



Jersey Teachers' Superannuation Fund
Annual Report 2019

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Introduction

Welcome to the Annual Report and Financial Statements for the Jersey Teachers’ Superannuation Fund (“JTSF” or “Fund”).

Overview

Total Fund value as at 31 December 2019	Fund value increase in 2019	Investment Return in 2019	Benchmark
£572.9 million	£55.5 million	12.8%	11.0%

During the year, the Fund increased in value by £55.5 million to £572.9 million (2018: £517.4 million). The increase was driven by improved investment returns (totalling £65.3 million) and came despite an increase in net payments to members of £9.8m.

The 2019 investment performance reflects a strong market recovery following negative returns in 2018. The returns of 2019 have been overshadowed by the post year end Covid-19 crisis. The crisis has had a significant negative effect on international markets (and consequently the portfolio) that will last several months, if not years. The portfolio is well diversified, with a long term time horizon and clearly defined sources of liquidity positioning us well in the face of ongoing uncertainty to the impact the crisis will have on pension assets.

The majority of the Fund’s assets are managed within the operational control of the Government of Jersey’s Common Investment Fund (CIF). This enables the Fund to achieve a broad diversification in terms of investment managers and asset classes. The Management Board maintains decision-making responsibility for the strategic asset allocation of the Fund, determining the proportion of Fund assets invested in equities, bonds and property. This is the most important investment decision that the Management Board makes because it has the biggest impact on the Fund’s long term returns.

Operational day to day control of the Fund, including the selection of investment managers, is delegated to the Treasury Advisory Panel (TAP) and the Treasury & Exchequer Department. Two members of the Management Board attend meetings of TAP as observers and contribute their views to TAP discussions on behalf of JTSF. Gordon Pollock, the Chairman of the Management Board, is also a voting independent member of TAP.

The Management Board’s policy is that a formal actuarial valuation should be completed by the Fund Actuary at least every three years. The previous actuarial valuation was completed for 31 December 2016 and ordinarily the next one would have been completed for 31 December 2019. However, to align the Scheme with the Public Employees’ Pension Fund (enabling cost efficiencies between the two Schemes), an earlier valuation was carried out, for the year ended 31 December 2018. This was published in early 2020.

The Fund Actuary determined that as of 31 December 2018 the Fund had a funding level (the relationship between estimated future pension payments and the funds held to pay for those pensions) of 107.8% and a surplus of £45.8 million. This means that the Fund is able to continue increasing current pensions in line

with the Full Annual Increase (a term that links pension levels to movements in the Jersey Retail price Index). However, although the current position is strong, the report also stated that over the longer term contributions into the Fund and investment growth are projected to be insufficient to meet future benefits. This means that a funding shortfall will need to be addressed in the future and is a significant challenge and area of focus for the Management Board.

To this end, acknowledging the good health of the near term position, the Management Board have reduced the target return of the portfolio (reducing the Fund's strategic allocation to relatively volatile equity positions). The strong current position outlined in the most recent actuarial valuation has provided the Management Board with the latitude to position the Fund for the long term best interest of members. This flexibility increases the chance of the Fund meeting its long term objectives in the face of significant global uncertainty.

The Public Employees' Pension Team (PEPT) has worked hard during the year to ensure that the membership has been kept up to date with any developments. Where possible, the Administrator is using electronic communication channels to distribute information to the membership and employers. During the year, the PEPT processed 91% of administration tasks within its 5 day target.

These and other developments are covered in more detail on the following pages. We hope you find the report interesting and informative. As always, we welcome your feedback on the report and indeed on any aspect of the Fund's activities.

Members, Advisors and Managers

Chairman	
Mr G Pollock	
Employer Representatives	Member Representatives
Mr J Leonard Mr J Mills CBE Mr J Turner Mr G White Mr JL Everett Mr TA Le Sueur OBE	Mr C Beirne Mr G Burton Mr T Balston (appointed Jan 2019) Mr M Bardsley Mr T Shaw Mr A Desmond

Advisors to the Management Board

Actuary	AON	Independent Auditors	PricewaterhouseCoopers LLP
Custodian	Northern Trust	Investment Consultants	AON
Bankers	HSBC Plc	Legal Advisors	Carey Olsen
Secretary	Mrs J Ward		

Fund Administrator - The Treasurer of the States

Investment Managers – The table below lists the investment managers appointed by the TAP (newly appointed managers include appointment dates).

Christofferson, Robb & Company is a manager within the Opportunities Pool. MAN Group and Systematica Investments manage the Alternative Risk Premia Pool, JTSF had not holding in this pool until 2020.

	Appointed		Appointed
Antin Infrastructure		Insight Investment Limited	
Adelphi Capital		IPM Informed Portfolio Management	
Anchorage Capital Group		Lansdowne Partners (UK) LLP	
AQR Capital Management		Leadenhall Insurance	
Ares Management LLP		Longview Partners	
Arrowgrass Capital Partners		MAN Group	August 2019
Baillie Gifford & Co		Marshall Wace Asset Management	
Basalt Infrastructure Partners		Maverick Capital	
Blackrock Investment Management Limited		M&G Investments	
Brevan Howard Asset Management		Sculptor (formally Och-Ziff Capital Management Group)	
Broad Street Real Estate Credit Partners		One William Street Capital Management	
Caxton Associates		Pictet Asset Management Ltd	
Capital Fund Management		PIMCO	
Christofferson, Robb & Company	September 2019	Ravenscroft (prior Royal London Asset Management)	
Davidson Kempner Capital Management		Systematica Investments	July 2019
Dodge & Cox		Threadneedle Asset Management Limited	
Goldman Sachs Asset Management		Unigestion SA	
Green Oak Real Estate LP		Walter Scott & Partners Limited	
Harris Associates		Winton Capital	
Highline Capital Management			

Participating Employers

In addition to Government schools, a number of accepted schools participate in the Fund.

Scheme Employer
Government of Jersey (includes all non-fee paying and fee paying schools)
Admitted Bodies
Beaulieu Convent School Limited
De la Salle College
FCJ Primary School
St George's Preparatory School
St Michael's Preparatory School

Governance Arrangements

Summary of Governance Arrangements

The Fund is governed by Orders made under the Teachers' Superannuation (Jersey) Law 1979, as amended.

Under those Orders the Management Board has a wide range of responsibilities which include establishing the investment strategy of the Fund, appointing and instructing the Fund's actuary, and ensuring benefits are paid to members in accordance with the Orders. To facilitate this, the Management Board has set up a number of subcommittees with specific responsibilities.

The table below sets out the subcommittees and their membership during the year end. Each subcommittee is assisted by the Secretary, officers from the Government of Jersey and advisors as appropriate.

Committee member	Sub Committee			
	Attendance at TAP	Ill Health and Death Benefits	Publications	Audit
Mr G Pollock (Chairman) ¹	•			
Mr M Bardsley				
Mr C Beirne		•		
Mr G Burton ¹	•			•
Mr A Desmond			•	
Mr T Balston				
Mr JL Everett				•
Mr T Le Sueur OBE				Chairman
Mr J Leonard				
Mr J Mills CBE				
Mr T Shaw		•	•	
Mr J Turner			Chairman	
Mr G White ¹	•	•		
Number of meetings in 2019	6	meets as required	meets as required	3

¹ Following the transfer of the Fund's assets into the CIF these members represent the Management Board at meetings of TAP.

Management Board Report

Review of the Year

Actuarial Valuation

The Management Board has adopted a policy for a formal actuarial valuation to be completed by the Fund Actuary at least every three years. Following the 2016 actuarial valuation a new valuation was due to take place at 31 December 2019. However, to align the Scheme with the Public Employees’ Pension Fund and to take advantage of cost efficiencies between the two Schemes, a valuation was carried out for the year ended 31 December 2018 and completed and presented to the States in early 2020.

An actuarial valuation shows the relationship between estimated future pension payments and the funds held to pay for those pensions. The actuary uses a range of assumptions including the average life expectancy of the Fund’s members, investment returns, inflation and interest rates in order to assess the financial position of the Fund.

