

Merchant Navy Officers Pension Fund

Annual Report and Accounts

for the year ended

31 March 2015

Annual Report and Accounts for the year ended 31 March 2015

Pension Scheme Registry Number: 10005645

Trustee: MNOFP Trustees Limited

Registered Office: The Beehive, City Place, Gatwick Airport, West Sussex, RH6 0PA

Company Number: 00333017

Board of Directors

R Murphy

Chairman from 1 September 2014 - Employer Director

M Jess

Vice-Chairman from 1 September 2014 - Officer Director

P G McEwen MBE MNM

Chairman to 31 August 2014 - Officer Director (resigned 31 August 2014)

W D Everard CBE

Vice-Chairman to 31 August 2014 - Employer Director (resigned 31 August 2014)

C Boyle

Officer Director (appointed 1 September 2014)

R Cunningham

Officer Director

A M Dickinson

Officer Director

G Elliott

Officer Director

A Graveson

Officer Director

D E Jones

Employer Director

M MacDonald

Employer Director (appointed 1 April 2014)

J McGurk

Employer Director

L D Stracey

Employer Director

O Tunde

Officer Director

P A Walker

Employer Director

P Winter

Employer Director (appointed 1 September 2014)

MNOPF Executive

A G Waring

Chief Executive

K L Foster

Scheme Secretary

R J Hymas

Chief Financial Officer

Advisers and Managers

Executive Support

Ensign Pensions Limited

Scheme Actuary

C P Burbidge, Towers Watson Limited

Legal Adviser

Baker & McKenzie LLP

Independent Auditor

Grant Thornton UK LLP

Pensions Administrator

JLT Employee Benefits

Additional Voluntary Contributions Provider

The Equitable Life Assurance Society

Delegated Chief Investment Officer

Towers Watson Limited

Independent Investment Adviser

Hymans Robertson LLP

Bankers and Custodians

National Westminster Bank Plc

The Bank of New York Mellon SA/V

Investment Managers (Securities)

Towers Watson Limited (as manager of managers)

BlackRock Advisers (UK) Limited

Edinburgh Partners Limited

Loomis, Sayles & Company LP

Southeastern Asset Management Incorporated

State Street Global Advisers Limited

Veritas Asset Management (UK) Limited

Trustee's Report for the year ended 31 March 2015

The Board of MNOFP Trustees Limited (referred to hereafter as "the Trustee") is pleased to present the 77th Annual Report of the Merchant Navy Officers Pension Fund (referred to hereafter as the "Fund" or "MNOFP"), for the year ended 31 March 2015. The Annual Report includes the Trustee's Report, Investment Report, Statement of Trustees Responsibilities, Financial Statements and Notes, the Independent Auditor's Report, the Independent Auditor's Statement about Contributions, the Actuarial Certificates and the Compliance Statement.

Constitution

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 Fund is managed by a corporate trustee, MNOFP Trustees Limited, and provides defined benefits for nearly 27,000 Merchant Navy Officers and their dependants.

The Fund is a Registered Pension Scheme under the Finance Act 2004. It is exempt from UK income and capital gains taxes, but cannot recover the tax credit on UK dividends.

At the start of the year, the Fund consisted of two Sections: the Pre-1978 Section, referred to as the "Old Section" and the Post-1978 Section referred to as the "New Section". The New Section is contracted-out of the State Second Pension under the provisions of the Occupational Pension Schemes (Contracting-Out) Regulations 1996. On 24 August 2014, following the buy-out of the Old Section with Legal & General Assurance Society Limited and Rothesay Life Limited, the Old Section was wound up.

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

Governance

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 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.

The appointment, re-appointment and removal of directors is the responsibility of the Joint Officers' Pension Committee, formed by the employers' and officers' organisations. The Employer Directors of the Trustee Board are considered for appointment by the employers' representatives on this Committee, and the Officer Directors are considered by the officers' representatives. A Director may appoint an Alternate Director to attend meetings in his place. During the year there were two Director resignations and three Director appointments as indicated on page 1.

The Trustee met on four occasions during the year.

Details of the Directors who attended meetings are set out in the Compliance Statement on page 38.

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.

Committees

The Trustee is supported by 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 and professional advisers, as required.

The Management Committee

The Management Committee consists of a maximum of six members and its purpose is to review and consider matters relating to the general management of the Fund, its benefits, contributions and investments, to provide summary reports to the Board with recommendations for action as appropriate and to exercise certain powers of the Trustee as delegated. It is empowered by the Board to set investment guidelines consistent with the Fund's Journey Plan and to have oversight of the implementation of the investment strategy in the context of the Fund's overall objectives.

During the year, the Management Committee met on four occasions.

The Deficit Contribution Sub-Committee

The Deficit Contribution Sub-Committee reports to the Management Committee and is responsible for all matters connected with the collection of deficit contributions, statutory employer debts and debts arising under Rule 5.2A of the Rules.

During the year, the Deficit Contribution Sub-Committee met on four occasions.

Chairman's Sub-Committee

The Chairman's Sub-Committee consists of the Chairman and Vice-Chairman who, acting jointly, have been delegated certain authorities to progress any suitable de-risking opportunities and to make recommendations to the Trustee.

During the year, the Chairman's Sub-Committee met on nine occasions.

Audit Committee

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

During the year, the Audit Committee met on four occasions.

Membership of Committees

The Trustee Directors were members of committees during the year as shown below:

A M Dickinson

Management Committee

W D Everard CBE

Management Committee (to 31 August 2014)

Chairman's Sub Committee (to 31 August 2014)

A Graveson

Audit Committee

M Jess

Management Committee (from 1 September 2014)

Chairman's Sub Committee (from 1 September 2014)

D E Jones

Management Committee

P G McEwen MBE MNM

Management Committee (Chairman to 31 August 2014)

Chairman's Sub Committee (to 31 August 2014)

R Murphy

Management Committee (Chairman from 1 September 2014)

Chairman's Sub Committee (from 1 September 2014)

L D Stracey

Audit Committee (Chairman)

O Tunde

Audit Committee

P Walker

Audit Committee

Ensign Pensions

Ensign Pensions Limited ("Ensign Pensions") is a company wholly owned by the Trustee. Ensign Pensions provides executive services to the Trustee and other pension schemes.

The Executive team established by the Trustee is employed by Ensign Pensions. Ensign Pensions 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.

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.

Contributions

Normal Contributions

Members' and employers' normal contributions are received in respect of active members in accordance with the Schedule of Contributions of the New Section of the Fund. Following the actuarial valuation of the New Section as at 31 March 2012, and having referred to the advice of the Scheme Actuary, the Trustee decided contribution rates of 20% for employers and 12.2% for active members.

Active members have the opportunity to pay Additional Voluntary Contributions in addition to normal 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 2015 £m |
|--|-----------------------------|
| Employers' normal contributions | 8.0 |
| Members' normal contributions | 4.9 |
| Members' Additional Voluntary Contributions | 0.1 |
| Employers' deficit contributions | 52.4 |
| Total recognised in the Financial Statements and reported on by the Independent Auditor | 65.4 |

Deficit Contributions

The MNOFF's Deficit Contributions Collection Policy sets out the process of how employers are expected to pay their share of the deficits identified in the 2003, 2006, 2009 and 2012 valuations.

