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UNITED NATIONS PENSION SYSTEM

Investments of the United Nations Joint Staff Pension Fund

Report of the Secretary-General

INTRODUCTION

1. The Secretary-General presents herein his annual report on the management of the investments of the United Nations Joint Staff Pension Fund (UNJSPF). The investment environment which prevailed in the reporting year ended 31 March 1989 is described and information is provided on the investment returns, portfolio diversification and the development-related investments of the Fund. The data are based on the audited financial accounts for the calendar year and the unaudited appraisals for the quarter ended 31 March 1989. In order to provide the General Assembly with the most timely information available, some data have been updated to 30 June 1989.

I. ECONOMIC AND INVESTMENT CONDITIONS

2. The world-wide economic environment which existed during the year ended 31 March 1989 had two distinctive characteristics. During the first half of the year under review, the monetary authorities in a number of industrialized countries adopted policies which helped in reducing the potentially recessionary consequences of the sharp decline in the financial markets in October 1987. The major concern was to abate a perceived recession and to control the volatility of exchange rates, particularly to slow down the sharp decline of the United States dollar. In the second half of the year, there were no signs of economic slow-down. Rather, strong economic expansion emerged in a number of countries. This unexpected economic growth, together with factors such as the recovery in commodity prices, especially oil prices, world-wide trade imbalances, higher wages and higher capacity utilization rates, created inflationary pressures. Other elements such as

budgetary and trade imbalances in the United States, lower export prices, increased indebtedness and a stronger United States dollar put strains on most developing countries of Africa and Latin America. However, major economic agreements between countries, restructuring programmes, especially in developing countries, and efforts to reduce debt problems had a positive impact on the resolution of major economic imbalances.

3. The financial markets continued to fluctuate during the year. The major factors which affected markets during the year under review included a general rise in inflation rates, a rise in interest rates, especially in the United Kingdom of Great Britain and Northern Ireland and the United States of America, merger and acquisition activities in many of the industrialized countries. Equity markets performed better than other securities during the year under review as most markets increased significantly after having declined sharply in the aftermath of the events of October 1987. Most bond markets declined and performance varied considerably, with the higher yielding markets producing reasonable returns while returns from others were relatively disappointing. Short-term fixed income instruments attracted investors, as in many countries they offered better returns than long-term bonds.

II. INVESTMENT RETURN

4. The market value of UNJSPF assets increased to \$US 7,632 million on 31 March 1989 from \$7,229 million a year earlier, an increase of \$403 million, or 5.57 per cent, and \$819 million above the book value. Over the past 39 years, the total book value of the portfolio has risen from \$13 million to \$6,813 million, a compound increase of 17.4 per cent a year. In the 1988 calendar year, investment income from interest and dividends amounted to \$395.6 million, an increase of 11.6 per cent over 1987. Total new funds that became available for investment amounted to \$396 million (contributions and investment income, less benefit payments and less investment expenses). Realized capital gains amounted to \$302 million.

5. The total investment return for the year ended 31 March 1989 was 5.90 per cent, which, after adjusting for inflation, represents a "real" rate of return of nine tenths of 1 per cent (0.9). The method of calculation of the investment return takes into account actual income received from interest and dividends as well as realized capital gains and losses and changes in the market value of the investments (unrealized capital gains or losses and exchange rate fluctuations). The impact of the flow of new money into the Fund at different times throughout the year is also incorporated on a prorated basis in the calculations. The techniques used in measuring the investment return are in accordance with the standards used by most pension funds.

6. Taking into account the volatility of the financial markets and exchange rates which prevailed throughout the year under review, the return achieved by the Fund can be considered satisfactory and compares favourably with other pension funds.

7. As the purpose of the Fund is to secure retirement and other related benefits for its participants, the policy of the management of the Fund's investments is geared to preserving the principal of the Fund by maintaining a careful balance between risk and reward and at the same time assessing the investment returns over the medium term and the longer term rather than acting on the basis of short-term investment results, which are not in themselves particularly meaningful for a fund such as UNJSPF, which has long-term investment objectives. Periods of five years or longer are usually considered to be reasonable periods in which to assess the investment results.