The valuation was completed on the basis that agreement will be obtained with the Government for the repayment of the Pension Increase Debt. This debt was established in 2007 at a time when changes to the Fund meant that the responsibility for paying pension increases transferred from the Government’s revenue budget to the Fund and relates to a transfer shortfall in respect of certain pension pay increases. The liability has been shown on the Government’s balance sheet since 2007 and the Government has been making repayments towards this debt via the employer contribution rate. Of the employer contribution rate of 16.4% of pensionable pay, 5.6% (£3.4 million in 2019) is paid towards the Pension Increase Debt.

Taking into account the Government of Jersey’s expected future payments to cover the Pension Increase Debt, there was a surplus of £45.8 million in the Fund on 31 December 2018, equivalent to a funding level of 107.8%. At the last actuarial valuation in 2016, the Fund had a surplus of £35.1 million and a funding level of 106.3%.

The demographic assumptions adopted were determined by the Fund Actuary following analysis of the experience of the Fund and taking account of other relevant data. The financial assumptions were derived from market yields at the valuation date to ensure compatibility with the market value of assets. The following table includes the key financial assumptions used in the valuation.

	financial assumptions applied within 2018 valuation %
Discount rate (investment return)	5.75
Jersey inflation	2.95
Rate of salary increase	3.95
Management expense	1.2
Mortality assumption	SAPS S3 "All lives" tables with 95% scaling factor and allowance for future improvements in mortality, with a long-term rate of improvement of 1.5% p.a.

The Fund Actuary confirmed that after 5.6% of the employer contribution rate is used towards repaying the Pension Increase Debt, the employer is paying 10.8% of pensionable pay towards the funding of Scheme benefits. The Fund Actuary identified this as insufficient to fund the benefits being promised, and that there was a shortfall of contribution rate equivalent to 3.9% of pensionable salaries. This represents a significant challenge to the Fund and it will need to be addressed to preserve the long term viability of the Scheme. As a consequence, whilst the Fund had a surplus at 31 December 2018 this is expected to be eliminated over time.

Post year end, the Covid-19 crisis has resulted in a significant fall in market valuations. Although this has reduced the value of Fund assets, it may be expected to increase the yield over the longer term, reducing the overall negative impact on the overall funding level of the Scheme. The long term implications for the investment portfolio remain uncertain but the current funding position does not require the Management Board to take any immediate actions on pensions and the situation is being monitored closely.

The JTSF will next undergo an actuarial valuation as at 31 December 2021. The result of this valuation is expected early in 2023.

Developments in public sector pensions in UK and Jersey

In the UK, recent reforms have led to all the major public sector pension schemes moving to Career Average Revalued Earnings (CARE) basis.

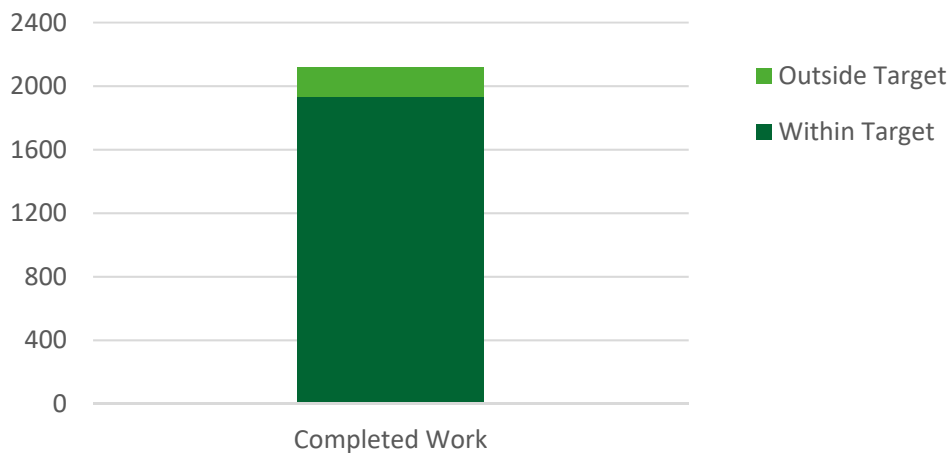
Jersey has made similar changes to its main public employee pension scheme, The Public Employees Contributory Retirement Scheme (PECRS). Since 1 January 2016, all new eligible employees have been admitted into the Career Average Revalued Earnings (CARE) pension scheme, known as the Public Employees' Pension Scheme (PEPS). Existing employees, with the exception of those closest to retirement, moved to Career Average Revalued Earnings (CARE) pension scheme on 1 January 2019.

The changes to PECRS, following similar changes in equivalent UK schemes (including the UK Teachers' Pension Scheme), do not apply to the JTSF. Although the JTSF is in the Public Sector Transfer Club (PSTC) arrangements, it is only permitted to accept club funding of final salary benefits. Teachers who have accumulated CARE benefits in the UK Teachers Pension Scheme are not able to transfer them into the Fund under Club rules.

Administration

The Public Employees' Pension Team (PEPT) deals with around 2,900 Fund members in order to administer the Fund on behalf of the Treasurer of the States (the Administrator of the Fund).

The PEPT provides this service to the Management Board and reports its performance on a quarterly basis. The chart below shows the actual casework volumes during the year and also the volumes completed within the targets set between the Management Board and the Administrator. During 2019, 91% of all tasks were completed within 5 days of receipt of complete information.



The PEPT is also responsible for providing information to employers, employees and other interested parties. The PEPT is reliant on information provided by the Government of Jersey and the five Accepted Schools to administer fund benefits accurately and efficiently.

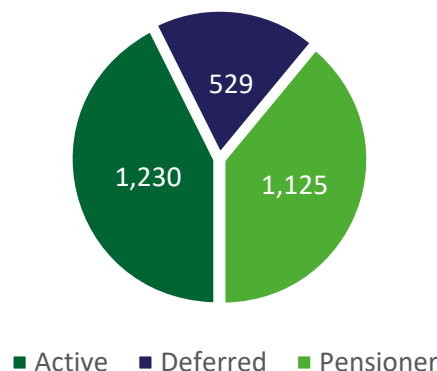
Fund members are increasingly aware of the value of their pension benefits. During the last year, the PEPT has continued to develop member communications and the administration of the Fund. Throughout the year, all correspondence was electronically scanned and workflow management used to process tasks.

During 2019, the PEPT made use of the Government of Jersey Tell Us Once service which provides information about deaths on the Island. This service enables the PEPT to provide additional reassurance to the Management Board that Fund benefits are being paid only to eligible Fund members.

