# MERCHANT NAVY OFFICERS PENSION FUND

# ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2021

Registrar of Occupational and Personal Pension Schemes Registration Number 10005645

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# TRUSTEE AND ADVISERS

**Trustee**
MNOPF Trustees Limited

**Trustee Directors**

*Employer Directors*

R Murphy (Chair)
E Jones
M MacDonald
P Winter (resigned on 7 May 2020)

*Officer Directors*

M Jess (Vice-Chair)
R Cunningham (resigned on 7 May 2020)
A M Dickinson
O Tunde

**Committees of the Trustee**
The Management Committee (until 1 October 2020)

**Registered office of the Trustee**
100 New Bridge Street
London
EC4V 6JA

**Executive support and address for employer enquiries**
Rock Pensions
Unit 24, Basepoint Business and Innovation Centre
Metcalf Way
Crawley
West Sussex
RH11 7XX
employer.enquiries@mnopf.co.uk

Rock Strategic Consulting Ltd (trading as Rock Pensions) was appointed Scheme Secretary from 1 April 2020

**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**
Mercer Limited

**Delegated Chief Investment Officer**
Willis Towers Watson Limited

**Independent Investment Adviser**
Hymans Robertson LLP

**Investment Managers**
Advent International
American Securities
BlackRock
Capstone Investment Advisors
CarVal Investors (CVI)
Colchester Global Investors
Dymon Asia Capital
Energy Capital
Equis Funds Group
First Property Asset Management (FProp)
FSSA Investment Managers
Goldman Sachs Asset Management (GSAM)
Hayfin Capital Management LLP
Morgan Stanley Investment Management (MSIM)
Oaktree Capital Management
Resolution Capital
SC Management
Southeastern Asset Management
State Street Global Advisors (SSgA)
Towers Watson Limited (trading as Willis Towers Watson)
Veritas Asset Management

**Bankers**
National Westminster Bank Plc

**Bulk Annuity Providers**
Legal & General Assurance Society Limited
Pension Insurance Corporation plc

**Address for member enquiries**
myMNOPFpension
Post Handling Centre U
St James' Tower
7 Charlotte Street
Manchester
M1 4DZ
enquiries@myMNOPFpension.co.uk

MERCHANT NAVY OFFICERS PENSION FUND

YEAR ENDED 31 MARCH 2021

## CHAIR'S INTRODUCTION

Welcome to the Annual Report and Financial Statements for the year ended 31 March 2021.

The MNOPF has made steady progress towards its goals, despite the dramatic effects the Covid-19 pandemic had on world stock markets. Over the year to 31 March 2021, the MSCI World Index achieved a remarkable increase of around 39% in sterling terms, a reflection of the dramatic falls in the first part of 2020 followed by the continuing rebound of global stocks.

This positive investment performance is the main driving force behind MNOPF's funding level increasing by 3%, over the 12 months to 31 March 2021. The Fund also outperformed its investment benchmark return over the same period. The funding level progress is a remarkable achievement and testament to the Fund's sophisticated investment and risk-reduction strategies.

Throughout the year the Trustee continued to collect deficit contributions from employers whilst recognising the potential business interruption caused by the pandemic. In a few cases, the MNOPF has worked closely with employers to reschedule deficit payments to help ensure their longer-term survival and to maintain the overall employer covenant of the Fund. During the scheme year £14.8million was collected from employers, leaving £8.7 million still to be collected. This is a reduction in the amount owed of more than 95% over the past 5 years.

The MNOPF has not only focused on minimising the impact of Covid-19 on Fund performance and the security of member benefits, it has also worked hard to enhance members' mental and physical health. In Spring of 2020, as the UK went into the first Covid-19 lockdown, wellbeing quickly became a priority for the MNOPF and we ran a series of free wellbeing webinars for members, via Zoom, throughout May, June and July. The feedback was overwhelmingly positive, and we were pleased to extend the programme of wellbeing support for members, their friends, and families, through the Autumn and into 2021. In recognition of this initiative the MNOPF was presented with the Investment & Pensions Europe (IPE) Highly Commended Award for the United Kingdom 2020.

Ensign, the maritime industry's not-for-profit master trust, continues to deliver results to members. Its default investment strategy, the Aegon BlackRock LifePath Flexi Fund, has been shown to provide one of the best returns when compared to other master trusts, whilst Ensign has also continued to improve member experience with the introduction of a new online 'chat' facility and a smartphone app. The MNOPF continues to remain committed to the long-term sustainability of Ensign, not only for the benefit of those MNOPF members that have benefits in Ensign, but also to ensure future generations of seafarers continue to have access to a competitive and successful pension scheme.

The MNOPF has performed remarkably well throughout the Covid-19 crisis to date and continues to make good progress towards its long-term goals. As the Fund nears the end of its Journey Plan, it is reassuring that the Trustee, and its advisers, continue to remain vigilant; seeking risk-reduction opportunities to further secure member benefits and deliver effective scheme governance.

**Rory Murphy**

Chair, MNOPF Trustees Limited

Date: 30 September 2021

MERCHANT NAVY OFFICERS PENSION FUND
YEAR ENDED 31 MARCH 2021

# TRUSTEE'S REPORT

The Board of MNOPF Trustees Limited (referred to hereafter as "the Trustee") is pleased to present the 83rd Annual Report of the Merchant Navy Officers Pension Fund (referred to hereafter as the "Fund" or "MNOPF"), for the year ended 31 March 2021. The Annual Report includes the Trustee's Report, Investment Report, Statement of Trustees Responsibilities, Financial Statements and Notes, the Independent Auditor's Report, the Annual Implementation Statement, 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 2021.

The Annual Report contains the Annual Implementation Statement for the first time. For Funds such as the MNOPF which provide defined benefits, the purpose of this statement is to set out how, and the extent to which, in the opinion of the trustees, the Fund's engagement policy has been followed during the year and to describe the voting behaviour by, or on behalf of, the trustees (including the most significant votes cast by the trustees or on their behalf) during the year, stating any use of the services of a proxy voter during that year.

### Constitution and changes to the Fund

The Fund was established by a Trust Deed dated 29 October 1937. During the year to 16 June 2019 the Fund 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 MNOPF was contracted-out of the State Second Pension under the provisions of the Occupational Pension Schemes (Contracting-Out) Regulations 1996 until 31 March 2016 when the Fund closed to future defined benefit accrual. The Fund currently provides defined benefits for over 23,000 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 2.

Trustee Directors are appointed and re-appointed in accordance with the Trustee's Articles of Association, the MNOPF's Trust Deed and Rules and an approved policy. 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.

# TRUSTEE'S REPORT (CONTINUED)

## Committees

The Trustee has previously established a number of committees, each having its own terms of reference. Membership of committees was split equally between employer directors and officer directors. The Committee structure has been rationalised to be more efficient with the discontinuance of the last remaining Committee, The Management Committee ("TMC"), on 1 October 2020. The Trustee Board retained all powers, authorities, functions and responsibilities previously delegated to TMC. The terms of reference for the Trustee Board was updated to reflect this and took effect from 1 October 2020. Until 30 September 2020, TMC was supported by the Executive team (Rock Pensions during the year to 31 March 2021) and professional advisers as required.

### The Management Committee ("TMC")

TMC consisted of a maximum of six members and its purpose was 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. In addition, TMC had responsibility for all matters connected with the collection of deficit contributions, statutory employer debts and debts arising under Rule 5.2A of the Rules. TMC was empowered to make decisions related to its functions.

## Attendance at meetings

A summary of meetings held and Trustee Directors' attendance during the year ended 31 March 2021 is as follows:

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

*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 at regular intervals.

# TRUSTEE'S REPORT (CONTINUED)

## Risk Management

The Trustee has overall responsibility for risk management and internal controls. It is committed to identifying, evaluating and managing risk 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.

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.

### Bulk Annuity Policies

In December 2017, the Trustee agreed an annuity buy-in policy with Legal & General and, in February 2020, a separate annuity buy-in policy was agreed with Pension Insurance Corporation. This latter policy converted the Trustee's longevity hedge arrangement to buy-in. Both policies are held in the name of the Trustee and members' pension benefits continue to be paid by the Trustee.

## Advisers and Service Providers

### Rock Pensions

Rock Strategic Consulting Ltd (trading as Rock Pensions) provides executive services to the Trustee. Rock Pensions is an independent company that provides executive services to employers and trustees. Rock Pensions works with the Trustee on developing the Fund's strategy, implementing the Trustee's decisions and supervising the day-to-day running of the Fund. The Trustee has delegated certain authorities to Rock Pensions with effect from 1 April 2020.

### Ensign Pensions Limited

Ensign Pensions Limited is a company wholly owned by the Trustee. Ensign Pensions provided a limited range of services to the Trustee during the year to 31 March 2021, including certain IT and information storage services.

