



Merchant Navy Ratings Pension Fund

2008 abbreviated report of the Trustees

Review of the year

The Trustee is pleased to present a short version of the Annual Report and Accounts for the year to 31 March 2008. In this report we will explain what we have been doing to protect the Fund assets in order to pay benefits now and in the future.

Following the 2001 court case, the Trustee put in place a Schedule of Contributions to collect contributions from employers to reduce the shortfall in the Fund and the Trustee continues to collect payments of about £13 million as at 31 March each year. The next payments, totalling about £13 million, will be due on 31 March 2009. In addition, contributions are being collected each month from employers to meet the cost of Section 148 revaluations for those members where entitlement to this continues after 31 May 2001, when the Fund closed and members could no longer earn future benefits.

The Court's approval to the proposals, the closure of the Fund and the subsequent payments received under the Schedule of Contributions have begun to improve the financial position of the Fund from the position in 2001. An update of the valuation of the Fund as at 31 March 2005 was provided to the Trustee in December 2007. The next full valuation of the Fund is at 31 March 2008 and the results of this are expected in early 2009.

The world's financial markets continue to be very volatile. However, the Fund has a certain level of protection against adverse market conditions. As at 31 March 2008, 23.1% of the assets were invested in ordinary shares. The remainder of the assets are invested in Fixed Interest securities (66.7%), Cash (3.5%) and Property (6.7%), the values of which tend to be affected less by share market volatility. Through the Investment Committee, the Trustee, with their investment advisers, continue to regularly monitor the financial position of the Fund and the investment performance of each individual manager very carefully.

During the year Alan Moffat joined the Board with effect from 4 June 2007. Alan was nominated by the Chamber of Shipping.



E J N Brookes
Chairman of the Trustees

September 2008

Fund closure – benefit entitlements

If you were contributing to the Fund at 31 May 2001, you received an announcement that fully described how the closure affected your benefits and the options available in relation to continuing revaluation of your benefits in line with Section 148 orders (S148) or price inflation up to a maximum of 7% in any year (LPI7).

If you opted for S148 revaluation when the Fund closed, entitlement to that level of revaluation continues for as long as you remain in a position which would have entitled you to be treated as an active member of the Fund, had it remained open.

Earlier this year, MNPA wrote to members who had indicated that they wished to have their MNRPF pension revalued by Section 148 orders to ensure that member records are up to date. If you change employment or leave the industry, your continuing entitlements to either S148 or LPI7 may be affected.

It is important that you tell MNPA if you have changed employment between 31 May 2001 and your retirement date. The revaluation rate used for annual benefit statements (for members who were contributing to the Fund at 31 May 2001) is based on the latest employment information known to the Fund and may be incorrect if you have not notified MNPA of any change in your circumstances. If you have any doubt as to your entitlements, please contact MNPA. Contact details are on the back of this report.

If you were already a pensioner or a deferred member as at 31 May 2001, the closure of the Fund did not change your benefits.

Contributions

As at 31 March 2008, there remain 49 contributing employers. This includes the 2 Shell companies who continue to pay voluntary contributions at an agreed level. The annual level of contributions divided proportionately amongst the employer remains at £13 million. The Actuarial valuation as at 31 March 2008 will allow the Trustees to set a new contribution schedule and advise the employers of a new annual contribution amount for the next 3 years.

Accounts and amounts

The financial statements of the Fund have been prepared and audited in accordance with the Pensions Act 1995 and follow the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes. A full copy of the 2008 Annual Report, including the audited financial statements, can be obtained by contacting MNPA.

During the year ended 31 March 2008, the value of the Fund decreased by £36.2m to £625.4 million from £661.6 million. The decrease occurred because the benefits paid and administration costs exceeded the net returns on the Fund's

investments. A summary financial report is set out below with comparative information for the previous three years. The information is extracted from the full financial statements, which have been audited.

	2008 £m	2007 £m	2006 £m	2005 £m
Contributions	13.3	13.3	13.7	14.54
Benefits	(26.8)	(26.4)	(23.5)	(24.87)
Administration expenses	(2.3)	(2.4)	(2.1)	(1.0)
Net additions/(withdrawals)	(15.8)	(15.5)	(12.6)	(13.01)
Returns on investments	(17.8)	16.5	91.36	58.1
Investment expenses	(2.8)	(3.0)	(4.66)	(3.7)
Net returns on investments	(20.4)	12.6	86.7	(54.4)
Increase/(decrease) in the Fund for the year	(36.2)	(2.9)	74.1	41.4
Opening Fund value	661.6	664.5	590.46	549
Closing Fund value	625.4	661.6	664.5	590.46

Please note that the financial statements above set out the income and expenditure for the Fund over the years to 31 March. This should not be confused with the actuarial valuation, which compares the assets of the Fund with its liabilities over the long term.

