

**STATES OF JERSEY INVESTMENT PERFORMANCE REPORT**  
**FOR THE 6 MONTHS ENDED 30 JUNE 2010**

# STATES OF JERSEY INVESTMENT PERFORMANCE REPORT FOR THE 6 MONTHS ENDED 30<sup>TH</sup> JUNE 2010

## **1. Introduction**

1.1. This report covers the performance of the main States of Jersey Funds' Investments for the 6 months ended 30<sup>th</sup> June 2010. Funds included in this report are:-

- The Strategic Reserve Fund
- Stabilisation Fund
- Social Security (Reserve) Fund
- Health Insurance Fund
- Consolidated Fund
- Public Employees Contributory Retirement Scheme (PECRS)
- Teachers' Superannuation Fund (JTFSF)
- Currency Notes and Coins Fund

## **2. Investment Strategy**

2.1. The latest States Investment Strategy published was on 22nd June 2010 (R.C 84/2010), including overarching strategies for ethical investments and governance arrangements.

2.2. The Minister's oversight of investment matters is currently supported by an Investment Sub Committee. As part of the on-going drive to improve all aspects of financial management across the States, the Minister intends to replace the Sub Committee with a Treasury Advisory Panel to include independent non-executive members with relevant experience. The Panel will be responsible for advising the Minister and Treasurer on a range of treasury matters. The Minister and Treasurer will continue to receive independent investment advice from the States Investment Adviser, currently Aon Hewitt. The Terms of reference for the Treasury Advisory Panel are attached to this report at Appendix 2.

2.3. On 1st July 2010 the States of Jersey - Common Investment Fund (CIF) was implemented to provide many of the States Funds, including Special and Trust & Bequest Funds, the opportunity to pool resources in order to benefit from greater investment opportunities and economies of scale. Each fund holds units in the CIFs asset pools in line with their individual investment strategies. Ten funds joined the CIF on 1<sup>st</sup> July, which included four of the larger Trust & Bequest Funds. This represents phase 1 of the CIF and implements some of the recommendations laid out in Comptroller and Auditor General's report "The Lord Portsea Gift Fund and other Special Funds" dated June 2009. Further Trust & Bequest Funds joined the CIF in the third quarter of 2010 (Phase 2 of the CIF) and the remaining funds with significant investment balances will join the CIF during the first half of 2011.

2.4. On the 1<sup>st</sup> October AXA Rosenberg Investment Management Ltd was terminated as an equity manager for the States of Jersey - Common Investment Fund and three new equity managers were appointed. Also on this date the Social Security (Reserve) Fund placed funds in the CIF in line with its published investment strategy.

2.5. Each fund has its own Investment Strategy and asset allocation, some focusing on long term return and others on short term liquidity and security.

### 3. Investment Performance

- 3.1. Investment Performance of the major States of Jersey funds is compared to the relevant benchmarks for each fund. Specific benchmarks and out performance targets are set for each Investment Manager.
- 3.2. Actual performance is measured against the relevant benchmark and is dependent on market conditions.
- 3.3. The following table shows the number of investment managers in place as at 30<sup>th</sup> June 2010, for each of the major funds:-

Table 1: Managers in place as at 30<sup>th</sup> June 2010

Number of Managers in place	Equities	Alternatives	Property	Bond/Cash
<b>States of Jersey Major Funds</b>				
Strategic Reserve Fund	1	-	-	2
Stabilisation Fund	-	-	-	1
Social Security (Reserve) Fund <sup>(1)</sup>	1	-	-	-
Health Insurance Fund	-	-	-	1
Consolidated Fund	-	-	-	1
Currency Notes and Coins Fund	1	-	-	3
PECRS <sup>(2)</sup>	5	2	1	6
JTSF	1	-	1	1

(1) Social Security (Reserve) Fund currently invests in pooled funds with Legal & General

(2) PECRS includes investment in pooled funds with Legal & General for equities and bonds.

- 3.4. The performance of the individual funds as at 30<sup>th</sup> June 2010 is summarised in the table below.

Table 2: Individual Fund performance results as at 30<sup>th</sup> June 2010

Fund	Value (30/6/10) £'million	Actual Performance 6 months	Actual Performance 1 Year	Actual Performance 3 Years
Strategic Reserve Fund	551	0.29%	9.64%	3.55%
Stabilisation Fund	114	0.52%	1.13%	-
Social Security (Reserve) Fund	717	-1.93%	19.66%	-0.76%
Health Insurance Fund	76	0.39%	-	-
Consolidated Fund (including Trading Funds)	230	0.44%	1.03%	3.86%
Currency Notes and Coins Fund	83	0.46%	3.60%	3.60%
PECRS	1,163	-2.21%	15.78%	-0.51%
JTSF	272	0.25%	24.82%	1.20%

- 3.5. Appendix 1 provides an analysis of the performance and current asset allocation for each fund.

**Investment Performance Report June 2010**  
**States of Jersey - Strategic Reserve Fund**

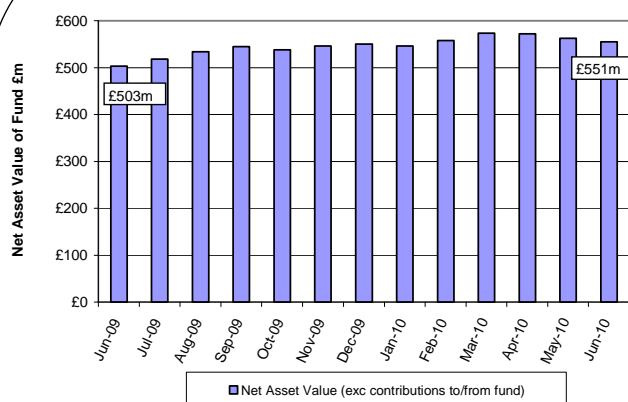
**Summary**

The value of the Strategic Reserve is £551m at 30 June 2010 compared with £550m at 31 December 2009.

