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UNITED NATIONS PENSION SYSTEM

Investments of the United Nations Joint Staff Pension Fund

Report of the Secretary-General

1. The investments of the United Nations Joint Staff Pension Fund are essential to provide the necessary assurance that beneficiaries of the Fund will receive their entitlements. As the trustee of the Fund, the Secretary-General has the fiduciary responsibility to ensure that its investments are managed in conformity with the regulations of the Fund in careful observance of the established investment criteria, and in a manner consistent with sound standards of professional management. The present report comments on the investment policies followed in the management of the Fund, details progress made in the implementation of the resolutions of the General Assembly relating to the investments of the Fund and provides information on the investments of the Fund, the diversification of the portfolio and the investment return achieved to date.

A. The investment climate and strategy

2. Over the twelve months ended 31 March 1980 (date traditionally used in reporting to the Pension Board), all investment markets were subject to wide and erratic fluctuations as high inflation rates caused many investors to turn to short-term speculation rather than long-term investment. This is exemplified by the wide swings which have occurred in the price of gold and a number of other commodities. In addition, all major bond markets experienced substantial falls in price levels as a result of sharply rising interest rates. Changes in relative currency values were also significant during the period. Some equity markets showed surprising strength during most of the year as a result of the firmness in energy, natural resource, and commodity

stocks although, towards the end of the period, sharp declines reduced a substantial portion of the earlier gains. In other major equity markets severe price declines were experienced in both domestic currency and in U.S. dollar terms. In contrast with the securities markets, real estate markets provided excellent returns, especially in the United States.

3. Against this background of general uncertainty and consequently volatile markets, a policy of particular caution was followed. Cash flow was allowed to build up as reserves which were invested in short-term interest bearing paper for much of the period. Maturities in the bond portfolio were shortened. Diversification of the investments was increased, and steps were taken to further improve the system of internal review.

4. The management of the investments of the Fund relies heavily on diversification, as a tenet of sound investment management to ensure the safety of the portfolio as a whole. This policy, established in response to the wishes of the Pension Board and the General Assembly, has been supported and encouraged by the Investments Committee. It applies to differentiation in types of assets, geographical areas and in currencies. As regards assets, the various types of investments can be broadly classified as equities, fixed-interest securities, short-term investments and real estate. The history of the allocation of funds to the main components of the United Nations Joint Staff Pension Fund portfolio reveals a steady decline in the importance of fixed-interest securities from 1960 until 1973, during which time they were decreased from 70 to 22 per cent of the market value of total assets. During the same period, equities were increased from 30 per cent of the portfolio to 75 per cent. Since peaking in 1973, the proportion of equities has decreased to reach 50 per cent as at 31 March 1980, and that of fixed-interest securities has increased to 36 per cent over the same period. Real estate, which has provided a somewhat greater stability of market value than either equities or bonds, was added to the portfolio in 1971 and now accounts for 6 per cent of the total.

5. Some of the short-term changes in the proportion of the various components reflect short-term variations in the particular markets, or management decisions. None-the-less, the trend over recent years towards a heavier emphasis on fixed income securities and real estate at the expense of equities reflects the response to changing market developments such as high coupon rates on bonds and availability of suitable pooled funds for investment in real estate. Also of significance is the growing recognition, since 1968, that short-term investments offer a means of hedging against uncertainty. This has been particularly evident in recent times and is reflected in the $ 154 million placed in short-term investments as at 31 March 1980.

6. Turning now to geographical and currency diversificatiion, these have been particularly significant in the Fund, which has a strong international component. In 1960, 97 per cent of the Fund's long-term investments at market

value were in the United States. Twenty years later, by 31 March 1980, 55 per cent, or $US 1,033 million, of such investments were in the United States. The Fund now has investments in 39 other countries, of which 14 are developing countries, and holds sizeable investments in the major worldwide and regional development banks. Details on development-oriented investment are provided in paragraphs 9-14 below and in the Annex.

