States of Jersey

PUBLIC EMPLOYEES CONTRIBUTORY RETIREMENT SCHEME

ANNUAL REPORT 2013

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Contents

INTRODUCTION

Welcome to the twenty-fourth annual report and accounts for the Public Employees Contributory Retirement Scheme ("PECRS" or "the Scheme").

OVERVIEW

Overall **Scheme membership numbers continue to grow**. As at 31 December 2013, there were 13,991 employees and former employees with benefits in PECRS, up from 13,250 at the end of 2012.

The **Scheme's investments** continued with the strong results of an overall return of 18% in 2013 compared to a gain of 11% in the preceding year. At the year end, the investments had a market value of just over £1.59 billion.

The **administration of the Scheme has been strengthened**. We hope that the membership has seen the benefit of the upgrade to the administration system, Compendia, and improved administration processes. Work has also continued on making Scheme information more accessible to all members with the further development of a PECRS presence on the States website.

In March 2013 it was announced to all staff, pensioners and deferred pensioners and to the Jersey public that the future shape of PECRS was under review. A period of negotiations between the States Employment Board and the Joint Negotiating Group took place during 2013 with the objective of reaching agreement on pensions to be earned by staff for future service and how the costs of these benefits are to be shared between employers and members. There is an aim to have new arrangements in place from 1 January 2015. The Committee's primary concerns in relation to the review are to ensure that agreed arrangements are properly funded and that benefits earned up to the date of change are protected. The Committee will inform Scheme members as and when there are significant developments to report.

Towards the end of the year the Scheme completed preparatory work for the 2013 actuarial valuation. Scheme membership data has been updated in advance of providing data to the Scheme Actuary in early 2014. The Scheme Actuary will be working on the latest actuarial valuation throughout 2014 and it is expected that the results will be available early in 2015. The previous valuation at 31 December 2010 showed a surplus of £40.6 million. This was used to restore the reduction in pension increases of 0.3% which had applied following the 2007 valuation, and from 1 January 2013 to improve pension increases to Jersey RPI less 0.15% from Jersey RPI less 0.3%. The 2013 actuarial valuation will determine if any further adjustment to pension increases is required.

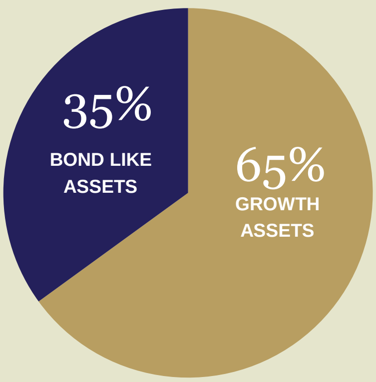
These topics are developed in more detail throughout this Annual Report of the Scheme.

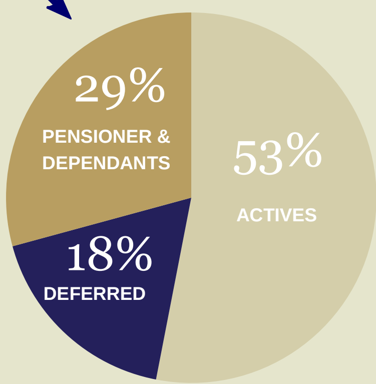
2013 PECRS IN NUMBERS

£1.6Bn
ASSETS UNDER MANAGEMENT

↑17.7%
INCREASE IN INVESTMENT VALUE OF £220M IN 2013

13,991
NUMBER OF SCHEME MEMBERS





£8,700
AVERAGE ANNUAL PENSION PAID FROM PECRS

MEMBERS, MANAGERS AND ADVISERS

Members of the Committee of Management

Mr RJ Amy OBE (Chairman)
Mr S Laing+
Mr TA Le Sueur OBE+
Mr SA Lusby+
Mr J Mills CBE+
Mr SM Patidar+
Mr S Warner+

Mr G Birbeck*
Mr JR Fosse* (appointed 1 January 2013)
Mr M Johnson*
Mr T Querns*(appointed 1 January 2013)
Mr MAQ Richardson*
Miss B Ward*

Committee members are appointed by the States of Jersey for terms of three years; the current term ends on 31 December 2015. The Chairman is appointed by the States of Jersey on the recommendation of the Minister for Treasury & Resources for separate three-year terms; his current term ends on 30 June 2014.

Under the Regulations six of the members of the Committee of Management are nominated by the Chief Minister and Minister for Treasury and Resources (see + above) and six from the Unions and Staff Associations representing the Public Employees Pension Scheme Joint Negotiating Group (see * above).

Secretary Mr RJ Raggett
Actuary Aon Hewitt Limited
Legal Advisors Carey Olsen & Nabarro LLP
Bankers HSBC Plc

Auditor Deloitte LLP
Investment Consultants Mercer Limited
Custodian J P Morgan

Investment Managers	Appointed
Arrowgrass Capital Partners LLP	1 June 2010
AXA Investment Managers	3 November 2008 (terminated 29 July 2013)
Baillie Gifford & Co	3 November 2008
Bluebay Asset Management	1 August 2008 (terminated 24 July 2013)
CQS	31 July 2013
Haymarket Financial LLP	14 August 2013
Investec Asset Management	9 December 2010
Henderson Global Investors	17 August 2009 (terminated 15 July 2013)
Legal and General Asset Management	5 January 2003
Landsdowne Partners Limited	1 June 2010
Mirabaud Investment Management Limited	1 August 2003
Odey Asset Management LLP	31 July 2013
Pramerica Real Estate Investors Ltd	1 April 2011
Veritas Asset Management (UK) Limited	16 August 2011

Scheme Administrator	The Treasurer of the States

PARTICIPATING EMPLOYERS

The Principal Scheme employer is the States of Jersey. Permanent employees of the States of Jersey are automatically admitted to the Scheme from age 20. In addition to the States, there are under the Regulations other organisations which participate in the Scheme. They are known as Admitted Bodies and join the Scheme with the consent of the Chief Minister.

Scheme Employer
States of Jersey

Admitted Bodies
Beaulieu Convent School
Brig-y-Don Children's Home
Comite des Connetables
Data Protection Commission (DPC)
Family Nursing & Home Care (FNHC)
Gambling Commission
Jersey Advisory & Conciliation Services (JACS)
Jersey Competition Regulatory Authority (JCRA)
Jersey Employment Trust (JET) (including Workforce Solutions Limited)
Jersey Financial Services Commission (JFSC)
Jersey Heritage Trust
Jersey Post
Jersey Overseas Aid Commission (JOAC)
Jersey Telecom
Les Amis Incorporated (Including Maison Variety)
Parish of St Brelade (including Maison St Brelade)
Parish of St Clement
Parish of Grouville
Parish of St Helier
Parish of St Lawrence
Parish of St Martin
Parish of St Ouen
Parish of St Saviour
States of Jersey Development Company (formerly Waterfront Enterprise Board (WEB))

GOVERNANCE ARRANGEMENTS

Summary of Governance Arrangements

The Scheme is governed by Regulations made under the Public Employees (Retirement) (Jersey) Law, 1967 (as amended). Under these Regulations the Committee of Management has trustee responsibility which extends to establishing the investment strategy of the Scheme, appointing and instructing the Scheme actuary, custodian and investment managers, and ensuring benefits are paid to members in accordance with the Regulations. Under General Regulation 4(3), the Minister for Treasury and Resources must approve particular investments and the appointment and removal of investment managers. A number of Subcommittees are charged with particular aspects of the work and report to the Committee of Management.

The table below sets out the Subcommittees and their membership as at year end. Each Subcommittee is assisted by the Secretary, Officers and Advisers as appropriate.

Subcommittee:	Investments	Technical	Ill Health and Death Benefits	Communications	Audit
Number of meetings in 2013	5	meets as required	meets as required	meets as required	5
Committee member					
Mr RJ Amy OBE (Chairman)	Chairman	Chairman			
Mr G Birbeck	●				
Mr M Johnson			●	Chairman	
Mr S Laing	●				
Mr TA Le Sueur OBE					●
Mr S Lusby					Chairman
Mr J Mills CBE	●[1]	●			
Mr J R Fosse				●	
Mr SM Patidar	●		●		
Mr MAQ Richardson	●	●			
Miss B Ward					●
Mr S Warner			Chairman	●	
Mr T Querns					

Notes
The Chairman, Secretary, and Mr Lusby are the Committee of Management's authorised representatives responsible for monitoring the performance and services of the Administrator.

[1] Mr J Mills assumed the Chairmanship of the Investment Subcommittee with effect from 1 January 2014.

Committee of Management

The Committee of Management is responsible for the governance of PECRS in accordance with the powers, authorities and discretions vested in it by the Regulations.

COMMITTEE OF MANAGEMENT REPORT 2013

Since 1967 the Public Employees Contributory Retirement Scheme has developed from a Scheme that provided pensions to full-time civil servants and manual workers only, to today's Scheme which provides pensions for all members, spouses and civil partners, and children's pensions. It also offers ill health and death in-service cover.

REVIEW OF THE YEAR

A Technical Working Group (TWG) was established by the States Employment Board in August 2011 with terms of reference to develop and propose possible options for the future of PECRS. In March 2013 the TWG published its report outlining possible changes to PECRS. In developing these options the TWG was mindful of developments in the UK public sector schemes.

The Committee of Management continues to support changes to the Scheme and was pleased to have had representation on the TWG itself. From the Committee's perspective, the essential need for change arises from the following factors:

1. The cost of providing defined benefit pension benefits has risen significantly, by as much as 30%, over the last thirty years for two reasons:
    a) More people are living into late old age and hence drawing pensions for much longer than expected when the funding was put in place
    b) General expectations for future returns to be earned from Scheme investments are lower now than they were even ten years ago
2. PECRS has experienced these trends like any other pension scheme but the overall rate of contributions being paid into the Scheme has remained broadly unchanged since 1988.
3. Current contributions are not sufficient to pay for the benefits currently being accrued by employees.
4. The cross subsidies inherent in the Scheme, particularly between uniformed and non-uniformed staff, have become unsustainable when the Scheme's finances are under such strain.

5. The current method under the Regulations for dealing with surplus and deficit is drafted in favour of employers. In cases where no agreement between employers and staff can be reached, the Regulations require members to make good 100% of any deficit through reductions in future pension increases whereas any surplus has to be shared one third to the members, two thirds to employers. If negotiations break down, or if an environment does not allow negotiations to take place in good faith, these arrangements become unsatisfactory. If the employers are not in a position to contemplate increasing their contributions when needed, the current arrangements are weighted in favour of employers.

6. Aspects of the Pre-1987 Debt are not ideal; the payment period which was set originally for 82 years meant that the benefits which the Debt was funding would have been paid in full before the Debt had been repaid. The States has actively been addressing this problem and additional payments amounting to £6m for the three years 2013 to 2015 have been agreed as part of the current Medium Term Financial Plan. The Committee has welcomed this development and supports the continuing work.

