



Annual Report & Accounts

For the year ended
31 March 2011 [»](#)



MERCHANT NAVY OFFICERS PENSION FUND

Annual Report & Accounts for the year ended 31 March 2011

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Pension Scheme Registry Number: 10005645

Trustee: MNOPF Trustees Limited

Registered Office: Leatherhead House, Station Road, Leatherhead, Surrey, KT22 7ET



MNOPF TRUSTEES LIMITED

Board of Directors

P G McEwen MBE MNM

Chairman

W D Everard CBE

Vice-Chairman

E J N Brookes TD

Employer Director

G Craven

Employer Director

A M Dickinson

Officer Director

A Graveson

Officer Director

K Howarth

Employer Director

D E Jones

Employer Director

P Keenan

Officer Director

J McGurk

Employer Director

P L Moloney

Officer Director

Resigned 18 July 2011

L D Stracey

Employer Director

Capt R Stuart

Officer Director

MNOPF Executive

A G Waring

Chief Executive

A J McGann

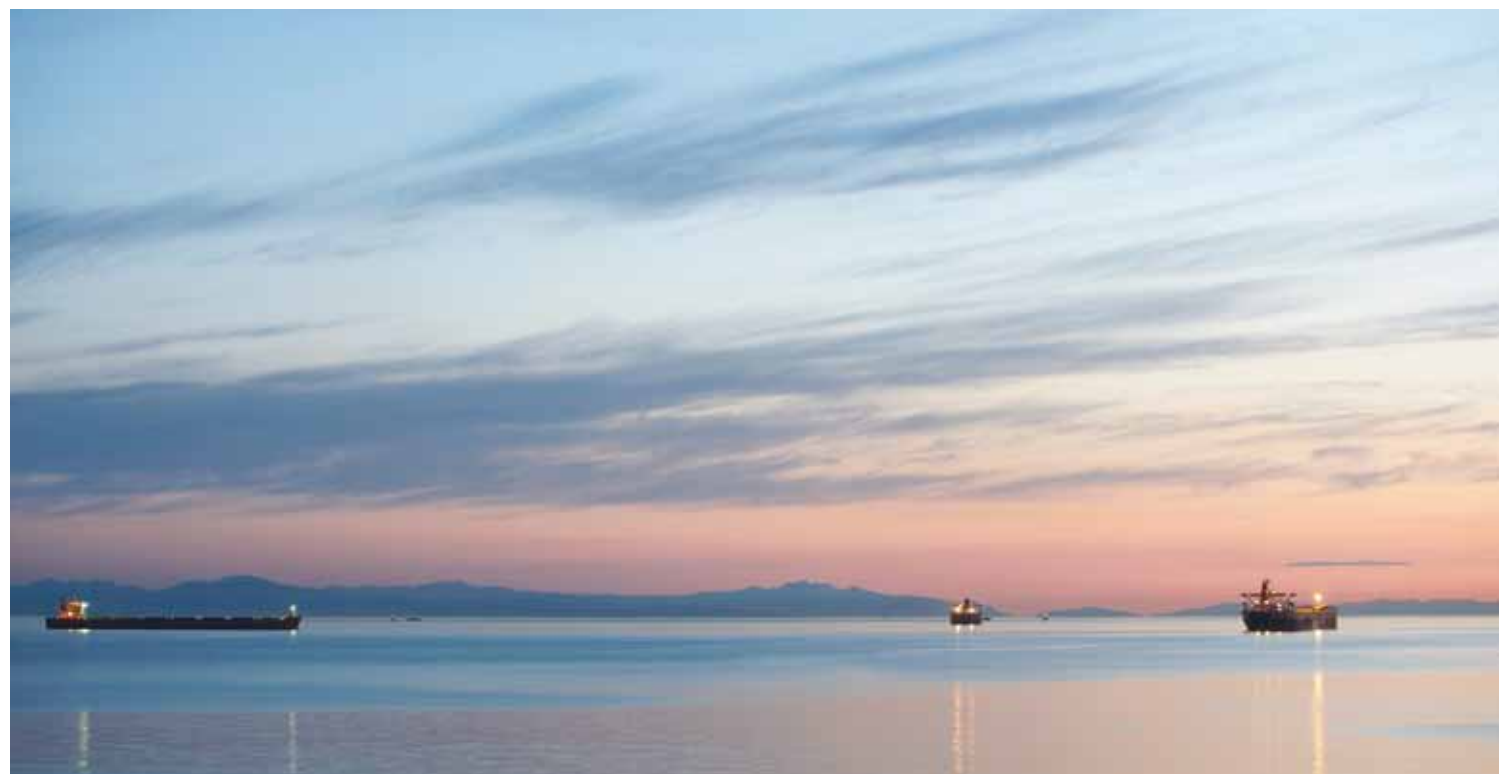
Chief Financial Officer

Appointed 13 September 2010

K L Foster

Scheme Secretary

Appointed 15 November 2010



MNOF TRUSTEES LIMITED

Advisers and Managers

Scheme Actuary

C P Burbidge
Towers Watson Limited

Legal Adviser

Baker & McKenzie LLP (General)

Independent Auditors

Deloitte LLP (External)
PricewaterhouseCoopers LLP (Internal & Risk)

Pensions Administrator

MNPA Limited

Additional Voluntary Contributions Provider

The Equitable Life Assurance Society

Delegated Chief Investment Officer

Towers Watson Limited

Independent Investment Adviser

Hymans Robertson LLP
Appointed 1 June 2011

Bankers and Custodians

National Westminster Bank Plc
The Bank of New York Mellon SA/NV

Investment Manager (insurance policy)

Lucida plc

Investment Managers (securities)

Ashmore Investment Management Limited
BlackRock Advisors (UK) Limited
Bridgewater Associates Incorporated
Edinburgh Partnership Limited
Henderson Global Investors Limited
Invesco Asset Management Limited
Lazard Asset Management Limited
M&G Investment Management Limited
Marathon Asset Management Limited
Southeastern Asset Management Inc
Loomis, Sayles & Company L.P.
Appointed 10 August 2010
Morgan Stanley Investment Management
Appointed 6 October 2010
Sankaty Advisers, LLC
Appointed 1 April 2011
Western Asset Management Company Limited
Terminated 30 September 2010
Goldman Sachs Asset Management Limited
Terminated 30 November 2010
Aberdeen Asset Management Limited
Terminated 3 December 2010
Putnam Investments Limited
Appointed 26 November 2010
Nephila Capital Limited
Appointed 1 February 2011
Rogge Global Partners PLC
Appointed 4 February 2011
Anchorage Capital Partners L P
Appointed 1 March 2011
Arrowgrass Investment Management Limited
Appointed 1 March 2011
CarVal Investors LLC
Appointed 1 March 2011

Investment Manager (property)

The Wilky Group
Terminated 25 June 2010

CB Richard Ellis Investors Limited
Appointed 25 June 2010



TRUSTEE REPORT

For the year ended 31 March 2011

Introduction

The Board of MNOFP Trustees Limited (referred to hereafter as “the Trustee”) is pleased to present the 73rd Annual Report of the Merchant Navy Officers Pension Fund (referred to hereafter as the “Fund” or “MNOFP”), for the year ended 31 March 2011. The Annual Report includes the Independent Auditor’s Report, Financial Statements and Notes, the Independent Auditor’s Statement about Contributions, Summary of Contributions for the Year, Actuarial Statement and Certificates and a Compliance Statement.

This is the version of the Trustee’s Report and Financial Statements which is available to members through the Fund’s website at:



[www.mnopf.co.uk/
report&accounts.htm](http://www.mnopf.co.uk/report&accounts.htm)

Constitution

The Fund was established by a Trust Deed dated 29 October 1937, and is currently regulated by the Trust Deed and Rules dated 25 June 1999, as amended by subsequent supplemental deeds. The Fund is managed by a corporate trustee, MNOFP Trustees Limited. The Fund provides defined benefits for more than 50,000 Merchant Navy Officers and their dependants.

During the year the Trustee changed the Trust Deed and Rules (the “Rules”) by three Deeds of Amendment:

17

September
2010

To introduce new employer and employee contribution rates from 1 October 2010.

12

October
2010

To allow the Trustee to calculate a Section 75 debt based on an estimated basis in accordance with agreed principles.

16

March
2011

To extend transitional provisions relating to taxation changes introduced under the Finance Act 2004 effective from 6 April 2006.

The Fund is a Registered Scheme under the Finance Act 2004. It is exempt from UK income and capital gains taxes but cannot recover the tax credit on UK dividends.

The Fund consists of two sections: the Pre-1978 Section, referred to as the “Old Section”, and the Post-1978 Section, referred to as the “New Section”. The New Section is Contracted-Out of the State Scheme under the provisions of the Occupational Pension Schemes (Contracting-Out) Regulations 1996.



TRUSTEE REPORT

For the year ended 31 March 2011



Governance

The Trustee Board is responsible for the strategy, management and decisions relating to financial, legal and administrative issues. There is provision on the Board of the Trustee for fourteen Directors. Employers and members are equally represented, by Employer Directors and Officer Directors respectively.

A list of Board Directors is shown on [page 3](#).

There are currently two vacancies for Officer Directors.

The appointment, re-appointment and removal of Directors is the responsibility of the Joint Officers' Pensions Committee formed by the employers' and officers' organisations. The Employer Directors of the Trustee Board are considered for appointment by the employers' representatives on this Committee and the Officer Directors are considered by the officers' representatives. A Director may appoint an Alternate Director to attend meetings in his place.

During the year the Trustee Board met four times.

Details of the Directors who attended meetings are set out in the Compliance Statement on [page 47](#).

Directors' Protocol

All the Directors have agreed to be bound by a Protocol which, in summary, requires each Director to report interests which could give rise to a conflict of interest, to abstain from voting on matters where a conflict has arisen and to maintain appropriate confidentiality.

The Trustee Board has appointed a number of committees and sub-committees to undertake various tasks relating to the Fund's management. All these committees consist of an equal number of Employer Directors and Officer Directors and operate under terms of reference agreed by the Trustee Board. There were no appointments or resignations of Directors of the Trustee Board or any of the Committees during the year. However, Paul Moloney has since resigned as a Director on 18 July 2011.

TRUSTEE REPORT

For the year ended 31 March 2011

Committees

The Management Committee

The Management Committee consists of six members supported by the Scheme Actuary, Legal Adviser and the MNOFP Executive. It is responsible for considering strategy relating to the management and future structure of the Fund, considering preliminary actuarial reports, monitoring legal and administration issues and making recommendations to the Trustee Board as appropriate.

During the year, the Management Committee met four times.

