States of Jersey

PUBLIC EMPLOYEES CONTRIBUTORY RETIREMENT SCHEME

ANNUAL REPORT 2014

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Contents

INTRODUCTION

Welcome to the twenty-fifth 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 2014, there were 14,708 employees and former employees with benefits in PECRS, up from 13,991 at the end of 2013.

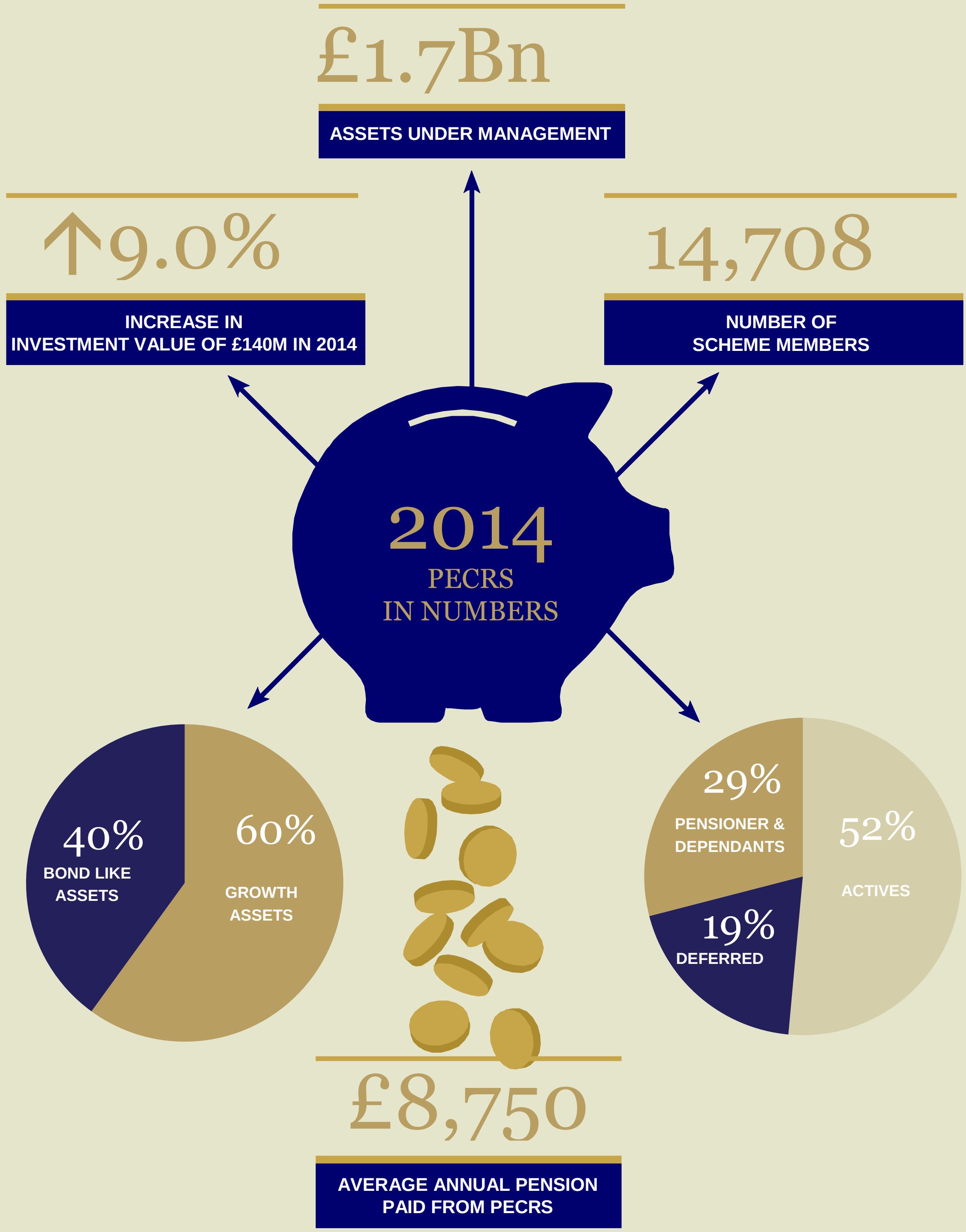
The Scheme's investments continued to grow with the pleasing result of an overall return of 9.0% in 2014 compared to a benchmark return of 8.7%. At the year end, the investments had a market value of just over £1.73 billion.

The Scheme undergoes an actuarial valuation every three years. The latest valuation was conducted by the Scheme Actuary as at the 31st December 2013. The Scheme Actuary completed the valuation in October 2014 and the results were presented to the States in early 2015. At the end of 2013 the Scheme Actuary determined that the Scheme had a funding level (the relationship between estimated future pension payments and the funds held to pay for those pensions) of 105.5%. The Scheme had a surplus of £92.7 million part of which has been used to revise pension increases to the full annual increase in Jersey RPI. After full restoration of the pension increase the Scheme had a surplus of £54.6 million which will be retained as a prudent reserve against possible future adverse experience. The Scheme will continue to pay pension increases equal to the full annual increase in Jersey RPI until the result of the next triennial valuation is known.

In September 2014 it was announced that the target date for proposed changes to the Scheme which will see the introduction of a Career Average Revalued Earnings (CARE) Scheme would be moved to 1st January 2016. In March 2015 it was announced that this implementation date would apply to new employees commencing employment after 1st January 2016 and that the implementation date for existing employees would be 1st January 2019. During 2014 a final offer was made to trade unions and the three largest unions voted to accept the proposals. 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.

The Dedicated Pensions Unit has worked hard during the year to ensure that the membership has been kept up-to-date with the proposed changes to the Scheme. Where possible the Administrator is using electronic communication channels to distribute information to the membership and employers. The website has also been updated to provide more information on the new scheme and includes a benefits estimator. We hope that the membership has found this material useful.

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


£1.7Bn
ASSETS UNDER MANAGEMENT
↑9.0%
INCREASE IN INVESTMENT VALUE OF £140M IN 2014
14,708
NUMBER OF SCHEME MEMBERS
2014
PECRS IN NUMBERS
40%
BOND LIKE ASSETS
60%
GROWTH ASSETS
29%
PENSIONER & DEPENDANTS
52%
ACTIVES
19%
DEFERRED
£8,750
AVERAGE ANNUAL PENSION PAID FROM PECRS

MEMBERS, MANAGERS AND ADVISERS

Members of the Committee of Management

Mr RJ Amy OBE (Chairman) retired 30 June 2014
Mr G Pollock (Chairman) appointed 1 July 2014
Mr S Laing+
Mr TA Le Sueur OBE+
Mr SA Lusby+
Mr J Mills CBE+
Mr SM Patidar+ Resigned 25 March 2015
Mr S Warner+

Mr G Birbeck*
Mr JR Fosse*
Mr M Johnson*
Mr T Querns*
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 five-year terms; his current term ends on 30 June 2019.

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	**Auditor**	Deloitte LLP
Actuary	Aon Hewitt Limited	**Investment Consultants**	Mercer Limited
Legal Advisors	Carey Olsen	**Custodian**	J P Morgan
	Nabarro LLP		
Bankers	HSBC Plc		

Investment Managers	Appointed
Arrowgrass Capital Partners LLP	1 June 2010
Baillie Gifford & Co	3 November 2008
CQS	31 July 2013
Hayfin Capital Management	14 August 2013
Investec Asset Management	9 December 2010
Legal and General Investment Management	5 January 2003
Landsdowne Partners Limited	1 June 2010
Mirabaud Investment Management Limited	1 August 2003 (terminated January 2015)
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
Andium Homes (Admitted 1 July 2014)
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 Service (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)
JT
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 Ltd (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 the 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 2014	6	meets as required	meets as required	meets as required	4
Committee member					
Mr RJ Amy OBE (Chairman)[1]	●	Chairman			
Mr G Pollock (Chairman)[1]	●				
Mr G Birbeck	●				
Mr M Johnson			●	Chairman	
Mr S Laing	●				
Mr TA Le Sueur OBE					●
Mr S Lusby					Chairman
Mr J Mills CBE	Chairman	●			
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 RJ Amy retired as COM Chairman on 30 June 2014 and Mr G Pollock was appointed on 1 July 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 2014

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 qualifying members, spouses and civil partners, and children. It also offers ill health and death in-service cover.