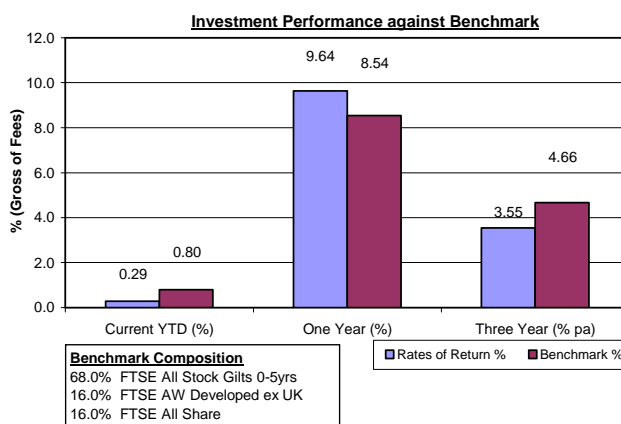
**Investment Performance** - The overall investment performance over the three years to 30 June 2010 is an increase of 3.55% compared to the benchmark of 4.66%. The performance against the benchmark for the year ended 30 June 2010 is an increase of 9.64% compared to the benchmark of 8.54%. In September 2010 the current equity manager was given notice due to poor performance and three new equity managers have been appointed for the States of Jersey - Common Investment Fund.

**Asset Allocations** - The asset allocations are within the strategic range, with 32% invested in equities, 44% in Bonds and 24% in cash and cash equivalents. The Minister's intention is that this fund will move towards its strategic aim as investment opportunities and market conditions allow, in relation to increasing equity investment and carrying out property investment.

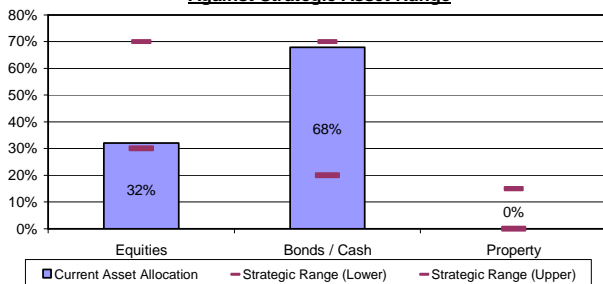
**Value of the Fund**



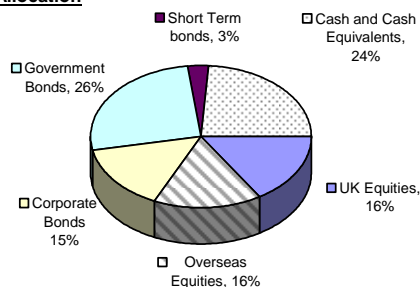
**Overall Fund Performance**



**Current Asset Allocation Against Strategic Asset Range**



**Current Asset Allocation**



**Note**

The Investment Strategy for this fund is designed to work towards the long term growth of the funds assets. Therefore whilst performance of the fund is monitored monthly the focus for performance monitoring is on the long-term perspective. Some short-term market volatility is expected in the context of longer term investment objectives for the fund.

**Investment Performance Report June 2010**  
**States of Jersey - Stabilisation Fund**

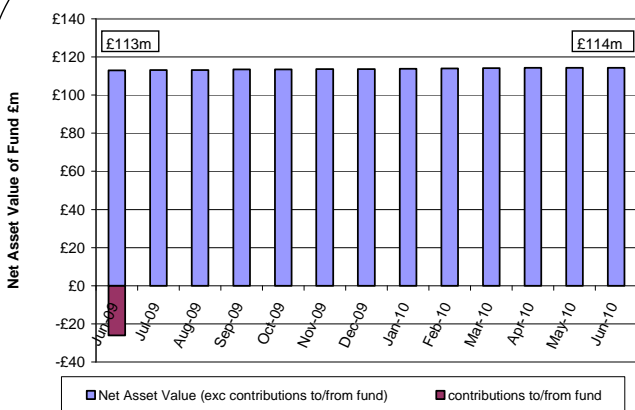
**Summary**

The value of the Stabilisation Fund is £114.4m as at 30 June 2010 compared with £113.7m at 31 December 2009. In the second half of 2010, £37m will be transferred to the Consolidated Fund in accordance with P.179-2009.

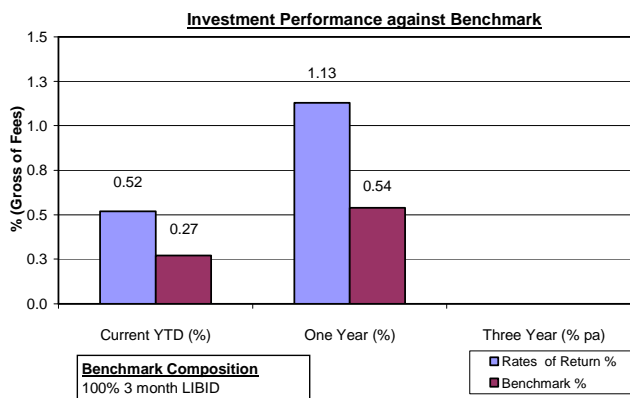
**Investment Performance** - The overall investment performance for the year ended 30 June 2010 is an increase of 1.13% compared to the benchmark of 0.54%. The fund has not been managed by our cash managers for a full 3 year period therefore 3 year performance numbers are not applicable

**Asset Allocations** - The asset allocations are in line with the strategy, with 100% invested in cash and cash equivalents. The Minister's intention is that this fund will move towards investing in bonds as and when the economic climate changes and there is no longer a requirement to make payments out of the fund.

