and are considered non-affiliated for the purposes of the requirements of the DC governance regulations. This means that they are not associated with any company that provides administration, investment management, advisory or any other services to the Trustee or to the Fund.

There have not been any non-affiliated trustee appointments made during the scheme year.

Trust Deed and Rules

In accordance with Regulation 6A(1) of the Occupational Pension Scheme (Administration) Regulations 1996, the Trust Deed and Rules do not contain provisions that would restrict who the Trustee may appoint to provide administration, investment management, advisory or any other services to the Trustee or to the Fund.

Member Feedback

The Trustee encouraged its members to share their views and ideas about the Fund, both via the MNOPF's home page and annual member newsletters. Members could telephone, e-mail or write to us.

TRUSTEE KNOWLEDGE AND UNDERSTANDING

The Trustee recognises the importance of maintaining an appropriate degree of knowledge and understanding relating to pensions to enable the Trustee to govern the Fund effectively. The Trustee has adopted a training policy that outlines the training requirements of all Trustee Directors on appointment and throughout their tenure on the Trustee Board.

On appointment, all new Directors are provided individual training on the Fund, its benefit structure and the retirement options available to members, and its investment strategy. Directors are encouraged to attend a seminar for new trustees to receive knowledge and understanding of the law relating to pensions and trusts, the principles relating to the funding of occupational pension schemes and the investment of assets of such schemes, and any other matters that may be of relevance at that time. Further to this, new Directors are required to read and be conversant with the main documents and policies of the Fund, including but not limited to:

- the Trust Deed and Rules of the Fund;
- the Memorandum and Articles of Association;
- the Statement of Investment Principles; and
- the members' booklet.

These documents are readily available to all Directors throughout their tenure on the Trustee Board.

Each year, a training plan is agreed, setting out the areas of training to be provided to the Trustee Board and/or individual Directors throughout the scheme year. This includes specific legal, investment and governance training, updates from its Executive Team and other advisers on regulatory changes that may affect the Fund, as well as opportunities for Directors to attend seminars and conferences to keep up to date on best practice governance standards. Any training received by the Trustee Directors, either individually or collectively, is recorded on the Trustee's skills, knowledge and training log. Trustee Directors are also required to make progress with completing the relevant modules of The Pensions Regulator's Trustee Toolkit.

Specific training is provided to the Trustee Board in advance of any key decision making.

As Chair of Trustees, I regularly engage with individual Trustee Directors to ensure we provide sufficient opportunities for their skills and knowledge to be kept up to date. Taking into account the wealth of experience, knowledge and understanding of individual Trustee Directors, as well as the professional advice that is available to them, I am confident that the Trustee Board has the right mix of skills and competencies to ensure the Fund is well governed and properly managed.

ADMINISTRATION

Core Financial Transactions

The Trustee recognises that there are a number of core financial transactions that must be processed promptly and accurately on behalf of members of the Fund to help deliver better outcomes for them. These core financial transactions include, but are not limited to:

- the investment of contributions to the Fund;
- the transfer of assets relating to members into and out of the Fund;
- the transfer of assets relating to members between different money purchase investments; and
- payments from the Fund to, or in respect of, members.

Controls and Processes

The Trustee has appointed JLT Employee Benefits to provide administration services to the Fund in respect of the defined benefit assets and AVC Policies and Aegon UK plc ("Aegon") to provide administration and fund management services to the Fund in respect of the money purchase assets (excluding AVC policies) (together "the administrators"). Aegon acquired BlackRock's DC platform and administration business in 2016, and the transfer was approved by the High Court on 21 June 2018.

A number of processes and controls are in place with the administrators to ensure that contributions to the Fund during the year were accurate and all core financial transactions were processed promptly. These include:

- Verification and validation of the contributions being submitted by employers in comparison with the amounts expected.
- Reminders to employers to submit contributions where these have not been received prior to the deadline for submitting contributions under the schedule of contributions.
- Annual verification of members' pensionable salary and contribution rate with the participating employers on a sample basis.

Assurances

In addition, a number of activities are undertaken by or on behalf of the Trustee to provide assurance that contributions are submitted accurately and promptly by employers and core financial transactions are processed promptly and accurately by the administrators. These include:

- Agreeing defined service level agreements with the administrators for the prompt processing of all financial transactions.
- Monitoring quarterly administration reports from the administrators to assess performance against the service level agreements.
- Monitoring quarterly administration reports from the administrators to assess the promptness with which contributions submitted by employers are invested.
- Annual review of the AAF 01/06 internal control reports prepared by the administrators.
- Annual examination of contributions to test the accuracy of contributions and promptness of submissions.

I am confident that these processes and controls are robust and that all core financial transactions are handled promptly.

INVESTMENT

Statement of Investment Principles

The Statement of Investment Principles, which is attached as an Appendix to this statement, documents the Trustee's investment principles that govern decisions about investments and the aims and objectives of the Fund.

Ethical, Social and Environmental ("ESG") factors

As stated within the Statement of Investment Principles, the Trustee seeks to understand the extent to which its Investment Managers have taken steps to incorporate ESG factors into their investment process, and encourages them to do so in the selection, retention and realisation of investments as far as such factors may affect investment performance.

Ensign Retirement Plan (for the MNOPF)

The DC default investment fund

The Trustee has adopted the Aegon BlackRock DC LifePath Flexi Fund ("LifePath Flexi") as the default investment fund for members joining the Ensign Retirement Plan (for the MNOPF). The Trustee recognises, however, that one fund is unlikely to meet the needs of all members contributing towards money purchase benefits and members, therefore, have a choice of thirteen alternative funds. Approximately 95% of the membership are currently invested in the default fund.

Aims and objectives of the default fund

The Trustee's Statement of Investment Principles includes the principles that govern decisions about the default fund and the wider range of investment funds available to members, and the aims and objectives of the default fund.