The Deficit Contribution Sub-Committee is a sub-committee of the Management Committee and consists of four members, and is supported by the Legal Adviser and the MNOFP Executive. It is responsible for all matters connected with the collection of deficit contributions, statutory employer debts and debts arising under Rule 5.2A of the Rules.

During the year, the Deficit Contribution Sub-Committee met thirteen times.

Investment Committee

The Investment Committee consists of six members, and is supported by the Delegated Chief Investment Officer, the Independent Investment Adviser, the Legal Adviser and the MNOFP Executive. It is responsible for the implementation of the Trustee's Statement of Investment Principles and for dealing with such matters as strategic asset allocation and exercising investment powers. The Investment Committee also reviews overall investment policy in light of changing circumstances to ensure compliance with the Pensions Acts 1995 and 2004.

During the year, the Investment Committee met six times.

Group Audit Committee

The Group Audit Committee consists of four members, and is supported by the MNOFP Executive. It is responsible for meeting with the external and internal auditors, reviewing the Financial Statements and appropriateness of the accounting policies adopted and reviewing the Fund's risk management processes.

During the year, the Group Audit Committee met three times.

Membership of Committees

The Trustee Board Directors were members of various committees during the year as shown below:

P G McEwen MBE MNM

Management Committee (Chairman)
Investment Committee

W D Everard CBE

Management Committee
Investment Committee (Chairman)

E J N Brookes TD

Management Committee
Group Audit Committee

A M Dickinson

Management Committee

D E Jones

Management Committee

P L Moloney (resigned 18th July 2011)

Management Committee
Investment Committee
Group Audit Committee

G Craven

Investment Committee

A Graveson

Investment Committee
Group Audit Committee

J McGurk

Investment Committee

K Howarth

Group Audit Committee (Chairman)

The MNOFP Executive

The Trustee Board has established an Executive team (referred to hereafter as "the MNOFP Executive") to work with the Trustee on developing the Fund's strategy, to implement the Trustee Board's decisions and to supervise the day-to-day running of the Fund. The Trustee Board has delegated certain authorities to the MNOFP Executive.

In May 2010 Peter Greenwood retired as Deputy Chief Executive of MNOFP Trustees Limited. Alex McGann was appointed as Chief Financial Officer in September 2010 and Kathryn Foster was appointed as Scheme Secretary in November 2010.

TRUSTEE REPORT

For the year ended 31 March 2011

Risk Management

The Trustee has overall responsibility for risk management and internal controls. It is committed to identifying, evaluating and managing risk. The Trustee, supported by the MNOFP Executive, implements and maintains control procedures to mitigate significant risks. A Risk Register is maintained to:

- highlight the risks to which the Fund is exposed;
- rank those risks in terms of likelihood and impact; and
- identify actions that are either currently being taken, or that the Trustee considers should be taken, in order to mitigate the identified risks.

The Risk Register takes into account the objectives identified in the Trustee's Strategic plan, together with certain other matters, and seeks to address or mitigate the impact of such issues to the fullest extent possible.

Strategic Planning

During the year, the Trustee completed a major review of its Strategic plan. The focus for this plan is the period 2010-2013, during which time the results of the 2012 Actuarial Valuation will be known.

The plan reflects the Trustee's agreed approach to long-term funding objectives and improvements in governance and

operational processes, with the overall aim of protecting and paying members their benefits when they fall due.

Annual interim reviews will be carried out to ensure the plan is on target to deliver the set objectives, taking into account external market influences.

Trustee Training

In line with industry best practice, the Trustee Directors undergo a yearly process of self-evaluation to identify group and individual training needs. All Trustee Directors are provided with training opportunities and are encouraged to use the Pension Regulator's on-line training modules. The Trustee Directors are also provided with training sessions with specialist advisers on current legislative, industry and other scheme-specific issues in order to equip them to take well informed decisions.

Member Administration

Member administration and financial accounting services to the Fund are provided under contract for a fee, by MNPA Limited (referred to hereafter as "MNPA"), a wholly-owned trading subsidiary of MNOFP. The Management Committee reviews the strategic objectives for MNPA from a shareholder's perspective on a regular basis and monitors MNPA's progress.

During the year, with the assistance of an external adviser, the Trustee undertook a formal review of the services provided by MNPA and the level of fees payable by MNOFP to MNPA. As a result of this review MNPA were appointed for a further three years as administrators to the Fund at a slightly reduced fee.

MNPA also provides pensions administration services to a wide range of third party clients.



TRUSTEE REPORT

For the year ended 31 March 2011

Contributions

Normal Contributions

Members' and employers' normal contributions are received in respect of active members in accordance with the Schedule of Contributions for the New Section of the Fund.

The Statement of Recommended Practice governing financial reports of pension schemes (revised May 2007) requires that only those contributions due to date are taken into account for the purposes of the Fund's accounts.

Deficit Contributions

The MNOFP Deficit Contribution Collection Policy sets out the process of how employers are expected to pay their share of the deficits identified in the 2003, 2006 and 2009 actuarial valuations.



www.mnopf.co.uk/publications.htm

During the year, the MNOFP Executive, in conjunction with its advisers, put in place a new and robust process to ensure the efficient collection of deficit contributions from participating employers. This involved writing to more than 330 participating employers setting out a series of options for the collection and payment of deficit contributions.

The Trustee and its advisers have worked with participating employers to implement appropriate credit support arrangements, which have for the first time extended beyond corporate guarantees into other forms of contingent assets (including bank guarantees and charges over tangible fixed assets such as ships). These new arrangements will help secure collection of deficit contributions from employers and enhance the protection of member benefits.

The MNOFP Executive is working with the Fund's advisers to develop an ongoing employer covenant and risk monitoring process to provide the Trustee with regular information with regard to the employer covenant, and any actual or potential material change to the creditworthiness of participating employers. This will ensure that the Trustee complies with the Pensions Regulator's guidelines regarding covenant monitoring.

In total, the deficit contributions for the 2003, 2006 and 2009 Actuarial Valuations which were outstanding at 31 March 2011 amounted to £47.0 million, against which a provision for £32.4 million has been made in respect of debts considered unlikely to be recoverable. In accordance with the Deficit Contribution Collection Policy, interest is included in the balance of deficit contributions due but unpaid.

Late Contributions

Members' normal contributions totalling £23,346 and employers' normal contributions totalling £38,068 were not received by the due dates under the Schedule of Contributions. Columbia Ship Management Limited, The Marine Society & Sea Cadets and Trico Supply (UK) Limited made late payments of normal contributions on two or more occasions during the year. These amounts are not material to the statement about contributions and hence, the auditor's statement about contributions is not qualified. Employers have been made fully aware of the legal time limits for paying contributions.

Additional Voluntary Contributions ("AVCs")

Since 6 April 2006, there has been no requirement for occupational pension schemes to offer members an AVC arrangement. The tax regime operating from that date allows members to invest in personal pension arrangements at the same time as being a member of an occupational pension scheme like the MNOFP. Given the flexibility now available, AVCs are only accepted from current contributing members who were either paying AVCs at 6 April 2006 or had previously paid AVCs.

On retirement, members have the right to use their AVC fund to buy an additional pension in the Fund; however, if members elect to commute part of their pension for a Pension Commencement Lump Sum ("PCLS"), the AVC fund value would be used to fund part of the cash sum. Alternatively, a member can choose to buy their benefits with a provider of their choice (this is known as the "open market option").



TRUSTEE REPORT

For the year ended 31 March 2011

Actuarial Valuation at 31 March 2009

Separate valuations were completed for the Old Section and the New Section in accordance with the statutory funding requirements of the Pensions Act 2004 and guidance from the Pensions Regulator. The assumptions used are different for the Old Section and the New Section reflecting the different nature and investment policies of the two Sections.

The formal statements and certificates issued by the Scheme Actuary following completion of the Actuarial Valuation as at 31 March 2009 are set out on [pages 22 to 27](#).

Old Section

The results of the Actuarial Valuation showed a deficit of £131 million at the valuation date. However the Trustee determined that the growth in the Old Section investments after the date of the formal valuation, with reasonable assumptions of longer term returns, meant that at 18 November 2009 (the date the valuation was formally signed) the deficit had been removed. It was therefore decided that there was no requirement for the collection of deficit contributions in respect of the Old Section.

Old Section Actuarial Valuation Report 31 March 2009

New Section

The 31 March 2009 valuation showed a gross deficit of £740 million which reduced to a net deficit of £557 million after allowing for outstanding deficit contributions from earlier valuations in 2003 and 2006. Positive investment returns and allowance for interest from the valuation date to 31 December 2009 reduced the deficit to £379 million. Allowing for interest over the period to 30 September 2010 increased this to a deficit of £402 million at that date. £12 million of this deficit had arisen due to a shortfall in the future service joint contribution rate from the 2006 valuation to the 2009 valuation. In addition, £6 million of contributions was required from employers of active contributing members since 1 April 2009, reflecting a shortfall in the future service joint contribution rate for the period since the 2009 valuation through to 30 September 2010.

In order to meet the deficit, a total of £408 million was therefore included in the Schedule of Contributions for collection from employers (on top of the 2003 and 2006 deficit contributions payable).

New Section Actuarial Valuation Report 31 March 2009



TRUSTEE REPORT

For the year ended 31 March 2011

Annual Funding Update 2011

Between formal Actuarial Valuations, the Trustee is required to obtain an Annual Funding Update. This report includes a summary of the estimated funding position at 31 March 2011. This estimate shows updated values of the assets and past service liabilities for each Section.

Since the Actuarial Valuation in 2009, the funding position has improved for both Sections, with the Old Section reporting a small surplus and the New Section a lower level of deficit. The Old Section surplus of £11 million is slightly lower than the level reported at 31 March 2010 (£20 million) because of a reduction in future expected investment returns. During the year, the New Section funding position improved from a gross deficit of £514 million to £331 million, mainly due to the payment of deficit contributions over the year. At 31 March 2011 the deficit contributions were expected to eliminate the shortfall shortly before 30 September 2022. However, market conditions since 31 March 2011 have been very volatile and generally unfavourable and it would not be appropriate to revisit the current recovery plan at the present time.

The funding position at 31 March 2011 is summarised below:

	Old Section £m	New Section £m
Value of past service liabilities	1,244	2,382
Market value of assets	1,255	2,051
Gross Surplus/(Deficit)	11	(331)
Cover of assets over liabilities	101%	86%

The assumptions used to estimate the value of the past service liabilities for the 2011 update were chosen by the Scheme Actuary, following the method agreed by the Trustee for the 2009 Actuarial Valuation.