### Administration

The Fund is administered by Mercer. In April 2019, JLT Group plc was acquired by Marsh & McLennan Companies; the Trustee's services agreement with JLT Employee Benefits (part of JLT Group plc) was novated to Mercer Limited (part of Marsh & McLennan Companies). 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.

# TRUSTEE'S REPORT (CONTINUED)

### 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 2021 £m** |
|---|---|
| Employers' defined benefit deficit contributions | 14.8 |
| **Total recognised in the Financial Statements** | **14.8** |

### Normal contributions

In previous years, members' and employers' normal contributions have been 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. No normal contributions were therefore due or received into the Fund during the year to 31 March 2021 or in the previous year.

### 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 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 2021 or in the previous year.

### 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.

## TRUSTEE'S REPORT (CONTINUED)

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 2020 and September 2023 respectively. As at 31 March 2021, contributions totalling £5.7 million had not been received in relation to the deficit contribution instalments due within the scheme year for those valuations. Of these, £1.1 million was received on 16 April 2021. Both the outstanding amounts as at 31 March 2021, and the subsequent payment in April, were the subject of a deferral agreement reached between the Trustee and the employer concerned following the onset of the Covid-19 pandemic. One other employer had debts rescheduled under a deferral agreement, however the revised payments under that agreement took place within the scheme year and subsequent instalments remain within the Schedule of Contributions. The total outstanding deficit at the year-end was £8.9 million.

### Covenant Monitoring

The Trustee continues to monitor the employer covenant strength of employers. The Fund's overall covenant strength was last reviewed as part of the most recent actuarial valuation, as at 31 March 2018, during which certain recommendations were made in respect of future employer covenant monitoring. As a result, the Trustee adopted a new Covenant Monitoring Policy in October 2019, setting out the monitoring process, key metrics and reporting framework for ongoing covenant monitoring. This policy focuses covenant monitoring activities on those employers who carry the highest risk to the Fund. The Covenant Monitoring Policy will be reviewed as part of the next actuarial valuation, due as at 31 March 2021 which is currently in progress.

# TRUSTEE'S REPORT (CONTINUED)

## Membership

Details of the membership of the Fund as at 31 March 2021 are given below:

| | 2021 | 2020 |
|---|---|---|
| **ACTIVE MEMBERS** | | |
| Opening balance – active members | - | - |
| **ACTIVE MEMBERS AT THE END OF THE YEAR** | - | - |
| **PENSIONERS** | | |
| Opening balance | 17,553 | 17,561 |
| Adjustments to pensioners* | - | (21) |
| New pensioners/dependants | 703 | 710 |
| Pension ceases | (773) | (697) |
| **PENSIONERS AT THE END OF THE YEAR** | 17,483 | 17,553 |
| **MEMBERS WITH DEFERRED BENEFITS** | | |
| Opening balance | 5,894 | 6,540 |
| Adjustments to members with deferred benefits* | (55) | (20) |
| New pension credit members | 2 | 2 |
| **MEMBERS WITH DEFERRED BENEFITS AT THE END OF THE YEAR** | 5,841 | 6,522 |
| **MEMBERS CEASING TO BE DEFERRED** | | |
| Transfers out | (63) | (106) |
| Death | (20) | (24) |
| Retirement | (386) | (456) |
| Re-joiners | - | - |
| Other | (25) | (42) |
| **MEMBERS CEASING TO BE DEFERRED AT THE END OF THE YEAR** | (494) | (628) |
| **TOTAL MEMBERSHIP AT THE END OF THE YEAR** | 22,830 | 23,447 |

*Adjustments are members whose status has been changed where the change relates to a previous year.
^Included within pensioners are 2,197 (2020: 2,217) pensioners whose pensions are paid from the Legal & General annuity buy-in policy and 12,793 (2020: 13,226) pensioners whose pensions are paid from the Pension Insurance Corporation annuity buy-in policy, both of which are held in the name of the Trustee.

## 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.

# TRUSTEE'S REPORT (CONTINUED)

### 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 9.2.2 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 2020, the Trustee did not consider it appropriate to grant a discretionary increase to pensions in April 2021 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 2021, as required, by 0.5% and pensions in payment relating to service from 1 April 1997 were increased in April 2021, as required, by 1.1%.
- 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, increases were made by application of the statutory revaluation percentage to the whole of the deferred pension.

Full details of the pension increases that applied at April 2021 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.

## Investment Management

The Trustee has overall responsibility for the investment of the Fund's assets in accordance with the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee has agreed a Statement of Investment Principles ("SIP"), in accordance with section 35 of the Pensions Act 1995, which sets out the investment strategy and policies for the MNOPF. Certain powers and responsibilities for the implementation of the Trustee's investment strategy have been delegated to the Delegated CIO. The SIP was reviewed during the 2016/17 Fund year, slightly amended in December 2017 and again in June 2019. The SIP was further reviewed again during the 2020/21 Fund year and was amended in September 2020. 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

# TRUSTEE'S REPORT (CONTINUED)

to which steps are taken by the investment managers to incorporate these factors into their investment process. The Trustee's focus is explicitly on financially material considerations in the selection, retention and realisation of

investments, and the Trustee's policy at this time is not to take into account non-financial matters explicitly. However, the Trustee supports and actively encourages investments with a positive social and environmental impact.

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 is delegated to the Delegated CIO, and the Trustee receives reports on a quarterly basis on progress against the Fund's journey plan. Performance of the Fund's investments over the year are detailed in the Investment Report (see page 13). The holdings at the year-end were in accordance with the SIP.

## Custodian

All of the Fund's segregated investments are held under custody arrangements with Bank of New York Mellon, with the exception of pooled investments and the bulk annuity buy-in policies with Legal & General and Pension Incorporation Corporation. The longevity hedge, converted to an annuity buy-in policy in February 2020, was reflected under custody arrangements with Northern Trust. The pooled investment vehicle investment managers are responsible for putting in place their own custody arrangements.

## Actuarial Review

The Financial Statements set out on pages 21 to 42 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 the Actuary's next review of the funding position will be as at 31 March 2021 and which will be communicated to members and employers early in 2022.

The Scheme Actuary has prepared a report on the actuarial liabilities. This is included on page 43 and 44 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 44. 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. Furthermore, on 20 November 2020, the High Court handed down a further judgement that ruled that pension schemes would need to revisit individual transfer payments made since 17 May 1990 to check if any additional value is due as a result of GMP equalisation. Whilst the judgements related to the Lloyds Banking Group scheme, they are 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 judgements 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 benefits in the Scheme. No provision has been made within the financial statements, given the uncertainty of the amount accrued to date.

# TRUSTEE'S REPORT (CONTINUED)

## Financial development of the Fund

The Financial Statements of the Fund for the year ended 31 March 2021, as set out on pages 21 to 42 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.

| | **2021** |
|---|---|
| | **£m** |
| Net withdrawals from dealings with members | **(148.7)** |
| Net returns on investments | **257.0** |
| Net decrease in the fund during the year | **108.3** |
| Net assets of the fund at 1 April 2020 | **3,141.6** |
| Net assets of the fund at 31 March 2021 | **3,249.9** |

## Further Information

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

### Member Enquiries

myMNOPFpension
Post Handling Centre U
St James' Tower
7 Charlotte Street
Manchester
M1 4DZ

Email: enquiries@myMNOPFpension.co.uk
Telephone: 01372 200200

### General Enquiries

Rock Pensions
Unit 24
Basepoint Business and Innovation Centre
Metcalf Way
Crawley
West Sussex
RH11 7XX

This report, including the Investment Report, Statement of Trustee's Responsibilities, the Annual Implementation Statement, the Report on Actuarial Liabilities and the Members' Information, was approved by the Trustee on 30 September 2021 and signed on its behalf by:

**R Murphy**

Chair, MNOPF Trustees Limited

# 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 2021, the Fund generated a return of 0.0%, this was in comparison to the benchmark which saw negative performance of 6.5%, therefore the Fund outperformed its benchmark by 6.5% over the year. The three main drivers of this positive outperformance versus the benchmark were the performance of equity markets (in particular, Chinese equity markets), the allocations to alternative credit markets and exposures to office space through the property allocation. The absolute returns for the year were flat as liabilities fell over the year, and so too did liability matching assets, however overall, as the fund is not fully hedged, it was able to benefit from a fall in liabilities. As a result of falling liabilities and positive investment performance, the funding level increased c3% over the year.