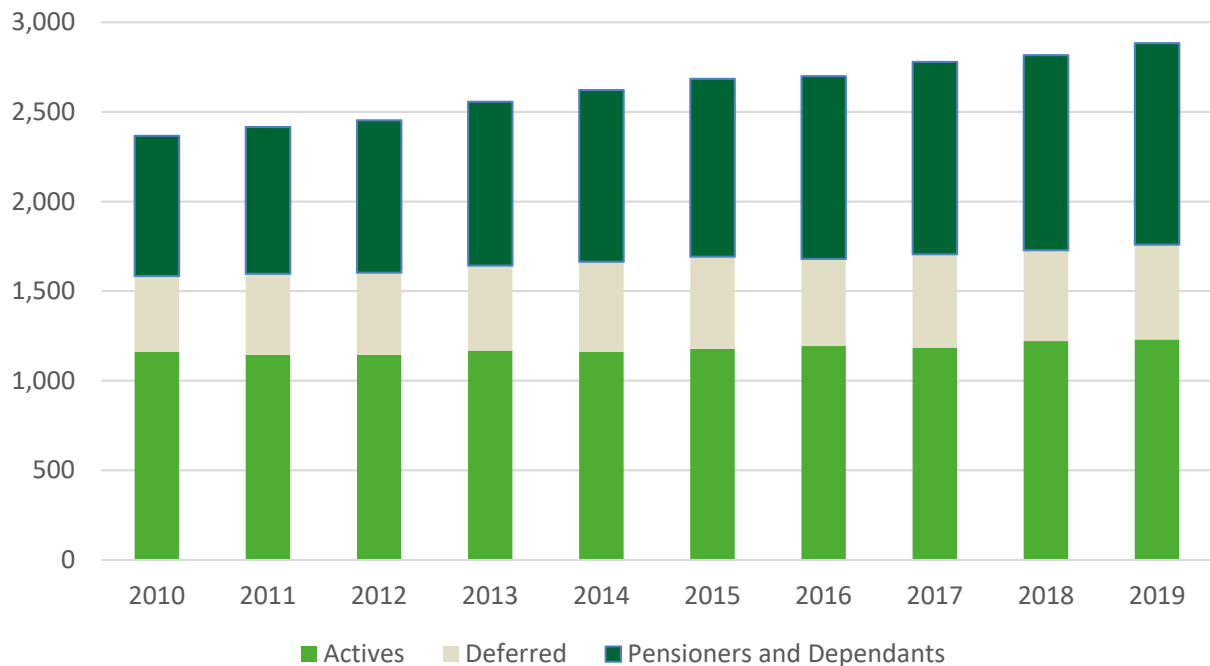
Membership

As at 31 December 2019, the total Scheme membership of 2,884 comprised 1,230 active members, 529 deferred beneficiaries and 1,125 pensioners and dependants.

Total Membership



Fund Membership Numbers over the last 9 years



Pension Increases

JTSF pensions and deferred pensions are increased in line with Jersey RPI, provided that the Fund’s financial position as advised by the Fund Actuary can support such increases.

Pension increases in the past six years have been:

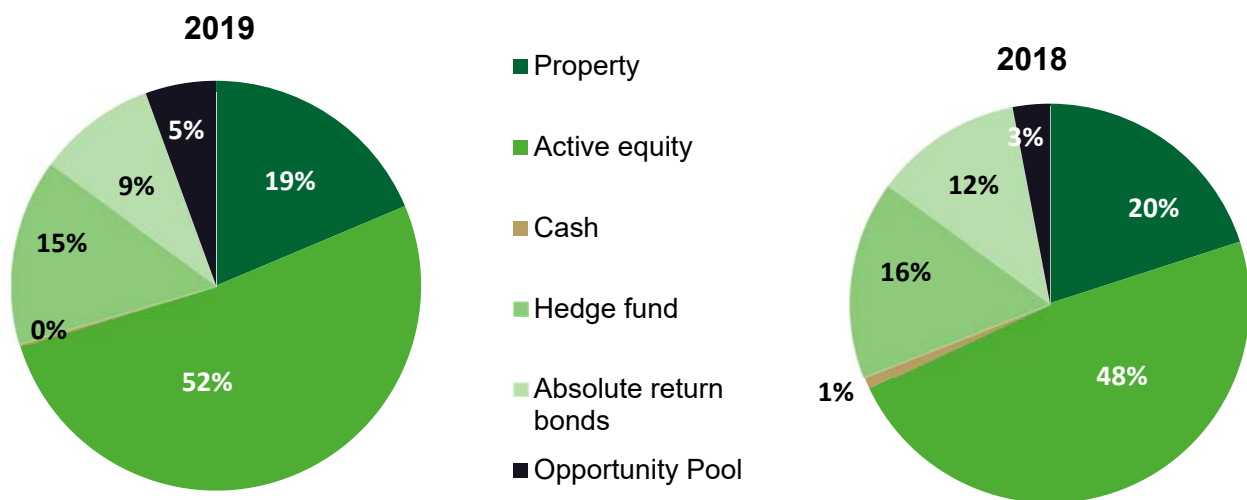
1st January	Jersey RPI % (as at 31 Dec of the preceding year) & JTSF Pension Increase %
2015	1.3
2016	0.9
2017	1.9
2018	3.6
2019	3.9
2020	2.5

Pension increases are subject to the financial position of the Fund remaining satisfactory and are therefore not guaranteed.

Investments

Assets Under Management

As at 31 December 2019 the Fund’s assets under management comprised of £571.5 million (2018: £512.9 million) of units in the CIF and a further £0.9 million (2018: £1 million) of additional voluntary contributions. The assets within the CIF are diversified across different investment managers, investment styles and asset classes. At the year end the Fund was invested in the asset categories illustrated in the charts below.



Investment Performance

The JTSF investments, principally under management in the CIF, increased in value by £58.5 million over the course of the year, resulting in a balance of £572.4 million at 31 December 2019 (2018: £513.9 million). The return of 12.8% was well above the target return of Jersey RPI + 2.85%, outperforming the market benchmark by 1.8%. 2019 saw the continuation of an extended cycle of strong market performance that was interrupted only temporarily by a market correction in the fourth quarter of 2018. Four of the last five years have seen performance in excess of the Fund’s performance target. This has considerably strengthened the position of the Fund.

The Management Board works with its Investment Consultant, Aon, to set the strategic asset allocation for the Fund. Operational control and day to day management of the assets passed to the Fund Administrator and the TAP in 2013 with the Fund moving into the CIF. Oversight of this arrangement is carried out by members of the Management Board attending TAP meetings throughout the year. Investment managers periodically present to the TAP meeting, where performance, developments and holdings are reviewed.

Relative performance is expected to vary across managers, with the asset allocation specifically designed to provide a wide variety of return drivers. Consequently, individually managers are expected to show different performance in different market conditions and at different points in the economic cycle. As an example, the emerging market equity pool has a defensive tilt and is expected to underperform in rapidly rising

markets, but protect the portfolio in falling markets. In isolation, managers may be expected to generate underperformance in certain conditions but in combination allow the Fund to maximise its chance of meeting its return objectives over a full market cycle.

The table below details the performance of the individual pools during the year.

Pool Class		Value of Fund (£m)*	2019 performance		
			Performance %	Benchmark %	Over / (under) %
Equity	Global Active Equity Pool	269.4	25.0	22.4	2.6
	Emerging Market Equity Pool	25.5	6.6	13.8	(7.2)
Alternatives	CIF Hedge Fund Pool	83.5	4.4	1.0	3.4
Bonds	Absolute Return Bond Pool	53.5	4.1	1.0	3.1
Cash	Long Term Cash Pool	1.1	0.8	0.7	0.1
Property	Property Pool	106.6	1.4	1.7	(0.3)
Other	Opportunities Pool	31.9	5.7	2.2	3.5
*May not sum due to rounding		571.5¹	12.8	11.0	1.8

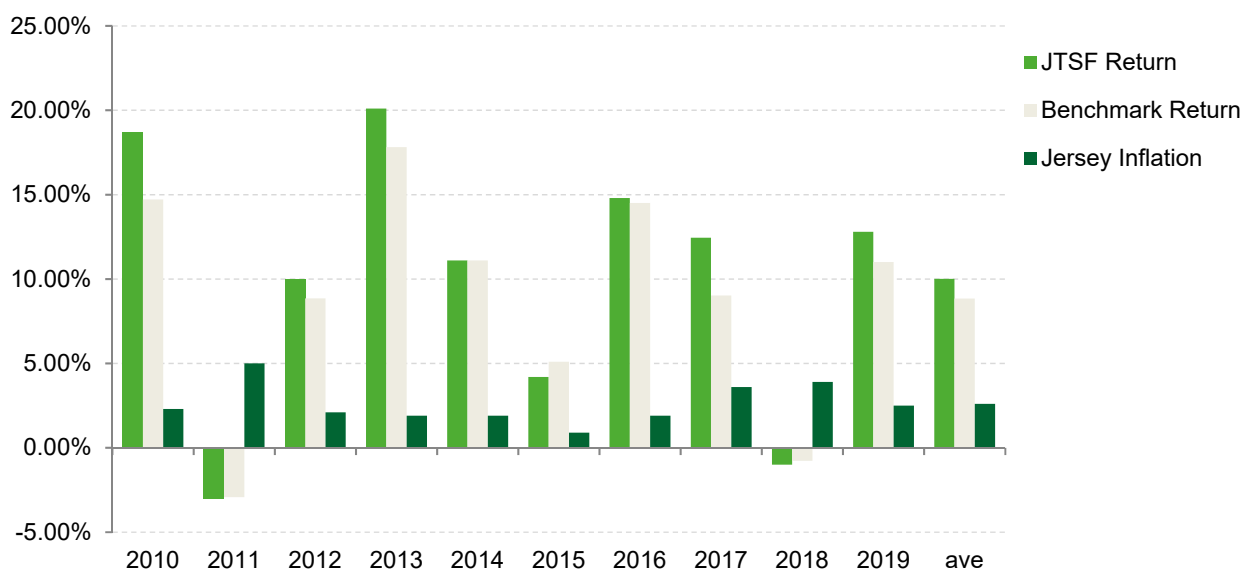
Note¹. Only the assets managed by the CIF are included in this table, see note 10 for other assets.