During 2013 negotiations with between the Employer and the Joint Negotiating Group have progressed well. The original proposals included within the TWG report have been considered and revised proposals developed and costed. These revised proposals remain affordable within the cost envelope agreed by the States Employment Board.

The Committee remains committed to working with Ministers and with the Treasurer of the States to introduce any agreed changes to the Scheme.

REPORT OF THE TECHNICAL WORKING GROUP

The TWG presented a set of options to the States Employment Board for further consideration which include:

- **A CARE scheme** – A pension scheme where benefits are built up for each working year and then "revalued" annually by an agreed index.
- **Normal Retirement Age** – Linking the normal retirement age to the Jersey State Pension Age.
- **Contribution rate** – An increase in the contribution rate to reflect the fact that people are living longer than when the current contribution rate was set in 1988.
- **Fairness and equality** – Changes to the Scheme to ensure there is fairness and equality between the various employee groups.
- **Accrued benefits** – Protection of pension benefits accrued up to the date of any change
- **Risk Sharing** – Possible changes to the current risk sharing agreement between members and employers.

The revised proposals developed during negotiations with the JNG continue to include the options highlighted above. Subject to the outcome of negotiations with staff and the necessary legislation, the aim is to make the changes to PECRS with effect from 1 January 2015. The States will consider the change in 2014.

For more information please visit www.gov.je/pensionreview

INVESTMENTS

The strong performance in 2012 has continued in 2013 with sustained growth in equity markets. As at 31 December 2013 the value of the Scheme's net assets was £1,601 million (2012: £1,374 million). The Investment Subcommittee works closely with the States Treasury and Mercer, the Investment Advisor, to monitor and manage the Scheme's investments. The Investment Subcommittee meets quarterly; each investment manager presents to the Subcommittee once a year when performance, developments and holdings are reviewed. Annually the Subcommittee hosts an asset allocation debate where investment managers across different asset classes discuss where they think future asset growth will occur; this informs the Subcommittee when reviewing the investment strategy. For more detail on the Schemes investments, see pages 15 – 20.

ACTUARIAL VALUATION

An actuarial valuation is completed by the Scheme Actuary every three years. A valuation shows the relationship between the Scheme's liabilities, i.e. pensions and other Scheme benefits, and the assets held to pay for the benefits. The Actuary uses a range of assumptions in order to assess the financial position of the Scheme including the average life expectancy of Scheme members, investment returns, inflation and interest rates.

The last valuation was completed as at 31st December 2010. The Scheme Actuary worked on this valuation throughout 2011 and delivered final results to the Committee of Management in May 2012. On the valuation date in 2010 the Scheme had a small surplus of £40.6 million giving a funding ratio of 102.8%

Preparatory work has been completed for the 2013 actuarial valuation. Scheme membership data has been updated in advance of providing data to the Scheme Actuary in early 2014. The Scheme Actuary will be working on the latest actuarial valuation throughout 2014 and it is expected that the results will be available early in 2015. The 2013 actuarial valuation will determine if any further adjustment to pension increases is required.

ADMINISTRATION

RUNNING THE SCHEME

The Scheme is administered by the Dedicated Pensions Unit (DPU) on behalf of the Treasurer of the States of Jersey (the Administrator of the Scheme). This service is provided to the Committee of Management under an Administration Agreement. The DPU reports to the Committee of Management quarterly on how it is performing against agreed service standards.

The DPU is responsible for providing information to employers, employees and other interested parties. In order to administer the Scheme benefits, the DPU is reliant on the information provided by the States of Jersey and the 24 Admitted Bodies within the Scheme. During the year the DPU staff have visited Admitted Bodies to provide training and advice on scheme data requirements.

Scheme members are increasingly aware of the value of their pension benefits and over the last year work has progressed to ensure that systems, literature and letters better meet members' requirements. Increased use of modern communication channels is being made to provide information in a manner requested by scheme members. Delivering communications electronically is also much more cost effective for the Scheme, enabling more of employee and employer contributions to be invested to fund future benefits.

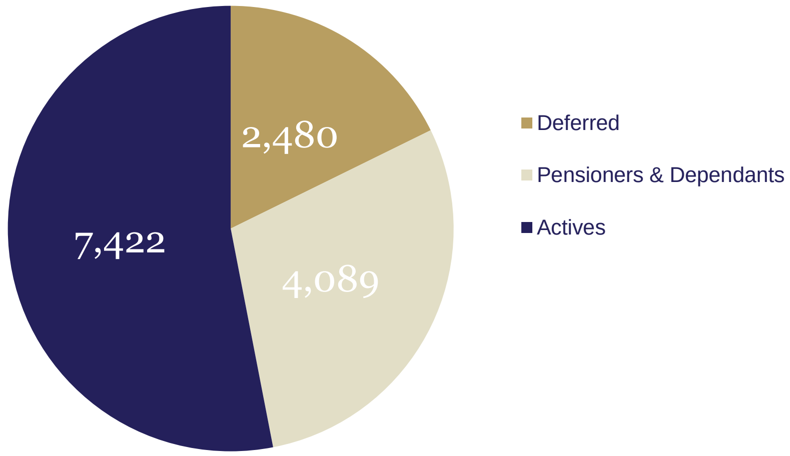
During 2013 a new organisational structure was put in place within the DPU which is now better suited to the operation of an industry standard pension administration system. The team has made increasing use of the functionality available within the pension administration system to process benefits efficiently and accurately.
It is important that the Scheme is administered using appropriate operational controls and significant work has been undertaken in the last year to make better use of reporting within the pensions system to improve controls and the accuracy of membership data.

Scheme members and their next of kin are responsible for informing the DPU of changes in circumstances that may affect the payment of scheme benefits. Whilst the Scheme has always completed random checks of benefit entitlement, during 2013 it was decided to undertake a much fuller exercise. Over 3,900 pensioners were contacted to confirm their continued entitlement to scheme benefits. By the end of the year over 96% of pensioners circulated had responded.

During the last year the DPU made use of the UK Audit Commission's National Fraud Initiative for the first time which is able to confirm the continued benefit entitlement of UK resident pensioners. Using this service has enabled the DPU to provide further reassurance to the Committee of Management that scheme benefits are being correctly paid to eligible scheme members.

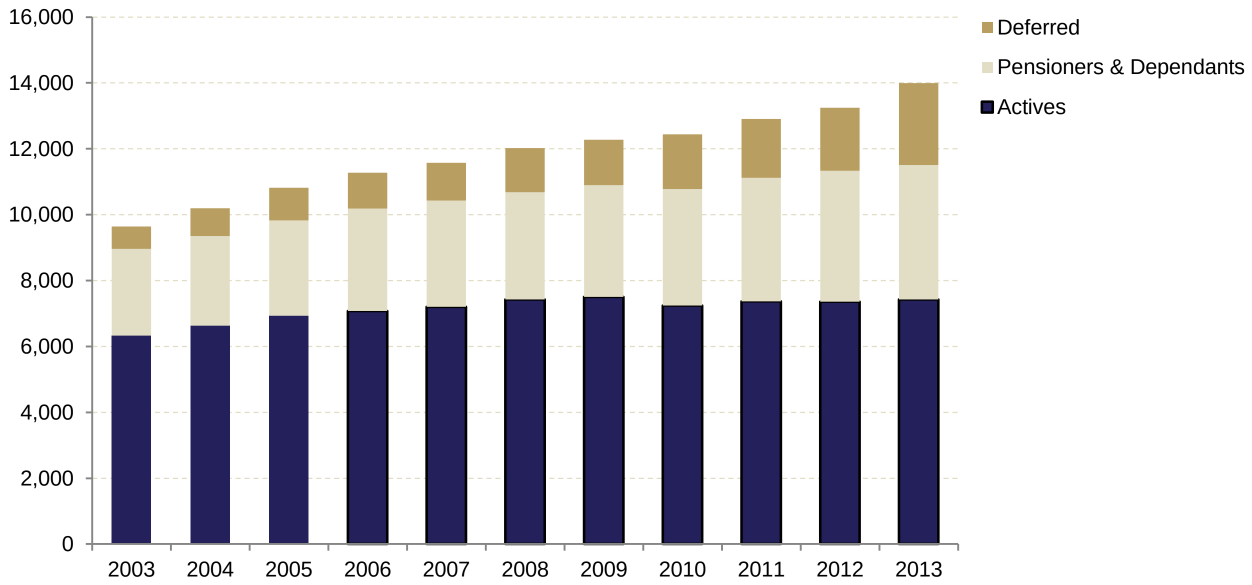
MEMBERSHIP

Total membership of the PECRS continues to grow as the number of Pensioners and Deferred members continues to increase. As at the end of December 2013 the Scheme had 7,422 active members, 2,480 deferred beneficiaries and 4,089 pensioners and dependants (with pension payment), that is 13,991 in total (2012: 13,250).

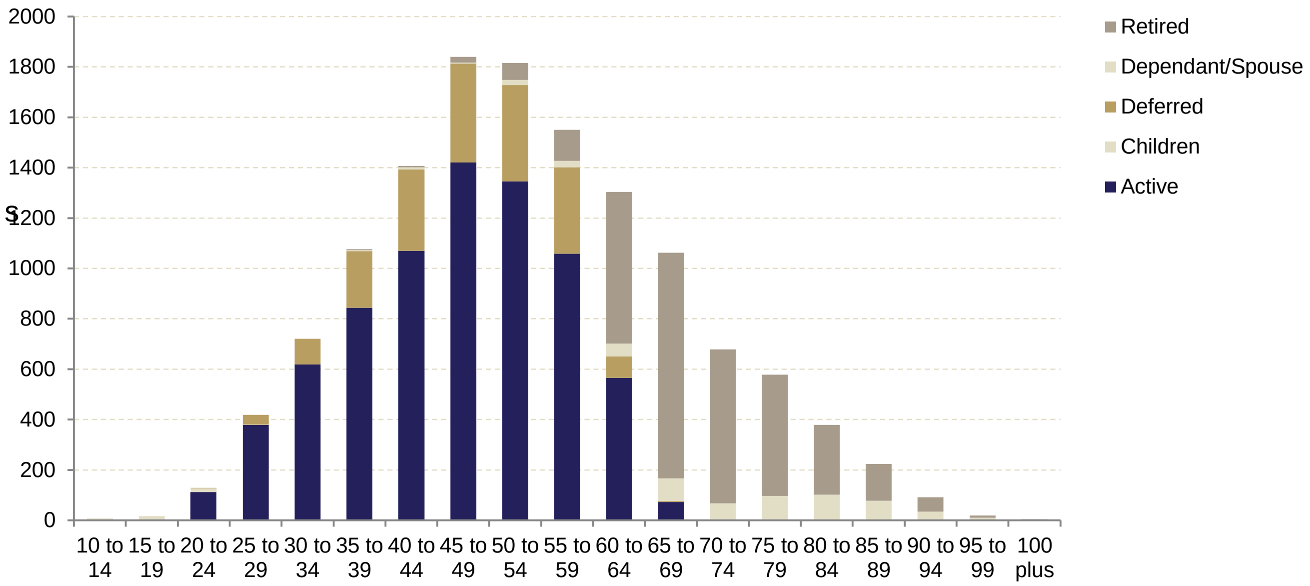


TOTAL MEMBERSHIP = 13,991

SCHEME MEMBERSHIP NUMBERS OVER THE LAST 11 YEARS



AGE PROFILE OF THE MEMBERSHIP 2013

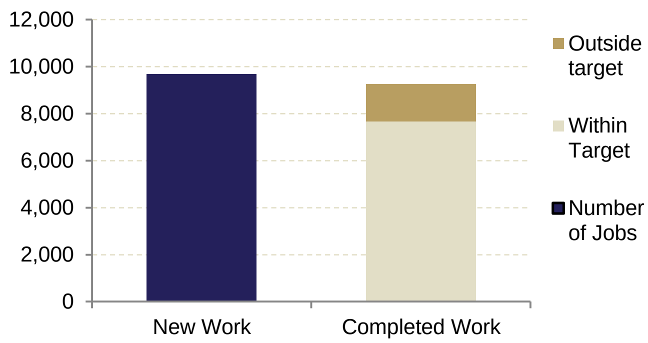


PERFORMANCE & FEEDBACK

The chart shows the actual casework volumes during the year and also the volumes completed within the targets set in the Administration Agreement between the Committee of Management and the Administrator. During the last year 83% of tasks were completed within the targets set.

