

**THE STATES OF DELIBERATION**  
**of the**  
**ISLAND OF GUERNSEY**

**POLICY & RESOURCES COMMITTEE and COMMITTEE *FOR* EMPLOYMENT & SOCIAL  
SECURITY**

**IMPROVING THE GOVERNANCE OF THE STATES OF GUERNSEY'S INVESTMENT FUNDS**

The States are asked to decide:-

Whether, after consideration of the policy letter entitled 'Improving the Governance of the States of Guernsey's Investment Funds' dated 8<sup>th</sup> February, 2021 they are of the opinion:-

1. To approve the proposals set out in that policy letter for the constitution of a States' Investment Board as a sub-committee of the Policy & Resources Committee.
2. To agree that the responsibility for the management of the Common Investment Fund currently managed by the Committee *for* Employment & Social Security is transferred to the Policy & Resources Committee.
3. To agree that the mandate of the Policy & Resources Committee is amended to clarify its responsibility with respect to investments by the addition of:
  - (b) 11. Responsibility for setting the investment objectives for all States' investment funds and for appointing an independent board to oversee the management of such Funds in line with the States' permitted Investment Rules
4. To agree that the mandate of the Committee *for* Employment & Social Security is amended to remove its responsibility with respect to investments by the deletion of:
  - (a) 7. Investment of the Guernsey Health Service Fund, Long-Term Care Insurance Fund and Guernsey Insurance Fund
5. In Section II of Appendix II to Billet d'État XX, 2017 ("Rules for Payments to States Members, Non-States Members and Former States Members") approved on 8 November 2017;
  - (a) in paragraph 1 to insert ", the States' Investment Board" after "the Development & Planning Authority", and
  - (b) in paragraph 2 to insert "or the States' Investment Board" after "the States'

Trading Supervisory Board”.

6. To approve The States of Guernsey Permitted Investment (Amendment) Rules, 2021 as set out in Appendix One and to agree that they shall replace the States of Guernsey Permitted Investment (Amendment) Rules, 2015.
7. To rescind the resolution of the States pursuant to Section 100(4) of the Social Insurance (Guernsey) Law, 1978, Section 1(7) of the Health Service (Benefit) (Guernsey) Law, 1990 and Section 1(7) of the Long-term Care Insurance (Guernsey) Law, 2002 made on the 28th September, 2011 on Article XIII of Billet d’Etat No. XV of 2011.
8. To direct the preparation of such legislation as may be necessary to give effect to the above decisions.

The above Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications in accordance with Rule 4(1) of the Rules of Procedure of the States of Deliberation and their Committees.

**THE STATES OF DELIBERATION**  
**of the**  
**ISLAND OF GUERNSEY**

**POLICY & RESOURCES COMMITTEE and COMMITTEE *FOR* EMPLOYMENT & SOCIAL  
SECURITY**

**IMPROVING THE GOVERNANCE OF THE STATES OF GUERNSEY'S INVESTMENT FUNDS**

The Presiding Officer  
States of Guernsey  
Royal Court House  
St Peter Port

8<sup>th</sup> February, 2021

Dear Sir

**1      Executive Summary**

- 1.1 The States of Guernsey are accountable for the management of a number of sizeable investment funds, currently valued at £3,335 million<sup>1</sup>, with political responsibility allocated to one of two different Committees depending on the fund in question.
- 1.2 The Policy & Resources Committee has responsibility for the Consolidated Investment Fund, which comprises the Superannuation Fund, the Core Investment Reserve, the General Reserve, the Capital Reserve and numerous other smaller funds and funds held in a fiduciary capacity. This Fund is currently valued at £2,450 million and is managed through its Investment and Bond Sub-Committee in accordance with an agreed governance framework.<sup>2</sup>
- 1.3 The Committee *for* Employment & Social Security has responsibility for management of the Common Investment Fund which comprises the Guernsey Insurance Fund, Guernsey Health Service Fund and Long-Term Care Insurance Fund. This Fund has a value of £885 million and the Committee discharges the responsibility for its management through an Investment Sub-Committee, again in accordance with an agreed governance framework<sup>3</sup>.

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<sup>1</sup> All valuations as at 31<sup>st</sup> December 2020 but subject to year-end adjustments and audit

<sup>2</sup> <https://www.gov.gg/CHttpHandler.ashx?id=119024&p=0>

<sup>3</sup> <https://gov.gg/CHttpHandler.ashx?id=119025&p=0>

- 1.4 The States Review Committee (SRC) recommended in its November 2015 policy letter<sup>4</sup> that the current arrangements should be reviewed. The States agreed, directing that *“the Policy & Resources Committee and the Committee for Employment & Social Security [should] review the case for maintaining and the case for reforming the arrangements in relation to which committee of the States should have political responsibility for the States’ insurance funds.”*
- 1.5 This policy letter outlines the initial work that has taken place which has led the Committees to conclude that responsibility for all investment funds should rest with a single Committee of the States – the Policy & Resources Committee. It also recommends the establishment of a specialist sub-committee, to be known as the States’ Investment Board (SIB) with responsibility for overseeing the management of Funds in order to meet the investment objectives set by the Policy & Resources Committee.

## **2 Background**

- 2.1 The States of Guernsey are accountable for the management of a number of sizeable investment funds, with political responsibility allocated to either the Policy & Resources Committee or the Committee *for* Employment & Social Security depending on the fund in question. The States set the permitted investment rules by Resolution but delegate the formulation and implementation of investment strategies to the responsible Committees.

