

MERCHANT NAVY OFFICERS  
PENSION FUND  
ANNUAL REPORT AND FINANCIAL  
STATEMENTS

YEAR ENDED 31 MARCH 2024

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### TRUSTEE AND ADVISERS

**Trustee**

MNOPF Trustees Limited

**Trustee Directors***Employer Directors*

R Murphy (resigned 11 September 2024)  
E Jones (resigned 31 December 2023)  
M MacDonald  
M McNeill (appointed on 1 February 2024)  
J M McGurk (appointed on 24 September 2024)

*Officer Directors*

M Jess (Chair, from 25 September 2024)  
A Dickinson  
O Tunde

**Registered office of the Trustee**

280 Bishopsgate  
London  
EC2M 4RB

**Executive support and contact for employer enquiries**

Rock Pensions

[employer.enquiries@mnopf.co.uk](mailto:employer.enquiries@mnopf.co.uk)

**Legal Advisers**

Baker & McKenzie LLP  
Sacker & Partners LLP (appointed on 9 September 2024)

**Independent External Auditor**

Grant Thornton UK LLP

**Independent Internal Auditor**

Crowe U.K. LLP

**Custodian**

The Bank of New York Mellon SA/NV

**Bankers**

National Westminster Bank Plc

**Employer Covenant Adviser**

PricewaterhouseCoopers LLP

**Scheme Actuary**

K Farnum, Willis Towers Watson Limited

**Address for member enquiries**

myMNOPFpension  
PHT  
Maclaren House  
Talbot Road  
Stretford  
Manchester. M32 0FP.  
[enquiries@myMNOPFpension.co.uk](mailto:enquiries@myMNOPFpension.co.uk)

**Fund Administrators**

Mercer Limited (until 31 December 2023)  
Aptia UK Limited (with effect from 1 January 2024)

**Delegated Chief Investment Officer**

Willis Towers Watson Limited

**Independent Investment Oversight Services**

Hymans Robertson LLP (until 30 April 2023)  
Rock Pensions (appointed on 1 May 2023)

**Investment Managers**

Advent International  
Alliance Bernstein  
American Securities LLC  
Atlas Infrastructure  
Avitah Capital LLP  
BlackRock  
Campbell & Company LP  
Clean Energy Transition LLP  
Colchester Global Investors  
Crabel Capital Management LLC  
Energy Capital  
First Property Asset Management (FProp)  
Goldman Sachs Asset Management (GSAM)  
Graticule Asset Management Asia  
Hayfin Capital Management LLP  
Insight Investment  
Leadenhall Capital Partners LLP  
Man Group Plc.  
Maniyar Capital  
Oaktree Capital Management  
Resolution Capital  
SC Capital Partners Pte. Ltd  
Sands Capital Management  
Towers Watson Limited (trading as Willis Towers Watson)

**AVC Providers**

Utmost Life and Pensions Ltd  
Standard Life Assurance Company Ltd

**Bulk Annuity Providers**

Legal & General Assurance Society Limited ('L&G')  
Pension Insurance Corporation plc ('PIC')

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### CHAIR'S INTRODUCTION

Welcome to the Annual Report and Financial Statements for the Merchant Navy Officers Pension Fund (referred to hereafter as the "Fund" or "MNOF") for the year ended 31 March 2024.

#### **Fund performance**

The MNOF funding level increased from 99% (at 31 March 2023) to 100% (at 31 March 2024), mainly due to general rises in markets. At 100%, the funding level is at a position where member benefits are secure.

#### **Deficit collection**

The Trustee is pleased to confirm that all remaining deficit instalment contributions due from participating employers have been collected from past valuation deficits. This is a huge achievement for the Fund, with over £900 million of deficits declared since the 2003 actuarial valuation, representing well over £1 billion of monies collected, including interest.

#### **Climate change reporting**

Each year, the Trustee must disclose the actual and potential impacts of climate risks on the Fund's investment and funding strategy. Using the recommendations set out by the Taskforce on Climate-Related Financial Disclosures ("TCFD") framework, and the statutory requirements prescribed by the Department of Work and Pensions, the Trustee has published its first Climate Change Report for the year ending 31 March 2023 with its second report covering the year ending 31 March 2024 expected to be published in October 2024. These reports are available to view on the MNOF website at [www.mnopf.co.uk](http://www.mnopf.co.uk), following publication.

#### **Trustee Director changes**

Ed Jones resigned as an Employer Director during the year and more recently, Rory Murphy also resigned as an Employer Director. I would like to thank both Ed and Rory for their combined thirty-one years of service, including, for Rory, leading the Board over the past decade.

The Board welcomed Morag McNeill as an Employer Director with effect from 1 February 2024. Morag brings a wealth of experience of non-executive directorships, several of which have been in the maritime sector.

#### **Member wellbeing**

The Trustee has continued running its popular programme of wellbeing webinars for members. The latest series 'The Power of Change' ran in the Autumn of 2023 and featured celebrity speakers covering a range of topics including social connection and interconnectivity, adopting a growth mindset, and men's health in later life.

#### **Scams pledge**

Pension scammers can ruin lives. The MNOF, along with more than 600 other organisations, has taken The Pension Scams Pledge and follows the principles of the Pension Scams Industry Group Code of Good Practice. The Fund continues to do all it can to help prevent pension fraud; reminding members on a regular basis on how to stay vigilant and providing information on where to get help, if needed.

#### **The year ahead**

2024 is a full actuarial valuation year for the MNOF. Work on the valuation, which assesses the funding position as at 31 March 2024, is well underway and it is expected that the results will be available in the Spring of 2025.

In September 2024, the Board will consider the preliminary results of the actuarial valuation and assess the impact this may have on the Journey Plan towards its long-term goals. The Board may adapt the Journey Plan, where necessary, to external pressures utilising its key strengths of good-governance, agility, and forward-thinking strategies to ensure member benefits remain secure.

#### **Mike Jess**

Chair, MNOF Trustees Limited

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### TRUSTEE'S REPORT

The Board of MNO PF Trustees Limited (referred to hereafter as "the Trustee") is pleased to present the 86<sup>th</sup> Annual Report of MNO PF for the year ended 31 March 2024. The Annual Report includes the Chair's Statement, Trustee's Report, Investment Report, Statement of Trustee's Responsibilities, Financial Statements and Notes, the Independent Auditor's Report, the Annual Implementation Statement, 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 2024.

The Annual Report also contains the Annual Implementation Statement. For Funds such as the MNO PF which provide defined benefits, the purpose of this statement is to set out how, and the extent to which, in the opinion of the Trustee, the Fund's engagement policy has been followed during the year and to describe the voting behaviour by, or on behalf of, the Trustee (including the most significant votes cast by the Trustee or on their behalf) during the year, stating any use of the services of a proxy voter during that year.

#### Constitution and changes to the Fund.

On 17 June 2019, a new set of Trust Deed and Rules were executed, by which the Fund is now governed together with subsequent deeds of amendment ("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, and their dependants.

The MNO PF 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 20,000 members and their dependants. On 1 August 2015, the Fund introduced money purchase benefits and, on 1 April 2016, opened a Money Purchase Section. From 31 March 2018, the Money Purchase Section was closed to new contributions and, on 11 May 2018, all benefits in the Money Purchase Section designated to members were transferred, by bulk transfer without member consent, to the Trustee of the Ensign Retirement Plan. The Money Purchase Section was wound up through the signing of a deed of termination on 10 October 2018.

The Annual Report and Financial Statements are available to members through the website [www.mnopf.co.uk](http://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 2.

Trustee Directors are appointed and re-appointed in accordance with the Trustee's Articles of Association, the MNO PF's Trust Deed and Rules and an approved policy. 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.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### TRUSTEE'S REPORT (CONTINUED)

#### Attendance at Board meetings

A summary of meetings held and Trustee Directors' attendance during the year ended 31 March 2024 is as follows:

	Board	
	Eligible to attend	Attended
<b>R Murphy (Chair)</b>	4	4
<b>M Jess (Vice-Chair)</b>	4	4
<b>A Dickinson</b>	4	3
<b>E Jones</b>	3	3
<b>M MacDonald</b>	4	4
<b>O Tunde</b>	4	4
<b>M McNeill</b>	1	1

#### 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 at regular intervals.

#### Risk Management

The Trustee has overall responsibility for risk management and internal controls. It is committed to identifying, evaluating and managing risk through the implementation and maintenance of control procedures to mitigate significant risks. A risk register, which takes into account the strategic objectives identified by the Trustee, 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 Trustee's approach to Integrated Risk Management is to consider integrated risk as part of the actuarial valuation and covenant review process. Following the most recent actuarial valuation, as at 31 March 2021, core integrated risks were:

- a fall in growth assets;
- increased longevity;
- a fall in interest rates; and
- a rise in inflation

None of these risks were seen as significant in the context of the MNOFF Journey Plan and any potential risks associated with key Participating Employers are picked up through the MNOFF's ongoing covenant monitoring processes.

# MERCHANT NAVY OFFICERS PENSION FUND

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### TRUSTEE'S REPORT (CONTINUED)

#### Bulk Annuity Policies

In December 2017, the Trustee agreed an annuity buy-in policy with Legal & General and, in February 2020 and November 2021, annuity buy-in policies were agreed with Pension Insurance Corporation. All policies are held in the name of the Trustee and members' pension benefits continue to be paid by the Trustee. As at 31 March 2024, a final premium/repayment is due under each of the two buy-in policies with Pension Insurance Corporation. Data cleansing was finalised and the payments due were paid before completion of the financial statements. Provisions are included in the financial statements as at 31 March 2024 for the PIC buy-in 1 policy in respect of the final premium adjustment paid, which was a payment of £7.2 million and in respect of the repayment of past overpayments due to PIC of £1.8 million. Calculation of the final premium adjustment and past overpayments for the PIC buy-in 2 policy is ongoing but the impact is expected to be small.

### Advisers and Service Providers

#### Rock Pensions

Rock Strategic Consulting Ltd (trading as Rock Pensions) provides executive services to the Trustee. Rock Pensions is an independent company that provides executive services to employers and trustees. Rock Pensions 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. Rock Pensions was also appointed as provider of Independent Investment Oversight services with effect from 1 May 2023.

#### Ensign Pensions Limited

Ensign Pensions Limited is a company wholly owned by the Trustee. Ensign Pensions provided a limited range of services to the Trustee during the year to 31 March 2024, including certain IT and information storage services.

