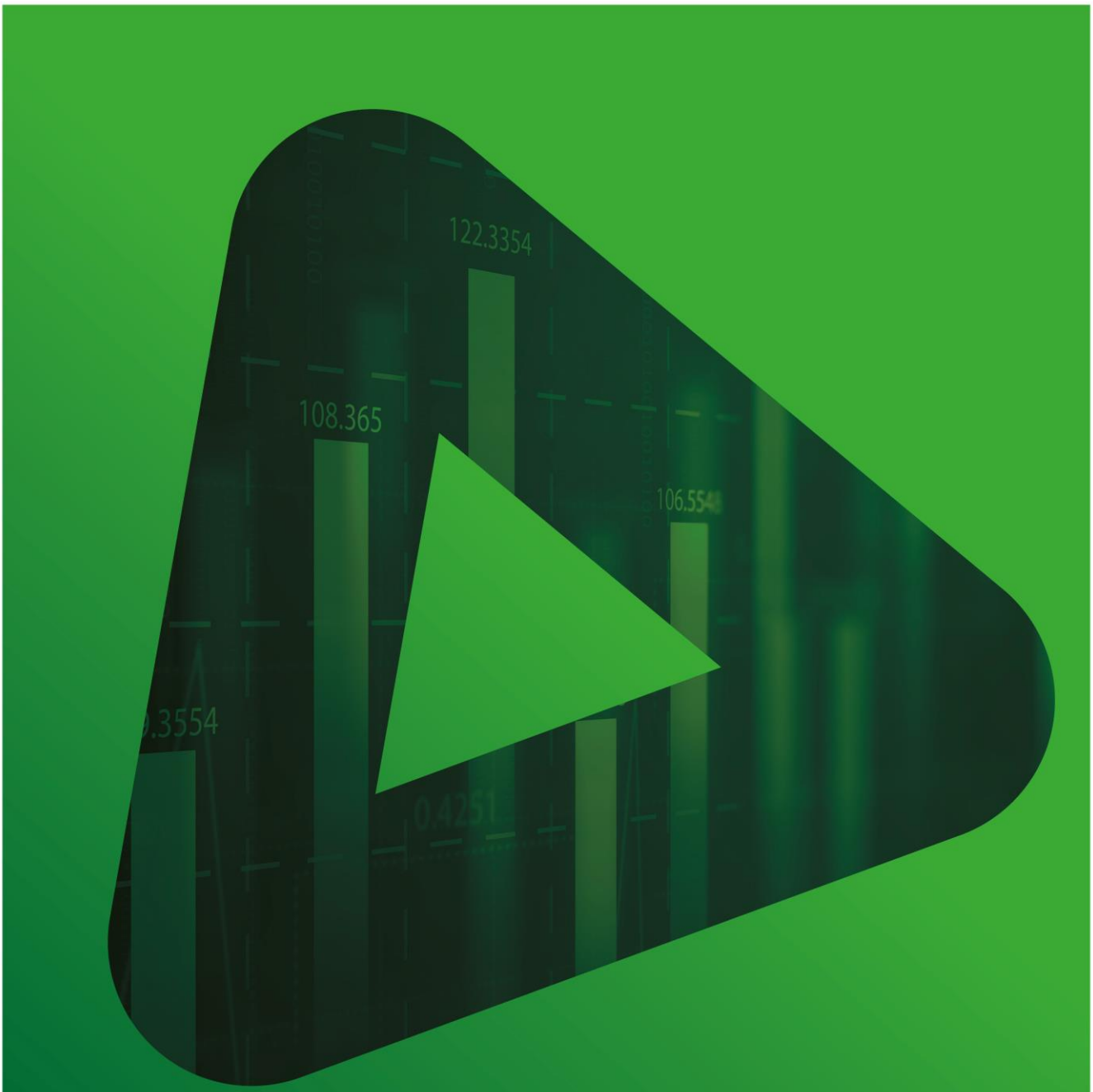
Government of JERSEY

JTSF Jersey Teachers' Superannuation Fund



Statement of Investment Principles

Jersey Teachers' Superannuation Fund

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Statement of Investment Principles

This Statement sets out the principles governing decisions about the investment of the assets of the Jersey Teachers' Superannuation Fund ("JTSF" or "the Fund"). This Statement is issued by the Management Board ("the Board") and provides a formal statement of investment policies.

The Board is responsible for setting the investment strategy to manage the Fund's assets in accordance with the relevant orders. In Q2 2013 the decision was taken by the Board to transfer the majority of the Fund's assets into the Government of Jersey – Common Investment Fund ("CIF"). Following this decision operational control of the assets was placed with the Government of Jersey Treasury Advisory Panel ("TAP"). The TAP typically meets a minimum of four times a year to consider investment performance, appointment / dismissal of Investment Managers and reviewing potential new asset class strategies. The Board reviews its investments at each of its quarterly meetings, using the quarterly monitoring report prepared for the CIF and typically reviews the overall investment strategy of the Fund at least annually.