The Fund's assets are invested to generate returns to pay the Scheme's benefits over the long term. Performance is expected to be volatile when measured over short term time periods such as a single year so is best assessed over a longer timescale, mirroring the Fund's long term investment strategy. Over both five and ten years the Fund has outperformed its required market benchmark returns.

JTSF is a mature pension fund, meaning that the Fund is required to support a significant outgoing cash flow to pensioners who have built up a sizeable liability in the Fund. Pension contributions and investment income alone are currently not sufficient to cover the benefits and expenses, which will reduce the balance of the Fund over time. The Fund's cash flow is monitored, enabling assets to be sold efficiently during the year to ensure the Fund's cash requirements are met.

The following graph shows the overall fund investment returns compared with the benchmark for the ten years from 2010 to 2019. Over that whole period the Fund's investments achieved a return of 10.0% per annum against a benchmark of 8.8% per annum. Jersey RPI over the same period was 2.6% per annum

meaning that the Fund's investments have achieved a real rate of return above Jersey RPI of 7.4% per annum.



Investment Strategy

The Management Board develops the long-term investment strategy with the advice of its investment consultant, AON. The table below sets out the current investment strategy in terms of long-run asset allocation. The Fund is underweight in alternatives due to the time it takes to build positions in this class of assets. The Statement of Investment Principles sets out in more detail the governing decisions about investments for the Fund. It can be found on the Fund website at www.gov.je/yourpension.

Asset Class	JTSF %	Range %	Actual %
Return seeking assets	60.0		57.2
Equities – Developed markets	45.0	40 – 50	47.1
Equities – Emerging markets	5.0	3 – 7	4.5
Illiquid Alternatives	10.0	0 – 15	5.6
Diversifying assets	40.0		42.8
Bonds & cash	10.0	5 – 15	9.5
Hedge Funds	15.0	10 – 20	14.6
Property	15.0	0 – 22	18.7

During the year, the Management Board reviewed its strategic asset allocation and as a result the following changes were implemented.

- The Fund's strategic allocation to alternatives was split to differentiate between the Opportunities Pool and the Hedge Fund Pool, the pools have differing return characteristics increasing diversification of the overall portfolio.
- The Fund pursues its strategic allocation to the 'Illiquid Alternatives' asset class through the Opportunities Pool of the CIF. This asset class contains number of underlying funds to which the Scheme has financial commitments of capital. These commitments are drawn over time as the underlying vehicles identify appropriate investment opportunities and so are expected to move towards their strategic allocation target over time. The Management Board currently continues to fund this allocation from the overweight equity position.
- To mitigate an overweight Property position, the Management Board transferred its investments into distributing share classes. Instead of reinvesting rental proceeds, these classes distribute the proceeds in cash. This avoids the significant cost of liquidating units in the property vehicles and is intended to gradually and cost effectively move the asset class back into line with its strategic aim over time.
- After the year end the Management Board modified the Statement of Investment Principles to reduce the allocation to equity by 5% and to transfer assets to Alternative Risk Premia. This allocation was to reduce the overall risk inherent in the portfolio asset allocation. The transfer was completed in two tranches on 1 February and 1 March 2020.

Post year end events

Post year end the portfolio suffered losses as the market reacted to the Covid-19 crisis and its impact on the world economy. Immediate consequences were the suspension of trading of the Fund's property investments vehicles managed by Blackrock Investment Management Limited and Threadneedle Asset Management Limited due to current valuation uncertainty. The Management Board see this as a sensible step to protect investors which might otherwise be disadvantaged. It is not possible, at this time, to quantify the change in market value in a meaningful way, due to the ongoing volatility. The Management Board continue to monitor the position closely.

Conclusion

2019 saw a strong year of performance for the Fund, with the investment portfolio delivering a return of 12.8%, outperforming its benchmark by 1.8%. The Fund increased in value by £55.5 million to £572.9 million at the end of the year. The actuarial valuation completed during the year also confirmed a strong funding level of 107.8% with a surplus of £45.8 million.

However, although a prolonged period of performance has placed the Fund in a strong position, a number of challenges lie ahead. The Actuarial Valuation highlighted that the level of contribution into the Fund will

be insufficient to meet promised benefits in the future and so a funding shortfall will need to be addressed to preserve the Scheme's long term viability.

Furthermore, the good results of 2019 have been overshadowed by the post year end Covid-19 crisis which is having a significantly negative effect on international markets and consequently the portfolio. The effects of this current crisis are still uncertain and are likely to impact the Fund for a prolonged period, both in terms of economic challenges to the investment portfolio and in the day to day administration of the Scheme.

Fortunately, the strong starting position and robust administrative and governance arrangements have put the Fund in the best possible position to meet these challenges and we enter 2020 with an optimistic outlook. We remain well placed to meet our obligations and to best serve the long term interests of our members.

The Fund relies greatly on the hard work of officers, consultants, actuaries, advisors and investment managers to maintain the high standards that are expected. I would like to thank all those involved in the Fund for the support that they have provided over the last year.

Gordon Pollock BSc FFA

Chairman of the Management Board

28 May 2020

Statement of responsibilities

Responsibilities in respect of the Financial Statements

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS 102”), are the responsibility of the Treasurer of the States (the “Treasurer”). Article 22 of the Teachers’ Superannuation (Administration) (Jersey) Order 2007 require, and the Treasurer is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Fund during the Fund year and of the amount and disposition at the end of the Fund year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Fund year; and
- contain the information specified in the Teachers’ Superannuation (Administration) (Jersey) Order 2007, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging these responsibilities, the Treasurer is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Fund will continue as a going concern.

The Treasurer is also responsible for making available certain other information about the Fund in the form of an annual report.

The Treasurer also has a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The States of Jersey are responsible for the maintenance and integrity of the States of Jersey website. Jersey legislation governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Fund Account for the year ended 31 December 2019

Dealing with Members		Notes	2019 (£'000)	2018 (£'000)
Payments In	Employer contributions		9,984	9,576
	Employee contributions		3,393	3,427
	Total Contributions	4	13,377	13,003
	Transfers in		428	61
Total Payments In			13,805	13,064
Payments out	Benefits paid or payable	5	22,380	22,039
	Payments to and on account of leavers	6	528	1,132
	Administrative expenses	7	695	567
Total Payments Out			23,603	23,738
Net withdrawals from dealings with members			(9,798)	(10,674)
Net returns on investments				
Investment administrative expenses		8	(138)	(85)
<i>* CIF expenses included in the calculation of the NAV</i>		9	(5,280)	(4,135)
<i>* Change in Market Value of Investments (CIF)</i>			70,748	(1,392)
Change in Market Value of CIF Investments		10	65,468	(5,527)
Change in Market Value of Investments outside CIF		10	1	94
Net return/(losses) on investments			65,331	(5,518)
Net increase / (decrease) in the Fund's assets during the year			55,533	(16,192)
Opening net assets			517,358	533,550
Closing net assets			572,891	517,358

*Additional disclosure provided to assist the users of the Financial Statements in their understanding of underlying costs and market movements.

