



Newsletter

The Official Newsletter of the Cayman Islands Public Service Pensions Board



Summer 2015

news

Message From the Managing Director

Dear Plan Members,

In the past, we have addressed various topics regarding the investment of the Public Service Pensions Fund in our newsletter, in addition to the Fund performance update that is routinely included. Our intent has always been to provide relevant information to promote a greater understanding and a healthy interest in your pension.

After reviewing your feedback from our customer service survey, we have already begun taking steps to improve in the areas that were of most concern to you. One of the most frequently expressed concerns was that there was not enough information readily available regarding the investment strategy and performance of the Fund. What that did was reaffirm something we have always thought to be true, that Plan members are a group of individuals who value information.

We are encouraged by this, and it has now challenged us to provide even more material on the topics that you have expressed significant interest in, most notably investments. So as not to delay putting our words into action, we have included an article on page 3 entitled "The PSPB Investment Strategy," which outlines the fundamentals of how the Fund is invested and the impact that it has on your pension. We hope that you find the article to be both interesting and informative. We are also hopeful that in our next newsletter we will be able to share highlights from the results of the 2014 Actuarial Valuation after it is tabled in the Legislative Assembly.

In addition to the request for more investment information, we have taken notice of a relatively small group of public servants who have expressed a strong interest in increasing their pensions by voluntarily deducting more money from their salary than is currently deducted for pension. Unfortunately, this is not currently allowed under the Public Service Pensions Law, but it draws our attention to an important point: Plan participants know that they have a limited amount of time to accumulate pension contributions, and they want to make the most of that time. On the surface, the motivation for this is simple — more money in means more money out at retirement. It's a basic concept that each of us can understand, but there is actually more to it.

Recent statistical analysis shows that the global population is generally living longer than ever before, and as a result, pension plans all over the world are taking notice. Here in the Cayman Islands, we don't have to look much further than people like Ms. Georgette Ebanks and Mr. Vernon Jackson (both of whom are over 85 and were interviewed for our Pensioner Profile on page 3) to find evidence of this global trend among our own local population. Part of the PSPB's role is to facilitate the valuation

of the Public Service Pensions Fund to ensure that the Fund is able to cover pensions currently in payment as well as pension payments that will be due several decades from now.

In order to do this, the PSPB retains actuaries who are given the task of making assumptions about the financial demands that will be placed on the Fund in the future. These assumptions are based on a wide range of data, and one of the most important pieces of data relates to how long we are all generally expected to live.

The overall process is quite complicated, but one thing that we can all appreciate is that we are living longer, and as a direct result it is more important than ever to ensure that we are financially prepared to maintain ourselves for many years after retirement.

With all that being said, I am hopeful that you will take the time to read the information that is included in this edition of our newsletter, and that you will continue to send your valuable feedback on how we can better serve you to pspb@pspb.ky.

Faithfully,
Jewel Evans Lindsey
Managing Director



In This Issue

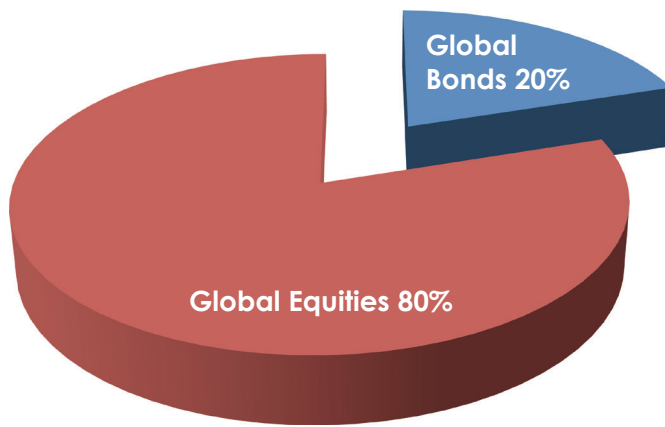
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Investment Update

Where Are the PSPB Fund's Assets Invested?

The PSPB Fund's assets are invested in global equities and global bonds. As of December 31, 2014, the investment split was 80 percent global equities and 20 percent global bonds.



Global equities: Even though there was evidence of weaker growth and a collapse in the price of oil, both of which dampened the performance of equity markets worldwide, stock markets recovered to deliver strong returns, with major stock markets worldwide achieving all-time highs.

Bonds: Weakened growth and plummeting oil prices spurred inflows into U.S. Treasuries, driving long-term interest rates lower over 2014, despite the expectation that market rates of interest would increase by mid-2015.

Outlook for 2015

An improving economic landscape in the U.S. and continuing high levels of central bank liquidity worldwide have helped to reduce the probability of an extreme outcome in 2015. Global central banks

Types of Assets

Equities, commonly referred to as stocks, represent an ownership interest in a company. Investors in global equity strategies have an ownership interest in companies across different geographies worldwide.

