PUBLIC SERVICE PENSIONS BOARD

Newsletter

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Summer 2009

news

Message from the Managing Director

Dear Plan Members,

On behalf of the Public Service Pensions Board, it is once again my privilege to report on the operation of your pension plans, with the main focus of this newsletter being the investment program. We believe that effective communications with Plan Members and other interested parties is very important and hope that this issue will be useful to you. As always, we welcome suggestions for improvement.

As you may know, the global recession and plunging stock markets hit pension plans hard in calendar 2008 and every type of retirement savings plan was affected. Yet, we're pleased to report that even within a year marked by tumultuous and volatile markets, your pension plan delivered only marginally negative credited rates of return for 2008. Although negative rates of return might seem unsettling, they were well within our long-term expectations for risk and return on investment. (Please see page 2 for more information about the Plan's credited rates of return.) They were also relatively more attractive than the average pension plan experience of negative 30 percent.

In these economic times, a pension plan's best defense is its long time horizon. While the Public Service Pensions Plan has technically experienced losses, those losses are only on paper, because invested assets weren't needed to raise cash to pay beneficiaries and related expenses, losses have not been crystallized. This is quite fortunate given that worldwide equity markets are now recording 12-year lows. Historically, 12-year lows within equity markets are rare events and have occurred only twice, in 1932 and 1974. Pension plans and investors who must sell into these down equity markets lose twice. As is our standard practice, we continually adjust the investment program at the margin. In spite of this, **the pension plan will stay its course, thereby producing long-term gains.**

It is actually a remarkable achievement that we experienced only small negative rates of return under such volatile circumstances. To understand why, it is helpful to be aware of the negative effect the global recession has had on pension plans worldwide. A Watson Wyatt report reveals that the value of pension plan assets in 11 of the largest retirement markets in the world dropped an average of 26 percent to $20 trillion. Further, experts predict that by the time capital markets stabilize many pension plans could be facing losses as great as 35 percent. In addition to these equity market upsets, credit markets were also extremely volatile and values in the real estate market declined.

To mitigate these factors, the Board, assisted by an independent Investment Advisor, oversaw changes to the Pension Plan's combination of investments (also known as its asset mix) and investment policies. As turmoil within the capital markets became visible, the Trustees moved invested assets toward a more conservative asset mix, in an effort to preserve capital and enhance future returns. This has caused the bond segment of the pension plans to grow to more than 50 percent of the overall invested assets (up from about 35 percent) over the last 18-month period. Further, the Board of Trustees continued to pursue strategic initiatives to diversify the Plan's publicly traded holdings. Guided by its overarching objective of meeting the Plan's promise, the Board of Trustees will continue to seek to mitigate volatility while generating above-average long-term returns and stable results.

Due to initiatives such as the U.S. economic stimulus package, bank rescue plans and other efforts, the Board believes that capital markets could stabilize by mid-year 2009 and possibly lead to signs of recovery in late 2009 or early 2010. Regardless, our objective will be to continue diversifying the Plan. Although this has been a multi-year objective and the tasks ahead for the Board are complex, I am nonetheless confident that the Board's expertise and its culture, which is characterized by high performance and integrity, will enable it to meet those challenges.

As investments become more complex and capital markets more inter-related, it remains a priority that Management and the Board of Trustees stay up-to-date on investment activities and market practices, which we achieve through ongoing educational sessions. Additionally, we are moving toward establishing key management, technological and operational capabilities that will ensure an appropriate structure is in place to support our administrative, data and risk-management activities. To achieve this, we are in the process of adding two senior management specialists who will significantly enhance our support capabilities, oversight and processes.

On behalf of the members of the Board of Trustees, I would like to express our appreciation to the members of the Investment Committee for their commitment and wise counsel. Additionally, I would like to extend thanks to our strategic partners for their dedication and contributions to our achievements during these challenging times.

Faithfully,
Jewel Evans Lindsey
Managing Director

Rates of Return Update

Mary Linton
Managing Partner,
Advisory Capital Group

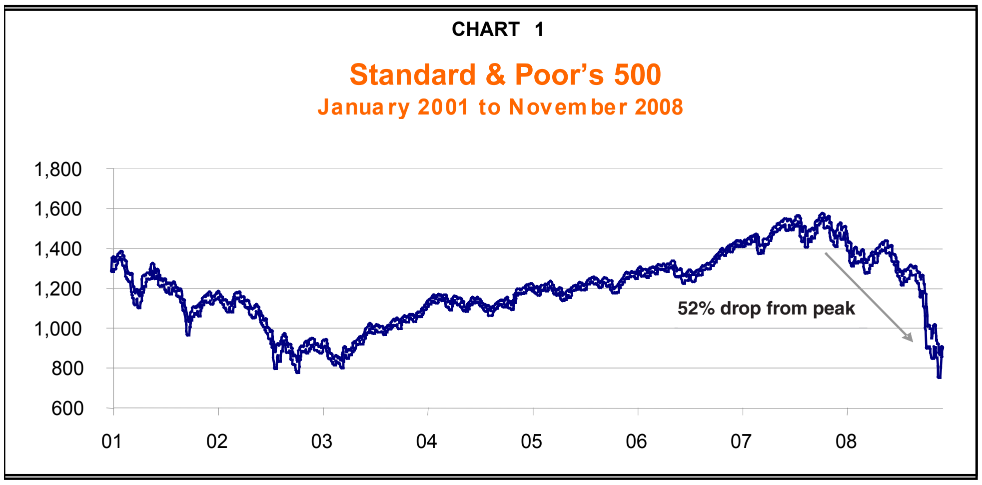
As mentioned in the Managing Director's Message, the Plan delivered marginally negative credited rates of return in 2008. While no one appreciates a negative number, the negative 0.41 percent credited rate of return experienced by the Plan was relatively attractive and well within the Pensions Board's parameters regarding long-term investment risk and return. These parameters are based on a three-year time horizon, which means that the investment returns for each of the most recent three years were considered when establishing the 2008 rate. The negative 0.41 percent rate of return resulted because the equity market declined within the last eight months of 2008, offsetting the positive earnings the Public Service Pensions Board Fund experienced previously.

