



**Public Employees Pension Fund**  
**Annual Report 2022**

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## 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 and employees of several Admitted Employers, but excluding teachers, in Jersey.

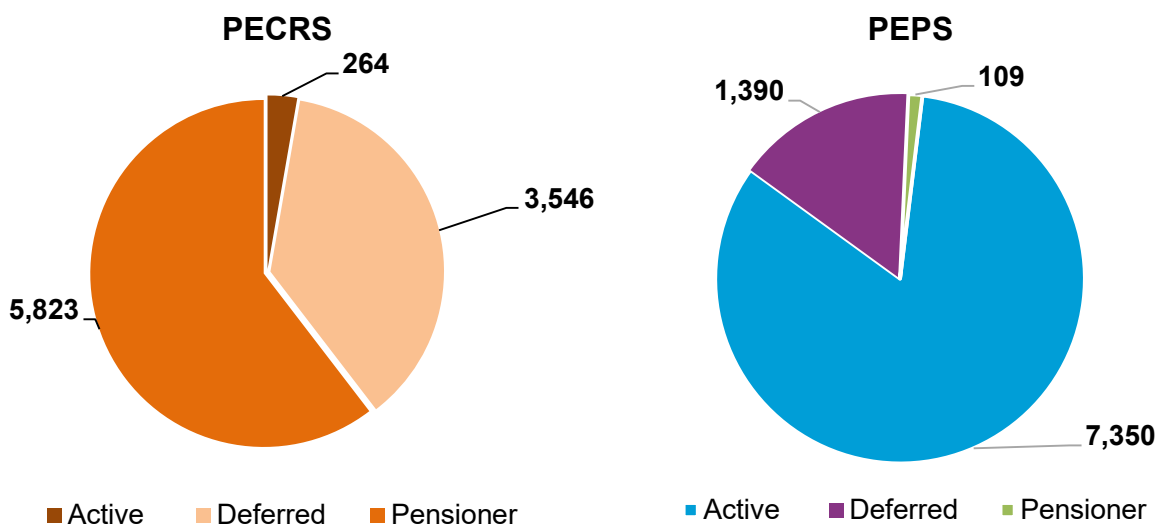
The PECRS scheme closed to new members in 2016 and 4,400 members of this Final Salary Scheme were transferred to the PEPS Career Average Scheme on 1 January 2019 for their future accrual. As of 31 December 2022, there were 264 members who remained accruing benefits solely in the Final Salary Scheme.

At 31 December 2022, the Fund had a combined membership of 18,482 and net assets stood at £2.8 billion (2021: £2.7 billion). The increase in net assets between year ends, despite a negative return of 8.2%, arose mostly from the repayment of the Salary Linked Bond (SLB)\*.

### \*Repayment of the Salary Linked Bond

The net assets of the Fund were substantially increased in May 2022 by a one-off receipt of £337.5 million. This sum reflected the Government’s share of liabilities arising from changes made to the Final Salary Scheme in 1987 which, prior to the lump sum payment, was being met by repayments over the period to 29 September 2053. Historically, this value was referred to as the SLB or Pre-1987 Debt.

### Membership numbers by scheme at 31 December 2022



# The Chairman's Report

## Overview

This has been another very active year for the Fund's management, providing a host of further investment and operational challenges. I'm confident that as you read through the Accountability Report and Performance Report sections below, you will share my view that the Fund has successfully steered a steady and progressive course. As a result, and in view of the initiatives the Committee of Management has planned for the year ahead, the Fund remains well placed for the future.

### ***Significant events in the year included:***

- Receipt and reinvestment of the Salary Linked Bond (SLB) proceeds of £337.5 million.
- Completion of the 2021 Actuarial Valuation, which confirmed that the Fund is in a sound financial position
- Significant and sudden increases in inflation (eight increases in 2022) and interest rates (the Jersey All Items Retail Prices index increased 12.7% over 2022) drove negative portfolio returns (of 8.2%).
- Conclusion of the Muse independent review of the scheme administration

### ***Investment performance – page 16***

The investment aim of the Fund is to provide returns sufficient to meet contractual pension commitments to members over a range of timeframes.

Whilst performance in the year was negative, reflecting the broad experience of the investment markets that the Fund operates in, diversification within the portfolio successfully shielded the Fund's accumulated gains from the worst of market volatility. The receipt of the SLB proceeds, combined with low historic price levels, have provided an opportunity to strengthen the Fund's positioning for the long term.

### ***Operational (administrative) performance – page 18***

The priorities continue to be ensuring that the Fund's assets are secure, recordkeeping is accurate and that the Fund complies with its legal requirements. The Fund must also ensure that pension benefits are paid accurately and on time.

The service levels provided to members continued to improve and several initiatives have been undertaken to improve aspects of the Fund's overall administration. These include, amongst other things, work on complaints processes (reflecting on the conclusion of recent cases), risk assessment processes, board effectiveness reviews and the continued development of the online member pensions portal.

### ***Summary***

The above provides a snapshot of what is described in more detail below. It is evident many challenges and activities will continue into 2023. However, the Committee and its expert service providers have demonstrated through 2022 that they are ready and capable to tackle them head on and continue the Fund's record of success.

# Accountability Report

## Corporate Governance

### ***Structure and responsibilities***

The overall governance structure of the Fund is determined by legislation – the Laws establishing the Schemes are the Public Employees’ (Pensions) (Jersey) Law 2014 and the Public Employees (Retirement) (Jersey) Law 1967, together with their respective Regulations.

The schemes are governed by an independent Committee of Management (COM or Committee). The COM has oversight of the operation of the administration and investment management of the respective schemes.

The Scheme operates for the benefit of employees of the following employers:

Scheme (Principal) Employer	
Government of Jersey	
Admitted Employers – admitted by consent of the Minister for Treasury and Resources	
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	

### **The roles of the Minister for Treasury and Resources and the Chief Minister**

The Chief Minister (the Minister) appoints COM members on the recommendation of the Minister for Treasury and Resources (the Minister for T&R), in a process overseen by the Jersey Appointments Commission, for an initial term of up to five years which may be extended for a second term of up to five

years. The balance of COM's membership between Employer and Member representation is specified in the Regulations.

The Minister also appoints a chairman for five-year terms on the Minister for T&R's recommendation (with the agreement of the majority of the COM's Employer and Member representatives) in a process overseen by the Jersey Appointments Commission. The Chairman post is remunerated from the Fund under a contract with the Minister.

### Membership of the Committee of Management

The COM was originally established under the Public Employees (Retirement) (Jersey) Law 1967. In 2014 the governance of the COM moved to the Public Employees (Pensions) (Jersey) Law 2014 and its subordinate Regulations.

The composition of COM through the year is shown in the table below.

Chairman		
Gordon Pollock (Reappointed in June 2019 for a second term to 30 June 2024)		
Representing (With Number of Posts)	Representing (With Number of Posts)	Members
Employers (6)	Principal Employer (5)	John Mills CBE (Retired Dec 2022) Dr Jimmy Cooke (Appointed Jan 2022) John Everett Charlotte Guillaume Gailina Liew <i>*Mark Bradbury (Appointed Mar 2023)</i>
	Admitted Employer (1)	Prof. Ed Sallis OBE
Members (6)	Members (4)	Leah Buttle (Appointed April 2022) Tommy Querns (Retired Dec 2022) Mark Richardson <i>*Peter Robinson (Appointed Mar 2023)</i>
	Pensioners (2)	Michael De La Haye OBE Chris Bambury
Secretary		
Janine Ward (For JWC Consulting)		

*\*At 31 December 2022, the COM had one Employer and two Member Representative vacancies.*

Member representative vacancies can only be filled by a person nominated by a representative association of members of the respective schemes.

### Subcommittees of the Committee of Management

The Committee met six times in the year. The COM operates several smaller subcommittees who report summary findings to it. This ensures that appropriate resource is applied to key areas.

The membership of these subcommittees in the year is shown below:

Committee Member	Sub Committee			
	Investments	Ill Health and Death Benefit	Communications	Audit & Risk <sup>1</sup>
Gordon Pollock	•			
John Mills CBE	Chairman	•		
Michael De La Haye OBE				Chairman
Ed Sallis OBE	•			•
Chris Bambury			Chairman	
John Everett				•
Charlotte Guillaume		Chairman	•	
Gailina Liew	•			•
Tommy Querns		•		
Mark Richardson	•			
Number of meetings in 2022	12	1	1	5

<sup>1</sup> The Risk and Audit Subcommittee operates jointly with that of the Jersey Teachers' Superannuation Fund (JTSF) under the Chairmanship of Michael De La Haye OBE. The PEPF is a separate pension scheme that operates for the benefit of other employees of the Government of Jersey and other associated Admitted Employers.

### The activities of the Committee of Management

The COM has a central role in the appointment, management, and oversight of key service providers to the Fund within a tripartite relationship with the Treasurer of the States (Treasurer) and the Minister for T&R. It met seven times in the year.

The key service provider appointments and the roles they perform are summarised in Appendix B

#### Appointments

At the appointment of a service provider, the Administrator will typically perform due diligence on behalf of COM. In the case of investment managers, the most frequent appointment activity, the required process is outlined in the Statement of Investment Principles (SIP). Investment due diligence will include consideration of the suitability of the mandate including issues such as the investment objective, benchmarking, level of risk, and fees. Operational due diligence is also undertaken.

Other service providers will be subject to alternative due diligence as the COM deems appropriate prior to endorsing recommendations for appointment/ making appointments. Where appropriate, specialist advice regarding any technical or legal matters will be sought. All relationships are supported by legal agreements defining service relationships.

#### Performance

Thereafter, COM monitors performance by review of information from a variety of sources on an ongoing basis. A formal review of operational and investment performance is performed at least quarterly and

involves updates from various subcommittees as well as direct presentations from the Administrator, Investment Advisor, and the Scheme Actuary.

The formal presentations use a structured format that ensures information is presented consistently (facilitating comparisons). Meetings are scheduled so that the information remains relevant and timely with sufficient time for full consideration. The Secretary captures the discussion in formal minutes and ensures that queries are followed up appropriately. The presentations themselves include a range of qualitative and quantitative information types and include comparisons to agreed performance indicators and benchmarks. These formats are agreed with the service providers in advance; in the case of the Administrator the key objectives and measures are agreed in the Pensions Administration Strategy.