Bonds are income-generating investments with a maturity date, also referred to as fixed-income securities. Corporations and governments issue bonds for investment and pay the bond holder a rate of interest.

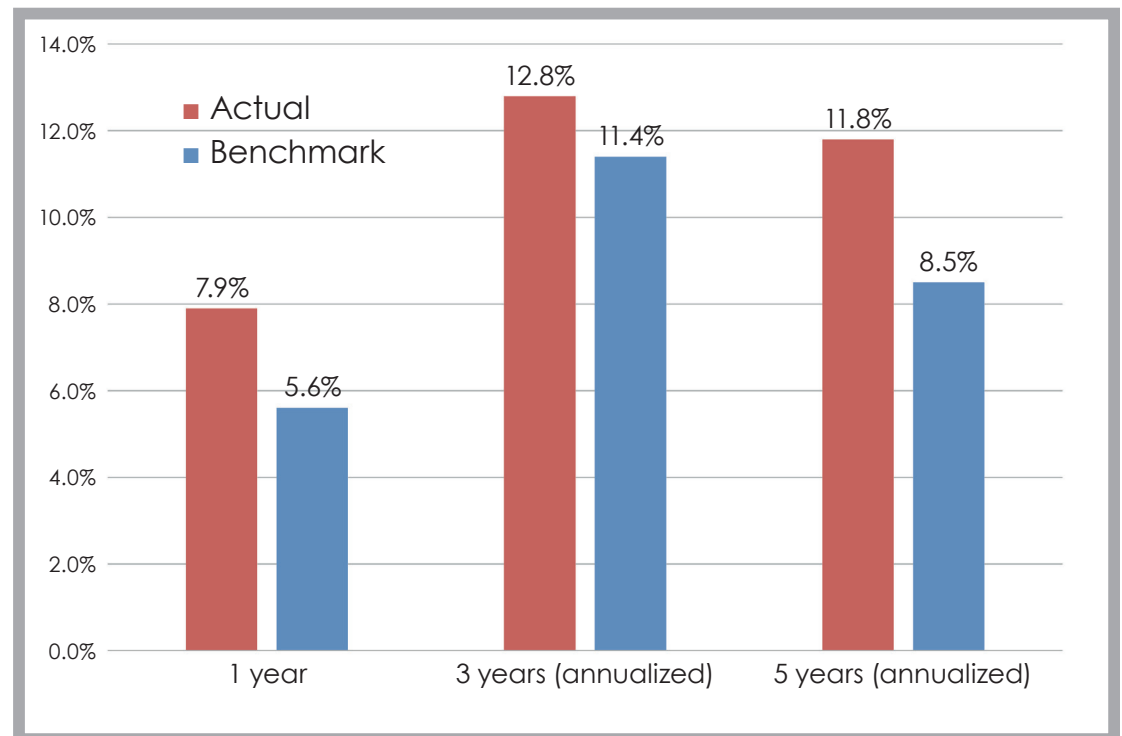
are expected to maintain their accommodative monetary policies for some time. While market rates of interest are likely to rise, the increase should be well telegraphed, measured and gradual, allowing the PSPB Fund to adapt and preserve investment values. ✨

How Are the Investments Performing?

The PSPB Fund has achieved an above-average performance. Appropriate benchmarks are used to assess the relative performance of its investments. The chart at right shows the actual performance of the PSPB Fund's investments compared to its benchmark over one-, three- and five-year periods ending December 31, 2014.

2014 in Review

Another strong year for equity markets, coupled with higher-than-expected returns from bonds, pushed total investment returns upward and into solidly positive performance over calendar year 2014.



The PSPB Investment Strategy

As with all things that ebb and flow the way that global financial markets do, there are inevitable peaks and troughs. The main goal, of course, is to try to smooth out the extreme movements as much as possible and increase the predictability of achieving positive returns that are both above average and sustainable.

While achieving double-digit returns is always appreciated, as the Public Service Pensions Fund has done on a few occasions in the past, history tells us that a level of return above 8 percent is difficult to sustain over a significant period of time without being exposed to quite a bit of risk. In the case of the Public Service Pensions Fund, the Board follows carefully designed policies and procedures that reduce the risk involved in investment without sacrificing the opportunity to achieve above-average returns. It is important to note that the Fund is managed in accordance with

applicable legislation.

By taking this relatively conservative approach, the PSPB anticipates that over the medium to long term there should rarely be any annual returns at the extreme end of the spectrum. In other words, returns in the 20 percent range are predicted to be an uncommon outcome, just as negative returns are less likely. However, the ability of the Fund to consistently perform in the 8 to 12 percent range on an

Rate of Return	
2006	8.29%
2007	8.29%
2008	(0.19)%
2009	(0.49)%
2010	1.21%
2011	9.79%
2012	9.65%
2013	11.66%
2014	11.21%

annual basis is convincing evidence that the strategy is sound, providing the needed comfort level that contributions to the Fund should continue to grow over the long term. On a cautionary note, however, there are no guarantees available to ensure above-average rates of return each and every year. The PSPB is very cognizant of this, and in order to further reduce the risk of unfavourable returns, the interest that is applied to all active pension accounts — the credited rate of return (CRR) — is

calculated by using a geometric average of the returns over a moving three-year period.

