

Scotia Investments Jamaica Pension Fund

FSC registration # P-08.0925

**Annual Report for the year ending
September 30, 2019**

Overview

Scotia Investments Jamaica Pension Plan (“the Plan”) is a defined contribution plan for all permanent employees of Scotia investments Jamaica Limited up to the age of 65 years of age. The Plan is approved by the Tax Administration of Jamaica (TAJ) and The Financial Services Commission (FSC).

At September 30, 2019 the Plan had 120 members inclusive of deferred members and one pensioner. Membership at the beginning of the year was 131, during the year ten (10) new members joined the plan and there were twenty-one (21) members leaving the Plan. Membership in the Plan was broken down as follows:

Table 1: Membership Data

Member Status	2015	2016	2017	2018	2019
Active	168	145	138	129	119
Pensioner	2	1	1	1	1

Benefits

On retirement, a member’s pension is based on the member’s basic and voluntary contributions with interest, the sponsor’s contributions on the member’s behalf with interest, and a proportional share of the retirement reserve fund.

- Vesting occurs after a minimum of seven (7) years of service.

Contributions

Contributions are received in respect of active members from the members themselves and also from the employer. Members are required to contribute to the Plan at a basic rate of 5% of their annual gross salary; this is matched by the employer. Additionally, members may also elect to contribute an additional 10%, this additional amount is not matched by the employer. The contributions are deducted from the employees’ salaries monthly by the payroll department and then paid over to the Investment Manager, within one (1) week of the end of the month.

- There were no outstanding or late contributions for the period ended September 30, 2019.

Credited Interest

The interest rate used to accumulate contributions on members account for the period ended September 30, 2019 is currently being calculated by The Funds Actuaries, however an interim credited interest of 6% is being utilized.

Administration

The Plan is administered by a Board of Trustees who administers the Plan in accordance with The Pensions (Superannuation Funds and Retirement Schemes) Act, 2004 and Regulations as well as the Statement of Investment Principles and Policies (SIPP) and the Trust Deed. Responsibility for daily administration of the Plan is delegated to the Administrator, the Bank of Nova Scotia Jamaica Limited. The Board of Trustees is comprised of employer and member nominated Trustees. Member nominated Trustees can be removed by a majority vote of the active members of the plan or through resignation from the board or the company. Employer nominated Trustees may be removed by a resolution of the chairman of the board or through resignation from the board or the company.

The list of Trustees of the Fund as at September 30, 2019 are:

Table 2: List of Trustees

Name	Position	Email addresses	Telephone #
Vanessa Scott	Sponsor Trustee	Vanessa.scott@scotiabank.com	876-932-0352
Marcia Gaudet	Sponsor Trustee	Marcia.gaudet@scotiabank.com	876-946-8107
Marsha Hall	Member Trustee	Marsha.hall@scotiabank.com	876-960-6700

Lissant Mitchell resigned from the post of Sponsor Trustee/Chairman as at April 11, 2019. In addition, the Board of Trustees engages a number of consultants and specialists to assist them with managing the funds as shown in Table 3.

Table 3: The Plan's Service Providers

Type of service provided	Name and contact information for service provider
Investment Manager Marie Lyn-James/Renee Murray	Scotia Investment Jamaica Limited 7 Holborn Road Kingston 5, Telephone: 960-6700
Administrator Denise Lounges/Nekeisha Brammer	The Bank of Nova Scotia Jamaica Limited Scotiabank Centre Duke & Port Royal Street, Kingston Telephone: 922-1000
Bankers	The Bank of Nova Scotia Jamaica Limited Scotiabank Centre Duke & Port Royal Street, Kingston Telephone: 922-1000

Actuary Astor Duggan	Duggan Consulting Limited 23 Lady Musgrave Road Kingston 5 Telephone: 978-1659/978-7325
Auditors Paul Williams	PriceWaterhouseCoopers Scotiabank Centre Duke & Port Royal Street, Kingston Telephone: 922-6230
Attorneys Angela Fowler	Livingston Alexander & Levy 72 Harbour Street Kingston Telephone 922-6310-9

Internal Controls

The Plan’s accounting system and related system of internal controls are designed to provide reasonable assurance that transactions are properly authorized and recorded, assets are safeguarded and financial records are properly maintained to provide reliable information for use in the preparation of financial statements.