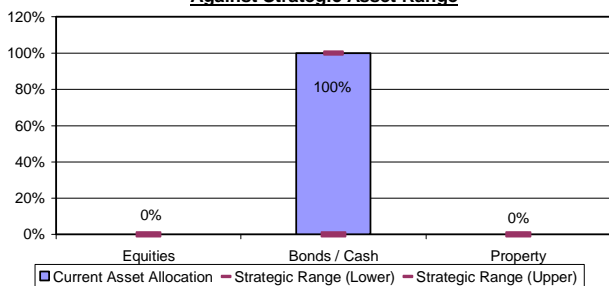
**Value of the Fund**



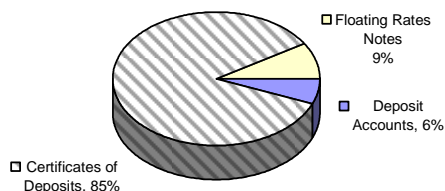
**Overall Fund Performance**



**Current Asset Allocation Against Strategic Asset Range**



**Current Asset Allocation**



**Note**

The purpose of the fund is designed to provide a reserve which can be used to make Jersey's fiscal policy more countercyclical in order to create a more stable economic environment with low inflation. At times of economic downturn, assets are held with a focus of capital preservation and liquidity.

**Investment Performance Report June 2010**  
**States of Jersey - Social Security (Reserve) Fund**

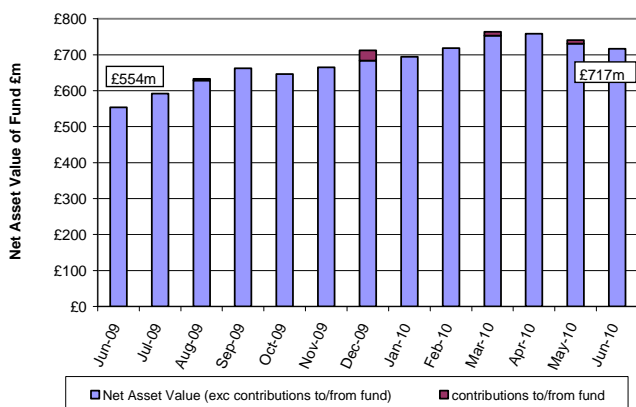
**Summary**

The value of the Social Security Reserve is £717m as at 30 June 2010 compared with £712m at 31 December 2009. During the last 6 months £20m of contributions have been paid into the fund.

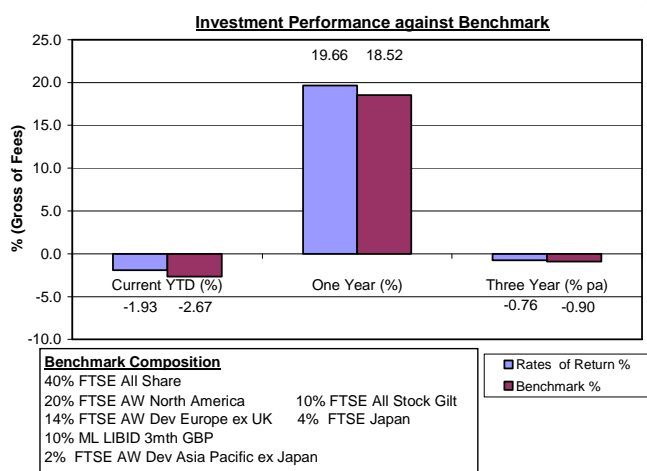
**Investment Performance** - The overall investment performance over the three years to 30 June 2010 is a decrease of 0.76% compared to the benchmark decrease of 0.90%. The performance against the benchmark for the year ended 30 June 2010 is an increase of 19.66% compared to the benchmark of 18.52%. In October 2010, the fund invested approx £264m into the States of Jersey - Common Investment Fund in UK and Overseas equities in accordance with its investment strategy.

**Asset Allocations** - Overall the asset allocations are within the strategic range. For June 2010 month end only, as a result of short-term market volatility the asset allocations were temporarily outside their strategic ranges. The portfolio was rebalanced early in July to bring the assets in line with their strategic ranges. As at 30 June 2010, assets were allocated 62% in Equities, 5% in Bonds and 33% in cash and cash equivalents. The Minister's intention is that this fund will move towards its strategic aim as investment opportunities and market conditions allow, in relation to increasing equity investment and carrying out property investment.

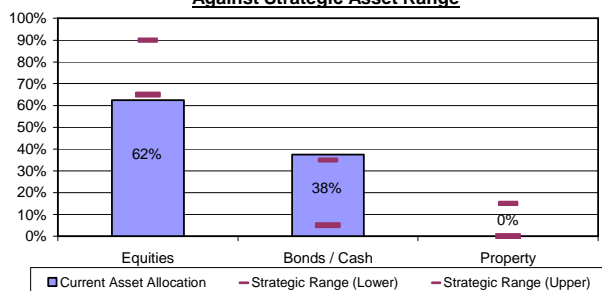
**Value of the Fund**



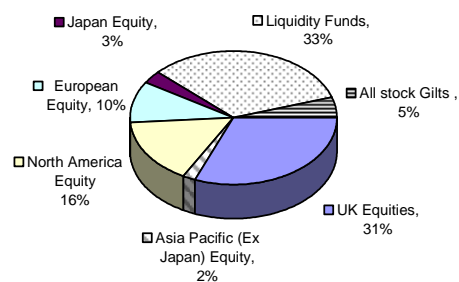
**Overall Fund Performance**



**Current Asset Allocation Against Strategic Asset Range**



**Current Asset Allocation**



**Note**

The Investment Strategy for this fund is designed to work towards the long term growth of the funds assets to meet future pension provisions for eligible islanders. Therefore whilst performance of the fund is monitored monthly the focus for performance monitoring is on the long-term perspective. Some short-term market volatility is expected in the context of longer term investment objectives for the fund.

