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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 herewith his annual report on the management of the investments of the United Nations Joint Staff Pension Fund (UNJSPF). The report describes the investment environment that prevailed in the reporting year ended 31 March 1990 and provides information 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 1990. In order to provide the General Assembly with the most timely information available, some data have been updated to 30 June 1990.

#### I. ECONOMIC AND INVESTMENT CONDITIONS

2. The world-wide economic environment for the year ended 31 March 1990 was marked by slower economic expansion, inflationary pressures, higher interest rates, fluctuations in exchange rates and political and economic changes in Eastern Europe. Most financial markets experienced sharp rises from April 1989 until mid-October 1989, when there was a short-lived but sharp decline in the markets. The upward trend resumed until the end of 1989, after which the fear of a further rise in interest rates made various investors retreat from equities into fixed-income securities.

3. Bond markets world wide were affected by volatile interest rates. In Europe and the Far East, bond prices were affected by rising interest rates and the appreciation of the dollar against major currencies. In the United States of America, however, interest rates actually declined as it became evident that the economy was not overheating. In the second half of the period under review, United States bonds became more attractive than those outside the United States.

4. High inflation and high interest rates, together with trade imbalances and lower export prices, strained Africa, Latin America and the emerging economies of Eastern Europe. Concurrently, efforts were made by many of those countries to liberalize and restructure their economic systems, the impact of which was expected to be long term.

## II. INVESTMENT RETURN

5. The market value of UNJSPF assets increased to \$US 8,558 million on 31 March 1990 from \$7,632 million a year earlier, an increase of \$926 million, or 12.13 per cent, and \$947 million above the book value. Over the past 40 years, the total book value of the portfolio has risen from \$13 million to \$7,611 million, a compound increase of 17.27 per cent a year. In the 1989 calendar year, investment income from interest and dividends amounted to \$457.8 million, an increase of 15.72 per cent over 1988. The total volume of new funds that became available for investment amounted to \$491.5 million (contributions plus investment income, less benefit payments and investment expenses). Realized capital gains amounted to \$277.3 million.

6. The total investment return for the year ended 31 March 1990 was 11.56 per cent, which, after adjusting for inflation, represents a real rate of return of 6.03 per cent. The method of calculating 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.

7. Taking into account the volatility of the financial markets, the comparatively weak bond markets outside the United States, the rise in interest rates, the weaker Japanese yen and its markets, the return achieved by the Fund can be considered good and compares favourably with other pension funds.

8. 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 that 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.

9. 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 1990

	5 years up to 1990 %	10 years up to 1990 %	15 years up to 1990 %	20 years up to 1990 %	25 years up to 1990 %	30 years up to 1990 %
Nominal	16.54	14.55	11.82	9.95	8.61	8.46
Real (inflation- adjusted)	12.21	9.24	5.36	3.47	2.64	3.25

### III. INVESTMENT DIVERSIFICATION

10. 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 United Nations Joint Staff Pension Board (UNJSPB) and the General Assembly. <sup>1/</sup> 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 the economic and financial market environment at the time of decision-making. The proportions are adjusted as new information becomes available to minimize risk and to benefit from new opportunities.

