

MERCHANT NAVY OFFICERS
PENSION FUND
ANNUAL REPORT AND FINANCIAL
STATEMENTS

YEAR ENDED 31 MARCH 2019

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2019

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TRUSTEE AND ADVISERS

Trustee

MNOPF Trustees Limited

Trustee Directors*Employer Directors*

R Murphy (Chair)

D E Jones

M MacDonald

S Qureshi (resigned on 9 August 2019)

P Winter

Officer Directors

M Jess (Vice-Chair)

C Boyle

R Cunningham

A M Dickinson

O Tunde

Committees of the Trustee

Management Committee

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 on behalf of Ensign Pensions Limited (Scheme Secretary)

Solicitors

Baker & McKenzie LLP

Independent External Auditor

Grant Thornton UK LLP

Independent Internal Auditor

Crowe U.K. LLP

Custodian

The Bank of New York Mellon SA/NV

The Northern Trust Company

Scheme Actuary

K Farnum, Willis Towers Watson Limited

Scheme Administrators**Defined Benefit Section**

JLT Employee Benefits Limited

Money Purchase Section

BlackRock Life Limited (to 11 May 2018)

On 11 May 2018, the money purchase benefits were transferred to the Trustee of the Ensign Retirement Plan.

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 (to 11 May 2018)

Bankers

National Westminster Bank Plc

Bulk Annuity Provider

Legal & General Assurance Society Limited

AVC providers

The Equitable Life Assurance Society

Standard Life Assurance Company

On 11 May 2018, the AVC policies were transferred to the Trustee of the Ensign Retirement Plan through the signing of two deeds of assignment.

Address for member enquiries

myMNOPFpension

Leatherhead House

Station Road

Leatherhead

Surrey

KT22 7ET

enquiries@myMNOPFpension.co.uk

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CHAIR'S INTRODUCTION

Welcome to the Annual Report and Financial Statements for the year ended 31 March 2019.

It is particularly pleasing to report that the 2018 Actuarial Valuation shows an increase in funding level (on a 'technical provisions' basis) to 98% over the three-year period between 2015 and 2018. The Fund has remained on a steady course since 31 March 2018, despite challenging market conditions, and the funding level continues to stand at 98% as at 31 March 2019. This has been achieved by operating at the highest standards of governance, through our award-winning investment strategy, and implementing a robust risk management programme. It all adds up to greater security for members' pensions and means that employers do not face new deficit contributions.

In May 2018 the former Money Purchase Section of the MNOFF – the Ensign Retirement Plan (for the MNOFF) – was successfully consolidated with the maritime industry's defined contribution pension scheme, the Ensign Retirement Plan ("Ensign"), and was formally wound up in October 2018. Since then Ensign has gone from strength to strength and now offers members lower charges and new product features and services including in-scheme drawdown. The MNOFF remains committed to ensuring the long-term sustainability of Ensign, in accordance with its strategic objectives, for the benefit of the MNOFF members who transferred to Ensign and to secure defined contribution pension provision for future generations of seafarers.

The last quarter of 2018 was a particularly turbulent time for equity markets, with the FTSE 100 falling by over 11%. The MNOFF's investment portfolio is very diverse, to avoid over-reliance on any one asset class. With less than 10% typically invested in the equity market the MNOFF has ridden out the stormy conditions better than most. Indeed, the Journey Plan remains on course to deliver its aim of being 103% funded (on a gilts basis) by 2025, and at 31 March 2019 was at 93.3%. 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.

Maybe it is our seafaring resilience that enables us to weather the storm, or maybe it is the winning combination of good governance and expert advisers that keep the MNOFF on course!

Rory Murphy

Chair, MNOFF Trustees Limited

15 October 2019

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TRUSTEE'S REPORT

The Board of MNOFP Trustees Limited (referred to hereafter as “the Trustee”) is pleased to present the 81st Annual Report of the Merchant Navy Officers Pension Fund (referred to hereafter as the “Fund” or “MNOFP”), for the year ended 31 March 2019. 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 2019.

Constitution and changes to the Fund

The Fund was established by a Trust Deed dated 29 October 1937. During the year to 31 March 2019 it was regulated by the Trust Deed and Rules dated 25 June 1999, as amended by subsequent supplemental deeds. On 17 June 2019, a new set of Trust Deed and Rules were executed, by which the Fund is now regulated (“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 MNOFP 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 was wound up through the signing of a deed of termination on 10 October 2018.

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 MNOFP’s Trust Deed and Rules and an approved policy. 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.

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. New terms of reference for the Trustee Board and its committees took effect from 1 April 2018.

The Management Committee (“TMC”)

TMC 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. TMC is empowered to make decisions related to its functions. From 1 April 2018, all responsibilities previously delegated to the Deficit Collection Sub-Committee were passed to TMC, including all

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matters connected with the collection of deficit contributions, statutory employer debts and debts arising under Rule 5.2A of the Rules.

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 2019 is as follows:

	Board		Management Committee		Audit Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
R Murphy (Chair)	4*	4*	4*	4*		
M Jess (Vice-Chair)	4	4	4	4		
C Boyle	4	2			3	1
R Cunningham	4	3				
M Dickinson	4	3	4	1		
D E Jones	4	3	4	4		
M MacDonald	4	4			3	3
S Qureshi	4	4				
O Tunde	4	4			3*	3*
P Winter	4	3			3	3

*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.

