Public Employees Pension Fund

Annual Report 2021

Contents

Introduction

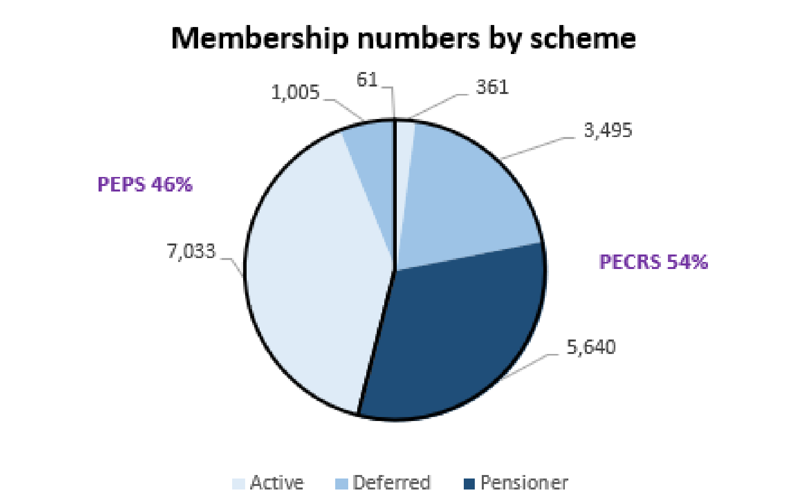
Welcome to the Annual Report and Financial Statements for the Public Employees Pension Fund ("PEPF" or the "Fund".)

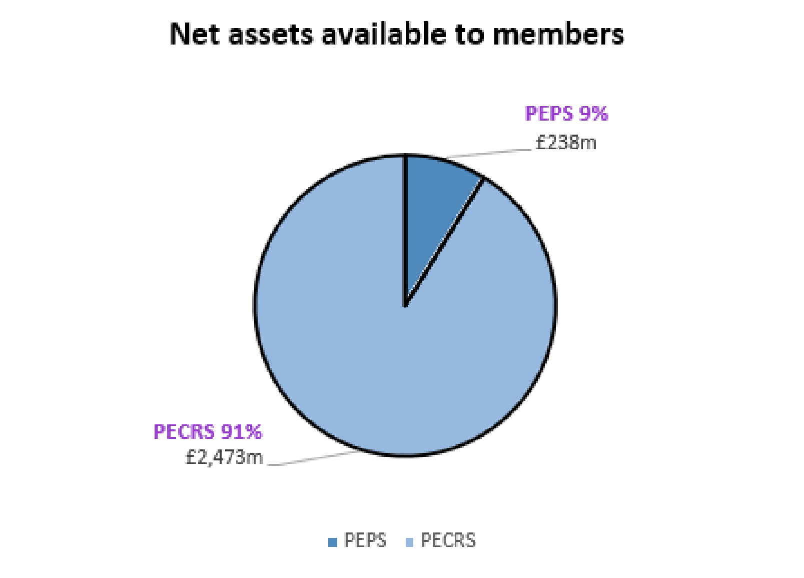
The PEPF is the pension fund consisting of the Final Salary Scheme (also called the Public Employees Contributory Retirement Scheme (PECRS) and the Career Average Scheme (also called the Public Employees Pension Scheme (PEPS)). These schemes provide pension benefits to public servants, excluding teachers, in Jersey.

The PECRS scheme closed to new members in 2016 and 4,400 members of this Final Salary Scheme were transferred to the PEPS Career Average Scheme on 1 January 2019 for their future accrual.

At 31 December 2021, the Fund had a combined membership of 17,595 and net assets of £2.7 billion, excluding the Pre-1987 Debt (also known as the Salary Linked Bond).

Summary of membership and net assets at 31 December 2021

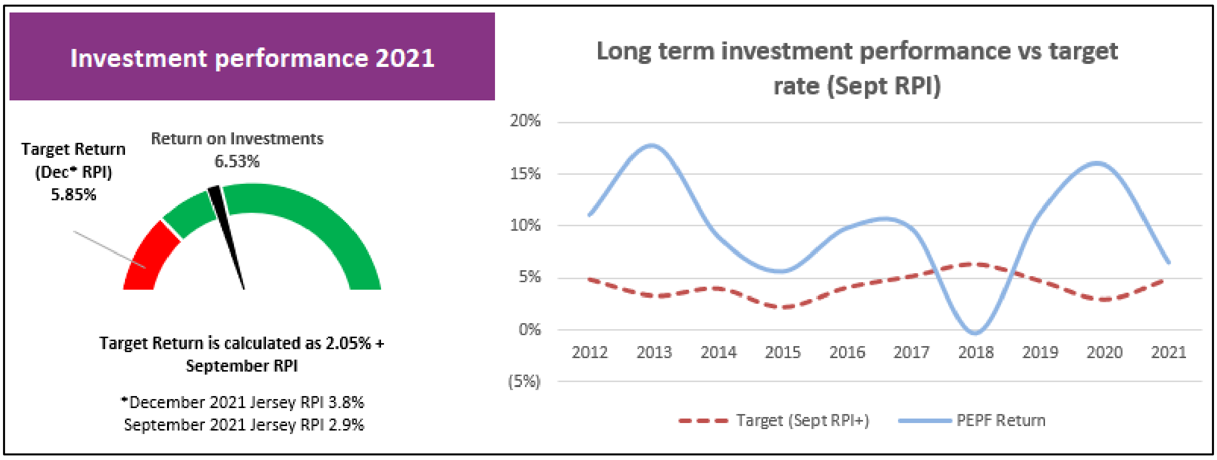




Overview

Performance

Over 2021, investments increased in value from £2.5 billion to £2.7 billion, delivering a 6.5% return compared with a year-end target return of 5.85%. This continues the recent history of successfully outperforming target return.



**The long-term comparison against target above uses September data points, which are the data points used for pension increase calculations. The one-year chart above compares against a target return using December RPI, to reflect the rise in inflation since the formal September RPI data point.*

Despite the natural fluctuations that occur from year to year, the Fund continues to fulfil the growth of assets it needs over the long term – positioning it to meet ongoing and future obligations to its members, as estimated by the Fund's actuarial valuation, and as expressed as the "target return".

The Committee of Management is pleased with current performance and the present construction of the investment portfolio, however, note that the portfolio is likely to be adjusted in the year ahead should the Government of Jersey repay the Pre-1987 Debt (Salary Linked Bond) and in light of the outcomes of the triennial actuarial valuation.

Benefits and liabilities

The current target rate of Jersey RPI (September) +2.05% was last calculated in 2019 in respect of a 31 December 2018 valuation. As indicated above, the next valuation will be undertaken in 2022 with reference to the 31 December 2021 actuarial valuation date and the target rate will then be reassessed, taking into account any developments at that time relating to the Pre-1987 Debt repayment and recent pension increases, which for 2022 will be 2.9%.

The Pre-1987 Debt is a payment arrangement agreed between the Government of Jersey and the Committee of Management for dealing with the shortfall transferred to the Fund arising from the changes made to the PECRS final salary scheme in 1987. In December 2021, the States Assembly approved the refinancing of the PECRS Pre-87 pension increase liability as part of the Government Plan 2022-25. The Government intends to raise financing in accordance with the principles of its Debt Strategy in order to fully repay the PECRS Pre-87 liability during the period outlined in the Government Plan.

Membership

Membership of the schemes increased in the year to 17,595 (2020: 16,808). In total, 42% of the PEPF membership are of active status, 25% deferred and 33% pensioner status.

Administration and operations

The events of the Covid-19 pandemic significantly disrupted working patterns in 2020 and 2021. The Committee of Management make frequent enquiries as to the working arrangements of service providers and is satisfied that any respective adaptations to working practices adopted in view of the pandemic continue to be sufficiently robust.

Board and Governance

There have been no fundamental changes to the structure or governance of the Fund, other than the appointment of Nexia Smith and Williamson Audit Limited as auditor in place of PricewaterhouseCoopers LLP, who decided not to re-tender for the audit contract. There were also a few changes within committee memberships, as members were rotated off the board in line with internal policies on tenure.

More information on all of the above may be found below in the Committee of Management's Review of the Year.

Summary

The investment performance of PEPF continues to exceed its target return, as it has done regularly in recent years, putting both Schemes in strong financial positions. The Committee of Management believes that the portfolio is well diversified with a range of return drivers expected to deliver appropriate performance in a variety of economic environments. The Fund is well placed to continue to meet its obligations to members.