#### Administration

Since 1 January 2024 the Fund has been administered by Aptia UK Limited, following the completion on that date of the sale by the previous administrator, Mercer Limited, of its UK pension administration business to Aptia UK 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.

#### Scheme Actuary

K Farnum is the appointed Scheme Actuary.

### Contributions

#### Summary of Contributions

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

<b>Due under the Schedule of Contributions</b>	<b>31 March 2024</b>
	<b>£m</b>
Employers' defined benefit deficit contributions	0.5
<b>Total recognised in the Financial Statements</b>	<b>0.5</b>

#### Normal contributions

In previous years, members' and employers' normal contributions have been received in respect of active members in accordance with the Schedule of Contributions of the Fund and the Trust Deed and Rules. The Fund closed to future defined benefit accrual on 31 March 2016. No normal contributions were therefore due or received into the Fund during the year to 31 March 2024 or in the previous year.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### TRUSTEE'S REPORT (CONTINUED)

#### Additional Voluntary Contributions ("AVCs")

The Trustee previously had AVC arrangements with Equitable Life (which were subsequently transferred to Utmost Life and Pensions) and Standard Life, and members accruing benefits on a defined benefit basis were able to contribute AVCs until the Fund closed to future defined benefit accrual on 31 March 2016. Following the closure of the Money Purchase Section to new contributions, with effect from 31 March 2018, a bulk transfer of member's benefits, including those held in the AVC policies, to the Trustee of the Ensign Retirement Plan took place. On 11 May 2018, the Trustee agreed to the transfer of the AVC policies to the Trustee of the Ensign Retirement Plan through the signing of two deeds of assignment.

However, as part of the activities to enable the subsequent wind up the Ensign Retirement Plan, which took place on 26 September 2023, the Trustee agreed to receive a bulk transfer back to the MNOPF from the Trustee of the Ensign Retirement Plan in respect of the members benefits from the remaining AVC policies. The transfer took place on 16 June 2022 following the execution of a merger deed and two deeds of assignment.

No AVCs were paid to the Fund during the year to 31 March 2024.

#### Deficit contributions

Following the 2009 and 2012 valuations, the Scheme Actuary certified Schedules of Contributions which established recovery periods ending in September 2020 and September 2023 respectively. The Schedule of Contributions certified by the Scheme Actuary following the 2021 valuation states that the last payment under these schedules was due to be made by 30 September 2023. As at 31 March 2024, a zero capital balance was outstanding under the current Schedule of Contributions following receipt of the remaining £0.6m that was outstanding as at 31 March 2023.

#### Covenant Monitoring

The Trustee continues to monitor the employer covenant strength of employers. The Trustee adopted a new Covenant Monitoring Policy in October 2019, setting out the monitoring process, key metrics and reporting framework for ongoing covenant monitoring. This policy primarily focused on covenant monitoring activities on those employers who provided the strongest covenant to the Fund.

The Covenant Monitoring Policy was reviewed as part of the actuarial valuation, as at 31 March 2021. The review recommended some minor changes to covenant monitoring which have been implemented. These changes reflected the overall reduction in risk due to the improved funding status of the MNOPF and the successful collection of most of the remaining deficit contributions due under the current Schedule of Contributions.



# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### TRUSTEE'S REPORT (CONTINUED)

#### Membership

Details of the membership of the Fund as at 31 March 2024 are given below:

	2024	2023
<b>PENSIONERS</b>		
Opening balance	17,572	17,595
Adjustments to pensioners*	(19)	(20)
New pensioners/dependants	567	629
Pension ceases	(691)	(632)
<b>PENSIONERS AT THE END OF THE YEAR^</b>	<b>17,429</b>	<b>17,572</b>
<b>MEMBERS WITH DEFERRED BENEFITS</b>		
Opening balance	4,364	4,845
Adjustments to members with deferred benefits*	(82)	3
<b>MEMBERS CEASING TO BE DEFERRED</b>		
Transfers out	(24)	(26)
Death	(31)	(26)
Retirement	(330)	(408)
Leavers with trivial commutation	(47)	(26)
New pension credit members	2	2
<b>MEMBERS WITH DEFERRED BENEFITS AT THE END OF THE YEAR</b>	<b>3,852</b>	<b>4,364</b>
<b>TOTAL MEMBERSHIP AT THE END OF THE YEAR~</b>	<b>21,281</b>	<b>21,936</b>

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

^Included within pensioners are 2,204 (2023: 2,205) pensioners whose pensions are paid from the Legal & General annuity buy-in policy; 11,689 (2023: 12,019) pensioners whose pensions are paid from the Pension Insurance Corporation annuity buy-in policy and 1,789 (2023: 1,800) pensioners whose pensions are paid from the Pension Insurance Corporation annuity buy-in 2 policy, all of which are held in the name of the Trustee.

~The total number of members are split into Pensioners: 13,200 (2023 restated: 13,295), Dependants: 4,229 (2023 restated: 4,277) and Members with deferred benefits: 3,852 (2023: 4,364).

#### Pension Benefits

##### 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.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### TRUSTEE'S REPORT (CONTINUED)

#### 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 on a discretionary basis.

#### Discretionary Pension Increases

The Trustee is required to consider, at least annually, whether it can grant discretionary increases to pensions under Rule 9.2.2 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 2023, the Trustee did not consider it appropriate to grant a discretionary increase to pensions in April 2024 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 2024, as required, by 3.0% and pensions in payment relating to service from 1 April 1997 were increased in April 2024, as required, by 5.0%.
- Increases to deferred pensions are made in accordance with the Trust Deed and 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, increases were made by application of the statutory revaluation percentage to the whole of the deferred pension.

Full details of the pension increases that applied at April 2024 can be found on the website [www.mnopf.co.uk](http://www.mnopf.co.uk)

#### Data Review

The Trustee is continually reviewing 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, in exceptional circumstances, to reinstate forfeited benefits if the member's whereabouts becomes known at a later stage.

### 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 MNOF. Certain powers and responsibilities for the implementation of the Trustee's investment strategy have been delegated to the Delegated CIO. The SIP was reviewed during the 2023/24 Fund year and minor amendments were made in September 2023. A copy of the latest SIP is available on the website [www.mnopf.co.uk](http://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 environmental, social and governance factors, including climate change, 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.

The Trustee's focus is explicitly on financially material considerations in the selection, retention and realisation of investments, and the Trustee's policy at this time is not to take into account non-financial matters explicitly. However, the Trustee supports and actively encourages investments with a positive social and environmental impact.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### TRUSTEE'S REPORT (CONTINUED)

#### Investment Management (continued)

In the context of corporate governance, the Trustee delegates responsibility for the exercising of rights (including voting rights) attaching to investments to the investment managers, although believes voting power should be exercised with the objective of preserving and enhancing long-term shareholder value. The Trustee requires its investment managers to report on corporate governance, and particularly on their voting and engagement records.

The Trustee regularly assesses the performance of the Fund's investments against its investment objectives. Day-to-day monitoring of the investment manager performance is delegated to the Delegated CIO, and the Trustee receives reports on a quarterly basis on progress against the Fund's journey plan. Performance of the Fund's investments over the year are detailed in the Investment Report (see page 12). The holdings at the year-end were in accordance with the SIP.

The Trustee is satisfied, on advice from its investment advisers, that the nature, disposition, marketability, security and valuation of the Fund's assets are in line with the investment objectives and strategy, risk controls and return expectations. There are no restrictions on the marketability of any holdings.

During the year, the Fund divested its holdings in the following asset managers: Fulcrum Asset Management and Equis Funds Group. The TWIM Diversifying Strategies Fund ("DSF") closed over the year with a phased return of capital to investors (as at 31 March 2024, DSF's residual allocation represented 0.6% of the total portfolio). Additionally, the Fund invested in funds from the following asset managers: Alliance Bernstein, Colchester Global Investors, Leadenhall Capital Partners and Man Group.

#### Custodian

All the Fund's segregated investments are held under custodial arrangements with Bank of New York Mellon, with the exception of pooled investments and the bulk annuity buy-in policies with Legal & General and Pension Insurance Corporation. The pooled investment vehicle investment managers are responsible for putting in place their own custody arrangements.

#### Actuarial Review

The Financial Statements set out on pages 19 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 2021 and the next valuation will be as at 31 March 2024 and which will be communicated to members and employers early in 2025.

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 42. These form part of the Trustee's report.

#### Guaranteed Minimum Pensions ("GMP")

On 26 October 2018, the High Court handed down a judgment that concluded that benefits between men and women must be equalised in respect of GMP for contracted out service after 17 May 1990. Furthermore, on 20 November 2020, the High Court handed down a further judgement that ruled that pension schemes would need to revisit individual transfer payments made since 17 May 1990 to check if any additional value is due as a result of GMP equalisation. Whilst the judgements related to the Lloyds Banking Group scheme, they are expected to create a precedent for other UK DB pension schemes.

The Trustee has a project in progress to equalise members' GMP benefits for the relevant period of service which includes historic transfer payments made since 17 May 1990. The Scheme Actuary and the Trustee agreed it prudent to include provision within the actuarial valuation as at 31 March 2021 of 0.6% of total liabilities for the equalisation of GMP benefits in the Fund. The implementation of the project is progressing with the amendments to benefits in respect of a number of the impacted members being paid in March 2024. A provision has been included within the financial statements, in respect

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### TRUSTEE'S REPORT (CONTINUED)

#### Actuarial Review (continued)

of the further amounts paid in June 2024 which is £3.6 million. A further £0.1 million is included in respect of historic transfer payments where payments have yet to be made. Further amendments to some members benefits are still in progress in order to complete the implementation of the main GMP equalisation project.

#### Financial development of the Fund

The Financial Statements of the Fund for the year ended 31 March 2024, as set out on pages 19 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.