Investment Objectives

The Board's key investment objective is to invest the assets of the Fund to ensure as far as possible that members' benefits can be paid as and when they fall due. In order to achieve this, the Board starts from the position that there are a number of main variables which it needs to balance. These include, in particular, the level of contributions, likely investment returns and the outlook for inflation.

Taking account of the contributions available (the levels of which are set in the Fund's Orders) and the benefits expected to be payable from the Fund, the Board establishes a target level of investment return, which currently is a real return of 2.8%, and which formed the basis of the last actuarial valuation of the Fund in 2018. The target is reviewed with the Fund's Actuary (Aon) and Investment Adviser (Aon) ahead of each triennial valuation. The Board, with the advice of both, then develops a long-term investment strategy in order to seek to achieve at least this target return. In targeting this return, the Board considers the amount of risk that it is necessary to take, the implications of this and also where that risk is being taken. This investment strategy is kept under annual review by the Board.

Investment Strategy

The Board's main investment decision is to decide the long-term investment strategy. The most important element of this is the balance between return seeking and risk reducing assets which, other things being equal, is likely to have the biggest influence on the overall level of return achieved having regard to the Fund's liabilities and the level, and balance, of risk that is taken. The table below details the investment strategy, along with the level of flexibility that the Board and Treasury & Resources department has to manage around the long-term targets.

Asset Class	Long Term Strategy %	Range
Return Seeking Assets		
Global Equities	45	40 – 50
Illiquid Alternatives	15	0 – 20
Diversifying Assets		
Hedge Funds	15	10 - 20
Alternative Risk Premia	10	0 - 15
Property	10	0 – 20
Bonds/Cash	5	0-10

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

Return seeking assets are defined by the Board 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 more volatile over time.

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

In order to diversify the Fund's growth assets away from equities, the Board has invested in other "growth-like" Illiquid Alternatives that still target a reasonably high investment return. At the total Fund level, a key aim is to reduce the risk of being over-exposed to any one market, asset class or manager, and, therefore, to produce a smoother return over time. These "return seeking asset" alternatives provide differing sources of return less correlated to traditional asset classes. The Board is aware that investing in alternatives brings with it other potential risks (such as illiquidity, less transparency and individual manager risk) and can result in higher fees. Nonetheless, it believes that including alternatives within the growth assets is a desirable strategy in order to spread risk within this element of the portfolio.

Diversifying assets are defined by the Board as those assets that are aiming to achieve a much more stable return (when compared to return seeking assets) typically with a strong focus on the provision of income and/or capital preservation. The Board has made an allocation to UK Commercial Property, Absolute Return Bonds, Alternative Risk Premia and Hedge Funds. These aim to provide a low-risk, relatively uncorrelated, return when compared to equities.

Responsible Investment and Corporate Governance

The Board's Investment Strategy is informed by the Responsible Investment Policy adopted by the TAP. The Board believe that good stewardship and environmental, social and governance ("ESG") issues may have a material impact on investment returns. It believes that the consideration and integration of all financially material considerations, including ESG issues is paramount to this objective.

Similarly, the Board acknowledges its position as a steward of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which the investments reside. It expects TAP and the CIF's investment managers to use their influence as major institutional investors to carry out the Board's rights and duties as a shareholder including voting, and where relevant and appropriate, engaging with underlying investee companies.

The Board acknowledges and is supportive of TAP in its commitment to make ongoing improvements to the CIF's approach and the processes that underpin the delivery of its responsible investment policy to ensure it remains up to date and relevant. It will continually review best practice amongst other large institutional investors, to ensure its policies and approach remain appropriate.

The Board acknowledges that the TAP is taking steps to manage its exposure to risks such as climate change, and monitor the stewardship and responsible investment activities of its investment managers. Its actions in doing so are laid out in its Responsible Investment Policy, which is available to the public upon request.

Investment Managers

To manage the above investment strategy, the Board delegates operational management to the TAP who delegate the day-to-day management to a number of Investment Managers that are appointed by the TAP. These

managers are appointed on a discretionary basis where they have delegated responsibility for buying and selling investments on behalf of the CIF (and hence the Fund), subject to agreed constraints and relevant legislation.

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

- Either; Competitive tendering to allow all potential managers to apply to the set mandate or a selection of manager (s) recommended by the Investment Adviser.
- A presentation (along with supporting material) by the investment manager to the TAP.
- Due diligence on the investment manager from a legal, investment and operational perspective.
- Approval from the Minister of Treasury and Resources for a Fund appointment.

After appointment, the Investment Managers are subject to regular review by the TAP. Their performance is monitored on a quarterly basis against benchmarks, which, in most cases, are based on national and global market indices. Where appropriate, changes will be made; for example, an Investment Manager may not deliver a return or level of risk in line with expectations and, as a consequence, the relevant mandate might be terminated. A wider change in the Fund's investment strategy made by the Board may also result in TAP needing to change the Fund's Investment Managers.

The current Investment Managers appointed by the Fund 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 TAP (Northern Trust in the case of segregated mandates) or by the investment manager (in the case of a pooled investment).