7. The history of the equity component of the portfolio further illustrates the continued increase in international diversification from a small beginning in 1960, when the equivalent of only $US 1 million, or 3 per cent of the equity portfolio was invested in equities outside the United States. By 1970 equity investments in other countries had increased to $US 57 million and, as at 31 March 1980, a total of $US 390 million, amounting to 42 per cent of the equity portfolio, was invested outside the United States. Altogether, investments were held in 15 stock markets and 15 different currencies, representing investments in 39 countries. They include investments in the equity markets of developing countries.

B. General Assembly resolutions

8. The General Assembly has requested the Secretary-General to ensure that, subject to the accepted criteria, continuing efforts be made to invest in developing countries to the greatest extent practicable, particularly in Africa, by reinvesting the proceeds of sales of holdings in transnational corporations. 1/

a) Investments in developing countries

9. Investment in development-related securities has continued to increase. As at 30 June 1980, these investments amounted to $US 306 million compared with $US 206 million a year earlier, an increase of 48 per cent. A substantial portion of the Fund's cash flow was invested in development related bond issues which, as at 30 June 1980, represented 35 per cent of the entire bond portfolio compared with 29 per cent a year earlier. These issues as at 30 June 1980 represented 16 per cent of the total Fund, compared with 12 per cent a year earlier. In addition to further investments in the major development institutions, and in developing countries already represented in the portfolio, new investments have been made in India, the Ivory Coast, Morocco, and Singapore. Investments made directly in developing countries, as

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1/ General Assembly resolutions 34/222 A, B and C of 20 December 1979 and earlier resolutions cited therein.

distinct from those made in regional development banks, stood, as at 30 June 1980, at $US81 million compared with $US 51 million a year earlier.

10. Investment possibilities in Africa have been given especially close scrutiny. A senior investment officer undertook a survey mission to several financial centres in Africa and met with senior officials in Ministries of Finance, Central Banks, the African Development Bank, national development banks and with private bankers and financial experts in the countries concerned.

11. The sentiments expressed by African financial institutions in the course of this mission are that recent conditions in the international securities markets have not been conducive to issuing new securities on terms attractive to those institutions. In addition, the view was expressed that concessionary terms offered by the major development banks are better suited to the needs of most countries than the terms that the UNJSPF could offer. Nevertheless, as conditions improve in the securities markets, it is expected that more internationally underwritten and publicly traded bond issues will be offered. In fact, it is probable that some national development banks will seek to raise both equity and loan funds in the future on terms advantageous to the Fund.

12. The search for investment opportunities in developing countries is not limited to fixed-interest securities but is also designed to identify equity securities offering the necessary degree of marketability and convertibility which is part of the mandated investment policy of the Fund. Several such opportunities have been located and the Fund has made equity investments in Malaysia, Papua New Guinea and Singapore and, since 30 June, has made two in Mexico. Additional equity investments in other developing countries are under active consideration.

13. In relation with the ability of the Fund to locate investments, not only in developing countries but in general terms, it should be recalled that the Fund is organized as a "portfolio investor" and invests in a portfolio of securities which are readily marketable by virtue of being traded on established securities markets. The identification of portfolio investment opportunities and the analysis of the securities is facilitated by the ready availability of standardized information. Portfolio investment contrasts with "direct" investment which is made without the benefits provided by intermediaries. Direct investments - for example in a particular business or development project - lack the marketability of portfolio investments and require a much greater intensity of effort and staffing to locate and analyze. In addition, direct investment requires a much greater involvement in the documentation, negotiation, and actual management of the investment. The costs of direct investment are therefore very much higher than those for portfolio investment.

14. Thus, if the United Nations Joint Staff Pension Fund is to avoid the very substantial increase in management costs for direct investment, it must continue to rely on seeking investments - also in developing countries - in the public securities markets. Particular attention is drawn, in this regard, to the investments of the Fund in institutions such as the World Bank, the African Development Bank, the Asian Development Bank, the Inter-American Development Bank and the Central American Bank for Economic Integration. These well-established institutions, having themselves incurred, in line with their objectives, the considerable expense needed to provide the broad-scale expertise with which to locate, assess and manage direct investments in developing countries are appropriate vehicles for the Fund's investments in those countries.