LifePath Flexi is a target date fund where the underlying asset allocation of the fund automatically adjusts as the member approaches their target retirement date. It is designed for members who wish to stay invested post-retirement and draw an income from their retirement account (known as "drawdown").

In adopting the money purchase arrangement, the Trustee considered the profile, level of risk appetite, and the likely retirement objectives of the initial members joining the arrangement. The Trustee found LifePath Flexi to be consistent with its investment aims and objectives for the default fund by allowing members to increase the value of their retirement pot from the contributions invested, whilst protecting members in the years approaching retirement.

Reviewing the default fund

The Trustee received quarterly reports on the performance of the default fund and compared this against the fund's composite benchmark. The Trustee was, however, mindful of the long-term nature of investments and investment returns.

AVC Policies

AVC contributions are invested in funds managed by the Equitable Life Assurance Society and the Standard Life Association Company.

COSTS AND CHARGES

Ensign Retirement Plan (for the MNOPF)

The Trustee offered members contributing to money purchase benefits access to a high-quality pension scheme at a yearly cost that was well below the statutory maximum of 0.75%.

Default investment fund

Members in the default investment arrangement, LifePath Flexi, were charged a single Annual Management Charge (AMC) of 0.36% of funds under management during the scheme year to 31 March 2018. This single charge, deducted from their retirement account, included provisions for any additional expenses, including transaction costs, incurred by the Fund such that no further expenses were borne by the members.

Self-select investment options

The charges that applied to members who chose to invest in other funds available through the Ensign Retirement Plan (for the MNOPF) are set out in the table below. This includes the AMC, Transaction Costs and resulting Total Expense Ratio ("TER") applied to members:

Fund	AMC (%)	Transaction Costs (%)	TER* (%)
Aegon BlackRock LifePath Cash Fund	0.36	0.00	0.36
Aegon BlackRock LifePath Retirement Fund	0.36	0.00	0.36
DC Aquila (30:70) Currency Hedged Global Equity Index	0.37	0.08	0.45
DC Aquila UK Equity Index	0.35	0.10	0.45
DC Aquila Emerging Markets Equity Index	0.50	-0.09	0.41
DC Aquila Over 15 Year Gilt Index	0.35	-0.02	0.33
DC Aquila All Stocks UK Index Linked Gilt Index	0.35	-0.02	0.33
DC Aquila Corporate Bond All Stocks Index	0.35	-0.02	0.33
DC Cash	0.30	0.03	0.32
DC Property	1.00	0.01	1.01
HSBC Islamic Global Equity Fund	0.70	0.12	0.82
LGIM Ethical Global Equity Index	0.60	0.01	0.61
Schroder Dynamic Multi Asset Fund (DMAF)	0.65	0.25	0.90

*Transaction costs include both implicit and explicit cost elements. Implicit costs are intended to capture the cost of the trading process in terms of the process achieved. Explicit costs include broker commission, transaction taxes, exchange and swap fees. The Transaction Costs are represented as a single annualised figure, based on the 12-month period up to 31 December 2017, using the PRIIPs Slippage Methodology.

The member-borne deductions within the Fund fell within the 0.75% charge for scheme used for auto-enrolment default funds, with the exception of the DC Property fund which is a self-selected fund.

Value for members

The Trustee has assessed the various charges applying to the default investment fund and self-select fund options and, based on the information available, considers the charges to represent good value for members.

In reaching this decision, the Trustee focused on the annual management charges incurred by members, both in comparison with other master trust arrangements and taking into account the benefits they receive in return for such payments. The Trustee also took into account the information available on any additional charges and transaction costs incurred by members.

The table below compares the charges applied by the MNOPF and several of the largest UK master trusts for investing in the respective default arrangements:

Master trust arrangement	Charges applied to members
Ensign Retirement Plan (for the MNOPF)	0.36% AMC
The Pensions Trust	0.50% AMC
National Employment Savings Trust	0.30% AMC + 1.8% contribution charge
The People’s Pension	0.50% AMC
NOW: Pensions	0.30% AMC + £1.50 per month admin charge

No further expenses, including transaction costs, are borne by the members that invest in the Ensign Retirement Plan (for the MNOPF)’s default investment fund. Any additional expenses that may be incurred by the default fund are assumed by Aegon. The Trustee considers this transparency and constancy to be of great value to the members.

There are also no hidden charges or fees for members participating in the default fund: members are not charged for switching their fund, changing their retirement date or transferring their account.

In return for this single annual charge, the benefits received by members in the Fund include:

- High quality administration services;
- A sophisticated default investment fund and broad range of self-select options that have performed positively over the period;
- High quality governance and oversight by the Trustee Board and Executive Team;
- Clear communications that are tailored to the maritime industry and reinforce important messages for members to achieve a good outcome at retirement;
- Clear communications regarding options before, at and during retirement;
- Online website showing daily pricing of members’ retirement accounts;
- An online retirement planner that projects the growth of members’ accounts to retirement and models the annual income that could be received during retirement; and
- Flexibility in how and when members use their retirement account at retirement.

The Fund was awarded the Pensions Quality Mark (“PQM”) READY accreditation in August 2015, demonstrating it meets independent industry standards of governance, communications and charges. The Trustee is required to demonstrate on an annual basis how it continues to meet these industry standards.

Although additional charges and transaction costs were borne by members within the self-select investment funds, the Trustee recognises that these are necessarily incurred as part of buying and selling the funds’ underlying investments in order to achieve their investment objective and cannot be predicted in advance. The Trustee reviewed the performance of each fund after the deduction of transaction costs, in order to assess the extent to which transaction costs represent good value to members in the context of the net impact of dealing on performance.