In addition to the reports above, COM takes specific actions to gain comfort over the internal control environments of its service providers. It instructs the Administrator to obtain and review the internal control reports of key service providers and to report by exception any significant lapses of protective security or loss of sensitive data. It receives assurance over the Administrator itself through an external audit process and independent reviews such as those conducted by Muse in 2022. No significant lapses of protective security have been identified.

#### Quality of data

The COM employs several measures to safeguard the quality of data it receives from providers, starting at the appointment:

- COM's service providers are either regulated directly or are prominent members of, and subject to the rules of, relevant professional associations.
- The Administrator subsequently obtains and reviews the service providers' internal control reports, reporting to COM any material findings by exception.
- This is overlaid by ongoing investment due diligence work that is performed by the Investment Advisor (with reporting to COM).

The Administrator performs various underlying reconciliations of data and reviews of service. The Administrator examines internal control reports and audited statements and regularly interviews investment managers (any exceptions are relayed to COM as part of the review process), thereby providing COM with further assurance on the quality of data.

The Administrator's PEPT team, whose role involves processing member-side data and transactions, produce an annual Data Quality report for the Audit and Risk Subcommittee, providing assurance over the quality of the data held and used by the PEPT.

The PEPT closely aligns their data quality against the UK Pensions Regulator's guidance on record-keeping and whilst Jersey public service pension schemes are not required to adhere to this guidance, our schemes are committed to adopting best practice. The UK Pension Regulator's published guidance on record keeping provides a useful mechanism for the Administrator to benchmark data quality against best practice standards.

#### Complaints

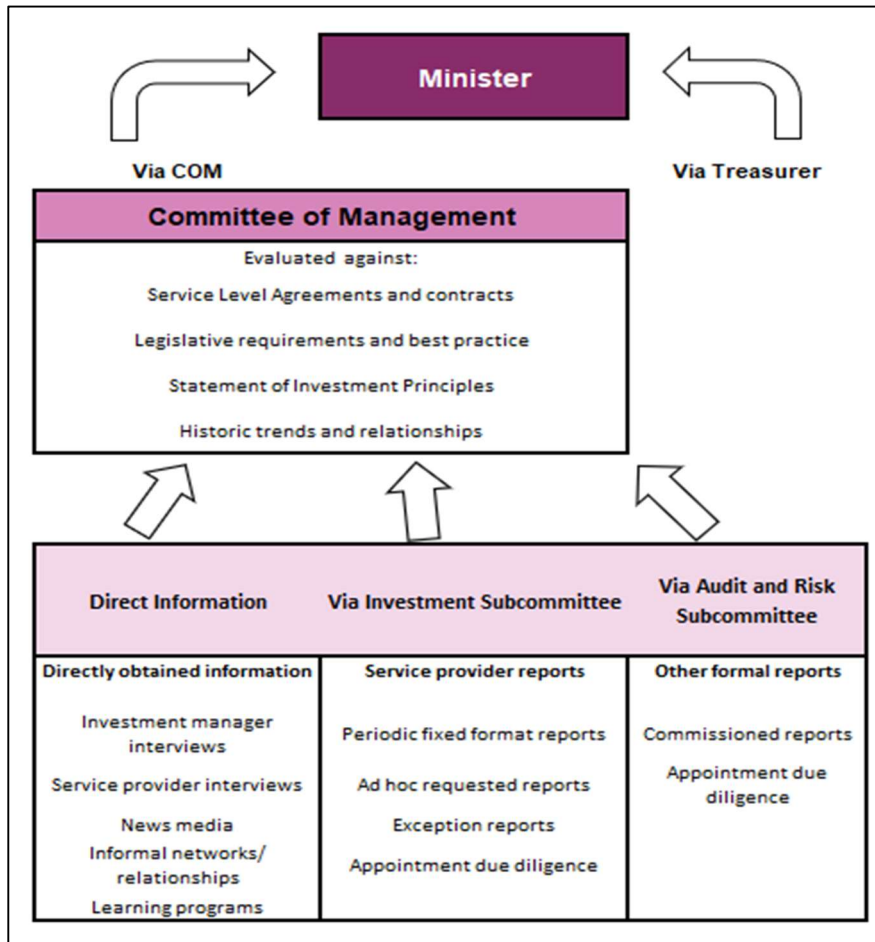
The Administrator has an internal complaints procedure whereby members can raise and escalate complaints about any aspect of a decision taken by the Administrator's PEPT team that could affect their benefits. To provide objectivity, COM has a role in the final two stages of this complaints process and makes the final decision. However, it is acknowledged that COM may not appear distant from the work of the Administrator in the perception of a complainant and therefore COM is actively supportive of work to adjust the process, so that the Channel Islands Financial Ombudsman has authority to act as the final decision maker.



### Assessing the COM's performance

The Fund governance structure ensures that the Minister and the Treasurer both have a ready oversight of the overall performance of the Fund's investments and its operations.

*Figure: information flows*



In addition to the information the Minister receives via the Treasurer and COM, the Minister has direct sight/ approval requirements in relation to:

- The Actuarial Valuations
- The investment strategy and performance
- Appointments of key service providers and funds
- Audited Financial Statements
- Internal and external audit engagements
- Complaint processes
- Operational budget approvals

The COM initiated a program of self-assessment in 2022 whereby 12 current and recently departing COM members completed a Board Effectiveness questionnaire for review by an independent department of Aon Consulting. The assessment covered a broad range of areas including sufficiency of resource; diversity of skills, experience and representation; sufficiency of training and effectiveness of

discussion processes. The review, completed early 2023, provided positive results overall with many areas scoring well. It was recognised that business is complex and related to that the report suggested the COM consider if there are simpler ways to collate information from service providers. COM will reflect on these preliminary results and the program of self-review will continue and be further refined over 2023.

#### Interests and Remuneration

The COM members' interests are declared at appointment and a Register of Interests is maintained by the Secretary. The register is formally reviewed at each COM meeting and where a potential conflict of interest exists the committee member in question is asked to leave the meeting, discussions or voting, as appropriate.

In relation to disclosing direct personal interests in the Schemes, COM members are required to disclose immediate familial scheme memberships (parents, partners, and financial dependents) or positions of influence as a minimum.

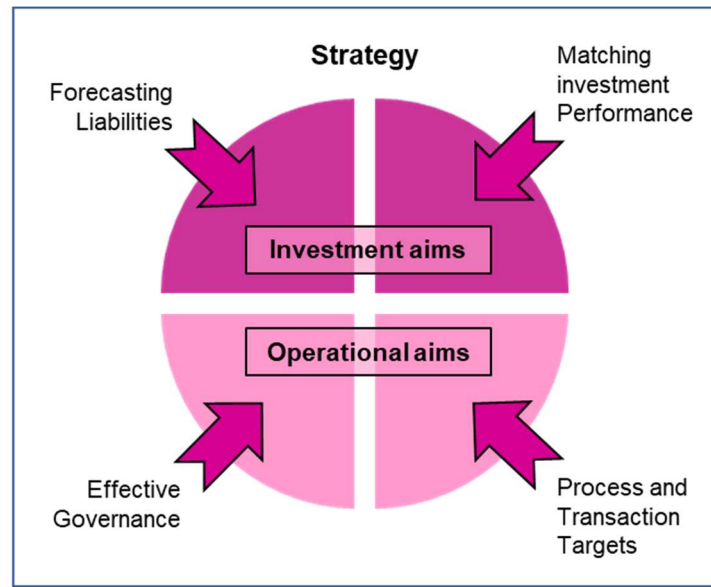
Any related party transactions arising in the year are disclosed in the Financial Statements. These include amounts paid to the Chairman and Secretary for services.

# Performance Report

## Strategy for the year

The Fund has **investment** and **operational** aims.

Investment aims relate to ensuring that the Fund generates sufficient returns to meet its pension commitments over a range of timeframes. Operational aims relate to effective governance, (particularly involving the oversight of expert service providers and ensuring compliance with legislation) and achieving standards around interactions with members and fund transactions.



### ***Investment aims***

The investment aim of the Fund is to provide returns sufficient to meet pension commitments to members over a range of timeframes.

The strategy to do this is detailed in the COM's published "Statement of Investment Principles" (SIP). This document defines the asset classes to be used when investing the Fund's contributions and specifies the relative allocations between asset classes. The SIP also defines relevant benchmarks to compare fund, asset class and portfolio performance against.

The design of the portfolio is intended to reflect the profile of the Fund's liabilities. These liabilities are formally re-estimated every three years by the Scheme Actuary based on the long-term assumptions agreed for the valuation.

The advice of the expert Investment Advisors and the Scheme Actuary are essential to COM's formulation of an appropriate investment strategy.

Several performance measures are used to track progress on an ongoing basis but key amongst these is comparison of the Fund's long-term performance against the Target Return (a long-term rate of return based on the same long-term assumptions agreed for the valuation).

The Performance Analysis section provides more information on performance for the year but, in summary, despite negative returns in the current year arising out of challenging market conditions, both schemes are satisfactorily funded, and the existing investment strategy remains appropriate.

### **Operational aims**

The Operational requirements of the Fund are varied. The priorities are to make sure that the Fund's assets are secure, recordkeeping is accurate and that the Fund complies with its legal requirements. The Fund must also ensure that pension benefits are paid accurately and on time.

These aims are achieved largely by the appointment of expert service providers supervised by the COM within the structure detailed in the Accountability Report. The main risks to delivery come from a breakdown in service provider performance or failure to meet legislative requirements.

The COM evaluates the Fund's risk environment and management processes on an ongoing basis, identifying specific areas for attention and instructs appropriate remedial actions. Whilst near term actions such as changes to the portfolio can be achieved relatively promptly, others may require further technical analysis to achieve. Each year COM prepares an Action Plan that lists and prioritises such objectives and thereafter progress is tracked through the year.

