



Newsletter

The Official Newsletter of the Cayman Islands Public Service Pensions Board



Summer 2014

news

Message From the Managing Director

Dear Plan Members,

I'm pleased once again to bring you the Public Service Pensions Board Newsletter and am particularly excited to update you on some of the very exciting events that have taken place since the last newsletter.

During the course of this current fiscal year, several things have happened that have changed the public-sector pensions landscape, and in some cases the changes have been quite significant. The most significant event that has taken place is probably the least likely to be noticed by the general public because the immediate effects are hardly felt, if they are even felt at all.

On September 17, 2013, Cabinet approved the most recent actuarial valuations along with an alternative financing arrangement that was designed to help Government control the funding of the past service pension liability. The reason that the impact of this very important event is not felt at the moment is because the very purpose of the funding arrangement is to ensure that there is enough money to pay everyone's pension when they retire. So if no one feels any ripples from this event, that means it has worked and everyone is being paid their pension without any hiccups. Further on in this newsletter, the actuary responsible for conducting the valuations and assisting with developing the financing arrangement, Mr. Mani Sundaresan, explains all of this quite nicely, and I encourage you all to take a couple of minutes to read his article on page 3.

Another important step that the PSPB has undertaken is to conduct the annual review of the investment guidelines that determine how we invest the Fund in keeping with best practice. While major changes won't be made, we will be looking to make some legislative amendments that will give our Investment Committee a little more flexibility when considering different types of investments. It's important for everyone to understand that while there may be some slight amendments down the road, the overall strategy of the Fund will remain conservative in order to protect and grow your contributions. As always, we try to provide you with as much information regarding the investment of your pension as we feasibly can and have once again provided you with an update on the performance of the fund on page 2.

As you may recall from our previous newsletter, we have initiated a survey program that is designed to provide us with feedback from our key stakeholders as well as internally. This program has begun, and we expect to have all data collected and analyzed by the end of the fiscal year. We will then use that information to make further

improvement to our customer service practices and standards in tandem with the initiatives being moved forward by the Deputy Governor and the Civil Service.

Finally, we have initiated an audit of our IT infrastructure, including our pension administration system, as well as an in-depth review of our standard operating procedures. These steps will help us to take an objective look at ourselves with the intention of making improvements to our key processes and to ensure that the systems that we have in place are adequate and functioning properly. This endeavour is one the entire organization has embraced from top to bottom, and we are eager to review the results of the audit and implement recommendations that will make a positive difference to the way we do business.

I hope that you enjoy reading the rest of the newsletter. Please feel free to contact Mr. Trevor Gibbs at 244-7167 or trevor.gibbs@pspb.ky with any suggestions for our newsletter or general feedback on the services provided by the PSPB.

Faithfully,
Jewel Evans Lindsey
Managing Director



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Rates of Return Update

Total Plan

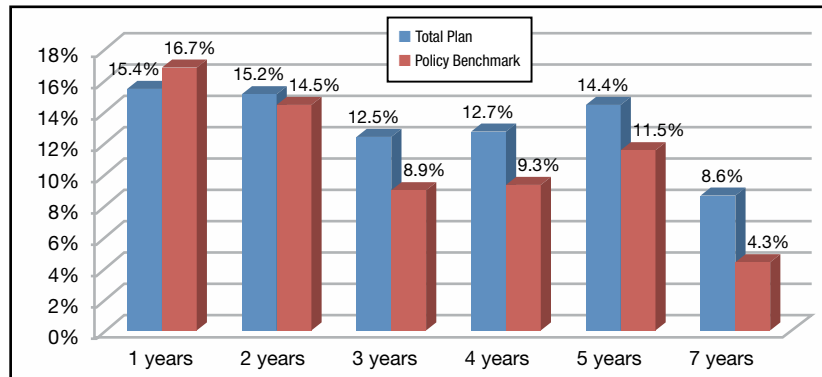
Despite market volatility earlier in 2013, the PSPB Fund made a strong showing in the fourth quarter, leading to a positive 15.4% return over the one-year period, although this lagged the benchmark by 130 basis points. In the longer term, annualized returns and value added remained strongly positive (see chart). The PSPB Fund's

performance ranked in the 73rd percentile for the fourth quarter and the 71st percentile over the one-year period. For the four-year period, the Fund's relative ranking is above average, in the 14th percentile. The Fund's long-term risk return trade-off is low and above the norm when measured against a peer sample of about 105 diversified funds.