The reason for using this method is straightforward: If a three-year moving average is used, the impact of one bad year of investment is greatly diminished. This outcome was tested in 2008, when the global financial crisis caused equity markets to dramatically plunge. If the current method of calculating the CRR was not utilized, the rate of return applied to members' account balances could easily have been in the -10 to -15 percent range instead of -0.68 percent over the 2008 and 2009 periods combined.

It is worth pointing out that the opposite would have been the case if the Fund had achieved an exceptional rate of return. This is the offset that comes with protecting pensions in this way. What we hope you will notice in the accompanying table is that aside from the poor return in 2008, which was due to the global financial crisis, the Fund has performed well and has earned strong returns over the last nine years.

While pleased with the investment results, the Board of Directors believes that as the PSPB Fund goes into 2015, performance will be maintained with moderate to low risk exposures, which should continue to provide protection against potentially severe stock market swings consistent with past experiences. ✨

Pensioner Profile

Mr. Vernon Jackson
Ms. Georgette Ebanks

With almost 60 years of service to the Cayman Islands between them and an average age of 86, some might consider the immense wealth of knowledge and experience that resides within Mr. Vernon Jackson and Ms. Georgette Ebanks to be a national treasure. It could also be said that there aren't too many people in these Islands who are better positioned to confirm the importance of a substantial and long-sustaining pension benefit after retirement.

Mr. Jackson got his start with Government as a teacher after studying at Mico College in Jamaica, where he received his teaching accreditation. Between that time and his retirement from Government after more than 33 years of service, Mr. Jackson held a number of senior posts in Government, mostly within Education, rising to the position of Permanent Secretary (now Chief Officer). In preparation for these posts, he received administrative training and certification at the University of Reading, England.

Throughout his tenure in education, Mr. Jackson remained staunchly committed to

educating the local youth. So strong was his commitment to this cause that he believed it was his duty to educate young people even if there weren't enough jobs on the island to support them, because knowledge is valued and necessary to survive anywhere in the world.

In addition to his work in education, Mr. Jackson served for many years as Supervisor of Elections, on the Parole Board, in the Juvenile Court, and as Scout Master for the Cayman Islands. He is a founding member of the Rotary Club and the Gun Club, a lifetime member of the

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United Church and a serving Justice of the Peace. He was awarded an OBE by the Queen in 1984.

After retirement, Mr. Jackson and his wife of 64 years, Mrs. Francine Jackson, started the company Cayman Weddings and have helped to arrange and officiate at over 8,000 weddings. Although Mr. and Mrs. Jackson have been less involved with it in the last few years, the management of the business remains a family responsibility, with their daughter, Mrs. Joy Basdeo, now in charge.

Ms. Ebanks followed a different path into the civil service than Mr. Jackson, by taking a clerical position in the Post Office offered to her by Mr. Harry McCoy (to whom she says she continues to be grateful). It wasn't long before Ms. Ebanks was in St. Lucia, attending

a three-month supervisory training course put on by the UN after being promoted to Supervisor of the mail room.

During her time at the Post Office, Ms. Ebanks says, she took great pleasure in meeting with and assisting people from all walks of life. Every piece of mail was of equal importance, and her staff was as personally invested as she was in ensuring that each letter sent eventually became a letter received.

Ms. Ebanks jokingly reminisced that although "some days were rocks" she knew that there would be more days that would be "diamonds," and it was this positive outlook on life that seemed to touch every member of her staff and kept the unit focused on the task at hand.

As one might imagine, the stories and opinions expressed in the interviews for this article

could fill the George Town Library and have had to be greatly condensed to fit the pages of this newsletter. There were, however, two sentiments that both Mr. Jackson and Ms. Ebanks expressed with more emphasis than any others: the dignity that comes with working hard to earn an honest living, and the incredible sense of joy that they felt when talking about their beautiful families. For every inspiring story about an obstacle that they overcame or an accolade that they received during their time in the workforce, there was an equally wonderful story about their children, grandchildren or spouse that drew beautiful smiles across their faces. Perhaps if we all take as much joy from our family and our work as Mr. Jackson and Ms. Ebanks do, we too can look forward to reminiscing about our lives many years after we've retired with big smiles on our faces. ✨



Mr. Vernon Jackson and his wife, Mrs. Francine Jackson, outside their home in West Bay



Ms. Georgette Ebanks with some of her treasured family pictures



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