TRUSTEE REPORT

For the year ended 31 March 2011

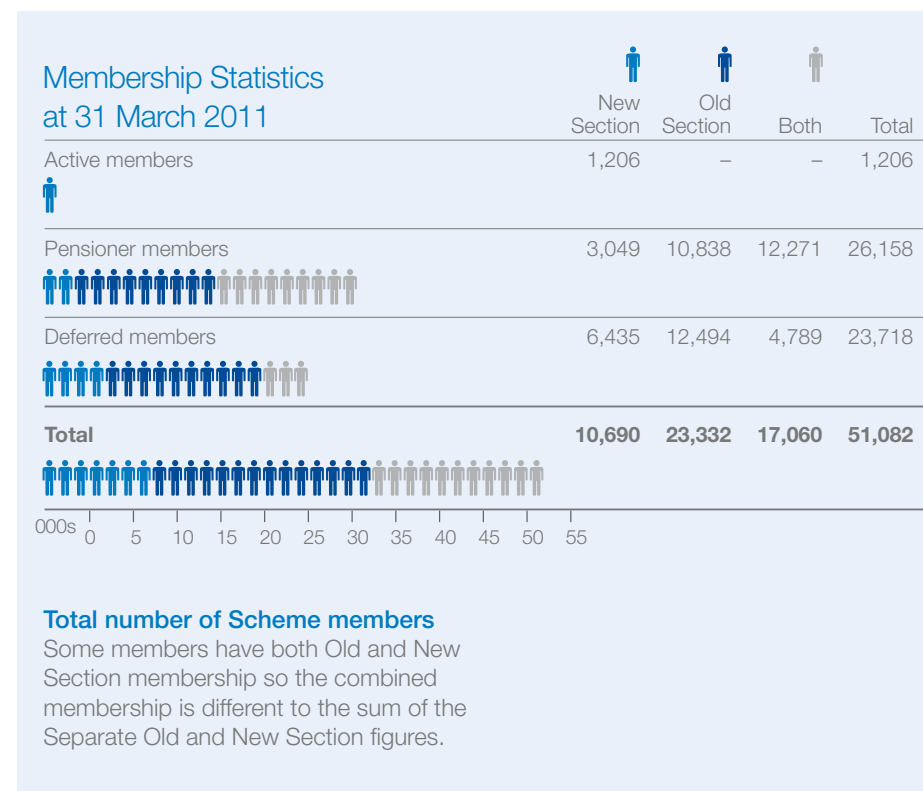
Membership

The changes in Fund membership during the year were as follows:

	2011	2010
Active members		
As previously stated	1,321	1,452
Adjustment for previous year	(25)	(21)
Restated	1,296	1,431
Pension credit members	13	12
Members retiring	(78)	(91)
Deaths in service	(3)	(2)
Other leavers	(22)	(29)
At the year-end	1,206	1,321
Pensioner members		
As previously stated	25,747	24,824
Adjustment for previous year	109	643
Restated	25,856	25,467
New pensioners (includes new dependants' pensions)	1,156	1,127
Pensions ceased	(854)	(847)
At the year-end	26,158	25,747
Deferred members		
As previously stated	24,632	26,040
Adjustment for previous year	54	(559)
Restated	24,686	25,481
New leavers before pensionable age	17	24
Members ceasing to be deferred (transfers out, deaths, retirement, rejoiners)	(873)	(761)
Benefits forfeited	(112)	(112)
At the year-end	23,718	24,632
TOTAL MEMBERSHIP at the year-end	51,082	51,700

Adjustments for previous year are in respect of late notification of events resulting in a membership status change.

In respect of each Section, the membership as at 31 March 2011 was as follows:



TRUSTEE REPORT

For the year ended 31 March 2011

Review of Financial development of the Fund

The total value of the Fund at the end of the year was £3,305.7 million (Old Section £1,255.2 million and New Section £2,050.5 million). In the Old Section, benefits paid out plus management and administration expenses amounted to £90.1 million and in the New Section £128.6 million. Normal contributions received in the New Section (calculated as a percentage of Pensionable Salary) from active members and employers amounted to £12.4 million. Deficit contributions received in the year amounted to £209.1 million.

Full details of the financial development of the Fund can be found in the audited Financial Statements, set out on [pages 28 to 29](#) which have been prepared and audited in accordance with regulations made under Sections 41(1) and (6) of the Pensions Act 1995.

Further information

Copies of the Actuarial Valuation Reports, Statement of Investment Principles and the Deficit Contributions Collection Policy are available on the MNOFP website, or in printed form on request.

General Enquiries

Scheme Secretary, MNOFP Trustees Ltd,
Leatherhead House, Station Road,
Leatherhead, Surrey, KT22 7ET

Member Enquiries

MNPA Limited,
Leatherhead House, Station Road,
Leatherhead, Surrey, KT22 7ET
T 01372 200200



www.mnopf.co.uk

For and on behalf of the Board

P G McEwen MBE MNM

Chairman of MNOFP Trustees Limited
29 September 2011



INVESTMENT REPORT

For the year ended 31 March 2011

Investment Strategy

The Investment Committee, supported by the Delegated Chief Investment Officer and other professional advisers, monitors and develops investment policy to target the Fund's main investment objectives, which are:

- the acquisition of suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from members and employers, the cost of current and future benefits which the Fund provides; and
- to limit the risk of assets failing to meet the liabilities over the long term.

Statement of Investment Principles

The Trustee is required to establish and maintain a Statement of Investment Principles ("SIP"). This must set out the basis on which the Trustee plans to invest the scheme assets. Legislation requires the Trustee to review, and if necessary revise, the SIP at least every three years and without delay after any significant change in investment policy. The current SIP was last reviewed and revised in 2008.

Since then, there have been a number of changes to the Trustee's investment policies and procedures, the most significant of which are as follows:

- the appointment of Towers Watson Limited as the Trustee's Delegated Chief Investment Officer
- changes to the Trustee's policy in relation to the expected return on investments; and
- the decision to adopt the Financial Reporting Council's UK Stewardship Code.

Since the year-end, the Trustee has consulted all participating employers on a draft of a proposed new SIP which reflects these changes together with a number of more minor changes for clarification. This consultation exercise ended on 20 May 2011 and the new SIP has now been approved and published on the Fund's website.



www.mnopf.co.uk/publications.htm

Delegated Chief Investment Officer

Towers Watson Limited, in its capacity as Delegated Chief Investment Officer of the Fund, implements and executes the investment strategy within parameters agreed with the Investment Committee.

The investment advisory mandate of Towers Watson Limited changed on 31 December 2010 to a combination of discretionary and advisory mandates set out in a Fiduciary Management Agreement. Investment managers are appointed by Towers Watson to manage assigned portions of the Fund's portfolio.

The Delegated Chief Investment Officer also assesses the nature, disposition, marketability and security of each Section's assets and advises on the composition of the benchmarks for each of the Sections.

Independent Investment Adviser

Hymans Robertson LLP was appointed as Independent Investment Adviser on 1 June 2011 to provide expert monitoring and challenging of the Delegated Chief Investment Officer.

The delegation of investment strategy implementation and execution creates greater accountability of the Delegated Chief Investment Officer and enables integrated and effective implementation alongside timely responses to investment opportunities, all within a 'check and balance' framework supported by the Independent Investment Adviser. The Trustee believes this new approach is an effective and appropriate approach to investment strategy and decision making.



INVESTMENT REPORT

For the year ended 31 March 2011

Investment Management

Investment managers are assigned clear mandates in relation to their investment portfolios. Most investment managers have discretion over individual security selection, holding investments in specific asset classes. Investment manager remuneration structures and levels are contractually agreed and largely relate to the market value of their investment portfolios.

Over the year to 31 March 2011, the Old Section secured further pensioner liabilities via a £100 million buy-in with Lucida plc funded predominantly by the sale of corporate bond assets. This is in addition to a £500 million buy-in during the year ended 31 March 2010.

The buy-in policy, which is a non-profit bulk annuity policy, is with Lucida plc. It entails Lucida plc insuring 65% of pensioner benefits of the Old Section as at September 2009 and therefore provides members with additional security.

The Old Section also ceased utilising active equity management in favour of a passive approach owing to the small equity allocation. An investment grade credit manager was also replaced during the year.

In 2010 two new investment grade credit managers were also appointed for the New Section. Since the start of 2011, investment risk has been reduced for the New Section

through the direct purchase of index-linked gilts from UK and global equities and further diversifying the New Section's asset classes. The asset classes in which exposures were added to the New Section are private equity, emerging market equity, hedge funds, reinsurance, non-investment grade credit and emerging market currency. These exposures were implemented through the investment in pooled investment vehicles managed by highly rated investment managers.

In addition, the Fund is in the process of transitioning its segregated direct property exposure, affecting both Old and New Sections, and appointed CB Richard Ellis Investors Limited to manage this process.

Other than the buy-in insurance policy in the Old Section and the property interests, the investments held by the Fund are predominantly either quoted or held in pooled arrangements. As such, fair value prices are readily available which represent transactions that have taken place on an arm's length basis. These investments are generally regarded as readily realisable at fair value, although on occasions markets may experience reduced liquidity, in which case it may not always be possible to realise such assets at short notice at prices equal to fair value.

Collateral arrangements are in place for the buy-in insurance policy and other asset classes where appropriate.

Investment Performance

The Fund's primary objectives are measured by the progress in funding level as specified in clearly articulated journey plans for both Sections. These journey plans establish objectives in terms of funding level targets using a gilts based discount rate over a specified period of time. As at 31 March 2011, both the Old Section and the New Section were in line with their long term journey plans.

Investment performance of the Old and New Sections is measured independently by The Bank of New York Mellon. The Delegated Chief Investment Officer and the Investment Committee monitor performance on a regular basis with reference to the appropriate time frames.

The benchmarks of the Old Section and the New Section are different reflecting their distinct risk profiles. Accordingly, the benchmark and performance of the two Sections differed over the year. The table below shows the benchmark and actual performance for the one year, three years and five years to 31 March 2011.

To 31 March 2011	1 Year (%)	3 years (% pa)	5 years (% pa)
Old Section – actual	4.4	6.3	3.8
Benchmark	5.0	6.3	4.3
New Section – actual	6.4	4.8	3.7
Benchmark	7.2	7.6	6.2

INVESTMENT REPORT

For the year ended 31 March 2011

Investment Performance (continued)

The Old Section return is consistent with it being substantially invested in fixed income securities and an insurance contract with Lucida plc.

The New Section, with its higher return target, delivered a higher absolute return than the Old Section over the year to 31 March 2011 due to a greater weighting of return seeking assets and more active management.

