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

Introduction

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

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

About this Statement

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

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

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

Investment objectives

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

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

Powers to pursue investment objectives

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

Legal duties

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

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

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

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

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

Investments to be held

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

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

Balance between different kinds of investment

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

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

Risk management

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

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

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

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

Monitoring

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

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

Expected return on investments

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

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

Realisation of investments

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

The role of the Management Committee

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

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

The roles of the Delegated CIO and BlackRock

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

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

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

Investment management

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

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

Compliance with the Pensions Act 1995

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

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

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

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

Appendix 1: Journey Plan for the DB Section

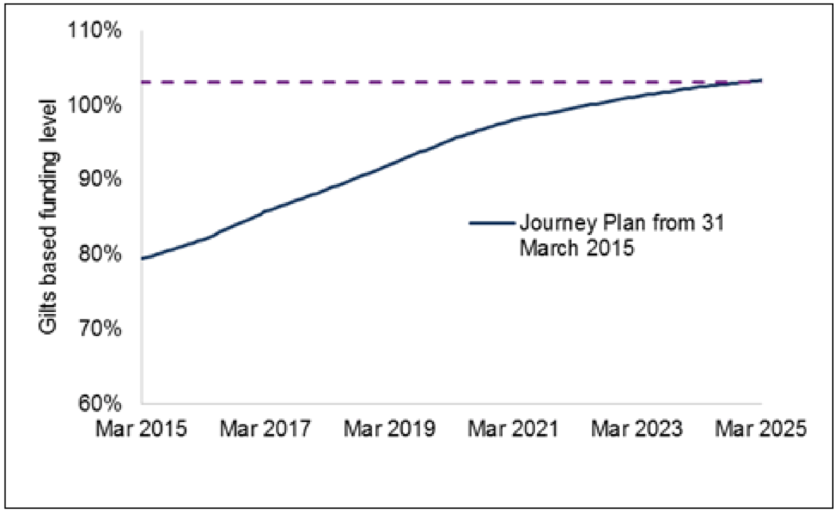
The Trustee determines the Journey Plan for the Defined Benefit Section.

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

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

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

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



Appendix 2: Strategic Asset Allocation Ranges for the DB Section

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

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

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

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

Appendix 3: Socially responsible investment and corporate governance

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

Socially responsible investment

The Trustee has delegated responsibility for the selection, retention and realisation of investments to the Delegated CIO and in turn to the MNOPF's investment managers. However, the Trustee and Delegated CIO recognise that an investment's long-term financial success is influenced by a range of factors including Environmental, Social and Governance (ESG) issues.

Consequently the Trustee (through the selection of the Delegated CIO and its associated approach to environmental, social and governance issues, as set out further below) seeks to be an active long-term investor. The Trustee's focus is explicitly on financially material considerations. The Trustee supports investments with a positive social and environmental impact, but these investments must have no adverse impact on overall investment efficiency.

The Delegated CIO has a dedicated Sustainable Investment resource and a network of subject matter experts. The consideration of ESG issues is fully embedded in the investment manager selection and portfolio management process, with oversight undertaken on an ongoing basis. Whilst noting there may be limitations for each investment manager and asset strategy, the Delegated CIO expects investment managers to have ESG processes that align with the investment risk and return characteristics of the strategy. Where an investment manager's processes are deemed insufficient by the Delegated CIO and the investment manager does not take steps to improve their approach, the investment manager's position in the portfolio may be reviewed and/or a decision may be taken not to proceed with an investment.

The Delegated CIO considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Delegated CIO takes into account in the assessment.

Corporate governance

The Trustee recognises the responsibilities of shareholders as owners of capital. Accordingly, the Trustee's objective as a shareholder is to achieve a substantial long-term return on the MNOPF's investments by the preservation and enhancement of shareholder value, which it believes good corporate governance promotes. Matters of corporate governance in general and voting in particular are integral parts of the delegation of duties to the Investment Managers. Voting power should be exercised by the Investment Managers with the objective of preserving and enhancing long-term shareholder value.

The Delegated CIO encourages and expects the MNOPF's Investment Managers to sign up to local or other applicable Stewardship Codes, in keeping with good practice, subject to the extent of materiality for certain asset classes. The Delegated CIO itself is a signatory to the Principles for Responsible Investment (PRI) and the UK Stewardship Code and is actively involved in external collaborations and initiatives. The Trustee has posted its Statement of Commitment to the Stewardship code both on its own website, and that of the Financial Reporting Council.

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers. The Delegated CIO has appointed Hermes EOS to undertake public policy engagement on its behalf as well as company-level engagement and the provision of voting advice for the MNOPF's equity investments.

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

Appendix 4: The Delegated CIO

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

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

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

The Delegated CIO's responsibilities include:

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

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

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

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

Appendix 5: Money Purchase Section funds

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

BlackRock DC LifePath Retirement

BlackRock DC LifePath Capital

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

BlackRock DC Aquila UK Equity Index

Schroder Dynamic Multi Asset Fund (DMAF)

BlackRock DC Cash

BlackRock DC Aquila Emerging Markets Equity Index

BlackRock DC Aquila Over 15 Year Gilt Index

BlackRock DC Aquila Corporate Bond All Stocks Index

LGIM Ethical Global Equity Index

HSBC Amanah Pension Fund

BlackRock DC Property

BlackRock DC Aquila All Stocks UK Index Linked Gilt Index

Appendix 6: Defined terms

The following expressions have specific meanings in this Statement:

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

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

DB Section means the Defined Benefit Section of the MNOPF;

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

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

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

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

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

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

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

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

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

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

MNOPF means the Merchant Navy Officers Pension Fund;

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

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

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

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

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

Statement means this Statement of Investment Principles;

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

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

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

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

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