20TH ANNIVERSARY
Newsletter
The Official Newsletter of the Cayman Islands Public Service Pensions Board
Summer 2012
news

Message from the Managing Director

Dear Plan Members,

Twenty years ago, the idea that it would be a statutory requirement for civil servants "to have access to pension benefits" was a nearly impossible dream. But thanks to visionary leaders, the Public Service Pensions Board (PSPB) was established in February 1992. Two decades later, we can say that the PSPB has transformed the public sector pension structure in the Cayman Islands while positively impacting the thousands of civil servants who have passed through the Service. In recognizing our 20th year, this summer newsletter issue gives me an especially good reason to be nostalgic while never taking my eyes off the future. As always, I welcome your feedback and ideas about the direction of the PSPB.

Since its inception, much of PSPB's transformation has been due to the committed members of the Board, Civil Service leadership, staff and advisors over the years.

As all my fellow civil servants are aware, we have finally begun a fresh fiscal year and while the world continues to work on improving the global economy, it's encouraging to see that our neighbours to the north have seen some improvement in their economy (marginal as it may be) just before they buckle down for elections. While our local economy continues with the task of recovery, we should be supportive of efforts to stimulate our Islands and create jobs for our people. Despite the current setbacks experienced by the government, the Fund is poised to continue a steady growth after producing returns of 7.3 percent, outperforming the benchmark by 2.2 percent. All managers beat their benchmarks except for ING Clarion (our global real estate manager), despite posting a 13.5 percent year-to-date return.

That having been said, should the government's budget continue to be constrained as it has been over the past few years to the extent that adequate funding is restricted or suspended, we will be forced to be more aggressive and strategic in order to meet standards set for the Fund.

Outside of administering the Plan, the PSPB has been active in the community recently and three of our staff members participated in the PACCE (prostate and colon cancer event) which was organized by the Lions Club of Grand Cayman in honor of Past President Delano Hislop. The PSPB Charity sponsored Melanie Ebanks-Jackson and Faith Ebanks, and through additional donations enough funds were raised to cover Nekita Rodriques' entrance fee. Starting on June 30 and ending on July 2, participants took part in three separate walks totaling 45 miles. Fifty percent of all the proceeds went to the Cayman Islands Cancer Society, 25 percent went to Hospicecare and the remaining 25 percent will be used by the Lions Club to fund its year-round awareness initiatives.

Cancer has affected so many lives throughout our Islands, and the PSPB is no exception. We have no less than three cancer survivors in the organization, so supporting cancer-awareness programs is an initiative which has become very close to the hearts of the PSPB family over the years.

In closing, I would like to once again thank Mr. Donovan Ebanks (featured in this issue's Pensioner Profile) for his long service to our country and to congratulate Mr. Franz Manderson on his appointment to Deputy Governor. Mr. Manderson is committed to improving the public service, as was Mr. Ebanks before him, and I look forward to working with his office to achieve that goal. As always, the interests of our participants and pensioners will be high on my agenda as the PSPB works to continuously improve the way we service our clients. It is relationships like these — at every level — that mean so much to the PSPB.