**Investment Performance Report June 2010**  
**States of Jersey - Health Insurance Fund**

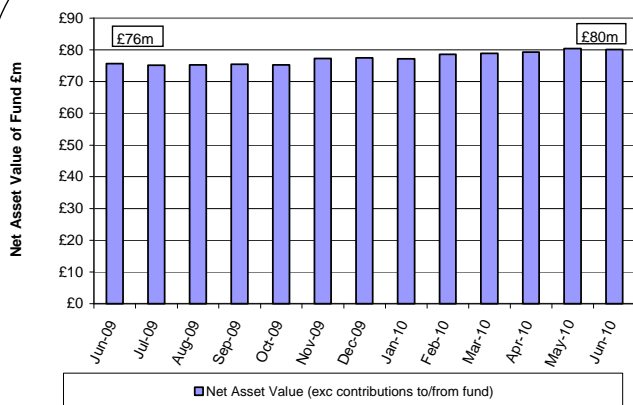
**Summary**

The value of the Health Insurance Fund is £80m as at 30 June 2010 compared with £78m at 31 December 2009.

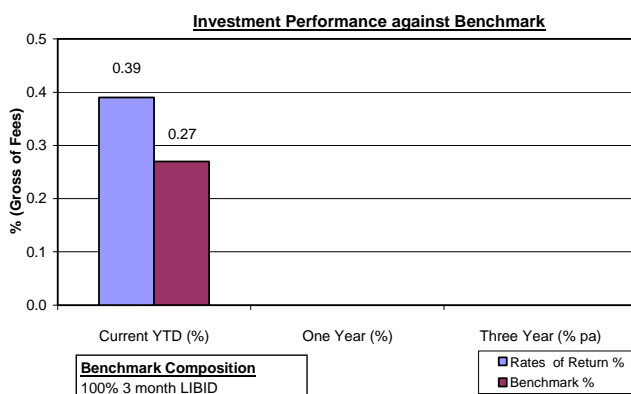
**Investment Performance** - Investment performance is available for the fund since November 2009 when the monies were transferred to the Treasury for investment. Performance against the benchmark for 30 June 2010 year to date is an increase of 0.39% compared to the benchmark of 0.27%.

**Asset Allocations** - The asset allocations are not currently in line with fund's the strategic range as 100% invested in cash and cash equivalents as a temporary measure. On the 1st July the fund joined the States of Jersey-Common Investment Fund and has implemented its Investment Strategy to obtain holdings in equities and bonds. Property investment is planned to be carried out as and when market conditions allow.

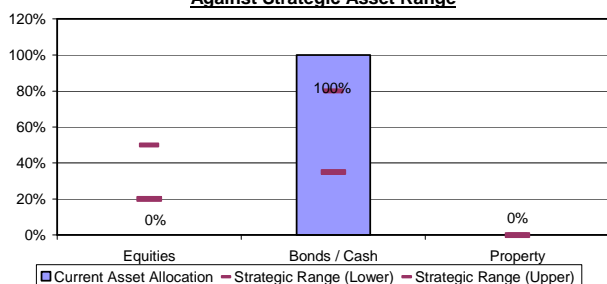
**Value of the Fund**



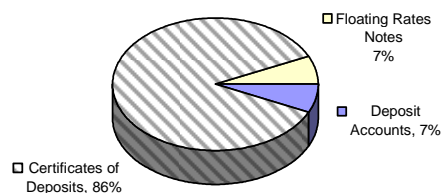
**Overall Fund Performance**



**Current Asset Allocation Against Strategic Asset Range**



**Current Asset Allocation**



**Note**

The Investment Strategy for this fund is designed to work towards the long term growth of the funds assets. From 1st July the fund joined the States of Jersey-Common Investment Fund and has implemented its Investment Strategy. Therefore whilst performance of the fund is monitored monthly the focus for performance monitoring is on the long-term perspective. Some short-term market volatility is expected in the context of longer term investment objectives for the fund.

**Investment Performance Report June 2010**  
**States of Jersey - Consolidated Fund (including Trading Funds)**

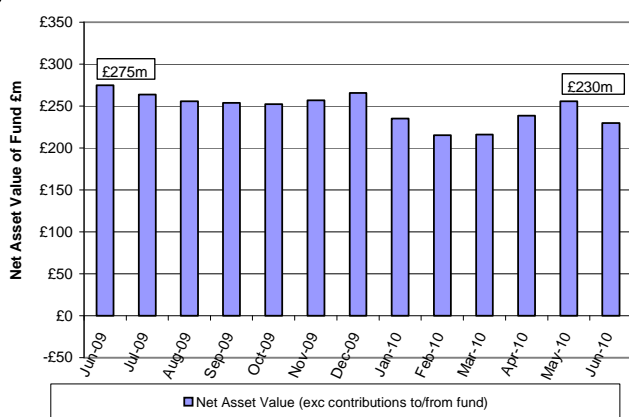
**Summary**

The value of investments in the Consolidated Fund is £230m as at 30 June 2010 compared with £265m at 31 December 2009. During the last 6 months £31m net monies have been paid out of the fund for operational and capital expenditure purposes.