Members and Advisers

Members of the Committee of Management

Chairman	
Gordon Pollock	
Employer Representatives	**Member Representatives**
John Everett Scot Laing (Retired Dec 2021) John Mills CBE Ed Sallis OBE^ Charlotte Guillaume (Appointed Jan 2021) Gailina Liew (Appointed Jan 2021) *Dr Jimmy Cooke (Appointed Jan 2022)*	Chris Bambury* *Leah Buttle (Appointed April 2022)* Michael De La Haye OBE* John Fosse (Resigned Aug 2021) Tommy Querns Mark Richardson Barbara Ward (Retired Dec 2021)

^Admitted Employers Representative *Pensioner Representative

The Committee of Management is established under Article 4 of the Public Employees (Pensions) (Jersey) Law 2014 and governed by Regulations made under it in 2015. Committee members are appointed by the Chief Minister on the recommendation of the Minister for Treasury and Resources for terms of up to five years, which may be extended for a second term of up to five years. The Chairman is appointed to the Committee by the Chief Minister for separate five-year terms on the recommendation of the Minister for Treasury and Resources and with the agreement of the majority of the Employer and Member representatives. Mr. Pollock was reappointed as Chairman in June 2019 for a second term, to 30 June 2024.

At 31 December 2021, the Committee of Management had two Member Representative vacancies. Member representative vacancies require nominations from qualifying member representative bodies.

Advisers to the Committee of Management

Actuary	Aon Solutions UK Limited	Independent Auditors	Nexia Smith & Williamson Audit Limited
Custodian	Northern Trust	Investment Adviser	Mercer LLC
Bankers	HSBC Plc	Legal Advisers	Carey Olsen

PricewaterhouseCoopers LLP resigned as Fund auditor with effect from 20 May 2021. PricewaterhouseCoopers LLP confirmed there were no circumstances connected to their resignation which significantly affects the interest of members, prospective members, or beneficiaries of the Fund. Nexia Smith & Williamson Audit Limited were appointed as auditor to the Fund with effect from 30 September 2021.

Secretary to the Committee of Management – Janine Ward

Scheme Administrator - The Treasurer of the States

Participating Employers

Summary of the employers participating in the PEPF

The principal employer is the Government of Jersey. All new permanent employees of the Government of Jersey are admitted into the Career Average Scheme. There are other organisations which participate in the Schemes with the consent of the Chief Minister; these are known as Admitted Employers.

Scheme Employer	
Government of Jersey	
Admitted Employers	
Andium Homes Limited	JT (Jersey) Limited
Beaulieu Convent School Limited	Les Amis Limited
Brig-y-Don Children's Home	Office of the Information Commissioner
Comité des Connétables	Parish of Grouville
Family Nursing & Home Care (Jersey) (Incorporated FNHC)	Parish of St. Brelade (including Maison St. Brelade)
Jersey Advisory and Conciliation Service (JACS)	Parish of St. Clement
Jersey Competition Regulatory Authority (JCRA)	Parish of St. Helier
Jersey Employment Trust (JET) (including Workforce Solutions Limited)	Parish of St. Lawrence
Jersey Financial Services Commission (JFSC)	Parish of St. Martin
Jersey Gambling Commission	Parish of St. Ouen
Jersey Heritage Trust	Parish of St. Saviour
Jersey Overseas Aid Commission (JOAC)	Ports of Jersey Limited
Jersey Post Limited	

Governance Arrangements

Summary of Governance Arrangements

The Fund is governed and administered under the Public Employees (Pension Scheme) (Administration) (Jersey) Regulations 2015. The Committee of Management manages the Fund. It sets the investment strategy, appoints and instructs the Actuary, Investment and Legal Advisers, and works to ensure that benefits are paid to members in accordance with law. The Administrator is the Treasurer of the States. The Committee of Management appoints and terminates investment managers with the approval of the Minister for Treasury and Resources.

A number of sub-committees take the lead on particular aspects of work, reporting to the Committee of Management. The table below shows their membership at the year end. Each sub-committee is assisted by the Secretary, members of the administration team and advisers as appropriate.

	Sub Committee			
Committee Member	Investments	Ill Health and Death Benefit	Communications	Audit
Gordon Pollock	●			
John Mills CBE	Chairman	●		
Michael De La Haye OBE				Chairman
Ed Sallis OBE	●			●
Chris Bambury			Chairman	
John Everett				●
Charlotte Guillaume (Appointed Jan 2021)		●	●	
Gailina Liew (Appointed Jan 2021)	●			
Tommy Querns		●		
Mark Richardson	●			
Number of meetings in 2021	10	As required	As required	3

Committee of Management - Review of the Year

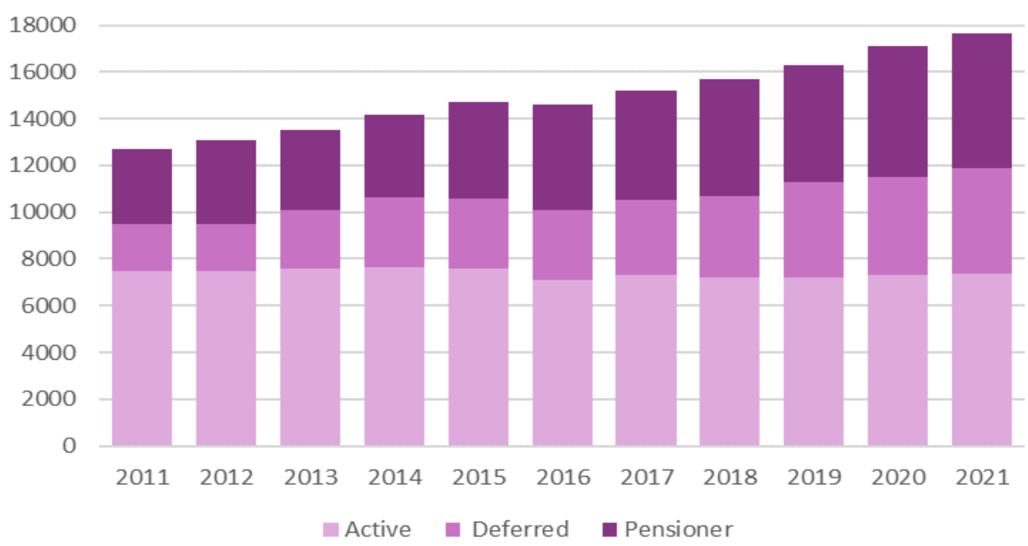
Membership changes

The total membership of the Fund increased during the year to 17,595 (2020: 16,808).

	2021	2020		Change
PECRS				
Active	361	476	⬇	(24%)
Deferred	3,495	3,420	⬆	2%
Pensioner	5,640	5,492	⬆	3%
	9,496	**9,388**	⬆	1%
PEPS				
Active	7,033	6,699	⬆	5%
Deferred	1,005	691	⬆	45%
Pensioner	61	30	⬆	103%
	8,099	**7,420**	⬆	9%
Total	17,595	16,808	⬆	5%

This is a continuation of the membership patterns over the last 10 years, with the mature PECRS scheme reflecting lower growth, high and increasing numbers of pensioner members and low and decreasing numbers of active members; the younger PEPF scheme shows the opposite dynamics.

Membership over 10 years, by nature:



Pension Increases

Final Salary Scheme and Career Average Scheme pensions in payment and deferred pensions are increased each year in line with the previous September's Jersey RPI, provided that the Fund's financial position remains satisfactory. The Fund has been able to continue paying increases in line with Jersey RPI.

Pension increases for the last 5 years:

Year of effect (Effective 1st January)	**Increase** (**Jersey RPI %** of preceding 30 September)
2018	3.1
2019	4.3
2020	2.7
2021	0.9
2022	2.9

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

Actuarial Valuation

The most recent actuarial valuation, relating to a 31 December 2018 valuation date, was completed in December 2019 for both the Final Salary Scheme and Career Average Scheme of the PEPF. It was presented to the Government of Jersey in January 2020.

An actuarial valuation was required on that date under the Public Employees' (Pension Scheme) (Funding and Valuation) (Jersey) Regulations 2015 (the legislation that closed the Final Salary Scheme to new membership and opened the successor Career Average Scheme).

A valuation will normally be commissioned every subsequent three years and the next, in relation to a 31 December 2021 valuation date, is currently in progress, to be completed in 2022.

The valuation shows the relationship between the liabilities (being pensions and other benefits), and the assets held to meet those liabilities. 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.

