Policy & Resources Committee

Response to a Question Pursuant to Rule 14 of the Rules of Procedure of the States of Deliberation and their Committees

Subject: Investments

States' Member: Deputy Jennifer Strachan

Date received: 20th August 2026

Date of reply: 4th September 2026

Questions to the Policy & Resources Committee pursuant to Rule 14 of the Rules of Procedure:

1) **Investment underperformance and management risk**

The performance of the General Investment Portfolio and the Public Servants' Pension Scheme Portfolio from 2023-2025, as calculated in Table 1 below using figures from the SIB 2025 Annual Report, is estimated as having underperformed by an estimated £85 million when compared to the Long-Term Target (real return) benchmark and underperformed by an estimated £312 million when compared to the separate Policy Benchmark. This underperformance has not only been significant over the last three years but continues the pattern of consistent cumulative underperformance against all benchmarks by these investments over the four and half years since the new structure under the States Investment Board has been in place. Furthermore, this is particularly troubling when in recent buoyant investment markets such targets were relatively easy to outperform. This underperformance is deeply concerning.

Table 1: Estimated States of Guernsey Investment Underperformance 2023-2025

General Investment Portfolio	3 years annualised return 2023-2025 (%) **	Approximate nominal return 2023-2025 (£Mn)
Approximate portfolio actual return assuming average fund of £1,752Mn *	7.30%	412
Long Term Target benchmark (CPI + 5%)	8.40%	480
Portfolio Underperformance of Long-Term Target benchmark		-67
Policy (Market) benchmark return	10.30%	599

Portfolio Underperformance of Policy benchmark		-187
Public Servants' Pension Scheme Portfolio		
Approximate portfolio actual return assuming average fund of £1,664Mn *	8.10%	438
Long Term Target benchmark (CPI + 5%)	8.40%	456
Portfolio Underperformance of Long-Term Target benchmark		-18
Policy (Market) benchmark return	10.20%	563
Portfolio Underperformance of Policy benchmark		-125
TOTAL 3-YEAR APPROXIMATE UNDERPERFORMANCE OF LONG TERM BENCHMARK		-£85 million
TOTAL 3-YEAR APPROXIMATE UNDERPERFORMANCE OF POLICY BENCHMARK		-£312 million

*note the performance calculations in Table 1 assume the same estimated average market value of the portfolio for three years 2023-2025 given consistent cash outflows each year as reported in States of Guernsey Accounts and States Investment Board Annual Report and is acknowledged as being a rough estimate
** figures in this column taken from the States Investment Board 2025 Annual Report

1) **Does the Policy & Resources Committee broadly agree with these calculations in Table 1, and if not, would they provide their own calculations of the actual nominal underperformance relative to each benchmark over the same time period for both portfolios?**

The Policy & Resources Committee ("the Committee") assesses performance primarily in percentage terms because this measures investment effectiveness independently of portfolio size and cash flows. Sterling values are affected by contributions and withdrawals, so they can obscure underlying investment results. Sterling figures provide useful context, but percentage returns offer the more consistent basis for comparison over time and against benchmarks. The nominal performance of the General Investment Portfolio ("GIP") and the Public Servants' Pension Scheme ("PSPS") against their Long-Term and Policy Benchmarks, covering the period requested and also for the 42-month period ending 30/06/2026, is shown below.

General Investment Portfolio	Annualised Return 3 years to 31/12/25 (%)	Annualised Return 31/12/22 to 30/06/26 (%)
Portfolio actual return	7.3%	8.0%
Long Term Target benchmark (CPI + 5%)	8.4%	8.4%
Portfolio Performance relative to Long Term Target benchmark	-1.1%	-0.4%
Policy (Market) benchmark return	10.3%	10.6%
Portfolio Performance Relative to Policy benchmark	-3.0%	-2.6%

Public Servants' Pension Scheme Portfolio	Annualised Return 3 years to 31/12/25 (%)	Annualised Return 31/12/22 to 30/06/26 (%)
Portfolio actual return	8.1%	8.7%
Long Term Target benchmark (CPI + 5%)	8.4%	8.4%
Portfolio Performance relative to Long Term Target benchmark	-0.3%	0.3%
Policy (Market) benchmark return	10.2%	10.5%
Portfolio Performance Relative to Policy benchmark	-2.1%	-1.8%

Note: Performance data shown above is based on audited published figures for the three-year period to 31 December 2025 and on year-to-date performance annualised to 30 June 2026. Benchmark performance to 30 June 2026 may be subject to minor revision.

