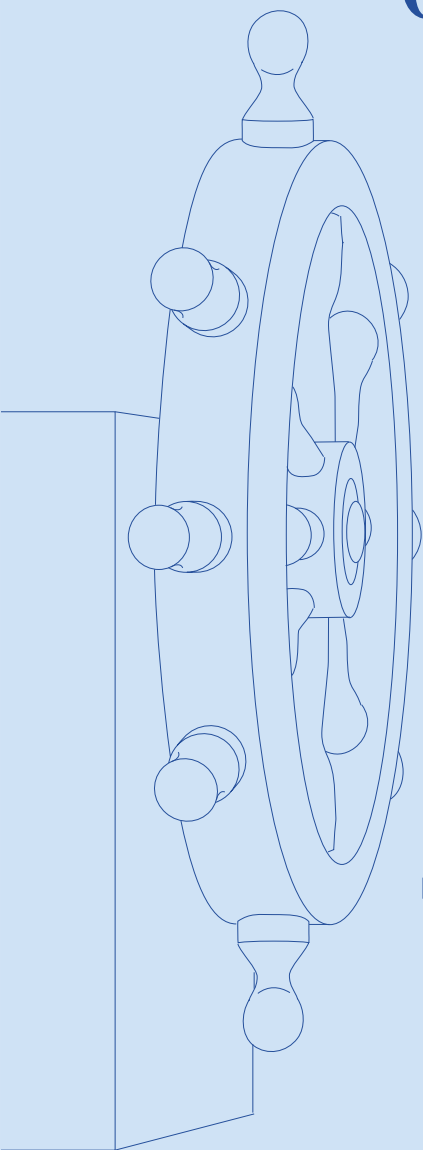


**MERCHANT NAVY
OFFICERS
PENSION
FUND**



**SUMMARY
ANNUAL
REPORT
2000**

SUMMARY ANNUAL REPORT 2000

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Trustee: MNOFP Trustees Limited

Registered Office: Ashcombe House, The Crescent, Leatherhead, Surrey KT22 8LQ

Pension Scheme Registry Number: 10005645

CONTACT FOR FURTHER INFORMATION

Any person who has a query in relation to the Fund in general, including a requirement to obtain copies of Fund documentation, should address their query to the Director of Pensions, Merchant Navy Officers Pension Fund, Ashcombe House, The Crescent, Leatherhead, Surrey KT22 8LQ. Members enquiring about their own benefits should initially telephone the Member Liaison Service (Tel: 01372 200200).

CHAIRMAN'S MESSAGE

Introduction

I am pleased to address this message to all active, deferred and pensioner members of the Merchant Navy Officers Pension Fund ("the Fund"). This message forms part of a summary report that is being circulated to members in place of the "full" Annual Report issued to members in previous years.

The reason for the change is because the content of the full Report has become very detailed and prescriptive in recent years. This report excludes some of the detail required by legislation in the full Report and is designed to provide you, the member, with a more readable document so that you can gain a better understanding of what has happened to your Fund during the last year.

If, having read this summary, you would still like to receive a copy of the full Annual Report please contact the Director of Pensions at the address shown on page 1.

John Newman's retirement

As the new Chairman, my first task is to express, on behalf of all the members of the Trustee Board, the employers, and the organisations representing members and employers, a considerable thank you to John Newman who has now stood down from the Trustee Board to enjoy a very well earned retirement. John has been involved in the management of the Fund's affairs for over thirty years, the last seven of which he has been its Chairman. He has devoted considerable time and effort and demonstrated much skill in his Chairmanship of the Trustee Board. Thank you John, your presence will be missed by all.

The year in summary

The last few years have seen considerable changes to the Fund that have mainly been brought about through changes in legislation and economic conditions. This last year has been no exception as the Trustee Board has had to consider the results of the Actuarial Valuations of the Old and New Sections of the Fund and take decisions on contribution rates and benefits.

To remind you, the Fund is required to have an actuarial valuation at least every three years which compares the Fund's liabilities to date with the Fund's assets and also determines the contributions required to meet future service benefits. A more detailed explanation of the results of this exercise is shown on page 7. The impact of low inflation and correspondingly low interest rates, together with the Fund becoming increasingly mature, has resulted in the Old Section reporting a small surplus of £20m and the New Section reporting a deficit of £55m as at 31 March 1999.

Changes to the Fund

Faced with forecasts of continuing low inflation, the Trustee Board has deliberated long and hard regarding the levels of contributions and benefits. Consultations have also been undertaken with all the Fund's contributing employers to see what level of contributions they are able to support.