AVC Policies

The Trustee had AVC arrangements with Equitable Life and Standard Life. Contributions to these funds were previously only accepted from members in the Defined Benefit Section who were either paying AVCs at 6 April 2006 or had previously paid AVCs. No further AVCs have been accepted to these funds since 31 March 2016, when the Fund closed to future defined benefit accrual. There is no default investment fund; all members had to select the fund in which their AVCs were invested. The charges applied to members who chose to invest AVCs are set out in the tables below:

Standard Life funds	AMC (%)
With Profits One Fund*	-
Managed Pension Fund	1.00
FTSE Tracker Pension Fund	1.00
Mixed Bond Pension Fund	1.00
Ethical Pension Fund	1.00
UK Equity Pension Fund	1.00

* Standard Life applies deductions at the payment stage to cover the cost of the guarantees and other additional expenses. These charges are taken into account before Standard Life declares the payment amount. As a result, no explicit charges are shown although the charge will impact on the level of non-guaranteed annual bonus that is declared.

Equitable Life funds	AMC (%)
With Profits*	
Money Fund	0.50
Managed Pension Fund	0.75
Pelican Pension Fund	0.75
North American Pension Fund	0.75
International Growth Pension Fund	0.75
Pension Fund of Investment Trusts	0.75
European Pension Fund	0.75
Gilt & Fixed Interest Pension Fund	0.50

* Equitable Life applies a 1% p.a. administration charge and a variable charge for the cost of the guarantees and other additional expenses (such as tax). These charges are taken into account before Equitable Life declares the annual bonus. As a result, no explicit charges are shown although the charge will impact on the level of non-guaranteed annual bonus that is declared.

In 2016, the Trustee carried out a review of the Equitable Life and Standard Life funds and considered the advice of an independent investment consultant to determine whether they remain suitable for members. The review concluded that the fund range was not ideal, would unlikely feature within a modern AVC arrangement and did not offer good value for members. The Trustee wrote to each of the members concerned in 2016, and again in 2017, to explain the outcome of its review, to encourage members to review the suitability of their investment selections, and to offer members the opportunity to transfer their assets, free of charge, into an alternative fund.

On 11 May 2018, the AVC policies were transferred to the Trustee of the Ensign Retirement Plan.

APPENDIX

Statement of Investment Principles

Merchant Navy Officers Pension Fund (MNOPF) Statement of Investment Principles

Introduction

The main purpose of the MNOPF is to provide pensions on retirement at normal pension age for Officers in the British Merchant Navy and others connected with the British Merchant Navy. Pensions and benefits for members' widow(er)s, civil partners, children or other dependants are also provided.

From 31 March 2016, the MNOPF closed to future defined benefit accrual and from 1 April 2016 the active members of the MNOPF contributed to a new Money Purchase Section. Therefore, from 1 April 2016, the MNOPF is made up of a Defined Benefit (DB) Section and a Money Purchase Section which are separate sections of the MNOPF for statutory and all other purposes.

About this Statement

The Statement of Investment Principles is a technical document which sets out the investment strategy and policies for the DB and Money Purchase Sections of the MNOPF which govern the investment decisions made by the Trustee, and its delegated managers.

An important aspect of the MNOPF's approach to investment and, in particular, investment governance, was the appointment of a Delegated Chief Investment Officer (Delegated CIO) in December 2010. This role, which only applies to the DB Section, is referred to throughout this Statement and is described in more detail in Appendix 4. The Statement also makes use of a number of terms and these are defined in Appendix 6.

The MNOPF Annual Report & Accounts (which you can access online at www.mnopf.co.uk) gives more information about how the Statement has been implemented and how well the MNOPF is doing against its targets.

Investment objectives

The overriding investment objective of the Fund is to provide benefits at retirement for members and their beneficiaries. This part of the Statement sets out in detail the specific objectives for each Section of the Fund.

DB Section	**Money Purchase Section**
The investment objectives of the Trustee in relation to the DB Section are: • to acquire suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from employers, the cost of current and future benefits which the DB Section provides; and • to limit the risk of the DB Section's assets failing to meet the DB Section's liabilities over the long term. In pursuing these investment objectives in relation to the DB Section, the Trustee intends to have due regard to: • the paramount interests of the members of the MNOPF, for whom the receipt of their promised benefits is of prime importance; and • the interests of the employers, upon whom the responsibility for funding those benefits ultimately falls. The Trustee has due regard to these interests, together with a consideration of investment risk, in determining the combination of contributions and investment return that is required to meet the liabilities of the DB Section. This is set out in a Journey Plan. The current Journey Plan is set out in Appendix 1 for reference only, as it does not form part of this Statement. The Management Committee, under the delegated authority of the Trustee, will regularly monitor the Journey Plan and when changes to the Journey Plan are considered necessary, make recommendations to the Board.	The Trustee has a straightforward investment objective in relation to the Money Purchase Section: to make available investment options and default funds which are intended to help the retirement outcomes for members and their beneficiaries. The Trustee recognises that members have differing needs at retirement and, therefore, differing investment needs, and that these may change during the course of their working lives. It also recognises that members have different attitudes to risk. However, the Trustee believes that there are investment options which are likely to suit the majority of members. The Trustee also believes that members should be able to make their own investment decisions based on their individual circumstances. The Trustee's objective is, therefore, to make available investment funds that will be suitable for most members (the default fund that the Trustee has, for the time being, selected for this purpose is the BlackRock LifePath Flexi Fund), as well as a range of other investment options that, whilst not being too complicated, should help members in achieving their own investment objectives.

Powers to pursue investment objectives

The Trustee will use its powers of investment, which are set out in the Trust Deed and Rules (primarily, Clauses 16.0 and 16.1 of the Trust Deed) and additionally by Section 34(1) of the Pensions Act 1995, in a manner which is consistent with the investment objectives stated above.

