

**PENSIONS AND  
LIFETIME SAVINGS  
ASSOCIATION**



# **DEALING WITH DB DEFICITS**

Rory Murphy and Pieter Steyn  
Chair and Delegated CIO  
MNOFP

Stream sponsor

**Willis Towers Watson** 

 **#PLSA**

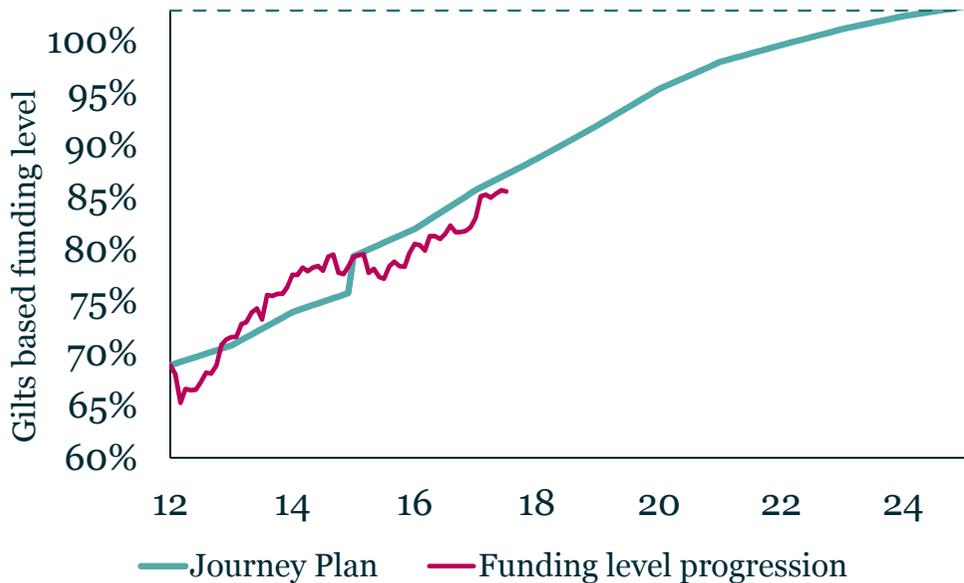
**DB STREAM**

# AGENDA

- ▶ Great governance
- ▶ Economies of scale
- ▶ Economies of scope
- ▶ Transparent outcomes

# ONE STRATEGIC VISION: MNOF JOURNEY PLAN

- ▶ Journey Plan to full funding (103%) by 2025
- ▶ Pension promise secured for all members
- ▶ Ensign Retirement Plan (DC master trust) in place for next generation maritime
- ▶ Journey Plan guides all decisions across all parties – one strategic vision



# 1. GREAT GOVERNANCE

<b>Trustee (Strategy)</b>	<ul style="list-style-type: none"><li>▶ Owns the Journey Plan</li><li>▶ Sets funding objectives</li><li>▶ Sets return targets and DCIO mandate</li><li>▶ Agrees funding level triggers</li><li>▶ Takes into account views of 350 employers</li></ul>
<b>DCIO (Implementation)</b>	<ul style="list-style-type: none"><li>▶ Investment decision making and asset allocation</li><li>▶ Dynamic risk and portfolio management</li><li>▶ Selects and monitors investment managers</li><li>▶ Complies with regulation</li><li>▶ Monitors triggers</li><li>▶ Reports against Journey Plan</li></ul>