### Policy & Resources Committee

- 2.2 As part of the Policy & Resources Committee’s wider mandate, it has been delegated political responsibility for advising the States and developing and implementing policies and programmes relating to the fiscal policy, economic affairs, and the financial and other affairs of the States.
- 2.3 In line with the Rules of Procedure of the States of Deliberation and their Committees, the Policy & Resources Committee may choose to convene a sub-committee or working party at its discretion provided that any authority delegated to it is in accordance with the provisions of the States Committees (Constitution and Amendment) (Guernsey) Law, 1991 and the States Reform (Guernsey) Law, 2015 relating to the delegation of a Committee’s functions. The Committee remains at all times responsible for anything done by a sub-committee or working party which it has established. In line with this, the Committee has established an Investment and Bond Sub-Committee (IBSC), which operates in accordance with the terms of reference.
- 2.4 With effect from 2018, a decision was made to establish the Consolidated

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<sup>4</sup> Billet d’Etat XXI, 2015

Investment Fund which incorporates all investment funds, other than those held for working capital purposes, which are under the management of the Policy & Resources Committee.

- 2.5 The Consolidated Investment Fund comprises the Superannuation Fund, the Core Investment Reserve, the General Reserve, the Capital Reserve and numerous other smaller funds and funds held in a fiduciary capacity. The purpose of the main Funds and Reserves are summarised in the following paragraphs:
- 2.6 The Superannuation Fund (valued at £1,607 million) was established to meet the pension liabilities of the employees of the States of Guernsey and other Members of the States of Guernsey Public Servants' Pension Scheme. Every three years, the Policy & Resources Committee commissions an actuarial valuation of the Superannuation Fund to compare the value of the Scheme's assets with a funding target which calculates the value of the benefits that will be paid from the scheme in the future (the liabilities).
- 2.7 The Core Investment Reserve (balance of £212 million) is a long-term reserve, the capital value of which is only available for use in exceptional and specific circumstances of severe and structural decline in public sector finances or major emergencies.
- 2.8 The General Reserve (balance of £32 million) retains the net balance of surpluses and deficits arising from the operational activities of the States.
- 2.9 The Capital Reserve (total balance including committed funds of £291 million) is a reserve created to provide funding for the States' programme of capital expenditure. The profile of funding may differ markedly year on year from the programme of expenditure.
- 2.10 As part of consideration of the Annual Budget of the States for 2021, Members resolved:

*To approve the creation of the General Revenue Reserve by the closure, on 31 December 2020, of:*

*(a) the Capital Reserve; and*

*(b) the following funds and reserves from the existing General Reserve:*

- the Transformation and Transition Fund;*
- the Future Guernsey Economic Fund;*
- the Corporate Housing Programme Fund;*
- the Insurance Deductible Fund;*

- *the Brexit Transition Fund; and*
- *the General Revenue Account Reserve (Unallocated Balance)*

*with the balance of each Reserve / Fund mentioned in (a) and (b) above, and any outstanding obligations, liabilities and commitments in respect thereof, together with the existing delegated authorities pertaining to the expenditure, commitment or use of those Reserves / Funds, being transferred to the General Revenue Reserve subject to the same terms, conditions and restrictions as are currently applicable in respect of those Reserves / Funds.*

- 2.11 All of these reserves and funds currently form part of the Consolidated Investment Fund and therefore these changes will not alter its make-up or operation.
- 2.12 In terms of investment strategy and the management of risk, the Consolidated Investment Fund aims to maintain a Value at Risk of 10% or less with 95% confidence. This indicates that statistically there is only a 5% chance of an adverse move in the portfolio value of more than 10%. This level of accepted risk has led to the Committee setting a target return of UK RPI+4% per annum. Actual return has averaged 8.0% per annum over the last five years, exceeding the target return by an average of 1.3%.
- 2.13 The Fund is currently managed through twenty seven accounts invested in a combination of discretionary mandates and regulated funds which give access to a broad combination of asset classes including equities, bonds, property, private equity and debt, alternative investments and cash. In addition, since 2009, the Fund has utilised a currency overlay programme that seeks to reduce volatility from exposure to foreign currency while providing a small positive long-term return.
- 2.14 The Consolidated Investment Fund is legally held in the name of the States of Guernsey, acting through the Policy & Resources Committee. However it is a pooled fund and has a number of beneficial owners.

#### Committee for Employment & Social Security

- 2.15 The Committee for Employment & Social Security has responsibility under Law for management of the Guernsey Insurance Fund; the Guernsey Health Service Fund; and the Long-Term Care Insurance Fund. These Funds have been pooled for investment purposes into the Common Investment Fund which has a valuation of £885 million.
- 2.16 The Guernsey Insurance Fund is a contributory social insurance scheme to provide financial assistance during old age, bereavement, incapacity,

unemployment, maternity and death. The authority for the Committee to control and manage the Fund derives from Section 100 of the Social Insurance (Guernsey) Law, 1978, as amended. The Fund has a value of £684 million<sup>5</sup>.