A Funding Strategy Statement sets out the basis for assumptions in actuarial valuations and also the framework for action to be taken at an actuarial valuation. The Funding Strategy Statement is reviewed, updated and agreed ahead of each actuarial valuation.

The 2018 actuarial valuation assumed that the Final Salary Scheme would gradually be de-risked over the period 2021 to 2041. This reflected the fact that although some existing Final Salary Scheme members will continue to pay into the Fund until the mid-2020s, the Scheme's members from then on would comprise solely those in receipt of, or due, a pension, thus crystallising liabilities. The following table includes the key financial assumptions used in the valuation.

	Final Salary Scheme %	Career Average Scheme %
Discount rate*	For the period to 31 December 2021: 5.0 % per annum. Then gradually declining over the following 20 years to 4.1% per annum	5.2% per annum
Jersey inflation	2.95	2.95
Rate of salary increase	3.95	3.95
Management expense	0.7	0.7
Mortality assumption	SAPS S3 "All lives" tables with 105% scaling factor and allowance for future improvements in mortality, with a long-term rate of improvement of 1.5% p.a.	

* The discount rate is the rate used to value the current cost of future pension obligations

The main conclusions from the actuarial valuation as at 31 December 2018 were that:

- In the Final Salary Scheme there was a past service deficit of £1.1 million, corresponding to a funding level of 99.95%.
- The valuation of the Final Salary Scheme was within the “funding corridor” of 95% to 105%.
- In the Career Average Scheme there was a small past service surplus of £3.26 million, corresponding to a funding level of 120.5%. This position reflected the fact that the Scheme was relatively new; the surplus is expected to reduce over time. In accordance with the transitional arrangements set out in the Funding and Valuation Regulations, the Career Average Scheme actuarial valuation at 31 December 2018 had no impact on the benefits payable.

In line with the Funding Strategy Statement, in early 2020 the Actuary updated the terms for benefit options including the terms relevant for transfers into, and transfers out of, the Fund.

Current year considerations

At the 31 December 2018 valuation, a target return was defined for the Fund as Jersey RPI (September) + 2.05%. On 31 December 2021 values, this equates to a target return of 5.85% (2020: 2.95%).

The Covid-19 pandemic of 2020-2021 posed a number of challenges relating to the assumptions used in the actuarial modelling relating to membership and investment performance. For this reason, the Committee of Management has endeavoured to provide the actuary with updated scheme information and investment performance throughout the period, as frequently as possible.

Membership administration

The Public Employees Pension Team (PEPT) administer benefits for scheme members on behalf of the Treasurer of the States. In the performance of its duties, the PEPT adheres to the standards of the Pension Administration Strategy that was agreed with the Committee of Management in 2016.

Current year performance

Since the onset of the Covid-19 pandemic, the working patterns and processes of the PEPT have been disrupted. Over the course of 2021, the team continued to adapt processes to ensure that key service requirements were met, for instance prioritising the timely and accurate payment of benefits over routine data maintenance.

The PEPT performance statistics improved during 2021 and the team were once again meeting and exceeding their targets. Over the year, the PEPT processed 93% of tasks within five working days, which was higher than the 90% target set out in the Pension Administration Strategy.

The team also resumed the member surgery on Tuesday mornings at Customer and Local Services. The surgery allows members to book a meeting and talk to a member of the team about their pension benefits on a one-to-one basis. Face to face meetings resumed on 14 September 2021, members could book a half hour slot to discuss any aspect of their pension benefits and for the remainder of the year the team met with 41 members.

The PEPT reports its performance to the Committee of Management on a quarterly basis.

Current year developments

Fund members are increasingly aware of the value of their pension benefits and the PEPT continuously work to ensure that communications meet members' requirements. Increased use of modern communication channels is being made to provide information in a manner requested by Fund members. Delivering communications digitally is also much more cost effective for the Fund.

During 2021 the PEPT released a Pensions Portal (pept.gov.je). The Portal allows members to view their pension benefits in real time anywhere in the world. Over 4,000 members have registered on the Portal.

The PEPT also uses the Government of Jersey 'Tell Us Once' service to receive notifications of Fund member deaths and for members to inform them about any changes to their personal details.

Investment Performance

2021 market background

The Covid-19 pandemic continued to have significant direct and indirect effects on asset classes and markets across the world, with markets trying to anticipate the timing and extent of restrictions lifting, the degree to which patterns and dynamics of trade would revert and what these factors in turn may mean for enormous government stimulus programmes.

This naturally led to volatility in prices as consensus shifted with news events. This broader uncertainty was compounded by rising geo-political tensions, particularly with respect to trade in and with China.

In 2021, a particular feature of this was the fluctuating market outlook for interest rates and inflation in developed markets (the US primarily, but also other nations). For much of 2020, the consensus view of the markets had been that there would not be any significant near term increases in interest rates in order to support economic recovery. However, over 2021, the probability that rate rises would occur in the near term rose, resulting in the re-pricing of risks and assets.

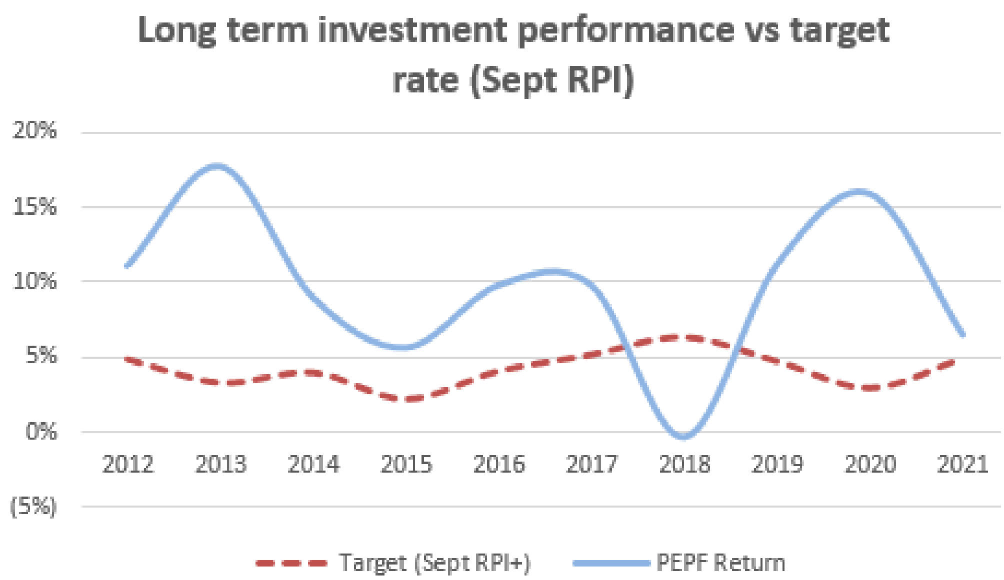
These changes were felt across all sectors but were most clearly reflected in the valuations of growth stock assets in the equities class. In 2020, this sector made significant gains as markets focused on the exponential growth in revenues that disruptive technology stocks may enjoy in the future. By contrast, in 2021 the same fundamental valuations were being negatively impacted by anticipation of rate increases which renders tomorrow's returns less valuable when priced today. Investors sought to take profit and rebalance, rendering some of the abnormally large 2020 gains particularly fragile.

Against this background, the Fund was reliant on diversity of its portfolio to achieve its objective of securing sufficient returns to meet all liabilities as they fall due.

Performance at the Fund level

Over 2021, investments increased in value from £2.5 billion to £2.7 billion, delivering a 6.5% return compared with a year-end target return of 5.85%. This continues the recent history of outperforming target return.

The Committee is satisfied that performance for the year meets the primary objective of the Fund, to ensure that it can meet its present and future liabilities to members.