Actuarial valuation

The Actuary undertakes a review of the Fund each year. To do this, he makes various actuarial assumptions, deemed to be reasonable and agreed with the Trustee. He then calculates the value of the liabilities (pensions in payment and pensions yet to be paid) and compares it with the value of the assets.

A formal valuation of the Fund is being undertaken as at 31 March 2008. The results of this valuation, which are expected in early 2009, will show how the shortfall of assets over the Fund's liabilities has changed since the last formal valuation as at 31 March 2005. Although the Fund had received contributions from the current and voluntary employers and positive investment returns over recent years, this has been balanced by members living and receiving their pensions for longer and changes in the assumptions of future inflation levels and investment returns.

The results of the new valuation are most unlikely to allow the Trustee to grant any other pension increases, except those which it already pays in line with pension legislation.

Investment review

The Trustee is responsible for the investment of the contributions paid to the Fund, together with the income that they produce.

Asset allocation

The Trustee considers investment allocation (with support and advice from their specialist investment advisers) on an annual basis and have sought to maintain the following allocation across asset classes in the year to 31 March 2008:

	Target %	Actual at 31 March 2008 %
UK and overseas fixed interest bonds	68	66.7
UK equities	20	17.8
Overseas equities	5	5.3
Property	7	6.7
Cash	-	3.5
	100	100

The Trustee operates a rebalancing process whereby asset classes are rebalanced to their target percentages whenever one or more asset classes move outside their permitted ranges. In April 2008, following the receipt of the annual Employers contributions, the Fund assets were rebalanced to their target percentages.

Investment management

In order to meet their responsibilities with regard to investments, the Trustees employ specialist investment managers for each of the above asset classes.

Each investment manager has been set a performance target, in excess of a benchmark return, which the Trustees expect to be met over an agreed period. The individual managers make quarterly reports to the Investment Committee and regularly attend Investment Committee meetings.

Investment performance

The Investment Committee monitors the investment performance of the managers. In addition, the Fund subscribes to independent external measurement services for the property portfolio. These external services measure the investment returns over the Fund years to each 31 March.

The benchmark for securities (the Fund's investments excluding property) reflects the asset allocation of the Fund being predominately in fixed interest.

The investment returns for the Fund compared to the Benchmark returns for the calendar year to 31 March 2008 is set out below:

Asset class	Year to 31 March 2008	
	Fund	Benchmark
Securities	1.87%	2.85%
Property	-5.3%	-3.8%

The Trustee calculates a Fund specific benchmark by which investment performance is measured for each investment manager. This reflects the nature of the Fund, which has an increasing number of pensioners and since 31 May 2001, members are not accruing additional pensionable service.

Additional Voluntary Contributions (AVCs)

In addition to the above, the Trustee also monitors the performance of those managers managing the AVC funds.

The Trustee recently asked its investment adviser to report on the performance and financial position of Equitable Life, with whom many members invest their AVCs.

The report advises that Equitable Life's underlying financial strength has improved. However, the investor returns, especially those invested in the 'with profit' fund, continue to be low. This is a result of the fund being predominately invested in low risk assets with limited returns. There is currently no indication of when this strategy will change. The Trustee will continue to monitor the situation and report to members.

Although the Trustee is not able to give members financial advice, it is able to explain the options members have; these are set out below. It is strongly recommended that members seek independent financial advice before making any decision.

Members can

- 1. Take no action** and hope that the Equitable Life investment returns improve in the short term
- 2. Transfer their fund to the Fund's alternative AVC provider.** For more information on this provider, please contact our administrators MNPA.

Members should be aware that if they transfer their AVCs out of the 'with profit' fund, they incur a transfer penalty. This is currently 5% of the value of their policy. This is a particularly important consideration for those members approaching retirement, as returns for the period until they retire may not be sufficient to offset the transfer penalty.
- 3. Transfer their AVCs to a personal pension plan/stakeholder plan.** This means that member's AVCs would be outside the fund and no longer administered by the Trustee. The transfer penalty outlined in option 2 will also apply.

If you would like details of the fund you hold with Equitable Life, please contact MNPA at the address shown at the end of this report.

People count

Fund membership	2008	2007
Actives	1,847	1,908
Deferred	18,070	18,355
Pensioners	8,708	8,688
	28,625	28,951

Active members are those who were active members when the Fund closed (31 May 2001) and, as at 31 March 2008, have still retained a right to Section 148 revaluation or have elected the alternative basis for revaluation. This category of members is not treated as active for the purposes of calculating the amount of the Pension Protection Fund levy.

