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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 investment environment that prevailed in the reporting year ended 31 March 1991 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 1991. In order to provide the General Assembly with the most timely information available, some data have been updated to 30 June 1991.

I. ECONOMIC AND INVESTMENT CONDITIONS

2. The world-wide economic environment for the year ended 31 March 1991 was characterized by a slowdown in economic expansion, a general decline in interest and inflation rates in most Western countries, volatility in oil prices and currency exchange rates, lower commodity prices and restructuring of economic systems in Eastern Europe, Latin America and Africa. Most financial markets experienced sharp declines in the last few months of 1990, some reaching their lowest points while others recovered strongly during the early part of 1991. The major factors that influenced the market movements were the slowdown in economic expansion, poor corporate profits, volatility in exchange rates and the situation between Iraq and Kuwait.

3. The major bond markets in which the Fund had investments performed well in the year under review as interest rates moved from high levels to lower rates during the year under review. Relatively high inflation-adjusted yields prevented inflation rates from rising in some countries. In the United States, however, interest rates continued to decline until it became evident that a further decline, although needed to stimulate an economy already in recession, was going to trigger higher inflation. In Europe, bond yields declined in the United Kingdom and France, while yields in Germany increased as interest rates were kept at high levels to curb inflation and to protect the currency.

4. Continued high inflation, trade imbalances and lower export prices strained Africa and Latin America. The Eastern European countries continued to liberalize and restructure their economic and political systems during the year, with an expected long-term impact.

II. INVESTMENT RETURN

5. The market value of UNJSPF assets increased to \$US 9,338 million on 31 March 1991 from \$8,558 million a year earlier, an increase of \$780 million, or 9.11 per cent, and \$848 million above the book value. Over the past 41 years, the total book value of the portfolio rose from \$13 million to \$8,490 million, a compound increase of 17.13 per cent a year. In the 1990 calendar year, investment income from interest and dividends amounted to

\$553.6 million, an increase of 20.93 per cent over 1989. The total of new funds which became available for investment amounted to \$619.7 million (contributions plus investment income, less benefit payments and investment expenses). Realized capital gains amounted to \$278.9 million.

6. The total investment return for the year ended 31 March 1991 was 8.9 per cent, which, after adjusting for inflation, represents a "real" rate of return of 3.8 per cent. 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. The calculations of the investment returns for the Fund are carried out by an outside consultant.

7. Taking into account the volatility of the financial markets, the slowdown in economic expansion worldwide and the strength of the United States dollar towards the end of the period under review, the return achieved by the Fund can be considered a good one.

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 and liabilities. 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 1991

	5 years through 1991 \$	10 years through 1991 \$	15 years through 1991 \$	20 years through 1991 \$	25 years through 1991 \$	30 years through 1991 \$
Nominal	10.70	12.90	11.60	9.70	9.00	8.50
Real (inflation adjusted)	6.00	8.20	5.20	3.20	2.90	3.30