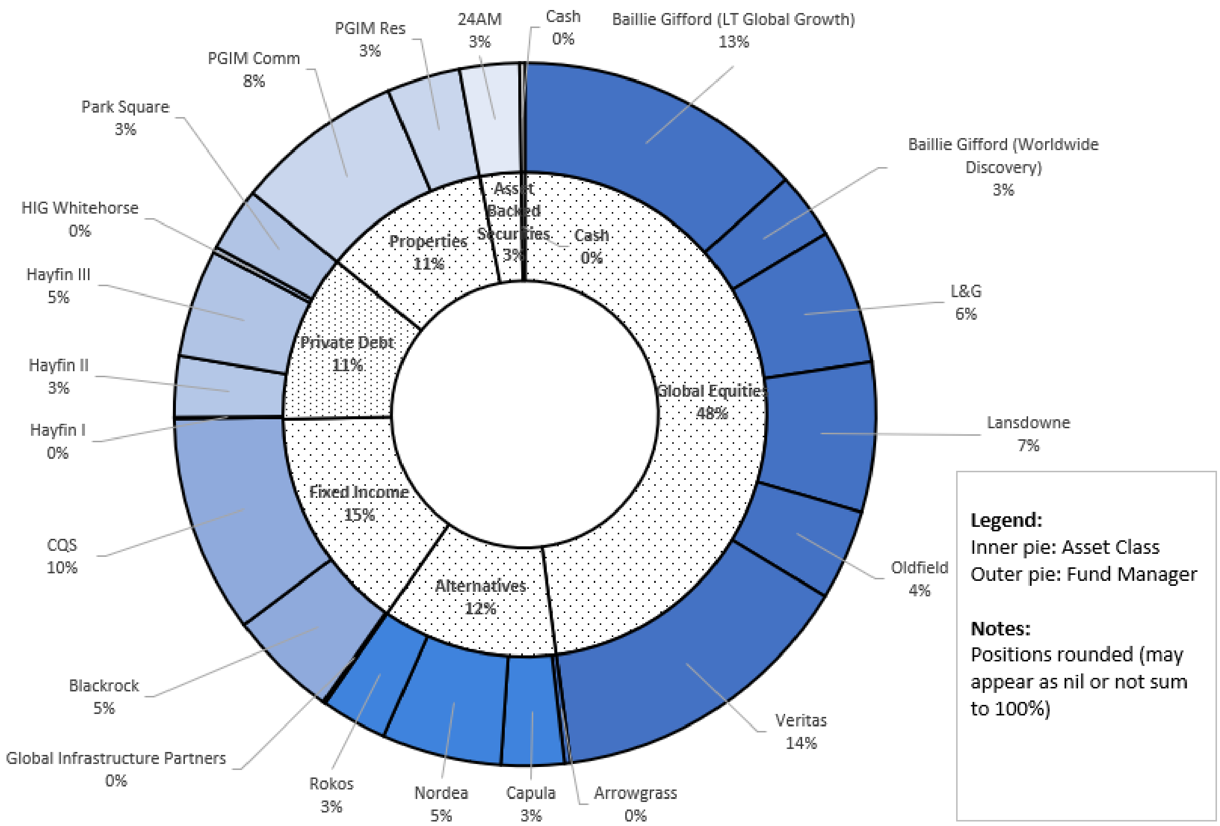


Performance by asset class and component funds

In order to consistently achieve the required return, the Fund employs a structured portfolio approach. As explained in more detail in the Fund's Statement of Investment Principles, the Committee of

Management carefully allocates investments to a range of asset classes, and within them a range of funds, to diversify the Fund's exposure to investment risk and return.

The chart below shows the diversification of the total portfolio by asset class and manager.

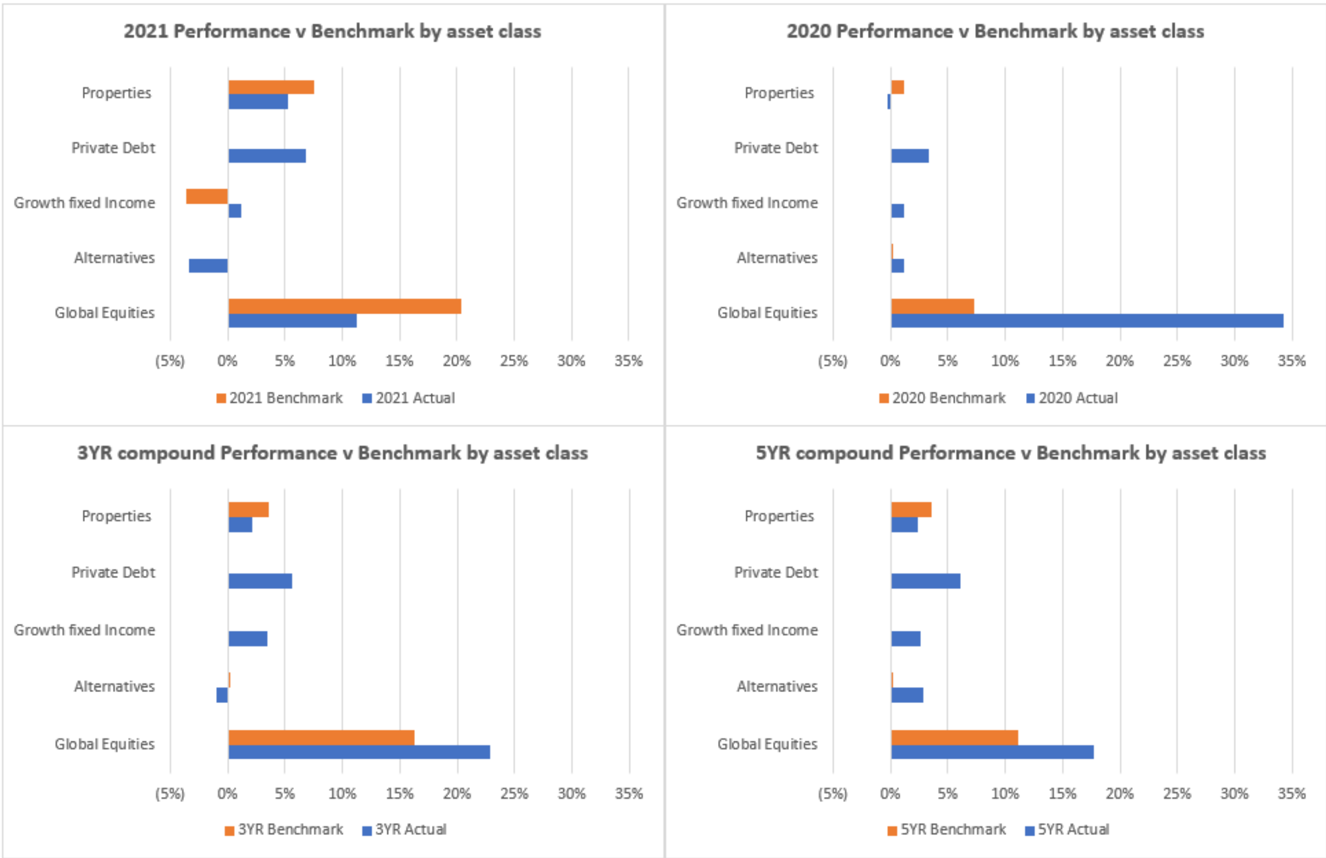


Analysis of portfolio by asset class and fund

Asset class	Allocation	In Range?	Market value (£m)
Global Equities	48%		£1,296.9
Alternatives	12%		£317.3
Fixed Income	26%		£709.1
Properties	11%		£302.1
ABS	3%		£74.2
Cash	<1%		£6.6

The portfolio is designed to deliver an overall performance regardless of the economic environment. It is expected that different asset classes' relative contributions to overall performance will vary according to the market conditions of the day, as illustrated in the charts below.

Comparison of performance vs benchmark by asset class, over varying time horizons



*Historic benchmark information is not available for Growth Fixed Income as the asset class was recently re-defined. Private debt does not have a class benchmark due to the ideosyncracies of funds in Private Debt

The Committee is satisfied that the portfolio construction is achieving its aim of providing diversified risk and return drivers, with only Alternatives* returning negative absolute returns in the current year.

*(*Nb Further detail on significant aspects of performance are provided in the table overleaf)*

Two of the charts above also show aggregated performance per asset class against similar funds, where benchmarks are available. Comparisons to benchmarks help track performance over time at asset class level, to ensure the portfolio is working as expected, and at individual fund level to prompt investigations.

In evaluating performance, the Committee of Management recognises that certain "conviction" funds purposely hold positions that differ to their peers, or with a longer term perspective than the market generally, and therefore comparison to benchmark (relative return) should be considered against a range of time horizons.

Notable fund performances

<table>
<tr><th colspan="4">Top 3 notable performances</th></tr>
<tr><th>Fund</th><th>Allocation</th><th>Return</th><th>Comment</th></tr>
<tr><td>Hayfin I
(Alternatives)</td><td><1%

8% across 3 Hayfin vintages</td><td>Not benchmarked

43% Return</td><td>The high return reflects that we are at the end of Hayfin I’s lifecycle.