The notes on pages 21 to 32 form part of these Financial Statements

Statement of net assets available for benefits as at 31 December 2019

Investment assets	Notes	2019 (£'000)	2018 (£'000)
Units in the Common Investment Fund	11	571,463	512,995
Additional Voluntary Contributions	19	979	970
Total net investments		572,442	513,965
Current assets	15	1,547	3,579
Current liabilities	16	(1,098)	(186)
Total net assets available for benefits		572,891	517,358

The Financial Statements summarise the transactions of the Fund and present the net assets at the disposal of the Management Board. They do not take into account obligations to pay pensions and benefits which fall due after the end of the Fund year. The actuarial position of the Fund, which takes into account such obligations, is dealt with in the report on Actuarial Liabilities on page 9 of the Annual Report, and these Financial Statements should be read in conjunction with this report.

In accordance with Article 22 of the Teachers' Superannuation (Administration) (Jersey) Order 2007 the Financial Statements have been prepared by the Treasurer of the States and have been audited.

The notes on pages 21 to 32 form part of these Financial Statements. These Financial Statements were received and approved on behalf of the Management Board on 28 May 2020.

Richard Bell
Treasurer of the States
28 May 2020

Gordon Pollock BSc FFA
Chairman of the Management Board
28 May 2020

Notes to the Financial Statements for the year ended 31 December 2019

1. Constitution

The Jersey Teachers Superannuation Fund (the “Fund”) is an independent retirement fund, governed by Orders made under the Teacher’s Superannuation (Jersey) Law, 1979, as amended.

The postal and electronic address of the Scheme can be found on page 41 of these accounts.

2. Basis of Preparation

These Financial Statements have been prepared in accordance Financial Reporting Standards 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland and guidance set out in the Statement of Recommended Practice (revised 2018).

In June 2018, a revised SORP was issued which is applicable to accounting periods commencing on or after 1 January 2019. The revised SORP has been adopted for the first time in these Financial Statements. The adoption of the revised SORP has not had a material impact on Financial Statements, however it has required certain additions to, or amendments of, disclosure in the Financial Statements.

3. Accounting policies

The principal accounting policies applied in the preparation of the Financial Statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

a) Investment income

Bank interest is accounted for on an accruals basis. Dividend income from equities is recognised when the securities are quoted ex-dividend. Income from managed property funds are accounted for on an accruals basis when the dividend is declared.

b) Benefits and payments to and on account of leavers

Benefits are recognised as they become due and payable. Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option exercised.

c) Contributions

Employer and employee contributions are recorded at the date that the contributions are deducted from payroll; these are based on a percentage of the pensionable salary and any pensionable allowances paid to the member.

The Fund has Additional Voluntary Contribution (AVC) arrangements whereby individuals can purchase the equivalent of additional years and days of pensionable service. These are recorded when they are deducted from payroll.

d) Transfers

Transfer values represent the capital sums either receivable from other pension arrangements when members join the Fund or payable to other pension arrangements for members who have left the Fund. They are accounted for on an accruals basis from the date the receiving plan accepts the liability. In the case of an individual transfer, this is normally when the payment of the transfer value is made.

e) Management, performance fees and other expenses

All fees and expenses are accounted for on an accruals basis. Since moving into the CIF, all expenses borne by the CIF are included in the change in net asset value of the units; a breakdown of these expenses is included in note 9 for information.

f) Valuation of investments

The value of the CIF's units is calculated based on the bid price of the investments in the pool and incorporates any costs associated with running or managing the pool. As required by the SORP, details of the Common Investment Fund's portfolio and income is provided. This is included in the appendix to these Financial Statements. AVC vehicles are included at market value as at the year end, and as certified by the providers.

g) Taxation

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

h) Currency

The Fund's functional currency and presentational currency is British pounds sterling.

i) Other expenses

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

4. Contributions

	2019 (£'000)	2019 (£'000)	2018 (£'000)	2018 (£'000)
Government Employees				
Employers				
Normal	8,338		8,073	
		8,338		8,073
Employees				
Normal	2,777		2,713	
Additional voluntary contributions	54		34	
		2,831		2,747
Accepted Schools				
Employers				
Normal	1,646		1,503	
Employees				
Normal	562		680	
		2,208		2,183
	Total Contributions	13,377		13,003

The employer's contribution rate includes 5.6% towards repayment of the Pension Increase Debt.

5. Benefits paid or payable

	2019 (£'000)	2018 (£'000)
Pensions	20,917	19,907
Death Benefits	-	41
Commutations and lump sum retirement benefits	1,463	2,091
Total Benefits	22,380	22,039

6. Payments to and on account of leavers

	2019 (£'000)	2018 (£'000)
Refund of contributions	8	19
Transfers out	520	1,113
Total Payments to and on account of leavers	528	1,132

7. Administrative Expense

	2019 (£'000)	2018 (£'000)
Salaries and office costs	372	280
Actuarial fees	189	126
Audit fees	28	32
Legal fees	37	23
Chairman and secretary fees	61	57
Other expenses	8	49
Total Administrative Expenses	695	567

8. Investment Administrative Expenses

	2019 (£'000)	2018 (£'000)
Custodian expenses	41	40
Investment advisory expenses	97	45
Total Investment Administrative Expenses	138	85

Note 8 discloses investment expenses incurred directly by JTSF, note 9 discloses indirect investment expenses incurred within the CIF and apportioned amongst investors in proportion to their unitholding.

Directly charged investment advisory expenses included in the table above include expenses such as the attendance of meetings of the Management Board by the Investment Advisor and advice with regard to the Strategy of the Fund. The rise in costs incurred in 2019 are attributable to a review of the Fund long term strategic allocation and the addition of the alternative risk premia asset class to the JTSF portfolio which was completed post year end.

Investment advisory fees are also incurred indirectly through the CIF but relate mostly to manager monitoring costs. The value included in note 9 is the proportion of these fees attributed to JTSF.

9. Common Investment Fund (CIF) Expenses

	2019 (£'000)	2018 (£'000)
Custodian expenses	76	71
Investment advisory expenses	86	106
Investment management expenses	5,064	3,896
Other investment expenses	54	62
Total CIF Expenses	5,280	4,135

The increased investment management expenses relates to a rise in the portfolio value and performance fees incurred in 2019. Refer to note 3e for explanation of CIF expenses.

10. Reconciliation of Net Investments

	Note	Value at 1.1.19 (£'000)	Purchases at cost (£'000)	Sales proceeds (£'000)	Change in Market Value (£'000)	Value at 31.12.19 (£'000)
CIF Units	11	512,995	14,250	(21,250)	65,468	571,463
Additional Voluntary Contributions	20	970	8	-	1	979
Total Investments Units		513,965	14,258	(21,250)	65,469	572,442

11. Common Investment Fund Pooled Investment Vehicles

	2019 (£'000)	2019 % of CIF pool	2018 (£'000)	2018 % of CIF pool
Emerging Market Equity	25,526	12.1	23,949	12.0
Active Global Equity	269,396	14.5	223,924	13.8
Absolute Return Bond	53,506	11.8	59,230	11.6
Absolute Return	83,455	16.8	79,707	16.6
UK Property	106,571	100.0	105,076	100.0
Opportunities Pool	31,934	25.0	16,554	25.0
Long Term Cash Pool	1,075	0.5	4,555	1.7
Total CIF	571,463		512,995	

The above figures show the asset split of the pooled funds held within the CIF and is for information purposes only.

12. Fair Value of Investments

The fair value of investments has been determined using the following hierarchy:

Level 1 – Unadjusted quoted prices in active markets for identical securities that the Fund can access at the measurement date.

Level 2 – Inputs (other than quoted prices) that are observable for the instrument, either directly or indirectly.

Level 3 – Significant unobservable inputs i.e. for which market data is unavailable.

Pooled investment vehicles that are traded regularly are generally included in Level 2. Where the absence of regular trading or the unsuitability of recent transaction prices as a proxy for fair values applies, valuation techniques are adopted and the vehicles are included in Level 3 as appropriate.

