States of Jersey

PUBLIC EMPLOYEES PENSION FUND

(formerly known as the Public Employees Contributory Retirement Scheme)

ANNUAL REPORT 2016

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(formerly the Public Employees Contributory Retirement Scheme)

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Contents

INTRODUCTION

Welcome to the Annual Report and Financial Statements for the Public Employees Pension Fund (PEPF).

OVERVIEW

The Public Employees Pension Fund (PEPF) is the pension fund for the provision of final-salary and career average revalued earnings (CARE) pension benefits to public servants, excluding teachers, in Jersey. PEPF is “the Fund” as defined under Article 5 of the Public Employees (Pension) (Jersey) Law 2014. For the purpose of this report and account “the Fund” shall be referred to as the Public Employees Pension Fund (“PEPF” or “the Fund”). The Fund covers the final salary pension benefits provided by the Public Employees Contributory Retirement Scheme (PECRS) and the CARE benefits provided by the Public Employees Pension Scheme (PEPS).

PEPS was introduced on1 January 2016 following the States Assembly agreeing the Public Employees (Pension Scheme) Regulations in November 2015. Since 1 January 2016 all new employees have been admitted into PEPS. Existing employees in PECRS will transfer into PEPS on 1 January 2019 with the exception of members who are within 7 years of their normal retirement age on 31 December 2018 who will have the option to remain in PECRS (the Scheme that previously had been the sole scheme in the Fund)

Overall Fund membership numbers have decreased slightly during the year. As at 31 December 2016, there were 14,786 employees and former employees with benefits in the Fund, down from 14,896 at the end of 2015. By the end of the year there were 14,225 members in PECRS and 561 members in PEPS.

The Fund’s investments continued to grow with an overall return of 10.0% in 2016 compared to a benchmark return of 18.6%. At the year end, the investments had a market value of over £1.9 billion.

The Fund undergoes an actuarial valuation every three years. The last valuation was conducted by the Fund actuary as at 31 December 2013. At the end of 2013 the Scheme actuary determined that PECRS had a funding level (the relationship between estimated future pension payments and the funds held to pay for those pensions) of 105.5%. The Fund had a surplus of £92.7 million part of which has been used to restore pension increases to the full annual increase in Jersey Retail Prices Index (Jersey RPI). After full restoration of the pension increase the Fund had a surplus of £54.6 million which was retained as a prudent reserve against possible future adverse experience. The Fund 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. The next valuation as at 31 December 2016 is currently being undertaken and the results are expected in early 2018.

The Dedicated Pensions Unit (DPU) has worked hard during the year to implement PEPS and to ensure that the membership has been kept up-to-date with the changes to public service pensions in Jersey. The website has also been updated to provide information on PEPS.

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

MEMBERS, MANAGERS AND ADVISORS

Members of the Committee of Management (COM)

Mr G Pollock (Chairman)	**Mr G Birbeck***
Mr S Laing+	**Mr JR Fosse***
Mr TA Le Sueur OBE+	**Mr M Johnson***
Mr SA Lusby+	**Mr T Querns***
Mr J Mills CBE+	**Mr MAQ Richardson***
Dr E Sallis OBE^ (Appointed 9 December 2016)	**Miss B Ward***
Mr S Warner+	**Mr J Moynihan+**(Appointed 8 March 2016 & Resigned 29 April 2016)

Committee members are appointed by the Chief Minister on a recommendation from the Minister for Treasury & Resources for terms of five years; which can be extended for a second term of five years. The Chairman is appointed by the Chief Minister on the recommendation of the Minister for Treasury & Resources (with the agreement of the majority of the employer and members representatives) for separate five-year terms; his current term ends on 30 June 2019.

With the new Regulations five of the members of the Committee of Management are nominated by a representative association (see *above) and four members are nominated by the main employer (see + above), one employer is nominated by an admitted employer (see ^above) and 2 members will in future be pensioner representatives. The move towards the new structure will occur as members resign so the split of members is currently based on the previous Regulations.

Actuary	Aon Hewitt Limited	**Independent Auditors**	PricewaterhouseCoopers LLP
Custodian	Northern Trust	**Investment Consultants**	Mercer Limited
Legal Advisors	Carey Olsen DLA Piper (formerly Nabarro LLP)	**Secretary**	RJ Raggett (retired 31 July 2016) J Ward (appointed 1 August 2016)
Bankers	HSBC Plc		

Investment Managers

Arrowgrass Capital Partners LLP	
Baillie Gifford & Co	
Blackrock Investment Management (UK) Limited	Appointed November 2016
CQS	
Hayfin Capital Management	
Investec Asset Management	Terminated November 2016
Legal and General Investment Management	
Lansdowne Partners Limited	
Odey Asset Management LLP	
PGIM Real Estate	
Veritas Asset Management (UK) Limited	

Fund Administrator	The Treasurer of the States of Jersey

PARTICIPATING EMPLOYERS

The principal employer is the States of Jersey. Permanent employees of the States of Jersey prior to 31 December 2015 were automatically admitted to PECRS from age 20. From 1 January 2016 all new permanent employees of the States of Jersey are admitted into PEPS. In addition to the States, there are under the Regulations other organisations which participate in the Schemes. They are known as Admitted Bodies who join the Schemes with the consent of the Chief Minister.

Scheme Employer
States of Jersey
Admitted Bodies
Andium Homes Limited
Beaulieu Convent School Limited
Brig-y-Don Children's Home
Comite des Connetables
Office of the Information Commissioner
Family Nursing & Home Care (Jersey) Incorporated FNHC)
Jersey Gambling Commission
Jersey Advisory and Conciliation Service (JACS)
Channel Island Competition & Regulatory Authority (CICRA)
Jersey Employment Trust (JET) (including Workforce Solutions Limited)
Jersey Financial Services Commission (JFSC)
Jersey Heritage Trust
Jersey Post Limited
Jersey Overseas Aid Commission (JOAC)
JT (Jersey) Limited
Les Amis Limited
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
Ports of Jersey Limited
States of Jersey Development Company Limited

GOVERNANCE ARRANGEMENTS

Summary of Governance Arrangements

The Fund is governed by Regulations made under the Public Employees (Pension) (Jersey) Law, 2014. Under these Regulations the Committee of Management has responsibility which extends to establishing the investment strategy of the Fund, appointing and instructing the Fund actuary, custodian and investment managers, and ensuring benefits are paid to members in accordance with the Regulations. Under Public Employees (Pension Scheme) (Administration) (Jersey) Regulations 2015, 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 of the States of Jersey and Advisors as appropriate.