- 2.17 The Guernsey Health Service Fund is a contributory health insurance scheme to provide prescription drugs, specialist medical care and universal subsidised GP appointments. The balance of the Fund is currently £111 million and authority to control and manage this Fund is granted through Section 1 of the Health Service (Benefit) (Guernsey) Law, 1990. It should be noted that the States have resolved to move this Fund to general revenue and the legislation has been drafted and should be implemented during 2021.
- 2.18 The Long-Term Care Insurance Fund is a contributory long-term care insurance scheme designed to assist with the costs of care in private nursing and residential homes. It is governed by the Long-term Care Insurance (Guernsey) Law, 2002 and has a current value of £95m.
- 2.19 The three social security schemes are essentially designed on a pay-as-you go basis (that is that contributions collected should cover the benefits payable), although each has historically accumulated significant reserves over many years, particularly the Guernsey Insurance Fund. The Common Investment Fund is therefore a “buffer fund” that can be called upon in circumstances where benefit expenditure and administration costs exceed income from social insurance contributions, States’ grants and any investment income.
- 2.20 The ultimate owner of the Common Investment Fund is the States of Guernsey, acting through the Committee *for* Employment & Social Security.
- 2.21 The Committee *for* Employment & Social Security manages and controls all of the Funds under its remit through its Investment Sub-Committee (ISC). The Sub-Committee has set a target investment return of UK LIBOR <sup>6</sup> +3.5% p.a., while aiming to also keep Value at Risk within 10-12% with a 95% confidence.
- 2.22 The Fund invests in a combination of asset classes including equities, bonds, private equity/debt and with a particular focus on alternative strategies that aim to provide protection on the downside. Cash is a small element of the strategy. This strategy is largely hedged into Sterling and active currency decisions are not undertaken.
- 2.23 Both the Policy & Resources Committee’s IBSC and the Committee *for*

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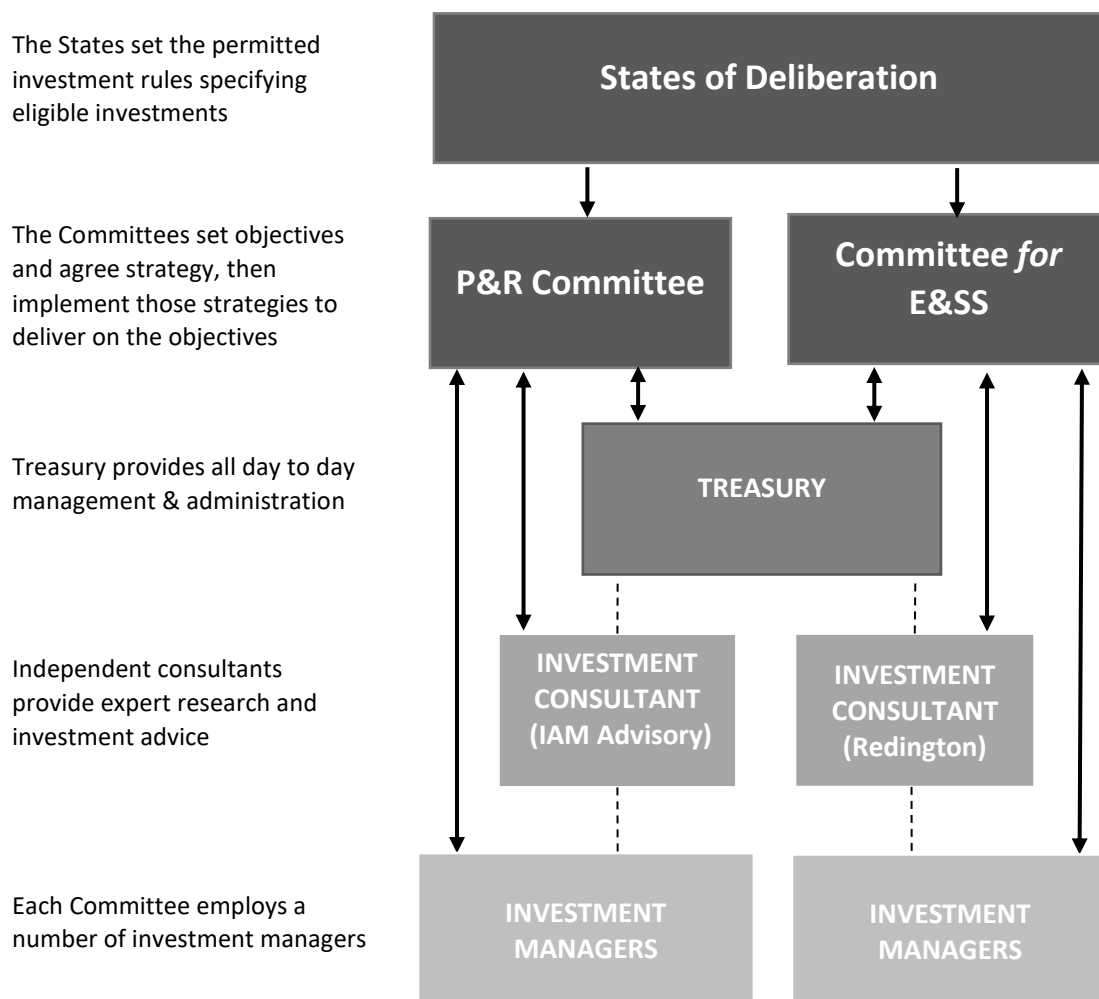
<sup>5</sup> Values for the Employment & Social Security Funds are as at September 2020, and include minor balances held outside the Common Investment Fund.