The main reason for the underperformance shown in both Sections over the year to 31 March 2011 is a revaluation of the Fund's segregated property portfolio as at 31 December 2010. Over the longer term, however, the Old Section's returns are broadly in line with its benchmark. The New Section's longer term relative return reflects the effect of the financial crisis. This is because a significant proportion of the New Section's mandates had absolute return benchmarks (e.g. RPI + 6% p.a. or +15% p.a.) against which underlying managers lagged during the financial crisis.

The benchmarks for both Sections are changed when asset allocation changes occur. Most notably this occurred on 1 January 2011 with the appointment of the Delegated Chief Investment Officer. The revised New Section benchmark in particular reflects a lower return seeking allocation and greater diversity of asset classes. The revised benchmark indices for both Sections are also more reflective of the opportunity set within which the Delegated Chief Investment Officer is operating.

The Investment Year

Over the twelve months to 31 March 2011, economic growth has been largely positive. The recovery of the real economy seemed to slow down at the beginning of the period, raising concerns that the economy could fall back into recession (a "double dip"). Nevertheless, real Gross Domestic Product continued to grow over the period as monetary policy remained loose, Emerging Markets exhibited strong economic performance and volatility in the financial markets subsided. The investment landscape was dominated by concerns around the sovereign debt crisis in peripheral Europe, high unemployment, rising inflation and political unrest in various Middle Eastern countries. These geopolitical risks together with risks from rising commodity prices were particularly pronounced during the first quarter of 2011.

Global equity markets generally rose over the year, with the FTSE All-World Index delivering a return of 8.4% (in Sterling terms). The Asia-Pacific (ex Japan) region and Emerging Markets delivered the strongest performance with returns of around 14% and 12% respectively. Much of the growth in Emerging Markets was attributable to the so called "BRIC" nations (Brazil, Russia, India, China), highlighting their importance to institutional investors and economists as centres of economic growth. Japan was the only major equity market to deliver a negative return over the year (-4.0% in Sterling terms) driven by the damage and disruption caused by the Tohuko earthquake in March 2011.

In the UK, the FTSE All-Share Index returned 8.7% over the year. Medium and small companies, however, delivered much stronger returns with the FTSE 250 Index returning 16.7% and the FTSE SmallCap Index returning 14.5%.

Major bond markets also produced positive returns over the period. In the UK, corporate bonds returned 5.2% (as measured by the iBoxx Sterling Non-Gilts Index), but were held back by investors' concerns over Europe's sovereign debt crisis and the potential impact on the economic recovery. Index-linked gilts returned 6.5% outperforming fixed interest gilts which returned 5.2%, as investors sought protection from the risk of rising inflation. Emerging Market Debt and High Yield bonds generated slightly higher returns.

The UK property market continued to recover over the year as investor confidence rose. Rental growth fears subsided and yields stabilised with UK commercial property returning 10.7% for the period, as measured by the IPD Monthly Index.

There was a significant increase in allocations to hedge funds by both new and existing investors over the period and it is estimated that assets reached approximately \$1.9 trillion, almost the same as at the pre-crisis peak. The large and established hedge funds experienced the majority of the inflows, but an increase in risk tolerance led to some smaller, less established firms seeing inflows as well. All major hedge fund categories delivered positive returns over the year with the average hedge fund delivering a return of approximately 3.5% in Sterling terms.



INVESTMENT REPORT

For the year ended 31 March 2011

Post Year-End Events

From August 2011, global investment markets have experienced significant volatility, and equity markets have generally fallen sharply. As a consequence some of the Fund's investments have suffered a reduction in value since the year-end. The Trustee and the Delegated Chief Investment Officer continue to closely monitor the impact on the funding position and are taking action to achieve the Trustee's long-term funding objective.

Cash, Investment Administration and Custody

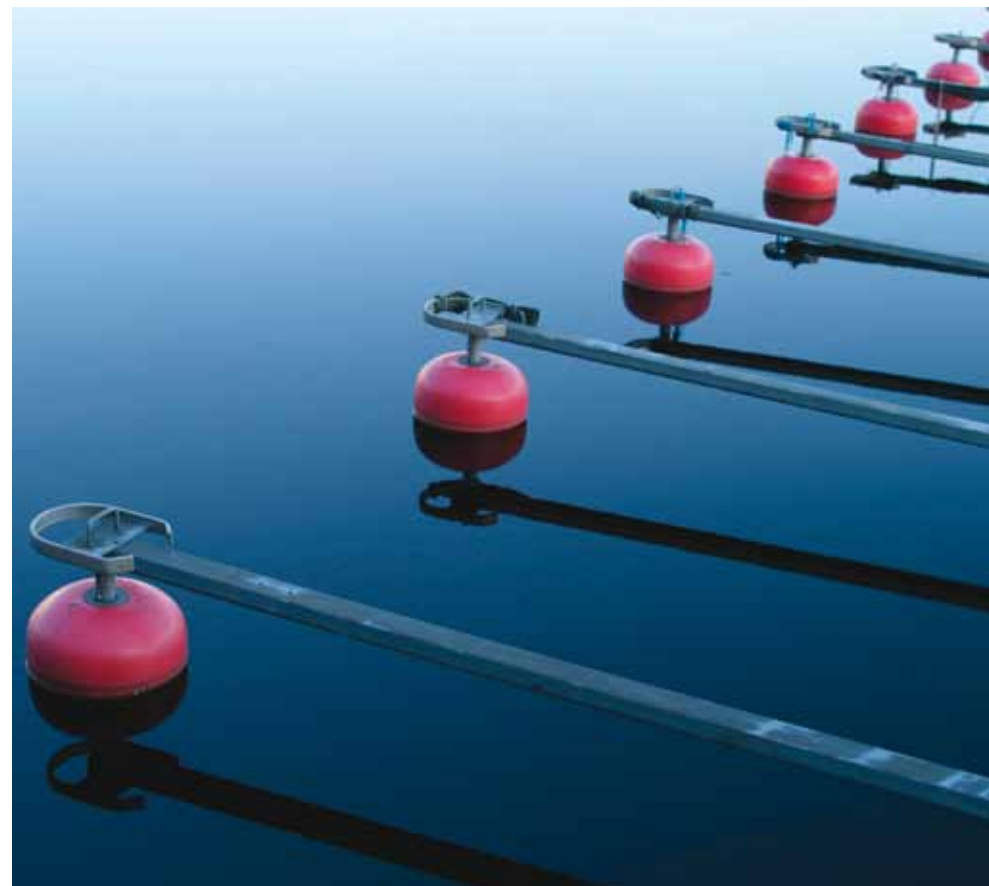
The management of cash and safe-keeping of documents and other evidence of title are separated from the investment management functions. With the exception of property deeds retained by the solicitors acting for CB Richard Ellis Investors Limited for legal purposes and documents of title for unquoted illiquid investments, documents and other evidence of ownership are held by the custodian under contract with the Trustee. The responsibility of the specialist investment managers is therefore limited to the selection of securities.

A daily sweep of cash balances into a Short Term Investment Fund is performed by the custodian, thereby giving diversification of counterparty risk.

Employer-related Investment

As a result of investment decisions made by the investment managers, the Fund holds investments in a number of organisations that are, or are related to, participating employers in the Fund. Details of these investments are shown in Note 14 to the accounts.

As an industry-wide scheme with two separate Sections, the Fund is restricted (by regulations made under Section 40 of the Pensions Act 1995) and may not invest more than 5% of the market value of the resources of either Section in employer-related investments. This limit has not been exceeded either during this year or during previous years.



STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The Financial Statements are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Fund members, beneficiaries and certain other parties, audited Financial Statements for each Fund year which:

- show a true and fair view of the financial transactions of the Fund during the Fund year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice); and
- contain the information specified in the Schedule to The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement as to whether the Financial Statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes (Revised May 2007)'.

The Trustee has supervised the preparation of the Financial Statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

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

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained, and from time to time, revised, a Schedule of Contributions for each section showing the rates of contributions payable to the Fund by or on behalf of the employers and the active members of the Fund, and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Fund and for monitoring whether contributions are made to the Fund by the employers in accordance with the Schedules of Contributions. Where breaches of the Schedules occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and the members.

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

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



INDEPENDENT AUDITOR'S REPORT

To the Trustee of the Merchant Navy Officers Pension Fund

We have audited the Financial Statements of Merchant Navy Officers Pension Fund for the year ended 31 March 2011 which comprise the Fund Account, the Net Assets Statement and the related Notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Trustee and Auditor

As explained more fully in the Statement of Trustee's Responsibilities, the Fund Trustee is responsible for the preparation of Financial Statements which give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustee; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the Financial Statements:

- show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2011 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.



Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom
29 September 2011

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS

To the Trustee of the Merchant Navy Officers Pension Fund

We have examined the summary of contributions to the Merchant Navy Officers Pension Fund for the Fund year ended 31 March 2011 to which this statement is set out on [page 21](#).

This Statement is made solely to the Trustee, as a body, in accordance with Regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body for our work, for this statement, or for the opinion we have formed.

Respective responsibilities of Trustee and the auditor

As explained more fully in the Statement of Trustee's Responsibilities, the Fund's Trustee is responsible for ensuring that there are prepared, maintained, and from time to time, revised, Schedules of Contributions showing the rates and due dates of certain contributions payable towards the Fund by or on behalf of the employers and the active

members of the Fund. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Fund and for monitoring whether contributions are made to the Fund by the employers in accordance with the Schedules of Contributions.

It is our responsibility to provide a Statement about Contributions paid under the Schedules of Contributions and to report our opinion to you.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the Summary of Contributions payable in the year ([page 21](#)) have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Fund and the timing of those payments under the Schedules of Contributions.

Statement about Contributions payable under the Schedules of Contributions

In our opinion contributions for the Fund year ended 31 March 2011 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance:

- for the Old Section, with the Schedule of Contributions certified by the Scheme Actuary on 18 November 2009; and
- for the New Section, with the Schedule of Contributions certified by the Scheme Actuary on 26 March 2010.



Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom
29 September 2011

SUMMARY OF CONTRIBUTIONS PAYABLE IN THE YEAR

This summary of contributions for the year ended 31 March 2011 has been prepared on behalf of the Trustee and is the responsibility of the Trustee. It sets out the contributions payable under the Schedules of Contributions certified by the Scheme Actuary on 18 November 2009 and 26 March 2010. The Independent Auditor reports on contributions payable under the Schedules in the Independent Auditor's Statement about Contributions.