Subcommittee:	Investments	Ill Health and Death Benefits	Communications	Audit
Number of meetings in 2016	6	meets as required	meets as required	3
Committee member				
Mr G Pollock (Chairman)	●			
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 MAQ Richardson	●			
Miss B Ward				●
Mr S Warner		Chairman	●	
Mr T Querns		●		
Dr E Sallis OBE				
Mr J Moynihan				

Committee of Management (COM)

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

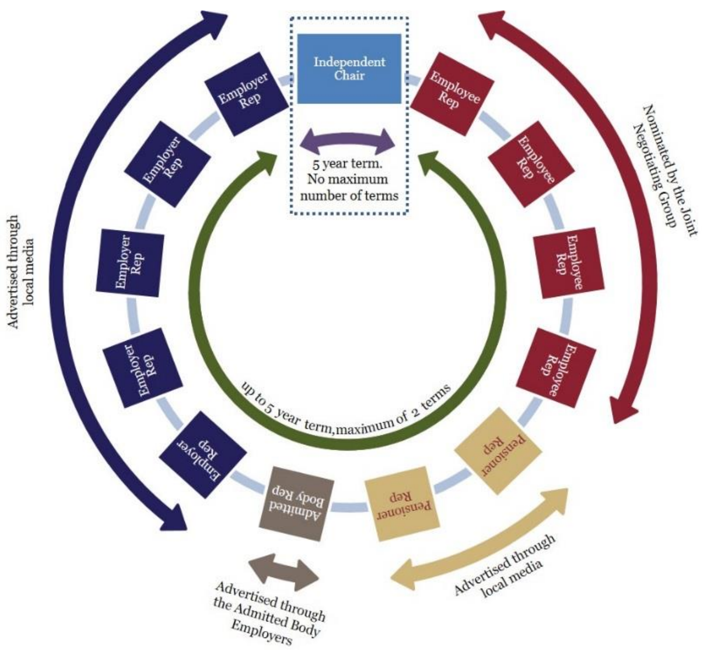
COMMITTEE OF MANAGEMENT REPORT 2016

The Committee of Management manages the Public Employees Pension Fund (PEPF) which provides final-salary and/or CARE benefits to public sector workers, excluding teachers, in Jersey.

REVIEW OF THE YEAR

A new scheme, PEPS, was introduced for new employees from 1 January 2016; this was the largest change to the Fund in a generation. This saw the introduction of a Career Average Revalued Earnings (CARE) Pension Scheme where pensions are based on an individual's pensionable average salary over their career rather than their final-salary as is the case with PECRS. Members who move from PECRS to PEPS will have their accrued rights protected including the link to final salary at the end of their career for any service up to the date of change. Currently only new starters join PEPS, however existing employees will transfer to PEPS on 1 January 2019 with protections for those closest to retirement.

Changes to the Committee of Management were approved with the introduction of PEPS. As members resign new members will be appointed to move towards a new structure with 4 employee representatives, 2 pensioner representatives, 5 employer representatives and 1 Admitted Body employer representative. During the year Ed Sallis was appointed as an Admitted Body employer representative following the resignation of an employer representative.



The introduction of the Public Employees (Pension Scheme) Regulations has also formalised some of the governance arrangements that have been practiced for many years as well as introducing some new requirements that ensure the governance of the Schemes in Jersey meet best practice.

INVESTMENTS

Although the Fund increased in value by 10.0% over the past year; this represented underperformance against the Fund specific benchmark of 18.6%. As at 31 December 2016 the value of the Funds' investments was £1.9 billion (2015: £1.8 billion). The Investment Subcommittee works closely with the States Treasury and Mercer, the investment consultant, to monitor and manage the Fund'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 Fund's investments, see pages 12 – 16.

ACTUARIAL VALUATION

As required by Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS102), the Financial Statements do not include liabilities in respect of promised benefits.

An actuarial valuation is completed by the Fund actuary every three years. A valuation shows the relationship between the liabilities, i.e. pensions and other 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 each Scheme including the average life expectancy of Scheme members, investment returns, inflation and interest rates.

The most recent valuation was completed as at 31st December 2013. The main conclusions from the valuation were that:

- There was a past service surplus in PECRS of £93.7 million as at 31 December 2013, consisting of past service benefits of £1,689.6 million and assets of £1,783.3 million.
- The anticipated future PECRS contributions were less than the value of future PECRS benefits in respect of active members as at 31 December 2013. With the implementation of PEPS in 2016 the future service deficiency in PECRS was £1.0 million.
- Putting these two elements together, the overall surplus in PECRS, as at 31 December 2013, using best estimate assumptions, was £92.7 million, equivalent to a funding ratio of 105.5%.

The funding surplus after the restoration of the previous pension increase reductions was £54.6 million, equivalent to a funding ratio of 103.2%. The surplus was retained in PECRS as a prudent reserve against any future adverse experience. A copy of the valuation is available on the PECRS website (www.gov.je/statesemployeespension).

The following table includes the key financial assumptions used in the valuation

	2013 valuation %
Discount rate (pre retirement)	7.3
Discount rate (post retirement)	5.6
Jersey inflation	3.4
Rate of salary increase	4.4
Management expense	0.6
Mortality assumption (males)	108% +/1 19%
Mortality assumption (females)	105% +/- 20%

The next actuarial valuation will be undertaken as at 31 December 2016 for which work has commenced. The next actuarial valuation will provide a valuation of PECRS and, for the first time, a valuation of PEPS. Under Public Employees (Pension Scheme) (Funding and valuations) (Jersey) Regulations 2015 the results must be presented by the COM to the Chief Minister within 15 months of the valuation date.

ADMINISTRATION

RUNNING THE SCHEMES

The Fund is administered by the DPU on behalf of the Treasurer of the States (the Administrator of the Schemes). This service is provided to the Committee of Management within the service standards set out in a Pension Administration Strategy. 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 benefits, the DPU is reliant on the information provided by the States of Jersey and the 26 Admitted Bodies. During the year, DPU staff have visited Admitted Bodies to provide training and Admitted Bodies have commenced providing monthly data returns.

Fund 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 Fund members. Delivering communications electronically is also much more cost effective for the Fund, enabling more of employee and employer contributions to be invested to fund future benefits.

During 2016 the DPU has implemented changes to the pension administration system to enable the calculation and processing of CARE benefits. Member documentation has been produced to explain the CARE benefits provided by PEPS and the website has been updated.