<sup>6</sup> LIBOR, the acronym for London Interbank Offer Rate, is the global reference rate for unsecured short-term borrowing in the interbank market. It acts as a benchmark for short-term interest rates

Employment & Social Security's ISC employ investment consultants to advise them on their investment responsibilities. At present, the IBSC retains local firm IAM Advisory and the ISC currently utilises the services of Redington, based in London. Each sub-committee consists of three members, selected from the main Committees plus advisors and/or non-States Members.

2.24 The current States of Guernsey Investment Governance Structure is set out below in figure one.

**Figure one.**





### 3 Issues

#### 3.1 In 2015, the SRC recognised that:

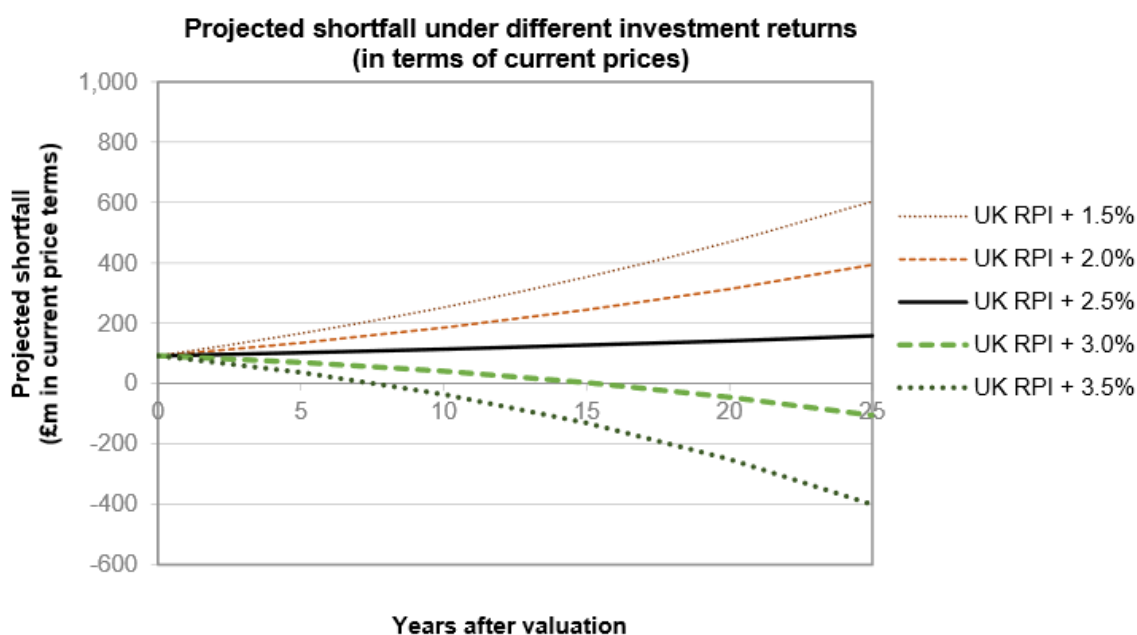
*“Decisions made in relation to the States’ insurance funds – for example, the setting of contribution rates and the management of the funds – can have a considerable effect on the fiscal policies and finances of the States, but responsibility for the funds has always rested with the Social Security Department and its predecessors rather than with the Treasury & Resources Department and its predecessors. This division of responsibility will be retained at the inception of the new committee structure in May, 2016: the Treasury will fall under the remit of the Policy & Resources Committee and the insurance funds will fall under the remit of the Committee for Employment & Social Security. However, the Committee recommends that early in the life of the next States those two new Committees should jointly review the matter of political responsibility for the insurance funds and report to the States with recommendations either to retain the present allocation of responsibility or to adopt the alternative approach of the Policy & Resources Committee assuming responsibility for the setting of contribution rates and the management of the funds and the Committee for Employment & Social Security retaining responsibility for the setting of rates of benefit. An appropriate recommendation is included in this policy letter. For the avoidance of doubt, the funds concerned are the Guernsey Insurance Fund, the Guernsey Health Service Fund and the Long-Term Care Insurance Fund.”*

3.2 The Tax Review <sup>7</sup> provides the appropriate time to address the issue of potential changes to responsibilities for setting contribution rates and that review is being guided by Members of both Committees. This policy letter focuses on improvements to the governance and management of investment funds across the States, which can have a material effect on finances.

3.3 The performance of the States’ investment funds will have a material impact on the requirement for other policy changes. For example, the last actuarial valuation of the Superannuation Fund showed the scheme was 93% funded based on a series of demographic and financial assumptions. The investment return was assumed to average UK RPI + 2.5% per annum. Should the investment return prove to be either higher or lower, the resultant impact on the surplus/deficit on the Fund is shown in the chart below:

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<sup>6</sup> The States resolved to undertake a Tax Review in January 2020 (Billet d’État I, January 2020) which seeks to ensure the tax base has the capacity to raise revenues up to the limits of aggregate revenues proposed in the Fiscal Policy Framework in a sustainable way within the boundaries of the Framework. Social Security Contributions are within the scope of this review.