Over the longer-term, the Fund has continued to outperform the liabilities by 2.0% pa over the past three years and 1.7% pa over the past five years (since February 2020 the performance has been measured excluding the buy-in assets). This outperformance has been achieved with very low levels of volatility, driven by effective 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 2021 | One Year (%) | Three year (% pa) | Five year (%pa) |
|---|---|---|---|
| Fund Return | 0.0 | 4.5 | 5.8 |
| Gilts-based liabilities | -6.5 | 2.5 | 4.1 |
| Relative | 6.5 | 2.0 | 1.7 |
| Volatility (tracking error) | 1.4 | 1.9 | 1.9 |

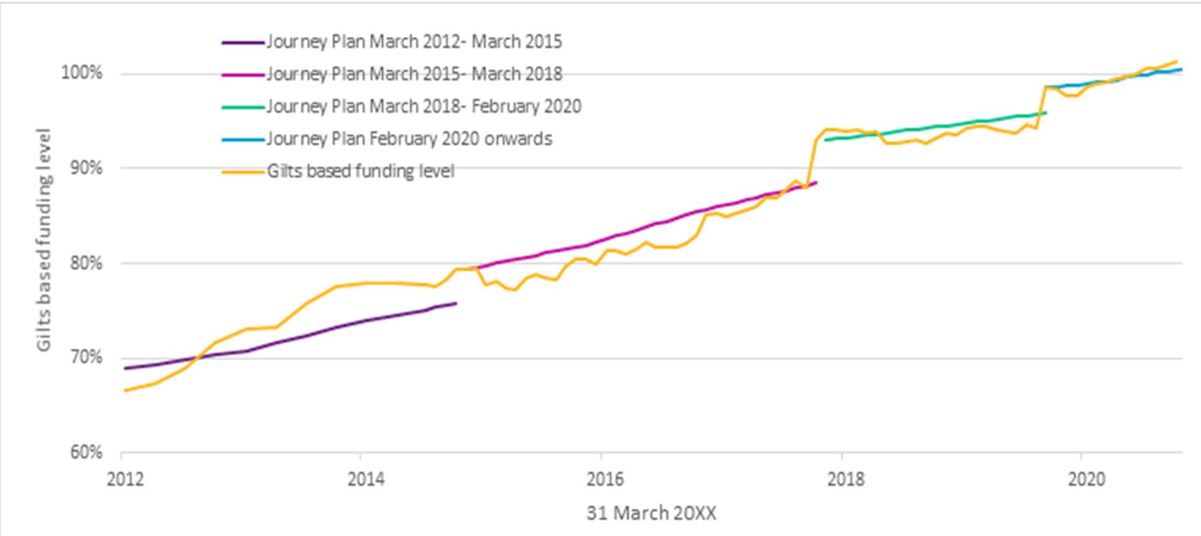
Fund performance is shown net of underlying manager fees and Delegated CIO fees.

## INVESTMENT REPORT (CONTINUED)

The chart below shows the Journey Plan progression from 31 March 2012. The Journey Plan was restated on:

- 31 March 2015 to reflect the Fund's strong performance over the previous three year period,
- 31 March 2018 to reflect the increase in funding level as a result of the Actuarial Valuation, and
- 14 February 2020 to reflect the material change in investment strategy following the Project Tide Buy In.

The gilt based funding position has improved over the year to 31 March 2021, with the funding level now ahead of the journey plan. We are pleased that, over a period of higher market volatility over the last 18 months, the funding level has progressed strongly, showing the benefits of building a broad, well-diversified portfolio with a sophisticated liability hedging mandate.



# INVESTMENT REPORT (CONTINUED)

## Market review – 12 months ending 31 March 2021

### Summary

Over the first quarter in 2020, COVID 19 morphed into a global pandemic, central banks eased aggressively to provide liquidity and mitigate the demand shock. As economies opened over the second quarter in 2020, governments continued monetary stimulus programmes to help economic recovery. Over the second quarter of 2020, central banks around the world injected more than twice the liquidity of the previous easing period.

Beyond the monetary stimulus of quantitative easing programmes, the US and UK central banks kept interest rates at their record low over the last 12 months. The Bank of England reduced base rates from 0.75% to 0.25% on 11 March 2020, and then further announced a reduction to 0.10% on 19 March 2020, the lowest rate set in the Bank's 325-year history. The Fed reduced rates to a target range of 1.00 – 1.25% on 3 March 2020, and then made a further reduction to 0.00-0.25% on 15 March 2020, which is the lowest rate range the Fed has set in its history. The interest rate in the UK, US and the EU have remained unchanged since March 2020.

In November 2020, Joe Biden won the US election with 306 electoral college votes, 36 more than the 270 required, and became the 46th president of the United States. A trade deal was struck on 24 December 2020 between the UK and the EU, allowing trading in goods without tariffs or quotas. However, customs costs and non-tariff barriers will increase trading costs. The deal is thin on trade in services, which makes up 80% of the UK economy. In financial services, for example, the EU has granted only a temporary equivalence in specific areas for British regulatory standards. Additional discussions will determine the details on topics such as trade in services, passporting of financial services, and data sharing and protection laws.

In the US, over the first quarter of 2021, Biden's $1.9tn spending package was passed by the Senate. This stimulus package brings the total pandemic-related spending to $6tn (28% pre-crisis GDP). Inflationary expectation has been rising as the stimulus is estimated to boost the accumulated excess saving of c.$1.6tn of consumers. In reaction to upward inflation expectation, US 10-year nominal bond yield has risen c.70bps. Nevertheless, the Fed has maintained an accommodative tone: bond purchases will continue over the foreseeable future with no change in forward guidance on their first rate hike.

Over the 12 months to 31 March 2021 sterling has appreciated against the US dollar, the Euro and the Yen by 11.3%, 3.9% and 13.9% respectively.

### Equity markets

Equity market returned double digit positive growth over the 12 month period across all regions. The FTSE World Index returned 39.6% in sterling terms. Asia Pacific (excluding Japan) was the best performing region, returning 50.6% in sterling terms. North American equities and Emerging Market requities were also worth of note as FTSE North America returned 42.8% and FTSE All-World All Emerging Index returned 40.8%. Worst performing region was Japan, with FTSE Japan Index returning 26.3% over the year in sterling terms.

### Bond markets

UK government bond yields (which move inversely to bond price) have increased over the 12 month period. Long maturity UK gilts have returned -10.4% over the period (as measured by FTSE-A Gilts Over 15 Years Index). Inflation-linked gilt yields decreased over the 12 month period with FTSE-A Index-Linked Gilts Over 15 Years Index returning 2.3%.

Over the past year, local currency emerging market debt underperformed hard currency emerging market debt returning -7.5% and -4.6% respectively.

## INVESTMENT REPORT (CONTINUED)

### Alternative investment markets

Crude oil returned 159.6% (West Texas Intermediate Crude Oil) in sterling terms over the 12 months to 31 March 2021. The significant increase over the year is due to increased demand as economies came out of COVID 19 lockdown and with news of the vaccines along with increased demand from China and India.

Commercial UK property (as measured by the IPD Monthly Index) has returned 2.8% over the 12 month period.

### Active ownership

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

**Willis Towers Watson**

23 June 2021

## STATEMENT OF TRUSTEE'S RESPONSIBILITIES

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

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

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

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

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

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

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

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

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

## Opinion

We have audited the financial statements of Merchant Navy Officers Pension Fund (the 'Fund') for the year ended 31 March 2021, 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 2021, 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 are responsible for concluding on the appropriateness of the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

In our evaluation of the Trustee's conclusions, we considered the inherent risks associated with the Fund including effects arising from macro-economic uncertainties such as Brexit and Covid-19, we assessed and challenged the reasonableness of estimates made by the Trustee and the related disclosures and analysed how those risks might affect the Fund's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are approved by the Trustee.

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Trustee with respect to going concern are described in the 'Responsibilities of trustee for the financial statements' section of this report.

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

## 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.

## Responsibilities of trustee for the financial statements

As explained more fully in the Trustee's responsibilities statement, the Trustee is responsible for the preparation of financial statements and for being satisfied that they give 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 intends to wind up the Fund, or has 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.

## Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Fund and determined that the most significant are the Pensions Act 1995 and 2004 and those that relate to the reporting frameworks (Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 (FRS 102) and the Statement of Recommended Practice "Financial Reports of Pension Schemes" 2018 ("the SORP").

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

- In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations such as, the Pensions Regulator’s Codes of Practice and relevant compliance regulations (including the Annual Pensions Bill and tax legislation) under which the Fund operates.
- We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with management, the Trustee, and from inspection of Trustee board minutes and legal and regulatory correspondence. We discussed the policies and procedures regarding compliance with laws and regulations with the Trustee.
- We assessed the susceptibility of the Fund’s financial statements to material misstatement due to irregularities including how fraud might occur. We evaluated management’s incentives and opportunities for manipulation of the financial statements and determined that the principal risks were in relation to the risk of management override of controls through posting inappropriate journal entries to manipulate results and net assets for the year and performed audit procedures to review these areas.
- Our audit procedures involved:
  - journal entry testing, with a focus on large manual journals to unusual account codes, including:
    - manual journals with unusual account combinations such as those between the Fund Account and the Statement of Net Assets and
    - journals posted to suspense accounts.
  - obtaining independent confirmations of material investment valuations and cash balances at the year end.
  - confirming the valuation of bulk annuity policies to insurer valuations at the year end date.
- In addition, we completed audit procedures to conclude on the compliance of disclosures in the annual report and accounts with applicable financial reporting requirements.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- All team members are qualified accountants or working towards that qualification and are considered to have sufficient knowledge and experience of Funds of a similar size and complexity, appropriate to their role within the team. The engagement team are required to complete mandatory pensions sector training on an annual basis, thus ensuring they have sufficient knowledge and of the sector the underlying applicable legislation and related guidance.