	<b>2024</b>
	<b>£m</b>
Net withdrawals from dealings with members	<b>(155.0)</b>
Net returns on investments	<b>5.2</b>
Net decrease in the Fund during the year	<b>(149.8)</b>
Net assets of the Fund at 1 April 2023	<b>2,106.3</b>
Net assets of the Fund at 31 March 2024	<b>1,956.5</b>

#### Further information

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

##### Member Enquiries

myMNOFPension

PHT

Maclaren House

Talbot Road

Stretford

Manchester

M32 0FP

Email: [enquiries@myMNOFPension.co.uk](mailto:enquiries@myMNOFPension.co.uk)

Telephone: 01372 200200

##### Employer Enquiries

Rock Pensions

Email: [employer.enquiries@mnopf.co.uk](mailto:employer.enquiries@mnopf.co.uk)

This report, including the Investment Report, Statement of Trustee's Responsibilities, the Annual Implementation Statement, the Report on Actuarial Liabilities and the Member's Information, was approved by the Trustee on 25 September 2024 and signed on its behalf by:

##### Mike Jess

Chair, MNOFP Trustees Limited

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### INVESTMENT REPORT

#### Investment returns

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

The Fund's primary investment objective is to outperform its liabilities. Over the 12 months to 31 March 2024, the Fund generated a return of -1.3%, this was in comparison to the liability benchmark which saw negative performance of -3.4%. As a result, the Fund outperformed its benchmark by 2.1% over the year, with the funding level improving over the year from 99% to 100%. This outperformance was driven primarily by increases in the value of the assets due to overall rises in equity markets over the year; and a fall in the value of the liabilities due to changes in long term interest rates.

Over the longer term, the Fund has underperformed the liabilities by 1.7% over the three-year period but has matched the liability benchmark over the five-year period. This underperformance over the three-year period was predominately driven by the negative performance over 2022 and the period of unprecedented volatility within the UK gilt market.

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 2024	One Year (%)	Three years (% pa)	Five years (%pa)
Fund Return	-1.3	-13.2	-6.5
Gilts-based liabilities	-3.4	-11.5	-6.5
Relative	2.1	-1.7	0.0
Volatility (tracking error)	2.5	3.5	3.1

Fund performance is shown net of underlying manager fees but before deduction of Delegated CIO fees.

The chart below shows the Journey Plan progression from 31 March 2012. The Journey Plan was restated on:

- 31 March 2015 - to reflect the Fund's strong performance over the previous three-year period,
- 31 March 2018 - to reflect the increase in funding level following the Actuarial Valuation,
- 14 February 2020 - to reflect the material change in investment strategy following the first Buy-In with PIC, and
- 19 November 2021 - to reflect the material change in investment strategy following the second Buy-In with PIC.
- 30 June 2023 to reflect the decrease in funding level arising from investment performance in 2022 (in particular the gilts crisis) and the impact of the consequent rebalancing of the investment portfolio.

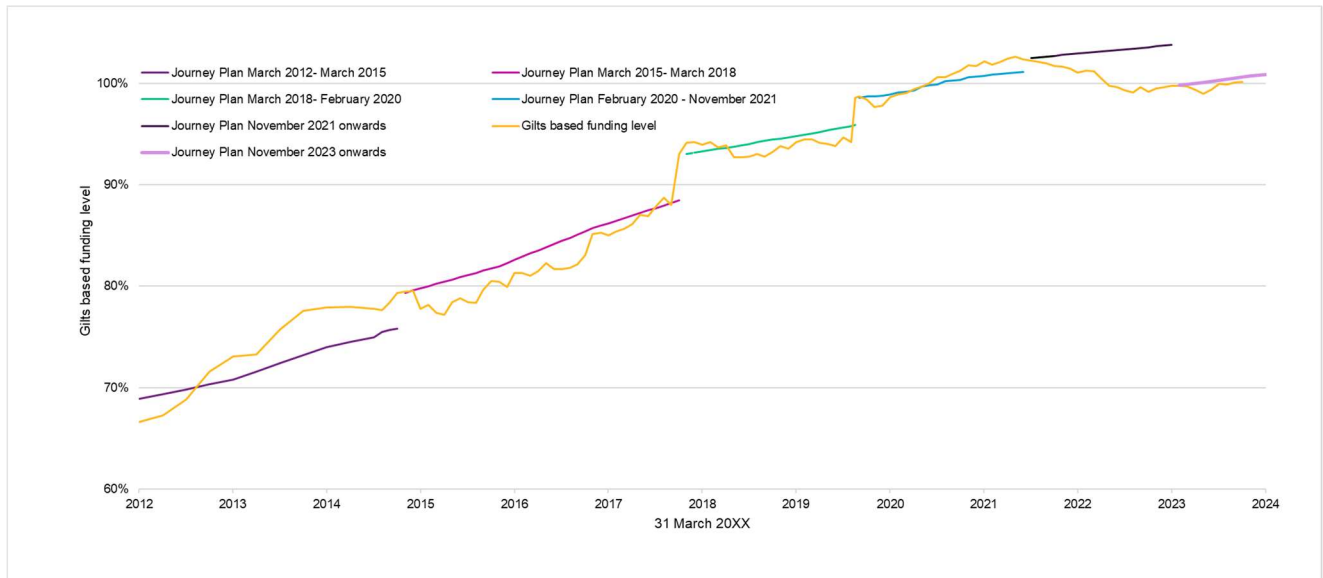
The gilt-based funding position has improved over the year to 31 March 2024; however the funding level is still behind the Journey Plan.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### INVESTMENT REPORT (CONTINUED)

#### Investment returns (continued)



### Market review – 12 months ending 31 March 2024

#### Summary

The 12 month period to the 31 March 2024 was characterised by rising interest rates across the UK, US and other European countries and slowing inflation for many. Over the same period, we saw a rally in most major equity markets most notably across Q4 2023 and Q1 2024 when the US Fed signalled at the time that interest rate cuts may be on the way in 2024, with North America, Europe and Japan providing double digit market returns over the 12 months. Meanwhile, long dated fixed and index-linked gilt yields continued to rise over the 12 months to 31 March 2024, giving negative returns for gilts. In bond markets, credit spreads narrowed as corporate bonds outperformed government bonds based on a perceived change in monetary policy in favour of cutting interest rates.

Over the 12 months to 31 March 2024 sterling has appreciated against the US dollar, the Euro and the Yen by 2.2%, 2.8% and 16.2% respectively.

#### Short term Interest rates and inflation

The Bank of England (BoE) made three base rate rises throughout the 12 months to March 2024, settling at 5.25% in August 2023. Since then, there were no further rate increases but rates remain at their highest level since March 2008. The UK inflation rate, as measured by the CPI, rose by 3.2% in the 12 months to March 2024, down from 3.9% in December 2023 and the lowest since September 2021.

In the US, an interest rate increase of 0.25% in July 2023 brought the target range to an all-time high of 5.25 – 5.50%. There were no further increases through the period. Following Q1 2024, Federal Reserve chair Jay Powell has acknowledged it will likely take 'longer than expected' for inflation to return to the US central bank's 2 per cent goal and cut interest rates.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### INVESTMENT REPORT (CONTINUED)

#### Equity markets

Over the 12 months to 31 March 2024, equity markets returned positive performance across all regions other than China which returned negative performance. The FTSE All World Index returned 21.0% whilst the MSCI China Index returned -18.8% (both in sterling terms). FTSE All-Share Index returned 8.4% whilst North America was the best performing region with 26.8% (both in sterling terms).

#### Bond markets

UK government bond yields (which move inversely to bond price) broadly increased over 12 months to 31 March 2024. Long maturity UK gilts have returned -4.6% over the period (as measured by FTSE-A Gilts Over 15 Years Index) and UK gilts all stocks returned 0.0%.

Inflation-linked gilt yields also increased over the 12-month period. Long maturity UK index-linked gilts returned -11.9% (as measured by FTSE-A Index-Linked Gilts Over 15 Years Index) and UK index-linked gilts all stocks returned -5.0%.

Over the past year, local currency emerging market debt underperformed hard currency emerging market debt returning 2.7% and 10.4% respectively.

#### Alternative investment markets

Commercial UK property (as measured by the IPD Monthly Index) has returned -0.3% over the 12 months to 31 March 2024.

Global Commodity Futures, as measured by S&P Goldman Sachs Commodity Index, returned 8.8% over the 12 months to 31 March 2024 in sterling terms.

#### Willis Towers Watson

27 June 2024

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements, which are prepared in accordance with applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice), are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- 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 Fund year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and
- contain the information specified in Regulations 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Fund will not be wound up.

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

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 it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time revising a schedule of contributions showing the rates of contributions payable towards the Fund by or on behalf of the employer 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 adopting risk-based processes to monitor whether contributions are made to the Fund by the employer in accordance with the schedule of contributions. Where breaches of the 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 the financial statements may differ from legislation in other jurisdictions.



# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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

#### Opinion

We have audited the financial statements of the Merchant Navy Officers Pension Fund (the 'Fund') for the year ended 31 March 2024, which comprise the fund account, the statement of net assets (available for benefits) and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

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 2024, and of the amount and disposition at that date of its assets and liabilities, other than 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 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.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

In our evaluation of the Trustee's conclusions, we considered the inherent risks associated with the Fund's operating model including effects arising from macro-economic uncertainties such as changing interest and inflation rates and geo-political events, we assessed and challenged the reasonableness of estimates made by the Trustee and the related disclosures and analysed how those risks might affect the Fund's financial resources or ability to continue operations over the going concern period.

In auditing the financial statements, we have concluded that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are approved by the Trustee.

Our responsibilities and the responsibilities of the Trustee with respect to going concern are described in the relevant sections of this report.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### **INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE MERCHANT NAVY OFFICERS PENSION FUND (CONTINUED)**

#### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Trustee is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Responsibilities of the Trustee

As explained more fully in the statement of Trustee's responsibilities set out on page 15, the Trustee is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Trustee is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to wind up the Fund, or has no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Fund and determined that the most significant are the Pensions Act 1995 and 2004 and those that relate to the reporting frameworks (Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 (FRS 102) and the Statement of Recommended Practice "Financial Reports of Pension Schemes" 2018 ("the SORP")).
- In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations such as, the Pensions Regulator's Codes of Practice and relevant compliance regulations (including the Annual Pensions Bill and tax legislation) under which the Fund operates.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE MERCHANT NAVY OFFICERS PENSION FUND (CONTINUED)

- We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with management, the Trustee, and from inspection of Trustee board minutes and legal and regulatory correspondence. We discussed the policies and procedures regarding compliance with laws and regulations with the Trustee.
- We assessed the susceptibility of the Fund's financial statements to material misstatement due to irregularities including how fraud might occur. We evaluated management's incentives and opportunities for manipulation of the financial statements and determined that the principal risks were in relation to the risk of management override of controls through posting inappropriate journal entries to manipulate results and net assets for the year and inappropriate valuation of investment assets.
- Our audit procedures involved:
  - Journal entry testing, with a focus on large, manual journals, those journals with unusual account combinations or entries posted to suspense accounts;
  - Obtaining independent confirmations of material investment valuations and cash balances at the year end; and
  - Including internal valuation specialists within the audit team to challenge the valuation of the annuity policies and derivative contracts.
- In addition, we completed audit procedures to conclude on the compliance of disclosures in the annual report and accounts with applicable financial reporting requirements.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The engagement leader's assessment is that all team members are qualified accountants or working towards that qualification and are considered to have sufficient knowledge and experience of schemes of a similar size and complexity, appropriate to their role within the team. The engagement team are required to complete mandatory pensions sector training on an annual basis, thus ensuring they have sufficient knowledge and understanding of the sector, the underlying applicable legislation and related guidance.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### Use of our report

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 it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.



Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Cardiff  
Date 3/10/2024

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2024

	Note	2024 £m	2023 £m *(restated)
<b>CONTRIBUTIONS AND BENEFITS</b>			
Contributions receivable			
- Employer		0.5	0.9
Total Contributions	4	0.5	0.9
Transfers in and other income	5	0.6	0.9
		1.1	1.8
Benefits paid or payable	6	(147.5)	(146.0)
Payments to and on account of leavers	7	(2.7)	(8.1)
Administrative expenses	8	(5.9)	(6.0)
		(156.1)	(160.1)
<b>NET WITHDRAWALS FROM DEALINGS WITH MEMBERS</b>		(155.0)	(158.3)
<b>RETURNS ON INVESTMENTS</b>			
Investment income	9	128.4	141.9*
Investment management expenses	10	(0.9)	(1.0)*
Change in market value of investments	11.1	(122.3)	(833.1)
<b>NET RETURNS ON INVESTMENTS</b>		5.2	(692.2)
<b>NET DECREASE IN THE FUND DURING THE YEAR</b>		(149.8)	(850.5)
<b>NET ASSETS OF THE FUND AVAILABLE FOR BENEFITS AT 1 APRIL</b>		2,106.3	2,956.8
<b>NET ASSETS OF THE FUND AVAILABLE FOR BENEFITS AT 31 MARCH</b>		1,956.5	2,106.3

\*The 2023 investment income and investment management expenses have been restated to disclose interest on repurchase agreements and net receipts/(payments) from swaps separately within investment income.

The notes on pages 21 to 38 form an integral part of these financial statements.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

AT 31 MARCH 2024

	Note	2024 £m	2023 £m
<b>INVESTMENT ASSETS</b>			
Bonds		414.0	368.0
Pooled investment vehicles	11.3	300.9	336.3
Derivatives	11.4	33.6	36.8
Insurance policies	11.6	1,428.1	1,528.0
AVCs	11.7	0.5	0.7
Cash and other investment assets	11.8	1.2	3.7
		<u>2,178.3</u>	<u>2,273.5</u>
<b>INVESTMENT LIABILITIES</b>			
Derivatives	11.4	(17.8)	(14.1)
Other Investment Liabilities	11.8	(191.7)	(158.7)
<b>TOTAL INVESTMENTS</b>	11	<u>1,968.8</u>	<u>2,100.7</u>
<b>CURRENT ASSETS</b>	13	10.1	17.3
<b>CURRENT LIABILITIES</b>	14	<u>(22.4)</u>	<u>(11.7)</u>
<b>TOTAL NET ASSETS AT 31 MARCH</b>		<u><u>1,956.5</u></u>	<u><u>2,106.3</u></u>

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 21 to 38 form an integral part of these financial statements.

These financial statements were approved by the Trustee on 25 September 2024 and were signed on its behalf by:

**M Jess**  
Chair, MNOFF Trustees Limited

**M McNeill**  
Director, MNOFF Trustees Limited

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### 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 (Revised 2018).

The Trustee has performed a Going Concern assessment. Amongst other things, its assessment took into account the funding position, availability of liquid cashflows, the employers' ability to continue to fund Contributions and the strength of the insurers to continue to fund insured benefits. It also noted that there has been no decision made to wind up the Fund. On this basis the Trustee considers the Going Concern basis appropriate.

#### 2 IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Fund is established as a trust under English law. Any queries about the Fund, including requests from individuals for information about their benefits, should be addressed to:

##### Member Enquiries

myMNOPFpension  
PHT  
Maclaren House  
Talbot Road  
Stretford  
Manchester  
M32 0FP  
Email: [enquiries@myMNOPFpension.co.uk](mailto:enquiries@myMNOPFpension.co.uk)  
Telephone: 01372 200200

##### General Enquiries

Rock Pensions  
[employer.enquiries@mnopf.co.uk](mailto:employer.enquiries@mnopf.co.uk)

#### 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

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.

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.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 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 in which entitlement to the benefit arises.

Benefits covered under the buy-in policies are recognised in the same way as other benefits with the income from the buy-in policies to reimburse the Fund recognised under investment income.

Where the Trustee agrees or is required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the Fund, any taxation due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within Benefits.

#### 3.4 Transfers to and from other schemes

Individual transfers to and from other schemes are accounted for when member liability is discharged which is normally when the transfer amount is paid or received.

#### 3.5 Valuation of investments

Investments are valued at fair value.

Fixed interest securities and index-linked securities are stated at their clean price, where applicable including the indexation element which is payable on maturity. Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.

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.

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

The Graticule Asset Management Asia Macro Hedge Fund was wound down in 2023 and the value at the year-end 2024 was a 5% audit holdback (received on 28 June 2024) and a 2% cash reserve to cover any additional future costs that could arise as a result of the sale of holdings that took place in January 2024.

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 cash flows arising from the swap determined using discounted cash flow 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.
- 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.

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.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 3.5 Valuation of investments (continued)

The Fund's buy-in policies, shown under insurance policies have been valued on an insurance buy-out basis, as provided by the Insurer as at 31 March 2024. The Fund has three buy-in policies, one with L&G and two with PIC.

#### 3.6 Additional voluntary contribution investments (AVCs)

The AVC investments are stated at their policy value based on the valuation confirmed by the AVC providers.

#### 3.7 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.

Receipts from annuity policies held by the Trustee are accounted for as investment income on an accruals basis.

Receipts or payments under swap contracts, representing the difference between the swapped cash flows, are included in investment income on a cash basis.

Interest on repurchase agreements is recognised on an accruals basis.

#### 3.8 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.

#### 3.9 Accounting estimates and judgements

No significant judgements have been made by the Trustee in the application of the principal accounting policies. Significant assumptions and estimates have been made in the valuation of the Fund's financial assets and liabilities classified as Level 3 under the fair value hierarchy and the accounting adjustment for contributions. Details of these financial assets and liabilities, the valuation techniques applied, and the significant valuation assumptions, are provided in Notes 3.2 and 11.9 of these financial statements.



# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 4 CONTRIBUTIONS

	2024 £m	2023 £m
<b>Employers' Contributions</b>		
Deficit funding contributions	0.5	0.9

Employer deficit funding contributions of £528 million were due under the Recovery Plans agreed following the 2009 and 2012 valuations. At 31 March 2024, a capital balance of £0 million is outstanding (2023: £0.6 million).

#### 5 TRANSFERS IN AND OTHER INCOME

	2024 £m	2023 £m
Other income	-	0.1
Individual transfers in	0.6	-
Group transfers in (AVCs)	-	0.8
	0.6	0.9

Individual transfers in represents money purchase benefits for certain Ensign Retirement Plan members who originally had benefits in the MNOF DC and DB sections which are taken as part of their PCLS.

The AVCs were transferred in from the Trustee of the Ensign Retirement Plan on 16 June 2022.

#### 6 BENEFITS PAID OR PAYABLE

	2024 £m	2023 £m
Pension payments	139.2	136.6
Commutations and lump sum retirement benefits	8.0	9.2
Lump sums on death	0.3	0.2
	147.5	146.0

#### 7 PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2024 £m	2023 £m
Individual transfers out to other schemes	2.7	8.1

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 8 ADMINISTRATIVE EXPENSES

	<b>2024</b>	<b>2023</b>
	<b>£m</b>	<b>£m</b>
Administration, processing and data management	3.7	4.0
Actuarial fees	0.3	0.2
Legal, other professional fees and deficit collection fees	1.7	1.7
External audit fees	0.1	0.1
Accounting adjustment to employer deficit contributions receivable	0.1	-
	<u>5.9</u>	<u>6.0</u>

#### 9 INVESTMENT INCOME

	<b>2024</b>	<b>2023</b>
	<b>£m</b>	<b>£m</b>
Income from bonds	12.0	8.3
Income from pooled investment vehicles	3.5	5.3
Income allocated to Old Section Reserve	-	0.6
Interest on repurchase agreements – net	(8.0)	(4.0)
Net receipts/(payments) from swaps	(0.6)	4.8
Foreign exchange losses	-	2.5
Annuity income	121.7	124.2
Other investment income	(0.2)	0.2
	<u>128.4</u>	<u>141.9</u>

\*The 2023 investment income has been restated to disclose interest on repurchase agreements and net receipts/(payments) from swaps separately within investment income.