However, investment is continued through subsequent vintages of the Hayfin funds which returned 6% and 8% respectively in 2021.</td></tr>
<tr><td>L&G
(Global Equities, Style: Value)</td><td>6%</td><td>(-) In-line with benchmarks

25% Return</td><td rowspan="2">These funds benefited from the equities sector rotating from “growth” to “value” style funds (i.e. to funds that favour current returns rather than anticipated returns).

It is widely thought that value funds will be particularly well placed in times of inflation and as economic activity levels return, post pandemic.

Variance from benchmark comes from the manager’s conviction holdings for the longer term.</td></tr>
<tr><td>Lansdowne
(Global Equities, Style: Value)</td><td>7%</td><td>(3.79%) Below benchmarks

16% Return</td></tr>
</table>

<table>
<tr><th colspan="4">Worst 3 notable performances</th></tr>
<tr><th>Fund</th><th>Allocation</th><th>Relative return</th><th>Comment</th></tr>
<tr><td>Baillie Gifford World Wide Discovery (‘WWD’)
(Global Equities, Style: Growth)</td><td>3%</td><td>(39%) Below benchmarks

(21%) Return</td><td rowspan="2">The Committee remains confident in the manager’s ability to identify companies poised for exponential growth over the long term through a disruptive or technological advantage.

The equities sector as a whole saw rotation from growth stocks to value stocks to realise recent gains and rebalance portfolios, which impacted both funds.

An indiscriminate market sell off in holdings related to China impacted both funds, but particularly the WWD. For the WWD fund this was compounded by comparison to an index based on company size, not distinguishing the growth bias of the fund.

The Committee remains confident that the fund will provide the required long-term return.</td></tr>
<tr><td>Baillie Gifford Global Discovery
(Global Equities, Style: Growth)</td><td>13%</td><td>(14%) Below benchmarks

6% Return</td></tr>
</table>

Rokos (Alternatives)	3%	No relative **(25%) Absolute**	Actively managed funds are designed to take concentrated positions which leads to volatility and variance around benchmark. In the prior year, the fund achieved 40% gains and has a positive return since inception. The risk management processes in place at the manager are satisfactory and although the fund is "on watch", long term performance gives confidence that the fund should continue to be held.

In relation to the current year performance by asset class, the Committee of Management is satisfied that the diversification is appropriate and that the individual funds meet their strategic objectives. Not all classes are expected to perform in the same economic conditions and therefore underperforming assets may still serve to complement the overall portfolio, which is designed to generate returns in excess of the target over a full economic cycle. Where there is unexpected performance, the reasons are understood and appropriate actions have been taken where necessary.

Developments during the year

Since March 2020, Covid-19 has had a profound effect on domestic and global economies, with disruption and volatility in the financial markets.

The Committee of Management, in conjunction with their advisers, monitored the situation closely throughout the year in this regard and continue to do so. This included monitoring the employer covenant; the operational impact on the Fund's service delivery and performance; and the effect of events on valuations of the Fund's investment portfolio and its liabilities to Members.

The future extent of the impact on the Fund's investment portfolio, including financial performance, will depend on future developments in financial markets and the overall economy, all of which are uncertain.

Specific events relating to investment operations for the year were:

- **Completion of rebalancing within equities**
  At the end of the prior year, the composition of the portfolio was adjusted to accommodate further diversification in the equities' pool. This exercise was completed by February 2021 with the subscription of £130m into Nordea and the appointment and subscription of £100m into Oldfield Partners.

- **Continuation of investment into private debt**
  Allocations to private debt have been maintained. These Funds typically have a fixed lifespan during which there is a cycle of calling for cash from investors and distributing cash back to them. The Fund participates in various vintages of these funds in order to maintain a continuous exposure as individual funds mature. In 2021, the Fund participated in its first calls of capital to Global Infrastructure Partners' Capital Solutions Fund II, of $64m, and HIG Whitehorse, of $10m(Distributed funds allocated to meet near term capital commitments are invested in Asset Backed Securities via 24 Asset Management until such time as they are called).

Events following year end

On 24 February 2022, Russian military forces started to invade Ukraine. The invasion was met with widespread condemnation with many jurisdictions, including Jersey, imposing severe economic sanctions on Russia and Belarus and freezing the assets of selected Russian citizens in their territory.

The Fund did not have a significant exposure to Russian assets at 31 December 2021, nor does it now. However, the invasion and associated global uncertainty does increase the risk of volatility in global economic markets generally, which could affect future investment valuations.

Responsible Investment

The Investment Sub-committee entrusts to each of its investment managers the 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 Sub-committee 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 topic of Responsible Investment (RI) is increasingly a matter of interest to members and the Committee of Management. The Committee continues to take steps to better integrate RI assessments into its strategic decision making and performance measurement processes in the belief that good stewardship will lead to better investment performance. This work will continue in the year ahead.

Looking ahead

As referred to above, the triennial actuarial valuation of PEPF’s assets and liabilities and the anticipated repayment of the Pre-1987 Debt (Salary Linked Bond) are likely to have impacts on the structure of the investment portfolio in 2022.

The Covid-19 pandemic, unprecedented in modern times, highlights the necessity for the portfolio to retain the flexibility to react to infrequent but significant external events, be it a global event like Covid or a geo-political event such as the February 2022 invasion of Ukraine, or something else of similar scale such as responses to climate emergency. Appropriate steps have been taken to review the portfolio and the Committee of Management will continue to work closely with the investment advisor to monitor the position closely. It is anticipated that the unfolding impact of recent global events will be continue into 2022, increasing the likelihood of short-term market volatility in the year ahead.

Conclusion

In review of 2021, we may reflect that the Fund’s diversification has served it well through a particularly testing and uncertain couple of years. Once again, the Fund has delivered a surplus over the Target Return adding a margin to the reserves. We should draw comfort from this experience as we enter 2022, which itself is already shaping up to be a further year of economic uncertainty.

The Fund relies greatly on the hard work of officers, consultants, actuaries, advisers, and investment managers, as well as the members of the Committee of Management, who serve in an honorary capacity, and I would like to thank them all, on behalf of the whole membership, for their hard work and commitment.

Gordon Pollock BSc, FFA
Chairman of the Committee of Management
19 May 2022

Statement of the Treasurer's Responsibilities

Treasurer's responsibilities in respect of the financial statements

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP"), 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"). The Public Employees (Pension Scheme) (Administration) (Jersey) Regulations 2015 requires that the Treasurer:

- prepares the Fund financial statements (which must contain – the balance sheet and profit and loss account with supporting notes and disclosures prepared in accordance with generally accepted accounting practice); and

- keep all the records necessary for the proper working of the Fund and the respective schemes.

FRS 102 and generally accepted accounting practice require that those financial statements should:

- 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 Public Employees (Pension Scheme) (Administration) (Jersey) Regulations 2015, 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 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 Government of Jersey's responsibilities in respect of the financial statements

The Government of Jersey is responsible for the maintenance and integrity of the Government 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 2021

Dealings with members		Notes	2021 (£'000)	2020 (£'000)
Payments In	Employer contributions		62,264	58,451
	Employee contributions		25,758	23,248
	Total Contributions	4	**88,022**	**81,699**
	Transfers in		1,444	2,076
	Other income	5	325	653
	Total Payments In		**89,791**	**84,428**
Payments out	Benefits paid or payable	6	(90,181)	(87,343)
	Payments to and on account of leavers	7	(9,243)	(20,127)
	Administrative expenses	8	(2,580)	(2,475)
	Total Payments Out		**(102,004)**	**(109,945)**
	Net withdrawals from dealings with members		**(12,213)**	**(25,517)**
Net returns on investments				
Investment income		10	30,552	17,513
Change in market value of investments		9	149,055	343,546
Investment management expenses		11	(14,888)	(28,168)
	Net returns on investments		**164,719**	**332,891**
Net increase in the Fund's assets during the year			152,506	307,374
Opening net assets			**2,558,950**	**2,251,576**
		Closing net assets	**2,711,456**	**2,558,950**

The notes on pages 23 to 34 form part of these Financial Statements.

Statement of Net Assets Available for Benefits as at 31 December 2021

Investment assets	Notes	2021 (£'000)	2020 (£'000)
Equities	9	701,865	675,983
Pooled Investment Vehicles	9	1,949,419	1,855,407
		2,651,284	**2,531,390**
Cash	9	54,771	22,166
Other investment balances	9	212	1,190
Total net investments		**2,706,267**	**2,554,746**
Current assets	16	6,914	6,333
Current liabilities	17	(1,725)	(2,129)
Closing net assets		**2,711,456**	**2,558,950**

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 valuation on pages 10 and 11 of this Annual Report, and these Financial Statements should be read in conjunction with that section.

