

MEMBERS' SUMMARY ANNUAL REPORT

2018



WELCOME

A warm welcome to this year's Summary Annual Report which covers the activities of the Defined Benefit (DB) Section of the MNOFP for the scheme year which ended on 31 March 2018.



This year's report includes information on how the Fund has performed, a snapshot of the income and outgoings, and the membership numbers. For a more detailed picture of the Fund finances, please see the full 2018 Annual Report and Financial Statements which can be found online at www.mnopf.co.uk.

There is no funding update this year because a full financial assessment (or actuarial valuation) is taking place in 2018, the results of which will not be available for publication until 2019. Instead, on pages 10 to 13, we look at the work involved in the valuation and the progress made to date.

Looking to the future

Last year I wrote to you with news of the MNOFP's plans for the future as we enter an important phase in the life of the Fund. These plans are based on a simple long-term goal:

To secure all member benefits in the DB Section of the Fund and ensure the long-term future of the Ensign Retirement Plan.

In the 'Achieving our goals' section overleaf, it is particularly pleasing to be able to update you on the excellent progress made in each of the specific objectives. Every milestone met takes us nearer to achieving our goals and reaching our Journey Plan target.

I hope you enjoy the new format of this year's Summary Annual Report and would welcome your feedback on this, or any other aspect of the MNOFP.

On behalf of the MNOFP Trustee Board, I wish you all the very best for the year ahead.



Rory Murphy
Chair

**YOU CAN
VIEW THE FULL
ANNUAL REPORT
AND FINANCIAL
STATEMENTS
ONLINE AT**

WWW.MNOFP.CO.UK

ACHIEVING OUR GOALS



Achieve “full funding” of pension promises

We do this through collecting contributions from employers and making a good return on our investments. The Fund has made excellent progress this year and is on track with its Journey Plan. The full investment highlights and Journey Plan update are on pages 14 and 15.



Collect every penny of contributions due from employers

Amazing progress has been made, not only to collect contributions due from employers under their instalment payment plans, but also there has been great success in our efforts to encourage employers to settle their outstanding amounts in full. The statistics on pages 16 and 17 speak for themselves.



Eliminate risks in the Fund

As the Journey Plan gets ever nearer its target end date of 2025, so it becomes increasingly important to reduce the levels of risk within the Fund to help ensure the target is met on time.

Currently, the majority of the Fund’s investments are in lower risk asset types, with only a small proportion invested in equities (typically less than 10%). Nevertheless, there are many other types of risk faced by the Fund and we always look for opportunities to help reduce these risks further and to improve the overall security of your pension. You may recall that one such opportunity arose in December 2017 when we secured £490 million of members’ pension benefits through a ‘buy-in’ transaction with Legal & General which helps improve security for all members.

The Trustee Board will continue to seek out new opportunities to purchase insurance policies to keep risks low and to make your pension more secure.



Pensions for the next generation of maritime employees

The MNOFF was instrumental in the establishment of the defined contribution maritime industry pension plan - the Ensign Retirement Plan - and is committed to continuing its support of this important initiative. So I am delighted to report that all members and members' benefits in the Ensign Retirement Plan (for the MNOFF), which was the Money Purchase Section of the MNOFF, were successfully transferred to the Ensign Retirement Plan. This is a move which, I believe, will help secure the future of bespoke pension provision for the maritime sector. Members will now enjoy a reduction in annual charges and some exciting product enhancements are due to come online later in the year. With a brand re-refresh, and new employers signing up, the new 'Ensign' is really going from strength to strength. If you would like to know more, please visit www.ensignpensions.com.



Lean, effective governance

Throughout this process of change I, and my fellow trustee directors, have endeavoured to make the Fund more efficient and to reduce overall operating costs, whilst at the same time safeguarding the ongoing quality of Fund governance and performance. We have already made changes to the governance structure, and the way it operates, as well as reducing our costs, and you can read more about the governance changes on page 7.



MNOPF HIGHLIGHTS

1 April 2017 to 31 March 2018



5.4%

increase in funding level

Page 15



£101.8m

received in deficit contribution
payments from employers

Page 16



£131.9m

paid in benefits to members

Page 18



24,710

members in the MNOFF

Page 18



RUNNING THE MNOPF

Your pension is governed by a board of trustees whose sole responsibility is to ensure the MNOPF is run in your best interests and in accordance with the scheme rules.