The priorities that the COM identified for 2022 are summarised below together with their status at December:

Item	Explanation	Outcome	
Production of December 2021 Actuarial Valuation	COM's actions completed	✓	Complete
Consideration of Salary Linked Bond (SLB) repayment	Repayment and reinvestment completed	✓	Complete
Implementing findings of PEPT service review	Work initiated, carried forward	✓	In progress
Develop role of the Audit Committee* including complaints processes	Work initiated, carried forward	✓	In progress
Updating Risk assessment	Audit Committee* terms of reference expanded to include Risk and risk assessment updated, including methodology	✓	Design work significantly complete and in place. Refinements only to carry forward
Develop Responsible Investment policies	Investment Advisor produced preliminary information and draft approach agreed	✓	Design work on monitoring significantly complete and in place. However further work needed on policy and implementation
Develop Admitted Body relationships	Work initiated between the PEPT, the Committee and the Admitted Bodies, carried forward	✓	In progress
New External Auditor	Clean audit completed	✓	Complete
Review transfer and communications processes of Administrator	Work initiated, carried forward	✓	In progress – complex work that will continue across periods
Enhance accountability definitions for PEPF and COM	Work deferred	✓	In progress – complex work that will continue across periods

\*Audit Committee (now Audit & Risk Subcommittee)

The COM Action Plan recognises that all planned activities will not be completed in any one year and that some flexibility is needed. In particular, the repayment of the Salary Linked Bond in 2022 was a significant project that was not initially anticipated to complete during the year. Focus on this activity inevitably resulted in some other activities being delayed. Progress across the objectives was significant in the context of elevated general activity levels.

The priorities identified at December for 2023/4 are:

Item	Comment
Implementing findings of PEPT service review (also known as the Muse review)	To be implemented by the Administrator under oversight of the Risk & Audit Subcommittee
Complete the Board Effectiveness review and implement the findings	Conclude the self-assessment review in 2023 and prioritise the findings
Continued development of the Audit & Risk Subcommittee work on scheme risks	Embedding the updated risk matrix structure and performing follow on reviews of risk areas as determined from time to time
Contribute to the Pension Regulation consultation including complaint review processes	Ongoing – expect opportunity to respond in 2023
Develop the accountability framework for PEPT and Board, develop a new Pensions Administration Strategy	Initiate a working group. Completion expected post 2023 in view of the complexity
Further develop the Responsible Investment Framework	To be developed in a meaningful but pragmatic format in consultation with the Investment Advisor
Consider the relationship and documentation in place with the Admitted Employers	Work commenced in 2022 by the PEPT, which will be progressed during 2023
Evaluate the Actuarial and Investment Advisor providers and introduce annual service level declaration	A workplan to be created by the Risk and Audit Subcommittee and initial work in 2023
Evolve reporting to Comptroller & Auditor General's Good Reporting guidelines	Significant work has been performed in 2022 and is ongoing

## **How risks were managed in the year**

The COM maintains a Risk Register that summarises how it perceives the risks to the Fund and how these risks are controlled at a Fund level. This risk management assessment sits over and above the Fund's service providers' own risk management structures.

The Risk Register lists Core Risks. These are significant individual risks that the COM considers could significantly impact an important aspect of the Fund's investment or operational aims. Mitigating controls are mapped to these risks and the result is scored in terms of likelihood of event occurrence and significance of effect. By this method, the COM can prioritise areas of focus and track changes over time.

Whilst Core Risks are largely static in nature, the risk scoring (and the controls used to manage the risk) may need amendment when circumstances change, leading to a Specific Risk. This is particularly the case where a sudden, temporary, significant event (such as the Russian invasion of Ukraine) can impact multiple Core Risks. Where a Specific Risk event is deemed to elevate a Core Risk, the COM can use

their existing framework to quickly determine whether the mitigating controls sufficiently alleviate the risk or whether further action is necessary.

The information that the COM uses to assess the risk environment is wider than just the reports of service advisors. It includes information obtained directly (such as site visits to investment managers) and from external sources (such as the media or training).

In the example below, the COM has identified a Specific Risk that could impact several Core Risks. This prompted a re-evaluation of the three Core Risks and their controls.

Specific Risk Event	Risk Elements (Description)	Related Core Risk
Russia's war on Ukraine	Risk of cyber / physical attacks on the Fund's custodian or investments, affecting records or ability to transact	Service provider risks (Operational / Custodian)
	Economic disorder from indirect effects on inflation and interest rates	Investment strategy risks – Long Term
	Risk of asset freezes or unforeseen and immediate market event impacts suitability of investment strategy, including meeting immediate liabilities	Investment strategy Risks – Near Term

### Present assessments and responses

Multiple significant risks have been identified in recent years, from the pandemic to the war in Ukraine. COM responded by increasing the resource it allocates to risk management. In 2022, the terms of reference for the Audit Committee were expanded to include Risk responsibilities and the Audit and Risk Subcommittee then performed an update to the risk assessment of the Fund.

In 2023, the committee will further develop risk management, data security and annual reporting frameworks for the Fund.

### The operational arrangements in place in the year

The Fund operates a structure whereby services are performed by expert service providers under the supervision of the COM.

**(The governance roles are more fully explained in the Accountability Report – Corporate Governance, with service provider roles summarised in Appendix B)**

As the operation of a pension fund requires significant technical expertise and resource, it is typical for pension funds to adopt similar delegations of key roles since it ensures an appropriate segregation of duties and an alignment of expertise with work. The alternative of directly employing sufficient expertise and infrastructure would be prohibitively expensive and reduce segregation controls.

The COM monitors service provider performance on an ongoing basis using information from a variety of sources, including directly and indirectly obtained information, as detailed in the Accountability Report. The information used is a mixture of quantitative (numerical, statistics, results) and qualitative (trend analysis, opinion) types.

The operational costs and value for money of the service provider appointments is controlled by contractual review at time of appointment followed by periodic reviews and tenders by the COM.

The appointment process typically involves external input (legal advice, proposals following tenders, and so forth) which is reviewed by COM with help from the Administrator. COM then makes a recommendation which is submitted to the Minister for Treasury and Resources for final approval.

Thereafter, the Administrator verifies that fixed and variable elements of service delivery have been performed under the terms of the contract prior to payments being made from the Fund.

The service provider appointments are summarised below:

Service provider	Last Review	Next Review and lead
Scheme Actuary	2016 (competitive tender)	2023 COM
Investment advisor	2015 (full review)	2023 COM
Legal advisor*	2019 (appointed 1 January 2020 following competitive tender).	2024 COM
Auditor	2021 (competitive tender)	2024 Comptroller & Auditor General
Custodian	2020 (performance/fee review)	2023 Administrator in T&E
<sup>1</sup> Treasury completed their review of Northern Trust as Custodian in 2020, and in consultation with COM extended their contract to 2022, which was further deferred until completion of the ITS software upgrade - to 2023. It is planned to align the tendering timetable for PEPF with that of the Common Investment Fund to gain administrative efficiencies and to maximise our ability to negotiate lower fees		

Services engaged over the year are tracked against an approved operational budget. An annual zero-based budget for direct operational costs is presented by the COM to the Minister for approval each year and performance is tracked against it. Operational expenditure was within budget for the year.

The fees deducted by Investment Managers can be a significant detractor to a fund's overall performance and this is managed in several ways. At appointment, the Investment Advisor considers fee structures and seeks discounts for scale where possible. Thereafter, the Investment Advisor compares net as well as gross performance and fund expense ratios as part of its due diligence activities. The COM has been advised by the Investment Advisor and Administrator, that the Fund's arrangements remain comparable to those of similar funds.

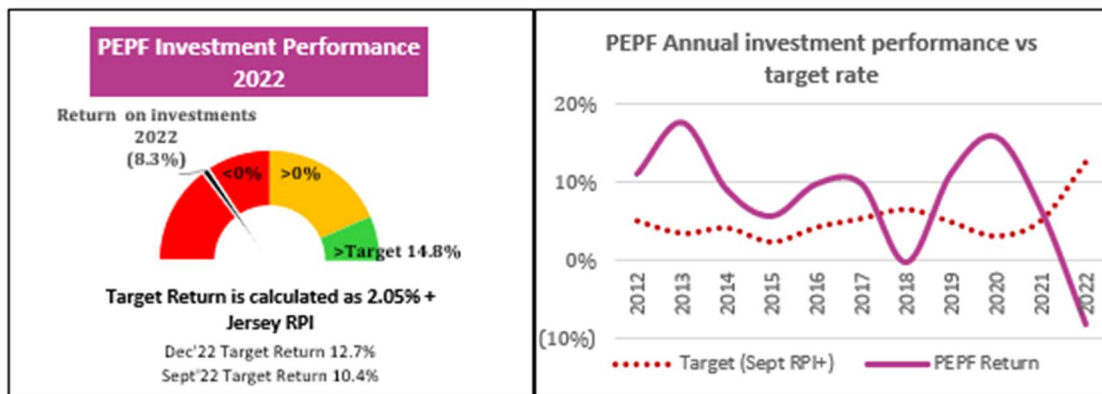
## Performance analysis for the year

### **Investment performance**

The investment aim of the Fund is to provide returns sufficient to meet pension commitments to members over a range of timeframes.

Over 2022, the Fund navigated a year of difficult Growth and Fixed Income markets with some success. Although the overall return was negative in total and suffers by comparison to the Jersey RPI (inflation) linked target, which rose from 3.8% to 14.8% in year, diversification within the portfolio shielded the Fund's accumulated gains from the worst of markets' volatility and the Fund remains in overall surplus. This means that the Fund continues to be in a sound financial position. Indeed, the Scheme Actuary has advised that changes in market conditions and views on future investment returns since the effective date of the 2021 valuation are likely to have strengthened the Fund's position.

The Investment Subcommittee has scrutinised the Fund's investments to ensure it is confident about the assumptions underlying the portfolio and it remains positive that diversification design and chosen investment managers are appropriate, concluding no change to investment strategy is needed.



The COM have carefully considered the year's investment performance and concluded:

✓	<p><b>No short-term strategic adjustments to the portfolio are necessary at this time.</b></p> <p>The portfolio design is successfully mitigating the volatility of the higher risk investments and it remains expected to deliver sufficient performance over the medium to long term</p>
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In reaching this conclusion, COM have reasoned:

- Net assets grew in the year. However, this was due to the receipt of SLB proceeds; the underlying performance was both negative and under the Target Return. Despite 2022 performance, thanks to past performance the schemes remain in surplus and on track to meet their long-term performance objectives – see Results of the Actuarial Valuation section below.
- Near term performance is not necessarily a reliable indicator of long-term performance. For instance, the Target Return figure is temporarily raised due to the sharp rise in Jersey inflation. Current rates of inflation are not viewed as likely to endure over the long term.
- The investment markets have been very volatile and difficult to predict in 2022. As a long-term investor with low liquidity pressures, the Fund has been able to avoid selling holdings at



inopportune moments and has instead been able to add new long-term investments at historically attractive prices.