#### 10 INVESTMENT MANAGEMENT EXPENSES

	<b>2024</b>	<b>2023</b>
	<b>£m</b>	<b>£m</b>
Administration, management & custody	0.9	1.0

\*The 2023 investment management expenses have been restated to disclose interest on repurchase agreements and net receipts/(payments) from swaps separately within investment income.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11 INVESTMENTS

##### 11.1 Reconciliation of investments

Reconciliation of investments held at beginning and end of year:

	Note	Value at 1 April 2023	Purchases at Cost and Derivative payments	Sales Proceeds and Derivative receipts	Change in market value	Value at 31 March 2024
		£m	£m	£m	£m	£m
Bonds		368.0	74.2	(0.8)	(27.4)	414.0
Pooled investment vehicles	11.3	336.3	225.8	(277.3)	16.1	300.9
Derivatives	11.4	22.7	2.2	(5.1)	(4.0)	15.8
Insurance policies	11.6	1,528.0	7.2	-	(107.1)	1,428.1
AVCs	11.7	0.7	-	(0.3)	0.1	0.5
		<u>2,255.7</u>	<u>309.4</u>	<u>(283.5)</u>	<u>(122.3)</u>	<u>2,159.3</u>
Cash deposits and other investment assets	11.8	3.7				1.2
Other investment liabilities	11.8	<u>(158.7)</u>				<u>(191.7)</u>
		<u>2,100.7</u>				<u>1,968.8</u>

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 £1.6m (2023: £0.3m). Direct transaction costs incurred are analysed below:

	2024	2023
	£m	£m
Return-seeking	1.4	0.1
LDI	0.2	0.2
	<u>1.6</u>	<u>0.3</u>

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Trustee to quantify such indirect transaction costs due to the information not being available from the Fund managers.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11.3 Pooled investment vehicles

	<b>2024</b>	<b>2023</b>
	<b>£m</b>	<b>£m</b>
Equities	91.7	57.1
Bonds	5.8	-
Hedge	35.6	44.8
Private equity	23.1	25.4
Property	4.6	9.3
Absolute return	100.2	148.3
Cash	39.9	51.4
	<u>300.9</u>	<u>336.3</u>

#### 11.4 Derivatives

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

The derivatives held were all OTC and made of:

	<b>2024</b>	<b>2024</b>	<b>2023</b>	<b>2023</b>
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Swaps	33.6	(17.6)	35.9	(14.1)
Forward foreign exchange	-	(0.2)	0.9	-
	<u>33.6</u>	<u>(17.8)</u>	<u>36.8</u>	<u>(14.1)</u>

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### 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	2024 Asset	2024 Liability
		Currency Principal	£m	£m
Interest rate swaps	0-5 years	£17.8m	8.1	(3.9)
Interest rate swaps	6-10 years	£8.9m	0.1	(4.8)
Interest rate swaps	11-20 years	£2.9m	3.5	(8.0)
Interest rate swaps	21-30 years	£3.7m	3.9	(0.7)
Interest rate swaps	31-40 years	£5.7m	5.3	-
Inflation swaps	0-5 years	£26.2m	4.4	-
Inflation swaps	6-10 years	£39.1m	5.4	-
Inflation swaps	11-20 years	£22.3m	2.9	-
Inflation swaps	41-50 years	£2.8m	-	(0.2)
			<u>33.6</u>	<u>(17.6)</u>

Contract	Expiration	Notional	2023 Asset	2023 Liability
		Currency Principal	£m	£m
Interest rate swaps	0-5 years	£8.0m	5.4	(3.7)
Interest rate swaps	6-10 years	£26.3m	5.3	(3.7)
Interest rate swaps	11-20 years	£13.3m	3.4	(5.7)
Interest rate swaps	21-30 years	£2.6m	2.2	(0.1)
Interest rate swaps	31-40 years	£6.8m	6.4	(0.4)
Inflation swaps	0-5 years	£22.4m	3.5	-
Inflation swaps	6-10 years	£35.3m	5.5	-
Inflation swaps	11-20 years	£29.8m	4.2	-
Inflation swaps	41-50 years	£2.8m	-	(0.5)
			<u>35.9</u>	<u>(14.1)</u>

At 31 March 2024, the counterparties of the interest and inflation swaps were six banks with credit ratings ranging from AA-BBB+ to A+. (2023: five banks with credit ratings ranging from BBB+ to A+).

At 31 March 2024, the Fund held collateral in the form of cash and gilts at £16.2m value (2023: cash and gilts value £23.8m).

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### 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	2024 Asset £m	2024 Liability £m
Forward (OTC)	1-6 months	USD51.6m	GBP40.6m	-	(0.2)
				-	(0.2)

Contract	Settlement Date	Currency Bought	Currency Sold	2023 Asset £m	2023 Liability £m
Forward (OTC)	1-6 months	USD63.0m	GBP51.8m	0.9	-
				0.9	-

#### 11.6 Insurance policies

The Fund held insurance policies at the year-end as follows:

	2024 £m	2023 £m
L&G Buy in	286.5	311.1
PIC Buy in 1	907.4	970.1
PIC Buy in 2	234.2	246.8
	1,428.1	1,528.0

As at the end of the Fund year the pensioner population includes the following insured members:

- L&G Buy in – 2,204 (2023: 2,205)
- PIC Buy in 1 – 11,689 (2023: 12,019)
- PIC Buy in 2 – 1,789 (2023: 1,800)

A bulk insurance policy is valued at the fair value of the liability as calculated and provided by the insurer in accordance with the related obligation. The valuation is determined using assumptions over pension increases, inflation and interest rates and longevity.

#### 11.7 Additional Voluntary Contribution (AVC) Investments

These are AVC investments which were transferred from the Trustee of the Ensign Retirement Plan on 16 June 2022. At the reporting date the Trustee held assets invested separately from the main fund in the form of individual insurance policies securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement confirming the amounts held to their account and the movements in the year.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11.7 Additional Voluntary Contribution (AVC) Investments (continued)

The aggregate amounts of AVC investments are as follows:

	<b>2024</b>	<b>2023</b>
	<b>£m</b>	<b>£m</b>
Utmost Life and Pensions Ltd	0.5	0.6
Standard Life Assurance Ltd	0.0	0.1
	<u>0.5</u>	<u>0.7</u>

#### 11.8 Cash deposits and other investment assets and liabilities

	<b>2024</b>	<b>2023</b>
	<b>£m</b>	<b>£m</b>
<b>Assets</b>		
Cash	1.2	3.7
Outstanding dividends, interest and other assets	-	-
	<u>1.2</u>	<u>3.7</u>
<b>Liabilities</b>		
Amount due under sale and repurchase contracts	(191.7)	(158.7)
	<u>(190.5)</u>	<u>(155.0)</u>

At the year-end £198.3m (2023: £162.0m) of bonds reported as Fund assets are held by counterparties under repurchase agreements. Collateral of £2.6m (2023: £3.7m) was received to cover the difference between the liability and the value of the bonds.

#### 11.9 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.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11.9 Fair value hierarchy (continued)

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

	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
<b>2024</b>				
Bonds	-	414.0	-	414.0
Pooled investment vehicles	55.9	69.5	175.5	300.9
Derivatives	-	15.8	-	15.8
Insurance policies	-	-	1,428.1	1,428.1
AVCs	-	0.5	-	0.5
Other investment balances	1.2	(191.7)	-	(190.5)
	<u>57.1</u>	<u>308.1</u>	<u>1,603.6</u>	<u>1,968.8</u>
<b>2023</b>				
Bonds	-	368.0	-	368.0
Pooled investment vehicles	51.4	39.8	245.1	336.3
Derivatives	-	22.7	-	22.7
Insurance policies	-	-	1,528.0	1,528.0
AVCs	-	0.6	0.1	0.7
Other investment balances	3.7	(158.7)	-	(155.0)
	<u>55.1</u>	<u>272.4</u>	<u>1,773.2</u>	<u>2,100.7</u>

#### 11.10 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 instrument 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 instrument 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 instrument 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 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.



# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11.10 Investment risks (continued)

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 to secure an uplift of at least 3% of members' benefits by 30 June 2026 or such other period as may be agreed from time to time. The Trustee's Journey Plan is based on being achieved through an investment return target of Gilts +2.2% p.a. (across the MNOPF assets excluding insured assets, equivalent to Gilts +0.70% p.a. on all MNOPF assets) from 2021-2025. However, in September 2024, the Board will consider the preliminary results of the actuarial valuation and assess the impact this may have on the Journey Plan towards its long-term goals.

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 (Willis Towers Watson) 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.

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

	Credit Risk	Currency	Market Risk		2024	2023
			Interest Rate	Other price	Value £m	Value £m
Bonds	●	○	●	●	414.0	368.0
Pooled investment vehicles	●	◐	◐	●	300.9	336.3
Derivatives	●	◐	●	●	15.8	22.7
Cash	◐	◐	○	○	1.2	3.7
Other investments	●	○	●	○	(191.7)	(158.7)
Insurance Policies	●	○	●	●	1,428.1	1,528.0
<b>Total investments</b>					<b>1,968.3</b>	<b>2,100.0</b>

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

Investment risk disclosures exclude AVCs as their value is not material.

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

#### (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, has the potential to undertake stock lending activities, and has transacted two buy-ins (which are exposed to the credit risk of the insurers). 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.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11.10 Investment risks (continued)

##### (i) Credit risk (continued)

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 over the counter (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 also arises on forward foreign currency contracts. These contracts are collateralized which reduces the credit risk and 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 2024 it was 0.0%.

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 (Willis Towers Watson) 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.

Credit risk arises on the buy-ins which were transacted with two separate providers. Both providers had an investment grade credit rating at the point of trade execution and credit risk is mitigated through the regulatory capital requirements placed on insurance providers.

Credit risk on equity options (which are OTC contracts) is mitigated through collateral arrangements and diversification of counterparties.

Please see below the legal nature of the Pooled Investment Funds:

	<b>2024</b>	<b>2023</b>
	<b>£m</b>	<b>£m</b>
Limited liability partnerships	46.6	61.6
Closed ended investment companies	-	0.1
Open ended investment companies	26.2	11.4
Authorised unit trusts	152.0	187.7
Unauthorised unit trusts	2.0	7.6
ICAV	74.1	39.8
	<u>300.9</u>	<u>308.2*</u>

\*Only includes available information as at the time of publishing this report.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11.10 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 2024 the Fund's net unhedged overseas currency exposure is 11.1% (2023: 6.7%).

##### (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. Similarly, the buy-ins are subject to interest rate risk but again, this investment is risk reducing.

##### (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. Additionally, the price of the equity options will be influenced by moves in equity markets.

#### 11.11 Concentration of investments

The investments (other than UK Government Securities) at the year-end which are more than 5% of the total value of the net assets of the Fund comprise:

		2024		2023	
	%	£m	%	£m	
PIC buy in 1	46	907.4	46	970.1	
PIC buy in 2	12	234.2	12	246.8	
L&G buy in	15	286.5	15	311.1	
Insight: Liability Hedging	12	243.7	12	260.7	

## 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.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 13 CURRENT ASSETS

	<b>2024</b>	<b>2023</b>
	<b>£m</b>	<b>£m</b>
Cash balance	9.1	16.3
Deficit contributions due	22.4	22.8
Accounting adjustment to employer deficit contributions due	(22.4)	(22.3)
Other debtors	1.0	0.5
	<u>10.1</u>	<u>17.3</u>

Deficit contributions due represent historic balances not due under the current Schedule of Contributions. Accounting adjustment to employer deficit contributions due are amounts where recovery from the invoiced employer is considered, on a prudent basis, to be unlikely. The concept of adjustments was introduced into the statutory accounts in 2014/15 to reflect the Trustee's approach to the collection of deficit amounts. As such, the use of the expressions "provision" or "write-off" is avoided as these terms could be misinterpreted. It is emphasised that all amounts due are recorded gross in the detailed records.