The MNOFF 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.

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. Following the 2003 and 2006 valuations, the Scheme Actuary certified Schedules of Contributions which established recovery periods which ended in March 2014 and September 2014 respectively. As at those dates, contributions totalling £30.8 million had not been received in relation to those valuations and the scheme auditor has qualified its Statement about

Contributions in this respect. The Trustee has resolved to take all necessary action to pursue outstanding deficit contributions from all Participating Employers by 2025, the timeframe of the journey plan.

In relation to the specific amounts referred to by the scheme auditor, the majority of the contributions are due from a single group of related companies. The Trustee has made arrangements to collect these deficit contributions. Other amounts were received from the employer group during the year ended 31 March 2015. Discussions are on-going with the companies' management to ensure that the full amount due will be paid.

In 2011, following the re-structure of the companies owned by the Trustee and the cessation of the Trustee employing staff, a Section 75 debt of £46 million was triggered. In December 2014, the Trustee arranged settlement of the debt out of the assets of the Fund and the Trustee ceased to be an employer participating in the Fund.

Covenant Monitoring

Ongoing employer covenant and risk monitoring processes have been developed to provide the Trustee with regular information with regard to the employer covenant and any actual or potential material change to the creditworthiness of participating employers. This is consistent with the Pensions Regulator's guidelines regarding covenant monitoring.

Late Normal Contributions

Normal contributions totalling £70,809 were not received by the due dates set out in the Schedule of Contributions. These amounts are not material; hence the Independent Auditor's Statement about contributions is not qualified in this respect. Employers have been made fully aware of the legal time limits for paying contributions.

Northern Marine Management Limited paid late on more than one occasion.

Additional Voluntary Contributions ("AVC")

Since 6 April 2006, there has been no requirement for occupational pension schemes to offer members an AVC arrangement. The tax regime in force at that date allows members to invest in personal pension arrangements at the same time as being a member of an occupational scheme like MNOFF.

Given the flexibility now available, AVCs are only accepted from current contributing members who were either paying AVCs at 6 April 2006 or had previously paid AVCs.

On retirement, members have the right to use their AVC fund to buy an additional pension in the Fund; however, if members elect to commute part of their pension for a Pension Commencement Lump Sum, the AVC fund value would be used to fund part of the cash lump sum. Alternatively, a member can choose to buy their benefits with a provider of their choice (this is known as the "open market option").

Actuarial Valuation at 31 March 2012

A valuation was completed in accordance with the statutory funding requirements of the Pensions Act 2004 and guidance from the Pensions Regulator.

The formal certificates issued by the Scheme Actuary following completion of the Actuarial Valuation as at 31 March 2012 (the Valuation Date) are set out on page 42.

The 31 March 2012 valuation results produced a gross deficit of £492 million, which was then reduced to £152 million after allowing for the present value of the outstanding deficit contributions in respect of the 2003, 2006 and 2009 valuations of £340 million. In addition, the Trustee considered it appropriate to make some allowance for additional investment returns (compared to those assumed when calculating the Technical Provisions) over the Recovery Period. In this respect, the Trustee decided to make an allowance of £32 million for such additional returns, resulting in the amount of deficit contributions to be collected as at 31 March 2012 being £120 million before the application of any interest.

A copy of the full New Section Actuarial Valuation report can be found on the MNOPF website. www.mnopf.co.uk

Recovery Plan

Given that the Fund is maturing rapidly, the Trustee decided to collect deficit contributions over a maximum of ten years to 30 September 2023. In exceptional circumstances, the Trustee may be prepared to allow an employer to pay instalments over a period to September 2025. The position in respect of each employer will be determined by the Trustee in accordance with the Deficit Contributions Collection Policy.

Funding Update

The actuary's last review of the funding position was as at 31 March 2014. At that date, the position had improved since the full Actuarial Valuation in 2012 and the 2013 funding update with a lower level of deficit being reported.

Over the period from 31 March 2012 to 31 March 2014, the funding position improved from a gross deficit of £492 million to £363 million. This was mainly due to the payment of deficit contributions over the two years. At 31 March 2014, 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 2014 is summarised below:

| | £m |
|-----------------------------------|--------------|
| Market value of assets | 2,411 |
| Value of past service liabilities | (2,774) |
| Gross (Deficit) | <u>(363)</u> |
| Cover of assets over liabilities | <u>87%</u> |

The assumptions used to estimate the value of the past service liabilities for the 2014 update were chosen by the actuary following the method agreed by the Trustee for the 2012 Actuarial Valuation.

The next Actuarial Valuation of the Fund is as at 31 March 2015, and should be finalised by 30 June 2016.

Membership

The changes in the Fund membership during the year were as follows:

| | 2015 |
|---|-----------------------------|
| Active members | |
| As previously stated | 779 |
| Members retiring | (60) |
| Deaths in service | (4) |
| Other leavers | (20) |
| At the year end | <u>695</u> |
| Pensioner members | |
| As previously stated | 16,209 |
| Adjustment for the previous year | 152 |
| Restated | <u>16,361</u> |
| New Pensioners (includes new dependant pensioners) | 747 |
| Pensions ceased | (530) |
| At the year end | <u>16,578</u> |
| Deferred members | |
| As previously stated | 9,880 |
| Adjustment for the previous year | (77) |
| Restated | <u>9,803</u> |
| New pension credit members | 8 |
| New leavers before pensionable age | 19 |
| Members ceasing to be deferred (transfers out, deaths, retirement, rejoiners) | (534) |
| Benefits forfeited | (82) |
| At the year end | <u>9,214</u> |
| Total membership at the year-end | <u><u>26,487</u></u> |

The above membership information excludes the former Old Section whose buy-out was completed in July 2014 and subsequently wound-up in August 2014.

Adjustments for the previous year are in respect of late notification of events resulting in a membership status change.

Review of financial development

The total value of the Fund at 31 March 2015 was £2,897.6 million.

Benefits paid out, plus management and administration expenses, amounted to £137.9 million. Normal contributions receivable (calculated as a percentage of pensionable salary from active members and employers) amounted to £12.9 million. Deficit contributions received in the year amounted to £52.4 million.

Full details of the financial development of the Fund can be found in the audited Financial Statements on pages 19 to 35, which have been prepared and audited in accordance with the regulations made under Section 41(1) and (6) of the Pensions Act 1995.

Further Information

Copies of the Actuarial Valuation Reports, Statement of Investment Principles and the Deficit Contributions Collection Policy are available on the website or in printed form on request.

General Enquiries

Scheme Secretary
MNOF Trustees Limited
The Beehive
City Place
Gatwick Airport
West Sussex
RH6 0PA

Member Enquiries

myMNOFPension
Leatherhead House
Station Road
Leatherhead
Surrey
KT22 7ET

EMAIL: enquiries@mymnopfpension.co.uk

Telephone: 01372 200200

www.mnopf.co.uk

This report, together with the Investment Report, Statement of Trustee Responsibilities and Compliance Statement were approved by the Trustee Board on 2015.

