



# Public Service Pensions Board

## Performance for the Year Ended June 30, 2007

The Public Service Pensions Board (the “Board”), is entrusted with investing the assets of public pension funds. The Board, with the assistance of professional investment managers, identifies and pursues investment opportunities in accordance with legislation, best practices and the funds’ Statement of Investment Policy and Procedures. Management’s responsibilities are defined as planning, executing and reporting the activities of the pension funds. Subject to the Board’s approval, management develops and implements all relevant policies including those in the areas of investment, communications, integrity and control, organization and compensation, and operations and administration. Additionally, throughout the process, management ensures that the pension funds are administered in compliance with such oversight and regulatory requirements.

The investment objective of the pension funds is to produce returns over the long term that, at a minimum, achieve the return required to meet the pension funds’ liabilities in conjunction with the agreed upon long-term actuarial financing provisions. Each investment manager’s objective is to generate returns, after deductions for management fees, that at least equal the annual average increase in a benchmark portfolio on a three-year moving average basis. The pension funds’ net invested assets available for benefits increased by approximately US\$66 million from US\$207 million at June 30, 2006 to US\$273 million at June 30, 2007. The increase is primarily attributed to a change in the market value of investments held by the pension funds.

The asset mix of the pension fund assets, is 65% equities, 27% fixed income, 3% real estate and 5% cash and equivalents. The objective of the long term asset mix, which was determined through a major study undertaken in 2002 by the pension funds' actuaries, is to provide a long-term risk-adjusted rate of return that would be necessary to meet the pension funds' obligations. The funds' Statement of Investment Policy and Procedures defines upper and lower limits for the asset mix percentages allowing management the ability to take advantage of market directions and thereby enhancing investment performance. For the year ended June 30, 2007, the one-year rate of return was 16.7%, the highest rate of return earned by the pension funds over the past five-year period. The Board uses an external third party performance measurement firm which specializes in providing performance data for comparable pension funds. The median rate of return for the comparative balanced pension fund universe, which is comprised of 162 pension funds, was 15.0%. For the three-year period ended June 30, 2007, the trailing three-year annual rate of return for the pension funds was 10.2%, which is above the level required to cover the pension funds' liabilities but below the comparative balanced pension fund universe by 0.4%.

While reasonable returns have been achieved over the last two years, there remains a need to be vigilant as markets continue to be volatile. The Board will continue to face challenges as it seeks out strategies that protect the assets of the pension funds and strives to earn above-average rates of return. However, there are a number of risks which could affect future growth. Some of these include: sustained high energy prices, the size of the US budgetary and trade deficits as well as geopolitical and terrorist risks. As a result, the Board unanimously agreed that alternative investment management strategies that would enhance performance above those being realised by the existing fixed income strategy should be pursued, to provide downside protection for correcting equity markets. Accordingly, the Board has now retained the investment management services of ING Clarion Global, one of the leading international real estate equity managers.

These performance results have strengthened the pension funds' position considering that three years ago the pension funds were below the average obtained by other similar pension funds. The effort and commitment required to overhaul the management structure of the pension funds, including the replacement of the pension funds' custodian, was a significant undertaking—requiring research and much deliberation. The Board and the Managing Director of the Public Service Pensions Fund are to be commended for their commitment and efforts in achieving the performance objectives which reflect favourably on all those individuals associated with the management and administration of the pension funds.