Contributions payable under the Schedules in respect of the year ended 31 March 2011

	2011
	£m
Employers' normal contributions	7.7
Members' normal contributions	4.7
Members' additional voluntary contributions	0.2
Employer deficit contributions	209.1
Contributions payable under the Schedules of Contributions as reported on by the Independent Auditor	221.7

Approved by the Trustee and signed on their behalf by:



P G McEwen MBE MNM

Chairman of MNOFP Trustees Limited
29 September 2011



SCHEDULE OF CONTRIBUTIONS FOLLOWING THE 2009 VALUATION

Merchant Navy Officers Pension Fund – Pre-1978 Section (the Old Section)

This Schedule of Contributions has been prepared by MNOFP Trustees Limited, the Trustee of the Merchant Navy Officers Pension Fund (“the Fund”), to satisfy the requirements of Section 227 of the Pensions Act 2004, after obtaining the advice of the Scheme Actuary, Paul Burbidge.

For the purposes of this document, “employers” refers to employers that may be required to contribute to the Old Section and “Members” refers to members who joined the Fund prior to 6 April 1978.

This Schedule specifies rates and due dates of employer and Member contributions to the Fund, for five years from the date this Schedule is certified by the Scheme Actuary. It is subject to review from time to time as required by legislation and by the Fund’s Trust Deed and Rules and following actuarial valuations and interim reviews.

1. Contributions payable:

	Contribution Rate
Employers	Nil
Active Members	Nil (Members ceased to accrue future service benefits from 6 April 1978, and so no contributions are required in respect of future service benefits)

2. Other employer contributions

In addition to the contributions shown above, the employers shall pay the following:

- Additional contributions as may be required under the Definitive Trust Deed and Rules in specific circumstances, for example to cover augmentations. The amounts of such contributions to be advised by the Scheme Actuary, and due dates to be agreed by the Trustee.
- Such other contributions as may be agreed by the Trustee and the employers from time to time.

Agreed on behalf of the Trustee



P G McEwen
Chairman of MNOFP Trustees Limited
18 November 2009

ACTUARY'S CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Merchant Navy Officers Pension Fund – Pre-1978 Section (the Old Section)

1. Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective can be expected to be met by the end of the period specified in the recovery plan dated 18 November 2009.

2. Adherence to statement of funding principles

I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the statement of funding principles dated 18 November 2009.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Fund's liabilities by the purchase of annuities, if the Fund were to be wound up.

C P Burbidge

Fellow of the Institute of Actuaries
18 November 2009

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ACTUARIAL CERTIFICATION FOR THE PURPOSES OF REGULATION 7(4)(A) OF THE OCCUPATIONAL PENSION SCHEMES (FUND FUNDING) REGULATIONS 2005

Merchant Navy Officers Pension Fund – Pre-1978 Section (the Old Section)

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Fund's technical provisions as at 31 March 2009 is made in accordance with regulations under Section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Fund and set out in the Statement of Funding Principles dated 18 November 2009.

C P Burbidge

Fellow of the Institute of Actuaries

18 November 2009

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21 Tothill Street

London

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F +44 20 7222 9182



SCHEDULE OF CONTRIBUTIONS FOLLOWING THE 2009 VALUATION

Merchant Navy Officers Pension Fund – New Section

This Schedule specifies rates and due dates of employer and employee contributions to the Fund, from the date this schedule is certified by the Scheme Actuary to 30 September 2022. It is subject to review from time to time as required by legislation and by the Fund's Trust Deed and Rules and following actuarial valuations and interim reviews.

1. Regular contributions from 1 April 2010 to 30 September 2022:

	Contribution Rate
Employers	11.9% of post 2000 Pensionable Salaries to 30 September 2010 and 15.5% thereafter
Active Members	7.3% of post 2000 Pensionable Salaries to 30 September 2010 and 9.5% thereafter

Active members may make Additional Voluntary Contributions in addition to the above contributions. The above contributions will be paid to the Fund no later than 19 days after the end of the calendar month to which the contributions relate.

Employers who have employed Active Members since 1 April 2006 will also pay additional contributions totalling £6 million by 30 September 2013.

In addition, the employers will pay deficiency contributions with a total present value of £402 million as at 30 September 2010, over the period to 30 September 2022. This is in addition to the deficit payments arising from the funding valuation as at 31 March 2006 set out in the schedule of contributions dated 12 June 2007 and the deficit payments arising from the funding valuation as at 31 March 2003.

2. Other employer contributions

In addition to the contributions shown above, the employers shall pay the following:

- a) Additional contributions as may be required under the Definitive Trust Deed and Rules in specific circumstances, for example to cover augmentations. The amounts of such contributions to be advised by the Scheme Actuary, and due dates to be agreed by the Trustee.
- b) Such other contributions as may be agreed by the Trustee and the employers from time to time.

Agreed on behalf of the Trustee



P McEwen
Chairman of MNOFP Trustees Limited
26 March 2010

ACTUARY'S CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Merchant Navy Officers Pension Fund – New Section

1. Adequacy of rates of contributions

I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period for which the Schedule is to be in force.

2. Adherence to Statement of Funding Principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 26 March 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Fund's liabilities by the purchase of annuities, if the Fund were to be wound up.

C P Burbidge

Fellow of the Institute of Actuaries
26 March 2010

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ACTUARIAL CERTIFICATION FOR THE PURPOSES OF REGULATION 7(4)(A) OF THE OCCUPATIONAL PENSION SCHEMES (SCHEME FUNDING) REGULATIONS 2005

Merchant Navy Officers Pension Fund – Post-1978 Section (the New Section)

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Section's technical provisions as at 31 March 2009 is made in accordance with regulations under Section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the scheme and set out in the Statement of Funding Principles dated 26 March 2010.

C P Burbidge

Fellow of the Institute of Actuaries

26 March 2010

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THE FINANCIAL STATEMENTS – FUND ACCOUNT

For the year ended 31 March 2011

	Note	2011 Old Section £m	2011 New Section £m	2011 Total £m	2010 Total £m
Contributions and benefits					
Contributions	4	–	221.7	221.7	56.1
Transfers in	5	–	0.1	0.1	0.2
		–	221.8	221.8	56.3
Benefits					
Benefits	6	84.9	102.8	187.7	189.7
Payments in respect of leavers	7	1.3	4.2	5.5	4.6
Administrative and other expenses	8	3.9	21.6	25.5	12.1
		90.1	128.6	218.7	206.4
Net (withdrawals)/additions from dealings with members					
		(90.1)	93.2	3.1	(150.1)
Returns on investments					
Investment income	9	79.5	50.9	130.4	101.6
Change in market value of investments	10	2.5	82.2	84.7	513.5
Investment management expenses		(2.6)	(18.1)	(20.7)	(16.0)
Net returns on investments		79.4	115.0	194.4	599.1
Net (decrease)/increase in the Fund during the year					
		(10.7)	208.2	197.5	449.0
Net assets of the Fund at beginning of the year					
		1,265.9	1,842.3	3,108.2	2,659.2
Net assets of the Fund at end of the year					
		1,255.2	2,050.5	3,305.7	3,108.2

The Notes on pages 30 to 44 form an integral part of these Financial Statements.

THE FINANCIAL STATEMENTS – NET ASSETS STATEMENT

For the year ended 31 March 2011

	Note	2011 Old Section £m	2011 New Section £m	2011 Total £m	2010 Total £m
Investment assets	10	1,277.0	2,029.4	3,306.4	3,150.9
Investment liabilities	10	(18.7)	(7.4)	(26.1)	(38.4)
		1,258.3	2,022.0	3,280.3	3,112.5
Current assets	11	2.8	40.6	43.4	14.3
Current liabilities	12	(5.9)	(12.1)	(18.0)	(18.6)
Net assets of the Fund at the end of the year		1,255.2	2,050.5	3,305.7	3,108.2

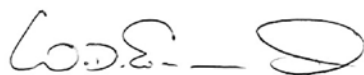
The Financial Statements summarise the transactions of the Fund and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the Statements by the Actuary on pages 22 to 27 of the Annual Report and these Financial Statements should be read in conjunction with it.

Approved by the Trustee on 29 September 2011

Signed on behalf of the Trustee:



P G McEwen MBE MNM
Chairman of MNOFP Trustees Limited



W D Everard CBE
Vice-Chairman of MNOFP Trustees Limited

The Notes on pages 30 to 44 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

1. Basis of preparation

The Financial Statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Statement of Recommended Practice, 'Financial Reports of Pension Schemes (revised May 2007)'.

2. Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the year and prior year, are as follows:

(a) Contributions

Members' and employers' normal contributions are recognised on an accruals basis.

Deficit contributions from employers are accounted for in accordance with the agreement with each employer under which they are paid, or in the absence of such agreement, when received. Specific provision is made for amounts falling due but unpaid if amounts are assessed as irrecoverable. The charge is included in the administrative and other expenses.

(b) Benefits payable

Benefits payable, with the exception of transfers to other schemes, are taken into account in respect of valid claims notified before the year-end. Transfers to other schemes are accounted for on a cash basis.

(c) Investment income

Investment income is recognised as follows:

- Dividend income from equity shares is recognised when the Fund becomes entitled to the dividend. In the case of UK quoted shares this will be from the ex-dividend date.
- Income from insurance policies, fixed interest and index-linked securities and cash deposits is recognised on an accruals basis.
- Net rents receivable are accrued to the year-end and are shown net of property outgoings, other than management fees.
- Income arising from the underlying investments of the pooled investment vehicles that is reinvested within the pooled investment vehicles is reflected in the unit price. Such income is reported within the change in market value. Where the income is distributed it is reported within investment income.

(d) Taxation

The Fund is a Registered Scheme under the Finance Act 2004. The Fund is exempt from certain forms of UK Income and Capital Gains tax.

(e) Investments

Quoted equity and fixed income securities and certificates of deposit for which there are active secondary markets have been recorded at bid market prices or last traded prices (depending upon market convention) at the year-end date as sourced from pricing vendors who are independent of the appointed fund managers.

For the purpose of presentation, quoted securities include those listed or traded on a recognised investment exchange and, in respect of fixed income, also include those securities where there is a secondary over-the-counter ("OTC") market where prices are readily available from a dealer, industry group, pricing service or regulatory agency.

The properties have been valued by an independent surveyor, Savills Commercial Ltd, as at 31 March 2011 on an open market basis in accordance with the Statement of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors.

The valuation of AVC investments is provided by Equitable Life Assurance Society. These are valued on a bid price basis.

