Merchant Navy Officers Pension Fund (MNOPF) Statement of Commitment to the UK Stewardship Code

Introduction

The Merchant Navy Officers Pension Fund ("MNOPF") was set up for the provision of defined benefits to British Merchant Navy Officers and annuities to their dependants.

The Trustee of the MNOPF (the "Trustee") has delegated the implementation and execution of the investment strategy to a Delegated Chief Investment Officer ("Delegated CIO").

The Trustee seeks to be a responsible long-term steward of capital in pursuit of its fiduciary duty. The Trustee believes that good stewardship can protect or enhance long-term corporate and investment performance, a belief that is shared by the Delegated CIO, and is therefore in the best interests of the MNOPF's beneficiaries. As such, the Trustee supports the UK Stewardship Code ("the Code") which it recognises as best practice; this statement describes how the Trustee implements the principles of the Code.

The Delegated CIO works with other participants in the investment chain to facilitate effective stewardship of assets in the best interests of the ultimate beneficiaries. The Trustee, through the Delegated CIO encourages asset owners and asset managers to adhere to the letter and spirit of applicable best practice standards, such as the UK Stewardship Code.

The Stewardship Code sets out seven principles which are addressed by the Trustee as outlined below.

Principle 1 - Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

The Trustee sets out its approach to stewardship in the MNOPF's Statement of Investment Principles and in this Statement. Both are available to the MNOPF's members. A link to this Statement is provided on the Trustee's website alongside other member information. The MNOPF's commitment to the Stewardship Code is also available on the Financial Reporting Council's website.

The Trustee recognises its position as an asset owner with ultimate responsibility to its members and beneficiaries and recognises that effective stewardship can help protect and enhance the long-term value of its investments to the ultimate benefit of its beneficiaries. The adopted approach to stewardship is framed in that context.

In practice, the Trustee delegates responsibility for the selection, retention and realisation of investments to numerous external investment managers and in so doing, it also delegates day-to-day implementation of its stewardship activity. The Trustee believes that this approach is compatible with its stewardship responsibilities as it is the most effective and efficient manner in which it can promote and carry out stewardship activities in respect of its investments, and ensure the widest reach of these activities given the MNOPF's investment arrangements.

The Trustee expects its equity investment managers to adhere to the principles within the UK Stewardship Code or to explain where they do not. This position is communicated to the MNOPF's investment managers and forms the basis of the approach to monitoring the investment managers as outlined in this document. Whilst the Stewardship Code is primarily directed at UK equity investments, the Trustee encourages its investment managers to apply the principles of the Code to overseas equity holdings where possible. The primary mechanisms for the application of effective stewardship for the MNOPF are exercise of voting rights and engagement with investee companies. The Trustee expects its external equity investment managers to pursue both these mechanisms while being mindful of context (for example the Trustee believes that asset managers with larger ownership stakes in companies are often better placed to undertake effective engagement).

The Trustee views stewardship activities within the context of its wider investment process and overall approach to investing, which is described in the MNOPF's Statement of Investment Principles. A key related area where stewardship is integrated into the wider process is in the selection of external investment managers. When considering the appointment of external investment managers the consideration of Environmental Social and Governance ("ESG") integration and stewardship activity of each investment manager is part of the selection process.

In the process of monitoring stewardship responsibilities delegated to external investment managers, tasks undertaken by the Trustee in past two years enabled the Trustee to:

- maintain awareness of key industry developments
- reconfirm trustee beliefs and associated statements (such as this document)
- oversee member communication, including responding to queries
- review reporting from its Delegated CIO on an annual basis which monitors each investment manager used by the MNOPF in terms of its ESG integration and stewardship (voting and engagement)

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed

Day-to-day implementation of the MNOPF's stewardship activity has been delegated to the Delegated CIO. The Delegated CIO actively engages with the external investment managers of the MNOPF about managing conflicts of interest in relation to stewardship. The Trustee and Delegated CIO expects the MNOPF's investment managers to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of the MNOPF's members are prioritised.

The Trustee annually receives reporting provided by the Delegated CIO which summarises the ESG integration and stewardship (voting and engagement) activities of its external investment managers and highlights areas of potential concern. For equity investment managers this includes:

- consideration of whether the investment manager's policy includes: an explanation of how they act in the best interests of clients; how conflicts of interest are identified; and the process followed when a conflict of interest is seen to exist; and
- a summary of voting and engagement activities in a consistent format.

The Trustee has adopted a conflicts of interest policy, the purpose of which is to establish guidelines for identifying, monitoring and managing conflicts of interest as they arise to ensure that at all times the Trustee complies with its fiduciary duties under trust law, the requirements of applicable legislation and the provisions of the MNOPF's Trust Deed and Rules. Each Trustee Director has an individual responsibility to identify and report conflicts of interest, whether through the annual declarations of any conflicts of interest, or at the start of each meeting. All conflicts of interest are recorded on the Register of Interests and shared with the other Trustee Directors.

Principle 3 - Institutional investors should monitor their investee companies

The Trustee and Delegated CIO require the MNOPF's external equity investment managers to monitor investee companies. Issues to be monitored are likely to vary, however typically these might include a company's corporate strategy, financial performance, risk (including those from environmental and social factors), capital structure, leadership team and corporate governance. The Trustee and Delegated CIO encourage the MNOPF's external investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code.

The Delegated CIO actively engages with and monitors the active ownership practices adopted by the MNOPF's investment managers as well as the processes in place for monitoring the environmental, social and corporate governance practices of the investee companies. The Delegated CIO will engage with an investment manager if policies and practices are seen to be below best practice, respectful of size, geography, investment philosophy and style.