Legal duties

Trust law requires that the Trustee must exercise its powers of investment in the best interests of the members, which will normally mean their best financial interests. Its powers must, therefore, be exercised so as to aim to yield the best return for the members, consistent with the need for prudence.

Section 36(1) of the Pensions Act 1995 requires the Trustee to exercise its powers of investment in accordance with the Investment Regulations. Regulation 4 of the Investment Regulations states that:

- The assets must be invested in the best interests of the members and beneficiaries and, in the case of a potential conflict of interest, in the sole interest of the members and beneficiaries.
- The powers of investment must be exercised in a manner calculated to ensure the security, quality, liquidity and profitability of the portfolio as a whole.
- Assets held to cover the DB Section's Technical Provisions must also be invested in a manner appropriate to the nature and duration of the expected future retirement benefits payable under the DB Section.
- The assets of the MNOPF must consist predominantly of investments admitted to trading on Regulated Markets and investment in any assets not so admitted must be kept to a prudent level.
- The assets must be properly diversified to avoid excessive reliance on any particular asset, issuer or group of undertakings and to avoid accumulations of risk in the portfolio. Investments in assets issued by the same issuer or by issuers belonging to the same group must not expose the MNOPF to excessive risk concentration. To the extent that the assets of the MNOPF consist of Qualifying Insurance Policies, these policies shall be treated as satisfying the requirement for proper diversification when considering the diversification of assets as a whole.
- Investment in Derivative Instruments may be made only in so far as they contribute to reduction of risks or facilitate efficient portfolio management (including the reduction of cost or the generation of additional capital or income with an acceptable level of risk) and any such investment must be made and managed to avoid excessive risk exposure to a single counterparty and to other derivative operations.

Section 36(3) of the Pensions Act 1995 requires the Trustee to obtain and consider proper advice on the question of whether the investment is satisfactory, having regard to the requirements of the Investment Regulations so far as relating to the suitability of investments, and to the principles contained in this Statement. Broadly, the reference to the need for proper advice is a reference to the need to obtain advice from a person authorised to give it by the Financial Conduct Authority.

To the extent required by law, ultimate responsibility for the investment of the assets of the MNOPF, including responsibility for securing compliance with the requirements of Section 36 of the Pensions Act 1995, rests with the Trustee. However, the implementation of this Statement has been delegated by the Trustee to the Management Committee, and certain powers and responsibilities have been delegated to the Delegated CIO, in relation to the DB Section assets, and BlackRock in relation to the Money Purchase Section assets. The Trustee's powers and duties described in this Statement apply to the Management Committee, the Delegated CIO, BlackRock and any other party to whom the Trustee may have delegated its powers in the same way as they apply to the Trustee. The specific investment related roles of the Management Committee, the Delegated CIO and BlackRock are set out later in this Statement.

Investments to be held

The section covers the types of investments held in the DB Section of the Fund, and the range of investment funds available to members in the Money Purchase Section.

DB Section	Money Purchase Section
The Trustee will acquire and hold suitable assets of appropriate liquidity, which will generate income and capital growth to meet, together with contributions from the Participating Employers, the cost of current and future DB benefits, which the MNOPF provides. The Trustee intends to hold investments that limit the risk of assets failing to meet the liabilities over the long term. These include physical or derivative based assets aimed at matching the interest rate, inflation and longevity sensitivity of liabilities as well as other assets aimed at generating returns ahead of the liabilities over time. Diversification of the portfolio of assets will be achieved through equity, fixed interest, property and other liquid or illiquid investments, which are spread geographically. This diversification through different asset classes and markets seeks to ensure an adequate level of performance without undue risk. Most of the equities will be listed on recognised stock exchanges and spread across domestic and overseas investment markets. Fixed interest investments will be similarly diversified. Investment management companies specialising in the specific asset classes may be contracted to manage the investments. No class of financial instruments (whether or not they generate capital growth rather than income) is excluded from investment consideration.	The Trustee has selected the BlackRock LifePath Flexi Fund as the fund into which members will automatically be invested ("the Default Arrangement"). The fund aims to help members grow their assets whilst protecting their savings as the member approaches retirement through the use of a series of target-date funds. These funds reflect changing investment needs by gradually altering each fund's investment mix as members near their target retirement date, thereby managing over time the principal investment risks faced by members: inflation, fluctuations in fund values (when this is significant) and converting the fund value into benefits at retirement. The Trustee recognises that the BlackRock LifePath Flexi Fund will not meet the needs of all members, so a selection of more specialised funds is offered to members who want to make active investment choices. Having taken investment advice in accordance with Section 36(3) of the Pensions Act 1995, the Trustee has selected a range of funds from equity, property, bond and money market asset classes as well as absolute return and multi-asset funds, which are considered broadly suitable for the majority of members. The funds selected are included in Appendix 5, which may be amended from time to time by the Trustee and the list (as amended) will form part of this Statement.

Balance between different kinds of investment

This section covers the allocation of investment capital to various assets classes in the DB Section of the Fund, and the range of funds available for members of the Money Purchase Section to invest in.

DB Section	Money Purchase Section
The allocation of the DB Section's assets between asset classes is set in accordance with the Strategic Asset Allocation Ranges and reflects the liabilities and Journey Plan. The Management Committee, under the delegated authority of the Trustee, agrees from time to time Strategic Asset Allocation Ranges for the DB Section which prescribe allocations to various asset classes as defined by the investment markets. The current Strategic Asset Allocation Ranges are set out in Appendix 2 to this Statement. The Strategic Asset Allocation Ranges may be amended from time to time by the Management Committee and the Strategic Asset Allocation Ranges (as amended) will form part of this Statement.	The Trustee has ensured that there are a suitable number of alternative investment options available to members. In addition to the BlackRock LifePath Flexi Fund, the Trustee has introduced two other target date fund series, one of which targets cash withdrawal and another that targets annuity purchase at retirement. For members who wish to make their own asset allocation decisions, the Trustee has introduced a range of funds from various asset classes. The Trustee has been careful not to introduce too wide a range of funds to avoid confusing members.