Investment Strategy

The Fund’s investment strategy is to maximize return at an appropriate level of risk while giving due consideration to:

- The demographic characteristics of the members
- The Fund’s solvency and recommendations included in the most recent Actuarial Valuation, including ad hoc augmentation to pension benefits
- Risk characteristics of the asset classes and investments approved for the Fund
- Historical returns of the Fund
- Prevailing economic and market conditions
- Capital markets outlook and expected returns
- Liquidity needed for benefit payments

This strategy is pursued through the following strategic asset allocation:

Table 4: Asset Class Limits

Asset Class	Minimum	Maximum
Fixed Income (incl. cash)	50%	90%

Equities	10%	50%
Real Estate	0%	20%

Asset mix

Subject to requirements and restrictions imposed by both The Pension Act and Regulations and the SIPP, the Plan must include sufficient short-term investments to meet liquidity needs. Government of Jamaica securities, corporate bond issues, equities, real estate and short-term investments are permissible investments.

The benchmarks used for the performance analysis of the Fund are shown in Table 5. The performance of the assets in the Fund is monitored and evaluated on a regular basis by the Board of Trustees.

Table 5: Pension Plan Benchmarks

Asset Class	Benchmark
Fixed Income	Customized GOJ JMD Fixed Income Index
Equities	Jamaica Stock Exchange Main Index
Real Estate	Consumer Price Index
Overall Fund	Consumer Price Index

The Fund's actual asset allocations for the last five years is shown in Table 6. The asset allocation was in line with the parameters stipulated in the governing Statement of Investment Policies and Principles

Table 6: Actual Asset Allocation 2015 - 2019

Asset Class	Actual 2015	Actual 2016	Actual 2017	Actual 2018	Actual 2019
Fixed Income (incl. cash)	71.96%	56.98%	45.60%	53.07%	51.50%
Equities	20.87%	36.69%	48.37%	41.80%	41.19
Real Estate	7.17%	6.33%	6.03%	5.13%	7.31%

The Fund's return for the financial year ended September 2019 compared to the benchmark is shown in Table 7 and the historical Fund performance is included in Table 8.

Table 7: Asset Class Returns against Benchmark

Asset Class	Actual Return	Benchmark Return
Fixed Income	2.02%	7.31%
Equities	33.47%	48.33%
Real Estate	22.62%	3.36%

Investment Performance

The fixed income segment was positively impacted by the increase in global bond prices, depreciation of the Jamaican dollar and higher prices for local fixed rate bonds. However, the Fund's exposure to variable rate securities detracted from the performance. The Fund benefited from the positive performance in the local stock market during the year and real estate returns improved from higher property valuations and increase in income yields.

Table 8: Historical Fund Performance

Year	Equity Return	Fixed Income Return	Real Estate	Total Return	Inflation	Real Return
Oct 18-Sept-19	33.47%	2.02%	22.62%	17.40%	1.40%	16.00%
Oct 17-Sept-18	26.49%	12.78%	9.02%	19.07%	4.33%	14.74%
Oct 16-Sept-17	57.37%	10.23%	15.19%	27.69%	4.61%	23.08%
Oct 15- Sept-16	60.75%	11.18%	15.12%	21.72%	1.83%	19.89%
Oct 14- Sept-15	33.78%	9.12%	16.66%	14.51%	1.81%	12.70%
Oct 13- Sept-14	-0.54%	10.46%	9.07%	7.29%	9.03%	-1.74%

Risk management

The Plan risk management consists of three key element:

- Risk Governance
- Risk Appetite
- Risk Management techniques

The Plan is exposed to a variety of investment risks as a result of its investment activities. These risks include market risk, which includes interest rate risk, foreign currency exchange risk, equity price risk, credit risk, operational risk and liquidity risk. The Plan manages and mitigates these risks by establishing a risk governance structure which includes investment policies which are reviewed and approved by the Board of Trustees at least annually.

These risks are closely monitored and managed by:

- diversifying the asset classes, diversifying within each individual asset class and diversifying by manager style;
- setting performance goals and objectives and establishing benchmark performance expectations to measure progress towards the attainment of these goals;
- retaining an investment manager who monitors the investment performance of the Assets of the Plan on a quarterly basis and reports to the Board on investment manager-related issues that may have an impact on Plan performance; and
- reviewing quarterly reports from the Investment Manager on compliance with the Investment Policy throughout the reporting period.

The portfolio risk is monitored annually by measuring the duration gap between the assets and liabilities. Long-term solvency is also monitored by comparing the present value of the asset cash flow stream to the present value of the estimated liability payments.