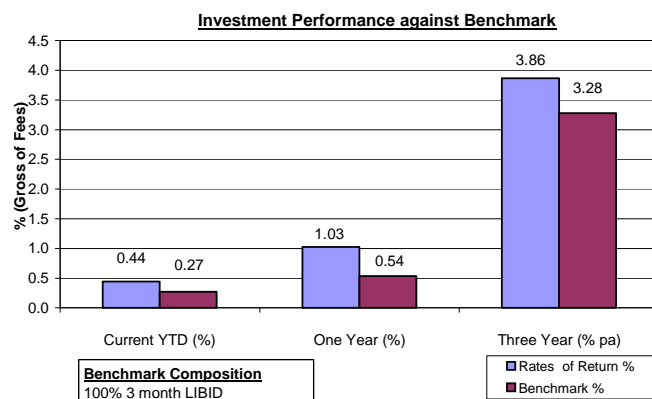
**Investment Performance** - The overall investment performance over the three years to 30 June 2010 is an increase of 3.86% compared to the benchmark of 3.28%. The performance against the benchmark for the year ended 30 June 2010 is an increase of 1.03% compared to the benchmark of 0.54%.

**Asset Allocations** - The asset allocations are within the strategic range, with 100% invested in cash and cash equivalents. On the 1st July the fund joined the States of Jersey-Common Investment Fund and has invested some of its monies for longer durations in order to maximise investment returns.

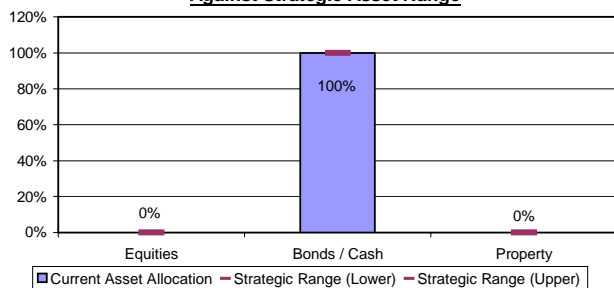
**Value of the Fund (Cash Investment element only)**



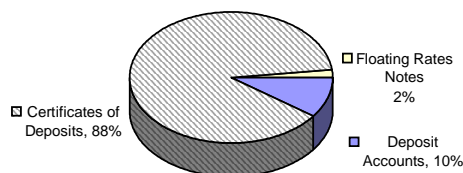
**Overall Fund Performance**



**Current Asset Allocation Against Strategic Asset Range**



**Current Asset Allocation**



**Note**  
 The balance in this report represents the current cash balance within the Funds including approved expenditure votes not yet spent. The Investment Strategy for this fund is designed to be invested on a short term basis to provide liquidity to meet operational cash flows. In order to meet the fund's purpose, the strategy set is risk adverse with capital preservation, liquidity and flexibility being the over-riding factors. Therefore performance of the fund is monitored monthly as the focus for performance monitoring is on a short-term perspective.



**Investment Performance Report June 2010**  
**States of Jersey - Currency Notes & Coins Fund**

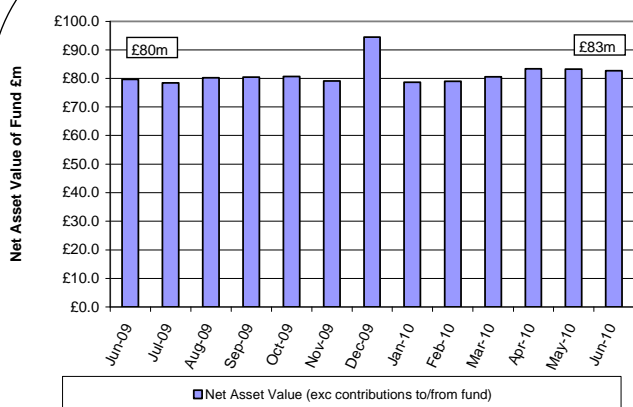
**Summary**

The value of the Currency Notes & Coins Fund is £83m as at 30 June 2010 compared with £94m at 31 December 2009.

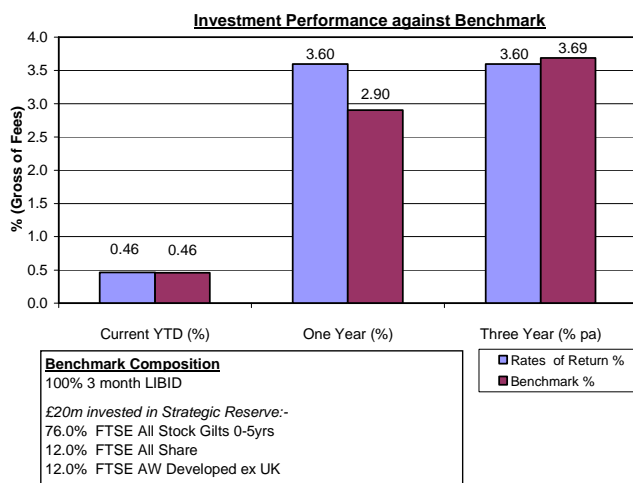
**Investment Performance** - The overall investment performance over the three years to 30 June 2010 is an increase of 3.60% compared to the benchmark of 3.69%. The performance against the benchmark for the year ended 30 June 2010 is an increase of 3.60% compared to the benchmark of 2.90%.

**Asset Allocations** - The asset allocations are within the strategic range, with 8% invested in equities, 11% in Bonds and 81% invested in cash and cash equivalents. On 1st July 2010 the Currency Notes and Coinage funds joined the States of Jersey - Common Investment Fund.