Risk Management

The Trustee has overall responsibility for risk management and internal controls. It is committed to identifying, evaluating and managing risk through the implementation and maintenance of control procedures to mitigate significant risks. A risk register, which takes into account the strategic objectives identified by the Trustee, 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.

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TRUSTEE'S REPORT (CONTINUED)

The Trustee's approach to Integrated Risk Management is to consider integrated risk as part of the actuarial valuation and covenant review process. Following the most recent actuarial valuation, as at 31 March 2018, core integrated risks were:

- a fall in growth assets;
- increased longevity; and
- a fall in interest rates

None of these risks were seen as significant in the context of the MNOPF Journey Plan and any potential risks associated with key Participating Employers will be picked up through the MNOPF's ongoing covenant monitoring processes.

Advisers and Service Providers

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 Limited.

Administration

The Defined Benefit Section of the Fund is administered by JLT Employee Benefits. The Money Purchase Section was administered by BlackRock Life Limited, until 11 May 2018 when the money purchase benefits were transferred to the Trustee of the Ensign Retirement Plan. 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.

Scheme Actuary

K Farnum was appointed as Scheme Actuary in October 2017.

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 2019
	£m
Employers' normal money purchase contributions	0.1
Members' normal money purchase contributions	0.1
Employers' defined benefit deficit contributions	25.6
Total recognised in the Financial Statements	25.8

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. The Fund closed to future defined benefit accrual on 31 March 2016 and to future money purchase accrual on 31 March 2018. During the scheme year, £156,559 of normal contributions were received into the Money Purchase Section relating to the previous scheme year. No normal contributions were however, due for active members accruing benefits on either a defined benefit or a money purchase basis during the year to 31 March 2019.

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TRUSTEE'S REPORT (CONTINUED)

Additional Voluntary Contributions ("AVCs")

The Trustee previously 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 up to 31 March 2018 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 subject to certain conditions being met. On 11 May 2018, the Trustee gave final agreement to the transfer of the AVC policies to the Trustee of the Ensign Retirement Plan through the signing of two deeds of assignment. No AVCs were therefore, paid to the Fund during the year to 31 March 2019.

Deficit contributions and statutory employer debt

The MNOPF has a robust process to ensure the efficient collection of the deficit contributions from more than 200 participating employers and the 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 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 2019, contributions totalling £0.2 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 11 April 2019. The Trustee has resolved to take all necessary action to pursue the outstanding deficit, totalling £42.7 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 was reviewed during the year as part of the actuarial valuation due as at 31 March 2018.

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TRUSTEE'S REPORT (CONTINUED)

Membership

Details of the membership of the Fund as at 31 March 2019 are given below:

	2019 DB	2019 MP	2019 Total	2018 DB	2018 MP	2018 Total
	Section	Section		Section	Section	
ACTIVE MEMBERS						
Opening balance – active members	-	-	-	-	819	819
New active members [#]	-	-	-	-	100	100
From deferred to active	-	-	-	-	5	5
Adjustments to active members*	-	-	-	-	(1)	(1)
Leavers (retaining an entitlement)	-	-	-	-	(894)	(894)
Retirements	-	-	-	-	(23)	(23)
Deaths	-	-	-	-	(2)	(2)
Other leavers	-	-	-	-	(4)	(4)
ACTIVE MEMBERS AT THE END OF THE YEAR	-	-	-	-	-	-
PENSIONERS						
Opening balance	17,436	-	17,436	17,229	-	17,229
Adjustments to pensioners*	32	-	32	76	-	76
New pensioners/dependants	674	-	674	721	-	721
Pension ceases	(581)	-	(581)	(590)	-	(590)
PENSIONERS AT THE END OF THE YEAR	17,561	-	17,561	17,436	-	17,436
MEMBERS WITH DEFERRED BENEFITS						
Opening balance	7,274	978	8,252	8,090	125	8,314
Adjustments to members with deferred benefits*	(52)	-	(52)	(81)	-	-
New pension credit members	2	-	2	5	-	5
New leavers before pensionable age	-	-	-	-	894	894
Members ceasing to be deferred (transfers out, deaths, retirement, re-joiners etc.)	(684)	(978)	(1,662)	(740)	(41)	(781)
MEMBERS WITH DEFERRED BENEFITS AT THE END OF THE YEAR	6,540	-	6,540	7,274	978	8,252
TOTAL MEMBERSHIP AT THE END OF THE YEAR	24,101	-	24,101	24,710	978	25,688

[#]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.

*On 31 March 2018, the Money Purchase Section was closed to new contributions and all members with money purchase benefits became deferred members from this date.

[^]Included within pensioners are 2,242 (2018: 2,281) pensioners whose pensions are paid from the Legal & General annuity buy-in policy held in the name of the Trustee.

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TRUSTEE'S REPORT (CONTINUED)

Pension Benefits

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 2018, the Trustee did not consider it appropriate to grant a discretionary increase to pensions in April 2019 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 2019, as required, by 2.4% and pensions in payment relating to service from 1 April 1997 were increased in April 2019, as required, by 3.3%.
- 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 2019 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.