REVIEW OF THE YEAR

During 2014 the proposed reform of the pension scheme has progressed with the final offer being provided to the Joint Negotiating Group in April 2014. The three major trade unions balloted their members in 2014 and the membership of all three have, by majority of those voting, accepted the proposals.

The proposals include the introduction of a Career Average Revalued Earnings (CARE) Pension Scheme where pensions are based on an individual's average salary over their career rather than their final-salary as is currently the case. Under the proposals, members' accrued rights are protected including the linking to final salary at the end of career for any service accrued up to the date of change. There are also further proposed protections for those closest to retirement.

The Committee of Management continues to support changes to the Scheme. 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 30 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, or an increase in the employee contribution rate, 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 to resolve the Pre-1987 Debt are not ideal; the payment period which in 2005 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 with additional payments being made for the three years 2013 to 2015. The Committee has welcomed this development and supports the continuing work.

In September 2014, members were notified that the target date of implementation, originally 1 January 2015, would be changed to 1 January 2016. In March 2015, it was announced that this implementation date would apply to new employees commencing employment after 1st January 2016 and that the implementation date for existing employees would be 1st January 2019.The Committee remains committed to working with Ministers and with the Treasurer of the States to introduce any agreed changes to the Scheme.

SUMMARY OF PROPOSALS

- **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 and drawing their pension for 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.

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

INVESTMENTS

Continued strong performance in both the markets and from our investment managers has seen our investments grow by 9.0% over the year. As at 31 December 2014 the value of the Scheme's net assets was £1,732 million (2013: £1,601 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 at least 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 Scheme's investments, see pages 15 – 24.

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 most recent valuation has been completed as at 31st December 2013. The Scheme Actuary worked on this valuation during 2014 and delivered final results to the Committee of Management in October 2014. The main conclusions from the valuation were that:

- There was a past service surplus of £93.7 million as at 31 December 2013.
- The anticipated future contributions are less than the value of future benefits in respect of active members as at 31 December 2013. Assuming the proposed scheme changes are implemented with effect from 1 January 2016 as planned, the future service deficiency is £1.0 million.
- Putting these two elements together, the Scheme's overall surplus, using best estimate assumptions, as at 31 December 2013 was £92.7 million, equivalent to a funding ratio of 105.5%.

The funding position at the end of 2013 has enabled the Committee of Management to restore previous pension increase reductions of 0.15%. As from 1st January 2015 the Scheme has returned to increasing pensions and deferred pensions by the Jersey All items Cost of Living Index. This will continue until the results of the next actuarial valuation are known when this will be reviewed again. The next actuarial valuation will be undertaken as at 31st December 2016.

The funding surplus after the restoration of the previous pension increase reductions was £54.6 million, equivalent to a funding ratio of 103.2%. This surplus will be retained in the Scheme as a prudent reserve against any future adverse experience. A copy of the valuation is available on the Scheme's website (www.gov.je/statesemployeespension); a summary is included in this year's Pension Matters.

ADMINISTRATION

RUNNING THE SCHEME

The Scheme is administered by the Dedicated Pensions Unit (DPU) on behalf of the Treasurer of the States (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 25 Admitted Bodies within the Scheme. During the year, 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 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.

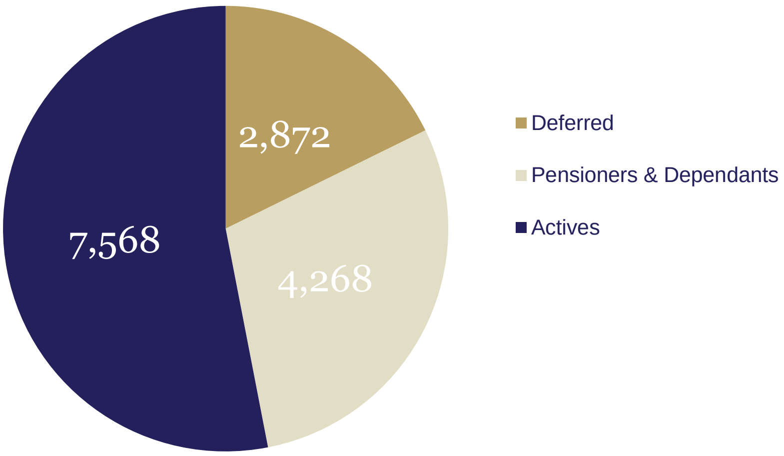
During 2014 the DPU made increasing use of the functionality available within the pension administration system to process benefits efficiently and accurately. It is important that the Scheme is administered using appropriate operational controls and significant work has been undertaken in the last year 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. The Scheme has always completed random checks of benefit entitlement. In 2013, the DPU commenced a much fuller exercise with over 3,900 pensioners contacted to confirm their continued entitlement to scheme benefits. Work on this exercise continued into 2014 and by the end of the year over 99.9% of pensioners circulated had responded, with non-respondent's pensions ultimately being suspended.

During 2014 the DPU made use of the UK Audit Commission's National Fraud Initiative 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.

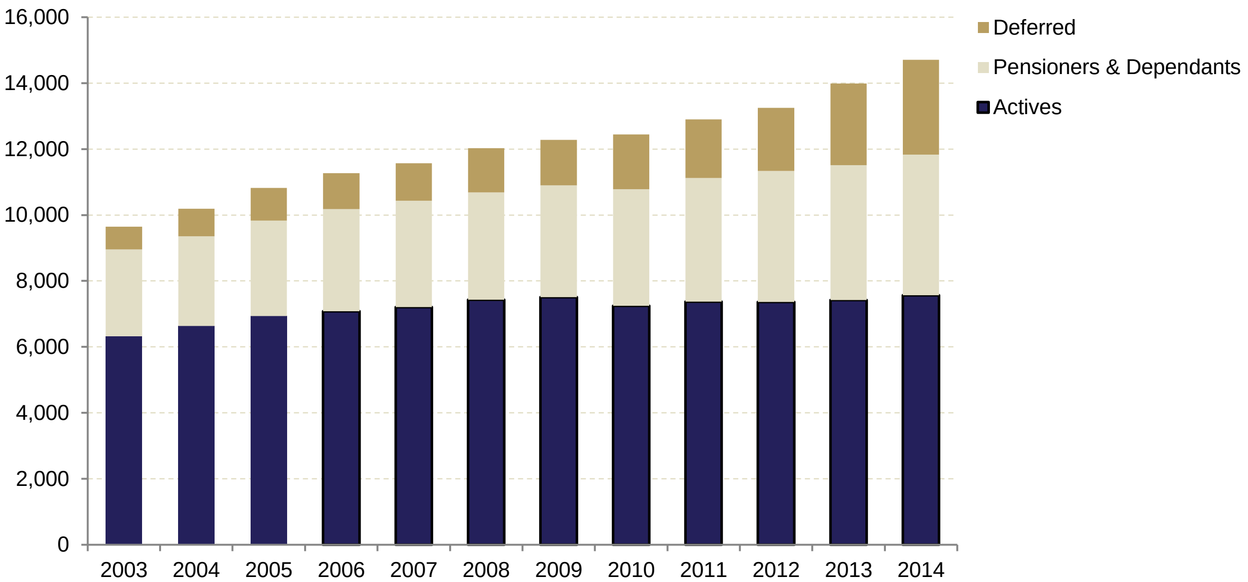
MEMBERSHIP

Total membership of the PECRS continues to grow as the proportion of Pensioners and Deferred members continues to increase. As at the end of December 2014 the Scheme had 7,568 active members, 2,872 deferred beneficiaries and 4,268 pensioners and dependants (with pension payment), making 14,708 in total (2013: 13,991).