For future service the joint contribution rate required to provide the benefit level as at 31 March 1999 was 24% of Pensionable Salaries. This compared with the actual rate of 13.3%. As there is no longer any surplus available to support reduced contribution rates it has been decided to increase the joint contribution rate to 19.2% with effect from 1 October 2000 and change the accrual rate to 1/80th of an improved definition of Pensionable Salary.

A concern of the Trustee Board has been to clarify the responsibilities of employers who participate in the Fund, particularly with regard to making good any deficits in the Fund. The Rules have therefore been amended and the Trustee Board intends to ask a court of law for confirmation.

The above changes are explained in more detail on page 8.

Pensions in payment

It was hoped that there would be sufficient surplus within the Old Section to award an increase of 1% to Old Section pensions in payment at 1 April 2000. However, in the event no increase was awarded. More detail regarding this is shown under "Members with Old Section Pensions" on page 8.

As there is a deficit in the New Section, it has not been possible to award any discretionary increases as at 1 April 2000.

Investments

The Fund is mature which means a high proportion of the Fund's liabilities relate to deferred and pensioner members. As a pension scheme matures, it is necessary to more closely match its assets with its liabilities. This matching exercise is carried out through investing in fixed interest securities. The advantage that fixed interest securities bring is the security of known income to the Fund that is vital to meet the commitment to pay pensions on a regular basis. The disadvantage of this type of investment is that there is little scope for obtaining additional investment returns that might in turn allow for discretionary increases.

The investment performance for the calendar year to 31 December 1999 is measured separately for each section. The Old Section of the Fund returned 17.1% while the New Section returned 18.3%. The lower return for the pre-1978 section is attributable to that section having a greater proportion of its

investments in fixed interest securities. These performance figures are lower than the respective benchmarks established by the Trustee Board for each section. The Investment Committee has expressed considerable dissatisfaction with these returns. However, it should be borne in mind that the actual returns do significantly exceed the average long term assumptions of 5% p.a. for the Old Section and 6% p.a. for the New Section made by the actuary in the valuation as at 31 March 1999.

Due to the continuing change in the profile of the Fund's liabilities a review of the strategic asset allocations is presently being carried out. Further information on this can be found on page 10.

The Next Year

The last year has been a challenging time for the Fund with many important decisions being taken to ensure the Fund can continue to provide a good level of pension for Officers. During the next year, the Trustees will continue to monitor the Fund's position (by means of a further actuarial valuation) and will be asking for legal confirmation of their powers under the Rules to require extra contributions from employers to meet any deficit.

With best wishes.

A handwritten signature in black ink, appearing to read 'Peter McEwen', with a long horizontal flourish underneath.

Peter McEwen
Chairman

12 October 2000

MANAGEMENT AND ADMINISTRATION

The Fund is managed by the Trustee, MNOF Trustees Limited. There is provision for fourteen Directors to be appointed to the Board of the Trustee (the “Trustee Board”) with employers and members being equally represented. A list of current Directors is shown on page 12.

During the year the Trustee Board met regularly to review the management of the Fund.

The investment management of the Fund is reviewed by an Investment Committee of six members of the Trustee Board who are supported by investment advisers. Issues relating to the finance, accounting and audit of the Fund’s financial statements are reviewed by an Audit Committee which meets with the external auditors at least twice a year.

In addition, the Trustee Board has delegated certain authorities to the Chief Executive and Director of Pensions (“the Executives”) to supervise the regular affairs of the Fund.

Administration of the fund

The administration of the Fund is delegated to Merchant Navy Pensions Administration (“MNPA”), a wholly owned subsidiary of MNOF Trustees Limited. MNPA receives a fee for this service under contract. In addition to managing the administration of the Fund, MNPA also provides financial accounting, an investment administration service which monitors external investment managers and a property management service. The Member Liaison Service, to which members’ telephone calls are routed, continues to operate very successfully enabling a high proportion of queries to be dealt with at the time of calling.

MNPA also provides pensions administration services to a number of external clients. This activity provides a return to the Fund, effectively reducing the Fund’s operating costs. As a result the cost of MNPA’s administration has been further reduced from £2.1 million to £1.9 million in the current year.

Personal Financial Planning

MNPA provides a personal financial planning service to members. The service, which is entirely independent and objective, can provide guidance to members who are considering transferring from the Fund or who have a lump sum to invest on retirement. In most cases any commissions earned by MNPA for providing this service are in part reinvested in the product chosen by the member resulting in additional benefit to the member. MNPA is a member of the Investment Management Regulatory Organisation Limited and is regulated by that body in respect of the provision of this service.