Exchange traded financial future and option contracts are included at their fair market value which is the unrealised profit or loss at the current bid or offer market quoted price of the contract as determined by the closing exchange prices as at year-end. OTC swap contracts which include interest rate and credit default swaps are included at the Trustee's estimate of fair value based upon pricing models and market data input where available.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

2. Accounting Policies (continued)

(e) Investments (continued)

Unitised pooled fund investments such as unit linked insurance policies and unit trust holdings are valued at the respective managers' bid or single price. Other unquoted securities, including other pooled investment vehicles and investments in hedge funds, are included at prices provided by the third party pricing vendors where there is a traded market and at the Trustee's estimate of market value where there is not a traded market, based on the valuation provided by the fund managers.

Investments in private equity reflect the valuations provided by the respective fund managers at the year-end date and have been accepted by the Trustee as a fair estimate of market value as traded prices are not available. Managers normally carry unquoted holdings at cost for at least one year, unless written down based upon evidence of impairment. For subsequent periods they are valued at a level which reflects the last transaction based on adjusted earnings multiples for comparable quoted companies.

(f) Foreign currency

Foreign currency transactions are translated into sterling at the rate prevailing on the date of the transaction.

The market value of investments and other assets held in foreign currencies are translated into sterling at the rates of exchange ruling at the year-end. Differences arising on the translation of investments are included in changes in market value.

Forward currency contracts, open at the year-end, are valued at that date at the relevant forward rates and any unrealised gains or losses are recognised in the accounts. Such contracts are entered into by the investment managers in the normal course of their investment activities.

Gains and losses on foreign currency contracts taken out specifically to hedge certain overseas investment holdings are included in 'change in market value of investments' in the Fund Account.

(g) Insurance policy

The non-profit bulk annuity (buy-in) policy is valued using the premium value approach. This valuation approach is based on the amount that an insurer would charge at the date of the valuation to provide benefits covered under the policy and can therefore be considered as a measure of replacement cost. In the case of the buy-in policy the premium value is the recapture premium (being the premium value provided by the insurance provider at the reporting date) plus any outstanding deferred premium still payable by the Fund under the policy.

3. The Sections of the Fund

The Fund is made up of two sections. The Old Section covers periods of service up to 5 April 1978. The New Section was established following the Social Security Pensions Act 1975 to qualify for Contracting-Out of the second tier of the State Scheme; it commenced on 6 April 1978 for periods of service from that date.

Dealings with members are accounted for and disclosed separately between the Old and New Sections in the Financial Statements.

Separate accounts are maintained for investments between the Old and New Sections and the investments of the Fund are disclosed separately between the two Sections in the Financial Statements.

4. Contributions

During the year, 18 (2010: 44) payments of normal contributions totalling £23,346 (2010: £58,971) for members and £38,068 (2010: £96,131) for employers were paid later than the due date set out in the Schedule of Contributions (in nearly all cases, no more than a few days late). As stated in the Trustee's Report these late contributions are received from only a small number of employers. As the amounts are not considered material, the auditor has not qualified its Statement about contributions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

4. Contributions (continued)

Debts on employers may also arise in the following circumstances:

(a) Where an employer has suffered an insolvency event, the Trustee has power under Rule 5.2A of the Trust Deed and Rules to claim a debt calculated on the deficiency in the Fund determined with reference to the cost of purchasing annuities or deferred annuities. Amounts due in respect of such claims are recognised to the extent deemed recoverable on the due date for payment specified in the demand for payment.

(b) Where an employer has incurred a statutory debt under Section 75 of the Pensions Act 1995, such amounts are recognised when determined, which is when they have been calculated and certified by the Scheme Actuary and the actuarial certificate served on the employer. Amounts due in respect of such debts are recognised to the extent deemed recoverable.

Rule 5.2A debts recognised in the year were £1.4 million. There were no Statutory Debts under Section 75 of the Pensions Act 1995.

	2011 Old Section £m	2011 New Section £m	2011 Total £m	2010 Total £m
4. Contributions Receivable				
Employers – normal	–	7.7	7.7	7.7
Employers – deficit contributions	–	209.1	209.1	43.3
Members – normal	–	4.7	4.7	4.8
– additional voluntary contributions	–	0.2	0.2	0.3
	–	221.7	221.7	56.1

Deficit contributions recognised in the year to 31 March 2011 include £2.5 million in respect of debt calculated on a buy-out basis under Rule 5.2A of the Trust Deed and Rules. Further details of deficit contributions are provided in the Trustee's Report on [page 9](#).

5. Transfers in

Individual transfers in from other schemes	–	0.1	0.1	0.2
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6. Benefits

Pensions	77.0	90.3	167.3	165.1
Lump sum retirement benefits	7.6	11.6	19.2	24.3
Lump sum death benefits	0.3	0.9	1.2	0.3
	84.9	102.8	187.7	189.7

The Trustee holds an insurance policy with Lucida plc that secures a proportion of the pensions payable. Receipts from Lucida plc during the year and included in investment income total £48.7 million.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

	2011 Old Section £m	2011 New Section £m	2011 Total £m	2010 Total £m
7. Payments in respect of leavers				
Individual transfers to other schemes	1.3	4.2	5.5	4.6
8. Administrative and other expenses				
Administration and processing	2.1	2.5	4.6	4.9
Actuarial fees	0.4	0.5	0.9	0.7
Legal, other professional fees and deficit collection	0.8	3.7	4.5	5.1
Other expenses	0.6	2.1	2.7	1.9
	3.9	8.8	12.7	12.6
Provisions against deficit contributions receivable	–	12.8	12.8	(0.5)
	3.9	21.6	25.5	12.1

(i) Legal, other professional fees and deficit collection is net of income received from employers in respect of credit assessment fees. Income amounting to £411,500 has been deferred until next year when the credit assessment is due to be completed.

(ii) The increase in other expenses reflects an increase in regulatory fees payable by the Fund.

(iii) The increase in provisions for deficit contributions receivable reflects the increase in the 2009 deficit when compared to the earlier deficits.

9. Investment income				
Income from fixed interest securities	26.8	13.2	40.0	45.6
Dividends from equities	–	17.4	17.4	19.2
Income from pooled investment vehicles	1.6	12.7	14.3	1.8
Income from index-linked securities	–	1.6	1.6	–
Net rents from properties	2.4	7.7	10.1	14.7
Interest on cash deposits	0.1	0.4	0.5	0.1
Exchange (loss)/gain on foreign currency cash holdings	(0.3)	(0.8)	(1.1)	0.3
Income from derivatives	0.2	–	0.2	0.5
Income from insurance policy	48.7	–	48.7	20.8
	79.5	52.2	131.7	103.0
Irrecoverable taxation	–	(1.3)	(1.3)	(1.4)
	79.5	50.9	130.4	101.6

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

	Value at 31/03/10 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Value at 31/03/11 £m
10. Investments					
Fixed interest securities	704.7	836.5	(811.1)	15.7	745.8
Equities	720.4	433.3	(767.3)	27.3	413.7
Pooled investment vehicles	959.1	523.6	(558.8)	55.0	978.9
Index-linked securities	–	160.7	–	2.6	163.3
Insurance policy	499.8	104.5	–	(13.9)	590.4
Derivatives					
- Swaps	1.2	1.5	(2.5)	(0.4)	(0.2)
- Futures	(0.1)	2.9	(3.5)	0.8	0.1
- Forward foreign exchange	(8.5)	28.3	(38.4)	16.0	(2.6)
Properties	155.1	–	(5.2)	(18.6)	131.3
AVC investments	3.0	0.2	(0.5)	0.2	2.9
	3,034.7	2,091.5	(2,187.3)	84.7	3,023.6
Cash deposits, outstanding dividend and interest entitlements and treasury funds	102.3				272.9
Other investment liabilities	(24.5)				(16.2)
	3,112.5				3,280.3

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The table above includes the total valuation of investments attributable to both the Old and New Sections. The total valuations have been split between these two Sections within Notes 10.1 and 10.2

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

	Value at 31/03/10 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Value at 31/03/11 £m
10.1 Old Section					
Fixed interest securities	534.5	552.5	(606.8)	10.4	490.6
Equities	53.3	53.0	(106.4)	1.7	1.6
Pooled investment vehicles	104.2	208.1	(185.9)	7.5	133.9
Insurance policy	499.8	104.5	–	(13.9)	590.4
Derivatives					
- Swaps	1.3	1.2	(2.3)	(0.4)	(0.2)
- Futures	–	2.2	(2.2)	0.1	0.1
- Forward foreign exchange	(0.8)	3.5	(4.9)	1.5	(0.7)
Properties	69.8	–	(34.1)	(4.4)	31.3
	1,262.1	925.0	(942.6)	2.5	1,247.0
Cash deposits, outstanding dividend and interest entitlements and treasury funds	33.0				27.5
Other investment liabilities	(24.5)				(16.2)
	1,270.6				1,258.3

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

	Value at 31/03/10 £m	Purchases at cost and derivative payments £m	Sales proceeds and derivative receipts £m	Change in market value £m	Value at 31/03/11 £m
10.2 New Section					
Fixed interest securities	170.2	284.0	(204.3)	5.3	255.2
Equities	667.1	380.3	(660.9)	25.6	412.1
Pooled investment vehicles	854.9	315.5	(372.9)	47.5	845.0
Index-linked securities	-	160.7	-	2.6	163.3
Derivatives					
- Swaps	(0.1)	0.3	(0.2)	-	-
- Futures	(0.1)	0.7	(1.3)	0.7	-
- Forward foreign exchange	(7.7)	24.8	(33.5)	14.5	(1.9)
Properties	85.3	32.9	(4.0)	(14.2)	100.0
AVC investments	3.0	0.2	(0.5)	0.2	2.9
	1,772.6	1,199.4	(1,277.6)	82.2	1,776.6
Cash deposits, outstanding dividend and interest entitlements and treasury funds	69.3				245.4
	1,841.9				2,022.0

Included within the above purchases and sales figures are transaction costs of £1,154,078 (2010: £825,511); of which £104,399 (2010: £115,260) is in respect of the Old Section and £1,049,679 (2010: £710,251) is in respect of the New Section. Costs are also borne by the Fund in relation to transactions in pooled investment vehicles. However, such costs are taken into account in calculating the bid/offer spread of these investments and are not therefore separately identifiable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

Details of investments held at year-end:

	2011 Old Section £m	2011 New Section £m	2011 Total £m	2010 Total £m
10.3 Fixed interest securities				
UK public sector - quoted	176.9	10.9	187.8	174.7
UK corporate - quoted	308.9	125.8	434.7	492.8
Overseas public sector - quoted	–	13.7	13.7	10.5
Overseas corporate - quoted	4.8	104.8	109.6	26.7
	490.6	255.2	745.8	704.7
10.4 Equities				
UK quoted	–	99.0	99.0	167.2
UK unquoted*	1.6	1.6	3.2	1.6
Overseas quoted	–	311.5	311.5	551.6
	1.6	412.1	413.7	720.4
*See note 14				
10.5 Pooled investment vehicles				
Managed Funds – UK	–	–	–	46.9
Managed Funds – Overseas	53.1	168.0	221.1	320.9
Unitised insurance policies – UK	18.7	606.0	624.7	504.4
Unitised insurance policies – Overseas	62.1	71.0	133.1	86.9
	133.9	845.0	978.9	959.1

There were no pooled Fund investments in Property and no individual underlying holdings exceeding 5% at the year-end.