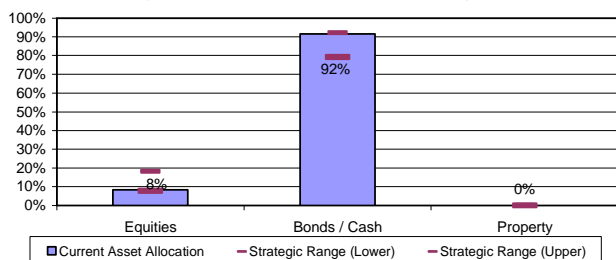
**Value of the Fund**



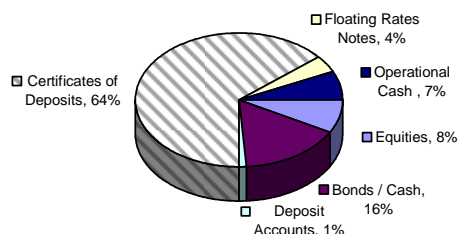
**Overall Fund Performance**



**Current Asset Allocation Against Strategic Asset Range, (note these % are based on June 2010 actuals)**



**Current Asset Allocation**



**Note**

The purpose of these funds are to hold assets that match the value of Jersey currency in circulation, such that the holder of Jersey currency could on request be repaid. The Investment Strategy for this fund is designed to work towards the long term growth for £20m of the funds assets to maximise returns and the remainder to be held in low risk fairly liquid assets to meet fluctuations of currency in circulation. Therefore whilst we monitor performance of the fund monthly the focus for performance monitoring is also on a long-term perspective.

**Investment Performance Report June 2010**  
**States of Jersey - Public Employees Contributory Retirement Scheme Fund**

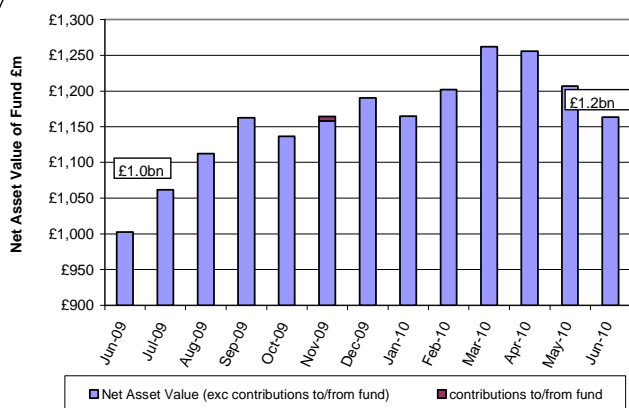
**Summary**

The value of the Public Employees Contribution Retirement Scheme Fund is £1.2bn as at 30 June 2010 compared with £1.2bn at 31 December 2009.

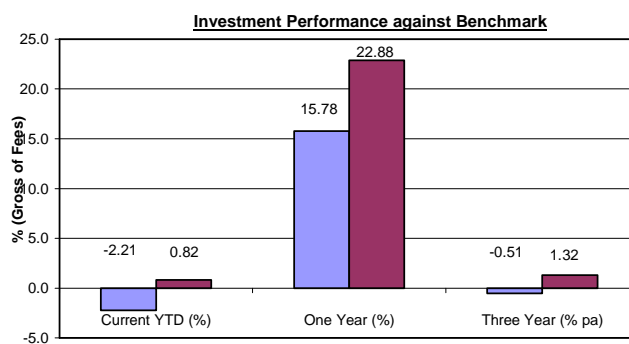
**Investment Performance** - The overall investment performance over the three years to 30 June 2010, excluding the Salary Linked Bond is a decrease of 0.51% compared to the benchmark increase of 1.32%. The performance against the benchmark for the year ended 30 June 2010 is an increase of 15.78% compared to the benchmark of 22.88%. The schemes performance for the year was below benchmark due to underperformance of the Scheme's specialist investment managers (some equity managers and property) coupled with equity holdings being underweight for the majority of the year up to 31st March.

**Asset Allocations** - The asset allocations are within the strategic ranges, with 51% invested in equities, 5% alternatives, 24% bonds/cash, 1% in property and 19% in the Salary Linked Bond (pre 1987 debt). The 24% holding in cash includes £70m (4.9%) which was invested in alternatives on 1st July 2010.

**Value of the Fund**



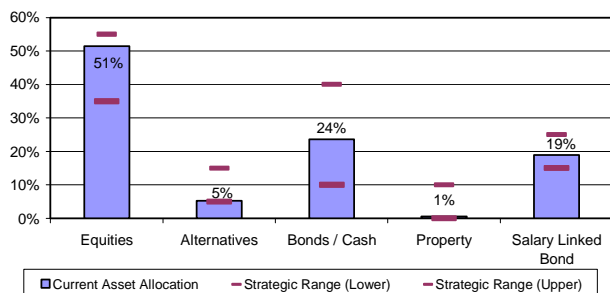
**Overall Fund Performance**



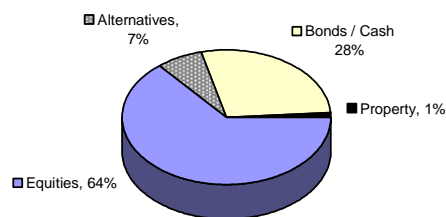
**Benchmark Composition**

2.15% Zero return BM	4.47% 3 month LIBOR
10.06% MSCI AX World (gross)	5.27% 3 month LIBOR
6.28% cash no BM	6.03% iBox £ non Gilts
3.88% FTSE AW Dev Europe ex UK	2.05% FTSE Japan
0.58% ML £ 3 month LIBID	22.46% FTSE All Share
3.8% FTSE AW North America	17.77% MSCI World (Gross)
0.78% Absolute Return 7% pa	
12.58% iBOXX Euro Corp 100% Hedged to GBP	
1.84% FTSE AW Dev Asia Pacific ex Japan	

**Current Asset Allocation Against Strategic Asset Range**



**Current Asset Allocation (excluding salary linked bond)**



**Note**

The Committee of Management's investment objective for PECRS is to invest the assets of the Scheme prudently to ensure that the benefits promised to members under the Scheme's Regulations are provided. The Committee's Statement of Investment Principles is published on pages 38 - 41 of the Scheme's Annual Report for 2009. PECRS is a long term Fund. Therefore, whilst the Committee monitors performance quarterly, the focus for performance monitoring is on the long-term perspective. Some short-term market volatility is expected in the context of longer term investment objectives for the fund.