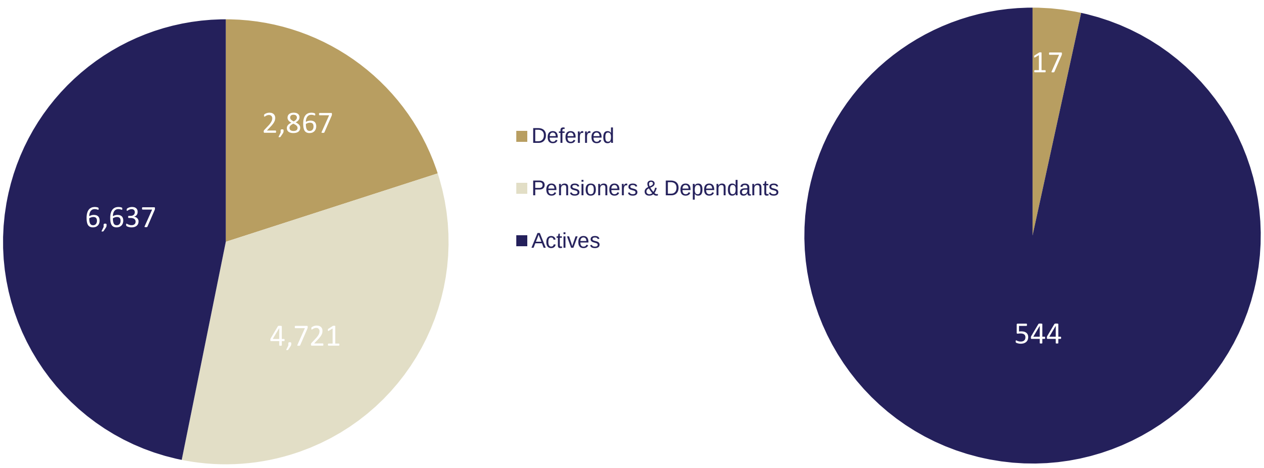
The DPU use the States of Jersey Tell Us Once service to receive notifications of Fund member deaths. This enables the DPU to deal sensitively with any death and to put in place any survivor benefits that are due. In 2016 the DPU once again made use of the UK Audit Commission's National Fraud Initiative which is able to confirm the continued benefit entitlement of UK resident pensioners. Using this service together with the Tell Us Once Initiative has enabled the DPU to provide reassurance to the Committee of Management that Fund benefits are being correctly paid to eligible Fund members.

The Public Employees (Pension Scheme) (Administration) Regulations 2015 introduced a requirement for a Pension Administration Strategy to be produced to outline the policies and procedures governing the administration of the Fund. In 2016, the Pension Administration Strategy was agreed following consultation with Employers. The Pension Administration Strategy outlines the service standards expected of the Administrator. In 2016, the DPU processed 93% of tasks within 5 days exceeding the target to complete 90% of tasks within 5 days.

At the start of the year the Treasury implemented new processes to manage and monitor the assets of PEPS. The assets of PECRS and PEPS are invested together through the Fund so as to minimise costs. The split of assets between PECRS and PEPS is administered by the Treasury & Resources Department, using an approach agreed by the Committee of Management. This process includes monitoring the monthly cash flow of PEPS and investing any excess of income over expenditure on a monthly basis in the Fund on a pro rata basis across all investment managers. This process has been reviewed by the auditors completing an agreed upon procedure assignment with no issues noted. In the financial statements the assets, liabilities, contributions and expenses are stated on a combined basis, with the split due to PEPS detailed in note 17.

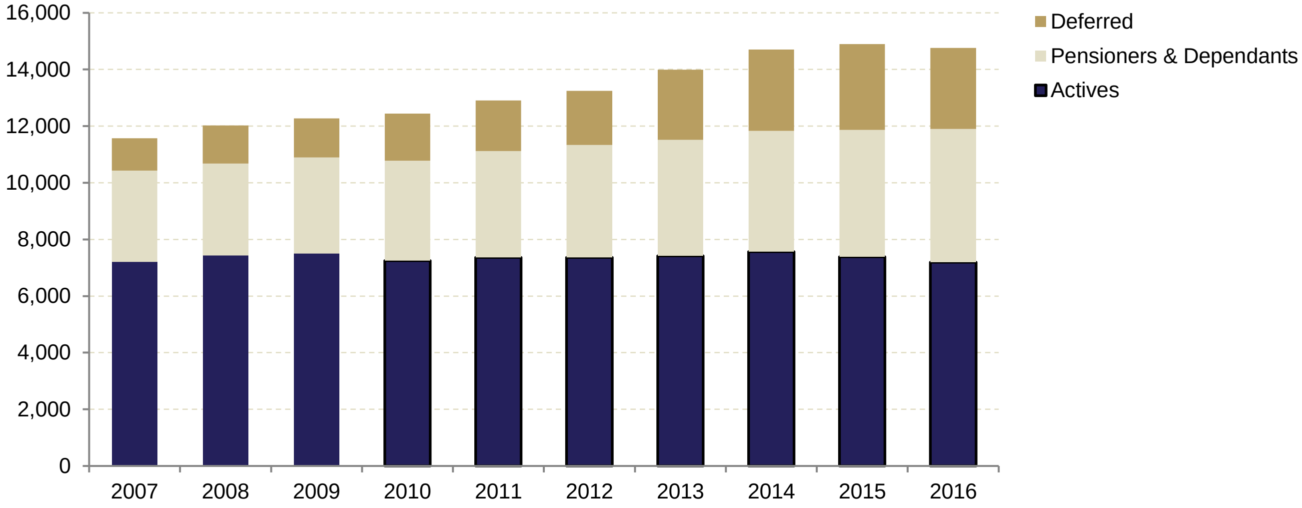
MEMBERSHIP

Total membership of the PEPF has decreased slightly and the proportion of pensioners and deferred members continues to increase. As at the end of December 2016 the Fund (split across the two Schemes) had 7,181 active members, 2,884 deferred members and 4,721 pensioners and dependants (with pension payment), making 14,786 in total (2015: 14,896).