- 3.4 Likewise, the recently published actuarial valuation of the Guernsey Insurance Fund<sup>8</sup> sets out a number of variant investment return scenarios and the impact they would have on either the longevity of the Fund or the contribution rates required. The investment return assumption for the valuation was set at an average of UK RPI + 2% per annum. Should investment return be 1% per annum higher, then the exhaustion of the Fund would be delayed by two years and the required constant contribution rate would fall from 11.3% to 11%. While investment return alone will not resolve the Fund's sustainability issues, a higher average return could reduce the additional contributions or taxation required from the public.
- 3.5 With the total value of the combined investment funds being £3,335 million, an average increase in return of 0.5% per annum would lead to the Funds increasing by more than £99 million over 5 years, or by £200 million for a 1% improvement.
- 3.6 Similarly a reduction in manager or other investment fees of even 0.1% would result in an increase in value of the Funds of £20 million after 5 years.

<sup>8</sup> <https://gov.gg/CHttpHandler.ashx?id=135485&p=0>

## 4 Proposed New Governance Structure

- 4.1 When the work to examine this subject was commenced by the predecessor Committees, the model considered was that each of the stakeholder Committees would retain their existing responsibilities for the Funds under their control but that a single, professionally resourced, less politically dependent investment board that could span political terms would best service the interests of all stakeholders and provide the best overall governance model.
- 4.2 However, work undertaken in this term has led the Committees to conclude that greater efficiency and effectiveness could be achieved if the Policy & Resources Committee is responsible for all States' investment funds.
- 4.3 There would be no change to the purpose or legal status of the Social Security Funds, and they would continue to be accounted for and reported separately as identifiable independent Funds. However, Section 100 of The Social Insurance (Guernsey) Law, 1978 and Section 1 of the Long-term Care Insurance (Guernsey) Law, 2002 would require amendment to make the Policy & Resources Committee responsible for the management of the Funds.
- 4.4 Given the importance and value of the combined investment funds of the States, it is recommended that the mandate of the Policy & Resources Committee is amended to clarify this responsibility by the addition of the following:

(b) 11. Responsibility for setting the investment objectives for all States' investment funds and for appointing an independent board to oversee the management in line with the States' permitted Investment Rules

Additionally, as the Committee for Employment & Social Security will no longer be responsible for oversight of the investment of the Common Investment Fund, their mandate is recommended to be amended by the deletion of:

(a) 7. Investment of the Guernsey Health Service Fund, Long-Term Care Insurance Fund and Guernsey Insurance Fund

- 4.5 The Policy & Resources Committee will be responsible for setting investment objectives which are likely to include, as a minimum, risk parameters, target returns, cash flow requirements and liquidity, together with environmental, social and governance requirements and carbon neutrality.

### States' Investment Board (SIB)

- 4.6 Difficulties in ensuring adequate levels of investment expertise and sophistication of pension fund trustees have been common areas of concern in the UK for some time. Regrettably, such shortcomings only become fully apparent when something goes wrong, at which point misunderstandings of risk

and/or return inherent in various investment strategies are often uncovered. These same issues could arise for the States where investment committees are resourced from political members. Members with sufficient investment and governance expertise and experience are not always available and political terms do not align with the Funds' investment horizons. Ideally, the best time to review and improve the robustness of investment structures is prior to serious performance or governance issues arising.

- 4.7 To address the risks inherent in the current approach, the proposal is for the Policy & Resources Committee to create a States' Investment Board (SIB) as a sub-committee under rule 54(3) of the Rules of Procedure. The Board will comprise an external chair, at least two suitably qualified external members and the States Treasurer. The external appointments would be made by a panel consisting of Members of the Policy & Resources Committee, and cover fixed terms of up to four years, with a maximum of three terms, subject to provisions about termination of office, retirement and resignation. The intention is that the appointments would span political terms, in order to ensure a degree of continuity that cannot be achieved through the current governance arrangements, although it is appreciated that the continuing membership of any sub-committee would have to be formally endorsed at the beginning of a new political term. A member of the Policy & Resources Committee would retain a standing invitation to the SIB meetings, in a non-voting oversight capacity.
- 4.8 Under the current structure, both Committees are responsible for appointing, monitoring and removing a large number of investment managers. There are currently in excess of thirty managers employed via either collective investment funds or bespoke investment accounts. These cover a wide array of permitted investment types and contain highly complex strategies. This creates significant challenges for Members, with sometimes limited investment experience and available time, to properly gain sufficient understanding of the proposals to make informed decisions. As such, inconsistent investment strategies can develop across the States' investments, which can undermine long term returns. Under the proposed new structure, responsibility for dealing with investment managers is delegated to the SIB. Within its membership it will contain the necessary experience and understanding to be able to ensure consistent and appropriate investment strategies are employed across each of the range of different funds under their mandate.
- 4.9 The SIB will implement a range of investments strategies, through its investment managers, designed to achieve the objectives defined by the Policy & Resources Committee for each of the Funds within its mandate. It is envisaged the SIB will employ the services of one or more specialist investment consultants where necessary and the States' Treasury function will continue to provide day-to-day management and administrative services across all Funds.

