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# STATES OF JERSEY



## STATES OF JERSEY INVESTMENT STRATEGIES (NOVEMBER 2015)

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**Presented to the States on 1st December 2015  
by the Minister for Treasury and Resources**

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**STATES GREFFE**

## **REPORT**

### **INVESTMENT STRATEGIES – INTRODUCTION**

#### **1. INTRODUCTION**

- 1.1 This strategy document is presented in accordance with the terms of the Public Finances (Jersey) Law 2005 (Article 6) (“the Finance Law”), and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (Regulation 4), which require that the Minister for Treasury and Resources presents his investment strategies for States Funds.
- 1.2 The States agreed the Establishment of a States of Jersey – Common Investment Fund in P.35/2010, approved by the States on 11th May 2010. Under this arrangement, the majority of States Funds will be pooled for investment purposes.
- 1.3 Each States Fund will maintain its own Investment Strategy which it may achieve by investing in the States of Jersey – Common Investment Fund Investment Pools.
- 1.4 This report outlines the Investment Strategies for each of the States of Jersey – Common Investment Fund’s Investment Pools. It also outlines the individual Investment Strategies for each specific States Fund.
- 1.5 The strategies reflect the Minister’s long-term investment aims for each Fund. The current position of each Fund reflects current market conditions. The Minister’s intention is that each Fund will move towards its strategic aim as investment opportunities and market conditions allow.

#### **2. OVERARCHING STRATEGIES**

- 2.1 The Minister for Treasury and Resources has adopted an ethical investment Strategy that will be applied to all States’ Investments; this is included in Appendix 1.
- 2.2 Governance arrangements are detailed in Appendix 2.

#### **3. THE STATES’ MAJOR FUNDS**

- 3.1 The States’ Major Funds’ Investment Strategies are summarised in the table below. Full details of each Investment Strategy are available in Appendices 3 to 8.

<b>Funds</b>	<b>Equities %</b>	<b>Alternative Investments Class %</b>	<b>Bonds %</b>	<b>Cash %</b>	<b>Participating in Common Inv. Fund</b>
<u>States of Jersey Major Funds</u>					
Strategic Reserve Fund	50	10	40		Yes
Stabilisation Fund			80	20	Yes
Social Security (Reserve) Fund	68	20	10	2	Yes – Part
Health Insurance Fund	40		45	15	Yes <sup>(1)</sup>
Consolidated Fund <sup>(2)</sup>	45	10	45	β	Yes <sup>(1)</sup>
Currency Notes and Coins Fund	20	60	10	10	Yes <sup>(1)</sup>
Housing Development Fund	0	25	25	50	Yes

(1) Monies required for working balances will be held outside of the States of Jersey – Common Investment Fund.

(2) The Consolidated Fund is to hold the cash deemed to be required to fund expenditure in the medium term in the Long-Term Cash Pool of the CIF or operating cash account outside the CIF, this balance is marked as ‘β’ in the table above. The remaining holdings of the Consolidated Fund are classified as ‘investable assets’ and invested in line with the Strategy above.

#### **4. PENSION FUNDS**

4.1 The 2 major Pension Funds, Public Employees Contributory Retirement Scheme (PECRS) and Teachers’ Superannuation Fund (JTSF) Investment Strategies are summarised in the table below. Full details of each Investment Strategy are available in Appendix 9.

4.2 The Minister for Treasury and Resources approves these strategies based on recommendations from the Management Board (JTSF) or Committee of Management (PECRS). The Management Board/Committee of Management are responsible for these Funds, and they take independent professional investment advice and guidance from appropriately qualified and experienced persons on the Investment Strategies for the Funds to follow. When approving the Investment Strategies, the Minister takes appropriate investment advice from the States’ Investment Adviser.

<b>Funds</b>	<b>Equities %</b>	<b>Alternatives %</b>	<b>Property %</b>	<b>Bond/ Cash %</b>	<b>Participating in Common Inv. Fund</b>
<u>Pension Funds</u>					
PECRS	35	20	10	35 <sup>(1)</sup>	no
JTSF <sup>(2)</sup>	50	20	20	10	Yes

(1) This Figure includes capital value of future payments for certain liabilities.

(2) Asset allocation is based on assets in the current Fund and excludes the value of future contributions to be made in respect of liabilities for increases to pensions in payment.

## 5. SPECIAL FUNDS

- 5.1 The Special Funds' Investment Strategies are summarised in the table below. Full details of each Investment Strategy are available in Appendices 10 to 12.

<b>Funds</b>	<b>Equities %</b>	<b>Alternative Investments Class %</b>	<b>Bonds %</b>	<b>Cash %</b>	<b>Participating in Common Inv. Fund</b>
<u>Special Funds</u>					
Tourism Development Fund	–	–	–	100	Yes <sup>(1)</sup>
Channel Islands Lottery (Jersey) Fund	–	–	–	100	Yes <sup>(1)</sup>
Dwelling-Houses Loan Fund	–	–	75	25	Yes <sup>(2)</sup>

- (1) Monies required for working balances will be held outside of the States of Jersey – Common Investment Fund.  
 (2) The loan book will be held outside of the States of Jersey – Common Investment Fund.

## 6. TRUST AND BEQUEST FUNDS

- 6.1 The Trust and Bequest Funds' Investment Strategies are summarised in the table below. Full details of each Investment Strategy are available in Appendices 13 to 21.

<b>Funds</b>	<b>Equities %</b>	<b>Alternative Investments Class %</b>	<b>Bonds %</b>	<b>Cash %</b>	<b>Participating in Common Inv. Fund</b>
<u>Trust &amp; Bequest Funds</u>					
Estate of A.A. Rayner Fund	65	10	25	–	Yes
The Rivington Travelling Scholarship	50	10	40	–	Yes
Estate of H.E. Le Seilleur	40	45	27	3	Yes <sup>(1)</sup>
Estate of E.J. Bailhache	65	–	30	5	Yes <sup>(1)</sup>
Le Don de Faye Trust Fund	50	10	40	–	Yes <sup>(2)</sup>
Greville Bathe Fund	65	10	25	–	Yes
Estate of A.H. Ferguson Bequest	50	10	40	–	Yes
Ecology Fund	50	10	40	–	Yes <sup>(3)</sup>
The Lord Portsea Gift Fund	50	10	40	–	Yes <sup>(3)</sup>

- (1) All Jersey Properties will be held outside of the States of Jersey – Common Investment Fund.  
 (2) The holding in Jersey Water will be held outside of the States of Jersey – Common Investment Fund.

## 7. OTHER FUNDS

7.1 The Other Funds' Investment Strategies are summarised in the table below. Full details of each Investment Strategy are available in Appendix 22.

<b>Funds</b>	<b>Equities %</b>	<b>Alternative Investments Class %</b>	<b>Bonds %</b>	<b>Cash %</b>	<b>Participating in Common Inv. Fund</b>
<u>Other Funds</u>	–	–	–	–	–
Confiscation Funds	–	–	–	100	No
Jersey Post Office Pension Fund	–	–	93	7	No

## 8. STATES OF JERSEY – COMMON INVESTMENT FUND

8.1 The States of Jersey – Common Investment Fund currently operates 8 Investment Pools (see Appendix for full details of each Investment Strategy for each pool). States Funds can participate in any of the pools in accordance with their Investment Strategies. The Investment Pools currently available are as follows –

- U.K. Equities Pool
- Global Equities Pools
- Emerging Market Equity Pool
- Global Passive Equity
- U.K. Corporate Bonds Pool
- Absolute Return Bond Pool
- Long-Term Government Bonds Pool (currently closed)
- U.K. Index-Linked Gilts Pool
- Long-Term Cash and Cash Equivalents Pool
- U.K. Pooled Property Pools
- Hedge Fund Pool.

8.2 It is anticipated that new pools will be created for Alternative Investment Asset classes. The main types of Alternative Investments are Commodities, Hedge Funds, Private Equity, Real Estate, Derivatives and Infrastructure investments. See Section 9 for further details about these types of Alternative Investments.

8.3 Over time, further Special and Trust and Bequest Funds may join and invest through the Fund, and Investment Strategies for these Funds will be added accordingly. Existing Investment Strategies will continue to be reviewed and revised on an ongoing basis to reflect any changes made.

## 9. TYPES OF ALTERNATIVE INVESTMENTS

9.1 Alternative Investments are an alternative asset class compared to “traditional” types of Investments which States' Funds can invest in. Examples of Traditional Investments are equities, bonds and cash and cash equivalents.

- 9.2 Factors to consider when investing in new alternative asset classes are Investment risk versus return; additional diversification of the Funds Investment to manage risk profile, and liquidity of the new asset class and the Fund's overall liquidity.
- 9.3 There are numerous types of alternative investments; however, the main types which some of the States' Funds could possibly invest in, in line with their investment strategies, could include the following examples –
- Commodities
  - Hedge Funds
  - Private Equity
  - Real Estate
  - Managed Funds
  - Derivatives
  - Infrastructure Investments.
- 9.4 Definitions for each of the above types of alternative assets are as follows.
- 9.5 Commodities – these are any inputs in the production of other goods or services (e.g. oil, gold, steel, intangible rights). It is believed that they can act as a hedge against unexpected inflation in the economy over a longer period of time (5 years). Commodities generally achieve higher expected returns than bonds.
- 9.6 Hedge Funds – these privately managed funds are allowed by regulators to invest in more investment types (stocks, bonds, commodities, currencies) through more tools than ordinary funds. Hedge Funds incorporate investment strategies aimed at securing positive returns on investments, regardless of the overall market performance. They can combine both long and short positions, use gearing, enter into high-concentration positions, invest in illiquid assets and trade derivatives.
- 9.7 There are opportunities to invest in Fund of Funds – this is where a Fund's primary activity is investing in other Hedge Funds. This can be a way of reducing the specific risk associated with investing with a single manager, and achieving greater diversification.
- 9.8 An allocation of Hedge Funds can be made through investing in one or a combination of the following –
- A multi-strategy Fund of Hedge Funds.
  - A single-strategy Fund of Hedge Funds
  - A single-manager Fund.
- 9.9 Private Equity – this involves providing capital to unquoted companies in return for a share of the company's profits. There are numerous sub-classifications of private equity, but they can be broadly classified as early stage venture capital; expansion/development capital; and management buy-outs/buy-ins.
- Capital can either be provided directly, or by investing in a private Equity Fund or Fund of Funds.

- 9.10 Typically, institutional investors will utilise the Fund of Funds approach, which tends to be a long-term investment with a substantial “lock-in” period.
- 9.11 Real Estate – Examples of Real Estate Investments (property) are land, office buildings, retail shopping centres, multi-family housing, and industrial warehouse properties. The most common type is income-producing real estate. Large income-producing real estate properties are commonly purchased by high net-worth individuals and institutions, such as life insurance companies, Real Estate Investment Trusts (REITs) and pension funds.
- 9.12 There are 2 main types of Real Estate Investment Trusts –
- Equity REITs – these invest mainly in actual real estate properties, such as office buildings, apartment complexes, warehouses and shopping centres. Equity REITs are usually not highly leveraged.
  - Mortgage REITs – these invest mainly in mortgages and construction loans for commercial properties, and tend to use leverage to a greater degree than equity REITs.
- 9.13 One of the main differences between investing in real estate, as compared to stocks or bonds, is that real estate is an investment in the “bricks and mortar” of a building and the land it is built upon, therefore it is highly tangible. Real estate is an asset class that offers protection against inflation, as well as potential tax benefits. However, lack of both liquidity and diversification are drawbacks to investing directly in real estate.
- 9.14 Managed Funds – these are like mutual funds (pooled funds) but are allowed long or short positions in commodity and currency futures contracts, and options in such contracts. There are 4 main types of Managed Funds – Unit Trusts, Group Investment Funds, Superannuation Funds and Insurance Bonds.
- 9.15 Derivatives – these are traded contracts (e.g. future contracts, convertible bonds or stocks) securities or financial instruments whose values derive from values of transitional investments (e.g. stocks or assets such as gold).
- 9.16 Infrastructure investments – This type of investment involves taking an ownership interest in an infrastructure business (commonly defined as providing an essential service to the community). Most infrastructure assets are either bought from a government, a private equity firm, or are part of a listed company that is sold off. This is a long-term investment option providing higher returns than the Long-Term Cash Pool, while generating positive externalities for the Island.
- 9.17 Infrastructure investments can be split into 2 main categories, Economic or Social, examples as follows

<b>ECONOMIC</b>		<b>SOCIAL</b>	
Transport	Utilities & Energy	Communications	
Toll roads			Schools
Bridges	Oil & gas pipelines	Cable network	Hospitals
Ferries/Ports	Electricity generation and transmission	Communication towers	Housing
Public transport	Water distribution and treatment	Select satellite systems	Courts
Airports			



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## OVERARCHING INVESTMENT POLICIES

### ETHICAL INVESTMENT STRATEGY

1. The Minister for Treasury and Resources is mindful of ethical issues and recognises the importance of acting in an ethically responsible manner when managing investments on behalf of the States of Jersey. In January 2011, the States Investment Adviser carried out a review into Ethical Investments for the States Funds.

#### **1.1 Fund Managers' Investment Decisions**

When making investment decisions, Fund Managers, for which the Minister is responsible, are required to give consideration to ethical risks in their assessment of a company's value, having regard to the information that is readily available at the time of the decision. The Minister intends for this to encourage investment in companies with good governance and responsible management.

#### **1.2 Corporate Governance**

All Fund Managers are required to follow the Institutional Shareholders' Committee's Statement of Principles (ISCSP) in respect of the corporate governance of companies in which shares are owned. In particular, fund managers are required to –

- discharge the States voting rights; and
- when appropriate, engage with company management whilst having reasonable regard, where relevant, to the ethically positive and negative contributions as set out below.

- 1.3 In seeking to identify companies that make a positive ethical contribution, the Minister pays particular attention to their record in the following areas –

- Conservation of energy or natural resources;
- Environmental improvements and pollution control;
- Providing high-quality products and services that are of long-term use;
- Strong community involvement;
- Good employee practices and equal opportunities record;
- Training and education;
- Good relations with customers and suppliers; and
- Openness about company activities.

- 1.4 In seeking to identify companies that may have an ethically negative impact, the Minister pays particular attention to activities that are counter to the States' laws and policies, such as –

- Environmental damage and pollution;
- Unnecessary exploitation of animals;
- Trade with or operations in oppressive regimes;
- Exploitation of third-world countries;
- Sale and distribution of weapons to terrorists or oppressive regimes; and
- Offensive or misleading advertising.

**GOVERNANCE ARRANGEMENTS** (*relates to all except Pension Funds*)

2. The Minister and the Treasurer may invest money and do so through the Treasury Advisory Panel (formerly the Treasury Investments Sub-Committee). The Minister determines the Treasury Advisory Panel's membership, which includes the Assistant Minister for Treasury and Resources. The Treasury Advisory Panel makes recommendations to the Minister.
- 2.1 Terms of reference for the Treasury Advisory Panel are as follows –
- Investment Strategy development and review of movements within the acceptable bands;
  - Appointment and removal of managers' advisers;
  - Establish benchmarks;
  - Monitor performance against benchmarks;
  - Regularly meets with investment managers for performance updates; and
  - Foreign exchange management.
- 2.2 The Minister and the Treasury Advisory Panel are able to appoint appropriately experienced and qualified advisers and managers to assist in developing and administering the approved strategies.
- 2.3 The States' Independent Investment Adviser is consulted on major events, and decisions taken documented in the minutes of the Treasury Advisory Panel. The Treasurer is responsible for implementing decisions.
- 2.4 Investment Advice**  
In setting and reviewing his investment strategies, the Minister consults with independent professional investment advisers and guidance from appropriately qualified and experienced persons.
- 2.5 Appointment of Fund managers**  
Where appropriate independent Investment Managers are appointed to manage the various assets of the Funds, these Managers are appointed by the Minister/ Treasurer on the recommendation of the Treasury Advisory Panel, following a rigorous selection process and after receiving and fully considering independent advice. Their terms and conditions of appointment are set by the Treasurer and endorsed by the Minister for Treasury and Resources.
- 2.6 Performance monitoring**  
The appointment of advisers and managers, and their performance, is regularly assessed by the Treasury Advisory Panel.
- 2.7 The States' Investment Adviser provides appropriate advice to the Minister, the Treasury Advisory Panel and Treasurer through written reports and attendance at meetings, as well as through the provision of *ad hoc* reports when circumstances dictate.
- 2.8 The States' Financial Report and Accounts have been presented by the Minister to the States, including details of the various States Funds.