b) Investments in transnational companies

15. The fact that there is no clear or officially accepted definition of a transnational company reveals the difficulties inherent in this issue. For the purpose of reporting on such investment , the Secretary-General understands the term transnational companies as referring to business concerns which manufacture goods or provide services in more than one country. 1/

16. Many companies in developing countries seek to participate in international activities, and many developing countries encourage international companies to invest and help develop their economies. Virtually all areas of economic activity which provide expectations of good investment returns - such as food production, commodities in general, pharmaceuticals, consumer goods, intermediate and capital goods manufacture, energy, high technology and finance - tend to have some involvement in international business. To avoid investment in companies in these fields could result in neglect of investment prospects in developing countries.

17. It is of course also true that divesting any large share of the Fund cannot be done without disruption and probable loss. If the Fund were not to invest in any company engaged in international business, the only companies that would then generally be available for investment would be retailing companies, some media companies, utilities, some transportation companies and, in general, the smaller companies which have not expanded their activities beyond their own borders. To take such a course would risk an increase in the actuarial deficit and thus place the Fund in a situation in which Member States could be called upon to increase their contributions under Article 27

1/ See document A/C.5/33/7, para. 6, of 20 September 1978.

of the Pension Fund Regulations. In summary, such a course of action could contradict the requirements of safety, profitability, liquidity and convertibility and would thus be a breach of the fiduciary responsibilites of the Secretary-General.

18.On the basis of the definition given in paragraph 15, and on available information of the market value of the Fund's total portfolio of $1875 million on 31 March 1980, $US942 million, or about 50 per cent, were invested in securities of transnational corporations. This marks a slight decline in the proportionate share of those investments from 51 per cent a year earlier, despite a substantial increase in the market price of shares already held. Of those securities, $724 million were invested in equities, and the balance of $218 million in bonds.

C. The investments of the Fund

19. At the beginning of 1950 the Fund had total assets of $8 million at cost while by the end of 1979 these were $1,870 million. This compound rate of growth of about 20 per cent per year from 1950 is the result of three factors in the following order of magnitude: contributions less benefit payments; reinvestment of interest and dividend income; and net realized capital gains. In 1950, net contributions amounted to $5.9 million, and dividend and interest income was $200,000. For the year 1979, net contributions available for investment had climbed to $126.6 million, and interest and dividend income had risen to $112.9 million. Net capital gains realized during the year amounted to $8.4 million. After deduction of investment expenses of $2.2 million, the net sum available for investment during 1979 amounted to $US245.7 million, an increase of 22 per cent over the $US 201.4 million which was available in 1978.

20. In computing investment return, income from dividends and interest, realized capital gains and losses and unrealized capital appreciation or depreciation are taken into account. Whereas realized gain or loss measure the difference between the cost of the investment and the actual net amount received on its sale, the unrealized capital gain or loss is measured by the difference between the cost of the investment and its market value (or estimated sale price) on the date selected for valuing the Fund. Unrealized capital gains, like realized ones, can vary considerably from year to year, since the value placed on securities by the markets depends on a wide range of fluctuating variables. Investment return achieved over any given period is therefore dependent on the proportion of the total assets of the portfolio committed to the various kinds of investments, on the countries and currencies of investment; on the choice of specific securities; and, most importantly, on market considerations. The Fund cannot be entirely insulated from major swings in investment values, but its broad diversification has helped to lessen the impact of erratic movements in the financial markets. For example, in a fund such as the Joint Staff Pension Fund, the assets of which are expressed in U.S. dollars, it is of course clear that a dollar depreciation

will increase the market value, while a dollar appreciation will have the opposite effect. The strength of the U.S. dollar in the closing weeks of the Fund's reporting year was, in fact, largely responsible for the disappointing investment return. However, it is felt that the short-term effects of such inevitable currency fluctuations are outweighed by the long-term reduction in risk deriving from a carefully considered currency diversification.

21. As the Secretary-General has indicated in the past, it is necessary to compute, monitor and report investment return figures for short periods but, because of the short-term volatility of securities markets, care should be taken in interpreting and drawing conclusions from the short-term results, whether they are high or low, when evaluating the investment return of a long-term fund such as UNJSPF.