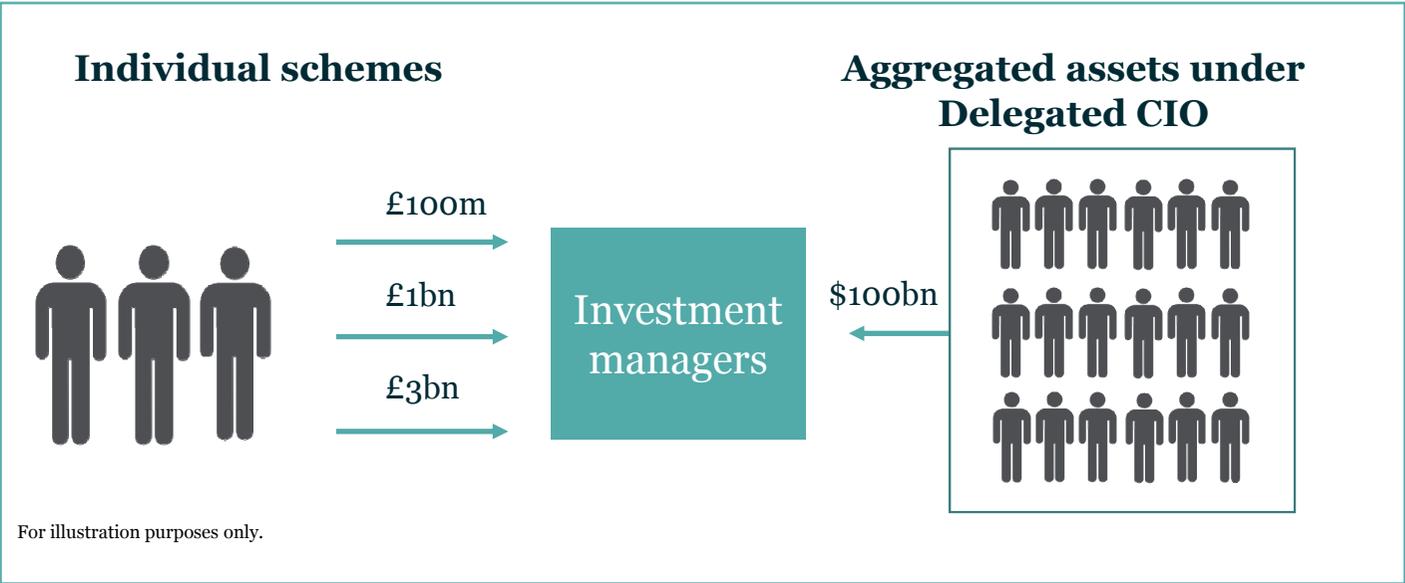


# 1. GREAT GOVERNANCE (CONTINUED)

<b>Trustee (Oversight)</b>	<ul style="list-style-type: none"><li>▶ Oversees DCIO activity and performance</li><li>▶ Uses Independent Investment Adviser</li><li>▶ Reviews investment fees against budget</li><li>▶ Receives regular updates from Management Committee</li></ul>
--------------------------------	--