**2.9 Performance management**

As a part of the operational management of these Funds; individual performance targets are set for investment managers in line with the Funds specific strategies. The performance targets are set using key indices like FTSE.

2.10 Actual performance is regularly monitored against target by the Treasury Advisory Panel. Investment managers are subject to challenge by the Treasury Advisory Panel; who require explanations of any shortfalls against target, together with Investment Managers' plans to return to target.

2.11 Where the Treasury Advisory Panel believes a manager is performing consistently below expectation, it recommends to the Minister that a replacement manager is sought.

**2.12 Reporting**

The Minister will report on the performance of the States' main Funds in the Annual Accounts, and once during the year as at the 6 months to June.

**2.13 Independent Custodians**

In order to safeguard States interests and assets and to mitigate risks, independent custodians are appointed to provide safekeeping for all assets, except direct property and policies of assurance, directly invested by the investment managers.

**2.14 Operational movements from Strategy**

At times it may be necessary for Funds to move away from the strategic allocation detailed within their Investment Strategy, for operational reasons. An example of this would be the removal of an investment manager who has been downgraded by the Investment Adviser, necessitating the liquidation of that manager's assets with little notice. In this case, assets would be held in existing asset classes on a temporary basis until a new manager can be appointed.

2.15 These movements will not be deemed a breach of Strategy, but a timetable for replacement of the manager in order to facilitate movement back to within strategic ranges must be tabled with the Treasury Advisory Panel as soon as is administratively feasible.

**STATES OF JERSEY MAJOR FUNDS**

**STRATEGIC RESERVE FUND INVESTMENT STRATEGY**

**1. Purpose of the Fund**

- 1.1 On 5th December 2006, the States approved P.133/2006 and thereby confirmed the policy for the Strategic Reserve as –
- 1.2 *“the Strategic Reserve is a permanent reserve, where the capital value is to be used in exceptional circumstances to insulate the Island’s economy from severe structural decline such as the sudden collapse of a major Island industry or from major natural disaster.”*
- 1.3 The States approved P.122/2013: this proposition defined the Fund balance of £651,216,000 as at 31st December 2012 as the capital value of the Fund and that, for future years, the capital value be maintained in real terms by increasing the capital value in line with increases in Jersey RPI(Y).
- 1.4 The States had also previously approved P.84/2009, which proposed that the policy is varied to enable the Strategic Reserve to be used, if necessary, for the purposes of providing funding up to £100 million for a Bank Depositors Compensation Scheme.
- 1.5 The States approved P.76/2015, which proposed that the Minister for Treasury and Resources is requested to bring forward proposals for the use of income earned on the Strategic Reserve above that required to maintain the capital value.
- 1.6 The clarification of the purpose of the Fund by the States enables greater emphasis to be given to increasing the longer-term value of the Fund rather than the need to generate annual income. This has enabled an increase in the proportion of the Fund being allocated to return-seeking assets from previous levels, but considerable emphasis still needs to be given to capital preservation and liquidity.

**2. Strategy**

- 2.1 In order to meet the purpose of this Fund, the Minister has set a strategic aim of investing 60% in return-seeking assets (equities and alternative investment class) and 40% in risk-reducing assets, as detailed below –

	<b>Strategic Aim</b>	<b>Range</b>
	<b>%</b>	<b>%</b>
Equities	50	40–60
Bonds	40	25–45
Cash	–	0–10
Alternative Investments Class	10	0–25

2.2 Alternative assets may include allocations to the Property or Hedge Funds. Due to the reduced liquidity of these asset classes short-term movements away from strategic allocations are permissible either due to market movements or transitionally as positions are built. In these cases assets may be held in other existing asset classes.

2.3 The Strategic Reserve is under strategic review, an allocation of £100 million to hedge funds has been recommended by the Treasury Advisory Panel as a transitional measure to meet the desired objective of reducing exposure to equity, while maintaining allocations to growth assets. This will increase allocation to alternatives above 10%, but all other asset classes are expected to remain in line with the existing strategic ranges of the Fund.

### **3. Investment Structure**

3.1 The Fund can carry out its investments through the Common Investment Fund.

### **4. Investment in Jersey**

4.1 Investment is not generally made in Jersey, or in Jersey-quoted companies. This is to ensure that as far as possible, the assets are diversified away from the effects of the Jersey economy.

### **5. Controlling Interest**

5.1 The States of Jersey will not acquire shareholdings greater than 3% of the issued share capital in U.K. companies.

## **STABILISATION FUND INVESTMENT STRATEGY**

### **1. Purpose of the Fund**

1.1 The purpose of this Fund is 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. The Fund receives cash allocations in more buoyant economic conditions and makes payments at times of anticipated economic downturn.

1.2 At least until the Stabilisation Fund has been built up to a much higher level it needs to be –

- highly liquid;
- held in assets which will not lose value if a quick sale is required; and
- available at times of an economic downturn.

### **2. Strategy**

2.1 In order to meet the purpose of this Fund, the long-term aim of the Fund is to invest within the parameters indicated below –

	<b>Strategic Aim</b> %	<b>Range</b> %
Cash and cash equivalents	20	18–22
Government bonds (indexed or conventional)	50	45–55
Corporate bonds (indexed or conventional)	30	27–33

2.2 It is intended to use the remainder of the Fund’s balance in the short term, therefore the strategy for the Fund is to hold monies in cash and cash equivalents.

2.3 The cash holdings in this Fund are subject to the same restrictions placed on the cash in the Consolidated Fund (please see section 3).

### **3. Investment Structure – States of Jersey – Common Investment Fund**

3.1 The Fund can carry out its investments through the Common Investment Fund.

## **SOCIAL SECURITY (RESERVE) FUND INVESTMENT STRATEGY**

### **1. Purpose of the Fund**

1.1 The Social Security (Reserve) Fund (the “Reserve Fund”) is both the mechanism by which contribution rates and ceiling changes which fund pension and benefit costs of the Social Security Fund are smoothed over time, and effectively act as a buffer to contribute towards the rising burden of pension costs as the Island faces up to the pressures arising from an ageing population. The Minister for Treasury and Resources is responsible for the investment of the Fund’s assets. The Minister for Social Security has responsibility for the development of a strategy to deal with meeting future pension provisions for eligible Islanders.

1.2 The number of persons in receipt of a State pension as a percentage of the working population is expected to increase over time. The purpose of this Fund is to build up a reserve for the future provision of pension benefits for those currently in employment, so as to reduce the impact of pensions on future generations, as well as to smooth contributions for social security benefits over time.

1.3 Long-term growth is one of the main aims for the Social Security (Reserve) Fund, and therefore any income generated is reinvested back into the Fund. It is expected that there will be no requirement to draw on the assets of the Fund in the near term, and during this period there will continue to be net cash inflows to the Fund.

## 2. Strategy

- 2.1 In order to ensure that the Fund can work towards its objective of longer-term growth, its strategy is to place a high proportion of its assets in return-seeking investments.
- 2.2 The longer-term strategic aim for the Fund is to invest within the parameters indicated below –

<b>Asset Class</b>	<b>Strategic Aim %</b>	<b>Range %</b>
Equities	68	58–78
Bonds	10	8–12
Cash	2	0–4
Alternative Investments Class	20	15–25

- 2.3 As the Reserve Fund is subject to 3-yearly actuarial reviews, the outcomes may result in a need to redefine the Fund's investment strategy. All strategy revisions will be brought to the attention of the States.
- 2.4 Alternative assets may include allocations to the Property Pool or Hedge Fund Pool. Due to the reduced liquidity of these asset classes, short-term movements away from strategic allocations are permissible, either due to market movements or transitionally as positions are built. In these cases, assets may be held in other existing asset classes.

## 3. Investment in Jersey

- 3.1 Investments are not made in Jersey, except where a Jersey company is part of an established index. This is to ensure that, as far as possible, the assets are diversified away from the effects of Jersey's economy.

### **HEALTH INSURANCE FUND INVESTMENT STRATEGY**

#### 1. Purpose of the Fund

- 1.1 The Health Insurance Fund is established under the Health Insurance (Jersey) Law 1967. The Fund receives allocations from Social Security Contributions, as specified under Article 30 of the Social Security (Jersey) Law 1974 for the use of paying all claims for money benefit (G.P. subsidy) and pharmaceutical benefit. The Minister for Social Security has responsibility for the control and management of the Fund.
- 1.2 The Minister for Treasury and Resources is responsible for the investment of the Fund's assets. The Minister for Treasury and Resources may, after consultation with the Minister for Social Security, appoint one or more investment managers for the Fund.



## 2. Strategy

- 2.1 In order to meet the Fund's purpose, the strategy set is a mix between capital growth and income distribution. The Minister has set a strategic aim of investing 40% in return-seeking assets (equities) to produce long-term returns, with the remainder, 60%, in risk-reducing assets to provide some stability and in the case of corporate bonds, income returns.
- 2.2 The longer-term strategic aim for the Fund is to invest within the parameters indicated below –

<b>Asset Class</b>	<b>Strategic Aim %</b>	<b>Range %</b>
Equities	40	37–43
Bonds	45	40–50
Cash	15	13–17

- 2.3 The ranges indicate tolerable variations according to investment conditions at any time.

## 3. Investment Structure

- 3.1 The Fund can carry out its investments through the Common Investment Fund.

### **CONSOLIDATED FUND INVESTMENT STRATEGY**

#### 1. Purpose of the Fund

- 1.1 The Consolidated Fund is established under the Public Finances (Jersey) Law 2005 and effectively represents the States' current account were it a household. Income from taxation, duties, chargeable services, fees and fines are paid in, and expenditure approved by the States Assembly, on employees' salaries, equipment, supplies, services and capital projects, etc. are paid out from the Consolidated Fund.
- 1.2 The investment strategy of the Fund is split between the assets expected to be called upon in the short term, the 'operational portfolio' and assets which can be invested on a longer-term basis, the 'long-term portfolio'.

#### **Strategy**

#### 2. Investment Structure

- 2.1 The Fund can carry out its investments through the Common Investment Fund.

### Operational Portfolio

- 2.2 Liquidity and security is the primary concern for the operational portfolio, monies which are expected to be called upon in the immediate future to fund day-to-day expenditure will be maintained in accounts outside the CIF which can deal daily. Assets expected to be called upon in the short term, but are unlikely to be required to fund monthly expenditure, may be invested in the Long-Term Cash Pool of the CIF in order to earn a superior return.
- 2.3 The Fund's holdings which are expected to be required for daily cash-flow transactions will be held outside the CIF with an investment manager who specialises in investing in cash and near-cash equivalent investments. The investment manager should operate within the following allocation limits –

Asset Class	Maximum Maturity	Maximum Allocation %
Call & Overnight Deposits	One Day	100
Certificates of Deposit	2 Years	100
Fixed Deposits	3 Months	25
Commercial Paper	3 Months	25
Floating-Rate Notes	5 Years	25

- 2.4 The investment manager responsible for the Consolidated Fund's cash holdings is limited to holding no more than 10% of the overall States portfolio with any one financial institution. Deposits can only be made with institutions which fall into the following categories –
- 2.5 The Treasurer may allow deposits to be placed with institutions outside the minimum industry ratings described above in cases where the Treasurer has agreed a specific exemption and deems the overall chance of default not to be significantly increased.
- 2.6 The cash manager is not permitted to hold derivatives or off-balance sheet vehicles.

### Long-Term Portfolio

- 2.7 The long-term portfolio is not expected to be called upon to fund operational requirements in the short term, and follows a balanced strategy. This strategy seeks to generate a real return, but within strict risk limits in order to protect the capital value of the portfolio.
- 2.8 The strategy for this portfolio has a longer-term investment horizon than the operational portfolio, allowing for the investment in growth and income-producing assets. Relative to the operational portfolio, the asset allocation includes assets which may be more volatile in the short run, but are expected to generate greater returns in the long run. The strategy offers a balance of returns from both income and growth, but with a bias towards the latter, with the allocation to bonds serving to achieve the Fund's capital preservation objective.

In addition, the balanced approach reduces the concentration risk of being overly exposed to any single asset class.

	<b>Strategic Aim</b>	<b>Range</b>
	%	%
<u>Stock market assets</u>		
Equities	45	40–55
Bonds	45	40–55
<u>Non Stock market assets</u>		
Alternative Investments Class	10	n/a

- 2.9 The ranges for stock market assets only indicate tolerable variations according to investment conditions at any time. Due to the practicalities of Alternative Investments, it is not appropriate to manage these within a small control range.
- 2.10 As the financial environment changes, the composition of the Fund's investments will change to reflect a move towards the strategic aim of the Fund.
- 2.11 The Alternative Investment class currently includes only Property Pools; until the full anticipated range of alternative pools are operational, monies allocated to alternatives, not invested in the Property Pools, will be invested in existing asset classes.

#### **2.12 Controlling Interest**

The States of Jersey will not acquire shareholdings greater than 3% of the issued share capital in U.K. companies.

### **CURRENCY NOTES AND COINS FUNDS INVESTMENT STRATEGIES**

#### **1. Purpose of the Fund**

- 1.2 The States' Currency and Coinage Funds are provided for under the Public Finances (Jersey) Law 2005 and the Currency Notes (Jersey) Law 1959. The principal purpose of these Funds is to hold assets that match the value of Jersey currency in circulation, such that the holder of Jersey currency could on request be repaid.

#### **2. Strategy**

- 2.1 In order to meet the purpose of the Funds, the strategy is based mainly on the requirement to invest in low-risk cash-based assets to protect and maintain the capital value of the investments, and to ensure that currency and coinage in circulation is matched and that investments could be liquidated fairly quickly should a need arise.
- 2.2 In order to maximise the potential return to the Funds, a relatively small element of the Fund should be held in Equities and Short-Term Government Bonds.

- 2.3 Operational cash represents the maximum expected short-term fluctuation in the currency in circulation which may be called upon by the banks, and therefore is not deemed to be available for investment purposes.
- 2.4 The long-term strategic aims of the Funds, for the investable balance (i.e. non-operating stock of cash), are to invest in the parameters indicated below. In addition, a further cash buffer is held to provide against volatility of currency in circulation –

<b>Asset Class</b>	<b>Strategic Aim %</b>	<b>Range %</b>
Equities	20	18–22
Bonds	10	9–11
Cash	10	9–11
<u>Non-Stock Market Assets</u>		
Alternative Investments Class	60	n/a

- 2.5 The ranges for stock market assets only indicate tolerable variations according to investment conditions at any time. Due to the practicalities of Alternative Investments, it is not appropriate to manage these within a small control range.
- 2.6 The Fund will invest in Jersey Infrastructure Investments as a part of its Alternative Asset Class, using various instruments to carry out the investment. It is further anticipated that these investments provide returns in excess of cash, be a viable investment option and offer investment diversification.

### **3. Investment Structure**

- 3.1 The Currency Notes and Coinage Funds can carry out their investments through the Common Investment Fund.

## **HOUSING DEVELOPMENT FUND INVESTMENT STRATEGIES**

### **1. Purpose of the Fund**

- 1.1 On 22nd June 1999, the States approved P.84/1999 and creating the Housing Development Fund in order to –

*“help meet the requirements for the development of social rented and first-time buyer homes as identified in the Planning for Homes Report.”*

On 16th May 2013, P.33/2013 enabled the Housing Department to become incorporated into a wholly States-owned Housing Company. The key objective of the Housing Company is construction of new housing and completion of improvement works to ensure that the housing stock meets the requirements of the Decent Homes Standard within 10 years.

In June 2014, the States of Jersey leveraged its strong balance sheet to issue a £250 million bond with a 40-year maturity, at superior low rates of interest relative to borrowing which could be achieved by the Housing Company.

The proceeds of the Bond issuance are to be placed in the Housing Development Fund and loaned to the Housing Company to fund construction and improvement works, in line with the defined purpose of the Fund.

The drawdowns and repayments shall be made in accordance with underlying loan agreements in accordance with the construction/renovation timetable of the Housing Company. The Housing Company will also pay interest on the loans into the Fund in accordance with the loan agreements. The Housing Company will fund required capital repayments and interest from returns generated from on the new and refurbished properties that the loan will fund.