Global Equities

While global equities pulled back sharply during the second quarter, the latter part of 2013 saw a significant turnaround driven by the Federal Reserve's monetary stimulus program, signs of U.S. and worldwide economic recovery, and continued slow but steady corporate earnings growth. Stocks had one of their best years ever and the strongest since 1997, with the S&P 500 boasting a total return of around 30% and ending 2013 at its all-time high. Meanwhile, with the threat of global economic meltdown receding, demand for gold fell and its price declined 28.7%, its worst year since 1981.

The global equities rally produced impressive broader equity market returns in the fourth quarter, culminating in a return of 26.7% over the one-year period. Actively managed equities also generated strong absolute performance, although both IFP and GMO underperformed the broader benchmark index. This is not unusual, however, given their emphasis on a conservative, high-quality investment approach. IFP's global equities ranked in the 70th percentile for the one-year period; over the four-year



PSPB Total Fund Annualized Returns (as of December 31, 2013)

period, the relative ranking remains high at the third percentile. GMO's global equities ranked in the 80th percentile for the one-year period, and low and below average over the long term.

Publicly Traded Real Estate Equities

2013 real estate performance was very much a "tale of two markets," as returns were robust in a declining interest-rate environment during the first part of the year, but reversed as interest rates moved higher after mid-May. Despite a fourth-quarter decline, publicly traded real estate delivered a positive return of 5.9% over the calendar year. In terms of the actively managed strategy, returns over the recent quarter remained positive for a return of 4.2% over the one-year period. However, value added over the one-year period was -1.7%, and over the four-year period the annualized return was 9.6%, lagging the broader market by 2.3% per year. Relative ranking was average for the year, but consistently below average in the longer term.

U.S. Fixed Income

U.S. bond yields were particularly volatile in the latter half of 2013, a sign of investor uncertainty. The Barclays Capital Aggregate Index lost 10 basis points over the fourth quarter to produce a one-year return of -2%. Against these market movements, actively managed bonds under the PIMCO Total Return strategy were flat over the fourth quarter and negative over the one-year period, recording a return

of -1.5%. Value added was positive by 50 basis points over the one-year period and 60 points over the three-year period. PIMCO Total Return bond performance placed in the 54th percentile for the one-year period and above average over the four-year period.

Corporate credit risk premiums remained moderately attractive over the fourth quarter. PIMCO Global Investment Grade strategy generated a

quarterly return of 90 basis points, to produce a one-year performance of -30 basis points. Value added over both the quarter and the year was positive, to the extent of 10 basis points. The Wellington Global Credit Plus strategy delivered an impressive quarterly return of 2%, producing 1.2% value added over the quarter and culminating in a one-year return of 40 basis points, ahead of the broader index by 80 basis points. PIMCO Global Credit ranked in the 84th percentile over the one-year period and Wellington Global Credit Plus in the 82nd.