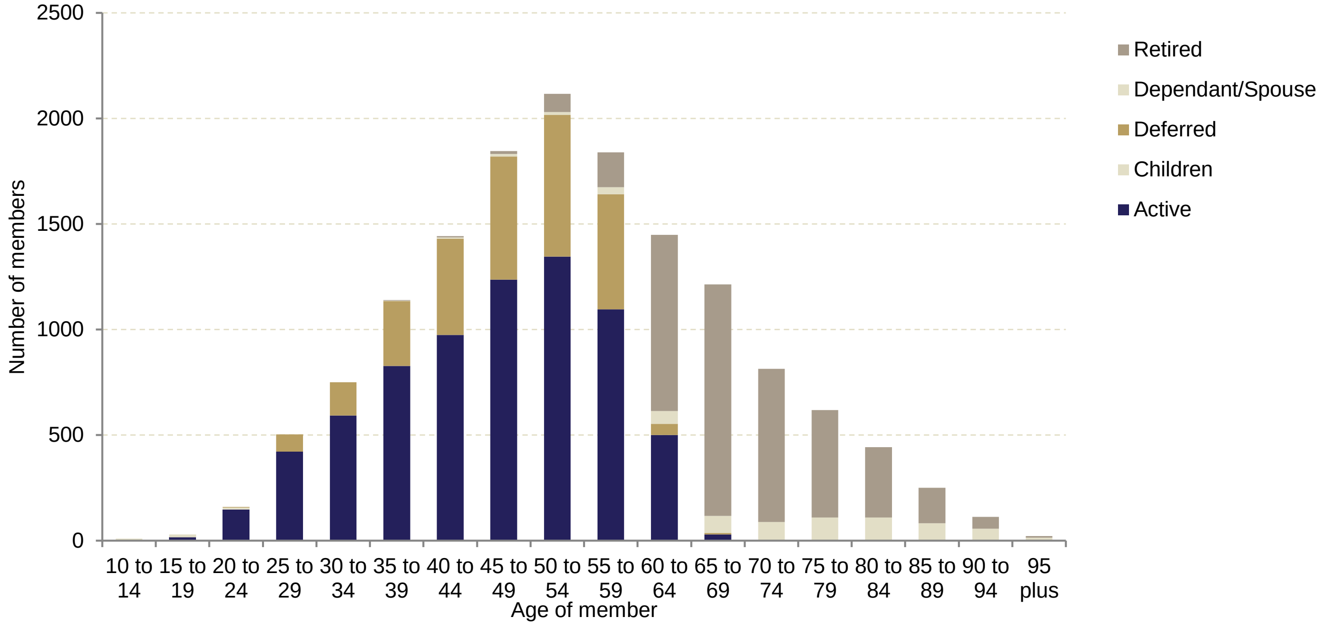


PECRS TOTAL MEMBERSHIP	PEPS TOTAL MEMBERSHIP
14,225	561

FUND MEMBERSHIP NUMBERS OVER THE LAST 10 YEARS



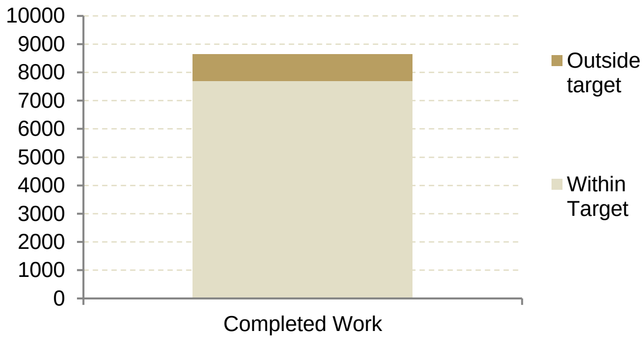
AGE PROFILE OF THE MEMBERSHIP 2016



PERFORMANCE & FEEDBACK

The chart shows the actual casework volumes during the year and also the volumes completed within the targets set in the Pension Administration Strategy. During 2016 93% of tasks were completed within the targets set.

2016 CASEWORK VOLUMES



PENSION INCREASES AND CONSTRAINTS

Under the Regulations, PECRS & PEPS pensions and deferred pensions are increased in line with the Jersey RPI 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 RPI.

Pension increases for the last 5 years have been:

1st January	Jersey RPI %	PECRS Pension Increase %	PEPS Pension Increase %
2013	2.1	2.1*	n/a
2014	1.9	1.9*	n/a
2015	1.3	1.3	n/a
2016	0.9	0.9	n/a
2017	2.0	2.0	2.0

* 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 respective Schemes remaining satisfactory and are thus not guaranteed.

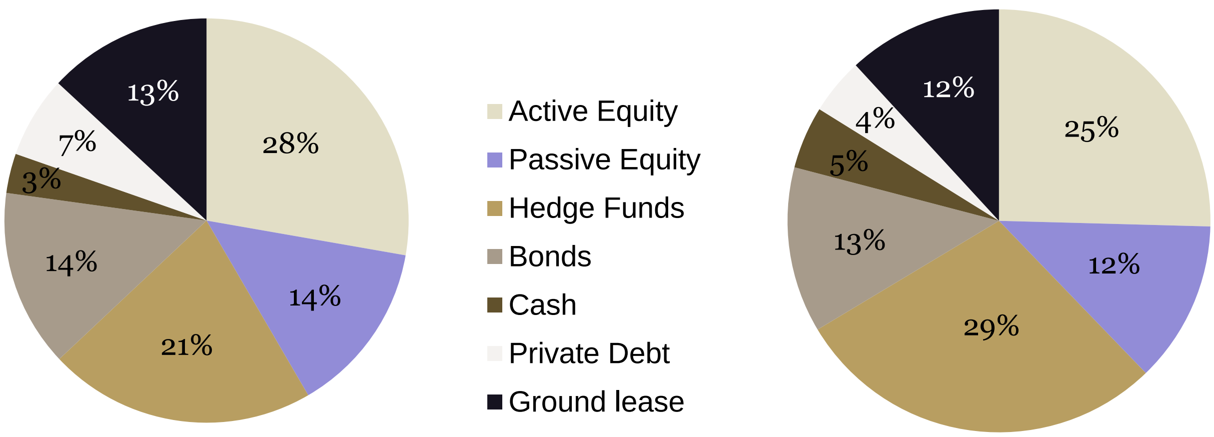
INVESTMENTS

The Fund currently has £1.9 billion of assets under management (2015: £1.8 billion), split between 10 investment managers. During the year the Fund increased by approximately £100 million with a performance of 10.0% against a benchmark return of 18.6%.

ASSETS UNDER MANAGEMENT

As at 31 December 2016 the Fund's assets under management were invested in a range of asset categories to achieve diversification. By investing in a range of different asset classes the Fund aims to generate a higher level of return for a given level of risk and to smooth out, to some extent, the volatility of investment returns.