Risk management

This section looks at the types of risks that may affect the investment of assets in the MNOPF and how these risks may be minimised or mitigated.

DB Section	**Money Purchase Section**
The Trustee recognises that a number of risks are involved in the investment of assets of the DB Section: Funding level and mismatching risks: • are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies, noting that the Journey Plan has the objective of reducing risk versus the liabilities over time; and • are managed by making use of liability matching instruments and assessing the progress of the actual growth of the liabilities relative to the selected investment policy. Investment manager risk: • is measured by the expected deviation of the prospective risk and return, as set out in the Investment Manager(s)' objectives, relative to the investment policy; and • is managed by spreading Investment Manager risk across different Investment Managers, and monitoring the actual deviation of returns relative to the objective and factors inherent in the Investment Manager(s)' investment process. Liquidity risk: • is measured by the level of cash flow required for the DB Section over a specified period; and	The Trustee recognises that a number of risks are involved in the investment of assets of the Money Purchase Section. To help mitigate the most significant of these risks, the Trustee has made available the target date fund options, which transition members' investments from higher risk investments to lower risk investments as members approach retirement. The risks identified are: Default risk: • The risk that assets may default leading to a reduction in a fund's value. Investment performance and inflation risks: • The risk that the investment returns over members' working lives do not keep pace with inflation and will not, therefore, secure an adequate pension. • The risk that market movements in the period prior to retirement lead to a fall in the members' retirement pot. • The risk that market movements in the period just prior to retirement lead to an increase in the cost of turning members' fund values into retirement benefits.

• is managed by assessing future levels of cash and eligible collateral that will be required by the DB Section in order to limit the impact of the cash flow requirements. Geopolitical and currency risks: • are measured by the level of concentration in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and • are managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy. Custodial risk: • is measured by assessing the creditworthiness of the global custodian and focussed key performance indicators, including those to evidence the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody; and • is managed by the review and discussion of regular reports about the global custodian on its performance relative to agreed service levels and peers. Employer covenant risk: The Trustee acknowledges that an Integrated Risk Management approach is required when pursuing the investment objectives in relation to the DB Section. The Trustee, therefore, considers employer covenant risk alongside the investment and funding risks already described, and considers the relationships between each. Employer covenant risk: • is measured and assessed by the ability and willingness of the Participating Employers to support the continuation of the DB Section and to make good any current or future deficits; and	Investment manager risk: • The risk that an Investment Manager will not deliver investment returns in line with investment markets generally or other investment managers. Liquidity risk: • The risk that funds which invest in assets which take longer to sell (are illiquid), such as property, will not be able to buy or sell these assets when asked to do so by the Trustee and/or members.

• is managed by monitoring a number of factors, including the separate and aggregated creditworthiness of the Participating Employers. Having taken all of the above factors into consideration, the Trustee believes it appropriate to establish investment objectives and a Journey Plan for the DB Section driven by the DB Section's liabilities. Having taken investment advice in accordance with Section 36(3) of the Pensions Act 1995, the Trustee has set a Journey Plan which constitutes a funding target with an associated timeframe. The Journey Plan allows for systematic risk reduction over time so as not to run material investment risk at the end of the Journey Plan. The Trustee also operates a dynamic risk management framework with a view to reducing investment risk versus liabilities opportunistically over time. The dynamic risk management framework is aimed at achieving the funding target more efficiently. Where the Trustee deems it appropriate, the Trustee may take steps to reduce risk in the investment of assets of the DB Section, including the following: • the use of appropriate financial instruments and arrangements; • the purchase of annuities, deferred annuities and other relevant insurance policies; and • the alignment of the investment portfolio in a manner consistent with the potential purchase of annuities, deferred annuities and other relevant insurance policies.	

Monitoring

This section covers how the Trustee monitors performance and other aspects of the Fund.

DB Section	Money Purchase Section
The Trustee is aware that day-to-day movements in global investment markets can cause asset allocation to change and therefore the Trustee has delegated authorities in relation to the Journey Plan and Strategic Asset Allocation Ranges (as set out in this Statement) to the Management Committee and the Delegated CIO. The Trustee is also aware of the likelihood that one or more Investment Managers will underperform relative to their set investment objectives from time to time. The Trustee has delegated the task of monitoring Investment Manager performance to the Delegated CIO. The method and frequency of Investment Manager performance monitoring is more fully described below.	Investment Performance: Each of the funds in which the Money Purchase Section invests has a stated performance objective by which the performance is measured. The Trustee also reviews the performance of the appointed Investment Manager from time to time. BlackRock LifePath Flexi Fund: The Trustee monitors the suitability of the BlackRock LifePath Flexi Fund's objectives from time to time. Costs and Charges: The BlackRock LifePath Flexi Fund's compliance with the Charge Cap is checked on a regular basis. The Trustee recognises that transaction costs can impact the investment returns experienced by members and, therefore, monitors these to make sure that they are reasonable and appropriate. The Trustee monitors the costs and charges of the funds to make sure they represent "value for money" compared to the investment objectives of each fund. Investment Process: The Trustee monitors the processing of investments to ensure that contributions, and other financial transactions, are processed promptly and accurately.

Expected return on investments

This section sets out how the Trustee expects the two sections of the MNOPF to perform over the longer term.