#### 14 CURRENT LIABILITIES

	<b>2024</b>	<b>2023</b>
	<b>£m</b>	<b>£m</b>
Unpaid benefits	9.7	7.9
Other creditors and accrued expenses	12.7	3.8
	<u>22.4</u>	<u>11.7</u>

Included in "Other creditors and accrued expenses" are the following reserve and provisions:

- 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 2024 the balance was £0.9m (2023: £1.2m).

- b) Bulk Annuity provisions are included for the PIC buy-in 1 policy in respect of the final premium adjustment paid, which was a payment of £7.2 million and in respect of the repayment of past overpayments due to PIC of £1.8 million

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 15 RELATED PARTY TRANSACTIONS

##### 15.1 Key management personnel

The Trustee is deemed to be a related party of the Fund. Included in administrative expenses are payments of £141,267 (2023 restated: £130,479) made to certain Trustee Directors for fees relating to the exercise of their duties during the year. Trustee directors were also reimbursed expenses totalling £9,215 (2023 : £7,021). There are no Trustee Directors who are pensioner members of the Fund.

##### 15.2 Employer and other related parties

During the year, the Fund had interests but no holdings in the following companies which are related parties:

Entity	Activity	Transactions in year and balances at the year end
Ensign Pensions Limited	Pension fund executive services	There is an accrual for IT services of £44,000 at 31 March 2024 (2023: £47,561). The balance in the Intercompany Account as at 31 March 2024 is a debtor balance £32,031 (2023: £76,031).
MNOPF Trustees Limited	Trustee Company for the Fund	Outstanding balance on loan provided to fund the investment in Ensign Pensions Limited of £400,000.

The fund is under the control of MNOPF Trustees Limited. Ensign Pensions Limited is a company wholly owned and under the common control of the Trustee company.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 16 COMMITMENTS

As at 31 March 2024, the Fund was committed to providing additional funding to certain managers investing in unquoted securities. These commitments amounted to £30.1m (2023: £31.1m) of private equity, of which £12.5m is related to property (2023: £12.6m). Please see below:

	2024	2023
	£m	£m
<b>Property:</b>		
Fprop Office LP	8.5	8.5
RECAP	4.0	4.1
<b>Private equity:</b>		
Advent	0.8	0.9
American Securities	2.1	2.2
ECP	1.2	1.3
GSAM	9.1	9.6
Oaktree	4.4	4.5
	30.1	31.1

#### 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% (2023: 0%) of the net assets of the Fund. The investments were as follows:

	2024		2023	
	Total	Total	Total	Total
	£m	%	£m	%
Pooled Funds	0.6	0.0	0.6	0.0
Total exposure	0.6	0.0	0.6	0.0

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

The total exposure to employer-related investments in pooled vehicles is determined using assumptions. The assumptions are deliberately conservative and are likely to result in an overstatement of the actual value.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 18 CONTINGENT LIABILITIES

As at 31 March 2024, a final premium/repayment is due under each of the two buy-in policies with Pension Insurance Corporation. Data cleansing was finalised on PIC buy-in 1 policy and the payment due was paid before completion of the financial statements.

Calculation of the final premium adjustment and past overpayments for the PIC buy-in 2 policy is ongoing but the impact is expected to be small.

##### GMP Equalisation

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should equalise pension benefits for men and women in relation to guaranteed minimum pensions ("GMP"). Furthermore, on 20 November 2020, the High Court handed down a further judgement that ruled that pension schemes would need to revisit individual transfer payments made since 17 May 1990 to check if any additional value is due as a result of GMP equalisation. The Trustee is aware that the judgements are expected to set a precedent for other UK defined benefit pension schemes and is taking steps to consider the implications of the judgements for the Fund. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts.

Some amendments have been completed and payments made in the financial year and before completion of the financial statements. Further amendments to some members benefits are still in progress in order to complete the implementation of the main GMP equalisation project.

##### Section 37 Certificate

The Virgin Media Ltd v NTL Pension Trustees II decision, handed down by the High Court on 16 June 2023, considered the implications of section 37 of the Pension Schemes Act 1993, which required that the rules of a salary-related contracted-out scheme cannot be altered in relation to "section 9(2B) rights" unless the actuary has confirmed in writing that the scheme would continue to satisfy the statutory standard. Section 9(2B) rights are rights attributable to contracted out service from 6 April 1997 and the statutory standard is a benefits test based on rights under a notional "reference scheme". The High Court found that where the required actuarial confirmation was not supplied, the effect of section 37 was to render the relevant amendment in relation to any contracted-out right automatically void. It also held that the references in the legislation to section 9(2B) rights (in relation to which actuarial confirmation had to be obtained) included both past and future service rights. The requirement for actuarial confirmation applied to all relevant amendments to the rules of a contracted-out scheme, not just those which would or might adversely affect section 9(2B) rights. The case was appealed, with the judgement from the Court of Appeal upholding the original decision issued on 25 July 2024. We do not know at this stage whether this decision will be appealed, and it also remains to be seen what action, if any, the Government may take to retrospectively address the effect of rule amendments that have been made in the past without a relevant confirmation being provided. We are continuing to digest this decision and consider its wider implications. Subject to any further appeal or Government action, the Trustees will be assessing, together with its advisers, the potential impact of the decision, if any, for the Fund.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### 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 determined by the Trustee, having consulted the Participating Employers, and which are 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 Fund effective as at 31 March 2021 showed that the accumulated assets of £3,250m represented 102% of the Fund's technical provisions in respect of past service benefits; this corresponds to a surplus of £58m at the valuation date.

The value of technical provisions is based on Pensionable Service to the Fund's closure on 31 March 2016 and assumptions about various factors that will influence the Fund in the future, such as the levels of investment returns, inflation, when members will retire and how long members will live. The method and significant actuarial assumptions used in the calculations as at 31 March 2021 were 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:** Equal to yields on fixed interest Government bonds at each term, plus a margin which is initially 0.875% pa at 31 March 2021, then reduces linearly, in annual steps, to 0.25% pa as at 31 March 2025 and remains at that level thereafter.

**Future Retail Price Inflation (RPI):** The assumption adopted is based on expected rates of break-even inflation each year, having regard to the inflation expectations implicit in UK Government bond prices at the valuation date.

**Future Consumer Price Inflation (CPI):** set based on the expected future difference between assumed retail price inflation (RPI) and consumer price inflation (CPI). CPI is assumed to be 1% pa below RPI to 2030 and then equal to RPI thereafter.

**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 deferment:** this assumption has been set in line with Consumer Price Inflation where relevant.

**Mortality:** Normal health SAPS3 amounts table (Heavy table for female spouses) projected with CMI 2020 core projections with a long term rate of improvements of 1.8% pa and an initial addition of 0.25% pa. Multipliers of 107% for normal health members, ill-health pensioners and male spouses, and 88% for female spouses.

**GMP equalisation:** An allowance of 0.6% of liabilities has been made to reflect the potential cost of changes to the benefits that may be required to ensure that the Fund provisions in respect of Guaranteed Minimum Pensions do not unlawfully discriminate between male and female members.



# MERCHANT NAVY OFFICERS PENSION FUND YEAR ENDED 31 MARCH 2024

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## **REPORT ON ACTUARIAL LIABILITIES (CONTINUED)**

### Recovery plan

As there was no deficit at the valuation date there is no need for the Fund to set out a Recovery Plan.

### Next actuarial valuation

The next triennial valuation is being performed as at 31 March 2024.

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### Schedule of Contributions following the 2021 valuation

This schedule of contributions has been prepared by MNOFF Trustees Limited, the Trustee of the Merchant Navy Officers Pension Fund ("the Fund"), to satisfy the requirements of Section 227 of the Pensions Act 2004, after obtaining the advice of the Scheme Actuary, Kim Farnum. It has been prepared and certified on the assumption that all contributions specified are paid on the relevant due date for payment.

This schedule specifies rates of Employer contributions to the Fund. It covers a period of 5 years from the date of certification. It is subject to review from time to time as required by legislation and by the Fund's Trust Deed and Rules and following actuarial valuations and interim reviews.

There are no contributions due from or payable by members to the Fund.

#### 1 Deficit contributions from the date of this schedule to 30 September 2023

Employers will pay the following deficit contributions:

- the deficit payments arising from the funding valuation as at 31 March 2012 set out in the schedule of contributions dated 2 May 2013; and
- the deficit payments arising from the funding valuation as at 31 March 2009 set out in the schedule of contributions dated 26 March 2010.

The last payment under these schedules is due to be made by 30 September 2023.

#### 2 Other Employer contributions

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

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

Date of schedule: 9 December 2021

Agreed on behalf of the Trustee

Name: Rory Murphy

Signature: 

Position: Trustee Chairman

Date: 9 December 2021

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### 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 2021 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 9 December 2021.

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.

Signature *Kim Farnum*

Name: K Farnum

Scheme Actuary

Fellow of the Institute and Faculty of Actuaries

Towers Watson Limited

Watson House

Reigate

RH2 9PQ

Date: 9 December 2021

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### MEMBERS' INFORMATION

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

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

#### 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 MNOFF website.

#### The Pensions Ombudsman

If a member requires assistance with dealing with a pension complaint, they can contact the dispute resolution team at the Pensions Ombudsman.

The Pensions Ombudsman may also investigate and determine any complaint or dispute of fact or law in relation to an occupational pension scheme and will assist members and beneficiaries of schemes in connection with difficulties which they have failed to resolve with the Trustee or Administrators of the Fund. Enquiries should be addressed to:

The Pensions Ombudsman  
10 South Colonnade  
Canary Wharf  
E14 4PU

Telephone: 0800 917 4487

Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)

Website: [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

#### 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

Telephone: 0345 600 1011

#### 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 Tracing Service 9  
Mail Handling Site A  
Wolverhampton  
WV98 1LU

Telephone: 0800 731 0193

Website: [www.gov.uk/find-pension-contact-details](http://www.gov.uk/find-pension-contact-details)

# MERCHANT NAVY OFFICERS PENSION FUND

## YEAR ENDED 31 MARCH 2024

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### 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 fund 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.