Experience that counts

The Trustee Board is an independent body made up of experienced individuals who have credentials and backgrounds relevant to the maritime industry and who know and understand the principles of pensions and investment. The Board is supported by an expert team of professional advisers.



Effective, streamlined governance

Since July 2017, the Trustee Board has consisted of 10 Trustee Directors (five Officer Directors and five Employer Directors). This represents a reduction in the number of Directors from 14 previously, with the aim of streamlining Fund governance and making it more effective.

The Trustee Board meets twice a year in March and October (reduced from four times). It now has just two sub-committees; The Management Committee, which meets four times each year (this has incorporated duties from the Deficit Collection Sub-Committee and the Chair's Sub-Committee), and the Audit Committee, which meets three times a year.

YOUR TRUSTEE BOARD

The Board and sub-committee members, as at 31 March 2018 are:

OFFICER DIRECTORS

Mike Jess BEM (Vice-chair)

Charles Boyle

Ronnie Cunningham

Mark Dickinson

Olu Tunde

EMPLOYER DIRECTORS

Rory Murphy (Chair)

Ed Jones

Murdo MacDonald

Sarmad Qureshi

Paul Winter

SUB-COMMITTEE MEMBERSHIP

Management

Audit

Management

Audit (Chair)

SUB-COMMITTEE MEMBERSHIP

Management (Chair)

Management

Audit

Audit

The Joint Officers Pension Committee (JOPC), formed by the officer and employer organisations, has responsibility for nominating the directors.

FINANCIAL HIGHLIGHTS

Value of the Fund's defined benefit (DB) assets as at 31 March



The MNOFP has been closed to new members since 1996 and has had no actively contributing members since 2016. This means that with no new members joining the Fund, the amount of money that the Fund needs to hold to meet members' benefits will naturally reduce over time. In the last scheme year, the amount of outgoings (the benefits paid to members plus, to a lesser extent, Fund expenses),

has exceeded the amount the Fund has received (from positive asset performance and the deficit contributions received from employers). This means that, this year, the net asset value of the Fund has fallen by £38.1million. This is a trend likely to continue as employer contributions gradually reduce, the Fund de-risks further, and benefit payments to members increase over the next few years.

+11.1%

increase in total Fund assets since the actuarial valuation in 2015

FUND FINANCES to 31 March 2018	Total £m
Opening balance as at 31 March 2017	3,316.0
Income during the year	101.8
Less Expenditure and member benefit payments	(175.0)
Plus Net return on investment	35.1
Equals Closing balance as at 31 March 2018	3,277.9
MNOPF DB assets	£3,277.9

The Fund's accounts are audited each year by independent auditors, Grant Thornton LLP. Grant Thornton reported that the Fund's accounts

show a true and fair view of the financial transactions during the 12 months to 31 March 2018.

VALUING THE MNOPF

At least every three years a full financial assessment or 'actuarial valuation' of the MNOFP must take place to measure how well it is funded. The last full actuarial valuation took place in 2015, so the next is due as at 31 March 2018.

As 2018 is a full actuarial valuation year, and the results will not be available for publication until 2019, there is no funding update to report to you at this time. This means that the funding results provided to you in the 2017 Summary Annual Report are the latest available. You can view last year's report on the MNOFP website at www.mnopf.co.uk

The Trustee Board must set prudent assumptions for the scheme actuary to calculate the 'technical provisions' – the value of funds needed to meet pension promises as they become due.

When setting these assumptions, the Trustee Board looks at scheme specific factors such as retirement patterns (how and when members are retiring), mortality rates (in relation to the Fund's membership and also reflecting the recent slowdown nationally in life expectancy improvement rates), projections of future Trustee expenses (such as the fees we pay our advisers), and investment returns.

The Board must also consider the strength of all the employers who participate in the scheme (the employer covenant) and the investment strategy of the Fund. Both are currently being reviewed to ensure that the Journey Plan continues to meet the Fund's needs.

A full financial assessment of the Fund is underway



2018 Actuarial Valuation timeline

**October
2018**

Preliminary results
considered by
Trustee Board

**November/
December 2018**

Employer consultation
takes place

**March
2019**

Valuation signed off
by Trustee Board

**April/
May 2019**

Results communicated
to members and
employers





Next steps

The preliminary valuation results were considered by the Board at their October meeting and a consultation with employers is now underway. This is expected to be completed by the end of the year. The next step will be for the Trustee Board to consider the employers' views before signing off the final valuation at the March 2019 Board meeting. The results will then be communicated to all members, and employers, in April/May 2019.