The managers operating the pooled investment vehicles are all registered in the United Kingdom apart from one overseas investment manager for the New Section.

10.6 Index-linked securities				
UK public sector - quoted	–	163.3	163.3	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

	2011 Old Section £m	2011 New Section £m	2011 Total £m	2010 Total £m
10.7 Insurance policies				
Insurance policy	590.4	–	590.4	499.8

Included in this value is a recapture premium of £574.2 million and a deferred premium of £16.2 million of which £4.6 million relates to a true-up premium. This is as a result of a data verification exercise.

The above is a non-profit bulk annuity (buy-in) policy with Lucida plc. There is no right of surrender of the policy except under certain specified default events. Policy documents have been issued and executed on 23 September 2009.

Following the payment of premiums of £500 million on 16 September 2009 and £100m on 15 April 2010, the Policy covers 65% of pensions in payment in the Old Section of the Fund as at September 2009.

At year-end the insurance policy was 47% of the net assets of the Old Section. As at 31 March 2011, Lucida plc had deposited an agreed amount of collateral in relation to the insurance policy.

10.8 Derivative assets				
Swaps	–	–	–	1.8
Futures	0.1	–	0.1	0.1
Forward foreign exchange	1.6	5.5	7.1	4.6
	1.7	5.5	7.2	6.5
10.9 Property				
The Fund had investments in the following types of property:				
Office	8.1	25.7	33.8	52.8
Retail	10.2	32.0	42.2	44.8
Industrial and other	12.9	42.3	55.2	57.5
	31.2	100.0	131.2	155.1

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

	2011 Old Section £m	2011 New Section £m	2011 Total £m	2010 Total £m
10.10 Deposits and other investment balances				
Cash	12.4	78.8	91.2	29.3
Treasury fund	5.9	158.3	164.2	54.5
Outstanding dividends and interest	9.2	8.3	17.5	18.5
	27.5	245.4	272.9	102.3

Included within cash balances are £190k (2010: £338,000) in respect of initial margins arising on open futures contracts at the year-end. The movement in the Treasury Fund comprises purchases of £782.4 million and sales of £672.7 million.

The New Section cash balance as at 31 March 2011 was £245.4 million. This unusually high cash balance includes £150 million of proceeds from the sale of assets as part of investment manager transitions taking place over the financial year-end. On 1 April 2011, two separate investments of £90 million and £30 million were made with a further £30 million being invested on 11 April 2011. All of these investments were pooled investment vehicles.

10.11 Investment liabilities

	2011 Old Section £m	2011 New Section £m	2011 Total £m	2010 Total £m
Derivative liabilities				
Swaps	(0.2)	–	(0.2)	(0.6)
Futures	–	–	–	(0.2)
Forward foreign exchange	(2.3)	(7.4)	(9.7)	(13.1)
	(2.5)	(7.4)	(9.9)	(13.9)
Insurance policy liabilities				
Insurance policy deferred premium	(16.2)	–	(16.2)	(24.5)
	(18.7)	(7.4)	(26.1)	(38.4)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

10.12 Derivative contracts

Objectives and policies

The Trustee has authorised the use of derivatives by the investment managers.

Derivatives are used to manage the Fund's risk exposure and for efficient portfolio management.

Swaps – the Fund had swap contracts outstanding at the year-end relating to its fixed interest investment portfolio. These swap contracts are traded over the counter (“OTC”). The details are:

Nature	Description	Nominal currency amount	Duration	Old Section Asset £000s	Old Section Liability £000s	New Section Asset £000s	New Section Liability £000s
Swaps UK	Interest Rate	4,870,000	20 yrs +	-	(172)	-	-
Swaps Euro	Credit Default	12,040,000	0.5 yrs	24	(50)	-	-
				24	(222)	-	-

The Fund had deposited no collateral at year-end in respect of the OTC interest rate swaps.

Futures – The Fund had exchanged traded stock index futures outstanding at the year-end relating to its Fixed Interest portfolios as follows:

Nature	Description	Nominal currency amount	Duration	Old Section Asset £000s	Old Section Liability £000s	New Section Asset £000s	New Section Liability £000s
Futures UK	UK Long Gilt Future (LIF)	(10,076,620)	3 months	38	-	-	-
Futures USA	US 10 Yr Treas. NTS Future	(7,022,844)	3 months	51	-	-	-
Futures USA	US Treas. Ultra Bond	1,112,063	3 months	20	-	-	-
				109	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

10.12 Derivative contracts (continued)

Forward foreign exchange (FX) – The Fund had open Forward FX contracts at the year-end as follows:

Currency bought	Currency sold	Nominal currency bought	Nominal currency sold	Old Section Asset £000s	Old Section Liability £000s	New Section Asset £000s	New Section Liability £000s
CAD	GBP	27,927,660	17,436,862	-	-	11	-
EUR	GBP	188,572,362	165,319,808	581	-	582	-
GBP	AUD	16,522,434	26,721,501	-	-	-	(290)
GBP	CAD	32,841,456	52,702,857	-	-	-	(298)
GBP	CHF	19,567,449	29,153,228	-	-	34	-
GBP	EUR	213,670,086	250,683,775	-	(700)	-	(2,331)
GBP	HKD	30,977,424	379,837,839	-	-	296	-
GBP	JPY	76,941,632	10,082,463,187	-	-	153	(11)
GBP	USD	1,228,083,135	1,957,946,906	713	(721)	4,244	(2,593)
GBP	ZAR	2,848,328	32,171,540	-	-	-	(8)
HKD	GBP	161,208,194	13,242,535	-	-	16	(52)
JPY	GBP	6,170,849,619	47,030,864	-	-	-	(192)
JPY	USD	516,445,341	6,218,714	-	(1)	-	-
USD	EUR	166,684,070	122,225,203	-	(835)	-	(1,383)
USD	GBP	1,211,743,152	756,655,888	290	-	135	(213)
USD	JPY	90,149,161	7,416,216,621	-	(8)	15	(47)
				1,584	(2,265)	5,486	(7,418)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

10.13 AVC investments

For those members who have chosen to pay Additional Voluntary Contributions the Trustee holds assets (which are invested separately from the main Fund assets) in the form of individual accounts securing additional benefits on a money purchase basis. Members participating in this arrangement each receive an annual statement made up to the year-end, confirming the amounts held in their account and the movements in the year.

Members can also invest AVCs in a range of funds under the Equitable Life policy managed by Clerical Medical Investment Group Limited.

The aggregate amounts of AVC investments held with Equitable Life Assurance Society in the form of individual accounts securing additional benefits on a money purchase basis were as follows:

	2011 Old Section £m	2011 New Section £m	2011 Total £m	2010 Total £m
With-profits fund	–	0.6	0.6	0.8
Unit-linked fund	–	2.1	2.1	2.0
Building society fund	–	0.2	0.2	0.2
	–	2.9	2.9	3.0

10.14 Commitments and redemptions

As at 31 March 2011 the Fund was committed to providing additional funding to certain managers investing in unquoted securities. These commitments amounted to £16.10 million (2010 £15.39 million).

The Fund also held investments totalling £58 million in certain pooled vehicles for which there are contractual restrictions on the redemption of the investment (excluding notice periods or dealing frequency) due to one to three year lock-in periods. Some of these assets can be redeemed by paying an early redemption penalty, the maximum of which is 3%.

11. Current assets				
Normal contributions due from employers	–	0.9	0.9	0.4
Normal contributions due from Members	–	0.5	0.5	0.2
Deficit contributions due	–	16.0	16.0	7.7
Other debtors	0.4	0.6	1.0	1.2
Cash balances	2.4	22.6	25.0	4.8
	2.8	40.6	43.4	14.3

Normal contributions due at the year-end were paid in accordance with the Schedule of Contributions. Under the Schedule of Contributions the due dates for deficit contributions are between 30 September 2010 and 30 September 2022.

Total Rule 5.2A and Section 75 debtors due at the balance sheet date, net of provisions, were £1.4 million, for which no payments have subsequently been received.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

	2011 Old Section £m	2011 New Section £m	2011 Total £m	2010 Total £m
12. Current liabilities				
Unpaid benefits	(3.9)	(4.6)	(8.5)	(8.5)
Deferred income	–	(0.4)	(0.4)	–
Other creditors	(2.0)	(7.1)	(9.1)	(10.1)
	(5.9)	(12.1)	(18.0)	(18.6)

The New Section Deferred income creditor relates to fees paid by employers to be credit assessed for applying to pay the 2009 deficit in instalments where the credit assessment work at the year-end has not been completed.

13. Related party transactions

Under Financial Reporting Standard 8, Related Party Disclosures (“FRS 8”), the Trustee is deemed to be a related party of the Fund. Included in administrative expenses are payments of £45,825 (2010: £70,770) made to the Trustee for fees and expenses relating to the exercise of its duties during the year. The Chairman is a pensioner member of the Fund.

Ensign Trust Limited (“the Company”) is a wholly-owned subsidiary of MNOPF. MNOPF paid a premium on behalf of Ensign Trust Limited to Norwich Union for healthcare insurance in respect of former employees of a former subsidiary company. This was settled by reduction of the loan due from MNOPF. The Company has provided the parent company (MNOPF Trustees Limited) with an interest free loan. As at 31 March 2011, the value of this loan was £119,922,000 (31 March 2010: £119,939,000). The loan is disclosed as a debtor in the Financial Statements.

MNPA Limited is a wholly-owned subsidiary of MNOPF Trustees Ltd. The value of the Fund’s equity holding at 31 March 2011 was £3,145,078. During the year a fee of £2.4 million was paid to MNPA Limited for administration services.