22. The results for the twelve months ended 31 March 1980 were heavily affected by the sharp decline of prices in the bond markets, a fall in stocks and - as indicated in paragraph 20 above - the temporary strength of the U.S. dollar. All three factors occurred in the last three months of the period. Hence the total return of the Fund for that period was <u>minus</u> 0.39 per cent compared with a 15.07 per cent positive return for the twelve months ended on 31 March 1979. The return from equities over the past year was 1.08 per cent compared with a negative return of 7.63 per cent for bonds. During that period, the equity return was aided by the proportion invested in the U.S. section of the portfolio, which returned 10.89 per cent compared with a negative return of 10.31 from equity investments outside the U.S.

23. As noted above, in paragraph 22 , the effect on total return of the short-term market and currency variations and of a particular reporting date is illustrated by the fact that at 31 December 1979 the market value of the portfolio was $2,007 million; at 31 March it had fallen to $1,875 million; and, by 30 April, it had recovered to approximately $2,040 million. Had the investment return been computed for the year ended December 1979 it would have been around 9.5 per cent, and the approximate 9 per cent increase in the market value of the portfolio during April largely recovered the paper losses of the preceding three months.

24. Since the liabilities of the Fund are long-term, long-term investment returns have more significance than short-term variations. Over the last 20 years, the total rate of return has averaged 5.49 per cent a year. Equity investments outside the U.S. have provided a compound rate of return of 7.47 per cent per year, in US dollar terms, compared with 5.87 per cent per year from U.S. equities. Bonds have generally been disappointing investments compared with equities over the last 20 years, returning 4.53 per cent a year, but they provide a lower degree of risk than equities.

D. Conclusion

25. The Secretary-General is conscious of the high fiduciary responsibility vested in him in managing the investments of the Joint Staff Pension Fund. In the face of continued world economic uncertainty and market turbulences, all efforts are directed to the preservation of the assets of the Fund and to enhance the investment return over the medium and longer term by following a policy of prudent diversification by type, geography and currency of investment. This investment policy will continue to be geared to an increase in the Fund's investment participation in developing countries in accordance with the basic principles which govern the investments of the Fund, and on the basis of a prudent over-all investment strategy.

Annex

UNITED NATIONS JOINT STAFF PENSION FUND INVESTMENTS IN DEVELOPMENT SECURITIES
AS AT 30 JUNE 1980

A. Bonds denominated in United States dollars

1. Investments in specific countries

Par Value ($US)	Description	%		Cost ($US)	Total ($US)
	Algeria				
750 000	Banque Extérieure d'Algérie	9.00	1982	735 313	
1 770 000	Banque Extérieure d'Algérie	12.75	1985	1 699 200	
2 000 000	Banque Nationale d'Algérie a/	18.6875	1982	1 965 188	
1 000 000	Sonatrach a/	14.6875	1992	955 000	5 354 701
	Argentina				
2 000 000	Argentina	9.875	1984	1 920 000	
2 750 000	Banco De La Nación Argentina a/	19.00	1986	2 693 855	4 613 855
	Bolivia				
1 500 000	Bolivia	10.25	1982	1 425 000	1 425 000
	Brazil				
4 020 000	Brazil Fed. Rep. Extl. Bd.	9.00	1982	3 918 585	
2 380 000	Brazil Fed. Rep.	9.25	1984	2 273 110	
2 361 000	Light Serviços De Electricidade	9.00	1982	2 312 324	8 504 019
	Costa Rica				
500 000	Costa Rica Republic a/	9.125	1985	493 025	493 025
	Ecuador				
3 600 000	Ecuador Republic Gtd. Bd.	9.50	1984	3 555 000	3 555 000
	India				
2 150 000	State Bank of India a/	10.0625	1987	2 086 500	2 086 500
	Mexico				
700 000	Financiera Nacional Azucarera	9.00	1982	680 750	
500 000	Mexico Teléfonos	9.25	1984	461 875	
1 050 000	Mexico-United Mexican States	9.00	1982	1 010 875	
3 500 000	Petróleos Mexicanos	9.00	1982	3 441 123	
6 650 000	Petróleos Mexicanos	11.50	1988	6 553 125	12 147 748
	Papua New Guinea				
2 709 000	Papua New Guinea	9.50	1983	2 699 077	2 699 077
	Philippines				
2 000 000	National Power Corp. Reb.	8.20	1989	2 002 500	2 002 500
	Venezuela				
2 800 000	Venezuela Republic	7.875	1982	2 666 820	
7 300 000	Venezuela Republic	8.125	1984	7 166 050	9 832 870
	Total investments in specific countries				52 714 295