2016 2015



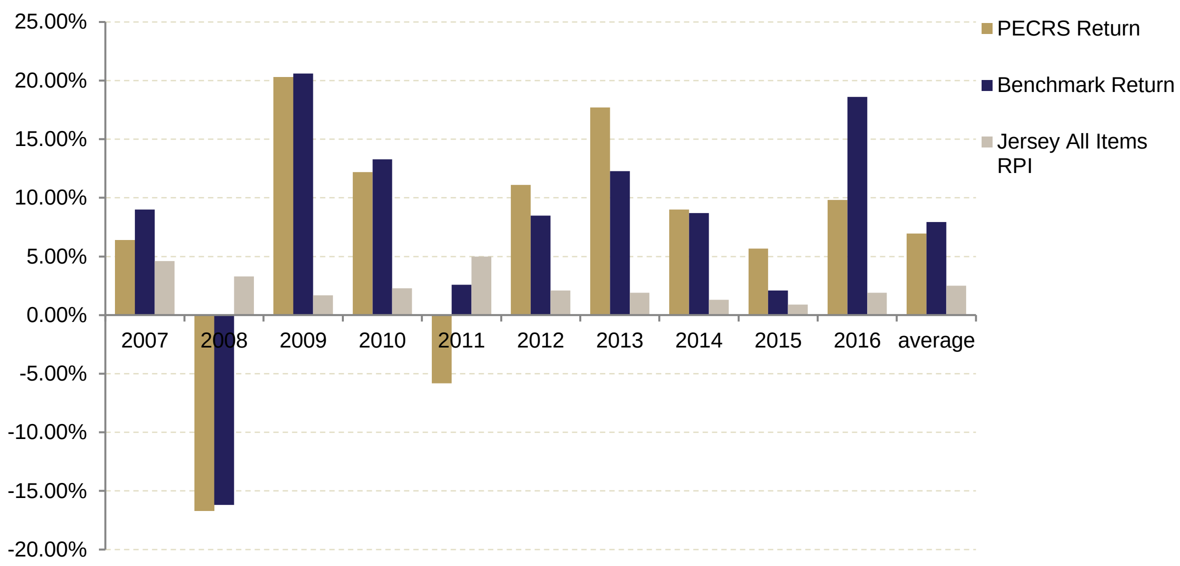
PORTFOLIO MANAGERS AND FUND VALUES

Fund Manager	Value of Fund (£m)	2016 performance		
		Performance	Benchmark Performance	Over / (under) performance
Equity				
Baillie Gifford & Co[2]	267.4	14.7	29.4	(14.7)
Legal and General Investment Management	267.1	33.3	25.1	8.2
Veritas Asset Management (UK) Ltd[2]	267.7	22.2	29.4	(7.2)
Alternatives				
Arrowgrass Capital Partners LLP	132.3	2.3	0	2.3
Landsdowne Partners Limited	195.1	(15.2)	0.6	(15.8)
Odey Asset Management LLP	84.9	(48.2)	0	(48.2)
Bonds				
CQS	141.0	7.2	0.6	6.6
Blackrock Investment Management (UK) Limited[1]	132.7	n/a	n/a	n/a
Cash				
Northern Trust	61.0	-	-	-
Property				
PGIM Real Estate (Commercial)	153.0	7.7	2.5	5.2
PGIM Real Estate (Residential)	99.7	24.9	2.5	22.4
Private Debt				
HayFin Capital Management I	79.7	6.2	0	6.2
HayFin Capital Management II[1]	49.6	n/a	n/a	n/a
	1,931.2	10.00	18.6	(8.6)

1 Appointed during the year (HayFin July 2016, Blackrock November 2016).
2 This Includes broker cash under the control of these investment managers.

INVESTMENT PERFORMANCE

The Fund's managers have struggled against a strongly performing market during the year which is reflected with poor relative performance against the benchmark. A number of managers have performed significantly below their benchmark and this under performance is being closely monitored by the Investment Subcommittee. Additionally the Investment Subcommittee has made the defensive tactical decision to invest in total return bonds and emerging market debt as oppose to UK Gilts and UK Corporate bonds due to worries over potential rises in interest rates; this position has hurt the Fund as interest rates have remained at historic lows. The following graph shows the overall Fund returns compared with the benchmark for the ten years 2007 to 2016. Over that whole period, the Fund's investments achieved a return of 7.0% per annum against a Fund benchmark of 8.0% per annum. The Jersey RPI over the same period was 2.5% per annum meaning that the Fund's investments have achieved a real rate of return above the Jersey RPI of 4.5% per annum.



The table below shows the total performance of the Fund over the periods ended 31 December 2016.

Time period	Performance Actual	Performance Benchmark	Over performance
1 Year	10.0	18.6	(8.6)
3 Years	7.5	9.1	(1.6)
5 Years	9.1	8.8	0.3
Since inception*	5.9	6.3	(0.4)

*This is calculated since 30 November 1998

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 Fund's investment managers. How the Fund's assets are monitored is set out in the Statement of Investment Principles that can be found on the Fund's website (www.gov.je/statesemployeespension).

LONG-TERM INVESTMENT STRATEGY

The table below sets out the Fund's investment strategy and the long term strategic allocation in place at the year end.

Asset Category	Current Benchmark %	Actual Assets %
Growth Investments	**55**	**53.6**
Equities	35	35.4
Alternatives	20	18.2
Bond-Like Investments	**45**	**46.4**
Property	10	11.2
Bonds	20	17.8
Salary-Linked Bond	15	14.7
Cash	-	2.7
Total	**100**	**100**

ETHICAL, SOCIAL AND GOVERNANCE ASPECTS OF INVESTING

The Committee entrusts to each of its investment manager's development and application of policies in relation to the UK Corporate Governance Code and the UK Stewardship Code and how they take into account aspects of good stewardship and environmental, social and governance ("ESG") issues in their investment decisions. The Subcommittee receives annual reports from each investment manager summarising their respective policies and how they have exercised voting rights attaching to the stocks held during the year.

The policy is reflected in the Statements of Investment Principles that can be found on the Fund's website (www.gov.je/statesemployeespension).

DEVELOPMENTS DURING THE YEAR

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

- Invested an additional £12 million in the Pramerica UK Residential Ground Lease Fund II.
- Continued to fund the Hayfin Limited Partnership so that it was fully invested during the year.
- Committed to invest £150 million in HayFin Limited Partnership II, at year end £43.3 million had been invested.
- Terminated the emerging market local currency debt mandate with Investec and appointed Blackrock to manage a mandate in the same investment class.
- Divested £50 million from various equity managers to reduce the equity exposure, retaining the cash to finance expected future cash flows.

CONCLUSION

In 2016, the Fund has seen its biggest change in a generation with the introduction of PEPS, the Career Average Revalued Earnings (CARE) Pension Scheme where pensions are based on an individual's average pensionable salary over their career. The changes follow several years of work aimed at ensuring the Fund is sustainable, affordable and fair for the future.

Since 1 January 2016 all new employees have been admitted into PEPS. Existing employees will transfer into PEPS on 1 January 2019 with the exception of members who are within 7 years of their normal retirement age on 31 December 2018 who will have the option to remain in PECRS.

The Public Employees Pension Fund (PEPF) is the pension fund for the provision of both final-salary and CARE pension benefits to public servants, excluding teachers, in Jersey. In 2016, new governance, investment and accounting arrangements were put in place to administer the CARE pension scheme (PEPS) alongside the final salary pension scheme (PECRS).

In addition, the Administrator has implemented changes to the pension administration system so as to enable CARE benefits to be administered. New scheme documentation has been produced and the website updated to reflect changes to pension benefits.

Although the Fund increased in value by 10.0% over the past year; this represented underperformance against the Fund specific benchmark of 18.6%. 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 Fund and its members. The approach to corporate governance has been reviewed and our decision to rely on the Fund's investment managers to vote at company meetings on our behalf has been re-confirmed.

At the last actuarial valuation in 2013 the Fund actuary determined that PECRS had a surplus of £92.7 million. This enabled previous reductions in the pension increase to be repaid and for PECRS to pay pension increases equal to Jersey RPI. The next actuarial valuation will be undertaken as at 31 December 2016. During 2016 the Fund tendered for a provider of actuarial services. Aon Hewitt was reappointed and work has commenced on the 2016 actuarial valuation which will be the first valuation that provides a valuation position for both PECRS and PEPS. The results are expected in early 2018.

The Fund has relied greatly on the hard work of officers, consultants, actuaries, advisors and investment managers to deliver the changes to the Fund over the last year. I would like to thank all those involved in the Fund for the support that they have provided during the last year.