DB Section	Money Purchase Section
The Trustee’s policy with regard to the expected return on DB Section investments is to agree an overall objective for the DB Section which is articulated as a Journey Plan with a specified funding level target and time horizon by reference to the DB Section’s liabilities. The Journey Plan is then translated into the return target to achieve that objective after the assessment of the contributions likely to be received. The investment return objective is set from time to time by the Trustee.	The objective for the Money Purchase Section investments is to achieve a positive real return over the longer term. The Money Purchase Section is a qualifying scheme for auto-enrolment purposes and so the BlackRock LifePath Flexi Fund must comply with the Charge Cap introduced by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 which applied from April 2015. The Trustee recognises the need to review the extent to which the return on investments in the Default Arrangement is consistent with the aims and objectives of the Trustee in respect of the Default Arrangement.

Realisation of investments

The Trustee has a policy that there should, at all times, be sufficient investments in easy to sell (liquid) assets to meet cash flow requirements such that realising these assets will not disrupt the overall investment policy of the MNOPF. The Trustee also needs enough cash immediately available to pay member benefits when they are due.

The role of the Management Committee

The Management Committee is a sub-committee of the main MNOPF Trustee Board and has the following powers and responsibilities when implementing this Statement:

- using investment advice and advice from the Scheme Actuary, to develop, adopt and, from time to time, amend the Strategic Asset Allocations Ranges for the DB Section and the list of funds for the Money Purchase Section in Appendix 5, without the need for further consultation with employers;
- using investment advice and advice from the Scheme Actuary, to develop, and recommend changes to, the Journey Plan and level of investment risk within the DB Section to the Trustee for approval;
- to exercise all of the investment powers otherwise reserved for the Trustee in a manner consistent with this Statement;
- to put in place arrangements to monitor and review the performance of the Delegated CIO and BlackRock; and
- to review this Statement at least every three years and without delay after any significant change in investment policy and to recommend any changes to the Trustee.

The roles of the Delegated CIO and BlackRock

This part of the Statement covers the investment responsibilities and powers given by the Trustee to the Delegated CIO (for investments in the DB Section) and to BlackRock (for investments in the Money Purchase Section).

DB Section (Delegated CIO)	**Money Purchase Section (BlackRock)**
The Delegated CIO has the following powers and responsibilities in relation to the DB Section: • determining and implementing investment policy and asset allocation, within the Strategic Asset Allocation Ranges and reflecting the DB Section's liabilities and Journey Plan; • selecting, appointing and agreeing terms with Investment Managers which include, but are not limited to, the setting of investment objectives, benchmarks and performance targets in respect of each that are consistent with the overall	The main investment responsibilities of BlackRock in relation to the Money Purchase Section include: • The prompt investment of contributions. • Maintaining records of the members' investments. • Selling investments to pay benefits. • All day-to-day investment management decisions have been delegated to Investment Managers authorised under the Financial Services and Markets Act 2000 whose main

investment objectives of the DB Section and the specific level of skill and risk expected of each manager; • reviewing the performance of the Investment Managers on a quarterly and annual basis, comparing returns achieved against those of relevant market indices and individual benchmarks; • reviewing the performance of the global custodian on a bi-annual basis against a series of key performance indicators agreed with the Trustee from time to time (and as currently laid down in the global custodian's service level agreement); • identifying, reviewing and implementing investment strategies; • setting a specific performance objective for each respective mandate which is consistent with the overall investment objectives of the DB Section, and the level of skill and risk being expected of the managers; • reviewing on a continual basis the investment risks as set out in the Trustee's risk assessment register; and • regularly reviewing the DB Section's overall risk tolerance and performance objectives. The Delegated CIO may also refer decisions to the Management Committee and provide advice to the Management Committee from time to time.	responsibilities include: o Ensuring that investment of the Money Purchase Section's assets is in compliance with prevailing legislation and within the constraints detailed in this Statement. o Providing the Trustee with quarterly reports including any changes to Investment Managers' processes and a review of the investment performance. • Attending meetings with the Trustee as and when required. • Informing the Trustee of any changes in the internal performance objective and guidelines of any pooled fund used by the Money Purchase Section as and when they occur.

Investment management

The day-to-day management of the MNOPF’s investments are conducted by individuals and organisations with appropriate authorisation under the financial services legislation of the country in which the Investment Manager is registered and regulated and in accordance with such investment management agreements as the Management Committee and/or the Delegated CIO shall deem appropriate.

The Management Committee and/or the Delegated CIO shall provide the Investment Managers with a copy of this Statement and any amendments to it. The Investment Managers are required to exercise their delegated powers with a view to giving effect to the principles contained in this Statement, as far as reasonably practicable, and to confirm on a regular basis that they have acted in conformity with it.

Compliance with the Pensions Act 1995

This Statement complies with the Trustee’s obligation, under the Pensions Act 1995, to prepare, maintain, and to review this Statement at least every three years and without delay after any significant change in investment policy or a change in the demographic profile of members with Money Purchase Benefits. It also complies with the Trustee's obligation, under Regulation 2A of the Investment Regulations, to prepare a statement of the investment principles governing decisions about investments for the purposes of the Money Purchase Section Default Arrangement.

In preparing this Statement, the Trustee has obtained advice from its appointed Investment Adviser and has consulted the Scheme Actuary and the legal advisers to the MNOPF.

In preparing this Statement, the Trustee has also consulted the representatives of the MNOPF’s employers and the members, and the Trustee will similarly consult when revising this document. Copies of this Statement will be made available to employers and members, via the Employer Information Exchange and the MNOPF website, and will be included in abridged form in the Annual Report to Members.