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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 MNOFF. 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 were delegated 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 again in June 2019. A full review will take place during the second half of the 2019-20 scheme year. 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 environmental, social and governance factors, including climate change, 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. The Trustee supports investments with a positive social and environmental impact, but these investments must have no adverse impact on overall investment efficiency. In the context of corporate governance, the Trustee delegates responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers, although believes voting power should be exercised with the objective of preserving and enhancing long-term shareholder value. The Trustee requires its investment managers to report on corporate governance, and particularly on their voting and engagement records.

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 previously 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 12).

Custodian

All of the Fund's segregated 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 and the bulk annuity buy-in policy with Legal & General. 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.

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TRUSTEE'S REPORT (CONTINUED)

Actuarial Review

The Financial Statements set out on pages 16 to 37 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 2018 and finalised in March 2019.

The Scheme Actuary has prepared a report on the actuarial liabilities. This is included on page 38 and 39 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 40. These form part of the Trustee's report.

Guaranteed Minimum Pensions ("GMP")

On 26 October 2018, the High Court handed down a judgment that concluded that benefits between men and women must be equalised in respect of GMP for contracted out service after 17 May 1990. Whilst the judgement related to the Lloyds Banking Group scheme, it is expected to create a precedent for other UK DB pension schemes. The Trustee has begun considering the actions that should be taken in light of the judgement and will continue to do so as further guidance and/or regulation is published. The Scheme Actuary and the Trustee agreed it prudent to include provision within the actuarial valuation as at 31 March 2018 of 0.5% of total liabilities for the equalisation of GMP in the Scheme.

Financial development of the Fund

The Financial Statements of the Fund for the year ended 31 March 2019, as set out on pages 16 to 37 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.

	2019
	£m
Net withdrawals from dealings with members	(181.0)
Net returns on investments	95.9
Net decrease in the fund during the year	(85.1)
Net assets of the fund at 1 April 2018	3,310.1
Net assets of the fund at 31 March 2019	3,225.0

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TRUSTEE'S REPORT (CONTINUED)

Further Information

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

General Enquiries

Ensign Pensions 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

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 15 October 2019 and signed on its behalf by:

R Murphy

Chair, MNOFP Trustees Limited

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INVESTMENT REPORT

Investment returns

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. Over the 12 months to 31 March 2019, the Fund generated a return of 4.2%. The three main drivers of this positive performance were the private markets allocation, the downside protection portfolio (in particular the US dollar and US Treasury positions), and exposure to equity and credit markets. However, exposures within the liability hedging portfolio and allocations to funds positioned away from mainstream markets detracted from returns leading to a slight underperformance relative to liabilities of 0.5% over the year. The funding level, however, has still increased over the year, as a result of the investment of new deficit contributions.

Over the longer-term, the Fund has continued to outperform the liabilities by 0.8% pa over the past three years and 1.1% pa over the past five years. This outperformance has been achieved with very low levels of volatility, driven in part by the market environment as well as portfolio construction decisions.

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 2019	One Year (%)	Three year (% pa)	Five year (% pa)
Fund Return	4.2	6.6	9.4
Gilts-based liabilities	4.7	5.8	8.3
Relative	-0.5	0.8	1.1
Volatility (tracking error)	1.5	1.6	2.0

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

Willis Towers Watson

31 March 2019

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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.

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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 2019, 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 2019, 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.

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.

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.

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2019

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

Responsibilities of Trustee for the financial statements

As explained more fully in the Trustee's responsibilities statement set out on page 13, 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.

Use of our report

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.



Grant Thornton UK LLP
Statutory Auditor
Chartered Accountants
London

Date: 15th October 2019

MERCHANT NAVY OFFICERS PENSION FUND
YEAR ENDED 31 MARCH 2019

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2019

		2019	2019	2019	2018	2018	2018
		DB	MP	Total	DB	MP	Total
		section	section		section	section	
Note		£m	£m	£m	£m	£m	£m
CONTRIBUTIONS AND BENEFITS							
Contributions receivable							
- Employer		25.6	0.1	25.7	101.8	6.3	108.1
- Employee		-	0.1	0.1	-	3.3	3.3
Total Contributions	5	25.6	0.2	25.8	101.8	9.6	111.4
Transfers in	6	-	-	-	-	0.2	0.2
Other income	6	3.6	-	3.6	-	0.2	0.2
		29.2	0.2	29.4	101.8	10.0	111.8
Benefits paid or payable	7	(137.0)	(0.2)	(137.2)	(131.9)	(1.4)	(133.3)
Payments to and on account of leavers	8	(34.4)	(32.8)	(67.2)	(37.5)	(1.2)	(38.7)
Administrative expenses	9	(5.8)	(0.2)	(6.0)	(5.6)	(0.2)	(5.8)
		(177.2)	(33.2)	(210.4)	(175.0)	(2.8)	(177.8)
NET (WITHDRAWALS)/ADDITIONS FROM DEALINGS WITH MEMBERS		(148.0)	(33.0)	(181.0)	(73.2)	7.2	(66.0)
RETURNS ON INVESTMENTS							
Investment income	10	68.5	-	68.5	63.4	-	63.4
Investment management expenses	11	(7.3)	-	(7.3)	(12.4)	-	(12.4)
Change in market value of investments	12.1	33.9	0.8	34.7	(15.9)	0.9	(15.0)
NET RETURNS ON INVESTMENTS		95.1	0.8	95.9	35.1	0.9	36.0
NET (DECREASE) / INCREASE IN THE FUND DURING THE YEAR		(52.9)	(32.2)	(85.1)	(38.1)	8.1	(30.0)
NET ASSETS OF THE FUND AT 1 APRIL		3,277.9	32.2	3,310.1	3,316.0	24.1	3,340.1
NET ASSETS OF THE FUND AT 31 MARCH		3,225.0	-	3,225.0	3,277.9	32.2	3,310.1

The notes on pages 18 to 37 form an integral part of these financial statements.