The value of other pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated. Where the value of the pooled investment vehicle is primarily driven by fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable

approximation to fair value (unless there are restrictions or other factors which prevent realisation at that value, in which case adjustments are made).

The CIF's underlying investment assets have been included at fair value within these levels as follows:

Investment assets	Level			2019 Total (£'000)
	1 (£'000)	2 (£'000)	3 (£'000)	
Pooled Investment Vehicles	211,500	139,627	220,336	571,463
Additional Voluntary Contributions	-	-	979	979
Total investments	211,500	139,627	221,315	572,442

Analysis for the prior year end is as follows:

Investment assets	Level			2018 Total (£'000)
	1 (£'000)	2 (£'000)	3 (£'000)	
Pooled Investment Vehicles	174,445	137,213	201,337	512,995
Additional Voluntary Contributions	-	-	970	970
Total investments	174,445	137,213	202,307	513,965

13. Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks to which the Fund is exposed to at the end of the reporting period. These risks are set out by FRS 102 as follows:

Credit Risk: is the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

Market Risk: this is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk, each of which is further detailed as follows:

- **Currency Risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest Rate Risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other Price Risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Management Board is responsible for determining the Fund's investment strategy. The Management Board has set the investment strategy for the Fund after taking appropriate advice from its professional advisors. This strategy includes ranges for the proportion of assets to be included in each asset class. The

day to day management of the asset within each portfolio of the Fund, including the full discretion for stock selection, is the responsibility of the investment managers.

The Fund has exposure to the above risks because of the investments it makes to implement its investment strategy. The Management Board primarily manages these risks through the adoption of a long-term investment strategy that is diversified both by asset class and manager. The risks are monitored on an ongoing basis by the Treasury Advisory Panel by regular reviews of the investment portfolios.

The following table summarises the extent to which the various classes of investments (excluding Additional Voluntary Contributions) are affected by financial risks:

Asset Category	Market Risk				2019 Value (£m)	2018 Value (£m)
	Credit	Currency	Int Rate	Other		
Pooled Funds						
Equities		✓		✓	294.9	247.9
Property	✓		✓	✓	106.6	105.1
Bonds	✓	✓	✓		53.5	59.2
Alternatives	✓	✓	✓	✓	115.4	96.4
Cash	✓		✓		1	4.6

Investment Strategy

The main priority of the Management Board when considering the investment policy for the Fund is to ensure that the benefits payable to members are met as they fall due whilst maintaining required liquidity. The table on page 15 details the current investment strategy of the Fund.

The core “return seeking assets” used by the Fund continue to be Equities. The Management 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 over time.

To help diversify the Fund’s growth assets, during the year the Board continued to invest away from equities into “growth-like” Alternatives. These still target a reasonably high investment return but provide a different source of return, less correlated than Equities, which should help to reduce the risk of being over-exposed to any one market, asset class or manager, and to enable a smoother return over time.

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 and Hedge Funds. These aim to provide a lower-risk, relatively uncorrelated, return when compared to equities.

Credit Risk

The Fund’s investments are exposed to Credit Risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Fund invests through the Common Investment Fund, which both holds assets directly (‘segregated assets’) and also invests in pooled investment vehicles. The holdings of these pooled investment

vehicles exposes the Fund to credit risk directly through the holding of the pooled investment vehicles and indirectly through the underlying investments held by these pooled investment vehicles.

The market value of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

All the segregated assets of the CIF are held by their custodian, Northern Trust. Bankruptcy or insolvency of the custodian may delay the Fund's ability to exercise any rights with respect to securities held by the custodian; however as they are held in named accounts the assets will not be included on the balance sheet of the custodian.

The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring fenced from the pooled manager, the regulatory environment in which the managers operate and diversification of investments amongst a number of pooled arrangements. The Fund Administrator review due diligence checks, carried out on their behalf, on appointment of new pooled investment managers. Ongoing monitoring of any changes to the operating environment of the pooled manager is carried out with assistance from the Investment Advisor.

A summary of the pooled investment vehicles to which the Fund is exposed is detailed in the table below:

Pooled investment vehicles	2019 Value (£m)	2018 Value (£m)
Closed ended investment companies	10.7	1.0
Open ended investment companies	186.7	182.5
Shares of a Limited partnerships	56.1	43.7
Open ended unit trust	106.4	105.0
Total exposure to pooled investment vehicles within the CIF	359.9	332.2
Segregated assets within the CIF	211.6	180.8
Total holding within the CIF	571.5	513.0

The main concentration to credit risk to which the Fund is exposed arises from investment in debt securities. The Fund is also exposed to a credit risk through holdings of cash and cash equivalents, amounts due from brokers and other receivable balances.

As at year end the Fund had the following bond and cash assets.

	2019 (£m)	2018 (£m)
HSBC (cash)	0.8	2.5
Northern Trust (cash)	1.0	4.6
Absolute return bond pool (bonds)	53.5	59.2

Credit Risk is managed through diversification and selection of securities. The selection of securities is delegated to investment managers who in turn must comply with risk management conditions within their individual mandates. The arrangements per asset class are further examined below:

Cash

The CIF long term cash pool is managed by the same manager as the deposit accounts of the Government of Jersey; credit risk is monitored over the entire cash holdings of the Government.

Corporate Bonds

The Absolute Return bond pool invests in corporate bonds. No assets are held directly as the pool invests through Pooled Investment Vehicles ('PIVs'). Credit Risk within the PIVs is managed through the diversification and selection of securities. The funds may also use derivative instruments such as futures, options and swap agreements for hedging purposes, subject to restrictions. Risk management within the collective investment vehicles is carried out in line with each vehicle's individual mandate and investment restrictions.

The investment restrictions and risk disclosures of these vehicles are publicly available at the respective fund managers' websites and within the vehicle's prospectus and its annual Financial Statements.

Currency Risk

The Equity pools may invest in equities denominated in currencies other than British pounds sterling. As a result, changes in the rates of exchange between currencies may cause the value the pools to vary in line with the value of the investments held within them. This risk is managed through the asset selection of the underlying investments and through permitting investment managers to utilise forward foreign exchange contracts for hedging purposes. Hedging is permitted into sterling, and cross hedging (hedging into a currency other than sterling) is not permitted unless the cross hedge is part of a set of deals which are designed to achieve a hedged position back into sterling in aggregate. The maximum permitted amount of hedging is 100% of the value of the securities in the relevant country.

Although units in the Collective Investment Vehicles are denominated in sterling, they provide indirect exposure to exchange risk.

The Absolute Return bond pool invests through sterling denominated collective investment vehicles which offer no direct exposure to foreign exchange risk. However, the underlying manager is free to invest in global fixed income instruments denominated in multiple currencies and thereby indirectly exposes the CIF to foreign exchange risk.

The managers of the Absolute Return bond pool are responsible for managing this risk for their own funds. They do so both through diversification and selection of securities and by employment of other techniques and instruments as described in their individual investment mandates.

Interest Rate Risk

The Fund is subject to indirect interest rate risk through a number of pooled investment vehicles that hold investments in bonds and cash. These holdings are monitored in the context of the overall investment strategy. Investment managers will also manage interest rate risk in line with policies and procedures put in place in the Investment Manager Agreements.

Other Price Risk

Other Price Risk arises principally in relation to the Fund's return seeking portfolios which include equities and hedge funds held either as segregated investments or through underlying investments in pooled investment vehicles.

The Fund has set a target asset allocation of 60% of investments being held in growth investments. The Fund manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets, held with various high quality investment managers who are monitored by the Investment Advisor and Treasury representatives on an ongoing basis.

At the year end, the return seeking portfolios represented 57.2% of the total investment portfolio (2018: 51.5%).

Liquidity Risk

Liquidity Risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due i.e. that cash is not available when required. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments. This is monitored on an ongoing basis to ensure cash is available to meet the pensioner payroll costs, expenses and also to meet investment commitments.