The DPU is always keen to receive feedback on the service provided; the following is representative of comments received from members.

2013 CASEWORK VOLUMES



"We in the Parishes like to meet those persons who work for the States and provide us with much support. We found the DPU's visit very beneficial."

ADMITTED BODY

"Thank you for taking the time to explain my pension options in a way I could understand."

ACTIVE MEMBER

"Thank you for explaining why you have written to me. I now understand the importance of the existence checks that you carry out."

RETIRED MEMBER

COMPLAINTS

During the year the DPU received a number of complaints, two of which remained outstanding at year end. The Committee of Management and DPU investigate queries and complaints very thoroughly and make every effort to deal with members' concerns. The Committee of Management's Complaints Procedure is on the States Website and copies can be obtained from the DPU.

PENSION INCREASES AND CONSTRAINTS

Under the regulations PECRS pensions and deferred pensions are increased in line with the Jersey All Items Cost of Living Index provided that the Scheme's financial position remains satisfactory. Following the deficit as at 31 December 2007, all future increases to pensions and deferred pensions were reduced by 0.3% with effect from 1 January 2011. However, arising from the surplus as at 31 December 2010 the reduction was partly restored, becoming 0.15% with effect from 1 January 2013. This 0.15% reduction to the Jersey Cost of Living index will also be applied in 2014 and 2015.

Pension increases for the last twelve years have been:

1st January	Jersey Cost of Living Index %	PECRS Pension Increase %
2003	4.9	4.9
2004	4.0	4.0
2005	5.3	5.3
2006	2.2	2.2
2007	3.7	3.7
2008	4.5	4.5
2009	3.3	3.3
2010	1.7	1.7
2011	2.3	2.3*
2012	5.0	5.0*
2013	2.1	1.95
2014	1.9	1.75

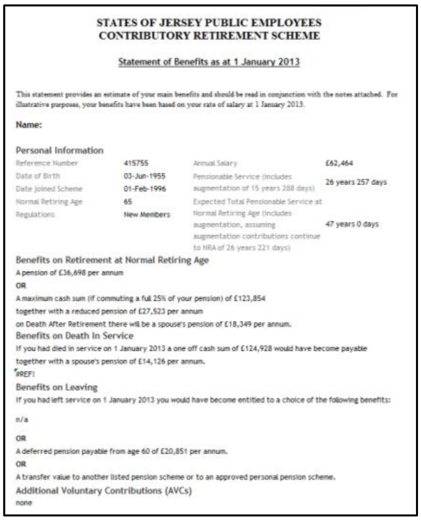
'* originally these increases were reduced by 0.3% but they were re-instated in November 2012 following the 2010 Actuarial Valuation.(Members under the FHS Regulations and 1967 Regulations have such reductions reimbursed by their former employers).

Pension increases are subject to the financial position of the Scheme remaining satisfactory and thus not guaranteed.

COMMUNICATIONS

The DPU and Communications Subcommittee are committed to improving communication with all stakeholders and to providing all groups with relevant information concerning the operation of PECRS. We communicate with:

- **Fund Members (actives, deferred and pensioners)**
- **Prospective Fund Members**
- **Representatives of Fund Members**
- **Employers**



STATES OF JERSEY PUBLIC EMPLOYEES
CONTRIBUTORY RETIREMENT SCHEME

Statement of Benefits as at 1 January 2013

This statement provides an estimate of your main benefits and should be read in conjunction with the notes attached. For illustrative purposes, your benefits have been based on your rate of salary at 1 January 2013.

Name:

Personal Information

Reference Number	415755	Annual Salary	£62,464
Date of Birth	03-Jun-1955	Pensionable Service (includes augmentation of 15 years 288 days)	26 years 257 days
Date joined Scheme	01-Feb-1996		
Normal Retiring Age	65	Expected Total Pensionable Service at Normal Retiring Age (includes augmentation, assuming augmentation contributions continue to NRA of 26 years 221 days)	47 years 0 days
Regulations	New Members		

Benefits on Retirement at Normal Retiring Age

A pension of £36,698 per annum

OR

A maximum cash sum (if commuting a full 25% of your pension) of £123,854

together with a reduced pension of £27,523 per annum

on Death After Retirement there will be a spouse's pension of £18,349 per annum.

Benefits on Death In Service

If you had died in service on 1 January 2013 a one off cash sum of £124,928 would have become payable together with a spouse's pension of £14,126 per annum.

#REF!

Benefits on Leaving

If you had left service on 1 January 2013 you would have become entitled to a choice of the following benefits:

n/a

OR

A deferred pension payable from age 60 of £20,851 per annum.

OR

A transfer value to another listed pension scheme or to an approved personal pension scheme.

Additional Voluntary Contributions (AVCs)

none

PENSION MATTERS

Active, deferred and pensioner members automatically receive an annual newsletter, Pension Matters, explaining the activities of the Scheme and events during the year. Last year the DPU distributed the Pension Matters Newsletter electronically to an increasing proportion of the membership

ANNUAL BENEFIT STATEMENTS

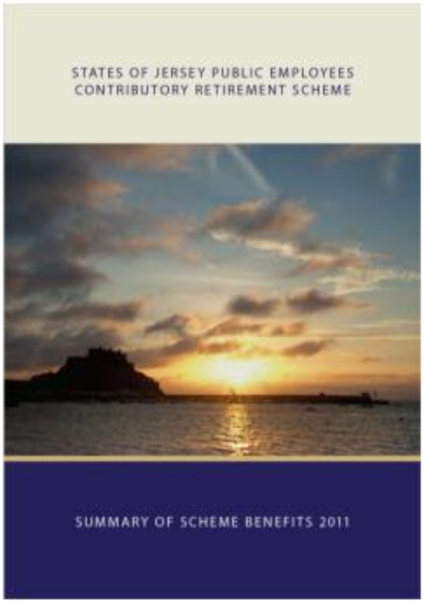
Active and deferred scheme members with more than two years pensionable service receive a personal benefit statement on an annual basis which outlines the benefits accrued to date and the benefits that could be accrued by retirement date. In the last year, over 9,000 annual benefit statements were issued.

WEBSITE
www.gov.je/statesemployeespension

During the year the DPU has continued to develop the PECRS website. Fund information in an electronic format is available to all scheme members and prospective employees. The DPU is committed to providing information electronically where possible so as to meet user expectations and minimise printing costs. Increasing use is being made of the website which received over 5,200 hits during the last year. This was an increase of 15% compared to the previous year.

↑ 5,200 HITS

ON OUR WEBSITE IN 2013



SCHEME LITERATURE

The DPU produces member booklets that explain the provisions and benefits of the Scheme. These are available to all scheme members and prospective scheme members on our website.

PENSIONS MEETINGS

The Dedicated Pensions Unit has been providing one to one meetings on request for some time. At these meetings an experienced staff member will answer individual questions on membership of the Scheme, but please note that financial advice cannot be given. If you would like a personal pension consultation please contact the Dedicated Pensions Unit on 01534 440228 (E-mail: pecrs@gov.je)

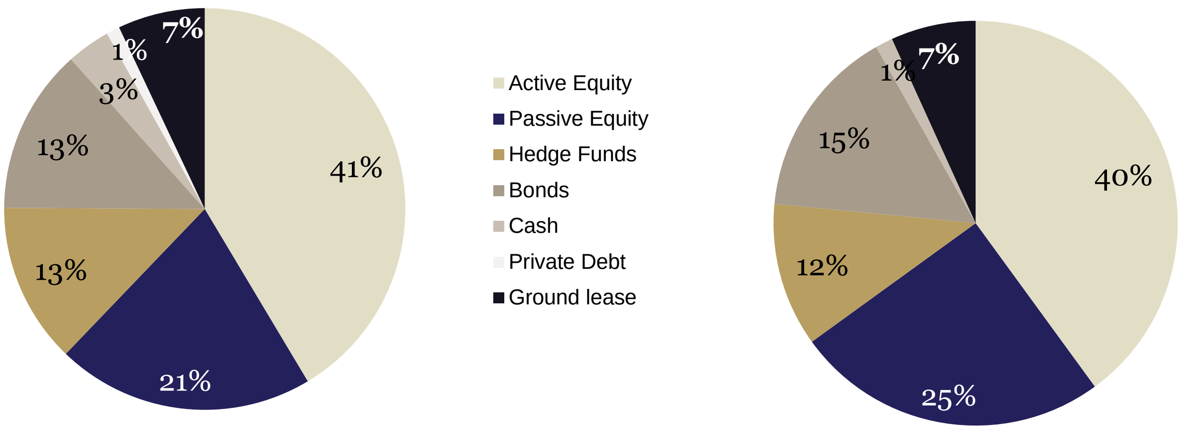
INVESTMENTS

The Scheme currently has £1.59 billion of assets under management (2012: £1.37 billion), split between 11 investment managers. During the year the Fund increased by over £220 million and outperformed the benchmark by 5.4%.

ASSETS UNDER MANAGEMENT

As at 31 December 2013 the Scheme's assets under management had a market value of £1.59 billion which were invested in a range of asset categories to achieve diversification. By investing in a range of different asset classes the Fund aims to generate a higher level of return for a given level of risk and to smooth out, to some extent, the volatility of investment markets.

2013 2012



PORTFOLIO MANAGERS AND FUND VALUES

The following table shows the managers responsible for individual portfolios and the value of the Funds they manage.