8. To provide a longer-term perspective, the annual rates of return over selected periods are shown in table 1 below.

Table 1

Total Fund: compound annual nominal and real rates of return for selected periods to 31 March 1989

	5 years through 1989 %	10 years through 1989 %	15 years through 1989 %	20 years through 1989 %	25 years through 1989 %	29 years through 1989 %
Nominal	15.80	13.26	11.02	9.26	8.43	8.35
Real (Inflation adjusted)	11.81	7.09	4.28	2.78	2.63	3.15

III. INVESTMENT DIVERSIFICATION

9. The policy of broad diversification of the investments by type of security, industry groups, countries and currencies is a basic feature of sound and prudent investment management and has been advocated repeatedly by the Investments Committee, the Pension Board and the General Assembly. 1/ The geographic and currency diversification of the assets of the Fund began in 1960. The Fund remains one of the most diversified pension funds in the world. The proportion of the assets allocated to particular geographical regions, currencies or types of security is based on long-term assessments of economic and financial market conditions at the time of decision-making. The proportions are adjusted as new information becomes available to minimize risk and to benefit from new opportunities.

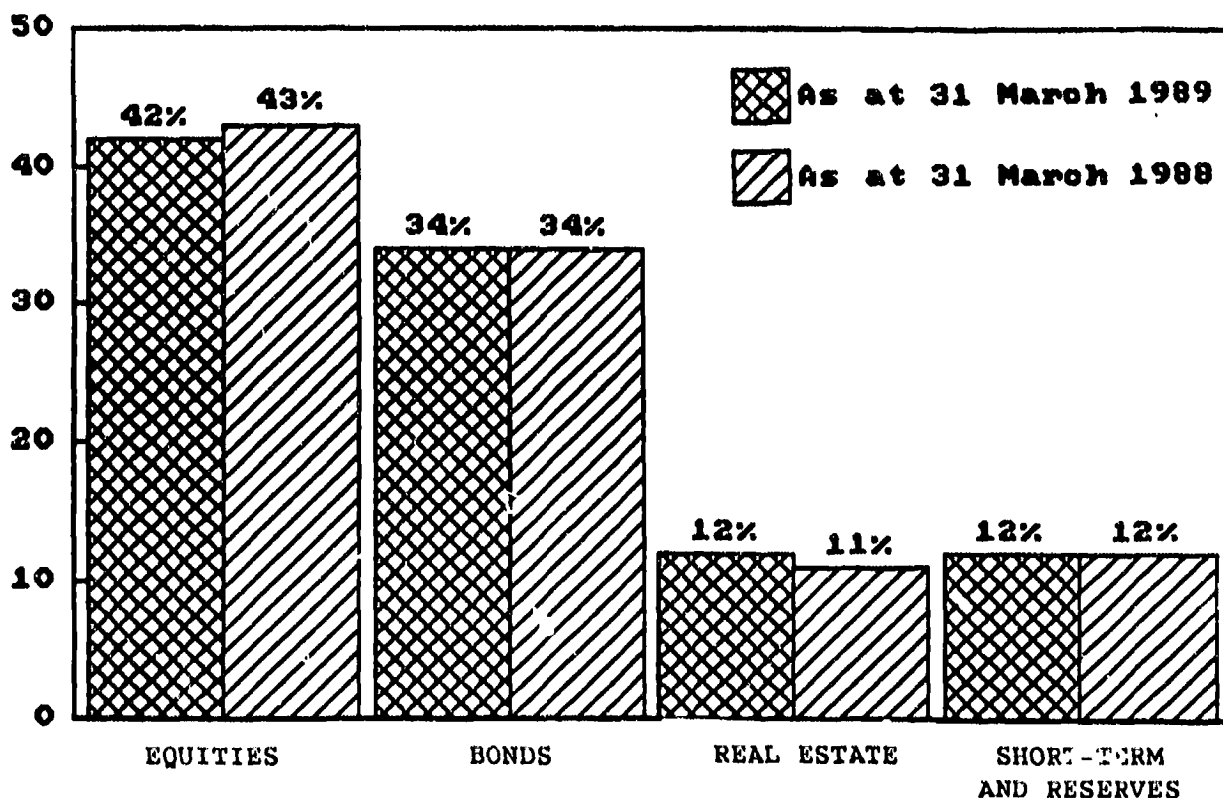
10. The diversification of the portfolio as at 31 March 1989 is detailed in the various tables in the annex to the present report. Investments were held in 29 different currencies and 44 countries; 50 per cent of the assets was invested in currencies other than the United States dollar, which is the Fund's unit of