For and on behalf of the Board
R Murphy
Chairman of MNOF Trustees Limited

Investment Report

Investment Strategy

The Management Committee, supported by the Delegated Chief Investment Officer and other professional advisers, monitors and develops investment policy to target the Fund's main investment objectives, which are:

- the acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from members and employers, the cost of current and future benefits which the Fund provides; and
- to limit the risk of assets failing to meet the liabilities over the long term.

Statement of Investment Principles

The Trustee is required to establish and maintain a Statement of Investment Principles ("SIP"). This must set out the basis on which the Trustee plans to invest the scheme assets. The SIP was last reviewed during the year to 31 March 2014 and no changes were made. The approved SIP has been published on the Fund's website. www.mnopf.co.uk

The Fund is committed to the Stewardship Code. The Stewardship Code aims to enhance the quality of engagement between institutional investors and UK companies in order to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The statement has been posted on the MNOPF website. www.mnopf.co.uk

Delegated Chief Investment Officer

The MNOPF's Delegated Chief Investment Officer model enables integrated and effective implementation alongside timely responses to investment opportunities.

The Delegated Chief Investment Officer of the Fund advises on investment strategy and benchmarks and implements the agreed strategy within parameters set by the Trustee. The Delegated Chief Investment Officer implements the strategy by either appointing investment managers to manage assigned portions of the Fund's portfolio or by buying units in collective investment schemes. The Delegated Chief Investment Officer also assesses the nature, disposition, marketability and security of the Fund's assets.

Independent Investment Adviser

The Independent Investment Adviser provides expert monitoring and oversight of the Delegated Chief Investment Officer. The Trustee believes this approach is an effective and appropriate approach to investment strategy, decision making and oversight.

Custodian

All of the Fund's assets are held under the custody arrangements with BNY Mellon with the exception of unquoted investments.

Investment Beliefs

The Trustee believes that clearly defined objectives and a journey plan are essential for achieving investment targets. These targets are incorporated in the Delegated Chief Investment Officer's mandate. The investment beliefs of the Trustee and Delegated Chief Investment Officer are also aligned. The main investment beliefs are:

- Investment risks need to be considered in a consistent framework and unrewarded risks should be hedged if it is cost effective to do so.
- Portfolios should be structured across diversifying asset classes and return drivers, which helps build a robust portfolio.
- Skilful managers can add value over the long term; however, where low cost passive or semi-passive investment approaches are available, these are considered in the first instance.

Journey plan

The Trustee has put in place a clearly defined journey plan to achieve an agreed funding level on a gilts basis over an agreed period of time. The Delegated Chief Investment Officer provides on-going monitoring against the journey plan and recommends appropriate actions required throughout the journey.

Approach to investment

The Delegated Chief Investment Officer and all underlying investment managers are assigned clear mandates in relation to their investment portfolios. Most investment managers hold investments in specific asset classes and have discretion over individual security selection. Investment manager remuneration structures and levels are contractually agreed and largely relate to the market value of their investment portfolios.

Other than the private equity commitments, the investments held by the Fund are predominantly either quoted or held in pooled arrangements. For the majority of these investments, fair value prices are readily available which represent transactions that have taken place on an arm's length basis. The investments are generally regarded as readily realisable at fair value, although on occasions markets may experience reduced liquidity, in which case it may not always be possible to realise such assets at short notice at prices equal to fair value.

The portfolio as at 31 March 2015 is summarised as:

| | 2015 Total £m |
|---------------------------------------|------------------------------|
| Equities | 429.4 |
| Hedge funds | 176.4 |
| Non-investment grade credit | 219.9 |
| Private equity and infrastructure | 242.6 |
| Diversifying Strategies | 199.2 |
| IG Credit | 359.3 |
| Matching assets | 1,279.2 |
| Longevity hedge | (53.1) |
| Net other investments | 0.1 |
| AVCs | 2.7 |
| Included in the notes to the accounts | <u>2,855.7</u> |

Investment returns

Funding level progress is achieved by a positive investment return relative to liabilities and the receipt of deficit contributions.

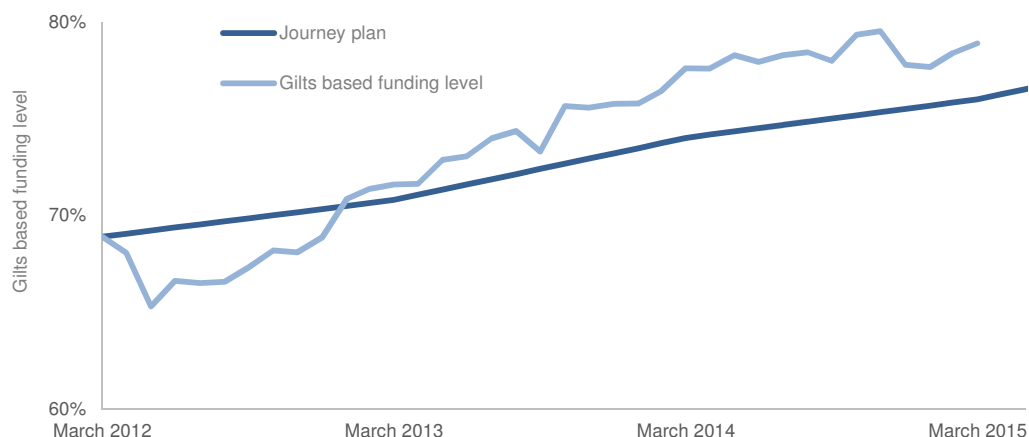
Throughout 2014 government bond yields fell significantly resulting in very large increases in the liability value. Over the financial year the gilts-based liabilities rose by 21.6%. Despite an extremely challenging environment, the portfolio still outperformed its gilts based liabilities by 3.1% over the year to 31 March 2015, due to both the sophisticated liability hedging portfolio and the outperformance of the return-seeking asset classes. This has contributed to an increase in funding level and progress against the journey plan. The MNOF, therefore, remains on course to achieve its journey plan.

The table below shows the investment performance as measured by the independent performance measurer over one year and three years against the gilts-based liabilities.

| To 31 March 2015 | 1 Year (%) | 3 Year (%pa) |
|-------------------------|---------------|-----------------|
| Fund | 24.7 | 11.7 |
| Gilts-based liabilities | 21.6 | 8.4 |

Performance is shown net of underlying manager fees, and gross of DCIO fees.

The chart below shows the journey plan progression from 31 March 2012, the date of the last actuarial valuation, when the journey plan was updated.



Market Review

Summary

The majority of asset classes have produced positive absolute performance over the 12 months to 31 March 2015, other than the notable exceptions of commodities and in particular crude oil.

Three major events during the year were:

- The vote in the Scottish Independence Referendum in favour of a retention of the current composition of the UK removed a source of significant uncertainty for UK assets. Given this was the result predicted by the market, there was not any significant volatility as a result.
- September 2014 saw market turmoil cause meaningful losses across credit, equities and commodities. Two key reasons for the turmoil were global growth concerns (particularly in Germany and therefore the Eurozone as a whole) and monetary policy shifts. Markets however, rallied in the early part of 2015 due to better than expected economic data in many developed countries, particularly in the US.
- The US dollar has also been strong over the past 12 months; Sterling has depreciated by 11.0% versus the US dollar over this period. However, Sterling has appreciated considerably versus the Euro by 14.3%.