2) **Given the estimated underperformance of approximately £312 million against the Policy Benchmark over the last three years, does the Committee consider this level of underperformance acceptable? If so, what level of underperformance and what time period would trigger an independent review of governance and investment management of reserves?**

The Committee does not assess the adequacy of the investment-management and governance arrangements by applying a simplistic sterling threshold to a period of benchmark-relative underperformance or to an estimate of returns forgone against a benchmark. Such an approach would be unduly simplistic: it would provide little meaningful insight into the nature or causes of the performance outcome, the risks taken to achieve it, or the extent to which it arose from market conditions, normal active-management variability, inherited investments, policy constraints, strategic asset allocation or current investment decisions. A sterling figure viewed in isolation cannot establish whether the governance structure, investment strategy, manager selection or implementation arrangements are effective.

The Committee instead considers a broad body of evidence, including the scale, duration and causes of relative performance; the performance and continuing investment case of underlying managers; compliance with the chosen strategy and risk parameters; the effectiveness of risk monitoring, challenge and remedial action; the quality of investment advice and reporting; and whether the SIB and its advisor continue to discharge their respective responsibilities effectively.

The historical context of the portfolios is also highly relevant. The performance period considered was one of substantial portfolio transition. The SIB, established at the outset of 2022, appointed a new investment advisor, developed a new investment strategy and then progressively restructured portfolios inherited from earlier arrangements. That work included reviewing existing mandates, moving local managers from multi-asset to specialist mandates, building out new allocations and managing legacy positions that could not readily be exited. Performance over the period therefore contains transition effects and other implementation noise. Some of these factors (in particular the relative performance impact of illiquid investments inherited from the previous portfolios) have been material and must be considered in an assessment of recent performance.

Any consideration of whether further independent assurance or review would add value is therefore based on a rounded assessment of the investment and governance arrangements, rather than a simple monetary threshold.

3) **Can the Committee explain why the General Investment Portfolio and the Public Servants' Pension Scheme have significantly and consistently underperformed both the Long-Term Benchmark and the Policy Benchmark over the last three years, which is a standard period for review and allows sufficient time for legacy issues to be addressed and resolved?**

The CPI plus 5% objective is a long-term benchmark and should not be used to assess success or failure over a three-year period. It was established as a return considered achievable over a long-term investment horizon, recognising that market conditions, inflation and the relative performance of different asset classes will vary materially over shorter periods. The portfolios should therefore not be expected to meet or exceed CPI plus 5% in every year, or over every rolling three-year period. Over short and medium-term periods, the Policy Benchmark provides the more appropriate measure of performance because it reflects the market return associated with the strategic asset allocation.

Noting this limitation, we also observe that the cumulative performance of the Long-term Benchmark from the end of 2022 to the end of 2025 was 27.45%. This compares to the 26.21% net return of the PSPS and the 23.39% return of the GIP. As of 30 June 2026, the Long-Term Benchmark has returned 32.83% since the outset of 2023. This compares to 34.07% for the PSPS and 31.06% for the GIP. There is, therefore, no evidence of significant or consistent underperformance against the Long-term Benchmark. Whilst three years is an insufficient time period to draw a meaningful conclusion, early signs indicate that the current asset mix is capable of meeting the Long-Term Benchmark return.

Against the more apt comparator, the Policy Benchmark, more pronounced underperformance has occurred. The absolute and relative performance of the underlying investment managers is set out in the SIB's annual reporting. This includes manager-level returns, performance against the relevant benchmark and commentary on the principal factors affecting performance. For 2024 and 2025 additional attribution analysis is also included. These figures provide further detail on individual manager outcomes and should be read alongside the portfolio-level performance and commentary presented in the Annual Reports.