MERCHANT NAVY OFFICERS PENSION FUND
YEAR ENDED 31 MARCH 2019

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AT 31 MARCH 2019

		2019	2019	2019	2018	2018	2018
		DB	MP	Total	DB	MP	Total
		section	section		section	section	
Note	£m						
INVESTMENT ASSETS							
Equities	0.4	-	0.4	0.4	-	0.4	
Bonds	1,598.1	-	1,598.1	1,114.6	-	1,114.6	
Pooled investment vehicles	1,173.6	-	1,173.6	1,526.8	30.0	1,556.8	
Derivatives	904.7	-	904.7	166.4	-	166.4	
AVC Investments	-	-	-	-	1.1	1.1	
Insurance policies	459.4	-	459.4	473.5	-	473.5	
Cash and other investment assets	53.8	-	53.8	13.5	-	13.5	
	4,190.0	-	4,190.0	3,295.2	31.1	3,326.3	
INVESTMENT LIABILITIES							
Derivatives	(811.5)	-	(811.5)	(44.7)	-	(44.7)	
Other Investment Liabilities	(162.2)	-	(162.2)	-	-	-	
TOTAL INVESTMENTS	12.1	3,216.3	-	3,216.3	3,250.5	31.1	3,281.6
CURRENT ASSETS	14	22.1	-	22.1	42.8	1.1	43.9
CURRENT LIABILITIES	15	(13.4)	-	(13.4)	(15.4)	-	(15.4)
TOTAL NET ASSETS AT 31 MARCH		3,225.0	-	3,225.0	3,277.9	32.2	3,310.1

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 38 and 39 and these Financial Statements should be read in conjunction with that Report.

The notes on pages 18 to 37 form an integral part of these financial statements.

These financial statements were approved by the Trustee on 15 October 2019 and were signed on its behalf by:

R Murphy

Chair, MNOFF Trustees Limited

M Jess

Vice-Chair, MNOFF Trustees Limited

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2019

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 (Revised 2018). The Fund Trustee has taken advantage of the option to adopt the amendments to FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland Triennial Review 2017 incremental Improvements and Clarification issued December 2017, and the SORP (Revised 2018), early for these financial statements. There is no impact of early adoption as all disclosures required by the Revised 2018 SORP were included in the last year's financial statements.

2 IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Fund is established as a trust under English law. The address for enquiries to the Fund is included in the Trustee's Report.

3 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 2019 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 16.

4 ACCOUNTING POLICIES

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

4.1 Accruals concept

The financial statements have been prepared on an accruals basis.

4.2 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.

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.2 Contributions (continued)

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.

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.

4.3 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 entitlement to the benefit 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.

Benefits covered under the buy-in policy are recognised in the same way as other benefits with the income from the buy-in policy to reimburse the fund recognised under investment income.

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.

4.4 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.

4.5 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.

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.5 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 contracts 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 an insurance 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 by Willis Towers Watson Dublin on behalf of MNOPF IC Limited 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.

4.6 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.

4.7 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.

MERCHANT NAVY OFFICERS PENSION FUND
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 CONTRIBUTIONS

	2019 DB section £m	2019 MP section £m	2019 Total £m	2018 DB section £m	2018 MP section £m	2018 Total £m
Employers' Contributions						
Normal contributions	-	0.1	0.1	-	6.3	6.3
Deficit funding contributions	25.6	-	25.6	101.8	-	101.8
Members' Contributions						
Normal contributions	-	0.1	0.1	-	2.8	2.8
Additional voluntary contributions	-	-	-	-	0.5	0.5
	<u>25.6</u>	<u>0.2</u>	<u>25.8</u>	<u>101.8</u>	<u>9.6</u>	<u>111.4</u>

Employer deficit funding contributions of £528 million are due under the Recovery Plans agreed following the 2009 and 2012 valuations. At 31 March 2019, a capital balance of £42.7 million is still payable over the period to September 2025 (2018: £60.2m).

6 TRANSFERS IN AND OTHER INCOME

	2019 DB section £m	2019 MP section £m	2019 Total £m	2018 DB section £m	2018 MP section £m	2018 Total £m
Individual transfers in	-	-	-	-	0.2	0.2
Other income	3.6	-	3.6	-	0.2	0.2
	<u>3.6</u>	<u>-</u>	<u>3.6</u>	<u>-</u>	<u>0.4</u>	<u>0.4</u>

Other income relates to VAT refund receivable from HMRC in relation to previous financial years.

MERCHANT NAVY OFFICERS PENSION FUND
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 BENEFITS PAID OR PAYABLE

	2019	2019	2019	2018	2018	2018
	DB	MP	Total	DB	MP	Total
	section	section		section	section	
	£m	£m	£m	£m	£m	£m
Pension payments	123.3	-	123.3	117.5	-	117.5
Commutations and lump sum retirement benefits	13.1	0.2	13.3	13.8	1.2	15.0
Lump sums on death	0.6	-	0.6	0.5	0.1	0.6
Taxation where lifetime or annual allowance exceeded	-	-	-	0.1	0.1	0.2
	<u>137.0</u>	<u>0.2</u>	<u>137.2</u>	<u>131.9</u>	<u>1.4</u>	<u>133.3</u>

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.