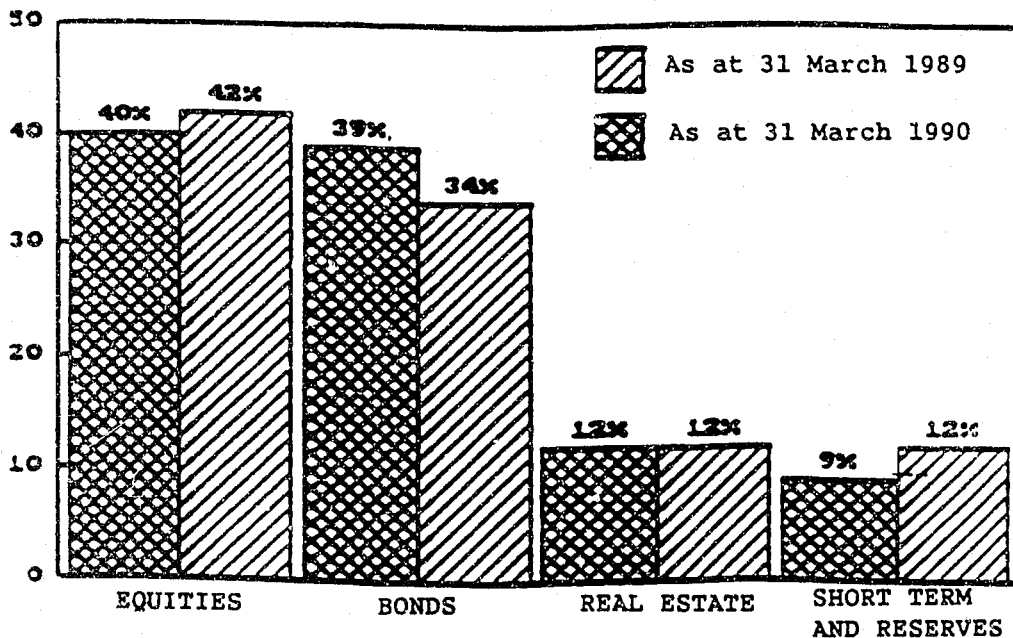
11. The diversification of the portfolio as at 31 March 1990 is detailed in the various tables in the annex to the present report. Investments were held in 33 different currencies and 43 countries; 52 per cent of the assets was invested in currencies other than the United States dollar, which is the Fund's unit of account. Of the Fund's investments, 63 per cent was in security markets outside the United States. The decline 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 enhanced the positive rates of return in local currencies when expressed in dollar terms.

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12. As shown in figure 1 below, equities constituted 40 per cent of assets as of 31 March 1990, down from 42 per cent for the previous year; 42 per cent of these were in United States equities and 58 per cent in other equity markets. Bonds accounted for 39 per cent, compared with 34 per cent a year ago, and the breakdown between United States dollar-denominated bonds and other currency bonds was 44 and 56 per cent respectively. Investments in real estate-related securities amounted to 12 per cent of the portfolio, unchanged from a year earlier. In order to preserve the principal of the Fund, the defensive policy adopted in the mid-1980s 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 and reserves, i.e., cash and fixed income investments with maturity dates of less than one year, were reduced to 9 per cent from 12 per cent a year earlier.

Figure 1

Total Fund: diversification of assets



13. 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 decreased to 54 per cent from 56 per cent a year ago, mainly owing to the increase in the value of the French franc and the Swiss franc.

IV. IMPLEMENTATION OF GENERAL ASSEMBLY RESOLUTIONS

14. In response to requests of the General Assembly, efforts have continued to increase investments in developing countries. As shown in tables 2 and 3 below, the book value of development-related investments increased in total by 12.6 per cent over the last year, from \$1,134.4 million to \$1,277.2 million as at 30 June 1990. The investments in development institutions amounted to \$1,036.6 million compared with \$909.4 million a year ago, an increase of 14 per cent; direct investments in specific developing countries increased by 6.9 per cent from \$225 million to \$240.6 million. Table 3 shows that the Fund's direct investments and those through regional development institutions in Africa increased by 14.8 per cent to \$117.1 million from \$101.9 million; in Latin America they increased by 19.9 per cent to \$244.1 million from \$203.6 million, and in Asia by 27.6 per cent to \$314.3 million from \$246.2 million. The combined development-related assets as at 30 June 1990 represented 16.7 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 1990

(In millions of United States dollars)

	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
Specific countries <u>a/</u>	177.8	172.5	169.6	195.7	225.0	240.6
Development institutions <u>b/</u>	<u>565.8</u>	<u>611.0</u>	<u>820.9</u>	<u>823.8</u>	<u>909.4</u>	<u>1 036.6</u>
Total	<u>743.6</u>	<u>783.5</u>	<u>990.5</u>	<u>1 019.5</u>	<u>1 134.4</u>	<u>1 277.2</u>

a/ Includes multicountry fund.

b/ Includes regional and other development institutions.