Asset Class		Mandate	Manager
Return Seeking Assets	Equities	Global Equities	Baillie Gifford & Co
			Harris Associates
			Dodge & Cox
			Longview Partners
			Lansdowne Partners (UK) LLP
			Walter Scott & Partners Limited
			TT International Funds Plc
			Sands Capital
	Illiquid Alternatives	Debt Opportunities	M&G Investments
			Alliance Bernstein L.P.
			Schroders Plc
			Kennedy Lewis
		Direct Lending	Ares Management LP
		Bank Capital Relief	Christopher, Robb & Company
			Chorus Capital
		Insurance Linked Securities	Leadenhall Capital Partners
		Property Debt	BentallGreenOak
			Broad Street Real Estate Credit Partners
			PGIM Real Estate
		Infrastructure	Antin Infrastructure Partners
			Basalt Infrastructure Partners
Diversifying Assets	Diversifying Alternatives	UK Commercial Property	Threadneedle Assets Management Ltd
			BlackRock Investment Management Ltd
		Hedge Funds	Adelphi Capital
			Anchorage Capital Group
			FORT
			Brevan Howard Asset Management
			Caxton Associates
			Capital Fund Management
			Davidson Kempner Capital Management
			IPM Informed Portfolio Management
			Marshall Wace Asset Management
			Maverick Capital
			Och-Ziff Capital Management Group
			One William Street Capital Management
			HBK Capital Management

		Alternative Risk Premia	Man Group
			Systematica Investments
	Bonds	Absolute Return	Insight Investment Ltd
			Goldman Sachs Asset Management
			Pictet Asset Management
			PIMCO
	Cash	Cash	Ravenscroft

Investment Risk

One of the concerns of the Board is investment risk. In order to achieve the target level of investment return, an appropriate level and balance of risk needs to be taken, which may expose the Fund to downside risk and the possibility that the returns do not keep pace with what is required to meet the Fund's liabilities.

Risk can materialise in a number of different ways and appendix 1 details the split of responsibility for each risk between the Board, the Treasury Advisory Panel, Treasury & Resources and the Investment Advisor. 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 reasons
- Liability risk: the risk that the Fund's liabilities increase more quickly than anticipated. This could be caused by, amongst other things, falling interest rates, rising inflation and the Fund's members living, on average, longer than assumed by the Actuary in previous Fund valuations
- Credit risk: the risk that the Fund does not receive the payments they are 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 Fund's managers do not deliver performance in line with expectations
- Political / regulatory risk: the risk that a change in the environment in which the Fund's investments operate has adverse implications for the Fund's investments or liabilities
- Operational risk: the risk of loss through maladministration, fraud or the structural complexity of the investment firms, investment vehicles, asset categories and custodians used by both the Fund and managers
- Currency risk: the risk that the exchange rate between sterling and currencies, in which overseas assets have been purchased, changes adversely.

Appendix 1

Responsibility for the management and mitigation of Investment Risk

	Management board	Treasury Advisory Panel	Treasury & Resources	Investment Advisor
Equity risk	The MB has adopted a diversified strategy for the Fund to reduce exposure to equity markets			Aon advises the MB on the appropriateness and size of the Fund's equity allocation and that to other asset classes
Liability risk	The MB sets an investment strategy that is appropriate given the required return of the actuarial discount rate			Aon advises the MB on the long term expected return of JTSF Strategy is reviewed at least after every actuarial valuation
Credit risk	The MB has adopted a diversified strategy that is only partially exposed to credit risk	The ARB and hedge fund pools are diversified across managers and strategies		Aon advises TAP on construction of CIF pools
Liquidity risk	The MB considers its liquidity needs when setting the investment strategy. The majority of assets are highly liquid	TAP have recommended that a range of different pools are made available in the CIF, each with different liquidity profiles		Aon provides advice to the MB on the liquidity of each asset class and takes this into account in its strategy advice
Manager risk	The MB invests across a range of strategies to reduce concentration in any one asset class and to any manager	TAP receive advice on managers from Aon and review this advice at least quarterly. It also has a rolling programme of manager presentations The CIF pools have explicit exposure limits, which are monitored quarterly. Most pools are diversified across a range of managers to reduce manager specific risk		Aon monitors all managers in the CIF on an ongoing basis and provides advice on hiring and firing through its Buy/Qualified/Sell rating system Aon advises TAP on appropriate manager limits

	Management board	Treasury Advisory Panel	Treasury & Resources	Investment Advisor
Political risk	In the main this remains with the MB	TAP receives advice on the implications of regulatory changes on the relative attractiveness of investments		Aon monitor implications of regulatory changes on the relative attractiveness of investments
Operational risk		TAP receive advice on ODD from Aon	T&R monitor disclosure reports for custodians and investment managers It manages cash flows within the CIF and oversees the custodian	Aon provide operational due diligence on all CIF managers. A failure in ODD leads to an automatic sell rating. Any issues reported to TAP