- The receipt and investment of Salary Linked Bond contributions from Scheme Employers in the year (£337.5 million), gives certainty and control over these funds, eliminating the risk that this funding would not be received.
- It is noted that several “active” investment managers in the portfolio have lower returns than their market benchmarks for the period. A large part of the reason is that the brief of these managers is to take concentrated positions in investments they consider undervalued or to sell investments they consider overvalued. The COM retains confidence that over a long-term time horizon, holding these positions will realise value for the Fund.


This summary reflects views formed after detailed discussions with the Scheme Actuary and Investment Advisor as well as with investment managers over the course of the year.

**More detail on the portfolio composition and performance for the year is contained in the separately published Statement of Investment Principles and in Appendix C.**

### ***Responsible Investment (RI)***


The COM complies with its Responsible Investment and Corporate Governance policy outlined in the published SIP. The Investment Subcommittee (ISC) are tasked with receiving presentations from each Manager on an annual rota, these presentations are required to include their respective approach to good stewardship and how environmental, social and governance (“ESG”) issues, including climate change considerations are incorporated into their investment decisions. The ISC are satisfied with the approaches taken by the Funds underlying managers and that they are appropriate to the nature of the investments and markets that they respectively invest in.

However, the COM recognises a need to develop its RI policies further such as to publish its RI strategy in a public document. This work will focus on enhancing the external reporting of Responsible Investment aims and performance and improve the way Members’ questions are answered.

	The investment managers’ approaches to Responsible Investment are understood and appropriate, however the COM has identified it needs to improve the communication of its specific policy aims and performance
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### ***Results of the Actuarial Valuation***

The Scheme Actuary has concluded a triennial revaluation of the PECRS and PEPS schemes’ liabilities. This involved an extensive re-evaluation of all key assumptions using data available for the position at 31 December 2021, such as demographic data and review of the portfolio performance. The Actuary’s Valuation Report conclusions are summarised below:

	Both PECRS and PEPS are in sound financial positions.  At 31 December 2022 the schemes were in surplus.
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✓	The Scheme Actuary's Valuation Report does not recommend any changes to contributions or benefits at this time.
✓	There is no need at the present time to adjust the investment strategy
✓	The SLB repayments following the 31 December 2021 Valuation Report date were discussed with the Scheme Actuary. The Actuary had previously anticipated these values, so the repayments did not directly impact the Valuation (other than to bring certainty about resolution).
✓	<p>The volatility of investment markets (and the Fund's own performance) in the period following the Valuation Report date of 31 December 2021 was discussed with the Scheme Actuary. The Actuary confirmed that presently these do not materially affect the long-term performance assumptions of the Valuation Report and indeed higher interest rates have some mitigating effects through reducing liability values.</p> <p>In conclusion, post report performance is expected to have improved the position presented in the 31 December 2021 Valuation Report, however this will need ongoing close monitoring.</p>

### ***Pension Increases***

It is the aim of the PEPF to increase Final Salary Scheme and Career Average Scheme pensions in payment and deferred pensions 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, with the pension in deferment and retirement increasing by 10.4% on 1 January 2023.

Pension increases for the last 5 years: Year of effect (Effective 1st January) Increase (Jersey RPI % of preceding 30 September).

Year of effect (Effective 1 <sup>st</sup> January)	Increase (Jersey RPI % of preceding 30 September)
2019	4.3
2020	2.7
2021	0.9
2022	2.9
2023	10.4

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

### ***Operational (administrative) performance***

Since 2016, COM assesses the Administrator PEPT team's performance against the standards of a published Pension Administration Strategy, a formal agreement between the Treasurer and the Committee of Management.

In its review of PEPT's 2022 performance, including administration of the Jersey Teachers Superannuation Fund (JTSF), COM noted:

- PEPT's service standards have returned to pre-pandemic levels.

- The team have embedded new more flexible working practices that provide greater operational resilience whilst improving staff wellbeing.
- Productivity has increased over the year. During 2022, the pensions team completed over 10,000 workflows across both Funds; each workflow results in a member being paid a benefit, receiving a quote, or cleansing of their data.
- Service provision exceeds Service Level Agreement (SLA) standards. Over 2022, the pensions team completed 93% of all workflows within five working days compared to the SLA requirements of 90%.

#### Member communication including complaints:

Over the year, across the JTSF and PEPF, the pensions team received around 20,000 emails, 4,000 telephone calls and received over 30,000 documents which were uploaded to member records. The team also had over 100 face-to-face meetings held at the Tuesday surgery.

The PEPF has a four stage complaints procedure, the first two stages are reviewed and responded to in house by the pensions team and management, the final two stages are reviewed and responded to by the Secretary to the Committee and then the Committee itself.

A complaint can be made by any member who is not satisfied with any decision of the Pensions Team which would affect them, or is likely to affect them, in relation to their benefits.

During the year, the pensions team received four new complaints (per the table below). None of the four complaints were upheld: three complaints were resolved at stage 1 and one complaint at stage 4.

Stage	Upheld	Not Upheld
1	0	3
2	0	0
3	0	0
4	0	1

Actions in the year also included the resolution of a complaint dating back to 2018.

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

#### Current year developments:

The PEPT team have continued to develop the functionality of the online member Pensions Portal. The Portal is popular with members, with around 5,000 PEPF members now registered.

During 2022, PEPT improved the Pension Portal's interface with Compendia (the pensions administration system). Now, when deferred increases and pension increases are applied in the system, letters to members are automatically generated with copies posted to the members Pension Portal. Work also continues in relation to an upgrade that will resolve known ongoing issues and allow members to enter survivor benefit nominations.

## Independent reviews

The Administrator undergoes an internal audit each year. The purpose of this review is to provide assurance that adequate procedures and controls are in place within Public Employees' Pension Team (PEPT) regarding the administration of pensions. The review completed in early 2022 concluded that the control environment was 'Good'.

In 2022, the Committee of Management, in conjunction with the Management Board of the JTSF pension scheme, completed an independent review of the PEPT's pension administration. This was undertaken by a specialist UK pension administration consultancy, Muse. The review highlighted that the pension administration team are diligent, capable, knowledgeable, and genuinely care about giving the best to the members of the scheme. The scheme administration was compared against industry leading practice. The recommendations of the report are being actioned and progress reported to the Committee of Management. The report recommended the agreement of a shared vision between the Committee and the Administrator, and this was subsequently agreed as follows; -

***'To provide an efficient and accurate pension administration service to members of the Jersey public service pension schemes, enabling members to understand their benefits and make informed decisions, so that they can look forward to their retirement.'***

The report highlighted that system, data and process efficiencies could be achieved by upgrading the pension administration system to the latest version. The Committee have agreed a budget so that work can commence on a system upgrade in 2023.

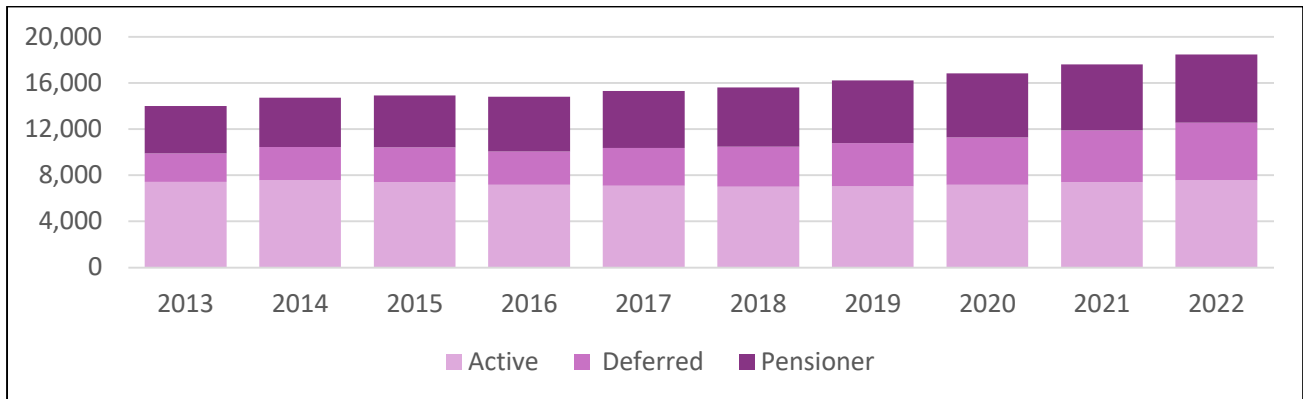
## Membership changes

The total membership of the Fund increased during the year to 18,482 (2021: 17,595).

PECRS	2022	2021	Change
Active	264	361	(27%)
Deferred	3,546	3,495	1%
Pensioner	5,823	5,640	3%
	<b>9,633</b>	<b>9,496</b>	1%
<b>PEPS</b>			
Active	7,350	7,033	5%
Deferred	1,390	1,005	38%
Pensioner	109	61	79%
	<b>8,849</b>	<b>8,099</b>	9%
Total	18,482	17,595	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 newer PEPF scheme shows the opposite dynamics.

Figure: Membership demographics



## Summary

The tri-annual Actuarial Review, as at 31 December 2021 completed by the Scheme Actuary for COM and separately approved by the Chief Minister, confirmed that the Fund is in a sound financial position.

More broadly:

✓	<p><b>Both PECRS and PEPS are in sound financial positions.</b></p> <p><b>At the 31 December 2022 the schemes were in surplus</b></p>
✓	<p>The demographics of the Schemes, together with the nature of investments that the Fund holds, place a low stress on liquidity. This means that the Fund has not needed to liquidate assets at distressed prices (as some UK defined benefit schemes impacted by the “LDI event” needed to). Indeed, the Fund has added investments at historically favourable values.</p>
✓	<p>The Government of Jersey has settled its historic funding obligations carried over from when pension increases started being paid out of the Fund instead of GoJ departmental budget, (the Salary Linked Bond). This removed uncertainty as to how and when these legacy commitments would be settled.</p>
✓	<p>The PEPT team have outperformed their service targets and continued to make progress in their work developing the Pension Portal and associated infrastructure.</p>
✓	<p>The operational costs of the Fund remained in budget despite higher variable activity than modelled at the start of the year.</p>

✓	<p>The current year investment performance of (8.2%) was below the Target Return over the period.</p> <p>However, the indications are that this was due to abnormal market conditions and that the Fund's asset values can reasonably be expected to recover over the medium term. It does not have a significant impact on the overall health of the Fund's financial position.</p> <p>Furthermore, the diversification within the portfolio successfully shielded the Fund from the full range of falls in Growth Assets, showing that the investment strategy is working.</p>
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To help ensure that the service providers continue to provide good value for money, the COM plans to complete a periodic review of service provider terms for the Scheme Actuary, Investment Advisor and Custodian roles in 2023.