Outlook for 2014

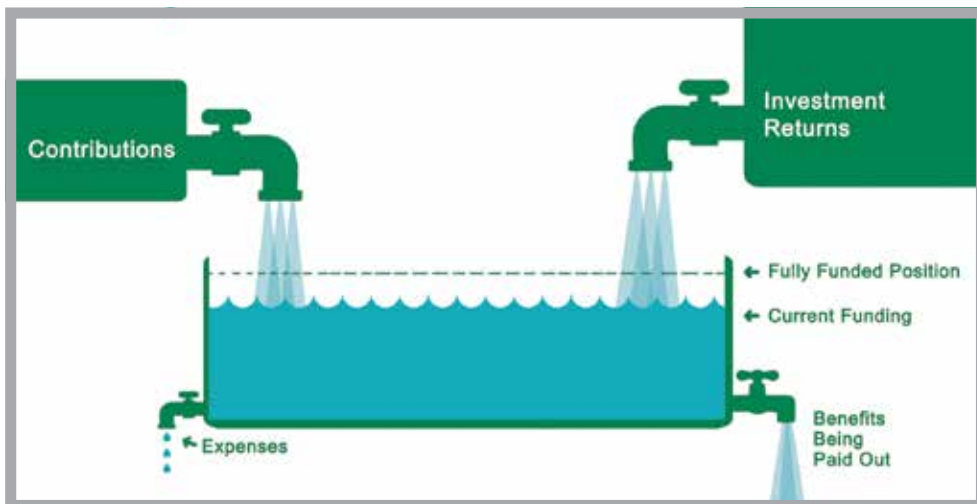
Overall, pension plans appear more optimistic as the cycle enters its sixth year of economic expansion since 2009. Plans began 2014 by being more positive about global growth prospects, especially for the U.S., but increasingly for Europe and Japan. Preference for global equities remains strong. While the slow but improving growth, subdued inflation and robust equity performance that characterized financial markets in 2013 are expected to deliver another good year in 2014, other scenarios could challenge this outlook, including weaker macro conditions, deeper debt burdens and greater inflation pressures. Whether the improving economic backdrop will translate into earnings growth remains the critical question for stock investors in the near term. Our view is that fundamentals and the Federal Reserve will drive this year's performance in equity markets worldwide. ✨

Actuarial Valuation Reports Are Approved

What Is an Actuarial Valuation and Why Is It Needed?

An actuarial valuation of a pension plan is an exercise involving complex calculations and analyses of the obligations arising. It involves long-term projection of benefit payments and evaluation of the pension liabilities and long-term financial consequences arising from certain actions. The pension laws require that actuarial valuations are carried out at least once every three years to determine the extent to which the Fund is capable of paying out its future pension obligations and to develop required contribution rates going forward.

The PSPB has faithfully carried out these valuations every three years since the early 1990s. The finalization of these valuations requires Cabinet approval and then tabling of the reports in the Parliament.



invested in preparation for the future payment of benefits. Funding of pension plans provides greater security to participants and also more financial stability to the sponsoring employers. The three plans are the Public Service Pensions Plan (PSPP), the Parliamentary Pensions Plan and the Judicial Pension Plan. The PSPP is by far the largest of the plans. It has the largest membership, value of past service benefits, allocated assets, actuarial deficiency and contribution requirement. This is captured in the accompanying table showing the main results of the January 1, 2011, valuation.

It is the defined benefit (DB) part that has the unfunded past service liability, sometimes

called the actuarial deficiency. This actuarial deficiency has mainly arisen because the funding of the plan only started in the early 1990s although the plan originated in 1962. There was therefore a significant amount of unfunded obligations to start with. In addition, several other factors, including inadequate contributions as well as investment restrictions, compounded the problem during that period.

Each of these three plans has a DB part and a defined contribution (DC) part. The DC part of the main PSPP has been growing rapidly since its commencement on January 1, 2000, on which date the DB part was closed to new hires. The DC parts of the other two plans are much newer and very much smaller.

In addition to meeting the legal requirements as mentioned above, the actuarial reports also serve as informative documents that provide required contribution rates for each sponsoring employer, as well as commentary on the long-term financing of the plans and areas that may require particular attention. ✨

The Public Service Pensions Board is pleased to announce that the Government has approved the actuarial valuation reports of the pension plans that the PSPB had arranged to be carried out over the last few years.. What this means is that the regulations, which, among other things, include contribution rates that were established from the valuation reports, can finally be made and implemented. This will now pave the way for the Government and Statutory Authorities to make contributions to the plans in a formal and recognized manner.