account. Sixty per cent of the Fund's investments were made in security markets outside the United States, 81.7 per cent in local currencies and 18.3 per cent in United States dollars. The appreciation in the relative value of the United States dollar during the year under review has influenced the market values of investments outside the United States when expressed in dollars, and has consequently also had an impact on the positive rates of return in local currencies when expressed in dollar terms.

11. As shown in the chart below, equities constituted 42 per cent of the assets as of 31 March 1989, down from 43 per cent for the previous year; 40 per cent of these were in United States equities and 60 per cent in other equity markets. The proportion of bonds remained unchanged at 34 per cent, and the breakdown between United States dollar-denominated bonds and other currency bonds was 46 and 54 per cent respectively. Investments in real estate-related securities amounted to 12 per cent of the portfolio, compared with 11 per cent a year earlier. In order to preserve the principal of the Fund, the defensive policy adopted several years ago was continued. It consisted of taking profits in selected securities and placing the related proceeds in short-term investments or securities with potential for future appreciation. Short-term investments, i.e. fixed-income investments with maturity dates of less than one year, remained unchanged at 12 per cent.

CHART I

TOTAL FUND: DIVERSIFICATION OF ASSETS



12. In order to preserve the Fund's capital, realize profits and respond to market and currency movements, short-term shifts were made within the long-term guideline ranges. The proportion of investments in North American currencies increased to 56 per cent from 55 per cent a year ago, mainly as a result of the increase in the value of the United States dollar towards the later part of the year under review. The proportions of other currencies remained unchanged except for the Japanese yen, which increased, while the pound sterling and Swiss franc declined compared to the year before.

IV. IMPLEMENTATION OF GENERAL ASSEMBLY RESOLUTIONS

13. In response to the requests of the General Assembly, efforts have continued to increase investments in developing countries. As shown in table 2 below, the book value of development-related investments increased in total by 11.3 per cent over the last year, from \$1,019.5 million to \$1,134.4 million as at 30 June 1989. The investments in development institutions amounted to \$909.4 million, compared with \$823.8 million a year ago, an increase of 10.4 per cent; direct investments in specific developing countries increased by 15.0 per cent, from \$195.7 million to \$225.0 million. Table 3 shows that the Fund's direct investments and those through regional development institutions in Africa declined by 7.4 per cent to \$101.9 million from \$110.1 million; those in Latin America increased by 4.5 per cent to \$203.6 million from \$194.8 million, and those in Asia increased by 19.3 per cent to \$246.2 million from \$206.3 million. The combined development-related assets as at 30 June 1989 represented 16.6 per cent of the total book value of the Fund. The progress made over the past five years is shown in table 2 below.

Table 2

Development-related investments (book value) as at 30 June 1989

(In millions of United States dollars)

	1984	1985	1986	1987	1988	1989
Specific countries a/	148.9	177.8	172.5	169.6	195.7	225.0
Development institutions b/	486.9	565.8	611.0	820.9	823.8	909.4
Total	635.8	743.6	783.5	990.5	1 019.5	1 134.4

a/ Includes multicountry funds.

b/ Includes World Bank and other international institutions but excludes regional development institutions.

Table 3

Summary of development-related investments (book value)
as at 30 June 1989

(In millions of United States dollars)

	Currencies other than United States dollars 1989	United States dollars 1989	Total 1989	Total 1988
Africa	77.3	24.6	101.9	110.1
Asia	226.8	19.5	246.2	206.3
Europe	12.2	1.8	14.1	17.4
Latin America	90.2	113.4	203.6	194.8
Other development institutions a/	113.4	449.2	562.6	486.9
International investment trusts b/	<u>6.0</u>	<u>-</u>	<u>6.0</u>	<u>4.0</u>
Total	<u>525.9</u>	<u>608.5</u>	<u>1 134.4</u>	<u>1 019.5</u>

a/ Includes World Bank and other international institutions but excludes regional development institutions.

b/ Includes multicountry funds.