## Final Statement from the Chairman

As described in the Accountability Report and Performance Report above, the Fund has successfully navigated another year of varied and complex challenges. In the year, the 2021 Actuarial Valuation Report confirmed the Fund is financially strong and the independent Muse review of the Fund's administration concluded positively. The repayment of the Salary Linked Bond was also a significant achievement, which removed a key risk from the Fund.

In conclusion, I am confident that the Fund is well placed as it enters what is likely to be another very active year. Whilst the markets have started 2023 very positively, COM will continue to pay particularly close attention to monitoring performance relationships within the portfolio. COM will also ensure that various initiatives of 2022 relating to operations and governance structure continue to progress. In addition, there will also be work developing the Fund's Responsible Investment and general reporting practices.

I would like to thank my fellow COM members, who give their time voluntarily, for their commitment through a further year of elevated activity, and in anticipation of the work that lies ahead. The events and initiatives have required extra meetings and the expansion of subcommittee remits to ensure all items are given due attention.

I would also like to thank the Secretary, the Fund's service providers and Treasury officers who have given, and continue to give, the support and commitment needed to enable the Fund to respond to arising events with agility and competence.



**Gordon Pollock BSc, FFA**  
**Chairman of the Committee of Management**  
**18 May 2023**

# 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 2022

		Notes	2022 (£'000)	2021 (£'000)
<b>Dealings with members</b>				
<b>Payments In</b>	Employer contributions		398,239	62,264
	Employee contributions		27,937	25,758
	<b>Total Contributions</b>	4	<b>426,176</b>	<b>88,022</b>
	Transfers in		1,415	1,444
	Other income	5	1,026	325
<b>Total Payments In</b>			<b>428,617</b>	<b>89,791</b>
<b>Payments out</b>	Benefits paid or payable	6	(94,576)	(90,181)
	Payments to and on account of leavers	7	(13,576)	(9,243)
	Administrative expenses	8	(3,029)	(2,580)
<b>Total Payments Out</b>			<b>(111,181)</b>	<b>(102,004)</b>
<b>Net additions/ (withdrawals) from dealings with members</b>			<b>317,436</b>	<b>(12,213)</b>
<b>Net returns on investments</b>				
	Change in market value of investments	9	(242,570)	149,055
	Investment income	10	37,484	30,552
	Investment management expenses	11	(22,575)	(14,888)
<b>Net returns on investments</b>			<b>(227,661)</b>	<b>164,719</b>
Net increase in the Fund's assets during the year			89,775	152,506
Opening net assets			<b>2,711,456</b>	<b>2,558,950</b>
<b>Closing net assets</b>			<b>2,801,231</b>	<b>2,711,456</b>

The notes on pages 26 to 37 form part of these Financial Statements.



## Statement of Net Assets Available for Benefits as at 31 December 2022

	Notes	2022 (£'000)	2021 (£'000)
<b>Investment assets</b>			
Equities	9	533,228	701,865
Pooled Investment Vehicles	9	2,219,800	1,949,419
		<b>2,753,028</b>	<b>2,651,284</b>
Broker cash	9	36,942	54,771
Other investment balances	9	1,547	212
<b>Total net investments</b>		<b>2,791,517</b>	<b>2,706,267</b>
Current assets	16	11,652	6,914
Current liabilities	17	(1,938)	(1,725)
<b>Closing net assets</b>		<b>2,801,231</b>	<b>2,711,456</b>

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 Scheme Actuary performs a formal revaluation of the PECRS and PEPS schemes' liabilities every three years. The most recent Valuation Report was completed for the 31 December 2021 position and concluded that both the PECRS and PEPS schemes are in a sound financial position. More detail on the present Actuarial position of the Fund is available in the Performance Analysis on page 17 of the Chairman's report and these Financial Statements should be read in conjunction with that section.

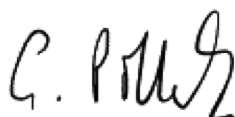
In accordance with Regulation 21 of the Public Employees (Pension Scheme) (Administration) (Jersey) Regulations 2015, the Financial Statements have been prepared by the Treasurer of the States and have been audited.

The notes on pages 26 to 37 form part of these Financial Statements.



Richard Bell  
**Treasurer of the States**

18 May 2023



Gordon Pollock BSc, FFA  
**Chairman of the Committee of  
Management**

18 May 2023

The Financial Statements on pages 24 to 37 were received and approved on behalf of the Committee of Management on 18 May 2023.

# Notes to the Financial Statements for the year ended 31 December 2022

## 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 57 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 accrued pension by the purchase of additional years in the Final Salary Scheme or by the purchase of accrued pension in the Career Average Scheme either by the employer or, through the Additional Voluntary Contribution facility, by the employee) are recorded when they are deducted from payroll.

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

### b) Transfers out

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

### 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 latter of the date of retirement and the date the option is exercised.

## Notes to the audited Financial Statements (Continued)

### **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 pooled investment vehicles is accounted for on an accruals basis when the dividend or other income distribution 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, particularly those classified as 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 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.

## Notes to the audited Financial Statements (Continued)

All pension payments out of the Fund are taxable, other than the payment of a death in service lump sum and the lump sum payable on retirement.

### 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

	2022 (£'000)	2022 (£'000)	2021 (£'000)	2021 (£'000)
<b>Employers</b>				
Normal	55,892		52,348	
Past service debt	638		598	
		<b>56,530</b>		<b>52,946</b>
<b>Additional</b>				
Augmentation	273		261	
Past service debt*	341,436		9,057	
		<b>341,709</b>		<b>9,318</b>
<b>Members</b>				
Normal	27,525		25,390	
Additional voluntary contributions	412		368	
		<b>27,937</b>		<b>25,758</b>
<b>Total contributions</b>		<b>426,176</b>		<b>88,022</b>

\*Additional Past service debt contributions include £337.5 million paid in May 2022 by the Principal Employer in "full and final" settlement of their Pre-1987 Debt. The Pre-1987 Debt is disclosed in more detail in Note 20.

## 5. Other income

	2022 (£'000)	2021 (£'000)
<b>Claims on death benefit insurance</b>	<b>1,026</b>	<b>325</b>

Until 27 September 2022, the Fund held an insurance policy with Aviva which provided death in service cover.

## Notes to the audited Financial Statements (Continued)

**6. Benefits paid or payable**

	2022 (£'000)	2021 (£'000)
Pensions	83,353	79,865
Commutations and lump sum retirement benefits	10,214	9,991
Lump sum death benefits	1,009	325
<b>Total benefits</b>	<b>94,576</b>	<b>90,181</b>

**7. Payments to and on account of leavers**

	2022 (£'000)	2021 (£'000)
Refund of contributions	529	423
Transfers out	13,047	8,820
<b>Total payments to and on account of leavers</b>	<b>13,576</b>	<b>9,243</b>

**8. Administrative expenses**

	2022 (£'000)	2021 (£'000)
Salaries and office costs	890	831
Actuarial fees (including triennial valuation work)	565	297
Audit fees	70	58
Legal fees	237	175
Chairman and secretary fees	117	109
Premium on death insurance policies	894	915
Pension system development	207	181
Other expenses	49	14
<b>Total administrative expenses</b>	<b>3,029</b>	<b>2,580</b>

## Notes to the audited Financial Statements (Continued)

**9. Reconciliation of Net Investments**

	Value at 1.1.22 (£'000)	Purchases at cost (£'000)	Sales proceeds (£'000)	Change in Market Value (£'000)	Value at 31.12.22 (£'000)
Equities	701,865	123,766	(109,417)	(182,986)	533,228
Pooled Investment Vehicles	1,949,419	782,904	(452,939)	(59,584)	2,219,800
<b>Total</b>	<b>2,651,284</b>	<b>906,670</b>	<b>(562,356)</b>	<b>(242,570)</b>	<b>2,753,028</b>
Broker cash	54,771				36,942
Pending Trades	-				1,299
Accrued Interest	212				248
<b>Other investment balances</b>	<b>212</b>				<b>1,547</b>
<b>Total net investments</b>	<b>2,706,267</b>				<b>2,791,517</b>

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

*Purchases include the reinvestment of £337.5 million paid in May 2022 by the Principal Employer in "full and final" settlement of their Pre-1987 Debt. The Pre-1987 Debt is disclosed in more detail in Note 20.*

**10. Investment Income**

	2022 (£'000)	2021 (£'000)
Dividends from equities	4,092	3,772
Income from pooled investment vehicles	26,502	21,079
Income from managed property funds	7,198	6,526
Income on cash deposits	309	50
Other income	-	5
	<b>38,101</b>	<b>31,432</b>
Realised loss on foreign exchange	(296)	(606)
Less irrecoverable withholding tax	(321)	(274)
<b>Total investment income</b>	<b>37,484</b>	<b>30,552</b>

**11. Investment Management Expenses**

	2022 (£'000)	2021 (£'000)
Investment management expenses	21,747	14,292
Custodian expenses	127	123
Investment advisory expenses	701	473
<b>Total Investment management expenses</b>	<b>22,575</b>	<b>14,888</b>

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

## Notes to the audited Financial Statements (Continued)

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 2022 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:

	2022 Total (£'000)	2021 Total (£'000)
Fees	166	143
Commissions	84	153
<b>Total</b>	<b>250</b>	<b>296</b>

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.