Faithfully,
Jewel Evans Lindsey
Managing Director

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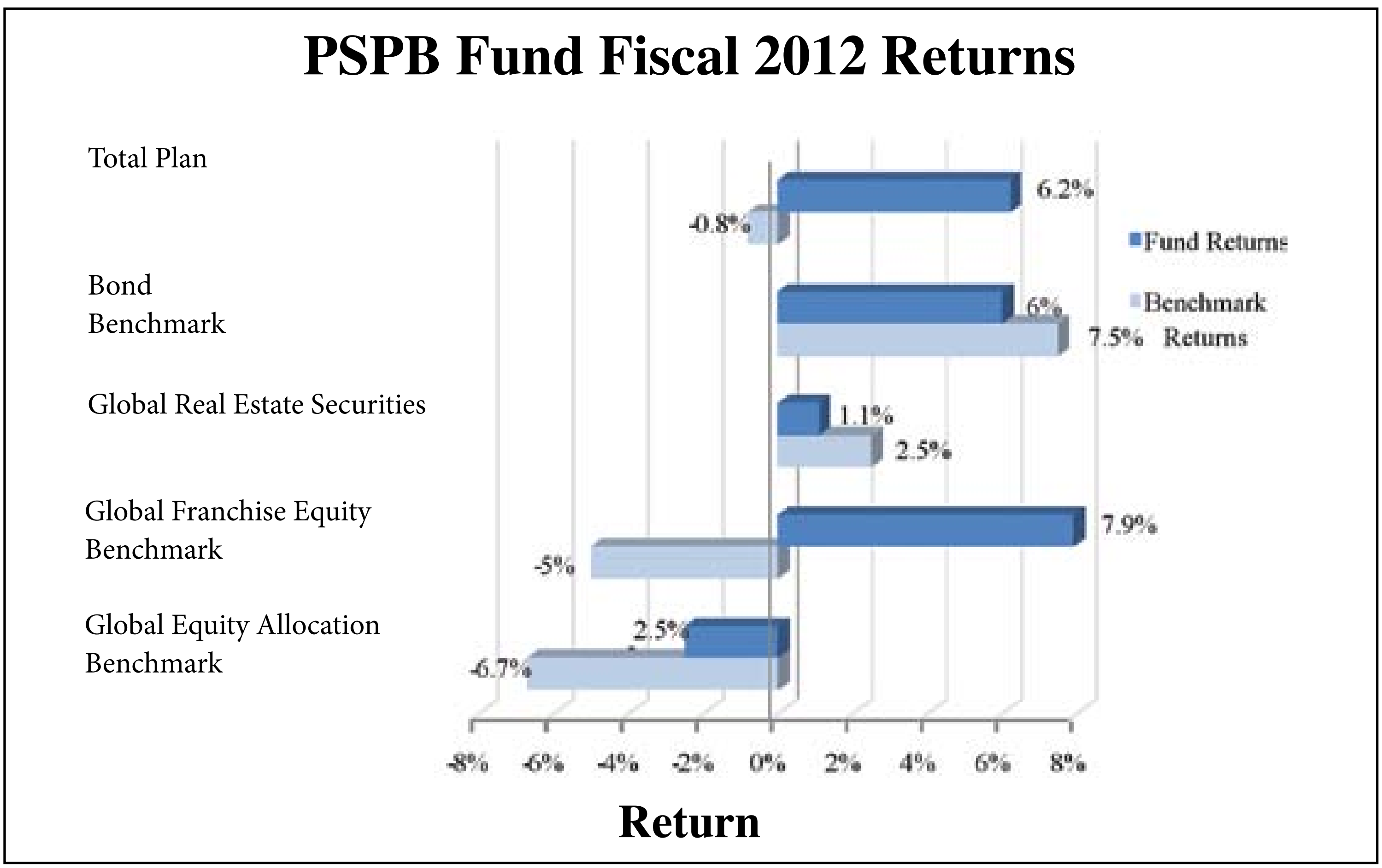
Rates of Return Update

Throughout the recent one-year period, global economies and capital markets continued on a recovery path from the 2008 downturn, though over the recent quarter the rate of growth has been diminished by the slowdown in the eurozone and China. Against this backdrop, the Public Service Pensions Board's Fund (the "Fund") of invested assets ended its fiscal year on June 30, 2012, with assets of $427 million, compared to $392.80 million at the end of fiscal 2011, which marks a new all-time high for the Fund. The $24 million increase in assets, net of contributions, equates to a return of 6.2 percent for fiscal 2012. Notwithstanding the challenging global equity markets over the past year, the performance was a strong demonstration that diversification of Fund-invested assets and the growing number of global investments contributed to the Fund's overall resilience. The Fund saw gains in a majority of its investments in both U.S. and foreign equity markets and in fixed-income instruments. The Fund also generated gains from its investments in publicly traded real estate securities. Furthermore, the fiscal 2012 performance of the Fund benefited from its active management programs, which are less sensitive to the excessive volatility experienced by the broader equity markets. As long-term investors, the Fund's external investment managers were able to take advantage of opportunities provided by market dislocations. The seven-year return reinforces confidence in the ability of the Fund's current portfolio composition and its active investment strategy to generate the returns required to sustain the Fund at current returns, which are above its Policy Benchmark Return over the longer term.