Fund Manager	Value of Fund (£m)[1]	Over /(Under) performance 1 year[2]	Over /(Under) performance Since inception[3]	Portfolios held
Equity				
Baillie Gifford & Co	231.8	9.3%	6.1%	Global equity
Legal and General Asset Management	330.7	(0.2%)		Passive equity
Mirabaud Investment Management Ltd	114.9	0.1%	1.1%	UK equity
Veritas Asset Management (UK) Ltd	153.0	1.8%	0.4%	Global equity
Odey Asset Management LLP	159.8	n/a[4]	2.3%	Global equity
Alternatives				
Arrowgrass Capital Partners LLP	88.2	9.5%	4.6%	Multi strategy
Landsdowne Partners Limited	117.3	32.8%	8.0%	Long/short equity
Bonds				
CQS	98.3	n/a[4]	3.0%	Global Credit
Investec Asset Management	113.5	(0.4%)	(0.5%)	Emerging Market Debt
Cash				
JP Morgan	54.4	n/a	n/a	Money Market
Legal and General Asset Management	1.5	0.0	2.1%	Money Market
Property				
Pramerica Real Estate Investors Ltd	111.8	3.6%	2.7%	UK Ground lease
Private debt				
Haymarket Financial LLP	17.2	n/a[4]	2.1%	Private debt fund
	1,592			

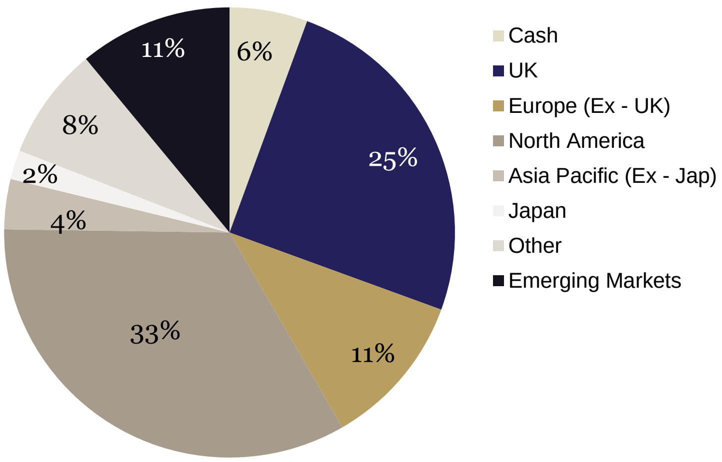
1 As at 31 December 2013
2 Under or over performance against the benchmark for the year to 31 December 2013
3 Under or over performance against the benchmark since inception for each investment manager
4 Appointed during the year

LARGEST 10 HOLDINGS

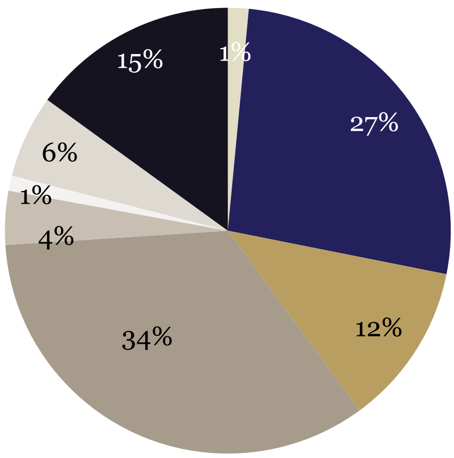
Equity		Non-Equity		
Holding	**% of Scheme**	**Holding**	**Fund**	**% of Scheme**
Google	1.86	The Hotel Russell, London	Pramerica	0.93
Amazon	1.79	Russian Government Bonds	Investec	0.77
Baidu	1.06	South African Government Bonds	Investec	0.76
Tencent	1.01	Mexican Government Bonds	Investec	0.62
JP Morgan Chase	0.91	Turkish Government Bonds	Investec	0.60
Sky Deutschland	0.86	Thai Government Bonds	Investec	0.59
Wells Fargo	0.84	Indonesian Government Bonds	Investec	0.46
Delta Airlines	0.80	Thistles Centre, Stirling	Pramerica	0.43
Apple	0.75	Brazilian Government Bonds	Investec	0.40
Inditex	0.72	Park Plaza Riverbank Hotel	Pramerica	0.39

EXPOSURE BY REGION

ACTUAL ALLOCATION 2013



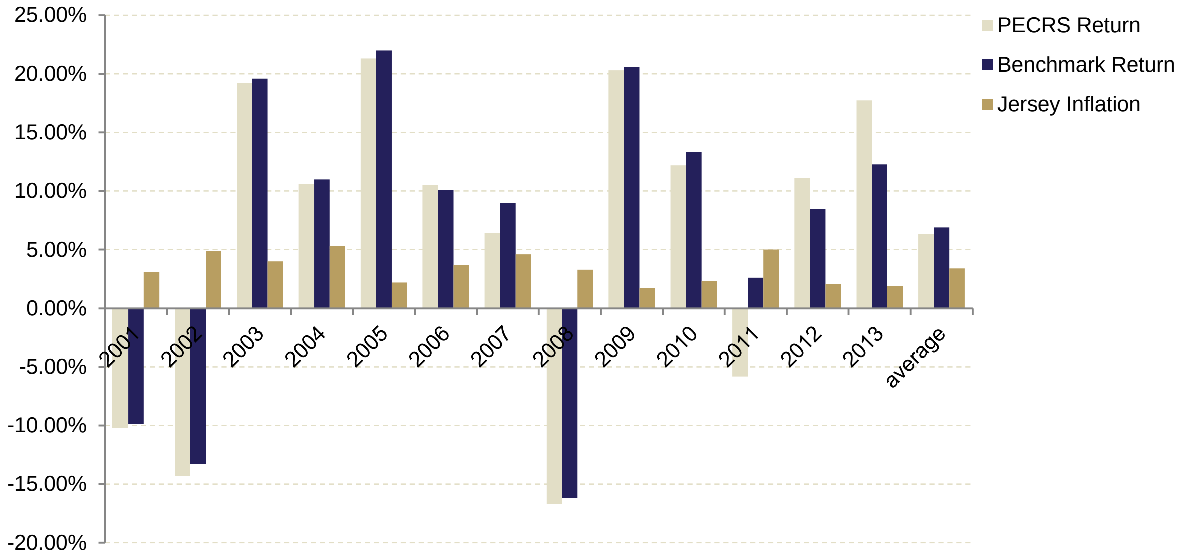
ACTUAL ALLOCATION 2012



The above charts compare the actual region of listing of the Scheme's investments with the regional spread of the prior year. The geographic asset allocation has been monitored since the credit crisis. In recent years there have been large movements in this geographic allocation as tactical positions have been taken following advice from the Investment Advisor and industry experts to switch assets between regions. Most recently the decision in late 2012 saw the investments in passive equity pools in Japan and Europe (ex UK) managed by Legal and General being transferred to North American pools following advice that extra return could be obtained.

INVESTMENT PERFORMANCE

The Fund's assets are invested to generate returns to pay Scheme benefits over the long-term. Whilst absolute and relative performance compared to the benchmark has been positive over the last two years it is important not to consider short term performance in isolation. The following graph shows the overall Fund returns compared with the benchmark for the 13 years 2001 to 2013. Over that whole period the Fund's investments achieved a return of 6.3% per annum against a Scheme benchmark of 6.9% per annum. Jersey inflation over the same period was 3.4% per annum meaning that the Fund's investments have achieved a real rate of return above Jersey RPI of 2.9% per annum.



The table below shows the total performance of the Scheme over the periods ended 31 December 2013.

Time period	Performance Actual	Performance Benchmark	Over / (under) performance
1 Year	17.7	12.3	5.4
3 Years	7.2	7.2	(0.0)
5 Years	10.8	10.5	0.3
Since inception*	6.0	6.1	(0.1)

*This is calculated since 12 January 1998

During 2013 the Fund achieved a return of 17.7% against a benchmark gain of 12.3%. This outperformance of 5.4% is mainly due to:

- The Fund's active investment managers collectively outperforming their benchmark return in a rising market. This accounted for around 1.5% of the outperformance.
- The Fund having more money in equities during the year than the benchmark allocation. Given the performance of equities relative to bonds, this position accounted for around 2.7% of the outperformance.

- The Fund's allocation to alternatives outperformed their benchmark returns by a significant amount and accounted for around 2.6% of the outperformance over the period.
- The Fund's tactical allocations to emerging market debt, performed badly over the year compared to Index-Linked Gilts and Corporate Bonds, which form part of the strategic benchmark. This position detracted approximately -1.8% from returns.
- Lastly, the Fund's allocation to UK ground leases is underweight relative to the strategic benchmark as this mandate is built up over time as and when suitable opportunities are found. As the remainder of the Scheme's assets rose over this period, this underweight proved beneficial and, in conjunction with the manager outperforming, this added approximately 0.4% to performance.

The Investment Subcommittee analyses the outperformance, as well as underperformance, identifying the underlying causes with the investment consultant, Mercer. The Investment Subcommittee has received consistent advice that equities offer medium to long term enhanced value compared to bonds.

INVESTMENT STRATEGY

The Committee's Investment Subcommittee develops the long-term investment strategy with the advice of its investment consultant, Mercer. It is also responsible for monitoring the Scheme's investment managers. How the Scheme's assets are monitored is set out in the Statement of Investment Principles (pages 41 to 46).

LONG-TERM INVESTMENT STRATEGY

The table below sets out the Fund's investment strategy and the long term strategic allocation in place at the year end. The following changes were approved by the Committee of Management and the Minister for Treasury and Resources;-

- Reducing the allocation to the Salary Linked Bond by 2.5% and increasing the allocation to property by 2.5%.
- Reducing the allocation to equity by 5% and increasing the allocation to alternatives by 5%

Asset Category	Current Benchmark %	Actual Assets %
Growth Investments	55	65.6
Equities	42.5	53.6
Alternatives	12.5	12.1
Bond-Like Investments	45	34.4
Property	10	6.1
Bonds	20	11.5
Salary-Linked Bond (see note below)	15	13.8
Cash	-	3.0
Total	**100**	**100**

Note:
The Salary Linked Bond is the present, capitalised value of the Pre-1987 Debt repayments due to the Scheme until July 2053, payable by the States of Jersey and Admitted Bodies. It is included in the investment strategy because the payments increase in line with the average salary increases of States of Jersey employees who are members of PECRS. The repayments represent, therefore, a good match with the Scheme's liabilities which also grow with salary increases whilst members are still in employment. Its value is not included in the value of the Scheme's assets on page 26.

The Investment Subcommittee has maintained two tactical asset allocation positions following the advice of Mercer and other industry experts. The first is an overweight holding in equities on the basis that it is believed they offer medium to long term value. The second is in the bond portfolio where the strategic benchmark is 10% UK Index Linked Gilts and 10% UK Corporate Bonds. The Committee of Management has agreed the Scheme's bond holdings shall be held in European and global corporate bonds and Emerging Market sovereign debt (that is the government bonds of the countries classed as emerging economies).