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Table 3

Summary of development-related investments (book value)  
as at 30 June 1990

(In millions of United States dollars)

	Currencies other than United States <u>1990 dollars</u>	United States <u>1990 dollars</u>	Total <u>1990</u>	Total <u>1989</u>	% change
Africa	93.5	23.6	117.1	101.9	14.87
Asia	248.0	66.3	314.3	246.2	27.65
Europe	10.4	0.3	10.7	14.1	(24.18)
Latin America	102.3	141.8	244.1	203.6	19.92
Other development institutions <u>a/</u>	89.0	493.1	582.1	562.6	3.47
Multicountry fund	<u>8.9</u>	<u>0.0</u>	<u>8.9</u>	<u>6.0</u>	<u>48.72</u>
Total	<u>552.1</u>	<u>725.1</u>	<u>1 277.2</u>	<u>1 134.4</u>	<u>12.59</u>

a/ Includes World Bank but excludes regional development institutions.

15. 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

16. Considering the volatility of the major financial markets and fluctuations of exchange rates, the investment return to the Fund of 11.56 per cent for the year ended 31 March 1990, 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 that performed better contributed to the satisfactory performance of the Fund.

17. 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

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through investment decisions that 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 1990

(In millions of dollars and percentages)

	<u>Book value</u>		<u>Market value</u>	
	<u>(\$m)</u>	<u>(%)</u>	<u>(\$m)</u>	<u>(%)</u>
<u>Equities</u>				
United States	1 065	14.0	1 465	17.1
Outside United States	1 594	20.9	1 996	23.3
	<u>2 659</u>	<u>34.9</u>	<u>3 461</u>	<u>40.4</u>
<u>Bonds</u>				
United States	1 470	19.3	1 475	17.2
Outside United States	1 871	24.6	1 847	21.6
	<u>3 341</u>	<u>43.9</u>	<u>3 322</u>	<u>38.8</u>
<u>Real estate</u>				
United States	642	8.4	751	8.8
Outside United States	188	2.5	244	2.9
	<u>830</u>	<u>10.9</u>	<u>995</u>	<u>11.7</u>
<u>Short-term investments and reserves</u>				
United States	383	5.0	384	4.5
Outside United States	398	5.3	396	4.6
	<u>781</u>	<u>10.3</u>	<u>780</u>	<u>9.1</u>
Total	<u>7 611</u>	<u>100.0</u>	<u>8 558</u>	<u>100.0</u>

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TABLE 2  
 TOTAL FUND: AREA OF INVESTMENT (MARKET VALUE) a/  
 AS AT 31 MARCH 1990

(In millions of United States dollars)

	Investments in currencies other than United States dollars	Investment in United States dollars	Total
Algeria	2.2	3.5	5.7
Australia	119.8	15.3	135.1
Austria	81.2	0.0	81.2
Bahrain	5.3	0.0	5.3
Belgium	49.1	0.9	50.0
Brazil	4.8	0.0	4.8
Canada	511.7	69.8	581.5
China	35.6	0.0	35.6
Costa Rica	0.0	0.2	0.2
Côte d'Ivoire	1.0	2.5	3.5
Denmark	62.9	8.9	71.8
Finland	13.5	29.4	42.9
France	448.1	46.9	495.0
Germany, Federal Republic of	253.2	5.5	258.7
Hong Kong	68.4	6.6	75.0
Hungary	22.5	0.0	22.5
India	43.9	1.5	45.4
Indonesia	6.6	0.0	6.6
International institutions	88.6	229.2	317.8
Italy	26.6	49.8	76.4
Japan	654.7	145.8	800.5
Jordan	3.6	0.0	3.6
Kenya	0.6	0.0	0.6
Malaysia	21.8	5.0	26.8
Mexico	30.4	10.0	40.4
Netherlands	345.1	17.0	362.1
New Zealand	79.0	22.2	101.2