Performance Against Benchmarks

The Fund is comprised of the invested assets of the Pensions Plan. The Board of Directors, along with the Managing Director, is responsible for investing the Fund through investment managers and, in doing so, has identified and pursues investment opportunities in accordance with the Fund's



Statement of Investment Policies. At the total Fund level, the long-term investment objective is expressed as a function of its liabilities and is to exceed the Policy Benchmark Target Return by a minimum of 1.5 percent. The Policy Benchmark Target is made up of bond and equity indices, including real estate. Over the long term, this investment objective is designed to generate a rate of expected return that will assist the Pensions Plan in meeting their obligations while mitigating risks.

Over the one-year period ending June 30, 2012, both bonds and stocks held within the Fund gained simultaneously even though overall the broader equity markets stumbled, causing the Policy Benchmark to register a negative return of 80 basis points. The Fund's one-year rate of return of 6.2 percent was therefore ahead of the Policy Benchmark by 7 percent. Each investment manager outperformed within its strategy allocation over the one-year period, thereby delivering a clear value proposition to its broader market index as illustrated in the chart on the left.

Taken as whole, these invested assets have produced a resilient Fund which delivers returns in a variety of market environments. Regardless of asset class, each strategy is low volatility, focused primarily on cash and income generation. Global franchise equities provided most of the gains, growing almost 8 percent over the one-year period. Consolidated global equities represent more than 64 percent of the asset mix of the Fund. Government and corporate bond securities make up a smaller proportion, at 33 percent, and grew by 6 percent over the period. Assets invested in publicly traded real estate securities account for the balance of the Fund at about 3 percent and grew marginally at 1.1 percent.

While pleased with these investment results, similar to many pension plans, the organization has been focused on the area of risk management. Given the financial turmoil of 2008 and 2009 and, more recently, the European sovereign debt crisis, careful management of investment risk is critically important and has intensified. To assist in these efforts, the Board of Directors employs an external, third-party performance measurement firm which specializes in providing oversight and benchmarks performance data. Furthermore, the Fund's risk profile has been assessed as moderate trending to lower, providing a level of stability and protecting against stock market swings.

While investment conditions are expected to remain challenging over the balance of 2012, performance results for fiscal 2012 have strengthened the pension promise made to many thousands of Caymanians. Amid economic uncertainty, the Board of Directors and Managing Director continue their commitment to prudence and implementing a strategy of investing for the long term in high-quality assets with an appropriate level of risk.

Custodial Transition

On December 1, 2011, the Public Service Pensions Board (PSPB) took a bold and well-calculated step toward what we decided to be a timely transition from working with RBC Dexia Investor Services to moving our investment accounts to CIBC Mellon Global Securities Services Company.

It took several months for the PSPB to come to a final decision about what organization we believed would be best suited to our needs and had the reputation and stability which we were adamant about requiring due to the volatility we had begun to see in Europe last year and which is still continuing to this day.

After a critical and comprehensive investigation into the global custodian market, the PSPB came to terms with CIBC Mellon and agreed to begin what both parties believe will be a long and mutually beneficial working relationship.

According to information provided on the CIBC Mellon website:

"As of March 31, 2012, CIBC Mellon held more than CAD$1.1 trillion of assets under administration on behalf of our clients. Founded in 1996, CIBC Mellon is 50-50 jointly owned by Canadian Imperial Bank of Commerce (CIBC) and The Bank of New York Mellon Corporation (BNY Mellon), the world's largest custodian.