**Investment Performance Report June 2010**  
**States of Jersey - Jersey Teachers' Superannuation Fund**

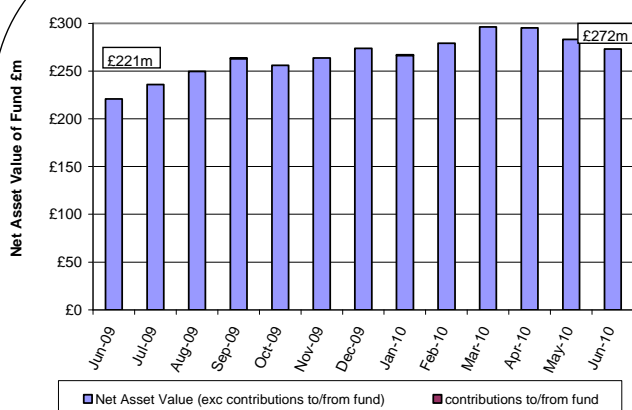
**Summary**

The value of the Jersey Teachers' Superannuation Fund is £272m as at 30 June 2010 compared with £273m at 31 December 2009.

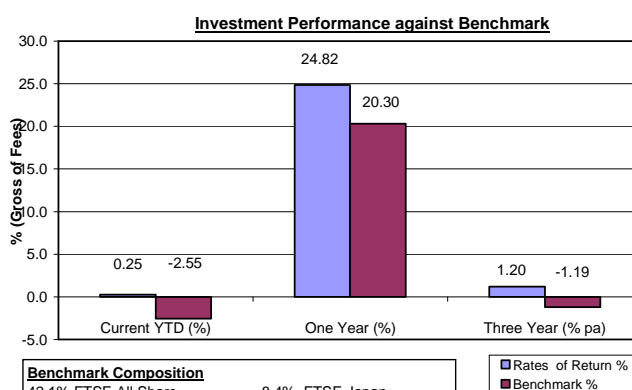
**Investment Performance** - The overall investment performance over the three years to 30 June 2010 is an increase of 1.20% compared to the benchmark decrease of 1.19%. The performance against the benchmark for the year ended 30 June 2010 is an increase of 24.82% compared to the benchmark of 20.30%.

**Asset Allocations** - The asset allocations are outside of the strategic ranges for Bonds/Cash. The JTSF Management Board are in the process of committing funds which will bring the property allocation close to target (10%). As at 30 June 2010, assets were allocated 81% in equities, 17% in Bonds/Cash and 2% in property.

**Value of the Fund**



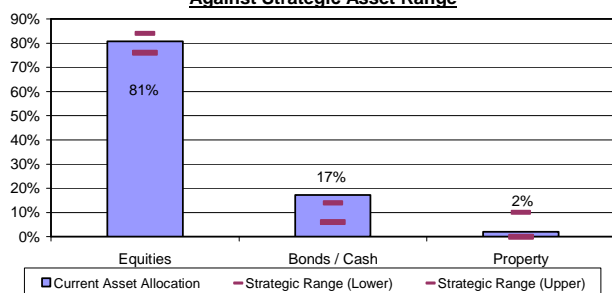
**Overall Fund Performance**



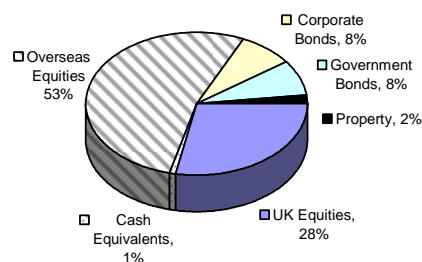
**Benchmark Composition**

42.1% FTSE All Share	8.4% FTSE Japan
12.5% FTSE AW North Am.	5% S&P/ IFX Invest. Index
12.4% FTSE AW Dev Eur. ex UK	
3.8% FTSE AW Dev Asia Pacific ex Japan	
7.8% SST iBoxx £ Non-gilts 15+	
8% FTSE Index-Linked > 5 Years	

**Current Asset Allocation Against Strategic Asset Range**



**Current Asset Allocation**



**Note**

The Investment Strategy for this fund, to prudently ensure that the benefits promised to members are provided, is designed to work towards the long term growth of the funds assets. Therefore whilst the Management Board monitor performance of the fund quarterly the focus for performance monitoring is on the long-term perspective. Some short-term market volatility is expected in the context of longer term investment objectives for the fund.

## 1. **Overview**

- 1.1. The Minister for Treasury and Resources and Treasurer of the States have a range of powers and responsibilities relating to Treasury matters, provided for through the Public Finances (Jersey) Law 2005 and associated Regulations. The Treasury Advisory Panel is established by the Minister to provide advice on discharging these responsibilities and exercising relevant powers.

## 2. **References**

- 2.1. References to "the Minister" shall mean the Minister for Treasury and Resources
- 2.2. References to "the Panel" shall mean the Treasury Advisory Panel
- 2.3. References to the "Non Executive Members" shall mean the members of the Panel appointed by the Minister.

## 3. **Constitution**

- 3.1. The Panel shall be established by the Minister to advise the Minister, Assistant Minister(s) and Treasurer. The Minister shall appoint members and a Chairman.