## **2. Strategy**

- 2.1 The Investment Strategy of Housing Development Fund is subject to a rolling quarterly re-assessment process, in line with the recommendations of the States of Jersey Investment Adviser, as published on page 99 of the Draft Budget Statement 2015. Consequently, under advice from the States of Jersey Investment Adviser, the Fund is permitted to periodically crystallise gains made on asset classes, or make strategic allocations which can result in short-term movements away from published strategy.
- 2.2 The strategy of the Fund seeks to protect the capital value of the Fund, which will be required to repay the issued bond on maturity. The Fund will also seek to generate sufficient returns, taking into account receipt of interest from the loans to the Housing Company, to meet Bond Coupon payments.
- 2.3 Reflecting the planned rapid drawdown of the Fund's assets to make planned loans to the Housing Company, a necessary fluidity to the investment strategy is necessary to react to liquidity requirements and market conditions. Unlike longer-term funds, the Housing Development Fund is granted the ability to move away from its strategic aims under advice of the Treasury Advisory Panel or Investment Adviser. In accordance with these conditions, a strategic range is not included, as the Fund will be reviewed at the quarterly meeting of the Treasury Advisory Panel rather than automatically rebalanced.
- 2.4 The Fund's strategic aims are detailed below; though as highlighted above, the rapid drawdown to fund planned loans to the Housing Company means that asset allocations cannot be rigidly applied and rebalanced. The allocations are therefore a conceptual aim for the average Fund balance over the drawdown period; actual positioning will be reviewed quarterly.

	<b>Strategic Aim</b>
	<b>%</b>
Cash	50
Absolute Return Bonds	25
Alternatives	25

- 2.5 Property and Hedge Funds are considered part of the alternative asset class. These classes may suffer from liquidity constraints which prevent immediate rebalancing and movement to the strategic range. Consequently, short-term allocations to this class may fall outside the prescribed range, as positions are built or sold down. In cases where positions are being built, allocations to this class will be held in existing asset classes until they can be fully allocated.

### **3. Investment Structure**

- 3.1 The Fund can carry out its investments through the Common Investment Fund.

### **4. Investment in Jersey**

- 4.1 Investment is not generally made in Jersey, or in Jersey-quoted companies. This is to ensure that as far as possible, the assets are diversified away from the effects of the Jersey economy.

### **5. Controlling Interest**

- 5.1 The States of Jersey will not acquire shareholdings greater than 3% of the issued share capital in U.K. companies.

## **PENSION FUNDS AND THEIR INVESTMENT STRATEGIES**

### **1. Background**

- 1.1 The Minister for Treasury and Resources approves strategy based on recommendations from the relevant Board or Committee of Management responsible for the individual pension fund. In approving the relevant Investment Strategy, the Minister takes appropriate investment advice from the States Investment Adviser.

### **2. Governance arrangements**

#### **2.1 Investment Advice**

- 2.1.1 The Management Committee/Board responsible for these Funds takes independent professional investment advice and guidance from appropriately qualified and experienced persons on the strategy to be followed.

#### **2.2 Appointment of Fund managers**

- 2.2.1 Independent Investment Managers are appointed to manage the various assets of the pension funds. These Managers are appointed by the Committee/Board following a selection process and after receiving independent advice and guidance. The appointment of managers needs ratification from the Minister for Treasury and Resources.

#### **2.3 Performance monitoring**

- 2.3.1 As with those funds which fall under the Minister's direct responsibility, the appointment of advisers and managers and their performance for pension funds is regularly assessed by individual Investment Sub-Committees, set up by the Pension Funds Management Committee/Board.

#### **2.4 Independent Custodians**

- 2.4.1 In order to safeguard the Pension Funds' interests and assets and to mitigate risks, independent custodians are appointed to provide safekeeping for all those assets which are directly invested by the investment managers.

### **3. Public Employees Contributory Retirement Scheme (PECRS)**

#### **3.1 Purpose of the Fund**

- 3.1.1 The Public Employees Contributory Retirement Scheme (PECRS) is the States' pension scheme set up to meet retirement benefits of all contributing public sector employees (excluding teachers) over 20 years of age.
- 3.1.2 Investment issues are considered by the Scheme's Investment Sub-Committee under advice from an Independent Investment Adviser, and recommendations are made to the Committee of Management for endorsement and/or referral to the Minister for Treasury and Resources as appropriate.

## 3.2 Strategy

3.2.1 The aim of the investment strategy is to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided.

3.2.2 The current strategy followed is –

Asset Class	Strategic Aim %	Range %
<i>Growth Investments</i>		
Equities	35	25–35
Alternatives	20	10–30
<i>Bond-like Investments</i>		
Property	10	5–15
Bonds	20	10–30
Cash and Cash Equivalents	–	0–10
Debt	15	10–20

3.2.4 Any requirement for rebalancing between the asset classes is reviewed on a quarterly basis with advice from the Scheme’s Investment Adviser.

3.2.5 The States has recognised responsibility for the pre-1987 Debt for PE CRS, which it has agreed to repay over an 82-year period. This represents approximately 15% of PE CRS’ total assets (referred to as “Debt” in the table above), and these payments can be regarded like a salary-related index-linked gilt issued by the States.

## 4. Jersey Teachers’ Superannuation Fund (JTSF)

### 4.1 Purpose of the Fund

4.1.1 Membership of the Jersey Teachers’ Superannuation Fund (JTSF) is compulsory for all teachers in full-time employment, and optional for those who work part-time.

4.1.2 The Fund receives pension contributions from working teaching staff and also from the Education, Sport and Culture Department.

### 4.2 Strategy

4.2.1 The strategy for the Fund is based on the Board’s aim to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided.

4.2.2 The long-term strategy is to hold one-third of the assets in risk-reducing categories (e.g. bonds and property) and two-thirds in return-seeking assets (e.g. equities). Tactical moves diverging away from this strategic distribution may occur according to prevailing market conditions and prospective returns from each asset class.



4.2.3 The table below illustrates the long-term asset allocation strategy –

	<b>Strategic Aim</b> %	<b>Range</b> %
Equities	50	45–55
Property	20	0–22
Bonds/Cash	10	5–15
Alternatives	20	10–25

4.2.4 The above strategy is applied to the assets which are currently invested in the JTSF and does not take account of the future contributions which will be received to cover increases to pensions in payments which have been recently added to the scheme liabilities. The current Investment Strategy therefore contains a higher level of return-seeking assets than may otherwise be the case.

4.2.5 Any rebalancing between the asset classes is carried out on a quarterly basis on advice from the Scheme's Investment Adviser.

### **4.3 Investment Structure**

4.3.1 The JTSF can carry out their investments through the Common Investment Fund.

## **SPECIAL FUNDS**

### **Purpose of the Funds**

The States has a number of Special funds set up for specific purposes. Funds falling into this category include the Tourism Development Fund, Channel Islands Lottery (Jersey) Fund and the Dwelling-Houses Loan Fund.

### **TOURISM DEVELOPMENT FUND (TDF) INVESTMENT STRATEGY**

#### **1. Introduction**

- 1.1 This strategy document is presented in accordance with the terms of the Public Finances (Jersey) Law 2005 (Article 6) (“the Finance Law”) and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (Regulation 4), which require that the Minister for Treasury and Resources presents his investment strategies for States Funds.
- 1.2 Under the Public Finances (Transitional Provisions) (No. 1) (Jersey) Regulations 2005 (Regulation 9), the Tourism Development Fund (TDF) is given Special Fund status.
- 1.3 The strategy set by the Minister pays particular regard to the need for diversification in both the management of the money available and the level of funds to be invested.
- 1.4 The Treasurer of the States is responsible for ensuring that the States’ investments are properly managed, controlled and accounted for in accordance with the relevant investment strategies.
- 1.5 This document provides details on –
  - Investment Strategy for the Fund
  - States of Jersey – Common Investment Fund.
- 1.6 The strategy reflects the Minister’s long-term investment aim for this Fund, with the intention to move towards the Fund’s strategic aim as investment opportunities and market conditions allow. Initially, until the Common Investment Fund is established, it is anticipated that assets will continue to be invested in the Consolidated Fund in the form of cash balances and short-term instruments, such as Certificates of Deposits.
- 1.7 The report includes information on matters solely relating to this Fund’s strategy. This information is for this specific purpose only, and should not be used for any other purpose.

## **2. Tourism Development Fund**

### **2.1 Purpose of the Fund**

2.2 The Tourism Development Fund (TDF) was established by proposition P.170/2001, lodged *au Greffe* by the former Tourism Committee (now the Minister for Economic Development), entitled – “Investing in Tourism’s future”. This proposition was adopted by the States on 18th December 2001.

2.3 The purpose of the proposition was for the TDF to replace the old Tourism Investment Fund (TIF), and for the States to agree a principal £10 million to be deposited into the Fund over a 5-year period. In 2003, £1.2 million was transferred into the Fund, and in 2006 a further £1 million; however, since then no further monies have been deposited into the Fund. The aim and objectives of the Fund are as follows.

2.4 *Aim – “to stimulate investment in tourism infrastructure in order to improve Jersey’s competitiveness and sustain a flourishing tourism industry as a second pillar of the economy.”*

2.5 *Fund’s objectives – “(1) improve quality of visitor experience; (2) enhance distinctiveness and environmental quality; (3) improve cost-efficiency and focused use of resources; and (4) secure implementation of the tourism strategy.”*

2.6 The Economic Development Department is responsible for the administration of the Fund. The Department is also responsible for the assessment of all initial project proposals before they are submitted to the Tourism Development Fund Panel (Advisory Panel).

2.7 The Advisory Panel comprises 9 members from the private sector and senior officers from the Economic Development Department. The Advisory Panel usually meets 4 times a year.

2.8 Grants are awarded by the Tourism Development Fund Panel; where an application exceeds £0.5 million, this is referred to the Minister for Treasury and Resources for prior approval.

### **2.9 Investment Strategy**

2.10 In order to meet the Fund’s purpose the investment strategy set is to maintain the monetary value of the Fund, excluding investment income, to provide a high level of security and a good level of liquidity to finance projects as required.

2.11 It is recommended that the annual cash requirement for Tourism projects is forecast, and that any surplus cash balances not required in the current year be invested into short-dated gilts to maximise the investment returns for the Fund.

2.12 The longer-term strategy for the Fund is to hold assets in cash and cash equivalents. Therefore the Minister has set a strategic aim of investing all monies in risk-reducing assets, as detailed below –

	<b>Strategic Aim</b> %	<b>Range</b> %
Government Bonds	–	0–70
Cash	100	0–100

2.13 The intention is that this Fund, apart from any monies required as a working balance, will be able to participate in the Common Investment Fund, as explained in Section 3 of this Appendix. Initially, assets will be held in the Consolidated Fund in the form of cash balances and short-term instruments, such as Certificates of Deposits.

2.14 The cash holdings invested in the Consolidated Fund are subject to the following restrictions.

### **2.15 Investment Manager Allocation Limits**

2.16 Investment is made in cash deposits, certificates of deposits and limited amounts of commercial paper and floating-rate notes. The investment manager operates within the following allocation limits –

<b>Asset Class</b>	<b>Maximum Maturity</b>	<b>Maximum Allocation</b> %
Call & Overnight Deposits	One Day	100
Certificates of Deposit	2 Years	100
Fixed Deposits	3 Months	25
Commercial Paper	3 Months	25
Floating-Rate Notes	5 Years	25

2.17 No more than 25% of the portfolio can exceed one year to maturity.

2.18 Deposits, held by Investment Cash Managers, can only be made with institutions which fall into the following categories –

<b>Deposit term</b>	<b>Minimum Industry Rating</b>
Short-term deposit (up to 12 months)	Standard & Poor's A1 and Moody's P1
Longer-term deposit (over 12 months)	Standard & Poor's AA and Moody's Aa3

2.19 Where deposits are held directly with banks, a minimum AA rating Standard & Poor's (or Aa3 Moody's) is required.

2.20 The Treasurer may allow deposits to be placed with institutions outside the minimum industry ratings described above, in cases where the Treasurer has agreed a specific exemption and deems the overall chance of default not to be significantly increased.

2.21 No off-balance sheet vehicles are permitted.

### **3. Investment Structure**

- 3.1 The Fund's assets are invested with a single investment manager, who specialises in investing in cash and near-cash equivalent investments as a temporary measure until it invests in the States of Jersey – Common Investment Fund.

## **CHANNEL ISLANDS LOTTERY (JERSEY) FUND INVESTMENT STRATEGY**

### **1. Introduction**

- 1.1 This strategy document is presented in accordance with the terms of the Public Finances (Jersey) Law 2005 (Article 6), and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (Regulation 4), which require that the Minister for Treasury and Resources presents his investment strategies for States Funds.
- 1.2 The strategy set by the Minister pays particular regard to the need for diversification in both the management of the money available and the level of funds to be invested.
- 1.3 The Treasurer of the States is responsible for ensuring that the States' investments are properly managed, controlled and accounted for in accordance with the relevant investment strategies.
- 1.4 This document provides details on –
- Investment Strategy for the Fund
  - States of Jersey – Common Investment Fund.
- 1.5 The strategy reflects the Minister's long-term investment aim for this Fund with the intention to move towards the Fund's strategic aim as investment opportunities and market conditions allow. Initially, until the Common Investment Fund is established, it is anticipated that assets will continue to be invested in the Consolidated Fund in the form of cash balances and short-term instruments, such as Certificates of Deposits.
- 1.6 The report includes information on matters solely relating to this Fund's strategy. This information is for this specific purpose only and should not be used for any other purpose.

### **2. Channel Islands Lottery (Jersey) Fund**

#### **2.1 Purpose of the Fund**

- 2.2 The Channel Islands Lottery is one of the longest-running small lotteries in the world. It began in Jersey in the mid-1960s and raised millions of pounds for the development of Fort Regent. In 1975, Jersey and Guernsey joined together to form the Channel Islands Lottery, and have been successful in raising money for sport, leisure and recreation in the Islands, and supporting the Association

of Jersey Charities which is made up of approximately 245 charities (February 2010).

- 2.3 Under the Gambling (Jersey) Law 1964 (Article 3), the Gambling (Channel Islands Lottery) (Jersey) Regulations 1975 were made, setting out the Fund's constitution, operations and administration provisions.
- 2.4 The promotion of the lottery is carried out by the Minister for Economic Development jointly with the Guernsey Committee ("States of Guernsey Gambling Control Committee").
- 2.5 In Jersey the Public Lotteries Board has been set up for the purpose of advising and assisting the Minister for Economic Development in all matters concerning the promotion and conduct in Jersey of the Channel Islands Lottery. The Board holds office for 5 years and consist of a Chairman and not less than 6 other persons who have integrity and are ordinary residents in Jersey.
- 2.6 The Fund is administered by the Treasurer of the States of Jersey.
- 2.7 The Minister for Economic Development has powers to set aside reserves to exercise his or her functions under the Regulations. In 2009, proposition P.155/2009 was approved by the States to retain 10% of the 2009/10 profits in order to boost the Fund's reserves as a contingency measure, prior to distributing the Lottery's profit.
- 2.8 Under P.123/2011, in the 2012 Business Plan it summarises that once the Channel Islands Lottery activities are expanded, it is the intention that in addition to supporting the Association of Jersey Charities, the Fund will also provide support to the Jersey Heritage Trust from 2013.
- 2.9 Currently there is some debate around the future of the Lottery if Islanders start playing the U.K. Lottery in Jersey. This situation remains under review, pending resolution of legal difficulties.

## **2.10 Investment Strategy**

- 2.11 During the year, monthly trading cash receipts from sales of tickets after deduction of prize monies continue to grow. Historically, by December the Fund holds substantial cash balances due to compounding monthly ticket net inflows and large ticket sales from the Christmas Charity Draw.
- 2.12 Each year in March/April, a substantial payment is made to the Association of Jersey Charities, which coincides with the presentation of the previous year's annual accounts to the States.
- 2.13 In order to meet the Fund's purpose, the investment strategy's emphasis is on security, maintenance of capital value, flexibility and a very high level of liquidity rather than on investment growth.