### Use of our report

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

Grant Thornton UK LLP

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
Date: 30 September 2021

## FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2021

| | Note | 2021 £m | 2020 £m |
|---|---|---|---|
| **CONTRIBUTIONS AND BENEFITS** | | | |
| Contributions receivable | | | |
| - Employer | | 14.8 | 24.5 |
| - Employee | | - | - |
| Total Contributions | 5 | 14.8 | 24.5 |
| Transfers in and other income | 6 | 0.1 | 0.2 |
| | | 14.9 | 24.7 |
| Benefits paid or payable | 7 | (138.9) | (135.7) |
| Payments to and on account of leavers | 8 | (19.1) | (33.1) |
| Administrative expenses | 9 | (5.6) | (5.6) |
| | | (163.6) | (174.4) |
| **NET WITHDRAWALS FROM DEALINGS WITH MEMBERS** | | (148.7) | (149.7) |
| **RETURNS ON INVESTMENTS** | | | |
| Investment income | 10 | 131.7 | 88.8 |
| Investment management expenses | 11 | (2.8) | (7.1) |
| Change in market value of investments | 12.1 | 128.1 | (15.4) |
| **NET RETURNS ON INVESTMENTS** | | 257.0 | 66.3 |
| **NET INCREASE/(DECREASE) IN THE FUND DURING THE YEAR** | | 108.3 | (83.4) |
| **NET ASSETS OF THE FUND AT 1 APRIL** | | 3,141.6 | 3,225.0 |
| **NET ASSETS OF THE FUND AT 31 MARCH** | | 3,249.9 | 3,141.6 |

The notes on pages 23 to 42 form an integral part of these financial statements.

# STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

## AT 31 MARCH 2021

| | Note | 2021 £m | 2020 £m |
|---|---|---|---|
| **INVESTMENT ASSETS** | | | |
| Equities | | 0.4 | 0.4 |
| Bonds | | 787.3 | 567.4 |
| Pooled investment vehicles | | 758.4 | 833.0 |
| Derivatives | | 541.7 | 848.8 |
| Insurance policies | | 1,929.4 | 1,796.9 |
| Cash and other investment assets | | 62.4 | 20.6 |
| | | 4,079.6 | 4,067.1 |
| **INVESTMENT LIABILITIES** | | | |
| Derivatives | | (433.5) | (730.9) |
| Other Investment Liabilities | | (410.3) | (205.4) |
| **TOTAL INVESTMENTS** | 12.1 | 3,235.8 | 3,130.8 |
| **CURRENT ASSETS** | 14 | 25.5 | 24.2 |
| **CURRENT LIABILITIES** | 15 | (11.4) | (13.4) |
| **TOTAL NET ASSETS AT 31 MARCH** | | 3,249.9 | 3,141.6 |

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 43 and 44 and these Financial Statements should be read in conjunction with that Report.
The notes on pages 23 to 42 form an integral part of these financial statements.

These financial statements were approved by the Trustee on 30 September 2021 and were signed on its behalf by:

**R Murphy**

**Chair, MNOPF Trustees Limited**

**M Jess**

**Vice-Chair, MNOPF Trustees Limited**

# NOTES TO THE FINANCIAL STATEMENTS

## 1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 - the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council, and the guidance set out in the Statement of Recommended Practice (Revised 2018).

### COVID-19

In March 2020 the Covid-19 pandemic radically affected the UK economy on every front. Since then, the MNOPF has however continued to make steady progress towards its goals, despite the dramatic effects the Covid-19 pandemic had on world stock markets. Over the year to 31 March 2021, the markets have been volatile but have recovered strongly following the dramatic falls in the first part of 2020 and the Fund outperformed its investment benchmark over the year to 31 March 2021.

Throughout the year the Trustee continued to collect deficit contributions from employers whilst recognising the potential business interruption caused by the pandemic. In a few cases, the MNOPF has worked closely with employers to reschedule deficit payments to help ensure their longer-term survival and to maintain the overall employer covenant of the Fund. A number of employers requested deferral of deficit contributions due in the scheme year, as a consequence of business interruption caused by the pandemic, and the Trustee has considered and permitted limited deferment in line with guidance from the Pensions Regulator and its own policy. Given the current funding status of the MNOPF, the amounts concerned (£10.9m) are not material and the going concern basis used to prepare the financial statements remains appropriate.

The Trustee is supported by a team of advisers and service providers, who were able to maintain operational resilience during the pandemic, ensuring, most importantly, that members continued to receive their benefits.

The MNOPF has not only focused on minimising the impact of Covid-19 on Fund performance and the security of member benefits, it has also worked hard to enhance members’ mental and physical health, running a series of free wellbeing webinars for members.

## 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 2021 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 4.2 Contributions

Employer additional contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, on a cash basis.

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

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

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 operated a longevity swap arrangement until 10 February 2020. Up until that date the Fund paid 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 policies are recognised in the same way as other benefits with the income from the buy-in policies 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 4.5 Valuation of investments (continued)

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.

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 cash flows arising from the swap determined using discounted cash flow models and market date at the reporting date;
- Over the counter ("OTC") derivatives are stated at fair value using pricing models and relevant market date at the year-end;
- Futures contacts are exchange traded and fair value is determined using the exchange price for closing out the contract at the year-end;
- Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the year-end by entering into an equal and opposite contract at that date;
- All gains and losses arising on derivative contracts are reported within change in market value;
- Receipts and payments arising from derivative instruments are reported as sale proceeds or investment purchases.

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

The Fund's buy-in policies, shown under insurance policies have been valued on an insurance buy-out basis. The Fund has two buy-in policies, one with L&G and one with PIC. The valuation of the L&G buy-in was conducted by the L&G pricing team based on the based on market conditions and L&G's prevailing pricing basis as at 31 March 2021. The valuation of the PIC buy-in was conducted by the PIC pricing team and it represents the discounted value of the projected future benefit cash flows over the remaining lifetime of the current in-force membership on a member-by-member basis, using a best-estimate liability provision which was calculated using the Solvency II regime.

### 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.

Receipts from annuity policies held by the trustee are accounted for as investment income 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 4.7 Currency (continued)

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.

## 5 CONTRIBUTIONS

| | 2021 | 2020 |
|---|---|---|
| | £m | £m |
| **Employers' Contributions** | | |
| Normal contributions | - | - |
| Deficit funding contributions | 14.8 | 24.5 |
| | 14.8 | 24.5 |

Employer deficit funding contributions of £528 million are due under the Recovery Plans agreed following the 2009 and 2012 valuations. At 31 March 2021, a capital balance of £8.7 million is outstanding (2020: £28.6m). Of this £1.5m was paid in April 2021 and the remaining £7.2 million is payable over the period to September 2023.

## 6 TRANSFERS IN AND OTHER INCOME

| | 2021 | 2020 |
|---|---|---|
| | £m | £m |
| Other income | 0.1 | 0.2 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 7 BENEFITS PAID OR PAYABLE

| | 2021 £m | 2020 £m |
|---|---|---|
| Pension payments | 128.6 | 125.3 |
| Commutations and lump sum retirement benefits | 10.1 | 9.9 |
| Lump sums on death | 0.2 | 0.5 |
| | 138.9 | 135.7 |

## 8 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

| | 2021 £m | 2020 £m |
|---|---|---|
| Individual transfers out to other schemes | 19.1 | 33.1 |
| | 19.1 | 33.1 |

## 9 ADMINISTRATIVE EXPENSES

| | 2021 £m | 2020 £m |
|---|---|---|
| Administration, processing and data management | 3.4 | 3.1 |
| Actuarial fees | 0.3 | 0.2 |
| Legal, other professional fees and deficit collection fees | 1.8 | 2.2 |
| External audit fees | 0.1 | 0.1 |
| | 5.6 | 5.6 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 10 INVESTMENT INCOME

| | 2021<br>£m | 2020<br>£m |
|---|---|---|
| Income from bonds | 14.0 | 32.6 |
| Income from pooled investment vehicles | 2.5 | 21.3 |
| Income allocated to Old Section Reserve | - | (0.2) |
| Foreign exchange gains / (losses) | (3.1) | (0.5) |
| Annuity income | 117.0 | 35.5 |
| Longevity hedge settlements | 0.3 | (0.5) |
| Other investment income | 1.0 | 0.7 |
| | 131.7 | 88.9 |
| Irrecoverable taxation | - | (0.1) |
| | 131.7 | 88.8 |