#### MoneyHelper

Members can obtain information and guidance through MoneyHelper. The Money and Pensions Service (MaPS) has consolidated The Pensions Advisory Service (TPAS), Money Advice Service (MAS) and Pension Wise into a single website. It offers free impartial guidance on a range of financial issues, including pensions and retirement.

Telephone: 0800 011 3797

Website: <https://www.moneyhelper.org.uk>

#### Further Information

The Trust Deed and rules, the fund 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](http://www.mnopf.co.uk) or by contacting the Trustee at the address on page 11. 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 information relating to the members' own pension position, including estimates of transfer values, should also be requested from the administrators of the fund, Aptia UK Limited, at the address on page 11.

MERCHANT NAVY OFFICERS PENSION FUND  
YEAR ENDED 31 MARCH 2024

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**APPENDIX 1**

# The Merchant Navy Officers Pension Fund Implementation Statement – March 2024



## Why have we produced this Statement?

The Annual Implementation Statement is prepared by the Trustee of the Merchant Navy Officers Pension Fund (“the Fund”) covering the fund year (“the year”) to 31 March 2024.

The purpose of this statement is to:

1. Set out how, and the extent to which, in the opinion of the trustees, the Fund’s engagement policy (required under regulation 23c of the Occupational Pension Schemes Investment Regulations 2005) has been followed during the year.
2. Describe the voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the year and state any use of services of a proxy voter during that year.

This statement sets out how the Trustee has complied with the voting and engagement policies detailed in the Fund’s Statement of Investment Principles (“SIP”).

A copy of this Implementation Statement has been made available on the following website: [https://www.mnopf.co.uk/publications\\_reports](https://www.mnopf.co.uk/publications_reports)

## What is the SIP?

The SIP sets out key investment policies including the Trustee’s investment objectives and investment strategy.

It also explains how and why the Trustee delegates certain responsibilities to third parties and the risks the Fund faces and the mitigated responses.

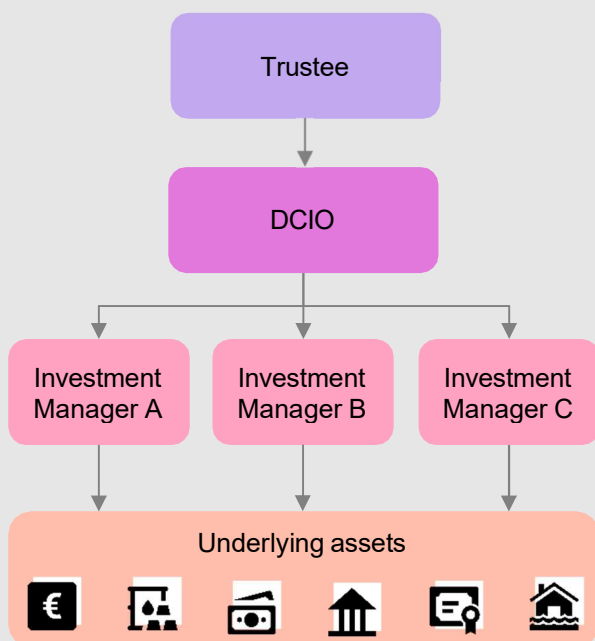
The Trustee last reviewed the SIP in September 2023 and is reviewed on an annual basis.

## What changes have we made to the SIP?

The Trustee have made the following changes to the SIP over the year:

1. Made a minor wording revision to its mission statement “to achieve sufficient funding to secure an uplift of at least 3% of members’ benefits”.
2. Updated the DCIO’s target allocations across the full range of invested asset classes.

## How are the Fund’s investments managed?



**Trustee** - The Trustee’s key objective is to ensure sufficient assets to pay members’ benefits as they fall due. The Trustee retains overall responsibility for the Fund’s investment strategy but delegates some responsibilities to ensure they are undertaken by somebody with the appropriate skills, knowledge and resources.

**Delegated Chief Investment Officer (“DCIO”)** – The Trustee appointed a DCIO to implement the Trustee’s investment strategy. The DCIO allocates the Fund’s assets between asset class and investment managers.

**Investment managers** – The DCIO appoints underlying investment managers either using a pooled vehicle or a segregated mandate where these assets are held directly in the Fund’s name. The DCIO will look for best in class specialist managers for each asset class.

**Underlying assets** – The investment managers pick the underlying investments for their specialist mandate e.g. shares in a company or government bonds.

**Why does the Trustee believe voting and engagement is important?**

The Trustee’s view is that Environmental, Social and Governance (ESG) factors can have a significant impact on investment returns, particularly over the long-term and therefore contribute to the security of members’ benefits. The Trustee further believes that voting and engagement are important tools to influence these issues.

The Trustee has appointed a DCIO who shares this view and has embedded the consideration of ESG factors, voting and engagement in its processes.

The Trustee incorporates an assessment of the DCIO’s performance in this area as part of its overall assessment of the DCIO’s performance.

**What is the Trustee’s voting and engagement policy?**

When considering its policy in relation to stewardship including engagement and voting, the Trustee expects investment managers to address broad ESG considerations but has identified climate and human and labour rights as key areas of focus for the Trustee. The day-to-

day integration of ESG considerations, voting and engagement are delegated to the investment managers. The Trustee expects investment managers to sign up to local Stewardship Codes and to act as responsible stewards of capital.

Where ESG factors are considered to be particularly influential to outcomes, the Trustee expects the DCIO to engage with investment managers to improve their processes.

**What has the Trustee received over the year?**

To ensure the Trustee is kept up to date with best practice in ESG considerations, voting and engagement, the Trustee received the Fund’s annual Sustainable Investment Review, which covers

- The DCIO’s approach to Sustainable Investment.
- Reporting on the sustainability credentials of the Scheme’s investment portfolio (including climate change metrics).
- An assessment of the ESG integration and engagement of the Scheme’s investment managers.

**What are the DCIO’s policies?**

**Climate change and net zero pledge**

The Trustee believes Climate Change is a current priority when engaging with public policy, investment managers and corporates.

The DCIO has committed to targeting net zero greenhouse gas emissions by 2050 at the latest, with a 50% reduction by 2030, in the portfolios that it manages including the Fund’s portfolios.

**Public policy and corporate engagement**

The DCIO partners with EOS at Federated Hermes, whose services include public policy engagement, and corporate voting and engagement on behalf of its clients (including the Trustee).

Some highlights from 2023 include:

1. Engagements with 1,041 companies on a total of 4,272 issues and objectives.
2. 31 responses to consultations or proactive equivalents and 90 discussions with relevant regulators and stakeholders.
3. Voting recommendations on 128,101 resolutions, with 22,716 against management.
4. Active participation in a range of global stewardship initiatives.

**Industry collaboration initiatives**

The DCIO engages in several industry initiatives including:

- Signatory, UK Stewardship Code.
- Co-founder of the Net Zero Investment Consultants Initiative.
- Member of Net Zero Asset Managers Initiative.
- Signatory of the Principles for Responsible Investment (PRI).
- Member of the Institutional Investors Group on Climate Change (IIGCC), Asian Investors Group on Climate Change (AIGCC), and Australasian Investors Group on Climate Change (IGCC).
- Co-founder of the Investment Consultants Sustainability Working Group.
- Founding member of the Diversity Project.
- Supporter of the Transition Pathway Initiative.



**How does the DCIO assess the investment managers?**

**Investment manager appointment** - The DCIO considers the investment managers’ policies and activities in relation to ESG factors and stewardship (which includes voting and engagement) at the appointment of a new manager. In 2023 the DCIO conducted engagements with over 150 managers on sustainability and stewardship. In 2022 it also introduced engagement priorities on climate, modern slavery and engagement reporting for all asset managers.

**Investment manager monitoring** - The DCIO produces detailed reports on the investment managers’ ESG integration and stewardship

capabilities on an annual basis. We have provided the DCIO’s ratings of the equity managers’ ESG integration and stewardship capabilities in the later pages where appropriate.

**Investment manager termination** - The DCIO engages with investment managers to improve their practices and increases the bar by which they are assessed as best practice evolves. The DCIO may terminate an investment manager’s appointment if they fail to demonstrate an acceptable level of practice in these areas. However, no investment managers were terminated on these grounds during the year.

**Example of engagement carried out over the year**

**High yield manager  
Environment - Climate issue**

Issue: This manager is an underlying exposure that sits within the DCIO’s broader high yield credit portfolio. As the DCIO increased its minimum standards and expectations over time in relation to SI, this manager became a clear laggard relative to other exposures in the portfolio, lacking a framework for both ESG integration and engagement. The DCIO communicated its concerns with the manager who committed to a plan to significantly improve their capabilities and resources spent here. During this process, the DCIO stopped allocating new capital to this manager.

Outcome: The manager has now made significant process on their SI capabilities, as well as the commitments made as part of the engagement process. They have developed a new ESG integration framework, as well as a checklist for both new and existing investments to ensure all holdings are analysed using correct ESG data sources, and any concerns are documented. They have also started producing ESG reporting, such as emissions at a portfolio level.

The manager has now also shown a number of positive ESG engagement examples with underlying holdings. Whilst this remains a work in progress, this has become a much greater focus for analysts at the firm, which is viewed positively.

**Equity manager  
General ESG issue**

Issue: Concerns over engagement reporting and reassessment of ESG integration

Outcome: Reporting transparency on ESG front was lagging in the past year. The manager developed an engagement tracker which will assist the client reporting and the manager also appeared willing to provide more transparency. Also, the manager re-assessed their ESG integration and stewardship practices which were acceptable.

**Private markets manager  
General ESG issue**

Issue: Refreshment of recruitment policies including going through the staff handbook and the reviewing of interviewing processes.

Outcome: The manager is now thinking about including an independent Board member and using a more diverse interview panel for a better inclusion and diversity.

### What are the voting statistics we provide?

The Fund is invested across a diverse range of asset classes which carry different ownership rights, for example bonds do not have voting rights attached. Therefore, voting information was only requested from the Fund's equity investment managers.