Gordon Pollock BSc, FFA
Chairman of the Committee of Management, 24 May 2017

FUND ACCOUNT

for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Dealings with members			
Contributions			
Employer contributions	4	44,448	63,319
Employee contributions	4	14,580	14,629
	4	59,028	77,948
Transfers in		3,675	2,892
Other income	6	561	509
		63,264	81,349
Benefits			
Benefits	5	73,527	68,008
Payments to and on account of leavers		296	275
Transfers out		8,672	4,886
Administrative expenses	7	2,724	1,926
		85,219	75,095
Net (withdrawals)/additions from dealings with members		(21,955)	6,254
Net returns on investments			
Change in market value of investments	10	122,139	103,194
Investment income	8	13,799	12,385
Investment administration expenses	9	(11,861)	(21,540)
Net returns on investments		124,077	94,039
Net increase in the Fund's assets during the year		102,122	100,293
Opening net assets		1,832,982	1,732,689
Closing net assets		**1,935,104**	**1,832,982**

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

as at 31 December 2016

	Note	2016 £'000	2015 £'000
Investment assets			
Equities	10,13	497,741	441,306
Pooled Investment Vehicles	10,13	1,335,189	1,271,265
		1,832,930	1,712,571
Cash	10,13	98,288	112,337
Other investment balances	10	7	6,997
		1,931,225	1,831,905
Investment liabilities			
Other investment balances	10	(113)	-
Total net investments		**1,931,112**	**1,831,905**
Current assets	15	5,869	2,817
Current liabilities		(1,877)	(1,740)
Total net assets available for benefits		**1,935,104**	**1,832,982**

The Financial Statements summarise the transactions of the Fund and deal with the net assets available for benefits 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 Fund year. The actuarial position of the Fund, which does take account of such obligations, is dealt with in the report on Actuarial Liabilities on pages 6 of the Annual Report and these Financial Statements should be read in conjunction with it.

In accordance with Regulation 21 of the Public Employees (Pension Scheme) (Administration) (Jersey) Regulations 2015 the Financial Statements have been prepared by the Treasurer of the States of Jersey and have been audited.

The notes on pages 19 to 31 form part of these financial statements.

Richard Bell
Treasurer of the States
24 May 2017

Gordon Pollock BSc, FFA
Chairman of the Committee of Management
24 May 2017

These Financial Statements were received and approved on behalf of the Committee of Management on 24 May 2017.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2016

1. CONSTITUTION

PECRS and PEPS are retirement Schemes governed under the Public Employees (Retirement) (Jersey Law 1967 and the Public Employees (Pensions) Jersey Law 2014. Under the Public Employees (Pensions) Jersey Law 2014 the fund shall operate for the two respective Schemes.

2. BASIS OF PREPARATION

These Financial Statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice, Financial Reporting Standards (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council (FRS 102) and guidance set out in the Statement of Recommended Practice, 'Financial Reports of Pension Schemes (November 2014)' ("the SORP"). In adopting FRS 102, the provisions of 'Amendments to FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland – fair value hierarchy disclosures (March 2016) have been adopted early.

3. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these 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 pooled investment vehicles is 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 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 Schemes have AVC arrangements whereby individuals can pay additional contributions which are invested in the Fund enabling members to gain additional years and days of pensionable service.

The Employers' contributions for the Pre 1987 Debt are accounted for in accordance with the agreement on which they are based.

d) Transfers

Transfer values represent the capital sums either receivable in respect of members from other pension plans of previous employers or payable to the pension plans of new employers for members who have left the Fund.

Transfer payments are accounted for on an accruals basis on the date the trustees of the receiving plan accept their liability. In the case of individual transfers, this is normally when the payment of the transfer value is made.

e) Other expenses

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

f) Valuation of investments

The change in market value of investments during the year comprises all 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 and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value also includes such income.

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 of the Fund’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, as advised by the investment manager, at the proportion due to the Fund 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 are recognised from the date the Fund is notified of the event. Transaction costs, being incremental costs that are directly attributable to the acquisition or disposal of an investment, are added to purchase costs and netted against sale proceeds as appropriate.

g) Taxation

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

h) Currency

The Fund’s functional currency and presentational currency is pounds sterling. Assets and Liabilities denominated in foreign currencies are expressed in Sterling at the rates of exchange at the year end. Foreign currency transactions are translated into Sterling at the spot exchange rate at the date of the transaction.

4. CONTRIBUTIONS

	2016 £'000	2016 £'000	2015 £'000	2015 £'000
STATES EMPLOYEES				
Employers				
Normal		30,358		33,608
Additional				
Past Service Debt	7,217		26,270	
Augmentation	252		198	
Voluntary Early Retirement	227		33	
		7,696		26,501
Members				
Normal	11,437		12,576	
Additional voluntary contributions	450		492	
		11,887		13,068
ADMITTED BODIES				
Employers				
Normal		6,124		2,941
Past service debt		270		269
Members				
Normal	2,603		1,523	
Additional voluntary contributions	90		38	
		2,693		1,561
		59,028		**77,948**

Past service debt contributions are being paid by the employer until 2053 in accordance with Schedule 5 of the Public Employees (Pension Scheme) (Funding and Valuation) (Jersey) Regulations 2015. In the prior year the repayment included £20.8 million in respect of Ports of Jersey Limited share of the Pre 1987 debt.

5. BENEFITS

	2016 £'000	2015 £'000
Pensions	62,258	59,633
Commutations and lump sum retirement benefits	10,929	7,866
Lump sum death benefits	340	509
	73,527	**68,008**

6. OTHER INCOME

	2016 £'000	2015 £'000
Claims on death benefit insurance	**561**	**509**

The Fund holds an insurance policy with Aviva which provides death in service cover.

7. ADMINISTRATIVE EXPENSES

	2016 £'000	2015 £'000
Salaries and office costs	946	1,061
Actuarial fees	487	277
Audit fees	56	46
Legal fees	191	56
Chairman and secretary fees	125	121
Premium on death insurance policies	359	326
Pension systems	475	-
Other expenses	85	39
	2,724	**1,926**

8. INVESTMENT INCOME

	2016 £'000	2015 £'000
Dividends from equities	9,164	7,173
Income from property managed funds	4,690	5,192
Income on cash deposits	202	320
Other income	8	-
	14,064	12,685
Realised gain on foreign exchange	232	366
Less irrecoverable withholding tax	(497)	(666)
Total investment income	**13,799**	**12,385**

9. INVESTMENT ADMINISTRATION EXPENSES

	2016 £'000	2015 £'000
Investment management expenses	11,365	20,908
Custodian expenses	69	72
Investment advisory expenses	394	555
Other investment expenses	33	5
	11,861	**21,540**

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 if they out-perform their benchmark.

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

10. RECONCILIATION OF NET INVESTMENTS

	Value at 1.1.16 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in Market Value £'000	Value at 31.12.16 £'000
Equities	441,306	90,855	(115,263)	80,843	**497,741**
Pooled Investment Vehicles	1,271,265	225,696	(203,068)	41,296	**1,335,189**
	1,712,571	316,551	(318,331)	122,139	**1,832,930**
Cash	112,337				**98,288**
Total	1,824,908				**1,931,218**
Pending Trades	5,637				**(113)**
Accrued Interest	1,360				**7**
Other investment balances	6,997				**(106)**
Total net investments	1,831,905				**1,931,112**

11. INVESTMENT TRANSACTION COSTS

Transaction costs are included in the cost of purchases and deducted from sales proceeds in the reconciliation in note 10. Direct costs are analysed as follows:

	Equities £'000	2016 Total £'000	2015 Total £'000
Fees	41	41	62
Commissions	123	123	163
2016 total	**164**	**164**	**225**

In addition to the direct transaction costs disclosed above, indirect costs are incurred through the bid offer spread on some pooled investment vehicles and charges made within those vehicles. It has not been possible to quantify such indirect transaction costs.

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 entity 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.