Equity markets

Developed market equity performance has been positive over the 12 month period to 31 March 2015. The FTSE World Index (developed world equities) returned 18.8% over the year, with the FTSE Emerging Index returning 16.3% (both in sterling terms).

Bond markets

Bond yields have fallen considerably across US, UK and German markets over the course of the period, with declines being most pronounced for bonds with longer maturities. The sharp fall has been driven by investors significantly revising down their expectations for short-term interest rates in the future. The consequences were strong returns, more pronounced for longer-maturity assets, with the FTSE-A Gilts 15+ Years Index returning 27.0% over the year, compared to the iBoxx Sterling Non-Gilts 15+ Years Index which returned 21.6%.

Alternative investment markets

Oil prices have declined considerably, falling by almost 50% over the 12 months (in sterling terms). The major cause of this move was the significant increase in non-OPEC related supply.

UK commercial property has returned 18.3% over the 12 month period to end of March 2015 (as measured by the Investment Property Databank index). Price rises have accelerated due to the UK economy gaining momentum.

Over the period, all major hedge fund strategies have produced positive absolute performance, with the exception of distressed strategies (in US dollar terms, as measured by HFR). Returns generally have been more muted than other asset classes, with the average hedge fund returning 4.4% (sterling hedged) over the past year.

Towers Watson

29 May 2015

Statement of Trustee's Responsibilities for the year ended 31 March 2015

The financial statements, which are prepared in accordance with United Kingdom generally accepted accounting practice, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Fund members, beneficiaries and certain other parties, audited financial statements for each Fund year which:

- 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 year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year.
- Contain the information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the Financial Statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

The Trustee has supervised the preparation of the Financial Statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Trustee is also responsible for making available certain other information about the Fund in the form of an Annual Report. The Trustee is responsible, under pensions legislation, for ensuring that there is prepared, maintained and, from time to time, revised, a Schedule of Contributions for each Section showing the rates of contributions payable towards the Fund by or on behalf of the employers 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 monitoring whether contributions are made to the Fund by employers in accordance with the Schedule of Contributions. Where breaches of Schedules 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 financial information may differ from legislation in other jurisdictions.

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 the Trustee 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.

Independent Auditor's Report to the Trustee for the year ended 31 March 2015

We have audited the financial statements of the Merchant Navy Officers Pension Fund for the year ended 31 March 2015 which comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 Fund's 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 Fund and the Fund's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Trustee and Auditor

As explained more fully in the Statement of Trustee's Responsibilities on page 16, the Fund's Trustee is responsible for the preparation of financial statements which show a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustee; and the overall presentation of the financial statements. In addition, we read all the financial and nonfinancial information in the rest of the annual report which comprises the Trustee's Report, the Investment Report, the Statement of Trustee's Responsibilities, the Compliance Statement and the Actuarial Certificates to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

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 2015, 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 Fund year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

2015

Financial Statements for the year ended 31 March 2015

Fund Account

For the year ended 31 March 2015

| | | 2015 | 2014 |
|--|------|----------------------|----------------------|
| | | Total | Total |
| | Note | £m | £m |
| Contributions and benefits | | | |
| Contributions | 3 | 65.4 | 135.9 |
| Transfers in | 4 | 24.1 | 0.3 |
| | | <hr/> 89.5 | <hr/> 136.2 |
| Benefits | 5 | (123.1) | (196.6) |
| Payments to and on account of leavers | 6 | (3.8) | (1,362.6) |
| Administrative and other expenses | 7 | (11.0) | (12.4) |
| | | <hr/> (137.9) | <hr/> (1,571.6) |
| Net withdrawals from dealings with members | | <hr/> (48.4) | <hr/> (1,435.4) |
| Returns on investments | | | |
| Investment income | 8 | 55.4 | 123.6 |
| Investment management expenses | 9 | (16.3) | (13.6) |
| Change in market value of investments | 10 | 495.6 | (35.8) |
| | | <hr/> 534.7 | <hr/> 74.2 |
| Net returns on investments | | <hr/> 534.7 | <hr/> 74.2 |
| Net increase/(decrease) in the Fund during the year | | 486.3 | (1,361.2) |
| Net assets of the Fund at the beginning of the year | | 2,411.3 | 3,772.5 |
| | | <hr/> 2,411.3 | <hr/> 3,772.5 |
| Net assets of the Fund at the end of the year | | <hr/> 2,897.6 | <hr/> 2,411.3 |

The notes on pages 21 to 35 form an integral part of these financial statements.

**Net Assets Statement
As at 31 March 2015**

| | | 2015 Total | 2014 Total |
|--|------|-----------------------|----------------|
| | Note | £m | £m |
| Investment assets | | 3,123.4 | 2,884.9 |
| Investment liabilities | | <u>(267.7)</u> | <u>(496.8)</u> |
| | 10 | 2,855.7 | 2,388.1 |
| Current assets | 11 | 53.7 | 43.4 |
| Current liabilities | 12 | <u>(11.8)</u> | <u>(20.2)</u> |
| Net assets of the Fund at the end of year | | <u>2,897.6</u> | <u>2,411.3</u> |

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 Schedules of Contribution and Actuarial Certificates on pages 41 to 42 of the Annual Report, and these Financial Statements should be read in conjunction with them.

These financial statements were approved by the Trustee on

2015.

Signed on behalf of the Trustee:

R Murphy
Chairman of MNOFF Trustees
Limited

M Jess
Vice-Chairman of MNOFF Trustees
Limited

The notes on pages 21 to 35 form an integral part of these financial statements.

Notes to the Financial Statements For the year ended 31 March 2015

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 and with the guidelines set out in the Statement of Recommended Practice, 'Financial Reports of Pension Schemes' (revised May 2007).

All transactions are recognised on an accruals basis except as disclosed in the accounting policies.

1.1 Consolidation

Subsidiaries are all entities over which the Fund has the power to govern the financial and operational policies. The Fund has taken advantage of the exception within Financial Reporting Standard 2 from preparing 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 prepared as at 31 March 2015 which represent the Trustee's estimate of fair value.

Investments in subsidiaries are recognised as equity holdings. Details of subsidiaries are included in Note 13.

The prior year Financial Statement comparatives at 31 March 2014 include two Sections of the Fund: the Pre-1978 Section, referred to as the "Old Section" and the post-1978 Section referred to as the "New Section". The current year Financial Statements are only the transactions relating to the New Section as the buy-out of the Old Section was recognised in full as at 31 March 2014. On 24 August 2014, following the Buy-out of the Old Section, the Old Section was wound up.

2. Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the year and prior year are as follows:

2.1 Contributions

Members' normal and Additional Voluntary Contributions are recognised on an accruals basis when deducted from pay. Employers' normal contributions are accounted for at the same time as members' contributions.

Additional contributions, which are further amounts paid by employers following the revision of the Schedule of Contributions and which are due under the revised Schedule, are recognised when due under the Schedule.