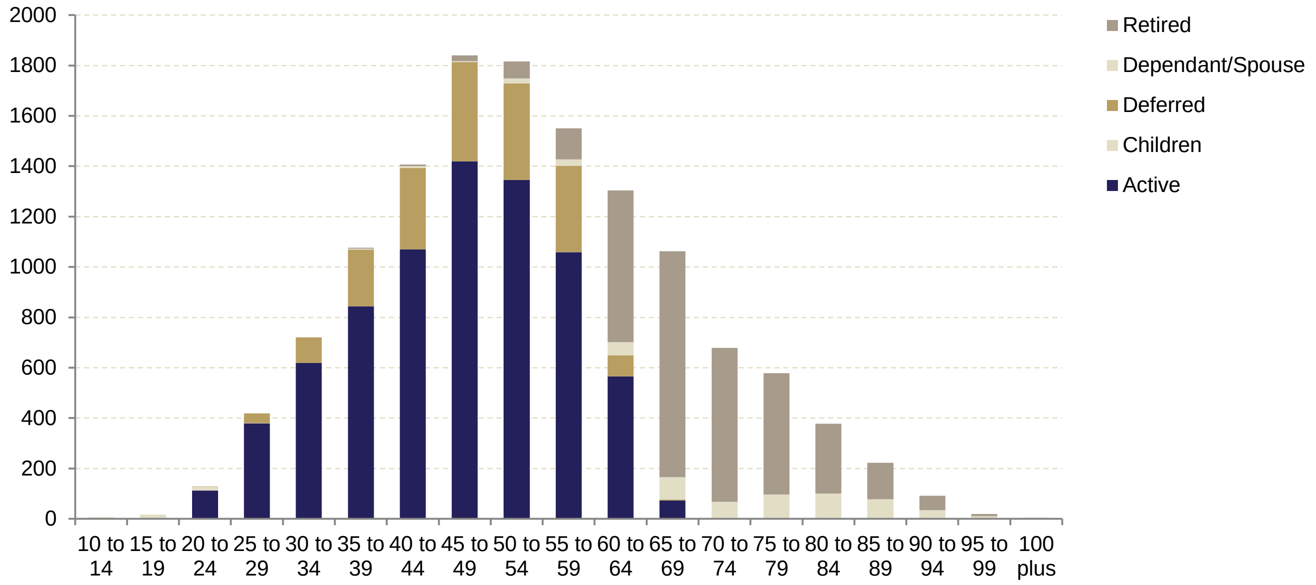


TOTAL MEMBERSHIP = 14,708

SCHEME MEMBERSHIP NUMBERS OVER THE LAST 12 YEARS



AGE PROFILE OF THE MEMBERSHIP 2014

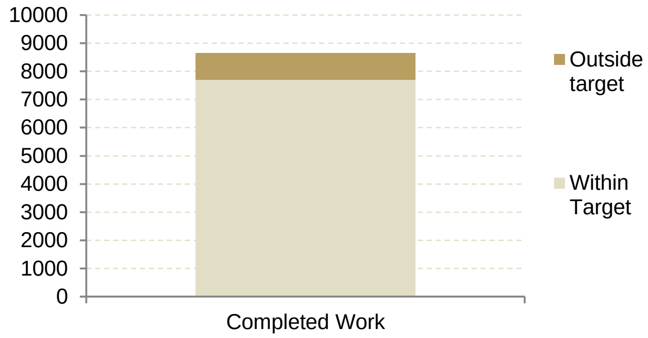


PERFORMANCE & FEEDBACK

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 89% 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.

2014 CASEWORK VOLUMES



"Many thanks for your pension advice letter. As we live in the UK the provision of this letter is important for our tax affairs. Our sincere thanks"

RETIRED MEMBER

"Many thanks for your help and the cheque!"

RETIRED MEMBER

"Thanks for sending an estimate of the lump sum so quickly. I am very impressed with the pleasant and efficient service I have received."

DEFERED MEMBER

COMPLAINTS

During the year the DPU received no new complaints. The Committee of Management and DPU take the investigation of complaints seriously and make every effort to deal with members' concerns. The 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. The results of the 2013 actuarial valuation have enabled this 0.15% reduction to be fully restored and for the Scheme to return to increasing PECRS pensions and deferred pensions in line with the Jersey All Items Cost of Living Index.

Pension increases for the last 13 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	2.1**
2014	1.9	1.9**
2015	1.3	1.3

'* 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 received their pension in full with any reduction being paid by their employer not the Scheme).

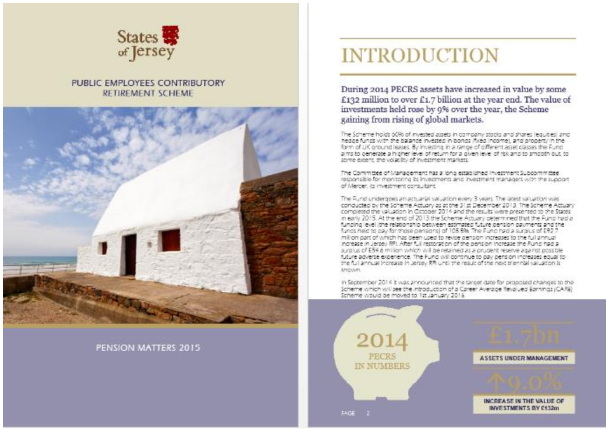
** originally these increases were reduced by 0.15% but they were re-instated in November 2014 following the 2013 Actuarial Valuation(Members under the FHS Regulations and 1967 Regulations have received their pension in full with any reduction being paid by their employer not the Scheme).

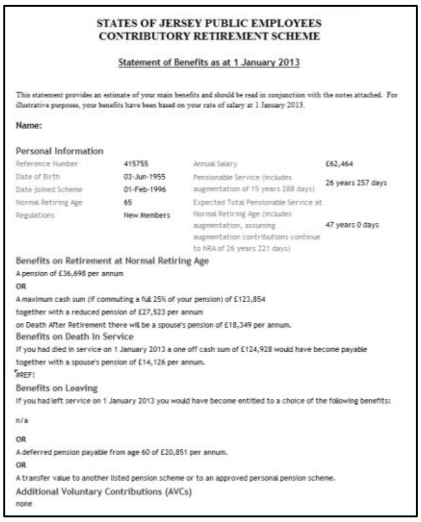
Pension increases are subject to the financial position of the Scheme remaining satisfactory and thus not guaranteed.

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:

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

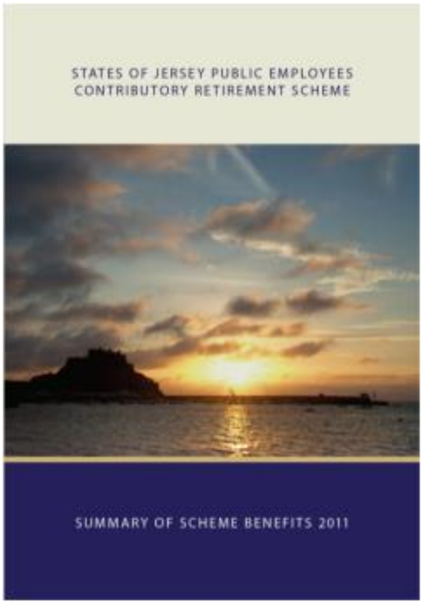
Active and deferred scheme members with more than two years pensionable service receive a personal benefit statement on an annual basis which outlines the benefits accrued to date and the benefits that could be accrued by retirement date. In the last year, over 9,000 annual benefit statements were issued.

WEBSITE
www.gov.je/statesemployeespension

During the year the DPU continued to develop the PECRS website. Scheme 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 7,600 hits during the last year. This was an increase of 46% compared to the previous year.