4.10 The SIB will be accountable to the Committee through several mechanisms:

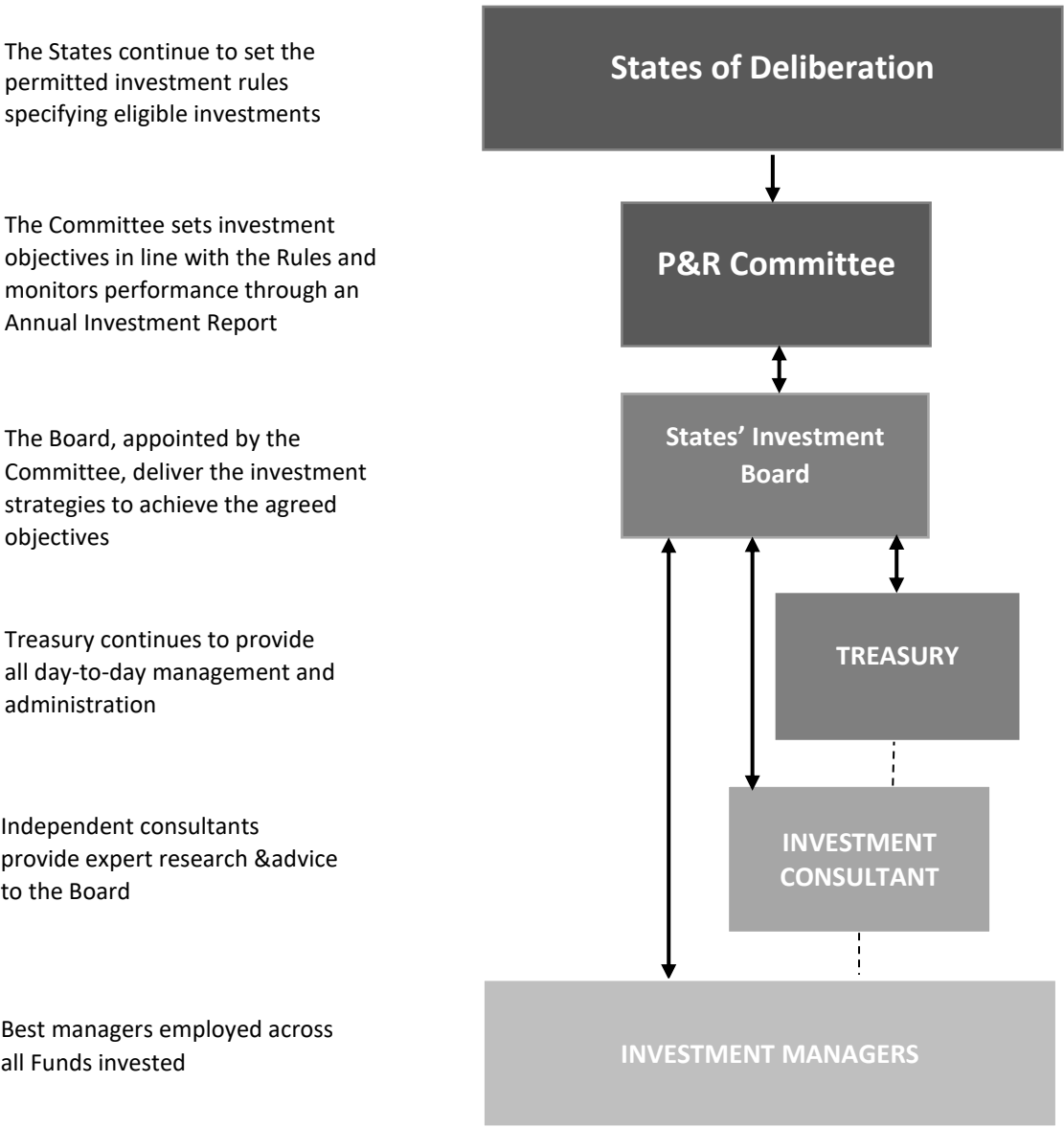
- An Annual Investment Report will detail the performance of the Funds and any significant changes made during the past year, as well as the proposed investment plan for the subsequent year. This will form the basis for the Committee's annual review of the SIB.
- A member of the Committee may attend SIB meetings, and minutes will be made available where requested.
- The Committee will appoint, monitor and remove the independent members of the SIB. This is a far simpler performance based process with independent, rather than political, members. Committee members will not require the considerable time and expertise to gain a detailed understanding of each individual investment manager strategy and performance, but will be required to annually assess whether the SIB members are adequately performing their duties in a manner consistent with achieving the agreed objectives.

4.11 This will leave the Committee in a more strategic position to assess progress towards its objectives and, where necessary, revise those objectives.

4.12 The aim of the SIB would be to provide independent investment expertise and governance to all States' funds. With the ability to not only implement a tailored strategy aligned to each Fund's objectives, but also to coordinate and leverage the total States' investment position to provide the best solution. Having oversight of the total investment position is critical for accurately assessing the States' overall exposure to different investment risks and will allow for these to be managed in a more effective manner, while targeting appropriate returns for stakeholders. A professional investment body of this nature would benefit all stakeholders of States' controlled investment portfolios, both in respect of the potential for enhanced long-term performance and also to ensure robust independent governance and oversight in the future.

4.13 The proposed governance structure is set out in figure two below:

Figure two.



4.14 The detailed terms of reference for the SIB are yet to be drafted however, its main responsibilities would be:

- **Investment strategies** – the SIB will monitor investment strategies throughout the year, on a continuous basis, in order to assess progress toward meeting the stated objectives.
- **Appointment of experts** – the SIB will appoint expert investment consultants, where necessary, to support its decision making.
- **Investment performance** – the SIB will review and consider the performance of all investment/cash managers appointed to manage funds under control of the Board throughout the year, and meet with the main managers at least annually.
- **Appointment and dismissal of investment managers** – the SIB will have delegated responsibility to appoint and dismiss investment managers in order to implement its investment strategies to best deliver on the Committees' agreed investment objectives.
- **Annual Report** – the Policy & Resources Committee will be presented with an annual report outlining the past year's investment performance and positioning of the portfolios. This will include an assessment of the outcomes relative to the agreed investment objectives set within the context of the market environment. It will also set out proposals for the future investment strategy for approval by the Policy & Resources Committee.