- 2.14 The long-term investment strategy is to hold all assets in cash and short-term instruments, such as Certificates of Deposits. As many of the significant cash-flows occur annually, some of the cash may be invested on a longer-term basis (i.e. greater than 3 months).
- 2.15 The intention is that this Fund, apart from any cash balances required as working balances, will be able to participate in the Common Investment Fund, as explained in Section 3 of this Appendix. Initially, assets will be held in the Consolidated Fund in the form of cash balances and short-term instruments, such as Certificates of Deposits.
- 2.16 The cash holdings invested in the Consolidated Fund are subject to the following restrictions –

**2.17 Investment Manager Allocation Limits**

- 2.18 Investment is made in cash deposits, certificates of deposits and limited amounts of commercial paper and floating-rate notes. The investment manager operates within the following allocation limits –

<b>Asset Class</b>	<b>Maximum Maturity</b>	<b>Maximum Allocation %</b>
Call & Overnight Deposits	One Day	100
Certificates of Deposit	2 Years	100
Fixed Deposits	3 Months	25
Commercial Paper	3 Months	25
Floating-Rate Notes	5 Years	25

- 2.19 No more than 25% of the portfolio can exceed one year to maturity.
- 2.20 Deposits held by Investment Cash Managers can only be made with institutions which fall into the following categories –

<b>Deposit term</b>	<b>Minimum Industry Rating</b>
Short-term deposit (up to 12 months)	Standard & Poor's A1 and Moody's P1
Longer-term deposit (over 12 months)	Standard & Poor's AA and Moody's Aa3

- 2.21 Where deposits are held directly with banks, a minimum AA rating Standard & Poor's (or Aa3 Moody's) is required.
- 2.22 The Treasurer may allow deposits to be placed with institutions outside the minimum industry ratings described above, in cases where the Treasurer has agreed a specific exemption and deems the overall chance of default not to be significantly increased.
- 2.23 No off-balance sheet vehicles are permitted.

### **3. Investment Structure**

- 3.1 The Fund can carry out its longer-term investments through the Common Investment Fund.
- 3.2 Each year in March/April, monies will need to be available to meet the annual large payment made to the Association of Jersey Charities.

## **DWELLING-HOUSES LOAN FUND INVESTMENT STRATEGY**

### **1. Introduction**

- 1.1 This strategy document is presented in accordance with the terms of the Public Finances (Jersey) Law 2005 (Article 6), and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (Regulation 4), which require that the Minister for Treasury and Resources presents his investment strategies for States Funds.
- 1.2 The strategy set by the Minister pays particular regard to the need for diversification in both the management of the money available and the level of funds to be invested.
- 1.3 The Treasurer of the States is responsible for ensuring that the States' investments are properly managed, controlled and accounted for in accordance with the relevant investment strategies.
- 1.4 This document provides details on –
  - Investment strategy for the Fund
  - States of Jersey – Common Investment Fund.
- 1.5 The strategy reflects the Minister's long-term investment aim for this Fund, with the intention to move towards the Fund's strategic aim as investment opportunities and market conditions allow. Initially, until the Common Investment Fund is established, it is anticipated that cash will continue to be invested in the Consolidated Fund in the form of cash balances and short-term instruments, such as Certificates of Deposits.
- 1.6 The report includes information on matters solely relating to this Fund's strategy. This information is for this specific purpose only, and should not be used for any other purpose.

### **2. Dwelling-Houses Loan Fund**

#### **2.1 Purpose of the Fund**

- 2.2 The Building Loans (Jersey) Law 1950 ("the Law"), under Article 2, established the "Dwelling-Houses Loan Fund" for the following purpose.



- 2.3 *“To establish a building loans scheme to enable residentially qualified first-time buyers, who have never owned residential freehold property in Jersey, to purchase their first home. They must be able to demonstrate they have a deposit and can meet the loan repayments.”.*
- 2.4 The Fund was created at a time when Building Societies did not exist in the Island and banks had not yet become extensively involved in lending monies for house purchases.
- 2.5 Under the Law and the Building Loans (Miscellaneous Provisions) (Jersey) Regulations 1961, loans are granted by the Minister for Housing (formerly the Housing Committee). The current maximum loan available is £120,000, and the maximum life of a loan cannot exceed 40 years from the date of the contract.
- 2.6 Loans issued are currently charged an interest rate of 7.5% under the Building Loans (Prescribed Rate of Interest) (Jersey) Order 2003. The Fund’s interest rate is determined by the Minister for Housing after consultation with the Minister for Treasury and Resources.
- 2.7 In recent years, the Fund’s cash balance has increased, as fewer loans are being issued and current loan balances are being repaid, as part of normal business or repaid early as borrowers transfer their loans to commercial lenders.

## 2.8 **Investment Strategy**

- 2.9 In order to meet the Fund’s purpose, the investment strategy set is to maintain security and a high level of liquidity so as to provide lending when required; ensuring that the asset value of the Fund is only subject to small fluctuations.
- 2.10 The strategy is designed to maintain the asset value of the Fund in monetary, rather than real terms, and any income received will help to offset the effects of inflation on monetary values.
- 2.11 The long-term investment strategy for the Fund is to hold assets (excluding the loan book) in cash and cash equivalents and short-dated government bonds.
- 2.12 The short-term cash holding at any one time should be sufficient to cover potential loans to be issued in the forthcoming year. Therefore the Minister has set a strategic aim of investing all monies in risk-reducing assets, as detailed below –

	<b>Strategic Aim</b>	<b>Range</b>
	<b>%</b>	<b>%</b>
Government Bonds	75	72–83
Cash	25	22–28

- 2.13 The intention is that this Fund, apart from the loan book, will be able to participate in the Common Investment Fund, as explained in Section 3 of this Appendix. Initially, assets will be held in the Consolidated Fund in the form of cash balances and short-term instruments, such as Certificates of Deposit.

2.14 The cash holdings invested in this Fund are subject to the following restrictions.

### 2.15 Investment Manager Allocation Limits

2.16 Investment is made in cash deposits, certificates of deposits and limited amounts of commercial paper and floating-rate notes. The investment manager operates within the following allocation limits –

<b>Asset Class</b>	<b>Maximum Maturity</b>	<b>Maximum Allocation %</b>
Call & Overnight Deposits	One Day	100
Certificates of Deposit	2 Years	100
Fixed Deposits	3 Months	25
Commercial Paper	3 Months	25
Floating-Rate Notes	5 Years	25

2.17 No more than 25% of the portfolio can exceed one year to maturity.

2.18 Deposits held by Investment Cash Managers can only be made with institutions which fall into the following categories –

<b>Deposit term</b>	<b>Minimum Industry Rating</b>
Short-term deposit (up to 12 months)	Standard & Poor's A1 and Moody's P1
Longer-term deposit (over 12 months)	Standard & Poor's AA and Moody's Aa3

2.19 Where deposits are held directly with banks, a minimum AA rating Standard & Poor's (or Aa3 Moody's) is required.

2.20 The Treasurer may allow deposits to be placed with institutions outside the minimum industry ratings described above, in cases where the Treasurer has agreed a specific exemption and deems the overall chance of default not to be significantly increased.

2.21 No off-balance sheet vehicles are permitted.

### 3. Investment Structure

3.1 The Fund can carry out its longer-term investments through the Common Investment Fund.

## **TRUST AND BEQUEST FUNDS**

### **1. Purpose of the Funds**

- 1.1 These are Funds which have been left to the States of Jersey as a legacy or bequest to be used for the purpose specified by the benefactor.

### **2. Strategy**

- 2.1 Many of these Funds have been left with the intention that they will be spent, and therefore unallocated funds need to be held in liquid assets. This means that the strategy for these types of Funds is to hold these assets in cash balances.
- 2.2 Larger States Funds which are more significant in value have their own tailored Investment Strategies. The intention is that many of these larger funds will be able to participate in the Common Investment Fund in order to carry out their strategic aims.
- 2.3 Below are published investment strategies for the first group of larger funds. It is the intention of the Minister for Treasury and Resources to continue to develop and implement individual strategies for many of larger funds over the forthcoming year.

## **ESTATE OF A.A. RAYNER FUND INVESTMENT STRATEGY**

### **1. Introduction**

- 1.1 This strategy document is presented in accordance with the terms of the Public Finances (Jersey) Law 2005 (Article 6) (“the Finance Law”), and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (Regulation 4), which require that the Minister for Treasury and Resources presents his investment strategies for States Funds.
- 1.2 The strategy set by the Minister pays particular regard to the need for diversification in both the management of the money available and the level of funds to be invested.
- 1.3 For Trust and Bequest Funds, the Minister recognises the responsibility to protect the interests of both present and future beneficiaries of the Fund when deciding on the investment strategy for the Fund, focusing on investments which are expected to give optimal performance in terms of their overall return, rather than on investments which will give the “right” balance between capital and income returns.
- 1.4 The Treasurer of the States is responsible for ensuring that the States’ investments are properly managed, controlled and accounted for in accordance with the relevant investment strategies.

- 1.5 This document provides details on –
- Investment Strategy for the Fund
  - States of Jersey – Common Investment Fund.
- 1.6 The strategy reflects the Minister’s long-term investment aim for this Fund, with the intention to move towards the Fund’s strategic aim as investment opportunities and market conditions allow.
- 1.7 The strategy for this Fund has been developed with reference to the U.K. Charity Commission’s “statement of recommended practice” (SORP 2005), and other U.K. Charity Commission publications.
- 1.8 The report includes information on matters solely relating to this Fund’s strategy. This information is for this specific purpose only, and should not be used for any other purpose.

## **2. The A.A. Rayner Fund**

### **2.1 Purpose of the Fund**

- 2.2 The late Mrs. Ann Alice Blason, née Colclough (wife of Charles Henry Blason and the widow of John Edward Rayner, the late Lord Mayor of Liverpool), bequeathed assets to the States of Jersey for specific purposes, as detailed within her Will dated 30th October 1945.
- 2.3 The acceptance of the bequest by the States and resolution on how the Fund was to be administered was expressed in R&O.2536, which was adopted by the States on 16th November 1949.
- 2.4 In 2001 the States approved amendments to the objects of the Fund (P.38/2001 dated 27th March 2001, lodged by the Finance and Economics Committee (now the Minister for Treasury and Resources)), as the view was that the initial objectives of the Fund had been overtaken by time and events. The revised objectives are as follows.
- 2.5 *“(1) the provision of pecuniary relief to needy persons residing in Jersey; and (2) such other objectives or purposes of a charitable or philanthropic nature as the States may hereafter in their absolute discretion determine.”*
- 2.6 P.38/2001 also made amendments to the administration of the Fund, thus rescinding R&O.2536 and a later Act dated 11th September 1979. Under P.38/2001, the Fund’s income is now administered by a Delegation which consists of 4 Jurats of Jersey’s Royal Court.
- 2.7 The Minister for Treasury and Resources (formerly the Finance and Economics Committee) is responsible for any changes to the investment of the Fund after consultation with the Delegation.
- 2.8 Day-to-day administration and accounting is the responsibility of the Treasury and Resources Department.

2.9 The Will bequeathed the income of the Fund to be used for its objectives, and further gave the States discretion to distribute capital to an amount not exceeding one half of the total capital of the Fund. In practice, all bequests historically have only been made out the income of the Fund.

## 2.10 Investment Strategy

2.11 P.38/2001 gives the Minister for Treasury and Resources (formerly the Finance and Economics Committee) responsibility for any changes to the investments of the Fund after consultation with the Delegation. It further provides the opportunity to invest in immovable property situated in or outside the Island, which will be held by the States of Jersey for and on behalf of the Fund.

2.12 In order to meet the Fund's purpose, the strategy set is to work towards its objective of maintaining, with a target to exceeding, the real value of the Fund over a rolling 5-year period, coupled with generating sufficient levels of income for distribution.

2.13 The strategy assumes that the distributions will be paid from investment income and that in the long term there will be no requirement to have a separate strategic aim for the holding of cash.

2.14 Therefore the Minister has set a strategic aim of investing 75% in return-seeking assets (equities and alternative investments class), and 25% in risk-reducing assets, as detailed below –

	<b>Strategic Aim</b> %	<b>Range</b> %
<u>Stock market assets</u>		
Equities	65	58–72
Bonds	25	22–28
Cash	–	0–3
<u>Non-Stock market assets</u>		
Alternative Investments Class	10	n/a

2.15 The Fund participates in the Common Investment Fund, as explained in Section 3 of this Appendix.

2.16 The ranges for stock market assets only indicate tolerable variations according to investment conditions at any time. Due to the practicalities of Alternative Investments, it is not appropriate to manage these within a small control range.

2.17 Investigations are currently being carried out into the selection of appropriate Alternative Investment Classes, whilst being conscious that the Fund achieves the desired levels of returns within the agreed risk profile.

2.18 The cash holdings in this Fund are subject to the following restrictions.

## 2.19 Investment Manager Allocation Limits

2.20 Investment is made in cash deposits, certificates of deposits and limited amounts of commercial paper and floating-rate notes. The investment manager operates within the following allocation limits –

<b>Asset Class</b>	<b>Maximum Maturity</b>	<b>Maximum Allocation %</b>
Call & Overnight Deposits	One Day	100
Certificates of Deposit	2 Years	100
Fixed Deposits	3 Months	25
Commercial Paper	3 Months	25
Floating-Rate Notes	5 Years	25

2.21 No more than 25% of the portfolio can exceed one year to maturity.

2.22 Deposits held by Investment Cash Managers can only be made with institutions which fall into the following categories –

<b>Deposit term</b>	<b>Minimum Industry Rating</b>
Short-term deposit (up to 12 months)	Standard & Poor's A1 and Moody's P1
Longer-term deposit (over 12 months)	Standard & Poor's AA and Moody's Aa3

2.23 Where deposits are held directly with banks, a minimum AA rating Standard & Poor's (or Aa3 Moody's) is required.

2.24 The Treasurer may allow deposits to be placed with institutions outside the minimum industry ratings described above, in cases where the Treasurer has agreed a specific exemption and deems the overall chance of default not to be significantly increased.

2.25 No off-balance sheet vehicles are permitted.

## 3. Investment Structure

3.1 The Fund can carry out its longer-term investments through the Common Investment Fund.

3.2 The Alternative Investment class currently includes only Property Pools; until the full anticipated range of alternative pools are operational, monies allocated to alternatives, not invested in the Property Pools, will be invested in existing asset classes.

## **THE RIVINGTON TRAVELLING SCHOLARSHIP INVESTMENT STRATEGY**

### **1. Introduction**

- 1.1 This strategy document is presented in accordance with the terms of the Public Finances (Jersey) Law 2005 (Article 6) and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (Regulation 4), which require that the Minister for Treasury and Resources presents his investment strategies for States Funds.
- 1.2 The strategy set by the Minister pays particular regard to the need for diversification in both the management of the money available and the level of funds to be invested.
- 1.3 For Trust and Bequest Funds, the Minister recognises the responsibility to protect the interests of both present and future beneficiaries of the Fund when deciding on the investment strategy for the Fund, focusing on investments which are expected to give optimal performance in terms of their overall return, rather than on investments which will give the “right” balance between capital and income returns.
- 1.4 The Treasurer of the States is responsible for ensuring that the States’ investments are properly managed, controlled and accounted for in accordance with the relevant investment strategies.
- 1.5 This document provides details on –
  - Investment Strategy for the Fund
  - States of Jersey – Common Investment Fund
- 1.6 The strategy reflect the Minister’s long-term investment aim for this Fund, with the intention to move towards the Fund’s strategic aim as investment opportunities and market conditions allow. Initially, until the Common Investment Fund is established it is anticipated that assets will be held in cash balances.
- 1.7 The strategy for this Fund has been developed with reference to the U.K. Charity Commission’s “statement of recommended practice” (SORP 2005), and other U.K. Charity Commission publications.
- 1.8 The report includes information on matters solely relating to this Fund’s strategy. This information is for this specific purpose only and should not be used for any other purpose.

### **2. The Rivington Travelling Scholarship Fund**

#### **2.1 Purpose of the Fund**

- 2.2 The late Mr. William Charles Richmond-Pickering (“testator”) bequeathed the remainder of his estate to establish “The Rivington Travelling Scholarship” for the following purposes, as detailed within his Will dated 17th April 1980.