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TABLE 2 (continued)

	Investments in currencies other than United States dollars	Investment in United States dollars	Total
Norway	15.3	3.9	19.2
Panama	0.0	0.5	0.5
Philippines	12.0	0.0	12.0
Portugal	18.2	0.0	18.2
Regional institution (Africa)	92.3	17.9	110.2
Regional institution (Europe)	95.3	1.8	97.1
Regional institution (South-East Asia)	94.2	9.7	103.9
Regional institution (Latin America)	76.3	145.0	221.3
Republic of Korea	33.4	3.0	36.4
Singapore	62.6	0.0	62.6
Spain	54.2	0.8	55.0
Sweden	61.6	21.9	83.5
Switzerland	313.7	5.0	318.7
Thailand	16.5	9.4	25.9
Turkey	5.5	0.0	5.5
United Kingdom	525.9	42.1	568.0
Union of Soviet Socialist Republics	14.9	0.0	14.9
Venezuela	4.1	0.0	4.1
Yugoslavia	0.0	1.7	1.7
Zimbabwe	0.6	0.0	0.6
Total outside United States	<u>4 476.8</u>	<u>932.7</u>	<u>5 409.5 (63%)</u>
United States	<u>6.0</u>	<u>3 142.8</u>	<u>3 148.8 (37%)</u>
Total Fund	<u><u>4 482.8 (52%)</u></u> <sup>b/</sup>	<u><u>4 075.5 (48%)</u></u>	<u><u>8 558.3 (100%)</u></u>

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

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TABLE 3

TOTAL FUND: CURRENCIES OTHER THAN UNITED STATES DOLLARS  
(MARKET VALUE) AS AT 31 MARCH 1990

Currency	Equivalent in millions of United States dollars <u>a/</u>	Percentage
Australian dollar	115.1	2.6
Austrian schilling	75.3	1.7
Belgium franc	53.9	1.2
Brazilian cruzeiros	4.8	0.1
Canadian dollar	516.5	11.5
Danish krone	57.2	1.3
Deutsche mark	461.3	10.3
European currency unit	28.3	0.6
Finnish markka	10.3	0.2
French franc	462.4	10.3
Hong Kong dollar	68.4	1.5
Hungarian forint	8.0	0.2
Indian rupee	23.3	0.5
Indonesian rupiah	6.6	0.1
Italian lira	24.7	0.6
Japanese yen	784.5	17.4
Jordanian dinar	3.6	0.1
Kenyan shillings	0.6	0.0
Korean won	31.6	0.7
Malaysian ringgit	14.0	0.3
Mexican peso	30.4	0.7
Miscellaneous	88.3 <u>b/</u>	2.0
Netherlands guilder	418.0	9.3
New Zealand dollar	58.4	1.3
Norwegian krone	20.8	0.5
Philippine peso	12.0	0.3
Portuguese escudo	9.6	0.2

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TABLE 3 (continued)

Currency	Equivalent in millions of United States dollars <u>a/</u>	Percentage
Pound sterling	443.2	9.9
Singapore dollar	63.0	1.4
Spanish peseta	93.2	2.1
Swedish krona	57.8	1.3
Swiss franc	421.2	9.4
Thai baht	<u>16.5</u>	<u>0.4</u>
TOTAL FUND	<u>4 482.8</u> <u>c/</u>	<u>100.0</u>

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, the Philippine peso, the Italian lira, the Spanish peseta and the Portuguese escudo.

c/ Includes various investment trusts, that trade in currencies other than the currencies of the investment.