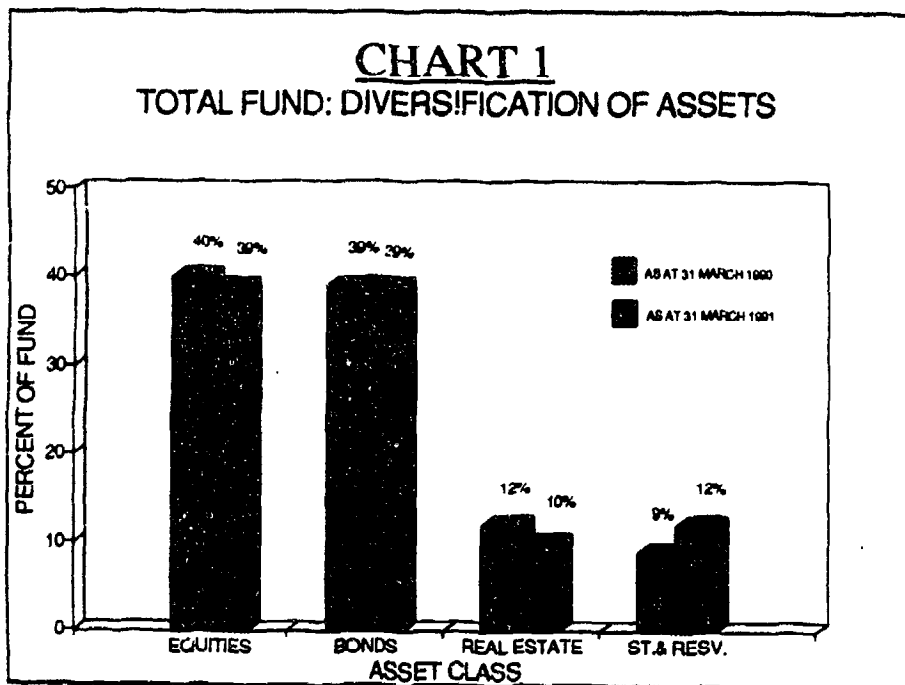
III. INVESTMENT DIVERSIFICATION

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 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 geographic 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 1991 is detailed in the various tables in the annex to the present report. Investments were held in 33 different currencies and 42 countries; 55 per cent of the assets were invested in currencies other than the United States dollar, which is the Fund's unit of account. Of the Fund's investments, 64 per cent were in markets outside the United States. The rise in the relative value of the United States dollar during the year under review influenced the market values of investments outside the United States when expressed in dollars and has consequently also had a negative impact on the positive rates of return in local currencies when expressed in dollar terms.

12. As shown in chart 1 below, equities constituted 39 per cent of the assets as of 31 March 1991, down from 40 per cent for the previous year; 43 per cent of these were in United States equities and 57 per cent in other equity markets. The bond proportion was unchanged at 39 per cent, and the breakdown between United States dollar-denominated bonds and other currency bonds was 38 and 62 per cent respectively. Investments in real estate-related securities amounted to 10 per cent of the portfolio compared to 12 per cent from a year earlier. In order to preserve the principal of the Fund, the defensive policy adopted in the mid-1980s was continued but slightly changed. It consisted of taking profits in selected securities that appeared overvalued and placing the related proceeds in 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 increased to 12 per cent from 9 per cent a year earlier.

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 53 per cent from 54 per cent a year ago.



IV. IMPLEMENTATION OF GENERAL ASSEMBLY RESOLUTIONS

14. In response to the requests of the General Assembly, efforts have been 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 12.4 per cent over the last year, from \$1,277.2 million to \$1,435.2 million as at 30 June 1991. The investments in development institutions amounted to \$1,137.2 million compared with \$1,036.6 million a year ago, an increase of 9.7 per cent; direct investments in specific developing countries increased by 23.9 per cent from \$240.6 million to \$298 million. Table 3 shows that the Fund's direct investments and those through regional development institutions in Africa increased by 23.6 per cent to \$144.7 million from \$117.1 million; Latin America increased by 29.6 per cent to \$25.3 million from \$244.1 million, and Asia increased by 26.3 per cent to \$397.1 million from \$314.3 million. The combined development-related assets as at 30 June 1991 represented 16.9 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 1991

(In millions of United States dollars)

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
Specific countries a/	172.5	169.6	195.7	225.0	240.6	298.0
Development institutions b/	<u>611.0</u>	<u>820.9</u>	<u>823.8</u>	<u>909.4</u>	<u>1 036.6</u>	<u>1 137.2</u>
Total	<u>783.5</u>	<u>990.5</u>	<u>1 019.5</u>	<u>1 134.4</u>	<u>1 277.2</u>	<u>1 435.2</u>

a/ Includes multicountry fund.

b/ Includes regional and other development institutions.