These divergences from strategy are reviewed regularly and taken with a three to five year outlook. Advice received by the Investment Subcommittee throughout 2013 has been that the outlook for equities is better than for bonds, and that the yields available on UK index-linked gilts remain so low to make them unattractive at current prices. Prospects for long term higher yields and performance are considered to be with the government debt of the emerging countries and in corporate bonds on a global rather than UK basis. The equity position has led to outperformance in 2013 against the strategic benchmark, but the position in emerging market debt underperformed the benchmark as this asset class struggled during the year. The Committee of Management is maintaining these positions going into 2014.

DEVELOPMENTS DURING THE YEAR

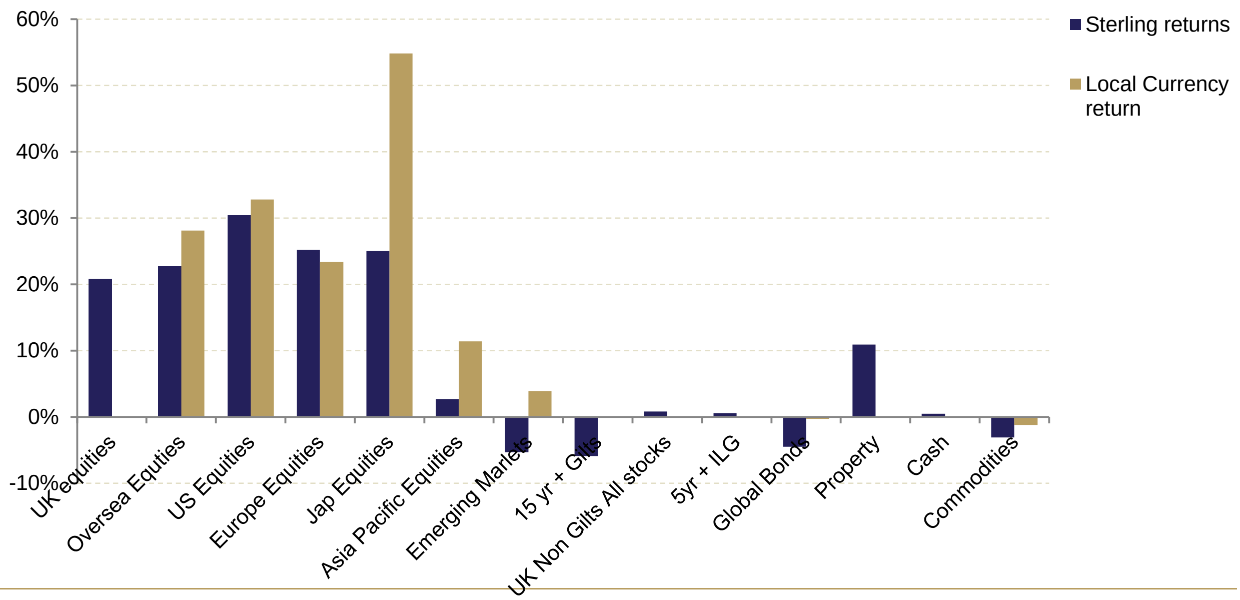
MONITORING INVESTMENT MANAGERS

The Investment Subcommittee held monitoring meetings with all the Scheme's investment managers during the year. The main movements in investments were: -

- Following the departure of a key investment manager the Subcommittee decided to terminate the relationship with AXA Investment Managers. These assets were transferred to Odey Asset Management to be managed in an active global equity mandate.
- The termination of the relationships with Bluebay Asset Management and Henderson Global Investors with the assets being transferred to CQS.
- The appointment of Haymarket Financial LLP to manage a Private Debt mandate funded from the Fund's equity managers.

MARKET RETURNS OVER 2013

The chart below details the markets returns from the main assets classes in 2013.



EQUITIES

Global equity markets grew by over 20% during the year and it is pleasing that all active managers at year end had produced returns above the benchmark. Baillie Gifford produced exceptional returns outperforming the benchmark by over 9%. This performance has led to quarterly rebalancing with equity assets being sold and either the proceeds being held in cash or additional bonds being purchased. This enabled the Scheme to remain within its strategic allocation.

Mercer downgraded AXA Investment Managers as they were no longer convinced of the team's ability to outperform the market over the longer term following the loss of a key individual. This followed a period of poor performance when the Investment Subcommittee had the manager under review. Odey Asset Management was appointed following a recommendation from Mercer and an interview with the Investment Subcommittee. Odey is an active high conviction global equity manager.

In November 2012 following advice from Mercer and industry experts the Investment Subcommittee decided to move the passive equity holdings in Europe and Japan, to America. It was felt that America would see greater growth in future compared with Europe & Japan. This transfer was successful with America outperforming the other areas by 3.4% (Japan) and 1.8% (Europe).

BONDS

The European Corporate Bonds holdings managed by BlueBay Asset Management (Bluebay) had been reduced in previous years to fund the investment in the Pramerica UK Ground Lease Fund; in July 2013 the relationship was terminated to fund an investment with CQS. Additionally, the buy and hold mandate managed by Henderson Global Investors was liquidated to fund the CQS mandate.

The buy and hold mandate managed by Henderson was scheduled to mature in 2014 as the final bonds in the portfolio matured. Mercer reviewed the expected income from these bonds and it was decided that higher returns could be obtained elsewhere in the bond universe. So, the decision to exit the portfolio early was made; and the proceeds were invested in CQS's Multi-Asset Credit Fund. This product has the ability to invest dynamically across the credit space on a long only basis and draws on the best pick selections from CQS's various section specialists. The mandate has started successfully, outperforming the bench mark by 3% since inception.

Investec has had a difficult year with Emerging Market Bonds falling significantly in the last three quarters of the year and, as a result this portfolio fell in value by 11.1% during the year. The poor market performance was caused by concerns regarding the extent and impact of the US Federal Reserve's reduction in its bond buying programme, and the potential for reduced liquidity in the bond markets.

PROPERTY

During the current year there was one capital call for the Pramerica UK Ground Lease Fund that was funded by drawing down the holdings with Bluebay. An additional £60 million was committed to Pramerica during the year. However, this amount has not been called as the Manager operates a queue system based on when investors commit capital. There are a number of investors ahead of PECRS in the queue. Only once their committed capital has been invested will the PECRS amounts be called.

The objective of this investment is to generate long-term inflation-linked income at a very low risk. It achieves this through a substantial proportion of the ground rents having increases linked to UK RPI whilst at the same time providing very strong security. The buildings are typically worth significantly more than the capitalised value of the ground rent, and so default situations are rare. Investments are typically made in the ground leases of hotels and shopping centres. This investment is seen as low risk and offsets the investment in Emerging Market Sovereign Debt which is at the higher end of the risk profile of the bond asset category.

CONCLUSION

Early last year, the Technical Working Group published options for change to the Scheme that aim to ensure the Scheme will be sustainable, affordable and fair for the long term. The involvement of the Committee of Management in the development of the options and in further discussions during the year on the possible future structure of the Scheme has been welcomed. I would like to thank representatives of the Committee of Management and Treasury for working constructively together to bring forward options that aim to secure the Scheme for the long-term.

Over the last year the Fund’s investments have performed strongly, delivering a return of 18% and exceeding the scheme specific benchmark by 5.4%.During the last year the Dedicated Pensions Unit has upgraded its computer system and worked to further improve systems of internal control and membership data which will aid the administration of the scheme in the future.

The increasing sophistication of information technology available to the Treasury has enabled this annual report to be produced in this format and for it to be distributed via electronic communication channels to a wider audience at no increased cost.

The Scheme relies greatly on the hard work of officers, consultants, actuaries, advisers and investment managers to ensure that the high standards expected for the management of the Fund are maintained. This will be my last full year as Chairman of the Committee of Management, a role I have undertaken for the last 24 years. It has been a pleasure to Chair the Committee of Management and I would like to thank all those involved in the Fund over the many years of my chairmanship for the support that they have provided. I am confident that I am leaving the Scheme in a strong position with proposals in place for changes to the Scheme that will enhance its long term sustainability.

Ron Amy OBE BSc FFA
Chairman of the Committee of Management
18 June 2014

ACCOUNTS

Fund Account for the year ended 31 December 2013

	Note	2013 £'000	2012 £'000
Dealings with members			
Contributions			
Contributions	4	53,660	51,548
Transfers in		1,940	2,860
		55,600	54,408
Benefits			
Benefits	5	63,329	59,086
Leavers	6	3,738	3,252
Benefits administrative expenses	7	1,563	1,944
		68,630	64,282
Net reduction from dealings with members		(13,030)	(9,874)
Returns on investments			
Change in market value of investments		242,871	126,180
Gain on outstanding trades		92	27
Realised (loss)/gain on foreign exchange		(104)	4,030
		242,859	130,237
Investment income	8	12,784	14,488
Investment administrative expenses	9	(431)	(412)
Investment management expenses		(14,983)	(8,397)
		(2,630)	5,679
Net returns on investments		240,229	135,916
Net increase in the Scheme's assets during the year		227,199	126,042
Net assets of the Scheme			
At 1 January		1,373,584	1,247,542
Net assets of the Scheme at 31 December		**1,600,783**	**1,373,584**

All results were derived from continuing operations.

NET ASSET STATEMENT

as at 31 December 2013

	Note	2013 £'000	2012 £'000
Investment assets	10		
Fixed interest securities	11	7	7
Equities	12	478,219	407,654
Managed and unitised funds	13	927,190	840,074
Property Managed funds	14	110,912	91,857
Investment assets		1,516,328	1,339,592
Cash with custodian		50,410	15,567
Broker cash for investment		25,681	16,102
Total investment assets		1,592,419	1,371,261
Current assets	15	9,772	5,632
Current liabilities	16	(1,408)	(3,309)
Net assets of the Scheme at 31 December		**1,600,783**	**1,373,584**

The Financial Statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Committee of Management. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the statement by the actuary on pages 36 and 37 of the Annual Report and these Financial Statements should be read in conjunction with it.

In accordance with Regulation 12 of Public Employees (Contributory Retirement Scheme) (General) (Jersey) Regulations 1989 the accounts have been prepared by the Treasurer of the States of Jersey and have been audited.

Laura Rowley, MBA, CPFA
Treasurer of the States
18 June 2014

These accounts were received and approved by the Committee of Management on 18 June 2014.

Ron Amy OBE BSc FFA
Chairman of the Committee of Management
18 June 2014

NOTES FORMING PART OF THE ACCOUNTS

for the year ended 31 December 2013

1. CONSTITUTION

The Public Employees Contributory Retirement Scheme (the "Scheme") is an independent retirement scheme, governed by Regulations made under the Public Employees (Retirement) (Jersey) Law, 1967, as amended.

2. BASIS OF PREPARATION

The Financial Statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice. The Scheme has adopted the Statement of Recommended Practice, 'Financial Reports of Pension Schemes (revised May 2007)' ("the SORP") and these Financial Statements have been prepared in accordance with the SORP.