14. Close contacts are maintained with international organizations, regional development institutions, Governments and private sources to ensure full awareness of all investment opportunities in developing countries. Follow-up missions to Africa, the Middle East and Asia were undertaken during the year.

V. CONCLUSION

15. Considering the volatility of the major financial markets and fluctuations of exchange rates, the investment return to the Fund of 5.9% per cent for the year ended 31 March 1989, when measured in United States dollars, was satisfactory. The defensive strategy of taking profits where appropriate and the diversification policy of increasing investments in those markets and instruments which performed better contributed to the satisfactory performance of the Fund.

16. The Secretary-General considers the policy of diversification and careful selection of investment instruments, including the active investigation of opportunities in developing countries, to be the best way to achieve the goal of preserving the principal and enhancing the investment return of the Fund over the medium and long term. He will continue to discharge his fiduciary responsibilities through investment decisions which adhere to the principles of sound investment management and accord with the criteria, policies and values embodied in the resolutions of the General Assembly.

Notes

1/ See General Assembly resolution 36/119 of 10 December 1981 and earlier resolutions cited therein.

Annex

Table 1

TOTAL FUND: COMPONENTS OF PORTFOLIO (BOOK VALUE
AND MARKET VALUE) AS AT 31 MARCH 1989

	<u>Book value</u>		<u>Market value</u>	
	<u>(\$m)</u>	<u>(%)</u>	<u>(\$m)</u>	<u>(%)</u>
<u>Equities</u>				
United States	1 001	14.7	1 284	16.8
Outside United States	1 546	22.7	1 935	25.4
	<u>2 547</u>	<u>37.4</u>	<u>3 219</u>	<u>42.2</u>
<u>Bonds</u>				
United States	1 188	17.4	1 168	15.3
Outside United States	1 366	20.0	1 387	18.2
	<u>2 554</u>	<u>37.5</u>	<u>2 555</u>	<u>33.5</u>
<u>Real estate</u>				
United States	611	9.0	715	9.4
Outside United States	160	2.3	198	2.6
	<u>771</u>	<u>11.3</u>	<u>913</u>	<u>12.0</u>
<u>Short-term investment and reserves</u>				
United States	666	9.8	666	8.7
Outside United States	275	4.0	279	3.6
	<u>941</u>	<u>13.8</u>	<u>945</u>	<u>12.3</u>
Total	<u>6 813</u>	<u>100.0</u>	<u>7 632</u>	<u>100.0</u>

Table 2

TOTAL FUND: AREA OF INVESTMENT (MARKET VALUE) a/ b/
 AS AT 31 MARCH 1989

(In millions of United States dollars)

	Investments in currencies other than United States dollars	Investments in United States dollars	Total
Algeria	4.7	4.1	8.8
Australia	122.7	14.8	137.5
Austria	49.3	0.0	49.3
Belgium	36.5	1.1	37.6
Brazil	4.1	0.0	4.1
Canada	486.9	9.8	496.7
China	42.0	0.0	42.0
Costa Rica	0.0	0.6	0.6
Côte d'Ivoire	1.4	2.5	3.9
Denmark	44.1	9.7	53.8
Finland	12.7	14.8	27.5
France	222.9	27.7	250.6
Germany, Federal Republic of	249.6	34.9	284.5
Greece	2.0	0.0	2.0
Hong Kong	79.2	6.3	85.5
Hungary	13.9	0.0	13.9
Iceland	1.7	0.0	1.7
India	32.7	1.5	34.2
International institutions	134.9	171.8	306.7
Ireland	7.9	0.0	7.9
Italy	47.5	34.5	82.0
Japan	674.3	161.5	835.8
Jordan	6.8	0.0	6.8
Kenya	0.6	0.0	0.6
Malaysia	37.9	5.0	42.9
Mexico	17.8	10.2	28.0
Morocco	2.4	0.0	2.4
Netherlands	206.4	39.7	246.1
New Zealand	42.7	1.3	44.0
Norway	51.8	4.2	56.0
Panama	0.0	0.5	0.5
Philippines	3.5	0.0	3.5
Portugal	13.9	11.5	25.4
Regional institution (Africa)	66.4	17.4	83.8
Regional institution (Europe)	98.0	1.8	99.8
Regional institution (S-E Asia)	81.3	9.2	90.5