While the composition and scale of performance drivers varied from year to year, several recurring themes are evident across the period. These principally comprise the relative underperformance of illiquid legacy private assets (which were entered into under different governance arrangements and advice and cannot readily be sold), weak performance from certain active equity managers and, within the GIP, underperformance from inherited multi-asset mandates and the Guernsey Investment Fund.

4) **What steps, if any, does the Committee plan to take to address the apparent inconsistency between the asset allocation reflected in the Policy Benchmark, which has only 50% in equity and the Long Term Benchmark (inflation plus 5%) target which is a more demanding target and theoretically will require a higher exposure to equity or significant excess returns over the Policy Benchmark than has been achieved to date.**

The strategic asset allocation and the CPI plus 5% Long-Term Benchmark are set by the SIB, acting on professional advice from the investment advisor and within the risk parameters, liquidity requirements and other objectives and constraints set for the portfolios. The Committee has engaged directly with the SIB and received additional supporting material concerning the basis on which both the strategic asset allocation and the Long-Term Benchmark were established. Having reviewed that material, the Committee's view is that, based on the analysis undertaken by the SIB, there is no inconsistency between the strategic asset allocation and the CPI plus 5% long-term benchmark. Whilst extreme caution is appropriate in drawing conclusions from three years of data, this view is supported by the performance of the Long-Term and Policy Benchmarks since the outset of 2023.

5) **What are the investment risk guidelines that have been set for the two portfolios in terms of limits on positions, asset and currency allocations and the statistical ranges of absolute and relative volatility that are being targeted.**

The General Investment Portfolio's central strategic asset-allocation targets are:

- 35% global equities and 15% private equity;
- 10% absolute return, 10.5% liquid credit and 10% private credit;
- 5% inflation-linked bonds and 7.5% real assets; and
- 5% nominal bonds and 2% cash.

The Public Servants' Pension Scheme Portfolio's central strategic asset-allocation targets are:

- 30% global equities and 20% private equity;
- 10% absolute return, 13% liquid credit and 7.5% private credit;
- 5% inflation-linked bonds and 7.5% real assets; and
- 5% nominal bonds and 2% cash.

For both portfolios, actual allocations may vary around these central targets, reflecting market movements, the timing of investment and realisation activity, liquidity considerations and tactical decisions by the SIB. Allocations are monitored and rebalanced regularly against the strategic asset allocation.

Position and concentration limits

Externally managed assets are diversified across investment managers to limit the impact of any single manager or fund on the overall portfolios. Allocations to individual actively managed equity funds should normally represent between 1% and 6% of the relevant portfolio, while allocations to individual absolute-return funds should normally represent between 1% and 5%. The potential diversification benefit of adding a manager is considered alongside the additional complexity and oversight that it introduces.

In addition, the combined investment of the General Investment Portfolio and the Public Servants' Pension Scheme Portfolio in any individual external fund should not normally exceed 10% of that fund's total value, except in special circumstances authorised by the SIB. This limit reduces concentration risk arising from the States becoming an unduly large investor in an underlying fund, including the associated liquidity and operational risks.

Volatility and equity sensitivity

The portfolios do not target a fixed level of realised volatility as a hard limit. Volatility is instead an output of the strategic asset allocation and the investment adviser's long-term capital-market assumptions. Based on the strategic allocations at 31 December 2025, expected annualised volatility was 10.5% for the General Investment Portfolio and 10.6% for the Public Servants' Pension Scheme Portfolio. These are forward-looking estimates based on assumed asset-class volatilities and correlations and will not necessarily correspond with volatility realised in practice.

The portfolios are expected to have an overall equity beta of approximately 0.6 to 0.7, reflecting the intention that they should participate materially in equity-market growth while remaining less sensitive to equity-market movements than a fully invested global-equity portfolio. This is consistent with the use of diversifying, inflation-sensitive and defensive assets alongside equity-oriented investments.