3. ACCOUNTING POLICIES

a) Investment income

Income from fixed interest securities and bank interest is accounted for on an accruals basis. Dividend income from other quoted securities is recognised when the securities are quoted ex-dividend.

b) Benefits

Benefits are recognised as they become due and payable.

c) Contributions

Employer and employee contributions are recorded when the employee contributions are deducted from payroll. Both are based on a percentage of salary for the period to which they relate. Additional contributions (e.g. payments to augment pensionable service by the purchase of additional years either by the employer or, through the additional voluntary contribution facility, by the employee) are recorded when they are deducted from payroll.

The Employers' contributions for the Pre 1987 Debt are accounted for on a receipts basis.

d) Transfers

Transfer payments received or made during the year in respect of members joining or leaving the Scheme are included in the accounts on a receipt basis.

e) Management, performance fees and other expenses

The appointed investment managers are entitled to fees based upon a percentage of the net assets under management. The percentage varies from 0.05% to 1.5% based on the complexity of the asset class under management. In addition Arrowgrass and Lansdowne are paid performance fees for out-performing the benchmark.

The investment consultant receives a flat fee for services rendered and performance related fee based on the performance of the individual investment managers.

All fees and expenses are accounted for on an accruals basis.

f) Valuation of investments

Market values of listed investments held at the year-end are taken at bid-prices or last trade prices depending on the convention of the Stock Exchange on which these are quoted. Foreign currency prices are expressed in sterling at the closing exchange rates on the last business day in the Scheme's financial year.

The valuation of the investment units held in the pooled funds is based on the closing bid prices of the units as confirmed by valuations received from the investment manager. These valuations are based on the bid prices of the underlying investments held by the custodian of the pooled fund.

The Ground Lease investments are valued at the proportion due to PECRS of the open market value of the assets in the Fund valued in accordance with the Appraisal and Valuation Manual issued by the Royal Institution of Chartered Surveyors.

Capital calls or return of capital are recognised from the date the Scheme is notified of the event.

Transaction costs, being incremental costs that are directly attributable to the acquisition or disposal of an investment, are added to purchase costs and netted against sale proceeds as appropriate.

g) Taxation

The Scheme is exempt from Jersey income tax by virtue of Article 131 of the Income Tax (Jersey) Law 1961. Thus it is exempt from income tax in respect of income derived from the investments and deposits of the Scheme, ordinary annual contributions made by the Scheme members and gains made from investments held.

h) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated at the rate ruling at the balance sheet date. Transactions denominated in currencies other than sterling are translated at the date of the transaction. Exchange gains and losses on investments and gains and losses arising on foreign exchange contracts are shown in the Fund Account.

i) Cash

Broker cash is held at JP Morgan and is available on demand. A cash account is also held at HSBC Jersey.

j) Actuarial valuation

The Financial Statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Committee of Management. They do not take into account the obligations to pay pensions and benefits which fall due at year end. The actuarial position, which does take into account such obligations, is disclosed in the Actuarial Statement on pages 36 and 37 and these accounts should be read in conjunction with this statement.

k) Derivatives

The Schemes' investment managers may use derivatives to hedge its exposure to foreign currency investments and to manage exposure to foreign currency exchange rate fluctuations.

4. CONTRIBUTIONS

	2013 £'000	2013 £'000	2012 £'000	2012 £'000
States employees				
Employers				
Normal				
		31,210		29,694
Additional				
Past Service Debt	5,262		4,300	
Augmentation	170		169	
		5,432		4,469
Members				
Normal	11,749		11,220	
Additional voluntary contributions	484		535	
		12,233		11,755
Admitted Bodies				
Employers				
Normal		3,217		3,978
Members				
Normal	1,529		1,604	
Additional voluntary contributions	39		48	
		1,568		1,652
		53,660		**51,548**

5. BENEFITS PAYABLE

	2013 £'000	2012 £'000
Pensions	54,942	50,984
Commutations and lump sum retirement benefits	8,350	7,756
Lump sum death benefits	37	346
	63,329	**59,086**

6. LEAVERS

	2013 £'000	2012 £'000
Refunds to members leaving service	276	182
Individual transfers to other Schemes	3,462	3,070
	3,738	**3,252**

7. BENEFITS ADMINISTRATIVE EXPENSES

	2013 £'000	2012 £'000
Salaries and office costs	596	585
Actuarial fees	413	356
Audit fees	54	74
Legal fees	195	129
Chairman and secretary fees	117	134
Pension systems	59	117
Other expenses	129	549
	1,563	**1,944**

8. INVESTMENT INCOME

	2013 £'000	2012 £'000
Dividends from equities	9,647	13,254
Income from property managed funds	3,650	2,619
Income / (Expense) on cash deposits	134	(302)
Other income	6	122
	13,437	15,693
Less irrecoverable withholding tax	(653)	(1,205)
Total investment income	**12,784**	**14,488**

9. INVESTMENT ADMINISTRATIVE EXPENSES

	2013 £'000	2012 £'000
Custodian expenses	71	62
Investment advisory expenses	339	134
Tax on stock lending	6	216
Other investment expenses	15	-
	431	**412**

In the prior year a tax charge on the total net income received when the Scheme took part in stock lending between 2003 & 2009 occurred
. There was a slight under accrual in the amount paid leading to a small charge during the year.

10. INVESTMENT ASSETS

	Note	Value at 1.1.13 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in Market Value £'000	Value at 31.12.13 £'000
Fixed Interest Securities	11	7	-	(1)	1	7
Equities	12	407,654	137,826	(165,478)	98,217	478,219
Managed and Unitised Funds	13	840,074	374,217	(428,277)	141,176	927,190
Property Managed Funds	14	91,857	16,000	(484)	3,539	110,912
Derivatives		-	343	(281)	(62)	-
		1,339,592	**528,386**	**(594,521)**	**242,871**	**1,516,328**

The change in market value of investments during the year comprises 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.

Indirect costs including the bid offer spread costs have been added to the purchase cost or deducted from sale proceeds as appropriate.

Transaction costs incurred on the purchase and sale of investments in the year were £0.8m (2012: £0.8m).

A breakdown of the geographical split of assets as at the year-end can be found on page 20.

11. FIXED INTEREST SECURITIES

	2013 £'000	2012 £'000
United Kingdom Quoted	**7**	**7**

12. EQUITIES

	2013 £'000	2012 £'000
United Kingdom Quoted	142,026	129,186
Overseas Quoted	336,193	278,468
	478,219	**407,654**

13. MANAGED AND UNITISED FUNDS

	2013 £'000	2012 £'000
United Kingdom Quoted	445,986	663,502
Overseas Quoted	481,204	176,572
	927,190	**840,074**

A number of Managed and Unitised Funds are resident overseas with their underlying investments located in other jurisdictions. The SORP requires these Funds to be classified where the Funds are resident. To enable the users of the accounts to gain an understanding of the substance of the investments, the location of the underlying assets in the Funds are detailed below.

	2013 £'000	2012 £'000
United Kingdom Quoted	203,436	327,948
Overseas Quoted	723,754	512,126
	927,190	**840,074**

14. PROPERTY MANAGED FUND

	2013 £'000	2012 £'000
United Kingdom Quoted	**110,912**	**91,857**

15. CURRENT ASSETS

	2013 £'000	2012 £'000
Contributions due	270	216
Debtors	865	736
Cash balances	4,012	3,934
Unsettled Trades - Sales	3,689	-
Accrued interest	936	746
	9,772	**5,632**

16. CURRENT LIABILITIES

	2013 £'000	2012 £'000
Creditors	(1,373)	(1,664)
Unsettled trade purchases	-	(1,200)
Advances from States of Jersey	(35)	(445)
	(1,408)	**(3,309)**

The Financial Statements do not include the liabilities to pay future pensions and other benefits in the future; in the opinion of the Committee of Management the Scheme has no material contingent liabilities.

17. RELATED PARTY TRANSACTIONS

The Treasury & Resources Department, a department of the States of Jersey, provides creditor payment, payroll, cash management and financial ledger services for PECRS. At the year end, a sum of £35,075 (2012: £444,279) was owed by the Scheme to the States of Jersey in respect of transactions with the department. During the year an amount of £537,279 (2012: £487,269) was paid to the department in respect of the services provided. There were no other related party transactions identified during the year.

18. POST BALANCE SHEET EVENTS

There are no post balance sheet events that need to be disclosed in the Financial Statements.

INDEPENDENT AUDITOR'S REPORT

We have audited the Financial Statements of Public Employees Contributory Retirement Scheme for the year ended 31 December 2013 which comprise the Fund Account, Net Asset Statement and the related Notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Committee of Management, as a body, in accordance with Public Employees (Contributory Retirement Scheme) (General) (Jersey) Regulations 1989. Our audit work has been undertaken so that we might state to the Committee of Management those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme and the Committee of Management as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of Committee of Management, Treasurer of States and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report Opinion on financial statements.

- In our opinion the Financial Statements:
- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 2013 and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Public Employees (Contributory Retirement Scheme) (General) (Jersey) Regulations 1989.

Deloitte LLP

Deloitte LLP
Chartered Accountants
Jersey, Channel Islands, 18 June 2014

STATEMENT OF RESPONSIBILITIES

Responsibilities in respect of the Accounts of the Public Employees Contributory Retirement Scheme.

The Public Employees' Contributory Retirement Scheme Regulations (R&O 7956) require the Treasurer of the States to prepare annual accounts of the Scheme and have them professionally audited.

- The Treasurer of the States is therefore responsible for:
- selecting suitable accounting policies and applying them consistently
- making judgements and estimates that are reasonable and prudent
- stating within the accounts whether they are prepared in accordance with the Statement of Recommended Practice, 'Financial Reports of Pension Schemes (revised May 2007)', or, if they are not, to indicate any material departures and;
- preparing the accounts in accordance with the provisions of the Regulations.

The Treasurer of the States is responsible for keeping proper accounting records, in accordance with the Regulations including the maintenance of an appropriate system of internal controls. The Committee of Management and the Treasurer of the States are also responsible for safeguarding the assets of the Scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT OF SCHEME ACTUARY

Name of Scheme: States of Jersey Public Employees Contributory Retirement Scheme

Effective Date of Valuation: 31 December 2010

1. SECURITY OF PROSPECTIVE RIGHTS

It is our opinion that, on a going concern basis, the resources of the Scheme are likely in the normal course of events to meet in full the liabilities of the Scheme as they fall due, assuming all future increases to pensions and deferred pensions effective on or after 1 January 2013 will be 0.15% less than the annual increase in the Jersey Cost of Living Index. This opinion is based on the financial position of the Scheme at the effective date, 31 December 2010, and does not take account of more recent developments.

Our report on the valuation of the Scheme as at 31 December 2010 was signed on 23 May 2012. The report disclosed a surplus of £40.6M at the effective date of the valuation.

The surplus of £40.6M as at 31 December 2010 was based on the provisions of the Scheme at that date and assumed that future increases in pensions and deferred pensions will be based on the annual increase in the Jersey Cost of Living Index less 0.30% p.a.. In accordance with the Scheme's Regulations, the surplus was used to restore previous reductions to pension increases and apply a reduction of less than 0.30% p.a. to future pension increases. All future increases to pensions and deferred pensions effective on or after 1 January 2013 will therefore be 0.15% less than the annual increase in the Jersey Cost of Living Index.