Table 3

Summary of development-related investments (book value)
as at 30 June 1991

(In millions of United States Dollars)

	Currencies other than United States 1991 dollars	United States 1991 dollars	Total 1991	Total 1990	% Change
Africa	89.7	55.0	144.7	117.1	23.6
Asia	266.6	130.5	397.1	314.3	26.4
Europe	0	0	0	10.7	(0)
Latin America	145.4	170.9	316.3	244.1	29.6
Other development institutions a/	171.8	392.8	564.6	582.1	(3.0)
Multicountry fund	<u>12.5</u>	<u>0.0</u>	<u>12.5</u>	<u>8.9</u>	<u>40.0</u>
Total	<u>686.0</u>	<u>749.2</u>	<u>1 435.2</u>	<u>1 277.2</u>	<u>12.4</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, Latin America, the Middle East and Asia were undertaken during the year.

V. CONCLUSION

16. Considering the volatility of the financial markets, fluctuations of exchange rates and the slowdown in economic expansion, the investment return of 8.90 per cent for the year ended 31 March 1991, 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 consistent 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 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 1991

(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	1 161	13.7	1 576	16.9
Outside United States	<u>1 769</u>	<u>20.8</u>	<u>2 045</u>	<u>21.9</u>
	<u>2 930</u>	<u>34.5</u>	<u>3 621</u>	<u>38.8</u>
<u>Bonds</u>				
United States	1 343	15.8	1 400	15.0
Outside United States	<u>284</u>	<u>26.9</u>	<u>2 280</u>	<u>24.4</u>
	<u>3 627</u>	<u>42.7</u>	<u>3 680</u>	<u>39.4</u>
<u>Real estate</u>				
United States	666	7.8	736	7.9
Outside United States	<u>152</u>	<u>1.8</u>	<u>198</u>	<u>2.1</u>
	<u>818</u>	<u>9.6</u>	<u>934</u>	<u>10.0</u>
<u>Short-term investments and reserves</u>				
United States	501	5.9	504	5.4
Outside United States	<u>614</u>	<u>7.2</u>	<u>599</u>	<u>6.4</u>
	<u>1 115</u>	<u>13.1</u>	<u>1 103</u>	<u>11.8</u>
Total	<u>8 490</u>	<u>100.0</u>	<u>9 338</u>	<u>100.0</u>

TABLE 2

TOTAL FUND: COUNTRIES OF INVESTMENT (MARKET VALUE) a/
 AS AT 31 MARCH 1991

(In millions of United States dollars)

	Investments in currencies other than the United States dollar	Investments in United States dollars	Total
Algeria	2.0	3.1	5.1
Australia	75.4	0.0	75.4
Austria	50.1	0.0	50.1
Bahrain	5.5	0.0	5.5
Belgium	67.2	0.6	67.9
Brazil	4.2	0.0	4.2
Canada	666.6	38.2	704.8
China	37.8	0.0	37.8
Costa Rica	0.0	0.2	0.2
Côte d'Ivoire	0.0	2.5	2.5
Denmark	273.4	9.5	282.9
Finland	9.3	10.1	19.4
France	519.0	48.2	567.2
Germany	201.4	5.9	207.3
Hong Kong	88.4	0.0	88.4
Hungary	21.9	0.0	21.9
India	35.0	1.5	36.5
Ireland	187.2	0.0	187.2
International institutions	123.1	264.6	387.7
			/...

TABLE 2 (continued)

	Investments in currencies other than the United States dollar	Investments in United States dollars	Total
Italy	83.8	63.2	147.0
Japan	918.7	33.4	952.1
Jordan	3.0	0.0	3.0
Kenya	0.3	0.0	0.3
Malaysia	57.1	0.0	57.1
Mexico	33.0	10.2	43.2
Netherlands	136.5	6.8	143.3
New Zealand	62.0	12.6	74.6
Norway	42.7	3.5	46.2
Panama	0.0	0.05	0.05
Philippines	11.0	0.0	11.0
Portugal	24.5	0.0	24.5
Regional inst. (Africa)	96.7	18.9	115.6
Regional inst. (Europe)	96.2	2.0	98.1
Regional inst. (South-East Asia)	103.5	61.8	165.3
Regional inst. (Latin America)	98.0	153.0	251.0
Republic of Korea	27.6	10.1	37.7
Singapore	49.8	0.0	49.8
Spain	127.9	0.6	128.5
Sweden	64.0	23.1	87.1
Switzerland	332.3	0.0	332.3
			/...

