MERCHANT NAVY OFFICERS PENSION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

Registrar of Occupational and Personal Pension Schemes Registration Number 10005645

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TRUSTEE AND ADVISERS

Trustee
MNOPF Trustees Limited

Trustee Directors

Employer Directors

R Murphy (Chair)
D E Jones
M MacDonald
J McGurk
S Qureshi (appointed 9 December 2016)
L Stracey
P Walker (resigned 1 December 2016)
P Winter

Officer Directors

M Jess BEM (Vice-Chair)
C Boyle
R Cunningham
A M Dickinson
G Elliott
A Graveson
O Tunde

Committees of the Trustee
Management Committee
Deficit Contribution Sub-Committee
Audit Committee

Executive support, registered office of the Trustee and address for employer enquiries
Ensign Pensions Limited
The Beehive
City Place, Gatwick Airport
West Sussex
RH6 0PA

Ensign Pensions Limited was appointed Scheme Secretary from 1 July 2016

MNOPF Executive
A G Waring (Chief Executive)
K L Foster (Scheme Secretary) (to 31 October 2016)
A Hardiman (Scheme Secretary) (from 1 November 2016)
R J Hymas (Chief Financial Officer) (to 30 September 2016)

Scheme Actuary
C P Burbidge, Willis Towers Watson Limited

Independent Auditor
Grant Thornton UK LLP

Scheme Administrators
JLT Employee Benefits Limited
BlackRock Life Limited

Delegated Chief Investment Officer
Willis Towers Watson Limited

Independent Investment Adviser
Hymans Robertson LLP

Investment Managers

Defined Benefit Section

Willis Towers Watson Limited
BlackRock Advisers (UK) Limited
State Street Global Advisers Limited

Money Purchase Section

BlackRock Life Limited

Custodian
The Bank of New York Mellon SA/NV
The Northern Trust Company

AVC providers
The Equitable Life Assurance Society
Standard Life Assurance Company

Bankers
National Westminster Bank Plc

Solicitors
Baker & McKenzie LLP

Address for member enquiries
myMNOPFpension
Post Handling Centre U
St James' Tower
7 Charlotte Street
Manchester
M1 4DZ
enquiries@myMNOPFpension.co.uk

CHAIR'S INTRODUCTION

On behalf of the Trustee Board, I would like to welcome you to the Annual Report and Financial Statements for the year ended 31 March 2017. As the Fund turns 80 years old, I am delighted to report that whatever uncertainties the political, economic or pensions worlds have thrown at the Fund in the last 12 months, the MNOPF continues to show remarkable resilience and has made good progress on its Journey Plan.

The big success story for the MNOPF this year has been the improvement in the funding position during a time of unpredictability in terms of election and referendum results, market returns and pension fund instability. Thanks to its award-winning investment strategy, returns have outpaced the rise in the value of liabilities. This outperformance, combined with the Trustee's success in collecting deficit contributions, has led to an improved funding level for the fifth year running. This is explained further in the Investment Report.

This is the first year that the Financial Statements have included the Money Purchase Section, introduced on 1 April 2016. Since the closure of the MNOPF to future defined benefit accrual from 31 March 2016, the Trustee has been looking at the next generation of pension provision for the seafaring community and seeking to improve the retirement outcomes of all those working in the maritime industry both now and in the future. As required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, a statement demonstrating how governance standards relating to the money purchase benefits in the Fund have been assessed and met during the year is appended to this report although much of the required information is available in the pages which follow.

This year we said goodbye to a long-standing Employer Director, Peter Walker, and welcomed a new member of the Board, Sarmad Qureshi, who makes a valuable addition to the team. Since the scheme year-end, we have reduced the number of Trustee Directors as part of a wider review of Fund governance. Consequently, in June 2017, the MNOPF Trustee Board paid a fond farewell to four of its Directors - Garry Elliot, Allan Graveson, John McGurk and Les Stracey. On behalf of the Trustee Board, I would like to thank all the resigning directors for their hard work and guidance and wish them the very best for the future.

Rory Murphy

Chair, MNOPF Trustees Limited

10 October 2017

TRUSTEE'S REPORT

The Board of MNOPF Trustees Limited (referred to hereafter as "the Trustee") is pleased to present the 79th Annual Report of the Merchant Navy Officers Pension Fund (referred to hereafter as the "Fund" or "MNOPF"), for the year ended 31 March 2017. The Annual Report includes the Trustee's Report, Investment Report, Statement of Trustees Responsibilities, Financial Statements and Notes, the Independent Auditor's Report, the Report on Actuarial Liabilities and the Actuarial Certificates and the Member's Information.

The Annual Report sets out how the Fund is run, how the assets are invested, and the financial activity of the Fund in the year to 31 March 2017.

Constitution and changes to the Fund

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 Rules"). The Trustee, which is a corporate trustee, manages the Fund with the aim of providing pension benefits for Officers in the British Merchant Navy, their dependants, and others connected with the British Merchant Navy.

The MNOPF was contracted-out of the State Second Pension under the provisions of the Occupational Pension Schemes (Contracting-Out) Regulations 1996 until 31 March 2016 when the Fund closed to future defined benefit accrual. The Fund currently provides defined benefits for over 25,000 members and their dependants. On 1 August 2015 the Fund introduced money purchase benefits and, on 1 April 2016, opened a Money Purchase Section. Money purchase benefits are currently provided for approximately 1,000 members.

The Annual Report and Financial Statements are available to members through the website www.mnopf.co.uk.

Management of the Fund

The Trustee 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 between four and fourteen Directors, split equally between Employer Directors and Officer Directors. Employers and members are represented by Employer Directors and Officer Directors respectively. A list of Board Directors is shown on page 1.

Trustee Directors are appointed and re-appointed in accordance with the Trustee's Articles of Association, the MNOPF's Trust Deed and Rules and an approved policy which was developed against the backdrop of the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (the "Governance Regulations") that came into force on 6 April 2015. In accordance with this policy, Officer Directors are nominated by the officers' representatives on the Joint Officers' Pension Committee, and Employer Directors are nominated by the employers' representatives on the Joint Officers' Pension Committee. Trustee Directors are subsequently appointed in accordance with the Articles of Association. A Director may appoint an Alternate Director to attend meetings in his place. Trustee Directors are removed in accordance with the Trustee's Articles of Association.

The majority of trustee directors, including the Chair of the Trustee, are 'non-affiliated' for the purposes of the Governance Regulations.

Committees

The Trustee has established a number of committees, each having its own terms of reference. Membership of committees is split equally between employer directors and officer directors. Each of these committees is supported by Ensign Pensions Limited and professional advisers, as required.

The Management Committee

The Management Committee consists of a maximum of six members and its purpose is to review and consider matters relating to the general management of the Fund, its benefits, contributions and investments, to provide summary reports to the Board with recommendations for action as appropriate and to exercise certain powers of the Trustee as delegated.

It is empowered by the Board to set investment guidelines consistent with the Fund's journey plan and to have oversight of the implementation of the investment strategy in the context of the Fund's overall objectives.

TRUSTEE'S REPORT (CONTINUED)

The Deficit Contribution Sub-Committee

The Deficit Contribution Sub-Committee reports to the Management Committee and 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.

Audit Committee

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

Attendance at meetings

A summary of meetings held and Trustee Directors' attendance during the year ended 31 March 2017 is as follows:

	Board		**Management Committee**		**Deficit Collection Sub-Committee**		**Audit Committee**	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
R Murphy (Chair)	4*	4*	4*	4*	10*	10*		
M Jess BEM (Vice-Chair)	4	4	4	4	10	10		
C Boyle	4	3						
R Cunningham	4	4						
M Dickinson	4	4	4	3	10	8		
G Elliott	4	3						
A Graveson	4	2					4	3
D E Jones	4	4	4	4				
M MacDonald	4	4						
J McGurk	4	3						
S Qureshi	2	2						
L Stracey	4	3					4*	4*
O Tunde	4	4					4	4
P Walker	2	2					2	2
P Winter	4	2						

*denotes committee chair

TRUSTEE'S REPORT (CONTINUED)

Conflicts of Interest

All the Directors have signed a Conflicts of Interest Protocol which, in summary, provides for the notification of potential conflicts of interest and the approach to the management of such conflicts. The Protocol also sets out the Directors' responsibilities in relation to confidentiality. This document is reviewed annually.

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 Ensign Pensions, implements and maintains control procedures to mitigate significant risks. A risk register is maintained to:

- highlight the risks to which the Fund is exposed;
- assess 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 MNOPF risk register takes into account the strategic objectives identified by the Trustee, together with certain other matters, and seeks to address or mitigate the impact of such issues to the fullest extent possible.

Ensign Pensions Limited

Ensign Pensions Limited is a company wholly owned by the Trustee. Ensign Pensions provides executive services to the Trustee and other pension schemes and works with the Trustee on developing the Fund's strategy, implementing the Trustee's decisions and supervising the day-to-day running of the Fund. The Trustee has delegated certain authorities to Ensign Pensions.

Administration

The Defined Benefit Section of the Fund is administered by JLT Employee Benefits. The Money Purchase Section is administered by BlackRock Life Limited. Enquiries about the Fund generally or about an individual's entitlement to benefits should be sent to the address shown at the beginning of this report.

Contributions

Summary of Contributions

The amounts due under the Schedule of Contributions as recognised in the Financial Statements are:

Due under the Schedule of Contributions	**31 March 2017 £m**
Employers' normal money purchase contributions	6.9
Employers' normal defined benefit contributions	0.1
Members' normal money purchase contributions	3.2
Members' Additional Voluntary Contributions	0.4
Employers' defined benefit deficit contributions	123.5
Total recognised in the Financial Statements	134.1

Normal contributions

Members' and employers' normal contributions are received in respect of active members in accordance with the Schedule of Contributions of the Fund and the Trust Deed and Rules. On 31 March 2016, the Fund closed to future defined benefit accrual. As a result, no normal contributions were received for active members accruing benefits on a defined benefit basis during the year to 31 March 2017, besides £0.1m received in April 2016 in relation to March 2016.

TRUSTEE'S REPORT (CONTINUED)

Normal contributions in relation to money purchase benefits are paid at rates agreed between the members, the employers and the Trustee, subject to a minimum of 4% for member contributions and 6% for employer contributions.

Normal money purchase contributions totalling £221,832 were not received by the due dates set out in the Schedule of Contributions. All late payments were queried with the employers and steps taken to avoid recurrence. These late payments, the majority of which were paid within ten days after the deadline and at least within 90 days, were mainly the result of operational issues at the respective employers' payroll departments and the Trustee has ensured steps were taken by the employers to avoid recurrence. Employers have been made fully aware of the legal time limits for paying contributions but no further regulatory action was taken by the Trustee. The auditor has referred to these late contributions in its statement about contributions.

Additional Voluntary Contributions ("AVCs")

The Fund has AVC arrangements with Equitable Life and Standard Life and members accruing benefits on a defined benefit basis were able to contribute AVCs until the Fund closure to future defined benefit accrual on 31 March 2016.

Members contributing to the Fund on a money purchase basis are able to make AVCs towards their personal retirement accounts and invest these in one or more of the investment funds available to money purchase members.

On retirement, members can elect to commute part of their pension for a Pension Commencement Lump Sum, and use the AVC fund value to fund part of the cash lump sum, transfer their AVC fund to an alternative pension arrangement or buy an annuity with a provider of their choice (this is known as the "open market option").

Deficit contributions and statutory employer debt

The MNOPF's Deficit Contributions Collection Policy sets out the process of how employers are expected to pay their share of the deficits identified in the triennial valuations.

The MNOPF has a robust process to ensure the efficient collection of the deficit contributions from more than 200 participating employers. The Trustee and its advisers have worked with Participating Employers to implement appropriate credit support arrangements where necessary. These arrangements include corporate guarantees and other forms of contingent assets (including bank guarantees and charges over tangible fixed assets), and have helped to secure the collection of deficit contributions from employers and enhance the protection of members' benefits.