Table 2 (continued)

	Investments in currencies other than United States dollars	Investments in United States dollars	Total
Regional institution (Lat. America)	69.2	103.4	172.6
Republic of Korea	51.1	3.0	54.1
Singapore	59.9	0.0	59.9
Spain	70.6	1.0	71.6
Sweden	62.5	2.8	65.3
Switzerland	126.3	0.0	126.3
Thailand	19.9	0.0	19.9
Turkey	5.2	0.0	5.2
United Kingdom	471.9	59.2	531.1
USSR	16.1	0.0	16.1
Venezuela	3.8	0.0	3.8
Yugoslavia	0.0	2.0	2.0
Zimbabwe	0.6	0.0	0.6
Hedge positions <u>g/</u>	<u>(78.2)</u>	<u>78.2</u>	<u>0.0</u>
Total outside United States	<u>3 779.4</u>	<u>846.0</u>	<u>4 625.4</u> (60%)
United States	<u>20.1</u>	<u>2 987.0</u>	<u>3 007.1</u> (40%)
Total fund	<u>3 799.5</u> (50%) <u>b/</u>	<u>3 833.0</u> (50%)	<u>7 632.5</u> (100%)

a/ The country of investment is generally based on the domicile of the issuer. Convertible securities are classified according to the currency into which they are convertible.

b/ Various investment trusts (amounting to \$56.2 million), which trade in currencies other than the currencies of the investments, are classified under the countries of investment.

c/ Various investment trusts, which trade in currencies other than the currencies of the investments are classified under the countries.

Table 3

TOTAL FUND: CURRENCIES OTHER THAN UNITED STATES DOLLARS
 (MARKET VALUE) AS AT 31 MARCH 1989

Currency	Equivalent in millions of United States dollars ^{a/}	Percentage
Australian dollar	94.0	2.5
Austrian shilling	24.7	0.7
Belgian franc	27.7	0.7
Brazilian cruzado	4.1	0.1
Canadian dollar	488.6	12.9
Danish krone	38.3	1.0
Deutsche mark	453.1	11.9
European currency unit	38.8	1.0
Finnish markka	9.0	0.2
French franc	175.0	4.6
Hong Kong dollar	83.1	2.2
Indian rupee	9.5	0.3
Italian lira	43.4	1.1
Japanese yen	996.8	26.3
Jordanian dinar	1.8	0.0
Kenyan shilling	0.6	0.0
Korean won	49.2	1.3
Malaysian ringgit	21.8	0.6
Mexican peso	16.7	0.4
Miscellaneous	42.7 ^{b/}	1.1
Netherlands guilder	267.8	7.1
New Zealand dollar	14.1	0.4
Norwegian krone	34.9	0.9
Philippine peso	3.5	0.1
Pound sterling	430.7	11.4
Singapore dollar	62.4	1.6
Spanish peseta	95.5	2.5
Swedish krona	46.5	1.2
Swiss franc	208.7	5.5
Thai baht	16.5	0.4
Total fund	3 799.5 ^{c/}	100.0

^{a/} Convertible securities are classified according to the currency into which they are convertible.

^{b/} Includes the Hong Kong dollar, the Singapore dollar, the Malaysian ringgit, the Republic of Korea won and the Philippine peso.

^{c/} Includes \$56.2 million invested in investment trusts that trade in currencies other than currencies of investments.