Payment profiles for deficit contributions are established with employers in line with the requirements of the Schedules of Contributions. Accordingly, employers' deficit 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 Administration Expenses. The subsequent treatment of the Accounting Adjustment for deficit collection purposes is considered by the Trustee in the context of the Deficit Collection Policy and the Guidelines for Defaulting Employers.

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.

2.2 Benefits payable and transfers to and from other schemes

Benefits payable and payments to leavers, with the exception of transfers to other schemes, are taken into account in respect of valid claims notified before the year end. Transfers to other schemes are accounted for on a cash basis.

Bulk transfers in are recognised when the fund assumes liability for the benefits payable.

2.3 Investment income

Investment income is recognised on an accruals basis.

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

2.4 Investments

Investments are all recognised at fair value, as detailed further below.

Quoted equity and fixed income securities and certificates of deposit, for which there are active secondary 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.

For the purpose of presentation, quoted securities include those listed or traded on a recognised investment exchange and, in respect of fixed income, also include those securities where there is a secondary over-the-counter ("OTC") market where prices are readily available from a dealer, industry group, pricing service or regulatory agency.

Unitised pooled fund investments such as unit linked insurance policies and unit trust holdings are valued at the respective managers' bid or single price.

Other unquoted securities, including other pooled investment vehicles and investments in hedge funds, are included at prices provided by the 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.

Non-profit bulk annuity policies (often referred to as "buy-in policies") are valued by the Trustee by reference to the recapture premium provided to the Fund by the insurance

provider at the reporting date. If a recapture premium is not provided, the value is calculated as the cost less cash drawdowns that have taken place prior to the year end. Any outstanding deferred premiums still payable by the Fund under the policies are included in the valuation. If, in the opinion of the Trustee, a buy-in policy or a combination of policies provides an effective discharge of all of the liability to particular members, the policy or policies are valued at nil. The reduction of any previous value recognised is included in the Fund Account as a payment to leavers.

The recapture premium is the amount that the provider would charge at the year end to provide benefits covered under the policy and is considered a measure of replacement cost.

Securities sold subject to repurchase agreements are included in the financial statements within their respective investment classes at the period end fair value of the securities to be repurchased. The liability to the counterparty is included in other investment balances.

Longevity hedges are valued by the Trustee as the difference in the present value of the fixed and variable legs of the transaction. The fixed leg includes costs committed to over the life of the hedge, but which would probably become payable if the hedge was terminated. Cashflows arising from the hedge are recognised as benefit payments.

Swaps are over the counter contracts and fair value is the current value of the future expected net cash flows, taking into account the time value of money. Fair value is calculated using discounted cash flows and using market data at the year end.

2.5 Foreign currency

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/liabilities held 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.

Forward currency contracts, open at the year end, are valued at fair value at that date at the relevant forward rates and any unrealised gains or losses are recognised in the financial statements.

Gains and losses on foreign currency contracts taken out specifically to hedge certain overseas investment holdings are included in 'change in market value of investments' in the Fund account.

3. Contributions

| | 2015 Total | 2014 Total |
|--|-----------------------|---------------|
| | £m | £m |
| Employers – normal | 8.0 | 9.0 |
| Employers – additional | - | 5.1 |
| Employers – deficit | 52.4 | 116.2 |
| Members – normal | 4.9 | 5.5 |
| Members – additional voluntary contributions | 0.1 | 0.1 |
| | <u>65.4</u> | <u>135.9</u> |

Employer deficit contributions of £528 million are due under the Recovery Plans agreed following the 2009 and 2012 valuations. At 31 March 2015, 47% of these contributions had been paid and the balance is payable over the period to September 2025.

4. Transfers in

| | 2015 Total | 2014 Total |
|-------------------------|-----------------------|---------------|
| | £m | £m |
| Bulk transfers in | 23.8 | - |
| Individual transfers in | 0.3 | 0.3 |
| | <u>24.1</u> | <u>0.3</u> |

A bulk transfer of the assets and liabilities of MNPA Staff Pension Fund was made to the Fund on 30 May 2014.

5. Benefits

| | 2015 Total | 2014 Total |
|------------------------------|-----------------------|---------------|
| | £m | £m |
| Pensions | 105.0 | 175.4 |
| Lump sum retirement benefits | 17.4 | 20.4 |
| Lump sum death benefits | 0.7 | 0.8 |
| | <u>123.1</u> | <u>196.6</u> |

6. Payments to and on account of leavers

| | 2015 Total | 2014 Total |
|---------------------------------------|-----------------------|----------------|
| | £m | £m |
| Purchase of annuities | - | 1,359.5 |
| Individual transfers to other schemes | <u>3.8</u> | <u>3.1</u> |
| | <u>3.8</u> | <u>1,362.6</u> |

The purchase of annuities in 2014 was in relation to the former Old Section and represents the buyout of the Old Section liability to members. Individual policies were issued to members in July 2014. The Trustee considered that as at 31 March 2014 there had been the effective discharge of the liability.

7. Administrative and other expenses

| | 2015 Total | 2014 Total |
|--|-----------------------|---------------|
| | £m | £m |
| Administration, processing and data management | 6.1 | 10.0 |
| Actuarial fees | 0.4 | 0.3 |
| Legal, other professional fees and deficit collection fees | <u>1.2</u> | <u>4.4</u> |
| | 7.7 | 14.7 |
| Accounting Adjustment to employer deficit contributions receivable | <u>3.3</u> | <u>(2.3)</u> |
| | <u>11.0</u> | <u>12.4</u> |

All administrative expenses are recognised gross of VAT.

Legal, other professional and deficit collection fees:

- Are net of income received from employers in respect of credit assessment fees and the recharge of other expenses.
- Include fees in relation to the transacting of de-risking strategies including the longevity hedge and the buy-out of the former Old Section.

8. Investment income

| | 2015 | 2014 |
|--|--------------|-------|
| | Total | Total |
| | £m | £m |
| Income from fixed interest securities | 31.3 | 20.5 |
| Dividends from equities | 10.1 | 5.6 |
| Income from pooled investment vehicles | 11.3 | 14.6 |
| Income from index linked securities | 2.3 | - |
| Interest on cash deposits | - | 0.3 |
| Income from insurance policy | - | 82.7 |
| Other investment income | 0.6 | - |
| | 55.6 | 123.7 |
| Irrecoverable taxation | (0.2) | (0.1) |
| | 55.4 | 123.6 |

9. Investment management expenses

| | 2015 | 2014 |
|--|--------------|-------|
| | Total | Total |
| | £m | £m |
| Administration, management and custody | 14.4 | 13.6 |
| Longevity premiums | 1.9 | - |
| | 16.3 | 13.6 |

10. Investments

10.1 Summary of investments

| | Note | 2015 Total £m | 2014 Total (Restated) £m |
|---|-------|---------------------|-----------------------------------|
| Assets | | | |
| Fixed interest securities | 10.5 | 953.2 | 1,140.0 |
| Index linked | 10.6 | 224.5 | 197.9 |
| Equities | 10.7 | 100.3 | 132.0 |
| Pooled investment vehicles | 10.8 | 1,625.4 | 1,287.5 |
| Derivatives | 10.9 | 124.1 | 2.7 |
| Property | 10.10 | - | 2.7 |
| AVC investments | 10.11 | 2.7 | 2.8 |
| Cash deposits and other investment assets | 10.12 | 93.2 | 119.8 |
| | | 3,123.4 | 2,885.4 |
| Liabilities | | | |
| Derivatives | 10.9 | (71.0) | (0.5) |
| Other investment liabilities | 10.12 | (196.7) | (496.8) |
| | | (267.7) | (497.3) |
| | | 2,855.7 | 2,388.1 |

Certain investments previously categorised in the above statutory classification as "Equities" have been re-classified at 31 March 2015 as "Pooled investment vehicles". As a result, the comparatives have also been adjusted. As at 31 March 2014, an amount of £53.0 million previously recognised as equities has now been recognised as pooled investment vehicles. The previously reported balances were £185.0 million and £1,234.5 million respectively.