Find out more

If you would like to find out about the value of your MNOFP benefits, please contact the Fund using the details shown on the back cover. If you need pensions advice, and particularly if you are thinking about transferring your MNOFP benefits out of the Fund, please speak to a financial adviser.

You can find details of impartial financial advisers in your area at www.unbiased.co.uk. The Trustee Board has also published 'Transfers Out – The Trustee View' which is available on the website at www.mnopf.co.uk

HOW THE FUND HAS PERFORMED

The Fund highlights for the year ending 31 March 2018 are:

Investment performance

- The Fund outperformed its liabilities by 1.4% over the last year
- This was below the target outperformance of 1.8% pa implied by the Journey Plan as, despite the strong performance over 2016 and 2017, the Fund struggled during market conditions in the middle of 2015 (as global equity markets fell significantly whilst liability values rose) and at the start of 2018 (due to equity market volatility)
- Over the longer term, the Fund has outperformed its benchmark measure* by an average of 1.2% each year since the last actuarial valuation in 2015 and by 1.9% over the last five years
- Fund performance over the past three years has largely been driven by returns from equity and credit markets as well as illiquid investments (such as private equity, infrastructure and property).



The significant falls in UK government bond yields over this period have detracted from performance as this led to rises in liability values (albeit most of this risk was offset by holding 'matching' assets)

- The funding level volatility over the past year was less than half that of the average pension scheme

Fund's Liabilities:

The value of pension benefits promised to all members and their dependants

Fund performance over one, three and six years

TO 31 MARCH	1 YEAR (%)	3 YEARS/SINCE 2015 VALUATION (% p.a.)	6 YEARS/SINCE 2012 VALUATION (% p.a.)
Fund return	2.4	6.5	9.1
Fund liabilities**	1.0	5.3	6.8
Fund compared to liabilities	1.4	1.2	2.2
Targeted return over liabilities	1.8	1.8	2.2

* The Fund is benchmarked against a measure called the Liability Proxy Return. The Fund's target return over each of the time periods is listed in the table above. The Fund aims to hit this target, not outperform it, to avoid taking more risk than necessary.

** This is a gilts-based measure ('gilts-based liabilities') and is different from the measure used to place a value on the Fund's liabilities during an actuarial valuation.

AN UPDATE ON THE JOURNEY PLAN

 <p>88.4% funding level</p>	 <p>5.4% increase in funding level over the year</p>	 <p>£101.8m The increase in funding level this year has been driven by the £101.8 million received in deficit contributions and outperformance of the assets relative to liabilities</p>	<p>On track The Fund is on track with its Journey Plan</p>
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- Journey Plan
- Funding Level Progression

Journey Plan:
MNOPF's path to achieve full funding by 2025

SPOTLIGHT ON DEFICIT COLLECTION

The Trustee Board is delighted that the excellent progress made in 2017 to collect outstanding contributions from employers (in respect of past shortfalls, or deficits) has continued into 2018.



COLLECTION HIGHLIGHTS

as at 31 March 2018



Total collected
in the 2017/18
scheme year

**£101.8
million**



Leaving the
amount still to
be collected just

**£68
million**



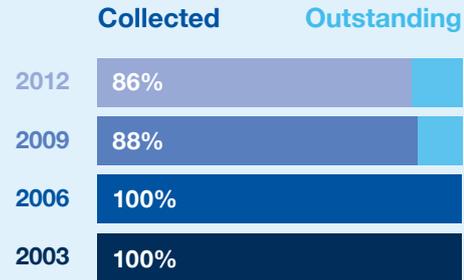
This is the first time since
2010 the amount outstanding
has fallen below

**£100
million**

PROGRESS IN PERSPECTIVE

Looking over the longer term, it is easier to see the huge strides the Fund has made in reducing the deficits announced in the 2003, 2006, 2009 and 2012 valuations.

Nearly all the deficits from previous valuations have been collected by the Fund. The chart opposite shows that only a small proportion of the deficits announced since 2003 remains to be collected.