8 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2019	2019	2019	2018	2018	2018
	DB	MP	Total	DB	MP	Total
	section	section		section	section	
	£m	£m	£m	£m	£m	£m
Individual transfers out to other schemes	34.4	0.2	34.6	37.5	1.2	38.7
Group transfers out to other schemes	-	32.6	32.6	-	-	-
	<u>34.4</u>	<u>32.8</u>	<u>67.2</u>	<u>37.5</u>	<u>1.2</u>	<u>38.7</u>

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 was 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 £32,605,145. The value of the transfer comprised of £31,253,183 member investments, £1,137,924 AVC transfer and £214,038 MP section reserve account.

MERCHANT NAVY OFFICERS PENSION FUND
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 ADMINISTRATIVE EXPENSES

	2019 DB section £m	2019 MP section £m	2019 Total £m	2018 DB section £m	2018 MP section £m	2018 Total £m
Administration, processing and data management	2.6	0.1	2.7	3.2	0.1	3.3
Actuarial fees	0.2	-	0.2	0.2	-	0.2
Legal, other professional fees and deficit collection fees	3.3	0.1	3.4	2.3	0.1	2.4
External audit fees	0.1	-	0.1	0.1	-	0.1
Accounting adjustment to employer deficit contributions receivable	(0.4)	-	(0.4)	(0.2)	-	(0.2)
	<u>5.8</u>	<u>0.2</u>	<u>6.0</u>	<u>5.6</u>	<u>0.2</u>	<u>5.8</u>

10 INVESTMENT INCOME

	2019 DB section £m	2019 MP section £m	2019 Total £m	2018 DB section £m	2018 MP section £m	2018 Total £m
Income from bonds	34.6	-	34.6	48.2	-	48.2
Income from pooled investment vehicles	15.5	-	15.5	12.4	-	12.4
Income allocated to Old Section Reserve	(0.1)	-	(0.1)	(0.1)	-	(0.1)
Foreign exchange gains / (losses)	2.1	-	2.1	(1.6)	-	(1.6)
Annuity income	17.4	-	17.4	4.9	-	4.9
Longevity hedge settlements	(0.7)	-	(0.7)	(0.5)	-	(0.5)
Other investment income	0.1	-	0.1	0.3	-	0.3
	<u>68.9</u>	<u>-</u>	<u>68.9</u>	<u>63.6</u>	<u>-</u>	<u>63.6</u>
Irrecoverable taxation	(0.4)	-	(0.4)	(0.2)	-	(0.2)
	<u>68.5</u>	<u>-</u>	<u>68.5</u>	<u>63.4</u>	<u>-</u>	<u>63.4</u>

11 INVESTMENT MANAGEMENT EXPENSES

	2019 DB section £m	2019 MP section £m	2019 Total £m	2018 DB section £m	2018 MP section £m	2018 Total £m
Administration, management & custody	3.5	-	3.5	8.4	-	8.4
Longevity insurance fees and administrative costs	3.8	-	3.8	4.0	-	4.0
	<u>7.3</u>	<u>-</u>	<u>7.3</u>	<u>12.4</u>	<u>-</u>	<u>12.4</u>

MERCHANT NAVY OFFICERS PENSION FUND
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 INVESTMENTS

12.1 Reconciliation of investments

Reconciliation of investments held at beginning and end of year:

DB Section

	Note	Value at 1 April 2018	Purchases at Cost and Derivative payments	Sales Proceeds and Derivative receipts	Change in market value	Value at 31 March 2019
		£m	£m	£m	£m	£m
Equities		0.4	-	-	-	0.4
Bonds		1,114.6	1,453.3	(1,020.5)	50.7	1,598.1
Pooled investment vehicles	12.3	1,526.8	1,339.1	(1,766.1)	73.8	1,173.6
Derivatives	12.4	121.7	102.4	(54.4)	(76.5)	93.2
Insurance policies	12.7	473.5	-	-	(14.1)	459.4
		<u>3,237.0</u>	<u>2,894.8</u>	<u>(2,841.0)</u>	33.9	<u>3,324.7</u>
Cash deposits and other investment assets	12.8	13.5				53.8
Other investment liabilities	12.8	-				(162.2)
		<u>3,250.5</u>				<u>3,216.3</u>

MP Section

	Note	Value at 1 April 2018	Purchases at Cost	Sales Proceeds/ Transfers	Change in market value	Value at 31 March 2019
		£m	£m	£m	£m	£m
Pooled investment vehicles	12.3	30.0	-	(30.8)	0.8	-
AVC investments	12.7	1.1	-	(1.1)	-	-
		<u>31.1</u>	<u>-</u>	<u>(31.9)</u>	<u>0.8</u>	<u>-</u>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

12.2 Transaction costs

Included within the purchases and sales figures are direct transaction costs of £1.0m (2018: £0.6m). Direct transaction costs incurred are analysed below:

	Fees £m	Total £m
2019	<u>1.0</u>	<u>1.0</u>
2018	<u>0.6</u>	<u>0.6</u>

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.