## 11 INVESTMENT MANAGEMENT EXPENSE

| | 2021<br>£m | 2020<br>£m |
|---|---|---|
| Administration, management & custody | 2.9 | 4.2 |
| Longevity insurance fees and administrative costs | (0.1) | 2.9 |
| | 2.8 | 7.1 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 12 INVESTMENTS

### 12.1 Reconciliation of investments

Reconciliation of investments held at beginning and end of year:

| | Note | Value at 1 April 2020 | Purchases at Cost and Derivative payments | Sales Proceeds and Derivative receipts | Change in market value | Value at 31 March 2021 |
|---|---|---|---|---|---|---|
| | | £m | £m | £m | £m | £m |
| Equities | | 0.4 | - | - | - | 0.4 |
| Bonds | | 567.4 | 440.7 | (152.5) | (68.3) | 787.3 |
| Pooled investment vehicles | 12.3 | 833.0 | 592.1 | (722.7) | 56.0 | 758.4 |
| Derivatives | 12.8 | 117.9 | 68.1 | (85.8) | 8.0 | 108.2 |
| Insurance policies | 12.6 | 1,796.9 | 0.1 | - | 132.4 | 1,929.4 |
| | | 3,315.6 | 1,101.0 | (961.0) | 128.1 | 3,583.7 |
| Cash deposits and other investment assets | 12.7 | 20.6 | | | | 62.4 |
| Other investment liabilities | 12.7 | (205.4) | | | | (410.3) |
| | | 3,130.8 | | | | 3,235.8 |

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 £0.2m (2020: £0.7m). Direct transaction costs incurred are analysed below:

| | Fees | Total |
|---|---|---|
| | £m | £m |
| 2021 | 0.2 | 0.2 |
| 2020 | 0.7 | 0.7 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 12.3 Pooled investment vehicles

| | 2021<br>£m | 2020<br>£m |
|---|---|---|
| Equities | 159.5 | 176.6 |
| Bonds | 33.2 | 46.9 |
| Hedge funds | 172.6 | 263.9 |
| Private equity | 43.2 | 45.4 |
| Property | 13.7 | 13.3 |
| Absolute return funds | 211.7 | 251.2 |
| Cash | 124.5 | 35.7 |
| | 758.4 | 833.0 |

## 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:

| | 2021<br>Assets<br>£m | 2021<br>Liabilities<br>£m | 2020<br>Assets<br>£m | 2020<br>Liabilities<br>£m |
|---|---|---|---|---|
| Swaps | 538.6 | (432.6) | 834.9 | (695.7) |
| Forward foreign exchange | 2.2 | - | 0.2 | (29.7) |
| Stock put options | 0.9 | (0.9) | 13.7 | (5.5) |
| | 541.7 | (433.5) | 848.8 | (730.9) |

# 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 | 2021 Asset £m | 2021 Liability £m |
|---|---|---|---|---|
| Interest rate swaps | 0-5 years | £16.9m | 142.0 | (129.9) |
| Interest rate swaps | 6-10 years | £25.9m | 94.3 | (74.6) |
| Interest rate swaps | 11-20 years | £42.5m | 144.4 | (121.7) |
| Interest rate swaps | 31-40 years | £93.8m | 96.0 | (39.2) |
| Inflation swaps | 0-5 years | £13.3m | 3.2 | (3.6) |
| Inflation swaps | 6-10 years | £19.4m | 7.7 | (8.0) |
| Inflation swaps | 11-20 years | £54.8m | 43.1 | (48.0) |
| Inflation swaps | 41-50 years | £2.8m | 7.9 | (7.6) |
| | | | 538.6 | (432.6) |

| Contract | Expiration | Notional Currency Principal | 2020 Asset £m | 2020 Liability £m |
|---|---|---|---|---|
| Interest rate swaps | 0-5 years | £18.8m | 133.4 | (122.9) |
| Interest rate swaps | 6-10 years | £19.0m | 175.6 | (150.0) |
| Interest rate swaps | 11-20 years | £47.3m | 169.9 | (132.7) |
| Interest rate swaps | 31-40 years | £93.8m | 119.7 | (39.2) |
| Inflation swaps | 0-5 years | £7.7m | 1.7 | (2.0) |
| Inflation swaps | 6-10 years | £21.8m | 7.5 | (8.2) |
| Inflation swaps | 11-20 years | £80.7m | 64.7 | (80.6) |
| Inflation swaps | 21-30 years | £32.9m | 37.3 | (50.8) |
| Inflation swaps | 31-40 years | £1.9m | 3.4 | (6.2) |
| Inflation swaps | 41-50 years | £2.8m | 10.6 | (6.7) |
| Total return swaps | 0-5 years | £23.2m | 111.1 | (96.4) |
| | | | 834.9 | (695.7) |

At 31 March 2021, the counterparties of the interest and inflation swaps were five banks with credit ratings ranging from BBB+ to A+.

At 31 March 2021, the Fund held collateral in the form of gilts at £107.5m value (2020: gilts value £100.4m).

# 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 | 2021 Asset £m | 2021 Liability £m |
|---|---|---|---|---|---|
| Forward (OTC) | 1-6 months | USD565.7m | GBP412.1m | 2.2 | - |
| | | | | 2.2 | - |

| Contract | Settlement Date | Currency Bought | Currency Sold | 2020 Asset £m | 2020 Liability £m |
|---|---|---|---|---|---|
| Forward (OTC) | 1-6 months | EUR17.5m | GBP15.2m | - | (0.3) |
| Forward (OTC) | 1-6 months | GBP1.9m | JPY261.1m | 0.1 | - |
| Forward (OTC) | 1-6 months | GBP3.6m | EUR4.1m | 0.1 | - |
| Forward (OTC) | 1-6 months | JPY1,657.1m | GBP11.9m | - | (0.4) |
| Forward (OTC) | 1-6 months | USD724.6m | GBP554.9m | - | (29.0) |
| | | | | 0.2 | (29.7) |

# 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.

Stock put options outstanding at the year-end were as follows:

| Nature | Expiration | Notional Currency Principal | 2021 Asset £m | 2021 Liability £m |
|---|---|---|---|---|
| Stock Put Options | 0-5 years | £91.2m | 0.9 | (0.9) |
| | | | 0.9 | (0.9) |

Stock put options outstanding at 2020 year-end were as follows:

| Nature | Expiration | Notional Currency Principal | 2020 Asset £m | 2020 Liability £m |
|---|---|---|---|---|
| Stock Put Options | 0-5 years | £51.2m | 13.7 | (5.5) |
| | | | 13.7 | (5.5) |

**Longevity Hedge**

In February 2020 the longevity hedge was converted to an annuity buy-in policy.

## 12.6 Insurance policies

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

| | 2021 £m | 2020 £m |
|---|---|---|
| L&G Buy-in | 523.1 | 414.5 |
| PIC Buy-in | 1,406.3 | 1,382.4 |
| | 1,929.4 | 1,796.9 |

As at the end of the Fund year the pensioner population includes the following insured members:

- L&G Buy-in – 2,197 (2020: 2,217)
- PIC Buy-in – 12,793 (2020: 13,226)

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 12.7 Cash deposits and other investment assets and liabilities

| | 2021 £m | 2020 £m |
|---|---|---|
| **Assets** | | |
| Cash | 59.4 | 17.7 |
| Outstanding dividends, interest and other assets | 3.0 | 2.9 |
| | 62.4 | 20.6 |
| **Liabilities** | | |
| Amount due under sale and repurchase contracts | (410.3) | (205.4) |
| | (347.9) | (184.8) |

At 31 March 2021, the Fund held gilts that are secured on the repurchase agreements with a value of £377.9m (2020: £211.1m).

At 31 March 2021 £410.3m of gilts were sold which are subject to repurchase contracts (2020: £205.4m). At 31 March 2021, the Fund held collateral of £31.8m.

## 12.8 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. 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 12.8 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:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **2021** | **£m** | **£m** | **£m** | **£m** |
| Equities | - | - | 0.4 | 0.4 |
| Bonds | 787.3 | - | - | 787.3 |
| Pooled investment vehicles | 108.5 | 198.1 | 451.8 | 758.4 |
| Derivatives | - | 108.2 | - | 108.2 |
| Insurance policies | - | - | 1,929.4 | 1,929.4 |
| Other investment balances | (347.9) | - | - | (347.9) |
| | 547.9 | 306.3 | 2,381.6 | 3,235.8 |

| | | | | |
|---|---|---|---|---|
| **2020** | **£m** | **£m** | **£m** | **£m** |
| Equities | - | - | 0.4 | 0.4 |
| Bonds | 567.4 | - | - | 567.4 |
| Pooled investment vehicles | - | 268.6 | 564.4 | 833.0 |
| Derivatives | - | 117.9 | - | 117.9 |
| Insurance policies | - | - | 1,796.9 | 1,796.9 |
| Other investment balances | 20.6 | (205.4) | - | (184.8) |
| | 588.0 | 181.1 | 2,361.7 | 3,130.8 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 12.9 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 MNOPF provides; and to limit the risk of the MNOPF's assets failing to meet the MNOPF's liabilities over the long term.