Currency risk

Sterling is the base currency of both portfolios. Growth assets, including public and private equity, are ordinarily held unhedged, reflecting their long investment horizon and the diversification provided by foreign-currency exposure. Diversifiers, inflation-sensitive assets and deflation-hedging assets are ordinarily hedged to sterling. Where a sterling-hedged fund or share class is not available, a currency overlay is used to achieve the intended hedge.

Underlying currency exposures and hedge positions are monitored regularly, taking account of current portfolio positioning and anticipated transactions, including capital calls. The overlay is adjusted where exposures move outside the applicable thresholds, and material departures from the approved currency policy are documented and appropriately authorised.

6) **What is the evidence that the investment risk guidelines are being measured, monitored and managed?**

Evidence is provided to the Committee through several channels. The Committee receives the SIB's formal reporting, including its Annual Report, portfolio performance, performance attribution, strategic and actual asset allocation, private-investment exposure, underlying manager performance, governance and ESG information, and accompanying commentary. It also receives reporting and analysis from Treasury, including work on benchmark-relative performance, liquidity and portfolio constraints.

The Committee supplements that reporting through direct engagement. It holds reporting meetings with the SIB, receives presentations and individual updates from SIB members, and has a standing invitation to attend SIB meetings as a non-voting observer. Attendance at those meetings gives P&R direct visibility of the information contained in SIB meeting and board packs, and of the Board's consideration of portfolio performance, performance attribution, manager outcomes, asset allocation, liquidity, currency exposure, concentration, geographic and sector exposure, ESG matters, emerging risks and potential rebalancing or other action. The Committee and its Treasury lead are also able to question and challenge the SIB and seek further information or analysis where required.

7) **Given the consistent underperformance of both portfolios, and the consideration that these portfolios might need to take more risk in order to meet or exceed the Long Term Benchmark , when were the current benchmarks last independently reviewed, and does the Committee still consider them appropriate given the States' investment objectives and risk appetite noting that there has been little change in these since the appointment of the current investment advisor?**

There are two distinct benchmarks, serving different purposes:

1. The CPI plus 5% benchmark was set by the SIB, with advice from the investment advisor, as the long-term real-return objective considered achievable within the risk parameters, investment horizon, liquidity requirements and other constraints established for the portfolios.
2. The Policy Benchmark for each portfolio is an output of its strategic asset allocation. Its component indices and weights reflect the long-term allocation to each asset class and are updated where the strategic asset allocation changes. The strategic asset allocation and associated Policy Benchmark are set and reviewed by the SIB, acting

on professional advice from the investment adviser and taking account of each portfolio's objectives, risk appetite, liquidity and cash-flow requirements. The strategic asset allocation is reviewed regularly and was last amended in February 2025.

Whilst there has been underperformance over the last three years against the Policy Benchmark for the reasons referenced in the response to question three, the most current data does not support the assertion that there has been consistent underperformance against the Long-Term Benchmark. The Committee has satisfied itself that the work performed by the SIB in respect of setting the Long-Term Benchmark and the SAA (and by extension Policy Benchmark) to achieve the long-term benchmark is appropriate.
In respect of the matter of independence, the SIB is an independent specialist sub-committee appointed to oversee the investment strategy, management and administration of the portfolios. Its members are non-political and are selected for their investment expertise, and its decisions on investment strategy and benchmark construction are therefore made through a professionally led process which is politically independent. Given that the setting of benchmarks is a politically independent process undertaken by non-political investment professionals, the Committee sees little merit in seeking further independent review as this would represent an unnecessary additional layer of duplicated cost.

2) Governance

8) Who is ultimately accountable for total investment performance: the States' Investment Board, the external investment advisor, the Treasury, or the Policy & Resources Committee?

Accountability is layered in line with the governance structure:

- The States of Deliberation establishes the Permitted Investment Rules.
- The Committee has overall political and policy accountability. It appoints the SIB and sets the Investment Mandate and Objectives, including constraints and non-financial objectives.
- The States Investment Board is accountable to the Committee for devising and implementing the investment strategy and overseeing the management and administration of the portfolios within the mandate.
- The investment adviser is accountable contractually for the advice and any delegated services it provides.
- Treasury supplies day-to-day administration, operational implementation, cash-flow coordination, reporting support and secretariat functions.