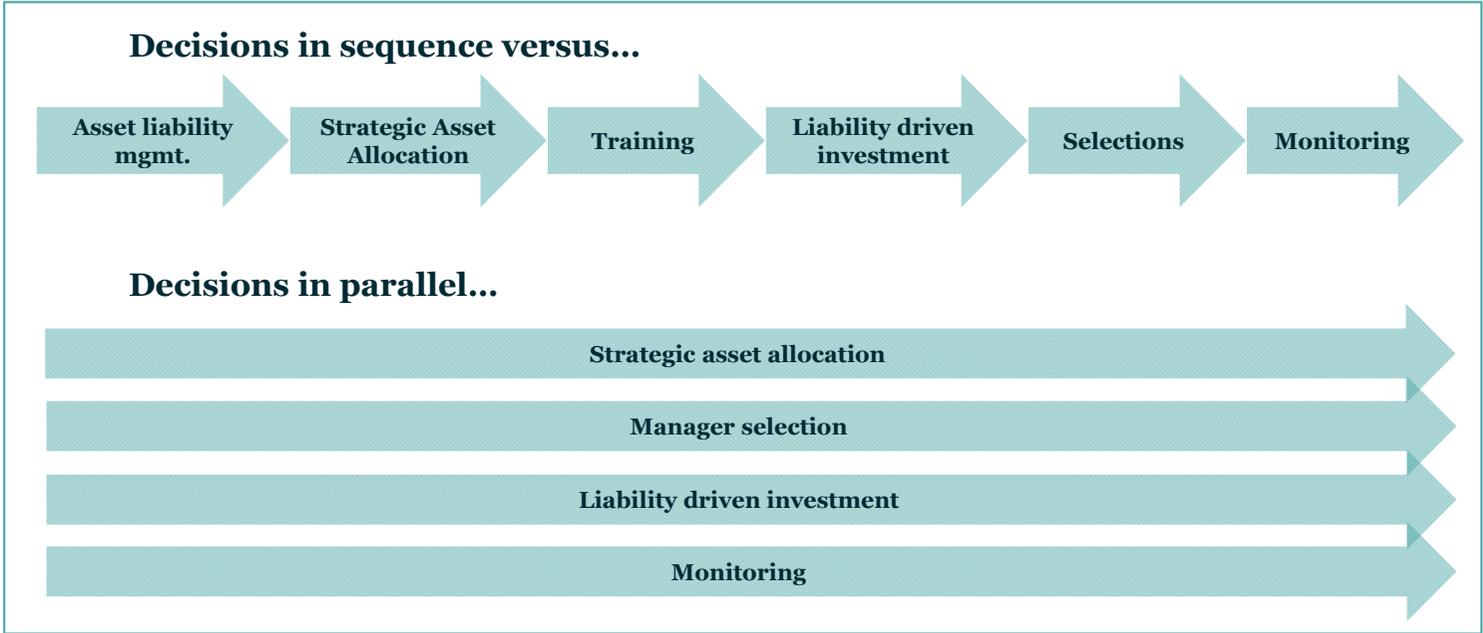
# 2. ECONOMIES OF SCALE

- ▶ Lower investment manager fees
- ▶ Decreasing further with greater scale
- ▶ Similar principle applies to expenses



# 3. ECONOMIES OF SCOPE

- ▶ Professional portfolio management process
- ▶ Professional execution process
- ▶ Professional resource



### 3. ECONOMIES OF SCOPE (CONTINUED)

- ▶ Getting more investment work done:
  - ▶ Since 2010 return target reduced from Liabilities +2.6% pa to Liabilities+1.8% pa
  - ▶ And investment cost reduced by 35%
  - ▶ But investment risk reduced by 75%
  - ▶ Saving shipping industry ~£500m
  
- ▶ Getting more strategic work done:
  - ▶ Chairman's Sub Committee
  - ▶ Quarterly Management Committee
  - ▶ Use of Chief Executive's report

# 4. STRATEGIC OUTCOMES

MNOFP milestones 2012 - 2017	
2012	MNOFP Old Section achieves funding objectives and completes full buy-in
2014	Full buy-out of MNOFP Old Section completed
2014	Longevity hedge completed for pensioner liabilities
2015	Actuarial valuation identifies no new deficit – Journey Plan on track
2016	Closes to DB future accrual with enhanced DC contributions

Best Investment Strategy	Best DB Investment Strategy	Best Long-Term Investment Strategy	DB Scheme of the Year	Best Investment Strategy	Best use of Diversification	Best Multi-Employer Scheme
Engaged Investor Awards	Professional Pensions Awards	Investment & Pensions in Europe Awards	Pensions Age	European Pensions Awards	Investment & Pensions Europe Awards	Investment & Pension Europe Awards
2016			2017			