The Trustee has formulated a Journey Plan which shall be taken as the agreed combination of contributions and investment return that is expected to target assets at least equal to 104% - 106% of the gilts based value of liabilities over the period between 30 June 2024 and 30 June 2025 or such other period as may be agreed from time to time. The Trustee's Journey Plan can be achieved through an investment return target of Gilts +1.9% p.a. (across the MNOPF assets excluding insured assets, equivalent to Gilts +0.85 p.a. on all MNOPF assets) from 2021-2025.

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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

## 12.9 Investment risks (continued)

| | Credit Risk | Market Risk: Currency | Market Risk: Interest Rate | Market Risk: Other price | 2021 Value £m | 2020 Value £m |
|---|---|---|---|---|---|---|
| **Defined benefit section** | | | | | | |
| Equities | ○ | ◐ | ○ | ● | 0.4 | 0.4 |
| Bonds | ◐ | ○ | ● | ● | 787.3 | 567.4 |
| Pooled investment vehicles | ◐ | ◐ | ◐ | ● | 758.4 | 833.0 |
| Derivatives | ● | ◐ | ● | ● | 108.2 | 117.9 |
| Cash | ◐ | ◐ | ○ | ○ | 62.4 | 20.6 |
| Other investments | ● | ○ | ● | ○ | (410.3) | (205.4) |
| Insurance Policies | ○ | ◐ | ○ | ● | 1,929.4 | 1,796.9 |
| **Total investments** | | | | | **3,235.8** | **3,130.8** |

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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 12.9 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 two buy-ins (which are exposed to the credit risk of the insurers). 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 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 2021 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-ins which were transacted with two separate providers. Both providers 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 12.9 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 2021 the Fund's net unhedged overseas currency exposure was estimated as 13.9% of total asset value (2020*: 4%).

*Please note that 2020 exposure is quoted as a % of total assets including buy-ins, whereas in 2021 we have moved to exclude buy-ins.

**(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-ins are subject to interest rate risk but again, this investment is risk reducing.

**(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.

## 12.10 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:

| | **2021** | **2020** |
|---|---|---|
| | **£m** | **£m** |
| PIC buy-in | 1,406.3 | 1,382.4 |
| L&G buy-in | 523.1 | 414.5 |
| HAF Equity Fund | 167.2 | 263.9 |
| Alternative Credit Fund | 154.7 | - |

# 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.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 14 CURRENT ASSETS

| | 2021<br>£m | 2020<br>£m |
|---|---|---|
| Cash balance | 18.4 | 11.8 |
| Contributions due | | |
| - deficit from employers | 28.1 | 32.8 |
| Accounting adjustment to employer deficit contributions due | (22.4) | (22.4) |
| Other debtors | 1.4 | 2.0 |
| | 25.5 | 24.2 |

Deficit contributions from employers were received in accordance with the Schedule of Contributions after the year-end.

## 15 CURRENT LIABILITIES

| | 2021<br>£m | 2020<br>£m |
|---|---|---|
| Unpaid benefits | 6.1 | 6.0 |
| Other creditors and accrued expenses | 5.3 | 7.4 |
| | 11.4 | 13.4 |

Included in “Other creditors and accruals” are the following reserves:

a) Reserve established at 31 March 2014 with funds from the former Old Section. This reserve will settle all future costs arising in relation to the former Old Section following the completion of its buy-out in July 2014. These include the costs of operating myMNOPFpension, which consolidates the benefits payable to former Old Section members into a single payment. myMNOPFpension also provides a single point of contact for all members of MNOPF and the reserve will settle a proportion of the cost of this service. The costs of myMNOPFpension will be settled over many years as the service is delivered.
The reserve was established on an arm’s length basis and at 31 March 2021 the balance was £2,522,565 (2020: £2,772,557).

b) 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 2021 on this reserve was £183,307 (2020: £183,241).

# 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 £106,329 (2020: £129,538) made to certain Trustee Directors for fees relating to the exercise of their duties during the year. Trustee directors are also reimbursed expenses however no expenses were incurred this year. There are no Trustee Directors who are pensioner members of the Fund.

From 1 April 2020, Rock Strategic Consulting Ltd (trading as Rock Pensions) has been appointed to provide the executive services previously provided to the Trustee by Ensign Pensions Limited. Rock Pensions is an independent company that provides executive services to employers and trustees.

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 £NIL (2020: £1.7m). During the period, the scheme received a credit note of £175,000 from Ensign Pensions Ltd and there is an accrual for IT services of £41,957 at 31 March 2021. The balance at 31 March 2021 is a debtor balance £172,772 at 31 March 2021 (2020: £214,369 in receivables £56,155 in payables). |
| MNOPF IC Limited | Insurance Cell Company incorporated in Guernsey | 100% | 0.4 | £NIL (2020: £2.9m) paid by the Fund as insurance fees and administrative costs. £0.2m (2020: £0.5m) paid as settlement as required under the longevity hedge. Outstanding balance at 31 March 2021 amounted to £0.3m (2020: £NIL) in receivables and £NIL in payables (2020: £NIL). |
| MNOPF Trustees Limited | Trustee Company for the Fund | 100% | - | Outstanding balance on loan provided to fund the investment in Ensign Pensions Limited of £0.4m. |

## 17 COMMITMENTS

As at 31 March 2021, the Fund was committed to providing additional funding to certain managers investing in unquoted securities. These commitments amounted to £31.0m (2020: £34.6m) of private equity, of which £9.4m related to property (2020: £10.1m).

# 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 0.3% (2020: 0.4%) of the net assets of the Fund. The investments were as follows:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | **Total** | **Total** | **Total** | **Total** |
| | **£m** | **%** | **£m** | **%** |
| James Fisher & Sons PLC | - | * | - | * |
| Smiths Group PLC | - | * | - | * |
| Pooled Funds | 9.9 | 0.3 | 14.2 | 0.4 |
| Total exposure | 9.9 | 0.3 | 14.2 | 0.4 |

* 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 2021, a final premium/repayment is due under the buy-in policies. The final premiums/repayments 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.

In addition to the expected contingent liability for a potential premium adjustment once data validation is complete, there is a further potential liability in relation to annuity income as no reconciliation has yet been completed of actual amounts due versus lump sum monthly amount received to date.

As explained on page 11 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"). Furthermore, on 20 November 2020, the High Court handed down a further judgement that ruled that pension schemes would need to revisit individual transfer payments made since 17 May 1990 to check if any additional value is due as a result of GMP equalisation. The Trustee is aware that the judgements are expected to set a precedent for other UK defined benefit pension schemes and is taking steps to consider the implications of the judgements 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 42 the report on actuarial liabilities indicates any GMP provision included in the latest valuation.

# 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.

# 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 45 of this report.

## Next actuarial valuation

The next triennial valuation is being performed as at 31 March 2021 and will be available in early 2022.

# 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: 26 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 MNOPF 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-details

## 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 12. 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, Mercer Limited, at the address on page 12.

The Merchant Navy Officers Pension Fund

# Annual Implementation Statement – Year ended 31 March 2021

# Table of Contents

## 1. Introduction

This document is the Annual Implementation Statement ("the Statement") prepared by the Trustee of the Merchant Navy Officers Pension Fund ("the Fund") covering the fund year ("the year") to 31 March 2021.

The purpose of this Statement is to:

- Set out how, and the extent to which, in the opinion of the Trustee, the Fund's engagement policy (required under regulation 23c of the Occupational Pension Schemes Investment Regulations 2005) has been followed during the year;
- Describe the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast by the Trustee or on their behalf) during the year and state any use of services of a proxy voter during that year.

The Fund makes use of a wide range of investments; therefore, the principles and policies in the Statement of Investment Principles (SIP) are intended to be applied in aggregate and proportionately, focussing on areas of maximum impact.

In order to ensure that the investment policies set out in the SIP are carried out only by persons or organisations with the skills, information and resources necessary to undertake them effectively, the Trustee delegates some responsibilities. In particular, the Trustee has appointed a Delegated Chief Investment Officer (CIO), Towers Watson Limited (trading as Willis Towers Watson or WTW), to advise on the Fund's Defined Benefit assets. So far as is practicable, the Delegated CIO considers the policies and principles set out in the Trustee's SIP.

A copy of this Implementation Statement has been made available on the following website: www.mnopf.co.uk

## *2.* Voting and engagement

As set out above, the Trustee has delegated responsibility to the Delegated CIO to implement the Trustee's agreed investment strategy, including making certain decisions about investments (including asset allocation and manager selection/deselection) in compliance with Sections 34 and 36 of the Pensions Act.