10.2 Reconciliation of investments

| | Value at 31/03/14 (Restated) £m | Purchases at cost and derivative payments £m | Sales proceeds and derivative receipts £m | Change in Market Value £m | Value at 31/03/15 £m |
|---|--|--|--|------------------------------------|----------------------------|
| Fixed interest | 1,140.0 | 34.9 | (409.4) | 187.7 | 953.2 |
| Index linked | 197.9 | 99.8 | (111.6) | 38.4 | 224.5 |
| Equities | 132.0 | 131.8 | (175.7) | 12.2 | 100.3 |
| Pooled investment vehicles | 1,287.5 | 503.3 | (405.6) | 240.2 | 1,625.4 |
| Derivatives | 2.2 | 57.8 | (23.8) | 16.9 | 53.1 |
| Property | 2.7 | - | (2.7) | - | - |
| AVC investments | 2.8 | 0.4 | (0.7) | 0.2 | 2.7 |
| | 2,765.1 | 828.0 | (1,129.5) | 495.6 | 2,959.2 |
| Cash deposits and other investment assets | 119.8 | | | | 93.2 |
| Other investment liabilities | (496.8) | | | | (196.7) |
| | 2,388.1 | | | | 2,855.7 |

10.3 Change in market value

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 gains and losses realised on sales of investments during the year.

10.4 Transaction costs

Included within purchases and sales are transaction costs of £2.2 million (2014: £0.2 million). Costs are also borne indirectly by the Fund in relation to transactions in pooled investment vehicles. Such indirect costs are taken into account in calculating the bid/offer spread of these investments and are not separately identifiable.

10.5 Fixed interest securities

| | 2015 Total | 2014 Total |
|-------------------------------|-----------------------|-----------------------|
| | £m | £m |
| UK public sector quoted | 953.2 | 1,052.7 |
| Overseas public sector quoted | - | 87.3 |
| | <u>953.2</u> | <u>1,140.0</u> |

10.6 Index linked securities

| | 2015 Total | 2014 Total |
|-------------------------|-----------------------|---------------------|
| | £m | £m |
| UK public sector quoted | <u>224.5</u> | <u>197.9</u> |

10.7 Equities

| | 2015 Total | 2014 Total (Restated) |
|-------------------|-----------------------|-----------------------------|
| | £m | £m |
| UK quoted | 8.9 | 16.8 |
| Overseas quoted | 91.0 | 115.2 |
| Overseas unquoted | 0.4 | - |
| | <u>100.3</u> | <u>132.0</u> |

10.8 Pooled investment vehicles

| | 2015 | 2014 |
|-----------------------------|-----------------------|----------------|
| | Total | Total |
| | £m | (Restated) |
| | | £m |
| Managed Funds – property | 108.5 | 81.5 |
| Managed Funds – other | 995.0 | 916.1 |
| Unitised insurance policies | 521.9 | 289.9 |
| | <u>1,625.4</u> | <u>1,287.5</u> |

| Country of registration of managers operating pooled investment vehicles | Number | Number |
|---|---------------|--------|
| UK | 13 | 13 |
| Overseas | 29 | 29 |

Unquoted investments in hedge funds and private equity (which are held through pooled investment vehicles) reflect the valuations provided by the relevant fund managers at the year end date and have been reviewed by the Trustee to assess if they can be accepted as a fair estimate of market value. It is normal for managers to initially carry unquoted holdings at cost. Subsequently, they are valued by the managers based on known facts and circumstances and the application of recognised valuation methodologies.

10.9 Derivatives

Objectives and policies

Derivatives are used as part of the investment strategy for the Fund. Included in the guidelines agreed with the Delegated Chief Investment Officer are restrictions on the use of derivatives. These restrictions are primarily to limit the use of such instruments to managing risk. In implementing the investment strategy, the Delegated Chief Investment Officer has invested in segregated and pooled funds which hold derivatives.

The Fund's derivative holdings are:

- Foreign exchange forward contracts to manage currency exposure;
- Interest rate swaps to manage the exposure to changes in interest rates;
- Inflation swaps to manage the exposure to changes in the rate of inflation;
- Longevity hedge to manage exposure to changes in life expectancy.

At the year end, the Fund's derivatives positions were:

| | 2015 Total | 2014 Total |
|--|-----------------------|---------------|
| | £m | £m |
| Assets – direct holdings | | |
| Forward foreign exchange | 0.9 | 2.7 |
| Interest rate swaps | 123.2 | - |
| | 124.1 | 2.7 |
| Liabilities – direct holdings | | |
| Forward foreign exchange | (11.0) | (0.5) |
| Inflation swaps | (6.9) | - |
| Longevity hedge | (53.1) | - |
| | (71.0) | (0.5) |
| Net derivative direct holdings position | 53.1 | 2.2 |

In addition to the above, the Fund had £107.6million (2014: £126.0 million) in pooled funds, which held interest rate swaps. This is included in Pooled Investment Vehicles in note 10.8.

The derivative positions as at 31 March 2015 were:

| Type of contracts | Number of contracts | 2015 Notional Principal £m | Maturity | 2015 Asset £m | 2015 Liability £m |
|--------------------------|----------------------------|---|-----------------|------------------------------|----------------------------------|
| UK – Interest rate swap | 2 | 127.7 | 0-5 years | 4.3 | - |
| | 3 | 48.1 | 6-10 years | 5.4 | - |
| | 7 | 162.7 | 11-20 years | 40.2 | - |
| | 4 | 72.6 | 21-30 years | 28.4 | - |
| | 8 | 53.2 | 31-40 years | 30.3 | - |
| | 3 | 19.3 | 41-50 years | 14.6 | - |
| | | | | 123.2 | - |
| UK – Inflation swap | 4 | 27.1 | 11-20 years | - | (1.7) |
| | 4 | 32.5 | 21-30 years | - | (3.4) |
| | 2 | 7.1 | 31-40 years | - | (1.3) |
| | 1 | 1.9 | 41-50 years | - | (0.5) |
| | | | | - | (6.9) |

Derivative receipts and payments represent the cash receipts and payments on the swap and forward contracts. In the case of the longevity hedge the only transactions during the year were premiums which have been included within investment management expenses in note 9.

The longevity hedge was entered into with MNOF IC Limited who subsequently re-insured the liability with Pacific Life Re. The liabilities covered by the arrangement total £1.5 billion. Collateral arrangements in relation to the hedge commence during 2015/16.