GOVERNANCE ACTIVITIES

An overview of Scotia Investments Jamaica Pension Fund Governance Activities for the year ended September 30, 2019 is provided below;

- Currently there are no training scheduled for new and existing trustees.
- There were no benefit adjustment to the Plan's current constitutive documents.
- One trustee meeting was held during the period under review on December 18, 2018

Statement of Investment Policies and Principles

The Plan is required to establish a Statement of Investment Policies and Principles (SIPP); the SIPP was last reviewed and approved June 12, 2019. The Trustees, supported by its professional advisors monitors and develops the investment policy to target the Plan's main investment objectives, which is to acquire suitable assets of appropriate liquidity which will generate income and capital growth to meet, together with contributions from members and employer, the cost of current and future benefits which the Fund provides.

Actuarial Report Review

The Board of Trustees also retains an independent actuary to value the accrued benefit obligations based on economic and demographic assumptions. Duggan Consulting Limited was retained to perform actuarial valuations of the assets and liabilities of the Pension Fund.

The latest valuation report was completed as at September 30, 2015, with the key valuation results being:

- Surplus **\$251.458 million**
- Solvency Level **133%**
- Actuarial Value of Assets **\$958.759 million**
- Discount Rate **8.5%**
- Expected Return of Fund Assets **7.2%**

A meeting was held September 27, 2018 to discuss the recommendations of the Actuarial valuation Report (AVR) as at September 30, 2015. The main recommendations were the utilization of the Surplus and an increase to the sole pensioner's account. A percentage of the surplus to provide bonuses to members and deferred pensioners was suggested by the trustees. The Actuaries proposed a 50% distribution which was subsequently approved in a follow up meeting on December 19, 2018.

The trustees also approved the increase to the pensioner's account which became effective February 1, 2019. Consequently an additional lump sum and a retro payment was issued to the pensioner.

The next report was due as at September 30, 2018, the report is currently being prepared by the Plan's Actuaries and will be ready for submission on April 30, 2020.

Assets of the Fund

As at September 30, 2019, the assets of the Plan stood at J\$1,830 billion, which represents an increase of 13.03% over a one year period.

Income and Expenditure Accounts

Below is a Table which indicates the Income and Expenditure Accounts for the year ending September 30, 2019 and the previous year. This is an excerpt from the audited Financial Statement that was prepared by The Fund's auditor PriceWaterhouseCoopers.

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNTS FOR PERIOD OCTOBER 1,
2018
TO SEPTEMBER 30, 2019

	YEAR ENDED	
	9/30/2019 \$'000	9/30/2018 \$'000
FUND AT BEGINNING OF PERIOD	1,618,754	1,354,109
ADJUSTMENT	-	-
ADJUSTED FUND AT BEGINNING OF PERIOD	1,618,754	1,354,109
INCOME		
MEMBER'S CONTRIBUTION		
BASIC	27,769	22,781
VOLUNTARY	17,851	17,048,
EMPLOYER'S CONTRIBUTION	25,777	24,773
INVESTMENT INCOME	58,540	65,045
NET APPRECIATION IN VALUE OF INVESTMENTS	99,475	107,277
FOREIGN EXCHANGE GAIN	7,455	18,635
GAIN / (LOSS) ON SALE OF INVESTMENTS	73,028	63,678
TOTAL INCOME	309,895	319,237
EXPENDITURE		
RETIREMENT PENSIONS	268	111
REFUNDS OF CONTRIBUTIONS PLUS INTEREST	57,481	33,594
INVESTMENT MANAGEMENT EXPENSES	27,882	12,632
IRRECOVERABLE GCT	5,068	3,402
AUDIT FEES	3,507	2,300
OTHER ADMINISTRATIVE EXPENSES	4,762	2,553
INTEREST TO BE REFUNDED TO THE GOVERNMENT	-	-
TOTAL EXPENDITURE	98,968	54,592
NET INCOME	210,927	264,645
FUND AT END OF PERIOD	1,829,681	1,618,754

Expenses of the Plan

Administrative expenses are paid from the Plan's income. Administrative expenses include fees for our professional advisors, including our Actuary, Auditors, Investment Managers as well as other administrative cost. The Fees paid by the Fund over the period under review are broken down as follows:

Table 9: Administrative Expenses

Payee	2015	2016	2017	2018	2019
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	\$000	\$000	\$000	\$000	\$000
Investment Manager	12,247	17,103	16,808	12,632	27,882
Auditors	1,058	2,300	2,300	2,300	3,507
Other Expenses	2,599	2,512	4,623	5,954	9,831

Note to Members

Members are reminded to notify Trustees/Administrators of any corrections to be made to their beneficiaries and any other pertinent information.