## 5 Establishment of States' Investment Board

5.1.1 It is envisaged that it may take several months to formalise the detail of the investment strategy and objectives and to appoint the independent members. The Policy & Resources Committee intends to work with the Committee *for* Employment & Social Security to form an advisory sub-committee to act in a shadow Investment Board capacity until formal appointments can be made and legislative changes implemented.

5.1.2 Once established the Committee will also continue to assess the effectiveness of the SIB structure with a view to making further improvements where these can be identified.

## 6 SIB Resources

6.1 Given that the Treasury team already provides administrative support on a day-to-day basis and both Funds employ an investment consultant, the only additional cost to be borne by the Funds would be that of the independent members. It is recommended that the fee paid is initially set at that paid to non-

States' members on the States' Trading Supervisory Board (£8,615 p.a.), but the Policy & Resources Committee will keep this under review. No further additional resources are likely to be required.

6.2 There are several potential efficiencies which could be gained from a single experienced management board negotiating fees and costs across a much larger pool of investments. For example:

- A reduction in investment manager fees of just 0.05% (5 basis points) equates to a saving across the existing two Funds of approximately £1.6 million per annum.
- The number of investment meetings could be reduced.
- Greater access to best performing strategies and research for all funds, not dependant on size.
- Consolidation and consistency of reporting to ensure meaningful comparisons.
- Improved terms with external service providers.

## **7 The States of Guernsey Permitted Investment (Amendment) Rules**

7.1 The SIB will be required to ensure the underlying investments are in line with the Permitted Investment Rules agreed by the States which will continue to be reviewed and amended from time to time to ensure they remain fit for purpose. The States currently have two different sets of Investment Rules – one for the funds under the control of the Policy & Resources Committee and another for those managed by the Committee *for* Employment & Social Security.

7.2 The Committee for Employment & Social Security currently has a separate set of rules for permitted investments. While these are not materially different from States of Guernsey Permitted Investment (Amendment) Rules, 2015 it makes sense that a single consistent set of rules is implemented for all States of Guernsey investment Funds.

7.3 The Investment Rules have been reviewed as part of this work and are now presented for approval as a consolidated set. These Rules replace all previous versions and have been amended only to incorporate the proposals in this policy letter in respect of the management of the funds through an independent non-political professionally qualified sub-committee, with the necessary expertise and experience. The proposed new single and consistent set of permitted investment rules, which it is proposed would replace the two sets of existing rules, is attached at Appendix 1.

## **8 Legislative Amendments**



- 8.1 Changes to Section 100 of The Social Insurance (Guernsey) Law, 1978 and to Section 1 of The Long-term Care Insurance (Guernsey) Law, 2002 (and any other minor consequential changes) will be required to assign political responsibility to the Policy & Resources Committee for the investment of the Funds.

## **9 Recommendations**

- 9.1 To approve the proposals set out in that policy letter for the constitution of a States' Investment Board as a sub-committee of the Policy & Resources Committee.
- 9.2 To agree that the responsibility for the management of the Common Investment Fund currently managed by the Committee for Employment & Social Security is transferred to the Policy & Resources Committee.
- 9.3 To agree that the mandate of the Policy & Resources Committee is amended to clarify its responsibility with respect to investments by the addition of:
- (b) 11. Responsibility for setting the investment objectives for all States' investment funds and for appointing an independent board to oversee the management of such Funds in line with the States' permitted Investment Rules
- 9.4 To agree that the mandate of the Committee for Employment & Social Security is amended to remove its responsibility with respect to investments by the deletion of:
- (a) 7. Investment of the Guernsey Health Service Fund, Long-Term Care Insurance Fund and Guernsey Insurance Fund
- 9.5 In Section II of Appendix II to Billet d'État XX, 2017 ("Rules for Payments to States Members, Non-States Members and Former States Members") approved on 8 November 2017;
- (a) in paragraph 1 to insert ", the States' Investment Board" after "the Development & Planning Authority", and
- (b) in paragraph 2 to insert "or the States' Investment Board" after "the States' Trading Supervisory Board".
- 9.6 To approve The States of Guernsey Permitted Investment (Amendment) Rules, 2021 as set out in Appendix One and to agree that they shall replace the States of Guernsey Permitted Investment (Amendment) Rules, 2015.
- 9.7 To rescind the resolution of the States pursuant to Section 100(4) of the Social Insurance (Guernsey) Law, 1978, Section 1(7) of the Health Service (Benefit) (Guernsey) Law, 1990 and Section 1(7) of the Long-term Care Insurance (Guernsey)

Law, 2002 made on the 28th September, 2011 on Article XIII of Billet d'Etat No. XV of 2011.

- 9.8 To direct the preparation of such legislation as may be necessary to give effect to the above decisions.