Fund management

Professional advisers

There have been no changes to the Fund's professional advisers during the year.

Administration of the Fund

The Fund's administration is delegated to MNPA. In addition to administering members' benefits, MNPA also provides financial accounting and secretarial services to the Fund. The Member Help Line (01372 200385) continues to operate very successfully enabling a high proportion of queries to be dealt with at the time of telephoning.

The Trustee has a duty to keep accurate records and pay the correct benefits. We would remind members and their families that they have a responsibility to inform MNPA if there is a change in personal circumstances affecting the administration of their benefits. For example; a change of address, a change of employment, or the death of a pensioner. Please use the Member Help Line so we can ensure there are no problems in administering your benefits.

MNRPF website

The Fund has a website that you can visit at www.mnrpf.co.uk.

The website has been designed to provide members with information about the Fund and to provide a convenient method of contact with the Fund's administrators, MNPA. Should you have any queries or questions about your benefits, please use the enquiry form contained on the website.

The Trustee

The operation of the Fund is governed by the Trust Deed and Rules and is managed through a trustee company called Merchant Navy Ratings Pension Fund Trustees Limited (The Trustee). The trustee company has a Board of Directors who are responsible for the management of the Fund and the security of member's benefits.

With the exception of the Chairman of the Investment Committee, who is non-voting and independent of both the members' and the employers' organisations, the Directors of the trustee company are appointed equally from organisations representing the members and the employers. The Trustee acts separately from the employers and holds the Fund's assets on behalf of the Fund's beneficiaries.

The Pensions Regulator requires the Trustee Directors to have knowledge and understanding of amongst other things, the law relating to pensions and trusts, the funding of pension schemes, and the investment of scheme assets. The law also requires the Trustee Directors to be familiar with certain scheme documents including the Trust Deed and Rules, the Statement of Investment Principles and the Statement of Funding Principles. The Trustee must always act in the best interests of all the scheme beneficiaries and not just a particular group. For example, the Trustee Director elected following a ballot by the Fund pensioners has to act in the best interests of all the beneficiaries, not just the Fund pensioners.

Trustee Sub-Committees

An Investment Committee appointed by the Trustees deals with investment matters. The Committee meets in addition to the normal Trustees' meetings. It receives reports from the investment managers and questions them on their performance. After consulting with its professional advisers, the Committee then recommends investment strategy to the Board.

There is also a Finance Audit & Risk Committee appointed by the Trustees that reports to the Board on all financial, accounting and taxation matters and is responsible for overseeing the preparation of the annual report and accounts.

The current Trustee Directors are:

Edmund Brookes (Chairman)* – Chamber of Shipping
Mark Carden – RMT from 4 April 2007
Stewart Conacher# – Chamber of Shipping

Derrick Creed – RMT Pensioner
Alan Davies* – Chamber of Shipping
Malcolm Dunning*# – RMT
Andrew Gordon – RMT
Peter Hall*# – RMT
Alan Moffat – Chamber of Shipping from 4 June 2007
David Nelson*# – RMT
Les Stracey*# – (Finance Audit & Risk Committee Chairman)
Chamber of Shipping
Commodore Bob Thornton# – Chamber of Shipping
David Watts* – (Investment Committee Chairman) Independent

Members of the Investment Committee are indicated with an * and of the Finance Audit & Risk Committee with a #.

Advisers

The current advisers are:

Actuaries	M Stoealing – Fund Actuary Watson Wyatt Limited – Actuarial Advisers
Solicitors	Mayer Brown Hill Dickinson Bird Sempole
Bankers and Custodians	J P Morgan Europe Limited National Westminster Bank Plc
Investment Managers	
Securities	Henderson Global Investors Limited Jupiter Asset Management Limited Barclays Global Investors Limited Western Asset Management
Property	Wilky Asset Management
Investment Adviser	Watson Wyatt Limited
Auditors	Deloitte & Touche LLP
Secretary and Administrator	MNPA Limited

Fund Trust Deed and Rules

The Fund's Trust Deed and Rules is available on the Fund website at www.mnrpf.co.uk. The changes in this version from the one dated 31 May 2001 relate only to the subsequent legislation affecting pension schemes. You can look at or download a copy from the website, or request a paper copy from MNPA.

Contacts for further Information

If you have any queries about your own benefits or in relation to the Fund in general, you should contact MNPA. Enquiries can be made by:

- Completing the enquiry form on the Fund's website at www.mnrpf.co.uk
- Writing to MNPA at Leatherhead House, Station Road, Leatherhead, Surrey, KT22 7ET
- Telephoning the Member Help Line on 01372 200385

If you choose to contact MNPA, please provide details of your Fund membership number and/or your National Insurance Number.