Although the Investment Committee actively monitors the performance of the Fund, the deterioration of capital markets during 2008 was beyond anyone's expectation. Both stocks and bonds generated negative returns and the decline experienced by the Standard & Poor's (S&P) 500 was the third worst in recorded history. (Please see Chart 1.) As a result, every type of retirement savings vehicle was affected. The full extent of the effect is still being tabulated but the Federal Reserve's Flow of Funds report reveals that losses were due to severe equity market declines and that U.S. retirement plans lost close to 30 percent of their value in 2008.

As a result of the global recession, the Plan's assets available for benefit and pensioner payments declined to about $260 million by December 31, 2008, even though bond and cash equivalent investments were increased to the highest allowable levels within the Plan's combination of investments (also known as its asset mix). The upward adjustments in bonds and cash equivalent investments was consistent with the investment objectives of the Plan, which seek to preserve principal and earn the highest long-term rate of return with reasonably low levels of risk.

The Plan's investments are managed by a Board of Trustees through third-party Investment Managers, who are guided by applicable laws, regulations and the Plan's Statement of Investment Policy and Procedures. The Board of Trustees has delegated responsibility for management of the invested assets to an Investment Committee that meets quarterly to review investment performance of the Plan and the asset mix across different categories, such as bonds and international equities. Different investment strategies are also continually assessed and an in-depth review of each Investment Manager is conducted at least once a year. Every performance slippage is investigated to determine whether it is defensible over the short term. However, over the long term, value added must be delivered.

Each third-party Investment Manager's objective is to generate returns, after deductions of management fees and administrative costs related to the investment activity of at least equal to the benchmark index (for example, the S&P 500 is one type of index), plus a premium or "value added." During 2008, the value added was more than 10 percent above the benchmark. This is exceptional by any measure and well above the Pensions Board's long-term value added target of 1.5 percent after deduction of related fees.



Historic Rates of Return

The following table displays the annual credited rates of return from to 2000 to 2008. To mitigate the ups and downs of investment returns, it was decided that Member account balances would be credited with an interest rate known as the Credited Rate of Return (CRR), which reflects investment returns over a three-year period. Thus, investment returns credited to member account balances at the end of 2008 reflected the average of actual annual fund returns, net expenses, for the period from 2006 to 2008.

Credited Rates of Return	
2000	5.16%
2001	1.86%
2002	-4.41%
2003	-1.20%
2004	2.32%
2005	6.77%
2006	8.29%
2007	8.29%
2008	-0.41%

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Investment Committee Report

Eric J. Crutchley
Chairman,
PSPB Investment Committee

The Investment Committee is a Board subcommittee appointed by the Board of Trustees of the Public Service Pensions Fund to oversee the Plan's investment program. The Investment Committee's actions are subject to the Board of Trustee's administration and cover six main areas related to the Fund's investment program. They include the following:

1. *Investment Policy Development*

The Investment Policy documents investment principles and guidelines appropriate to the objectives of the Fund, which is comprised of the combined assets of the Public Service Pensions Plan (PSPB), the Parliamentary Pensions Plan and the Judiciary Pension Plan. The Investment Policy also defines the management structure and monitoring procedures for ongoing Fund operation.

When evaluating investment policy, the Investment Committee is guided by the Statement of Investment Policies and Procedures, which is subject to annual review. This review is conducted by the Investment Committee, in conjunction with the Investment Advisor (Advisory Capital Group, a professional consulting firm, currently serves in this capacity), to ensure the appropriateness of the policies and procedures. This review process and any resulting changes to the Statement ensure that PSPB policies are in step with global market developments.

2. *Investment Manager Oversight*

One of the primary functions of the Investment Committee, which is accomplished with the assistance of the Investment Advisor, is the selection of Investment Managers for the Fund. As money becomes available for investment, the Managing Director and the Director of Finance & Investments convey investment instructions to the Investment Advisor, who then places the funds with the appropriate Investment Manager. The performance of the Investment Manager is reviewed quarterly by the Investment Committee and the Investment Advisor, and is subject to closer scrutiny if performance levels do not at least meet the benchmarks. Investment Managers can also be terminated if their underperformance continues.