A total of over
£280 million
has been collected since the last valuation in 2015



With over
£1.08 billion
collected in total since 2003



Resulting in
increased funds
from which to pay out benefits

The Trustee Board will continue to work closely with employers to help them meet their obligations, whilst remaining fair and consistent with all participating employers, to ensure all money owed is collected by the end of the Journey Plan.

FUND MEMBERSHIP PROFILE

On 31 March 2018 there were:



**Pensioner
members**

17,436



**Members with
deferred benefits**

7,274

**The Fund
paid over**

**£131.9
million**



Total

24,710

**in benefits to our
pensioners and
their beneficiaries
over the last year**

YOUR PENSION IS SECURE

Your MNOFP benefits are valuable, so it is no wonder that the many ‘bad news’ stories in the press about pensions can cause worry and uncertainty about the safety of your own pension.

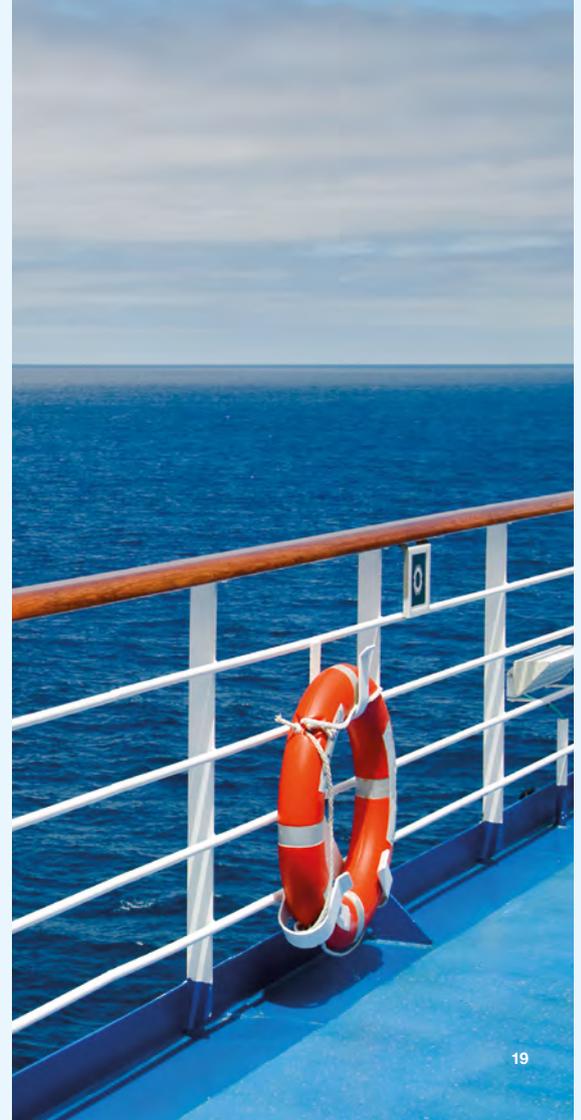
You may have read or heard about the collapse of the construction company Carillion and the money it owed to its company pension scheme. Rest assured, this situation cannot happen to your MNOFP benefits. This is because the Fund operates on a ‘last man standing’ basis. This means that should any of the 250+ employers who back the MNOFP fail as a business and be unable to pay its outstanding contributions, that employer’s share of payments due would be split amongst the remaining participating employers, which include some of the biggest names in the maritime industry. This makes your pension very secure.

STAY IN TOUCH

Have you recently moved house? Perhaps you have married or got divorced?

Remember, if your personal details change, please let us know so that we can update our records to ensure your benefits reach you without delay. And remember, if there are changes to your personal circumstances, your Expression of Wish form may need updating too. This form lets the Trustee Board know who you would like your benefits to be paid to in the event of your death, so it is important to keep these details up to date.

You can contact [myMNOFPpension](#) using the ways shown on the back page.





HOW TO CONTACT US

If you would like to find out more about your pension benefits, need to ask a question, or want to update your personal details, you can contact us in the following ways:

By email: enquiries@mynopfpension.co.uk

By calling [myMNOFPension](#) on **01372 200200**

By writing to: **myMNOFPension,
JLT Employee Benefits, Post Handling Centre U,
7 Charlotte Street, Manchester M1 4DZ**

To find out more about your MNOFP pension and the latest Fund news please visit our website at www.mnopf.co.uk