At 31 March 2015, the counterparties of the interest and inflation hedges were five banks with credit ratings ranging from AA- to A.

At 31 March 2015, the Fund held collateral in the form of gilts with a value of £117.9 million (2014: £nil).

Forward foreign exchange

All forward foreign exchange contracts are over the counter. At 31 March 2015, the Fund's investment managers held contracts in relation to US Dollars, Canadian Dollars, Australian Dollars, Hong Kong Dollars, Euro and Japanese Yen.

In summary, as at 31 March 2015, the Fund's investment managers held:

| | |
|---|--------------------|
| Number of open forward exchange contracts | 54 |
| Expiring on or before | 18/6/2015 |
| To buy foreign currency with sterling equivalent value of | £13.9m |
| To sell foreign currency with sterling equivalent value of | £506.4m |
| The principal net exposures in these contracts were (sterling equivalent value) | Sell USD £10.1m |

10.10 Property

The Fund had investments in the following direct property holdings:

| | 2015 Total | 2014 Total |
|--------|-----------------------|---------------|
| | £m | £m |
| Office | <u>-</u> | <u>2.7</u> |

The Fund's investment in property is now through pooled investment vehicles and disclosed in note 10.8.

10.11 AVC investments

The aggregate amounts of AVC investments held with the Equitable Life Assurance Society were as follows:

| | 2015 Total | 2014 Total |
|-----------------------|-----------------------|---------------|
| | £m | £m |
| With-profits fund | 0.5 | 0.6 |
| Unit-linked fund | 1.9 | 1.9 |
| Building society fund | 0.3 | 0.3 |
| | <u>2.7</u> | <u>2.8</u> |

The Trustee holds assets invested separately from the main Fund in the form of individual accounts securing additional benefits on a money purchase basis for those members electing to pay Additional Voluntary Contributions. Members participating in this arrangement each receive an annual statement made up to the year end confirming the amounts held to their account and the movements in the year.

10.12 Cash deposits and other investment assets and liabilities

| | 2015 | 2014 |
|--|----------------|---------|
| | Total | Total |
| | £m | £m |
| Assets | | |
| Cash | 15.8 | 15.9 |
| Treasury fund | 70.4 | 88.5 |
| Outstanding dividends, interest and other assets | 7.0 | 15.4 |
| | 93.2 | 119.8 |
| Liabilities | | |
| Amount due under sale and repurchase contracts | (196.7) | (496.8) |
| | (103.5) | (377.0) |

10.13 Commitments and redemptions

As at 31 March 2015 the Fund was committed to providing additional funding to certain managers investing in unquoted securities. These commitments amounted to £112.3 million (2014: £92.1 million).

The Fund also held investments totalling £48 million (2014: £20 million) in certain pooled vehicles for which there are contractual restrictions on the redemption of the investment (excluding notice periods or dealing frequency) due to one to three year lock-in periods. Some of these assets can be redeemed by paying an early redemption penalty, the maximum of which is 1%.

10.14 Concentration of investments

No single investment (2014: none) represented more than 5% of the fund value.

11. Current assets

| | 2015 | 2014 |
|---|---------------|--------|
| | Total | Total |
| | £m | £m |
| Employer normal contributions due | 0.4 | 0.6 |
| Employee normal contributions due | 0.2 | 0.3 |
| Employer deficit contributions due | 40.0 | 40.0 |
| Accounting Adjustment to employer deficit contributions due | (15.6) | (12.3) |
| Other debtors | 2.7 | 8.1 |
| Cash balances | 26.0 | 6.7 |
| | 53.7 | 43.4 |

Normal contributions and deficit contributions, net of accounting adjustments, due at the year end were paid in accordance with the Schedule of Contributions with the exception of amounts due primarily from a single group of related companies. The total amount not paid in accordance with the Schedules of Contributions was, as explained in the Trustee Report, £30.8 million. Of this amount, £19.5 million is included in the above debtors in accordance with the accounting policy.

12. Current liabilities

| | 2015 | 2014 |
|------------------------------|---------------|--------|
| | Total | Total |
| | £m | £m |
| Unpaid benefits | (5.5) | (8.7) |
| Other creditors and accruals | (6.3) | (11.5) |
| | (11.8) | (20.2) |

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 2015 the balance was £2,582,831 (2014: £2,711,230).

13. Related party transactions

Under Financial Reporting Standard 8, Related Party Disclosures ("FRS 8"), the Trustee is deemed to be a related party of the Fund. Included in administrative expenses are payments of £168,980 (2014: £126,541) 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 |
|---|---|-----------------------|------------------------|--|
| Ensign Pensions Limited | Pension fund executive services | 100% | - | Fees paid by the Fund of £2.3m |
| MNOPF IC Limited (incorporated in Guernsey) | Insurance Cell Company Incorporated 23 October 2014 | 100% | 0.4 | £1.9m paid by the Fund as insurance fees |
| MNOPF Holdings Limited | Holding Company | Sold on 30 April 2014 | n/a | - |
| Ensign Pensions Administration Limited | Pension fund administration services | Sold on 30 April 2014 | n/a | Fees paid by the Fund of £1.7m |
| Pensions Limited | In liquidation from 22 July 2015 | 100% | n/a | n/a |
| MNTES Limited | Process to strike off commenced 22 June 2015 | 100% | n/a | n/a |
| MNPA Limited | Process to strike off commenced 22 June 2015 | 100% | n/a | n/a |

On 21 March 2014, the Trustee entered into a Sale and Purchase Agreement ("SPA") with JLT EB Holdings Limited. The SPA resulted in the sale of 100% of the share capital of MNOPF Holdings Limited and Ensign Pensions Administration Limited. The SPA was subject to regulatory approval which was received on 25 April 2014. The sale formally completed on 30 April 2014. The sale was recognised by the Fund as having taken place on the signature of the SPA.

As a result of the SPA, the following corporate actions were taken:

- MNOPF Holdings Limited changed its name to JLT Pensions Holdings Limited on 24 April 2014.
- The ownership of Ensign Pensions Limited was transferred from MNOPF Holdings Limited to MNOPF Trustees Limited on 24 April 2014.

14. 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 0.9% (2014: 0.9%) of the net assets of the Fund. The investments were as follows:

| | 2015 | | 2014 | |
|-----------------------|-------------|------------|-------------|------------|
| | Total £m | Total % | Total £m | Total % |
| Segregated Funds | | | | |
| Anglo American PLC | 0.1 | * | 0.3 | * |
| BAE Systems PLC | 0.3 | * | 0.3 | * |
| BP PLC | 1.4 | 0.1 | 2.2 | 0.1 |
| Cemex S.A.B de C.V. | 1.7 | 0.1 | 1.6 | 0.1 |
| Exxon Mobil Corp | 1.2 | * | 0.8 | * |
| Royal Dutch Shell PLC | 0.8 | * | 0.6 | * |
| Unilever NV | 0.1 | * | 1.4 | 0.1 |
| Unilever PLC | 0.3 | * | 0.1 | * |
| Pooled Funds | 21.6 | 0.7 | 14.6 | 0.6 |
| Total ERI exposure | <u>27.5</u> | <u>0.9</u> | <u>21.9</u> | <u>0.9</u> |

* 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.