Investment Manager quarterly reviews include evaluation of these important factors:

- The Fund's assets and net cash flow
- The Fund's investment performance statistics
- Each Manager's investment performance, relative to the set objectives
- Compliance of the current asset mix with the Investment Policy
- Whether market conditions dictate adjustments to the asset mix

3. *Investment Monitoring and Compliance Reporting*

Investment monitoring and compliance reporting is undertaken by the executive management and reviewed by the Investment Committee at its quarterly meetings. Plan management also stays in contact with the Investment Committee members in the interim as input is required. Communications have been more frequent recently, and there were seven committee meetings held in 2008. The Investment Committee has plans to meet every four to six weeks until the volatile market conditions subside.

4. *Investment Strategy Development*

The standard Fund strategy toward its asset mix used to be:

Global Equities	50-75%
U.S. Fixed Income	25-50%
Real Estate	0-5%
Cash	0-5%

During recent years, however, many pension funds have looked for alternative investments to improve their returns. As a result of recent global market volatility, percentages that could formerly be relied upon as guidelines no longer apply. In response, the Investment Committee is currently reviewing the asset mix to determine appropriate changes.

Investment Committee Members
- Mr. Eric J Crutchley, Chairman
- Mr. Kirkland Nixon
- Mr. Leonard Ebanks
- Mrs. Jewel Evans-Lindsey

Committee Responsibilities
- Investment policy development
- Investment Manager oversight
- Investment monitoring and compliance reporting
- Investment strategy development
- Cash flow monitoring
- General investment advice

5. *Cash Flow Monitoring*

Day-to-day cash flow monitoring is undertaken by the Director of Finance and Investments, in conjunction with the Managing Director. Investment Committee members are consulted as required.

6. *General Investment Advice, in Conjunction with the Board's Investment Advisor*

While the responsibility for investments lies with the Investment Committee under the Board's authority, the Investment Advisor plays an integral supporting role by staying close to the external investment management team; assisting in the identification of major turns in capital markets critical to asset allocation; and making recommendations related to rebalancing when required to maintain a position of enhanced performance. Additionally, the Investment Advisor consults with a number of other pension plans, against whose collective performance we judge our own Fund's performance. The Investment Advisor's knowledge of and access to current and historical data relating to market trends and Investment Managers' performances is vital to the Investment Committee, and is taken into consideration when replacement or additional Investment Managers are being considered. The Investment Advisor produces comprehensive quarterly reports, which are submitted to the Board, and visits at least annually when the Investment Managers make their yearly presentations.

Participant Profile

Jonathan Jackson
General Manager, Cayman Islands Recreation, Parks & Cemetery Unit

As you head towards your place of work through the streets of central George Town or take an early morning stroll along one of the many public beaches, have you ever wondered who helps to keep these areas looking so pristine? Well, it's thanks to the efforts of General Manager Jonathan Jackson and the new Recreation, Parks & Cemetery Unit (RPCU) he heads. Mr. Jackson, however, is quick to point out that even though he's at the helm, he's assisted by 30 people who work shoulder-to-shoulder with him as equals.

"We've broken down the usual hierarchy so we can all work as a team. If there's a need, sometimes the managers go out with the workers at 5a.m. or even 2 a.m. We all work together to take care of the island's facilities as if they were in our own backyards."

Although Mr. Jackson has worked for the government in two other related positions, he was an architect and project manager for a private company when the economy forced that position to end. He wasn't sure what his next step would be until his wife saw the RPCU position in the newspaper and asked him, "Would you like to work for the government again?"

When Mr. Jackson read the job description, he knew that he and the job would be well-suited for each other because of his degrees in architecture and landscaping; his extensive professional experience in urban planning, architectural design and landscaping, and the fact that he had spent the previous eight years as a project manager on high-profile projects such as the Countryside Shopping Village and the Customs Headquarters. Mr. Jackson and the RPCU *are* a good match; which is odd considering that, above all, he thinks of himself as a musician. "My passion in life is music." But he uses even that talent to the RPCU's benefit. As he said, "I apply that passion for music to my job. I'm a very rhythmic manager."

Just because Mr. Jackson has the soul of a musician doesn't mean he's any less proficient at managing a government department. In fact, he and his team have been hard at work establishing all the guidelines, regulations and potential revenue streams a new unit needs to operate. They've even been studying other parks and recreation departments in the U.S. and Canada to cull the best of their regulations so the RPCU doesn't have to reinvent the wheel.

They also have a hazard plan that ensures that the island's facilities are prepared in case of a hurricane. You will probably see his staff taking part in their annual hurricane-preparedness drill this May, which will ensure they'll be ready when hurricane season starts. Mr. Jackson is acutely aware of the importance of this preparation to the islands safety: "It's our job to be prepared. We don't fool around with hurricanes on this island." So islanders can rest assured. Thanks to Mr. Jackson and his team, the Cayman Islands not only look good but are in safe hands also.

Public Service Pensions Board
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