DB Section	Money Purchase Section
The Trustee will review this Statement, with advice from the Investment Adviser and the Scheme Actuary, following an actuarial valuation, when there is a significant change to the MNOPF or where the Trustee or the Management Committee determines that a review is needed for other reasons. The Management Committee may make recommendations to the Trustee regarding changes to this Statement.	The Trustee will review this Statement, with advice from the Investment Adviser when there is a significant change to the MNOPF or where the Trustee or the Management Committee determines that a review is needed for other reasons. The Management Committee may make recommendations to the Trustee regarding changes to this Statement. The Trustee will also review both the Money Purchase Section default strategy and the performance of the Money Purchase Section Default Arrangement at least every three years and without delay after any significant change in investment policy or the demographic profile of relevant members. In particular, the Trustee will review the extent to which the return on investments relating to the Money Purchase Section Default Arrangement (after deduction of any charges relating to those investments) is consistent with the aims and objectives of the Trustee in respect of the Money Purchase Section Default Arrangement. The Trustee will revise this Statement after every such review unless it decides that no action is needed as a result of the review.

Appendix 1: Journey Plan for the DB Section

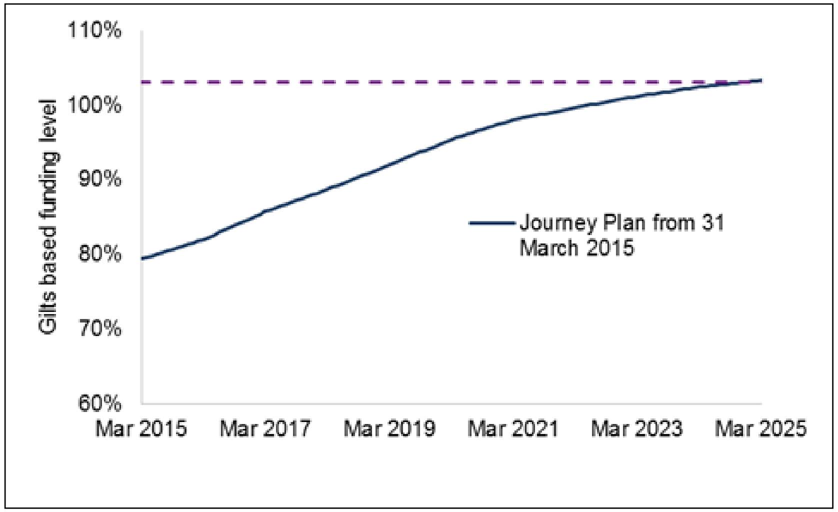
The Trustee determines the Journey Plan for the Defined Benefit Section.

The Delegated CIO is then mandated to manage the DB Section's assets consistent with the Journey Plan.

The Trustee's Journey Plan (below) is the combination of deficit contributions and investment returns that aims to achieve a funding target of assets equal to 103% of the gilts-based value of the DB liabilities over the period to 30 June 2025 or such other period as may be agreed from time to time. This objective can be achieved through an investment return target of Gilts +1.8% pa from 2015-2020, followed by linear de-risking to a Gilts +0.5% pa return target by 2025.

The Trustee's management against the Journey Plan incorporates a dynamic risk management framework, which involves:

- reducing the return target in the event that funding level experience is materially better than that implied by the Journey Plan.
- considering appropriate corrective action in the event that the funding level experience is materially behind that implied by the Journey Plan.



Appendix 2: Strategic Asset Allocation Ranges for the DB Section

The ranges show the minimum and maximum allocation to each type of investment (asset class).The target allocation is what the Delegated CIO is currently aiming to achieve.

Asset Class	**Strategic Allocation Range (%)**	**Delegated CIO target allocation as at 1 April 2016****
Global developed market equities	0-20	6.0
Emerging Market equities	0-5	0.5
Alternative credit	0-10	5.5
Property	0-6	3
Private equity	0-6	2.5
Hedge Funds	0-12	7.5
Diversifying strategies*	0-12	6.5
Infrastructure	0-3	1.5
Investment grade global corporate credit	0-20	6
Investment grade global sovereign credit	0-15	3
Private lending	0-2	1
Liability matching assets, protection strategies and cash	0-100	57

* Diversifying strategies include strategies which would be expected to exhibit a low correlation to equities and credit. These may include, but are not limited to, reinsurance, emerging market currencies, momentum, volatility premium, carry premium, commodities, merger arbitrage, and value strategies.

** The Delegated CIO has discretion to vary the asset allocation subject to remaining within the Strategic Asset Allocation Ranges.

Appendix 3: Socially responsible investment and corporate governance

Socially responsible investment

The Trustee's approach to socially responsible investment and corporate governance continues to evolve as the duration and make-up of the Fund's investment portfolio develops over time and as more research and information on the impact of sustainability becomes available.

The Trustee has considered how social, environmental and ethical factors should be taken into account in the investment process. The Trustee seeks to understand the extent to which its Investment Managers have taken steps to incorporate these factors into their investment process, and encourages them to do so in the selection, retention and realisation of investments as far as such factors may affect investment performance.

Corporate governance

The Trustee recognises the responsibilities of shareholders as owners of capital. The Trustee believes in good corporate governance and matters of corporate governance in general, and voting in particular, are integral parts of the delegation of duties to the Investment Managers. The Investment Managers should use their voting powers to preserve and enhance long-term shareholder value.

The Trustee supports the aims of the Stewardship Code, and its Investment Managers are encouraged to operate in accordance with the guidelines laid out in the Stewardship Code which covers matters of both voting and engagement. The Investment Managers are required to report their adherence to the Stewardship Code using the 'comply or explain' principle where appropriate. The Trustee has posted its Statement of Commitment to the Stewardship Code both on its own website and that of the Financial Reporting Council.

The Trustee requires its Investment Managers to report on corporate governance, and particularly on their voting and engagement records. In general, Investment Managers are likely to choose to support and vote with incumbent company management in the majority of cases, and therefore exception reporting is expected. Significant shareholder action other than voting should also be reported.

Appendix 4: The Delegated CIO

The Trustee determines the overall investment strategy of the DB Section of the MNOPF, including its robust investment beliefs and investment objectives. The investment strategy is an integral part of the MNOPF Journey Plan.