The Committee is therefore ultimately accountable to the States for the mandate it sets and its oversight of the SIB; the SIB is accountable to the Committee for portfolio implementation and performance within that framework.

The advisor and Treasury have defined professional and operational responsibilities, but neither displaces the accountability of the Committee or the SIB.

Where the Committee imposes a Special Situation or another non-financial constraint, responsibility for the consequences of that policy needs to be distinguished from the SIB's responsibility to implement it competently.

9) **What steps, if any, has the Policy & Resources Committee taken to address this significant and continuing underperformance?**

Whilst there has been underperformance over the last three full years against the Policy Benchmark for the reasons referenced in the response to question three, the most current data does not support the assertion that there has been consistent and significant underperformance against the Long-Term Benchmark.

In respect of its own actions to understand the drivers of underperformance against the Policy Benchmark and identify any action required, the Committee has:

- undertaken its own review of the governing policies, mandates, performance evidence and decision-making arrangements;
- held several meetings with the SIB specifically to discuss investment performance, the reasons for Policy Benchmark-relative underperformance and the relevant actions;
- attended SIB meetings as an observer, providing the Committee with direct oversight of the SIB's consideration of portfolio performance, risk and investment decisions;
- challenged the SIB on the drivers of performance, the performance of individual managers and asset classes, the continued validity of investment decisions and the effectiveness of the actions being taken;
- sought assurance that the SIB understands the sources of benchmark-relative performance, is consistently monitoring performance and risk, and is taking proactive steps where outcomes or investment positions require further attention;
- sought further analysis from Treasury to distinguish the effects of current investment decisions from factors arising from portfolio history, mandate or policy, including illiquid legacy investments, Special Situations and the Local Manager Programme;

- scrutinised active policies, manager selection, the retention and replacement of managers, and other investment decisions;
- reviewed the performance and effectiveness of the SIB and its Chair;
- scrutinised the arrangements through which the SIB evaluates the investment adviser, including portfolio strategy and advice, investment performance, private investments, reporting, risk and compliance, fees and value for money; and
- placed the Local Manager Programme, as the principal identified constraint over which the Committee has direct policy control, under active consideration, including its purpose, scale and future form.

The Committee's direct engagement with the SIB has included formal presentations of investment performance.

3) Foreign exchange risk

10) Given the States' liabilities are in sterling but a substantial proportion of the investments are in other currencies (detailed on page 11 of the SIB 2025 Annual Report), this exposure would seem to be a significant risk. For example, a movement of 5% appreciation in sterling would result in losses of over £60 million on both portfolios. Please describe how this exposure is being managed, including who is making the decisions as to whether, when and how to cover this exposure.

Currency decisions are governed by the policy set by the SIB. The SIB, supported by its advisor, determines strategic treatment and any policy deviation. Treasury implements and administers external overlay hedges where required.

The portfolios' base currency is sterling, but not every foreign-currency exposure is intended to be hedged. Growth assets (including public and private equity) are held unhedged, recognising both the diversification benefit of foreign currency and the long investment horizon.

Diversifiers (including absolute return, liquid and private credit), inflation-sensitive assets (including inflation-linked bonds and real assets) and deflation hedges are ordinarily hedged to sterling. Where a hedged fund or share class is not available, a currency overlay is used to achieve the required hedge which is implemented by Treasury via State Street.

The underlying currency exposures and effectiveness of the associated hedging arrangements are monitored monthly by Treasury and the investment advisor, taking account of the portfolios' current positioning and anticipated changes arising from investment transactions, including forthcoming capital calls and other changes. The size of the currency overlay is adjusted where relevant net exposures move outside tolerance thresholds. In 2026 to date, this monitoring process has resulted in the currency overlay being rebalanced on two occasions.

11) Given these foreign currency risks, is the Committee comfortable with the level of unhedged foreign exchange exposure and how it is being managed?

The Committee is comfortable with the level of unhedged foreign-exchange exposure, provided that it remains consistent with the currency policy approved by the SIB and reflects the considered judgement of the SIB and its professional investment advisors regarding the appropriate treatment of currency risk within the portfolios.