↑ 7,600 HITS

ON OUR WEBSITE IN 2014



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)

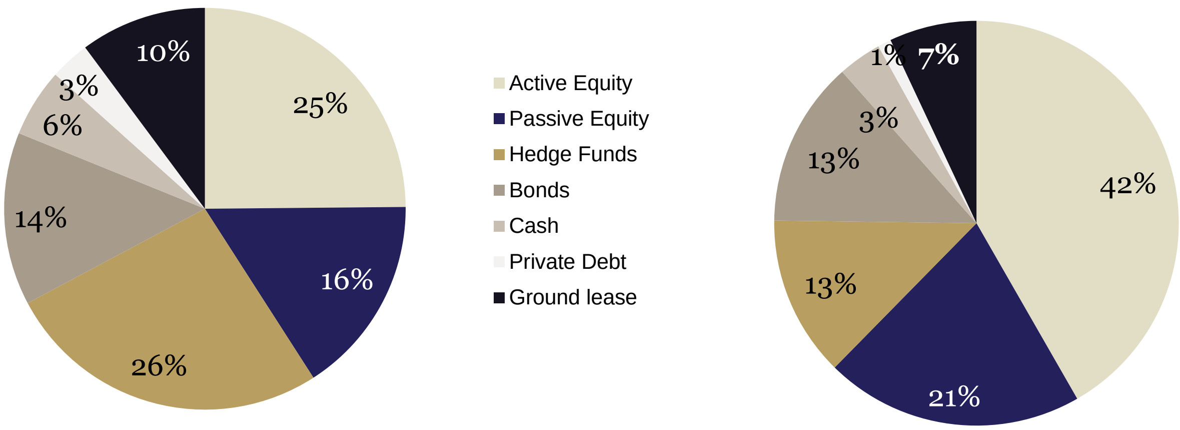
INVESTMENTS

The Scheme currently has £1.73 billion of assets under management (2013: £1.59 billion), split between 12 investment managers. During the year the Scheme increased by over £140 million with a performance of 9.0% against a benchmark return of 8.7%.

ASSETS UNDER MANAGEMENT

As at 31 December 2014 the Scheme's assets under management had a market value of £1.73 billion which were invested in a range of asset categories to achieve diversification. By investing in a range of different asset classes the Scheme 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 returns.

2014 2013



PORTFOLIO MANAGERS AND FUND VALUES

The following table shows the managers responsible for individual portfolios and the value of the Funds they manage as at 31 December 2014.

Fund Manager	Value of Fund (£m)	% of fund	Portfolios held
Equity			
Baillie Gifford & Co	227.4	13.1	Global equity
Legal and General Investment Management	278.0	16.1	Passive equity
Mirabaud Investment Management Ltd	29.3	1.7	UK equity
Veritas Asset Management (UK) Ltd	173.9	10.0	Global equity
Alternatives			
Arrowgrass Capital Partners LLP	91.9	5.3	Multi strategy
Landsdowne Partners Limited	177.4	10.2	Long/short equity
Odey Asset Management LLP	186.5	10.8	Long/short equity
Bonds			
COS	127.1	7.3	Global Credit
Investec Asset Management	114.1	6.6	Emerging Market Debt
Cash			
JP Morgan	95.1	5.5	Money Market
Property			
Pramerica Real Estate Investors Ltd	133.0	7.7	UK Ground lease (Commercial Property)
Pramerica Real Estate Investors Ltd	43.1	2.5	UK Ground lease (Residential Property)
Private Debt			
Hayfin Capital Management	55.3	3.2	Private debt fund
	1,732	**100**	

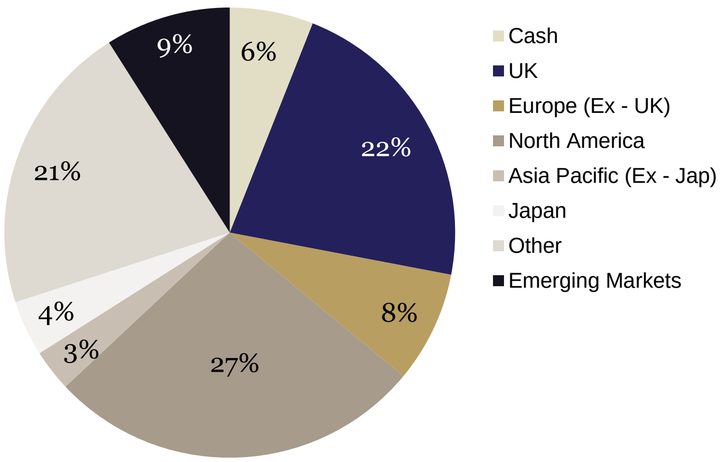
LARGEST TEN HOLDINGS

Equity		Non-Equity		
Holding	**% of Scheme**	**Holding**	**Fund**	**% of Scheme**
Amazon	1.38	The Hotel Russell, London*	Pramerica	1.05
Comcast	1.17	Brazilian Government Bonds	Investec	0.76
Baidu	1.00	Malaysian Government Bonds	Investec	0.65
Google	0.99	Park Plaza Riverbank Hotel*	Pramerica	0.59
Tencent	0.89	Indonesian Government Bonds	Investec	0.53
Illumina	0.85	Turkish Government Bonds	Investec	0.43
Goldman Sachs	0.79	Thistles Shopping Centre*	Pramerica	0.43
JPMorgan	0.73	157-183 Waterloo Road*	Pramerica	0.38
Lloyds Banking Group	0.72	Polish Government Bonds	Investec	0.38
Facebook	0.66	Mexican Government Bonds	Investec	0.37

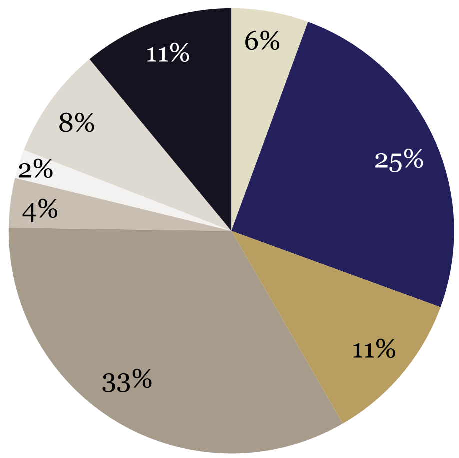
* These holdings relate to the ground lease of the property not the actual property

EXPOSURE BY REGION

ACTUAL ALLOCATION 2014



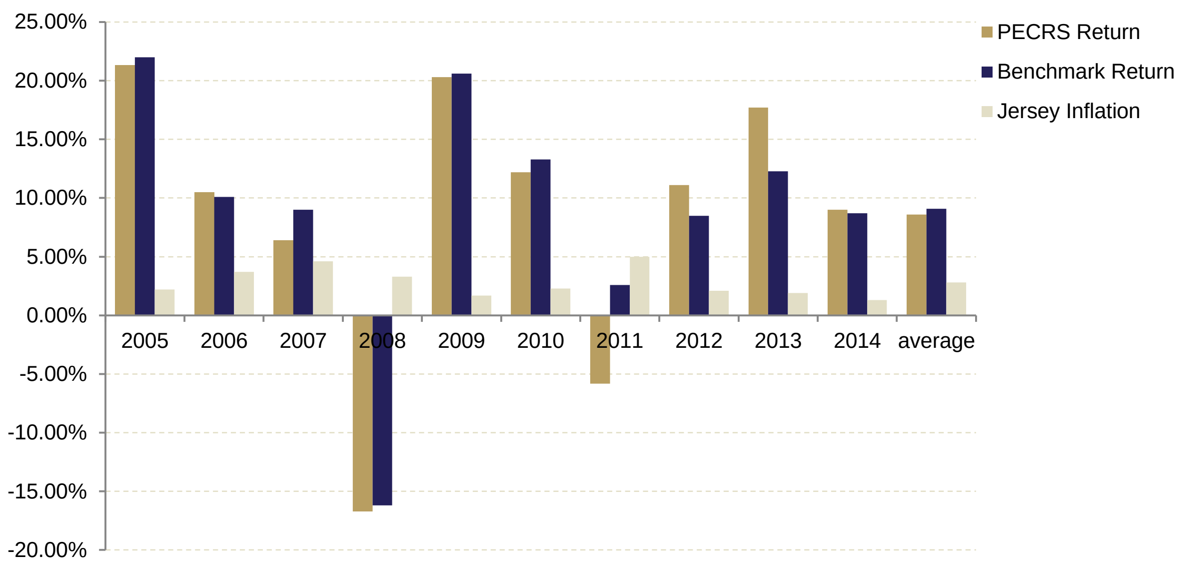
ACTUAL ALLOCATION 2013



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. During the year the worries over the Eurozone as a whole remained limited; however there were concerns over individual countries. The conflict between Russia and Ukraine led to the holdings of Russian Government debt being scrutinised (the fourth largest non-equity holding as at 31 December 2013). Similarly, continued concerns over the debt levels in Greece led to a focus on this country, a position supported by the investment managers where only one manager had a small holding equivalent to 0.015% of the Scheme's assets.