Establishing the investment strategy is the responsibility of the full MNOPF Trustee Board, with the Management Committee making recommendations to the Board in respect of the Journey Plan, investment strategy and risk management.

The MNOPF appointed Willis Towers Watson to a role of Delegated Chief Investment Officer (Delegated CIO) in December 2010.

The Delegated CIO’s responsibilities include:

- implementing the investment strategy
- evaluating investment opportunities and risks, and appropriately aligning the fund assets and liabilities
- identifying and considering de-risking opportunities
- reporting funding level and investment performance progress against the Journey Plan.

The Trustee has also appointed an Independent Investment Advisor to work with the Fund’s Executive in overseeing the performance of the Delegated CIO. The Fund’s Executive and Independent Investment Adviser report regularly to the Management Committee on the performance of the Delegated CIO and any other relevant matters.

The Trustee strongly believes that access to the resource and skills of the Delegated CIO has been fundamental to the DB Section’s ability to deliver the required level of returns with appropriate levels of volatility.

The MNOPF employs various triggers which the Delegated CIO uses to refer a decision to the Trustee. The Trustee can meet at short notice or make decisions by email, retaining control of decisions whilst minimising the risk of missed opportunities.

Appendix 5: Money Purchase Section funds

In addition to the Default Arrangement, the BlackRock DC LifePath Flexi Fund, the following funds are available:

BlackRock DC LifePath Retirement

BlackRock DC LifePath Capital

BlackRock DC Aquila (30:70) Currency Hedged Global Equity Index

BlackRock DC Aquila UK Equity Index

Schroder Dynamic Multi Asset Fund (DMAF)

BlackRock DC Cash

BlackRock DC Aquila Emerging Markets Equity Index

BlackRock DC Aquila Over 15 Year Gilt Index

BlackRock DC Aquila Corporate Bond All Stocks Index

LGIM Ethical Global Equity Index

HSBC Amanah Pension Fund

BlackRock DC Property

BlackRock DC Aquila All Stocks UK Index Linked Gilt Index

Appendix 6: Defined terms

The following expressions have specific meanings in this Statement:

BlackRock means BlackRock Life Limited, who are the administrator and investment manager for the Money Purchase Section of the Fund;

Charge Cap is a legislative maximum member charge which may apply to the Default Arrangement;

DB Section means the Defined Benefit Section of the MNOPF;

Default Arrangement only applies to the Money Purchase Section of the MNOPF and means the fund the Trustee believes will suit the majority of investors;

Delegated CIO means the consultant appointed by the Trustee to whom the Trustee has delegated certain aspects of its investment powers;

Derivative Instrument is a type of investment. It includes a wide range of investment vehicles such as options, futures, swaps, forward rate agreements or any other derivative contracts relating to commodities, securities, currencies, interest rates or yields, financial indices or financial measures;

Independent Investment Adviser means the person appointed by the Trustee to provide expert oversight of the Delegated CIO;

Integrated Risk Management is a risk management tool that helps trustees identify and manage the factors that affect the prospects of meeting the scheme objective, especially those factors that affect risks in more than one area. The overall strategy the trustees have in place to achieve this objective will be dependent on the scheme's and employers' circumstances from time to time. It is more fully described in the Pensions Regulator's Code of Practice 3: Funding Defined Benefits;

Investment Adviser means the person appointed by the Trustee to provide written advice on the Fund. The Adviser must be reasonably believed by the Trustee to be qualified by their ability in, and practical experience of, financial matters and to have the appropriate knowledge and experience of the investment management of such schemes;

Investment Manager means a person to whom decisions about investments have been delegated by, or on behalf of, the Trustee;

Investment Regulations means the Occupational Pension Schemes (Investment) Regulations 2005, which set out the requirements which Trustees of Occupational Pensions Schemes must adhere to regarding their Statement of Investment Principles, how they choose investments, borrowing, and guarantees given;

Journey Plan means the combination of contributions and investment return that is expected to meet the liabilities of the DB Section. The current Journey Plan is set out in Appendix 1;

Management Committee means the committee to whom the Trustee has delegated certain aspects of its investment powers. The Committee's Terms of Reference and composition is reviewed by the Trustee from time to time;

MNOPF means the Merchant Navy Officers Pension Fund;

Money Purchase Section means the part of the MNOPF that provides benefits on a defined contribution basis;

Participating Employers has the meaning given in the Trust Deed and Rules which can be found on the MNOPF website www.mnopf.co.uk;

Qualifying Insurance Policies are policies issued by an insurer which is a person who has permission under Part 4 of the Financial Services & Markets Act to effect or carry out contracts of long-term insurance;

Regulated Market is the market for investing in financial instruments which is regulated by relevant regulatory authorities;

Scheme Actuary means the individual appointed by the Trustee as actuary of the MNOPF;

Statement means this Statement of Investment Principles;

Strategic Asset Allocation Ranges means the ranges defined in a document which prescribes the allowable allocation ranges of the DB Section's assets between asset classes, as developed, adopted and, from time to time, amended by the Management Committee (and as more particularly described in this Statement);

Stewardship Code means the set of principles or guidelines set up in 2010 by the Financial Reporting Council. The Code's aim is to make institutional investors who manage other people's money, such as the MNOPF, be active and engage in corporate governance in the interests of their members or policyholders. The Statement of Commitment to the Stewardship Code sets out how the MNOPF Trustee, and the DCIO, implement the seven principles of the Stewardship Code on behalf of the MNOPF and this can be viewed at www.mnopf.co.uk;

Technical Provisions means the amount required, on an actuarial calculation, to make provision for the scheme's liabilities;

Trust Deed and Rules means the Trust Deed and Rules dated 25 June 1999 (as amended from time to time) by which the MNOPF is currently governed. The current version can be found at www.mnopf.co.uk; and

Trustee means MNOPF Trustees Limited, the sole corporate trustee of the MNOPF.