The Section 75 debt legislation was introduced to ensure that if a Fund is not sufficiently well funded, a debt is paid by the employer on the occurrence of certain events (known as an "employment cessation event"). Included within deficit contributions are amounts that are due and expected to be received from employers where statutory debts have arisen following an employment cessation event. Prior to the closure of the Fund to future defined benefit accrual from 31 March 2016, an "employment cessation event" occurred in relation to the MNOPF when an employer who continued to employ active members after 6 April 2008, ceased to employ active members on either a defined benefit or a money purchase basis. Since 31 March 2016, an "employment cessation event" only occurs on the insolvency of a Participating Employer, the winding-up of the Defined Benefit Section or the Fund as a whole, or in the event that an employer elects to trigger its Section 75 debt.

The Trustee continues to monitor employers that are at risk of triggering a Section 75 debt.

Following the 2009 and 2012 valuations, the Scheme Actuary certified Schedules of Contributions which established recovery periods ending in September 2022 and September 2025 respectively. As at 31 March 2017, contributions totalling £9.39 million had not been received in relation to the deficit contribution instalments due within the scheme year for those valuations. All outstanding amounts were received by 6 April 2017. The Trustee has resolved to take all necessary action to pursue the outstanding deficit, totalling £173.2 million, from all Participating Employers by 2025.

Covenant Monitoring

The Trustee continues to monitor the employer covenant strength of employers, in particular when notification is received of corporate changes taking place. The Fund's overall covenant strength will be reviewed as part of the actuarial valuation due as at 31 March 2018.

TRUSTEE'S REPORT (CONTINUED)

Membership

Details of the membership of the Fund as at 31 March 2017 are given below:

	2017 DB Section	2017 MP Section	2017 Total	Restated 2016 Total
ACTIVE MEMBERS				
Opening balance – active members	-	-	-	695
Members previously reported separately[x]	-	367	367	-
New active members[#]	-	594	594	-
Adjustments to active members*	-	-	-	(47)
Leavers (retaining an entitlement)	-	(106)	(106)	-
Retirements	-	(21)	(21)	(62)
Deaths	-	(2)	(2)	(2)
Other leavers	-	(13)	(13)	(9)
Members ceasing future accrual[+]	-	-	-	(575)
ACTIVE MEMBERS AT THE END OF THE YEAR	-	819	819	-
PENSIONERS				
Opening balance	16,942	-	16,942	16,578
Adjustments to pensioners*	60	-	60	127
New pensioners/dependants	779	-	779	761
Pension ceases	(552)	-	(552)	(524)
PENSIONERS AT THE END OF THE YEAR	17,229	-	17,229	16,942
MEMBERS WITH DEFERRED BENEFITS				
Opening balance	8,975	-	8,975	9,214
Members previously reported separately[x]	-	32	32	-
Members ceasing future accrual[+]	-	-	-	575
Adjustments to members with deferred benefits*	(122)	-	(122)	(147)
New pension credit members	5	-	5	1
New leavers before pensionable age	-	106	106	8
Members ceasing to be deferred (transfers out, deaths, retirement, re-joiners etc.)	(768)	(13)	(781)	(612)
Benefits forfeited	-	-	-	(64)
MEMBERS WITH DEFERRED BENEFITS AT THE END OF THE YEAR	8,090	125	8,215	8,975
TOTAL MEMBERSHIP AT THE END OF THE YEAR	25,319	944	26,263	25,917

[x]On 30 June 2015 the Fund introduced money purchase benefits. The Trustee's Report as at 31 March 2016 reported 367 active members and 32 deferred members with money purchase benefits in the Fund. On 1 April 2016 the money purchase benefits were established within a separate section and are now included in the table above.

[#]New active members includes members who were previously in the DB Section and joined the MP Section following closure to future defined benefit accrual. New active members are reported gross of any opt-outs.

*Adjustments are members whose status has been changed where the change relates to a previous year.

[+]The 2016 membership movements have been restated to account for members who became deferred members as at 31 March 2016 following the cessation to future defined benefit accrual.

TRUSTEE'S REPORT (CONTINUED)

Overpaid Pensions

The Trustee must ensure that pensions are paid to the correct recipient. Pensions payable from the MNOPF cease on the death of the recipient or, in the case of dependent children, when they cease to meet the criteria for receiving a dependent child's pension. Under Rule 25A of the Trust Deed and 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.

Transfer Values

The transfer payments paid during the year were calculated in accordance with the regulations under the Pensions Schemes Act 1993 and the Pensions Act 1995 as appropriate. There is no allowance for discretionary pension in payment increases. Transfer payments represented the full "cash equivalent" value of the accrued benefits.

The Rules of the Fund allow transfers to 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.

The Trustee also accepts transfers in from other registered occupational pension schemes, but from 1 April 2016 this is only into the Money Purchase Section excluding AVC funds.

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 31 March 2016, the Trustee did not consider it appropriate to grant a discretionary increase to pensions in April 2017 whilst maintaining a sufficient level of security for all members' benefits.

Statutory Pension Increases

Certain increases to pensions are required by legislation.

- Guaranteed Minimum Pensions in payment earned from 6 April 1988 to 5 April 1997 were increased in April 2017, as required, by 1.0% and pensions in payment relating to service from 1 April 1997 were increased in April 2017, as required, by 2.0%.
- Increases to deferred pensions are made in accordance with the "Rules" and depend on the date of leaving pensionable service. During the year, there was no increase to deferred pensions for members who left service prior to 1 January 1986 as required by the Rules and, for those leaving after that date, by application of the statutory revaluation percentage to the whole of the deferred pension.

Full details of the pension increases that applied at April 2017 can be found on the website www.mnopf.co.uk

Data Review

The Trustee has continually reviewed member data. The approach to this work is consistent with the record-keeping guidance issued by the Pensions Regulator.

Forfeited Benefits

The Rules permit the Trustee to treat benefits as forfeited 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 becomes known at a later stage.

TRUSTEE'S REPORT (CONTINUED)

Investment Management

The Trustee has overall responsibility for the investment of the Fund's assets in accordance with the Occupational Pension Schemes (Investment) Regulations 2005. The Trustee has agreed a Statement of Investment Principles ("SIP"), in accordance with section 35 of the Pensions Act 1995, which sets out the investment strategy and policies for the MNOPF. Certain powers and responsibilities for the implementation of the Trustee's investment strategy have been delegated to the Delegated CIO, in relation to the Defined Benefit Section, and to BlackRock in relation to the Money Purchase Section. The SIP was reviewed during the Fund year, following the introduction of money purchase benefits in 2015 and completion of the most recent actuarial valuation in March 2016. A copy of the revised SIP is available on the website www.mnopf.co.uk.

The SIP sets out the Trustee's approach to socially responsible investment and corporate governance. In the context of socially responsible investment, the Trustee has considered how social, environmental and ethical factors should be taken into account in the investment process, and seeks to understand the extent to which steps are taken by the investment managers to incorporate these factors into their investment process. In the context of corporate governance, the Trustee encourages its investment managers to operate in accordance with the guidelines laid out in the Stewardship Code, which covers matters of both voting and engagement records, and report on their adherence to the Stewardship Code.

The Trustee regularly assesses the performance of the Fund's investments against its investment objectives. Day-to-day monitoring of the investment manager performance in the Defined Benefit Section is delegated to the Delegated CIO, and the Trustee receives reports on a quarterly basis on progress against the Fund's journey plan. The Trustee receives reports from BlackRock on a quarterly basis showing the performance of each of the money purchase investment funds in which monies have been invested over the quarter against. These are reviewed against appropriate benchmarks.

Performance of the Fund's investments over the year is detailed in the Investment Report (see page 11).

Custodian

All of the Fund's investments in the Defined Benefit Section are held under custody arrangements with Bank of New York Mellon, with the exception of the longevity hedge which is reflected under custody arrangements with Northern Trust. Money Purchase assets are held on a day-to-day basis under custody arrangements managed by BlackRock Life Limited, with the exception of the AVC arrangements held with Equitable Life and Standard Life.

Financial development of the Fund

The Financial Statements of the Fund for the year ended 31 March 2017, as set out on pages 16 to 38 have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995. A Summary of the Fund's Financial Statements is set out on the table below.

	2017
	£m
Net (withdrawals) from dealings with members	**(22.6)**
Net returns on investments	**393.0**
Net increase in the fund during the year	**370.4**
Net assets of the fund at 1 April 2016	**2,969.7**
Net assets of the fund at 31 March 2017	**3,340.1**

TRUSTEE'S REPORT (CONTINUED)

Actuarial Review

The Financial Statements set out on pages 16 to 38 do not take into account the liabilities to provide pension benefits which fall due after the year end. In respect of the Fund, these liabilities are considered by the Scheme Actuary who carries out an actuarial valuation of such liabilities every three years. This valuation considers the funding position of the Fund and the level of contributions payable. The most recent triennial valuation was carried out at 31 March 2015 and the actuary's last review of the funding position was as at 31 March 2016.

The Scheme Actuary has prepared a report on the actuarial liabilities. This is included on pages 39 and 40 of this report. The formal actuarial certificate from the Scheme Actuary required by statute is also included in this Annual Report and appears on page 41. These form part of the Trustee's report.

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 MNOPF website.

Further Information

Members are entitled to inspect copies of documents giving information about the Fund. In some circumstances copies of documents can be provided, but a charge may be made for copies of the trust documents (Deed and Rules) and of the Actuary's report.

Any member with a complaint against the Fund or a query about their pension entitlement which they consider has not been satisfactorily addressed can use the "Internal Disputes Resolution Procedure" or, alternatively, they can obtain free advice through The Pensions Advisory Service ("TPAS") who can be reached at 11 Belgrave Road, London SW1V 1RB. If a member has a complaint which TPAS is unable to resolve then they can ask for a ruling from the Pensions Ombudsman who can be reached at the same address.

Any queries about the Fund, including requests from individuals for information about their benefits, should be addressed to:

General Enquiries

Ensign Pensions Limited
The Beehive
City Place
Gatwick Airport
West Sussex
RH6 0PA

Member Enquiries

myMNOPFpension
Post Handling Centre U
St James' Tower
7 Charlotte Street
Manchester
M1 4DZ

Email: enquiries@mymnopfpension.co.uk
Telephone: 01372 200200

This report, including the Investment Report, Statement of Trustee's Responsibilities, the Report on Actuarial Liabilities and the Members' Information, was approved by the Trustee on 10 October 2017 and signed on its behalf by:

R Murphy

Chair, MNOPF Trustees Limited

INVESTMENT REPORT

Investment returns

DB Section

Investment return relative to liabilities in conjunction with deficit contributions, leads to funding level progress.

The Fund's primary investment objective is to outperform its liabilities and, over the year to 31 March 2017, the Fund outperformed its liabilities by 1.4% despite a challenging economic environment. The main contributors to this outperformance was the Fund's alternative credit and private equity investments along with sterling depreciation (which has a positive impact as the Fund maintains some overseas currency exposure). This outperformance combined with deficit contributions has led to a 3.1% increase in the gilt based funding level to 83.0% over the year to 31 March 2017.

The longer-term performance of the Fund also remains strong as it has outperformed its liabilities by 1.7% pa over the past 3 years and 2.4% pa over the past 5 years. Over both time horizons the return achieved has been aligned with the targeted level of outperformance. This outperformance has been achieved despite a significant increase in liabilities due to the Fund's sophisticated liability hedging portfolio and the outperformance of the return-seeking asset classes.

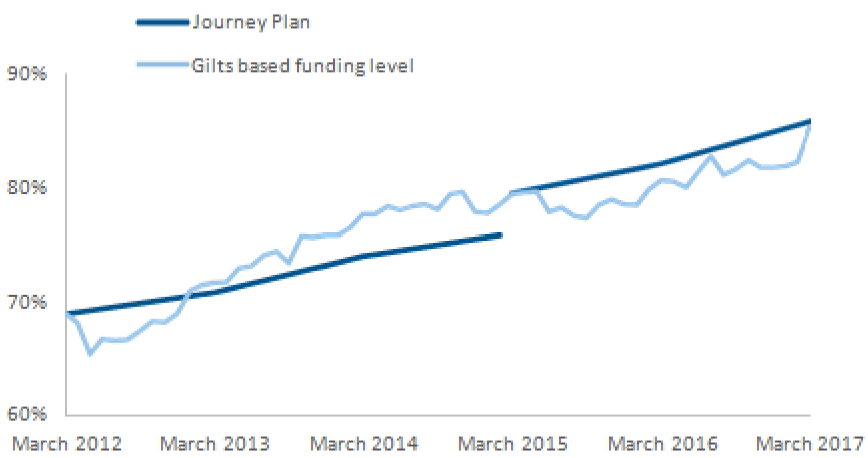
The table below shows the Fund's investment performance as measured by the independent performance measurer over one year and longer periods against the gilts-based liabilities.