## Notes to the audited Financial Statements (Continued)

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

	Level			2022 Total (£'000)
	1 (£'000)	2 (£'000)	3 (£'000)	
Segregated holdings (Equities)	514,932	18,296	-	533,228
Pooled investment vehicles	-	1,001,428	1,218,372	2,219,800
Broker cash	36,942	-	-	36,942
Pending trades	1,299	-	-	1,299
Accrued interest	248	-	-	248
<b>Total investments</b>	<b>553,421</b>	<b>1,019,724</b>	<b>1,218,372</b>	<b>2,791,517</b>

Analysis for the prior year end is as follows:

	Level			2021 Total (£'000)
	1 (£'000)	2 (£'000)	3 (£'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
<b>Total investments</b>	<b>733,523</b>	<b>931,638</b>	<b>1,041,106</b>	<b>2,706,267</b>

#### 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.



## Notes to the audited Financial Statements (Continued)

- **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 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 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			2022 Value (£m)	2021 Value (£m)
		Currency	Interest rate	Other price		
<b>Segregated</b>						
Equities		✓		✓	533.2	701.9
<b>Pooled Investment Vehicles</b>						
Equities		✓		✓	509.6	549.5
Property	✓			✓	377.3	302.1
Bonds	✓	✓	✓		519.4	406.9
Private Debt	✓	✓	✓		351.6	299.4
Alternatives*	✓	✓	✓	✓	432.0	317.3
Asset Backed Securities	✓	✓	✓		29.9	74.2
Broker Cash	✓	✓	✓		38.5	55.0

### **Investment Strategy**

The main priority of the Committee 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

## Notes to the audited Financial Statements (Continued)

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 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 above). 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 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.

## Notes to the audited Financial Statements (Continued)

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

Pooled investment vehicles	2022 Value (£m)	2021 Value (£m)
Open-ended investment company	798.7	676.3
Shares in limited partnerships	884.4	802.9
Open-ended unit trust	377.3	302.1
Unit-linked insurance contract	159.4	168.1
<b>Total pooled vehicle exposure:</b>	<b>2,219.8</b>	<b>1,949.4</b>

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 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:

	2022		2021	
	Direct Exposure (£m)	Indirect Exposure (£m)	Direct Exposure (£m)	Indirect Exposure (£m)
Euro	101.4	529.7	84.8	490.0
US Dollar	382.9	617.6	529.6	353.9
Japanese Yen	-	155.0	-	46.6
Other	39.1	184.0	76.9	118.7

### Interest Rate Risk

The Fund is subject to indirect interest rate risk through a few pooled investment vehicles (as expressed in the table on page 33) 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.

## Notes to the audited Financial Statements (Continued)

**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 57% of the total investment portfolio (2021: 58%).

**15. Concentration of investments**

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

	2022 £'000	2022	2021 £'000	2021
CQS Credit Multi Asset Fund	279,497	10%	270,991	10%
PGIM UK Ground Lease Fund	201,062	7%	210,701	8%
Lansdowne Developed Markets Fund Limited (Long only fund)	181,353	7%	186,247	7%
Legal & General FTSE RAFI AW3000 (Net WHT) Index Fund	159,413	6%	168,129	6%
Nordea Alpha 15 MA Fund	141,188	5%	148,692	6%
Hayfin DLF III	145,188	5%	134,143	5%
BlackRock BGF EM Local Bond Fund	122,864	4%	135,870	5%

**16. Current Assets**

	2022 (£'000)	2021 (£'000)
Contributions – Employers	447	401
Contributions – Members	200	180
Cash balances	10,249	6,331
Pensions paid in advance	640	-
Advances to Government of Jersey	116	2
<b>Total current assets</b>	<b>11,652</b>	<b>6,914</b>

**17. Current Liabilities**

	2022 (£'000)	2021 (£'000)
Other creditors	1,938	1,725
<b>Total current liabilities</b>	<b>1,938</b>	<b>1,725</b>

## Notes to the audited Financial Statements (Continued)

### 18. Contingencies and Commitments

In the opinion of the Committee, the Fund had no contingent liabilities at 31 December 2022 (2021: nil).

At 31 December 2022, the Fund had undrawn commitments to fund private debt vehicles Park Square and HayFin amounting to £256.8 million (2021: £47.6 million) and Global Infrastructure Partners and HIG Whitehorse, amounting to \$119.2 million (2021: \$145.9 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 receive remuneration as detailed in Note 8. As at the year end, within the Committee there currently were two Active (2021: three) and three Pensioner members (2021: four). Benefits are paid or accrued in accordance with Jersey Law.

- 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 £115,981, was owed to the Fund by the Government of Jersey in respect of transactions with the department (2021: £1,662). During the year an amount of £851,992 (2021: £810,767) 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 associated Admitted Employers 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 the course of 2022, the Fund received £337.5 million from the Principal Employer in full and final settlement of their Pre-1987 Debt.

A small number of Admitted Employers chose not to settle their Pre-1987 Debts at that time. In 2018, Admitted Employers were offered an option to accelerate their pre-1987 debt repayments such that its final repayment date would be 29 September 2053. Admitted Employers who did not take up this option continue to repay their pre-1987 debt obligation over the period to 31 December 2083.

# 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 2022 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 2022, 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 23, 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](http://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.

*CLA Evelyn Partners Limited*

**CLA Evelyn Partners Limited**

Statutory Auditor  
Chartered Accountants  
Bristol

18 May 2023



# Statement of the Scheme Actuary

**Name of Fund:** States of Jersey Public Employees Pension Fund

**Effective Date of Valuation:** 31 December 2021

## 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 2022 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 date of signing the valuation at 31 December 2021. It takes account of developments between the effective date of the valuation and the date of signing but does not take account of more recent developments. Our report on the valuation of the Fund as at 31 December 2021 was signed on 28 February 2023.

As at the effective date of the valuation, the valuation report disclosed a surplus in the Final Salary Scheme of £183.8M, equivalent to a funding ratio (assets divided by the present value of the liabilities) of 106.9%, and a deficit in the Career Average Scheme of £6.1M, equivalent to a funding ratio of 97.5%.

The funding positions of both schemes improved between the valuation date and the date of signing the valuation due to an increase in expected future investment returns relative to inflation, and in our valuation report we confirmed that the accrual of future benefits under the respective schemes was considered to be affordable within the contribution cost caps provided for in the Fund's legislation.

In accordance with the Funding Strategy Statement, the Committee of Management and the Chief Minister agreed that no adjustments to benefits or contributions were required following the valuation.

The next valuation is due to be carried out as at 31 December 2024.

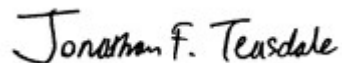
## 2. Security of accrued rights on discontinuance

It is our opinion that, on a discontinuance basis, the Fund's assets at the effective date were sufficient to cover 97% 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.

### **3. Further information**

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

A handwritten signature in black ink that reads 'Jonathan F. Teasdale'.

Jonathan Teasdale  
Fellow of the Institute and Faculty of Actuaries  
Aon Solutions UK Limited

1 March 2023

## APPENDIX

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

The resources of the Fund at 31 December 2021 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 £2,711.4M at 31 December 2021.
- 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 (in practice, the Government repaid its share of the pre-1987 debt through a lump sum repayment on 31 May 2022).

### 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 2021.

## 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.

*The £337.5 million paid in May 2022 by the Principal Employer in “full and final” settlement of their Pre-1987 Debt relates entirely to the PECRS Fund. The Pre-1987 Debt is disclosed in more detail in Note 20.*

### Fund Account for the year ended 31 December 2022:

Dealings with members	Career Average Scheme (£'000)	Final Salary Scheme (£'000)	Total (£'000)
Employer contributions	51,699	346,540	398,239
Employee contributions	26,800	1,137	27,937
<b>Total contributions</b>	<b>78,499</b>	<b>347,677</b>	<b>426,176</b>
Transfers in	1,032	383	1,415
Other income	1,026	-	1,026
<b>Total payments in</b>	<b>80,557</b>	<b>348,060</b>	<b>428,617</b>
Benefits	(1,641)	(92,935)	(94,576)
Payments to and on account of leavers	(4,994)	(8,582)	(13,576)
Administrative expenses	(1,696)	(1,333)	(3,029)
<b>Total payments out</b>	<b>(8,331)</b>	<b>(102,850)</b>	<b>(111,181)</b>
<b>Net additions / (withdrawals) from dealings with members</b>	<b>72,226</b>	<b>245,210</b>	<b>317,436</b>
Net returns on investments			
Net returns on investments	(19,984)	(207,677)	(227,661)
<b>Net returns on investments</b>	<b>(19,984)</b>	<b>(207,677)</b>	<b>(227,661)</b>
Net increase in the Fund's assets during the year	52,242	37,533	89,775
Opening net assets	238,410	2,473,046	2,711,456
<b>Closing net assets</b>	<b>290,652</b>	<b>2,510,579</b>	<b>2,801,231</b>

**Fund Account for the year ended 31 December 2021:**

Dealings with members	Career Average Scheme (£'000)	Final Salary Scheme (£'000)	Total (£'000)
Employer contributions	47,074	15,190	62,264
Employee contributions	24,316	1,442	25,758
<b>Total contributions</b>	<b>71,390</b>	<b>16,632</b>	<b>88,022</b>
Transfers in	1,444	-	1,444
Other income	325	-	325
<b>Total payments in</b>	<b>73,159</b>	<b>16,632</b>	<b>89,791</b>
Benefits	(640)	(89,541)	(90,181)
Payments to and on account of leavers	(2,662)	(6,581)	(9,243)
Administrative expenses	(1,480)	(1,100)	(2,580)
<b>Total payments out</b>	<b>(4,782)</b>	<b>(97,222)</b>	<b>(102,004)</b>
<b>Net additions / (withdrawals) from dealings with members</b>	<b>68,377</b>	<b>(80,590)</b>	<b>(12,213)</b>
Net returns on investments			
Net returns on investments	13,794	150,925	164,719
<b>Net returns on investments</b>	<b>13,794</b>	<b>150,925</b>	<b>164,719</b>
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
<b>Closing net assets</b>	<b>238,410</b>	<b>2,473,046</b>	<b>2,711,456</b>

**Statement of Net Assets available for Benefits as at 31 December 2022:**

	Career Average Scheme (£'000)	Final Salary Scheme (£'000)	Total (£'000)
<b>Investment assets</b>			
Unitised Investment Balances	291,691	2,499,826	2,791,517
<b>Current assets*</b>	(333)	11,985	11,652
<b>Current liabilities*</b>	(706)	(1,232)	(1,938)
<b>Total net assets available for benefits</b>	<b>290,652</b>	<b>2,510,579</b>	<b>2,801,231</b>

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

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

\*As of 31 December 2022, the current assets of the Career Average Scheme include £1,541,318 (2021: £189,557) 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.