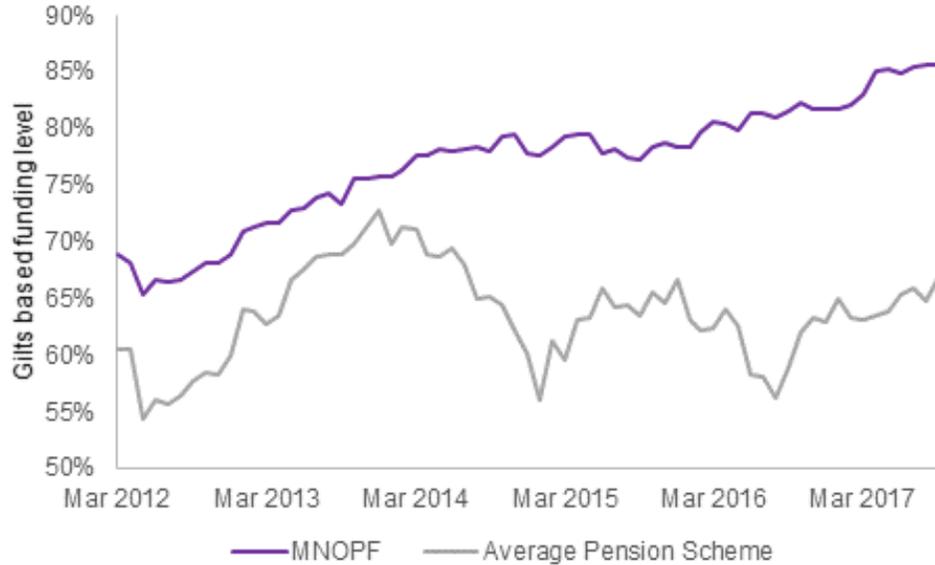
# 4. TRANSPARENT INVESTMENT OUTCOMES

	5 Years pa	3 Years pa	1 Year pa
Fund return (net)	9.4%	10.2%	-3.0%
Liability return	6.5%	8.5%	-4.4%
Relative return	<b>+3.0%</b>	<b>+1.7%</b>	<b>+1.4%</b>
Risk	2.7%	2.3%	1.4%
Cost	-	-	-

All returns to 30 September 2017  
 Source: Willis Towers Watson; MNOFF

# 4. INDUSTRY COMPARISON

Funding level comparison versus average UK DB Pension Scheme



### Average pension scheme

Based on the average asset allocation for the average UK DB pension fund specified in the Purple Book (c.6000 funds), we have estimated the change in asset value for the average scheme using widely used indices in the respective asset classes. We have allowed for 50% of the non-domestic equity allocation being hedged back to GBP Sterling.

### Liability measure

The estimated funding progress of the average scheme has been derived based on the liability characteristics contained in the Purple Book to estimate a gilt based funding level of the average scheme through time. An allowance for deficit contributions has been made as set out in the Purple Book, assuming a flat payment profile through time. Sensitivity to interest rate changes as noted in the Purple Book have been allowed for in the liability estimates and the asset estimates produced.



**“MNOFP IS AN EXCELLENT CASE STUDY  
OF GOVERNANCE, RESOURCING,  
CULTURE AND LEADERSHIP”**

**Professor Gordon L. Clark, Oxford University,  
Director of the Smith School of Enterprise and the Environment**

# LIMITATIONS OF RELIANCE

Willis Towers Watson has prepared this material for general information purposes only and it should not be considered a substitute for specific professional advice. In particular, its contents are not intended by Willis Towers Watson to be construed as the provision of investment, legal, accounting, tax or other professional advice or recommendations of any kind, or to form the basis of any decision to do or to refrain from doing anything. As such, this material should not be relied upon for investment or other financial decisions and no such decisions should be taken on the basis of its contents without seeking specific advice.

This material is based on information available to Willis Towers Watson at the date of this material and takes no account of subsequent developments after that date. In preparing this material we have relied upon data supplied to us by third parties. Whilst reasonable care has been taken to gauge the reliability of this data, we provide no guarantee as to the accuracy or completeness of this data and Willis Towers Watson and its affiliates and their respective directors, officers and employees accept no responsibility and will not be liable for any errors or misrepresentations in the data made by any third party.

This material may not be reproduced or distributed to any other party, whether in whole or in part, without Willis Towers Watson's prior written permission, except as may be required by law. In the absence of our express written agreement to the contrary, Willis Towers Watson and its affiliates and their respective directors, officers and employees accept no responsibility and will not be liable for any consequences howsoever arising from any use of or reliance on this material or the opinions we have expressed.

Copyright © 2017 Willis Towers Watson. All rights reserved.

**PENSIONS AND  
LIFETIME SAVINGS  
ASSOCIATION**

# **TRUSTEE CONFERENCE 2017**

Clear decisions; transparent outcomes



Stream sponsor

**Willis Towers Watson** 

 **#PLSA**

**DB STREAM**