- 2.3 *“To enable a person, male or female, of any age, to visit such museums or art galleries out of the Island as would further his or her appreciation of arts, crafts and/or history. The only other criteria of the award to be the sincerity of the applicant’s intention and lack of funds.”.*
- 2.4 The Will provided that in the event that the States did not accept the legacy on the terms set out by the testator, the residue of his estate would be given to the Société Jersiaise.
- 2.5 The acceptance of the bequest by the States was expressed in proposition P.117/2004 lodged *au Greffe* by the Education, Sport and Culture Committee (now the Minister for Education, Sport and Culture), which was adopted on 20th July 2004.
- 2.6 The administration of the Fund is carried out by a delegation of 3 persons: one person nominated by the Minister for Education, Sport and Culture; one person representing the Jersey Arts Trust; and one person representing the Jersey Heritage Trust. Executive and secretarial support is provided by officers of the Department for Education, Sport and Culture.
- 2.7 The Will makes no differentiation as to whether distributions should be made out of the capital or income of the Fund. However, the delegation, at their inaugural meeting, decided only to allow grants to be made out of the annual income of the Fund in order to preserve the capital of the Fund.
- 2.8 Investment Strategy**
- 2.9 The Will provides no guidance as to how the investments of the Fund should be carried out, therefore the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 requires the Minister for Treasury and Resources to be responsible for the development of the Fund’s investment strategy in consultation with the States’ Investment Adviser (Regulation 3) as he sees fit.
- 2.10 In order to meet the Fund’s purpose, the investment strategy set is for half of the Fund’s assets to work towards an objective of maintaining, with a target to exceeding, the real value of the Fund over a rolling 5-year period, and for the remainder of the Fund’s assets to provide sufficiently high levels of income for distribution.
- 2.11 It is assumed that, provided the required distribution income is generated, the Trustees will accept some price volatility in their assets in the pursuit of longer-term investment returns.
- 2.12 The strategy assumes that the distributions will be paid from investment income, and that in the long term there will be no requirement to have a separate strategic aim for the holding of cash.
- 2.13 Therefore the Minister has set a strategic aim of investing 60% in return-seeking assets (equities and alternative investments class) and 40% in risk-reducing assets, as detailed below –



	Strategic Aim %	Range %
<u>Stock market assets</u>		
Equities	50	45–55
Bonds	40	36–44
Cash	–	0–3
<u>Non-Stock market assets</u>		
Alternative Investments Class	10	n/a

2.14 The intention is that this Fund will be able to participate in the Common Investment Fund, as explained in Section 3 of this Appendix.

2.15 The ranges for stock market assets only indicate tolerable variations according to investment conditions at any time. Due to the practicalities of Alternative Investments, it is not appropriate to manage these within a small control range.

2.16 Investigations are currently being carried out into the selection of appropriate Alternative Investment Classes, whilst being conscious that the Fund achieves the desired levels of returns within the agreed risk profile.

2.17 The cash holdings in this Fund are subject to the following restrictions.

#### **2.18 Investment Manager Allocation Limits**

2.19 Investment is made in cash deposits, certificates of deposits and limited amounts of commercial paper and floating-rate notes. The investment manager operates within the following allocation limits –

Asset Class	Maximum Maturity	Maximum Allocation %
Call & Overnight Deposits	One Day	100
Certificates of Deposit	2 Years	100
Fixed Deposits	3 Months	25
Commercial Paper	3 Months	25
Floating-Rate Notes	5 Years	25

2.20 No more than 25% of the portfolio can exceed one year to maturity.

2.21 Deposits held by Investment Cash Managers can only be made with institutions which fall into the following categories –

Deposit term	Minimum Industry Rating
Short-term deposit (up to 12 months)	Standard & Poor's A1 and Moody's P1
Longer-term deposit (over 12 months)	Standard & Poor's AA and Moody's Aa3

- 2.22 Where deposits are held directly with banks, a minimum AA rating Standard & Poor's (or Aa3 Moody's) is required.
- 2.23 The Treasurer may allow deposits to be placed with institutions outside the minimum industry ratings described above, in cases where the Treasurer has agreed a specific exemption and deems the overall chance of default not to be significantly increased.
- 2.24 No off-balance sheet vehicles are permitted.

### **3. Investment Structure**

- 3.1 The Fund can carry out its longer-term investments through the Common Investment Fund.
- 3.2 The Alternative Investment class currently includes only Property Pools; until the full anticipated range of alternative pools are operational, monies allocated to alternatives, not invested in the Property Pools, will be invested in existing asset classes.

## **ESTATE OF H.E. LE SEELLEUR INVESTMENT STRATEGY**

### **1. Introduction**

- 1.1 This strategy document is presented in accordance with the terms of the Public Finances (Jersey) Law 2005 (Article 6) and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (Regulation 4), which require that the Minister for Treasury and Resources presents his investment strategies for States Funds.
- 1.2 The strategy set by the Minister pays particular regard to the need for diversification in both the management of the money available and the level of funds to be invested.
- 1.3 For Trust and Bequest Funds, the Minister recognises the responsibility to protect the interests of both present and future beneficiaries of the Fund when deciding on the investment strategy for the Fund, focusing on investments which are expected to give optimal performance in terms of their overall return, rather than on investments which will give the "right" balance between capital and income returns.
- 1.4 The Treasurer of the States is responsible for ensuring that the States' investments are properly managed, controlled and accounted for in accordance with the relevant investment strategies.
- 1.5 This document provides details on –
- Investment Strategy for the Fund
  - States of Jersey – Common Investment Fund.

- 1.6 The strategy reflects the Minister’s long-term investment aim for this Fund with the intention to move towards the Fund’s strategic aim as investment opportunities and market conditions allow.
- 1.7 The strategy for this Fund has been developed with reference to the U.K. Charity Commission’s “statement of recommended practice” (SORP 2005), and other U.K. Charity Commission publications.
- 1.8 The report includes information on matters solely relating to this Fund’s strategy. This information is for this specific purpose only and should not be used for any other purpose.

## **2. Estate of H.E. Le Seilleur**

### **2.1 Purpose of the Fund**

- 2.2 Harold Ernest Le Seilleur died on 22nd October 1996, bequeathing assets to the States of Jersey for itself and its successors in perpetuity, for the following purpose, as detailed under his Will dated 28th December 1988. (The Will was registered in the Royal Court on 27th November 1996.)

*“for the benefit of aged, infirm and needy residents of the Island.”*

- 2.3 The acceptance of the bequest by the States was expressed in the terms of proposition P.71/1997 of the Health and Social Services Committee, adopted by the States on 2nd June 1997. Under the proposition, it was decided that the administration of the Fund should be carried out by the Minister for Health and Social Services (formerly known as the Health and Social Services Committee).
- 2.4 The assets originally settled into the Fund comprised of Jersey-based property. Lifelong enjoyment was provided for 2 properties, Nos. 1 and 4, The Denes, Grève D’Azette, St. Clement.
- 2.5 The testator expressly wished that the executor, Mrs. Pugsley, be consulted with a particular view towards the use of the properties for the benefit of aged, infirm and needy residents of the Island.
- 2.6 The Will makes no differentiation between whether bequests should be made out of capital or income of the Fund. Therefore this gives the administrators of the Fund the power to distribute all available assets to needy causes as they arise (excluding when properties are held with a life interest).

### **2.7 Investment Strategy**

- 2.8 The Will provides no guidance as to how the investments of the Fund should be carried out, therefore the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 requires the Minister for Treasury and Resources to be responsible for the development of the Fund’s investment strategy in consultation with the States’ Investment Adviser (Regulation 3).
- 2.9 The investment strategy has a blend of returns coming from income-producing and growth assets and is designed to meet the Fund’s objectives. The income-

producing assets should allow the Fund to meet its ongoing cash-flow requirements, while the growth assets will help the Fund produce a long-term real return. All the asset classes have been given a range of investable limits.

- 2.10 Therefore the Minister has set a strategic aim of investing 65% in return-seeking assets designed to produce long-term returns, and 35% in risk-reducing assets designed to provide stability and income, as detailed below –

	<b>Strategic</b>	
	<b>Aim</b>	<b>Range</b>
	<b>%</b>	<b>%</b>
Jersey Property	25	15–60
Equities	40	30–70
Bonds	27	10–30
Alternatives ( non-property)	5	0–10
Cash	3	0–3

- 2.11 The largest allocation in the strategy is to equities; however, the equity allocation is lower than other participants in the Common Investment Fund due to the higher allocation to property. Due to the unique starting position, the long-term allocation to Jersey property is 25%.
- 2.12 The intention is that this Fund will be able to participate in the Common Investment Fund, as explained in Section 3 of this Appendix. All Jersey Property will remain outside of the Common Investment Fund. Initially, all other assets will be held in the form of cash balances and short-term instruments, such as Certificates of Deposits.
- 2.13 The ranges indicate tolerable variations according to investment conditions at any time.
- 2.14 As the financial environment changes, the composition of the Fund's investments will change to reflect a move towards the strategic aim of the Fund.
- 2.15 The cash holdings in this Fund are subject to the following restrictions.

#### **2.16 Investment Manager Allocation Limits**

- 2.17 Investment is made in cash deposits, certificates of deposits and limited amounts of commercial paper and floating-rate notes. The investment manager operates within the following allocation limits –

<b>Asset Class</b>	<b>Maximum Maturity</b>	<b>Maximum Allocation %</b>
Call & Overnight Deposits	One Day	100
Certificates of Deposit	2 Years	100
Fixed Deposits	3 Months	25
Commercial Paper	3 Months	25
Floating-Rate Notes	5 Years	25

- 2.18 No more than 25% of the portfolio can exceed one year to maturity.
- 2.19 Deposits held by Investment Cash Managers can only be made with institutions which fall into the following categories –

<b>Deposit term</b>	<b>Minimum Industry Rating</b>
Short-term deposit (up to 12 months)	Standard & Poor's A1 and Moody's P1
Longer-term deposit (over 12 months)	Standard & Poor's AA and Moody's Aa3

- 2.20 Where deposits are held directly with banks, a minimum AA rating Standard & Poor's (or Aa3 Moody's) is required.
- 2.21 The Treasurer may allow deposits to be placed with institutions outside the minimum industry ratings described above, in cases where the Treasurer has agreed a specific exemption and deems the overall chance of default not to be significantly increased.
- 2.22 No off-balance sheet vehicles are permitted.

### **3. Investment Structure**

- 3.1 The Fund's assets, excluding Jersey Properties, are invested with a single investment manager who specialises in investing in cash and near-cash equivalent investments. This is a temporary measure until longer-term investments are carried out through the States of Jersey – Common Investment Fund.
- 3.2 Even once the Fund joins the Common Investment Fund, the Jersey Properties will remain outside it.

## **ESTATE OF E.J. BAILHACHE INVESTMENT STRATEGY**

### **1. Introduction**

- 1.1 This strategy document is presented in accordance with the terms of the Public Finances (Jersey) Law 2005 (Article 6) and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (Regulation 4), which require that the Minister for Treasury and Resources presents his investment strategies for States Funds.
- 1.2 The strategy set by the Minister pays particular regard to the need for diversification, in both the management of the money available and the level of funds to be invested.
- 1.3 For Trust and Bequest Funds, the Minister recognises the responsibility to protect the interests of both present and future beneficiaries of the Fund when deciding on the investment strategy for the Fund, focusing on investments which are expected to give optimal performance in terms of their overall return,

rather than on investments which will give the “right” balance between capital and income returns.

- 1.4 The Treasurer of the States is responsible for ensuring that the States’ investments are properly managed, controlled and accounted for in accordance with the relevant investment strategies.
- 1.5 This document provides details on –
  - Investment Strategy for the Fund
  - States of Jersey – Common Investment Fund.
- 1.6 The strategy reflects the Minister’s long-term investment aim for this Fund, with the intention to move towards the Fund’s strategic aim as investment opportunities and market conditions allow.
- 1.7 The strategy for this Fund has been developed with reference to the U.K. Charity Commissions “statement of recommended practice” (SORP 2005), and other U.K. Charity Commission publications.
- 1.8 The report includes information on matters solely relating to this Fund’s strategy. This information is for this specific purpose only and should not be used for any other purpose.

## **2. Estate of E.J. Bailhache Fund**

### **2.1 Purpose of the Fund**

- 2.2 The late Mrs. Eunice Jane Bailhache (née Hubert), who died on 15th June 1979, bequeathed assets for the following purposes, as detailed in her Will dated 20th September 1974 –
- 2.3 *“Public of the Island of Jersey for the benefit of the Public Health Committee (now the Minister for Health and Social Services) of the States of Jersey for the general welfare of persons elderly, and/or blind or sick at the General Hospital.”*
- 2.4 The Law Officers’ Department, in their letter dated 24th October 1994, provided a definition of welfare as “health, happiness and general wellbeing”.
- 2.5 The acceptance of the bequest by the States was delayed for quite a few years as the Will was contested. Eventually, in March 1984, a settlement was agreed on the basis that 60% of the estate should be retained by the Public of the Island. This was passed in Court on 25th January 1985.
- 2.6 The States accepted the bequest, made up mostly of properties, under proposition P.13/1985 of the Public Health Committee on 12th March 1985. The proposition resolved that the administration of the Fund should be carried out by the Minister for Health and Social Services (formerly known as the Public Health Committee).

- 2.7 Since the States' acceptance of the Fund, the Fund still continues to hold mainly properties, which are all based in Jersey and are rented out. Over recent years, some of the original bequeathed properties have been sold, as there was no further use for them and the sale proceeds were reinvested into new properties.
- 2.8 The Will makes no differentiation between whether distributions should be made out of capital or income of the Fund. Therefore this gives administrators of the Fund powers to distribute all available assets to projects as they arise.

## 2.9 Investment Strategy

- 2.10 The Will provides no guidance as to how the investments of the Fund should be carried out, therefore the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 require the Minister for Treasury and Resources to be responsible for the development of the Fund's investment strategy in consultation with the States Investment Adviser (Regulation 3) as he sees fit.
- 2.11 For the non-property assets, in order to meet the Fund's purpose, the investment strategy set is to work towards an objective of maintaining, with a target to exceeding, the real value of the Fund, over a rolling 5-year period, coupled with providing reasonable levels of income for distribution.
- 2.12 For the property assets held, it has been assumed that these will be maintained, at least in the short term. These assets are professionally valued every 3 years, and as part of this process advice should be sought on current market rental returns in order to take a view as to whether to retain the Jersey properties in the longer-term investment strategy for the Fund.
- 2.13 Therefore the Minister has set a strategic aim, excluding Jersey Property, of investing 65% in return-seeking assets (equities) designed to produce long-term returns, and 35% in risk-reducing assets designed to provide stability and income, as detailed below –

	<b>Strategic Aim</b>	<b>Range</b>
	<b>%</b>	<b>%</b>
Equities	65	58–72
Bonds	30	27–33
Cash	5	4–6

- 2.14 The intention is that this Fund will be able to participate in the Common Investment Fund, as explained in Section 3 of this Appendix. Jersey Property will remain outside of the Common Investment Fund.
- 2.15 The ranges indicate tolerable variations according to investment conditions at any time.
- 2.16 As the financial environment changes, the composition of the Fund's investments will change to reflect a move towards the strategic aim of the Fund.
- 2.17 The cash holdings in this Fund are subject to the following restrictions.

## 2.18 Investment Manager Allocation Limits

2.19 Investment is made in cash deposits, certificates of deposits and limited amounts of commercial paper and floating-rate notes. The investment manager operates within the following allocation limits –

<b>Asset Class</b>	<b>Maximum Maturity</b>	<b>Maximum Allocation %</b>
Call & Overnight Deposits	One Day	100
Certificates of Deposit	2 Years	100
Fixed Deposits	3 Months	25
Commercial Paper	3 Months	25
Floating-Rate Notes	5 Years	25

2.20 No more than 25% of the portfolio can exceed one year to maturity.

2.21 Deposits held by Investment Cash Managers can only be made with institutions which fall into the following categories –

<b>Deposit term</b>	<b>Minimum Industry Rating</b>
Short-term deposit (up to 12 months)	Standard & Poor's A1 and Moody's P1
Longer-term deposit (over 12 months)	Standard & Poor's AA and Moody's Aa3

2.22 Where deposits are held directly with banks, a minimum AA rating Standard & Poor's (or Aa3 Moody's) is required.

2.23 The Treasurer may allow deposits to be placed with institutions outside the minimum industry ratings described above, in cases where the Treasurer has agreed a specific exemption and deems the overall chance of default not to be significantly increased.

2.24 No off-balance sheet vehicles are permitted.

## 3. Investment Structure

3.1 The Fund can carry out investment through the Common Investment Fund.

3.2 All of the Jersey Properties which will remain outside of the Common Investment Fund.



## **LE DON DE FAYE TRUST FUND INVESTMENT STRATEGY**

### **1. Introduction**

- 1.1 This strategy document is presented in accordance with the terms of the Public Finances (Jersey) Law 2005 (Article 6) and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (Regulation 4), which require that the Minister for Treasury and Resources presents his investment strategies for States Funds.
- 1.2 The strategy set by the Minister pays particular regard to the need for diversification, in both the management of the money available and the level of funds to be invested.
- 1.3 For Trust and Bequest Funds, the Minister recognises the responsibility to protect the interests of both present and future beneficiaries of the Fund when deciding on the investment strategy for the Fund, focusing on investments which are expected to give optimal performance in terms of their overall return, rather than on investments which will give the “right” balance between capital and income returns.
- 1.4 The Treasurer of the States is responsible for ensuring that the States’ investments are properly managed, controlled and accounted for in accordance with the relevant investment strategies.
- 1.5 This document provides details on –
  - Investment Strategy for the Fund
  - States of Jersey – Common Investment Fund.
- 1.6 The strategy reflects the Minister’s long-term investment aim for this Fund, with the intention to move towards the Fund’s strategic aim as investment opportunities and market conditions allow. Initially, until the Common Investment Fund is established, it is anticipated that assets will be held in cash balances and unquoted investments.
- 1.7 The strategy for this Fund has been developed with reference to the U.K. Charity Commission’s “statement of recommended practice” (SORP 2005), and other U.K. Charity Commission publications.
- 1.8 The report includes information on matters solely relating to this Fund’s strategy. This information is for this specific purpose only, and should not be used for any other purpose.