To 31 March 2017	1 Year (%)	3 year (% pa)	5 year (%pa)
Fund Return	13.6	13.7	10.4
Gilts-based liabilities	12.2	12.0	8.0

Fund performance is shown net of underlying manager fees, gross of Delegated CIO fees.

The chart below shows the Journey Plan progression from 31 March 2012. The Journey Plan was restated following the 31 March 2015 Actuarial Valuation. As the Fund has performed strongly since March 2012, the Journey Plan was revised upwards to reflect the actual gilts-based funding level position as at 31 March 2015. The return target was reduced at the beginning of 2016 to reflect concerns over a more challenging economic environment.

The gilt based funding positon has improved over the year to 31 March 2017, with the funding level now broadly in line with the journey plan. A further significant employer contribution was received in early April 2017.



INVESTMENT REPORT (CONTINUED)

Investment returns (continued)

MP Section

Performance of the investments in the Money Purchase Section over the year are analysed in the table below.

Fund description	1 Apr 2016 to 31 Mar 2017	
	Fund (%)	Index (%)
BLK DC LifePath Flexi G	11.01	11.32
BLK DC LifePath Flexi 2016-18 G	11.34	11.71
BLK DC LifePath Flexi 2019-21 G	12.59	12.96
BLK DC LifePath Flexi 2022-24 G	13.52	13.87
BLK DC LifePath Flexi 2025-27 G	14.29	14.65
BLK DC LifePath Flexi 2028-30 G	15.08	15.42
BLK DC LifePath Flexi 2031-33 G	15.83	16.17
BLK DC LifePath Flexi 2034-36 G	16.65	16.99
BLK DC LifePath Flexi 2037-39 G	17.44	17.77
BLK DC LifePath Flexi 2040-42 G	18.22	18.54
BLK DC LifePath Flexi 2043-45 G	18.88	19.23
BLK DC LifePath Flexi 2046-48 G	19.40	19.73
BLK DC LifePath Flexi 2049-51 G	19.66	19.98
BLK DC LifePath Flexi 2052-54 G	19.73	20.03
BLK DC LifePath Flexi 2055-57 G	19.74	20.03
BLK DC LifePath Flexi 2058-60 G	19.75	20.03
BLK DC LifePath Flexi 2061-63 G	19.77	20.03
BLK DC LifePath Mature G	10.36	10.75
BLK DC LifePath Capital 2031-33 G	15.82	16.17
BLK DC LifePath Retirement Year G	7.91	8.20
BLK DC LifePath Retirement 2016-18 G	8.58	8.26
BLK DC LifePath Retirement 2019-21 G	11.24	11.23
BLK DC LifePath Retirement 2031-33 G	15.82	16.17
BLK DC LifePath Retirement 2046-48 G	19.40	19.73
BLK DC Aquila All Stocks UK Index Linked Gilt Index Y	18.93	19.89
BLK DC Aquila Corporate Bond All Stocks Index Y	8.90	9.24
BLK DC Aquila Over 15 Year Gilt Index Y	12.00	12.32
BLK DC Aquila (30:70) Currency Hedged Global Equity Index Y	20.04	20.63
BLK DC Aquila Emerging Markets Equity Index Y	37.17	37.60
BLK DC Aquila UK Equity Index Y	21.57	21.95
BLK HSBC Amanah Pension Fund G	29.00	29.79
BLK LGIM Ethical Global Equity Index Y	31.72	32.62
BLK Schroders Diversified Multi Asset Growth Fund I10	8.60	2.30
BLK DC Property T	1.38	3.75
BLK DC Cash D	0.15	0.19

INVESTMENT REPORT (CONTINUED)

Investment returns (continued)

MP Section (continued)

Fund returns are based on the special closing prices calculated at the close of business on the last working day of each valuation year, to allow comparisons with the appropriate indices. Performance is reported net of fees. Benchmark returns at the underlying funds level are not client-account specific and are reported only on a monthly basis. Past performance is not a reliable indicator of future results.

Active ownership

The Delegated CIO has implemented mandates ensuring that the rights attaching to the Fund's investments are acted upon. This includes active voting participation and a requirement to consider social, ethical and environmental issues when implementing the Fund's investment strategy.

Willis Towers Watson

27 June 2017

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements, which are prepared in accordance with United Kingdom generally accepted accounting practice, 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 the year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year.
- Contain the information specified in The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the Financial Statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

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 showing the rates of contributions payable towards 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 employers in accordance with the Schedule of Contributions. Where breaches of Schedule 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 is responsible for the maintenance and integrity of the financial information of the Fund included on the Fund's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

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.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE MERCHANT NAVY OFFICERS PENSION FUND

We have audited the financial statements of the Merchant Navy Officers Pension Fund for the year ended 31 March 2017 which comprise the fund account, the statement of net assets and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the Fund's Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Fund's Trustee those matters we are required to state to them 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 Fund's Trustee 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 set out on page 14, the Fund's Trustee is responsible for supervising the preparation of financial statements which show 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). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2017, 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 Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

……………………………………………..

Grant Thornton UK LLP
Statutory Auditor
Chartered Accountants
London

Date: ………………………..

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 DB section £m	2017 MP section £m	2017 Total £m	2016 Total £m
CONTRIBUTIONS AND BENEFITS					
Contributions receivable					
Employer		123.6	6.9	130.5	64.3
Employee		-	3.6	3.6	5.0
Total Contributions	4	123.6	10.5	134.1	69.3
Transfers in and other income	5	-	0.9	0.9	8.4
		123.6	11.4	135.0	77.7
Benefits paid or payable	6	(133.5)	(0.4)	(133.9)	(128.7)
Payments to and on account of leavers	7	(17.1)	(0.5)	(17.6)	(6.2)
Administrative expenses	8	(5.9)	(0.2)	(6.1)	(10.1)
		(156.5)	(1.1)	(157.6)	(145.0)
NET (WITHDRAWALS) /ADDITIONS FROM DEALINGS WITH MEMBERS		(32.9)	10.3	(22.6)	(67.3)
RETURNS ON INVESTMENTS					
Investment income	9	54.2	-	54.2	53.9
Investment management expenses	10	(9.8)	-	(9.8)	(19.9)
Change in market value of investments	11.1	346.4	2.2	348.6	52.3
NET RETURNS ON INVESTMENTS		390.8	2.2	393.0	86.3
NET INCREASE IN THE FUND DURING THE YEAR		357.9	12.5	370.4	19.0
NET ASSETS OF THE FUND AT 1 APRIL		2,958.1	11.6	2,969.7	2,950.7
NET ASSETS OF THE FUND AT 31 MARCH		3,316.0	24.1	3,340.1	2,969.7

The notes on pages 18 to 38 form an integral part of these financial statements.

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AT 31 MARCH 2017

	Note	2017 DB section £m	2017 MP section £m	2017 Total £m	Restated 2016 Total £m
INVESTMENT ASSETS					
Equities		0.4	-	0.4	51.8
Bonds		1,976.7	-	1,976.7	1,412.8
Pooled investment vehicles		1,480.2	21.7	1,501.9	1,473.7
Derivatives		138.5	-	138.5	175.2
AVC Investments		-	1.4	1.4	2.0
Cash and other investment assets		127.1	-	127.1	223.8
		3,722.9	23.1	3,746.0	3,339.3
INVESTMENT LIABILITIES					
Derivatives		(28.0)	-	(28.0)	(27.0)
Other Investment Liabilities		(463.2)	-	(463.2)	(365.0)
TOTAL INVESTMENTS	11.1	3,231.7	23.1	3,254.8	2,947.3
CURRENT ASSETS	13	98.5	1.0	99.5	35.9
CURRENT LIABILITIES	14	(14.2)	-	(14.2)	(13.5)
TOTAL NET ASSETS AT 31 MARCH		3,316.0	24.1	3,340.1	2,969.7

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 Report on Actuarial Liabilities included on pages 39 and 40 and these Financial Statements should be read in conjunction with that Report.

The notes on pages 18 to 38 form an integral part of these financial statements.

These financial statements were approved by the Trustee on 10 October 2017 and were signed on its behalf by:

R Murphy

Chair, MNOPF Trustees Limited

M Jess BEM

Vice-Chair, MNOPF Trustees Limited

NOTES TO THE FINANCIAL STATEMENTS

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, Financial Reporting Standard 102 - the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council, and the guidance set out in the Statement of Recommended Practice (2015) ("the Revised SORP").

Early adoption of the amendments made to FRS102 in March 2016 in relation to the fair value hierarchy has continued to be implemented.

As the MP section is now material the comparative figures for the Fund have been re-stated to separate the DB and MP section to ensure the figures remain comparable.

2 CONSOLIDATION

Subsidiaries are all entities over which the Fund has the power to govern the financial and operational policies. The Fund has not prepared consolidated accounts on the grounds of immateriality and has accounted for subsidiaries using the equity method of accounting based on values derived from audited financial statements or other reliable financial information as at 31 March 2017 which represent the Trustee's estimate of fair value.

Investments in subsidiaries are recognised as equity holdings. Details of the subsidiaries are included in note 15.

3 ACCOUNTING POLICIES

The following principal accounting policies have been adopted in the preparation of the financial statements.

3.1 Accruals concept

The financial statements have been prepared on an accruals basis.

3.2 Contributions

Contributions are accounted for in the period in which they fall due.

Employee contributions, including AVCs and where the member has been auto-enrolled, are accounted for when deducted from member's pay. Employer normal contributions are accounted for on the same basis as employee contributions.

A salary sacrifice arrangement is in place at certain employers whereby employees may opt to forego part of their salary in exchange for the employer paying enhanced pension contributions. Where this option is in place, the employees pay no member contributions, and both the employer contributions and salary-sacrificed contributions are accounted for as employer contributions.

Employer additional contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, on a cash basis.

Payment profiles for deficit funding contributions are established with employers in line with the requirements of the Schedule of Contributions. Accordingly, employers' deficit funding contributions are recognised at the earlier of the date on which cash is received and the date the invoice is raised. An accounting adjustment is made for amounts falling due, but unpaid, if amounts are assessed as irrecoverable from a specific employer following all reasonable attempts to recover the amount due.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3.2 Contributions (continued)

The accounting adjustment is recognised in administrative expenses. The subsequent treatment of the accounting adjustment for deficit funding collection purposes is considered by the Trustee in the context of the Deficit Collection Policy and the Guidelines for Defaulting Employers.

Contributions arising from statutory employer debt and which are due under section 75 of the Pensions Act 1995 are recognised when invoiced. The value recognised is the amount the Trustee assesses as being likely to be recovered when the invoice is raised.

3.3 Benefits

Benefits are accounted for in the period in which they fall due.

Where a member has a choice about the form of their benefit, the benefit is accounted for when the member notifies the Trustee of what form of benefit they will take or date of leaving or retirement if later. Where a member has no choice about the form of benefit, the benefit is accounted for in the period of when the liability arises.

The fund operates a longevity swap arrangement, whereby the fund pays a fixed series of payments, representing the expected benefits payable under the pension scheme, in return for the swap provider paying the benefits that in fact fall due. The difference between these amounts is the longevity hedge settlement.

3.4 Transfers to and from other schemes

Individual transfer values to and from other pension arrangements represents the amounts received and paid during the year for members who either joined or left the Fund and are accounted for on a cash basis.

Group transfers are accounted for in accordance with the terms of the transfer agreement.

3.5 Valuation of investments

Investments are valued at fair value.

Quoted equity and fixed income securities, for which there are active markets, are 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.

Unquoted securities are included at prices provided by third party pricing vendors where there is a traded market and at the Trustee’s estimate of fair value where there is not a traded market. The Trustee’s estimate is based on the valuation provided by the fund managers.

Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads as provided by the investment manager.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3.5 Valuation of investments (continued)

Derivatives are stated at fair value:

- Exchange traded derivatives are stated at fair value determined by using market quoted prices;
- Swaps are valued taking the current value of future cashflows arising from the swap determined using discounted cashflow models and market date at the reporting date;
- Over the counter ("OTC") derivatives are stated at fair value using pricing models and relevant market date at the year-end;
- Futures contacts are exchange traded and fair value is determined using the exchange price for closing out the contract at the year-end;
- Repurchase agreements ("repo") - the Fund continues to recognise and value the securities that are delivered out as collateral, and includes them in the financial statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a payable amount;
- Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the year-end by entering into an equal and opposite contract at that date;
- All gains and losses arising on derivative contracts are reported within change in market value;
- Receipts and payments arising from derivative instruments are reported as sale proceeds or investment purchases.

Longevity hedges are valued based on the expected future cash flows arising under the swap discounted using market interest rates and taking into account the risk premium in the contract.

3.6 Investment income

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.

Interest income from bonds is taken into account on an accruals basis and includes interest bought and sold on investment purchases and sales.

Where investment income arising from the underlying investments of the pooled investment vehicles is rolled up and reinvested within the pooled investment vehicles, it is reflected in the unit price and reported within change in market value of investments. On other pooled investment vehicles, income is recognised when notified by the manager of the pooled investment.

Investment income is reported net of attributable tax credits, but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.

3.7 Currency

The Fund's functional currency and presentational currency is pounds sterling (GBP).

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 and liabilities 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 CONTRIBUTIONS

	2017 DB section £m	2017 MP section £m	2017 Total £m	2016 DB section £m	Restated 2016 MP section £m	2016 Total £m
Employers' Contributions						
Normal contributions	0.1	6.9	7.0	7.0	0.7	7.7
Deficit funding contributions	123.5	-	123.5	56.6	-	56.6
Members' Contributions						
Normal contributions	-	3.2	3.2	4.4	0.3	4.7
Additional voluntary contributions	-	0.4	0.4	0.2	0.1	0.3
	123.6	10.5	134.1	68.2	1.1	69.3

Employer contributions of £0.1m were received in April 2016 in relation to March 2016 in the DB section.

Employer deficit funding contributions of £528 million are due under the Recovery Plans agreed following the 2009 and 2012 valuations. At 31 March 2017, a capital balance of £135 million is still payable over the period to September 2025.

5 TRANSFERS IN AND OTHER INCOME

	2017 DB section £m	2017 MP section £m	2017 Total £m	2016 DB section £m	Restated 2016 MP section £m	2016 Total £m
Group transfer in	-	-	-	-	8.2	8.2
Individual transfers in	-	0.6	0.6	0.2	-	0.2
Other income	-	0.3	0.3	-	-	-
	-	0.9	0.9	0.2	8.2	8.4

The group transfer in during the year ended 31 March 2016 was a bulk transfer of the money purchase assets and liabilities from the Merchant Navy Officers Pension Plan on 1 October 2015.

Other income includes the joining and annual employer fees on the MP section.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6 BENEFITS PAID OR PAYABLE

	2017 DB section £m	2017 MP section £m	2017 Total £m	2016 DB section £m	2016 MP section £m	2016 Total £m
Pension payments	114.6	-	114.6	110.9	-	110.9
Commutations and lump sum retirement benefits	18.0	0.4	18.4	16.4	-	16.4
Lump sums on death	0.3	-	0.3	0.8	-	0.8
Longevity hedge settlements	0.6	-	0.6	0.6	-	0.6
	133.5	0.4	133.9	128.7	-	128.7

7 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2017 DB section £m	2017 MP section £m	2017 Total £m	2016 DB section £m	Restated 2016 MP section £m	2016 Total £m
Individual transfers out to other schemes	17.1	0.5	17.6	6.0	0.2	6.2

8 ADMINISTRATIVE EXPENSES

	2017 DB section £m	2017 MP section £m	2017 Total £m	2016 DB section £m	2016 MP section £m	2016 Total £m
Administration, processing and data management	4.8	0.2	5.0	6.1	-	6.1
Actuarial fees	0.1	-	0.1	0.7	-	0.7
Legal, other professional fees and deficit collection fees	1.0	-	1.0	0.8	-	0.8
Accounting adjustment to employer deficit contributions receivable	-	-	-	2.5	-	2.5
	5.9	0.2	6.1	10.1	-	10.1

All administrative expenses are recognised net of VAT in 2017, while in 2016 they were recognised gross of VAT with all VAT recovered during the year included within investment management expenses. The value of VAT offset against administration expenses in 2017 was £0.7m.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 INVESTMENT INCOME

	2017 DB section £m	2017 MP section £m	2017 Total £m	2016 DB section £m	2016 MP section £m	2016 Total £m
Dividends from equities	0.1	-	0.1	2.1	-	2.1
Income from bonds	40.8	-	40.8	33.8	-	33.8
Income from pooled investment vehicles	10.5	-	10.5	14.8	-	14.8
Income allocated to Old Section Reserve	(0.4)		(0.4)	(0.6)	-	(0.6)
Foreign exchange gains	2.9	-	2.9	3.8	-	3.8
Other investment income	0.5	-	0.5	0.6	-	0.6
	54.4	-	54.4	54.5	-	54.5
Irrecoverable taxation	(0.2)	-	(0.2)	(0.6)	-	(0.6)
	54.2	-	54.2	53.9	-	53.9

10 INVESTMENT MANAGEMENT EXPENSES

	2017 DB section £m	2017 MP section £m	2017 Total £m	2016 DB section £m	2016 MP section £m	2016 Total £m
Administration, management & custody	6.0	-	6.0	15.8	-	15.8
Longevity insurance fees and administrative costs	3.8	-	3.8	4.1	-	4.1
	9.8	-	9.8	19.9	-	19.9

Investment management fees in 2016 included implicit fees built into unit prices on the pooled investment vehicles which have not been included in the 2017 figures as this is not required under FRS102 and the Revised SORP. The value of implicit fees in 2017 was £11.1m.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 INVESTMENTS

11.1 Reconciliation of investments

Reconciliation of investments held at beginning and end of year:

DB Section

	Note	Restated Value at 1 April 2016	Purchases at Cost and Derivative payments	Sales Proceeds and Derivative receipts	Change in market value	Value at 31 March 2017
		£m	£m	£m	£m	£m
Equities		51.8	68.1	(121.8)	2.3	0.4
Bonds		1,412.8	625.3	(209.6)	148.2	1,976.7
Pooled investment vehicles	11.3	1,464.3	1,155.0	(1,383.3)	244.2	1,480.2
Derivatives	11.4	148.2	150.5	(139.9)	(48.3)	110.5
		3,077.1	1,998.9	(1,854.6)	346.4	3,567.8
Cash deposits and other investment assets	11.7	223.8				127.1
Other investment liabilities	11.7	(365.0)				(463.2)
		2,935.9				3,231.7

MP Section

	Note	Value at 1 April 2016	Purchases at Cost	Sales Proceeds	Change in market value	Value at 31 March 2017
		£m	£m	£m	£m	£m
Pooled investment vehicles	11.3	9.4	12.3	(2.0)	2.0	21.7
AVC investments	11.6	2.0	0.4	(1.2)	0.2	1.4
		11.4	12.7	(3.2)	2.2	23.1

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.

11.2 Transaction costs

Included within the purchases and sales figures are direct transaction costs of £1.3m (2016: £0.4m). Direct transaction costs incurred are analysed below:

	Fees	Commission	Total
	£m	£m	£m
2017	1.3	0.0	1.3
2016	0.3	0.1	0.4

There are no direct transaction costs relating to MP Section investments.

Indirect costs are also borne by the Fund in relation to transactions in pooled investment vehicles. These are accounted within the bid/offer spread of units and details are not made available to the Trustee.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.3 Pooled investment vehicles

DB SECTION

	2017	2016
	£m	£m
Equities	282.6	241.3
Bonds	314.0	386.6
Hedge funds	297.4	253.7
Private equity	101.1	95.9
Property	48.7	52.6
Absolute return funds	435.7	433.5
Cash	0.7	0.7
	1,480.2	1,464.3

MP SECTION

	2017	2016
	£m	£m
Equities	0.5	0.2
Bonds	0.2	0.1
Multi Assets	20.9	9.1
Cash	0.1	-
	21.7	9.4

The investments in the pooled investment vehicles in the MP section are fully allocated to members.

The MP section includes an element of AVCs. It is not possible to quantify the value of the AVCs within the total investment.

11.4 Derivatives

The Trustee has authorised the use of derivatives as part of their investment strategy for the Fund. The derivatives held were:

	2017 Assets	2017 Liabilities	2016 Assets	2016 Liabilities
	£m	£m	£m	£m
Swaps	131.9	(7.4)	169.3	(12.3)
Forward foreign exchange	4.0	(0.3)	5.9	(1.2)
Futures	2.6	-	-	-
Longevity hedge	-	(20.3)	-	(13.5)
	138.5	(28.0)	175.2	(27.0)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.5 Derivative contracts outstanding

Swaps

The Fund enters into swap contracts to hedge interest rate and inflation rate movements.

Contract	Expiration	Notional Currency Principal	2017 Asset £m	2017 Liability £m
Interest rate swaps	0-5 years	£111.3m	5.7	-
Interest rate swaps	6-10 years	£69.3m	13.5	-
Interest rate swaps	11-20 years	£191.9m	44.3	-
Interest rate swaps	21-30 years	£45.1m	10.8	-
Interest rate swaps	31-40 years	£33.8m	34.0	-
Interest rate swaps	41-50 years	£15.4m	21.1	-
Inflation swaps	0-5 years	£120.0m	1.2	-
Inflation swaps	6-10 years	£62.0m	0.6	-
Inflation swaps	11-20 years	£41.1m	0.7	(2.5)
Inflation swaps	21-30 years	£23.9m	-	(2.5)
Inflation swaps	31-40 years	£9.0m	-	(2.4)
			131.9	(7.4)

Contract	Expiration	Notional Currency Principal	2016 Asset £m	2016 Liability £m
Interest rate swaps	0-5 years	£127.7m	5.7	-
Interest rate swaps	6-10 years	£48.1m	7.4	-
Interest rate swaps	11-20 years	£260.4m	54.8	-
Interest rate swaps	21-30 years	£72.6m	35.8	-
Interest rate swaps	31-40 years	£53.2m	43.0	-
Interest rate swaps	41-50 years	£19.3m	22.6	-
Inflation swaps	11-20 years	£27.1m	-	(3.8)
Inflation swaps	21-30 years	£32.5m	-	(5.4)
Inflation swaps	31-40 years	£7.1m	-	(2.2)
Inflation swaps	41-50 years	£1.9m	-	(0.9)
			169.3	(12.3)

At 31 March 2017, the counterparties of the interest and inflation swaps were five banks with credit ratings ranging from AA- to A.

At 31 March 2017, the Fund held collateral in the form of gilts with a value of £122.5m (2016: £157.8m). Collateral is held and pledged on a net basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.5 Derivative contracts outstanding (continued)

Forward Foreign Exchange Contracts

The fund enters into Forward Foreign Exchange contracts to hedge currency fluctuations as some investment holdings are denominated in foreign currencies.

Contract	Settlement Date	Currency Bought	Currency Sold	2017 Asset £m	2017 Liability £m
Forward (OTC)	1-3 months	GBP3.0m	EUR3.5m	-	-
Forward (OTC)	1-3 months	GBP17.2m	USD21.4m	-	(0.2)
Forward (OTC)	1-3 months	GBP1.0m	JPY145.1m	-	-
Forward (OTC)	1-3 months	EUR16.0m	GBP13.6m	-	-
Forward (OTC)	1-3 months	JPY1,369.2m	GBP9.7m	-	(0.1)
Forward (OTC)	1-3 months	USD874.3m	GBP702.6m	4.0	-
				4.0	(0.3)

Contract	Settlement Date	Currency Bought	Currency Sold	2016 Asset £m	2016 Liability £m
Forward (OTC)	1-3 months	GBP16.5m	EUR20.9m	0.1	-
Forward (OTC)	1-3 months	GBP75.6m	USD108.9m	0.1	-
Forward (OTC)	1-3 months	GBP1.4m	AUD2.6m	-	-
Forward (OTC)	1-3 months	GBP1.8m	CAD3.3m	-	-
Forward (OTC)	1-3 months	GBP1.8m	CHF2.5m	-	-
Forward (OTC)	1-3 months	GBP0.9m	HKD10.4m	-	-
Forward (OTC)	1-3 months	GBP7.1m	JPY1,133.9m	-	-
Forward (OTC)	1-3 months	EUR21.6m	GBP16.5m	-	(0.7)
Forward (OTC)	1-3 months	JPY1,370.3m	GBP8.4m	-	(0.1)
Forward (OTC)	1-3 months	USD1,047.5m	GBP734.0m	5.7	(0.4)
				5.9	(1.2)

Futures

The fund had exchange traded index futures outstanding at the year-end as follows:

Nature	Expiration	Notional Currency Principal	2017 Asset £m	2017 Liability £m
US 10 Year Bonds	June 2017	£3m	2.5	-
US 5 Year Bonds	June 2017	£1m	0.1	-
			2.6	-

Exchange traded futures in 2016 were below the accounting denomination.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.5 Derivative contracts outstanding (continued)

Longevity Hedge

The longevity hedge is to mitigate the funding risk arising from members living longer. It was entered into with MNOPF IC Limited who re-insured the liability with Pacific Life Re. The liabilities covered by the arrangement total £1.5 billion.