a/ Floating rate

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2. Investments in development institutions

Par Value ($US)	Description	%		Cost ($US)	Total ($US)
4 000 000	African Development Bank	9.4375	1983	3 882 500	3 882 500
2 000 000	Central American Bank for Economic Integration a/	11.3125	1994	1 960 875	1 960 875
2 805 000	ADB. (Asian Development Bank)	7.75	1996	2 576 880	
5 030 000	ADB.	8.625	1986	4 799 236	7 376 116
13 200 000	IADB (Inter-Am. Dev. Bank)	8.00	1985	11 450 640	
2 075 000	IADB	8.25	1985	1 890 356	
5 650 000	IADB	8.75	2001	4 949 425	
4 250 000	IADB	9.00	2001	4 247 084	
7 650 000	IADB	9.625	2004	7 788 000	30 325 505
600 000	IBRD (World Bank)	8.30	1980	601 500	
2 000 000	IBRD	8.35	1980	1 997 500	
500 000	IBRD	7.00	1982	428 750	
1 526 000	IBRD	5.00	1985	1 260 470	
5 000 000	IBRD	5.00	1985	4 950 000	
12 450 000	IBRD	8.15	1985	11 837 454	
4 900 000	IBRD	8.60	1985	4 303 588	
3 000 000	IBRD	8.85	1985	2 557 345	
5 600 000	IBRD	7.80	1986	4 647 236	
6 300 000	IBRD	8.375	1986	6 214 031	
4 000 000	IBRD	7.65	1987	3 207 265	
5 200 000	IBRD	7.75	1987	4 185 530	
16 250 000	IBRD	10.25	1987	16 093 750	
7 920 000	IBRD	4.50	1990	6 009 490	
3 250 000	IBRD	5.375	1992	2 423 190	
4 123 000	IBRD	5.875	1993	3 340 230	
4 500 000	IBRD	6.375	1994	3 578 667	
6 170 000	IBRD	6.50	1994	4 908 589	
3 250 000	IBRD	8.625	1995	2 870 545	
7 500 000	IBRD	9.35	2000	6 453 410	
2 600 000	IBRD	8.375	2001	2 056 002	
1 000 000	IBRD	8.85	2001	958 110	
1 500 000	IBRD	8.25	2002	1 126 265	
500 000	IBRD	8.35	2002	477 640	96 486 557
	Total investments in development institutions				140 031 553
	Total investments denominated in United States dollars				192 745 848

a/ Floating rate

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B. Denominated in currencies other than United States dollars

1. Investments in specific countries

Par Value ('000)	Description			Cost ($US)	Total ($US)
	Algeria				
DM 2 250	Banque Extérieure d'Algérie	7.25	1985	1 188 325	
SwF 2 500	Banque Extérieure d'Algérie	5.25	1983	1 442 474	
DM 200	Banque Nationale d'Algérie	7.25	1983	110 436	2 741 235
	Brazil				
DM 500	Brazil	9.25	1988	281 570	281 570
	Ivory Coast				
SwF 2 500	Banque Ivoirenne de Dévelopment Industriel	7.00	1990	1 530 612	1 530 612
	Malaysia				
Y 100 000	Malaysia No. 2	7.20	1989	473 188	
	Malayan Banking Berhad b/			1 830 714	2 303 902
	Mexico				
DM 1 000	Banco Nacional de Obras	8.00	1986	491 627	
FL 1 000	Mexico	8.25	1982	486 872	
MP121 308	Nafinsa	12.65823	1982	6 215 360	
SwF 2 000	Petróleos Mexicanos	5.375	1983	905 800	8 099 659
	Morocco				
SwF 4 000	Banque Nationale Pour Le Dévelopment Economique a/	6.00	1990	2 406 734	2 406 734
	Papua New Guinea				
	Bougainville Copper b/			990 001	990 001
	Philippines				
DM 4 250	Philippines Republic	7.25	1984	2 065 919	
DM 1 000	Philippines Republic	6.75	1985	479 064	2 544 983
	Singapore				
	Development Bank of Singapore b/			3 000 649	
	United Overseas Bank b/			804 103	3 804 752
	Trinidad and Tobago				
DM 7 500	Trinidad and Tobago	6.00	1983	3 714 264	3 714 264
	Total investments in specific countries				28 417 712