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TABLE 4  
 INVESTMENT IN DEVELOPING COUNTRIES (BOOK VALUE)  
 AS AT 30 JUNE 1990

(In thousands of United States dollars)

	Currencies other than United States dollars	United States dollars	Total
<b>AFRICA</b>			
Algeria	2 120	3 920	6 040
Côte d'Ivoire	1 836	2 000	3 836
Kenya	219	0	219
Zimbabwe	373	0	373
	<u>4 548</u>	<u>5 920</u>	<u>10 468</u>
Development institutions	88 903	17 671	106 574
<b>Total Africa</b>	<u>93 451</u>	<u>23 591</u>	<u>117 042</u>
<b>ASIA</b>			
Bahrain	5 963	0	5 963
China	26 209	0	26 209
Indonesia	6 445	0	6 445
India	40 442	1 499	41 941
Jordan	3 257	0	3 257
Malaysia	19 718	4 932	24 650
Republic of Korea	13 951	2 951	16 902
Singapore	32 235	0	32 235
Thailand	13 730	7 335	21 065
	<u>161 950</u>	<u>16 717</u>	<u>178 667</u>
Development institutions	73 553	49 598	123 151
<b>Total Asia</b>	<u>235 503</u>	<u>66 315</u>	<u>301 818</u>

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TABLE 4 (continued)

	Currencies other than United States dollars	United States dollars	Total
<b>EUROPE</b>			
Yugoslavia	0	265	265
	0	265	265
Development institutions	10 426	0	10 426
Total Europe	10 426	265	10 691
<b>LATIN AMERICA</b>			
Brazil	4 929	0	4 929
Costa Rica	0	413	413
Mexico	11 542	8 750	20 292
Panama	0	484	484
Venezuela	3 697	0	3 697
	20 168	9 647	29 815
Development institutions	82 150	132 193	214 343
Total Latin America	102 318	141 840	244 158
Other development institutions	89 042	493 075	582 117
Multicountry fund	8 923	0	8 923
Total development-related investments	539 663	725 086	1 264 749

TABLE 5

TOTAL FUND: COMPONENTS OF PORTFOLIO (MARKET VALUE), 1986-1990

(In millions of United States dollars and percentages)

Period ending on:	31/03/86		31/03/87		31/03/88		31/03/89		31/03/90	
	(\$m)	%	(\$m)	%	(\$m)	%	(\$m)	%	(\$m)	%
<u>Equities</u>										
United States	2 004	36	1 671	24	1 403	19	1 284	17	1 465	17
Outside United States	1 306	23	1 920	27	1 717	24	1 935	25	1 996	23
	<u>3 310</u>	<u>59</u>	<u>3 591</u>	<u>51</u>	<u>3 120</u>	<u>43</u>	<u>3 219</u>	<u>42</u>	<u>3 461</u>	<u>40</u>
<u>Bonds</u>										
United States	800	14	675	10	978	14	1 168	16	1 475	17
Outside United States	888	16	1 213	17	1 527	20	1 387	18	1 847	22
	<u>1 688</u>	<u>30</u>	<u>1 888</u>	<u>27</u>	<u>2 505</u>	<u>34</u>	<u>2 555</u>	<u>34</u>	<u>3 322</u>	<u>39</u>
<u>Real estate</u>										
United States	354	6	554	8	603	9	715	9	751	9
Outside United States	66	1	141	2	160	2	198	3	244	3
	<u>420</u>	<u>7</u>	<u>695</u>	<u>10</u>	<u>763</u>	<u>11</u>	<u>913</u>	<u>12</u>	<u>995</u>	<u>12</u>
<u>Short-term investments and reserves</u>										
United States	195	4	587	8	527	8	666	9	384	4
Outside United States	0	0	255	4	314	4	279	3	396	5
	<u>195</u>	<u>4</u>	<u>842</u>	<u>12</u>	<u>841</u>	<u>12</u>	<u>945</u>	<u>12</u>	<u>780</u>	<u>9</u>
Total	<u>5 613</u>	<u>100</u>	<u>7 016</u>	<u>100</u>	<u>7 229</u>	<u>100</u>	<u>7 632</u>	<u>100</u>	<u>8 558</u>	<u>100</u>
Percentage change from year to year	<u>43.01</u>		<u>25.00</u>		<u>3.04</u>		<u>5.57</u>		<u>12.13</u>	