MERCHANT NAVY OFFICERS PENSION FUND
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12.3 Pooled investment vehicles

DB SECTION

	2019	2018
	£m	£m
Equities	241.3	292.8
Bonds	133.4	307.2
Hedge funds	281.3	268.9
Private equity	65.2	72.4
Property	13.2	14.7
Absolute return funds	320.5	350.9
Cash	118.7	219.9
	<u>1,173.6</u>	<u>1,526.8</u>

MP SECTION

	2019	2018
	£m	£m
Equities	-	0.6
Bonds	-	0.2
Multi Assets	-	29.1
Cash	-	0.1
	<u>-</u>	<u>30.0</u>

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.

During the financial year the investments in the pooled investment vehicles in the MP section were transferred to Ensign Retirement Plan.

12.4 Derivatives

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

The derivatives held were:

	2019	2019	2018	2018
	Assets	Liabilities	Assets	Liabilities
	£m	£m	£m	£m
Swaps	888.5	(753.7)	154.7	(12.5)
Forward foreign exchange	6.5	-	9.6	(0.1)
Futures	3.7	-	2.1	-
Stock put options	6.0	(1.9)	-	-
Longevity hedge	-	(55.9)	-	(32.1)
	<u>904.7</u>	<u>(811.5)</u>	<u>166.4</u>	<u>(44.7)</u>

MERCHANT NAVY OFFICERS PENSION FUND
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12.5 Derivative contracts outstanding

Swaps

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

Contract	Expiration	Notional Currency Principal	2019 Asset £m	2019 Liability £m
Interest rate swaps	0-5 years	£13.8m	118.6	(113.5)
Interest rate swaps	6-10 years	£3.4m	187.0	(159.3)
Interest rate swaps	11-20 years	£83.7m	227.1	(180.1)
Interest rate swaps	31-40 years	£115.5m	111.0	(50.2)
Inflation swaps	0-5 years	£139.9m	10.1	(10.7)
Inflation swaps	6-10 years	£100.4m	16.6	(17.3)
Inflation swaps	11-20 years	£80.6m	64.1	(69.4)
Inflation swaps	21-30 years	£36.3m	42.6	(44.5)
Inflation swaps	31-40 years	£1.9m	3.6	(4.5)
Inflation swaps	41-50 years	£2.8m	7.0	(7.1)
Total return swaps	0-5 years	£23.2m	100.8	(97.1)
			888.5	(753.7)

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)

At 31 March 2019, the counterparties of the interest and inflation swaps were five banks with credit ratings ranging from AA- to A.

At 31 March 2019, the Fund held collateral in the form of gilts with a value of £160.2m (2018: £137.9m). Collateral is held and pledged on a net basis.

MERCHANT NAVY OFFICERS PENSION FUND
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12.5 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	2019 Asset £m	2019 Liability £m
Forward (OTC)	1-3 months	EUR9.7m	GBP8.6m	0.2	-
Forward (OTC)	1-3 months	GBP1m	JPY146.7m	-	-
Forward (OTC)	1-3 months	GBP1.2m	EUR1.4m	-	-
Forward (OTC)	1-3 months	JPY951.9m	GBP6.8m	0.2	-
Forward (OTC)	1-3 months	USD809.4m	GBP626m	6.1	-
				<u>6.5</u>	<u>-</u>

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	-
				<u>9.6</u>	<u>(0.1)</u>

Futures

The Trustee did not want cash held to be “out of the market” and therefore bought exchange traded futures contracts which had an underlying economic value broadly equivalent to cash held.

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

Nature	Expiration	Notional Currency Principal	2019 Asset £m	2019 Liability £m
US 10 Year Bonds	June 2019	£2m	2.8	-
US 5 Year Bonds	June 2019	£1m	0.9	-
			<u>3.7</u>	<u>-</u>

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	-
			<u>2.1</u>	<u>-</u>

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12.5 Derivative contracts outstanding (continued)

Stock Put Options

The stock put options were bought to help protect the Fund against a material fall in equity markets.

Nature	Expiration	Notional Currency Principal	2019 Asset £m	2019 Liability £m
Stock Put Options	0-5 years	£51.2m	6.0	(1.9)
			<u>6.0</u>	<u>(1.9)</u>

Longevity Hedge

The longevity hedge is to mitigate the funding risk arising from members living longer. It was entered into with MNOF IC Limited who re-insured the liability with Pacific Life Re. The liabilities covered by the arrangement total £1.5 billion. The estimated net present value at the year end was £55.9m (2018: £32.1m).

At 31 March 2019, the Fund had pledged collateral in the form of gilts with a value of £108.9m (2018: £92.7m) and cash of £7.2m (2018: £4.1m). The collateral is in respect of the value of the hedge and the future commitment to pay insurance fees.

12.6 AVC investments

Members AVCs were 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 an individual annual statement made up to 31 March each year, confirming the amounts held in their account and the movements in the year.

AVC investments held with Equitable Life Assurance Society and Standard Life Assurance Company were assigned 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.

12.7 Insurance policies

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

	2019 £m	2018 £m
L&G Buy-in	<u>459.4</u>	<u>473.5</u>

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12.8 Cash deposits and other investment assets and liabilities

	2019	2018
	£m	£m
Assets		
Cash	47.3	9.2
Outstanding dividends, interest and other assets	6.5	4.3
	<u>53.8</u>	<u>13.5</u>
Liabilities		
Amount due under sale and repurchase contracts	(162.2)	-
	<u>(108.4)</u>	<u>13.5</u>

At 31 March 2019, the Fund held gilts that are secured on the repurchase agreements with a value of £162.6m (2018: £Nil).