a/ Floating rate
b/ Equity investment

2. Investments in development institutions

Par Value ('000)	Description	%		Cost ($US)	Total ($US)
DM 4 000	African Development Bank	7.75	1986	4 902 469	
DM 5 900	African Development Bank	8.00	1987	3 248 243	8 150 712
f. 2 000	VONI (Voor Ontwikkelingslanden Nederlandse Investeringsbank)	7.75	1987	2 042 496	
f. 5 000	VONI	9.00	1987	2 447 281	
f. 5 350	VONI	9.00	1995	2 772 815	7 262 592
DM 4 000	ADB (Asian Development Bank)	8.50	1980	1 521 196	
DM 1 300	ADB	8.00	1982	651 958	
DM 500	ADB	7.75	1983	246 131	
DM 2 000	ADB	7.00	1985	836 400	
DM 5 250	ADB	10.00	1990	2 790 795	
SwF 10 000	ADB	8.50	1980	3 660 322	
SwF 4 000	ADB	4.375	1988	2 258 611	
SwF 1 000	ADB	6.25	1990	616 308	
Y 885 000	ADB	5.15	1988	4 635 837	17 217 558
DM 2 250	IADB (Inter-Am. Dev. Bank)	8.00	1983	883 196	
DM 2 500	IADB	8.25	1983	1 015 414	
DM 4 550	IADB	7.75	1986	2 454 100	
DM 6 400	IADB	7.00	1987	2 700 823	
DM 7 720	IADB	8.00	1988	4 406 836	
DM 250	IADB	8.00	1989	136 537	
Y 130 000	IADB	6.80	1989	551 033	12 147 939
$Can 500	IBRD (World Bank)	6.25	1992	361 334	
SwF 10 000	IBRD	7.50	1980	3 738 317	
SwF 3 850	IBRD	5.375	1982	1 544 498	
SwF 2 000	IBRD	6.125	1982	785 084	
SwF 1 000	IBRD	8.25	1982	400 400	
SwF 5 000	IBRD	8.25	1982	2 008 032	
SwF 2 000	IBRD	7.00	1983	793 021	
SwF 2 000	IBRD	4.50	1984	1 243 820	
SwF 3 000	IBRD	3.75	1986	1 815 765	
SwF 1 700	IBRD	7.00	1986	1 025 327	
DM 600	Weltbank	10.00	1986	324 491	
DM 6 000	Weltbank	8.00	1982	2 282 982	
DM 6 000	Weltbank	8.25	1982	2 573 450	
DM 9 000	Weltbank	8.25	1983	3 732 286	
DM 426	Weltbank	6.50	1984	140 405	
DM 11 000	Weltbank	7.00	1985	7 037 247	
DM 303	Weltbank	7.50	1986	107 270	
DM 545	Weltbank	7.50	1986	173 084	
DM 2 200	Weltbank	6.50	1987	1 034 818	
DM 2 580	Weltbank	6.75	1987	1 116 827	
DM 1 050	Weltbank	7.00	1987	441 804	
DM 3 000	Weltbank	9.00	1988	1 693 059	
DM 10 300	Weltbank	7.875	1990	5 894 220	40 267 541
	Total investments in development institutions				85 046 342
	Total investments denominated in currencies other than U.S. dollars				113 464 054
	Total investments in development securities				306,209,902