"CIBC Mellon is part of the BNY Mellon network, which as of March 31, 2012, had USD$26.6 trillion in assets under custody and administration, USD$1.3 trillion in assets under management and global payments processed averaging $1.4 trillion per day. CIBC Mellon is Canada's leading asset servicing provider."

While there were several other reputable organizations that prepared to make a serious attempt at bringing the Public Service Pensions Board Fund into their fold, CIBC Mellon had the right mix of talent, stability and a personal touch.

Managing Director Jewel Evans Lindsey expressed her sentiments regarding the appointment of CIBC Mellon by pointing out, "CIBC Mellon's proven track record within the industry coupled with a hands-on approach to the manner in which they deal with business on a daily basis really set them apart. We take all aspects of our investment management and monitoring process very seriously, and we are thrilled to have a custodian with such stability and respect amongst its peers."

Pensioner Profile

Mr. Donovan Ebanks
Retired Deputy Governor and Head of the Civil Service

At the time of his retirement at the end of January 2012, Deputy Governor and Head of the Civil Service Mr. Donovan Ebanks was the most senior civil servant on the Islands. Few from the public sector can match Mr. Ebanks' 36-year career characterized by a refusal to limit the scope of his work to his job description and the maverick ability to seize opportunities for reform.

The North Side native and son of former member of the Legislative Assembly Mr. Craddock Ebanks graduated with a BSc degree in civil engineering from the University of the West Indies in 1975. After university, Mr. Ebanks joined the Public Works Department (PWD). He left PWD in early 1976 for two-and-a-half years to gain the experience necessary to attain chartered engineer status and a further year to attend the University of Dundee in Scotland and earn an MSc degree in civil engineering. He returned to PWD in September 1979 and became Chief Engineer in April 1983.

After 11 years as Chief Engineer, Mr. Ebanks made a career transition and in 1994 became Deputy Chief Secretary in the Portfolio of Internal and External Affairs. That year, he also was named a Member of the Most Excellent Order of the British Empire.

During his tenure as Deputy Chief Secretary, Mr. Ebanks participated in a number of fiscal, pension and personnel reforms. "I've never been a subscriber to the notion '*if it's not broken, don't fix it*,'" Mr. Ebanks says. "Just because it's not broken doesn't mean that it isn't time to do some maintenance or enhancement."

That attitude would also serve Mr. Ebanks well in his concurrent roles as a member, and later Chairman, of the former National Hurricane Committee beginning in 1987. In the aftermath of 1988's Hurricane Gilbert, Mr. Ebanks and the committee developed a robust hurricane-preparedness plan that came into play in 2004, when the scale of damage from Hurricane Ivan threatened food, water and fuel supplies and required thousands of mothers and small children to be airlifted from the Islands. Like Gilbert, Ivan led to stronger disaster-response planning, including the creation of the new National Hazard Management Council, of which Mr. Ebanks became the Chairman, in 2007.

After serving as Deputy Chief Secretary for 15 years, Mr. Ebanks took on the position of Chief Secretary in July 2009, later becoming the first Deputy Governor in November of that year. In this role, Mr. Ebanks focused on reeling in the growth of the civil service.

His cost-saving efforts reduced the number of civil service workers from 3,756 in June 2009 to 3,593 at the end of December 2011. Mr. Ebanks also championed new guidelines governing public employees' ability to sign petitions.

The father of two adult children and current Savannah resident most recently lent his support to the one man, one vote initiative but is primarily enjoying his well-earned relaxation in retirement. "I received satisfaction from public service that I couldn't have got anywhere else," says Mr. Ebanks. "I'm most grateful for the support that I received from all those with whom I was privileged to serve. Anything positive that was accomplished would not have been possible without it." Mr. Ebanks adds, "The PSPB and the administrative staff are to be commended for their continuing efforts to ensure that the civil service has a robust and resilient pension system. Considerable progress has been made in the 20 years since the Fund was established, and I look forward to even greater progress over the next 20 years."