### **2. Le Don De Faye Trust Fund**

#### **2.1 Purpose of the Fund**

- 2.2 Jurat Percy Chambers Cabot died on 24th April 1959, and bequeathed his assets to the Treasurer of the States of Jersey (“the Trustee”), to set up a Trust Fund called “Le Don de Faye” after the death of the annuitant, his unmarried sister, Alice Jane Chambers (‘Lilian’) Cabot. The Trust Fund was created in memory

of his late wife, Vera Mary de Faye, and of her late father, Thomas Louis de Faye, Major, Royal Militia of Island of Jersey.

- 2.3 The Will, dated 7th June 1958, states that the assets are to be held in trust, for the following purpose (the Will was probated on 29th April 1959).
- 2.4 *“To distribute the annual income of the Fund (not necessarily in equal sums) for the sole discretion of the Rectors and their Churchwardens of the twelve parishes, for them to have sole discretion to distribute to needy parishioners of all social standing in each parish.”*
- 2.5 Under the terms of the Will, the income of the Fund is to be apportioned and distributed in the name of the bequest “Le Don de Faye”, 2/13th to the Rector and Churchwardens of St. Clement in the first week of December, and 1/13th to each of the Rectors and Churchwardens of the other 11 parishes in the third week of December.
- 2.6 The Treasurer, as Trustee for the Fund, is required to carry out the following duties –
- To hold the capital of the Trust Fund, together with the accumulated income as shall have accrued, together with any other liquid assets of the personal estate in the Trust.
  - To invest the residue and proceeds of the Trust Fund as directed by the Committee of the States responsible for the controlling and supervising the finances of the States of Jersey (formerly known as the Finance and Economics Committee, now the Minister for Treasury and Resources).
- 2.7 The Will clearly states that the bequests should only be made out of the income of the Fund, and therefore the capital of the Trust Fund should be preserved and not distributed.
- 2.8 Investment Strategy**
- 2.9 The Will provides no guidance as to how the investments of the Fund should be carried out, therefore the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 require the Minister for Treasury and Resources to be responsible for the development of the Fund’s investment strategy in consultation with the States Investment Adviser (Regulation 3), as he sees fit.
- 2.10 In order to meet the Fund’s purpose, the investment strategy set is for half of the Fund’s assets to work towards an objective of maintaining, with a target to exceeding, the real value of the Fund over a rolling 5-year period, and for the remainder of the Fund’s assets to provide sufficiently high levels of income for distribution.
- 2.11 It is assumed that providing the required distribution income is generated, the Trustees will accept some price volatility in their assets in the pursuit of longer-term investment returns.

- 2.12 The strategy assumes that the distributions will be paid from investment income, and that in the long term there will be no requirement to have a separate strategic aim for the holding of cash.
- 2.13 Therefore the Minister has set a strategic aim of investing 60% in return-seeking assets (equities and alternative investments class) and 40% in risk-reducing assets, as detailed below –

	<b>Strategic Aim</b> %	<b>Range</b> %
<u>Stock market assets</u>		
Equities	50	45–55
Bonds	40	36–44
Cash	–	0–3
<u>Non-Stock market assets</u>		
Alternative Investments Class	10	n/a

- 2.14 The intention is that this Fund will be able to participate in the Common Investment Fund, as explained in Section 3 of this Appendix. Initially, assets will continue to be held in their current holding percentages of unquoted equities, cash balances and short-term instruments, such as Certificates of Deposits.
- 2.15 The ranges for stock market assets only indicate tolerable variations according to investment conditions at any time. Due to the practicalities of Alternative Investments, it is not appropriate to manage these within a small control range.
- 2.16 Investigations are currently being carried out into the selection of appropriate Alternative Investment Classes, whilst being conscious that the Fund achieves the desired levels of returns within the agreed risk profile.
- 2.17 The cash holdings in this Fund are subject to the following restrictions –

### **2.18 Investment Manager Allocation Limits**

- 2.19 Investment is made in cash deposits, certificates of deposits and limited amounts of commercial paper and floating-rate notes. The investment manager operates within the following allocation limits –

<b>Asset Class</b>	<b>Maximum Maturity</b>	<b>Maximum Allocation %</b>
Call & Overnight Deposits	One Day	100
Certificates of Deposit	2 Years	100
Fixed Deposits	3 Months	25
Commercial Paper	3 Months	25
Floating-Rate Notes	5 Years	25

- 2.20 No more than 25% of the portfolio can exceed one year to maturity.
- 2.21 Deposits held by Investment Cash Managers can only be made with institutions which fall into the following categories –

<b>Deposit term</b>	<b>Minimum Industry Rating</b>
Short-term deposit (up to 12 months)	Standard & Poor's A1 and Moody's P1
Longer-term deposit (over 12 months)	Standard & Poor's AA and Moody's Aa3

- 2.22 Where deposits are held directly with banks, a minimum AA rating Standard & Poor's (or Aa3 Moody's) is required.
- 2.23 The Treasurer may allow deposits to be placed with institutions outside the minimum industry ratings described above, in cases where the Treasurer has agreed a specific exemption and deems the overall chance of default not to be significantly increased.
- 2.24 No off-balance sheet vehicles are permitted.

### **3. Investment Structure**

- 3.1 The Fund can carry out investment through the Common Investment Fund.
- 3.2 The Alternative Investment class currently includes only Property Pools; until the full anticipated range of alternative pools are operational, monies allocated to alternatives, not invested in the Property Pools, will be invested in existing asset classes.
- 3.3 The Fund's holding in Jersey Water will be retained and be held outside of the Common Investment Fund.

## **GREVILLE BATHE FUND INVESTMENT STRATEGY**

### **1. Introduction**

- 1.1 This strategy document is presented in accordance with the terms of the Public Finances (Jersey) Law 2005 (Article 6), and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (Regulation 4), which require that the Minister for Treasury and Resources presents his investment strategies for States funds.
- 1.2 The strategy set by the Minister pays particular regard to the need for diversification in both the management of the money available and the level of funds to be invested.
- 1.3 For Trust and Bequest Funds, the Minister recognises the responsibility to protect the interests of both present and future beneficiaries of the Fund when deciding on the investment strategy for the Fund, focusing on investments which are expected to give optimal performance in terms of their overall return,

rather than on investments which will give the “right” balance between capital and income returns.

- 1.4 The Treasurer of the States is responsible for ensuring that the States’ investments are properly managed, controlled and accounted for in accordance with the relevant investment strategies.
- 1.5 This document provides details on –
  - Investment Strategy for the Fund
  - States of Jersey – Common Investment Fund.
- 1.6 The strategy reflects the Minister’s long-term investment aim for this Fund, with the intention to move towards the Fund’s strategic aim as investment opportunities and market conditions allow. Initially, until the Common Investment Fund is established, it is anticipated that assets will be held in cash balances.
- 1.7 The strategy for this Fund has been developed with reference to the U.K. Charity Commission’s “statement of recommended practice” (SORP 2005), and other U.K. Charity Commission publications.
- 1.8 The report includes information on matters solely relating to this Fund’s strategy. This information is for this specific purpose only, and should not be used for any other purpose.

## **2. The Greville Bathe Fund**

### **2.1 Purpose of the Fund**

2.2 The late Mr. Greville Inverness Bathe bequeathed assets to the Treasurer of the States of Jersey, for himself and his successors, to be held in Trust for and on behalf of the States for the following purposes, as detailed within his Will dated 9th October 1961. (This Will was deposited and proved in the Registry in Florida on 17th December 1964.)

2.3 *“Half the income of the fund should be available for relief & pensions to needy persons of either sex whose legal domicile is in the Island of Jersey, who have rendered service to the Island of Jersey either in an honorary or remunerated administrative or clerical capacity, or whose ancestors were employed or engaged in such service to the Island, but excluding persons who have benefited under the Alice Rayner Fund (Fund A)” “The other half of the fund is to distribute income for grants to sick or aged persons of either sex & of any age or denomination, resident in the Island of Jersey (Fund B).”*

*Note:* the terminology of Fund A and B was introduced in a Royal Court Judgement made in 1973 (JJ 2513).

2.4 The Will expressed that the administrators of the Fund should be 4 persons resident and domiciled in the Island of Jersey who are not members of the States Assembly, and would prefer those appointed by the States of Jersey to be Jurats of the Royal Court, as they are non-political and have been elected by an Electoral College established under the law.

- 2.5 The acceptance of the bequest by the States and the former Finance and Economics Committee (now the Minister for Treasury and Resources), together with clarification of how the Fund was to be administered, was adopted by the States on 29th April 1964.
- 2.6 On 23rd January 1974, the Royal Court made a judgement around the administration of the Fund (page 2534), stating that the administrators need to maintain at the end of December each year a balance of not less than 3 times the current year's payments in Fund A, and that any remaining balances could be transferred into Fund B. In recent years the use of Fund A and Fund B terminology has been withdrawn, as there were few requests for donations out of Fund A, and a decision was taken that all future claimants be diverted to the Ann Alice Rayner Fund.
- 2.7 Day-to-day administration and accounting is the responsibility of the Treasury and Resources Department.

## 2.8 Investment Strategy

- 2.9 The Public Finances (Jersey) Law 2005 (Article 6) requires that the investment of monies be applied in accordance with provisions set out in any special Fund or Trust. Under the provisions of the Will, the Treasurer of the States (the Trustee) is given powers to manage and maintain the investments of the Fund (including the replacement of investments held to liquid assets), and to invest the capital as thought fit and proper. Securities should be held within banks of good standing.
- 2.10 In order to meet the Fund's purpose, the investment strategy set is to work towards an objective of maintaining, with a target to exceeding, the real value of the Fund over a rolling 5-year period, coupled with providing sufficiently high levels of income for distribution.
- 2.11 The strategy assumes that the distributions will be paid from investment income, and that in the long term there will be no requirement to have a separate strategic aim for the holding of cash.
- 2.12 Therefore the Minister has set a strategic aim of investing 75% in return-seeking assets (equities and alternative investments class) and 25% in risk-reducing assets, as detailed below –

	Strategic Aim %	Range %
<u>Stock market assets</u>		
Equities	65	58–72
Bonds	25	22–28
Cash	–	0–3
<u>Non Stock market assets</u>		
Alternative Investments Class	10	n/a

- 2.13 The Fund participates in the Common Investment Fund, as explained in Section 3 of this Appendix.
- 2.14 The ranges for stock market assets only indicate tolerable variations according to investment conditions at any time. Due to the practicalities of Alternative Investments, it is not appropriate to manage these within a small control range.
- 2.15 Investigations are currently being carried out into the selection of appropriate Alternative Investment Classes, whilst being conscious that the Fund achieves the desired levels of returns within the agreed risk profile.
- 2.16 The cash holdings in this Fund are subject to the following restrictions.

**2.17 Investment Manager Allocation Limits**

- 2.18 Investment is made in cash deposits, certificates of deposits and limited amounts of commercial paper and floating-rate notes. The investment manager operates within the following allocation limits –

<b>Asset Class</b>	<b>Maximum Maturity</b>	<b>Maximum Allocation %</b>
Call & Overnight Deposits	One Day	100
Certificates of Deposit	2 Years	100
Fixed Deposits	3 Months	25
Commercial Paper	3 Months	25
Floating-Rate Notes	5 Years	25

- 2.19 No more than 25% of the portfolio can exceed one year to maturity.
- 2.20 Deposits held by Investment Cash Managers can only be made with institutions which fall into the following categories –

<b>Deposit term</b>	<b>Minimum Industry Rating</b>
Short-term deposit (up to 12 months)	Standard & Poor's A1 and Moody's P1
Longer-term deposit (over 12 months)	Standard & Poor's AA and Moody's Aa3

- 2.21 Where deposits are held directly with banks, a minimum AA rating Standard & Poor's (or Aa3 Moody's) is required.
- 2.22 The Treasurer may allow deposits to be placed with institutions outside the minimum industry ratings described above, in cases where the Treasurer has agreed a specific exemption and deems the overall chance of default not to be significantly increased.
- 2.23 No off-balance sheet vehicles are permitted.

### **3. Investment Structure**

- 3.1 The Fund can carry out investment through the Common Investment Fund.
- 3.2 The Alternative Investment class currently includes only Property Pools; until the full anticipated range of alternative pools are operational, monies allocated to alternatives, not invested in the Property Pools, will be invested in existing asset classes.

## **ESTATE OF A.H. FERGUSON BEQUEST INVESTMENT STRATEGY**

### **1. Introduction**

- 1.1 This strategy document is presented in accordance with the terms of the Public Finances (Jersey) Law 2005 (Article 6), and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (Regulation 4), which require that the Minister for Treasury and Resources presents his investment strategies for States Funds.
  - 1.2 The strategy set by the Minister pays particular regard to the need for diversification in both the management of the money available and the level of funds to be invested.
  - 1.3 For Trust and Bequest Funds, the Minister recognises the responsibility to protect the interests of both present and future beneficiaries of the Fund when deciding on the investment strategy for the Fund, focusing on investments which are expected to give optimal performance in terms of their overall return, rather than on investments which will give the “right” balance between capital and income returns.
  - 1.4 The Treasurer of the States is responsible for ensuring that the States’ investments are properly managed, controlled and accounted for in accordance with the relevant investment strategies.
  - 1.5 This document provides details on –
    - Investment Strategy for the Fund
    - States of Jersey – Common Investment Fund.
  - 1.6 The strategy reflects the Minister’s long-term investment aim for this Fund, with the intention to move towards the Fund’s strategic aim as investment opportunities and market conditions allow.
  - 1.7 The strategy for this Fund has been developed with reference to the U.K. Charity Commission’s “statement of recommended practice” (SORP 2005), and other U.K. Charity Commission publications.
  - 1.8 The report includes information on matters solely relating to this Fund’s strategy. This information is for this specific purpose only, and should not be used for any other purpose.
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## **2. A.H. Ferguson Bequest Fund**

### **2.1 Purpose of the Fund**

2.2 The late Mr. Alexander Hugh Ferguson, who died on 20th September 1982, bequeathed the remainder of his assets, for the following purposes, as detailed within his Will dated 13th November 1980.

2.3 *“I give all my estate wheresoever and whatsoever (save and except Real Estate situate in the said Island of Jersey) unto the Public Health Committee (now the Minister for Health and Social Services) of the States of Jersey and I desire them to apply the same for the benefit of the Intensive Care Unit at the Jersey General Hospital.”*

2.4 This means that the administration of the Fund is the responsibility of the Minister for Health and Social Services (formerly the Public Health Committee).

2.5 The Will makes no differentiation as to whether distributions should be made out of the capital or income of the Fund. Therefore this gives administrators of the Fund powers to distribute all available assets to projects as they arise.

### **2.6 Investment Strategy**

2.7 The Will provides no guidance as to how the investments of the Fund should be carried out, therefore the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 require the Minister for Treasury and Resources to be responsible for the development of the Fund’s investment strategy in consultation with the States Investment Adviser (Regulation 3) as he sees fit.

2.8 In order to meet the Fund’s purpose, an Investment Strategy has been set to enable income distributions of £9,000 per annum, working towards its objective of maintaining, with a target to exceeding, the real value of the Fund over a rolling 5-year period.

2.9 It is assumed that, provided the required distribution income is generated, the Trustees will accept some price volatility in their assets in the pursuit of longer-term investment returns.

2.10 The strategy assumes that the distributions will be paid from the investment income, and that in the long term there will be no requirement to have a separate strategic aim for the holding of cash.

2.11 Therefore the Minister has set a strategic aim of investing 60% in return-seeking assets (equities and alternative investments class), and 40% in risk-reducing assets, as detailed below –

	<b>Strategic Aim %</b>	<b>Range %</b>
<u>Stock market assets</u>		
Equities	50	45–55
Bonds	40	36–44
Cash	–	0–3
<u>Non-Stock market assets</u>		
Alternative Investments Class	10	n/a

2.12 The intention is that this Fund will be able to participate in the Common Investment Fund, as explained in section 3 of this appendix. Initially assets will continue to be held in their current holding percentages of equity, bond and cash balances.