Table 4

INVESTMENT IN DEVELOPING COUNTRIES (BOOK VALUE)
 AS AT 30 JUNE 1989

(In thousands of United States dollars)

	Currencies other than United States dollars	United States dollars	Total
<u>Africa</u>			
Algeria	4 832	4 900	9 732
Côte d'Ivoire	1 836	2 000	3 836
Kenya	219	-	219
Morocco	2 403	-	2 403
Zimbabwe	<u>373</u>	<u>-</u>	<u>373</u>
	<u>9 663</u>	<u>6 900</u>	<u>16 563</u>
Development institutions	<u>67 650</u>	<u>17 671</u>	<u>85 321</u>
Total Africa	<u>77 313</u>	<u>24 571</u>	<u>101 884</u>
<u>Asia</u>			
China	26 209	-	26 209
India	33 943	1 499	35 442
Jordan	8 496	-	8 496
Malaysia	22 539	4 932	27 471
Philippines	2 738	-	2 738
Republic of Korea	14 026	2 951	16 977
Singapore	34 885	-	34 885
Thailand	<u>16 787</u>	<u>-</u>	<u>16 787</u>
	<u>159 623</u>	<u>9 382</u>	<u>169 005</u>
Development institutions	<u>67 160</u>	<u>10 176</u>	<u>77 336</u>
Total Asia	<u>226 783</u>	<u>19 558</u>	<u>246 341</u>
<u>Europe</u>			
Yugoslavia	<u>0</u>	<u>1 840</u>	<u>1 840</u>
	<u>0</u>	<u>1 840</u>	<u>1 840</u>
Development institutions	<u>12 128</u>	<u>-</u>	<u>12 128</u>
Total Europe	<u>12 128</u>	<u>1 840</u>	<u>13 968</u>

Table 4 (continued)

	Currencies other than United States dollars	United States dollars	Total
Latin America			
Brazil	4 929	-	4 929
Costa Rica	-	551	551
Mexico	13 145	8 750	21 895
Panama	-	484	484
Venezuela	3 697	-	3 697
	<u>21 771</u>	<u>9 785</u>	<u>31 556</u>
Development institutions	<u>68 474</u>	<u>103 593</u>	<u>172 067</u>
Total Latin America	<u>90 245</u>	<u>113 378</u>	<u>203 623</u>
Other development institutions	113 394	449 207	562 601
International investment trusts	6 000	-	6 000
Total development-related investments	<u>525 863</u>	<u>608 554</u>	<u>1 134 417</u>

Table 5

TOTAL FUND: COMPONENTS OF PORTFOLIO (MARKET VALUE), 1983-1989

(In millions of United States dollars)

Period ending on:	31/03/83	31/03/84	31/03/85	31/03/86	31/03/87	31/03/88	31/03/89
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
<u>Equities</u>							
United States	1 018	983	1 333	2 004	1 671	1 403	1 284
Outside United States	631	760	761	1 306	1 920	1 717	1 935
	<u>1 649</u>	<u>1 743</u>	<u>2 094</u>	<u>3 310</u>	<u>3 591</u>	<u>3 120</u>	<u>3 219</u>
<u>Bonds</u>							
United States	696	734	684	800	675	978	1 168
Outside United States	521	654	624	888	1 213	1 527	1 387
	<u>1 217</u>	<u>1 388</u>	<u>1 308</u>	<u>1 688</u>	<u>1 888</u>	<u>2 505</u>	<u>2 555</u>
<u>Real estate</u>							
United States	172	277	350	354	554	603	715
Outside United States	30	37	46	66	141	160	198
	<u>202</u>	<u>314</u>	<u>396</u>	<u>420</u>	<u>695</u>	<u>763</u>	<u>913</u>
<u>Short-term investment and reserves</u>							
United States	70	102	75	195	587	527	666
Outside United States	0	50	52	0	255	314	279
	<u>70</u>	<u>152</u>	<u>127</u>	<u>195</u>	<u>842</u>	<u>841</u>	<u>945</u>
Total	<u>3 138</u>	<u>3 597</u>	<u>3 925</u>	<u>5 613</u>	<u>7 016</u>	<u>7 229</u>	<u>7 632</u>
Percentage change from year to year (%)		<u>14.63</u>	<u>9.12</u>	<u>43.01</u>	<u>25.00</u>	<u>3.04</u>	<u>5.57</u>