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 and have been audited.

The notes on pages 23 to 34 form part of these Financial Statements.

Richard Bell
Treasurer of the States
19 May 2022

Gordon Pollock BSc, FFA
Chairman of the Committee of Management
19 May 2022

The Financial Statements on pages 21 to 34 were received and approved on behalf of the Committee of Management on 19 May 2022.

Notes to the Financial Statements for the year ended 31 December 2021

1. Constitution

The Final Salary Scheme and the Career Average Scheme 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.

The postal and electronic address of the Schemes can be found on page 47 of this annual report.

2. Basis of Preparation

The Financial Statements of the PEPF have been prepared in accordance with 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 "Financial Reports of Pension Schemes" (revised June 2018) (the "SORP").

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) 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.

b) Transfers

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

The employers' contributions for the Pre-1987 Debt (Salary Linked Bond) are accounted for in accordance with the agreement on which they are based.

c) 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 accrual basis on the later of the date of retirement and the date the option is exercised.

d) Investment income

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

e) Other expenses

All fees and expenses are accounted for on an accrual 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 investment vehicles 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 pooled investment vehicles 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) Critical accounting judgements and estimation uncertainty

In respect of asset valuations, the Committee of Management make estimates and assumptions concerning the future. The Committee believe the only estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are related to the valuation of scheme investments and, in particular, those classified in level 3 of the fair-value hierarchy. Explanation of the key assumptions underpinning the valuation of investments are included within (f) above and within notes 13 and 14.

h) Taxation

The Final Salary Scheme and the Career Average Scheme 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.

i) 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

	2021 (£'000)	2021 (£'000)	2020 (£'000)	2020 (£'000)
Employers				
Normal	52,348		49,053	
Past service debt	598		574	
		52,946		**49,627**
Additional				
Past Service Debt	9,057		8,528	
Augmentation	261		254	
Voluntary Early Retirement	-		42	
		9,318		**8,824**
Members				
Normal	25,390		22,922	
Additional voluntary contributions	368		326	
		25,758		**23,248**
Total contributions		**88,022**		**81,699**

Past service debt contributions are being paid by the principal employer until 2053. Admitted Employers with a past service debt have been given the option to repay by 2053, and where this option has not been taken the Admitted Employers will make past service debt contributions until 2083 in accordance with Schedule 5 of the Public Employees' (Pension Scheme) (Funding and Valuation) (Jersey) Regulations 2015.

The Schemes have additional voluntary contributions arrangements whereby individuals can pay additional contributions which are invested in the Fund enabling members to gain additional years and days of pensionable service.

5. Other income

	2021 (£'000)	2020 (£'000)
Claims on death benefit insurance	**325**	**653**

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

6. Benefits paid or payable

	2021 (£'000)	2020 (£'000)
Pensions	79,865	77,514
Commutations and lump sum retirement benefits	9,991	9,487
Lump sum death benefits	325	342
Total benefits	**90,181**	**87,343**

7. Payments to and on account of leavers

	2021 (£'000)	2020 (£'000)
Refund of contributions	423	149
Transfers out	8,820	19,978
Total payments to and on account of leavers	**9,243**	**20,127**

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.

8. Administrative expenses

	2021 (£'000)	2020 (£'000)
Salaries and office costs	831	775
Actuarial fees	297	165
Audit fees	58	75
Legal fees	175	192
Chairman and secretary fees	109	116
Premium on death insurance policies	915	770
Pension system development	181	353
Other expenses	14	29
Total administrative expenses	**2,580**	**2,475**

9. Reconciliation of Net Investments

	Value at 1.1.21 (£'000)	Purchases at cost (£'000)	Sales proceeds (£'000)	Change in Market Value (£'000)	Value at 31.12.21 (£'000)
Equities	675,983	166,250	(213,423)	73,055	701,865
Pooled Investment Vehicles	1,855,407	380,213	(362,201)	76,000	1,949,419
Total	**2,531,390**	**546,463**	**(575,624)**	**149,055**	**2,651,284**
Broker cash	22,166				54,771
	2,553,556				**2,706,055**
Pending Trades	1,034				-
Accrued Interest	156				212
Other investment balances	**1,190**				**212**
Total net investments	**2,554,746**				**2,706,267**

The analysis of pooled investment vehicles by type is shown in note 14.

10. Investment Income

	2021 (£'000)	2020 *restated* (£'000)
Dividends from equities	3,772	3,810
Income from pooled investment vehicles	21,079	9,341
Income from managed property funds	6,526	4,587
Income on cash deposits	50	127
Other income	5	1,591
	31,432	**19,456**
Realised loss on foreign exchange	(606)	(1,663)
Less irrecoverable withholding tax	(274)	(280)
Total investment income	**30,552**	**17,513**

The comparative figures have been restated to reclassify income from pooled investment vehicles (which had been included under dividends from equities).

11. Investment Management Expenses

	2021 (£'000)	2020 (£'000)
Investment management expenses	14,292	27,134
Custodian expenses	123	110
Investment advisory expenses	473	924
Total Investment management expenses	**14,888**	**28,168**

Investment management expenses include those incurred indirectly through pooled investment vehicles.

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 2% based on the complexity of the asset class under management. In addition, hedge fund and private debt managers are paid performance fees if they out-perform their benchmark. This occurred in 2020 resulting in a significant spike in that year. The Investment Adviser receives a flat fee for services rendered and performance fee based on the performance of the individual investment managers.

12. Investment Transaction Costs

Transaction costs are included in the cost of purchases and deducted from sales proceeds in the reconciliation in note 9. Costs relating to direct holdings are analysed as follows:

	2021 Total (£'000)	2020 Total (£'000)
Fees	143	113
Commissions	153	152
Total	**296**	**265**

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.

13. 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.

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.

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

	Level			
	1 (£'000)	2 (£'000)	3 (£'000)	2021 Total (£'000)
Segregated holdings (Equities)	678,540	23,325	-	701,865
Pooled investment vehicles	-	908,313	1,041,106	1,949,419
Broker cash	54,771	-	-	54,771
Pending trades	-	-	-	-
Accrued interest	212	-	-	212
Total investments	**733,523**	**931,638**	**1,041,106**	**2,706,267**

Analysis for the prior year end is as follows:

	Level			
	1 (£'000)	2 (£'000)	3 (£'000)	2020 Total (£'000)
Segregated holdings (Equities)	641,113	34,870	-	675,983
Pooled investment vehicles	-	794,876	1,060,531	1,855,407
Broker Cash	22,166	-	-	22,166
Pending Trades	1,034	-	-	1,034
Accrued Interest	156	-	-	156
Total investments	**664,469**	**829,746**	**1,060,531**	**2,554,746**

14. 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 advisers. 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 sub-committee 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	Credit Risk	Market Risks			2021 Value (£m)	2020 Value (£m)
		Currency	Interest rate	Other price		
Segregated						
Equities		✓		✓	701.9	676.0
Pooled Investment Vehicles						
Equities		✓		✓	549.5	581.3
Property	✓			✓	302.1	293.5
Bonds	✓	✓	✓		406.9	387.0
Private Debt	✓	✓	✓		299.4	308.5
Alternatives*	✓	✓	✓	✓	317.3	218.2
Asset Backed Securities	✓	✓	✓		74.2	66.9
Broker Cash	✓	✓	✓		55.0	23.3

**The increase in Alternatives value reflects in part the completion of a rebalancing exercise, with £130m subscribed into Nordea in January 2021*

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 core "growth" asset used by the Fund is equities as the Committee believes that it represents the most cost effective, easiest and most transparent way to achieve a higher 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 Fund's 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.

Yield-focused assets are defined by the Committee of Management as those assets providing a contribution towards meeting the target investment return and the overall diversification of the portfolio whilst generating income for the Schemes. These investments are also expected to exhibit a lower level of risk than growth investments.

Currently the yield-focused investments consist of Property, Growth Fixed Income (which invests in Multi-Asset Credit and Emerging Market Debt) and Private Debt. As with the growth asset allocation, the Committee keeps under review whether to diversify into other yield-focused asset classes in order to spread risk in this sphere too.

Credit Risk

The Fund holds cash directly and invests in pooled investment vehicles which in turn invest in a range of asset classes (see table on page 30). 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 reflects 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.