The Funds investment assets have been included at fair value within these levels as follows:

Level	1 £'000	2 £'000	3 £'000	2016 Total £'000
Investments				
Equities	497,741	-	-	497,741
Pooled investment vehicles	-	399,766	935,423	1,335,189
Cash	98,288	-	-	98,288
Pending Trades	(113)	-	-	(113)
Accrued Interest	7	-	-	7
Total investments	**595,923**	**399,766**	**935,423**	**1,931,112**

Level 3 - Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Pooled investment vehicles which 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.

Analysis for the prior year end is as follows:

Level	1 £'000	2 £'000	3 £'000	2015 Total £'000
Investments				
Equities	441,306	-	-	441,306
Pooled investment vehicles	-	325,810	945,455	1,271,265
Cash	112,337	-	-	112,337
Pending Trades	-	-	5,637	5,637
Accrued Interest	31	-	1,329	1,360
Total investments	**553,674**	**325,810**	**952,421**	**1,831,905**

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 Committee of Management is responsible for determining the Fund's investment strategy. The Committee of Management 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 manager.

The Fund has exposure to the above risks because of the investments it makes to implement its investment strategy. The Committee of Management 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 Investment Subcommittee by regular reviews of the investment portfolios.

The following table summarises the extent to which the various classes of investments are affected by financial risks:

Asset Category	Market Risk				2016 Value (£m)	2015 Value (£m)
	Credit	Currency	Int Rate	Other		
Segregated						
Equities		√		√	497.7	441.3
Pooled Investment Vehicles						
Equities		√		√	267.1	225.9
Property	√		√		252.8	216.5
Bonds	√	√	√		403.1	305.7
Alternatives	√	√		√	412.3	523.2
Cash	√		√		98.3	112.3
Pending Trades	√	√	√		(0.1)	5.6
Accrued Interest	√	√	√	√	-	1.4

Investment Strategy
The main priority of the Committee of Management when considering the investment policy for the Fund is the aim to ensure that the benefits payable to members are met as they fall due whilst maintaining required liquidity. The below table details the current investment strategy of the Fund.

Asset Class	PECRS %	PEPS	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	11.6	+/- 5.0
Bonds	20.0	23.4	+/- 10.0
Salary Linked Bond	15.0	-	+/- 5.0

The core “growth” asset used by the Fund is equities as the Committee of Management 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.

The Committee has invested in other “growth-like” alternatives (away from equities) that still target a reasonably high investment return, to diversify the Funds’ growth assets. These provide a different source of return less correlated to equities, which should help to reduce the risk of being over-exposed to any one market, asset class or manager, and enabling a smoother return over time. Examples of this include hedge funds.

Bond-like assets are defined by the Committee of Management 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 Fund 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.

Credit Risk

The Fund is subject to credit risk because the Fund directly holds cash balances. As at the year end, the Fund held the following cash balances.

	2016 (£m)	2015 (£m)
HSBC (Note 15)	4.6	1.8
Northern Trust (Note 10)	98.3	112.3
	102.9	**114.1**

The Fund also invests in pooled investment vehicles which invest in emerging market sovereign government bonds, corporate bonds, private debt and property. The value at year end amounted to £655.9 million (2015: £522.2 million). The pooled investment arrangements used by the Fund comprise authorised unit trusts. The Fund is therefore directly exposed to credit risk arising from these pooled investment vehicles and is indirectly exposed to credit risks arising on 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 Fund are held by the Fund's custodian, Northern Trust. Bankruptcy or insolvency of the custodian may cause the Fund's rights with respect to securities held by the custodian to be delayed however as they are held in named accounts the assets will not be included on the balance sheet of the custodian. Cash not forming part of the investment assets is swept daily into the Northern Trust Sterling Fund account to minimise the amount that is included on the custodian's balance sheet.

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.

In addition, the notes below provide more detail on how this risk is managed and mitigated for the different classes.

Emerging Market Debt

Credit risk arising on non-investment grade bonds held indirectly as part of the Fund's emerging market debt mandate is mitigated through diversification of the underlying securities to minimise the impact of default by any one issuer. This is the position at the current and previous year end.

Corporate bonds

Credit risk arising on corporate bonds held indirectly is mitigated by investing in corporate bonds which are rated at least investment grade. The Committee of Management consider financial instruments or counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's. This is the position at the current and previous year end.

Cash balances

Credit risk arising on cash held within financial institutions is mitigated by ensuring cash is held at least investment grade credit rated. This is the position at the current and previous year end.

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 environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Investment Subcommittee carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the operating environment of the pooled manager.

Currency Risk

The Fund is subject to currency risk because some of the Fund's investments from its segregated investment mandates are denominated in a foreign currency. Indirect currency risk arises from the Fund's investment in Sterling priced pooled investment vehicles which hold underlying investments denominated in foreign currency. The Committee of Management minimises the direct risk by investing in GBP denominated share classes when appointing new investment managers.

The net currency exposure at the current and previous year-end was: -

	2016		2015	
	Direct Exposure (£m)	Indirect Exposure (£m)	Direct Exposure (£m)	Indirect Exposure (£m)
Pound Sterling	62.8	1513.2	55.9	1,313.7
Euro	59.2	(29.4)	63.8	37.0
US Dollar	363.3	218.1	295.2	106.3
Japanese Yen	-	(0.2)	-	26.7
Other	49.7	24.3	51.9	135.8

Interest rate risk

The Fund is subject to indirect interest rate risk through a number of pooled investment vehicles that hold investments in bonds, cash, private debt and ground leases. 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. Cash held to fund ongoing benefits and expenditure is kept to a minimum by ongoing monitoring with the majority of cash held with the custodian in a global sweep account.

	2016 (£m)	2015 (£m)
Indirect interest rate risk		
Emerging market debt	-	99.9
Private debt	129.4	74.2
Corporate bonds	141.0	131.6
Ground lease	252.8	216.4

Other Price Risk

Other price risk arises principally in relation to the Fund's return seeking portfolio which includes 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 65% of investments being held 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 portfolio represented 53.6% of the total investment portfolio (2015: 58%).

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 that is kept to a minimum to reduce credit risk of £4.6 million (2015 £1.8 million). The Fund also has the ability to access immediate cash held by Northern Trust which as at 31 December 2016 was £98.3 million (2015: £112.3 million).

14. CONCENTRATION OF INVESTMENTS

Investments accounting for more than 5 % of the net assets of the Fund were:

	2016 Value	2016 %	2015 Value	2015 %
Legal & General FTSE RAFI AW3000 (Net WHT) Ind	267,079	14%	225,861	12%
CQS Credit Multi Asset Fund	141,048	7%	131,604	7%
Investec OEIC EM Lcl Ccy Debt Fund S GBP	-	-	99,949	5%
Pramerica UK Groundlease Fund	153,014	8%	144,644	8%
Pramerica Residential	99,739	5%	71,872	4%
Arrowgrass Masterfund	132,317	7%	129,344	7%
Lansdowne Developed Markets Fund Limited	195,079	10%	230,072	13%
Odey European Inc	84,856	4%	163,737	9%
Blackrock EM	132,687	7%	-	-

15. CURRENT ASSETS

	2016 £'000	2015 £'000
Contributions due	255	253
Debtors	649	551
Cash balances	4,633	1,846
Advances to States of Jersey	332	167
	5,869	**2,817**

16. PECRS/PEPS SPLIT

Assets of the Fund are invested together, however they are ring fenced between the separate Schemes. This note details the split between both PEPS and PECRS.