At 31 March 2017, the Fund had pledged collateral in the form of gilts with a value of £96.2m (2016: £71.4m). The collateral is in respect of the value of the hedge and the future commitment to pay insurance fees.

11.6 AVC investments

Members AVCs are invested separately from the main fund on a money purchase basis with Equitable Life. These assets are in the form of cash deposits and insurance policies securing additional benefits on a money purchase basis for those members electing to pay AVCs. Members participating in these arrangements receive and individual annual statement made up to 31 March each year, confirming the amounts held in their account and the movements in the year.

The aggregate amount of AVC investments are as follows:

	2017	**2016**
	£m	£m
Equitable Life Assurance Society	1.4	2.0

AVC investments held with Standard Life Assurance Company are below the accounting denomination.

11.7 Cash deposits and other investment assets and liabilities

	2017	**2016**
	£m	**£m**
Assets		
Cash	26.2	19.0
Treasury fund	91.9	197.7
Outstanding dividends, interest and other assets	9.0	7.1
	127.1	223.8
Liabilities		
Amount due under sale and repurchase contracts	(463.2)	(365.0)
	(336.1)	(141.2)

At 31 March 2017, the Fund held collateral for the repurchase agreements in the form of gilts with a value of £10.2m (2016: £6.1m).

At 31 March 2017 £477.4m of gilts were sold which are subject to repurchase contracts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.8 Fair value hierarchy

The fair value of financial instruments has been determined using the following fair value hierarchy:

Level 1	The unadjusted quoted price for an identical asset in an active market
Level 2	Inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3	Inputs are unobservable for the asset or liability

For the purposes of this, analysis daily priced funds, weekly priced funds, monthly net asset values for Absolute Return funds and swap contracts have been included in Level 2. The longevity hedge and monthly net asset values for Private Equity funds are included in Level 3. The repurchase contracts have been included in Level 2.

The fair value of the Fund's investment assets and liabilities has been determined using the above hierarchy categories as follows:

DB Section

	Level 1	Level 2	Level 3	Total
2017	**£m**	**£m**	**£m**	**£m**
Equities	-	-	0.4	0.4
Bonds	1,976.7	-	-	1,976.7
Pooled investment vehicles	-	639.4	840.8	1,480.2
Derivatives	2.6	128.2	(20.3)	110.5
Other investment balances	127.1	(463.2)	-	(336.1)
	2,106.4	304.4	820.9	3,231.7
2016	**£m**	**£m**	**£m**	**£m**
Equities	51.4	-	0.4	51.8
Bonds	1,412.8	-	-	1,412.8
Pooled investment vehicles	0.8	672.4	791.1	1,464.3
Derivatives	-	161.7	(13.5)	148.2
Other investment balances	223.8	(365.0)	-	(141.2)
	1,688.8	469.1	778.0	2,935.9

MP Section

	Level 1	Level 2	Level 3	Total 2017
2017	**£m**	**£m**	**£m**	**£m**
Pooled investment vehicles	-	21.7	-	21.7
AVC Investments	-	1.4	-	1.4
	-	23.1	-	23.1
2016	**£m**	**£m**	**£m**	**£m**
Pooled investment vehicles	-	9.4	-	9.4
AVC Investments	-	2.0	-	2.0
	-	11.4	-	11.4

The prior year comparatives for pooled investment vehicles, derivative contracts and other investment balances have been reclassified as at 31 March 2016 as a result of a better understanding of how certain investment types should be categorised.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.9 Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

DB Section

The Fund has exposure to these risks because of the investments it makes to implement its investment strategy. The Trustee's primary investment objectives are to acquire suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions, the cost of benefits which the MNOPF provides; and to limit the risk of the MNOPF's assets failing to meet the MNOPF's liabilities over the long term.

The Trustee has formulated a Journey Plan which shall be taken as the agreed combination of contributions and investment return that is expected to target assets equal to 103% of the gilts based value of liabilities over the period to 30 June 2025 or such other period as may be agreed from time to time. This objective implies an initial return target of Gilts+1.8% pa from 2015-2020, followed by linear de-risking to a Gilts+0.5% pa return target by 2025.

The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Fund's strategic investment objectives. The Trustee's risk management policy is documented in the Statement of Investment Principles. These investment objectives are implemented through the Fiduciary Management Agreement in place with the Delegated CIO (Towers Watson Ltd) and the investment management agreements in place with the investment managers. The Fund's performance versus its investment objectives is monitored by the Trustee on a regular basis.

There have been no changes to the Fund's Journey Plan objectives over the year and the Delegated CIO's outlook remains broadly similar. As a result there have been no significant changes to the investment risk exposures.

The table on the following page summarises the extent to which the various classes of investments are affected by financial risks:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.9 Investment risks (continued)

DB Section

	Credit Risk	Currency	Interest Rate	Other Price	2017 Value (£m)	2016 Value (£m)
			Market Risk			
Equities	○	◐	○	●	0.4	51.8
Bonds	◐	○	●	●	1,976.7	1412.8
Pooled investment vehicles	◐	◐	◐	●	1,480.2	1464.3
Derivatives	●	◐	●	●	130.8	161.7
Cash	◐	◐	○	○	127.1	223.8
Other investments	●	○	●	○	(463.2)	(365.0)
Longevity swaps	●	○	●	○	(20.3)	(13.5)
Total investments					3,231.7	2,935.9

In the above table, the risk noted affects the asset class [●] significantly, [◐] partially or [○] hardly/not at all.

Further information on the Trustee’s approach to risk management and the Fund’s exposures to credit and market risks are set out overleaf.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.9 Investment risks (continued)

(i) Credit risk

The Fund is subject to credit risk as the Fund invests in bonds, OTC derivatives, exchange traded derivatives, has cash balances, enters into repurchase agreements and has the potential to undertake stock lending activities. The Fund also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles. The main pooled investment arrangements used by the Fund comprise Irish QIAIFs, Limited Partnerships, UCITS, and a Common Contractual Fund.

Credit risk arising on bonds is mitigated by investing in government bonds where the credit risk is minimal.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or OTC. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Fund is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements and through diversification of counterparties. The collateral posted to the Fund is in the form of UK government bonds and cash. Credit risk arises on the longevity swap contract which was transacted with one counterparty; collateral arrangements reduce the credit risk for this contract. Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts but all counterparties are required to have an investment grade credit rating at the point of trade execution.

Cash is held within financial institutions which are at least investment grade credit rated.

The Fund does not lend any of its segregated assets other than through repurchase agreements. However pooled funds held by the Fund do have the ability to lend certain fixed interest and equity securities at their discretion. At 31 March 2017 some of the pooled fund managers were engaged in stock lending representing a minimal amount (less than 0.1%) at a total portfolio level.

Credit risk on repurchase agreements is mitigated through collateral arrangements and diversification of counterparties.

The Fund's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. Some of the Fund's pooled investment managers have the ability to invest in non-investment grade investments; this risk is managed through diversification. The Delegated CIO carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the regulatory and operating environment of the pooled manager.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.9 Investment risks (continued)

(ii) Currency risk

The Fund is subject to currency risk because some of the Fund's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee limits overseas currency exposure through a currency hedging policy. As at 31 March 2017 the Fund's net unhedged overseas currency exposure was estimated as 11% of total asset value (2016: 14%).

(iii) Interest rate risk

The Fund is subject to interest rate risk on its liability driven investments (LDI) comprising bonds, repurchase agreements and interest rate swaps held either as segregated investments or through pooled vehicles and cash. The purpose of the Fund's LDI investments is to match the interest rate and inflation sensitivities of the Fund's liabilities. Therefore when considering the Fund's liabilities these investments are risk reducing. Credit risk arises on the longevity swap contract which was transacted with one counterparty; collateral arrangements reduce the credit risk for this contract. The Fund is also subject to US interest rate risk on its protection strategies, comprising US Treasury futures. The purpose of this strategy is that it is expected to provide a positive return when mainstream markets (equity and credit) perform badly and is therefore risk reducing at an overall Fund level.

(iv) Other price risk

Other price risk arises principally in relation to the Fund's return seeking portfolio which includes pooled investment in equities, hedge funds, private equity, and other alternative investments.

The Fund manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

The other price risk for the Fund's bonds and derivatives, reflect that some of these instruments are inflation linked in nature and therefore the price of these instruments moves in line with inflation expectations.

MP Section

The Trustee's objective is to make available a suitable default option that will meet the needs of most members, as well as a range of investment options that, whilst not being too complicated, should help members in achieving the following objectives:

a) Increasing the value of their retirement pot from the contributions invested.
b) Protecting the value of their retirement pot in the years approaching retirement against market falls.
c) Protecting the value of their pot when converted into usable benefits.
d) Tailoring their investments to meet their own needs.

The range of investment options available to members, their investment objectives and risk tolerances, are outlined in the Statement of Investment Principles. The Trustee has however, selected the BlackRock LifePath Flexi Fund as the default investment fund for members to be invested in and is the focus of the Trustee's considerations of risk.

The BlackRock LifePath Flexi Fund provides a series of target date funds, each with an asset allocation which transition members' investments from higher risk investments to lower risk investments as the members approach their target retirement date. As a result, the risk rating of each target date fund will vary over time to achieve the ultimate aim of realising a positive real return over the long term and keeping members invested in appropriate assets as their approach retirement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.9 Investment risks (continued)

The day to day management of the underlying investments of the funds is the responsibility of BlackRock, including the direct management of credit and market risks. The Trustee monitors the underlying risks by quarterly investment reports from BlackRock.

(i) Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Plan is indirectly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles which are part of a long term insurance policy between the Trustee and BlackRock. Direct credit risk is mitigated by the underlying assets of the long term insurance policy being ring-fenced from BlackRock's corporate assets. In the event of BlackRock defaulting, the long term insurance policy is protected by the Financial Services Compensation Scheme.

BlackRock has discretion to invest member assets in a range of asset classes, including UK and Overseas Corporate and Government Bonds, thereby indirectly exposing the Plan to credit risk. Some of these instruments are held in funds managed by a third party insurer ("reinsurer"), exposing the Plan to credit risk if the reinsurer fails to pay the full value of the investment, for example if the reinsurer became insolvent. All reinsurers are carefully selected by BlackRock, authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority. In order to mitigate this credit risk, BlackRock normally takes security over the assets of the reinsurers such that the claim made by BlackRock would rank equally to any of the reinsurer's direct policyholders.

(ii) Currency risk

This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

(iii) Interest rate risk

This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

(iv) Other price risk

This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Plan is subject to indirect foreign exchange, interest rate and other price risk arising from the underlying financial instruments held in the funds managed by BlackRock. BlackRock uses specific instruments with the aim of hedging out the majority of the foreign currency exposures, and diversification to manage market risk, gaining exposure to global equities, fixed income instruments, property and commodities, as well as other assets.

The Trustee acknowledges that the Plan is subject to interest rate risk in relation to the financial instruments held in the pooled investment vehicles and the Trustee is satisfied that the return objective of the BlackRock LifePath Flexi Fund mitigates this risk sufficiently.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11.9 Investment risks (continued)

The Trustee has considered the direct and indirect risks to the Plan's assets in the context of the investment strategy described above, and is satisfied the funds offered to members are in line with the objectives of the Plan, particularly in relation to diversification, risk, expected return and liquidity.