INVESTMENT PERFORMANCE

The Scheme'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 three years, it is important not to consider short term performance in isolation. The following graph shows the overall Scheme returns compared with the benchmark for the ten years 2005 to 2014. Over that whole period, the Scheme's investments achieved a return of 8.6% per annum against a Scheme benchmark of 9.1% per annum. Jersey inflation over the same period was 2.8% per annum meaning that the Scheme's investments have achieved a real rate of return above Jersey RPI of 5.8% per annum.



The table below shows the total performance of the Scheme over the periods ended 31 December 2014.

Time period	Performance Actual	Performance Benchmark	Over / (under) performance
1 Year	9.0	8.7	0.3
3 Years	12.6	9.8	2.8
5 Years	8.7	8.2	0.5
Since inception*	6.2	6.2	(0.0)

*This is calculated since 12 January 1998

The table below shows the value of assets under management with each of the individual portfolio managers and their investment return in 2014 compared to the relevant benchmark.

Fund Manager	Value of Fund (£m)[1]	Over /(Under) performance		
		Performance	Benchmark Performance	Over / (under) performance
Equity				
Baillie Gifford & Co	227.4	12.6	11.2	1.4
Legal and General Investment Management	278.0	8.3	12.1	(3.8)
Mirabaud Investment Management Ltd	29.3	(0.2)	1.2	(1.4)
Veritas Asset Management (UK) Ltd	173.9	13.7	11.2	2.5
Alternatives				
Arrowgrass Capital Partners LLP	91.9	4.1	0	4.1
Landsdowne Partners Limited	177.4	11.6	0.5	11.1
Odey Asset Management LLP[1]	186.5	17.1	0	17.1
Bonds				
CQS	127.1	3.1	0.5	2.6
Investec Asset Management	114.1	1.1	0.2	0.9
Cash				
JP Morgan	95.1	0.3	n/a	n/a
Property				
Pramerica Real Estate Investors Ltd (Commercial)	133.0	13.3	1.6	11.7
Pramerica Real Estate Investors Ltd[1] (Residential)	43.1	2.0	0.6	1.4
Private Debt				
Hayfin Capital Management	55.3	4.9	0	4.9
	1,732	9.0	8.7	0.3

1 Appointed during the year (Odey 1 July 2014 & Pramerica 1 June 2014).

During 2014 the Scheme achieved a return of 9.0% against a benchmark gain of 8.7%. This outperformance of 0.3% is mainly due to:

- The Scheme's allocation to alternative investments outperformed their benchmark returns by a significant amount and accounted for around 2.6% of the outperformance over the period.
- The Scheme's active investment managers collectively underperformed their benchmark return in a rising market. This detracted around (0.4%) from returns.
- The Scheme having more assets in equities during the year than the benchmark allocation. Given the performance of equities relative to the bonds that make up the benchmark, this led to a detraction of (0.5%).
- The Scheme's tactical allocations to emerging market debt, performed poorly over the year compared to Index-Linked Gilts and Corporate Bonds, which form part of the strategic benchmark. This position detracted approximately (2.6%) from returns.

- Lastly, the Scheme'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 1.2% 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, but with greater risk.

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 45).

LONG-TERM INVESTMENT STRATEGY

The table below sets out the Scheme'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 equities by 7.5% and increasing the allocation to alternatives by 7.5%

Asset Category	Current Benchmark %	Actual Assets %
Growth Investments	55	60.0
Equities	35	34.9
Alternatives	20	25.1
Bond-Like Investments	45	40.0
Property	10	8.7
Bonds	20	11.9
Salary-Linked Bond (see note below)	15	14.7
Cash	-	4.7
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 25.

Throughout recent years the Investment Subcommittee has maintained two tactical asset allocation positions following the advice of Mercer and other industry experts. The first 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). The second has been an overweight holding in equities on the basis that it is believed they offer medium to long term value. During the year this position has been reduced so that by year end the actual allocation to equities is broadly in line with the strategy; however, the allocation to alternatives remains above benchmark. The reason for this decision is that the Investment Subcommittee has been advised that the valuations of equities are reaching high levels and volatility is expected in the markets with the alternative assets (hedge funds) aiming to provide downside protection in uncertain times.

ETHICAL, SOCIAL AND GOVERNANCE ASPECT OF INVESTING

The Investment Subcommittee has considered the Ethical, Social and Governance (ESG) aspects of investing the Scheme's assets and has decided on its position for this area. The Scheme has agreed to support the UK Stewardship Code and that each of the Scheme's investment managers should be asked to prepare a report on their approach to the UK Stewardship Code and ESG aspects in preparation for their annual meetings with the Subcommittee. This will enable the Investment Subcommittee to monitor the stances taken by their investment managers in this important area. The policy is reflected in the Statements of Investment Principles that can be found on pages 41 – 45.

DEVELOPMENTS DURING THE YEAR

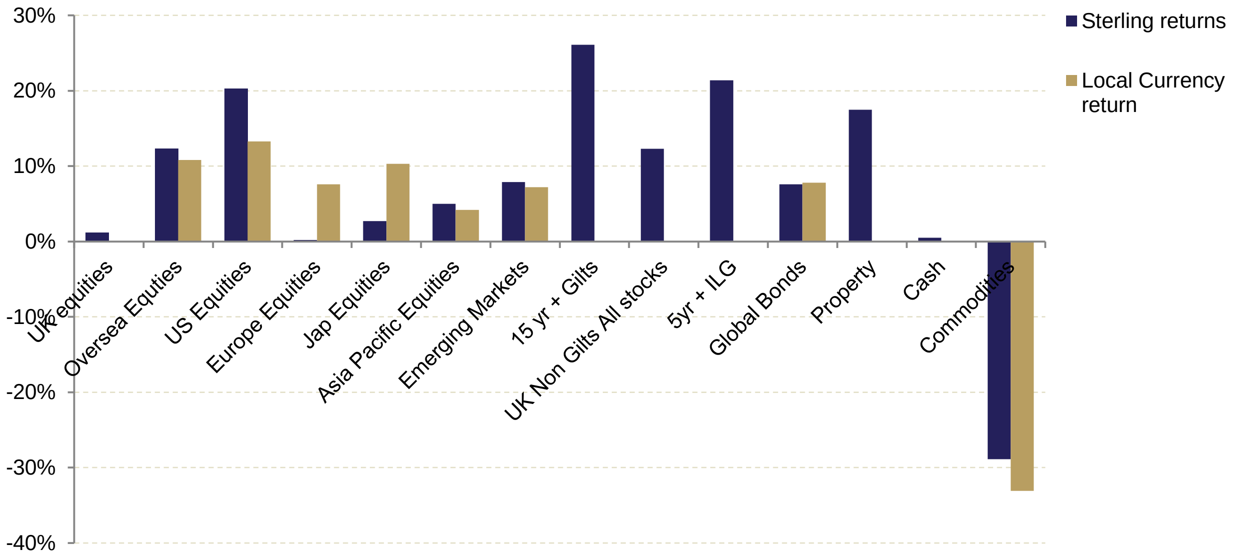
MONITORING INVESTMENT MANAGERS

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

- Transfer of regional passive equity assets managed by Legal and General Investment Management to the Fundamental Indexation mandate managed by the same investment manager.
- Investing £42.6 million in the Pramerica UK Residential Ground Lease Fund II.
- Transferring the assets managed by Odey Asset Management LP from the equity mandate into an Odey hedge fund.
- Started the process to exit the mandate with Mirabaud Investment Management Ltd with the assets being moved to a number of other mandates.