The Trustee annually receives reporting provided by the Delegated CIO which summarises the ESG integration and stewardship (voting and engagement) activities of the MNOPF's external investment managers and highlights areas of potential concern. For equity investment managers this includes consideration of:

- who has overall responsibility for ESG risk analysis and integration;
- resources and experience of the team;
- at what stages of the process ESG risks are considered;
- exposures to environmental, social or governance risk within the portfolio; and
- whether the investment manager is or intends to become an insider and, if so, whether the manager has a policy setting out the mechanisms through which this is done.

The Trustee does not expect itself to be made an insider given the delegation of investment decision-making in place for the MNOPF.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities

The Trustee and Delegated CIO recognise that the use of proxy votes and constructive engagement with company management can help protect and enhance shareholder value. Typically, the Trustee and Delegated CIO expect the MNOPF's external investment managers to intervene with investee companies when they view that there are material risks or issues that are not currently being adequately addressed.

The Delegated CIO expects the MNOPF's investment managers to have clear guidelines in place on when and how they will escalate their stewardship activities and to report back on any activity undertaken.

The Trustee annually receives reporting provided by the Delegated CIO which summarises the ESG integration and stewardship (voting and engagement) activities of its external investment managers and highlights areas of potential concern. For equity investment managers this includes consideration of:

- whether voting activity has led to any changes in company practice if appropriate;
- whether the investment manager's policy specifies when and how they will escalate engagement activities;
- overall engagement statistics (volume and areas of focus);
- example of most intensive engagement activity; and
- the estimated performance impact of engagement on the strategy in question.

Given the range of fund managers and Fund investments, the Trustee in conjunction with the Delegated CIO carries out its monitoring at the manager level to identify:

- trends to ensure progress is being made in stewardship activities;
- specific managers where progress or the rate of progress is not adequate; and
- appropriate specific actions necessary.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate

As day-to-day management of the MNOPF's assets has been delegated to external investment managers, the Trustee is unlikely to be directly involved in collective engagement activity. However, the Trustee and the Delegated CIO encourage the MNOPF's investment managers to consider collective engagement where this is an efficient means to protect and enhance long-term shareholder value. There may be circumstances when the most effective engagement is at a market level brought about by changes to policy, regulation or standards of best practice. The Delegated CIO therefore encourages engagement with groups such as policy makers, industry bodies or listing authorities to bring about market-wide improvements.

The Trustee annually receives reporting provided by the Delegated CIO which summarises the ESG integration and stewardship (voting and engagement) activities of its external investment managers and highlights areas of potential concern. For equity investment managers this includes consideration of:

- whether the investment manager's policy specifies their stance on collaborative engagement activities; and
- the extent to which the investment manager contributes to these efforts.

The Trustee is open to work with other investors in either formal or informal arrangements to enhance the impact of their engagement activities should such a situation arise.

In addition to the stewardship activity delegated to its investment managers, the Trustee expects to benefit indirectly from the collective activity of the Delegated CIO, who employs Hermes Equity Ownership Services ("Hermes EOS") to undertake public engagement on behalf of its asset owner client base. Public engagement activity involves Hermes EOS working with policy makers and institutions to encourage policies and standards to be aligned to the interests of shareholders.

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity

The Trustee has delegated its voting rights to the MNOPF's investment managers and expects them to vote whenever it is practical to do so. The Delegated CIO encourages the MNOPF's investment managers to have a documented voting policy in line with relevant industry best practice and to disclose this publicly.

In general the Delegated CIO encourages the investment managers to vote all their proxies, where it is practical to do so, and favours processes which enable considered (as opposed to automated) voting decisions to be reached with responsibility for those decisions lying with the investment teams responsible for managing the assets.

The Trustee annually receives reporting provided by the Delegated CIO which summarises the ESG integration and stewardship (voting and engagement) activities of its external investment managers and highlights areas of potential concern. For equity investment managers this includes consideration of:

- whether the manager has a voting policy and, what areas are covered;
- whether client-directed voting policies can be applied;
- the level of voting activity which is disclosed to clients and the level of voting activity which is disclosed publicly;
- whether the investment manager typically informs companies of their rationale when voting against or abstaining (and whether this is typically in advance of the vote or not);
- if securities lending takes place within a pooled fund for the strategy, whether the stock is recalled for all key votes for all stocks held in the portfolio; and
- whether a third party proxy voting service provider is used and, if so, how.

If a manager does not have a voting policy, they are encouraged to adopt one.

The MNOPF does not currently have any segregated equity accounts and therefore the Trustee is not able to undertake any stock lending itself via a custodian.

Given the range of fund managers and Fund investments the Trustee in conjunction with the Delegated CIO carries out its monitoring at the manager level to identify:

- trends to ensure progress is being made in stewardship activities;
- specific managers where progress or the rate of progress is not adequate; and
- appropriate specific actions necessary.

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities

The Trustee and Delegated CIO expect the MNOPF's investment managers to report on their voting and engagement activity on a regular basis in an appropriate format. The Delegated CIO encourages public disclosure of stewardship policies and expects investment managers to articulate their position relative to the Stewardship Code on a comply or explain basis.

The Trustee annually receives reporting provided by the Delegated CIO which summarises the ESG integration and stewardship (voting and engagement) activities of its external investment managers and highlights areas of potential concern. For equity investment managers this includes consideration of:

- the level of transparency offered by the individual investment managers;
- the level and frequency of standard regular reporting offered by the individual investment managers; and
- whether the manager has any independent process assurance and whether this is available to clients.

This statement is reviewed regularly and updated as necessary.

MNOPF Trustees Limited

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