TABLE 2 (continued)

	Investments in currencies other than the United States dollar	Investments in United States dollars	Total
Thailand	14.6	13.4	28.0
Turkey	5.4	0.0	5.4
United Kingdom of Great Britain and Northern Ireland	344.8	92.8	437.6
Union of Soviet Socialist Republics	12.7	0.0	12.7
Venezuela	4.0	0.0	4.0
Zimbabwe	<u>0.7</u>	<u>0.0</u>	<u>0.7</u>
Total, outside United States	<u>5 118.6</u>	<u>889.8</u>	<u>6 008.4</u>
United States of America	<u>0.0</u>	<u>3 329.4</u>	<u>3 329.4</u>
Total, Fund	<u>5 118.6</u>	<u>4 219.2</u>	<u>9 337.8</u>

a/ Country of investment is generally based on domicile of issuer. Convertible securities are classified according to currency into which they are convertible. 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 1991

Currency		\$US equivalent (in millions) a/	Percentage
Australian dollar	\$A	67.3	1.3
Austrian schilling	S	48.2	0.9
Belgian franc	BF	67.2	1.3
Brazilian cruzados	\$Cz	4.2	0.1
Canadian dollar	\$Can	701.8	13.7
Danish krone	NKr	266.9	5.2
Deutsche mark	DM	350.0	6.8
European currency unit	Ecu	83.9	1.6
Finnish markka	FmK	9.3	0.2
French Franc	FF	536.2	10.5
Hong Kong dollar	\$HK	88.4	1.7
Hungarian forint	Ft	8.0	0.2
Indian rupee	Rs	16.3	0.3
Irish punts	L	187.2	3.7
Italian lira	Lit	24.8	0.5
Japanese yen	Y	1 086.5	21.2
Jordan dinar	JD	3.0	0.1
Kenyan schilling	KSh	0.3	0.0
Korean won	Kw	25.5	0.5
Malaysian ringgit	\$M	24.9	0.5
Mexican peso	\$Mex	33.0	0.6
Miscellaneous	-	107.5 b/	2.1
Netherlands guilder	f.	149.8	2.9
New Zealand dollar	\$NZ	49.4	1.0
Norwegian krone	Nkr	24.8	0.5
Philippine peso	P	11.0	0.2
Portuguese escudo	Esc	11.5	0.2
Pound sterling	£ stg.	391.3	7.6
Singapore dollar	\$S	76.9	1.5
Spanish peseta	Ptas	154.8	3.0
Swedish krona	SKr	63.5	1.2
Swiss franc	SwF	427.4	8.4
Thailand baht	B	14.6	0.3
Turkish lira	Lt.	2.8	0.1
Total, Fund		<u>5 115.4 c/</u>	<u>100.0</u>

(Footnotes on following page)

(Footnotes to table)

a/ Convertible securities are classified according to currency into which they are convertible.

b/ Includes Hong Kong dollar, Singapore dollar, Malaysian ringgit, Korean won, Philippine peso, Italian lira, Spanish peseta and Portuguese escudos.

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

TABLE 4

INVESTMENT IN DEVELOPING COUNTRIES (BOOK VALUE)

AS AT 30 JUNE 1991

(In thousands of United States dollars)