2.13 The ranges for stock market assets only indicate tolerable variations according to investment conditions at any time. Due to the practicalities of Alternative Investments, it is not appropriate to manage these within a small control range.

2.14 Investigations are currently being carried out into the selection of appropriate Alternative Investment Classes, whilst being conscious that the Fund achieves the desired levels of returns within the agreed risk profile.

2.15 The cash holdings in this Fund are subject to the following restrictions.

#### **2.16 Investment Manager Allocation Limits**

2.17 Investment is made in cash deposits, certificates of deposits, and limited amounts of commercial paper and floating-rate notes. The investment manager operates within the following allocation limits –

<b>Asset Class</b>	<b>Maximum Maturity</b>	<b>Maximum Allocation %</b>
Call & Overnight Deposits	One Day	100
Certificates of Deposit	2 Years	100
Fixed Deposits	3 Months	25
Commercial Paper	3 Months	25
Floating-Rate Notes	5 Years	25

2.18 No more than 25% of the portfolio can exceed one year to maturity.

2.19 Deposits held by Investment Cash Managers can only be made with institutions which fall into the following categories –

<b>Deposit term</b>	<b>Minimum Industry Rating</b>
Short-term deposit (up to 12 months)	Standard & Poor's A1 and Moody's P1
Longer-term deposit (over 12 months)	Standard & Poor's AA and Moody's Aa3

- 2.20 Where deposits are held directly with banks, a minimum AA rating Standard & Poor's (or Aa3 Moody's) is required.
- 2.21 The Treasurer may allow deposits to be placed with institutions outside the minimum industry ratings described above, in cases where the Treasurer has agreed a specific exemption and deems the overall chance of default not to be significantly increased.
- 2.22 No off-balance sheet vehicles are permitted.

### **3. Investment Structure**

- 3.1 The Fund can carry out investment through the Common Investment Fund.
- 3.2 The Alternative Investment class currently includes only Property Pools; until the full anticipated range of alternative pools are operational, monies allocated to alternatives, not invested in the Property Pools, will be invested in existing asset classes.

## **ECOLOGY FUND INVESTMENT STRATEGY**

### **4. Introduction**

- 4.1 This strategy document is presented in accordance with the terms of the Public Finances (Jersey) Law 2005 (Article 6) ("the Finance Law") and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (Regulation 4), which require that the Minister for Treasury and Resources presents his investment strategies for States Funds.
- 4.2 The strategy set by the Minister pays particular regard to the need for diversification in both the management of the money available and the level of funds to be invested.
- 4.3 For Trust and Bequest Funds, the Minister recognises the responsibility to protect the interests of both present and future beneficiaries of the Fund when deciding on the investment strategy for the Fund, focusing on investments which are expected to give optimal performance in terms of their overall return, rather than on investments which will give the "right" balance between capital and income returns.
- 4.4 The Treasurer of the States is responsible for ensuring that the States' investments are properly managed, controlled and accounted for in accordance with the relevant investment strategies.

- 4.5 This document provides details on –
- Investment Strategy for the Fund
  - States of Jersey – Common Investment Fund.
- 4.6 The strategy reflects the Minister’s long-term investment aim for this Fund, with the intention to move towards the Fund’s strategic aim as investment opportunities and market conditions allow.
- 4.7 The strategy for this Fund has been developed with reference to the U.K. Charity Commission’s “statement of recommended practice” (SORP 2005), and other U.K. Charity Commission publications.
- 4.8 The report includes information on matters solely relating to this Fund’s strategy. This information is for this specific purpose only and should not be used for any other purpose.

## **5. Ecology Fund**

### **5.1 Purpose of the Fund**

- 5.2 The Ecology Fund was established on 26th March 1991 by the States of Jersey (P.32/1991) with a sum of money received as an insurance settlement from the Amoco Cadiz oil tanker disaster of 1978, with the following purpose, as detailed in the proposition.
- 5.3 *“The interest from the investment of which would be available for use by the trustees to grant aid, wholly or partially, for any activity designed to promote or protect the environment or ecology of Jersey”.*
- 5.4 The Fund rules and administrative structure were laid out in P.32/1991 by the former Finance and Economics Committee (now the Minister for Treasury and Resources).
- 5.5 On 29th September 2005, the States approved amendments to the Fund rules, under P.192/2005, impacting the future management of the Ecology Fund, presentation of annual reports to the States and the process for the appointment of Trustees.
- 5.6 The Fund is managed by Trustees; under P.192/2005, the Chairman of the Trustees should be a member of the States, and on the recommendation of the Planning and Environment Committee (now the Minister for Planning and Environment), there should be 5 trustees appointed by the States.
- 5.7 The Treasurer of the States is responsible for investing the Capital of the Fund. Administration and accounting is the responsibility of the Planning and Environment Department.

## 5.8 Investment Strategy

- 5.9 Whilst P.32/1991 gives the Treasurer of the States the responsibility for investing the capital of the Fund, the 2 propositions provide no guidance as to how the investments of the Fund should be carried out. Therefore the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 apply, whereby the Minister for Treasury and Resources is required to be responsible for the development of the Fund's investment strategy, in consultation with the States Investment Adviser (Regulation 3), as he sees fit.
- 5.10 In order to meet the Fund's purpose, the investment strategy set is for half of the Fund's assets to work towards an objective of maintaining, with a target to exceeding, the real value of the Fund over a rolling 5-year period, and for the remainder of the Fund's assets to provide sufficiently high levels of income for distribution.
- 5.11 It is assumed that, provided the required distribution income is generated, the Trustees will accept some price volatility in their assets in the pursuit of longer-term investment returns.
- 5.12 The strategy assumes that the distributions will be paid from investment income, and that in the long term there will be no requirement to have a separate strategic aim for the holding of cash.
- 5.13 Therefore the Minister has set a strategic aim of investing 60% in return-seeking assets (equities and alternative investments class), and 40% in risk-reducing assets as detailed below –

	<b>Strategic Aim</b> %	<b>Range</b> %
<u>Stock market assets</u>		
Equities	50	45–55
Bonds	40	36–44
Cash	–	0–3
<u>Non Stock market assets</u>		
Alternative Investments Class	10	n/a

- 5.14 The intention is that this Fund will be able to participate in the Common Investment Fund, as explained in Section 3 of this Appendix.
- 5.15 The ranges for stock market assets only indicate tolerable variations according to investment conditions at any time. Due to the practicalities of Alternative Investments, it is not appropriate to manage these within a small control range.
- 5.16 Investigations are currently being carried out into the selection of appropriate Alternative Investment Classes, whilst being conscious that the Fund achieves the desired levels of returns within the agreed risk profile.
- 5.17 The cash holdings in this Fund are subject to the following restrictions.

### 5.18 Investment Manager Allocation Limits

5.19 Investment is made in cash deposits, certificates of deposits and limited amounts of commercial paper and floating-rate notes. The investment manager operates within the following allocation limits –

<b>Asset Class</b>	<b>Maximum Maturity</b>	<b>Maximum Allocation %</b>
Call & Overnight Deposits	One Day	100
Certificates of Deposit	2 Years	100
Fixed Deposits	3 Months	25
Commercial Paper	3 Months	25
Floating-Rate Notes	5 Years	25

5.20 No more than 25% of the portfolio can exceed one year to maturity.

5.21 Deposits held by Investment Cash Managers can only be made with institutions which fall into the following categories –

<b><i>Deposit term</i></b>	<b><i>Minimum Industry Rating</i></b>
Short-term deposit (up to 12 months)	Standard & Poor's A1 and Moody's P1
Longer-term deposit (over 12 months)	Standard & Poor's AA and Moody's Aa3

5.22 Where deposits are held directly with banks, a minimum AA rating Standard & Poor's (or Aa3 Moody's) is required.

5.23 The Treasurer may allow deposits to be placed with institutions outside the minimum industry ratings described above, in cases where the Treasurer has agreed a specific exemption and deems the overall chance of default not to be significantly increased.

5.24 No off-balance sheet vehicles are permitted.

### 6. Investment Structure

6.1 The Fund can carry out its longer-term investments through the Common Investment Fund.

6.2 The Alternative Investment class currently includes only Property Pools; until the full anticipated range of alternative pools are operational, monies allocated to alternatives, not invested in the Property Pools, will be invested in existing asset classes.

## **THE LORD PORTSEA GIFT FUND INVESTMENT STRATEGY**

### **1. Introduction**

- 1.1 This strategy document is presented in accordance with the terms of the Public Finances (Jersey) Law 2005 (Article 6) (“the Finance Law”), and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (Regulation 4), which require that the Minister for Treasury and Resources presents his investment strategies for States Funds.
- 1.2 The strategy set by the Minister pays particular regard to the need for diversification in both the management of the money available, and the level of funds to be invested.
- 1.3 For Trust and Bequest Funds, the Minister recognises the responsibility to protect the interests of both present and future beneficiaries of the Fund when deciding on the investment strategy for the Fund, focusing on investments which are expected to give optimal performance in terms of their overall return, rather than on investments which will give the “right” balance between capital and income returns.
- 1.4 The Treasurer of the States is responsible for ensuring that the States’ investments are properly managed, controlled and accounted for in accordance with the relevant investment strategies.
- 1.5 This document provides details on –
  - Investment Strategy for the Fund
  - States of Jersey – Common Investment Fund.
- 1.6 The strategy reflects the Minister’s long-term investment aim for this Fund, with the intention to move towards the Fund’s strategic aim as investment opportunities and market conditions allow.
- 1.7 The strategy for this Fund has been developed with reference to the U.K. Charity Commission’s “statement of recommended practice” (SORP 2005), and other U.K. Charity Commission publications.
- 1.8 The report includes information on matters solely relating to this Fund’s strategy. This information is for this specific purpose only and should not be used for any other purpose.

### **2. The Lord Portsea Gift Fund**

#### **2.1 Purpose of the Fund**

On 15th December 1957 a sum of £17,000 was bequeathed by the late Miss Albina Bertram Falle to the Royal Court and the States of Jersey in accordance with the wishes of her brother, the late Lord Portsea of Portsmouth, for the following purpose.

- 2.2 *“I give and bequeath to the Royal Court and the States of Jersey the sum of £17,000 to be known as the Lord Portsea Gift Fund, to help all young Jersey and Guernsey boys (of Jersey and Guernsey Parentage) entering the Royal Navy, Army, Air Force and Civil Services who are in need of Financial help.”*
- 2.3 The States accepted the bequest, under a proposition made by the former Education Committee (now the Minister for Education, Sport and Culture) on 23rd January 1968.
- 2.4 The Fund rules and administrative structure were laid out in the Lord Portsea Gift Fund (Jersey) Act 1971, which was later amended under the Lord Portsea Gift Fund (Jersey) Act 1971 (Amendment) Act 1981, and the Lord Portsea Gift Fund (Jersey) Act 1971 (Amendment No. 2) Act 1997.
- 2.5 The purpose of the Fund was extended under the 1981 and 1997 amendments to include females as well as males; to increase the upper age limit for grants to 30 years old; and to widen the range of occupations applicable.
- 2.6 The Fund is administered by a Delegation of 8 persons – 4 Jurats of the Royal Court appointed from time to time by the Superior Number of the Royal Court, and 4 members of the former Education Committee (now the Minister for Education, Sport and Culture). The Minister for Education, Sport and Culture for the time being acts as Chairman of the Delegation, and shall have a casting vote.
- 2.7 The Delegation has powers to approve grants at their meetings; these meetings generally occur twice a year in March and September. Grants can only be funded from the current year income and accumulated income.
- 2.8 In the 1971 Act, the former Finance and Economics Committee (now the Minister for Treasury and Resources) has the power to make changes to the investments of the Fund as from time to time considered necessary or expedient.
- 2.9 Investment Strategy**
- 2.10 Whilst the 1971 Act gives the Minister for Treasury and Resources the responsibility for investing the capital of the Fund, the Act provides no guidance as to how the investments of the Fund should be carried out. Therefore the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 apply, whereby the Minister for Treasury and Resources is required to be responsible for the development of the Fund’s investment strategy in consultation with the States’ Investment Adviser (Regulation 3), as he sees fit.
- 2.11 In order to meet the Fund’s purpose, the investment strategy set is for half of the Fund’s assets to work towards an objective of maintaining, with a target to exceeding, the real value of the Fund over a rolling 5-year period, and for the remainder of the Fund’s assets to provide sufficiently high levels of income for distribution.
- 2.12 It is assumed that, provided the required distribution income is generated, the delegation will accept some price volatility in their assets in the pursuit of longer-term investment returns.



- 2.13 The strategy assumes that the distributions will be paid from investment income, and that in the long term there will be no requirement to have a separate strategic aim for the holding of cash.
- 2.14 Therefore the Minister has set a strategic aim of investing 60% in return-seeking assets (equities and alternative investments class), and 40% in risk-reducing assets, as detailed below –

	<b>Strategic Aim %</b>	<b>Range %</b>
<u>Stock market assets</u>		
Equities	50	45–55
Bonds	40	36–44
Cash	–	0–3
<u>Non Stock market assets</u>		
Alternative Investments Class	10	n/a

- 2.15 The intention is that this Fund will be able to participate in the Common Investment Fund, as explained in Section 3 of this Appendix.
- 2.16 The ranges for stock market assets only indicate tolerable variations according to investment conditions at any time. Due to the practicalities of Alternative Investments, it is not appropriate to manage these within a small control range.
- 2.17 Investigations are currently being carried out into the selection of appropriate Alternative Investment Classes, whilst being conscious that the Fund achieves the desired levels of returns within the agreed risk profile.
- 2.18 The cash holdings in this Fund are subject to the following restrictions.
- 2.19 Investment Manager Allocation Limits**
- 2.20 Investment is made in cash deposits, certificates of deposits, and limited amounts of commercial paper and floating-rate notes. The investment manager operates within the following allocation limits –

<b>Asset Class</b>	<b>Maximum Maturity</b>	<b>Maximum Allocation %</b>
Call & Overnight Deposits	One Day	100
Certificates of Deposit	2 Years	100
Fixed Deposits	3 Months	25
Commercial Paper	3 Months	25
Floating-Rate Notes	5 Years	25

- 2.21 No more than 25% of the portfolio can exceed one year to maturity.

- 2.22 Deposits held by Investment Cash Managers can only be made with institutions which fall into the following categories –

<i>Deposit term</i>	<i>Minimum Industry Rating</i>
Short-term deposit (up to 12 months)	Standard & Poor's A1 and Moody's P1
Longer-term deposit (over 12 months)	Standard & Poor's AA and Moody's Aa3

- 2.23 Where deposits are held directly with banks, a minimum AA rating Standard & Poor's (or Aa3 Moody's) is required.
- 2.24 The Treasurer may allow deposits to be placed with institutions outside the minimum industry ratings described above, in cases where the Treasurer has agreed a specific exemption and deems the overall chance of default not to be significantly increased.
- 2.25 No off-balance sheet vehicles are permitted.

### **3. Investment Structure**

- 3.1 The Fund can carry out its longer-term investments through the Common Investment Fund.
- 3.2 The Alternative Investment class currently includes only Property Pools; until the full anticipated range of alternative pools are operational, monies allocated to alternatives, not invested in the Property Pools, will be invested in existing asset classes.

## **OTHER FUNDS AND THEIR INVESTMENT STRATEGIES**

### **1. Background**

- 1.1 The Treasury and Resources Department manages the investments of over 250 of the States' "other" funds. These can be split into 4 main categories –
- Trust and Bequest Funds;
  - Confiscation Funds;
  - Special Funds; and
  - Jersey Post Office Pension Fund.
- 1.2 Trust and Special Funds have been dealt with in the above Appendices.

### **2. Confiscation Funds**

#### **2.1 Purpose of the Funds**

- 2.1.1 The Criminal Offences Confiscation Fund and the Drugs Trafficking Confiscation Fund fall into this category.

## **2.2 Strategy**

- 2.2.1 These Funds invest in cash balances, as the legislation governing them states that funds whilst not applied for any of the purposes required by the governing legislation will be placed “in a current or deposit account”.
- 2.2.2 Legal advice is being sought to ascertain whether it is possible to use other investment vehicles in order to maximise returns to these Funds. Once the advice is received, the strategy relating to these Funds may be amended.

## **3. Jersey Post Office Pension Fund**

### **3.1 Purpose of the Fund**

- 3.1.1 When Jersey Post International Limited was incorporated under the provisions of the Postal Services (Transfer) (Jersey) Regulations 2006, the liability for the provision of pensions from the Jersey Post Office Pension Scheme, a closed scheme, transferred to the States.
- 3.1.2 In order to meet this liability, the States also transferred the Jersey Post Office Pension Fund, consisting of assets that exactly matched the future pension liabilities of the scheme (fully funded).