The Fund has taken advantage of the exemption within FRS 2 from preparing consolidated accounts on the grounds of immateriality.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2011

14. Employer-related investments

At the year-end the market values of direct investments held by the Fund in companies known to be, or which have subsidiary interests which are known to be participating employers, were as follows:

	Total £m	2011		2010	
		Old Section %	New Section %	Total £m	Total %
Alcatel-Lucent/France	0.0	*	*	0.2	*
Anglo American plc	**	**	**	0.5	*
BAE Systems PLC	2.7	*	0.1%	4.8	0.2%
BP PLC	0.4	*	*	2.3	0.1%
Cable & Wireless Communications PLC	0.1	*	*	-	*
Cable & Wireless Worldwide PLC	0.1	*	*	0.4	*
Carnival PLC	**	**	**	0.4	*
Cemex S.A.B de C.V.	**	**	**	6.4	0.3%
Chevron Corporation	**	**	**	1.4	0.1%
Diageo PLC	**	**	**	1.8	0.1%
DP World Ltd	0.6	*	*	-	*
Exxon Mobil Corporation	**	**	**	1.8	0.1%
Fyffes PLC	0.0	*	*	0.1	*
Irish Continental Group PLC	0.0	*	*	-	*
Lloyds Banking Group PLC	0.5	*	*	-	*
Lloyds TSB Bank PLC	5.8	0.5%	*	-	*
Northumbrian Water Finance PLC	1.3	*	0.1%	-	*
Rexam PLC	1.0	0.1%	*	-	*
Royal Dutch Shell PLC	3.4	*	0.2%	1.8	0.1%
Saipem SpA	0.4	*	*	0.8	*
Smiths Group PLC	0.1	*	*	0.2	*
Technip SA	0.0	*	*	-	*
Thames Water Utilities Cayman Finance Limited	1.5	*	0.1%	-	*
Thames Water Utilities Finance Ltd	4.4	*	0.1%	3.6	0.1%
Zurich Finance UK PLC	1.2	0.1%	*	-	*
Zurich Finance USA Inc	1.0	0.1%	*	-	*
Zurich Financial Services AG	0.6	0.1%	*	-	*
Unilever PLC	**	**	**	1.8	0.1%
Exposure in pooled vehicles**	8.3	0.2%	0.3%	-	-
	33.4	1.0%	1.0%	28.3	1.0%

* less than 0.05% but these amounts are included in the total.

**potential exposure via pooled vehicles. Pooled vehicles which include hedge funds represent a bigger proportion of total assets than in 2010. The total exposure to employer-related investments in pooled vehicles is likely to be overstated owing to the deliberately conservative assumptions made.

In addition to the amounts shown in the table (left), contributions totalling less than £100,000 have been received after the due date set out on the Schedule of Contributions. Under applicable Regulations, these are also employer-related investments.

COMPLIANCE STATEMENT

For the year ended 31 March 2011

Forfeited Benefits

The Rules permit the Trustee to treat benefits as forfeit in certain circumstances if a member's whereabouts is unknown, although the Rules also give the Trustee discretion to reinstate forfeited benefits if the member's whereabouts become known at a later stage. The Trustee has established a policy on the forfeiture of benefits and has identified a further 112 members in the year ended 31 March 2011 who are very unlikely to claim benefits now as during the year they have exceeded the upper age limit set under the Forfeiture Policy. The membership numbers have been reduced accordingly.

Overpaid Pensions

The Trustee must ensure that pensions are paid to the correct recipient.

Pensions payable from the MNOFP cease on the death of the recipient or, in the case of dependant children, when they cease to meet the criteria for receiving dependant children's pensions. Under Rule 25A of the Rules, the Trustee has the power to treat any instalments of pension paid after the death of a member as a pre-payment of any widow(er)'s pension.

All members and beneficiaries are asked to note that the Trustee will take action to recover benefits that have been overpaid. In cases where false representations have been made, the Trustee will usually report the incident to the police which could lead to prosecution of the individuals involved.

Discretionary Pension Increases

The Trustee is required to consider, at least annually, whether it can grant discretionary increases to pensions under Rule 6.6 of the Trust Deed and Rules, having taken the advice of the Scheme Actuary.

After reviewing the Scheme Actuary's advice based on the funding levels at 30 September 2010, the Trustee did not consider it to be appropriate to grant a discretionary increase on Old Section or New Section pensions in the 2010/2011 Scheme year, whilst maintaining a sufficient level of security for all members' benefits.

Statutory Pension Increases

Certain increases to pensions are required by legislation; these rules only apply to New Section pensions.

Guaranteed Minimum Pensions in payment earned from 6 April 1988 and pensions in payment relating to service from 1 April 1997 were increased in April 2011, as required, by 3.0% and 4.6% respectively.

Increases to deferred pensions are made in accordance with the MNOFP's Trust Deed and Rules (the "Rules") and depend on the date of leaving. During the year, New Section deferred pensions for members who left service prior to 1 January 1986 were increased by 3.0% as required by the Rules and, for those leaving after that date, by application of the statutory revaluation percentage to the whole deferred pension.

Full details of the pension increases that applied for 2010/11 for the Old and New Sections of the Fund can also be found on the MNOFP website.



www.mnopf.co.uk/news.htm

Transfers

The Rules of the Fund allow transfers both to and from other registered occupational pension schemes and personal pension plans. The Trustee receives a statutory discharge from any further liability once a transfer has been made to another pension arrangement. No transfers were reduced due to underfunding during the year.

The Trustee confirms that all transfer values are calculated and verified as required under the Pension Schemes Act 1993 (as amended by the Pensions Act 1995). There is no allowance for discretionary benefits in transfer values.

COMPLIANCE STATEMENT

For the year ended 31 March 2011

Statutory employer Debt

The Section 75 debt legislation was introduced to ensure that if a scheme is not sufficiently well funded, a debt is paid by the employer on the occurrence of certain events. One of these events, known as an “employment cessation event”, has been the subject of two recent High Court decisions in the Cemex and Pilots’ cases.

These cases have clarified that an “employment cessation event” occurs in relation to the MNOFP when an employer which ceased to employ active members before 6 April 2008 also ceased to employ “Officers” under age 61 either simultaneously or at a later date. Where an employer continued to employ active members after 6 April 2008, an “employment cessation event” occurs when the employer ceases to employ active members.

In January 2011, the High Court heard a case brought by the trustees of the Pilots’ National Pension Fund, which had some issues in common with the Fund, including a doubt as to the construction of the Section 75 debt triggering event in the period prior to 6 April 2008. The judgement in the Pilots’ case further refined the criteria for triggering a Section 75 debt, to the extent that a Section 75 debt is triggered when the participating employer, having ceased to employ its last active member prior to 6 April 2008, ceases to employ persons eligible to join the Fund, i.e. “Officers” under age 61.

In the light of these cases, the Trustee has been carrying out an exercise to obtain information from all New Section employers who have ceased to employ active members, to establish whether they continued to employ persons who would have been eligible to join the Fund, and if so, how long they continued to do so. This will enable the Trustee to determine which New Section employers have triggered a Section 75 debt and which remain potentially liable for a Section 75 debt in the future.

Further changes to the Employer Debt legislation came into force from April 2008, which prevent employer debts from being triggered where there is restructuring between two associated employers (both of whom participate in the same multi-employer pension scheme), subject to certain specified conditions being satisfied.



COMPLIANCE STATEMENT

For the year ended 31 March 2011

Trustee Meetings

A summary of meetings held and Board Directors' attendance during the year ended 31 March 2011 is detailed as follows:

Name	The Trustee Board		The Management Committee		Group Audit Committee		Investment Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Peter McEwen MBE MNM (Chairman)	4	4	4	4			6	6
W D Everard CBE (Vice-Chairman)	4	4	4	4			6	6
E J N Brookes TD	4	3	4	4	3	2		
G Craven	4	4					6	6
A M Dickinson	4	3	4	4				
A Graveson	4	2			3	3	6	4
K Howarth	4	3			3	3		
D E Jones	4	3	4	3				
P Keenan	4	4						
J McGurk	4	4					6	6
P L Moloney – Resigned 18 July 2011	4	3	4	3	3	3	6	4
L D Stracey	4	3						
Capt R Stuart	4	1						

Trustee Remuneration

Trustee Remuneration is payable from the assets of the Fund to certain Trustee Directors. Directors are also entitled to receive reimbursement of out-of-pocket expenses.

In respect of the year ended 31 March 2011, the total amount of remuneration and expenses was less than £75,000. Until August 2010, when the Chairman retired from Nautilus International, his fee was paid to charity.

Internal Disputes

The Trustee has an Internal Disputes Resolution Procedure (“IDRP”) in place to deal with any complaints from members regarding the operation of the Fund. If the complaint cannot be resolved under the first stage of the procedure, the Trustee will consider the complaint under stage two. Further details of the IDRP can be found on the MNOFP website.

COMPLIANCE STATEMENT

For the year ended 31 March 2011

Pension Tracing Service

The Pension Tracing Service provides a tracing service for members (and their dependants) of previous employers' schemes, who have lost touch with earlier employers and trustees. To trace a benefit entitlement under a former employer's scheme, enquiries should be addressed to:

Pension Tracing Service
The Pension Service
Tyneview Park
Whitley Road
Newcastle upon Tyne
NE98 1BA

Telephone: 0845 600 2537



[www.direct.gov.uk/en/
Pensionsandretirementplanning/
companyandpersonalspensions/
DG-10027189](http://www.direct.gov.uk/en/Pensionsandretirementplanning/companyandpersonalspensions/DG-10027189)

The Pensions Regulator

The Pensions Regulator is the UK regulator of work-based pension schemes. The Pensions Act 2004 gives the Pensions Regulator a set of specific objectives: to protect the benefits of members of work-based pension schemes; to promote good administration of work-based pension schemes; and to reduce the risk of situations arising that may lead to claims for compensation from the Pension Protection Fund.

The Regulator can be contacted at:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

Telephone: 0870 606 3636



www.thepensionsregulator.gov.uk

TPR does not deal with queries about individual benefits.

The Pensions Advisory Service (TPAS)

Any problem, issue or concern connected with the Fund should be referred to the Administrator of the Fund in the first instance, who will try to resolve the problem as quickly as possible. Members and beneficiaries of occupational pension schemes who have problems concerning their scheme which are not satisfied by the information or explanation given by the administrators or the trustees can consult with the Pensions Advisory Service ("TPAS"). A local TPAS adviser can usually be contacted through a Citizens Advice Bureau. Alternatively TPAS can be contacted at:

The Pensions Advisory Service
11 Belgrave Road
London
SW1V 1RB

Telephone: 0845 601 2923



www.pensionsadvisoryservice.org.uk

The Pensions Ombudsman

In cases where a complaint or dispute cannot be resolved, normally after the intervention of TPAS, an application can be made to the Government-appointed Pensions Ombudsman for him to investigate and determine any complaint or dispute of fact or law involving occupational pension schemes. The address is:

The Office of the Pensions Ombudsman
11 Belgrave Road
London
SW1V 1RB

Telephone: 020 7630 2200



www.pensions-ombudsman.org.uk