The Fund has immediate access to cash through HSBC, although these amounts are kept to a minimum to reduce Credit Risk. At the year end the Fund held £788,201 (2018 £2,462,445) in this account.

14. Concentration of investments

The Fund invests in a range of pooled funds that, at an underlying level, contain a wide range of diversified investment holdings. For example, the largest holding, Active Global Equity, contains over 500 underlying stocks controlled by a number of investment managers. The pooled investment funds that account for more than 5% of the net assets of the Fund were:

	2019 £'000	2019 %	2018 £'000	2018 %
Active Global Equity	269,396	47%	223,924	43%
UK Property	106,571	19%	105,076	20%
Absolute Returns	83,455	15%	79,707	15%
Absolute Return Bond	53,506	9%	59,230	11%
Opportunities Fund	31,934	6%	16,554	3%
Emerging Market Equity	25,526	4%	23,949	5%

15. Current Assets

	2019 (£'000)	2018 (£'000)
Contributions – Employers	556	832
Contributions - Members	200	281
Cash balances	788	2,463
Other debtors	3	3
	1,547	3,579

16. Current Liabilities

	2019 (£'000)	2018 (£'000)
Benefits payable	-	7
Other creditors	247	164
Advances from Government of Jersey	851	15
	1,098	186

17. Contingencies and Commitments

In the opinion of the Treasurer of the States, the Fund has no contingent liabilities as at 31 December 2019 (2018: nil).

As at 31 December 2019, the Fund had commitments of approximately £45m (2018: £45m) to the Opportunities Pool of the Common Investment Fund, of which £13.1m (2018: £28.2) remained undrawn as at the year end.

18. Related party transactions

In line with the requirements of the updated SORP, transactions with related parties have been split between the following categories:

- key management personnel of the entity or its parent (in the aggregate);

The Chairman and Secretary to the Management Board receive remuneration as detailed in note 7 and the Chairman is a member of the TAP for which he receives remuneration. Within the Management Board there are three active (2018: three) and three pensioner members (2018: three). There were no other related party transactions identified during the year.

- entities that provide key management personnel services to the entity; and

The Treasury & Exchequer Department of the Government of Jersey provides creditor payment, payroll, cash management and financial ledger services for the Fund. At the year-end, a sum of £851,128 was owed to the Government of Jersey (2018: £15,213) in respect of transactions with the Treasury & Exchequer Department. During the year an amount of £367,559 (2018: £276,093) was paid to the Government of Jersey in respect of the services provided.

19. Additional Voluntary Contributions

During the year, ten members (2018: ten) contributed £7,588 (2018: £10,904) into an Additional Voluntary Contribution scheme managed by the Prudential Assurance Company Limited. At 31 December 2019, the total value of this policy was £979,022 (2018: £970,029).

20. Post balance sheet date events

At the time of writing events continue to unfold in regard to the Coronavirus (Covid-19), this is a non-adjusting subsequent event as it does not impact the valuation of assets as at the year end. It is currently unclear as to the long-term impact on the Fund and its underlying investments and it is not possible, at this time, to quantify the change in market value in a meaningful way, due to the ongoing volatility as the situation is fluid and unpredictable. Global markets have experienced a significant downturn as the threat of the virus was realised in the first quarter of 2020 and as a result of the institutional response to the pandemic, with blanket shutdowns disrupting businesses widely. Whilst business closures impact economic growth, the key for markets is likely to be the duration of the measures put in place as a result of the outbreak. The underlying Investment Managers of the Fund continue to monitor the virus and its effect on the global economy and their respective portfolios. The Management Board has also noted the increased operational risk posed to the Fund and its service providers due to global and local restrictions on movement that have been enacted by various governments and continues to monitor this situation.

Independent Auditors' Report to the Management Board of the Jersey Teachers' Superannuation Fund

Report on the audit of Financial Statements

Opinion

In our opinion Jersey Teachers' Superannuation Fund's financial statements:

- show a true and fair view of the financial transactions of the Fund during the year ended 31 December 2019, and of the amount and disposition at that date of its assets and liabilities, other than 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 (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been properly prepared in accordance with the Teachers' Superannuation (Administration) (Jersey) Order 2007.

We have audited the financial statements, included in the annual report, which comprise; the statement of net assets available for benefits as at 31 December 2019; the fund account for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require to us to report to you where where:

- the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Fund's ability to continue as a going concern.

Reporting on other information

The other information comprises all the information in the annual report other than the financial statements and our auditors' report thereon. The Treasurer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the financial statements and the audit

Responsibilities of the Management Board and the Treasurer for the financial statements

As explained more fully in the statement of responsibilities, the Treasurer is responsible for ensuring that the financial statements are prepared and for being satisfied that they show a true and fair view. The Treasurer is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of the financial statements, the Treasurer is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Treasurer either intends to wind up the scheme, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or on the aggregate,

they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinion, has been prepared for and only for the Management Board as a body in accordance with the Teachers' Superannuation (Administration) (Jersey) Order 2007 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

10 June 2020

Statement of independent fund Actuary

Name of Fund: Jersey Teachers' Superannuation Fund

Effective Date of Valuation: 31 December 2018

1. Security of prospective rights

It is our opinion that, on a going concern basis, the resources of the Fund are expected in the normal course of events to meet in full the liabilities for current members of the Fund as they fall due, assuming all future increases to pensions and deferred pensions effective on or after 1 January 2019 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 Fund at the effective date, 31 December 2018, and does not take account of more recent developments. Our report on the valuation of the Fund as at 31 December 2018 was signed on 17 December 2019.

The valuation report disclosed a surplus of £45.8M at the effective date of the valuation, equivalent to a funding ratio (assets divided by the present value of the liabilities) of 107.8%. This relates to past service and future service benefits for current members and takes account of the 'pension increase debt' as an asset of the Fund in line with its calculated value at 31 December 2018 of £120.1M.

The pension increase debt relates to the shortfall that arose in the Fund as a result of a decision by the Government of Jersey effective in 2007 to pay pension increases (both those already awarded, and those due in future) from the Fund. The detail of the mechanism for repayment of this debt is yet to be agreed between the Fund's Management Board and the Government of Jersey. For the purposes of the valuation it was assumed that 5.6% of salaries, out of the overall contributions payable under the Orders governing the Fund, is allocated to meet the pension increase debt.

Based on the above allocation to meet the pension increase debt, the valuation disclosed a shortfall of 3.9% of salaries in the overall contributions payable under the Orders governing the Fund compared to the contributions that would be required to meet benefits for future joiners.

The Fund's Management Board is continuing discussions with the Government of Jersey on the appropriate mechanism for repayment of the pension increase debt.

A further valuation will be carried out as at 31 December 2021.

2. Security of accrued rights on discontinuance

It is our opinion that, on a discontinuance basis, the Fund's assets at the effective date were sufficient to cover 101% of its accrued liabilities as at that date, based on pension increases equal to the minimum increases specified in the Orders governing the Fund i.e. nil increases. This assumes that the Fund discontinued on the valuation date, even though the Orders currently governing the Fund do not envisage the Fund's discontinuance (i.e. the future accrual of benefits and payment of contributions into the Fund 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.

The above opinion assumes that, should there ever arise any question of the Fund's discontinuance, the pension increase debt would be paid off in full by the Government of Jersey at that point or over an appropriate period of time.

3. Further information

Further information underlying this statement is set out in the Appendix to this statement.

Jonathan Teasdale
Fellow of the Institute and Faculty of Actuaries
Aon Hewitt Limited

12 February 2020

Appendix to Statement of independent fund Actuary

1. Notes on our opinion on the security of prospective rights

The resources of the Fund at 31 December 2018 that we have taken into account for the purposes of this statement consisted of:

- a) the existing assets, including net current assets and liabilities, which had a value of £517.4M at 31 December 2018;
- b) the pension increase debt of £120.1M at 31 December 2018;
- c) future contributions payable by members and employers at the various rates specified in the Orders, less 5.6% of salaries allocated to meet the pension increase debt.