## Appendix B – Summary of key service providers (Unaudited)

A summary of the key service provider roles and appointments:

Specialist Service Provider	Who	Who appoints under the Regulations	Summary of services
Scheme Actuary	Aon Solutions UK Limited	COM, following approval by the Minister  (Contracted by COM)	Independently estimates Scheme liabilities and forecasts likely investment return outcomes, proposing suitable “Target Returns” for the Schemes’ investments.  The Actuary writes a formal Valuation Report every three years which informs decisions around contribution/ benefit rates and investment strategy decisions.
Custodian	Northern Trust	Minister for T&R, in consultation with the Treasurer and COM  (Contracted by Minister for T&R)	Retains investment ownership records for investments in PEPF’s own name; bookkeeps transactions; collates performance information; supports various investment operations.
Bank	HSBC Plc	Treasurer	HSBC holds operational cash balances held outside of the Custodian and is also the bank of the Government of Jersey, the Principal Employer
Investment Managers	Various	COM, with the approval of the Minister for T&E  (Contracted by COM)	Invest funds according to their individual mandates
Investment Advisors	Mercer LLC	COM, with the approval of the Minister for T&R	Makes strategic investment recommendations (portfolio design; adding/ removing fund managers); provides performance information to COM; performs due diligence on investment managers and assists with best

Specialist Service Provider	Who	Who appoints under the Regulations	Summary of services
		(Contracted by COM)	<p>practice reviews; provides oversight and challenge to aspects of Custodian performance; assists Treasury to plan operational activities.</p> <p>The Investment Advisor works closely with the Administrator to forecast and plan for cash flows needs arising from member transactions.</p> <p>The Investment Advisor closely monitors the performance of investment managers to ensure that they execute the agreed investment strategies with appropriate regard to risk, and to then evaluate the success of those strategies against performance benchmarks.</p>
Lead Legal Advisor	Carey Olsen (additional advisors on an ad hoc basis)	COM	Supports the COM with arising legal matters and compliance with legislation
Administrator - Investments	Government of Jersey ("Treasury and Investment Management" team)	The Treasurer is the Administrator  (Performed by the Government of Jersey "T&IM" team)	Implements COM investment decisions; performs day-to-day coordination of tax filing and investment administration; reconciles service provider records and prepares the Fund's financial records; coordinates the audit engagement; coordinates/ performs compliance activities; provides oversight of service provider performance and implements the COM's control framework.
Administrator - Financial Statements		The Treasurer and COM	<p>The Treasurer must keep Fund records and prepare Financial Statements</p> <p>The Comptroller and Auditor General must appoint auditors.</p> <p>The COM must publish the audited Financial Statements</p>



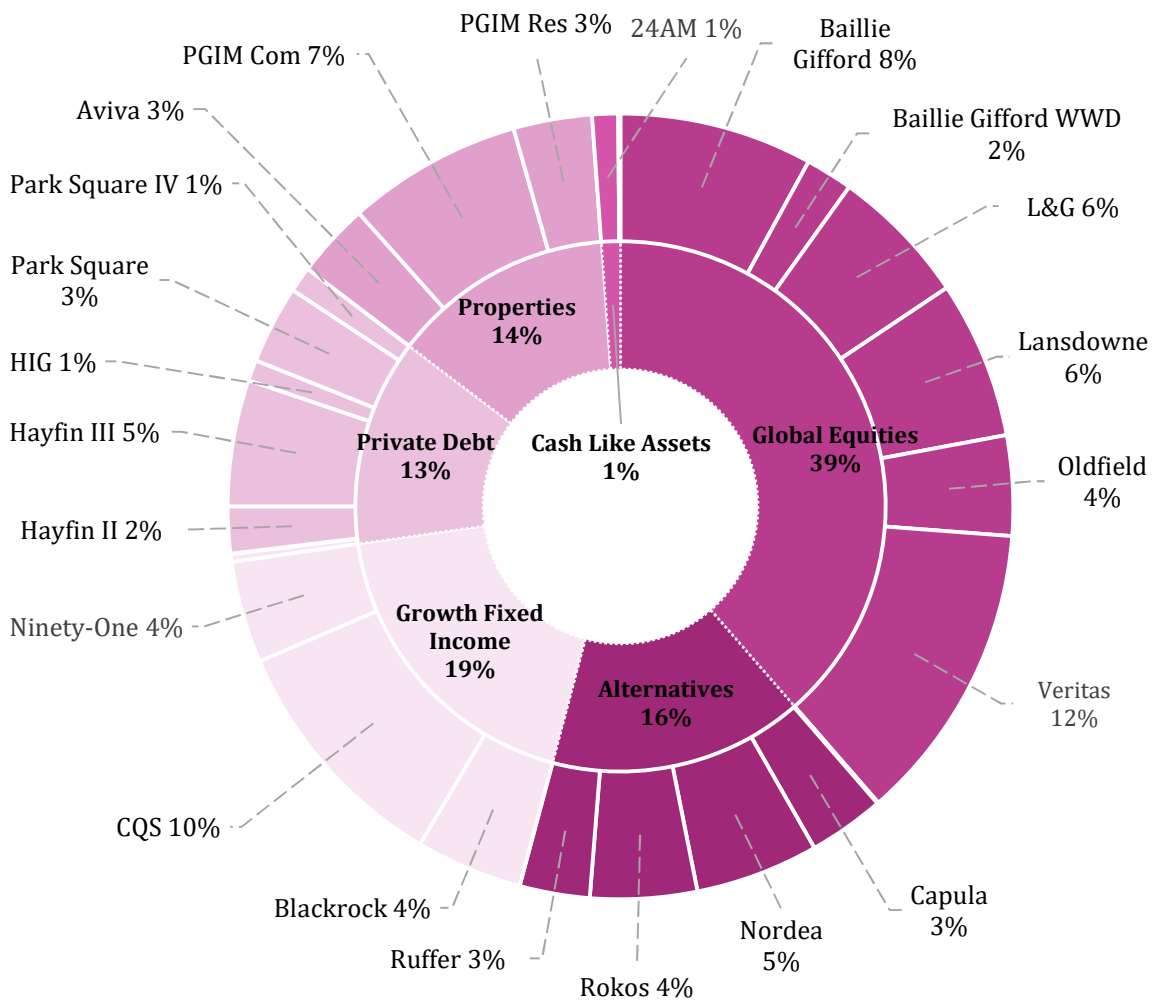
Specialist Service Provider	Who	Who appoints under the Regulations	Summary of services
Administrator – Membership	Government of Jersey “PEPT” team	The Treasurer is the Administrator, performed by the Government of Jersey “PEPT” team.	<p>Coordinates the processing of pension contributions and payments; maintains Scheme and membership records; implements COM communication strategies; assists the Minister with Board appointment processes.</p> <p>PEPT performs and presents quarterly reporting to COM showing service standards against prescribed targets.</p>
External Auditor	CLA Evelyn Partners Limited*  <i>*Nexia Smith &amp; Williamson rebranded as CLA Evelyn Partners Limited in 2022</i>	Comptroller and Auditor General	Provides an external audit of the Fund’s financial statements

# Appendix C – Additional information on the portfolio and performance (Unaudited)

## Portfolio composition at 31 December 2022

Detailed information on the composition of the portfolio is provided in the separately published Statement of Investment Principles.

At the year-end, the portfolio comprised holdings as follows:



*Values contain roundings to nearest 1%*

## Performance analysis

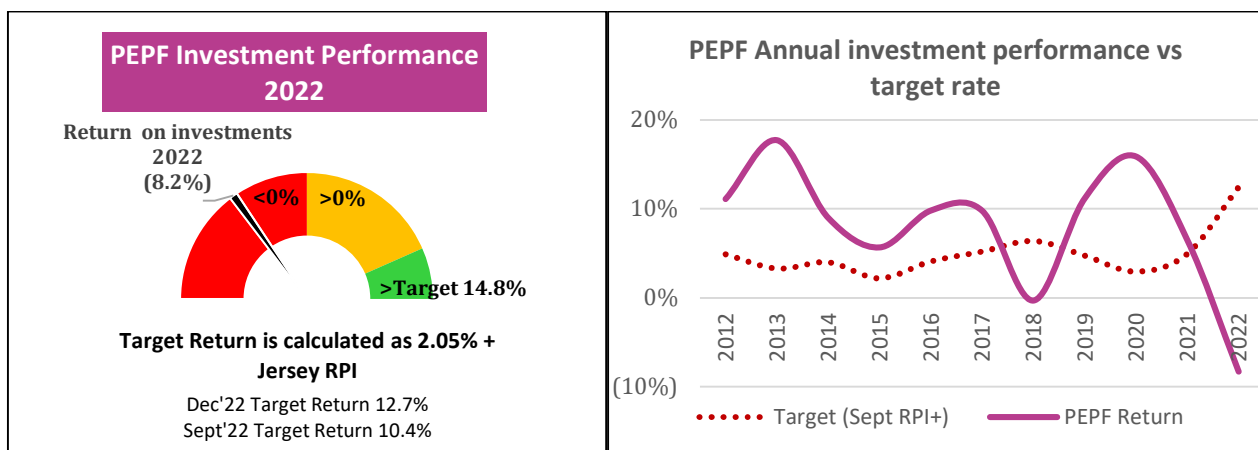
### Summary

The investment aim of the Fund is to provide returns sufficient to meet pension commitments to members over a range of timeframes.

Over current year, the Fund navigated a difficult period for Growth and Fixed Income markets with some success; the diversification within the portfolio mitigating the worst of the market's volatility. The Fund remains in overall surplus and is well positioned to meet its long-term liabilities.

The Investment Subcommittee have scrutinised the Fund's investments to ensure they are confident about the assumptions underlying the portfolio and they remain positive that diversification design and chosen investment managers are appropriate, concluding no change to investment strategy is needed.

### Overview



The net assets of PEPF increased overall in 2022 due to the receipt of SLB proceeds. However, the underlying performance over the course of 2022 was a negative return of 8.2%. This year of negative return contrasts with the longer-term performance of the portfolio, where returns have generally been both positive and in excess of the target rate, including the prior year return of +6.5%.

COM have reviewed the drivers of 2022 performance and concluded that the results reflect markets conditions generally and do not indicate a present need to amend the portfolio strategy.