The PSPB administers three plans that are partially funded, meaning that assets are accumulated and

Main Results of the January 1, 2011, Actuarial Valuation

(Monetary amounts are in thousands of C\$.)

	Public Service Pension Plan	Parliamentarian Pension Plan	Judicial Pension Plan
Participants			
Active in service	4,674	15	3
Retired, terminated and beneficiaries	2,787	46	—
Past Service Liability	475,728	16,722	2,399
Allocated Assets	309,868	3,809	2,846
Unfunded Past Service Liability	165,860	12,913	(447)
Annual Contribution Requirement	44,384	1,875	104



Participant Profile

Ms. Janet Macmillan
Administration, Human Resources and Freedom of Information Manager
Mosquito Research and Control Unit

In 1966, Ms. Janet Macmillan graduated from Cayman Islands High School and intended to take a secretarial course — “but that was not what God had planned for me,” she recalls. Dr. Marco E.C. Giglioli had recently founded a new government department, the Mosquito Research and Control Unit (MRCU), to suppress the Islands’ mosquito population with the goal of protecting residents and visitors from disease, encouraging the growth of tourism to aid the economy and enhancing quality of life for all Caymanians. He was looking for a clerical officer and Ms. Macmillan was recommended to him. She got the job, and so began a long and dedicated career. In September 2013 she celebrated 47 years at MRCU, which she attributes to “good colleagues, diversity within my daily job, always being challenged to learn and do more, the support and encouragement of my family and friends, a positive attitude and a genuine belief that what we do within our department serves our country well.”

Although Ms. Macmillan had not originally considered public service, she always knew she

wanted to work with people. As a girl in George Town, working with her aunt at the Yankee Notion Shop during the summer holidays, she dealt with diverse customers, both local and from overseas. “My early start in customer service taught me invaluable lessons and helped me to never underestimate the value of good communication, following through on a task, taking the pride in a job well done and being respectful to all whom I came in contact with,” she says.

Those lessons have served Ms. Macmillan well. She continued her education — at Sylvia Gill Secretarial School and through government training — while working full-time and was promoted as she gained experience and qualifications. In her current position as Administration, Human Resources and Freedom of Information Manager, she supervises all MRCU administrative staff in both Grand Cayman and Cayman Brac, juggling duties that include payroll, liaising with other departments, verifying bill payments, organizing meetings and providing budget figures. “This is the fun part of the job,” she says, “knowing that every day will bring a new challenge, and it is never boring!”

Ms. Macmillan’s hard work has not gone unrecognized. She was awarded the Cayman Islands Certificate and Badge of Honour in 1992, and in May 2013, when MRCU’s new aircraft hangar opened and was named after current Director Dr. William Petrie, the fa-



cility’s pesticide building — custom-built to hurricane standards to hold plentiful supplies safely and efficiently — was declared the Janet Macmillan Building. She is honored to be so appreciated by her colleagues, but she is equally proud of her family and her church and community activities, such as being an Elder in the Elmslie Memorial United Church and working for the General Elections. “Last but not least,” she adds, “I am proud to be one of the original Caymanians still living in the beautiful Cayman Islands!”

Ms. Macmillan hopes that retirement will bring “travelling, especially to Europe; relaxing on the beach in my backyard; and definitely spending quality time with my four grandchildren, who are the love of my life!” Yet she feels she still has much to contribute to MRCU and plans to work for a few more years. Reflecting on her career thus far, she says, “One of the most important lessons I have learned is to be respectful, as everyone needs to remember that respect is earned. Humility and gratitude are also important traits to embody. The courage to ask for help and to say ‘thank you’ when you get it should never be underestimated.” Ms. Macmillan has certainly earned a “thank you” for her devoted service. ✨



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