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.

Compliance Statement for the year ended 31 March 2015

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.

The Trustee has established a policy on the forfeiture of benefits to identify members who are very unlikely to claim benefits as they have exceeded the upper age limit set under the Forfeiture Policy.

Overpaid Pensions

The Trustee must ensure that pensions are paid to the correct recipient.

Pensions payable from the MNOFF 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.

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 30 September 2014, the Trustee did not consider it appropriate to grant a discretionary increase to pensions in April 2015 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 and pensions in payment relating to service from 1 April 1997 were increased in April 2015, as required, by 1.2% and 2.3% respectively.
- Increases to deferred pensions are made in accordance with the MNOFF's Trust Deed and Rules (the "Rules") and depend on the date of leaving pensionable service. During the year, deferred pensions for members who left service prior to 1 January 1986 were increased by 1.2% 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 2015 can be found on the website.

Transfers

The Rules of the Fund allow transfers both to and from 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 confirms that all transfer values are calculated and verified as required under the Pension Schemes Act 1993 (as amended by the Pensions Act 1995). There is no allowance for discretionary benefits in transfer values.

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.

Statutory employer debt

The Section 75 debt legislation was introduced to ensure that if a scheme is not sufficiently well funded, a debt is paid by the employer on the occurrence of certain events (known as an “employment cessation event”).

Cases heard by the High Court have clarified that an “employment cessation event” occurs in relation to the MNOPF when an employer who ceased to employ active members before 6 April 2008 also ceased to employ “Officers” under age 61, either simultaneously or at a later date. Where an employer continued to employ active members after 6 April 2008, an “employment cessation event” occurs when the employer ceases to employ active members.

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

Trustee Meetings

A summary of meetings held and Board Directors' attendance during the year ended 31 March 2015 is detailed as follows:

| | MNOFP Board | | TMC | | AC | | CSC | |
|------------------|--------------------|----------|--------------------|----------|--------------------|----------|--------------------|----------|
| | Eligible to attend | Attended | Eligible to attend | Attended | Eligible to attend | Attended | Eligible to attend | Attended |
| Rory Murphy | 4 | 4 | 4 | 4 | | | 9 | 8 |
| Mike Jess | 4 | 3 | 4 | 4 | | | 9 | 9 |
| Allan Graveson | 4 | 3 | | | 4 | 4 | | |
| Charles Boyle | 3 | 3 | | | | | | |
| Ed Jones | 4 | 4 | 4 | 3 | | | | |
| Garry Elliott | 4 | 3 | | | | | | |
| John McGurk | 4 | 4 | | | | | | |
| Les Stracey | 4 | 4 | | | 4 | 4 | | |
| Mark Dickinson | 4 | 4 | 4 | 4 | | | | |
| Murdo MacDonald | 4 | 4 | | | | | | |
| Olu Tunde | 4 | 4 | | | 3 | 2 | | |
| Paul Winter | 3 | 3 | | | | | | |
| Peter Walker | 4 | 4 | | | 1 | 1 | | |
| Ronnie Cunnigham | 4 | 4 | | | | | | |
| Peter McEwen | 1 | 1 | 1 | 1 | | | 5 | 5 |
| William Everard | 1 | 1 | 1 | 1 | | | 5 | 5 |

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 MNOFP website.

Pension Tracing Service

The Pension Tracing Service provides a tracing service for members (and their dependants) 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:

Pensions Tracing Service
 The Pension Service 9
 Mail Handling Site A
 Wolverhampton
 WV98 1LU
 Telephone: 0845 600 2537
<https://www.gov.uk/find-lost-pension>

The Pensions Advisory Service (TPAS)

Any problem, issue or concern connected with the Fund should be referred to the Pensions Administrator of the Fund in the first instance, who will try to resolve the problem as quickly as possible. Members and beneficiaries of occupational pension schemes who have problems concerning their scheme, and are not satisfied by the information or the explanation given by the administrators or the trustees, can consult with the Pensions Advisory Service (“TPAS”). A local TPAS adviser can usually be contacted through the Citizens Advice Bureau. Alternatively TPAS can be contacted at:

The Pensions Advisory Service
11 Belgrave Road
London
SW1V 1RB
Telephone: 0300 123 1047
www.pensionsadvisoryservice.org.uk

The Pensions Ombudsman

In cases where a complaint or dispute cannot be resolved, normally after the intervention of TPAS and completion of the Fund’s formal Internal Dispute Resolution Procedure, an application can be made to the Government-appointed Pensions Ombudsman for him to investigate and determine any complaint or dispute of fact or law involving occupational pension schemes. The address is:

The Office of the Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB
Telephone: 020 7630 2200
www.pensions-ombudsman.org.uk

The Pensions Regulator

The Pensions Regulator is the UK regulator of work-based pension schemes. The Pensions Act 2004 gives the Pensions Regulator a set of specific objectives to protect the benefits of members of work-based pension schemes, to promote good administration of work-based pension schemes and to reduce the risk of situations arising that may lead to claims for compensation from the Pension Protection Fund. The Regulator can be contacted at:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW
Telephone: 0845 600 1011
www.thepensionsregulator.gov.uk

The Pensions Regulator does not deal with queries about individual benefits.

Independent Auditor's Statement About Contributions to the Trustee of the Merchant Navy Officers Pension Fund

We have examined the Summary of Contributions to the Merchant Navy Officers Pension Fund in respect of the fund year ended 31 March 2015, which is set out on page 6.

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

Respective responsibilities of Trustee and the Auditor

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

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

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the Summary of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments under the Schedules of Contributions.

Basis for Qualified Statement about Contributions

As described on pages 6 and 7, £30.8m of deficit funding contributions due under the Schedule of Contributions during the year were not received by their due dates. £12.4m was not received by its due date of 31 March 2014 and the remainder was not received by its due date of 30 September 2014. These amounts are still outstanding as at 31 March 2015 as the rescheduled payments dates are not yet due.

Qualified statement about contributions payable under the Schedules of Contributions

In our opinion, except for the effects of the departure from the Schedule of Contributions described in the Basis for Qualified Statement paragraph, contributions for the Fund year ended 31 March 2015 as reported in the Summary of Contribution and payable under the Schedule of Contributions have, in all material respects, been paid at least in accordance with the Schedule of Contributions certified by the Fund Actuary on 2 May 2013.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

2015

Actuary's Certification

Statutory Certificate

Actuarial certificate for the purposes of Regulation 7(4)(a) of the Occupational Pensions Funds (Fund Funding) Regulations 2005.

Name of the Fund: Merchant Navy Officers Pension Fund – Post-1978 Section (the New Section).

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Fund's technical provisions as at 31 March 2012 is made in accordance with regulations under Section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Fund and set out in the Statement of Funding Principles dated 2 May 2013.

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

2 May 2013

Actuary's certification of Schedule of Contributions for the Merchant Navy Officers Pension Fund – Post-1978 Section

1 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 2012 to be met by the end of the period for which the Schedule is to be in force.

2 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 May 2013. 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
Fellow of the Institute and Faculty of Actuaries

Towers Watson Limited
21 Tothill Street
London
SW1H 9LL

2 May 2013