The global events of 2022 (chiefly the Russian invasion of Ukraine and a protracted lock down in China) presented an uncertain investment environment, characterised by global trade disruption, inflation, and strong central bank responses (sudden and significant interest rises). Market participants generally found it difficult to forecast the extent and duration of these factors. This uncertainty was further compounded by bouts of political instability in the US and UK (the UK saw three Prime Ministers in the year). Ultimately, this general uncertainty resulted in valuation falls across a broad range of markets.

Whilst volatile markets can provide trading opportunities, it can be difficult to assess manager performance over periods as short as a single year. This is because it takes time for a position to be built and then for the fundamental value to be realised. For the same reasons, the use of strategic benchmarks to measure the success of managers is more illuminating over longer time periods.

Noting this context, COM focused on whether, under short term performance pressures, its managers continued to employ the strategies for which they were appointed and did so with appropriate discipline, rather than allowing their investment style to drift (with risk to the portfolio diversification). Another key question considered by COM was whether the assumptions underlying the portfolio construction remain valid, if and to the extent that, markets move into a new “inflationary era” phase in the coming years.

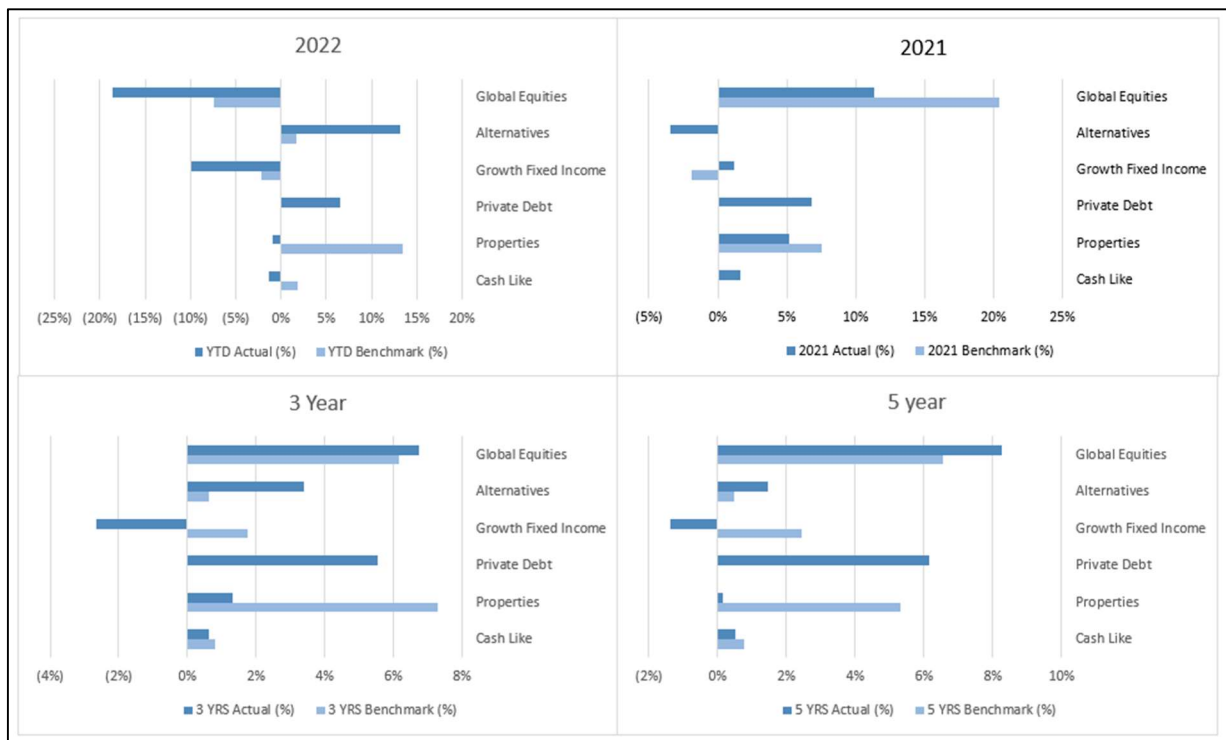
The table below captures some observations reached in this analysis. Overall, COM remains satisfied with both the strategic asset allocation and with the managers selected to manage those asset classes. (A minor exception was a decision close to the year end to adjust exposure to Emerging Market Debt within the Fixed Income allocation).

A separate but significant input to the process of evaluating the ongoing suitability of the investment strategy was to reflect on the 2021 Actuarial Valuation work. Importantly, this work did not identify a need to amend the overall risk/ return parameters for the Funds’ investments.

Reflecting the above, during 2022 the SLB proceeds were invested in such a way that new managers were added (to spread risk and maintain optimum holding sizes) without fundamentally changing the portfolio design.

COM note that post year end, markets have begun to settle to a more stable environment and returns are improving. By January 2023, the rolling 12-month performance had broadly returned to neutral.

Performance by asset class



**The following table serves to support the analysis summarised in the charts above.**

Details of Manager benchmarks can be found in the Statement of Investment Principles

<p>Global Equities (39% of portfolio)</p>	<p>PEPF has a range of Equity manager styles (active, index, defensive, speculative) but all experienced negative returns in 2022 - largely linked to the significant global events of the year that wrong-footed both the managers and the sectors they operate in.</p> <p>Performance over the year was particularly affected by Baillie Gifford who operates two funds for PEPF. This manager's high growth disruptive technology strategies both made significant losses in the year (39% and 34%) – however the nature of these investments is a 5-10 year horizon for returns. For the longer held strategy “Long Term Global Growth”, annualised return since inception (2008) is just under 17%pa, notwithstanding 2022.</p> <p>After careful scrutiny of how closely the managers are following their proclaimed investment strategies, COM is satisfied that despite these short-term results, PEPF's blend of Equities managers, their mix of styles and their inception-to-date return, remains suitable for the long term and does not need adjustment at this time.</p>
<p>Alternatives (16% of portfolio)</p>	<p>The positive returns of this asset class were principally driven by Rokos, a hedge fund, whose return of 48% in 2022 compares to a loss of 25% in 2021 and brings its annualised inception (2017) to date performance to 10%pa.</p> <p>The performances of Alternatives' funds are very idiosyncratic, so COM have continued to carefully monitor performance against the managers' metrics, like volatility rules, rather than just by generalised index performance.</p> <p>COM are satisfied that its allocations to Alternatives are working successfully for the portfolio by providing a diversification that evens out some of the peaks and troughs of Equities selections within Growth Like Assets' performance.</p>
<p>Growth Fixed Income (19% of portfolio)</p>	<p>The allocations to CQS and Blackrock both suffered from the environmental conditions of rising interest rates, exacerbated by uncertainty around Sovereign borrowing programs, that caused inflation and credit risk concerns in markets.</p> <p>In December 2022, COM diversified its Growth Fixed Income holdings by appointing a second Multi Asset Credit manager, NinetyOne. This reduces the portfolio's reliance on CQS. COM also began plans to adjust its exposure to Emerging Market Debt, where the manager and the sector have both experienced disappointing performance over the longer term.</p>
<p>Private Debt (13% of portfolio)</p>	<p>In 2022, PEPF's oldest allocations to Hayfin and Park Square funds moved into their maturity stages, providing significant positive return in the year. (The nature of private debt is that investments are made for fixed term, multi-year cycles, with return weighted to the end of those vintages, rather than providing an even annual return like a benchmark would show).</p> <p>COM are satisfied that the managers remain rigorous in their credit evaluation processes in the ongoing vintages. Consequently, COM had confidence to commit</p>

	to new replacement vintages in what appears to be a conducive investment environment for this type of investment.
Properties (14% of portfolio)	<p>The Fund's PGIM allocations have made modest negative returns in the year, primarily reflecting inflation's impact on the near-term value of future cash flows.</p> <p>COM are satisfied that PEPF's property holdings are fulfilling their strategic role of income generation. Their benchmark reflects RPI and, as such, although the fund has rate-linkage characteristics, it would be unreasonable to expect close tracking over the 2022 calendar year.</p> <p>Indeed, COM saw an opportunity to add holdings at historically attractive prices in a very dislocated market environment. An investment in Aviva Lime has added diversification and a further purchase of PGIM from a co-investor (at a significant illiquidity discount to NAV) was initiated at the year end.</p>
ABS Cash-Like Assets (1% of portfolio)	Asset Backed Securities are a form of cash. These investments are held for operational cash where liquidity is the main criteria rather than as a strategic long-term asset.

## 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.

**Alternatives:** A financial asset whose characteristics differentiate it from conventional asset types such as stocks, bonds, or cash. By nature, Alternatives are often illiquid, complex, or otherwise comparatively difficult to value or trade.

**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.

**Career Average Scheme:** The Public Employees' Pension Scheme (PEPS). 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. 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.

**Committee of Management (Committee of COM):** the group which manages the Fund under the powers vested in it by Regulations governing the respective Schemes, comprising a chairman, five Principal Employer representatives, one Admitted Employer representative, four member representatives and two pensioner representatives.

**Deferred Pension:** The inflation linked retirement benefits payable from normal retirement age to a member of the Fund who has ceased to contribute because 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 number of unlisted equities where dealers directly facilitate the 'over the counter' buying and selling of outside of recognised stock exchanges.

**Final Salary Scheme:** The Public Employees' Contributory Retirement Scheme (PECRS). 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 Career Average Scheme

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

**Growth Fixed Income:** Fixed income assets are those which typically pay a regular coupon in addition to a capital sum returned either at a bullet maturity at the end of a fixed period or incrementally over the life of the investment. Growth fixed income relates to fixed income assets with a higher return target, normally equating to an equity like total return.

**Jersey Appointments Commission:** An independent body that oversees the recruitment of States of Jersey employees and appointments to States of Jersey supported or related bodies.

**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).

**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.

**Private Debt:** Investments characterised by the loan of money by fund vehicles, outside traded markets, typically to smaller corporate entities, and typically for fixed periods of time with security and interest rate conditions.

**Properties:** Investments related to acquisition, development or management of property and related activities. The Fund has Ground Lease investments, which are long term, illiquid investments whose investment objectives are focused on yield.

**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 majority of the Pre-1987 Debt was repaid in May 2022 but the timing of the remaining amounts due from certain Admitted Employers is as yet undecided.

**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.

**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).

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