Fund Documentation

The Fund's operations are governed by the Trust Deed and Rules. The last consolidated version of the Trust Deed and Rules was produced in June 1999, a copy of which was circulated to all contributing members. Since then, amendments have been made to document the changes described on page 8.

ACTUARIAL VALUATION

The Fund is required to have an actuarial valuation at least once every three years. A valuation assesses the Funds' past service liabilities against the value of assets to see if there is a surplus or deficit. It also looks at the contributions required to fund future service benefits.

The triennial valuation of the Fund was carried out as at 31 March 1999 separately for the Old Section and the New Section. The results disclosed were as follows:

	Old Section £m	New Section £m
Value of past service liabilities	1,280	1,561
Market value of assets	1,300	1,506
	-----	-----
Surplus / (deficit)	20	(55)
	-----	-----

For future service, the joint contribution rate required to provide the New Section benefits in force at 31 March 1999 was 24% of Pensionable Salaries. This compares with the joint rate actually being paid of 13.3% of Pensionable Salaries.

A valuation also has to be carried out on a prescribed basis set out in the Minimum Funding Requirement regulations of the Pensions Act 1995. On this basis, the assets in each of the Old Section and the New Section were more than sufficient to cover the liabilities in the respective Sections as at 31 March 1999.

Copies of the valuation reports are available on request.

BENEFIT AND CONTRIBUTION CHANGES

The Trustee Board has given consideration to the results of the valuation and has taken legal and actuarial advice. The Trustee Board has also consulted the employers of current contributing members on their preferences for future levels of contribution and benefit in the Fund. As a result, the Trustee Board has agreed to amend the Fund as follows.

(i) From 8 June 2000

- The Rules of the Fund require participating Employers to contribute to the Fund. The Rules have been amended, with effect from 8 June 2000, to state expressly that an employer will not be regarded as ceasing to be a Participating Employer as a result of ceasing to employ Active Members or other eligible employees. The amendment also makes it clear that the Trustee Board may call for lump sum payments from the Participating Employers to make up deficits. The Trustee Board plans to ask the Court to confirm both the Rule amendment and the effect of the provisions which applied prior to the amendment.

(ii) From 1 October 2000

- The joint contribution rate becomes 19.2% of Pensionable Salaries (Employers 11.9%; Members 7.3%).
- The accrual rate becomes 1/80th of Pensionable Salary per year of service.
- Pensionable Salary will be redefined as Salary (as defined in the Rules) less one times the National Insurance Lower Earnings Limit (currently one and a half times). This new definition applies for both the contribution rate and the accrual rate from 1 October 2000.

(iii) From 1 January 2001

- The Optional Early Retirement Scheme will continue only for those who have qualified under the existing Scheme but have not yet retired.

Members with Old Section Pensions

Members who contributed before 6 April 1978 have benefits in the Old Section of the MNOFF. There are no guaranteed increases to Old Section pensions but each year the Trustee Board considers whether a discretionary increase can be awarded. The last Announcement sent to all members of the MNOFF, dated 14 June 2000, advised that further discussions were being held on whether a discretionary increase could be granted as at April 2000 and a decision would be made at the Trustee Board meeting on 30 June 2000.

At that meeting, the Trustee Board decided not to award a discretionary increase as at 1 April 2000 to Old Section pensions.

SOME IMPORTANT FIGURES

	31.3.2000	31.3.1999
Scheme membership		
Actives	4,144	4,455
Deferreds	30,168	30,818
Pensioners	19,909	19,616
	-----	-----
	54,221	54,889
	-----	-----

Financial review

	Year to 31.3.2000 £m	Year to 31.3.1999 £m
Contributions inflow	15.6	14.8
Benefits outflow	133.8	131.0
	-----	-----
Net outflow	(118.2)	(116.2)
Returns on investments	363.7	200.3
	-----	-----
Net increase in the Fund for the year	245.5	84.1
Net assets of the Fund at the beginning of the year	2809.2	2725.1
	-----	-----
Net assets of the Fund at the end of the year	3054.7	2809.2
	=====	=====

INVESTMENT REPORT

Strategic Asset Allocation

The strategic asset allocations have been reviewed following the Actuarial Valuations as at 31 March 1999 to ensure that the assets are suitably diversified, and continue to provide a reasonable expectation of meeting the investment objectives.