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 vehicle's manager, the regulatory environment in which the managers operate and diversification of investments amongst a number of pooled arrangements. The Committee of Management and 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 Adviser.

Managers of the pooled investment vehicles provide mitigation to the indirect credit risks of the underlying assets of their vehicles by thorough research of holdings and markets and comparison to predefined investment strategies. The magnitude of credit risk within each fund will vary over time, as the Manager changes the underlying investments in line with its views on markets, asset classes and specific securities. The Managers also reduce risk by employing appropriately regulated custodians to hold their vehicle's assets.

A summary of the pooled investment vehicles by type of arrangement is as follows:

Pooled investment vehicles	2021 Value (£m)	2020 Value (£m)
Open-ended investment company	676.3	557.7
Shares in limited partnerships	802.9	686.8
Open-ended unit trust	302.1	293.5
Unit-linked insurance contract	168.1	317.4
Total pooled vehicle exposure:	**1,949.4**	**1,855.4**

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.

- **Cash balances:** Credit risk arising on cash held within financial institutions is mitigated by ensuring those institutions are at least investment grade credit rated.

Currency Risk

The Fund is subject to direct 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 that may include those denominated in foreign currency. The Committee of Management minimises the direct risk by selection of Sterling denominated pooled investment vehicles where available and monitors the underlying currency exposure on a periodic basis where that information is available.

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

	2021		2020	
	Direct Exposure (£m)	Indirect Exposure (£m)	Direct Exposure (£m)	Indirect Exposure (£m)
British Pounds	62.7	943.4	42.3	1,026.9
Euro	84.8	490.0	107.1	357.0
US Dollar	529.6	353.9	481.4	264.5
Japanese Yen	-	46.6	-	32.0
Other	76.9	118.7	65.3	178.2

Interest Rate Risk

The Fund is subject to indirect interest rate risk through a number of pooled investment vehicles (as expressed in the table on page 30) each with underlying exposures. 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.

Other Price Risk

Other price risk arises principally in relation to the Fund's Growth seeking portfolio which includes Equities and Alternatives held either as segregated investments or through underlying investments in pooled investment vehicles.

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 Adviser and Investment sub-committee on an ongoing basis.

At the year end, the growth asset classes (as defined in the Statement of Investment Principles) represented 58.0% of the total investment portfolio (2020: 57.5%).

15. Concentration of investments

The investments that account for more than 5% of the net assets of the Fund were:

	2021 £'000	2021 %	2020 £'000	2020 %
CQS Credit Multi Asset Fund	270,991	10%	240,357	9%
PGIM UK Ground Lease Fund	210,701	8%	201,747	8%
Lansdowne Developed Markets Fund Limited (long only fund)	186,247	7%	160,086	6%
Legal & General FTSE RAFI AW3000 (Net WHT) Index Fund	168,129	6%	317,398	12%
Nordea Alpha 15 MA Fund	148,692	6%	-	-
BlackRock BGF EM Local Bond Fund	135,870	5%	146,662	6%
Hayfin DLF III	134,143	5%	116,739	5%

16. Current Assets

	2021 (£'000)	2020 (£'000)
Contributions – Employers	401	436
Contributions – Members	180	184
Other debtors	-	1,486
Cash balances	6,331	4,203
Advances to Government of Jersey	2	24
Total current assets	**6,914**	**6,333**

17. Current Liabilities

	2021 (£'000)	2020 (£'000)
Benefits payable	-	316
Other creditors	1,725	1,813
Total current liabilities	**1,725**	**2,129**

18. Contingencies and Commitments

In the opinion of the Committee of Management, the Fund had no contingent liabilities at 31 December 2021 (2020: nil).

At 31 December 2021, the Fund had undrawn commitments to fund private debt vehicles: Park Square and HayFin, amounting to £47.6 million (2020: £107.3 million) and Global Infrastructure Partners and HIG Whitehorse, amounting to $145.9 million (2020: $160.0 million).

19. Related Party transactions

Related party transactions and balances comprise:

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

  The Chairman and Secretary to the Committee of Management receive remuneration as detailed in Note 8. Within the Committee of Management Board there are three Active (2020: three) and four Pensioner members (2020: five). There were no other related party transactions during the year.

- Entities that provide key management personnel services to the Fund;

  The Treasury & Exchequer, a department of the Government of Jersey, provides creditor payment, payroll, cash management and financial ledger services for the Final Salary Scheme and Career Average Scheme. At the year-end a sum of £1,662 was owed to the Fund by the Government of Jersey in respect of transactions with the department (2020: £24,034). During the year an amount of £810,767 (2020: £760,677) was paid to the department in respect of the services provided.

20. Pre-1987 Debt

The Pre-1987 Debt is a payment arrangement agreed between the Government of Jersey and the Committee of Management for dealing with the shortfall transferred to the Fund arising from the changes made to the PECRS final salary scheme in 1987. The Government of Jersey has confirmed it plans to pay the whole debt to the Fund in full (as documented within the Government Plan 2022-25). Following a meeting held in early 2022 the Government has agreed in principle for the debt to be paid to the Fund, although the timing and amount of the payment remains uncertain. The pension Pre-1987 debt amount payable to the Fund will be calculated by the Fund actuary.

Independent Auditor’s report to the Committee of Management of the Public Employees’ Pension Fund

Opinion

We have audited the financial statements of the Public Employees’ Pension Fund (the ‘fund’) for the year ended 31 December 2021 which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the fund during the year ended 31 December 2021, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Public Employees’ (Pension Scheme) (Administration) (Jersey) Regulations 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Treasurer’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the fund’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Treasurer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. The Treasurer is responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. 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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Responsibilities of the Treasurer

As explained more fully in the Statement of the Treasurer's Responsibilities set out on page 20, the Treasurer is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing 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 fund or has no realistic alternative but to do so.

Auditor's 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 auditor's 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 in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

Based on our understanding of the fund and industry, we identified that the principal risks of non-compliance with laws and regulations related to the administration of the fund in accordance with regulations made under the Public Employees (Pension Scheme) (Administration) (Jersey) Regulations 2015 and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered the direct impact of these laws and regulations on the financial statements. We evaluated the Treasurer's opportunity for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to misappropriation of assets, particularly cash and investments and posting inappropriate journal entries. Audit procedures performed included:

- enquiry of the Committee of Management to identify any instances of non-compliance with applicable laws and regulations
- review of minutes of Committee of Management meetings
- obtaining independent confirmation of, and testing of a risk-based sample of investment balances at the year end
- testing of a risk-based sample of journal entries to supporting documentation
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing
- challenging assumptions and judgements made by the Treasurer in the significant accounting estimates, in particular in relation to the valuation of level 3 investments.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Committee of Management, as a body, in accordance with the Public Employees' (Pension Scheme) (Administration) (Jersey) Regulations 2015 and for no other purpose. Our audit work has been undertaken so that we might state to the Committee of Management those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Committee of Management as a body, for our audit work, for this report, or for the opinions we have formed.

Nexia Smith & Williamson

Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants
Bristol

19 May 2022
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Statement of the Scheme Actuary

Name of Fund: States of Jersey Public Employees Pension Fund

Effective Date of Valuation: 31 December 2018

1. Security of prospective rights

The assets of the Public Employees Pension Fund ("the Fund") are used to provide pensions and other benefits under both the Public Employees Contributory Retirement Scheme ("the Final Salary Scheme") and the Public Employees Pension Scheme ("the Career Average Scheme").

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 of the respective schemes 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 schemes 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 marginal deficit in the Final Salary Scheme of £1.1M at the effective date of the valuation, equivalent to a funding ratio (assets divided by the present value of the liabilities) of 99.95%. The Committee of Management and the Chief Minister agreed that no adjustments to benefits were required following the valuation.

The valuation report disclosed a surplus in the Career Average Scheme of £3.26M, which is equivalent to a funding ratio of 120.5%. In accordance with the Funding Strategy Statement, this surplus will be retained in the Career Average Scheme.

A further valuation is being 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 95% of its accrued liabilities as at that date, based on pension increases equal to the minimum increases specified in the Regulations governing the Fund. This assumes that the Fund discontinued on the valuation date, even though the Regulations 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. A procedure was agreed between the Policy & Resources Committee and the Fund'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 Fund arising from the changes made to the Fund in 1987 (the "pre-1987 debt"). This agreement was described in our report on the actuarial valuation of the Fund as at 31 December 2018 and is reproduced in Appendix 1 to this statement. The provisions of the Fund were amended to deal with the debt in that manner.