The Delegated CIO is therefore responsible for managing the sustainability of the portfolio and how Environmental, Social and Governance ("ESG") factors are allowed for in the portfolio.

Consistent with the Trustee's view that ESG factors can have a significant impact on investment returns, particularly over the long-term, the Delegated CIO believes that sustainable investment (SI) forms the cornerstone of successful long-term investment and has fully embedded the consideration of ESG factors in its processes.

The Delegated CIO's process for selecting, monitoring and deselecting managers explicitly and formally includes an assessment of a manager's approach to SI (recognising that the degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and exposures). Where ESG factors are considered to be particularly influential to outcomes, the Delegated CIO engages with investment managers to improve their processes.

The Delegated CIO produces detailed reports on the SI characteristics of their highest-rated managers (such as those included in the Fund's portfolio) on an annual basis. These reports form part of the Trustee's ongoing portfolio monitoring. The Trustee last reviewed these reports at its meeting in Q4 2020.

At the latest ESG and Stewardship review it was found that the vast majority of the Fund's asset managers are operating to a neutral or strong standard. The Delegated CIO is directly engaging with those that scored poorly to encourage improvements. Should insufficient progress be made on making improvements, the manager's place in the portfolio will come under review.

In addition, the policies and processes adopted by the Trustee have impacted the Fund's investments in numerous ways. A key example of this is within the Fund's equity portfolio where the Trustee is invested in the Towers Watson Investment Management (TWIM) Global Equity Focus Fund which has banned controversial weapon companies from the Fund's portfolio in accordance with MSCI's criteria. These categories of weapons are widely considered to be controversial as they can have indiscriminate, anti-humanitarian impacts on civilians, including weapons of mass destruction. Many are also subject to international conventions and agreements which several countries have ratified to restrict their use.

Company level engagement and rights attached to investments (including voting):

The Trustee has delegated responsibility for the selection, retention and realisation of investments to the Delegated CIO. The day-to-day integration of ESG considerations and stewardship activities (including voting and engagement) are delegated to the Fund's investment managers.

The Trustee has a set of investment beliefs which cover various aspects including governance, asset classes and risk. The Trustee's sustainability beliefs are:

- As stewards of the Fund's assets, the Trustee has a responsibility to set policy over ESG factors rather than delegating the policy setting to the Delegated CIO/investment managers.
- It is important for equity managers to exercise their voting rights as this leads to better governance reasons and can produce better returns.
- The Trustee should closely monitor how the Delegated CIO incorporates sustainability, ESG and stewardship considerations into its decision-making process.
- The Trustee should provide regular communication to employers as well as members regarding sustainability, ESG and stewardship developments.
- The Fund should engage with other pension schemes/investors to aim to create positive change across the investment industry.
- The Trustee supports investments with a positive social and environmental impact, but these investments must have no adverse impact on overall investment efficiency.

The Trustee assesses adherence to its sustainability beliefs annually – most recently in 2020 which confirmed activities were undertaken that ensure compliance with all beliefs. The Trustee looks to update its beliefs at least every three years. The next sustainability beliefs review is scheduled in the third quarter of 2021.

The Delegated CIO's annual sustainability report helps the Trustee to review and monitor the latest sustainability and ESG considerations within the portfolio against its beliefs framework. As part of the ESG report, the following aspects are included:

- A section on understanding the latest trends in ESG and how sustainable investing can have a positive impact on investment return.
- Annual monitoring of the investment managers the Fund invests in, including any areas of weaknesses identified.
- Case studies of investment managers incorporating sustainability within the decision-making process.
- A quantitative and qualitative assessment of the carbon exposure in the Fund's portfolio.

Through the engagement undertaken by the Delegated CIO, the Trustee expects investment managers to sign up to local Stewardship Codes and to act as responsible stewards of capital as applicable to their mandates. The Delegated CIO considers the investment managers' policies and activities in relation to ESG and stewardship both at the appointment of a new manager and on an ongoing basis. The Delegated CIO engages with managers to improve their practices and may recommend the termination of a manager's appointment if they fail to demonstrate an acceptable level of practice in these areas.

The Fund is invested across a diverse range of asset classes which carry different ownership rights, for example fixed income whereby these holdings do not have voting rights attached. Therefore, voting information was only requested from the Fund's equity managers, or managers who own a significant amount of equity such as listed real estate (REITs) and listed infrastructure, as here there is a right to vote as an ultimate owner of a stock. Responses received are provided in the table below. Where managers provided multiple examples of "significant votes", the top three have been shown.

The Fund's equity holdings at the time of the 31 March 2021 Trustee Report & Accounts, are invested across six pooled funds:

- TWIM Global Equity Focus Fund – an active global equity fund managed by the Delegated CIO which invests in number of underlying active managers.
- Legal and General Investment Management (LGIM) Heitman Global Prime Property Securities – a passive global equity fund that is focussed on equity related to prime properties.
- LGIM Infrastructure Equity MFG Fund – a passive global equity fund that is focusses on equity related to infrastructure companies.
- Manager A – an active equity fund that is focussed on equities listed in China.
- Manager B – an active emerging market equity fund.
- Manager C – an active global equity fund that is focussed on equity related to prime properties.

As outlined above, the Fund is invested in both active and passive equity funds. For the active funds, the Trustee has decided not to publicly disclose investment manager names. This decision relates to the underlying investment managers in the TWIM fund and Managers A, B and C. Given the nature of these investments, the Trustee believes that publicly disclosing the names of the Fund's investment managers could impact the investment manager's ability to generate the best investment outcome for the Fund and ultimately, its members.

The Delegated CIO's view is that LGIM continues to demonstrate good/leading practice versus peers, in particular in their willingness to take visible stances on topics they believe are important. This is supported by an effective approach to conflict management, high transparency and effective communications. The Delegated CIO continues to engage with LGIM on the level of stewardship team resourcing, in particular given breadth/depth of coverage and rapid growth in assets under management (AUM), as well as pushing for better/more effective fixed income engagement.

The Delegated CIO's view on Manager A is that due to the strategy's fundamental investment approach we expect ESG risks and opportunities to be considered within their portfolio management process. Corporate engagement and asset stewardship are a key part of the investment process for the team and has been a key part of the investment process across all its investment strategies. Overall, the Delegated CIO views the SI approach of Manager A to be good.

The Delegated CIO views Manager B as well placed to put strong emphasis on SI within its investment process. At a firm-level, there are documented policies in place covering how ESG issues are viewed across the firm, but each team can adopt their own policies, as is done by the Emerging Markets team.

The Delegated CIO's view on Manager C is positive as the manager publicly supports SI initiatives. In the last calendar year, Manager C made improvements to its practices relating to ESG integration. Independent assurance is sought for the firm's voting policies. Manager C expects the portfolio to be less exposed to ESG risks than its benchmark on average.

**Voting table – TWIM: Global Equity Focus Fund**

| | | | | |
|---|---|---|---|---|
| **Voting activity** | Number of votes eligible to cast: 2921<br>Percentage of eligible votes cast: 99%<br>Percentage of votes with management: 90%<br>Percentage of votes against management: 10%<br>Percentage of votes abstained from: 0% | | | |
| **Most significant votes cast** | **Company** | Amazon | Cigna Corporation | Pegasystems Inc. |
| | **Size of holdings** | 2.5% | 1.6% | 1.0% |
| | **Resolution** | Shareholder proposal requesting an additional reduction in threshold for calling a special meeting. Shareholders requested 20%. Previous threshold was 30%. | Report on Gender Pay Gap. | Elect Director Peter Gyenes. |
| | **Decision /Vote** | For | For | Against |
| | **Manager's rationale for decision** | Shareholder proposal promotes appropriate accountability or incentivisation. | We believe the disclosures requested would be very low cost for the company to produce and that shareholders would benefit from additional information allowing them to better measure the progress of the company's diversity and inclusion initiatives, with significant benefits for the company related to employee and customer satisfaction as it would demonstrate that the company took the concerns seriously. | While Mr. Gyenes is a technology industry veteran and is well-acquainted with PEGA's business (having held a board seat since 2009), his most recent executive experience dates back fifteen years ago. As such, the company may be better served by appointing a director with more recent experience and positive diversity attributes. |
| | **Manager's rationale for classifying as significant** | We selected this vote as "significant" because the proposal was more important to the long-term value of the business compared to other proposals for that company. | We believe it was significant given both our firmwide shareholding (as a percentage of outstanding shares) and our engagement efforts. | Voted against management and against long-time director. |

| | |
|---|---|
| **Use of proxy voting** | Within the TWIM Global Equity Focus Fund, the underlying managers use the Institutional Shareholder Services (ISS) 'ProxyExchange' electronic voting platform to electronically vote clients' shares. The fund also uses EOS at Federated Hermes for voting recommendation services (via the ISS platform) to enhance engagement and achieve responsible ownership. The underlying managers within the fund are ultimately responsible for the votes. |