As a consequence of the differing age and membership profiles of the Old and New Sections, the Trustees have adopted different strategic asset allocations for these two Sections. As a result, a higher proportion of the assets in respect of the Old Section has been invested in fixed interest investments, from which income can be predicted with greater certainty, so providing a better match of future pension liabilities with assets.

A more modest switch from equities to fixed interest has also taken place in the New Section. In conjunction with this, there has been a review of investment managers to reflect the changed investment structure and to replace managers who have not performed well.

Investment Performance

The proportions of each Section of the Fund invested in equities and fixed interest are different as a consequence of the adoption of different strategic asset allocations as referred to above. As a result, the investment performance of each Section differs.

The investment performance of each Section is measured independently by Combined Actuarial Performance Services Limited (“CAPS”). For the calendar year 1999 and for the five years to 31 December 1999 the results have been as follows:

	Year to 31 December 1999	Five years to 31 December 1999
	% p.a.	% p.a.
Old Section	17.1	15.2
New Section	18.3	15.2
CAPS Median Return	19.8	15.8

The CAPS Median Return represents the median (i.e. the middle value) of the investment return of 1703 pension funds measured by CAPS in 1999 covering over half of pension funds in the UK similar to the MNOFF.

Property Investment

Property investment within the Fund is managed by MNPA under a specialist investment contract. MNPA is remunerated by a fixed fee for investment advice and a percentage of rents invoiced. Fees are also charged in respect of rent reviews and lease renewals undertaken by MNPA. MNPA arranges insurance for the properties for which commission is received from the insurers.

The value of the property portfolio at the year end was £237.8m and comprised 98 properties with a total rent roll of £17.9m reflecting a yield on market value of 7.5%. The portfolio generated a total return for the calendar year 1999 of 14.9% compared with the Investment Property Databank Limited average market return of 15.2%.

Statement of Investment Principles (“SIP”)

The SIP sets out the investment objectives of the Fund.

The Trustee Board have now revised the SIP to include a statement of policy on social, environmental and ethical considerations and the exercise of rights attaching to investments including voting rights. The Trustee Board consulted the employers before revising the SIP. A copy of the SIP is available on request.

Additional Voluntary Contribution Scheme

The Additional Voluntary Contribution (“AVC”) scheme enables members to pay extra contributions to enhance their benefits. At 31 March 2000 there were 566 members in the scheme. Contributions are paid to the Equitable Life Assurance Society and invested in their “with profits fund”, “managed fund” or a building society-type account with rates linked to those paid by the Nationwide Building Society. A service which helps members decide whether or how much they should pay into the scheme is available from MNPA.

Recently, the Equitable Life has lost a Court action concerning its practice on guarantees contained in some of its contracts. A leaflet setting out the implications of this is being sent to members who are paying AVCs. Members who are thinking of starting AVCs should contact MNPA for further information.

TRUSTEE BOARD, EXECUTIVES AND ADVISERS

As at 12 October 2000

OFFICER DIRECTORS

L W Attwood +
D R Bond +
W Harrison •
C T Jones
P G McEwen *+
P Moloney •
B D Orrell *

EMPLOYER DIRECTORS

I R Berry
J M Crossman
C H Cunningham +•
W D Everard
J Lusted *
Captain F M Marchant MBE +•
P C Pratt +

EXECUTIVES

CHIEF EXECUTIVE
G R Henry *

DIRECTOR OF PENSIONS
P Greenwood *

* Director of Merchant Navy
Pensions Administration Limited.

+ Member of the Investment Committee
• Member of the Audit Committee

SECRETARY AND ADMINISTRATOR

Merchant Navy Pensions Administration Limited

ADVISERS

Actuary:

Peter Lofthouse

Actuarial advisers:

Watson Wyatt Partners

Auditors:

Arthur Andersen

Bankers and custodians:

Chase Manhattan Bank

National Westminster Bank plc

Investment managers:

- fixed interest securities

Henderson Global Investors Limited

Merrill Lynch Investment Managers Limited

Western Asset Management Company Limited

Clerical Medical Investment Group Limited

Merrill Lynch Investment Managers Limited

Société Générale Asset Management UK Limited

Deutsche Asset Management Limited

Alliance Capital Limited

Schroder Investment Management Limited

G R Henry

Merchant Navy Pensions Administration Ltd

Equitable Life Assurance Society

Investment advisers:

- strategy

Watson Wyatt Partners

- property

J S Black

- taxation

Deloitte & Touche

Legal advisers:

- pensions matters

Baker & McKenzie

- property in England

Hill Dickinson

- property in Scotland

DLA & Partners



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