11.10 Concentration of investments

No investment comprised more than 5% of the Scheme's net assets at 31 March 2017, excluding investments in UK Gilts.

12 TAX

The Fund is a registered pension scheme for tax purposes under the Finance Act 2004. The Fund is therefore exempt from income tax and capital gains tax except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income to which they relate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13 CURRENT ASSETS

	2017 DB section £m	2017 MP section £m	2017 Total £m	2016 DB section £m	Restated 2016 MP section £m	2016 Total £m
Cash balance	14.7	0.4	15.1	7.8	-	7.8
Contributions due						
- normal from employer	-	0.4	0.4	0.3	0.1	0.4
- normal from employee	-	0.2	0.2	0.1	0.1	0.2
- deficit from employer	98.4	-	98.4	42.5	-	42.5
Accounting adjustment to employer deficit contributions due	(15.5)	-	(15.5)	(15.5)	-	(15.5)
Other debtors	0.9	-	0.9	0.5	-	0.5
	98.5	1.0	99.5	35.7	0.2	35.9

Normal contributions and deficit funding contributions, net of accounting adjustments, recognised as due at the year-end were paid in accordance with the Schedule of Contributions and the Trust Deed and Rules.

14 CURRENT LIABILITIES

	2017 DB section £m	2017 MP section £m	2017 Total £m	2016 DB section £m	2016 MP section £m	2016 Total £m
Unpaid benefits	5.7	-	5.7	6.1	-	6.1
Other creditors and accrued expenses	8.5	-	8.5	7.4	-	7.4
	14.2	-	14.2	13.5	-	13.5

Included in “Other creditors and accruals” is a reserve established at 31 March 2014 with funds from the former Old Section. This reserve will settle all future costs arising in relation to the former Old Section following the completion of its buy-out in July 2014. These include the costs of operating myMNOPFpension, which consolidates the benefits payable to former Old Section members into a single payment. myMNOPFpension also provides a single point of contact for all members of MNOPF and the reserve will settle a proportion of the cost of this service. The costs of myMNOPFpension will be settled over many years as the service is delivered.

The reserve was established on an arm’s length basis and at 31 March 2017 the balance was £3,110,354 (2016: £3,160,970).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 RELATED PARTY TRANSACTIONS

The Trustee is deemed to be a related party of the Fund. Included in administrative expenses are payments of £117,046 (2016: £119,980) made to certain Trustee Directors for fees relating to the exercise of their duties during the year. Trustee directors are also reimbursed expenses. Trustee Directors who are pensioner members of the Fund are members on the same basis as all other pensioner members.

During the year, the Fund had interests in the following companies which are related parties:

Entity	**Activity**	**Equity Holding**	**Value of holding** **£m**	**Transactions in year and balances at the year end**
Ensign Pensions Limited	Pension fund executive services	100%	-	Fees paid by the Fund of £2.5m (2016 £2.1m) Outstanding balance at 31 March 2017 amounted to £293,168 in receivables and £166,800 in payables.
MNOPF IC Limited	Insurance Cell Company incorporated in Guernsey	100%	0.4	£3.8m (2016 £4.1m) paid by the Fund as insurance fees and administrative costs. £0.6m (2016 £0.6m) paid as settlement as required under the longevity hedge.

16 COMMITMENTS

As at 31 March 2017 the Fund was committed to providing additional funding to certain managers investing in unquoted securities. These commitments amounted to £84.4 million (2016: £76.7 million). The £84.4m comprises pooled investment vehicles. This includes £67.6m private equity and £16.8m alternative credit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 EMPLOYER-RELATED INVESTMENTS

At the year end the maximum market values of direct investments held by the Fund in companies known to be, or which have subsidiary interests that are known to be, Participating Employers was calculated as 0.8% (2016: 0.6%) of the net assets of the Fund. The investments were as follows:

	2017		2016	
	Total	**Total**	**Total**	**Total**
	£m	**%**	**£m**	**%**
Segregated Funds				
BAE Systems PLC	-	-	0.5	*
BP PLC	-	-	0.9	*
Cemex S.A.B de C.V.	-	-	0.8	*
James Fisher & Sons PLC	-	*	-	-
Royal Dutch Shell PLC	-	-	0.9	*
Smiths Group PLC	-	*	-	-
Pooled Funds	24.3	0.8	14.9	0.5
Total exposure	24.3	0.8	18.0	0.5

* less than 0.05% – these amounts are included in the overall percentage calculation, but excluded from the totals in the table.

Employer-related investment did not exceed 5% at any time during the year.

There were however late defined benefit contributions which totalled £9.39 million and late money purchase contributions which totalled £221,832.

For all participating employers that are listed or which have listed parent companies, there is potential that employer-related investments have been made via pooled vehicles. The total exposure to employer-related investments in pooled vehicles, which include hedge funds, is shown in the table and is determined using assumptions. The assumptions are deliberately conservative and are likely to result in an overstatement of the actual value.

REPORT ON ACTUARIAL LIABILITIES

As required by Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

Under section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed at least every 3 years using assumptions agreed between the Trustees and the employer and set out in the Statement of Funding Principles, a copy of which is available to Fund members on request.

The most recent triennial actuarial valuation of the Scheme effective as at 31 March 2015 showed that the accumulated assets of the Scheme of £2,898m represented 90% of the Fund’s technical provisions in respect of past service benefits; this corresponds to a deficit of £329m at the valuation date.

The value of technical provisions is based on Pensionable Service to the valuation date and assumptions about various factors that will influence the scheme in the future, such as the levels of investment returns and pay increases, when members will retire and how long members will live. The method and significant actuarial assumptions used in the calculations as at 31 March 2015 are as follows:

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Discount interest rate: The assumption adopted as at 31 March 2015 is 4.75% per annum pre-retirement and 2.6% per annum post-retirement.

Future Retail Price inflation: having regard to the yield curve reflecting Retail Price Inflation expectations implicit in UK Government bond prices as published by the Bank of England, and the weighted average duration of the Fund’s accrued liabilities, the assumption adopted is 3.1% per annum as at 31 March 2015.

Future Consumer Price inflation: set based on the expected future difference between assumed retail price inflation and consumer price inflation. The assumption adopted is 2.1% per annum as at 31 March 2015.

Pension increases: where the Fund’s rules provide for inflation-linking, assumptions derived from the underlying inflation assumptions, allowing for the caps and floors on pension increases.

Revaluation in service: this assumption has been set at 4.1% pa.

Mortality: standard SAPS tables S2NMA_H and S2NFA_H amounts tables projected to 2015 with CMI 2014 core projections with a long term rate of future improvements of 1.8% pa. Multipliers of 85% for normal members and male spouses, 105% for ill-health pensioners and 110% for female spouses are applied.

REPORT ON ACTUARIAL LIABILITIES (CONTINUED)

Funding update

The actuary's last review of the funding position was as at 31 March 2016. At that date, the position had improved since the full Actuarial Valuation in 2015 with a lower level of deficit being reported.

Over the period from 31 March 2015 to 31 March 2016, the funding position improved from a gross deficit of £329 million to £266 million. This was mainly due to the payment of deficit contributions over the year. At 31 March 2016, the future deficit contributions were expected to eliminate the shortfall by 30 September 2025, allowing for the expected asset outperformance.

The funding position at 31 March 2016 is summarised below:

	£m
Market value of assets	2,960
Value of past service liabilities	(3,226)
Gross (Deficit)	(266)
Cover of assets over liabilities	92%

The assumptions used to estimate the value of the past service liabilities for the 2016 update were chosen by the actuary following the method agreed by the Trustee for the 2015 Actuarial Valuation.

Recovery plan

The arrangements to eliminate the funding shortfall were formalised in a Schedule of Contributions which the Fund Actuary certified on 22 March 2016. A copy of his certificate is included on page 41 of this report.

Next actuarial valuation

The next actuarial valuation is to be performed as at 31 March 2018, and should be finalised by 30 June 2019.

ACTUARY'S CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

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 as at 31 March 2015 to be met by the end of the period for which the Schedule is to be in force.

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 March 2016.

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
Scheme Actuary
Fellow of the Institute and Faculty of Actuaries

Towers Watson Limited
71 High Holborn
London WC1V 6TP

22 March 2016

MEMBERS' INFORMATION

The Trustee is required to provide certain information about the Scheme to the Registrar of Pension Schemes. This has been forwarded to:

The Registrar of Pension Schemes
PO Box 1NN
Newcastle Upon Tyne
NE99 1NN

The Pensions Ombudsman

The Pensions Ombudsman may investigate and determine any complaint or dispute of fact or law in relation an Occupational Pension scheme. Any such complaints should be addressed in the first instance to the Scheme Adjudicator. Enquiries should be addressed to:

Pensions Ombudsman Service
11 Belgrave Road
London
SE1V 1RB

Telephone: 020 7630 2200
Email: enquiries@pensions-ombudsman.org.uk

The Pensions Advisory Service

The Pensions Advisory Service ("TPAS") exists to assist members and beneficiaries of Schemes in connection with difficulties which they have failed to resolve with the Trustee or Administrators of the Scheme. TPAS may be contacted at:

The Pensions Advisory Service
11 Belgrave Road
London
SE1V 1RB

Telephone: 0300 123 1047

The Pensions Regulator

The Pensions Regulator ("TPR") can intervene if it considers that a Scheme's Trustee, advisers or the employer are not carrying out their duties correctly. The address for TPR is:

Napier House
Trafalgar Place
Brighton
East Sussex
BN1 4DW

The Pension Tracing Service

The Pension Tracing Service provides a tracing service for members (and their dependents) 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 9
Mail Handling Site A
Wolverhampton
WV98 1LU

Telephone: 0345 6002 537
Website: www.gov.uk/find-pension-contact-contact-details

MEMBERS' INFORMATION (CONTINUED)

The Pensions Compensation Scheme

The Pensions Compensation Scheme was introduced to protect members' interests in certain circumstances, i.e. to provide compensation where an employer has become insolvent and the scheme assets have been reduced due to fraud, theft, or misappropriation. It does not cover losses resulting from adverse investment returns.

The Compensation Scheme is funded by a retrospective levy on occupational pension schemes.

The Trust Deed and rules, the scheme details, and a copy of the Schedule of Contribution and Statement of Investment Principles are available for inspection free of charge by visiting the Trustee's website www.mnopf.co.uk or by contacting the Trustee at the address on page 10. Any information relating to the members' own pension position, including estimates of transfer values, should also be requested from the administrators of the scheme, JLT Employee Benefits, at the address on page 10.

APPENDIX: CHAIR'S ANNUAL DC GOVERNANCE STATEMENT

MERCHANT NAVY OFFICERS PENSION FUND

CHAIR'S ANNUAL DC GOVERNANCE STATEMENT

YEAR ENDED 31 MARCH 2017

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CHAIR'S OPENING STATEMENT

I am pleased to welcome you to the annual governance statement for the year ended 31 March 2017. This statement, which fulfils my legal duties as set out in the Occupational Pension Schemes (Charges and Governance) Regulations 2015, demonstrates how MNOPF Trustees Limited, the corporate trustee of the Merchant Navy Officers Pension Fund (the "MNOPF", the "Fund"), has assessed and met certain governance standards relating to the Fund's money purchase benefits.

The Fund is comprised of a Defined Benefit Section, now closed to new members and to future accrual, and a Money Purchase Section, including all money purchase benefits provided through the Ensign Retirement Plan (for the MNOPF) and Additional Voluntary Contributions made prior to 31 March 2016 (the "AVC policies"). In accordance with the regulations described above, this statement only applies to the money purchase benefits held within the Money Purchase Section, including those held within the AVC policies.

The Trustee Board's aim is to ensure the Fund is run in the best interests of the members and helps deliver better outcomes for members at retirement. As a Trustee Board, we recognise that good scheme governance is central to achieving this. This statement focuses on a number of specific areas of scheme governance required by the Occupational Pension Schemes (Charges and Governance) Regulations 2015, however, further information about the Fund and the governance standards we adopt in other areas of scheme management, can be found on the scheme website, www.mnopf.co.uk.