We confirm that the adjustment to future pension increases outlined above eliminated the surplus of £40.6m at the effective date of the valuation.

A further valuation will be carried out as at 31 December 2013.

2. SECURITY OF ACCRUED RIGHTS

It is our opinion that, on a discontinuance basis, the Scheme's assets existing on the effective date were sufficient to cover 58% of its accrued liabilities as at that date. This assumes that the Scheme discontinued on the valuation date, even though the Regulations governing the Scheme do not envisage the Scheme's discontinuance (i.e. the future accrual of benefits and payment of contributions into the Scheme being discontinued).

By accrued liabilities we mean benefits arising in respect of pensioners, deferred pensioners and active members for service prior to the effective date, on the basis that all active members are treated as if they had terminated pensionable service on the effective date with entitlement to deferred pensions.

A procedure was agreed between the Policy & Resources Committee and the Scheme’s Committee of Management, as documented in an Act of the Policy & Resources Committee dated 20 November 2003, for dealing with the shortfall transferred to the Scheme arising from the changes made to the Scheme in 1987 (the “pre-1987 debt”). This agreement was described in our report on the actuarial valuation of the Scheme as at 31 December 2010 and is reproduced in Appendix 1. The provisions of the Scheme were amended to deal with the debt in that manner.

The above opinion assumes that, should there ever arise any question of the Scheme’s discontinuance, the capitalised value of the debt would be assessed at the point of discontinuance and paid off in full by the States of Jersey at that point or over a period of time in accordance with the above agreement.

3. FURTHER INFORMATION

Further information underlying this statement is set out in Appendix 2.

For Aon Hewitt Limited

Jonathan Teasdale
Fellow of the Institute and Faculty of Actuaries

5 March 2014

APPENDIX I – THE TEN POINT AGREEMENT

The framework agreed between the Policy and Resources Committee and the Committee of Management for dealing with the pre-1987 debt was documented in a ten-point agreement approved by Act of the Policy and Resources Committee dated 20 November 2003. The provisions of the agreement, which have subsequently been reflected in Regulations approved by the States of Jersey on 27 September 2005, enable us to treat the pre-1987 debt as an asset of the Scheme for valuation purposes. The text of the agreement is reproduced below.

1. The States confirms responsibility for the Pre-1987 Debt of £192.1 million as at 31 December 2001 and for its servicing and repayment with effect from that date on the basis that neither the existence of any part of the outstanding Debt nor the agreed method of servicing and repayment shall adversely affect the benefits or contribution rates of any person who has at any time become a member of the Scheme.
2. At the start of the servicing and repayment period, calculated to be 82 years with effect from 1 January 2002, the Employers' Contribution rate will be increased by 0.44% to the equivalent of 15.6%. These contributions will be split into 2 parts, namely a contribution rate of 13.6% of annual pensionable salary and an annual debt repayment. The Employer's Contribution rate will revert to 15.16% after repayment in full of the Debt.
3. During the repayment period the annual Debt repayment will comprise a sum initially equivalent to 2% of the Employers' total pensionable payroll, re-expressed as a cash amount and increasing each year in line with the average pay increase of Scheme members.
4. A statement of the outstanding debt as certified by the Actuary to the Scheme is to be included each year as a note in the States Accounts.
5. In the event of any proposed discontinuance of the Scheme, repayment and servicing of the outstanding Debt shall first be rescheduled by the parties on the advice of the Actuary to ensure that paragraph (1) above ("Point 1") continues to be fulfilled.
6. For each valuation the States Auditor shall confirm the ability of the States to pay off the Debt outstanding at that date.
7. If any decision or event causes the Actuary at the time of a valuation to be unable to continue acceptance of such servicing and repayment of the Debt as an asset of the Scheme, there shall be renegotiation in order to restore such acceptability.
8. In the event of a surplus being revealed by an Actuarial Valuation, negotiations for its disposal shall include consideration of using the employers' share to reduce or pay off the Debt.
9. As and when the financial position of the States improves there shall be consideration of accelerating or completing repayment of the Debt.
10. The recent capital payment by JTL of £14.3m (plus interest) reduced the £192.1m total referred to in (1) by £14.3m and if any other capital payments are similarly made by other Admitted Bodies these shall similarly be taken into account.

APPENDIX II – ADDITIONAL INFORMATION FROM THE ACTUARY

1. NOTES ON OUR OPINION ON THE SECURITY OF PROSPECTIVE RIGHTS

The resources of the Scheme consist of:

a) the existing assets, including net current assets and liabilities, which had a value of £1,335.5m at 31 December 2010

b) an annuity policy which we have valued at £0.5M at the same date

c) future contributions payable by members at the various rates specified in the Regulations

d) future contributions payable by employers other than Jersey Telecom Limited and Jersey Post Limited at the rate of 13.6% of salaries over the period prior to 31 December 2083, and at the rate of 15.16% of salaries thereafter

e) future debt repayments payable over the period prior to 31 December 2083, by employers other than Jersey Financial Services Commission, Jersey Telecom Limited, Jersey Post Limited, Jersey Gambling Commission, Brig-Y-Don and Les Amis (who have each already paid a lump sum contribution to meet their share of the pre 1987 debt). The debt repayments are determined on the basis set out in the agreement for dealing with the pre 1987 debt which is reproduced in Appendix 2. The States of Jersey have agreed to take on responsibility for the debt repayments due in relation to Family Nursing and Home Care.

f) additional future contributions of 15.1% of the salaries payable by the States of Jersey Ambulance Service in respect of members employed as Emergency Ambulance Officers.

g) additional future contributions of 13.7% of the salaries payable by the States of Jersey Ambulance Service in respect of members employed as the Chief Ambulance Officer or an Assistant Chief Ambulance Officer over the period prior to 31 December 2012, 11.8% of the salaries of those members from 1 January 2013 to 31 December 2013 and 6.4% of the salaries of those members thereafter.

h) contributions payable by Jersey Telecom Limited at the rate of 14.12% of salaries to 30 June 2012, and at the rate of 7.19% of salaries thereafter, in respect of each of its employees who is a member of the Scheme

i) contributions payable by Jersey Post Limited at the rate of 15.35% of salaries to 30 June 2012, and at the rate of 8.14% of salaries thereafter, in respect of each of its employees who is a member of the Scheme.

2. NOTES ON OUR OPINION ON THE SECURITY OF ACCRUED RIGHTS

In calculating the value of the Scheme's accrued liabilities assuming the Scheme was discontinued, we have estimated the terms that might be offered by insurance companies for determining the cost of immediate and deferred annuities to secure the liabilities, plus a provision to cover expenses. In practice an alternative to purchasing annuities to secure the liabilities would be to continue running the Scheme as a closed fund.

The Regulations governing the Scheme at the effective date provided for annual increases in line with the Jersey Cost of Living Index less 0.30% p.a. (although increases are not guaranteed where an actuarial review has disclosed that the financial condition of the Scheme is no longer satisfactory). As there are no available assets which match the Scheme increases it is unlikely to be possible to purchase annuities based on such increases in the market. Therefore we have made allowance for increases to pensions before and during payment in line with the UK Retail Prices Index.

3. METHODS AND ASSUMPTIONS

The actuarial methods and assumptions underlying the opinions in this Statement are as set out in our full report on the valuation of the Scheme as at 31 December 2010.

APPENDIX III – STATEMENT OF INVESTMENT PRINCIPLES

This Statement sets out the principles governing decisions about the investment of the assets of the States of Jersey Public Employees Contributory Retirement Scheme ("the Scheme"). It is issued by the Committee of Management (the Committee) and provides a formal statement of investment policies.

SCHEME INVESTMENT OBJECTIVE

The Committee's aim is to invest the assets of the Scheme to ensure that the benefits promised to members under the Scheme's regulation are provided. In setting investment strategy, the Committee first considered the lowest risk asset allocation that it could adopt in relation to the Scheme's liabilities. The asset allocation strategy the Committee has selected is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities.

STRATEGY

The Committee is responsible for establishing a strategic investment benchmark (asset class distribution) for the Scheme's investments. The Committee establishes a high-level structure for dividing the assets amongst different types of fund manager. Advice is taken from the investment consultant when determining these and the Committee adopts arrangements that represent a satisfactory trade-off between risk and target return (net of all costs) after taking into account the resources available to implement and monitor them.

The Committee believes that the key investment decision is the balance between growth-like investments (those investments whose primary purpose is to target a return greater than the expected growth of the liabilities) and bond-like investments (those investments whose primary purpose is broadly to match the growth of the liabilities). The long term strategic benchmark for the fund comprises a 55% allocation to growth assets and a 45% allocation to bond-like assets. Tactical moves diverging from this strategic benchmark are made according to prevailing market conditions and prospective returns from each asset class. These deviations from strategic proportions can be substantial and may occur for more than short periods of time.

A continuing asset is the Salary linked bond that the Scheme holds consisting of a series of annual payments from the States to meet an earlier past service liability (the Pre-1987 Debt). At the end of 2011, the basis of the valuation for the Salary linked bond was adjusted resulting in a reallocation within the strategic benchmark to 17.5% of the total Scheme's portfolio from February 2012. This was subsequently reduced to 15.0% of the total Scheme's portfolio from April 2013. The bond was valued at £256 million as at 31 December 2013. This value is approximate and depends on actual salary increases, as well as the discount rate and other assumptions used to place a capital value on future payments.

Since the end of 2011, the 5.0% reduction in the strategic allocation to the Salary Linked Bond has been matched by a corresponding increase in the strategic benchmark allocation to ground lease property. These changes have resulted in 10.0% of the total Scheme's portfolio being allocated to ground lease property.

In August 2013, the Subcommittee introduced an allocation to Private Debt. This sits within the Scheme's alternatives portfolio, and forms 2.5% of the total Scheme strategic benchmark allocation. There has been a corresponding decrease of 2.5% in the allocation to equities.

The allocation to Private Debt will be built up over time, as the Scheme's commitment to the mandate is drawn down, and it is planned that this allocation will form 5.0% of the total Scheme strategic benchmark allocation in due course. At this point, there will be a corresponding further decrease of 2.5% in the total Scheme strategic benchmark allocation to equities.

The table below illustrates the long term strategy and the current asset allocation.

Asset Class	Long term Strategy %	Accepted Deviations %	Current weighting as at 31.12.13 %
Growth-like Investments	**55.0**	**+/- 5.0**	**64.7**
Equities	42.5	+/- 10.0	53.6
Alternatives	12.5	+/- 5.0	11.1
Bond-like Investments	**45.0**	**+/- 5.0**	**35.3**
Property	10.0	+/- 5.0	6.0
Bonds	20.0	+/- 10.0	11.4
Cash	0.0	+/- 10.0	3.1
Salary Linked Bond	15.0	+/- 5.0	13.8

Figures may not sum due to rounding

1 The Scheme is currently running a tactical overweight position to its equity allocation. The Committee have set a trigger such that if the growth-like assets breach 65% of total Scheme assets (i.e. a 10% overweight position above the benchmark), consideration is given to rebalancing the portfolio back to the benchmark range. The actual allocation is monitored on a monthly basis.
2 The allocation as at 31 December 2013 was 12.8% / 77.2% between UK and global equity.
3 The long term strategic benchmark allocation is split 50.0% / 50.0% between Index-Linked Gilts and Corporate Bonds. The allocation to Emerging Market Debt was a tactical one made at the end of 2010.
4 The allocation as at 31 December 2013 was 46.6% : 53.3% Global Credit and Emerging Market Debt.