## **10 Compliance with Rule 4**

- 10.1 Rule 4 of the Rules of Procedure of the States of Deliberation and their Committees sets out the information which must be included in, or appended to, motions laid before the States.
- 10.2 In accordance with Rule 4(1), the Propositions have been submitted to Her Majesty's Procureur for advice on any legal or constitutional implications.
- 10.3 In accordance with Rule 4(3), the Committee has included Propositions which request the States to approve funding for remuneration of the SIB external Members at the rate paid to non-States' members on the States' Trading Supervisory Board (£8,615 p.a. per external Member). Further details about the financial implications of the Propositions are provided in paragraphs 6.1.
- 10.4 In accordance with Rule 4(4), it is confirmed that the propositions above have the unanimous support of the Committees.
- 10.5 In accordance with Rule 4(5), the Propositions relate to the mandated duties of the Policy & Resources Committee in relation to States Treasury functions, specifically the management of investment funds under paragraph (b)7, and the operational function of the Committee for Employment & Social Security of investing social insurance funds (paragraph (a) 7).
- 10.6 The Policy & Resources Committee and the Committee *for* Employment & Social Security have worked jointly on the preparations of these propositions and believe they will significantly contribute to the objective of strengthening investment governance, which in turn will lead to improved long term returns and risk management of States Funds.

Yours faithfully

Peter Ferbrache – Policy & Resources Committee President  
Heidi Soulsby – Policy & Resources Vice-President  
Mark Helyar  
David Mahoney  
Jonathan Le Tocq

Peter Roffey – Committee for Employment & Social Security President  
Lindsay De Sausmarez - Committee for Employment & Social Security Vice-President  
Tina Bury  
Steve Falla  
John Gollop  
Ross Le Brun – Non-States Member  
Mark Thomson – Non-States Member

## **APPENDIX ONE**

### **The States of Guernsey Permitted Investment (Amendment) Rules, 2021**

**THE STATES**, in pursuance of their resolution of the XX<sup>th</sup> March, 2021 have approved the following Rules:

#### **Permitted investments**

1. The States of Guernsey acting by and through the Policy & Resources Committee (hereinafter referred to as “the Committee”) shall arrange for any Funds, held for the purpose of investment under their responsibility, to be invested in all or any of the following descriptions of assets:

- a) Bonds

Debentures, debenture stocks, loan notes, unsecured loan stocks, bonds, structured products, secured loans and short term interest bearing instruments (such as certificates of deposit, bills and commercial paper), issued or guaranteed by, and interest bearing deposits with:

- i) any Government of any country or territory, or
    - ii) the States of Guernsey, or
    - iii) any local authority or other public body in any of the above countries or territories, or
    - iv) any building society in the United Kingdom, or
    - v) any supranational institution, or
    - vi) any company incorporated in any country or territory.

- b) Equities

Equity stocks and shares, whether nil paid, partly paid or fully paid, of companies incorporated in any country, provided that they are traded on or under the rules of a Stock Exchange recognised for this purpose by the Department.

- c) Property

Real property or interests in real property including:

- i) commercial property,
    - ii) residential property,
    - iii) land for residential or commercial use,
    - iv) agricultural land,
    - v) forestry,
    - vi) any form of pooled investments for categories i) to v), including, but not limited to, limited partnerships, property unit trusts, fund of property unitised vehicles, sociétés d'investissement a capital variable (SICAVs) and real estate investment trusts.

- d) Derivatives

Derivative instruments based on financial securities, currencies or financial markets such as options, warrants, futures contracts, swaps, forward foreign exchange contracts, and contracts for differences, whether quoted on a stock market or an exchange or over the counter.

e) Pooled Funds

- i) any form of pooled investment including, but not limited to, as a limited partnership, unit trust, SICAV, fund of fund or exchange traded fund,
- ii) policies issued by a properly constituted insurance or assurance company.

f) Other Assets

The following assets may also be held -

- i) Hedge funds of any type including fund of hedge funds,
- ii) Infrastructure assets of any type, including Private Finance Initiative investments,
- iii) Private equity,
- iv) Currency and currency overlays,
- v) Pooled funds where the underlying assets are commodities,
- vi) Investments specifically focused on corporate entities where the majority of their revenue is derived from undertakings in Guernsey.

**Other Controls**

2. The Committee will implement the following:

- i) to set investment objectives appropriate for each Fund under their control. In addition to risk and return targets, these objectives should detail controls on position, size and quality of all investments to ensure funds are properly and fully diversified by individual security and asset type. Further considerations should include, but are not limited to, future cash flows, and environmental, social and governance aspects,
- ii) appoint an independent non-political sub-committee with the necessary expertise and experience to formulate and implement investment strategies, on a discretionary basis, in order to achieve the objectives set for each Fund,
- iii) set terms of reference that will clearly define the duties and responsibilities of the sub-committee which will report to the Committee on progress toward the objectives set,
- iv) investments in corporate entities where the majority of revenues are derived from undertakings in Guernsey should not exceed 10% of the total assets of the fund.

**Additional Powers**

3. The Committee has in respect of any Fund power to:

- i) sub underwrite or underwrite a new issue,
- ii) enter into stock lending arrangements with financial institutions,

- iii) guarantee the obligation of a company owned or partly owned by the Fund,
- iv) borrow on a temporary basis to a maximum of 5% of the total market value of the Fund.
- v) enter into arrangements for common investment funds with other Funds of the States of Guernsey..

**Citation**

- 4. These Rules may be cited as the States of Guernsey Permitted Investments (Amendment) Rules, 2021.

**Repeal**

- 5. The States of Guernsey Permitted Investment (Amendment) Rules, 2015 are repealed.

**Commencement**

- 6. These Rules shall come into force on 29 March 2021.