Fund Account for the year ended 31 December 2016:

	PEPS £'000	PECRS £'000	Total £'000
Dealings with members			
Contributions			
Employer contributions	1,329	43,119	44,448
Employee contributions	656	13,924	14,580
	1,985	57,043	59,028
Transfers in	89	3,586	3,675
Other income	-	561	561
	2,074	61,190	63,264
Benefits			
Benefits	-	73,527	73,527
Payments to and on account of leavers	20	276	296
Transfers out	-	8,672	8,672
Administrative expenses	838	1,886	2,724
	858	84,361	85,219
Net additions/(withdrawals) from dealings with members	1,216	(23,171)	(21,955)
Net returns on investments			
Change in market value of investments	7	122,132	122,139
Investment income	-	13,799	13,799
Investment administration expenses	(6)	(11,855)	(11,861)
Net returns on investments	1	124,076	124,077
Net increase in the Fund's assets during the year	1,217	100.905	102,122
Opening net assets	-	1,832,982	1,832,982
Closing net assets	**1,217**	**1,933,887**	**1,935,104**

There are no comparative figures for the prior year.

Statement of Net Assets available for Benefits as at 31 December 2016:

	PEPS £'000	PECRS £'000	Total £'000
Investment assets			
Equities	338	497,403	497,741
Pooled Investment Vehicles	844	1,334,345	1,335,189
	1,182	1,831,748	1,832,930
Cash	38	98,250	98,288
Other investment balances	-	7	7
	1,220	1,930,005	1,931,225
Investment liabilities			
Other investment balances	-	(113)	(113)
Total net investments	**1,220**	**1,929,892**	**1,931,112**
Current assets	12	5,857	5,869
Current liabilities	(15)	(1,862)	(1,877)
Total net assets available for benefits	**1,217**	**1,933,887**	**1,935,104**

There are no comparative figures for the prior year.

17. CONTINGENCIES AND COMMITMENTS

In the opinion of the Committee of Management, the Fund had no contingent liabilities at 31 December 2016 (2015: nil).

At 31 December 2016 the Fund had undrawn commitments to fund a private debt vehicle amounting to £106,704,063 (2015:£ 27,538,881).

18. 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 and PEPS. At the year end, a sum of £322,067 was owed to the Fund by the States of Jersey in respect of transactions with the department (2015: £166,506). During the year an amount of £906,053 (2015: £847,649) was paid to the department in respect of the services provided. The Chairman and Secretary to the Committee of Management receive remuneration as detailed in Note 7. Within the Committee of Management Board there are 5 active (2015: 5), 0 deferred (2015:1) and 3 pensioner members (2015:1). There were no other related party transactions during the year.

19. POST BALANCE SHEET EVENTS

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

INDEPENDENT AUDITORS' REPORT TO THE COMMITTEE OF MANAGEMENT OF THE PUBLIC EMPLOYEES PENSION FUND

REPORT ON THE FINANCIAL STATEMENTS

OUR OPINION

In our opinion, Public Employees Pension Fund's financial statements:

- show a true and fair view of the financial transactions of the Fund during the year ended 31 December 2016, 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; and
- have been properly prepared in accordance with the Public Employees (Pension Scheme) (Administration) (Jersey) Regulations 2015.

WHAT WE HAVE AUDITED

Public Employees Pension Fund's financial statements comprise:

- the statement of net assets available for benefits as at 31 December 2016;
- the fund account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". In applying the financial reporting framework, the Treasurer of the States (the "Treasurer") has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

OUR RESPONSIBILITIES AND THOSE OF THE COMMITTEE OF MANAGEMENT AND THE TREASURER OF THE STATES

As explained more fully in the statement of responsibilities, the Treasurer is responsible for the preparation of the financial statements and being satisfied that they show 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) (“ISAs (UK & Ireland)”). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Committee of Management as a body in accordance with the Public Employees (Pension Scheme) (Administration) (Jersey) Regulations 2015 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.

WHAT AN AUDIT OF FINANCIAL STATEMENTS INVOLVES

We conducted our audit in accordance with ISAs (UK & Ireland). 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 Schemes’ circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Treasurer; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Treasurer’s judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.
We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.
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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Leeds, 24 May 2017

STATEMENT OF RESPONSIBILITIES

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The financial statements, which are prepared in accordance with UK 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 State (the "Treasurer")s. Public Employees (Pension Scheme) (Administration) (Jersey) Regulations 2015 require the Treasurer to prepare, and have professionally audited, annnual accounts of the Fund which:

- 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;
- state whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- contain the information specified in and properly prepared in accordance with the Public Employees (Pension Scheme) (Administration) (Jersey) Regulations 2015.

The Treasurer is responsible for agreeing suitable accounting policies, to be applied consistently, and for making any estimates and judgements on a prudent and reasonable basis.

The Treasurer also has a general responsibility for ensuring that adequate accounting records are kept and the Committee of Management and the Treasurer have a general responsibility for taking such steps as are reasonably open to them 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.

STATEMENT OF SCHEME ACTUARY

Name of Scheme: States of Jersey Public Employees Pension Fund

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 Public Employees Contributory Retirement Scheme (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 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 being carried out as at 31 December 2016. This valuation will include an assessment of the funding position of the Public Employees Pension Scheme, under which new employees have been building up benefits since 1 January 2016, as well as the Public Employees Contributory Retirement Scheme.

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.

Jonathan F. Teasdale

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

22 March 2017

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 at 31 December 2013 consisted 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, Ports of Jersey 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.

GLOSSARY

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

Admitted Bodies: Bodies whose staff can become members of PECRS and PEPS by virtue of an agreement made between the Chief Minister, Committee of Management 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.

Committee of Management: Board to manage the Fund under the powers vested in it by Regulations governing the Schemes. Comprising of; a chairman, 5 employer representatives, 4 member representatives, 2 pensioner representative and 1 Admitted Body employer representative.

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.

DPU: The Dedicated Pension Unit, a section of the States of Jersey Treasury & Resources department who perform the day to day administration of PECRS and PEPS.

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: Jersey Retail Prices Index is the rate of inflation that retirement benefits are linked to.

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.

Pending trades: Trades that have been instructed but not settled at year end.

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 Fund holds where the custodian holds individual assets on behalf of the Fund that are managed by an investment manager. This is different to Pooled assets where the Fund invests with other investors in a pool of assets, and the Fund owns units in the pool as opposed to the individual assets.

SORP: Statement of Recommended Practice, ‘Financial Reports of Pension Schemes (revised November 2014)’, this is guidance on how to prepare the Financial Statements.

States Employment Board: The State’s 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:

- Final Salary Scheme - pecrs@gov.je
- CARE Scheme - peps@gov.je

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