### **3.2 Strategy**

- 3.2.1 As the scheme is closed to new entrants and its liabilities (future pension payments) are linked to the cost of living, the investment strategy seeks to invest in assets that closely match these liabilities. As such, the Fund is predominantly invested in index-linked gilts, as these are likely to provide the best match against the scheme’s future liabilities.

	<b>Asset Allocation %</b>
Index-linked Gilts	93
Cash or near cash equivalents	7

## **STATES OF JERSEY – COMMON INVESTMENT FUND STRATEGIES**

### **1. Introduction**

- 1.1 This strategy document is presented in accordance with the terms of the Public Finances (Jersey) Law 2005 (Article 6) (“the Finance Law”), and the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005 (Regulation 4), which require that the Minister for Treasury and Resources presents his investment strategies for States funds.
- 1.2 The strategies set by the Minister pay particular regard to the need for diversification, in both the management of the money available and the level of funds to be invested.
- 1.3 The Treasurer of the States is responsible for ensuring that the States’ investments are properly managed, controlled and accounted for in accordance with the relevant investment strategies.
- 1.4 This document provides details on the Investment Strategies for the States of Jersey – Common Investment Fund and its various investment pools.
- 1.5 The Common Investment Fund is an administrative arrangement open only to States of Jersey Funds. It provides Funds with the opportunity to pool their resources and benefit from greater investment opportunities and economies of scale. Each Fund will hold units in the Common Investment Fund’s asset pools in line with their individual investment strategies.
- 1.6 The strategy reflects the Minister’s long-term investment aims for the States of Jersey – Common Investment Fund.
- 1.7 This report includes information on matters relating to the States of Jersey Investment Strategies. This information is for this specific purpose only, and should not be used for any other purpose.

### **2. Investment Strategy**

#### **2.1 States of Jersey – Common Investment Fund**

##### **2.1.1 Purpose of the Fund**

- 2.1.2 The States of Jersey – Common Investment Fund was established by Projet P.35/2010, lodged by the Minister for Treasury and Resources. The Projet was in the form of draft legislation, entitled “Draft Public Finances (Transitional Provisions) (No. 2) (Amendment) (Jersey) Regulations 201-”. The purpose of the Projet was to amend several existing Regulations and to create a new Regulation under the Public Finances (Transitional Provisions) (No. 2) (Jersey) Regulations 2005, to enable the pooling of States Funds’ assets for Investment Purposes. This was approved by the States of Jersey on 12th May 2010.

2.1.3 The purpose of the States of Jersey – Common Investment Fund is to create an administrative arrangement which is open only to States of Jersey Funds (“participants”) to provide them with the opportunity to pool their resources and benefit from greater investment opportunities and economies of scale.

2.1.4 The Fund’s objectives are –

- To offer investment pools to participants to enable them to effectively carry out their Investment Strategies.
- For all participants to continue to control their own asset allocations under the current governance arrangements.
- To ensure that the Fund operates effectively so as not to disadvantage any of its participants in relation to issuing of units and the monthly market valuation for those units. (Monthly unit valuation includes the allocation of monthly pool income and costs.)
- To gain efficiencies in relation to the number of Investment Managers appointed by the Fund; by benefiting from reduced number of Investment Manager appointments and reduced management of day-to-day relationships, therefore resulting in lower administration overheads.
- To endeavour, where feasible, to increase the net return for all participants through economies of scale.
- For the States of Jersey Treasury Advisory Panel and the States of Jersey Common Investment Fund Manager to ensure that the Fund’s performance is regularly reviewed, and that it complies with its internal scheme rules; at all times ensuring adequate controls are in place to manage its exposure of associated Investment and Operational risks.

2.1.5 The following Investment Pools will be available to all participants of the States of Jersey – Common Investment Fund –

Equity Pools

- U.K. Equities Pool
- Global Equities Pools
- Emerging Market Equity Pool
- Passive Global Equities Pool

Fixed Income Pools

- U.K. Corporate Bonds Pools
- Global Absolute Return Bond Pools
- U.K. Government Bonds Pools

Cash Pools

- Long-Term Cash and Cash Equivalents Pool

Alternative Investment Pools

- U.K. Pooled Property Pools
- Hedge Funds Pool.

- 2.1.6 Each Participant will hold units in the Common Investment Fund's individual asset pools in line with their individual investment strategies.
- 2.1.7 Larger Special Funds and Separately Constituted Funds will have the opportunity to invest in the Fund as permitted by their legislation/Trust deeds.
- 2.1.8 The Treasury and Resources Department is responsible for the administration of the Fund.
- 2.1.9 The pools will offer accumulation units only to participants, and trading in units is only permitted monthly.
- 2.1.10 The following section outlines the investment approach of each respective Common Investment Fund pool. Each pool is managed by an investment manager operating under a specific mandate, stipulating investment objectives, limitations and conditions designed to manage both the scope of investment and risk/return characteristics of the pool. These underlying investment conditions are constantly monitored, and may be subject to change as market conditions shift. Key investment restrictions are maintained in the scheme rules.
- 2.1.11 Changes to the underlying mandate of any pool will be assessed against the investment approach detailed below. Any mandate changes deemed significant enough to modify the investment approach of the pool will require the States of Jersey Investment Strategies to be resubmitted to the States.

**2.1.12 Statement on Currency Hedging**

The States of Jersey maintains investments that may be denominated in currencies other than sterling. Where the States is exposed to the risk posed from foreign currencies, the following policy applies:

Global equities within the Common Investment Fund will not be hedged back to sterling. Bonds within the Common Investment Fund may be hedged, but this is typically dealt with within the Fund structure and no further consideration is taken. The majority of the foreign currency risk within the Common Investment Fund's Hedge Fund Pool is hedged within the Funds. Where this is not possible due to lack of a sterling share class, 95% of the exposure will be hedged within the pool.

**INVESTMENT STRATEGIES FOR EACH INVESTMENT POOL****Equity Pools:****2.2 U.K. Equities Pool**

- 2.2.1 The focus of the U.K. equities pool is to invest in U.K. equities which are constituents of the FTSE All-Share Index. Although the focus of the pool is to generate returns through investment in U.K. equity, some sectors of the FTSE All-Share index can be concentrated in a small number of stocks. Accordingly, to allow the pool to build an appropriately balanced portfolio, the strategy provides the flexibility to invest a small, but limited, proportion of the pool in non-U.K. equities or cash when deemed desirable by the investment manager.
- 2.2.2 The pool seeks to generate returns which are in excess of those generated by the U.K. Market benchmark.
- 2.2.3 The U.K. equity pool seeks to earn long-term returns by allocating its assets to a well-diversified mix of U.K. equities. At the same time, the equity portfolio assumes a larger amount of risk. During shorter periods of time, it is quite possible for the portfolio to produce lower returns than the risk-reducing asset pools (bonds/cash). Therefore the equity portfolio is particularly appropriate for Funds which choose to invest monies with a longer-term horizon, and therefore should serve as one of the main sources of long-term portfolio growth.
- 2.2.4 The pool is not permitted to trade in derivatives such as options or futures.

**Global Equities Pools**

- 2.2.5 The Common Investment Fund is expected to have multiple global equity pools to manage the high allocation to this asset class. The focus of the global equities pools is to invest in global equities which are constituents of the MSCI All-Country World Index. Each pool is permitted some flexibility to invest a small portion of its overall portfolio in equity from countries outside the MSCI All-Country World Index, or in cash when deemed desirable by the investment manager.
- 2.2.6 The pool seeks to generate returns which are in excess of those generated by the global market benchmark.
- 2.2.7 Each global equity pool seeks to earn long-term returns by allocating its assets to a well-diversified mix of Global equities. Equity portfolios are expected to be higher-risk pools than the fixed-income pools in so far as they are expected to demonstrate higher volatility in their valuations. During shorter periods of time, it is quite possible for the portfolio to produce lower returns than the risk-reducing asset pools (bonds/cash). Therefore the equity portfolio is particularly appropriate for Funds which choose to invest monies with a longer-term horizon, and therefore should serve as one of the main sources of long-term portfolio growth.

- 2.2.8 The pool is permitted to purchase foreign exchange-type derivatives such as forwards, but only for the purpose of hedging or in respect of the settlement of equity transactions/dividend receipts which are in currencies other than Sterling. Short selling of stocks is not permitted.

### **2.3 Emerging Market Equities Pool**

- 2.3.1 The pool seeks to generate returns which are in excess of those generated by the Emerging Market benchmark.
- 2.3.2 The Emerging Market Equities Pool seeks to earn long-term returns by allocating its assets to a diversified mix of equity held in companies operating within Emerging Markets, as defined by the MSCI Emerging Market Index. The Pool seeks to provide structural exposure to Emerging Markets to compliment the exposures which may be obtained through the Global and U.K. Equity Pools which focus on the Developed World. During shorter periods of time, it is quite possible for the portfolio to produce lower returns than the risk-reducing asset pools (bonds/cash). Therefore this portfolio is particularly appropriate for Funds which choose to invest monies with a longer-term horizon, and therefore should serve as one of the main sources of long-term portfolio growth.
- 2.3.3 The pool is permitted to purchase foreign exchange-type derivatives such as forwards, but only for the purpose of hedging or in respect of the settlement of equity transactions/dividend receipts which are in currencies other than Sterling. Short selling of stocks is not permitted.

### **2.4 Global Passive Equity Pool**

- 2.4.1 The global passive equity pool seeks to mimic the returns of the FTSE World Index. The pool will seek to be 100% invested in equity, holding cash only on a transitional basis between equity purchases and withdrawals from the pool.
- 2.4.2 As a passive pool, it will not actively seek out performance, but will instead replicate the FTSE World Index at a lower cost than the actively managed pools.
- 2.4.3 The global passive equity pool seeks to earn long-term returns by allocating its assets to replicate the make-up of the FTSE World Index. All equity portfolios assume a larger amount of risk; during shorter periods of time it is quite possible for the portfolio to produce lower returns than the risk-reducing asset pools (bonds/cash). Therefore the equity portfolio is particularly appropriate for Funds which choose to invest monies with a longer-term horizon, and therefore should serve as one of the main sources of long-term portfolio growth.
- 2.4.4 The pool is permitted to purchase foreign exchange-type derivatives such as forwards, but only for the purpose of hedging or in respect of the settlement of equity transactions/dividend receipts which are in currencies other than sterling. Short selling of stocks is not permitted.



**Fixed Income Pools:****2.5 Corporate Bond Pools**

- 2.5.1 The corporate bond pools will invest in sterling denominated corporate investment grade debt. This may include debt issued by overseas subsidiaries where the holding company is a U.K. company or sterling denominated debt guaranteed by overseas quoted companies or supranationals. The pools are permitted some flexibility to invest a small portion of their overall portfolios in cash when deemed desirable by the investment managers.
- 2.5.2 The pools seek to generate returns which are in excess of those generated by the U.K. corporate bond benchmark.
- 2.5.3 The pools seek yields that are more durable and usually higher than those available from the cash pool. It is suited for funds that can accept the market-value volatility associated with fluctuations in interest rates in order to earn a higher level of income over time than is generally available in the cash pools.
- 2.5.4 The limited use of derivative instruments is permitted to modify duration within set limits. The use of these instruments enables the investment manager to implement their strategic views on overall duration in a more cost efficient and timely manner.

**2.6 Global Absolute Return Bond Pools**

- 2.6.1 The global absolute return bond pools are unconstrained debt-focused pools which invest in a wide fixed income universe, and have greater discretion than the corporate and government bond pools. The pools are permitted some flexibility to invest a small portion of their overall portfolio in cash when deemed desirable by the investment managers.
- 2.6.2 The pools will pursue absolute return strategies and seek to consistently achieve positive returns in all market conditions.
- 2.6.3 The pools tend to exhibit low correlation with fixed-income benchmarks, and so complement investment in the corporate bond pool to reducing the overall volatility of fixed-income returns. Through active management, the pool seeks to earn a higher level of income over time than is generally achievable from the cash pools.
- 2.6.4 The pools are permitted to purchase forward foreign exchange contracts for the purpose of hedging, or in respect of the settlement of transactions/interest receipts which are in currencies other than sterling. The pools are also permitted to utilise derivatives in the form of options and futures and can take both long and short positions.

**2.7 Government Bonds Pools**

- 2.7.1 The U.K. government bonds pools are split between a short-term government bond pool, a long-term government bond pool and an index-linked government bond pool; each will invest in debt issued by the U.K. government.

- 2.7.2 The pools are not actively managed, but passively follow a ‘buy and hold’ mandate, passively maintaining the overall duration each respective pool.
- 2.7.3 The pools will seek to be 100% invested in sterling denominated debt of the U.K. government, holding cash only, on a transitional basis between gilt purchases and withdrawals from the pool.
- 2.7.4 The pools are not permitted to trade in derivatives such as options or futures.

**Cash Pools:**

**3. Long-Term Cash and Cash Equivalents Pool**

- 3.1.1 The long-term cash and cash equivalents pool will invest in cash and cash-equivalent-type instruments, including cash deposits, commercial paper, Treasury bills, certificates of deposit and floating-rate notes. The long-term cash pool is expected to produce higher returns than the operational short-term cash pool, as it is able to purchase instruments with a longer maturity, though the rate of return for this pool is expected to vary with available interest rates.
- 3.1.2 The pool seeks to generate returns which are in excess of short-term LIBOR.
- 3.1.3 Deposits held by the manager of the long-term cash and cash-equivalent pool can only be made with institutions which fall into the following categories –

<i>Deposit term</i>	<i>Minimum Industry Rating</i>
Short-term deposit (up to 12 months)	Standard & Poor’s A1 and Moody’s P1
Longer-term deposit (over 12 months)	Standard & Poor’s AA and Moody’s Aa3

- 3.1.4 Unless otherwise instructed by the Treasurer of the States, assets should be sold when they are downgraded to A3 or lower.
- 3.1.5 The Treasurer may allow deposits to be placed with institutions outside the minimum industry ratings described above, in cases where the Treasurer has agreed a specific exemption and deems the overall chance of default not to be significantly increased.
- 3.1.6 No off-balance sheet vehicles, foreign exchange exposure, convertible bonds or investments which suffer withholding tax are permitted.

**Alternative Investment Pools:**

**3.2 U.K. Pooled Property Pools**

- 3.2.1 The property pools are to invest in existing pooled funds, investing both directly and indirectly in U.K. property; this will allow diversification across a portfolio of properties without acquiring and holding property directly. The property portfolio will focus on commercial property, investing principally but not exclusively, in the retail, office and industrial/warehouse sectors. The pools are

permitted some flexibility to invest a small portion of their overall portfolio in cash when deemed desirable by the investment managers.

- 3.2.2 The pools seek to generate returns which are in excess of appropriate U.K. property benchmarks.
- 3.2.3 The property pools seek to earn an income return and long-term capital returns by allocating assets either directly or indirectly where the managers believe that over the medium term, occupational demand for accommodation will be strong or supply restricted, thus providing the foundation for good relative rental growth and consequently enhanced capital values. During shorter periods of time, it is quite possible for the portfolio to produce lower returns than the risk-reducing asset pools (bonds/cash). Combined with reduced liquidity due limits placed on redemptions, the portfolio is particularly appropriate for Funds which choose to invest monies with a longer-term horizon.
- 3.2.4 The pool is not permitted to trade in derivatives such as options or futures, although the underlying funds may have exposure to derivatives.

### **3.3 Hedge Fund Pool**

- 3.3.1 The Hedge Fund Pool is structured as a portfolio of single-strategy hedge funds with 8–12 hedge funds appointed directly to the Pool. The combination of managers is designed to provide desired characteristics for the pool as a whole to meet the desired characteristics of investing funds.
- 3.3.2 The combination of managers is designed to provide a target return of LIBOR + 4–6%, while providing protection in downturns and non-correlation with equity class assets.
- 3.3.4 To ensure appropriate diversification of manager risk, the portfolio is to contain an allocation to a minimum of 8 hedge fund managers. The pool may transitionally hold less than 8 managers during construction of the pool or through removal of a manager. In this case, the matter must be raised to the attention of the Treasury Advisory Panel, who will recommend steps to ensure risk is managed.
- 3.3.5 Some of the Hedge Fund positions incorporate lock-in conditions limiting immediate liquidity; participants in the pool are aware that such restraints may prevent monthly trading, and consideration of these restraints is made at a strategy level before investment in the pool is made.