On behalf of the Trustee Board of the MNOPF, and based on a review of the systems and controls in place, I believe that the MNOPF meets the new requirements on governance standards and helps to deliver better outcomes for members at retirement.

Rory Murphy

Chair, MNOPF Trustees Limited

10 October 2017

GOVERNANCE

Fund Structure

The MNOPF is a multi-employer scheme that provides pension benefits for Officers, their dependants, and others connected with the British Merchant Navy. 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 Rules"). The MNOPF was contracted-out of the State Second Pension under the provisions of the Occupational Pension Schemes (Contracting-Out) Regulations 1996 until 31 March 2016 when the Fund closed to future defined benefit accrual. On 1 August 2015, the Fund introduced money purchase benefits and, on 1 April 2016, opened a Money Purchase Section. Money purchase benefits are provided through long established AVC policies, now closed to new contributions, and the Ensign Retirement Plan (for the MNOPF).

The Board and Directors

Ultimate responsibility for the governance of the MNOPF rests with the Trustee Board of MNOPF Trustees Limited, which governs the Fund in accordance with the Rules and relevant legislation. There is provision on the Board of the Trustee for between four and fourteen Directors, split equally between Employer Directors and Officer Directors. During the year to 31 March 2017, the Trustee comprises fourteen Directors. Half of the Trustee Board are nominated by Nautilus International, a recognised trade union that, in the opinion of the Trustee, adequately represents the members in the Fund. The other half of the Trustee Board are nominated by a body that represents the employers participating in the Fund. This is to ensure that members, or their representatives, and the employers can make their views on matters relating to the Fund known to the Trustee.

The MNOPF is a "relevant multi-employer scheme" and must, therefore, comply with additional requirements relating to governance.

The Trustee's policy for appointing member-nominated and employer-nominated Directors has been developed against the backdrop of applicable pensions legislation concerning the appointment of member-nominated trustees (Sections 241 - 243 Pensions Act 2004 and the Occupational Pension Schemes (Member-nominated Trustee and Director) Regulations 2006) and the DC governance regulations (Occupational Pension Schemes (Charges and Governance) Regulations 2015).

In accordance with the Trustee's policy, the majority of Directors, including myself as the Chair of Trustees, were appointed through an open and transparent process and are considered non-affiliated for the purposes of the requirements of the DC governance regulations. This means that they are not associated with any company that provides administration, investment management, advisory or any other services to the Trustee or to the Fund.

Trust Deed and Rules

In accordance with Regulation 6A(1) of the Occupational Pension Scheme (Administration) Regulations 1996, the Trust Deed and Rules do not contain provisions that would restrict who the Trustee may appoint to provide administration, investment management, advisory or any other services to the Trustee or to the Fund.

TRUSTEE KNOWLEDGE AND UNDERSTANDING

The Trustee recognises the importance of maintaining an appropriate degree of knowledge and understanding relating to pensions to enable the Trustee to govern the Fund effectively. The Trustee has adopted a training policy that outlines the training requirements of all Trustee Directors on appointment and throughout their tenure on the Trustee Board.

On appointment, all new Directors are provided individual training on the Fund, its benefit structure and the retirement options available to members, and its investment strategy. Directors are encouraged to attend a seminar for new trustees to receive knowledge and understanding of the law relating to pensions and trusts, the principles relating to the funding of occupational pension schemes and the investment of assets of such schemes, and any other matters that may be of relevance at that time. Further to this, new Directors are required to read and be conversant with the main documents and policies of the Fund, including but not limited to:

- the Trust Deed and Rules of the Fund;
- the Memorandum and Articles of Association;
- the Statement of Investment Principles; and
- the members' booklet.

These documents are readily available to all Directors throughout their tenure on the Trustee Board.

Each year, a training plan is agreed, setting out the areas of training to be provided to the Trustee Board and/or individual Directors throughout the scheme year. This includes specific legal, investment and governance training, updates from its Executive Team and other advisers on regulatory changes that may affect the Fund, as well as opportunities for Directors to attend seminars and conferences to keep up to date on best practice governance standards. Any training received by the Trustee Directors, either individually or collectively, is recorded on the Trustee's skills, knowledge and training log. Trustee Directors are also required to make progress with completing the relevant modules of The Pensions Regulator's Trustee Toolkit.

Specific training is provided to the Trustee Board in advance of any key decision making. For example, the Trustee received advice from a range of professional advisers, including investment advisers and legal advisers, to support the decisions made regarding the introduction of money purchase benefits and the closure of the Fund to future defined benefit accrual.

As Chair of Trustees, I regularly engage with individual Trustee Directors to ensure we provide sufficient opportunities for their skills and knowledge to be kept up to date. Taking into account the wealth of experience, knowledge and understanding of individual Trustee Directors, as well as the professional advice that is available to them, I am confident that the Trustee Board has the right mix of skills and competencies to ensure the Fund is well governed and properly managed.

ADMINISTRATION

Core Financial Transactions

The Trustee recognises that there are a number of core financial transactions that must be processed promptly and accurately on behalf of members of the Fund to help deliver better outcomes for them. These core financial transactions include, but are not limited to:

- the investment of contributions to the Fund;
- the transfer of assets relating to members into and out of the Fund;
- the transfer of assets relating to members between different money purchase investments; and
- payments from the Fund to, or in respect of, members.

Controls and Processes

The Trustee has appointed JLT Employee Benefits to provide administration services to the Fund in respect of the defined benefit assets and AVC policies, and BlackRock Life Limited to provide administration services to the Fund in respect of the money purchase assets (excluding the AVC policies) (together "the administrators").

A number of processes and controls are in place with the administrators to ensure that contributions to the Fund during the year were accurate and all core financial transactions were processed promptly. These include:

- Verification and validation of the contributions being submitted by employers in comparison with the amounts expected.
- Reminders to employers to submit contributions where these have not been received prior to the deadline for submitting contributions under the schedule of contributions.
- Annual verification of members' pensionable salary and contribution rate with the participating employers on a sample basis.

Assurances

In addition, a number of activities are undertaken by or on behalf of the Trustee to provide assurance that contributions are submitted accurately and promptly by employers and core financial transactions are processed promptly and accurately by the administrators. These include:

- Agreeing defined service level agreements with the administrators for the prompt processing of all financial transactions.
- Monitoring quarterly administration reports from the administrators to assess performance against the service level agreements.
- Monitoring quarterly administration reports from the administrators to assess the promptness with which contributions submitted by employers are invested.
- Annual review of the AAF 01/06 internal control reports prepared by the administrators.
- Annual examination of contributions to test the accuracy of contributions and promptness of submissions.

I am confident that these processes and controls are robust and that all core financial transactions are handled promptly.

INVESTMENT

Statement of Investment Principles

The Statement of Investment Principles, which is attached as an Appendix to this statement, documents the Trustee's investment principles that govern decisions about investments and the aims and objectives of the Fund.

Ensign Retirement Plan (for the MNOPF)

The DC default investment fund

The Trustee has adopted the BlackRock LifePath Flexi Fund as the default investment fund for members joining the Ensign Retirement Plan (for the MNOPF). The Trustee recognises, however, that one fund is unlikely to meet the needs of all members contributing towards money purchase benefits and members, therefore, have a choice of thirteen alternative funds. Approximately 95% of the memberships are currently invested in the default fund.

Aims and objectives of the default fund

The Trustee's Statement of Investment Principles includes the principles that govern decisions about the default fund and the wider range of investment funds available to members, and the aims and objectives of the default fund.

The LifePath Flexi Fund is a target date fund where the underlying asset allocation of the fund automatically adjusts as the member approaches their target retirement date. It is designed for members who wish to stay invested post-retirement and draw an income from their retirement account (known as "drawdown").

In adopting the money purchase arrangement, the Trustee considered the profile, level of risk appetite, and the likely retirement objectives of the initial members joining the arrangement. The Trustee found the BlackRock LifePath Flexi Fund to be consistent with its investment aims and objectives for the default fund by allowing members to increase the value of their retirement pot from the contributions invested, whilst protecting members in the years approaching retirement.

Reviewing the default fund

The Trustee adopted the default fund in July 2015 prior to accepting new members on a money purchase basis on 1 August 2015. The Trustee receives quarterly reports from BlackRock Life Limited on the performance of the default fund and compares this against the fund's performance objective and benchmark. The Trustee is however, mindful of the long-term nature of investment funds and therefore, plans to carry out a review of the default fund in 2018. This review will be brought forward if there is a significant change in investment policy or the demographic profile of the membership and will take into account developments in investment markets and membership profile, including any information gathered on members' risk appetite and options taken at retirement.

AVC Policies

AVC contributions are invested in funds managed by the Equitable Life Assurance Society and the Standard Life Association Company.

COSTS AND CHARGES

Ensign Retirement Plan (for the MNOPF)

The Trustee offers members contributing to money purchase benefits access to a high-quality pension scheme at a yearly cost that is well below the statutory maximum of 0.75%.

Default investment fund

Members in the default investment arrangement, the BlackRock LifePath Flexi Fund, are charged a single Annual Management Charge (AMC) of 0.36% of funds under management, deducted from their retirement account. This single charge includes provisions for any additional expenses, including transaction costs, incurred by the Fund such that no further expenses are borne by the members.

Self-select investment options

The charges applied to members who choose to invest in other funds available through the Ensign Retirement Plan (for the MNOPF) are set out in the table below:

Fund	AMC (%)	Additional Expenses (%)	TER* (%)
BlackRock LifePath Cash Fund	0.36	0.00	0.36
BlackRock LifePath Retirement Fund	0.36	0.00	0.36
DC Aquila (30:70) Currency Hedged Global Equity Index	0.37	0.04	0.41
DC Aquila UK Equity Index	0.35	0.01	0.36
DC Aquila Emerging Markets Equity Index	0.50	0.07	0.57
DC Aquila Over 15 Year Gilt Index	0.35	0.01	0.36
DC Aquila All Stocks UK Index Linked Gilt Index	0.35	0.01	0.36
DC Aquila Corporate Bond All Stocks Index	0.35	0.02	0.37
DC Cash	0.30	0.03	0.33
DC Property	1.00	0.03	1.03
HSBC Amanah Pension Fund	0.70	0.00	0.70
LGIM Ethical Global Equity Index	0.60	0.00	0.60
Schroder Dynamic Multi Asset Fund (DMAF)	0.65	0.05	0.70

*Total Expense Ratio

The additional expenses shown above include all other operating costs and expenses within the fund, including fund administration, custody and professional fees, but exclude transaction costs.

Transaction Costs

The Trustee has requested from BlackRock a breakdown of the transaction costs applicable in respect of the members' self-select funds in the Ensign Retirement Plan (for the MNOPF). In the absence of regulatory clarity on the content and methodology that should be used by investment managers to disclose fund transaction costs, BlackRock focuses on those costs that are explicitly disclosed by the fund accountants and which may be independently verified, where possible.

The table below, therefore, details the explicit transaction commission (e.g. equity broker commission) and transaction taxes (e.g. stamp duty reserve tax) actually charged to each fund, where available, during the period 1 January to 31 December 2016. All other potential costs, for example Foreign Exchange and bond transaction spreads, are excluded.

Fund	Transaction Commission (basis points*)	Transaction Taxes (basis points*)
BlackRock LifePath Cash Fund	n/a**	n/a**
BlackRock LifePath Retirement Fund	n/a**	n/a**
DC Aquila (30:70) Currency Hedged Global Equity Index	0.50	1.13
DC Aquila UK Equity Index	0.28	3.45
DC Aquila Emerging Markets Equity Index	2.35	0.00
DC Aquila Over 15 Year Gilt Index	0.01	0.00
DC Aquila All Stocks UK Index Linked Gilt Index	0.01	0.00
DC Aquila Corporate Bond All Stocks Index	0.05	0.00
DC Cash	0.00	0.00
DC Property	0.00	0.00
HSBC Amanah Pension Fund	Not available	Not available
LGIM Ethical Global Equity Index	Not available	Not available
Schroder Dynamic Multi Asset Fund	Not available	Not available

* A basis point is a unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form.

** Transaction costs incurred are not charged to members above the annual management charge of 0.36%

The Trustee is supportive of providing total transparency and objectivity to members on the costs and charges applicable to the investment funds in the Ensign Retirement Plan (for the MNOPF). The Trustee is, however, mindful of the long-term nature of investment performance, and the need to assess the net impact of dealing when making informed decisions concerning investments.