The managers' voting activity is provided in Appendix 1. The Trustee identified key ESG risks for the Fund, and therefore the following criteria have been used to determine the most significant votes, where at least one needs to apply:

- Aligned to stewardship priorities for the Fund of climate change and/or human and labour rights.
- Financial outcome for members, including size of holding.
- High profile vote, including not supporting company management.

The Trustee has decided not to publicly disclose active investment manager names as the Trustee believes this could impact the investment manager's ability to generate the best investment outcome.

The Trustee has also included the DCIO's assessment of the investment manager's ESG integration and stewardship (including voting and engagement) capabilities where appropriate. The Trustee has identified the most significant votes to provide representation of the different types of manager/mandates in place.


### In conclusion...

...The Trustee is satisfied that over the year, all SIP policies and principles were adhered and in particular, those relating to voting and engagement.

## Appendix 1 – Manager Voting

### Global Listed Infrastructure Manager

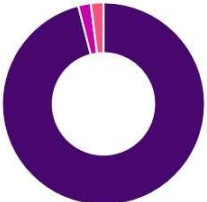
#### Voting activity over the year



**Fiduciary Manager's assessment**

**Voting activity over the year**

Number of eligible votes cast: 356  
Percentage of eligible votes cast: 100%



■ For: 96% ■ Against: 2% ■ Abstain: 2%

**Significant vote**

**Company:** Aena SME, SA  
**% of Manager's Fund:** 5.0%

**Vote topic:** Voting on a consultative basis, on the updated report of the Climate Action Plan (2022)

**Issue:** No explicit targets on the LTO (Landing & Take Off) cycle Scope 3 emission measures and no quantitative objectives included in the plan.

**Voting instruction:** Abstain the resolution  
**Outcome:** Passed the resolution

**Why a significant vote?** Identified as a key ESG topic (climate change) and a significant portfolio position. The investment manager does not endorse the Climate Action Plan as it does not provide a clear direction for the most significant segment of emissions for the Airport. The vote cast did not support company management.

**Next steps:** Manager contacted the investor relations team to see if they can quantify these targets, and their longer-term views around the use of SAF. Future expectations are references to appropriate Scope 3 goals and targets.

**Significant vote**

**Company:** Aeroports De Paris ADP  
**% of Manager's Fund:** 4.6%

**Vote topic:** Approval of the resolution presented by the Social and Economic committee on the social policy and the revision of the employment plan

**Issue:** Revision to the firm's hiring plan to revert to 2019 staff levels by 2024

**Voting instruction:** Against resolution  
**Outcome:** Failed the resolution

**Why a significant vote?** Identified as a key ESG topic (human and labour rights) and a significant portfolio position. The intended revision to revert to 2019 staff levels by 2024 was beyond the firm's recruitment and labour retention/attraction plans (this vote was in line with company management, although still significant).

**Next steps:** With the investment manager's decision to vote in line with company management, the manager saw no explicit amendments to the processes as a result of the outcome.

**Voting policy:** When proxy voting is to occur, the investment team sector lead provides voting recommendations which are then tabled at the manager's Investment Committee (IC) for review and approval. Recommendations are made having regard to the various environmental, social, and governance factors of each of the resolutions to be voted on. Voting instructions are submitted via [ProxyEDGE](#).

**Use of proxy voting:** The proxy vote recommendations submitted to the investment committee (IC) contain a summary of all ESG risks and key issues identified for that company including, where relevant, recommendations for voting on specific issues.

### China A-Shares Value Manager

#### Voting activity over the year



**Fiduciary Manager's assessment**

**Voting activity over the year**

Number of eligible votes cast: 1,655  
Percentage of eligible votes cast: 100%



■ For: 84% ■ Against: 12% ■ Abstain: 4%

**Significant vote**

**Company:** Will Semiconductor Co., Ltd. Shanghai  
**% of Manager's Fund:** 2.2%

**Vote topic:** Amend Rules and Procedures Regarding Meetings of Board of Supervisors

**Issue:** The company failed to disclose adequate information on the proposed bylaw amendments

**Voting instruction:** Against resolution  
**Outcome:** Limited information provided

**Why a significant vote?** The vote cast did not support company management. This vote demonstrated the investment manager's case-by-case approach to amendment proposals.

**Next steps:** The investment manager will continue to review proposed bylaw amendments to ensure adequate disclosure of an appropriate rationale for such amendments

**Significant vote**

**Company:** Jointown Pharmaceutical Group Co., Ltd.  
**% of Manager's Fund:** 2.0%

**Vote topic:** Approve Provision of Guarantee

**Issue:** The level of guarantee to its subsidiaries is disproportionate to the level of ownership

**Voting instruction:** Against resolution  
**Outcome:** Limited information provided

**Why a significant vote?** The vote cast did not support company management. This vote demonstrated the investment manager's approach to Provision of Guarantee proposals

**Next steps:** The investment manager will continue to review cost of financing proposals as it relates to provision of guarantees to ensure fairness of terms for shareholders

**Voting policy:** The members of the Responsible Investing Team responsible for proxy voting apply the manager's Proxy Voting and Governance Policy. Votes of their significant holdings are consulted with covering investment analysts. All executed votes are also reviewed by their independent offshore-approval team.

**Use of proxy voting:** The Chinese Equity Fund uses Glass Lewis as their proxy voting service vendor to process votes on resolutions of investment companies in their shareholders' meetings. The service platform allows the manager to source voting ballots from multiple custodians, provide voting research papers with detailed analysis and recommendations it also allows submission of voting decisions in an efficient centralised manner. It also possesses a reporting function on voting data in various formats which is helpful in reporting to clients.

The voting information provided by the China A-Shares Value Manager was limited but the above provides examples of voting against company management, which is one of the criteria set by the Trustee determining 'significant' votes.

## Emerging Markets Growth Equity Manager

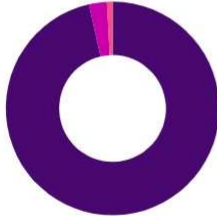
### Voting activity over the year



Fiduciary Manager's assessment

#### Voting activity over the year

Number of eligible votes cast: 477  
Percentage of eligible votes cast: 100%



■ For: 96% ■ Against: 3% ■ Abstain: 1%

#### Significant vote

**Company:** Amazon.com, Inc.

**% of Manager's Fund:** 4.9%

**Vote topic:** Human Rights Risk Assessment

**Issue:** Mandating a transparency assessment of Amazon's labour rights and health and safety

**Voting instruction:** For resolution

**Outcome:** Failed the resolution

**Why a significant vote?** Identified as a key ESG topic (human and labour rights) and a significant portfolio position. The investment manager believed that, given the proliferation and importance of artificial intelligence and machine learning, this risk assessment would give Amazon an opportunity to be a thought leader through transparency. The vote cast did not support company management.

**Next steps:** The investment manager will continue to vote this way in the future.

#### Significant vote

**Company:** Amazon.com, Inc.

**% of Manager's Fund:** 4.9%

**Vote topic:** Commission a Third-Party Audit on Working Conditions

**Issue:** Assessment of working conditions for Amazon's workforce

**Voting instruction:** For resolution

**Outcome:** Failed the resolution

**Why a significant vote?** Identified as a key ESG topic (human and labour rights) and a significant portfolio position. The investment manager believes that scrutiny has reached the point where more transparency would be helpful in understanding the working conditions at the US's second largest employer. The vote cast did not support company management.

**Next steps:** The investment manager will continue to vote this way in the future.

**Voting policy:** The manager has unrestricted authority to vote proxies on behalf of clients and will vote in the best interests of its clients and in a manner that is consistent with its fiduciary duties. Where clients have imposed restrictions or guidelines on or issued instructions to the manager with respect to voting proxies, the manager will adhere to such restrictions, guidelines, and/or instructions. Clients with their own general or specific proxy voting and governance policies may wish to have their proxies voted by an independent third party or other named fiduciary or agent at the client's expense.

**Use of proxy voting:** The manager votes their proxies themselves but considers the recommendations of proxy advisors such as ISS and Glass Lewis in their voting decisions. In voting proxies, the manager considers the short and long-term implications of each proposal. In voting proxies, the manager typically is neither an activist in corporate governance nor an automatic supporter of management.

## Towers Watson Investment Management – Global Equity Focus Fund (GEFF)

### Voting activity over the year

#### Voting activity over the year

Number of eligible votes cast: 3252  
Percentage of eligible votes cast: 99.2%



■ For: 88% ■ Against: 11% ■ Abstain: 1%

#### Significant vote

**Company:** Alphabet

**% of GEFF:** 5.7%

**Vote topic:** Human rights

**Issue:** The shareholder resolution was regarding greater transparency related to business conducted in jurisdictions with significant human rights concerns.

**Voting instruction:** For resolution

**Outcome:** Failed the resolution

**Why a significant vote?** Identified as a key ESG topic (human and labour rights) and a significant portfolio position. The investment manager believes transparency on country risk is a non-controversial proposal and serves both social and governance interests. The vote cast did not support company management.

**Next steps:** The investment manager will vote for similar measures in the future.

#### Significant vote

**Company:** Microsoft Corporation

**% of GEFF:** 4.9%

**Vote topic:** Report on climate risk in retirement plan options

**Issue:** Manager voted for this shareholder proposal as they believe that it promotes transparency and addresses a potential ESG risk.

**Voting instruction:** For resolution

**Outcome:** Failed the resolution

**Why a significant vote?** Identified as a key ESG topic (climate change) and a significant portfolio position. Greater transparency allows shareholders to better assess the underlying risks and opportunities. The vote cast did not support company management.

**Next steps:** The investment manager will continue to promote greater transparency across all holdings if it does not put the company in a competitive disadvantage

**Voting policy:** As TWIM manages Fund of Funds, the voting rights for the holdings are the responsibility of the underlying managers. TWIM expects all of the underlying managers who hold equities over a reasonable timeframe to vote all shares they hold.

**Use of proxy voting:** TWIM has appointed EOS at Federated Hermes (EOS) to provide voting recommendations to enhance engagement and achieve responsible ownership. EOS also carries out public policy engagement and advocacy on behalf of all of their clients. In addition, EOS is expanding the remit of engagement activity they perform on the manager's behalf beyond public equity markets, which will enhance stewardship practices over time.