MARKET RETURNS OVER 2014

The chart below details the returns in a number of markets that represent the main asset classes in 2014.



EQUITIES

Global markets had a mixed year but still delivered double digit returns led by the US market growing 20%. Central Banks around the world continued to influence the markets. In the US and the UK the asset purchases were tapered and finally stopped, however further tightening of monetary policy (raising interest rates) did not occur. In Japan and Europe the reverse occurred with Japan increasing the rate of asset purchases and the European Central Bank easing monetary policy but stopping short of actual asset purchases. In addition there were regional issues such as the Scottish election, the war in Ukraine, the rise in power of Islamic State in the Middle East and the Chinese slowdown which led to uncertainty.

Against this back drop our global active equity managers both outperformed the market producing returns of 12.6% (Baillie Gifford) and 13.6% (Veritas) against the benchmark of 11.2%. The UK equity market struggled with the market only returning 1.2% and our active equity manager, Mirabaud, struggled returning - 0.2%. For strategic reasons namely wanting to reduce equity holdings and wishing to have only global mandates the Investment Subcommittee decided to start the process to exit Mirabaud. This led to the final assets being transferred from Mirabaud in January 2015.

The decision to allow the investment managers, not the Investment Subcommittee, to decide geographically where assets should be invested saw the exit from the regional passive funds that the Scheme has invested in with Legal and General. These assets were transferred to the fundamental indexation mandate that the Scheme has invested in with Legal & General since September 2012.

Over recent years the Scheme has maintained an overweight to equities as it has been advised by Mercer, the investment advisor, that this is the area that is most likely to see excess returns. Following the asset allocation debate in October and due to uncertainty and increased volatility in the markets the advice has changed and Mercer recommended that the equity position be returned closer to the long term strategic benchmark. This decision saw the contract with Mirabaud terminated, the transfer of assets managed with the equity mandate with Odey to the Odey hedge fund, and the positions with other investment managers being reduced.

BONDS

The year started with an additional £25 million being added to the multi asset credit mandate managed by CQS; this manager produced steady returns throughout the year returning 3.1%. The emerging market bond asset class has had a difficult year. Investec has outperformed during this difficult time returning 1.1% against a benchmark of 0.2% with currency depreciation hitting returns especially for countries impacted by lower commodity prices or China's future economic growth. Taking these positions in emerging market debt and multi asset credit detracted from performance against the benchmark as the bonds in the benchmark, UK Corporate Bonds and UK Index Linked Gilts saw double digit growth during 2014.

Capital calls for the HayFin Direct Lending Fund LP have continued throughout the year. These have been funded from the cash reserves the Scheme holds following re-balancing away from equities over recent years. This Fund invests in senior secured credit across Western Europe, providing an alternative financing solution for companies with a relatively modest risk profile. The Scheme committed £90 million to the Fund in 2013 and an additional £15 million during 2014; £50 million remains to be invested in this fund which produced 3.9% in 2014, in line with expectation.

PROPERTY

During the current year there was one capital call for the Pramerica UK Ground Lease Fund that was funded by drawing down from the Scheme's cash holdings; this was the final call for the £33.8 million that was committed in 2012. During 2013 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 remain a number of investors ahead of PECRS in the queue. Once their committed capital has been invested will the PECRS amounts be called.

The movement in the queue for the above Fund has been slow so during the year the Scheme invested in another Pramerica Fund. The Pramerica UK Residential Ground Lease Fund II invests in the ground leases of high end residential property mainly in the South East of England. An initial amount of £42.6 million was invested in June and a further £24 million is proposed to be invested during 2015.

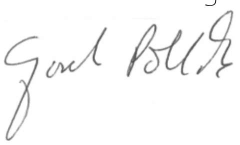
CONCLUSION

Over the last year the Scheme's investments have performed strongly, delivering a return of 9% and exceeding the scheme specific benchmark by 0.3%. The Committee of Management has continued to keep their strategic investment allocation under review and make changes where it is felt in the best interest of the Scheme and its members. The approach to corporate governance has been reviewed and our decision to rely on the Scheme's investment managers to vote at company meetings on our behalf has been re-confirmed.

During the year we received the results of the 2013 actuarial valuation which showed a £92.7 million surplus. This has enabled previous reductions in the pension increase to be repaid and the Scheme to return to paying pension increases equal to Jersey cost of living index.

It is reassuring that the Public Employees Pension Law (PEPL) was passed by the States and received Royal Assent in 2014. This enables the Scheme to be changed with the aim of ensuring it is sustainable, affordable and fair for the long term. In September 2014, it was announced that the target date for proposed changes to the scheme which will see the introduction of a Career Average Revalued Earnings (CARE) Scheme would be deferred by a year to 1st January 2016. This implementation date will apply to new employees. The CARE Scheme implementation date for existing employees will be 1st January 2019. During the year the Committee of Management has been working with the States to ensure that agreed arrangements are properly funded and that benefits earned up to the date of the change are protected. The Committee will inform Scheme members as and when there are significant developments to report.

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 Scheme are maintained. This has been my first year as Chairman of the Committee of Management, a role to which I was appointed in July 2014. I would like to thank all those involved in the Scheme for the support that they have provided during my first year as Chairman and look forward to working with the whole team in the coming years.



Gordon Pollock BSc, FFA
Chairman of the Committee of Management
1 July 2015

FUND ACCOUNT

for the year ended 31 December 2014

	Note	2014 £'000	2013 £'000
Dealings with members			
Contributions			
Contributions	4	58,697	53,660
Transfers in		2,704	1,940
		61,401	55,600
Benefits			
Benefits	5	65,066	63,329
Leavers	6	3,167	3,738
Benefits administrative expenses	7	1,489	1,563
		69,722	68,630
Net reduction from dealings with members		(8,321)	(13,030)
Returns on investments			
Change in market value of investments	10	148,723	242,871
Gain on outstanding trades		198	92
Realised loss on foreign exchange		(233)	(104)
		148,688	242,859
Investment income	8	13,371	12,784
Investment administrative expenses	9	(551)	(431)
Investment management expenses	3e	(21,281)	(14,893)
		(8,461)	(2,630)
Net returns on investments		140,227	240,229
Net increase in the Scheme's assets during the year		131,906	227,199
Net assets of the Scheme			
At 1 January		1,600,783	1,373,584
Net assets of the Scheme at 31 December		**1,732,689**	**1,600,783**

All results were derived from continuing operations.

NET ASSET STATEMENT

as at 31 December 2014

	Note	2014 £'000	2013 £'000
Investment assets	10		
Fixed interest securities	11	-	7
Equities	12	419,228	478,219
Managed and unitised funds	13	1,033,705	927,190
Property Managed funds	14	175,381	110,912
Investment assets		1,628,314	1,516,328
Cash with custodian		103,406	50,410
Broker cash for investment		2,995	25,681
Total investment assets		1,734,715	1,592,419
Current assets	15	5,940	9,772
Current liabilities	16	(7,966)	(1,408)
Net assets of the Scheme at 31 December		**1,732,689**	**1,600,783**

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.

Richard Bell
Treasurer of the States
1 July 2015

These accounts were received and approved by the Committee of Management on 1 July 2015.