2. Notes on our opinion on the security of accrued rights on discontinuance

In calculating the value of the Fund's accrued liabilities assuming the Fund 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 Fund as a closed fund.

The Orders governing the Fund provide for annual increases in line with the Jersey RPI at present, although lower increases may be paid where an actuarial review has disclosed that the financial condition of the Fund is no longer satisfactory. We have assumed that in a discontinuance situation the pension increases provided would be equal to the minimum increases specified in the Orders i.e. nil increases.

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 Fund as at 31 December 2018.

Glossary

Active management: A strategy where the manager makes specific investments with the goal of outperforming an investment benchmark index.

Accepted Schools: Schools whose staff can become members of the Fund by virtue of an agreement made between the Fund and the relevant school.

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

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

CARE: Career Averaged Revalued Earnings

Common Investment Fund: The investment vehicle administered by the Government of Jersey that the Fund invests in.

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

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

Equities: Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at Shareholders' meetings, which can be traded on a recognised stock exchange before the repayment date. The Fund may also hold a limited amount of unlisted equity where dealers directly facilitate the 'over the counter' buying and selling of equities outside of recognised stock exchanges.

Fixed Interest Securities: Investments, mainly government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date.

JTSF: Jersey Teachers' Superannuation Fund.

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

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

PECRS: Public Employees Contributory Retirement Scheme.

Pension Increase Debt: The debt created by changes to the Fund implemented in 2007 which moved responsibility for the payment of pension increases from the Government of Jersey to the Fund. This debt is to be repaid by the Government of Jersey to the Fund over a period to be agreed.

PEPF: is the pension fund, as defined under Article 5 of the Public Employees (Pension) (Jersey) Law 2014, for the Final Salary Scheme and the Career Average Scheme for all public employees other than teachers.

PEPS: Public Employees' Pension Scheme

PEPT: The Public Employees' Pension Team, a section of the Government of Jersey Treasury & Exchequer department who perform the day to day administration of the Fund.

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

TAP: Treasury Advisory Panel

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

Contacts and Further Information

If you know someone who would like this document in another format please let us know. All published documents are available from the Public Employees' Pension Team.

Call us on (01534) 440227. Available Monday to Friday from 9am to 5pm

Alternatively, you may wish to email us: pept@gov.je

Jersey Teachers' Superannuation Fund

Public Employees' Pension Team

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Details of the Common Investment Fund

The Statement of Recommended Practice, 'Financial Reports of Pension Schemes' (June 2018) requires that an extract of the CIF Financial Statements are included in the Annual Report for Funds that invest in Common Investment Funds. The CIF does not prepare standalone Financial Statements, though detailed disclosures regarding risk and exposures are included in the States of Jersey 2019 Financial Accounts. These accounts should be read in conjunction with those accounts; however summary information has been included in this appendix and the proportion of the assets and income due to JTSF have been calculated to aid the understanding of the users of the accounts.

Explanation of the CIF

The Government of Jersey – Common Investment Fund (the "CIF") was established in 2010 by proposition P.35/2010, lodged by the Minister for Treasury and Resources. The purpose of the proposition was to amend several existing regulations to enable the pooling of Government Fund assets for Investment Purposes and was approved by the Government of Jersey on 12 May 2010.

The purpose of the CIF is to create an administrative arrangement which is open only to Government Funds (including Separately Constituted Funds, Special Funds and Trust and Bequest Funds) to provide them with the opportunity to pool their resources and benefit from greater investment opportunities and economies of scale. The CIF pools together the assets from a number of Funds and collectively invests the underlying assets, enabling them to invest in accordance with their own agreed asset allocations, as published in their strategies. The economies of scale that are gained increases the potential return of the investments held and enables a wider diversity of asset classes.

The CIF became operational on 1 July 2010 and as at 31 December 2019 contained 14 investment pools holding a range of asset classes (including equity, bonds, gilts, cash, hedge funds and property).

Statement of Comprehensive Net Expenditure for the year ended 31 December 2019

	2018 CIF Total (£,000)	2019 CIF Total (£,000)	2018 CIF - JTSF (£,000)	2019 CIF - JTSF (£,000)
Investment Income	(48,093)	(41,011)	(7,964)	(7,402)
Change in Fair Value of financial Assets held at Fair Value through Profit and Loss	123,211	(460,099)	9,315	(63,277)
Total Revenue	75,118	(501,110)	1,351	(70,679)
Supplies and Services	23,697	30,445	4,123	5,226
Other Operating Expenditure	2,155	2,822	33	26
Foreign Exchange Loss/(Gain)	47	(508)	20	(41)
Total Expenditure	25,899	32,759	4,176	5,211
Net Revenue Income / (Expenditure)	101,017	(468,351)	5,527	(65,468)

Statement of Financial Position as at 31 December 2019

	2018 CIF Total (£,000)	2019 CIF Total (£,000)	2019 CIF Non JTJSF (£,000)	2018 CIF - JTJSF (£,000)	2019 CIF - JTJSF (£,000)
Non-current Assets					
Equities	1,232,972	1,336,088	1,143,027	169,890	193,061
Pooled Investment Vehicles	1,879,629	2,087,000	1,727,040	332,162	359,960
Other Assets	108,692	100,537	100,537	-	-
Total non-current Assets	3,221,293	3,523,625	2,970,604	502,052	553,021
Current Assets					
Investments held at Fair Value through Profit and Loss	301,554	291,489	290,419	4,540	1,070
Derivative Financial Instruments expiring within one year	-	17,655	15,113	-	2,542
Trade and Other Receivables	4,790	4,903	4,393	391	510
Cash and cash Equivalents	47,653	100,934	86,253	7,003	14,681
Total Current Assets	353,997	414,981	396,178	11,934	18,803
Current Liabilities					
Trade and Other Payables	(4,189)	(2,047)	(1,686)	(552)	(361)
Derivative Financial Instruments expiring within one year	(3,184)	-	-	(440)	-
Total Current Liabilities	(7,373)	(2,047)	(1,686)	(992)	(361)
Assets Less Liabilities	3,567,917	3,936,559	3,365,096	512,994	571,463

Changes in Market Value of Investments by Pool

	Total CIF Investments held at Fair Value through Profit or Loss					JTSF
	Market Value 1 Jan 2019 (£,000)	Purchases (£,000)	Sales (£,000)	Unrealised Gains (Losses) (£,000)	Market Value 31 Dec 2019 (£,000)	Market Value 31 Dec 2019 (£,000)
Index Linked Bonds Pool	1,994	-	(14)	102	2,082	-
Short Term Government Bonds Pool	138,141	73,519	(33,645)	(3,142)	174,873	-
Long Term Cash and Cash Equivalents Pool	268,917	502,050	(559,754)	172	211,385	1,070
Pooled Property I Pool	104,972	3,956	(864)	(1,625)	106,439	106,439
Pooled Emerging Market Equity Pool	200,043	713	(5,178)	14,576	210,154	25,506
Absolute Return Bond Pool	502,697	5,737	(77,302)	22,516	453,648	53,510
UK Corporate Bond Pool	41,453	2,730	(29,240)	3,765	18,708	-
Pooled Property II Pool	107,677	3,857	(821)	(1,883)	108,830	-
Pooled Special Equity Pool	17,880	-	(1,842)	4,311	20,349	-
Absolute Return Pool	476,020	21,494	(43,271)	33,311	487,554	82,024
Active Global Equity	1,600,173	180,207	(375,363)	350,536	1,755,553	253,672
Infrastructure Investments	1,193	2,492	-	-	3,685	-
Opportunities Pool	61,687	70,126	(9,939)	5,609	127,483	31,871
Alternative Risk Premia	-	136,466	(453)	(1,643)	134,370	-
CIF Total	3,522,847	1,003,347	(1,137,686)	426,605	3,815,113	554,092

Note: This table only includes the investments assets held at fair value through profit and loss in each pool. The total CIF value attributable to JTSF also includes debtors, creditors and broker cash, as at the year end this was valued at £17,371 thousand. The total combined value of assets held within the CIF attributable to JTSF equals £571,463 thousand.