At 31 March 2019 £162.2m of gilts were sold which are subject to repurchase contracts (2018: £Nil).

12.9 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.

MERCHANT NAVY OFFICERS PENSION FUND
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12.9 Fair value hierarchy (continued)

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
	£m	£m	£m	£m
2019				
Equities	-	-	0.4	0.4
Bonds	1,598.1	-	-	1,598.1
Pooled investment vehicles	-	506.1	667.5	1,173.6
Derivatives	3.7	145.4	(55.9)	93.2
Insurance policies	-	-	459.4	459.4
Other investment balances	53.8	(162.2)	-	(108.4)
	<u>1,655.6</u>	<u>489.3</u>	<u>1,071.4</u>	<u>3,216.3</u>
2018				
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
	<u>1,130.2</u>	<u>987.2</u>	<u>1,133.1</u>	<u>3,250.5</u>

MP Section

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
2019				
Pooled investment vehicles	-	-	-	-
AVC Investments	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
2018				
Pooled investment vehicles	-	30.0	-	30.0
AVC Investments	-	1.1	-	1.1
	<u>-</u>	<u>31.1</u>	<u>-</u>	<u>31.1</u>

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12.10 Investment risks

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

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

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

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

The 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 MNOFF provides; and to limit the risk of the MNOFF's assets failing to meet the MNOFF'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. The current Journey Plan implies a flat return of Gilts + 1.4% pa until June 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 (Willis Towers Watson) 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.

Whilst there have been no changes to the Fund's Journey Plan objectives, the return profile was altered over the year from a de-risking path to a lower, flat return. This reflected the Delegated CIO's deteriorating view on the market outlook. Equity options were added to the portfolio over the year as further protection against a market downturn. These are accounted for within 'Derivatives'. This has not materially changed on the balance of investment risk exposures.

MERCHANT NAVY OFFICERS PENSION FUND
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

12.10 Investment risks (continued)

	Credit Risk	Currency	Market Risk		2019 Value (£m)	2018 Value (£m)
			Interest Rate	Other price		
Defined benefit section						
Equities	○	○	○	●	0.4	0.4
Bonds	◐	○	●	●	1,598.1	1,114.6
Pooled investment vehicles	◐	◐	◐	●	1,173.6	1,526.8
Derivatives	●	◐	●	●	149.1	153.8
Cash	◐	◐	○	○	53.8	13.5
Other investments	◐	○	●	●	(162.2)	-
Longevity swaps	●	○	●	○	(55.9)	(32.1)
Insurance Policies	●	○	●	○	459.4	473.5
Total investments					3,216.3	3,250.5

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 below.

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12.10 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, 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 over the counter (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. These contracts are collateralized which reduces the credit risk and 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 2019 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 (Willis Towers Watson) 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.

Credit risk on equity options (which are OTC contracts) is mitigated through collateral arrangements and diversification of counterparties.

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12.10 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 2019 the Fund's net unhedged overseas currency exposure was estimated as 9% of total asset value (2018: 10%).

(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. Additionally, the price of the equity options will be influenced by moves in equity markets.

12.11 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:

	2019	2018
	£m	£m
L&G buy-in	459.4	473.5
HAF Equity Fund	281.3	268.8
Alternative Credit Fund	165.5	-

13 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.

MERCHANT NAVY OFFICERS PENSION FUND
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14 CURRENT ASSETS

	2019 DB section £m	2019 MP section £m	2019 Total £m	2018 DB section £m	2018 MP section £m	2018 Total £m
Cash balance	16.9	-	16.9	34.0	0.6	34.6
Contributions due						
- normal from employer	-	-	-	-	0.3	0.3
- normal from employee	-	-	-	-	0.2	0.2
- deficit from employer	15.7	-	15.7	22.7	-	22.7
Accounting adjustment to employer deficit contributions due	(15.4)	-	(15.4)	(15.3)	-	(15.3)
Other debtors	1.3	-	1.3	1.4	-	1.4
VAT repayment due	3.6	-	3.6	-	-	-
	<u>22.1</u>	<u>-</u>	<u>22.1</u>	<u>42.8</u>	<u>1.1</u>	<u>43.9</u>

15 CURRENT LIABILITIES

	2019 DB section £m	2019 MP section £m	2019 Total £m	2018 DB section £m	2018 MP section £m	2018 Total £m
Unpaid benefits	6.1	-	6.1	6.3	-	6.3
Other creditors and accrued expenses	7.3	-	7.3	9.1	-	9.1
	<u>13.4</u>	<u>-</u>	<u>13.4</u>	<u>15.4</u>	<u>-</u>	<u>15.4</u>

Included in "Other creditors and accruals" are the following reserves:

- 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 myMNOFPension, which consolidates the benefits payable to former Old Section members into a single payment. myMNOFPension also provides a single point of contact for all members of MNOFP and the reserve will settle a proportion of the cost of this service. The costs of myMNOFPension 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 2019 the balance was £2,793,638 (2018: £2,935,488).
- Reserve established at 10 October 2018 with funds from MP section. The reserve will be used to settle all future costs in relation to MP section following its transfer to Ensign Pension Retirement scheme. The balance at 31 March 2019 on this reserve was £183,237.