BlackRock has informed the Trustee that as the HSBC Amanah Pension Fund, the LGIM Ethical Global Equity Index Fund and the Schroder Dynamic Multi Asset Fund are externally managed funds, BlackRock does not have any oversight over the holdings and subsequent costs associated with these funds and are therefore, unable to provide this information.

Further advice and guidance is expected on what additional transaction costs should be disclosed by investment managers to their clients. Once this is received, the Trustee will work with BlackRock to ensure that relevant information is communicated to members in an effective and meaningful way.

The Trustee has been unable to obtain an analysis of the transaction costs for these funds owing to the limited guidance available concerning these costs however, it has received assurance that this information will be provided by the investment manager in the future, once further guidance has been issued by The Pensions Regulator.

Value for members

The Trustee has assessed the various charges applying to the default investment fund and self-select fund options and, based on the information available, considers the charges to represent good value for members.

In reaching this decision, the Trustee focused on the annual management charges incurred by members, both in comparison with other master trust arrangements and taking into account the benefits they receive in return for such payments. The Trustee also took into account the information available on any additional charges and transaction costs incurred by members.

The table below compares the charges applied by the MNOPF and several of the largest UK master trusts for investing in the respective default arrangements:

Master trust arrangement	Charges applied to members
Ensign Retirement Plan (for the MNOPF)	0.36% AMC
The Pensions Trust	0.45% AMC
National Employment Savings Trust	0.30% AMC + 1.8% contribution charge
The People's Pension	0.50% AMC
NOW: Pensions	0.30% AMC + £1.50 per month admin charge

No further expenses, including transaction costs, are borne by the members that invest in the Ensign Retirement Plan (for the MNOPF)'s default investment fund. Any additional expenses that may be incurred by the default fund are assumed by BlackRock. The Trustee considers this transparency and constancy to be of great value to the members.

There are also no hidden charges or fees for members participating in the default fund: members are not charged for switching their fund, changing their retirement date or transferring their account.

In return for this single annual charge, the benefits received by members in the Fund include:

- High quality administration services;
- A sophisticated default investment fund and broad range of self-select options that have performed positively over the period;
- High quality governance and oversight by the Trustee Board and Executive Team;
- Clear communications that are tailored to the maritime industry and reinforce important messages for members to achieve a good outcome at retirement;
- Clear communications regarding options before, at and during retirement;
- Online website showing daily pricing of members' retirement accounts;
- An online retirement planner that projects the growth of members' accounts to retirement and models the annual income that could be received during retirement; and
- Flexibility in how and when members use their retirement account at retirement.

The Fund was awarded the Pensions Quality Mark ("PQM") READY accreditation in August 2015, demonstrating it meets independent industry standards of governance, communications and charges. The Trustee is required to demonstrate on an annual basis how it continues to meet these industry standards.

Although additional charges and transaction costs are borne by members within the self-select investment funds, the Trustee recognises that these are necessarily incurred as part of buying and selling the funds' underlying investments in order to achieve their investment objective, and cannot be predicted in advance. The Trustee is mindful that transaction costs are likely to vary depending on the types of investments in which a fund invests, and that comparing portfolio transaction costs for a range of funds may give a false impression of the relative costs of investing in them, primarily because they do not necessarily reduce returns. In light of this, the Trustee reviews the performance of each fund after the deduction of transaction costs, allowing the Trustee to assess the extent to which transaction costs represent good value to members in the context of the net impact of dealing on performance.

The Trustee expects that once further advice is received on what additional transaction costs should be disclosed by investment managers, it will be able to compare the costs incurred by members investing in the self-select investment options against those incurred by other funds.

AVC Policies

The Trustee has AVC arrangements with Equitable Life and Standard Life. AVCs to these funds were previously only accepted from members in the Defined Benefit Section who were either paying AVCs at 6 April 2006 or had previously paid AVCs. In light of this, no further AVCs have been accepted to these funds since 31 March 2016, when the Fund closed to future defined benefit accrual.

There is no default investment fund; all members must select the fund in which their AVCs are invested. The charges applied to members who have chosen to invest AVCs in the Standard Life policy are set out in the table below:

Standard Life funds	AMC (%)
With Profits One Fund*	-
Managed Pension Fund	1.00
FTSE Tracker Pension Fund	1.00
Mixed Bond Pension Fund	1.00
Ethical Pension Fund	1.00
UK Equity Pension Fund	1.00

* Standard Life applies deductions at the payment stage to cover the cost of the guarantees and other additional expenses. These charges are taken into account before Standard Life declares the payment amount. As a result, no explicit charges are shown although the charge will impact on the level of non-guaranteed annual bonus that is declared.

During the year, Equitable Life undertook a review of the funds offered within its policies. A number of funds were closed during the year, and the assets moved into alternative Equitable Life funds selected by Equitable Life. The annual management charges applied to members investing in these funds were also reviewed, and many increased during the year. The table overleaf shows the charges applied to members who have chosen to invest AVCs in the Equitable Life policies, and the changes made to the funds on offer.

The Trustee also carried out a review of the Equitable Life and Standard Life funds during the year and considered the advice of an independent investment consultant to determine whether they remain suitable for members. The review concluded that the revised fund range is not ideal and many of the remaining funds would unlikely feature within a modern AVC arrangement. The increase in charges made during the year compounds this negative view and reduced the Trustee’s confidence that the funds offer members good value for money. The Trustee is unable to move members’ assets into alternative funds without the express consent of each member concerned. In light of this, the Trustee wrote to each of the circa 100 members concerned to explain the outcome of its review, to encourage members to review the suitability of their investment selections, and to offer members the opportunity to transfer their assets, free of charge, into an alternative fund available through the Ensign Retirement Plan (for the MNOPF). As a result of the communication exercise, instructions to transfer benefits were received from almost 25% of the members contacted.

If, after reading this Statement, members with AVCs invested with either Equitable Life or Standard Life wish to change their fund option, or enquire about the options available to them, they should contact the Fund administrators at:
myMNOPFpension
Post Handling Centre U
St James' Tower
7 Charlotte Street
Manchester, M1 4DZ
Or email enquiries@myMNOPFpension.co.uk

March 2016	November 2016

Equitable Life funds	AMC (%)	Equitable Life funds	AMC (%)
With Profits*			
Money Pension Fund	0.50	Money Fund	0.50
Managed Pension Fund	0.50	Managed Pension Fund	0.75
International Growth Pension Fund	0.50	International Growth Pension Fund	0.75
High Income Pension Fund	0.50	Pelican Fund	0.75
North American Pension Fund	0.50	North American Pension Fund	0.75
Ethical Pension Fund	0.50	International Growth Pension Fund	0.75
Pension Fund of Investment Trusts	0.50	Pension Fund of Investment Trusts	0.75
European Pension Fund	0.50	European Pension Fund	0.75
Gilt & Fixed Interest Pension Fund	0.50	Gilt & Fixed Interest Pension Fund	0.50
Pelican Pension Fund	0.50	Pelican Pension Fund	0.75
Clerical Medical funds	AMC (%)	Equitable Life funds	AMC (%)
Balanced Managed Pension Fund	0.50	Managed Pension Fund	0.75
Cautious Managed Pension Fund	0.50	Managed Pension Fund	0.75
Adventurous Managed Pension Fund	0.50	Managed Pension Fund	0.75
UK Growth Pension Fund	0.50	Pelican Fund	0.75
Non-Equity Pension Fund	0.50	Gilt & Fixed Interest Pension Fund	0.50
Ethical Pension Fund	0.50	International Growth Pension Fund	0.75
With-Profits Fund	0.50	With-Profits Fund	0.50

* Equitable Life applies a 1% p.a. administration charge and a variable charge for the cost of the guarantees and other additional expenses (such as tax). These charges are taken into account before Equitable Life declares the annual bonus. As a result, no explicit charges are shown although the charge will impact on the level of non-guaranteed annual bonus that is declared.

APPENDIX: STATEMENT OF INVESTMENT PRINCIPLES

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

Introduction

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

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

About this Statement

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

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

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

Investment objectives

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

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

Powers to pursue investment objectives

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

Legal duties

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

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

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

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

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

Investments to be held

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

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

Balance between different kinds of investment

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

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

Risk management

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

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

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

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

Monitoring

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

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

Expected return on investments

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

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

Realisation of investments

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

The role of the Management Committee

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

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

The roles of the Delegated CIO and BlackRock

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

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

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

Investment management

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

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

Compliance with the Pensions Act 1995

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

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

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

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

Appendix 1: Journey Plan for the DB Section

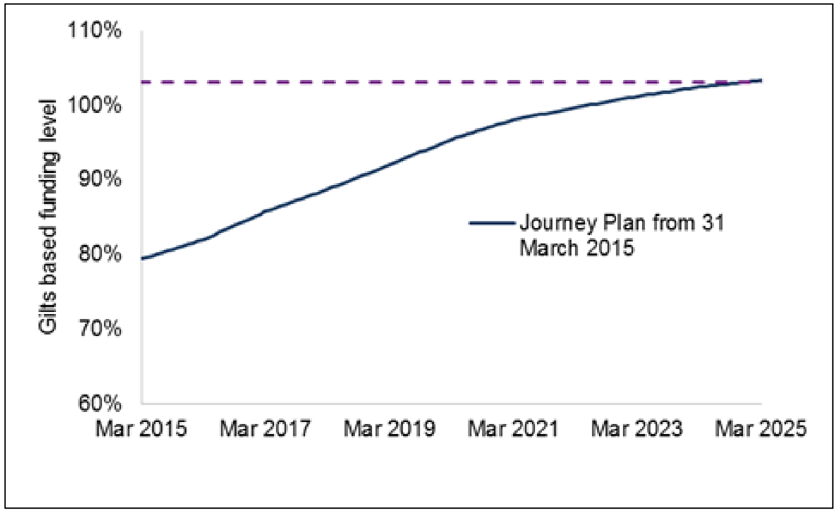
The Trustee determines the Journey Plan for the Defined Benefit Section.

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

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

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

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



Appendix 2: Strategic Asset Allocation Ranges for the DB Section

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

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

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

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

Appendix 3: Socially responsible investment and corporate governance

Socially responsible investment

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

The Trustee has considered how social, environmental and ethical factors should be taken into account in the investment process. The Trustee seeks to understand the extent to which its Investment Managers have taken steps to incorporate these factors into their investment process, and encourages them to do so in the selection, retention and realisation of investments as far as such factors may affect investment performance.

Corporate governance

The Trustee recognises the responsibilities of shareholders as owners of capital. The Trustee believes in good corporate governance and matters of corporate governance in general, and voting in particular, are integral parts of the delegation of duties to the Investment Managers. The Investment Managers should use their voting powers to preserve and enhance long-term shareholder value.

The Trustee supports the aims of the Stewardship Code, and its Investment Managers are encouraged to operate in accordance with the guidelines laid out in the Stewardship Code which covers matters of both voting and engagement. The Investment Managers are required to report their adherence to the Stewardship Code using the 'comply or explain' principle where appropriate. The Trustee has posted its Statement of Commitment to the Stewardship Code both on its own website and that of the Financial Reporting Council.

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

Appendix 4: The Delegated CIO

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

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

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

The Delegated CIO's responsibilities include:

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

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

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

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

Appendix 5: Money Purchase Section funds

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

BlackRock DC LifePath Retirement

BlackRock DC LifePath Capital

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

BlackRock DC Aquila UK Equity Index

Schroder Dynamic Multi Asset Fund (DMAF)

BlackRock DC Cash

BlackRock DC Aquila Emerging Markets Equity Index

BlackRock DC Aquila Over 15 Year Gilt Index

BlackRock DC Aquila Corporate Bond All Stocks Index

LGIM Ethical Global Equity Index

HSBC Amanah Pension Fund

BlackRock DC Property

BlackRock DC Aquila All Stocks UK Index Linked Gilt Index

Appendix 6: Defined terms

The following expressions have specific meanings in this Statement:

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

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

DB Section means the Defined Benefit Section of the MNOPF;

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

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

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

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

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

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

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

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

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

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

MNOPF means the Merchant Navy Officers Pension Fund;

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

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

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

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

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

Statement means this Statement of Investment Principles;

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

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

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

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

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