Gordon Pollock BSc, FFA
Chairman of the Committee of Management
1 July 2015

NOTES FORMING PART OF THE ACCOUNTS

for the year ended 31 December 2014

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) Investment management 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 Odey, Arrowgrass and Lansdowne are paid performance fees for out-performing their benchmark.

f) Other expenses

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.

g) 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.

h) 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.

i) 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.

j) Cash

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

k) 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.

l) 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

	2014 £'000	2014 £'000	2013 £'000	2013 £'000
States employees				
Employers				
Normal		33,388		31,210
Additional				
Past Service Debt	7,316		5,262	
Augmentation	176		170	
		7,492		5,432
Members				
Normal	12,558		11,749	
Additional voluntary contributions	505		484	
		13,063		12,233
Admitted Bodies				
Employers				
Normal		3,204		3,217
Members				
Normal	1,514		1,529	
Additional voluntary contributions	36		39	
		1,550		1,568
		58,697		**53,660**

5. BENEFITS PAYABLE

	2014 £'000	2013 £'000
Pensions	56,821	54,942
Commutations and lump sum retirement benefits	7,633	8,350
Lump sum death benefits	612	37
	65,056	**63,329**

6. LEAVERS

	2014 £'000	2013 £'000
Refunds to members leaving service	260	276
Individual transfers to other Schemes	2,907	3,462
	3,167	**3,738**

7. BENEFITS ADMINISTRATIVE EXPENSES

	2014 £'000	2013 £'000
Salaries and office costs	784	596
Actuarial fees	498	413
Audit fees	77	54
Legal fees	132	195
Chairman and secretary fees	126	117
Pension systems	-	59
Insurance	(148)	80
Other expenses	20	49
	1,489	**1,563**

Insurance is the net figure of the cost of the insurance policies taken and the amounts received from these policies.

8. INVESTMENT INCOME

	2014 £'000	2013 £'000
Dividends from equities	9,397	9,647
Income from property managed funds	4,292	3,650
Income on cash deposits	170	134
Other income	3	6
	13,862	13,437
Less irrecoverable withholding tax	(491)	(653)
Total investment income	**13,371**	**12,784**

9. INVESTMENT ADMINISTRATIVE EXPENSES

	2014 £'000	2013 £'000
Custodian expenses	56	71
Investment advisory expenses	495	339
Tax on stock lending	-	6
Other investment expenses	-	15
	551	**431**

10. INVESTMENT ASSETS

	Note	Value at 1.1.14 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in Market Value £'000	Value at 31.12.14 £'000
Fixed Interest Securities	11	7	-	(3)	(4)	-
Equities	12	478,219	140,965	(238,884)	38,928	419,228
Managed and Unitised Funds	13	927,190	432,265	(422,448)	96,698	1,033,705
Property Managed Funds	14	110,912	52,009	(541)	13,001	175,381
Derivatives		-	212	(312)	100	-
		1,516,328	**625,451**	**(662,188)**	**148,723**	**1,628,314**

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 £0.9m (2013: £0.8m).

A breakdown of the geographical split of assets as at the year-end can be found on page 17.

11. FIXED INTEREST SECURITIES

	2014 £'000	2013 £'000
United Kingdom Quoted	**-**	**7**

12. EQUITIES

	2014 £'000	2013 £'000
United Kingdom Quoted	54,960	142,026
Overseas Quoted	364,268	336,193
	419,228	**478,219**

13. MANAGED AND UNITISED FUNDS

	2014 £'000	2013 £'000
United Kingdom Quoted	392,390	445,986
Overseas Quoted	641,315	481,204
	1,033,705	**927,190**

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.

	2014 £'000	2013 £'000
United Kingdom Quoted	206,165	203,436
Overseas Quoted	827,540	723,754
	1,033,705	**927,190**

14. PROPERTY MANAGED FUNDS

	2014 £'000	2013 £'000
United Kingdom Quoted	**175,381**	**110,912**

15. CURRENT ASSETS

	2014 £'000	2013 £'000
Contributions due	243	270
Debtors	661	865
Cash balances	3,904	4,012
Unsettled Trades - Sales	-	3,689
Accrued interest	1,132	936
	5,940	**9,772**

16. CURRENT LIABILITIES

	2014 £'000	2013 £'000
Creditors	(5,526)	(1,373)
Unsettled trade purchases	(225)	-
Advances from States of Jersey	(2,215)	(35)
	(7,966)	(1,408)

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 £2,214,593 (2013: £35,705) was owed by the Scheme to the States of Jersey in respect of transactions with the department. During the year an amount of £750,200 (2013: £537,279) 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 2014 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 Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Committee of Management; 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 2014 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,
1 July 2015

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 2013

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 2015 will be in line with the annual increase in the All Items Retail Prices Index for Jersey (Jersey RPI). This opinion is based on the financial position of the Scheme at the effective date, 31 December 2013, and does not take account of more recent developments.

Our report on the valuation of the Scheme as at 31 December 2013 was signed on 31 October 2014. The report disclosed a surplus of £92.7M at the effective date of the valuation.

The surplus of £92.7M as at 31 December 2013 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 RPI less 0.15% p.a.. In accordance with the Scheme's Regulations, part of this surplus was used to restore previous reductions to pension increases and remove the 0.15% p.a. reductions for future pension increases. Future increases to pensions and deferred pensions effective on or after 1 January 2015 will therefore be in line with the annual increase in the Jersey RPI.

We confirm that the adjustment to future pension increases outlined above eliminated £38.1M of the surplus of £92.7M at the effective date of the valuation and it has been agreed that the remaining surplus of £54.6M should be retained as a buffer against future adverse experience.

A further valuation is due to be carried out as at 31 December 2016.

2. SECURITY OF ACCRUED RIGHTS ON DISCONTINUANCE

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 currently 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 2013 and is reproduced in Appendix 1 to this statement. 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 to this statement.

For Aon Hewitt Limited

Jonathan Teasdale
Fellow of the Institute and Faculty of Actuaries

14 April 2015

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 £1,600.8M at 31 December 2013.

b) an annuity policy which we have valued at £0.4M 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.

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 1 to this statement (in accordance with point 9 of this agreement, additional payments are being made by the States under the States of Jersey Medium Term Financial Plan 2013 - 2015 to accelerate repayment of the debt). The States of Jersey have agreed to take on responsibility for the debt repayments due in respect of Family Nursing and Home Care.

f) additional future contributions of 13.0% of the salaries payable by the States of Jersey Ambulance Service in respect of members employed as Emergency Ambulance Officers over the period prior to 31 December 2014 and 14.5% of the salaries of those members thereafter.

g) additional future contributions of 6.4% 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 2014, and 10.0% of the salaries of those members thereafter.

h) contributions payable by Jersey Telecom Limited at the rate of 7.19% of salaries to 1 December 2014, and at the rate of 7.07% 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 8.14% of salaries to 1 December 2014, and at the rate of 8.27% 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 ON DISCONTINUANCE

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 RPI less 0.15% 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 2013.

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 its investment policies.

The Committee is responsible for managing the Scheme's assets in accordance with the relevant regulations. To allow the more detailed consideration of investment issues, the Committee has established an Investment Subcommittee ("the Subcommittee") which is a sub-group of the Committee. The Subcommittee typically meets formally five times a year and reports, advises and makes recommendations to the Committee on investment and financial matters relating to the Scheme, in particular on investment strategy and with regards to the investment managers. The Subcommittee also implements and executes investment strategy decisions on behalf of the Committee, including movement of funds between investment managers for this purpose. The Committee receives an investment report at each of its quarterly meetings; investment is also a regular standing item.

INVESTMENT OBJECTIVE

The Committee's key investment objective is to invest the assets of the Scheme to ensure that the benefits to which members are entitled under the Scheme are provided. In order to achieve this, the Committee is aware that there are two main variables, contributions and investment returns.

Taking account of the contributions available (which are set in the Scheme's regulations), the funding position and current pension increases, the Committee establishes a level of investment return which should be targeted (this is currently a return of UK Index-Linked Gilts + 2.8% per annum excluding the Salary Linked Bond). The Committee, with the support of their investment advisor (Mercer), then develops a long-term investment strategy in order to achieve this target return without taking undue levels of risk. This investment strategy is kept under regular review by the Committee.

INVESTMENT STRATEGY

As noted above, the Committee's key investment decision is the long-term investment strategy. The most important decision within this is the split between growth and bond-like assets. This will have the biggest influence on the overall level of return and risk that is achieved. The table below details the investment strategy including and excluding the Salary Linked Bond, along with the level of flexibility that the Committee has to manage around the long-term targets.