MERCHANT NAVY OFFICERS PENSION FUND
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 RELATED PARTY TRANSACTIONS

The Trustee is deemed to be a related party of the Fund. Included in administrative expenses are payments of £122,491 (2018: £132,572) 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 in relation to executive services of £1.7m (2018: £1.8m) and £0.1m fees relating to projects (2018: £Nil) Outstanding balance at 31 March 2019 amounted to £Nil (2018: £73,782) in receivables and £95,340 (2018: £57,456) in payables.
MNOPF IC Limited	Insurance Cell Company incorporated in Guernsey	100%	0.4	£3.8m (2018: £4.0m) paid by the Fund as insurance fees and administrative costs. £0.7m (2018: £0.5m) paid as settlement as required under the longevity hedge.
MNOPF Trustees Limited	Trustee Company for the Fund	100%	-	Outstanding balance on loan provided to fund the investment in Ensign Pension Limited of £0.4m.

17 COMMITMENTS

As at 31 March 2019, the Fund was committed to providing additional funding to certain managers investing in unquoted securities. These commitments amounted to £52.2m (2018: £54.1m) of private equity, of which £10.3m related to property (2018: £9.7m).

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 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% (2018: 0.5%) of the net assets of the Fund. The investments were as follows:

	2019		2018	
	Total £m	Total %	Total £m	Total %
James Fisher & Sons PLC	-	*	-	*
Smiths Group PLC	-	*	-	*
Pooled Funds	17.3	0.5	14.7	0.5
Total exposure	17.3	0.5	14.7	0.5

* 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.

The total exposure to employer-related investments in pooled vehicles is determined using assumptions. The assumptions are deliberately conservative and are likely to result in an overstatement of the actual value.

19 CONTINGENT LIABILITIES

As at 31 March 2019, 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.

As explained on page 10 of the Trustees report, on 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should equalise pension benefits for men and women in relation to guaranteed minimum pensions ("GMP"). The Trustee is aware that the judgement is expected to set a precedent for other UK defined benefit pension schemes and is taking steps to consider the implications of the judgement for the Scheme. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. At present the Trustee does not have a calculation of the expected additional liability analysed between post service costs and total liability and therefore has not included an accrual or provision in respect of these matters in the financial statements. On page 38 the report on actuarial liabilities indicates any GMP provision included in the latest valuation.

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2019

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 determined by the Trustee, having consulted the Participating Employers, and which are 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 2018 showed that the accumulated assets of £3,278m represented 98% of the Fund's technical provisions in respect of past service benefits; this corresponds to a deficit of £73m at the valuation date.

The value of technical provisions is based on Pensionable Service to the Fund's closure on 31 March 2016 and assumptions about various factors that will influence the Fund in the future, such as the levels of investment returns, inflation, when members will retire and how long members will live. The method and significant actuarial assumptions used in the calculations as at 31 March 2018 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: Equal to yields on fixed interest Government bonds at each term, plus a margin which is initially 1.0% pa for two years, then reduces linearly, in annual steps, to 0.25% pa as at 31 March 2025 and remains at that level thereafter.

Future Retail Price inflation: having regard to the inflation expectations implicit in UK Government bond prices at the valuation date, and the weighted average duration of the Fund's accrued liabilities. The assumption adopted is 3.3% per annum as at 31 March 2018.

Future Consumer Price inflation: set based on the expected future difference between assumed retail price inflation and consumer price inflation. The assumption adopted is 2.3% per annum as at 31 March 2018.

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 deferment: this assumption has been set in line with Consumer Price Inflation where relevant.

Mortality: Normal health SAPS2 amounts table (Heavy table for ill health pensioners and female spouses) projected with CMI 2017 core projections with a long term rate of improvements of 1.8% pa. Multipliers of 112.5% for normal health members and male spouses, 100% for ill-health pensioners and 105% for female spouses.

GMP equalisation: An allowance of 0.5% of liabilities has been made to reflect the potential cost of changes to the benefits that may be required to ensure that the Fund provisions in respect of Guaranteed Minimum Pensions do not unlawfully discriminate between male and female members.

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2019

REPORT ON ACTUARIAL LIABILITIES (CONTINUED)

Recovery plan

The arrangements to eliminate the funding shortfall were formalised in a Schedule of Contributions which the Fund's Actuary certified on 26 March 2019. A copy of her certificate is included on page 40 of this report.

Next actuarial valuation

The next triennial valuation is being performed as at 31 March 2021.

MERCHANT NAVY OFFICERS PENSION FUND
YEAR ENDED 31 MARCH 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 2018 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 2019.

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.

K Farnum

Scheme Actuary

Fellow of the Institute and Faculty of Actuaries

Towers Watson Limited

71 High Holborn

London WC1V 6TP

Date:

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2019

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

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.

The Pensions Ombudsman

If a member requires assistance with dealing with a pension complaint, they can contact the dispute resolution team at the Pensions Ombudsman.

The Pensions Ombudsman may also 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

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2019

MEMBERS' INFORMATION (CONTINUED)

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.

The Pensions Advisory Service

Members can obtain free pension information and guidance from The Pensions Advisory Service ("TPAS"), who can be reached at 11 Belgrave Road, London SW1V 1RB.

Further Information

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. 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 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.