This long-term strategy is set following advice from the Committee's investment consultant and referred also to the Minister for Treasury & Resources. During the strategy review conducted in 2009, the Committee's investment consultants modelled the Scheme's assets and liabilities for a range of alternative asset allocations. Following 2009 the strategy is reviewed on an annual basis. The strategy takes into account that whilst a final salary scheme, PECRS is not a conventional balance of cost arrangement and that increases to Scheme pensions can be affected depending on how deficiencies or surpluses shown in Actuarial Valuations are dealt with.

Certain alternative investments have characteristics that cannot be modelled. Therefore decisions on such assets involve additional advice from the investment consultant drawing on knowledge of the relevant markets.

RISK

While recognising that there are degrees of risk affecting all investments, the Committee seeks to spread these widely across a range of different sources. The aim is to take only those risks for which the Scheme can expect to be rewarded over time. The Committee selects a combination of assets and investment management approaches to be consistent with the Scheme's investment objective.

The Committee takes into account the following risks:

- **Interest rate risk**: the present value of the projected liabilities will vary as interest rates rise and fall.
- **Inflation risk**: the value of the liabilities will rise if inflation rises (pensions are linked to inflation as are salaries).
- **Credit risk** reflects the possibility that a corporate bond issuer might fail to make interest and/or capital repayments, and similarly that the dividends expected from an equity investment might not be paid.
- **Currency risk** can arise through investment in non-Sterling assets, given that the Scheme's liabilities are denominated in Sterling.
- **Regulatory risk** can arise from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes.
- **Liquidity risk** arises from holding assets that are not readily marketable and realisable.
- **Concentration risk** arises for example when a high proportion of the Scheme's assets are invested in securities, whether debt or equity, of the same or related issuers.
- **Political risk** arises from political changes or instability in a country. Instability affecting investment returns could stem from a change in government, legislative bodies, other foreign policy makers, or military control.

Given the Scheme's long-term investment horizon, the Committee believes that a degree of liquidity risk is acceptable as they believe they will be rewarded for taking on such risk. Thus, a proportion of the Scheme's assets may be invested in an illiquid investment such as property and private debt. The remainder will be invested in assets that are realisable at short notice.

The Committee does not expect to be rewarded for assuming concentration risk, and it adopts overall investment arrangements that are intended to provide spread of assets by type and spread of individual securities within each asset class.

The Committee understand that through its investment in emerging markets (both within the equity and bond allocations), they are exposing the Scheme to elements of currency, political and regulatory risk. The Scheme regularly monitors its exposure to each of these risks both at a total Scheme level and through the risk control process inherent within each of its managers. The Committee believe that the risk/reward trade-off of emerging markets represents an attractive long-term investment.

The Committee also considers the balance between active and passive management, in asset classes where passive management is a practicable option. In determining this balance, it will consider whether active management offers sufficient potential to outperform to justify the additional risks and fees compared with passive management.

The risks taken into account include:

- Active manager risk where the performance of the assets held by an active manager differs from the benchmark and may give rise to underperformance relative to passive management.
- Manager selection risk due to the potential for selecting (or failing to de-select in a timely manner) an active manager that fails to generate sufficient return in excess of the benchmark to justify the active risk taken and the higher fees charged.

GOVERNANCE

The Committee is responsible for the investment of the Scheme's assets. The Committee takes some decisions itself and delegates others. When deciding which decisions to take and which to delegate, the Committee has considered whether it has the appropriate training and expert advice to take informed decisions. The Committee has established the following decision making structure:

Investment Consultant

- Advises on all aspects of the investment of the Scheme's assets, including new methods and investment products in the market place and implementation
- Advises on this statement
- Arranges required training

Fund Managers

- Operate within the terms of this statement and their written contracts
- Select individual investments with regard to their suitability and diversification
- Inform regarding suitability of the indices in their benchmark

The Committee's policy overall is to avoid direct management of specific investments, although it does invest in index funds through life assurance policies and pooled funds, such as unit trusts. Written advice is taken on life assurance policies at regular intervals (normally annually).

The Committee requires the Scheme's fund managers to have a formal policy on corporate governance. The Committee will monitor these policies and may monitor voting activity with a view to encouraging best practice and active voting. The Committee requests the Scheme's fund managers to provide documentation regarding their internal controls.

Approval from the Minister of Treasury & Resources is required for fund manager appointments and changes in investment strategy.

IMPLEMENTATION

The Committee's principal objective when appointing fund managers is to select a combination of investment products that together (though not necessarily individually) are expected to generate the maximum net of fees performance over the Scheme's benchmark, given the Scheme's tolerance for risk.

Subject to this, the Scheme will:

- employ fund managers that are recommended by the investment consultant
- take potential transition costs fully into account when deciding whether to retain or replace an incumbent manager
- carry out due diligence surrounding each of its manager's internal operational procedures both on initial appointment and on a regular basis as part of the Scheme's quarterly monitoring process.

Wherever possible, the Committee appoints fund managers on a discretionary basis under which they have delegated responsibility for buying and selling investments on behalf of the Scheme, subject to agreed constraints and relevant legislation.

The Committee tailors each manager's investment mandate to the Scheme's specific requirements as far as possible. It is accepted that, where assets are to be managed via pooled funds, the Committee has less flexibility in this regard than for segregated portfolios. However, as a minimum, each mandate will include performance objectives, risk parameters, and timescales over which the manager's performance will be measured.

The Committee assesses the continuing suitability of the Scheme's appointed fund managers. It meets each fund manager in a regular cycle to discuss their performance, portfolio activity and wider issues. The investment consultant is asked to provide help in monitoring the fund managers, both in the form of written reports and attendance at meetings.

The Committee will review the appointment of any fund manager for any reason considered appropriate.

These will include, but are not limited to:

- Breach of investment guidelines
- Changes to the investment management process, personnel or business management of the fund manager that lead to a loss of confidence in the fund manager's ability to outperform over a full market cycle
- Underperformance relative to the benchmark over a sustained period of time, where performance is not due to investment style (e.g. value/growth) alone
- Changes to the investment management process that result in fund managers no longer being suitable for the mandate for which they were appointed.

The Committee frequently reviews the tactical asset allocation of the Scheme to assess whether it continues to be appropriate and whether it wishes to move closer to the long term strategy.

The Committee outsources the selection and monitoring of the Scheme's fund managers to the investment consultant, Mercer, subject to approval by the Committee.

Apart from a small number of investments held directly, the Committee delegates all day-to-day decisions about the investments that fall within each mandate to the relevant fund manager through a written contract or insurance policy.

These duties include:

- Realisation of investments
- Taking into account socially responsible factors
- Voting and corporate governance in relation to the financial significance of the relevant assets

The Committee directs the fund managers to manage the assets delegated to them under the terms of their respective contracts and to give effect to the principles in this statement so far as is reasonably practicable.

All fund managers are remunerated on a fee basis related to the assets under their management. In addition, fund managers pay commissions to third parties on many trades they undertake in the management of the assets.

The Committee has appointed JPMorgan as the Scheme's custodian. JPMorgan provides safekeeping for all the Scheme's segregated assets and performs certain administrative duties, such as the collection of interest and dividends and dealing with corporate actions on the instructions of managers.

Mercer is the investment consultant to the Committee and Investment Subcommittee. It operates under an agreement to provide a full investment consulting service designed to ensure that the Committee and Investment Subcommittee are fully briefed both to take the decisions they take themselves and to monitor those they delegate. Mercer works with a fee structure that includes an annual retainer and an annual performance fee. Additional fixed fees are charged by Mercer for defined projects.

GLOSSARY

Actuary: A consultant who advises the Fund and every three years formally reviews the assets and liabilities of the Fund and produces a report on the Fund's financial position.

Admitted Bodies: Bodies whose staff can become members of the Pension Fund by virtue of an agreement made between the Chief Minister, Fund and the relevant body.

Benchmark: A yardstick against which the investment performance of a fund manager can be compared, usually the index relating to the particular assets held.

Corporate Bonds: Investment in certificates of debt issued by a company. These certificates represent loans which are repayable at a future date with interest.

Committee of Management: Board to manage the Fund under the powers vested in by Regulations governing the Fund. Comprising of; a chairman, 6 employer representatives and 6 member representatives.

Deferred Pension: The inflation linked retirement benefits payable from normal retirement age to a member of the Fund who has ceased to contribute as a result of leaving employment.

Equities: Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at Shareholders' meetings. which can be traded on a recognised stock exchange before the repayment date.

Fixed Interest Securities: Investments in mainly government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date.

Ground Lease: A long lease (typically 125 years or longer) granted by the freeholder on a piece of land in return for a ground rent. At the end of the lease the land and the building normally revert to the freeholder.

Joint Negotiating Group: a co-ordinating group dealing with all pension matters put forward by its constituent unions and staff associations, individual Scheme members and matters referred to it by the Committee of Management and/or States Employment Board.

Managed and unitised funds: A pooled Fund in which investors can buy and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. This enables a broader spread of investments than investors could achieve individually.

Market Value: The price at which an investment can be bought or sold at a given date.

Return: The total gain from holding an investment over a given period, including income and increase (decrease) in market value.

Segregated assets: Assets that the Scheme holds where the custodian holds individual assets on behalf of the Scheme that are managed by an Investment Manager. This is different to Pooled assets where the Scheme invests with other investors in a pool of assets, in this case the Scheme owns units in the pool as opposed to the individual assets.

SORP: Statement of Recommended Practice, 'Financial Reports of Pension Schemes (revised May 2007), this is guidance on how to prepare the accounts.

States Employment Board: The States Employment Board is the employer of all public employees in Jersey and is responsible for fixing the terms of conditions of these employees. It is chaired by the Chief Minister and brings together 2 members who are Ministers or Assistant Ministers and 2 members who are not.

Transfer Value: These are sums which represent the capital value of past pension rights which a member may transfer on changing pension Schemes.

Technical Working Group: Technical working group consists of the Chairman, the Treasurer, various COM members and various Treasury Officers. The group was set up to discuss the future sustainability of PECRS following the Reviews carried out by Lane, Clark & Peacock and Aon Hewitt.

CONTACTS AND FURTHER INFORMATION

If you can read this document but know someone who cannot please contact the DPU so this information can be offered in a more suitable format.

All published documents are available from the DPU.

Call us on (01534) 440228

Alternatively, you may wish to email us at pecrs@gov.je

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