	Investments in currencies other than the United States dollar	Investments in United States dollars	Total
AFRICA			
Algeria	2 120	3 920	6 040
Côte d'Ivoire	1 835	2 000	3 835
Kenya	219	0	219
Zimbabwe	<u>373</u>	<u>0</u>	<u>373</u>
	<u>4 547</u>	<u>5 920</u>	<u>10 467</u>
Development institutions	<u>85 171</u>	<u>49 041</u>	<u>134 212</u>
Total Africa	<u>89 718</u>	<u>54 961</u>	<u>144 679</u>
ASIA			
Bahrain	5 963	0	5 963
China	25 770	0	25 770
India	3 071	1 499	36 570
Jordan	3 257	0	3 257
Malaysia	47 561	4 932	52 493
Republic of Korea	16 004	49 940	65 944
Singapore	26 545	0	26 545
Philippines	12 457	0	12 457
Thailand	<u>7 477</u>	<u>13 730</u>	<u>21 207</u>
	<u>180 105</u>	<u>70 101</u>	<u>250 206</u>
Development institutions	<u>75 288</u>	<u>85 535</u>	<u>160 823</u>
Total Asia	<u>255 393</u>	<u>155 636</u>	<u>411 029</u>
EUROPE			
Development institutions	<u>80 998</u>	<u>81 778</u>	<u>162 776</u>
Total Europe	<u>80 998</u>	<u>81 778</u>	<u>162 776</u>
LATIN AMERICA			
Brazil	4 368	0	4 368
Costa Rica	0	275	275
Mexico	22 141	8 750	30 891
Panama	0	484	484
Venezuela	<u>3 697</u>	<u>0</u>	<u>3 697</u>
	<u>30 206</u>	<u>9 509</u>	<u>39 715</u>
Development institutions	<u>161 422</u>	<u>115 192</u>	<u>276 614</u>
Total Latin America	<u>191 628</u>	<u>124 701</u>	<u>316 329</u>

TABLE 4 (continued)

	Investments in currencies other than the United States dollar	Investments in United States dollars	Total
Other development institutions	<u>171 805</u>	<u>392 784</u>	<u>564 589</u>
Multicountry fund	<u>12 489</u>	<u>0</u>	<u>12 489</u>
Total development-related investments	<u>802 031</u>	<u>809 860</u>	<u>1 611 891</u>

TABLE 5

TOTAL FUND: COMPONENTS OR PORTFOLIO (MARKET VALUE), 1987-1991

(In millions of United States dollars and percentages)

Period ending on:	31/03/87		31/03/88		31/03/89		31/03/90		31/03/91	
	(\$m)	%	(\$m)	%	(\$m)	%	(\$m)	%	(\$m)	%
<u>Equities</u>										
United States	1 671	24%	1 403	19%	1 284	17%	1 465	17%	1 576	17%
Outside United States	<u>1 920</u>	<u>27%</u>	<u>1 717</u>	<u>24%</u>	<u>1 935</u>	<u>25%</u>	<u>1 996</u>	<u>23%</u>	<u>2 045</u>	<u>22%</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>3 621</u>	<u>39%</u>
<u>Bonds</u>										
United States	675	10%	978	14%	1 168	16%	1 475	17%	1 400	15%
Outside United States	<u>1 213</u>	<u>17%</u>	<u>1 527</u>	<u>20%</u>	<u>1 387</u>	<u>18%</u>	<u>1 847</u>	<u>22%</u>	<u>2 280</u>	<u>24%</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>3 680</u>	<u>39%</u>
<u>Real estate</u>										
United States	554	8%	603	9%	715	9%	751	9%	736	8%
Outside United States	<u>141</u>	<u>2%</u>	<u>160</u>	<u>2%</u>	<u>198</u>	<u>3%</u>	<u>244</u>	<u>3%</u>	<u>198</u>	<u>2%</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>934</u>	<u>10%</u>
<u>Short-term investments and reserves</u>										
United States	587	8%	527	8%	666	9%	384	4%	504	5%
Outside United States	<u>255</u>	<u>4%</u>	<u>314</u>	<u>4%</u>	<u>279</u>	<u>3%</u>	<u>396</u>	<u>5%</u>	<u>599</u>	<u>7%</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>	<u>1 103</u>	<u>12%</u>
<u>Total</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>	<u>9 338</u>	<u>100%</u>
Percentage change from year to year (%)	<u>25.00</u>		<u>3.04</u>		<u>5.57</u>		<u>12.13</u>		<u>9.11</u>	