The above opinion assumes that, should there ever arise any question of the Fund's discontinuance, the capitalised value of the debt would be assessed at the point of discontinuance and paid off in full by the Government 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 Solutions UK Limited

28 March 2022

Appendix 1 to the Statement of the Scheme Actuary – 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 Final Salary Scheme (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 2 to the Statement of the Scheme Actuary – Additional Information from the 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 £2,061.9M at 31 December 2018.

b) future contributions payable by members and employers at the various rates specified in the Regulations or, where applicable in the case of particular employers, the rates specified in the Actuary's latest contribution certificate.

c) future pre-1987 debt repayments payable to the Final Salary Scheme by particular employers in accordance with the rates specified in the Actuary's latest contribution certificate.

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 Regulations 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 Regulations i.e. nil increases for the Final Salary Scheme and 50% of RPI for the Career Average Scheme.

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.

Appendix A – Split between Schemes (Unaudited)

Final Salary Scheme / Career Average Scheme Split
Assets of the Fund are invested together, however, they are ring fenced between the separate Schemes. This note details the split between the Final Salary Scheme and Career Average Scheme.

Fund Account for the year ended 31 December 2021:

Dealings with members	Career Average Scheme	Final Salary Scheme	Total
	(£'000)	(£'000)	(£'000)
Employer contributions	47,074	15,190	62,264
Employee contributions	24,316	1,442	25,758
Total contributions	**71,390**	**16,632**	**88,022**
Transfers in	1,444	-	1,444
Other income	325	-	325
Total payments in	**73,159**	**16,632**	**89,791**
Benefits	(640)	(87,515)	(88,155)
Payments to and on account of leavers	(2,662)	(8,607)	(11,269)
Administrative expenses	(1,480)	(1,100)	(2,580)
Total payments out	**(4,782)**	**(97,222)**	**(102,004)**
Net additions / (withdrawals) from dealings with members	**68,377**	**(80,590)**	**(12,213)**
Net returns on investments			
Change in market value of Investments	12,482	136,573	149,055
Investment income	2,559	27,993	30,552
Investment administration expenses	(1,247)	(13,641)	(14,888)
Net returns on investments	**13,794**	**150,925**	**164,719**
Net increase in the Fund's assets during the year	82,171	70,335	152,506
Opening net assets	156,239	2,402,711	2,558,950
Closing net assets	**238,410**	**2,473,046**	**2,711,456**

Fund Account for the year ended 31 December 2020:

Dealings with members	Career Average Scheme	Final Salary Scheme	Total
	(£'000)	(£'000)	(£'000)
Employer contributions	41,786	16,623	58,409
Employee contributions	21,532	1,758	23,290
Total contributions	**63,318**	**18,381**	**81,699**
Transfers in	1,678	398	2,076
Other income	450	203	653
Total payments in	**65,446**	**18,982**	**84,428**
Benefits	(572)	(86,771)	(87,343)
Payments to and on account of leavers	(1,766)	(18,361)	(20,127)
Administrative expenses	(1,367)	(1,108)	(2,475)
Total payments out	**(3,705)**	**(106,240)**	**(109,945)**
Net additions / (withdrawals) from dealings with members	**61,741**	**(87,258)**	**(25,517)**
Net returns on investments			
Change in market value of Investments	19,440	324,106	343,546
Investment income	884	16,629	17,513
Investment administration expenses	(1,720)	(26,448)	(28,168)
Net returns on investments	**18,604**	**314,287**	**332,891**
Net increase in the Fund's assets during the year	80,345	227,029	307,374
Opening net assets	75,894	2,175,682	2,251,576
Closing net assets	**156,239**	**2,402,711**	**2,558,950**

Statement of Net Assets available for Benefits as at 31 December 2021:

	Career Average Scheme (£'000)	Final Salary Scheme (£'000)	Total (£'000)
Investment assets			
Unitised Investment Balances	238,066	2,468,201	2,706,267
Current assets*	508	6,406	6,914
Current liabilities*	(164)	(1,561)	(1,725)
Total net assets available for benefits	**238,410**	**2,473,046**	**2,711,456**

Statement of Net Assets available for Benefits as at 31 December 2020:

	Career Average Scheme (£'000)	Final Salary Scheme (£'000)	Total (£'000)
Investment assets			
Unitised Investment Balances	156,107	2,398,639	2,554,746
Current assets*	537	6,171	6,708
Current liabilities*	(405)	(2,099)	(2,504)
Total net assets available for benefits	**156,239**	**2,402,711**	**2,558,950**

*As of 31 December 2021, the current assets of the Career Average Scheme include £189,557 (2020: £375,000) due from the Final Salary Scheme. A corresponding value is recognised as a current liability in the Final Salary Scheme. These balances net to nil and are not split out as a current asset/liability in the Statement of Net Assets Available for Benefits of the combined Fund.

Glossary

Accrual (of pension benefit): This is the process by which future benefits under the two Schemes are built up and are typically expressed as a fraction of a year's pensionable earnings. The rate of accrual differs between the two Schemes. The accrual of benefit will be an asset to the individual member and a liability to the respective Scheme.

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

Admitted Employers: Employers whose staff can become members of the Final Salary Scheme and Career Average Scheme 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.

Benefit options: Members have a number of options to enhance (AVC) or take their benefits (transfer out), the assumptions and results of the valuation will affect the terms of these options.

Career Average Revalued Earnings (CARE) Scheme: A pension scheme where benefits are built up for each working year and then "revalued" annually by an agreed index.

Committee of Management: the group which manages the Fund under the powers vested in it by Regulations governing the respective Schemes, comprising a chairman, 5 employer representatives, 4 member representatives, 2 pensioner representatives and 1 Admitted 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.

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 shares can be traded on a recognised stock exchange. The Fund may also hold a limited amount of unlisted equities where dealers directly facilitate the 'over the counter' buying and selling of outside of recognised stock exchanges.

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.

Funding Level: The relationship between the value of a scheme's assets and its actuarial liability. This is normally expressed as a percentage.

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

Jersey RPI: The Jersey Retail Prices Index is a measure of the rate of inflation to which pension benefits are linked.

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.

PEPF: The pension Fund, as defined under Article 5 of the Public Employees' (Pension) (Jersey) Law 2014, consisting of the Final Salary Scheme (see PECRS) and the Career Average Scheme (see PEPS).

PECRS: The Public Employees' Contributory Retirement Scheme, also referred to the 'Final Salary Scheme'. This is the larger of the two schemes within PEPF in terms of assets and liabilities, paying pension benefits, subject to conditions, based on final salaries. Closed to new members, this is also the older of the two Schemes with new employees of the Government of Jersey instead joining the newer PEPS Scheme.

PEPS: The Public Employees' Pension Scheme, also referred to as the 'Career Average Scheme'. This is currently the smaller of the two Schemes within PEPF in terms of assets and liabilities, due to its recent inception providing only a short period to amass both assets and liabilities. The Scheme pays pension benefits, subject to conditions, based on Career Average Revalued Earnings (CARE). The Scheme is open to all new employees of the Government of Jersey and most Admitted Bodies, but also includes members who were moved from the Final Salary Scheme on 1 January 2019.

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

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

Pre-1987 Debt (Salary Linked Bond): A payment arrangement agreed between the Government of Jersey and the Committee of Management for dealing with the shortfall transferred to the Fund arising from the changes made to the Final Salary Scheme in 1987. The Government of Jersey has included in the 2021-2024 Government Plan an intention to repay this debt which is expected to be formalised in 2022.

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 June 2018)', this is guidance on how to prepare the Financial Statements.

States Employment Board: The States Employment Board is the employer of all public sector employees in Jersey and is responsible for fixing the terms and conditions of these employees.

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

Unitised Investment Balances: The Career Average Scheme and Final Salary Scheme pool funds for investment purposes. The aim is to provide greater investment opportunities, economies of scale and minimise fees and costs. To ensure appropriate ring-fencing of assets is maintained and to efficiently and transparently manage the portfolio, units in the combined investment portfolio are allocated between the two Schemes. Unitised Investment Balances represent the holding in the combined PEPF portfolio held by either respective Scheme.

Contacts and Further Information

If you know someone who would like this document in another format, all published documents are available from the Public Employees Pension Team.

Come and see us in Customer and Local Services at La Motte Street on Tuesdays between 8:30am and 1pm (by appointment).

Alternatively, you may contact us via the Fund's electronic or postal address detailed below:

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