**Voting table – LGIM: Heitman Global Prime Property Securities**

| | |
|---|---|
| **Voting activity** | Number of votes eligible to cast: 1,223<br>Percentage of eligible votes cast: 100%<br>Percentage of votes with management: 84%<br>Percentage of votes against management: 16%<br>Percentage of votes abstained from: 0% |
| **Use of proxy voting** | LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure their proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions. |

**Voting table – LGIM: Infrastructure Equity MFG Fund**

| | |
|---|---|
| **Voting activity** | Number of votes eligible to cast: 1158<br>Percentage of eligible votes cast: 100%<br>Percentage of votes with management: 85%<br>Percentage of votes against management: 15%<br>Percentage of votes abstained from: 0% |
| **Use of proxy voting** | LGIM's Investment Stewardship team uses ISS's 'ProxyExchange' electronic voting platform to electronically vote clients' shares. All voting decisions are made by LGIM and they do not outsource any part of the strategic decisions. To ensure their proxy provider votes in accordance with their position on ESG, they have put in place a custom voting policy with specific voting instructions. |

**Voting table – Manager A: an active emerging markets equity fund focussed on China A Shares**

| | | | | |
|---|---|---|---|---|
| **Voting activity** | Number of votes eligible to cast: 956<br>Percentage of eligible votes cast: 100%<br>Percentage of votes with management: 99%<br>Percentage of votes against management: 1%<br>Percentage of votes abstained from: 0% | | | |
| | **Company** | China Telecom | China Mengnui Dairy | Lenovo Group |

| | | | | |
|---|---|---|---|---|
| **Most significant votes cast** | **Size of holdings** | 2.6% | 2.4% | 2.2% |
| | **Resolution** | Authority to issue shares without pre-emptive rights | Elect Jiao Shuge | Authority to issue shares without pre-emptive rights; authority to issue repurchased shares |
| | **Decision /Vote** | Against | For | Against |
| | **Manager's rationale for decision** | Concerns about potentially excessive dilution. Company also does not need to issue new shares given a healthy balance sheet. | Jiao has been on the board for several years. His experiences in the financial industry are credible, and the major shareholders do not want to be unreasonably diluted. | The resolution was not supported due to potentially large dilution. A rights issue for all shareholders would be preferred if large fundraising is required. |
| | **Manager's rationale for classifying as significant** | Against management | Vote against provider recommendations | Against management |
| **Use of proxy voting** | The Chinese Equity Fund uses Glass Lewis as a proxy voting service vendor to process votes on resolutions of investment companies in their shareholders' meetings. The service platform allows the manager to source voting ballots from multiple custodians, provide voting research papers with detailed analysis and recommendations. It also allows submission of voting decisions in an efficient centralised manner. It also possesses a reporting function on voting data in various formats which is helpful in reporting to clients. | | | |

**Voting table – Manager B: an active emerging market equity fund**

| | | | | |
|---|---|---|---|---|
| **Voting activity** | Number of votes eligible to cast: 1301<br>Percentage of eligible votes cast: 100%<br>Percentage of votes with management: 85%<br>Percentage of votes against management: 10%<br>Percentage of votes abstained from: 5% | | | |
| **Most significant votes cast** | **Company** | Samsung Electronics Co. Ltd. | China Resources Beer (Holdings) Company Limited | PT Bank Central Asia Tbk |
| | **Size of holdings** | 6.5% | 1.8% | 1.2% |

| | | | | |
|---|---|---|---|---|
| | **Resolution** | Elect Director | Elect Director | Amend Articles of Amendment |
| | **Decision /Vote** | Against | Against | Against |
| | **Manager's rationale for decision** | Vote against the incumbent independent directors as they collectively failed to remove criminally convicted directors from the board. The inaction is a material failure of governance and oversight at the company. | Nominee is over-boarded. | The proposal would limit shareholders' rights to review and vote on decisions on share repurchases in significantly fluctuating market conditions of the company. |
| | **Manager's rationale for classifying as significant** | Manager B considers a vote against management significant. | Manager B considers a vote against management significant. | Manager B considers a vote against management significant. |
| **Use of proxy voting** | The active emerging market equity fund will vote proxies in a prudent and diligent manner and in the best interests of clients, including beneficiaries of and participants in a client's benefit plan(s) for which the manager seeks to be consistent with the objective of maximising long-term investment returns ("Client Proxy Standard"). In addition to voting proxies at portfolio companies, Manager B routinely engages with the management or board of companies in which they invest on a range of environmental, social and governance issues. | | | |

**Voting table – Manager C: an active global fund focussed on real estate equity**

| | | | | |
|---|---|---|---|---|
| **Voting activity** | Number of votes eligible to cast: 546<br>Percentage of eligible votes cast: 100%<br>Percentage of votes with management: 98%<br>Percentage of votes against management: 2%<br>Percentage of votes abstained from: 0% | | | |
| **Most significant votes cast** | **Company** | Sun Hung Kai Properties Limited | Equinix, Inc. | Prologis, Inc. |
| | **Size of holdings** | 4.7% | 4.1% | 9.1% |
| | **Resolution** | Approve Issuance of Equity or Equity-Linked Securities without pre-emptive rights (grant a general mandate to the | Approve omnibus stock plan | Advisory vote to ratify named executive officers' compensation |

| | | | | |
|---|---|---|---|---|
| | | Directors to issue new shares) | | |
| | **Decision /Vote** | Against | Against | Against |
| | **Manager's rationale for decision** | The terms were not clearly articulated, particularly pricing. | ISS takes issue with Equinix's equity incentive plan using a rating system and benchmarking it. Equinix receives a score of 17, ISS points. The S&P500 companies generally land around 55. Their conclusion is the stock plan is too large, has relax vesting and the broad discretion on accelerating it. | The LTI bar was set too low. 100% of the target amount was awarded if the TSR was equal to the benchmark. 60% of target amount is awarded if PLD underperforms by 400-500bps. For the CEO in 2019 the target was $8.25m, thus would have been awarded $4.95m if underperformed peers by 500bps. |
| | **Manager's rationale for classifying as significant** | Voting against management | Voting against management | Voting against management |
| **Use of proxy voting** | The manager will vote on all resolutions that it has the ability to vote on in accordance with client investment management agreements. In the event that the manager receives a direction from a separately managed client account in relation to the appointment of a proxy and the way the proxy should be voted, the manager will use its best endeavours to implement the direction. In the absence of any direction, the manager will exercise the right to vote as it sees fit, having regard to the objective of the investment mandate and taking into consideration any material conflicts of interests identified. For pooled products, the manager will determine how to vote in accordance with the Proxy Voting Policy. The proxy votes are submitted via the ISS 'ProxyExchange' portal, to facilitate and assist with the voting process. | | | |

<u>Industry wide / public policy engagement:</u>

As mentioned in the SIP, the Delegated CIO has partnered with EOS at Federated Hermes (EOS) to undertake public policy engagement on behalf of its clients (including the Trustee). This public policy, and market best practice, engagement is done with legislators, regulators, industry bodies and other standard-setters to shape capital markets and the environment in which companies and their investors operate, a key element of which is risk related to climate change. The Delegated CIO represents client policies/sentiment to EOS via the Client Advisory Council, of which WTW are currently the chair. Engagement activities by EOS on public policy over 2020 included:

- 52 consultation responses or proactive equivalents (such as a letter), and 173 discussions held with relevant regulators and stakeholders during 2020.

- Climate Action 100+, an investor initiative aiming to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change, where EOS lead or co-lead 30 engagements and support another 14.

- Working closely with the Principles for Responsible Investment ('PRI'), including leading the engagement with Vale on the tailings dam failure, and actively involved in other groups, including cyber risk, water stress, cattle deforestation, palm oil, plastics, cobalt and tax.

- Close collaboration with significant investor initiatives including Investors for Opioid & Pharmaceutical Accountability, Investor Alliance for Human Rights, Plastics Solutions Investor Alliance, 30% Club, and Investor Initiative on Mining & Tailings Safety.

The Delegated CIO is also engaged in a number of industry wide initiatives and collaborative engagements including:

- Being a Tier 1 signatory of the 2012 UK Stewardship Code and submitting its first annual report to the 2020 UK Stewardship Code.
- Being a signatory of the PRI and active member of their Stewardship Advisory Committee.
- Being a member of and contributor to the Institutional Investors Group on Climate Change (IIGCC), Asian Investors Group on Climate Change (AIGCC), and Australasian Investors Group on Climate Change (IGCC).
- Founding the Coalition for Climate Resilient Investment (with the World Economic Forum).
- Co-founding the Investment Consultants Sustainability Working Group.
- Continuing to lead collaboration through the Thinking Ahead Institute and Willis Research Network.

## *3.* Conclusion

The Trustee considers that all SIP policies and principles were adhered to during the year.