Asset Class	Investment strategy (including SLB) %	Investment strategy (excluding SLB) %	Range %
Growth Investments	55.0	65.0	+/- 10.0
Equities	35.0	41.5	+/- 10.0
Alternatives	20.0	23.5	+/- 10.0
Bond-like Investments	45.0	35.0	+/- 10.0
Property	10.0	11.7	+/- 5.0
Bonds	20.0	23.3	+/- 10.0
Cash	0.0	0.0	+/- 10.0
Salary Linked Bond	15.0	-	+/- 5.0

The investment strategy above is set following advice from the Committee's investment advisor. Having been approved by the Committee, it is referred to the Minister for Treasury & Resources for agreement. The investment strategy is kept under regular review by the Committee.

Growth assets are defined by the Committee as those assets that are aiming to achieve a reasonably high level of investment return over the long-term. The downside of targeting a higher return is that the value of these assets will typically be volatile over time.

The core "growth" asset used by the Scheme is equities as the Committee believes that they represent the cheapest, easiest and most transparent way to achieve a high level of investment return over the long-term. The Committee recognises however that the performance of equities can be volatile over time.

To diversify the Scheme's growth assets away from equities, and provide a different source of return, the Committee has invested in other "growth-like" alternatives that still target a reasonably high investment return. Examples of this include hedge funds. The Committee is aware that investing in alternatives brings with it other risks (such as illiquidity) and can result in higher fees. As a result of the added complexity that an alternative investment can bring, the Committee undertakes significant due diligence both prior to investment and on an ongoing basis.

Bond-like assets are defined by the Committee as those assets that are aiming to achieve a much more stable return (when compared to growth assets) typically with a strong focus on the provision of income.

The core "bond-like" asset used by the Scheme is bonds with the target allocation focused on gilts (bonds issued by the UK government) and investment grade UK corporate bonds (bonds issued by high quality companies in sterling). Within the bond allocation, the Committee has a wide degree of flexibility to invest in other bonds if it thinks it is appropriate to do so on valuation grounds. Examples of this include taking a more global approach, investing in high yield bonds, private debt, or considering the bonds of emerging market economies.

Similar to the growth allocation, the Committee has considered whether to diversify into other asset classes to try to achieve a similar level of return at less risk. As a result of this, the Committee has made an allocation to ground lease property. This aims to provide an inflation-linked stream of income in a low risk way.

A continuing asset is the Salary Linked Bond which the Scheme holds. This consists of a series of annual payments from the States to meet an earlier past service liability (the "Pre-1987 Debt").

INVESTMENT MANAGERS

To manage the above investment strategy, the Committee delegates the day-to-day management to a number of investment managers that are appointed by the Scheme. These managers are appointed on a discretionary basis where they have delegated responsibility for buying and selling investments on behalf of the Scheme, subject to agreed constraints and relevant legislation.

Prior to the appointment of an investment manager, the following steps are adhered to:

- Advice and a recommendation is provided by the Scheme's investment advisor;
- A presentation (along with supporting material) is provided by the investment manager to the Subcommittee;
- Formal due diligence is undertaken on the investment manager from a legal, investment and operational perspective; and
- Approval is required from the Minister of Treasury and Resources.

After appointment, the investment managers are also subject to regular review by the Subcommittee. Where appropriate, changes will be made, for example, if the investment manager is not delivering a return or level of risk in line with expectations and / or as a result of a wider change in the Scheme's investment strategy.

The current investment managers appointed by the Scheme are shown below. Each manager makes use of a custodian who will independently hold the assets for the investment manager. This custodian is either appointed by the Committee (JPMorgan in the case of segregated mandates) or by the investment manager (in the case of a pooled investment).

Asset Class Growth Investments	Mandate	Manager
Equities	Global Equity	Baillie Gifford & Company
	Global Equity	Veritas Asset Management
	Global Equity	Legal & General Investment Management
Alternatives	Long / Short Equity	Lansdowne Partners
	Long / Short Equity	Odey Asset Management
	Multi-Strategy	Arrowgrass Capital Partners
Bond-like Investments		
Property	Ground Lease Property	Pramerica Real Estate Investors
Bonds	Multi-Asset Credit	CQS
	Emerging Market Debt	Investec Asset Management
	Private Debt	Hayfin Capital Management
Cash	Cash	JPMorgan
Salary Linked Bond		n/a

INVESTMENT RISK

One of the key concerns of the Committee is investment risk. In order to achieve the target level of investment return, investment risk needs to be taken, which exposes the Scheme to downside risk, specifically the risk that the return does not keep pace with what is required which has funding implications on the Scheme.

This risk can materialise in a number of different ways. Examples of some of the major risks include the following (this is not meant to be an exhaustive list):

- Equity risk: The risk of falling equity markets which can be caused for a variety of different reasons.
- Liability risk: The risk that the Scheme's liabilities increase more quickly than anticipated. This could be caused by falling interest rates, rising inflation and longevity improving (amongst other things).
- Credit risk: The risk that the Scheme does not receive the payments it is expecting from its various bond investments.
- Liquidity risk: The risk arising from holding assets that are not readily marketable and realisable.
- Manager risk: The risk that the Scheme's managers do not deliver against expectations.
- Political / regulatory risk: The risk that a change in environment in which the Scheme operates in has implications for the Scheme's investments.

RESPONSIBLE INVESTMENT AND CORPORATE GOVERNANCE

The Committee believe that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment returns. The Committee have given the Investment Managers full discretion when evaluating ESG issues and in exercising rights and stewardship obligations attached to the Scheme's investments.

Similarly, the Scheme's voting rights are exercised by its investment managers in accordance with their own corporate governance policies, and taking account of current best practice including the UK Corporate Governance Code and the UK Stewardship Code.

The Committee will monitor the investment managers' adherence to the above as part of their regular presentations to the Subcommittee.

STRUCTURE OF SCHEME

In January 2016, the Scheme is expected to split into two Sections, the Pre-2016 Section and the Post-2016 Section. This reflects the change in the Scheme's benefit structure that will take place. In managing each Section, the Committee will adopt the following principles in managing the assets:

- Run each Section as if it were a stand-alone Scheme.
- Minimise costs / maximise benefits whilst not compromising the first principle.
- Clearly document the processes followed and be as transparent as possible.
- Ensure any approach builds in the operational flexibility to allow for change as the two Sections of the Scheme develop over time.

These principles and the approach taken for each Section will be kept under regular review by the Committee. The Committee will be reviewing the strategy in respect of each Section in 2015.

GLOSSARY

Actuary: A consultant who advises the Scheme and every three years formally reviews the assets and liabilities of the Scheme and produces a report on the Scheme'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, Scheme 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.

Best estimate assumptions: Assumptions which have a 50% chance of outcomes being better than expected and a 50% chance of being worse than expected.

CARE Scheme: Career Average re-valued earnings Scheme, A pension scheme where benefits are built up for each working year and then "revalued" annually by an agreed index.

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 Scheme under the powers vested in it by Regulations governing the Scheme. Comprising of; a chairman, six employer representatives and six 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.

DPU: The Dedicated Pension Unit, a section of the States of Jersey Treasury & Resources department.

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.

Jersey RPI: The rate of inflation that retirement benefits are linked to.

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, and 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 sector employees in Jersey and is responsible for fixing the terms and conditions of these employees. It is chaired by the Chief Minister and brings together two members who are Ministers or Assistant Ministers and 2 States 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.

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) 440227

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

Public Employees Contributory Retirement Scheme
Dedicated Pensions Unit
Cyril Le Marquand House
PO Box 353
St Helier
Jersey
Channel Islands
JE4 8UL

Opening times: Monday to Friday from 9am to 5pm

Website www.gov.je/statesemployeespension

THE COMMITTEE OF MANAGEMENT IS RESPONSIBLE FOR THE MAINTENANCE AND INTEGRITY OF THE CORPORATE AND FINANCIAL INFORMATION INCLUDED ON THE SCHEME'S WEBSITE. LEGISLATION IN THE UNITED KINGDOM GOVERNING THE PREPARATION AND DISSEMINATION OF FINANCIAL INFORMATION DIFFERS FROM LEGISLATION IN OTHER JURISDICTIONS