## 4. **Authority**

- 4.1. The Panel is empowered by the Minister to discharge its functions as specified in this document. To achieve this the Panel shall:
  - Have the right to seek and be provided with the necessary information to fulfil its duties
  - Have the right to request professional advice necessary to fulfil its duties

## 5. **Membership**

- 5.1. The Panel shall comprise Treasury Officers and Non Executive members. In total, between four and six members, as follows:
  - **Treasury Officers**  
The Treasurer of the States of Jersey;  
The Deputy Treasurer of the States of Jersey
  - **Non Executive members**  
Between 2 and 4 Non Executive Members with relevant experience, appointed by the Minister
- 5.2. The Minister and Assistant Ministers for Treasury and Resources shall have the right to attend all Panel meetings.
- 5.3. The Minister and Assistant Ministers for Social Security, and their nominated officers, shall have the right to attend all Panel discussions that impact on Social Security Funds.

- 5.4. A Treasury officer shall be appointed the secretary of the Panel.
- 5.5. The appointment of the Non Executive Members shall be made by the Minister in accordance with the Appointments Commission procedures and after consultation with the Minister for Social Security, the Chairman of the Panel and Treasurer of the States.
- 5.6. The appointment of a Panel Chairman shall be made by the Minister in accordance with the Appointments Commission procedures and after consultation with the Minister for Social Security, the Chairman of the Panel and Treasurer of the States.
- 5.7. Appointment of Non Executive members to the Panel shall be for a period of no more than five years. Non Executive members may be reappointed subject to the Appointment Commission's procedures for a maximum of two periods of five years.

## **6. Meetings**

- 6.1. The Panel shall meet as appropriate, as determined by the Chairman, but not less than three times per year.
- 6.2. A meeting of the Panel may be called by the secretary at the request of any member of the Panel or the Minister.
- 6.3. Only members of the Panel, the Minister and the Minister for Social Security have the right to attend Panel meetings. Other individuals and external advisers may be invited to attend for all or part of any meeting as and when appropriate.
- 6.4. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, and shall be forwarded to each member of the Panel and any other person required to attend, at least five working days prior to the appointed day for the meeting. Supporting papers shall be sent to Panel members and to other attendees as appropriate, at the same time.
- 6.5. The quorum for Panel meeting shall be three members, including at least one Treasury officer and one Non Executive member. A quorate meeting is able to provide advice to the Minister with the authority of the full Panel.
- 6.6. In the absence of the Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair a meeting.
- 6.7. The secretary will minute the proceedings and advice / recommendations of all meetings.
- 6.8. The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 6.9. Minutes of the Panel meetings shall be circulated promptly to all members of the Panel. Once agreed the minutes or a summary thereof shall be circulated to the Minister and the Minister for Social Security.
- 6.10. Meetings may be conducted in person, via telephone, or electronically.

## **7. Terms of Reference**

- 7.1. The Minister for Treasury and Resources and Treasurer of the States have a range of powers and responsibilities relating to Treasury matters, provided for through the Public Finances (Jersey) Law 2005 and associated Regulations.

- 7.2. The Panel is established to advise the Minister and Treasurer on relevant Treasury matters.
- 7.3. The Panel is required to provide advice on the following matters on an on-going basis. The Minister or Treasurer may also request the Panel to provide advice on other relevant Treasury matters.

### **Scope of Advice**

- 7.4. ***Treasury Policy***, in the second half of 2010 the Treasury department is developing a comprehensive policy on key treasury activities including management of risk. The Panel is requested to consider the initial policies and advise the Minister on their adoption. The Panel will be required to review the appropriateness of these policies annually.
- 7.5. ***Fund Investment Strategies***, the Minister has published investment strategies for each of the major funds managed by the Treasury. The Panel is required to review the appropriateness of these strategies annually.
- 7.6. ***Common Investment Fund Strategies***, the Minister has published investment strategies for each of the Common Investment Fund pools. The Panel is required to review the appropriateness of these strategies annually.
- 7.7. ***Investment performance***, the Panel is required to review and consider the performance of all investment / cash managers appointed to manage funds under control of the Minister or Treasurer, at least annually.
- 7.8. ***Appointment and dismissal of Investment Managers***, the Treasurer is responsible for the appointment of investment managers. The Panel is required to advise the Treasurer on the appointment and dismissal of investment / cash managers.
- 7.9. ***Currency and Interest rate exposure***, through its operations the States has on occasion exposure to foreign currencies and interest rate changes. The Panel is required to advise the Treasurer and Minister on the management of these exposures as requested.
- 7.10. ***Other Advice***. From time to time, the Minister and Treasurer may wish to seek the Panel's advice on other treasury matters. The Panel will be required to advise on matters where it has relevant expertise, experience and knowledge to do so.
- 7.11. The Panel shall operate in accordance with the Principles and Recommendations of the AIC Code of Corporate Governance and States of Jersey Code of Conduct to the extent that the Principles and Recommendations are relevant to the fulfilment of its duties.

## **8. Reporting and Communication**

### **Advice**

- 8.1. All advice provided by the Panel to the Minister or Treasurer will be given formally, and confirmed either through the Panel's minutes or by correspondence from the Chairman.
- 8.2. Advice will normally be given on unanimous agreement of the Panel. Where such agreement is not reached the Chairman must inform the Minister and Treasurer of the Panel members' views.

- 8.3. The Minister will consider the advice of the Panel and will respond to that advice, indicating his acceptance or otherwise of the advice.

**Reporting and Communication**

- 8.4. The Panel shall receive copies of relevant Ministerial Decisions.
- 8.5. The Panel shall receive copies of monthly and six monthly investment performance reports from the Treasury.
- 8.6. The Panel shall prepare, by 30 April each year, an annual Report for the Minister covering the activities of the Panel in the previous calendar year. The report shall set out the following matters:
- The Membership of the Panel;
  - The number of meetings held since the publication of the previous Annual Report;
  - The significant advice given to the Minister during the year;
  - An overview of investment performance;
- 8.7. The report shall be prepared so as to enable the Minister to present it to the States Assembly.
- 8.8. The Panel will meet formally with the Minister at least once a year to discuss the activities of the Panel and its performance.